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SURVEY

of

Colorado State Tax System

By

JENS P. JENSEN, Ph. D.

...er Chamber of Commerce

1939

PRICE ONE DOLLAR

SURVEY

of

Colorado State Tax System

by

JENS P. JENSEN, Ph.D.

Made under the auspices of the

DENVER CHAMBER OF COMMERCE

with the assistance of a voluntary council composed of representatives of chambers of commerce and other commercial organizations over the state acting in an advisory capacity at the invitation of the Taxation Committee of the Denver Chamber of Commerce.

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Denver Chamber of Commerce

PREFACE

On May 9, 1930, the Board of Directors of the Denver Chamber of Commerce authorized the Survey of the Colorado State Tax System. The work was placed in charge of the Taxation Committee composed of Messrs. F. Tillman Brownne, Chairman; A. K. Barnes, Frank N. Bancroft, Walter Beans, Fred B. Conine, Orville Dines, and George Spalding.

The Committee secured the services of Dr. Jens P. Jensen, of the University of Kansas. He is a national tax authority and the author of standard text books on public finance. He acted as a special advisor to the Committee on Taxation of the American Bankers Association in its "Survey of Bank Taxation in the United States". As this Survey of the Colorado State Tax System goes to press, Dr. Jensen is in Chicago making a survey of Cook County taxes under the auspices of the University of Chicago.

The necessity for a Survey of the Colorado State Tax System has been recognized a long time. It is the privilege of the Denver Chamber of Commerce to meet this need.

The Denver Chamber of Commerce, as an organization representative of every class of economic endeavor, has no pet remedies for present taxation ills. It has endeavored to ascertain the facts impartially. This is for the purpose of having available the largest possible amount of data for the guidance of such agencies as may propose remedial legislation and for the guidance of the Chamber in determining its attitude toward any such legislation.

H. S. SANDS
President
DENVER CHAMBER
OF COMMERCE

LETTER OF TRANSMITTAL

Denver, Colorado
September 12, 1930

To the Board of Directors,
Denver Chamber of Commerce
Gentlemen:

I herewith submit to you my report covering the survey of the Colorado tax system which was begun on May 1st of this year. The report is necessarily brief because of the short period of time available.

I appreciate the support of the Committee. Mr. Donald D. Keim, in charge of the Tax Department of the Chamber of Commerce collected much of the information, thereby making it possible for me to devote my time chiefly to analysis of the data and preparation of the report. Miss Marion C. Smith, statistician of the Tax Department has taken charge of much of the tabulation and organization of the data. Both acted under my direction. My thanks are due to Mr. H. S. Sands and Mr. George E. Collisson, president and manager respectively, of the Denver Chamber of Commerce for making available to me the necessary facilities for the work, and for counselling with me in the investigation. I appreciate the courtesy and co-operation of numerous individuals, business organizations and associations in giving information and advice freely. The same is true of numerous public officials, notably the Colorado Tax Commission. And not least is my appreciation of the efforts of the representatives of diverse organizations of the entire state, who have met with me in council for discussion and advice.* (See Page 6).

The report is obviously incomplete. The line of exclusion had to be drawn somewhere. Matters belonging in the periphery of the field of taxation have been given scant treatment or omitted entirely. The very important subject of special assessment has not been touched at all because the necessary field work could not be done. The same is true of the perhaps equally important subject of highway finance. The subject of governmental fees and other supplementary revenues had to be omitted. Problems of administrative efficiency in every unit of the government had to be left practically untouched. These matters, and others not specified, leave an open field of work for the permanent Tax Department of the Denver Chamber of Commerce, and for other investigations.

In the main I have attacked the most pertinent problems in the general field of state and local taxation. In matters that are at all controversial I have presented the arguments for all sides. Many suggestions that did not to me seem practical in the Colorado situation have been omitted, the report being already rather lengthy without them. Here also the line had to be drawn somewhere. In all cases I have tried not only to state the facts but also to interpret them where such interpretation was possible and was deemed helpful.

It is proper to acknowledge the special assistance given by Mr. G. S. Klemmedson of the Colorado Agriculture College in making available a great deal of data of his studies on public debts and taxation, and by Dr. Don C. Sowers of the Extension Division of the University of Colorado in investigating certain parts of the field covered. Dr. Sowers prepared tentative drafts of parts of Sections IV, VII, VIII, IX, X, and XI of the report. While these sections are among the briefer ones, Dr. Sowers' work was valuable in making possible the inclusion of material that must otherwise have been excluded.

Yours very truly,

JENS P. JENSEN.

*This refers to the "Advisory Council on Taxation" which met in Denver on two separate occasions upon invitation of the Taxation Committee of the Chamber of Commerce. The following organizations were invited to participate by appointing a representative to the Council:

Aguilar Boosters Club	Aguilar, Colorado
Chamber of Commerce	Alamosa, Colorado
Lions Club	Akron, Colorado
Chamber of Commerce	Antonito, Colorado
Chamber of Commerce	Arvada, Colorado
Chamber of Commerce	Aspen, Colorado
Chamber of Commerce	Boulder, Colorado
Colorado Press Association	Brighton, Colorado
Chamber of Commerce	Brighton, Colorado
Brush Civic Club	Brush, Colorado
Chamber of Commerce	Buena Vista, Colorado
Chamber of Commerce	Burlington, Colorado
Chamber of Commerce	Canon City, Colorado
Lions Club	Castle Rock, Colorado
Chamber of Commerce	Center, Colorado
Gilpin County Mining Association	Central City, Colorado
Chamber of Commerce	Cheyenne Wells, Colorado
Chamber of Commerce	Colorado Springs, Colorado
Colorado Stock Growers and Feeders Association	Colorado Springs, Colorado

Chamber of Commerce	Cortez, Colorado
Chamber of Commerce	Craig, Colorado
Chamber of Commerce	Creed, Colorado
Chamber of Commerce	Cripple Creek, Colorado
Chamber of Commerce	Delta, Colorado
Colorado Association of Real Estate Boards	Denver, Colorado
Colorado Bankers Association	Denver, Colorado
Colorado Educational Association	Denver, Colorado
Colorado Radio Trades Association	Denver, Colorado
Colorado Stock Growers and Feeders Association	Denver, Colorado
Denver Building Owners and Managers Association	Denver, Colorado
Denver Real Estate Exchange	Denver, Colorado
Retail Merchants Association	Denver, Colorado
Rocky Mountain Retail Furniture Association	Denver, Colorado
Colorado State Farm Bureau	Dillon, Colorado
Chamber of Commerce	Dolores, Colorado
Chamber of Commerce	Durango, Colorado
Eads Business Men's Club	Eads, Colorado
Chamber of Commerce	Eagle, Colorado
Chamber of Commerce	Elizabeth, Colorado
Chamber of Commerce	Estes Park, Colorado
Chamber of Commerce	Fairplay, Colorado
Lions Club	Fleming, Colorado
Chamber of Commerce	Ft. Collins, Colorado
Chamber of Commerce	Ft. Morgan, Colorado
Chamber of Commerce	Glenwood Springs, Colorado
Colorado State Grange	Golden, Colorado
Chamber of Commerce	Grand Junction, Colorado
Chamber of Commerce	Greeley, Colorado
Weld County Commercial Club	Greeley, Colorado
Chamber of Commerce	Gunnison, Colorado
Haxtun Commercial Club	Haxtun, Colorado
Greater Holyoke Club	Holyoke, Colorado
Chamber of Commerce	Hot Sulphur Springs, Colorado
Chamber of Commerce	Hugo, Colorado
Clear Creek County Metal Mining Association	Idaho Springs, Colorado
Lions Club	Julesburg, Colorado
Chamber of Commerce	La Junta, Colorado
Chamber of Commerce	Lake City, Colorado
Chamber of Commerce	Lamar, Colorado
Chamber of Commerce	Las Animas, Colorado

Chamber of Commerce ..... La Veta, Colorado
Chamber of Commerce ..... Leadville, Colorado
Chamber of Commerce ..... Limon, Colorado
Chamber of Commerce ..... Littleton, Colorado
Chamber of Commerce ..... Longmont, Colorado
Chamber of Commerce ..... Loveland, Colorado
Chamber of Commerce ..... Meeker, Colorado
Monte Vista Commercial Club ..... Monte Vista, Colorado
Chamber of Commerce ..... Montrose, Colorado
Lions Club ..... Ordway, Colorado
Chamber of Commerce ..... Otis, Colorado
Chamber of Commerce ..... Ouray, Colorado
Lions Club ..... Ovid, Colorado
Archuleta County Boosters Club ..... Pagosa Springs, Colorado
Chamber of Commerce ..... Paonia, Colorado
Platteville Community Club ..... Platteville, Colorado
Chamber of Commerce ..... Pueblo, Colorado
Chamber of Commerce ..... Rico, Colorado
Chamber of Commerce ..... Rifle, Colorado
Chamber of Commerce ..... Rocky Ford, Colorado
Chamber of Commerce ..... Salida, Colorado
Chamber of Commerce ..... San Acacio, Colorado
Chamber of Commerce ..... Silvercliff, Colorado
Chamber of Commerce ..... Silverton, Colorado
Chamber of Commerce ..... Simla, Colorado
Chamber of Commerce ..... Springfield, Colorado
Chamber of Commerce ..... Steamboat Springs, Colorado
Moffat Tunnel League ..... Steamboat Springs, Colorado
Chamber of Commerce ..... Sterling, Colorado
Chamber of Commerce ..... Sugar City, Colorado
Chamber of Commerce ..... Telluride, Colorado
Chamber of Commerce ..... Trinidad, Colorado
Colorado Bar Association ..... Trinidad, Colorado
Chamber of Commerce ..... Walden, Colorado
Kiwanis Club ..... Walsenburg, Colorado
Rotary Club ..... Walsenburg, Colorado
Chamber of Commerce ..... Walsh, Colorado
Chamber of Commerce ..... Wray, Colorado
Chamber of Commerce ..... Yuma, Colorado

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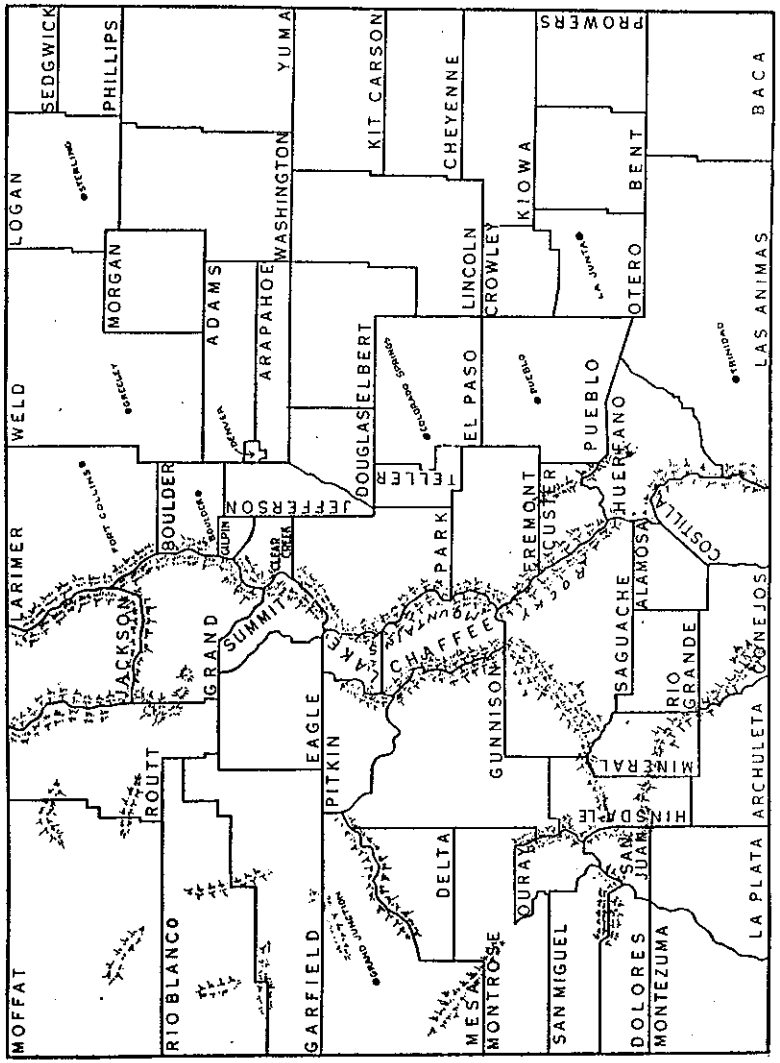
COLORADO
Showing Counties, Prominent Mountain Ranges and Ten Cities.



SECTION I

PUBLIC EXPENDITURES

Complaints about taxation, in Colorado as elsewhere, assume two principal forms. In the first place, it is asserted that taxes are too high, which is another way of saying that the government spends too much, either for all or for particular services. In the second place, it is stated that the taxes are not equitably distributed among the taxpayers, some paying too much and others not enough. It is also often asserted that the government is inefficient and extravagant. The latter state of affairs, if true, will of course increase taxes, or decrease the services the government can render, or both. It is not the primary purpose, in the present survey, to study governmental efficiency, and it will be touched upon only incidentally, in so far as it affects either the level of the public expenditures or the apportionment of the tax burden, or both. And the bulk of the effort is devoted to the apportionment of the tax burden, rather than to the expenditures. The level and purposes of public expenditures will be treated first and briefly.

The decision to give a minor place to the public expenditures and their apportionment is not based upon a conviction that the matter is unimportant. On the contrary it is fundamental, since it is the decision on the part of the citizens or their representatives to spend money for highways, schools, or other public services that give rise to the necessity for taxes. The minor emphasis upon public expenditures of the state and its subdivisions is dictated by the following considerations:

In the first place, the amount which a state, a county, a town or city, or a school district ought to spend for public services can not be determined readily in statistical terms, as percentages of income or of wealth. The return for public expenditures consists of services that either help the citizens in their business or yield satisfaction and enjoyment directly. To the extent that the public services help business they indirectly yield satisfaction by enabling the citizens to earn more, and hence, to spend more. Therefore, the question is whether the enjoyment and satisfaction yielded by the public services are equal, as they should be, at least to the sacrifice involved in paying taxes. But how much is this satisfaction from the public services worth, and how much would the enjoyment that could be obtained with the money paid in taxes, be worth if the money were retained by the taxpayer and spent privately? No outsider can possibly know. In the last analysis the taxpayers themselves must decide.

In the second place, it is not possible to tell from the official records what are the governmental costs to Colorado taxpayers

of all the governmental services of the state. For this unfortunate circumstance there are many reasons, only one of which is given at this point. Official statistics do not show governmental costs. That is not the purpose they were designed to serve. The reports of public officers, such as state auditor, state treasurer, and county treasurers, who handle public money, are primarily designed to show the balance on hand at the beginning, the receipts, and disbursements during, and the balance at the close of the fiscal period, usually a year. They are designed to insure responsibility on the part of the respective officials, not to present statistically the governmental costs. Doubtless a competent statistician could analyze and reorganize the official data so as to present a practically accurate statement of the costs of government for all purposes, and for particular purposes. But in the present study time for doing so has not been available. Yet cost data should be prepared and published. Suggestions for the solution of the problem of securing and publishing governmental cost data are offered in a later section of this report.

I. State Expenditures

In his study, "General Trends in State Government Expenditures in Colorado", Dr. Don C. Sowers, of the University of Colorado, presents data showing the amounts of expenditures of the state government for about two decades. To this study students should go for data on state expenditures. Only one extract from the study is given here, in the form of the following table, adapted for the purpose:

TABLE 1
Colorado State Expenditures, Operating and Total, Unadjusted and Adjusted on the Basis of the 1913 Price Level, for Specified Years

Kind of Expenditures	Year		
	1909-1910	1919-1920	1927-1928
Amounts:			
Operating expenditures:			
Unadjusted	$4,649,295	$9,865,345	$16,255,030
Adjusted, 1913 price level	4,685,000	4,567,000	11,059,000
Total expenditures:			
Unadjusted	6,426,344	20,505,117	33,640,621
Adjusted, 1913 price level	6,480,000	9,493,000	22,900,000
Per capita:			
Operating expenditures:			
Unadjusted	5.81	10.50	15.49
Adjusted, 1913 price level	5.86	4.86	10.30
Total expenditures:			
Unadjusted	8.05	21.82	31.30
Adjusted, 1913 price level	8.13	10.10	21.35

Source: Stated in text.

Note: Basis of adjusting to 1913 price level is the wholesale commodity index of the U. S. Bureau of Labor Statistics.

The table draws attention to two conditions. First, and most noticeable, is the increase that has occurred, from $6,426,344, in the total expenditures for 1909-1910, to $33,640,621 in 1927-1928, or 423.5%. Of course, some increase in the population has taken place. Hence the per capita increase is somewhat less, namely from $8.05 to $31.30, or 285.0%, and is a fairer index, even disregarding the difference in purchasing power between the 1910 dollars and the 1928 dollars. But a still better index of the burden is the per capita increase, adjusted to the 1913 price level, as done in the table. That increase, from $8.13 to $21.35, or 162.8%, is much lower but still formidable. Some allowance probably should be made on account of the fact that the per capita wealth, adjusted to the 1913 price level is greater than it was in 1910. Yet that factor would probably not reduce the burden far below an increase of 150%. The question that matters, then, is whether the services of the state government in 1928 were worth 150% more than they were in 1910. That the services were demanded and that they have expanded may be seen from the analysis made by Dr. Sowers in the publication from which preceding table has been taken. There has been no real increase, perhaps a relative decrease, in the cost of general government since 1910. The increases have occurred in specific services such as education and highways. But the reader should consult Dr. Sowers' analysis itself.

The second condition, to which the table draws attention, is the fact that the operating expenditures are due, to a greater extent, to the non-operating costs than to the operating costs. Thus the per capita operating expenditures, adjusted to the 1913 price level, rose from $5.86 to $10.30, or 75.8%, as compared with the corresponding increase of total expenditures of 162.8%. The non-operating expenditures were due for the most part to outlays for such construction works as public buildings and highways, which to a large extent are permanent. This finding is equivalent to saying that the cost of the current services rendered is less than the figures would show.

A comparison with the per capita governmental cost payments for expenses and interest, but excluding outlays such as for construction of buildings and highways, of all the 48 states, and of those of adjacent states, as shown in Table 2 following, supports the conclusion that there is nothing strikingly wrong with the state expenditures of Colorado, unless indeed the expenditures are excessive in all the states. Reference to the table will show that, (1) the per capita governmental cost payments are higher for Colorado than the average for all the states, (2) they are higher for Colorado than for Kansas and

Nebraska, but (3) they are lower for Colorado than for the adjacent Rocky Mountain states, in which the general conditions determining governmental costs are presumably similar to those in Colorado. Whatever those conditions may be, they operate to raise the costs per capita for these states above the average for all the states; but, as stated, the Colorado costs are considerably lower than the average for the states in this group.

TABLE 2

Per Capita

Governmental Cost Payments for Expenses and Interest of the 48 States, Colorado and Adjacent States, for Specified Years

Year	Per Capita Governmental Costs								
	48 States	Colorado	Kansas	Nebraska	Wyoming	Utah	New Mex.	Texas	Arizona
1915	$4.06	$4.32	$3.06	$3.38	$6.01	$6.16	$3.22	$3.76	$7.89
1919	5.42	6.11	4.00	4.42	9.34	9.31	5.80	5.45	13.08
1923	8.73	10.34	6.36	6.12	17.46	14.66	9.05	7.75	13.69
1924	9.60	10.90	22.59*	6.06	17.43	14.88	10.84	7.97	14.01
1925	9.87	11.05	7.77	6.24	23.53	16.19	10.62	10.92	13.19
1926	9.72	10.20	7.78	7.04	18.73	15.49	10.83	10.02	12.90
1927	10.30	11.00	8.72	7.92	23.12	16.33	13.06	10.59	13.32

Source: Financial Statistics of States.

*Due to payments of nearly $30,000,000 for Soldiers Bonus.

For the local divisions of Colorado, the counties, cities, and school districts, no such data can be had because the basic information is not available, at least not fully enough to yield comparable results. The state authorities publish their expenditures annually or biennially, and analysis and comparison are thus made possible, though only with much adjustment and labor. The county expenditures and those of the larger cities are, of course, made matters of record, and doubtless in most cases these accounts are available; but the accounts are not uniform and comparable, and no reports are made to any central state agency. Hence the data, where they exist at all, cannot be consolidated and compared except at prohibitive labor and cost.

There is only one source conveniently available from existing records showing current local expenditures, and that source is not accurate for the purpose of showing actual costs. In fact it does not show costs at all, and does not pretend to do so. The Colorado tax commission publishes in its annual reports the amounts which each local political division anticipates will be raised by means of the general property tax. To be sure the amount thus anticipated is not the amount actually raised and likewise is not the amount that any local unit actually spent. For not all of the taxes anticipated or levied are ever collected in any county. On the other hand these local units have other minor sources of revenue such as state and federal aid, fines, fees, etc. But the amount anticipated annually from the property tax will reflect fairly well the increase in the taxes levied on property from year to year, and for local purposes there are relatively few sources of revenue. Moreover, it is the tax revenue that involves sacrifice and burden. In a sense therefore the anticipated tax revenue is a better index of the burden than the governmental costs would be. Since the state shares to a small extent in the property tax, Table 3 following is presented to show the total anticipated revenue for all purposes; and Table 4 following is presented to show the share of the total property tax that goes to the state.

Table 3 shows the anticipated revenue from the general property tax for all purposes—state, county, city, town, and school districts. Because of the wide variation in the purchasing power of the dollar during the years covered in the table, not only are the figures given for the actually anticipated revenues, but these figures have been adjusted for each year on the basis of the 1913 price level, by means of the U. S. Bureau of Labor Statistics wholesale index number, as was done in Table 1 above, showing state governmental costs. Presumably the higher price level of the later years indicates a greater ease in parting with each dollar of taxes. Thus while the anticipated taxes increased from $18,032,588 in 1913 to $49,665,458 in 1929, showing an increase of $31,632,870, or more than 175%, the sacrifice from the higher taxes did presumably not increase by 175%. If the figures adjusted to the 1913 price level reflect the increase, then the sacrifice was shown by an increase from $18,032,588 to $35,937,379, by $17,904,791, or about 99%.

TABLE 3

Anticipated Tax Revenue from the General Property Tax, for all Purposes, Unadjusted and Adjusted to the 1913 Price Level, for Specified Years

Year	Price Index	Anticipated Revenue	
		Unadjusted	Adjusted to 1913 Price Level
1913	100	$18,032,588	$18,032,588
1914	97.6	18,420,601	18,873,566
1915	99.6	20,536,105	20,618,579
1916	122.5	20,430,508	16,677,966
1917	168.3	24,657,787	14,651,091
1918	188.1	26,173,856	13,914,862
1919	198.6	33,292,320	16,763,504
1920	221.2	39,424,852	17,823,170
1921	139.8	42,260,392	30,229,178
1922	138.5	41,956,321	30,293,373
1923	144.1	42,241,487	29,314,009
1924	140.5	42,992,308	30,599,507
1925	148.2	45,190,471	30,492,895
1926	143.2	46,241,539	32,291,578
1927	136.6	47,975,566	35,121,205
1928	140.0	48,230,730	34,450,521
1929	138.2	49,665,458	35,937,379

Source: Reports of Colorado Tax Commission.

Table 4 shows the anticipated property tax revenues for state purposes, likewise unadjusted and adjusted according to the index number of prices. It also shows the percentage which the state property taxes formed of the total property taxes. It is noticeable that the percentage of the state levy was 9.44 in 1913, rose to 16.56 in 1922, and decreased to 11.74 in 1929. In all years, therefore, the state required only a relatively small part of the total tax revenue from property taxes. The reason for the decline in the state share of the property tax is that other sources of revenue have become available, such as the

gasoline tax and motor vehicle license fees. It is evident that the state government is not heavily dependent upon property taxes. At this point it is suggested, and more fully discussed later, that it would be possible, and perhaps useful to make it completely independent of that tax.

TABLE 4

Anticipated Revenue from the General Property Tax for State Purposes, Unadjusted and Adjusted to the 1913 Price Level, and Percentage State Revenue is of Total Revenue, for Specified Years

Year	Anticipated Revenue		Percentage of Total Anticipated Tax Revenue*
	Unadjusted	Adjusted to 1913 Price Level	
1913	$1,701,571	$1,701,571	9.44
1914	1,823,878	1,868,727	9.90
1915	2,607,576	2,618,048	12.70
1916	2,508,807	2,048,006	12.28
1917	4,081,539	2,425,157	16.55
1918	3,947,047	2,098,377	15.08
1919	5,200,701	2,618,682	15.62
1920	5,529,790	2,499,905	14.03
1921	6,890,445	4,928,788	16.30
1922	6,947,729	5,016,411	16.56
1923	6,080,799	4,219,846	14.40
1924	5,678,936	4,041,947	13.21
1925	5,726,499	3,864,034	12.67
1926	5,705,555	3,984,326	12.34
1927	6,043,980	4,424,583	12.60
1928	5,622,437	4,016,026	11.66
1929	5,831,836	4,219,853	11.74

Source: Reports of Colorado Tax Commission.

*Total anticipated property tax revenue on which these percentages are computed, is not repeated. See Table 3. So also for Tables 6-8.

II. Local Expenditures

It is unfortunate that data showing governmental costs do not exist for counties and other local units, particularly since they spend by far the largest part of the tax dollar. Each year,

except during the regular census years, the Bureau of the Census attempts to secure data showing governmental costs of all cities having 30,000 inhabitants or over. But Colorado has only three such cities, namely Denver, Pueblo, and Colorado Springs. For these cities the per capita governmental cost data are given in Table 5 following. It will be seen that Denver very closely approximates the average per capita cost for all cities, while Pueblo runs considerably below, and Colorado Springs considerably above. Doubtless local conditions explain the differences.

TABLE 5

Per Capita Governmental Cost Payments for Expenses and Interest in All Cities over 30,000, and in Denver, Pueblo and Colorado Springs, for Specified Years

Year	All Cities Over 30,000	Denver	Pueblo	Colo. Springs
1916	$24.20	$20.09	$16.01	$18.58
1919	28.19	24.25	22.01	23.59
1922	41.42	40.79	38.77	37.27
1923	43.32	41.96	37.59	42.13
1924	45.32	45.51	39.03	44.81
1925	47.55	46.64	38.09	54.77
1926	49.93	49.59	38.34	68.16
1927	52.26	52.27	38.65	67.58

Source: Financial Statistics of Cities.

It would be possible to accumulate cost data for counties, cities, and towns, and school districts at relatively little cost, if some state agency, such as the tax commission, or such effective budget bureau as should in any event be created, were charged with the task of receiving the reports of audited accounts of all the local units, prescribing the proper forms for the reports so as to enable comparative cost statistics to be prepared for all the local units. Of course the county treasurers are now charged with making, and do make biennial statements to the state auditor. But no provision is made for organizing and publishing these data in such statistical form that the general public can understand them.

In the absence of cost data, reliance must again be had upon the anticipated property tax collections. Table 6 presents these data for the counties unadjusted and adjusted, and expressed as percentages of the total tax revenue anticipated.

The share of the counties is higher than that of the state, partly because the counties have relatively few other sources of revenue than the property tax. They do now of course share in the motor vehicle license fees and the gasoline taxes. It is also noticeable that the counties, more conspicuously than the state, require a diminishing share of the total anticipated revenue, the percentage declining from 38.40 in 1913 to 20.78 in 1929. Aside from road building and maintenance, the functions of the county have not increased so markedly as other political units; and the cost of roads is partly met from other sources than county property taxes.

TABLE 6

Anticipated Tax Revenue from the General Property Tax for County Purposes, for Years Specified, Unadjusted and Adjusted to 1913 Price Level, and Percentage County Revenue is of Total

Year	Anticipated Revenue		Percentage of Total Anticipated Property Tax Revenue*
	Unadjusted	Adjusted To 1913 Price Level	
1913	$ 6,925,260	$6,925,260	38.40
1914	7,005,512	7,177,779	38.03
1915	7,161,333	7,190,093	34.87
1916	7,332,695	5,985,873	35.89
1917	8,560,319	5,086,345	34.72
1918	8,887,735	4,725,005	33.96
1919	10,772,095	5,424,015	32.35
1920	11,322,866	5,118,836	28.72
1921	9,039,403	6,465,953	21.39
1922	8,416,833	6,077,136	20.06
1923	8,852,079	6,143,011	20.96
1924	8,863,072	6,308,236	20.61
1925	9,459,116	6,382,670	20.93
1926	9,370,829	6,543,875	20.26
1927	9,746,913	7,135,369	20.32
1928	9,954,851	7,110,608	20.64
1929	10,318,495	7,466,349	20.78

Source: Reports of Colorado Tax Commission.

*See note Table 4.

Table 7 shows the corresponding data for city and town purposes, unadjusted and adjusted and expressed as percentages of the total property tax revenue. Like the county and the state, the cities and towns require a smaller share of the property tax dollar today than they did in 1913, notwithstanding that they have few and unimportant other revenue sources. Instead of taking 24.21 cents of each property tax dollar, as in 1913, they take only 18.78 cents in 1929. This is not difficult to understand when it is remembered that the cost of schools are separately reported in Table 8.

TABLE 7

Anticipated Tax Revenue from the General Property Tax for City and Town Purposes, Unadjusted and Adjusted to the 1913 Price Level, and Percentage City and Town Revenue is of Total for Specified Years

Year	Anticipated Revenue		Percentage of Total Anticipated Property Tax Revenue*
	Unadjusted	Adjusted To 1913 Price Level	
1913	$ 4,364,811	$ 4,364,811	24.21
1914	4,512,661	4,623,628	24.50
1915	5,300,859	5,322,147	25.81
1916	4,706,674	3,842,183	23.04
1917	5,052,585	3,002,130	20.49
1918	5,334,598	2,836,044	20.38
1919	7,141,268	3,595,805	21.45
1920	7,805,921	3,528,897	19.80
1921	7,653,203	5,474,394	18.11
1922	7,491,210	5,408,816	17.85
1923	7,814,897	5,423,247	18.50
1924	8,248,271	5,870,656	19.18
1925	8,756,058	5,908,271	19.38
1926	8,780,274	6,131,477	18.99
1927	8,943,482	6,547,205	18.64
1928	9,065,113	6,475,081	18.80
1929	9,328,844	6,750,249	18.78

Source: Reports of Colorado Tax Commission.
*See note Table 4.

Table 8 following concludes the series of tables showing the anticipated property tax revenue, by giving the amounts for the school districts, including both the county levies made uniformly within each county and the levies made in each of the separate school districts. The share of the property tax dollar taken for school purposes increased from 27.95 cents in 1913 to 48.70 cents in 1929, the absolute increase being from $5,040,946 to $24,186,283. While all other divisions required a declining share of the property tax dollar, the schools alone required a much larger share. One reason for this condition is in part that the public schools depend almost entirely upon property taxes as their sources of revenue.

TABLE 8

Anticipated Revenue from the General Property Tax for Local School Purposes, Unadjusted and Adjusted to the 1913 Price Level, and Percentage School Revenue is of Total for Specified Years

Year	Anticipated Revenue		Percentage of Anticipated Property Tax Revenue*
	Unadjusted	Adjusted To 1913 Price Level	
1913	$ 5,040,946	$ 5,040,946	27.95
1914	5,078,350	5,203,227	27.57
1915	5,466,337	5,488,290	26.62
1916	5,882,331	4,801,903	28.79
1917	6,963,344	4,137,459	28.24
1918	8,004,476	4,255,436	30.58
1919	10,178,256	5,125,002	30.58
1920	14,766,275	6,675,530	37.45
1921	18,677,341	13,360,043	44.20
1922	19,100,548	13,791,009	45.53
1923	19,493,712	13,527,905	46.14
1924	20,202,029	14,378,668	47.00
1925	21,248,798	14,337,920	47.02
1926	22,384,880	15,631,899	48.41
1927	23,241,190	17,014,048	48.44
1928	23,588,329	16,848,806	48.90
1929	24,186,283	17,500,928	48.70

Source: Reports of Colorado Tax Commission.
*See note Table 4.

III. Expenditures for Schools

It appears from the foregoing analysis that the two public services which are responsible for the bulk of the governmental costs are education and highways. If savings are to be made,

TABLE 9

Expenditures for Education, State and Local, Unadjusted and Adjusted to 1913 Price Level, for Specified Years

Year	State Disbursements	Local Disbursements	Total Disbursements			
			Unadjusted		Adjusted To 1913 Price Level	
			Amount	Per Capita	Amount	Per Capita
1913	$871,867	$5,040,946	$5,912,813	$ 7.02	$5,912,813	$7.02
1914	871,867	5,078,350	5,950,217	6.95	6,096,533	7.24
1915	1,163,383	5,466,337	6,629,720	7.62	6,656,345	7.65
1916	1,163,383	5,882,331	7,045,714	7.97	5,751,603	6.51
1917	1,447,157	6,963,344	8,410,501	9.37	4,997,326	5.56
1918	1,447,157	8,004,476	9,451,633	10.36	5,024,791	5.51
1919	1,903,265	10,178,256	12,081,521	13.05	6,083,344	6.57
1920	1,903,265	14,766,275	15,669,640	16.67	7,083,924	7.54
1921	2,828,210	18,677,341	21,505,551	22.66	15,383,084	16.21
1922	2,828,210	19,100,548	21,928,758	22.88	15,833,038	16.52
1923	3,207,493	19,493,712	22,701,105	23.45	15,753,716	16.27
1924	3,207,494	20,202,029	23,409,523	23.95	16,661,582	17.05
1925	3,601,047	21,248,798	24,849,845	25.19	16,767,777	16.99
1926	3,601,047	22,384,880	25,985,927	26.09	18,146,596	18.39
1927	3,732,781	23,241,190	26,973,971	26.83	19,746,685	19.64
1928	3,732,782	23,588,329	27,321,111	26.93	19,515,079	19.23

Sources: Stated in text.

most of them must be made in connection with these two services. To indicate the total costs of these functions, the state costs and the local costs are brought together in Tables 9 and 13. The first of these indicates the growth of public expenditures for education, elementary, secondary and higher. The data are derived as follows: The anticipated property tax revenue for schools, as shown in Table 8, are taken as the

local expenditures. Probably the actual expenditures for elementary and secondary schools were higher than the figures given. For, although not all of the anticipated tax revenue was collected, the schools had other sources, such as the state general educational fund. The state disbursements are taken from Dr. Sowers' study mentioned above. The disbursements for each biennium are simply halved and each half used as the expenditures for one year of the biennium. The 1928 figures, for the first time, show a halt in the increase of per capita school costs, and then only in the adjusted costs is there an actual decrease.

In Table 10 following are seen the principal factors responsible for the increase in school costs. Briefly, they are as follows: More children, as indicated by the increase in the enrollment; costlier facilities, as indicated by the rising value of the school property per enrolled pupil; and more expensive instruction, as indicated by the higher average teacher's salary. The enrollment increased from 172,196 in 1913 to 256,134 in 1929, or 48.7%. This factor of increasing cost is not, of course, adjustable. The children are here and educational opportunities must be provided. The unadjusted investment value of school property per pupil, increased from $79.08 in 1917 to $236.81 in 1929, and the adjusted value from $46.99 to $171.35. Clearly the schools are better than they were. Are they better than the people can afford? The average unadjusted monthly salary rose from $78.32 in 1917 to $145.41 in 1929, and the adjusted salary from $46.53 to $105.21. Are these salaries too high—higher than necessary to provide the educational opportunities the people of Colorado desire to provide for their children? It is not a part of this study to present a brief for present school costs. But it is proper to call attention to the fact that both the investment values and the salaries in 1917 and for a few years thereafter were undoubtedly too low; the property values, because the war prevented the construction of necessary buildings; and the salaries, because of the common tendency of public salaries to lag behind the more sensitive prices of commodities. The result is that the rate of increase in both is made to appear greater than it really is. Such are the general explanations of the increase in costs of elementary and secondary education. And the explanations of the increase in the costs of higher education are similar, except that the increased enrollment is there to a much greater extent responsible for the increased costs. Dr. Sowers reports that the total student attendance at state educational institutions, reduced to a nine-month basis, increased from 3,521 in 1913-14 to 9,890 in 1929.

TABLE 10

Enrollment in Public Schools, Amount Invested in School Property per Pupil Enrolled, and Average Teacher's Salary for Colorado Schools, for Specified Years

Year	Enrollment	School Property Per Enrolled Pupil		Average Teacher's Monthly Salary	
		Unadjusted	Adjusted to 1913 Price Level	Unadjusted	Adjusted to 1913 Price Level
1913	172,196	------	------	------	------
1914	178,392	------	------	------	------
1915	178,811	------	------	------	------
1916	184,471	------	------	------	------
1917	192,372	$79.08	$46.99	$78.32	$46.53
1918	191,199	88.16	46.87	83.10	44.17
1919	209,819	104.56	52.64	88.43	44.52
1920	229,344	154.01	69.67	98.38	44.47
1921	235,690	126.67	90.61	108.32	77.48
1922	243,004	137.93	99.59	116.91	84.41
1923	249,813	257.57	178.74	130.60	90.63
1924	247,195	268.28	190.94	133.92	95.31
1925	255,115	284.48	191.95	135.59	91.49
1926	250,087	218.63	152.67	134.94	94.23
1927	251,615	259.72	190.13	137.50	100.65
1928	251,131	237.88	169.91	149.22	106.58
1929	256,134	236.81	171.35	145.41	105.21

Source: Reports of State Superintendent of Public Instruction.

It is possible, indeed it is probable, that the costs of education could be materially reduced through more business-like administration. But to the present investigator time and resources are not available to make possible an intensive and extensive survey of educational administration efficiency. Such a survey should be made and would undoubtedly disclose many opportunities for economy without harm to the service.

It is interesting to note that the school expenditures for Denver, the school district for which the most complete cost

data are available, have increased less rapidly than for the rest of the state, as shown in Tables 11 and 12 following. The cost per pupil per year rose from $50.56 in 1913-1914 to $138.77 in 1928-1929. It is also interesting to note that the bonds issued during the years following the war, evidently for the purpose of "catching up" with the building program, delayed during the war, has produced a school debt whose interest payments will necessitate high taxes for years to come. Doubtless other school districts borrowed similarly, which for them also means high taxes for years to come. A decrease is shown for the last year.

TABLE 11

Cost per Year per Student for Denver Schools, Unadjusted and Adjusted to 1913 Price Level

Year	Cost Per Year Per Student	Adjusted To 1913 Price Level
1913-1914	$50.56	$50.56
1914-1915	50.29	51.53
1915-1916	53.75	53.96
1916-1917	56.09	45.79
1917-1918	67.42	40.06
1918-1919	69.71	37.06
1919-1920	82.13	41.35
1920-1921	88.98	40.23
1921-1922	119.36	85.38
1922-1923	127.56	92.10
1923-1924	112.88	78.33
1924-1925	119.02	84.71
1925-1926	128.42	86.65
1926-1927	135.37	94.53
1927-1928	139.23	101.92
1928-1929	138.77	99.12

Source: Educational Statistics and Financial Statistics Denver Public Schools.

TABLE 12

Denver School Expenditures from Current Funds for Specified Years and Bonded Debt for Schools

Year	Total Expenditures Sept. 1 to Aug. 31	School Population Sept. 1 to Aug. 31	Amount Per Year Per Student Sept. 1 to Aug. 31	Capital Outlay Sept. 1 to Aug. 31	Instruction Sept. 1 to Aug. 31	Percentage Instruction Expense to Total Sept. 1 to Aug. 31	Maintenance Sept. 1 to Aug. 31	Percentage Maintenance to Total Sept. 1 to Aug. 31	Bonded Debt Jan. 1 to Dec. 31	Interest on Bonded Debt Per Year Jan. 1 to Dec. 31
1913–1914	$1,445,712	28,592	$50.56	$102,252	$1,116,197	77.20	$37,024	2.56	-----	------
1914–1915	1,468,481	29,196	50.29	36,792	1,184,846	80.68	33,417	2.27	-----	------
1915–1916	1,579,347	29,383	53.75	66,975	1,262,813	79.95	37,570	2.38	-----	------
1916–1917	1,725,324	30,758	56.09	94,434	1,342,904	77.83	59,277	3.44	-----	------
1917–1918	2,106,715	31,249	67.42	257,355	1,486,790	70.57	78,483	3.72	-----	------
1918–1919	2,193,959	31,474	69.71	196,452	1,610,851	73.42	82,795	3.77	-----	------
1919–1920	2,812,847	34,250	82.13	271,798	2,037,961	72.45	93,205	3.31	-----	------
1920–1921	3,219,474	36,182	88.98	56,161	2,555,595	79.37	113,478	3.52	-----	$8,750.00
1921–1922	4,293,872	35,972	119.36	658,711	2,974,058	69.26	74,590	1.74	-----	117,500.00
1922–1923	4,962,903	38,907	127.56	1,099,147	3,039,894	61.25	123,576	2.49	-----	117,500.00
1923–1924	4,620,515	40,934	112.88	444,319	3,249,775	70.33	137,327	2.97	-----	162,500.00
1924–1925	5,157,915	43,337	119.02	483,867	3,529,721	68.43	137,682	2.67	-----	207,500.00
1925–1926	5,562,005	43,311	128.42	595,764	3,702,126	66.56	100,666	1.81	$10,500	354,612.50
1926–1927	5,743,724	42,431	135.37	420,218	3,851,391	67.05	137,200	2.38	111,000	478,950.00
1927–1928	6,177,486	44,370	139.23	782,206	3,927,692	63.58	143,196	2.31	111,500	473,887.50
1928–1929	6,261,813	45,123	138.77	737,542	4,109,900	65.63	157,750	2.52	112,000	471,500.00
1929-----	-----	-----	-----	-----	-----	-----	-----	-----	113,000	466,375.00
1930-----	-----	-----	-----	-----	-----	-----	-----	-----	213,500	461,212.50
1931-----	-----	-----	-----	-----	-----	-----	-----	-----	214,000	451,525.00
1932-----	-----	-----	-----	-----	-----	-----	-----	-----	215,000	441,300.00
1933-----	-----	-----	-----	-----	-----	-----	-----	-----	215,000	431,037.50
1934-----	-----	-----	-----	-----	-----	-----	-----	-----	429,000	413,818.75

TABLE 12—Continued

	Total Expenditures Sept. 1 to Aug. 31	School Population Sept. 1 to Aug. 31	Amount Per Year Per Student Sept. 1 to Aug. 31	Capital Outlay Sept. 1 to Aug. 31	Instruction Sept. 1 to Aug. 31	Percentage Instruction Expense to Total Sept. 1 to Aug. 31	Maintenance Sept. 1 to Aug. 31	Percentage Maintenance to Total Sept. 1 to Aug. 31	Bonded Debt Jan. 1 to Dec. 31	Interest on Bonded Debt Per Year Jan. 1 to Dec. 31
1935---	-----	-----	-----	-----	-----	-----	-----	-----	$430,000	$393,906.25
1936---	-----	-----	-----	-----	-----	-----	-----	-----	456,000	373,943.75
1937---	-----	-----	-----	-----	-----	-----	-----	-----	477,000	352,806.25
1938---	-----	-----	-----	-----	-----	-----	-----	-----	497,500	330,731.25
1939---	-----	-----	-----	-----	-----	-----	-----	-----	509,000	307,706.25
1940---	-----	-----	-----	-----	-----	-----	-----	-----	529,500	284,181.25
1941---	-----	-----	-----	-----	-----	-----	-----	-----	530,000	259,731.25
1942---	-----	-----	-----	-----	-----	-----	-----	-----	531,500	235,231.25
1943---	-----	-----	-----	-----	-----	-----	-----	-----	533,000	210,656.25
1944---	-----	-----	-----	-----	-----	-----	-----	-----	534,000	186,018.75
1945---	-----	-----	-----	-----	-----	-----	-----	-----	507,500	162,018.75
1946---	-----	-----	-----	-----	-----	-----	-----	-----	507,500	138,681.25
1947---	-----	-----	-----	-----	-----	-----	-----	-----	507,500	115,343.75
1948---	-----	-----	-----	-----	-----	-----	-----	-----	427,500	92,006.25
1949---	-----	-----	-----	-----	-----	-----	-----	-----	407,500	72,268.75
1950---	-----	-----	-----	-----	-----	-----	-----	-----	407,500	53,431.25
1951---	-----	-----	-----	-----	-----	-----	-----	-----	307,500	34,593.75
1952---	-----	-----	-----	-----	-----	-----	-----	-----	307,500	20,756.25
1953---	-----	-----	-----	-----	-----	-----	-----	-----	307,500	6,918.75

Source: Educational Statistics and Financial Statistics Denver Public Schools.

Note:

Not included in above expenditures are figures for amount spent of money raised by bonds, nor does above table include amount expended for lunch room accommodation, the same includes only amount spent from current revenue.

Unless therefore a radical change takes place in the public attitude toward the public schools, it is evident that high taxes for schools will continue. There is all the more reason for making an extensive and intensive study of school financing and school administration for the purpose of securing for school purposes the full value of the school dollar.

IV. Expenditures for Highways

Second in rank of public expenditures for public purposes is the cost of highways. It is not necessary to explain at length

TABLE 13

Disbursements by State Highway Department and by Counties for Highway Purposes for Specified Years

Year	Highway Department	Counties	Total
1910	$40,353	--------	--------
1911	36,767	--------	--------
1912	--------	--------	--------
1913	461,165(a)	--------	--------
1914	301,274	$1,646,096	$1,947,370
1915	212,597	--------	--------
1916	623,133(b)	1,683,518	2,306,651
1917	720,993	2,276,876	2,997,869
1918	1,174,974(c)	--------	--------
1919	1,555,559(d)	3,653,637	5,209,196
1920	3,896,945	4,380,701	8,277,646
1921	4,053,853	5,134,965	9,188,818
1922	6,735,882	7,682,484	14,418,366
1923	5,453,446	6,795,745	12,248,191
1924	5,664,567	6,905,969	12,570,536
1925	4,567,089	5,427,449	9,995,538
1926	4,799,052	5,732,624	10,531,676
1927	4,164,805	6,522,967	10,687,772
1928	5,916,002	5,981,109	11,897,111

Sources: See text. Also see text for warning as to probable inaccuracy of data.

(a) From "internal improvement fund", where $490,000 had accumulated.
(b) Mill levy started in 1916 and also motor vehicle fees.
(c) Federal aid became available.
(d) Gasoline tax adopted.

why these costs have increased. The automobile made costly roads necessary. State supervision first, and state participation second, became necessary and new sources of revenue were tapped for highway purposes. Table 13 (page 30) shows the approximate expenditures for highways, though the data are incomplete and somewhat overlapping. The state highway department began with very modest expenditures in 1910. In 1913 an accumulated surplus from the "internal improvement fund" was made available . In 1916 the proceeds of a mill levy was authorized, but continued for a few years only. In 1918 federal aid became available, and in 1919 the gasoline tax was adopted. The data of expenditures for the highway department reflect fairly accurately the state costs for highways.

The county figures are probably not accurate, and the figures in the second and third columns should not be used for other purposes. For the particular purpose of showing, in a general way, the rapid increase in highway costs they are fairly adequate, since whatever error they contain may be presumed to persist. The figures for the years 1914, 1916, 1917, 1919, and 1920 are taken from the reports of the tax commission showing anticipated property tax revenue for county roads; and the figures for the remaining years, except 1928, from the reports of the state auditor showing county disbursements for highways. The figure for 1928 is taken from the Colorado Yearbook, based on data supplied by U. S. Bureau of Public Roads. Giving the figures such credence as they deserve for the present purpose, they may be fairly said to show that during the period covered the annual highway costs increased from considerably less than $2,000,000 to nearly $12,000,000, or by over 500%.

V. Other Expenditures

It is not possible, nor is it necessary for the present purpose, to elaborate in further detail upon the expenditures for other purposes. The services of education and highways not only have increased faster than the rest, in general, but they also account for nearly three-fourths of the total state and local expenditures. One more public function, that of charity, may be mentioned, since the data, though incomplete and not up-to-date, are available. Dr. Sowers found that the item of charities and corrections in the state expenditures rose from $1,319,824 or $1.56 per capita for the biennium of 1913-1914 ($659,912 or $.78 per capita for each year of the biennium) to $4,375,203 or $4.07 per capita for the biennium of 1927-1928 ($2,187,601.50 or $2.035 per capita for each year of the biennium).

The county expenditures for charity are shown in Table 14 following, which is derived from the reports of the Department of Charities and Corrections, now substantially abolished. The reports were admittedly incomplete and should be accepted with reservation, as they are probably useless for any purpose other than the present, namely to show the trend in the expenditures for charity and the variations in the costs among the counties, as is shown in Tables 15 and 16 following. The variations in per capita costs of the four services covered in the table, namely 1) relief at home, 2) county farm and hospital, 3) other hospital care and care of the blind, and 4) mothers compensation, suggest that many of the counties are too small units to carry on these services.

TABLE 14

County Expenditures for Charity for Specified Years, Total and per Capita

Year	Total Cost	Number Aided	Cost Per Case	Cost Per Capita
1917	$333,877	6,045	$55.23	$.42
1918	388,287	6,537	59.39	.49
1923	1,150,514	1,405	81.92	1.17
1924	1,254,312	18,731	66.96	1.26

Source: Reports of Department of Charities and Corrections.

TABLE 15

Distribution of Colorado Counties According to Their Per Capita Expenditures for Charity for Specified Years

Per Capita Expenditures	Number of Counties			
	1917	1918	1923	1924
$.25 or less	26	22	16	12
.26 to .50	13	21	9	7
.51 to .75	12	4	9	13
.76 to 1.00	2	7	11	8
1.01 to 1.25	2	3	4	7
1.26 to 1.50	4	1	4	4
1.51 to 1.75	1	0	4	1
1.76 to 2.00	2	2	0	3
2.01 and over	1	3	6	8

Source: Reports of Department of Charities and Corrections.

Note: Inasmuch as it was not compulsory for the counties to report to the Department of Charities and Corrections the amount expended on charity, there were several which did not and are included in the class interval of $.25 or less.

TABLE 16

County per Capita Cost of Charities for 1917, 1918, and 1923, 1924

County	1917	1918	1923	1924
Adams	$.11	$.16	$.68	$.78
Alamosa	.57	.15	.65	.66
Arapahoe	.17	.14	.27	.11
Archuleta	----	.17	.47	.10
Baca	.06	.12	.25	.05
Bent	.32	.50	1.10	1.22
Boulder	.84	1.11	1.57	1.22
Chaffee	.62	.44	.03	.02
Cheyenne	.10	.05	.24	.17
Clear Creek	1.58	2.54	.24	4.02
Conejos	.04	.04	.66	----
Costilla	1.04	.65	1.43	.33
Crowley	.31	.25	.16	.56
Custer	.58	.51	.49	----
Delta	.23	.36	.34	.70
Denver	----	----	1.58	1.90
Dolores	----	.25	1.01	1.36
Douglas	.14	.35	.52	.52
Eagle	1.09	1.19	1.48	1.28
Elbert	.37	.42	.87	.89
El Paso	.70	.78	1.49	2.39
Fremont	.88	.86	.93	.73
Garfield	.76	.82	.22	.04
Gilpin	2.14	3.18	3.40	2.05
Grand	.17	.44	.30	.30
Gunnison	1.29	.99	1.69	1.90
Hinsdale	----	----	.50	.50
Huerfano	.50	.40	.81	.81
Jackson	.88	.36	.46	.64
Jefferson	.59	.84	.89	1.48
Kiowa	.25	.24	.22	.30
Kit Carson	.43	.29	.11	1.25
Lake	1.49	1.15	3.38	2.18
La Plata	.21	.21	1.01	1.04
Larimer	.61	.51	1.42	.97
Las Animas	.46	.49	.74	1.07
Lincoln	.19	.09	.19	.06
Logan	.04	.40	.12	1.39
Mesa	.30	.39	.63	.72
Mineral	.75	1.00	.34	.19
Moffat	.16	.15	.07	.36
Montezuma	----	----	.87	.88
Montrose	----	.38	.67	.64
Morgan	.59	.45	.84	.49
Otero	.51	.46	.76	1.14
Ouray	.39	1.37	.18	1.73
Park	----	----	2.50	3.43
Phillips	.21	.19	.77	.52
Pitkin	.71	.62	.30	1.81
Prowers	.50	.42	.04	.04
Pueblo	----	.43	.71	.83
Rio Blanco	.42	.41	.76	.69

TABLE 16—Concluded

County	1917	1918	1923	1924
Rio Grande	$ .24	$ .16	$ .06	$ .41
Routt	.33	.34	.10	.59
Saguache	----	----	.95	.84
San Juan	1.26	1.96	2.57	3.73
San Miguel	1.48	.82	1.51	.75
Sedgwick	.29	.40	----	.09
Summit	1.92	.94	2.79	2.78
Teller	1.82	2.07	2.72	2.82
Washington	.15	.14	.75	.63
Weld	.50	.50	1.06	1.11
Yuma	.21	.19	.71	.73
State	$ .42	$ .49	$1.17	$1.26

Source: Reports of Department of Charities and Corrections.

SECTION II

REQUIREMENTS OF A STATE TAX SYSTEM

Human experience has yielded certain more or less definite conclusions as to the characteristics of a good tax system. So long as they are expressed in general terms there is very little disagreement about their validity. In this brief section it is merely attempted to list these accepted earmarks of a good tax system separately. It is understood that these requirements can not all be fully realized, since they involve conflicts with each other. For this reason the best tax system is necessarily a compromise. Some concessions must be made in some of the requirements, since otherwise, other requirements will be violated to the detriment of the entire system. The best combination of taxes is that which involves a net minimum of concessions to these conflicting requirements.

The first and greatest requirement of a state tax system is that the aggregate tax each taxpayer pays or bears must bear some reasonable relation to his net income. Whatever the basis for the imposition of the tax may be, whether property, income, business, production or sales, only one source exists out of which it may normally be paid, namely the taxpayers' income. It is, of course, possible for a time to require taxpayers who have no income, to pay taxes out of their capital, but that condition can not long continue, and it should not normally exist. What the precise relation between the aggregate taxes and the taxpayer's income should be, is in dispute. It is agreed, however, that the taxes should not be regressive—that is, the tax should not take a larger percentage of the poor man's income than it takes of the rich man's income, such as a uniform poll tax would do. Some argue that taxes should be proportioned to the taxpayer's income, such as the general property tax would be if all income were derived from property (which it is not), if all property were taxed once and once only (which is not the case), and if all property yielded income in proportion to its value (which it does not do). They argue that ability to pay taxes is proportional to the taxpayer's income. But the better opinion favors the view that taxes should be progressive —that is, they should take a higher percentage of the rich man's income than of the poor man's income. The precise degree of steepness of the progression, the rate at which the tax rate should increase as the income grows larger, is in dispute. That question depends upon diverse factors which need not be discussed here.

The second requirement of a tax system is really a corollary of the first, namely, that the tax sources should be so ap-

portioned among the political tax-levying units as to be proportional to the revenue required to defray the cost of the reasonably necessary public services. For example, if in a local school district there is a large number of children, but not sufficient property to yield the required revenue at a reasonable tax rate, some tax adjustment is desirable.

In the third place, the tax system must fit our dual form of government. Minor changes can be made and should, when necessary, be made in the federal statutes to reduce serious evils in the state tax system. Even the federal constitution may have to be changed if the state tax evils are serious and general enough. But, in the main, the federal laws must be regarded as permanent and the state tax system must adjust itself accordingly. Likewise, in framing or modifying a state tax system it is necessary to bear in mind that the forty-seven other state laws and constitutions are largely beyond the reach of the tax-adjusting authorities of Colorado.

In the fourth place, the tax system should be economical. The taxes should be collectible at a minimum cost to the public treasury; they should not involve the taxpayer in excessive labor and expense of computation and payment; they should not unnecessarily discourage business or cause it to migrate; nor should they lead to uneconomical business organization or practices in order to avoid the tax. The canon of economy in taxation (a different thing from the canon of economy in public expenditures and public administration) is very important and is sometimes overstressed and sometimes overlooked. A state, or a county, or a city, or any other political tax-levying unit, may be somewhat arbitrarily bounded in an economic sense; but it is necessarily an economic unit because both the raising of revenue and the spending of public funds inevitably affect every form of economic activity. Many forms of business are extremely, and all forms somewhat sensitive to the operations of the public treasury, whether revenue-raising or revenue-spending. Any one tax, as well as the entire tax system, and the particular form it may assume, should be judged in the light of its economic effects upon mobile business activities.

In the fifth place, the taxes should not be arbitrary in amount, as to time, or as to form of payment. The amount of taxes due should be known as early as possible. It should be based on definite external indices, and as little as possible left to the discretion of the tax officials.

In the sixth place, the taxes should be capable of administration. They should not run counter to the habits of business and living. They should not antagonize unnecessarily the prevailing sense of justice. For this reason a tax to which a people are accustomed is, other things equal, superior to one with which they are unfamiliar.

Finally, a tax system should not be framed or modified in ignorance or disregard of the economic effects of the imposition of taxes. Some taxes can not be shifted while other taxes usually are shifted. In framing or modifying tax laws so as to realize the desired relationship between taxes and income, it is the income after taxes (after the taxes have reached their final resting place) that is significant. For example, it is well known that certain unshiftable taxes are capitalized so that, for example, to present owners of the taxed property or present recipients of the taxed income, the tax is no burden. To increase unanticipatedly such taxes will seriously affect these taxpayers by way of reducing the capital value of their property or the annual value of their income. Conversely, to decrease unanticipatedly such taxes is equivalent to extending to the affected property owners or income recipients an undeserved bonus in the form of increased capital value of their property or annual value of their income. On the other hand, taxes that are readily shifted and whose burden is widely diffused may be raised or reduced with no such serious effects.

It is understood that no one tax need fulfill all, or perhaps any of these requirements, provided that the tax system as a whole does meet them, in substance. A regressive property tax, that fails to reach income from non-property sources, may be compensated as to its faults, by a progressive income tax. And these two, failing to exact any direct contribution from persons who have neither taxable income nor taxable property, may be supplemented by certain sales or consumption taxes, which latter, taken alone, would be objectionably regressive. And any one of these may be modified so as to conform to the requirement that the taxes must not unnecessarily depress the economic activities of the state. It is the experience of the various states that the best system consists of a moderate number of taxes, such as on tangible property, incomes, inheritances, business, and possibly sales or consumption rather than a single tax, on the one hand, or a great number of taxes on the other.

There are in use in American commonwealths today, a moderate number of taxes, each yielding in each state a varying percentage of the total revenue required. These combinations have been adopted because, at the time, they were believed to be capable of yielding the required revenue with the least attendant harm to business of all kinds and to the general welfare. But the economic conditions that determine which combination of taxes will result in a minimum of sacrifice vary from

time to time. Surveys and studies are now being made or have been made in practically every state, in some states several in recent years, to determine whether changed conditions necessitate a change in the tax system. It is the unanimous conclusion resulting from all of these investigations that changes are required. There is a remarkable unanimity in the reports of all these investigations in recommending certain taxes, namely, taxes on property, income, inheritance, business and sometimes certain sales taxes. There is not the same unanimity in the recommendations as to the form these taxes shall assume, or as to the percentage of the total revenue each of these taxes shall yield in each state. These variations are easily explained since the economic conditions that determine which form and emphasis of each tax are best in each state vary widely. The tax system of each state should fit the conditions, as a suit of clothes should fit the man, and as an accounting system should be adapted to the particular business using it.

In the following pages it is attempted to examine every tax now in use or possible for use in the state, in the light of the economic conditions of Colorado. It is the purpose to find, as far as possible within the limits of time and funds, the best combination of taxes for Colorado, and the best form and fiscal importance of each part of the system.

It is understood that it is not the purpose in evaluating these various taxes to advocate that they, taken together, should yield either more or less revenue than they now do. Only the voters can decide directly or individually, what the level of public expenditures shall be. But a burden of a given weight may be more easily borne if distributed among the various carriers in proportion to their strength. The analysis of the several taxes is made for the purpose of making the aggregate tax burden easier to bear, not for the purpose of proving that that burden should be either heavier or lighter.

SECTION III

THE GENERAL PROPERTY TAX

Having examined briefly the system of public expenditures, it is proper to examine in greater detail the revenue system which, in Colorado as in all other states, consists of two principal parts, each of which may be extensively subdivided. The first part is called taxes, and consists of such items as the general property tax, the inheritance tax, sales taxes, corporation taxes and business taxes. The other part consists of such forms of revenue, as special assessments, fees collected by the various departments of the government for specific services, fines, gifts, escheated property and earnings of the various public service organizations, as well as other sources, such as interest on investments. Taxes in Colorado, as elsewhere, are the most important part of the revenue, but the sources other than taxation are important because if they are properly fixed they can be made to furnish some part of the revenue necessary to meet the governmental cost. In so far as this can be done it is possible to reduce the amount that must be raised from taxes.

In Colorado, as in all the other states, the general property tax is fiscally by far the most important form of taxation. It assumes that all property is alike. All taxable property of persons or corporations is to be listed and appraised. Within each taxing district there is assessed an amount of taxable property which is subject to taxation within that district. Each district ascertains the amount of money it must raise for the current fiscal year in order to meet its governmental cost. The amount necessary as shown in the budget, or in what passes for a budget, is spread over the taxable property of each district. Hence, in Colorado as elsewhere, there are several tax rates or tax levies, each of which is uniform on all property within the district. The state, the counties, cities and towns, and the school districts each levy taxes on the property situated within their boundaries. Moreover, each of these levies taxes for several purposes. The aggregate rate at which any one parcel of property is taxed is therefore the sum of all the rates of all the districts in which it is situated.

I. Historical Development

The general property tax in the United States has had a long and varied history. The reason for briefly reciting this history is that many people believe that the general property tax has always been in use and must always continue substantially as it is. It has been in use in Colorado since the organization of the state. Hence many taxpayers have never known

any other form of taxation and believe erroneously that none other could exist. Other countries have at earlier times used something like the general tax. They have lumped together all of the taxable property for the purpose of ascertaining what portion of the tax each taxpayer should bear. However, at the present time no other country than the United States uses the general property tax. In other countries that have used the tax it has disintegrated into its constituent elements, of taxes on land, taxes on improvements, taxes on tangible personal property, and possibly taxes on intangible personal property. The same disintegrating process is now at work in the United States.

Property taxation is largely indigenous in the United States. The immigrants who have most definitely formulated the tax system in the various states were those coming from England. Those who in early colonial days came from other countries were fewer in number and less influential in formulating the tax system. At the time of Queen Elizabeth Parliament passed the act which is at the present time the basis for property taxation in England. That law provided that taxes should be levied on property. It did not say that all property should be lumped together into one sum and the taxes based on that sum. The English counties and cities to a large extent used their own judgment as to what should form the basis for taxation. However, court decisions and supplementary Parliamentary acts later limited that basis to the rental value of real property.

The early American settlers, especially in the New England colonies, were therefore familiar with the system of property taxation in England. They did not, however, copy that system outright. A system that was suitable for a well settled country such as England, probably would not have been suitable for the colonies that were widely scattered and sparsely populated. The colonists endeavored to formulate a tax system suited to the conditions under which they lived. Their developing tax system did not resemble the contemporary tax system of England. An early revenue act of the colony of Massachusetts did formulate the basis of the tax that was to be levied for colonial purposes. The basis of that tax consisted of three parts: First, there was the poll; second, there was the estate of the taxpayer; in addition there was a so-called "faculty" element which meant that persons having special ability to pay taxes by reason of having incomes from particular sources, such as attorneys, and others, should be "rated" thereon. The special ability which these latter persons had was given a value. The value of the poll, and the value of the property, and the value

of the special faculty, were then added together and on that sum was imposed, or was spread, the total taxes that had to be levied for colonial purposes. The local taxes for town purposes were levied at first almost according to the wishes of the people in the towns. However, soon the colonial government began to regulate the tax bases for the local town levies, which came then to have the same base as the colonial tax.

This early colonial composite tax has long since disintegrated into its parts. We have in many states still the poll tax. It is not an important source of revenue, and need not be considered here. The faculty tax also disappeared, or became a primitive income tax. There are still state income taxes that can boast a continuous existence and can be traced back to the colonial faculty tax. But for many years these income taxes were deemed futile and neglected, though not repealed. The property of the taxpayer was therefore left as the sole tax base.

It must not be supposed that these early taxes on property resembled very closely the current general property tax of Colorado and other states. They did in fact differ from the present tax in important respects. In the first place, only such property was taxed as was specifically mentioned in the successive revenue acts of the various colonies or states. These particular specified types of property were not always taxed at a uniform rate, and they were often "set" in the list at specific statutory valuations. The colonies had therefore, a series of specific property taxes, or, if being worthy of being called a tax system, a classified property tax. However, as both real property and personal property became more varied, it became difficult to specify in the law exactly the classes of property that should be taxed and the valuation at which a unit of each class should be appraised. Hence, it was found necessary to include in the revenue acts an omnibus clause which provided that all other property should be lumped together. This omnibus class of property gradually absorbed all other forms of property. Before the Revolution the revenue acts began to specify that all property should be taxed uniformly. Later one state constitution after another was amended so as to provide that all property should be appraised uniformly and be taxed at a uniform rate within each taxing district. At the time of the Civil War nearly all the state constitutions then in existence contained this uniformity rule, except in a few states which never placed any constitutional restrictions on taxation whatsoever. Beginning with 1873, however, there appeared a reversion, away from the policy of uniform taxation of all property. In that year Pennsylvania amended her constitution, so as to provide that property might be classified and taxed uni-

formly as to class. At the present time more than half of the state constitutions have been amended so as to permit classification of property for taxation.

Colorado became a state in 1876. At that time the practice of having the uniformity rule in the constitution was at its zenith. The Colorado state constitution therefore contains the same rule. In Article X, Section 3, we read: "All taxes shall be uniform upon the same class of subjects within the territorial limits of the authority levying the tax, and shall be levied and collected under general law, which shall prescribe such regulations as shall secure a just valuation for taxation of all property, real and personal." Such is the now notorious uniformity rule in the state constitution. We may therefore say that the general property tax is the constitutionally required tax in the state of Colorado. One other section of the constitution deserves quotation. In Article X, Section 2, we read: "The general assembly shall provide by law for an annual tax, sufficient with other resources to defray the estimated expenses of the state government for each fiscal year." This tax is the general property tax which is provided for each year by the legislature. It is in form a deficiency tax. It is expected to provide that part of the necessary revenue which is not provided for from other sources. In practice other sources have been unimportant even for state purposes. The deficiency tax, therefore, produces nearly all or at least the most important part of the total revenue. For local purposes, that is, for the revenue of the counties, the cities, the towns, and the school districts, the general property is even more important. It may be said therefore, that the general property tax is practically the tax system of the state of Colorado.

It is customary on the part of many students of the general property tax to say that it is an antiquated form of taxation, and that it is destined soon to disappear. Such statements are misleading if they are understood to mean that all property taxes will disappear, and that public revenue will be derived from other sources, such as income taxes, inheritance taxes, or possibly sales taxes. There is no tendency whatsoever for property taxation to become less popular or less used among the local divisions of any state. There is a distinct tendency, however, for the state government to rely less and less upon the general property tax. This tendency may be seen in Table 17 following. The average percentage of the total state revenue which was derived from the general property tax declined from 50.4% in 1918 to 21.1% in 1927.

TABLE 17

Distribution of States According to the Percentage of Their Total Revenue Derived From the General Property Tax for Specified Years

Percentage Groups	1918	1927
Less than 10	--	7*
10 to 19.99	--	11
20 to 29.99	4	14
30 to 39.99	8	11
40 to 49.99	8	4
50 to 59.99	14	1
60 to 69.99	10	--
70 to 79.99	4	--

Source: Financial Statistics of States, 1918 and 1927.

*In 1927 two states, Pennsylvania and North Carolina reported no revenue from the general property tax.

It can be said of the general property tax for local use, that it has produced the required revenue, and does so at the present time. As far as can be seen in the visible future some form of property taxation is destined to produce the bulk of the revenue for the local divisions. There does not, in fact, seem to be any other tax which the local division can administer than some form of property taxation. If other forms of taxation are to yield the revenue, it will be necessary for the state to administer these taxes and to retain the revenue or distribute it to the local units.

II. Tax Exemptions

The constitutional requirement that all property be taxed uniformly does not preclude numerous exemptions. Many state constitutions specifically exempt federal property, but such exemption is entirely gratuitous since no state could tax federal property anyway. The Colorado constitution also exempts all state and municipal property in Article X, Section 4. Section 5, granting other exemptions, reads as follows: "Lots with buildings thereon, if said buildings are used solely and exclusively for religious worship, for schools or for strictly charitable purposes and cemeteries not used or held for private or corporate profit shall be exempt from taxation unless otherwise provided for by general law." In the same Article, Section 6, it is stated

that all laws exempting from taxation, property other than that provided in Section 5, shall be void. The general assembly, however, by law of 1872, has provided that all ditches used for purposes of irrigation and where the water is not sold for the purpose of deriving a revenue therefrom are exempt from all taxation. Also the legislature by law of 1911 provided that the increase in value of private land, caused by the planting of timber thereon, other than fruit trees and hedges, shall not for a period of thirty years, after date of planting, be taken into account in assessing the land. At the end of thirty years, however, and in the event of the maturity of the timber before the thirty years, the value of the timber shall be accounted for in taxation. Again in the law of 1915, the assembly has authorized the Colorado tax commission to rebate the taxes levied against all real and personal property of any county fair association used for the purpose of a county fair. Apparently the restriction in Section 6 has not been violated in these later exemptions. The constitution also grants an exemption of personal property to every person being the head of a family to the value of $200. By law of 1907, the legislature exempted parsonages to the extent of $3,000 from taxation. This law, also, apparently has not been contested.

The amount of tax-exempt property in Colorado is large. Just how large, no one can tell. By law of 1913, the assessors are required to make a tax schedule of all properties, personal and real, exempt by law, which is to be entered in the same detail as required for the assessable and taxable property. Apparently the assessor pays no attention whatsoever to this law and no appraisal is made of exempt property. The state board of immigration, however, in the Colorado Year Book for 1928-1929, has presented a table in which it endeavors to show how much property in the state is exempt from taxation. The figures given, at best, can be only estimates, and they are probably relatively over-estimated in view of the fact that taxable property is ordinarily returned at less than its full value. The table, somewhat rearranged, is given here as Table 18 following, not so much for the purpose of showing the actual amount of each kind of exempt property, as for the purpose of presenting the various kinds of property that are exempt. As will be seen, the majority of the items or at least the largest items are federal property which the state has no power to tax. The only way in which the difficulties, if any, arising from this exemption could be remedied, would be through such influence as they might have upon the federal government in disposing of this property, or in granting federal aid for, say, highway purposes. It will be seen that the other items, though large in the aggregate, are not in any one case, except that of the state property,

very large but quite varied. It is probably not true that the tax rates could be reduced to any appreciable extent through making some of the items of property now exempt taxable, but the magnitude of the amounts of exempt property calls attention to the danger in extending tax exemptions further. If the tax base is continually nibbled away, the rates will be increased.

TABLE 18

Property Exempt from Taxation in Colorado 1928

Class of Property	Estimated Value
Federal property:	
Unappropriated federal lands	$11,575,681
Federal coal lands	732,246,800
Federal reclamation projects	11,000,000
National forests	70,000,000
Federal shale land	47,612,950
Federal shale reserves	3,878,000
Federal oil reserves	2,189,000
Federal buildings	27,400,000
National parks and monuments	1,590,000
Federal power, water, and reservoir reserves	25,000,000
Total federal land	932,492,431
State and local public property:	
State property	217,297,610
Municipal property	59,950,000
County property	8,932,000
Public schools	58,043,117
Total state and local public property	344,222,727
Private property:	
Colleges and universities (private)	4,755,646
Churches and rectories	26,646,456
Hospitals	12,000,000
Cemeteries	2,000,000
Fraternal organizations	10,000,000
Miscellaneous charity organizations	3,000,000
Irrigation works	90,000,000
County fair associations	1,000,000
Federal land filed upon but not patented	3,120,000
Miscellaneous	5,000,000
Total private property exempt	157,522,102
Total exempt property	1,434,237,260
Taxable property (assessed valuation)	1,577,560,380
Percentage exempt of all property	47.6%

Source: Colorado Year Book, 1928-1929, p. 200.

That there is danger in excessive exemptions from taxation was clearly realized by makers of the state constitution. They inserted a provision that all laws, granting exemptions other than those specifically mentioned are void. Before exemption is granted there ought to be good reason for doing so. What, then, is a good reason for exempting property from taxation? There ought to be some distinct public service rendered, some service that the state would otherwise have to render, either solely or to a greater extent than it now does. Exemption is proper if taxing any exempt properties hampers the organizations rendering these public services in performing their functions. Whether or not in any given case there is a public service will depend of course, upon the appraisal which people have made of the services of the exempt institutions. There are wide differences of opinion as to whether, for example, religious property, or property used for religious purposes should be exempt. The same differences of opinion prevail as to whether co-operative organizations or even certain charitable and fraternal organizations should be exempt. It does not appear that the permissive exemptions granted in the constitution are excessive. Any danger from the increasing exemptions seems to emanate rather from the state courts. There are two schools of legal thought respecting tax exemption, one favoring a liberal, the other a strict construction. The liberal construction appears to prevail in Colorado though rarely observed elsewhere. It seems that if the court can possibly find an excuse for permitting exemptions it will do so. In states where strict construction is the rule, an exempt institution whose property was not directly used for an exempt purpose would not be exempt, as to such property merely because the income from it was devoted to an exempt purpose.

III. The Problem of the Uniformity Rule

The provision in the state constitution which requires all property not exempt to be taxed at the same rate within each taxing district is equivalent to an assumption that all property is alike, or that it may be treated as if it were alike for taxation purposes. This is perhaps the most fundamental fallacy in the theory of the general property tax. It is a convenient prevailing practice to divide all property into three classes, namely, real property, tangible personal property, and intangible personal property. Each of these three classes differs fundamentally from the two others, and within each class there are numerous items which differ from others within the class. In treating these items uniformly the taxing authorities encounter certain almost insoluble problems.

In case of most intangible property we have a representation of tangible property which has already been taxed in full, presumably. Most of the difficulty in the taxation of intangibles springs from the fact that the concept of property is not clear. There is in most states thrown into the general mass of all taxable property such unlike things as a parcel of real estate and the mortgage that is owed on it, the corporate property and the stocks and bonds representing that property to the share holders, bank deposits representing property, such as merchandise or manufacturers goods in stock, which has already been taxed without deduction of the debt. Such widely different things can not be assimilated into a mass that can be subjected to uniform taxation.

There are two possible consistent ways in which to use the term property for purposes of taxation. Each of these, if followed consistently, will reach all property once and only once. If in the tax law they are confused, some property may be reached more than once, or perhaps not at all.

One way is to think of property as the tangible goods, such as land, fixtures, machinery, livestock. Every tangible thing worth anything is owned by somebody, though it may not be in the possession of the owner. If the tax is based on the tangible property solely, all property will (or can be) taxed once and once only. By this method any indebtedness against tangible property is ignored and the owner will be taxed on the full value of his holdings of tangibles though his equity therein may be negligible.

Another way is to think of the interest or equity in these tangible things. From the assets of each taxpayer are deducted his liabilities. His taxable valuation would then be his net worth, as the bookkeeper finds it. Since debts allowed against assets to one taxpayer would be assets to the creditor, all property would (or should) be reached once and only once; and the aggregate assessed valuation by this method should be the same as by the former method, except that it would not be assessed in the same amounts to the same persons by the two methods. And since the creditor and the debtor might live in different taxing districts the assessed valuation in the different tax districts would not be identical by the two methods.

Colorado, like all other states, has not followed either method consistently. The lack of consistency did not produce serious results in the early days of the state when nearly all property was tangible and the tax rates were low. But these conditions no longer obtain. The particular confusion in Colorado may best be shown for each of the three classes of property separately.

First, in connection with real property the first method is followed consistently in Colorado, while in most of the other states it is not. The revenue act of 1902, defining taxable property, includes all real estate (not exempt as provided) but provides that "where any property within this state is mortgaged, conveyed or pledged for the security of a loan or debt then owing, the said property and the notes, mortgage, deed of trust, trust deed, contract or other conveyance, shall be assessed as a unit, and as one and the same, and as of one value and as the value of said property so mortgaged, pledged or otherwise conveyed only, and any such notes, mortgages, deeds of trust, trust deeds, contract or conveyance, shall not be otherwise returned or assessed." Thus, in very labored language, the legislature provided that real property should be assessed and taxed without deduction for debt, and that the debt thus secured should be exempt.

In the case of Washington County v. Murray, 71 Colo. 522, this provision was attacked as unconstitutional on the ground that it exempted mortgages in violation of the constitution. But the court held that to tax both the tangible property and the mortgages, would be double taxation and that not to tax the mortgages did not constitute an exemption. In upholding this statute the court held contrary to the rulings of the courts in other states in cases involving similar issues; but in so doing it did well. It is unjustifiable double taxation to tax real property without deduction for debt and to tax also the debt thereon.

This part of the revenue act of 1902 which in effect exempts domestic real estate mortgages is good and should not be changed. In support of this conclusion it may be indicated what the alternative methods are and would lead to. If the mortgages were required to be taxed, in addition to the taxes on the unencumbered value of the tangible property, at the local ad valorem rate, it is as certain as anything human can be, that such a tax could not be enforced with such administrative procedure as the people will tolerate. For, the tax on the mortgage, being in addition to the tax on the full equity in the property, must be a tax on personalty. As such it could be taxed only to Colorado residents. With the tax rates mounting to 3, 4, or 5 per cent Colorado residents could not afford to hold the mortgages and pay the tax. Such Colorado residents as held the mortgages would evade the tax by not listing them. In any case, there would be practically no revenue from such a tax. Such is the experience of all states that have tried to tax mortgages as personal property.

Another alternative would be to declare, by whatever statutory provisions necessary, the mortgage on real property to be an interest in real property and thus taxable at the situs of the real property rather than at the domicile of the holder. Then the mortgagee and the mortgagor would each be taxed on his equity in the property. Such a tax could be administered. But it would merely split up the assessment between the mortgagee and the mortgagor. It would necessitate two assessments instead of one. States that have tried this method have found that the mortgagor would always contract to pay the tax on the mortgage as well as the tax on his own equity. And if by law the mortgagor should be forbidden to pay the tax on the mortgage, he would have to pay at least the equivalent in the form of higher rate of interest on the mortgage debt.

The disadvantage of the present arrangement is of course that the owner of mortgaged property may be paying taxes on a valuation in excess of his net worth. But there appears to be no practical remedy for that condition. And if the property tax is properly conceived there is no serious objection to that condition. The mortgaged property is situated in the district, just as is the unencumbered property. Both are presumably equally effective factors in the business activities of the district. The public revenue furnished by each should be equal, regardless of who pays the tax. Both require the same governmental services. The taxes on fixed property can usually not be shifted and constitute a fixed charge on the property, and as will be explained later, they reduce the value of it proportionately. They are in effect necessary apportioned operating costs, since their payment is a condition of continued possession and use. Taxes on real property in Colorado, are, as they ought to be, taxes in rem. It is a mistake to argue that such taxes should bear any necessary relation to the personal circumstances of the owner.

Another alternative is to adopt the classified property tax for mortgages, giving them in form or in effect a low tax rate. But that method brings difficulties in its train, especially in connection with the taxation of banks. It is, in any event, a compromise and unsatisfactory. It will be discussed later in this report in connection with bank taxation.

In taxing mortgaged personal tangible property the result is nearly the same, the revenue act of 1902 exempting mortgages extends to chattel mortgages; in fact the term in ordinary language is "secured debts" for all mortgages. Personal property mortgaged is therefore not treated differently for taxation than unencumbered personal property. No deduction is

allowed, properly enough, for debts against tangible personal property. Whether all forms of tangible personal property should be taxed is doubtful, but that question will be raised later.

Thus, one very important class of intangible property is exempt. And the same is properly true of another perhaps equally important class, namely shares of stock, except bank stock, in corporations, both foreign and domestic, which are by administrative interpretation held to have no value apart from the property of the corporations represented by the shares, which has presumably been fully taxed. Here again, Colorado differs from most of the other states, most of which usually require foreign and sometimes domestic shares to be taxed as property to their holders, and again Colorado is right in its position. Such shares, except the shares of banks, to be discussed specifically later, are not required to be listed. What is left subject to taxation of intangible property, after the two important categories of secured debts and corporate shares have been excluded, includes money and bank stock, bank deposits, credits, book accounts, notes, bonds, special privileges and franchises and miscellaneous.

From the sum of his taxable intangible assets the taxpayer may deduct his debts, provided that deductible debts do not include insurance premiums due, debts due on subscriptions for stock, liabilities as surety for another, debts incurred for purchase of exempt securities, or fictitious debts. The object of the restrictions is evidently to permit only bona fide debts to be deducted and such only as are representative of taxable property presumably taxed. As a further safeguard against abuse of the privilege of deduction the taxpayer is, or may be, required to furnish a list of debts for which he claims deduction. If we accept as proper the taxation of any representative intangibles, there can be little objection to the tax on intangibles of Colorado, except that the two most important categories are exempt.

But, both as a matter of principle and of administrative practicability, it is very doubtful whether intangible property, certainly such parts as are merely evidence of interest or equity in tangible property, should be taxed as property. That question can best be settled finally when we examine the administration of the taxes on the various forms of intangible property. For the moment it is necessary to confine ourselves to a discussion of principle.

Owing to the fact that certain intangibles are taxable and that the deduction of debts is permitted only against these taxable credits, it is inevitable that many will pay taxes upon intangible property in excess of their net worth. Such will be the case with those whose assets are largely tangible, for their intangible liabilities may exceed their intangible credits. They may not have sufficient debts to cancel their credits. At first blush it may seem improper to hold that to tax such a taxpayer on the excess of his assets over his liabilities is objectionable while it is not objectionable to tax the holder of tangibles in excess of his equities. Yet, that position is the only logical one to take if the property tax is a tax against the things as such rather than against the person as such. Such is the position taken by the Colorado Statutes, by Colorado courts, and by Colorado tax administrators with reference to secured debts and shares of corporate stock. Why do they not follow the same course consistently with reference to other intangibles? The answer is no doubt in part that the issue has never been squarely presented.

There is really very little difference between secured debts and corporate stocks, on the one hand, and the rest of what is called intangible property on the other. If one class is deserving of tax exemption they all, or substantially all, are so deserving. For they all, and not merely the two first classes, are merely representations of equities in tangible property already taxed without deduction of debts. That such is the nature of substantially all intangibles is not as easy to show as it is to show that secured debts and corporate stocks are such representations. It will be shown, as convincingly as may be, later in this report, when the fiasco of the administration of these irrational property taxes on intangibles is surveyed. For the moment it is enough if the doubting reader is willing to grant that, in case these intangibles are substantially all shown to be merely such representations of equities in otherwise fully taxed tangibles, then they should not be taxed as property if discriminatory double taxation is to be avoided.

We should be fully aware that the argument for complete exemption of all intangibles places us in a position at present unpopular. Driven to the ultimate conclusion we would seem to be defending the proposition that the home owner, the farmer, the merchant and manufacturer, in short the owner of any tangible property, should be taxed thereon without deduction for his debts, and that the wealthy owner of intangibles should not even be taxed on the excess of his credits over his debits. But that is really not the position that has to be defended. The contention is that tangible property should be taxed as such for three reasons: First, tangible property alone produces an income, (which is different from saying that only tangible prop-

erty yields an income). One can grow wheat or alfalfa on a farm but not on a mortgage. He can produce rubber goods in a factory but not on the corporate shares of the corporation operating the factory. Second, as shown above, the tangible property, being one of the factors of a community should contribute to the public treasury equally, regardless of whether it is free from debt or encumbered. And, Third, to tax tangibles without deduction for debts is, as the experience of all states shows, the only practical way of taxing property. Intangibles, on the other hand should not be taxed as property for three equally good reasons: First, they do not produce, though they may and usually do yield an income. Second, as accepted in Colorado for secured debts and corporate stock, the tangible property they represent has presumably been fully taxed. And, Third, as will be presently shown, all administrative attempts to tax such intangibles as property at the prevailing ad valorem tax rates are either as futile as the rain-making of charlatans, or, in the few cases where they are effective, are productive of such monstrous inequalities that they ought to be abandoned.

But to contend that intangibles should not be taxed as property is not equivalent to contending that the rich owner of securities and other credits should not be taxed. He cannot, and should not be taxed with respect to his intangibles as property. There are, however, other and more effective ways to reach him. And such other ways will be suggested in a later section of this report. And it is well to bear in mind that not all intangibles are held by rich persons, and that the present notorious property taxes on intangibles, while they inevitably permit the rich usually to escape, do often apprehend many poor and of moderate means, and inflict upon them such burdens that the state ought not to tolerate them.

IV. The Effectiveness of the Assessment

The assessment of the general property tax, as indeed of any tax on property measured by the value of the property, is the pivotal part of the taxation procedure. If the assessment procedure is faulty, no corrective device can assure a proper apportionment of the tax burden, even as contemplated in the law.

The test of the effectiveness of the assessment is double. First, it includes a complete listing of all the taxable property. Second, it includes a full valuation of the property listed. In some classes of property such as land and buildings, it is next to impossible to escape listing, but the valuation is difficult. Therefore land and buildings escape from taxation, if at all, chiefly through undervaluation. On the other hand, certain

other kinds of property, such as money and credits, are difficult to find, but are ordinarily easily appraised. When money and credits escape taxation, as they almost invariably do, it is usually due to the failure on the part of the assessor to list them for taxation. In analyzing the escape from taxation it will be convenient to consider separately the three classes of property, namely real estate, tangible personal property, and intangibles.

A. Real Property Assessments

Both for the purpose of appraising real estate for taxation, and for the purpose of testing the appraisal, the market value of property is the best criterion. The law, in fact, requires that all property shall be assessed at its "full cash value". In most of the counties of the state the assessors do not always accept the market value as the basis for the appraisal. They do, as a matter of fact, often attempt not to vary the real estate values from one year to another. This, of course, is in violation of the law. In Denver, and to a certain extent in other large cities of the state, the assessor secures records of bona fide sales in different parts of the city and on those records he bases his valuations of the land and, to a large extent, of the buildings thereon. Away from the large cities, ordinarily no systematic records of the sales are kept by the assessors, and the appraisal is made more or less as a matter of guess work, except in so far as the value is deliberately kept the same from one assessment year to another. The result is that there are great inequalities not only among the individual properties within each tax district, but in the average ratio of assessed to true value between counties.

1. The Assessment Ratio

Colorado is like all the other states in that the average assessed value of taxable real property is considerably below the legally required "full cash value". The reason is obvious: Pressure of every kind is brought to bear upon the assessor to reduce the assessed valuation; and there is no corresponding upward pressure. The result is that the assessors yield to the one-sided pressure and the average assessed value tends year after year to fall farther and farther below the "full cash value". There is one strong business reason why the assessor yields to the downward pressure. If the average assessed value, expressed as a percentage of the "full cash value", in one county exceeds the corresponding average assessment ratio for the entire state, the property of that county will bear a disproportionately large percentage of the state property tax. Hence the assessors feel to some extent moved to engage in a

competitive undervaluation for the purpose of saving money to the property owners in the county. Among the various owners of the taxable property of each county there is the same competitive undervaluation. For if any one taxpayer's property can be assessed below the average assessment ratio for the county, he will pay less than his proportionate share. And the local property taxes are much higher than the state property tax.

For these reasons every assessor is constrained to seek for his county an average assessment ratio, not at 100% of the "full cash value", but one that is at least not higher than the average assessment ratio for the state. The very real practical necessity for each assessor to "keep his valuation in line" makes it impossible for any one zealous assessor to comply with the law.

It is estimated by the respective taxing authorities, and reported by the Bureau of the Census in "Financial Statistics of States", that the average assessment ratios for the various states range from 15% to 100% of the full value. These estimates of the assessment ratio are based chiefly upon statements made by the respective tax commissions. But these state commissions, since they are charged with enforcing a 100% assessment of all taxable property, are obviously not in a good position to confess to having permitted anything less. Thus the Colorado estimate of the assessment ratio is 100%. Yet all the evidence goes to show that, while many individual items of property are obviously assessed at 100% and even far above, the average assessment ratio for Colorado is far below the "full cash value".

Now the continued pressure for undervaluation, though in direct violation of the law, would not be a serious matter, except for two reasons. First, the undervaluation is uneven in the several counties, and for individual items of property within each county. That such is the case will be shown in the following paragraphs. In the second place, as soon as the assessor departs from the legal "full cash value" as his criterion, he is at sea, not knowing what assessment ratio to use as his criterion. For while everybody admits that the average assessment ratio for the state is less than 100% of "full cash value", no one knows how far below it is. The failure, therefore, to enforce a 100% assessment ratio introduces an additional element of guess work into the already difficult process of assessing property.

True it is that a 50% assessment ratio might serve nearly as well if it were legal. Some states have in fact legally required the assessed value to be some percentage of the full value, less than 100%; and a few of them still do so. Until 1913 Colorado did in fact require the assessed value to be one-third of the full cash value. In requiring a 100% assessment ratio in 1913 Colorado did well. For there is no merit in using a lower percentage; and in doing so there is some demerit in that it unnecessarily complicates the assessment procedure.

The essential desideratum in the assessment ratio is that, whether it is at 100% of "full cash value" or some lower percentage, it should be uniform for all property. This fact is usually recognized by the courts, both federal and state. Thus in the case of A. T. & S. F. Ry. Co. v. Sullivan, 173 F. 456, 461, it was held that "a systematic, intentional, under or over assessment of one or more classes of property in violation of law, the inevitable effect of which is an unjust discrimination in taxation against the property of complainant and property similarly situated, will sustain a suit for the unjust part of the taxes thus levied." Similar decisions have been rendered in federal courts elsewhere, and the state courts must respect these federal decisions. They serve well as an interpretation of the law. But the problem of determining what is "the unjust part of taxes thus levied" still remains. Relief from relatively excessive assessments cannot be a judicial, but must be an administrative procedure. And adherence to the legal "full cash value" will facilitate such relief or, better still, will eliminate the necessity for such relief.

2. Inequalities in the Assessment

In a number of states very careful and elaborate analyses of assessments have been made by public agencies. The assessments have been checked by means of extensive lists of sales records of bona fide sales, where the fair consideration of the transfer is stated. Unfortunately in Colorado no public authority has done so, except the assessor in a few counties, as already stated, and no appropriation has been made whereby such public authority might obtain a list of bona fide sales records for use as a guide in making the assessment and for the purpose of checking the assessment when once made. Such limited investigations as have been made show wide variations in the ratio of the assessed value to the sales value, and therefore demonstrate unjustifiable inequalities in the local taxes of different properties in the same district, as well as in the tax for state purposes among different counties. And these discrepancies in the assessment ratio occur also when the assessed value is compared with the owner's own estimated value.

Thus in a study made by Whitney Coombs, L. A. Morehouse, and Burton D. Seeley, of which the results are published in Bulletin 346 of the Colorado Agricultural Experiment Station, September 1928, entitled "Some Colorado Tax Problems" are shown very wide discrepancies in the assessment ratio, among individual units of property. On page 41 of this study it is shown that in 1920, for example, in northern Colorado, of 262 cases, the lowest ratio of the assessed value to the owner's valuation was 18%, whereas the highest ratio was 129.3%, the average ratio being 52%. On the same page, for the year 1925, it is shown that in four districts in Colorado, of 420 records, the assessed value amounted in one case to 531.6% of the owner's valuation, whereas in the case having the lowest ratio, it amounted to 14.6%, the average being 61% for all the districts.

The assessment ratios cited in the foregoing paragraph deal with agricultural real estate. The case is similar with respect to urban property. On page 33 of the same study it is shown that in 1920, of 198 cases, the assessed valuation varied from 13.3% of the owner's valuation to 232.9%, the average being 65.2%. In 1926, of 205 cases, it is shown that the assessment ratio varied from 16.9% to 232.9%, the average being 63.6%.

In the aforementioned study the comparisons were made between the owner's estimates of valuation and the assessed valuations because sales records did not exist for the purpose of that study. Local and limited studies have been made comparing the assessed value to the sales value, and the results are not very different from those indicated above. The discrepancies they show are between individual items of property and no comprehensive attempt has been made to determine whether any wide discrepancies exist as between counties. In an elaborate study now being undertaken by a group of public utility corporations, it is attempted to obtain assessment ratios for real property, both urban and rural, in the entire state. This study is not yet complete, but such examination of the preliminary figures as can be made, warrants the conclusion that the average assessment ratio to the sales value of bona fide sales is about 60%. The lowest average for any county on both urban and agricultural property is about 30%. The highest ratio of assessed to sales value, expressed as the average for any county, is about 130%. The Combs-Morehouse-Seeley study shows, and the above mentioned study now in progress indicates very clearly that there are wide discrepancies in the ratio of assessed to "full cash value" not only among individual properties, but also among the average assessment ratios in the different counties.

For the purpose of showing that the condition in Colorado is not greatly different from the condition that prevails or has prevailed in other states, tables are presented herewith, showing the discrepancies in the assessment ratios in other states. Thus for Kansas a study made by Professor Englund of the

TABLE 19

Distribution of 1,140 Items of Farm Real Estate and 1,954 Items of City Real Estate of Kansas According to the Percentage Assessed Value Was of Sale Price of Each Item, 1921 and 1922

Assessment Ratio	Farm Real Estate	City Real Estate
Below 35	39	127
35 to 39	39	61
40 to 44	70	86
45 to 49	87	116
50 to 54	109	160
55 to 59	123	150
60 to 64	124	181
65 to 69	90	155
70 to 74	95	157
75 to 79	77	130
80 to 84	64	134
85 to 89	68	85
90 to 94	44	86
95 to 99	26	47
100 to 104	26	75
105 to 109	15	30
110 to 114	8	19
115 and above	37	155

Source: Agricultural Experiment Station, Kansas State Agricultural College, Bulletin No. 232, "Assessment and Equalization of Farm and City Real Estate in Kansas", page 41.

Kansas Agricultural Experiment Station, published as Bulletin No. 232, shows that the variations were as wide perhaps as they are shown to be in Colorado. The advantage of the extensive

TABLE 20

Assessed Valuation of Farm Real Estate in Percentage of Sale Price of Fifteen Kansas Counties by Size Groups for Ten Years, 1913 to 1922

County	Size Groups, Based on Sale Price								
	All Groups	I	II	III	IV	V	VI	VII	VIII
All Counties in Classes A, B, C, D, E..	65.6	85.7	76.7	72.9	70.0	66.4	65.3	62.3	58.7
Class "A"..	0	Below $1,500	$1,500 to 2,999	$3,000 to 4,499	$4,500 to 5,999	$6,000 to 7,499	$7,500 to 8,999	$9,000 to 10,499	$10,500 and above
Total....	67.7	83.6	81.2	76.3	72.0	67.7	65.1	64.3	63.8
Bourbon...	67.2	90.3	86.1	79.7	76.6	64.1	68.7	69.1	53.2
Chase.....	72.5	73.7	76.3	77.9	72.9	75.1	63.6	73.3	71.8
Comanche..	53.1	76.7	69.8	58.1	53.6	56.0	51.9	46.6	51.0
Leavenworth	72.1	81.9	75.0	75.9	74.1	76.2	73.0	68.0	70.9
Rooks.....	67.5	98.4	88.8	78.6	74.2	65.6	59.2	57.9	57.2
Class "B"..	0	Below $3,000	$3,000 to 4,999	$5,000 to 6,999	$7,000 to 8,999	$9,000 to 10,999	$11,000 to 12,999	$13,000 to 14,999	$15,000 and above
Total....	68.8	83.4	77.2	75.0	73.4	70.7	67.7	66.8	61.4
Cowley....	65.4	85.3	73.5	69.3	67.8	67.1	63.3	66.5	53.8
Jewell.....	73.3	81.7	80.8	74.1	76.5	75.2	71.7	67.9	63.5
Reno.....	67.9	79.3	75.5	78.5	74.3	69.5	67.7	68.0	63.2
Shawnee...	67.9	86.0	77.6	75.3	70.7	69.7	66.8	63.3	60.3
Class "C"..	0	Below $1,000	$1,000 to 1,999	$2,000 to 2,999	$3,000 to 3,999	$4,000 to 4,999	$5,000 to 5,999	$6,000 to 6,999	$7,000 and above
Total....	54.9	87.3	74.3	65.3	59.0	55.1	56.1	53.0	47.0
Cherokee...	58.2	91.9	74.0	69.9	72.9	62.9	59.7	59.1	48.6
Decatur....	55.5	83.4	82.9	68.0	58.3	54.9	54.8	51.4	44.3
Meade.....	52.2	86.8	67.1	60.0	53.6	49.1	54.2	48.7	47.4
Class "D"..	0	Below $2,000	$2,000 to 3,199	$3,200 to 4,399	$4,400 to 5,599	$5,600 to 6,799	$6,800 to 7,999	$8,000 to 9,199	$9,200 and above
Total....	61.2	93.4	70.8	65.4	64.5	58.3	66.3	54.1	49.9
Montgomery	59.5	100.2	69.5	65.3	61.8	53.5	66.2	50.7	55.9
Woodson...	64.7	66.6	72.9	65.5	69.4	67.0	66.4	59.5	58.7
Class "E"..	0	Below $2,000	$2,000 to 3,499	$3,500 to 4,999	$5,000 to 6,499	$6,500 to 7,999	$8,000 to 9,499	$9,500 to 10,999	$11,000 and above
Greenwood.	63.8	81.4	64.4	72.0	68.2	66.5	67.0	66.8	58.3

Source: Agricultural Experiment Station, Kansas State Agricultural College, Bulletin No. 232, "Assessment and Equalization of Farm and City Real Estate in Kansas", page 14.

study made in Kansas is that it covers individual properties. The group of corporations making the aforementioned study in Colorado are not greatly interested in individual variations. They are interested in variations between counties and in the average valuation for the state as a whole, for the purpose of showing that other property is being relatively under-assessed whereas their own property, is being relatively over-assessed.

Table 19 (Page 57) presents the variations in the assessment ratios of 1,140 items of farm real estate and 1,954 items of city real estate in Kansas for the years 1921 and 1922. It is shown that 39 parcels of farm real estate and 127 parcels of city real estate were assessed at less than 35% of the sales value, and that 37 parcels of farm real estate and 155 parcels of city real estate were assessed at 115% or more of the sales value.

Table 20 (Page 58) presents the assessment ratios of farm real estate in fifteen Kansas counties during the period from 1913 to 1922. The purpose is to show that there is a strong tendency for the smaller or less valuable parcels to be relatively over-assessed, while the larger or more valuable parcels are relatively under-assessed. Thus for all the groups it was found that the average ratio of the assessed value to the sales value was 65.6%. But the average ratio for the group of the smallest or least valuable parcels was 85.7%, while the corresponding ratio for the group of the largest or most valuable parcels was only 58.7%. This tendency doubtless operates in Colorado as well. But before it can be corrected the necessary data will have to be accumulated somehow. In Kansas this tendency to regressive assessment is shown in all the counties. Doubtless it is even more striking in Colorado than it was in Kansas.

In Table 21 following are shown similar regressive discrepancies in the assessment ratios of city real estate in sixteen Kansas counties for the years 1913-1922. The only respect in which the city real estate assessments differ from those on farm real estate, as shown in Table 20 above, is that the average ratio is higher, being 73.3%, while that of farm real estate was only 65.6%. It is probable that these regressive discrepancies are also found in Colorado city real estate assessments. Whether or not city real estate tends to be assessed at a higher percentage of the "full cash value", as Tables 20 and 21 (supra) show to be true for Kansas, cannot be proved until the necessary data have been accumulated. But the experience of the other states suggests that it is the prevailing practice to assess urban real estate relatively higher than farm real estate.

An investigation made under the auspices of the 1928 special tax commission of North Carolina, in its report on page

TABLE 21

Assessed Valuation of City Real Estate in Per Cent of Sale Price of Sixteen Kansas Counties by Size Groups for Ten Years, 1913 to 1922

County	Size Groups, Based On Sale Price								
	All Groups	I	II	III	IV	V	VI	VII	VIII
All Counties in Classes A, B, and C	73.3	97.0	89.0	82.9	80.5	76.5	74.5	70.9	69.1
Class "A"	0	Below $150	$150 to 299	$300 to 449	$450 to 599	$600 to 999	$1,000 to 1,399	$1,400 to 1,849	$1,850 and above
Total	62.2	127.8	100.0	84.9	79.9	74.3	73.6	63.2	53.3
Chase	76.0	129.3	125.8	105.6	97.3	86.6	80.8	78.2	66.8
Cherokee	66.7	175.1	113.5	91.6	82.2	72.1	73.1	59.7	51.9
Comanche	47.1	63.2	64.1	44.8	56.9	53.9	60.5	48.8	53.2
Hamilton	70.3	90.0	73.2	85 9	106.9	79.4	60.4	72.8	65.9
Meade	50.7	69.5	63.9	59.4	60.8	60.5	61.0	50.7	42.4
Rooks	71.8	106.2	109.1	92.7	87.7	84.5	85.1	72.3	61.2
Sherman	69.2	83.0	82.6	88.0	73.1	88.2	80.9	68.6	57.0
Class "B"	0	Below $400	$400 to 749	$750 to 1,099	$1,100 to 1,449	$1,450 to 1,799	$1,800 to 2,499	$2,500 to 3,499	$3,500 and above
Total	74.5	90.6	88.3	82.7	79.7	77.9	74.4	71.4	70.7
Bourbon	72.4	97.4	85.2	79.1	78.1	70.1	70.7	71.4	67.5
Cowley	76.6	104.5	85.6	86.4	81.3	82.6	80.2	71.7	72.9
Decatur	53.4	76.3	77.3	68.4	54.3	59.3	50.5	40.8	39.2
Jewell	82.3	103.4	86.2	85.2	83.3	78.4	75.4	88.2	80.2
Leavenworth	90.6	101.9	98.9	93.1	89.9	90.5	87.0	84.3	92.7
Reno	68.1	70.2	88.5	71.9	70.8	68.8	68.8	63.8	66.8
Riley	69.2	85.1	90.7	82.8	71.6	73.9	69.4	67.3	67.0
Woodson	70.3	70.4	71.5	75.0	74.5	68.8	68.6	75.3	64.3
Class "C"	0	Below $750	$750 to 1,299	$1,300 to 1,849	$1,850 to 2,399	$2,400 to 2,949	$2,950 to 3,499	$3,500 to 4,049	$4,050 and above
Shawnee	79.7	97.3	84.6	82.7	85.4	78.8	79.4	82.7	78.4

Source: Agricultural Experiment Station, Kansas State Agricultural College, Bulletin No. 232, "Assessment and Equalization of Farm and City Real Estate in Kansas", page 15.

170, shows similar discrepancies in the assessment ratio. Table 22 following shows that of 1,020 real property parcels, 46 were assessed at less than 30% of the true value, while 35 transfers recorded an assessment ratio of more than 150%.

TABLE 22

Frequency Distribution of Ratios of Assessed to Market Value of 1,020 North Carolina Farms

Percentages of Assessed to Market Value	Distribution	
	Number	Percentage of Total Number
Below 30%	46	4.509
30- 39.9	62	6.079
40- 49.9	84	8.235
50- 59.9	106	10.393
60- 69.9	156	15.294
70- 79.9	138	13.529
80- 89.9	124	12.156
90- 99.9	97	9.509
100-109.9	73	7.158
110-119.9	47	4.608
120-129.9	19	1.863
130-139.9	17	1.667
140-149.9	16	1.569
150 and over	35	3.431
Total	1,020	100.00

Source: Report of the Tax Commission of North Carolina, 1928, page 170.

In a very careful and elaborate study, entitled "The Tax System of Iowa", made by Professor Brindley and Miss Zorbaugh, published in 1929 as Extension Bulletin No. 150 of the Iowa State College of Agriculture, similar discrepancies in the assessment ratios are shown, both for agricultural and urban property. Of 2,150 transfers of farm real estate, it was shown that 28 were assessed at 25% or less of the true value, whereas 3 were assessed at over 100% thereof. Of 1,305 urban properties, 5 were assessed at less than 10% of true value and 54 at over 100%. It would be possible, were it necessary, to present similar records of other states showing similar discrepancies. The data for Iowa are shown in Tables 23 and 24, respectively.

TABLE 23

Distribution of Ratio of Assessed to Sales Value of Rural Property of Iowa, 1927

Percentage of Assessed to Sales Value	Distribution	
	Number	Percentage of Total
11- 15	1	.047
16- 20	7	.326
21- 25	20	.930
26- 30	68	3.163
31- 35	200	9.302
36- 40	346	16.092
41- 45	379	17.627
46- 50	332	15.441
51- 55	280	13.022
56- 60	197	9.163
61- 65	132	6.140
66- 70	78	3.628
71- 75	48	2.233
76- 80	27	1.256
81- 85	18	.837
86- 90	9	.419
91- 95	4	.186
96-100	1	.047
101 and over	3	.141
Total	2,150	100.00

Source: Tax System of Iowa, page 13.

TABLE 24

Distribution of Ratio of Assessed to Sales Value of Urban Property in Iowa, 1927

Percentage of Assessed to Sales Value	Distribution	
	Number	Percentage of Total
6- 10	5	.383
11- 15	18	1.379
16- 20	30	2.299
21- 25	40	3.065
26- 30	73	5.594
31- 35	103	7.893
36- 40	148	11.341
41- 45	147	11.265
46- 50	133	10.192
51- 55	96	7.356
56- 60	115	8.812
61- 65	63	4.838
66- 70	73	5.594
71- 75	53	4.061
76- 80	45	3.448
81- 85	26	1.992
86- 90	34	2.605
91- 95	22	1.686
96-100	27	2.069
101 and over	54	4.138
Total	1,305	100.00

Source: Tax System of Iowa, page 15.

B. Tangible Personal Property

In case of tangible personal property the inequalities in the assessment are chiefly due to a failure to list the property. Great amounts of certain classes of personal property are not listed by the taxpayer, nor are they found by the assessor. A few examples of escape will suffice. The examples must be incomplete because in the nature of things there is no inventory of the property that escapes listing.

1. Personal Effects and Household Goods

Consider the items of watches and clocks. Table 25 following shows the number and assessed valuation of these items of personal property from 1919 to 1929 inclusive. The number of persons per watch or clock was 30.9 in 1919 and 60.2 in 1928. If we assume five persons to the family, the figures would indicate that only one family in 6 in 1919, and only one in 12 in 1928, possessed a watch or a clock. Comparisons may be made for other items of personal effects with similar results. The taxation of such forms of property is so much a farce that it would be better not to tax such items at all.

TABLE 25

Number Assessed and Valuation for Specified Years of Clocks and Watches, Total and Per Capita

Year	Number	Valuation	Persons for Each Watch or Clock
1919	29,470	$483,681	30.9
1920	26,615	478,515	35.3
1921	23,303	412,510	41.5
1922	22,133	404,736	45.0
1923	19,741	353,818	51.8
1924	20,915	317,677	50.0
1925	18,355	274,212	56.7
1926	20,085	280,126	52.7
1927	19,694	290,776	54.5
1928	18,117	332,040	60.2
1929	23,151	379,114	47.8

Source: Colorado Tax Commission Reports.

The case is no different with household goods and similar forms of personal property. And it would do but small harm if all such property were exempt. The Colorado experience as well as that of other states indicates that the assessment of household goods is annoying to the taxpayer. The assessment

is inadequate because it is not possible to induce all the assessors to take it seriously. The assessed valuations of household goods, expressed as totals, as percentage of total valuation, and per capita, are shown in Table 26 following. To exempt household goods from taxation would do but little harm since it is probably widely distributed, and in roughly the same proportion to the taxes people would pay under an adequate tax system. Moreover such property has a use-value only and yields no money income with which taxes can be paid. Furthermore if household goods and personal effects were exempt the troublesome constitutional family exemption of $200 could be abolished. It should be abolished in any case.

TABLE 26

Assessed Valuation for Specified Years of Household Property, Total and per Capita

Year	Assessed Value		Percentage Household Goods is of Total	Per Capita Assessment of Household Property
	Total	Household Goods		
1919	$1,568,996,882	$24,335,778	1.55	$26.69
1920	1,666,638,808	26,680,523	1.60	28.39
1921	1,611,657,322	27,993,508	1.74	28.93
1922	1,583,412,223	29,637,930	1.87	29.79
1923	1,579,310,975	28,748,701	1.82	28.11
1924	1,573,158,627	29,018,352	1.84	28.03
1925	1,574,493,185	28,856,535	1.83	27.73
1926	1,580,044,162	28,673,431	1.81	27.08
1927	1,599,601,112	29,452,790	1.84	27.42
1928	1,611,983,454	30,566,016	1.90	28.04
1929	1,586,919,769	31,559,026	2.00	28.53

Sources: Colorado Tax Commission Reports.

2. Live Stock

Consider the item of swine in the assessment abstract, as shown in Table 27 following. It is improbable that the taxable swine should be less than 40% of the number estimated by the

TABLE 27

Number of Swine Assessed and Number Estimated for Colorado by United States Department of Agriculture, for Specified Years

Year	Number			Valuation		
	Assessed	U.S. D.A. Estimate	Ratio	Assessed	U.S. D.A. Estimate	Ratio
1919	195,188	450,000	43.3	$2,955,440	$8,100,000	36.5
1920	177,497	450,000	39.4	2,129,493	8,100,000	26.3
1921	172,844	414,000	41.7	1,619,404	5,092,000	31.8
1922	206,057	455,000	45.3	1,882,647	4,368,000	43.1
1923	256,717	592,000	43.4	2,211,060	6,216,000	35.6
1924	246,206	575,000	42.8	1,794,667	5,428,000	33.1
1925	183,176	493,000	37.2	1,450,864	5,423,000	26.8
1926	140,768	443,000	31.8	1,246,258	6,004,000	20.8
1927	164,058	443,000	37.0	1,636,901	7,073,000	23.1
1928	172,209	509,000	33.8	1,675,270	6,690,000	25.0
1929	184,532	575,000	32.1	1,802,999	7,532,500	23.9

Source: Report of Colorado Tax Commission and reports of U. S. D. A. Bureau of Crop and Livestock Estimates.

TABLE 28

Comparison of Total Value of All Livestock as returned by Assessors, and by the Division of Crop and Livestock Estimates of the United States Department of Agriculture, for Specified Years

Year	Assessment	Reported by U. S. D. A.	Ratio of Assessment to U. S. D. A Estimate
1920	$101,430,836	$152,936,000	66 32
1921	67,899,886	110,301,000	61.55
1922	61,497,435	89,908,000	68.40
1923	54,410,112	92,851,000	58.59
1924	45,705,798	87,065,000	52.49
1925	43,515,316	88,640,000	49.09
1926	42,989,558	95,403,000	45.06
1927	45,664,702	93,344,000	48.92
1928	52,656,230	110,982,000	47.44

Source: Colorado Year Book and Colorado Tax Commission Reports.

Department of Agriculture. Nevertheless livestock is probably better assessed than almost any other tangible personal property. Hog raising is a seasonal industry, and on April 1, there is probably a minimum of swine on farms.

That the undervaluation prevails also for other kinds of livestock is suggested by Table 28 (Page 66). Moreover, if the estimates of the Division of Crop and Livestock Estimates are correct, the percentage of undervaluation is on the increase.

That escape from taxation occurs in case of other livestock is indicated by Table 29 following. The Bureau of the Census reports only stock on farms. Hence the figures for all cattle and for sheep are not exactly comparable.

TABLE 29

Assessment of All Livestock for 1925 and 1928

Species of Stock	1925			1928		
	Number Reported by Census	Number Assessed	Percentage of Assessed to Census Figures	Number Reported by Census	Number Assessed	Percentage of Assessed to Census Figures
Horses	365,000	280,094	76.73	324,000	239,759	73.99
Mules	38,000	32,939	86.68	36,000	26,189	72.74
All cattle	1,436,000	997,975*	69.49	1,317,000	898,102*	68.19
Dairy cows	192,000	147,411	76.77	292,000	148,474	50.84
Sheep	2,244,000	2,231,079**	99.42	2,746,000	3,653,798**	133.05
Swine	493,000	183,176	37.15	509,000	172,209	33.83

Source: Number assessed from Tax Commission reports. Census figures from Statistical Abstract and Colorado Year Book.

*Includes range cattle and cattle fed in transit.

**Includes sheep fed in transit.

That the assessors were not equally successful in finding all the swine in all the counties may be seen from Table 30 following, showing the variations in the percentages which the assessed swine were in each county of the number estimated to be in each county by the Department of Agriculture. The variations in the percentages may be more readily seen from the frequency distribution shown in Table 31 following.

TABLE 30

Assessment of Swine, by Counties, 1920 and 1928

Counties	1920			1928		
	Number Per Census	Number Assessed	Percent Assessed of Census	Number Per Census	Number Assessed	Percent Assessed of Census
Adams	15,222	10,191	67	23,193	10,994	47
Alamosa	5,530	2,846	51	4,610	1,612	35
Arapahoe	7,404	2,909	39	8,739	2,213	25
Archuleta	3,095	1,454	47	1,291	518	40
Baca	8,792	5,122	58	10,010	4,127	41
Bent	4,378	1,229	28	5,422	2,268	42
Boulder	7,541	2,530	34	4,384	1,887	43
Chaffee	4,872	1,605	33	3,892	1,286	33
Cheyenne	4,363	2,082	48	9,871	2,198	22
Clear Creek	54	15	28	1	0	----
Conejos	14,198	4,290	30	7,595	2,295	30
Costilla	13,033	3,640	28	6,919	1,981	29
Crowley	6,185	2,835	46	4,585	1,474	32
Custer	1,518	264	17	999	560	56
Delta	10,644	4,960	47	5,783	3,231	56
Denver	628	0	----	316	0	----
Dolores	421	164	39	455	157	16
Douglas	3,083	1,345	43	4,312	1,187	28
Eagle	2,635	917	35	1,681	581	35
Elbert	12,339	4,506	37	11,367	6,227	55
El Paso	11,715	3,425	29	11,710	3,504	30
Fremont	4,422	1,712	39	1,669	1,147	69
Garfield	7,141	4,057	57	6,181	2,396	39
Gilpin	64	16	25	34	2	6
Grand	490	184	38	225	147	65
Gunnison	908	427	47	567	282	50
Hinsdale	60	23	38	8	12	150
Huerfano	5,677	810	14	2,479	713	29
Jackson	318	95	30	267	83	31
Jefferson	6,421	3,401	53	2,807	876	31
Kiowa	2,622	749	29	5,880	777	13
Kit Carson	10,519	4,767	45	19,722	8,533	43
Lake	6	0	----	7	0	----
La Plata	9,373	4,561	49	4,979	2,529	51
Larimer	13,703	5,787	42	9,761	3,106	32
Las Animas	6,125	2,370	39	3,627	1,300	36
Lincoln	9,169	3,868	42	17,138	4,836	28
Logan	14,905	7,754	52	33,373	13,000	39
Mesa	9,903	0	----	5,852	5,220	89
Mineral	58	9	16	33	1	3
Moffat	3,553	1,180	33	1,242	784	63
Montezuma	9,902	5,779	58	5,180	1,807	35
Montrose	11,212	4,568	41	9,734	2,987	31
Morgan	15,712	5,710	36	20,638	7,639	37
Otero	9,306	5,437	58	10,098	4,631	46
Ouray	1,080	356	33	795	405	51
Park	520	213	41	260	43	17
Phillips	8,166	4,284	52	24,126	6,613	27
Pitkin	1,262	634	50	1,311	410	31
Prowers	7,806	3,857	49	8,849	4,941	56

TABLE 30—Continued

Counties	1920			1928		
	Number Per Census	Number Assessed	Percent Assessed of Census	Number Per Census	Number Assessed	Percent Assessed of Census
Pueblo	13,032	3,467	27	10,156	3,598	35
Rio Blanco	3,646	1,114	31	1,861	454	24
Rio Grande	24,652	4,999	20	19,371	3,412	18
Routt	5,726	2,110	37	3,170	1,845	58
Saguache	8,694	2,662	31	6,404	1,072	17
San Juan	0	0	----	0	0	----
San Miguel	2,792	747	27	1,796	487	27
Sedgwick	4,747	2,643	56	10,639	3,775	35
Summit	142	74	52	117	32	27
Teller	535	180	34	190	61	32
Washington	15,010	6,020	40	37,147	10,979	30
Weld	37,083	12,362	33	36,998	10,677	29
Yuma	26,171	12,182	47	43,087	12,297	29
	450,283	177,497	39	494,921	172,209	35

Source: Colorado Year Book and Colorado Tax Commission Reports.

TABLE 31

Distribution of Counties According to the Percentages Which the Swine Assessed were to Those Estimated by United States Department of Agriculture, by Counties for 1920 and 1928

Percentage Groups	Number of Counties	
	1920	1928
10 or less*	1	6
10.1 to 20	4	5
20.1 to 30	10	14
30.1 to 40	18	19
40.1 to 50	16	6
50.1 to 60	10	8
60.1 to 70	1	3
70.1 to 80	--	--
80.1 to 90	--	1
90.1 to 100	--	--
Over 100	--	1

*In most of these counties no swine were assessed.

3. Motor Vehicles

Motor vehicles constitute an important type of personal property. In general, in Colorado as in other states, the assessors probably try more carefully to assess such property than any other personal property. Table 32 following shows the total number of automobiles registered and the number assessed each year for the period 1919 to 1929, inclusive. The ratio of the number assessed to the number registered ranged from 72.5% in 1919 to 77.7% in 1927, with a decline to 76.3% in 1929. The table also shows the very interesting fact that the average assessed value declined from $421.83 to $231.75 during the period.

TABLE 32

Number of Automobiles and Trucks Assessed and Registered, Total and Average Assessed Valuation, and Ratio of Assessed to Registered, for Specified Years

Year	Number Assessed	Assessed Valuation	Average Assessed Value	Registration of Automobiles and Trucks	Ratio of Listed to Registered Automobiles and Trucks
1919	75,995	$32,056,805	$421.83	104,865	72.5%
1920	95,579	46,210,870	488.08	127,549	74.9%
1921	110,098	50,842,323	461.70	145,784	75.5%
1922	121,367	43,667,262	359.79	162,328	74.8%
1923	141,092	40,956,676	290.28	189,020	74.6%
1924	163,194	43,328,095	264.90	213,333	76.5%
1925	178,985	47,239,978	265.39	240,179	74.5%
1926	195,884	45,978,402	235.86	253,299	77.3%
1927	208,803	48,040,996	234.61	268,492	77.7%
1928	218,829	47,496,745	217.87	283,994	77.0%
1929	230,991	53,531,256	231.75	302,461	76.3%

Source: Reports of Colorado Tax Commission and Colorado Year Book.

There are wide variations in the ratios of the assessed to registered vehicles among the counties, as shown in Table 33 following. The highest ratio was found in Pitkin county, namely 91.2%; and the lowest in Archuleta county, namely 58.1%. This is a ten-year record and it is not very creditable. It should be remembered that the figures are 10-year averages. As is always the case in averages, the variations within each county tend to disappear. Hence the actual variations, year by year, are doubtless considerably larger than shown in the tables.

TABLE 33

Total Number of Automobiles and Trucks Assessed and Total Number Registered, 1919-1929, in Colorado, by Counties

County	Number Assessed	Number Registered	Ratio
Adams	30,923	51,235	60.3
Alamosa	11,247	16,154	69.6
Arapahoe	32,893	50,092	65.7
Archuleta	2,196	3,781	58.1
Baca	11,531	18,225	63.3
Bent	13,516	19,314	70.0
Boulder	69,499	89,675	77.5
Chaffee	11,154	13,843	80.6
Cheyenne	7,586	9,334	81.3
Clear Creek	4,799	6,069	79.1
Conejos	9,777	11,384	85.9
Costilla	3,713	5,341	69.5
Crowley	9,504	14,229	66.8
Custer	3,780	4,393	86.0
Delta	22,629	30,675	73.8
Denver	497,914	644,013	77.3
Dolores	910	1,329	68.5
Douglas	8,753	11,017	79.4
Eagle	4,744	5,854	81.0
Elbert	13,209	16,447	80.3
El Paso	87,983	122,531	71.8
Fremont	35,405	45,385	78.0
Garfield	15,133	17,864	84.7
Gilpin	1,436	1,828	78.6
Grand	4,439	5,503	80.7
Gunnison	8,289	9,209	90.0
Hinsdale	538	684	78.7
Huerfano	24,073	30,362	79.3
Jackson	2,527	3,877	65.2
Jefferson	43,243	52,881	81.8
Kiowa	7,374	10,130	72.8
Kit Carson	20,905	26,548	78.7
Lake	5,236	6,424	81.5
La Plata	12,306	18,566	66.3
Larimer	73,686	93,540	78.8
Las Animas	47,054	58,789	80.0
Lincoln	15,315	20,744	73.8
Logan	42,861	50,849	84.3
Mesa	40,982	52,004	78.8
Mineral	924	1,351	68.4
Moffat	6,485	9,035	71.8
Montezuma	7,858	11,320	69.4
Montrose	2,161	23,798	90.8
Morgan	32,554	48,325	67.4
Otero	36,378	54,475	66.8
Ouray	2,563	3,146	81.5
Park	4,194	5,292	79.3
Phillips	14,707	23,052	63.8
Pitkin	2,184	2,396	91.2
Prowers	20,263	31,873	63.6
Pueblo	96,359	119,751	80.5
Rio Blanco	3,547	5,032	70.5

TABLE 33—Continued

County	Number Assessed	Number Registered	Ratio
Rio Grande	15,620	23,530	66.4
Routt	11,066	15,421	71.8
Saguache	7,352	11,668	63.0
San Juan	945	1,418	66.6
San Miguel	3,110	4,792	64.9
Sedgwick	11,363	15,374	73.9
Summit	1,953	2,387	81.8
Teller	7,913	9,110	86.9
Washington	22,569	27,177	83.0
Weld	133,006	156,703	84.9
Yuma	30,288	39,409	76.9
Total	1,734,424	2,296,057	75.5

Source: Figures in column 1 obtained from Colorado Tax Commission reports. Figures in column 2 obtained from Secretary of State's reports, as given in Colorado Year Book.

The distribution of the discrepancies between the assessed and the registered automobiles and trucks is shown in Table 34 following:

TABLE 34

Distribution of Colorado Counties According to Percentages Which Assessed Automobiles and Trucks Were to the Respective Registrations, 1919-1929 Average

Percentage Groups	Number of Counties
Less than 70	20
70 to 79.9	22
80 to 89.9	18
90 to 100	3
Total	63

Source: Table 33.

The preceding samples of inadequate assessment of tangible personal property should suffice. More could readily be adduced, covering other forms, but it is not necessary. The conclusion is amply warranted that the assessment is very poor. Remedies will be suggested in a following subsection.

C. Intangible Property in General

In the assessment of intangible property evasion of the tax law is practiced most elaborately. And in connection with the

assessments of intangibles the wildest imaginable statements are made of escape from taxation. It is contended that hundreds of millions of dollars escape the tax roll. No one knows how much escapes, but very little gets on the tax roll. Table 35 following shows the assessed valuation of money and credits, including bank deposits, but not bank stock, for the years 1913, 1921, 1925, 1928, and 1929. The amounts assessed are ridiculously small, whether considered as totals, as percentages of the total assessments, or as per capita assessments. Thus for 1928 the total assessment of money and credits was $16,589,782, or 1.05% of the total assessment, or $16.20 per capita. The assessed valuation of money and credits is shown by counties for 1928 and 1929 in Table 36 following; and the distributions of the counties according to the percentages the assessed valuation of money and credits were of the total assessed valuation, and according to the average per capita assessments of money and credits, are shown in Tables 37 and 38, respectively, following.

TABLE 35

Total Assessed Valuation and Assessed Valuation of Money and Credits for Specified Years

Year	Assessed Valuation		Percentage Money and Credits Are of Total Valuation	Money and Credits Per Capita
	Total	Money and Credits		
1913	$1,306,647,430	$11,193,326	.86	$13.33
1921	1,578,256,499	19,588,307	1.24	20.64
1925	1,540,732,487	17,791,837	1.15	18.04
1928	1,577,560,380	16,589,782	1.05	16.20
1929	1,586,919,769	51,485,214	3.24	49.83

Source: Reports of Colorado Tax Commission. Figures for 1929 are taken from records prior to publication. For explanation of the high figures for 1929 see text.

TABLE 36

Assessed Valuation of Money and Credits Including Bank Deposits of Colorado Counties, Aggregate, Percentages of Total Valuation and Per Capita for 1929

Counties	Total Valuation	Bank Deposits	Other Money and Credits	All Money and Credits	Percentage of Total valuation	Per Capita
Adams	$32,229,890	$15,260	$18,270	$33,530	.104	$1.67
Alamosa	9,997,212	1,450	75	1,525	.0152	.18
Arapahoe	23,152,300	7,600	3,700	11,300	.049	.57
Archuleta	4,665,810	0	35,365	35,365	.758	10.92
Baca	13,389,800	0	20,000	20,000	.149	1.93
Bent	13,741,575	0	0	0	0	0
Boulder	46,872,840	38,660	6,500	45,160	.098	1.39
Chaffee	9,610,955	16,200	0	16,200	.169	1.97
Cheyenne	13,784,464	0	25,750	25,750	.186	6.90
Clear Creek	5,411,690	5,800	0	5,800	.107	1.80
Conejos	9,291,400	0	2,000	2,000	.021	.21
Costilla	5,312,665	1,500	3,660	5,160	.097	.90
Crowley	10,185,080	22,210	18,730	40,940	.402	6.85
Custer	3,055,645	0	14,800	14,800	.484	6.93
Delta	15,079,260	12,200	10,445	22,645	.150	1.62
Denver	453,835,330	14,033,470	33,227,020	47,260,490*	10.414	166.10
Dolores	1,825,115	0	3,500	3,500	.192	2.51
Douglas	11,474,840	9,810	8,105	17,915	.156	5.13
Eagle	7,176,615	2,600	7,000	9,600	.134	2.49
Elbert	17,708,317	1,548	0	1,548	.009	.23
El Paso	75,393,330	179,960	80,250	260,210	.345	5.31
Fremont	23,383,340	0	100,630	100,630	.430	5.35
Garfield	18,036,195	0	0	0	0	0
Gilpin	2,877,759	0	0	0	0	0
Grand	5,813,895	8,750	900	9,650	.166	4.53
Gunnison	15,956,050	4,560	151,950	156,510	.981	28.30
Hinsdale	982,553	0	350	350	.036	.76
Huerfano	16,605,932	0	17,420	17,420	.105	1.02
Jackson	3,855,680	0	2,500	2,500	.065	1.81
Jefferson	27,775,520	2,900	14,350	17,250	.062	.82
Kiowa	13,187,310	1,155	0	1,155	.009	.31
Kit Carson	21,295,855	44,295	111,063	155,358	.730	15.86
Lake	7,610,450	860	7,185	8,045	.106	1.60
La Plata	15,520,611	23,955	59,310	83,265	.533	6.55
Larimer	53,346,290	159,410	393,490	552,900	1.036	17.03
Las Animas	41,622,162	27,855	63,340	91,195	.219	2.49
Lincoln	20,406,035	2,165	0	2,165	.011	.27
Logan	36,916,775	47,595	124,150	171,745	.465	8.66
Mesa	30,225,520	0	18,535	18,535	.061	.72
Mineral	1,566,140	0	0	0	0	0
Moffat	7,374,850	26,530	16,810	43,340	.588	8.87
Montezuma	6,564,115	5,700	0	5,700	.087	.75
Montrose	12,204,332	4,950	7,210	12,160	.100	1.04
Morgan	28,881,820	32,860	95,450	128,310	.444	7.00
Otero	32,013,510	45,530	51,005	96,535	.301	4.00
Ouray	4,084,281	15,302	2,654	17,956	.440	9.64
Park	8,895,205	9,300	4,890	14,190	.159	6.97
Phillips	15,435,890	0	23,260	23,260	.151	4.03

TABLE 36—(Continued)

Counties	Total Valuation	Bank Deposits	Other Money and Credits	All Money and Credits	Percentage of Total valuation	Per Capita
Pitkin	$13,915,120	$19,500	$ 0	$19,500	.140	$10.46
Prowers	21,831,630	30,553	7,225	37,778	.173	2.57
Pueblo	81,257,860	282,360	495,130	777,490	.957	11.92
Rio Blanco	6,074,325	0	6,500	6,500	.107	2.18
Rio Grande	10,931,025	0	7,100	7,100	.065	.73
Routt	15,907,960	0	7,340	7,340	.046	.79
Saguache	11,435,834	0	1,500	1,500	.013	.25
San Juan	3,440,058	0	31,854	31,854	.926	16.70
San Miguel	5,447,270	12,750	5,500	18,250	.335	7.31
Sedgwick	13,273,730	11,380	31,025	42,405	.319	7.79
Summit	4,616,006	0	0	0	0	0
Teller	5,674,560	1,770	0	1,770	.031	.40
Washington	17,244,308	3,600	1,775	5,375	.031	.55
Weld	105,179,350	102,330	861,270	963,600	.916	15.04
Yuma	25,058,795	1,050	200	1,250	.005	.09
Total	$1,586,919,769	15,277,173	36,208,041	51,485,214	3.244	49.83

Source: Reports of Colorado Tax Commission.

*See text for explanation.

Assessed Valuation of Money and Credits Including Bank Deposits of Colorado Counties, Aggregate, Percentages of Total Valuation and Per Capita for 1928

Counties	Total Valuation	Bank Deposits	Other Money and Credits	All Money and Credits	Percentage of Total valuation	Per Capita
Adams	$31,726,560	$11,160	$ 8,750	$19,910	.063	$ 1.02
Alamosa	10,000,259	1,350	75	1,425	.014	.18
Arapahoe	22,368,965	20,145	46,850	66,995	.299	3.48
Archuleta	4,652,445	0	3,150	3,150	.068	.96
Baca	12,883,680	0	18,000	18,000	.140	1.76
Bent	13,630,010	0	2,415	2,415	.018	.26
Boulder	46,327,665	47,880	5,940	53,820	.116	1.67
Chaffee	9,488,820	16,500	0	16,500	.174	2.04
Cheyenne	15,569,747	21,950	0	21,950	.141	5.88
Clear Creek	5,411,005	5,550	0	5,550	.103	1.69
Conejos	9,026,850	0	0	0	0	0
Costilla	5,336,840	3,500	5,355	8,855	.166	1.57
Crowley	10,001,565	22,090	21,930	44,020	.440	7.31
Custer	3,203,625	0	20,260	20,260	.632	9.47
Delta	15,155,415	8,510	7,105	15,615	.103	1.12
Denver	447,803,880	*12,788,120	0	12,788,120	2.856	45.44
Dolores	1,888,425	0	5,500	5,500	.291	3.99

*Other money and credits included in this figure.

TABLE 36—Continued

Counties	Total Valuation	Bank Deposits	Other Money and Credits	All Money and Credits	Percentage of Total valuation	Per Capita
Douglas	$11,376,565	$ 3,100	$11,475	$14,575	.128	$ 4.17
Eagle	6,921,631	1,250	4,000	5,250	.076	1.38
Elbert	17,384,469	2,830	0	2,830	.016	.42
El Paso	73,306,745	140,640	21,690	162,330	.221	3.35
Fremont	23,589,277	31,150	23,174	54,324	.230	2.90
Garfield	17,436,520	0	0	0	0	0
Gilpin	2,798,456	0	0	0	0	0
Grand	5,580,350	8,600	500	9,100	.163	4.16
Gunnison	15,830,005	18,920	22,350	41,270	.261	7.45
Hinsdale	954,760	0	500	500	.052	1.07
Huerfano	17,163,169	0	13,482	13,482	.078	.79
Jackson	3,558,540	0	0	0	0	0
Jefferson	26,817,590	3,200	27,290	30,490	.114	1.51
Kiowa	13,480,566	1,280	0	1,280	.010	.34
Kit Carson	23,983,077	37,680	28,160	65,840	.274	6.67
Lake	8,052,930	1,935	13,160	15,095	.187	2.89
La Plata	15,507,430	19,975	75,240	95,215	.614	7.59
Larimer	55,590,465	180,900	394,990	575,890	1.036	18.02
Las Animas	40,824,097	30,245	73,710	103,955	.255	2.55
Lincoln	20,503,125	0	2,620	2,620	.013	.33
Logan	36,645,210	47,675	97,300	144,975	.396	7.37
Mesa	29,557,440	14,610	0	14,610	.049	.58
Mineral	1,540,735	0	0	0	0	0
Moffat	7,305,434	37,560	38,220	75,780	1.037	15.42
Montezuma	6,542,315	3,850	100	3,950	.060	.53
Montrose	12,030,880	2,500	5,550	8,050	.067	.69
Morgan	28,896,120	30,000	113,220	143,220	.496	7.92
Otero	31,826,660	47,340	47,610	94,950	.298	3.97
Ouray	4,034,268	12,775	6,047	18,822	.466	9.67
Park	8,923,880	8,260	3,100	11,360	.127	5.60
Phillips	15,265,225	0	22,690	22,690	.149	3.95
Pitkin	4,066,476	0	0	0	0	0
Prowers	21,173,010	295,600	46,365	341,965	1.615	23.46
Pueblo	79,996,935	190,310	87,265	277,575	.347	4.31
Rio Blanco	6,124,945	0	100,065	100,065	1.634	33.37
Rio Grande	10,983,818	0	133,746	133,746	1.218	14.04
Routt	15,240,510	0	6,640	6,640	.044	.72
Saguache	11,447,000	0	1,802	1,802	.016	.30
San Juan	3,375,653	0	51,621	51,621	1.529	27.40
San Miguel	6,015,900	12,040	7,625	20,265	.337	7.22
Sedgwick	13,224,080	8,705	2,425	11,130	.084	2.10
Summit	4,544,918	0	0	0	0	0
Teller	5,336,070	1,460	0	1,460	.027	.31
Washington	19,116,665	3,150	6,055	9,205	.048	.93
Weld	104,345,960	135,300	672,720	808,020	.774	12.81
Yuma	24,864,750	1,250	500	1,750	.007	.13
Total	$1,577,560,380	14,281,445	2,308,337	16,589,782	1.052	16.20

Source: Same as first part of Table 36.

TABLE 37
Distribution of Colorado Counties According to Percentage Assessment of Money and Credits Was of Total Assessment for 1928 and 1929

Percentage Groups	Number of Counties	
	1928	1929
No assessment	7	5
Less than .5%	48	47
.5 to .99%	2	9
1.% to 1.99%	5	1
2.% to 4.99%	1	--
5.% to 9.99%	--	--
10.% and over	--	1
Total	63	63

Source: Table 36.

TABLE 38
Distribution of Colorado Counties According to Per Capita Assessments of Total Money and Credits for 1928 and 1929

Per Capita Assessment Groups	Number of Counties	
	1928	1929
No assessment	7	5
Less than $1.00	15	17
$1.00 to $1.99	9	9
2.00 to 2.99	5	6
3.00 to 3.99	5	--
4.00 to 4.99	2	3
5.00 to 9.99	12	14
10.00 to 19.99	4	7
20.00 to 29.99	2	1
30.00 to 39.99	1	--
40.00 to 49.99	1	--
50.00 to 99.99	--	--
100.00 to 149.99	--	--
150.00 and over	--	1
Total	63	63

Source: Table 36.

Small as are the per capita amounts of intangible property assessed, they are in some cases far in excess of the amounts that are actually taxed. A comparison of the assessed amounts of money and credits in Denver for the years 1928 and 1929 may be used as the starting point for this analysis. For 1928 the total assessed value of money and credits, bank deposits and other money and credits not being separately reported,

was $12,788,120. For 1929 this same figure jumped to $47,260,490. These two sets of figures are not comparable. The 1928 figure is the net, while the 1929 figure is the gross amount of the assessed value of money and credits. The difference is the deduction of debts from credits, which is made from the sum of bank deposits and other money and credits in 1928 and not made at all in 1929. The net assessment of money and credits for Denver in 1929 was in fact nearly $2,000,000 less than in 1928. The reason seems to be that the assessor reports the preliminary roll with or without deduction of debts to the tax commission. Subsequent assessments and rebates of taxes may or may not be reported at all. And it is not possible to say from the figures as published for the other counties how far they represent net and how far they represent gross assessments of intangibles. It is obvious that the first step to be taken is to require standardized reports. This matter will be more fully presented later in this report. For the present it is possible to conclude that the intangibles actually taxed are doubtless smaller, in some cases much smaller, than those shown in these tables.

Untrustworthy as these figures are, they seem to warrant the following conclusions: First, the evasion, whatever there may be of it, is very unevenly practiced, as shown by the wide variation in the per capita assessments; Second, there is doubtless much of it in most of the counties, as shown by the per capita figures; and, Third, it is due in many counties to the disposition on the part of the assessor to ignore money and credits, as is shown by the astonishing fact that in several counties no bank deposits are assessed at all, and in some no money and credits are assessed at all.

It is customary for critics of the taxation system to state that enormous amounts of intangibles escape, that these amounts *could* be reached for taxation with adequate "teeth" in the tax law, that they *should* be so reached for purposes of equity and fairness, and that if they were so reached great relief *would* result to the owners of property which does not now escape, by way of a material reduction in the tax rate.

Undoubtedly the escaping amount of intangibles is large. But there is good reason for believing that it is not nearly as large as is alleged. It is customary to reckon the total amount of intangibles and to assume that it is all taxable and should all be taxed. But, in the first place, there are large amounts of intangibles which for various reasons are not and ought not to be taxed as property. Thus, as explained above, secured debts and capital stock of corporations are not taxable as property and should not be. Again the bonds of the federal governments, and those of the state, county, city and town, and school district governments are of course not taxable, and the same is true of any intangible assets which these political units may hold, whether in the form of bank deposits or otherwise. Intangibles of railroads and other corporations assessed by the Colorado tax commission do not appear as intangibles, but are lumped into a unit valuation. The moneys and credits of banks, building and loan associations and other financial organizations are not listed as such. Moreover, the fact that bank deposits are taxable to the depositors make the deposits, as published by the banks, indicate more than the depositors should in any case report, because of the checks in the process of clearing. And, finally from his credits the taxpayer may deduct his debts, or at least most of them. When it is remembered to what extent the average family purchases all sorts of things on credit, it will be clear that these deductions must be large. Business enterprises moreover, employ much borrowed money which is deductible from the gross credits. How important this deduction is in reducing the net assessed valuation of money and credits may be seen from the 1929 Denver assessment. The gross assessed valuation of money and credits was in the neighborhood of $50,000,000, depending upon the stage of progress of the assessment. The deductible, or at any rate, the deducted debts amounted to about $38,000,000, leaving about $12,000,000. And, as will be recalled from Table 36, the Denver assessment of intangibles accounts for more than three-fourths of the state total.

How much of intangible property remains taxable after all the aforementioned items have been eliminated is problematical. The amount that escapes illegally may be as much as listed or it may be ten times as much. But in either case would it fall far short of the enormous amounts that are often alleged to escape. It is barking up the wrong tree to argue that the aggregate property valuation could be materially augmented by enacting laws having "teeth" in them, adequate to apprehend all taxable intangibles. One other consideration supports that conclusion: If the owner of taxable intangibles could not rely upon the convenient but illegal method of non-listing to enable him to *evade* the confiscatory ad valorem tax on his intangibles, he could readily find perfectly legal means of *avoiding* it. If the assessor were adequately supported by law and by public opinion, and if he were sufficiently informed and courageous to succeed in reaching all taxable intangibles, there cannot be the slightest doubt but that the taxpayer would convert his intangibles into tax exempt securities or otherwise make them tax exempt. It is extremely improbable that, from the fiscal point of view alone, the assessed valuation could be ap-

preciably increased by any law or any administration procedure that would subject intangibles to a property tax at the local ad valorem rate. Intangibles, apprehended in one year by special diligence of any assessor, steal away silently, as the Arab with his tent at night. No investor can afford to hold securities yielding 6% or 5%, or savings deposits yielding 3.5%, and pay on the full nominal value thereof an ad valorem tax at the rate of 3.5 mills. Such a property tax is the equivalent of an income tax of 58.33%, 70% and 100%, respectively. With this rate of net return, after taxes, should be compared the net return, after taxes, from real property, as shown in Subsection VI of this report. One should not debase his own intelligence or insult the intelligence of any important investor by assuming that he would pay such taxes so long as they can be *evaded* or *avoided*. There is, as shown by the experience of Colorado, as well as that of all other states, no way in which intangibles can be reached by a property tax at such rates as apply to tangible property. There are good reasons of equity why they should not be so reached, as shown above in the present section of the report. To the proposition, stated above, that the intangibles in general should not, as a matter of principle, be taxed as property, we must now add the proposition that, as a matter of practice, they cannot be taxed, except to the extent of a small but undetermined percentage of the whole.

Another circumstance makes the taxation of intangible property a peculiar hardship for the owner, in comparison with the hardship that is imposed upon tangible property. Taxes on real and on some tangible property cannot be avoided, but intangible property usually gets away from the assessor. It is therefore expected that taxes on tangible property will have to be paid. The owner, when he buys real property, will expect to pay the tax, and will capitalize it. He will pay so much less for the property, that after the tax is paid, the property he purchased will tend to yield him the prevailing competitive return. Taxes are, or ought to be, considered in arriving at the purchase price of a parcel of property. In a sense, any purchaser of real property, after the tax is imposed, may be said to buy himself free of the tax, by reason of paying less for it, than he would have paid if the property had been tax-free, or capable of evading the tax.

In the case of intangible property, it is not expected that the tax will have to be paid. It is seldom necessary that the owner declare it for taxation if his conscience does not require him to do so. There are in general only three classes of persons who declare their intangible property for taxation at the regular ad valorem rate. There are those few, a very small

minority, who are so honest that they will do whatever the law requires. The second class are those, who, for the time being, are ignorant of the effect of the tax, or those who are accidently caught with the goods. The third class are those who for the time being are legally incompetent, such as widows, minors, and others who for the time being have estates in the process of probation, where it is publicly recorded. It may, therefore, be said that intangible property is declared for taxation by those who are excessively honest, by those who are temporarily or permanently ignorant, and by those who are unfortunate enough to have their property publicly recorded. It may be said that the taxation of intangibles is in proportion to the inability to escape, rather than in proportion to the ability to pay. Since it is not expected to pay the tax on intangible property, there is practically no capitalization of the tax. The intangibles will therefore be bought at nearly such a figure as would be paid if they were tax-free. The result is that when the tax is actually applied, the amount by which it reduces the net income is very high. If all taxable securities were taxed there would be a much larger spread between the price of taxables and the price of exempts.

It is, of course, possible to argue that taxes on intangibles can be collected. It is possible to imagine a law which would declare any debt invalid on which the tax had not been paid, and would impose other similar legal disabilities upon non-payment. But it is inconceivable that the American people would tolerate methods of tax administration of that sort. When it is said, that taxes on intangible property at the regular ad valorem rates cannot be collected, it is meant that they cannot be collected in view of the temper of the American people. It follows that if such taxes were collected, the interest rate of borrowed money would be increased by the amount of the tax. It is inconceivable that the people of Colorado would tolerate a condition in which to a mortgage interest of say 7%, there would be added the tax of 3½ or 4%, making the effective interest rate 10% or 11%.

D. Bank Stock

There is only one type of intangibles that can be shown to be adequately assessed, namely the shares of stock of commercial banks, state and national. Table 39 following, shows the assessment of bank stock for selected years and the ratio thereof to the total assessed valuation, for the state as a whole for the years 1913, 1920, 1925, 1928, and 1929. The percentages which these assessed valuations of bank stock were of the total valuations, for the respective years were, 2.21%, 1.82%,

1.62%, 1.50%, and 1.57%, respectively. It is sometimes incorrectly stated that the percentages which the banks paid of the total property taxes in the state are indicated by the foregoing percentages. But they paid more than that. For the banks are located in towns and cities, and therefore paid the tax levies made by these municipal corporations, which are not levied upon property located outside of the corporate limits. Besides the tax on the shares, the banks pay taxes on any real estate they own at the local rate.

TABLE 39

Total Assessed Valuation, Assessed Value of Shares of Bank Stock and Percentage the Latter Was of the Former, for Specified Years

Year	Total Assessment	Bank Stock Assessment	Ratio
1913	$1,306,647,430	$28,924,765	2.21
1920	1,590,267,667	28,916,377	1.82
1925	1,540,732,487	24,951,673	1.62
1928	1,577,560,380	23,694,355	1.50
1929	1,586,919,769	25,029,280	1.57

Source: Reports of Colorado Tax Commission. Data for 1929 taken from the records prior to publication.

Tables 40 and 41 following are designed to test whether the banks are adequately and equally assessed on their shares. A brief statement of the peculiar method of taxing banks is perhaps necessary. The national banks are federal corporations and as such are not taxable except and in so far as Congress permits the state to tax them. Since the state banks are competing institutions they are almost necessarily taxed on the same basis. Such permission is granted in Section 5219 of the U. S. R. S. The real estate of the bank is taxed as is other real estate. The bank shares may be taxed on their value as is other property, but only at a rate not greater than that applicable to other moneyed capital. In obtaining the taxable value of the shares it is customary to take from reports, which the banks are required to furnish, the sum of the capital, surplus, and undivided profit, less the assessed value of the real estate taxed to the bank. Technically the shares are assessed to the stockholders, but since the bank is required to furnish the list of the shareholders and their holdings, and is also required to pay the tax for the shareholders, the effect is the same as if the shares were taxable to the bank and exempt to the shareholders. It thus comes about that the shares of bank stock are the only shares of corporate stocks that are taxable in Colorado.

TABLE 40

Amounts Assessable, Amounts Assessed to National and State Banks of Colorado Counties and Ratio of Assessed to Assessable Amounts, by Counties for the Year 1927

County	Amounts Assessable			Amounts Assessed	Percentage Assessed Was of Assessable Value
	National Banks	State Banks	Total		
Adams	$ 0	$42,280	$ 842,280	$82,580	195.3
Alamosa	112,000	26,091	138,091	87,789	63.6
Arapahoe	114,000	50,230	164,230	165,000	100.5
Archuleta	0	36,206	36,206	35,365	97.7
Baca	43,000	34,944	77,944	53,680	68.9
Bent	57,000	73,418	130,418	121,050	92.8
Boulder	300,000	104,894	404,894	669,050	165.2
Chaffee	194,000	0	194,000	177,600	91.5
Cheyenne	0	76,866	76,866	59,515	77.4
Clear Creek	35,000	46,696	81,696	74,305	90.9
Conejos	64,000	25,312	89,312	66,330	74.3
Costilla	0	17,391	17,391	33,025	189.9
Crowley	45,000	94,034	139,034	129,105	92.9
Custer	0	53,026	53,026	25,000	47.1
Delta	108,000	148,815	256,815	181,460	70.6
Denver	10,771,000	3,261,992	14,032,992	11,905,490	84.8
Dolores(a)	0	0	0	0	0
Douglas	37,000	19,322	56,322	49,450	87.8
Eagle	45,000	12,216	57,216	54,466	95.1
Elbert	0	94,533	94,533	109,524	115.8
El Paso	789,000	486,281	1,275,281	1,343,730	105.3
Fremont	963,000	220,000	1,183,000	250,000	21.1
Garfield	380,000	26,419	406,419	326,110	80.2
Gilpin	33,000	0	33,000	24,048	72.9
Grand	0	40,981	40,981	38,075	92.9
Gunnison	114,000	86,160	200,160	194,430	97.1
Hinsdale(a)	0	0	0	0	0
Huerfano	146,000	30,954	176,954	150,275	84.9
Jackson(a)	0	0	0	0	0
Jefferson	77,000	0	77,000	107,000	138.2
Kiowa (b)	*200*	24,086	24,086	23,900	99.2
KitC'rs'n(b)	*10,000*	98,963	98,963	137,190	138.6
Lake	118,000	0	118,000	88,890	75.3
La Plata (b)	143,000	*57,082*	143,000	371,930	260.1
Larimer	647,000	49,689	696,689	391,060	56.1
Las Animas	87,000	96,821	183,821	363,365	200.4
Lincoln	107,000	43,038	150,038	80,300	53.5
Logan	34,000	216,257	250,257	253,270	101.2
Mesa	73,000	7,691	80,691	132,470	164.1
Mineral(a)	0	0	0	0	0
Moffat(b)	*22,000*	0	*22,000*	19,850	-----
Montezuma	115,000	26,855	141,855	164,865	116.2
Montrose	180,000	39,250	219,250	218,500	99.7
Morgan	194,000	10,407	204,407	346,220	169.4
Otero	221,000	207,153	428,153	425,470	99.4

(a) No banks. (b) Negative. See text for explanation of amounts assessable.

TABLE 40—Continued

County	Amounts Assessable			Amounts Assessed	Percentage Assessed Was of Assessable Value
	National Banks	State Banks	Total		
Ouray	$0	$26,282	$26,282	$19,500	74.2
Park	0	47,179	47,179	47,225	100.1
Phillips	48,000	146,044	194,044	85,205	43.9
Pitkin	0	37,296	37,296	37,000	99.2
Prowers	154,000	115,539	269,539	299,695	111.2
Pueblo	1,503,000	1,203,578	2,706,578	1,760,915	63.4
RioBl'nco(b)	*400*	20,211	20,211	0	0
Rio Grande	25,000	501,929	526,929	107,830	20.5
Routt	33,000	3,077	36,077	19,220	53.3
Saguache	105,000	86,366	191,366	162,011	84.7
San Juan	99,000	0	99,000	48,665	49.2
San Miguel	0	67,816	67,816	111,500	164.4
Sedgwick	46,000	18,812	64,812	70,095	108.2
Summit	0	21,072	21,072	34,562	164.0
Teller	62,000	0	62,000	49,450	79.8
Washington	39,000	36,485	75,485	39,715	52.6
Weld	596,000	312,775	908,775	789,960	86.9
Yuma	113,000	98,435	211,435	182,290	86.2

Source: See text.

In Table 40 preceding, the capital, surplus, and undivided profits of national banks were obtained from the report of the Comptroller of the Currency. Similar data for the state banks were obtained from the reports of the state bank commissioner. From the sum of these items was deducted in each case the book value of the real estate, furniture and fixtures. The remainder was taken to indicate roughly the "amount assessable". The figures in italics indicate that the book value of the real estate, furniture and fixtures exceeded the book value of the capital, surplus, and undivided profit, leaving a negative value for the "assessable amount". The amounts actually assessed were obtained from the report of the Colorado tax commission. And the ratios of the assessed to the assessable amounts are shown in the last column of the table. It is not asserted that the ratio should be 100% in all cases. For example, the furniture of the banks, which is not taxable, could not in all cases be segregated from the real estate and fixtures, which are taxed. But the banks do not require, and do not have a great deal of furniture. Also the book value of the real estate may not be the same as the assessed value. There are probably other sources of discrepancy. Yet the table furnishes a rough test for comparative purposes.

Table 41 following shows the frequency distribution of the counties on the same basis. The average assessment ratio was

94.5% and the highest ratio was 260.1%. Four counties had no banks and hence no assessment. In Moffat County the real estate and furniture and fixtures exceeded the sum of the capital stock, surplus and undivided profits.

TABLE 41

Distribution of Colorado Counties According to the Percentage of "Assessable Value" Bank Stock Was Assessed for the Year 1927

Percentage Assessed Was of Assessable Value	Number of Counties
Less than 25%	5
25- 49.9	3
50- 74.9	11
75- 99.9	22
100-124.9	8
125-149.9	2
150-174.9	4
175-199.9	2
200 and over	2
Average—94.5%	59

Source: Table 40.

Note: Four counties have no banks, and hence no assessment.

The banks contend that the present system of property taxation results in placing an unfair tax burden on them. There are several factors in the present system, which combine to bring it about that there probably is some foundation for their discontent. In the first place it is contended that the shares are assessed at 100% of their value while property in general is assessed at some lower ratio. Insofar as the data in Table 40, based on book values, are trustworthy it is apparent that bank shares are assessed at a higher percentage of the true value than property in general. Also, since the banks must furnish a statement of the number of shares and the book value, it is obvious that the banks cannot participate in the prevailing practice of evading the tax law by not listing the taxable property. In other words, the tax law can be enforced against them, but can only be enforced more or less imperfectly against property in general.

In the second place, the taxed real property owned by the banks is deducted from the value of the shares at its assessed and not at its book value. Since the assessed value is presumably less than the book value it comes to pass that the banks must pay taxes on the full value (or as nearly at 100% as the shares are appraised) not only on the excess of the value of their shares over the value of their taxed real estate, but on the real estate as well. In other words they do not benefit from

the prevailing underassessment of real property. The effect is the same as if all their property were personal and were taxed at 100% (or such assessment ratio as is effective for the shares of stock).

In the third place, no deduction in the assessed value of the shares is made by reason of such tax exempts as federal, state and local bonds, and such secured debts as the banks may hold. Since these tax exempts, by reason of being exempt to others than banks, are necessarily purchased at a high price and consequently yield a low rate of return, the banks are disadvantaged. This disadvantage is conspicuously shown in comparison with building and loan associations to whom such tax exempts, especially secured debts, are not listable as parts of their gross assets, with the result that these latter organizations pay practically no taxes at all. In a later subsection of this report the comparison of commercial banks and building and loan associations will be further developed.

V. Remedies for Defective Assessment

From the foregoing analysis, it is plain that the assessment for the taxation of property is very faulty in spots, moderately successful in other spots, but in general rather poor. In view of the fact that the assessment is the pivotal part of the general property tax, it is proper to seek relief. The remedial measures must be sought in the assessment, in the personnel of the assessing officials, and in the base of the tax itself.

A. The Assessment Practices

It has not been possible to survey exhaustively and intensively the practices of the county assessors. But the evidence shows that in many counties the assessor adopts his own rules and practices, in many cases contrary to law. The inequalities in the assessments of individual items within each county, and the discrepancies among counties are due only in part to chance variations, but are in part deliberately intended. The assessors do not always attempt to assess at a 100% valuation as the law requires. It is well known that a certain stable percentage of the full value, in line with the average ratio for the state, is sought instead. But once the 100% rule is departed from, there necessarily arises guess work as to what is the average assessment ratio in the state. The assessors often state that they try to discover what the average ratio is for the state, and to be guided in their work by that ratio. Sometimes, for election purposes, they boast that they have kept the average ratio for the home county down below the state average, and thus saved for the taxpayers a part of the state tax.

Another prevailing practice leads even more surely to inequalities. It is common for the assessors to keep the valuation of individual parcels fairly steady from year to year, so as not to necessitate changes in the tax rates. The result is that the valuation of individual properties is kept relatively uniform, regardless of changes in individual values, or in the correctness of the original assessment. Such a procedure is bound to produce inequalities in the assessment, since the changes in value of individual properties are not uniform.

Considerable confusion exists in the preparation of the tax schedules, the blanks on which the taxpayers are to enter their taxable property, and it cannot be doubted that the results are detrimental to the assessment. The statutes of 1902, M.A.S. 6237, make it the duty of the state auditor to prepare the tax schedule blanks and other forms, to forward these forms to the county commissioners to be printed as required. The statute of 1911, M.A.S. 6306, creating the Colorado tax commission, assigns the duty of preparing all necessary forms, but provides nothing as to when or how they shall be printed. From a comparison of the tax schedules in use it would appear that no central authority has standardized the general schedule. Although the tax commission has exerted its influence toward making the schedules uniform, they are yet very diversified as to size, form, arrangement, items listed and affidavits or oaths required. It would appear that the general schedule blanks are designed to serve for all classes of taxpayers, whether individuals, or corporations, banks or merchants, etc., with or without supplementary schedules. Not one of the blanks examined provides for the appraisal of exempt property. Many of them do not provide space for gross credits and for deductions, so that the operation of the process of determining the net taxable credits can be seen on the schedule. The list of items of taxable property is not uniform, nor is the list uniformly arranged.

Obviously several beneficent changes could be made. The general schedule should be uniform and designed to take care of the large run of ordinary persons. Special schedules should be prepared to meet the conditions of particular classes of taxpayers, such as banks, building and loan associations, merchants, manufacturers, filling stations, etc., and possibly for use in the assessment of special classes of property such as intangibles. Each blank should be uniform throughout the state. The tax commission should prepare these forms and require their use. Otherwise the commission is seriously hampered in enforcing the law, and in preparing its reports, whose accuracy and speedy publication are important to the legislature, the assessing officials, and the general public as well. Moreover,

the printing should be contracted for in one lot by the tax commission, and the required quantities distributed to the counties as needed. It is more economical to prepare, print, and maintain one reserve stock of such uniform blanks for 63 counties than to do so for 63 counties separately.

That there are other causes of the inequalities in the assessments is certain. There is ignorance and carelessness, and perhaps favoritism for political and other reasons. But there is in nearly all counties, except Denver, and possibly a few other counties, an absence of reliance upon anything but "rule of thumb". In assessing real property, a reference to sales records as recommended by the tax commission, would obviate many inequalities. A file of these sales records kept from year to year, and properly interpreted should give a fairly accurate record of the importance of the factors of value, such as fertility, location, obsolescence, fall in prices of products. But there is no evidence that any such systematic record is generally kept. The absence of a systematic record of pertinent data not only makes the original assessment inaccurate, but it also makes the county and state equalization ineffective.

B. Personnel of Tax Administration

It is probably true that the keeping and using of such records of sales values is a task with which the majority of county assessors are unfamiliar. But the tax commission is in a position to develop and use such data, or at least would be, if sufficient funds and clerical assistance were provided. The Colorado tax commission is on paper endowed with a great deal of authority, but is very scantily supplied with funds for competent help, a fact which doubtless explains in part why the commission has not itself made extensive and systematic use of sales records for the purpose of equalizing between counties. And it probably also explains why the tax commission has made such sparing use of its power to reassess property when the local assessor failed on the job. For it cannot have escaped the attention of the tax commission that there existed wide discrepancies in the average value among the counties, and it is the specific duty of the tax commission to so supervise and direct the assessment that it shall be on a uniform and 100% basis. But such power cannot be effectively used nor can such duty be effectively performed in the absence of the necessary data. And such necessary data cannot be secured, analyzed and used in the absence of funds to meet the cost involved. Moreover, such data can attain their full measure of usefulness only when secured, analyzed, and kept over a state-wide area, and for a period of years.

Sometimes, it is argued that the ineffectiveness of the assessment flows from the method of selecting the assessor, from the tenure of his office, from the assessment area, and from the lack of any requirements or qualifications. The county is the unit of assessment, and it should certainly not be smaller. Certain other states, such as Minnesota, Michigan, and Iowa unfortunately have township assessors, and have failed repeatedly to change to the county unit. These states have had to remedy the flaws inherent in the local assessor by shearing him of his authority and by giving to the county auditor supervising functions over the assessment. Some of the Colorado counties are already too small, both in population and wealth to function economically as political units. And the demand for consolidating several counties into one, such as occurs in other states as well, is quite legitimate in Colorado.

The assessor is elected for a period of two years and may be re-elected. In other states it has been attempted to make the assessor appointive, subject to civil service rules, and with suitable qualifications for office. Kentucky made such a change recently, but information is not available to show the results of the change. The larger cities in many states have the assessor's office appointive, and it is established that the assessment of real property in general is much more effective where an appointive assessor is found. One reason why an appointive office is sought is the allegation that the election method causes too frequent changes in the office. But in Colorado, it cannot be said that the assessor changes office too often. Table 42 following shows that, during the past decade, there have been relatively few changes. In 14 counties, the same assessor served during the entire decade, and in 30 counties, there was only one change. It is not probable that the continuity in office would be longer if the office were appointive. But certain political abuses in office are less probable under a system of appointive officers whose tenure of office is reasonably secure, whose responsibility can be enforced. Moreover, it is by no

TABLE 42

Distribution of Colorado Counties According to the Number of Changes in the Office of County Assessor During Period 1921-1930

Number of Changes	Number of Counties
0	14
1	30
2	18
3	1
Total	63

means certain that some of the continuity in office prevailing under the elective method is desirable. Public opinion is rapidly changing in the direction of favoring centralized control of the assessment machinery. It would be well if, as soon as the public opinion of the state will sustain such a change, the county assessors be made appointive by the tax commission.

On one particular matter, it is not difficult to recommend, namely, that the state board of equalization should be abolished. This ex-officio board was provided for in the original constitution, and consists of the governor, state auditor, state treasurer, secretary of state, and attorney general. It is not difficult to understand how the constitution came to contain such a provision. Prior to 1891, there was no administrative tax commission in any state to which the much needed equalization among counties could be delegated, as is the case now in nearly all of the states. State equalization had been a neglected function, and the states had been experimenting in trying to find for this function a proper agency. To make sure that equalization would be performed, a constitutional ex-officio board was created. At the time, such a provision was as modern and suitable as any it had been developed. But during the past 40 years, the administrative tax commission has been developed in nearly all the states, and in 1911 a statutory tax commission was established in Colorado. To it was assigned all the statutory functions that had previously from time to time been assigned to the board of equalization. Even the function of equalization, which belonged to the board under the constitution, by statute so curtailed, and what of it could constitutionally be transferred was assigned to the tax commission. The board is useless because a better agency for equalization has been developed in the tax commission. Missouri is the only other state having both a constitutional ex-officio board of equalization and a statutory tax commission; and the experience of Missouri strengthens the conclusion that the Colorado board should be abolished.

The board is harmful as well, in several respects. One reason is that its useless procedure consumes time, and that time, it will be seen, is valuable. The procedure in levying and collecting the general property tax in the state is as follows: As soon as possible after January 1, the assessor leaves assessment blanks with the property owners. Why it is necessary to allow three months for the taxpayer to look over his blanks is not clear, but between April 1, and May 20, every taxpayer must deliver his completed tax schedule to the assessor. On or before the first Tuesday in August, the assessor must mail statement of changes in the assessment to persons in whose assessment the valuation has been changed, and must also publish notice of time when he will sit to hear objections to his assessment. On September 1, the assessor must have concluded his hearings on the assessment, and have his assessment completed, and must deliver it to the county commissioners, sending a copy of it to the Colorado tax commission. During September, the county board of equalization holds two series of meetings for the purpose of equalizing within the county. October 1 is the last day for the tax commission to determine any necessary equalization among counties; and on or before that day must deliver to the state board of equalization the abstracts of assessments; with recommendations of necessary changes. The tax commission cannot itself make the changes because under the constitution the equalization is assigned to the state board of equalization. The commission can merely recommend. During the two weeks between the first and the third Monday in October, the state board of equalization must complete the equalization and certify changes to the counties. On the first Monday in November, the county commissioners must levy the tax or fix the rate. January 1 is the last day for the county assessor to deliver the tax list to the county treasurer. On the last day of February, the first half of the taxes are due, and penalties start unless the whole tax is paid before the end of April. And on or before July 31, the last of the tax must be paid unless it becomes subject to penalty. On August 1, all unpaid taxes are delinquent. Thus from January 1 to August 1 of the following year, the normal process of levying and collecting the tax goes on. Nineteen months are or may be consumed, and that is unnecessarily long.

Nearly a month could be saved if the tax commission instead of recommending changes could make them, and certify the changes to the counties on October 1. There are good reasons why the saving of a month would be valuable. The fiscal year begins on July 1, but the first half of the taxes to meet the expenditures of the fiscal year are not due and will presumably not be paid until the last day of February, and the last half (unless the entire tax has been paid on or before April 30), is not due until July 31, one whole month after the fiscal year for which they are supposedly available. The tax year and the fiscal year should coincide as nearly as possible, for the sake of correlating revenues and expenditures, simplifying the public accounting, and enforcing responsibility. But the saving of time is valuable in other ways. For example, the longer the time that elapses between the dates of which the tax becomes a lien and the date of collection, the greater is the chance that the taxpayer or the property or both will have disappeared and the taxes become uncollectible.

Moreover, the state board of equalization is inefficient, and ill adapted to the function of equalization. Such a statement does not reflect upon the personal attributes of the members. The board is ex-officio, and it is not to be presumed that the members, elected for other purposes, have any fitness for the work of equalization, which involves considerable technical skill and knowledge. The change in personnel must be frequent, so that little skill and experience can be accumulated from one year to another. The board sits for less than two weeks, and unless it has a permanent staff to accumulate and organize information, it can have little or no basis of fact for its work. Having little or at least an inadequate factual basis for its rulings, it becomes the easy victim, even if it is not so inclined, to aggressive groups, making extravagant claims of excessive or inadequate assessments, on the property of themselves or others, respectively. It can hardly avoid getting the assessment, which ought to be an impartial ascertaining of rather elusive and intractable facts, involved in controversial politics.

The board is wasteful and inconvenient to the other assessment agencies, and to at least some of the taxpayers. The tax commission, if it takes seriously the double task of 1) recommending changes, as among counties, in the assessment of property assessed by the county assessors, and 2) of assessing of property that is centrally assessed, must or should have at its command, the same data that are necessary for the state board of equalization, if the latter is to equalize in fact. The railroad companies and other enterprises whose property is assessed by the tax commission must twice appear to protect their rights. They must file protest with the tax commission against the original assessment if they deem it necessary to do so. They must then repeat the process before the state board of equalization, if necessary. And the latter process must be made before a political board that is minus the basic facts, and that must do its work in two weeks, a period that is wholly inadequate for proper notice, for the preparation of evidence, and for adequate hearings. It would certainly not be strange if, under such circumstances, these taxpayers themselves should enter controversial politics.

If all the necessary functions of the state board of equalization were assigned to the tax commission, and if the latter body were given adequate funds to accumulate and organize necessary information, it would be reasonable in time to expect greater equality in the assessment, as among counties, and also as among the items of property within each county. Having the necessary basic facts, and definite responsibility, it is reasonable to expect that the commission would muster the courage to exercise other latent powers it possesses, even to the extent of disciplining inefficient assessors, and to order reassessments when necessary. The present double-headed arrangement tends to break down the respect for and the efficiency of the tax commission.

C. Shortening the Assessment Period

The excessive length of the assessment period has certain other undesirable effects. It impedes real estate transfers by causing differences between buyer and seller as to who shall pay the tax. It requires business enterprises to carry reserves for taxes against a given fiscal period for an unnecessarily long time. Adding these inconveniences to others that probably exist, we arrive at good reasons why the period should be shortened. It is believed the following suggested procedure, after the initial inconveniences had been endured, would mean an improvement.

Let the taxpayers return their schedules within the first week in March, the assessment to be as of the first day of March.

Let the assessor make his assessments, send notices of arbitrary assessments and changes in returns filed, and complete his preliminary tax roll, forwarding a copy thereof to the state tax commission before May 1.

Let the assessor and the county board of equalization jointly sit to equalize, to hear complaints and equalize among individual persons and parcels of property during May.

During June let the assessor readjust his roll as authorized by the board of equalization in sessions during May, and on or before July 1, forward to tax commission the assessment abstract.

Let the tax commission equalize during July, and return to counties on or before August 1.

Let the board of county commissioners levy the taxes at once, having already on hand the estimates of revenue required from all the units in the county.

Let the county treasurer extend taxes on the roll not later than September 1, and send the tax bills to the taxpayers.

Then, on or before October 1, the first half of taxes should be due and delinquent if not paid. And on March 1, the last half should be due and delinquent if not paid.

D. Changing the Tax Base

The tax system, at least in so far as it consists of the general property tax, could be improved appreciably by certain

changes in the tax base. It does not appear that in the taxation of real property any change should be made, except that an appraisal of exempt real property should be included in the assessment process. Real property, in contemplation of law, is properly taxed once, and only once in Colorado. It is taxed where located, which is proper. Such improvements as may appear in the taxation of real property must result from improved assessment procedure. The exemption of real property for reasons of being owned by charitable, educational, or similar organizations should be restricted. There is no reason why one type of real property should be taxed at a higher rate or included at a different valuation than any other unless Colorado should wish to join the single-tax movement, and partly exempt improvements, as is done in Pittsburgh, Pennsylvania. Real property is fairly homogeneous and all should be taxed alike.

It is not possible, consistently, to recommend that all tangible personal property should be taxed, or that it should be taxed alike, or that it should be taxed like real property. It is convenient to subdivide the miscellaneous mass of personal property into two parts. Personal property, such as automobiles, livestock, implements and machinery, stocks of merchandise, manufacturers stores and stocks, and furniture in offices, hotels, and other places, constitutes one class. Personal property of this class is employed in active business. Presumably there is an income derived from its use. From and with this income the taxes can be paid. Not that in every case there actually is an income, but one is normally expected. Property of that sort should be taxed at the same rate as real property. For the taxation of such personal property there is the further administrative argument that it can be reduced to a fairly small number of items, that can be found and appraised. It is possible that the list should include some forms of productive property that are not now included. For example, huge advertising signs scattered widely through the state, are probably valuable, but it is doubtful if in very many cases they are listed for taxation. Being part of the productive capital of the community they should bear the same burden as other productive tangible personal property employed in business.

There is another class of personal property consisting of a great number of different items, not one of which is of great importance. It consists of household goods, musical instruments, silver plates, works of art, books and libraries, personal effects, such as watches and clocks, jewelry, and a great number of others equally unimportant. In the aggregate, if these items could be fully listed for taxation, their value would be

considerable. In practice the amount listed is negligible. Property of this kind is not employed in any business, and seldom yields a money income with which taxes can be paid. The assessment is annoying to both the assessor and the owner. It would simplify the assessment if such property were exempt, so that the $200 constitutional exemption might be eliminated.

There are three possible ways to deal with the taxation of intangible personal property. One is to apply the uniform ad valorem rate to taxable intangible property. The other is to exempt it entirely, with or without the compensating burden of an income tax. A third is, by way of compromise, to tax the intangible property at a rate intermediate between nothing and the rate that is applied upon personal and real property.

The first method, taxing intangible personal property at the uniform ad valorem rate is the one in use in Colorado at the present, except for secured debts and corporate stock. That method is out of the question. At least that is true for all but a small part of the mass of intangible property.

The second way to deal with intangibles is to accord them a low tax rate or, what amounts to the same thing, to assess them at a lower percentage of the true value than tangible property, as is done in some states where classification of property for taxation is permitted. Probably the state constitution of Colorado does not permit property to be classified for the imposition of different rates on the different classes of property, or for the valuation at different percentages of the true value of the different classes. It is argued that the constitution ought to be so amended as to permit classification. There is no objection to such an amendment. In any event the constitution should be liberalized so as to eliminate the uniformity rule therein. But it is highly improbable that the classified property tax according a lower rate, say five mills on the dollar, to intangible property would be successful in Colorado. There are several reasons for this conclusion: In the first place, as a matter of principle, the classified property tax is a compromise. Intangible property either is representative of other property that has been taxed, or it is not. If it is representative property, then it should not be taxed. If it is not representative property but is property in its own right, employed in business and producing an income, it should be taxed at the regular rate. There can be no rational justification of the classified property tax in principle.

In the second place, the classified property tax on intangibles has not proved itself capable of producing revenue in satisfactory amounts. Professor Simeon E. Leland, of the University of Chicago, has recently published a book entitled, "The

Classified Property Tax", in which he shows the growth of this tax. One finds traces of it from very early days, but the present development began in Connecticut and in Pennsylvania some decades ago. Its popularity was not great until it was adopted in 1911, and extended in 1913, in Minnesota. In 1907 in that state domestic real estate mortgages were exempted from the regular general property tax, provided there had been paid on them a recording tax of 2.5 mills on the dollar. Two years later money and credits were made taxable annually at the rate of 3 mills on the dollar. Probably due to the existence of an energetic and well supported tax commission, that has repeatedly reassessed intangibles, where the original assessments were not satisfactory, the success of that law has been relatively conspicuous. Not that the revenue derived has been large, but the revenue from the tax on intangibles at the low rate was somewhat greater than the revenue realized from the former much higher ad valorem rates on intangible property. The reason was that many were induced to list their intangibles, when the rate was only 2.5 mills, who did not list it when subject to the regular ad valorem rate. The moderate success of the classified property tax in Minnesota has been widely heralded. One legislature after another has classified property for taxation, hoping that the success of Minnesota could be duplicated. In no one single instance has this success been duplicated, although there are creditable revenue yields in other states. It should be remembered that the classified property tax, by apportioning the tax in small amounts over a great many (as compared to the number of those who are assessed on the general property tax) has become not so much an instrument of revenue as an instrument of relief to a few honest, ignorant, or legally incompetent persons, whose property was previously assessed at the excessive rates of the general tax. In many states the revenue yielded was, not as in Minnesota greater than that which was realized under the old regular ad valorem tax, but considerably less. Thus Kansas in 1924 amended the state constitution so as to permit classification, and imposed in 1925 a tax at the rate of 2.5 mills on money and credits, and a recording tax of 2.5 mills on domestic real estate mortgages. Two years later, the rate on money and credits was increased to 5 mills. Even at this higher rate the revenue realized from the tax on intangibles was only two-thirds of the revenue realized prior to the adoption of the classified property tax from the general property tax on intangible property. It is improbable that Colorado could do much better from a fiscal point of view than Kansas did.

In the third place, and most important, it is not the mediocre fiscal success, however, of the classified property tax which

bars it from Colorado, even though the constitution should for other reasons be amended to permit such classification. The reason is that the application of such low rates to intangible property brings the tax system into an irreconcilable conflict with the taxation of banks. This conflict and suggestions for the solution will be treated under a later section on bank taxation. It will suffice to say here that the national banks are federal corporations. They cannot be taxed by the state except with the permission of Congress and to the extent that Congress permits. Congress has permitted any state to tax the shares of national banks, but at a rate not exceeding the rate applicable to competing moneyed capital in the state. By recent court decisions many items, classified in Colorado as intangible property, constitute moneyed capital in competition with the national banks. If, therefore, a rate of 5 mills be accorded to unsecured notes, money, bank deposits, and other taxable intangibles, it is almost certain that the national banks will demand and be awarded a tax rate not higher than 5 mills. It is highly improbable that at the present time, the people of Colorado would tolerate a tax rate on shares of national bank stock at the rate of 5 mills. Moreover, since the state commercial banks are banks of the same kind as the national banks, and are in competition with them, Colorado would not want to, and under the federal law (the Fourteenth Amendment of the Federal Constitution) could not impose on the state banks a tax at a higher rate than that imposed on national banks. Until the question of bank taxation is settled, it would be inadvisable to recommend a low-rate tax on intangible.

The third method of dealing with intangibles is to exempt them from property taxation and to devise some other way in which the owners of intangibles can be reached. If, in so far as the intangibles are merely representations of equities in tangible property that has been taxed without deduction for debt, they should not be taxed as property, it remains to discover to what extent the intangibles are merely representations or are property in their own right, and to suggest appropriate modes of treatment for taxation in the state.

First, secured debts and corporate stock are regarded clearly as mere representations, and, since they are not taxed, require no further discussion, with important reservations to be noted below. But most of the taxable intangibles are also mere representations. Bank deposits are chiefly such, as may be easily demonstrated in case of savings deposits. The equities of the depositors are offset by the mortgages on real property, and these securities in turn represent the bank's equity in the mortgaged property. The facts are not far different in case of

checking deposits. In the aggregate such deposits are much more than offset by the depositor's loans which in turn diminish the equities of the borrowers in their tangible merchandise or manufacturer's stock, which are usually taxed without deduction for debts. It would be a long and tedious process to show that book accounts and other claims are merely representations, indefinite and involved to be sure, of equities in tangible property somewhere, all of which, not specifically exempt, are taxed to someone without deduction for debts. It should seem fairly clear, though, that with one important group of exceptions referred to above and to be noted below, the gigantic and complicated network of accounts and claims, can represent only widely diffused equities in tangible property owned by and taxed to somebody somewhere. For, with the exception noted, there is nothing productive and worth owning except tangible goods.

For the purpose of presenting the deposits according to their character the following analysis is offered: Table 43 following shows the total deposits of all Colorado commercial banks, exclusive of postal savings deposits and United States deposits. In any case the amounts assessed could not possibly exceed the almost $280,000,000 which is the sum of the total deposits reported. But that latter sum is of course anywhere from 20 to 100 times the amounts assessed.

A request was made of all the banks in the state for a statement showing their deposits, as to what extent they were

TABLE 43

Time and Demand Deposits of Colorado State and National Banks, 1929

Kind of Bank	Time Deposits	Demand Deposits	Total
State Banks	$26,343,531	$37,484,908	$63,828,439
National Banks	89,344,000	126,624,000	215,968,000
Total	$115,687,531	$164,108,908	$279,796,439

Source: 1) State Banks, state bank commissioners records, 1929. 2) National banks, report of the comptroller of the currency, 1929.

Note: Time deposits include savings accounts, trust funds, and time certificates. Demand deposits include: dividends unpaid, individual deposits, demand certificates, certified checks, and cashiers checks. Postal savings deposits and United States deposits are not included.

deposits of individual persons, of the state, cities, counties, and other public corporations, of railroads and other public utilities, and of all others. Not all the banks responded but 49 freely did so. And these 49, being mostly Denver banks, account for considerably more than one half of the total deposits. Table 44 presents the figures for these 49 banks classified as requested. The table puts clearly before the reader the amounts involved in the contention that substantially if not all of the deposits are mere representations of equities in tangible property fully taxed, or tax free. The public funds of course are exempt. The deposits of railroads and other corporations are included in the valuations made by the Colorado tax commission of the tangible property. There remains $90,190,403 deposits of individual persons and $42,628,203 deposits of others, doubtless mostly of local business firms. How much is accounted for by deductible debts against credits, no one can tell. But in any event, these deposits, as shown in the preceding analysis, are chiefly if not entirely representative of equities in tangible property, directly or indirectly.

TABLE 44

Deposits of 49 Banks as of December 31, 1929, Classified According to Kind of Deposits and Character of Depositors

Kind of Deposit	Total	Amounts of Deposits by			
		Individual Persons	Public Corporations	Business Firms	
				Railroads and Public Utilities	Others
1. Savings accounts	$53,103,146	$50,412,987	$1,127,972	$75,239	$1,486,948
2. Trust Funds	2,300,148	1,002,718	0	205,346	1,092,089
3. Dividends unpaid	331,893	271,634	0	0	60,259
4. Individual deposits	87,961,759	34,369,351	7,915,937	6,626,853	39,049,618
5. Demand Certificates	595,483	390,773	186,016	0	18,694
6. Time Certificates	4,026,482	2,799,904	828,863	9,591	388,124
7. Certified Checks	198,503	94,228	12,701	334	91,240
8. Cashier's Checks	1,305,809	848,808	10,866	4,899	441,236
Total	$149,823,223	$90,190,403	$10,082,355	$6,922,262	$42,628,203
Percentage	100.00	60 20	6.73	4.62	28 45

Source: See text.

The one most important form of non-representative intangibles is found in the excess value of business enterprises over the value of their tangible property. In case of a prosperous enterprise employing relatively little tangible property in proportion to the volume of its business this excess will be large, while in case of an enterprise that is not prosperous and employs relatively much property it may be negigible or negative. To the extent that the market value of the shares of a corporation represents this excess there is in shares of corporate stock an element of non-representative property; and upon this value there is no tax in Colorado except in two classes of corporations. The commercial banks, being taxed, as explained above, on the value of their shares, are taxed on their corporate excess. And in case of corporations such as railroads whose property is assessed by the Colorado tax commission, this intangible value is included in the unit valuation arrived at by the commission's appraisal methods, and is distributed for local taxation. In the case of other corporations, and in case of individual enterprises and partnerships there is no tax on this excess in Colorado. A few states, among them, Kansas, Illinois, and Massachusetts, attempt to reach this excess in part by means of a socalled corporate excess tax. Elsewhere there is no reason to try to tax it since the corporate shares are taxable as personal property. But the corporate excess tax laws are not very successful. It would seem to be better to reach such value on another basis. Since the value of such excess grows directly out of the earnings of the enterprise, and must be based thereon, it is simpler to reach such excess through an income tax. There are perhaps other minor forms of non-representative property, which should be reached for taxation in some way, but it seems that as property they cannot well be reached. Income taxation is superior for that purpose.

One class of property, namely metallic money is in a peculiar position. It is of course, tangible, having an intrinsic value. But, with respect to its uses, it is interchangeable with paper money, checking deposits, and possibly other media of exchange, which are clearly mere representations. Moreover, the amount of metallic money carried by the ordinary taxpayer is negligible. It would be as futile to tax it as it is futile to try to tax intangibles. It is therefore advisable not to try to tax any form of money and credits as property.

VI. Scope of the Property Tax

In the preceding paragraphs, it is shown that certain changes should be made in the general property tax for the purpose of making it more equitable in its results, and more capable of successful administration. It remains to discuss the question of how great should be the reliance upon this tax, and to what extent other sources of revenue should be used for state and local purposes.

A. General Experience of Other States

For this purpose, it is helpful to consider the trend of the property taxes in other states. Table 45 following shows that in the 48 states, while the per capita receipts from the general property tax increased absolutely during the period 1915-1927, there was a decline in the percentage which the receipts from the general property tax was of the total receipts. Thus during that period, the per capita receipts for the 48 states rose from $1.89 to $3.16; but the percentage of the total receipts which was derived from general property taxes declined from 40.6% to 21.1%. The table also shows that Colorado makes absolutely and relatively greater use of receipts from the general property tax than, on the average, do the other states, although for Colorado there appears to be the same tendency to rely less upon the general property tax for state purposes with the passing of time.

TABLE 45

Per Capita Receipts from the General Property Tax and Percentage These Receipts Were of all Receipts for the 48 States for Specified Years

Year	Receipts From General Property Tax			
	All 48 States		Colorado	
	Per Capita	Percentage of Total Receipts	Per Capita	Percentage of Total Receipts
1915	$1.89	40.6	$2.17	53.9
1917	1.80	34.9	3.50	62.6
1919	2.26	35.1	4.36	62.9
1922	3.22	30.0	6.75	47.4
1924	3.16	25.7	6.19	38.7
1926	3.24	22.7	5.35	37.0
1927	3.16	21.1	5.23	34.3

Source: Financial Statistics of States.

Of the relative decline in the general property tax for state purposes there are ready explanations. In general, it has

been deemed good public policy to relieve property of a part of the tax burden, and to derive increasingly greater amounts from other sources. These sources, yielding increasing revenue, are state income taxes, taxes from motor vehicle license fees and on motor fuels and federal aid for highways and other minor purposes. The most important respect in which Colorado has failed to tap these other sources is in not making use of income taxes.

In the cities, counties and other local political units not only have the absolute receipts from the general property tax increased much faster than they have for state purposes, being besides much greater per capita than the taxes for state purposes, but the percentage which is derived from the general property tax has shown a moderate increase. Unfortunately statistical data are not readily available to show how rapidly the reliance upon the general property tax has increased for all Colorado local units. Data are available to show the increased reliance upon general property taxes for city purposes in 146 selected cities of those having population of 30,000 or over. Table 46 following shows that while the per capita receipts from the general property tax in these 146 cities increased between 1915 and 1927 from $18.73 to $46.09, the percentage of all revenue receipts derived from the general property tax increased from 62.4% to 66.1% during that period. The figures for Denver, Colorado Springs, and Pueblo, the three largest Colorado cities, having over 30,000 population, are somewhat irregular, but in the main they show similarly heavy reliance upon the general property tax.

TABLE 46

Per Capita Receipts from the General Property Tax and Percentage These Receipts Were of All Receipts for 146 Cities, and for Denver, Colorado Springs, and Pueblo, for Specific Years

Year	Receipts From the General Property Tax							
	146 Cities		Denver		Colo. Springs		Pueblo	
	Per Capita	Percentage of Total Receipts	Per Capita	Percentage of Total Receipts	Per Capita	Percentage of Total Receipts	Per Capita	Percentage of Total Receipts
1915	$18.73	62.4	$16.07	62.0	$15.08	56.7	$11.59	56.0
1917	20.57	64.3	19.59	70.9	13.37	56.3	10.73	57.0
1919	23.29	66.0	21.22	66.3	16.64	60.5	15.49	58.1
1922	35.85	66.9	32.32	62.1	33.54	67.8	27.06	63.4
1924	38.59	66.1	32.98	60.5	40.64	68.0	25.90	53.3
1926	43.46	65.7	39.53	64.5	44.10	49.3	26.91	53.2
1927	46.09	66.1	40.02	65.2	45.12	50.2	29.12	53.4

Source: Financial Statistics of Cities.

It is to be remembered that the receipts from the general property tax are expressed as percentages of all revenue receipts. The aggregate revenue receipts include receipts from other sources than taxes, such as gifts, fees, earnings of public service departments and subsidies from the federal and state governments. If the receipts from the general property tax were expressed as percentages of the receipts from taxes alone the degree of completeness with which the cities rely upon the general property tax would be shown more strikingly.

The counties and school districts are even more completely dependent upon the general property tax than the larger cities. We are therefore warranted in saying that all the local political units have required a rapidly increasing tax revenue from general property, while the state governments can and do increasingly rely upon other sources. Furthermore, Colorado relies for state purposes more heavily upon the general property tax, and less heavily upon other taxes than do the states in general. If the other states are right in seeking increasing revenues from other sources than property taxes, and if the significant conditions are not peculiarly different in Colorado from what they are elsewhere, Colorado should seek other sources of revenue for the purpose of relieving property from heavy and increasing taxes. That this tentative conclusion is correct will be shown in the following paragraphs.

B. Property Taxes the Principal Local Revenue Source

Yet it is not well to arouse vain hopes for relief from property taxes in the minds of property owners beyond what can possibly be given. The extent to which property can, practically speaking, be relieved from taxes is strictly limited. But to demonstrate this fact, it is necessary to consider separately, the state government and the local governments. It is quite possible to relieve property from taxes for state purposes; but it is not practical to give corresponding relief from property taxes for local purposes.

The Colorado state government may readily, after making proper adjustments in case of the specific property mill levies now authorized for the support of educational institutions and other state services, dispense with property taxes and rely instead upon tax revenue from other sources, such as taxes on income and sales. Such an arrangement, in which the state

government draws no revenue from taxes on general property, while the local governments are dependent upon revenue from property taxes is called segregation of sources. Segregation of sources does not necessarily involve the absence of state taxes on some forms of property. There are some who believe that, as a matter of principle, segregation is advantageous. It is argued, for example, that if the state levies no general property taxes, the incentive on the part of the assessors to keep their valuations low so as to avoid a part of the state property taxes will disappear. But the experience of states where segregation has been tried or contemplated, tends to show that segregation is not important as a matter of principle.

But for the local governments, there is no such escape from property taxes. Taxes on property are the only taxes that can be adequately administered by a governmental unit smaller than the state. Even the state government suffers by comparison with the federal government with respect to the efficiency of administration of other than property taxes. Experience has shown that income taxes, inheritance taxes, and sales taxes, cannot be administered except with intolerable ineffectiveness by any governmental unit smaller than the state. Even property taxes cannot be tolerably administered by the counties without state supervision in general, and without state assessment and consequent apportionment for local taxation of such property as railroads and similar inter-county properties. The ineffectiveness of local administration is inherent in the smallness of the local unit, and not primarily due to personal inefficiency.

It is conceivable, of course, if we were to assume that the state could raise any amount from sources other than property taxes, that the counties, cities, towns, and school districts could reduce their property tax levies either by transferring their functions to the state, or by having the state arrange to distribute a part of its revenue raised from these other sources. Some transfer of services has taken place, notably in connection with the construction and maintenance of highways, which are now financed and constructed directly by the state to an increasing degree. And it is increasingly common for the state to distribute revenue in the form of local aid, either in the form of apportionments for schools or roads out of the general or some special fund or by assigning a part or all from certain taxes, notably the income tax, for local use. If then, the state could raise revenue indefinitely from sources other than property taxes, these amounts could be used as suggested, to finance these local public services that now are so expensive and involve such heavy levies upon property.

But as a matter of fact, the state government cannot in practice command sources, other than property taxes, to yield indefinite amounts. The amounts so obtainable are on the contrary, in a state like Colorado, rather sharply restricted. Fixed property cannot get away if the taxes are heavy. Personal property, especially intangibles, and business are mobile and can get away, not only from the assessor, but physically from the state, if the taxes are excessive. And they are excessive, in this sense if, because of the taxes, business finds it expedient and profitable to move elsewhere. And if business and property move away, because of excessive taxes, they will not contribute any tax revenue, and their removal may indirectly deprive local industry of a market for its products, and involve other detriments more burdensome to the owners of real property than the taxes of which real property was temporarily relieved.

It is not, of course, argued that a heavy income tax, or a heavy sales tax, or heavy business taxes will instantly, or even ultimately drive out all business or even all intangible property from the state. Nor is it argued that complete freedom from taxation of business and mobile property will cause an instant and phenomenal concentration of business, and of mobile property in the state. It is merely asserted that while income taxes, sales taxes, and possibly some forms of business taxes can be, and should be made to contribute a modicum of revenue for state purposes, the amount practically realizable from these sources in Colorado is limited. If these sources are pressed too far for tax contributions, it will be to the detriment of the fixed property of the state. What is the expedient limit for taking revenue from each of these sources will be discussed when each of the possible and practicable sources is discussed in later sections of this report.

C. A Reasonable Property Tax Contribution

How much then, of the total tax revenue for all purposes should be collected from property taxes? It will be easier to answer that question if one bears in mind the economic interactions of the general property tax and property values. Real property constitutes 75% or more of the total valuation, and hence bears the bulk of the tax burden anyway. It only will be considered.

Real estate consists of land and fixtures. The land cannot be moved at all, and the improvements only with difficulty, though excessive taxes might retard replacements and delay new construction. Hence, the land and the improvements, inevitably get on the tax list. The tax must be paid, if not by the

present owner, then by the person who takes it on a tax title. If then the tax cannot be escaped, how does the payment of it affect the value of the property?

It will not be seriously contested that real property has value, a market value, or a capital value, because it yields a recurrent income, either directly in the form of a rental income, or a business income from its use, or indirectly in the form of a satisfaction from its use as in the case of a dwelling house occupied by its owner. Nor will it be seriously contested that the capital value will vary with and depend upon the anticipated future money or service income. The capital value tends to be the mathematical equivalent of the sum of all the future incomes, discounted to the present, at some accepted competitive rate. What a purchaser of a piece of real property is really interested in is the series of anticipated annual incomes to which he and his assigns and heirs become entitled by reason of ownership. Ownership of real property that yields no such income and justifies no hope for such future income is an empty shell. And the greater these recurrent future incomes, the greater is the capital value. If, for example, 5% is the acceptable rate of discount and if a property yields an annual income of $1,000, then the capital value of that property should be $20,000, since $1,000 is interest at the rate of 5% per annum on $20,000. Of course, the appraisal of a parcel of property is not as simple as that. The future incomes are uncertain and variable, and must be estimated, because the prices of, as well as the products of, the property and the other factors such as labor, used jointly with the property in question, are uncertain. Finally, the taxes themselves affect the value. The greater the tax, the less net income is left over after taxes, and hence the capital value, and the assessed value, should be reduced accordingly.

It has been asserted that the property taxes are too high, and in evidence is offered the statement that they have depressed the values of real estate. It should be clear from the foregoing that all unshiftable taxes—all taxes, practically speaking, on real property, depress the value below what it would have been had there been no taxes or had taxes been lower. Taxes on real property, since they are not shiftable, are one of the factors, which, with other factors such as the price of wheat, the price of butterfat, the cost of farm machinery, the freight rates, the wages of farm labor, determine the net income from the use of a farm, and therefore determine its capital value. Similar factors determine the value of urban property, and in all cases these factors include property taxes.

It is also asserted that the tax rate is so high that it eats up all the income from the property, thus destroying the capital value. For example, it is said that if the tax rate is 50 mills, or 5%, then the tax will eat up all the income from a property that yields 5% on the assessed valuation. That, as the case is stated, is true enough, but there is something radically wrong with the valuation. If the tax takes all the income, then there is no clear income left after taxes, and the land is not worth anything. And if the land is not worth anything, and is properly assessed on that basis, then, on a zero valuation, there is no tax. Obviously, there is something wrong in the assessment.

It is a simple matter to develop a formula by means of which can be demonstrated the interaction of real property taxes and real property values:

Let A be the amount of net income before taxes (assumed constant year after year).

Let C be the capital value of the net income after taxes.

Let R be the tax rate.

Let I be the discount rate (the rate by which C is determined).

Then $$C = \frac{A - RC}{I},$$

$$CI = A - RC,$$

$$CI = RC - A,$$

$$C(I - R) = A,$$

$$C = \frac{A}{I - R}.$$

Using the formula above, anyone can for himself demonstrate the interaction of the capital value, and the tax rate. As will be shown in the following examples, no tax rate, however high, so long as it is expressed as a percentage of the capital value, can completely confiscate the capital value, provided the assessed value (the capital value) is correctly arrived at. If then the tax does, nevertheless, take all the income (as is amply demonstrated that it does when the owner deliberately lets the taxes become delinquent, and the property be sold for taxes), the assessed value is grossly excessive.

Let A = $100.
Let I = .05.
Then find C at various values for R.

If R = 0, $C = \frac{100}{.05} = \$2{,}000.00.$

If R = .001, $C = \frac{100}{.051} = 1{,}960.80.$

If R = .005, $C = \frac{100}{.055} = 1{,}818.18.$

If R = .01, $C = \frac{100}{.06} = 1{,}666.67.$

If R = .02, $C = \frac{100}{.07} = 1{,}428.57.$

If R = .05, $C = \frac{100}{.10} = 1{,}000.00.$

If R = .10, $C = \frac{100}{.15} = 666.67.$

If R = .50, $C = \frac{100}{.55} = 181.82.$

If R = 1.00, $C = \frac{100}{1.05} = 95.24.$

If R = 10.00, $C = \frac{100}{10.05} = 9.95.$

If R = 10,000.00, $C = \frac{100}{1{,}000.05} = \$.0099 = \$.01.$

It follows from the foregoing demonstration that the property tax is a device by which the state, simply by means of adjusting the rate, can literally appropriate for itself as much or as little as is expedient of the property owner's equity in his real property. It also follows that by lowering the rate the state can give back as much of the value it has taken through rapidly rising taxes, as it pleases, provided that the necessary revenue to "run the government" can be obtained elsewhere, without hurting business, thereby depressing income, and in turn depressing the capital value.

There is ample evidence to show that some factor or factors have depressed the Colorado real estate values. Here again, we are hampered by the absence of data showing sales prices. For agricultural land it would appear that the value is now below the pre-war value. Table 47 following shows the United States Department of Agriculture Index for values of farm real estate (with improvements) for the United States, for Colorado, and for adjoining states, taking the average value for 1912, 1913, 1914, as 100. It will be seen that not only is the index throughout lower for Colorado than for the United States as a whole, and lower than for any of the states given, but Colorado is the only one of these states in which the index shows that farm land values are below those prior to the world war.

TABLE 47

Index Number of Estimated Value Per Acre of Farm Real Estate for the United States, for Colorado, and Nearby States, 1920-1929 (1912, 1913, 1914 taken as 100)

States	U. S. D. A. Index of All Farm Land with Improvements as of March 1									
	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
United States	170	157	139	135	130	127	124	119	117	116
Kansas	151	149	130	127	118	115	113	113	113	113
Nebraska	179	166	144	139	128	123	123	119	117	116
Oklahoma	166	160	139	133	125	131	130	128	127	127
Texas	174	156	133	128	137	146	146	141	139	138
Colorado	141	132	123	113	98	92	89	82	82	82

Source: Indirectly from United States Department of Agriculture Circular No. 101, "The Farm Real Estate Situation, 1928-1929". The information is based upon reports made by cooperating farmers and real estate dealers throughout the country. Circular 101 was not at hand. The table is adapted from Kansas Circular 156, January 1, 1930, Agricultural Experiment Station, Manhattan, Kansas.

The declining value of farm property is partly reflected in the annual assessments. The Colorado tax commission in its 1928 annual report took occasion to note the declining value of irrigated land and of dry farming land, and the increasing value of urban real property, as shown in Table 48 following. The commission urged that no further decline in the value should take place, and recommended an increase for 1928, which the state board of equalization did not see fit to authorize.

TABLE 48

Colorado Assessed Valuations, Aggregate and Per Acre of Certain Agricultural Lands, and Aggregate for Urban Real Property for 1921 and 1928

Item	Irrigated Lands	Dry Farming Lands	Town and City Lots	Improvements on Town and City Lots
Valuation, 1921	$191,430,830	$178,476,625	$181,834,418	$236,961,874
Valuation, 1928	165,644,975	137,717,586	186,983,906	339,022,483
Amount of change	*25,785,855	*40,755,039	**5,345,103	**102,060,608
Percent. of change	*13.47	*22.83	**2.94	**43.07
Value per acre, 1921	83.45	15.91	----------	----------
Value per acre, 1928	73.96	12.09	----------	----------

Source: Reports of Tax Commission.
*Decrease. **Increase.

That the heavy tax rates have had something to do with the depressed capital value of farm land is suggested by the data supplied in Table 49 following, in which are shown the percentages which the general property taxes were of the rents of a number of rented farms in a number of specified states during the years 1919 to 1927. The data were obtained from studies made by the agricultural experiment stations of the respective states or by the United States Department of Agriculture, usually cooperating with each other. The rented farms were taken because in their case the troublesome question of separating the owner's wages from the return upon his investments in the farms does not arise, as it does in case of owner-operated farms. Although in a few cases the data go back of 1919 these figures are not given here, because they are not as reliable as the later figures.

It does not appear that the farm property taxes in Colorado absorb much more or less of the net rent before taxes than is the case in other states. But the figure of 37.8% for 1923 is much higher than the figure of 22.7% for 1919, and the later figures of 33.2% and 32.6% for 1925 and 1926, respectively, are not declining very rapidly. The most striking fact revealed by the original data, namely the tremendous variation in these percentages, is lost in the average figures to a large extent. But they may be seen upon analysis. Compare the low percentages of North Dakota of 14.8% in 1919 and 15.7% in 1924 with the high percentages of the intervening years. Inasmuch as the taxes are fairly constant from year to year the variable factor must be the net rent before taxes. When the crops fail or the income from the land for other reasons decreases, the taxes continue.

TABLE 49

Percentages General Property, Taxes Were of Net Rent, Before Taxes, on Selected Rented Farms in Specified States, for Specified Years

State	1919	1920	1921	1922	1923	1924	1925	1926	1927
Arkansas	19.0	16.5	20.0	17.6	17.2	--	--	--	--
Colorado	22.7	--	--	--	37.8	--	33.2	32.6	--
Indiana	12.0	21.7	38.7	43.1	33.2	--	--	--	--
Iowa*	--	--	21.6	32.9	36.1	--	--	27.7	28.7
Iowa**	--	--	26.7	20.8	34.3	--	--	27.0	--
Michigan	29.9	49.8	70.5	56.0	67.1	57.8	54.3	54.8	--
Missouri	10.0	12.7	22.0	18.2	20.1	--	--	--	--
New Jersey	--	--	--	--	--	--	54.3	50.6	48.1
North Carolina	--	--	--	--	--	--	33.3	34.8	28.9
North Dakota	14.8	16.2	60.0	18.5	59.2	15.7	--	--	--
Ohio	31.1	34.0	37.8	41.0	--	--	--	--	--
South Dakota	16.1	42.0	54.6	42.3	32.8	20.7	22.8	29.8	--
Virginia	--	--	--	--	--	--	--	20.0	--
Washington	--	--	--	--	--	32.0	26.7	29.2	--

Source: U. S. Department of Agriculture, "Taxation of Farm Property", Technical Bulletin No. 172, 1930.
*Cash-rented farms. **Share-rented farms.

When the Colorado figures are broken up into their component parts these variations in percentages of the net rent before taxes that is absorbed by property taxes, and the factors responsible therefore, are conspicuously seen in Table 50 following, prepared from the same sources as Table 49. It is seen that the net rent before taxes per acre of 52 farms in Otero County reporting in 1919 was $12.63; but that the corresponding figure for the 30 farms reporting in 1924 was only $.75, and that consequently the property taxes absorbed only 17.3% of the net rent in 1919, but absorbed 62.7% in 1924. The comparison is suggestive in that it shows how inconvenient the general property tax may be in poor years when the income is reduced or converted into a deficit.

The following quotation from the Technical Bulletin No. 172, p. 15, from which the data in Tables 47, 48, and 49 are

TABLE 50

Relation of Taxes to Cash Rent of Selected Farms in Delta and Otero Counties of Colorado for 1919 and 1924

Items Reported	1919		1924	
	Delta	Otero	Delta	Otero
Number of farms reported	57	52	40	30
Net rent per acre	$4.04	$12.63	$4.83	$.75
Tax per acre	$.96	$2.19	$.84	$.47
Tax as a percentage of net rent	23.8%	17.3%	17.4%	62.7%

Source: U. S. Department of Agriculture, "Taxation of Farm Property", by Whitney Coombs, Technical Bulletin No. 172, Feb., 1930.

drawn, demonstrates the unsuitability of the exclusive use of a tax based upon the capital value of the real property: "When the reports are considered individually, it is found that there is a great difference among farms in the percentage relationship of taxes to net rent. In 1926, one-fifth of the farms reported paid less than 20% of their rent in taxes. About one-fourth of the farms paid from 20 to 40 per cent, and 15 per cent fell into the 40 to 60 per cent group. Thus three-fifths of all the farms paid less than 60 per cent of their net rent in taxes. Contrasted with these, however, are 89 farms, or 30 per cent of the total number reported, which failed to yield in 1926 enough to enable their owners to pay taxes after the other necessary deductions from gross rent had been made."

It does not appear that taxes on farm real property absorb a larger percentage of the rent than property taxes absorb of the rent of urban property. Such at least is the conclusion drawn from the percentages presented in Table 51 following, showing the relation of taxes on farm and urban real property to the rents thereon. Taking all the states represented, the percentage of net rent before taxes that is absorbed by the property taxes does not differ much in the two kinds of real property. In Colorado the percentage absorbed by taxes of net rent on farm property appears to be somewhat greater than is the case with urban property.

It may be argued, and correctly so, that not all of the decrease in the valuation of agricultural property is due to taxes. Unfavorable seasons, low prices, high freight rates, and other factors reducing net income unquestionably have affected the valuation. But it is undeniable that the valuation is lower (or ought to be lower) than it would have been for the heavy and

TABLE 51

Percentages General Property Were of Net Rent, Before Taxes, of Farm and Urban Property in Years Specified, in Specified States

State	Years Covered	Percentages Taxes Were of Net Rent	
		Farm Property	Urban Property
Arkansas	1923–1925	18.1	17.1
Colorado	1926	32.6	27.1
Indiana	1922–1923	37.8	30.6
Iowa	1927	28.7	31.3
North Carolina	1927	28.9	29.5
Pennsylvania	1924–1925	26.2	20.9
South Dakota	1922–1926	27.3	29.9
Virginia	1926	20.0	16.0
Washington	1924–1926	29.1	31.7

Source: U. S. Department of Agriculture, "Taxation of Farm Property", Technical Bulletin No. 172, 1930.

increasing real property taxes. That the property taxes have been heavy and increasing is shown by Table 52 following, in which is shown the total anticipated general property taxes for all purposes by years during the period from 1913 to 1929 inclusive, and also the index number of these taxes with 1913 taken as 100. While the tax index thus shown increased from 100 in 1913 to 275 in 1929, the index of capital value of farm real estate in Colorado declined during the same period from 141 to 82, as shown in Table 47 above. It appears to be well established, not only that property taxes are taking an increasingly larger and larger percentage of the capital value of farm real estate, and therefore of the annual income from farm real estate, but that this trend has gone so far as to encroach heavily upon the equities in farm real estate. Better prices and possibly lower costs may increase net income from farm real estate in years to come, and if so, they will minimize this trend, but they will hardly reverse it, especially if the public expenditures are to continue at the present or higher levels. It would seem that we are warranted in the conclusion that revenue from other sources should be found in order to reduce the burden directly placed upon real property.

TABLE 52

Anticipated Revenue from the General Property Tax in Colorado for All Purposes and Index Thereof, Taking 1913 as 100, for Period 1913-1929

Year	Amount	Index
1913	$18,032,588	100
1914	18,420,401	102
1915	20,536,105	114
1916	20,430,508	113
1917	24,657,787	136
1918	26,173,856	145
1919	33,292,320	184
1920	39,424,852	218
1921	42,260,392	236
1922	41,956,321	232
1923	42,241,487	234
1924	42,992,308	238
1925	45,190,471	250
1926	46,241,539	256
1927	47,975,566	266
1928	48,230,730	267
1929	49,665,458	275

As for the property tax burden upon urban real property, the data are unfortunately not available so as to show the same relationship between real estate values. But it is certain that the relationship exists. The fact that in Table 48 above, the assessed value of town and city lots increased slightly, 2.94%, and that the improvements thereon increased considerably, 43.07%, probably is a result of the general tendency toward urbanization, and does not indicate that the value of urban real estate is not reduced by the heavy and increasing property taxes. The fact that the increase in the value of lots was negligible, while it was considerable in case of the improvements tends to prove that proposition. This conclusion is corroborated by Tables 53 and 54 following, showing the percentages of selling value taken by property taxes of farm real estate and of city real estate of Kansas for the years 1910 to 1923. It happens that these data are available for Kansas and not for Colorado. The reasoning is therefore from analogy. But conditions in Colorado do not appear to be any better than they are in Kansas. And the Kansas data are useful in showing authoritatively a condition in Kansas that may, from other evidence, be safely assumed to exist in Colorado, namely that taxes have increased much faster than the income from both farm and urban real estate.

TABLE 53

Taxes on Farm Real Estate of Kansas, in Percentage of Selling Value, 1910 to 1923

Year	State Average	Corn Belt	General Farming Region	Blue Stem Region	East Half of Wheat Belt	West Half of Wheat Belt	Grazing Region
1910	0.53	0.54	0.64	0.54	0.46	0.50	0.70
1911	.56	.56	.63	.58	.50	.55	.76
1912	.55	.56	.60	.60	.50	.57	.68
1913	.56	.58	.66	.59	.48	.58	.67
1914	.59	.60	.66	.57	.53	.64	.66
1915	.63	.65	.70	.70	.55	.65	.69
1916	.70	.72	.75	.74	.64	.74	.75
1917	.66	.70	.74	.66	.61	.64	.68
1918	.69	.81	.74	.62	.59	.72	.79
1919	.70	.79	.76	.68	.61	.78	.82
1920	.75	.81	.77	.70	.71	.77	.80
1921	.91	.98	1.00	.81	.85	.90	1.05
1922	.90	.94	1.01	.85	.80	.98	1.03
1923	1.01	1.05	1.14	.97	.89	1.09	1.21

Source: Agricultural Experiment Station, Kansas State Agricultural College, Bulletin No. 235, "The Trend of Real Estate Taxation in Kansas from 1910 to 1923".

TABLE 54
Taxes on City Real Estate of Kansas, in Percentage of Selling Value, 1910 to 1923

Year	State Average	Corn Belt	General Farming	Blue Stem Region	East Half of Wheat Belt	West Half of Wheat Belt	Grazing Region
1910	1.07	1.18	1.04	1.08	1.01	0.79	1.18
1911	1.19	1.24	1.39	1.24	1.05	.78	1.23
1912	1.17	1.15	1.44	1.29	1.05	.80	.87
1913	1.28	1.27	1.50	1.19	1.22	.79	1.05
1914	1.34	1.34	1.46	1.37	1.28	1.12	1.46
1915	1.48	1.54	1.58	1.56	1.35	1.38	1.45
1916	1.30	1.34	1.51	1.21	1.20	.97	1.30
1917	1.55	1.52	1.91	1.60	1.42	1.35	1.48
1918	1.49	1.30	1.88	1.75	1.44	1.30	1.38
1919	1.79	1.91	2.01	1.93	1.48	1.46	1.80
1920	1.95	2.05	2.25	2.07	1.65	1.41	2.00
1921	2.11	2.23	2.54	2.21	1.74	1.62	2.15
1922	2.23	2.29	2.49	2.38	1.92	1.93	2.87
1923	2.29	2.32	2.48	2.48	2.07	2.05	2.96

Source: Same as Table 53.

It is shown that, for Kansas as a whole, property taxes took in 1910 .53% of the selling value of farm real estate, and that in 1923, the percentage had risen to 1.01%. With minor variations, the trend is the same for all the different sections of the state. The data for later years are not published, but it is known that farm values have further declined since 1923 (the index, as shown in Table 47 above, being 127 for 1923, and 113 for 1929) and it is generally known that property taxes in Kansas have further increased since 1923. Hence, the percentage of the farm real estate capital value taken in taxes is today higher than 1.01%, though we cannot tell how much.

It is also shown that, for the state as a whole, the percentage of the market value of urban real estate rose from 1.07% in 1910 to 2.29% in 1923. Here also this trend is found in all sections of the state, with minor variations. Here also the facts are well known that there has been little or no increase

in urban real estate values, and that the taxes have increased considerably. And it is interesting to note that the percentage of the selling value of urban real estate taken in property taxes is consistently more than twice as high as the percentage taken in taxes of the farm real estate selling values. A suggested explanation of this phenomenon is given in a later paragraph of this report. But if the conditions in Colorado, are similar to those in Kansas (and the index in Table 47 indicates that they are worse), then it is true that of the selling value of urban as well as of farm real estate, the taxes are taking increasing percentages, so high as to warrant relief in the form of revenue from other sources.

Are the people of Colorado willing to sanction as a public policy the taking, in the form of taxes, of such increasing percentages of the income from property that the capital value of the taxed property will be considerably impaired? There is a school of philosophers, those who believe that all taxes should be borne by the income from the bare land, who would favor such a policy. They would cheerfully levy taxes on land only, so heavy that they would result in taking substantially all income from land and thereby reduce the capital value of land to the vanishing point. Of course, they would compensate by doing away with all other taxes. They base their program on the proposition that all value of land is created by society, and not by the landlords, and therefore ought to be appropriated for public purposes. The objection that present owners of land have been permitted and encouraged by society to own land in which they have perhaps their sole investments, which would vanish if the tax took all of the income, is brushed aside lightly. It must be admitted that, except for the last mentioned objection, such a single-tax policy has much in its favor, and would probably have been satisfactory, if it had been adopted and continued from the beginnings of the state. But it is believed that the people of Colorado would not favor the single tax on bare-land values. And that is what we are drifting toward when the taxes take increasingly larger and larger percentages of real property selling values. If the equities of the owners of real property, especially of land are to be respected, other sources of revenue than the general property tax must be had, and must be used as far as possible without themselves becoming harmful to business and thus indirectly inflicting equal or greater injury to taxpaying owners of real property.

VII. General Property Not a Suitable Base for Total Taxes

Aside from the foregoing reasons for finding other sources of revenue to supplement the general property tax, there are

other good reasons why general property is not a suitable base on which to apportion the total tax burden. These reasons may be briefly stated.

A. Relation of Taxes to Income

In the first place, not all income or all activities, capable of sustaining a tax can be reached by taxes on property. Income arises not only from property but also from labor, professional services, and business activities involving little property. There are limits to the possible revenue from these non-property sources of income. But some can be taken and the taking of it will cause less sacrifice to the payers and less harm to business in general than the benefit of the relief accruing to the property owners and the general benefit to society that will flow from a resulting decrease in property taxes. It is a familiar fact that the percentage of the total national income that is derived from sources dissociated from property has been increasing rapidly, and is now very large. These incomes should help to support the government. For a large part of the governmental services are for the personal benefit of the citizens, and not primarily related to their property. Such is the case mainly with the very costly school services.

Not only are there the foregoing labor incomes that now for state and local purposes are tax-free, but the income from intangible property can bear some tax, though it cannot, practically speaking, be reached through a property tax.

In the second place, even if it were desirable to collect all the taxes from the owners of property, it would still be desirable to collect a part of the tax on the basis of the income from the property rather than collecting all of it on the basis of the capital value of the property. As much of the tax from property as possible should be collected where and when there is an income out of which and with which the tax may be paid. It is a familiar fact that the income from tangible property will vary, in some cases narrowly, but in other cases widely, from year to year; and in some years income may be negative, as is clearly shown in preceding tables. It is equally well known that these variations in the annual incomes from property are expected and not strongly reflected in the capital value. The result is that the property tax, based on capital value must be paid whether there is any current income or not. If a part of the total taxes on property were raised on income, the payments of taxes would, for any particular taxpayer, vary more nearly in accordance with income realized than is now the case. Assuming a given amount of revenue to be raised, the individual taxpayers would then pay more in prosperous years and less in lean years.

It is obviously not possible or at least not practical to raise all or even the major portion of the taxes to be derived out of property income, on the basis of income. For the counties, cities and towns and school districts are, and must for years to come be, dependent upon the taxes on property. There are two reasons why they must raise their share on the basis of capital value. In the first place, the property tax is the only tax they can administer, practically speaking. In the second place, these governmental units require a reasonably stable revenue from year to year. And the lean years would often afflict not only individual taxpayers with low incomes or deficits, but would affect the general body of taxpayers in the district, with the result that an income tax at reasonable rates would not yield adequate revenue. To give the local governmental units their stable annual revenue, the property owners must take up the slack. For these districts cannot even up the revenue in fat and lean years by means of borrowing, as can the national government, and as could the state government if it were authorized and equipped to do so. But a part of the taxes on property could be levied on the income basis, or possibly on some other basis than capital value, with resulting benefit and convenience to the taxpayer. It is, for example, true, as will be shown below, that much property is sold for delinquent taxes, and is permanently lost or has to be expensively redeemed, because in lean years the property owner simply does not have and cannot raise the money. In cases where a series of poor years afflict all or most of the taxpayers in a county there are veritable epidemics of such sales.

In the third place, it is another familiar fact that not all business enterprises require the same interest factor in capitalizing their earnings on employed property in arriving at a capital value of their property. It is generally admitted that farm property yields a lower rate of return than does other property in general. Thus farm property yielding a given income will be given a higher capital value than other general property yielding the same income, because a lower interest factor is used, in the capitalization. Reference to Tables 48 and 49 above, showing that the property taxes in Kansas took less than one half as large a percentage of capital value of farm real property as they took of urban real property suggests that, since the tax rate, though lower on farm property, is greater than one half of urban rates, the farm property is capitalized at a lower rate. For it is found by other studies, as shown in Table 51, that, on an income basis, farm property usually pays as much as does urban property.

It is inherent in the taxation of property on a capital basis that the taxes cannot be in proportion to the income from the property by reason of the different rate factors of capitalization employed. In general, those industries in which the owners are willing, for reasons of competition, to accept a lower return on their employed property must bear a heavier tax, measured by the income therefrom, since the rate on all capital value within a tax district is necessarily uniform. These inequalities can be partly remedied by collecting a part of the taxes on some basis other than capital value of property.

B. Unequal Territorial Distribution of Taxable General Property

But whether or not Colorado is to continue to rely exclusively upon taxes on general property, there is evidence to show that some more effective equalization of the tax burden is required—and that not merely such equalization of the burden as would flow from a better equalization of the assessment. For taxable property is not distributed among the various taxing districts so that the reasonable public services required can be financed by the levy of tax at a reasonably uniform rate in all the districts. And the smaller the district is the greater will be the discrepancies between the cost of legitimate governmental services of a taxing district and the taxable property from taxes on which these services can be financed. The discrepancies are best seen in the school districts, partly because they are the smallest tax-levying units and partly because they perform the most costly public service of any in the state. Table 55 following shows the frequency distribution of the school districts in Colorado counties according to the rate of the school levy (county and district) for the years 1928 and 1922. It will be seen that the average school tax rate for each county varied in 1928 from 4.91 mills in Mineral county to 21.36 mills in Rio Grande county, while the average for the state was 11.73 mills. In 1922 the lowest average county rate was 4.00 mills in Gunnison county and the highest was 15.46 in El Paso county, and the average rate for the state was 9.37 mills.

It is interesting that the average for the state increased from 9.37 to 11.73 mills. But it is much more significant that the spread is wider in 1928 than in 1922. Thus in 1928 there were 53 districts levying 25 mills or more while in 1922 there were only 14; in 1928, 9 districts levying 30 mills or more while in 1922, only 2; and in 1928, 2 districts levying 35 mills or more while in 1922 there were none. The data in the table bear out the theoretical conclusion that, with an increase in the

TABLE 55

Frequency Distribution of Colorado School Districts by Counties, of the 1922 and 1928 Assessments, According to Their School Tax Levy, Arranged in Ascending Order According to the Average Rate for the County of the 1928 Assessment

County	Year	Average County Rate	Number of Districts Having Specified Tax Rates in Mills								
			Less than 5	5–9.9	10–14.9	15–19.9	20–24.9	25–29.9	30–34.9	Over 35	Total
Mineral	1928	4.91	3	1	--	--	--	--	--	--	4
	1922	*4.37*	3	*1*	--	--	--	--	--	--	*4*
Park	1928	5.70	11	7	1	--	--	--	--	--	19
	1922	*5.20*	*8*	11	--	--	--	--	--	--	*19*
Jackson	1928	5.84	2	4	--	--	--	--	--	--	6
	1922	*4.16*	3	*2*	--	--	--	--	--	--	*5*
Clear Creek	1928	6.63	2	5	2	--	--	--	--	--	9
	1922	*9.00*	*4*	3	*2*	--	--	--	--	--	*9*
Douglas	1928	7.25	--	31	2	--	--	--	--	--	33
	1922	*4.45*	23	*11*	--	--	--	--	--	--	*34*
Gunnison	1928	7.38	4	18	2	2	--	--	--	--	26
	1922	*4.00*	23	*2*	*1*	--	--	--	--	--	*26*
Chaffee	1928	7.77	1	20	2	1	1	--	--	--	25
	1922	*7.80*	2	18	*4*	*1*	--	--	--	--	*25*
Pitkin	1928	7.98	2	10	2	1	--	--	--	--	15
	1922	*9.20*	--	12	*1*	*2*	--	--	--	--	*15*
Kiowa	1928	8.08	5	10	1	3	--	--	--	--	19
	1922	*9.31*	*4*	5	*6*	*3*	--	--	--	--	*18*
Lake	1928	8.23	--	7	--	1	--	--	--	--	8
	1922	*8.36*	--	7	*1*	*1*	--	--	--	--	*9*
Summit	1928	8.30	2	5	--	2	--	--	--	--	9
	1922	*7.40*	*6*	1	*1*	*2*	--	--	--	--	*10*
Cheyenne	1928	8.66	--	7	2	--	--	--	--	--	9
	1922	*4.72*	7	*2*	*1*	--	--	--	--	--	*10*
Elbert	1928	9.58	--	28	13	6	--	--	--	--	47
	1922	*7.13*	*5*	30	*3*	*1*	--	--	--	--	*39*
Phillips	1928	9.60	--	28	9	1	--	--	--	--	38
	1922	*5.22*	*22*	15	--	*1*	--	--	--	--	*38*
Grand	1928	9.68	--	10	5	2	--	--	--	--	17
	1922	*7.30*	*2*	14	*2*	--	--	--	--	--	18
Teller	1928	9.80	--	6	2	3	--	--	--	--	11
	1922	*10.45*	*2*	*2*	6	*1*	--	--	--	--	*11*
Gilpin	1928	10.00	--	6	4	--	--	--	--	--	10
	1922	*11.58*	--	*3*	9	*1*	--	--	--	--	*13*
Bent	1928	10.10	--	17	18	3	--	--	--	--	38
	1922	*8.7*	--	27	*10*	--	--	--	--	--	*37*
Boulder	1928	10.06	11	28	12	4	4	--	--	--	59
	1922	*9.28*	*5*	34	*14*	*3*	*3*	--	--	--	*59*
Kit Carson	1928	10.10	2	44	30	5	2	--	--	--	83
	1922	*7.47*	*18*	44	*7*	*3*	--	--	--	--	*72*
Archuleta	1928	10.16	--	13	6	3	--	--	--	--	22
	1922	*9.66*	--	13	*7*	--	--	--	--	--	*20*
Rio Blanco	1928	10.55	1	7	10	1	--	--	--	--	19
	1922	*4.88*	15	*1*	--	--	--	--	--	--	*16*
Adams	1928	10.72	4	22	6	9	2	--	--	--	43
	1922	*7.68*	*8*	24	*5*	*2*	*1*	--	--	--	*40*

TABLE 55—(Continued)

County	Year	Average County Rate	Number of Districts Having Specified Tax Rates in Mills								
			Less than 5	5–9.9	10–14.9	15–19.9	20–24.9	25–29.9	30–34.9	Over 35	Total
Larimer	1928	10.97	2	18	16	8	1	--	--	--	46
	1922	*10.39*	--	*26*	14	*5*	*1*	--	--	--	*46*
Ouray	1928	11.00	--	5	6	1	--	--	--	--	12
	1922	*8.00*	*1*	9	*3*	--	--	--	--	--	*13*
San Juan	1928	11.30	--	--	1	--	--	--	--	--	1
	1922	*7.19*	--	1	--	--	--	--	--	--	*1*
Lincoln	1928	11.32	--	22	14	6	2	1	--	--	45
	1922	*9.18*	--	--	--	--	--	--	--	--	--
Fremont	1928	11.37	6	11	8	4	4	--	--	--	33
	1922	*12.05*	*1*	*13*	12	*5*	*3*	--	--	--	*34*
Jefferson	1928	11.37	4	19	15	4	5	1	--	--	48
	1922	*8.7*	*5*	31	*9*	*3*	--	--	--	--	*48*
Hinsdale	1928	11.75	--	2	--	2	--	--	--	--	4
	1922	*12.75*	--	*1*	*1*	*2*	--	--	--	--	*4*
Moffat	1928	11.77	--	8	20	6	1	--	--	--	35
	1922	*8.28*	--	12	*7*	*2*	--	--	--	--	*21*
Custer	1928	11.82	--	2	18	2	--	--	--	--	22
	1922	*6.4*	*2*	18	*1*	--	--	--	--	--	*21*
Otero	1928	11.97	--	8	8	1	3	--	--	--	20
	1922	*11.97*	--	*8*	9	*5*	--	--	--	--	*22*
Pueblo	1928	12.00	1	20	13	11	2	--	--	--	47
	1922	*10.52*	*1*	*26*	11	*7*	--	--	--	--	*45*
Routt	1928	12.05	2	16	17	6	5	--	--	--	46
	1922	*10.70*	*1*	*23*	10	*4*	*3*	--	--	--	*41*
Prowers	1928	12.131	1	14	23	10	2	--	--	--	50
	1922	*9.34*	--	32	*13*	*3*	--	--	--	--	*48*
Dolores	1928	12.18	--	--	8	2	--	--	--	--	10
	1922	*5.00*	*1*	5	--	--	--	--	--	--	*6*
Saguache	1928	12.33	--	8	5	5	--	--	--	--	18
	1922	*5.86*	*8*	7	*3*	--	--	--	--	--	*18*
Arapahoe	1928	12.73	--	11	8	7	2	--	--	--	28
	1922	*10.75*	--	*14*	10	*3*	*1*	--	--	--	*28*
Garfield	1928	12.77	--	4	30	4	3	1	--	--	42
	1922	*12.70*	*1*	*9*	24	*3*	*2*	*1*	--	--	*40*
Weld	1928	12.74	2	50	44	20	14	5	--	--	135
	1922	*10.00*	*3*	*60*	28	*14*	*1*	*1*	--	--	*107*
Logan	1928	12.98	--	18	22	14	1	2	--	--	57
	1922	*7.55*	*15*	28	*10*	*3*	--	--	--	--	*56*
Sedgwick	1928	13.30	--	5	14	3	2	--	--	--	24
	1922	*6.3*	*5*	17	*1*	--	--	--	--	--	*23*
San Miguel	1928	13.15	--	3	7	2	1	1	--	--	14
	1922	*9.2*	*2*	6	*3*	*1*	--	--	--	--	*12*
Eagle	1928	13.31	--	3	15	3	--	2	--	--	23
	1922	*10.22*	--	*15*	4	*2*	*2*	--	--	--	*23*
Yuma	1928	13.83	--	13	69	21	11	--	--	--	114
	1922	*9.54*	*1*	72	*21*	*7*	*3*	*2*	--	--	*106*
Morgan	1928	13.948	--	4	5	9	--	1	--	--	19
	1922	*12.03*	--	*8*	8	*2*	--	*1*	--	--	*19*
Denver	1928	13.95	--	--	1	--	--	--	--	--	1
	1922	*11.79*	--	--	1	--	--	--	--	--	*1*

TABLE 55—(Continued)

County	Year	Average County Rate	Number of Districts Having Specified Tax Rates in Mills								
			Less than 5	5–9.9	10–14.9	15–19.9	20–24.9	25–29.9	30–34.9	Over 35	Total
Baca	1928	14.00	--	3	31	20	6	3	--	--	63
	1922	*11.86*	--	*18*	29	*12*	*2*	*2*	--	--	*63*
La Plata	1928	14.15	--	4	21	8	1	2	1	--	37
	1922	*11.8*	--	*13*	14	*7*	*1*	*1*	--	--	*36*
Costilla	1928	14.17	--	3	6	4	--	1	--	--	14
	1922	*11.7*	*3*	*4*	4	*1*	--	--	*2*	--	*14*
Washington	1928	14.29	--	4	53	16	6	4	1	--	84
	1922	*7.04*	*7*	56	*12*	*2*	*1*	--	--	--	*78*
Montezuma	1928	14.48	--	4	13	6	4	1	--	--	28
	1922	*14.40*	--	*8*	5	*10*	*3*	*2*	--	--	*28*
El Paso	1928	14.60	1	9	10	13	3	3	--	--	39
	1922	*15.46*	*4*	*8*	13	6	*5*	*1*	--	--	*37*
Alamosa	1928	14.78	--	5	5	2	--	1	--	1	14
	1922	*11.82*	--	*7*	4	*2*	*1*	--	--	--	*14*
Las Animas	1928	15.00	1	17	47	30	16	7	3	--	121
	1922	*8.59*	*4*	43	*10*	*5*	--	--	--	--	*62*
Mesa	1928	15.40	--	4	16	11	4	--	--	--	35
	1922	*10.81*	--	*24*	10	*3*	--	--	--	--	*37*
Conejos	1928	15.62	--	4	7	12	5	1	--	--	29
	1922	*10.00*	*1*	*15*	10	*3*	--	--	--	--	*29*
Crowley	1928	15.75	--	--	3	4	2	--	--	--	9
	1922	*14.08*	--	*1*	4	*4*	--	--	--	--	*9*
Huerfano	1928	16.21	--	1	30	8	8	3	--	1	51
	1922	*10.05*	--	*29*	7	*8*	--	*1*	--	--	*45*
Delta	1928	17.27	--	1	8	7	4	1	--	--	21
	1922	*12.55*	--	*9*	7	*5*	*2*	--	--	--	*23*
Montrose	1928	17.765	--	1	6	12	5	2	--	--	26
	1922	*9.57*	*1*	14	*11*	*1*	--	--	--	--	*27*
Rio Grande	1928	21.36	--	1	1	4	--	1	2	--	9
	1922	*15.30*	--	*5*	*2*	*2*	*1*	--	--	--	*10*
Total	1928	11.73	70	659	773	355	132	44	7	2	2042
	1922	*9.37*	*227*	978	*424*	*163*	*36*	*12*	*2*	*0*	*1842*

Source: Records of state superintendent of public instruction. District rates for 1922 not shown for Lincoln county.

tax rate the spread will increase. For as the tax rate increases, the tax will appropriate more of the net income, hence reduce the valuation, which in turn will necessitate a higher tax rate, which in turn will further reduce the valuation, and so on. Should the expenditures for schools therefore increase, we may expect still higher tax rates, and wider variations in the tax rates, other things remaining as they are.

Is this discrepancy, between legitimate costs of public services and the basic assessed valuation, a problem requiring solution or is it merely a phenomenon, more or less interesting? There are two different lines of thought on this subject. On

TABLE 56

Cumulative Frequency Distribution of Colorado School Districts According to School Tax Levies for 1928 and 1922

Rate Groups	Number of Counties			
	1928		1922	
	Number	Percentage	Number	Percentage
35 or more mills	2	.1	0	0
30 or more mills	9	.4	2	.1
25 or more mills	53	2 6	14	.8
20 or more mills	185	9.1	50	2.7
15 or more mills	540	26 4	213	11.6
10 or more mills	1313	64.3	637	34.6
5 or more mills	1972	96.6	1615	87.7
3 or more mills	2042	100.00	1842	100 00

Source: Table 55.

the one hand it is accepted as basic that the tax on property in any school district must suffice to finance the school, be the rate what it may. If the property will not yield enough income to sustain these legitimate governmental costs, then the property in the district is not worth having and ought either to be abandoned or devoted to some other purpose not requiring residence of citizens requiring governmental services. According to this line of thought, to give state aid to such districts is to contribute toward maintaining a parasitical population.

According to the other line of thought it is the duty of the state to provide for all the children in the state a minimum of educational facilities. People are already in such districts, and they will in any event continue there, though perhaps in smaller numbers. Moreover, there is a feeling that high tax rates are, per se, unreasonable, and in order to keep the tax rates low, such high-rate districts will provide inadequate school facilities. If then, it is argued, the district cannot finance minimum school facilities from "reasonable" rates, the state must contribute to make up the deficiency. The deficiencies in each district can be eliminated in various ways. One way is to enlarge the district, say by spreading the school costs of all the school districts uniformly over all the property of the county. Even that, as the table shows would require, as shown in Table 55, county school rates varying from nearly 5 mills to 21.36 mills. Another way is to let the state establish an equalization fund from which can be distributed to counties or districts such aid as will equalize the burden for the high rate districts. The revenue for the state equalization fund may come from new taxes or from state property taxes.

It must be admitted that the former line of thought is the more logical, but the latter appeals to the popular sympathy and will probably prevail. Whether or not any relief is to be granted, a problem exists, which will in part be solved if a part of the total tax revenue can be raised on other bases than the capital value of the property.

VIII. Delinquent Property Taxes

The following analysis of the problem of delinquent property taxes was undertaken for the following reasons: First, the public treasuries lose revenue, though because of the heavy interest collected that sum is probably not very large. Second, the counties are involved in the handling of the delinquent property. Third, the penalties are unnecessarily severe on the delinquent taxpayers. And, fourth, the amount of delinquency is believed to be unnecessarily large and capable of being remedied through improved assessment.

A questionnaire was sent, through the courtesy of the Colorado tax commission, to the treasurer of every county in the state requesting data showing the extent of the delinquency, the procedure in dealing with delinquent property, and remedies suggested. At the time when the analysis had to be completed only 28 of the 63 county treasurers had returned the questionnaires. But these 28 questionnaires were carefully prepared and it is believed that the data, which are the basis for the following tables, present a fairly accurate picture of the tax delinquency problem of the state.

A. Extent of Delinquency

Table 57 following shows the distribution of the counties according to the percentages of the 1928 taxes, due in 1929, that had been collected up to the time of returning the questionnaires, the latter date being over one year after the due date for the last half of 1929 taxes. In one county at that date only 69.6% of the 1928 taxes had been collected; in two counties only 70%, while at the other extreme two counties reported 99% or over collected. Most of the counties do not fall far behind the required amounts. The medium percentage was 96.37.

In 24 counties, 4 of the 28 reporting being in part incomplete, the total taxes charged against the counties for 1928 was $17,724,590.76. Of this sum, $951,420.09, or 5.37% was delinquent and advertised as such for sale in 1929. But before being sold, taxes and interest to the extent of $456,855.99, or 48.0% was paid, leaving taxes to be disposed of to the amount of $583,323.00, principal and interest. These delinquent taxes were disposed of as follows. Firms or persons

TABLE 57

Distribution of 28 Counties According to Percentage of 1928 Taxes Collected, August, 1930

Percentage of Taxes Collected	Number of Counties
Less than 70	1
70- 79.9	3
80- 84.9	2
85- 89.9	0
90- 94.9	4
95- 95.9	2
96- 96.9	4
97- 97.9	3
98- 98.9	7
99-100.00	2
Total	28

organized to handle tax certificates purchased $137,800.06, or 25.6%. Other private persons or firms, not organized primarily for that purpose, purchased $114,898.90, or 21.3%; and the counties took the remainder of $538,323.00, or 53.1%.

In Table 58 following is shown the distribution of 26 counties reporting on this point according, 1) to the percentage of the taxes charged that was delinquent and advertised for sale, and 2) to the percentage of the taxes charged that was advertised but not sold, because the taxes were paid prior to the sale, but after advertising. The median percentage of property delinquent and advertised was 5.65, which is not far different from the arithmetic mean percentage of 5.3 given in the preceding paragraph. The conclusion is that, in the counties considered, about 5.5% of taxed property becomes delinquent and is advertised for sale. The median percentage of taxes charged which was delinquent and advertised for sale but paid before being sold was 2.85, about one-half of property delinquent. Table 59 following presents the distribution of the counties according to the percentage which the delinquent property on which taxes were paid prior to sale, was of the entire amount of delinquent property. The median percentage was 47.1. The median was only slightly lower than the arithmetic mean of 48.0%, as shown in the preceding paragraph. Table 59 is thus merely another way of showing that a little less than one-half of the delinquent taxes is paid before the threatened sale actually occurs. Since interest accrues at the

rate of 10% on the delinquent taxes until sale, at 18% for the first six months after sale on the taxes and costs, and at 12% for 30 months thereafter, it will seem that the delinquent taxpayer pays heavily for his carelessness or inability to raise the money, whichever the explanation of the delinquency may be.

TABLE 58

Distribution of 26 Counties According to the Percentage of the Taxes Charged that 1) were Advertised for Sale and 2) Were Paid Before Being Sold

Percentage Groups	Number of Counties Having, of Taxes Charged, Specified Percentages of	
	Property Advertised for Sale	Property on Which Taxes Were Paid After Advertising, but Before Sale
Less than 5%	9	22
5- 9.9	10	4
10-14.9	4	--
15-20.0	3	--
Total	26	26

Median percentage of taxes advertised, 5.65.
Median percentage of taxes paid after advertising but before sale, 2.85.

TABLE 59

Distribution of 26 Counties According to the Percentage of Delinquent Property Advertised for Sale on Which Taxes Were Paid Before the Property Was Sold

Percentage Groups	Number of Counties
Less than 10	1
10-49.9	14
50-89.9	9
90 and over	2
Total	26

Median percentage, 47.1.

B. Disposition of Tax Certificates

Some very interesting conclusions follow from an examination of the three ways of disposing of delinquent property, and the percentages of the total delinquent property each takes in each county. Table 60 following shows the distribution of the counties according to the percentage of the total tax certificates taken by persons or firms organized partly or exclusively to buy, handle, and hold these certificates. In 14 of the 28 counties these tax certificate financiers did not take any certificates, while in 6 counties they took 50% or more of the certificates, in terms of their value. Evidently these financiers select carefully the counties in which they operate. And the selective principle they employ is simple: They do not buy tax certificates that are not likely or sure to be redeemed; they do not want to have the property left on their hands; they buy and hold the certificates for the sake of earning the interest thereon. This interest is at the rate of 18% for the first 6 months and 12% thereafter.

TABLE 60

Distribution of 28 Counties According to Percentage of Delinquent Tax Certificates Was Purchased by Persons or Firms Partly or Exclusively Organized to Handle Tax Certificates

Percentage Purchased by Such Firms or Persons	Number of Counties
None	14
0.1 to 9.9	1
10 to 49.9	7
50 to 89.9	5
90 to 100	1
Total	28

In addition to the more or less professional tax certificate financiers, there are miscellaneous local buyers of tax certificates. The distribution of the 28 counties according to the percentages of the tax certificates taken by these miscellaneous buyers is shown in Table 61 following. In only 2 counties of the 28 did they take no certificates. They also, like the more professional financiers, prefer to operate only with the certificates that will be redeemed. They too operate to collect the heavy interest. But they appear to be less rigid in their selection. For only in 2 counties did they refrain from taking any certificates at all, while the professional financiers refrained in

14 counties. And while they took tax certificates in the aggregate, in the 24 counties reporting, to the amount of $114,898.90, or 21.3% of the total tax sales, the median percentage was only 12.12% as shown in Table 61. The tendency not to buy certificates in counties where the probabilities of redemption are poor, pulls down the median below the arithmetic mean.

TABLE 61

Distribution of 28 Counties According to Percentage of Tax Certificates Taken by Persons and Firms Not Organized for That Purpose

Percentage Purchased by Such Firms	Number of Counties
None	2
0.1%-9.9%	9
10-49.9	12
50-89.9	5
90 and over	0
Total	28

The median percentage of tax certificates taken by miscellaneous buyers is 12.12.

After the professional tax certificate financiers and the miscellaneous buyers have taken their choice of tax certificates, the counties have to take the rest. In the 24 counties reporting on this point, $285,624.04, or 53.1% of the total sales, had to be taken by the counties themselves. The distribution of the counties according to the percentage they had to take of the total sales is shown in Table 62 following. It will be seen that in no county was it possible to sell all the tax certificates to professional or miscellaneous private buyers, that in 6 counties over 90% had to be taken by the counties and that the median percentage was 47.6%. The explanation is obvious: In every one of the 28 counties there was some property taxed at such high valuation that the private buyers could not be induced to pay the taxes in order to collect the high interest thereon, where the prospects were they might have to take the property. And in some counties nearly all of the delinquent property offered for sale for taxes was so assessed, as shown by the fact that the county had to take nearly all the delinquent property.

That the counties are compelled to take the leavings after the professional and miscellaneous buyers is of course well known. It is demonstrated clearly in Table 63 that only where the percentages of taxes collected are very low, and where

consequently the property is not likely to be redeemed, do the counties have to take large percentages of the delinquent property.

TABLE 62

Distribution of 28 Counties According to Percentage of Delinquent Property Taken by Them

Percentages Taken by County	Number of Counties
None	0
0.1 to 9.99	2
10. to 49.9	12
50. to 89.9	8
90 to 100	6
Total	28

Median percentage of tax certificates taken by counties, 47.6.

TABLE 63

Correlation of Percentage of Taxes Collected and Percentage of Value of Tax Certificates That Had to be Taken by Counties

Percentage of Value of Tax Certificates Taken by Counties	Number of Counties Taking Specified Percentages of Delinquent Tax Certificates — Percentage of Taxes Collected							
	Less than 70%	70–74.9	75–79.9	80–84.9	85–89.9	90–94.9	95–100	Total
Less than 10	--	--	--	--	--	--	2	2
10 – 19.9	--	--	--	--	--	--	2	2
20 – 29.9	--	--	--	--	--	--	6	6
30 – 39.9	--	--	--	--	--	--	3	3
40 – 49.9	--	--	--	--	--	--	1	1
50 – 59.9	--	--	--	--	--	--	1	1
60 – 69.9	--	--	--	--	--	1	1	2
70 – 79.9	--	--	--	--	--	--	1	1
80 – 89.9	--	1	--	--	--	2	1	4
90 – 100	1	1	1	2	--	1	--	6
Total	1	2	1	2	--	4	18	28

C. Redemption and Tax Deeds

Three years after sale a tax deed may be issued to delinquent real property. The owner has five years thereafter in which to redeem. In effect, he enjoys the privilege of redemption for eight years after sale. The cost at which redemption may take place is indicated by the successive rates of interest applicable: Until sale, the rate on the delinquent sum is 10%; for 6 months after sale it is 18% on the taxes and costs; for 30 months thereafter it is 12%; and during the last 5 years the rate is 8%. Table 64 following indicates that there is considerable variation in the extent to which property is thus redeemed. In 2 counties less than 10% of the sales is redeemed and in 7 over 90%, the median percentage being 50.

TABLE 64

Distribution of 25 Counties According to the Percentage of Property Sold for Taxes That is Redeemed by the Owner

Percentage of Property Redeemed by Owner	Number of Counties
Less than 10%	2
10 – 49.9	10
50 – 89.9	6
90 – 100	7
Total	25

Median percentage, 50.

To such property as is not redeemed title is taken on tax deeds by any one who has paid the taxes, costs, and accrued interest due. Or if the property has gone to the county, the commissioners will later sell it for such sums as may be had, on the theory that little is better than nothing. But there is evidence that in many counties much land taken by the county can not even be given away. Table 65 following shows the activity during 1929 in the way of issuing tax deeds from the county treasurer's office. These deeds range all the way from 1 in a county to 126, and average 31 per county.

TABLE 65

Distribution of Counties According to Number of Tax Deeds Issued During 1929

Tax Deeds Issued	Number of Counties
Not over 25	15
25 - 49	6
50 - 74	4
75 - 99	1
100 - over	1
Total	27

Total tax deeds issued, 812, or an average of 31 deeds per county.

D. Causes of Delinquency

An inquiry in the questionnaire dealt with the causes of the delinquency. Obviously the county treasurers cannot have intimate knowledge in all cases of the reasons for the non-payment of taxes. Yet only a few of them sought refuge in the statement that they did not know. They were asked to say what percentage of the delinquency was due to, 1) carelessness on the part of the taxpayer, 2) inability to raise the money, and 3) taxes so high as to make it inadvisable to hold the property. The results of the replies are shown in Tables 66, 67, and 68 following. In relatively few cases is the carelessness of the taxpayer blamed for the non-payment; but it is of course impossible to tell what the treasurer meant by carelessness, which may mean anything from merely forgetting to pay the tax on the date due to being shiftless or thriftless in general with the result that there is no money for the payment of the tax. Yet the fact that nearly half of the delinquent taxes were paid after advertising, but before sale, suggests that carelessness is a large factor involved. The most important explanation lies in inability, only temporary perhaps, to raise the money. But the most significant explanation is that high taxes made the holding of the property unprofitable.

The questionnaire also carried a request for more general or fundamental explanations of the epidemics of tax delinquency in some counties. For the present purpose it is convenient to divide the suggested causes into two classes. First those factors which reduce the income and may, if they seem permanent, influence the owner to let the property go for taxes, but will in any case cause difficulty in raising the money.

TABLE 66

Distribution of 22 Counties According to Percentage of Tax Delinquency Due to Carelessness of Taxpayer

Percentage of Delinquency Due to Carelessness	Number of Counties
Less than 10	12
10 - 49.9	6
50 - 89.9	2
90 - 100	1
Not known	1
Total	22

Median percentage, 10.0.

TABLE 67

Distribution of 23 Counties According to Percentage of Delinquency That is Due to Inability of Taxpayer to Raise the Money

Percentage of Delinquency	Number of Counties
Less than 10	1
10 - 49.9	5
50 - 89.9	8
90 - 100	7
Not known	2
Total	23

Median percentage, 75.

TABLE 68

Distribution of 18 Counties According to Percentage of Delinquency Due to Taxes so High That Property Not Worth Holding

Percentage of Delinquency	Number of Counties
Less than 10	3
10 - 49.9	11
50 - 89.9	2
90 - 100	0
Not known	2
Total	18

Median percentage, 16.5.

Roughly in the following order, the causes were: 1) Crop failure, and other factors affecting the earnings of farmers; 2) mining slump, and other factors reducing the income from mining; 3) bank failures; 4) thriftlessness and debts; 5) unemployment; 6) high freight rates. The other classes of explanations given relate to taxation. High tax rates, excessive special assessments, excessive assessed valuations, excessive school taxes, and kindred factors make it inexpedient to hold the property and pay future taxes. The conclusion is inescapable that the treasurers are aware of the effects of high taxes and excessive assessed valuations on particular properties. And it is probable that these factors are much more important than the taxing officials and even the taxpayers have recognized.

E. Remedies Suggested

There is almost complete unanimity in the report on the proposition that in case of delinquent personal property almost nothing is gotten from sale of the property for taxes. The property is moved and cannot be found. In another county in Colorado it can be reached only with the cooperation of the treasurer and sheriff of that county, and such cooperation is seldom forthcoming for the obvious reason that these officials have no interest in collecting taxes for a foreign county. And if the property is moved into another state, collection is next to impossible. A few treasurers employ a collection agency to collect delinquent personal property taxes. But more common is the practice of employing a special collector, either on a salary, ranging from $100 to $200 per month, or on commission, ranging from 10% to 20% of collections. But most of the counties apparently despair of collecting anything from delinquent personal property taxes, and collect only such as comes in of its own accord upon customary notice. The amounts realized from sales of personal property for taxes are zero in three-fourths of the counties and trivial in all the rest.

Nearly all the suggestions of remedies relate to the delinquent taxes on motor vehicles. The suggestions obviously relate not only to the collection of taxes already assessed, but also to the assessment of motor vehicles. Nearly all the reports suggest that the property tax on automobiles should be collected at the time when the license is issued.

It is obvious that the most important remedy has been overlooked, at least as far as delinquent real property is concerned. If the assessments were fairly made, so that the assessed value represented a fair capitalization of the net income, present or anticipated, from the real property, it cannot be doubted that much less real property would become delinquent.

Yet it is easy to understand the predicament of the taxing officials. Let a prolonged depression hit a district, perhaps with no visible relief. In their efforts to retain a valuation on which to raise taxes, so as to keep the tax rates down, the assessors and boards of equalization keep in force assessed values that perhaps were once fair. The principal result is an increase in the delinquency, and the accumulation of delinquent real property in the hands of the county, that must be disposed of at a sacrifice. But a heavy injustice is also imposed on the taxpayers before they decide not to pay the taxes. A legal assessment, on the basis of the net income would be far better than the repeated delusions resulting from taxes based on valuations so high that the taxpayer cannot hold the property. The first remedy for excessive delinquency is a fair and legal assessment.

It appears that the sale of tax certificates has become a device operating in many cases to extinguish title to privately owned real property that is worthless, without any taxes, or that has been made worthless by excessive taxes due to excessive assessments. It would be expedient to extinguish title to property that is really worthless, for though such property may have no value to a private person, it may have a value to the public, the state. But it is unjust to use excessive assessments as devices to dispossess owners whose property would have a value under just assessment practices.

SECTION IV

THE TAXATION OF BUSINESS CORPORATIONS

The constitution and general laws of Colorado are based upon the idea of taxing uniformly all property, real and personal, whether owned by individuals or corporations, under the general property tax. "The power to tax corporations and corporate property, real and personal, shall never be relinquished or suspended." (Art. X, Section 9.) "All corporations in this state or doing business therein, shall be subject to taxation for state, county, school, municipal and other purposes, on the real and personal property owned or used by them within the territorial limits of the authority levying the tax." (Art. X, Section 10.)

I. Corporate Property Taxes

It is necessary to distinguish between those taxes paid by the corporations which are essentially ad valorem taxes, under the general property tax, or are special forms of taxes in lieu of such general property taxes, on the one hand, and special taxes on corporations on the other. Of the latter kind there are not many in Colorado, and they yield but little revenue; but they are not very suitable forms of taxation. The property taxes of corporations will first be discussed in so far as they differ from property taxes on individuals and partnerships. Since the forms and methods differ for different types of corporations it is necessary to consider them separately.

A. Public Utility Corporations

Railroads, telegraph, telephone, express, sleeping car and private car companies are assessed by the Colorado tax commission upon the true value of the property of such companies in the state, determined by the unit rule. In the case of railroads, telegraph and telephone companies the tax commission first determines the true value of the entire corporate plant wherever situated. The state is entitled to that proportion of the total value of the companies that the mileage of the company within the state bears to the total mileage of the company wherever situated. Similarly the total assessed value of the companies so determined for the state is apportioned to the several counties of the state in proportion to the main track mileage of the railroads and the number of miles of telegraph and telephone wire in each county. Each school district and each municipal corporation within the county is then assigned its proportion of the assessed value of the railroad, telegraph or telephone company based upon the number of miles of main trackage or miles of wire located within each school district or municipality.

The statute provides in substance that in the case of express companies, sleeping car and fast freight companies the Colorado tax commission determines the total value of the companies as a whole and apportions the assessed value to the state in the proportion that the total number of miles made by such cars within the state bears to the total number of miles made by the cars of such companies within and without the state during the preceding year. Each county, municipality and school district is entitled to such share of the assessed value of such companies as the number of miles of railroad within their limits, upon which said companies operate, is to the total number of miles, upon which the companies operate within the state.

The law defines public utility to include, in addition to those mentioned above, power companies, pipe line companies, water companies, street railway companies, gas lighting and heating companies and all other classes of companies, however owned and operated, having a continuity of business in two or more counties of the state, and places the power of original assessment of all such public utilities under the jurisdiction of the Colorado tax commission. (C. L. 1921, 7361-7362.)

A survey of the practice of the various states in the taxation of public utility corporations shows a variety of methods, used singly and in combination. Nearly all the states have found it necessary to employ central assessment or some special form of taxation for this type of corporation. The three methods most widely used are, (1) the ad valorem or property basis, (2) the capitalization basis, and (3) the earnings basis.

In the absence of specific guidance in the law, the tax commission has used various principles and various combinations of principles in arriving at the "full cash value" of the corporations whose property it has to assess because it has found that no one principle will apply satisfactorily in all cases. It is recognized that this is a most difficult and complicated task, especially in the case of interstate companies and in the case of concerns whose securities are not freely dealt in on the exchange. Although charges are brought that such property is undervalued for purposes of taxation, the evidence available does not warrant a conclusion to the effect that such undervaluation is greater or less than is the case with property in general.

On the ad valorem basis the tax is imposed upon the value of the property of the corporation. It involves a more or less expert valuation of the property as a whole and an apportionment of that proportion of the value which belongs to a particular state. In determining the value of the corporation's property, a variety of evidence is used, such as the value of the

securities and the capitalized value of the net earnings. In some states ad valorem taxes are used in connection with other methods.

A survey of the situation throughout the United States made by the New York Joint Committee on Taxation and Retrenchment in 1922 showed that "about half the states relied on the ad valorem basis exclusively for the taxation of railroads and nearly as many states used it as the exclusive tax for telephone and telegraph companies. About a dozen states used it as the only method of taxing street railways and water, gas and electric companies." (Leg. Doc. 1922 No. 72 p. 112.)

The capitalization basis involves the imposition of a tax upon the value of the securities of the corporation. The total value of a corporation is obtained by adding together the current cash value of its outstanding capital stock and of the outstanding funded debt. The real value of the corporation is the amount for which its stock can be bought and sold. The New York Committee reported that "this basis has generally proved unsatisfactory and is of declining importance. Only three or four states rely upon this method alone for the taxation of one or more of the classes of public utility corporations. About half a dozen states use this in connection with other methods." (Ibid p. 112.) It is apparent that this method would be practicable only when the securities of the utility have a broad market and are frequently bought and sold.

The earning basis is widely used and seems to be growing in favor due to its simplicity of administration. The amount of the tax is stated as a certain percentage of the earnings. The earnings tax is almost always based on gross earnings. Only two states make use of the net earnings basis. The New York committee reported in 1922 that "The gross earnings basis is used for the taxation of railroads in eleven states, for street railways in twelve states, for telephone and telegraph companies in fourteen or fifteen states and for water, gas and electric companies in a dozen states. In more than half of these states the gross earnings tax is the exclusive state tax." (Ibid, p. 113.) In Table 69 following are shown the states using this form of tax.

The ad valorem method, though most widely used, is subject to serious objections. The process of valuation requires a large staff of technical experts familiar with the technical details of corporation finance, so that it is expensive and difficult. The element of personal judgment must enter to a large degree in the valuation of physical properties and in the use made of facts regarding financial condition, earnings, etc. The value of a corporation's tangible property alone is not a true measure of a corporation's ability to pay taxes. It is probably due to a recognition of this fact that some states have found it necessary to employ the capitalization basis and the earnings basis in arriving at the value of the corporation's property.

TABLE 69

States Which Use the Gross Earnings Tax and the Rates on Different Enterprises

State	Rate of Tax on Specified Companies								
	Railroads	Telephone	Telegraph	Water	Electric	Gas	Street railway	Express	Car
California*	7.0%	5.5%	5.5%	-----	7.5%	7.5%	5.25%	5.25%	1.0%
Connecticut	3.5	4.0	3.0	1.5%	1.5	1.5	3.0	2.0	3.0
Illinois	7.0	.5	-----	-----	0.5	0.5	-----	-----	-----
Maine	1.5	-----	-----	-----	-----	-----	-----	-----	-----
Maryland	1.25-2.5	2.5	2.0	-----	1.0	1.5	-----	-----	-----
Minnesota	5.0	4.0	-----	-----	-----	-----	-----	-----	-----
New Jersey**	5.0	-----	-----	-----	-----	-----	-----	-----	-----
New York	0.5	0.5	0.5	0.5	0.5	0.5	-----	2.0	2.0
Ohio	4.0	1.35	2.0	-----	1.35	1.35	1.35	-----	-----
Oklahoma	0.5	0.5	-----	-----	-----	-----	-----	-----	-----
Rhode Island	-----	2.0	2.0	-----	-----	-----	1.0	3.0	-----
Texas	-----	1.5	2.75	-----	.25-.50	.25-.50	0.5-.75	-----	-----
Virginia	1.5	1.06	3.125	-----	1.125	1.125	1.6	-----	-----

Source: New York state tax commission report, 1927, p. 615-617.

*Recently abolished gross earnings tax and changed to a tax measured by net income.

**Also 3% of dividends in excess of 4%.

Note: Illinois by charter requirements imposes a tax of 7% on gross receipts on that part of the Illinois Central Railroad, which operates under the original charter. The following states, in addition to those of the table, impose taxes on gross earnings on express companies: Idaho, 3.0%; Kansas, 4.0%; Missouri, 2.5%; Montana, 4.0%; Nebraska, 2.0%; New Jersey, 2.0%; and New Mexico, 5.0%.

The gross earnings tax possesses the marked advantage of simplicity. Gross earnings can readily be determined; they fluctuate with the prosperity of the corporation and are the real basis of its worth and tax paying ability. If the choice must be between the ad valorem method and the earnings basis, the latter would seem to be preferable. Nevertheless, the experience of some of the states, notably California, with the earnings tax as a method of taxing public utility corporations, indicates that this plan is not the ideal system. It raises the difficult and almost insuperable problem of securing equality of the tax burden as between the corporations which are taxed on the basis of gross earnings and other kinds of property and

other corporations which are taxed by other methods. After an exhaustive study of the operation of the gross earnings tax in California, covering a period of eighteen years, the special California tax commission of 1929 reached the following conclusion:

"Not only is the determination of the rates of the gross receipt taxes incapable of satisfactory solution, even with the most refined technique available but the gross receipts method itself even when applied to a revised and complicated grouping of the utilities, yields results which from the point of view of equity are crude beyond any reasonable limit of tolerance." (Final report of the California tax commission, 1929, p. 66.)

The California Commission made two important recommendations with respect to the taxation of public utilities. First, that the operative real estate of all public utilities be valued by the state and then returned to the counties to be added to the local tax rolls and subjected to the same tax rates as are imposed upon the real estate of corporations and individuals; Second, that a franchise tax be imposed by the state on all public utilities measured by their net income in the same manner and at the same rate as the similar tax on banks and other corporations. The effect of this action, it was pointed out, would be to establish ultimately a uniform business franchise tax on all corporations, the public utility corporation being treated exactly as other corporations.

The tax revision commission of Utah, which made its report in 1929, recommended the introduction of a business income tax upon the net income of all business conducted for profit, except insurance companies which were to be taxed upon their premiums. The rate of the tax suggested was 4% on net income.

The present tendency in taxation is without doubt in the direction of imposing taxes on net income. At present 20 states impose taxes on the incomes of individuals or business corporations or both. In the light of the experience of other states, it would seem that the adoption of gross earnings tax on public utilities would be a progressive step, but that the wisest course would be to impose a tax on the net income of public utility corporations as an excise or license tax on the privilege of doing business within the state.

Elsewhere in this report it is suggested that a business franchise tax measured by net income might be imposed upon all business corporations doing business in Colorado. It is believed that public utilities should be within the scope of this tax. A uniform business franchise tax measured by net income and imposed upon all corporations, including public utilities,

seems to be the simplest plan to follow in order to insure that all corporations shall be treated fairly and equitably. The reasons for such a tax are not fully apparent at this point, but they will be more so as different types of corporate enterprises are discussed.

B. Banks and Other Financial Corporations

In one sense the taxation of commercial banks is the most pivotal factor in the entire taxation problem. The strategic position of the banks arises from our dual form of government and from the fact that both the national government and the state government have chartered banks in Colorado. The state may tax the national banks only with the consent of Congress and only in such manner and to such extent as that body permits; and since the state would not want to tax the state banks more heavily, and cannot tax them more leniently, taxes on all commercial banks are uniform in the state. Moreover, all the states taxing banks under the general property tax are in the same situation as Colorado. In case of all other corporations Colorado may substantially devise its own tax system; in case of commercial banks the state is restricted by Congress. And this restriction involves serious problems in the equalization of taxes on commercial banks with taxes on other financial corporations, with taxes on corporations in general, and with taxes on intangible personal property.

1. Commercial Banks

The law of Colorado, complying with the federal law (Section 5219 U.S.R.S.), contemplates the taxation of the shares of capital stock of national and state banks as personal property in the county where the bank is located, and the taxation of bank-owned real estate "according to its value, as other real estate is taxed." (C. L. 1921, Sec. 7450.) The bank is made the agent of the stockholders for the assessment returns and payment of the tax, and is required to make an annual statement of its true condition to the assessor as of April first, together with a sworn statement of the market value of the stock, or, if it had no market value, then the book value. (Ibid, Section 7453.)

The actual practice followed in the taxation of banks follows the administrative interpretation of the law. The assessed value of the real estate owned is deducted from the value of capital, surplus and undivided profits and only the excess of the value of capital resources over the value of the real estate is assessed on the share basis. In addition to this excess share value, the real estate owned is assessed. Possibly the law contemplated that the banks should be assessed on all their cap-

ital resources, without any deductions, and also on their real estate. Opinions of the attorney general and rulings of the tax commission have developed the present practice, and the present practice is as nearly in conformity with the practice of not taxing shares of other corporations as the law permits, and conforms to the practice in other states, with regard to the taxation of banks. According to the annual report of the Comptroller of the Currency for 1929, page 114, the total capital stock paid in, surplus and undivided profits of the 278 banks in Colorado, amounted to $35,921,000 as of June, 1929. This figure includes the 121 national banks and the state banks, loan and trust companies, savings and private banks. The total assessed valuation of bank stock for the year 1928 was $23,694,356. Presumably the difference between the assessed valuation and the book value of bank stock amounting to $12,227,000 represents the amount of real estate owned by banks. The value of the banking house, furniture and fixtures as reported by the Comptroller of the Currency was $8,112,000 and other real estate owned amounted to $2,291,000, making a total of $10,403,000.

There is no practical way of ascertaining the assessed value of the bank-owned real estate; but if the assessed value and the book value are identical, the total assessed value on which the banks paid taxes is the sum of the $23,694,356 assessed value of the shares and the $10,403,000 bank value of the bank-owned real estate, or $34,097,356. This latter sum differs from the book value of the total resources as shown by the Comptroller above, $35,921,000, by only $1,823,644, or by 5.07%. The banks appear to be taxed, then, at an assessment ratio of 94.93% of full value. This conclusion is in almost complete agreement with the conclusion, arrived at by a different method, shown in Table 41, to the effect that the banks paid taxes on an assessment ratio of 94.5% of full value. It is beyond dispute that the average assessment ratio of other property is below 94.5% or 94.93%.

The grievance, as stated by the banks, appears to be well founded. They are substantially the only corporations whose corporate excess is taxed. (For explanation, see subsection above entitled: Remedies for Defective Assessment.) They are taxed on a valuation only slightly less than 100% (94.5% or 94.93% as shown above), not only on the bank-owned real property but also on their corporate excess, while property in general is assessed at an undetermined but admittedly much lower ratio. Their stocks are matters of record, so that the banks cannot participate in the prevailing evasion of taxes by non-listing of property. They are the only corporations that

are, in effect, required to include tax-exempt securities among their gross taxable credits. These propositions are more fully discussed in the subsection mentioned above, in Tables 39, 40, and 41, and the accompanying text.

Some of the Colorado banks paid their 1929 taxes under protest and have filed protests against their 1930 assessments. The contention is that the present system of taxation in Colorado discriminates unjustly against national banks, which are overtaxed as compared with taxes on other competing moneyed capital. Under Colorado laws secured debts are not taxable and the negligible amount of bonds, notes and other kinds of intangible property assessed for taxation demonstrate that this class of property virtually escapes. A series of court decisions in other states, where similar conditions obtain, have established the rule that national bank shares cannot be taxed at a higher rate than that applied to other kinds of intangible property. A decision from Oregon has held a tax on national banks invalid because certain competing moneyed capital of individuals, although by law subject to the general property tax, was in fact not taxed at all. A similar decision has been rendered in Florida. While these decisions are not of courts of last resort, it is highly probable that the present Colorado system of taxing national banks would be held invalid.

Colorado, in common with other states, is confronted with the problem of revising its tax system in such a manner as will permit it to tax national banks doing business within the state in a lawful manner. The experience of other states with the classified property tax, under which a low rate of tax is imposed upon money and credits, indicate that adoption of the classified property tax is not the correct solution of the problem. In fact the low-rate taxes on intangibles has been the specific occasion for the difficulties which many states now have in taxing banks. Where classified property taxes on intangible property are in force, the courts have held that higher rates cannot be imposed on the shares of national banks. And other decisions hold that the state bank shares must be accorded the same rate. This means that if Colorado should adopt a classified property tax on intangible property at 4 mills, this rate would also apply to bank shares. In 1928 the total assessed valuation of bank shares in Colorado was $23,694,356. A tax of 4 mills on this valuation would produce $94,776. The tax actually paid on bank stock, assuming an average rate for the state of 28 mills, was $660,000. While the latter amount is evidently excessive, the former would doubtless be deemed inadequate. The present federal statute, Section 5219 U. S. R. S., permits four or five alternative methods of taxing national

banks, as follows: (1) A property tax on the shares, but not at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens in competition with the business of the banks, and a property tax on the real estate of the bank. (2) An income tax on the dividends received by shareholders, provided the rate is not greater than is assessed upon the net income from other moneyed capital, and a property tax on the real estate. (3) An income tax on the net income of the bank, and a property tax on real estate. And (4) a franchise tax, based on the net income, and a property tax on the real estate of the bank. Under the fourth alternative the tax may possibly be based upon the entire net income of the bank received from all sources and, furthermore, dividends received from bank shares may be included along with other income under a personal income tax, provided dividends of other domestic corporations are similarly taxed. The rate of the franchise tax imposed on national banks may not be higher than the rate assessed upon other financial institutions, nor higher than the highest of the rates assessed by the state upon mercantile, manufacturing and business corporations doing business within the state.

The fourth alternative seems to be the one best adapted to the situation in Colorado and is the method which is being recommended and adopted by other states which have recently revised their tax system. Such a tax should be in the form of a business franchise tax based upon net income of banks and made applicable to at least all classes of corporations designated in the federal act. Prior to 1929 only three states, Massachusetts, New York and Wisconsin taxed banks on or according to their income. The 1929 legislatures of Washington, Oregon and California added their three states to the list, making six in all. In Massachusetts the rate is determined by the state tax commissioner. New York imposes a rate of 4½% on net income from all sources. In Wisconsin the rate varies from 2% to 6%, plus a 1% surtax for soldier's bonus. In Washington the excise rate is 5% and the tax applies only to banks and other financial institutions. In California, at the rate of 4% and Oregon at the rate of 5% it applies to corporations in general.

While the fourth alternative, as followed in the six states listed above, is the best for two reasons, namely because it permits 1) a personal income tax on the dividends and also 2) a corporate income to the bank, it is by no means free from objections, and these objections should be frankly faced. In Macallen vs. Mass., 49 Sup. Ct. Rep. 432, (May 27, 1929), the United States Supreme Court, in a majority opinion, held that a

so-called excise tax based in part upon interest derived by a manufacturing company from tax exempt federal securities was invalid, and that, where the tax is ostensibly on the corporate privilege of doing business, the court will look beyond the words of a statute to ascertain the real legislative intent. There is a strong dissenting opinion by Justice Stone, concurred in by Justice Holmes and Justice Brandeis. A tax imposed according to or measured by net income is alternative 4 of Section 5219. If the Macallen case applies to both alternatives 3 and 4 the taxable income of banks may be materially reduced. The principal difference between alternatives 3 and 4, was supposed to be that under 3, a straight income tax, such income would be excluded, but under 4, an excise tax, it might be included. The Macallen case may have obliterated this distinction. The excise tax laws of the three Pacific Coast states are now being contested and it is not yet finally accepted that the disputed income must be excluded in these states. But in any event, alternative 4 is the best because it is the only one that permits the following three taxes on banks: 1) A property tax on the real property; 2) a personal income tax on the dividends; and 3) a corporate income tax on the bank. The present Colorado method, namely the general property tax on bank shares will probably not long survive.

It should be stated that a committee of the American Bankers Association and a committee representing the state tax officials in the states having troubles with bank taxation are cooperating to evolve an amendment to Section 5219. These committees have arrived at a compromise which they suggest should be submitted to Congress. But it is very complicated and its adoption is problematical.

2. Building and Loan Associations

The problem of the taxation of commercial banks is strikingly illuminated by a comparison with the taxation of building and loan associations. These enterprises find themselves in a peculiarly favorable position with respect to taxation. Yet that position does not result from any special statute exempting building and loan associations, as such. The statute defining the method and scope of taxing these organizations (3 M.A.S. 6254) requires them to pay taxes on their real property and tangible personal property. In this respect they are in the same position as any other corporation and presumably the taxation of their tangible property is as equitable or as inequitable as that of corporations in general. Building and loan associations also pay certain fees and corporation charges in the same way as such fees are paid by other corporations.

The associations are required to pay taxes on the net value of their intangible property. The revenue act of 1902 requires the associations to list their taxable moneys, notes and credits, and also to list the liabilities to share holders and all other liabilities. When the liabilities are deducted from the taxable intangibles, there is seldom, if ever, any excess left to tax. The explanation is simple. The business of the associations is to make loans on real estate secured by mortgages. By far the largest item in the assets of the association is that of loans secured by mortgages, but these secured debts are not taxable, the real property on which they are based being taxed without deduction. Hence, their taxable money, notes, and credits, less the liabilities is ordinarily a negative quantity of large magnitude.

Most of the associations are mutual and have only mutual stock. There is, therefore, no equity of the stockholders other than those holding savings certificates or shares. The savings certificates or installment shares are not taxed in the hands of the holders. This exemption follows from the fact that the deposits made by the savers are represented by the real estate mortgages held by the association. The savers are indirectly, through the medium of the building and loan association, lending their money on real estate secured by mortgages.

The majority of the associations do business in rented premises and employ very little personal property. The building and loan inspector (Auditor of State, ex officio inspector) states in his 1926-1928 biennial report that there were 68 associations operating under certificate of authority from the bureau of building and loan associations. But from the separate reports of these 68 organizations it appears that only 24 paid any property taxes. The tangible property, the taxes paid thereon, and the percentage the taxes were of the book value of the tangible property, are shown in Table 70 following. It will be seen that the percentages which taxes were of the property vary widely. These variations do not necessarily reflect corresponding inequalities in the property tax burdens. For these organizations do, often against their will, hold real property temporarily taken in the satisfaction of debts. The property held at the close of the fiscal year may therefore not be the property on which the taxes were paid during the fiscal year, especially in view of the excessively long assessment and collection procedure. But the total of $31,281.84 is in excess of the total of property taxes paid by the 68 associations. For over one-half of it is paid by one association, which, as shown in Table 70, includes repairs and insurance with taxes. Another lumps all taxes under the heading "Miscellaneous Taxes".

Except for certain inspection fees and corporation stock taxes which in common with all corporations they pay, at a low rate, to the secretary of state, and which will be discussed below for corporations in general, the business of the building and loan associations, and the intangible property of the associations and of the savers or investors went free of taxes. That the business of these organizations is considerable and growing is shown by the statement of the deputy building and loan inspector in his 1926-1928 report to the effect that the assets had increased from $7,500,000.00 in 1920 to $50,465,705.54 in 1928.

TABLE 70

Property and Property Taxes Paid by 24 Building and Loan Associations, and Percentages Taxes Were of Property, Year Ending June 1928

Arbitrary Serial Number	Real and Personal Property	Taxes on Company's Tangible Property	Percentage Taxes Were of Company's Property
1	$6,500.00	$241.08	3.70%
2	300.00	12.69	4.23
3	43,920.60	342.93	.78
4	16,811.21	621.62	3.70
5	13,303.50	264.90	1.90
6	42,884.27	335.48	.78
7	-------	51.08	------
8	23,961.99	356.08	1.49
9	-------	633.28	------
10	14,901.28	53.25	.36
11	12,237.03	193.14	1.58
12	13,523.28	185.05	1.37
13	53,118.56	134.23	.25
14	4,122.83	123.33	2.99
15	8,851.50	1,566.42	17.70
16	8,225.57	131.41	1.60
17	144,076.76	5,092.32	3.53
18	23,121.76	2,111.15	9.13
19	39,980.18	514.65	1.29
20	-------	24.19	------
21	2,640.77	26.63	1.01
22	5,110.90	43.55	.85
23	1,036,077.90	16,674.06*	------
24	63,347.04	1,549.32**	2.44
Total	-------	$31,281.84	------

Source: Report of building and loan inspector, 1926-1928.

*Includes repairs and insurance.

**Miscellaneous taxes. This is an out-of-state company.

The inequality in the taxation of building and loan associations as compared with the taxes on other corporations arises from the fact that certain other corporations and commercial banks are required to pay taxes on intangible property

as represented by the general property tax on their shares, without corresponding deductions for liabilities.

The remedy, whatever else it may be, is not to require the associations to pay property taxes on their loans or to tax as property the withdrawal value of shares to the savers. To tax the underlying real property and also to tax the securities to the association and also to tax the shares to the holders would be taxing the same property three times. To tax the underlying real property without deducting debts, and also to tax the shares to the association or to the holders would be double taxation. The proper remedy would seem to be to find some other bases on which the building and loan associations might be required to pay taxes in respect to the business they do.

The most suitable tax for these corporations would seem to be an income tax. But there is some difficulty involved in ascertaining the earnings of the association. In case of mutual associations most or all the earnings are paid as dividends to the holders of the running shares. They would seem to have no earnings in the sense that non-mutual corporations show earnings. It would be possible, however, to define the income of the associations so as to consist of the gross interest earned, less the expense of conducting business. Such an arrangement would be equivalent to taxing the dividends before they are paid or credited to the share holders, which is the equivalent of the corporation income tax. If Colorado were to adopt a corporation income tax and a personal income tax it would be fair to tax the income thus defined to the association, and also to require the recipient of the dividends to include them, when received, as part of the income subject to the personal income tax. Such a tax system applied to both commercial banks and building and loan associations, would place both on an equal basis. And the states that are adopting income taxes of both kinds are following this practice. Such is the case with the three Pacific Coast states having adopted income taxes for the taxation of banks and other financial corporations.

3. Other Financial Enterprises

There are other types of financial enterprises such as finance companies, investment houses, acceptance companies, and others known by other names. It is not necessary to discuss them in detail, partly because in Colorado they are not numerous or relatively important, and partly because it is not necessary to report more than the observation that they are not easily taxed on a property basis, and should be subjected to income taxation for the purpose of putting them as nearly as possible on the same basis as other business.

4. Insurance Companies

From such study as can be given to the taxation of insurance companies it appears that no change should be made in the present methods of taxing them. They are practically the only enterprise, which it is not practical to tax on an income basis and for which property taxation on their reserves has been almost universally abandoned. The reason why insurance companies should continue to be taxed on their net premiums, as at present, instead of taxing them under a business franchise tax based on net income, is that the determination of net income presents a peculiarly difficult problem, on account of the nature of the business. The subject was exhaustively studied and discussed by the 1929 California tax commission under the leadership of Dr. R. M. Haig of Columbia University, and it was decided to retain the gross premium tax in California. The 1929 tax revision commission of Utah reached the same conclusion, and such is the prevailing view of investigating commissioners. The method of taxing insurance companies by means of the tax on gross or net premiums is now employed in thirty-four states. Three states employ gross receipts as the tax base. Five states impose a tax on capital stock. Two states employ net income and several states impose a flat fee in addition to other taxes.

Colorado imposes a tax of 2% on all premiums collected, which is in lieu of all other taxes except taxes on real estate and tangible personal property. Certain fraternal and mutual companies are exempt. If a company has 50% of its assets invested in bonds or warrants of the state or its political subdivisions or other Colorado property, it is not required to pay the premium tax. It is not known how much revenue is lost to the treasury by reason of this exemption. But it is extremely doubtful whether such a policy is wise. It is not necessary in order to induce insurance solicitation in the state; nor is it necessary, but on the contrary detrimental for the purpose of getting the insurance business in the best insurance companies. Good insurance principles and practices require that the risks, whether life, fire, damage or what not, shall be widely distributed and that the investment of reserves shall be widely diversified. Possibly the exemption may foster the organization of several small local companies; but smallness is not a virtue in an insurance company. Possibly also some inducement to the investment of foreign capital in the state; but in view of the extreme mobility of moneyed capital it is questionable whether the result is more than merely to displace an equivalent amount of capital that would otherwise be invested in the state. In any event, the inducement, amounting to complete exemption is excessive. Other states, while

some offer inducements of the same kind, do not go as far as complete exemption. It would seem that a credit for, say, 50% of the regular premium tax might be adequate inducement to local investment, and such an adjustment in the rate might serve as an experimental step toward the complete elimination of the exemption. In view of the heavy tax burden on property it is probable that such exemptions are in effect harmful to property and business of Colorado.

A comparison of the rates imposed on gross premiums in the various states reveals that 15 states impose the same rate as Colorado, 13 impose a higher rate than Colorado and 9 impose a lower rate. A number of these states, however, levy an additional tax ranging from one-fourth of 1% to three-eighths of 1% for fire prevention purposes and 12 states permit local subdivisions to impose special taxes for local purposes. In view of these facts and in view of the need for relief from excessive property taxes, an increase in the rate from 2% to 2.5% might be justified in Colorado, without making the rate unduly burdensome or out of line with taxes paid by insurance companies in other states. Such increase might be expected to yield $167,000 additional revenue.

C. Other Business Corporations

The special forms of taxes imposed in lieu of the general property tax, or some special form of this tax, or some special method of assessment of this tax, do not usually apply to the remaining corporations, such as mercantile, manufacturing, and other business corporations. For them, the property tax, even when locally administered, is not incapable of administration. The nature of the taxation ills can be cured, in so far as any taxation ills can be cured at all, by such assessment and other administration improvements as have already been discussed above. It would be well to supplement the property tax on these corporations by a business or corporate income tax in common with all other corporations.

D. Taxation of Mines

The constitution of 1872 exempted from taxation for ten years mines and mining claims of gold, silver and precious minerals, except surface improvements and net proceeds. Subsequent legislation has favored the mining industry in the matter of taxation.

Mines are divided into two classes, producing and non-producing. A producing mine is defined as one yielding more than $5,000 gross per annum. Such mines when yielding gold, silver, lead, copper or other precious metals are assessed at one

fourth of the gross product unless that be less than the net product, in which case the latter governs. Surface improvements and machinery are assessed separately. Mines of iron, coal, asphaltum and quarries are assessed as other property. Non-producing mines are assessed at a rate not higher per acre than the lowest producing mine in the same location.

In addition to the general property tax levied on value and on output there is a tax of one tenth of 1% levied upon all producing and non-producing metalliferous mining properties. This fund constitutes the metal mining fund and is used for promotional activities and research affecting the metal mining industry. In 1928 the tax was levied on mining properties located in 32 counties and yielded $16,260.

A tax of one third of 1 cent per ton of coal mined is levied on each owner operating a coal mine and constitutes the coal mine inspection fund and is used to defray the expenses of the office of state coal mine inspector. This tax produced $39,863 in 1928.

It appears that the policy of the state has been to grant special favors to the mining industry by taxing metalliferous metal mines on the basis of 25 per cent of their gross output instead of taxing them upon the value of their properties. This plan allows the very wealthy mining properties to escape their just share of the public burden and is unjust to other taxpayers in the mining counties.

Assuming that the mining industry is to be fairly taxed on as nearly as possible the same basis as other industries are taxed, there are two possible methods available. First, mining corporations may be taxed in the same way that it is proposed to tax all other business corporations namely, by imposing a tax on the value of their tangible property, and by imposing a business franchise tax, measured by net income and by taxing dividends from mining shares along with other dividends and income received by residents of the state. Second, some form of occupation or severance tax may be used. Various states now use the severance tax. But such a tax does not appear to be desirable or fiscally productive in Colorado. It would be better to use the business franchise tax along with the property tax, instead of the severance tax for the following reasons. First, in the interest of uniformity and simplicity of the tax system. Second, because of the difficulty of fixing rates on production basis which will result in imposing the same tax burden on mining property that other forms of property bear. Third, because a business tax will be more equitable as between large and small producers or among those operating under different conditions of cost.

II. Corporation Taxes Proper

In addition to the foregoing taxes on, or taxes in lieu of, corporate property, certain taxes are imposed on corporations as such, as distinct from individuals and partnerships. The corporate franchise is a convenient handle upon which to hang taxes. For this reason taxes are often imposed on corporations which, if justified at all, should really apply to all business enterprises, unincorporated as well as incorporated. Doubtless the corporate franchise has value, but it is, with general incorporation laws, relatively simple and not costly to create a corporate franchise. For purposes of ascertaining the ability of a business enterprise to pay taxes, incorporation makes little difference. Nevertheless taxes on corporations, as such, in diverse forms, occur in every state. They are rather low in Colorado; but the form in which they appear is capable of improvement.

It is necessary to distinguish two forms of contributions made by corporations in Colorado. One is really a fee, based on the capital stock, and paid only on the occasion of incorporation. Of the same kind is the annual fee paid on the occasion of filing required reports. But of a different kind is the recurrent corporate license (flat) tax. The latter is a tax, while the former and a variety of other minor payments are fees.

A. Organization and Similar Fees

Colorado, in common with practically all the other states, imposes a fee on new corporations when they file their articles of incorporation, based upon the amount of capital stock, although some states charge a flat fee. In Colorado the rate on domestic corporations is $20 where the capital stock is less than $50,000 and 20 cents for each additional $1,000 of capital stock. For foreign corporations the rate is $30 where the capital stock is less than $50,000 and 30 cents for each additional $1,000. The organization tax is collected by the secretary of state along with other fees for filing annual reports and in recent years has been as shown in Table 71 following. The figures in the column headed "other receipts" include receipts not closely related to corporations. Thus, for 1926, of the $27,177 listed in Table 71 as "other receipts," only $12,958.45 are classifiable as miscellaneous fees from corporations. The figures in the column headed "totals" are therefore probably $15,000 to $20,000 too high. The data in the table are incomplete because the successive reports of the secretary of state contain fewer and fewer details, and the matter is not of sufficient importance to warrant analysis of the original entries.

TABLE 71

Number of Incorporations and Fees for Specified Years

Year	Number of Incorporations		Receipts from Fees			
	Domestic	Foreign	Articles, Renewals, Amendments	Annual Reports	Other Receipts	Total
1920	1,244	166	$94,569	$30,381	$24,591	$149,541
1921	984	113	51,921	31,348	24,662	107,931
1922	1,299	111	60,050	29,966	23,482	113,498
1923	1,199	128	67,590	29,757	35,983	133,330
1924	1,218	143	77,189	29,432	27,701	134,322
1925	.....	.....	70,854	30,003	29,371	130,228
1926	.....	.....	62,645	30,915	27,177	120,738
1927	.....	.....	.....	.....	.....	145,030
1928	.....	.....	.....	.....	.....	198,031

In thirteen states the organization fee is one tenth of 1%. A similar rate for Colorado would produce $100 for a corporation capitalized at $100,000 instead of $30 as at present. It is estimated that an organization fee of one tenth of 1% would yield approximately $175,000 annually, which would represent an increase of $100,000 over present yields. But if a corporate franchise tax measured by net income is to be enacted, these fees ought not to be increased. The fees are based on authorized capital stock which is a poor basis for taxation, since it has no necessary relation to the corporate income or the value of the corporate property. Fees should be adjusted so as to pay the cost of the regulating service, and not much more. And the amounts now collected are in excess of the cost of maintaining the regulatory state offices. The fees might even be reduced.

B. Annual Franchise Tax

Every corporation doing business in Colorado, except insurance companies, is required by law to pay annual corporation license tax for the privilege of transacting business within the state, in addition to all other fees and taxes. The rate on domestic corporations is $10 on a capitalization of $100,000 or less and thereafter 10 cents per $1,000 of capitalization. Foreign corporations are taxed at the same rate on that portion of their capital which is employed in Colorado. Practically every state in the United States levies an annual franchise tax upon all domestic and foreign corporations. In a majority of the states this tax is based either upon the capital stock of the corporation or on the capital stock plus surplus and undivided profits. A few states use, as the tax base, the value of the property of the corporation. Massachusetts, and Rhode Island

use the corporate excess. California, Connecticut, New York, North Dakota, Tennessee and Wisconsin impose a rate on net income only. Many of the states which have developed a business franchise tax measured by net income have also retained the annual franchise tax on capital stock; in other states the franchise tax on net income is the sole tax, while still others retain the capital stock tax for certain classes of corporations and employ the tax on net income for other classes.

Table 72 following shows the amounts collected from the annual corporation license tax in recent years in Colorado. About 7,000 corporations file annual reports with the secretary of state each year. Assuming the figure of $200,000 as the total amount collected annually from these corporations under the license tax, it appears that the average amount paid per corporation for the privilege of exercising its corporate franchise is less than $30 per year. During the year 1925 the federal government imposed a tax of one tenth of 1% upon the fair value of the capital stock of all Colorado corporations and collected therefrom $865,511. This federal tax on capital stock was repealed July 1, 1926.

TABLE 72

Receipts from Annual Corporation License Tax, 1920-1928

Year	Receipts
1920	$214,200
1921	206,905
1922	188,757
1923	200,236
1924	190,683
1925	182,501
1926	183,679
1927	182,664
1928	189,561

Source: Reports of Secretary of State.

The yield of the present annual corporation license tax is so small as to bear no adequate relation whatever to value to corporation of exercising their corporate franchises. The total net income of all corporations in Colorado reporting net incomes to the federal government under the federal income tax amounts to about $60,000,000 annually. The states which have

adopted business taxes measured by net income impose rates varying from 1% to 5%. If Colorado should impose a business franchise tax at the low rate of 3% upon the net income of Colorado corporations, instead of the annual license tax now imposed, it might be expected to yield $1,800,000 annually. This figure probably represents a fair average of the additional tax burden now imposed on business corporations in other states, for the privilege of exercising their corporate franchises. The states which have developed the business franchise tax as measured by net income, have in most cases imposed this tax in addition to the taxes paid on real and tangible personal property.

The proceeds of the present tax are appropriated for the payment of the principal and interest of the National Defense Bonds, Series 1917. At the close of 1928 there remained but $229,000 of these bonds outstanding so that these bonds will probably be retired by 1931 and the franchise tax need not be collected for this purpose.

If it is desired to have a simple system of taxation, having as few different kinds of taxes as possible, and in order to secure as nearly as possible equality of tax burden as between different kinds of corporations, the annual corporation license tax imposed on capital stock should be abolished and there should be substituted for it a business franchise tax imposed at moderate rates upon the net income of all business corporations.

Another circumstance has recently arisen which makes this form of business taxation desirable, and which adds weight to the foregoing considerations, namely the bank tax situation already discussed. The only practical way now available to the state of Colorado to tax national banks is that provided under the fourth alternative of the federal act, namely, a franchise tax based on the net income of the bank. One of the conditions provided in Section 5219 U.S.R.S., in connection with the taxation of national banks based on net income, is that the rate of tax imposed shall not be higher than the rate assessed upon other financial corporations nor higher than the highest of the rates assessed by a state upon the net income of mercantile, manufacturing and business corporations doing business within the state.

Such being the situation, it appears that the simplest and at the same time the most equitable course to pursue is to extend the business franchise tax to include all classes of corporations.

C. The Problem of Apportionment

The taxation of corporations involves the apportionment to each state of its proper share of the earnings, net income or property of corporations, especially of foreign corporations and those which are engaged in interstate business. Constitutional provisions require that a state may tax only that proportion of the property or income of a corporation which may reasonably be attributed as belonging to the state.

For many years the National Tax Association has had a committee at work on the problem of determining a standard uniform rule of apportionment, but a complete and satisfactory rule has not yet been evolved. The proper allocation of income from interstate sources is perhaps the most difficult and complicated problem in the field of state income taxation. However, Colorado already deals with the equally difficult problem of allocating that portion of the stock of foreign corporations that is subject to the franchise tax.

The above mentioned committee of the National Tax Association has offered the following plan of apportionment:

1. Specifically allocate any and all income received from intangible properties.
2. Wherever possible or desirable, allocate the profits arising from business transacted in the state concerned. Many corporations engaged in business in more than one state keep their books and accounting records in such a manner as to report profits actually derived from business operations conducted at their various factories or branches in different states.
3. In event that the second option is not practical, then apportion the income as follows:
   a. First, divide the remaining income in two equal parts and apportion the one half thereof in accordance with physical properties.
   b. Next, apportion the second half of the remaining income based on business activities. The measure suggested consisted of purchases, pay roll and sales.

A majority of the states establish in the statute the rule to be followed in the allocation of the property or net income to the state, although some states leave allocation to the administrative officials in charge of the tax.

Sixteen states now impose income taxes on corporations; of these, 13 have allocation fractions either expressly set up in the law or provided, through regulation permitted by law. Fifteen states, Colorado among them, have annual capital stock taxes. All of them have more or less definite allocation fractions based on the taxing law. A complete digest of the rules now in force in the various states is found in the Proceedings of the Twenty Second Annual Conference of the National Tax Association, 1929, pp. 163-184. Two illustrative formulas are given herewith in Table 73 following.

TABLE 73

California and Massachusetts Allocation Fractions

State	Allocation Fraction
California	$\frac{\text{Cal. property}}{\text{Total property}} + \frac{\text{Cal. payroll}}{\text{Total payroll}} + \frac{\text{Cal. sales}}{\text{Total sales}}$ 3
Massachusetts	$\frac{\text{Mass. property}}{\text{Total property}} + \frac{\text{Mass. payroll}}{\text{Total payroll}} + \frac{\text{Mass gross receipts}}{\text{Total gross receipts}}$ 3

The right of a state to tax the income of a domestic corporation doing a strictly intrastate business has never been in doubt. With regard to taxing the income of foreign corporations doing business within a state the decisions of courts indicate that a state may not only tax the income of non-resident corporations, but that it may also tax such portion of the income derived in part from interstate transactions, as is legitimately attributable to property owned or activities pursued within the taxing state. The Supreme Court has not prescribed any definite method of apportioning net income between different states but it has held valid several different methods which various states have adopted. It may be inferred that any method will be accepted provided it is not inherently arbitrary and does not produce unreasonable results. The constitutional status of a state tax on the net income of a corporation engaged in interstate commerce exclusively may be regarded as extremely doubtful.

III. The Tax Burden on Corporations

It would be desirable to make a statistical analysis of the actual tax burden borne by corporations in order to answer the question whether they are bearing their just share of taxation. Such a study should determine the relation between the tax burden imposed upon corporations and other classes of taxpayers; the relative weight of the tax burden on different classes of corporations, such as business corporations, public

utilities and financial institutions; the relative weight of the tax burden upon different corporations within a given group as for example, whether a given tax falls most heavily upon small or large corporations and the relative weight of the tax burden imposed by neighboring states in which the same corporations operate.

TABLE 74

Gross Receipts, Net Profits, and Taxes of Colorado Corporations, and Percentages Total Taxes, and State and Local Taxes Were of Gross Receipts and of Net Profits, 1927

Industrial Group	Gross Receipts (000 Omitted)	Net Profits Before Taxes (000 Omitted)	Taxes, 1927	
			State and Local (000 Omitted)	Federal, State and Local (000 Omitted)
All corporations:				
Agriculture and related industries	$12,282	$879	$472	$612
Mining and quarrying	101,963	3,323	1,914	2,898
Manufacture	392,222	7,263	4,482	6,140
Construction	7,150	229	24	30
Transportation and public utilities	112,538	13,865	5,771	7,003
Trade	311,406	6,613	1,890	2,698
Public service, professional, amusement, hotels, etc.	25,320	1,220	513	657
Finance, banking, insurance	73,731	4,218	3,195	3,872
Combinations, predominant industry not ascertainable	1,510	72	25	25
Total	1,038,122	38,327	18,286	23,959
Corporations reporting net income:				
Agriculture	10,491	1,792	347	487
Mining and quarrying	86,626	9,064	1,544	2,528
Manufacturing	227,397	16,311	2,878	4,535
Construction	3,891	130	12	18
Transportation and public utilities	109,310	14,919	5,650	6,882
Trade	246,048	9,098	1,432	2,239
Public service, professional, amusement, hotels, etc.	16,147	1,613	286	429
Finance, banking, insurance	45,673	8,451	2,003	2,680
Combinations, predominant industry not ascertainable	183	8	1	1
Total	745,766	61,912	14,153	19,801

Source: Income Statistics, U. S. Bureau of Internal Revenue.

Note: Due to the elimination of the last three digits the totals do not check.

TABLE 74 (Continued)

Gross Receipts, Net Profits, and Taxes of Colorado Corporations, and Percentage Total Taxes, and State and Local Taxes Were of Gross Receipts and of Net Profits, 1927

Industrial Group	Percentage Taxes Were of Gross Receipts		Percentage Taxes Were of Net Profit	
	State and Local Taxes	Federal, State and Local Taxes	State and Local Taxes	Federal, State and Local Taxes
All corporations:				
Agriculture and related industry	3.84	4.97	53.71	69.61
Mining and quarrying	1.90	2.84	57.60	87.19
Manufacture	1.14	1.56	61.71	84.52
Construction	.32	.42	10.28	13.23
Transportation and public utilities	5.13	6.22	41.62	50.51
Trade	.60	.86	28.58	40.78
Public service, professional amusement, hotels, etc.	2.02	2.59	42.08	53.82
Finance, banking, insurance	4.33	5.25	75.74	91.78
Combinations, predominant industry not ascertainable	1.64	1.65	34.24	34.48
Total	1.76	2.30	47.71	62.51
Corporations reporting net income:				
Agriculture	3.31	4.64	19.38	27.17
Mining and quarrying	1.78	2.91	17.03	27.88
Manufacturing	1.26	1.99	17.64	27.80
Construction	.30	.47	9.03	14.26
Transportation and public utilities	5.16	6.29	37.86	46.12
Trade	.58	.91	15.74	24.61
Public service, professional amusement, hotels, etc.	1.77	2.65	28.26	26.63
Finance, banking, insurance	4.38	5.86	23.70	31.71
Combinations, predominant industry not ascertainable	.34	.43	8.24	10.61
Total	1.89	2.65	22.86	31.98

Source: Income Statistics, U. S. Bureau of Internal Revenue.

Such a study is beyond the scope of the present inquiry because of the lack of time and the difficulty of obtaining the basic data needed to make such statistical comparisons. This work could more properly be performed by an official tax investigating commission, which possessed the authority to demand the information needed. In the absence of such an analysis, such data as are available are presented and will throw some light on the problem.

Table 74 (Page 158) shows the gross receipts, net profits before taxes, the state and local taxes, all taxes of all corporations in the United States reporting to the United States Bureau of Internal Revenue for purposes of the federal corporation income tax. It also shows the percentages which taxes were of the gross receipts and of the net profits before taxes. In Table 75 following is shown the position in 1924 of all Colorado corporations, the original data not being segregated for corporations of each state by industrial groups. Presumably the relationship to each other of the various groups of Colorado is not far different from that for the United States as a while. But it appears that Colorado corporations are not overtaxed, at least not for the year covered. Colorado and California corporations paid the lowest percentages of their net profit in state and local taxes of all the Mountain and Pacific Coast states, both being slightly above the average for the United States as a whole.

TABLE 75

Net Profits and State and Local Taxes on Domestic Corporations of Specified States, 1924

State and Geographic Division	Net Profits Before Taxes (000 omitted)	State and Local Taxes (000 omitted)	Percentage of Net Profits Taken by State and Local Taxes
United States	$8,419,614	$1,586,536	18.8%
Mountain States	111,954	32,768	29.3
Montana	5,319	3,443	64.7
Idaho	4,475	2,705	60.4
Wyoming	1,882	1,139	60.5
Colorado	69,778	14,558	20.9
New Mexico	781	1,012	129.6
Arizona	6,232	2,698	43.3
Utah	23,922	6,415	26.8
Nevada	435	798	Deficit
Pacific States	462,382	104,720	22.6
Washington	51,965	18,292	35.2
Oregon	1,904	9,064	476.1
California	408,513	77,364	18.9
West North Central States	551,294	126,160	22.9
Nebraska	24,132	6,470	26.8
Kansas	100,236	22,415	22.4
West South Central States	225,221	58,928	26.2
Oklahoma	14,192	9,180	64.7
Texas	142,866	31,132	21.8

Source: National Industrial Conference Board, "Cost of Government in the United States", 1925-1926, p. 123.

There are of course limits to the taxes that can, in the interest of the state and in the interest of the owners of taxed

property themselves, be lifted from property and placed on the business of corporations (and on personal incomes and on sales if such taxes are also to be used). The National Industrial Conference Board, in an elaborate statistical analysis, the results of which are published in two volumes entitled, "The Shifting and Effects of the Federal Corporation Income Tax," arrived at the conclusion that that tax could not be shifted to the patrons of the corporation, but would be borne by them and presumably pro tanto reduce the dividends available for the stockholders. Such is doubtless also true of the state corporate franchise tax measured by the net income of corporations. The statistical analysis of the Board corroborates the theoretical conclusion that such taxes are not shiftable.

The state corporate franchise tax differs however from the federal corporate income tax in that it is, relatively speaking, a local tax. If the burden of unshiftable taxes in Colorado should be too heavy relative to the burden of such taxes in other and competing states, it might be detrimental to such business as is peculiarly mobile, in causing it to migrate from the state, or to check its influx into the state. But a comparison of the percentage of corporate income taken in state and local taxes in Colorado and in other states, as shown in Table 75, would strengthen the conclusion that such increase in corporate tax as would result from the substitution of a corporate franchise tax measured by income at, say 2% to 4% for the present annual flat tax, would not be detrimental. For it is to be borne in mind that such relief to property owners as would be made possible by the revenue these other taxes would yield would be shared pro rata by the corporations since they also are property owners.

SECTION V

TAXATION OF PERSONAL INCOME

From the foregoing analysis of the Colorado general property tax it should be apparent that some sources of revenue supplementary to the general property tax are desirable. While other sources such as the sales tax and possibly other forms of taxes may be used, it is probable that the personal income tax is the best possible supplementary source. The following paragraphs will discuss the adaptability of a personal income tax to meet the condition in Colorado.

I. Historical Development

The practice of taxing income is not new. Four or five thousand years ago income taxes occurred in a primitive form in China. They have occurred in primitive forms in other countries. In commercially undeveloped states, gross income taxes or taxes on produce, which have been common, were to a large extent taxes on net income.

The modern development of income taxation began with the British income tax of 1797. In Continental Europe the modern income taxes began at a later date. It is not necessary to trace this development. It is enough to say that all the commercially and industrially developed European countries, at the present time, rely heavily on income taxes. During the Civil War and for some years later, the United States used the income tax. In 1913 the 16th Amendment was adopted. It permitted the federal government to levy income taxes on income from whatsoever source derived without apportionment among the states in proportion to the population. A federal income tax law was then enacted, which has since produced an enormous revenue, especially during the late war. It is still the principal source of federal revenue, although the rates have been reduced and the exemptions increased.

Income taxes have been used for state purposes more or less continually in some states during and since Colonial times. They were not very successful, chiefly due to the fact that they were administered by the local tax officials. It was therefore supposed, prior to 1911, that state income taxes were not practical. In that year Wisconsin adopted its income tax which has since been in continued use. The rates have been somewhat increased and the revenue correspondingly increased. Other changes have been made in that law as experience has proved to be wise and necessary. Wisconsin, at present, collects about $18,000,000 per annum from income taxes on individuals and corporations. It is probably true that the income tax in Wisconsin is as effective and as economically administered as any tax in any state.

Since that date a number of states have adopted income taxes and in those, such as Massachusetts, in which there have been continuous income taxes, important improvements have been made. At present 20 states have income taxes on personal incomes or on the incomes of corporations or both. In 13 states which have used income taxes during the entire period the revenue from state income taxes increased from $97,568,000 in 1922, to $183,000,000 in 1928, or from $2.68 to $4.60 per capita, and the total collections in 1928 were over $184,004,000. For further details the reader is asked to consult Table 76 following. Slow but fairly steady growth has occurred in not only the number of states using the income tax but also the amount of revenue derived from that tax during the past decade.

TABLE 76

Income Tax Collections, Personal and Corporate, Aggregate, Per Capita, Percentage of All State and Local Taxes, and Percentage of All State Taxes, 1928

State	Amounts	Per Capita		Percentage of All	
		Amount	Rank	State and Local Taxes*	State Taxes*
Connecticut	$2,623,000	$1.57	6	3.0%	10.0%
Delaware	1,551,000	6.36	3	11.5	20.1
Massachusetts	32,235,000	7.51	2	7.3	**
Mississippi	1,437,000	0.80	11	3.3	16.6
Missouri	3,698,000	1.05	10	3.1	12.9
Montana	249,000	0.45	13-14	1.0	5.8
New Hampshire	570,000	1.25	8	5.1	**
New York	115,424,000	9.99	1	6.3	29.7***
North Carolina	8,196,000	2.79	5	7.5	24.7
South Dakota	455,000	0.71	12	1.9	8.5
Oklahoma	1,089,000	0.45	13-14	0.4	1.9
South Carolina	2,263,000	1.21	9	4.3	12.5
Tennessee	727,000	0.29	15	1.2	4.1
Virginia	3,453,000	1.34	7	4.8	11.6
Wisconsin	18,048,048	6.11	4	12.0	51.7***

Source: National Industrial Conference Board, "State Income Taxes". Vol. II, pp. 154-158.

Note: Five states, Arkansas, Georgia, California, Oregon and Washington, do now, but did not then have income taxes.

*For the year 1927.

**All distributed to local districts.

***Part distributed to local districts; but figures given indicate ratio of total income tax revenue to total state taxes.

II. Arguments for Personal Income Taxes

The present argument in favor of a personal income tax for Colorado is that such a new tax is needed to supplement the general property tax for the purpose of relieving the tax burden on property. There are various reasons why the income tax is more suitable for that purpose than any other tax.

In the first place, it will reach a certain taxable capacity not reached by the present tax system of Colorado. This escaping taxable capacity is found in the income from labor, professional, and certain business activities, involving the use of no, or at least of relatively little property, as well as the income from intangible property that now escapes assessment. Exactly how much taxable capacity now escapes no one knows but some indication of it may be had from the federal personal income tax returns from Colorado. Table 77 following presents total incomes returned, and their distribution according to the various sources for the years 1918 to 1927 inclusive.

TABLE 77

Total Income and Percentage Distribution of Personal Income Returned from Colorado, According to Sources, for Specified Years

Year	Total Income Returned (000 Omitted)	Percentages Consisting of Labor and Business Incomes				Percentages Consisting of Income From Property			
		Wages and Salaries	Business and Partnerships	Profits Real Estate Sale	Total	Rents and Royalties	Dividends	Interest and Investments	Total
1918	$173,815	50	23	2	75	6	10	9	25
1919	212,525	46	27	6	79	4	9	8	21
1920	242,057	56	19	5	80	4	8	8	20
1921	211,311	58	20	2	80	5	7	8	20
1922	216,508	58	15	5	78	5	9	8	22
1923	238,373	49	22	4	75	6	9	10	25
1924	236,927	48	25	3	76	7	8	9	24
1925	172,298	43	23	5	71	6	13	10	29
1926	189,881	37	24	6	67	7	14	12	33
1927	176,895	38	25	5	68	6	15	11	32

Source: U. S. Bureau of Internal Revenue, "Statistics of Income, 1927.

It will be seen that the returned incomes amounted to $173,815,000 in 1918, rose considerably during the period, and declined to $176,895,000 in 1927. The decline is due of course in part to the decline in the price level, but also in part to the higher federal exemptions of the later years. In most of the states taxing personal income the exemptions are lower than the federal exemptions. In Colorado they should be so in order to reach as many as possible and as much as possible of the income of persons not paying property taxes. On the assumption of exemptions of $1,000 per return the income taxable would probably exceed $200,000,000.

It will also be observed that the returned income that consisted of wages and salaries was 50% of the total in 1918, rose to 58% in 1921 and 1922, and then declined to 38% in 1927. The higher exemptions are partly responsible for this decline, since the sources of salaries and wages are most important in the lower incomes. With $1,000 exemptions, it is probable that at least 50% of the total returned income would consist of labor incomes. At least $100,000,000 may therefore reasonably be fixed as the returnable income from wages, salaries and professional earnings. Assuming an average rate of tax thereon of 2% the revenue would be $2,000,000.

The income from business and partnerships are also largely untaxed for state purposes, with the result that all labor and returnable business income may be safely placed at 75% of the total or $150,000,000. The total labor and business income of Colorado is of course much larger, but that sum, now constituting a largely untaxed capacity, might be expected to be reached. To this amount should be added the amounts from dividends and interests and investments. Allowing for all errors in estimates, one may conclude that the escaping taxable capacity is large.

The personal income tax may be used in other ways to equalize the tax burden not only of all taxes but of those that now are levied in property. What the existing inequalities are and how a personal income tax would equalize them has been shown above in discussing remedies for the defective assessment of property. In so far as income is the basis for the tax, there will be no tax when there is no income; and the tax will be based on the income from the property rather than on its capital value.

III. Arguments Against the Personal Income Tax

The argument most freely used against the state personal income tax is not directed against the tax, as such. Disregarding the merits and demerits of such a tax the opponents argue

that the tax will be merely another tax added to existing taxes, and that the aggregate tax burden will be increased by as much revenue as is raised from the income tax. The net result alleged will be merely an increased cost of government.

This argument is equally valid or invalid, as the case may be, as to other new taxes that may be proposed, whether corporate income taxes or sales taxes; but it has been used more effectively in blocking the personal income tax than any other tax. Unfortunately it cannot be completely proved or disproved. For it involves the necessity of comparing what a given state, having the revenue from the income tax, actually did spend with what it would have spent, had it not had this revenue. But some light can be gained by comparing the governmental costs of states having income taxes with states not having such taxes, over a period of years, for two purposes: First to see whether the former states spend more per capita; and, second whether these states have increased their governmental costs during their period of use of the income tax. Such comparison can be made, as to state governmental costs, from the data provided by the Bureau of the Census, published in Financial Statistics of States annually, beginning in 1915. For local governmental costs such comparison cannot be made. But since the income tax is chiefly for state use, the comparison of state costs will suffice, except as indicated in the following analysis.

Table 78 following shows the aggregate and per capita governmental costs of the 48 states, the 14 states having income taxes in 1925, whose income tax revenue could therefore be available in 1927, and the remaining 34 states, and also the increases in per capita costs in these three groups of states. It will be seen that for the 48 states the per capita costs rose from $4.06 to $10.30 or 155.4%; the costs of the 14 states having income taxes, from $4.09 to $14.06, or 270.7%; while the 34 states not having income taxes rose from $4.05 to $8.33, or only 104.7%. If the 14 states using income taxes in 1925 had been restricted to $8.33 per capita for state costs, the same as the other 34 states, their costs would have been only $307,570,333. On the face of the analysis so far, the income taxes might be charged with having given occasion to increased spending to the extent of the difference, or $231,337,545.

But that argument, if it proves anything, proves too much. For the total income tax revenue in these 14 states in 1927 amounted to only $161,524,000, or about $4.00 per capita, or $3.73 per capita less than the increased spending of the 14 states. It is obvious therefore that, while the income tax revenue may have caused increased expenditures, some other factors must have operated with the same result. To see what these factors are, it is necessary to carry the analysis further, to compare the several income taxing states with adjacent, otherwise similar states, and to notice the disposition of the income tax revenue.

TABLE 78

Governmental Costs of 48 States, States Having, and States not Having Income Taxes in 1925, Aggregate and Per Capita, and Increases in Per Capita Costs, 1927 and 1915

Groups of States	Governmental Costs				Increase in Per Capita Costs 1927 Over 1915
	1927		1915		
	Amount	Per Capita	Amount	Per Capita	
All 48 states	$1,208,201,448	$10.30	$399,714,285	$4.06	155.4%
14 states (a)	538,907,878	14.06	132,343,909	4.09	270.7%
34 states (b)	669,293,570	8.33	267,370,376	4.05	104.7%

Source: Financial Statistics of States.
(a) Having income taxes in 1925, not including Tennessee.
(b) Not having income taxes in 1927.

TABLE 79

Distribution of States According to Percentage Increase in Per Capita Governmental Costs, 1927 over 1915

Increase (Percentage Grouping)	On Basis of Income Tax Status in 1930		On Basis of Income Tax Status in 1925	
	States Having Income Tax	States Not Having Income Tax	States Having Income Tax	States Not Having Income Tax
Less 75%	1	1	1	1
75- 99.9	3	2	2	3
100-124.9	--	5	--	5
125-149.9	2	8	2	8
150-174.9	1	4	0	5
175-199.9	3	3	2	4
200-224.9	4	--	2	2
225-249.9	--	1	--	1
250-274.9	2	1	1	2
275-299.9	1	1	1	1
300-over	3	2	3	2
Totals	20	28	14	34
Median Increase in Per Capita Cost	192.6	144.9	192.0	151.1

TABLE 80

Per Capita Governmental Costs of Selected States Using State Income Taxation and of Selected Comparable States not Using State Income Taxation for Specified Years

State and Geographic Division	Per Capita State Governmental Costs for Specified Years				Percentage Increase, 1927 over 1915
	1927	1924	1919	1915	
United States	$10.30	$9.60	$5.42	$4.06	155.4
Massachusetts	10.02	10.80	8.06	5.28	89.8
Connecticut	12.86	11.88	8.19	5.70	125.6
Maine	15.30	13.97	8.83	6.63	130.8
New Hampshire	13.18	10.31	5.66	3.65	261.1
Vermont	14.17	12.83	10.31	6.85	106.9
New York	13.94	11.95	6.81	5.00	178.8
New Jersey	12.73	11.55	8.10	6.08	108.9
Virginia	9.69	9.01	4.60	3.92	147.2
Delaware	21.03	17.52	5.55	3.53	495.8
Maryland	12.35	10.46	7.51	5.04	145.0
North Carolina	8.44	7.08	2.35	1.94	386.6
South Carolina	7.16	5.47	2.27	1.81	290.1
Georgia	6.36	4.80	2.73	2.24	183.9
Florida	11.03	6.01	4.09	3.06	260.5
Wisconsin	10.75	9.25	6.75	5.65	90.3
Michigan	12.84	10.47	8.28	5.65	127.3
Minnesota	15.20	12.81	9.47	6.22	144.4
Nevada	28.37	27.38	10.81	10.70	165.1
North Dakota	23.85	25.71	5.92	5.07	370.4
Wyoming	23.12	17.43	9.34	6.01	284.7
Delaware	21.03	17.52	5.55	3.53	495.8
South Dakota	18.41	14.82	6.51	4.49	310.0
Oregon	16.78	14.29	5.18	4.58	267.8
Utah	16.33	14.88	9.31	6.16	165.1
California	15.38	15.66	8.90	8.25	86.4
Maine	15.30	13.97	8.83	6.63	130.8
Minnesota	15.20	12.81	9.47	6.22	144.4
Washington	15.09	13.59	7.09	5.74	162.9
Georgia	6.36	4.80	2.73	2.24	183.9
Ohio	6.45	5.10	4.01	3.34	90.1
Alabama	7.05	6.09	3.41	3.24	111.7
Illinois	6.90	12.03	3.50	2.85	142.1
Arkansas	6.98	4.77	3.04	2.22	212.9
Tennessee	6.86	5.04	3.15	2.34	201.3
South Carolina	7.16	5.47	2.27	1.81	290.1
Mississippi	7.27	6.50	2.89	2.60	178.9
Kentucky	7.34	6.63	4.81	3.68	99.5
Oklahoma	7.35	5.88	3.91	2.40	206.3

Source: Financial Statistics of States.

Table 79 (Page 167) shows separately the distribution of the states taxing income in 1930, and those taxing income in 1925, according to the increase in their per capita state governmental costs. It will be seen that the variations in per capita costs are much greater among those states taxing income than among those that do not tax income. Especially noticeable is the fact that among those states having high per capita costs the states taxing income are relatively more numerous.

In Table 80 (Page 168) are presented comparisons of the per capita state costs of the 7 states that derived the highest per capita income tax revenue, namely all those in which it amounted to $1.25 or more per capita, with other comparable states not taxing income.

In the New England group Massachusetts and Connecticut make some use of income taxation, ranking fourth and sixth in per capita yield. In Massachusetts the per capita costs increased from $5.28 in 1915 to $10.02 in 1927, or 89.8%; and Connecticut from $5.70 to $12.86, or 125.6%. These increases are lower than the average increase for the entire United States where the increase was from $4.06 to $10.30, or 155.4%. Moreover the 1927 per capita costs were considerably lower than for the three other New England states. It is true that New Hampshire has a limited income tax and shows an increase in state costs of from $3.65 to $13.18, or 261.1%. But this increase can hardly be attributed to the income tax. For the yield is only $1.25 per capita, and the entire proceeds are distributed to the local units; and the tax is essentially a classified property tax with a low rate on certain intangibles. In New England the highest per capita costs and the greatest rates of increase occur in states not using the income tax.

New York ranked highest in per capita yield of the income tax, namely $9.99. That state's per capita state costs rose from $5.00 to $13.94, or 178.8%. This rate of increase is greater than in New Jersey where the increase was from $6.08 to $12.73, or 108.9%. A part of the explanation of the greater increase lies in the lower costs of New York in 1915. If the unexplained balance of the increase is due to the income tax, then at least the state government is not insatiable, for it distributes one-half of the proceeds of the personal and one-third of the corporate income tax to the local units. Moreover, these two states, more than most others, distribute from the general fund large sums to the local units. Thus in 1927 New York apportioned $55,500,000 as an equalization fund to the public schools. New York spent 50 cents per capita more for education than did New Jersey, and 25 cents more per capita for charity in 1927.

Virginia and Delaware rank seventh and third, respectively, in the per capita collections of income taxes. In Virginia the per capita costs rose from $3.92 to $9.69, or 147.2%. The increase is almost the same as for Maryland which has no income tax, and whose per capita costs rose from $5.04 to $12.35, or 145.0%. The 1927 per capita cost however is higher in Maryland. Delaware shows the tremendous increase from $3.53 to $21.03, or 495.8%. This fact taken together with the fact that Delaware collects $6.36 per capita, ranking third highest, would seem to provide basis for a contention that the income tax had raised the costs, until it is remembered that all of the income tax revenue is distributed to the school districts on the basis of school population. Whatever may be the cause of the expanded state costs, it can not have been the income tax revenue; for the state treasury gets none of that.

North Carolina and South Carolina rank, respectively, fifth and ninth in per capita yield of the income tax, with, respectively, $2.79 and $1.21. North Carolina per capita costs rose from $1.94 to $8.44, or 386.6%; and South Carolina costs rose from $1.81 to $7.16, or 290.1%. These increases are heavy but they are partly accounted for by the extremely low costs in 1915, considerably less than one-half of the per capita cost for the entire country. Georgia costs rose from $2.24 to $6.36, or 183.9%. Florida, however, with no income tax, showed an increase in costs of from $3.06 to $11.03, or 260.5%. It is well known that the two Carolinas have experienced a considerable industrial revival, and the increased costs reflect the increased prosperity of these states, bringing them more nearly in line with the rest of the country. Georgia has been cramped for state revenue owing to constitutional tax limits, and in 1929 the legislature in desperation passed both an income tax law and a sales tax law. Here is the clearest case, perhaps, of an increase in state costs made possible through the income tax. But the costs are, by comparison, not excessive; and assuredly Georgia would have raised more revenue in 1927 had not the arbitrary tax limit coupled with the lack of state control of the assessed valuation prevented.

On the other hand, Wisconsin costs rose from $5.65 to $10.75, or 90.3%. Compare with this the increases of from $5.65 to $12.84, or 127.3% in Michigan and from $6.22 to $15.20, or 144.4% in Minnesota. One would hardly argue that the income tax revenue had checked state costs, although there is some basis for saying that the Wisconsin income tax assessors, working between peaks of collection activity, and being trained assessors, have improved the local assessment and facilitated local economy. But at least it has not caused unreasonable costs in Wisconsin.

And, finally, among the 11 states which in 1927 had per capita costs in excess of $15.00, ranging from $15.09 in Washington to $28.37 in Nevada, only 2 did then have income taxes. One is the aforementioned Delaware, whose income tax revenue goes to the schools. The other is North Dakota. But any one familiar with North Dakota politics for the past 20 years will hardly argue that the increase in per capita costs of from $5.07 to $23.85 is caused wholly, or even primarily by the revenue from the income tax, which in 1927 amounted to less than $500,000 or 71 cents per capita. Besides, the income tax, there as elsewhere, is in lieu of property taxes on the taxable intangibles. And among the 10 states whose per capita state costs were the lowest of all the states in 1927, there are six states having income taxes. These states which might have used the income tax to raise larger sums have not done so, and their percentage increases in per capita costs are not above the average for the 48 states.

It appears then that the governmental costs of a state are determined by factors that bear no very close relation to the forms of taxes in use. Thus the very high per capita costs prevailing in the Mountain and Pacific states are not caused by the complete absence of the income tax any more than the costs of Wisconsin, low for that geographical division, are determined by its presence. Doubtless the level of prosperity in a state affects the amount of public service desired and hence the governmental costs, as is evidenced by the relatively low costs in the hitherto less affluent South, in comparison with the relatively higher costs of the industrial New England and Middle Atlantic states. In a crude way the people and their representatives determine what they want and can afford, regardless of the methods of paying for it.

Another argument against the state income tax is that it involves double taxation. This objection assumes two different forms. It is said that the federal government already taxes income and that if the state should also tax the same income, double taxation would result. Obviously the contention is true in a sense. But such double taxation is not objectionable so long as no serious inequalities result to incomes of different taxpayers similarly situated. But federal tax rates have been materially reduced and the exemptions have been nearly doubled during the past eight or nine years. The states might reasonably refrain from imposing income taxes during the war period when the federal rates were high but there seems to be no reason why moderate state income taxes may not now be imposed in addition to the federal tax.

The second form of objection to double taxation runs as follows: If an income tax is imposed and if the property on which the taxed income is earned is taxed as property, there will be double taxation unless the property tax is credited on the income tax. Here again there is no objection to such double taxation. The personal income tax on the entire income of the individual taxpayer may be justified on the ground that the taxpayer derives personal benefit from the government where he resides through such services as schools and police protection and the more general governmental functions. The tax on property, on the contrary, can be justified on the ground that the owner of the taxed property involves the government in costs for services which benefit the property where it is located. There is no objectionable double taxation resulting from taxing the property assets and also taxing the income derived from property.

Certain kinds of double taxation are objectionable. If, for example, the same property or income is taxed by several different coordinate governmental units such as two different states or counties while other similar property or income is taxed only by one governmental unit or by none at all. Such objectionable double taxation may arise within any particular tax and does not arise from the imposition of more than one kind of taxes.

A third objection to the income tax is that it is costly to administer. The National Industrial Conference Board, in "State Income Taxes", volume II, page 139, found that the cost of administration is not excessive. In Wisconsin the cost has ranged from 1.5% to 2% of collections in recent years. In New York the cost has been decreasing steadily and is reported for 1927 as being 1.43% of collections. In other states, especially for the early years, the cost ranges somewhat higher; but a reasonable estimate would place the probable cost for Colorado at possibly 2%, which cannot be said to be excessive. It is not known what the cost of collection is of the general property tax, but it is probably not much lower, in spite of the heavy collection.

Objection is also raised to the income tax as a new tax in any state where it is unfamiliar to the taxpayers. A familiar tax is of course, other things equal, superior to an unfamiliar tax. The state of Wisconsin might have objected in 1911 to the income tax on the ground that it was new and unfamiliar but Colorado cannot raise that objection to it in 1930 when nearly twenty years of successful experience with the state income tax is available for guidance and nearly as long a period of successful federal income tax administration is also

available. The Colorado income tax law, if enacted, could and doubtless would, follow rather closely the provisions of the federal law. Such is increasingly the practice on the part of states taxing income. It is therefore, not true, to any serious extent, that the tax would be unfamiliar. Another phase of the same objection is that the computation of a taxable income is a complicated procedure. That is equally true of a successfully administered property tax, which is also complicated. The complexity of both kinds of taxes arises from the complexity of our economic system rather than from anything inherent in any part of the tax. Moreover it will not be more complicated to prepare the state income tax returns than it is to prepare the federal returns, which are already being successfully prepared, and no great additional labor or cost or inconvenience to the taxpayer will be involved in preparing the state returns.

IV. Proper Precautions

Nevertheless, various precautions ought to be taken by a state when first imposing an income tax. One is that the administration should be centralized in a state tax commission. In Colorado such a state agency already exists. All that is necessary is that the tax commission be given the required additional funds and trained help with which to handle the new function assigned. As previously stated, the state should provide adequate assistance if only for the reason of collecting greater revenue. It is to be borne in mind by those opposing an income tax that such adequate assistance is also required for the purpose of bringing about equity in the administration of the general property tax. In no case has the local administration of an income tax proved successful, any more than has the local unsupervised administration of the property tax. It would also be well, in the case of the new personal income tax, as in case of a new corporate income tax, to be moderate in respect to the rates of the new tax and to be reasonably liberal in the exemptions allowed. For while income taxation in general cannot be completely unfamiliar, there are difficulties in beginning a new tax and in familiarizing the taxpayers with the making of a state tax return which must in some respects differ from the federal income tax return.

There is another reason for moderate rates and liberal exemptions to begin with. A state income tax like a corporate income tax, is to a certain extent, a local tax as compared with a federal income tax which may operate uniformly as a general tax. If the state rates are very high, and if adjoining and competing states have either low income tax rates or do not

have an income tax at all it is probable that business might be adversely affected. It does not appear from the experience of states employing the income tax that business has been so affected, doubtless due to the fact that the rates are in all cases moderate and in all cases very much lower than the rates of the federal tax. Moreover, a rate structure low enough not to hurt business in a well developed state such as New York, may cause some harm in an industrially undeveloped state, such as Colorado. The rate structure which is suggested in the following paragraphs is one which it is believed Colorado could employ without harming the business of the state.

Table 81 following shows the business incomes and state business taxes paid, and the percentages which these business taxes took of the business incomes of individuals rendering federal income tax returns for the year 1924, the latest year for which such data are available. It will be seen that the percentage taken in taxes is lower in Colorado than in all the other states of the region covered except California and Kansas. And California has since adopted an income tax, while a

TABLE 81

Business Income Received by Individuals and Business Taxes in Specified States, 1924

State and Geographic Division	Business Income 000 Omitted	Business Taxes 000 Omitted	Percentage Taxes Business Income
United States	$4,770,401	$177,484	3.74%
Mountain States	160,996	8,140	5.06
Montana	26,541	1,544	5.82
Idaho	14,736	746	5.06
Wyoming	19,175	1,035	5.40
Colorado	47,382	1,880	3.97
New Mexico	9,013	546	6.00
Arizona	15,056	840	5.26
Utah	19,917	1,128	5.66
Nevada	8,186	421	5.14
Pacific States	479,189	17,786	3.71
Washington	109,928	4,401	4.00
Oregon	42,114	2,361	5.61
California	327,147	11,024	3.36
West North Central States	359,908	14,771	4.10
Nebraska	49,270	2,337	4.74
Kansas	29,279	1,059	3.62
West South Central States	288,608	14,395	4.99
Oklahoma	48,323	2,452	5.07
Texas	172,657	8,926	5.17

Source: National Industrial Conference Board, "Cost of Government in the United States," 1925-1926, p. 133.

constitutional amendment permitting progressive income taxes is pending in Kansas.

Even more favorable is the position of individuals in Colorado, making federal income tax returns, with respect to the percentage which all state and local taxes are of the total income thus reported. This is shown in Table 82 following. The percentage taken in taxes in Colorado was only 2.64%, which is lower than the percentage of any other state covered in the table, and lower than the average for the entire country which was 3.94%. If then the property taxpayers are overburdened, as it is believed is shown above, and if those who are making federal returns are in a relatively favorable position, the conclusion would seem to be clear that greater equality could be secured through a change in the tax base so as to reach the income that now goes free, for state purposes.

TABLE 82

Total Income Received by Individuals and Total State and Local Taxes Paid 1924, Specified States

State and Geographic Divisions	Total Income Before Taxes (000 Omitted)	Total State and Local Taxes (000 Omitted)	Percentage Taxes Were of Income
United States	$27,356,528	$1,077,513	3.94
Mountain States	659,461	23,780	3.61
Montana	113,841	4,531	3.98
Idaho	55,141	2,276	4.13
Wyoming	64,127	2,673	4.17
Colorado	215,276	5,678	2.64
New Mexico	33,458	1,215	3.63
Arizona	61,802	2,806	4.54
Utah	87,110	3,546	4.07
Nevada	28,706	1,055	3.68
Pacific States	2,460,342	102,527	4.17
Washington	416,549	17,766	4.23
Oregon	203,294	10,322	5.08
California	1,840,499	74,439	4.08
West North Central States	1,945,804	87,457	4.49
Nebraska	203,030	9,868	4.86
Kansas	214,894	7,599	3.54
West South Central States	1,276,104	68,094	5.34
Oklahoma	229,047	13,125	5.73
Texas	693,177	40,094	5.78

Source: National Industrial Conference Board, "Costs of Government in the United States," 1925-1926, p. 133.

Doubtless the most important precaution is to make sure that the new revenue shall not result merely in increased expenditures. Any new tax law should specify that the extra revenue must displace an equal amount of property tax rev-

enue, either in the state treasury or in the local treasuries. Further details are given in Section VII below.

V. Rates and Probable Yield

The rate structure and the amount of revenue which it is expected to raise from the personal income tax are of course interdependent. In Tables 83 and 84 are presented computations of the probable yield, computed by two different methods, using the incomes reported for the federal income tax.

The method followed in Table 83 and the underlying assumptions made are as follows: There is assumed for the sake of simplicity in the computation a uniform exemption of $1,000.00 to every taxpayer. The rate on the first $1,000 taxable income in excess of the personal exemption is assumed to be 1%. On the second $1,000 the rate is 2%. On the third $1,000 it is 3%. On the fourth $1,000, 4%; and on all in excess of $4,000.00 the rate is 5%. The table shows that under these assumptions on the basis of the federal returns the revenue would amount to about $3,850,000.

In Table 84, using the second method, is computed the yield when the rates assumed are the same as those assumed in Table 83, with no exemptions, but instead a credit is allowed for each single return of $8.00, deducted from the tax as computed without personal exemption, and a similar credit of $15.00 allowed to each joint return. This method is used in the Wisconsin 1927 tax law, but is otherwise not used in the United States. The effect is to make the rates more steeply progressive. For the effect of the exemption is to exempt, in each case, the amount allowed from the highest tax rate at which any part of the income is taxable. Consequently the yield computed by Method II is considerably higher than that obtained by Method I, $4,437,870 as compared with $3,847,373. In itself, Method II is simpler. But being different from the more complicated, though more familiar Method I, its suitability would depend upon the psychological attitude of the taxpayers toward it.

Doubtless, the actual yield would be somewhat less than the amount indicated. In the first place, the state administration will not, in all probability, be found to be as effective as the federal. Such is the general experience of the states, especially where inadequate assistance is provided for, though not noticeably so in Wisconsin, New York, and Massachusetts, where reasonably adequate funds and assistance are provided for administering the tax. In the second place, certain items of income taxable under the federal income tax could not be reached under the state income tax. For example, in-

TABLE 83

Estimated Revenue from a Colorado Personal Income Tax with Rates and Exemptions as Assumed in Text, Method I

Description	Brackets of Income						Total	Revenue Estimated
	Less Than $1,000	$1,000–2,000	$2,000–3,000	$3,000–4,000	$4,000–5,000	$5,000– and Over		
Number of returns	1,438	7,558	6,679	5,771	3,680	6,601	31,727	----
Total income	$817,245	$12,438,345	$16,251,399	$20,283,284	$16,439,956	$82,243,357	$148,473,886	----
Amount exempt	All	7,558,000	6,679,000	5,771,000	3,680,000	6,601,000	31,727,000	----
Total taxable	----	4,880,345	9,572,299	14,514,284	12,759,946	75,642,357	116,746,886	----
Taxable at 1%	----	4,880,345	6,679,000	5,771,000	3,680,000	6,601,000	27,611,345	$276,113
Taxable at 2%	----	----	2,893,299	5,771,000	3,680,000	6,601,000	18,945,299	378,906
Taxable at 3%	----	----	----	2,972,284	3,680,000	6,601,000	12,353,284	379,599
Taxable at 4%	----	----	----	----	1,719,946	6,601,000	8,320,946	332,838
Taxable at 5%	----	----	----	----	----	49,238,357	49,238,357	2,461,918
Total revenue	----	----	----	----	----	----	----	3,847,374

Source of basic returns: Bureau of Internal Revenue, "Statistics of Income." 1927.

TABLE 84

Estimated Revenue from a Colorado Personal Income Tax with Rates as Assumed in Text, Method II

Description	Brackets of Income					Totals	Revenue Before Tax Credit
	$1,000 or Less	$1,000–2,000	$2,000–3,000	$3,000–4,000	$4,000– and Over		
Number of returns	1,438	7,558	6,679	5,771	10,281	31,727	----
Income taxable	$817,245	$12,438,345	$16,251,299	$20,283,284	$98,683,313	$148,473,886	----
Taxable at 1%	817,245	7,558,000	6,679,000	5,771,000	10,281,000	31,098,245	$310,982
Taxable at 2%	----	4,888,345	6,679,000	5,771,000	10,281,000	27,619,345	552,387
Taxable at 3%	----	----	2,893,299	5,771,000	10,281,000	18,945,299	568,359
Taxable at 4%	----	----	----	2,970,284	10,281,000	13,251,284	530,051
Taxable at 5%	----	----	----	----	57,559,313	57,559,313	2,877,966
Total revenue	----	----	----	----	----	----	4,839,745

Revenue as computed, before credits		$4,839,745
Tax credits allowed:		
Single returns (one-third of total) $8.00 each	$ 84,605	
Joint returns (two-thirds) $15.00 each	317,270	
Total credits		401,875
Total net revenue (after credits)		$4,437,870

Source of basic data: Bureau of Internal Revenue, "Statistics of Income", 1927.

come earned from purely interstate business could not be taxed by the state. Also, salaries of federal employees and interest on federal bonds could not be taxed by the state. On the other hand the state might and should include the salaries of its own employees and the interest on its own bonds as well as the interest on other public bonds. It is believed that the state and local public salaries and state and local bonds will more than counter-balance the federal salaries and federal interest so that the loss from this particular source will not, at any rate, be very great. Of course, interest from already existing state and local public bonds of Colorado could not be taxed; but reference is here to future issues. Again, the exemptions have been placed rather low and no exemptions on account of dependents have been provided for, although, there probably should be.

From taxable gross income should be deducted all necessary business expenses, including depreciation and in general, interest paid. As in the federal income tax the Colorado state income tax should guard against deducting personal expenditures but this probably is not serious. From the amount of taxable income thus extended there should be deducted stated sums depending upon the family status of the taxpayer, unless the Wisconsin alternative already described is substituted. If the method of allowing personal exemptions is followed, it is suggested that these be lower than are the federal exemptions. The latter, at the present time are $3,500 for persons filing joint returns and $1,500 for those filing single returns. In the computation in Table 83 of the probable yield there is an assumed exemption in all cases of $1,000. This amount may be too small, but it is believed that a low personal exemption will serve better than a high one. Especially since the federal personal exemptions have been raised, it is true that relatively low exemptions in the state income would work no hardship. One of the aims of a personal income tax is to reach income from wages and salaries, since they are not reached under the property tax. But if the personal exemptions are put too high a great deal of that income will escape.

VI. The Composition of the Taxable Income

What should constitute taxable personal income? Two principal classes of personal income taxes exist. One class, the so called schedular income tax, is represented by Massachusetts and New Hampshire, where income from special sources only is taxed. In Massachusetts the net income from intangibles and from interest and dividends is taxed at the rate of 6%. The excess of gains over losses from trade in intangi-

bles is taxed at 3%, and the entire property income, less 5% of assessed value of tangible property at varying rates. In New Hampshire only interest and dividends from intangibles, excluding savings bank deposits, are taxed at the average rate in the state of all property taxed. The other class is more common. The entire is lumped together and subjected to the tax, usually at progressive rates. It is called the general income tax, and is probably the better form.

It has been suggested that every able bodied person ought to pay some direct tax so that he might develop an interest in the services of the government under which he lives and help to bear the cost thereof. Two ways of doing this are possible. One is by means of a poll tax of say $3 to $5 But that method seems to be impossible, the state having once adopted and repealed it as unsatisfactory. The experience of other states indicates that a poll tax is collected only from those who are already paying property taxes or those who vote at the elections and thus get their names on lists available to taxing officials. A better way would be to require all persons to file a return and pay a minimum tax of say $3.00 to $5.00. However, the only state which has tried this method has abandoned it, as not yielding enough revenue to pay for the trouble of receiving and auditing all the extra returns.

Although it is possible that a progressive personal income tax might be held by the courts to be valid in Colorado under the state constitution as it now is, it is possible that it might be held to be violative of the uniformity rule. Hence the constitution should be amended so as to permit, specifically, the legislature to enact an income tax law, if such a tax is desired.

SECTION VI

SALES TAXES

Instead of, or in addition to, personal and corporate income taxes, some revenue may be obtained from taxes on sales. Such taxes were seldom considered until in Europe the pressure for revenue during the great war made emergency sources necessary. They were strongly advocated in 1918-1921 for federal purposes, to take the place of heavy federal income and profits taxes. As federal taxes they are no longer advocated; but they have been urged in many states as sources supplementary to the property tax. At present many states are considering them in two different forms.

I. General Sales or Turnover Taxes

Only two states have taxes that approximate general sales

TABLE 85

Record of the West Virginia Classified Sales Tax, Year 1927-1928

General Class of Taxed Enterprise	Specific Business Activities		Revenue 1927-1928	
	Name	Rate since 1925	Amount	Percentage
Extractive industries	Coal mining	0.42%	$1,022,000	26.8
	Oil production	1.00		
	Natural gas production	1.85	615,500	16.2
	Limestone, Sand, etc.	0.45	30,200	0.8
	Timber production	0.45	30,200	0.8
Manufacturing	Manufacturer's sales	0.21	788,300	20.7
Merchandizing	Retail	0.20	562,200	14.8
	Wholesale	0.05	85,900	2.2
Financial and Public Utilities	Banks	0.30	399,300	10.5
	Steam railroads	1.00		
	Street railways	0.40		
	Pipe lines	1.00		
	Telephone, telegraph express, light and power	0.60		
	Others	0.40		
Contractors	Gross income	0.30	272,400	7.2
Amusements	Gross income	1.00		
Residuary	All other	0.30		
Total			3,806,000	100.0
Total state tax revenue			$18,619,500	

Source: National Industrial Conference Board, "General Sales or Turnover Taxation," pp. 197-199.

taxes, West Virginia since 1921 and Georgia since 1929. Table 85 (Page 181) shows the rate structure of the West Virginia classified sales tax and the revenue, amount and percentages, realized from each class of taxed enterprises. It is not a general sales tax because, with the exception of the wholesale and retail sales, and possibly in manufacturing where the same material may be processed at successive stages by different concerns, it is aimed at final sales. The revenue yield for 1927-1928 was $3,806,000, which was 20.4% of the total state revenue. It has not completely relieved the state of the necessity of levying a property tax for state purposes. The greatest revenue yield was in 1926-1927, $4,067,100; but the 1927-1928 yield is well above the annual average. There is an exemption of $10,000 to every taxpayer. The result is that few individual enterprises and farmers pay the tax, which probably accounts for its retention. For, while the manufacturers and the merchants object to the tax, and those engaged in the extractive industries object to paying it alone, the majority of the people are rather willing that the few shall pay it. In the deadlock and owing to difficulties in agreeing to find some other source to take its place, it continues. The manufacturers and wholesalers especially object to it as being detrimental to their business in competition with other states. In general the tax has at least not seriously checked the growth of the state as indicated by the fact that during the past decade the population increased at the rate of 18.1% as compared with 16.1% for the entire United States.

On a per capita basis (1930 population) the West Virginia yield is $2.20. On the same basis the possible yield for Colorado should be $2,272,943. But analysis of the West Virginia yield, in such details as are available, warrants the conclusion that the Colorado per capita yield would not be equal to that of West Virginia. It will be noted that the high rates apply to, and that 44.6% of the revenue came from, the extractive industries. No data are available to show the cost of collection.

The 1929 temporary sales tax of Georgia is expected to yield between $1,000,000 and $1,200,000 the first year, on the basis of its performance so far, according to a statement made by the tax commissioner, who states that, except for the business depression, the yield would have been considerably higher. The rates are uniform at 2 mills on each dollar of gross sales, except that on manufacturer's sales the rate is 0.5 mill. This low rate has caused trouble, not only through reduced revenue but also through the efforts of a large number to get themselves classified as manufacturers. There is an exemption of $30,000, which the tax commissioner, with good reason, considers excessive. The percentage yield from the different groups is distributed as follows: Retailers, 40.15%; wholesalers, 18.78%; manufacturers, 18.29%; amusements, .87%; public utilities, 9.98%; and all other, 11.93%. On a per capita basis the Colorado yield at the Georgia rates would be only in the neighborhood of $350,000. That figure could be considerably increased, as could the Georgia yield, by reducing the exemption from $30,000 to say, $10,000, or even lower. It might be further increased by eliminating all exemptions and requiring a minimum tax of person or firm engaged in selling anything, as is done in the Connecticut merchants' and manufacturers' tax.

In Pennsylvania there has been, almost unchanged since 1821, though there is strong opposition to it, and its repeal has been recommended by a recent special tax commission, a mercantile license tax, which has some of the earmarks of a general sales tax. It consists of a $2.00 annual license charge plus a 0.1% tax on gross annual business transactions of retailers; a $5.00 license charge plus a 0.05% tax on the turnover of wholesalers; and a 0.025% tax on exchange sales. The yield in 1927-1928, considerably higher than for any other year, was $4,269,000, or 44.3 cents per capita (1920 population). On a per capita basis this tax should yield in Colorado $458,688. It is apparently fairly effectively administered in Pennsylvania, by means of self assessment, checked by a corps of local "mercantile appraisers." The cost of collection is high, being estimated for recent years at 7.8% of collections. Whether this figure, which was considerably higher in earlier years, represents the probable costs of this form of taxation effectively administered cannot be stated. If it does, it would constitute an effective argument against the tax.

There are a few less complete examples of state or local general sales taxes, such as the Connecticut merchants' and manufacturers' tax and a similar tax in Delaware, as well as the optional Missouri local turnover tax used in St. Louis and Kansas City. But they are too limited to require detailed description here.

II. Selective Sales Taxes

More familiar are the sales taxes on selected commodities. The federal government since the Civil War has imposed sales taxes, or excises on tobacco and intoxicating beverages, as well as a few others of minor fiscal importance. These federal taxes were expanded during and for a short time following the recent war into the so called nuisance taxes, most of which

have since been abolished. The federal tobacco tax is very productive and not objectionable. According to the preliminary reports of the Bureau of Internal Revenue, the total revenue from tobacco taxes for the year ending June 30, 1930 was $450,339,060.50, distributed as follows: Cigars, $21,442,-527.24; cigarettes, $359,881,375.18; and other tobacco products, $69,015,158.08. The federal cigarette tax is especially productive, for two reasons. First, the rate is high, being $3.00 per 1,000 of ordinary cigarettes, or 6 cents per package of 20 cigarettes, which usually sells for 15 cents at retail. Since the tax is collected from the manufacturer (the point of greatest concentration) it must be in excess of 100% of the value at that point. The second reason is the enormous consumption. Preliminary figures indicate that the number on which taxes were paid during the fiscal year 1929-1930 was but a little less than 120,000,000,000; and the consumption appears to be increasing.

On a per capita basis Colorado should consume a little more than 1,000,000,000 cigarettes, and a tax of 2 cents per package of 20 should yield $1,000,000. But on a per capita basis Kansas should collect $1,800,000 at that rate. The actual Kansas collections for the most recent year amounted to $750,000 or about 42 cents per capita. If the Colorado yield should turn out to be no more favorable, it could be only $414,444. In Utah, at a rate of 1 to 2 mills per cigarette, the yield was about $120,000 or 23 cents per capita. In North Dakota, at the rate of 1.5 to 4 mills per cigarette, the collections were $332,695, or 49 cents. In Iowa, at the rate of 1 to 2 mills per cigarette, the yield was $1,183,032, or 48 cents per capita. These states only have segregated the yield from the cigarette tax from the other excise taxes. The federal tax at the rate of 1 mill per cigarette, the Kansas rate, would raise $120,000,000 or about $1.00 per capita. The aforementioned states, although they have rates somewhat in excess of 1 mill per cigarette, show collections of less than 50 cents per capita. The cost of collection is high. In Iowa it is reported to be 6.7% of collections, and in Utah 8.0%. In Arkansas where cigars and cigarettes are taxed at 15% of the wholesale price, which for cigarettes is equivalent to 1 to 2 cents per package or less than 1 mill per cigarette, the yield was $1,300,000 or about 49 cents per capita. It is therefore doubtful whether Colorado, through a tax of 15% of the wholesale, or 10% of the retail price, could raise as much as $500,000 from sales taxes on tobacco. The experience of Tennessee where, since 1925, a tax of 10% of the retail price has produced annually about $1,258,000 or about 48 cents per capita strengthens this conclusion.

The recent 1927 census of distribution conducted by the Bureau of Census shows sales of Denver cigar and tobacco establishments of $1,202,900. Since nearly three tenths of the Colorado population lives in Denver, the value of the total Colorado consumption of tobacco might therefore be set at $4,000,000, if all the tobacco were sold in cigar and tobacco establishments, which of course is not the case, and if the consumption outside of Denver were the same as in Denver. A 10% tax would raise only $400,000 plus 10% of such sales as are made elsewhere than in cigar and tobacco establishments. It would seem that the $500,000 estimate above was rather too high than too low.

Anyone so disposed can make similar estimates of yield of taxes on the sales of other articles on the basis of the Denver distribution survey, subject to correction for sales in miscellaneous establishments, and for different, probably lower per capita consumption in areas outside of Denver. Sales of jewelry, for example, were $2,350,700, which, if raised on the basis of three tenths of Colorado sales, would be $7,835,667; and with a 10% tax would yield $783,567, a figure that is obviously much too high.

There are few other articles than tobacco that have been regarded as acceptable tax bearers. And they may all be exemplified in the experience of South Carolina. That state has carried the practice of taxing sales further than any other state. The general assembly in 1923 imposed the tax on cigars, cigarettes, smoking tobacco, candy, ammunition and admissions. The rate on cigars ranged from $2.00 to $10.00 per 1,000; on cigarettes, $1.00 to $2.41 per 1,000; on smoking tobacco, 6 cents per pound; on ammunition, $2.00 per 1,000 pounds; on candy retailing for 80 cents or more per pound, 10 per cent; on admissions, 10 per cent. In 1925 the consumption excises were extended to include all soft drinks, ice cream, cosmetics, chewing tobacco and snuff. The tax was 20% on the first three articles named and on the last two 1 cent for each 3 ounces. It was in the nature of an emergency measure and was enacted for only one year. In 1926 the soft drink tax was reenacted as part of the general appropriation act but the excises on milk drinks and cosmetics were dropped. The repeal of the tax on milk drinks and ice cream resulted from the belief that it was hurting the dairy industry. It was felt that the tax on cosmetics was evaded through purchases from outside the state. In 1927 all the consumption excise laws were rewritten as one revenue measure. The tax on tobacco was increased approximately 5%; on ammunition, 100%, while a levy of 10% was imposed upon playing cards,

cut glass goods and sporting paraphernalia. The tax on soft drinks was not changed. It appears that these consumption excise taxes are being accepted as a permanent feature of the state tax system.

The results obtained by the limited number of states which have thus far imposed excise consumption taxes show that the revenues are not inconsequential. Alabama gets $1,300,000; Arkansas, $1,100,000; Georgia, $737,000; Iowa, $1,200,000; Kansas, $750,000; North Dakota, $330,000; South Dakota, $338,000; and Tennesse, $1,259,000. In 1924 the yield in South Carolina was $991,000; 1925 it was $2,170,000; and the last year it was $3,276,000 or approximately one third of the annual appropriation for the state government. As a result the state levy on real estate was reduced from 14 to 5 mills while appropriations for the state agencies and institutions have not been reduced.

III. Arguments for Sales Taxes

It is argued, and correctly, that sales taxes will reach a class of persons who have neither much taxable income nor much taxable property. Taxes on non-essentials, widely used and persistently demanded can be made to yield considerable revenue. Moreover, if the taxes on such articles as tobacco, cosmetics, jewelry, and candy should alter the consumption in favor of more useful articles, the result would be beneficial. These taxes may thus be used to regulate consumption. The taxes, when they are shifted, are conveniently paid in small amounts, the ultimate tax bearer not always being aware of the tax. It is also argued that the tax is relatively easy to collect. It appears however that the cost of collection is high. Otherwise the arguments in favor of sales taxes may be accepted for what they may be worth. The arguments are stronger for the specific or selective sales taxes than for the general sales or turnover taxes.

IV. Arguments Against Sales Taxes

It is argued on the other hand that sales taxes are regressive, not in proportion to the income of the ultimate bearer of the taxes, the ultimate purchaser of the taxed article. That argument would be strong if the tax were the only or the principal source of all the revenue raised for state and local purposes. If it is merely a minor part of the tax system, yielding, say, 1% or 2% of the total revenue this objection is not valid, especially against a selective sales tax where the principal reliance is upon non-essentials.

The argument that these taxes are "painlessly paid" has another side. One of the reasons for requiring persons of moderate means to pay taxes is to influence their voting so that they may exercise some restraint in demanding public services that cost money and consequently necessitate taxes. But that restraining influence must be largely lost if the payment is not felt. In that respect a minimum tax imposed in connection with a personal income tax would be superior. However, the principal arguments against both forms of sales taxes do not relate to the taxpayer, but to the business firms handling the taxed article. The assumption that the tax may be added to the price is not always valid. Extravagant statements are made sometimes to the effect that such a tax is always added to the price, and sometimes to the effect that it never can be. The truth lies somewhere between. Where the competition of outside non-taxed business is keen, as on the borders of a state, or where as in case of nationally advertised goods, the price is fixed, the dealer must largely absorb the tax. Here is one reason why a selective sales tax is preferable to a general tax. In the former case it is possible to select for taxation those articles the taxation of which will hurt not only the consumer but also the dealer the least.

Sales taxes, especially general sales taxes, are also objectionable because they are state taxes, that is, local taxes as compared with a similar national tax. Interstate sales cannot be taxed at all, which necessarily involves a discrimination against local dealers. If general sales taxes are to be used, they should be used by the national rather than the state government.

General sales taxes also tend to discriminate against the single-process industries as compared with the multiple-process industries. In the former case several taxes may be paid by successive industries on the same material, while that will not be so in the latter case, since no sales intervene. A provision in the West Virginia sales tax law of 1925 gives the tax commissioner power to determine, in case of multiple-process industries, the value of production where no sales intervene; but such a procedure is not practical. Moreover, this discrimination operates against the basic industries of a state, where the raw material is extracted, processed, sold, and consumed within the state. For in such cases, a general sales tax must always impose successive taxes, while in the case of imported articles even the retail sale may be made interstate and therefore tax-free. As for raw material produced in the state there will be a tendency to ship it out at as early a stage

as possible in order to avoid the tax, thus harming not only local markets but also local industries.

The conclusion would appear obvious that if sales taxes are to be used they should assume the form of selective rather than general sales taxes. The only objection to this choice is that the dealers in the taxed articles regard themselves as invidiously selected to make reports, or to affix adhesive stamps, and possibly to absorb losses where they cannot shift the tax. That objection has some weight, but after a temporary adjustment most of that weight will be lost. The popular demand that if anybody is to be taxed in any form, then all must be taxed in the same form is too exclusively sentimental to be acceptable.

SECTION VII

CHECKS ON GOVERNMENTAL COSTS

It has always been necessary to exercise checks upon public spending. Colorado now limits levies and expenditures in two ways: (1) Maximum tax rates are prescribed in the constitution or revenue laws of the state for all taxing units; (2) and tax levies are limited to 105% of the amount raised by taxation for the preceding year. There are other forms of administrative control, that should be used more effectively than they now are used. But if new sources of revenue are to be tapped, as suggested in the three preceding sections, it becomes necessary to devise new checks, checks that will prevent the revenue from these new sources from becoming merely so much more revenue raised and spent.

I. Transition Checks

The revenue produced from possible new taxes might be disposed of in diverse ways. It might be used to relieve the state of the necessity of levying a property tax. If such were to be its use, the requirement should be stated in the revenue act. The relief would then amount to the state levy, uniformly spread all over assessed property in the state. The state levies were 3.84 and 3.56 mills for 1927 and 1928, respectively. If the new sources of revenue are so adjusted as to yield the amount now raised by these levies, the aggregate property tax rate would be reduced by 3 to 4 mills uniformly throughout the state.

Much can be said for this method of using new revenue. It would eliminate the last vestige of justification for the prevailing practice of assessors of keeping the average county valuation down, for the purpose of reducing the county's share of the state tax. There is very little reason for doing so now, but what little reason there is does some harm. The suggested method would furnish an almost automatic check upon the state spending and would leave the local levies as they were. The objection is that by this disposition of the new funds no step is taken toward remedying the inequalities flowing from the variations in the distribution of property among the taxing districts, as discussed in Section III above.

New revenue might be distributed to the counties or to the school districts and possibly to the cities, and towns, in varying proportions, in part or in full. If a distribution is made to any of these localities it is important to determine to which of the local units the revenue should go, and on

what basis the allocation should be made. The New York method of allocating 50% of the proceeds of the personal income tax, and one third of the not otherwise allocated part of the proceeds from the corporate income tax, to the various local units in proportion to their assessed valuation, places the responsibility for checking expenditures locally, where it is not so simple of application. It would not in Colorado relieve the state of the need for a property tax levy. Moreover, the absence of the township organization in Colorado would make it difficult to distribute any part of the proceeds to the cities and towns. But the distribution could readily be made to the counties, or to the school districts, or to both. This method also does nothing toward solving the problem of inequalities in the local tax rates discussed in Section III above.

The Wisconsin method of apportioning 60% of the revenue from the income tax to the local districts according to the origin of the income tax revenue differs not much in its results from the New York method, except that the origin of income is likely to be even more concentrated than property, and such concentration is less fixed and more likely to vary with changes in local industry. The Wisconsin provision that, when the 50% allocated to a locality smaller than a county exceeds 2% of the assessed valuation, then the excess is divided among the towns, cities and villages of the county on the basis of school population, is a check upon excessive local expenditures resulting from excessive allocation of revenue originating in any locality. If this method of apportionment does anything toward alleviating the hardships that result from the unequal distribution of taxable property, it must be accidental. The distribution might do harm by still further concentrating funds, where taxable property, and hence revenue, is already relatively abundant.

The Delaware method of apportioning all the new revenue to the school districts on the basis of school population would help to remedy the aforementioned difficulty. But it does so rather haphazardly. There is proposed now by the Colorado Education Association a rational plan for the equalization of school tax rates. Briefly stated it is proposed to establish equality of educational tax burdens throughout the state on a minimum level of $1,000 per classroom, by providing that whenever a county levies 3 mills and the local districts 2 mills upon the assessed valuation of property, the state will contribute the additional amount necessary to produce an equivalent of $1,000 per classroom. Assuming that practically all districts are now providing education costing at least $1,000 it follows that if they are content with school facilities on the

$1,000 level, they can cut their school district levies to 2 mills. It is expected that most of the poor districts will spend more nearly the present average amount for the state. But they would do so at the cost of higher school district rates. It has been computed that about $2,200,000 of state funds will be required for this equalization of educational costs on the $1,000 level. If it should be desired to equalize on a higher level at, say, $1,200 or $1,400, the required state fund would have to be considerably larger.

It is obvious from the foregoing sections on new sources of revenue that the possible revenue would be adequate to finance an equalization program on a level somewhat higher than the $1,000 level. If these sources were pressed for all the revenue they could safely be made to yield, it might be possible not only to finance an equalization program on a minimum level of $1,000 but also to dispense with the state property tax. Such an arrangement would be advantageous, for it would establish an automatic check on state costs by dispensing with the property tax, thus giving general relief to the extent of a 3-mill or 4-mill reduction in the aggregate property tax rate; it would also give much needed relief to those districts whose school levies are now unreasonably high and threatening to go higher; and, what is perhaps equally important, it would tend to equalize educational facilities in the state, by leveling them upward where they are now inadequate. The extent and the importance of the relief may be seen from the following example: Several districts levy in excess of 30 mills. By the equalization program on the minimum level of $1,000, the reasonably necessary minimum of education could then be financed by a county levy of 3 mills and a district levy of 2 mills, 5 mills in all. Such excess over the $1,000 minimum, as they felt they could afford, they would finance by local levies.

There is another possibility, and in view of the fact that the revenue from new taxes will at first be uncertain, it would probably be the most expedient disposition. Colorado is almost unique among the states in having a system of classified appropriations. If the state appropriations exceed the revenues, as they usually do, the appropriations of Class I are to be met first, then those of Class II, and so on until Class V is reached. In practice a working arrangement obtains whereby most of the departments or agencies agree to spend less than their appropriations. The effect upon the legislature is to stimulate liberal appropriations in the higher classes; and the appropriating function passes to the administrative authorities. But the significant aspect of the situation for the present

purpose is that bitter experience of the past has made the several state agencies apprehensive of their support. They would fear being made dependent upon the general fund instead of upon the specific mill levies they now have. Until the new sources shall have demonstrated their yield, and until the mill levies for the state educational and similar institutions can be satisfactorily displaced by general fund appropriations, it might be expedient to retain these mill levies, now amounting to somewhat less than 2 mills, using a part of the new revenue to meet other state costs, and allocating the balance to the schools for equalization on the $1,000 level. Experience would teach what to do later. On this basis the state levy would be reduced to less than 2 mills, giving pro tanto uniform relief to all property, and the local school rates would be reduced where such reduction is now most needed.

II. Tax Rate Limitations

State Levy. The maximum rate of taxation on property, for state purposes was originally limited by Article X, Section 11, of the constitution to 4 mills. That section was amended in 1920 to authorize an additional levy of 1 mill for the erection of buildings and for maintenance of the state educational institutions. The present maximum rate is 5 mills.

County levies. Counties are classified for purposes of limitations upon the levy for county purposes. The classification is detailed and elaborate, and ranges from a maximum levy of 6 mills in counties having a valuation of $1,000,000 or less to a maximum of 1 mill in counties having assessed valuation of $400,000,000 or more. This levy is for ordinary current expenses, including the support of the poor and contingencies. Additional limitations are specified in the law for specific purposes as follows:

Levies for road purposes not to exceed 10 mills.

Levies for purchase of land for fair grounds, one half of 1 mill per year, not exceeding $20,000.

Tax levy for bounty on certain animals not to exceed 4 mills.

Judgments against county, 15 mills.

Outstanding warrants, 3 mills.

Mothers' compensation, ⅛ of 1 mill.

Bond and interest, amount sufficient to create yearly fund equal to 10% of bonds issued.

Minimum salaries of school teachers, 5 mills.

Additional levy for payment of unpaid warrants, 5 mills.

Levy to promote immigration and advertising, ⅛ of 1 mill.

School district levies. Third-class district rate shall not exceed 20 mills.

Levy sufficient to pay off outstanding bonds in equal annual installments according to date of maturity.

Refunding bonds require annual levy sufficient to pay not less than 10% or more than 20%.

Union high school tax not to exceed 4 mills.

School teachers retirement fund in first-class districts, ⅖ of 1 mill.

All statutory rates making provision for fixing the limit of indebtedness of any school district or incorporated town shall be computed upon 70% of the assessed valuation instead of upon the full assessed valuation. This adjustment was made in 1913 as the result of raising assessed values to full valuation from one third of full valuation.

Cities and towns. No maximum limits are prescribed by the constitution or revenue laws of the state governing the tax levies of municipalities, either for current operation or for bond and interest purposes, except levies for public libraries, parks and pension funds.

Tax levy for public libraries, 1 mill.

Parks fund, 1.5 mills.

Cities over 100,000 population may levy 1 cent on each $100 of assessed valuation for firemen's pension fund and the same amount for the policemen's pension fund.

The charters of several of the home rule cities contain maximum limitation on levies. The Boulder charter limits the levy for current operation to 10 mills and the Fort Collins charter to 15 mills.

III. The Five Per Cent Limitation

In 1913, when the legal assessed valuation of the state was raised from one third of its full value to full value, an adjustment was made in the authorized tax rates. The law prohibited the levying of a greater amount of revenue on the assessed valuation of the year 1913 than was levied for the year 1912 plus 15%, and for each year after 1913 the tax rate was to be so adjusted as not to levy a greater amount of revenue than was levied the preceding year plus 5%. Levies made to provide for the payment of bonds and interest are exempt from the above limitation.

In case any taxing district believes that the maximum levy permitted by law will not produce sufficient revenue for the current year, it may petition the Colorado tax commission for the privilege of increasing the maximum levy. If, upon investigation, the tax commission grants the request, the maximum levy may be increased not to exceed 5 mills. In case the tax commission refuses to grant the request, or in case the excess levy of 5 mills is insufficient, the question may be submitted to the voters of the taxing district. If three fourths of the votes cast at such election favor the increased levy it can be made.

Table 86 following shows the number of petitions which have been made to the tax commission for increased levies.

TABLE 86

Petitions to Tax Commission for Increased Levies in Specified Years

Year	Counties	Cities and Towns	School Districts	Total
1915	28	35	344	399
1917	41	29	480	591
1918	35	32	476	548
1919	52	59	595	706
1920	40	66	762	868
1921	37	35	88	160
1922	30	17	342	389
1923	27	30	294	351
1924	30	16	240	286
1925	40	16	315	371
1926	35	15	374	424
1927	39	29	385	453
1928	42	14	328	384

Source: Reports of Tax Commission.

During the disturbed conditions immediately following the world war the number of petitions for increased tax levies was greater, but even during the more stable period of the past 5 years about two thirds of the counties and 17% of the school districts of the state found that the maximum limits

prescribed by law would produce insufficient revenue and sought permission to increase their levies.

The petitions for increase are nearly all granted. In practically every case where the petition has been refused, the matter has been referred to the voters and their approval has been secured over the veto of the tax commission. The tax commission has recommended in several annual reports that the law should be amended so as to relieve cities, towns and school districts from the necessity of applying to the tax commission in order to make increased levies above 5 per cent over the preceding year. The commission has also pointed out that with the small force available to the commission, its actions in these applications are necessarily more or less perfunctory, as it is impossible for it to examine the needs of these taxing districts as contemplated by the statutes (15th annual report 1926, p. 5.).

Colorado's experience with tax limits conforms to that of other states. Tax limits may make it more difficult to increase the levies but the voters themselves will authorize increases when they regard them as necessary, either by amending the constitution itself or overriding the decision of any state authority. In a democracy there is no way to block permanently a genuine popular demand for increased governmental service through an arbitrary limitation of the tax levy.

IV. Tax Limits in Other States

Two methods have been employed in the various states to check tax levies of local governments. First, restriction of tax levies to a certain rate on the assessed valuation, and second, restriction to a certain per cent of the last levy. The first method is now in use in about 40 states. In 18 states tax limit provisions are contained in the state constitutions; The restrictions in 14 states apply to counties, in 10 to municipalities, and in 7 to school districts. In the other states the provisions are prescribed by the state laws. Some of these limitations are liberal, others miserly; some have regulated only in broad outlines, others have gone into the utmost detail. Some states have a maximum levy for counties, school districts and municipalities. Other states establish a graduated scale of tax limitations based upon the population or assessed valuation, similar to Colorado tax limitations imposed on counties. Others fix separate tax limitations for the specific purposes of county and municipal expenditures, as is the case in Iowa, Kansas, Nebraska and Washington. In Iowa the legislature has fixed separate tax limitations for no less than 20 county purposes and more than 50 specific limitations for municipal

purposes. The Juul law of Illinois provides that the combined levies upon any piece of property may not exceed 20 mills. The Smith one per cent law of Ohio provided, with certain exceptions, that the sum of all levies of all taxing authorities should not exceed 10 mills, and placed internal limits upon each taxing authority. Special levies for current operation voted by the people and certain levies for indebtedness were exempt from the 10 mill limitation but must not exceed the aggregate maximum limit of 15 mills.

The Ohio tax limit law represents the most drastic and effective attempt ever made by an American state to limit taxation of local government by state law and was originally hailed as a solution of the taxation problem. The results of the operation of this law were serious. It did not result in increasing the assessment of personal property, which was one of the objects sought by its sponsors. It did effectually check the growth of tax rates but it did not prevent the steady growth of expenditures. Municipalities were the most seriously affected, and they evaded the law by increasing their public debts; floating debts began to rise almost immediately, long-term bonds were issued and used for repairs of streets and buildings and for other strictly current expenses; special assessments were resorted to to finance various types of current activities; sinking funds were skimped and depleted and the funds used for current operation and financial malpractices of various kinds developed, such as deliberate planning to appropriate and expend in excess of revenue; inadequate provision was made for the upkeep of public improvements such as streets and buildings; new services relating to health and public welfare were retarded; and the future taxpayers were required to bear the added cost of retiring the millions of dollars of deficiency bonds. The plan did not result in producing greater administrative efficiency, nor wiser and more efficient use of public funds and, as has been pointed out, the economies which it compelled were false rather than true economies. Ohio's experience warrants the conclusion that rigid limitation of tax rates will not solve the problem of controlling public expenditure.

The second plan of tax limitation, which places restrictions upon the amount of tax revenue is used in a dozen states, of which Colorado is one. Six states determine the maximum by the amount levied in previous years. Arizona restricts the levies for counties and municipalities to a 10% increase over the preceding year, exclusive of levies for school and debt purposes. Colorado limits all local government tax levies to an amount 5% in excess of the previous year's tax levy, except for bonded indebtedness. Missouri restricts all governmental levies, except those for indebtedness, to a maximum of 10% in excess of the previous year's levy except with the approval of the voters. New Mexico provides that the amount levied shall not exceed the levy of the preceding year by over 5%, except with the consent of the state tax commission. North Dakota uses as the base figure the average of the levies for 1918, 1919, and 1920 and provides that local tax levies may exceed the base figure only in the same proportion as the present assessed valuation exceeds the assessed valuation in 1919, except upon a majority vote of the people, in which case the amount may be increased to the extent of 25%. In Oregon the state constitution provides that no taxing district may levy more than 6% above the amount levied in the preceding year except for debt purposes but permits additional levies with the approval of the voters. Minnesota limits municipal levies to $100 per capita, while Nebraska fixes the maximum levy in dollars for a few cities.

V. Administrative Central Control over Local Finances

Several states, notably Indiana, New Mexico, Oregon and Colorado, confer upon a central state agency, authority to determine the final levy of taxes. The Colorado practice has already been described.

Indiana in 1919 conferred upon the state tax commission power to examine and revise local budgets as it saw fit. This proved to be unpopular, as it violated the principles of home rule and the law was changed. At present the state tax commission is limited to a consideration of only those budgets which are presented to it. Ten or more taxpayers may appeal to the tax commission to conduct a public hearing and make recommendation regarding any budget or tax levy which they feel is excessive or unreasonable. The hearing is held in the county in which the taxing district is situated. The state tax commission has the power to affirm or decrease the total tax levy or any item thereof and after its action is certified to the county auditor, its decision is final. Table 87 following summarizes the work of the Indiana commission since 1921.

In the opinion of the commission the actual reductions effected do not represent the measure of economies resulting from the system, because many local budgets are now more carefully and intelligently studied by taxpayers, and local public officials work with the knowledge that their budget and tax levies may be appealed to the tax commission.

New Mexico also vests its tax commission with extensive control over local finances. Each taxing district is required

TABLE 87
Tax Levy Complaints Filed with and Reductions Made by Indiana Tax Commission for Specified Years

Year	Complaints Filed	Reductions	
		Number	Amount
1921	42	39	$1,254,448
1922	74	46	1,034,572
1923	37	25	1,874,070
1924	42	41	1,467,345
1925	113	65	1,554,004
1926	95	51	1,639,187
1927	134	77	4,674,623
1928	65	65	1,554,004
1929	134	83	3,649,212

Source: Reports of Indiana State Tax Commission.

to prepare a budget on standard forms prescribed by the commission and to file it with the commission. The commission must approve, amend, or revise these budgets and certify its action to the board of county commissioners. A district must appeal to the commission for authority to increase its tax levy over the 5% increase allowed by law. If an excess over the statutory levy is approved the tax commission must specifically authorize the amount; if it is disapproved the commission must so state, giving its reasons, and its decision is final.

Oregon in 1921 created a special tax supervising commission, consisting of three persons appointed by the governor, to supervise tax matters in Multnomah County, in which Portland is situated. In 1923 the legislature established similar commissions in each county of the state. The law was declared invalid on the ground of a defective title. This legislation was intended to place the tax levies and expenditures under the control and supervision of an independent county commission and differed from the Indiana plan which vested control in a central state authority. The commission in Multnomah County is still functioning.

The Oregon constitution limits tax levies imposed by tax levying bodies in any one year to 6% of the amount levied during the previous year. Taxes and bond issues voted by the people are exempt from the limitations. There has been a tendency of tax levying bodies to refer any expenditures proposal or large increases in existing expenditures to a vote of the electors, rather than to attempt to meet new needs within the amount available under the 6% limitation. The Property Relief Taxation Committee makes the following statement: "Your committee is convinced that in so far as the 6% limitation has made it necessary to secure popular approval of tax and bond proposals, it has resulted in larger expenditures than would have been incurred if the full responsibility for expenditures had remained with the elected tax levying official." "There is abundant evidence that these bodies have been compelled to take into consideration the danger of reducing taxes any one year to a base so low that 6% increase would not yield sufficient funds to cover necessary expenditures during ensuing years. In many instances this has resulted in levying higher taxes than were necessary for a particular year." "That the so-called 6% limitation is responsible for many of our tax difficulties and a contributory cause of heavy increases in the tax rate is an opinion held by many of the students of the Oregon tax situation."

Massachusetts in 1912 examined municipal finances and found that most of the cities which were operating under tax limits had about the same tax rates and were rendering practically the same service as the smaller cities and towns which did not have tax limitations, but the debts of the cities had grown by leaps and bounds as the direct result of the effort to escape tax limitations, while the towns had few debts. Cities with tax limits were in a worse financial condition than towns of the same size furnishing the same public services and improvements, but without tax limits. On the discovery of this situation Massachusetts repealed all tax limits throughout the state, except for the city of Boston, where it was retained for other than fiscal reasons, and enacted sound bonding and budget laws which have proved entirely satisfactory.

New York's Special Joint Committee on Taxation and Retrenchment studied the subject of municipal tax limits and reached the following conclusions: (1) "Tax limits do not limit. Cities with tax limits spend as much and raise as much by taxation as cities without tax limits. The tax limit may serve to curtail expenditures for one or two years, but as soon as the restraint is felt an amendment is secured which encourages expansion since the tendency is to levy the full amount permitted whether it is necessary or not; (2) Tax limitation encourages unsound bonding; (3) Tax limitations

should never apply to debt service; (4) In a democracy there is no way of blocking a genuine popular demand for increased governmental service through an arbitrary limitation upon the tax levy; (5) The only effective method of securing a restriction of tax levies without hampering municipal services, encouraging unsound bonding and promoting periodic expansion and extravagance, lies along the lines of centering full responsibility upon a single elected official through (a) the establishment of a comprehensive and binding budget system, (b) the enactment of a complete bonding act which will prevent unsound bonding and (c) the wide distribution among the electorals of the direct tax burden." (Leg. Doc. No. 80, pp. 106-7).

Dr. R. C. Atkinson, after a comprehensive study of tax limitations in Ohio and other states, reached the following conclusions:

"Limitations in the rate of levy are objectionable because they fail to take account of the variations in the taxable wealth of different communities and they disregard variations in financial requirements of different types of communities." "It is simply impossible in an industrial state where great variations in governmental needs exist to devise a set of limitations which will allow adequate revenue for all districts without at the same time permitting extravagance in others, unless the legislature is prepared to deal with each community separately."

Limitations in the amount of taxation fail to take into consideration changes in the level of prices or the uneven growth of local requirements. The scheme of permitting tax commissions to authorize additional levies in excess of statutory limitations introduces a much needed element of elasticity, but places control in the hands of a body not intimately acquainted with conditions in the district involved nor in any way responsible to the people of the community affected.

The plan of allowing the voters to authorize additional levies at their discretion may be commended as a method of arousing popular interest in public finance and of increasing the responsibility of local officials in raising the burden of taxation. It encounters the danger that the needed relief legislation will not be secured, due to the unwillingness of officials to call upon the voters for additional levies until every expedient has been exhausted, and due to the natural inclination of the voters to vote "no" on increased levies even when the necessity is clearly apparent. The result of this situation is the temptation to amass a floating debt and impose added cost for current operation upon future generations.

Where rigid control and final authority over tax levies and local finance is vested in a state administrative body such as the state tax commission, it practically results in the abrogation of local government and places the control of local affairs in the hands of the state. In addition to destroying the home rule principle of government, it would be almost an impossible task for a central state body to attempt to examine into all the details of local finance and reach sound conclusions as to whether or not increases are justified. Moreover, such a plan if made effective would be very expensive.

VI. Conclusion

The data and analysis of the present section should show that central control of local finance is necessary, but that rigid tax limitations, especially if incorporated in the state constitution are not desirable means to effect such central control. The principal objection to central control is that it interferes with the so-called principle of home rule in government. But, in 1930, when improvements in transportation and communication have largely annihilated distances and have widened community areas, "home rule" should be a very different thing from what it was in the days of the stage coach, though some of the most voluble apologists for home rule appear not to have sensed the differences. Local governmental functions of 50 or 60 years ago are no longer of merely local interest. Not only the assessment of property for taxation but also the local fiscal policies should be subject to state administrative control and guidance.

SECTION VIII

BOND ISSUES

The state cannot contract indebtedness except to provide for casual deficiencies in revenue, erect public buildings, and suppress insurrection or defend the state in time of war. The amount of debt contracted for deficiencies of revenue is limited to $100,000, and for public buildings to $50,000 except that a debt for the purpose of erecting public buildings may be created by law on majority vote of the electors, not exceeding in the aggregate 3 mills on each dollar of valuation.

On three different occasions the people of the state have amended the constitution to permit the issuance of bonds in excess of the original limits prescribed. In 1910 a bond issue not exceeding $2,115,000 was authorized for the purpose of paying the outstanding warrants issued during the years 1887, 1888, 1889, 1892, 1893, 1894 and 1897. In 1920 an amendment was passed authorizing the issuance of $5,000,000 for the construction of public highways, and again in 1922 a $6,000,000 bond issue was authorized for public highways.

Bonds issued for the erection of public buildings and supplying deficiencies of revenue shall run for not less than 10 nor more than 15 years (Art. X, Section 4). The bond issue authorized in 1910 to fund the outstanding warrants was optional after 10 years and finally payable in 50 years. The $5,000,000 bond issue of 1921 was payable at any time after 10 years and the $6,000,000 of 1922 issue matured in 20 years.

Counties may not contract indebtedness except for the purpose of erecting public buildings and making or repairing roads and bridges. The amount issued in any one year and total amount outstanding varies with the assessed valuation as shown in Table 88 following (Art. X, Section 6).

TABLE 88

Bond Issue Limits in Colorado Counties

Counties Having Valuation	Amount Issued Annually	Maximum Amount Outstanding
Less than $5,000,000	$3 per $1000 valuation	$6 per $1000 valuation
Greater than $5,000,000	$1.50 per $1000 "	$3 per $1000 valuation

No maximum limit is prescribed for school bonds but the proposition must be approved by a majority vote of qualified electors voting thereon. Qualified electors to vote must have paid a school tax in the preceding year (Art. X, Section 7).

The aggregate municipal debt must not exceed 3% of the assessed valuation but debts contracted for supplying water are excluded. The maximum tax levy for debt purposes is 12 mills. Bonds run for not less than 10 years and not longer than 15 years. Debt must be approved by majority vote of such qualified electors as shall have paid a property tax the preceding year. This section prohibits the issuance of serial bonds (Art. X, Section 8).

I. Extent of Public Indebtedness in Colorado

A study of public indebtedness in Colorado indicates the need for a radical revision of the bonding laws of the state.

The total public bonded debt has increased from $13,363,276 in 1905 to a total of $110,181,708 in 1927. The per capita bonded debt rose from $18.96 in 1905 to $102.51 in 1927. The total interest requirements rose from $1,517,000 in 1913 to $5,405,789 in 1927. The bonded debt of all taxing districts has doubled about every eight years since 1905. The increase is shown in Table 89 following.

TABLE 89

Debts of Specified Colorado Political Divisions in Specified Years

	1905	1915	1927
State	$693,500	$3,774,000	$12,002,700
County	3,776,100	3,103,200	2,281,500
Schools	2,753,076	4,894,340	31,045,800
Cities	6,140,600	21,376,800	64,848,708
Total	$13,363,276	$33,075,111	$110,181,708

The largest increases in public indebtedness are for municipalities and school districts, and hence a state bonding law placing reasonable restrictions on these two subdivisions would be most useful in controlling bond issues. A study of the public debt in Colorado shows that serious financial abuses have arisen in connection with it: First, a large part of the existing bonded debt has arisen from deficits incurred in current operation; second, regulations governing debt retirement have been entirely inadequate.

Twenty-two per cent of the present state bonded debt consists of bonds issued to take care of deficits in current operation. Sixty-eight per cent of the total county bonds are either funding or refunding bonds. The total floating indebtedness

of all taxing units in Colorado in 1922 was $10,000,000. The outstanding interest bearing warrants and non-registered warrants of school districts increased from $738,000 in 1905 to $2,576,000 in 1927, indicating that school districts are not meeting current expenses out of current revenues. The large amount of refunding bonds outstanding indicates that taxing units have not made proper provision for retiring bonds at maturity. Bond interest payments consumed, in 1927, 3.5% of total state disbursements and 6.2% of total school disbursements. The total cost of debt service, including bond redemption and interest payments, constituted 12.18% of total school disbursements.

II. Model Bond Law

A number of states, notably Massachusetts, New Jersey and North Carolina, have adopted sound bonding laws and the National Municipal League has prepared a draft of a model municipal bond law based upon the experience of these progressive statutes.

Colorado should amend Article X, Section 8, of the constitution, which prohibits the issuance of serial bonds by municipalities, and adopt a state-wide bond law designed to bring all taxing districts, but particularly school districts and municipalities, up to modern standard practices. The provisions of the model bond law will serve as a guide in this effort.

Its principal features are as follows:

1. Bonds may be issued for capital purposes, but not to meet current expenses.

2. The term of the bonds shall not exceed the probable life of the property or improvement acquired, and a definite schedule of the estimated periods of usefulness of the several classes of improvements should be inserted in the law.

3. Bonds should not be issued except upon authorization of three-fifths vote of the governing body, and should provide for a referendum vote on any bond issue if 10% or 15% of the voters so petition.

4. The bond ordinance should include a complete statement of the debt condition of the taxing district.

5. Only serial bonds should be permitted but provision may be made for the so called serial annuity plan.

6. Bonds may not be sold at less than 95% of par.

7. Every bond issue should contain provisions for levying taxes sufficient to pay the interest and retire the bonds at maturity.

In addition to the above general principles, the bond law should regulate the issuance of refunding bonds, to provide that they may not be issued to mature over a longer period than 10 years. All floating indebtedness should be funded and every taxing unit be placed on a cash basis as soon as possible. In so far as possible all taxing units should adopt the pay-as-you-go policy of acquiring capital assets, especially those which are of a recurring nature. Plans for capital expenditures should be laid out in advance for a 5 or 10 year period, and a definite budget should be prepared and followed.

It would be desirable to require all proposed new indebtedness to be reported to some central state authority and that there should be prepared on standard forms an annual debt statement to be filed with some state authority so that there would be available a complete record of all public indebtedness incurred by all taxing districts in the state. In connection with new bond issues, this central authority could render a valuable service to local taxing districts by calling their attention to any violations of the statutes in connection with the proposed issues.

SECTION IX

BUDGET MAKING

Colorado, in common with two thirds of the states, has, by law, made the governor responsible for preparing and submitting the state budget to the legislature. The governor appoints a budget and efficiency commissioner to assist him in this work. The legal provisions making the governor responsible for the formulation and execution of the budget are largely without force. In practice the finance committees of the legislature pay scant attention to the document submitted by the governor, and they proceed to prepare and formulate another budget. The legislative committees are usually without special training for this kind of work. They have few or no records to assist them and very limited time to devote to the work. In the absence of exact knowledge regarding the needs of the various departments and institutions, which can only be obtained by months and years of patient study and research, the committees are largely influenced and guided by personal opinions, prejudices and hearsay evidence, and political motives play a conspicuous part in the decisions reached. During the hurry and excitement incident to the closing days of the legislative session, it is difficult if not impossible to keep a careful check upon appropriations, which must be made by separate bills for each state institution, and keep appropriations within the estimates of revenues. The system is haphazard, unbusiness-like and wasteful and results in over-appropriations of revenues each biennial period and in the accumulation of annual deficits.

Before Colorado can have an effective budget system there will need to be a fundamental change in the attitude of the legislature, which will recognize that the formulation and execution of the budget is essentially an executive function. The approval of the budget is the function of the legislature, and in modern budgetary practice the legislature is left practically free to modify, either upward or downward, the budgetary proposals of the governor.

It is now quite generally recognized that the work program for the year and the cost thereof can only be formulated by the executives and administrators who are in direct charge of the work, and that the execution of the budget is purely administrative in character. The determination of the amount of work to be undertaken and the methods of raising the revenues needed to finance the budget is a legislative function. In those states which have developed modern budgetary practices the law provides that neither house of the legislature shall

consider further appropriations until the appropriation bills proposed by the governor shall have been finally acted upon. The legislature may increase or decrease items in the budget bill as it may deem to be in the interest of economy and efficiency in the public service, and may enact further or special appropriations after the governor's budget has been finally acted upon. The budget law of Colorado should be amended so as to provide that the legislature shall first act upon the governor's appropriation bill before any other appropriation bills are considered. In case a constitutional convention is called, the question of incorporating such provisions in the state constitution should be considered. Section 32, Article V, of the Colorado constitution, which now requires that all appropriations shall be made by separate bills, should be changed, as it is extremely cumbersome and difficult to adopt modern budget procedure to this provision. The budget should present a complete picture of all receipts and expenditures of all state activities, and the appropriation bills should follow closely the budget document.

A few of the larger and more progressive cities, a few counties and a few school districts in Colorado are operating under genuine budget systems, but the vast majority of the local taxing units have not developed effective budget procedures.

The state government can aid in placing local finances on a sounder basis by the enactment of a general budget law, applicable to all taxing subdivisions and by promoting and encouraging the installation of budget systems. Failure to plan expenditures contributes largely to waste in local governments. Iowa, Indiana and New Mexico have undertaken the supervision of local budgets through a central state agency. In Indiana the state tax commission has the authority to reduce a local budget upon the protest of ten taxpayers of the community affected. In New Mexico all local budgets are made up according to a general form, and a copy is required to be filed with the state tax commission. This commission has power to examine, increase or decrease items, and the decision of the commission is final. It is doubtful if other states will go as far as that.

Ohio, Oregon and Oklahoma provide for a certain amount of supervision and control of local budgets through a county commission or other agency. In Ohio, local budgets must be adopted on July 15 of the preceding year, and be submitted, on uniform blank forms provided by the county auditor, to the county budget commission. Oklahoma has a county excise board which examines local budgets and has the power to revise

and correct any estimates certified to it, and to increase, decrease, or add any items thereto.

The New Jersey statute provides that every county, school district and municipality in the state shall adopt a full and complete annual budget, specifying in detail the items of anticipated revenues and expenditures. Appropriations may be later increased or diminished to the extent of 10% by tax ordinance or resolution, but the gross additions or deductions must not exceed 5% of the total appropriations adopted in the budget. The municipal finance act passed by the legislature of North Carolina in 1927 is closely patterned upon the New Jersey statute.

A committee of the National Municipal League in 1927 prepared a model budget law in the hope that state legislatures would find it suggestive as to the elements of a sound and adequate budgetary procedure. The committee proposed that the act should apply to all subdivisions of the state. The model budget law fixes the fiscal year, outlines the form and content of the budget document, the method of preparation and calendar of events are prescribed, including public hearings and final adoption, the method of control to be exercised is specified, and provisions for transfer, additional appropriations and temporary loans are made.

Colorado should enact a general budget law, applicable to counties, school districts and municipalities, patterned after the model budget law. The law should require that a copy of every local budget be transmitted and filed with some central supervisory agency. This central supervising agency should examine local budgets with respect to sufficiency of appropriations for debt service and payment of deficits, and with respect to compliance with all state laws governing tax limitations or debt limitations, and it should be charged with the duty of promoting and encouraging the adoption of modern budgetary procedure by all taxing subdivisions. The central supervising agency might be a state agency, or a county agency, or a combination of both. The supervision over county and municipal budgets might be placed under a state agency and the supervision of school district budgets might be placed under some county agency. In this connection, further study should be given to the work of the county superintendent of schools in Delta County, where central control of finances, budgetmaking, purchasing and reporting has been established under the supervision of the county school superintendent.

SECTION X

STATE SUPERVISION OF ACCOUNTING, AUDITING AND REPORTING OF LOCAL FINANCES

The laws of Colorado provide for a public examiner, appointed by the state auditor, whose duty it is, together with the state auditor, to prescribe and install a uniform accounting system for every state and county office or institution, and to make annual examinations thereof. Every state and county office or institution is required by law to make annual reports to the state auditor, and he is required to publish an annual volume of comparative statistics which shall be submitted to the governor for transmittal to the legislature.

The staff of the public examiner's office consists at present of the public examiner and four assistant state examiners, and a total annual budget of $12,950 is provided. Their work is confined to an examination of certain state and county offices and institutions. The annual volume of comparative statistics is published as a part of the state auditor's report, and for the biennial period ending November 30, 1928, contained tables showing for each of the 63 counties the total receipts, total disbursements and balances of the offices of county commissioners, treasurer, recorder, sheriff, county court and district court, together with comparative figures for the preceding year. Total disbursements of all state offices, boards and institutions were segregated to show the cost and percentage for salaries, maintenance, equipment, improvements and miscellaneous expenses.

The law is rather comprehensive in scope, providing for the installation of uniform accounting system, an annual audit of all financial transactions and the publication of an annual volume of comparative statistics. During the 20 years this law has been on the statute books the results have been extremely mediocre in character and unsatisfactory. The reports of the public examiner in the earlier years reveal that many irregularities were discovered and contain numerous suggestions for improvement. In recent years the examination of accounts seems to have been rather perfunctory and to consist largely of the transcription of total receipts and disbursements for the purpose of the annual comparative report. Many counties employ private accounting firms annually to audit their accounts, which would indicate that they do not regard the auditing work of the public examiner's office as adequate. Concerning the accounting systems in state offices much evidence exists as to its unsatisfactory character. The weakness and defects of the general accounting system of the

state is readily apparent to anyone who takes the time to examine a copy of the biennial report of the state auditor. The subject was covered rather completely in reports of Survey Committee of State Affairs in 1917, and the need for modern accounting practices and procedures exists today as strongly as when that report was made. An examination of the published biennial report of the public examiner reveals that the information contained therein is of little practical value to anybody. It is of little value to the public official directly concerned or to the public because the information relates largely to total cash receipts and disbursements by fund or appropriation accounts and neither the public administrator nor the public can reach any sound conclusion relative to the efficiency or economy with which the various offices or institutions are conducted from an examination of such figures.

In view of Colorado's experiences with state control and supervision over state and county offices with respect to finances, it would be a rash person who could recommend that the scope of the work should be extended to include municipalities and school districts.

The theoretical arguments in favor of state supervision of local finance appear to be rather conclusive. It is claimed that competent auditing and accounting service can thus be secured at low cost; that the men engaged in the work become specialists and thoroughly conversant with the peculiar problems arising in connection with public accounting as contrasted with private commercial accounting; that uniform methods of accounting and reporting are more easily obtained if the work is directed by a central state agency; and that uniform reports can be secured and valuable comparative statistics made available.

In practice, however, these results are seldom attained. About two-thirds of the states have laws providing for some kind of state supervision of local finance but in only a few states is the work being done in a creditable manner, and even in those states which have been most active and aggressive there is a wide gap between the legal requirements and what has actually been accomplished. The task of installing uniform accounting systems and auditing the accounts of every taxing district is so enormous that no state has yet succeeded in providing a large enough staff of competent accountants to do the job thoroughly and completely.

The states which appear to be most active in the work of supervision are Iowa, Massachusetts, Minnesota, New Jersey, New York, Ohio, and Wisconsin.

Iowa in 1907 created a department of municipal accounts in the auditor's office to compile and publish annual financial statistics of municipalities, and to prescribe a uniform system of accounts, and to audit all cities and towns of over 3,000 every two years. The cost of the audit is borne by the cities.

Massachusetts in 1905 created a division of accounts which now functions under the commissioner of corporations and taxation. Annual reports on statistics of municipal and county finances are published, and the division conducts audits and installs accounting systems. During 1927 the division made 142 audits and installed systems in 8 cities and towns. Up to 1927 the division had installed its uniform accounting system in 194 towns and cities out of a total of 355.

The Minnesota law requires that an annual audit be made of the three first-class cities, but audits of other cities and school districts are made by the public examiner on request.

The New Jersey law requires a yearly audit of cities having an assessed valuation of over $3,000,000 and an audit every two years of cities having a less valuation. The department of municipal accounts maintains a list of registered accountants who upon registration are authorized to audit local accounts. All audits are filed with the state department.

New York has a Division of Municipal Accounts in the Comptroller's office which has prescribed uniform accounting systems for the various sizes of municipalities, and which installs the system and audits accounts of all counties, cities (except those of the first-class), towns and villages.

Ohio has a bureau of inspection and supervision of public offices in the auditor's office, which is required to examine all state and county offices and every taxing subdivision, including private institutions receiving public money. Annual financial reports are required to be filed with the bureau annually and a volume of comparative financial statistics is published.

The Wisconsin law imposes upon the tax commission the duty of auditing the books of towns, cities and counties upon the request of the taxing district or upon its own motion. During the two years 1927 and 1928 the department made 163 audits, 129 closing inspections, 18 installations, 84 financial report inspections and 58 miscellaneous inspections, making a total of 352 field engagements.

In California the state controller published an annual volume of comparative statistics relating to financial transactions of municipalities and counties, based upon annual reports required to be filed with him by county auditors and city clerks.

Sixteen states make legal provision for the installation of accounting systems in cities. In 9 states the adoption of the prescribed system is compulsory and in 7 the system is installed on request of the city. Twenty-eight states provide for the installation of accounting systems in counties. In 6 states such systems are confined to certain offices handling state money. In 3 states the systems are installed only on request. Thirty-three states require the public examiner or some similar officer to install an accounting system uniform for all state offices and institutions.

Thirty-nine states make provision for some form of audit of state offices, 37 states provide for some form of audit of county accounts and twenty states include municipal accounts.

Twenty-eight states require financial reports of county affairs to be filed with the state agency supervising these matters and 18 states require financial reports from municipalities.

The experience of Colorado in this field does not seem to warrant an extension of the work of a state department into the field of installing uniform accounting systems nor of auditing municipal or school district accounts. Unless the state is willing to properly equip and finance an adequate state department of supervision and inspection of local finances, it had better not undertake the task at all. Half-way measures in this field fail to command the respect which would justify the expenditure. The state should, however, provide for the collection, compilation and publication of comparative financial statistics of counties, school districts and municipalities so that there would be available at some central point complete information regarding these matters. Such a law should require every taxing district to file with the central state supervising agency as annual financial report on prescribed standard forms, and a copy of every audit of a taxing district should also be required to be filed in this department. An annual volume of comparative statistics should be published. The present law requiring publication of semi-annual financial statements of county finances should be amended so as to require the publication of annual statements only. The central supervising agency should be empowered to do such field work as is necessary to obtain these annual reports. It should be authorized to encourage and promote the installation of uniform accounting systems and the auditing of financial transactions, and be empowered to make such installations and audits upon request of any taxing district or upon petition signed by 25 taxpayers in any such district. The cost of such work should be charged to the taxing district served.

SECTION XI

GOVERNMENTAL REORGANIZATION AND BUSINESS PRACTICES

A comprehensive reorganization and consolidation of the 70 more or less independent offices, boards and commissions of state government into a simpler, more compact and workable organization, similar to that employed in the national government, in 15 state governments, in 411 municipalities, and which is practically universal in the business and commercial world, would undoubtedly result in securing greater economy in state governmental expenditures. It has been estimated that $500,000 could be saved annually in Colorado through reorganization of the state government, along the lines followed in other states.

The administrative reorganization of local governmental units, counties, school districts and cities, offers large opportunities for securing more economical administration, the adoption of the city manager plan in municipalities and the application of the county manager plan to counties have all been tried and proved successful. The state constitution and statutes of Colorado should be so amended as to make it possible for local governments to avail themselves of these newer and more efficient types of governmental organization.

In Colorado, the secretary of state purchases office supplies and certain printing for the various state departments and offices. The board of capital managers furnishes the legislature and executive departments with furniture, fuel and light. The commissioner of public printing has direction and supervision of public printing, including stationery, blank books and printing of the annual or biennial reports. The state highway department maintains its own purchasing department. The board of corrections is responsible for the purchasing for the state insane hospital, penitentiary and reformatory. Each state educational institution and other state correctional and charitable institutions do their own purchasing. The purchasing agents of the higher educational institutions, however, have entered into a voluntary cooperative purchasing association which has resulted in standardizing various types of commodities in common use by each institution and in very considerable centralized purchasing. It is clear that the state's purchasing is now performed by too many different agencies, and that some degree of centralization would be desirable. There is general agreement that the office of secretary of state is not the proper department to carry on this activity. The suggestion has been made that the purchasing division of the state

highway department might form the nucleus of the new centralized purchasing department. The present trend in state government is in the direction of administrative centralization, including purchasing. All of the 15 states that have reorganized their governments since 1917 have adopted or continued centralized purchasing. Since centralized purchasing is intimately related to strict budgetary control, many political economists agree that the purchasing agency should be a division of the finance department. Such is the practice in 11 states.

At present 36 states purchase all or a considerable part of their requirements in supplies, materials and equipment through a central office. Twenty-five states centralize the purchasing for both state institutions and departments. Eleven states centralize the purchasing of state institutions only. For a full description of centralized purchasing in state governments the reader is referred to "Governmental Purchasing" by Russell Forbes.

It is estimated that there are over 3,000 counties in the United States, and not over 100 practice centralized purchasing. Under the general law of New York state, passed in 1921 and amended in 1925, any county is permitted to establish centralized purchasing. Under a general law in California boards of supervision may appoint a purchasing agent. Under these provisions 22 California counties have centralized purchasing. All elementary school districts are required to purchase standard school supplies through the office of county superintendent of schools, or through the county purchasing agent, if the superintendent so delegates the power. High school districts may elect to come under the provision of the act. North Carolina requires all counties to centralize purchasing in the hands of a member of the county board or some person appointed by that body.

Centralized purchasing is confined to the large cities in Colorado. Denver has a well organized purchasing department, and in a number of the city manager cities, such as Colorado Springs, Grand Junction, and Boulder, the city manager acts as purchasing agent. In a few other cities, such as Fort Collins and Sterling, the city council has designated the city clerk as purchasing agent.

About 250 cities of the United States had adopted the principle of centralized purchasing in 1926. 95 cities of over 10,000 population have full-time purchasing executives. In 60 cities of over 10,000 the purchasing is a part time duty of some official, and in 44 cities the city manager is the purchasing agent. In cities of less than 10,000 population purchasing is usually a part-time function of some unit of the government.

The adoption of a general state law, similar to the laws of California, New York or North Carolina, permitting the county commissioners to establish centralized purchasing, permitting school districts to centralize their purchasing through the office of county superintendent of schools as is now being done in Delta county, and permitting city councils to create purchasing departments would tend to promote economy in government.

Any complete reorganization of state or local governments will require constitutional change. The present form of state organization is set forth in Article IV, and county organization is specified in Article XIV. A limitation on municipal organization is contained in Article XIV, section 12, which limits the term of office of county, township, precinct and municipal offices to two years. These sections could be eliminated and a general provision inserted instead requiring the General Assembly to provide by statute for the organization of state and local governments. The proper organization of state and local government is of vital importance in securing economy in expenditures, since otherwise it is difficult, if not impossible, to inaugurate methods that will reduce costs. It is hardly possible for any kind of a budget plan to succeed when there is no responsible administrative head. There must be some form of central administrative control, in order to prepare and execute a budget.

In order that the General Assembly may have the basic information necessary to enable it to draft a general law for the organization of local government, a comprehensive survey should be made of county, school district and municipal organization in Colorado. Such a study would undoubtedly reveal many opportunities for retrenchment in local government in connection with elections, printing, business methods and office procedure. Similar surveys made in other states have pointed out opportunities for savings in connection with elections through establishing systems of permanent registration by votes, by reducing the number of election officials and increasing the size of election precincts or districts, and by adopting modern tabulating machines in the work. These surveys have indicated possibilities for saving in connection with public printing, through standardization of reports, better arrangement of subject matter, elimination of useless material, reducing the number of publications required and the use of pamphlets, instead of newspaper space in certain cases. For example the Colorado Survey Committee on State Affairs of 1917 pointed out that the cost of printing initiative and referendum measures and constitutional amendments could be reduced by adopting the plan used in the state of Washington, thus saving the

state hundreds of thousands of dollars. Instead of publication in newspapers, the State of Washington requires measures to be printed in pamphlet form and mailed to the voters. The possibilities for reducing expenses by installing machine methods in many government offices, both state and local, have been demonstrated in many states, counties and cities. Mechanical methods installed in assessor's offices and treasurer's offices, eliminate unnecessary clerical help and reduce costs. Photographic recording of public documents is both cheaper and better than the old methods. A comprehensive survey of county government would reveal the possibility of effecting savings through consolidation of counties and similar studies of local district school administration would indicate the lines which school district consolidation should take. These illustrations indicate some of the possibilities which exist for effecting economies in public expenditures, but they cannot be adequately treated within the limits of this report.

In concluding this survey, it is appropriate to warn those who may undertake to formulate measures to create a modern and scientific revenue system. Colorado as a comparatively young and undeveloped state with great natural resources should be slow to adopt changes that would tend to drive capital or people from the state. On the contrary, wisdom would dictate such modifications as in the light of experience elsewhere would attract such capital and settlers as the state can economically employ. Experience elsewhere demonstrates that the need for tax reform grows pari passu with economic development. It should be possible, therefore, for Colorado to follow rather than lead in adopting innovations in the tax system.

The aggregate tax burden is here—it may possibly be decreased. It should be increased, if at all, only by slow gradations, dependent upon the legitimate demands of the people for more governmental service. A readjustment of the burden, however, is desirable. To superimpose upon the present ad valorem system any substantial additional tax would probably produce disastrous results. It would tend to add to the burden upon urban real estate, farms, and homes by driving capital from the state and further diminishing the salability and rentability of real estate.

In short, if any new system of taxation be resorted to, it should be conditioned upon at least the abolition of any ad valorem tax on intangible property.

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March, 1938

FINANCING GOVERNMENT IN COLORADO

1926-1937

LEGISLATIVE COUNCIL
OFFICE OF DIRECTOR
224 State Capitol Bldg.
DENVER, COLORADO

A Report by the

PUBLIC FINANCE AND GOVERNMENT COMMITTEE

of the

CITY CLUB OF DENVER

PAMPHLET NO. 22

Prepared under the Auspices of the

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Midland Savings Bank Bldg.

E. G. Plowman, *Vice-President*
Continental Oil Bldg.

M. B. Holt, *Secretary*
Symes Bldg.

STATE PLANNING COMMISSION
130 State Office Bldg.,
Denver, Colorado.

March, 1938

ACKNOWLEDGMENT AND FOREWORD

The City Club of Denver takes this occasion to acknowledge the splendid research facilities of the Bureau of Business and Social Research, University of Denver, through which agency this study has been compiled. The report was written by Messrs. F. L. Carmichael and E. T. Halaas, Director and Associate Director of the Bureau. Collaboration in this work by the Public Finance and Government Committee has assured a blending of research, business and civic viewpoints.

It is the expressed purpose of the City Club—

> "To insist upon the importance of public affairs; to ascertain conditions; to impart, not opinions but the basis for opinions; to discipline our public acts with private thinking; to co-operate with public officials in seeking to improve conditions susceptible of improvement, and, only as a last resort, to publish criticism; to kill germs of iniquity and neglect with the light of truth; to seek to inform rather than to reform; not to take sides in public issues but to equip individuals to do so effectively; to foster good-humored friendship among ourselves; all to the end that, in Denver, public administration, commerce, the arts and sciences may thrive."

We submit that these worthy purposes are ideally served in this report entitled "Financing Government in Colorado." The report is factual, free from partisan viewpoints and presents no recommendations. Certain pertinent facts are nevertheless readily apparent.

1. Total taxation is now at an all-time high in Colorado, even though business conditions have been depressed for a period of years.
2. The Sales Tax was passed expressly for emergency relief, but 85% of collections has since been diverted by constitutional amendment to other purposes.
3. If the Colorado old age pension of $45 per month were to be paid in full, the resultant annual income per pensioner would exceed the average per capita income in this state and in the United States.
4. Even though taxes are at a peak in Colorado, they must be greatly increased if the present old age pension amendment continues in force.

Citizen sponsored audits, studies, comparisons and publications of expenditures of tax moneys of this state and its governmental sub-divisions are to be commended. Such surveys and publications should be productive of greater effciency and economy in government.

This report deals generally with various phases of state government finance. It is contemplated that subsequent reports will deal specifically with such financial problems as those pertaining to highways and educational institutions.

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FINANCING GOVERNMENT IN COLORADO, 1926-1937

The purpose of this study is to present certain basic information concerning public revenues and expenditures in Colorado. The subject matter is divided into three parts: first, a description of the state and local tax system, wherein the various kinds of taxes and the receipts therefrom are indicated; second, an analysis of the character and trend of receipts and disbursements of the state government; and third, a review of certain current problems of state finance. It is recognized that matters relating generally to taxation and government expenditures raise many controversial questions of public policy. As a factual presentation, which this study purports to be, argument and theories cannot be brought within its scope. It is hoped, however, that such information as is offered herein may contribute in some measure to a fuller understanding and appreciation of the problems of state and local government which today, more than ever, merit the whole-hearted attention of all citizens.

TAXATION IN COLORADO

Tax Revenues. A government, like any private business, is created for the purpose of rendering certain services, presumably desirable from a social point of view. By the same token these services must be paid for. This necessitates taxation, without which no government could exist. The various taxes and the revenues which they produce for all government in Colorado—state, county, city, and school—are indicated in Chart 1 and Table 1.

For state and local governments combined thirteen separate taxes and licenses are employed.* Total collections from such sources for the 1937 fiscal year amounted to $61,180,000, a figure which exceeds that for any previous year in the history of the state. The general property tax alone accounted for $38,139,000, or 62 per cent of the total.** The sales tax amounted to $6,762,000 or 11 per cent of the total. The tax on motorists, including both the gasoline tax and the motor vehicle license, amounted to $10,592,000 or 17 per cent. Other taxes and licenses, among which the liquor license was the most important, accounted for the remainder of $5,687,000 or approximately 10 per cent of total tax receipts.

The trend of total tax revenues in Colorado since 1926 resembles, to a degree, the movement of general business activity during the same period, viz., the steady rise from 1926 to 1931, the downturn after 1931, and the rise again from 1934 (Chart 1). In rates of change, taxes for the first period showed an increase of 18 per cent; in the second period, a decline of 20 per cent; and in the third period, from 1934 to 1937, an increase of 27 per cent. The movement of receipts from separate taxes does not necessarily conform to that of the aggregate collections. Thus we find that revenues from the general

*The use and service taxes were not counted as separate taxes, being included under the general designation of sales tax. The income tax which has since become operative is not included in the count.

**General property tax revenues shown for any year are the levies made for the preceding year.

Acknowledgment is made to the following agencies and persons for valuable cooperation in the preparation of this report: Department of Auditing, Thomas Annear, Auditor of the State, and James A. Nooman, Bookkeeper; Colorado Tax Commission, James A. Savage, Secretary; and R. G. Montgomery, State Budget and Efficiency Commissioner.

Acknowledgment is made also of the assistance in the statistical analysis rendered by: Betty Reid, Secretary of the Bureau; Harold C. Wiedeman, Supervisor of the Laboratory; Sam Butler, Research Assistant; and Vincent Covillo, Shelton Doyle, Carl Fulkerson, Dorothy Jones, Glenn Lewis, and Keith McChesney.

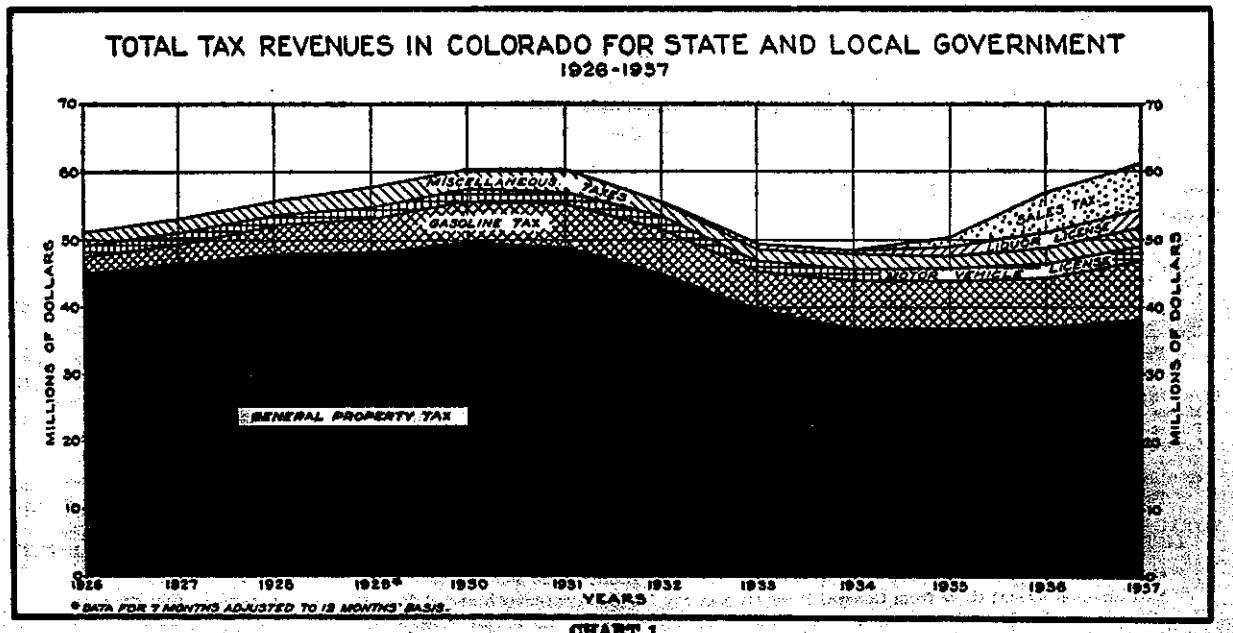

CHART 1

property tax rose from 1926 to 1930 by only 10 per cent, dropped during the second period by 19 per cent, and rose from 1934 to 1937 by only 4 per cent. The addition to the tax structure of the liquor and sales taxes accounts for the rapid rate of increase in total tax revenues since 1934. Other taxes, such as those on gasoline and motor vehicles, although constantly increasing in importance, are relatively stable producers.

The foregoing total of tax revenues does not include receipts of either the state or local government derived from minor licenses and department earnings. These, however, do not represent a sizable portion of government income and were therefore omitted in this section of the study.

Finally, of the total amount of taxes collected in 1937, approximately 38 per cent was used for state government purposes, the remaining 62 per cent going to local tax jurisdictions such as the counties, towns and cities, and school districts. The distribution between state and local governments is shown in Table 2 for 1937 and 1926. From this table it may be seen that most of the general property tax receipts were used by local governments. Other taxes, shared in various proportions by state and local governments, are those on gasoline, motor vehicles, and public carriers. The revenues from the nine remaining taxes and licenses, the most important of which were the sales tax and the liquor license, were available exclusively for state purposes. However, under the old-age pension amendment of 1936, 85 per cent of the revenue from the sales tax and the liquor license must be used for old-age pensions. Since pension allotments are made on a county basis, it follows that the greater part of this revenue was actually used for local government purposes. Taking this into account, the local governments' share of the receipts in 1937 was 75 per cent rather than the 62 per cent noted above.

Table 2

Distribution of Total Tax Revenues in Colorado between State and Local Governments Fiscal Years 1937 and 1926

(In thousands)

Taxes and Licenses	Taxes, 1937			Taxes, 1926		
	Total	For State Purposes	For Local Government Units	Total	For State Purposes	For Local Government Units
General Property	$38,139	$ 8,317	$34,822	$45,190	$ 5,726	$39,464
Gasoline	8,260	6,381	1,879	2,145	1,140	1,005
Motor Vehicle	2,332	1,269	1,063	1,507	758	749
Public Carrier	651	432	219	1	1	0
All Other	11,798	11,798	0	2,030	2,030	0
Total	$61,180	$28,197	$37,983	$50,873	$ 9,655	$41,218

Source: Annual Reports of the Colorado Tax Commission and the Biennial Reports of the Auditor of the State.

The General Property Tax. This tax has always been the chief source of public revenue in the state. Administered locally, for the most part, it is virtually the sole support of county, city, and school administration. Of the total property tax revenues in 1937, which amounted to $38,139,000, 49 per cent went to the schools, 21 per cent to cities and towns, and 21 per cent to county governments, leaving only 9 per cent for state purposes. The trend of general taxes since 1926, by major purposes, is shown in Table 3. It will be seen that annual revenues going to each of the four government groups decreased steadily from 1929 to 1934 or 1935. During the past two years general property taxes levied increased by approximately $4,000,000, of which increase nearly one-half went to the state.

The assessed value of all property in Colorado was $1,110,851,000 in 1937 as compared with $1,586,920,000 in 1929, and $1,546,830,000 in 1926. The relative importance of major classes of property composing the total tax base in 1937

Table 1

Total Tax Revenues in Colorado for State and Local Government, 1926-1937[a]

(In thousands)

Taxes and Licenses	1937	1936	1935	1934	1933	1932	1931	1930	1929[b]	1928	1927	1926
General Property Tax[c]	$38,139	$36,962	$36,813	$36,793	$39,998	$44,864	$49,207	$49,684	$48,281	$47,976	$46,242	$45,190
Special Taxes:												
Corporation Franchise	119	128	132	132	141	158	173	181	181	190	183	184
Inheritance	938	718	529	1,120	429	780	1,000	908	479	869	675	876
Metal Mining	13	12	12	11	9	10	12	13	10	16	19	19
Coal Mine Inspection	42	39	32	22	21	26	30	41	28	40	84	41
Insurance	798	756	720	688	752	796	822	827	762	787	703	668
Sales	6,762[d]	5,809	1,231	0	0	0	0	0	0	0	0	0
Gas	8,260	7,263	6,871	6,733	5,895	6,695	6,765	6,282	2,471	4,118	3,149	2,145
Total Special Taxes	16,932	14,725	9,527	8,706	7,247	8,465	8,802	8,252	3,926	5,970	4,763	3,933
Total Taxes	55,071	51,687	46,340	45,499	47,245	53,329	58,009	57,886	52,157	53,946	51,005	49,123
Licenses:												
Motor Vehicle	2,332	2,130	1,881	1,779	1,589	1,890	1,940	1,981	1,642	1,788	1,600	1,507
Public Carrier	651	399	203	139	96	109	94	87	85	71	12	1
Liquor	2,602	2,784	1,385	500	88	0	0	0	0	0	0	0
Store	225	205	169	0	0	0	0	0	0	0	0	0
Hunting and Fishing	299	247	199	188	186	262	285	318	124	277	293	242
Total Licenses	6,109	5,765	3,787	2,606	1,959	2,261	2,319	2,386	1,851	2,136	1,905	1,750
TOTAL TAXES AND LICENSES	61,180	57,452	50,127	48,105	49,204	55,590	60,328	60,222	53,958	56,082	52,910	50,873

[a]Fiscal years from 1926-1928 ending November 30; 1930-1937 ending June 30.
[b]All revenues except those from General Property Tax are for the seven-month period from December 1, 1928, to June 30, 1929.
[c]Figures for the General Property Tax revenues are the levies and not the actual collections.
[d]Includes collections of $72,006 from Use Tax and $1,186 from Service Tax.
Source: Annual Reports of the State Tax Commission and the Biennial Reports of the Auditor of the State.

Table 3

General Property Taxes Levied, 1926-1937

(In thousands)

Year	Total	State	County	City and Town	Schools[a]
1926	$46,241	$ 5,705	$ 9,371	$ 8,780	$22,385
1927	47,976	6,044	9,747	8,943	23,242
1928	48,281	5,623	9,955	9,065	23,588
1929	49,684	5,882	10,318	9,329	24,155
1930	49,207	5,710	10,089	9,354	24,054
1931	44,864	5,051	8,733	8,754	22,326
1932	39,998	4,482	7,412	7,898	20,206
1933	36,793	3,745	7,229	7,237	18,582
1934	36,813	3,749	7,459	7,238	18,367
1935	36,962	3,269	7,686	7,753	18,254
1936	38,139	3,316	8,179	7,949	18,695
1937	40,758	5,002	8,636	8,066	19,054
% Change '37 from '29	—17.9	—14.3	—16.3	—13.6	—21.2
% Change '37 from '36	+ 6.9	+50.8	+ 5.6	+ 1.5	+ 1.9

Note: The levies shown for any given year are collectible in the year following.

[a]General and special school levies combined.

Source: Annual Reports of the Colorado Tax Commission.

is shown in Table 4. It is clear that the two groups of properties designated as real estate and corporations, which together account for 85 per cent of the total state valuation, are the main source of general tax revenues. The amount of the intangibles listed was only 1.2 per cent of the tax base.

The trend of the total state valuation by years, as noted in Table 5, marked a downward course from 1930 to 1935 which was more pronounced than that of total taxes—the assessed valuation decreased 31 per cent, while taxes fell only 25 per cent. This means that mill levies were increased during the period to offset the reduced assessments.

Table 4

Assessed Valuation by Principal Classes of Property in Colorado, 1937

PROPERTY CLASS	Valuation (In thousands)	Per Cent of Total Valuation
REAL ESTATE		
Farm Lands and Improvements	$ 276,556	24.9
Town Lots and Improvements	405,713	36.5
Timber, Mines, and Improvements	31,742	2.9
Total Real Estate	$ 714,011	64.3
CORPORATIONS		
Railroads	$ 146,836	13.2
Public Utilities	59,292	5.3
Telephone, Telegraph, etc.	23,501	2.1
Total Corporations	$ 229,629	20.6
PERSONAL PROPERTY		
Merchandise, Furniture and Fixtures	$ 91,803	8.3
Farm Stock and Machinery	44,147	4.0
Intangibles	13,770	1.2
Household and Other	17,491	1.6
Total Personal Property	$ 167,211	15.1
Total Assessed Valuation	$1,110,851	100.0

Source: Annual Reports of the Colorado Tax Commission.

As indicated by Chart 2, farm land and improvements as a subject of assessment have declined in relative importance. In 1926 this property class represented 31.6 per cent of the total state valuation, while in 1937 the ratio was 24.9 per cent. The total decrease from 1926 to 1937, with reductions occurring in each year of the interval, amounted to 43.4 per cent. The valuation of city properties fell sharply after 1930, as did the valuations of all property groups with the exception of public utilities, the latter declining only moderately. The 1937 assessment

Table 5

General Property Tax Base in Colorado, 1926-1937

(In millions)

		Real Estate				Corporations				Personal Property					
Year	Total Valuation	Farm Land and Improvements[a]	Town and City Lots and Improvements	Timber Land, Mines, Oil, and Improvements	Total Real Estate	Railroads	Public Utilities	Tel. and Tel., Bus. R. R., Exp., and Carriers	Total Corporations	Mdse., Furn., Flrt. and Store Machinery	Autos and Trucks	Farm Stock and Machinery[a]	Intangibles	Household and Other Property	Total Personal Property
1926	$1,547	$ 489	$ 504	$ 54	$1,046	$ 159	$ 47	$ 19	$ 226	$ 125	$ 46	$ 57	$ 39	$ 7	$ 275
1927	1,565	486	513	53	1,052	164	49	20	233	127	48	59	38	8	280
1928	1,578	474	526	51	1,052	161	52	20	233	127	47	68	40	10	293
1929	1,587	469	529	48	1,046	166	54	21	241	123	53	73	38	13	300
1930	1,586	458	532	47	1,037	173	58	22	253	122	50	70	38	16	297
1931	1,438	372	502	43	917	170	58	23	251	113	45	60	37	15	270
1932	1,281	347	468	37	853	141	53	19	213	96	36	41	30	11	214
1933	1,010	293	390	31	715	130	50	18	199	84	27	35	29	10	186
1934	1,099	293	391	29	713	129	51	18	198	83	30	40	26	9	188
1935	1,088	279	393	29	701	124	51	19	194	83	37	38	28	8	194
1936	1,104	278	394	30	702	128	52	20	195	85	43	40	28	10	206
1937	1,111	277	406	32	714	147	59	23	230	92	0[b]	44	14	17[c]	167
Percentage of 1926															
1926	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1927	101.2	99.4	101.9	98.1	100.5	103.3	102.4	102.6	103.0	101.3	104.4	105.2	97.2	102.9	102.1
1928	102.0	97.0	104.4	95.4	100.5	101.6	109.2	101.3	103.1	101.4	103.3	119.4	103.2	138.3	106.7
1929	102.6	95.9	105.1	88.6	99.9	104.2	114.4	107.1	106.6	97.8	116.4	129.0	97.5	169.6	109.2
1930	102.6	93.7	105.6	86.4	99.1	108.7	121.8	115.6	112.0	97.7	109.9	123.2	97.2	210.0	108.0
1931	93.0	76.2	99.7	79.6	87.7	107.2	122.2	117.0	111.2	89.9	99.3	106.0	93.9	201.4	98.2
1932	82.8	71.0	93.0	69.6	81.5	88.8	110.7	100.1	94.4	76.4	78.4	73.0	77.7	143.7	78.0
1933	71.1	60.0	77.5	57.4	68.3	82.1	106.0	93.2	88.1	67.2	58.8	62.5	75.7	126.7	67.7
1934	71.1	59.9	77.6	54.7	68.1	81.3	107.0	93.7	87.8	66.1	65.4	70.0	67.4	118.2	68.5
1935	70.4	57.2	77.8	54.6	66.9	77.8	108.0	96.8	85.8	66.1	81.1	66.4	71.8	105.4	70.6
1936	71.8	56.9	78.3	54.9	67.1	77.6	109.9	101.1	86.5	68.0	92.7	70.5	72.6	123.0	75.0
1937	71.8	56.6	80.5	58.9	68.2	92.4	124.7	120.7	101.6	73.2	0.0	78.0	35.3	231.5	60.9

[a]Data for Farm Land and Improvements and Farm Stock and Machinery are combined and plotted as "Farm Land and Machinery" in Chart 2.

[b]Separately taxed in 1937.

[c]Increase over 1936 due to increase in assessed valuation and decrease in the values reported on exempt properties.

Source: Annual Reports of the Colorado Tax Commission.

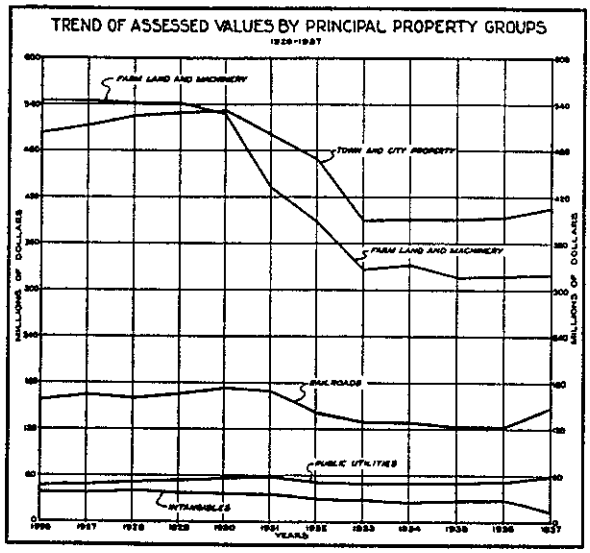

CHART 2—Trend of Assessed Values in Colorado

showed an increase for all groups excepting farm real estate, the 19 per cent increase in the assessment of railroads over that in 1936 being particularly marked.

Offsetting to some extent the decreases in annual valuation, average tax rates increased generally throughout the entire period 1926 to 1937. Contrary to the general trend, the levy for state purposes generally decreased dropping from 3.67 mills in 1926 to 3.00 mills in 1936 (Table 6). In 1937, however, the rate was raised

Table 6

Average Mill Levies of State and Local Governments in Colorado, 1926-1937

Year	General Average	State	County	City and Town	School[a]
1926	29.74	3.67	6.03	11.67	14.40
1927	30.48	3.84	6.19	11.90	14.77
1928	30.54	3.56	6.17	11.73	14.94
1929	31.15	3.66	6.48	11.84	15.16
1930	31.01	3.59	6.36	12.01	15.17
1931	31.00	3.49	6.03	12.15	15.44
1932	31.14	3.49	5.77	12.14	15.73
1933	33.40	3.40	6.56	12.98	16.87
1934	33.33	3.40	6.76	13.02	16.66
1935	32.60	3.00	7.03	13.80	16.75
1936	34.49	3.00	7.40	13.86	16.91
1937	36.66	4.50	7.77	14.50	17.14

[a]General and special school levies combined.
Source: Annual Reports of the Colorado Tax Commission.

to 4.50 mills. Taking city jurisdictions as a further example, it is clear that revenues tended to be sustained by increased mill levies as valuations were reduced. Thus, we find that for a group of twenty Colorado cities the average drop in valuations from 1926 to 1937 was 21 per cent, while total mill levies in those cities (for state, county, town, and school purposes) were increased on an average by 24.8 per cent (Table 7).

Wide differences in the over-all assessment rates exist among the various towns and cities. Property in Leadville, for example, was assessed at 80.85 mills in 1937, while the rate in Fort Morgan was only 41.30 mills. The comparatively low rate of 38.50 mills—the 1937 levy in Denver—illustrates also how rates may be held down when the overhead costs of government can be distributed over a substantial tax base.

Table 7

Total Mill Levy and Assessed Valuation of Twenty Colorado Cities, 1937 and 1926

CITY	Total Mill Levys 1937	Total Mill Levys 1926	% Change 1937 from 1926	Assessed Valuation (in thousands) 1937	Assessed Valuation (in thousands) 1926	% Change 1937 from 1926
Alamosa	71.32	58.84	+21.2	$ 2,195	$ 2,459	—10.7
Boulder	48.29	41.20	+17.2	9,362	12,908	—27.5
Brighton	45.69	37.62	+21.5	1,793	2,297	—21.7
Colo. Springs	48.34	42.46	+13.9	28,255	41,024	—31.1
Delta	56.32	47.45	+18.7	1,781	2,712	—34.3
Denver	38.50	32.37	+18.9	355,643	435,127	—18.3
Durango	68.45	42.20	+62.2	3,085	4,409	—30.0
Fort Collins	54.40	42.20	+28.9	7,674	11,362	—32.5
Fort Morgan	41.30	30.80	+34.1	2,722	3,533	—23.0
Gd. Junction	56.05	41.67	+34.5	7,245	9,606	—24.6
Greeley	52.40	39.00	+34.4	9,475	12,903	—26.6
Gunnison	50.70	35.86	+41.4	1,298	1,641	—20.9
La Junta	45.90	38.47	+19.3	3,918	5,855	—33.1
Lamar	43.15	39.82	+ 8.4	2,308	2,580	—10.5
Las Animas	48.70	38.40	+26.8	1,360	1,594	—14.7
Leadville	80.85	62.00	+30.4	1,024	1,804	—43.2
Ordway	42.50	46.98	— 9.5	614	977	—37.6
Pueblo	72.82	53.60	+35.9	27,072	37,020	—26.9
Trinidad	63.90	49.07	+30.2	7,189	10,598	—32.1
Walsenburg	62.20	54.42	+14.3	2,357	2,774	—15.0
Average	54.59	43.74	+24.8	$ 28,818	$ 30,158	—21.1

[a]Total mill levy includes levies for state, county, town, and school purposes.
Source: Annual Reports of the Colorado Tax Commission.

The lack of uniformity in tax rates is further indicated by data for school districts in Colorado (Table 8). Although the greater proportion of the districts have succeeded in keeping their total tax rates under 8 mills, there were, nevertheless, 667 districts in 1937—approximately one-third of the total—whose assessments ranged from 8 to 32 mills. A comparison of the 1937 and 1926 distributions of districts according to rates of levy shows clearly that present rates are on a materially higher average level than they were twelve years ago. We note, for example, that in 1926 approximately three-fourths of the total number of districts were assessed at rates under 8 mills, while in 1937 two-thirds of the districts had rates below this level.

Table 8

Distribution of School Districts in Colorado According to Mill Levies[a] in 1937 and 1926

Rate Groups (mills)	Districts, 1937 Number	Districts, 1937 Per Cent of Total	Districts, 1926 Number	Districts, 1926 Per Cent of Total
Under 4	388	20.6	806	42.8
4 and Under 8	824	43.9	589	31.3
8 and Under 12	331	17.7	284	15.1
12 and Under 16	177	9.4	134	7.1
16 and Under 20	98	5.2	46	2.4
20 and Under 24	45	2.4	22	1.2
24 and Under 28	10	.5	2	.1
28 and Under 32	6	.3	1	—
Totals	1,879[b]	100.0	1,884[b]	100.0

[a]Includes levies made by a school district for all purposes but does not include the general school levy made by the counties.
[b]Not all district reports were available. The total number of districts in Colorado approximated 2,000 in both years.
Source: County Superintendents' annual reports.

To conclude this analysis of the general property tax mention may be made of tax delinquencies. This has always presented a problem in the administration of the general property tax and during the recent depression it was a prob-

lem of major proportions. Delinquencies varying from county to county are the differences between the collections within a year's time and the assessments. It is to be recognized, however, that over a series of years collections will closely approach the 100 per cent mark. The percentages of collections within a year's time, presented in Table 9, show what the general trend has been.

Table 9

Proportion of General Property Taxes Collected Within the Given Year in Colorado, 1926-1937

Year	Per Cent	Year	Per Cent
1926	97.8	1932	81.9
1927	95.1	1933	81.8
1928	96.6	1934	85.9
1929	95.7	1935	89.3
1930	90.9	1936	90.9
1931	84.8	1937	91.8

Source: Figures from 1926 to 1932 computed from data prepared by Tax Department of The Denver & Rio Grande Western Railroad Company and thereafter from the Annual Reports of Colorado Tax Commission.

Other Taxes. In addition to the general property tax, but considerably less productive, are the twelve other taxes and licenses, a brief description of which will be included in a later section of this study. It may be observed here, however, that in number and relative importance of the different items, the tax pattern for Colorado is substantially the same as that for the majority of states. Reference to Table 10, which shows the tax structures of twenty representative states, indicates, for instance, that nine principal taxes are quite uniformly employed and that the general property tax found in all of them accounts on an average for approximately two-thirds of the public revenues in the states noted.

A count of the different principal taxes found in all of the American states at the end of 1937 showed that the sales tax was employed in 23, the income tax in 37, the gasoline tax in 48, the motor vehicle license in 48, and the inheritance tax in 47.

The "Tax Burden" in Colorado. Closely related to the question of how many different taxes a given state has seen fit to devise is that of the "tax burden." To some people taxation is a "burden" in any event; to others it becomes a burden only when there are needless government activities and extravagance. These latter conditions must, of course, rest on individual opinion which may or may not be sound. There are, however, certain criteria, somewhat limited but reasonably valid, for judging the degree to which taxes are cutting into the personal incomes and perhaps the living standards of the general public. Taxes expressed on a per capita basis is such a criterion, as is the ratio of per capita taxes to per capita income. The latter attempts to show what portion of average incomes is appropriated by the government. Standard or ideal ratios for any time or place have as yet to be devised. For purposes of comparison between localities or intervals of time, however, they may prove to be quite significant.

Total state and local taxes in Colorado for the 1937 fiscal year amounted to $57.12 per capita (Table 11). This is the third largest annual

Table 11

Per Capita State and Local Tax Collections and Per Capita Income—Colorado and United States, 1926-1937

	COLORADO			ALL 48 STATES		
Year	Per Capita Taxes (State & Local)	Per Capita Income[a]	Ratio Per Capita Taxes to Per Capita Income	Per Capita Taxes (State & Local)[b]	Per Capita Income[b]	Ratio Per Capita Taxes to Per Capita Income
1926	$50.82	No	No	$46.33	$631	7.34%
1927	52.89	Data	Data	48.41	625	7.75
1928	55.04	—	—	51.23	633	8.09
1929	55.85[c]	$621	8.99%	52.93	652	8.12
1930	58.02	580	10.00	55.27	587	9.42
1931	57.79	459	12.59	53.05	485	10.94
1932	52.99	356	14.88	50.90	372	13.68
1933	46.73	328	14.25	45.43	353	12.87
1934	45.47	371	12.26	46.45	399	11.64
1935	47.20	406	11.63	48.40	432	11.20
1936	53.89	478	11.39	49.75	496	10.03
1937	57.12	501	11.40	56.07	521	10.76

Note: Incomes are on a calendar year basis and taxes are for fiscal years.

[a]Data from National Industrial Conference Board for years 1929-1935; thereafter figures are estimates of the Bureau.

[b]Based on data from National Industrial Conference Board.

[c]Taxes for 12 months partially estimated by the Bureau.

Table 10

Structure of State and Local Tax Revenue Systems, Twenty States, for the Year 1935-1936

Tax Revenues Expressed as Percentages of the Total

State	Total Revenues	General Property	General Sales	Gasoline	Auto Licenses	Liquor	Personal Income	Corporation Income	Other Corporation Taxes	Inheritance	Misc.
Colorado	100.0	64.8	10.2	12.7	3.7	4.1	0.0	0.0	1.6	1.3	1.6
Arizona	100.0	62.1	9.9	15.1	3.1	3.0	1.5	1.5	0.3	0.1	3.4
California	100.0	46.7	22.4	13.0	2.5	4.3	2.0	4.5	2.6	2.0	0.0
Connecticut	100.0	73.2	0.0	5.1	3.2	1.7	0.0	0.7	6.4	3.1	1.6
Illinois	100.0	65.9	14.3	7.7	4.3	2.1	0.0	0.0	2.3	0.9	1.5
Indiana	100.0	57.2	10.7	12.7	5.3	2.3	0.0	0.0	7.3	0.7	2.3
Iowa	100.0	63.7	9.6	9.2	7.3	0.3	2.3	0.4	1.2	0.3	4.2
Kansas	100.0	77.6	0.0	11.3	5.6	0.0	1.3	0.7	1.3	0.6	1.1
Louisiana	100.0	67.3	0.0	13.2	5.0	2.7	1.3	1.3	1.7	0.6	5.9
Massacusetts	100.0	73.6	0.0	5.9	3.9	1.3	5.4	0.7	5.3	2.0	1.9
Minnesota	100.0	75.7	0.0	7.6	5.3	1.0	0.3	1.6	4.3	0.3	1.9
Mississippi	100.0	58.3	9.5	14.4	4.2	0.3	1.0	0.3	2.2	0.1	8.7
Nebraska	100.0	63.1	0.0	15.7	3.4	1.5	0.0	0.0	3.3	0.2	2.3
New Mexico	100.0	43.6	0.0	16.9	7.4	13.1	0.4	0.6	2.1	0.2	15.7
New York	100.0	63.1	4.7	5.1	3.7	3.0	7.2	3.7	4.1	2.2	3.2
North Dakota	100.0	75.6	1.7	11.2	4.9	1.3	0.6	0.3	1.2	0.2	2.5
Oklahoma	100.0	49.6	6.6	15.2	5.3	1.0	1.9	3.5	1.3	0.5	14.1
Texas	100.0	75.4	0.0	11.5	5.2	0.6	0.0	0.0	1.3	0.2	5.3
Utah	100.0	65.7	11.2	10.9	3.7	0.4	1.9	1.9	2.4	0.7	1.2
Washington	100.0	58.0	8.0	14.0	3.4	3.6	0.0	0.0	3.3	0.3	8.9
Average	100.0	64.3	9.9	11.4	4.3	2.6	2.1	1.6	3.1	0.9	4.6

Source: Tax Systems of the World, seventh edition.

per capita figure for the period from 1926 to 1937, being exceeded only by those in 1930 and 1931, $58.02 and $57.79, respectively.

When the 1937 per capita tax is related to the per capita income in the state for that year, estimated at $501, a ratio of 11.4 per cent is obtained. In other words, 11.4 per cent of every dollar earned by Colorado citizens in 1937 went for state and local government purposes. The proportion of incomes taken by taxes increased rapidly from 1929 to 1933—the ratio in 1929 was 8.9 per cent as compared with 14.2 per cent in 1933—but decreased steadily after that date. The rise during the depression was natural in view of falling incomes and the increasing need for revenues to finance relief. After 1933, incomes increased at a faster rate than taxes, resulting in reduced ratios. Although the proportion of the per capita income going for taxes in 1937 was considerably lower than the average since 1930, it was materially higher than that for 1929 and therefore for the preceding years if the averages of all states can be taken as a criterion.

When per capita state and local taxes in Colorado are compared with the average or over-all figures for forty-eight states, the position of the taxpayer in Colorado appears to have been somewhat less favorable than the average. This is equally true when the comparison is made by relating per capita taxes to per capita incomes (Table 11).

The comparison of Colorado with the general average does not, however, reveal how the individual states were distributed according to individual per capita figures. This might change the picture to some degree, insofar as Colorado's position in relation to the median is concerned. For eighteen states, for which reasonably complete tax information could be secured for comparative purposes, per capita taxes in 1936 ranged from $21.93 in South Carolina to $81.09 in New Jersey (Table 12). In this group Colorado's position is seen to be below the median in per capita taxes but somewhat above that measure when ratios of taxes to incomes are compared. Of additional interest is the record showing comparative changes in these states in per capita taxes. For the period from 1933 to 1936, taxes in Colorado on a per capita basis increased 14.4 per cent, an increase exceeded only by the increases of six other states in the group. The range of percentage changes for the period was from an actual decrease of 1.5 per cent in South Carolina to an increase of 55.5 per cent in California.

The foregoing description of the total tax structure in Colorado has been presented as a setting for a more detailed consideration of

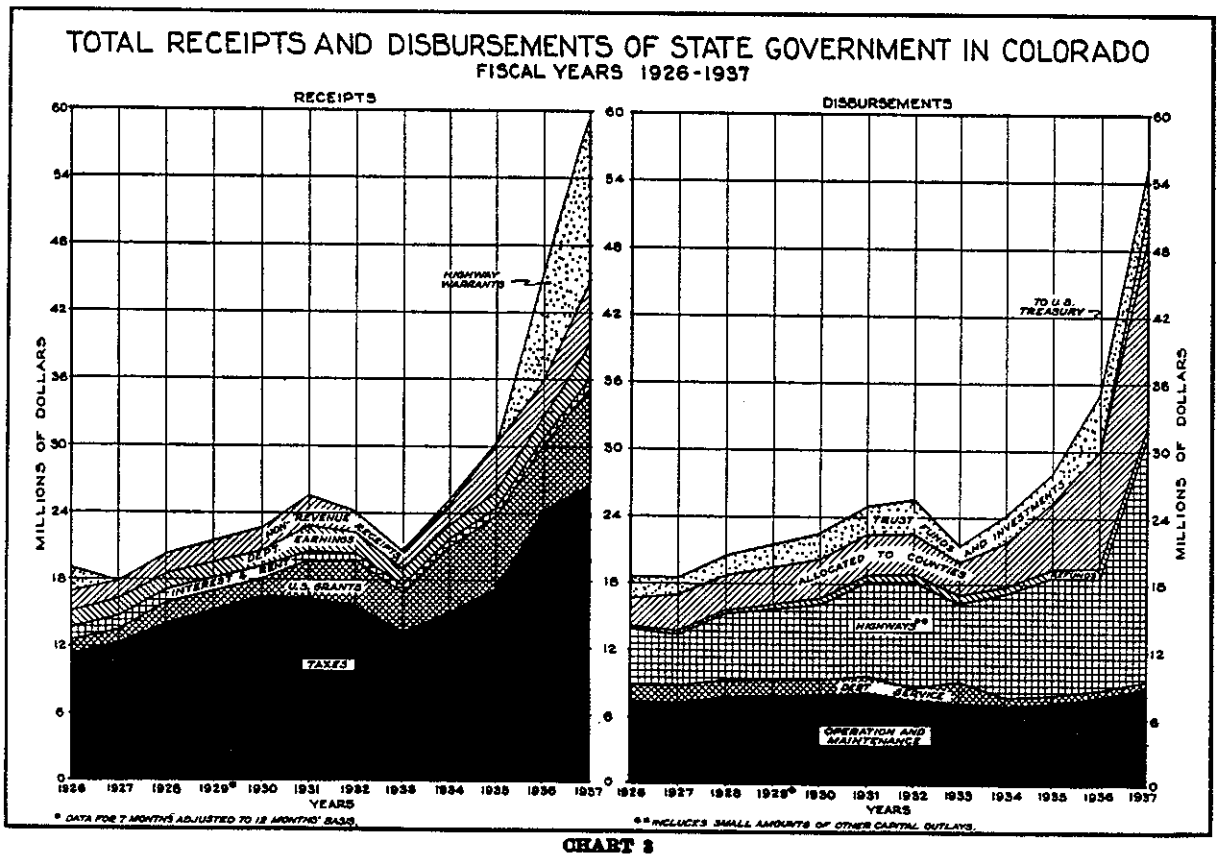

CHART 2

Table 12

Per Capita State and Local Tax Revenues and Income Received in Eighteen States

State	Per Capita Taxes 1936	Per Capita Taxes 1933	Percentage Change Per Capita Taxes 1936 from 1933	Per Capita Income 1935	Ratio Per Capita Taxes 1936 to Income 1935
Colorado	$53.48	$46.73	+14.4	$406	13.2%
California	72.51	46.63	+55.5	605	12.0
Connecticut	64.58	58.12	+11.1	607	10.6
Iowa	56.09	45.83	+22.4	370	15.2
Maine	50.04	46.17	+ 8.4	415	12.1
Maryland	53.56	45.94	+16.6	473	11.3
Massachusetts	71.45	68.04	+ 5.0	539	13.3
Minnesota	59.19	52.85	+12.0	416	14.2
New Hampshire	49.57	51.77	- 4.2	438	11.3
New Jersey	81.09	68.58	+18.3	517	15.7
North Dakota	41.52	38.37	+ 8.2	260	16.0
Ohio	56.88	54.76	+ 3.9	460	12.4
Oklahoma	36.14	30.30	+19.3	259	13.9
South Carolina	21.93	22.26	- 1.5	224	9.8
Utah	48.02	43.21	+11.1	348	13.8
Virginia	26.87	25.83	+ 4.0	305	8.8
Washington	54.97	46.35	+18.6	434	12.7
Wisconsin	55.16	53.91	+ 2.3	467	11.8
Average	52.95	46.92	+12.9	419	12.6

Source: Tax data from Tax Systems of the World—seventh edition. Data on incomes from National Industrial Conference Board.

state government finance. The following two sections will be confined to an analysis of the receipts and disbursements of the state government. Reference is made to local governments only in their position as recipients of funds collected and disbursed by the state.

RECEIPTS AND DISBURSEMENTS OF STATE GOVERNMENT IN COLORADO*

The total revenue and non-revenue receipts of the state government of Colorado for the fiscal year ending in 1937 were $59,844,000. These included a $15,000,000 bond issue for highway improvements. Disbursements for all purposes amounted to $54,670,000. These totals are the largest for any single year in the state's history. It is the purpose of this section to consider the manner in which the state secured this money as well as the manner in which it was spent. For purposes of noting changes over a period of time annual data are included reaching back to 1926. See charts 3 and 4 (tables 13 and 14).

A. Receipts

Total receipts are classified as revenue and non-revenue receipts. Revenue receipts include all money or wealth received under such conditions that they increase the assets of the state government without increasing the liabilities. The principal general items in this classification are taxes, fines and forfeits, Federal government grants, interest receipts, and department earnings. Non-revenue receipts are included in state accounts to secure a complete statement, although they do not result in an increase in the net value of assets. Principal among these are receipts from bond issues and the sale of assets. Receipts for funds such as Workmen's Compen-

*All data for state government receipts and disbursements are from the Biennial Reports of the State Auditor. Since these reports fail to show any classification of revenues and expenditures suitable for the purposes of this study, it was found necessary to examine for each year over 300 separate cash funds or items of appropriation which are listed alphabetically in the reports. Receipts and disbursements were accordingly placed in general categories which were deemed most descriptive of their character.

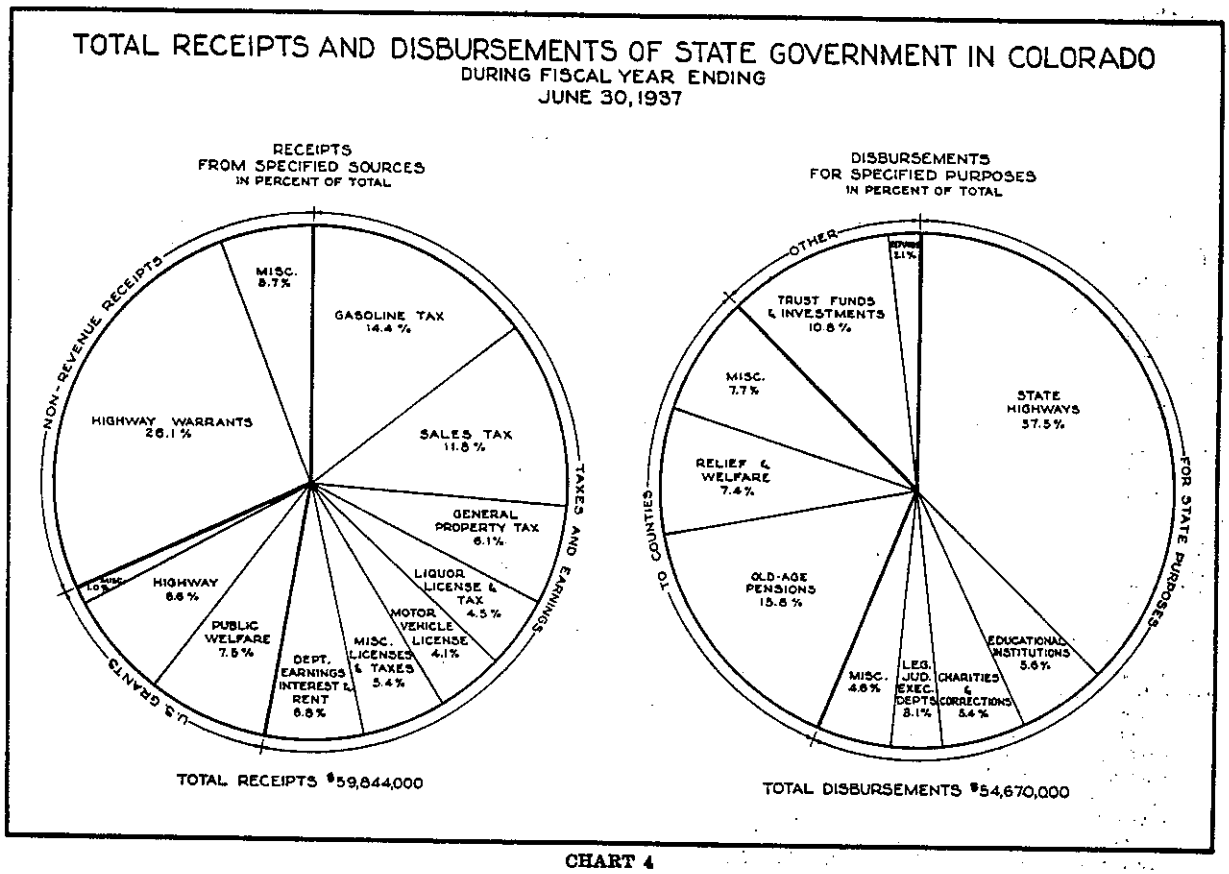

CHART 4

sation are also non-revenue receipts, as are those which are immediately transferred to other civil divisions. In Table 13, however, taxes collected to be used by local governments, such as a portion of gasoline tax collections, were not placed under the non-revenue receipts classification, although technically they belong there.

Taxes. Total receipts from taxes and licenses amounted to $26,546,000 or 44 per cent of the total revenue and non-revenue receipts in 1937. This proportion is somewhat distorted by the unusually large non-revenue receipts total which includes the bond issue for road purposes. Typically, taxes have represented considerably more than one-half of total state revenues. At present, revenues from this source are materially above the totals from taxes of preceding years. The newer state taxes, such as the sales and use tax and the liquor tax, account for this increase.

General property tax collections for all state purposes amounting to $3,505,000 in 1937 were approximately 13 per cent of state tax and license revenues. The total state levy, 4.5 mills in 1937, collectible in 1938, is divided into 23 continuing smaller levies made for specific purposes but mainly for educational and eleemosynary institutions. In 1937 the levy for the state departments or general revenue was .44 of a mill, the remaining 4.06 mills going for other purposes.

The combined sales and use tax collections for the fiscal year ending in 1937 amounted to $6,762,000 or 25 per cent of all tax and license collections. The use tax was of minor importance, contributing only $72,006 to the total. The more recently enacted service tax had not been in operation long enough to make any significant contribution during the 1937 fiscal year.

Total collections from the gasoline tax were $8,260,000 in 1937 or 31 per cent of all state tax and license collections. Of this amount 11 per cent was refunded and 23 per cent was allocated to the counties.

The liquor tax produced $2,602,000 in revenues in 1937, which amount represented approximately 10 per cent of tax and license revenues. Annual license fees are paid by manufacturers, wholesalers, and retailers in amounts varying with conditions of operation and location.

Motor vehicle license fees brought in revenues of $2,332,000 in 1937. This represented a gain of 10 per cent over revenues from this source in 1936 and 35 per cent over those in 1926.

The remaining state taxes and licenses produced revenues aggregating $3,085,000 in 1937 or 12 per cent of total taxes and licenses. A brief description of these follows:

The annual corporation tax is imposed on all domestic companies at the rate of $10.00 on $100,000 capitalization plus 10 cents per thousand or fraction thereof over $100,000. Foreign corporations are taxed at the same rate, which is applied to the portion of capitalizations represented by property located and employed in Colorado.

Table 13

Total Receipts[a] of State Government in Colorado, Fiscal Years 1926-1937

(In thousands)

Receipts	1937	1936	1935	1934	1933	1932	1931	1930	1929[b]	1928	1927	1926
Taxes:												
General Property	$ 3,505	$ 3,856	$ 4,005	$ 3,827	$ 4,172	$ 4,951	$ 5,262	$ 5,893	$ 3,120	$ 5,942	$ 5,610	$ 5,660
Special Taxes[c]	16,932	14,726	9,527	8,706	7,247	8,465	8,802	8,252	8,926	5,970	4,763	3,933
Licenses[c]	6,109	5,765	3,787	2,606	1,959	2,261	2,319	2,386	1,801	2,136	1,905	1,750
Total	26,546	24,346	17,319	15,139	13,378	15,677	16,383	16,481	8,847	14,048	12,278	11,343
Fines, Forfeits, and Escheats	6	13	15	15	14	17	21	20	13	31	14	15
U. S. Grants:												
Highway	3,805	4,173	5,989	5,224	3,481	3,904	3,874	1,415	970	1,730	1,148	1,136
Vocational Education	95	89	96	69	75	82	74	64	48	64	64	88
Other Grants	489	279	410	624	14	12	10	54	21	91	62	25
Welfare	4,296	1,101	0	0	0	0	0	0	0	0	0	0
Total	8,685	5,642	6,495	5,917	3,570	3,998	3,458	1,533	1,039	1,885	1,274	1,249
Receipts—Interest and Rent	1,037	710	732	653	656	711	808	1,161	705	1,130	1,114	1,111
Department Earnings	2,823	1,902	1,428	1,241	1,399	1,976	2,154	1,432	815	1,459	1,586	1,442
Total Revenue Receipts	39,097	32,613	25,989	22,965	19,017	22,379	22,824	20,627	11,419	18,553	16,216	15,160
Non-Revenue Receipts:												
Bond Issues and Warrants	15,000	10,101[d]	0[e]	300	0	0	0	0	0	0	0	2,102
Bond Redemptions	1,331	1,302	2,589	539	843	672	1,701	817	225	339	396	751
For Trust Funds	1,981	1,775	1,579	1,106	829	973	962	1,173	524	1,120	1,123	1,076
Transfers, etc.	2,435[f]	80[g]	97[h]	86	58	135	141	127	0	204	103	0
Total Non-Revenue Rec.	20,747	13,258	4,265	2,031	1,730	1,780	2,804	2,117	749	1,713	1,622	3,929
GRAND TOTAL RECEIPTS	59,844	45,871	30,254	24,996	20,747	24,159	25,628	22,744	12,168	20,266	17,838	19,089

[a]Total receipts are those reported by the State Auditor. These do not include certain receipts of the State University, the Colorado General Hospital, and the Colorado Psychopathic Hospital.

[b]Seven-month period.

[c]See breakdown of class in Table I.

[d]Refunding issue of $55,576 excluded.

[e]Refunding issue of $3,590,649 excluded.

[f]Includes item of $2,321,459.66 for Unemployment Insurance.

[g]State Highway Transfer Trust of $467,000 excluded.

[h]State Highway Transfer Trust of $428,000 excluded.

Source: Biennial Reports of the Auditor of the State.

The state inheritance tax, imposed when property is transferred by will or statute or by survivorship, is measured by the value of property in excess of exemptions. The rate varies from 2 to 16 per cent. In addition there is an estate tax and a gift tax.

The insurance tax is an assessment of 2 per cent on the gross premiums collected by all insurance companies doing business in the state. In addition to this tax there are a number of miscellaneous licenses and fees which together represent approximately one-eighth of the total revenue from insurance.

The metal mining tax amounts to 0.1 per cent of the assessed valuation of all metalliferous mining property. The proceeds are used to defray promotional activities and research affecting the metal mining industry.

A tax of one-third of 1 cent per ton of coal mined, levied on all coal mining operations, constitutes the coal-mine inspection fund. It is used to defray the expenses of the office of State Coal Mine Inspector.

The public carrier tax, as here designated, refers to fees paid by two types of carriers: commercial carriers pay a monthly fee varying from 2 mills to 3¾ mills per ton mile for the right to use public highways; and public carriers pay monthly fees of 2 mills per ton mile and 1 mill per passenger mile.

The hunting and fishing license is a flat fee, the rates being $2 and $5 for residents and $3 and $25 for non-residents.

United States Grants. Total grants and subsidies by the United States government for state highways, schools, and general welfare purposes amounted to $8,685,000 in 1937, an increase of 54 per cent over 1936 and 595 per cent over 1926. The grant of $3,950,000 for old-age pensions accounts for the large increase in the total in 1937 over the preceding year. In proportions of the total, United States grants and subsidies were distributed according to purpose as follows: highways 44 per cent, old-age pensions 46 per cent, other welfare 4 per cent, vocational education 1 per cent, and grants to educational and eleemosynary institutions 5 per cent.

Table 14

Total Disbursements[a] of State Government in Colorado, Fiscal Years 1926-1937

(In thousands)

Disbursements	1937	1936	1935	1934	1933	1932	1931	1930	1929[b]	1928	1927	1926
Operation and Maintenance:												
General Government	$ 1,683	$ 1,238	$ 1,081	$ 644	$ 914	$ 721	$ 915	$ 682	$ 561	$ 651	$ 801	$ 622
Protection of Life and Property	436	371	331	290	313	354	461	423	254	402	468	390
Development and Conservation	711	672	563	590	703	731	819	812	381	672	595	697
Health and Sanitation	264	84	65	44	61	69	70	69	45	79	77	80
Public Works	237	285	215	185	208	222	257	263	111	421	242	477
Charities and Corrections	2,395	2,297	2,105	2,476	2,046	2,057	2,165	1,983	1,189	1,948	1,825	1,887
Educational Administration[a]	45	42	33	31	35	37	39	40	23	42	34	38
Educational Institutions	2,960	2,857	2,844	2,740	2,963	3,370	3,540	3,490	1,890	3,534	3,104	3,052
State Examining Boards	100	90	93	80	85	77	59	60	27	49	47	44
Miscellaneous	18	72	16	30	11	15	17	268	75	49	53	61
Total	8,849	8,008	7,346	7,110	7,339	7,653	8,342	8,090	4,556	7,847	7,246	7,348
Debt Service:												
Interest	347	106	240	240	331	340	441	431	472	541	586	382
Bond Redemptions	376	378[c]	466[d]	401	1,674	707	956	916	880	990	974	1,110
Total	723	484	706	641	2,005	1,047	1,397	1,347	1,352	1,531	1,560	1,492
Capital Outlays:												
Highways	20,502	9,585	10,242	9,373	6,753	9,325	8,200	6,388	2,128	5,866	4,242	4,652
University and College Bldgs.	59	54	61	2	3	19	59	110	8	121	444	491
Other	557	522	274	20	235	235	109	237	51	0	0	0
Total	21,118	10,161	10,577	9,395	6,991	9,579	8,368	6,730	2,187	5,987	4,686	5,143
Total Oper., Debt. S. and Outlays	30,690	18,653	18,629	17,146	16,335	18,279	18,107	16,167	8,095	15,365	13,492	13,983
Non-Governmental Payments:												
To Counties:												
Gas Tax	1,379	1,633	1,526	1,468	1,400	1,591	1,625	1,526	721	1,405[e]	1,660	1,005
Motor Vehicle License	1,063	948	818	912	861	952	989	944	767	882	794	749
Public School Income	720	681	667	601	618	712	844	801	403	863	824	868
Old-Age Pensions	8,671	3,869	1,516	519	----	----	----	----	----	----	----	----
Relief and Welfare	4,589	2,901	1,103	----	----	----	----	----	----	----	----	----
Other	85	273	230	200	197	297	292	289	268	236	203	90
To U. S. Treasury	2,295	----	----	----	----	----	----	----	----	----	—	----
Total to Counties and U. S. Treas.	19,252	10,305	5,860	3,700	3,076	3,552	3,750	3,560	2,159	3,386	3,481	2,712
Refunds:												
Gas Tax	1,137	936	764	826	671	739	652	495	170	----	----	----
Other	7	7	11	117	8	23	10	17	1	32	16	22
Total	1,144	943	775	943	679	762	662	512	171	32	16	22
Trust Funds and Investments	3,584	5,045	2,644	2,446	1,470	2,936	2,616	2,375	1,167	1,800	1,510	1,838
Total Non-Governmental Payments	23,980	16,293	9,279	7,089	5,225	7,250	7,028	6,447	3,497	5,218	5,007	4,572
GRAND TOTAL DISBURSEMENTS	54,670	34,946	27,908	24,235	21,560	25,529	25,135	22,614	11,592	20,583	18,499	18,555

[a]Total disbursements do not include certain expenditure items of the State University, the Colorado General Hospital, and the Colorado Psychopathic Hospital.

[b]Seven-month period.

[c]Refunding issue of $5,576 excluded.

[d]Refunding issue of $3,590,649 excluded.

[e]Expenses of the State Department of Education, Traveling Library, and Historical Society.

Source: Biennial Reports of the Auditor of the State.

Receipts from Interest and Rent. Receipts under this classification consist principally of interest earnings on delinquent taxes, deposits, and various trust funds. Among the latter are the public school fund and a number of land income funds, appropriations from which are for specified purposes.

Department Earnings. These consist of a large number of miscellaneous items such as rents, fees, interest, and income from special services paid to various state departments. The more important of these with the amount of receipts collected by each for the fiscal year 1937 are indicated in Table 15.

Table 15

Receipts from Licenses and Fees Collected by Various State Departments, Boards, and Bureaus, Fiscal Year 1937

Licenses and Fees	Receipts
Fruit and Vegetable Inspection	$104,225
Brand Inspection	50,842
Stock Inspection	37,551
Board of Cosmetology	27,916
Poultry and Egg Inspection	25,801
Restaurant Tax	19,200
Director of Markets	17,846
Real Estate Tax	13,159
Board of Pharmacy Examiners	12,752
Board of Barber Examiners	11,461
Board of Nurse Examiners	10,327
Medical Board Registration	6,748
Board of Medical Examiners	5,221
Board of Chiropractors	3,619
Board of Engineer Examiners	3,551
Board of Dental Examiners	2,075
Auto Camp	1,905
Board of Optometric Examiners	1,860
Board of Embalming Examiners	1,450
Board of Architect Examiners	1,310
Abstracters' Licenses	784
Turkey Inspection	766

Source: Records of the Auditor of the State.

Non-Revenue Receipts. Non-revenue receipts amounted to $20,747,000 in 1937 or approximately one-third of all receipts of the state government. Of this amount, three-fourths resulted from the $15,000,000 bond issue for highway purposes. The payroll tax for unemployment insurance accounted for $2,321,000. Other receipts included those for permanent trust funds, such as the permanent school fund, state compensation insurance, etc., and an item of $1,331,000 derived from the liquidation of certain investments.

B. Disbursements

In appraising the expenditures of the state government it is important to recognize four broad classes, namely, (1) operating expenses of the state departments and institutions, (2) payments on account of debt or debt service, (3) outlays for capital or permanent improvements, and, (4) non-governmental payments. The last do not result in a decrease in the net value of assets.

Operation and Maintenance. The cost of operating and maintaining the various departments and institutions of the state amounted to $8,849,000 in 1937 or 16 per cent of total disbursements (Table 14). As indicated in Chart 3, the increase in total government expenditures since 1933—154 per cent—finds no close parallel in the trend of operating costs. During the same period total operating costs increased only 20 per cent; and this increase may be attributed to the introduction of new state services noted in Table 16. Prior to 1933 state overhead costs maintained a fairly uniform level.

Table 16

New State Activities in Colorado Since 1933

New Services	Year of Beginning	Total Cost 1937[a]	State Share	Federal Grants
Liquor Control	1933	$ 125,017	$125,017	-----
Poultry and Egg Inspection	1933	27,023	27,023	-----
Operators and Chauffeurs License Adm.	1935	120,003	120,003	-----
Store License Adm.	1935	52,829	52,829	-----
Sales Tax Administration	1935	248,668	248,668	-----
Use Tax Administration	1936	1,395	1,395	-----
Department of Public Welfare Adm.	1936	497,050[b]	179,722	$317,328
Total		$1,071,980	$754,752	$317,328

[a]For fiscal year ending June 30, 1937.
[b]For calendar year.

Source: Biennial reports of the Auditor of the State and Quarterly Bulletin, Vol. 1, No. 4, Colorado State Department of Public Welfare.

The three principal classes of operating costs, which together normally account for about 80 per cent of the total, are those which relate, first, to general government, that is, to the legislative,* judicial, and major executive departments; second, to institutions of charity and correction; and, third, to institutions of higher learning. It is noteworthy that such increases as have occurred in the total of operating expenses since 1933 are largely accounted for by the first two classifications referred to, with no significant change in the cost of operating the university and the state colleges. As a matter of fact, the level of costs since 1932 for the latter group has been distinctly below that for the years immediately preceding. Although important items of expense of the State University—not reflected in the accounts of the State Treasurer—do not appear in this tabulation, there is reason to believe that their inclusion would not materially alter the situation.

In general it may be said that overhead costs of the entire state government in Colorado, exclusive of those attributable to new services, have remained relatively constant since 1926. Although economies could undoubtedly be made in operations thereby reducing expenditures, it nevertheless appears clear that a reduction of expenditures on any substantial scale would have to be made elsewhere.

Debt Service. The policy of the state has been to reduce continually the size of its bonded debt. This is clear from an examination of Table 17, which shows that the state's debt was reduced from $12,762,200 in 1926 to $4,039,700 in 1937. There is, however, one qualification to the above.

By a law passed in 1935 and amended in 1936 the State Highway Department was authorized to borrow $25,000,000. The bonds issued were to be special obligations against the State Highway Fund and not a part of the indebtedness of the state within the meaning of any constitutional provision or limitation. A

*Expenses of the General Assembly approximate $200,000 for each regular session in every odd-numbered fiscal year.

Table 17

Bonded Indebtedness of Colorado[a] Fiscal Years 1926-1937

Year	Amount	Year	Amount
1926	$12,762,200	1932	$7,346,100
1927	11,793,700	1933	5,672,200
1928	10,804,400	1934	5,271,200
1929[b]	9,887,900	1935	4,794,200
1930	9,008,100	1936	4,415,700
1931	8,053,100	1937	4,039,700

[a]The highway issues of $10,000,000 and $15,000,000 in 1936 and 1937, respectively, are not included in this tabulation for general obligations.
[b]December 1, 1928, to June 30, 1929.
Source: Biennial Reports of the Auditor of the State.

part of the total issue was sold in 1936 amounting to $10,000,000 and an additional $15,000,000 in 1937. The effects of this issue are reflected in the sharp rise in the state's total receipts and disbursements shown in tables 13 and 14.

The debt position of the state is compared with that of seven other states in the mountain area in Table 18. Of those states, six had larger per capita debts in 1937 than did Colorado in so far as direct general obligations were concerned. When special revenue obligations are included it will be seen that Colorado's per capita debt is exceeded by only one state in the group.

Table 18

Per Capita Net Debt of Eight Mountain States in 1937

State	Per Capita Debt (General Obligations[a])	Per Capita Debt (Including Revenue Obligations[b])
Colorado	$ 3.77	$27.11[c]
Arizona	3.22	3.22
Idaho	3.58	3.58
Montana	12.07	18.23
Nevada	8.43	8.43
New Mexico	4.73	42.22
Utah	6.24	6.24
Wyoming	13.68	13.68

[a]Direct obligations of the state. Only four states in the Union were free of direct bonded debt in 1937. These were Connecticut, Florida, Indiana, and Nebraska.
[b]Obligations of special departments or funds.
[c]Includes $25,000,000 obligation of the State Highway Fund.
Source: Moody's Governments and Municipals, 1938.

Capital Outlays. Expenditures for permanent improvements have been made mostly for highway construction. Funds for this purpose have been received principally from the Federal government and from gasoline tax and motor vehicle license collections. The large expenditure for highway purposes in 1937, amounting to $20,502,000, and financed to a large extent by funds raised through the bond issue mentioned above, was about double the average annual expenditure for roads since 1932 and over four times as great as outlays made in either 1926 or 1927.

The results accomplished by state highway expenditures during the past eleven years are reflected in Table 19.

Table 19

Status of Highways in Colorado, December 31, 1937, and December 31, 1926

Kind of Highway	Number of Miles 1937	1926
Unimproved	162.2	4,704.3
Graded	3,120.0	768.0
Surfaced	2,983.1	3,247.5
Oiled	2,618.7	None
Paved	536.2	251.8
All Kinds	9,420.2	8,966.6

Source: State Highway Department.

Non-Government Payments. Transfers to counties constitute the bulk of the non-government payments. In 1937, $16,957,000 or approximately 31 per cent of total state disbursements were of this character. Table 20 shows the principal revenue sources and the proportions of each which are allocated to counties.

Table 20

Proportions of Revenues from Specified Sources Which Are Allocated to Counties

Revenue Source	Percentage of Total Collections to Counties
Gasoline Tax	27%
Motor Vehicle License	50
Motor Vehicle Driver's License	75
Public Carrier Tax	20-22½
Sales Tax (old-age pensions)	85
Liquor Tax (old-age pensions)	85
Corporation Franchise (old-age pensions)	10
Inheritance Tax (old-age pensions)	10

Certain relief and welfare items paid to counties are derived from several sources, one of the most important being the Federal government.

Old-age pensions and other forms of public relief, amounting to more than $13,000,000 during the fiscal year ending in 1937, constituted nearly one-fourth of total disbursements of the state in that year. Furthermore, this amount was 38 per cent as large as the total of property taxes collectible in that year for the support of all government units—county, city, and school. The pension payments alone, amounting to $8,671,000, approximated the total of operating expenses of the state—$8,849,000—and 45 per cent of the general property taxes collectible for the support of the entire public school system. The character and trend of relief expenditures since 1933 are shown in some detail in Table 21. It will be observed that prior to 1934 the burden of carrying relief had not become a state function. Since that date, however, local

Table 21

Expenditures for Relief in Colorado[a] Fiscal Years 1933-1937

(In thousands)

Item	1933	1934	1935	1936	1937
General Relief					
State	$12	$ 671	$1,127	$2,896	$ 3,444
Federal	0	0	0	0	0
Total	$12	$ 671	$1,127	$2,896	$ 3,444
Aid to Dependent Children and Blind					
State	0	0	0	$ 28	$ 481
Federal	0	0	0	19	614
Total	0	0	0	$ 47	$ 1,095[b]
Old-Age Pensions					
State	0	$ 519	$1,516	$3,259	$ 4,336
Federal	0	0	0	610	4,335
Total	0	$ 519	$1,516	$3,869	$ 8,671
Grand Total					
State	$12	$1,189	$2,643	$6,183	$ 8,261
Federal	0	0	0	629	4,949
Total	$12	$1,189	$2,643	$6,812	$13,210

[a]Expenditures include cost of administration. Relief provided by local governments as well as expenditures of the F. E. R. A. and W. P. A. are excluded.
[b]Includes item of $385,021 representing the administrative cost of the State Department of Public Welfare.
Source: Biennial Reports of the Auditor of the State.

governments have tended to look more to the state and the Federal government for assistance in providing general relief. The old-age pension payments beginning in 1934 were, of course, made by the state in the first instance.

Other non-governmental disbursements in 1937 consisted of payments to trust funds, including the unemployment insurance fund kept in the Federal treasury and payments on account of investments and refunds. The last named consist mainly of gasoline tax refunds, the law providing for a refund of taxes paid on such gasoline as is used for all purposes except highway transportation. Refunds on this account have increased at a faster rate than total collections from the tax itself (Table 22). In all, non-governmental disbursements amounted to $7,023,000 or 13 per cent of total disbursements.

Table 22

Gasoline Tax Receipts and Refunds—Colorado Fiscal Years 1930-1937

(In thousands)

Year	Total Receipts	Total Refunds	Ratio of Refunds to Receipts
1930	$6,282	$ 495	7.9%
1931	6,765	652	9.7
1932	6,695	739	11.0
1933	5,895	671	11.4
1934	6,733	826	12.3
1935	6,871	764	10.5
1936	7,263	936	12.9
1937	8,260	1,137	13.7

Source: Biennial Reports of the Auditor of the State.

C. *Balance of Receipts and Disbursements*

When the aggregate receipts of the state by years or by bienniums (including the balance on hand at the beginning of the period) are compared with the total of disbursements for similar intervals it will be observed that in each instance a sizable net balance has existed throughout the entire period from 1926 to 1937 (Table 23). A balance of $24,752,229 at the end of the 1937 fiscal year, for example, would hardly suggest the imminence of the current "fiscal crisis" in the state. This paradox is explained by considerations of the nature of the balance itself.

Table 23

Summary of Total Receipts and Disbursements of State Government in Colorado, 1924-1937

(In thousands)

Biennium	Balance at Beginning of Biennium	Total Receipts for Biennium	Total Disbursements for Biennium	Balance at End of Biennium	Net Change in Cash
12/1/24-11/30/26	$ 5,407	$36,865	$36,259	$ 6,013	$+ 606
12/1/26-11/30/28	6,013	38,104	39,082	5,035	— 978
12/1/28-6/30/30	5,035	34,911	34,206	5,740	+ 705
7/1/30-6/30/32	5,740	49,788	50,664	4,864	— 876
7/1/32-6/30/34	4,864	45,743	45,795	4,812	— 52
7/1/34-6/30/36	4,812	80,661	66,611	18,862	+14,050
7/1/36-6/30/37	18,862	59,844	54,670[a]	24,752	+ 5,890

[a]Includes warrants issued, but not paid, totaling $716,697.01.

Source: Biennial Reports of the Auditor of the State.

First it should be noted that a balance of a certain size may exist because money has been borrowed. Funds secured through bond issues are recorded as receipts the same as tax revenues. Receipts and hence the ensuing balances were swelled in this manner during the fiscal years ending in 1926, 1936, and 1937. Even so, there was a margin in each instance after allowing for the increase in net indebtedness.

A second and most important consideration is the fact that the balance is an over-all balance, a kind of an average which seems to tell much but in reality tells little. As the financial organization of the state of Colorado may be visualized there exists a large assortment of "funds" or pools—over 200 in number—into which the revenue stream empties. Each of these pools is fed as ordained by law or practice, but each, in any event, sustains some state function. It happens that at any given time, say at the end of a fiscal year when the levels of the pools are measured, that some are found to be dried up, while others are over-flowing. The present "fiscal crisis" of the state is a condition wherein we find one of the pools, the "general fund," inadequate to meet the demands placed upon it. This is true despite the fact that the average level has apparently been satisfactory.

It is important to recognize also that balances in the funds are not "free" balances in many cases. Revenues allocated for any one function can be used only for that purpose. It must be further recognized that expenditures may have been postponed. Thus we find certain building or highway funds showing a large balance pending a decision on bids and contracts. There is also the fact that "working balances" are essential to continuous and normal operations.

PROBLEMS OF STATE FINANCE

The General Fund—Financing the Current Biennium. Much has been heard in recent months concerning the "fiscal crisis" in the state government. Events contributing thereto may be discussed from the point of view of their relation to the general fund.

This fund, one among many from which state activities derive their support, occupies a central position in the state's financial system. This arises from the fact that appropriations made by the General Assembly from this fund, the only one available for legislative appropriation, provide for the key activities of government represented by the constitutionally established legislative, judicial, and executive departments of the state. In addition, appropriations are made from this fund for the support of educational and eleemosynary institutions. These institutions are not entirely dependent on appropriations, since they have an income from such sources as continuing mill levies, endowments, and fees. Without appropriations from the general fund, however, they would be greatly handicapped in their operations. Other activities are financed through this fund from time to time as conditions may require. In this regard the general fund is a device by which flexibility is maintained in the financial opera-

tion of the government not possible in respect to other funds existing for fixed purposes.

The revenues known as general revenues which enter the general fund and become available for appropriations are those which escape diversion into other funds. The latter have increased in importance in recent years by virtue of new functions assumed by the state until at present they require over 90 per cent of total state revenue from taxes and earnings (Chart 5).

The division of the state's revenue receipts between general fund purposes and all other purposes combined is shown by the following prescribed application of taxes to specific uses: sales and liquor taxes, 85 per cent of net collections earmarked for old-age pensions; incorporation fees, 10 per cent for old-age pensions; inheritance tax, 10 per cent for old-age pensions; gasoline tax, 100 per cent for state and county highways; motor vehicle licenses, 50 per cent for local government; commercial and public carriers tax, 20-22½ per cent for local governments; motor vehicle registration, 100 per cent for old-age pensions; operators and chauffeurs licenses, 75 per cent for local government; income tax, 85 per cent for school purposes; interest on delinquent taxes, 100 per cent for employees retirement fund; and state general property tax collections, 90 per cent (1937) for educational institutions and other stated purposes.

An additional circumstance of less importance, the effect of which, however, is to earmark revenues for special purposes, arises from the fact that certain revenue-producing agencies, departments, boards, and bureaus are permitted by law to withhold sufficient funds to cover their expenses before anything can revert to the general fund. In many instances, as a matter of fact, the balances need not be transferred at all.

When new activities are financed by new revenues earmarked for the purpose, activities financed by general appropriations are not affected thereby. The general fund deficit for the current biennium has resulted from added burdens being placed upon the general fund without commensurate increases therein.

For the fiscal year ending in 1934, general relief, a new state activity costing $670,740, was financed from the proceeds of a portion of the regular gasoline tax plus an additional tax of one cent per gallon on gasoline sales. Since gasoline tax receipts had until then been used for highway purposes and not as general revenue this did not affect the general fund. Neither did the cost of the newly established old-age pension plan which was financed mainly by the new liquor tax.

In the fiscal year ending in 1935 the gasoline tax again met the general relief cost, while pension payments were taken care of by receipts from the liquor tax, the newly introduced sales

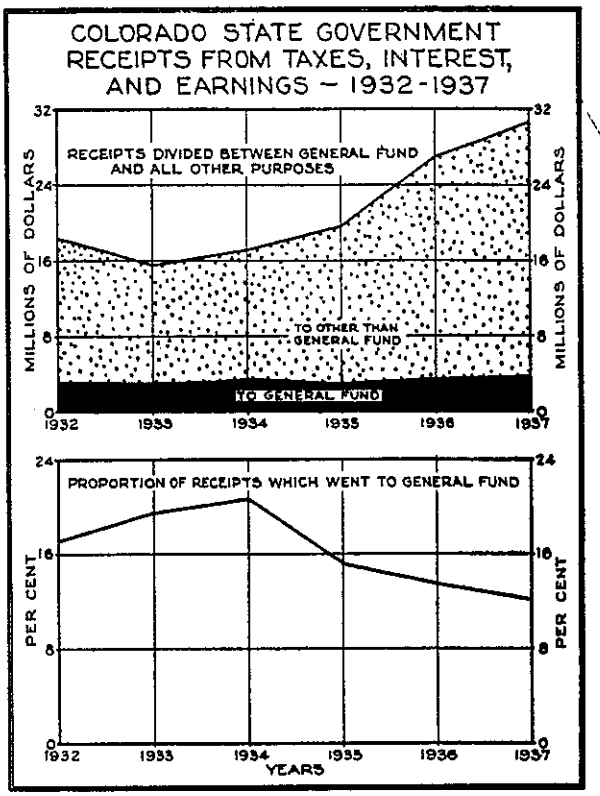

CHART 5

tax, and a small part of the collections from corporation and inheritance taxes. The use of the latter taxes tended to cut into the ordinary income of the general fund, but not materially so. In the meantime, however, the Constitution was amended providing that revenues from the gasoline tax could be used only for highway purposes thereby shutting off this source of revenue for relief purposes. During the fiscal year ending in 1936, general relief, amounting to $2,896,295, was provided by revenues from the liquor and the sales taxes. Pensions were paid from the liquor and the sales tax supplemented to a small degree by the corporation and the inheritance tax. So far, then, no serious inroads had been made on the ordinary revenues going to the general fund nor had any new activities of any importance been thrown on the general fund.

In 1936 the Constitution was again amended, providing for old-age pension payments on a larger scale, earmarking for the purpose 85 per cent of the receipts of both the sales and liquor taxes. It was further provided that the first $870,000 of the remaining collections should be used for the aid of dependent children. All this meant that thereafter virtually all the new taxes, in addition to portions of others such as the inheritance and corporation tax, would be used exclusively for pension payments. It meant also that general relief which was averaging $3,000,000 a year and which had until then been taken care of along with pension payments from liquor and sales taxes would have

to be financed by general fund revenues. The consequences are now known. The appropriation for the biennium beginning July 1, 1937, and ending June 30, 1939, amounted to $12,717,806, far in excess of the 1935-1937 appropriation of $6,500,451. The difference between the present and preceding biennium appropriations was due to the new items of expense shown in Table 24.

Table 24

Appropriations for Activities New to the General Fund in 1937-1939

New Activity	Appropriation
Relief for Unemployables	$5,000,000
Tuberculosis Control Fund	100,000
Public Health Service	24,000
Maternal and Child Health	80,000
Crippled Children Service	90,000
Aid to Dependent Children	1,000,000
Aid to Blind	100,000
Child Welfare Services	40,000
Total	$6,384,000

The remainder of the appropriation, amounting to $5,633,806, pertained to activities ordinarily financed from general revenue.

But an appropriation or authority to spend state funds is one thing, money with which to make the necessary payments is another. The fact was soon discovered that the revenues for the biennium available to the general fund, including those from the service tax, would run far short of the appropriations. The estimated deficit for the biennium is placed at approximately $3,000,000, with the third, fourth, and fifth class appropriations amounting to $697,299 omitted from the reckoning.

Devices already employed for dealing with the present deficit have been drastic as they have been heroic. None has looked to a permanent solution. The opinion is now widely held that the old-age pension amendment as now constituted, earmarking large sums of money which might have been available for other purposes, stands in the way of such a solution.

Old-Age Pensions. Both the number of recipients of old-age pensions and the amount paid have increased rapidly in Colorado during the past two years. The number receiving the pension in February, 1938—35,314—was 27 per cent greater than in February, 1937, and 66 per cent greater than in February, 1936. The amount paid in February of this year—$1,117,000—was 45 per cent greater than in the same month a year ago and 207 per cent greater than in the same month two years ago. In this connection it should be pointed out that the February, 1938, payment was $240,000 less than that of December, 1937.*

At the February, 1938, rate Colorado's old-age pension bill for the year will approximate $13,000,000. Since this is roughly 50 per cent over the amount which the state will spend for "operation and maintenance," it becomes a matter worthy of careful study by every citizen of the state. Consideration will therefore be given in following paragraphs, first, to certain comparisons of Colorado with other states of the United States, and second, to the amount paid per recipient of old-age pensions in relation to the amounts available per person and per case on general relief.

Taking data for December, 1937, the latest month for which country-wide information is available, it is found that the average old-age pension per recipient in Colorado—$39.61—was more than double the general average for the country. In terms of the proportion of persons 65 years old and over who received the pension, Colorado is third among the states; and the Colorado figure—45 per cent—is approximately double the average for all of the states.* Moreover, persons 65 years old and over constitute a larger proportion of the total population in Colorado than in the country as a whole—6.7 per cent in Colorado as compared with 6.1 per cent in continental United States (Table 25).

To summarize the facts discussed briefly in the preceding paragraph, the December, 1937, payments in the various states were multiplied by 12 to place them on an annual basis. The resulting figures were then divided by the respective state populations estimated by the Bureau of the Census as of July 1, 1937, to obtain annual per capita payments for old-age pensions. As shown in Chart 6, the December rate in Colorado was equivalent to $15.20 per year for every person in the state, whereas for the country as a whole (exclusive of Virginia, which does not have an old-age pension plan approved by the Social Security Board) the per capita payment was only $2.92. In other words, the per capita payment for old-age pensions in Colorado in December, 1937, was five times the general average for the country and more than double the figure for any other state. It may be observed also that, at the February, 1938, rate, the annual per capita figure for Colorado is $12.50, or four times the country-wide average noted above.

The number of cases or families receiving general relief through the Colorado State Department of Public Welfare—16,648 in December, 1937—was roughly one-half the number of recipients of old-age pensions.** Assuming three persons per case on an average, this means that

*The decline in the Colorado old-age pension payments from $1,356,000 in December, 1937, to $1,116,000 in February, 1938—in the face of an increase of 1,064 in the number of recipients—was caused by lack of sufficient funds to pay the increased amounts authorized by the Old-Age Pension Amendment to the state Constitution. This amendment, after approval by the Social Security Board, became effective September 1, 1937.

*Colorado is the only state which makes pension payments to people under 65 years of age. This group—not included in the figure of 45 per cent presented here—totaled 2,116 in December, 1937.

**Source: Quarterly Bulletin, Vol. I, No. 4, Colorado State Department of Public Welfare.

the number of persons on general relief was substantially larger than the number receiving the pension. In contrast, the December bill for general relief was less than one-fifth as large as the December old-age pension bill.

Looking back to the early months of 1936, as shown in Chart 7, the old-age pension per recipient was at that time larger than the relief grant per case on general relief and several times as large as the grant per person on relief. These disparities have been greatly widened by the rising trend of old-age pensions during the past two years.

Proposed Changes in State Government. During the past year, and particularly since it became generally known that the budget was unbalanced, numerous proposals have been made for reform in state government. Constructive in the main, these proposals have come from both civic organizations and state officials. Only one of the suggested changes meets directly the state's immediate problem of securing adequate revenues to meet necessary operating expenses. The others are, for the most part, measures which in the long run will tend to reduce government cost. They will not contribute much in the direction of wiping out the estimated deficit of $3,000,000 for the current biennium.

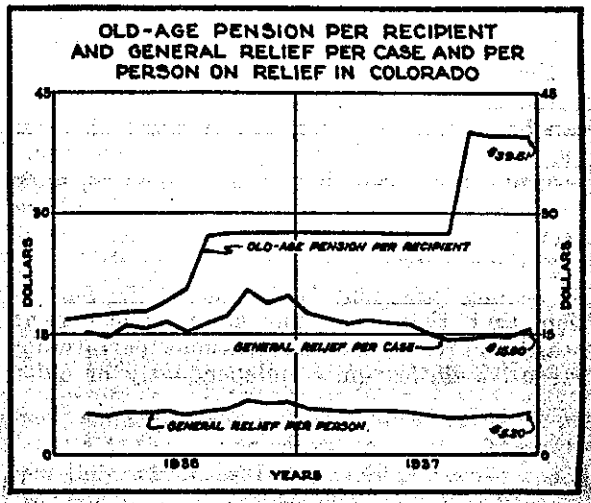

CHART 7—Monthly Payments of Pensions and Relief

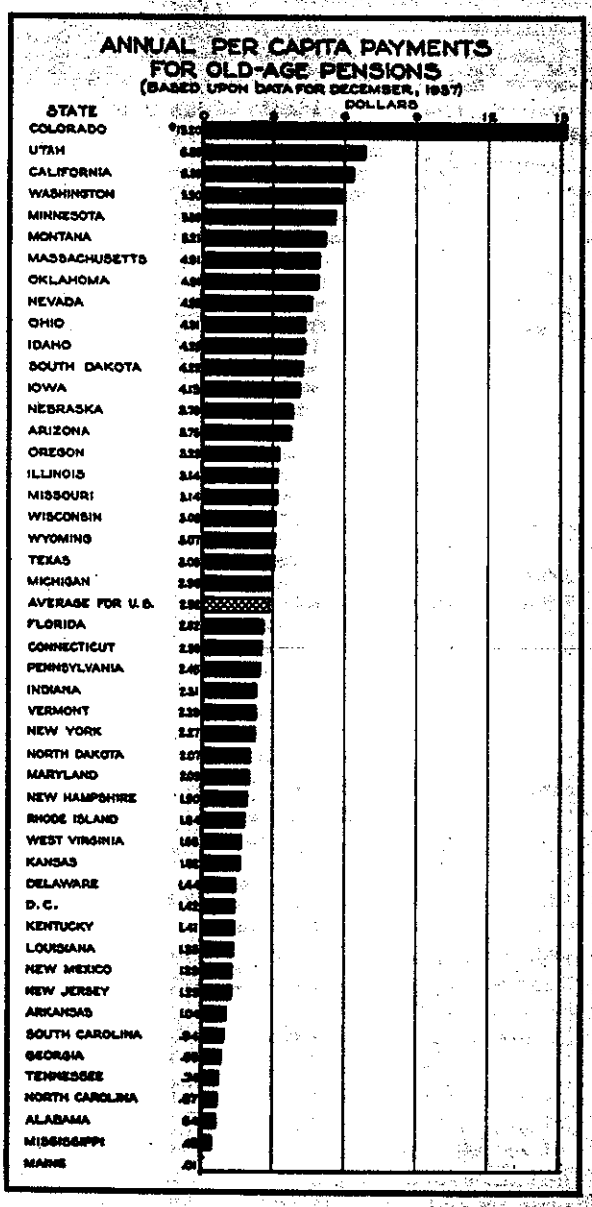

CHART 8

The proposal that the old-age pension amendment be modified is, to date, the only submitted alternative to increased taxes whereby general revenues may be materially and speedily increased. Further drastic reductions in anything but old-age pension payments seem out of the question. A rapid enough increase in tax revenues without lifting rates is equally unlikely. Those who advocate then that something be done to reduce pensions point to the fact, indicated in a previous section, that Colorado's payments on account of old-age pensions are far in excess of those in other states. This fact, coupled with the situation in which the state now finds itself, of being obliged to curtail important functions for lack of funds, indicates that the case for pension modification does not rest on grounds of mere expediency.

Other suggested changes and reforms are of the variety which look generally to more economy and efficiency in government operation. As such, they are deserving of full consideration. In the course of time, when the conflict of practice and theory will have spent itself, these proposals will likely receive the stamp of legislative approval. Chief among these are the measures which aim at an overhauling of the executive and legislative machinery. According to this point of view, the present way in which the government gets things done is cumbersome, out-of-date, and generally wasteful. Under the leadership of the state executive, as a matter of

fact, steps have already been taken to bring about improvement in this regard. By means of "surveys" or fact-finding activities it is believed that a sound basis for suitable legislation can be found. Pending the outcome of these fact-finding activities and the recommendations resulting therefrom, it may be well to consider weaknesses in state organization which have been pointed out by persons in close contact with the government as it is now constituted.

Among these may be mentioned the contention that there are too many independent boards, bureaus, and commissions performing executive duties quite independently of chief executive or legislative control. Overlapping of functions with consequent failure to operate at the highest efficiency, accentuated by almost complete independence of these bodies with no coordination possible, leads both to waste of money and inadequate service. The proposal has been advanced then that related activities be merged into a limited number of major administrative units with responsible and competent heads accountable for their stewardship to the governor or other selected state officials. For example, the consolidation of all tax-collecting agencies under one supervising head, the State Treasurer, is advocated. At the present

Table 25

Old-Age Pension and Related Data for December, 1937

	Obligations Incurred for Old-Age Pensions Dec., 1937[a]	Population[b] July 1, 1937 (In thousands)	Number of Recipients[a]	Average Payment Per Recipient[a]	Per Cent of Population Over 65 Years of Age[a]	Per Cent of Population Over 65 Years of Age Who Are Recipients	Annual Per Capita Payments for Old-Age Pensions
Continental United States[c]	**$30,750,121**	**126,551**	**1,580,043**	**$19.46**	**6.1**	**20.5**	**$2.92**
New England	**2,443,939**	**8,597**	**93,569**	**26.12**	**6.6**	**16.4**	**3.41**
Maine	978	856	42	23.29	--	---	.01
New Hampshire	80,595	510	3,592	22.44	9.9	7.1	1.90
Vermont	73,244	333	5,214	14.05	9.9	13.7	2.29
Massachusetts	1,812,902	4,426	64,893	27.94	7.3	20.1	4.91
Rhode Island	104,529	681	5,697	18.35	6.6	12.7	1.84
Connecticut	371,691	1,741	14,131	26.30	6.5	12.4	2.56
Middle Atlantic	**4,988,145**	**27,478**	**223,802**	**22.29**	**5.9**	**13.8**	**2.18**
New York	2,454,171	12,959	102,926	23.84	6.0	13.3	2.27
New Jersey	453,132	4,343	25,372	17.86	5.6	10.4	1.25
Pennsylvania	2,080,842	10,176	95,504	21.79	6.0	15.7	2.45
East North Central	**7,101,915**	**25,841**	**369,532**	**19.22**	**6.8**	**21.1**	**3.30**
Ohio	2,416,977	6,733	104,614	23.10	7.1	22.0	4.31
Indiana	670,128	3,474	41,887	16.00	8.1	14.8	2.31
Illinois	2,060,003	7,878	121,897	16.90	6.2	24.8	3.14
Michigan	1,200,816	4,330	63,318	18.96	5.9	22.2	2.98
Wisconsin	753,991	2,926	37,816	19.94	7.3	17.6	3.09
West North Central	**4,202,324**	**13,819**	**243,382**	**17.27**	**7.1**	**23.6**	**3.65**
Minnesota	1,234,814	2,652	62,778	19.67	7.2	32.9	5.59
Iowa	878,898	2,552	44,414	19.79	8.4	20.6	4.18
Missouri	1,042,320	3,989	76,365	13.66	7.6	25.1	3.14
North Dakota	121,677	706	7,247	16.79	5.0	20.7	2.07
South Dakota	243,459	692	13,261	18.36	6.0	31.7	4.22
Nebraska	429,570	1,364	25,763	16.67	7.0	26.8	3.78
Kansas	251,086	1,864	13,554	18.52	7.3	9.3	1.62
South Atlantic[c]	**1,574,244**	**14,554**	**110,176**	**14.29**	**4.7**	**15.9**	**1.30**
Delaware	31,238	261	2,888	10.82	8.0	18.8	1.44
Maryland	283,581	1,679	16,250	17.45	6.4	15.1	2.03
District of Columbia	74,067	627	2,963	25.00	6.4	7.4	1.42
West Virginia	261,495	1,865	18,659	14.01	4.3	23.0	1.68
North Carolina	194,714	3,492	20,976	9.28	4.1	14.6	.67
South Carolina	146,341	1,875	13,260	11.04	3.7	18.9	.94
Georgia	218,349	3,086	22,287	9.80	4.4	16.4	.85
Florida	364,459	1,670	22,893	15.92	5.5	25.0	2.62
East South Central	**747,210**	**10,731**	**77,983**	**9.58**	**4.8**	**15.1**	**.84**
Kentucky	343,758	2,920	35,046	9.81	6.1	19.6	1.41
Tennessee	178,523	2,893	13,893	13.33	5.1	9.0	.74
Alabama	154,535	2,895	13,968	11.06	3.7	13.1	.64
Mississippi	70,394	2,023	15,576	4.52	4.0	19.2	.42
West South Central	**3,018,238**	**12,900**	**226,712**	**13.31**	**4.4**	**39.7**	**2.81**
Arkansas	178,228	2,048	19,485	9.15	4.6	20.7	1.04
Louisiana	239,508	2,132	24,132	9.92	3.9	29.1	1.35
Oklahoma	1,042,255	2,548	69,392	15.02	4.6	59.8	4.91
Texas	1,558,247	6,172	113,703	13.70	4.5	40.9	3.08
Mountain	**2,336,941**	**3,792**	**78,466**	**29.78**	**5.4**	**38.5**	**7.39**
Montana	233,938	539	11,438	20.45	4.7	38.7	5.21
Idaho	176,093	498	8,123	21.68	5.1	32.3	4.29
Wyoming	60,199	235	2,842	21.18	4.2	29.1	3.07
Colorado	1,356,757	1,071	34,250	39.61	6.7	44.9	15.20
New Mexico	45,525	422	3,712	12.26	3.8	22.9	1.29
Arizona	128,982	412	5,116	25.20	4.1	30.1	3.75
Utah	296,821	519	11,589	25.61	4.6	48.9	6.86
Nevada	38,676	101	1,396	27.70	5.9	28.3	4.59
Pacific	**4,337,165**	**8,839**	**146,421**	**29.62**	**7.4**	**22.4**	**5.89**
Washington	814,937	1,658	35,515	22.95	7.4	29.1	5.90
Oregon	277,967	1,027	12,963	21.44	7.9	16.0	3.25
California	3,244,261	6,154	97,943	33.12	7.3	21.8	6.33

[a]Source: Public Assistance Statistics for the United States for December, 1937.
[b]Estimated by the United States Bureau of the Census as of July 1, 1937.
[c]Exclusive of Virginia.

time taxes are collected by various tax and license departments reporting to different agencies.

Incidental to the foregoing weakness in organization is the fact that many administrative units are sustained financially by separate cash funds built up through taxes, fees, and receipts from other sources. The agency in question has first claim to these moneys to the extent of its own costs of operation. The expenditure of such funds is not subject to control either by the General Assembly or the executive council —and approximately 66 per cent of state expenses are paid from cash funds. Some hold the view, therefore, that cash funds should be abolished, that revenues from all sources should go into the general fund in the first instance and be appropriated therefrom to the major departments in accordance with approved budget procedure. In this manner, control over expenditures will be effected and the situation will no longer exist wherein some departments are over-supplied with funds while others are under-supplied.

Other proposals looking toward a change in the long run, several of which are closely related to the general question of organization and control of government, as noted above, may be briefly indicated. These are: (1) repeal the statute authorizing the issuance of certificates of indebtedness except in case of insurrection, (2) prohibit the issuance of anticipation warrants, except by vote of the people, (3) organize the purchasing department on a state-wide basis, (4) abolish the general property tax for state purposes, (5) enact a severance tax, (6) repeal the service tax, (7) establish a legislative council to improve the work of the state legislature, (8) give the State Auditor power to compel uniform accounting by every state department and agency, (9) amend the sales tax to eliminate tax on foods, and (10) provide qualified state examiners to audit each governmental agency—state, county, municipal, and school—at least twice a year and publish such audits and examinations.

GENERAL SUMMARY

The foregoing analyses may be summarized in the following general statements:

1. Total tax collections in 1937 for all government in Colorado—state, county, city, and school—exclusive of minor licenses and fees, amounted to $61,800,000. This total was secured from 13 different taxes distributed as follows: general property tax, 62 per cent; sales tax, 11 per cent; gasoline tax, 13 per cent; motor vehicle license, 4 per cent; liquor license and tax, 4 per cent; and all others, 6 per cent.

2. Total taxes increased 18 per cent from 1926 to 1931, fell 20 per cent from 1931 to 1934, and increased 27 per cent from 1934 to 1937. The 1937 tax level was slightly above the previous high point reached in 1931. The movement of individual taxes did not conform to that of the aggregate as witnessed by general property taxes. The total of property tax collections increased 10 per cent from 1926 to its highest point in 1930 and declined during the five years thereafter to a point (in 1935) 19 per cent below the 1930 level. The two-year rise since 1935 has amounted to only 4 per cent.

3. Per capita state and local taxes in Colorado for 1937 amounted to $57.12. The average for all states was $56.07. Over the twelve-year period examined per capita taxes in Colorado have been generally above the average of forty-eight states. This is equally true when comparisons are made using the computed ratios of per capita taxes to per capita incomes. The ratio for Colorado in 1937 was 11.40 per cent; that is, for every dollar earned 11.4 cents was paid out in state and local taxes. The average of all states amounted to 10.76 cents for every dollar earned.

4. The trend of per capita taxes in Colorado has followed a pattern comparable to that of the average for the country, namely, a general increase from 1926 to 1930, the subsequent downturn to 1934, and the sharp rise thereafter bringing the total in 1937 back to the level of 1930, the previous high point.

5. The trend of the ratios of per capita taxes to per capita incomes, both in Colorado and in the United States, has shown a movement similar to that of per capita taxes with one exception. Whereas per capita taxes increased from 1934 to 1937, the proportion of incomes going for taxes remained fairly constant. The latter movement is to be attributed to rising incomes which increased at approximately the same rate as taxes. Present ratios are, however, on a higher level than they were before 1930.

6. From a sample of 18 states for which complete tax data were available for 1933 and 1936, taxes were found to have increased from 2.3 per cent to 55.5 per cent. Colorado's percentage increase of 14.4 per cent was exceeded by the percentage increases of only six of these states.

7. Approximately 91 per cent of general property tax collections in 1937 went for local government purposes. The total distribution was as follows: state, 9 per cent; schools, 49 per cent; cities and towns, 21 per cent; and counties, 21 per cent.

8. The general property tax base was reduced 28.2 per cent from 1926 to 1937. The average reduction in the assessment of farm properties was the most marked, the present valuation being only 56.6 per cent as large as the 1926 valuation. For town and city lots and for total corporation properties the 1937 valuations were 80.5 per cent and 101.6 per cent, respectively, of the 1926 valuations.

9. Average mill levies generally increased throughout the period, offsetting only in part,

however, the decrease in assessed valuations. Wide variations exist among assessment units with regard to mill levies for all purposes, ranging in 1937 from 38.5 mills in Denver to 80.85 mills in Leadville.

10. The total revenue and non-revenue receipts of the state government of Colorado for the fiscal year ending in 1937 were $59,844,000. This included, however, a $15,000,000 bond issue for highway improvements. Of the total receipts 53.1 per cent came from taxation and earnings, 15.1 per cent represented federal government grants, and 31.8 per cent was realized from the highway bond issue and the sale of assets. The trend of total state receipts, generally upward since 1926, rose sharply in 1936 and 1937 because of highway bond issues. With the introduction of new taxes in recent years, state tax collections have increased 98 per cent since 1933. Federal grants increased 143 per cent during the same period.

11. Total state disbursements in 1937 amounted to $54,670,000, of which 56.2 per cent was used for state purposes, 30.9 per cent was paid to counties, and 12.9 per cent represented trust fund payments and various refunds. Similar to receipts, disbursements have increased sharply in recent years.

12. The cost of operating the state departments and institutions has increased only moderately from 1926 to date. Recent increases were due to the introduction of certain new activities associated with relief. The annual cost of administering the institutions of higher learning has been generally lower since 1932 than it was prior to that date.

13. Capital expenditures of the state have been confined largely to highways. Federal grants plus the $25,000,000 issue of highway warrants sold in 1936 and 1937 and receipts from the gasoline tax brought expenditures on roads in 1937 up to $20,502,000, which exceeded by a wide margin any previous annual expenditure for this purpose.

14. The policy of the state has been to retire its general bonded debt. The recent issue of highway warrants payable from gasoline tax revenues raised the aggregate debt, however, to $29,039,700. On a per capita basis this amounts to $27.11.

15. Expenditures on account of general relief and old-age pensions allocated to counties have increased rapidly in the past two years. For the fiscal year ending in 1937 over $13,000,000 or nearly one-fourth of the total disbursements of the state were for this purpose. The pension payments alone, amounting to $8,671,000, were approximately equal to total operating expenditures of the state. At the February, 1938, rate of payments—$1,117,000—Colorado's old-age pension bill for the year will approximate $13,000,000. Adding this to an estimated state expenditure for general relief of $4,500,000, the total is only a million and one-half under the $19,054,000 figure representing property taxes collectible in 1938 for the support of the entire public school system of the state.

16. Taking data for December, 1937, the latest month for which country-wide information is available it was found that the average old-age pension per recipient in Colorado—$39.61—was more than double the general average for the country. In terms of the proportion of persons 65 years old and over who received the pension Colorado is third among the states and the Colorado figure—45 per cent—is approximately double the average for all of the states.

17. The present deficit in the general fund has come about because of activities being thrown upon it for financing without a commensurate increase in general revenue. Principal of these activities is general relief, heretofore financed from certain tax revenues which, by constitutional amendments, are now earmarked for other purposes, the most important being old-age pensions. The old-age pension amendment has therefore been an important cause of the deficit in the general fund.

18. Changes in Colorado government which have been suggested by various individuals and groups and which have as their object the reduction of expenditures as well as balanced budgets, call for economies in operation and for modification of the present old-age pension plan. Plans for economy in operation may be considered as looking to changes in the long-run. Modification of pension payment, on the other hand, looks for a rapid and material reduction in state expenditures.

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TAXATION IN COLORADO

REPORT NUMBER ONE

The Colorado Income Tax

By EARL C. CROCKETT
Professor of Economics
UNIVERSITY OF COLORADO

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University of Colorado
BOULDER, COLORADO
NOVEMBER, 1946

T A X A T I O N I N C O L O R A D O

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COLORADO INCOME TAX

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The Colorado Income Tax

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THE COLORADO INCOME TAX

Conclusions

1. The Colorado income tax was established in 1937 after a struggle among various economic groups extending over a period of 25 years.

2. Prior to the establishment of Colorado's income tax, thirty-two other states had already enacted such laws.

3. The 1937 Colorado law provided for relatively liberal personal exemptions and low tax rates. However, at the time the measure was enacted there was common understanding that after an experimental period the law would be strengthened so as to make the tax contribute a larger proportion of the total revenue of the state.

4. During the nine years of operation since 1937, with one exception, personal exemptions and tax rates have remained unchanged. The exception was a change in 1943, to lighten the tax, establishing a $200 exemption per taxpayer (no exemption previously) for the 2 percent surtax on income from intangibles.

5. In 1944, the state collected $6,359,497 or 13.6 percent of total state tax revenue in the form of the income tax. Of this amount slightly more than half (52 percent) was paid by individuals while the remainder (48 percent) came from corporations.

6. The states in the west with income taxes are Arizona, California, Colorado, Idaho, Kansas, Montana, New Mexico, Oklahoma, Oregon, and Utah. The taxes in these ten states (Colorado and her neighbors) were analyzed on a comparative basis and results indicate a wide variation regarding relative income tax yields.

7. Among this western group, states with the heaviest personal income taxes are Idaho, Montana, Oregon and Utah; those classified in the middle of the group are Arizona, Kansas, and Oklahoma; while states with the lightest personal income taxes are Colorado, New Mexico, and California.

8. Because of liberal personal credits and exemptions accompanied by a slow progression of tax rates, in comparison with most other states of the group (all except New Mexico and California) the Colorado personal income tax is especially light upon incomes ranging from $2,000 $10,000. For example, a married person with two dependent children receiving a net income of $3,500 would pay

a tax of only $2; the same individual with an income of $4,000 would pay $7; receiving $5,000 he would pay only $17 tax.

9. In 1944 in Colorado, 77,701 taxable returns were filed by individuals. Thus only one out of every fifteen people paid an income tax. Expressed in terms of number of families in the state, only one out of every four or five heads of families paid a tax.

10. The Colorado corporation income tax rate (6 percent for financial and 4 percent for general corporations) is about average for the states in the group studied. However, collection of revenue in the state on a relative basis appears to be somewhat lower than average.

11. The yield of the Colorado income tax (personal and corporation combined) represents an amount which is about five percent of Federal income tax collections from the state. This ratio is an excellent index for making comparisons with other states. According to the index (ratio of state collections to Federal for each state), Colorado's income tax, with one exception (Kansas), is the lightest of the ten states in the group studied.

12. If Colorado were to increase her income tax to the relative level of Idaho's -- the state with the most successful tax in the group -- additional revenue above that collected at present would be about $9,500,000. In order to be comparable to average collections for the group as a whole, additional revenue would equal $2,600,000.

13. It is sometimes argued that Colorado's income tax should not be increased until Federal reductions have been made from existing high levels of war income and excess profits taxes. However, the Federal tax has already been lowered. The 1945 Federal Revenue Act materially reduced the individual and corporation income tax collections which will be made from Colorado, while the excess profits tax was repealed in its entirety. As a consequence, beginning with the calendar year 1946, there will be an estimated annual savings to individuals in the state of over $16 million and to Colorado corporations of about $10 million. Thus the combined savings represent an amount over four times greater than present state income tax collections from individuals and corporations.

14. By common agreement and embodied in the original law, the income tax was to be a replacement tax -- to lighten the burden on property owners. This was to be accomplished by allocating the income tax revenue to a school fund, the proceeds from which were to be used for elementary and secondary schools of the state.

15. However, in 1939 by statutory amendment, the original plan for allocating the income tax revenue in its entirety to the school fund was changed -- 65 percent was diverted to the general fund

of the state. In 1943 the diversion ratio was made 50 percent to the general fund, leaving, under limiting provisions, 50 percent for school purposes. The ratio was again changed by the special legislative session of 1945 and, as a consequence, at present the net revenue from the income tax is distributed as follows: 30 percent goes to the general fund, 35 percent goes to the county general school fund to reduce property taxes, and 35 percent goes to the state school equalization fund to finance an expanded educational program of participating counties and school districts.

16. The amount of state support for public education has always been relatively low in Colorado. Although more assistance will be given under the present income tax law than formerly, the aid will still be inadequate. It is estimated that for the school year 1946-47 not more than 19 percent of the cost of Colorado elementary and secondary schools will come from state revenue sources. This would put Colorado about fourteenth from the bottom in rank on the basis of the relative amount of state support to public schools.

17. A number of special problems are presented relative to the present form of the Colorado income tax. One of these problems is the provision permitting a deduction for the Federal income tax. As war expenditures increased, Federal tax collections began encroaching more and more upon the amount of revenue which the state can collect. At least 15 states have reduced the effect of this competition by disallowing any deductions for Federal taxes when figuring the state income tax. Colorado is not one of these states.

18. Because of the provision in Colorado permitting deductions for the Federal income tax, in effect, the state tax is actually regressive in the upper brackets. For example, a net income (before Federal income tax deductions) of $100,000 is taxed at the rate of 1.8 percent while a net income of $1,000,000 is taxed at only .9 percent.

19. Another special problem of the Colorado income tax is the surtax on income from intangibles. The two percent rate ($200 exemption), in lieu of all property taxes on intangibles, appears to be extremely light as compared with the property tax on real and personal tangible property. In 1943 (the last year before the $200 exemption became operative) the owners of approximately one billion dollars of intangible wealth paid total surtaxes (in lieu of any property taxes) of $861,649. In striking contrast, during the same year, owners of real and personal tangible property having an assessed valuation of $1.2 billion paid total property taxes of $42,671,467. Even though assessments averaged as low as 50 percent of true value, real and personal tangible property in the state was being taxed about 20 times as much, per dollar of value, as intangible wealth. Since the $200 exemption became operative (beginning with collections in 1944) there has been an even greater contrast.

20. Finally, another problem of Colorado income taxation relates to the legal ownership of property. Nine states (Colorado not included) have community property laws. In these states married individuals are permitted to file separate Federal income tax

returns, each declaring half of the family income, regardless of which person earned it. This arrangement materially reduces the amount of Federal tax liability for individuals in the nine respective states. For a number of years there was a question as to the constitutionality of community property laws which might be enacted after 1913 (for the purpose of reducing Federal income taxes); however, in January, 1946 the Bureau of Internal Revenue ruled that it would not challenge the 1945 community property law of Oklahoma. Consequently, beginning in the legislative year 1947, other states may be expected to follow the example of Oklahoma by enacting community property laws. Should Colorado do so, approximately $15 million dollars would be saved in Federal taxes.

Recommendations

1. The legislature should strengthen the income tax so that it will yield a larger proportion of the total state public revenue. This would have a double advantage in that (a) the tax system would be more in accordance with tax paying ability of the people and (b) additional revenue would be obtained more adequately to support public functions.

2. The income tax upon individuals should be strengthened by making the following changes in the income tax law:

   a. Normal rates on net income should increase by one thousand dollar instead of by two thousand dollar brackets. Assuming rates and exemptions remained the same this change would result in an estimated increase of revenue amounting to $975,000.

   b. The $200 exemption for the surtax upon income from intangibles should be abandoned and the surtax rate might well be increased from two percent to three percent. These changes would increase income tax collections by an estimated $220,000 and $430,000 respectively.

   c. The deduction for Federal income taxes should be eliminated. With this change the yield of the individual income tax would increase about $2,000,000 -- the corporation income tax about $1,000,000.

3. Should the state need still more revenue than would be forthcoming by the above recommended changes, a revision of exemptions and normal tax rates are recommended as follows:

Individual Income Tax

Proposed exemptions

Single person	$1,000
Head of family	2,000
Each dependent	200

Proposed normal tax rates	Percent
Bracket of income under $1,000	2
$1,000 and under $2,000	3
$2,000 and under $3,000	4
$3,000 and under $4,000	5
$4,000 and under $5,000	6
$5,000 and under $6,000	7
$6,000 and under $7,000	8
$7,000 and under $8,000	9
All over $8,000	10

Corporation Income Tax

Rate on general corporations should be increased from four percent to six percent to bring it to the level of the rate on financial corporations.

These changes in the tax on individuals and corporations would put the Colorado income tax on a basis more comparable with those in such states as Idaho, Oregon, and Wisconsin. The resulting increase of revenue would be an estimated $4,500,000 from the tax on individuals and $1,500,000 from the tax on corporations.

4. The legislature should investigate the advisability of enacting a community property law. It appears that such legislation would save Colorado taxpayers enough Federal taxes to more than make up for the above recommended increase in the state income tax.

5. Although the present corporation income tax rates are about equal to the average of other states, collection of revenue is relatively less. Consequently, the law and its administration might well be examined to see if additional revenue can be collected (to make collections conform more closely on a relative basis with those in other western states). Moreover, it is hoped that in the future the courts will liberalize their decisions relative to the taxation of income earned in Colorado by interstate corporations. In the past the Department of Revenue has been unable to collect considerable amounts of such revenue because of restrictive court decisions.

6. Should the income tax be strengthened as recommended above, the present allocation of revenue may prove to be satisfactory. However, should the existing inadequate law be continued, all of the net proceeds of the tax should be allocated for the support of elementary and secondary education in the state.

Historical Background

In 1912 the newly created Colorado Tax Commission pointed out advantages of the income tax and recommended that Wisconsin's revenue measure, enacted the year previously, be carefully watched.[1] It was suggested that should the experience in Wisconsin prove successful the commission subsequently would urge a similar tax for Colorado.

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1 Wisconsin's tax of 1911 was the first comprehensive income tax measure adopted by any of the states. Rates were progressive and the tax was administered by a centralized state tax commission.

It was not until 1916, however, that the commission again officially referred to the income tax. At that time it recommended that certain constitutional restrictions on the legislature relative to taxation be removed. The fear was expressed that the state constitution might interfere with the introduction of new forms of taxation such as the income tax.

The recommendation for a change in the constitution was repeated by the commission in 1918 when it suggested that an income tax should supplant the general property tax upon intangible property. The commission argued that:

> "Years of experience by every state in our nation has conclusively demonstrated that a success cannot be made of trying to tax money, notes, bank deposits, stock, bonds and other intangibles under the general property system. Experience has likewise demonstrated that the income tax for all purposes is the only rational solution of the problem.
>
> "Of all systems, the income tax system is by far the fairest. It measures the exact tax paying ability, and when levied in reasonable amounts is scarcely felt by the taxpayer.
>
> "Under the present system in Colorado a taxpayer with $5,000 worth of property, though he may be in debt for one-half the amount, pays annually an average of about $90 in taxes; and a person who owns property and has a cash income of $5,000, pays nothing, although he is well able to pay at least ten times as much as the one who has to depend upon the slender income from his property. Such a condition is the height of inequity.
>
> "Many foreign countries have realized this condition and are depending chiefly upon income taxes. Our federal government and several of our states have adopted income systems.
>
> "....the Tax Commission recommends that some form of income tax for state and local purposes be adopted, and suggests that the salaries of all public officials be made taxable."[1]

The commission sponsored an income tax constitutional amendment in the 1921 legislature but the bill did not get out of the committee stage.

The subsequent year in 1922, a movement was inaugurated which eventually grew into the formation of a Colorado State Tax Revision Committee. This committee was backed by farmers who wished relief

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1 Colorado Tax Commission, Seventh Annual Report, 1918, pp. 7-8.

under the general property tax as well as by others who were generally interested in making the state tax system more equitable. Largely through efforts of this committee a proposed amendment to Section 6 of Article 10 of the Constitution was initiated and presented to the people at the November election. This proposed amendment empowered the legislature to impose a uniform or a graduated tax on any or all income. However, the proposal failed and defeat was attributed to an organized minority opposition in the state -- those with large incomes who would be called upon to pay most should an income tax be enacted. Nevertheless, it was believed by sponsors of the amendment that if, through better publicity, a majority of the voters had understood the true nature of the amendment it would have carried in the election.

In his inaugural address, January 1923, Governor William E. Sweet made a strong appeal for an income tax. He pointed out inequities of the property tax, stating that owners of real estate, live stock, and merchandise had to bear the brunt of the tax while owners of intangible properties were going virtually tax free. He further stated that justice demanded that owners of intangible wealth should be compelled to pay a reasonable tax upon the income derived therefrom. In conclusion he recommended:

> "....that the Legislature now consider an income tax law as a step toward the removal of the injustice and inequality which are inevitable in our present tax system. Such a law is no longer an experiment and there is a widespread movement throughout the country for an income tax. I believe the proposed amendment to our state constitution failed to carry because of lack of information on the subject. I am advised by competent authorities that an income tax law can be passed without an amendment to our state constitution.
>
> "The only reasonable argument against an income tax is that it would result in raising more money which might be spent extravagantly. I believe that proper safeguards against this possibility could be placed in the law. It is of primary importance that we earnestly seek the fairest possible method of imposing taxes. An income tax is the only way of protecting the honest taxpayer against the dishonest return of the unscrupulous taxpayer."[1]

However, no income tax bill survived in the Twenty-Fourth Legislative Session. One reason was that the state had partially recovered from the economic difficulties of the 1921 depression and, consequently, the general property tax yielded with less difficulty the necessary public revenue.

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1 William E. Sweet, Governor of Colorado, Inaugural Address, delivered before the 24th Session of the General Assembly, January 9, 1923, pp. 9-10. Governor Sweet was the only governor of the state who ever actively supported an income tax measure during the years between 1911 and 1937 when such a proposal was being generally debated throughout the state.

Nevertheless, interest in tax reform did not completely disappear. In 1926, the tax commission reiterated its recommendations previously made in 1912 and 1918, relative to an income tax. It reported that real estate, utility corporations, live stock, and merchandise were paying over 90 percent of state and local taxes and that in the process, particularly against homeowners and farmers there was gross discrimination. The commission announced that a bill would be introduced in the legislative session of 1926, providing for an income tax, and expressed hope that the legislature would seriously consider adopting provisions "to lay this just and proper tax upon all individuals and corporations which now entirely escape taxation."[1] However, the measure was again defeated.

For some unknown reason the commission had a "change of heart" by 1928. It no longer was certain that an income tax would be desirable.

> "We have for years recommended an income tax, because it was the judgment of a majority of this commission that, in looking for new sources of revenue, it would be well to consider this possible relief to tangible property which now bears most of the burden. But as at present constituted, and in the light of further study of the subject, and the experience of other states, we are not unanimously of the opinion that this is the proper panacea for Colorado."[2]

The above quotation is interesting in view of the fact that two years earlier when membership of the commission had been exactly the same there was enthusiastic support of the income tax. No explanation was given as to why "in the light of further study of the subject, and the experience of other states" the commission had changed its attitude. By 1928 twelve states had obtained considerable experience with the income tax and, relative to all of these jurisdictions, studies indicated that the tax had greatly improved the revenue systems of the respective states.

The doubt at that time in the minds of the tax commissioners is perhaps particularly significant in view of the fact that a commodity sales tax as well as an income tax was being considered by the legislature. The commission may have favored the sales tax over the income tax. In any event, it missed an opportunity for genuine constructive leadership in the state and once again the fight for an income tax was lost.

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1 Colorado Tax Commission, Fifteenth Annual Report, 1926, p. 6.
2 Colorado Tax Commission, Seventeenth Annual Report, 1928, p. 7.

Beginning with the depression of 1929, Colorado's state and local tax revenue was greatly reduced and at the same time a further strain was placed upon the already over-worked property tax. As a consequence, among many people of the state there was a revival of general interest in a state income tax. Dr. Klemmedson of the agricultural college in numerous articles pointed out that if owners of Colorado real estate and farm lands were to obtain effective tax relief there would have to be an amendment to the state constitution permitting a progressive income tax.[1]

Dr. Sowers of the University of Colorado wrote profusely upon the subject, strongly recommending a personal and corporation income tax.[2]

In 1930 the Denver Chamber of Commerce employed Dr. Jens P. Jensen of the University of Kansas, a national tax authority, to conduct a survey of the Colorado State Tax system. One of the recommendations growing out of his study was a proposal for the adoption of a personal income tax.[3]

In November, 1933 two initiated amendments to Article X of the Constitution were voted upon by the people. Both proposed amendments would have authorized the General Assembly to levy an income tax, but both measures were defeated. Strenuous opposition came from corporation and financial interests. The principal argument used was that the income tax would be just another tax which would increase <u>everybody's</u> burden.

The legislature of 1933 submitted an income tax amendment to the people to be voted upon in November, 1934. The results of the election were 107,457 votes in favor and 161,952 votes against the amendment. The proposal carried in seventeen counties and lost by small margins in all other counties except Denver. The vote in Denver was a ratio of 3 to 1 against approval.

Some legal authorities expressed the opinion that Colorado could legally establish a graduated income tax even though the constitution was not amended. There was precedent for such a decision in a number of states whose constitutions contained uniformity clauses similar to the constitutional limitation in Colorado.

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1 G. S. Klemmedson, <u>Colorado Tax Problems</u>, December 1930, Colorado Agricultural College Extension Service.

2 Don C. Sowers, <u>Possible Ways of Meeting the Financial Emergency</u>, 1930, Bureau of Business and Government Research, University of Colorado.

3 Jens P. Jensen, <u>Survey of Colorado State Tax System</u>, 1930, Denver Chamber of Commerce.

Such legal opinion, together with past failures in amending the Constitution, induced the legislature of 1935 to pass a graduated income tax bill. The bill allocated the proceeds of the tax to the support of public schools and required a corresponding reduction in the property tax for the support of these schools. However, Governor Edwin C. Johnson vetoed the bill, stating that in his opinion the measure was unconstitutional. The House failed by two votes to override the Governor's veto. This veto was a big disappointment to those who had worked, many of them for years, for tax reform.

Apparently nothing was left to do except to make another attempt at amending the constitution. Accordingly, the same legislature submitted an amendment to the constitution which, if adopted by the people, would clearly remove any constitutional question as to the power of the legislature to pass a graduated income tax law. The measure was approved in the House by a unanimous vote. In the Senate only three votes were recorded against the amendment.

This amendment appeared on the election ballot of November 1936 as Amendment No. 3. During the summer and fall preceding election, considerable debate occurred throughout the state -- in the press, over the radio and in public forums -- relative to the issue. Organized groups supporting the income tax amendment included the State Federation for the Graduated Income Tax Amendment, the Colorado Education Association, Colorado State Grange, Colorado Farmers' Union, Colorado Farm Bureau, Denver Central Committee of the American Federation of Labor, and Colorado Congress of Parent Teachers Association. Also several newspapers including the Rocky Mountain News endorsed the proposal.

Most frequent arguments presented in favor of the amendment were: (1) Thirty-two other states already had successful income taxes, (2) A graduated income tax is in accordance with tax paying ability of the people, (3) The amendment would make it possible for the state to contribute tax revenues to local units of government including schools, (4) Instead of hopelessly trying to tax intangibles as property, the legislature could tax the income derived from these intangibles, and (5) The income tax would relieve the tax burden upon owners of real estate including homes and farms.[1]

Principal arguments against the amendment were: (1) An income tax would drive industry out of the state,[2] and (2) People of Denver would be required to pay most of the state tax, whereas, principal benefits from the tax would be received by schools in other parts of the state.

In the election the amendment passed by a vote of 167,268 to 159,143 -- a majority of 8,125 votes. The balloting in Denver was 35,490 "yes" and 71,377 "no" votes or a majority of 35,887 against.

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1 Rocky Mountain News, October 23, 1936
2 This has been a favorite argument used against any tax.

Therefore, the agricultural areas and smaller communities of the state were responsible for approval of the income tax amendment.

The amendment added a new section to Article X of the Constitution as follows:

> "Section 17. Income Tax. The General Assembly may levy income taxes, either graduated or proportional or both graduated and proportional for the support of the State, or any political subdivision thereof, or for public schools, and may, in the administration of an income tax law, provide for special classification or limited taxation or the exemption of tangible and intangible personal property."

Finally, after years of struggle, uncertainty and defeat, the legislature had clear authority to enact a graduated income tax. Accordingly, a measure was introduced in the Thirty-First General Assembly, January, 1937.

The bill was passed by the House but encountered considerable opposition in the Senate. According to the Rocky Mountain News, the Senate was placed under heavy pressure by wealthy lobbyists who gave "little dinners" to "explain" the income tax to senators. The lobbyists wished to defeat the measure or failing that, to obtain amendments to lighten the tax as much as possible upon larger incomes.[1]

On May 12, the Senate approved a greatly modified bill which had little resemblance to the House bill. It contained a series of crippling amendments representing concessions to special interests of the state.

After some compromising, a joint House and Senate Committee came to agreement relative to the bill. A few of the original House provisions which had been dropped or changed were restored; however, the Senate won most of its points, consequently, the final form of the bill as passed and referred to the Governor was considered by many to be weak and inadequate.

On June 2, 1937, Governor Ammons signed the bill which became effective the first of July of the same year.[2]

The point should be stressed that in 1937 many, if not most, of the sponsors of the income tax were greatly disappointed with the bill as finally enacted into law. It was believed that tax rates were too low upon income from intangible wealth and upon all income in the upper brackets. However, these disappointed groups obtained an informal agreement from members of the legislature that after a trial period the tax would be strengthened.

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1 Rocky Mountain News, May 11, 1937.
2 House Bill No 48, Thirty-First General Assembly.

These conditions relative to the final enactment of the 1937 measure are particularly significant in view of the fact that the most important subsequent amendment has weakened instead of strengthened the law.

Briefly, the law of 1937 levied a tax on the individual net incomes of all residents, and of non-residents if derived from sources within the state, from corporation and from fiduciaries. Returns were to be filed by individuals with a gross income of $5,000, or a net income of $1,000 if single or not living with husband or wife, and $2,500 if married and living with husband or wife.

A single person was allowed an exemption of $1,000 and a married person or the head of a family, $2,500. For each dependent, other than husband or wife, a further exemption of $400 was allowed.

Tax rates upon net income of individuals after exemptions were applied as follows:

Net Income	Percent
Under $2,000	1
$2,000 and under $4,000	2
$4,000 and under $6,000	3
$6,000 and under $8,000	4
$8,000 and under $10,000	5
All over $10,000	6

In addition, without exemptions, a surtax of two percent was imposed upon the income received by individuals from intangible property. This surtax was in lieu of all property tax levies upon intangibles which previously had legally been included under the property tax.[1]

Corporations were required to pay four percent on their entire net income and banks, trust companies, financing and loan associations six percent. Various non-profit organizations were made exempt under the law.

The Personal Income Tax

Thirty-one states now provide for the taxation of personal net incomes. These states are listed in Table 1. It may be observed that with the exception of Virginia, whose income tax was not successful until recently, the earliest law was enacted in 1911 in the state of

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1 However, in practice most intangible wealth had been escaping assessment under the property tax.

Table 1

States administering Personal Income Tax Laws as of January 1, 1946, showing year of enactment and collections in 1944.
(Dollar Amounts in Thousands)

State	Year Enacted[1]	Collections - 1944[2]
Alabama	1933	$ 3,458
Arizona	1933	1,617
Arkansas	1929	1,468
California	1935	48,323
Colorado	1937	3,302
Delaware	1921	1,108
Georgia	1931	5,771
Idaho	1931	2,664
Iowa	1934	6,401
Kansas	1933	4,971
Kentucky	1936	4,410
Louisiana	1934	5,050
Maryland	1937	6,352
Massachusetts	1916	25,872
Minnesota	1933	12,107
Mississippi	1924	4,799
Missouri	1917	11,302
Montana	1933	1,347
New Hampshire[3]	1923	678
New Mexico	1933	537
New York	1919	102,182
North Carolina	1921	11,425
North Dakota	1919	1,511
Oklahoma	1935	5,523
Oregon	1929	8,028
South Carolina	1926	4,820
Tennessee[3]	1931	1,729
Utah	1931	2,427
Vermont	1931	930
Virginia	1843	6,159
Wisconsin	1911	18,497

1 Tax Systems, Ninth Edition, Tax Research Foundation, 1943
2 State Finances, Vol. 2, No. 1, January, 1946
3 Tax on income from intangibles only.

Wisconsin. Wisconsin's law proved to be so successful that tax reform -- application of the ability-to-pay doctrine as measured by net income -- soon spread to other states. By 1937 all of the states now administering income taxes had enacted laws. Colorado's law was passed in the latter year.

Table 1 also shows individual income tax collections for 1944. As would be expected there is a wide variation in amount of collections for the various states. For example, collections are large in New York and California, at least partly because many people reside there who receive large incomes. On the other hand, collections are relatively small in New Hampshire and Tennessee because their laws apply only to income from intangibles. Other determiners of the productivity of an income tax include such factors as tax rates and exemptions, definitions of income, and effectiveness of administration.

Table 2
Personal State Income Tax Collections
As Percentage of Total State Tax Collections;
Also Per Capita Collections, For Ten Selected States - 1944[1]

	Total State Tax Collections (Thousands)	Personal Income Tax Collections (Thousands)	Personal Income Tax Collections As Percentage Of Total Tax Collections	Per Capita Income Tax Collections[2]
Arizona	$ 29,742	$ 1,617	5.4	$2.84
California	554,481	48,323	8.7	6.13
Colorado	46,636	3,302	7.0	3.10
Idaho	17,165	2,664	15.5	5.63
Kansas	58,372	4,971	8.5	2.96
Montana	19,981	1,347	6.7	2.87
New Mexico	22,232	537	2.4	1.10
Oklahoma	83,316	5,523	6.6	2.78
Oregon	54,891	8,028	14.6	6.85
Utah	28,598	2,427	8.5	4.16
			Average (10 States)	3.84

1 State Finances, Vol. 2, No. 1, Bureau of Census, 1946, Colorado figures obtained from Fourth Annual Report, Colorado Department of Revenue, 1946
2 Per Capita calculations are based on the Census Bureau estimates civilian population, November 1, 1943.

In order to assist in the evaluation of the Colorado income tax a number of comparisons will be made with the other western and neighboring states which also have income taxes. These states (10 in number including Colorado) have much in common relative to geographic location,

industries, population, distribution of incomes (with exception of California) and many other aspects. Consequently, the effectiveness of Colorado's income tax as compared with the other states in this group should be of particular interest and significance.

The relative emphasis placed upon the personal income tax as compared with all state taxes for the individual states is shown in Table 2. Colorado collected seven percent of her total state revenue in the form of the personal income tax. This was about the same percentage as in California, Kansas, Montana, Oklahoma, and Utah; considerably less than in Idaho and Oregon but appreciably more than in Arizona and New Mexico.

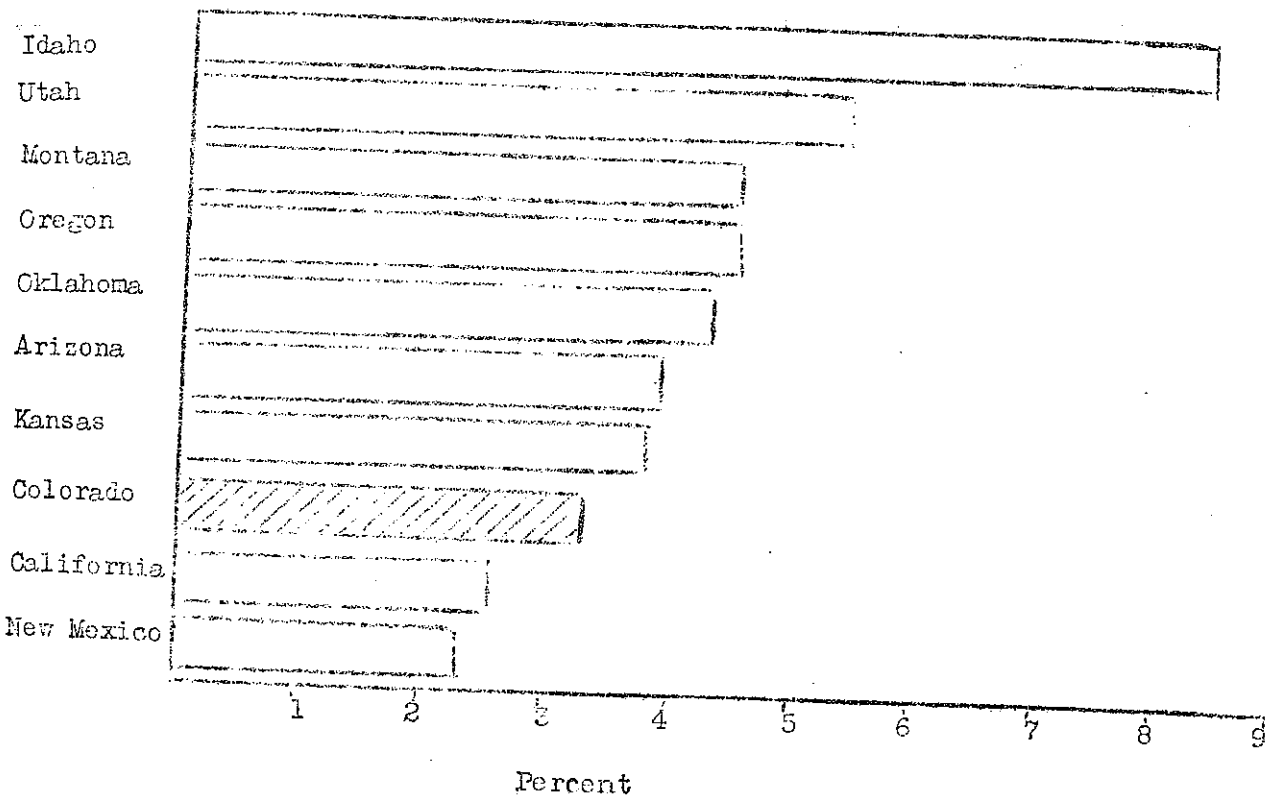
Another comparison of some interest is the per capita personal income tax collections. Table 2 indicates that in 1944 Colorado had an average per capita collection of $3.10; the range for the group of states being from $6.13 in California, the highest; to $1.10 in New Mexico, the lowest. Colorado's collection stood below the level of the average state for the group.

Table 3
State Personal Income Tax Collections - 1944
As Percentage of Total Income Payments - 1943,
Also As Percentage of Federal Personal Income Tax Collections,
For Ten Selected States
(Dollar Amounts in Thousands)

	State Personal Income Tax Collections 1944[1]	Total Income Payments 1943[1]	Personal Income Tax Collections As Percentage of Total Income Payments	Federal Personal Income Tax Collections 1944[2]	State Personal Income Tax Collections As Percentage of Federal Personal Income Tax Collections
Arizona	$ 1,617	$ 565,000	.29	$ 41,349	3.9
California	48,323	12,097,000	.40	1,928,640	2.5
Colorado	3,302	1,104,000	.29	99,753	3.3
Idaho	2,664	475,000	.56	31,842	8.4
Kansas	4,971	1,786,000	.28	132,343	3.8
Montana	1,347	498,000	.27	30,164	4.5
New Mexico	537	350,000	.15	23,047	2.3
Oklahoma	5,523	1,580,000	.35	128,470	4.3
Oregon	8,028	1,517,000	.53	179,058	4.5
Utah	2,427	639,000	.38	44,918	5.4

1 State Finances, Vol. 2, No. 1, January, 1946.
2 Statement of Internal Revenue Collections During Calendar Year 1944, U. S. Bureau of Internal Revenue.

PERSONAL INCOME TAX



State Collections as Percentage of Federal

For Ten Selected States

However, some states are more wealthy than others and, consequently, have more income relative to size or population. Therefore, a significant comparison is the amount of personal income tax collections as a percentage of total income payments within each state. Table 3 indicates that for Colorado this was .29 percent, again somewhat below average -- the group of states ranging from a high of .56 percent in Idaho to a low of .15 percent in New Mexico.

Perhaps the most significant comparison of all is the ratio of state collections to Federal personal income tax collections (from corresponding states). This comparison reflects ability to pay income taxes by allowing for variations among the states according to size, population, amount of income, and distribution of income among various income levels. It may be seen from Table 3 that the ratio in Colorado was 3.3 percent, third lowest in the rank of states as shown in the accompanying chart.

Judged by the latter index and to a lesser extent by the other indices, western states with the heaviest personal income taxes are Idaho, Utah, Oregon, and Montana; Oklahoma, Arizona, and Kansas have taxes in the middle of the group; while Colorado, New Mexico, and California have the lightest personal income taxes.

Table 4

Personal Exemptions in Terms of Net Income Otherwise Taxable Which One May Receive Without Paying a Tax; and Tax Rates (January 1, 1946), Ten Selected States

	Exemption for:			Rates		
	Single Person	Married Person	Each Dependent	Min. and Max. Rates	First Bracket	Last Bracket
Arizona[1]	10	20	4	1 - 4½	0 to $2,000	Over $6,000
California	2,000	3,500	400	1 - 6	0 to 5,000	" 25,000
Colorado[2]	1,000	2,500	400	1 - 6	0 to 2,000	" 10,000
Idaho	700	1,500	200	1½ - 8	0 to 1,000	" 5,000
Kansas	750	1,500	200	1 - 4	0 to 2,000	" 7,000
Montana	1,000	2,000	300	1 - 4	0 to 2,000	" 6,000
New Mexico	1,500	2,500	200	1 - 4	0 to 10,000	" 100,000
Oklahoma	850	1,700	300	1 - 9	0 to 1,000	" 8,000
Oregon[2]	750	1,500	300	2 - 7	0 to 500	" 4,000
Utah	600	1,200	300	1 - 5	0 to 1,000	" 4,000

1 Tax credit deductible from amount of tax rather than from net income.
2 Rates do not include special surtax on income from intangibles (replacement for property tax).
Source: Copies of personal income tax laws and regulations obtained from various state offices.

So far in our discussion we have compared various states from the standpoint of income tax collections. However, according to this criterion alone, a state's tax might represent a heavy, moderate, or light total burden, yet certain individual income brackets could be favored or discriminated against on a relative basis without being evident.

Table 4 gives the personal exemptions and tax rates for the ten states in our selected group. If the exemptions for Arizona were put on an equivalent basis with those in other states they would be approximately the same as Montana's. It may be observed that California, Colorado, and New Mexico have the most liberal exemptions for a single or married person; California and Colorado have most liberal credits for each dependent. Thus income receivers in these latter states pay little or no income tax even though, for example, their incomes may amount to $3,000 or $5,000 per year.

Table 4 also shows minimum and maximum tax rates for the first and last brackets of income in the selected ten states. Because of the slow progression of rates accompanied by relatively low maximum rates, New Mexico's tax is much lighter than any of the others. Second lightest, at least on incomes below $10,000, is California's. Colorado's tax is third lightest on incomes below $10,000.

Table 5
Liability for Personal Income Taxes under 1946 Income Tax Laws for Selected Brackets of Income, in Ten Selected States (Married Person with Two Dependents)

	Net Income						
	$2,000	$3,000	$5,000	$10,000	$50,000	$100,000	$1,000,000
	Amount of Tax						
Arizona	$ 0	$ 4½	$ 39	$ 214	$ 2,014	$ 4,264	$ 44,764
California	0	0	7	64	1,992	4,992	58,992
Colorado[1]	0	0	17	148	2,502	5,502	59,502
Idaho	1½	18	90	443	3,643	7,643	79,643
Kansas	1	11	42	194	1,794	3,794	39,794
Montana	0	4	28	176	1,776	3,776	39,776
New Mexico	0	1	21	71	1,171	2,671	38,671
Oklahoma	0	7	51	336	3,897	8,397	89,397
Oregon[1]	0	16	100	434	3,234	6,734	69,734
Utah	2	14	68	310	2,310	4,810	29,810

1 Excluding surtax on income from intangibles (replacement tax for property tax)
Source: Copies of personal income tax laws and regulations obtained from various state offices.

The effect of the various exemptions and tax rates upon the amount of tax required in selected income brackets may be seen in Table 5. An income receiver in Colorado who is married, with two dependent children, would pay no income tax on net income of $3,000; $17 and $148 taxes on net incomes of $5,000 and $10,000 respectively. With the exception of New Mexico (whose tax is one of the lightest in the whole country) and California, Colorado's tax upon these lower and middle bracket incomes is much less than for any other state in the group.

A more detailed indication of the amount of tax required in Colorado for various incomes receivers may be seen in Table 6. Upon the basis of ability-to-pay and in comparison with most other states, the Colorado personal income tax is especially light upon incomes ranging from $2,000 to $10,000.

Table 6

Liability in Colorado for Personal Income Taxes
Selected Brackets of Income (1946)

Amount of Income	Tax Paid by Single Person (no Dependents)	Tax Paid by Married Person	
		No Dependents	Two Dependents
$ 1,000	$ 0	$ 0	$ 0
1,500	5	0	0
2,000	10	0	0
2,500	15	0	0
3,000	20	5	0
3,500	30	10	2
4,000	40	15	7
5,000	60	30	17
6,000	90	50	34
7,000	120	75	54
8,000	160	105	81
9,000	210	140	111
10,000	260	180	148
15,000	550	450	402
20,000	850	750	702

Source: Regulations Relating to Colorado Income Tax, Department of Revenue, 1945.

In 1944, 77,701 taxable returns were filed by individuals in the state. Thus only one out of every 15 people paid an income tax. Expressed in terms of number of families in the state, only one out of every four or five heads of families paid a tax.[1]

[1] Estimated number of families based upon U. S. Census Report for 1940.

Corporation Income Tax

In most instances, the states which tax personal incomes (Table 1) also tax net incomes of corporations. Exceptions are to be found, however, in the laws of Delaware and New Hampshire, which provide for a tax on personal incomes but not on corporate incomes. Connecticut and Pennsylvania, on the other hand, tax corporation incomes but not personal incomes. Finally, Massachusetts, which has a personal income tax, has a corporation income tax on financial institutions only.

There are, accordingly, 30 states whose income tax laws provide for the taxation of corporate net incomes.

For our purpose in this study further analysis of the state taxation of corporate net income will be confined to comparisons among the 10 states of the west with corporation net income taxes.

Table 7 indicates the relative emphasis placed upon the corporation income tax as compared with all state taxes for the respective

Table 7

Corporation Income Tax Collections as Percentage of Total State Tax Collections; also Per Capita Collections for Ten Selected States - 1944[1]

	Total Tax Collections (Thousands)	State Corporation Income Tax Collections[2] (Thousands)	Corporation Income Tax Collections As Percentage of Total Tax Collections	Per Capita State Corporation Income Tax Collections[3]
Arizona	$ 29,742	$ 1,898	6.4	3.33
California	554,481	67,671	12.2	8.59
Colorado[4]	46,636	3,057	6.5	2.86
Idaho	17,165	1,846	10.8	3.90
Kansas	58,372	2,125	3.6	1.27
Montana	19,981	1,237	6.2	2.63
New Mexico	22,232	698	3.1	1.42
Oklahoma	83,316	6,278	7.5	3.16
Oregon	54,891	6,906	12.6	5.89
Utah	28,598	1,315	4.6	2.25

1 State Finances, Vol. 2, No. 1, January, 1946.
2 Taxes on unincorporated business when measured by net income are classified with "Corporation Income."
3 Per capita calculations are based upon the Census Bureau estimated civilian population, November 1, 1943.
4 Figures for Colorado taken from Fourth Annual Report, Colorado Department of Revenue, 1946

states. In 1944 Colorado collected 6.5 percent of her total state revenue in the form of the corporation income tax. This was about the same as in Arizona and Montana; a greater percentage than in Kansas, New Mexico and Utah; and less than in California, Idaho, Oklahoma, and Oregon. Consequently, relative to all state tax collections, Colorado's corporation income tax is approximately average for states of the group.

Table 7 also shows the per capita corporation income tax collections for the ten states. In 1944 Colorado collected $2.86 per capita in this form of tax -- less than in five and more than in four of the states in the group.

On the basis of corporate income tax collections as related to total income payments (Table 8), again Colorado's tax stands about midway in the group of states.

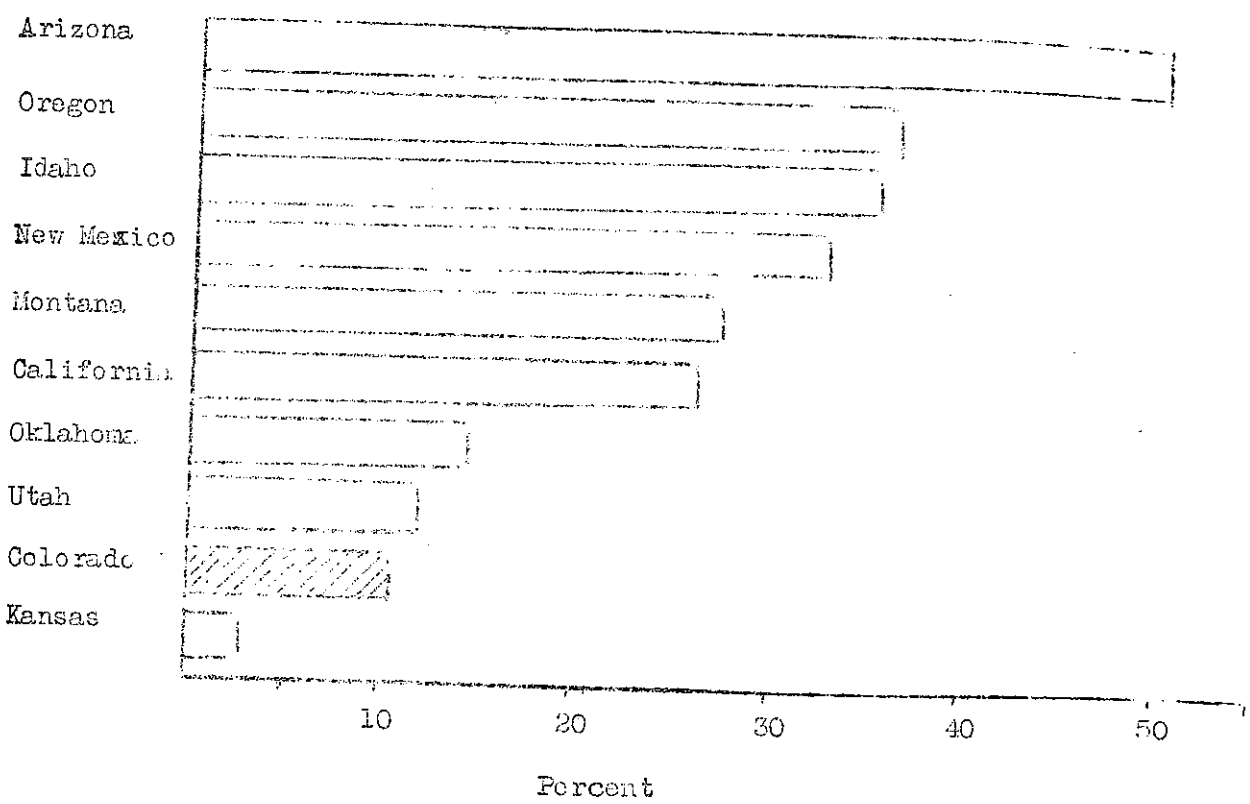
Table 8

Total Corporate Income Tax Collections - 1944
as Percentage of Total Income Payments - 1943;
also as Percentage of Federal Corporation Income Tax Collections,
for 10 Selected States[1]
(Dollar Amounts in Thousands)

	State Corporate Income Tax Collections 1944[3]	Total Income Payments 1943	Corporate Income Tax Collections as Percentage of Total Income Payments	Federal Corporate Income Tax Collections 1944[2]	State Corporate Income Tax Collections as Percentage of Federal Corporate Income Tax Collections
Arizona	$ 1,898	$ 565,000	.34	$ 3,757	50.5
California	67,671	12,097,000	.56	255,064	26.5
Colorado	3,057	1,104,000	.27	30,112	10.1
Idaho	1,846	475,000	.39	5,175	35.7
Kansas	2,125	1,786,000	.12	72,600	2.9
Montana	1,237	498,000	.25	4,509	27.4
New Mexico	698	350,000	.20	2,095	33.3
Oklahoma	6,278	1,580,000	.40	42,539	14.8
Oregon	6,906	1,517,000	.46	18,806	36.7
Utah	1,315	639,000	.21	10,895	12.1

1 State Finances, Vol. 2, No. 1, January, 1946, and Statement of Internal Revenue [illegible] for the Calendar Year 1944, U. S. Bureau of Internal Revenue.
2 [illegible] normal tax, surtax, victory tax; excludes excess profits tax.
3 Taxes on unincorporated business, when measured by net income, are classified as Corporate Income.

CORPORATION INCOME TAX



STATE COLLECTIONS AS PERCENTAGE OF FEDERAL

FOR TEN SELECTED STATES

Finally, Table 8 gives the most significant comparison of all, the ratio of state collections to Federal corporation income tax collections (from corresponding states). It may be seen that judged by this standard, Colorado's tax is considerably lighter than in any other state of the group except Kansas. The relative position of Colorado may be easily seen in the accompanying chart.

The various corporation income tax rates and the amount of taxes paid upon a $25,000 net income are shown for the group of ten states in Table 9. Colorado has a four percent flat rate -- about average for the group. Thus the reason for relatively low corporation income tax collections in Colorado as compared with Federal collections from the same corporations (Table 8) is not explained in terms of rates. Information is not available to indicate whether or not the variation can be explained in terms of relative effectiveness of tax administration.

Table 9

Corporation Income Tax Rates and Amounts Paid on $25,000 of Net Income for Ten Selected States - 1946.

State	Rate (Percent)	Amount of Tax on $25,000 Net Income
Arizona	1 - 5	$1,115
California	4	1,000
Colorado	4	1,000
Idaho	1½ - 8	1,795
Kansas	2	500
Montana	3	750
New Mexico	2	500
Oklahoma	6	1,500
Oregon	8	2,000
Utah	3	750

Source: Copy of laws and regulations relating to corporation income taxes obtained from the various state offices.

Perhaps at least a partial explanation of the low yield is the difficulty in Colorado of taxing the income of interstate corporations. The state should collect a tax from these corporations on that portion of the income earned within the state. However, because of crippling court decisions, the state frequently has been denied the right of enforcing these tax payments. The Department of Revenue is well aware of the problem and is hopeful that in the future it will be more successful in obtaining favorable rulings from the courts; if so, the corporation income tax will become significantly more productive of revenue.

Income Tax - Personal and Corporate

Collections of Colorado income tax revenue for calendar years since the law was enacted in 1937 are shown in Table 10. It may be observed that a rather steady increase has occurred in collections throughout the seven years. This increase has undoubtedly been largely due to rising levels of income among individuals and corporations in the state. Should incomes decline in the future, unless tax rates and exemptions are adjusted, we may expect reductions in income tax collections.

Table 10

Colorado Income Tax Collections
By Type of Return,
Calendar Years 1938 - 1944[1]

Year	Total Collections	Individuals	Corporations	Fiduciaries
1938[2]	$1,284,403			
1939	2,829,302	$1,729,629	$1,054,447	$45,226
1940	3,361,132	2,091,243	1,224,768	45,121
1941	3,543,432	2,398,859	1,106,286	38,287
1942	4,596,081	3,084,783	1,441,273	70,025
1943	6,160,740	3,620,668	2,455,802	84,270
1944	6,359,497[3]	3,302,384	2,976,493	80,445

1 Fourth Annual Report, Colorado Department of Revenue, 1946.
2 Six months only.
3 Includes $175 in the form of partnership penalties.

Table 11 shows total Colorado income tax collections as a percentage of Federal income tax collections in comparison with the nine other states of the western group. The figures are also portrayed in an accompanying chart.

According to this comparison -- an excellent one from the standpoint of indicating relative tax burdens -- Colorado's income tax with one exception (Kansas) is the lightest of the ten states.

Table 11

Total State Income Tax Collections (Personal and Corporate) as Percentage of Total Federal Income Tax Collections (Personal and Corporate) from Corresponding States for 10 Selected States - 1944[1]

(Dollar Amounts in Thousands)

State	Total Federal Income Tax Collections[2]	Total State Income Tax Collections	Total State Income Tax Collections As Percentage of Total Federal Income Tax Collections
Arizona	$ 45,106	$ 3,515	7.8
California	2,183,705	115,994	5.3
Colorado	129,865	6,359	4.8
Idaho	37,018	4,510	12.2
Kansas	204,943	7,096	3.5
Montana	34,673	2,584	7.5
New Mexico	25,142	1,235	4.9
Oklahoma	171,009	11,801	6.9
Oregon	197,864	14,934	7.5
Utah	55,814	3,742	6.7

1 State Finances, Vol. 2, No. 1, January, 1946, and Statements of Internal Revenue Collections during the Calendar Year 1944, U. S. Bureau of Internal Revenue.

2 Corporate tax includes normal tax, surtax, victory tax: excludes excess profits tax.

The various amounts of income tax revenue which Colorado could obtain if her collections were comparable, in each case, with the other nine income tax states of the region are shown in Table 12. If Colorado were to increase her income tax to the level of the average for the nine states, the excess revenue above the present collections would be about $2,624,000.

Should Colorado need additional revenue to support necessary functions of government, or should a more satisfactory source of revenue be desired to replace, for example, part of the property tax or the sales tax, then an examination of the income tax for the purpose of increasing its productivity would be appropriate.

Table 12

Various Amounts of Income Tax Revenue Which Colorado Could Obtain If Her Tax Burden Were Comparable in Each Case, with Other Income Tax States of the Region.

State	Percentage State Collections to Federal Collections[1]	Percentage in Column I multiplied by Federal collections from Colorado[1]	Possible excess Revenue in Colorado above Actual (Amounts varying According to Relative Tax Burdens in each State)[2]
Idaho	12.2	$15,844,000	+ $9,485,000
Arizona	7.8	10,119,000	+ 3,760,000
Montana	7.5	9,740,000	+ 3,381,000
Oregon	7.5	9,740,000	+ 3,381,000
Oklahoma	6.9	8,961,000	+ 2,602,000
Utah	6.7	8,701,000	+ 2,342,000
California	5.3	6,823,000	+ 464,000
New Mexico	4.9	6,363,000	+ 14,000
Colorado	4.8	6,359,000	- -----
Kansas	3.5	4,545,000	- 1,814,000
		Average	+ 2,624,000

1 See table 11.
2 Colorado collections subtracted from amounts in Column 2.

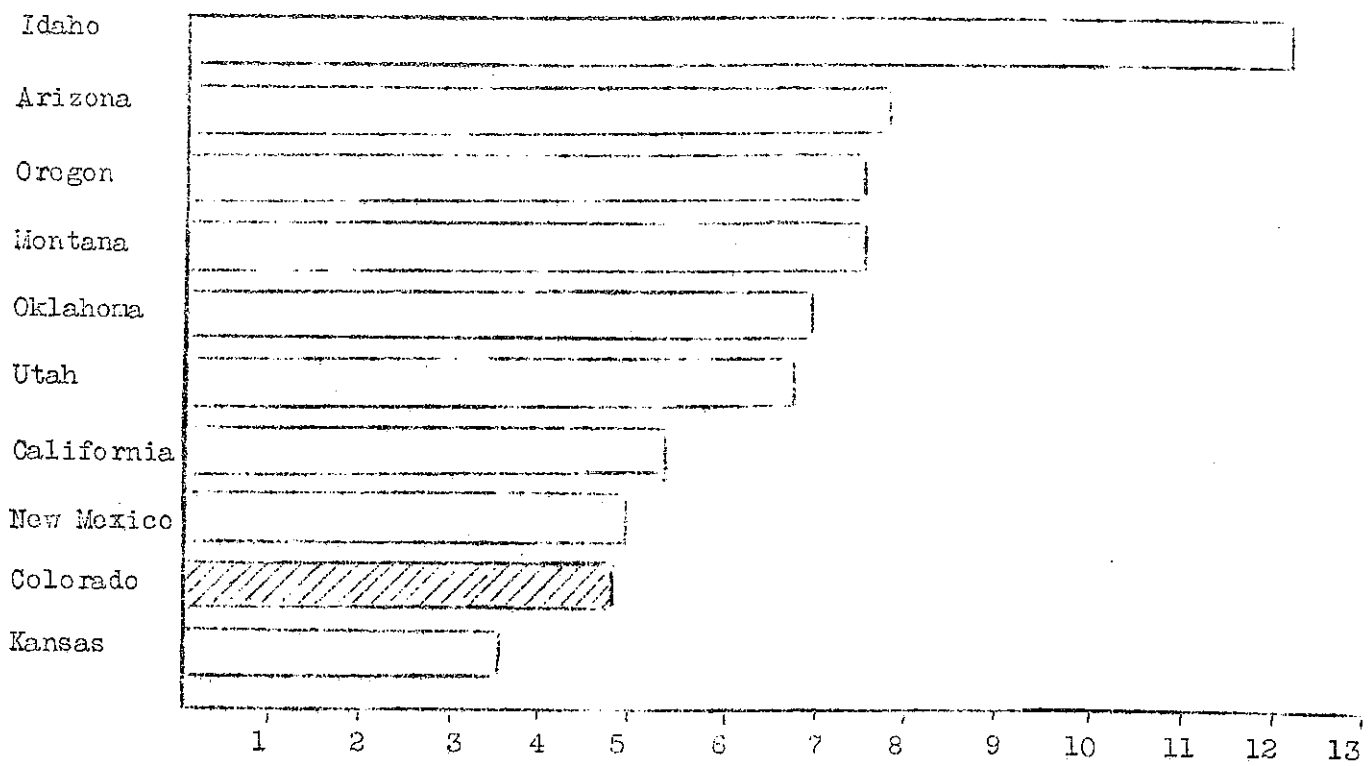
A moderate change strengthening the law could be made by increasing normal tax rates by $1,000 instead of $2,000 brackets of income. The effect of this revision would be to tax somewhat more heavily the taxable net incomes between $2,000 and $10,000 -- those especially favored under present law. If such a change were made an estimated additional $978,000 would be collected annually from the personal income tax.[1]

A more thoroughgoing modification of the law -- revision to bring the tax in line with the successful measures found in such states as Idaho, Oregon and Wisconsin -- would be to reduce personal exemptions to the level of $1,000 for a single person, $2,000 for the head of a family and $200 for each dependent; and to apply normal rates graduated from two percent on the first $1,000 of taxable income to 10 percent on incomes over $8,000. The effect of such changes would materially strengthen the personal income tax by making it correlate more closely with tax paying ability. Moreover, the yield of the tax would increase significantly. Details relative to these proposed changes in tax rates and exemptions as well as estimated additional revenue resulting from such changes are shown in Appendix A, Table 3. It may be seen that the estimated additional revenue would be about $4,489,000.

1 See Appendix A, Tables 1 and 2.

INCOME TAX

(CORPORATE AND PERSONAL)



STATE COLLECTIONS AS PERCENTAGES OF FEDERAL

FOR THE SELECTED STATES

Should the above changes be made in the personal income tax, in order to keep the two more nearly in balance, the general corporation tax rate should probably be raised from four to six percent. This change would raise the rate to the level now prevailing for financial corporations and would result in an estimated increase of $1,000,000 of revenue.

An objection to increasing rates or lowering exemptions for the state income tax might be set forth on the basis that the federal government is taxing incomes very heavily. In fact it is sometimes argued that state income taxes should not be increased until federal reductions have been made from the high levels of war income and excess profits tax rates.

However, in reply to this argument it can be pointed out as indicated in Table 13 that already the federal tax has been lowered. The 1945 Federal Revenue Act materially reduced the individual and corporation income tax collections which will be made from Colorado, and repealed in its entirety the excess profits tax. As a consequence, beginning with the calendar year 1946, there will be an estimated annual savings to individuals in the state of over $16 million and to Colorado corporations of about $10 million.

Table 13

Estimated Reductions in Federal Income Tax Collections (from Individuals and Corporations) in Colorado Due to Changes in 1945 Revenue Act.

Taxes Upon	1945 Collections[1]	1946 Estimated Collections[2]	Estimated Savings
Individuals	$123,504,500	$107,111,700	$16,392,800
Corporations			
Excess Profits	32,417,340	---	8,431,500[3]
Corp. Surtax	27,048,945	25,071,045	1,977,900
		Total -	$26,802,200

1 Bureau of Internal Revenue, Press Release February 18, 1946.

2 Estimates based upon expected reductions apportioned among states according to relative collections in 1945. See N. Y. Times October 28, 1945.

3 Estimate based upon an expected reduction in profits.

Allocation of Income Tax Revenue

Considerable controversy has developed in Colorado relative to the public functions to be supported from income tax funds. Although it was not considered desirable to place limitations in the Constitution, there was common understanding among the organized groups and various individuals supporting the income tax constitutional amendment that the income tax would be applied as a replacement tax. This was to be accomplished by placing the revenue in a fund for the support of elementary and secondary education in such a manner as to reduce property taxes. Accordingly, the 1937 income tax law provided that, after deductions for the cost of administration, all net proceeds of the income tax would go into a reserve for general county school funds. Out of this reserve, allocations were to be made to counties on the basis of the number of children of school age in each county. The law specified that in order to participate, property tax levies for the county general school fund would have to be reduced by an amount equivalent to the revenue received from the state.[1] The income tax law became effective on July 1, 1937, and first collections were made in 1938. Because Colorado does not collect income taxes on the pay-as-you-go basis, collections in 1938 were merely for a six months' period. However, during this first year, after allowing for administrative expense, $879,351 was made available for the support of public schools of the state.

In his inaugural address before the Thirty-Second General Assembly, January 1939, Governor Ralph L. Carr recommended that the law be amended to provide for the transfer, beginning with 1939, of all income tax money to the general fund for general state purposes. Governor Carr's position can best be stated by quoting from his speech as follows:

> "A net income tax was imposed by the 1937 session of the General Assembly with a view to providing revenues to replace, in part, general property tax levies for school purposes. It is now apparent that the income tax is not, and will not be a replacement tax, but rather an addition to the tax burden. I am told that in forty-two counties the old levy for the school tax has been converted into a part of the general revenue funds and the income tax has been merely a windfall. You and I take office burdened by the existing deficit and faced by another for the next biennium. The people were advised of this in the campaign and they know that the fiddler must be paid. Either a new tax must be voted or we must find the solution in some such fund as this.

1 An exception was made in the case of the city and county of Denver. A compromise provision stated that the amount allotted to Denver should be divided equally between the city government and the schools, and no tax levy reduction would be necessary in order to share in the funds.

"I recommend that the income tax be amended to provide that the entire proceeds of the tax for the year 1939 and subsequent years be paid to the general fund and made available for appropriation for general state purposes."

It was argued by those who opposed the diversion plan, that the Governor's proposal would defeat the original intention of the income tax which in effect had begun to operate in 1939, namely, to lighten the property tax burden relative to the support of education. It was further contended that by transferring the revenue from the school fund to the general fund, the equalizing advantage as among rich and poor school districts would be reduced because of the loss of income tax revenue contributed by the state for the support of education. A compromise bill was enacted which provided that for a period of two years, 65 per cent of the proceeds of the income tax should be placed in the general fund of the state to pay legislative appropriations for current state expenditures. The remaining 35 percent of the proceeds were to be distributed to the schools.[1]

Thus the amount of state support, at least for a temporary period, which the public schools had looked forward to receiving was materially reduced. Although income tax collections for 1939 were $2,829,302, the share allocated for the school fund was $1,087,575.

In 1949 an initiated proposal to amend the constitution relative to the allocation of income tax revenue was placed upon the ballot. The proposal came as a result of the efforts of the Colorado Federation for Constructive Legislation of which various other organizations were affiliated. One of the latter organizations especially active in supporting the initiated amendment was the Colorado Education Association. The proposal specified that beginning July 1, 1941, all income tax revenue should be allocated for the use of the public schools, on a property replacement basis -- a proposal to restore the situation prevailing under the original income tax law of 1937.

The result of the election was a decisive defeat for the proposed amendment. This was largely because of overwhelming opposition expressed by the people of Denver who voted nearly six to one against the proposal.

A statutory amendment approved April 8, 1941 extended the temporary diversion of income tax revenue for another two-year period. The diversion ratio remained the same -- 65 percent being paid to the state general fund and 35 percent going to the general county school fund.

In 1943 the legislature again allocated, for a period of two years, 35 percent of the proceeds of the income tax to the county school fund. However, the amount going to the state general fund was reduced to 50 percent, leaving 15 percent available for a school equalization fund. The use of the latter fund was carefully limited to the purpose of assisting local units in setting up a minimum program of

1 Approved March 31, 1939.

$1,000 for each elementary classroom unit and $1,333 for each high school classroom unit. The law stipulated that in order to participate in this type of state aid, special county and school district tax levies must be applied. Counties and school districts were given the option of deciding whether or not they wished to participate in the program. Any money remaining in the equalization fund at the end of the biennium was to revert to the state general fund.

During the subsequent two-year period, only 14 counties chose to participate in the minimum educational program act of 1943. Consequently, only these 14 counties received financial assistance through the state 15 percent equalization fund. At the end of the biennium, July 1, 1945, an unused balance of $1,491,204.31 reverted to the state general fund. The extent to which proceeds of the income tax have been used for support of education during the years from 1938 to 1945 is shown in Table 14. It should be noted that allocations to the county general school fund are shown on a calendar year basis while apportionments from the school equalization fund are shown by fiscal year.

Table 14

Allocations to Public Schools in Colorado from State Income Tax Revenue, 1938-1945

To County General School Funds		
Calendar Year	Amount Allocated	Basis for Allocation
1938	$ 879,351.74	100% of Net Collections
1939	1,087,575.33	35% " " "
1940	1,111,797.52	" " " "
1941	1,069,230.08	" " " "
1942	1,502,560.96	" " " "
1943	1,955,775.89	" " " "
1944	2,110,767.11	" " " "
1945	1,974,000.00	" " " "

To The Fourteen Counties Participating in State School Equalization Fund	
Fiscal Year	Amount Allocated
1943-44	$162,578.89
1944-45	130,900.72
Total	$293,479.61
Balance to State General Fund, July 1 1945	1,491,204.31
	$1,784,683.92 Amount originally apportioned on basis of 15% of Income Tax.

Source: Office of Colorado State Superintendent of Public Instruction.

The full significance of the problem of state support for public education in Colorado can not be appreciated unless reference is also made to the distribution of state aid from the income of the permanent school fund.

When Colorado became a state, it was given certain public lands for a permanent public school fund. This gift from the United States Government amounted to 3,753,939 acres. Of this total, about 800,000 acres have been sold, and about 2,950,000 acres remain. Money obtained from the sale of school land can not be spent but must be invested in approved securities. Thus, the permanent school fund obtains an income either in the form of interest from investments or rentals from unsold lands.

Income from the state permanent school fund is distributed through the counties to school districts in the form of state aid for the payment of teachers' minimum salaries of $75.00 per month. This state aid goes to the financially weaker counties and districts -- those which cannot raise enough revenue from specified special mill levies to pay the minimum salaries. After the state aid is distributed, any money remaining in the public school fund is apportioned to the counties and through the counties to the school districts in proportion to the number of children on the school census. However, during recent years, all of the public school income fund has gone for state aid, none being left over for apportionment. Actually, the fund has been insufficient to pay all of the state aid applied for.

Deficiencies in the public school income fund for state aid since 1939 are shown in Table 15. A reduction in the shortage for the last two years has come about through a higher return from investments of the school fund and the rental of school lands and in increased property valuations in the counties that draw upon the state school income fund.

Table 15

Deficiencies in Public School Income Fund for State Aid[1]

School Year	Amount of Deficiency
1939-40	$538,003.01
1940-41	667,209.10
1941-42	481,367.66
1942-43	516,000.00
1943-44	125,063.00
1944-45	9,759.00

1 Office of Colorado State Superintendent of Public Instruction.

As previously noted, the state distribution of income tax revenue to the general county school fund has been for the purpose of reducing county and district special mill levies which are otherwise necessary if the counties and districts are to participate in the state aid program for minimum teachers salaries.

Income from the permanent school fund and revenue from a portion of the income tax represent the two forms of state assistance to elementary and secondary schools in Colorado. Both together represent a very small portion of the total cost of public education in the state. Table 16 indicates that for the school year 1944-45, the amount was 12 percent of total cost, which placed Colorado ninth from the bottom among the states relative to the proportion of state aid for public education. The highest state, Delaware, contributed almost 84 percent while the median state was about 34 percent -- nearly three times the figure for Colorado.

In the 1945 regular session of the legislature, House Bill 271, known as the Minimum Education Program Act, was approved March 3, 1945. This bill amended the law of 1943 by increasing the amount per elementary classroom unit from $1,000 to $1,200; the high school classroom unit from $1,333 to $1,500. Furthermore, the effectiveness of the minimum education program was increased by a provision requiring the counties to levy the deficiency tax of one mill (or less) if a deficiency should appear in the General School Fund. Also, the matching levy to make it possible for a district to participate in the state school equalization fund was eliminated.

It was believed that these changes would improve the minimum education program by raising the standards and at the same time by broadening the participation. During the previous two years, only 14 counties had elected to come under the act.

Also the regular legislative session of 1945 in House Bill 447 extended, without time limit, the method of allocation of income tax revenue which had prevailed since 1943, namely, 50 percent going to the state general fund, 35 percent to the general county school fund, and 15 percent to the state school equalization fund.

By the summer of 1945, it was apparent that the changes made in the methods of state assistance to public education in Colorado, although representing some improvement, were still distressingly inadequate. Rising costs of living due to war and postwar conditions, accompanied by opportunities for higher salaried school positions in other states and better paying jobs in other occupations, were responsible for a crisis in the schools of the state. Poorly qualified teachers were being employed in many districts to an extent that was erasing gains in educational standards which had been built up with difficulty over many previous years. Furthermore, the shortage of teachers with any qualifications was threatening to compel some districts to close their schools completely.

Table 16

Percentage of Total Elementary and Secondary School Revenue Received in Each State from State Sources in 1944-45

Rank	State	State Sources Percentage	Rank	State	State Sources Percentage
1	Delaware	83.8	25	Missouri	34.1
2	***Washington	71.4	26	*Pennsylvania	32.3
3	New Mexico	69.7	27	Wyoming	31.9
4	***Alabama	68.9	28	*New York	31.8
5	*North Carolina	63.0	29	Maryland	28.9
6	South Carolina	62.0	30	Oregon	28.1
7	*Arizona	61.5	31	*Montana	23.0
8	Louisiana	58.8	32	Maine	21.5
9	Georgia	55.5	33	North Dakota	19.7
10	West Virginia	54.9	34	***Vermont	19.6
11	Arkansas	51.9	35	*New Jersey	19.1
12	*Michigan	48.4	36	Idaho	18.1
13	Texas	48.0	37	***Kansas	17.0
14	Mississippi	46.9	38	Nevada	16.0
15	*Oklahoma	44.7	39	Wisconsin	15.0
16	Florida	44.1	40	***Colorado	12.0
17	***Ohio	43.6	41	New Hampshire	11.0
18	**California	43.2	42	*Illinois	10.2
19	Utah	41.2	43	South Dakota	9.8
20	Kentucky	39.5	44	Massachusetts	8.7
21	Indiana	35.2	45	Connecticut	5.9
22	Virginia	35.0	46	Rhode Island	5.3
23	*Tennessee	34.9	47	Nebraska	3.9
24	Minnesota	34.3	48	Iowa	1.1

*1943-44
**1941-42
***Estimated

Source: Research Division, National Education Association, Washington, D. C. Letter, June 20, 1946.

As a consequence, when Governor Vivian called a special session of the legislature in the fall of 1945, several educational finance bills were placed upon the agenda. After considerable debate, two important education bills were finally passed. However, they contained compromise features disappointing to many supporters of education in the state. Nevertheless, they provided for some increase in the amount of state aid for public education in Colorado.

House Bill 10 of the special legislative session raised the minimum education program, effective January 1, 1946, to $1,800 per classroom unit, both elementary and high school. It provided that three-fourths of this amount must be paid for teachers' salaries. Thus, in effect it established a minimum salary of $1,350 for the teachers in those counties and districts electing to participate in the program.[1] Undoubtedly, because of additional mill levies required within the counties and districts which share in the state funds, not all jurisdictions will elect to come under the program. In fact, during the first half-year following January 1, 1946, only 42 of the 63 counties of the state were participating in the fund. Furthermore, not all of the districts within the 42 counties elected to come under the plan. Therefore, the minimum education program is still a long way from being a comprehensive program for the whole state.

The second important bill relating to education, passed by the 1945 special session of the legislature, was House Bill number 12. It became effective July 1, 1946, and provides for a new allocation of the state income tax revenue. Under the new law, 35 percent continues, as formerly, to go to the county general school fund to reduce the property tax; 35 percent (increased from 15 percent) goes to the state school equalization fund to finance the expanded program under House Bill 10, described above; while the remaining 30 percent (reduced from 50 percent) goes to the state general fund to assist with the current costs of state government.

In the future, should income tax collections, after deductions for administrative cost, amount to $6,000,000,[2] distribution of revenue under the new law would be $2,100,000 to the county general school fund, $2,100,000 to the school equalization fund, and $1,800,000 to the state general fund. This would represent an increase, because of the new law, of about $2,000,000 contributed by the state for the support of public education.

Table 17 shows approximate revenue sources for Colorado public schools for the academic year 1941-42 and 1944-45. Estimates are also indicated for the year 1946-47. It may be seen that the percentage of state assistance has increased from 71.6 percent in 1941-42 to 12.7 percent in 1944-45. The estimate for 1946-47 is about 19 percent. However, this estimate is probably high because it assumes that county and district school taxes will remain constant, whereas they are likely to increase in order that the schools may participate in the state equalization fund.

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1 The original bill had provided for a $1,500 minimum salary to be applied generally throughout the state.

2 On the basis of collections for the first 10 months of the 1945-46 fiscal year, $6,000,000 is a conservative figure.

Table 17

Revenue Sources For Public Schools In Colorado

(Dollar amounts in thousands)

Source	Academic Year 1941-42[1]	%	Academic Year 1944-45	%	Academic Year 1946-47	%
Federal Gov't	$ 162	.6	$ 162[2]	.7	$ 162[4]	.6
State Public School Income Fund	854	3.4	803[3]	3.3	803[4]	3.1
State Income Tax	1,069	4.2	2,248[3]	9.4	4,200[5]	16.2
County Taxes	4,000	15.9	3,363[3]	14.0	3,363[4]	13.0
District Taxes	19,000	75.9	17,280[3]	72.4	17,280[4]	66.9

1 Approximate figures. See O. L. Troxel, Public Education in Colorado, Colorado Education Association 1944.
2 Federal Government Funds for Education, U. S. Office of Education, 1945
3 State Department of Education, Denver, Colorado. Figures supplied July 3, 1946.
4 Assuming these amounts will remain approximately the same as for 1944-45.
5 Estimate based upon 1945 law relative to income tax allocations.

Should the relative amount of state assistance for public education under the new law be about 19 percent, Colorado will still be far down on the list of states according to rank on the basis of relative support for public education. If ratios for other states stay the same as for 1944-45 (see Table 16), Colorado would be fourteenth from the bottom and her contribution would represent a relative amount not much more than half the percentage contribution made by the average state.

Special Problems Relating to the Colorado Income Tax

1 - Federal Income Tax Deductions

With the development of Federal income and excess profits taxes in World War II, state governments encountered more and more competition from the National government relative to their own income taxes. For example, Federal income tax collections from Colorado increased from a total of $15,209,000 in 1939 to over $146,000,000 in 1945. Table 18 shows the amount of collections by fiscal years from Colorado corporations and individuals since 1939.

A number of states anticipated the increase of Federal taxes by adjusting their own income tax laws. They eliminated or at least reduced the effect of the increasing National competition for revenue by disallowing any deductions for Federal taxes. Therefore, an individual

Table 18

Federal Corporation and Individual Income Tax Collections from Colorado by Fiscal Years 1939 to 1945.[1]

Fiscal Year Ending June 30	Corporation	Individual	Total
1939	7,533,678	7,675,816	15,209,494
1940	6,105,331	7,260,695	13,366,026
1941	8,793,265	8,440,073	17,233,338
1942	15,150,515	19,375,455	34,525,970
1943	21,100,690	45,334,795	66,435,486
1944	26,483,617	117,300,417	143,784,036
1945	28,804,634	117,345,655	146,050,290

1 Annual Reports of Commissioner of Internal Revenue, U. S. Treasury Department. Excess profits taxes are not included.

in one of these states can no longer deduct the Federal income tax before figuring the state tax. By 1946, fifteen states had such provisions in their revenue laws.[1] Western states included in the list of jurisdictions not allowing deductions for Federal income taxes are California, Oregon, and Montana.

It has been proposed that the Colorado law be amended so as no longer to permit deductions for Federal income taxes. Should such a change be made, considerably more revenue could be obtained from the state income tax. Table 19 indicates the effect upon taxpayers in selected brackets of income if the amendment were enacted into law. For example, a net income, before Federal taxes, of $4,000 received by a married person with two dependents is now taxed $3; the proposed change would increase the tax to $7.

The same table also shows Colorado's income tax as a percentage of net income for selected brackets under the present and proposed laws. It may be noted that at present, because of Federal tax deductions, a $10,000 net income is taxed by Colorado at a rate of only .8 percent, a $100,000 net income at the low rate of 1.8 percent, and a $1,000,000 net income at the rate of only .9 percent. Should the provision be dropped for Federal tax deductions, as has occurred in at least 15 other states, the Colorado tax rate progression (Column e) would be much more in accordance with correct standards of equity. Now, however, the Colorado income tax is actually regressive in the upper brackets of income.

1 Federation of Tax Administrators, Disallowance of Deduction for Federal Taxes Paid, Chicago. February 1946.

Table 19

Effect Upon Colorado Income Tax, in Selected Brackets of Income, if Deductions Were Not Allowed for Federal Income Taxes. (Married person with two children)

Net Income Before Federal Income Tax (a)	Present Colorado Income Tax (Federal Deductions allowed)[1] (b)	Proposed Colorado Income Tax (No Federal Deductions)[2] (c)	Present Tax as Percentage of Income (Col.b ÷ Col.a) (d)	Proposed Tax as Percentage of Income (Col.c ÷ Col.a) (e)
3,000	0	0	--	--
3,500	0	2	--	.05
4,000	3	7	.07	.2
5,000	11	17	.2	.3
10,000	85	148	.8	1.5
100,000	1,764	5,502	1.8	5.5
1,000,000	9,265	59,502	.9	5.9

1 Colorado Dept. of Revenue, Regulations Relating to Colorado Income Tax, 1945

2 Calculations based upon Federal Taxes under Revenue Act of 1945 (Effective January 1, 1946).

It is possible to estimate the approximate amount of additional revenue which could be obtained from the state income tax if the provision were to be discontinued permitting deductions for Federal income taxes. Personal income tax collections would increase by about $1.5 to $2 million,[1] while the yield of the corporation income tax would increase by an estimated $1 million.[2]

1 This estimate was obtained by applying 1946 Federal income tax rates and exemptions to average net income received by Colorado residents by income levels. The resulting estimates of federal taxes were deducted from the levels of average income and Colorado income tax rates and exemptions were then applied to these levels of income. The actual tabulations are not included in this study as the procedure followed as well as much of the basic data are similar to those found in Appendix A.

2 This figure is based upon federal corporation income tax collections in 1945. It disregards the excess profits tax as the latter was repealed effective January 1, 1946.

2 - Surtax on Income from Intangibles

As previously discussed, at the time the income tax law was enacted in Colorado, all intangible personal property was made exempt from taxation under the property tax. Thus the application of the tax was confined to the owners of real and personal tangible property located in the state, while approximately one billion dollars of intangible wealth was legally freed from paying any mill levy tax to state or local governments.

Prior to 1937, most intangible property had escaped taxation because it was generally conceded that the property tax rates (a state wide average of about 35 mills) was so heavy that the effect of the application of the tax would be confiscatory. It was generally agreed, however, that the large body of intangible wealth in the state represented some tax paying ability and, consequently, the arrangement of levying a two percent surtax (based upon income from the intangible) in lieu of the property tax became part of the new income tax measure.

Thus a very moderate tax, as compared with the property tax upon real and personal tangible property, was levied upon intangibles. Even this restrained tax was reduced in 1943 by legislative amendment. Since January 1, 1943, an exemption of $200 of income from intangible personal property,[1] per individual taxpayer has been permitted before a surtax is applied.

The effect of the 1943 amendment as compared with the 1937 law and the property tax law prior to 1937 is shown in a number of hypothetical cases in Table 20.

Table 20

Tax Liability of Owners of Intangible Property (Stocks, Bonds, Mortgages, etc.) under the Colorado Law Prior to 1937, 1937-42, and Since 1942.

Value of Intangibles	Amount of Income[1]	Tax Liability		
		Under Property Tax Prior to 1937[2]	Surtax Under Income Tax 1937-42	Surtax Under Income Tax Since 1942
$ 5,000	$ 200	$ 175	$ 4	0
10,000	400	350	8	4
100,000	4,000	3,500	80	76

1 Assuming a 4% average yield. Should the yield be less than 4%, the contrast would be even greater.
2 Assuming an average rate of 35 mills.

It may be observed that under the old property tax before 1937, rates were high enough to tax away practically all income. However, the sub-

1 According to the income tax law, such income includes dividends, royalties and interest from stocks, bonds, mortgages, deposits, etc.

stitution of a two percent surtax for the property tax under the 1937 income tax law appears to have been the other extreme -- a $5,000 investment paying merely $4 and a $100,000 investment, $80. Nevertheless, in effect, these low rates were reduced still further by the 1943 amendment -- a $5,000 investment paying no tax whatsoever.

The owners of approximately one billion dollars of intangible wealth in Colorado paid total surtaxes (in lieu of any property taxes) of $861,649 in 1943.[1] In striking contrast, during the same year, owners of real and personal tangible property having an assessed valuation of $1,193,836,023 paid total property taxes of $43,671,467. Even though assessments averaged as low as 50 percent of true value, real and personal tangible property in the state was being taxed about 20 times as much, per dollar of value, as intangible wealth. The discrimination was even greater in 1945 as surtax collections amounted to only $639,864 as contrasted with $861,649 in the earlier year. This decline of $221,784 or 25.6 percent can be attributed to the $200 exemption which has been permitted since 1943.

3 - Community Property Laws

Community property laws affect the income tax by generally reducing the amount of tax liability of income receivers. This is because under community property laws, in the absence of contracts to the contrary, all property is held to be owned equally by husband and wife. Therefore, as income when received is considered property in those states recognizing community property, the husband and wife may file separate returns, each declaring half of the income, regardless of which one may have earned it. Thus the income tax may be reduced because of avoiding higher surtax rates in the upper brackets of income.

This reduction of income tax liability is especially significant relative to the federal government. Eight states had community property laws prior to the enactment of the federal income tax in 1913 and since then these states -- Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas and Washington -- have contributed relatively less income tax revenue to the national government than other states. The Supreme Court has upheld the right of husbands and wives to file separate returns in these states.

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1 Collections in 1943 were for the previous year -- the last year before the $200 exemption was applied. As the surtax rate was two percent, the income from intangibles would be $43,082,450 in order to yield $861,649 in taxes. By capitalizing this income at an average yield of four percent, an estimate of $1,077,061,250 is obtained -- approximate value of intangible wealth in Colorado. This estimated amount is in addition to federal government securities owned by individuals in Colorado -- the latter being tax exempt for state and local purposes.

In 1939 Oklahoma, and in 1943 Oregon, passed voluntary community property laws for the purpose of reducing the federal income tax liability of married individuals who might elect to come under the state's community property law. However, the Bureau of Internal Revenue challenged the right of states to pass voluntary laws for the purpose of reducing Federal income tax payments. The case involving the Oklahoma law was carried to the Supreme Court and in 1944 by a seven to two decision the law was invalidated.[1]

In 1945, Oklahoma's legislature enacted a community property law with provisions intended to avoid the constitutional difficulties of the earlier law. The bill was patterned after the compulsory laws of the eight states previously mentioned. Although the Supreme Court has not ruled upon the validity of the 1945 measure, in January, 1946 the Bureau of Internal Revenue agreed to accept the new Oklahoma law, permitting husbands and wives to file separate returns.

Therefore, other states may be expected to enact community property laws, perhaps several in the legislative year 1947. Oklahoma expects to save from 15 to 25 million dollars in federal income taxes, yearly. Should Colorado decide to establish such a law, the savings to her citizens would be approximately the same as in Oklahoma. An illustration of the savings based upon the tax law effective 1946 for several income brackets may be seen in Table 21. It may be observed that although there would be savings for all incomes above $3,000, the greatest percentage saving would come in the brackets around $20,000.

Table 21

Comparison of 1946 Federal Personal Income Tax Payments By Selected Brackets of Income, in States With and Without Community Property Laws.[1]

Net Income of Married Person (No Children)	Tax in State like Colorado (No Community Property Law)	Tax in State with Community Property Law	Dollar Savings	Percentage Savings
$ 3,000	$ 380	$ 380	$ 0	0
5,000	798	760	38	4.7
10,000	2,185	1,842	343	15.7
20,000	6,393	4,693	1,700	26.5
50,000	24,795	18,582	6,213	25.0
100,000	63,128	50,274	12,854	20.3
1,000,000	839,715	815,794	23,921	2.8

1 Public Law 214 - 79th Congrsss, Revenue Act of 1945.

1 Commissioner of Internal Revenue vs. Harmon 65 U.S. 103 (1944)

Appendix A

Table 1

Individual Returns and Net Income by Income Levels, Colorado, 1942, (Form 1040) Federal Income Tax Returns; (a) also Estimated Normal Tax Liability under Colorado Income Tax, 1946 Law

Income Level (Dollars)	No. of Returns	Net Income	Average Net Income Per Return	Estimated No. of Return Single Person No Dependents[b]	Estimated Average Tax Per Return Single Person No Dependents[c]	Estimated Total Tax Single Persons No Dependents	Estimated Number of Returns, Heads of Families[d]	Estimated Average Tax per Return, Head of Family[e]	Estimated Total Tax Heads of Families	Estimated Tax Grand Total
Under 1,000	13,757	$10,258,468	$ 745	3,714	.....	.....	10,043	.....	.....	.....
1,000 - 2,000	41,487	65,170,979	1,570	11,201	$ 5.70	$ 63,845	30,286	.....	.....	$ 63,845
2,000 - 2,500	21,474	48,170,716	2,240	5,798	12.40	71,895	15,676	.....	.....	71,895
2,500 - 3,000	16,102	44,186,749	2,740	4,348	17.40	75,653	11,754	.....	.....	75,653
3,000 - 4,000	16,396	55,692,548	3,390	4,428	27.80	123,096	11,968	$ 3.90	46,675	169,771
4,000 - 6,000	7,995	38,001,728	4,750	2,159	55.00	118,745	5,836	17.50	102,130	220,875
6,000 - 8,000	2,550	17,495,567	6,860	688	108.60	74,717	1,862	57.20	106,506	181,223
8,000 - 10,000	1,370	12,237,444	8,920	270	196.80	53,136	1,100	117.60	129,360	182,496
10,000 - 12,000	800	8,608,128	10,760	216	288.00	62,208	584	190.40	111,194	173,402
12,000 - 14,000	484	6,267,625	12,930	130	415.80	54,054	354	296.50	104,961	159,015
Over 14,000	1,681	52,953,003	31,560	454	1,533.60	696,254	1,227	1,413.60	1,734,487	2,430,741
										$3,729,176[f]

(a) Statistics of Income for 1942, Part I. U. S. Treasury Department, Table 8
(b) Estimated 27 percent of total returns for each income level. Ibid. Table 4
(c) Based upon 1946 rates and exemptions (Colorado Law).
(d) Estimated 73 percent of total returns for each income level. Ibid. Table 4
(e) Based upon 1946 rates and exemptions (Colorado Law). Average number of dependents (1.3) calculated from figures in 1940 U. S. Census for Colorado. Calculation based upon number of heads of families (317,225) and number of children under 21 years of age (409,328). Exemption figure of $3,000 used.
(f) Actual collections from individuals in 1942 under Colorado income tax amounted to $3,084,783. Thus the estimated tax liability based upon Federal returns over-estimated, by $644,373, the amount of collections.

Table 2

Estimated Colorado Individual Income Tax Collections if Rates Were to Increase by $1,000 Instead of $2,000 Brackets (a)

Income Level (Dollars)	Estimated Average Tax per Return, Single Person, No Dependents (b)	Estimated Total Tax, Single Persons, No Dependents	Estimated Average Tax per Return Head of Family	Estimated Total Tax Heads of Families	Estimated Tax Grand Total
Under 1,000	.....	.....	.....	.....	
1,000 - 2,000	$ 5.70	$ 63,845	.....	.....	$ 63,845
2,000 - 2,500	14.80	85,810	.....	.....	85,810
2,500 - 3,000	24.80	107,830	.....	.....	107,830
3,000 - 4,000	41.70	184,647	$ 3.90	$ 46,675	231,322
4,000 - 6,000	90.00	194,310	25.00	145,900	340,210
6,000 - 8,000	201.60	138,700	94.40	175,772	314,472
8,000 - 10,000	325.20	88,804	205.20	225,720	314,524
Over 10,000	1,162.50	930,000	1,042.50	2,257,012	3,187,012
					$4,645,025 (c)

(a) If tax rates were to be applied to net income after exemptions and credits as follows:

Net Income (Dollars)	Rate (%)
Under 1,000	1
1,000 - 2,000	2
2,000 - 3,000	3
3,000 - 4,000	4
4,000 - 5,000	5
Over 5,000	6

(b) For estimated number of returns and average net income per return see Table 1, Appendix A.

(c) This figure needs adjustment for margin of error (Table 1) and for changes in collections since 1942. It is assumed that the margin of error ($644,373 as found in Table 1) would remain constant. $4,645,025 - $644,373 = $4,000,652. Actual collections in 1944 were $3,302,384 -- 7 percent more than the collections of $3,084,783 in 1942. Thus multiplying $4,000,652 by .07 and adding the product ($280,045) to $4,000,652 we obtain a revised estimate of total collections from individuals in 1944 (if rates had been same as above proposal) amounting to $4,280,697. This would be an estimated increase over actual collections of $978,313.

T A X A T I O N I N C O L O R A D O

Report Number Two

SHOULD COLORADO ADOPT A SEVERANCE TAX?

By Earl C. Crockett
Professor of Economics
University of Colorado

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SHOULD COLORADO ADOPT A SEVERANCE TAX?

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SHOULD COLORADO ADOPT A SEVERANCE TAX?

Summary and Conclusions

1. A severance tax is a levy upon units of production or of gross value resulting from the severing of natural resources from the soil or water. Products most frequently taxed are oil and natural gas, metals, coal, and other minerals. Less frequently included are fish and forest products.

2. By January 1, 1946, 25 states had severance tax measures on their statute books. About half of these (including Colorado) were applying the tax on a very limited basis, the revenue being allocated for such purposes as inspection, regulation, and conservation of the natural resources being taxed. However, in at least a dozen states, severance taxes were important revenue measures. These states in order of relative rank were Louisiana, Minnesota, Oklahoma, Texas, Mississippi, Arkansas South Dakota, Montana, Utah, New Mexico, Alabama, and Michigan.

3. Most of the leading mineral producing states of the Union now apply severance taxes. Out of the top 20 in mineral production, 12 jurisdictions have such taxes. Out of the 15 leading oil producing states, only three (Illinois, Pennsylvania, and Colorado) have no production tax on oil.

4. Severance taxes usually represent additional taxes upon natural resources, the states also levying a general property tax. One possible exception is the state of Louisiana where exemptions are permitted under the ad valorem tax; however, in this state a series of special license fees, in addition to the severance tax, are placed upon natural resources.

5. The states differ rather widely regarding the disposition of severance tax revenue. Those jurisdictions with extremely low rates on selected products place the revenue in special inspection, regulation, or conservation funds. Allocation by the other states (those with important revenue collections) is usually to the state's general fund. If the revenue is not placed in the general fund, it is earmarked for special purposes -- usually public education. A number of states distribute part of the severance tax money back to the local units from which the natural resource was severed. Local units (counties or townships) dispose of their share by placing it in their general fund or else by allocating it for schools or roads.

6. At present Colorado's severance tax is limited to a levy of 4/10 of one cent per ton on the production of coal. Revenue is negligible

and intended merely for a coal mine inspection fund. Thus, the tax is so restricted and the rate is so low that, practically speaking, the state has no severance tax.

7. Colorado's mineral production is sufficient to justify a productive severance tax. In 1944 the value of output was $79,598,000, placing the state twenty-first in the Union on the basis of mineral production. Leading minerals are coal and molybdenum. In 1944 production of coal amounted to about eight million tons at a value of almost $29 million; production of molybdenum exceeded 23 million pounds at an estimated value of nearly $19 million.

8. Recent oil developments in the state, notably in the Rangely field, have added to the significance of a possible severance tax. During 1945 the net increase in proved oil lands in Colorado was 12,800 acres -- second largest increase among the states of the Union. By January 1, 1946, estimated proved oil reserves amounted to 206 million barrels and will undoubtedly go much higher. Estimated production of crude oil in the state during 1946 is about 11 million barrels -- 125 percent increase over production in 1945.

9. The yield of a severance tax in Colorado would depend upon a number of factors, two important considerations being (a) the number of natural resources included and (b) the particular rates applied. Should all minerals be included under the tax (at the average level of mineral production during the last 20 years) with rates comparable to those in Louisiana and Minnesota, the annual yield would be about $3,000,000. If the tax were relatively as heavy as the average of 12 leading severance tax states, collections would amount to about $1,600,000. If one or more products were singled out and taxed, for example, oil and natural gas, a rate of five percent of gross value would yield approximately $650,000 at current rates of production.

10. Thus, even under the most favorable conditions, a severance tax would not likely be a panacea for all of Colorado's financial ills. However, with a comprehensive tax and average rates, the yield would be sufficient to have real significance. Moreover, there are several non-fiscal advantages of a production tax on natural resources.

11. Advantages of the severance or production tax (in addition to the revenue aspect) are (1) simplicity and ease of administration, (2) the tax can provide an opportunity of equalizing to a greater extent the weight of taxation upon all property owners (under existing laws mineral resources are not taxed as heavily as most other forms of real property), (3) the tax can be easily adapted to any particular conservation policy of the state or nation, for example, rates can be raised to encourage conservation or lowered to promote more rapid exploitation of a currently needed resource, (4) the tax is equitable in that collections are made only when mines and oil wells are producing, and (5) an exhaustible natural resource, being a heritage of the state, should be taxed in such a manner as to reimburse the

state to some extent as the wealth becomes depleted. This last argument becomes particularly significant when mines and oil wells are owned and operated by absentee capital or when the raw products are exported directly from the state.

12. Limitations of the severance tax are (1) yield may be unstable and unpredictable--revenue fluctuating with variations in production from year to year, (2) neither volume of output nor gross revenue is an entirely satisfactory measure of ability to pay taxes (even so the tax is probably superior to the property tax from this standpoint), and (3) the tax needs to be supplemented with some other form of taxation because it does not apply to non-producing mines and mineral lands and the owners of these properties should pay something to the government under ability-to-pay and benefit doctrines.

13. Because of certain provisions in the Colorado constitution, there is some question as to the legal status of a possible severance tax. However, it may be concluded with some reasonable assurance that the state can enact a tax upon production which will not be ruled by the courts to be a property tax; thus avoiding possible legal difficulty because of the uniformity clause of the constitution. Also it may be assumed that the court, although ruling a severance tax to be an excise, will not likely decide that the old age pension fund has a claim upon it. Retail sales, use, and liquor taxes, rather than taxes on production appear to be the kinds of excises constitutionally belonging to the pension fund.

14. Considering all factors, the evidence in Colorado appears to indicate that the adoption of a mineral severance tax at this time would be advantageous.

Introduction

A severance tax is a levy placed upon the production resulting from exploitation of natural resources. In other words, it is a tax applied to mineral, forest, and fishery products severed from the soil and water. The tax is of two general types. It may be a general severance tax applicable to all natural resources, or it may be a selective tax limited to certain products. Also, the levy may be applied according to units of output, for example, tons of coal or barrels of oil; or it may be a percentage tax based upon value of gross output.

Technically speaking, Colorado already has a severance tax; however, its application is so restricted and the rate is so low that in practice the tax can be practically disregarded. It is a levy of .4 of 1¢ per ton on coal mined in the state. Revenue goes into a coal mine inspection fund, the tax being suspended when the fund exceeds $20,000 at the end of any quarter year. Collections of this "so-called" severance tax amounted to only $33,000 in 1945. This figure represented .06 of one percent of total state tax collections[1].

A better appreciation of Colorado's severance tax -- or lack of tax -- may be obtained by referring to the production taxes in other states.

Severence Taxes in Other States[2] 1946

1. Alabama

The severence tax in Alabama applies to coal, iron ore, oil, natural gas, and forest products. The rates are 1½¢ per ton of coal, 3¢ per ton of iron ore, two percent of gross casinghead value of oil and natural gas and 8¢ - 20¢ per thousand board feet log scale of lumber. Collections (preliminary estimate) in 1945 amounted to $504,000.

2. Arkansas

Arkansas applies a severance tax to all natural resources extracted, except timber for personal use and hand-produced switch and cross ties. The rates are based upon gross cash market value, except that coal, timber, and manganese are taxed on the basis of amount produced. The rates are 1¢ per ton of coal, 7¢ per thousand board feet of timber, 10¢ per ton of manganese, and 2½ percent of market value

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1 Colorado state tax collections in 1945 were $47,234,000. State Finances, 1945, Bureau of the Census.

2 Information in most cases was obtained directly from the various revenue departments of the respective states. Also useful was State Taxes on Natural Resources, Research Report, Federation of Tax Administrators, March 12, 1946.

for all other natural resources. In addition there is a tax of one mill per ton of manganese and .1 percent of gross market value of all other minerals except coal. There is also a severance tax on oil and gas according to the quantity produced. The rates are set by the Oil and Gas Commission but cannot be more than five mills per barrel of oil nor more than .5 mills per cubic foot for gas. Total severance tax collections in 1945 were $1,030,713.

3. California

The severance tax in California is confined to the production of petroleum and natural gas. Rates are based upon units of production and are fixed annually according to the need for revenue. Proceeds of the tax are used for maintenance of the Department of Natural Resources. The revenue need (basis for fixing rates) is found by subtracting the amount of departmental funds on hand at the end of the year from $275,000. Collections in 1945 (preliminary estimate) were $593,000.

4. Florida

Florida's severance tax is levied upon the production of oil and natural gas. The rate is five percent of gross market value. Collection figures are not available; however, estimates based upon oil and gas production in 1944 indicate that the amount of revenue would be negligible.

5. Georgia

The tax in Georgia is applied to oil and natural gas produced in the state. Rates are $\frac{1}{2}\phi$ per barrel of oil and $1/20\phi$ per thousand cubic feet of natural gas. No revenue has been collected recently as the state has had no production of the taxed products.

6. Idaho

Strictly speaking, the severance tax in Idaho is confined to forest products, although there is also a special tax of three percent on the net proceeds from mines. The latter tax is sometimes called a severance tax; however, a true severance tax is based either upon units of output or gross value. The tax upon forests is 12.5 percent of full current stumpage value. Collections in 1945 (preliminary estimate) were $81,000.

7. Kansas

The tax in Kansas is based upon the severance of oil and natural gas. Rates are $1/10\phi$ per barrel of oil and $1/20\phi$ per thousand cubic feet of gas for conservation. There is also a tax of $1/25\phi$ per barrel of oil for a fund to prevent stream pollution. Collection figures are not available; however, estimates based upon production in 1944 indicate approximately $212,200 of revenue.

8. Kentucky

Kentucky has a severance tax upon petroleum which is based upon the market value of crude oil. The state rate is .5 percent; there is also an optional county maximum rate of one percent. 1945 collections were $240,322.

9. Louisiana

Louisiana's tax is based upon the severance of all natural resources from the soil or water. The amount of tax is determined by quantity of the resource severed. Specific rates are as follows: coal, lignite and ores, 5¢ per ton; gravel, shells and stone, 1.5¢ per ton; salt, 4¢ per ton; sand 1¢, and marble 10¢ per ton. Sulphur has a rate of $1.03 per long ton; gas, .3¢ per thousand cubic feet; oil, 6 - 11¢ per barrel (depending upon specific gravity). Distillate or condensate from oil or gas has a rate of 11¢ per barrel; natural and casinghead gasoline, 1¢ per barrel. Timber has a rate of 7 - 26¢ per thousand feet log scale (depending upon kind), except six percent market value if grown under reforestation conditions; pulpwood, 6¢ per cord; crude gum turpentine, 10¢ per barrel; per barrel: oysters, 2½ - 3¢ shrimp, 10¢ fresh and 35¢ (for canning). Collections (preliminary estimate) in 1945 amounted to $16,253,000.

10. Michigan

The severance tax in Michigan is applied to oil and natural gas and is based upon the gross cash market value and quantity of product. Rates are two percent of gross value plus 1/8¢ per barrel of oil. Collections for the fiscal year 1945 were $571,367.

11. Minnesota

Minnesota's severance tax is confined to the mining of iron ore. Rates are based upon gross value after certain specified costs have been deducted. The rate is 10½ percent for 1945 and 1946, and nine percent thereafter; in addition for taconite, 5¢ per ton marketable ore concentrate plus some additional tax if iron content is heavy. Collections in 1945 were $6,249,985.

12. Mississippi

The tax in Mississippi applies to oil and forest products. For oil the rate is 6¢ per barrel or six percent of value at point of production, whichever is greater; for forest products the rate is 15¢ per thousand board feet except for poles and piling, one percent of market value; pulpwood, 6¢ per cord; light wood, 5¢ per ton; turpentine, 6¢ per barrel. In 1945 the tax yielded $1,440,437.

13. Montana

Montana has a severance tax upon metalliferous products, coal, oil and natural gas. The metals are taxed at a rate ranging from one fourth to one percent of gross value; coal at the rate of 5¢ per ton; oil two percent plus 1/4¢ per barrel; gas 3/8¢ per thousand cubic feet. Collections in 1945 (preliminary estimate) were $777,000.

14. Nevada

Strictly speaking, the tax in Nevada is not a severance tax because it is applied to not instead of gross proceeds of mines. However, because the tax upon patented mines is in addition to the property tax, the former is commonly classified with severance taxes. The rate is set by the Tax Commission on the basis of state and local property tax rates and is based upon net proceeds. Collections in 1945 (preliminary estimate) were $49,000.

15. New Mexico

The severance tax in New Mexico is upon all natural resources severed from the soil. The measure of the tax is gross value of product minus royalties paid to the United States, New Mexico, or Indians. The rate on oil and gas is 2-1/8 percent; on coal, copper, gold, lead, silver, stone, asphalt, zinc, and timber the rate is 1/8 percent; on potash, one percent. New Mexico also applies the property tax on oil and gas upon the basis of gross value of products. Collections of the severance tax in 1945 (preliminary estimate) amounted to $884,000.

16. North Carolina

North Carolina's tax is applied to the severance of oil and natural gas. Rates are ½¢ per barrel of oil and 1/20¢ per thousand cubic feet of gas. As no production of oil or gas occurred in 1945 there were no tax collections.

17. Oklahoma

Oklahoma applies a severance tax upon natural resources according to gross value of output. The rate upon asphalt and ores is 3/4 percent; upon oil and gas, five percent. There is also an additional excise on oil of 1/10¢ per barrel. Collections in 1945 (preliminary estimate) were $8,626,000.

18. Oregon

Oregon's severance tax is upon oil and timber cut from reforestation lands. Rates are ½¢ per barrel of oil and 12½ percent of the gross yield of timber. Collections in 1945 (preliminary estimate) amounted to $134,000.

19. South Dakota

The severance tax in South Dakota applies to the extraction of mineral products. The measure of the tax is actual value at place of production after mining, severing, and processing. There is a yearly exemption amounting to the value accruing from the first 100,000 tons severed. The tax rate is six percent. Collections in 1943 were $1,110,000 but dropped to $2,000 in 1945 because of low production.

20. Tennessee

Tennessee's severance tax law, enacted in 1943, is applied to the production of oil and natural gas. Rates are 5¢ per barrel of oil and five percent of selling price of gas. Provision has not as yet been made for administration of the act. There are no figures regarding collections of possible revenue; however, the amount would be negligible. Besides having no provision for administration, there has been almost no production of oil and gas.

21. Texas

The Texas tax applies to the severance of natural resources. There is a tax of $1.272 per long ton of sulphur production. Oil is taxed at a rate of 4.125¢ per barrel if market value is $1.00 per barrel or less, otherwise 4.125 percent of market value. There is also an additional tax on oil of 3/16¢ per barrel for administrative purposes. Natural gas is taxed on the basis of value of gross production less two percent, the rate being 5.2 percent with certain provisions for minima. Ores are taxed at the rate of 5¢ per ton; marble and cinnabar at 10¢ per ton. Collections (preliminary estimate) in 1945 were $41,651,000.

22. Utah

Utah's severance tax is restricted to metalliferous ores extracted from mines in the state. The rate is one percent of gross value of the metals sold less an exemption per year of $20,000. Collections in 1945 were $1,023,000.

23. Washington

The Washington tax applies to fish and is based upon quantity taken. Rates vary according to products. Collections (preliminary estimate) in 1945 were $180,000.

24. Wisconsin

The tax in Wisconsin is upon forest products only. The rate is ten percent (with certain exceptions) upon the stumpage value of the timber. Collections were $61,000 in 1943 (complete figures not available for 1945).

It will be noted that 24 states, in addition to Colorado, have severance tax provisions on their statute books. However, a number of these states either have no current production of the taxed products or else make no provision for collection of revenue. Table 1 lists the 21 states, with available figures, in their rank according to amount of collections in 1945 and indicates the products in each case to which the tax is applicable.

Table 1

Severance taxes by Rank of States According to Collections in 1945.

State	Tax Applicable To	Amount Collected in 1945[1]
Texas	All Natural Resources	$41,651,000
Louisiana	" " "	16,253,000
Oklahoma	" " "	8,626,000
Minnesota	Iron Ore	6,249,985
Mississippi	All Natural Resources	1,440,437
Arkansas	" " "	1,030,713
Utah	Metalliferous Ores	1,023,000
New Mexico	All Natural Resources	884,000
Montana	Metals, Coal, Oil, Natural Gas	777,000
California	Oil, Natural Gas	593,000
Michigan	" " "	571,367
Alabama	Coal, Iron Ore, Oil, Gas, Forests	504,000
Kentucky	Crude Oil	240,322
Kansas	Oil and Natural Gas	212,200
Washington	Fish	180,000
Oregon	Forest Products, Oil	134,000
Idaho	" " "	81,000
Wisconsin	" " "	60,000
Nevada	Metals of patented mines	49,000
Colorado	Coal	33,000
South Dakota	Mineral Products	2,000[2]

It may be observed that of the 21 states in the group, six apply the tax to all natural resources severed from the soil. Products subjected to the tax most frequently by the other 15 states are oil and gas, coal, iron ore, all metals and forest products.

Total collections in 1945 amounted to about $80,595,024. Among the states using the severance tax, probably only a dozen jurisdictions have sufficiently high rates and broad enough coverage for tax yields

1 - Preliminary estimate by Bureau of the Census except for Minnesota, Mississippi, Arkansas, Michigan, and Kentucky; for these states figures were obtained directly from state revenue departments. Independent estimates were made for Kansas and Wisconsin.
2 - Yield in 1943 was $1,110,000.

to be really significant. They are Texas, Louisiana, Oklahoma, Mississippi, Arkansas, New Mexico, and Michigan which all receive revenue primarily from the tax upon petroleum and natural gas; and Minnesota, South Dakota,[1] Montana, Utah, and Alabama which depend upon extraction of metals for most of their severance tax revenue.

Tax collections are available for 17 states which apply the severance tax (at least to some degree) to minerals. The value of mineral output for 1944 in these states is shown in Table 2. The same table also gives the yield of the severance tax as a percentage of mineral production in each state. This is a good index for comparing the taxes of the respective states. It may be seen that Minnesota and Louisiana with a rate of about five percent depend relatively more upon the severance tax than other states in the group; while Nevada, California, Kansas, and Colorado with rates of .1 percent or less have lightest taxes. Actually the five latter states do not apply the severance tax as a general revenue measure at all and collections of revenue are insignificant.

Table 2

States Applying Severance Taxes upon Minerals, Value of Mineral Production and Yield of Tax as Percentage of Production (1944)

State	Value of Mineral Production in 1944, (all minerals)[2]	Severance Tax Collections in 1944[3]	Percentage
Minnesota	170,465,000	8,690,000	5.1
Louisiana	304,894,000	15,126,000	4.9
Oklahoma	260,576,000	7,965,000	3.1
Texas	1,319,378,000	31,889,000	2.4
Mississippi	18,988,000	405,000	2.1
Arkansas	68,423,000	1,357,000	2.0
South Dakota	5,465,000	99,000	1.8
Montana	89,479,000	966,000	1.1
Utah	150,153,000	924,000	.7
New Mexico	126,230,000	923,000	.7
Alabama	108,460,000	533,000	.5
Michigan	151,992,000	606,000	.4
Nevada	51,800,000	55,000	.1
California	606,918,000	553,000	.09
Kansas	219,678,000	212,000	.09
Kentucky	273,597,000	180,000	.06
Colorado	79,598,000	33,000	.04

1 Although the yield of South Dakota's tax was very low in 1945, this was because the silver mines were practically closed. Collections in the state in 1943 were $1,110,000.

2 Minerals Year Book, 1944, Bureau of Mines

3 State Finances, 1944, Bureau of Census

It is interesting to calculate the various amounts of revenue which a severance tax could yield in Colorado if rates were comparable, in each case, with those in other states. Such estimates are given in Table 3. Only those states taxing natural resources as a source of revenue for purposes other than inspection, regulation, conservation, etc. are included. It may be seen that if Colorado had a tax comparable with taxes in Minnesota or Louisiana the yield would be about $4 million. However, if the tax were comparable with Michigan's the yield would be little more than $300,000; if relatively equal to the average for the 12 states, collections would be about $1,600,000.

Table 3

Various Amounts of Severance Tax Revenue which Colorado could Obtain if Her Tax were Comparable, in Each Case, with Leading Severance Tax States.

State	Severance Tax as Percentage of Production[1]	Amount Colorado could Obtain if her Tax were Comparable to:[2]
Minnesota	5.1	$4,059,498
Louisiana	4.9	3,900,302
Oklahoma	3.1	2,467,538
Texas	2.4	1,810,352
Mississippi	2.1	1,671,558
Arkansas	2.0	1,591,960
South Dakota	1.8	1,432,764
Montana	1.1	875,578
Utah	.7	557,186
New Mexico	.7	557,186
Alabama	.5	397,990
Michigan	.4	317,392
	Average Amount	1,636,608

1 Table 2
2 Calculations based upon Colorado 1944 mineral production valued at $79,598,000.

Of course such calculations are based upon Colorado's mineral production in 1944. Should production decline, the amount of severance tax revenue would decline also. On the other hand, if output of minerals should increase -- perhaps due to extensive oil developments in the state -- then tax collections would correspondingly become greater than those shown in Table 3.

With reference to taxation of natural resources it may be significant to consider the number of states with important mineral production which apply severance taxes to the exploitation of such minerals.

Table 4

Leading States in Mineral Production
With and Without Severance Taxes

State	Rank	Value of Products[1] 1911-44 Incl. (Thousands)	Severance Tax on Minerals
Pennsylvania	1	$25,083,338	No
Texas	2	14,309,453	Yes
California	3	11,941,625	Yes
West Virginia	4	10,344,866	No
Oklahoma	5	9,805,350	Yes
Illinois	6	6,630,003	No[2]
Ohio	7	5,944,592	No
Kentucky	8	3,862,501	Yes[3]
Kansas	9	3,769,955	Yes
Michigan	10	3,744,812	Yes
Minnesota	11	3,658,344	Yes
Louisiana	12	3,292,703	Yes[4]
Arizona	13	3,129,226	No
Utah	14	2,710,359	Yes
Indiana	15	2,552,981	No
New York	16	2,470,257	No
Montana	17	2,444,899	Yes
Missouri	18	2,162,690	No
Colorado	19	2,052,805	Yes[3]
Alabama	20	1,991,473	Yes

1. Minerals Year Book, 1944, Bureau of Mines
2. Illinois had a severance tax until 1944 when the law was invalidated by the courts.
3. Severance taxes in Kentucky and Colorado are so restricted and rates are so low that revenue is insignificant.
4. In lieu of property tax. In all other states the tax is in addition to the property tax.

Table 4 gives the rank of the 20 leading mineral producing states of the country and indicates which of these have severance taxes. It may be noted that six out of the top 10 states have production taxes while 12 out of the leading 20 states apply such revenue measures. The mineral production tax in all 12 states (except in Louisiana) is in addition to the regular property tax upon mines and oil wells.

Because of the recent extensive petroleum developments in Colorado, people in the state are particularly interested in a severance tax upon oil and natural gas. From Table 5 it may be seen that of the 15 leading oil producing states in the Union only three (Illinois, Pennsylvania, and Colorado) do not have a production tax on oil while one of these three (Illinois) did apply a severance tax to oil production until its law was invalidated by the courts in 1944.

Table 5

Leading States in Petroleum Production
With and Without Severance Taxes Upon Petroleum

State	Rank	Oil Production in 1945[1] (Barrels)	Severance Tax on Oil
Texas	1	749,373,000	Yes
California	2	325,995,000	Yes
Oklahoma	3	139,379,000	Yes
Louisiana	4	137,409,000	Yes
Kansas	5	96,496,000	Yes
Illinois	6	73,460,000	No[2]
New Mexico	7	37,686,000	Yes
Wyoming	8	36,319,000	Yes[3]
Arkansas	9	28,565,000	Yes
Mississippi	10	19,024,000	Yes
Michigan	11	17,278,000	Yes
Pennsylvania	12	12,237,000	No
Kentucky	13	9,938,000	Yes
Montana	14	8,507,000	Yes
Colorado	15	4,862,000	No

1 Oil and Gas Journal, January 26, 1946
2 Law invalidated in 1944 — no new law as yet enacted.
3 Although the tax is not commonly called a severance tax it has most of the features. Property tax rates are applied to the gross value of oil production.

The states applying production taxes to natural resources differ rather widely regarding the disposition of revenue. Those states with extremely low rates on selected products, for example, Colorado with a 4/10 of 1¢ per ton of coal mined, apply the revenue to special funds for inspection, regulation, conservation, etc. Disposal of revenue among the other states (those with most important severance taxes) is shown in Table 6.

Table 6

Disposition of Revenue
Among Leading Severance Tax States

State	Disposition of Revenue
Alabama	Forest products, oil and gas: conservation purposes. Iron ore, coal: Schools -- state and lo
Arkansas	Forest products: conservation Other products: 2/3 to schools, 1/3 returned to counties for highways and schools.
Louisiana	4/5 to state general fund, 1/5 (with limitation returned to local parishes.
Michigan	2/5 to state general fund, 1/5 returned to coun 2/5 returned to townships or cities.
Minnesota	50% to state general fund, 40% to permanent sch fund, 10% to permanent university fund.
Mississippi	Forest products: 1/3 to state general fund, 2/3 counties: oil: 1st $600,000, 2/3 to state gener fund, 1/3 to counties; next $600,000, 90% to st 10% to counties: above $1,200,000, 95% to stat 5% to counties.
Montana	All to state general fund.
New Mexico	" " " " "
Oklahoma	" " " " "
South Dakota	" " " " "
Texas[1]	" " " " "
Utah	" " " " "

Source: Communications from revenue departments of various states.

1 Revenue allocated by state in various percentages to schools, roa pensions, general functions, etc.

It may be seen that half of the states in this group place the revenue in the state's general fund. Among the other half, the revenue is divided between the state and local units, requirements in most cases being that the revenue must be spent for special purposes -- usually public education.

Present Taxes on Colorado Mines and Oil Wells

Before considering the relative merits of a severance tax for Colorado, it is desirable to see how such a tax would fit into the existing scheme of state and local taxation. Consequently, a brief outline of the development and current status of Colorado mine taxation is presented.[1]

A. Taxation of Producing Metalliferous Mines

Since the time when Colorado was a territory, taxation has been a basis for rivalry between the agricultural and mineral interests of the state. Each group has attempted to relieve itself from what was considered onerous taxes by transferring as much of the total burden as possible to the other group. Several times the ranchers and farmers appear to have possessed superior political power while during other periods the miners have been able to exert more influence relative to taxation.

When Colorado became a state in 1876 the new constitution specifically exempted mines from taxation for a period of 10 years, except for taxes upon net proceeds and surface improvements. The legislature provided for no net proceeds tax and consequently the mines were largely tax free during this early period. Lake county did attempt for three years to tax the net proceeds of mines but the effort[2] ceased in 1881 when the courts declared the measure to be illegal.

The tax discrimination in favor of mining interests of Colorado during the first decade under the constitution caused a growing demand, especially from the farmers for the inclusion under the property tax of all mining properties. Consequently, upon expiration of the exemption period several bills were sponsored in the legislature providing for taxation of the mineral wealth of the state. The mining men strenously opposed an ad valorem tax on property and held out for a production tax. They argued that should mines be taxed in the same manner as farms and other real estate, the industry would be crippled to such an extent that mines would close, capital would migrate to other states and unemployment would become widespread.[3]

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1 An article by the writer entitled "The Taxation of Minerals in Colorado With Special Reference to Oil Shale Deposits" published in the Bulletin of the National Tax Association, April, 1945, was used as a principal basis for discussion in this section.

2 The Little Pittsburgh Mining Company successfully fought the tax levy through the courts on the grounds that the legislation had not provided a method for taxing mines according to the net proceeds principle. Stanley vs. Little Pittsburgh Mining Company, 6 Colorado 416.

3 This argument against taxation has frequently been used by many industries in other states as well as in Colorado.

Finally, in 1887, a compromise measure was adopted. Mines were included under the property tax; however, assessments were to be moderate because of the fear of discouraging further development of mineral resources. The law provided that producing mines with an output exceeding $1,000 annual value were to be assessed at one-fifth of the gross proceeds. Non-producing mines were taxable as before, on their surface improvements only.[1] The miners accepted this law without opposition. They still were being favored under the tax system of the state.

At the turn of the century, lack of sufficient revenue to support expanding functions of state and local government led to the appointment of a special revenue commission to investigate state finances. Its report, published in 1901, when referring to mines stated that:

> The taxation of mines and mining property is a farce, notwithstanding that a large part of them are owned by non-residents. The value of the gold and silver mines of Colorado is more than the entire assessed value of all taxable property of the state; yet, while one mine last year sold for $10,000,000, all of the gold and silver mining properties of the state were only assessed at $8,502,217 for the year 1898, and Colorado the principal mineral state in the union.[2]

The same year the legislature revised the state's revenue law in an effort to increase its yield as well as to make the system more equitable. All producing mines, whose annual value exceeded $1,000, were to be assessed at one-fourth of the gross proceeds, rather than one-fifth as previously. However, this tax based upon gross proceeds was to apply only to mines producing gold, silver, lead, copper, or other precious or valuable metals.[3] A state board of assessors was appointed to help administer the law but its legal status was considered dubious and the mining interests took advantage of the uncertainty by contesting the action of the board as they were opposed to higher assessments on mines.

In order to untangle the situation, Governor Oram called a special session of the legislature. Having support from the farmers, the Governor accepted the challenge of the miners and requested the legislature to go further than it had in 1901 in authorizing higher assessments on mines. Accordingly, a bill was introduced providing for the taxation of all mines on their full cash value, like other property. After a bitterly fought contest the bill was defeated by a narrow margin. The mining group then sponsored a compromise measure which was finally passed and approved by the Governor.

1 Laws of Colorado, 1887, p. 340.
2 Report of the Revenue Commission of Colorado, 1901, p. 6.
3 Laws of Colorado, 1901, ch. 94, sec. 82.

The new measure of 1902, like that of the previous year, applied only to mines producing gold, silver, lead, copper, or other previous and valuable metals. These mines were divided into two classes, those yielding $5,000 annually in gross revenue to be called producing mines, those with less to be called non-producing. Producing mines were to be valued for assessment purposes at one-fourth of the gross or upon the total net proceeds, whichever was the greater. When determining net proceeds, the mines were permitted to deduct the actual cost of extracting the ore from the mine, the cost of transporting it to the place of reduction or sale and the cost of reduction or treatment. Mines, producing coal, iron, or asphalt, quarries, or lands valuable because they contain other metals, minerals, or earths were to be taxed as other property in the state.[1]

Although the new law improved the revenue system of the state its provisions were still too lenient to bring an equitable distribution of the tax burden. Then as years passed, conditions became even less satisfactory due to under-assessments, especially in some of the mineral producing counties of the state. Production from metalliferous mining claims, as reported in the abstracts of assessment by county assessors, dropped from $8,451,255 in 1908 to $1,479,146 in 1912, while the actual value of production in those years rose from $32,718,573 to $37,320,966.[2]

Rather profound changes occurred in the Colorado tax system following 1911. Warren A. Roberts summarizes some of these developments as follows:

> "The wave of tax reform that swept the Western States just before the first World War also left its imprint on the state of Colorado. In 1911 the legislature provided for a state tax commission and following the specific recommendation of the state board of equalization directed it to assess all property at full cash value. But a companion bill to prevent any appreciable increase in taxation by limiting tax rates failed of passage, as did a proposed constitutional amendment giving the tax commission direct power to equalize valuations. The failure of this amendment at the general elections left the commission little control over the assessment of mines or any other property, except through moral suasion of local officers and of members of the state board of equalization. The board of equalization, in turn, had little legal authority, for the court in 1900 had declared that it could not change the valuation of classes of property within counties."[3]

The new tax commission used what little power it possessed trying to obtain full cash valuations for property throughout the state and

1 Laws of Colorado, Extra Session, 1902, ch. 3, sec. 81
2 First Annual Report, State Tax Commission, p. 38
3 State Taxation of Metallic Deposits, P. 169

argued that mines should be assessed the same as all other property. It emphasized that "In view of the state going onto a full cash valuation, the gross output from mines, if taken as a basis of value at all, should be assessed at not less than 100 percent."[1] The legislature of 1913 considered the latter proposal and, in spite of strenuous opposition from the miners, made provision for the tax base on producing mines (those producing gold, silver, lead, copper or other precious or valuable minerals exceeding $5,000 per annum gross output) to be increased to 50 percent of the gross and all of the net proceeds.[2] County assessors responded remarkably well to the desires of the tax commission and as a result the total state valuations of all property increased from $422,330,199 in 1912 to $1,119,985,034 the year following.

Although mine valuations were increased they did not increase as much as valuations on other property and as a consequence inequality of tax burdens as between agriculture and mining probably remained about the same as before 1912. Nevertheless mining men contended that the larger tax base worked a hardship upon mines with a large gross and, through effective pressure, induced the legislature to readopt in 1915 the old base of one-fourth of the gross or the net proceeds, whichever was the greater. The 1915 provisions have never been amended.[3]

After 1915 for several years the commission (in its own words) "consistently and persistently urged that metalliferous mining property should be assessed at its actual value."[4] Agitation for mine tax reform died down during the 1920's and 1930's as most mines no longer were receiving high profits. However, with the onset of the second World War in 1939 profits increased again for many mining companies. As war activity developed, these profits continued to grow among those mines producing metals and minerals needed in war industries, the most notable example being the Climax Molybdenum properties located in Lake County. Also after extensive oil discoveries beginning in 1945 in the Rangely field, the exploitation of petroleum reserves became much more profitable. As a consequence, renewed efforts to revise the tax system may again be expected relative to the mineral wealth of the state

B. Taxation of Other Mines and Oil Wells

The preceding discussion has been confined largely to an outline of the taxation of producing metalliferous mines. A brief reference should be made to other mines and oil wells of the state.

1 First Annual Report, State Tax Commission
2 Laws of Colorado, 1913, ch. 139, sec. 2.
3 Colorado Statutes Annotated, ch. 142, par. 84. (1935)
4 Eighth Annual Report, State Tax Commission, 1919

Since 1887, according to law, non-producing metalliferous mines,[1] quarries, coal and iron mines, and oil and oil shale lands have been included under the property tax with assessments to be on the same basis as all other property in the state, namely, 100 percent of the true market value.[2] However, during much of the time in this period, perhaps because of the difficulty of placing valuations upon underground deposits, assessments have been based primarily upon the surface value and the value of improvements of these mines. Consequently, they have frequently been undervalued even to a greater extent than has been true of producing metalliferous mines. Yet because changes in property tax assessments and levies tend to lag behind changes in value of output, relative tax burdens have increased significantly during periods of low mine activity. Throughout these slack periods, when profits have not only been nonexistent but also costs not always covered, many mining claims have probably been taxed excessively.

During recent years, what has been the relative condition of these mines whose properties, under the law, are subject to assessments at full cash value? Some idea may be obtained by referring to the taxation of coal mines in the state.

Table 7 indicates that since 1920 the assessed valuation has had little relation to the value of output.

Assessed valuations expressed as percentages of coal production increased from 50.0 percent in 1920 to 87.2 percent in 1930 and then declined to 20.8 percent in 1944. Such fluctuation from year to year in the relative burden of taxation is not conducive to stability and prosperity in the coal mining industry. However, as it is fantastic to assume that full market value of coal mines would likely ever fall below the corresponding value of their annual output, the mines were probably greatly underassessed even in 1930, but by 1944, underassessments were very much greater.

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1 Until 1902 this classification referred to any mine producing gold, silver, lead, copper, or other valuable or precious metal the annual output of which did not exceed $1,000 gross product. Since 1902 the same kind of mine has been included when the gross product has not exceeded $5,000.

2 Colorado Statutes Annotated, ch. 142, par. 82 and 89. (1935)

Table 7

Value of Colorado Coal Production and Assessed Valuation of Coal Mine Properties for Selected Years

Year	Value of output[1]	Assessed Valuation[2] Total	As % of output
1920	$42,829,000	$21,416,182	50.0
1925	30,694,738	26,325,299	85.7
1930	21,583,805	18,823,708	87.2
1935	14,753,521	8,389,311	56.9
1940	17,749,060	4,602,540	25.9
1944	28,791,000	5,998,201[3]	20.8

1 Colorado Year Book, 1943-44, State Planning Commission
2 Compiled from figures in Reports of Colorado Tax Commission for Years indicated.
3 Includes value of coal mining equipment and machinery

Table 8 gives the relationship between assessed valuation and value of output in the crude oil industry for selected years since 1925. It may be seen that the ratio increased from 45.8 percent in 1925 to 133.7 percent in 1940 and then fell to 60.5 percent by 1945. If assessments were satisfactory in 1940 (the writer could find no evidence that they were too high) then assessments were definitely too low by 1945. This conclusion is borne out by the figures relative to proved oil reserves (Table 15). Known reserves increased from a total of 20 million barrels in 1940 to 58 million barrels in 1945.

Table 8

Value of Petroleum Production and Assessed Valuation of Oil Properties for Selected Years

Year	Value of Output[1]	Assessed Valuation[2] Total	As % of Output
1925	$1,817,553	$ 833,219	45.8
1930	1,242,257	1,448,437	116.5
1935	1,410,209	1,776,060	125.9
1940	1,700,090	2,273,412	133.7
1945	5,348,200[3]	3,482,957[4]	60.5

1 Colorado Year Book, 1943-44.
2 Compiled from figures in Reports of Colorado Tax Commission.
3 Based upon a valuation of $1.10 per barrel. (See Oil and Gas Journal, Jan. 1946)
4 Estimated.

Tax assessments upon other non-metallic minerals of the state have probably fluctuated to as great an extent as those upon coal mines and oil wells and reserves. Consequently, the taxation of mineral deposits, which under the law should be assessed at full market value, has been no more satisfactorily administered than the taxation of metallic ores.

Because of past rivalries between agriculture and mining, it might be of interest to compare the two industries relative to present tax burdens. The only available common denominator for drawing such a comparison is the value of output in each industry. The writer recognizes the shortcomings of gross product as a basis for measuring tax paying ability; however, if comparisons are confined to general considerations between the two industries, without reference to particular mines or farms, conclusions are probably significant.

In 1944 the assessed valuation of all mining properties was $45,945,304.[1] The average tax levy for all property in the state was 36.1 mills.[2] Thus it may be estimated that mining properties paid a total property tax of about $1,657,000. This figure probably exceeds the actual amount paid inasmuch as several mines, notably the molybdenum mines in Lake County, are located in tax districts with mill levies considerably below the state average.[3] The total value of output from Colorado mines in 1944 was $79,598,000 (Table 9). Relating this output to estimated property taxes paid of $1,657,000, we obtain a ratio of 2.07 percent. Thus, mines of the state paid an average property tax amounting to about 2.07 percent of the value of their gross output.

In 1944 the assessed valuation of all farm property was $334,254,444.[4] Applying the average tax levy for all property in the state (36.1 mills) to the farm valuation, we obtain an estimate of property taxes paid by farm properties of $12,066,585. The

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1 Annual Report, Colorado Tax Commission, 1944

2 This average was calculated by dividing the total taxes levied for state, county, municipal, school and other purposes ($43,769,331) by the total assessed valuation of all property ($1,212,134,905). See Annual Report, Colorado Tax Commission, 1944.

3 The average levy in Lake County in 1944 was 15.2 mills which was considerably less than half the state average. It is in this county that more than one-third of the value of all mining property of the state is located.

4 This figure includes farm lands, $196,235,442; improvements on farms, $62,229,837; livestock, $66,965,988; agricultural machinery, implements, etc. $8,823,177. Annual Report, Colorado Tax Commission, 1944.

estimated value of output from Colorado farms in 1944 was $346,623,000.[1] Relating this output to estimated property taxes paid ($12,066,585), we obtain a ratio of 3.4 percent. Thus all farmers in the state paid an average property tax amounting to about 3.4 percent of the value of their gross output for the year.

Obviously, judged on the basis of value of annual output, Colorado mines, as a group, were not paying property taxes in proportion to those paid by agriculture. In order for the same proportion to prevail, assuming farm taxes remained constant, mines would have had to pay at least $2,706,000 in property taxes. Whereas actually in 1944 they paid about $1,657,000, or an estimated $1,049,000 less. A comparison made for the year 1940 indicates that at that time the discrepancy between property taxes paid by mine owners and farmers was even greater -- the latter paying taxes over three times as heavy as the former. However, it should be kept in mind that comparisons between two industries based upon value of output should not be considered conclusive evidence unless supported by figures indicating relative costs of production. Unfortunately the latter figures are not available.

In addition to the property tax, Colorado has several miscellaneous taxes whose incidence may be considered to be upon the mining industry.

(a) Tax levy for metal mining fund. An annual tax of one-tenth of one percent of assessed valuation of producing metalliferous mining properties. Revenue is placed in the fund to be used for inspection and regulation of the metal mines. The yield of this tax in 1942 was $47,633.[2]

(b) Ore buyer's license tax. This is a flat annual license of $100 per person or firm. The basis of the tax is the right to mill, sample, concentrate, reduce or purchase ore for sale. The yield of the tax is less than $10,000 annually.

(c) Coal mine inspection license. An annual tax upon producing coal mines, the amount of tax ranging from $10 to $50 per year depending upon the volume of output, Annual collections are less than $10,000.

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1 This includes value of crops marketed, $131,090,000; livestock and livestock products marketed, $187,012,000; Government payments, $12,312,000; value of products consumed on farms where produced, $16,200,000. Colorado Agricultural Statistics, U. S. Department of Agriculture, May, 1945.

2 Tax Systems, Supplement to Ninth Edition, 1943, Tax Research Foundation.

(d) Coal mine inspection tax. This is a tax of four-tenths of one cent per ton of coal mined in the state. It is the only severance tax in Colorado. The yield in 1942 was $28,000.[1]

The above listed special taxes upon mineral resources, combined, yield less than $100,000 per year. Revenue is placed in special funds, the money to be spent largely for the benefit of the industry. Thus, from the standpoint of revenue to support general functions of government, these taxes upon mines, nominal in amount, are relatively unimportant.[2]

If the state were to adopt a comprehensive mineral production tax, how much might it be expected to yield? Or, should there be a severance tax merely on coal, or molybdenum, or petroleum, or all three combined, what could be the expected revenue in each case? Although preliminary estimates have already been suggested, in order to better answer these questions,[3] let us briefly consider Colorado's mineral production in past years.

Colorado Mineral Production

In 1944, Colorado ranked twenty-first among the states of the Union in production of minerals. The value of output for the year was $79,598,000 (Table 9).

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1 State Finances, 1942, U. S. Department of Commerce, Bureau of the Census.

2 Incorporated mines of the state, along with other corporations, pay state and federal income taxes when earnings are sufficient. However, as these taxes apply alike to all business corporations, regardless of particular industry, they are not considered pertinent to this part of the study.

3 As the severance of timber from forests and of fish from streams and lakes in Colorado is commercially relatively unimportant, a discussion of these resources is not included. Another reason for not considering these products in connection with a severance tax is that under proper conditions of exploitation, in contrast with minerals, ultimate depletion of the resources need not occur.

Table 9

Mineral Production of Colorado, 1944

Product	Quantity	Value
Coal -- Short Tons	8,110,000	$28,791,000
Molybdenum -- Pounds	23,608,421	18,886,000[1]
Zinc -- Short Tons	39,955	9,109,740
Gold -- Troy Ounces	111,455	3,900,925
Petroleum -- Barrels	2,944,000	3,380,000
Lead -- Short Tons	17,698	2,831,680
Fluorspar -- Short Tons	65,209	1,604,043
Silver -- Troy Ounces	2,248,830	1,599,168
Sand and Gravel -- Short Tons	2,369,521	1,518,718
Natural Gas M Cubic Feet	5,900,000	1,327,000
Vanadium -- Pounds	3,058,727	1,288,326
Clay Products (Other than Pottery & Refractories)	---	600,000
Stone -- Short Tons	680,620	568,095
Tungsten Ore (Concentrates) Short Tons	296	433,303
Miscellaneous		3,560,002
	Total Value	$79,598,000

Source: Minerals Year Book, 1944, Bureau of Mines.

1 Estimated minimum value.

Coal and molybdenum accounted for almost 60 percent of the total value. Other leading minerals were zinc, gold, petroleum, lead, fluorspar, silver, sand and gravel, natural gas and vanadium. In all, about 40 kinds of minerals were being commercially produced. The relative importance of these minerals on the basis of value of output fluctuates from year to year. For example since recent developments of the Rangely oil field, the value of petroleum production has advanced from 5th place in 1944 to 3rd place in 1946. Table 10 shows the value of all minerals produced in the state by years since 1925.

Table 10

Value of All Minerals Produced in Colorado
By Years, 1925-1944

Year	Total Value	Year	Total Value
1925	$63,148,959	1935	$44,413,477
1926	65,597,487	1936	56,214,827
1927	58,855,263	1937	67,338,547
1928	58,594,688	1938	60,369,440
1929	55,331,911	1939	64,144,557
1930	46,270,545	1940	63,188,421
1931	32,970,230	1941	73,960,602
1932	25,800,227	1942[1]	95,278,822
1933	27,259,095	1943[1]	88,534,000
1934	39,473,123	1944[1]	79,598,000
		Total (20 Years)	$1,166,342,221
		Average Annual (20 Years)	$58,317,111

Source: Colorado Year Book, 1943-44

1 Information from Minerals Year Book, 1944.

During the 20 year period, production fluctuated from a low of $25,800,000 in the depression year, 1932, to a high of $95,278,000 in the peak war year, 1942. Production for the entire period amounted to nearly $1.2 billion in value while the average annual value was about $58.3 million.

Because of the extraordinary significance of coal and molybdenum and because of the rapidly developing importance of oil and natural gas, these minerals will receive special discussion in our analysis.

A. Coal

The annual production of coal in Colorado normally exceeds in volume and value the output of any other product of the mines. Total production since 1864, when coal mining was first reported in the state (including output in 1944) amounted to 445,734,855 tons valued at $967,063,621.[1]

Coal production fluctuates considerably from year to year, the output depending to a large extent upon whether there is general economic prosperity or depression. During the first and second World Wars, production reached relatively high levels. The output and value by years since 1939 is shown in Table 11.

1 Colorado Year Book, 1943-44 and Minerals Year Book, 1944.

Table 11

Colorado Coal Production and Value by Years since 1939

Year	Tons	Value
1939	5,991,022	$14,797,774
1940	6,672,579	16,881,624
1941	6,996,692	19,800,637
1942	8,131,764	25,615,056
1943	8,371,282	27,039,242
1944[1]	8,110,000	28,791,000

Source: Colorado Year Book, 1943-44

1 Minerals Year Book, 1944.

Production increased from about six million tons in 1939 to over eight million tons in 1944 while the value of output almost doubled, going from less than $15 million to almost $29 million. Average annual production for the last 20 years -- a period of time which has included depression and prosperity -- was approximately 7,600,000 tons with a value of $20,700,000.

Colorado has vast coal reserves. According to estimates of the United States Geological Survey, in 1937 the state possessed deposits amounting to over 212 billion tons of bituminous coal or 15.1 percent of the total for the United States. This makes Colorado the leading state in the Union in bituminous coal reserves. The deposits are sufficient to supply the whole country for almost 500 years at the current rate of consumption and export. In addition, the state ranks second in sub-bituminous reserves, being exceeded only by Wyoming, and ranks fourth in anthracite coal, Pennsylvania, Virginia and Arkansas, possessing more than Colorado.[1]

Production of coal in the state may be expected to increase in the years ahead. In the past, heavy transportation costs have limited production -- only about 10 percent of output has been exported from the state. Should freight rates become more favorable for the shipment of coal or should the chemical industry develop in the West, the state's vast coal reserves will acquire new significance.

Perhaps the chemical industry may sometime in the future require millions of tons of Colorado coal as the fuel is becoming an important raw material in the production of many chemical products. Gasoline, natural gas, ammonium sulphate, creosote, dye stuffs, explosives, plastics and many other products are now being synthetically developed from coal. It is believed that conditions are favorable for the production of many of these chemical products in the state.

1 Colorado Year Book, 1943-44.

B. Molybdenum

Colorado ranks first among the states in the production of molybdenum, a rare metal used in the manufacture of special steel. One firm, the Climax Molybdenum Company located in Lake County, is responsible for most of the production in the state and nation. In 1939 this company produced 72 percent of the domestic output and 66 percent of the world production. At that time it had a milling capacity of 12,000 tons daily. During World War II plant expansion brought the capacity up to about 18,000 tons per day.

Although war requirements intensified the demand for molybdenum, the metal will continue to be used extensively in peace time in the manufacture of special steels for aircraft and automobiles, for fabrication into bearings, steel castings, and in corrosion and high temperature resisting alloys.

The known ore reserves in Lake County amount to over 100,000,000 tons. As only a small part of the area has been developed, it is believed that actual deposits probably greatly exceed this figure. Colorado's reserves are estimated to be sufficient to meet the world demand for 200 years.[1]

Table 12

Molybdenum Production in Colorado[1]

Year	Production in lbs.	Value
1918-38[2]	108,302,341	$75,000,000[3]
1939	25,437,893	(4)
1940	18,600,897	(4)
1941	27,751,273	(4)
1942	48,294,878	(4)
1943	36,940,975	27,705,730
1944	23,608,421	18,886,000[3]

1 Minerals Year Book, 1944, Bureau of Mines.
2 Colorado Year Book, 1943-44.
3 Estimated Value.
4 Figures not available

Molybdenum production in the state since 1918 when mines were first operated is shown in Table 12. It may be seen that production reached the high level of over 48 million pounds in 1942 and then declined to 23 million pounds in 1944. Most available figures are not very reliable

1 Colorado Year Book, 1943-44.

relative to value of output for the state. However, the Bureau of Mines gives a definite value for production in 1943 as $27,705,730. An estimate for 1944 is $18,886,000. Since 1938 among Colorado minerals, the value of molybdenum out put has been second only to the value of coal production. In the future, production of the metal may reasonably be expected to average at least 20 million pounds at an annual value exceeding $15 million.

C. Petroleum and Natural Gas

Until recently the state was never a large producer of petroleum and even now in comparison with heavy producing states such as Texas, California and Oklahoma the output is not large. However, the industry is rapidly growing and since the recent expansion of oil production in the Rangely field, authorities predict that crude petroleum may soon become one of the state's leading products.

Colorado has the distinction of being the second oldest oil-producing state in the country, a producing well having been drilled near Canon City in 1862. During the years since then total production in the state has exceeded 50 million barrels. Table 13 shows the amount of production from 1862 to 1939 and by years since 1939.

Table 13

Petroleum Production in Colorado[1]

Year	Barrels	Percentage Increase over Previous Year
1862-1939	38,049,000	---
1940	1,626,000	---
1941	2,150,000	32.2
1942	2,199,000	2.3
1943	2,320,000	5.5
1944	2,944,000	26.9
1945[2]	4,862,000	65.1
1946[3]	10,950,000	125.2

1 Minerals Year Book, 1944, Bureau of Mines.
2 Oil and Gas Journal, January 26, 1945
3 Estimate based upon production for first 6 months, Oil and Gas Journal, July 6, 1946

An estimate is also given for 1946. It may be observed that production in 1945 was 65 percent greater than for the previous year, while the output in 1946 promises to be more than double the production in 1945. The 1945 output for the 20 important oil producing states of the union is shown in Table 14.

Table 14

Crude Oil Production in the United States by States in 1945[1]

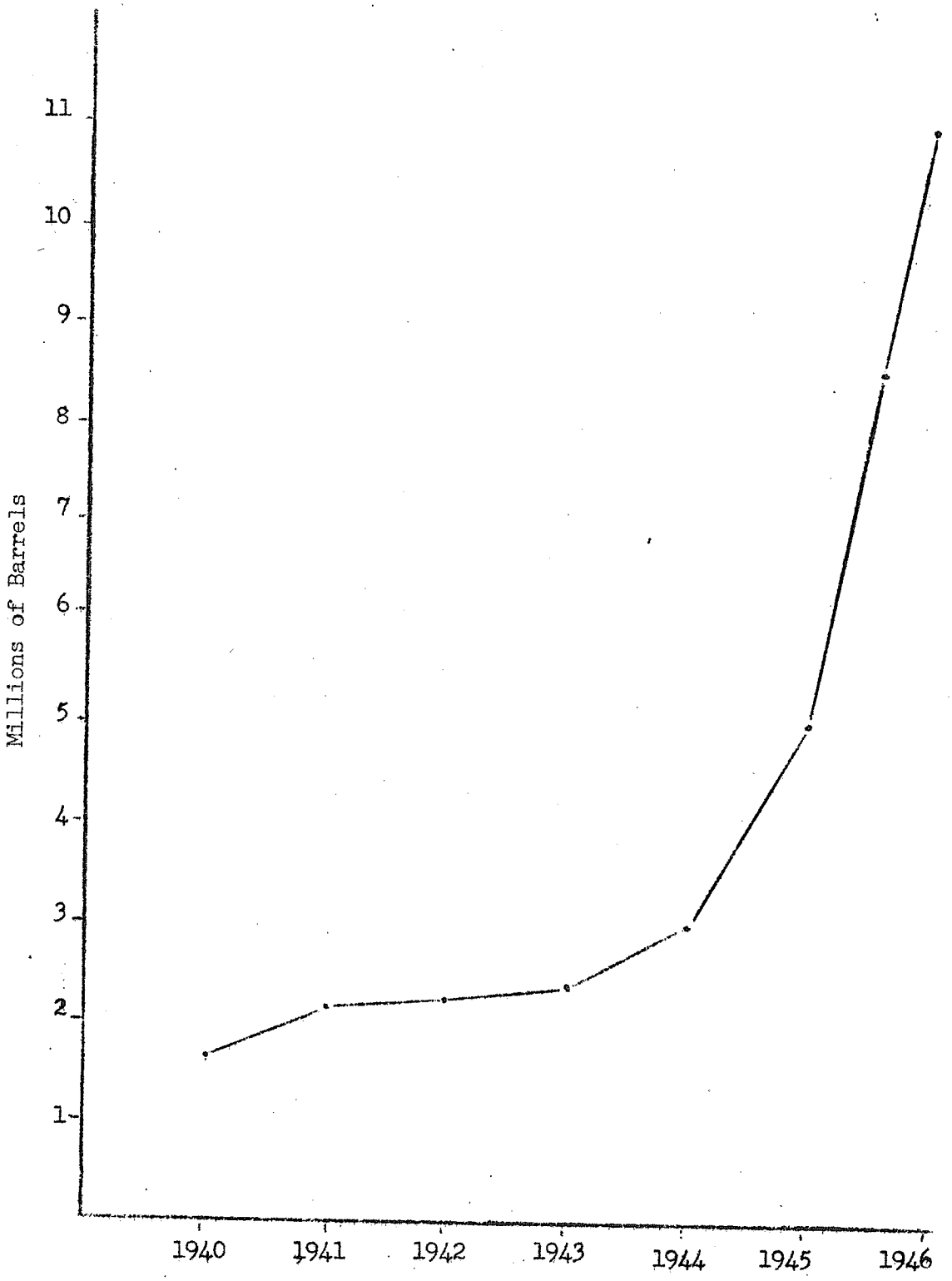
State	Rank	Production (Barrels)
Texas	1	749,373,000
California	2	325,995,000
Oklahoma	3	139,379,000
Louisiana	4	137,409,000
Kansas	5	96,496,000
Illinois	6	73,460,000
New Mexico	7	37,686,000
Wyoming	8	36,319,000
Arkansas	9	28,565,000
Mississippi	10	19,024,000
Michigan	11	17,278,000
Pennsylvania	12	12,237,000
Kentucky	13	9,938,000
Montana	14	8,507,000
Colorado	15	4,862,000
Indiana	16	4,758,000
New York	17	4,572,000
Ohio	18	2,841,000
West Virginia	19	2,820,000
Nebraska	20	219,000
Miscellaneous		202,000
	Total	1,711,940,000

1 Oil and Gas Journal, January 26, 1946

Colorado's production ranked fifteenth among the states and represented .3 percent of total output for the year. This was a small proportion of the total; however, the expected output in 1946 will represent an increase sufficient to place Colorado next to Pennsylvania in oil production.

Furthermore, prospects are very bright for greatly expanded production in the years ahead. The state has rich oil reserves which as yet have been scarcely tapped. Table 15 gives estimates of proved oil reserves in the state on January first of each year since 1939.

It may be seen that during 1945 (between January 1, 1945 and January 1, 1946) proved oil reserves increased by 148,000,000 barrels, an amount almost three times greater than total proved oil reserves at any one previous time. The net increase for the year in terms of barrels of oil was fourth greatest among the states of the country, being exceeded only by Louisiana, Texas and California. On the basis of proved oil land the net increase in Colorado in 1945 was 12,800 acres -- second only to Texas.



Crude Oil Production in Colorado

1940 - 46 Inclusive

Table 15

Estimate of Proved Oil Reserves in Colorado on January 1, 1939-46[1]

(Barrels)

Beginning of Year	Total Proved Reserves	Net Increase for Year
1939	18,000,000	----
1940	20,000,000	2,000,000
1941	23,000,000	3,000,000
1942	23,000,000	----
1943	39,000,000	16,000,000
1944	45,000,000	6,000,000
1945	58,000,000	13,000,000
1946[2]	206,000,000	148,000,000

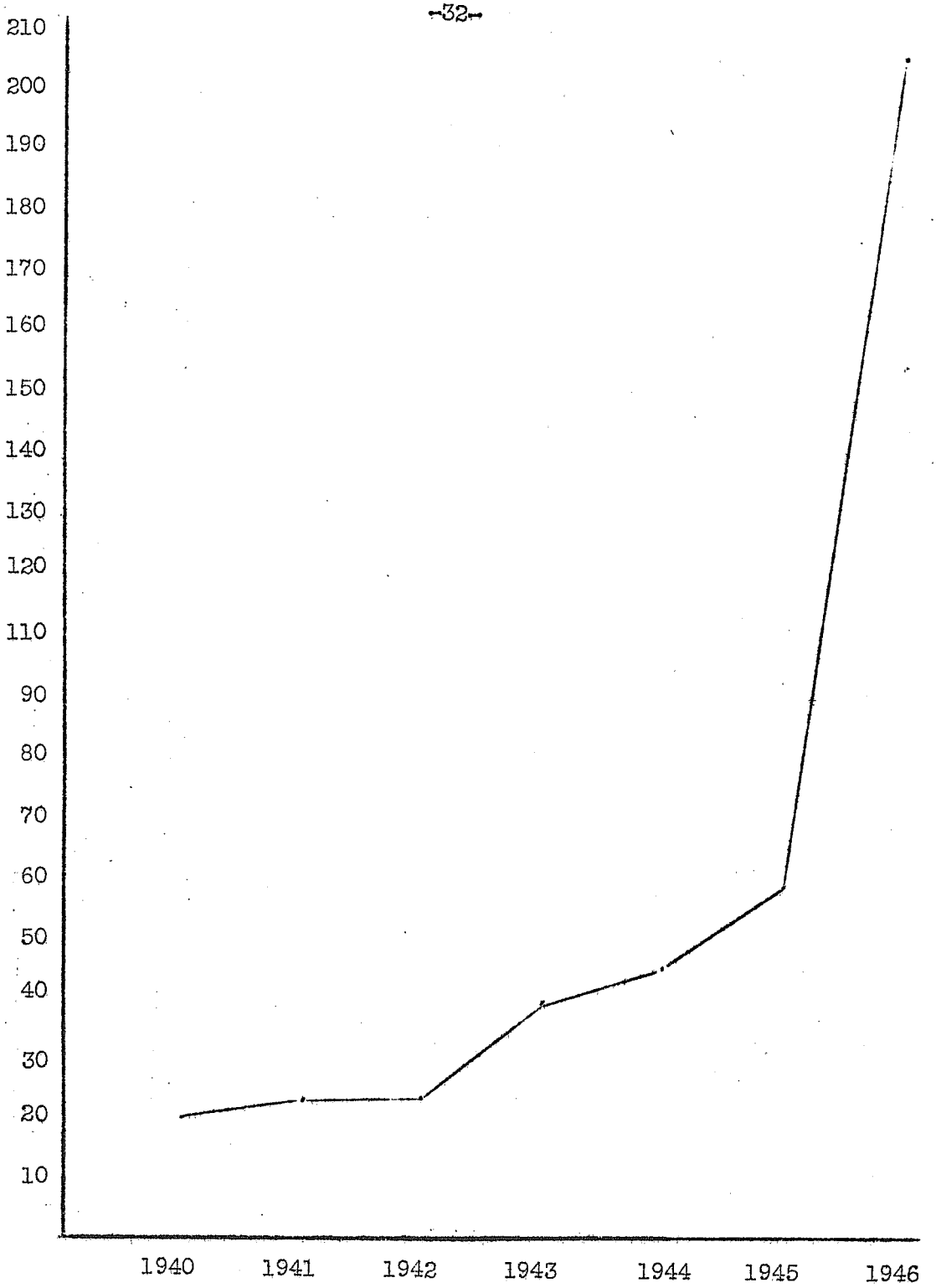
1 Minerals Year Book, 1944, Bureau of Mines
2 Oil and Gas Journal, January 26, 1946

On January 1, 1946 there were 240 producing wells in the state, 60 of them having been completed during the previous year. Eighty-three more wells were programmed for completion in 1946. Although, as previously stated, Colorado is not one of the greatest oil producing states, the daily output per well is very high. In 1945 the average was 55.5 barrels -- second highest of any state in the country. The average in Texas was only 19.8 and in California 35.9 barrels while the national daily average was only 11.1 barrels of oil per well.

Assuming a value of $1.10 per barrel of petroleum, the output in 1946 will have an estimated total value of about $12,000,000. Thus, oil is becoming one of the state's leading products.

The production and use of natural gas in Colorado for domestic and industrial purposes began on a small scale as early as 1893. However, the first major development occurred in 1923 when the Union Oil Company of California began producing and marketing natural gas from the Wellington dome in Larimer county. This gas was piped to Fort Collins and later to Cheyenne, Wyoming.

Today there are several natural gas producing areas in the state among them being fields located in Larimer, Las Animas, and Moffat counties. Gas from fields in the latter county is piped as far away as Salt Lake City. Natural gas has also been discovered in other areas but most of the wells have been shut in for lack of a gas market. Should pipe lines be constructed or other facilities for marketing be found, expanded production may occur in Garfield and Rio Blanco counties -- location of the rich Rangely field.



Proved Oil Reserves in Colorado

1940-46 Inclusive

Total production of natural gas during recent years is shown in Table 16. It may be seen that production in 1944 was about 6 billion cubic feet at an estimated total value at the wells of $220,000 and at the point of consumption of $1,389,000. At the beginning of the year (1944) there were twenty producing gas wells in the state while one additional well was drilled during each of the years 1944 and 1945. In addition to the natural gas obtained from gas wells there is some marketable production from oil wells.

Table 16

Natural Gas Production in Colorado, 1936-44[1]

Year	Production (M Cubic Feet)	Value at Wells	Value at Point of Consumption
1936	3,687,000	$121,000	$807,000
1937	3,186,000	105,000	673,000
1938	1,904,000	70,000	464,000
1939	2,015,000	78,000	467,000
1940	2,533,000	100,000	573,000
1941	3,256,000	121,000	714,000
1942	5,100,000	173,000	1,066,000
1943	6,148,000	226,000	1,425,000
1944	5,987,000	220,000[2]	1,389,000[2]

1 Minerals Year Book, 1944, Bureau of Mines.
2 Estimated Value.

Some Possible Variations in a State Severance Tax — Estimates of Yield

It is difficult to estimate the amount of revenue which Colorado might be expected to collect from a severance tax. Naturally the amount would vary according to whether all natural resources are included or merely selected products. Other things being equal, the more comprehensive the coverage the more productive the tax. Also collections would vary according to particular rates applied. Then, too, the amount or value of production resulting from the severance of natural resources may fluctuate from year to year causing variations in tax collections.

Table 17 gives estimates of severance tax revenue which the state, under various conditions, might be expected to collect. Should there be a production tax of five percent on the gross value of all minerals (approximately the same rate as in Louisiana and Minnesota) the yield would be about $3,000,000. A rate similar to Oklahoma's of three percent would amount to about $1,800,000 annually. Should Colorado tax the production of minerals relatively as much as the average for 12 leading severance tax states, the yield would be approximately $1,636,000. On the other hand if certain selected products should be singled out

for severance taxation, as occurs in some states, the yield would be less. For example, a 10¢ per ton tax on coal would amount to about $760,000 annually; a 3¢ per pound rate on molybdenum about $700,000; and a 5 percent tax on oil and natural gas about $625,000 annually.

From the above estimates, regardless of how a tax might be applied, it may be seen that Colorado cannot hope to solve all her financial problems by levying a severance tax. Should collections amount to $3,000,000 annually (the highest estimate in Table 17) the figure would represent only about six percent of total state tax receipts. Nevertheless, the revenue would be important; furthermore, other objectives of a production tax such as equalizing tax burdens, promoting conservation of depleting resources, etc. may be significant considerations.

Table 17

Estimates of Revenue Expectations
From a Severance Tax in Colorado

Nature of Tax (Alternatives Applicable to:	Rate	Estimated Annual Revenue
All Minerals	5%[1]	$3,000,000[2]
" "	3%[3]	1,800,000[2]
Selected Products[4]	Average for 12 leading states	1,636,000[5]
Coal	10¢ per ton	760,000[6]
Molybdenum	3¢ per pound	708,000[7]
Oil and natural gas	Oil: 5¢ per barrel or 5% of value; Gas, 5% of value	625,000[8]

1 Approximate rate in Louisiana and Minnesota.
2 Based upon approximate annual average value of mineral production during past 20 years -- $60,000,000.
3 Rate in Oklahoma.
4 See Table 3.
5 Based upon value of mineral production in 1944.
6 Based upon average annual production during past 20 years.
7 Based upon production in 1944.
8 Based upon expected production in 1947 -- at least 12,000,000 barrels of oil, 6 billion cubic feet of gas. Production may be much greater.

Principles Involved In The Taxation of Minerals

A. Nature of Mineral Deposits Relative to Taxation[1]

Mineral resources have several distinguishing features which make

1 See "Taxation of Minerals in Colorado With Special Reference to Oil Shale Deposits", written by the author, published in Bulletin of the National Tax Association, April, 1945.

them essentially different from other forms of property and wealth.

In the first place, our minerals are used up in the process of exploitation. When taken out of the earth, they are gone forever, so far as those particular deposits are concerned. Thus, the minerals may be considered a kind of natural heritage of the state which should be safeguarded against too rapid exhaustion and waste. A heavy property tax often encourages rapid exploitation when principles of general welfare require careful conservation.

Moreover, from the viewpoint of the mine owner, the depleting resource presents a problem. Part of his capital is being returned each year along with his income. This complicates the calculation of mine valuation and of the determination of net income. Thus, a property tax whose assessments disregard mine depletion might tax deposits so heavily that incentive would be lacking for the ownership and development of even badly needed resources.

A second distinctive feature of mineral deposits is that satisfactory appraisal or valuation is often extremely difficult if not impossible. Property tax laws usually require assessors to value mines at such a price as the mine would sell at a fair, voluntary sale, for cash. But such properties are seldom sold. Therefore, the assessor must fall back upon other criteria for making appraisals. The proper application of these criteria usually necessitate the service of a trained and experienced mining engineer.[1] Not only does value of the resource depend upon future costs of extraction and the selling price of the mineral, but being underground, its value can be merely estimated relative to both quantity and quality of deposit. These difficulties apply especially to metal mines and oil wells. Because of this uncertainty relative to true value, the mine owner is usually given the benefit of the doubt and, as a consequence, property tax assessments are often very low as compared with those on other forms of real and personal tangible property.

A third characteristic of mineral deposits is that they are commonly located in sparsely populated areas. Even during periods of extensive development, the mining communities are normally much smaller than industrial and commercial centers of the same region. This situation becomes significant in those states using the property tax, particularly, as in Colorado, when assessments are made by local assessors and when revenues collected are retained largely by local units of government. These sparsely settled areas experience little difficulty in obtaining sufficient revenue to support local functions of government, even though mine assessments are low and mill levies nominal. Thus, mine owners are often able to induce local assessors to make low assessments in spite of state laws specifying full cash valuation. This, coupled with mill levies below the state average,

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[1] Yet in Colorado the assessment of mines and oil wells is a responsibility of local assessors, most if not all of whom are inadequately trained for the task.

makes the tax system inequitable if comparisons are drawn between the mineral and non-mineral counties of the state.

In Colorado an example may be cited. In Lake County, location of valuable mines including the principal source of the world's molybdenum production, property assessments are undoubtedly extremely low relative to true values,[1] yet mill levies are the lowest among all of the counties of the state. The average levy in 1943 for Lake County was 16.37 mills as compared with 49.50 mills for Huerfano County, the highest in the state, and with an average for all counties of 33.9 mills.[2]

In addition to such tax inequality, an unequal geographic distribution of mineral resources (assuming retention of revenue by local units) promotes an unbalanced condition relative to support of governmental functions including education on the elementary and secondary levels. Some communities (the wealthy mineral areas with sparse populations) have more revenue than necessary while certain others may be virtually destitute.

B. Methods of Taxation -- (1) The Property Tax.

The various states usually apply the ad valorem or property tax to mineral resources within their borders. A notable exception is Louisiana which depends exclusively upon the severance tax and a series of business license taxes for necessary revenue from the extractive industries.

According to the property tax law in most American states, mineral deposits have been subject to taxation on the same basis as all other property. In other words, the general property or ad valorem tax has usually been applied to every kind of property, including minerals, with the avowed purpose of taxing all equally. Assessments are supposed to be made according to market value and a uniform mill levy within each tax jurisdiction is then applied to those valuations. The states of Colorado, Idaho, Montana, Nevada and Utah do not apply the property tax to metal mines upon a true ad valorem basis. Instead net revenue or a multiple of net is the assessment base except in Colorado which specifies either net or one-fourth of gross revenue whichever is greater.

The general property tax as applied to mines and oil wells in Colorado possesses many defects. However, the state should probably

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1 See testimony presented in the tax dispute case of the Climax Molybdenum Company extending from the years 1939 to 1941. W. A. Roberts, State Taxation of Metallic Deposits, ch. 13.

2 These figures do not include a uniform state levy of 3.85 mills. Thirty-Second Annual Report, Colorado Tax Commission, 1943.

not abandon this method of taxation of mineral resources in order to substitute exclusively some other form of tax -- for example, the severance tax. Instead there should be an attempt to improve the property tax law and to strengthen its administration so that the tax will be more equitable relative to all property owners. As the writer intends to discuss in detail Colorado's general property tax in another study, further reference to this form of tax upon natural resources including minerals will be deferred until that time. However, it should be emphasized that sufficient evidence has already been obtained to indicate that under the present system of property taxation, as compared with most other forms of real estate, our mines and oil wells as a group are inadequately taxed.

(2) The Severance Tax.

As previously discussed, 25 states, with wide variations, apply severance taxes to the exploitation of natural resources. These taxes in all cases are levied in addition to other taxes (including the property tax); they are not substitutes for the property tax. A possible exception is Louisiana; however, in that jurisdiction a series of special license taxes are levied instead of the tax on an ad valorem basis.

In a number of states the severance tax measures are nothing more than regulatory or inspection fees. For example, the California tax on oil and gas is imposed for the purpose of covering the administrative costs of the conservation and inspection laws, while the Colorado tax on coal is merely an inspection fee for coal mines. On the other hand, the production taxes in Texas, Louisiana, Minnesota, and Oklahoma and to a lesser extent in a number of other states are important revenue measures.

C. Advantages of the Severance Tax

Before deciding whether or not Colorado should adopt a severance tax, the relative advantages and disadvantages of such a revenue measure should be considered. Let us first review the advantages.

One important aspect is that the severance or production tax has the advantage of simplicity. Whether based upon units of output or gross receipts, the amount of the tax is easily calculated -- being a determinable definite amount. In this respect the tax has an advantage over the property (ad valorem) tax upon mines. The latter being based upon market value, as previously discussed, is very difficult to determine and, consequently, administration is not simple. This point is not intended to be an argument against continuing the property tax upon mines and oil wells but merely to indicate that if a severance tax is also applied to the industry, tax administration would not become unduly complicated.

A second advantage of the production tax upon minerals (if it supplements the property tax) is that under the present arrangement mines and oil companies have probably not borne their proper share of the tax burden of the state. This is because the industry has been granted special favors in the matter of taxation. As previously discussed, producing metalliferous mines, are taxed upon the basis of 25 percent of gross or the net proceeds, whichever is greater. Non-producing mines are assessed at a rate not higher per acre than the lowest producing mine in the same location. Mines of coal, iron ore, asphaltum, quarries, and oil wells are assessed as other property. However, because of the difficulty of accurate assessment, the latter mineral resources are often greatly underassessed -- valuations being largely dependent upon self-assessment by the mine owners themselves and inclusions often being confined to the value of surface improvements.

Furthermore, for several years, Federal income tax favors (generous allowance for depletion) for mines and oil companies have been maintained in the law despite the repeated recommendations of the Treasury Department and numerous attacks of critics. The Congressional balance of power on this question is influenced by log-rolling factors much like those that appear in the tariff issue. In some cases taxpayers are still deducting depletion of mines after they have deducted the full cost of their investment. Therefore, one reason for adopting a severance tax might be in order better to equalize state and national tax burdens as between the various owners of real and personal property within the state.

A third advantage of a production tax upon the exploitation of natural resources is that it can be made to yield considerable revenue to pay for necessary functions of government. Of course the yield depends upon the products included under the tax and also the particular rates applied. Colorado's coal production tax of 4/10¢ per ton yielded only $33,000 in 1944, while a production tax of three percent of gross value upon all minerals would have yielded about $2,300,000 for the same year.

Another and rather important advantage of the severance tax is that it can be easily adapted to any particular conservation policy of the state or nation. By raising tax rates, production can be discouraged either because costs will rise, or if the tax is shifted, because the higher price will be a deterrent upon demand for the product. An opposite policy can induce more rapid exploitation of a mineral which currently may be urgently required. This advantage of the severance tax relative to conservation is in contrast to the ad valorem tax upon property (when heavy) which may operate in exactly the opposite direction from the one desired.

Another argument for the severance tax (as a supplement to a moderate property tax) is that it is fair to the owners and operators of mines and oil wells. If production is low or non-existent

then the severance tax correspondingly declines or disappears entirely. On the other hand, if output increases, for example, due to revival of mine activity, then the severance tax increases. Thus, a production tax is applied at the time and in amounts which are likely to correlate with ability of the mine and oil companies to pay such taxes.

Finally, one of the strongest arguments in favor of a severance tax is that our natural resources are the heritage of the state. Yet this heritage in the form of natural wealth and capital assets is depleted in the process of exploitation through production. The condition of gradual exhaustion is particularly significant regarding coal, petroleum, and natural gas but is also important relative to the other mineral resources even though these latter, such as iron ore, for example, may be used over and over again after being fabricated into tools or other articles. The natural heritage argument has least application to forests and fisheries provided these resources are exploited in such a way as to provide for a continuing "crop" rather than for ultimate exhaustion of the trees and fish.

The natural heritage argument as applied to our natural resources contends that the state should recover, through the application of a severance tax, at least a portion of its depleting wealth. In other words the state should share in the profits of such exploitation and should reinvest the revenue thus derived in so far as possible in something of a substantial and permanent character so that there will be some compensation for that which has been destroyed and consumed and which in no other way can be replaced.

This problem of our natural resources being a heritage of the state yet being depleted and perhaps finally exhausted becomes particularly significant when the mines and oil wells are owned and operated by absentee capital or when the raw products are exported directly from the state. Such conditions tend to keep the state in a backward economic status typical of colonial empires which are exploited by the mother country. Consequently, Colorado should be concerned about its oil, molybdenum and other resources which are being exploited by outside firms -- the products in their raw or semi-refined form being taken directly from the state. One compensating factor would be a production tax applied to the resources as they are severed from the soil.

D. Limitations of the Severance Tax

As a general rule any tax measure possesses at least some limitations or shortcomings and the severance tax is probably no exception.

First of all, it is frequently contended that the tax has an uncertain and unstable yield -- revenue fluctuating with variations in production from year to year. This uncertain yield places a hard-

ship upon local units depending upon the revenue for financing continuing functions of government. However, the state being larger than local governmental units and also receiving revenue from various sources would not experience as much difficulty if the severance tax yield fluctuated from year to year. Consequently this objection to the tax can be largely removed if, instead of local units, the state collects all revenue from the severance tax and then distributes it back to localities, for example, according to need. There is much to be said in favor of this policy even though the revenue system is based upon an ad valorem tax. The historical accident responsible for the location of mineral deposits is a poor justification for certain local units retaining all or most of the resulting tax revenue.

Furthermore, in reply to the charge that a mineral production tax has an unstable yield, it is argued by some that production policies particularly of the larger companies, are sufficiently stable to make the severance tax fully as dependable as the property tax. The argument is based upon the contention that the yield of the latter tax fluctuates with changes in amount of proved mineral reserves, increasing with new discoveries and decreasing as old ones become depleted.

A second objection to the severance tax is that neither volume of output nor gross revenue is an entirely satisfactory measure of ability to pay taxes. Two mines with the same volume of production may show very different rates of profit if one of the mines has a higher cost of operations or a lower grade of ore than the other. However, the tax is probably no more objectionable from this standpoint than the traditional property tax which may place equal tax loads upon two mines, one of which is being very profitably exploited while the other may be completely idle. Moreover, the severance tax may be justified in terms of some principle supplemental to the ability-to-pay doctrine, for example, the "natural heritage" principle.

Perhaps a genuine disadvantage of the severance tax is that it does not affect non-producing mines and mineral lands. Under the tax law the owners of such resources could keep their properties idle, merely holding for speculative profits, and as a consequence for years might pay no taxes even though ownership of the minerals represented considerable tax paying ability. However, most states levying taxes on production have largely removed this disadvantage by resorting to both the property and severance taxes, applying them in a complementary manner.

A common argument against the severance tax put forth by the mine and oil industries is that the tax discourages investment and consequently, "kills the goose that lays the golden eggs." The validity of this contention depends upon a number of factors. In the first place the <u>total</u> weight of taxes as compared with that upon alternative investments is an important consideration. In Colorado a severance tax to supplement the present moderate property tax upon mineral

resources would probably not represent an undue tax load as compared with other investments in the state, for example, agricultural property. Furthermore, the possibility is not likely of alternative investments in mines and oil wells in other states having lower taxes as most states possessing important mineral resources already levy severance taxes. Also there is a probability that the severance tax to a large degree is not borne by the mine and oil companies but is shifted to the users of mineral products.

Considering all factors, the evidence in Colorado appears to indicate that the adoption of a comprehensive severance tax at this time would be advantageous. A remaining consideration, however, is whether such a revenue measure would be legally considered to be an excise tax which would be subject to capture by the old age pension fund. Let us briefly review the probabilities relative to this problem.

Legal Status of Production Taxes

It is impossible to predict what the courts would decide relative to the legal interpretation of a Colorado severance tax should such a measure be enacted. Perhaps a decision would partly depend upon the wording of the law and the particular method of tax application. However, there is good reason for believing that the courts would decide the tax to be an excise levy, yet one not subject to seizure by the old age pension fund.

The precedent established in certain other states throws some light upon the question as to whether or not the severance tax is an excise. In 1923 the Supreme Court of Louisiana ruled that a three percent tax imposed upon oil and natural gas severed from the soil was not a property tax but an excise levy upon the privilege of severing natural resources from the soil.[1] The question at issue was whether or not the tax violated the equality and uniformity provisions of the state constitution; however, ruling that the tax was an excise the court contended there was no violation and the law stood. Upon appeal, the United Stated Supreme Court upheld the decision of the state tribunal.[2] On the other hand, two more recent court decisions indicate that a severance tax may be applied in such a manner as to be held to be a property tax. One of these was a Minnesota case in which the Supreme Court stated that a six percent tax upon royalties obtained from iron ore lands leased for mining was essentially a property tax upon the mineral lands.[3] It so happens that the state did not have a uniformity clause in its constitution and, consequently, the tax law was upheld. However, in Illinois (a state whose

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1 Gulf Refining Co. vs. McFarland 154 La. 251 (1923). Courts have generally held that property but not excise taxes are subject to the limitations of equality and uniformity clauses.

2 264 U.S. 573 (1923)

3 Lake superior Consolidated Iron Mines vs. Lord, 271 U.S. 577 (1927)

constitution contains a clause requiring taxes to be equal and uniform) a tax imposed at the rate of three percent of the value on all oil produced was said to violate the constitution. Although the court did not directly specify that the tax was a levy upon property, it implied that the severance of oil could not in effect be separated from the valuation of the oil land. Thus the Illinois revenue measure, because of being sufficiently similar to a property tax, was declared unconstitutional.[1]

At first glance the Minnesota and Illinois decisions appear to reversals of the Louisiana case. However, upon closer examination it seems the courts have not been inconsistent. The laws in Minnesota and Illinois were drafted in such a manner that certain inclusions, for example, a provision that a property owner was ultimately liable for the production tax if unpaid by the mine operator, made the measures essentially property taxes. This has not been true regarding several other severance taxes (including Louisiana's) which have been tested in the courts.

Should Colorado adopt a severance tax, the law should probably be drafted in such a manner as to avoid the interpretation of being considered a property levy; otherwise, as the state's constitution contains a uniformity clause, the tax measure might encounter legal difficulty.

Another important legal question is whether or not revenue from a severance tax (or 85 percent thereof) would constitutionally fall within the catagory of the old age pension fund. The relevant parts of the old age pension amendment (Article XXIV, Section 2, paragraphs (a) and (b) are as follows:

> Sec. 2 Moneys allocated to fund -- There is hereby set aside, allocated and allotted to the old age pension fund sums and money as follows:
>
> (a) Beginning January 1, 1937, 85 percent of all net revenue accrued or accruing, received or receivable from any and all excise taxes now or hereafter levied upon sales at retail, or any other purchase transaction; together with 85 percent of the net revenue derived from any excise taxes now or hereafter levied upon the storage, use, or consumption of any commodity or product; together with 85 percent of all license fees imposed by the provisions of sections 1 to 36, both inclusive, of chapter 144 of Volume 4 of the 1935 Colorado Statutes Annotated, and amendments thereto; provided, however, that no part of the revenue derived from excise taxes now or hereafter levied, for highway purposes, upon gasoline or other motor fuel, shall be made a part of said old age pension fund.

(b) Beginning January 1, 1937, 85 percent of all net revenue accrued or accruing, received or receivable from taxes of whatever kind upon all malt, vinous, or spirituous liquor, both intoxicating and non-intoxicating, and license fees connected therewith.

A careful analysis of the above provisions leads one to the conclusion that not all kinds of excise taxes must be set aside for the pension fund. The intent of the wording in paragraph (a) (at least in a strict sense) seems to include under the fund only 85 percent of the net revenue from sales at retail -- undoubtedly referring to the two taxes currently in effect at the time, namely, the retail sales tax and the use tax. The last part of the paragraph specifically excludes all excise taxes levied for highway purposes upon gasoline or other motor fuel. Paragraph (b) pertaining to the revenue from liquor taxes appears to be much more inclusive.

The Colorado Supreme Court has been inclined to apply a strict rather than liberal interpretation to the old age pension fund amendment. In other words, the court has tended to limit the application of the pension fund to rather narrowly prescribed inclusions. This is an indication that the court would probably exclude from the fund a production tax upon the severing of natural resources. A few decisions of the court relating to the question may be cited.

The service tax cases are pertinent. Although in 1938, the service tax was considered by the court to be an excise rather than a property tax,[1] the tribunal decided that the revenue measure was not the kind of an excise falling within the category of the old age pension fund amendment.[2] Consequently, the service tax revenue (before the tax law was repealed) went into the general fund of the state rather than for pensions.

Another decision indicating the attitude of the court was rendered in the Denver cigarette tax case. In 1940 the court ruled that the pension fund could not claim taxes or license fees that have been imposed by a municipality or otherwise than by the usual legislative procedure of the state as a whole.[3]

Two liquor tax cases might also be cited. Generally the court has ruled the liquor fund provisions (paragraph b) to be rather comprehensive or all inclusive. In 1939 the Supreme Court decided that 85 percent of the liquor license fees collected by the city of Denver was to be turned over to the pension fund. The argument was based upon the contention that the amendment specifically provided for allocation of 85 percent of all taxes upon malt, vinous or spirituous liquor of whatever kind. Furthermore, the court held that the regulation of the sale of liquor was not exclusively a local matter but to some extent was a concern

1 Rinn vs. Bedford, State Treasurer, 102 Colo. 475
2 Conklin vs. Armstrong, State Treasurer, 106 Colo. 376 (1940)
3 State of Colorado et al vs. City and County of Denver et al, 106 Colo. 519

of the state as a whole.[1] A more restricted interpretation was rendered in 1944 at which time the court decided that a property tax levied by a county or municipality upon liquor could not be taken by the old age pension fund.[2]

It may be concluded with some reasonable assurance that Colorado can enact a severance tax measure which will not be ruled by the courts to be a property tax, thus avoiding possible legal difficulty because of the uniformity clause of the constitution. Also it may be assumed that the court, although ruling a severance tax to be an excise, will not likely decide that 85 percent of the revenue must go to the pension fund.[3]

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1 People vs. City and County of Denver et al, 103 Colo. 565.
2 Bedford State Treasurer vs. Sinclair, 112 Colo. 176.
3 A more comprehensive discussion of the legal aspects of a severance tax are to be found in a recent paper prepared (since the draft of this report was written) by Mr. O'Connell, Attorney for the Colorado Education Association. Mr. O'Connell's conclusions bear out those presented in this report.

Palmer L. Bunch

TAXATION IN COLORADO

REPORT NUMBER THREE

The Colorado Property Tax

By EARL C. CROCKETT
Professor of Economics
UNIVERSITY OF COLORADO

The Study of TAXATION IN COLORADO is Sponsored by
University of Colorado
BOULDER, COLORADO
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THE COLORADO PROPERTY TAX

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THE COLORADO PROPERTY TAX

Summary and Conclusions

1. When Colorado became a state her new constitution required a system of general property taxation for state and local purposes which proved to be inequitable and from many standpoints impractical. Yet the provisions were so inflexible and constitutional revision was so difficult that it was not until 1911 (Tax Commission Act) and 1936 (amendment permitting income tax) that genuine tax reform was forthcoming. Even with these fundamental changes along with numerous other tax revisions over the years the property tax in Colorado still remains grievously defective.

2. As in most other states the property tax represents the principal source of revenue for state and local governmental purposes. In 1942 it yielded $43 million or 51.5 per cent of all tax revenue. This percentage was slightly more than the average for all states -- the latter being 47.5 per cent.

3. During recent years the relative emphasis placed upon the property tax as a source of revenue for the state government (as contrasted with local) has been declining. This downward trend is considered advantageous as the state can well depend largely upon such revenue sources as the income, sales, severance, inheritance and special business taxes, leaving the property tax principally for local units of government. In 1944 in Colorado the state government obtained 10.8 per cent of its revenue from the property tax. The average for all states was 4.6 per cent -- the range being from nothing in five states to 22 per cent in the state of North Dakota.

4. Expressed in dollars the yield of the property tax in Colorado has fluctuated widely, however, the general trend has been upward. Since 1913 this has been due to higher local mill levies rather than because of rising property assessments.

5. The law in Colorado specifies that all property, unless exempt, shall be assessed at full cash value. Yet conclusive evidence indicates that at present the average assessment ratio throughout the state is probably not more than 30 per cent of true value.

6. In 1946 total assessed valuation of property in the state amounted to about $1,259 million. This was actually $47 million less than total assessments in 1913. If current assessments are compared with those in the year 1929, the reduction has been $327 million, or 20.6 per cent. Exemption from the property tax of intangible wealth and motor vehicles accounts for only a small fraction of this loss on the assessment rolls.

7. While assessments have declined since 1913 actual property has expanded and greatly increased in value. Considering all available evidence and discounting the inflationary rises of the war years since 1940, we may conservatively conclude that all real and personal tangible

property in the state has increased in cash value at least 50 per cent since 1913. Moreover, there is good evidence to indicate that in the future, the values are not likely to decline below this level -- approximately the level of 1940 or 1941.

8. If assessments were approximately on a full valuation basis in 1913, in order for the same situation to prevail today (after correcting for postwar inflation and allowing for exemption of intangibles and motor vehicles) the total assessed valuation of real and personal tangible property would probably need to increase by at least $625 million. The tax commission to the limit of its ability, should attempt to place the property in the state upon this higher total appraised valuation basis. In some instances it would involve discovering property, taxable under the law, yet not listed on assessment rolls, either because of error, negligence or favoritism; in all instances it would involve placing valuations on a basis so that they would be at the level of full cash value. Such reform relative to assessments would merely be in accordance with the prescribed laws of the state. Moreover, full assessments do not cause higher general taxes; on the contrary, the average property owner would probably discover he has a lighter tax burden when all property is fully assessed than when it is only partially assessed.

9. But there are other advantages when the assessment objective is full cash value. One of these advantages is a much greater uniformity of original assessments. The use of a fractional basis tends to be indefinite in practice and inevitably leads to wide deviations.

10. A few illustrations of the lack of uniformity under the present system in Colorado are the following:

a. Assessed valuations of Colorado farms compared with United States Census values for 1940 indicates an average variation ranging from 145 per cent in one county down to 26 per cent of census values in another county.

b. Dry farm land in some eastern Colorado counties is being assessed at $4 or less per acre which is currently yielding up to $100 per acre in wheat for each crop year.

c. Based upon 1940 building costs, in 1944 a survey of 35 cities and towns made by the tax commission showed that the assessed valuation of urban residences varied from a high of 90 per cent to a low of 10 per cent of full value.

d. On the basis of actual sales data, there is often extreme variation <u>within</u> most, if not all of the counties relative to the assessment of real property. Surveys indicate that in most instances the larger homes and farms are under-assessed to a greater extent than the smaller properties. Thus, the property tax becomes grievously regressive.

e. In one-third of the counties of the state the average assessment of personal household goods is actually less than the $200 exemption permitted by law. Moreover, the assessment ratio of such personal property is relatively seven or eight times as high in some counties as in others.

f. As a group, mines and oil wells have always received special favors under Colorado's property tax system. In 1913 they were relatively under-assessed. Today they are favored to an even greater extent.

g. It is difficult to say whether or not public utilities assessed by the tax commission benefit from relatively lower assessments than other forms of property. Since 1921 the total assessed valuation placed upon utilities has held up better than upon most catagories of property, however, with the exception of railroads, utilities have enjoyed rather phenomenal expansion. For example, expressed as an average of assessed valuation of investment per kilowatt hour of production, assessments of electric light and power companies have declined from 7.8 cents in 1920 to 4.7 cents in 1945.

11. A number of special problems of property taxation in the state deserve particular mention. One of these is the problem of tax rate limits. The provision restricting current tax levies of the state and all local units of government to a level not exceeding 5 per cent in excess of the previous year appears to be as rigid an over-all limit as can practically be established. Perhaps this limit with the "safety valve" of appeal by local units to the tax commission, or if this fails, appeal to popular referendum, is a good one. Furthermore, the 5 per cent limit may be a genuine advantage, by stilling the fears of property owners who would otherwise oppose the state's return to a 100 per cent valuation basis for property. Such fears might arise from the belief that if tax valuations were drastically raised, governmental units would become extravagant because of receiving more revenue from the same mill levies. However, the 5 per cent limit is a safeguard against this possibility. Other specific mill levy limits restricting the state and certain classes of local units (notably the counties) appear to possess but dubious value.

12. A second special aspect of property taxation is the problem of collection and delinquency of taxes. Because of existing prosperous conditions throughout most of the state, current collections are excellent. This favorable situation would not be likely to continue, however, if another major depression occurs. Safeguards against a future period of property tax delinquency causing financial distress to school districts, local governmental units and state institutions would include: (1) placing less emphasis upon the property tax as a source of revenue, particularly for state purposes, by developing to a greater extent such revenue sources, for example, as the severance and income taxes; (2) relief extended to local units, especially school districts, by distribution of larger amounts of state aid; and (3) improvement of property assessments.

13. A third and rather serious problem is one caused by the state's constitutional and statutory provisions relating to tax exempt property. These exemptions may be classified as follows:

A. Required by Constitution

(1) $200 of personal property for each head of family
(2) Property owned by the state and its political subdivisions, including public libraries

B. Permitted by Constitution and authorized by law

(1) Property not owned or operated for a profit when employed solely for:

(a) Religious worship
(b) Schools
(c) Strictly charitable purposes
(d) Cemeteries

(2) Property employed in irrigation projects used solely by owners

C. Required by Constitution because of other taxes levied

(1) Motor vehicles
(2) Intangible property

D. Property owned by the federal government.

14. Although the provision for a personal property exemption of $200 per head of family which became part of the new constitution in 1876 was intended merely to safeguard the standard of living of families possessing the bare essentials of life, the exemption has proved to be a loophole through which millions of dollars worth of property has escaped taxation. This escape from taxation occurs principally in two ways, neither of which was intended by law. They are as follows:

A. The fill amount of the exemption has been applied against property assessed at a mere fraction of its value.

B. Although the exemption was intended to include only purely personal or household goods it has also been applied against agricultured and business personal property.

In 1945, in more than one-third of the counties of the state, personal exemptions exceeded the total assessed valuation of personal household goods. In another third of the counties, after deduction of exemptions, net personal property assessments were negligible. Assessors in all of these counties would probably show more net assessments on the tax rolls if the $200 personal exemption were eliminated and all household goods made tax exempt. However, this would not be the best solution of the problem. The principle behind the $200 exemption is probably sound if all personal property is included on the tax rolls and assessed at a figure even approaching full value. Furthermore, personal household

goods represent some taxpaying ability. To exempt all these goods would be to place an even heavier load upon real estate which in many cases is already paying relatively too much.

15. The exemption from taxation of state and municipal property is a customary arrangement found in most other states of the Union. Probably no useful purpose would be served by making state property taxable by local units. Likewise, the property of local governmental units, with the possible exception of publicly owned commercial enterprises, should not be subjected to taxation. Principal commercial enterprises are municipal light and power plants which are to be found in several communities and which produce about 10 per cent of the electric energy consumed in the state. No great hardship would be placed upon these plants if they paid taxes comparable to those paid by privately owned utilities; moreover, the total property tax load would become somewhat more equitably distributed. Furthermore, much unnecessary criticism directed against publicly owned utilities could in this manner be avoided.

16. The largest body of tax exempt property in the state is in the form of land and improvements owned by the federal government. During recent years the amount of this property has been increasing. By 1944 the government owned about 26 million acres or 38 per cent of the land area of the state. Moreover, there were extensive improvements on some of these lands including many government buildings. These holdings may appear to represent a vast amount of tax exempt property placing a burden upon owners of privately held property who must bear the entire cost of local government. However, upon closer examination it is found that several types of payments in lieu of taxes are annually contributed by the government. The average annual federal aid to Colorado excluding WPA and other emergency payments (1928-37) amounted to $5 million. This is considerably more than an ad valorem tax on federal property would yield if there were to be one. Nevertheless, the opportunistic basis for granting aid in lieu of taxes has caused much misunderstanding and dissatisfaction. In the future there should be a consistent and unified plan relative to such payments.

17. No appraisal has been made of the tax exempt property used for religious, educational and charitable purposes; for cemeteries and for irrigation propects. The justification for these exemptions is that meritorious functions are performed relieving the government of burdens which it would otherwise have to bear. However, the courts have followed an extremely liberal line when interpreting exemption provisions of the constitution and statutes. Consequently, these lenient decisions have permitted the escape from taxation of much property which probably should be taxed.

18. Responsibility for successful operation of the property tax resides in several county and state administrative bodies. A county assessor (elected in each county except in Denver County) is directly responsible for all original assessments except the assessment of public utilities. Within each county, the county commissioners serve as a board of equalization of assessments. On the state level, an appointed state tax commission has general supervision over county assessors, makes

original assessments of public utilities and recommends changes in assessments to the state board of equalization. An ex officio board of equalization possesses limited yet final authority over state-wide equalizations. Property tax collections are made by the various county treasurers.

19. Perhaps the weakest aspect of property tax administration in Colorado is the office of county assessor. Although in a number of counties assessors are trying courageously to do a good job and are succeeding surprisingly well, the general level of performance in most counties is woefully inadequate. However, appreciable improvement cannot be expected until several fundamental changes are made. In order to do a good job, the assessor and his deputies in addition to possessing other qualifications, must be highly trained individuals with a vast amount of technical information and experience. Existing conditions of selection, tenure and remuneration do not in most instances attract or retain such individuals.

20. Although salaries of assessors were raised in 1945, they are still inadequate. The range is from $4,600 in Denver to $1,000 in Hinsdale county -- the median salary being $2,400 per year. This $2,400 official is responsible for placing a valuation on some $10 million of property against which is placed a tax liability of hundreds of thousands of dollars. Private business would not likely place comparable responsibility upon the shoulders of a $2,400 employee. Moreover, the assessor is elected for a two-year term of office. This is not enough time for him to become sufficiently familiar with his duties to be really efficient. In practice the assessors in one-third of the state's 63 counties are normally turned out of office or else refuse to run for re-election after serving for only one, or at the most, two terms.

21. The dual and overlapping property tax administration retained by the state government is unsatisfactory. Years ago all other states except Missouri and Colorado got rid of the dual control over equalizations exercised by an appointed tax commission and an ex officio board of equalization. These two states have probably continued to retain their inefficient and generally unsatisfactory system because of a combination of inertia and inflexibilities in their state constitutions.

22. The 35-year record of "equalization" of assessments since 1911 indicates that the state board of equalization is more likely than the tax commission to be influenced by partisan politics. The board is apt to decide that the expedient course is to do nothing (10 of the years) or else to order assessment reductions (18 of the years). During the time from 1915 to 1930 those favored with reductions were the railroads and utilities; from 1931 to 1933 the favored ones were farmers. Only during the six-year period from 1934 to 1939 has the board apparently been able to resist the political expediency of either doing nothing or else of making tax reductions. Moreover, an ex officio board composed of individuals with numerous other duties has neither the time nor the facilities for doing an adequate job of equalization.

23. When evaluating the work of the state tax commission during its 35 years of existence since 1911, a number of factors must be taken into consideration. It had hardly begun to operate when its very life was threatened by proposed statutory changes and constitutional amendments. It has always operated on a budget insufficient to maintain an adequate staff of research and field workers. Also its authority over equalization of assessments among counties has been limited because of the fact that final decisions reside with the state board of equalization. Then, too, its work has not been easy. Colorado has many divergent economic and sectional interests which are difficult to reconcile.

24. Considering all aspects, there is no question but what the property tax system of the state has been strengthened and improved over the years by the tax commission because of its supervisory, assessment, and equalization functions. If the property tax is still unsatisfactory, the solution would not be to weaken the power of the commission but rather to strengthen its hand through bestowing additional authority supported by adequate appropriations. The various states of the union with most satisfactory property taxes are invariably states with considerable administrative centralization in a state tax commission or its equivalent.

Recommendations

1. In order to place assessments upon a full valuation basis, making them uniform among the various taxpayers and counties of the state, there is urgent need for a complete reappraisal of all taxable property. This work should be conducted by the tax commission with cooperation from the county assessors. So as to be completely fair, all counties should be placed upon the reappraisal basis at the same time. Consequently, the legislature should appropriate funds sufficient to permit completion of the reappraisal in a one-year or at most two-year period of time.

2. Sufficient appropriations should be made available to the tax commission so that county assessors can be provided continuous supervision and assistance. There is need for the preparation and distribution of assessor's manuals, for more field deputies and for such guidance as would be provided by periodic schools for assessors. The extra cost would pay big dividends in the form of more uniform and complete assessments.

3. There should be a constitutional amendment abolishing the ex officio state board of equalization. All authority now vested in the board should be transferred to the state tax commission.

4. The county assessor should be appointed instead of elected.

He and his office should serve under a merit system. Appointment of assessors might well be made by county commissioners from a list of eligible candidates approved by the state tax commission.

5. Should the state continue to elect the assessors (except Denver county) the term of office should definitely be lengthened to a minimum of four years.

6. The salary schedule for assessors and deputies should be increased. There was urgent need for such increase even before the development of high postwar living costs. Increases granted by the legislature in 1945 were not adequate.

7. There should be a reform relative to the $200 personal property exemption. The present system is far from satisfactory. Perhaps the solution is to retain the exemption but to apply it only against fully assessed household goods.

8. There should be a re-examination of the effect of tax exemptions due to religious, educational and charitable purposes; also tax exempt cemeteries and irrigation projects. An appraisal of the value of such property would be helpful. This appraisal could be made either by public officials or by some competent independent body. On the basis of incomplete information it appears that the statutory provisions relating to these exemptions should be made more stringent. Fortunately, the exemptions are not constitutionally mandatory.

THE COLORADO PROPERTY TAX

Fiscal Importance of the Property Tax

The general property tax has always been the principal source of public revenue in Colorado. This emphasis upon property taxation conforms to the general practice in most American states. For the nation as a whole until recent years, collections yielded more revenue than from all other state and local taxes combined. Even as late as in 1927 the property tax accounted for about 80 per cent of all state and local public revenue.[1] However, as the retail sales and income taxes have since gained in importance, the relative significance of the property tax has declined.

In Colorado, during the sixty year period from 1876 to 1936 the state and local units depended for revenue almost exclusively upon the general property tax. An indication of this dependence may be obtained by referring to the situation in 1932. According to the Census Bureau, in that year all Colorado taxes for state and local purposes yielded $54,408,000. Of this amount, $43,757,000 or 80.4 per cent came from the general property tax[2] -- this large percentage in spite of highway,

1 Jensen, Jens P., Property Taxation in the United States

2 Financial Statistics of State and Local Governments, 1932

inheritance and miscellaneous business taxes adopted principally during the two decades immediately preceding.

By 1942, in all states combined, the property tax supplied 47.5 per cent of tax revenue going to state and local governments. In that year the range among the states was from a high of 65.7 per cent in North Dakota to a low of 24.7 per cent in Delaware. Colorado was not far from midway in the list -- the property tax accounting for 51.5 per cent of total revenue as compared with an average of 47.5 per cent for all states.[3]

During the last 20 or 30 years in a number of states the property tax as a source of state revenue (as contrasted with local) has become relatively insignificant, disappearing entirely in at least five jurisdictions. The property tax revenue going to state governments expressed as percentage of all tax revenue claimed on the state level is shown in Table 1. In 1944 all states collected an average of only 4.6 per cent of their tax receipts in the form of the property tax. However, there was considerable variation among the individual states -- the range being from nothing in Delaware, Illinois, Oklahoma, Oregon,

Table 1

Property Tax Collections as percentage of Total State Tax Collections (Excluding Political Subdivisions), 1944

State	Percentage	State	Percentage
Delaware	0	Michigan	5.5
Illinois	0	Kansas	5.7
Oklahoma	0	New Hampshire	6.2
Oregon	0	Massachusetts	6.6
Rhode Island	0	Georgia	7.1
Iowa	.1	Louisiana	7.6
New York	.2	Alabama	8.1
West Virginia	.2	Virginia	8.1
Wyoming	.9	Arkansas	8.2
South Dakota	1.1	Utah	8.2
Mississippi	1.6	Montana	8.6
Tennessee	1.8	Minnesota	8.8
Connecticut	1.9	Wisconsin	8.8
Pennsylvania	1.9	Colorado	10.8
South Carolina	2.4	Idaho	11.0
North Carolina	2.5	Kentucky	11.4
California	2.7	New Mexico	12.1
Ohio	3.2	Texas	14.4
Washington	3.5	New Jersey	14.7
Florida	3.6	Arizona	17.3
Missouri	4.3	Maine	17.3
Vermont	4.6	Nevada	20.1

3 See Appendix A for amounts and percentages for each state.

State	Percentage	State	Percentage
Indiana	4.9	Nebraska	21.8
Maryland	5.2	North Dakota	22.0
		Total all States.....	4.6

Source: Bureau of Census, Department of Commerce, State Finances, 1944

and Rhode Island to 22 per cent in North Dakota. The ratio for Colorado was 10.8 per cent, placing the state among those jurisdictions (eleven in number) still collecting 10 per cent or more of their revenue from the property tax.

However, the relative emphasis placed upon the property tax by the Colorado state government has been declining during recent years as seen in Table 2. In 1915, 12.7 per cent of all property tax revenue was taken by the state; the ratio increased to 14 per cent by 1920 but the trend has been downward since, declining to 9 per cent by 1945.

Table 2

Distribution of Colorado Property Tax Revenue for Selected Years (1915-1945)[1]

(Dollar Amounts in Thousands)

	State		County		City & Town		Elementary & Secondary Schools		
Year	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Total
1915	$2,607	12.7	$7,161	34.9	$5,300	25.8	$5,466	26.6	$20,536
1920	5,529	14.0	11,322	28.7	7,805	19.8	14,766	37.5	39,424
1925	5,726	12.7	9,459	20.9	8,756	19.4	21,248	47.0	45,190
1930	5,710	11.6	10,088	20.5	9,353	19.0	24,054	48.9	49,206
1935	3,268	8.8	7,685	20.8	7,753	21.0	18,254	49.4	36,961
1940	4,842	11.6	7,108	17.0	10,336	24.8	19,422	46.6	41,709
1945	4,267	9.0	10,164	21.6	10,121	21.4	22,660	48.0	47,213

1 Annual Reports, Colorado Tax Commission

This downward trend in the relative amount of property taxes levied by the state is considered by most tax authorities to be advantageous. The state can well depend largely upon such revenue sources as the income, sales, severance, inheritance and special business taxes, leaving the property tax principally for counties, cities and school districts. Moreover, some authorities contend that by keeping the state property tax levies down to a relatively low level, local assessments are more likely to be uniform among the various counties -- thus contributing to equity in taxation. The basis for this contention is the theory that inequality among the county tax districts is principally due to competitive under-assessments -- the low assessments growing out of a desire upon the part of authorities in each county to keep their share of the state tax as low as possible.

The theory suggests that if the state were to discontinue completely the collection of property tax revenue, temptation for under-assessment between counties would be removed. Accordingly, at least five states have adopted such tax reform. However, the experience of these states relative to the property tax has been disappointing. Apparently the separation of revenue sources alone will not insure full and equal assessments of all property throughout the state. Perhaps other reasons more significant than the desire to escape state levies account for the low and unequal assessments on the county level.

Considering all factors the writer believes it desirable for Colorado to keep her state property tax levy down to the approximate level prevailing at present. In other words, in the future the state should not attempt to take more than about 9 or 10 per cent of all property tax receipts -- leaving the bulk of such revenue for the local units of government. Should additional revenue sources be found, for example, a severance tax or improved income tax, the state might well depend even less than at present upon the property tax. However, for the state to withdraw completely from the property tax field, as a number of jurisdictions have done, would probably not be advisable. By so doing, a measure of financial stability would be lost, as the property tax tends to yield a constant and stable stream of revenue. Moreover, the loss of this financial stability would not in itself be appreciably offset by improvements in local assessments.

The total yield of the property tax for all units of government in Coloradoby years since 1913 is shown in Table 3. From 1913 to 1929 the

Table 3

Taxes Levied, Colorado Property Tax for Years 1913 to 1946 Inclusive
(Dollars Expressed in Thousands)

Year	Anticipated Revenue	Year	Anticipated Revenue
1913	$18,032	1930	$49,207
1914	18,420	1931	44,864
1915	20,536	1932	39,998
1916	20,430	1933	36,793
1917	24,657	1934	36,813
1918	26,173	1935	36,962
1919	33,292	1936	38,139
1920	39,424	1937	40,757
1921	42,260	1938	40,400
1922	41,956	1939	42,020
1923	42,241	1940	41,709
1924	42,992	1941	41,889
1925	45,190	1942	41,779
1926	46,242	1943	42,671
1927	47,976	1944	43,769
1928	48,231	1945	47,213
1929	49,665	1946	50,000[1]

1 Estimated
Source: Annual Reports, Colorado Tax Commission

trend of total revenue was steadily upward, rising from $18 million in the former year to over $49 million in the latter. Between 1929 and 1933 a drastic reduction occurred, anticipated collections falling to the level of $36.7 million by the latter year. Since 1933 the trend has again reversed itself, anticipated revenue for 1946 being about $50 million or approximately the same as in the former peak year of 1929.

As will be explained later, most of the increase in revenue since 1933 has come as a result of higher local mill levies rather than from rising property valuations as turned in by county assessors and the state tax commission. During the depression years property assessments were drastically reduced and those reductions have been only partially restored.[1]

Thus we find that by 1946, although property was being assessed at a much lower level, total tax collections were about the same as for the year 1929. Perhaps the most significant effect of the change has been that the state institutions, supported by a constant property mill levy, have suffered financially. Local units of government have recovered their lost revenue by raising local mill levies.

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1 See section on property assessments

Early Development of the Property Tax

From 1876 to the Turn of the Century

When Colorado became a state in 1876 her new constitution provided for the adoption of a general property tax by authorizing the legislature to establish a uniform system of property taxation. All property, unless specifically exempted, was to be assessed at a just value. Original assessments were to be made by county assessors while equalization was possible on the county level by the county commissioners and on the state level by an ex officio board of equalization composed of the governor, state auditor, state treasurer, secretary of state and attorney general.

Specific property exemptions contained in the new constitution included the following: (1) $200 of personal property for each head of family, (2) ditches, canals and flumes used by the owners for irrigation, (3) mines and mining property for a period of ten years, (4) all real and personal property of the state, counties, cities, towns and other

municipal corporations and public libraries, and (5) property used solely for religious worship, for schools or for strictly charitable purposes, also to be exempt were cemeteries not used or held for private profit unless otherwise provided by law.

The constitution limited the state property tax to six mills on the dollar of assessed valuation with provisions for further reductions to four mills and then two mills when total state valuations reached $100 million and $300 million respectively. An amendment in 1892 repealed the latter provision and fixed the maximum rate for state purposes at four mills. The only exception allowed was to provide money to pay the expenses incurred on account of insurrection and invasion.[1]

Thus when Colorado became a state her constitution contained most of the customary provisions found in other state constitutions of that time relative to property taxation. The limiting features were intended to insure a system of equitable taxation without favoritism or discrimination to any special groups or classes.

However, the constitutional provisions committed the state to a system of general property taxation for state and local purposes which proved to be inequitable and from many standpoints impractical. Yet the provisions were so inflexible and constitutional revision was so difficult that it was not until 1911 (Tax Commission Act) and 1936 (amendment permitting income tax) that genuine tax reform was forthcoming.

Under the constitutional provisions of 1876 the legislature established by statutory means the procedure for initiating the property tax. County assessors elected for a term of two years were given the responsibility of determining the just valuation of all property, real and personal. These valuations were to be adjusted by a county board of equalization (county commissioners) and the differences between counties were to be equalized by the state board of equalization.

This administrative procedure was intended to insure assessment at full cash value of all property in each county of the state. However, in practice the procedure broke down. County assessors, always under pressure from property owners, began a competitive race with each other to under-assess property in order to reduce, in each case, the county's share of taxes paid to the state government. Because the same economic pressures and interests were present when equalization was attempted by the county commissioners, no correction of the inequality as between counties was achieved on this level.

Thus the state board of equalization was early confronted with the responsibility of attempting to force county assessors to make full-value assessments in order to obtain justice between the counties. Although

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1 At present the maximum is still four mills for the ordinary operation of the state government and state institutions. However, in 1920 an amendment permitted the levying of one additional mill for erection of buildings for state educational institutions.

under the constitution the board was apparently vested with considerable power, its attempts were thwarted by the courts.

As early as 1876 the board detected property tax inequalities and changed assessments in such a manner that the sum total of all county assessments was greater after the equalization than before. The question of constitutionality was raised and in 1877 the court ruled that the board had no power to increase the aggregate valuation of the state. If it attempted to equalize by raising valuations in one county, it must make a corresponding reduction somewhere else.[1]

The board being composed of ex officio members, who were each busy with other duties anyway, decided that in view of the court's ruling nothing could be done. Consequently, nothing further was attempted relative to state equalization for over 20 years. Finally in 1899 the board made another effort to equalize values. This time it changed the assessment of certain classes of property in the various counties. Again objection was raised and an appeal made to the courts. The state supreme court affirmed its earlier decision and ruled this type of equalization to be likewise unconstitutional.[2]

Thus thoroughly discouraged in its efforts to equalize property valuations, the board adopted the following resolution:

> "Whereas every effort of the said Board of Equalization since its establishment has been invalidated by adjudication of the Supreme Court, therefore be it resolved, that in the judgment of this board the power of said board to equalize and adjust can only be made effective by constitutional amendment or by legislative enactment specifically designating its powers and directing the method of the performance thereof.[3]

After this formal declaration containing an appeal to the people, assessments grew steadily worse from the standpoint of equality among the various counties. Then, finally, several contributing factors induced the legislature to make a comprehensive property tax revision in 1902.

The Property Tax Law of 1902

The 1902 changes grew out of difficulties reaching a climax several years earlier. The depression of the 1890's put a severe strain upon the tax structure causing a shrinkage of revenue due to reduced valuations of property as well as because of tax delinquency. County assessors became reluctant to raise valuations even after several years of economic recovery. At the same time governmental functions were expanding and the need for revenue was increasing. As a consequence by 1898 the legislature

1 People vs. Lothrop, 3 Colorado 428 (1877)
2 People vs. Ames, 27 Colorado 346 (1900)
3 See Annual Report, Colorado Tax Commission, 1915, p.9.

found itself appropriating $472,555 in excess of tax receipts. Thus the lack of revenue for the biennium seriously crippled many of the state institutions and state functions.

Conditions became so bad that in 1900 Governor Thomas appointed a special revenue commission to study the problem and to make recommendations for tax reform. The commission's report led to the drafting and adoption of a new revenue bill in 1901. This new law amended the property tax by providing for, among other things, the appointment of a state board of assessors to supervise and administer tax assessments.

Through the efforts of the board total assessments in the state were increased from $216 million in 1900 to $460 million in 1901. Eighty-nine million dollars of this increase was assessed against the railroads. The latter corporations refused to pay their increased taxes and challenged the constitutionality of the new law. In December, 1901 the court ruled that the state board of assessors had no power under the state constitution, also contended that because of certain technicalities the law was invalid.

Governor Oram called a special session of the legislature in January, 1902 for the purpose of drafting tax legislation which might be approved by the courts. The general property tax revision of 1902 was the outcome. Many provisions of the law adopted at that time have remained unchanged.

In 1902 amendments attempted to strengthen the property tax by setting forth in detail a prescribed procedure of assessment of property and collection of taxes.[1] All properties of all kinds except specified exemptions were to be assessed annually at full, true cash value, by county assessors and their deputies; except that the properties of public utilities and railroads were to be assessed by the state board of equalization. The law gave detailed regulations for determining true cash value of property owned by individuals and corporations when no market or sale value information was available.

In order to guide and assist the county assessors and state board of equalization, all property was classified and carefully defined. Property was given the two-fold division of real estate and personal property. Real estate included lands, mines and improvements. Lands were segregated on the basis of whether they were grazing, agricultural or town lots. Mines were of two kinds -- those producing gold, silver, lead, copper or other precious minerals; and those producing iron, coal, asphaltum, quarries and lands containing other metals, minerals and earths. Improvements were defined as buildings, water rights, structures and fixtures erected upon or affixed to land.

Personal property was defined as everything subject to ownership not included within the term real estate. Such property was classified into tangible and intangible. Tangible personality included such property as animals, household goods, jewelry, vehicles, merchandise, etc. Intangible personality included rights, credits, franchises, special privileges and special advantages derivable under contract rights or in connection with the other property. The latter category was interpreted to include, among other items, bank deposits, money and credits, stock, bonds, notes

1 Revenue Act of 1902, approved March 22, 1902

and book accounts.

Heavy penalties were placed upon those found guilty of violating provisions of the law. Any officer neglecting or refusing to perform duties imposed in the act was to be fined not exceeding $5,000 and imprisoned not exceeding one year. Assessors were to forfeit $25 for each imperfect schedule they received and 20 per cent of their salary for failure to send abstract of assessments to the state auditor in due time. Also they were liable to a fine of $500 to $1,000 for neglect to compute and extend taxes, were to be punished as for perjury for wilfully omitting or undervaluing property, and could be removed from office by the governor for making erroneous assessments.

Corporations wilfully failing or refusing to make proper returns were to forfeit $100 per day for delays after June 1, failure to pay the tax could lead to forfeiture of the right to do business in the state, and failure to give information to the assessor or refusal to pay taxes would make a corporation liable to a fine of $1,000 and loss of its property through seizure and sale.

A taxpayer making an erroneous return was made liable to a fine of $1,000. Delinquent taxes were to bear interest at the rate of 1 per cent a month from March 1 to August 1, after which the rate was to be 15 per cent per annum.

There were also other prescribed penalties to insure enforcement of the law. These many drastic provisions applying to both tax administrators and taxpayers helped to increase for a time the effectiveness of the law but were futile from the point of view of obtaining really successful compliance. A tax system based upon faulty principles cannot be successful regardless of penalties imposed for noncompliance.

The first year after approval of the law (1903) total assessed valuation of property in the state was $333 million. This was considerably less than the $460 million valuation under the 1901 law which had been declared unconstitutional but more than the valuation of $216 million in 1900. From 1903 to 1912 total assessed valuation tended to increase slowly. By 1908 they were $375 million and by 1912, $422 million. Thus after 12 years time, valuations were still below those of the year 1901, in spite of drastic provisions in the law and even though actual wealth in the state had rapidly increased during the period.

The 1902 law had provided for an annual meeting of county assessors to be held at the Capitol for the purpose of discussing common problems attendant to the obtaining of assessments based upon full cash value for all property in the state. Yet the assessors in their annual meeting of 1908, realizing that there were widespread violations relative to property assessments, actually and openly agreed among themselves to assess in the future all property in the state at one-third cash value instead of full cash value as provided by law.

Writing in 1910, Blakey stated:

"As has been the case everywhere else, the general property tax in Colorado has degenerated into a tax on realty. The taxes on all

> other forms of property combined (if railroads are classed with realty) are an almost insignificant part of the total and of the real proportion of their actual worth. . . Mining property is highly favored by statute as well as by the assessors; manufacturing property is almost exempt from assessment and as long as communities and states desire such industries as they have in the past, there is apt to be no vital change in this respect, either as to manufactures or mines; merchandise, on account of its nature, is very inadequately assessed and the assessments of many kins of intangible property is a farce."[1]

Other states were also encountering serious difficulties with their property tax systems. Many began adopting a more centralized tax administrative procedure in an effort to correct some of the evils. This centralized administration usually took the form of establishing a state tax commission possessing considerable authority and responsibility over directing the work of local assessors relative to assessment procedure and equalization of property valuations. The tax commission was also usually given responsibility for direct assessment of public utilities and railroad properties in the state.

The county assessors in Colorado observing this development in other states and realizing that guidance and supervision on the state level was needed if uniformity of property assessment was ever to prevail, began advocating the adoption of a law establishing a state tax commission for Colorado. They urged that the commission if set up should possess powers comparable to those assumed by the state board of tax assessors under the ill-fated 1901 law which has fallen before the courts.

Beginning about 1910, a general reform movement swept the whole country and left its imprint in many states. The reform was supported by many labor, farmer and civic groups. Among other things, governmental reorganization, tax reform and protective labor legislation, were sponsored. In Colorado the cause of the county assessors became part of the general reform movement and, as a consequence, the 1911 state legislature passed a law creating a state tax commission.[2]

Since 1911 Under the State Tax Commission

With the establishment of a tax commission, the general property tax in Colorado became revitalized. In some respects this represented the beginning of a new era in property taxation. For a period of about 20 years (until the depression of the 30's) property assessments were fairly equitable, various economic groups appear to have assumed more nearly their fair share of the total tax load,[3] and public revenue was

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1 Blakey, Roy G., Assessment of Property for Taxation in Colorado, 1910, Master's Theses, University of Colorado, p/84.

2 Bill was approved by the Governor, June 2, 1911.

3 One exception was the owners of intangible wealth. As most intangible property escaped assessment, these property owners paid very little, if any, state and local taxes.

usually sufficient to support necessary governmental functions.

During and since the depression the property tax has declined in relative importance and from some standpoints has become less equitable. However, the tax commission is still an extremely important agency in the whole tax program. In fact during recent years, as economic pressures have developed there has been more need than ever before for an aggressive commission possessing sufficient authority supported by adequate budgetary funds. Consequently, because of the vital role (actual or potential) of the tax commission, a brief discussion of its administrative record appears desirable.

The law of 1911 directed the governor and treasurer to appoint a tax commission composed of three members. Commissioners were to serve in office for six year terms and were eligible for reappointment. The annual salary of each fixed at $3,600.[1]

The powers and duties of the commission were (1) to supervise the work of county assessors, (2) to equalize assessments between the counties, and (3) to make original assessments of public utilities and other corporations having a continuity of business in two or more counties.

The first of these duties, that of supervision of local assessments, authorized the commission to exercise supervision over county assessors, county commissioners and all local tax officials, under penalty of forfeiture and removal from office, "to the end that all assessment of property, real, personal and mixed, be made relatively just and uniform and at its true and full cash value." It was charged with the duty of seeing that "all laws concerning the valuation and assessment of property and collection of taxes thereon are faithfully obeyed." The power to reassess individual properties was conferred in cases where, in the judgment of the commission, the property had not been assessed at its true and full cash value. In order to facilitate its work one or more members of the commission was required to visit at least one-half of the counties of the state annually, while every county was to be visited at least once every two years. Assessors could be summoned before the commission, and each year a meeting of all local assessors was to be held. The commission could prescribe forms and require reports from assessors.

Thus the powers and duties relative to supervision of local assessments as given to the tax commission appear to be very definite and extensive.

The second duty, that of equalization of assessments between counties, was limited by the constitutional provision that the state board of equalization should possess this function. There had been an attempt to abolish the board of equalization in 1912 but the proposed constitutional amendment had failed. Consequently, the legislature found it necessary to em-power the commission merely to make recommendations relative to equalization between counties -- the final decision to

1 Raised to $4,000 in 1943.

be made by the board of equalization. This dual control over equalization still exists and as will be explained later has frequently caused difficulty.

The third duty of the commission as embodied in law was to make original assessments of those properties formerly assessed by the state board of equalization. These properties included railroads, telegraph, telephone, and express companies, and sleeping-car and private-car lines. In addition the commission was empowered to make original assessments of all other public utilities. Other public utilities were defined as "such power companies, pipe-line companies, water companies and all other classes of companies, however owned or operated having a continuity of business in two or more counties of the state."

The tax commission was thus given the responsibility of determining the value of the utility as a whole and then of apportioning this value on an equitable basis among the counties served by the utility.

Several other duties were subsequently assigned to the commission by the legislature. Beginning in 1913 local tax authorities were required to obtain approval from the commission before they in turn could approve petitions for tax abatements, rebates and refunds. Also in 1913 the legislature placed upon the commission the responsibility of investigating and of approving or disapproving petitions of local taxing districts for permission to increase their tax levies beyond certain statutory limits.

Also the commission is required to prepare an annual report to be submitted to the governor, treasurer and legislature. This report contains extensive statistical material relating to property assessments and tax levies within the state.

Still another duty of the commission has been to recommend changes for the improvement of the tax system. This function was originally intended to be very important, however, too frequently in the past the commission has been forced to confine its limited time and energy relative to contacts with the legislature in fighting for its own appropriations rather than in sponsoring legislation to improve the tax system.

How successful has the commission been in fulfilling its primary duties? The newly created body was handicapped the first year because of delay in its appointment. Also, during the first year, very few changes were made in assessments because of the desire to place some limitation upon mill levies before drastically increasing valuations. Otherwise, it was feared the state and local units would find themselves with more revenue than they could economically spend.[1]

Accordingly, in 1913 the legislature amended the property tax law by limiting all tax-levying bodies, from the state government down to school districts, by providing that taxes for 1913 should not exceed those

1 First Annual Report, 1912, Colorado Tax Commission.

levied in 1912 by more than 15 per cent, while a maximum increase of 5 per cent over the preceding year was prescribed for each year subsequent to 1913.[1] This limitation upon governmental bodies is still operative throughout the state.[2]

By 1913 the commission decided that it should attempt to enforce the provisions of the law specifying that all assessments should be at full cash value. Consequently, rather drastic measures were taken which resulted in an increase of assessed valuation of all property in the state from $422,442,079 in 1912 to $1,306,647,430 in 1913 -- an increase of more than three fold.

It was only natural to expect that local authorities in many of the counties where assessments were forceably raised would register protests. During the first year assessments were increased by the commission in 58 counties and 24 of these protested before the board. The next year there was less opposition and it appeared as though the commission was soon going to obtain voluntary cooperation from all county assessors. However, in 1915, the authorities in Weld and Denver counties contending that they had been discriminated against, originated an initiated measure to abolish the tax commission -- the measure appearing on the November ballot.

Because of the issue which had been raised, the State Survey Committee representing the legislature, employed Professor R. M. Haig of Columbia University to make an investigation. During the summer Haig made a thorough study of conditions in the state including the work of the tax commission, and published a report in which the commission was completely exonerated. In fact, Haig's report was very complimentary relative to the board's accomplishments during its two years of existence in the face of many difficulties and much opposition.[3]

Relative to the issue, the election in November was close, the bill being defeated by a scant majority of 3,649 votes. However the tax commission now had a mandate from the people to continue to function. Nevertheless, since 1915 even though opposition subsided, the board has not entirely forgotten the time when it was forced to fight for its very existence -- it has never again been quite as energetic and aggressive in attempting to see that the assessment job is fully and adequately done among the counties of the state.

Members of the tax commission were given additional security in 1918 when they were placed under the protection of the new civil service system established by a constitutional amendment November, 1918. Since then members of the commission and their employees serve until they resign, or until they are removed for cause.

Another crisis occurred in 1929 when dissention developed among members of the tax commission. The chairman filed various charges

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1 Chapter 137, Session Laws of 1913.

2 Supplementary levies are permitted if approved by the tax commission or by a referendum vote of the people.

3 Report of Survey Committee of State Affairs on Work of Tax Commission, published in Fifth Annual Report, 1916, Colorado Tax Commission.

against Mr. Link, a member since the board's creation and requested his dismissal. After various delays, including several court actions and counter actions, Mr. Link was successfully ousted leaving a vacancy which was filled by appointing Mr. Tucker, who had long served as secretary of the commission.[1] Since 1929 apparently there has been harmony among members of the board.

Perhaps further understanding and appreciation of the work of the tax commission can best be obtained by referring to the discussion which immediately follows of several special property tax problems. With reference to most of these problems the role of the tax commission cannot be disregarded. In discussing the problems, conditions prevailing at the present time are stressed.

However, before continuing further, this word of warning is appropriate. When evaluating the work of the tax commission during its 35 years of existence since 1911, a number of factors must be taken into consideration. It had hardly begun to operate when its very life was threatened by proposed statutory changes and constitutional amendments. It has always operated on a budget insufficient to maintain an adequate staff of field workers. Also its authority over equalization of assessments among counties has been limited because of the fact that final decisions reside with the state board of equalization. Then too, its work has not been easy. Colorado has many divergent economic and sectional interests which are difficult to reconcile.

1 Eighteenth Annual Report, 1929

The Problem of Local Assessments

The Colorado constitution provides that in each county there shall be an assessor elected by the people for a two-year term of office. Furthermore, it stipulates that the general assembly shall prescribe the duties of the assessor as well as the amount of his salary or other compensation.[1]

1 Colorado Constitution, Article XIV, section 8. An exception is the city and county of Denver; here all county officers may be either elected or appointed, depending upon provisions of the city charter (Article XX, section 3)

In accordance with the constitutional provisions, the general assembly has provided legislation relating to the office of county assessor. The statutes require that the assessor be a qualified voter in the county in which he serves, he must be elected at the biennial general election, serving for two years or until his successor takes office, he must be bonded and must subscribe an oath for the faithful performance of his duties. The assessor may employ deputies and assistants -- the number of deputies depending upon the number of assessment districts set up by the county commissioners -- and he decides the amount of salary for these employees subject to approval by the county commissioner. Should a disagreement arise relative to the number of deputies and assistants or to their salaries, the assessor may appeal to the state tax commission which has final authority.[1]

For the purpose of fixing the amount of compensation for assessors, the legislature classified the counties into various groups according to size, population and amount of work to be done by the county officers. The salaries thus specified in law remained unchanged for year. As time passed these salaries, inadequate in most counties even at first, became continuously less satisfactory from the standpoint of attracting competent candidates for office. Finally in 1945 some slight correction was made by increasing the amount of compensation going to assessors in most of the counties. The present salary schedule is shown in Table 4. It may be seen that the range is from $4,600 in Denver to $1,000 in Hinsdale county -- the median salary being $2,400 per year.

Table 4

Salaries of County Assessors in Colorado as Fixed by the State Legislature in 1945[2]

County	Annual Salary of Assessor
Class I (Denver)	$4,600
Class II, Group A (Pueblo, Weld, El Paso)	3,300
Group B (Boulder, Larimer, Mesa, Las Animas, Arapahoe, Jefferson)	3,100
Class III, Group A (Otero, Adams, Fremont, Logan, Morgan)	2,600
Group B (Delta, Huerfano, La Plata, Montrose, Rio Grande, Prowers, Yuma, Conejos, Garfield, Routt, Alamosa)	2,400

1 Colorado Statutes Annotated, 1935, Chapter 45, subdivision 6.
2 Colorado Statutes Annotated, 1935, Cumulative Supplement, 1945, Chaper 66, section 58. Law approved April 2, 1945

County	Annual Salary of Assessor
Class IV, Group A (Montezuma, Bent, Washington, Chaffee, Costilla, Kit Carson, Lake, Teller, Baca, Gunnison)	$2,400
Group B (Saguache, Lincoln, Elbert, Crowley, Eagle, Sedgwick, Moffat, Phillips)	2,250
Class V. (Archuleta, Clear Creek, San Miguel, Grand, Douglas, Park, Cheyenne, Rio Blanco, Kiowa, Custer, Curay)	2,100
Class VI, Group A (Dolores, Pitkin, Jackson, Summit, Gilpin, San Juan)	1,800
Group B (Mineral)	1,300
Group C (Hinsdale)	1,000

These salaries are still inadequate. In some respects the office of county assessor is the most important office in the county or state. The assessor has been given the authority and responsibility of exercising his own judgment and discretion relative to valuations of property involving the payment of millions of dollars of taxes. For example in 1945, the 63 county assessors made original assessments of property appraised at more than one billion dollars. This represented about 83 per cent of the total assessed property in the state while property owners thus assessed were called upon to pay taxes of almost $39 million. More specifically, in a county such as Yuma paying the median salary of $2,400, the assessor is responsible for placing a valuation on some $10 million of property against which is placed a tax liability of more than $300,000. Private business would not likely place comparable responsibility upon the shoulders of a $2,400 employee.

It is established principle that sucessful administration of our system of property taxation primarily depends upon sound original assessments. Where these occur, methods of review are of secondary consideration. Where they do not occur, review and equalization, although of vital importance, cannot be expected to remove all inequities of assessments.

Relative to the work of the county assessor, we must pay for a good job if we want a good job done. The office must provide sufficient compensation to attract and retain competent and well trained men. According to the National Association of Assessing Officers:

> "An assessor must be well-informed in many fields. He should know something about the law of property and should have a working knowledge of tax law. He ought to know enough about surveying to be able to use a tax map and to describe property

> accurately. If he is to appraise improvements effectively, he needs to know something about architecture and structural engineering. He should be aware of the principles of real estate management and sales practices, if he is to value urban land. He should have knowledge of soils and farming methods, if he is to appraise rural land. He should know something about market conditions, commercial practices and economics. Finally, he should be expert in public relations and should be able to organize a variety of work effectively."[1]

During recent years political parties in many of the counties have encountered great difficulty in securing candidates to run for office of assessor. After election the new incumbent, often poorly prepared for his duties, soon finds alternative opportunities for employment which are much more attractive. Thus after a period of two years he is not likely to want a second or perhaps third term.

An exception is to be found in a number of counties where assessors have made the work a life career, the electors retaining them in office over a considerable number of years. Some of these experienced assessors, especially in a few of the larger counties, are doing a remarkably good job and are staying in office in spite of relatively low salaries.

Table 5 indicates the number of changes made in the assessor's office for the various counties during the last 30 years. It may be seen that at the top of the list are five counties (Alamosa, Boulder, Clear Creek, El Paso and Rio Blanco), each of which had but two individuals serving as assessor. On the other hadn, the other extreme is Costilla county which had nine different assessors. The median county changed assessors five times during the 30 year period. In other words, the average assessor s served a total of six years in office, having been elected to three two-year terms. This record appears to be better than that found in many states. However, in Colorado the record is far from enviable, particularly in more than one-third of the counties -- those changing assessors every two or four years.

Table 6 gives the number of years of service as county assessor of present incumbents. As the date taken (October 1, 1946) is just before a general election, all incumbents have served at least two years. However, there are 16 assessors who have served no more than two years. An additional nine have served only four years, while a total of 48 have been in office for 10 years or less. On the other hadn, it may be observed that six assessors have had 20 years or more of assessing experience.

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1 Assessment Organization and Personnel, National Association of Assessing Officers, 1941, p. 153.

Table 5

Number of Changes in the Office of County Assessor during the Thirty-Year Period, 1917-1946, by Counties

County	Number of Assessors
Alamosa, Boulder, Clear Creek, El Paso, Rio Blanco	2
Gilpin, Jackson, Lake, Logan, Mineral, Curay, Park, Rio Grande, Summit, Weld	3
Adams, Chaffee, Delta, Elbert, Grand, La Plata, Lincoln, Montezuma, Phillips, Pitkin, Saguache, San Juan, San Miguel, Yuma	4
Arapahoe, Baca, Bent, Cheyenne, Douglas, Gunnison, Hinsdale, Larimer, Las Animas, Mesa, Moffat, Prowers, Pueblo, Sedgwick, Washington	5
Custer, Denver, Dolores, Fremont, Garfield, Kiowa, Kit Carson, Morgan, Teller	6
Archuleta, Conejos, Crowley, Eagle, Huerfano, Montrose, Otero, Routt	7
Jefferson	8
Costilla	9
Median (63 counties)	5

Source: Annual Reports, Colorado Tax Commission

Table 6

Number of years of Service as County Assessor, Present Incumbents as of October 1, 1946

Service as County Assessor	Number of Assessors
2 years	16
4 years	9
6 years	8
8 years	8
10 years	7

Service as County Assessor	Number of Assessors
12 years	2
14 years	5
16 years	2
20 years	2
22 years	1
24 years	1
26 years	1
28 years	1
Total	63

Source: Annual Reports: Colorado Tax Commission

It does not necessarily follow that assessors staying in office for the longest periods of time make the best assessments. However, a continuous turnover of assessors and deputies every two or four years is definitely not conducive to competency and good performance in office.

This leads to the discussion of another problem relative to local assessors in Colorado. The elective term of two years is too short a period.[1] The victorious candidate scarely finds himself in office until he must begin worrying about the next election. At least two years are needed for an assessor to lear even the rudiments of his job -- during the second two years he may begin to be competent. If county assessors are to be elected, the term of office should be for a minimum of four years.

However, many tax authorities rather convincingly argue that local assessors should be appointed rather than elected. For example, when discussing the elective system Jenks points out;

> "The fundamental defect of our assessing system lies in the inefficiency of the local assessor. Dominated by the influence of his neighbors who elected him, swayed by prejudices or favoritism, he carelessly, or intentionally, omits from the

1 Nevertheless, two years is still the prevailing term in a large number of states. About 40 per cent of the primary assessment districts of the United States select their assessors for two-year terms, 30 per cent for four-year terms, 20 per cent for one-year terms, and the remaining 10 per cent for terms of three, five, six or an indefinite number of years. See Selection, Tenure and Compensation of Assessors, 1940, Nat'l. Ass'n. of Assessing Officers, Chicago

> tax list many persons and much property which should be listed; his valuations are not measured by the same standard and are not fair nor equitable as between persons assessed. At every point the system, if such it can be called, is more or less defective. In the first instance, the assessor is subjected to local pressure in the making of his valuations. He hopes to live at peace with his neighbors and, generally, desires to be reelected; and his method of assessment, as a consequence, follows the line of least resistance... as the years go by, the assessor continues in office and a local system of assessment is developed which is more or less satisfactory to the people who give the matter no attention, feeling that they are assessed on a minimum basis. The assessment thus made is copied from year to year and the injustices and inequalities thereon existent are perpetuated."[1]

Although such conditions among the various states have been well known for years and in spite of arguments brought forth in favor of the appointment of assessors, in some 40 odd states the people continue to elect their local assessors.[2] Is this merely because of inertia and perhaps stumbling blocks to be found in the state constitution? Is this merely because of inertia and perhaps stumbling blocks to be found in the state constitution? Undoubtedly these factors are important, but probably there are other reasons also. Let us briefly review the arguments for and against the elective system as contrasted with the appointive system for selecting assessors.

The claimed advantages of electing local assessors are several -- the arguments presented often taking various forms. As most proposals for the appointment of assessors provide for selection by an administrative body on the state level, some arguments are directed against this state centralization. For example, in the first place it is frequently pointed out that local government has the largest financial stake in property taxes. Thus, it is desirable that the responsibility for the administration of these taxes should rest with the governmental unit principally dependent upon the proceeds.

Second, it is claimed that a local assessor is apt to have a more thorough knowledge of conditions affecting the value of property in his jurisdiction. This greater familiarity with local conditions makes possible better assessments.

Third, is the argument that the convenience of taxpayers is apt to be better served by a local assessor, elected by the people; that taxpayers will find it easier to call at the assessor's office to discuss

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1 Jenks, Aldro, "Professionalization of Assessors", Bulletin of the National Tax Association, February 1944, p. 152.

2 In 1940 about 97 per cent of all town, village, borough, and township districts, 87 per cent of all county districts, and 33 per cent of all city districts throughout the country had systems under which assessors were elected. See Selection, Tenure and Compensation of Assessors, 1940, National Association of Assessing Officers.

factors affecting value which are essential policy matters.

Fourth, the local assessment unit, independent from a large state organization which it is alleged, is likely to be unwieldy, can act more quickly in adjusting assessments to rapidly changing values or in providing prompt relief if property has been erroneously valued. A corollary of this argument is that a state organization tends to become bureaucratic, arbitrary in making decisions, and less responsive to public needs, particularly when officials are appointed rather than elected to office.

Fifth, is the argument that appointed assessors are not necessarily removed from the influence of partisan politics -- that appointments may be in accordance with a spoils system rather than selection based upon competence; or, if appointments are made through examination under a merit or civil service system, there is no assurance that the most competent individuals will be selected. Moreover, regardless of possible inefficiency the assessor may be retained in office indefinitely.

Contrasted with these arguments are those put forth by the advocates of a system based upon the appointment of assessors. First, it is pointed out that although local governments may be the major beneficiaries of the property tax, there is no reason why they should suffer financially if assessors are to be appointed by a state body. On the contrary, in those states which have adopted a more unified assessment procedure, the experience has been that local communities, because of better assessments, have received increased proceeds from the property tax.

Second, in reply to the claim that a locally elected assessor is more likely to be familiar with the nature of property to be assessed in his county, it is argued that much of the property in a locality is highly specialized or is owned by utilities and other corporations doing business in more than one county. Consequently, assessments by a local assessor are often very difficult if not impossible. Furthermore, it is argued that if the specialized properties including utilities are assessed a unit by a state body while the remaining property is assessed by an elected county assessor (the arrangement in Colorado), there will not be equality of either procedure or results as between the two assessing bodies. Colorado's experience indicates that this claim is well founded. Local assessors argue that local property is bearing a tax burden disproportionately heavy as compared with that paid by the corporations assessed by the state tax commission. On the other hand, the commission argues that actual conditions are exactly opposite. Regardless of which group is correct in its analysis, if a unified system were in operation throughout the state, greater equality would be likely to prevail as between different types of property.

Third, taxpayers frequently exert undue unfluence upon an elected county assessor. During election years this influence is especially apt to interfere with the assessor's ability to make impartial and equal assessments, at least if he wishes to be retained in office. The principal inequity resulting from such taxpayers' pressure is that the

more influential people owning the largest properties are likely to be the ones most favored with low assessments. Thus, the property tax tends to become badly regressive. This argument against elected tax officials is ably presented in the quotation by Jenks included above.

Fourth, it is argued that although appointed tax officials may not always be selected from among the most competent individuals available, with proper safeguards, the chances of getting satisfactory assessors are better than if they are to be elected. This may partly be due to the fact that the greater security of tenure which usually comes with an appointive office is likely to attract individuals who are better fitted for office.

Fifth, it is pointed out by those who favor the appointment of assessors that many of the arguments put forth by opponents are extraneous if assessors are selected by local officials, for example, in a city and county like Denver by the city council, or perhaps in other counties by the county commissioners. It is further argued that although such a method would not be as satisfactory as a more unified state system, should fear of state centralization be an insurmountable obstacle to tax reform, a system of locally appointed tax officials would be superior to a system of locally elected ones.[1]

Because of the importance of the issue of local vs. state control relative to the property tax, we shall quote from Jens P. Jensen, perhaps the outstanding authority on property taxation in the United States.

Professor Jensen says;

> "It would hardly be possible to over-emphasize the prevailing characteristic of excessive decentralization in the assessment. The administration of the general property tax contrasts sharply with that of the income tax, and of other taxes except the poll tax and a few local license taxes. The assessment is essentially a function of determining values uniformly for the entire state. It ought to be a state function, the assessment officials ought to be as free from local pressure of taxpayers as are the administrators of the federal and state income taxes. That this is not the condition is chargeable chiefly to the fetish of home rule. Perhaps the home rule doctrine is, in certain phases, based upon a genuine desire for local self-government. But underlying the insistence upon local assessment is a feeling that the local assessor is not merely necessary in order to prevent differentially high local valuations but also useful for the purpose of obtaining differentially low local valuations. The mechanism of this competitive undervaluation could be removed by centralizing the assessment."[2]

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1 A good discussion of many of these arguments as well as additional ones may be found in an article by Dixwell L. Pierce entitled, "Advantages and Disadvantages of the County Assessor System," Proceedings of National Tax Association, 1941, pp. 276-86

2 Property Taxation in the United States, 1931, p. 359

The procedure to be followed relative to local assessment of property in this state is prescribed in detail in the Colorado statutes. This procedure by chronological steps is as follows:[3]

1. On or before March 1, the assessor shall mail to each non-resident owner of property in the county a tax schedule, setting forth a description of the real property assessed to him the previous year. These schedules, containing any necessary corrections because of changes in ownership, must be returned to the assessor before the first of May.

2. On March 1, or as soon thereafter as practicable, the assessor is required to deliver a form of tax schedule to every inhabitant of his county. If these forms are not filled out at the time of the assessor's visit, they are left with the property owner who is required under oath to set forth specifically upon the schedule all real and personal property owned by him. The property owner shall return the completed schedule before the first of May.

3. On the basis of property listed upon the tax schedule, the assessor shall determine a valuation for tax purposes. Such valuation is supposed to be according to full cash value of the property.

4. March 1 is the date for attachment of tax liens on all property subject to taxation in the state.

5. If property is brought into the state after March 1, the owner should at once file a schedule with the assessor of the county in which the property is located.

6. Before July 1, the assessor must notify all taxpayers whose property he has assessed at a valuation other than that given in the original schedule. If the taxpayers object to changes they must be given an opportunity for a hearing.

7. Between the third Monday in July and the twenty-eighth day of July, the county board of equalization (county commissioners) holds meetings for the purpose of reviewing any complaints from taxpayers who wish to appeal decisions of the assessor. The county board, in order to achieve greater equalization, has the power to change any assessments during this period.

8. On or before August 1, the assessor, having determined the value of each item on the various schedules (reflecting any changes which the county commissioners may have made) prepares in duplicate an abstract of his assessment

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3 Colorado Statutes Annotated, 1935, and Cumulative Supplement, 1945, Chapter 142.

roll. One copy, together with a sworn statement that the abstract complies with all provisions of the law, is forwarded to the state tax commission.

9. On or before the second Monday in September, the state tax commission meets and examines the abstracts of assessment rolls to determine whether property has been assessed at its full value, and makes its recommendations to the state board of equalization.

10. On the third Monday in September the state board of equalization meets and must complete its work before the fourth Monday in September. It examines the abstracts or assessment rolls as submitted by the state tax commission, and after making such changes as it is authorized and may wish to make, approval is given -- the assessments then becoming official.

11. On or before October 1, the assessor must certify to the clerk of each town within the county and to the county superintendent of schools the total value of assessable property in the towns and school districts respectively. Before October 16, the local officials in each town and school district must certify to the proper county authorities its mill levy to be applied for the taxable year.

12. As soon as practicable after the taxes are levied and not later than January 1, the county assessor is required to extend upon the assessment rolls the taxes levied by all taxing units and attach his warrant. The tax list and warrant is delivered to the county treasurer for collection, the warrant being a command to the treasurer to collect the said taxes.

It may be seen from this description of the local assessment procedure that the assessor's work is rather involved and requires a period of time extending over most of the year. Prior to 1943, the period elapsing between the first and last assessment steps was even longer, however, in that year, the legislature shortened the period by about two months.

One part of the assessment procedure, the most important phase of all, tends to break down in actual practice. According to law, property owners are held responsible (subject to heavy penalty for violation) for listing <u>all</u> of their property, both real and personal, upon the tax schedule. In other words, the law intends that there shall be self-assessment by the property-owner himself, that is, to the extent of listing all items -- the assessor is to place valuations upon them.

The county assessors, however, are unable to depend upon this cooperation from taxpayers. Penalties are not enforced against property owners who do not comply with provisions of the law, perhaps because violations are so prevalent. If the assessor or his deputy does not find the property owner at home, the tax form is left; if the schedule

is never filled out and returned, an assessment is made at the discretion of the assessor -- usually the same amount as for the preceding year.

Actually, whether the property owner is found at home or not, assessments vary but little from year to year. Probably because of difficulties involved, particularly due to limitations of time and staff, but sometimes also because of inertia or the desire not to antagonize property owners, assessment figures are usually merely copied from the tax roll of the previous year. Most county assessors find it impractical or inexpedient to make general reappraisals of property oftener than five, ten, or even twenty years.

Considering the general breakdown of this important phase of assessment, therefore, it is not surprising that a great deal of property in the state is never listed upon tax schedules; neither is it surprising that the property actually listed for any particular year is appraised for tax purposes at a figure having little relationship to true cash value.

Figures in Table 7 indicate the variation among Colorado counties relative to assessment of farm property. Assessed valuations are expressed as percentages of United States Census values for the year 1940. Although census valuations are not necessarily more accurate than the valuations for tax purposes, the procedure used by the Bureau of the Census in uniform among all counties. Therefore, the percentage figures shown in the table are considered significant.

The counties are listed in order according to relative assessment levels. It may be seen that the percentage range is from a high of 145 per cent in Kiowa county to a low of 26 per cent in Jackson county. Average for the state was 62 per cent. In other words, for the state as a whole, assessed valuation of farms amounted to a little less than two-thirds of the value placed upon farms by the Bureau of the Census. Assessors of five counties (top of list) showed valuations exceeding census figures, while assessors in 15 counties (at the bottom) showed valuations of less than half the corresponding ones made by the census.

Table 7

Assessed Valuation of Colorado Farms Compared with Census Value, by Counties, 1940[1]

Rank	County	United States Census Valuation	Assessed Valuation	Percentage
1	Kiowa	$ 2,486,112	$ 3,615,278	145.4
2	Kit Carson	4,725,782	5,601,605	118.5

Table 7 (continued)

Assessed Valuation of Colorado Farms Compared with Census Value, by Counties, 1940[1]

Rank	County	United States Census Valuation	Assessed Valuation	Percentage
3	Cheyenne	$ 3,064,399	$ 3,557,515	116.0
4	Las Animas	6,548,276	7,328,803	111.9
5	Crowley	2,894,440	3,008,930	103.9
6	Prowers	7,325,913	7,062,280	96.4
7	Lincoln	5,239,616	5,045,870	96.3
8	Pueblo	9,595,111	9,225,621	96.1
9	Dolores	910,323	834,050	91.6
10	San Miguel	1,175,426	1,004,740	85.4
11	Adams	14,887,770	12,573,050	84.4
12	Otero	9,283,763	7,814,745	84.1
13	Huerfano	2,916,172	2,366,605	81.1
14	Costilla	2,476,236	1,798,720	77.0
15	Elbert	7,259,915	5,587,416	76.9
16	Montezuma	4,588,459	3,399,366	74.0
17	Washington	8,256,087	5,962,015	72.2
18	Baca	5,581,722	4,026,525	72.1
19	Bent	5,998,247	4,273,484	71.2
20	Boulder	13,111,336	8,973,660	68.4
21	Archuleta	2,036,298	1,367,580	67.1
22	Jefferson	17,273,080	11,477,770	66.4
23	El Paso	9,171,284	5,943,160	64.8
24	Fremont	4,191,375	2,675,530	63.8
25	Larimer	21,471,249	13,719,270	63.8
26	Lake	240,145	151,270	62.9
27	Chaffee	2,189,010	1,348,585	61.6
28	Gilkin	255,190	155,087	60.7
29	Douglas	5,192,682	3,135,185	60.3
30	Pitkin	1,504,214	897,445	59.6
31	Moffat	4,379,613	2,577,390	58.8
32	Sedgwick	5,925,279	3,486,700	58.8
33	Alamosa	4,966,594	2,896,445	58.3
34	Custer	2,316,284	1,309,097	56.5
35	Arapahoe	11,531,906	6,406,265	55.5
36	Phillips	6,936,747	3,852,550	55.5
37	Garfield	7,321,369	4,062,480	55.4
38	Morgan	13,316,614	7,370,750	55.3
39	Park	3,884,895	2,139,565	55.0
40	Logan	15,723,422	8,555,245	54.4
41	Rio Blanco	4,372,562	2,317,995	53.0
42	Delta	8,067,956	4,265,855	52.8
43	Clear Creek	391,265	204,700	52.3
44	La Plata	5,620,699	2,869,700	51.0
45	Weld	55,635,320	28,261,430	50.7
46	Mesa	15,368,421	7,699,640	50.1
47	Montrose	7,471,814	3,650,926	48.8
48	Gunnison	4,724,600	2,290,665	48.4
49	Curay	1,485,287	719,255	48.4

Table 7 (continued)

Assessed Valuation of Colorado Farms Compared with Census Value, by Counties, 1940[1]

Rank	County	United States Census Valuation	Assessed Valuation	Percentage
50	Routt	$ 7,507,754	$ 3,555,180	47.3
51	Eagle	4,318,864	2,028,145	46.9
52	Conejos	7,775,581	3,624,610	46.6
53	Grand	3,323,716	1,542,970	46.4
54	Summit	721,407	320,505	44.4
55	Teller	1,280,617	542,815	42.3
56	Yuma	15,132,484	6,314,460	41.7
57	Saguache	6,844,203	2,795,784	40.8
58	Mineral	666,480	260,730	39.1
59	Rio Grande	11,318,964	3,962,240	35.0
60	Hinsdale	305,065	104,250	34.1
61	Jackson	5,171,866	1,345,650	26.0
62	Denver	--------	--------	--------
63	San Juan	--------	--------	--------
	State Total	$427,365,461	$265,840,478	62.2

1 Both valuations include agricultural and grazing lands, improvements, farm machinery and implements; neither includes the value of farm animals.

Source: Bureau of the Census, April, 1940; also, Annual Report, Colorado Tax Commission, 1940.

The question might appropriately be asked, is there any justification for farms in a county such as Rio Grande for example, to be assessed at 35 per cent of census value, for those in Alamosa at 58 per cent, those in Crowley at 100 per cent and those in Kiowa county at 145 per cent? These figures do not necessarily indicate that the farms in any county are assessed at more than full market value as required by law, but they do indicate a very inequitable condition throughout the state due to lack of equality of property assessments. Undoubtedly within many of the counties one would find as great inequality among farms of various property owners as apparently exists among the counties themselves.

In 1944 the state tax commission reported that it had completed a survey of approximately 35 cities and towns in which field men appraised 700 residences, using 1940 building costs as a basis. The properties were selected at random in the various cities and towns and when the valuations thus obtained were compared with the assessed valuations it was found that the assessments varied from as low as 10 per cent to as high as 90 per cent of the appraised value.[1] Thus it appears that urban

1 Annual Report 1944, Colorado Tax Commission, p. 4

real estate is probably assessed as unequally throughout the state as farm property.

However, the assessment of personal property is undoubtedly least satisfactory of all. This phase of assessment will be discussed in another section of our study dealing with personal property exemptions. It will be seen that in fully one-third of the counties the average assessment of personal household property is actually less than the $200 exemption permitted by law. Also it will be seen that the assessment ratio of such personal property is relatively seven or eight times as high in some counties as in others.

Currently (1946-47) the tax commission is conducting a survey throughout various counties of the state for the purpose of determining the extent to which local assessors are undervaluing real property. An attempt is being made not only to discover the extent of inequality of assessments within a county but also to determine the average inequalities prevailing among the counties. Actual real estate sales data as indicated in the county clerk's office are compared to assessed valuations placed upon these same properties by the county assessor. As the survey is not complete, the commission has not yet released data by named counties. However, figures were given to the writer for three counties which we shall call X, Y, and Z. There is reason to believe that conditions prevailing in these counties are fairly typical of those to be found in the other 60 counties of the state.

The data supplied by the commission are shown in Table 8. It may be seen that on the basis of property transactions between July 1, 1945 and July 1, 1946, the average level of assessed valuations was 27 per cent in County X, 32 per cent in County Y, and 35 per cent in County Z. On the basis of these figures as well as data being tabulated for other counties, the commission estimates that real property throughout the state is not being assessed by county assessors at a higher average level than 25 or 30 per cent of full cash value.

Another and perhaps even more significant part of Table 8 refers to the assessment ration of property classified as farm and urban, by counties. The figures for urban real estate include all transactions of real property made during the year in the largest city or town of the county.[1] Those for farm property include all transactions made throughout the county during the period. The table indicates that great inequality exists within the counties relative to the assessment of property. The same general pattern of inequality prevails in each of the three counties and for both farm and city property. For example, on the basis of the sample check, in County X, 3 per cent of the farms are assessed at more than 60 per cent of full value, 3 per cent on a 50 to 60 per cent basis, 21 per cent on a 40 to 50 per cent basis, 28 per cent on a 30 to 40 per cent basis, 28 per cent on a basis of 20 to 30

1 It should be pointed out that the commission's investigations are not confined to a study of these cities.

Table 8

Ratio of Assessed Value to Sales Value of Real Estate in Three Colorado Counties[1] (1946)

Average assessment ration (farm and city):
County X = 27.31% (206 transfers of property)
County Y = 31.99% (262 transfers of property)
County Z = 35.25% (57 transfers of property)

Real Estate by Kind	Ratio of assessment to sales value					
	Over 60%	50-60	40-50	30-40	20-30	Under 20%
	(Number of properties in each category expressed as percentage of total)					
County X						
Farm	3	3	21	28	28	17
Urban	4	4	12	20	33	27
County Y						
Farm	8	5	13	32	29	13
Urban	14	6	13	26	25	16
County Z						
Farm	8	11	8	34	31	8
Urban	-	--	--	--	--	--

1 Based upon transfers of real estate taken from records of county clerk's office and verified by revenue stamps from July 1, 1945 to July 1, 1946. Assessed values are for the year 1946.

Source: Figures were supplied by the State Tax Commission.

per cent and finally, 17 per cent of farms are assessed at less than 20 per cent of full value. The discrepancy in county X of urban property is even greater -- 4 per cent of city homes being assessed above 60 per cent of cash value and 27 per cent being assessed below 20 per cent of value. Counties Y, and Z show similar inequalities for both farm and urban property, although the assessment ratios average somewhat higher than in county X.

Such inequalities of assessment within a county are particularly bad because of the resulting inequity of tax load distribution as between particular property owners. For example, if two farms each having a cash value of $10,000 are assessed unequally -- the first being assessed at 60 per cent and the second at 20 per cent of cash value, the owner of the first farm would have a tax load three times as heavy as the owner of the second. Assuming the tax levy to be 40 mills, the taxes would be $240 and $80 respectively, or a discrepancy of $160. This degree of inequity (when two farms of equal value are involved) is bad enough, but when farms or city property having different true values

are compared with each other relative to assessments, the inequity often is well nigh intolerable, the reason being that large and valuable properties (whose owners have superior tax paying ability) tend to be the ones which are most underassessed. Thus the property tax in effect becomes grievously regressive.

The best correction for these inequalities as well as others described in this section is to see that good original assessments are made by county assessors. Although the state tax commission, through guidance of assessors and through equalization functions, can play a significant role in attempting to achieve this objective, it is also vital that competent local assessors and deputies be selected in the first place.

By way of conclusion it may be stated that a preponderance of evidence seems to indicate that local assessors should be appointed rather than elected. They should serve fairly long terms in office. If the state and local governments have a satisfactory merit system, the assessor should be placed under the system and retained in office until retirement or until removed for cause. In the absence of a good merit system, assessors might well be appointed by county commissioners for a term of not less than four years from a list of eligible applicants examined and approved by the state tax commission. The latter arrangement would perhaps remove many of the objections of those who fear complete centralization in a state body. Finally, regardless of the system of selection or retention in office, assessors should be paid adequate salaries -- compensation commensurate with their duties and responsibilities. There is every reason to believe the salary schedule operative in Colorado is still too low.

If these suggested changes were adopted in the state, there is no question but that local assessments would be appreciably improved, resulting in much greater equality and equity in taxation and at the same time bringing in additional revenue to state and local governments.

However, in order to avoid some inequalities which would still persist, it is desirable to maintain a system of supervision and equalization by a state administrative body. This phase of property taxation will be discussed in the next section.

State Supervision of Local Assessments

When the state tax commission was established in 1911 it was given rather extensive authority relative to the supervision of property tax assessment work undertaken by county assessors and boards of county commissioners.[1] In a state such as Colorado where local tax authorities are elected for two-year terms of office, where the normal turnover in office appears to be nearly one-third of the county as-

sessors at every election, where the local assessment function is divided among 63 county units containing diverse kinds of property, the task of accomplishing effective state supervision is particularly difficult yet at the same time vitally important. How well are the supervisory functions being accomplished by Colorado's state tax commission?

Tax Forms and Schedules

One supervisory function is the preparation of suitable forms for use in listing property on the tax schedule. The items included should be changed from time to time to include or emphasize new kinds of property, or to drop obsolete items no longer important. Because over the years there is a constant and often rapid change in the nature and variety of property, especially personal property, it is important that the tax form be constantly revised. If an item is not on the blank, demanding the assessor's attention, it is not likely to be listed at all, and the continuance of obsolete items on the list is expensive, as they crowd out more important items. In addition to the preparation of a general schedule to be used by most taxpayers, there should also be schedules made available for use by the specialized owners of property in business. Moreover, the various appropriate tax schedules should be standardized as much as possible for all counties in the state.

> Writing in 1930 Jensen stated: "Considerable confusion exists in the preparation of the tax schedules, the blanks on which the taxpayers are to enter their taxable property, and it cannot be doubted that the results are detrimental to the assessment....The statute creating the Colorado tax commission assigns the duty of preparing all necessary forms, but provides nothing as to when or how they shall be printed. From a comparison of tax schedules in use it would appear that no central authority has standardized the general schedule. Although the tax commission has exerted its influence toward making the schedules uniform, they are yet very diversified as to size, form, arrangement, items listed and affidavits or oaths required. It would appear that the general schedule blanks are designed to serve for all classes of taxpayers, whether individual, or corporations, banks or merchants, etc., with or without supplementary schedules. Not one of the blanks examined provides for the appraisal of exempt property....The list of items of taxable property is not uniform nor is the list uniformly arranged."[2]

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1 For enumeration of specific powers see previous section on early development of the property tax.

2 Jensen, Jens P., Survey of Colorado State Tax System, 1930, p. 87

Since the time when Jensen wrote, certain improvements have been made in the schedules relative to kinds of forms in use as well as standardization of personal property items included on the schedules. It has been suggested that the effectiveness of supervision by the tax commission could be further enhanced if the legislature were to provide, at state expense, for printing of all necessary tax forms so that the commission might then distribute such approved blanks to the 63 county assessors as may be required.

An Assessors' Manual

Tax commissions in a number of states have extended valuable assistance to local assessors by preparing assessors' and property appraisers' manuals. Such manuals when carefully and comprehensively prepared can give to the county assessor and his deputies a great deal of technical and theoretical information needed for assessing all like and similar property. The manual can serve as a guide for systematic and orderly procedure for making tax appraisals more uniform throughout the entire state.

In discussing the advantages of an assessors' manual, a local tax assessor in Wisconsin (a state whose tax commission has been unusually successful) points out:

> "The fundamental requirement of an assessment roll is that it distributes equitably the burden of taxes, and to do this the human equation must be eliminated as much as possible. For the individuality of the assessor and his varying judgment, there must be substituted a system of mechanical precision (the assessor's manual), and supplemented by individual judgment only when necessitated by unusual conditions."[1]

One of the most recently prepared property appraisal manuals was published by the Illinois tax commission in 1943. It contains forms, instructions, procedures and guides for the valuation of land, the estimation of reproduction cost of improvements, the determination of allowances for depreciation and obsolescence, and the establishment of the fair value of improved and unimproved properties for assessment purposes. The manual should prove to be very helpful in overcoming many inequalities of assessment which have long prevailed in that state.

Although the preparation of a good tax manual requires the assistance of specialists and technicians together with a certain amount of field work, the time and money expended in the effort, bear rich dividends in the form of more accurate and uniform assessments. Several years ago the Colorado tax commission distributed to the county assessors a manual containing helpful appraisal instructions. However, much of

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1 Herman, R. C., "Aid to Local Assessors From the Viewpoint of a Local Assessor," Proceedings of the National Tax Association, 1941, p. 76

the information is now out of date. Consequently, the commission might well consider the preparation of a new and comprehensive appraisal guide for use by the local assessors. Undoubtedly the commission would gladly undertake such a task if the necessary funds were to be supplied by the legislature.

Assessors' Schools

Another form of aid given by some state tax commissions to local assesssors is direct instruction provided in assessors' schools. The most common arrangement for these schools is to have a joint sponsorship by the tax commission and perhaps the state municipal league or the state university. The school usually is conducted annually and lasts for two or three days or sometimes for as long as one or two weeks.

The school is intended especially to train newly elected or appointed assessors and deputies regarding the technical phases of their duties, for which many, if not most have had no previous training. The older assessors also are benefitted from attending these schools by the exchange of views and experiences as well as by receiving up-to-date information relative to property appraisals, assessment procedures, etc.

It is to be hoped that in the future, an arrangement can be made in Colorado for conducting annual assessors' schools. Such arrangement is especially desirable as long as the people of the state, through elections, select assessors who usually possess no particular qualifications for the highly technical work which they are required to undertake-- the elections being conducted every two years.

Annual Meeting of Assessors and Commissioners' Visits to Assessors

Beginning in 1902 in the state, county assessors were required by law to meet at the Capitol the first Tuesday in August, to discuss and report matters in their counties concerning taxation. They were directed also to turn over to the state auditor their tax abstracts, showing the value placed by them on each class of property in their respective counties. Upon delivery of this abstract to the auditor, each assessor was to be paid the sum of $50 and railroad fare required in attending the meeting.

The newly appointed tax commission reported in 1912 that the annual meetings of assessors were not accomplishing the objectives as intended by law.[1] The commission pointed out that the legislature had intended for abstracts of assessment to be completed before the assessors' meeting so that valuations could be compared in order to facilitate a general discussion for the purpose of improving assessments the subsequent year. Apparently, however, assessors at the annual meetings were merely guessing as to what their abstracts would

1 First Annual Report, Colorado Tax Commission, pp. 15-16

ultimately show when finally completed some 30 days later. Moreover, because of the lack of direction, general discussions were not proving fruitful from the viewpoint of improving subsequent assessments.

Consequently, upon recommendation of the tax commission the legislature made changes in 1913. Each assessor was to complete his abstract of assessment and transmit one copy with oath of authenticity to the tax commission before the first of September.[1] The time of the assessors' meeting was to be at the call of the governor or tax commission and assessors were to be paid actual expenses incurred in attending meetings.[2]

Writing in 1916 with reference to assessors' meetings, Haig stated,

> "Four conferences have been held since (1913) and under the guidance of the commission they have developed into a very important part of the assessment machinery. The meetings are held during the winter, before the assessment work for the year is begun, and are excellent practical training schools for the newly elected officials. Committees are appointed to assist in crystalizing the judgment of the assessors on average values and assessment methods, and much information of value to the commission is thus presented. Papers are read by those assessors who have had unusual success in various parts of the work and discussion is freely indulged in.....The annual meeting has undoubtedly had a great influence in stimulating the interest of the assessors in the problems of taxation and every effort should be made to develop its usefulness still further."[3]

The time of holding the meetings was delayed in both 1917 and 1918 because funds were not appropriated soon enough by the legislature. In 1919 the appropriation bill was too late to permit a meeting at all. Likewise in the years 1930, 1934, and 1936 no annual meeting was held because of the lack of funds to pay expenses of the assessors. Since 1938 the legislature has habitually neglected (or refused) to make appropriations for the meetings which are actually required by law. Consequently, the sessions which have been held recently have been attended only by those assessors or deputies whose counties were willing to pay travel and other expenses.

Thus, during recent years an unfriendly legislature has interfered with the important work of the tax commission relative to the annual

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1 Later (1943) changed to August 1, Chapter 142, Colorado Statutes Annotated, 1935, Supplement, 1945.
2 Chapter 135, Session Laws, 1913.
3 Haig, R. M., The Work of the Colorado Tax Commission, published in Annual Report, 1916, Colorado Tax Commission, p. 50.

instruction of assessors, etc. by refusing to appropriate funds. Newly elected assessors are particularly in need of special instruction before they begin the complicated and technical task of making assessments. This instruction can most economically be given through an annual general conference.

In the future, the state should again assume its proper responsibility by adequately financing the annual meetings of assessors. Should it continue to shirk this responsibility, it becomes even more important than indicated in the previous section for the tax commission (with its limited funds) and perhaps the municipal league or the state university to cooperate in sponsoring an annual school or conference for the purpose of training and instructing county assessors.

It should be pointed out in this section of our study that during most years in the past the tax commission has conducted district meetings in various parts of the state at which time contacts have been possible between the commission and assessors.

Also, at least once every two years, in accordance with provisions of the law, members of the commission attempt to visit each assessor in his home county. However, sufficient time and funds have not always been available to permit making all of the prescribed visits. Furthermore, the visits made must of necessity be relatively short at each assessor's office. Consequently, not much more can be attempted in these calls than the development of an esprit de corps between the commission and assessor. If the assessor requires much assistance relative to various appraisal problems, the commission's field deputies must be sent out to extend this aid.

Field Deputies

A vital aspect of state supervision over local assessment as conducted by the tax commission is carried on through the services of field deputies or investigators. Under ideal conditions these deputies -- trained and well qualified appraisers of property in general as well as of various specialized kinds, assisted by competent auditors -- cannot only assist the commission relative to equalization functions but can also aid local assessors whenever such assistance is needed and requested.

In Colorado the commission has always been handicapped because of the lack of appropriations sufficient to employ enough field deputies. The first field work was provided for in 1915 when the legislature permitted the hiring of one investigator and one clerk, each to be paid an annual salary of $1200. The commission complained that the compensation was so inadequate, competent investigators could not be retained. It reported that, "It is absurd assessors of third-class counties, who work usually much less than the full year, and who have deputies,

should get double the salary of an investigator for the state commission."[1]

The response of the legislature in 1917 was to provide for two investigators at salaries of $1500 each. Thus, the situation was improved but little. However, the next year in spite of financial difficulties the commission was able to report,

> "During the year 1918 an investigator worked for three months with the assessor of Denver County on merchandise alone, and assisted in increasing the value of this item from $27,619,730 to $42,528,630.
>
> "The two investigators specialized on merchandise in most of the other counties, and helped the assessors to bring the total assessment from $55,139,900 to $79,846,131 in 1918.
>
> "An investigator was placed in Phillips county for about six weeks, and as the result of what was practically a re-assessment, the local values were increased from $6,449,746 in 1917 to $14,104,328 for 1918."[2]

An attack upon the commission in 1925 by several special groups of the state, who even tried to induce the legislature to abolish the commission, succeeded to the extent of inducing Governor Morley to veto that part of the commission's appropriation bill providing for a secretary and two field deputies. Confronted with this emergency the commission accepted financial aid during the next two years from 62 of the 63 counties of the state who voluntarily appropriated funds to pay the salaries of the secretary and deputies.[3] This action on the part of the counties is of special significance in that it was initiated by the county assessors' association--clearly indicating the attitude of county assessors toward the tax commission and its field deputies relative to assistance which had been obtained in the past and which was desired for the future.

During recent years the commission has regularly reported that its staff has been inadequate to permit accommodating all of the requests made for assistance by the county assessors. For example, in 1936 it was pointed out that,

> "At the present time, and for a number of years, we have attempted to comply with the law in assisting assessors to check valuations in their respective counties, make appraisals, and confer with county officials, with only two men available for this purpose. We believe that if we were allowed one additional investigator, thousands of dollars

1 Fifth Annual Report, 1916, Colorado Tax Commission, p. 16
2 Seventh Annual Report, 1918, pp. 4-5
3 This money was returned to the counties in 1927 by a legislature and governor more friendly toward the commission.

> in taxes on property now escaping taxation would be forthcoming, that a better equalization of assessments would result, and we would be in a position to comply with hundreds of requests received annually from county assessors for assistance in assessing property at a uniform basis.
>
> The commission is very much in need of an accountant whose duty it would be to examine annual reports and schedules filed by public utility corporations, in order to enable the commission to make intelligent assessments on these properties. When not engaged in this work this man would be available to all county assessors in assisting in the work of proper assessments on corporations and merchants. Our investigations show that thousands of dollars in valuation are escaping taxation on stocks of merchandise for the reason that the assessor is not qualified to properly examine inventories and financial statements, and in numerous cases inventories are not filed with the county assessor as required by law."[1]

In 1938 the commission reiterated its need for additional field workers asking for two additional investigators and an accountant or auditor. The 1939 legislature accommodated to the extent of providing for the employment of an accountant at a salary of $2100 per year. By this time the salary of the two investigators permitted in the budget had been increased to the level of $1800 annually -- an amount still far too low considering the highly specialized and technical services required.

In 1945 the commission was employing four full-time investigators and appraisers including one trained accountant, but a reduction that year of one-third in the biennial budget for maintenance seriously handicapped operations. Consequently, requests from county assessors for assistance far exceed the ability of the commission to comply. Moreover, there is great need throughout the state for a complete reappraisal of all real estate and improvements to the end that property be assessed more equitably and at a figure more nearly approaching full value. County assessors, acting independently, cannot effectively accomplish this reassessment. Consequently, the commission has several times but to no avail requested enough appropriations to make the reappraisals. Finally in 1945, it recommended an alternative procedure -- that the commission should merely supervise the reappraisal work which would be undertaken by each county assessor and his deputies, the expense being cared for through a special county mill levy in each case.[2] It still remains to be seen whether or not this suggestion will bear fruit.

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1 Twenty-fifth Annual Report, 1936, p. 9.
2 Thirty-fourth Annual Report, 1945, p. 4.

However, the writer believes that the supervisory tasks of the state tax commission including the field work of investigators, appraisers and accountants are sufficiently important to the people of the state as a whole to justify demanding that the legislature assume its proper responsibility by appropriating all necessary funds. Counties should not be expected to bear the expense. Moreover, unless forced to do so, the counties whose assessments are most out of line are the ones least likely to appropriate voluntarily the necessary funds for making reappraisals.

Review of Tax Rebates

Still another supervisory function exercised by the tax commission is the passing upon petitions from county commissioners requesting rebates and refunds for individual taxpayers. Previous to 1914, rebates of taxes were made by county commissioners, the power to reduce the amount any taxpayer needed to pay being entirely in the hands of the local authorities. The justification for making such reductions was in order to permit correction for assessment or tax levy errors such as double assessment and clerical mistakes.

However, the power residing in the county commissioners to rectify technical errors of assessment and levy gave opportunity to dissatisfied property owners to bring pressure upon the commissioners for tax reductions even though there would be no justifiable reason. Thus when the time came for paying taxes (long after the legal period for equalization functions) favored taxpayers might obtain assessment reductions regardless of the level of valuations previously fixed by the assessor. Such rebates often not only increased the inequality as between individual taxpayers, but undermined the morale of tax assessors who tended to become careless in the work of fixing valuations. Under this system of rebates, in the year 1911 $376,309 in taxes were rebated in the various counties.[1]

In order to curb the unlimited power possessed by county commissioners to grant alleged favors to taxpayers, the legislature amended the property tax law in 1913. The new amendment provided that "no abatement, rebate or refund of taxes shall be allowed by the county commissioners unless a hearing shall be had thereon and a notice of such hearing and an opportunity to be present being first given to the assessor and no abatement, rebate or refund of taxes shall be allowed by the board of county commissioners if the application is disapproved by the Colorado Tax Commission."[2]

Thus, since 1913 the tax commission receives all petitions for tax rebates and must give approval before the refund can be granted

1 Annual Report, 1914, State Tax Commission, p. 8.
2 Chapter 134, section 5, Session Laws of 1913.

by the county commissioners. During the first year after the new arrangement went into operation, the commission approved rebates amounting to about $80,000 -- compared with $376,309 of rebates granted in 1911 under the old system.

The record of rebates approved by the tax commission by five-year periods since 1914 is given in Table 9. It may be seen that the trend was upward in number of petitions granted until the period 1930-34; since then the trend has been down. Relative to the total amount of taxes involved in the petitions, there was a trend upward until the period 1925-29; since then there has been no apparent trend in either direction. The annual average for the 31 years has been 1,485 petitions approved amounting to $171,209 of rebated taxes.

Most petitions requested by county commissioners in the various counties have always been granted by the tax commission -- some of them perhaps not being justified. However, the present arrangement in undoubtedly a great improvement over the old system. The provision for greater publicity, a hearing and the need for approval by the tax com-

Table 9

Petitions for Abatement, Rebate and Refund of Taxes Granted by the State Tax Commission by Five-Year Periods, 1915 to 1945 Inclusive

	Petitions Approved	
Period	Number	Amount
1915-19	6,607	$ 563,310
1920-24	6,501	684,422
1925-29	10,933	1,052,593
1930-34	15,331	776,522
1935-39	4,487	946,294
1940-44	1,976	1,261,153
1945	223	22,910
Total	46,058	$5,307,495
Average Annual	1,485	171,209

Source: Annual Reports, State Tax Commission

mission are strong deterrents upon the county commissioners when they may be tempted to grant undeserved favors to property owners relative to tax rebates. Furthermore, the power to pass upon petitions is considered by the commission to be essential to preserve the fruits of equalization. Without it a disgruntled local board might rebate the entire increase placed upon their county by the tax commission and state board of equalization.

The Problem of Equalization

Equalization is a necessary function relative to property assessments because experience indicates that original assessments are frequently defective. Moreover, a principal purpose of the function is to insure a uniform assessment ratio, at least within given categories of property to be taxed throughout the equalization district -- usually the county or state. Effective equalization includes the power to initiate changes in assessments -- either raising or lowering, the power to require listing of omitted property in the interest of the public treasury and of taxpayers generally, and finally, the power to act as a board of appeals to settle disputes between taxpayers and the assessors or lower boards of review.

As the property tax evolved during the Nineteenth Century, most American states developed systems of equalization on both the local and state levels. Colorado's constitution, adopted in 1876, as previously discussed, provided for county and state equalization.

County Equalization

In Colorado, as in most other states, equalization begins on the county level -- the county commissioners acting in the capacity of an equalization board. However, in actual practice these county boards in most instances confine their efforts to the hearing of appeals made by taxpayers who consider their assessments to be too high as fixed by county assessors. Consequently, the "equalization" made on the county level is in the form of reducing assessments of those complainants who appear to have valid claims. Almost never are assessments raised on any particular property or class of property.

The function of serving as a tax appeals body is an important one and perhaps this work is all that should be expected from the county board. Being an ex officio body, not especially experienced in tax administration, it is not well qualified to pass upon assessments in general as made by the tax assessor. Moreover, the board's equalization work is definitely handicapped by a lack of time, as all hearings and decisions rendered must be made each tax year between the third Monday and the twenty-eighth day in July.

State Equalization

The shortcomings of equalization on the county level have increased the need for effective state equalization. However, because of defective legislation and crippling court decisions, practically no state equalization was possible until the Tax Commission Act of 1911. Even then it was not clear as to the extent of authority over equalization possessed by the county commissioners, the state tax commission and the state board of equalization. Consequently, a proposed constitutional amendment to clarify the lines of authority was submitted by the legislature to the people in the November election of 1912. The proposal if adopted would have abolished the

board of equalization by centralizing all ultimate authority in the state tax commission. However, the proposal failed to carry in the election.

Through cooperative action by the tax commission and state board of equalization, assessments were raised in many counties during both 1913 and 1914 -- the changes being sanctioned by the court. The equalization was declared constitutional because the courts ruled that increased assessments had really been made by the tax commission when it determined the changes necessary in the valuation of each county to secure assessment at full cash value.[1] Thus, the court interpreted the action of the commission as part of the assessment procedure rather than an equalization function. The argument presented in the case was to the effect that the board of equalization still possessed the sole authority of making equalizations but that the constitution limited this authority by denying it the power to raise aggregate assessments for the state as a whole.

Thus, the Pitcher case of 1913, in effect, appeared to give sufficient power to the tax commission to make equalizations. However, there were those who feared this authority would be inadequate should a disagreement arise with the state board of equalization. Consequently, another constitutional amendment was attempted in 1914. This time the proposal did not provide for abolishing the state board of equalization; on the contrary, the board's power would be strengthened.

In the November general election the amendment was adopted by the people, thus becoming part of the constitution. Its provisions are as follows:

> "There shall be a Board of Equalization for the State, consisting of the Governor, State Auditor, State Treasurer, Secretary of State, and Attorney General. The duty of the said Board of Equalization shall be to adjust, equalize, raise or lower the valuation of real and personal property of the several counties of the State, and the valuation of any item or items of the various classess of such property.
>
> "There shall be in each county of this State a County Board of Equalization, consisting of the Board of County Commissioners of said County. The duty of the County Board of Equalization shall be to adjust, equalize, raise or lower the valuation of real and personal property within their respective counties, subject to revision, change and amendment by the State Board of Equalization. The State Board of Equalization and the County Board of Equalization shall equalize to the end that all taxable property in the State shall be assessed at its full cash value and also perform such other duties as may be prescribed by law; provided, however, that the State Board of Equalization shall have no power of original assessment."[2]

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1 Colorado Tax Commission vs. Pitcher, 56 Colo. 343 (1913)
2 Article X, section 15, Colorado Constitution

This amendment of 1914 was probably intended to bestow unlimited ultimate equalization power upon the state board of equalization. However, because of the provision that the board shll have no power of original assessment, the courts have ruled that it cannot examine the valuation of an individual taxpayer's property, but must confine its attention to the equalization of valuations among aggregates and general classes of property.[1]

The practical effect of the decisions by the court has been to limit the power of the state board by increasing the power of the tax commission. Thus, today the tax commission appears to possess the primary authority over equalization, being directed by law to make its recommendations to the board of equalization, which in turn must certify all assessments before they are official. Moreover, relative to this certification of assessments, should the board wish to make changes, such modifications must be confined to broad categories of property.

However, enven though the tax commission appears to possess superior equalization power, the ex officio state board has retained sufficient authority to make of Colorado's equalization procedure a dual system of control. How effective is this dual control? In other words, how successfully have the two bodies achieved the objective of maintaining uniform assessments throughout the state upon a 100 per cent valuation basis? Before directly answering this question, let us examine the individual record of the state board of equalization.

State Board of Equalization

Table 10 shows changes in assessments made by the state board during the 34 year period since the tax commission was established. It may be seen that in 10 separate years no changes whatsoever were made in the assessed valuations as recommended by the tax commission. For the 24 years when changes were ordered, 18 resulted in net reductions while six resulted in net increases of total assessed valuation of property in the state. During the entire period reductions exceeded increases to the extent of more than $200 million.

Let us examine somewhat more closely the particular decreases and increases ordered by the board. Until the year 1931 all changes were in the form of net reductions except for the year 1923 when there was a slight net increase. During this period (1912-1930) almost all of the reductions benefitted railroads and utilities. Reporting in 1926 the state tax commission stated:

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1 Board of County Commissioners vs. Union Pacific RR. Co. 89 Colo. 110; McGinnis vs. Denver Land Co., 90 Colo. 72

> "It is interesting to note that, in fourteen years, the board has lowered this commission's valuations on public utilities, railroads, and other like corporations, approximately $30,667,810. This translated into taxes, means a loss to the state, counties, municipalities and school districts of nearly $1,000,000. In all that time not a single increase in valuations has been made or ordered. And, with one exception, all its reductions have been given to corporate property. In other words, its equalization has been 100 per cent downward and confined to corporations."[1]

Beginning with the drastic reduction ordered by the board of equalization in 1931 and continuing through 1933 with total net reductions amounting to approximately $250 million for the three-year period, principal benefits were extended to agriculture. Due to rulings by the board, about 30 per cent horizontal reductions occurred in the value of agricultural lands and improvements while from five to ten per cent horizontal reductions were made in the value of city residential property and automobiles.

During the unprecedented period from 1935 to 1939 when the board of equalization made increases in five of the years, totaling almost $88 million, the additional assessments were placed upon railroads and utilities. This action represented a complete reversal of the attitude of the state board toward these corporations during the previous two decades.

What conclusions may be reached relative to the 34 year period of "equalization" of assessments by the state board? The evidence indicates rather strongly that the board is more likely than the tax commission to be influenced by partisan considerations. Judging from the record the board is apt to decide that the expedient course is no action (10 of the years), or else to order assessment reductions (18 of the years). The assessment reductions in most cases appear to represent favoritism shown special economic groups after these groups have exerted considerable pressure. During the time from 1915 to 1930 those favored with reductions were the railroads and utilities; from 1931 to 1933 the favored ones were farmers. Only during the six-year period from 1934 to 1939 (administrations of Edwin C. Johnson, Teller Ammons and the first year of Ralph L. Carr) has the board been able to resist the political expediency of either doing nothing or else of making tax reductions. Therefore, it may be concluded that in Colorado as elsewhere an ex officio board composed of elected officials is too likely to be swayed by political

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1 Fifteenth Annual Report, Colorado Tax Commission, p. 8. There appears to be an error in this quoted statement. Although the general conclusion is valid, the board of equalization did make some small increases during the years from 1917 to 1923 inclusive -- the change in 1923 resulting in a small net increase (Table 10).

Table 10

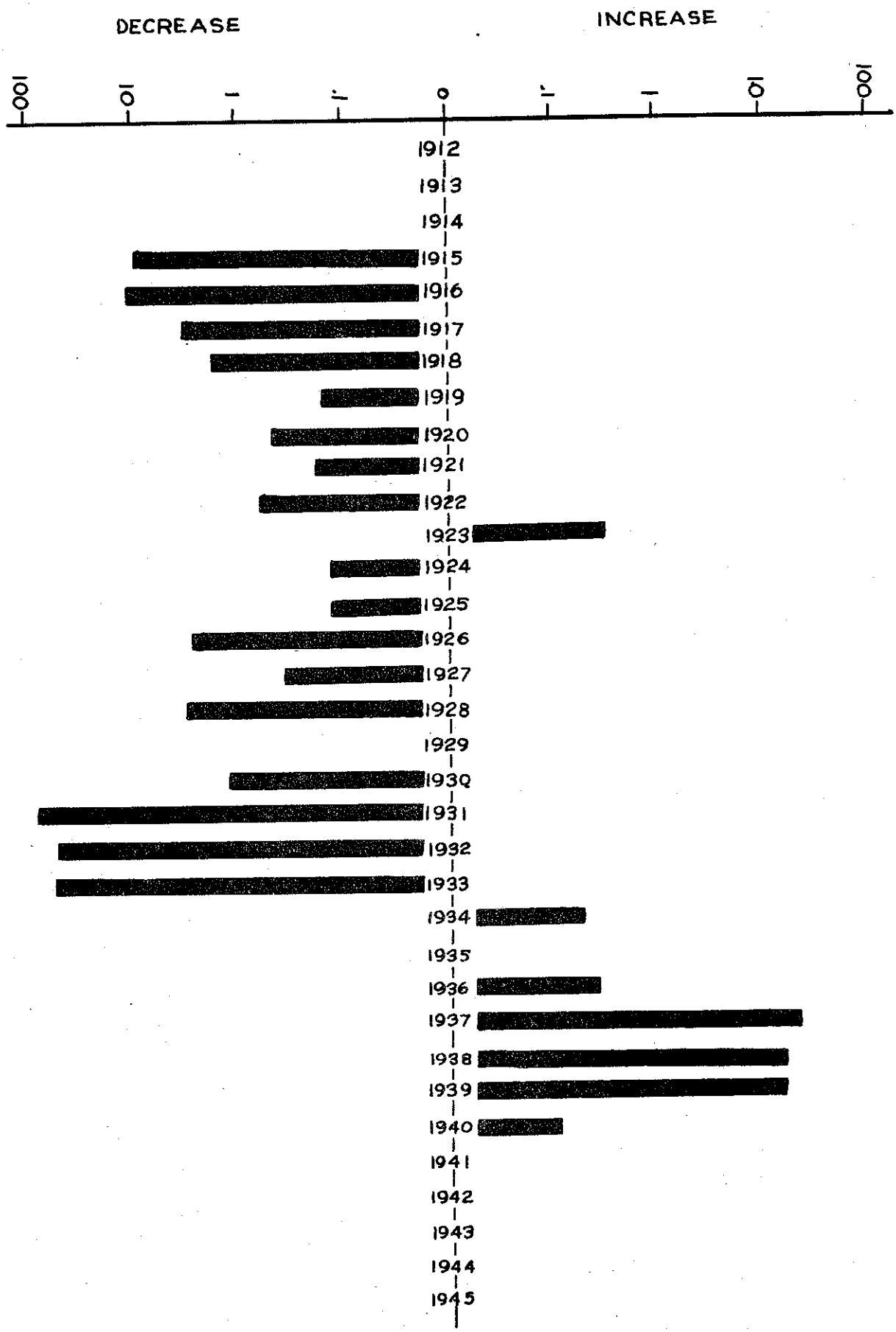
Changes in Assessed Valuations made by the State Board of Equalization

(1912 to 1945 inclusive)

Year	Increase	Decrease	Net Change
1912	$	$	$ . . . . .
1913	. . . . .	. . . . .	. . . . .
1914	. . . . .	. . . . .	. . . . .
1915	. . . . .	9,819,366	-9,819,366
1916	. . . . .	12,039,529	-12,039,529
1917	. . . . .	6,117,160	- 6,117,160
1918	. . . . .	3,364,779	- 3,364,779
1919	508,380	708,960	- -200,580
1920	254,190	954,590	- -700,400
1921	208,280	527,330	-319,050
1922	196,840	1,055,900	-859,060
1923	653,049	112,600	540,449
1924	. . . . .	171,160	-171,160
1925	. . . . .	178,610	-178,610
1926	. . . . .	4,459,276	- 4,459,276
1927	3,087,560	3,717,900	-630,340
1928	. . . . .	5,061,567	- 5,061,567
1929	. . . . .	. . . . .	. . . . .
1930	. . . . .	1,964,260	- 1,964,260
1931	. . . . .	95,453,332	-95,453,332
1932	. . . . .	74,875,000[1]	-74,875,000
1933	. . . . .	79,671,110	-79,671,110
1934	3,764,140	. . . . .	3,764,140
1935	. . . . .	. . . . .	. . . . .
1936	4,745,160	. . . . .	4,745,160
1937	33,637,513	. . . . .	33,637,513
1938	23,679,819	. . . . .	23,679,819
1939	22,148,247	. . . . .	22,148,247
1940	. . . . .	119,620	-119,620
1941	. . . . .	. . . . .	. . . . .
1942	. . . . .	. . . . .	. . . . .
1943	. . . . .	. . . . .	. . . . .
1944	. . . . .	. . . . .	. . . . .
1945	. . . . .	. . . . .	. . . . .
Total	$92,883,178	$300,372,049	-$207,488,871

1 Estimated from approximate figures given in 1943 Report, Colorado Tax Commission, p. 3.

Source: Various Reports of Colorado Tax Commission



CHANGES IN ASSESSED VALUATION MADE BY THE STATE BOARD OF EQUALIZATION 1912 - 1946

expediency and the pressure of special groups rather than the larger interests of the state as a whole.

Moreover, the state board of equalization is inefficient and ill adapted to the function of equalization. In the words of Jensen:

> "The board is ex officio, and it is not to be presumed that the members, elected for other purposes, have any fitness for the work of equalization, which involves considerable technical skill and knowledge. The change in personnel must be frequent, so that little skill and experience can be accumulated from one year to another. The board sits for less than two weeks, and unless it has a permanent staff to accumulate and organize information, it can have little or no basis of fact for its work. Having little or at least an inadequate factual basis for its rulings, it becomes the easy victim, even if it is not so inclined, to aggressive groups making extravagant claims of excessive or inadequate assessments, on the property of themselves or others, respectively."[1]

Another disadvantage of having a board of equalization in addition to a tax commission is that the dual control contributes to waste in time and effort of the assessment agencies. Several weeks longer is required for the completion of all steps in assessment before collection of the tax can begin. This delay contributes to the problem of collection as there is greater chance that the taxpayer or the property or both will have disappeared from the county or even the state. Moreover, wasted effort occurs because of duplication of work as between the board and commission. Each administrative body attempts to have at its command all necessary data for making decisions. Frequently the same individuals must twice present identical facts -- once before the commission and again before the board.

But perhaps one of the principal drawbacks of a dual control of equalization is that neither body can assume full responsibility. This divided jurisdiction makes it easy for each group to blame the other for errors of omission or commission. All the while both suffer because of the loss of confidence and respect from the public.

Years ago all other states except Missouri and Colorado got rid of the dual control over equalization exercised by an appointed tax commission and an ex officio board of equalization. These two states have apparently continued to retain their inefficient and generally unsatisfactory system because of inflexibilities in the state constitution. The people of Colorado should amend their constitution, placing all ultimate powers of equalization in the tax commission and abolishing the state board of equalization.

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1 Jensen, Jens P., Colorado State Tax System, 1930, p. 92

Equalization by the Tax Commission

Let us now turn our attention more directly to the role of the state tax commission relative to equalization functions. It is well to keep in mind the fact that the legislature has endowed the commission with specific responsibility for maintaining assessments throughout the state at full cash value. Chapter 142, section 157 of Colorado Statutes specifies, in part:

> "It shall be the duty of the commission, and it shall have and exercise power and authority:
>
> "First -- To have general supervision over the administration of and to enforce all laws for assessment, levying and collection of taxes.....to the end that all assessment of property real, personal, and mixed, be made relatively just and uniform and at its true and full cash value.....
>
> "Sixth -- Whenever in the judgment of the tax commission, property in any county or municipal subdivision thereof has not been assessed at its true and full cash value the commission may make a reappraisement of the property therein, to the end that all classes of property in such taxing district shall be assessed in compliance with the law....
>
> "Seventh -- The commission may raise or lower the assessed value of any real or personal property, first giving notice to the owner or owners thereof.....[1]

Thus, it may be seen that the legislature in establishing the tax commission intended for it to exercise full supervision over the assessment of all property to the end that it be assessed at full cash value. The courts have generally protected this authority possessed by the commission.[2]

In a practical sense the above enumerated power in the tax commission is an equalization power. Whether or not the state board of equalization approves all assessments as turned in by county assessors and recommended by the tax commission, it is the duty of the commission to see that all assessments submitted for approval are just, equal and at full cash value. If such is not the case, the commission is not fulfilling its duties as specified by law.

We shall now briefly examine the general results of the supervision and equalization functions as exercised by the commission. Relative to this examination it is well to keep in mind the fact that since 1940 the

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1 Colorado Statutes Annotated, 1935, Chapter 142, section 157

2 Denver vs. Pitcher, 54 Colorado 203; Goldsmith vs. Standard Chem. Co., 23 F. (2nd) 313

commission has apparently had no interference from the state board of equalization -- all assessment recommendations having been approved as submitted.[1]

Table 11 gives the total assessed valuation of all property in the state for each year since the tax commission was established in 1912. It may be seen that the new commission increased valuations from $422 million in 1912 to $1,306 million in 1913. This action was taken in order to place the property of the state upon a full valuation basis as prior valuations had been admittedly upon a basis of one-third full value.

Table 11

Total Assessed Valuation of all Property in Colorado, by Years, 1912-1946 Inclusive

Year	Valuation	Year	Valuation
1912	$ 422,442,079*	1930	$1,586,462,903
1913	1,306,647,430	1931	1,438,448,065
1914	1,309,559,205	1932	1,280,563,890
1915	1,249,199,210	1933	1,099,603,890
1916	1,211,697,278	1934	1,099,332,563
1917	1,305,286,409	1935	1,088,350,535
1918	1,422,113,275	1936	1,103,563,605
1919	1,495,044,025	1937	1,110,851,795
1920	1,590,267,667	1938	1,102,040,724
1921	1,578,256,499	1939	1,114,278,215
1922	1,548,617,879	1940	1,112,976,403
1923	1,543,211,892	1941	1,127,180,803
1924	1,538,096,720	1942	1,161,901,207
1925	1,540,732,487	1943	1,192,220,800
1926	1,546,830,046	1944	1,211,700,805
1927	1,565,290,666	1945	1,218,818,355
1928	1,577,560,380	1946	1,259,701,414
1929	1,586,919,769		

*Assessment on the basis of one-third full value

Source: Annual Reports, Colorado Tax Commission

Subsequent to 1913 the trend in valuations was slightly upward until 1929 when the figure reached $1,587 million. After 1929 total assessments declined until 1935, by which time they had dropped to a low of $1,088 million. Since then the trend has again reversed itself. However, during

1 See Table 10

the last 10 year period since 1935 the increases from year to year have been slight. By 1946 total assessed valuation of property in the state amounted to about $1,259 million. Thus, after 33 years time, total assessments were actually more than $47 million less than at the beginning of the period in 1913. This represented a decline in assessments of 3.6 per cent. If current assessments (1946) are compared with those in the year 1929, the reduction has been $327 million, or 20.6 per cent!

It should be pointed out that a partial explanation of the relatively low total valuations since 1936 is that intangible wealth and motor vehicles have no longer been included under the general property tax. However, this is only a partial explanation in that all intangible wealth included on the assessment rolls for the year 1935 amounted to less than $43 million while the assessed valuation of motor vehicles accounted for an estimated $20 million more. Both combined ($63 million) is only 19 per cent of the reduction in assessments since 1929. Moreover, if the $63 million were added to the present total for the state (1946), assessed valuation would still be about the same as for the year 1913!

Considerable evidence can be presented to show that the level of actual wealth in the state has not been stationary or declining but on the contrary has been expanding during the last 33 years. Table 12 shows that the state's population increased from 799,024 individuals in 1910 to 1,123,269 in 1940. This represented a 40 per cent increase for the 30 years -- a period of time approximately coinciding with that under consideration (1913-1946).

Table 12

Colorado Population by Census Periods,
(1910 to 1940 inclusive)

Year	Total Population	Increase over the Preceding Census	
		Number	Per Cent
1910	799,024	....	.....
1920	939,629	140,605	17.6
1930	1,035,791	96,162	10.2
1940	1,123,269	87,478	8.4
Increase for 30-year period		324,245	40.5

Source: Bureau of the Census

ASSESSED VALUATION OF ALL PROPERTY IN COLORADO
BILLIONS OF DOLLARS
1.6
1.5
1.4
1.3
1.2
1.1
1.0
.9
.8
.7
.6
.5
.4
.3
.2
.1
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1914
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1945
1946

It is reasonable to assume that a 40 per cent growth of population in Colorado -- an economically underdeveloped state in the Rocky Mountain region -- would signify an important increase in total property values.

Moreover, as shown in Table 13, the value of manufactured goods produced in the state increased from $136 million in 1914 to $221 million in 1939 -- a 62 per cent gain. If figures were available for 1946 they would indicate an even greater growth of manufacturing for the entire period. The value of mineral products increased from $54 million in 1913 to $79 million in 1944 -- a 47 per cent increase. Harvested agricultural crops for the state increased from a value of $50 million in 1910 to $62 million in 1940 -- an increase of 23 per cent for the 30 year period. If values are combined for the three classes of products the increase for the years indicated in the table was 50 per cent.

Table 13

Value of Output, Three Leading Industries in Colorado for Selected Years[1]

Product	Value of Output		Per Cent Increase
	1914	1939	
Manufactured Goods	$136,839,321	$221,642,666	62
	1913	1944	
Mineral Products	54,294,281	79,598,000	47
	1910	1940	
Agricultural Crops Harvested[2]	50,651,452	62,210,908	23
Total Three Industries	$241,785,054	$363,451,574	50

1 The years selected were those nearest to 1913 and 1946 for which figures are available

2 Does not include the value of livestock and livestock products

Source: Bureau of the Census

Another evidence of expansion of wealth and income in the state is the growth of deposits in Colorado banks. Comparable figures are not available for the years before 1916; however, for the period since then, by five-year intervals, they are shown in Table 14. It may be seen that total deposits increased from $228 million in 1916 to $415 million by 1941 -- an increase of 82 per cent for the 25 year period. If 1943

is considered, the increase was 215.6 per cent. However, because the year 1943 was in a war period of credit expansion, the figure for deposits in 1941 is perhaps more truly indicative of the long term trend.

Table 14

Total Deposits in Colorado Banks
by Five-Year Periods since 1916

Year	Total Deposits	Per Cent Increase Over Previous Period
1916	$228,154,528	. . .
1921	270,207,824	18.4
1926	321,696,881	19.0
1931	259,134,580	-19.4
1936	337,350,933	30.1
1941	415,238,458	23.0
1943	720,102,005	73.4
Per cent increase for period 1916-41		82.0
Per cent increase for period 1916-43		215.6

Source: Colorado Year Book, 1943-44, p. 186

Perhaps one additional evidence of the growth of wealth and income in the state will be sufficient. Although figures are not available giving the total income for Colorado, there is evidence that the income has increased roughly in proportion to the growth of national income. For example, income payments to individuals in Colorado compared with those for the country as a whole for selected years since 1929 (Table 15) indicate a close relationship between the two. In 1929 payments to Colorado residents represented

Table 15

Income Payments to Individuals
United States and Colorado for Selected Years
(Dollars expressed in millions)

Year	United States	Colorado	Colorado As Percentage of U.S.
1929	$ 82,617	$ 634	.77
1933	46,273	359	.78
1939	70,601	564	.80
1941	92,269	695	.75
1943	138,101	1,104	.80

Source: Bureau of Foreign and Domestic Commerce, Department of Commerce.

.77 per cent of total payments for the United States; during the subsequent years of 1933, 1939, 1941, and 1943 the ratios were .78, .80, .75 and .80 per cent respectively. Thus, there appears to be a very stable relationship between changes in national and state income -- at least for the years indicated. To the extent that deviations occured for the period between 1929 and 1943, the tendency was for Colorado to receive relatively more of the total national income payments. Thus we may conclude that increases in national income have been reflected in similar or even greater increases in income in Colorado.

Table 16 shows the growth of national income for selected years since 1913. The table indicates that national income being at a level of about $35 billion in 1913, rose to $69 billion by 1920, was approximately the same in 1930, declined during the depression being $55 billion in 1935, rose to $77 billion by 1940, and has increased sharply since rising to a level of $160 billion in 1944. During the period from 1913 to 1940 the national income more than doubled and by 1944 the increase was over four fold. Assuming that the high income of the war years can not be maintained, but that average prices and total income may drop back approximately to the 1940 level, there would still be a total annual income exceeding that in 1913 by more than 100 per cent.

Table 16

National Income in the United States
for Selected Years, 1913 to 1944 Inclusive
(millions of dollars)

Year	National Income	Year	National Income
1913	$35,580	1940	$77,574
1915	36,109	1941	96,857
1920	69,226	1942	121,568
1925	73,630	1943	147,927
1930	68,858	1944	160,653
1935	55,719		

Sources: National Bureau of Economic Research, Income in the United States, Vol. I, 1921, p. 19, for figures for 1913 and 1915.
Hauser, P. M. and Leonard, W. R., Government Statistics for Business Use, 1946, p. 23, for remaining years. (Although two different sources are used, figures for the entire period are considered comparable.)

As previously indicated there is evidence that the rate of growth of income in Colorado has corresponded rather closely with that for the country as a whole. Assuming this to be true, the inevitable conclusion would be

that property values have also materially increased in the state.[1]

Considering all available evidence and discounting the inflationary rises of the war years since 1940, the writer believes that on the basis of a conservative estimate we may safely conclude that all real and personal tangible property in the state has increased in cash value at least 50 per cent since 1913. Moreover, there is good evidence to indicate that in the future, the values are not likely to decline below this level -- approximately the level of 1940 or 1941.

Yet despite the estimated increase of a least 50 per cent in actual value since 1913 (disregarding all increases during World War II) the total assessed valuation of all property in the state (1946) is actually at a lower level than 33 years ago, at the beginning of the period. If assessments were approximately on a full valuation basis of 1913, in order for the same situation to prevail today (discounting the war inflation and allowing for exemption of intangibles and motor vehicles) the total assessed valuation of real and personal tangible property would probably need to increase by at least $625 million.

The state tax commission, to the limit of its ability, should attempt to place the property in the state upon this higher total appraised valuation basis. In some instances it would involve discovering property, taxable under the law, yet not listed on assessment rolls either because of error, negligence or favoritism; in all instances it would involve placing valuations on a basis so that they would be at the level of full cash value. Such reform relative to assessments would merely be in accordance with the prescribed laws of the state and achieving this goal (under the law) is specifically a responsibility of the tax commission. Moreover, full assessments do not cause higher general taxes; on the contrary, the average property owner would probably discover he has a lighter tax burden when all property is full assessed than when it is only partially assessed. The commission has frequently pointed out that in Colorado throughout the years since 1930 as assessments have shrunken, mill levies have increased enough to more than make up the difference. If all taxable property were listed and fully assessed, mill levies could drop back to a relatively low level.

But other advantages are forthcoming when property is assessed at full cash value. When 100 per cent assessment is the objective, original valuations are more likely to be uniform. The use of a fractional basis tends to be indefinite in practice and inevitably leads to wide deviations. According to Allen, under such a fractional system, "Instead of determing the actual value of a piece of property as accurately as possible and then

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1 In the final analysis the principal basis for the value of property is its income earning capacity. Therefore, if total income is greater, we must expect the value of property to increase also, although not necessarily proportionately.

applying the prevailing assessment ratio, assessors often set down a lump-sum figure which they believe to be in line with similar properties without regard to whether the assessment represents the proper percentage of full value."[1] Allen concludes that this inevitably results in numerous errors which are magnified in terms of the actual value of the property erroneously assessed. On the other hand, full assessments promote uniformity, not only as pertains to locally assessed property within a county but also the general level of assessments as between counties. Moreover, a 100 per cent valuation contributes to greater uniformity as between property, on the one hand, assessed locally in the 63 counties and, on the other hand, the assessment of public utilities by the tax commission.

Another advantage of full assessment is that the taxpayer has a better basis for comparing the valuation placed upon his property with that upon the property of his neighbor or of anyone else. Fractional assessments confuse the taxpayer and often give him a false impression of liberality in tax treatment. Not knowing what assessment ration is being used he is likely to refrain from objecting to a particular valuation in spite of suspecting that his property is being appraised relatively too high. He realizes that even though there is discrimination against his property it would be difficult to prove and if a complaint is lodged the assessor can easily justify raising the assessment still higher from the standpoint of law. Therefore, assessments upon the basis of full, cash value are really in the interest of the taxpayers themselves because then the assessed value of any property may readily be compared with that of any other.

A corollary advantage is that full assessments reduce the regressive aspects of the property tax. Almost invariably when property is assessed at a fraction of full value the larger properties tend to be underassessed to a greater extent than are the smaller ones. Thus, property owners with the lowest incomes and the least property pay more than their proportional share of property taxes. This regressive feature due to fractional assessments has frequently been pointed out by tax authorities in other states as well as in Colorado. The problem may be illustrated by citing an example, which, in effect occurs all too frequently. Suppose two homes in the same tax district have full cash values of $3,000 and $12,000 respectively. If the assessor vaguely knows that property in the state is being usually assessed on a level somewhere between 30 per cent and 60 per cent of full value, attempting to keep his valuation approximately in line with those in other counties, he is likely (perhaps unconsciously) to discriminate against the $3,000 home. One reason for this discrimination may be that the true value of the smaller property is more readily determinable. In addition, the assessor may not wish valuations to go below a certain minimum for any

1 Allen, H. Kenneth, "Full-Value Assessment Program in Illinois", Bulletin of the National Tax Association, January, 1946, pp. 117-119.

home, regardless of value. Thus, he assesses the smaller property at perhaps $2,000, thinking all the while that surely the householder can afford to pay a tax on such a low total valuation. However, with reference to the larger property, partly because of uncertainty relative to true value and partly because most any fractional valuation may appear relatively large to the assessor or deputy who probably lives in a modest cottage himself, the $12,000 home may be assessed at perhaps $5,000. The practical effect of these two valuations is for the small home to be assessed on a 66 per cent basis and the large one on a basis of about 42 per cent. Thus, the tax is regressive, favoring the larger property. Assuming the tax levy for the particular district to be 50 mills, the favoritism amounts to a saving of $150 in taxes (based upon an undervaluation to the extent of $3,000) as compared with the amount of tax paid by the owner of the $3,000 home. In other words, the owner of the large home should pay a tax of $400 instead of $250 in order for the tax to be proportional with the $100 tax paid by the owner of the small home.

Finally, an advantage of full assessment is that the various local governments -- whether county, municipality or school district -- receive equal treatment with reference to tax rate limitations imposed by the constitution or legislature. On the other hand, under a system of fractional assessments, the maximum mill-levy provisions are much more restrictive in tax districts with low assessment ratios than they are in those with high ratios. Thus, by increasing assessment ratios, the application of tax-rate limits can be avoided or at least postponed.

One aspect of the problem of equalization of assessments throughout the state relates to the broad categories of property as indicated in Table 17. In order for the property tax to be equitable, valuations should be applied to these categories in such a manner that each bears its proper share of the total tax load. If original assessments do not result in accomplishing such uniformity, valuations should be equalized by the tax commission.

It may be seen from the table that assessment abstracts as returned by the county assessors and corrected by the tax commission for the representative years 1913, 1921, 1935, and 1945 show a rather wide variation as among individual items. For example, the valuation of land and improvements has fluctuated, going from 24.71 per cent of total property values in 1913 up to 34.84 per cent in 1921 and then down to 21.42 per cent by 1945. This category of property is principally in the form of agricultural and grazing lands and improvements. There is little or no evidence to support the justification for such wide relative variations of assessments. It is true that during the first world war the market value of agricultural land advanced somewhat more sharply than of property generally; however, by 1921 these extreme values had declined again.

The actual situation is probably that farm property was relatively over-assessed in 1921. This over-assessment continued for a number of years until the depression period of the thirties when the agricultural

Table 17

Comparison of Summary of Abstracts as Returned by the County Assessors and Corrected by Tax Commission for the Years 1913, 1921, 1935, 1945

	1913 Amount	Per Cent of Total	1921 Amount	Per Cent of Total	1935 Amount	Per Cent of Total	1945 Amount	Per Cent of Total
Land and improvements	$322,857,915	24.71	$549,976,126	34.84	$496,376,523	32.22	$261,164,598	21.42
Metalliferous mining property	46,042,067	3.52	24,743,817	1.57	23,081,307	1.50	24,846,558	2.04
Timber, oil and coal properties	20,521,089	1.57	25,437,444	1.61	28,676,909	1.86	22,179,517	1.82
Town and city lots and improvements	465,142,407	35.60	418,796,295	26.53	478,594,338	31.06	450,540,447	36.96
Live stock	63,562,749	4.86	68,921,431	4.37	47,022,156	3.05	67,786,225	5.56
Merchandise	48,103,599	3.68	87,361,814	5.54	81,055,785	5.26	82,164,312	6.74
Manufacture	13,575,571	1.04	41,037,122	2.60	38,336,462	2.49	33,576,905	2.75
Miscellaneous Less Exemptions	26,481,947	2.03	84,973,640	5.38	77,458,057	5.03	64,172,053	5.26
Corporations Assessed by Tax Commission	260,241,995	19.92	226,418,960	14.35	227,387,440	14.76	212,387,740	17.45
Bank Stock	28,924,765	2.21	31,001,533	1.97	24,951,673	1.62	. . . . .	. . .
Money, Credits, Accounts Less Exemptions	11,193,326	.86	19,588,317	1.24	17,791,837	1.15	. . . . .	. . .
Totals	$1,306,647,430	100.00	$1,578,256,499	100.00	$1,540,732,487	100.00	$1,218,818,355	100.00

Source: Thirty-fourth Annual Report, Colorado Tax Commission.

bloc induced the state board of equalization to slash farm valuations. As a consequence, there was probably an over-adjustment leaving agriculture in a relatively favored position -- at least in comparison with some other classes of property in the state. This appears to be true especially since the development of agricultural prosperity during and after the second world war.

One illustration will be given to indicate the present favored position of at least certain kinds of agriculture relative to property assessments. In Baca county, one of the dry-farming counties of eastern Colorado, assessment of agricultural and grazing land by five-year intervals since 1930 is shown in Table 18. It may be seen that during the period, 2,950 acres of irrigation land was reclassified so that all land was considered either dry farm or grazing. By 1935 the dry farm and grazing lands were being assessed on a basis little more than half the level of valuations in 1930 -- the general average dropping from $5,24 to $2.80 per acre. Since 1935 some increase in assessed values has occurred but the increase has been slight -- by 1945 the average assessment being only $2.90 per acre.

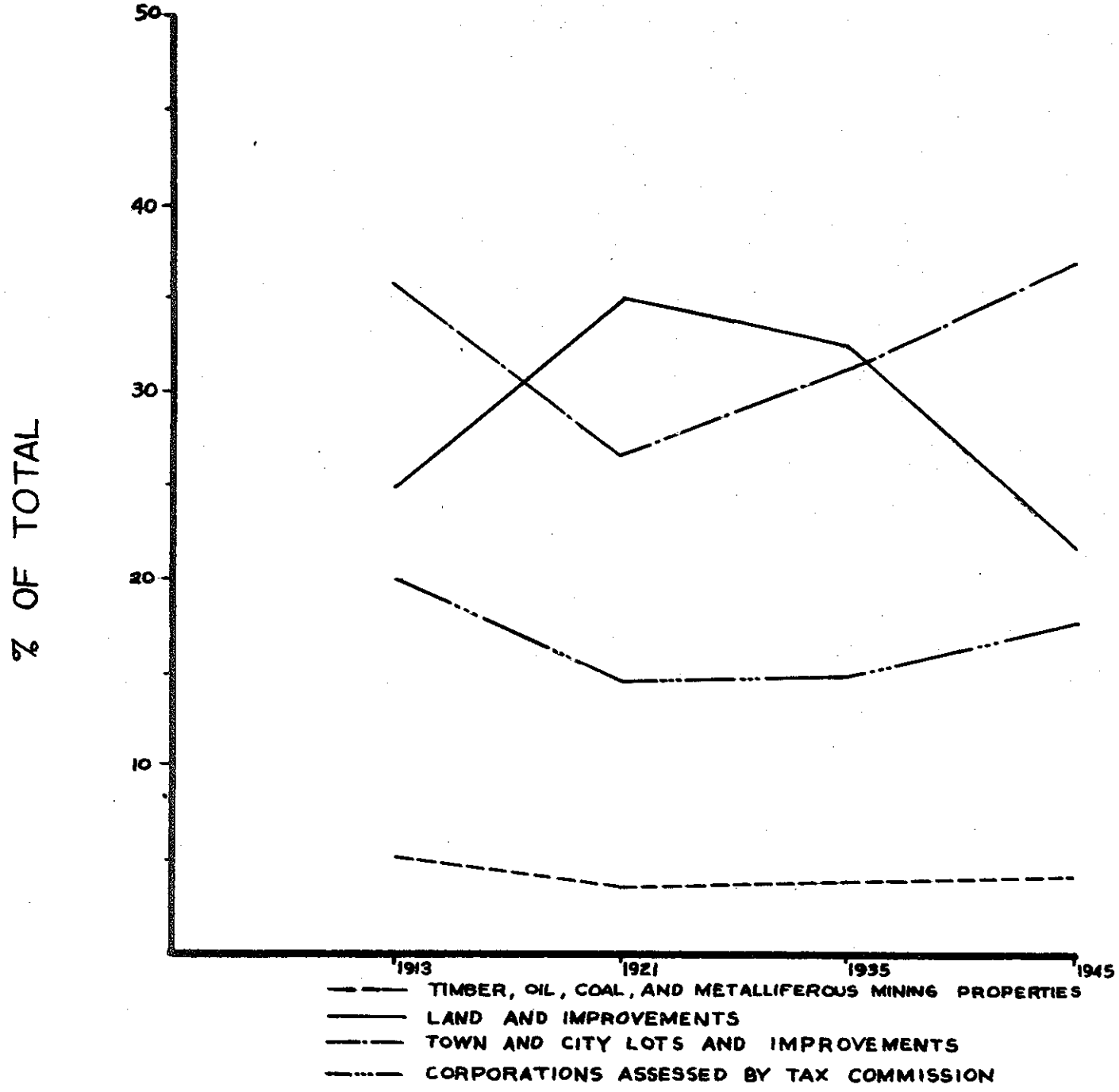
Table 18

Abstract of Assessment of Agricultural and Grazing Lands in Baca County, Selected Years since 1930[1]

	Irrigated Land		Dry Farm Land		Grazing Land		Total Agri. Lands	
Year	Assessment	Av. per Acre	Assessment	Av. per Acre	Assessment	Av. per Acre	Assessment	Av. per Acre
1930	$36,875	$12.50	$6,050,280	$6.25	$1,941,230	$3.45	$8,028,385	$5.24
1935	.....	.....	3,281,217	3.39	1,018,935	1.79	4,300,152	2.80
1940	.....	.....	2,304,230	3.38	1,305,125	1.85	3,609,355	2.60
1945	.....	.....	2,659,670	4.00	1,296,375	1.85	3,956,045	2.90

1 Excluding improvements, also equities in state and school lands.
Source: Reports for years indicated, Colorado Tax Commission

Undoubtedly a reduction in valuations in Baca county as well as in other dry farm counties of eastern Colorado was justified during the first half of the period under consideration. Drought conditions caused several crop failures in a row and we began to consider the area a dust bowl. However, the farmers were taught scientific methods of water and soil conservation relative to dry farming, while since about 1937 the annual precipitation has been more favorable for crops. As a consequence, during recent years the farmers have been among the most prosperous of any in the nation. For example, Baca county is now raising about one-third of the world's supply of broom corn. In 1946 the harvest was about 23 million pounds which sold for 15 cents per pound. Farmers of the county are



ASSESSMENT OF SEVERAL LEADING CATEGORIES
OF PROPERTIES IN COLORADO

raising wheat which yields up to $100 per acre for each crop year on land still assessed at about $4 per acre. In 1946 the wheat crop of Baca county amounted to 1,700,000 bushels which sold at about $1.85 per bushel. In addition, the farmers of the county produced during the year $1,260,000 worth of cattle, $150,000 worth of sheep and $75,000 worth of hogs.[1]

Thus, convincing evidence indicates that dry farm lands of eastern Colorado typified by Baca county are now being assessed on a level representing a mere token of actual value. Moreover, agricultural authorities believe that the present high levels of production are likely to continue, that due to scientific methods of cultivation, never again will the farmers of the area need to fear a return of the dust bowl. Although assessed valuations or irrigated farms in other parts of the state never dropped quite as far relatively as those upon the dry farms during the decade of the thirties, both production and land sale figures indicate that current assessed valuation are relatively low upon these lands also.

Two other categories of property listed in Table 17 are metalliferous mining properties and timber, oil and coal properties. Together these represent the assessment of the mineral wealth of the state.[2] On a comparative basis these mineral resources have always been favored under the property tax. In 1913 when metalliferous mines accounted for 3.52 per cent and timber, oil and coal mines 1.57 per cent of total assessments, they were relatively under assessed; by 1945 when the ratios were 2.04 per cent and 1.82 per cent respectively, they were still in a privileged position relative to most other property in the state.

One basis for estimating the trend of assessments over the years is to compare the assessed valuation of all mineral lands and improvements with the value of mineral production. Such a comparison for selected years since 1915 is shown in Table 19. It may be seen that the assessed valuation represented almost 90 per cent of value of output in 1915. The ratio subsequently fluctuated rising to 100 per cent in 1930 and then declined thereafter, falling to 64 per cent by 1944. The average ratio for the years shown in the table was 78.4 per cent. Thus, if we assume that mineral property was relatively underassessed at the beginning of the period, since 1930 it has been favored to an even greater extent.[3] If valuations in 1944 were equal to the average for the period they would be at the level of about $62,000,000 or at least $11,000,000 more than the actual valuations for the year.

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1 Rocky Mountain News, October 17, 1946.

2 Although timber property is included in the table, the value of privately owned timber in the state is so relatively small that for our purpose the item may be disregarded.

3 The writer realizes that the value of mineral production is not in all cases a good index of what the level of property tax should be; however, as the whole industry is considered in our discussion, the figures are undoubtedly significant.

Table 19

Assessed Valuation of Colorado Mineral Lands and Improvements Compared with the Value of Mineral Production for Selected Years

Year	Assessed Valuation[1]	Value of Mineral Production[2]	Percentage
1915	$57,413,617	64,295,119	89.2
1920	57,529,745	76,037,896	75.6
1925	55,131,488	63,148,959	87.3
1930	46,572,812	46,270,545	100.6
1935	29,419,571	44,413,477	66.2
1940	45,390,717	63,188,421	71.8
1944	50,945,302[3]	79,598,000	64.0
		Average	78.4

1 Annual Reports, Colorado Tax Commission
2 Minerals Year Book, Bureau of Mines
3 Estimated by writer from figures not entirely segregated by tax commission.

There appears to be sufficient evidence to indicate that a general reappraisal of all mineral wealth of the state would be highly desirable. Moreover, the problem should not be considered as one confined to attempts at improving assessments as the law relating to taxation of minerals is also defective. However, should the state adopt a comprehensive severance tax, the inadequacy of the mineral property tax would probably be largely overcome. For a more complete discussion of the taxation of mineral resources the reader is referred to the report in this series on severance taxation.

The catagories of town and city lots and improvements, livestock and merchandise as shown in Table 17 have probably been more satisfactorily assessed since 1913 than most other categories of property. During many of the years field men of the tax commission have assisted county assessors with the appraisal, especially of urban residential property and merchandise. Moreover, during the depression years after 1930 the assessed valuation of these properties was reduced relatively little by the state board of equalization.

The item in Table 17 called "manufacture" had not been interpreted uniformly by county assessors. Moreover, the nature of property included in the category has changed to some extent during the period since 1913. Consequently, a comparison of the relative levels of assessment of capital employed in manufacturing is difficult. However, some discussion of this important industry as it relates to property assessment appears desirable.

In 1912 the newly appointed tax commission was particularly concerned regarding the prevailingly low property valuations in manufacturing industries. During the period between 1903 and 1912 valuation of manufacturing

property had remained practically stationary, the amount in the former year having been $3,487,122 and in the latter, $3,507,675. Yet during this same period sixteen new sugar factories, costing approximately one million dollars each, had been erected in Colorado while according to the United States Census, capital invested in manufacturing in the state increased from $107,664,000 in 1904 to 162,688,000 in 1909.[1]

Through vigorous efforts of the commission, valuations in the state for manufacturing property increased to $13,575,571 in 1914 and by 1921 had climbed to $41,037,122. As seen by the accompanying table (Table 20) in the latter year the industry included 1,491 establishments whose manufactured products had a total value of more than $221 million. Expressed as a percentage of value of products, assessed valuation of the industry amounted to 18.5 per cent.

Table 20

Census of Manufacturing[2] Compared with Assessed Valuation of Manufactures in Colorado for Selected Years

(Dollar Amounts in Thousands)

Year	No. of Establishments	Total Wages Paid	Cost of Raw Materials etc.	Value of Products	Assessed Valuation of Manufactures(3) Amount	% of Total	Assessed Value as % of Value of Products
1914	2,126	$ 20,200	$ 89,756	$ 136,839	$ 13,575*	1.04	9.9
1921	1,491	38,612	147,248	221,324	41,037	2.60	18.5
1925	1,416	43,007	171,191	278,778	38,336	2.49	13.8
1929	1,495	43,640	175,113	286,732	36,061	2.27	12.6
1935	1,160	21,530	107,762	171,350	21,476	1.97	12.5
1939	1,298	28,391	130,386	221,642	23,749	2.13	10.7
1945	.....	.....	.....	.....	33,576	2.75	....

*For year 1913

2 Bureau of the Census
3 Reports of Colorado Tax Commission

Since 1921 the trend of valuations placed upon manufactures by county assessors has been downward even though the industry itself has not declined. Of course there was a temporary setback during the depression of the 1930's, but by 1939 the value of manufactured products in the state almost exactly equaled the value of products in 1921. Furthermore, the industry was apparently more prosperous as the cost of labor, raw materials and power was considerably less by 1939. Yet between 1921 and 1939 assessed valuations

1 First Annual Report, 1912.

dropped from $41,037,122 to $23,749,670. While assessments in the former year amounted to 2.60 per cent of all property valuations in the state, by 1939 they had declined to 2.13 per cent. Expressed in terms of value of manufactured products the decline of assessed valuations was from 18.5 to 10.7 per cent.

Although since 1939 the tremendous war expansion of manufacturing caused valuations to increase to the level of $33,576,905 by 1945, there is evidence to indicate that the industry is still being assessed at only a fraction of the true value of invested capital. If the item labeled manufacture were interpreted more uniformily by the various county assessors, conclusions relating to assessments of the industry could be more decisive.

The classification of property in Table 17 labeled "miscellaneous less exemptions" refers principally to personal household property less personal exemptions of $200 per head of family. The assessment of this category of property is discussed in some detail in the section of our study on tax-exempt property. In that section it will be noted that such property is probably less adequately assessed than any other class of property in the state. A vast amount of household goods is never listed on assessment rolls, much of that listed is greatly under-appraised, and the $200 personal exemption is often too liberally applied. Moreover, making the inequity of these violations particularly bad is the fact that wide variation prevails among the 63 counties of the state relative to the assessment defects.

One of the most difficult comparisons relating to the question of assessment equalization among the broad classes of property is a comparison of the assessed valuations of corporations (assessed by the tax commission) with the valuation of all other property (assessed by the county assessors). Table 17 indicates that the proportion of total valuation assessed against the corporations has fluctuated considerably -- the percentage declining from a high of 19.22 in 1913 to a low of 14.35 in 1921. After the latter year the trend was slightly upward reaching 14.76 by 1935 then climbing to 17.45 per cent by 1945. Figures recently released by the Department of Revenue indicate a minor change for the year 1946 -- the ratio declining to 17.11 per cent. Thus, if a comparison is made directly between the years 1913[1] and 1946 we find that the percentage of assessments borne by the public utility corporations has experienced a net reduction of 2.81 per cent.

Before deciding whether or not this reduction of assessments (both in the aggregate and relatively) against the public utilities since 1913 has been justified, it is necessary first to determine whether or not these corporations have been expanding more slowly than all other property in the state relative to actual value. Although available data cannot be

1 It was 1913 when the tax commission first raised all valuations to the 100 per cent basis.

considered conclusive evidence there is reason to believe that the true value of utilities has not declined on a relative basis since 1913, but on the contrary has actually expanded considerably faster than the over-all growth of wealth in the state.

Although comparable data are not available for the period prior to 1920, Table 21 gives figures showing the trend in production of electric energy in the state for the subsequent years. Throughout the 26-year period from 1920 to 1945 there was a constantly accelerating rate of growth in production except for a short interval during the early years of depression following 1930. Total production increased from 397 million kilowatt hours in 1920 to over 1.1 billion kilowatt hours in 1945. This represented an expansion for the period of almost three fold. Thus, it may be concluded that at least relative to the electric public utility field there was undoubtedly considerable growth of total plant investment for the various companies producing and selling electric energy. Moreover, although the relationship between electric production and plant investment is not always directly proportional, there is a tendency for operating net income, and consequently, the value of utility assets, to increase as the volume of production increases.

Table 21

Total Production of Electric Energy for Public Use Compared with Assessed Valuation of all Electric Light and Power Companies in Colorado, Selected Years Since 1920

Year	Kilowatt Hours Production[1] (Thousands)	Assessed Valuation[2]	Average Assessed Valuation per Kilowatt Hour Prod.
1920	397,000	$30,844,410	7.8¢
1922	403,000	30,896,790	7.7
1924	490,000	32,093,090	6.5
1926	562,000	32,384,340	5.8
1928	541,000	34,910,070	6.4
1930	573,341	39,449,750	6.9
1932	478,263	37,253,770	7.8
1934	506,710	36,085,500	7.1
1935	549,157	37,213,220	6.8
1936	652,404	38,029,210	5.8
1937	682,222	43,548,372	6.4
1938	693,344	45,888,080	6.6
1939	760,445	48,145,620	6.3
1940	791,967	48,655,090	6.1
1941	855,377	49,898,760	5.8
1942	977,690	50,696,350	5.2
1943	1,097,269	51,689,970	4.7
1944	1,136,831	52,644,860	4.6

Table 21 (Continued)

Year	Kilowatt Hours Production[1] (Thousands)	Assessed Valuation[2]	Average Assessed Valuation per Kilowatt Hour Prod.
1945	1,128,754	$52,716,830	4.7

Production increase (26 year-period = 184.3%
Assessed Valuation increase (26 year-period = 70.9%

1 U. S. Geological Survey for years prior to 1934; Federal Power Commission for years since.

2 Reports of Colorado Tax Commission. As the Reports prior to 1939 do not give a composite figure for electric companies, tabulations for the earlier years were made by the writer. Rural electric companies are included in all tabulations.

Table 21 also gives a comparison between total production of electric energy for public use and assessed valuation of all electric light and power companies. It may be seen that expressed as an average of assessed valuation per kilowatt hour of production, assessments have declined from 7.8 cents in 1920 to 4.7 cents in 1945. In other words, although production increased 184.3 per cent during the period, assessed valuations increased only 70.0 per cent. In order for the same ratio to prevail in 1945 as in 1920, total assessments for the industry should have been $88 million instead of the actual $52.7 million. However, there is insufficient evidence to indicate whether or not the same ratio should prevail if relative tax burdens for all property owners in the state are to be maintained. One consideration is whether or not tax-exempt municipally owned electric plants were producing and distributing a larger proportion of electric energy at the end than at the beginning of the period. However, this aspect of the problem can probably be disregarded, as privately owned utilities are now producing about 90 per cent of all electric energy in the state. Although exact figures are not available for the earlier years, there is reason to believe the ratio was not very much different in 1920.

Conclusive evidence has been presented in this study to indicate that a state wide reappraisal of all tangible property in Colorado is urgently needed. Moreover, the tax commission has long recognized this need and has repeatedly requested the legislature, to no avail, for sufficient appropriations to permit the conducting of these reappraisals. Colorado's need is similar to that which was present in Utah several years ago. The procedure followed there relative to the reappraisal of all buildings in the state is described by L. L. Wilson as follows:

> "Soon after the tax commission was organized, a survey revealed the existence in Utah of all those evils to which the property tax system everywhere is heir. Under-assessment, over-assessment and non-assessment were rife, and for many reasons. Inequities existed as between counties and between classes of

property. But the greatest inequities -- and the most serious to the taxpayers concerned -- were found as between property in the same county, and in the same class. Obviously, to cure such evils the original assessment must be made uniform.

"The first step taken by the Utah commission to correct this situation, so far as it applied to buildings, was to set up a valuation engineering division, which spent some time in formulating scientific schedules, adapted to Utah conditions, for the valuation of the various types of structures. The division also prepared a reappraisal card for use in the field, on which could be recorded all data necessary for an accurate valuation of each building, together with an outline plan and a photograph.

"After agreement had been reached with county taxing officials, a representative from the county assessor's office and one from the engineering division of the tax commission, equipped with camera, tapeline, and reappraisal cards, visited each building in a county. Interior and exterior examinations were made, measurements taken and data recorded. With this field work completed, it was possible to calculate, first, uniform reconstruction costs; then present values of each building, after allowances for depreciation, obsolescence and other factors, affecting marketability. Lastly the cards were filed in the office of the county assessor, where they were available for public inspection.

"Usually a public hearing also was held at which the purposes and the procedure of the revaluation were explained, protests were received, and decisions announced and discussed. Public interest was encouraging; reaction finally was good, though at first, in a few instances, threatening and even truculent. Not infrequently opposition and criticism melted away when groups of cards, showing photographs of comparable structures, revealed emphatically the inequities in former assessments and the much greater uniformity attained by revaluation."[1]

A number of other states including Illinois have made significant progress toward state wide reappraisal of property during recent years. Illinois' efforts in attempting to obtain full-value assessments are particularly notable. Should Colorado decide to reform her assessment procedure in order to provide more complete and equal appraisals of property in the several counties, the experience in such states as Utah and Illinois can be drawn upon for assistance.

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1. L. L. Lamont, "Statewide Reappraisal of Buildings in Utah for Assessment Purposes," Bulletin of the National Tax Association, October 1945, pp. 4-5

The Problem of Tax Exempt Property

There is a large proportion of property, both real and personal, in Colorado which is wholly or partially exempt from taxation under the property tax system. As previously discussed, the constitution adopted in 1876 permitted and in some cases required certain classes of exemptions. These included (1) $200 of personal property for each head of family, (2) property of the state and its political subdivisions, and (3) certain property employed in a manner other than for the purpose of earning a profit for the individual owners -- namely, property used solely for religious worship, for schools, for strictly charitable purposes, and also cemeteries and irrigation projects not operated for private profit. Later constitutional amendments exempted all intangible property and motor vehicles from the property tax. Also because of the established principle of intergovernmental immunities, federal property is not subject to taxation by state and local units.

These constitutional tax exemption provisions have been implemented by statutory law, by administrative practice and by court decisions. They are sufficiently significant to justify a brief discussion.

The Personal Property Exemption for Heads of Families

The provision for a personal property exemption of $200 for each head of family[1] was undoubtedly placed in the constitution in order to safeguard the standard of living of those families in the lowest income groups -- those on a subsistence level who would be forced to sacrifice some of the bare necessities of life if their scant personal effects were subjected to taxation. However, for the sake of uniformity and ease of administration a blanket provision was inserted, permitting each head of family, regardless of the amount of personal property, to claim an exemption up to a maximum of $200.

The constitutional provision was not intended to provide a loophole through which millions of dollars of property would escape without paying a cent of property tax even when the owners possess considerable taxpaying ability. In other words the exemption was intended to include only $200 of personal property when all such property is fully assessed at true market value. Also the exemption was intended to apply only to purely personal or household tangible property such as household furniture, washing machines, clocks, silverware, clothes, etc. It was not intended to be applied against the present broad interpretation of personal property which includes all movables whether in the home, factory, or business.

Nevertheless, in practice in Colorado the $200 exemption provision has been flagrantly violated by most every county assessor since adoption of the constitution in 1876. Perhaps the most inequitable aspect of this refusal to follow the requirements of the law and constitution is that there is no uniformity of violation by the county assessors.

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1 Article 10, Paragraph 3, Colorado Constitution.

In some counties most personal property escapes assessment entirely while the few items to be found on the tax rolls are assessed at a mere fraction of true value. This situation almost invariably means that total exemptions exceed the assessed value of all personal property -- a preposterous state of affairs. Then to make matters worse, the assessor finding the value of personal property for individuals to be less than the $200 personal exemption, deducts the "excess" from the value of farm or business personality which may be owned by the individual.

These violations carried on in some counties to the extent described, become particularly unfair to property owners in other counties where assessors may be attempting, more adequately, to enforce the law. Furthermore, even within the very counties where property owners appear to be most favored with low assessments, there are likely to be the greatest discrepancies as between particular individuals, relative to the assessment of personal and real property.

Studies indicate that if personal household property were fully assessed, the assessment value should correlate closely with the value of the dwelling in which the property is located. Consequently, a comparison of actual personal property assessments with the census value of dwelling units is an excellent index with which to compare the various counties of the state. Such comparisons are shown in Table 22. Figures are for 1940, the most recent year since the last housing census.[1] Column (d) gives the average assessed value per dwelling unit of personal household property. It may be seen that the range among the counties is from a high of $273 in Denver to a low of $35 in Huerfano -- $150 being an average for the state as a whole. As it is unfair to make direct comparisons between counties whose residents differ widely relative to actual income and wealth, the figures are expressed in column (e) as percentages of the average census value per dwelling unit for each county.

The counties are listed in the table according to their relative standing as shown in column (e). It should be kept in mind that the percentage figures for the various counties are shown in this column can now be compared directly with each other -- a correction having been made for variations among the counties in wealth and income. Therefore, these percentages should indicate in a very real sense the success, or more likely the lack of success, of assessors in placing personal household property on the assessment rolls.

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1 Even though the valuation placed upon housing units by the Bureau of Census may not be completely accurate, the same criteria for judging values were used in each county; consequently, comparisons in Table 22 are valid and significant.

Table 22

Assessment of Household Personal Property Compared with the Census Value of Dwelling Units, by Counties, 1940

Rank	County	No. of occupied Dwelling Units[1] (a)	Average Value Per Dwelling Unit[2] (b)	Total Assessed Value of Household Property[3] (c)	Av. Per Dwelling Unit (c ÷ a) (d)	Per cent (d ÷ b) (e)
1	Pitkin	569	$ 424	$ 50,300	$ 88	20.7
2	Gilpin	580	525	60,495	104	19.8
3	Lake	2,001	517	185,195	93	17.9
4	Hinsdale	124	660[4]	13,135	106	16.0
5	Mineral	294	946	44,550	152	16.0
6	Teller	2,009	684	182,360	91	13.3
7	Archuleta	969	660	71,804	74	11.2
8	San Juan	393	1,145	49,340	126	11.0
9	Fremont	5,246	1,130	639,995	122	10.7
10	San Miguel	1,028	858	93,225	91	10.6
11	Grand	1,023	1,353	137,000	134	9.9
12	Clear Creek	1,172	1,281	147,650	126	9.8
13	Custer	677	1,016	64,799	96	9.4
14	Curay	625	1,194	69,430	111	9.2
15	Costilla	1,635	443	64,770	40	9.0
16	Gunnison	1,763	1,663	240,980	137	8.2
17	Phillips	1,395	1,566	170,232	122	7.7
18	Crowley	1,405	1,118	118,120	84	7.5
19	Otero	6,446	1,771	849,595	132	7.4
20	Chaffee	2,398	1,682	288,700	120	7.1
21	Garfield	3,063	1,670	363,945	119	7.1
22	Denver	96,777	3,933	26,454,170	273	6.9
23	Douglas	1,033	1,761	124,115	120	6.8
24	Jackson	525	1,332	44,234	84	6.3
25	Kiowa	819	1,117	56,491	69	6.1
26	Summit	666	581	24,200	36	6.1
27	El Paso	16,532	2,972	2,980,130	180	6.0
28	Las Animas	8,220	1,115	553,720	67	6.0
29	Dolores	533	704	22,495	42	5.9
30	Eagle	1,495	1,284	114,370	77	5.9
31	Logan	4,663	1,952	547,005	117	5.9
32	Elbert	1,537	1,145	103,603	67	5.8
33	Kit Carson	1,999	1,236	133,415	67	5.4
34	Park	1,059	1,215	68,410	65	5.3
35	Boulder	11,327	2,574	1,492,300	132	5.1
36	Conejos	2,556	890	115,745	45	5.0
37	Delta	4,509	1,523	340,640	76	4.9
38	Montezuma	2,679	1,145	144,032	54	4.7

Table 22 (Continued)

Assessment of Household Personal Property Compared with the Census Value of Dwelling Units, by Counties, 1940

Rank	County	No. of Occupied Dwelling Units[1] (a)	Average Value For Dwelling Unit[2] (b)	Total Assessed Value of Household Property[3] (c)	Av. Per Dwelling Unit (c ÷ a) (d)	Per cent (d ÷ b) (e)
39	Sedgwick	1,385	$ 1,925	$ 126,160	$ 91	4.7
40	Pueblo	18,232	2,092	1,746,895	96	4.5
41	Adams	5,602	2,084	523,330	93	4.4
42	Arapahoe	8,977	2,310	980,360	109	4.4
43	Larimer	10,324	2,387	1,064,660	103	4.3
44	Baca	1,707	890	65,340	38	4.2
45	Morgan	4,470	2,440	460,925	103	4.2
46	Routt	3,028	1,352	173,270	57	4.2
47	La Plata	4,112	1,797	294,325	72	4.0
48	Moffat	1,556	1,869	117,435	75	4.0
49	Alamosa	2,731	2,102	223,630	82	3.9
50	Mesa	9,156	2,310	844,580	92	3.9
51	Saguache	1,556	1,110	67,090	44	3.9
52	Lincoln	1,656	1,645	106,610	64	3.8
53	Prowers	3,299	1,920	242,796	74	3.8
54	Huerfano	4,066	929	143,030	35	3.7
55	Montrose	4,080	1,658	254,901	62	3.7
56	Weld	16,865	2,185	1,401,250	83	3.7
57	Washington	2,200	1,491	116,200	53	3.5
58	Yuma	3,257	1,552	174,640	54	3.4
59	Jefferson	8,763	3,085	866,370	99	3.2
60	Rio Blanco	851	1,615	43,960	52	3.2
61	Rio Grande	3,135	1,894	184,715	59	3.1
62	Cheyenne	826	1,232	29,555	36	2.9
63	Bent	2,422	1,265	87,975	36	2.8
	State	316,000	$2,334	$47,520,552	150	6.4

1 Bureau of the Census, 1940.

2 Ibid.

3 Includes musical instruments, radios, clocks and watches, jewelry and silverware, household furniture. See Annual Report, 1940, Colorado Tax Commission.

4 Assuming same average as for the neighboring county of Archuleta, census figure not given.

According to the table, Pitkin county rated highest in the state with a ratio of 20.7 per cent. In other words, in this county the average assessed valuation of personal household property was 20.7 per cent of the average census value of dwelling units. On the other hand, Bent County rated lowest with a ratio of only 2.8 per cent. Average for the state was 6.4 per cent indicating that assessments were considerably lower than they should be for the state as a whole. Generally it is safe to say that personal household property is worth about 10 per cent of the real estate value (including both building and ground) where the personal property is located. Judged by this standard, and disregarding the fact that the value of land is not considered in our table (column b), only 10 counties in the state were adequately assessing their household goods -- those as shown in Column (e) with ratios of 10.0 per cent or more.[1]

Our immediate concern in this section is the effect of the $200 exemption upon personal property assessments. The figures in Table 22 (Column c) do not take into consideration this effect as they represent assessment amounts before deduction for exemptions. The table is merely intended to show the inadequate and unequal assessment of personal property among the counties.

However, figures for 1945 assessments compiled by the tax commission (Table 23) show some of the effects of the personal tax exemption. The counties are segregated into six groups in the state according to common economic characteristics. Although the classification is not a perfect one, it has some value in facilitating a direct comparison among the counties. For example, the three counties largely urban -- containing the three largest cities in the state -- are in one group, the eleven counties, each with middle-sized cities and considerable areas of productive irrigation lands, are in another group, etc.

Within each group the counties are listed according to relative rank. Those counties with the highest relative amounts left after deduction for personal exemptions are listed first. For example, Denver is first in her group because exemptions amount to only 42.5 per cent of the assessed value of household goods, while Pueblo county is last in the group because her ratio is 78.8 per cent.

Among the other groups of the state an even greater variation exists regarding the effects of deduction for personal exemptions. In group II the range is from a low of 62.0 per cent in Boulder county to a high of

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1 The writer realizes that some county assessors have made courageous efforts to improve assessments of personal property. Various devices have been used to standardize practices and to serve as guides for deputy assessors. One example is the "Room-Unit-System" for assessment of household goods prepared by the assessor in El Paso county. Other similar plans have been adopted by assessors in a few other counties.

Table 23

Assessment of Personal Household Property Compared with Personal Exemptions, by Counties, 1945

Rank	County	Assessment of Household Goods	Average Assessment per Family	Personal Exemptions	Net Assessments	Per cent Exemptions to Total Assessment
Group I Urban						
1	Denver	$35,366,920	$548	$15,019,180	$20,347,740	42.5
2	El Paso	3,674,920	340	1,780,770	1,894,150	48.0
3	Pueblo	2,617,785	190	2,087,940	529,845	79.8
Group II Urban and Rich Agricultural						
1	Boulder	2,174,340	290	1,347,110	827,230	62.0
2	Otero	1,146,480	243	728,095	418,385	63.5
3	Larimer	1,495,200	210	1,049,120	446,080	70.2
4	Arapahoe	1,775,450	276	1,406,585	368,865	79.2
5	Logan	732,700	199	591,000	141,700	80.7
6	Jefferson	1,400,560	228	1,153,555	247,005	82.3
7	Morgan	536,210	155	466,600	69,610	87.0
8	Weld	2,058,060	161	1,836,170	221,891	89.2
9	Adams	892,995	198	800,860	92,135	89.7
10	Mesa	1,244,770	184	1,171,470	73,300	94.1
11	Las Animas	445,570	68	467,377	-21,807	104.9
Group III Mixed Economy						
1	Douglas	168,390	240	123,475	44,915	73.3
2	Chaffee	342,075	211	257,260	84,815	75.2
3	Alamosa	355,615	169	285,600	70,015	80.3
4	Garfield	496,980	235	426,180	70,800	86.0
5	Fremont	763,980	195	671,505	92,475	88.0
6	Rio Grande	276,260	111	247,565	28,695	89.6
7	Montrose	346,555	112	334,360	12,195	96.5
8	Prowers	401,571	163	432,190	-30,619	107.6
9	Crowley	168,520	156	183,745	-15,225	109.0
10	Delta	463,160	140	507,920	-44,760	109.0
11	La Plata	333,305	107	370,095	-36,790	111.0
12	Conejos	134,565	57	156,000	-21,435	116.0
13	Huerfano	67,065	208	95,230	-28,165	142.0
14	Bent	77,456	40	129,600	-52,143	167.3
Group IV Dry Farming						
1	Sedgwick	216,140	204	143,600	72,540	66.4
2	Phillips	240,240	243	215,385	24,855	90.0

Table 23 (Continued)

Rank	County	Assessment of Household Goods	Average Assessment per Family	Personal Exemptions	Net Assessments	Per cent Exemptions to Total Assessment
Group IV Dry Farming (continued)						
3	Elbert	$159,672	$146	$146,600	$13,072	92.0
4	Baca	143,975	116	186,300	-42,025	129.2
5	Montezuma	210,775	100	273,990	-63,215	129.9
6	Kit Carson	199,655	132	279,985	-80,333	140.2
7	Yuma	222,050	91	319,000	-96,950	143.6
8	Dolores	30,485	77	43,915	-13,430	144.0
9	Kiowa	80,608	144	117,955	-37,347	146.3
10	Lincoln	140,555	119	214,560	-74,005	152.6
11	Cheyenne	43,915	74	80,200	-36,285	182.6
12	Washington	142,765	85	279,865	-137,100	196.8
Group V Mixed Economy (High Country)						
1	Grand	146,105	203	99,235	46,870	68.0
2	Gunnison	250,620	202	186,215	64,405	74.3
3	Eagle	147,910	137	117,970	29,940	80.0
4	Rio Blanco	78,990	134	63,245	15,745	80.0
5	Park	82,145	125	66,370	15,775	80.8
6	Archuleta	74,375	97	62,800	11,575	84.4
7	Saguache	80,290	65	73,510	6,780	91.5
8	Jackson	51,184	142	49,235	1,949	96.3
9	Custer	59,400	130	57,446	1,954	97.0
10	Routt	244,840	116	248,685	-3,845	101.5
11	Moffat	164,805	162	172,105	-7,300	104.4
12	Costilla	49,035	32	63,400	-14,365	129.3
Group VI Mining						
1	Clear Creek	185,210	245	104,140	81,070	56.2
2	Mineral	47,540	243	28,860	18,680	60.7
3	Gilpin	51,230	157	33,525	17,705	65.4
4	Summit	21,120	60	14,100	7,020	66.8
5	San Juan	50,865	176	35,000	15,865	68.8
6	Teller	174,500	135	279,865	137,100	83.7
7	Lake	268,600	195	258,315	10,285	96.1
8	San Miguel	59,440	81	58,300	1,140	98.0
9	Pitkin	54,405	148	53,590	815	98.5
10	Ouray	70,110	168	75,300	-4,890	107.0
11	Hinsdale	14,640	209	19,500	-4,860	133.2

Source: Figures obtained from Colorado Tax Commission

104.9 per cent in Las Animas county; group III ranges from 73.3 per cent in Sedgwick county to 196.8 per cent in Washington county; group V, from 68 per cent in Grand county to 129.3 per cent in Costilla county; and finally group VI, from 56.2 per cent in Clear Creek county to 133.2 per cent in Hinsdale county. There is little equity in a property tax system permitting such a wide variation among counties with similar industries, whose resident property owners are to be found upon similar economic levels.

In more than one-third of the counties of the state, personal exemptions exceed the total assessed valuation of personal household property. Assessors in these counties would actually show more net assessments on the tax rolls if the $200 personal property exemption were eliminated and all household goods were made tax exempt. In another third of the counties, total net personal property assessments are so negligible that considering the cost of administration and the subterfuge of the system, conditions in these counties also would be improved if the personal exemption were removed and household goods made tax exempt.

The writer believes, however, that this would not be the best solution of the problem. In the first place, removal of the $200 personal property exemption would require a constitutional amendment which would be virtually impossible to obtain. Secondly, the principle behind the exemption is probably sound if personal property is assessed at a figure even approaching full value. Finally, personal household property owned by most families represents at least some taxpaying ability. To exempt it all would place an even heavier burden upon real estate which in many cases is already paying relatively too much.

From the standpoint of sound tax principles, the correction would be to obtain a much more complete listing of personal property upon tax rolls with assessment on a valuation basis corresponding more closely to full value. The state tax commission has sufficient authority over county assessors to enforce this.

An aggressive commission supported by sufficient budgetary funds to maintain an adequate staff of field workers could succeed in obtaining millions of dollars of additional personal property upon the tax rolls. The small extra cost would be repaid many times over in additional revenue; moreover, as a consequence, there could be a lighter tax load upon much of the real property of the state.

Even though budgetary funds are inadequate, the present tax commission has sufficient information regarding assessments among various counties to bring about a great improvement. Perhaps the present commission needs more of the aggressive character of the original commission appointed some 30 years ago. However, it would be much easier for the tax body to act if it had an aroused public behind it to support measures taken relative to tax reform. The writer believes members of the commission would welcome such an aroused public.

Property of State and Local Units

The Colorado constitution exempts from taxation all real and personal property of the state, counties, cities, towns and other municipal corporations and public libraries. These provisions were placed in the original constitution adopted in 1876. Subsequent legislation has been guided by this exemption principle. The arrangement for exclusion from taxation of inter-governmental properties conforms to general practice in other states of the Union.

Probably no useful purpose would be accomplished by making state property taxable by local units; likewise, the property of local governmental units should not be taxed by the state government. A possible exception, as referred to later, is governmental property used in commercial enterprises.

Because of concentrations of state property in particular areas of the state, especially when these holdings narrow the tax base of local units and perhaps also require more expenditures for local services, the state might consider the advisability of extending certain payments in lieu of taxes. Such a policy if adopted, would conform to the fiscal policy of the national government relative to its holdings of certain real property.

The valuation placed upon all property owned by the state of Colorado (both departments and institutions) for June 30, 1944 was nearly $370 million as shown in Table 24. It may be seen that real property (land, buildings and improvements, water and mineral rights) was the largest item amounting to a total valuation of about $325 million; while personal property (the remaining items in the table) had a valuation of almost $44 million. The figures are probably in excess of a true market value and undoubtedly are very much greater than a tax assessed value would be if assessments were comparable with those on private property in the state.

Estimates are not available to indicate the value of all property owned by local governmental units in Colorado. However, this information would probably serve no useful purpose from the standpoint of property taxation. Yet there is one category of property owned by several Colorado municipalities which might be subjected to state and county taxation -- namely, property used in commercial enterprise.

The principal form of such commercial enterprise is the municipally owned utility producing electric light and power. In 1942, 10.5 per cent of the electric energy produced in the state came from these city owned utilities. No great hardship would be placed upon these plants if they paid taxes comparable to those paid by privately owned utilities. In fact, much unnecessary criticism directed against them could in this manner be avoided. Furthermore, the total property tax load would become somewhat more equitabley distributed.

Table 24

Inventory of State Property as Reported to State Auditor, June 30, 1944

Lands	$191,896,915.45
Buildings and Improvements	33,682,412.08
Machinery	2,092,059.47
Tools and Equipment	2,025,414.92
Furniture and Office Equipment	2,751,476.49
Libraries and Collections	2,364,567.59
Autos, Trucks, etc.	839,447.34
General Supplies	1,465,388.27
Livestock	1,836,515.75
Land, Water and Mineral Rights	100,123,278.00
Cash	30,454,985.95
Total	$369,532,461.31

Source: Report of Auditor of State of Colorado, July 1, 1942 to June 30, 1944, p. 130.

Federally Owned Property in the State

The largest body of tax exempt property in Colorado is in the form of land and improvements owned by the federal government. In most cases this property is fully exempt from taxation by state and local units.

During recent years there has been a rather pronounced increase in the amount of real estate removed from tax rolls because of expansion of federal ownership. This development, together with inability for other reasons of the property tax to satisfy local revenue needs, has caused considerable concern in the minds of some people relative to the trend. It is contended, and sometimes with justification, that federal acquisition of property may create difficult local financial problems due to contraction of the local tax base. Moreover, in some instances federal properties make necessary the expansion of local governmental services.

The amount of land in Colorado owned by the national government has increased from 22,119,158 acres in 1937 to 25,492,803 acres in 1944. This increase has been to a large extent because of the acquisition of tracts of land for conservation and development purposes as well as for reservations, cantonments, airfields and other defense and war facilities attendant to World War II.

By 1944, the 25,492,803 acres of land owned by the federal government represented 38 per cent of the total land area of the state (table 25). On the basis of percentage of federal land to total land, Colorado ranked ninth among the states of the Union. In other words, eight states (all

western) had relatively greater areas under national ownership. Largest areas on both an aggregate and relative basis were to be found in the 11 western states. Aside from these states only South Dakota and New Hampshire contained areas in excess of 10 per cent owned by the federal government.

Table 25

Principal States Containing Federally Owned Lands, 1944[1]

Rank	State	Federal Land (Acres)	Federal Land as Percentage of Area of State
1	Nevada	61,378,360	87
2	Arizona	53,363,273	73
3	Utah	37,898,177	72
4	Idaho	33,730,114	64
5	Oregon	32,781,306	53
6	Wyoming	32,055,721	51
7	California	46,484,371	46
8	New Mexico	34,211,071	44
9	Colorado	25,492,803	38
10	Montana	32,966,241	35
11	Washington	15,034,462	35
12	South Dakota	8,820,845	18
13	New Hampshire	668,819	12
14	Oklahoma	3,441,224	8
15	Arkansas	2,849,702	8
16	Virginia	2,158,379	8
17	Florida	2,340,558	7
18	Michigan	2,555,496	7
19	Minnesota	3,626,282	7
20	North Dakota	2,477,475	6
21	Wisconsin	2,085,802	6
22	Tennessee	1,591,491	6
23	West Virginia	943,702	6
	Total (all states)	455,183,251	24

Source: House of Representatives, Report No. 1884, 78 Congress, 2nd Session p. 8.

1 States with 5 per cent or less not listed.

Table 26 shows the amount of federal land holdings in Colorado classified by administrative agencies. It may be seen that the largest tracts are forest lands (13,674,492 acres) administered by the Department of Agriculture and grazing lands (7,678,944 acres) administered by the Department of Interior. These two combined represent almost 84 per cent of the total area owned by the national government.

Table 26

Area, in Acres, of Lands in Federal Ownership
in the State of Colorado
(1944)

Administering Agency		Acres
Department of Interior		10,735,167
General Land Office	690,000	
Grazing Service	7,678,944	
Office of Indian Affairs	722,328	
National Park Service	517,446	
Bureau of Reclamation	1,113,776	
War Relocation Authority	10,223	
Bureau of Mines	2,450	
Department of Agriculture		14,336,716
Forest Service	13,674,492	
Soil Conservation Service	655,028	
Farm Security Adm.	6,930	
Agricultural Research Adm.	66	
Navy Department		59,168
War Department		358,474
Other Departments & Agencies		3,278
National Housing Agency	527	
Reconstruction Finance Corp	276	
Department of Commerce	40	
Federal Works Agency	28	
Veterans Administration	1,140	
Department of Justice	640	
Alien Property Custodian	627	
Grand Total		25,492,803
Land Area of Colorado		66,538,880
Federal Land as Percentage of Area of State		38 per cent

Source: House of Representatives, Report No. 1884, 78th Congress, 2nd Session, September 14, 1944, pp. 10.

Other fairly large tracts are administered by the Bureau of Reclamation, the Office of Indian Affairs, the General Land Office, the Soil Conservation Service, National Park Service, and the War Department.

These extensive holdings by the national government -- 38 per cent of the land area of the state, toghether with improvements thereon -- appear to represent a vast amount of tax-exempt property placing a burden upon the owners of privately held property who must bear the entire cost of local government. However, such an interpretation is inadequate and in particular cases completely erroneous.

Although most federal property is not taxable by state and local governments, various payments in lieu of taxes have been authorized by Congress. In general, all types of payments may be classified into three categories.[1]

First and most important are payments made to state or local governments in the form of a stated percentage of gross or net revenues from the use of land, with or without stipulation of the purposes for which the funds may be used by the recipient. These payments apply principally to the public domain but also in special cases to certain acquired lands.

The types of benefit to state or local units in Colorado in this first category are shown in Table 27. The principal revenue sources in recent years have been forest and grazing lands and mineral resources. In addition to the percentage payments as indicated in the table, the national government allocates considerable revenue for maintenance and improvement of the public domain. For example, 10 per cent of the total collections from forest acreages is devoted to road and trail construction within the forests; 25 per cent of receipts under the Taylor Grazing Act, when appropriated by Congress, may be expended for construction, purchase and maintenance of range improvements; while various amounts received by the United States Reclamation Bureau from mineral royalties and bonuses are spent in the state on reclamation projects.

A second general type of payment from the federal government (of minor importance in most states, including Colorado) is revenue allocated by administrative agencies, by agreement, to local units in lieu of taxes when certain resettlement and federal housing projects have been undertaken requiring expensive local services.

Finally, a third type of payment (also of minor importance in Colorado) is the payment of ad valorem taxes by federal lending agencies. These levies have been permitted by Congress and are upon real estate acquired in most cases for forclosure in connection with lending and collection operations.

Table 27

Federal Contributions Based Upon a Specified Per Cent of Revenues from Public Lands

Lands or Resources Affected	Nature of Payment	Recipient and Purpose if Specified
Forest resources	25% of receipts	Counties for roads and schools
Conservation and land utilization projects	25% of net revenue	Counties for roads and schools.

(continued on page 84)

1 Rasmussen, J.J, Payments in Lieu of Taxes on Federally Owned Real Estate, 1946, University of Utah, p. 4.

Table 27 (continued)

Federal Contributions Based Upon a Specified Per cent of Revenues from Public Lands

Lands or Resources Affected	Nature of Payment	Recipient and Purpose if Specified
Wildlife refuge resources	25% of net revenue	Counties for roads and schools
Power resources	37½% of receipts	State
Grazing lands	50% of receipts	Counties
Grazing lands on ceded Indian lands	25% of receipts	Counties
Sale of agricultural lands	5% of net sales	State
Leasable minerals	37½% of receipts	State for roads and schools.

Source: House Document 216, 78th Congress, 1st Session, Appendix 4, 1943.

Figures are not available showing payments to Colorado (the three categories) because of the ownership of federal real estate. However, Table 28 gives average annual payments (1928-37) for all purposes including relief expenditures. This average amount was $11,928,000. If relief and other emergency expenditures are excluded the average annual payment to the state was $4,982,000.

Table 28 also shows an estimate of the fair market value of real property owned by the federal government in Colorado ($100,203,912)[1] and indicates the amount of local property taxes ($1,885,525) which the government would pay if such property were assessed and taxed by local units. The latter figure is particularly significant when compared with the amount of federal aid going to Colorado for the benefit of state and local units of government. Apparently an amount of assistance is given

1 This estimate was made for the year 1937 for all states by "a special committee on the study of Federal ownership of real estate and of its bearing on state and local taxation" appointed by President Roosevelt. Its report was submitted in 1939. A more recent and perhaps more comprehensive estimate of the value of federal property in Colorado is contained in the Colorado Year Book, 1943-44. Its estimate is $7,056,442,531, or $1,171,129,830 excluding cash assets in the Denver mint. This figure is obviously determined on some basis other than fair market value. For example, federal coal lands alone are valued at $722,450,000! See page 472.

Table 28

Estimated Value of Federally Owned Real Estate in Colorado (1937)
Compared with Federal Aid to Colorado

Area of federal land in Colorado (1937)	22,119,158 Acres
Cost of federal land and improvements	$46,772,913
Estimated fair market value of federal real estate	100,203,912
Estimated property tax yield if applied to federal real estate	$1,885,525*
Average annual federal aid to Colorado (1928-37)	$11,928,000
Annual federal aid as percentage of fair market value of federal real estate	11.9 per cent
Average annual federal aid to Colorado (1928-37), excluding all WPA and other emergency payments	$4,982,000
Annual federal aid (excluding WPA, etc.) as percentage of fair market value of Federal real estate	5.0 per cent

* Based upon local mill levies.

Source: Senate Document No. 130, 78th Congress, 1st Session, November 18, 1943, p. 27.

several times greater than if payments were confined to ad valorem taxes on federally owned property. The average federal aid (1926-37) related to the value of federal property was 11.9 per cent.

If relief expenditures are excluded, the ratio becomes 5.0 per cent. Even this smaller percentage is considerably more than the average total property tax rate (state, county, municipal and school) of 3.6 per cent levied against private property in Colorado in 1937. Furthermore, private property was probably assessed at not more than 50 per cent of true value while the appraisal of federal property was upon a 100 per cent basis.

Thus, even though most federal property is completely tax exempt, payments in lieu of taxes added to other federal aids would amount to a much greater sum than the yield of a tax on federal property should there be one. Therefore, in a sense, federal real estate in Colorado is more than paying its way.

This does not necessarily mean however, that the fiscal relationship between federal and local governments growing out of the ownership of federal properties is always satisfactory. We believe that in the future a much better solution of the general problem would be achieved if the principles were adopted as formulated by the Treasury Department's Committee on Intergovernmental Fiscal Relations. These principles, summarized by the writer are as follows:[1]

1 Senate Document No. 69, 78th Congress, 1st Session, June 23, 1943, pp. 24-26.

1. There should be a Federal-State Fiscal authority to serve as a clearing house and administrative agency for all payments in lieu of taxes. It is desirable to develop a consistent and intelligible policy in this field.

2. Some recognition should be given to the benefit bestowed on a community by the location of a federal function. If there is resulting benefit, the amount of federal payments might be governed accordingly.

3. Property that has long been owned by the Government, and new properties of the same class should ordinarily be exempt with no compensation from federal funds. The affairs of all concerned have long since been adjusted to the exemption status. No useful purpose would be served, for instance, by subjecting the United States post office property and general administrative buildings to local taxes. The extensive holdings of public domain have never been taxed and probably should also be placed in this category, although revenue-sharing devices of long standing are in operation and will probably have to be retained.

4. Where services are sold by governmental agencies on a commercial basis and in competition with similar private activities, as in the power projects, the property should ordinarily be valued by the federal government and subjected to local taxes.

5. Other federal property that is ordinarily utilized by or designed for sale to private individuals, such as farm and resettlement properties or additional Indian lands, should pay the equivalent of levies on similar privately owned property.

6. Property acquired for conservation purposes (such as sub-marginal and cut-over forest lands) might well pay a low, flat, average rate on value as of the time of acquisition. This would constitute a minimum guaranty, pending larger local receipts which later could be paid from a distribution of revenue when the property becomes revenue producing. The percentage of revenue shared would resemble a severance tax.

7. Although in the main, full local services should be supplied the federal property and its residents, if the Government is obliged to supply its own facilities and perhaps even to extend them to local residents, there should be adjustment accordingly of the payment to local units.

Other Tax Exempt Property

The Colorado constitution provides that "Property, real and personal, that is used solely and exclusively for religious worship, for schools, or for strictly charitable purposes, also cemeteries, not used or held for private or corporate profit, shall be exempt from taxation unless otherwise

provided by general law."[1]

It may be noted that the exemption is in the nature of a privilege conferred by the sovereign which may be limited, modified or abolished by the legislature. This right of the legislature to decide the extent to which the exemption privilege shall be bestowed was affirmed in the case of Horton vs. Colorado Springs Masonic Building Society[2] and re-affirmed in McGlone vs. First Baptist Church.[3]

However, the legislature has followed the wording of the constitution very closely when enacting laws pertaining to exemptions for religious, educational and charitable purposes. The existing law was passes by the legislature in 1908.[4] It extended the concept of exempt property used for religious worship by including the value of rectories to a maximum of $3,000.[5]

Among the states of the Union there are two distinct lines of authority on the construction of tax exempt constitutional and statutory provisions; one line construing them strictly, the other giving them a liberal construction. The Colorado courts have consistently followed the liberal interpretation. This has been a matter of concern to tax authorities because of the apparent escape under immunity of tax exemption of much property which rightfully should be taxed.

For example, until the law was amended to specifically deny the practice, the courts held that premises occupied solely for a private school although conducted for profit, were tax exempt.[6] In 1921 the legislature changed the law to read: "Section 2. The following classes of property shall be exempt from general taxation, to wit: ..... Third. Grounds with the buildings thereon, if said buildings are used exclusively for schools, other than schools held or conducted for private or corporate profit."[7]

The 1933 legislature further clarified its intent relative to a tax exempt school by defining such school as "an educational institution requiring daily attendance, having a curriculum comparable to a grade, grammar school, junior high, high school or college or any combination thereof and having an enrollment of at least forty students and charging a tuition fee."[8]

Another example of the liberal interpretation of the court relative to tax exempt property involved a building owned by a corporation organized by several Masonic societies in Colorado Springs. The societies

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1 Article X, section 5
2 64 Colorado 529 (1918)
3 97 Colorado 427 (1935)
4 Colorado Statutes Annotated, 1935, Chapter 142, sections 22-24.
5 Actually this particular exemption had been first provided for in 1907.
6 Pitcher v. Miss Wolcott School Association, 63 Colorado 294 (1917)
7 Chapter 200, Session Laws of Colorado, 1921.
8 Chapter 158, Session Laws of Colorado, 1933.

used the building primarily for charitable purposes but operated a stand for the sale, to those privileged to be there, of cigars, tobacco, and other wares; as well as a reading room for the use of members of the different Masonic bodies and gave dances and dinners in a room devoted to the purpose, where non-members were admitted and an admission fee was charged. A majority of the Court ruled that the land and building were entirely exempt from taxation.[1]

Justice Teller writing a dissenting opinion vigorously attacked the opinion of the majority contending that "clearly, this building is not used solely and exclusively for strictly charitable purposes, and ought not, therefore, to be exempt." He further argued that "The basis of the exemption of charitable institutions is that the state does not lose thereby, since they assume a burden which the state must otherwise bear....How can it be said that the use of so much of this property as is in effect a club-room for the use of lodge members -- with no necessary connection with the general work of the order, -- relieves the state of any burden?....if the court's reasoning be sound, a golf course connected with the building....or a picture show, the receipts of which are devoted in part to lodge purposes, should likewise be exempt....The result of this consideration is that we have exempted a property from taxation on the mere possibility that it may be a source of income to an institution which has, without much reason, been termed a charitable institution."

Since 1918 when the ruling was made in the Colorado Springs Masonic case a majority of the court has consistently taken a liberal viewpoint relative to such fraternal organizations as the Masonic Lodge.

In 1932 the court ruled that property of a corporation not for profit and which is used in connection with the promotion of physical culture and mental qualities of its members and others who may comply with its rules, was exempt from general taxation.[2]

One further example may be cited to indicate the judicial attitude toward tax exempt property. In 1935 the court held that the requirements of the constitution and statutes concerning exemption from taxation of property of religious, charitable and educational institutions are met if there has been work done on the lots and "there is a bona fide continuous intention on the part of such organizations that their real property, and buildings to be by them constructed thereon, are to be devoted exclusively to religious, charitable or educational purposes.[3]

Justice Holland, dissenting, stated that in his view the opinion of the majority "announces in effect the doctrine that all real estate owned by a religious corporation is exempt from taxation."

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1 Horton vs. Colorado Springs Masonic Building Society, 64 Colorado 529 (1918)
2 Denver Turnverein v. McGlone, 91 Colorado 473 (1932)
3 McGlone vs. First Baptist Church of Denver, 97 Colorado 427. (1935).

Because of the very liberal attitude taken by the Colorado courts relative to exemptions of property owned and operated for educational, religious and charitable purposes, considerable property, not originally intended to be so favored, undoubtedly escapes taxation. Writing in 1918, the state tax commission urged, "Property subject to exemption from taxation should be more clearly defined. Our state courts have construed the subject of exemption so liberally that there has been stricken from the tax rolls millions of dollars' worth of property that is at least partially used commercially."[1] The sole justification for such exemptions is that meritorious functions are performed relieving the government of burdens which it would otherwise have to bear. However, the definitions of religious, charitable and educational purposes have been so broadened and so loosely interpreted that it is questionable if in many instances the justification is present of "relieving the government of burdens which it would otherwise have to bear."

The argument that the exempt property is held and operated for purposes other than a profit is scarcely valid in that much other taxable property including homes and household goods would fall into the same category.

Another class of property exempt from taxation, as permitted by the constitution, and authorized by law is property used for irrigation projects. The present law was enacted in 1921 and provides that "Ditches, canals, and flumes owned and used by individuals or corporations for irrigating land owned by such individuals or corporations, or the individual members thereof, shall not be separately taxed so long as they shall be owned and used exclusively for such purposes."[2]

There appears to be no valid justification for favoring this particular kind of cooperative ownership of property as contrasted with real and personal property of other cooperatives such as marketing and consumer organizations not operating for a profit. However, if the value of the irrigated land, made possible because of the irrigation project, is sufficiently assessed, probably no great injustice is done, as the value of the project is reflected in increased value of the land.

Still another property exemption permitted by the constitution and authorized by law is "cemeteries not held or conducted for private or corporate profit."[3] This provision appears not to violate the principle of equity in taxation. However, it is necessary for tax assessors to be diligent in seeing that only those cemeteries of a public or cooperative nature are made tax exempt.

Two categories of property have recently been added to the list of tax exemptions under the general property tax. These are motor vehicles and intangible personal property.

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1 Seventh Annual Report, 1918, p. 9.
2 Chapter 200, Session Laws of Colorado, 1921.
3 Ibid.

The reason for the motor vehicle exemption was in order to provide for a specific ownership tax in lieu of the property tax, to be collected at the time license fees are paid.[1] This new method of taxing motor vehicles has been an improvement over the old in preventing evasion; however, the new tax rates appear to be unusually light as compared with those in most states. More will be said regarding this tax in another report.

Since the beginning of property taxation in Colorado intangible personal property had largely escaped taxation. In spite of constitutional and statutory provisions to the contrary most county assessors found it inadvisable or impossible to place a very large proportion of intangibles such as stocks, bonds, money and credits, notes, bank deposits, and book accounts on the assessment rolls. As early as 1912 tax authorities began recommending a change in the system by proposing that intangibles be made exempt from property taxation if the income from intangibles could be included under an income tax. Finally, in 1936 this arrangement was made possible by a constitutional amendment[2] and the following year an exemption provision was made part of the new income tax law.[3]

The degree of success in taxing the income from intangible property in lieu of all property taxes is discussed in another section.

The law in Colorado specifies that county assessors shall assess all tax exempt property placing the valuations on the assessment rolls even though no taxes are to be collected.[4] No appraisals have ever been made, however, and consequently, none of the property is listed by the assessors. Apparently their efforts have been confined to the difficult task of finding and assessing property which is subject to taxation.

There probably should be an appraisal of tax exempt property in the state -- particularly that property exempt for religious, educational and charitable purposes, and tax exempt irrigation projects and cemeteries. This appraisal could be made either by public officials or by some competent independent body. If we had an estimate of the value of such tax exempt property classified by kind and by uses it would be much easier to decide the effect of liberal and often lenient rulings of the court relative to the problem. After obtaining this information it also would be easier to agree upon changes in the system of tax exemption if amendment seemed advisable. A revision, although perhaps politically difficult, would not encounter many legal problems as the tax exemptions causing the greatest concern are statutory and not constitutional.[5]

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1 Article X, Paragraph 6, Colorado Constitution. Amendment adopted 1936.
2 Article X, Section 17, Colorado Constitution.
3 Colorado Statutes Annotated, 1935, Cumulative Supplement, 1945, Chapter 84 A
4 Chapter 134, Session Laws of 1913.
5 They are permitted by the constitution but not required.

Tax Rates and Tax Rate Limits

Tax Rates

The property tax rate is customarily expressed as a particular mill levy per dollar of assessed valuation. For example, the rate in 1945 for state purposes was 3.50 mills. This means that property owners were required to pay taxes to the state government equivalent to 3.50 mills for each dollar of assessed valuation of their property. The rate can also be expressed as a percentage, in which case the 3.50 mills would become .35 per cent -- a 10 mill levy would be 1 per cent.

Actually, in Colorado as in most other states, the property owner does not pay any property tax directly to the state government. There is local collection by the county treasurer, who in turn, forwards the state's share to the state treasurer. In order to facilitate collection, particular mill levies of each layer of government (state, county, city or town, and school district) are added together and the total levy thus obtained is applied against the property located within the governmental units concerned. Thus actual collection of the total tax is made by the county treasurer.

If all property were uniformly assessed among the various taxing districts and if valuations were relatively equal from one year to another, a comparison of mill levies for the purpose of determining relative tax burdens would be more significant. However, as we have already seen, property assessments are not uniform throughout the state, nor have they been made in a uniform manner over the years in the past. Nevertheless, with this limitation in mind let us briefly review the past and current tax rates which have been levied by the state and local units.

Table 29 gives the total mill levy for state purposes by years since 1912. It may be seen that considerable fluctuation in rates has occurred. For example, the levy was drastically reduced in 1913 (1.30 mills) as compared with the previous year (4.05 mills), the reason being that in 1913 assessed valuations were tripled by the new tax commission. Actual taxes levied and collected in dollars remained relatively constant. After 1913 the mill levy gradually increased until by 1922 it was 4.48. However, there was a reduction the next year, thereafter the rate remaining about the same (fluctuating around 3.50 mills) until 1937. The beginning of a 10 year building program for state institutions caused an increase in that year, the levy rising to 4.50 mills. Since then the trend has been down, declining to 3.42 mills by 1946.

Throughout the years the effective state rate has remained remarkably constant; it has always represented a relatively small proportion of the total levy made by all governmental units (state and local): and always the state levy has remained well below the maximum rate permitted under the constitution.

Table 29

State Mill Levy and Average Total Mill Levy, All Governmental Units in Colorado, by Years 1912 - 1946 Inclusive

Year	State only	Average for all units[1]	Year	State only	Average for all units[1]
1912	4.05	39.8	1930	3.59	31.0
1913	1.30	13.8	1931	3.49	31.2
1914	1.39	14.1	1932	3.49	31.2
1915	2.10	16.4	1933	3.40	33.5
1916	2.07	16.9	1934	3.40	33.5
1917	3.12	18.9	1935	3.00	34.0
1918	2.77	18.4	1936	3.00	34.6
1919	3.47	22.3	1937	4.50	36.7
1920	3.47	24.8	1938	4.50	36.7
1921	4.35	26.8	1939	4.40	37.7
1922	4.48	27.1	1940	4.35	37.5
1923	3.93	27.4	1941	4.25	37.2
1924	3.70	27.9	1942	4.00	36.0
1925	3.70	29.3	1943	3.85	35.8
1926	3.67	29.9	1944	3.64	36.1
1927	3.84	30.6	1945	3.50	38.7
1928	3.56	30.6	1946	3.42	....
1929	3.66	31.3			

1 Includes levies for state and all local governmental units.
Source: Annual Reports, Colorado Tax Commission.

Table 30 shows the allocation of the 3.50 mill levy in 1945 according to various state functions. During recent years (including 1945) the state general fund has received no revenue from the property tax -- all levies being earmarked for special functions or funds. A discussion of the levies for these special purposes would lead to a discussion of governmental expenditures -- a topic beyond the scope of our present study.

Table 30

Mill Levy for State, Classified by Major Functions, 1945

Function	Mill Levy	Anticipated Revenue
Educational Institutions	1.58741	$ 1,934,764
Eleemosynary Institutions	.40844	497,814
Building Program	.81314	991.070
Interest and Debt Retirement	.35768	435,947
Police Pensions	.20000	243,764
State Military	.07000	85,317
Stock Inspection	.03333	40,623
State Fair Tax	.03000	36,565
Total (state purposes)	3.50000	$ 4,265,864

Source: Annual Report, 1945, Colorado Tax Commission

In addition to the figures indicating mill levies since 1912 for state purposes only, Table 29 also shows average total levies by years for all governmental units (state and local) within Colorado. The total levy sharply declined after 1912, dropping from an average of 39.8 to an average of 13.8 mills. However, since then the rate has gradually but steadily increased until by 1945 it was almost back to the level of 1912 -- 38.7 mills as compared with the former 39.8 mills.

Considerable variation occurs throughout the various counties relative to property tax rates. In Table 31 the counties are listed in order according to total assessed valuation -- the larger and more wealthy counties being listed first. It may be seen that in 1945 the county mill levy varied from a low of 4.16 in Baca county to a high of 24.32 mills in Hinsdale county. The average for all counties was 9.2 mills. It is significant that the smaller and poorer counties at the bottom, with one or two exceptions, had the highest mill levies. Thus the 14 counties with total valuations below $4 million had an average mill levy of 14.42 or 56 per cent above the average for all counties in the state. It may be concluded that these counties particularly, and to a lesser extent some of the other smaller ones, possess insufficient population and resources for efficient and economical operation of county government.

The same table also shows the average total mill levy (state, county, city or town, and school district) for each county. These figures represent the average tax rates which property owners are called upon to pay in the various counties. Here the range is from a low of 22.5 mills in Park county to a high of 50.66 mills in Huerfano county -- the average for the state being 38.72 mills. Because the smaller and poorer counties have fewer cities and also because they provide less adequately for schools, the combined total levy for all purposes in these poorer counties tends to be at or below the average level for the state.

An interesting comparison is shown in Table 32 which gives the total mill levy in the 25 largest cities and towns of the state. Although property assessments are not uniform among all of these cities and, consequently, conclusions relative to tax rates must be qualified, the wide variation among the cities has some significance. For example, the city of Longmont in Boulder county in 1945 had a total mill levy of only 39.36 as compared with 67.17 mills in Walsenburg, Huerfano county, a city of about the same size. Although evidence indicates that property in Boulder county is assessed at more nearly the full value than in Huerfano county, the entire difference in mill levies as between the two cities cannot be explained in assessments. Another explanation of the tax rate differences could be in terms of the governmental services and educational facilities offered in the two communities. However, the level of these services in Longmont is probably higher than in Walsenburg. Consequently, some other cause must be found to explain the wide variation in rates as between the two cities. By examining the table, other interesting comparisons among different cities can be made.

Table 31

Assessed Valuation, County Mill Levy, Average Total Mill Levy, by Counties, 1945

Rank	County	Valuation (Thousands)	County Mill Levy	Average Total Mill Levy[1]	Rank	County	Valuation (Thousands)	County Mill Levy	Average Total Mill Levy[1]
1	Denver	$ 404,059	...[2]	41.16	33	Sedgwick	8,565	9.30	34.41
2	Weld	71,672	9.80	37.14	34	Rio Grande	8,562	9.43	42.47
3	Pueblo	64,344	6.04	49.21	35	Eagle	7,854	8.20	28.17
4	El Paso	55,054	7.51	43.29	36	Alamosa	7,845	7.20	40.50
5	Boulder	39,982	8.85	34.98	37	Douglas	7,684	9.22	28.93
6	Larimer	37,339	9.93	37.13	38	Kiowa	7,568	11.92	32.30
7	Las Animas	26,381	12.33	48.19	39	Moffat	7,455	6.30	30.88
8	Jefferson	25,967	12.63	38.35	40	Phillips	7,407	6.08	30.28
9	Adams	25,080	6.59	30.46	41	Chaffee	7,363	10.72	34.87
10	Logan	23,651	5.75	36.09	42	Sagauche	6,909	9.20	32.99
11	Mesa	23,041	10.47	48.52	43	Conejos	6,607	9.02	33.18
12	Otero	22,861	5.86	36.13	44	Grand	6,400	9.03	25.87
13	Arapahoe	22,154	9.82	42.91	45	Crowley	5,794	11.26	41.09
14	Morgan	19,735	7.43	34.95	46	Montezuma	5,493	12.34	40.24
15	Lake	16,345	9.23	23.38	47	Rio Blanco	5,097	10.60	31.34
16	Prowers	15,385	7.03	32.81	48	Teller	4,407	11.34	39,21
17	Fremont	14,177	7.61	37.59	49	Park	4,318	8.25	22.50
18	Garfield	13,953	9.16	33.15	50	Clear Creek	3,891	14.34	41.30
19	Routt	12,283	9.67	30.94	51	Summit	3,749	11.43	23.82
20	Yuma	11,505	7.96	33.86	52	Archuleta	3,331	9.18	29,98
21	Lincoln	11,115	6.99	29.23	53	San Miguel	3,271	12.29	33.08
22	Delta	10,836	11.96	42.40	54	Costilla	3,257	17.84	41.77
23	Bent	10,771	8.50	30.41	55	Jackson	3,239	7.27	23.79
24	Baca	10,726	4.16	24.39	56	San Juan	2,895	17.95	43.17
25	Washington	10,490	6.90	32.13	57	Ouray	2,589	18.35	46.03
26	Montrose	10,425	10.90	40.82	58	Gilpin	2,376	12.20	31.69
27	Elbert	10,342	8.35	26.15	59	Pitkin	2,292	13.85	35.51
28	Kit Carson	10,235	9.11	34.43	60	Dolores	2,115	19.20	37.00
29	La Plata	10,091	13.97	45.16	61	Custer	2,086	13.69	33.89
30	Huerfano	9,167	23.43	50.66	62	Mineral	1,184	10.02	27.51
31	Gunnison	9,001	15.99	41.95	63	Hinsdale	618	24.32	40.73
32	Cheyenne	8,724	7.42	27.55					
						State Average		9.2	38.72

Source: Annual Report, 1945, Colorado Tax Commission
1 Includes state, county, city or town and schools.
2 Figure not available as city and county levies are combined.

Table 32

Total Mill Levy in the Twenty-Five Largest Colorado Cities and Towns,[1] 1945

Rank	City	Mill Levy[2]	Rank	City	Mill Levy[2]
1	Longmont	39.36	14	La Junta	54.40
2	Denver	41.16	15	Fort Collins	55.70
3	Fort Morgan	44.17	16	Greeley	57.10
4	Loveland	44.20	17	Montrose	59.48
5	Brighton	48.40	18	Englewood	60.80
6	Lamar	49.03	19	Grand Junction	61.00
7	Canon City	50.40	20	Alamosa	61.87
8	Boulder	51.12	21	Trinidad	62.54
9	Colorado Springs	51.93	22	Durango	66.75
10	Sterling	52.28	23	Walsenburg	67.17
11	Salida	52.75	24	Pueblo	68.40
12	Delta	53.22	25	Leadville	78.86
13	Rocky Ford	53.30			

1 According to 1940 United States Census.
2 Combined levy for state, county, city or town, and schools.
Source: Figures compiled by writer from data in Annual Report, 1945, Colorado Tax Commission.

Tax Rate Limits

Rate limits relative to the property tax found in the Colorado Constitution are confined to restrictions upon the state government. As previously discussed, the original constitution provided for a sliding scale of limitations, maximum rates at a particular time depending upon total assessed valuations. However, an amendment in 1892 fixed the maximum rate for state purposes at four mills. Another amendment in 1920 permitted the levying of one additional mill for erection of buildings for state educational institutions. Thus, present restrictions limit the total tax rate on property for all state purposes to a maximum of five mills on each dollar of valuation.[1] One exception to this limitation has been ruled by the courts. The legislature may levy any rate required to finance the cost of suppressing an insurrection.[2]

Tax levy limits imposed upon political subdivisions of the state are all statutory rather than constitutional. The scope of this study permits merely a brief summary of these statutory limits.

I. Counties. The maximum county levy to defray ordinary expenses including support of the poor and contingencies is limited according to

1 Colorado Constitution, Article 10, section 11
2 In re State Board of Equalization, 24 Colorado 446.

a detailed classification established by the legislature. The range is from a maximum of six mills in counties having an assessed valuation of $1 million or less to a maximum of one mill in counties having a valuation of $400 million or more.[1] In addition, a number of special provisions in the law permitting maximum levies for specific purposes may be mentioned as follows:[2]

1. Judgments against county, 15 mills.
2. Outstanding warrants, 3 mills.
3. Additional levy for unpaid warrants, 5 mills.
4. Mothers' Compensation, 1/8 of 1 mill.
5. Bonds and interest, amount of levy sufficient to equal 10 per cent of bonds issued.
6. To promote immigration through advertising, etc, 1/5 of 1 mill.
7. County or union high school, 4 mills.
8. Control and eradication of rodents, amount of levy not to exceed a yield of $20,000 annually.
9. Postwar improvements, 1 mill.
10. Road purposes, 10 mills.

II. School Districts. No general maximum levies apply specifically to school districts except for third class districts which are limited to 20 mills.[3] All classes of districts are permitted to levy taxes sufficient to pay interest and principal of maturing bonds. A maximum levy of .1 mill is permitted for the purchase of library books.[4] As previously mentioned, counties may not levy more than four mills for union high schools.

III. Cities and towns. No maximum limits are prescribed by general state law specifically for cities and towns of Colorado. Thus, the municipalities are largely free from such restrictions relative to tax levies. Cities over 100,000 population are specifically permitted to levy a maximum of 1/4 of one mill and 1/10 of one mill for firemen's and policemen's pension funds respectively.[5] In all cities, tax levies for public libraries are not to exceed one mill per dollar of assessed valuation. Also levies for current operation are limited in a number of home rule cities through provisions contained in their own charters.

IV. The five per cent limit. The most significant property tax restriction relative to rates in Colorado is the 5 per cent limit. Unless exceptions are permitted by law, the provision restricts the state and all political subdivisions to a tax levy which will yield for a current year no more revenue than 5 per cent in excess of the preceding year.[6]

1. Colorado Statutes Annotated, 1935, Chapter 142, Article 2.
2. Ibid, Chapters 33, 45, 143; also Supplement, 1945, Chapter 33.
3. Chapter 146, par. 32.
4. Chapter 146, par. 194.
5. Chapter 163, par. 451, 499.
6. Colorado Statutes Annotated, 1935, Chapter 142, par. 39.

Levies made to provide for the payment of bonds and interest are exempt from the limitation. Also exempt are levies up to a maximum of one mill for any county, city or town postwar improvement.[1]

In any taxing district, except the state, if officials believe the maximum levy permitted by law will not produce sufficient revenue for the current year, an appeal may be made to the state tax commission for the privilege of increasing the maximum levy. If, after investigation, the commission is of the opinion that the request is justified, an additional levy not exceeding five mills may be granted. Should the commission fail to grant the request, or should the excess levy of five mills be insufficient, the question may be submitted to the voters of the taxing district. If three-fourths of the voters at a general or special election favor the increased levy it can be made.[2]

Table 33 shows the number of petitions for selected years which have been submitted to the tax commission by the various classes of local governmental units. Because of the more rigid limits placed upon county governments, a larger proportion of the counties than of other local units usually request increases. In fact, each year since 1935, every county in the state has found it necessary to present petitions for increased levies. Also a great many school districts annually esperience difficulty in levying sufficient taxes to cover budget needs, and, consequently, request permission to make additional levies. It may be observed that the number of petitions tends to fluctuate throughout the years according to general economic conditions -- the number rising during inflation years and falling in times of depression. For example, note the contrast in number of petitions submitted in the years 1920 and 1921.

Table 33

Petitions to Tax Commission for Increased Levies, Selected Years Since 1915

Year	Counties	Cities and Towns	School Districts	Total
1915	28	35	344	399
1920	40	66	762	868
1921	37	35	88	160
1925	40	16	315	371
1930	39	13	292	345
1935	63	17	130	210
1940	63	15	194	272
1944	63	10	374	447
1945	63	27	394	484

Source: Reports, Colorado Tax Commission

1 Chapter 45, par. 237-40.
2 Chapter 142, par. 41.

From time to time the tax commission has questioned the advisability of requiring tax districts under existing arrangements to submit petitions for increased levies. For example, in 1926 it reported, "With the small force available to the commission, its action in these applications are necessarily more or less perfunctory, as it is impossible for us to examine into the needs of these taxing districts as contemplated by the statutes."[1] Again in 1928 it stated, "It is perfectly obvious that this commission has no facilities for making the examinations contemplated...and, unless the examinations are properly made, there is always danger of excess levies which frequently cause many complications and clouds on titles that last for years and sometimes indefinitely."[2]

Although facilities of the commission are limited for examing petitions, as long as rigid mill levy restrictions are operative, some flexibility appears desirable to take care of hardship cases. Perhaps the commission is as well prepared to provide this flexibility as any other agency. Moreover, since 1934 local units have been required to file with the commission copies of their budgets. This has greatly facilitated the effectiveness of the commission's work.

During the years following 1931 when assessed valuations were drastically reduced, most of the petitions going to the commission were from local units which were facing insolvency. Without mill levy increases the governmental functions of these units would have been seriously crippled. Thus for a number of years most all of the requests were granted by the commission.

In fact, over the years, since 1914 the commission has usually approved most of the applications for increased tax levies. Lacking information, there has been a tendency to give to the local unit "the benefit of the doubt," the request being granted. In many instances if the application is turned down, the issue is submitted to the people of the district who usually approve the tax increase.

This raises the question as to whether or not tax limitation provisions can ever be very effective. Apparently some elasticity is required or, at least in special hardship cases, the evils resulting may be much more serious than the ones which the law is intended to avoid. However, the loophole permitted by the flexibility provisions may largely nullify the effects of any limitation.

Relative to the problem, we might briefly examine the experience with the tax limits imposed in other states. All but about 10 states have imposed various kinds of property tax rate limits -- some restrictions being constitutional and some statutory. As a general rule the restrictions are either by fixing maximum tax levies relative to assessed valuation or else by limiting the tax to a certain per cent of the last levy. Until the depression period beginning in 1930, the limits in most states were too high to affect the ordinary operation of the property tax, either from the viewpoint of protecting property, or of embarrassing

1 Annual Report, 1926, p. 5
2 Annual Report, 1928, p. 6

local finances.

However, in the early thirties a number of states began adopting much stricter property tax limits. Among these was Ohio, whose restrictions became probably the most drastic of any state. An overall limit was established of 10 mills for all purposes except financing of indebtedness incurred prior to January, 1934. The only possibility of exceeding this 10 mill limit in any particular case was through a popular referendum. Since adoption of these severe restrictions, the experience in Ohio has been far from satisfactory. Conditions have developed there which bear out the earlier findings of a New York special joint committee on local property tax limits which concluded:

> "(1) Tax limits do not limit. Cities with tax limits spend as much and raise as much by taxation as cities without tax limits. The tax limit may serve to curtail expenditures for one or two years, but as soon as the restraint is felt an amendment is secured which encourages expansion since the tendency is to levy the full amount permitted whether it is necessary or not; (2) Tax limitation encourages unsound bonding; (3) Tax limitations should never apply to debt service; (4) In a democracy there is no way of blocking a genuine popular demand for increased governmental service through an arbitrary limitation upon the tax levy; (5) The only effective method of securing a restriction of tax levies without hampering municipal services, encouraging unsound bonding and promoting periodic expansion and extravagance, lies along the lines of centering full responsibility upon a single elected official through (a) the establishment of a comprehensive and binding budget system, (b) the enactment of a complete bonding act which will prevent unsound bonding and (c) the wide distribution among the electorals of the direct tax burden."[1]

In the opinion of the writer the various limits placed upon property tax rates in Colorado, as elsewhere, are largely ineffectual. Perhaps occasionally a school district or more likely a county may continuously forego some expenditure because of restrictions which cannot be circumvented, but this is probably the exception, rather than the rule. On the other hand, experience in other states indicates that it would not be wise for Colorado to attempt to strengthen the restrictions by reducing tax limits or by making them less elastic. The present arrangement of presenting applications to the tax commission for additional tax levies (up to five mills) by local units appears to be working fairly well.

Moreover, the limitation restricting current tax levies to a level not exceeding 5 per cent in excess of the previous year appears to be as rigid an over-all limit as can practically be established. Perhaps this limit with the "safety valve" of appeal to the tax commission, or if this fails, appeal to popular referendum, is a good one. Furthermore, the 5 per cent limit may be a genuine advantage, by stilling the fears of

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1 Quoted by Jensen, Jens P., Colorado State Tax System, 1930, p. 199.

property owners who would otherwise oppose the state's return to a 100 per cent valuation basis for property. Such fears might arise from the belief that if tax valuations were drastically raised, governmental units would become extravagant because of receiving more revenue from the same mill levies. However, the 5 per cent limit would be a safeguard against this possibility.

Collection and Delinquency

As in most other states, the legal arrangements in Colorado are rather complex for enforcing collection of the property tax. These complexities have developed through the years because of an attempt, on the one hand, to improve collections, yet on the other hand, a desire to extend proper protection to the owners of delinquent property.

A very general and simplified description of the procedure in Colorado for collection of the tax would necessarily include a discussion of certain steps as follows:[1]

1. A tax lien (for current taxes) attaches to all property, real and personal, not exempt by law, on the first day of March of each year. The tax lien remains perpetual on the property until taxes are paid.[2]

2. Taxes are due and payable on or before the 30th day of April, the year following assessment. If paid in installments, the first half is due not later than the last day in February; the second half, not later than July 31.

3. Although notices are mailed to the last known address of property owner, a personal demand of taxes is not necessary. Each person subject to taxation is legally obligated to pay to the county treasurer the amount of taxes due.

4. During August a list is compiled of the names of owners of personal property whose taxes have become delinquent. This list with addresses of owners indicating the amounts of delinquent taxes plus interest and penalties is published during the month of September in a newspaper of the county.

5. Any time after the first day of December, the State Department of Revenue may require a remittant county treasurer to enter suit in court for judgments against personal property in order to collect delinquent taxes levied the previous year. After obtaining such judgment a public sale is held to recover an amount equal to the delinquent taxes plus interest and penalties.

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1 Chapter 142, Colorado Statutes Annotated, 1935, and 1945 Cumulative Supplement.

2 Burton vs. Denver, 99 Colorado 207.

6. After taxes become delinquent upon real property (after August 1) property owners are notified by mail. The notice is also published over a period of four weeks in a paper of the county, announcing a sale at public auction of the property concerned.

7. On or before the second Monday in December all tax delinquent real property is sold at auction under tax certificates of purchase. Any lands remaining because of inadequate bids are taken by the county which in turn receives certificates of purchase.

8. Certificates of purchase held by the county may be sold by the county commissioners at any time or in any manner in which they may see fit, except if taxes due for any one property owner are im excess of $10,000, the Tax Commission must give approval and notice of sale must be published in a local paper.

9. Three years after sale, a tax deed may be issued to the holder of a certificate of purchase (either private individual or county).

10. The owner has five years thereafter in which to redeem his property.[1] In effect, he enjoys the privilege of redemption for eight years after sale.

11. If redemption occurs during the first three years (before tax deed is issued) the owner pays the amount for which property was sold and certain costs and penalties, together with interest at the rate of 2/3 of 1 per cent per month.

12. If redemption occurs after the tax deed has been issued (during the subsequent five year period) the owner pays to the holder of the tax deed an amount equal to the purchase price plus the current value of any improvements which may have been made, plus all back taxes paid with interest at the rate of 12 per cent, plus other costs and penalties including an abstract if one was obtained and cost of treasurer's deed.

13. The holder of a tax deed (private person or county) may enter suit (subject to legal limitations) to quiet the title, thus obtaining a marketable title.

This brief review of the law relative to the collection of taxes and disposal of delinquent property, when taxes remain unpaid, indicates a procedure probably no more involved than necessary if all interest parties are to be protected. During recent years the collection procedure has been improved. Consequently, the system at present, although not perfect in Colorado, is more satisfactory than that found in a majority of the

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1 Except that a minor, insane person or idiot may enter suit to redeem at any time if within one year after such disability is removed.

states.

A record of actual collections for selected years since 1930 is shown in Table 34. These collections expressed as percentages of taxes levied were calculated at the end of the fiscal year after unpaid taxes had been delinquent, in each case, for a period of 11 months. Ultimately, a somewhat larger percentage of taxes is always collected due to sale of delinquent property, collection of interest and penalties, etc. The figures in the table show a wide variation by years. For example, only 84 per cent of the taxes levied in the depression year of 1932 were collected by June 30, 1934; while 99.4 per cent of the 1944 taxes were collected after a corresponding period had elapsed. This improvement has been due partly to a strengthening of the tax collection procedure, but

Table 34

Tax Collections Expressed as Percentages of Taxes Levied, State of Colorado for Selected Years, 1930 to 1944[1]

Year	Percentage Collected	Year	Percentage Collected
1930	91.8	1938	92.1
1932	83.9	1940	96.3
1934	91.2	1942	98.3
1936	93.2	1944	99.4

1 Percentages calculated in each case after unpaid taxes had been delinquent 11 months.
Source: Reports, Auditor of State of Colorado.

perhaps mainly to an improvement in the economic welfare of the people of the state. During prosperous years, collections are always better than during years of depression.

The record of collections by counties for the year 1932 contrasted with 1944 is shown in Table 35. In the former year the range was from a low of 38.7 per cent in Costilla county to a high of 97.0 per cent collections in Jackson county. Fifteen counties collected less than two-thirds of the taxes levied, while 38 counties collected less than 80 per cent.

Such heavy tax delinquency was due to a number of factors. Faulty assessments, placing excessive tax burdens upon some properties as compared with others; an over-emphasis upon the property tax, particularly for local governmental purposes; insufficient state aid to the poorer school districts which were attempting to maintain minimum standards; and the general economic depression, more severe in some counties than others, for example, the dry farm acreas of Eastern Colorado -- all were contributing factors. After a time, the heavy delinquency caused such

Table 35

Tax Collections Expressed as Percentages of Taxes Levied, by Counties for Years 1932 and 1944

County	Percentage Collected[1] 1932 Taxes	1944 Taxes	County	Percentage Collected[1] 1932 Taxes	1944 Taxes
Adams	76.9	98.9	Lake	71.0	97.3
Alamosa	59.5	96.2	La Plata	81.0	98.5
Arapahoe	81.0	98.3	Larimer	83.3	99.4
Archuleta	89.2	101.0	Las Animas	78.3	100.0
Baca	68.6	99.1	Lincoln	66.5	97.5
Bent	81.2	99.3	Logan	78.9	99.4
Boulder	92.8	100.0	Mesa	75.7	98.5
Chaffee	84.1	98.5	Mineral	81.4	91.9
Cheyenne	75.6	100.3	Moffat	71.2	100.0
Clear Creek	66.4	80.2	Montezuma	48.0	97.4
Conejos	53.9	89.3	Montrose	75.6	98.2
Costilla	38.7	104.9	Morgan	84.9	98.9
Crowley	62.4	96.6	Otero	85.9	98.8
Custer	72.6	96.1	Ouray	74.5	91.3
Delta	71.9	99.3	Park	88.7	96.7
Denver	91.2	100.9	Phillips	79.3	99.6
Dolores	39.8	93.7	Pitkin	63.6	95.4
Douglas	86.3	99.6	Prowers	80.8	102.1
Eagle	89.0	98.9	Pueblo	83.4	98.7
Elbert	80.9	98.5	Rio Blanco	71.1	98.6
El Paso	93.1	99.6	Rio Grande	61.4	98.4
Fremont	91.2	98.7	Routt	78.0	99.7
Garfield	83.1	98.9	Saguache	77.8	98.1
Gilpin	59.4	72.0	San Juan	59.3	66.6
Grand	87.3	99.3	San Miguel	55.1	97.4
Gunnison	81.4	94.3	Sedgwick	79.7	99.9
Hinsdale	49.2	61.9	Summit	65.1	92.1
Huerfano	76.4	95.6	Teller	76.5	88.2
Jackson	97.0	104.8	Washington	76.5	100.1
Jefferson	77.5	99.8	Weld	87.0	99.4
Kiowa	79.5	100.5	Yuma	82.5	99.4
Kit Carson	74.0	100.3			
			State	83.9	99.4

1 Percentages calculated in each case after unpaid taxes had been delinquent eleven months.

Source: Reports, Auditor of State of Colorado.

an accumulation of interest and other penalties for many property owners that the payment of back and current taxes became impossible.

As a consequence, many local governmental units, including school districts, found themselves financially insolvent. Even after reducing standars and cutting of governmental services far beyound that which was in the public interest, expenditures often exceeded revenue. Many school, town and county warrants were issued for salaries, etc. which could not be paid because of insufficient funds. Financial distress was also experienced by the state institutions which were depending upon a property mill levy for sources of revenue.

In 1935 an effort was made to rehabilitate delinquent property owners who were unable to pay the accumulation of taxes, interest, and penalties. The legislature amended the revenue act, permitting back taxes, (those delinquent prior to August 1, 1934) to be paid without interest or other penalty. In order to benefit from this waiver of interest and penalty costs, back taxes had to be paid prior to December 31, 1935.[1] Such an arrangement for relieving delinquent property owners was perhpas warranted because of the critical aspects of the period. However, should this inducement for property owners to pay back taxes be extended repeatedly, it would defeat its own purpose. In the long run, more taxes than otherwise would probably become delinquent.

Table 35 indicates that collections of 1944 taxes were excellent in most counties of the state. Twelve counties actually collected 100 per cent or more of the taxes levied. The explanation for collection in a few cases being more than 100 per cent is that assessment rolls were changed perhaps slightly during the year, or else county treasurers through error reported some interest and penalties along with taxes. According to the table, only four counties experienced what might be considered poor collections. They were Hinsdale with a percentage of 61.9, San Juan with 66.6, Gilpin with 72.0 and Clear Creek with 80.2 per cent collections. The next lowest percentage was 88.2 for Teller county, while average collection for the state as a whole was the remarkable figure of 99.4 per cent.

By way of conclusion it may be stated that the administrative procedure for collection of the property tax as established by law is at present fairly satisfactory. However, actual collections could be improved in some counties through a more careful selection of administrative officers. Moreover, greater uniformity of assessment of property would be conducive to a more complete collection of taxes in all counties. An increase of state aid would also be helpful by relieving part of the local property tax burden. Such state aid provides relief in two ways. First, through a program of equalization according to need, the aid relieves poorer districts of the state which otherwise would be forced to adopt excessive mill levies upon property within their areas. Secondly, if the state obtains revenue for distribution to local units from sources other than the property tax, for example, the income, inheritance, or severance tax, the property tax tends to be lightened in all districts receiving any aid. In either case, such assistance is helpful in maintaining good tax collections, particularly during periods of economic distress.

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1 Colorado Statutes Annotated, 1935, Chapter 142, par. 209.

Appendix A

Property Tax Collections as Percentage of Total Tax Collections of State and Local Governments, 1942. (In Thousands)

Rank	State	Total Taxes[1]	Property Tax[1]	Percentage
1	North Dakota	$ 44,247	$ 29,081	65.7
2	Nebraska	68,319	44,860	65.6
3	New Jersey	463,335	290,706	62.7
4	Montana	43,536	27,001	62.0
5	Massachusetts	402,826	240,566	59.7
6	South Dakota	39,774	23,782	59.7
7	Kansas	109,861	64,476	58.6
8	Idaho	31,378	18,326	58.4
9	Maine	59,468	34,741	58.4
10	New Hampshire	41,251	23,826	57.7
11	Iowa	176,644	98,812	55.9
12	Minnesota	212,539	116,720	54.9
13	Wisconsin	243,799	131,448	53.9
14	Nevada	12,173	6,533	53.8
15	New York	1,583,424	846,468	53.4
16	Colorado	83,388	42,946	51.5
17	Maryland	121,344	61,734	50.8
18	Texas	294,869	148,924	50.5
19	Connecticut	169,234	85,039	50.2
20	Wyoming	17,000	8,353	49.1
21	Utah	40,617	19,877	48.9
22	District of Columbia	53,593	25,890	48.3
23	Rhode Island	64,532	30,900	47.8
24	Illinois	664,302	314,993	47.4
25	Vermont	24,048	11,209	46.6
26	Indiana	217,722	99,888	45.8
27	Oregon	85,739	38,891	45.3
28	Michigan	436,164	195,035	44.7
29	Missouri	204,830	90,402	44.1
30	Arizona	36,485	16,057	44.0
31	Pennsylvania	749,643	329,412	43.9
32	California	767,408	333,675	43.4
33	Florida	123,293	51,734	41.9
34	Kentucky	109,332	45,659	41.7
35	Ohio	506,456	207,708	41.0
36	Tennessee	117,807	46,735	39.6
37	Mississippi	76,304	29,596	38.7
38	Virginia	120,331	43,762	36.3
39	Louisiana	138,892	47,766	34.3
40	Georgia	106,063	36,335	34.2
41	South Carolina	78,290	26,642	34.0
42	New Mexico	27,190	9,162	33.6
43	Oklahoma	116,910	35,662	30.5
44	Washington	149,340	44,342	29.6
45	North Carolina	159,257	45,744	28.7

(continued on next page)

Appendix A

Property Tax Collections as Percentage of Total Tax Collections of State and Local Governments, 1942. (In Thousands)

Rank	State	Total Taxes[1]	Property Tax[1]	Percentage
46	Arkansas	60,343	17,104	28.3
47	West Virginia	95,823	26,593	27.7
48	Alabama	87,607	23,088	26.3
49	Delaware	18,067	4,475	24.7
	Total	$9,654,797	$4,592,678	47.5

1 Bureau of the Census, Department of Commerce, Governmental Finances in the United States: 1942

Palmer L. Bunch

TAXATION IN COLORADO

REPORT NUMBER THREE

The Colorado Property Tax

By EARL C. CROCKETT
Professor of Economics
UNIVERSITY OF COLORADO

The Study of TAXATION IN COLORADO is Sponsored by
University of Colorado
BOULDER, COLORADO
JANUARY, 1947

TAXATION IN COLORADO

Report Number Three

THE COLORADO PROPERTY TAX

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THE COLORADO PROPERTY TAX

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THE COLORADO PROPERTY TAX

Summary and Conclusions

1. When Colorado became a state her new constitution required a system of general property taxation for state and local purposes which proved to be inequitable and from many standpoints impractical. Yet the provisions were so inflexible and constitutional revision was so difficult that it was not until 1911 (Tax Commission Act) and 1936 (amendment permitting income tax) that genuine tax reform was forthcoming. Even with these fundamental changes along with numerous other tax revisions over the years the property tax in Colorado still remains grievously defective.

2. As in most other states the property tax represents the principal source of revenue for state and local governmental purposes. In 1942 it yielded $43 million or 51.5 per cent of all tax revenue. This percentage was slightly more than the average for all states -- the latter being 47.5 per cent.

3. During recent years the relative emphasis placed upon the property tax as a source of revenue for the state government (as contrasted with local) has been declining. This downward trend is considered advantageous as the state can well depend largely upon such revenue sources as the income, sales, severance, inheritance and special business taxes, leaving the property tax principally for local units of government. In 1944 in Colorado the state government obtained 10.8 per cent of its revenue from the property tax. The average for all states was 4.6 per cent -- the range being from nothing in five states to 22 per cent in the state of North Dakota.

4. Expressed in dollars the yield of the property tax in Colorado has fluctuated widely, however, the general trend has been upward. Since 1913 this has been due to higher local mill levies rather than because of rising property assessments.

5. The law in Colorado specifies that all property, unless exempt, shall be assessed at full cash value. Yet conclusive evidence indicates that at present the average assessment ratio throughout the state is probably not more than 30 per cent of true value.

6. In 1946 total assessed valuation of property in the state amounted to about $1,259 million. This was actually $47 million less than total assessments in 1913. If current assessments are compared with those in the year 1929, the reduction has been $327 million, or 20.6 per cent. Exemption from the property tax of intangible wealth and motor vehicles accounts for only a small fraction of this loss on the assessment rolls.

7. While assessments have declined since 1913 actual property has expanded and greatly increased in value. Considering all available evidence and discounting the inflationary rises of the war years since 1940, we may conservatively conclude that all real and personal tangible

property in the state has increased in cash value at least 50 per cent since 1913. Moreover, there is good evidence to indicate that in the future, the values are not likely to decline below this level -- approximately the level of 1940 or 1941.

8. If assessments were approximately on a full valuation basis in 1913, in order for the same situation to prevail today (after correcting for postwar inflation and allowing for exemption of intangibles and motor vehicles) the total assessed valuation of real and personal tangible property would probably need to increase by at least $625 million. The tax commission to the limit of its ability, should attempt to place the property in the state upon this higher total appraised valuation basis. In some instances it would involve discovering property, taxable under the law, yet not listed on assessment rolls, either because of error, negligence or favoritism; in all instances it would involve placing valuations on a basis so that they would be at the level of full cash value. Such reform relative to assessments would merely be in accordance with the prescribed laws of the state. Moreover, full assessments do not cause higher general taxes; on the contrary, the average property owner would probably discover he has a lighter tax burden when all property is fully assessed than when it is only partially assessed.

9. But there are other advantages when the assessment objective is full cash value. One of these advantages is a much greater uniformity of original assessments. The use of a fractional basis tends to be indefinite in practice and inevitably leads to wide deviations.

10. A few illustrations of the lack of uniformity under the present system in Colorado are the following:

a. Assessed valuations of Colorado farms compared with United States Census values for 1940 indicates an average variation ranging from 145 per cent in one county down to 26 per cent of census values in another county.

b. Dry farm land in some eastern Colorado counties is being assessed at $4 or less per acre which is currently yielding up to $100 per acre in wheat for each crop year.

c. Based upon 1940 building costs, in 1944 a survey of 35 cities and towns made by the tax commission showed that the assessed valuation of urban residences varied from a high of 90 per cent to a low of 10 per cent of full value.

d. On the basis of actual sales data, there is often extreme variation <u>within</u> most, if not all of the counties relative to the assessment of real property. Surveys indicate that in most instances the larger homes and farms are under-assessed to a greater extent than the smaller properties. Thus, the property tax becomes grievously regressive.

e. In one-third of the counties of the state the average assessment of personal household goods is actually less than the $200 exemption permitted by law. Moreover, the assessment ratio of such personal property is relatively seven or eight times as high in some counties as in others.

f. As a group, mines and oil wells have always received special favors under Colorado's property tax system. In 1913 they were relatively under-assessed. Today they are favored to an even greater extent.

g. It is difficult to say whether or not public utilities assessed by the tax commission benefit from relatively lower assessments than other forms of property. Since 1921 the total assessed valuation placed upon utilities has held up better than upon most catagories of property, however, with the exception of railroads, utilities have enjoyed rather phenomenal expansion. For example, expressed as an average of assessed valuation of investment per kilowatt hour of production, assessments of electric light and power companies have declined from 7.8 cents in 1920 to 4.7 cents in 1945.

11. A number of special problems of property taxation in the state deserve particular mention. One of these is the problem of tax rate limits. The provision restricting current tax levies of the state and all local units of government to a level not exceeding 5 per cent in excess of the previous year appears to be as rigid an over-all limit as can practically be established. Perhaps this limit with the "safety valve" of appeal by local units to the tax commission, or if this fails, appeal to popular referendum, is a good one. Furthermore, the 5 per cent limit may be a genuine advantage, by stilling the fears of property owners who would otherwise oppose the state's return to a 100 per cent valuation basis for property. Such fears might arise from the belief that if tax valuations were drastically raised, governmental units would become extravagant because of receiving more revenue from the same mill levies. However, the 5 per cent limit is a safeguard against this possibility. Other specific mill levy limits restricting the state and certain classes of local units (notably the counties) appear to possess but dubious value.

12. A second special aspect of property taxation is the problem of collection and delinquency of taxes. Because of existing prosperous conditions throughout most of the state, current collections are excellent. This favorable situation would not be likely to continue, however, if another major depression occurs. Safeguards against a future period of property tax delinquency causing financial distress to school districts, local governmental units and state institutions would include: (1) placing less emphasis upon the property tax as a source of revenue, particularly for state purposes, by developing to a greater extent such revenue sources, for example, as the severance and income taxes; (2) relief extended to local units, especially school districts, by distribution of larger amounts of state aid; and (3) improvement of property assessments.

13. A third and rather serious problem is one caused by the state's constitutional and statutory provisions relating to tax exempt property. These exemptions may be classified as follows:

A. Required by Constitution

(1) $200 of personal property for each head of family
(2) Property owned by the state and its political subdivisions, including public libraries

B. Permitted by Constitution and authorized by law

(1) Property not owned or operated for a profit when employed solely for:

(a) Religious worship
(b) Schools
(c) Strictly charitable purposes
(d) Cemeteries

(2) Property employed in irrigation projects used solely by owners

C. Required by Constitution because of other taxes levied

(1) Motor vehicles
(2) Intangible property

D. Property owned by the federal government.

14. Although the provision for a personal property exemption of $200 per head of family which became part of the new constitution in 1876 was intended merely to safeguard the standard of living of families possessing the bare essentials of life, the exemption has proved to be a loophole through which millions of dollars worth of property has escaped taxation. This escape from taxation occurs principally in two ways, neither of which was intended by law. They are as follows:

A. The fill amount of the exemption has been applied against property assessed at a mere fraction of its value.

B. Although the exemption was intended to include only purely personal or household goods it has also been applied against agricultured and business personal property.

In 1945, in more than one-third of the counties of the state, personal exemptions exceeded the total assessed valuation of personal household goods. In another third of the counties, after deduction of exemptions, net personal property assessments were negligible. Assessors in all of these counties would probably show more net assessments on the tax rolls if the $200 personal exemption were eliminated and all household goods made tax exempt. However, this would not be the best solution of the problem. The principle behind the $200 exemption is probably sound if all personal property is included on the tax rolls and assessed at a figure even approaching full value. Furthermore, personal household

goods represent some taxpaying ability. To exempt all these goods would be to place an even heavier load upon real estate which in many cases is already paying relatively too much.

15. The exemption from taxation of state and municipal property is a customary arrangement found in most other states of the Union. Probably no useful purpose would be served by making state property taxable by local units. Likewise, the property of local governmental units, with the possible exception of publicly owned commercial enterprises, should not be subjected to taxation. Principal commercial enterprises are municipal light and power plants which are to be found in several communities and which produce about 10 per cent of the electric energy consumed in the state. No great hardship would be placed upon these plants if they paid taxes comparable to those paid by privately owned utilities; moreover, the total property tax load would become somewhat more equitably distributed. Furthermore, much unnecessary criticism directed against publicly owned utilities could in this manner be avoided.

16. The largest body of tax exempt property in the state is in the form of land and improvements owned by the federal government. During recent years the amount of this property has been increasing. By 1944 the government owned about 26 million acres or 38 per cent of the land area of the state. Moreover, there were extensive improvements on some of these lands including many government buildings. These holdings may appear to represent a vast amount of tax exempt property placing a burden upon owners of privately held property who must bear the entire cost of local government. However, upon closer examination it is found that several types of payments in lieu of taxes are annually contributed by the government. The average annual federal aid to Colorado excluding WPA and other emergency payments (1928-37) amounted to $5 million. This is considerably more than an ad valorem tax on federal property would yield if there were to be one. Nevertheless, the opportunistic basis for granting aid in lieu of taxes has caused much misunderstanding and dissatisfaction. In the future there should be a consistent and unified plan relative to such payments.

17. No appraisal has been made of the tax exempt property used for religious, educational and charitable purposes; for cemeteries and for irrigation propects. The justification for these exemptions is that meritorious functions are performed relieving the government of burdens which it would otherwise have to bear. However, the courts have followed an extremely liberal line when interpreting exemption provisions of the constitution and statutes. Consequently, these lenient decisions have permitted the escape from taxation of much property which probably should be taxed.

18. Responsibility for successful operation of the property tax resides in several county and state administrative bodies. A county assessor (elected in each county except in Denver County) is directly responsible for all original assessments except the assessment of public utilities. Within each county, the county commissioners serve as a board of equalization of assessments. On the state level, an appointed state tax commission has general supervision over county assessors, makes

original assessments of public utilities and recommends changes in assessments to the state board of equalization. An ex officio board of equalization possesses limited yet final authority over state-wide equalizations. Property tax collections are made by the various county treasurers.

19. Perhaps the weakest aspect of property tax administration in Colorado is the office of county assessor. Although in a number of counties assessors are trying courageously to do a good job and are succeeding surprisingly well, the general level of performance in most counties is woefully inadequate. However, appreciable improvement cannot be expected until several fundamental changes are made. In order to do a good job, the assessor and his deputies in addition to possessing other qualifications, must be highly trained individuals with a vast amount of technical information and experience. Existing conditions of selection, tenure and remuneration do not in most instances attract or retain such individuals.

20. Although salaries of assessors were raised in 1945, they are still inadequate. The range is from $4,600 in Denver to $1,000 in Hinsdale county -- the median salary being $2,400 per year. This $2,400 official is responsible for placing a valuation on some $10 million of property against which is placed a tax liability of hundreds of thousands of dollars. Private business would not likely place comparable responsibility upon the shoulders of a $2,400 employee. Moreover, the assessor is elected for a two-year term of office. This is not enough time for him to become sufficiently familiar with his duties to be really efficient. In practice the assessors in one-third of the state's 63 counties are normally turned out of office or else refuse to run for re-election after serving for only one, or at the most, two terms.

21. The dual and overlapping property tax administration retained by the state government is unsatisfactory. Years ago all other states except Missouri and Colorado got rid of the dual control over equalizations exercised by an appointed tax commission and an ex officio board of equalization. These two states have probably continued to retain their inefficient and generally unsatisfactory system because of a combination of inertia and inflexibilities in their state constitutions.

22. The 35-year record of "equalization" of assessments since 1911 indicates that the state board of equalization is more likely than the tax commission to be influenced by partisan politics. The board is apt to decide that the expedient course is to do nothing (10 of the years) or else to order assessment reductions (18 of the years). During the time from 1915 to 1930 those favored with reductions were the railroads and utilities; from 1931 to 1933 the favored ones were farmers. Only during the six-year period from 1934 to 1939 has the board apparently been able to resist the political expediency of either doing nothing or else of making tax reductions. Moreover, an ex officio board composed of individuals with numerous other duties has neither the time nor the facilities for doing an adequate job of equalization.

23. When evaluating the work of the state tax commission during its 35 years of existence since 1911, a number of factors must be taken into consideration. It had hardly begun to operate when its very life was threatened by proposed statutory changes and constitutional amendments. It has always operated on a budget insufficient to maintain an adequate staff of research and field workers. Also its authority over equalization of assessments among counties has been limited because of the fact that final decisions reside with the state board of equalization. Then, too, its work has not been easy. Colorado has many divergent economic and sectional interests which are difficult to reconcile.

24. Considering all aspects, there is no question but what the property tax system of the state has been strengthened and improved over the years by the tax commission because of its supervisory, assessment, and equalization functions. If the property tax is still unsatisfactory, the solution would not be to weaken the power of the commission but rather to strengthen its hand through bestowing additional authority supported by adequate appropriations. The various states of the union with most satisfactory property taxes are invariably states with considerable administrative centralization in a state tax commission or its equivalent.

Recommendations

1. In order to place assessments upon a full valuation basis, making them uniform among the various taxpayers and counties of the state, there is urgent need for a complete reappraisal of all taxable property. This work should be conducted by the tax commission with cooperation from the county assessors. So as to be completely fair, all counties should be placed upon the reappraisal basis at the same time. Consequently, the legislature should appropriate funds sufficient to permit completion of the reappraisal in a one-year or at most two-year period of time.

2. Sufficient appropriations should be made available to the tax commission so that county assessors can be provided continuous supervision and assistance. There is need for the preparation and distribution of assessor's manuals, for more field deputies and for such guidance as would be provided by periodic schools for assessors. The extra cost would pay big dividends in the form of more uniform and complete assessments.

3. There should be a constitutional amendment abolishing the ex officio state board of equalization. All authority now vested in the board should be transferred to the state tax commission.

4. The county assessor should be appointed instead of elected.

He and his office should serve under a merit system. Appointment of assessors might well be made by county commissioners from a list of eligible candidates approved by the state tax commission.

5. Should the state continue to elect the assessors (except Denver county) the term of office should definitely be lengthened to a minimum of four years.

6. The salary schedule for assessors and deputies should be increased. There was urgent need for such increase even before the development of high postwar living costs. Increases granted by the legislature in 1945 were not adequate.

7. There should be a reform relative to the $200 personal property exemption. The present system is far from satisfactory. Perhaps the solution is to retain the exemption but to apply it only against fully assessed household goods.

8. There should be a re-examination of the effect of tax exemptions due to religious, educational and charitable purposes; also tax exempt cemeteries and irrigation projects. An appraisal of the value of such property would be helpful. This appraisal could be made either by public officials or by some competent independent body. On the basis of incomplete information it appears that the statutory provisions relating to these exemptions should be made more stringent. Fortunately, the exemptions are not constitutionally mandatory.

THE COLORADO PROPERTY TAX

Fiscal Importance of the Property Tax

The general property tax has always been the principal source of public revenue in Colorado. This emphasis upon property taxation conforms to the general practice in most American states. For the nation as a whole until recent years, collections yielded more revenue than from all other state and local taxes combined. Even as late as in 1927 the property tax accounted for about 80 per cent of all state and local public revenue.[1] However, as the retail sales and income taxes have since gained in importance, the relative significance of the property tax has declined.

In Colorado, during the sixty year period from 1876 to 1936 the state and local units depended for revenue almost exclusively upon the general property tax. An indication of this dependence may be obtained by referring to the situation in 1932. According to the Census Bureau, in that year all Colorado taxes for state and local purposes yielded $54,408,000. Of this amount, $43,757,000 or 80.4 per cent came from the general property tax[2] -- this large percentage in spite of highway,

1 Jensen, Jens P., Property Taxation in the United States

2 Financial Statistics of State and Local Governments, 1932

inheritance and miscellaneous business taxes adopted principally during the two decades immediately preceding.

By 1942, in all states combined, the property tax supplied 47.5 per cent of tax revenue going to state and local governments. In that year the range among the states was from a high of 65.7 per cent in North Dakota to a low of 24.7 per cent in Delaware. Colorado was not far from midway in the list -- the property tax accounting for 51.5 per cent of total revenue as compared with an average of 47.5 per cent for all states.[3]

During the last 20 or 30 years in a number of states the property tax as a source of state revenue (as contrasted with local) has become relatively insignificant, disappearing entirely in at least five jurisdictions. The property tax revenue going to state governments expressed as percentage of all tax revenue claimed on the state level is shown in Table 1. In 1944 all states collected an average of only 4.6 per cent of their tax receipts in the form of the property tax. However, there was considerable variation among the individual states -- the range being from nothing in Delaware, Illinois, Oklahoma, Oregon,

Table 1

Property Tax Collections as percentage of Total State Tax Collections (Excluding Political Subdivisions), 1944

State	Percentage	State	Percentage
Delaware	0	Michigan	5.5
Illinois	0	Kansas	5.7
Oklahoma	0	New Hampshire	6.2
Oregon	0	Massachusetts	6.6
Rhode Island	0	Georgia	7.1
Iowa	.1	Louisiana	7.6
New York	.2	Alabama	8.1
West Virginia	.2	Virginia	8.1
Wyoming	.9	Arkansas	8.2
South Dakota	1.1	Utah	8.2
Mississippi	1.6	Montana	8.6
Tennessee	1.8	Minnesota	8.8
Connecticut	1.9	Wisconsin	8.8
Pennsylvania	1.9	Colorado	10.8
South Carolina	2.4	Idaho	11.0
North Carolina	2.5	Kentucky	11.4
California	2.7	New Mexico	12.1
Ohio	3.2	Texas	14.4
Washington	3.5	New Jersey	14.7
Florida	3.6	Arizona	17.3
Missouri	4.3	Maine	17.3
Vermont	4.6	Nevada	20.1

3 See Appendix A for amounts and percentages for each state.

State	Percentage	State	Percentage
Indiana	4.9	Nebraska	21.8
Maryland	5.2	North Dakota	22.0
		Total all States.....	4.6

Source: Bureau of Census, Department of Commerce, State Finances, 1944

and Rhode Island to 22 per cent in North Dakota. The ratio for Colorado was 10.8 per cent, placing the state among those jurisdictions (eleven in number) still collecting 10 per cent or more of their revenue from the property tax.

However, the relative emphasis placed upon the property tax by the Colorado state government has been declining during recent years as seen in Table 2. In 1915, 12.7 per cent of all property tax revenue was taken by the state; the ratio increased to 14 per cent by 1920 but the trend has been downward since, declining to 9 per cent by 1945.

Table 2

Distribution of Colorado Property Tax Revenue for Selected Years (1915-1945)[1]

(Dollar Amounts in Thousands)

	State		County		City & Town		Elementary & Secondary Schools		
Year	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Total
1915	$2,607	12.7	$7,161	34.9	$5,300	25.8	$5,466	26.6	$20,536
1920	5,529	14.0	11,322	28.7	7,805	19.8	14,766	37.5	39,424
1925	5,726	12.7	9,459	20.9	8,756	19.4	21,248	47.0	45,190
1930	5,710	11.6	10,088	20.5	9,353	19.0	24,054	48.9	49,206
1935	3,268	8.8	7,685	20.8	7,753	21.0	18,254	49.4	36,961
1940	4,842	11.6	7,108	17.0	10,336	24.8	19,422	46.6	41,709
1945	4,267	9.0	10,164	21.6	10,121	21.4	22,660	48.0	47,213

1 Annual Reports, Colorado Tax Commission

This downward trend in the relative amount of property taxes levied by the state is considered by most tax authorities to be advantageous. The state can well depend largely upon such revenue sources as the income, sales, severance, inheritance and special business taxes, leaving the property tax principally for counties, cities and school districts. Moreover, some authorities contend that by keeping the state property tax levies down to a relatively low level, local assessments are more likely to be uniform among the various counties -- thus contributing to equity in taxation. The basis for this contention is the theory that inequality among the county tax districts is principally due to competitive under-assessments -- the low assessments growing out of a desire upon the part of authorities in each county to keep their share of the state tax as low as possible.

The theory suggests that if the state were to discontinue completely the collection of property tax revenue, temptation for under-assessment between counties would be removed. Accordingly, at least five states have adopted such tax reform. However, the experience of these states relative to the property tax has been disappointing. Apparently the separation of revenue sources alone will not insure full and equal assessments of all property throughout the state. Perhaps other reasons more significant than the desire to escape state levies account for the low and unequal assessments on the county level.

Considering all factors the writer believes it desirable for Colorado to keep her state property tax levy down to the approximate level prevailing at present. In other words, in the future the state should not attempt to take more than about 9 or 10 per cent of all property tax receipts -- leaving the bulk of such revenue for the local units of government. Should additional revenue sources be found, for example, a severance tax or improved income tax, the state might well depend even less than at present upon the property tax. However, for the state to withdraw completely from the property tax field, as a number of jurisdictions have done, would probably not be advisable. By so doing, a measure of financial stability would be lost, as the property tax tends to yield a constant and stable stream of revenue. Moreover, the loss of this financial stability would not in itself be appreciably offset by improvements in local assessments.

The total yield of the property tax for all units of government in Coloradoby years since 1913 is shown in Table 3. From 1913 to 1929 the

Table 3

Taxes Levied, Colorado Property Tax for Years 1913 to 1946 Inclusive
(Dollars Expressed in Thousands)

Year	Anticipated Revenue	Year	Anticipated Revenue
1913	$18,032	1930	$49,207
1914	18,420	1931	44,864
1915	20,536	1932	39,998
1916	20,430	1933	36,793
1917	24,657	1934	36,813
1918	26,173	1935	36,962
1919	33,292	1936	38,139
1920	39,424	1937	40,757
1921	42,260	1938	40,400
1922	41,956	1939	42,020
1923	42,241	1940	41,709
1924	42,992	1941	41,889
1925	45,190	1942	41,779
1926	46,242	1943	42,671
1927	47,976	1944	43,769
1928	48,231	1945	47,213
1929	49,665	1946	50,000[1]

1 Estimated
Source: Annual Reports, Colorado Tax Commission

trend of total revenue was steadily upward, rising from $18 million in the former year to over $49 million in the latter. Between 1929 and 1933 a drastic reduction occurred, anticipated collections falling to the level of $36.7 million by the latter year. Since 1933 the trend has again reversed itself, anticipated revenue for 1946 being about $50 million or approximately the same as in the former peak year of 1929.

As will be explained later, most of the increase in revenue since 1933 has come as a result of higher local mill levies rather than from rising property valuations as turned in by county assessors and the state tax commission. During the depression years property assessments were drastically reduced and those reductions have been only partially restored.[1]

Thus we find that by 1946, although property was being assessed at a much lower level, total tax collections were about the same as for the year 1929. Perhaps the most significant effect of the change has been that the state institutions, supported by a constant property mill levy, have suffered financially. Local units of government have recovered their lost revenue by raising local mill levies.

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1 See section on property assessments

Early Development of the Property Tax

From 1876 to the Turn of the Century

When Colorado became a state in 1876 her new constitution provided for the adoption of a general property tax by authorizing the legislature to establish a uniform system of property taxation. All property, unless specifically exempted, was to be assessed at a just value. Original assessments were to be made by county assessors while equalization was possible on the county level by the county commissioners and on the state level by an ex officio board of equalization composed of the governor, state auditor, state treasurer, secretary of state and attorney general.

Specific property exemptions contained in the new constitution included the following: (1) $200 of personal property for each head of family, (2) ditches, canals and flumes used by the owners for irrigation, (3) mines and mining property for a period of ten years, (4) all real and personal property of the state, counties, cities, towns and other

municipal corporations and public libraries, and (5) property used solely for religious worship, for schools or for strictly charitable purposes, also to be exempt were cemeteries not used or held for private profit unless otherwise provided by law.

The constitution limited the state property tax to six mills on the dollar of assessed valuation with provisions for further reductions to four mills and then two mills when total state valuations reached $100 million and $300 million respectively. An amendment in 1892 repealed the latter provision and fixed the maximum rate for state purposes at four mills. The only exception allowed was to provide money to pay the expenses incurred on account of insurrection and invasion.[1]

Thus when Colorado became a state her constitution contained most of the customary provisions found in other state constitutions of that time relative to property taxation. The limiting features were intended to insure a system of equitable taxation without favoritism or discrimination to any special groups or classes.

However, the constitutional provisions committed the state to a system of general property taxation for state and local purposes which proved to be inequitable and from many standpoints impractical. Yet the provisions were so inflexible and constitutional revision was so difficult that it was not until 1911 (Tax Commission Act) and 1936 (amendment permitting income tax) that genuine tax reform was forthcoming.

Under the constitutional provisions of 1876 the legislature established by statutory means the procedure for initiating the property tax. County assessors elected for a term of two years were given the responsibility of determining the just valuation of all property, real and personal. These valuations were to be adjusted by a county board of equalization (county commissioners) and the differences between counties were to be equalized by the state board of equalization.

This administrative procedure was intended to insure assessment at full cash value of all property in each county of the state. However, in practice the procedure broke down. County assessors, always under pressure from property owners, began a competitive race with each other to under-assess property in order to reduce, in each case, the county's share of taxes paid to the state government. Because the same economic pressures and interests were present when equalization was attempted by the county commissioners, no correction of the inequality as between counties was achieved on this level.

Thus the state board of equalization was early confronted with the responsibility of attempting to force county assessors to make full-value assessments in order to obtain justice between the counties. Although

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1 At present the maximum is still four mills for the ordinary operation of the state government and state institutions. However, in 1920 an amendment permitted the levying of one additional mill for erection of buildings for state educational institutions.

under the constitution the board was apparently vested with considerable power, its attempts were thwarted by the courts.

As early as 1876 the board detected property tax inequalities and changed assessments in such a manner that the sum total of all county assessments was greater after the equalization than before. The question of constitutionality was raised and in 1877 the court ruled that the board had no power to increase the aggregate valuation of the state. If it attempted to equalize by raising valuations in one county, it must make a corresponding reduction somewhere else.[1]

The board being composed of ex officio members, who were each busy with other duties anyway, decided that in view of the court's ruling nothing could be done. Consequently, nothing further was attempted relative to state equalization for over 20 years. Finally in 1899 the board made another effort to equalize values. This time it changed the assessment of certain classes of property in the various counties. Again objection was raised and an appeal made to the courts. The state supreme court affirmed its earlier decision and ruled this type of equalization to be likewise unconstitutional.[2]

Thus thoroughly discouraged in its efforts to equalize property valuations, the board adopted the following resolution:

> "Whereas every effort of the said Board of Equalization since its establishment has been invalidated by adjudication of the Supreme Court, therefore be it resolved, that in the judgment of this board the power of said board to equalize and adjust can only be made effective by constitutional amendment or by legislative enactment specifically designating its powers and directing the method of the performance thereof.[3]

After this formal declaration containing an appeal to the people, assessments grew steadily worse from the standpoint of equality among the various counties. Then, finally, several contributing factors induced the legislature to make a comprehensive property tax revision in 1902.

The Property Tax Law of 1902

The 1902 changes grew out of difficulties reaching a climax several years earlier. The depression of the 1890's put a severe strain upon the tax structure causing a shrinkage of revenue due to reduced valuations of property as well as because of tax delinquency. County assessors became reluctant to raise valuations even after several years of economic recovery. At the same time governmental functions were expanding and the need for revenue was increasing. As a consequence by 1898 the legislature

1 People vs. Lothrop, 3 Colorado 428 (1877)
2 People vs. Ames, 27 Colorado 346 (1900)
3 See Annual Report, Colorado Tax Commission, 1915, p.9.

found itself appropriating $472,555 in excess of tax receipts. Thus the lack of revenue for the biennium seriously crippled many of the state institutions and state functions.

Conditions became so bad that in 1900 Governor Thomas appointed a special revenue commission to study the problem and to make recommendations for tax reform. The commission's report led to the drafting and adoption of a new revenue bill in 1901. This new law amended the property tax by providing for, among other things, the appointment of a state board of assessors to supervise and administer tax assessments.

Through the efforts of the board total assessments in the state were increased from $216 million in 1900 to $460 million in 1901. Eighty-nine million dollars of this increase was assessed against the railroads. The latter corporations refused to pay their increased taxes and challenged the constitutionality of the new law. In December, 1901 the court ruled that the state board of assessors had no power under the state constitution, also contended that because of certain technicalities the law was invalid.

Governor Oram called a special session of the legislature in January, 1902 for the purpose of drafting tax legislation which might be approved by the courts. The general property tax revision of 1902 was the outcome. Many provisions of the law adopted at that time have remained unchanged.

In 1902 amendments attempted to strengthen the property tax by setting forth in detail a prescribed procedure of assessment of property and collection of taxes.[1] All properties of all kinds except specified exemptions were to be assessed annually at full, true cash value, by county assessors and their deputies; except that the properties of public utilities and railroads were to be assessed by the state board of equalization. The law gave detailed regulations for determining true cash value of property owned by individuals and corporations when no market or sale value information was available.

In order to guide and assist the county assessors and state board of equalization, all property was classified and carefully defined. Property was given the two-fold division of real estate and personal property. Real estate included lands, mines and improvements. Lands were segregated on the basis of whether they were grazing, agricultural or town lots. Mines were of two kinds -- those producing gold, silver, lead, copper or other precious minerals; and those producing iron, coal, asphaltum, quarries and lands containing other metals, minerals and earths. Improvements were defined as buildings, water rights, structures and fixtures erected upon or affixed to land.

Personal property was defined as everything subject to ownership not included within the term real estate. Such property was classified into tangible and intangible. Tangible personality included such property as animals, household goods, jewelry, vehicles, merchandise, etc. Intangible personality included rights, credits, franchises, special privileges and special advantages derivable under contract rights or in connection with the other property. The latter category was interpreted to include, among other items, bank deposits, money and credits, stock, bonds, notes

1 Revenue Act of 1902, approved March 22, 1902

and book accounts.

Heavy penalties were placed upon those found guilty of violating provisions of the law. Any officer neglecting or refusing to perform duties imposed in the act was to be fined not exceeding $5,000 and imprisoned not exceeding one year. Assessors were to forfeit $25 for each imperfect schedule they received and 20 per cent of their salary for failure to send abstract of assessments to the state auditor in due time. Also they were liable to a fine of $500 to $1,000 for neglect to compute and extend taxes, were to be punished as for perjury for wilfully omitting or undervaluing property, and could be removed from office by the governor for making erroneous assessments.

Corporations wilfully failing or refusing to make proper returns were to forfeit $100 per day for delays after June 1, failure to pay the tax could lead to forfeiture of the right to do business in the state, and failure to give information to the assessor or refusal to pay taxes would make a corporation liable to a fine of $1,000 and loss of its property through seizure and sale.

A taxpayer making an erroneous return was made liable to a fine of $1,000. Delinquent taxes were to bear interest at the rate of 1 per cent a month from March 1 to August 1, after which the rate was to be 15 per cent per annum.

There were also other prescribed penalties to insure enforcement of the law. These many drastic provisions applying to both tax administrators and taxpayers helped to increase for a time the effectiveness of the law but were futile from the point of view of obtaining really successful compliance. A tax system based upon faulty principles cannot be successful regardless of penalties imposed for noncompliance.

The first year after approval of the law (1903) total assessed valuation of property in the state was $333 million. This was considerably less than the $460 million valuation under the 1901 law which had been declared unconstitutional but more than the valuation of $216 million in 1900. From 1903 to 1912 total assessed valuation tended to increase slowly. By 1908 they were $375 million and by 1912, $422 million. Thus after 12 years time, valuations were still below those of the year 1901, in spite of drastic provisions in the law and even though actual wealth in the state had rapidly increased during the period.

The 1902 law had provided for an annual meeting of county assessors to be held at the Capitol for the purpose of discussing common problems attendant to the obtaining of assessments based upon full cash value for all property in the state. Yet the assessors in their annual meeting of 1908, realizing that there were widespread violations relative to property assessments, actually and openly agreed among themselves to assess in the future all property in the state at one-third cash value instead of full cash value as provided by law.

Writing in 1910, Blakey stated:

"As has been the case everywhere else, the general property tax in Colorado has degenerated into a tax on realty. The taxes on all

> other forms of property combined (if railroads are classed with realty) are an almost insignificant part of the total and of the real proportion of their actual worth. . . Mining property is highly favored by statute as well as by the assessors; manufacturing property is almost exempt from assessment and as long as communities and states desire such industries as they have in the past, there is apt to be no vital change in this respect, either as to manufactures or mines; merchandise, on account of its nature, is very inadequately assessed and the assessments of many kins of intangible property is a farce."[1]

Other states were also encountering serious difficulties with their property tax systems. Many began adopting a more centralized tax administrative procedure in an effort to correct some of the evils. This centralized administration usually took the form of establishing a state tax commission possessing considerable authority and responsibility over directing the work of local assessors relative to assessment procedure and equalization of property valuations. The tax commission was also usually given responsibility for direct assessment of public utilities and railroad properties in the state.

The county assessors in Colorado observing this development in other states and realizing that guidance and supervision on the state level was needed if uniformity of property assessment was ever to prevail, began advocating the adoption of a law establishing a state tax commission for Colorado. They urged that the commission if set up should possess powers comparable to those assumed by the state board of tax assessors under the ill-fated 1901 law which has fallen before the courts.

Beginning about 1910, a general reform movement swept the whole country and left its imprint in many states. The reform was supported by many labor, farmer and civic groups. Among other things, governmental reorganization, tax reform and protective labor legislation, were sponsored. In Colorado the cause of the county assessors became part of the general reform movement and, as a consequence, the 1911 state legislature passed a law creating a state tax commission.[2]

Since 1911 Under the State Tax Commission

With the establishment of a tax commission, the general property tax in Colorado became revitalized. In some respects this represented the beginning of a new era in property taxation. For a period of about 20 years (until the depression of the 30's) property assessments were fairly equitable, various economic groups appear to have assumed more nearly their fair share of the total tax load,[3] and public revenue was

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1 Blakey, Roy G., Assessment of Property for Taxation in Colorado, 1910, Master's Theses, University of Colorado, p/84.

2 Bill was approved by the Governor, June 2, 1911.

3 One exception was the owners of intangible wealth. As most intangible property escaped assessment, these property owners paid very little, if any, state and local taxes.

usually sufficient to support necessary governmental functions.

During and since the depression the property tax has declined in relative importance and from some standpoints has become less equitable. However, the tax commission is still an extremely important agency in the whole tax program. In fact during recent years, as economic pressures have developed there has been more need than ever before for an aggressive commission possessing sufficient authority supported by adequate budgetary funds. Consequently, because of the vital role (actual or potential) of the tax commission, a brief discussion of its administrative record appears desirable.

The law of 1911 directed the governor and treasurer to appoint a tax commission composed of three members. Commissioners were to serve in office for six year terms and were eligible for reappointment. The annual salary of each fixed at $3,600.[1]

The powers and duties of the commission were (1) to supervise the work of county assessors, (2) to equalize assessments between the counties, and (3) to make original assessments of public utilities and other corporations having a continuity of business in two or more counties.

The first of these duties, that of supervision of local assessments, authorized the commission to exercise supervision over county assessors, county commissioners and all local tax officials, under penalty of forfeiture and removal from office, "to the end that all assessment of property, real, personal and mixed, be made relatively just and uniform and at its true and full cash value." It was charged with the duty of seeing that "all laws concerning the valuation and assessment of property and collection of taxes thereon are faithfully obeyed." The power to reassess individual properties was conferred in cases where, in the judgment of the commission, the property had not been assessed at its true and full cash value. In order to facilitate its work one or more members of the commission was required to visit at least one-half of the counties of the state annually, while every county was to be visited at least once every two years. Assessors could be summoned before the commission, and each year a meeting of all local assessors was to be held. The commission could prescribe forms and require reports from assessors.

Thus the powers and duties relative to supervision of local assessments as given to the tax commission appear to be very definite and extensive.

The second duty, that of equalization of assessments between counties, was limited by the constitutional provision that the state board of equalization should possess this function. There had been an attempt to abolish the board of equalization in 1912 but the proposed constitutional amendment had failed. Consequently, the legislature found it necessary to em-power the commission merely to make recommendations relative to equalization between counties -- the final decision to

1 Raised to $4,000 in 1943.

be made by the board of equalization. This dual control over equalization still exists and as will be explained later has frequently caused difficulty.

The third duty of the commission as embodied in law was to make original assessments of those properties formerly assessed by the state board of equalization. These properties included railroads, telegraph, telephone, and express companies, and sleeping-car and private-car lines. In addition the commission was empowered to make original assessments of all other public utilities. Other public utilities were defined as "such power companies, pipe-line companies, water companies and all other classes of companies, however owned or operated having a continuity of business in two or more counties of the state."

The tax commission was thus given the responsibility of determining the value of the utility as a whole and then of apportioning this value on an equitable basis among the counties served by the utility.

Several other duties were subsequently assigned to the commission by the legislature. Beginning in 1913 local tax authorities were required to obtain approval from the commission before they in turn could approve petitions for tax abatements, rebates and refunds. Also in 1913 the legislature placed upon the commission the responsibility of investigating and of approving or disapproving petitions of local taxing districts for permission to increase their tax levies beyond certain statutory limits.

Also the commission is required to prepare an annual report to be submitted to the governor, treasurer and legislature. This report contains extensive statistical material relating to property assessments and tax levies within the state.

Still another duty of the commission has been to recommend changes for the improvement of the tax system. This function was originally intended to be very important, however, too frequently in the past the commission has been forced to confine its limited time and energy relative to contacts with the legislature in fighting for its own appropriations rather than in sponsoring legislation to improve the tax system.

How successful has the commission been in fulfilling its primary duties? The newly created body was handicapped the first year because of delay in its appointment. Also, during the first year, very few changes were made in assessments because of the desire to place some limitation upon mill levies before drastically increasing valuations. Otherwise, it was feared the state and local units would find themselves with more revenue than they could economically spend.[1]

Accordingly, in 1913 the legislature amended the property tax law by limiting all tax-levying bodies, from the state government down to school districts, by providing that taxes for 1913 should not exceed those

1 First Annual Report, 1912, Colorado Tax Commission.

levied in 1912 by more than 15 per cent, while a maximum increase of 5 per cent over the preceding year was prescribed for each year subsequent to 1913.[1] This limitation upon governmental bodies is still operative throughout the state.[2]

By 1913 the commission decided that it should attempt to enforce the provisions of the law specifying that all assessments should be at full cash value. Consequently, rather drastic measures were taken which resulted in an increase of assessed valuation of all property in the state from $422,442,079 in 1912 to $1,306,647,430 in 1913 -- an increase of more than three fold.

It was only natural to expect that local authorities in many of the counties where assessments were forceably raised would register protests. During the first year assessments were increased by the commission in 58 counties and 24 of these protested before the board. The next year there was less opposition and it appeared as though the commission was soon going to obtain voluntary cooperation from all county assessors. However, in 1915, the authorities in Weld and Denver counties contending that they had been discriminated against, originated an initiated measure to abolish the tax commission -- the measure appearing on the November ballot.

Because of the issue which had been raised, the State Survey Committee representing the legislature, employed Professor R. M. Haig of Columbia University to make an investigation. During the summer Haig made a thorough study of conditions in the state including the work of the tax commission, and published a report in which the commission was completely exonerated. In fact, Haig's report was very complimentary relative to the board's accomplishments during its two years of existence in the face of many difficulties and much opposition.[3]

Relative to the issue, the election in November was close, the bill being defeated by a scant majority of 3,649 votes. However the tax commission now had a mandate from the people to continue to function. Nevertheless, since 1915 even though opposition subsided, the board has not entirely forgotten the time when it was forced to fight for its very existence -- it has never again been quite as energetic and aggressive in attempting to see that the assessment job is fully and adequately done among the counties of the state.

Members of the tax commission were given additional security in 1918 when they were placed under the protection of the new civil service system established by a constitutional amendment November, 1918. Since then members of the commission and their employees serve until they resign, or until they are removed for cause.

Another crisis occurred in 1929 when dissention developed among members of the tax commission. The chairman filed various charges

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1 Chapter 137, Session Laws of 1913.

2 Supplementary levies are permitted if approved by the tax commission or by a referendum vote of the people.

3 Report of Survey Committee of State Affairs on Work of Tax Commission, published in Fifth Annual Report, 1916, Colorado Tax Commission.

against Mr. Link, a member since the board's creation and requested his dismissal. After various delays, including several court actions and counter actions, Mr. Link was successfully ousted leaving a vacancy which was filled by appointing Mr. Tucker, who had long served as secretary of the commission.[1] Since 1929 apparently there has been harmony among members of the board.

Perhaps further understanding and appreciation of the work of the tax commission can best be obtained by referring to the discussion which immediately follows of several special property tax problems. With reference to most of these problems the role of the tax commission cannot be disregarded. In discussing the problems, conditions prevailing at the present time are stressed.

However, before continuing further, this word of warning is appropriate. When evaluating the work of the tax commission during its 35 years of existence since 1911, a number of factors must be taken into consideration. It had hardly begun to operate when its very life was threatened by proposed statutory changes and constitutional amendments. It has always operated on a budget insufficient to maintain an adequate staff of field workers. Also its authority over equalization of assessments among counties has been limited because of the fact that final decisions reside with the state board of equalization. Then too, its work has not been easy. Colorado has many divergent economic and sectional interests which are difficult to reconcile.

1 Eighteenth Annual Report, 1929

The Problem of Local Assessments

The Colorado constitution provides that in each county there shall be an assessor elected by the people for a two-year term of office. Furthermore, it stipulates that the general assembly shall prescribe the duties of the assessor as well as the amount of his salary or other compensation.[1]

1 Colorado Constitution, Article XIV, section 8. An exception is the city and county of Denver; here all county officers may be either elected or appointed, depending upon provisions of the city charter (Article XX, section 3)

In accordance with the constitutional provisions, the general assembly has provided legislation relating to the office of county assessor. The statutes require that the assessor be a qualified voter in the county in which he serves, he must be elected at the biennial general election, serving for two years or until his successor takes office, he must be bonded and must subscribe an oath for the faithful performance of his duties. The assessor may employ deputies and assistants -- the number of deputies depending upon the number of assessment districts set up by the county commissioners -- and he decides the amount of salary for these employees subject to approval by the county commissioner. Should a disagreement arise relative to the number of deputies and assistants or to their salaries, the assessor may appeal to the state tax commission which has final authority.[1]

For the purpose of fixing the amount of compensation for assessors, the legislature classified the counties into various groups according to size, population and amount of work to be done by the county officers. The salaries thus specified in law remained unchanged for year. As time passed these salaries, inadequate in most counties even at first, became continuously less satisfactory from the standpoint of attracting competent candidates for office. Finally in 1945 some slight correction was made by increasing the amount of compensation going to assessors in most of the counties. The present salary schedule is shown in Table 4. It may be seen that the range is from $4,600 in Denver to $1,000 in Hinsdale county -- the median salary being $2,400 per year.

Table 4

Salaries of County Assessors in Colorado as Fixed by the State Legislature in 1945[2]

County	Annual Salary of Assessor
Class I (Denver)	$4,600
Class II, Group A (Pueblo, Weld, El Paso)	3,300
Group B (Boulder, Larimer, Mesa, Las Animas, Arapahoe, Jefferson)	3,100
Class III, Group A (Otero, Adams, Fremont, Logan, Morgan)	2,600
Group B (Delta, Huerfano, La Plata, Montrose, Rio Grande, Prowers, Yuma, Conejos, Garfield, Routt, Alamosa)	2,400

1 Colorado Statutes Annotated, 1935, Chapter 45, subdivision 6.
2 Colorado Statutes Annotated, 1935, Cumulative Supplement, 1945, Chaper 66, section 58. Law approved April 2, 1945

County	Annual Salary of Assessor
Class IV, Group A (Montezuma, Bent, Washington, Chaffee, Costilla, Kit Carson, Lake, Teller, Baca, Gunnison)	$2,400
Group B (Saguache, Lincoln, Elbert, Crowley, Eagle, Sedgwick, Moffat, Phillips)	2,250
Class V. (Archuleta, Clear Creek, San Miguel, Grand, Douglas, Park, Cheyenne, Rio Blanco, Kiowa, Custer, Curay)	2,100
Class VI, Group A (Dolores, Pitkin, Jackson, Summit, Gilpin, San Juan)	1,800
Group B (Mineral)	1,300
Group C (Hinsdale)	1,000

These salaries are still inadequate. In some respects the office of county assessor is the most important office in the county or state. The assessor has been given the authority and responsibility of exercising his own judgment and discretion relative to valuations of property involving the payment of millions of dollars of taxes. For example in 1945, the 63 county assessors made original assessments of property appraised at more than one billion dollars. This represented about 83 per cent of the total assessed property in the state while property owners thus assessed were called upon to pay taxes of almost $39 million. More specifically, in a county such as Yuma paying the median salary of $2,400, the assessor is responsible for placing a valuation on some $10 million of property against which is placed a tax liability of more than $300,000. Private business would not likely place comparable responsibility upon the shoulders of a $2,400 employee.

It is established principle that sucessful administration of our system of property taxation primarily depends upon sound original assessments. Where these occur, methods of review are of secondary consideration. Where they do not occur, review and equalization, although of vital importance, cannot be expected to remove all inequities of assessments.

Relative to the work of the county assessor, we must pay for a good job if we want a good job done. The office must provide sufficient compensation to attract and retain competent and well trained men. According to the National Association of Assessing Officers:

> "An assessor must be well-informed in many fields. He should know something about the law of property and should have a working knowledge of tax law. He ought to know enough about surveying to be able to use a tax map and to describe property

> accurately. If he is to appraise improvements effectively, he needs to know something about architecture and structural engineering. He should be aware of the principles of real estate management and sales practices, if he is to value urban land. He should have knowledge of soils and farming methods, if he is to appraise rural land. He should know something about market conditions, commercial practices and economics. Finally, he should be expert in public relations and should be able to organize a variety of work effectively."[1]

During recent years political parties in many of the counties have encountered great difficulty in securing candidates to run for office of assessor. After election the new incumbent, often poorly prepared for his duties, soon finds alternative opportunities for employment which are much more attractive. Thus after a period of two years he is not likely to want a second or perhaps third term.

An exception is to be found in a number of counties where assessors have made the work a life career, the electors retaining them in office over a considerable number of years. Some of these experienced assessors, especially in a few of the larger counties, are doing a remarkably good job and are staying in office in spite of relatively low salaries.

Table 5 indicates the number of changes made in the assessor's office for the various counties during the last 30 years. It may be seen that at the top of the list are five counties (Alamosa, Boulder, Clear Creek, El Paso and Rio Blanco), each of which had but two individuals serving as assessor. On the other hadn, the other extreme is Costilla county which had nine different assessors. The median county changed assessors five times during the 30 year period. In other words, the average assessor s served a total of six years in office, having been elected to three two-year terms. This record appears to be better than that found in many states. However, in Colorado the record is far from enviable, particularly in more than one-third of the counties -- those changing assessors every two or four years.

Table 6 gives the number of years of service as county assessor of present incumbents. As the date taken (October 1, 1946) is just before a general election, all incumbents have served at least two years. However, there are 16 assessors who have served no more than two years. An additional nine have served only four years, while a total of 48 have been in office for 10 years or less. On the other hadn, it may be observed that six assessors have had 20 years or more of assessing experience.

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1 Assessment Organization and Personnel, National Association of Assessing Officers, 1941, p. 153.

Table 5

Number of Changes in the Office of County Assessor during the Thirty-Year Period, 1917-1946, by Counties

County	Number of Assessors
Alamosa, Boulder, Clear Creek, El Paso, Rio Blanco	2
Gilpin, Jackson, Lake, Logan, Mineral, Curay, Park, Rio Grande, Summit, Weld	3
Adams, Chaffee, Delta, Elbert, Grand, La Plata, Lincoln, Montezuma, Phillips, Pitkin, Saguache, San Juan, San Miguel, Yuma	4
Arapahoe, Baca, Bent, Cheyenne, Douglas, Gunnison, Hinsdale, Larimer, Las Animas, Mesa, Moffat, Prowers, Pueblo, Sedgwick, Washington	5
Custer, Denver, Dolores, Fremont, Garfield, Kiowa, Kit Carson, Morgan, Teller	6
Archuleta, Conejos, Crowley, Eagle, Huerfano, Montrose, Otero, Routt	7
Jefferson	8
Costilla	9
Median (63 counties)	5

Source: Annual Reports, Colorado Tax Commission

Table 6

Number of years of Service as County Assessor, Present Incumbents as of October 1, 1946

Service as County Assessor	Number of Assessors
2 years	16
4 years	9
6 years	8
8 years	8
10 years	7

Service as County Assessor	Number of Assessors
12 years	2
14 years	5
16 years	2
20 years	2
22 years	1
24 years	1
26 years	1
28 years	1
Total	63

Source: Annual Reports: Colorado Tax Commission

It does not necessarily follow that assessors staying in office for the longest periods of time make the best assessments. However, a continuous turnover of assessors and deputies every two or four years is definitely not conducive to competency and good performance in office.

This leads to the discussion of another problem relative to local assessors in Colorado. The elective term of two years is too short a period.[1] The victorious candidate scarely finds himself in office until he must begin worrying about the next election. At least two years are needed for an assessor to lear even the rudiments of his job -- during the second two years he may begin to be competent. If county assessors are to be elected, the term of office should be for a minimum of four years.

However, many tax authorities rather convincingly argue that local assessors should be appointed rather than elected. For example, when discussing the elective system Jenks points out;

> "The fundamental defect of our assessing system lies in the inefficiency of the local assessor. Dominated by the influence of his neighbors who elected him, swayed by prejudices or favoritism, he carelessly, or intentionally, omits from the

1 Nevertheless, two years is still the prevailing term in a large number of states. About 40 per cent of the primary assessment districts of the United States select their assessors for two-year terms, 30 per cent for four-year terms, 20 per cent for one-year terms, and the remaining 10 per cent for terms of three, five, six or an indefinite number of years. See Selection, Tenure and Compensation of Assessors, 1940, Nat'l. Ass'n. of Assessing Officers, Chicago

> tax list many persons and much property which should be listed; his valuations are not measured by the same standard and are not fair nor equitable as between persons assessed. At every point the system, if such it can be called, is more or less defective. In the first instance, the assessor is subjected to local pressure in the making of his valuations. He hopes to live at peace with his neighbors and, generally, desires to be reelected; and his method of assessment, as a consequence, follows the line of least resistance... as the years go by, the assessor continues in office and a local system of assessment is developed which is more or less satisfactory to the people who give the matter no attention, feeling that they are assessed on a minimum basis. The assessment thus made is copied from year to year and the injustices and inequalities thereon existent are perpetuated."[1]

Although such conditions among the various states have been well known for years and in spite of arguments brought forth in favor of the appointment of assessors, in some 40 odd states the people continue to elect their local assessors.[2] Is this merely because of inertia and perhaps stumbling blocks to be found in the state constitution? Is this merely because of inertia and perhaps stumbling blocks to be found in the state constitution? Undoubtedly these factors are important, but probably there are other reasons also. Let us briefly review the arguments for and against the elective system as contrasted with the appointive system for selecting assessors.

The claimed advantages of electing local assessors are several -- the arguments presented often taking various forms. As most proposals for the appointment of assessors provide for selection by an administrative body on the state level, some arguments are directed against this state centralization. For example, in the first place it is frequently pointed out that local government has the largest financial stake in property taxes. Thus, it is desirable that the responsibility for the administration of these taxes should rest with the governmental unit principally dependent upon the proceeds.

Second, it is claimed that a local assessor is apt to have a more thorough knowledge of conditions affecting the value of property in his jurisdiction. This greater familiarity with local conditions makes possible better assessments.

Third, is the argument that the convenience of taxpayers is apt to be better served by a local assessor, elected by the people; that taxpayers will find it easier to call at the assessor's office to discuss

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1 Jenks, Aldro, "Professionalization of Assessors", Bulletin of the National Tax Association, February 1944, p. 152.

2 In 1940 about 97 per cent of all town, village, borough, and township districts, 87 per cent of all county districts, and 33 per cent of all city districts throughout the country had systems under which assessors were elected. See Selection, Tenure and Compensation of Assessors, 1940, National Association of Assessing Officers.

factors affecting value which are essential policy matters.

Fourth, the local assessment unit, independent from a large state organization which it is alleged, is likely to be unwieldy, can act more quickly in adjusting assessments to rapidly changing values or in providing prompt relief if property has been erroneously valued. A corollary of this argument is that a state organization tends to become bureaucratic, arbitrary in making decisions, and less responsive to public needs, particularly when officials are appointed rather than elected to office.

Fifth, is the argument that appointed assessors are not necessarily removed from the influence of partisan politics -- that appointments may be in accordance with a spoils system rather than selection based upon competence; or, if appointments are made through examination under a merit or civil service system, there is no assurance that the most competent individuals will be selected. Moreover, regardless of possible inefficiency the assessor may be retained in office indefinitely.

Contrasted with these arguments are those put forth by the advocates of a system based upon the appointment of assessors. First, it is pointed out that although local governments may be the major beneficiaries of the property tax, there is no reason why they should suffer financially if assessors are to be appointed by a state body. On the contrary, in those states which have adopted a more unified assessment procedure, the experience has been that local communities, because of better assessments, have received increased proceeds from the property tax.

Second, in reply to the claim that a locally elected assessor is more likely to be familiar with the nature of property to be assessed in his county, it is argued that much of the property in a locality is highly specialized or is owned by utilities and other corporations doing business in more than one county. Consequently, assessments by a local assessor are often very difficult if not impossible. Furthermore, it is argued that if the specialized properties including utilities are assessed a unit by a state body while the remaining property is assessed by an elected county assessor (the arrangement in Colorado), there will not be equality of either procedure or results as between the two assessing bodies. Colorado's experience indicates that this claim is well founded. Local assessors argue that local property is bearing a tax burden disproportionately heavy as compared with that paid by the corporations assessed by the state tax commission. On the other hand, the commission argues that actual conditions are exactly opposite. Regardless of which group is correct in its analysis, if a unified system were in operation throughout the state, greater equality would be likely to prevail as between different types of property.

Third, taxpayers frequently exert undue unfluence upon an elected county assessor. During election years this influence is especially apt to interfere with the assessor's ability to make impartial and equal assessments, at least if he wishes to be retained in office. The principal inequity resulting from such taxpayers' pressure is that the

more influential people owning the largest properties are likely to be the ones most favored with low assessments. Thus, the property tax tends to become badly regressive. This argument against elected tax officials is ably presented in the quotation by Jenks included above.

Fourth, it is argued that although appointed tax officials may not always be selected from among the most competent individuals available, with proper safeguards, the chances of getting satisfactory assessors are better than if they are to be elected. This may partly be due to the fact that the greater security of tenure which usually comes with an appointive office is likely to attract individuals who are better fitted for office.

Fifth, it is pointed out by those who favor the appointment of assessors that many of the arguments put forth by opponents are extraneous if assessors are selected by local officials, for example, in a city and county like Denver by the city council, or perhaps in other counties by the county commissioners. It is further argued that although such a method would not be as satisfactory as a more unified state system, should fear of state centralization be an insurmountable obstacle to tax reform, a system of locally appointed tax officials would be superior to a system of locally elected ones.[1]

Because of the importance of the issue of local vs. state control relative to the property tax, we shall quote from Jens P. Jensen, perhaps the outstanding authority on property taxation in the United States.

Professor Jensen says;

> "It would hardly be possible to over-emphasize the prevailing characteristic of excessive decentralization in the assessment. The administration of the general property tax contrasts sharply with that of the income tax, and of other taxes except the poll tax and a few local license taxes. The assessment is essentially a function of determining values uniformly for the entire state. It ought to be a state function, the assessment officials ought to be as free from local pressure of taxpayers as are the administrators of the federal and state income taxes. That this is not the condition is chargeable chiefly to the fetish of home rule. Perhaps the home rule doctrine is, in certain phases, based upon a genuine desire for local self-government. But underlying the insistence upon local assessment is a feeling that the local assessor is not merely necessary in order to prevent differentially high local valuations but also useful for the purpose of obtaining differentially low local valuations. The mechanism of this competitive undervaluation could be removed by centralizing the assessment."[2]

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1 A good discussion of many of these arguments as well as additional ones may be found in an article by Dixwell L. Pierce entitled, "Advantages and Disadvantages of the County Assessor System," Proceedings of National Tax Association, 1941, pp. 276-86

2 Property Taxation in the United States, 1931, p. 359

The procedure to be followed relative to local assessment of property in this state is prescribed in detail in the Colorado statutes. This procedure by chronological steps is as follows:[3]

1. On or before March 1, the assessor shall mail to each non-resident owner of property in the county a tax schedule, setting forth a description of the real property assessed to him the previous year. These schedules, containing any necessary corrections because of changes in ownership, must be returned to the assessor before the first of May.

2. On March 1, or as soon thereafter as practicable, the assessor is required to deliver a form of tax schedule to every inhabitant of his county. If these forms are not filled out at the time of the assessor's visit, they are left with the property owner who is required under oath to set forth specifically upon the schedule all real and personal property owned by him. The property owner shall return the completed schedule before the first of May.

3. On the basis of property listed upon the tax schedule, the assessor shall determine a valuation for tax purposes. Such valuation is supposed to be according to full cash value of the property.

4. March 1 is the date for attachment of tax liens on all property subject to taxation in the state.

5. If property is brought into the state after March 1, the owner should at once file a schedule with the assessor of the county in which the property is located.

6. Before July 1, the assessor must notify all taxpayers whose property he has assessed at a valuation other than that given in the original schedule. If the taxpayers object to changes they must be given an opportunity for a hearing.

7. Between the third Monday in July and the twenty-eighth day of July, the county board of equalization (county commissioners) holds meetings for the purpose of reviewing any complaints from taxpayers who wish to appeal decisions of the assessor. The county board, in order to achieve greater equalization, has the power to change any assessments during this period.

8. On or before August 1, the assessor, having determined the value of each item on the various schedules (reflecting any changes which the county commissioners may have made) prepares in duplicate an abstract of his assessment

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3 Colorado Statutes Annotated, 1935, and Cumulative Supplement, 1945, Chapter 142.

roll. One copy, together with a sworn statement that the abstract complies with all provisions of the law, is forwarded to the state tax commission.

9. On or before the second Monday in September, the state tax commission meets and examines the abstracts of assessment rolls to determine whether property has been assessed at its full value, and makes its recommendations to the state board of equalization.

10. On the third Monday in September the state board of equalization meets and must complete its work before the fourth Monday in September. It examines the abstracts or assessment rolls as submitted by the state tax commission, and after making such changes as it is authorized and may wish to make, approval is given -- the assessments then becoming official.

11. On or before October 1, the assessor must certify to the clerk of each town within the county and to the county superintendent of schools the total value of assessable property in the towns and school districts respectively. Before October 16, the local officials in each town and school district must certify to the proper county authorities its mill levy to be applied for the taxable year.

12. As soon as practicable after the taxes are levied and not later than January 1, the county assessor is required to extend upon the assessment rolls the taxes levied by all taxing units and attach his warrant. The tax list and warrant is delivered to the county treasurer for collection, the warrant being a command to the treasurer to collect the said taxes.

It may be seen from this description of the local assessment procedure that the assessor's work is rather involved and requires a period of time extending over most of the year. Prior to 1943, the period elapsing between the first and last assessment steps was even longer, however, in that year, the legislature shortened the period by about two months.

One part of the assessment procedure, the most important phase of all, tends to break down in actual practice. According to law, property owners are held responsible (subject to heavy penalty for violation) for listing <u>all</u> of their property, both real and personal, upon the tax schedule. In other words, the law intends that there shall be self-assessment by the property-owner himself, that is, to the extent of listing all items -- the assessor is to place valuations upon them.

The county assessors, however, are unable to depend upon this cooperation from taxpayers. Penalties are not enforced against property owners who do not comply with provisions of the law, perhaps because violations are so prevalent. If the assessor or his deputy does not find the property owner at home, the tax form is left; if the schedule

is never filled out and returned, an assessment is made at the discretion of the assessor -- usually the same amount as for the preceding year.

Actually, whether the property owner is found at home or not, assessments vary but little from year to year. Probably because of difficulties involved, particularly due to limitations of time and staff, but sometimes also because of inertia or the desire not to antagonize property owners, assessment figures are usually merely copied from the tax roll of the previous year. Most county assessors find it impractical or inexpedient to make general reappraisals of property oftener than five, ten, or even twenty years.

Considering the general breakdown of this important phase of assessment, therefore, it is not surprising that a great deal of property in the state is never listed upon tax schedules; neither is it surprising that the property actually listed for any particular year is appraised for tax purposes at a figure having little relationship to true cash value.

Figures in Table 7 indicate the variation among Colorado counties relative to assessment of farm property. Assessed valuations are expressed as percentages of United States Census values for the year 1940. Although census valuations are not necessarily more accurate than the valuations for tax purposes, the procedure used by the Bureau of the Census in uniform among all counties. Therefore, the percentage figures shown in the table are considered significant.

The counties are listed in order according to relative assessment levels. It may be seen that the percentage range is from a high of 145 per cent in Kiowa county to a low of 26 per cent in Jackson county. Average for the state was 62 per cent. In other words, for the state as a whole, assessed valuation of farms amounted to a little less than two-thirds of the value placed upon farms by the Bureau of the Census. Assessors of five counties (top of list) showed valuations exceeding census figures, while assessors in 15 counties (at the bottom) showed valuations of less than half the corresponding ones made by the census.

Table 7

Assessed Valuation of Colorado Farms Compared with Census Value, by Counties, 1940[1]

Rank	County	United States Census Valuation	Assessed Valuation	Percentage
1	Kiowa	$ 2,486,112	$ 3,615,278	145.4
2	Kit Carson	4,725,782	5,601,605	118.5

Table 7 (continued)

Assessed Valuation of Colorado Farms Compared with Census Value, by Counties, 1940[1]

Rank	County	United States Census Valuation	Assessed Valuation	Percentage
3	Cheyenne	$ 3,064,399	$ 3,557,515	116.0
4	Las Animas	6,548,276	7,328,803	111.9
5	Crowley	2,894,440	3,008,930	103.9
6	Prowers	7,325,913	7,062,280	96.4
7	Lincoln	5,239,616	5,045,870	96.3
8	Pueblo	9,595,111	9,225,621	96.1
9	Dolores	910,323	834,050	91.6
10	San Miguel	1,175,426	1,004,740	85.4
11	Adams	14,887,770	12,573,050	84.4
12	Otero	9,283,763	7,814,745	84.1
13	Huerfano	2,916,172	2,366,605	81.1
14	Costilla	2,476,236	1,798,720	77.0
15	Elbert	7,259,915	5,587,416	76.9
16	Montezuma	4,588,459	3,399,366	74.0
17	Washington	8,256,087	5,962,015	72.2
18	Baca	5,581,722	4,026,525	72.1
19	Bent	5,998,247	4,273,484	71.2
20	Boulder	13,111,336	8,973,660	68.4
21	Archuleta	2,036,298	1,367,580	67.1
22	Jefferson	17,273,080	11,477,770	66.4
23	El Paso	9,171,284	5,943,160	64.8
24	Fremont	4,191,375	2,675,530	63.8
25	Larimer	21,471,249	13,719,270	63.8
26	Lake	240,145	151,270	62.9
27	Chaffee	2,189,010	1,348,585	61.6
28	Gilkin	255,190	155,087	60.7
29	Douglas	5,192,682	3,135,185	60.3
30	Pitkin	1,504,214	897,445	59.6
31	Moffat	4,379,613	2,577,390	58.8
32	Sedgwick	5,925,279	3,486,700	58.8
33	Alamosa	4,966,594	2,896,445	58.3
34	Custer	2,316,284	1,309,097	56.5
35	Arapahoe	11,531,906	6,406,265	55.5
36	Phillips	6,936,747	3,852,550	55.5
37	Garfield	7,321,369	4,062,480	55.4
38	Morgan	13,316,614	7,370,750	55.3
39	Park	3,884,895	2,139,565	55.0
40	Logan	15,723,422	8,555,245	54.4
41	Rio Blanco	4,372,562	2,317,995	53.0
42	Delta	8,067,956	4,265,855	52.8
43	Clear Creek	391,265	204,700	52.3
44	La Plata	5,620,699	2,869,700	51.0
45	Weld	55,635,320	28,261,430	50.7
46	Mesa	15,368,421	7,699,640	50.1
47	Montrose	7,471,814	3,650,926	48.8
48	Gunnison	4,724,600	2,290,665	48.4
49	Curay	1,485,287	719,255	48.4

Table 7 (continued)

Assessed Valuation of Colorado Farms Compared with Census Value, by Counties, 1940[1]

Rank	County	United States Census Valuation	Assessed Valuation	Percentage
50	Routt	$ 7,507,754	$ 3,555,180	47.3
51	Eagle	4,318,864	2,028,145	46.9
52	Conejos	7,775,581	3,624,610	46.6
53	Grand	3,323,716	1,542,970	46.4
54	Summit	721,407	320,505	44.4
55	Teller	1,280,617	542,815	42.3
56	Yuma	15,132,484	6,314,460	41.7
57	Saguache	6,844,203	2,795,784	40.8
58	Mineral	666,480	260,730	39.1
59	Rio Grande	11,318,964	3,962,240	35.0
60	Hinsdale	305,065	104,250	34.1
61	Jackson	5,171,866	1,345,650	26.0
62	Denver	--------	--------	--------
63	San Juan	--------	--------	--------
	State Total	$427,365,461	$265,840,478	62.2

1 Both valuations include agricultural and grazing lands, improvements, farm machinery and implements; neither includes the value of farm animals.

Source: Bureau of the Census, April, 1940; also, Annual Report, Colorado Tax Commission, 1940.

The question might appropriately be asked, is there any justification for farms in a county such as Rio Grande for example, to be assessed at 35 per cent of census value, for those in Alamosa at 58 per cent, those in Crowley at 100 per cent and those in Kiowa county at 145 per cent? These figures do not necessarily indicate that the farms in any county are assessed at more than full market value as required by law, but they do indicate a very inequitable condition throughout the state due to lack of equality of property assessments. Undoubtedly within many of the counties one would find as great inequality among farms of various property owners as apparently exists among the counties themselves.

In 1944 the state tax commission reported that it had completed a survey of approximately 35 cities and towns in which field men appraised 700 residences, using 1940 building costs as a basis. The properties were selected at random in the various cities and towns and when the valuations thus obtained were compared with the assessed valuations it was found that the assessments varied from as low as 10 per cent to as high as 90 per cent of the appraised value.[1] Thus it appears that urban

1 Annual Report 1944, Colorado Tax Commission, p. 4

real estate is probably assessed as unequally throughout the state as farm property.

However, the assessment of personal property is undoubtedly least satisfactory of all. This phase of assessment will be discussed in another section of our study dealing with personal property exemptions. It will be seen that in fully one-third of the counties the average assessment of personal household property is actually less than the $200 exemption permitted by law. Also it will be seen that the assessment ratio of such personal property is relatively seven or eight times as high in some counties as in others.

Currently (1946-47) the tax commission is conducting a survey throughout various counties of the state for the purpose of determining the extent to which local assessors are undervaluing real property. An attempt is being made not only to discover the extent of inequality of assessments within a county but also to determine the average inequalities prevailing among the counties. Actual real estate sales data as indicated in the county clerk's office are compared to assessed valuations placed upon these same properties by the county assessor. As the survey is not complete, the commission has not yet released data by named counties. However, figures were given to the writer for three counties which we shall call X, Y, and Z. There is reason to believe that conditions prevailing in these counties are fairly typical of those to be found in the other 60 counties of the state.

The data supplied by the commission are shown in Table 8. It may be seen that on the basis of property transactions between July 1, 1945 and July 1, 1946, the average level of assessed valuations was 27 per cent in County X, 32 per cent in County Y, and 35 per cent in County Z. On the basis of these figures as well as data being tabulated for other counties, the commission estimates that real property throughout the state is not being assessed by county assessors at a higher average level than 25 or 30 per cent of full cash value.

Another and perhaps even more significant part of Table 8 refers to the assessment ration of property classified as farm and urban, by counties. The figures for urban real estate include all transactions of real property made during the year in the largest city or town of the county.[1] Those for farm property include all transactions made throughout the county during the period. The table indicates that great inequality exists within the counties relative to the assessment of property. The same general pattern of inequality prevails in each of the three counties and for both farm and city property. For example, on the basis of the sample check, in County X, 3 per cent of the farms are assessed at more than 60 per cent of full value, 3 per cent on a 50 to 60 per cent basis, 21 per cent on a 40 to 50 per cent basis, 28 per cent on a 30 to 40 per cent basis, 28 per cent on a basis of 20 to 30

1 It should be pointed out that the commission's investigations are not confined to a study of these cities.

Table 8

Ratio of Assessed Value to Sales Value of Real Estate in Three Colorado Counties[1] (1946)

Average assessment ration (farm and city):
County X = 27.31% (206 transfers of property)
County Y = 31.99% (262 transfers of property)
County Z = 35.25% (57 transfers of property)

Real Estate by Kind	Ratio of assessment to sales value					
	Over 60%	50-60	40-50	30-40	20-30	Under 20%
	(Number of properties in each category expressed as percentage of total)					
County X						
Farm	3	3	21	28	28	17
Urban	4	4	12	20	33	27
County Y						
Farm	8	5	13	32	29	13
Urban	14	6	13	26	25	16
County Z						
Farm	8	11	8	34	31	8
Urban	-	--	--	--	--	--

1 Based upon transfers of real estate taken from records of county clerk's office and verified by revenue stamps from July 1, 1945 to July 1, 1946. Assessed values are for the year 1946.

Source: Figures were supplied by the State Tax Commission.

per cent and finally, 17 per cent of farms are assessed at less than 20 per cent of full value. The discrepancy in county X of urban property is even greater -- 4 per cent of city homes being assessed above 60 per cent of cash value and 27 per cent being assessed below 20 per cent of value. Counties Y, and Z show similar inequalities for both farm and urban property, although the assessment ratios average somewhat higher than in county X.

Such inequalities of assessment within a county are particularly bad because of the resulting inequity of tax load distribution as between particular property owners. For example, if two farms each having a cash value of $10,000 are assessed unequally -- the first being assessed at 60 per cent and the second at 20 per cent of cash value, the owner of the first farm would have a tax load three times as heavy as the owner of the second. Assuming the tax levy to be 40 mills, the taxes would be $240 and $80 respectively, or a discrepancy of $160. This degree of inequity (when two farms of equal value are involved) is bad enough, but when farms or city property having different true values

are compared with each other relative to assessments, the inequity often is well nigh intolerable, the reason being that large and valuable properties (whose owners have superior tax paying ability) tend to be the ones which are most underassessed. Thus the property tax in effect becomes grievously regressive.

The best correction for these inequalities as well as others described in this section is to see that good original assessments are made by county assessors. Although the state tax commission, through guidance of assessors and through equalization functions, can play a significant role in attempting to achieve this objective, it is also vital that competent local assessors and deputies be selected in the first place.

By way of conclusion it may be stated that a preponderance of evidence seems to indicate that local assessors should be appointed rather than elected. They should serve fairly long terms in office. If the state and local governments have a satisfactory merit system, the assessor should be placed under the system and retained in office until retirement or until removed for cause. In the absence of a good merit system, assessors might well be appointed by county commissioners for a term of not less than four years from a list of eligible applicants examined and approved by the state tax commission. The latter arrangement would perhaps remove many of the objections of those who fear complete centralization in a state body. Finally, regardless of the system of selection or retention in office, assessors should be paid adequate salaries -- compensation commensurate with their duties and responsibilities. There is every reason to believe the salary schedule operative in Colorado is still too low.

If these suggested changes were adopted in the state, there is no question but that local assessments would be appreciably improved, resulting in much greater equality and equity in taxation and at the same time bringing in additional revenue to state and local governments.

However, in order to avoid some inequalities which would still persist, it is desirable to maintain a system of supervision and equalization by a state administrative body. This phase of property taxation will be discussed in the next section.

State Supervision of Local Assessments

When the state tax commission was established in 1911 it was given rather extensive authority relative to the supervision of property tax assessment work undertaken by county assessors and boards of county commissioners.[1] In a state such as Colorado where local tax authorities are elected for two-year terms of office, where the normal turnover in office appears to be nearly one-third of the county as-

sessors at every election, where the local assessment function is divided among 63 county units containing diverse kinds of property, the task of accomplishing effective state supervision is particularly difficult yet at the same time vitally important. How well are the supervisory functions being accomplished by Colorado's state tax commission?

Tax Forms and Schedules

One supervisory function is the preparation of suitable forms for use in listing property on the tax schedule. The items included should be changed from time to time to include or emphasize new kinds of property, or to drop obsolete items no longer important. Because over the years there is a constant and often rapid change in the nature and variety of property, especially personal property, it is important that the tax form be constantly revised. If an item is not on the blank, demanding the assessor's attention, it is not likely to be listed at all, and the continuance of obsolete items on the list is expensive, as they crowd out more important items. In addition to the preparation of a general schedule to be used by most taxpayers, there should also be schedules made available for use by the specialized owners of property in business. Moreover, the various appropriate tax schedules should be standardized as much as possible for all counties in the state.

> Writing in 1930 Jensen stated: "Considerable confusion exists in the preparation of the tax schedules, the blanks on which the taxpayers are to enter their taxable property, and it cannot be doubted that the results are detrimental to the assessment....The statute creating the Colorado tax commission assigns the duty of preparing all necessary forms, but provides nothing as to when or how they shall be printed. From a comparison of tax schedules in use it would appear that no central authority has standardized the general schedule. Although the tax commission has exerted its influence toward making the schedules uniform, they are yet very diversified as to size, form, arrangement, items listed and affidavits or oaths required. It would appear that the general schedule blanks are designed to serve for all classes of taxpayers, whether individual, or corporations, banks or merchants, etc., with or without supplementary schedules. Not one of the blanks examined provides for the appraisal of exempt property....The list of items of taxable property is not uniform nor is the list uniformly arranged."[2]

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1 For enumeration of specific powers see previous section on early development of the property tax.

2 Jensen, Jens P., Survey of Colorado State Tax System, 1930, p. 87

Since the time when Jensen wrote, certain improvements have been made in the schedules relative to kinds of forms in use as well as standardization of personal property items included on the schedules. It has been suggested that the effectiveness of supervision by the tax commission could be further enhanced if the legislature were to provide, at state expense, for printing of all necessary tax forms so that the commission might then distribute such approved blanks to the 63 county assessors as may be required.

An Assessors' Manual

Tax commissions in a number of states have extended valuable assistance to local assessors by preparing assessors' and property appraisers' manuals. Such manuals when carefully and comprehensively prepared can give to the county assessor and his deputies a great deal of technical and theoretical information needed for assessing all like and similar property. The manual can serve as a guide for systematic and orderly procedure for making tax appraisals more uniform throughout the entire state.

In discussing the advantages of an assessors' manual, a local tax assessor in Wisconsin (a state whose tax commission has been unusually successful) points out:

> "The fundamental requirement of an assessment roll is that it distributes equitably the burden of taxes, and to do this the human equation must be eliminated as much as possible. For the individuality of the assessor and his varying judgment, there must be substituted a system of mechanical precision (the assessor's manual), and supplemented by individual judgment only when necessitated by unusual conditions."[1]

One of the most recently prepared property appraisal manuals was published by the Illinois tax commission in 1943. It contains forms, instructions, procedures and guides for the valuation of land, the estimation of reproduction cost of improvements, the determination of allowances for depreciation and obsolescence, and the establishment of the fair value of improved and unimproved properties for assessment purposes. The manual should prove to be very helpful in overcoming many inequalities of assessment which have long prevailed in that state.

Although the preparation of a good tax manual requires the assistance of specialists and technicians together with a certain amount of field work, the time and money expended in the effort, bear rich dividends in the form of more accurate and uniform assessments. Several years ago the Colorado tax commission distributed to the county assessors a manual containing helpful appraisal instructions. However, much of

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1 Herman, R. C., "Aid to Local Assessors From the Viewpoint of a Local Assessor," Proceedings of the National Tax Association, 1941, p. 76

the information is now out of date. Consequently, the commission might well consider the preparation of a new and comprehensive appraisal guide for use by the local assessors. Undoubtedly the commission would gladly undertake such a task if the necessary funds were to be supplied by the legislature.

Assessors' Schools

Another form of aid given by some state tax commissions to local assesssors is direct instruction provided in assessors' schools. The most common arrangement for these schools is to have a joint sponsorship by the tax commission and perhaps the state municipal league or the state university. The school usually is conducted annually and lasts for two or three days or sometimes for as long as one or two weeks.

The school is intended especially to train newly elected or appointed assessors and deputies regarding the technical phases of their duties, for which many, if not most have had no previous training. The older assessors also are benefitted from attending these schools by the exchange of views and experiences as well as by receiving up-to-date information relative to property appraisals, assessment procedures, etc.

It is to be hoped that in the future, an arrangement can be made in Colorado for conducting annual assessors' schools. Such arrangement is especially desirable as long as the people of the state, through elections, select assessors who usually possess no particular qualifications for the highly technical work which they are required to undertake-- the elections being conducted every two years.

Annual Meeting of Assessors and Commissioners' Visits to Assessors

Beginning in 1902 in the state, county assessors were required by law to meet at the Capitol the first Tuesday in August, to discuss and report matters in their counties concerning taxation. They were directed also to turn over to the state auditor their tax abstracts, showing the value placed by them on each class of property in their respective counties. Upon delivery of this abstract to the auditor, each assessor was to be paid the sum of $50 and railroad fare required in attending the meeting.

The newly appointed tax commission reported in 1912 that the annual meetings of assessors were not accomplishing the objectives as intended by law.[1] The commission pointed out that the legislature had intended for abstracts of assessment to be completed before the assessors' meeting so that valuations could be compared in order to facilitate a general discussion for the purpose of improving assessments the subsequent year. Apparently, however, assessors at the annual meetings were merely guessing as to what their abstracts would

1 First Annual Report, Colorado Tax Commission, pp. 15-16

ultimately show when finally completed some 30 days later. Moreover, because of the lack of direction, general discussions were not proving fruitful from the viewpoint of improving subsequent assessments.

Consequently, upon recommendation of the tax commission the legislature made changes in 1913. Each assessor was to complete his abstract of assessment and transmit one copy with oath of authenticity to the tax commission before the first of September.[1] The time of the assessors' meeting was to be at the call of the governor or tax commission and assessors were to be paid actual expenses incurred in attending meetings.[2]

Writing in 1916 with reference to assessors' meetings, Haig stated,

> "Four conferences have been held since (1913) and under the guidance of the commission they have developed into a very important part of the assessment machinery. The meetings are held during the winter, before the assessment work for the year is begun, and are excellent practical training schools for the newly elected officials. Committees are appointed to assist in crystalizing the judgment of the assessors on average values and assessment methods, and much information of value to the commission is thus presented. Papers are read by those assessors who have had unusual success in various parts of the work and discussion is freely indulged in.....The annual meeting has undoubtedly had a great influence in stimulating the interest of the assessors in the problems of taxation and every effort should be made to develop its usefulness still further."[3]

The time of holding the meetings was delayed in both 1917 and 1918 because funds were not appropriated soon enough by the legislature. In 1919 the appropriation bill was too late to permit a meeting at all. Likewise in the years 1930, 1934, and 1936 no annual meeting was held because of the lack of funds to pay expenses of the assessors. Since 1938 the legislature has habitually neglected (or refused) to make appropriations for the meetings which are actually required by law. Consequently, the sessions which have been held recently have been attended only by those assessors or deputies whose counties were willing to pay travel and other expenses.

Thus, during recent years an unfriendly legislature has interfered with the important work of the tax commission relative to the annual

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1 Later (1943) changed to August 1, Chapter 142, Colorado Statutes Annotated, 1935, Supplement, 1945.
2 Chapter 135, Session Laws, 1913.
3 Haig, R. M., The Work of the Colorado Tax Commission, published in Annual Report, 1916, Colorado Tax Commission, p. 50.

instruction of assessors, etc. by refusing to appropriate funds. Newly elected assessors are particularly in need of special instruction before they begin the complicated and technical task of making assessments. This instruction can most economically be given through an annual general conference.

In the future, the state should again assume its proper responsibility by adequately financing the annual meetings of assessors. Should it continue to shirk this responsibility, it becomes even more important than indicated in the previous section for the tax commission (with its limited funds) and perhaps the municipal league or the state university to cooperate in sponsoring an annual school or conference for the purpose of training and instructing county assessors.

It should be pointed out in this section of our study that during most years in the past the tax commission has conducted district meetings in various parts of the state at which time contacts have been possible between the commission and assessors.

Also, at least once every two years, in accordance with provisions of the law, members of the commission attempt to visit each assessor in his home county. However, sufficient time and funds have not always been available to permit making all of the prescribed visits. Furthermore, the visits made must of necessity be relatively short at each assessor's office. Consequently, not much more can be attempted in these calls than the development of an esprit de corps between the commission and assessor. If the assessor requires much assistance relative to various appraisal problems, the commission's field deputies must be sent out to extend this aid.

Field Deputies

A vital aspect of state supervision over local assessment as conducted by the tax commission is carried on through the services of field deputies or investigators. Under ideal conditions these deputies -- trained and well qualified appraisers of property in general as well as of various specialized kinds, assisted by competent auditors -- cannot only assist the commission relative to equalization functions but can also aid local assessors whenever such assistance is needed and requested.

In Colorado the commission has always been handicapped because of the lack of appropriations sufficient to employ enough field deputies. The first field work was provided for in 1915 when the legislature permitted the hiring of one investigator and one clerk, each to be paid an annual salary of $1200. The commission complained that the compensation was so inadequate, competent investigators could not be retained. It reported that, "It is absurd assessors of third-class counties, who work usually much less than the full year, and who have deputies,

should get double the salary of an investigator for the state commission."[1]

The response of the legislature in 1917 was to provide for two investigators at salaries of $1500 each. Thus, the situation was improved but little. However, the next year in spite of financial difficulties the commission was able to report,

> "During the year 1918 an investigator worked for three months with the assessor of Denver County on merchandise alone, and assisted in increasing the value of this item from $27,619,730 to $42,528,630.
>
> "The two investigators specialized on merchandise in most of the other counties, and helped the assessors to bring the total assessment from $55,139,900 to $79,846,131 in 1918.
>
> "An investigator was placed in Phillips county for about six weeks, and as the result of what was practically a re-assessment, the local values were increased from $6,449,746 in 1917 to $14,104,328 for 1918."[2]

An attack upon the commission in 1925 by several special groups of the state, who even tried to induce the legislature to abolish the commission, succeeded to the extent of inducing Governor Morley to veto that part of the commission's appropriation bill providing for a secretary and two field deputies. Confronted with this emergency the commission accepted financial aid during the next two years from 62 of the 63 counties of the state who voluntarily appropriated funds to pay the salaries of the secretary and deputies.[3] This action on the part of the counties is of special significance in that it was initiated by the county assessors' association--clearly indicating the attitude of county assessors toward the tax commission and its field deputies relative to assistance which had been obtained in the past and which was desired for the future.

During recent years the commission has regularly reported that its staff has been inadequate to permit accommodating all of the requests made for assistance by the county assessors. For example, in 1936 it was pointed out that,

> "At the present time, and for a number of years, we have attempted to comply with the law in assisting assessors to check valuations in their respective counties, make appraisals, and confer with county officials, with only two men available for this purpose. We believe that if we were allowed one additional investigator, thousands of dollars

1 Fifth Annual Report, 1916, Colorado Tax Commission, p. 16
2 Seventh Annual Report, 1918, pp. 4-5
3 This money was returned to the counties in 1927 by a legislature and governor more friendly toward the commission.

> in taxes on property now escaping taxation would be forthcoming, that a better equalization of assessments would result, and we would be in a position to comply with hundreds of requests received annually from county assessors for assistance in assessing property at a uniform basis.
>
> The commission is very much in need of an accountant whose duty it would be to examine annual reports and schedules filed by public utility corporations, in order to enable the commission to make intelligent assessments on these properties. When not engaged in this work this man would be available to all county assessors in assisting in the work of proper assessments on corporations and merchants. Our investigations show that thousands of dollars in valuation are escaping taxation on stocks of merchandise for the reason that the assessor is not qualified to properly examine inventories and financial statements, and in numerous cases inventories are not filed with the county assessor as required by law."[1]

In 1938 the commission reiterated its need for additional field workers asking for two additional investigators and an accountant or auditor. The 1939 legislature accommodated to the extent of providing for the employment of an accountant at a salary of $2100 per year. By this time the salary of the two investigators permitted in the budget had been increased to the level of $1800 annually -- an amount still far too low considering the highly specialized and technical services required.

In 1945 the commission was employing four full-time investigators and appraisers including one trained accountant, but a reduction that year of one-third in the biennial budget for maintenance seriously handicapped operations. Consequently, requests from county assessors for assistance far exceed the ability of the commission to comply. Moreover, there is great need throughout the state for a complete reappraisal of all real estate and improvements to the end that property be assessed more equitably and at a figure more nearly approaching full value. County assessors, acting independently, cannot effectively accomplish this reassessment. Consequently, the commission has several times but to no avail requested enough appropriations to make the reappraisals. Finally in 1945, it recommended an alternative procedure -- that the commission should merely supervise the reappraisal work which would be undertaken by each county assessor and his deputies, the expense being cared for through a special county mill levy in each case.[2] It still remains to be seen whether or not this suggestion will bear fruit.

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1 Twenty-fifth Annual Report, 1936, p. 9.
2 Thirty-fourth Annual Report, 1945, p. 4.

However, the writer believes that the supervisory tasks of the state tax commission including the field work of investigators, appraisers and accountants are sufficiently important to the people of the state as a whole to justify demanding that the legislature assume its proper responsibility by appropriating all necessary funds. Counties should not be expected to bear the expense. Moreover, unless forced to do so, the counties whose assessments are most out of line are the ones least likely to appropriate voluntarily the necessary funds for making reappraisals.

Review of Tax Rebates

Still another supervisory function exercised by the tax commission is the passing upon petitions from county commissioners requesting rebates and refunds for individual taxpayers. Previous to 1914, rebates of taxes were made by county commissioners, the power to reduce the amount any taxpayer needed to pay being entirely in the hands of the local authorities. The justification for making such reductions was in order to permit correction for assessment or tax levy errors such as double assessment and clerical mistakes.

However, the power residing in the county commissioners to rectify technical errors of assessment and levy gave opportunity to dissatisfied property owners to bring pressure upon the commissioners for tax reductions even though there would be no justifiable reason. Thus when the time came for paying taxes (long after the legal period for equalization functions) favored taxpayers might obtain assessment reductions regardless of the level of valuations previously fixed by the assessor. Such rebates often not only increased the inequality as between individual taxpayers, but undermined the morale of tax assessors who tended to become careless in the work of fixing valuations. Under this system of rebates, in the year 1911 $376,309 in taxes were rebated in the various counties.[1]

In order to curb the unlimited power possessed by county commissioners to grant alleged favors to taxpayers, the legislature amended the property tax law in 1913. The new amendment provided that "no abatement, rebate or refund of taxes shall be allowed by the county commissioners unless a hearing shall be had thereon and a notice of such hearing and an opportunity to be present being first given to the assessor and no abatement, rebate or refund of taxes shall be allowed by the board of county commissioners if the application is disapproved by the Colorado Tax Commission."[2]

Thus, since 1913 the tax commission receives all petitions for tax rebates and must give approval before the refund can be granted

1 Annual Report, 1914, State Tax Commission, p. 8.
2 Chapter 134, section 5, Session Laws of 1913.

by the county commissioners. During the first year after the new arrangement went into operation, the commission approved rebates amounting to about $80,000 -- compared with $376,309 of rebates granted in 1911 under the old system.

The record of rebates approved by the tax commission by five-year periods since 1914 is given in Table 9. It may be seen that the trend was upward in number of petitions granted until the period 1930-34; since then the trend has been down. Relative to the total amount of taxes involved in the petitions, there was a trend upward until the period 1925-29; since then there has been no apparent trend in either direction. The annual average for the 31 years has been 1,485 petitions approved amounting to $171,209 of rebated taxes.

Most petitions requested by county commissioners in the various counties have always been granted by the tax commission -- some of them perhaps not being justified. However, the present arrangement in undoubtedly a great improvement over the old system. The provision for greater publicity, a hearing and the need for approval by the tax com-

Table 9

Petitions for Abatement, Rebate and Refund of Taxes Granted by the State Tax Commission by Five-Year Periods, 1915 to 1945 Inclusive

	Petitions Approved	
Period	Number	Amount
1915-19	6,607	$ 563,310
1920-24	6,501	684,422
1925-29	10,933	1,052,593
1930-34	15,331	776,522
1935-39	4,487	946,294
1940-44	1,976	1,261,153
1945	223	22,910
Total	46,058	$5,307,495
Average Annual	1,485	171,209

Source: Annual Reports, State Tax Commission

mission are strong deterrents upon the county commissioners when they may be tempted to grant undeserved favors to property owners relative to tax rebates. Furthermore, the power to pass upon petitions is considered by the commission to be essential to preserve the fruits of equalization. Without it a disgruntled local board might rebate the entire increase placed upon their county by the tax commission and state board of equalization.

The Problem of Equalization

Equalization is a necessary function relative to property assessments because experience indicates that original assessments are frequently defective. Moreover, a principal purpose of the function is to insure a uniform assessment ratio, at least within given categories of property to be taxed throughout the equalization district -- usually the county or state. Effective equalization includes the power to initiate changes in assessments -- either raising or lowering, the power to require listing of omitted property in the interest of the public treasury and of taxpayers generally, and finally, the power to act as a board of appeals to settle disputes between taxpayers and the assessors or lower boards of review.

As the property tax evolved during the Nineteenth Century, most American states developed systems of equalization on both the local and state levels. Colorado's constitution, adopted in 1876, as previously discussed, provided for county and state equalization.

County Equalization

In Colorado, as in most other states, equalization begins on the county level -- the county commissioners acting in the capacity of an equalization board. However, in actual practice these county boards in most instances confine their efforts to the hearing of appeals made by taxpayers who consider their assessments to be too high as fixed by county assessors. Consequently, the "equalization" made on the county level is in the form of reducing assessments of those complainants who appear to have valid claims. Almost never are assessments raised on any particular property or class of property.

The function of serving as a tax appeals body is an important one and perhaps this work is all that should be expected from the county board. Being an ex officio body, not especially experienced in tax administration, it is not well qualified to pass upon assessments in general as made by the tax assessor. Moreover, the board's equalization work is definitely handicapped by a lack of time, as all hearings and decisions rendered must be made each tax year between the third Monday and the twenty-eighth day in July.

State Equalization

The shortcomings of equalization on the county level have increased the need for effective state equalization. However, because of defective legislation and crippling court decisions, practically no state equalization was possible until the Tax Commission Act of 1911. Even then it was not clear as to the extent of authority over equalization possessed by the county commissioners, the state tax commission and the state board of equalization. Consequently, a proposed constitutional amendment to clarify the lines of authority was submitted by the legislature to the people in the November election of 1912. The proposal if adopted would have abolished the

board of equalization by centralizing all ultimate authority in the state tax commission. However, the proposal failed to carry in the election.

Through cooperative action by the tax commission and state board of equalization, assessments were raised in many counties during both 1913 and 1914 -- the changes being sanctioned by the court. The equalization was declared constitutional because the courts ruled that increased assessments had really been made by the tax commission when it determined the changes necessary in the valuation of each county to secure assessment at full cash value.[1] Thus, the court interpreted the action of the commission as part of the assessment procedure rather than an equalization function. The argument presented in the case was to the effect that the board of equalization still possessed the sole authority of making equalizations but that the constitution limited this authority by denying it the power to raise aggregate assessments for the state as a whole.

Thus, the Pitcher case of 1913, in effect, appeared to give sufficient power to the tax commission to make equalizations. However, there were those who feared this authority would be inadequate should a disagreement arise with the state board of equalization. Consequently, another constitutional amendment was attempted in 1914. This time the proposal did not provide for abolishing the state board of equalization; on the contrary, the board's power would be strengthened.

In the November general election the amendment was adopted by the people, thus becoming part of the constitution. Its provisions are as follows:

> "There shall be a Board of Equalization for the State, consisting of the Governor, State Auditor, State Treasurer, Secretary of State, and Attorney General. The duty of the said Board of Equalization shall be to adjust, equalize, raise or lower the valuation of real and personal property of the several counties of the State, and the valuation of any item or items of the various classess of such property.
>
> "There shall be in each county of this State a County Board of Equalization, consisting of the Board of County Commissioners of said County. The duty of the County Board of Equalization shall be to adjust, equalize, raise or lower the valuation of real and personal property within their respective counties, subject to revision, change and amendment by the State Board of Equalization. The State Board of Equalization and the County Board of Equalization shall equalize to the end that all taxable property in the State shall be assessed at its full cash value and also perform such other duties as may be prescribed by law; provided, however, that the State Board of Equalization shall have no power of original assessment."[2]

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1 Colorado Tax Commission vs. Pitcher, 56 Colo. 343 (1913)
2 Article X, section 15, Colorado Constitution

This amendment of 1914 was probably intended to bestow unlimited ultimate equalization power upon the state board of equalization. However, because of the provision that the board shll have no power of original assessment, the courts have ruled that it cannot examine the valuation of an individual taxpayer's property, but must confine its attention to the equalization of valuations among aggregates and general classes of property.[1]

The practical effect of the decisions by the court has been to limit the power of the state board by increasing the power of the tax commission. Thus, today the tax commission appears to possess the primary authority over equalization, being directed by law to make its recommendations to the board of equalization, which in turn must certify all assessments before they are official. Moreover, relative to this certification of assessments, should the board wish to make changes, such modifications must be confined to broad categories of property.

However, enven though the tax commission appears to possess superior equalization power, the ex officio state board has retained sufficient authority to make of Colorado's equalization procedure a dual system of control. How effective is this dual control? In other words, how successfully have the two bodies achieved the objective of maintaining uniform assessments throughout the state upon a 100 per cent valuation basis? Before directly answering this question, let us examine the individual record of the state board of equalization.

State Board of Equalization

Table 10 shows changes in assessments made by the state board during the 34 year period since the tax commission was established. It may be seen that in 10 separate years no changes whatsoever were made in the assessed valuations as recommended by the tax commission. For the 24 years when changes were ordered, 18 resulted in net reductions while six resulted in net increases of total assessed valuation of property in the state. During the entire period reductions exceeded increases to the extent of more than $200 million.

Let us examine somewhat more closely the particular decreases and increases ordered by the board. Until the year 1931 all changes were in the form of net reductions except for the year 1923 when there was a slight net increase. During this period (1912-1930) almost all of the reductions benefitted railroads and utilities. Reporting in 1926 the state tax commission stated:

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1 Board of County Commissioners vs. Union Pacific RR. Co. 89 Colo. 110; McGinnis vs. Denver Land Co., 90 Colo. 72

> "It is interesting to note that, in fourteen years, the board has lowered this commission's valuations on public utilities, railroads, and other like corporations, approximately $30,667,810. This translated into taxes, means a loss to the state, counties, municipalities and school districts of nearly $1,000,000. In all that time not a single increase in valuations has been made or ordered. And, with one exception, all its reductions have been given to corporate property. In other words, its equalization has been 100 per cent downward and confined to corporations."[1]

Beginning with the drastic reduction ordered by the board of equalization in 1931 and continuing through 1933 with total net reductions amounting to approximately $250 million for the three-year period, principal benefits were extended to agriculture. Due to rulings by the board, about 30 per cent horizontal reductions occurred in the value of agricultural lands and improvements while from five to ten per cent horizontal reductions were made in the value of city residential property and automobiles.

During the unprecedented period from 1935 to 1939 when the board of equalization made increases in five of the years, totaling almost $88 million, the additional assessments were placed upon railroads and utilities. This action represented a complete reversal of the attitude of the state board toward these corporations during the previous two decades.

What conclusions may be reached relative to the 34 year period of "equalization" of assessments by the state board? The evidence indicates rather strongly that the board is more likely than the tax commission to be influenced by partisan considerations. Judging from the record the board is apt to decide that the expedient course is no action (10 of the years), or else to order assessment reductions (18 of the years). The assessment reductions in most cases appear to represent favoritism shown special economic groups after these groups have exerted considerable pressure. During the time from 1915 to 1930 those favored with reductions were the railroads and utilities; from 1931 to 1933 the favored ones were farmers. Only during the six-year period from 1934 to 1939 (administrations of Edwin C. Johnson, Teller Ammons and the first year of Ralph L. Carr) has the board been able to resist the political expediency of either doing nothing or else of making tax reductions. Therefore, it may be concluded that in Colorado as elsewhere an ex officio board composed of elected officials is too likely to be swayed by political

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1 Fifteenth Annual Report, Colorado Tax Commission, p. 8. There appears to be an error in this quoted statement. Although the general conclusion is valid, the board of equalization did make some small increases during the years from 1917 to 1923 inclusive -- the change in 1923 resulting in a small net increase (Table 10).

Table 10

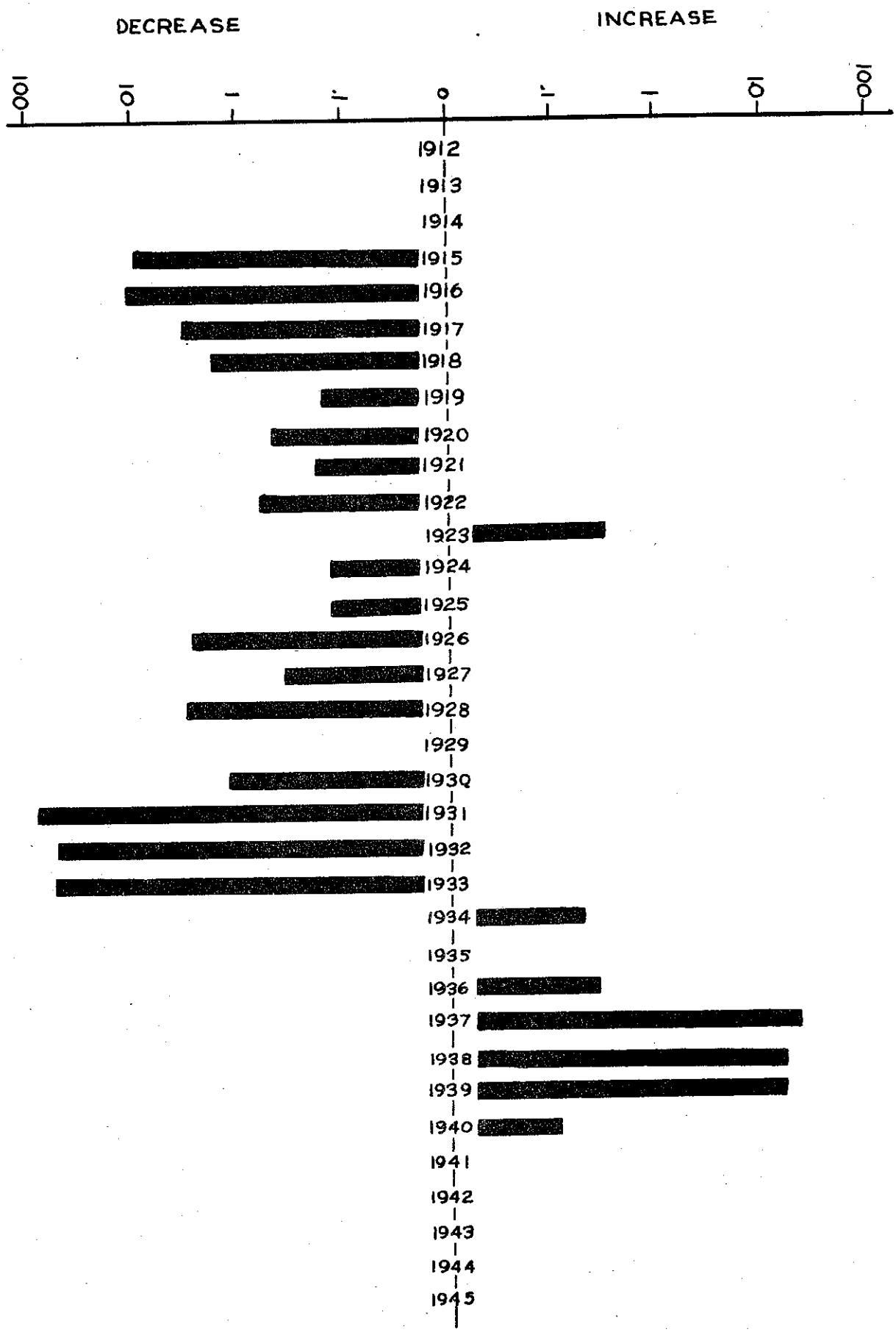
Changes in Assessed Valuations made by the State Board of Equalization

(1912 to 1945 inclusive)

Year	Increase	Decrease	Net Change
1912	$	$	$ . . . . .
1913	. . . . .	. . . . .	. . . . .
1914	. . . . .	. . . . .	. . . . .
1915	. . . . .	9,819,366	-9,819,366
1916	. . . . .	12,039,529	-12,039,529
1917	. . . . .	6,117,160	- 6,117,160
1918	. . . . .	3,364,779	- 3,364,779
1919	508,380	708,960	- -200,580
1920	254,190	954,590	- -700,400
1921	208,280	527,330	-319,050
1922	196,840	1,055,900	-859,060
1923	653,049	112,600	540,449
1924	. . . . .	171,160	-171,160
1925	. . . . .	178,610	-178,610
1926	. . . . .	4,459,276	- 4,459,276
1927	3,087,560	3,717,900	-630,340
1928	. . . . .	5,061,567	- 5,061,567
1929	. . . . .	. . . . .	. . . . .
1930	. . . . .	1,964,260	- 1,964,260
1931	. . . . .	95,453,332	-95,453,332
1932	. . . . .	74,875,000[1]	-74,875,000
1933	. . . . .	79,671,110	-79,671,110
1934	3,764,140	. . . . .	3,764,140
1935	. . . . .	. . . . .	. . . . .
1936	4,745,160	. . . . .	4,745,160
1937	33,637,513	. . . . .	33,637,513
1938	23,679,819	. . . . .	23,679,819
1939	22,148,247	. . . . .	22,148,247
1940	. . . . .	119,620	-119,620
1941	. . . . .	. . . . .	. . . . .
1942	. . . . .	. . . . .	. . . . .
1943	. . . . .	. . . . .	. . . . .
1944	. . . . .	. . . . .	. . . . .
1945	. . . . .	. . . . .	. . . . .
Total	$92,883,178	$300,372,049	-$207,488,871

1 Estimated from approximate figures given in 1943 Report, Colorado Tax Commission, p. 3.

Source: Various Reports of Colorado Tax Commission



CHANGES IN ASSESSED VALUATION MADE BY THE STATE BOARD OF EQUALIZATION 1912 - 1946

expediency and the pressure of special groups rather than the larger interests of the state as a whole.

Moreover, the state board of equalization is inefficient and ill adapted to the function of equalization. In the words of Jensen:

> "The board is ex officio, and it is not to be presumed that the members, elected for other purposes, have any fitness for the work of equalization, which involves considerable technical skill and knowledge. The change in personnel must be frequent, so that little skill and experience can be accumulated from one year to another. The board sits for less than two weeks, and unless it has a permanent staff to accumulate and organize information, it can have little or no basis of fact for its work. Having little or at least an inadequate factual basis for its rulings, it becomes the easy victim, even if it is not so inclined, to aggressive groups making extravagant claims of excessive or inadequate assessments, on the property of themselves or others, respectively."[1]

Another disadvantage of having a board of equalization in addition to a tax commission is that the dual control contributes to waste in time and effort of the assessment agencies. Several weeks longer is required for the completion of all steps in assessment before collection of the tax can begin. This delay contributes to the problem of collection as there is greater chance that the taxpayer or the property or both will have disappeared from the county or even the state. Moreover, wasted effort occurs because of duplication of work as between the board and commission. Each administrative body attempts to have at its command all necessary data for making decisions. Frequently the same individuals must twice present identical facts -- once before the commission and again before the board.

But perhaps one of the principal drawbacks of a dual control of equalization is that neither body can assume full responsibility. This divided jurisdiction makes it easy for each group to blame the other for errors of omission or commission. All the while both suffer because of the loss of confidence and respect from the public.

Years ago all other states except Missouri and Colorado got rid of the dual control over equalization exercised by an appointed tax commission and an ex officio board of equalization. These two states have apparently continued to retain their inefficient and generally unsatisfactory system because of inflexibilities in the state constitution. The people of Colorado should amend their constitution, placing all ultimate powers of equalization in the tax commission and abolishing the state board of equalization.

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1 Jensen, Jens P., Colorado State Tax System, 1930, p. 92

Equalization by the Tax Commission

Let us now turn our attention more directly to the role of the state tax commission relative to equalization functions. It is well to keep in mind the fact that the legislature has endowed the commission with specific responsibility for maintaining assessments throughout the state at full cash value. Chapter 142, section 157 of Colorado Statutes specifies, in part:

> "It shall be the duty of the commission, and it shall have and exercise power and authority:
>
> "First -- To have general supervision over the administration of and to enforce all laws for assessment, levying and collection of taxes.....to the end that all assessment of property real, personal, and mixed, be made relatively just and uniform and at its true and full cash value.....
>
> "Sixth -- Whenever in the judgment of the tax commission, property in any county or municipal subdivision thereof has not been assessed at its true and full cash value the commission may make a reappraisement of the property therein, to the end that all classes of property in such taxing district shall be assessed in compliance with the law....
>
> "Seventh -- The commission may raise or lower the assessed value of any real or personal property, first giving notice to the owner or owners thereof.....[1]

Thus, it may be seen that the legislature in establishing the tax commission intended for it to exercise full supervision over the assessment of all property to the end that it be assessed at full cash value. The courts have generally protected this authority possessed by the commission.[2]

In a practical sense the above enumerated power in the tax commission is an equalization power. Whether or not the state board of equalization approves all assessments as turned in by county assessors and recommended by the tax commission, it is the duty of the commission to see that all assessments submitted for approval are just, equal and at full cash value. If such is not the case, the commission is not fulfilling its duties as specified by law.

We shall now briefly examine the general results of the supervision and equalization functions as exercised by the commission. Relative to this examination it is well to keep in mind the fact that since 1940 the

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1 Colorado Statutes Annotated, 1935, Chapter 142, section 157

2 Denver vs. Pitcher, 54 Colorado 203; Goldsmith vs. Standard Chem. Co., 23 F. (2nd) 313

commission has apparently had no interference from the state board of equalization -- all assessment recommendations having been approved as submitted.[1]

Table 11 gives the total assessed valuation of all property in the state for each year since the tax commission was established in 1912. It may be seen that the new commission increased valuations from $422 million in 1912 to $1,306 million in 1913. This action was taken in order to place the property of the state upon a full valuation basis as prior valuations had been admittedly upon a basis of one-third full value.

Table 11

Total Assessed Valuation of all Property in Colorado, by Years, 1912-1946 Inclusive

Year	Valuation	Year	Valuation
1912	$ 422,442,079*	1930	$1,586,462,903
1913	1,306,647,430	1931	1,438,448,065
1914	1,309,559,205	1932	1,280,563,890
1915	1,249,199,210	1933	1,099,603,890
1916	1,211,697,278	1934	1,099,332,563
1917	1,305,286,409	1935	1,088,350,535
1918	1,422,113,275	1936	1,103,563,605
1919	1,495,044,025	1937	1,110,851,795
1920	1,590,267,667	1938	1,102,040,724
1921	1,578,256,499	1939	1,114,278,215
1922	1,548,617,879	1940	1,112,976,403
1923	1,543,211,892	1941	1,127,180,803
1924	1,538,096,720	1942	1,161,901,207
1925	1,540,732,487	1943	1,192,220,800
1926	1,546,830,046	1944	1,211,700,805
1927	1,565,290,666	1945	1,218,818,355
1928	1,577,560,380	1946	1,259,701,414
1929	1,586,919,769		

*Assessment on the basis of one-third full value

Source: Annual Reports, Colorado Tax Commission

Subsequent to 1913 the trend in valuations was slightly upward until 1929 when the figure reached $1,587 million. After 1929 total assessments declined until 1935, by which time they had dropped to a low of $1,088 million. Since then the trend has again reversed itself. However, during

1 See Table 10

the last 10 year period since 1935 the increases from year to year have been slight. By 1946 total assessed valuation of property in the state amounted to about $1,259 million. Thus, after 33 years time, total assessments were actually more than $47 million less than at the beginning of the period in 1913. This represented a decline in assessments of 3.6 per cent. If current assessments (1946) are compared with those in the year 1929, the reduction has been $327 million, or 20.6 per cent!

It should be pointed out that a partial explanation of the relatively low total valuations since 1936 is that intangible wealth and motor vehicles have no longer been included under the general property tax. However, this is only a partial explanation in that all intangible wealth included on the assessment rolls for the year 1935 amounted to less than $43 million while the assessed valuation of motor vehicles accounted for an estimated $20 million more. Both combined ($63 million) is only 19 per cent of the reduction in assessments since 1929. Moreover, if the $63 million were added to the present total for the state (1946), assessed valuation would still be about the same as for the year 1913!

Considerable evidence can be presented to show that the level of actual wealth in the state has not been stationary or declining but on the contrary has been expanding during the last 33 years. Table 12 shows that the state's population increased from 799,024 individuals in 1910 to 1,123,269 in 1940. This represented a 40 per cent increase for the 30 years -- a period of time approximately coinciding with that under consideration (1913-1946).

Table 12

Colorado Population by Census Periods,
(1910 to 1940 inclusive)

Year	Total Population	Increase over the Preceding Census	
		Number	Per Cent
1910	799,024	....	.....
1920	939,629	140,605	17.6
1930	1,035,791	96,162	10.2
1940	1,123,269	87,478	8.4
Increase for 30-year period		324,245	40.5

Source: Bureau of the Census

ASSESSED VALUATION OF ALL PROPERTY IN COLORADO
BILLIONS OF DOLLARS
1.6
1.5
1.4
1.3
1.2
1.1
1.0
.9
.8
.7
.6
.5
.4
.3
.2
.1
1912
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1943
1944
1945
1946

It is reasonable to assume that a 40 per cent growth of population in Colorado -- an economically underdeveloped state in the Rocky Mountain region -- would signify an important increase in total property values.

Moreover, as shown in Table 13, the value of manufactured goods produced in the state increased from $136 million in 1914 to $221 million in 1939 -- a 62 per cent gain. If figures were available for 1946 they would indicate an even greater growth of manufacturing for the entire period. The value of mineral products increased from $54 million in 1913 to $79 million in 1944 -- a 47 per cent increase. Harvested agricultural crops for the state increased from a value of $50 million in 1910 to $62 million in 1940 -- an increase of 23 per cent for the 30 year period. If values are combined for the three classes of products the increase for the years indicated in the table was 50 per cent.

Table 13

Value of Output, Three Leading Industries in Colorado for Selected Years[1]

Product	Value of Output		Per Cent Increase
	1914	1939	
Manufactured Goods	$136,839,321	$221,642,666	62
	1913	1944	
Mineral Products	54,294,281	79,598,000	47
	1910	1940	
Agricultural Crops Harvested[2]	50,651,452	62,210,908	23
Total Three Industries	$241,785,054	$363,451,574	50

1 The years selected were those nearest to 1913 and 1946 for which figures are available

2 Does not include the value of livestock and livestock products

Source: Bureau of the Census

Another evidence of expansion of wealth and income in the state is the growth of deposits in Colorado banks. Comparable figures are not available for the years before 1916; however, for the period since then, by five-year intervals, they are shown in Table 14. It may be seen that total deposits increased from $228 million in 1916 to $415 million by 1941 -- an increase of 82 per cent for the 25 year period. If 1943

is considered, the increase was 215.6 per cent. However, because the year 1943 was in a war period of credit expansion, the figure for deposits in 1941 is perhaps more truly indicative of the long term trend.

Table 14

Total Deposits in Colorado Banks
by Five-Year Periods since 1916

Year	Total Deposits	Per Cent Increase Over Previous Period
1916	$228,154,528	. . .
1921	270,207,824	18.4
1926	321,696,881	19.0
1931	259,134,580	-19.4
1936	337,350,933	30.1
1941	415,238,458	23.0
1943	720,102,005	73.4
Per cent increase for period 1916-41		82.0
Per cent increase for period 1916-43		215.6

Source: Colorado Year Book, 1943-44, p. 186

Perhaps one additional evidence of the growth of wealth and income in the state will be sufficient. Although figures are not available giving the total income for Colorado, there is evidence that the income has increased roughly in proportion to the growth of national income. For example, income payments to individuals in Colorado compared with those for the country as a whole for selected years since 1929 (Table 15) indicate a close relationship between the two. In 1929 payments to Colorado residents represented

Table 15

Income Payments to Individuals
United States and Colorado for Selected Years
(Dollars expressed in millions)

Year	United States	Colorado	Colorado As Percentage of U.S.
1929	$ 82,617	$ 634	.77
1933	46,273	359	.78
1939	70,601	564	.80
1941	92,269	695	.75
1943	138,101	1,104	.80

Source: Bureau of Foreign and Domestic Commerce, Department of Commerce.

.77 per cent of total payments for the United States; during the subsequent years of 1933, 1939, 1941, and 1943 the ratios were .78, .80, .75 and .80 per cent respectively. Thus, there appears to be a very stable relationship between changes in national and state income -- at least for the years indicated. To the extent that deviations occured for the period between 1929 and 1943, the tendency was for Colorado to receive relatively more of the total national income payments. Thus we may conclude that increases in national income have been reflected in similar or even greater increases in income in Colorado.

Table 16 shows the growth of national income for selected years since 1913. The table indicates that national income being at a level of about $35 billion in 1913, rose to $69 billion by 1920, was approximately the same in 1930, declined during the depression being $55 billion in 1935, rose to $77 billion by 1940, and has increased sharply since rising to a level of $160 billion in 1944. During the period from 1913 to 1940 the national income more than doubled and by 1944 the increase was over four fold. Assuming that the high income of the war years can not be maintained, but that average prices and total income may drop back approximately to the 1940 level, there would still be a total annual income exceeding that in 1913 by more than 100 per cent.

Table 16

National Income in the United States
for Selected Years, 1913 to 1944 Inclusive
(millions of dollars)

Year	National Income	Year	National Income
1913	$35,580	1940	$77,574
1915	36,109	1941	96,857
1920	69,226	1942	121,568
1925	73,630	1943	147,927
1930	68,858	1944	160,653
1935	55,719		

Sources: National Bureau of Economic Research, Income in the United States, Vol. I, 1921, p. 19, for figures for 1913 and 1915.
Hauser, P. M. and Leonard, W. R., Government Statistics for Business Use, 1946, p. 23, for remaining years. (Although two different sources are used, figures for the entire period are considered comparable.)

As previously indicated there is evidence that the rate of growth of income in Colorado has corresponded rather closely with that for the country as a whole. Assuming this to be true, the inevitable conclusion would be

that property values have also materially increased in the state.[1]

Considering all available evidence and discounting the inflationary rises of the war years since 1940, the writer believes that on the basis of a conservative estimate we may safely conclude that all real and personal tangible property in the state has increased in cash value at least 50 per cent since 1913. Moreover, there is good evidence to indicate that in the future, the values are not likely to decline below this level -- approximately the level of 1940 or 1941.

Yet despite the estimated increase of a least 50 per cent in actual value since 1913 (disregarding all increases during World War II) the total assessed valuation of all property in the state (1946) is actually at a lower level than 33 years ago, at the beginning of the period. If assessments were approximately on a full valuation basis of 1913, in order for the same situation to prevail today (discounting the war inflation and allowing for exemption of intangibles and motor vehicles) the total assessed valuation of real and personal tangible property would probably need to increase by at least $625 million.

The state tax commission, to the limit of its ability, should attempt to place the property in the state upon this higher total appraised valuation basis. In some instances it would involve discovering property, taxable under the law, yet not listed on assessment rolls either because of error, negligence or favoritism; in all instances it would involve placing valuations on a basis so that they would be at the level of full cash value. Such reform relative to assessments would merely be in accordance with the prescribed laws of the state and achieving this goal (under the law) is specifically a responsibility of the tax commission. Moreover, full assessments do not cause higher general taxes; on the contrary, the average property owner would probably discover he has a lighter tax burden when all property is full assessed than when it is only partially assessed. The commission has frequently pointed out that in Colorado throughout the years since 1930 as assessments have shrunken, mill levies have increased enough to more than make up the difference. If all taxable property were listed and fully assessed, mill levies could drop back to a relatively low level.

But other advantages are forthcoming when property is assessed at full cash value. When 100 per cent assessment is the objective, original valuations are more likely to be uniform. The use of a fractional basis tends to be indefinite in practice and inevitably leads to wide deviations. According to Allen, under such a fractional system, "Instead of determing the actual value of a piece of property as accurately as possible and then

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1 In the final analysis the principal basis for the value of property is its income earning capacity. Therefore, if total income is greater, we must expect the value of property to increase also, although not necessarily proportionately.

applying the prevailing assessment ratio, assessors often set down a lump-sum figure which they believe to be in line with similar properties without regard to whether the assessment represents the proper percentage of full value."[1] Allen concludes that this inevitably results in numerous errors which are magnified in terms of the actual value of the property erroneously assessed. On the other hand, full assessments promote uniformity, not only as pertains to locally assessed property within a county but also the general level of assessments as between counties. Moreover, a 100 per cent valuation contributes to greater uniformity as between property, on the one hand, assessed locally in the 63 counties and, on the other hand, the assessment of public utilities by the tax commission.

Another advantage of full assessment is that the taxpayer has a better basis for comparing the valuation placed upon his property with that upon the property of his neighbor or of anyone else. Fractional assessments confuse the taxpayer and often give him a false impression of liberality in tax treatment. Not knowing what assessment ration is being used he is likely to refrain from objecting to a particular valuation in spite of suspecting that his property is being appraised relatively too high. He realizes that even though there is discrimination against his property it would be difficult to prove and if a complaint is lodged the assessor can easily justify raising the assessment still higher from the standpoint of law. Therefore, assessments upon the basis of full, cash value are really in the interest of the taxpayers themselves because then the assessed value of any property may readily be compared with that of any other.

A corollary advantage is that full assessments reduce the regressive aspects of the property tax. Almost invariably when property is assessed at a fraction of full value the larger properties tend to be underassessed to a greater extent than are the smaller ones. Thus, property owners with the lowest incomes and the least property pay more than their proportional share of property taxes. This regressive feature due to fractional assessments has frequently been pointed out by tax authorities in other states as well as in Colorado. The problem may be illustrated by citing an example, which, in effect occurs all too frequently. Suppose two homes in the same tax district have full cash values of $3,000 and $12,000 respectively. If the assessor vaguely knows that property in the state is being usually assessed on a level somewhere between 30 per cent and 60 per cent of full value, attempting to keep his valuation approximately in line with those in other counties, he is likely (perhaps unconsciously) to discriminate against the $3,000 home. One reason for this discrimination may be that the true value of the smaller property is more readily determinable. In addition, the assessor may not wish valuations to go below a certain minimum for any

1 Allen, H. Kenneth, "Full-Value Assessment Program in Illinois", Bulletin of the National Tax Association, January, 1946, pp. 117-119.

home, regardless of value. Thus, he assesses the smaller property at perhaps $2,000, thinking all the while that surely the householder can afford to pay a tax on such a low total valuation. However, with reference to the larger property, partly because of uncertainty relative to true value and partly because most any fractional valuation may appear relatively large to the assessor or deputy who probably lives in a modest cottage himself, the $12,000 home may be assessed at perhaps $5,000. The practical effect of these two valuations is for the small home to be assessed on a 66 per cent basis and the large one on a basis of about 42 per cent. Thus, the tax is regressive, favoring the larger property. Assuming the tax levy for the particular district to be 50 mills, the favoritism amounts to a saving of $150 in taxes (based upon an undervaluation to the extent of $3,000) as compared with the amount of tax paid by the owner of the $3,000 home. In other words, the owner of the large home should pay a tax of $400 instead of $250 in order for the tax to be proportional with the $100 tax paid by the owner of the small home.

Finally, an advantage of full assessment is that the various local governments -- whether county, municipality or school district -- receive equal treatment with reference to tax rate limitations imposed by the constitution or legislature. On the other hand, under a system of fractional assessments, the maximum mill-levy provisions are much more restrictive in tax districts with low assessment ratios than they are in those with high ratios. Thus, by increasing assessment ratios, the application of tax-rate limits can be avoided or at least postponed.

One aspect of the problem of equalization of assessments throughout the state relates to the broad categories of property as indicated in Table 17. In order for the property tax to be equitable, valuations should be applied to these categories in such a manner that each bears its proper share of the total tax load. If original assessments do not result in accomplishing such uniformity, valuations should be equalized by the tax commission.

It may be seen from the table that assessment abstracts as returned by the county assessors and corrected by the tax commission for the representative years 1913, 1921, 1935, and 1945 show a rather wide variation as among individual items. For example, the valuation of land and improvements has fluctuated, going from 24.71 per cent of total property values in 1913 up to 34.84 per cent in 1921 and then down to 21.42 per cent by 1945. This category of property is principally in the form of agricultural and grazing lands and improvements. There is little or no evidence to support the justification for such wide relative variations of assessments. It is true that during the first world war the market value of agricultural land advanced somewhat more sharply than of property generally; however, by 1921 these extreme values had declined again.

The actual situation is probably that farm property was relatively over-assessed in 1921. This over-assessment continued for a number of years until the depression period of the thirties when the agricultural

Table 17

Comparison of Summary of Abstracts as Returned by the County Assessors and Corrected by Tax Commission for the Years 1913, 1921, 1935, 1945

	1913 Amount	Per Cent of Total	1921 Amount	Per Cent of Total	1935 Amount	Per Cent of Total	1945 Amount	Per Cent of Total
Land and improvements	$322,857,915	24.71	$549,976,126	34.84	$496,376,523	32.22	$261,164,598	21.42
Metalliferous mining property	46,042,067	3.52	24,743,817	1.57	23,081,307	1.50	24,846,558	2.04
Timber, oil and coal properties	20,521,089	1.57	25,437,444	1.61	28,676,909	1.86	22,179,517	1.82
Town and city lots and improvements	465,142,407	35.60	418,796,295	26.53	478,594,338	31.06	450,540,447	36.96
Live stock	63,562,749	4.86	68,921,431	4.37	47,022,156	3.05	67,786,225	5.56
Merchandise	48,103,599	3.68	87,361,814	5.54	81,055,785	5.26	82,164,312	6.74
Manufacture	13,575,571	1.04	41,037,122	2.60	38,336,462	2.49	33,576,905	2.75
Miscellaneous Less Exemptions	26,481,947	2.03	84,973,640	5.38	77,458,057	5.03	64,172,053	5.26
Corporations Assessed by Tax Commission	260,241,995	19.92	226,418,960	14.35	227,387,440	14.76	212,387,740	17.45
Bank Stock	28,924,765	2.21	31,001,533	1.97	24,951,673	1.62	. . . . .	. . .
Money, Credits, Accounts Less Exemptions	11,193,326	.86	19,588,317	1.24	17,791,837	1.15	. . . . .	. . .
Totals	$1,306,647,430	100.00	$1,578,256,499	100.00	$1,540,732,487	100.00	$1,218,818,355	100.00

Source: Thirty-fourth Annual Report, Colorado Tax Commission.

bloc induced the state board of equalization to slash farm valuations. As a consequence, there was probably an over-adjustment leaving agriculture in a relatively favored position -- at least in comparison with some other classes of property in the state. This appears to be true especially since the development of agricultural prosperity during and after the second world war.

One illustration will be given to indicate the present favored position of at least certain kinds of agriculture relative to property assessments. In Baca county, one of the dry-farming counties of eastern Colorado, assessment of agricultural and grazing land by five-year intervals since 1930 is shown in Table 18. It may be seen that during the period, 2,950 acres of irrigation land was reclassified so that all land was considered either dry farm or grazing. By 1935 the dry farm and grazing lands were being assessed on a basis little more than half the level of valuations in 1930 -- the general average dropping from $5,24 to $2.80 per acre. Since 1935 some increase in assessed values has occurred but the increase has been slight -- by 1945 the average assessment being only $2.90 per acre.

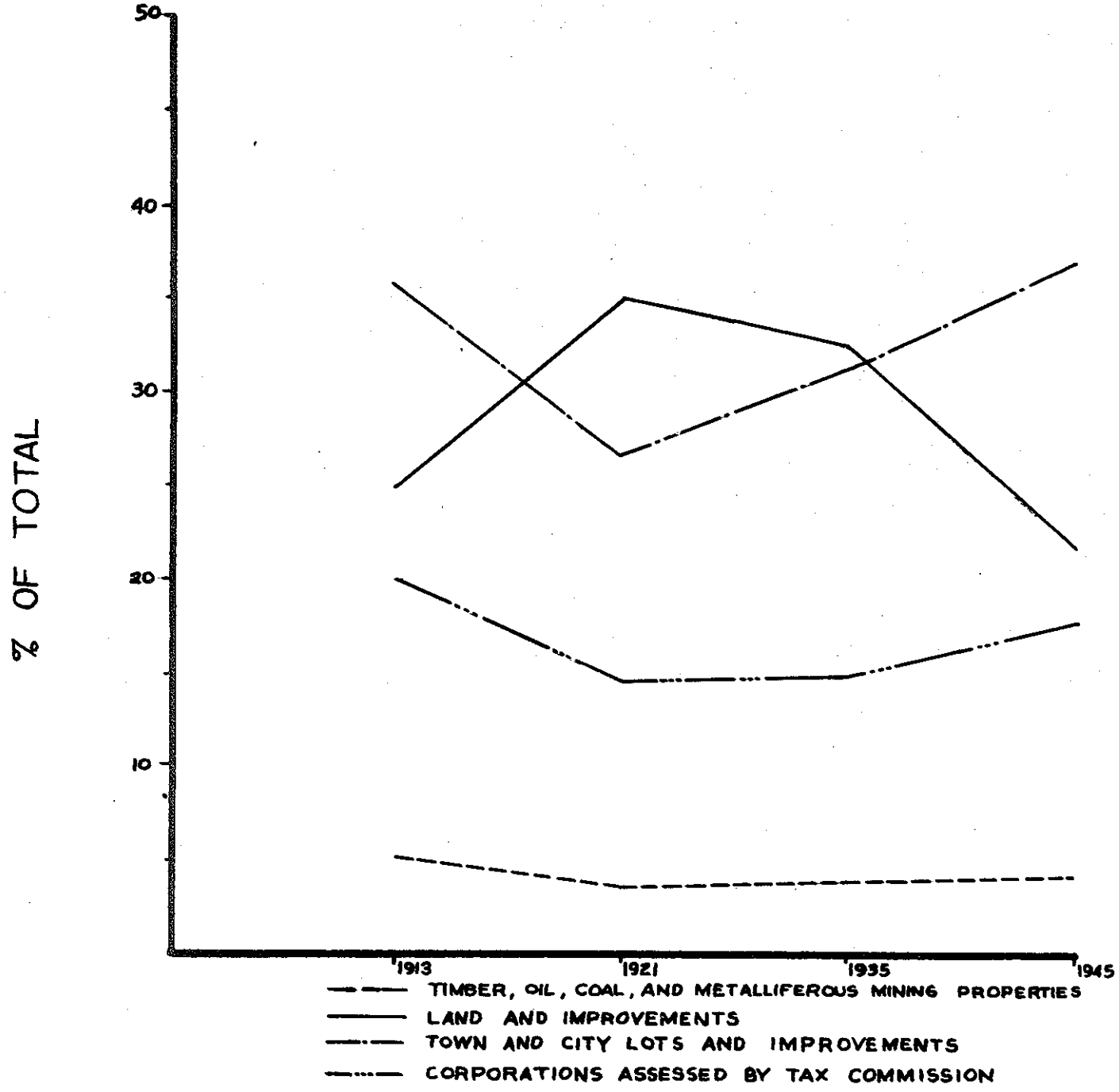
Table 18

Abstract of Assessment of Agricultural and Grazing Lands in Baca County, Selected Years since 1930[1]

	Irrigated Land		Dry Farm Land		Grazing Land		Total Agri. Lands	
Year	Assessment	Av. per Acre	Assessment	Av. per Acre	Assessment	Av. per Acre	Assessment	Av. per Acre
1930	$36,875	$12.50	$6,050,280	$6.25	$1,941,230	$3.45	$8,028,385	$5.24
1935	.....	.....	3,281,217	3.39	1,018,935	1.79	4,300,152	2.80
1940	.....	.....	2,304,230	3.38	1,305,125	1.85	3,609,355	2.60
1945	.....	.....	2,659,670	4.00	1,296,375	1.85	3,956,045	2.90

1 Excluding improvements, also equities in state and school lands.
Source: Reports for years indicated, Colorado Tax Commission

Undoubtedly a reduction in valuations in Baca county as well as in other dry farm counties of eastern Colorado was justified during the first half of the period under consideration. Drought conditions caused several crop failures in a row and we began to consider the area a dust bowl. However, the farmers were taught scientific methods of water and soil conservation relative to dry farming, while since about 1937 the annual precipitation has been more favorable for crops. As a consequence, during recent years the farmers have been among the most prosperous of any in the nation. For example, Baca county is now raising about one-third of the world's supply of broom corn. In 1946 the harvest was about 23 million pounds which sold for 15 cents per pound. Farmers of the county are



ASSESSMENT OF SEVERAL LEADING CATEGORIES
OF PROPERTIES IN COLORADO

raising wheat which yields up to $100 per acre for each crop year on land still assessed at about $4 per acre. In 1946 the wheat crop of Baca county amounted to 1,700,000 bushels which sold at about $1.85 per bushel. In addition, the farmers of the county produced during the year $1,260,000 worth of cattle, $150,000 worth of sheep and $75,000 worth of hogs.[1]

Thus, convincing evidence indicates that dry farm lands of eastern Colorado typified by Baca county are now being assessed on a level representing a mere token of actual value. Moreover, agricultural authorities believe that the present high levels of production are likely to continue, that due to scientific methods of cultivation, never again will the farmers of the area need to fear a return of the dust bowl. Although assessed valuations or irrigated farms in other parts of the state never dropped quite as far relatively as those upon the dry farms during the decade of the thirties, both production and land sale figures indicate that current assessed valuation are relatively low upon these lands also.

Two other categories of property listed in Table 17 are metalliferous mining properties and timber, oil and coal properties. Together these represent the assessment of the mineral wealth of the state.[2] On a comparative basis these mineral resources have always been favored under the property tax. In 1913 when metalliferous mines accounted for 3.52 per cent and timber, oil and coal mines 1.57 per cent of total assessments, they were relatively under assessed; by 1945 when the ratios were 2.04 per cent and 1.82 per cent respectively, they were still in a privileged position relative to most other property in the state.

One basis for estimating the trend of assessments over the years is to compare the assessed valuation of all mineral lands and improvements with the value of mineral production. Such a comparison for selected years since 1915 is shown in Table 19. It may be seen that the assessed valuation represented almost 90 per cent of value of output in 1915. The ratio subsequently fluctuated rising to 100 per cent in 1930 and then declined thereafter, falling to 64 per cent by 1944. The average ratio for the years shown in the table was 78.4 per cent. Thus, if we assume that mineral property was relatively underassessed at the beginning of the period, since 1930 it has been favored to an even greater extent.[3] If valuations in 1944 were equal to the average for the period they would be at the level of about $62,000,000 or at least $11,000,000 more than the actual valuations for the year.

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1 Rocky Mountain News, October 17, 1946.

2 Although timber property is included in the table, the value of privately owned timber in the state is so relatively small that for our purpose the item may be disregarded.

3 The writer realizes that the value of mineral production is not in all cases a good index of what the level of property tax should be; however, as the whole industry is considered in our discussion, the figures are undoubtedly significant.

Table 19

Assessed Valuation of Colorado Mineral Lands and Improvements Compared with the Value of Mineral Production for Selected Years

Year	Assessed Valuation[1]	Value of Mineral Production[2]	Percentage
1915	$57,413,617	64,295,119	89.2
1920	57,529,745	76,037,896	75.6
1925	55,131,488	63,148,959	87.3
1930	46,572,812	46,270,545	100.6
1935	29,419,571	44,413,477	66.2
1940	45,390,717	63,188,421	71.8
1944	50,945,302[3]	79,598,000	64.0
		Average	78.4

1 Annual Reports, Colorado Tax Commission
2 Minerals Year Book, Bureau of Mines
3 Estimated by writer from figures not entirely segregated by tax commission.

There appears to be sufficient evidence to indicate that a general reappraisal of all mineral wealth of the state would be highly desirable. Moreover, the problem should not be considered as one confined to attempts at improving assessments as the law relating to taxation of minerals is also defective. However, should the state adopt a comprehensive severance tax, the inadequacy of the mineral property tax would probably be largely overcome. For a more complete discussion of the taxation of mineral resources the reader is referred to the report in this series on severance taxation.

The catagories of town and city lots and improvements, livestock and merchandise as shown in Table 17 have probably been more satisfactorily assessed since 1913 than most other categories of property. During many of the years field men of the tax commission have assisted county assessors with the appraisal, especially of urban residential property and merchandise. Moreover, during the depression years after 1930 the assessed valuation of these properties was reduced relatively little by the state board of equalization.

The item in Table 17 called "manufacture" had not been interpreted uniformly by county assessors. Moreover, the nature of property included in the category has changed to some extent during the period since 1913. Consequently, a comparison of the relative levels of assessment of capital employed in manufacturing is difficult. However, some discussion of this important industry as it relates to property assessment appears desirable.

In 1912 the newly appointed tax commission was particularly concerned regarding the prevailingly low property valuations in manufacturing industries. During the period between 1903 and 1912 valuation of manufacturing

property had remained practically stationary, the amount in the former year having been $3,487,122 and in the latter, $3,507,675. Yet during this same period sixteen new sugar factories, costing approximately one million dollars each, had been erected in Colorado while according to the United States Census, capital invested in manufacturing in the state increased from $107,664,000 in 1904 to 162,688,000 in 1909.[1]

Through vigorous efforts of the commission, valuations in the state for manufacturing property increased to $13,575,571 in 1914 and by 1921 had climbed to $41,037,122. As seen by the accompanying table (Table 20) in the latter year the industry included 1,491 establishments whose manufactured products had a total value of more than $221 million. Expressed as a percentage of value of products, assessed valuation of the industry amounted to 18.5 per cent.

Table 20

Census of Manufacturing[2] Compared with Assessed Valuation of Manufactures in Colorado for Selected Years

(Dollar Amounts in Thousands)

Year	No. of Establishments	Total Wages Paid	Cost of Raw Materials etc.	Value of Products	Assessed Valuation of Manufactures(3) Amount	% of Total	Assessed Value as % of Value of Products
1914	2,126	$ 20,200	$ 89,756	$ 136,839	$ 13,575*	1.04	9.9
1921	1,491	38,612	147,248	221,324	41,037	2.60	18.5
1925	1,416	43,007	171,191	278,778	38,336	2.49	13.8
1929	1,495	43,640	175,113	286,732	36,061	2.27	12.6
1935	1,160	21,530	107,762	171,350	21,476	1.97	12.5
1939	1,298	28,391	130,386	221,642	23,749	2.13	10.7
1945	.....	.....	.....	.....	33,576	2.75	....

*For year 1913

2 Bureau of the Census
3 Reports of Colorado Tax Commission

Since 1921 the trend of valuations placed upon manufactures by county assessors has been downward even though the industry itself has not declined. Of course there was a temporary setback during the depression of the 1930's, but by 1939 the value of manufactured products in the state almost exactly equaled the value of products in 1921. Furthermore, the industry was apparently more prosperous as the cost of labor, raw materials and power was considerably less by 1939. Yet between 1921 and 1939 assessed valuations

1 First Annual Report, 1912.

dropped from $41,037,122 to $23,749,670. While assessments in the former year amounted to 2.60 per cent of all property valuations in the state, by 1939 they had declined to 2.13 per cent. Expressed in terms of value of manufactured products the decline of assessed valuations was from 18.5 to 10.7 per cent.

Although since 1939 the tremendous war expansion of manufacturing caused valuations to increase to the level of $33,576,905 by 1945, there is evidence to indicate that the industry is still being assessed at only a fraction of the true value of invested capital. If the item labeled manufacture were interpreted more uniformily by the various county assessors, conclusions relating to assessments of the industry could be more decisive.

The classification of property in Table 17 labeled "miscellaneous less exemptions" refers principally to personal household property less personal exemptions of $200 per head of family. The assessment of this category of property is discussed in some detail in the section of our study on tax-exempt property. In that section it will be noted that such property is probably less adequately assessed than any other class of property in the state. A vast amount of household goods is never listed on assessment rolls, much of that listed is greatly under-appraised, and the $200 personal exemption is often too liberally applied. Moreover, making the inequity of these violations particularly bad is the fact that wide variation prevails among the 63 counties of the state relative to the assessment defects.

One of the most difficult comparisons relating to the question of assessment equalization among the broad classes of property is a comparison of the assessed valuations of corporations (assessed by the tax commission) with the valuation of all other property (assessed by the county assessors). Table 17 indicates that the proportion of total valuation assessed against the corporations has fluctuated considerably -- the percentage declining from a high of 19.22 in 1913 to a low of 14.35 in 1921. After the latter year the trend was slightly upward reaching 14.76 by 1935 then climbing to 17.45 per cent by 1945. Figures recently released by the Department of Revenue indicate a minor change for the year 1946 -- the ratio declining to 17.11 per cent. Thus, if a comparison is made directly between the years 1913[1] and 1946 we find that the percentage of assessments borne by the public utility corporations has experienced a net reduction of 2.81 per cent.

Before deciding whether or not this reduction of assessments (both in the aggregate and relatively) against the public utilities since 1913 has been justified, it is necessary first to determine whether or not these corporations have been expanding more slowly than all other property in the state relative to actual value. Although available data cannot be

1 It was 1913 when the tax commission first raised all valuations to the 100 per cent basis.

considered conclusive evidence there is reason to believe that the true value of utilities has not declined on a relative basis since 1913, but on the contrary has actually expanded considerably faster than the over-all growth of wealth in the state.

Although comparable data are not available for the period prior to 1920, Table 21 gives figures showing the trend in production of electric energy in the state for the subsequent years. Throughout the 26-year period from 1920 to 1945 there was a constantly accelerating rate of growth in production except for a short interval during the early years of depression following 1930. Total production increased from 397 million kilowatt hours in 1920 to over 1.1 billion kilowatt hours in 1945. This represented an expansion for the period of almost three fold. Thus, it may be concluded that at least relative to the electric public utility field there was undoubtedly considerable growth of total plant investment for the various companies producing and selling electric energy. Moreover, although the relationship between electric production and plant investment is not always directly proportional, there is a tendency for operating net income, and consequently, the value of utility assets, to increase as the volume of production increases.

Table 21

Total Production of Electric Energy for Public Use Compared with Assessed Valuation of all Electric Light and Power Companies in Colorado, Selected Years Since 1920

Year	Kilowatt Hours Production[1] (Thousands)	Assessed Valuation[2]	Average Assessed Valuation per Kilowatt Hour Prod.
1920	397,000	$30,844,410	7.8¢
1922	403,000	30,896,790	7.7
1924	490,000	32,093,090	6.5
1926	562,000	32,384,340	5.8
1928	541,000	34,910,070	6.4
1930	573,341	39,449,750	6.9
1932	478,263	37,253,770	7.8
1934	506,710	36,085,500	7.1
1935	549,157	37,213,220	6.8
1936	652,404	38,029,210	5.8
1937	682,222	43,548,372	6.4
1938	693,344	45,888,080	6.6
1939	760,445	48,145,620	6.3
1940	791,967	48,655,090	6.1
1941	855,377	49,898,760	5.8
1942	977,690	50,696,350	5.2
1943	1,097,269	51,689,970	4.7
1944	1,136,831	52,644,860	4.6

Table 21 (Continued)

Year	Kilowatt Hours Production[1] (Thousands)	Assessed Valuation[2]	Average Assessed Valuation per Kilowatt Hour Prod.
1945	1,128,754	$52,716,830	4.7

Production increase (26 year-period = 184.3%
Assessed Valuation increase (26 year-period = 70.9%

1 U. S. Geological Survey for years prior to 1934; Federal Power Commission for years since.

2 Reports of Colorado Tax Commission. As the Reports prior to 1939 do not give a composite figure for electric companies, tabulations for the earlier years were made by the writer. Rural electric companies are included in all tabulations.

Table 21 also gives a comparison between total production of electric energy for public use and assessed valuation of all electric light and power companies. It may be seen that expressed as an average of assessed valuation per kilowatt hour of production, assessments have declined from 7.8 cents in 1920 to 4.7 cents in 1945. In other words, although production increased 184.3 per cent during the period, assessed valuations increased only 70.0 per cent. In order for the same ratio to prevail in 1945 as in 1920, total assessments for the industry should have been $88 million instead of the actual $52.7 million. However, there is insufficient evidence to indicate whether or not the same ratio should prevail if relative tax burdens for all property owners in the state are to be maintained. One consideration is whether or not tax-exempt municipally owned electric plants were producing and distributing a larger proportion of electric energy at the end than at the beginning of the period. However, this aspect of the problem can probably be disregarded, as privately owned utilities are now producing about 90 per cent of all electric energy in the state. Although exact figures are not available for the earlier years, there is reason to believe the ratio was not very much different in 1920.

Conclusive evidence has been presented in this study to indicate that a state wide reappraisal of all tangible property in Colorado is urgently needed. Moreover, the tax commission has long recognized this need and has repeatedly requested the legislature, to no avail, for sufficient appropriations to permit the conducting of these reappraisals. Colorado's need is similar to that which was present in Utah several years ago. The procedure followed there relative to the reappraisal of all buildings in the state is described by L. L. Wilson as follows:

> "Soon after the tax commission was organized, a survey revealed the existence in Utah of all those evils to which the property tax system everywhere is heir. Under-assessment, over-assessment and non-assessment were rife, and for many reasons. Inequities existed as between counties and between classes of

property. But the greatest inequities -- and the most serious to the taxpayers concerned -- were found as between property in the same county, and in the same class. Obviously, to cure such evils the original assessment must be made uniform.

"The first step taken by the Utah commission to correct this situation, so far as it applied to buildings, was to set up a valuation engineering division, which spent some time in formulating scientific schedules, adapted to Utah conditions, for the valuation of the various types of structures. The division also prepared a reappraisal card for use in the field, on which could be recorded all data necessary for an accurate valuation of each building, together with an outline plan and a photograph.

"After agreement had been reached with county taxing officials, a representative from the county assessor's office and one from the engineering division of the tax commission, equipped with camera, tapeline, and reappraisal cards, visited each building in a county. Interior and exterior examinations were made, measurements taken and data recorded. With this field work completed, it was possible to calculate, first, uniform reconstruction costs; then present values of each building, after allowances for depreciation, obsolescence and other factors, affecting marketability. Lastly the cards were filed in the office of the county assessor, where they were available for public inspection.

"Usually a public hearing also was held at which the purposes and the procedure of the revaluation were explained, protests were received, and decisions announced and discussed. Public interest was encouraging; reaction finally was good, though at first, in a few instances, threatening and even truculent. Not infrequently opposition and criticism melted away when groups of cards, showing photographs of comparable structures, revealed emphatically the inequities in former assessments and the much greater uniformity attained by revaluation."[1]

A number of other states including Illinois have made significant progress toward state wide reappraisal of property during recent years. Illinois' efforts in attempting to obtain full-value assessments are particularly notable. Should Colorado decide to reform her assessment procedure in order to provide more complete and equal appraisals of property in the several counties, the experience in such states as Utah and Illinois can be drawn upon for assistance.

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1. L. L. Lamont, "Statewide Reappraisal of Buildings in Utah for Assessment Purposes," Bulletin of the National Tax Association, October 1945, pp. 4-5

The Problem of Tax Exempt Property

There is a large proportion of property, both real and personal, in Colorado which is wholly or partially exempt from taxation under the property tax system. As previously discussed, the constitution adopted in 1876 permitted and in some cases required certain classes of exemptions. These included (1) $200 of personal property for each head of family, (2) property of the state and its political subdivisions, and (3) certain property employed in a manner other than for the purpose of earning a profit for the individual owners -- namely, property used solely for religious worship, for schools, for strictly charitable purposes, and also cemeteries and irrigation projects not operated for private profit. Later constitutional amendments exempted all intangible property and motor vehicles from the property tax. Also because of the established principle of intergovernmental immunities, federal property is not subject to taxation by state and local units.

These constitutional tax exemption provisions have been implemented by statutory law, by administrative practice and by court decisions. They are sufficiently significant to justify a brief discussion.

The Personal Property Exemption for Heads of Families

The provision for a personal property exemption of $200 for each head of family[1] was undoubtedly placed in the constitution in order to safeguard the standard of living of those families in the lowest income groups -- those on a subsistence level who would be forced to sacrifice some of the bare necessities of life if their scant personal effects were subjected to taxation. However, for the sake of uniformity and ease of administration a blanket provision was inserted, permitting each head of family, regardless of the amount of personal property, to claim an exemption up to a maximum of $200.

The constitutional provision was not intended to provide a loophole through which millions of dollars of property would escape without paying a cent of property tax even when the owners possess considerable taxpaying ability. In other words the exemption was intended to include only $200 of personal property when all such property is fully assessed at true market value. Also the exemption was intended to apply only to purely personal or household tangible property such as household furniture, washing machines, clocks, silverware, clothes, etc. It was not intended to be applied against the present broad interpretation of personal property which includes all movables whether in the home, factory, or business.

Nevertheless, in practice in Colorado the $200 exemption provision has been flagrantly violated by most every county assessor since adoption of the constitution in 1876. Perhaps the most inequitable aspect of this refusal to follow the requirements of the law and constitution is that there is no uniformity of violation by the county assessors.

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1 Article 10, Paragraph 3, Colorado Constitution.

In some counties most personal property escapes assessment entirely while the few items to be found on the tax rolls are assessed at a mere fraction of true value. This situation almost invariably means that total exemptions exceed the assessed value of all personal property -- a preposterous state of affairs. Then to make matters worse, the assessor finding the value of personal property for individuals to be less than the $200 personal exemption, deducts the "excess" from the value of farm or business personality which may be owned by the individual.

These violations carried on in some counties to the extent described, become particularly unfair to property owners in other counties where assessors may be attempting, more adequately, to enforce the law. Furthermore, even within the very counties where property owners appear to be most favored with low assessments, there are likely to be the greatest discrepancies as between particular individuals, relative to the assessment of personal and real property.

Studies indicate that if personal household property were fully assessed, the assessment value should correlate closely with the value of the dwelling in which the property is located. Consequently, a comparison of actual personal property assessments with the census value of dwelling units is an excellent index with which to compare the various counties of the state. Such comparisons are shown in Table 22. Figures are for 1940, the most recent year since the last housing census.[1] Column (d) gives the average assessed value per dwelling unit of personal household property. It may be seen that the range among the counties is from a high of $273 in Denver to a low of $35 in Huerfano -- $150 being an average for the state as a whole. As it is unfair to make direct comparisons between counties whose residents differ widely relative to actual income and wealth, the figures are expressed in column (e) as percentages of the average census value per dwelling unit for each county.

The counties are listed in the table according to their relative standing as shown in column (e). It should be kept in mind that the percentage figures for the various counties are shown in this column can now be compared directly with each other -- a correction having been made for variations among the counties in wealth and income. Therefore, these percentages should indicate in a very real sense the success, or more likely the lack of success, of assessors in placing personal household property on the assessment rolls.

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1 Even though the valuation placed upon housing units by the Bureau of Census may not be completely accurate, the same criteria for judging values were used in each county; consequently, comparisons in Table 22 are valid and significant.

Table 22

Assessment of Household Personal Property Compared with the Census Value of Dwelling Units, by Counties, 1940

Rank	County	No. of occupied Dwelling Units[1] (a)	Average Value Per Dwelling Unit[2] (b)	Total Assessed Value of Household Property[3] (c)	Av. Per Dwelling Unit (c ÷ a) (d)	Per cent (d ÷ b) (e)
1	Pitkin	569	$ 424	$ 50,300	$ 88	20.7
2	Gilpin	580	525	60,495	104	19.8
3	Lake	2,001	517	185,195	93	17.9
4	Hinsdale	124	660[4]	13,135	106	16.0
5	Mineral	294	946	44,550	152	16.0
6	Teller	2,009	684	182,360	91	13.3
7	Archuleta	969	660	71,804	74	11.2
8	San Juan	393	1,145	49,340	126	11.0
9	Fremont	5,246	1,130	639,995	122	10.7
10	San Miguel	1,028	858	93,225	91	10.6
11	Grand	1,023	1,353	137,000	134	9.9
12	Clear Creek	1,172	1,281	147,650	126	9.8
13	Custer	677	1,016	64,799	96	9.4
14	Curay	625	1,194	69,430	111	9.2
15	Costilla	1,635	443	64,770	40	9.0
16	Gunnison	1,763	1,663	240,980	137	8.2
17	Phillips	1,395	1,566	170,232	122	7.7
18	Crowley	1,405	1,118	118,120	84	7.5
19	Otero	6,446	1,771	849,595	132	7.4
20	Chaffee	2,398	1,682	288,700	120	7.1
21	Garfield	3,063	1,670	363,945	119	7.1
22	Denver	96,777	3,933	26,454,170	273	6.9
23	Douglas	1,033	1,761	124,115	120	6.8
24	Jackson	525	1,332	44,234	84	6.3
25	Kiowa	819	1,117	56,491	69	6.1
26	Summit	666	581	24,200	36	6.1
27	El Paso	16,532	2,972	2,980,130	180	6.0
28	Las Animas	8,220	1,115	553,720	67	6.0
29	Dolores	533	704	22,495	42	5.9
30	Eagle	1,495	1,284	114,370	77	5.9
31	Logan	4,663	1,952	547,005	117	5.9
32	Elbert	1,537	1,145	103,603	67	5.8
33	Kit Carson	1,999	1,236	133,415	67	5.4
34	Park	1,059	1,215	68,410	65	5.3
35	Boulder	11,327	2,574	1,492,300	132	5.1
36	Conejos	2,556	890	115,745	45	5.0
37	Delta	4,509	1,523	340,640	76	4.9
38	Montezuma	2,679	1,145	144,032	54	4.7

Table 22 (Continued)

Assessment of Household Personal Property Compared with the Census Value of Dwelling Units, by Counties, 1940

Rank	County	No. of Occupied Dwelling Units[1] (a)	Average Value For Dwelling Unit[2] (b)	Total Assessed Value of Household Property[3] (c)	Av. Per Dwelling Unit (c ÷ a) (d)	Per cent (d ÷ b) (e)
39	Sedgwick	1,385	$ 1,925	$ 126,160	$ 91	4.7
40	Pueblo	18,232	2,092	1,746,895	96	4.5
41	Adams	5,602	2,084	523,330	93	4.4
42	Arapahoe	8,977	2,310	980,360	109	4.4
43	Larimer	10,324	2,387	1,064,660	103	4.3
44	Baca	1,707	890	65,340	38	4.2
45	Morgan	4,470	2,440	460,925	103	4.2
46	Routt	3,028	1,352	173,270	57	4.2
47	La Plata	4,112	1,797	294,325	72	4.0
48	Moffat	1,556	1,869	117,435	75	4.0
49	Alamosa	2,731	2,102	223,630	82	3.9
50	Mesa	9,156	2,310	844,580	92	3.9
51	Saguache	1,556	1,110	67,090	44	3.9
52	Lincoln	1,656	1,645	106,610	64	3.8
53	Prowers	3,299	1,920	242,796	74	3.8
54	Huerfano	4,066	929	143,030	35	3.7
55	Montrose	4,080	1,658	254,901	62	3.7
56	Weld	16,865	2,185	1,401,250	83	3.7
57	Washington	2,200	1,491	116,200	53	3.5
58	Yuma	3,257	1,552	174,640	54	3.4
59	Jefferson	8,763	3,085	866,370	99	3.2
60	Rio Blanco	851	1,615	43,960	52	3.2
61	Rio Grande	3,135	1,894	184,715	59	3.1
62	Cheyenne	826	1,232	29,555	36	2.9
63	Bent	2,422	1,265	87,975	36	2.8
	State	316,000	$2,334	$47,520,552	150	6.4

1 Bureau of the Census, 1940.

2 Ibid.

3 Includes musical instruments, radios, clocks and watches, jewelry and silverware, household furniture. See Annual Report, 1940, Colorado Tax Commission.

4 Assuming same average as for the neighboring county of Archuleta, census figure not given.

According to the table, Pitkin county rated highest in the state with a ratio of 20.7 per cent. In other words, in this county the average assessed valuation of personal household property was 20.7 per cent of the average census value of dwelling units. On the other hand, Bent County rated lowest with a ratio of only 2.8 per cent. Average for the state was 6.4 per cent indicating that assessments were considerably lower than they should be for the state as a whole. Generally it is safe to say that personal household property is worth about 10 per cent of the real estate value (including both building and ground) where the personal property is located. Judged by this standard, and disregarding the fact that the value of land is not considered in our table (column b), only 10 counties in the state were adequately assessing their household goods -- those as shown in Column (e) with ratios of 10.0 per cent or more.[1]

Our immediate concern in this section is the effect of the $200 exemption upon personal property assessments. The figures in Table 22 (Column c) do not take into consideration this effect as they represent assessment amounts before deduction for exemptions. The table is merely intended to show the inadequate and unequal assessment of personal property among the counties.

However, figures for 1945 assessments compiled by the tax commission (Table 23) show some of the effects of the personal tax exemption. The counties are segregated into six groups in the state according to common economic characteristics. Although the classification is not a perfect one, it has some value in facilitating a direct comparison among the counties. For example, the three counties largely urban -- containing the three largest cities in the state -- are in one group, the eleven counties, each with middle-sized cities and considerable areas of productive irrigation lands, are in another group, etc.

Within each group the counties are listed according to relative rank. Those counties with the highest relative amounts left after deduction for personal exemptions are listed first. For example, Denver is first in her group because exemptions amount to only 42.5 per cent of the assessed value of household goods, while Pueblo county is last in the group because her ratio is 78.8 per cent.

Among the other groups of the state an even greater variation exists regarding the effects of deduction for personal exemptions. In group II the range is from a low of 62.0 per cent in Boulder county to a high of

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1 The writer realizes that some county assessors have made courageous efforts to improve assessments of personal property. Various devices have been used to standardize practices and to serve as guides for deputy assessors. One example is the "Room-Unit-System" for assessment of household goods prepared by the assessor in El Paso county. Other similar plans have been adopted by assessors in a few other counties.

Table 23

Assessment of Personal Household Property Compared with Personal Exemptions, by Counties, 1945

Rank	County	Assessment of Household Goods	Average Assessment per Family	Personal Exemptions	Net Assessments	Per cent Exemptions to Total Assessment
Group I Urban						
1	Denver	$35,366,920	$548	$15,019,180	$20,347,740	42.5
2	El Paso	3,674,920	340	1,780,770	1,894,150	48.0
3	Pueblo	2,617,785	190	2,087,940	529,845	79.8
Group II Urban and Rich Agricultural						
1	Boulder	2,174,340	290	1,347,110	827,230	62.0
2	Otero	1,146,480	243	728,095	418,385	63.5
3	Larimer	1,495,200	210	1,049,120	446,080	70.2
4	Arapahoe	1,775,450	276	1,406,585	368,865	79.2
5	Logan	732,700	199	591,000	141,700	80.7
6	Jefferson	1,400,560	228	1,153,555	247,005	82.3
7	Morgan	536,210	155	466,600	69,610	87.0
8	Weld	2,058,060	161	1,836,170	221,891	89.2
9	Adams	892,995	198	800,860	92,135	89.7
10	Mesa	1,244,770	184	1,171,470	73,300	94.1
11	Las Animas	445,570	68	467,377	-21,807	104.9
Group III Mixed Economy						
1	Douglas	168,390	240	123,475	44,915	73.3
2	Chaffee	342,075	211	257,260	84,815	75.2
3	Alamosa	355,615	169	285,600	70,015	80.3
4	Garfield	496,980	235	426,180	70,800	86.0
5	Fremont	763,980	195	671,505	92,475	88.0
6	Rio Grande	276,260	111	247,565	28,695	89.6
7	Montrose	346,555	112	334,360	12,195	96.5
8	Prowers	401,571	163	432,190	-30,619	107.6
9	Crowley	168,520	156	183,745	-15,225	109.0
10	Delta	463,160	140	507,920	-44,760	109.0
11	La Plata	333,305	107	370,095	-36,790	111.0
12	Conejos	134,565	57	156,000	-21,435	116.0
13	Huerfano	67,065	208	95,230	-28,165	142.0
14	Bent	77,456	40	129,600	-52,143	167.3
Group IV Dry Farming						
1	Sedgwick	216,140	204	143,600	72,540	66.4
2	Phillips	240,240	243	215,385	24,855	90.0

Table 23 (Continued)

Rank	County	Assessment of Household Goods	Average Assessment per Family	Personal Exemptions	Net Assessments	Per cent Exemptions to Total Assessment
Group IV Dry Farming (continued)						
3	Elbert	$159,672	$146	$146,600	$13,072	92.0
4	Baca	143,975	116	186,300	-42,025	129.2
5	Montezuma	210,775	100	273,990	-63,215	129.9
6	Kit Carson	199,655	132	279,985	-80,333	140.2
7	Yuma	222,050	91	319,000	-96,950	143.6
8	Dolores	30,485	77	43,915	-13,430	144.0
9	Kiowa	80,608	144	117,955	-37,347	146.3
10	Lincoln	140,555	119	214,560	-74,005	152.6
11	Cheyenne	43,915	74	80,200	-36,285	182.6
12	Washington	142,765	85	279,865	-137,100	196.8
Group V Mixed Economy (High Country)						
1	Grand	146,105	203	99,235	46,870	68.0
2	Gunnison	250,620	202	186,215	64,405	74.3
3	Eagle	147,910	137	117,970	29,940	80.0
4	Rio Blanco	78,990	134	63,245	15,745	80.0
5	Park	82,145	125	66,370	15,775	80.8
6	Archuleta	74,375	97	62,800	11,575	84.4
7	Saguache	80,290	65	73,510	6,780	91.5
8	Jackson	51,184	142	49,235	1,949	96.3
9	Custer	59,400	130	57,446	1,954	97.0
10	Routt	244,840	116	248,685	-3,845	101.5
11	Moffat	164,805	162	172,105	-7,300	104.4
12	Costilla	49,035	32	63,400	-14,365	129.3
Group VI Mining						
1	Clear Creek	185,210	245	104,140	81,070	56.2
2	Mineral	47,540	243	28,860	18,680	60.7
3	Gilpin	51,230	157	33,525	17,705	65.4
4	Summit	21,120	60	14,100	7,020	66.8
5	San Juan	50,865	176	35,000	15,865	68.8
6	Teller	174,500	135	279,865	137,100	83.7
7	Lake	268,600	195	258,315	10,285	96.1
8	San Miguel	59,440	81	58,300	1,140	98.0
9	Pitkin	54,405	148	53,590	815	98.5
10	Ouray	70,110	168	75,300	-4,890	107.0
11	Hinsdale	14,640	209	19,500	-4,860	133.2

Source: Figures obtained from Colorado Tax Commission

104.9 per cent in Las Animas county; group III ranges from 73.3 per cent in Sedgwick county to 196.8 per cent in Washington county; group V, from 68 per cent in Grand county to 129.3 per cent in Costilla county; and finally group VI, from 56.2 per cent in Clear Creek county to 133.2 per cent in Hinsdale county. There is little equity in a property tax system permitting such a wide variation among counties with similar industries, whose resident property owners are to be found upon similar economic levels.

In more than one-third of the counties of the state, personal exemptions exceed the total assessed valuation of personal household property. Assessors in these counties would actually show more net assessments on the tax rolls if the $200 personal property exemption were eliminated and all household goods were made tax exempt. In another third of the counties, total net personal property assessments are so negligible that considering the cost of administration and the subterfuge of the system, conditions in these counties also would be improved if the personal exemption were removed and household goods made tax exempt.

The writer believes, however, that this would not be the best solution of the problem. In the first place, removal of the $200 personal property exemption would require a constitutional amendment which would be virtually impossible to obtain. Secondly, the principle behind the exemption is probably sound if personal property is assessed at a figure even approaching full value. Finally, personal household property owned by most families represents at least some taxpaying ability. To exempt it all would place an even heavier burden upon real estate which in many cases is already paying relatively too much.

From the standpoint of sound tax principles, the correction would be to obtain a much more complete listing of personal property upon tax rolls with assessment on a valuation basis corresponding more closely to full value. The state tax commission has sufficient authority over county assessors to enforce this.

An aggressive commission supported by sufficient budgetary funds to maintain an adequate staff of field workers could succeed in obtaining millions of dollars of additional personal property upon the tax rolls. The small extra cost would be repaid many times over in additional revenue; moreover, as a consequence, there could be a lighter tax load upon much of the real property of the state.

Even though budgetary funds are inadequate, the present tax commission has sufficient information regarding assessments among various counties to bring about a great improvement. Perhaps the present commission needs more of the aggressive character of the original commission appointed some 30 years ago. However, it would be much easier for the tax body to act if it had an aroused public behind it to support measures taken relative to tax reform. The writer believes members of the commission would welcome such an aroused public.

Property of State and Local Units

The Colorado constitution exempts from taxation all real and personal property of the state, counties, cities, towns and other municipal corporations and public libraries. These provisions were placed in the original constitution adopted in 1876. Subsequent legislation has been guided by this exemption principle. The arrangement for exclusion from taxation of inter-governmental properties conforms to general practice in other states of the Union.

Probably no useful purpose would be accomplished by making state property taxable by local units; likewise, the property of local governmental units should not be taxed by the state government. A possible exception, as referred to later, is governmental property used in commercial enterprises.

Because of concentrations of state property in particular areas of the state, especially when these holdings narrow the tax base of local units and perhaps also require more expenditures for local services, the state might consider the advisability of extending certain payments in lieu of taxes. Such a policy if adopted, would conform to the fiscal policy of the national government relative to its holdings of certain real property.

The valuation placed upon all property owned by the state of Colorado (both departments and institutions) for June 30, 1944 was nearly $370 million as shown in Table 24. It may be seen that real property (land, buildings and improvements, water and mineral rights) was the largest item amounting to a total valuation of about $325 million; while personal property (the remaining items in the table) had a valuation of almost $44 million. The figures are probably in excess of a true market value and undoubtedly are very much greater than a tax assessed value would be if assessments were comparable with those on private property in the state.

Estimates are not available to indicate the value of all property owned by local governmental units in Colorado. However, this information would probably serve no useful purpose from the standpoint of property taxation. Yet there is one category of property owned by several Colorado municipalities which might be subjected to state and county taxation -- namely, property used in commercial enterprise.

The principal form of such commercial enterprise is the municipally owned utility producing electric light and power. In 1942, 10.5 per cent of the electric energy produced in the state came from these city owned utilities. No great hardship would be placed upon these plants if they paid taxes comparable to those paid by privately owned utilities. In fact, much unnecessary criticism directed against them could in this manner be avoided. Furthermore, the total property tax load would become somewhat more equitabley distributed.

Table 24

Inventory of State Property as Reported to State Auditor, June 30, 1944

Lands	$191,896,915.45
Buildings and Improvements	33,682,412.08
Machinery	2,092,059.47
Tools and Equipment	2,025,414.92
Furniture and Office Equipment	2,751,476.49
Libraries and Collections	2,364,567.59
Autos, Trucks, etc.	839,447.34
General Supplies	1,465,388.27
Livestock	1,836,515.75
Land, Water and Mineral Rights	100,123,278.00
Cash	30,454,985.95
Total	$369,532,461.31

Source: Report of Auditor of State of Colorado, July 1, 1942 to June 30, 1944, p. 130.

Federally Owned Property in the State

The largest body of tax exempt property in Colorado is in the form of land and improvements owned by the federal government. In most cases this property is fully exempt from taxation by state and local units.

During recent years there has been a rather pronounced increase in the amount of real estate removed from tax rolls because of expansion of federal ownership. This development, together with inability for other reasons of the property tax to satisfy local revenue needs, has caused considerable concern in the minds of some people relative to the trend. It is contended, and sometimes with justification, that federal acquisition of property may create difficult local financial problems due to contraction of the local tax base. Moreover, in some instances federal properties make necessary the expansion of local governmental services.

The amount of land in Colorado owned by the national government has increased from 22,119,158 acres in 1937 to 25,492,803 acres in 1944. This increase has been to a large extent because of the acquisition of tracts of land for conservation and development purposes as well as for reservations, cantonments, airfields and other defense and war facilities attendant to World War II.

By 1944, the 25,492,803 acres of land owned by the federal government represented 38 per cent of the total land area of the state (table 25). On the basis of percentage of federal land to total land, Colorado ranked ninth among the states of the Union. In other words, eight states (all

western) had relatively greater areas under national ownership. Largest areas on both an aggregate and relative basis were to be found in the 11 western states. Aside from these states only South Dakota and New Hampshire contained areas in excess of 10 per cent owned by the federal government.

Table 25

Principal States Containing Federally Owned Lands, 1944[1]

Rank	State	Federal Land (Acres)	Federal Land as Percentage of Area of State
1	Nevada	61,378,360	87
2	Arizona	53,363,273	73
3	Utah	37,898,177	72
4	Idaho	33,730,114	64
5	Oregon	32,781,306	53
6	Wyoming	32,055,721	51
7	California	46,484,371	46
8	New Mexico	34,211,071	44
9	Colorado	25,492,803	38
10	Montana	32,966,241	35
11	Washington	15,034,462	35
12	South Dakota	8,820,845	18
13	New Hampshire	668,819	12
14	Oklahoma	3,441,224	8
15	Arkansas	2,849,702	8
16	Virginia	2,158,379	8
17	Florida	2,340,558	7
18	Michigan	2,555,496	7
19	Minnesota	3,626,282	7
20	North Dakota	2,477,475	6
21	Wisconsin	2,085,802	6
22	Tennessee	1,591,491	6
23	West Virginia	943,702	6
	Total (all states)	455,183,251	24

Source: House of Representatives, Report No. 1884, 78 Congress, 2nd Session p. 8.

1 States with 5 per cent or less not listed.

Table 26 shows the amount of federal land holdings in Colorado classified by administrative agencies. It may be seen that the largest tracts are forest lands (13,674,492 acres) administered by the Department of Agriculture and grazing lands (7,678,944 acres) administered by the Department of Interior. These two combined represent almost 84 per cent of the total area owned by the national government.

Table 26

Area, in Acres, of Lands in Federal Ownership
in the State of Colorado
(1944)

Administering Agency		Acres
Department of Interior		10,735,167
General Land Office	690,000	
Grazing Service	7,678,944	
Office of Indian Affairs	722,328	
National Park Service	517,446	
Bureau of Reclamation	1,113,776	
War Relocation Authority	10,223	
Bureau of Mines	2,450	
Department of Agriculture		14,336,716
Forest Service	13,674,492	
Soil Conservation Service	655,028	
Farm Security Adm.	6,930	
Agricultural Research Adm.	66	
Navy Department		59,168
War Department		358,474
Other Departments & Agencies		3,278
National Housing Agency	527	
Reconstruction Finance Corp	276	
Department of Commerce	40	
Federal Works Agency	28	
Veterans Administration	1,140	
Department of Justice	640	
Alien Property Custodian	627	
Grand Total		25,492,803
Land Area of Colorado		66,538,880
Federal Land as Percentage of Area of State		38 per cent

Source: House of Representatives, Report No. 1884, 78th Congress, 2nd Session, September 14, 1944, pp. 10.

Other fairly large tracts are administered by the Bureau of Reclamation, the Office of Indian Affairs, the General Land Office, the Soil Conservation Service, National Park Service, and the War Department.

These extensive holdings by the national government -- 38 per cent of the land area of the state, toghether with improvements thereon -- appear to represent a vast amount of tax-exempt property placing a burden upon the owners of privately held property who must bear the entire cost of local government. However, such an interpretation is inadequate and in particular cases completely erroneous.

Although most federal property is not taxable by state and local governments, various payments in lieu of taxes have been authorized by Congress. In general, all types of payments may be classified into three categories.[1]

First and most important are payments made to state or local governments in the form of a stated percentage of gross or net revenues from the use of land, with or without stipulation of the purposes for which the funds may be used by the recipient. These payments apply principally to the public domain but also in special cases to certain acquired lands.

The types of benefit to state or local units in Colorado in this first category are shown in Table 27. The principal revenue sources in recent years have been forest and grazing lands and mineral resources. In addition to the percentage payments as indicated in the table, the national government allocates considerable revenue for maintenance and improvement of the public domain. For example, 10 per cent of the total collections from forest acreages is devoted to road and trail construction within the forests; 25 per cent of receipts under the Taylor Grazing Act, when appropriated by Congress, may be expended for construction, purchase and maintenance of range improvements; while various amounts received by the United States Reclamation Bureau from mineral royalties and bonuses are spent in the state on reclamation projects.

A second general type of payment from the federal government (of minor importance in most states, including Colorado) is revenue allocated by administrative agencies, by agreement, to local units in lieu of taxes when certain resettlement and federal housing projects have been undertaken requiring expensive local services.

Finally, a third type of payment (also of minor importance in Colorado) is the payment of ad valorem taxes by federal lending agencies. These levies have been permitted by Congress and are upon real estate acquired in most cases for forclosure in connection with lending and collection operations.

Table 27

Federal Contributions Based Upon a Specified Per Cent of Revenues from Public Lands

Lands or Resources Affected	Nature of Payment	Recipient and Purpose if Specified
Forest resources	25% of receipts	Counties for roads and schools
Conservation and land utilization projects	25% of net revenue	Counties for roads and schools.

(continued on page 84)

1 Rasmussen, J.J, Payments in Lieu of Taxes on Federally Owned Real Estate, 1946, University of Utah, p. 4.

Table 27 (continued)

Federal Contributions Based Upon a Specified Per cent of Revenues from Public Lands

Lands or Resources Affected	Nature of Payment	Recipient and Purpose if Specified
Wildlife refuge resources	25% of net revenue	Counties for roads and schools
Power resources	37½% of receipts	State
Grazing lands	50% of receipts	Counties
Grazing lands on ceded Indian lands	25% of receipts	Counties
Sale of agricultural lands	5% of net sales	State
Leasable minerals	37½% of receipts	State for roads and schools.

Source: House Document 216, 78th Congress, 1st Session, Appendix 4, 1943.

Figures are not available showing payments to Colorado (the three categories) because of the ownership of federal real estate. However, Table 28 gives average annual payments (1928-37) for all purposes including relief expenditures. This average amount was $11,928,000. If relief and other emergency expenditures are excluded the average annual payment to the state was $4,982,000.

Table 28 also shows an estimate of the fair market value of real property owned by the federal government in Colorado ($100,203,912)[1] and indicates the amount of local property taxes ($1,885,525) which the government would pay if such property were assessed and taxed by local units. The latter figure is particularly significant when compared with the amount of federal aid going to Colorado for the benefit of state and local units of government. Apparently an amount of assistance is given

1 This estimate was made for the year 1937 for all states by "a special committee on the study of Federal ownership of real estate and of its bearing on state and local taxation" appointed by President Roosevelt. Its report was submitted in 1939. A more recent and perhaps more comprehensive estimate of the value of federal property in Colorado is contained in the Colorado Year Book, 1943-44. Its estimate is $7,056,442,531, or $1,171,129,830 excluding cash assets in the Denver mint. This figure is obviously determined on some basis other than fair market value. For example, federal coal lands alone are valued at $722,450,000! See page 472.

Table 28

Estimated Value of Federally Owned Real Estate in Colorado (1937)
Compared with Federal Aid to Colorado

Area of federal land in Colorado (1937)	22,119,158 Acres
Cost of federal land and improvements	$46,772,913
Estimated fair market value of federal real estate	100,203,912
Estimated property tax yield if applied to federal real estate	$1,885,525*
Average annual federal aid to Colorado (1928-37)	$11,928,000
Annual federal aid as percentage of fair market value of federal real estate	11.9 per cent
Average annual federal aid to Colorado (1928-37), excluding all WPA and other emergency payments	$4,982,000
Annual federal aid (excluding WPA, etc.) as percentage of fair market value of Federal real estate	5.0 per cent

* Based upon local mill levies.

Source: Senate Document No. 130, 78th Congress, 1st Session, November 18, 1943, p. 27.

several times greater than if payments were confined to ad valorem taxes on federally owned property. The average federal aid (1926-37) related to the value of federal property was 11.9 per cent.

If relief expenditures are excluded, the ratio becomes 5.0 per cent. Even this smaller percentage is considerably more than the average total property tax rate (state, county, municipal and school) of 3.6 per cent levied against private property in Colorado in 1937. Furthermore, private property was probably assessed at not more than 50 per cent of true value while the appraisal of federal property was upon a 100 per cent basis.

Thus, even though most federal property is completely tax exempt, payments in lieu of taxes added to other federal aids would amount to a much greater sum than the yield of a tax on federal property should there be one. Therefore, in a sense, federal real estate in Colorado is more than paying its way.

This does not necessarily mean however, that the fiscal relationship between federal and local governments growing out of the ownership of federal properties is always satisfactory. We believe that in the future a much better solution of the general problem would be achieved if the principles were adopted as formulated by the Treasury Department's Committee on Intergovernmental Fiscal Relations. These principles, summarized by the writer are as follows:[1]

1 Senate Document No. 69, 78th Congress, 1st Session, June 23, 1943, pp. 24-26.

1. There should be a Federal-State Fiscal authority to serve as a clearing house and administrative agency for all payments in lieu of taxes. It is desirable to develop a consistent and intelligible policy in this field.

2. Some recognition should be given to the benefit bestowed on a community by the location of a federal function. If there is resulting benefit, the amount of federal payments might be governed accordingly.

3. Property that has long been owned by the Government, and new properties of the same class should ordinarily be exempt with no compensation from federal funds. The affairs of all concerned have long since been adjusted to the exemption status. No useful purpose would be served, for instance, by subjecting the United States post office property and general administrative buildings to local taxes. The extensive holdings of public domain have never been taxed and probably should also be placed in this category, although revenue-sharing devices of long standing are in operation and will probably have to be retained.

4. Where services are sold by governmental agencies on a commercial basis and in competition with similar private activities, as in the power projects, the property should ordinarily be valued by the federal government and subjected to local taxes.

5. Other federal property that is ordinarily utilized by or designed for sale to private individuals, such as farm and resettlement properties or additional Indian lands, should pay the equivalent of levies on similar privately owned property.

6. Property acquired for conservation purposes (such as sub-marginal and cut-over forest lands) might well pay a low, flat, average rate on value as of the time of acquisition. This would constitute a minimum guaranty, pending larger local receipts which later could be paid from a distribution of revenue when the property becomes revenue producing. The percentage of revenue shared would resemble a severance tax.

7. Although in the main, full local services should be supplied the federal property and its residents, if the Government is obliged to supply its own facilities and perhaps even to extend them to local residents, there should be adjustment accordingly of the payment to local units.

Other Tax Exempt Property

The Colorado constitution provides that "Property, real and personal, that is used solely and exclusively for religious worship, for schools, or for strictly charitable purposes, also cemeteries, not used or held for private or corporate profit, shall be exempt from taxation unless otherwise

provided by general law."[1]

It may be noted that the exemption is in the nature of a privilege conferred by the sovereign which may be limited, modified or abolished by the legislature. This right of the legislature to decide the extent to which the exemption privilege shall be bestowed was affirmed in the case of Horton vs. Colorado Springs Masonic Building Society[2] and re-affirmed in McGlone vs. First Baptist Church.[3]

However, the legislature has followed the wording of the constitution very closely when enacting laws pertaining to exemptions for religious, educational and charitable purposes. The existing law was passes by the legislature in 1908.[4] It extended the concept of exempt property used for religious worship by including the value of rectories to a maximum of $3,000.[5]

Among the states of the Union there are two distinct lines of authority on the construction of tax exempt constitutional and statutory provisions; one line construing them strictly, the other giving them a liberal construction. The Colorado courts have consistently followed the liberal interpretation. This has been a matter of concern to tax authorities because of the apparent escape under immunity of tax exemption of much property which rightfully should be taxed.

For example, until the law was amended to specifically deny the practice, the courts held that premises occupied solely for a private school although conducted for profit, were tax exempt.[6] In 1921 the legislature changed the law to read: "Section 2. The following classes of property shall be exempt from general taxation, to wit: ..... Third. Grounds with the buildings thereon, if said buildings are used exclusively for schools, other than schools held or conducted for private or corporate profit."[7]

The 1933 legislature further clarified its intent relative to a tax exempt school by defining such school as "an educational institution requiring daily attendance, having a curriculum comparable to a grade, grammar school, junior high, high school or college or any combination thereof and having an enrollment of at least forty students and charging a tuition fee."[8]

Another example of the liberal interpretation of the court relative to tax exempt property involved a building owned by a corporation organized by several Masonic societies in Colorado Springs. The societies

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1 Article X, section 5
2 64 Colorado 529 (1918)
3 97 Colorado 427 (1935)
4 Colorado Statutes Annotated, 1935, Chapter 142, sections 22-24.
5 Actually this particular exemption had been first provided for in 1907.
6 Pitcher v. Miss Wolcott School Association, 63 Colorado 294 (1917)
7 Chapter 200, Session Laws of Colorado, 1921.
8 Chapter 158, Session Laws of Colorado, 1933.

used the building primarily for charitable purposes but operated a stand for the sale, to those privileged to be there, of cigars, tobacco, and other wares; as well as a reading room for the use of members of the different Masonic bodies and gave dances and dinners in a room devoted to the purpose, where non-members were admitted and an admission fee was charged. A majority of the Court ruled that the land and building were entirely exempt from taxation.[1]

Justice Teller writing a dissenting opinion vigorously attacked the opinion of the majority contending that "clearly, this building is not used solely and exclusively for strictly charitable purposes, and ought not, therefore, to be exempt." He further argued that "The basis of the exemption of charitable institutions is that the state does not lose thereby, since they assume a burden which the state must otherwise bear....How can it be said that the use of so much of this property as is in effect a club-room for the use of lodge members -- with no necessary connection with the general work of the order, -- relieves the state of any burden?....if the court's reasoning be sound, a golf course connected with the building....or a picture show, the receipts of which are devoted in part to lodge purposes, should likewise be exempt....The result of this consideration is that we have exempted a property from taxation on the mere possibility that it may be a source of income to an institution which has, without much reason, been termed a charitable institution."

Since 1918 when the ruling was made in the Colorado Springs Masonic case a majority of the court has consistently taken a liberal viewpoint relative to such fraternal organizations as the Masonic Lodge.

In 1932 the court ruled that property of a corporation not for profit and which is used in connection with the promotion of physical culture and mental qualities of its members and others who may comply with its rules, was exempt from general taxation.[2]

One further example may be cited to indicate the judicial attitude toward tax exempt property. In 1935 the court held that the requirements of the constitution and statutes concerning exemption from taxation of property of religious, charitable and educational institutions are met if there has been work done on the lots and "there is a bona fide continuous intention on the part of such organizations that their real property, and buildings to be by them constructed thereon, are to be devoted exclusively to religious, charitable or educational purposes.[3]

Justice Holland, dissenting, stated that in his view the opinion of the majority "announces in effect the doctrine that all real estate owned by a religious corporation is exempt from taxation."

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1 Horton vs. Colorado Springs Masonic Building Society, 64 Colorado 529 (1918)
2 Denver Turnverein v. McGlone, 91 Colorado 473 (1932)
3 McGlone vs. First Baptist Church of Denver, 97 Colorado 427. (1935).

Because of the very liberal attitude taken by the Colorado courts relative to exemptions of property owned and operated for educational, religious and charitable purposes, considerable property, not originally intended to be so favored, undoubtedly escapes taxation. Writing in 1918, the state tax commission urged, "Property subject to exemption from taxation should be more clearly defined. Our state courts have construed the subject of exemption so liberally that there has been stricken from the tax rolls millions of dollars' worth of property that is at least partially used commercially."[1] The sole justification for such exemptions is that meritorious functions are performed relieving the government of burdens which it would otherwise have to bear. However, the definitions of religious, charitable and educational purposes have been so broadened and so loosely interpreted that it is questionable if in many instances the justification is present of "relieving the government of burdens which it would otherwise have to bear."

The argument that the exempt property is held and operated for purposes other than a profit is scarcely valid in that much other taxable property including homes and household goods would fall into the same category.

Another class of property exempt from taxation, as permitted by the constitution, and authorized by law is property used for irrigation projects. The present law was enacted in 1921 and provides that "Ditches, canals, and flumes owned and used by individuals or corporations for irrigating land owned by such individuals or corporations, or the individual members thereof, shall not be separately taxed so long as they shall be owned and used exclusively for such purposes."[2]

There appears to be no valid justification for favoring this particular kind of cooperative ownership of property as contrasted with real and personal property of other cooperatives such as marketing and consumer organizations not operating for a profit. However, if the value of the irrigated land, made possible because of the irrigation project, is sufficiently assessed, probably no great injustice is done, as the value of the project is reflected in increased value of the land.

Still another property exemption permitted by the constitution and authorized by law is "cemeteries not held or conducted for private or corporate profit."[3] This provision appears not to violate the principle of equity in taxation. However, it is necessary for tax assessors to be diligent in seeing that only those cemeteries of a public or cooperative nature are made tax exempt.

Two categories of property have recently been added to the list of tax exemptions under the general property tax. These are motor vehicles and intangible personal property.

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1 Seventh Annual Report, 1918, p. 9.
2 Chapter 200, Session Laws of Colorado, 1921.
3 Ibid.

The reason for the motor vehicle exemption was in order to provide for a specific ownership tax in lieu of the property tax, to be collected at the time license fees are paid.[1] This new method of taxing motor vehicles has been an improvement over the old in preventing evasion; however, the new tax rates appear to be unusually light as compared with those in most states. More will be said regarding this tax in another report.

Since the beginning of property taxation in Colorado intangible personal property had largely escaped taxation. In spite of constitutional and statutory provisions to the contrary most county assessors found it inadvisable or impossible to place a very large proportion of intangibles such as stocks, bonds, money and credits, notes, bank deposits, and book accounts on the assessment rolls. As early as 1912 tax authorities began recommending a change in the system by proposing that intangibles be made exempt from property taxation if the income from intangibles could be included under an income tax. Finally, in 1936 this arrangement was made possible by a constitutional amendment[2] and the following year an exemption provision was made part of the new income tax law.[3]

The degree of success in taxing the income from intangible property in lieu of all property taxes is discussed in another section.

The law in Colorado specifies that county assessors shall assess all tax exempt property placing the valuations on the assessment rolls even though no taxes are to be collected.[4] No appraisals have ever been made, however, and consequently, none of the property is listed by the assessors. Apparently their efforts have been confined to the difficult task of finding and assessing property which is subject to taxation.

There probably should be an appraisal of tax exempt property in the state -- particularly that property exempt for religious, educational and charitable purposes, and tax exempt irrigation projects and cemeteries. This appraisal could be made either by public officials or by some competent independent body. If we had an estimate of the value of such tax exempt property classified by kind and by uses it would be much easier to decide the effect of liberal and often lenient rulings of the court relative to the problem. After obtaining this information it also would be easier to agree upon changes in the system of tax exemption if amendment seemed advisable. A revision, although perhaps politically difficult, would not encounter many legal problems as the tax exemptions causing the greatest concern are statutory and not constitutional.[5]

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1 Article X, Paragraph 6, Colorado Constitution. Amendment adopted 1936.
2 Article X, Section 17, Colorado Constitution.
3 Colorado Statutes Annotated, 1935, Cumulative Supplement, 1945, Chapter 84 A
4 Chapter 134, Session Laws of 1913.
5 They are permitted by the constitution but not required.

Tax Rates and Tax Rate Limits

Tax Rates

The property tax rate is customarily expressed as a particular mill levy per dollar of assessed valuation. For example, the rate in 1945 for state purposes was 3.50 mills. This means that property owners were required to pay taxes to the state government equivalent to 3.50 mills for each dollar of assessed valuation of their property. The rate can also be expressed as a percentage, in which case the 3.50 mills would become .35 per cent -- a 10 mill levy would be 1 per cent.

Actually, in Colorado as in most other states, the property owner does not pay any property tax directly to the state government. There is local collection by the county treasurer, who in turn, forwards the state's share to the state treasurer. In order to facilitate collection, particular mill levies of each layer of government (state, county, city or town, and school district) are added together and the total levy thus obtained is applied against the property located within the governmental units concerned. Thus actual collection of the total tax is made by the county treasurer.

If all property were uniformly assessed among the various taxing districts and if valuations were relatively equal from one year to another, a comparison of mill levies for the purpose of determining relative tax burdens would be more significant. However, as we have already seen, property assessments are not uniform throughout the state, nor have they been made in a uniform manner over the years in the past. Nevertheless, with this limitation in mind let us briefly review the past and current tax rates which have been levied by the state and local units.

Table 29 gives the total mill levy for state purposes by years since 1912. It may be seen that considerable fluctuation in rates has occurred. For example, the levy was drastically reduced in 1913 (1.30 mills) as compared with the previous year (4.05 mills), the reason being that in 1913 assessed valuations were tripled by the new tax commission. Actual taxes levied and collected in dollars remained relatively constant. After 1913 the mill levy gradually increased until by 1922 it was 4.48. However, there was a reduction the next year, thereafter the rate remaining about the same (fluctuating around 3.50 mills) until 1937. The beginning of a 10 year building program for state institutions caused an increase in that year, the levy rising to 4.50 mills. Since then the trend has been down, declining to 3.42 mills by 1946.

Throughout the years the effective state rate has remained remarkably constant; it has always represented a relatively small proportion of the total levy made by all governmental units (state and local): and always the state levy has remained well below the maximum rate permitted under the constitution.

Table 29

State Mill Levy and Average Total Mill Levy, All Governmental Units in Colorado, by Years 1912 - 1946 Inclusive

Year	State only	Average for all units[1]	Year	State only	Average for all units[1]
1912	4.05	39.8	1930	3.59	31.0
1913	1.30	13.8	1931	3.49	31.2
1914	1.39	14.1	1932	3.49	31.2
1915	2.10	16.4	1933	3.40	33.5
1916	2.07	16.9	1934	3.40	33.5
1917	3.12	18.9	1935	3.00	34.0
1918	2.77	18.4	1936	3.00	34.6
1919	3.47	22.3	1937	4.50	36.7
1920	3.47	24.8	1938	4.50	36.7
1921	4.35	26.8	1939	4.40	37.7
1922	4.48	27.1	1940	4.35	37.5
1923	3.93	27.4	1941	4.25	37.2
1924	3.70	27.9	1942	4.00	36.0
1925	3.70	29.3	1943	3.85	35.8
1926	3.67	29.9	1944	3.64	36.1
1927	3.84	30.6	1945	3.50	38.7
1928	3.56	30.6	1946	3.42	....
1929	3.66	31.3			

1 Includes levies for state and all local governmental units.
Source: Annual Reports, Colorado Tax Commission.

Table 30 shows the allocation of the 3.50 mill levy in 1945 according to various state functions. During recent years (including 1945) the state general fund has received no revenue from the property tax -- all levies being earmarked for special functions or funds. A discussion of the levies for these special purposes would lead to a discussion of governmental expenditures -- a topic beyond the scope of our present study.

Table 30

Mill Levy for State, Classified by Major Functions, 1945

Function	Mill Levy	Anticipated Revenue
Educational Institutions	1.58741	$ 1,934,764
Eleemosynary Institutions	.40844	497,814
Building Program	.81314	991.070
Interest and Debt Retirement	.35768	435,947
Police Pensions	.20000	243,764
State Military	.07000	85,317
Stock Inspection	.03333	40,623
State Fair Tax	.03000	36,565
Total (state purposes)	3.50000	$ 4,265,864

Source: Annual Report, 1945, Colorado Tax Commission

In addition to the figures indicating mill levies since 1912 for state purposes only, Table 29 also shows average total levies by years for all governmental units (state and local) within Colorado. The total levy sharply declined after 1912, dropping from an average of 39.8 to an average of 13.8 mills. However, since then the rate has gradually but steadily increased until by 1945 it was almost back to the level of 1912 -- 38.7 mills as compared with the former 39.8 mills.

Considerable variation occurs throughout the various counties relative to property tax rates. In Table 31 the counties are listed in order according to total assessed valuation -- the larger and more wealthy counties being listed first. It may be seen that in 1945 the county mill levy varied from a low of 4.16 in Baca county to a high of 24.32 mills in Hinsdale county. The average for all counties was 9.2 mills. It is significant that the smaller and poorer counties at the bottom, with one or two exceptions, had the highest mill levies. Thus the 14 counties with total valuations below $4 million had an average mill levy of 14.42 or 56 per cent above the average for all counties in the state. It may be concluded that these counties particularly, and to a lesser extent some of the other smaller ones, possess insufficient population and resources for efficient and economical operation of county government.

The same table also shows the average total mill levy (state, county, city or town, and school district) for each county. These figures represent the average tax rates which property owners are called upon to pay in the various counties. Here the range is from a low of 22.5 mills in Park county to a high of 50.66 mills in Huerfano county -- the average for the state being 38.72 mills. Because the smaller and poorer counties have fewer cities and also because they provide less adequately for schools, the combined total levy for all purposes in these poorer counties tends to be at or below the average level for the state.

An interesting comparison is shown in Table 32 which gives the total mill levy in the 25 largest cities and towns of the state. Although property assessments are not uniform among all of these cities and, consequently, conclusions relative to tax rates must be qualified, the wide variation among the cities has some significance. For example, the city of Longmont in Boulder county in 1945 had a total mill levy of only 39.36 as compared with 67.17 mills in Walsenburg, Huerfano county, a city of about the same size. Although evidence indicates that property in Boulder county is assessed at more nearly the full value than in Huerfano county, the entire difference in mill levies as between the two cities cannot be explained in assessments. Another explanation of the tax rate differences could be in terms of the governmental services and educational facilities offered in the two communities. However, the level of these services in Longmont is probably higher than in Walsenburg. Consequently, some other cause must be found to explain the wide variation in rates as between the two cities. By examining the table, other interesting comparisons among different cities can be made.

Table 31

Assessed Valuation, County Mill Levy, Average Total Mill Levy, by Counties, 1945

Rank	County	Valuation (Thousands)	County Mill Levy	Average Total Mill Levy[1]	Rank	County	Valuation (Thousands)	County Mill Levy	Average Total Mill Levy[1]
1	Denver	$ 404,059	...[2]	41.16	33	Sedgwick	8,565	9.30	34.41
2	Weld	71,672	9.80	37.14	34	Rio Grande	8,562	9.43	42.47
3	Pueblo	64,344	6.04	49.21	35	Eagle	7,854	8.20	28.17
4	El Paso	55,054	7.51	43.29	36	Alamosa	7,845	7.20	40.50
5	Boulder	39,982	8.85	34.98	37	Douglas	7,684	9.22	28.93
6	Larimer	37,339	9.93	37.13	38	Kiowa	7,568	11.92	32.30
7	Las Animas	26,381	12.33	48.19	39	Moffat	7,455	6.30	30.88
8	Jefferson	25,967	12.63	38.35	40	Phillips	7,407	6.08	30.28
9	Adams	25,080	6.59	30.46	41	Chaffee	7,363	10.72	34.87
10	Logan	23,651	5.75	36.09	42	Sagauche	6,909	9.20	32.99
11	Mesa	23,041	10.47	48.52	43	Conejos	6,607	9.02	33.18
12	Otero	22,861	5.86	36.13	44	Grand	6,400	9.03	25.87
13	Arapahoe	22,154	9.82	42.91	45	Crowley	5,794	11.26	41.09
14	Morgan	19,735	7.43	34.95	46	Montezuma	5,493	12.34	40.24
15	Lake	16,345	9.23	23.38	47	Rio Blanco	5,097	10.60	31.34
16	Prowers	15,385	7.03	32.81	48	Teller	4,407	11.34	39,21
17	Fremont	14,177	7.61	37.59	49	Park	4,318	8.25	22.50
18	Garfield	13,953	9.16	33.15	50	Clear Creek	3,891	14.34	41.30
19	Routt	12,283	9.67	30.94	51	Summit	3,749	11.43	23.82
20	Yuma	11,505	7.96	33.86	52	Archuleta	3,331	9.18	29,98
21	Lincoln	11,115	6.99	29.23	53	San Miguel	3,271	12.29	33.08
22	Delta	10,836	11.96	42.40	54	Costilla	3,257	17.84	41.77
23	Bent	10,771	8.50	30.41	55	Jackson	3,239	7.27	23.79
24	Baca	10,726	4.16	24.39	56	San Juan	2,895	17.95	43.17
25	Washington	10,490	6.90	32.13	57	Ouray	2,589	18.35	46.03
26	Montrose	10,425	10.90	40.82	58	Gilpin	2,376	12.20	31.69
27	Elbert	10,342	8.35	26.15	59	Pitkin	2,292	13.85	35.51
28	Kit Carson	10,235	9.11	34.43	60	Dolores	2,115	19.20	37.00
29	La Plata	10,091	13.97	45.16	61	Custer	2,086	13.69	33.89
30	Huerfano	9,167	23.43	50.66	62	Mineral	1,184	10.02	27.51
31	Gunnison	9,001	15.99	41.95	63	Hinsdale	618	24.32	40.73
32	Cheyenne	8,724	7.42	27.55					
						State Average		9.2	38.72

Source: Annual Report, 1945, Colorado Tax Commission
1 Includes state, county, city or town and schools.
2 Figure not available as city and county levies are combined.

Table 32

Total Mill Levy in the Twenty-Five Largest Colorado Cities and Towns,[1] 1945

Rank	City	Mill Levy[2]	Rank	City	Mill Levy[2]
1	Longmont	39.36	14	La Junta	54.40
2	Denver	41.16	15	Fort Collins	55.70
3	Fort Morgan	44.17	16	Greeley	57.10
4	Loveland	44.20	17	Montrose	59.48
5	Brighton	48.40	18	Englewood	60.80
6	Lamar	49.03	19	Grand Junction	61.00
7	Canon City	50.40	20	Alamosa	61.87
8	Boulder	51.12	21	Trinidad	62.54
9	Colorado Springs	51.93	22	Durango	66.75
10	Sterling	52.28	23	Walsenburg	67.17
11	Salida	52.75	24	Pueblo	68.40
12	Delta	53.22	25	Leadville	78.86
13	Rocky Ford	53.30			

1 According to 1940 United States Census.
2 Combined levy for state, county, city or town, and schools.
Source: Figures compiled by writer from data in Annual Report, 1945, Colorado Tax Commission.

Tax Rate Limits

Rate limits relative to the property tax found in the Colorado Constitution are confined to restrictions upon the state government. As previously discussed, the original constitution provided for a sliding scale of limitations, maximum rates at a particular time depending upon total assessed valuations. However, an amendment in 1892 fixed the maximum rate for state purposes at four mills. Another amendment in 1920 permitted the levying of one additional mill for erection of buildings for state educational institutions. Thus, present restrictions limit the total tax rate on property for all state purposes to a maximum of five mills on each dollar of valuation.[1] One exception to this limitation has been ruled by the courts. The legislature may levy any rate required to finance the cost of suppressing an insurrection.[2]

Tax levy limits imposed upon political subdivisions of the state are all statutory rather than constitutional. The scope of this study permits merely a brief summary of these statutory limits.

I. Counties. The maximum county levy to defray ordinary expenses including support of the poor and contingencies is limited according to

1 Colorado Constitution, Article 10, section 11
2 In re State Board of Equalization, 24 Colorado 446.

a detailed classification established by the legislature. The range is from a maximum of six mills in counties having an assessed valuation of $1 million or less to a maximum of one mill in counties having a valuation of $400 million or more.[1] In addition, a number of special provisions in the law permitting maximum levies for specific purposes may be mentioned as follows:[2]

1. Judgments against county, 15 mills.
2. Outstanding warrants, 3 mills.
3. Additional levy for unpaid warrants, 5 mills.
4. Mothers' Compensation, 1/8 of 1 mill.
5. Bonds and interest, amount of levy sufficient to equal 10 per cent of bonds issued.
6. To promote immigration through advertising, etc, 1/5 of 1 mill.
7. County or union high school, 4 mills.
8. Control and eradication of rodents, amount of levy not to exceed a yield of $20,000 annually.
9. Postwar improvements, 1 mill.
10. Road purposes, 10 mills.

II. School Districts. No general maximum levies apply specifically to school districts except for third class districts which are limited to 20 mills.[3] All classes of districts are permitted to levy taxes sufficient to pay interest and principal of maturing bonds. A maximum levy of .1 mill is permitted for the purchase of library books.[4] As previously mentioned, counties may not levy more than four mills for union high schools.

III. Cities and towns. No maximum limits are prescribed by general state law specifically for cities and towns of Colorado. Thus, the municipalities are largely free from such restrictions relative to tax levies. Cities over 100,000 population are specifically permitted to levy a maximum of 1/4 of one mill and 1/10 of one mill for firemen's and policemen's pension funds respectively.[5] In all cities, tax levies for public libraries are not to exceed one mill per dollar of assessed valuation. Also levies for current operation are limited in a number of home rule cities through provisions contained in their own charters.

IV. The five per cent limit. The most significant property tax restriction relative to rates in Colorado is the 5 per cent limit. Unless exceptions are permitted by law, the provision restricts the state and all political subdivisions to a tax levy which will yield for a current year no more revenue than 5 per cent in excess of the preceding year.[6]

1. Colorado Statutes Annotated, 1935, Chapter 142, Article 2.
2. Ibid, Chapters 33, 45, 143; also Supplement, 1945, Chapter 33.
3. Chapter 146, par. 32.
4. Chapter 146, par. 194.
5. Chapter 163, par. 451, 499.
6. Colorado Statutes Annotated, 1935, Chapter 142, par. 39.

Levies made to provide for the payment of bonds and interest are exempt from the limitation. Also exempt are levies up to a maximum of one mill for any county, city or town postwar improvement.[1]

In any taxing district, except the state, if officials believe the maximum levy permitted by law will not produce sufficient revenue for the current year, an appeal may be made to the state tax commission for the privilege of increasing the maximum levy. If, after investigation, the commission is of the opinion that the request is justified, an additional levy not exceeding five mills may be granted. Should the commission fail to grant the request, or should the excess levy of five mills be insufficient, the question may be submitted to the voters of the taxing district. If three-fourths of the voters at a general or special election favor the increased levy it can be made.[2]

Table 33 shows the number of petitions for selected years which have been submitted to the tax commission by the various classes of local governmental units. Because of the more rigid limits placed upon county governments, a larger proportion of the counties than of other local units usually request increases. In fact, each year since 1935, every county in the state has found it necessary to present petitions for increased levies. Also a great many school districts annually esperience difficulty in levying sufficient taxes to cover budget needs, and, consequently, request permission to make additional levies. It may be observed that the number of petitions tends to fluctuate throughout the years according to general economic conditions -- the number rising during inflation years and falling in times of depression. For example, note the contrast in number of petitions submitted in the years 1920 and 1921.

Table 33

Petitions to Tax Commission for Increased Levies, Selected Years Since 1915

Year	Counties	Cities and Towns	School Districts	Total
1915	28	35	344	399
1920	40	66	762	868
1921	37	35	88	160
1925	40	16	315	371
1930	39	13	292	345
1935	63	17	130	210
1940	63	15	194	272
1944	63	10	374	447
1945	63	27	394	484

Source: Reports, Colorado Tax Commission

1 Chapter 45, par. 237-40.
2 Chapter 142, par. 41.

From time to time the tax commission has questioned the advisability of requiring tax districts under existing arrangements to submit petitions for increased levies. For example, in 1926 it reported, "With the small force available to the commission, its action in these applications are necessarily more or less perfunctory, as it is impossible for us to examine into the needs of these taxing districts as contemplated by the statutes."[1] Again in 1928 it stated, "It is perfectly obvious that this commission has no facilities for making the examinations contemplated...and, unless the examinations are properly made, there is always danger of excess levies which frequently cause many complications and clouds on titles that last for years and sometimes indefinitely."[2]

Although facilities of the commission are limited for examing petitions, as long as rigid mill levy restrictions are operative, some flexibility appears desirable to take care of hardship cases. Perhaps the commission is as well prepared to provide this flexibility as any other agency. Moreover, since 1934 local units have been required to file with the commission copies of their budgets. This has greatly facilitated the effectiveness of the commission's work.

During the years following 1931 when assessed valuations were drastically reduced, most of the petitions going to the commission were from local units which were facing insolvency. Without mill levy increases the governmental functions of these units would have been seriously crippled. Thus for a number of years most all of the requests were granted by the commission.

In fact, over the years, since 1914 the commission has usually approved most of the applications for increased tax levies. Lacking information, there has been a tendency to give to the local unit "the benefit of the doubt," the request being granted. In many instances if the application is turned down, the issue is submitted to the people of the district who usually approve the tax increase.

This raises the question as to whether or not tax limitation provisions can ever be very effective. Apparently some elasticity is required or, at least in special hardship cases, the evils resulting may be much more serious than the ones which the law is intended to avoid. However, the loophole permitted by the flexibility provisions may largely nullify the effects of any limitation.

Relative to the problem, we might briefly examine the experience with the tax limits imposed in other states. All but about 10 states have imposed various kinds of property tax rate limits -- some restrictions being constitutional and some statutory. As a general rule the restrictions are either by fixing maximum tax levies relative to assessed valuation or else by limiting the tax to a certain per cent of the last levy. Until the depression period beginning in 1930, the limits in most states were too high to affect the ordinary operation of the property tax, either from the viewpoint of protecting property, or of embarrassing

1 Annual Report, 1926, p. 5
2 Annual Report, 1928, p. 6

local finances.

However, in the early thirties a number of states began adopting much stricter property tax limits. Among these was Ohio, whose restrictions became probably the most drastic of any state. An overall limit was established of 10 mills for all purposes except financing of indebtedness incurred prior to January, 1934. The only possibility of exceeding this 10 mill limit in any particular case was through a popular referendum. Since adoption of these severe restrictions, the experience in Ohio has been far from satisfactory. Conditions have developed there which bear out the earlier findings of a New York special joint committee on local property tax limits which concluded:

> "(1) Tax limits do not limit. Cities with tax limits spend as much and raise as much by taxation as cities without tax limits. The tax limit may serve to curtail expenditures for one or two years, but as soon as the restraint is felt an amendment is secured which encourages expansion since the tendency is to levy the full amount permitted whether it is necessary or not; (2) Tax limitation encourages unsound bonding; (3) Tax limitations should never apply to debt service; (4) In a democracy there is no way of blocking a genuine popular demand for increased governmental service through an arbitrary limitation upon the tax levy; (5) The only effective method of securing a restriction of tax levies without hampering municipal services, encouraging unsound bonding and promoting periodic expansion and extravagance, lies along the lines of centering full responsibility upon a single elected official through (a) the establishment of a comprehensive and binding budget system, (b) the enactment of a complete bonding act which will prevent unsound bonding and (c) the wide distribution among the electorals of the direct tax burden."[1]

In the opinion of the writer the various limits placed upon property tax rates in Colorado, as elsewhere, are largely ineffectual. Perhaps occasionally a school district or more likely a county may continuously forego some expenditure because of restrictions which cannot be circumvented, but this is probably the exception, rather than the rule. On the other hand, experience in other states indicates that it would not be wise for Colorado to attempt to strengthen the restrictions by reducing tax limits or by making them less elastic. The present arrangement of presenting applications to the tax commission for additional tax levies (up to five mills) by local units appears to be working fairly well.

Moreover, the limitation restricting current tax levies to a level not exceeding 5 per cent in excess of the previous year appears to be as rigid an over-all limit as can practically be established. Perhaps this limit with the "safety valve" of appeal to the tax commission, or if this fails, appeal to popular referendum, is a good one. Furthermore, the 5 per cent limit may be a genuine advantage, by stilling the fears of

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1 Quoted by Jensen, Jens P., Colorado State Tax System, 1930, p. 199.

property owners who would otherwise oppose the state's return to a 100 per cent valuation basis for property. Such fears might arise from the belief that if tax valuations were drastically raised, governmental units would become extravagant because of receiving more revenue from the same mill levies. However, the 5 per cent limit would be a safeguard against this possibility.

Collection and Delinquency

As in most other states, the legal arrangements in Colorado are rather complex for enforcing collection of the property tax. These complexities have developed through the years because of an attempt, on the one hand, to improve collections, yet on the other hand, a desire to extend proper protection to the owners of delinquent property.

A very general and simplified description of the procedure in Colorado for collection of the tax would necessarily include a discussion of certain steps as follows:[1]

1. A tax lien (for current taxes) attaches to all property, real and personal, not exempt by law, on the first day of March of each year. The tax lien remains perpetual on the property until taxes are paid.[2]

2. Taxes are due and payable on or before the 30th day of April, the year following assessment. If paid in installments, the first half is due not later than the last day in February; the second half, not later than July 31.

3. Although notices are mailed to the last known address of property owner, a personal demand of taxes is not necessary. Each person subject to taxation is legally obligated to pay to the county treasurer the amount of taxes due.

4. During August a list is compiled of the names of owners of personal property whose taxes have become delinquent. This list with addresses of owners indicating the amounts of delinquent taxes plus interest and penalties is published during the month of September in a newspaper of the county.

5. Any time after the first day of December, the State Department of Revenue may require a remittant county treasurer to enter suit in court for judgments against personal property in order to collect delinquent taxes levied the previous year. After obtaining such judgment a public sale is held to recover an amount equal to the delinquent taxes plus interest and penalties.

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1 Chapter 142, Colorado Statutes Annotated, 1935, and 1945 Cumulative Supplement.

2 Burton vs. Denver, 99 Colorado 207.

6. After taxes become delinquent upon real property (after August 1) property owners are notified by mail. The notice is also published over a period of four weeks in a paper of the county, announcing a sale at public auction of the property concerned.

7. On or before the second Monday in December all tax delinquent real property is sold at auction under tax certificates of purchase. Any lands remaining because of inadequate bids are taken by the county which in turn receives certificates of purchase.

8. Certificates of purchase held by the county may be sold by the county commissioners at any time or in any manner in which they may see fit, except if taxes due for any one property owner are im excess of $10,000, the Tax Commission must give approval and notice of sale must be published in a local paper.

9. Three years after sale, a tax deed may be issued to the holder of a certificate of purchase (either private individual or county).

10. The owner has five years thereafter in which to redeem his property.[1] In effect, he enjoys the privilege of redemption for eight years after sale.

11. If redemption occurs during the first three years (before tax deed is issued) the owner pays the amount for which property was sold and certain costs and penalties, together with interest at the rate of 2/3 of 1 per cent per month.

12. If redemption occurs after the tax deed has been issued (during the subsequent five year period) the owner pays to the holder of the tax deed an amount equal to the purchase price plus the current value of any improvements which may have been made, plus all back taxes paid with interest at the rate of 12 per cent, plus other costs and penalties including an abstract if one was obtained and cost of treasurer's deed.

13. The holder of a tax deed (private person or county) may enter suit (subject to legal limitations) to quiet the title, thus obtaining a marketable title.

This brief review of the law relative to the collection of taxes and disposal of delinquent property, when taxes remain unpaid, indicates a procedure probably no more involved than necessary if all interest parties are to be protected. During recent years the collection procedure has been improved. Consequently, the system at present, although not perfect in Colorado, is more satisfactory than that found in a majority of the

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1 Except that a minor, insane person or idiot may enter suit to redeem at any time if within one year after such disability is removed.

states.

A record of actual collections for selected years since 1930 is shown in Table 34. These collections expressed as percentages of taxes levied were calculated at the end of the fiscal year after unpaid taxes had been delinquent, in each case, for a period of 11 months. Ultimately, a somewhat larger percentage of taxes is always collected due to sale of delinquent property, collection of interest and penalties, etc. The figures in the table show a wide variation by years. For example, only 84 per cent of the taxes levied in the depression year of 1932 were collected by June 30, 1934; while 99.4 per cent of the 1944 taxes were collected after a corresponding period had elapsed. This improvement has been due partly to a strengthening of the tax collection procedure, but

Table 34

Tax Collections Expressed as Percentages of Taxes Levied, State of Colorado for Selected Years, 1930 to 1944[1]

Year	Percentage Collected	Year	Percentage Collected
1930	91.8	1938	92.1
1932	83.9	1940	96.3
1934	91.2	1942	98.3
1936	93.2	1944	99.4

1 Percentages calculated in each case after unpaid taxes had been delinquent 11 months.
Source: Reports, Auditor of State of Colorado.

perhaps mainly to an improvement in the economic welfare of the people of the state. During prosperous years, collections are always better than during years of depression.

The record of collections by counties for the year 1932 contrasted with 1944 is shown in Table 35. In the former year the range was from a low of 38.7 per cent in Costilla county to a high of 97.0 per cent collections in Jackson county. Fifteen counties collected less than two-thirds of the taxes levied, while 38 counties collected less than 80 per cent.

Such heavy tax delinquency was due to a number of factors. Faulty assessments, placing excessive tax burdens upon some properties as compared with others; an over-emphasis upon the property tax, particularly for local governmental purposes; insufficient state aid to the poorer school districts which were attempting to maintain minimum standards; and the general economic depression, more severe in some counties than others, for example, the dry farm acreas of Eastern Colorado -- all were contributing factors. After a time, the heavy delinquency caused such

Table 35

Tax Collections Expressed as Percentages of Taxes Levied, by Counties for Years 1932 and 1944

County	Percentage Collected[1] 1932 Taxes	1944 Taxes	County	Percentage Collected[1] 1932 Taxes	1944 Taxes
Adams	76.9	98.9	Lake	71.0	97.3
Alamosa	59.5	96.2	La Plata	81.0	98.5
Arapahoe	81.0	98.3	Larimer	83.3	99.4
Archuleta	89.2	101.0	Las Animas	78.3	100.0
Baca	68.6	99.1	Lincoln	66.5	97.5
Bent	81.2	99.3	Logan	78.9	99.4
Boulder	92.8	100.0	Mesa	75.7	98.5
Chaffee	84.1	98.5	Mineral	81.4	91.9
Cheyenne	75.6	100.3	Moffat	71.2	100.0
Clear Creek	66.4	80.2	Montezuma	48.0	97.4
Conejos	53.9	89.3	Montrose	75.6	98.2
Costilla	38.7	104.9	Morgan	84.9	98.9
Crowley	62.4	96.6	Otero	85.9	98.8
Custer	72.6	96.1	Ouray	74.5	91.3
Delta	71.9	99.3	Park	88.7	96.7
Denver	91.2	100.9	Phillips	79.3	99.6
Dolores	39.8	93.7	Pitkin	63.6	95.4
Douglas	86.3	99.6	Prowers	80.8	102.1
Eagle	89.0	98.9	Pueblo	83.4	98.7
Elbert	80.9	98.5	Rio Blanco	71.1	98.6
El Paso	93.1	99.6	Rio Grande	61.4	98.4
Fremont	91.2	98.7	Routt	78.0	99.7
Garfield	83.1	98.9	Saguache	77.8	98.1
Gilpin	59.4	72.0	San Juan	59.3	66.6
Grand	87.3	99.3	San Miguel	55.1	97.4
Gunnison	81.4	94.3	Sedgwick	79.7	99.9
Hinsdale	49.2	61.9	Summit	65.1	92.1
Huerfano	76.4	95.6	Teller	76.5	88.2
Jackson	97.0	104.8	Washington	76.5	100.1
Jefferson	77.5	99.8	Weld	87.0	99.4
Kiowa	79.5	100.5	Yuma	82.5	99.4
Kit Carson	74.0	100.3			
			State	83.9	99.4

1 Percentages calculated in each case after unpaid taxes had been delinquent eleven months.

Source: Reports, Auditor of State of Colorado.

an accumulation of interest and other penalties for many property owners that the payment of back and current taxes became impossible.

As a consequence, many local governmental units, including school districts, found themselves financially insolvent. Even after reducing standars and cutting of governmental services far beyound that which was in the public interest, expenditures often exceeded revenue. Many school, town and county warrants were issued for salaries, etc. which could not be paid because of insufficient funds. Financial distress was also experienced by the state institutions which were depending upon a property mill levy for sources of revenue.

In 1935 an effort was made to rehabilitate delinquent property owners who were unable to pay the accumulation of taxes, interest, and penalties. The legislature amended the revenue act, permitting back taxes, (those delinquent prior to August 1, 1934) to be paid without interest or other penalty. In order to benefit from this waiver of interest and penalty costs, back taxes had to be paid prior to December 31, 1935.[1] Such an arrangement for relieving delinquent property owners was perhpas warranted because of the critical aspects of the period. However, should this inducement for property owners to pay back taxes be extended repeatedly, it would defeat its own purpose. In the long run, more taxes than otherwise would probably become delinquent.

Table 35 indicates that collections of 1944 taxes were excellent in most counties of the state. Twelve counties actually collected 100 per cent or more of the taxes levied. The explanation for collection in a few cases being more than 100 per cent is that assessment rolls were changed perhaps slightly during the year, or else county treasurers through error reported some interest and penalties along with taxes. According to the table, only four counties experienced what might be considered poor collections. They were Hinsdale with a percentage of 61.9, San Juan with 66.6, Gilpin with 72.0 and Clear Creek with 80.2 per cent collections. The next lowest percentage was 88.2 for Teller county, while average collection for the state as a whole was the remarkable figure of 99.4 per cent.

By way of conclusion it may be stated that the administrative procedure for collection of the property tax as established by law is at present fairly satisfactory. However, actual collections could be improved in some counties through a more careful selection of administrative officers. Moreover, greater uniformity of assessment of property would be conducive to a more complete collection of taxes in all counties. An increase of state aid would also be helpful by relieving part of the local property tax burden. Such state aid provides relief in two ways. First, through a program of equalization according to need, the aid relieves poorer districts of the state which otherwise would be forced to adopt excessive mill levies upon property within their areas. Secondly, if the state obtains revenue for distribution to local units from sources other than the property tax, for example, the income, inheritance, or severance tax, the property tax tends to be lightened in all districts receiving any aid. In either case, such assistance is helpful in maintaining good tax collections, particularly during periods of economic distress.

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1 Colorado Statutes Annotated, 1935, Chapter 142, par. 209.

Appendix A

Property Tax Collections as Percentage of Total Tax Collections of State and Local Governments, 1942. (In Thousands)

Rank	State	Total Taxes[1]	Property Tax[1]	Percentage
1	North Dakota	$ 44,247	$ 29,081	65.7
2	Nebraska	68,319	44,860	65.6
3	New Jersey	463,335	290,706	62.7
4	Montana	43,536	27,001	62.0
5	Massachusetts	402,826	240,566	59.7
6	South Dakota	39,774	23,782	59.7
7	Kansas	109,861	64,476	58.6
8	Idaho	31,378	18,326	58.4
9	Maine	59,468	34,741	58.4
10	New Hampshire	41,251	23,826	57.7
11	Iowa	176,644	98,812	55.9
12	Minnesota	212,539	116,720	54.9
13	Wisconsin	243,799	131,448	53.9
14	Nevada	12,173	6,533	53.8
15	New York	1,583,424	846,468	53.4
16	Colorado	83,388	42,946	51.5
17	Maryland	121,344	61,734	50.8
18	Texas	294,869	148,924	50.5
19	Connecticut	169,234	85,039	50.2
20	Wyoming	17,000	8,353	49.1
21	Utah	40,617	19,877	48.9
22	District of Columbia	53,593	25,890	48.3
23	Rhode Island	64,532	30,900	47.8
24	Illinois	664,302	314,993	47.4
25	Vermont	24,048	11,209	46.6
26	Indiana	217,722	99,888	45.8
27	Oregon	85,739	38,891	45.3
28	Michigan	436,164	195,035	44.7
29	Missouri	204,830	90,402	44.1
30	Arizona	36,485	16,057	44.0
31	Pennsylvania	749,643	329,412	43.9
32	California	767,408	333,675	43.4
33	Florida	123,293	51,734	41.9
34	Kentucky	109,332	45,659	41.7
35	Ohio	506,456	207,708	41.0
36	Tennessee	117,807	46,735	39.6
37	Mississippi	76,304	29,596	38.7
38	Virginia	120,331	43,762	36.3
39	Louisiana	138,892	47,766	34.3
40	Georgia	106,063	36,335	34.2
41	South Carolina	78,290	26,642	34.0
42	New Mexico	27,190	9,162	33.6
43	Oklahoma	116,910	35,662	30.5
44	Washington	149,340	44,342	29.6
45	North Carolina	159,257	45,744	28.7

(continued on next page)

Appendix A

Property Tax Collections as Percentage of Total Tax Collections of State and Local Governments, 1942. (In Thousands)

Rank	State	Total Taxes[1]	Property Tax[1]	Percentage
46	Arkansas	60,343	17,104	28.3
47	West Virginia	95,823	26,593	27.7
48	Alabama	87,607	23,088	26.3
49	Delaware	18,067	4,475	24.7
	Total	$9,654,797	$4,592,678	47.5

1 Bureau of the Census, Department of Commerce, Governmental Finances in the United States: 1942

State of Colorado

EXECUTIVE CHAMBERS

DENVER

STEVE McNICHOLS
GOVERNOR

May 11, 1959

TO: All Department Heads

FROM: Governor Steve McNichols

RE: Press statement on Legislature's tax, fiscal and budget actions.

I believe you will find the attached press statement informative and useful both for you and your staff. It summarizes the tax and fiscal actions of the 42nd General Assembly, and explains the need for changes against the background of Colorado's rapid growth.

I believe you will agree, after reading it, that the tax measures passed by the General Assembly were realistic, necessary and fair, in order to meet the responsibilities of State government.

If you desire further information about the tax, budget and fiscal policies discussed, please feel free to request it.

Encl.

GROWING COLORADO 1950-1960

more people ★ higher incomes ★ bigger problems

POPULATION

1950 — 1,335,000 — 1960 — 1,801,000 — UP 35%

PERSONAL INCOME (Per Capita)

1950 — $1,446 — 1960 — $2,000 — UP 38%

PUBLIC SCHOOLS ENROLLMENT

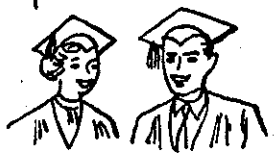
1950 — 224,245 — 1960 — 370,000 — UP 65%

INSTITUTIONS (Inmates)

1950 — 8,236 — 1960 — 10,600 — UP 29%

COLLEGES AND UNIVERSITIES

1950 — 17,002 — 1960 — 24,100 — UP 42%



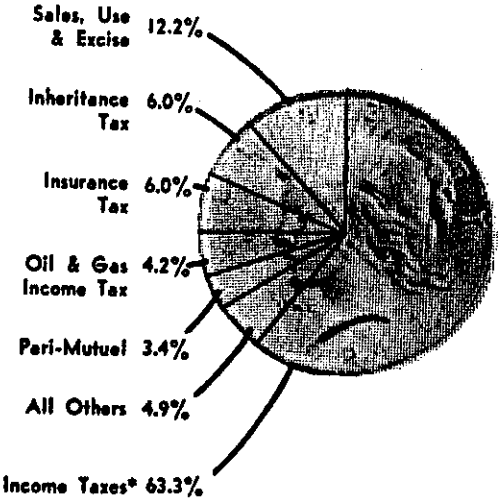
1960 figures estimated

Office of Governor, Colorado

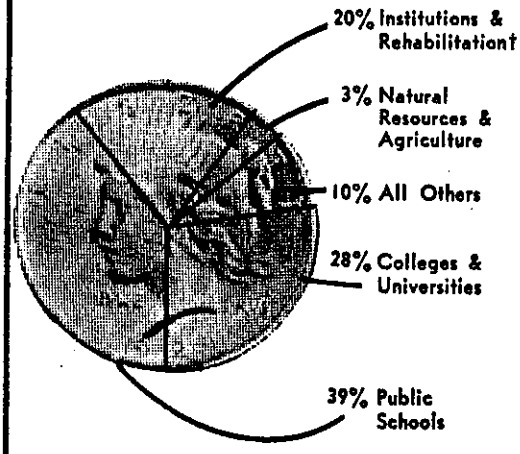
COLORADO'S BALANCED BUDGET 1960

General Fund Operating Expenses ★ Fiscal year ending June 30, 1960

REVENUE



APPROPRIATIONS



Total $71,100,000

* *$3.2 million of increase replaces 'operating mill levy' property tax.*

† *Not included: approx. $1 million for new treatment facilities at Pueblo and Fort Logan.*

Office of Governor, Colorado

COLORADO FACES UP TO ITS FUTURE
By
Governor Steve McNichols

The Legislature has just completed the most extensive program of tax revision in Colorado's history. Changes were long overdue.

For the first time changes were made in Colorado's tax structure with full knowledge of what effect those changes would have on each taxpayer. Other state governments are suffering financial strain and embarrassment because they did not plan ahead in such basic matters as state taxes.

Other states, too, are confronted with financial crises. Governors of 21 states requested increased taxes for the coming year, while many other states are eating into surpluses or facing further deficits. Notable examples are Michigan, New York, Pennsylvania, Connecticut, Massachusetts, and our Western neighbors, Utah, Texas, California and Washington.

In contrast to these states, Colorado was in a unique position because of the comprehensive analysis of Colorado's tax and fiscal situation that came out of the special tax study completed in February.

Colorado is fortunate, also, in its favorable standing among other states on the basis of per capita state taxes. Before changes made by the various legislatures this year, Colorado ranked 8th from the top in per capita taxes of the eleven Western states.

Per Capita State Taxes

in Western States

1958

1.	Nevada	$140.66
2.	Washington	137.38
3.	New Mexico	130.05
4.	California	120.45
5.	Wyoming	113.79
6.	Oregon	106.13
7.	Arizona	104.27
8.	COLORADO	99.47
9.	Utah	94.12
10.	Montana	84.21
11.	Idaho	82.60

Source: State Gov't. Finances, 1958
U. S. Department of Commerce

The changes made in Colorado's tax structure this year will not shift Colorado's ranking appreciably in the per-capita-taxes list of the eleven Western states.

The citizens of Colorado are entitled to review the action of the Legislature. Now is the time to see whether or not the changes made by the Legislature live up to the goals of the tax study: to make Colorado's taxes fair and equitable to all taxpayers. This "new look" in our tax structure comes at a time when Colorado must of necessity provide for the increased growth it has experienced since 1950 -- and must prepare for continued economic, industrial and population growth in the future.

Changes Came From Study

The recommendations I made in a special message to the Legislature on February 16 ranged from repealing the State sales tax on food to changing the personal income tax rate structure and correcting the inequitable features of both the income and excise taxes. The recommendations were adopted from the special tax study group's analysis of Colorado's tax structure, income sources and revenue management.

The basic objective of such recommendations was to achieve a more equitable over-all tax structure by shifting part of the tax load from property taxes, and from regressive, earmarked sales and excise taxes, to the direct personal and business income tax. The income tax is a more fair tax in that it spreads the tax burden among all income groups because it is based on the ability-to-pay principle.

The House of Representatives, where all finance measures are introduced, acted on most of my suggestions. The House did not accept the recommendation to drop the 2% sales tax on food, but instead eliminated one-third of the State property tax. In addition the House decided to act this year on the tax study recommendation to bring the corporation income tax into line with the personal income tax by removing the deductibility of Federal income tax in computing State income taxes.

The Senate made further slight changes in the rates of the personal income tax, a revised capital gains provision, and virtual elimination of the 2% surtax on dividend and interest income. The action of the Senate was then approved by the House, and the legislation passed in its final form.

Most State Funds Earmarked

In reviewing the tax program passed by the General Assembly to meet the financial needs of the State, it is important to remember that nearly 77% of the total State revenue is earmarked for only certain uses.

This money -- from sales taxation, highway user taxes, federal aid, excise taxes set aside for pensioners, State land rentals and other earnings -- is not the subject of annual appropriation by the Legislature.

During the past few weeks, the discussion about both taxes and appropriations has covered only the 23% of total State revenue that constitutes the General Fund -- the main State source of financing public education, colleges and universities, hospitals, mental and other institutions, and all forms of general State government.

The total appropriated amount of general fund revenue coming from all non-earmarked taxes -- the 23% referred to above -- is $71.1 million for fiscal 1959-60. The dollar increase in taxes, in terms of new revenue going into the general fund for fiscal year 1950-60 amounts to $8.5 million after eliminating the $3.2 million of State property taxes. In 1960-61, the first full fiscal year under the new program, the net new general fund revenue will be $16.2 million, and the repeal of the State operating mill levy will save the property taxpayers $4.5 million.

Changes the Legislature made in the income taxes drew most of the attention and publicity. Some said the changes would "soak the poor", while others said they would "soak the rich." Neither statement is correct.

The tax study showed that individuals with incomes below $5,000 made up 68% of all taxpayers but that they paid only 16% of the total personal income tax collected by the State. In contrast, individuals with incomes of $10,000 or more represented less than 5% of all taxpayers, yet contributed 57% of the total personal income tax paid.

Thousands Paid No Taxes

Another startling fact that emerged from the tax study was that of the more than 525,000 income taxpayers, approximately 170,000 individuals paid a total State income tax of $2 or less in 1958. Despite the apparent 200% increase in the minimum bracket tax rate, it is important to remember that the increase for any taxpayer in this group cannot exceed $4 -- less than 10 cents per week.

Moreover, 134,000 persons paid no State income tax at all, although 58,000 of these did pay a Federal income tax. For this group of 134,000

taxpayers the change in the minimum bracket rate from 1% to 3% does not constitute a tax increase since they do not have any taxable income.

In other words, 25% of all Colorado taxpayers who file returns -- mainly those in the low income groups -- will not be affected at all by the increase in the rate from 1% to 3%.

As a matter of fact, with the newly-passed provision for full medical expense deduction and the virtual elimination of 2% surtax on dividends and interest income for 98% of taxpayers, most low-income families and many middle income families who itemize their deductions will be either unaffected or will receive a tax "break" by the income tax revisions just made by the Legislature. In addition, the new income tax law permits deductions for expenses of caring for children of working mothers -- more popularly known as the "babysitter provision." The new law also excludes sick leave pay from income taxation.

How Income Tax Revision Affects Average Families

(Husband, wife and two children)

Adjusted Gross Income	Old State Income Tax	New State Income Tax	Increased State Income Tax	Increase Tax per Week
$ 3,500	$ 0	$ 0	$ 0	$ 0
5,000	11.20	32.80	21.60	.42
7,500	42.46	99.92	57.46	1.10
10,000	88.84	181.40	92.56	1.78
15,000	276.88	406.88	130.00	2.50
20,000	577.60	777.64	200.04	3.85

NOTE: 96% of Colorado's taxpayers have adjusted gross incomes of less than $10,000. Less than 2% have adjusted gross incomes of more than $15,000. The overwhelming majority of taxpayers with incomes above $15,000 will also be paying an increased capital gains tax and a surtax on their interest and dividend income, which are not included in the above figures.

For example the table above shows that a family of four -- man, wife, and two children -- with an adjusted gross income of $3,500 or less pays no tax. The four exemptions at $750 each add up to $3,000, leaving

$500 of taxable income. The 10% standard deduction removes another $350, leaving $150. Federal income tax on the $3,500 income is $150, and when this amount is deducted from what is left ($150), this family has no taxes to pay because it has no taxable income.

It is important to note here that more than 45% of all returns filed in 1958 showed taxpayer incomes of less than $3,500 per year.

Another example is the taxpayer with a four-member family who has an adjusted gross income of $5,000. The exemptions again add up to $3,000, leaving $2,000 of taxable income. The 10% standard deduction removes another $500, leaving $1,500. Federal income tax on $1,500 amounts to $420. Deducting this ~~and the standard 10% deduction of $500~~ brings taxable income down to ~~$580~~ 1080.

The State income tax on ~~$580~~ 1080 under the new program is $32.80. Compared to the previous State tax of $11.20, this means an increase of $21.60, or 42¢ per week.

The significant fact of the tax study to point out in this case is that more than 68% of all Colorado's income tax returns filed in 1958 showed taxpayer incomes of less than $5,000 per year.

New Setup for High Incomes

A taxpayer with a larger income who has heavy medical expenses to bear can now deduct these expenses from his taxable income. Also, taxpayers who own their own homes will benefit from the reduction in the State property tax repealed by this Legislature.

On the other end of the scale, although the maximum rate was reduced from 10% to 9% the overwhelming majority of high income taxpayers will also incur a net increase in their income tax bill because of: (1) the change that reduced the preferential treatment previously granted on capital gains income; (2) the increased lower bracket rate, which applies to these taxpayers as well as all others who have taxable income; and (3) the 2% surtax will still apply to dividend and interest income of only those taxpayers in the highest income groups.

It is worth noting that 96% of Colorado's taxpayers have adjusted gross income of less than $10,000. Less than 2% have incomes of more than

$15,000. The overwhelming majority of taxpayers with incomes above $15,000 will also be paying an increased capital gains tax and a surtax on their dividend and interest income.

This demonstrates that the income tax increase is spread among all income groups, from the low to the high.

Changes in income tax were not limited to individual taxpayers. Colorado's corporate income tax, which had been significantly lower than those of other states, was increased by removing the provision which permitted corporations in Colorado to deduct their Federal income tax in computing their State tax bill. In making this revision, Colorado is following the pattern of what has been done in 19 of the 34 states which levy a corporate income tax and do not permit any deduction of the Federal income tax.

Corporations Pay More Now

The actual net increase in the State corporation income tax will amount to about only 1/10 of 1% of the total business expense of corporations operating in Colorado. Recent talk of higher taxes preventing new industrial growth for Colorado is unwarranted. A State's taxes are a minor item in the decision of a company or corporation in locating for industrial expansion, as numerous industrial development surveys and recent case histories show.

The corporations' share of the total tax increase is estimated to be $3.7 million for fiscal year 1959-60, and $7.2 million for fiscal 1960-61 -- the first full fiscal year the tax revisions will be in effect.

However, the actual effective cost to the corporations operating in Colorado will amount to about half of these increases, or $1.8 million and $3.6 million respectively. This is due to the fact that corporations, making more than $25,000 profit, pay their State taxes with 50¢-after-Federal-tax-dollars, since they deduct their Colorado income tax payments from their taxable income on their Federal tax returns.

So half of the new revenue for Colorado from corporations is actually a transfer from the Federal government and not a direct tax cost to the corporations.

The new State tax structure for corporations also works out to be more equitable, or fair, to the smaller corporations since the increase in their effective rate is less than the increase to the larger corporations.

This is shown in the table giving effective rates as a percent of net income.

STATE

Net Effective Corporate

Income Tax Rate *

Net Income	OLD Rate	NEW Rate
$ 25,000	2.49%	3.5 %
50,000	1.78%	2.95%
100,000	1.46%	2.68%
500,000	1.24%	2.46%
1,000,000	1.21%	2.43%

* State corporation income tax rate is 5%. However, because amounts paid to the State are deductible from Federal tax returns, the effective rate is much less than the actual rate.

For example, the combined Federal-State income taxes of a small corporation with a net income of $25,000 have been raised from $8,121 to $8,375, an increase of $254. In contrast, the corporation with a net income of $1 million will now pay a combined Federal-State income tax of $544,000, compared to $531,827 previously, or an increase of $12,173 a year.

Taxes More Fair Now

This means the smaller corporations will have the smaller actual increase in taxes, whereas the larger corporations will now have to carry a larger amount of the tax load.

In short, the increased income tax is spread among all income groups. The result is a more balanced and equitable tax structure -- with individuals, families and corporations paying income taxes on the basis of ability-to-pay.

To achieve an over-all equitable State tax structure, the Legislature closed major loopholes in the excise and sales tax fields. For example, the State taxes on alcoholic beverages, which has been among the lowest in the nation, were increased to the national average level, and insurance premium taxation was extended to all insurance companies operating in the State.

This major tax revision program not only made Colorado's tax structure more equitable but it also raised the additional revenues required to meet the increased demands on the general fund. Before we review how this general fund money is to be spent, let's glance briefly at the great changes that have occurred in our State since 1950.

Colorado has been experiencing an era of unprecendented economic and population growth. The growth since 1950 has been just double the national average, but it is a mixed blessing. It has meant that schools, colleges, highways and other State services have been seriously overloaded.

Growth Pushes Costs Up

Since 1950 the population of Colorado has increased 35% -- with a resulting increase in public school enrollment of 65% and a 29% increase in resident population of our State institutions. State supported colleges and universities have increased 42% in enrollment since 1950.

This growth has been solid as well as rapid, as indicated by the rise in per capita income in Colorado. This income figure has climbed from $1,496 in 1950 to an estimated $2,000 in 1960.

Schools, colleges, highways and welfare are the principal services of State government. It is in these areas where the sharp increase in population is first felt -- both in the demand for services and in the need for more revenue to provide such service. There are many other services which the public does not give much thought to but which are equally important, such as mental health, rehabilitation of institution inmates and natural resource development.

To meet this greatly expanded demand on schools, two-thirds of the general fund has been appropriated for public schools, colleges and universities. For fiscal year 1959-60 public schools have been appropriated $27.7 million, which is 39% of the total general fund. The colleges and universities will receive almost $20 million, which is 28% of the total fund.

Some critics say this is too much, others say it is too little. Regardless of conflicting opinions, Colorado's State school aid is at the minimum amount necessary to solve our primary and high school education problems. It is a minimum amount, also, to support the growing academic responsibilities of colleges and universities in meeting the demand for higher education in an

increasingly complex society. The field of education will require further increased financing in the near future.

Institutions Pose Crisis

Of the remainder of the general fund budget, 20% of the total has been appropriated for one of Colorado's most pressing problems: State institutions and the care and rehabilitation of the patients and inmates in those institutions.

This is a problem that cannot be ignored. It grows as Colorado grows. Institutions -- our mental hospitals and treatment centers at Pueblo, Ridge, Grand Junction, the prisons and reformatories, the boys' and girls' schools, and the Childrens' Home -- all are badly overcrowded. Over the years the State's institutions program has grown largely by patchwork. It has never been looked at as a total problem.

Colorado's crowded mental institutions have operated largely on a custodial and not on a treatment basis. The U. S. Public Health Service report on the State Hospital at Pueblo pointed out this fact. Almost 6,000 patients are housed in buildings capable of maintaining only 4,200 under modern standards. As a result, the overworked staffs have been forced into custodial methods that are not directed at reducing the number of patients -- and thus expense to the State -- through rehabilitation and treatment.

The first steps to remedy this situation were taken in this session of the Legislature. The Federal offer of the Ft. Logan site near Denver provides Colorado with an opportunity to help solve the mental treatment problem. Building a treatment center there will provide another facility for Colorado's mentally ill and help solve the problems of overcrowding at Pueblo. It will also relieve the invisible but real burden of heartache and despair of treatable patients who could be rehabilitated into useful lives and not be a burden to their families or to the State.

Other general fund items -- the "all other" -- combined make up 10% of the total budget, and include: judiciary, 1%; public health, 1%; maintenance buildings group, of State Capitol, 1%; and 7% for disaster fund, parole, industrial commission, advertising and publicity, insurance department, racing commission, banking commission and other administrative agencies.

Administrative Costs Checked

A fact worth noting is that the "all other" section of the 1959-60 budget is only 2% greater, or $147,000, than the same item in the 1958-59 budget. This amount reflects certain automatic increases, such as the statutory salary increases that boost State employees salaries an average of 5% per year. Many administrative costs, that have gone up due to increased duties of serving a larger population, have been absorbed by the various departments. Despite this increased work load, plus the fact that prices of materials have increased substantially, the costs of State government have been held in line very well as a result of changes instituted during this administration.

Credit for this accomplishment must go to many persons, including many conscientious career employees and department heads, and a responsible State Legislature that held down appropriations.

Completion of the tax study is a landmark for Colorado. Thanks to the study, Colorado was not required to make hasty, uninformed changes in its tax structure -- as is happening to some other states now, and has happened to Colorado in the past.

Colorado could wait for the tax study to be completed because of special tax collection and treasury management methods put into effect in the past two years. These measures, sometimes referred to as "gimmicks" in the press, provided the extra income Colorado needed to maintain progress while the tax study was being completed as well as to correct inequities in the time of paying income tax.

The first two measures required corporations, professional people and the self-employed taxpayers to pay their income taxes on a pay-as-you-go basis the same as wage earners who have their taxes automatically withheld from their wages and salaries.

The third measure adopted last year, makes it possible to use earmarked State funds to meet current cash needs of the general fund at those times of the year when tax collections are low.

Earlier Tax Raise Avoided

Through these measures -- which are actually only modern, enlightened methods of collecting taxes and managing treasury funds -- Colorado

two years ago was able to increase its school aid, raise its financial support to State colleges and universities, and bring State salaries up to adequate levels without a major tax increase.

The Legislature revised the treasury management measure in this session. It is the plan now to use surplus from the general fund for non-recurring capital improvements such as buildings and permanent equipment. It makes sense, I believe, to use non-recurring revenue from the general fund for such non-recurring expenses. This is another important step toward better all around money management and budget planning of the State's funds.

Local Governments Helped

In addition to State fiscal problems, the financial needs of our local governments were not overlooked. The increase in State school aid makes it possible to continue to make financial responsibilities to public education without putting the entire load on the already overburdened property taxpayer.

The elimination of the State operating mill levy will be reflected in lower property tax bills. A substantial revision of the highway user tax allocations, increasing the State allocations to cities, will markedly improve municipal street programs.

A final word should be said for the session of the Legislature just closed. The men and women of this history-making session should be commended for doing a responsible job. No one likes to pay taxes, much less be involved in raising them. Yet the legislators in this session faced up to problems, reviewed the findings of the tax study, and enacted the most comprehensive tax reform program in Colorado's history.

Colorado is facing up to its future. After considering all the facts of the new tax program, I believe Colorado's citizens will conclude that the changes made by the Legislature were not only necessary but were as fair as possible to all concerned.

# # #

FINANCING GOVERNMENT IN COLORADO

1959

Report of the Governor's
Tax Study Group

STEVE McNICHOLS
Governor of Colorado

THE STATE OF COLORADO
EXECUTIVE CHAMBERS
DENVER

STEVE McNICHOLS
GOVERNOR

To the Citizens of Colorado:

It is with pleasure that I present to you this report on Colorado's tax structure.

The report is based on an intensive and impartial study conducted by the Tax Study Group, composed of Dr. Eugene T. Halaas, Research Director, and his immediate associates, Dr. E. H. Plank and Dr. Reuben A. Zubrow, assisted by a staff of economists and research analysts from the faculties of the University of Colorado and the University of Denver.

To that Tax Study Group, I want to express my personal appreciation for this report, which represents an effort which has resulted in one of the most comprehensive and significant tax studies ever made by a State government.

The study was undertaken in compliance with my statement in the 1956 gubernatorial campaign: "To keep pace with our ever-increasing growth, we must launch a thorough-going study of all sources of tax revenue, projecting the revenue needs of the State, counties and governmental subdivisions for a substantial period of years so that each source of tax revenue, principally excise, ad valorem and income tax, may be evaluated and apportioned in the light of its effect on the development of Colorado, together with the ability of Colorado taxpayers to support government functions and improve the quality of administration of our taxes."

In accord with this pledge, I asked the Tax Study Group to review the total tax, revenue and expenditure picture of Colorado, and to give us facts on: changes in expenditures caused by the State's growth and changing economy; the revenue and expenditure history of our state and local governments; the impact of taxation on individuals and businesses; the equity of existing State and local taxes among various levels of taxpayers; fluctuations in revenue produced by the different types of taxes; the responsibility of the State to local governments in maintaining revenue sources. I also asked the group to suggest any changes that might make Colorado's tax structure more responsive to modern conditions, and more equitable.

In short, this report presents a thorough and critical over-all review of the methods used in financing government in Colorado. In Colorado, as in other states in the West, rapid post-war economic development and population growth have intensified the need for public services, with resulting increases in governmental revenue requirements. Under these conditions of change, the maintenance of a tax structure that will be productive and equitable to accommodate the demands of growth becomes increasingly difficult. Therefore, this factual basis for guiding fiscal policy action is of particular and timely importance.

To all of you who are interested and concerned in good government, I commend this study as a means for reviewing our State and local finances and for providing a basis for examination of the expenditure and revenue changes that will help make our State a better place in which to live.

Steve McNichols

Letter of Transmittal

February 14, 1959

Honorable Stephen L. R. McNichols
Governor of Colorado
State Capitol
Denver, Colorado

Dear Governor McNichols:

In accord with your instructions that comprehensive revenue and expenditure data be assembled and analyzed which would be helpful in the formulation of a fair and adequate system of taxation in Colorado, I have the honor to present on behalf of the Governor's Tax Study Group this report, which includes a general summary of findings and statement of recommendations.

Although study objectives have comprehended the entire state and local tax structure, the principal area of analysis has been that of the State government. The essentials of the revenue structure of local governments have not been neglected and are included wherever they were deemed pertinent to a fuller understanding of the fiscal system of the State.

The report is the joint product of the Governor's Tax Study Group, the senior staff of which included Eugene T. Halaas, Ph.D., Research Director of Governor's Tax Study, and Professor of Finance, University of Denver; E. H. Plank, Ph.D., Professor of Finance and Public Administration, University of Denver, and Reuben A. Zubrow, Ph.D., Professor of Economics, University of Colorado.

In the planning stages of the study invaluable assistance was received from Walter Heller, Ph.D., Professor of Economics, University of Minnesota; Clyde Reeves, Ph.D., former Commissioner of Revenue, State of Kentucky, and Ronald B. Welch, Ph.D., Director of Research, California State Board of Equalization. The guidance of these nationally recognized authorities in state and local finance is gratefully acknowledged.

Generous and continuous assistance in gathering data has been furnished by the State departments and agencies, particularly the Department of Revenue, Robert A. Theobald, Director, and John F. Healy, Assistant Director, and Edna Bigelow and the Office of Accounts and Control, E. G. Spurlin, Controller, and Con F. Shea, Budget Officer. The Department of Revenue did much of the statistical work requiring electronic data processing equipment in connection with the thousands of reported tax returns used in the sample study of Colorado's income tax. The Office of Accounts and Control assembled from the field all of the required detailed information for projecting budget requirements of the various state agencies and institutions. Without the help and wholehearted cooperation of these two departments and their staffs, it would have been impossible to have developed certain significant findings of the study.

The Tax Study Group is also greatly indebted to L. Donald Daily, Executive Assistant to the Governor, upon whom fell much of the task of providing facilities and making contracts to secure information from sources not otherwise available to the staff. His efforts in obtaining the cooperation of agencies in other states and of federal offices made possible a number of vital interstate and federal-state comparisons.

In addition to the material assistance and information supplied by the several departments of the State government, important statistical aid has been provided by the U. S. Bureau of the Census, the U. S. Department of Labor, and the U. S. Department of Health, Education and Welfare. In addition, the highway departments of Arizona, California, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming were most cooperative in releasing to us their detailed studies of highway user taxes. Assembly of these data made possible a definitive analysis of interstate highway user taxes in western states as presented in Chapter X of this study.

Other sources of valuable aid and encouragement might be mentioned not the least of which were the many communications received from citizens throughout the State. Citizen groups, business organizations and colleges and universities have also made valuable contributions. Principal among these were the Colorado Public Expenditure Council, the Colorado Municipal League, the Colorado Life Convention, the University of Colorado, and the University of Denver.

I wish to express to you our sincere appreciation for the opportunity which has been afforded us to work independently as a group in our research effort. At no time has there been any indication of any intent, official or otherwise, to influence the direction taken or subject emphasis made during the course of the analysis. The conclusions here arrived at represent the unanimous judgment of the staff based upon the evidence that this study has provided.

Respectfully submitted,

Eugene T. Halaas

EUGENE T. HALAAS, *Research Director*
Governor's Tax Study Group

Staff

GOVERNOR'S TAX STUDY

on

FINANCING GOVERNMENT IN COLORADO

Senior Research Staff

EUGENE T. HALAAS, *Research Director of Governor's Tax Study, and Professor of Finance, University of Denver.*

E. H. PLANK, *Professor of Finance and Public Administration, University of Denver*

REUBEN A. ZUBROW, *Professor of Economics, University of Colorado*

Research Associates

GEORGE E. BARDWELL, *Professor of Statistics and Research, University of Denver*

GARY BICKEL, *Department of Economics, Stanford University*

CLEMENT F. BRIDENHAGEN, *Department of History, University of Denver*

MARGARET R. BRITTAN, *Professor of Statistics and Research, University of Denver*

KENNETH E. DAANE, *Department of Economics, University of Colorado*

ROBERT DECKER, *Department of Economics, University of Colorado*

BYRON L. JOHNSON, *former Professor of Economics, University of Denver and University of Colorado, and U. S. Representative, Second Congressional District of Colorado*

JEROME KESSELMAN, *Professor of Accounting, University of Denver*

DON SEASTONE, *Professor of Economics, University of Denver*

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OBJECTIVES OF STUDY, GENERAL SUMMARY AND CONCLUSIONS

Objectives of Study

Colorado's continuous economic and population expansion, particularly marked in the post-war years, has correspondingly increased the need for public services and facilities both in amount and variety. This in turn has resulted in a greatly increased per capita tax load reflected in sizable rate increases in the general property tax and by the addition of new taxes.

The adjustment of revenue (and expenditure) policies to growth, both in terms of the amount of taxes collected and the kinds of taxes used, has been determined basically by the nature of the State's economy and the particular needs of the people living in the State. However, in Colorado, as in many other states, these determinations have at times been importantly influenced by considerations of expediency, political change and group pressures. It could well be expected, therefore, that distortions and inequities have developed that can only be seen in the context of the state and local tax structure as a whole. Accordingly, this study is oriented on a broad base in which all taxes are examined individually and in relationship to each other. As such it is designed to provide a source of information for increased public understanding of the tax structure of Colorado, thus facilitating its revision and improvement as an instrument for meeting both the immediate and long-term revenue demands of growth as these can be presently foreseen.

Procedurally and by specific lines of inquiry, the study objectives may be stated in these terms:

(a) To review the nature and growth potential of the State's economy which conditions both the magnitude and pattern of present and future public expenditures and revenue requirements.

(b) To examine the organizational structure of state and local government which affects both the cost and adequacy of public services.

(c) To present historically for both state and local government and in comparison with other states, total expenditure and revenue trends including particular taxes currently used.

(d) To generally define and measure the over-all state and local "tax burden" as it applies to individuals and as a factor affecting the location and development of industry in Colorado.

(e) To evaluate individual state and local taxes (including rates) and the tax structure as a whole in terms of:

(1) Their fairness in the distribution of the tax burden among individuals and business enterprise, and,

(2) Their capacity to produce a steady and adequate revenue for the future estimated needs of both state and local government.

(f) To examine critically state and local relations insofar as these bear upon the responsibility of the State in providing local government with revenue sources commensurate with functions assigned.

(g) And, in the light of the above analyses to draw conclusions and to suggest such changes in the tax structure and fiscal policy as would appear to be necessary to remove inequities in the tax burden, and to produce such additional revenues, as might be indicated by Colorado's current and anticipated future growth demands.

General Summary

The following summary of the main report contains both descriptive highlights of the analysis as well as the principal findings relating to each of the principal subjects of the study. These are presented in logical order by chapter title and number as noted.

The Economy of Colorado (Chapter I). Colorado's rate of population growth has consistently exceeded that of the country as a whole. As such it reflects the larger continental trend toward the West which has been observed since the beginning of the nation's history. Most recent estimates show a total population in Colorado of 1,612,000 for 1956. This represents a 22 percent increase since 1950—a rate of gain exceeded by only five other states. It is significant that of the ten states in the union showing the largest increases for this six-year period, five were Mountain States.

Despite impressive growth rates, Colorado is still sparsely populated ranking seventh among the forty-eight states in land area but thirty-fourth in population. Population growth has not been distributed uniformly, however, but has tended to concentrate in the large urban areas and particularly in the Denver Metropolitan Area which, in 1956, accounted for 45 percent

of the State's total population. In 1930 the comparable ratio was 34 percent.

Apart from its growth and distribution other noteworthy features of Colorado's population are (1) a higher than national-average ratio of persons in the lower age group, (2) an average ratio of persons in the age category 65 years and over, and (3) a substantially better than national average educational achievement measured by both the "median school years completed" and the "ratio of population with four years of college training." All add up to an effective labor force and a cultural setting conducive to progress.

Colorado's economic well being measured by per capita personal incomes shows a better than average rate of growth. In 1957 personal income totalled $3.3 billion, a figure which exceeded by 73 percent the corresponding total for 1950 and by 420 percent the aggregate reported for 1929. After eliminating the effects of inflation these gains, on a uniform purchasing power basis, were 48 percent and 217 percent, respectively. As an approximation it can be said that the "real" productivity of the State as a whole was about 50 percent greater in 1957 than in 1950 and slightly more than 200 percent over what it was in 1929. For the country as a whole the comparable real gains were somewhat lower or at the rates of 31 percent and 146 percent, respectively. In per capita terms Colorado's income of $1,996 in 1957 was slightly under the national average of $2,027. It was higher however than that of thirty-two other states including the Mountain States excepting Wyoming and Nevada.

Colorado's economic growth, most marked over the past decade and a half, has had its basis in a sustained employment increase which is estimated at 239,403 for the period from 1940 to 1956. Specific industrial sources of these new jobs were the service industries which accounted for 37 percent; trade, 25 percent; construction, 13 percent; manufacture, 14 percent and unclassified sources the remainder or 11 percent.

Aside from its definite metropolitan bias, 60 percent of the new jobs originated in the Denver area, the over-all 1940-1956 employment increase had no outstanding single industry attraction such as a new oil development or similar episodic event that might have accounted for the sizable advance that was made. On the contrary, and despite some decline in agriculture and mining, employment increases covered a broad industrial front in which the traditional "agricultural-trade-service" pattern was largely retained. Manufacturing while gaining rather substantially in number of workers did not materially increase its relative employment position.

Assuming no fundamental change in the industrial pattern, the future growth of the State's economy is therefore contingent on the development of its existing extractive, trade, service and manufacturing functions. Of these, manufacturing presents the greatest potential if for no other reason than that it is by all odds the most underdeveloped sector in the economy of the State. However, distances to markets hamper growth, notably in the case of heavy industry producing for national markets. But by the same token, the locational factor has given strong impetus to the growth of local manufacturing oriented to the large regional market of the West. Coupled with this has been the development of specialty products of high value and low bulk. Aggregatively these adjustments in a comparatively isolated area account for the substantial increase in manufacturing which has occurred in Colorado in recent years. It is also along these lines that manufacturing in the region may be expected to advance in the future.

Agriculture and mining are both more or less stabilized industries and little, if any, employment change may be expected here. Agriculture remains, however, the principal single industrial source of employment in the State and as such its continued development is crucial to the progress of the entire economy. Increased agricultural production rather than increased employment may be expected with water the principal limiting factor. Mining, on the other hand, is expected to show little change, at least in the short run, with large gains from oil shale development likely in the long run.

Trade and services combined continue to constitute the larger part of the income and employment base with the Denver Metropolitan Area forming the central core. Slow growth is inherent, however, in both these lines since they tend in large degree to follow rather than to lead population and income advances.

On the basis of all aspects of the State's economic structure, as presently constituted, a steady but better-than-average trend line movement of population, employment and income is envisaged in which the "western movement" of peoples is a basic causal factor that cannot be denied. Population projections of the Bureau of the Census show for Colorado an estimated population of 2,197,000 by 1970 or an increase of 40 percent over the estimated population in 1955. By Census prediction also, this rate will exceed that of any other Western state excepting Nevada, Arizona, California, and Utah. Moreover, the Mountain States group, with an estimated growth rate of 44.4 percent, is expected to grow faster than any other region excepting the Pacific Coast States.

Coincident with population growth new jobs are expected to increase to a total of approximately 843,000 by 1970, or a gain of 234,000 jobs over 1956. Similarly, it is estimated that per capita personal incomes will increase from $1,870 in 1956 to $3,403 by 1970 or at the rate of 82 percent. Comparable projections for the country as a whole show changes from $1,961 to $3,255 or at the rate of 66 percent.

In conclusion, Colorado's problem of financing government in the future, unlike that of many states, is not one of finding ways and means for retaining its population and preserving its tax base but one of finding appropriate ways and means for supporting enlarged government as its employment and population continues to grow at a better-than-national-average rate. The nature of Colorado's economy, whose industries and natural resources are more diverse than any other state in the union, magnifies not only the task of determining the right patterns of public service but patterns of taxation as well. It is in this setting of variety and dynamic change that a state-wide fiscal policy must be formulated.

The Structure of Government in Colorado (Chapter II). In addition to state government proper, governmental services in Colorado are performed by 1,675 separate governmental units consisting of 63 counties, 245 municipalties, 936 school districts and 431 special improvement districts. All, as separate government entities, derive their legal authority from the State. In theory and practice their existence acknowledges the fact that government at the "grass roots" is essential for the effective administration of the State's function in all its various parts.

At the State level the administration of government is performed by 138 agencies variously designated as "offices," "departments," "divisions," "bureaus," "boards," and "commissions." Each is a separate legal entity established by law and differing only in degree of individual responsibility and independence of supervisory authority. Some agencies are included in larger "agencies" or "departments" and "divisions" which may exercise considerable control while others may be grouped within, or merely identified with a department or division which exercises little or no central control.

At the local level, county governments, functioning primarily as arms of the State, are administered by a standard or traditional complement of elective offices, more or less independent of each other as well as the central administrative body of County Commissioners. To achieve local autonomy and flexibility in the management of local affairs not possible by county government, local government in Colorado finds its fullest expression in its municipalities, school districts and special improvement districts all of which have the power to tax and to spend.

Viewed critically, Colorado's structure of government presents areas of weakness that are probably inherent in the traditional pattern of state and local organization and administration as it has developed in this country. At the state level, a perennial sore spot is the conglomerate of statutory administrative agencies which tend to duplicate functions and to diffuse control and responsibility to the point where central direction is severely weakened. Students of government have long advocated a consolidation of agencies in major departments directly responsible to the Governor.

County government in Colorado, as elsewhere, is undoubtedly antiquated and needs re-examination. Rapid population increase in some counties has created new demands upon counties and a degree of flexibility in their operation not possible under existing law. Conversely, population decline in other county areas has reached a point where boundary revision is mandatory if "economy in government" is to have any meaning at all.

Other governmental units at the local level—municipal, school and special districts—present organizational problems somewhat distinctive yet interrelated by common purpose of providing, singly or in combination, a full complement of needed local governmental services. Primary of the municipal problems is the so-called "fringe area" problem of the larger cities and the associated question of the role of fringe areas or "metropolitan special districts," whose development tends to block logical expansion of municipal boundaries to accommodate growth. And finally, Colorado's present number of 838 school districts (exclusive of high school and junior college districts) in which there are still 183 one-teacher schools clearly point to the need for more consolidation.

Expenditures of State and Local Government (Chapter III). From 1946 to 1956 combined expenditures of state and local government increased from a total of $106 million to $382 million, or at the rate of 260 percent. Paralleling and, in large degree, explaining this sharp advance was a population increase of 38 percent and a general price rise of 65 percent. If adjustments are made for these latter changes, that is, by expressing expenditures in per capita terms and in uniform purchasing power dollars (in this analysis in terms of the 1956 dollar), the per capita expenditure totals for 1946 and 1956 amount to $145 and $237, respectively, or an increase at the rate of 63 percent. Adjusting

further to differentiate between operating and capital expenditures the results then read as follows:

	1946	1956	Percent increase 1946-1956
Operating	$131	$181	38
Capital	14	56	300
Total	145	237	63

From this more refined base of reference, it will be seen that state and local government spent 38 percent more per person in "real" terms for operating purposes in 1956 than in 1946 and 300 percent more for capital items. If expenditures can be viewed as having their counterpart in services or capital values acquired it can be said that 38 percent more in real services and 300 percent more in capital values were received per person in 1956 than in 1946.

Whether or not the average person in Colorado was getting these additional services and values from the current public dollar spent is, of course, a matter of individual judgment. About all that can be said is that with due allowances for the limitation of the adjustment techniques used, the over-all increases do not appear to be out of line with present levels of public services received as compared with 1946. Although memories are short, it will be recalled that the immediate post-war years were marked by extreme shortages in both the private and public sectors of the economy. The large changes that have taken place since then in both the number and variety of available consumer goods and services and such capital items as highways, schools and other public facilities are universally recognized.

The broader purposes for which the public dollar is spent in Colorado are readily identified. In 1956, 38 percent of aggregate disbursements were directed to educational uses; 22 percent to welfare, and 19 percent to highways. The remainder, or 22 percent was committed to a wide variety of other purposes. The notable fact is that education, welfare, and highways together accounted for nearly 80 percent of public expenditures in the State.

The "big-three" functions of government in Colorado deserve more than catch-phrase attention, for it is here, and here only, where major reductions in government expenditures and, therefore, taxes can be made. What the possibilities are for substantial cost savings in these vital areas of public service and what public reaction might be to any steps taken in these directions is quite another matter.

In the comparison group of eleven Western States, Colorado's per capita expenditures of $217 in 1953 (the latest date for which comparative data are available but which are believed to be reasonably representative of current relationships) placed it in 6th position in the Western State comparison, being preceded by Nevada, Oregon, Montana, Wyoming and California. In 1942, Colorado occupied 5th position reading from high to low, being preceded by Nevada, Montana, Wyoming and California. Per capita total expenditures in all Western States were substantially above the national average, both in 1942 and 1953—a fact which may be attributed in part to the relatively low population density of the West.

In further detail Colorado in 1953 spent more per capita for "welfare," "public safety," "sanitation" and "health and hospitals" than the general average for the eleven Western States. Conversely, it spent less than the average for "highways," "education" and "all other."

In rank order, which changes the picture only slightly, Colorado ranked 1st in per capita expenditure for both welfare and hospitals; 4th in expenditures for both public safety and sanitation; 5th for education; and 9th for both highways and all other.

Colorado's expenditure pattern differs most widely in its expenditures for welfare. In 1953, per capita welfare payments in the State amounted to $40.05, which exceeded the general average of all eleven Western States by $18.06. It also was over the national average by approximately the same amount, or by $18.43. If, for instance, Colorado's outlay for welfare had been the same as the Western State average, its total per capita expenditure of $217 for all purposes in 1953 would have been reduced to $199. In rank order, this total would have placed Colorado in 9th position rather than in 6th. A similar computation for 1942 would drop Colorado from 5th to 10th place in the eleven-state comparison.

Tax Revenues of State and Local Government (Chapter IV). Colorado's combined state and local tax bill in 1956 amounted to $276 million—a total nearly four times its corresponding total in 1940 and nearly three times the figure reported for the first post-war year, or in 1946. If allowance is made for population growth and price inflation, that is, if taxes are expressed in per capita dollars of uniform purchasing power, the resulting per capita figure of $171 for 1956 is only one-third greater than it was in 1940 and about one-half again as large as in 1946. Moreover, combined state and local taxes took, on the average, less out of personal income in 1956 than in 1940, the respective ratios being 9.2 percent and 11.7 percent.

Unfortunately for state and local fiscal policy, which must compete with the federal government for the public tax dollar, the over-all tax bill—federal, state and local—on a per capita price-adjusted basis is currently nearly three times as great as it was before the war. Currently also, it takes 27 percent out of total personal income as compared with 17 percent in 1940.

Compared with all other states and on the basis of 1953 data (which is the latest date for which comparable information is available) combined state and local taxes in Colorado, in terms of per capita taxes and measured as a percent of income, are high, ranking 8th and 12th, respectively. For 1953, for the eleven Western States only, Colorado's per capita tax total was slightly over the median average. In rank order Colorado placed in 5th position in the eleven-state array while its ratio of taxes to personal income was the second highest.

Colorado's combined state and local tax structure rests heavily upon the general property tax base which, in 1956, accounted for 48.66 percent of total state and local tax revenues. Next in importance were various taxes based on expenditures or consumption (including the highway user group) which accounted for 38.32 percent while income and "all other" taxes accounted for the remainder or 9.44 percent and 3.58 percent, respectively.

Although the individual parts—state, county, school districts and municipalities—make up the whole, the tax structure of these individual governmental units vary in marked degree. For example, in 1956 state government obtained only 7.68 percent of its total tax revenues from the general property tax, but 67.81 percent from its consumption taxes, including the highway user group, and 18.75 percent from the income tax. On the other hand, the counties and school districts derived their entire tax revenue from general property while the municipalities obtained 68.66 percent from this source.

The complex of these arrangements, in which property and consumption expenditures are the primary bases of revenue support, has resulted in a state-local tax system which can be generally regarded as being essentially regressive. In other words, on the whole, state and local taxes tend to weigh more heavily on the lower income groups than the other way around.

In the main, the kinds of taxes used at both the state and local levels differ little between the Western States. In general, local governments depend heavily upon the property tax; the states much less so. On the other hand, for state governments "special" taxes present points of difference both in kinds of taxes used as well as degrees in which they are used. Of the major of these, namely the income and sales tax, only three states—Wyoming, Washington and Nevada—exclude the income tax, while the general sales taxes are absent in Montana, Idaho and Arizona. Similarly, only three states—Colorado, Oregon and California—exclude a special tax on tobacco.

Finally, the question as to whether the overall tax burden in Colorado is greater or lower than elsewhere must remain largely unanswered. Important as this question is from a policy standpoint, there is no quick or simple answer. Although customary "indices" of the "tax burden" based on per capita totals and the ratio of taxes to personal income would place Colorado well above the national average and perhaps at a median position in respect to the eleven Western States, such indicators are by no means conclusive. As averages these measures cannot tell how the burden is distributed nor do they disclose values received in return for the tax dollars paid. Similarly, the impact of taxes on business development is not readily ascertained. Although a tax climate favorable to business is unquestionably a factor of importance this too must be seen in its proper perspective.

The Influence of State and Local Taxation on the Location of Industry (Chapter IV—Appendix Note). A multitude of factors, both economic and non-economic, play a role in the location of industrial activity, and therefore, a generalization concerning the significance of any one factor must be made with certain caution. Moreover, the importance of any one factor must be discussed in terms of other location factors and not in an isolated or absolute sense.

Although there is controversy regarding the locational importance of taxation, it is generally agreed that the major general factors influencing industrial location are market orientation, availability of materials, and labor considerations. The lack of agreement concerning taxation is due in large part to difficulties inherent in the problem. The seemingly easy task of measuring tax burdens between two given areas becomes extremely complex when consideration is given to differences in tax rates and bases, types of taxes employed, enforcement procedures, collection policies, and relationships between various taxing jurisdictions. Moreover, accounting for the benefits received from government expenditures and attempting to locate the elusive incidence of various taxes provide problems which are essentially insoluble. Hence, the nature of the problem is such that conclusive and precise evidence is virtually impossible to obtain.

While there are numerous approaches to the question of the locational significance of taxation, one analytical method is to examine each area of economic activity and attempt to exclude those areas where taxes appear to exert little if any influence. Hence, it is reasonable to dismiss agriculture, mining, construction, government, transportation, communications, public utilities, and real estate as areas in which taxation is of little locational significance. In addition, few service and trade organizations could attach a great deal of importance to taxation although it would be unreasonable to dismiss categorically all firms in these areas. In the field of manufacturing, there are undoubtedly many firms which are locationally restricted by

their manufacturing process or the nature of their product. It appears that few firms possess sufficient locational freedom that substantial consideration can be given to taxation as a location determinant. While this approach can provide little insight into what proportion of these firms actually premise their location decisions on levels of taxation, it does indicate that even if they all did, a major portion of national income would nevertheless be generated by industries in which taxation exerts little locational influence.

Another approach to the problem is to conduct inductive studies which involve personal interviews or the use of questionnaires directed at business executives. While most of these studies are subject to certain limitations and criticisms, in total they indicate that state and local taxes are a relatively unimportant location factor. In addition, two studies conducted specifically in the Colorado area reach similar conclusions, one study ranking the importance of state and local taxes 27th in a list of 30 location factors.

In summary, while the available evidence is somewhat less than conclusive it does suggest that, in general, state and local taxes exert less locational influence than a magnitude of other factors; and, that the frequently-made assumption regarding a simple direct relationship between a "favorable tax climate" and rapid economic growth cannot be defended.

State Government Finance (Chapter V). From 1946 to 1957 Colorado's state government expenditures (including payments to counties and cities) increased from a total of $57 million to $238 million, or at the rate of 315 percent. For the shorter period, from 1950 to 1957, the increase was from $130 million to $238 million or at the rate of 82 percent. In per capita "real" terms, that is, in constant purchasing power dollars, total state government outlay in 1957 was 70 percent greater than in 1940 and 8 percent greater than in 1950. In 1957 also, nearly 90 percent of total expenditures were for three principal purposes, namely, welfare, highways and education.

On the revenue side, taxes collected by the State were, in 1957, approximately three times what they were in 1946, having increased from $49 million to $149 million, or at the rate of 200 percent; while for the more recent period from 1950 to 1957 taxes increased from a total of $86 million to $147 million, or at the rate of 72 percent. On a per capita basis in uniform purchasing power dollars taxes show for 1957 an increase of 114 percent over 1946 and a 37 percent increase over 1950.

Comparatively, per capita state taxes in Colorado were below both the general and median average for the eleven Western States. Similarly, the ratio of Colorado state taxes relative to state personal income was less than the general average but coincided with the median average of the Western States.

Sales, highway user and income taxes constitute the principal sources of revenue of state government in Colorado. In 1957 these accounted for 77.95 percent of total tax revenues. Viewed generally, the so-called "consumer taxes" (sales, liquor, highway user, insurance and pari-mutuel) accounted for 67 percent and general property 8 percent of total State tax revenue. In this sense, the tax structure could be regarded as predominantly regressive in nature—a feature which characterizes state taxation in the West generally.

Approximately 80 percent of the State's total revenue is earmarked—a fact which not only explains the existence of 190 "cash" funds (in addition to which there are 101 other funds or a total—"cash" and "all other" funds of 291), but explains also (in a basic sense) the current plight of the General Fund. As a kind of a residual legatee of State revenues, the General Fund is under severe pressure due to growing expenditure requirements for school aid and the enlarged needs of the State colleges and universities and other state institutions. Projected general revenues and expenditures to 1965 indicate the immediate need for a sizable increase in revenue to avoid future General Fund deficits. The following tabulation based on four different assumptions or projections show revenue and expenditure differences for the fiscal years 1960-1965 as follows:

Estimated Current Revenue Surplus (+) or Deficit (—)

Year	Projection 1 millions	Projection 2 millions	Projection 3 millions	Projection 4 millions
1960	$—13.8	$—24.4	$— 6.4	$—16.9
1961	—13.9	—24.9	— 6.0	—17.0
1962	—12.5	—23.9	— 4.1	—15.6
1963	—10.7	—22.6	— 1.9	—13.8
1964	— 8.5	—20.8	+ .7	—11.6
1965	— 6.2	—18.8	+ 3.5	— 9.1

Not included in these totals are estimated expenditure requirements for new buildings which would add to General Fund deficits (as variously estimated above) annual amounts ranging from $457,000 to $1,580,000 exclusive of the total of $19,036,000 projected for 1960.

The foregoing outlines the large revenue problem faced by the State Assembly for 1960 and the immediate years thereafter. How effectively it will be resolved will, in large degree, depend on judgment in the selection of the appropriate priorities and timing of expenditure needs but more importantly on the selection of the particular means used to finance them.

Essentials of a Sound Tax System (Chapter VI). The recognized standards of a sound tax system include: (1) productivity; (2) equity in the distribution of tax burdens; (3) a recognition of the rights and problems of taxpayers; and (4) adaptability of the tax program to the

immediate and long-range needs of the economy as a whole. From a practical standpoint the productivity requirement means that the yield of individual taxes and the entire system must be predictable within reasonable limits, and that certain major tax sources must be sufficiently flexible in structure and rates to handle the rising costs of government. The possibility of effective and economical administration is another facet of the productivity problem.

Equity in the distribution of tax burdens is a universally accepted goal, but the full ramifications of the concept are seldom understood. Basically, equity in taxation is dependent upon a series of social judgments concerning the existing and future economic relationships between individuals, family groups, business enterprises and other private organizations. Recognition of the complexity of the problem is the first step. The crucial elements are the social decisions as to the best approach or approaches to the distribution of tax burdens and the most appropriate measures of implementing them.

Two broad theories concerning the distribution of tax burdens are presently accepted and applied with varying degrees of qualification by tax economists and those concerned with the formulation of tax policy, namely, the ability to pay principle and the benefits received standard. While the preponderance of opinion favors the ability principle, a limited application of the benefits standard is generally thought to be desirable.

The ability to pay concept is socially oriented. That is, it involves a determination of the current economic position of the individual and business organization, the essential demands upon their resources for living and other costs, and, consequently, the actual capacity remaining, if any, to pay taxes. Net income is regarded as the most reasonable and effective measure of taxpaying ability with property or accumulated wealth as a possible supplemental standard. In the case of individuals, at least, it is generally assumed that the taxpaying ability reflected by net income in excess of absolute subsistence requirements increases on a progressive basis.

The benefits received doctrine rests upon the broad proposition that the cost of governmental services should be apportioned among individuals and business organizations on the basis of the relative benefits which they enjoy. Essentially, it is the quid pro quo method of financing, and contemplates that the government would operate like a huge, private supermarket with the prices clearly marked on each item.

As a general approach to the distribution of governmental costs the benefit principle is clearly unacceptable. It disregards the primary social purpose of many public programs, and would deny their use to those who could not afford to pay the full cost. Furthermore, it is impossible from a practical standpoint to determine the individual benefits derived from some of the most important governmental programs such as national defense or security. The proper role of benefit financing, therefore, is necessarily a restricted one. In fact, it is only in those areas where the government actually functions in a manner comparable to a private or commercial enterprise that the benefit principle has a wholly logical application. Apart from governmentally-owned utilities the most significant application of the direct benefit standard today is the financing of highways and streets. The use of the special benefit approach in this instance is believed to have merit, though it is subject to significant limitations.

Equity in taxation, therefore, requires a predominant emphasis upon the ability standard supplemented by a limited application of the benefit principle under the special conditions noted. Judgment and moderation must be exercised in the use of both approaches. Extreme progression under the net income tax may unduly curb the incentive to save and invest funds by high income groups. Similarly, an overemphasis upon the benefit standard may place oppressive burdens on the low income classes and thereby curb their incentive or capacity to produce and to consume.

Finally, it must be recognized that the federal government occupies a primary position in virtually all phases of public financial policy. Considering the magnitude of its revenue needs the choice of federal tax sources clearly is the principal determinant of the effects of public revenue programs. The emphasis placed upon personal and corporate net income and certain sales and excise taxes serves as a possible model for state action, but also may tend to delimit the scope of state policy. Double or multiple taxation of a given base should be considered in appraising the equity and productive potential of a given source. However, it is the latter elements that are important, not the duality of use. Alleged saturation of the net income tax base, for example, is a delusion in the light of its fundamental character and accepted merits. Certainly the use of less equitable tax forms worsens rather than improves the economic effects of a given level of taxation.

Property Taxation (Chapter VII). The general and other forms of the property tax are presently a minor source of state financing but are still the mainstay of local finance. Colorado obtains nearly 8 percent of state tax revenues from property levies which is over two times the national average of 3.3 percent. However, the eleven Western State average is 7.5 percent. Decreasing reliance on the property tax for state purposes is the direct outgrowth of the development of new state sources (highway user, sales and income levies) and the critical pressure upon local units of finance expanding service needs.

The theoretical justification for the property tax is rather confused and has been seriously questioned by tax experts. However, it is supported both as a charge for benefits received and as an index of taxpaying ability. In the first instance it is alleged that property owners are the beneficiaries of certain basic public services such as fire and police protection and the administration of justice, and that they may be appropriately taxed to pay for a part of the cost. Secondly, property ownership is said to evidence taxpaying ability. While both concepts have some element of validity, it is obvious that property does not constitute a direct or complete measure of benefits, and it is even less reliable as a measure of ability to pay. The principal reasons for the continued use of the property tax, therefore, are practical rather than theoretical. It is a good revenue producer, receipts are relatively stable; the tax is generally acceptable to the people; and no suitable replacement has been developed on the local level.

Colorado employs the general form of property tax insofar as the application of uniform rates is concerned. The tax applies to all types of real and personal property except those exempted by constitutional provision. The excluded classes of property include the typical governmental (federal, state and local) religious, educational and charitable uses plus intangibles and tangible personal possessions and household goods of a non-income producing character. While motor vehicles are exempt from the general tax, they are subject to a comparable specific ownership tax on value. A special income surtax is also applied to the income from intangibles under the state income tax as an in lieu measure. With the exception of the personal possessions exemption (most states exempt a specified value of such goods) Colorado's exemption policy is relatively strict.

The Constitution and statutes of Colorado require assessment of property at its true and full cash value. Market value is specified as a general guide, and value or capability of use and other just methods of valuation may be considered by the assessor.

The present official basis of assessment for the major classes of property as prescribed by law and the Tax Commission are as follows:

1. Agricultural land — capitalized average net income for a ten-year period, 1933-1943, on a typical or key farm under average management;
2. Extractive land — "producing mines" which includes most metallic mineral properties with gross production in excess of $5,000 at 25 percent of gross product or if net income is greater on net income; producing oil and gas wells at 87½ percent of gross product (does not include surface improvements); and non-producing mineral lands or rights therein at a flat sum per acre;
3. Situs lands — used for buildings or other permanent improvements (other than agricultural and extractive) at 40 percent of average market value;
4. Improvements — 1941 construction costs with appropriate deductions for depreciation and other factors reducing value;
5. Personal property — livestock at specific recommended values per head which are redetermined annually; merchandise and manufactures inventories on the basis of 50 percent of average annual value; and furniture, fixtures, machinery and equipment on conversion of original cost to 1941 level of cost less depreciation, 40 percent of original cost or 80 percent of book value; and
6. Public utilities — three factors: planned account or historical cost, average market value of stocks and bonds during preceding 12 months and capitalization of net operating revenues during a five-year period are employed in arriving at a valuation and the property is assessed at 40 percent of the value allocated to Colorado.

The assessment, equalization and collection machinery in Colorado is generally comparable to that in other states. Original assessment powers are vested in the office of the county assessor, except for public utility property which is assessed by the Tax Commission. Tax collection is the responsibility of the county treasurer, and the equalization boards composed of ex officio members are typical. Finally, the Tax Commission has the usual powers to aid, supervise and equalize the assessment process on the local level.

Property taxes may be levied by the State, counties and nearly every other form of local governmental unit including nearly 200 special districts. The millage rates for state as well as local units, however, are subject to various constitutional and statutory limitations.

The total State mill levy presently amounts to 3.56 mills. Millage rates for the major local units have increased significantly in recent years. From 1953 to 1957 the average county levy rose from 8.69 to 9.72 mills; the school rate from 23.58 to 29.82 mills; and the municipal from 11.48 to 12.94 mills. The combined average mill levy for the State as a whole has also shown a marked upward trend starting in 1945. The aggregate levy, which amounted to nearly 39 mills in that year, rose to 49 mills in 1950 and to nearly 52 mills in 1957.

Receipts from the property tax naturally reflect the combined impact of rising rates and an expanding base. The total property tax revenue for all units was slightly under $42 million in 1940; it nearly doubled during the next decade ($82 million in 1950); and doubled again in the seven-year span to 1957 ($163 million).

The structure of the property tax as well as assessment practice reflect a series of inequities and unsolved problems that are critical in nature. The constitutional requirement of assess-

ment at full cash value has only been closely approached upon one occasion, and the present legal or official bases of assessment bear no reasonable relation to this standard. According to the Sales Ratio Study, the state-wide average ratio is approximately 28 perecnt, and there are extreme variations as between counties, rural and urban areas and the major classes of property. Thus, it is obvious that reasonable equalization has not been achieved.

The specific bases of assessment presently required by the statutes or Tax Commission decisions involve serious inequities as between types of property which are further accentuated by disparities in the practice of county assessors, and the 1941 costs concept applied in the assessment of certain major types of property is wholly unrealistic. As a consequence, there is no firm basis for true equalization of property tax burdens according to any reasonable measure of percent values.

Another important facet of the administrative problem is the lack of effective control over local assessment practice by the State Tax Commission. While its powers are generally adequate, they have not been exercised due to inadequate staff and other considerations. Strengthening of the Commission's efforts in this area is essential. In view of the inherent problems involved, state assessment of extractive lands also appears to be desirable.

The foregoing aspects of property tax policy and assessment practice indicate an urgent need for a general overhaul of the State's property tax system to the end of establishing consistent and realistic bases of assessing all types of property, of achieving effective and equitable assessment of all types of property, and of providing a firm foundation for continuing equalization efforts.

Finally, there are compelling reasons which appear to dictate eventual state withdrawal from the property tax field. State use might well be limited to capital construction requirements wihch are committed until 1965 in the immediate future, and as a long-range policy such needs might appropriately be met (after 1965) through a capital budget program based upon the General Fund.

Retail and General Sales Taxes (Chapter VIII). Sales taxes of the broadly-based variety are presently a major source of tax revenue in thirty-three states. The popularity of the retail or general sales tax is attributable primarily to its general productivity, its relative simplicity of administration and its flexibility in meeting growing revenue requirements. Total receipts in 1957 amounted to $3.4 billion or 33 percent of the aggregate tax revenues of the jurisdictions employing the tax. Colorado's levy accounted for only 27 percent of State tax revenue.

The principal features of the Colorado retail sales tax, adopted in 1935 as an emergency measure, have remained unchanged until the present time. However, a special services tax also enacted in 1935, which applied to virtually all types of services, was repealed in 1945, and the constitutional provision earmarking 85 percent of sales and excise revenues for welfare purposes was amended in 1956.

The base of Colorado's retail sales and use tax compares favorably with that of the other state taxes. The definition of a taxable sale or transaction is very broad and inclusive. Similarly, sales for use or consumption to other businesses are generally taxable subject to the "physical ingredient" rule and certain direct use exceptions. The commodity exemptions are those typically found in other states with the exception that liquor and tobacco are usually not exempt in other jurisdictions. In the services area Colorado only taxes three types of public utility services. While such a limited application of the tax to services is not unusual, this type of activity and personal services in particular provides the chief opportunity for enlarging the retail tax base.

In terms of a possible narrowing of the tax base the chief issue concerns the desirability of exempting food (purchased for use off the premises). Nine jurisdictions now exempt all or specified food products. The problem is clearcut; exemption of food largely relieves the regressive impact of the tax, but it also reduces revenue by 20 percent or more. The 2 percent rate of the Colorado sales and use tax represents a minimum.

Fifteen states including Colorado employ the 2 percent rate; fifteen, 3 percent; one, 2½ percent; and one, 3⅓ percent. Indiana, which has a gross income tax, imposes a tax of ⅜ of 1 percent on individual income. Eight jurisdictions which employed the sales tax on January 1, 1952 have increased their rates, usually from 2 to 3 percent.

The Colorado sales and use tax has been a highly significant source of State tax receipts. Net collections amounted to $38,947,000 in 1957, and net receipts have increased steadily each year since its adoption with one exception in 1954. While the use tax is a relatively minor factor in over-all collections, receipts have increased significantly in recent years. The ill-fated services tax was a good revenue producer, collections amounting to about 16 percent of total sales and use tax receipts during the eight-year period, 1938-1945, inclusive.

The yield of the Colorado sales tax is considerably below the average of the seven other Western States using the tax. Colorado ranked

in eighth position in terms of the percentage of total state tax receipts derived from this source; eighth in collections per capita; and seventh in the ratio of sales tax revenues to total state income payments.

While the Colorado sales tax is a major factor in state finance, the bulk of the revenue has been channeled to welfare programs. In the years preceding the 1956 constitutional amendment, which changed the original earmarking provisions, transfers to the General Fund amounted to about 8 percent of net sales and use tax collections.

Direct costs of administering the sales and use taxes have averaged well under 1½ percent during the last decade. This is close to the median position for the leading sales tax jurisdictions, but does not include the retailer's discount of 5 percent which is exceptionally liberal.

The study of sales and use tax administration reveals certain basic deficiencies in the audit program. There is no regular or comprehensive office audit of sales tax returns, and no systematic basis of selecting returns for field audit investigations. There is also a surprising paucity of information on the operation of the sales and use tax which is essential to an analysis of policy considerations as well as an evaluation of enforcement activities.

The primary objection to the retail sales tax is its allegedly unfavorable effect upon the lower income groups. Studies of the impact of the Colorado levy demonstrate conclusively that it is regressive throughout all income ranges. These effects are particularly marked for income categories of $3,000 and less. It is also clear that the exemption of food (other than restaurant meals) would largely relieve this influence as between the low and medium income classes.

The economic effects of the sales tax, as presently constituted, on business do not present serious problems. Most of the adjoining states have a 2 percent tax on retail sales and mail order competition does not appear to be a significant factor. Colorado's allowance of 5 percent of collections for compliance expense, being exceptionally liberal, probably exceeds actual expense for most firms.

The revenue potential of the sales and use taxes for future General Fund purposes appears to be substantial on the basis of existing constitutional provisions and revenue trends. Tighter enforcement would undoubtedly increase yields substantially. There are also a number of possible changes in the base and/or rates which would significantly raise the level of receipts. Introduction of a food exemption would, of course, have the opposite effect. The estimated impact of these changes in terms of the 1957 tax base are as follows:

Change	Estimated yield (1957 base)	Estimated decrease
Food exemption:		
All food		$10,428,000
Food consumed off premises		8,408,000
Removal of exemption:		
Motor fuel	$3,315,000	
Liquor	1,723,000	
Cigarettes	1,200,000	
Total	6,238,000	
Inclusion of:		
Amusements	1,384,000	
Personal service enterprises	1,252,000	
Lodging: hotels, motels and camps	1,094,000	
Automobile and other repairs	995,000	
Rate increases:		
½ of 1 percent	10,429,000 (sales and use)	
1 percent	21,293,000 (sales and use)	
Reduction of vendor's discount to 2 percent	1,300,000	

Alcoholic Beverage Taxes (Chapter IX). A special excise tax is levied on the consumption of alcoholic beverages by the Federal government, all 48 states and the District of Columbia. Public revenues in the form of excise taxes, license fees, import duties, and profits from state operated stores exceeded $4 billion in 1956.

In the same year, receipts from the liquor tax in Colorado amounted to $4,354,000, or 3 percent of total tax revenues. In accordance with the Old Age Pension Amendment, 85 percent of revenues collected from the liquor tax after administrative expenses, are earmarked for the Old Age Pension Fund.

On a per capita basis, 1956 revenues amounted to $2.70, which is somewhat below the average per capita rate for the 29 license states of $3.60. (The remaining 19 states are either "dry" or have a monopoly over some phase of the marketing of alcoholic beverages. These states should therefore not be compared with Colorado or other license states.)

The Colorado tax rate of $1.59 per gallon on spirits is nearly identical to the 29-license state average of $1.59 per gallon. The Colorado rates on wine and beer, however, do not compare as favorably with the median rates for the 29 license states. Colorado's rate on beer of $.03 per gallon is less than half the median rate of $.065 per gallon for the 29 license states. If the Colorado rate were increased to $.06 per gallon, additional revenue of approximately $625,000 annually could be obtained. The median rate for light wine (less than 14 percent alcohol) is $.20 per gallon, while Colorado levies a rate of only $.12 per gallon. Were Colorado to increase the light wine rate to $.20 per gallon, additional revenue of approximately $25,000 annually could be obtained. Colorado's rate of $.24 per gallon on fortified wine (over 14 percent alcohol) is also below the 29-state median of $.30 per gallon. An increase of $.06 in the fortified wine rate would effect additional revenue of approximately $55,000 annually.

In addition to collecting revenues from special excise taxes on alcoholic beverages, significant revenues are usually obtained by the common practice of including alcoholic beverages in the state sales tax base. Of the 20 license states which employ a sales tax, only 4, Colorado in-

cluded, exempt alcoholic beverages from the base. Although somewhat difficult to estimate, Colorado could obtain approximately $1.7 million annually by extending the sales tax base to include alcoholic beverages.

The sale of liquor licenses in Colorado also provides a source of revenue, although annual collections approximate the costs of the Liquor License Division. For example, collections in 1957 were $219,000 while costs, incurred in both licensing and tax enforcement, were $202,000. In addition to the revenues from these licenses, municipalities and counties collect revenue from the sale of state licenses to liquor retailers. Although significant costs are incurred by localities due to the sale of alcoholic beverages, 85 percent of the revenues they collect from the sale of state licenses (averaging about $550,000 annually) accrues directly to the Old Age Pension Fund.

While Colorado has adopted the licensing method of liquor control, an alternative technique, which has been adopted in 17 other states, is for the state to engage directly in part or all of the merchandising of alcoholic beverages. Considering the revenue potential and the more effective control possible in a monopoly system, further study of this alternative would undoubtedly be of value.

Highway User Taxes (Chapter X). Highway user taxes are presently a major element in the tax systems of the great majority of states. They produced over $4 billion in 1957 or 29 percent of total state tax revenues. In general, the fuels tax outproduces the registration tax and related charges by a 2 to 1 margin, but the relative importance of each tax varies widely from one state to another. Nebraska obtains the maximum share from the fuels tax or nearly 41 percent of total tax revenues and New York the minimum or somewhat over 9 percent. Colorado was slightly above the national average of 19 percent. The percentage significance of the registration tax ranged from 2 percent in Alabama to over 22 percent in New Jersey, and Colorado was slightly below the average of 9.4 percent.

The general concept that those who benefit directly from the use of highway facilities should bear the principal responsibility for their cost is simple and logical. It also appears to be equitable and desirable. However, there are significant theoretical as well as practical problems involved in its application. Broadly speaking, the basic questions to be resolved are: (1) is the special user tax approach actually justified in principle; (2) as non-users also derive general benefits from highway facilities what proportion of the total costs should be borne by the users; and (3) how should the costs assigned to the user group be apportioned among the various classes of users?

The proper allocation of highway and street costs assigned to motor vehicle owners among the various types of vehicles is a crucial and certainly the most troublesome problem in this field of taxation. Cost factors are commonly classified as the readiness to serve element which is a function of the number of vehicles; relative use as reflected in miles traveled; and relative damage which is attributable to vehicle weight and its distribution.

In actual practice the registration tax is well adapted to the allocation of readiness to serve costs, and the fuels tax provides a rough but acceptable measure of use. However, no wholly satisfactory basis of measuring and assigning costs attributable to weight and weight distribution has been developed.

Colorado's motor fuels tax applies to all types of fuel used in motor vehicles on the highways of the State. The uniform tax and fuel consumed constitutes a rough measure of actual use, and involves a bias against the heavier vehicle as well as a discrimination in favor of diesel and other special fuels. Typical exemptions of non-highway and governmental uses of fuel as well as a 2 percent allowance for distributor and dealer losses and costs are permitted. The current trend to limit or deny non-highway use exemptions (14 states) is not reflected in Colorado practice which follows the traditional special benefit principle. Regular fuel brought into the State for use, storage or consumption and not otherwise taxed in Colorado is subject to a use tax.

The present uniform rate of 6 cents in Colorado represents an approximate average of state rates as of January, 1958. Net fuels tax receipts have manifested a remarkable growth from approximately $8,000,000 in 1940 to over $32,000,000 in 1957. With the exception of the World War II period, collections have averaged from 22 to 25 percent of total state tax receipts since 1940. Refunds currently reduce gross tax collections by about 11 percent, and other direct exemptions, exclusions and allowances by an additional 10 to 12 percent. Costs of administering the fuel tax in Colorado are relatively low, 0.77 percent in 1957.

The Motor Fuels Tax Section of the Department of Revenue is responsible for administration of the fuels tax with minor assistance from the general field of service of the Department. Legal provisions relating to the filing of returns and reports and the enforcement of tax liability are generally adequate. A comprehensive office audit procedure covering all returns, but emphasizing the regular fuel returns is employed. The check in the case of special fuel returns and tax payments by interstate carriers is generally superficial. Only 59 field audits were conducted in 1957, and there is no regular field inspection service on refunds.

Several questions merit attention in the case of the fuels tax. They include the tax free status of certain uses and users of fuel, the equity of the uniform rates on all types of fuel and the

economic impact of the fuels taxes on the incomes of individual or non-business users. Increasing federal encroachment upon the fuels tax base is also a highly significant problem. There is no theoretical justification for taxing non-highway uses of fuel, although exemption is costing the State over 14 percent of gross collections or about $5,000,000 per year. The fuels tax undoubtedly has a regressive effect upon the incomes of private non-business users, and for the typical $5,000 a year income family the total (federal and state tax) burden equals or exceeds that of the State retail sales tax. Increasing federal encroachment upon the fuels tax base is wholly illogical in terms of facts of federal-state fiscal relationships and should be vigorously resisted.

The principal fiscal purposes of the registration tax are to compensate for readiness-to-serve costs and in some degree at least the differential costs attributable to weight and weight distribution. It is also used singly or in combination with special commercial carrier taxes to impose an additional burden upon this class of users.

The specific bases for registering motor vehicles vary widely as to type of vehicle and often vehicle use and user categories. Colorado licenses private passenger cars on the basis of shipping or empty weight. This is the most popular approach considering the practice of other states, although the flat fee is also widely employed. Empty weight is also employed by Colorado in registering property-carrying vehicles, and the truck or truck-tractor is registered separately from the trailer or semi-tailer. Gross weight (vehicle and load) is preferred by the majority of states, and is a much more realistic measure of costs. Gross weight per axle is a desirable modification of this base. The ton-mile tax overcomes this deficiency for the inter-city commercial vehicles. Colorado registers buses on seating capacity only in contrast to the more popular and logical bases of net weight and seating capacity on gross weight.

Registration tax rate schedules are commonly very complex, and Colorado's provisions are no exception. The customary graduation according to weight or seating capacity is employed, but the number of steps is limited. Farm trucks and combinations are favored over other private and intra-city vehicles. However, the rates for carriers subject to the ton- and passenger-mile taxes are nominal in relation to all other major classes.

Receipts from the Colorado registration tax, operator's licenses and other special charges have increased steadily since 1941. Total collections in 1957 amounted to nearly $7,000,000 or slightly under 5 percent of total state tax receipts. Rising revenues are attributable primarily to the increased number of vehicles rather than higher rates.

Administration of the registration tax is "farmed-out" to the counties and appears to be generally satisfactory. Costs of collection average around 6 percent of the receipts.

Various types of special or additional taxes on certain types of commercial carriers are now imposed in 29 states including Colorado. These levies commonly apply as in Colorado to common and contract carriers operating on an inter-city or interstate basis, though there are many variations.

Several different bases are used including: gross weight in 8 states; gross receipts, also in 8 states, mileage in 7 states; ton- and/or passenger-mile in 3; and a flat fee of $10 or more in 3 jurisdictions. As might be anticipated, there is little uniformity in rates. However, graduation in relation to weight is typical for the gross weight and mileage taxes, and is, of course, "built in" in the case of the ton-mile levies. Specific rate comparisons, in the case of both the registration and carrier taxes, are not too significant in view of differences in the tax base and the relationship between the two types of taxes.

The ton- and passenger-mile taxes in Colorado are administered by the Ton-Mile Section of the State Department of Revenue with assistance from the State's port-of-entry stations and the Highway Patrol. A comprehensive system of checking tax liability by the office staff has been developed, but there are certain gaps in the available data, and field audits, which are the responsibility of the general investigation service of the Department, are sporadic and limited in number.

Receipts from the ton- and passenger-mile tax increased steadily from 1941 to 1954, amounting to $2,900,000 in the latter year. Since 1954 they have more than doubled following the passage of the revised law, and totaled approximately $6,300,000 in 1957 or over 4 percent of state tax revenues.

The total user tax and fee burdens of the 819,143 vehicles registered in Colorado in calendar 1956 amounted to approximately $45,632,000. Private passenger cars accounted for the bulk of total payments or 63 percent; the 157,286 single unit trucks (all major uses)—19.3 percent; the 6,763 combinations—16.2 percent; and 1,803 buses—1.5 percent. For hire inter-city carriers of persons and property were responsible for 21.8 percent of total payments as compared to 78.2 percent for the private and intra-city vehicles.

Costs per mile for the various classes of vehicle exhibit a broad range of variation from 3/10¢ to 5.2¢. For hire combinations were subject to the maximum of 5.2¢ per mile. Gas-propelled vehicles generally paid more than the diesel-powered units. For hire buses ranked second in terms of costs per mile with a low of 1.8¢ for diesel and a high of 3.2¢ for other special fuel users. The for-hire single unit trucks were third, and showed a broad cost spread of from 1.2¢ to 2.6¢ per mile. As a general rule, the costs

of for hire vehicles increase progressively in the larger, heavier vehicle categories. Not for hire combinations are next in line, costs per mile ranging from 9/10¢ to 2¢. Not for hire, gas-powered buses occupy an intermediate cost position averaging 1.6¢ per mile; and the "practical minimum" of 6/10¢ per mile applied to private passenger cars.

In the case of single unit trucks, costs in Colorado, with certain minor exceptions, are well below the average in the Western States. The differential is marked for virtually all types of use, but is most extreme in the case of not for hire and most categories of farm trucks. For the 3-axle not for hire vehicles Colorado's costs actually decline in relation to weight and range from ¼ to ½ of the average.

For the for hire combinations, both gas and diesel, costs in Colorado are generally below average for the tractor semi-trailer units with three or four axles. The favorable differential is greater for the diesel than for the gas-powered units. Colorado's costs are average or above in the instance of for hire five-axle tractor semi-trailer units, and are above average in most categories for the truck full trailer and tractor semi- and full-trailer units. Costs in Colorado exhibit a significant progression in relation to weight for all the for hire combinations.

In the case of not for hire combinations, Colorado's costs are substantially below the average, and the costs for gas-propelled units are virtually constant in relation to weight. Meaningful interstate comparisons cannot be made in the instance of farm combinations, but Colorado's costs are very low for most weight categories.

Colorado costs per mile for the for hire gas-propelled buses are generally below average, while those for diesel powered buses are usually above the average. The data in Colorado and most of the other states are spotty, and consequently the bases of comparison are limited.

Costs for private automobiles in Colorado are exactly equal to the Western State average of 6/10¢ per mile. Of the 7 states for which such data were available 3 have the same or average cost, 1 is higher and 2 are lower.

While the analysis of user tax burdens does not provide all of the answers to the burden problem, several broad conclusions are inescapable. First, it is apparent that Colorado's charges on the for hire carrier group are heavy but not excessive in relation to the average for the other Western States considered. Generally speaking, Colorado's costs per mile vary from about 25 percent below to 25 percent above the average. Second, it is equally clear that user taxes in Colorado are abnormally low in the case of not for hire and farm vehicles; Colorado's costs per mile are as low as 21 percent of the average, and the disparity is greatest for the heavier types of vehicle.

The revenue potential of the existing user tax system is excellent in terms of the inevitable increase in motor vehicle traffic both private and commercial. Certain changes in the structure of the existing system would also increase receipts significantly. For example, a doubling of the registration taxes on not for hire and farm vehicles would produce in excess of $1,600,000 (1956 base), and a change to a gross weight basis of licensing would result in an equivalent or greater increase. A 2¢ per gallon increase in the tax on special fuels would increase receipts by more than $500,000. If the general tax rate were raised to 7¢ (1957 base) some $5,400,000 in additional revenue would be realized. Elimination of the non-highway use exemption should increase yields by approximately 14 percent. Finally, intensified enforcement efforts in certain areas would produce minor but significant gains.

Insurance Tax (Chapter XI). Insurance companies operating in Colorado, unless expressly exempted, are subject to a 2 percent tax on premiums paid on business written in the State. With the exception of the general property tax no other state or local tax can be imposed upon this type of business enterprise. In 1957 receipts from the insurance tax amounted to $3.9 million or 2.65 percent of total tax revenues of the State. As general revenue, however, they accounted for slightly over 7 percent of the total receipts of the General Fund.

Although a 2 percent rate is the one most commonly used by the states—and all states have a special tax on insurance companies—relative burdens are difficult to measure because of varying rate schedules and exemptions. It would appear, however, that the Colorado tax law imposes a somewhat lighter burden than the average for the eleven Western States. Thus, Colorado's rate of 2 percent is equal to that of two states, New Mexico and Nevada, but below that of five other states, Idaho, Wyoming, California, Montana and Utah. Colorado is distinctive in that it exempts from the tax all companies with 50 percent of their assets invested in Colorado. In practice all domestic companies avail themselves of this exemption.

Colorado's relatively low tax rate and favorable exemption policy is reflected in per capita insurance tax collections which in 1956 amounted to $2.13 — a figure below both the Western State average of $2.58 and the national average of $2.41.

Changes in the Colorado law designed to produce more revenue could be directed to either the reduction of exemptions or the increase of rates or both. Thus, it is estimated that on the basis of 1957 premium income the elimination of the exemption of companies which have at least one-half of their assets invested in Colorado would increase tax receipts in the amount of $306,000. However, this amount would be reduced to an estimated total of $46,000 if the tax were exclusive of renewal premiums.

An increase of rates would be more productive, however, although the fact has to be borne in mind that the laws of 29 states, including 6 in the West, have a retaliatory feature. If, however, Colorado's tax rate of 2 percent were increased to 2.25 percent (and limited to foreign company business), which is the rate used in Utah, an estimated added yield of $534,000 would be realized. Similarly at 2.50 percent, which is the rate used in Wyoming, revenue would be increased by $1,068,000 and by $2,136,000 if, as in Idaho, the rate were increased to 3 percent.

Personal Income Taxation (Chapter XII). The paramount significance of personal income taxation on the state level is that it alone in our battery of taxes is capable of providing a substantial element of progressivity to a combined state-local tax structure which otherwise is steeply regressive. The adoption of personal income taxation for Colorado was strongly advocated by organized farm, labor and public education groups for a quarter of a century before it was finally enacted in 1937. Since then, the total number of individuals filing Colorado personal income tax returns have increased tenfold. Either as taxpayers or dependents of taxpayers, 81 percent of the State's total population in 1957 can be traced directly to the more than one-half million 1957 resident tax returns filed in 1958. Non-resident returns filed in the same year numbered slightly more than one percent of the total. Dollarwise, personal income tax receipts rose from less than $1.8 million in 1939 (the first full year of the tax) to $21.8 million in 1957, a twelve-fold increase. Notwithstanding its broad extension during the past two decades, personal income taxation in Colorado produced less than one-sixth of the State's tax revenues in 1957, while general sales, excises and highway user taxes alone accounted for more than two-thirds of the total.

Interstate Comparisons. Twenty-nine states and the District of Columbia levied personal income taxes in 1957. Only three Western States—Nevada, Washington, and Wyoming—do not impose a personal income tax. Interstate comparisons are summarized below with regard to the personal income tax base, rates, liability and collections. Some of the more important provisions are the following:

(1) *Split-income*—Colorado and 20 other income tax states do not permit the splitting of income for tax purposes by married taxpayers.

(2) *Capital gains*—In addition to Colorado, only eight states exclude 50 percent of "long-term" capital gains, defined as realized earnings on assets held at least six months. The majority of income tax states do not distingiush capital gains from other types of taxable income.

(3) *Federal income tax deductibility*—In addition to Colorado, 15 personal income tax states permit full deductibility of federal income taxes. However, only Colorado and three other states which permit a standard deduction of 10 percent of adjusted gross income, or $1,000, whichever is lesser, also allow the federal income tax as an additional deduction against taxable income.

(4) *Medical expense deductions* — About one-third of the states, including Colorado, allow medical expenses to the extent they exceed five percent of adjusted gross income. The remainder generally either allow the full expense or an amount in excess of a fixed dollar figure, or percent of adjusted gross income.

(5) *Personal exemptions* — Only five states follow the federal code of allowing a standard $600 exemption per individual. Colorado's $750 exemption is unique and considerably below the average of the other states.

(6) *Tax rate structures*—No two states have identical tax rate structures. The most common minimum rate is one percent, but it is applied to varying amounts of taxable income. There is even less uniformity with regard to maximum rates—they range from a low of 3.75 percent to a high of 11 percent. Colorado's 10 percent maximum rate, applied to taxable incomes above $11,000, is the second highest among all states, and for taxpayers subject to the two percent additional surtax on income derived from intangibles, the combined normal and surtax rate may actually work out to be the highest rate in the nation.

The 1957 personal income tax liability for a married couple with two dependent children was computed on a comparable basis at eight different levels of adjusted net income for each of the 29 income tax states and the District of Columbia. The results of this comparative analysis are summarized below:

Adjusted net income level	Dollar amount of tax liability			Computed Colorado tax:	
	Colorado	National average	Highest state	Rank from top state	Percent of nat'l average
$ 3,000	$ 0	$ 3.91	$ 20.00	—	——
5,000	14.62	36.36	100.00	23	40.2
8,000	56.27	119.46	295.00	23	47.1
10,000	98.72	191.24	445.00	24	51.6
15,000	278.80	402.29	820.00	22	69.3
25,000	818.72	864.52	1,748.90	14	94.7
50,000	1,871.36	1,938.64	4,232.40	17	96.5
100,000	3,313.98	3,891.00	9,179.40	18	85.2

On the basis of the computed tax burdens, a married taxpayer with two dependent children would incur in Colorado an income tax liability which was less than the national average at all levels of income. The tax bill of Colorado taxpayers with adjusted net incomes of $10,000 or less works out to be smaller than that of similar taxpayers in three-fourths of all the other incomes tax states, and 95 percent of Colorado's income taxpayers are to be found in these medium and lower income categories.

Interstate comparisons of the relative importance of personal income tax collections for

fiscal year 1957 show that on a per capita basis the Colorado collection of $14.24 was almost 15 percent below the national average; that as a percent of total tax collections they represented less than 16 percent of the total, a ratio which was one-fourth below the national average; and as a percentage of income they amounted to less than 7/10 of one percent of the total personal income received and worked out to be approximately one-fifth below the national average.

Erosion of the Income Tax Base. The major portion of the personal income received by Colorado residents in 1957 was never subjected to state income tax since it never found its way into the tax base. Colorado personal income, as reported by the U. S. Department of Commerce, amounted to $3.3 billion; but net taxable income for normal tax reported on the 1957 returns amounted to only $.8 billion, or less than 24 percent of the total income received. This gap of more than $2.5 billion between the actual flow of income and that subjected to State taxation can be attributed to: (1) Statutory exclusions and conceptual differences amounted to about $459 million, or 14 percent of personal income received. (2) The underreporting of income was estimated to be $500 million, or approximately 15 percent of the total income flow. This can be partly explained by the fact that returns were not legally required from an undisclosed number of individuals with incomes below $750 per annum. The remainder represents a leakage due to deliberate tax evasion and/or oversight on the part of taxpayers. (3) The nontaxable returns, plus the itemized expense, optional standard, and federal tax deductions claimed on the taxable returns represented another 26 percent of the personal income received in Colorado in 1957. The most important single deduction reported on all returns was the federal income tax expense. It was taken by 70 percent of the taxpayers and amounted to $285 million, or practically one-half of all the deductions claimed. The least important itemized deduction was represented by allowable medical expenses which were claimed by only 12 percent of the taxpayers and amounted to less than $20 million, or approximately three percent of the total deductions. (4) The largest single factor responsible for the shrinkage of the tax base was the personal exemption provision which in 1957 amounted to $725 million, or 22 percent of the income flow.

In addition to the above, the Colorado code permits a special $600 exemption against surtaxable income which effectively eliminated the payment of the two percent surtax for three out of every four taxpayers who derived income from legally taxable interest and dividends. On the basis of the survey data, more than 100,000 of Colorado's half million taxpayers reported *gross surtaxable income,* which totaled $128 million. However, after surtax exemptions, only 27,000, or less than five percent of the returns showed *net surtaxable income* which totaled $80 million, or 10 percent of the $800 million of net income subject to normal tax.

Thus, at the end of the income circuit, the net individual income tax base for Colorado in 1957 was $880 million, or slightly more than one-third of the adjusted gross income reported on all tax returns. Viewed in terms of erosion, only one-fourth of the total income received by Colorado residents in 1957 found its way into the State's individual income tax base.

Who Pays the Tax? On the basis of the detailed 1957 survey data, a distribution was obtained of the $18.3 million of combined normal and surtax liability, classified by the taxpayers' source of income, geographic location, size of income, and dollar amount of tax liability.

(1) *Source of income*—The most important industrial sources of Colorado adjusted gross income and personal income tax revenues were wholesale and retail trade, government (federal, state and local), personal and business services, and manufacturing. These four categories alone accounted for approximately 65 percent of the total number of taxpayers and adjusted gross income, and almost 55 percent of the total income tax liability. In contrast, only 7 percent of the taxpayers indicated that agriculture was a primary source of income and their reported adjusted gross income and tax liability amounted to less than 5 and 4 percent, respectively. Similarly, mining represented approximately 4 percent of the total returns, income and tax liability.

(2) *Geographic location*—As a group, the eight counties with the largest populations—Denver, El Paso, Pueblo, Jefferson, Arapahoe, Weld, Adams, and Boulder—accounted for approximately 80 percent of the total dollar amounts of adjusted gross income and tax liability. In contrast, taxpayers in the remaining fifty-five counties reported only 22 percent of the income and paid less than 18 percent of the total tax. The high degree of urban concentration of income and tax is further indicated by the fact that the four counties comprising the Greater Denver Metropolitan Area represented more than one-half of the tax returns and approximately three-fifths of the total adjusted gross income and tax liability. Denver alone—with a population actually less than that of the fifty-five nonurbanized counties combined—accounted for 36 percent of the taxpayers, 40 percent of the total income, and 47 percent of the total income tax liability for 1957. Finally, nonresident taxpayers accounted for only one percent of the taxpayers, income, and tax reported

on the 1957 tax returns. In brief, the personal income tax in Colorado works out to be essentially an urban tax due to the marked concentration of income, wealth and economic activity in the geographic band of metropolitan counties situated along the east-central slope of the State.

(3) *Size of income*—The overwhelming majority of taxpayers account for a relatively small part of the total income tax burden, while a minority of taxpayers account for the lion's share. This situation primarily reflects the existent inequality and concentration of income before tax, the extensive erosion of the tax base, and the low marginal rates for the lowest taxable income brackets. Individuals with incomes of less than $5,000, representing more than 68 percent of all taxpayers, had 41 percent of the adjusted gross income but were liable for only 16 percent of the total personal income tax. Taxpayers in the middle income categories, with adjusted gross incomes ranging from $5,000 to $10,000, accounted for 40 percent of the income and 27 percent of the returns and tax. In contrast, taxpayers with reported incomes of $10,000 or more represented less than 5 percent of all taxpayers and 18 percent of the adjusted gross income, but as a group were liable for 57 percent of the total amount of combined normal and surtax reported on the 1957 tax returns. This distribution was relatively more progressive than that obtained under the federal personal income tax.

(4) *Amount of tax*—The normal tax liability amounted to $16.7 million and the surtax to $1.6 million. The total tax of $18.3 million worked out to be a burden of 2.1 percent on the total income tax base reported by approximately 525,000 Colorado taxpayers in 1957.

Less than 5 percent of all returns showed a combined normal and surtax in excess of $100 a year, and less than 1 percent reported state income taxes in excess of $500. On the other hand, approximately 134,000, or over 25 percent of all individuals filing returns, paid no tax on their 1957 returns. Another 78,000 incurred a total income tax liability which ranged from $1 to $5. Thus, for some 200,000 taxpayers, representing 40 percent of all individual returns, the personal income tax was less than $5 for the year of 1957. Since it cost the State on the average more than $2 to process a single income tax return, it would appear that a large part of the Department of Revenue's personal income tax collection and administration activity takes on the character of "pouring water in a bushel basket."

Estimates of Effects of Selected Income Tax Revisions. The estimated effects on state revenues of six possible revisions in the present Colorado personal income tax are shown in the following tabulation:

	Amount of change in State revenue (thousands)
1. Federal income tax deductibility:	
A. Permit deduction up to $300 of federal tax	$ 8,341
B. Permit deduction of 10 percent of federal tax	8,973
C. Permit no deduction of federal income tax	10,069
2. Include net capital gains at 100 percent	1,401
3. Eliminate 2 percent surtax	—1,599
4. Eliminate $75 minimum travel allowance	281
5. Increase medical expense allowance:	
A. Allow expense in excess of 3 percent of adjusted gross income	—108
B. Allow full medical expense	—265
6. Increase normal tax rate structure:	
A. From 2 to 10 percent	6,173
B. From 3 to 10 percent	10,968
C. From 3 to 8 percent	11,638

1. *Federal income tax deductibility*—It is estimated that alternative "A" would affect approximately one-half of all taxpayers, but only one-third of those with incomes of less than $5,000. The distribution of the effective tax burden would be less progressive if a fixed percentage of the federal tax were used rather than a lump sum for the deductibility limit. Under alternative "B" more than three-fifths of the total number of taxpayers would be affected, and almost one-half of the taxpayers in the lowest income category. If Colorado were to adopt alternative "C," the number of taxpayers affected and the relative distribution of this tax burden by income categories would be similar to that of alternative "B."

2. *Special treatment of capital gains income*—At present more than one-half of all the income tax states do not make any distinction between the taxation of long-term capital gains and other forms of taxable income.

The survey data show that less than 10 percent of the Colorado taxpayers reported long-term capital gains on their 1957 returns. Among these that did, the 2 percent with incomes of $10,000 or more accounted for approximately 50 percent of the total net long-term capital gains reported on all returns. Moreover, the very small minority of taxpayers reporting capital gains who had incomes in excess of $50,000 actually represented less than 1/10 of 1 percent of all taxpayers, but as a group they accounted for over 20 percent of the total amount of capital gains. The average long-term capital gain in this category was slightly more than $34,000 per taxpayer, of which only 50 percent was subject to state tax.

3. *Surtax on income from intangible assets*—The $600 exemption is estimated to have effectively excluded from surtax 75 percent of all taxpayers who reported income from interest and dividends on their 1957 returns. Changes in the tax structure during the past two decades have weakened the rationale for the continuance of the surtax. As in the case of the special treatment of long-term capital gains, designating a particular source of income for either lighter or heavier taxation under the personal income tax inevitably results in "horizontal" inequities between taxpayers who in other respects are in

similar economic circumstances. On the basis of the survey data almost two-thirds of the 27,000 taxpayers who would benefit by the removal of the surtax provision had incomes of less than $8,000 in 1957.

4. *Special $75 minimum travel allowance*—On the basis of the survey data almost 300,000 taxpayers claimed a travel expense deduction which averaged $150 per return. If the provision were revised to allow only itemized travel expenses in excess of $75, it is estimated the State would obtain less than $300,000 of additional revenue, with the major cost borne by taxpayers with incomes of less than $5,000. However, even for these taxpayers the increased cost would be minimal, about 30¢ per taxpayer per year.

5. *Medical expense allowance*—The Colorado code is less generous than the federal government in that it permits the deduction of only those expenses in excess of 5 percent of adjusted gross income. On the basis of the survey data the medical expense allowance reported on all 1957 tax returns was dollarwise the least important of the itemized deductions, and it was claimed by less than one-eighth of the taxpayers, mainly concentrated in the lowest income category.

6. *Statutory bracket rates*—Consideration should be given to raising the relatively low statutory rates for the bottom tax brackets if the Colorado income tax is to be expanded to the point where it actually serves as the major fiscal instrument for meeting the State's continuing need for increased General Fund revenues. The table below shows the three hypothetical rate schedules which were used as the basis for estimating the state revenue and taxpayer costs shown as possible alternatives for revision of the Colorado personal income tax structure.

Net taxable income brackets	1958 marginal rates	Alternative hypothetical rate structures "A"	"B"	"C"
$ 0—$ 1,000	1.0	2.0	3.0	3.0
1,001— 2,000	1.5	2.5	3.25	3.5
2,001— 3,000	2.0	3.0	3.5	4.0
3,001— 4,000	2.5	3.5	3.75	4.5
4,001— 5,000	3.0	4.0	4.0	5.0
5,001— 6,000	4.0	4.5	4.5	5.5
6,001— 7,000	5.0	5.0	5.0	6.0
7,001— 8,000	6.0	6.0	6.0	6.5
8,001— 9,000	7.0	7.0	7.0	7.0
9,001— 10,000	8.0	8.0	8.0	7.5
10,001— 11,000	9.0	9.0	9.0	8.0
11,001 and over	10.0	10.0	10.0	8.0

Administration. It is estimated that the office and field auditing staffs could be increased and that such action would result in a substantial increase in state revenues above the salary costs incurred. In addition, consideration should be given to expansion of the federal exchange program since it presently results in about half of the total dollar amount of deficiencies assessed by the office auditing staff.

In the past five years, administrative costs have averaged slightly over 3 percent of total income taxes collected and in fiscal 1957 amounted to less than $1 million. The average cost per return in 1957 was $2.17, representing an increase of 54 percent since 1950.

While a federal tie-in offers possible simplification of return preparation, it is subject to numerous and significant criticisms. Moreover, a certain amount of simplification is possible within the present system, without delegating state responsibility to Congress and federal tax administrators.

The withholding technique, as presently constituted, results in a particularly large number of refunds to taxpayers with incomes of less than $5,000 annually. While employer use of withholding tables prepared by the state would diminish this problem to some degree, it could also be reduced by simply using two "flat-percentage" withholding rates in place of the present "one-rate" system.

Consideration also should be given to expanding the computational tax table to include individuals with adjusted gross incomes between $5,000 and $10,000. Such action would simplify the preparation of returns for a large number of taxpayers, and at the same time would reduce auditing and other administrative costs without materially affecting state revenues.

Corporation Income Taxation (Chapter XIII). The corporation income tax, originally utilized as an emergency source of revenue, has come to be widely accepted as an indispensable component of the modern American tax system. On both federal and state government levels it has been proven to be not only a highly productive source of revenue, but an essential instrument of fiscal policy as well. It serves as a necessary supplement to the personal income tax, a role especially significant at the state level. State government revenues from the corporate income tax have grown more rapidly over the past two decades than any other source of state revenue.

The fundamental justification of the corporate income tax is the special benefit or privilege theory of the corporation. The United States Supreme Court as early as 1911 upheld the tax as "an excise upon the particular privilege of doing business in the corporate capacity." The development of the modern American business system has given substance to the special privilege theory.

The corporate income tax has also been justified on the government "partnership in enterprise" principle. An important part of the responsibility of both state and federal government is to help maintain the kind of conditions under which free enterprise can flourish; the concommitant obligation of successful corporate enterprises, as of all business organizations and individuals, is to bear a share of the costs of government. Corporations are taxed separately from their individual legal owners because they are established and function as separate and independent entities.

Additional considerations for levying the corporate income tax are: (1) due to the limited taxing jurisdiction of state governments, the personal income tax cannot reach the entire income produced within the state and corporate profits channeled to out-of-state stockholders will escape a state's taxable income base entirely unless a corporate income tax is also levied; (2) the corporate income tax can provide an important source of revenue without adding to the regressivity of the over-all structure of state and local taxes; and (3) the revenue growth potential of the corporate income tax in an expanding economy, when geared effectively to the corporate income base, makes it an ideal tax for the long-run growth requirements of state finance.

Thirty-four states and the District of Columbia levy corporate income taxes. In 1958, all states which had an individual income tax also levied a corporation income tax. Four states taxed corporate income only, and several states levied additional corporate privilege or excise taxes based in part on net income.

In Colorado, taxable returns filed under the corporation income tax have grown from less than 2,000 in 1939 to almost 8,000 in 1958. By 1944, taxable returns accounted for approximately two-thirds of all returns filed, and have maintained that ratio since. Net collections under the tax grew from $1.2 million in 1942 to $6.5 million in 1951. From 1951 to 1957, however, a serious contraction occurred in the Colorado corporate income tax base due largely to the effects of the American Can case which diminished legally taxable income of foreign interstate firms operating in Colorado. During this six-year period, the corporate taxable income base declined by 14 percent, while Colorado personal income increased by 73 percent, taxable retails sales of foreign corporations by 94 percent, and federal corporate taxable income reported in Colorado by an estimated 69 percent.

The corporate income tax has been utilized much less fully in Colorado than in the majority of income tax states. Among 27 states reporting corporate income tax collections in fiscal 1957, Colorado's collections from the tax ranked:

(a) Twenty-fifth from the top as a percent of total tax collections;
(b) Twenty-sixth from the top as a percent of the total state income tax collections;
(c) Twenty-seventh from the top as a percent of federal corporate income taxes collected in the state; and
(d) Twenty-fourth from the top as a percent of personal income received.

The definition of taxable corporate net income under the Colorado law follows generally that of most other states and the federal code. With respect, however, to the exclusion from gross corporate income of dividend receipts and the deductibility of federal income tax, Colorado is in a distinct minority in permitting more generous treatment than do most income tax states. Only 6 other states allow an equal or greater exclusion of dividends than the 85 percent permitted by Colorado. Nineteen states permit no deduction of federal income taxes, and Wisconsin permits only limited federal tax deductibility. Moreover, the fourteen states that allow federal tax deductibility are relatively non-industrialized and they place little reliance on the corporate income tax as a source of state revenue. Corporate tax collections in 1958 for these states averaged only 5 percent of their total tax revenue; whereas, they averaged over 10 percent for the twenty states not permitting full federal tax deductibility.

The deductibility of the federal income tax quantitatively is the most significant single "erosion factor" responsible for the shrinkage of Colorado *taxable* corporate income tax base. The reciprocal deductibility of the Colorado tax from federal taxable income and the federal tax from Colorado taxable income reduces the tax liability of many firms by as much as one-half, giving rise to the well-known "50-cent dollar" with which these corporations pay their Colorado income tax.

For example, in 1957, the net cost of each State tax dollar was 54 cents for Colorado firms, i.e., those with intrastate operations only, exactly 50 cents for interstate firms operating in Colorado, and 52 cents for the two groups combined.

Another factor causing reduction of the corporate income tax base in recent years has been the deductibility of the oil and gas gross income tax. As originally enacted, the tax was not an allowable deduction under the regular income tax. During the 1953 general revision of statutes, however, a substantive alteration in the Income Tax Act was made by the revision committee. The position in the statute of the oil and gas tax subsection was shifted in such a manner that the tax was no longer non-deductible under the regular income tax.

The 1958 nominal or statutory 5 percent rate of the Colorado corporate income tax (except for banks) was equal to the median for the thirty-four income tax states. However, Colorado's *effective* tax rates, i.e., the real net cost of the tax as a percent of total net income, was regressive, as shown by the following tabulation computed with and without federal tax deductibility:

Corporate net income before any income taxes	Colorado effective rate: With Federal deductibility	Without Federal deductibility
$ 25,000	2.49	3.50
50,000	1.78	2.95
100,000	1.46	2.68
500,000	1.24	2.46
1,000,000	1.21	2.43

It is evident that reciprocal tax deductibility has converted Colorado's proportional corporate income tax into a highly regressive tax, so that those with the lowest net incomes pay the highest relative rates. Moreover, interstate rate comparisons are meaningful and valid only in terms

of effective rates, since all states do not permit federal tax deductibility.

Who Pays the Corporate Income Tax? A part of the corporate tax burden is shifted to customers and/or factor sources through the pricing and investment decisions made by corporations. The burden does not rest entirely on corporate stockholders or undistributed profits, but is diffused broadly throughout the economy. Thus, the impact of the tax upon corporations, or the immediate net cost of the tax, does not represent the true burden of the tax upon corporate stockholders and retained earnings. Nevertheless, it is meaningful to measure the distribution and net cost of the tax to corporations, its relationship to other items of corporate expense, and its distribution among firms.

For the year 1957 the total State income tax liability for all corporations amounted to $6.3 million. Interstate companies, representing 18 percent of all taxable firms, accounted for 52 percent of the total tax. The remainder was accounted for by firms doing business solely in Colorado. Virtually all of the latter are "domestic" firms in the sense that they have their principal place of business in Colorado. On the other hand, among the taxable interstate corporations, "foreign" firms, or those with out-of-state head offices, constituted 86 percent of the total number of all such firms, but incurred only 54 percent of the total tax liability of all interstate firms.

For the entire group of taxable firms in 1957, the net cost of the tax amounted to less than one-tenth of a cent of each corporate revenue dollar. For all taxable Colorado corporations the net cost of the tax was 0.1 percent of total business expense, while for interstate corporations reporting Colorado cost items the net cost was 0.15 percent.

The Colorado income tax appears to exert an equally insignificant impact on corporations when the effective tax liability is expressed as a percentage of their total Colorado tax bill, including federal income tax allocated to their Colorado operations. For the interstate firms it amounted to 1.8 percent of their total Colorado tax bill, and for the intrastate firms it amounted to 2.6 percent. This difference is due in part to the inadequacies of the statutory allocation formula and the federal tax deductibility permitted under the Colorado code.

Effects of Eliminating Federal Tax Deductibility. On the basis of the 1957 data, elimination of the federal tax deduction would increase the corporate tax liability of all firms by approximately $5.2 million and the net cost of such an increase would be $2.7 million. Elimination of the deductibility provision has advantageous effects not obtainable by a compensating increase in statutory rates: it would result in a greater degree of equity between interstate and intrastate firms; it would offset some of the inadequacies of the interstate allocation formula; and reduce the regressivity of the effective rate structure.

The elimination of the federal income tax deductibility provision of the Colorado corporate income tax would achieve a more equitable corporate tax structure and help meet the expanding needs for General Fund revenues.

Severance Tax (Chapter XIV). The severance tax upon certain types of natural resource production is largely a development of the present century. It is a special tax both in terms of its scope and the purposes it is intended to serve, and is commonly defined as a levy on the extraction or removal of certain natural resources from the soil or water. Twenty-eight states now impose severance taxes on certain mineral products, and there are six jurisdictions that include specified extractive industries under their general sales taxes. Finally, there are 20 states (most of which impose severance taxes) that have modified the application of property taxes to forest lands. The scope as well as the rates of the taxes differ widely. Oil and gas resources are taxed in 23 states; coal and/or iron ore in 9; other specified minerals in 11; and timber in 6.

A variety of tax bases, including physical units of product, sales, gross receipts and gross income, are employed. The terminology used by legislative bodies in describing the tax also differs, and a special or additional tax may be incorporated under a general tax statute such as the sales or income tax laws. The severance tax may be in lieu of property taxes, but this is not the usual practice.

The support for severance taxes rests upon theoretical as well as practical grounds. Generally, it is alleged that they are preferable to the property tax which has many deficiencies in its application to mineral and timber properties; that they serve to compensate the state for the exploitation of its natural resources and to promote conservation; that they are an effective means of taxing absentee owners and of offsetting tax advantages which certain natural resource properties enjoy under other tax forms; that they are productive and relatively easy to administer; and that as state measures they permit a state-wide sharing of fiscal benefits.

The opposition to severance taxes stresses their allegedly unfavorable impact on resource development and production; the instability and unsatisfactory character of receipts in the case of local governments if the tax is a substitute for the property tax; and the discriminatory nature of the tax if it is in addition to the property tax.

While the issues involved are complex, the case for moderate severance taxes is generally sound. Employment of the tax as a substitute for the property levy, as the latter tax is commonly

applied, is certainly advantageous from the standpoint of equity, conservation and administration. As an additional tax it serves to compensate for low level assessments under the property tax, and unusually favorable treatment or inadequate coverage under other general tax forms. The total tax burden on the resources in question should be reasonably equated with that on other forms of business enterprises. Certainly, the severance tax should not be used as a punitive device.

The burden of the severance tax is normally shifted to the consumer of the taxed products. There is no reason to believe that a severance tax under the conditions stated will have an unfavorable effect upon resource development or production with the exception of a chronically depressed industry.

For practical purposes Colorado's experience with severance taxes dates from the passage of the oil and gas income tax in 1953, which imposed a substantial tax on the gross income from oil and gas production. It applies to individual royalty income as well as corporate. Property taxes on the oil and gas resources or lands are creditable against gross oil and gas income, and the oil and gas tax paid is allowable as a deduction under the income tax. Royalty payments to the United States or to the State of Colorado are exempted. The base of the tax is obviously strictly limited both in terms of the minerals taxed and by the property tax credit.

The rates of the tax are progressive, ranging from 2 to 5 percent of taxable gross income. Tying of the tax to the state income tax system was intended in part to avoid the possibility that the levy might be considered an excise and therefore subject to the constitutional provision earmarking 85 percent of receipts for welfare purposes. Compared to the other states taxes in this region the rates of the Colorado tax are about average. However, considering the fact that the other levies are not in lieu of property taxes, the burden of the Colorado tax appears to be below the average.

Receipts from the Colorado severance tax have increased substantially since 1954, totaling $3,894,708 in 1957 or 2.64 percent of state tax collections. The tax is administered as an integral feature of the state income tax structure, and costs cannot be distinguished.

The fiscal significance of the severance tax in Colorado as compared to that of similar taxes in the other leading mineral producing states is obviously an essential basis of evaluating present and future policies in this field. Of the top 28 states in mineral production all except 7 imposed severance taxes, and Colorado ranked 8th in terms of severance tax receipts inthe 27 states which reported tax collections. Severance tax receipts in 1956 exceeded 1 percent of the value of minerals in 10 jurisdictions including Colorado.

It should be noted that 8 of the eleven Western States impose severance taxes. Colorado ranked second to New Mexico in the amount of tax collections; fourth in the ratios of severance tax collections to total tax receipts and to personal income payments; and fourth in terms of per capita receipts.

During the taxable year period covered by the Colorado income tax study, 135 corporations reported gross oil and gas income, but only 95 actually paid a net tax. Most of the companies involved were domiciled or had their headquarters outside of Colorado, and the majority were interstate concerns. The gross tax liability of all companies was approximately $5,900,000, and the property tax credits claimed amounted to $2,836,000 or 48 percent of the gross tax. Foreign corporations reported over 98 percent of net taxes, and interstate companies not headquartered in Colorado about 91 percent. There is also a marked concentration of the oil and gas tax burdens on concerns with assets in excess of $50,000,000 and particularly the interstate organizations.

The effective rate of the oil and gas tax in relation to oil and gas income reaches a maximum of 2.68 percent in the case of foreign interstate companies. For all other categories it is below 2 percent.

There were 4,122 individual income tax returns reporting oil and gas income, but only 2,986 showed a net tax liability. Total net tax liability amounted to $214,611 or 6.3 percent of the net severance tax for both corporate and individual taxpayers. Property tax credits claimed, in contrast to the corporate taxpayers situation, amounted to 85 percent of the gross tax. The oil and gas tax burden in relation to individual income levels reveals a broad spread, ranging from 5 percent of the total tax for the $8,000 to $10,000 income group to 38 percent for the $50,000 and over class. The effective rate of the oil and gas tax on individual oil and gas income is approximately 1.6 percent.

The future role of severance taxation in Colorado should be dictated primarily by considerations of equity and the economic effects of the tax on resource development and utilization. Revenue potentials are important but of secondary concern. In terms of achieving the broad objective of equality in taxation as between the various types of mineral production and with reference to other industries, it is evident that existing policies are deficient in both respects. Colorado's present policies are highly favorable to producing mineral properties in the case of the property and income taxes, and the severance tax on oil and gas which permits crediting of property taxes is very moderate as compared to those of most neighboring states. At the same time, the severance tax on oil and gas does result in an additional burden on these resources as compared to other types of mineral produc-

tion. These considerations give strong support for the extension of the existing tax on a selective basis to include such minerals as molybdenum, vanadium and uranium, and the elimination of the property tax credit. The bases of property assessment as well as their application by county assessors also should be modified to ensure consistent and equitable results.

Elimination of the property tax credit under the oil and gas tax (using 1956 yield figures) would produce an additional $3,000,000 in tax receipts. The increase factor is 88 percent. Extension of the tax to the three other minerals noted (with no property tax credit) would produce approximately $2,200,000 or an increase of nearly 65 percent as related to 1956 data. The former percentage factors are, of course applicable to current yields, and the latter estimate involves a calculated effective rate of 3.51 percent on the gross value of product.

Inheritance, Estate and Gift Taxes (Chapter XV). State death taxes are one of the most firmly entrenched state revenue sources, as evidenced by the fact that 47 states have retained this form of taxation for over 25 years. Such utilization is due in part to the Federal estate tax which may be partly offset by state death tax payments. Hence, 37 states, including Colorado, impose an inheritance tax and with the exception of Oregon, supplement the levy with a differential estate tax. The latter applies only when the federal credit exceeds the inheritance tax liability and is therefore designed simply to absorb the federal credit. Of the remaining 11 states, 7 impose an estate tax based on the federal credit, 3 impose an independent estate tax and 1 state, Nevada, imposes no death tax of any form despite the federal credit.

A major problem associated with inheritance taxation is the *inter vivos* gift (between living persons) which is made prior to and in anticipation of the death tax. To avoid revenue losses from this subterfuge, 12 states including Colorado have adopted a gift tax, which generally carries the same rates as the state inheritance tax. Although Colorado stands with a minority of states which impose a gift tax, this procedure undoubtedly prevents a substantial loss of revenue due to the avoidance of the inheritance tax.

In 1956, death and gift tax collections in Colorado amounted to $3,936 thousand or 2.73 percent of total tax revenues which is slightly above the 47-state average ratio of 2.13 percent. On a per capita basis, 1956 revenues in Colorado were $2.44 which is somewhat above the average per capita collection of $1.75. In rank order, Colorado's per capita collection was 9th, i.e., 8 states collecting a higher per capita rate and 38 states collecting a lower rate. In addition, Colorado's death and gift tax collections represented .13 percent of the State's personal income which is slightly above the average of .09 percent for the 47 states.

The features of Colorado's inheritance tax are similar to those found in other states. Certain deductions and exemptions are allowed and the rates are graduated not only according to the amount received but also according to the relationship of the inheritor to the deceased. Although different rates of progressivity make interstate comparisons somewhat difficult, Colorado's rate structure appears to be slightly above the average while exemptions are somewhat more liberal than those given in most states. In addition, Colorado permits exemptions to be taken before the rates are applied whereas most states simply deduct the exemption from the first bracket. Hence, an exemption in Colorado is applicable to the top bracket whereas in many other states an exemption is deducted from the first bracket.

Although the federal credit has essentially preserved the death tax as a source of state revenue, some states, notably Florida, Nevada, and Arizona, continue to use the tax as a competitive device to attract or retain wealthy persons. As long as some states continue to use death taxes in this manner, attempts to raise substantial revenues through death taxes by other states may result in some loss of wealthy individuals. However, state death taxes are only one factor in the establishment of a residence and the danger of losing or failing to attract wealthy residents does not appear to be great in a state with attractions such as Colorado's unless burdens become significantly higher than those in other states.

In conclusion, Colorado's death tax burden appears to be somewhat above the average as measured by per capita collections, the ratio of death taxes to personal income, and the ratio of death taxes to total revenues.

Pari-Mutuel Tax (Chapter XVI). The tax on pari-mutuel racing is a source of revenue in twenty-four states of which seven are located in the West. Of this total number also, four states —Michigan, New Mexico, Colorado and Nevada —have introduced pari-mutuel since World War II. In most of these states the tax is a relatively minor source of revenue, the notable exceptions being Florida, New Hampshire and New Jersey. In absolute dollar collections, however, the ranking states are New York, California, Florida and New Jersey with revenues ranging from $22 million to $53 million.

Colorado revenue from pari-mutuel in 1957 amounted to $2.1 million, a figure exceeding any preceding annual total since the inception of the tax in 1948. This figure represented also 1.47 percent of aggregate tax revenues of the State in 1957 and 4.57 percent of total receipts of the General Fund.

All states which have a pari-mutuel, tax wagers on either a flat or graduated base. Colorado's flat rate of 5 percent could be regarded as a fair average covering the entire twenty-four state

group. All states provide for breakage but differ widely in respect to its distribution. With the exception of California, the seven Western States including Colorado, which have parimutuel, permit the race track operators to keep all breakage; while in the remaining states the general practice is to divide such receipts between the operator and the state. Exceptions in this regard are Florida, New Jersey and California which claim the entire amount.

Breakage in Colorado was originally retained by the State but since 1954, and as a result of State Supreme Court decision, proceeds from this source have reverted to the racing associations. Since annual breakage has averaged over $300,000 this decision caused a corresponding loss to the General Fund to which all parimutuel revenues are dedicated. Failure to revise the law to overcome the court's objection may be attributed to the assumption that the associations need the breakage to stay in business.

Miscellaneous State Revenues (Chapter XVII). A wide variety of miscellaneous "taxes," "licenses and fees" and "earnings" are realized by the State government not elsewhere classified in preceding chapters. For the most part these sources represent "special" levies or charges designed to recover costs of rendering certain State services or privileges granted to persons or groups of persons engaged in particular activities. Hence, the revenues derived are in large degree, but not entirely, earmarked for the particular agency rendering the service in question and not available as revenues for the General Fund.

Although the receipts from a number of individual sources are relatively small they constituted in the aggregate a total of nearly $30 million in 1957, or an amount representing 13 percent of the State's aggregate revenues in that year.

The general category of individual "taxes"—foreign and domestic corporation, coal mine, metal mining, oil and gas conservation, predatory animal, hail insurance, safety and accident prevention, mattress stamp, tax for revised statutes, gate admission and public utility commission—came to a total of $714,000 in 1957.

The first mentioned tax, or the "foreign and domestic corporation tax" has been recently revised with a rate structure which places Colorado in about a median position with other Western States in terms of costs imposed for the incorporation of business enterprise. The "coal mine tax" is, because of the decline of the coal mining industry, falling short of revenues needed to cover the inspection costs of the Coal Mine Inspection Department. There is no easy solution to the problem but in the meantime the General Fund must be drawn upon to cover deficits. The "metal mining tax" is currently fully sustaining the activities for which it was designed while the "oil and gas conservation levy" indicates a possible shortage by 1961 unless services are curtailed or added revenues are forthcoming. The "predatory animal tax" at the present rate is deemed adequate for all purposes. The "hail insurance tax" as presently administered is adequate for covering losses as well as for building a necessary reserve fund. The "safety and accident prevention tax" currently is developing a small surplus and presumably is sufficient to meet requirements as is equally true in the case of the "mattress stamp tax." Of the remaining miscellaneous tax sources the "aircraft ownership tax" presents a special case of apparent under collection. Thus for 1957 a total of 175 private planes were subject to assessment. It is estimated however that there are from 1,000 to 2,000 planes in the State that should be subject to the tax.

The area of "licenses and fees" constitutes a veritable maze of licenses, "charges" and "fees" imposed by various state departments on affected persons or groups of persons and business enterprise for public services rendered. Total revenues from these sources amounted in 1957 to $6.7 million of which $4 million represented license receipts of the State Game and Fish Department. Another $1 million was accounted for by licenses and fees directly related to the use of public highways (automobile title fees, motor vehicles dealers and salesmen's licenses, inspection stickers, and penalty assessments and J. P. Court fines). The remaining $1.7 million represented a host of regulatory fees associated principally with the departments of State and Agriculture and the State Board of Stock Inspection.

A sample review of regulatory fees collected suggests that in a number of instances—notably in the Department of Agriculture and in Stock Inspection—the payment of fees is not being fully enforced. This fact may not be too important from a revenue standpoint since the amounts involved are relatively small in any event. However, it should not be forgotten that in most instances licenses and fees are for regulatory purposes designed to protect the public and have been intiated by industry groups for establishing and maintaining self-imposed standards. Inadequate collections therefore presumably mean an inadequate system of inspection—a situation clearly contrary to the public interest.

Departmental earnings and miscellaneous receipts which in 1957 amounted to $22 million were derived from fees and tuitions of educational institutions ($5.7 million of which $3.5 million represented tuitions collected by the University of Colorado not included in the $22 million total noted above); reimbursements to the State Highway Department for road work done for other governmental units ($8.4 million); earnings of penal and eleemosynary institutions ($3.6 million); receipts from rental and

sale of State lands ($4.3 million); and income from all other miscellaneous sources ($3.5 million).

The Tobacco Tax (Chapter XVIII). The historical and traditional justification for levying a tobacco tax has been that such a tax will result in higher prices and thereby discourage a habit which is deemed undesirable from a social as well as an individual point of view. In addition, the tax is commended for its stability, convenience of payment, ease of collection, and ability to extract revenues from all taxpayers regardless of income class. This rationale has been questioned by those who point to the indefensibility of labeling tobacco consumption a "vice," and the evidence which indicates that increased prices do not, in fact, curtail tobacco consumption. Moreover, the tax is subject to the indictment of regressivity, and, although it is characterized by a certain ease of collection, the common practice of allowing dealer discounts results in a relatively high cost of collection.

Despite certain criticism, the tobacco tax, and more specifically the tax on cigarettes, has achieved considerable popularity. In addition to the federal tax of 8 cents per pack, 42 states collect a levy which ranges from 2 to 8 cents per pack, the most popular rate being 5 cents. Eleven states have given cities the power to impose a tobacco tax and municipal use is extensive in 5 of these states, Colorado included.

As a state source of revenue, the tobacco tax plays an important role in most of the 42 states which employ the tax, accounting on the average for 5 percent of total taxes collected. In 18 states, tobacco tax collections exceed 5 percent of all taxes collected.

Of the six states which do not employ a special excise tax on cigarettes, 3 states (California, Maryland, and North Carolina) include cigarettes in the sales tax base. Of the 3 remaining states (Colorado, Oregon, and Virginia) Colorado is the only state which employs a sales tax. Hence, Colorado is the only state in the union which neither includes cigarettes in the sales tax base nor subjects cigarettes to a special state excise tax.

Colorado's failure to adopt a cigarette tax may be partly explained by the fact that such revenues would have accrued to the Old Age Pension Fund prior to the 1956 constitutional amendment which now permits an overflow into the General Fund. An additional factor is the widespread municipal use of the tax in the State. This latter point remains a significant factor if State adoption is being considered, because about 30 cities and towns presently utilize the tax. Considering the revenue restrictions faced by Colorado municipalities, it would appear that the State may have more alternatives from which to choose if additional revenue is needed.

It is estimated that a State cigarette tax in Colorado would yield an annual amount of approximately $2,218 million for each cent of tax levied. The most popular rate in surrounding states is four cents, hence a similar tax in Colorado would yield approximately $8.8 million annually. Considering the common municipal rate of two cents per pack in Colorado, a State rate of only 2 cents per pack might also be an alternative worthy of consideration. On this basis, the yield would be $4.4 million. Tobacco tax rates in surrounding states however, are not necessarily a criterion to be followed by Colorado.

In addition to a cigarette tax, a few states place a special excise tax on other tobacco products. While this practice is commendable from an equity standpoint, it involves certain administrative difficulties. Were such a tax adopted in Colorado, however, it is estimated that the yield would be approximately $600,000 to $700,000 annually.

Although the tobacco tax is subject to significant criticism, it can not be denied that the inherent ease of payment renders the tax politically popular and capable of achieving substantial revenues.

Federal Grants (Chapter XIX). In 1957 federal grants to Colorado totaled $55 million—an amount equal to approximately 23 percent of total revenues of the state government. Of this amount highway grants amounted to 28 percent, public assistance 49 percent, and all other (education, health and hospitals, non-highway transportation, natural resources, etc.) 23 percent. Old age assistance alone constituted 35 percent of total grants and 71 percent of all grants for public welfare.

Comparatively, Colorado's per capita total federal grants in 1957, amounting to $36.55, placed it in 8th leading position among the forty-eight states and in 5th position in relation to the eleven Western States.

In per capita grants for public welfare Colorado was surpassed nationally by only three states. In per capita grants for purposes other than public welfare Colorado ranked 13th in the nation being exceeded by all Western States except California and Washington.

Colorado's relatively high per capita rank as a recipient of federal aids is due to a combination of factors of which a sparse population is one; another factor is the relatively large State old-age pension program which gives full implementation to federal aids for this type of public welfare. Coupled with this is the fact that highway aid is a function of size of area and Colorado, as one of the largest states, in area, is favored accordingly.

However a relatively favorable aid position does not necessarily indicate that Colorado is taking full advantage of federal assistance in

the various programs eligible for federal aid. Whether such a state policy is desirable is an open question since aids are obtained at a price and the price may be high. Nevertheless a recognition that participation in jointly financed state-federal programs can and frequently does relieve pressure on state finances calls for careful and continuous review of federal aid legislation as it is enacted and amended from time to time.

State-Local Relations (Chapter XX). State responsibility for providing a tax base commensurate with locally assigned functions is by all odds the most vital consideration in state-local relations as presently constituted. The role of the State in this regard has become increasingly important as well as burdensome as local governments, limited essentially to the overworked property tax, have been pressed by mounting costs induced by population growth and price inflation.

Currently local governments as a whole derive approximately two-thirds of their total revenue from their local revenue sources and the remaining one-third from the State in the form of shared taxes and grants.

All evidence indicates that the property tax, which accounts for three-fourths of all locally collected revenues, is reaching its maximum point of utilization in many areas of the State. This is notably the case in the larger cities and towns. Pressure on the property base has been contained somewhat at the municipal level by the development of new tax sources such as the sales tax (presently used in only two cities, Denver and Pueblo), tobacco taxes (found in 28 cities) and a local levy on liquor (imposed in 26 cities). The sales tax has been highly productive but its wider use by cities is problematical in view of its competitive nature and the fact that the State also taxes sales. Taxation of tobacco has been expedient in view of the fact that the State has not entered this field. Should, however, the State tax tobacco in the future close state-local fiscal policy cooperation would be needed to avoid burdening this base. This applies equally to the liquor tax, now employed by both the State and municipalities.

Shared taxes and state aids amounted to $111 million in 1957, or approximately one-third of total local government receipts. Of this total 62.5 percent was distributed for public welfare, mainly old age pensions; 22 percent for school aid; and 15.5 percent for highway and street purposes and certain miscellaneous items. Viewed jurisdictionally, the total was distributed as follows: counties 76.1 percent; school districts 22 percent; and cities and towns 1.9 percent.

In principle, the transfer of funds from the state to local government (financed by both state and federal funds) is designed to provide desired levels of services in which there is statewide interest. Aids are also intended to "equalize" the financial capacity of all local participants in a given program. In respect to the latter, Colorado falls far short of achieving this objective.

In the public welfare field the old age pension program meets a uniform state standard and, not being locally financed, raises no problems of equity. In the other aided welfare categories, required equal percentage contributions by individual counties presumes equal financial capacity—a situation that is far from being the case. In this connection it is of interest that 27 states including 5 Western States (New Mexico, Arizona, Nevada, Washington and Idaho) administer and finance all categorical aids at the state level.

The most serious inequity in the welfare field is the unaided program known as "general assistance." Failure of either federal or state funds to cover, in part at least, this vital area of public needs has placed upon the counties a burden which cannot now be adequately carried by many counties. This is evidenced by monthly payments per applicant which in 1957 averaged only $11.88 with a range varying from a low of $3.52 to a high of $30.44. It is apparent, therefore, that this program needs to be reconstituted on a more realistic basis wherein State financing will be a part of it as it was in earlier years.

Aid for education as revised by law in 1957, which attempts to promote both a higher level of educational performance throughout the State as well as to effect a more equalized distribution of the burden, is sound in principle. Unfortunately it is premised on the assumption of uniform assessment which will continue to plague the program's effective implementation. In the absence of any correction here full implementation by state aid, which is now 80 percent as per formula, may not be desirable from some points of view. However, Colorado's urgent need for State support of schools, which has lagged behind that of other Western States, cannot wait upon reform of the property tax. More perhaps can be said for postponing full implementation until more has been done to consolidate schools which in view of gratifying progress during the past year need not long be deferred.

Colorado's distribution of highway funds on the basis of its existing formula needs re-examination. The municipal share of only 5 percent is apparently inadequate in view of the rapid growth of the larger metropolitan areas in the State in the past decade and a half. Ensuing traffic congestion has become not only a major problem for the cities but one that also importantly affects the efficiency of the entire primary road system of the State.

The allocation formula is subject to further question on grounds that it places on the counties (via a 30 percent allocation) the full responsibility for the construction and maintenance of

"county roads." The point can be made that a sizable part of these roads are in fact "state roads" and should, therefore, be administered by the State. Such transfer of functions would result in a system that would be stronger than would be possible under a county jurisdiction which in many cases has neither the administrative nor financial capacity to shoulder this burden.

State and Local Debt (Chapter XXI). Rapid post-war growth of Colorado's industries and population has resulted in a corresponding increase in the need for public facilities. Although operating budgets have been balanced on the whole, capital programs have, in the main, necessitated borrowing on a scale heretofore unknown. Thus in 1957 Colorado's combined state and local debt reached an all-time high of $421 million—a figure nearly four times what it was before World War II and nearly three times the figure reported for 1950.

Colorado's over-all public debt does not however indicate excessive use of credit. At the State level outstanding issues, largely for the construction of highways and college dormitories are self-liquidating and appear to be adequately covered by anticipated income. Interstate comparisons show also that per capita state government debt is presently at the median average for the eleven Western States. In this connection it is of interest that Colorado is one of only three Western States that does not have any general debt.

At the local level debt is largely confined to issues of the school districts and municipalities which together account for 80 percent of combined state and local debt. In turn, nearly two-thirds of this ratio is applicable to the four-county Denver Metropolitan Area where the most rapid population growth has occurred. It is in terms of this development and the adjustment of capital expenditures thereto that much of the current outstanding public debt in Colorado can be explained.

Concluding Summary Statement. Certain specific features of Colorado's economy and fiscal structure as well as probable future developments provide the basic foundation for the tax policies recommended in this report. In terms of the economy as a whole a continued better-than-national-average rate of population, and employment growth is anticipated. The direction of movement will be toward the larger metropolitan areas as it has in the past. Coincident with growth it may reasonably be assumed that enlarged demands for public services and capital facilities will correspondingly increase the pressure on public budgets at both the state and local levels of government. Although anticipated higher taxes both in the aggregate as well as in per capita terms will be paralleled and likely will be exceeded by increased personal incomes the cushioning effect of the latter could be nullified by improvident expenditure policy and an inequitable tax structure incapable of effectively accommodating the larger needs of a growing state.

Measured in terms of per capita public expenditures, costs of government in Colorado, as is true for all Western States, run above the average for the rest of the country. This may be expected to hold for the future since the reasons are deep-seated and continuing in nature. A sparse population in most parts of the State with widely separated smaller communities—which are required to provide complete utility services, schools and other public facilities including highways constructed and maintained in difficult terrain — combine to create a situation where high per capita as well as high unit costs of operation are almost certain to exist. Another impelling factor causing Colorado's cost levels to be relatively high lies in the culture of a people who have wanted and have received more than a bare minimum of governmental services. Colorado's social conscience manifested in its regard for the aged, its desire for good schools reflected in its high educational achievement record measured by "number of school years completed" and its nationally recognized "clean government" are all evidences of a peoples' continuing desire and will to have a better than average government. Such services have to be paid for and how they are paid for and, by whom, becomes increasingly important as expenditures and correlative tax burdens grow larger in size and variety. Colorado's over-all state and local structure, a product of nearly a hundred years of development, reflects in its component parts the varying economic and social changes that have taken place over time. The traditional concept that he who owns property has capacity and, accordingly, should pay taxes in proportion to what he has in real and personal property has been the predominant criterion for distributing the burden of government cost in Colorado. At the local level, the property tax is the mainstay of support and will no doubt continue this role in the future. However, at the state level, where property taxation has only a limited use, tax policy both in theory and practice has taken quite a different turn.

During the 1930's mounting welfare payments and subsequent postwar demands imposed by rapid growth and inflation saw an increase in revenue need that the property tax could obviously not absorb. As a consequence and, perhaps, without too much regard for tax principles, per se, legisative policy turned increasingly to other forms of measuring and utilizing taxpaying capacity. Thus, was born the retail sales tax, the liquor tax, the tax on personal and corporate incomes, the tax on pari-mutuel racing, severance tax on gas and oil, and the ton-mile tax. Predating these changes but a part

of the "non-property tax" family are the various highway user taxes which over the years have grown to a relatively large proportion of the State government's total revenue receipts.

The emergent tax structure, both State and local, naturally leaves much to be desired. On the State level it is highly complex and sharply regressive, and shows little evidence that any unified or consistent policy guided its formation. These undesirable features and the inherent problems are compounded by a fund structure which currently earmarks over 80 percent of the State's total revenues. As a consequence pressure for needed revenues mainly for general operation, educational aid, and the State's institutions, have resulted in periodic revenue shortages. Currently the general fund picture shows a revenue shortage estimated for 1960 of approximately $9 million. And, depending upon policy development in respect to state school aid, subsequent needs could go beyond this total by an estimated $10 million.

The local tax structure based primarily on the property tax has increasingly lost its capacity to meet advancing costs, particularly marked at the municipal level. Here the City and County of Denver presents the outstanding example. Cities and towns have been forced to seek revenues which not only overlap state taxes in a number of cases, but being essentially consumer taxes, they have further added to the regressivity of the tax structure of the State as a whole. In addition to these efforts to break through a "boxed in" revenue structure, local governments have turned more and more to the State for assistance in order that they might properly perform their function as assigned by law. Thus another pressure has been imposed on the State's General Fund.

Guiding Principles: It is against this background of fiscal arrangements and anticipated developments that the Staff of the Tax Study Group has examined Colorado's taxes individually and in relationship to each other. During the course of the analysis, the Staff has constantly kept in the foreground certain basic principles by which taxes and tax policy must, in the final analysis, be judged. Accordingly, stated recommendations as presented below have been tested against these essentials which in question form may be stated as follows:

(1) Will possible changes contribute to a more equitable system of distributing the tax burden?
(2) Will the changes produce a more productive and reliable base for meeting the anticipated increased demands of Colorado's state and local governments?
(3) Will the changes produce a more equitable tax environment for Colorado business including agriculture and mining?
(4) Will the changes simplify and ease the problem of taxpayer compliance as well as increasing the effectiveness and reducing the cost of administration?

RECOMMENDATIONS: GENERAL

The following tax program incorporates recommended changes covering the entire tax structure in Colorado. The order of presentation is by individual taxes and by subclassifications wherein particular areas calling for revision are identified and described. This is followed by recommended changes, the reasons therefore and the estimated revenue effects.

All recommendations call for early consideration. Most pressing, however, are those which include measures designed to provide additional general fund revenue for State Government in 1960. These are described in this section under separate tax subjects but are brought together into an integrated program as outlined in the succeeding section on page 34.

General Property

1. Standard Assessment

General Statement: The present legal standard of assessment is full cash value based on market value or other appropriate factors.

Recommendation: The general standard of assessment should be changed from full cash value to a percentage of present value (market or cost) approximating the average maximum ratio presently in effect.

Reasons: The full cash value rule is inoperative; its implementation is impractical; and the proposed change would provide a realistic and equitable standard of assessment as well as a sound foundation for equalization efforts.

Revenue Effects: It is not contemplated that this change in assessment standards should be employed to increase property tax revenue, though rate adjustments would undoubtedly be required to avoid this result in some jurisdictions.

2. Specific Bases of Assessment

General Statement: The present legal bases of assessing the following types of property are inconsistent: (a) farm land and improvements and urban site land and improvements and (b) producing oil and gas properties and other producing mineral properties and non-producing mineral property or rights therein.

Recommendation: (a) Consistent specific bases of assessment related to present market or costs value should be formulated and applied in the case of agricultural and urban land, and improvements thereon, and tangible personal property other than merchandise and manufactures.

(b) Uniform bases of assessing producing, and non-producing, mineral properties should be adopted. In the case of producing mineral

property the basis should be related to current value using a capitalization of net income factor. Several factors may be essential in the case of non-producing mineral property or rights thereto, but they should be uniformly applied. Finally, the original assessment of both types of extractive land should be vested in the State Tax Commission.

(c) No change is recommended in the basic approach to assessing merchandise inventories and manufactures.

Reasons: The present basis of assessing agricultural lands is not consistent with that applied to urban lands and improvements, and is needlessly complicated. Considerations of tax equity dictate uniform or non-discriminatory standards of assessment for these types of property. The discrimination involved in the present policy is especially grievous in the case of urban homes which do not produce a cash income.

The present assessment differential is highly discriminatory as between oil and gas and other producing mineral properties and the factors to be considered in assessing non-producing mineral property are not clearly defined. In view of the inherent complexities of the problems involved, State assessment as practiced in many other states is essential to the achievement of uniform results.

The present average inventory basis of assessing merchandise inventories is generally employed and the percentage ratio appears to be reasonable under present conditions. In view of the fluid nature of this property it is not possible to relate the ratio of assessment directly to that employed for fixed assets. The result in any case is fractional assessment as compared to the capital value of fixed assets.

3. Frequency of Assessment

General Statement: The law requires that personal property be re-assessed every year, but there is no firm rule in the case of real property.

Recommendation: A policy of continuing assessment should be established with personal property re-assessed annually and all real property in each jurisdiction over a three-year period.

Reasons: The reasons for the present rule in the case of personal property are self evident due to its relatively fluid character and rapid changes in value. Re-assessment of all real property every three years is essential to avoid inequities caused by changes in value, to ensure reasonable conformance to the general current value standard and will require utilization of a full-time assessment staff.

Revenue Effects: A substantial increase in assessed valuations may be anticipated in many counties. This gain will be offset in part by higher administrative costs, and state aid will be necessary in some of the less populous counties to accomplish the objective.

4. The Sales Ratio Study

General Statement: The Sales Ratio Study initiated in 1957 under the Legislative Council has produced significant results; but further data are essential in many areas.

Recommendation: The present comprehensive sales ratio study should be continued for at least a three-year period, and this type of research, perhaps on a sampling basis, should be continued to provide a permanent basis for equalization efforts.

Reasons: It is quite evident that further data are needed from many counties to provide a firm base for conclusions which are essential to implementing a statewide equalization program and other fiscal policies which are dependent upon such information.

5. Tax Commission

General Statement: The present staff of the Tax Commission is strictly limited and the members once they are appointed by the Governor are subject only to Civil Service rules and regulations.

Recommendation: The State Tax Commission should be reconstituted to ensure executive responsibility and the staff enlarged to permit effective control over local assessment practices and the equalization problem.

Reasons: This agency has been largely ineffective in the areas noted, and an increase in staff accompanied by executive control is needed. Continuing efforts by an expert, specialized staff are the only means of ensuring equalization of tax burdens and the correction of other disparities in local assessment practice.

6. State Use of Property Tax

General Statement: The State is now using the property tax to finance certain capital and operating requirements for educational and other state institutions.

Recommendation: The State government should relinquish the property tax source to its local units—this policy to be implemented on a gradual basis by the substitution of a capital budgeting program financed from the General Fund as soon as existing mill levy commitments are met.

Reasons: The urgent revenue requirements of local units which have a very limited tax base should be recognized, and the proposed change in policy can be implemented without sacrificing revenues essential to the State.

Revenue Effects: The State presently derives approximately $12,000,000 or 8 percent of its total tax receipts from this source.

Retail Sales Tax

1. Food Exemption; Extension of Base; and Vendor's Discount

General Statement: Food purchased for consumption off the premises and restaurant meals are subject to the Colorado sales tax. On the other hand, certain non-professional services, and liquor and tobacco products which are taxed by one-half or more of the states are not subject to the Colorado retail sales tax and there is no special excise levy on tobacco. The Colorado law permits a vendor's discount of 5 percent.

Recommendation: (a) Exempt food purchased for consumption off the premises from the retail sales tax base.

(b) Include lodging (hotels, motels and camps) in the sales tax base.

(c) Reduce the vendor's discount to 3 percent.

Reasons: Equity in tax policy demands a reduction in the regressive impact of the sales tax on low income groups which is largely attributable to the taxation of food. The desirability of this step is generally recognized, and there are 9 other states that presently exempt all or specified food products.

Taxation of lodging service does not involve the same degree of regressive influence as food, and will partially offset the loss of revenue resulting from the food exemption.

The proposed discount is the highest allowance made by any state, and studies indicate that compliance costs generally range from 2 to 3 percent.

Revenue Effects: The food exemption will reduce revenues by about $8,400,000 (1957 base) or 21.3 percent; inclusion of lodging will increase receipts by at least $1,000,000; and reduction of the vendor's discount to 3 percent will raise receipts by about $850,000.

2. Sales Tax Administration

General Statement: Basic responsibility for administration is placed in the Sales and Use Tax Division of the Revenue Department with assistance from the general field investigation staff of the Department.

Recommendation: Strengthen the sales tax enforcement machinery by inaugurating a comprehensive office audit of sales tax returns, by establishing a systematic and selective field audit procedure and by appropriate expansion of the audit staff.

Reasons: The present administrative procedures and staff are inadequate in terms of generally accepted standards of sound administration. The results inevitably are substantial losses of revenue and extreme inequities as between individual taxpayers.

Revenue Effects: While the precise effect upon revenues cannot be determined, significant net increases in receipts are assured.

Alcoholic Beverage Taxes

General Statement: Colorado levies a special excise tax on four classes of alcoholic beverages —spirits, light wine, fortified wine, and beer. The present rates on a per gallon basis are: spirits, $1.59; light wine, $.12; fortified wine, $.24; and beer, $.03.

The sales tax, as presently established in Colorado, exempts alcoholic beverages from the base.

In addition to excise taxes, revenues are collected from liquor manufacturers, wholesalers, and retailers in the form of annually issued licenses.

Recommendation: The following rate changes are recommended: the light wine rate be increased from $.12 to $.20 per gallon, the fortified wine rate be increased from $.24 to $.30 per gallon, and the beer rate be increased from $.03 per gallon to $.06 per gallon. No change is recommended in the levy on spirits.

No change is recommended in the present rate structure of alcoholic beverage licenses. It would be desirable, however, if some means were devised to permit local governments to retain more than the present 15 percent of the state license fees they collect, although any change in the present system would probably require a constitutional amendment.

Considering the numerous advantages of a state quasi-monopoly control system and its adoption by 17 states, further consideration should be given to this alternative for Colorado.

Reasons: The above suggested rate changes would make the State's alcoholic beverage tax structure more commensurate with those in the other 28 license states. Since Colorado's rate on spirits is nearly identical to the 29-license state average, no change is advocated.

The license fees imposed on liquor and beer manufacturers and dealers seem to be designed to cover the costs of administration of the Liquor License Division. The present rate structure is adequately fulfilling this objective.

Revenue Effects: If the above rate increases were enacted, an estimated increase in annual revenue of $705,000 would be achieved. The estimated revenue resulting for each of the proposals is as follows: Light wine rate increase, $25,000; fortified wine rate increase, $55,000; and beer rate increase, $625,000.

Highway User Taxes

1. Rate on Diesel and Other Special Fuels

General Statement: Colorado imposes a uniform rate of 6¢ per gallon on all types of fuel used in motor vehicles.

Recommendation: A minimum differential rate of 2¢ per gallon should be imposed on diesel and other special fuel.

Reasons: The present uniform rate involves a discrimination against the owners of gas-propelled vehicles who receive less mileage than special fuel users; the Colorado Highway Planning Committee Report and virtually every other study of this matter in other states have recommended a similar percentage differential; and some 11 states now follow such a policy.

Revenue Effects: The increase in receipts based upon 1957 collections would amount to about $553,000. However, special fuel collections have been increasing rapidly in recent years, and this trend may be expected to continue.

2. Registration Tax on Not For Hire and Farm Trucks and Combinations

General Statement: Colorado now imposes very low rates on these vehicles based upon empty weight.

Recommendation: The user tax costs per mile (in relation to gross weight) of not for hire and farm trucks and combinations should be reasonably equated to that of for hire vehicles, using recent data on relative tax burdens. Gross weight and use factors should be considered in formulating a revised schedule of rates based upon gross weight for the not for hire and farm vehicle classes.

(An alternative proposal to apply the ton-mile tax to all trucks over 9,500 pounds and trailers and semi-trailers over 4,500 pounds, which was made in the highway financing portion of the 1950 Highway Planning Committee Report, would achieve substantially the same result, but would involve somewhat greater administrative problems.)

Reasons: The present tax burden upon the types of vehicles noted is unreasonably low in terms of any defensible measure of cost responsibility and the practice of the great majority of Western States. Costs per mile for such vehicles in Colorado tend to remain constant and in one case are actually regressive in relation to gross weight.

Revenue Effects: Considering the complexities of the rate schedule required, a precise estimate of increased receipts is not feasible. They would be substantial, however, and a doubling of existing registration tax burdens for the vehicles in question would produce about $1,600,000.

3. Administration of User Taxes

General Statement: The administration of the major elements of the user tax program, with the exception of the registration tax, is presently vested in the Motor Fuels Tax and Ton-Mile Divisions of the Revenue Department with some assistance from the field investigation staff of the Department.

Recommendation: Strengthen office and field audit efforts in the case of special fuels, motor fuel tax refunds, the fuels tax as applied to interstate vehicles and the ton-mile tax on intra-state operators.

Reasons: Present procedures in these areas are deficient and the staff is inadequate to achieve effective results. Gains in revenue as well as greater equity in the application of the fuels and the ton-mile tax are assured.

Revenue Effects: While the over-all effect upon receipts cannot be estimated, the fact that each ton-mile tax auditor earns his salary in about one month is indicative of probable results.

4. Ton-Mile Tax

General Statement: The present law involves a differential ton-mile rate of .8 mill and 2 mills on the empty vehicle and vehicle load, respectively.

Recommendation: Narrow the existing mill rate differential as between vehicle and load under the ton-mile tax by increasing slightly the empty vehicle factor and a similar reduction in the load factor.

Reasons: The present differential produces a degree of burden progression for the very heavy for hire trucks and combinations which is somewhat greater than that in most of the Western States. While the disparity is not great (25 percent or less), the adjustment proposed would remove any reasonable basis of criticism by carrier groups.

Revenue Effects: No appreciable change in over-all yields is anticipated as the adjustments are compensating in character.

Insurance Tax

Rates and Exemptions

General Statement: Insurance Companies operating in Colorado, unless expressly exempted, are subject to a 2 percent tax on premiums paid on business written in the State. Exempt are the following types of underwriters: fraternal benefit societies; domestic fire insurance companies; mutual employers liability associations; mutual benefit associations; medical and hospital associations (Blue Cross and Blue Shield); and benevolent societies. Also exempt are all companies with 50 percent of their assets invested in Colorado.

Recommendation: (a) That the present rate of 2 percent be retained.

(b) That the law, as amended, exempting companies which have 50 percent of their assets invested in Colorado be repealed.

(c) That all companies now exempt under the above noted provision of the law be taxed on premiums paid on Colorado business acquired after the date of repeal of this provision.

(d) That all other exemptions remain unchanged.

Reasons: A rate of two percent on gross premiums is the one more commonly used by other states. Because of the retalitory feature contained in the insurance laws of most states, an increase in the Colorado rates would hurt domestic companies operating in other states.

The exemption of companies meeting the 50 percent investment rule (and, in practice, this exempts all domestic companies but does not affect foreign companies) was presumably intended to "keep the money at home" by directing funds into local industry and government. It is doubtful that this provision has significant bearing on investment policy decisions as far as the affected companies, themselves, are concerned. Moreover, and in accordance with sound economic principles, taxes should have a minimum influence in determining the allocation of economic resources in a relatively free market. Such allocation in a private enterprise system will best be determined according to the pattern of consumer preferences and relative costs. This being so the existing exemption is considered to be both economically and socially undesirable.

From the standpoint of tax policy, no good reason exists for exempting domestic companies. Like foreign companies, they are subject to no other special business tax; they use and benefit from state governmental services and, like foreign companies operating for a profit, they have capacity to pay taxes. However, it is recognized that domestic companies are in the main stock companies whose existing contracts with policyholders are largely fixed in terms of premium charges. On old business, therefore, removal of tax exemption would cut into their surplus since the tax could not be shifted, at least in part. Since domestic companies are relatively young and small, this would place an undue burden upon them. It is, therefore, recommended that the tax be applied only to their future new business where contract terms can be adjusted.

Other companies expressly exempted by law are presumed to be operators on a non-profit basis. As such, they are properly exempted from the premiums tax.

Revenue Effects: It is estimated that recommended changes would increase premium tax income by $40,000 as a minimum.

Personal Income Tax

1. Normal Tax Rate Structure

General Statement: Normal tax rates range from 1 percent on the first $1,000 of net taxable income to 10 percent on all over $11,000.

Recommendation: The tax rate structure should be revised to start at 3 percent on the first $1,000 of net taxable income and increase at one-half percent steps for each additional $1,000 of income, with a maximum of 8 percent on all net taxable income over $10,000.

Reasons: Narrowing the range of the normal rate structure at both ends will make the tax more productive and equitable. At present the Colorado tax is considerably more progressive than the federal income tax. The minimum rate is among the lowest of the 29 income tax levying states. The maximum rate is the second highest in the entire nation. The vast majority of Colorado taxpayers pay only a "token" income tax under the present statute. More than one-half of all individuals who filed returns in 1958 had a combined normal and surtax liability of less than $10 for the year, or 20¢ per week. Approximately 170,000 individuals, or almost one-third of all taxpayers filing returns, paid a total state income tax of $2 or less in 1958. Since it cost the State on the average more than $2 to process a single income tax return, it appears that a large part of the Department of Revenue's personal income tax collection and administration activity takes on the character of "pouring water in a bushel basket." With regard to the apportionment of the tax burden between income groups, individuals with incomes below $5,000 represented 68 percent of all taxpayers but they paid only 16 percent of the total amount of normal tax collected by the State; in contrast, those with incomes of $10,000 or more, representing less than 5 percent of all taxpayers, were liable for more than 56 percent of the total tax. However, a balanced tax structure does not require that direct income taxation be essentially limited to the wealthy—with major reliance placed on sales, excises and various forms of hidden taxes to exact a state tax contribution from the remainder of the population. A highly progressive but insignificant income tax does not offset the effects of a quantitatively important but regressive tax either in terms of equity or revenue. Direct income taxation which takes into account variations in the taxpayer's economic well-being and family obligations is to be preferred to indirect regressive taxation as the principal means of raising revenues for the General Fund. To paraphrase a distinguished tax authority, it is high time the State quit the ludicrous business of dipping into the average taxpayer's income with a sieve.

Revenue Effects: State revenues would be increased by $11.6 million.

2. Federal Income Tax Deductibility

General Statement: Present law permits full deductibility of federal income taxes paid as an expense in computation of net taxable income for normal tax.

Recommendation: Eliminate the federal income tax deduction provision as an alternative to revising the rate structure.

Reasons: The elimination of this provision would remove one of the most important causes of the erosion of the present tax base. In 1957, the federal income tax deduction reported on individual returns amounted to $285 million, or practically one-half of the total personal expense deductions claimed by all taxpayers. In addition to Colorado, fifteen income tax states permit full deductibility of the federal tax. This alternative would yield an estimated $1.6 million less in additional state revenues than would be obtained by increasing the normal tax rates, as recommended above. However, the distribution of the tax increase resulting from the removal of the federal tax deductibility provision would make the income tax structure more progressive; whereas, the recommended rate change would have an opposite effect.

Revenue Effects: State revenues would be increased by $10.1 million.

3. *Long-term Capital Gains*

General Statement: Present law excludes from the tax base 50 percent of capital gains derived from the sale of assets held by taxpayers for six months or longer.

Recommendation: Include 100 percent of all net capital gains as taxable income, except in the case of income derived from the sale of a homeowner's own residence.

Reasons: The present special treatment of capital gains is inequitable. It provides a minority of taxpayers with a special tax benefit not available to taxpayers with other forms of income included at 100 percent. The rationale for preferential treatment of capital gains on the federal level is not applicable on the state level because of significant differences between the rate structures—a 91 percent maximum federal rate as compared with a 10 percent maximum rate under the present Colorado code. The majority of income tax states, 15 out of the 29, include 100 percent of capital gains in the tax base regardless of the length of time the assets were held by the taxpayer. Only eight states, in addition to Colorado, exclude 50 percent of gains realized on the sales of assets held six months or longer. This type of income is highly concentrated among a small minority of upper-income taxpayers. Less than 10 percent of the Colorado taxpayers reported long-term capital gains on their 1957 returns, 2 percent of all taxpayers accounted for approximately 50 percent of the total, and 1/10 of 1 percent accounted for over 20 percent of the total capital gains. The average long-term capital gain for the latter group was about $34,000 per taxpayer. Moreover, approximately 50 percent of the increased cost resulting from the removal of this provision, in effect, would be absorbed by the federal government since such taxpayers are generally in the higher federal tax brackets.

Revenue Effects: State revenues would be increased by $1.4 million.

4. *Surtax on Income from Intangible Assets*

General Statement: Under present law income derived from intangible assets, i. e., dividends and interest, are subject to a special surtax of 2 percent, in addition to normal tax.

Recommendation: Eliminate the surtax provision.

Reasons: The present surtax is inequitable. As in the case of the special treatment of long-term capital gains, designating a particular source of income for either lighter or heavier taxation under the personal income tax creates inequities between taxpayers who in other respects are in similar economic circumstances. The surtax was originally enacted in 1937 in lieu of the property tax on intangibles. Changes in the over-all state tax structure during the past two decades, particularly the relative decrease in the importance of property taxation on the state level, have considerably weakened the rationale for this type of tax. Moreover, the present $600 exemption taken against gross surtaxable income has effectively excluded from surtax 75 percent of the 100,000 taxpayers who reported surtaxable income from interest and dividends on their 1957 returns. About two-thirds of the taxpayers who would benefit by the removal of this provision reported incomes of less than $8,000 for 1957.

Revenue Effects: State revenue loss would be $1.6 million.

5. *Medical Expense Allowance*

General Statement: Present law permits deduction of only those medical expenses in excess of 5 percent of adjusted gross income, limited to $2,500 on separate returns and $5,000 on joint returns.

Recommendation: Permit full deduction of medical expenses, but retain the present maximum limits of $2,500 on separate returns and $5,000 on joint returns.

Reasons: The personal income tax is considered to be a highly desirable form of taxation because it takes into consideration, in addition to income, variations in the taxpayer's size of family, physical infirmities of old age and blindness, and extraordinary expenses due to serious illness and accidents. With regard to the latter, however, the Colorado code is less generous than the federal government which permits the deduction of expenses in excess of 3 percent

of adjusted gross income. The medical expense allowance reported on 1957 tax returns was the least important of the itemized deductions, and it was claimed by less than one-eighth of the taxpayers, mainly concentrated in the lowest income category.

Revenue Effects: It is estimated that the State revenue loss would amount to $.3 to $.5 million.

6. Withholding

General Statement: Under present law employers are required to withhold an amount equal to 4 percent of the tax withheld for federal income tax purposes.

Recommendation: Payroll withholding should be graduated by two rates applied to the taxpayer's federal withholding.

a. If the present rate and base structure is continued, a rate of 3 percent should be applied to federal withholding of less than $50 a month, and a rate of 5 percent to that of $50 or more.

b. If the rate and base structure is revised as recommended above, the present 4 percent rate should be continued on federal withholding of less than $50 a month, and a rate of 6 percent should be applied to that of $50 or more.

Reasons: The present 4 percent withholding results in a large number of refunds, and the problem is concentrated in the lower income groups. During 1958 the Department of Revenue had to process and pay refunds on more than two-thirds of the total number of returns subject to withholding, and on more than three-fourths of the withholding returns filed by individuals with incomes of less than $5,000. It is believed the above adjustments in the withholding rates would reduce the number and amount of refunds for the lower income groups and would more closely match the tax liabilities of taxpayers with incomes of $5,000 or more.

Revenue Effects: None.

7. Tax Table

General Statement: Taxpayers with adjusted gross incomes of less than $5,000 have the option of using a prepared tax table which incorporates exemptions as well as standard and federal income tax deductions.

Recommendation: The tax table should be made optional for all taxpayers with incomes up to $10,000.

Reasons: The use of a tax table greatly simplifies preparation of returns and reduces the amount of verification and auditing which otherwise must be performed by the Revenue Department. On the basis of the returns filed in 1958 it appears that such extension of the table might affect as many as 63,000 taxpayers with incomes between $5,000 and $10,000. The major convenience of using the table for such taxpayers would be that they no longer would be required to complete Schedule I which has proven to be one of the most troublesome features of the present tax form.

Revenue Effects: None.

Corporate Income Tax

General Statement: Present law permits full deductibility of federal income tax in the computation of the State corporate income tax.

Recommendation: Eliminate federal tax deductibility.

Reasons: The corporate income tax is highly unutilized and should be raised in order to achieve a more balanced and equitable tax structure. Compared with the other 33 corporate income tax states, Colorado ranks below the national average by every relevant measure of tax significance. Nineteen out of 34 corporate income tax states do not permit the deduction of federal income taxes. Removal of the federal deductibility provision would result in a real or effective rate which more closely corresponds to the statutory or nominal rate, and would lessen the degree of regressivity of the present effective rate structure. Moreover, to some extent federal deductibility favors interstate firms relative to firms operating solely within the State. Elimination of this provision would materially improve the equity of the tax and provide a source of sorely needed General Fund revenue.

Revenue Effects: State revenues would be increased by $5.2 million.

Severance Tax

Scope and Base of Tax

General Statement: The present oil and gas tax has a sound base and rate structure, but is limited in scope and burden. It applies to gross oil and gas income, less the property tax credit, at progressive rates ranging from 2 to 5 percent.

Recommendation: (a) Eliminate the property tax credit under the existing law.

(b) Extend the application of the existing tax (without a property tax credit) to molybdenum, vanadium and uranium as an initial step.

Reasons: The limited scope of the present tax involves an unjustified discrimination in favor of the untaxed minerals; taxation of the minerals noted will not prejudice present or future production; and the burden of the tax will fall largely on out-of-state consumers.

Producing mineral properties now enjoy substantial tax advantages under the property and state income taxes which constitute a discrimination against other types of industry; the property tax credit has the effect of reducing

corporate tax liability by nearly 50 percent and individual tax liability by 85 percent, thereby greatly accentuating the inequality in overall tax burdens; the burden of the tax exclusive of the property tax credit will not be out of line with that imposed by most neighboring states; and there is no reason to anticipate unfavorable effects upon resource development and utilization.

Revenue Effects: Elimination of the property tax credit will increase yields by approximately $3,000,000, and taxation of the three minerals (using 1956 data on value of product) will produce in excess of $2,200,000 annually.

Pari-Mutuel Tax

Breakage

General Statement: Under existing law "breakage" resulting from paying, in even multiples, winnings from pari-mutuel betting cannot revert to the State. Instead such proceeds are a part of the gross take of the racing associations conducting the meets.

Recommendation: That breakage continue to be retained by the racing associations.

Reasons: Average proceeds from breakage covering experience in recent years have amounted to approximately $300,000. Racing associations in Colorado have had a varying profit record in which developmental costs have been a factor limiting income. This and the fact of a relatively low volume indicate that the breakage factor may spell the difference between a profit and a loss.

In this connection it is of interest that of the six Western States which have legalized pari-mutuel racing only California requires that proceeds from breakage shall revert to the State government. A review of all twenty-four states which have pari-mutuel indicates that dollar volume of betting (and therefore profits) determines state policy in the distribution of breakage. Thus in Florida, New Jersey, New York, Illinois and California—all high volume states—a whole or a part of the breakage reverts to the State. On the other hand in low volume states the reverse tends to hold, that is, the racing associations retain all receipts from breakage.

The Tobacco Tax

General Statement: At present, Colorado does not impose a special excise tax on cigarettes or other tobacco products. Approximately 30 municipalities in the State, however, levy a cigarette tax at a rate of from 1 to 3 cents per pack, the most common being 2 cents.

Recommendation: A state cigarette tax should be enacted at a rate of 2 cents per pack. The tax should be administered by the sale of stamps to the "first handler," usually the wholesaler, who will then be required to affix the stamps to the cigarette packs. For this service, and to encourage compliance, the dealer should be given a 5 percent discount when he purchases the stamps.

A tax on other tobacco products should not be imposed at this time.

Reasons: Colorado is one of only six states which presently do not impose a cigarette tax. In addition, the earmarking of the revenues from such a tax no longer provides a barrier to the use of the tax since the 1956 Constitutional Amendment will permit an overflow into the General Fund. Hence, Colorado would join a majority of 42 states by enacting the tax and the revenues will accrue essentially to the General Fund.

Although the most common rate in surrounding states is $.04 per pack, the proposed rate for Colorado is only $.02 because municipal use is widespread in Colorado. Hence, with the common municipal rate of $.02 and a state rate of $.02, the aggregate burden would be commensurate with that of most bordering states.

While the allowance of dealer discounts results in a loss of revenue, it appears necessary as an enforcement measure and to encourage compliance with the tax. Moreover, 41 of the 42 tobacco tax states allow such discounts which, on the average, amount to approximately 5 percent.

The special taxation of other tobacco products is commendable on the grounds of equity but involves administrative problems and is not widely used by other states. Hence, no excise tax on other tobacco products is recommended at this time.

Revenue Effects: It is estimated that a State cigarette tax in Colorado would yield an annual amount of approximately $2.177 million for each cent of tax levied. Hence, a $.02 tax would yield a gross annual amount of approximately $4.4 million. Administrative expenses, and discounts of approximately $220,000 would have to be deducted to determine the net amount which would be realized by the State.

Shared Taxes and State Aids

Distribution of Highway User Fund

General Statement: The Highway User Tax Fund is allocated on the basis of 65 percent to the State Department of Highways, 30 percent to the counties, and 5 percent to the cities and towns.

Recommendation: Change present basis of allocation to the counties and cities to insure equal aid for the same types of facilities.

Reasons: It is obvious that a policy which denies cities and towns a substantial and increasing share of motor vehicle tax funds is

unacceptable on theoretical grounds and wholly unrealistic in terms of the practical problems involved. First, the predominant use principle requires that a large and constantly increasing part of urban facilities be classified as general rather than access, and that state financing be provided on the same basis as for general use facilities outside municipal boundaries. Second, state aid is presently being extended for certain rural roads that are primarily access in character. Equity also clearly dictates uniformity in this phase of state policy. In short, so long as the type of use and nature of benefits principle is employed as a basis of financing policy, there is no justification for applying it in a discriminatory manner. From a practical standpoint, also, the most crucial technical and financial problems of developing and maintaining adequate motor transportation facilities are centered in the urban areas. Interstate or through traffic may be diverted around or to one side of the cities and towns to lessen congestion and save time for the tourist, although the urban economy may suffer. However, a state highway program and policy which disregards the needs of the majority of motor vehicle owners and the major portion of traffic volume is clearly unsound. Such action is even more flagrant when this same group of users is paying the lion's share of the cost of a system financed by special user benefit taxes.

General Assistance

General Statement: State payments for welfare cover (1) old age pension, (2) aid to dependent children, (3) aid to the blind, (4) aid to needy disabled, (5) child welfare, (6) tuberculosis hospitalization, and (7) administration. Not included as an aid program is "general assistance" which is financed exclusively by the counties.

Recommendation: Re-establish State Aid for General Assistance on a basis comparable to that which existed prior to 1952.

Reasons. State aid was available for general assistance until 1952 and was dropped with the introduction of the federal program of Aid to the Needy Disabled under the assumption that the latter would, in its effect, replace the first. This has not proved out. In many cases general assistance is needed for resident persons who still cannot qualify for one of the existing welfare programs. This applies particularly to aged persons who lack residence to qualify for the old age pension. In many cases also, persons who do qualify under the federal and state aid programs need supplemental aids to carry them through. Finally the transient problem is one that falls heavily on certain communities, particularly the larger cities.

As a result of this "uncovered" area of need, a continuing and sizable demand is placed on local funds for this purpose which in 1957 amounted to a total of $3.5 million or nearly one-half of the county provided welfare payments on all programs of welfare. Yet the average payment per person for general assistance was only $11.88 with individual county payments varying from a low of $3.42 to a high of $30.44.

State financing of the program which is now inadequately supported would, aside from improving standards, importantly reduce the pressure on county budgets notably the City and County of Denver which carries the lion's share of the burden.

Revenue Effects: Added cost to State would be $750,000 to $1,000,000.

RECOMMENDATION: PROGRAM FOR STATE BUDGET REQUIREMENTS IN 1960

It has ben estimated that demands upon the State's General Fund for the fiscal year ending in 1960 will require approximately $10 million in additional revenue. To meet this requirement a tax program as outlined below is presented. It will be observed that the recommended changes are designed to reduce the regressivity of existing taxes and by placing principal reliance on the income tax for net revenue additions, the changes would, as a whole, result in a more balanced and equitable tax structure.

	Change in Revenues Increase	Decrease
1. Personal Income Tax		
(a) Adjust bracket rates to range from 3 to 8 percent	$11,638,000	
or		
Eliminate federal tax deductibility	10,069,000	
(b) Include capital gains at 100 percent, except on personal homes or residences	1,401,000	
and		
Eliminate surtax on interst and dividend income		$1,599,000
(c) Permit full medical expense deduction		500,000
2. Retail Sales and Excises		
(a) Exemp food (off premises)		8,408,287
(b) Add:		
Amusements	1,384,000	
Lodging, hotels, motels, camps	1,094,000	
(c) Reduce vendor's discount from 5 to 3 percent	850,000	
(d) Special excise on cigarettes at 2 cents	4,435,000	
(e) Increase light wine rate from $.12 to $.20 per gallon	25,000	
Increase fortified wine from $.24 to $.30 per gallon	55,000	
Increase beer rate from $.03 to $.06 per gallon	625,000	
Total Sales and Excises	$ 8,468,000	$8,408,287
Net Increase in sales and excise revenues	59,713	
3. Insurance Tax		
(a) No change in existing 2 percent rate		
(b) Eliminate companies exempt because of 50 per cent asset investment in State	40,000	
NET INCREASE IN TOTAL REVENUES:		
A. If bracket rates are revised	11,039,713	
B. If federal tax deduction eliminated	9,470,713	

Other Policy Questions—Economy and Governmental Reorganization

Economy in government has been variously covered throughout the course of this study. The reason for bringing it up again is to both emphasize and qualify this concept and its fiscal importance.

When a unit of government proposes that additional revenues be raised to meet increased expenditure requirements, the question of economy or reducing costs is invariably brought into policy discussion as a possible alternative. This is understandable since the paying of more taxes is always a painful adjustment to make.

Unquestionably, economy in the use of public funds is as essential as is the use of any scarce resource in the private economy. However, "cutting the suit to fit the cloth" can be overdone. If it results in cutting essential services the "economy move" would be ill-advised at best. In Colorado over 80 percent of total state and local governmental expenditures are directed to education, welfare and highways. If cost savings on any sizable scale are to be relied upon to cover revenue needs it is important to recognize that it is in these major functional areas that the pruning knife would have to be applied.

Undoubtedly there is waste and inefficiency that could be eliminated but many activities that may be inefficient now are inefficient because personnel or equipment is inadequate and removing this kind of inefficiency will cost more money, not less. Efficiency in government, as elsewhere, means efficiency in the use of the public dollar and not necessarily spending fewer dollars.

State Organization. The greatest opportunity for achieving increased efficiency in government and in time cost savings is in the large area of administrative organization of the State government. Colorado's structure was found to be one of the most complex in the nation, with 138 independent or semi-independent agencies variously designated as "offices," "boards," "bureaus" and "commissions," each of which has a separate existence in law, including in most cases a legally established "cash fund" to sustain it. As such the complexity of the administrative organization is reflected in an equally complex and cumbersome fund structure.

The duplication of functions, salaries and overhead necessitated by the existing arrangements are obvious. More importantly, the independent agency system diffuses executive power to the point where the Governor's authority and responsibility under the Constitution to see "that the laws are faithfully executed" are seriously impaired.

All evidence indicates a need for a thorough overhaul of an antiquated system that like Topsy has "just grown." This would involve the consolidation of agencies under major integrated departments headed by an appointed official responsible to the Governor.

Urban Government. The revolutionary growth of urban population in and around established cities and towns has placed a tremendous strain on municipal finances as well as existing arrangements for providing needed services. Traditional devices including municipal annexation and the special district have proved to be inadequate as a means of meeting these problems.

The City of Denver which contains one-third of the State's total population is the cardinal example of the "Metropolitan Movement" which in Denver has meant a larger and more prosperous community but one also that has brought to it a seemingly insuperable fiscal problem. Its solution which is a matter of state-wide concern waits upon new approaches in state-local and local-local governmental cooperation, the inauguration and formulation of which is definitely a prime responsibility of the State.

County Government. County government in Colorado is antiquated in parts and needs reexamination. Rapid population increase has created new demands upon counties and the needed degree of flexibility in their operations is not possible under existing law. Conversely, population decline in other county areas has reached the point where boundary revision is mandatory if "economy in government" is to have any meaning at all.

School Consolidation. The future course of consolidation faces many problems which are not readily solved. Great distances and sparse population is a principal deterrent to early action. Extreme "localism" is another. That the need exists for much more extensive reorganization of Colorado's school system is apparent from the fact that in 1958 there were 731 third-class districts, of which 183 were one-teacher systems.

CHAPTER I

THE ECONOMY OF COLORADO

Colorado's public expenditure and revenue policies are basically a reflection of its economic and population structure. It is clear, for example, that the kinds and aggregate amount of governmental services called for, and therefore public costs incurred, stem from, and are conditioned by the economic and social needs of the citizens of the State. Similarly, the over-all cost of government as well as the particular revenue sources used must conform in some reasonable degree to the resource pattern and income levels that exist.

As a corollary of the above any planning of future governmental budgets must necessarily be premised on economic growth and population change as these can presently be foreseen. To that end public finance must be so ordered that it will accommodate the State's development. It has been aptly said that a tax pattern, like a suit of clothes, must fit the wearer. Although the economy is recognized as the principal factor shaping fiscal policy, final decisions are subject to a host of value judgments, some of which may, and frequently do, conflict with the general interest.

How well the fiscal system in Colorado has been measured to the requirements of the economy and the people of the State is a question that will occupy principal attention in succeeding chapters of the study. In this chapter the objectives are limited to a summary review of the State's economy, in which its characteristics and growth potentials are set forth. As such, it provides a basic frame of reference for subsequent expenditure and tax policy review and analysis.

General Features of Economy

Colorado is one of the eight states included by Census classification in the "Mountain Division."[1] To most people this area suggests a rugged region of snow capped mountain ranges, high peaks, deep valleys, rushing streams and generally breath-taking scenery of endless variety. Associated also in general thinking about the region is an economy facing natural odds but one which nevertheless can support a limited population from its mines and from such agriculture as is possible on a semi-arid land surface with limited water supply, and intervening mountains and waste lands.

As one of the Mountain States, Colorado probably most closely approaches the popular conception of what such an area should look like from a scenic point of view. In the main, also, its economy is typical of the mountain region. Its population is necessarily sparse because of its natural environment but it is growing at a rate faster than most states. Personal incomes have increased substantially although on a per capita basis they are still slightly under the national average. Historically, mining and farming have been the basic activities of the State's economy but both have declined in importance relative to manufacture and trade. The latter has established Colorado as a principal industrial and supply center for the entire Mountain West and accounts for such growth as the State has experienced over the past three decades.

Colorado's economic development has been and may be expected to continue to be importantly affected by its location, topography and population density each of which, singly, or in combination coordinately tend to both enhance as well as to retard industrial progress.

Colorado's location places it at a long distance from heavily populated areas—a physical fact that has limited the development of industry, notably heavy industry, producing for national markets. But, by the same token, the locational factor has given strong impetus to the growth of local manufacturing and wholesaling oriented to the large and growing regional market of the West.

Wide variation in topography and climate, complemented by a similar variation and location of basic minerals and agricultural products, has separated the State into a complex of local specialized economies each dependent, in large degree, upon a single basic product or activity. Community specialization, though inherently unstable and uneven in income opportunity, results in a highly diversified economy for the State as a whole. The over-all leveling effects of this may more than offset the hazards of the one-crop or single-industry specialty of the local communities.

Sparse population in most areas of the State and great distances between trade centers has caused the latter to become largely autonomous

[1]This is a standard area classification used by the U. S. Bureau of the Census and includes Colorado, Wyoming, Utah, Idaho, Montana, New Mexico, Arizona and Nevada. In this and subsequent chapters the "Mountain Division" will be referred to as the "Mountain States" and when joined with the "Pacific Division" which includes Washington, Oregon and California, the consolidated group of 11 states will be designated as the "West" or "Western States."

in providing a full complement of both business and public services. As a result, small business and local government are characteristic and very important in Colorado.

The cost implications to local government are clear. A sparse population and the need for complete utility services, schools and other governmental facilities and services including highways—which must be constructed and maintained on difficult terrain—combine to create a situation where high per capita as well as high unit costs of operation are apt to exist. Attempts to consolidate governmental units to reduce costs as well as to improve service, notably among school districts, are hampered by intervening distances although movement in this direction is being made with some success. Although not meeting the cost problem, as such, the fact that railroad property constitutes an important part of the tax base in many sparsely settled county or smaller governmental jurisdictions has helped to carry the per capita burden as has state and federal aids in one form or another.

Although the principal areas of the State are essentially rural, the overriding fact is that the greater proportion of the population is urban and largely contained in the four-county Denver Metropolitan Area. It is in this urban setting where over-all State growth, both in industrial employment and population, has largely taken place in recent years. The sharp rise in the population of Denver as well as its immediately adjoining suburban areas has forced a corresponding increase in the need for public services with resultant tax problems which are distinctive both in character and magnitude.

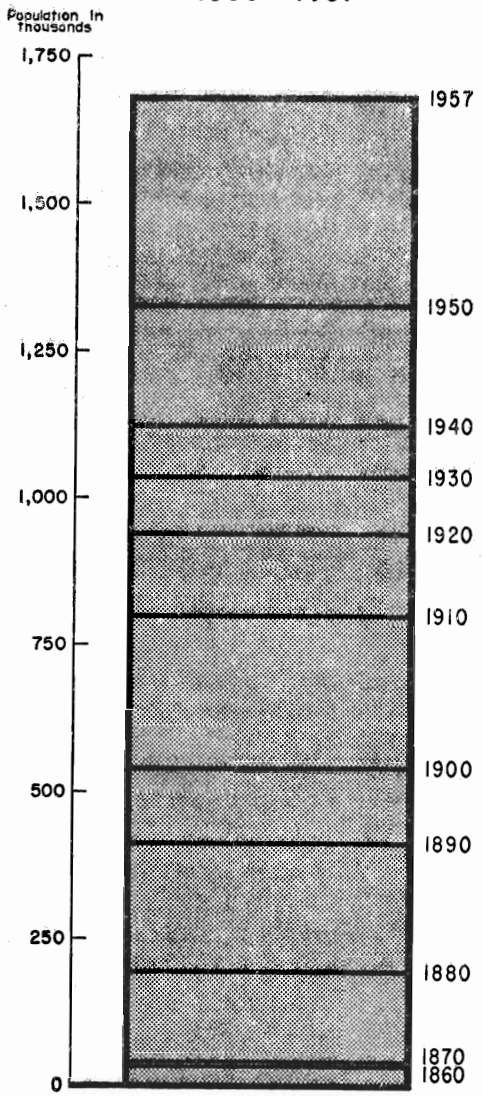
Colorado's future progress may be expected to follow past trends with industry and population tending to grow most rapidly in the State's three major metropolitan areas,[2] but chiefly in the Denver Area. Coupled with this trend, a less rapid but steady growth is most likely to occur in the sparsely populated areas of the State where natural resources are highly diversified and large in developmental promise.

Population

Colorado's rate of population growth has consistently exceeded that of the country as a whole. As such, it reflects the larger continental trend towards the West which has been observed since the beginning of the nation's history. Decennial growth rates have varied sharply, however, since the State's origin as an organized territory in 1861. As can be seen from Table 1.1 and Chart 1.1 these have ranged from a high of 387 percent from 1870 to 1880—a period marking the mining boom of the 1870's—to a low of 8 percent for the depression years from 1930 to 1940.

Most recent estimates of the Bureau of the Census show a total population in Colorado of 1,612,000 for 1956. This represents a 22 percent increase since 1950—a rate of gain exceeded by only five other states, namely, Nevada, Arizona, Florida, California and Delaware. It is significant also that of the ten states in the union showing the largest percentage increases for this

POPULATION GROWTH IN COLORADO
1860 - 1957



SOURCE: U.S. Census of Population, 1860-1950; 1957 estimate by Colorado State Planning Division

CHART 1.1

[2]As defined by the U. S. Bureau of the Census and as the term "Metropolitan Area" is used in this study these include: Denver (Denver, Adams, Arapahoe and Jefferson counties), Pueblo (Pueblo county), and Colorado Springs (El Paso county).

Table 1.1

Population of Colorado, Mountain and Pacific State Groups, and United States 1860-1956

Year	Population (thousands)				Intercensal increase (percent)			
	Colorado	Mountain[a]	Pacific[b]	United States	Colorado	Mountain[a]	Pacific[b]	United States
1860	34	175	441	31,443	—	—	—	—
1870	40	315	675	39,818	16.3	51.4	52.0	26.6
1880	194	653	1,115	50,156	387.5	107.3	65.1	26.0
1890	413	1,214	1,888	62,948	112.7	85.9	69.4	25.5
1900	540	1,675	2,417	75,995	30.6	38.0	28.0	20.7
1910	799	2,634	4,192	91,972	48.0	57.3	73.5	21.0
1920	940	3,336	5,567	105,711	17.6	26.7	32.8	14.9
1930	1,036	3,702	8,194	122,775	10.2	11.0	47.2	16.1
1940	1,123	4,150	9,733	131,669	8.4	12.1	18.8	7.2
1950	1,325	5,150	14,486	150,697	18.0	22.3	48.8	14.5
1956	1,612	6,127	17,818	167,191	(21.7)[c]	(20.7)[c]	(23.0)[c]	(10.9)[c]

[a] Colorado, Utah, Idaho, Montana, Wyoming, New Mexico, Arizona, Nevada.
[b] Washington, Oregon, California.
[c] Percent change 1950-1956.

Source: U. S. Bureau of the Census, *Census of Population, 1860-1950;* and *Current Population Reports*, Series P. 25, No. 148, November, 1956.

six-year period, five were mountain states, namely, Nevada, Arizona, Colorado, New Mexico, and Utah.

The 1950 to 1956 population increase of nearly 300,000 people is accounted for by natural increase, or births over deaths—estimated to have amounted to 57 percent of the total increase—and by in-migration or 43 percent of the total (Table 1.2). The last, which stems from increased incomes and new jobs, considered later in more detail, largely explains Colorado's relatively rapid growth during the period.

Table 1.2

Estimated Changes in Population of Colorado 1950-1956

Census population, 1950		1,325,089
Live births	251,200	
Deaths	80,500	
Natural increase		170,700
Net civilian migration	104,300	
Net military migration	22,500	
Net migration, total		126,800
Population, July 1, 1956		1,622,589[a]

[a] Note that this figure is 10,589 higher than the Bureau of Census estimate given in Table 1.1.

Source: Bureau of Business Research, University of Colorado, *Colorado Business Review*, No. 12, December, 1956.

Migration. The State's capacity to attract people from other sections of the country measured from 1940 to 1955 is shown in Table 1.3. It will be observed that during the war Colorado actually lost civilian population, or a total of 33,000, a number which was more than offset from 1945-1955 by a net increase through migration of 152,000 persons. Of this number somewhat over one-half came into the State after 1950. Furthermore, after 1950 the eleven Western States added through migration a total of 1.7 million to their combined civilian population while the rest of the country lost, on balance, a total of 233,000 persons.

Migration is not a one-way street however. As people move in there are also people moving out. An outward movement can be quite large even if the inflow of population is sizable. Colorado's experience for a selected one-year period (1949-1950) is illustrative. During this period in-migrants numbered 75,155 while out-migrants totalled 64,000.[3] If this can be taken as a fairly typical relationship it would mean that for every 7 persons coming into the State another 6 are moving out.

Table 1.3

Estimated Gain or Loss from Net Civilian Migration[a] for Western States and All Other Regions, 1940-1955

(thousands)

State or region	1940-1942	1942-1945	1945-1950	1950-1955	1940-1955
West	491	2,035	889	1,727	5,142
Colorado	—29	—4	72	80	119
Utah	5	14	—5	15	29
Idaho	—52	3	28	—35	—56
Montana	—40	—27	33	—14	—48
Wyoming	—16	—2	11	—9	—16
New Mexico	—51	6	57	[b]	12
Arizona	—14	73	79	147	285
Nevada	24	[b]	8	55	87
Washington	86	317	—49	50	404
Oregon	24	187	88	52	351
California	554	1,468	567	1,386	3,975
New England	119	47	[b]	—225	—59
Middle Atlantic	—279	—146	874	425	874
East North Central	597	53	258	933	1,841
West North Central	—478	—384	4	—251	—1,109
South Atlantic	129	—42	—87	115	—115
East South Central	—261	—495	—460	—845	—2,061
West South Central	—169	—511	—211	—385	—1,276
United States	150	557	1,268	1,495	3,470

[a] Net civilian migration comprises both net migration from abroad and net interregional, interdivisional, or interstate migration of civilians according to area shown.
[b] Less than 1,000.

Source: Derived from U. S. Bureau of the Census, *Current Population Reports*, P. 25, Nos. 72 and 145, May, 1943 and October, 1956.

[3] U. S. Bureau of the Census, *Population Mobility—State Economic Areas, 1950*, Table 6, p. 4B-29 and Table 8, p. 4B-32 (Washington, D. C., 1950).

The intra-state movement of the population is of interest also. For this same one-year period Census reports show an internal movement including persons moving out of the State as follows:

Number of persons moving to a different county in Colorado	140,260
Number of persons moving to a different house in same county	170,460
Number of persons moving to another state	64,490
Non-movers	956,066
Total population reporting	1,331,276

Activity such as this has many facets of interest and carries implications of considerable importance to tax administration in the State. A large ebb and flow of population is unlikely to be fully reflected on tax rolls and revenue losses occur as a result. The magnitude of both in-migration and out-migration including intra-state movement in Colorado indicates what the scope of the problem might be.

Population Density and Distribution. Despite impressive growth rates, Colorado is still sparsely populated. In 1950 it had an average of only 12.8 persons per square mile, ranking seventh in land area but only thirty-fourth in population. Its over-all population density placed it in thirty-ninth position reading from high to low followed by the remaining seven Mountain States and North and South Dakota.[4]

Population growth has not been distributed uniformly, however, but has tended to concentrate in urban areas and particularly in the Denver Metropolitan Area. The trend in this direction, which has been continuous over the years but one that has been most marked during the past two and a half decades, shows that about two-thirds of the State's population was urban in 1956. By contrast the comparable ratio in 1930 was one-half. Moreover, in 1956 the Denver Metropolitan Area alone accounted for 44 per cent of the population while in 1930 it was 34 percent (Tables 1.4 and 1.5).

Table 1.4

Urban[a] and Rural Population of Colorado Census Years 1930-1950 and 1956

	Number			Percent		
Year	Urban	Rural	Total	Urban	Rural	Total
1930	519,882	515,909	1,035,791	50.2	49.8	100.0
1940	590,756	532,540	1,123,296	52.6	47.4	100.0
1950	759,939	565,150	1,325,089	57.3	42.7	100.0
1956	1,067,573	545,016	1,612,589	66.2	33.8	100.0

[a] Defined as incorporated places of 2,500 population and over.

Source: U. S. Bureau of the Census, *Census of Population, 1930-1950; Current Population Reports*, Series P. 25, No. 148, Nov. 18, *1956;* and Colorado State Planning Commission, *Gazetteer of Incorporated Cities and Towns in Colorado, 1956.*

All rural counties have in a greater or lesser degree felt the impact of the country-to-city movement. Either they have lost population in the absolute or they are growing at such a slow rate as to indicate that their natural increase is not being retained. Thus, from 1940 to 1956, when the over-all State population increased by 44 percent, 23 counties lost population at rates ranging from slightly less than 1 percent to 57 percent, while 32 gained at rates which varied up to, but in no case, reached the general State average. The remaining 8 counties which are predominately urban, including the four-county Denver Metropolitan Area, were responsible, therefore, for the bulk of the over-all State increase that occurred.[5]

Table 1.5

Percentage Distribution of Population, by Metropolitan and All Other Areas in Colorado Census Years 1930-1950 and 1956

Area	1930	1940	1950	1956
Metropolitan Area[a]	42.6	47.2	54.9	59.2
Denver	34.0	36.3	42.5	44.3
Pueblo	3.8	6.1	6.8	7.0
Colorado Springs	4.8	4.8	5.6	7.9
All other areas	57.4	52.8	45.1	40.8
Total State	100.0	100.0	100.0	100.0

[a] Metropolitan area as defined by the U. S. Bureau of the Census. (See footnote 2 of this chapter.)

Source: Derived from U. S. Bureau of the Census, *Census of Population, 1930-1950*, and Bureau of Business Research, University of Colorado, *Colorado Income, 1958.*

The trend toward urban areas is by no means peculiar to Colorado but is a nation-wide development generally attributed to increased industrialization in metropolitan areas which has attracted rural populations released by labor saving machinery, notably the tractor, and by enlarged acreages per farm with ensuing decline in the number of farm owners and operators. The decline of mining activity in certain areas of the State has also been a contributing factor.

The total population of the State, as well as its internal movements, raises a series of questions bearing on present as well as future tax problems at both the state and local levels. For example, does a decline in the number of people in a given area mean also a drop in local revenues, with a corresponding need say, for increased state aids? Or, is the reverse true? On the other hand, does a growing community gain a tax base proportionate to the increased public service which growth demands? If not, where and by what means can either the local government or the State or both make the adjustment that will meet the problem? These and other questions call for more than quick answers and are dealt with in some detail in later chapters. Here it is sufficient to point out that basic changes in both population and its underlying economic base require a continuous review of tax policies since some may no longer apply in a situation that has changed.

[4] *Statistical Abstract of the United States, 1957*, pp. 8 and 158, (Washington, D. C., 1957).

[5] Bureau of Business Research, University of Colorado, *Population*, (Boulder, Colorado, 1958).

Age Pattern. Colorado has a larger ratio of population in the lower age groups than that for the country as a whole—a fact attributed in large degree to its relatively high net gain from migration which favors younger families (Table 1.6). From the viewpoint of industry this means a relatively younger and more vigorous labor force. A younger age group structure has meaning for government also since it results in added pressure on school facilities with ensuing enlarged demands on public budgets at both the state and local levels of government.

Table 1.6

Percentage Distribution by Age Groups of Civilian Population for Colorado, Western State Groups, and the United States, 1955

Age Group (years)	Colorado	Mountain States	Pacific States	United States
	Percent of Total			
0- 4	11.9	13.0	11.1	11.3
5-17	23.3	25.5	21.8	23.0
18-34	24.1	23.5	22.9	22.6
35-44	13.1	12.9	14.6	13.9
45-64	18.9	17.7	20.8	20.5
65 and over	8.7	7.4	8.8	8.7
Total	100.0	100.0	100.0	100.0

Source: U. S. Bureau of the Census, *Current Population Reports*, Series P. 25, No. 151, February 1, 1957.

The proportion of persons in the age bracket from 65 years and over is, however, the same as the national average. It is somewhat above the general average of the Mountain State group but slightly under the ratio shown for the Pacific Coast states.

Particular attention is directed to this advanced age category since the impression is not uncommon that Colorado tends to attract older persons because of its relatively high old age pension program. The above-noted relationships do not indicate this nor do recent increases in this age group. As noted in Table 1.7, Colorado's percentage increase between 1950 and 1955 of persons 65 years and over was under the general average reported for both the Mountain States and the country as a whole.

Table 1.7

Percentage Increase, by Age Groups, of Civilian Population for Colorado, Western State Groups and the United States from 1950 to 1955

Age Group (years)	Colorado	Mountain States	Pacific States	United States
0- 4	20.9	21.7	22.5	13.3
5-17	29.7	27.0	41.0	21.9
18-34	7.0	5.9	5.6	5.1
35-44	10.8	10.3	13.2	5.7
45-64	11.0	12.7	14.4	8.9
65 and over	14.0	20.7	20.3	15.4
Total	15.2	15.6	18.2	15.4

Source: U. S. Bureau the Census, *Current Population Reports*, Series P. 25, No. 151, 1957.

Educational Level. Colorado has a relatively favorable educational achievement record. The Census for 1950 provides two indices that point to this. The first, which shows by areas the "median school years completed by persons 25 years old and over" finds Colorado, with a median of 10.7 school years completed, well above the national average of 9.3. The second index, derived by determining the "percent of population 25 years old and over that had completed 4-years of college," places Colorado with a ratio of 8.3 percent also above the national average of 6.2 percent and in second leading position in the comparison group of eleven Western States (Table 1.8).

Table 1.8

Educational Level of the Population in Western States, 1950 and 1954

(Rank order of states appears in parenthesis)

State	Median school years completed by persons 25 years old and over, 1950	Persons with four or more years of college as a percent of persons reporting 1950	Percent failed Selective Service Mental Test 1954
Utah	12.0(1)	7.8(3)	3.0(2)
California	11.6(2)	8.4(1)	11.0(8)
Nevada	11.4(3)	7.6(5)	16.7(11)
Washington	11.0(4)	7.4(6)	4.6(6)
Wyoming	10.9(5)	7.3(7)	3.2(4)
Colorado	10.7(6)	8.3(2)	5.7(7)
Oregon	10.7(7)	6.8(9)	2.5(1)
Idaho	10.5(8)	5.6(11)	4.3(5)
Montana	10.1(9)	6.2(10)	3.1(3)
Arizona	9.9(10)	7.7(4)	12.4(9)
New Mexico	9.3(11)	7.1(8)	14.1(10)
United States	9.3 —	6.2 —	16.9 —

Source: U. S. Bureau of the Census, *Census of Population, 1950*, Vol. II, parts 3-50, Table 65 and *Statistical Abstract of the United States, 1955*, Table 273, p. 230.

A third measure of the relative educational level of the State is provided from the record of the Selective Service showing the percent of draftees failing the mental test given in 1954. As noted in Table 1.8 the ratio of failure among Colorado residents was 5.7 percent as compared with the national average of 16.9 percent. It will be observed, however, that the Colorado ratio was slightly above the median average of the eleven Western States.

The conclusion is that Colorado as a whole has done a relatively good job in providing mass education at both the elementary and secondary school levels. Moreover, its relative showing in higher educational achievement is outstanding.

From this it may be assumed that Colorado's margin of unemployables is relatively small while its supply of skilled and professionally trained workers is relatively high—a situation favorable to continued industrial advance. It may be assumed also that a well educated citizenry will continue to require and call for a high standard of governmental performance and facilities which will likely not be denied by the apparent limitations of public budgets.

Table 1.9

Personal Income in the United States and Colorado, 1929-1957

Year	Current Dollars: Total (millions) U. S.	Current Dollars: Total (millions) Colo.	Current Dollars: Per Capita U.S.	Current Dollars: Per Capita Colo.	Current Dollars: Colo./U.S. percent	1957 Dollars[a]: Total (millions) U. S.	1957 Dollars[a]: Total (millions) Colo.	1957 Dollars[a]: Colo./U. S. percent
1929	$ 85,661	$ 642	$ 703	$ 637	90.6	$140,428	$1,052	0.75
1930	76,780	603	624	580	92.9	129,259	1,015	0.78
1931	65,597	501	529	474	89.6	121,251	926	0.76
1932	50,022	380	401	356	88.8	102,926	782	0.76
1933	47,122	380	375	355	94.7	102,439	826	0.81
1934	53,482	397	423	369	87.2	112,357	834	0.74
1935	60,104	477	472	442	93.6	123,164	977	0.79
1936	68,363	586	534	538	100.7	138,667	1,189	0.86
1937	73,803	586	573	531	92.7	144,428	1,147	0.79
1938	68,433	564	527	507	96.2	136,321	1,123	0.82
1939	72,753	578	556	516	92.8	147,273	1,170	0.79
1940	78,522	617	595	546	91.8	157,675	1,239	0.79
1941	95,953	728	719	648	90.1	183,466	1,392	0.76
1942	122,417	1,010	909	891	98.0	211,064	1,741	0.83
1943	148,409	1,185	1,102	1,030	93.5	240,924	1,924	0.80
1944	160,118	1,195	1,194	1,063	89.0	255,779	1,909	0.75
1945	164,549	1,317	1,234	1,183	95.9	257,108	2,058	0.80
1946	175,701	1,429	1,249	1,195	95.7	253,171	2,059	9.81
1947	189,077	1,654	1,316	1,338	101.7	238,132	2,083	0.87
1948	207,414	1,760	1,420	1,394	98.2	242,589	2,058	0.85
1949	205,452	1,794	1,382	1,385	100.2	242,851	2,120	0.87
1950	225,473	1,930	1,491	1,446	97.2	263,711	2,257	0.86
1951	252,960	2,284	1,649	1,732	105.0	274,063	2,474	0.90
1952	269,050	2,468	1,727	1,804	104.0	285,010	2,614	0.92
1953	283,140	2,492	1,788	1,735	97.0	297,416	2,618	0.88
1954	285,339	2,543	1,770	1,694	95.7	298,784	2,663	0.93
1955	306,598	2,783	1,866	1,784	95.6	322,057	2,923	0.95
1956	327,947	3,045	1,961	1,870	95.3	339,138	3,149	0.96
1957	345,272	3,339	2,027	1,996	98.5	345,272	3,339	0.97

[a] Adjusted by Bureau of Labor Statistics, Index of Consumer Prices for 1957.

Source: Adapted from U. S. Department of Commerce, *Survey of Current Business*, Annual articles.

Income

Evidence based on personal income data[6] indicates that Colorado is best described as an average income state. However, a better-than-average rate of income growth both in total and per capita terms reflects a constantly increasing capacity of the State's economy to support such population increases as have been experienced, particularly during the past decade and a half.

Total Personal Income. In 1957 Colorado's personal income totaled $3.3 billion, a figure which exceeded by 73 percent the corresponding total for 1950 and by 420 percent the aggregate reported for 1929 (Table 1.9). After eliminating the effects of inflation these gains on a uniform purchasing power basis were 48 percent and 217 percent, respectively. As an approximation it can be said that the real productivity of the State as a whole was about 50 percent greater in 1957 than in 1950 and slightly more than 200 percent over what it was in 1929. For the country as a whole the comparable real gains were somewhat lower or at rates of 31 percent and 146 percent for the two periods, respectively.

In Table 1.9 Colorado's relative performance is shown by its increased proportion of the nation's income total. Thus, Colorado's share, though relatively small, increased from 0.75 percent in 1929 to 0.97 percent in 1957. The State's relative gain has been particularly marked during the past decade as witnessed by a fairly continuous advance from 0.81 percent of the total in 1946 to 0.97 percent in 1957—a development which parallels as well as explains, in an immediate sense, the relatively rapid population gains of the State in recent years.

Per Capita Income. Although over-all income and its rate of change is a meaningful indicator of the health and vigor of an economy, it is important to recognize that it is the level of income related to people that matters most. The usual statistical expression of this relationship is per capita income.[7]

In 1957 Colorado's per capita income was $1,996 or an amount equal to 98 percent of the national average of $2,027 (Table 1.9). It was

[6] "Personal Income" by states, as defined and reported by the U. S. Department of Commerce, includes all wages and salaries received, proprietors income and income from property ownership and miscellaneous sources including public assistance and other payments of a similar nature. Excluded are: incomes earned in the state by non-residents and corporate earnings retained. Included, however, are incomes of residents received from out-of-state.

Personal income aggregates fall short of measuring the total current incomes earned in a state in a given year. In other words, these data if combined for all 48 states would not add up to the nation's "Gross National Product" or "National Income"—a breakdown of which, unfortunately is not available either by individual states or regions. Changes in personal income totals do, however, correlate closely with changes in total income and in that regard are useful indicators of economic progress. Moreover, personal income totals serve quite well as measures of economic wellbeing and capacity.

[7] As an over-all average, per capita income fails to show income distributions by persons or families. However, in the absence of more refined data this average is used throughout the study to the extent that it points to significant relationships and trends.

higher, however, than that of thirty-two other states including all the Mountain States except Wyoming and Nevada.

Since World War II per capita income in the State has moved steadily upward due in part to productive efficiency and in part to price inflation. If the price influence is eliminated the "real" per capita increase has been substantial. Thus, from 1950 to 1957 the real increase amounted to 18 percent. Over the long run taking 1929 to 1957 as years of reference the gain was 91 percent. Comparable national ratios are 16 percent and 76 percent, respectively.

Over the years Colorado's per capita income has been somewhat below the median average of the eleven Western States. In 1957, however, it was slightly above the average as noted in Table 1.10.

Table 1.10

Per Capita Personal Income in Western States
Selected Years 1940-1957

(Rank order of states appears in parenthesis)

State	1940	1946	1950	1957
Nevada	$876(1)	$1,717(1)	$1,938(1)	$2,423(2)
California	840(2)	1,654(2)	1,848(2)	2,523(1)
Washington	662(3)	1,395(4)	1,671(3)	2,128(3)
Oregon	623(4)	1,396(3)	1,602(4)	1,914(6)
Wyoming	608(5)	1,340(5)	1,629(5)	2,038(4)
Montana	570(6)	1,278(6)	1,606(6)	1,896(7)
Colorado	546(7)	1,195(7)	1,446(7)	1,996(5)
Arizona	497(8)	1,083(10)	1,297(8)	1,750(8)
Utah	487(9)	1,094(9)	1,283(9)	1,694(9)
Idaho	464(10)	1,169(8)	1,279(10)	1,630(11)
New Mexico	375(11)	906(11)	1,163(11)	1,686(10)
Average 11 States	704	1,478	1,688	1,971
United States	595	1,249	1,491	2,027

Source: Derived from U. S. Department of Commerce, *Survey of Current Business*, Annual articles.

Despite a relatively rapid growth record Colorado's annual per capita totals have been below corresponding national averages in every year excepting five since 1929. It is significant that of the five above-average years four are fairly recent, or from 1947-1952. Had it not been for the decline in agricultural income, it is likely that this period of better-than-average performance might have extended to the present. As can be seen in Table 1.11, farm income including that of both proprietors and farm labor dropped from $250 million in 1952 to $117 million in 1956 or a decrease of 54 percent. This decline is also reflected in the reduced ratio of farm income to total state income from 10.1 percent in 1952 to 3.8 percent in 1956. However, as also noted, an increase of 65 percent in farm income in 1957 over 1956 brought this ratio up to 5.8 percent.

Per Capita Income by Counties. Per capita incomes differ widely between individual counties. Thus in 1956 when the State's per capita average was $1,863[8] the corresponding county averages ranged from the low of $576 for Costilla County to the high of $6,510 estimated for Rio Blanca County. Moreover, of the sixty-three counties fifty-one had per capita incomes which fell below the State average (Table 1.12). This apparent inconsistency is explained by the fact that Denver County, which accounted for 31 percent of the population and 42 percent of the total income, (Table 1.13) had a per capita income of $2,415, a figure substantially above the State average.[9]

[8]This figure is based on data from the Bureau of Business Research, University of Colorado, included in Table 1.13, which differs slightly from Department of Commerce data reported in Table 1.9.

[9]Data used in this paragraph are from the Bureau of Business Research, University of Colorado, *County Income* (Boulder, Colorado, 1958).

Table 1.11

Personal Income, by Major Sources, in Colorado
Selected Years 1950-1957

Source	Amount (millions) 1950	1952	1954	1956	1957	Percent 1950	1952	1954	1956	1957
Wages & salaries	$1,081	$1,481	$1,584	$1,942	$2,087	56.0	60.0	62.2	63.8	62.5
Trade & service	363	449	487	602	643	18.8	18.2	19.1	19.7	19.3
Government	239	378	424	483	503	12.4	15.3	16.7	15.9	15.1
Manufacturing	186	246	259	319	357	9.6	10.0	10.2	10.5	10.7
Mining	34	51	57	79	85	1.8	2.1	2.2	2.6	2.5
All other	259	357	357	459	499	13.4	14.4	14.0	15.1	14.9
Farming[a]	191	250	134	117	193	9.9	10.1	5.3	3.8	5.8
All other[b]	658	737	825	986	1,059	34.1	29.9	32.5	32.4	31.7
Total	1,930	2,468	2,543	3,045	3,339	100.0	100.0	100.0	100.0	100.0

[a] Includes wages of farm workers.
[b] Includes income of "other proprietors," from "property" and "all other" sources.

Source: U. S. Department of Commerce, *Survey of Current Business*, Annual articles.

Table 1.12

Distribution of Counties in Colorado According to Per Capita Income, 1956

Per Capita Income	Number of Counties
Under—$ 800	5
$ 800— 999	9
1,000—1,199	11
1,200—1,399	10
1,400—1,599	8
1,600—1,799	6
1,800—1,999	7
2,000—2,500	4
Over —2,500	3
Total	63

Source: Bureau of Business Research, University of Colorado, *County Income*, 1958.

Table 1.13

Personal Income in Denver Metropolitan Area and Remainder of State, 1956

Area	Amount	Percent
Denver Metropolitan Area	$1,559,119	52.7
Denver	1,256,972	42.5
Adams	88,767	3.0
Arapahoe	109,862	3.7
Jefferson	103,518	3.5
All other counties	1,448,891	47.3
Total	3,008,010*	100.0

* This total differs slightly from that reported in Table 1.9.

Source: Bureau of Business Research, University of Colorado, *County Income*, 1958.

Stability of Total Income. Historically, Colorado's income has followed the general cycle pattern described for the nation as a whole. There is some evidence, however, that on the downturn income in the State drops less than the average for the nation as well as that for most Western States. For example, during the major decline from 1929 to 1933 Colorado's income dropped at the rate of 40.8 percent which was less than the country-wide average of 45.0 percent and was less than the percentage declines noted for all the other seven Mountain States except Nevada. Similarly, during the brief recession from 1948 to 1949 Colorado's gain in income of 1.9 percent was in contrast to the average national decline of 1.0 percent (Table 1.14).

Analysis limited to only two periods may not be conclusive. However, as later described, the nature of Colorado's economy, heavily based on diversified consumer goods production and distribution, gives support to the statistical evidence noted.

Employment Trends: Summary Review 1940-1956

Population and Employment Relationships. In 1950, the latest date for which complete employment data are available, the civilian labor force numbered 497,648 or 38 percent of the total population of the State. Of this number, 96 percent or a total of 476,538 persons, were employed (Table 1.15). On the average it can be said that the population in 1950 was supported by its employed persons in a ratio of 2.78 to 1. For 1956, the estimated ratio (population 1,612,000, employment 586,000)[10] was approximately the same or 2.75 to 1.

Looking at population as having its support in employment, it can be said that the population gain from 1940 to 1950 amounting to 291,795 persons was made possible by a net increase of 130,000 new jobs (difference between 1940 and 1950 employment totals). The population and employment movement during this period was in a ratio of 1.6 to 1. Similarly, the population increase from 1950 to 1956—estimated at 287,000—had its support in an estimated employment increase of 109,000 or in a ratio of 2.6 to 1.

[10]Estimate of employment for April, 1956, from Bureau of Business Research, University of Colorado, *Colorado Business Review*, Vol. XXIX, No. 6 (Boulder, Colorado, June, 1956).

Table 1.14

Percentage Changes in Personal Income for Mountain States and All Other Regions Selected Periods, 1929-1957

State or region	1929-1933 Depression	1933-1940 Recovery	1940-1945 War	1945-1948 Immediate post war	1948-1949 Recession	1950-1957 From Korean war to present	1929-1957 Long run
Mountain	—45.3	85.1	123.1	32.2	1.7	65.7	455.5
Colorado	—40.8	62.4	113.4	33.6	1.9	73.0	420.1
Utah	—45.0	72.4	149.8	18.4	3.1	61.6	407.7
Idaho	—52.9	80.9	125.6	29.3	0.0	37.8	363.5
Montana	—48.1	96.3	78.6	52.3	—8.6	32.0	304.8
Wyoming	—44.4	62.4	98.7	38.4	5.3	35.9	326.5
New Mexico	—45.0	111.7	146.7	32.2	10.5	75.3	718.1
Arizona	—50.0	93.7	163.7	31.0	6.9	103.1	682.7
Nevada	—39.3	106.2	135.3	17.2	1.1	106.0	719.0
Pacific	—42.8	83.3	162.4	16.7	1.0	70.0	505.7
New England	—38.1	45.0	77.7	22.7	—1.0	49.4	218.4
Middle Atlantic	—42.3	47.5	75.3	25.8	—0.1	47.2	209.1
East North Central	—51.9	83.0	99.3	33.8	—3.3	52.8	283.3
West North Central	—45.2	56.8	111.5	39.6	—7.0	40.6	268.0
South Atlantic	—36.8	79.6	137.1	16.4	1.0	61.7	480.0
East South Central	—46.9	74.9	156.1	21.0	—4.0	46.8	344.2
West South Central	—46.1	76.6	150.7	24.0	5.6	54.8	411.3
United States	—45.0	66.6	109.6	26.0	—1.0	53.1	303.1

Source: Derived from U. S. Department of Commerce, *Survey of Current Business*, Annual articles.

Table 1.15

Employment By Major Industries in Colorado, 1940 and 1950

Industry	—Number— 1940	1950	— Percent — 1940	1950
Agriculture	73,281	71,760	21.1	15.1
Mining	15,897	10,275	4.6	2.2
Manufacturing	35,482	58,280	10.2	12.2
Trade	67,451	100,341	19.5	21.0
Wholesale	11,468	19,565	3.3	4.1
Retail	55,983	80,776	16.2	16.9
Services	100,222	144,990	29.0	30.4
Finance, Ins., R. Estate	11,555	16,942	3.3	3.5
Other bus., and Pers. Services	41,641	50,557	12.1	10.6
Professional services	32,860	50,915	9.5	10.7
Public administration	14,166	26,576	4.1	5.6
Transportation	20,730	29,701	6.0	6.2
Comm. and utilities	8,607	15,304	2.5	3.2
Construction	18,034	38,080	5.2	8.0
All other	6,831	7,807	1.9	1.7
Total	346,535	476,538	100.0	100.0

Source: U. S. Bureau of the Census, *Census of Population*, 1950, Vol. II, "Characteristics of the Population."

Past relationships would indicate therefore that one new job in Colorado is capable of sustaining two to three additional persons in the population. Assuming a reasonably full employment situation, this would have the effect of retaining residents who might otherwise go elsewhere in search of work as well as attracting persons from out-of-state. This is clearly what happened from 1940-1956 as evidenced by a population increase totalling 489,000 persons of which net migration accounted for nearly one-fourth or 119,000.

Population and Employment Growth—Colorado and United States Compared. Colorado's better-than-the-national-average-rate of population growth since 1940 is paralleled by a similar comparative relationship for employment as shown for the census period from 1940 to 1950:

Increase in population	Percent
Colorado	18.0
United States	14.5
Increase of employment	
Colorado	37.5
United States	35.2

The meaning of a relatively favorable employment growth can be shown in these terms:

Colorado's actual employment in 1940	346,535
Colorado's employment in 1950, if employment had increased at the national growth rate	433,862
Colorado's actual employment in 1950	476,538
Lead of Colorado's employment growth relative to national growth	42,676

Similarly, the Denver Metropolitan Area, where the employment increase was at the rate of 54 percent, exceeded the average rate for a comparable group of metropolitan areas[11] as follows:

Denver's actual employment in 1940	140,159
Denver's employment in 1950 if employment had increased at the average metropolitan growth rate of 42.9 percent	200,287
Denver's actual employment in 1950	217,998
Lead of Denver's employment growth relative to comparable metropolitan areas	17,711

Furthermore, in the comparison group of metropolitan areas Denver ranked in fourth highest position in rate of employment increase being preceded by Dallas, San Antonio and San Diego.[12]

Sources of New Employment 1940-1950. The location and industrial sources of the 130,000 new job opportunities that developed during the 1940-1950 decade were the following:

Industry	Total new jobs	In Denver Met. Area	In remainder of State
Agriculture	—1,521	—83	—1,438
Mining	—5,622	—278	—5,344
Manufacturing	22,798	15,227	7,571
Wholesale and Retail trade	32,890	17,818	15,072
Finance, Ins., and Real Estate	5,387	3,409	1,978
Other Business and Pers. services	8,916	4,381	4,535
Professional services	18,055	9,882	8,173
Public Administration	12,410	7,637	4,773
Transportation and Utilities	15,668	9,743	5,925
Construction	20,046	9,814	10,232
Other	976	289	687
Total	130,003	77,839	52,164

Sources of New Employment 1950-1956. Complete data are not available showing employment changes since the last 1950 Census. However, estimates which exclude agricultural workers and self-employed persons are reported by the U. S. Department of Labor and are fairly indicative of what has happened in more recent years. On the basis of these reports the new jobs that developed between 1950 and 1956 were distributed as follows:

Industry	Total new jobs	In Denver Met. Area	In remainder of State
Mining	6,200	2,000	4,200
Manufacturing	12,000	9,300	2,700
Wholesale and Retail trade	27,200	18,300	8,900
Finance, Ins., and Real Estate	7,000	5,400	1,600
Other Business and Pers. services	12,800	14,200	—1,400
Government services	23,800	3,800	20,000
Transportation and Utilities	3,800	5,000	—1,200
Construction	10,600	5,200	5,400
Total	103,400	60,200	40,200

To this should be added an estimated 6,000 new jobs[13] in industry groups not included in the foregoing tabulation. This would bring the total employment increase for the 1950-1956 period to 109,000, a total slightly less than that reported for the preceding decennial period.

[11]These include 16 metropolitan areas, all of which were within the population range of 500,000 to 850,000 in 1950. In addition to Denver, these include Kansas City, Mo.; Dallas; Houston; San Antonio; Portland, Ore.; Seattle; San Diego; Atlanta; Birmingham; Louisville; New Orleans; Albany; Schenectady; Youngstown; Columbus; and Indianapolis.

[12]Department of Planning, City and County of Denver, *Working Denver* (Denver, Colorado, 1953), pp. 18-19.

[13]Based on estimated total employment increase from 1950 to 1956 of 133,400 (difference between the 1950 Census total of 476,538 and estimated 1956 total of 586,000).

Summary. Only a cursory examination of the over-all employment change from 1940 to 1956 is needed to see its outstanding features, namely:

(1) The sustained employment increase throughout the entire sixteen-year period which found the gain from 1950 to 1956 only slightly under the total ten-year employment increase from 1940 to 1950.

(2) The relatively large share of new jobs generated in the Denver Metropolitan Area, or nearly 60 percent of the State total.

(3) The movement in agriculture and mining against the general trend. Both industries experienced a fairly sizable employment decline from 1940 to 1950 but there was some apparent reversal of the trend indicated for mining after 1950.

(4) The predominant employment role of trade and service industries, including government was evident. Together these accounted for 63 percent of all new employment in the State, as noted in the following summary covering the entire sixteen years from 1940-1956.

Industry	New Jobs	Percent
Service, incl. government	88,368	36.91
Wholesale and Retail trade	60,090	25.10
Total trade and services	148,458	62.01
Construction	30,646	12.80
Manufacture	34,798	14.54
Unclassified	25,501	10.65
Total other	90,945	37.99
Grand Total	239,403	100.00

Industrial Pattern. Apart from its definite metropolitan bias, the over-all 1940-1956 employment increase had no outstanding single industry attraction such as a new oil development, or similar episodic event that might have accounted for the sizable advance that was made. On the contrary, and despite the decline in agriculture and mining, employment, during the first period, from 1940 to 1950, covered a broad industrial front in which the traditional agriculture-trade-service pattern was largely retained. As seen in Table 1.15, these three major industry groups together accounted for 70 percent of the State's total employment in 1940 while in 1950 the ratio was 66 percent. Manufacturing while gaining rather substantially in number of workers, increased its relative position by only 2 percentage points or from 10.2 percent to 12.2 percent. Important gaps in available data covering the later period from 1950 to 1956 prohibit firm generalizations, but evidence noted in Table 1.16 gives little indication of any marked shift in the relative employment importance of any industry since the last Census.

Conformance to traditional industrial pattern also characterized the employment increases which occurred in the Denver Metropolitan Area. As can be seen in Tables 1.17 and 1.18, trade and service continue to be dominant areas of employment with manufacturing, which while increasing relatively, still occupying a secondary position in the total employment picture.

Table 1.16

Non-Agricultural Employment of Wage and Salaried Workers by Major Industry Groups Colorado, 1950 and 1956

Industry	Number		Percent	
	1950	1956	1950	1956
Mining	9,800	16,000	2.76	3.49
Manufacturing	58,700	70,700	16.56	15.44
Trade	94,500	121,700	26.67	26.58
Wholesale	23,800	31,000	6.72	6.77
Retail	70,700	90,700	19.95	19.81
Services	127,800	171,400	36.06	37.44
Fin., Ins., R. Estate	14,000	21,000	3.95	4.59
Services and Misc.	47,000	59,800	13.26	13.06
Government	66,800	90,600	18.85	19.79
Transportation	28,300	29,400	7.98	6.42
Comm. and Utilities	13,200	15,900	3.72	3.47
Contract construction	22,100	32,700	6.25	7.16
Total	354,400	457,800	100.00	100.00

Source: Data for 1950 taken from U. S. Bureau of the Census, *Census of Population, 1950*, Vol. II, "Characteristics of the Population;" and the 1956 data are taken from U. S. Department of Labor, Bureau of Labor Statistics, "Colorado Bulletin 65," March 30, 1958.

Table 1.17

Employment by Major Industries in Denver Metropolitan Area, 1940 and 1950

Industry	Number		Percent	
	1940	1950	1940	1950
Agriculture	6,911	6,828	4.9	3.1
Mining	988	710	0.7	0.3
Manufacturing	20,937	36,164	14.9	16.6
Trade	34,954	52,772	24.9	24.2
Wholesale	9,403	16,800	6.7	7.7
Retail	25,551	35,972	18.2	16.5
Services	49,674	74,983	35.5	34.3
Finance, Ins., R. Estate	7,811	11,220	5.6	5.1
Other Bus., and Personal Service	19,863	24,246	14.2	11.1
Professional	14,611	24,493	10.4	11.2
Public Administration	7,387	15,024	5.3	6.9
Transportation	10,661	16,934	7.6	7.8
Comm. and Utilities	4,419	7,889	3.2	3.6
Construction	8,224	18,038	5.9	8.3
All other	3,391	3,680	2.4	1.8
Total	140,159	217,998	100.0	100.0

Source: U. S. Bureau of the Census, *Census of Population, 1940* and *1950*, Vol. II.

Table 1.18

Non-Agricultural Employment of Wage and Salaried Workers by Major Industry Groups Denver Metropolitan Area, 1950 and 1956

Industry	Number		Percent	
	1950	1956	1950	1956
Mining	1,000	3,000	0.50	1.13
Manufacturing	37,400	46,700	18.57	17.65
Trade	56,100	74,400	27.86	28.12
Wholesale	17,800	23,900	8.84	9.03
Retail	38,300	50,500	19.02	19.09
Services	68,600	92,000	34.06	34.77
Fin., Ins. and R. Estate	10,000	15,400	4.97	5.82
Services and Misc.	20,900	35,100	10.38	13.27
Government	37,700	41,500	18.77	15.68
Transportation	17,200	19,900	8.54	7.52
Comm. and Utilities	6,900	9,200	3.42	3.48
Contract construction	14,200	19,400	7.05	7.33
Total	201,400	264,600	100.00	100.00

Source: Data for 1950 taken from U. S. Bureau of the Census, *Census of Population, 1950*, "Characteristics of the Population," Vol. II, and 1956 data are taken from U. S. Department of Labor, Bureau of Labor Statistics, "Colorado Bulletin 65," March 30, 1958.

Industrial Specialization and Basic Industries

Further insight into the nature of Colorado's economy is afforded by noting (1) the relative degree of development of specific industries in the State and (2) the relative degree to which specific industries contribute to the basic support of the economy. The first identifies the industrial areas where greater development effort might possibly be directed, while the second defines the specific industrial areas upon which all the rest depend.

In the following analysis both are reviewed with employment based on the 1950 Census used as the principal measure.[14]

Specialization: Developed and Underdeveloped Industries. Table 1.19 presents a detailed view of the particular industries in which Colorado has tended to specialize and presumably is most capable of attracting, as well as those which are relatively underdeveloped in the State. It will be observed that each industry is ranked in order of its "index of local specialization" rather than by its aggregate or share of total employment in the State. An industry with an index number greater than 1 is defined as being more specialized than the national average for that industry and vice versa.[15]

As so considered, Colorado's most specialized industry is metal mining with an index of 4.94. However, it accounts for only .79 percent of the State's total employment. In contrast, the most underdeveloped industry is textile manufacture with an index of only .03.

By inference a specialized industry (index ranging over 1) is particularly favored by the locale in which it is established. A glance at Colorado's group of specialized industries which range from an index of 1.01 to 4.94 will suggest why they are so classified. Mining and agriculture are clearly indigenous to this area. Trade and service industries reflect regional market opportunities of which the tourist trade is an important contributing factor. Transportation, which ranks high on the specialty list, may be regarded as having an advantage in a location which is regionally in the center, but at great distance from, highly populated market areas.

Turning to the other side of the picture, it will be seen that manufacturing is clearly the single important area of underdevelopment in Colorado. Thus, of all the principal manufacturing groups included in Table 1.19, seventeen out of the twenty-three listed have an employment concentration less than the national average.

Table 1.19

Industries in Colorado Ranked According to The Index of Local Specialization 1950

Industries of greater-than average specialization	Percent of total employment Colorado	U. S.	Index Colo./U.S. (U.S. = 1.00)
Metal mining	0.79	0.16	4.94
Air transportation	0.46	0.17	2.71
Rubber products (mfg.)	0.92	0.42	2.19
Miscellaneous foods (mfg.)	0.52	0.27	1.93
Hotels and lodging	1.60	0.93	1.72
Auto repair service	1.78	1.19	1.50
Meat (mfg.)	0.72	0.49	1.47
Lumber and building material (retail)	0.86	0.61	1.41
Warehousing	0.24	0.17	1.41
Telephone	1.49	1.07	1.39
Hospitals and medical services	3.98	2.80	1.37
Real estate	1.28	0.95	1.35
Trucking	1.42	1.07	1.33
Railroads	3.28	2.47	1.33
Construction	8.00	6.12	1.31
Educational services	4.77	3.68	1.30
Liquor stores (retail)	0.18	0.14	1.29
Motor vehicles (retail)	1.20	0.94	1.28
Florists (retail)	0.14	0.11	1.27
Gas service stations	1.03	0.81	1.27
Public administration	5.57	4.43	1.26
Blast furnaces (mfg.)	1.48	1.18	1.25
Grain mills (mfg.)	0.26	0.21	1.24
Hardware and implements (retail)	0.51	0.41	1.24
Agriculture	15.06	12.23	1.23
Entertainment	1.18	0.98	1.20
Miscellaneous repair serivce	0.61	0.51	1.20
Bakery (mfg.)	0.58	0.49	1.18
Household appliances (retail)	0.45	0.38	1.18
Wholesale trade	4.11	3.52	1.17
Utilities and sanitary services	1.63	1.39	1.17
Welfare services	1.21	1.04	1.16
Jewelry stores	0.22	0.19	1.16
Five-and ten-cent stores	0.38	0.33	1.15
Eating and drinking places	3.43	3.00	1.14
Miscellaneous retail stores	1.67	1.47	1.14
Transportation services-incidental	0.08	0.07	1.14
Legal services	0.71	0.69	1.03
Coal mining	0.94	0.91	1.03
Personal services	6.27	6.20	1.01
Industries not reported	1.50	1.50	1.00
Industries of less-than average specialization			
Not specified (mfg.)	1.98	2.09	0.95
Printing and publishing (mfg.)	1.43	1.56	0.92
Non-metallic mining	0.15	0.17	0.88
Other professional services	4.63	5.27	0.88
Dairy products (mfg.)	0.25	0.29	0.86
Securities and insurance	1.14	1.32	0.86
Advertising service	0.15	0.20	0.75
Forestry and fisheries	0.14	0.21	0.67
Crude petroleum extraction	0.27	0.41	0.66
Drug stores (retail)	0.34	0.53	0.64
Stone, clay, glass (mfg.)	0.51	0.82	0.62
Petroleum (mfg.)	0.28	0.46	0.61
Canning (mfg.)	0.13	0.26	0.50
Confectionery and beverage (mfg.)	0.32	0.66	0.48
Other durables (mfg.)	0.52	1.18	0.44
Metal industries (mfg.)	0.94	2.39	0.39
Chemicals (mfg.)	0.44	1.17	0.38
Leather products (mfg.)	0.23	0.69	0.33
Other transportation	0.23	0.70	0.33
Lumber and wool products (mfg.)	0.49	1.53	0.32
Furniture (mfg.)	0.17	0.59	0.29
Machinery (mfg.)	1.02	3.71	0.27
Paper (mfg.)	0.16	0.83	0.19
Apparel (mfg.)	0.28	1.89	0.15
Transportation equipment (mfg.)	0.25	2.40	0.10
Textile mill products (mfg.)	0.06	2.21	0.03
Unclassified	0.98	0.76	—
Total	100.00	100.00	

Source: Derived from U. S. Bureau of the Census, *Census of Population: 1950*, Vol. II, Part 1.

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[14]Employment data are most complete and probably present the industrial picture more realistically than other measures, such as production volumes or sales. Some question may be raised as to the applicability of 1950 data to the more current scene. The answer to this is that the present employment pattern has not changed materially in recent years as was noted in the preceding section.

[15]Specialization, measured by this index, indicates the importance of an industry to the nation. The index is derived by dividing the ratio of a local industry's employment to the total employment in the locality by the comparable ratio for the industry as a whole on a nation-wide basis. By formula, the calculation of the index is as follows:

$$e_i - \frac{e_t}{E_t} E_i \text{ where}$$

e_i=local industry employment

e_t=local total employment

E_i=national industry employment

E_t=national total employment

The limited growth of manufacturing, although there are a number of important single exceptions, is attributed to locational factors—a matter considered in further detail at a later point. It is apparent, in any event, that Colorado's industrial development faces, as its principal challenge for the future, the enlargement of its manufacturing on a broader as well as a more intensive basis than now obtains.

Finally, it appears clear that, with the exception of manufacturing, Colorado has done relatively well in achieving a highly diversified and balanced economy. This is noted essentially in two ways. First, over 80 percent of total employment is found in the specialized industry group—a fact which can be interpreted to mean that 80 percent of Colorado's industries are "naturally" adjusted to their environment and therefore possess such stability as a situation of this kind would imply. Second, no one industry is overbalanced in size. Agriculture, with an employment ratio of 15 percent, is the only industry that stands out. But in any measure of concentration a ratio of this size covering as broad an industrial area as agriculture would not be regarded as large.

Basic Industries. In a general way the economic significance of an individual industry is indicated by the amount of its employment. And whether specialized or underdeveloped in the manner described above the criterion, in any event, is the number of persons employed. To a degree such a measure describes the industrial pattern and supporting basis of a state's economy. It fails, however, to delineate with any degree of precision the "ultimate" basis upon which the economy rests and upon which its future growth is predicated. In this ultimate sense industries are basic only to the extent that their sale of goods and services are made in out-of-state markets. Such sales generate the income needed to pay for purchases from the "outside" without which a state's economy could not be maintained much less grow.[16]

The measure of out-of-state volumes of a given industry is known as "basic" employment, or that proportion of its total employment which is calculated to be engaged in producing for the outside markets. Remaining employment is presumed to serve the local market exclusively and may be termed "local service" employment.

A commonly employed method for deriving basic employment is to determine the number of workers in a local industry in excess of the area's pro rata share of national employment in that industry.[17] An excess of workers is presumed to measure its "export" significance, that is, its relative importance, if any, as a "basic industry."

It should be noted, however, that a greater than pro rata share of industry employment could, in part at least, be attributed to an unusually heavy local per capita consumption of a particular industrial product. Moreover, low productivity of local labor could also be a contributing factor. Accordingly, some discretion is called for in the interpretation and application of basic employment analysis in any given case.

Within the more refined context of basic employment shown in Table 1.20, it is now possible to observe certain features of the State's economy which, in some respects, were suggested but not fully identified or measured in the preceding analysis. The principal of these, with certain qualifications noted, are:

(1) Colorado's basic industries represent 17 percent of total employment in the State. This means that Colorado's basic industries exercise a leverage of 1 to 6, meaning that, in effect, one basic job generates the outside income needed to sustain 6 local service jobs. Together these may be said to balance the population structure in an approximate ratio of 1 worker for 2.5 persons in the population.

(2) Agriculture, as a single industry, is the principal "bread winner" in the State's economy accounting for 17 percent of total basic employment.

(3) Mining, as a whole,[18] which accounts for only 3.94 percent of all basic employment reflects essentially this industry's relatively minor role as an employer. However, there are other features of the industry which combine to give to it an importance that employment data, as such, cannot take into account. Here perhaps, production volume or dollar sales values would be most appropriate as indices of the industry's growth-inducing influence, a fact which points to the limitations of the formula used.

[16]This applies equally to any area whether it be a nation, region, state, metropolitan area or any other geographic unit, none of whom could, under conditions of modern economic life, be fully self-sustaining.

[17]By formula the calculation of the index of basic employment is as follows:

$$e_i - \frac{e_t}{E_t} E_i$$ where

e_t = local industry employment

e_t = local total employment

E_i = national industry employment

E_t = national total employment

(For a full description of this formula see also, John M. Mattila and Wilbur R. Thompson, "The Measurement of the Economic Base of Metropolitan Areas," *Land Economics*, Vol. XXXI, No. 3, August, 1955.)

[18]Represented in Table 1.20 by "metal mining" and "coal mining."

(4) Manufacturing, represented in Table 1.20 by six separate industry groups, accounts in the aggregate for 8.57 percent of basic employment. This ratio may be low, yet as was noted in Table 1.19 the industry, as a whole, is underdeveloped in Colorado.

(5) The trade and service area, considered in its broader dimensions to include public administration, transportation and the utility services, accounts for 59.52 percent of all basic employment. As such, it constitutes the principal supporting base upon which Colorado's economy rests and upon which its growth prospects must presumably depend in a large degree.

Table 1.20

Basic Industries in Colorado Ranked by Number of Workers in Excess of Pro Rata Share (Basic Employment), 1950

Industry group	Total employment	Workers in excess of pro rata share (Basic employment) Number	Percent of total
Agriculture	71,760	13,454	16.83
Construction	38,080	8,903	11.14
Public administration	26,576	5,471	6.84
Educational services	22,730	5,179	6.48
Hospital and medical service	18,989	5,177	6.48
Railroads	15,617	3,856	4.82
Hotels and lodgings	7,632	3,190	3.99
Metal mining	3,765	2,979	3.73
Auto repair service	8,477	2,820	3.53
Rubber products (mfg.)	4,409	2,395	3.00
Eating and drinking places	16,338	2,040	2.55
Telephone services	7,081	1,998	2.50
Wholesale trade	19,565	1,773	2.22
Trucking	6,762	1,677	2.10
Real estate	6,092	1,545	1.93
Drug stores (retail)	4,015	1,500	1.88
Blast furnaces (mfg.)	7,066	1,446	1.81
Air transportation	2,184	1,351	1.69
Motor vehicles (retail)	5,708	1,245	1.56
Miscellaneous food (mfg.)	2,472	1,188	1.49
Lumber & building mat. (retail)	4,083	1,171	1.46
Utilities and sanitary services	7,781	1,150	1.44
Meat (mfg.)	3,429	1,107	1.38
Gas service stations	4,906	1,033	1.29
Entertainment	5,645	958	1.20
Miscellaneous retail stores	7,939	918	1.15
Welfare services	5,787	826	1.03
Miscellaneous repair service	2,926	493	0.62
Bakery (mfg.)	2,780	462	0.58
Hardware, implement (retail)	2,414	461	0.58
Household appliances (retail)	2,170	354	0.44
Transportation services-incidental	406	345	0.43
Warehousing	1,150	323	0.40
Five and ten-cent stores (retail)	1,813	256	0.32
Grain mills (mfg.)	1,237	249	0.31
Liquor stores (retail)	844	188	0.24
Coal mining	4,500	168	0.21
Jewelry stores (retail)	304	146	0.18
Florist stores (retail)	651	137	0.17
All other industries	120,455	0	0.00
Total	476,538	79,932	100.00

Source: Derived from U. S. Bureau of the Census, *Census of Population, 1950*, Vol. II.

As noted in Table 1.20 the trade-service area as here considered, includes 29 separately listed industry groups which may be classified as follows:

Class	Percent of total basic employment
Trade	14.04
Wholesale (1 listed industry group)	2.22
Retail (12 groups)	11.82
Services	45.48
Bus., Prof., Pers., (8 groups)	25.26
Public administration (1 group)	6.84
Transportation (5 groups)	9.44
Utilities (2 groups)	3.94
Total	59.52

The relatively high basic significance of retail trade may be questioned in view of its inherently "local service" character. Two reasons are suggested and probably both apply. There is, first, the possibility that strictly "local" consumption is relatively high in Colorado, thus distorting the results given. The second explanation would be that Colorado's retail trade is heavily affected by tourist business which indirectly is an "export" industry in its own right. It is likely that this factor accounts in larger part for the high basic ratio indicated.

Business, professional and personal services, which account for slightly over one-fourth of total basic employment, are also normally regarded as essentially local service functions. Again, as in the case of retail trade, tourism and the regional character of much of Colorado's business which centers in the Denver Area can be offered as a possible explanation.

Public administration is obscure in view of Census practice which excludes government functions that can be classified in other industry groupings. Hence, the basic ratio of 6.84 percent is probably low.

Transportation with a ratio of 9.44 percent is understandably important as a basic industry in light of Denver's position as a transcontinental shipping point for rail, trucking and air transportation. As noted in the detail of Table 1.20, the percentages applicable to these three services are 4.82 percent, 2.10 percent, and 1.69 percent, respectively.

Addendum — Basic Industry and "Newly Created Wealth." A somewhat different concept of the "basicness" of a given industrial structure is that which measures a given industry by the value of its production (or its contribution to "newly created wealth"). This approach assists in more fully analyzing and interpreting the industrial structure of a community. It does not, however, attempt to isolate values produced for "export." Hence, it falls short of measuring the real growth-inducing element contained in production totals reported.

Industries commonly reviewed are agriculture, mining and manufacturing. Sometimes tourism is included where this is of importance. As so considered Colorado's "basic industries" in 1954 were as follows:[19]

Industry		
Manufacture (value added)		$471,507,000
Agriculture (cash sales)		379,899,742
Mining (value or production)		
Petroleum and gas	$122,734,960	
Uranium	118,000,000	
Metallic production	73,641,170	
Non-metallic production	22,837,321	
Other Cash	14,611,825	
Total		351,825,276
Tourist expenditures		185,805,018
Total		$1,389,037,036

Viewed in these terms Colorado's number one industry in 1954 was manufacturing followed in order by agriculture, mining and tourism. Historically agriculture has held the leading position. Since 1954 was a poor year for agriculture the comparison is probably unrealistic. However, substantial increase in manufacturing production at a rate greater than that of agriculture points to a continuance of this relationship barring unforeseen developments in mining.

Principal Industries: Recent Developments and Future Outlook

Colorado's continued growth is contingent on the degree in which its economy responds in each of its principal areas of industrial activity. In the following analysis these are considered individually in greater detail than was possible in the preceding summary tabulations. Particular attention is directed to more recent trends and growth promise of each industry reviewed.

Agriculture. The outstanding economic role of agriculture has been noted both in terms of basic employment as well as in dollar value of products. The combined impact of these two factors on economic activity within the State is reflected in a number of ways.

As a producer, agriculture supplies a basic raw material which enters into and sustains in a large degree other local production, notably meat packing, grain milling and miscellaneous food manufacture. The end result is that the aggregate value of agricultural production far exceeds the initial value of farm products sold or personal incomes realized.

As a basic producer agriculture also generates "local service" jobs which largely explain the existence of most small towns in the State and in no small degree the existence of the larger cities as well.

The industry's importance as a direct employer of labor is shown by the most recent Census of Agriculture which reports that as of October, 1954, the total labor force on Colorado farms, including family and hired workers, totalled 96,043 persons. In addition, farm workers provided a sizable labor pool to supplement labor needed in town and city. The Census reports that a total of almost 10,000 farm operators worked off the farm 100 days or more in 1954. Over 8,000 more worked off the farm from 1 to 99 days.[20]

Agriculture's support of local and state government is indicated by a total property valuation in 1955 amounting to $537.6 million or 19 percent of the grand total net state assessment of $2.87 billion. On a sales value basis, assuming an assessment ratio of 35 percent, the calculated value of all farm property would amount to somewhat over $1.5 billion.[21]

Historically agriculture has not maintained its relative position, measured by employment, value of production and personal income, either in Colorado or in the nation as a whole. As noted earlier, farm employment in Colorado declined both relatively and absolutely between 1940 and 1950, a development which was even more marked for the nation. As noted also, farm production in the State declined sharply after 1952 as did personal income. Added to this has been the very definite reduction in number of farms which, for the period 1935 to 1954, declined from 63,644 to 40,749.

On the more favorable side, it can be pointed out that nationally the value of agricultural production while declining relative to say, manufacturing output, is not declining in any absolute sense. In Colorado, following World War II, notably from 1947 through 1952, agricultural production reached an extremely high level. During this period farm cash receipts exceeded $500 million annually reaching a peak of more than $600 million in 1952. The sharp decline thereafter, as shown in Table 1.21, largely reflects drought conditions which were not felt universally. Actually, farm cash receipts (from product sales) for the country as a whole reached an all time peak in 1953. Recent recovery in Colorado is indicated by a cash receipts total of $512 million for 1957. This has led to the prediction that farm cash receipts totals of the early 1950's will again rule at around $500 million annually.

The decline in number of farms in Colorado has been brought on, in large degree, by increased mechanization. However, this has meant little in terms of production since there has been no corresponding decline in the land in farms. Actually, acreages have increased in Colorado.

[19]Bureau of Business Research, University of Colorado, *Colorado Business Review*, Vol. XXIX, No. 7 (Boulder, Colorado, July, 1956).

[20]Data in this paragraph are from U. S. Bureau of the Census, *U. S. Census of Agriculture: 1954*, Vol. 1, "Counties and State Economic Areas," Part 29 (Washington, D. C., 1956).

[21]Data in this paragraph are from the Department of Natural Resources, State of Colorado, *Colorado's Agriculture and Forestry*, July, 1957, pp. 7-8.

Table 1.21

Cash Receipts from Farming in Colorado, 1950-1957

(Dollar totals in thousands)

Year	Livestock	Crops	Gov't. payments	Total	Percent of national cash receipts from farming
1950	$316,199	$189,711	$11,856	$517,766	1.81
1951	386,660	185,097	8,659	580,416	1.76
1952	376,764	223,162	7,740	607,666	1.86
1953	277,365	205,942	10,344	493,651	1.47
1954	278,359	148,507	11,215	438,081	1.45
1955	266,100	142,100	10,200	418,400	1.42
1956	280,127	142,187	17,000	439,314	1.42
1957	302,754	173,126	36,080	511,960	1.65

Source: U. S. Department of Agriculture, *Agricultural Statistics*, Annual editions.

As noted in Table 1.22, the percent of land in farms has been constantly increasing, reaching an all-time peak of over 38 million acres in 1954 or 57.7 percent of the State's total land area.

Table 1.22

Number of Farms and Total Farm Acreage in Colorado, Selected Years, 1910-1954

Year	Number of farms	Total acreage (thousands)	Percent of land in farms
1910	46,170	13,532	20.4
1920	59,934	24,462	36.9
1930	59,956	28,876	43.5
1940	51,436	31,527	47.4
1945	47,618	36,218	54.5
1950	45,578	37,953	57.1
1954	40,749	38,385	57.7

Source: Bureau of Business Research, University of Colorado, *Colorado Business Review*, Vol. XXVIII, No. 11, November, 1955.

Limits to this advance are now in sight, largely because of restricted water resources. Hence, the main elements of growth depend upon increased water conservation and improvements in such areas as fertilization, hybrid seeds, farm machinery, crop rotation, livestock breeding and feeding, all of which would add to productivity. In line with such efforts a recent study of the agricultural situation in the State prepared by a group of economists from Colorado State University suggests that the following steps be taken.[22]

Irrigated Agriculture

(1) Resolve east-west slope controversy over use of Colorado water.
(2) Intensify state cooperation and coordinate with water programs of the federal government and with local affiliated groups.
(3) Intensify research of ground water resources.
(4) Reduce needless economic damage to irrigated land by super highway right-of-way requirements.
(5) Study administration of irrigated water to (a) codify present water requirements, (b) facilitate changes in diversion points and flexibility of storage and beneficial exchange policies, and (c) define beneficial use.
(6) Intensify research into problems of irrigability of soils, reclamation of saline and alkaline soils and feasibility of drainage to restore presently unproductive land.
(7) Accelerate present soil-water plant studies to determine best timing for irrigation and residual effects of irrigation water.
(8) Adopt a strong state program to support education of farmers in water use.

Dryland Agriculture

(1) Maintain an adequate research and educational program to provide information needed for wise resource use by farmers in the dry land areas and to aid the department of natural resources in recommending land-use policies.
(2) Agree upon a system for classifying all eastern Colorado dry land by type of use under varying climatic conditions.
(3) Study ways and means for stabilizing productivity as it effects both individual incomes and governmental units.

Plains Range Livestock Operations

(1) Study possibilities for accurate prediction of range forest production and range seeding success.
(2) Determine best systems of range use and management practices in an experimental range in the 11-to-13-inch precipitation belt of eastern Colorado.
(3) Hire a range management specialist to help plan and execute educational programs for effecting better range practices.
(4) Place personnel trained in range management on the staff responsible for administration of state lands.
(5) Study feasibility of establishing three to five grades of grazing lands based on potential productivity in order to provide incentive for proper rates of stocking and as an addition an equitable basis for tax assessment.
(6) Require highway building authorities to make special right-of-way seeding programs a part of their overall construction programming.
(7) Accelerate programs for control of noxious weeds and range rodents.

Mountain Range Livestock Ranching

(1) Continue studies for control of weedy trees, shrubs and herbs.
(2) Include or enlarge range improvement studies on (a) management of ponderosa pine bunch-grass, (b) game habitats, (c) balancing stocks and game grazing, water production, and timber production, (d) range rodents, (e) mountain meadow development.
(3) Include in study of water resources on mountain ranges, (a) irrigation practices, (b) underground storage, (c) runoffs, (d) relative cost and benefits of water, (e) influence of rodents and other animals on the watershed and (f) water loving plants.
(4) Educate public on wiser use of the mountain range resources.
(5) Examine the tax structure to note the degree in which it encourages or deters

[22]Department of Agriculture, State of Colorado, *Colorado's Agriculture and Forestry*, July, 1957, pp. iii-xiii.

proper use of privately owned range land as the case may be.
(6) Recognize, through financial participation by government, the downstream benefits by improving the quantity and quality of water.
(7) Allocate a portion of state lease income to improvement of mountain range lands.

To what degree these recommended measures will or can be adopted in the near future is, of course, a matter of conjecture. As recommendations they do, however, represent authoritative thinking on the State's agricultural base which must be developed to its optimum capacity if the economy of the State is to continue to grow at the rate that it has in the past.

Mining. The mining industry in Colorado, while not a significant employer relative to other major industry groups, does, nevertheless, account for an estimated one-fifth of the "new wealth" produced in comparison with agriculture and manufacture. It is in this sense as well as in its known potentials, which are large, that the mining industry in Colorado is of principal interest.

In 1953 Colorado ranked seventeenth among the states in the value of minerals produced. It is believed that her position is higher than that at the present time. At least thirty-eight mineral substances with an aggregate value of $306 million were mined in 1956, an amount exceeding any year since 1950 (Table 1.23).

Table 1.23

Value of Mineral Production in Colorado 1950-1956

Year	Value (thousands)
1950	$154,898
1951	179,435
1952	187,589
1953	211,586
1954	255,852
1955	286,104
1956	306,270

Source: U. S. Bureau of Mines, *Minerals Year Book*, annual issues, and State of Colorado, Department of Natural Resources, *Colorado Mineral Resources*, July, 1957.

Of the large number of different minerals produced in the State the more important by a a wide margin are petroleum, uranium and molybdenum. These three, including coal and vanadium, accounted for 78 percent of the total value of mineral production in 1956 (Table 1.24).

Petroleum. Currently, Colorado ranks ninth among the twenty-seven oil producing states. In 1956 total production was somewhat over 58 million barrels with a value estimated at about $163 million (Table 1.25).

As of June 1, 1957 Colorado's oil production came from 186 fields distributed through 17 counties. The yield from individual fields ranged from less than 5 barrels per day from several one-well pools to a maximum of approximately

Table 1.24

Mineral Production in Colorado, 1956

Mineral	Number of counties producing	Value
Alabaster	3	$ 6,100
Beryllium	5	43,000
Calcium phosphate	1	1,900
Cement	2	13,150,000
Clay	8	1,409,380
Coal[a]	22	20,000,000
Columbium-Tantulum	2	800
Copper	17	5,943,500
Dolomite	1	343,927
Dry ice	1	77,000
Feldspar	3	395,200
Fluospar	2	3,340,315
Gold	22	3,632,445
Gypsum	3	378,870
Iron	1	17,060
Lead	17	6,702,310
Limestone	6	2,181,721
Lepedolite	1	5,000
Manganese	1	4,100
Marble	1	47,200
Mica	6	77,420
Molybdenum	1	44,237,000
Natural gas[b]	19	5,000,000
Peat	4	56,800
Perlite	1	725,270
Petroleum[b]	17	162,800,000
Pyrite	3	400,000
Sand	7	7,290,000
Silica rock	23	35,200
Silver	24	2,327,845
Stones, building	4	1,985,300
Stones, monumental	3	202,500
Tantalum	1	300
Terrazzo, chips	1	23,800
Tin	1	20,000
Tungsten	5	4,623,660
Turquoise	1	33,413
Uranium	19	N.A.
Volcanic cinder	2	64,000
Zinc	13	11,963,750
Vanadium	19	8,200,000
Total	—	$307,746,086

[a] Data for 1955 taken from Department of Natural Resources, State of Colorado, *Colorado's Mineral Resources*, July, 1957, p. 25.
[b] Taken from Department of Natural Resources, State of Colorado, *Colorado's Mineral Resources*, July, 1957, p. 13.

Source: Bureau of Business Research, University of Colorado, *Minerals*, Report No. 3, 1957.

72,000 barrels from more than 500 wells in the Rangely Area in Rio Blanca County.[23]

Table 1.25

Production of Crude Petroleum in Colorado 1950-1956

Year	Production (barrels)
1950	23,301,851
1951	28,156,516
1952	30,491,642
1953	36,678,906
1954	46,206,144
1955	53,135,920
1956	58,496,655

Source: Oil and Gas Conservation Commission, Denver, Colorado.

The outlook for future production in the State is suggested by a recent comprehensive study of oil reserves in the United States.[24] For Colorado it is estimated that the original content of its reserves was 3,047 million barrels and that total oil production to June 1, 1956 was 342 million barrels. Additional recoverable oil by primary methods is given as 300 million barrels.

[23] Department of Natural Resources, State of Colorado, *Colorado's Mineral Resources*, July, 1957, p. 13.
[24] From Paul D. Torrey as quoted in *Colorado's Mineral Resources*, State of Colorado, Department of Natural Resources, July 1957, p. 14.

In the absence of secondary recovery operations not now carried on or new discoveries, which always remain a possibility, it would appear that further petroleum production in Colorado is definitely limited in growth promise at the present time.

Oil Shale. Brighter prospects for oil are envisaged in Colorado's vast storehouse of oil shale which exceeds the combined reserves of the rest of the world. Unfortunately such prospects are more or less in the long run since oil shale development depends upon such future unknowns as the price of petroleum, new discoveries and oil imports. It is generally recognized that the State's huge oil shale potential will ultimately be developed on a commercial scale. Most predictions conceive of a million-barrels-a-day industry in western Colorado by 1975—a development which would support a population of 340,000 persons.[25] Currently, such a prospect is dimmed by limitations of water supply—a factor that probably has not been adequately considered in oil shale projections.[26]

Uranium.[27] Colorado's known uranium reserves as of mid-year 1956 amounted to 4,100,000 tons with an average of U_3O_8 content of .033 percent. This represented about 6.8 percent of all known domestic uranium reserves, the largest of which, or 68.0 percent, being located in New Mexico.

As of mid-year 1956, Colorado production involved 150 active producers in the field and five mills with an aggregate rated capacity of 2,260 tons per day.

In recent years the national market for the product has been favorable owing to a relatively heavy government buying program which is, however, expected to stabilize by 1959. Thereafter, military and industrial development will govern. It is now evident that the industrial market will not materialize on any wide scale for some years.

The prospect for a substantial increase in uranium ore production in Colorado in the near future is not considered to be favorable. In addition to the general stabilizing developments anticipated in the national market, the mining of uranium in the State is moving at a pace that is faster than new ore discoveries are being made. This has resulted in a net loss of reserves. Added to this is the new and lower A.E.C. price schedule which may force certain marginal mining units to suspend operations.

Molybdenum. Colorado molybdenum production, which accounts for about 60 percent of the nation's total, is produced from one mine, owned and operated by Climax Molybdenum Company. As the second largest underground mine in the world, it had an output in 1956 amounting to approximately 37,500,000 pounds of concentrate with a value of more than $44 million. This amount exceeded in value all other metals, excepting uranium, in that year. As can be seen in Table 1.26, Colorado's production of molybdenum has steadily increased and is expected to do so in the future.

Table 1.26

Production and Value of Molybdenum Mined in Colorado[a] 1946-1956

Year	Crude ore (tons)	Value[b]
1946	1,731,574	$ 8,774,200
1947	1,953,578	10,000,000
1948	2,256,268	11,400,000
1949	2,025,440	12,000,000
1950	2,257,723	13,000,000
1951	4,566,548	22,500,000
1952	4,453,328	27,875,650
1953	6,604,857	37,306,341
1954	8,709,000	45,192,856
1955	10,900,000[c]	45,536,600
1956	N.A.	44,237,000

[a] Represents production by Climax Molybdenum Co., Climax, Colo.
[b] Estimated by Colorado State Bureau of Mines.
[c] Estimated by The Bureau of Business Research, University of Colorado, 1956.

Source: Bureau of Business Research, University of Colorado, *Colorado Business Review*, Vol. XXIX, No. 8, August, 1956.

The possibility of an accelerated market demand is recognized as likely in view of considerable current research designed to find means to reduce oxidation of the metal at high temperatures and to increase its ductibility. Both would greatly enhance its principal use in the manufacture of high strength steel.

Coal. Coal was Colorado's fourth most valuable mineral produced in 1956, the estimated total amounting to approximately $20 million. Comparatively, Colorado occupies a strong position in reserves of coal above the grade of lignite, which is known to be present. Closest estimates place these at a figure of about 19 percent of the national total which clearly exceeds that of any other state. Of interest, in this connection, are the findings of a study completed in 1950 by the United States Geological Survey of Colorado's original coal reserves. These were found to be as follows:[28]

Type of Coal	Production (thousands of short tons)
Anthracite and Semi-Anthracite	100,000
Bituminous	213,071,000
Subbituminous	104,175,000
Total	317,346,000

[25] Charles H. Prien and John A. Welles, "Shale Oil: Economics of a New Industry," *Western Business Review*, Vol. I, No. 4, (University of Denver: Denver, Colo., November, 1957) pp. 147-152.

[26] This problem is being currently studied by Dr. Morris E. Garnsey, Professor of Economics at the University of Colorado. Dr. Garnsey, under a Ford Foundation fellowship, is researching methods of regional economic analysis, and plans to apply his findings to resource development along that sub-region of the upper Colorado River Basin, which includes the major oil shale deposits.

[27] Data on this section from: State of Colorado, Department of Natural Resources, *Colorado's Mineral Resources*, July, 1957, p. 35.

[28] State of Colorado, Department of Natural Resources, *Colorado's Mineral Resources*, July, 1957, p. 24.

The estimated amount of depletion to January 1, 1950 allowing for a 50 percent loss in mining, amounted to little less than 1 billion tons.

Because of increased competition with fuel oil and natural gas, production of coal in Colorado declined from a maximum of 12,658,055 tons in 1918 to 3,567,930 tons in 1955. While small production increases may occur in the near future, important changes will likely have to wait until coal again becomes more competitive with other fuels. This, in turn, waits upon a demand for power on a vastly greater scale than now exists.

Problems and Outlook. Although progress of mineral production in the State will likely continue at perhaps a better than the recent past average rate, it should be recognized that the industry as a whole faces many problems some of which are inherent and therefore difficult to resolve.

For many minerals the possibility of discovery of economically significant deposits is highly uncertain and the loss ratio is great. A high degree of technological skill is needed by management, and labor is expensive because of working conditions. Due to the large cost factor, wasteful practices are encouraged which result in loss of value both in the mine and mill.

Adding to the technical difficulties of production is price instability and associated uncertainties growing out of frequent changes in federal legislation including purchase policy.

Not the least of the worries of the mining industry is state tax policy. Here government faces no easy task since it must weigh considerations of revenue need against the desire to encourage optimum expansion of the industry. How well this is being done in Colorado is a question for later discussion in this study. It is, however, a matter that must be recognized as one that could materially affect the future course of the industry in the State.

Real as these problems may be, the fact should not be overlooked that the industry as a whole has also much cause for being optimistic. This rests on the following considerations as reviewed in a recent report:[29]

(1) The stimulating effect of ultimate price stabilization of the base metals.
(2) The existence of large areas which have been inadequately explored.
(3) The growing importance of industrial minerals.
(4) The eventual large-scale development of oil-shale reserves.
(5) Advances in efficiency in mining and extractive practices.
(6) The discovery of new uses for minerals presently underdeveloped, as well as those not now recognized as being of potential value.
(7) The increase in demand accompanying the unprecedented surge in population growth and industrialization of the West.

[29]Department of Natural Resources, State of Colorado, *Colorado's Mineral Resources*, July, 1957, p. 12.

As a concluding comment it may be added that all evidence points rather definitely to a continued absolute increase in mineral production in the State but at a rate insufficient to materially alter the current employment and income trend of the industry. Any substantial growth waits perhaps upon oil shale development and such new discoveries as may occur in other areas of mineral resource.

Manufacturing. Unlike mining and agriculture the manufacturing industry in Colorado is, in the main, at a natural disadvantage because of distance to market which prohibits, to a large degree, the development of mass production. As a result, and as noted earlier, most manufacturing lines in the State are underdeveloped (index of local specialization less than one) in comparison with the national average.

Although manufacturing cannot be regarded as a leading industry in the State, its role in the economy is vastly important in that it provides diversity and therefore stability to a degree not otherwise possible. Its service in absorbing workers laid off in agriculture and mining has been noted earlier. Its continued role in this capacity becomes increasingly important as employment in other sectors of the economy declines either temporarily or permanently.

Efforts to develop manufacture in Colorado have centered on means to circumvent natural barriers. One approach has been to produce specialty lines where the value-to-weight ratio is high. This has had the effect of cushioning to some degree the impact of transportation cost. Other efforts have recognized the difficulties of attempting to penetrate national markets. In consequence, many firms have elected to remain relatively small by limiting their operations to a strictly local or regional market.

Growth according to this pattern of development is reflected in an over-all manufacturing structure which features many extremely small firms and a wide diversification of products of which consumer items for local and regional distribution are dominant. This can be seen by reference to Tables 1.27 and 1.28. However, it will be also observed that important departures have been made from this logical pattern of development evidenced by the existence of a limited number of relatively large firms whose combined employment accounts for the greater proportion of total manufacturing employment in the State. Several of the larger firms have, over the years, defied the barrier of distance by mass-producing standard consumption items, notably rubber tires, V-belts and luggage, for the national and world markets. Others have specialized in primary steel or heavy steel products, both of which would not be regarded as logical items for major production in this area. The success of these firms can be attributed to personal factors or to other special circumstances that have more than offset natural lo-

cational disadvantage. In any event, their successful development sets no pattern that could be expected to be followed in the near future.

Table 1.27

Size and Number of Manufacturing Establishments in Colorado, 1954

Size of establishment (number of employees)	Number of establishments
1— 9	1,317
10— 19	262
20— 49	266
50— 99	107
100— 249	87
250— 999	25
1,000—2,499	3
2,500 and over	2
Total	2,069

Source: U. S. Bureau of the Census, *Census of Manufacturers: 1954*, Vol. III, "Area Statistics."

Table 1.28

Employment in Manufacturing and Value Added by Manufacture, by Major Industry Groups, in Colorado, 1954

Major Industry Group	Employment	Percent	Value added by manufacture (thousands)	Percent
Non-durables:	36,185	57.4	$281,578	59.6
Food & kindred products	16,870	26.8	122,628	26.0
Apparel and related products	1,880	3.0	6,971	1.5
Pulp & paper products	701	1.1	6,292	1.3
Printing & publishing	5,927	9.4	39,553	8.4
Chemicals & products	3,145	5.0	33,024	7.0
Petroleum & coal prod.	961	1.5	13,364	2.8
Rubber products & others	6,701	10.6	59,746	12.6
Durables	24,044	38.1	173,283	36.7
Lumber & wood prod.	2,912	4.6	12,959	2.7
Furniture & fixtures	876	1.4	5,194	1.1
Stone, clay & glass prod.	2,787	4.4	23,231	5.0
Primary metal ind.	7,806	12.4	67,067	14.2
Fabricated metal prod.	2,729	4.3	18,243	3.9
Machinery except elec.	4,523	7.3	32,974	7.0
Electrical machinery	871	1.3	4,257	0.9
Transportation equip.	863	1.3	5,362	1.1
Instruments & related	677	1.1	3,996	0.8
Unclassified	2,812	4.5	17,572	3.7
Total	63,041	100.0	472,433	100.0

Source: U. S. Bureau of the Census, *Census of Manufacturers: 1954*, Vol. III, "Area Statistics."

The progress of manufacturing in the State since World War II measured by such factors as employment and value added by manufacturing has not been outstanding. Nevertheless, Colorado's record is good, all things considered, as shown in Tables 1.29 to 1.32. Principal developments indicated therein and conclusions suggested may be summarized as follows:

(1) From 1947 to 1956 Colorado gained on balance a total of 748 new manufacturing establishments and 9,100 new factory jobs (Table 1.29). It will be noted that the majority of the new establishments were small. In that respect their addition caused no marked change in the traditional manufacturing structure in which small business is characteristic. Nevertheless, they did account for a sizable proportion of the new jobs that developed over the period.

Table 1.29

Estimated Number of Establishments and Employment in Manufacturing in Colorado 1947-1956

Year	Number of establishments	Employment
1947	1,586	58,500
1948	1,652	58,300
1949	1,697	54,600
1950	1,762	54,100
1951	1,814	63,600
1952	1,888	67,100
1953	1,974	68,400
1954	2,055	64,600
1955	2,190	64,400
1956	2,334	67,600

Source: Bureau of Business Research, University of Colorado, *Colorado Business Review*, Vol. XXX, No. 2, February, 1957.

(2) The over-all growth rate of Colorado manufacture in recent years has been slightly above the national average measured in terms of both employment and value added: the differential in favor of Colorado for the 1947-1954 period being 2 percent in case of employment and 4 percent for value added (Tables 1.30 and 1.31). Colorado's growth rate was smaller, however, than the average for the eleven Western States both in employment and value added (Table 1.32).

Table 1.30

Growth of Employment in Manufacturing in Colorado Relative to the National Rate of Growth, 1947 to 1954

Major industry group	Number of employees 1947	1954	Ratio of employment 1954 to 1947 Colo.	U.S.	Relative change Colo./U. S.
Chemicals & products	1,275	3,145	2.467	1.180	2.09
Instruments & related	360	677	1.208	1.034	1.69
Lumber & wood products	2,282	2,751	1.205	.889	1.36
Furniture & fixtures	672	876	1.304	1.077	1.21
Miscellaneous & all other[a]	9,365	11,314	1.208	1.034	1.17
Petroleum & coal products	791	961	1.214	1.040	1.17
Printing & publishing	4,596	5,927	1.290	1.125	1.15
Fabricated metal products	2,326	2,729	1.173	1.047	1.12
Stone, clay & glass products	2,430	2,787	1.147	1.067	1.08
Apparel & related products	1,632	1,880	1.160	1.100	1.05
Machinery except electrical	4,416	4,523	1.024	.993	1.03
Primary metal industries	7,880	7,806	.991	.964	1.03
Food & kindred products	14,811	14,566	.983	1.011	0.97
Transportation equipment	751	863	1.149	1.451	0.79
Total	53,587	60,805	1.135	1.114	1.02

[a] Includes six major industry groups not reported separately: "tobacco manufacturers," "rubber products," "pulp, paper & products," "textile mill products," "electrical machinery," and "leather & leather products."

Source: U. S. Bureau of the Census, *United States Census of Manufacturers: 1954*, Vol. III, "Area Statistics."

(3) Manufacturing gains in Colorado from 1947 to 1954 in both employment and value added covered a broad commodity or industry front in which the typically underdeveloped industries—notably the chemicals and related products—grew at a greater rate than the more specialized lines such as food products (Tables 1.30-1.31).

Table 1.31

Growth of Value Added by Manufacture in Colorado Relative to the National Growth Rate 1947 to 1954

Major Industry Group	Value added by Manufacture (thousands) 1947	1954	Ratio of Value Added 1954 to 1947 Colo.	U.S.	Relative Change Colo./U.S.
Chemicals & products	$ 8,271	$ 33,024	3.993	1.776	2.25
Lumber & wood products	8,106	12,185	1.503	1.110	1.35
Furniture & fixtures	2,655	5,194	1.956	1.461	1.34
Miscellaneous & all other[a]	49,831	89,643	1.799	1.411	1.27
Instruments & related products	1,737	3,996	2.300	1.866	1.23
Printing & publishing	22,386	39,553	1.767	1.474	1.20
Stone, clay & glass products	11,966	23,231	1.941	1.663	1.17
Apparel & related products	5,234	6,971	1.332	1.159	1.15
Primary metal industries	37,395	67,067	1.793	1.635	1.10
Petroleum & coal products	9,607	13,364	1.391	1.297	1.07
Fabricated metal industries	11,261	18,243	1.620	1.544	1.05
Machinery except electrical	22,132	32,974	1.490	1.575	0.95
Food & kindred products	89,941	103,392	1.150	1.357	0.85
Transportation equipment	3,518	5,362	1.524	2.384	0.64
Total	284,040	454,199	1.599	1,538	1.04

[a] See footnote, Table 1.30.

Source: U. S. Bureau of the Census, *United States Census of Manufacturers: 1954*, Vol. III, "Area Statistics."

Point (2) is significant in that it demonstrates average growth with no boom-like manifestations which in some quarters may have been assumed because of the relatively rapid population growth experienced in recent years.

Point (3) supports point (2) since a wide general industry growth is not the sort of development from which booms are generated. More significant, however, is the fact that underdevelopment is being removed albeit slowly. If this continues, a better balanced industrial structure will result to the advantage of the State's economy as a whole.

Table 1.32

Total and Percent Increase of Employment in Manufacturing and Value Added by Manufacture in Western States, 1947 to 1954

State	Increase of employment Number	Percent
New Mexico	7,485	113.7
Nevada	2,641	100.3
Arizona	10,654	76.3
California	339,042	51.0
Idaho	3,648	40.3
Washington	35,392	24.7
Utah	4,557	19.3
Colorado	7,218	13.5
Oregon	12,983	12.4
Montana	1,030	6.7
Wyoming	299	5.4
United States	998,390	7.0

State	Increase of value added by manufacture Amount (thousands)	Percent
New Mexico	$ 88,395	278.4
Nevada	41,149	242.2
Arizona	99,554	121.0
Utah	382,423	117.7
California	48,039	109.7
Washington	579,248	66.7
Colorado	144,507	59.9
Idaho	170,159	47.2
Montana	231,773	44.4
Wyoming	39,249	41.8
Oregon	14,477	34.8
United States	39,975,385	53.8

Source: U. S. Bureau of the Census, *Census of Manufacturers, 1954*, Vol. III, "Area Statistics."

Any prediction as to what the future holds for manufacture in the State must necessarily allow for the inherent limitations that exist. A somewhat better-than-average growth would appear as the most likely, much in the manner of the recent postwar trends. This should not, however, rule out the possibility of certain sharp increases. These could conceivably happen in a western location which offers the attractions of space, air and possibly security, all of which are becoming increasingly important in the determination of plant site.

Wholesale Trade. Colorado's wholesale trade originates largely in the Denver Metropolitan Area where it accounted in 1950 for 8 percent of total employment and 11.5 percent of total basic employment.[30] When considered in terms of the Denver Area alone, wholesale trade is far more important than might be inferred from over-all State employment statistics where wholesale employment represented only 4 percent of total State employment in 1950, and only 2.5 percent of basic employment. The Denver and State interconnection is important, however, in that a significant factor in Denver's growth, of which wholesaling is clearly one, tends to have a multiple impact on the economic wellbeing of the entire State.

Wholesaling in Denver, to which the following discussion is confined, may be summarized by noting certain trends in the structure during the last fifteen years. Table 1.33 shows these by number of establishments, employment and sales.

[30] Basic employment as measured for the Denver Metropolitan Area, applies to this area only and is not a part of the basic employment calculations for the State as a whole. See Department of Planning, City and County of Denver, *Working Denver*, (Denver, Colorado, 1953) p. 68.

Table 1.33

Structure of Wholesale Trade, Denver Metropolitan Area, 1939, 1948 and 1954

Year	Number of establishments	Employment	Sales (thousands)
1939*	993	9,804	$ 339,719
1948	1,327	18,648	1,256,706
1954	1,556	18,361	1,746,390
Change			
1939-48	34%	88%	258%
1948-54	17%	—1%	43%

* Figures for 1939 available for City of Denver only.

Source: U. S. Bureau of the Census, *Census of Business, 1954*, Vol. IV, "Wholesale Trade—Area Statistics;" and *Census of Business 1948*, Vol. V.

Employment. Perhaps the most significant single change observed is the absolute decline in employment from 1948 to 1954. The question which immediately occurs is whether or not this points to a continued employment decrease or at most an employment plateau at which growth hereafter could be expected to be moderate at best. The answer is that the latter is likely to be the case. In any event, an upward employment trend is not indicated and for a number of reasons. Among them, three have been noted as primary in recent studies on wholesale trend in Denver.[31] These are (1) the marked shift in the commodity sales pattern from consumer goods to durables or items for business and industrial use, (2) increased decentralization, which finds many items formerly supplied from Denver now being handled at smaller trading centers in the region or shipped directly from the factory, and (3) increased technology and automation which reduces employment per unit sales.

Sales. Denver's wholesale sales have continued to be relatively favorable, however, although the inflation factor has magnified dollar volume in some degree. In 1954, Census reports placed Denver in 5th leading position in per capita sales in a comparison group of 16 metropolitan areas of comparable size. Similarly, Denver occupied 3rd position in rate of per capita sales gain from 1948 to 1954 (Table 1.34).

Wholesaling in the Denver Area in the future must face up to the fact, however, that competition is keen and the market for Denver products is subject to steady pressure from surrounding major wholesale centers, notably Minneapolis and Saint Paul, Kansas City, Houston, Dallas, Albuquerque, Phoenix and Salt Lake City. This outer ring of larger competitors, in addition to the smaller sized cities now flexing their industrial muscles as they grow in size with the western population drift, has tended more and more to "box in" Denver's market. The latter now includes mainly Colorado, Wyoming and northern New Mexico. In addition, Denver claims as its territory some slight part of South Dakota, Montana, Nebraska and Kansas. Further sales increases may, therefore, be expected to be intensive rather than extensive in which progress will be dependent upon resource development and population growth within these existing boundaries.

[31]Department of Planning, City and County of Denver, *Wholesale Trade in the Denver Metropolitan Area*, Bulletin ES-3 (Denver, Colorado, October, 1956).

Table 1.34

Wholesale Trade
Selected Metropolitan Areas, 1948-1954

(Rank order of Areas appears in parenthesis)

Metropolitan Area	Sales 1954 (millions)	Sales per 1,000 population 1954	Percent increase in sales per 1,000 population 1948-1954
Kansas City, Mo.	$3,258(1)	$3,404(3)	0.2(16)
Dallas	2,992(2)	3,763(2)	34.6(7)
Atlanta	2,983(3)	4,915(1)	34.7(6)
Houston	2,445(4)	2,390(7)	40.5(5)
Seattle	1,954(5)	2,423(6)	31.8(9)
Indianapolis	1,885(6)	3,086(4)	27.1(12)
Portland	1,056(7)	2,344(8)	31.9(8)
New Orleans	1,751(8)	2,262(9)	25.1(14)
Denver	1,746(9)	2,549(5)	43.3(3)
Birmingham	1,202(10)	1,487(12)	42.4(4)
Louisville	1,171(11)	1,815(10)	20.2(15)
Columbia	948(12)	1,628(11)	31.1(10)
Albany, Schenectady, Troy	726(13)	1,340(13)	29.1(11)
San Antonio	610(14)	997)14)	27.1(13)
Youngstown	446(15)	797(15)	62.1(1)
San Diego	412(16)	503(16)	58.2(2)

Source: U. S. Bureau of the Census, *Census of Business: 1954*, Vol. IV, "Wholesale Trade-Area Statistics."

Retail Trade. Retailing is normally a passive rather than an activating factor in the growth of an economy. As population and incomes increase, therefore, retail employment and sales could be expected to respond accordingly. However, as earlier noted, retail trade in Colorado has a relatively high ratio of basic employment (or sales outside the state). For this reason the progress of the industry is a matter of considerable importance in any evaluation of the State's growth potential.

Data from the *1954 Census of Business* generally indicate, when compared with comparable data from the earlier *1948 Census*, that Colorado in expanding more rapidly in its retail sales market than the average western state (as well and much above the national average). As noted in Table 1.35, Colorado ranked 5th in rate of sales gain (1948-1954) in the comparison group of eleven Western States. However, on a per capita basis, which is a more significant measure of growth, Colorado ranked 2nd, being preceded only by Nevada.

Sales in the Denver Metropolitan Area for the same period show an over-all gain as well as per capita gain of 49.2 percent and 22.8 percent, respectively. At these rates Denver ranked 3rd and 1st in the comparison group of eight Western Metropolitan Areas (Table 1.36).

The relatively rapid per capita sales gain in the State is reflected in per capita sales totals which advanced from $989 in 1948 to $1,157 in 1954. This change moved Colorado from 7th to

5th place in the eleven Western State array. Similarly, the Denver Metropolitan Area moved into 1st from 3rd place in the comparative group of eight Western Metropolitan Areas.

Table 1.35

Retail Sales in Western States, 1948 and 1954

State	Sales (millions) 1948	1954	Percent increase 1948-1954	Per capita sales 1948	1954	Percent increase 1948-1954
Colorado	$ 1,250	$1,727	38.2	$ 989	$1,157	16.9
Wyoming	307	385	25.1	1,143	1,291	12.9
Utah	576	733	27.2	882	962	10.9
Idaho	579	670	15.8	1,050	1,120	10.7
Montana	599	778	29.8	1,106	1,257	11.4
New Mexico	474	733	54.5	617	953	15.4
Arizona	654	1,001	52.9	948	1,076	13.4
Nevada	200	330	65.2	1,281	1,557	21.6
Washington	2,203	1,564	30.4	977	1,137	15.0
Oregon	1,586	1,921	21.2	1,129	1,166	3.8
California	10,950	15,644	42.9	1,088	1,251	16.4
United States	128,849	169,968	31.9	882	1,054	11.9

Source: U. S. Bureau of the Census, *Census of Business: 1954*, Vol. II, "Retail Trade—Area Statistics," Parts 1-2.

Much of Colorado's over-all and per capita sales gains stem from the relatively rapid growth of the Denver Metropolitan Area where industrialization and tourist concentration have been most pronounced. Hence, the future outlook for the retail sales market in Colorado may be expected to correlate closely with population and industrial growth in the Denver Area plus such trends in the tourist trade as may develop.

Table 1.36

Retail Sales in Western Metropolitan Areas 1948 and 1954

Metropolitan Area	Sales (millions) 1948	1954	Percent increase 1948-1954	Per capita sales 1948	1954	Percent increase 1948-1954
Denver	$595	$ 888	49.2	$1,055	$1,296	22.8
Kansas City, Mo.	991	1,274	28.6	1,216	1,341	10.3
Houston	819	1,214	48.2	1,015	1,186	16.8
Dallas	705	1,094	55.2	1,146	1,376	20.1
San Antonio	393	553	40.7	785	903	15.0
Seattle	754	1,008	33.7	1,028	1,250	21.6
Portland, Ore.	772	905	17.1	1,096	1,152	5.1
San Diego	507	801	57.9	911	1,022	12.2

Source: U. S. Bureau of the Census, *Census of Business: 1954*, Vols. I-II, "Retail Trade—Area Statistics," Parts 1-2.

Selected Services. "Selected services" as defined by the U. S. Bureau of the Census are a special type of retail sales and in that sense much of what has been said above is equally applicable to this category. Comparative data from 1948 to 1954 are not available but it is likely that relative growth rates have been much the same as in retail trade.

Colorado ranked in 1954 well above the eleven Western-State-average in the per capita volume of its service business. As noted in Table 1.37, Colorado's per capita receipts from all service activities in 1954 were the 4th highest among the eleven states in the West. Two principal categories, "amusements" and "hotels and motels," are of particular interest, since they reflect the impact of the tourist trade. In these services, Colorado ranked 3rd and 5th, respectively, in the eleven state comparison group.

It will be seen also that Colorado in the remaining designated catgories, namely, "business and personal services" and "auto and miscellaneous repair," ranked 3rd and 7th respectively.

Table 1.37

Per Capita Receipts of Service Industries, By Major Groups in Western States, 1954

(Rank order of states appears in parenthesis)

State	Total	Bus. & personal	Auto and misc. repair	Amusements	Hotels and motels
Nevada	$813(1)	$78(2)	$36(2)	$411(1)	$288(1)
California	200(2)	90(1)	40(1)	46(2)	24(7)
Wyoming	157(3)	44(8)	29(5)	24(6)	60(2)
Colorado	152(4)	57(3)	27(7)	38(3)	30(5)
Oregon	132(5)	55(5)	33(3)	24(5)	20(10)
Washington	130(6)	56(4)	29(4)	24(7)	21(9)
Arizona	129(7)	46(7)	28(6)	21(8)	34(3)
New Mexico	119(8)	49(6)	24(8)	21(9)	25(6)
Utah	111(9)	42(9)	21(10)	29(4)	19(11)
Montana	105(10)	35(11)	19(11)	19(10)	32(4)
Idaho	101(11)	36(10)	23(9)	18(11)	24(8)
United States	146—	75—	25—	27—	19—

Source: Derived from U. S. Bureau of the Census, *Census of Business: 1954*, Vol. VI, "Selected Service Trades—Area Statistics," Parts I and II.

From these relationships it is apparent that the service industries in Colorado have a strong "basic" component, a fact that earlier analysis has also indicated.

Tourist Trade. While not an industry in the accepted meaning of that term, the tourist trade is often so regarded. In any event, it is an important market factor which causes the trade and service industries in the State to have a "basic" or "export" significance not otherwise possible.

In 1956 an estimated total of 3,878,000 tourists visited Colorado (Table 1.38). On the average, each tourist stayed 7.4 days and spent $7.87 daily. On this basis it is estimated that tourist expenditures totalled $226 million — a figure equal to 13 percent of total retail sales or an amount approximately equivalent to 100 percent of total receipts of selected services as reported by the 1954 Census of retail sales and services. It is no small wonder then that the health of this "outside" market has become a matter of almost as much concern as the weather and the crop outlook.

Future indications are that the number of tourists coming to Colorado will continue to increase. A number of causal factors are clearly evident, the principal of which are: (1) an increasing population in which the ratio of older people outside the labor market is expected also to increase, (2) the urbanization movement which induces a desire to escape crowds and to get away from things for a while, and, (3) better transportation facilities. Added to these one may expect accelerated promotional effort. The latter has become increasingly important as all regions of the country have entered the arena of competition for this lucrative business.

Table 1.38

Number, Expenditures and Length of Stay of Tourists in Colorado, 1950-1956

Year	Number of tourists	Expenditures Total (thousands)	Per person per day	Per person per stay	Average stay in days
1950	2,009,000	$107,903	$6.10	$33.71	8.8
1951	2,201,000	123,014	6.73	55.89	8.3
1952	2,636,000	151,280	7.86	57.39	7.3
1953	2,882,000	155,777	8.07	54.05	6.7
1954	3,088,000	185,805	8.02	60.17	7.5
1955	3,344,000	214,247	7.91	64.05	8.1
1956	3,878,000	225,816	7.87	58.23	7.4

Source: Bureau of Business Research, University of Colorado, *Colorado Business Review*, Vol. XXX, No. 5, May, 1957.

The outlook for tourism, though apparently bright, is not entirely so and from some points of view the skies are not bright at all. Analysis of trends indicates that since World War II the number of tourists have been increasing at the rate of 254,000 per year. At this rate Colorado could expect about 6 million tourists by 1965. So far, so good.

However, tourist expenditures are not keeping pace with the increased number of tourists. Tourist expenditures, although basically a function of the number of tourists, are importantly conditioned by the length of stay of each tourist on the average. Since 1946 the latter has declined from 9.5 days to 7.4 days in 1956. This is attributed largely to faster cars and increased travel in which a broader area of the country can be encompassed within a typical vacation period. If this continues, and there seems to be little in sight that could change the situation, it is calculated that the average tourist will spend 5 days in Colorado by 1965. Average expenditure, based on 1956 expenditures rates per day, will then amount to about $41 per-person-per-stay rather than $58.23 as reported for 1956. Thus an aggregate increase of 60 percent in the number of tourists in 1965 may mean only a 15 percent increase in the number of tourist days (number of visitors multiplied by the average length of stay). At this rate, total expenditures may not exceed the total reported in 1956.

Undoubtedly, Colorado welcomes visitors but from an economic point of view a declining profit margin in the face of increased volume is not easily accepted and probably need not be. How promotion effort in the State will resolve this problem remains to be seen.

Government. Government workers in Colorado including federal, state and local numbered 93,087 in 1956. This number included 33,605 civilian employees of the federal government and 59,482 employees of state and local governments (Table 1.39). In 1956, Colorado, on a per capita basis, ranked 4th among the states in number of federal civilian employees and 12th in number of state and local government.

As a growth-inducing factor federal employment is by all odds the more important component of the governmental employment structure. State and local government is inherently "local service" in character and, accordingly its employment follows and accommodates fundamental growth trends—it does not "cause" them.

The future growth of civilian employment in federal agencies in Colorado should, on the basis of past trends and in the light of new developments, continue to increase at a rate which will at least maintain Colorado's high per capita position in comparison with other states. The strategic location of Denver, which accounts for approximately two-thirds of all federal employment in the State, has been recognized by the fact that over 150 federal agencies of various size are located in this area. These serve varying sized jurisdictions and, in many cases, cover as much as three-quarters of the country or more.[32] Trends now apparent suggest an enlargement in future federal activity in Denver. In the opinion of local officials these have their basis in the following: [33]

(1) Availability of space for building at the Federal Center which is already served with utilities and highway access.

[32] On this point see Department of Planning, City and County of Denver, *Working Denver* (Denver, Colorado, 1953), pp. 134-137.

[33] *Ibid.*, p. 136.

Table 1.39

Government Employment in Colorado, Selected Years, 1946-1956

Year	Total	Federal	State		Local		
		All agencies[a]	Colleges	Other agencies	City	County	School
1946	60,000	23,000	5,000	6,000	8,000	5,000	13,000
1948	63,062	21,272	6,008	6,379	9,638	7,033	12,732
1950	71,476	24,943	5,546	6,410	12,297	8,566	13,714
1952	84,347	37,375	5,192	6,926	10,922	6,912	17,020
1953	82,130	33,765	5,435	7,272	11,898	6,819	16,941
1954	84,450	32,911	5,412	8,292	11,553	7,224[b]	19,058
1955	87,037	32,623	5,769	9,312	12,104	6,907[b]	20,322
1956	93,087	33,605	6,132	10,117	14,110	7,244[b]	21,879
Increase							
1946-1956	55.1%	46.1%	22.6%	68.6%	76.4%	44.9%	68.3%
1950-1956	30.2%	34.7%	10.6%	57.8%	47.4%	15.4%	59.5%

[a] Civilians only.

[b] Includes employees of special districts as follows: 1956-514; 1955-468; 1954-449.

Source: U. S. Department of Labor, Bureau of Labor Statistics, "Colorado Bulletin 65," March 30, 1958.

(2) Decentralization of federal agencies is taking place for a variety of reasons, and Denver is benefiting thereby.

(3) Denver is benefiting to some extent also from reorganization and consolidation of over-extended regional organizations.

(4) Denver's strategic location as the only city in its population range located in a very sizable geographic area tends to make it a logical center for any governmental activity proposing to serve the area as a whole.

(5) Certain agencies which are primarily serving the Western States are endeavoring to move closer to the areas which they serve.

The foregoing has applied exclusively to certain employment in federal government. Federal military payrolls must be recognized also as an important factor in the State. The closing of one or two large military establishments as proposed in 1957 could, for example, result in a substantial decrease in business volume in several sections of the State now dependent in large degree upon such activity.

Obviously, any prediction of what may happen here would be quite meaningless. There are, however, certain straws in the wind, notably, an indicated decline in the number of military personnel due to the development of new weapons systems and new concepts of warfare and defense.

Industrial Progress and the Question of Water

In the background of any thinking on Colorado's economic future is the constant spectre of progress being brought to a sudden halt because of water. The significance of this vital but highly limited resource and its likely impact on the future of the economy of the State has been well expressed in a recent report, excerpts from which are quoted below:

> Any long range analysis of social and economic trends in Colorado must necessarily consider the problem of water. It is assumed herein that there will be adequate supplies of domestic and industrial water in the State for two to three million persons, nearly one million of whom will live in metropolitan Denver. These assumptions cannot be verified easily. Certainly, the optimum use of known water supplies will be required. A large system of storage reservoirs, controlled industrial and economic use, trans-mountain diversions, cloud seeding, and possible limited agriculture use will be required. All can be envisaged. The actual outcome will depend upon the course of numerous individual and governmental decisions, not many of which can be predicted with any certainty at this time.
>
> It can be reasonably assumed that water will be a limiting factor in the Colorado economy, both from the point of view of the cost of control and the absolute limits of quantity. Given the semi-arid climate of most of the state and its mountainous terrain, the population density of Colorado is likely to remain much below that of the United States. . . .
>
> It is, of course, very difficult to assume that present conditions which define such variables as technological change and growth in absolute numbers of people can be projected very far into the future. One can conceive of assumptions under which Colorado could sustain a population of many millions. On the other hand, when future conditions are assumed to be not radically different from the present, then a limit on the probable population growth appears. . . .
>
> The economy of the State is likely also to grow progressively into an "oasis" economy, in which the population is concentrated in relatively small areas where climate, terrain, and available water supplies are most conducive to the amenities of life. Such areas would be largely urban in character, and their growth will require careful consideration of the desirable directions of future urban development—and of such problems as zoning, traffic control, air pollution control, and provision of parks, auditoriums, and other public facilities.[34]

Apart from its longer run implications the problem of water scarcity is a continuous one since there has never been enough water to meet all demands. Hence, there is an ever increasing need to develop, conserve, and to allocate scarce water to its optimum use between sharply competing demands.

The State Water Development Plan. Colorado's efforts to develop as well as to conserve its water resources including power is manifest currently in "Colorado's official water plan" which includes projects in actual construction or in the planning stage. In most cases the participation of the U. S. Bureau of Reclamation is a crucial factor.[35] Because of the magnitude of these undertakings and their great meaning to Colorado's economic future their identification and stage of development are pertinent data here. The major projects are the following: (1) The continuation of the Colorado-Big Thompson project (practically completed), (2) the continuation of the Mancos project (now completed), (3) Animos-LaPlata project, (4) Pine River Extension project, (5) Paonia project, (6) The Sell project, (7) Cherry Creek Flood control (now completed), (8) Colorado Springs Flood Control and Improvement Project (now completed), (9) San Luis Valley project (Conejos unit completed), (10) Smith Fork project, (11) Frying Pan-Arkansas project, (12) Curecanti project, (13) Denver-Blue Diversion project, (14) Florida project, (15) Trinidad Reservoir project.

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[34]Morris Garnsey and R. E. Pelz, *A Projection of the Population of Colorado*, University of Colorado (Boulder, Colorado, 1955), pp. 36-37.

[35]The financial participation of the Bureau of Reclamation in assisting water development in the State has been and continues to be on a large scale as evidenced by an outlay to date of $195,684,735. Moreover, studies have been completed on projects which, when authorized, will cost an estimated $209 million. In addition, the Corps of Engineers, U. S. Army has spent $31,088,489 in flood control projects while authorized projects in the amount of $39 million await appropriation. (In further reference to this see: Department of Natural Resources, State of Colorado, *Water Resources of Colorado*, November, 1957, p. 118).

Recent Study Recommendations. Reference has already been made to recommended conservation measures as these apply specifically to agriculture. Broad policy action recommended in a current report[36] prepared for the State Department of Natural Resources calls for the following:

(1) The introduction of a more comprehensive and economic development program which will guide *all* resource use and, in the case of water, determine the optimum allocation of water among industrial demands.
(2) The initiation by the new Department of Natural Resources of a thorough review of the factual basis required for adequate planning and regulation of water use and for all phases of planning, design, construction and operation of water resource projects.
(3) The granting of appropriate powers to the State's water agency to reserve blocks of water from currently unappropriated waters.
(4) The development of a stricter interpretation of the term "beneficial use" which presently is unclear in respect to what *is not* "beneficial use."
(5) The adoption of legislation for the control of ground water use.
(6) The study of Colorado's water law with the end in view of bringing it in step with current conditions.
(7) A fuller recognition of the water saving opportunity that lies in better stream sanitation.
(8) The expansion of programs of water resource planning to include local and subarea levels.
(9) The development of state studies on a continuing basis relative to technological changes and their impact on water development planning.

Population, Employment and Income Projections

Preceding analyses suggest a strong and well balanced industrial growth for Colorado in the future in which the "western movement" of peoples is a basic causal force that cannot be denied. A steady but better-than-average trend line movement as envisaged could, however, be easily shifted from course. A rich oil strike, an accelerated development of oil shale of considerable magnitude, a large heavy industry coming into the area, are several of a number of industrial changes that could happen overnight.

Any effort, therefore, to translate unknowns into the specifics of future population, employment and income totals obviously calls for a degree of fore knowledge that no one can be presumed to possess. Nevertheless, important policies in both business and government are necessarily premised on the future and require the guidance of projections in one form or another.

[36]Department of Natural Resources, State of Colorado, *Water Resources of Colorado*, November, 1957, p. 118.

Population Projections — General. Two definitive studies of the future population trends in Colorado have been completed and published during the past year. The first, which is an estimate of the U. S. Bureau of the Census, projects the population by five-year intervals from 1955 to 1970. The second study, by Professor Peterson of the University of Colorado, projects the population by five-year intervals to 1980. Estimates are made for the State as a whole as well as for the three major geographical areas of the State including the Denver Metropolitan Area.

Population Projections to 1970. The Census estimates that the population of Colorado will reach 2,197,000 by 1970 or an increase of 42 percent over its reported total for 1955. By Census prediction, also, this rate will exceed that of any other western state excepting Nevada, Arizona, California, and Utah (Table 1.40). Moreover, the Mountain States group, with an estimated growth rate of 44.4 percent, is expected to grow faster than any other region excepting the Pacific Coast States (Table 1.41).

Table 1.40

Estimated Population of Western States 1955 and 1970

(thousands)

State	1955	1970	Percent increase 1955-1970
Nevada	235	453	92.8
Arizona	1,007	1,802	78.9
California	12,961	20,296	56.6
Utah	797	1,151	44.4
Colorado	1,547	2,197	42.0
New Mexico	793	1,126	41.9
Oregon	1,685	2,317	37.5
Washington	2,607	3,459	32.7
Wyoming	312	379	21.5
Montana	629	755	20.0
Idaho	612	700	14.4
Total	23,185	34,635	49.4

Source: U. S. Bureau of the Census, *Current Population Reports: Population Estimates*, Series P. 25, No. 160, August 9, 1957.

Table 1.41

Estimated Population by Regions in United States, 1955 and 1970

(thousands)

Region	1955	1970	Percent increase 1955-1970
Pacific	17,253	26,071	51.1
Mountain	5,931	8,562	44.4
East No. Central	33,604	44,415	32.2
So. Atlantic	23,447	30,085	28.3
Middle Atlantic	32,244	39,473	22.4
West So. Central	15,694	18,994	21.0
West No. Central	14,843	17,259	16.3
New England	9,619	11,158	15.9
East So. Central	11,669	12,327	5.6
United States	164,304	208,344	26.8

Source: U. S. Bureau of the Census, *Current Population Reports: Population Estimates*, Series P. 25, No. 160, August 9, 1957.

Table 1.42

Population by Regions in Colorado 1950 and Projections to 1980

Year	"High" Projection[a] Colorado	Western Slope	Eastern Slope	Denver Metropolitan Area	"Low" Projection[a] Colorado	Western Slope	Eastern Slope	Denver Metropolitan Area
1950	1,325,089	226,154	535,103	563,832	1,325,089	226,154	535,103	563,832
1956	1,622,600	252,600	651,100	718,900	1,622,600	252,600	651,100	718,900
1960	1,801,000	252,000	648,000	901,000	1,737,000	243,000	624,000	869,000
1965	2,039,000	285,000	735,000	1,019,000	1,891,000	265,000	681,000	945,000
1970	2,277,000	319,000	819,000	1,139,000	2,044,000	286,000	735,000	1,022,000
1975	2,515,000	352,000	906,000	1,257,000	2,198,000	308,000	792,000	1,099,000
1980	2,753,000	386,000	990,000	1,377,000	2,351,000	330,000	846,000	1,175,000
Increase, 1956-1970								
Number	654,400	66,400	167,900	420,100	421,400	33,400	83,900	303,100
Percent	40.3	26.3	25.8	58.4	25.9	13.2	12.9	42.2
Increase, 1956-1980								
Number	1,130,400	133,400	338,900	658,100	728,400	77,400	194,900	456,100
Percent	69.7	52.8	52.0	91.5	44.9	30.6	29.9	63.4

[a] Based on assumption that the population will increase by an amount equal to the average over 1950-1956 ("High" projection), or 1940-1956 ("Low" projection).

Source: William Peterson, *A Critical Survey of Several Forecasts of the Population of Colorado*, State of Colorado, Dept. of Natural Resources, Technical Paper No. 1., July, 1957.

Professor Peterson makes two projections designated as "Projection A" and "Projection B." The first, or the "high" projection is based on the assumption that the population of the State will increase (1956 to 1970) by an amount based on the average annual growth rate from 1950 to 1956. The figure arrived at for 1970 totals 2,277,000, or an increase of 40.3 percent. The second, or "Projection B," which is the "low projection," assumes a growth equal to the past growth rate from 1940 to 1956. With this as a basis, Colorado's population in 1970 is estimated at a total of 2,044,000 for 1970, or an increase at the rate of 25.9 percent (Table 1.42 and Chart 1.2).

Of the two projections, the first or the "high projection" comes closest to the Census estimate and is in the opinion of the Staff of the Study the most likely of the two.

Estimates of population growth for specific areas within the State based on Professor Peterson's projections assume a growth rate equal to that of given past periods. Hence, the relative future size of each area remains constant. Thus, in 1970 the western slope with an anticipated population of 319,000 is expected to account for 15.6 percent of the State's total population, the eastern slope with a population of 819,000 for 40.1 percent, and the Denver Metropolitan Area with a total of 1,139,000 for 44.3 percent.

Employment Projection to 1970. It is estimated that employment in 1970 will reach a total of approximately 843,000 which represents a gain of 234,000 jobs over 1956. This increase is based on the assumption that the population employment ratio of 2.7 to 1—derived by averaging 1950 and 1956 relationships—will also apply in the future.[37]

An employment increase of this size or by nearly 40 percent seems high, yet as earlier noted, the employment gain over the ten-year census period from 1940 to 1950 was 37.5 percent. If the industrial pace set in the past is maintained and it is expected to be that great at the very least, this predicted total cannot be regarded as being excessive.

Personal Income Projections to 1970. A further study recently completed estimates that from 1956 to 1970 per capita personal incomes will increase in Colorado and the United States at the rate of 82 percent and 66 percent, respectively, or in per capita terms as follows:[38]

Area	1956	1970	Percent Increase
Colorado	$1,870	$3,403	82
United States	1,961	3,255	66

Underlying assumptions are that the general price level or the purchasing power of the dollar will not change and that the population will increase at the rate estimated by the Bureau of the Census.

Aside from the substantial improvement anticipated by this project of the economic well-being of individuals not only in Colorado but for the country as a whole, a point of added interest is that the projected per capita income for Colorado will exceed that of the national average. This, as earlier noted, is in contrast to past relationships which have usually found the State under the national average. The logic of this change-over for the better, as far as Colorado is concerned, is apparent in view of her anticipated better-than-average population growth over the next decade and a half.

[37] The estimate of employment is a staff estimate and is not a part of population studies referred to in the text.

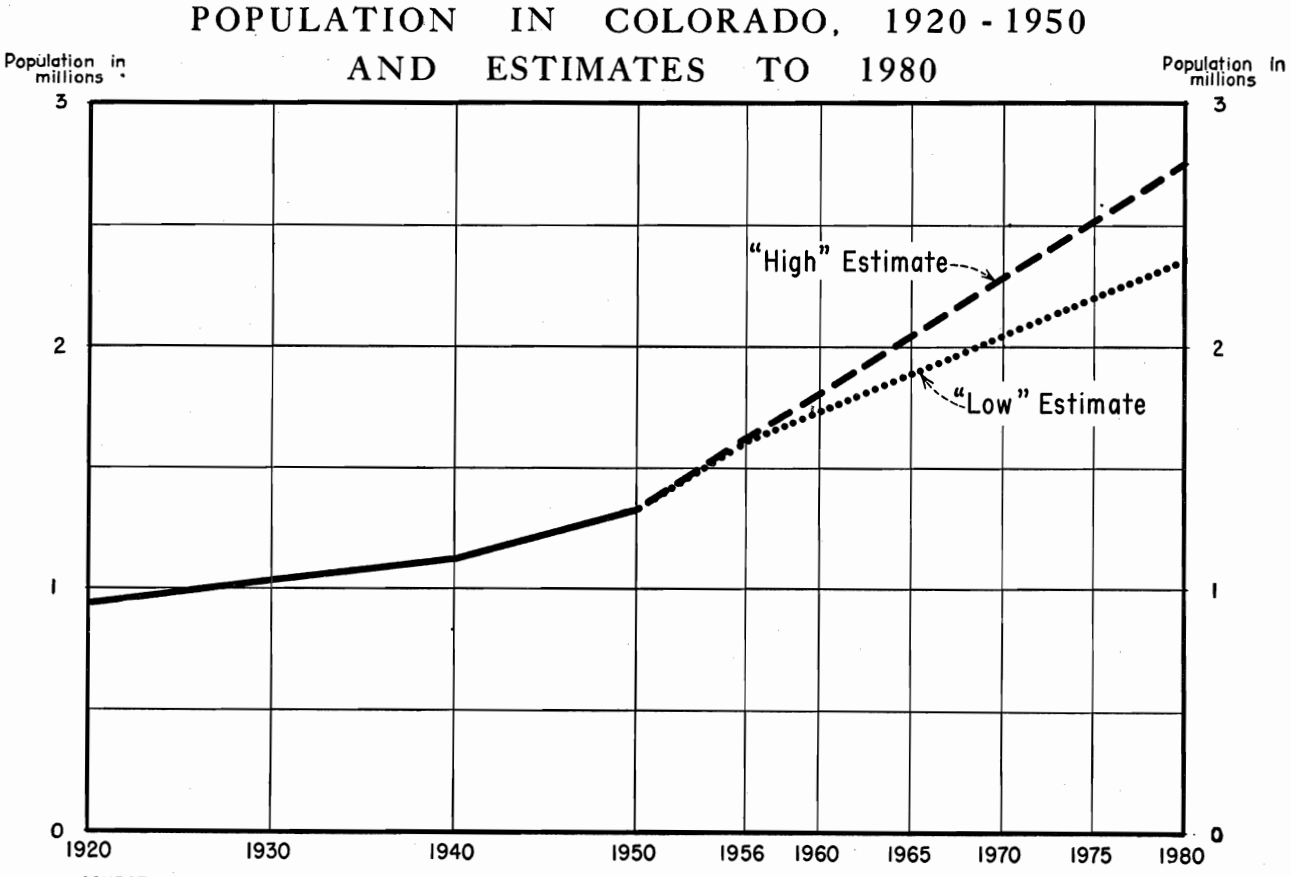
[38] John G. Welles, "Colorado in 1970—a Forecast," *Western Business Review*, Vol. 2, No. 2, University of Denver, p. 5.

Public Finance and the Economy

Unlike many states, Colorado's problem of financing government in the future is not one of finding ways and means for retaining its population and preserving its tax base, but one of finding appropriate ways and means for supporting enlarged government as its population continues to grow at a better-than-average national rate. The future capacity of the people of Colorado to finance government will undoubtedly increase, but a neat and quick adjustment of public needs to means in a situation of continuous change is not one that can be presumed to be automatic with ready precedents as guides for policy action. Judgments as to what is needed now from government and who shall pay now rests currently on quite a different base of reckoning than that which guided action in the past or which will serve as a criterion of judgment for the future.

The nature of Colorado's economy, whose industries and natural resources are probably more diverse than that of any other state in the union, increases not only the task of determining appropriate patterns of public service, but patterns of taxation as well. To strike an optimum balance in a milieu of varied and changing interests in which agriculture will be suitably fostered, mining adequately encouraged, manufacturing promoted, and trade and service appropriately recognized, are but examples of the challenge faced by government in Colorado. Added to this are highly uneven population, industrial, and income distributions in which the rural and metropolitan areas face different sets of problems but nonetheless join economically to make the existence of both possible.

It is in this setting of variety and dynamic change that a state-wide fiscal policy must be formulated as it will be judged.



SOURCE: U.S. Census of Population, 1920–1950; estimates based on study by William Peterson entitled, A Critical Survey of Forecasts of the Population of Colorado (July 1957).

CHART 1.2

Chapter II

THE STRUCTURE OF GOVERNMENT IN COLORADO

The expenditure and revenue policies of government in Colorado are importantly influenced by the existing patterns of governmental organization at both the state and local levels. The purpose of this chapter is to highlight principal structural features of governmental arrangements and their implications for effective administrative and financial operations.

Early Developments

Colorado's present organization as a geographical and political unit has evolved out of a series of complicated land deals, treaties and territorial adjustments dating from the Louisiana Purchase in 1803. The latter brought into the Union a vast land area including most of the eastern half of present Colorado. War with Mexico in 1848 resulted in further extension of the Nation's domain of which the western half of the State was a part.

As these lands were acquired by peace or war, territorial governments were established with the area now included in Colorado divided jurisdictionally between the territories of Utah, Nebraska and Kansas. In addition, a part of the latter territory designated as Arapahoe County and formed in 1855, covered much of what is now the eastern half of the State. This unit, largely a "paper division" of Kansas territory, and virtually unknown and unpopulated prior to 1858, suddenly sprang into life upon the discovery of gold on the plains at the tributaries of the South Platte near Denver. In quick succession from 1859 to 1862 organized municipal governments were formed principal of which were Denver, Black Hawk, Golden, Central City, Mount Vernon, Breckenridge, Empire, Gold Hill, Georgetown and Mill City. These in turn were supplemented by "Peoples Courts" that meted out justice as they saw it.

Dissatisfaction with territorial government, the seat of which was over 400 miles away, started a movement for statehood which was rejected by the people who instead formed an "extra legal" entity called "Jefferson County." Acting as a bona fide governmental agency it proceeded to charter cities and towns including Denver. All of these had to be given new charters when legal territorial status was achieved in 1861. The new territory of Colorado, and so named, included seventeen counties and embraced a territory substantially the same as that of the State today. The number of counties was enlarged to twenty six with the advent of statehood in 1876.

Immigration due to further mineral discoveries and the development of agriculture during the decades from 1870 to 1890 led to a general division of larger counties into smaller units. Thus on the Western Slope seven new counties (Delta, Eagle, Garfield, Mesa, Montrose, Ouray and San Miguel) were created in 1883, and two counties (Montezuma and Rio Blanco) in 1889. Similarly, on the Eastern Slope eleven new counties (Baca, Cheyenne, Kiowa, Kit Carson, Lincoln, Morgan, Otero, Phillips, Prowers, Sedgwick and Yuma) were created in 1889.

In 1902 Denver and Adams counties were carved out of parts of Arapahoe County, the former as a city and county with home rule status. Finally in 1913, and thirty-seven years after statehood, Alamosa County was formed thus completing the county structure as it now exists with a total of sixty-three counties. Along with the formation of counties came also the growth of towns and cities and the formation of school and other districts to accomodate particular governmental needs as these developed. Following the national pattern, the number of school districts in Colorado has tended, in more recent times, to decline while other special districts have followed the opposite course of increasing both in number and variety (Tables 2.1, 2.7 and 2.9).

Table 2.1

Types and Number of Local Governmental Units in United States, 1952 and 1957

Governmental unit	1952	1957	Change 1952-1957
	——numbers——		
Counties	3,049	3,047	—2
Municipalities	16,778	17,167	389
Townships & Towns	17,202	17,214	12
School Districts	67,346	50,453	—16,893
Special Districts	12,319	14,423	2,104
Total	116,694	102,304	—14,390

Source: Adapted from U. S. Bureau of the Census, *Statistical Abstract of the United States, 1957.*

Number and Kinds of Governmental Units in Colorado—General

In addition to state government proper, governmental services in Colorado were in 1957 administered by 1,675 separate governmental units each having, in most cases, the power to tax or to assess persons for services rendered (Table 2.2). Of this number the counties accounted for 63 units, municipalities 245, school districts 936,

Table 2.2

Number of Local Governmental Units in Eleven Western States, 1957

State	Counties	Municipalities	Townships	School Districts	Special Districts	Total	Rank
Colorado	63	245[a]	0	936[b]	431[c]	1,675	2
Utah	29	210	0	40	118	397	8
Idaho	44	199	0	168	420	831	6
Montana	56	123	0	1,149	174	1,502	5
Wyoming	23	86	0	246	133	488	7
New Mexico	32	77	0	95	112	316	10
Arizona	14	52	0	250	50	366	9
Nevada	17	17	0	17	58	109	11
Washington	39	252	69	471	745	1,576	3
Oregon	36	213	0	726	550	1,525	4
California	57	331	0	1,840	1,650	3,878	1

[a] Excludes City and County of Denver which is included in the enumeration of counties.
[b] Colorado Department of Education lists 941.
[c] Includes districts which were excluded as described in footnote to Table 2.9.

Source: U. S. Bureau of the Census, *1957, Census of Government.*

and special districts, other than schools, 431. All, as separate governmental entities, derive their powers from the State. In theory and practice their existence acknowledges the fact that government at the "grass roots" is essential in the effective administration of the State's function as a whole.

Comparatively, Colorado has, as noted in Table 2.2, more local governmental units than any other Western State excepting California. In detail, Colorado has, with the exception of California, more municipalities than other states in the West. In number of school districts it ranks third in the eleven Western State comparison and fourth in the number of other special district governments. It is of interest in this connection that, aside from Washington, none of the Western States have the township form of government, a unit that is quite commonly found in the middle and eastern states.

State Government

The organizational pattern of Colorado's state government embodies the national concept of the separation of powers between the legislative, judicial and executive branches.

Legislative. The people of Colorado are represented by a General Assembly composed of 35 senators, elected from 25 senatorial districts and 65 representatives, each elected from one or more counties designated as representative districts. The State Constitution provides that representation of both the senatorial and representative districts be appointed on the basis of population; however, no reapportionment of representation has been made since 1932. Because of considerable population increase and its shift to metropolitan areas since that time certain distortions in the pattern of representation have developed. Thus, Jefferson County—where the population is estimated to have nearly doubled between 1950 and 1957—had only one senator for an estimated population in 1957 of 105,000 persons. At the other extreme four counties (Kit Carson, Cheyenne, Lincoln and Kiowa) which together form one senatorial district had one senator for an estimated aggregate popu-

Table 2.3

Colorado General Assembly: Representation of Counties in the Senate and and Senatorial Districts, by Population, 1950 Census and Estimated 1957

District	Number of Senators	Counties	Population Census 1950	Population Estimated 1957	Number of persons per Senator 1950	Number of persons per Senator 1957
1	8	Denver	415,786	515,000	51,973	64,375
2	2	Pueblo	90,188	116,000	45,094	58,000
3	2	El Paso	74,523	118,000	37,262	59,000
4	1	Las Animas	25,902	24,300	25,902	24,300
5	1	Boulder	48,296	60,000	48,296	60,000
6	1	Chaffee, Park, Gilpin, Clear Creek, Douglas, Teller	19,438	20,150	19,438	20,100
7	2	Weld	67,504	75,500	33,752	37,750
8	1	Jefferson	55,687	105,000	55,687	105,000
9	1	Fremont, Custer	19,939	20,800	19,939	20,800
10	1	Larimer	43,554	49,500	43,554	49,500
11	1	Delta, Gunnison, Hinsdale	23,344	24,075	23,344	24,075
12	1	Logan, Sedgwick, Phillips	27,206	30,800	27,206	30,800
13	1	Rio Blanco, Moffat, Routt, Jackson, Grant	25,544	26,600	25,544	26,600
14	1	Huerfano, Costilla, Alamosa	27,147	26,800	27,147	26,800
15	1	Saguache, Mineral, Rio Grande, Conejos	29,365	28,750	29,365	28,750
16	1	Mesa	38,974	53,200	38,974	53,200
17	1	Montrose, Ouray, San Miguel, Dolores	21,982	23,500	21,982	23,500
18	1	Kit Carson, Cheyenne, Lincoln, Kiowa	20,965	20,000	20,965	20,000
19	1	San Juan, Montezuma, La Plata, Archuleta	29,372	36,800	29,372	36,800
20	1	Yuma, Washington, Morgan	36,421	40,000	36,421	40,000
21	1	Garfield, Summit, Eagle, Lake, Pitkin	25,044	28,300	25,044	28,300
22	1	Arapahoe, Elbert	56,602	99,300	56,602	99,300
23	1	Otero, Crowley	30,497	30,900	30,497	30,900
24	1	Adams	40,234	75,000	40,234	75,000
25	1	Bent, Prowers, Baca	31,575	31,400	31,575	31,400
All	35		1,325,089	1,679,675	—	—

Source: Derived from Colorado State Planning Commission, *Colorado Year Book, 1956-1958.*

lation of 20,000 (Table 2.3). Similarly, Jefferson County had two representatives for its aggregate population of 105,000 or an average of one representative per 52,500 persons as compared with Cheyenne and Lincoln counties which together with an aggregate population of 8,900 persons were represented by one (Table 2.4).

Judiciary. The judicial power of the State is vested by the State Constitution in a supreme court, fifteen district courts, and a county court in each of the counties. In addition there are justice of peace courts in various designated precincts in each county. The supreme court exercises appellate jurisdiction as well as original jurisdiction and has a superintendency control over all inferior courts. The supreme court consists of seven judges elected by the voters at large while the fifteen district judges are elected by the voters of the district they serve. Similarly, the voters of each county elect the county judges. Supreme and district court judges are required to be attorneys, but county judges and justices of the peace are not required to be so qualified. As a result the majority of the sixty-three county judges have no formal legal training which holds to even a greater degree for the justices of peace.

Other officials performing functions in the administration of justice include for each district court, a district attorney elected by the people of the district, a county attorney appointed by the board of commissioners in each county, a clerk of the district court in each county appointed by the district judge, and a clerk of county court appointed by the county judge. Supplementing these in the administration of justice is a sheriff elected in each county, and two constables who may be elected in each justice's precinct.

General Administration. The administration of state government in Colorado is performed by 138 agencies[1] variously designated as "offices," "departments," "divisions," "bureaus," "boards" and "commissions."[2] Each is a separate

[1]Colorado law defines an "agency" as follows:—"the term 'agency' shall mean every agency in the executive branch of the state government which is required by the constitution or statute of the state to exercise discretion or to perform judicial or quasi-judicial functions. As so qualified the term 'agency' shall include, but not by limitation, boards, commissions, departments, divisions, offices and officers." *Colorado Revised Statutes, 1953.*

[2]The use of specific terms in describing the administrative parts of the state organization is tricky since a "department" or "division" may exist on paper only. Moreover, titles do not of themselves indicate the relative scope of a given agency's administrative activity or responsibility.

Table 2.4

Colorado General Assembly: Representation of Counties in the House, and Representative Districts, by Population, 1950 Census and Estimated 1957

Number of Representatives	Representative Districts	Population Census 1950	Population Estimated 1957	Number of persons per Representative 1950	Number of persons per Representative 1957
17	Denver	415,786	515,000	24,458	30,294
4	Pueblo	90,188	116,000	22,547	29,000
3	Weld	67,504	75,500	22,501	25,166
3	El Paso	74,523	118,000	24,841	39,333
1	Las Animas	25,902	24,300	25,902	24,300
2	Boulder	48,296	60,000	24,148	30,000
2	Larimer	43,554	49,500	21,777	24,750
2	Arapahoe	52,125	95,000	26,063	47,500
2	Crowley, Otero	30,497	30,900	15,249	15,450
2	Mesa	38,974	53,200	19,487	26,600
1	Delta	17,365	18,000	17,365	18,000
1	Huerfano	10,549	9,800	10,549	9,800
2	Jefferson	55,687	105,000	27,844	52,500
1	Logan	17,187	21,100	17,187	21,100
1	Morgan	18,074	22,200	18,074	22,200
2	Adams	40,234	75,000	20,117	37,500
1	Yuma	10,827	10,500	10,827	10,500
1	Washington, Kit Carson	16,120	15,600	16,120	15,600
1	Prowers, Baca	22,800	22,600	22,800	22,600
1	Routt, Moffat, Grand, Jackson	20,825	21,800	20,825	21,800
1	Montrose, Ouray	17,323	18,500	17,323	18,500
1	San Miguel, Dolores, Montezuma	14,650	17,200	14,650	17,200
1	LaPlata, San Juan	16,351	21,600	16,351	21,600
1	Hinsdale, Gunnison, Saguache	11,643	11,275	11,643	11,275
1	Rio Grande, Mineral	13,530	13,550	13,530	13,550
1	Conejos, Archuleta	13,201	13,000	13,201	13,000
1	Alamosa, Costilla	16,598	17,000	16,598	17,000
1	Fremont, Custer	19,939	20,800	19,939	20,800
1	Park, Teller, Douglas, Elbert	12,608	13,000	12,608	13,000
1	Lake, Chaffee	13,318	14,800	13,318	14,800
1	Eagle, Pitkin, Summit, Clear Creek, Gilpin	11,408	12,450	11,408	12,450
1	Rio Blanco, Garfield	16,344	17,300	16,344	17,300
1	Sedgwick, Phillips	10,019	9,700	10,019	9,700
1	Cheyenne, Lincoln	9,362	8,900	9,362	8,900
1	Kiowa, Bent	11,778	11,600	11,778	11,600
65		1,325,089	1,679,675	—	—

Source: Derived from Colorado State Planning Commission, *Colorado Year Book, 1956-1958.*

legal entity established under constitutional or statutory law and differing only in degree of individual responsibility and independence of supervisory authority. Some agencies are included in larger "agencies" or "departments" and "divisions" which may exercise considerable control while others may be grouped within, or merely identified with a department or division which exercises little or no central control.

Colorado's administrative organization, being made up of many independent or semi-independent parts, cannot be readily described as a whole. However, a general outline of the structure has been attempted by graphics as shown in Chart 2.1 and supplemented by Appendix Table 2.A. As therein indicated it is convenient to show the total administrative activities of the State (all activities other than those contained in the legislative and judicial branches of the government) by pointing first to the elective offices or the top echelon of the "Executive Branch." These include the offices of the Governor, Lieutenant Governor, Secretary of State, State Treasurer, Auditor of State, and Attorney General. Other elective offices are the Board of Education and the Board of Regents.

The Governor's administrative role, depicted in Chart 2.1, is more clearly identified with the Executive Department of which he is the designated administrative head. This department includes 19 agencies all of which are more or less independent of each other and 10 other major departments or boards which together embrace 48 separately constituted agencies. Added to these are a series of 19 miscellaneous agencies that have no departmental status or affiliation and hence must be presumed to be under the Governor's direct line of authority. In sum, the Governor's administrative attention must be more or less directed to a total of 102 legally constituted departments, divisions, boards and other agencies over which he also exercises appointive control in most instances. Other elective officials administer their respective departments also with a certain amount of agency responsibility, but on a much more limited scale.

In the Department of State the Division of Registrations includes 17 agencies in addition to which there is a separate agency or the State Licensing Authority. Other elected offices include 8 agencies as follows: Office of Lieutenant Governor (no other agencies); State Treasurer (no other agencies); Attorney General (3 agencies); State Board of Education (4 agencies); and Board of Regents (1 agency). In addition to these, but not an elective office, is the Governor's Council consisting of the Secretary of State, State Treasurer, Director of Revenue, State Commissioner of Education, Attorney General, State Controller, State Purchasing Agent, and such other heads of departments as the Governor may designate.

The office of the Governor presumably heads the total executive offices of the State. This could be expected to follow from the fact that the Governor is charged by the Constitution to see "that the laws are faithfully executed." However, the courts have held that these seemingly broad grants of power give the Governor no definite authority other than such powers that are specifically provided by the Constitution or the statutes. Moreover, other executive officials elected along with the Governor very naturally feel their responsibility to the people rather than to him. In short, the Governor in Colorado as a director of administration is far from being in the independent position occupied by say the President. The national administration is largely centralized with lower officers responsible to higher officers, and these to still higher officers, until the responsibility rests finally with the President. In Colorado, there is no hierarchy of administration, each office or board or commission being regulated (and in most cases financed) rather minutely by law, the administrative supervisors usually having only shadowy directory power.

Since, however, the people expect the chief executive of the State to see that the laws are faithfully executed the Governor presumably must do the best he can with the means at his disposal. This takes the form of powers of appointment and removal as far as this may go as well as requiring reports from the various administrative officers concerning the work of their departments. In addition, personal and political influences become a potential source of power in securing effective cooperation of office holders as well as public support for recommended changes.

Colorado and Other States. Decentralization of state administrative organization is by no means unique in Colorado but is common to all states in greater or lesser degree. As a mode of government it is a product of certain historic developments, one of the earliest being the Jacksonian Movement for Democracy, which resulted in the creation of a number of administrative offices to be filled by popular vote.

A later development resulting in the creation of appointive offices and agencies has been critically described as follows:

> State governments have until recent years developed in a manner almost entirely haphazard. With new needs there has been no systematic plan of development. When it was desired to assume a new function, a new administrative agency was created, independent of other agencies, even though others may have been created for closely related purposes. So the state administrative functions came to be exercised in each state by a large number of independent offices, boards and

commissions, with overlapping and conflicting powers, and with no real supervision.[3]

In a similar vein the following statement made as long ago as 1917 by Governor Lowden on the organization of government in Illinois is still applicable to the current picture in many states.

> Administrative agencies have been multiplied in bewildering confusion. They have been created without reference to their ability economically and effectively to administer the laws. Separate boards govern the penitentiaries, the reformatories, and the educational institutions. Administration of the laws affecting labor is parceled out among numerous agencies each independent of the other —the administration of health laws is divided between boards and commissions, with no effective means of coordination — over one hundred officers, boards and commissions are charged with the administration of our laws.
>
> There is unnecessary duplication of positions and salaries not only in the chief offices of each separate bureau or board, but still more in their staffs of clerks and employees. The absence of definite correlation and cooperation between the most closely related offices necessarily leads to loss and inefficient work—conflict of authority between two or more offices is often possible. Under the present arrangements too many independent authorities have power to make expenditures subject to no effective control or responsibility. Supplies in many cases are purchased in small quantities for each office or institution. This situation necessarily leads to waste and extravagance. It is true that the greater number of these (bureaus or boards) are under the nominal supervision of the governor, through his power of appointment and removal. But the very number of separate offices makes impossible the exercise of any adequate control. At the same time, the number of matters necessarily brought to his attention, owing to the absence of intermediate supervising officers has burdened him with such a mass of details that he has been unable to exercise adequate supervision over such matters, while the very volume of such business brought to his attention takes time from more important questions of general policy. The present arrangement also fails to provide the General Assembly with adequate information or advice to enable it to perform its work wisely either in making appropriations or in enacting substantive legislation. While reports are made and published, they are so numerous and poorly organized that the general public fails to receive satisfactory information of the work that is done, and has no satisfactory means for fixing responsibility.[4]

The creation of independent agencies and the duplication of effort with resultant waste which

[3] W. F. Dodd, "Reorganization State Government," *The Annals*, Vol. CXIII, May, 1924, p. 162.

[4] Efficiency and Economy Committee (Illinois) *Report*, 1915, p. 18.

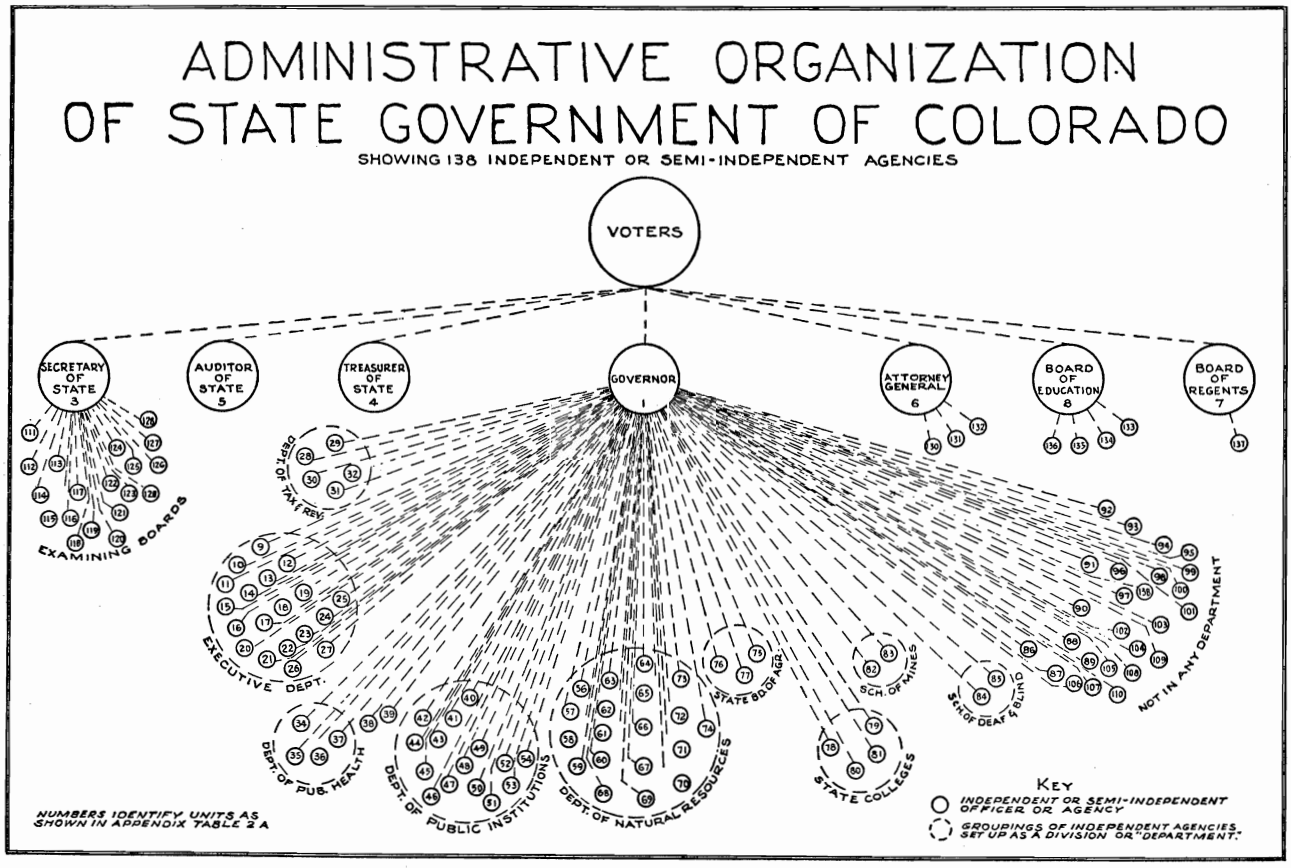


CHART 2.1

appears as the central weakness of state administrative organizations generally has not, however, been entirely without purpose. The creation of independent agencies can in part, at least, be attributed to a deep-seated fear that certain services might otherwise be controlled in the interest of partisan politics. Added to this has been the effort to prevent the centralization of power which is considered dangerous; and the agency system, despite its admitted cost, does counteract this to a considerable degree.

Efforts to organize along lines that would simplify administrative organization have been made with varying degrees of success in most states over that past three decades. The fundamental theory of these "reorganizations" has been the reduction of statutory functions (or agencies) into a small number of related departments, each under the control of a director or other head appointed by and removable by the governor. The heads of these departments constitute a sort of a governor's cabinet. An essential part of the system is the establishment of budgetary control and of a continuous financial supervision under an officer directly responsible to the governor. In all of the states that have adopted this plan, there are constitutional state officers other than the governor, who are not brought into the new organization in any effective way, if at all. The scheme is that of consolidating control over the state executive department in the hands of the governor. To make this effective the plan provides for an administrative mechanism so integrated and balanced in all its parts as to be completely responsive to central direction and control.

Administration of Finance. Colorado's efforts to simplify and centralize its administrative structure have proceeded over the years in a piecemeal basis with a number of limited advances made from time to time. The most recent changes in the State's administrative code was the creation of the Department of Natural Resources in 1957 which brought into this department, headed by the Governor and a director to be appointed by him, 19 agencies without however changing their legal status as such.

Perhaps the most complete reorganization has taken place in the administration of revenues and expenditure control which despite numerous funds established by law[5] finds a high degree of centralization of the financial function (including purchasing) under the direct control of the Governor.

Structurally, the financial administration of the State is vested in the Department of Taxation and Revenue; the Division of Accounts and Control and, as a part of it, the newly created Budget Office; the State Treasurer; and the State Auditor. The latter two offices are elective and in that sense are independent of the Governor to a degree. The State Treasurer is basically responsible for the receipt of all moneys of the State not expressly required by law to be received by some other person and to disburse public moneys upon warrant drawn upon the Treasury. The State Auditor is essentially a post auditor of the accounts and financial transactions of all spending agencies. As post auditor his status as an elective official conforms with the organizational principle that holds that the auditor should be independent of the executive department.

The Department of Taxation and Revenue is essentially a "paper department" in that there is no departmental head although the two agencies which it contains, namely, the State Tax Commission and the Department of Revenue, are a part of the Executive Department headed by the Governor. The three-member State Tax Commission appointed by the Governor and the State Treasurer, and subject to civil service regulations and tenure, has general supervision over the administration and enforcement of laws for the assessment, levying and collection of general property taxes. The Department of Revenue, headed by a director appointed by and serving at the pleasure of the Governor, is chiefly responsible for the collection, under a unified system, of state excise taxes, and license fees.

The Division of Accounts and Control, created in 1947 and headed by the State Controller appointed by the Governor, serves as an over-all financial, budgetary and administrative planning and accounting agency of the State. As such it also serves as a pre-auditor of all State bills and prepares vouchers for payment by the Treasurer. As a central agency in which budgets are assembled, analyzed and expenditure records currently made and reported, the Division of Accounts and Control is in reality the nerve center by which and through which the total financial picture of the State may be determined. As such it functions as a strategic agency of control under the direct supervision of the Governor.

County Government

Colorado's 63 counties (including the City and County of Denver[6]) which, as earlier noted, reached their total number with present boundaries in 1913, are legally subdivisions of the State and primarily designed to carry out State functions as prescribed by law. As distinguished from a municipal corporation a county holds no charter. However, it has some of the features of a corporation in that it can acquire and hold

[5]For further discussion on this see Chapter V.

[6]Since the City and County of Denver is essentialy a municipal government in character and purpose, parts of the discussion in this section is not pertinent to this particular unit of government in the State.

property, enter into contracts and enjoy some of the other privileges of a corporation.[7]

Although created by the Constitution to serve as an arm of the state administration, counties in Colorado were also given certain limited responsibilities for performing strictly "proprietary" or local county functions. This dual role makes it difficult at times to clearly differentiate between state and local services performed by the various constitutionally established county offices which include the following: board of county commissioners (three in number but may be five in counties with more than 70,000 inhabitants), judge, clerk and recorder, sheriff, coroner, treasurer, superintendent of schools, surveyor, assessor and attorney. In addition, the Constitution provides for two justices of the peace and two constables.

In relating these offices to purely state functions on the one hand and on the other to functions that are strictly local in character only general areas of services can be pointed to as suggestive of distinctions. Thus in the very important activity of law enforcement the county sheriff is primarily engaged in the enforcement of state laws, although not entirely. Legally the county sheriff and the county judge are regarded as state officers. In the administration of public welfare, notably old-age assistance, the county is an essential state agency in distributing the benefits through its own welfare department. On the other hand, the construction and maintenance of county roads is basically a county function. However, in the financing of these roads the county shares with the State in the proceeds of the State highway user taxes.

The assessment and collection of property taxes in Colorado is a function performed by the county not only for itself but for the State, municipalities and school districts as well. However, the county can tax only as authorized by the State and is required to prepare annual budgets to be filed with the State Tax Commission. Moreover, budget increases which exceed the previous year's budget by more than 5 percent require the approval of the State Tax Commission.

In addition to these legally stipulated areas of operation vested in the county by state law are a series of provisions that give some further degree of flexibility in the determination of local governmental policy. Among these, for example, is state law which allows counties to engage in physical planning and to have local health departments, the latter being a part of the over-all State program of health administration.

The top executive agency of the county is clearly the board of county commissioners which has general administration powers in the levying of taxes, the improving of county roads, purchasing and the appointment and supervision of such various employees as are not required to be elected by popular vote. However, the principal offices of the county, as listed above, are elective which results in a considerable diffusion of government responsibility in the administration of the offices of the county as a whole.

Physical and Economic Features of Counties in Colorado. Colorado's 63 counties present great extremes in area, population and income. In area, Las Animas County containing 4,798 square miles is the largest county with Denver County at the bottom of the scale with 66 square miles; the next lowest being Gilpin County with 149 square miles. Population (based on 1957 estimates) varies from a high of 515,000 in Denver to a low of 275 in Hinsdale County. Three counties have populations of less than 1,000 and four have more than 100,000. Twenty-four counties have less than 5,000 people and thirty-eight have less than 10,000 (Table 2.5). Finally, per capita personal income, as noted earlier in Chapter 1, ranged in 1956 from a high of $6,510 in Rio Blanco County to a low of $576 in Costilla County. Moreover, of the 63 counties fifty-one had per capita incomes of less than the State average of $1,863 with fourteen counties reporting totals less than $1,000.

Table 2.5

Distribution of Counties in Colorado by Population-Size Classes, 1957

Population class	Number of counties
Under 1,000	3[a]
1,000— 1,999	4
2,000— 2,999	7
3,000— 3,999	3
4,000— 4,999	7
5,000— 9,999	14
10,000—19,999	10
20,000—29,999	5
30,000—49,999	1
50,000—99,999	5
100,000 and over	4
Total	63

[a] Gilpin (850); Hinsdale (275); Mineral (650).

Source: Derived from Colorado State Planning Commission, *Colorado Year Book, 1956-1958.*

In 1957 property tax receipts, which are the principal source of county revenue, exclusive of state grants, varied from a high of $11.7 million for Denver[8] to a low of $19 thousand in Hinsdale County (where, as noted above, there are currently 275 residents).[9]

Problems and Issues. County government in Colorado as elsewhere has been criticized on grounds that the traditional structure is antiquated and expensive; that it is no longer needed in many places and where it is considered es-

[7]The status of counties in Colorado is much the same as that of the county system in other states.

[8]This amount is considered as county revenue and is in addition to property taxes for the municipal government as such.

[9]Colorado Tax Commission, *Annual Report, 1957.*

sential its powers are insufficient to cope with local needs. In short, a thorough overhaul of the county structure is generally advocated.

Structurally county government organization has been castigated by students of government largely on the score that it lacks central responsibility. On this point the following quotation is of interest:

> In administrative organization county government presents a picture of extraordinary complexity . . . the county violates almost every principle of business and governmental organization which experience has evolved. . . . The present system of county government is subject to serious criticism from the standpoint of administrative efficiency and of popular control. As a business organization the county lacks a responsible head. If democratic government . . . signifies effective popular control, the present organization of the county with its multiplicity of elective offices is fundamentally undemocratic.
>
> A report on County Government in Virginia . . . stated, "In our study of Virginia County government we were particularly impressed by the scattered, disjointed and irresponsible type of organization that exists in all the counties. The present county government has no responsible head; it is without a chief administrative officer and the board of supervisors controls through appointment only a small part of the county administration."[10]

Another authority on county government, quoted below, has described county organization as it generally prevails in this country in a more sympathetic vein. Here sentiment, perhaps, rather than "cold facts" appears as an important criterion of judgement.

> Across the face of America are 3,050 county seats, and at the heart of each a courthouse in a courthouse square. These courthouse squares have a peculiar American flavor; they suggest spaciousness and leisure; there are benches where old men gather to reminisce and almost invariably a monument to honor the county's military heroes. The courthouse, if old, has a certain museum quality; it is cold and austere with a slightly musty smell. The newer ones are brighter and have more of the air of office buildings. But nearly everywhere there is an atmosphere of secretiveness in county offices, a certain reluctance to reveal with frankness the details of public business. Politics is played with more finesse than in the more robust days, but the professional spirit has not yet been fully adopted. On the other hand, there is a friendliness and warmth —a certain "down to earth" quality—about county government that is as American as pumpkin pie. . . .
>
> While it may be a little foolish and wasteful to cling to political institutions that do not fit modern conditions, it is not wholly without purpose. Americans are rightfully proud of their inheritance from England—representative government, the Bill of Rights, trial by jury, the common law—and something precious might be lost if we severed the visible ties that bind us to the past. It is like our veneration for heirlooms. We see no inconsistency in furnishing a modern home wholly or in part with antiques, or in retaining a fireplace in a steam-heated house. So it is within the courthouse. We retain the ancient shirereeve, provide him with an automobile and a two-way radio set and then transfer his police functions to the state police. We set up courts of record to meet the needs of a complex society but cannot quite persuade ourselves to dispense with the six-hundred-year-old justice of the peace. The coroner, though universally recognized as an anachronism, remains in most of the states. The perpetuation of offices that have ceased to have much practical usefulness is admittedly something of an extravagance. Nevertheless, the retention of the ancient titles does lend color to local government as well as preserve a thread of continuity with our English antecedents.[11]

Sentiment apart, the fact remains that popular feeling weighs heavily on the side of efficiency and economy. County government though admittedly as "American as pumpkin pie" may have few takers in the future if it is demonstrated that it no longer serves its purpose and costs too much for the service it does perform.

In Colorado certain counties, notably in the metropolitan areas where rapid population growth has occurred in recent years, necessarily find that the quasi-corporate entity designed primarily as an arm of the State lacks the flexibility needed for coping with enlarged local problems of government. It is for this reason that a county home rule arrangement was proposed and offered to the voters in the November, 1958, election.[12]

Other alternatives which have been proposed are the County Council and Manager System. This is designed to remove, in part at least, the lack of central leadership and responsibility inherent in traditional county government.

On the other extreme, Colorado faces the problem of the sparsely populated counties which currently carry a full complement of county officials. It is hard to imagine and less so to rationalize the existence of county governments serving a population of less than 1,000 people such as obtains in three counties of the State. In this connection the following statement on county costs in relation to population in Minnesota and Texas is of interest:

> Counties within a given state tend to render fairly comparable services to their residents, especially since many of their functions are mandatory. It is significant, then, that throughout the country, county per capita costs rise the smaller the population.
>
> A study of costs in Minnesota indicated that: "Per capita costs of county operations decline rapidly as population numbers increase to the ten thousand level, and continue to decline up to a point somewhere between the thirty and thirty-five thousand level." A similar conclusion is reached by William Anderson, who suggests that in Minnesota

[10] John A. Fairlie and Charles M. Kneier, *County Government and Administration* (New York: Appleton Century, 1930) pp. 107-108.

[11] Paul W. Wager, *County Government Across the Nation* (Chapel Hill: The University of North Carolina Press, 1950), pp. 4-5.

[12] There was also a county home rule proposal being offered the voters of Oregon in the 1958 election.

"a county of about 35,000 people can have about as economical an administration as one still larger, but that the taxpayers in small counties must expect to have to pay more per capita."

A Texas study revealed that the per capita costs of "general government," as well as the per capita costs of specific county functions tended to decrease as the population increased. "General government costs per capita were found to be lowest in the counties with a population of over 30,000; while total per capita costs (including all county services) were at the lowest point in the counties with a population over 35,000. Similarly, it has been suggested that in California a county for minimum costs as well as optimum service should have a population of 50,000.[13]

Obviously the position of Colorado both in geography and population distribution differs widely from that generally existing in Minnesota, Texas, California and other states that might be cited. Nevertheless, the fact is eminently clear that Colorado's county government, representing as it does in the main a relatively sparse population, must necessarily be a relatively high-cost government. As such it stands as a challenge to any serious and concerted effort to reduce the tax burden in the State.

Municipal Government[14]

As municipal governments, Colorado's cities and towns are creatures of the State and derive their powers therefrom. In that sense they resemble counties but otherwise they differ in important regards. A county, as noted in the preceding section, is a quasi-corporation created primarily to serve the purposes of the State. Although most counties have been established as a result of local agitation, a county could be created without special regard to the will, wish or convenience of the people who live within its boundaries.

In contrast, a city or town is created at the behest of those who are within its jurisdiction and the powers and functions granted to it by charter and general law are intended to suit its convenience. While at times the municipality may be used as an instrument of the state, it is not designed so much to serve that purpose as to meet the needs of the local inhabitants who are expected to enjoy a relatively large degree of independence which, however, depends upon their classification by law.[15]

Colorado's municipalities, of which there were 246 incorporated cities and towns in 1957 (Table 2.6), fall into five legal categories: (1) unincorporated communities; (2) general law cities and towns; (3) cities organized under territorial status; (4) special charter cities; and (5) home-rule cities and towns. These can be reduced, in turn, to two general groups, namely, (a) those cities and towns over which the state legislature exercises considerable direct authority (i.e. unincorporated communities, general law cities and towns organized under territorial charters) and, (b) those cities and towns over which legislative authority is at a minimum due to constitutional provision (i.e. special charter cities and home rule cities and towns.)

Table 2.6

Distribution of Cities and Towns in Colorado by Population-Size Classes, 1957

Population class	Number or cities and towns
Under 250	58
250— 499	50
500— 999	48
1,000— 1,999	39
2,000— 4,999	21
5,000— 9,999	14
10,000—19,999	6
20,000—39,999	7
40,000 and over	3
Total	246

Source: Derived from Colorado State Planning Commission, *Colorado Year Book, 1956-1958.*

Unincorporated communities such as Lakewood, for example, are by far the most numerous. These have no city government as such; rather city services are provided via the expedient of special districts and county government.

General law cities and towns are similarly under direct control of the General Assembly as per law which spells out in detail the organization, powers, functions and procedures of government of such communities.[16] By legal interpretation this holds equally for the cities and towns chartered before Colorado was a state; these places being Central City, Georgetown and Black Hawk.

The two groups of municipalities (general charter cities and home-rule cities) in which considerable local autonomy is permitted, have their basis of authority established in the constitutional provision commonly known as home rule. The City and County of Denver (a special charter city) was established under the principle enunciated in Article XX, Section 6, of the State Constitution, which asserts that state matters should be managed at the state level and city matters handled at the city level. Since 1902, twenty cities and towns, in addition to Denver, have elected to come under the constitutional provision of home rule and are known as "home-rule" cities and towns. These places are Alamosa,

[13] Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in the National Economy* (New York: N. W. Norton & Co., 1944), p. 73.

[14] The material in this section is drawn largely from a series of articles on municipal government by Professors Conrad L. McBride and Leo C. Riethmayer, of the University of Colorado, and published in *Colorado Municipalities* (October, November, December, 1955; January, 1956 and December, 1957 issues), by Colorado Municipal League.

[15] Colorado divides municipalities into two general groups according to population, namely cities (population of 2,000 or more) and towns (population less than 2.000). Cities are further classified as "first class" (population 40,000, or over) and "second class" (population 2,000 to 40,000). In 1957 there were 246 incorporated cities and towns of which 50 were cities and 196 were towns. It should be noted, however, that in certain cases cities are in fact towns and vice versa. This is due to the failure of these places to reclassify in keeping with their population change.

[16] *Colorado Revised Statutes, 1953,* Chap. 139.

Boulder, Canon City, Colorado Springs, Cortez, Craig, Delta, Durango, Englewood, Fort Collins, Fort Morgan, Grand Junction, Greeley, Lafayette, Montrose, Monte Vista, Pueblo, Sterling, Westminster, and Wray.

Nature of Home Rule in Colorado. Home rule in Colorado specifically endows a municipality with almost complete local autonomy which includes "the power to legislate upon, provide, regulate and control the creation and terms of municipal officers, agencies and employments; the definition, regulation and alteration of the powers, duties, qualifications and terms or tenure of all municipal officers, agents and employees."[17]

This over-all power of local self determination can be illustrated by pointing to certain things which a home-rule city is privileged to do which is not available to the non home-rule municipalities in the State.

(1) A home-rule city may, by vote of the people, operate a municipally owned gas distribution system. A non home-rule city may not.

(2) A home-rule city may, by vote of the people, levy a sales tax.[18] A non home-rule city may not.

(3) A home-rule city may, by vote of the people, follow any procedure it desires in the issuance, funding and repayment of municipal bonds. A non home-rule city must follow a procedure prescribed by state law.

(4) A home-rule city may choose any number of alternatives in the selection of its legislative body. A non home-rule city must elect a city council in accordance with state law. For cities of the second class this calls for the election of councilmen by wards and for a fixed two-year term. In this connection the rigidity of state law (as well as its inapplicability) is illustrated by statute governing the salaries of officials of cities of the first class (population 40,000 and over). Thus the law provides that the mayor's salary shall not be less than $1,800 per year, the salary of a councilman may not exceed $600 per year; the engineer, not more than $2.000; the attorney, not more than $250 per month; the chief of police, not more than $125 per month. Fortunately for Denver, Pueblo and Colorado Springs (the only cities that can qualify as first-class cities) home-rule status removes the necessity of conforming to this antiquated law. As a result there are in effect no cities of the first class in Colorado.

Progress of Home Rule in Colorado. Colorado's home-rule law has been regarded as one of the most liberal found in any one of the twenty-one states that have adopted enabling legislation of this type.[19] Yet only twenty-four cities in the State have elected to come under its provisions. In view of the opportunities for effecting economy inherent in a home-rule government that can be largely tailored to the needs of a community, one may wonder why such a small number of cities in Colorado have adopted this constitutionally provided opportunity for self-government.

A number of reasons have been suggested of which lack of full understanding of what home rule means is a crucial factor. It is easy to overlook that which may in fact be actually wanted and needed when it may not be fully understood. There is also the fact that by law no towns under 2,000 population can apply for home-rule status—a legal prohibition which has undoubtedly limited progress in this direction. Coupled with this situation is the looseness and ambiguity of the present statutory law covering the organzation and operation of towns under 2,000 population. As a result, governing law has been broadly interpreted with towns pursuing a fairly independent course in which a kind of informal "home rule" status has been achieved. However, reliance on this basis of operation may be illusory in that new interpretations, as well as an act of the General Assembly could change the picture over night. Statutory "home rule" should not therefore be confused with that which has its basis in the State's Constitution.

Municipal Growth and Problems The rapid growth of metropolitan areas in Colorado, as noted in Chapter I, has brought in its wake a series of problems of adjustment in which the question of state law governing annexation policy and the establishment of independent districts (considered in greater detail in a later section) is closely related to the basic problem of providing the means to finance additional services as growth demands. In general, the larger metropolitan areas, notably the Denver Area, face somewhat different problems, both in nature and magnitude, than do the smaller municipalities. All, however, are concerned with the over-all problem of effecting "orderly growth" in a situation of dynamic change.

Commenting on the municpal growth problem Professor Riethmayer of the University of Colorado points to the following series of causal factors:

> To a great extent our problems today stem from the fact that municipal corporations have not grown territorially and have not been able to assume their appropriate responsibilities as our urban population has grown. This situation has been caused in part by unsound state policies, e.g., an anti-municipal

[17] *Ibid.*, Article 20.

[18] This particular power could conceivably be rescinded in view of recent State Supreme Court decision which decided that a municipal income tax could not be levied by the City and County of Denver.

[19] Charles R. Adrian, *Governing Urban America* (New York: McGraw-Hill Co., Inc., 1955), pp. 152-161.

annexation law, in part by the failure and/or inability of municipalities to adopt and carry out sound growth policies of their own, in part from the usually mistaken belief on the part of some urban residents that municipal type service can be obtained cheaper from some source other than a municipality, and in part from the selfish desire of some residents and businesses to evade their fair share of the costs of the services which they receive. Some industries and businesses are especially guilty of this practice when they locate just outside the city limits and thereby cause the owners of residential property a disproportionate share of the cost of municipal services.[20]

The so-called "fringe area" problem to which Professor Riethmayer directs principal attention is particularly noted in the Denver Metropolitan Area where the question of securing funds to finance growth is a matter of utmost present concern. The Denver picture, to which reference will be made in greater detail in a later chapter,[21] is complicated by the fact that much of its property tax base is reserved for the city school system. This has forced a search for new revenue sources that have apparently reached a point of complete exhaustion.

School Districts

Colorado is one of twenty-eight states that has established and delegated to a separate structure of governmental units known as "independent" school districts the exclusive responsibility for providing public education below the senior college level.[22] To many people this responsibility is the most important of all public undertakings and, accordingly, should be one over which a high degree of direct general public surveillance and self-determination should exist. Colorado's present number of 910 independent school districts (composed of 868 first, second and third class districts and 36 county or union high school districts and 6 junior college districts as shown in Table 2.7) expresses in principle this philosophy of government in public education.

Historic Developments. School district organization had its origin in constitutional mandate in 1877 which, in addition, provided that public education should be made available gratuitously for all persons between the ages of six and twenty-one years and that school should hold forth for not less than three months in any one year.

The specific statement of the Constitution (Article IX, Sections 5 and/or 15) reads as follows:

> The general assembly shall as soon as practicable provide for the establishment of a thorough and uniform system of free public schools throughout the state, wherein all residents of the state between the ages of six and 21 years, may be educated gratuitously. One or more public schools shall be maintained in each school district within the state, at least three months in each year; any school district failing to have such school shall not be entitled to receive any portion of the school funds for that year . . . The general assembly shall by law, provide for an organization of school districts of convenient size, in each of which shall be established a board of education to consist of three or more directors to be elected by the qualified electors of the district. Said directors shall have control of instruction in the public schools of their respective districts.

In the implementation of the constitutional provisions, general law, enacted in 1877, made it eminently clear that the provision of educational facilities should emanate by decision of the people directly affected rather than by proscription by the State. On this, the general law reads as follows:

> For the purposes of organization a new district, either from organized territory or from an old district, the parents and guardians of at least 10 children who shall possess the right to attend school in such new district must petition the county superintendent in writing.

[20] Leo C. Riethmayer, "Colorado's Expanding Urban Population Requires Growing Municipalities," *Colorado Municipalities*, December, 1957, p. 304.

[21] See Chapter XX.

[22] U. S. Bureau of the Census, *Governments in the United States in 1952*, (Washington, D. C., 1953), p. 18.

Table 2.7

Number of School Districts by Class of District in Colorado, 1950-1958

Year	First class	Second class	Third class	Total	County high school	Union high school	Junior college	Grand total
1950	51	84	1,464	1,599	25	24	5	1,653
1951	52	91	1,376	1,519	22	24	5	1,570
1952	50	78	1,110	1,238	22	22	5	1,287
1953	52	86	970	1,108	19	18	6	1,151
1954	53	88	898	1,039	19	21	5	1,084
1955	51	86	839	976	21	20	6	1,023
1956	52	81	794	927	21	19	6	973
1957	55	80	761	896	21	18	6	941
1958	58	79	731	868	20	16	6	910

Source: Colorado State Department of Education, ***Public Education in Colorado***, Biennial Reports.

Following early enabling legislation, school districts in Colorado expanded at a rapid rate in which the one-room schoolhouse within reasonable walking distance of the pupils was the principal criterion in the determination of a district's size. Considering the times such an arrangement was the only one that could be made and in fact served well under the circumstances. However, with the advent of automotive transportation, combined with considerable population shifts within rural areas on the one hand and, on the other, the trend of people toward metropolitan areas, the usefulness of the small district organization became as outmoded as the horse and buggy.

Out of these changes has come the "consolidation movement" designed to effect by the merger of two or more districts, a more economic and efficient educational effort. Viewed strictly in terms of districts the results of consolidation in Colorado are evidenced by a decline in the number of school districts from 2,227 in 1935 to 1,653 in 1950 and 910 as of July 1, 1958.

The decline in number of districts does not necessarily mean, however, that consolidation in any given case has been the most economical or effective from an educational service point of view. Thus the consolidation say, of two one-room school districts covering the first eight grades to form a two-room arrangement with two teachers handling all the grades from one to eight obviously falls far short of unification on a scale that would provide grades from one to twelve with a full complement of teachers to effectively sustain such an enlarged program.

Until recently school consolidation effort in Colorado was in large extent on a very limited and piecemeal basis. Opportunism, in which "gerrymandering" was characteristic, resulted in districts with similar economic circumstance tending to consolidate while at the same time carefully avoiding other districts where tax rates or resources might have been out of line with theirs. This occurred despite the likelihood that the larger unit would have resulted in a more effective educational service with an equal likelihood that in the long run school costs for all would have been reduced.

School Reorganization Act of 1949. Because of this "opportunism" enabling legislation was needed to force a program which could bring about consolidation on a more logical basis. Invariably this would mean unification on a much broader population and resource basis. In 1949 such legislation was passed which facilitated a comprehensive study of local school district organization under the leadership of the State Department of Education and provided the legal procedure to bring about sound school district reorganization. This consisted essentially of an arrangement whereby an all-county committee was required to be formed to study consolidation and to come up with an over-all plan of consolidated units to be submitted to the affected areas for their approval. Contrary to previous practice whereby a majority consent of the voters in each district affected was required to approve the proposed consolidation, the 1949 Act called for a majority of the area as a whole. Unfortunately subsequent revision restored the district consent clause which caused the Act to become inoperative.

School Reorganization Act of 1957. The School Reorganiaztion Act of 1957, which reads much like that enacted in 1949, is notable for having restored the county-wide committee and election procedures by which area rather than district consent is called for in effectuating consolidation proposals. Hence "hold outs" or district "dissidents" who may be in the minority cannot upset plans which the larger group might favor. Moreover, it provides for a continuing committee study and proposal by requiring that a new committee election be held every two years. This removes an uncertainty which existed in the 1947 law which called for an elected committee to serve for two years without, however, spelling out what could or should be done thereafter. An additional feature also requires that consolidated districts shall be first class districts. This will have the effect of increasing the number of these districts with a corresponding reduction of third and second class districts.

Recent Consolidation Effort and the Present District Structure. As of October 1, 1958, a total of seventeen elections had been held under the Reorganization Act of 1957. Of this number all except one resulted in the approval of submitted reorganization plans. Elections are currently pending in Boulder, Eagle, Lake, Moffat and Jackson counties.

The future course of consolidation faces many problems which are not readily solved. Great distances and sparse population is a principal deterrent to early action. Extreme "localism" is another. That the need exists for much more extensive reorganization of Colorado's school system is apparent as noted in Table 2.6 which shows that in 1958 there were 731 third-class districts, a large portion of which were one- or two-teacher districts. Data from the State Department of Education shows one- and two-teacher school distribution for 1956 and 1957 as follows:[23]

	1956	1957
Number of one-teacher schools	203	183
Number of two-teacher schools	121	116
Total	324	299

[23]Data for 1958 were not available at the time of this report.

Moreover, as presented in Table 2.8 there were in 1958, a total of 219 non-operating districts some of which were dormant, that is, these districts included no resident children of school age, while others relied on other district schools to educate their school population. In a situation of this kind, tuition payments were presumably financed by the non-operating district.

Further evidence of reorganization need is noted in the fact that only 193 districts in 1958 provided a unified educational program covering all grades including high school. In contrast 456 districts limited their program to the first eight grades only.

It is noteworthy, however, that since 1956 a substantial betterment in the district pattern has occurred presumably due to the recent Reorganization Act. As shown in Table 2.7 the number of third class districts declined from 794 in 1956 to 731 in 1958. Paralleling this change was an increase in first class districts from 52 to 58—a development growing out of the Reorganization Act which requires reorganized districts to be classified in this category. Moreover, as noted in Table 2.8, the number of non-operating districts declined from 239 to 219 for the same two-year period, while districts having only eight grades declined in number from 506 to 456. Conversely, the so-called "unified districts," or districts covering all twelve grades, increased from 182 to 193, a movement which again suggests the impact of recent consolidation on a systematic basis as provided by law.

Table 2.8

Type and Number of School Districts in Colorado June 30, 1956 and 1958

Type of District	1956	1958
Non-operating district	239	219
Separate elementary district, 1-8 grades	506	456
Districts with all grades, 1-12	182	192
Separate county high school districts	21	20
Separate union county high school districts	19	16
Junior college districts	6	6
Total	973	910

Source: Colorado State Department of Education, *Public Education in Colorado*, Biennial Reports.

Financing Public Schools. In large degree Colorado's public schools are locally financed by taxation on property. This follows the accepted basic principle that schools should, as much as possible, be identified with local effort and self-determination.

In addition to local taxes, school money is derived from (a) the permanent school fund, (b) statutorily earmarked taxes and (c) legislative appropriations.

Under recent changes in state law allocated state money to public schools is based on a formula which provides for classroom units having specified value by districts toward which the county contributes from its established 12-mill levy and the State provides the remainder. This arrangement and its fiscal implications will be considered in greater detail in a later chapter of this study.[24]

Special Districts

Next to school districts Colorado's special districts are the most numerous governmental units in the State. In 1955, a Legislative Council Study counted 291, but observed that this number was tentative owing to the fact that there was "no one place where special district information is collected."[25] It observed further that:

> Despite the fact that the local government budget law (C.R.S. 1953, 88—1-17) requires filing with the tax commission of all special district budgets and levies members of the commission staff dealing directly with the problem felt that the reporting to them was far from complete.

Not only did the Council Study find it difficult to ascertain the number of individual districts but even more important found it equally difficult to secure complete financial data describing their operations. On this point, the Legislative Council Study observes:

> The questionnaire which was sent to each of the special districts asked for certain basic budget data such as receipts and disbursements for the past year, tax rates, balances on hand, estimated population of the district, and estimated area of the district. The attorney for one special district replied to the questionnaire as follows:
>
> > "Your questionnaire relative to the compilation of certain inventory data of the above district has been received by us, and we regret to advise you that we are unable to accumulate the information you request. The directors of this district are so loosely knit, that we doubt that even they can accumulate the information you seek."
>
> The assessor of a county in which a large number of special district are located indicated that in some cases the only financial record maintained by the district was a checkbook. Another assessor stated that he was unable to determine whether the requested levies were for debt service or operations. If annual audit reports were made by special districts, these reports were not known to the Council study.[26]

Lack of information on special district organization in Colorado should not be regarded, however, as a weak link for the administrative control of government peculiar to Colorado only. A recent national study, for example, found similar difficulties in all states which led to the

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[24]See Chapter XX.

[25]Legislative Council Report to the Colorado General Assembly, *Special Districts*, Research Publication Number 16, 1955, p. 1.

[26]*Ibid.*, pp. 1-2.

conclusion that the special district system in the United States could be regarded as the "new dark continent of American politics,"[27] a term which had formely been applied to the counties.[28]

Definition of Special Districts. What then is a special district? One definition identifies this relatively rapid growing unit of government as follows:

> In common with all other kinds of governmental units, special districts have certain essential characteristics. They are organized entities, possessing a structural form, an official name, perpetual succession, and the rights to sue and be sued, to make contracts, and to obtain and to dispose of property. They have officers who are popularly elected or are chosen by other public officials. They have a high degree of public accountability. Moreover, they have considerable fiscal and administrative independence from other governments . . . Unlike most other governments, independent special districts usually provide only one or a few functions. In this respect they most closely resemble the townships in a number of Midwestern states, but it is not difficult to differentiate them. Townships are largely limited to one georgraphical region, commonly include a rectangular area of 36 square miles, constitute a territorial subdivision of the county; and are overwhelmingly rural units of government. Special districts have none of these special features. Furthermore, although individually performing fewer functions than many townships, collectively they undertake a much broader range of services than townships in general. Special districts are therefore a clearly distinguishable class of local governmental units.

In Colorado, as elsewhere, the special district is based on statutory law and comes into being for any one of a number of reasons. These fall into four general categories namely: (1) unsuitability of existing general local governments in providing a needed service, (2) desire for independence, (3) expediency and (4) private self-interest.

Typical of the service performed by the special districts in Colorado, as shown in Table 2.9, are fire protection, provision for burials (cemeteries), recreation, irrigation, drainage, sanitation, water and water conservation.

Reasons for Special Districts. A frequent general reason or the establishment of special districts is the unsuitability of existing general local governments (county or municipality) to provide needed services. These general reasons

Table 2.9

Special Districts[a] in Colorado, September 1, 1955

Type	Number
Cemetery	33
Drainage	13
Fire protection	89
General improvement	5
Irrigation	18
Recreation	5
Sanitation	60
Sanitation and water	22
Water	18
Water conservation	20
All other	8
Total	291

[a] Excludes paving and related purpose districts found in municipalities and districts subject to State administration, i.e. metal mining, vibro and predatory animal districts.

Note: An estimate based upon reports of the State Tax Commission indicates an increase of independent districts in Colorado from 152 in 1950 to 394 in 1957.

Source: Legislative Council Report to the Colorado General Assembly, *Special Districts*, Research Publication Number 16, 1955.

have several facets of which the size of the area of the existing government, its finances and functions and administration may each render it unsuitable to perform a given needed service. Frequently the area appropriate to a particular function (i. e. provision for drainage, or irrigation) does not coincide with that of any existing general local government. Perhaps equally important is the fact that existing government has reached either its tax or debt limit or both and, consequently, is not in a position to finance the new function. Sometimes also the pooling of the finances of a larger area than an existing county or city is needed to adequately finance a given enterprise (i. e. Moffat Tunnel District).[30] Frequently also—and this applies specifically to counties in the main—existing general governments cannot, as a rule, set up a taxing or an assessment area in just a part of its territory in order to finance additional service. Closely related is the fact that since financial costs are spread uniformly throughout the area, other general governments within its boundries, such as, municipalities would oppose the assumption of a function on grounds that it was already being performed for their own residents. Arguing therefore that their residents would be paying twice for the same services they would accordingly advocate a special district.

The desire for independence is another reason for the creation of special districts. This is particularly noted in the "fringe areas" of the Denver Metropolitan Area where "independence" of Denver and the avoidance of possible

[27] John C. Bollens, *Special District Government in the United States* (Berkeley and Los Angeles: University of California Press, 1957), p. 1.

[28] *Ibid.*, p. 1.

[29] *Ibid.*, pp. 1-2.

[30] A district area may be very small however. A classic case was the Miller Heights Water District in Jefferson County which in 1952 obtained $71 in tax revenue with a total assessed property valuation $77,180 (Colorado Tax Commission, *Forty-First Annual Report*, p. 144).

annexation has its real motive in avoiding possibly higher taxes. As a consequence, a type of "junior city" on the outskirts develops which, as a rule, is a composition of a series of overlapping districts each performing one function but providing a "package" of essential services needed for urban living.

Expediency is another reason that has caused special districts to develop in some cases. Setting up a district is a relatively easy method of getting a public service quickly. To attempt to get it from existing general government may take time and, as noted above, may require annexation.

Finally, unadorned private self-interest may underlie motives for district organization in certain cases. An illustration would be a manufacturer of equipment and supplies who, recognizing the opportunity of a district organization, might by one device or another "sell" interested parties on the idea of quickly assembling funds via the formation of a district. Fortunately these practices have not been general but they nevertheless pose a constant peril which must be watched.

Problems of Special Districts in Colorado. Special districts in Colorado provide a type of governmental unit that is undoubtedly needed to achieve the degree of flexibility in public services not otherwise possible. However, it is clear from findings of the Legislative Council Study that a number of weaknesses exist in the present special district system. Among these the following are indicated:

(1) Tax budgeting, accounting and reporting practices of many special districts.
(2) Conflict of taxation sections of home special district laws and the general property tax laws.
(3) Duplication of special district laws.
(4) No uniform method of forming special districts regardless of their purpose.
(5) Lack of uniformity in eligibility requirements for voting and participating in the formation of special districts.
(6) Inflexibility of methods used in consolidating districts.

In a supplemental report to the Council's Study, Representative John G. Mackie pointed to additional weaknesses as he saw them, these being: [31]

(1) Lack of a formula for limiting district taxation as well as the lack of standardized bonding powers and procedures and maximum interest rates.
(2) Lack of complete popular vote in the selection of directors.
(3) Inadequate police power in enforcing regulations.

[31]See John G. Mackie, *Supplemental Findings to Legislative Council Report on Special Districts.*

The suggested changes submitted by the study were of a general nature but dealt with each of the foregoing listed defects. Thus a tightening of financial practices was pointed to as essential in view of the volume of revenue and bonded debt involved which in 1954 amounted to $2.15 million and $3.5 million, respectively.[32] Similarly, legal changes which would eliminate conflicts in law, duplication and lack of uniformity in practices were recommended including a specific formula limitation on district tax levys and bond issues.

Summary and Conclusions

Colorado's state and local governmental structure presents a pattern of organizational arrangements typical of most states in the Union. As such, it has at the state level numerous legally constituted independent or semi-independent agencies (138 in all) variously identified as "offices," "divisions," "departments," "bureaus," and "boards." These comprise in the main the over-all administrative structure of the State's government over which the Governor exercises varying degrees of direct or indirect control. At the local level Colorado's 63 county governments, functioning primarily as arms of the State government, are administered by a standard and traditional array of elective offices more or less independent of each other as well as of the central administrative body of County Commissioners. To achieve needed local autonomy and flexibility in the management of local affairs not possible by county government, local government in Colorado finds its fullest expression in its 246 incorporated municipalities, 941 school districts and 394 special districts, all of which have the power to tax and to spend.[33]

Viewed critically, Colorado's structure of government presents areas of weakness that are probably inherent in the traditional pattern of state and local organization and administration as it has developed in this country. At the state level a perennial sore spot is the conglomerate of statutory administrative agencies which tend to duplicate functions and to diffuse control and responsibility to a point where central direction is severely weakened. Students of government have long advocated a substantial reduction of statutory agencies and the replacement by large unified departments directly responsible to the Governor.

County government in Colorado, as elsewhere, is undoubtedly antiquated in parts and needs re-examination. Rapid population increase has created new demands upon counties which require a degree of flexibility in their operations not possible under existing law. Conversely,

[32]Legislative Council Study, *op. cit.*, p. 2.
[33]These are 1957 data.

population decline in other county areas has reached the point where boundary revision is mandatory if "economy in government" is to have any meaning at all.

Other governmental units at the local level—municipal, school and special districts—present organizational problems somewhat distinctive yet interrelated by common purpose of providing, singly or in combination, a full complement of needed local governmental services. Primary of the municipal problems is the so-called "fringe area" problem of the larger cities and the associated question of the role of fringe areas on metropolitan districts, whose development tends to block annexation and systematic expansion of municipal boundaries to accommodate growth. And finally, Colorado's present number of school districts in which there are still 183 one-teacher schools clearly point to the need for more consolidation. However under a recent effective enabling act this condition should be substantially improved in the immediate years ahead.

Appendix Table 2.A

Administrative Organization of State Government in Colorado

Elective Offices

Executive Branch
(1) Office of the Governor
(2) Office of the Lieutenant Governor
(3) Office of the Secretary of State
(4) Office of the State Treasurer
(5) Office of the Auditor of State
(6) Office of the Attorney General

Other
(7) State Board of Regents
(8) State Board of Education

Administrative Departments, Agencies, Commissions, Boards and Institutions

Executive Department
(9) Division of Accounts and Control
(10) Division of Purchases
(11) Colorado State Planning Division
(12) Capitol Buildings Group
(13) Division of National Guard
(14) State Board of Stock Inspection Commissioners
(15) Industrial Division of Colorado
(16) State Compensation Insurance Fund
(17) Division of Regulatory Agencies
(18) Public Utilities Commission
(19) Insurance Department
(20) Savings and Loan Department
(21) State Civil Service Commission
(22) State Inspector of Oils
(23) Division of Aeronautics
(24) Highway Safety Council
(25) Colorado Civil Defense Agency
(26) Division of Rehabilitation for the Blind
(27) Colorado Centennial Commission

Department of Taxation and Revenue (28)
(29) State Tax Commission
(30) Department of Revenue
(31) Motor Vehicle Inspection Division
(32) Motor Vehicle Dealers Administration

Department of Public Health (33)
(34) State Board of Health
(35) Board of Registrations for Professional Sanitarians
(36) State Examining Board of Plumbers
(37) State Advisory Hospital Council

Department of Agriculture (38)

Department of Highways (39)

Department of Public Institutions (40)
(41) Public Institutional Board
(42) Colorado State Penitentiary
(43) Colorado State Reformatory
(44) Colorado State Hospital
(45) State Home and Training School at Ridge
(46) State Home and Training School, Grand Junction
(47) State Industrial School for Boys
(48) Soldiers' and Sailors' Home
(49) State Bureau of Child and Animal Protection
(50) Colorado State Children's Home
(51) State Training School for Girls
(52) Department of Public Welfare
(53) Merit System Council
(54) State Board of Control for State Homes for the Aged.

Department of Natural Resources (55)
(56) Colorado Natural Resources Committee
(57) State Board of Land Commissioners
(58) Oil and Gas Conservation Commission
(59) Game and Fish Commission—State Game and Fish Department
(60) Colorado Water Conservation Board
(61) Commissioner of Mines and Bureau of Mines
(62) State Metal Mining Fund Board
(63) State Mineral Resources Board
(64) Colorado Geological Survey
(65) Office of State Engineer (Division of Water Resources)
(66) Irrigation Division Engineers
(67) Water Commissioners and Deputy Water Commissioners
(68) Irrigation District Commission
(69) Ground Water Commission
(70) Chief Inspector of Coal Mines and Board of Examiners
(71) Weather Control Commission
(72) State Soil Conservation Board
(73) Board of Conservation
(74) State Park and Recreation Board

Colorado State Board of Agriculture (75)
(76) Colorado State University
(77) Fort Lewis Agriculture and Mechanical College

The Trustees of State Colleges (78)
(79) Colorado State College
(80) Western State College
(81) Adams State College

Board of Trustees (82)
(83) Colorado School of Mines

Board of Trustees (84)
(85) Colorado School for Deaf and Blind.

Miscellaneous
(86) Colorado Advertising and Publicity Committee
(87) Department of Banking and Banking Boards
(88) Colorado State Fair Commission
(89) State Department of Parole
(90) Colorado State Patrol
(91) Colorado Racing Commission
(92) Colorado Anti-Discrimination Division
(93) Department of Employment
(94) Board of Standards of Child Care
(95) State Board of Nursing
(96) Board of Licensed Practical Nurse Examiners and Practical Nurse Advisory Council
(97) Colorado Department of Veterans Affairs
(98) Colorado Committee on Veterans Education and Training
(99) Colorado Commission on Interstate Cooperation
(100) Commission for the Promotion of Uniform State Laws
(101) Colorado Commission on Alcoholism
(102) Colorado Council on Unesco
(103) State Grain Inspector
(104) Anatomical Board of the State of Colorado
(105) State Board of Canvassers
(106) State Board of Equalization
(107) Western Interstate Commission for Higher Education
(108) Public Employees Retirement Association and Board
(109) State Building Authority
(110) State Board of Vocational Education

Secretary of State
(111) State Licensing Authority
(112) Division of Registrations
(113) State Board of Accountancy
(114) State Athletic Commission

Appendix Table 2.A (concluded)

Administrative Organization of State Government in Colorado Elective Offices

Secretary of State (Cont'd)

(115) Board of Examiners of Barbers
(116) State Board of Examiners in the Basic Sciences
(117) Board of Chiropractic Examiners
(118) Collection Agency Board
(119) State Board of Cosmetology
(120) Board of Dental Examiners
(121) State Board of Funeral Directors and Embalmers
(122) Colorado State Board of Medical Examiners
(123) Colorado Chiropody Board
(124) State Board of Optometric Examiners
(125) State Board of Pharmacy
(126) State Board of Veterinary Medicine
(127) State Board of Registration for Professional Engineers
(128) Real Estate Brokers Board
(129) State Board of Shorthand Reporters

Attorney General

(130) Division of Securities
(131) Division of Inheritance Tax
(132) Legislative Reference Office

State Board of Education

(133) Office of Commissioner of Education
(134) State Board of Examiners (Teachers)
(135) State Historical Society of Colorado
(136) State Library

Board of Regents

(137) University of Colorado

Governor's Council (138)

CHAPTER III

EXPENDITURES OF STATE AND LOCAL GOVERNMENT

The following review of state and local government expenditures[1] is designed to serve as general background for later analyses of tax trends and the tax structure. A look at what the taxpayer has wanted from government and what he has been getting for his money serves also as a basis for judging the likely nature and extent of his needs for the future with correlative "tax burdens" implied.

The statistical review of expenditures by agencies and functions in succeeding sections covers mainly the years from 1946 to 1956, with one exception noted in the case of certain interstate comparisons where the data reaches back to 1942. Wherever possible, figures are presented on a year-to-year comparison basis both in total and per capita terms with appropriate adjustment for price changes.

Expenditures In 1956[2]

In 1956 state and local governmental expenditures amounted to $382 million. Of this amount, the State accounted for 26 percent (excluding funds transferred to counties, school districts and municipalities), the counties, 28 percent; the school districts, 33 percent; and municipalities,[3] 13 percent. The county ratio includes welfare payments transferred from the state welfare funds. Payments from these funds, including the contributions made for welfare by the counties themselves, represented about 70 percent of total county outlays (Table 3.1).

Expenditures 1946-1956

From 1946 to 1956 combined expenditures of state and local government increased from a total of $106 million to $382 million, or at the rate of 260 percent. Such an increase, which would be difficult to comprehend in any circumstance, occurred during a period marked by rapid population growth, price inflation and sizable personal income advance. It is only in terms of these factors that an expenditure increase of this size can be seen in proper perspective.

Table 3.1

Expenditures by Units of Government in Colorado Selected Years, 1946-1956

(thousands)

Year	Total	State	County[a]	School districts	Municipalities[b]
1946	$105,992	$22,980	$41,640	$25,961	$15,411
1948	180,002	47,063	67,003	41,271	24,665
1950	229,038	61,018	78,031	58,974	31,015
1952	269,046	70,927	90,750	69,226	38,143
1954	322,948	82,423	98,170	95,396	46,959
1956	382,162	99,300	109,503	124,934	48,425
Increase					
1946-1956	260%	322%	163%	381%	214%
1950-1956	67%	63%	40%	112%	56%

[a] Includes expenditures from "General Fund," "Road and Bridge Fund," "Old Age Pension Fund" and "Public Welfare Fund." City and County of Denver is included for the two last named funds.

[b] Includes City and County of Denver (excluding "old age pensions and "public welfare" as noted above), Pueblo, Colorado Springs, Aurora, Englewood, Fort Collins, Greeley, Trinidad, Alamosa, La Junta, Fort Morgan, Canon City, Lamar, Loveland and Golden.

General note: Expenditures applicable to each govenmental unit include both operating (current) and capital outlays. Excluded are debt retirement, intergovernmental transfers, contributions to insurance and trust funds, and outlays of public service enterprises.

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Education, *Biennial Reports of the State Commissioner of Education,* and annual audit reports of individual counties and municipalities.

Population and Price Factors. It is obvious that as the population grows the demands for public services will increase accordingly. For Colorado, between 1946 and 1956, the impact of population growth on public budgets is reflected by such changes as: public school enrollments, which increased by 54 percent; college and university enrollments, which doubled; and the number of pensioners, which increased by 33 percent (Table 3.2). These and other related developments stemming directly from over-all population change point to reasons why Colorado's expenditures increased at the rate indicated.

But how much of the 260 percent expenditure increase can be attributed to basic population growth? Here no precise answer is possible and only a fair approximation can be made. For this

[1] Unless otherwise noted, expenditures include both operating and capital outlays.

[2] Latest date for which local government data were available.

[3] See footnote to Table 3.1 for municipalities included.

Table 3.2

Basic Causal Factors of Expenditure Increase of State and Local Government in Colorado, 1946, 1950 and 1956

Item	1946	1950	1956	Percent increase 1946-1956	Percent increase 1950-1956
Population factors:					
Population	1,196,000	1,335,000	1,612,000	34.8	20.7
Enrollment-public schools	199,441	224,245	307,753	54.3	37.2
Enrollment-colleges and universities	9,870	18,544	19,811	100.7	6.8
Receipients old-age pension	40,692	50,617	54,197	33.2	7.1
Price factors:					
Index of consumer prices	83.4	102.8	116.2	39.3	13.0
Index of building costs	76.5	106.5	130.7	70.8	22.7
Index of state and local costs	88.8	115.3	146.6	65.1	27.1
Personal income:					
Total (millions)	$1,429	$1,930	$3,045	113.1	57.8
Per capita[a]	$1,195	$1,446	$1,870	56.5	29.3
State and local expenditures (thousands)	$105,992	$229,038	$382,162	260.5	66.8

[a] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: Population taken from *Statistical Abstract of the United States, 1946* and *1951*, and *Current Population Reports*, Series P. 25; enrollment in public schools based on State of Colorado, *Biennial Reports of the State Superintendent of Public Instruction, 1946, 1950, 1956;* enrollment in colleges and universities based on unpublished reports of the Division of Accounts and Control, State of Colorado; recipients of old-age pension taken from Colorado State Department of Public Welfare, *Annual Reports;* index of consumer prices taken from Bureau of Labor Statistics, *Consumer Price Index;* index of building costs taken from *Statistical Abstract of the United States;* index of state and local costs taken from *Economic Report of the President*, January, 1955; personal income taken from U. S. Department of Commerce, *Survey of Current Business*, annual articles; and state and local expenditures based on State of Colorado, Division of Accounts and Control, *Annual Reports*, annual audit reports of individual counties and municipalities, and Department of Education, *Biennial Reports of the State Commissioner of Education.*

purpose it is sometimes helpful in analysis to assume that expenditures advance at about the same rate as the population. Such an assumption would mean that per capita expenditures would not change over time.[4] This was clearly not the case from 1946 to 1956, however, as noted in the following tabulation which shows a per captia expenditure increase of 169 percent.

	1946	1956	Percent increase 1946-1956
Population	1,196,000	1,612,000	35
Expenditures (thousands)	$105,992	$382,162	260
Per capita expenditures	$88	$237	169

This leaves a 169 percent increase to be accounted for by other factors. The fact is, of course, that a change of this size, even after population adjustments, is highly unrealistic since it reflects a more than 65 percent increase in general prices.[5] An advance on this account means only that government has had to pay more for things it required to perform a given amount of services. "Real" expenditures (or actual services rendered or capital items acquired) need not have increased at all.

If then the public dollar expended is adjusted for price change also, i.e., converted into a constant purchasing power dollar (in this analysis, in terms of the 1956 dollar), the population-price-adjusted-expenditure totals show an increase of 63 percent as noted below.

	1946	1956	Percent increase 1946-1956
Population	1,196,000	1,612,000	35
Price index	88.8	146.6	65
Expenditures (thousands)	$105,992	$382,162	260
Per capita expenditures	$88	$237	169
Per capita expenditures (1956 dollars)	$145	$237	63

Adjusting further to differentiate between current and capital expenditures[6] the results then read as follows:

Per capita expenditures (1956 dollars)	1946	1956	Percent increase 1946-1956
Current	$131	$181	38
Capital	14	56	300
Total	145	237	63

From this more refined base of reference, it will be seen that state and local government spent 38 percent more per person in "real" items for operating purposes in 1956 than in 1946 and 300 percent more for capital items.

If current expenditures can be viewed as having their counterpart in current services, it can then be said that 38 percent more in real services per person were received in 1956 than in 1946.

Whether or not the average person in Colorado actually was getting 38 percent more from the current dollar spent is, of course, a matter of individual judgment. About all that can be said is that, with due allowances for the limitation of the adjustment techniques used, the overall increase in real services received (current spending) does not appear to be out of line with present consumption levels of the average person. Although memories are short, it will be recalled that the immediate post-war year was

[4] It is obvious that this assumption is limited to aggregative analysis since some items of expenditure will increase at a faster rate than others.

[5] Unless otherwise noted, the price index used here and in subsequent analysis is applicable to prices paid by state and local government for purchases as reported in the *Economic Report of the President*, January, 1958, Table F-5, p. 122.

The index used is based on average prices from 1947 to 1949. For the purpose of this study, the base has been shifted to 1956. Accordingly, the figures adjusted for price change are placed on a uniform 1956 purchasing power basis.

[6] Capital expenditures are not separately reported by a number of the governmental agencies. Hence, the figures on which this analysis is based are estimated, in part, but are believed to be fairly close. For 1946, capital expenditures were estimated to total $10,096,000 as compared with the 1956 figure of $89,737,000.

marked by extreme shortages in both the private and public sectors of the economy. The large changes that have taken place since then in both the number and variety of available consumer goods and services is universally recognized.

Turning to the question of the "real" increase in capital items, there should be little doubt that a 300 percent increase in this particular class of expenditure is in keeping with what is presently taking place in the construction of highways, schools and other public facilities, all of which, in terms of new construction, were virtually at a standstill in 1946.

Table 3.3 shows the impact of both population and price change on over-all expenditures by two-year intervals since 1946. From this table

Table 3.3

Expenditures of State and Local Government in Colorado, Selected Years 1946-1956

Year	Current dollars Expenditures (thousands)	Current dollars Per capita[b]	1956 dollars[a] Expenditures (thousands)	1956 dollars[a] Per capita[b]
1946	$105,992	$ 88.62	$174,904	$146.24
1948	180,002	142.52	238,098	188.52
1950	229,038	171.56	291,397	218.27
1952	269,046	196.67	301,959	220.73
1954	322,948	216.45	344,662	231.00
1956	382,162	237.07	360,021	237.07
Increase				
1946-1956	260%	169%	106%	62%
1950-1956	67%	38%	23%	2%

[a] Based on 1956 index of state and local costs, *Economic Report of the President, January*, 1958, Table F-5, p. 122.

[b] Based on U. S. Department of Commerce estimated population as of July 1, of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source.: State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Education, *Biennial Reports of the State Commissioner of Education;* and annual audit reports of individual counties and municipalities.

it is possible to separate out more fully the price influence on expenditure change as demonstrated for two periods below:

A. Adjustment for price increase only

Period	Expenditure increase unadjusted for price (percent)	Expenditure increase adjusted for price (percent)	Difference due to price increase (percent)
1946-1956	260	106	154
1950-1956	67	23	44

B. Adjustment for price and population increase

Period	Per capita expenditure increase unadjusted for price (percent)	Per capita expenditure increase adjusted for price (percent)	Difference due to price increase (percent)
1946-1956	169	62	107
1950-1956	38	23	15

Generalizing from these tabulations it is apparent that well over one-half of the increase in state and local expenditures (purchases) in 1956 over 1946, as well as 1950, were due to price increases. If allowance is also made for population increase, the price factor is not as pronounced in percentage terms since the basis of reckoning is different. In either case, however, the influence of price change has been the same.

Income Factor. Increased personal income realized over the past ten years has undoubtedly been one of the more important causal factors for the expenditure trends observed (Table 3.4). Unlike population growth, or price change, this factor cannot be isolated per se, largely because it is in a sense a part of the other two factors. Yet it is a distinctive force affecting expenditure change and should be recognized as such.

Table 3.4

Per Capita[a] Personal Income and State and Local Expenditures in Colorado, Selected Years, 1946-1956

Year	Per capita personal income	Percent of 1946	Per capita state and local expenditures	Percent of 1946
1946	$1,195	100	$ 88	100
1948	1,394	117	142	161
1950	1,446	121	171	194
1952	1,804	151	197	223
1954	1,694	142	216	245
1956	1,870	156	237	269

[a] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: Personal income based on U. S. Department of Commerce, *Survey of Current Business*, annual articles; and state and local expenditures derived from State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Education, *Biennial Reports of the State Commissioner of Education;* and annual audit reports of individual counties and municipalities.

According to one study, income is regarded as the most important single factor accounting for increasing public expenditures at the state and local level.[7] The reasoning is that as the economic system develops to high levels of activity its resources are devoted less to primary (extractive) and secondary (manufacturing and merchandising)industry and more to services. It is in the latter area where government has its greatest purpose as well as comparative advantage. Moreover, free income (above necessities), which develops as total income increases, provides obviously the greatest basis for paying taxes.

This general tendency of increased income causing increasing public expenditures has been expressed by John R. Commons as follows:

> Governments must have revenues in increasing amounts, not because they are corrupt or inefficient, which can be remedied, but because the social needs of education, ethics, morality, art, liberty, protection of the weak, highways, health, recreation grow faster in an improving civilization than do private needs of food, luxury, ostentation.[8]

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[7] Solomon Fabricant, *The Trend of Government Activity in the United States Since 1900*, National Bureau of Economic Research (New York, 1952), Chap. 6.

[8] John R. Commons, *Institutional Economics* (New York: The MacMillan Co., 1934), p. 831.

This statement addressed to government generally has obviously varying degrees of application to different situations. It will be later observed, however, that much of what Professor Commons has in mind is fully reflected in Colorado's recent experience, notably in the fields of education, welfare and highways.

Purpose of Expenditures

The broader purposes for which the public dollar is spent in Colorado are readily identified. In 1956, 38 percent of aggregate disbursements were directed to educational uses; 21 percent to welfare; and 19 percent to highways. The remainder, or 21 percent, was committed to a wide variety of purposes which in Table 3.5 are combined and shown under the catch-all column labelled "all other."

The notable fact is that education, welfare, and highways together acounted for approximately 80 percent of public expenditures in the State, a ratio which differs little from that of recent preceding years.

Looking at the opposite side of the coin and raising the question as to where the public's tax dollar goes, the answer must, of course, be the same; that is, about 80 percent of it goes for these three general purposes.

The "big three" functions of government in Colorado (Chart 3.1), and this designation can be similarly applied to government in other states as later noted, deserves more than catch-phrase attention, for it is here and here only where major reductions in government expenditures and, therefore, taxes can be made. What the possibilities are for substantial cost savings in these vital areas of public service and what public reaction might be to any steps taken in these directions is quite another matter.

Table 3.5

Expenditures by Principal Functions of State and Local Government in Colorado Selected Years, 1946-1956

Year	Total	Education[a]	Welfare[b]	Highways[c]	All other
	Amount (thousands)				
1946	$105,992	$ 29,522	$32,544	$14,858	$29,068
1948	180,002	50,103	53,022	38,258	38,619
1959	229,038	73,213	60,818	45,209	49,798
1952	269,046	85,795	66,462	53,367	63,422
1954	322,948	112,593	71,582	64,008	74,765
1956	382,162	146,294	82,242	72,990	80,636
			Percent		
1946	100.00	27.85	30.71	14.02	27.42
1948	100.00	27.83	29.47	21.25	21.45
1950	100.00	31.97	26.55	19.74	21.74
1952	100.00	31.89	24.70	19.84	23.57
1954	100.00	34.87	22.16	19.82	23.15
1956	100.00	38.28	21.52	19.10	21.10

[a] Includes State expenditures for Educational Institutions; Office of Commissioner of Education, Education of Physically Handicapped Children, Teacher Emeritus Retirement, State Library, State Historical Society, School Lunch Program, Vocational Education, and Miscellaneous; and school districts expenditures for public schools.

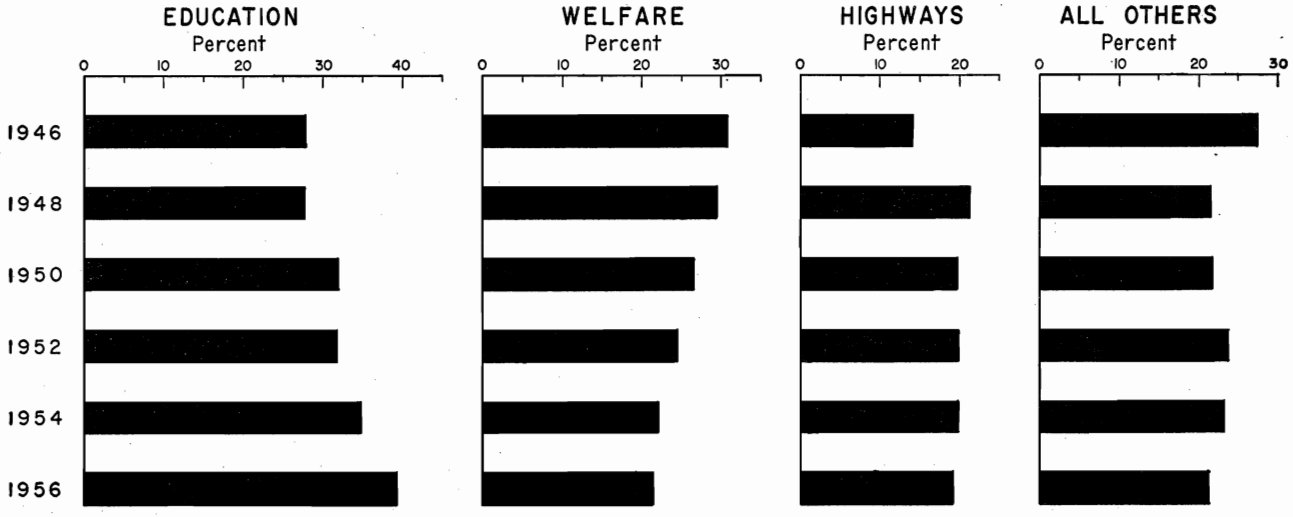
[b] Includes State expenditures for Welfare Administration, Department of Health; county expenditures for old age pensions and general welfare, and municipal expenditures for Health and Hospitals.

[c] Includes State expenditures for State Highway Department; county expenditures for Road and Bridge Fund; and municipal expenditures for streets and highways.

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Education, *Biennial Reports of the State Commissioner of Education;* annual audit reports of individual counties and municipalities; and State of Colorado, Department of Highways, *Annual Reports.*

EXPENDITURES BY PRINCIPAL FUNCTIONS OF STATE AND LOCAL GOVERNMENT IN COLORADO, SELECTED YEARS, 1946 – 1956

(Expenditures expressed as a percent of annual total)



SOURCE: State of Colorado, Division of Accounts and Control, Annual Reports; Dept. of Education, Biennial Reports of the State Commissioner of Education; Dept. of Highways, Annual Reports; and Audit Reports of Individual Counties and Municipalities.

CHART 3.1

Sources of Funds By Level of Government

Of some interest in this connection is the question of the financing of the major services performed. Without raising the question of who pays the taxes, the question here is what governmental agency provides the original funds for the particular services financed? It should be clear that a governmental unit may, because of transfers from other agencies, spend more than it receives from the taxes collected for its own use. For example, welfare payments are made by the counties but such payments are largely financed from funds transferred from the State.

An effort to relate expenditures by functions to the particular governmental unit responsible for providing the funds needed has been attempted with results shown in Table 3.6.

Table 3.6

Expenditures by Functions of State and Local Government in Colorado and Estimated Sources of Funds, 1956

Function	State & local expenditures	Source of Funds: Federal[a]	State[b]	Local[c]
		Amount (thousands)		
Education	$146,294	$ 1,373	$39,459	$105,462
Welfare	82,242	27,494	41,773	12,975
Highways	72,990	11,071	43,836	18,083
Other	80,636	5,092	33,505	42,039
Total	382,162	45,030	158,573	178,559
		Percent		
Education	100.00	0.94	26.97	72.09
Welfare	100.00	33.43	50.79	15.78
Highways	100.00	15.17	60.06	24.77
Other	100.00	6.31	41.55	52.14
Total	100.00	11.79	41.49	46.72

[a] Federal funds received as reported by State of Colorado, Division of Accounts and Control.

[b] Includes state expenditures (less federal aid) for "Educational Institutions," "State Educational Agencies," "State Aid for Public Schools," "Administration of Public Welfare," "Payments by State for Welfare," "State Highways," "Payments to County Road Fund," and residual of total State "Operating Expenditures" as reported by State of Colorado, Division of Accounts and Control.

[c] Residual computed by deducting federal and state expenditures from the total state and local expenditures.

Source: Adapted from State of Colorado, Division of Accounts and Control, *Annual Report;* Department of Education, *Biennial Report of the State Commissioner of Education;* and audit reports of the individual counties and municipalities.

Viewing first, the aggregates, or column totals in this table, it will be observed that 12 percent of combined state and local expenditures in 1956 were covered by federal aids for one purpose or another but principally for welfare and highways. The state government, in turn, accounted for 41 percent and local government for the remainder or 47 percent. In terms of taxation, and by approximation only, it can, therefore, be said that in 1956 federal taxes (grants) supported 12 percent of Colorado's total government; the State, 41 percent; and local government, 47 percent.

Looking more closely at expenditures by specific functions and their related source of financing, it is noteworthy that education is essentially a "grass roots" or local governmental responsibility. As seen in Table 3.6, local government, and this means largely the school districts in this instance, accounted in 1956 for 72 percent of all educational costs in the State.

On the other hand, public welfare is largely a responsibility shared by federal, state and county government in which federal grants represented 33 percent of total welfare payments made in 1956, while the State contributed 51 percent, and the counties the remainder, or 16 percent.

Similarly, the highways are financed jointly by the governmental units including the municipalities. In 1956 federal grants represented 15 percent of the aggregate outlay for this purpose, while state and local participation accounted respectively, for 60 percent and 25 percent.

Expenditure Patterns—Interstate Comparisons, 1942 and 1953[9]

Examination of Table 3.7 shows that state and local government in Colorado spent $217 per capita in 1953 which placed it in 6th position in Western State comparison, being preceded by Nevada, Oregon, Montana, Wyoming and California. In 1942, Colorado occupied 5th position, reading from high to low, being preceded by Nevada, Montana, Wyoming and California.

Per capita total expenditures in all the Western States were substantially above the national average, both in 1942 and 1953—a fact which may be attributed in part to the relatively low population density of the West.

Further examination of Table 3.7 shows that Colorado in 1953 spent more per capita for "welfare," "public safety," "sanitation" and "health and hospitals" than the average for the eleven Western States. Conversely, it spent less than average for "highways," "education" and "all other."

In rank order, which changes the picture only slightly, Colorado ranked 1st in per capita expenditure for both welfare and health and hospitals; 4th in expenditures for both public safety and sanitation; 5th for education; and 9th for both highways and all other.

Colorado's expenditure pattern differs most widely in its expenditures for welfare. In 1953, per capita welfare payments in the State amounted to $40.05, which exceeded the general average of all eleven Western States by $18.06.

[9] These are the most recent dates for which Census data are available for comparative purposes covering both state and local expenditures. It is believed that more current data, if they had been available, would not have changed to any substantial degree the relationships shown for the years considered.

It also was over the national average of approximately the same amount, or by $18.43.

It is of interest and probably it is also worthwhile to speculate on what might have been. If, for instance, Colorado's outlay for welfare had been the same as the Western-State average, its total per capita expenditure of $217 for all purposes in 1953 would have been reduced to $199. In rank order, this total would have placed Colorado in 9th position rather than in 3rd. A similar computation for 1942 would drop Colorado from 5th to 10th place in the eleven-state comparison.

Education

Education accounted, as earlier noted, for approximately 40 percent of all state and local outlays in 1956, thus constituting by far the principal expenditure requirement in the State. Education's enlarged position in the total fiscal picture of the State is evidenced by its corresponding but lower ratio of 30 percent in 1946. When it is remembered that expenditures for all other purposes generally increased at a rapid rate for the period a relative gain of 10 percentage points is indicative of the rapid pace set by education costs in recent years. This is reflected in expenditure trends shown for both the public schools and state colleges and universities.

Public Schools. Total expenditures for public schools in 1956 were more than twice what they were in 1950 and approximately five times the amount reported for 1946. Stated in per capita terms, the 1956 total outlay was $77.50 as compared with $44.17 in 1950 and $21.70 in 1946 (Table 3.8).

Much of this advance has consisted of capital outlay. Thus, of the total accumulated annual expenditures from 1950 to 1956 amounting to $599 million, somewhat over one-fourth was for building purposes.

Increased enrollment accompanied by an enlarged ratio of the population in public schools, plus rising costs per pupil in attendance, are the developments which explain school expenditure trends in the State over the past decade.

From 1946 to 1956, school enrollment grew from 199,441 to 307,753, or a gain of 108,312 pupils (Table 3.9). For the same period also, enrollment per 1,000 population advanced from 166.7 to 190.9.

Table 3.7

Per Capita State and Local Expenditures,[a] By Principal Functions
Eleven Western States, 1942 and 1953
(Rank order of states appears in parenthesis)

Expenditure in Dollars

	Colorado	Utah	Idaho	Montana	Wyoming	New Mexico	Arizona	Nevada	Wash-ington	Oregon	California	Average 11 states	Average U.S.
Total													
1942	78.52(5)	76.36(7)	76.58(6)	87.23(2)	86.63(3)	58.94(11)	72.87(10)	106.95(1)	75.07(9)	76.10(8)	80.60(4)	79.69	61.08
1953	217.27(6)	175.26(11)	208.51(7)	226.65(3)	220.35(4)	178.57(10)	201.99(9)	240.16(1)	207.29(8)	228.29(2)	217.83(5)	211.11	171.40
Education													
1942	19.22(10)	24.27(3)	20.69(8)	24.20(4)	28.63(1)	20.90(7)	17.97(11)	23.33(5)	21.38(6)	19.66(9)	24.30(2)	22.33	17.78
1953	91.44(5)	89.42(8)	76.60(11)	89.21(9)	98.00(2)	83.46(10)	91.01(6)	96.30(3)	90.55(7)	96.19(4)	107.39(1)	91.78	69.47
Welfare													
1942	22.54(1)	18.14(2)	11.13(7)	14.09(4)	7.78(10)	4.88(11)	12.30(6)	9.35(9)	18.14(4)	11.12(8)	13.85(5)	13.03	9.11
1953	40.05(1)	18.83(7)	18.10(8)	23.84(4)	17.15(10)	18.91(6)	17.61(9)	14.68(11)	23.84(3)	19.13(5)	29.76(2)	21.99	21.62
Highways													
1942	12.31(9)	13.43(8)	20.81(4)	22.75(3)	23.09(2)	16.13(6)	15.61(7)	36.50(1)	11.64(10)	20.11(5)	10.49(11)	18.44	10.92
1953	41.62(9)	36.56(10)	51.62(4)	51.13(5)	65.27(2)	43.72(7)	42.08(8)	79.02(1)	44.83(6)	55.30(3)	31.49(11)	49.33	35.17
Public Safety													
1942	4.27(7)	4.48(6)	3.40(10)	4.53(5)	3.88(9)	2.64(11)	4.08(8)	6.87(3)	7.62(2)	6.29(4)	9.19(1)	5.17	5.84
1953	8.10(4)	6.48(6)	3.75(11)	5.08(8)	4.95(9)	4.62(10)	5.87(7)	6.81(5)	9.73(2)	8.56(3)	13.64(1)	7.06	11.33
Sanitation													
1942	.77(8)	.86(4)	.97(3)	.82(6)	.71(10)	.19(11)	.83(5)	.76(9)	1.11(2)	.80(7)	1.50(1)	.85	1.67
1953	2.14(4)	1.06(8)	.39(11)	.96(9)	.71(10)	4.63(1)	1.65(6)	1.16(7)	2.51(3)	1.89(5)	3.54(2)	1.87	3.25
Health and Hospitals													
1942	4.77(3)	3.20(8)	2.61(11)	3.52(7)	4.22(4)	2.69(10)	3.19(9)	8.14(1)	3.95(5)	3.57(6)	5.74(2)	4.15	4.55
1953	12.39(1)	5.79(7)	5.73(8)	7.87(4)	5.83(6)	5.53(9)	4.73(11)	5.35(10)	9.09(3)	7.38(5)	9.22(2)	7.17	8.80
All other													
1942	14.64(7)	11.98(9)	16.97(5)	17.32(4)	18.32(3)	11.51(10)	18.89(2)	22.00(1)	11.23(11)	14.55(8)	15.53(6)	15.72	11.21
1953	21.53(9)	17.12(11)	52.32(1)	48.56(2)	28.44(6)	17.70(10)	39.04(4)	36.84(5)	26.74(7)	39.84(3)	22.79(8)	31.91	21.76

[a] Excludes debt repayment, intergovernmental transfers, contributions to insurance and other trust funds, and outlays of public service enterprises including utilities and liquor stores.

Source: Expenditures for 1942 from U. S. Bureau of the Census, *Governmental Finances in The United States, 1942, U. S. Summary;* Expenditures for 1953, estimated from data in the following sources: U. S. Bureau of the Census, *Compendium of State Government Finances in 1953; Compendium of City Government Finances in 1953;* U. S. Department, Health, Education and Welfare, *Biennial Survey of Education, 1950-1952; Social Security Bulletin,* September, 1954; U. S. Bureau of Public Roads, *Highway Statistics, 1953.*

Table 3.8

Operating and Capital Expenditures of Public Schools in Colorado, 1946-1956

Year	Current Dollars Total (thousands)	Current Dollars Per Capita[b]	1956 Dollars[a] Total (thousands)	1956 Dollars[a] Per Capita[b]
A. Combined Operating and Capital Expenditures				
1946	$ 25,960	$21.70	$ 42,837	$35.81
1947	31,371	25.38	45,999	37.21
1948	41,272	32.68	54,593	43.22
1949	51,631	39.87	66,621	51.45
1950	58,973	44.17	75,029	56.19
1951	62,303	47.23	73,471	55.69
1952	69,227	50.61	77,696	56.80
1953	82,874	57.71	90,276	62.86
1954	95,396	63.94	101,810	68.23
1955	104,831	67.76	109,522	70.80
1956	124,934	77.50	124,934	77.50
Increase				
1946-1956	381%	257%	192%	116%
1950-1956	112%	75%	67%	38%
B. Operating Expenditures				
1946	$24,432	$20.43	$40,316	$33.71
1947	29,154	23.59	42,748	34.59
1948	35,194	27.87	46,553	36.86
1949	41,573	32.10	53,643	41.42
1950	45,176	33.84	57,476	43.05
1951	48,077	36.45	56,695	42.98
1952	52,680	38.51	59,125	43.22
1953	62,057	43.22	67,600	47.08
1954	70,650	47.36	75,400	50.54
1955	76,238	49.28	79,644	51.49
1956	87,539	54.30	87,539	54.30
Increase				
1946-1956	258%	166%	117%	61%
1950-1956	94%	160%	52%	26%
C. Capital Expenditures				
1946	$ 1,528	$ 1.27	$ 2,521	$ 2.10
1947	2,217	1.79	3,251	2.62
1948	6,078	4.81	8,040	6.36
1949	10,058	7.77	12,978	10.03
1950	13,797	10.33	17,553	13.14
1951	14,226	10.78	16,776	12.71
1952	16,547	12.10	18,571	13.58
1953	20,817	14.49	22,676	15.78
1954	24,746	16.58	26,410	17.69
1955	28,593	18.48	29,878	19.31
1956	37,395	23.20	37,395	23.20
Increase				
1946-1956	2,300%	1,727%	1,383%	1,004%
1950-1956	171%	125%	113%	77%

[a] Based on 1956 index of state and local costs.

[b] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: State of Colorado, Department of Education, *Biennial Reports of the State Commissioner of Education.*

Table 3.9

Enrollment and Operating Costs per Pupil in Public Schools in Colorado, 1946-1956

Year	Enrollment	Enrollment per 1,000 population	Operating costs per pupil
1946	199,441	166.7	$122.50
1947	205,930	166.6	141.57
1948	208,928	165.4	168.45
1949	217,020	167.6	191.56
1950	224,245	168.0	201.46
1951	227,231	172.3	211.58
1952	233,367	170.6	225.74
1953	252,327	175.7	245.94
1954	271,760	182.1	259.97
1955	289,690	187.3	263.17
1956	307,753	190.9	284.44

Source: State of Colorado, *Biennial Reports of the State Superintendent of Public Instruction*, 1946-1956.

Following the same trend, operating costs per pupil from 1946 to 1956 increased from $122.50 to $284.44, or at the rate of 132 percent. By eliminating the inflation factor this ratio drops to 40 percent. Similarly the unadjusted change from 1950 to 1956 shows an increase of 34 percent which when corrected for price increase shows an actual decrease in "real" terms of 6 percent, as summarized below:

Year	Average costs per pupil	Average operating costs per pupil in 1956 dollars
1946	$122.50	$202.14
1950	211.58	304.16
1956	284.44	284.44
Increase		
1946-1956	132.2%	40.1%
1950-1956	34.4%	—6.5%

Taking 1946 to 1956 as the period of reference it can be assumed that in 1956 school districts in Colorado were, on the average, not only spending 40 percent more in "real" terms for operations per pupil than in 1946, but presumably they were also providing that much more in "real" services. This assumption may be realistic in view of the many additions to facilities that have been made during the past ten years.

The absolute decline of 6.5 percent in the "real" operating expenditures per pupil from 1950 to 1956 is largely explained by (a) an increase of 83,508 pupils — an increase which accounted for nearly three-fourths of the entire enrollment increase since 1946, and (b) sharp rise in prices amounting to 27 percent.

Whether or not school districts should have put out more money so as to maintain real expenditures per pupil on say at least the same basis as in 1950 is an open question. There is, of course, the inference that Colorado's school children in 1956 were not as adequately accommodated as in 1950. But by the same measure also, they were quite substantially better off than their predecessors back in 1946.

Despite sharply advancing public school costs (unadjusted) Colorado's position does not appear to be out of line with other places. As can be seen from Table 3.10, Colorado's operating costs per pupil in average daily attendance in 1954 were below the median for the eleven Western States, while capital outlay per pupil was at the median.

As a factor affecting current or operating costs it is significant also that as of 1954 Colorado paid its teachers less, on the average, than all the other states in the West, excepting Montana, Wyoming, and Idaho, and, it might be added, less than the average for the country as a whole.

No effort has been made to determine the quality of the educational services provided by the public school system of the State or possible cost savings that might be effected. Quantita-

tively, Colorado has undoubtedly done a good job in providing mass education at the elementary and secondary school level. As was shown in Chapter I, the 1950 Census ranks Colorado much above the national average in the number of school years completed by its population 25 years old or over.

Table 3.10

Selected Expenditure Data for Public Schools in Eleven Western States, 1954

(Rank order of States appears in parenthesis)

State	Current expenditures per pupil in average daily attendance	Capital expenditures per pupil in average daily attendance	Teachers' salaries (annual salary)
Oregon	$336.72(1)	$125.05(3)	$4,163(4)
Wyoming	329.86(2)	48.57(11)	3,512(10)
Montana	327.99(3)	62.33(8)	3,530(9)
California	314.51(4)	133.98(2)	4,787(1)
Washington	305.42(5)	105.89(5)	4,334(3)
Nevada	294.12(6)	155.82(1)	3,786(6)
Arizona	281.63(7)	115.12(4)	4,401(2)
Colorado	279.76(8)	101.63(6)	3,640(8)
New Mexico	264.71(9)	69.00(9)	4,127(5)
Idaho	237.81(10)	60.67(10)	3,350(11)
Utah	208.18(11)	83.38(7)	3,746(7)
11- state average	289.16	96.49	3,943
United States	264.76	80.14	3,825

Source: U. S. Department of Health, Education and Welfare, *Biennial Survey of Education in the United States*, 1952-1954.

Greater economy in operations is suggested by further consolidation of school districts which now number nearly a thousand. However, there are definite limitations here in view of the low population density that exists in most parts of the State. In this circumstances, it is likely that at least some of the cost saving achieved through large-scale consolidation of districts will be offset by increased transportation costs.

The future trend of expenditures for schools will in any event be largely determined by population growth, a projection of which was made in Chapter I. A separate forecast of school enrollment made by the State Department of Education is of interest. This estimate shows a trend which would see a doubling of enrollment, including enrollment in junior colleges, between 1950 and 1968 (Table 3.11). If this projection can be taken as reasonably valid, and assuming a per pupil operating cost equal to that reported for 1956, the expenditure requirement for operations alone would amount to $176 million by 1968, or a figure 40 percent over the combined total of current and capital outlays made for the public schools in 1956.

It may be assumed in addition that capital outlays will have to be increased. In 1956 these represented approximately one-third of combined current and capital outlay, or a per pupil outlay of $121.51. Multiplying this sum by the anticipated enrollment in 1968, a total of $73 million is derived, which when added to $176 million for operations amounts to $249 million, or a total which is approximately double the aggregate expenditures for operating and capital purposes in 1956.

Table 3.11

Enrollment in Public Schools[a] in Colorado 1956 and Projections to 1968

Year	Enrollment
1956	307,753
1957	326,218
1958	345,791
1959	366,538
1960	388,530
1961	411,842
1962	436,553
1963	462,746
1964	490,511
1965	519,942
1966	551,139
1967	584,207
1968	619,259

[a] Includes Junior colleges.

Source: State of Colorado, Department of Education, *These are the Facts*, January, 1958, p. 5.

Colleges and Universities. In 1956 operating and capital expenditures for all tax supported institutions of higher learning in the State amounted to $21.8 million. This figure is approximately equal to 17 percent of total expenditures reported for the same year for the public schools.

Over-all expenditures have followed the same course as that of the public schools although at a somewhat lower rate of increase. As will be seen by reference to Table 3.12, total costs in 1956 exceeded by about $6 million the amount spent in 1950 and by $16 million the total reported for 1946. As in the case of the public schools, enlarged enrollments have been the underlying causal factor of rising expenditure requirements accelerated by inflated prices. As noted in Table 3.13, student enrollment increased from 9,870 in 1946 to 19,811 in 1956 with important fluctuations occuring in between due to veteran enrollments. Coincident with this over-all change, operating expenditures on a per student basis jumped from $534.65 in 1946 to $687.50 in 1950 and to $942.25 in 1956.

Table 3.12

Operating and Capital Expenditures of State Colleges and Universities in Colorado 1946-1956

Year	Current Dollars Total (thousands)	Current Dollars Per Capita[b]	1956 Dollars[a] Total (thousands)	1956 Dollars[a] Per Capita[b]
A. Combined Operating and Capital Expenditures				
1946	$ 5,497	$ 4.60	$ 9,071	$ 7.59
1947	8,019	6.49	11,758	9.51
1948	11,679	9.25	15,449	12.23
1949	12,663	9.78	16,339	12.62
1950	15,287	11.45	19,449	14.57
1951	14,858	11.26	17,521	13.28
1952	16,179	11.83	18,158	13.28
1953	17,129	11.93	18,658	12.98
1954	17,539	11.76	18,718	12.55
1955	18,348	11.86	19,173	12.39
1956	21,842	13.55	21,842	13.55
Increase				
1946-1956	297%	195%	141%	78%
1950-1956	43%	18%	12%	—7%
B. Operating Expenditures				
1946	$ 5,277	$ 4.41	$ 8,708	$ 7.28
1947	7,453	6.03	10,928	8.84
1948	9,970	7.89	13,188	10.43
1949	10,947	8.45	14,125	10.90
1950	12,749	9.55	16,220	12.15
1951	13,374	10.14	15,771	11.96
1952	14,070	10.29	15,791	11.55
1953	15,086	10.51	16,433	11.44
1954	15,725	10.54	16,782	11.25
1955	16,595	10.73	17,341	11.21
1956	18,667	11.58	18,667	11.58
Increase				
1946-1956	254%	163%	114%	59%
1950-1956	46%	21%	15%	—5%
C. Capital Expenditures				
1946	$ 220	$ .19	$ 363	$ .31
1947	566	.46	830	.67
1948	1,709	1.36	2,261	1.80
1949	1,716	1.33	2,214	1.72
1950	2,538	1.90	3,229	2.42
1951	1,484	1.12	1,750	1.32
1952	2,109	1.54	2,367	1.73
1953	2,043	1.42	2,225	1.54
1954	1,814	1.22	1,936	1.30
1955	1,753	1.13	1,832	1.18
1956	3,175	1.97	3,175	1.97
Increase				
1946-1956	1,343%	936%	774%	535%
1950-1956	25%	4%	—2%	—19%

[a] Based on 1956 index of state and local costs.

[b] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: State of Colorado, Division of Accounts and Control, *Annual Reports.*

Table 3.13

Enrollment and Operating Costs per Student in State Colleges and Universities in Colorado 1946-1956

Year	Enrollment	Enrollment per 1,000 population	Operating costs per student
1946	9,870	8.3	$534.65
1947	15,604	12.6	477.63
1948	17,501	13.9	569.68
1949	17,597	13.6	622.09
1950	18,544	13.9	687.50
1951	16,991	12.9	787.12
1952	15,262	10.6	921.90
1953	15,427	10.7	977.90
1954	15,500	10.4	1,014.52
1955	17,239	11.1	962.64
1956	19,811	12.3	942.25

Source: State of Colorado, Division of Accounts and Control, *Annual Reports.*

Interstate Comparisons—Enrollment and Expenditure Relationships. Next to Utah and California, Colorado had in 1954 the largest college enrollment relative to its population of any other state in the West (Table 3.14). Colorado's ratio of 2.09 percent exceeded also the national average of 1.59 percent—a relationship which generally confirms Census reported data for 1950, shown in Chapter I, which ranked Colorado well above the national average and next to California in the West in the number of college graduates to population 25 years and over.

Table 3.14

Students Enrolled in Institutions of Higher Learning, Western States, 1954

State	All institutions Enrollment	All institutions Percent of population	Publicly supported institutions Enrollment	Publicly supported institutions Percent of population	Enrollment in public institutions as percent of total enrollment
Colorado	29,951	2.09	20,245	1.41	67.59
Wyoming	4,764	1.62	4,764	1.62	100.00
Utah	28,113	3.76	18,604	2.58	66.17
Montana	8,169	1.33	6,877	1.12	84.18
Idaho	7,241	1.22	5,345	0.90	73.82
New Mexico	10,605	1.40	9,777	1.29	92.19
Arizona	14,267	1.59	13,826	1.54	96.91
Nevada	1,473	0.75	1,473	0.75	100.00
Washington	42,803	1.73	30,933	1.25	72.27
Oregon	27,015	1.67	19,757	1.22	73.13
California	286,657	2.36	226,138	1.86	78.89
11-state average	—	1.77	—	1.41	83.29
United States	2,514,712	1.59	1,356,481	0.86	53.94

Source: Derived from U. S. Department of Health, Education and Welfare, *Biennial Survey of Education,* 1954.

Next to Utah, Colorado in 1954 had a lower ratio of college enrollment in tax supported schools (or conversely a higher ratio in private schools) than any other state (Table 3.14). Colorado's ratio of 67.59 percent was higher, however, than the national average of 53.94 percent.

To the extent that private institutions provide a service that would otherwise be tax supported, it could be expected that expenditures per capita of tax supported institutions in Colorado would be comparatively low. On the contrary, as seen in Table 3.15, Colorado has a relatively high per capita operating cost which, in 1954, exceeded the Western State average and the national average by a wide margin. In rank order in the eleven Western State comparison, Colorado with a per capita operating cost of $18.62 occupied the 3rd leading position being preceded by only Wyoming and Utah.

Costs or expenditures are not the same as taxes paid, however. Further review of Table 3.15 reveals that slightly over two-thirds of Colorado's operating costs were covered from income sources other than taxes. As a result, its per capita tax of $6.15 for operating purposes was the lowest of any state in the West. The other income sources for this purpose came

mainly from tuition receipts which in Colorado are swelled by a combination of factors of which a relatively large number of out-of-state students paying higher tuition rates than residents is one of the most important.

Table 3.15

Per Capita Operating Expenditures and Current Income of Institutions of Higher Education in Eleven Western States, 1954

(Rank order of States appears in parenthesis)

State	Per capita operating costs	Per capita current income — Total	From taxes	From other sources
Wyoming	$19.66(1)	$21.18(1)	$12.01(1)	$ 9.17(4)
Utah	19.62(2)	19.87(2)	9.46(4)	10.41(2)
Colorado	18.26(3)	18.64(3)	6.15(11)	12.49(1)
California	17.49(4)	17.73(4)	9.70(2)	8.03(5)
New Mexico	16.60(5)	17.24(5)	7.56(8)	9.68(3)
Washington	16.14(6)	17.00(6)	9.67(3)	7.33(6)
Montana	14.53(7)	15.01(7)	8.66(6)	6.35(8)
Oregon	14.09(8)	14.09(8)	9.19(5)	4.90(11)
Arizona	13.43(9)	13.76(9)	6.54(9)	7.22(7)
Idaho	12.80(10)	12.97(10)	7.85(7)	5.12(10)
Nevada	12.16(11)	12.05(11)	6.51(10)	5.54(9)
11-state average	15.89	16.32	8.48	7.84
United States	9.97	10.31	5.08	5.23

Note: Data for Colorado as presented in this table are not identical to those presented in Table 3.12 because Census data are used in the above. The Census figures include certain categories e. g. scholarships, dormitories, etc., not included in the figures presented in Table 3.12.

Source: Derived from U. S. Department of Health, Education and Welfare, *Biennial Survey of Education*, 1954.

Welfare[10]

Colorado's welfare payments represent, next to education, the largest single category of expenditure in the State. In proportion to the State's population these payments as a whole are among the largest made by any state in the union. This is attributed mainly to a relatively high old-age pension payment, which over the years, has placed Colorado at, or near the top in interstate comparison.

Over-all welfare expenditure, which include all categories shown in Table 3.16, have more than doubled since 1946 and the annual rate of increase has exceeded population growth as is evidenced by a continuous increase measured by per capita expenditures. For 1956 the per capita figure was $48.43 which exceeded by 16 percent and 85 percent the corresponding figures for 1950 and 1946, respectively.

Old-age Pensions.[11] Colorado's old-age pension payments amounted, in the aggregate, to $57.4 million for the fiscal year ending in June,

[10] For more extended discussion of this subject, see Chapters XIX and XX.

[11] The data and related information included in the text of this and succeeding sections are from the annual reports of the State Department of Public Welfare and statements from officials of the Department.

Table 3.16

Expenditures for Welfare in Colorado Selected Calendar Years, 1946-1956

Year	Current Dollars — Total (thousands)	Per Capita[b]	1956 Dollars[a] — Total (thousands)	Per Capita[b]
	A. All Welfare Expenditures			
1946	$31,258	$26.14	$43,534	$36.41
1948	51,056	40.47	57,691	45.74
1950	55,848	41.83	63,105	47.27
1952	61,951	45.29	63,426	46.36
1954	69,277	46.43	70,118	47.00
1956	78,075	48.43	78,075	48.43
Increase				
1946-1956	150%	85%	79%	33%
1950-1956	40%	16%	24%	2%
	B. Expenditures for Old Age Pension			
1946	$23,463	$19.62	$32,678	$27.33
1948	40,298	31.91	45,534	36.06
1950	42,905	32.14	48,480	36.32
1952	46,387	33.91	47,479	34.71
1954	51,464	34.49	52,089	34.91
1956	58,314	36.17	58,314	36.17
Increase				
1946-1956	149%	84%	78%	32%
1950-1956	36%	12%	20%	—1%
	C. Expenditures for Aid to Dependent Children			
1946	$ 2,712	$ 2.27	$ 3,777	$ 3.16
1948	4,361	3.45	4,928	3.90
1950	5,546	4.15	6,267	4.69
1952	5,933	4.34	6,085	4.45
1954	7,067	4.74	7,153	4.80
1956	7,698	4.77	7,698	4.77
Increase				
1946-1956	184%	110%	104%	51%
1950-1956	39%	15%	23%	2%
	D. Expenditures for Aid to Blind			
1946	$ 216	$ .18	$ 301	$ .25
1948	217	.22	245	.25
1950	290	.22	328	.25
1952	313	.23	321	.24
1954	325	.22	329	.22
1956	325	.20	325	.20
Increase				
1946-1956	50%	11%	8%	—20%
1950-1956	12%	—9%	—1%	—20%
	E. Expenditures for General Assistance			
1946	$ 3,589	$ 3.00	$ 4,998	$ 4.18
1948	3,860	3.06	4,362	3.46
1950	4,199	3.14	4,745	3.55
1952	3,179	2.32	3,254	2.37
1954	3,100	2.08	3,138	2.11
1956	3,430	2.13	3,430	2.13
Increase				
1946-1956	—4%	—29%	—31%	—49%
1950-1956	—18%	—32%	—28%	—40%
	F. Expenditures for T. B. Hospitalization			
1946	$ 230	$ .19	$ 320	$ .26
1948	366	.29	414	.33
1950	469	.35	530	.39
1952	560	.41	573	.42
1954	559	.37	566	.37
1956	452	.28	452	.28
Increase				
1946-1956	96%	47%	41%	8%
1950-1956	—4%	—20%	—15%	—28%
	G. Expenditures for Aid to Needy and Disabled			
1946	0	0	0	0
1948	0	0	0	0
1950	0	0	0	0
1952	$ 2,324	$ 1.70	$ 2,383	$ 1.74
1954	3,093	2.07	3,130	2.10
1956	3,555	2.21	3,555	2.21
	H. Expenditures for Foster Care of Children			
1946	$ 56	$ .05	$ 78	$ .07
1948	206	.16	233	.18
1950	227	.17	256	.19
1952	270	.20	276	.20
1954	357	.24	361	.24
1956	498	.31	498	.31
Increase				
1946-1956	789%	500%	538%	342%
1950-1956	119%	82%	95%	63%
	I. Expenditures for Welfare Administration			
1946	$ 992	$ .83	$ 1,382	$ 1.16
1948	1,748	1.38	1,975	1.56
1950	2,212	1.66	2,499	1.88
1952	2,985	2.18	3,055	2.23
1954	3,312	2.22	3,352	2.25
1956	3,803	2.36	3,803	2.36
Increase				
1946-1956	284%	184%	175%	103%
1950-1956	72%	42%	52%	26%

[a] Based on 1956 index of state and local costs.

[b] Based on U. S. Department of Commerce estimated population as of July 1, of each year as presented in annual editions of the *Statistical Abstract of the United States*.

Source: Records of the Colorado State Department of Public Welfare.

1957. Of this amount, the federal government contributed 37 percent and the State the remainder, or 63 percent. The relatively large State participation stems from State law which earmarks a sizable portion of the total state government revenue for the purpose[12] and, in addition, provides for a coverage of eligible persons between 60 and 65 for which no federal contribution is made. It is because of large State allocations and the fact that no other state covers the lower age bracket under 65 that Colorado has led most states both in "recipient rates" (pensioners to population over 60 or 65) and absolute amounts of average monthly payments.

The recipient rate in Colorado as of June, 1957, was 347 out of 1,000 persons, aged 65 and over. In other words, a little more than one person out of every three who is over 65 years of age was a recipient of the Colorado pension. At this rate, Colorado was the 6th highest ranking state in the nation being preceded by Georgia, Oklahoma, Alabama, Mississippi and Louisiana.

The monthly average payment during the year was $82.36. This amount placed Colorado also in 6th ranking position being preceded by North Dakota, Massachusetts, Connecticut, New York and Washington.

These relationships are of interest from several points of view. First, Colorado with its high relative recipient rate presents a characteristic of the southern states but is definitely eastern in size of its awards. Second, Colorado's traditional and much publicized position of being the most generous state in the union as far as amount of individual pension payments are concerned, no longer holds. This is significant since the State of Colorado has been a pioneer in its program attempt to establish a better than an absolute minimum living standard for its older citizens. It may be that Colorado's example has forced some general acceptance of this standard. The latter would be consonant with the federal Old-Age and Survivors Insurance program which, in theory at least, is designed through longer term savings from workers' incomes to provide adequately for old age. As such, it should in time supplant in large degree the State old-age welfare program as now constituted. This should come about in essentially two ways both of which would tend to reduce over-all pension payments. First, the number of State pension applicants should decline as insurance funds become adequate, and second, even though applicants qualify under the State pension their awards should be reduced by the amount of insurance payments received.

[12]Eighty-five percent of net revenue from sales, liquor and use taxes, and 10 percent of net revenue from inheritance tax and incorporation fees and 85 percent of beer and liquor licenses are set aside for the monthly old-age pension; $5,000,000 for the stabilization fund and $10,000,000 for the medical fund, in that order. Funds remaining flow into the "general fund."

The impact to date of "OASI" on Colorado's pension payments both in number and size is hard to measure precisely. As noted in Table 3.17, caseloads have steadily increased over the years although a decline is observed from 1956 to 1957. Similarly, monthly average payments have increased but a sharp reversal is noted also during the last calendar year.

Table 3.17

Average Monthly Pension Caseload and Payment in Colorado, Calendar Years 1946-1957

Year	Monthly average caseload[a]	Monthly average payment
1946	40,692	$41.49
1947	42,850	61.41
1948	45,386	72.01
1949	47,718	70.25
1950	50,617	70.59
1951	52,114	73.44
1952	51,905	74.45
1953	52,707	81.98
1954	54,016	79.41
1955	54,189	85.86
1956	54,350	89.48
1957	54,079	82.59

[a] Number of persons receiving pension payments.

Source: State of Colorado, Department of Public Welfare, data prepared by Division of Administrative Management, July, 1958.

There is no question, however, that pensions both in number and amount have been lower than they otherwise would have been if the federal insurance program had not existed. For example, the Department of Welfare reports for the period from 1952 to 1957 a gain of 7,894 cases where pensions were received concurrently with OASI payments and an average increase of the latter from $29.76 to $41.54 per month. These amounts represent also "income" which must be deducted from State pension awards.

The future trend of total pension payments in Colorado is not likely to be substantially affected by OASI for a number of years because of the large payments guaranteed by State law. However, the long run should surely see a material reduction in both caseload and average amounts paid. If further liberalization of federal law occurs, this in itself could importantly change the timetable.

Other Welfare Programs. Although Colorado's pension program accounts for nearly three-fourths of the State's total outlay for welfare, other programs cover a wide front to which was added recently a medical aid program. These are more fully described in Chapter XX and need only be briefly mentioned here.

Referring back to Table 3.16 it will be seen that the largest program next to old-age pension is "aid to dependent children" where the cost trend is definitely upward. As distinguished from old-age pensions, financial participation includes also the counties, as is true for two

other programs; namely, "aid to the blind" and "aid to needy disabled." Other programs are "general assistance" which is financed entirely by the counties, and "foster care of children" and "tuberculosis hospitalization" financed jointly from state and local funds.

Highways[13]

Highways in Colorado, which currently account for approximately 20 percent of total state and local expenditure requirements, may be divided into three broad categories. These are (1) state highways, (2) county roads, and (3) city streets.[14]

The state highway system includes 8,302 miles of roads of which "federal aid primary" accounts for 4,269 miles, "federal aid secondary" for 3,850 miles and roads with no federal status for the remainder, or 183 miles. The county system consists of approximately 63,000 miles of road and the city streets an additional 3,500. In the aggregate then, there are in Colorado approximately 75,000 miles of highways and of all types and classifications.

Expenditures for the maintenance and construction of this entire system amounted to nearly $87 million in 1956 (Table 3.18). Of this amount the state system accounted for 58 percent, the county roads for 23 percent, and the city streets for 19 percent.

The specific purpose for which highway expenditures are made cannot be precisely determined in the case of county roads and city streets. It is estimated that on the average total outlays for both counties and cities divide about equally between maintenance and capital purposes.

State Highway System. Detailed reports of the State Highway Department covering the state highway system show for 1956 a total of 588 miles of "state highways finished" which include both the net addition of highway mileage to the system as well as the replacement or resurfacing of existing highways. Of the total number of miles finished 521 miles consisted of two lanes—or a mileage which would approximate a distance half way to the Pacific Coast reaching from Denver; and 67 miles of new construction of four-lane highways—or a mileage about equivalent to the distance from Denver to Colorado Springs (Table 3.19).

Table 3.18

Expenditures for Highways, Roads, and Streets in Colorado, 1946-1956

Year	Current Dollars Total (thousands)	Current Dollars Per Capita[b]	1956 Dollars[a] Total (thousands)	1956 Dollars[a] Per Capita[b]
A. Expenditures for all Highways, Roads and Streets				
1946	$20,608	$17.23	$34,006	$28.43
1947	30,719	24.85	45,042	36.44
1948	45,033	35.66	59,566	47.17
1949	44,251	34.17	57,097	44.09
1950	46,745	35.01	59,472	44.54
1951	47,215	35.80	55,678	42.22
1952	53,498	39.11	60,043	43.89
1953	62,186	43.31	67,740	47.18
1954	62,241	41.72	66,426	44.53
1955	66,228	42.81	69,203	44.73
1956	86,985	53.96	86,985	53.96
Increase				
1946-1956	322%	213%	156%	90%
1950-1956	86%	54%	46%	12%
B. Expenditures for State Highways				
1946	$10,807	$ 9.03	$17,833	$14.90
1947	16,701	13.51	24,488	19.81
1948	25,405	20.11	33,604	26.60
1949	26,544	20.49	34,250	26.44
1950	25,739	19.28	32,747	24.53
1951	23,886	18.11	28,167	21.36
1952	26,690	19.51	29,955	21.90
1953	32,434	22.59	35,331	24.61
1954	31,864	21.36	34,006	22.80
1955	34,882	22.55	36,449	23.56
1956	50,712	31.46	50,712	31.46
Increase				
1946-1956	369%	248%	184%	111%
1950-1956	97%	63%	55%	28%
C. Expenditures for County Roads				
1946	$ 7,031	$ 5.88	$11,602	$ 9.70
1947	9,718	7.86	14,249	11.52
1948	11,901	9.42	15,742	12.46
1949	10,720	8.28	13,832	10.68
1950	13,458	10.08	17,122	12.82
1951	15,330	11.62	18,078	13.70
1952	16,814	12.29	18,871	13.79
1953	18,058	12.58	19,671	13.70
1954	18,455	12.37	19,696	13.20
1955	19,544	12.63	20,422	13.20
1956	20,220	12.54	20,220	12.54
Increase				
1946-1956	188%	113%	74%	29%
1950-1956	50%	24%	18%	—2%
D. Expenditures for City Streets				
1946	$ 2,770	$ 2.32	$ 4,571	$ 3.83
1947	4,300	3.48	6,305	5.08
1948	7,727	6.13	10,220	8.11
1949	6,987	5.40	9,015	6.97
1950	7,548	5.65	9,603	7.19
1951	7,999	6.07	9,433	7.16
1952	9,994	7.31	11,217	8.20
1953	11,694	8.14	12,738	8.87
1954	11,922	7.99	12,724	8.53
1955	11,802	7.63	12,332	7.97
1956	16,053	9.96	16,053	9.96
Increase				
1946-1956	480%	251%	251%	112%
1950-1956	113%	52%	67%	20%

[a] Based on 1956 index of state and local costs.

[b] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: State of Colorado, Department of Highways, *Annual Reports.*

[13] For other discussion relating to this subject, see Chapters X, XIX and XX.

[14] "State highways," or the "State Highway System" is defined in Colorado law as follows: "The State Highway System shall consist of the Federal Aid Primary roads, the Federal Aid Secondary roads, plus an amount not to exceed five percent of the mileage of such systems which may be declared to be State Highways by the State Highway Commission while not being any part of the Federal System."

Administratively, state highways are under the supervisory authority of the Colorado State Highway Department. The so-called "county" roads are under local county boards and "city streets" under city authority. Financially, the principal distinction between state highways and county and city administered highways and streets is that state highways receive direct federal aid while others do not.

Table 3.19

Miles of State Highway Finished, by Surface Type, in Colorado, 1956

Item	Gravel 2-lane	Asphalt 2-lane	Asphalt 4-lane	Cement 2-lane	Cement 4-lane	Total 2-lane	Total 4-lane
Federal Aid-primary							
Regular	0	130	16	0	4	130	20
Interstate	0	22	31	0	15	22	46
Federal Aid-secondary	45	315	1	0	0	360	1
State (no federal status)	0	9	0	0	0	9	0
Total	45	476	48	0	19	521	67

Source: State of Colorado, Department of Highways, *Annual Highway Report*, 1956, p. 12.

As can be seen from Table 3.20, state highways finished since 1946 have ranged from 100 miles to 924 miles per year. The accumulated results from this and preceding construction finds Colorado, as shown in Table 3.21, with a present total state highway structure consisting of 8,040 miles of surfaced highways, of which 408 miles are concrete; 6,209 miles, asphalt; 1,339 miles, gravel; and 84 miles, graded or drained.

Table 3.20

Miles of State Highways Finished by Surface Type in Colorado, 1946-1956

Year	Total miles	Graded and drained	Gravel	Asphalt	Concrete
1946	102.6	5.4	65.1	32.1	0.0
1947	202.4	0.0	108.9	93.5	0.0
1948	470.0	13.4	219.4	237.2	0.0
1949	293.0	2.4	77.5	212.1	1.0
1950	439.2	0.0	127.6	309.0	2.6
1951	334.4	1.9	82.3	246.5	3.7
1952	480.8	0.0	73.1	389.1	18.6
1953	924.0	0.0	337.0	581.0	6.0
1954	525.0	0.0	29.0	478.0	18.0
1955	435.0	0.0	22.0	405.0	8.0
1956	588.0	0.0	45.0	524.0	19.0

Note: Highways "finished" are not necessarily extensions to existing mileage but include also resurfacing of existing roadbed.

Source: State of Colorado, Department of Highways, *Annual Reports* and Ledger Records.

Table 3.21

Mileage of State Highway System by Type of Surface in Colorado, 1956

Item	Projected	Graded & drained	Gravel	Asphalt	Cement	Total
Federal Aid-primary						
Regular	11	0	21	3,260	301	3,593
Interstate	251	0	0	350	75	676
Federal Aid-secondary	0	83	1,193	2,548	26	3,850
State (no Federal status)	0	1	125	51	6	183
Total	262	84	1,339	6,209	408	8,302

Source: State of Colorado, Department of Highways, *Annual Highway Report*, 1956, p. 3.

In 1956 also, 29 percent of the mileage was rated as "excellent;" 17 percent, "good;" 18 percent, "fair;" 14 percent, "unsatisfactory;" 14 percent, "critical;" and "not rated," 8 percent.[15]

State and National Comparisons. Colorado's per capita highway costs of $41.62 for 1953 noted earlier in Table 3.7, were somewhat under the average of the eleven Western States but quite substantially above the national average of $35.17.

Colorado's higher-than-national-average cost position can be attributed in the main to its mountainous terrain which presents costly construction problems as well as requiring larger than average outlays for maintenance. Another factor is a relatively low population density (14 persons per square mile compared with the United States average of 53) coupled with a high per capita road mileage (55 miles per 1,000 population compared with the United States average of 23).[16] Closely related also, is traffic density which shows for Colorado a total of 452 registrations per thousand population as compared with a national average of 336.[17]

Future Needs. Colorado's ratio of total road mileage surfaced, including city streets which was 38 percent in 1953, falls far below the corresponding national average of 66 percent.[18] This, of itself, is probably not too significant in view of Colorado's physical features and low population density.

Of greater importance is the fact that, apart from city and county road development, the state highway system alone has a total of 2,229 miles of highway rated by the State Highway Department as "unsatisfactory" or "critical." It is estimated that it will cost $345 million to correct this deficiency. This is regarded as the immediate highway need of Colorado.[19] For the long run, the estimated total required to construct all roads in the state system to adequacy by 1975 (as per the 1975 Federal Aid Act) is $880 million[20]—this amount is about thirteen times the aggregate outlays for both construction and maintenance made on the state highway system in 1956. It is apparent, therefore, that the objectives of the State's highway program coupled with unforseen developments that may take priority, will press heavily on future tax resources and federal aids committed thereto.

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[15]State of Colorado, Department of Highways, *Annual Highway report for 1956, and 1956 Rural Highway Sufficiency Rating Study* (Denver, Colorado, 1956).

[16]Data are for 1953 and derived from President's Advisory Committee on a National Highway Program, *A Ten-Year National Highway Program*, pp. 35-37 and 40-41.

[17]Derived from *Statistical Abstract of the United States* (Washington, D. C., 1955), pp. 9 and 14.

[18]Derived from *A Ten-Year National Highway Program, op. cit.*, pp. 40-41.

[19]Figures and discussions on this point are from the *1956 Rural Highway Sufficiency Rating Study*, prepared by Colorado Department of Highways, p. 1.

[20]This figure was obtained from estimating new construction over those sections of highways which are presumed will become obsolete between 1956 and 1975. (See *Ibid.*, p. 1.)

Other Expenditures

State and local expenditures for other than the three major categories considered in preceding sections range over a wide front of needed public services including such functions defined by the Census as "public safety," "sanitation," "health and hospitals," "general control" and several other categories. The principal of these are best reviewed in later chapters. In this section it is sufficient to point to only one of these or the State eleemosynary and penal institutions, the fiscal importance of which is shown in Table 3.22.

Table 3.22

Operating and Capital Expenditures of State Eleemosynary and Penal Institutions in Colorado, 1946-1956

Year	Current Dollars Total (thousands)	Current Dollars Per Capita[b]	1956 Dollars[a] Total (thousands)	1956 Dollars[a] Per Capita[b]
A. Combined Operating and Capital Expenditures				
1948	$ 6,395	$5.06	$ 8,458	$6.70
1949	8,204	6.34	10,586	8.18
1950	9,038	6.77	11,498	8.61
1951	11,872	9.00	14,000	10.61
1952	11,927	8.72	13,386	9.78
1953	10,864	7.57	11,835	8.25
1954	11,967	8.02	12,771	8.55
1955	14,308	9.25	14,950	9.67
1956	14,594	9.05	14,594	9.05
Increase				
1948-1956	128%	79%	72%	35%
1950-1956	61%	34%	27%	5%
B. Operating Expenditures				
1948	$ 5,979	$4.73	$ 7,908	$6.26
1949	7,222	5.58	9,319	7.20
1950	7,452	5.58	9,481	7.10
1951	8,372	6.35	9,873	7.49
1952	9,090	6.64	10,202	7.45
1953	9,603	6.69	10,461	7.29
1954	10,778	7.22	11,502	7.70
1955	11,638	7.52	12,160	7.86
1956	12,775	7.92	12,775	7.92
Increase				
1948-1956	114%	67%	61%	26%
1950-1956	71%	42%	35%	11%
C. Capital Expenditures				
1948	$ 416	$ .33	$ 550	$ .44
1949	982	.76	1,267	.98
1950	1,586	1.19	2,017	1.51
1951	3,500	2.65	4,127	3.12
1952	2,837	2.08	3,184	2.33
1953	1,261	.88	1,374	.96
1954	1,189	.80	1,269	.85
1955	2,670	1.73	2,790	1.81
1956	1,819	1.13	1,819	1.13
Increase				
1948-1956	337%	242%	230%	157%
1950-1956	15%	—5%	—10%	—25%

[a] Based on 1956 index of state and local costs.

[b] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: State of Colorado, Division of Accounts and Control, *Annual Reports.*

As observed, the aggregate trend from 1948 for these institutions has advanced steadily upward coincident with an increase of over 1,000 in the number of inmates (Table 3.23). It is noteworthy, however, that per capita costs since 1950 have remained about the same. If adjusted for price change, the gain in "real" per capita cost is only 5 percent, a fact that suggests underdevelopment in this vital area of public service.

Table 3.23

Number of Inmates of State Institutions in Colorado, 1948 and 1956

Institution	1948	1956
Colorado State Hospital	4,753	5,626
Colorado State Penitentiary	1,238	1,475
Colorado State Reformatory	219	256
School for Deaf and Blind	194	171
Individual School for Boys	138	223
State Training School for Girls	129	102
Monte Vista Golden Age Center	167	55
State Children's Home	278	218
State Home and Training School Grand Junction	473	569
State Home and Training School Ridge	335	519
Total	7,924	9,214

Source: State of Colorado, Division of Accounts and Control, *Annual Reports*, 1949 and 1957.

Conclusion

Throughout preceding analysis the emphasis has centered on dollar amounts spent by state and local government for the various general purposes described. Although in certain cases services provided by government, which as a counterpart of expenditures, were broadly identified, no attempt was made to judge the wisdom of expenditures either in purpose or in amount nor to evaluate in any definitive manner the relationship of costs to values received.

This apparent neglect of the popular issue of "economy in government" can be explained on grounds that the public wants what it wants, and no criterion exists for judging what it should want. Similarly, there is presently little to go by for expertly judging government performance and isolating the dollars that were "wasted" or "saved," as the case might be. Without minimizing the importance of these factors it is, nevertheless, well to recognize that in amounts of dollars spent it is, after all, the judgment of the public in respect to what it wants and how much, and when that matters most.

In the absence then of such criteria, expenditure comparisons were made with other states which were reasonably similar in economic circumstance and cultural setting.

Comparatively, Colorado's aggregate per capita expenditures were found to be higher than the average of the eleven Western States as well as that for the country as a whole. In detail, Colorado's old-age pension payments were much above the average both in the West and for the nation—a fact which accounted for its comparatively high over-all per capita outlay. Relative to the West also, Colorado spent more on a per capita basis than the average for "public safety," "sanitation" and "health and hospitals" but slightly less than the general average for "education," "highways" and "other" purposes. In all cases, Colorado averages exceeded those for the nation.

From this can it then be said that Colorado's expenditures are "too high" or "too low" in this or that, but above all much too high in its pension payments? Again, the answer must be that no simple criterion exists, even by comparative state analysis, for determining how much government should spend and for what.

Comparative analysis makes it eminently clear in any event that Colorado has recognized that more than a bare minimum of educational services, welfare, highways and all the other functional areas of government service is needed to achieve the kind of society in which its citizens wish to live.

On the other hand, it is equally clear that all these things must be paid for and how they are paid for becomes vastly important. Depending upon the nature of the taxes used some groups may receive most of the benefits while others are required to pay the larger share of the taxes. Up to a point this may be expected and may be proper since the benefit principle is not the only criterion by which a tax should be judged. However, an inept system of financing public needs, wherein the burden of the tax is unfairly distributed, serves only to nullify the benefits sought. It is in this sense that a review of the structure of public expenditure becomes essential background for any definitive review and appraisal of the parallel structure of taxes, grants and borrowing.

CHAPTER IV

TAX REVENUES OF STATE AND LOCAL GOVERNMENT

The purpose of this chapter is to show the rate at which total taxes have changed in Colorado and to indicate the kinds of taxes currently used at each level of government in the State.[1] As such, it is designed to provide a background for subsequent appraisal of individual taxes and the tax structure of the State as a whole. In addition, comparisons are made with other Western States and the forty-eight states for purposes of noting such differences in tax policy as may exist.

As an introduction to these analyses a review of the historic development of taxation in Colorado is presented.

Highlights of Tax Legislation

Colorado's present state and local tax structure is a product of nearly a hundred years of legislative effort to adjust means to ends in the face of continuous economic and social change in which group pressures, frequently conflicting, have been a part of it.

Since the turn of the century taxes have increased twenty-three fold, or from nearly $12 million in 1902 to $276 million in 1956. In per capita terms the increase over this period was about eight fold, or from $21 to $171.[2]

This large change may be generally attributed to greatly increased prices and living standards, changes in technology, notably in highway transportation and increased reliance on government for such services as health, hospitals, welfare and education. To these may be added the urbanization movement which, at the local level, has not only accelerated the expansion of public services, but, with the increasing density of the population in metropolitan centers, has increased unit costs as well.

State-Local Fiscal Relationships. The property tax, based on "full cash value" of all classes of property, has been the primary single revenue source of combined state and local government in Colorado since statehood. However, the state government has, over the years, gradually reduced its claims on the property base as other new sources of revenue became available to it. This has enabled the local governmental units, whose tax powers and resources have been neither as flexible nor as varied as that of the State, to appropriate for their own use that portion of the base vacated by state government. Hence, much of the history of taxation in Colorado concerns either the effort to increase the productivity of the property base or the introduction at the state level of new or "substitute" taxes which served to relieve the pressure on property as needs of local government increased with growth. This plus added state concessions, by tax sharing and federal grants directed to local use, gradually evolved as the appropriate pattern of state and local fiscal relationships.

In recent years, however, this arrangement has been increasingly modified by the larger cities whose budget problems have caused them, where tax powers permitted, to invade the heretofore private tax preserves of the state government notably in the fields of sales and liquor taxation.

Early Developments. Initial effort via constitutional action in 1876 to establish the revenue system on property was beset by pressures of factional interests seeking modifications of general rule or special advantage through exemptions of one sort or another. Thus the railroads fearing unfair treatment beseeched the Constitutional Convention that they be given special consideration since their particular situation was "unique." Recognition of the merits of their appeal is evidenced by later State Supreme Court ruling that railroad property, by exceptional clauses, should be assessed as a unit by the State Board of Equalization, a body created by the Constitution to generally oversee property tax administration for the State as a whole.

The mining interests were also active at the Convention. The results of their efforts saw the passage of Section 3, Article 10 of the Constitution which provided that:

> Mines and mining claims bearing gold, silver and other precious metals (except the net proceeds and surface improvement thereof) shall be exempt from taxation for a period of

[1] Unless otherwise indicated, revenues considered in the chapter are exclusive of the so-called "nontax revenues" which include such items as miscellaneous fees, licenses, charges and federal grants.

[2] U. S. Bureau of the Census, Special Reports of the Census Office, *Wealth, Debt and Taxation* (Washington, D. C., 1907).

> ten years from the date of adoption of the Constitution and thereafter may be taxed as provided by law.[3]

Since the legislature failed to enact a net proceeds tax the mines were largely tax free during this early period. Although Lake County attempted to make such a levy the effort was stopped by Supreme Court ruling.[4]

With the expiration of the mining exemption, the farmers and town and city dwellers whose position had not been as firmly advocated as a cause for special dispensation insisted that an ad valorem tax be imposed on the mines also. The miners, conceding that continued tax exemption might not be in the best interest of either the industry or the State, opposed such a tax but submitted as an alternative a "production tax." In 1887 a compromise measure was enacted by which mines were included under the property tax with the added provision that output exceeding $1,000 annually would be assessed at one-fifth of gross proceeds.[5]

Earlier attempts by the state government to secure revenues in addition to that from property had resulted in the enactment by the Fourth General Assembly in 1883 of a tax on insurance companies at the rate of 2 percent on the excess of premiums received over losses and operating expenses. This rate was changed to 2 percent gross in 1895 and this rate has remained up to the present time.

As one result of the Panic of 1893, which caused revenues for both the state and the local governments to decline to the point of fiscal embarrassment for all, a "Special Revenue Commission" was established to conduct a complete investigation of State finances. Its principal recommendation to the Thirteenth General Assembly in 1901 called for a reassessment of property values on a more realistic basis than then obtained. Subsequent action by the State Board of Equalization, raising over-all assessment from $217 million to $466 million wherein railroad assessments were increased from $33 million to $122 million, brought immediate general protest. Most vocal were the railroads who refused to pay on the new assessment basis. The State, lacking necessary backbone at the time, settled on a compromise assessment figure of $55 million.[6]

The Thirteenth General Assembly in its search for further revenue enacted the first State inheritance tax law which imposed a tax on "transfers of property by inheritance through will, gift or instrument." This tax was approved by Governor Orman on April 5, 1901, but later was declared unconstitutional by the State Supreme Court. Re-enacted in March, 1902, with subsequent amendments including a gift tax adopted in 1937, this tax now constitutes a part of the present revenue structure of the state government.

Tax Commission Created in 1911. Continuing after 1901 the feeling became more general that earlier reassessment action taken had been inadequate, and that further upward revision was needed not only on grounds that the "full value" clause of the Constitution was being violated but more because additional money was required to finance growing government. Underassessment was particularly apparent in the case of banks, mines, manufacturing capital, intangibles (including money, credit, accounts, notes of special privilege, franchises, and bank deposits) and personal property. Out of this emerged the State Tax Commission created by legislative act in 1911.

Definitively the purpose of the Commission was to supervise the work of the county assessors, equalize assessments between counties and to assess public utilities and other corporations having continuity of business in two or more counties.

Commission decision in 1913 to enforce the full cash value provision of the law resulted in a three-fold increase in assessed values from $422 million to $1,306 million.[7] Strenuous objections, this time not from the railroads as in 1901, but from Denver and Weld counties led to their sponsorship of an initiated amendment to abolish the Tax Commission, an approach toward the solution of tax problems not uncommon even today. Despite an independent report by Dr. Murray Haig of Columbia University which supported the reappraisal action, the effort to eliminate the Commission was defeated by only the narrowest of margins.

Motor Fuel Tax, 1919. An act providing for a state motor fuel tax was first introduced in 1919 when a one-cent-per-gallon levy was placed on the sale of gasoline. The act called for an even distribution of proceeds between the State Highway Department and the counties. In 1923 the tax was increased to two cents and in 1927 to three cents. The change in the latter

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[3] *General Laws of State of Colorado* (Tribune Stream Printing House: Denver, 1877), p. 58.

[4] Earl C. Crockett, *Taxation in Colorado.* Report No. 2, "Should Colorado Adopt a Severance Tax?" (University of Colorado, November, 1946), pp. 15-18. See also Stanley v. the Little Pittsburgh Mining Co., *6 Colo. 416.*

[5] *Laws of Colorado,* 1887.

[6] James E. LeRossignol, *Taxation in Colorado* (Denver: Western Newspaper Union, 1902), p. 38.

[7] Colorado Tax Commission, *Forty-Fifth Annual Report* (Denver, Colorado, 1956), p. 130.

year was accompanied by a change in allocated shares from 50 to 70 percent for state purposes and 30 percent for the counties as a whole. In 1929 an additional tax of one cent a gallon was imposed, and distribution changed to 70 percent to the highway fund, 27 percent to the counties and 3 percent to a special highway fund for construction and maintenance. Subsequent highway needs caused the tax to be raised again in 1947, this time by two cents, thus reaching a level of six cents per gallon, which is the current rate.[8]

Tax Structure Change in the 1930's. The depression years of the 1930's brought to the foreground the need for alternative sources of revenue as the property tax declined in productivity in the face of increasing requirements for funds to finance welfare at both state and local government levels. The number of new taxes that emerged, partly in response to depression needs and partly because of other circumstances, caused this period to be one of the most notable in the entire revenue history of the State.

In 1935 an emergency retail sales act passed both houses and became effective March 1, 1935. The revenues obtained were to go to the General Fund, with the exception of $300,000 which was earmarked for relief. Optimistically, the legislature set June 30, 1937, or earlier if circumstances warranted, as the termination date of the act. However, in November, 1936, an initiated amendment known as the Old-Age Pension Amendment" was adopted which froze 85 percent of revenues from the sales tax for old-age pensions. Thus, what had originally been regarded as a temporary measure became, to all legal intent, a permanent addition to the State's tax structure.

To prevent circumvention of the sales tax a loophole in the law was closed with addition of the "Use Tax" in 1937. This amended the law by including a supplementary provision of a 2 percent tax on the retail price of tangible personal property purchased outside of Colorado and brought into the State for storage, use or consumption.

Another initiated amendment offered the voters in the thirties was an income tax proposal covering both personal and corporate income which was passed in 1936. A number of earlier efforts to introduce an income tax had met with popular disapproval. As far back as 1912 the Tax Commission had recommended a tax on incomes modeled after the Wisconsin law adopted in 1911. Thereafter interest in the initiation of such a tax vacillated between the republic and democratic administrations. In 1922, the Colorado State Tax Revenue Committee was formed to sponsor an income tax amendment to the Constitution. The measure which it proposed was defeated, however, in the November, 1922 election. A decade later three other attempts were similarly voted down. In 1935 the legislature passed a graduated income tax bill only to have Governor Johnson veto it on the grounds of unconstitutionality and the House did not overrule his veto.

The 1936 Act as passed, and as it applied to personal income, was extremely mild, especially as it affected the low income groups, or those with an income under $2,000. Post World War II saw an upward adjustment of the tax, a principal change being the enlargement of the base to include persons with an income of $1,000 and with the rate fixed at 1 percent. In addition, the rate applicable to the middle income group from $3,000 to $6,000 was increased. Tax brackets were realigned in multiples of odd numbers, rather than by even numbers which had existed. This had the effect of bringing a greater number of taxpayers into the higher rate brackets.

The tax on corporate incomes was originally fixed at 4 percent, excepting financial institutions which were subject to a 6 percent rate. In 1947 the rate on non-financial corporations was raised to 5 percent while that of the financial corporations remained unchanged.

The 1930's, which saw prohibition's demise, opened the liquor field for a variety of state imposts. Colorado made its first move in this direction in 1935 by introducing at the state level a series of taxes and license charges on the manufacture, sale and distribution of beer and later on all classes of fermented beverages including fermented malt beverages.

Finally, in the 1930's, also, an initiated amendment to the Constitution instituted a "specific ownership tax" on classified motor vehicles. In effect this tax was designed to replace the existing general property tax on such vehicles.

Postwar Developments. An outstanding development in the postwar period was the Reappraisal Act of 1947 designed to establish a common basis for the assessment of properties. Because of wartime and postwar inflation original standards has become uncertain in application with the result that valuations had gotten out of line. In cases, also, they were grossly inequitable as between individual properties. The new basis of valuation decided upon, and as it is currently applied, was 1941 reproduction cost less depreciation from date of construction.

Of the new taxes introduced since the war all have been highly controversial in nature. In November, 1948, the voters went to the polls

[8] *Session Laws of Colorado*, 1919, 1923, 1927, 1929 and 1947.

and approved a pari-mutuel tax. Historically, racing had been and continues to be a gambling enterprise, however, in 1948, for the first time, it received legal sanction in the State. A 1 percent tax on winnings was proposed but repealed. Breakage was retained by the State until 1954 when the State Supreme Court ruled against it. It now reverts to the Racing Commission established to administer the act. Total revenues from this tax currently amount to slightly over $2 million.

An income tax on oil production, really a severance tax, passed in 1953 drew much opposition from oil producers and is still subject to question on legal grounds. The tax is levied by the State on gross income on a graduated scale from 2 percent under $25,000 to 5 percent on amounts over $300,000. Credits against the tax are computed on the basis of ad valorem taxes levied on oil production by all units of government using the property tax.

The so-called "Ton Mile Tax" adopted by state government in 1954 also drew much opposition, in this case from the trucking interests which were most affected. As a replacement of existing taxes, the new rates were determined by weight classifications and, in consequence, trucks became subject to a higher tax than had formerly obtained.

Finally, the increased pressure on municipal budgets has forced most of the larger cities and towns in the State to add new taxes to their revenue structures, which traditionally have been limited almost exclusively to the property tax. In this effort Denver led the way by introducing in 1947 on a temporary basis and, in 1948, on a permanent basis, a tax on retail sales. Denver was followed by Pueblo in 1955. In addition to a general retail sales tax, presently limited to these two cities, a series of "occupation" taxes have been quite widely introduced. These cover varying subjects, principal of which are liquor, cigarettes and business units as such.

From a frontier mining community to the highly industrialized society of today, Colorado has many times been in the throes of a "financial dilemma."

Until the first quarter of the 20th century the general property tax was the prime source of revenue. Thenceforward, part of the revenue was conditioned by the automobile and subsequent revenue derived from a mobile population. Until this time, desultory revenue legislation had not come to grips with the real problem of effective taxation.

The depression years of the 1930's brought into focus the need for alternative sources of revenue which resulted in a myriad of state administered taxes which remain today. Post World War II saw further additions at both the state and local levels as population growth and inflation created new financial needs that had to be met at the time.

Table 4.1

Total Tax Revenues by Levels of Government in Colorado, 1940-1956

	Amount (thousands)					Percent				
Year	Total	State	County	School districts	Municipalities	Total	State	County	School districts	Municipalities
1940	$ 72,131	$ 32,874	$ 7,821	$19,385	$12,051	100.00	45.58	10.84	26.87	16.71
1941	75,039	35,397	7,509	19,422	12,711	100.00	47.17	10.00	25.88	16.95
1942	77,208	37,274	7,697	19,661	12,576	100.00	48.28	9.97	25.46	16.29
1943	78,862	39,758	7,261	19,903	11,940	100.00	50.41	9.21	25.24	15.14
1944	80,537	40,092	7,122	20,309	13,014	100.00	49.78	8.84	25.22	16.16
1945	82,880	40,984	7,076	20,643	14,177	100.00	49.45	8.54	24.91	17.10
1946	95,133	48,986	7,765	22,660	15,722	100.00	51.49	8.16	23.82	16.53
1947	111,523	58,641	8,906	25,828	18,148	100.00	52.58	7.99	23.18	16.25
1948	139,380	73,612	10,848	30,564	24,356	100.00	52.81	7.78	21.93	17.48
1949	155,598	81,400	12,221	35,508	26,469	100.00	52.31	7.85	22.82	17.02
1950	168,256	85,654	14,861	39,356	28,385	100.00	50.91	8.83	23.39	16.87
1951	182,768	96,109	15,114	42,027	29,518	100.00	52.59	8.27	22.99	16.15
1952	196,471	101,593	16,603	48,015	30,260	100.00	51.71	8.45	24.44	15.40
1953	210,399	106,689	16,821	54,521	32,368	100.00	50.70	7.99	25.92	15.39
1954	222,992	110,098	18,024	60,544	34,326	100.00	49.37	8.08	27.15	15.40
1955	249,849	125,178	19,600	68,444	36,627	100.00	50.10	7.84	27.39	14.67
1956	275,843	138,927	21,034	74,751	41,131	100.00	50.36	7.63	27.10	14.91
Increase										
1940-1956	282%	323%	169%	286%	241%	—	—	—	—	—
1946-1956	190%	184%	171%	230%	162%	—	—	—	—	—
1950-1956	63%	62%	42%	90%	45%	—	—	—	—	—

Source: Data for the "State" for 1940-1949 taken from State of Colorado, *Biennial Reports of the Auditor of the State;* 1950-1956 data from State of Colorado, Division of Accounts and Control, *Annual Reports;* "County and School District" data are derived from property tax levies reported by the State Tax Commission; data for the cities of Colorado Springs, Pueblo and Denver are from individual audit reports, while for other cities the data are derived from property tax levies reported by the Tax Commission from 1940-1956 to which were added for "other taxes" 20 percent of property taxes from 1940-1946; 32 percent of property taxes from 1947-1949; and 36 percent of property taxes from 1940 to 1956. The estimates of the relationship of "other taxes" to property taxes were based on a review of individual audit reports of a representative sample of cities.

Tax Revenue Trends, 1940-1956

As will be seen by reference to Table 4.1 combined state and local taxes increased from a level of $72 million in 1940 to a total of approximately $276 million in 1956. This represents a gain over a fifteen-year period of more than $200 million, or at the rate of 282 percent. For this period also, state government, which in 1956 accounted for one-half of combined state and local taxes, set the pace by increasing its tax revenue at the rate of 323 percent, followed in order by the school districts which gained at the rate of 286 percent, the municipalities, 241 percent and the counties, 169 percent. For all jurisdictions taxes in 1956 were nearly four times what they were in 1940 and three times their corresponding total in 1946.

Since 1946 school district taxes have increased at a faster rate than that for any of the other units of government including the state government itself. This holds also for the more recent period since 1950.

State and Local Taxes The rapid increase in aggregate taxes suggests a corresponding increase in tax pressure on the individual citizen. A frequently used device for measuring the so called "tax burden" is to divide total taxes by the population thus arriving at a per capita figure. As noted in Table 4.2, combined state and local taxes in 1956, on a per capita basis, were 168 percent greater than in the prewar year of 1940. However, if adjustment is also made for price inflation, that is if per capita taxes are expressed in uniform purchasing power dollars, the 1956 burden was 38 percent greater than in the prewar year of 1940.

Although taxpayer interest is in current dollar payments it is in uniform dollar terms that tax burden comparisons over time can have any meaning at all. This being so, it can be concluded that a fifteen-year tax increase of 38 percent for combined state and local government could hardly be regarded as being out of line with the marked increase of living standards experienced over the same period of time.

Further perspective on the tax burden may be had by comparing tax collections with personal incomes. Table 4.3 reveals that in 1956 state and local taxes took 9.1 percent of personal incomes. While this ratio is somewhat above the level that has obtained during most of the postwar years, it is substantially under its corresponding ratio of 11.7 percent reported in 1940.

Table 4.2

Total and Per Capita Tax Revenues of State and Local Government in Colorado 1940-1956

Year	Current Dollars		1956 Dollars[a]	
	Total tax revenues (thousands)	Per Capita[b]	Total tax revenues (thousands)	Per Capita[b]
1940	$ 72,131	$ 63.83	$140,060	$123.95
1941	75,039	66.76	138,704	123.40
1942	77,208	68.14	128,680	113.57
1943	78,862	68.52	123,802	107.56
1944	80,537	71.65	124,478	110.74
1945	82,880	74.47	125,386	112.48
1946	95,133	79.54	132,497	110.78
1947	111,523	90.15	135,550	109.67
1948	139,380	110.36	157,492	124.70
1949	155,598	120.15	177,622	137.16
1950	168,256	126.03	190,120	142.41
1951	182,768	138.57	191,381	145.10
1952	196,471	143.62	201,302	147.00
1953	210,399	146.53	213,614	148.91
1954	222,992	149.46	225,701	151.27
1955	249,849	161.50	253,653	163.96
1956	275,843	171.12	275,843	171.12
Increase				
1940-1956	282%	168%	97%	38%
1946-1956	190%	115%	108%	54%
1950-1956	64%	36%	45%	20%

[a] Based upon the 1956 Consumer Price Index.

[b] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: Adapted from State of Colorado, *Biennial Reports of the Auditor of the State;* State of Colorado, Division of Accounts and Control, *Annual Reports;* property tax levies reported by the State Tax Commission; audit reports of individual cities; and adjustments made for "other taxes" for cities other than Denver, Colorado Springs, and Pueblo as follows: 20 percent of property taxes from 1940-1946; 32 percent of property taxes from 1947-1949; and 36 percent of property taxes from 1950-1956. The estimates of the relationship of "other taxes" to property taxes were based on a review of individual audit reports of a representative sample of cities.

Table 4.3

Total Tax Revenues of State and Local Government and Personal Incomes in Colorado, 1940-1956

Year	Total tax revenues—state and local gov't. taxes (thousands)	Personal income (thousands)	Total tax revenues—state and local gov't. as percent of personal income
1940	$ 72,131	$ 617,000	11.7
1941	75,039	728,000	10.3
1942	77,208	1,010,000	7.6
1943	78,862	1,185,000	6.7
1944	80,537	1,195,000	6.7
1945	82,880	1,317,000	6.3
1946	95,133	1,429,000	6.7
1947	111,523	1,654,000	6.7
1948	139,380	1,760,000	7.9
1949	155,598	1,794,000	8.7
1950	168,256	1,930,000	8.7
1951	182,768	2,284,000	8.0
1952	196,471	2,468,000	8.0
1953	210,399	2,492,000	8.4
1954	222,992	2,543,000	8.8
1955	249,849	2,783,000	8.9
1956	275,843	3,045,000	9.1

Source: Total Tax Revenue derived from State of Colorado, *Biennial Reports of the Auditor of the State;* State of Colorado, Division of Accounts and Control, *Annual Reports;* property tax levies reported by the State Tax Commission; audit reports of individual cities; and adjustments made for "other taxes" for cities other than Denver, Colorado Springs, and Pueblo as follows: 20 percent of property taxes from 1940-1946; 32 percent of property taxes from 1947-1949; and 36 percent of property taxes from 1950 to 1956; and personal income taken from U. S. Department of Commerce, *Survey of Current Business,* annual articles.

Federal, State and Local Taxes Combined. To observe that the Colorado taxpayer has experienced only a modest "real" increase in his state and local taxes is not enough however. State and local tax policy is importantly influenced by how the taxpayer feels about his total tax bill—federal, state and local.

An examination of Table 4.4 shows that when federal taxes are included, the per capita and price adjusted tax burden in 1956 instead of being only 38 percent greater than in 1940 was in fact 176 percent greater. Stated in different terms, the average per-person tax bill (federal, state and local) in 1956 amounting to $512.38 was approximately 2.76 times greater than in 1940. It was also about one-third again as large as in 1946 and slightly more than that when compared with the corresponding figure for 1950.

The impact of the addition of federal taxes is similarly noted when over-all taxes are related to personal incomes. As earlier indicated, state and local taxes took about 9 percent out of personal incomes in 1946. However, with the addition of federal taxes, the ratio is increased to 27.51 percent, which may be compared with corresponding ratios of 17.51 percent in 1940, 22.69 percent in 1946, and 22.84 percent in 1950. (See also Chart 4.1.)

State Comparisons. Any discussion of tax burdens invariably introduces the question as to how much more, or less, taxes are at home than they are some place else. Usually the conclusion is reached that they are most oppressive in the discussants' own locality. The conclusion, right or wrong, cannot be challenged ordinarily since facts used for comparison are limited and difficult to interpret in any event. The last, which applies not only to inter-area comparison but to intra-area analysis as well, stems mostly from the fact that since tax burden measures, such as per capita totals or ratios of taxes to income, are averages they cannot of themselves disclose how taxes or incomes are distributed between persons or groups of persons, nor can they identify the values received in exchange for taxes paid.

With these limitations in mind, an effort to compare Colorado's "tax burden" (exclusive of federal taxes) with other Western States and the United States, has been attempted with results presented in Table 4.5. For purposes of analysis the comparative years selected are 1942 and 1953, the latter being the latest date for which official data are available.

An examination of this table shows that per capita taxes more than doubled for all Western States and nearly doubled for the nation be-

Table 4.4

Total Federal, State and Local Tax Revenue, Per Capita[a] and as a Percent of Personal Income in Colorado, 1940-1956

Year	Total tax revenues (thousands)			Per capita tax revenues in 1956 dollars[b]			Total tax revenues as a percent of personal income		
	Total	Federal	State and local	Total	Federal	State and local	Total	Federal	State and local
1940	$108,051	$ 35,920	$ 72,131	$185.67	$ 61.72	$123.95	17.51	5.82	11.69
1941	116,581	41,542	75,039	191.72	68.32	123.40	16.02	5.71	10.31
1942	144,949	67,741	77,208	213.22	99.65	113.57	14.35	6.71	7.64
1943	196,424	117,562	78,862	267.88	160.32	107.56	16.57	9.92	6.65
1944	295,114	214,577	80,537	405.79	295.05	110.74	24.70	17.96	6.74
1945	309,827	226,947	82,880	420.95	308.47	112.48	23.52	17.23	6.29
1946	338,374	243,241	95,133	394.03	283.25	110.78	23.68	17.02	6.66
1947	375,402	263,879	111,523	369.39	259.72	109.67	22.69	15.95	6.74
1948	431,229	291,849	139,380	385.81	261.11	124.70	24.50	16.58	7.92
1949	432,580	276,982	155,598	381.33	244.17	137.16	24.11	15.44	8.67
1950	440,762	272,506	168,256	373.05	230.64	142.41	22.84	14.12	8.72
1951	536,617	353,849	182,768	426.01	280.91	145.10	23.49	15.49	8.00
1952	657,146	460,675	196,471	492.03	345.03	147.00	26.62	18.66	7.96
1953	718,830	508,431	210,399	508.36	359.45	148.91	28.84	20.40	8.44
1954	739,342	516,350	222,992	501.54	350.27	151.27	29.15	20.36	8.79
1955	729,358	479,509	249,849	478.64	314.68	163.96	26.47	17.40	8.91
1956	825,949	550,106	275,843	512.38	341.26	171.12	27.51	18.32	9.06
Increase									
1940-1956	664%	1,431%	282%	176%	453%	38%	57%	215%	—21%
1946-1956	144%	126%	190%	30%	20%	54%	16%	8%	38%
1950-1956	87%	102%	63%	37%	50%	20%	20%	30%	5%

[a] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

[b] Based upon the 1956 Consumer Price Index.

Source: Federal tax data taken from Colorado State Planning Commission, *Colorado Year Book*, biennial reports; state and local data derived from State of Colorado, *Biennial Reports of the Auditor of the State;* State of Colorado, Division of Accounts and Control, *Annual Reports;* property tax levies reported by the State Tax Commission; audit reports of individual cities; and adjustments made for "other taxes" for cities other than Denver, Colorado Springs, and Pueblo as follows: 20 percent of property taxes from 1940-1946; 32 percent of property taxes from 1947-1949; and 36 percent of property taxes from 1950 to 1956.

tween 1942 and 1953. For 1953 in the Western States only, per capita taxes ranged from a low of $118.33 in New Mexico to a high of $180.24 in Nevada. Colorado's tax of $154.22 was slightly over the median average which, in rank order, placed it in 5th position in the eleven-state array. Colorado ranked in 8th position relative to the 48 states, being preceded in the West by Nevada, California, Wyoming and Washington. Among the latter, Nevada ranked 2nd, California 3rd, Wyoming 5th and Washington 6th in the 48-state comparison.

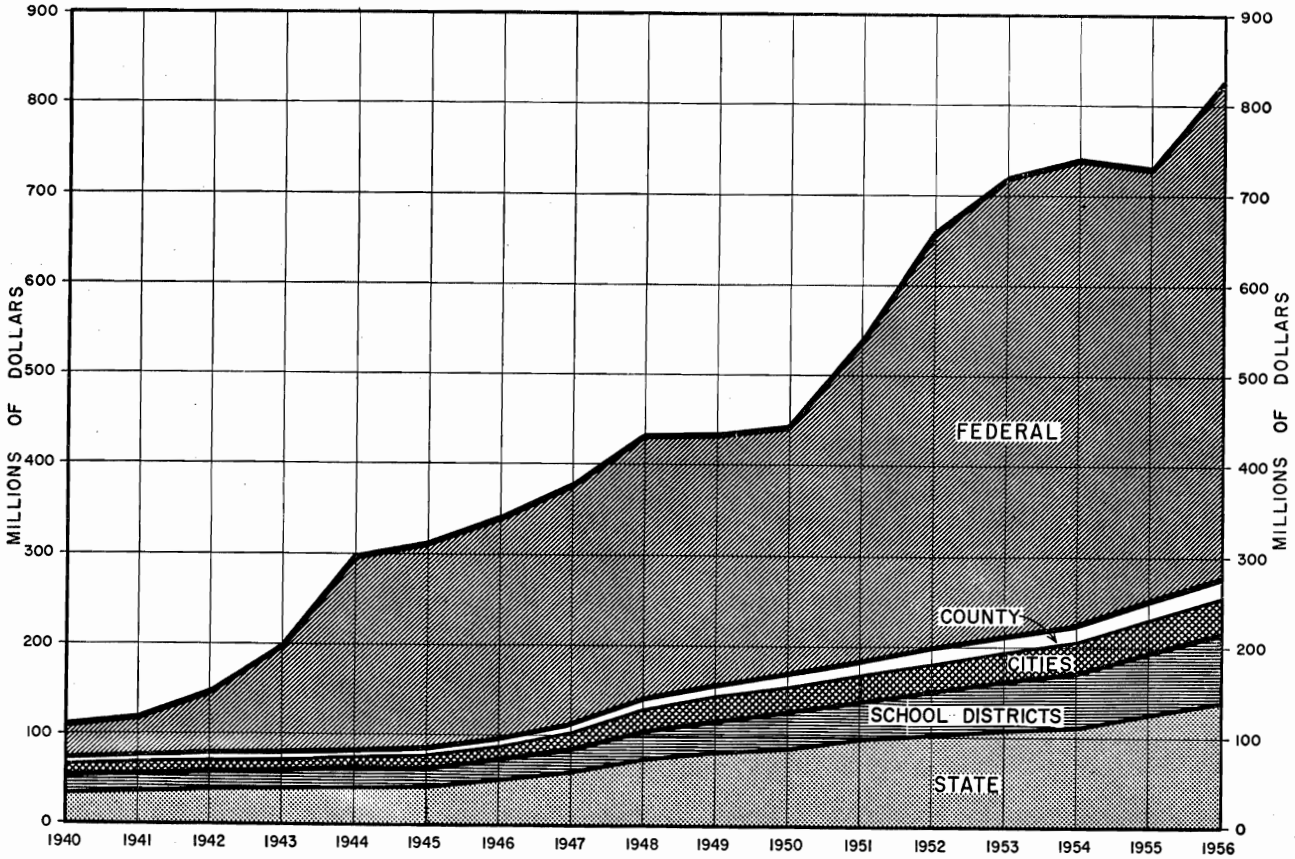
Colorado's relative position twelve years earlier, or in 1942, was much the same as in 1953. Its per capita total of $68.97 placed it in 5th position in the West and 14th in the nation.

Turning next to the relationship of taxes to personal income it will be further observed that in relation to income, taxes were proportionately greater in 1953 than in 1942 for all Western States excepting Montana. The ratio of taxes to income in 1953 was also higher than in 1942 for the nation as a whole.

For 1953 in the Western States only the ratio of taxes to personal incomes ranged from a low of 7.53 percent in Montana to a high of 9.17 percent in Idaho. Colorado's ratio of 8.89 percent was second highest of the eleven Western States. This placed Colorado also in 12th leading position among the 48 states in the nation. In 1942, Colorado's relative position was almost the same as in 1953 ranking 3rd high in the West and 14th in the nation.

TOTAL TAX REVENUES BY LEVELS OF GOVERNMENT

COLORADO, 1940 - 1956



SOURCE: Adapted from State of Colorado, Biennial Reports of the Auditor of the State, Division of Accounts and Control; Audit Reports of Individual Cities

CHART 4.1

Table 4.5

Total State and Local Tax Revenues: Per Capita and as a Percent of Personal Income Eleven Western States, 1942 and 1953

State and year	Per capita[a] State and local taxes: Per capita amount	Rank in 11 Western States	Rank in 48 states	State and local taxes as a percent of personal income[b]: Percent	Rank in 11 Western States	Rank in 48 states
Colorado						
1942	$ 68.97	5	14	7.74	3	14
1953	154.22	5	8	8.89	2	12
Utah						
1942	63.75	7	21	7.16	4	19
1953	126.52	10	29	8.28	6	22
Idaho						
1942	60.96	10	27	6.74	6	26
1953	136.32	7	19	9.17	1	9
Montana						
1942	77.65	2	6	8.66	1	6
1953	134.50	9	24	7.53	11	31
Wyoming						
1942	63.23	8	25	6.70	7	27
1953	161.96	3	5	8.71	3	16
New Mexico						
1942	50.30	11	35	8.01	2	11
1953	118.33	11	32	8.49	4	19
Arizona						
1942	63.54	9	23	7.07	5	20
1953	134.75	8	23	8.37	5	21
Nevada						
1942	77.43	3	7	5.01	11	45
1953	180.24	1	2	7.65	10	30
Washington						
1942	70.15	4	13	5.83	10	39
1953	156.04	4	6	7.92	9	26
Oregon						
1942	67.48	6	16	5.92	9	36
1953	148.70	6	11	8.21	7	23
California						
1942	85.07	1	3	6.64	8	28
1953	179.34	2	3	8.17	8	24
11-state average						
1942	63.85	—	—	6.86	—	—
1953	145.94	—	—	8.31	—	—
United States						
1942	64.11	—	—	7.07	—	—
1953	132.07	—	—	7.43	—	—

[a] Based on U. S. Department of Commerce estimated population as of July 1, of each year as presented in annual editions of the *Statistical Abstract of the United States.*

[b] Personal income data taken from U. S. Department of Commerce, *Survey of Current Business.*

Source: Derived from U. S. Bureau of the Census, *State Finances; 1942,* Vol. 3, "Statistical Compendium;" U. S. Bureau of the Census, *Government Finances in the United States: 1942;* U. S. Bureau of the Census, *State and Local Government Revenue in 1953;* and U. S. Bureau of the Census, *Compendium of State Government Finances in 1953.*

The Tax Structure

Tables 4.6 and 4.7 present an over-all view, as of 1956, of the various types of taxes and their relative importance in providing revenue for each of the various units of government in Colorado including federal taxation in the State. From the standpoint of the tax-paying public the manner by which revenues are raised, which suggests their incidence, may be more important than the aggregate amount of taxes paid. As such, a review of the "tax structure" is an essential complement to any analysis and interpretation of the average "tax burden" as measured in the preceding section.

State and Local Tax Structure. As will be seen from Table 4.6 the combined state and local tax structure (but excluding at this point the federal levies in the State) rests heavily upon the general property tax base which, in 1956, accounted for 48.66 percent of total state and local tax revenues. Next in importance were the various taxes based on expenditures or consumption (including the highway user group), which accounted for 38.32 percent, while income (corporate and individual) and "all other" taxes accounted for the remainder or 9.44 percent and 3.58 percent, respectively, of aggregate state and local tax revenues.

Table 4.6

Total Tax Revenues of Federal, State and Local Governments by Types of Taxes in Colorado 1956

Type of Tax	Amount (thousands): Total	Federal	State & local	Percent: Total	Federal	State & local
Income	$505,607	$479,563	$ 26,044	61.22	87.18	9.44
Corporate	133,576	129,409	4,167	16.17	23.53	1.51
Individual	372,031	350,154	21,877	45.05	63.65	7.93
Property	134,228	0	134,228	16.25	0.00	48.66
Sales & excises	112,038	50,478	61,560	13.56	9.18	22.32
Retail	45,941	0	45,941	5.56	0.00	16.66
Liquor	16,934	11,604	5,330	2.05	2.11	1.93
Franchise & utilities	3,179	0	3,179	0.38	0.00	1.15
Insurance	3,594	0	3,594	0.44	0.00	1.30
Amusements	4,932	2,889	2,043	0.60	0.53	0.74
Sugar (tariff)	9,519	9,519	0	1.15	1.73	0.00
Transportation	7,039	7,039	0	0.85	1.28	0.00
Communication	16,035	16,035	0	1.94	2.91	0.00
Other	4,865	3,392	1,473	0.59	0.62	0.54
Highway user	50,653	6,521	44,132	6.13	1.19	16.00
Motor fuel & license	45,030	2,065	42,965	5.45	0.38	15.58
Other	5,623	4,456	1,167	0.68	0.81	0.42
Inheritance, gift	10,746	6,744	4,002	1.30	1.22	1.45
Gross income (oil)	3,346	0	3,346	0.41	0.00	1.21
Employment ins.	6,782	6,782	0	0.82	1.23	0.00
Unclassified	2,549	18	2,531	0.31	0.00[a]	0.92
Total	825,949	550,166	275,843	100.00	100.00	100.00

[a] Less than ½ percent.

Source: Federal data taken from Colorado State Planning Commission; *Colorado Year Book, 1956-1958;* State and local data derived from State of Colorado, *Biennial Report of the Auditor;* State of Colorado, Division of Accounts and Control, *Annual Reports;* Property tax levies reported by State Tax Commission; individual audit reports of Denver, Colorado Springs and Pueblo; adjustments made for other cities by taking 36% of property taxes. The estimates of the relationship of "other taxes" to property taxes were based on a review of individual audit reports of a representative sample of cities and *Colorado Year Book, 1956-1958.*

Although the individual parts—state, county, school districts and municipal government—make up the whole, the individual tax structures of these units differ in marked degree. Thus, for 1956, as noted in Table 4.7, state government obtained only 7.68 percent of its total tax revenues from the general property tax, but 67.81 percent from its consumption taxes, including the highway user group, and 18.75 percent from the income tax. On the other hand,

the counties and the school districts derived their entire tax revenue from general property while the municipalities obtained 68.66 percent from this source.

Historically, and as earlier noted, the reasons for these variations have grown from the fact the state government with its greater legal power to enact tax legislation has increasingly reduced its claims upon the property base in favor of local government while substituting therefor other taxes, notably on consumption and income.

The complex of these arrangements, in which property and consumption expenditures are the primary bases of revenue support, has resulted in a tax system which is essentially regressive. In other words, on the whole, state and local taxes tend to weigh more heavily on the lower income groups than the other way around.

Federal, State and Local Tax Structure. For perspective it is again necessary to include federal taxes. When this is done as shown in Tables 4.6 and 4.7, the over-all structure is basically progressive in its make up in which the income tax stands out as a principal feature. In other words, on this broader basis the tax system in Colorado conforms in larger degree to the principle of tax paying capacity than might otherwise be recognized. As noted in Table 4.7, particularly, the income tax—federal and state—accounted in 1956 for 61.22 percent of aggregate federal, state and local taxes. On the other hand, consumption taxes comprised 19.69 percent of the total, while property taxes and "all other" taxes accounted for the remainder or 16.25 percent and 2.84 percent, respectively.

Combining tax structures of state, local and federal government to show balance or inbalance can be pushed too far however. The fact that federal taxes are, in the main, progressive, does not remove the influence of the regressive element in the structure. Hence the considerable reliance of state and local government on property and consumption taxes is a matter that cannot be ignored in any event.

The rationale of federal-state relationships in tax policy is in some respects much the same as that applicable to established state and local arrangements. Income taxes had their origin at the federal level and by inference states were presumed to be adequately taken care of by the property tax. Moreover, because of the "uniformity rule"[9] federal government could not tax general property anyway. However, greatly enlarged revenue needs of both state and local governments resulted in the invasion of the income base by state governments which to all intent and purposes promises to be a continuous one on an increasing scale. The effect has been to cause a more equal distribution of the state and local burden by relieving the pressure induced by other less desirable forms of taxation.

Tax Structure—State Comparisons

A comparative picture of state and local tax revenues in Colorado and its ten neighboring Western States is presented in Tables 4.8 - 4.13. Tables 4.8 and 4.9 show the combined revenue systems of state and local government for the years 1942 and 1953. The latter year is the latest for which complete Census data are available since 1932.

Tables 4.10 and 4.11 include revenue data applicable to state government only, and cover the years 1942, 1953 and 1956. The concluding tabulations found in Tables 4.12 and 4.13 apply to local governments and include data for the years 1942 and 1953, the last year being the latest for which data for this particular analysis are available.

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[9]William J. Schultz, *American Public Finance* (New York: Prentice-Hall, Inc., 1942), p. 369.

Table 4.7

Percentage Distribution of Tax Revenues by Level of Government and by Major Types of Taxes in Colorado, 1956

Major type of tax	Federal, state and local	Federal	State and local	State	County	School districts	Municipalities
Income	61.22	87.18	9.44	18.75	0.00	0.00	0.00
Personal	45.05	63.65	7.93	15.73	0.00	0.00	0.00
Corporate	16.17	25.53	1.51	3.02	0.00	0.00	0.00
Consumption	19.69	10.37	38.32	67.81	0.00	0.00	28.40
Retail sales	5.56	0.00	16.66	29.13	0.00	0.00	13.53
Highway user	6.13	1.19	16.00	30.93	0.00	0.00	2.88
All other	8.00	9.18	5.66	7.75	0.00	0.00	11.99
Property	16.25	0.00	48.66	7.68	100.00	100.00	68.66
All other	2.84	2.45	3.58	5.76	0.00	0.00	2.94
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Federal data taken from Colorado State Planning Commission; *Colorado Year Book, 1956-1958;* State and local data derived from State of Colorado, *Biennial Report of the Auditor;* State of Colorado, Division of Accounts and Control, *Annual Report;* Property tax levies reported by State Tax Commission; individual audit reports of Denver, Colorado Springs and Pueblo; and adjustments made for other cities by taking 36 percent of property taxes. The estimates of the relationship of "other taxes" to property taxes were based on a review of individual audit reports of a representative sample of cities and *Colorado Year Book, 1956-1958.*

For each of the states, comparisons are made with the eleven-Western State average (arithmetic mean and the median) and with the general average for the country as a whole. The analysis is designed primarily to point out such state differences as well as similarities as exist both in kinds of taxes in use, their productivity and the relative degree in which they are used.

State and Local Governments. The combined tax structures of state and local governments generally reveal a fairly close similarity between the states in major types of taxes used although there are a number of important exceptions as noted in Table 4.8. Taking 1953 as a year of reference, it will be observed that in all the states in the West general property is taxed, as well as motor fuel including motor vehicle licenses. Also, taxes are levied in all the states on liquor, insurance premiums, and, with the exception of Nevada, also inheritance. In addition, all the states have an income tax (at the state level) covering both individuals and corporations, excepting Wyoming, Nevada and Washington. Similarly, all the states employ the general sales tax excepting Idaho, Montana, Nevada[10] and Oregon.

With the exception of Colorado, Oregon and California, all states have a special state government tax on tobacco. However, California includes tobacco in its general retail sales tax base and Colorado taxes tobacco at the municipal level in certain cases. The failure of the Census data to include this latter item may be attributed in part to the relatively minor importance of this revenue source in the over-all state-local revenue structure. Of the two remaining listed tax groups, namely, the severance tax and pari-mutuel, the first is found in all the states excepting Wyoming, Arizona and

[10]However, since 1953 Nevada has adopted a state retail sales tax. (See Tables 4.10 and 4.11.)

Table 4.8

Per Capita[a] State and Local Tax Revenues, Eleven Western States, 1942 and 1953
(Rank order of states appears in parenthesis)

Taxes	Colorado	Utah	Idaho	Montana	Wyoming	New Mexico	Arizona	Nevada	Washington	Oregon	California	Average 11 states	Average U. S.
General property													
1942	$37.90(5)	$34.15(7)	$38.09(4)	$51.82(1)	$33.55(8)	$18.04(11)	$30.29(9)	$47.00(2)	$23.29(10)	$34.48(6)	$42.70(3)	$35.57	$34.32
1953	74.40(4)	57.42(9)	68.58(6)	73.57(5)	79.75(3)	25.00(11)	59.60(8)	87.66(1)	47.10(10)	64.68(7)	82.95(2)	65.52	59.22
Individual income													
1942	2.73(3)	2.19(4)	1.87(5)	1.64(6)	0.00 —	1.09(8)	1.54(7)	0.00 —	0.00 —	6.36(1)	3.71(2)	2.64	1.86
1953	9.47(3)	7.05(6)	11.29(2)	8.00(4)	0.00 —	2.86(8)	6.30(7)	0.00 —	0.00 —	26.91(1)	7.77(5)	9.96	6.12
Corporation income													
1942	1.07(7)	2.00(6)	3.12(3)	2.96(4)	0.00 —	0.55(8)	2.23(5)	0.00 —	0.00 —	4.22(2)	4.40(1)	2.57	2.05
1953	3.84(6)	4.01(4)	5.92(3)	2.63(7)	0.00 —	1.43(8)	3.85(5)	0.00 —	0.00 —	11.49(1)	9.82(2)	5.37	5.12
Inheritance and gift													
1942	1.04(3)	0.74(4)	0.16(8)	0.44(6)	0.31(7)	0.11(10)	0.14(9)	0.00 —	1.65(1)	0.63(5)	1.18(2)	0.64	0.84
1953	2.21(1)	0.87(6)	0.42(9)	1.35(5)	0.56(7)	0.43(8)	0.16(10)	0.00 —	1.73(3)	1.73(4)	1.80(2)	1.13	1.40
Insurance													
1942	0.77(5)	0.71(6)	0.77(4)	0.69(7)	0.68(8)	0.46(11)	0.52(10)	0.58(9)	0.96(2)	0.89(3)	1.10(1)	0.74	0.84
1953	1.81(8)	1.87(6)	2.55(1)	1.72(9)	2.20(3)	1.47(10)	1.25(11)	1.83(7)	1.89(5)	2.05(4)	2.40(2)	1.91	2.02
Alcoholic beverages													
1942	2.69(2)	0.22(11)	1.36(9)	2.74(1)	1.37(8)	1.60(7)	1.95(5)	1.90(6)	2.09(4)	0.89(10)	2.28(3)	1.73	2.33
1953	3.29(4)	1.02(11)	2.14(8)	4.55(1)	1.87(9)	2.25(7)	3.00(5)	3.67(2)	3.63(3)	1.21(10)	2.32(6)	2.63	3.46
Tobacco products													
1942	0.00 —	0.71(3)	0.00 —	0.00 —	0.00 —	0.00 —	1.58(1)	0.00 —	1.35(2)	0.00 —	0.00 —	0.33	0.98
1953	0.00 —	1.26(8)	2.87(5)	4.78(2)	2.52(6)	3.45(4)	2.50(7)	4.90(1)	4.35(3)	0.00 —	0.00 —	2.42	2.96
Motor fuel													
1942	7.56(9)	7.54(11)	10.85(4)	10.03(7)	11.51(2)	9.72(8)	10.33(6)	12.59(1)	10.37(5)	11.46(3)	7.49(10)	9.95	7.04
1953	17.89(8)	16.30(10)	19.76(5)	20.16(4)	24.29(2)	21.18(3)	16.85(9)	30.28(1)	18.68(7)	18.85(6)	15.22(11)	19.95	12.75
General sales													
1942	9.07(6)	9.15(5)	0.00 —	0.00 —	8.41(7)	10.22(3)	10.08(4)	0.00 —	21.14(1)	0.00 —	17.19(2)	12.18	4.73
1953	26.30(6)	22.95(7)	0.00 —	0.00 —	28.03(4)	34.57(3)	27.24(5)	0.00 —	56.13(1)	0.00 —	42.15(2)	33.91	18.07
Motor vehicles													
1942	3.03(5)	2.29(7)	0.69(10)	0.26(11)	3.83(4)	4.27(3)	2.43(6)	5.65(1)	2.02(9)	4.85(2)	2.03(8)	2.85	3.04
1953	5.58(6)	4.75(10)	7.95(4)	3.64(11)	10.89(3)	7.60(5)	5.46(7)	12.23(2)	5.00(9)	12.46(1)	5.21(8)	7.34	5.99
Severance													
1942	0.02(8)	1.36(3)	0.61(4)	1.46(2)	0.00 —	1.63(1)	0.00 —	0.59(5)	0.09(9)	0.11(6)	0.07(7)	0.66	0.47
1953	0.04(8)	2.47(2)	0.23(6)	2.17(3)	0.00 —	6.24(1)	0.00 —	0.57(4)	0.00 —	0.38(5)	0.07(7)	1.52	1.81
Pari-mutuel													
1942	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.19(2)	0.00 —	0.07(4)	0.12(3)	0.23(1)	0.15	0.17
1953	1.32(2)	0.00 —	0.00 —	0.00 —	0.00 —	0.50(5)	1.03(3)	0.00 —	0.31(6)	0.57(4)	1.75(1)	0.69	0.99
Other taxes													
1942	3.09(7)	2.69(9)	3.44(6)	5.61(3)	3.57(4)	2.61(10)	2.26(11)	9.12(1)	7.12(2)	3.47(5)	2.69(8)	4.15	5.44
1953	8.07(8)	6.55(11)	14.61(3)	11.93(4)	11.85(5)	11.35(6)	7.51(10)	39.10(1)	17.22(2)	8.37(7)	7.88(9)	10.53[b]	12.16
Total taxes													
1942	68.97(5)	63.75(7)	60.96(10)	77.65(2)	63.23(8)	50.30(11)	63.54(9)	77.43(3)	70.15(4)	67.48(6)	85.07(1)	68.04	64.11
1953	154.22(5)	126.52(11)	136.32(7)	134.50(9)	161.96(3)	118.33(12)	134.75(8)	180.24(1)	156.04(4)	148.70(6)	179.34(2)	148.26	132.07

[a] Based on U. S. Department of Commerce estimated population as of July 1 of each year as presented in annual editions of the *Statistical Abstract of the United States.*

[b] Nevada omitted.

Source: Derived from the U. S. Bureau of the Census, *State Finances; 1942*, Vol. 3, "Statistical Compendium;" U. S. Bureau of the Census, *Government Finances in the United States: 1942;* U. S. Bureau of the Census, *State and Local Government Revenue in 1953;* and U. S. Bureau of the Census, *Compendium of State Government Finances in 1953.*

Washington, while the second, or pari-mutuel, has been adopted in six of the eleven Western States, these being Colorado, New Mexico, Arizona, Washington, Oregon and California.

Further examination of Table 4.8 reveals that for both 1942 and 1953 Colorado's aggregate taxes on a per capita basis were slightly above the median average for all eleven Western States. In detail, Colorado's per capita tax revenues in both 1942 and 1953 were under the median average in the case of the motor fuel and severance taxes but above the median for general property, individual income, inheritance and alcoholic beverage taxes. In the case of the general sales tax Colorado occupied a median position in both years considered.

The relative revenue importance of the various taxes noted in Table 4.9 shows generally the outstanding role of the general property tax which in 1953 ranged from a high of 54.69 percent of state-local tax revenues in Montana to a low of 21.17 percent in New Mexico. Colorado's ratio of 48.24 percent was slightly above the median average for the Western States, as well as above the national general average of 44.84 percent. It is notable that for all the Western States the relative importance of the property tax declined rather substantially from 1942 to 1953 — a fact which, in view of sharp per capita increases, cannot be construed to mean an absolute decline in revenues from this source, but rather that the productivity of alternative sources of revenue have greatly increased in importance over the period considered.

Aside from the general property tax the principal revenue producers in 1953 as well as for 1942 were the taxes on motor fuel and general retail sales. In 1942 motor fuel taxes ranged from a high of 19.33 percent of total revenues in New Mexico to a low of 8.80 percent in California. In 1953 also, the general sales tax in the seven states where it was used ranged from a high of

Table 4.9

Percentage Distribution of Tax Revenues of State and Local Governments, Eleven Western States 1942 and 1953

(Rank order of states appears in parenthesis)

State	Colorado	Utah	Idaho	Montana	Wyoming	New Mexico	Arizona	Nevada	Washington	Oregon	California	Average 11 states	Average U.S.
General property													
1942	54.96(4)	53.57(5)	65.21(2)	66.74(1)	53.05(6)	35.86(10)	47.68(9)	60.69(3)	33.20(11)	51.09(7)	50.20(8)	52.02	53.53
1953	48.24(5)	45.38(7)	50.31(2)	54.69(1)	49.24(3)	21.17(11)	44.23(8)	48.63(4)	30.18(10)	43.49(9)	46.25(6)	43.80	44.84
Individual income													
1942	3.95(3)	3.44(4)	3.06(5)	2.11(7)	0.00 —	2.17(8)	2.42(6)	0.00 —	0.00 —	9.43(1)	4.37(2)	3.87	2.91
1953	6.14(3)	5.57(5)	8.28(2)	5.95(4)	0.00 —	2.42(8)	4.68(6)	0.00 —	0.00 —	18.10(1)	4.33(7)	6.93	4.63
Corporate income													
1942	1.56(7)	3.14(6)	5.13(3)	3.81(4)	0.00 —	1.08(8)	3.51(5)	0.00 —	0.00 —	6.25(1)	5.17(2)	3.71	3.19
1953	2.49(6)	3.17(4)	4.34(3)	1.96(7)	0.00 —	1.20(8)	2.86(5)	0.00 —	0.00 —	7.72(1)	5.47(2)	3.65	3.87
Inheritance and gift													
1942	1.51(2)	1.16(4)	0.26(8)	0.57(6)	0.50(7)	0.21(10)	0.22(9)	0.00 —	2.35(1)	0.93(5)	1.39(3)	0.91	1.31
1953	1.43(1)	0.68(6)	0.31(9)	1.00(5)	0.34(8)	0.36(7)	0.12(10)	0.00 —	1.11(3)	1.17(2)	1.00(4)	0.75	1.06
Insurance													
1942	1.11(5)	1.11(6)	1.27(4)	0.89(9)	1.07(7)	0.91(8)	0.82(10)	0.75(11)	1.37(1)	1.31(2)	1.29(3)	1.08	1.32
1953	1.17(8)	1.48(2)	1.87(1)	1.28(6)	1.36(4)	1.25(7)	0.93(11)	1.02(10)	1.21(9)	1.38(3)	1.34(5)	1.30	1.53
Alcoholic beverages													
1942	3.89(1)	0.34(11)	2.37(8)	3.53(2)	2.17(9)	3.18(3)	3.06(4)	2.45(7)	2.98(5)	1.32(10)	2.68(6)	2.54	3.64
1953	2.13(4)	0.81(11)	1.57(7)	3.38(1)	1.15(9)	1.90(6)	2.23(3)	2.04(5)	2.32(2)	0.81(10)	1.29(8)	1.78	2.61
Tobacco													
1942	0.00 —	1.10(3)	0.00 —	0.00 —	0.00 —	0.00 —	2.49(1)	0.00 —	1.92(2)	0.00 —	0.00 —	1.84	1.52
1953	0.00 —	1.00(8)	2.11(5)	3.55(1)	1.56(7)	2.92(2)	1.86(6)	2.72(4)	2.79(3)	0.00 —	0.00 —	2.31	2.24
Gasoline													
1942	10.96(10)	11.82(9)	17.80(3)	12.92(8)	18.20(2)	19.33(1)	16.26(6)	16.26(5)	14.78(7)	16.98(4)	8.80(11)	14.92	10.98
1953	11.60(10)	12.88(6)	14.49(5)	14.98(4)	15.00(3)	17.90(1)	12.50(8)	16.79(2)	11.97(9)	12.68(7)	8.48(11)	13.57	9.65
General sales													
1942	13.15(7)	14.35(5)	0.00 —	0.00 —	13.30(6)	20.32(2)	15.86(4)	0.00 —	30.13(1)	0.00 —	20.21(3)	18.19	7.38
1953	17.05(7)	18.14(5)	0.00 —	0.00 —	17.31(6)	29.22(2)	20.21(4)	0.00 —	35.97(1)	0.00 —	23.50(3)	23.06	13.68
Motor vehicle licences													
1942	4.39(5)	3.59(7)	1.13(10)	0.34(11)	6.05(4)	8.49(1)	3.83(6)	7.30(2)	2.88(9)	7.19(3)	2.39(8)	4.33	0.82
1953	3.62(8)	3.75(7)	5.83(5)	2.71(11)	6.73(3)	6.42(4)	4.05(6)	6.79(2)	3.20(9)	8.38(1)	2.86(10)	4.94	4.54
Severance													
1942	0.04(9)	2.13(2)	1.00(4)	1.88(3)	0.00 —	3.24(1)	0.00 —	0.76(5)	0.13(7)	0.16(6)	0.08(8)	1.05	0.73
1953	0.03(8)	1.95(2)	0.17(6)	1.62(3)	0.00 —	5.27(1)	0.00 —	0.32(4)	0.00 —	0.26(5)	0.04(7)	1.21	1.37
Pari-Mutuel													
1942	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.30(1)	0.00 —	0.10(4)	0.18(3)	0.27(2)	0.21	0.27
1953	0.86(3)	0.00 —	0.00 —	0.00 —	0.00 —	0.42(4)	0.77(2)	0.00 —	0.20(6)	0.38(5)	1.00(1)	0.60	0.75
Other taxes													
1942	4.48(8)	4.25(9)	5.47(5)	8.21(3)	5.66(4)	5.19(6)	3.55(10)	11.79(1)	10.16(2)	5.16(7)	3.15(11)	6.10	12.40
1953	5.24(9)	5.19(10)	10.72(3)	9.88(4)	7.31(6)	9.62(5)	5.56(8)	21.69(1)	11.05(2)	5.63(7)	4.44(11)	7.46[a]	9.23
Total taxes													
1942	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00
1953	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00

[a] Nevada excluded.

Source: Derived from U. S. Bureau of the Census, *State Finances;* 1942, Vol. 3, "Statistical Compendium;" U. S. Bureau of the Census, *Government Finances in the United States: 1942;* U. S. Bureau of the Census, *State and Local Government Revenue in 1953;* and U. S. Bureau of the Census, *Compendium of State Government Finances in 1953.*

35.97 percent of total revenues in Washington to a low of 17.05 percent in Colorado. No other single tax came anywhere near these two tax groups as a revenue producer.

State Government. Tables 4.10 and 4.11 include data for state governments corresponding to those presented above for combined state and local governments but with the difference that the period covered extends to 1956.

Preceding reference to the kinds of taxes used in the various states is equally applicable to state government analysis subject to modification only to the degree in which each tax is used.

An examination of Table 4.10 shows that aggregate state government tax revenues on a per capita basis in Colorado in 1953 and 1956 were below the median average for the eleven Western States. In detail, Colorado was below the median average of the Western States for both 1953 and 1956 in the case of general property, insurance, motor fuel, and "other" or miscellaneous taxes. It was, however, above the median

Table 4.10

Per Capita[a] Tax Revenues of State Government, Eleven Western States, 1942, 1953 and 1956
(Rank order of states appears in parenthesis)

Taxes	Colorado	Utah	Idaho	Montana	Wyoming	New Mexico	Arizona	Nevada	Washington	Oregon	California	Average 11 states	Average U.S.
General property													
1942	$ 5.00(4)	$ 6.97(3)	$ 4.95(5)	$ 4.80(7)	$ 2.06(9)	$ 4.89(6)	$12.73(1)	$ 9.99(2)	$ 2.43(8)	$ 0.00 —	$ 1.90(10)	$ 5.57	$ 2.02
1953	5.23(8)	0.51(10)	3.66(9)	6.95(4)	16.39(1)	5.31(7)	11.46(3)	12.82(2)	6.68(5)	0.00 —	5.92(6)	7.49	2.32
1956	6.68(9)	6.37(9)	3.86(10)	6.95(7)	19.66(1)	7.42(6)	14.00(2)	9.78(3)	8.14(4)	0.00 —	7.56(5)	9.04	2.81
Individual income													
1942	2.73(3)	2.19(4)	1.87(5)	1.64(6)	0.00 —	1.09(8)	1.54(8)	0.00 —	0.00 —	6.36(1)	3.71(2)	2.64	1.86
1953	9.47(3)	7.05(6)	11.29(2)	8.00(4)	0.00 —	2.86(8)	6.30(7)	0.00 —	0.00 —	26.91(1)	7.77(5)	9.96	6.15
1956	12.61(3)	10.33(5)	14.90(2)	11.88(4)	0.00 —	3.75(8)	5.81(7)	0.00 —	0.00 —	40.03(1)	9.52(6)	13.60	8.26
Corporation income													
1942	1.07(7)	2.00(6)	3.12(3)	2.96(4)	0.00 —	0.55(8)	2.23(5)	0.00 —	0.00 —	4.22(2)	4.40(1)	2.57	2.05
1953	3.84(6)	4.01(4)	5.92(3)	2.63(7)	0.00 —	1.43(8)	3.85(5)	0.00 —	0.00 —	11.49(1)	9.82(2)	5.37	5.14
1956	3.77(7)	4.50(6)	5.83(4)	4.71(5)	0.00 —	1.87(8)	8.06(3)	0.00 —	0.00 —	9.54(2)	11.71(1)	6.25	5.35
Inheritance and gift													
1942	1.04(3)	0.74(4)	0.16(8)	0.44(6)	0.31(7)	0.11(10)	0.14(9)	0.00 —	1.65(1)	0.63(5)	1.18(2)	0.64	0.84
1953	2.21(1)	0.87(6)	0.42(9)	1.35(5)	0.56(7)	0.43(8)	0.16(10)	0.00 —	1.73(3)	1.73(4)	1.80(2)	1.13	1.41
1956	2.44(2)	0.76(9)	0.56(11)	2.14(3)	0.70(10)	1.75(6)	0.18(12)	0.00 —	2.00(4)	1.66(7)	2.71(1)	1.49	1.87
Insurance													
1942	0.77(5)	0.71(6)	0.77(4)	0.69(7)	0.68(8)	0.46(11)	0.52(10)	0.58(9)	0.96(2)	0.89(3)	1.10(1)	0.74	0.84
1953	1.81(8)	1.87(6)	2.55(1)	1.72(9)	2.20(3)	1.47(10)	1.25(11)	1.83(7)	1.89(5)	2.05(4)	2.40(2)	1.91	2.03
1956	2.13(7)	2.09(9)	2.82(2)	2.38(5)	2.48(3)	1.88(10)	1.61(11)	2.35(6)	2.09(8)	2.40(4)	2.91(1)	2.29	2.41
Alcoholic beverages													
1942	2.69(2)	0.22(11)	1.36(9)	2.74(1)	1.37(8)	1.60(7)	1.95(5)	1.90(6)	2.09(4)	0.89(10)	2.28(3)	1.73	2.33
1953	3.29(4)	1.02(11)	2.14(8)	4.55(1)	1.87(9)	2.25(7)	3.00(5)	3.67(2)	3.63(3)	1.21(10)	2.32(6)	2.63	3.46
1956	3.18(6)	1.03(11)	3.31(5)	4.28(1)	1.73(9)	2.25(8)	2.81(7)	3.55(4)	3.64(2)	1.10(10)	3.60(3)	2.77	3.87
Tobacco													
1942	0.00 —	0.71(3)	0.00 —	0.00 —	0.00 —	0.00—	1.58(1)	0.00 —	1.35(2)	0.00 —	0.00 —	1.21	0.98
1953	0.00 —	1.26(8)	2.87(5)	4.78(2)	2.52(6)	3.45(4)	2.50(7)	4.90(1)	4.35(3)	0.00 —	0.00 —	3.33	2.98
1956	0.00 —	2.32(6)	3.36(5)	4.60(3)	2.16(8)	3.94(4)	2.21(7)	4.77(2)	4.92(1)	0.00 —	0.00 —	3.54	3.09
Motor fuel													
1942	7.56(9)	7.54(10)	10.85(4)	10.03(7)	11.51(2)	9.72(8)	10.33(6)	12.59(1)	10.37(5)	11.46(3)	7.49(11)	9.95	7.04
1953	17.89(8)	16.30(10)	19.76(5)	20.16(4)	24.29(2)	21.18(3)	16.85(9)	30.28(1)	18.68(7)	18.85(6)	15.22(11)	19.95	12.82
1956	19.24(9)	17.89(10)	22.37(5)	26.96(2)	25.28(3)	23.69(4)	17.88(11)	30.23(1)	20.17(7)	19.53(8)	20.41(6)	22.15	16.15
General sales													
1942	9.07(6)	9.15(5)	0.00 —	0.00 —	8.41(7)	10.22(3)	10.08(4)	0.00 —	21.14(1)	0.00 —	17.19(2)	12.18	4.73
1953	26.30(6)	22.95(7)	0.00 —	0.00 —	28.03(4)	34.57(3)	27.24(5)	0.00 —	56.13(1)	0.00 —	38.06(2)	33.32	15.45
1956	25.11(8)	27.09(7)	0.00 —	0.00 —	29.02(5)	38.20(3)	30.15(4)	27.12(6)	70.31(1)	0.00 —	42.05(2)	36.13	18.26
Motor vehicle licenses													
1942	3.03(5)	2.29(7)	0.69(10)	0.26(11)	3.83(4)	4.27(3)	2.43(6)	5.65(1)	2.02(9)	4.85(2)	2.03(8)	2.85	3.04
1953	5.58(6)	4.75(10)	7.95(4)	3.64(11)	10.89(3)	7.60(5)	5.46(7)	12.23(2)	5.00(9)	12.46(1)	5.21(8)	7.34	6.02
1956	7.18(7)	5.64(10)	10.81(4)	4.23(11)	14.67(1)	11.40(3)	6.01(8)	9.96(5)	5.70(9)	14.16(2)	7.62(6)	8.85	7.26
Severance													
1942	0.02(9)	1.36(3)	0.61(4)	1.46(2)	0.00 —	1.63(1)	0.00 —	0.59(5)	0.09(8)	0.11(6)	0.07(7)	0.66	0.47
1953	0.04(8)	2.47(2)	0.23(5)	2.17(3)	0.00 —	6.24(1)	0.00 —	0.57(4)	0.00 —	0.38(6)	0.07(7)	1.52	1.82
1956	2.11(4)	3.04(2)	0.15(7)	2.60(3)	0.00 —	8.76(1)	0.00 —	0.42(6)	0.00 —	0.46(5)	0.08(8)	2.20	2.17
Pari-mutuel													
1942	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.19(2)	0.00 —	0.07(4)	0.12(3)	0.23(1)	0.15	0.17
1953	1.32(2)	0.00 —	0.00 —	0.00 —	0.00 —	0.50(5)	1.03(3)	0.00 —	0.31(6)	0.57(4)	1.75(1)	0.91	1.00
1956	1.26(3)	0.00 —	0.00 —	0.00 —	0.00 —	0.07(6)	1.29(2)	0.00 —	0.34(5)	0.55(4)	1.81(1)	0.89	1.22
Other taxes													
1942	0.99(11)	1.36(8)	2.80(2)	2.12(5)	1.49(7)	1.48(6)	3.18(9)	2.15(4)	5.16(1)	2.25(3)	1.09(10)	2.19	2.76
1953	0.61(11)	3.52(10)	8.47(3)	5.17(6)	6.62(4)	5.66(5)	3.88(8)	19.43(1)	8.84(2)	4.46(7)	3.74(9)	6.40[b]	6.41
1956	3.80(10)	3.46(11)	8.09(3)	6.47(5)	7.38(4)	4.55(7)	4.36(8)	30.05(1)	9.36(2)	4.76(6)	4.13(9)	5.64[b]	7.70
Total taxes													
1942	33.97(6)	35.24(5)	27.18(10)	27.14(11)	29.66(9)	36.02(4)	44.83(2)	33.45(7)	47.33(1)	31.78(8)	42.67(3)	—	29.13
1953	77.59(8)	66.58(9)	65.26(10)	61.12(11)	93.37(3)	92.95(4)	83.28(6)	85.73(5)	107.24(1)	80.11(7)	94.08(2)	—	67.01
1956	89.51(8)	84.52(9)	76.06(11)	77.20(10)	103.08(5)	109.53(4)	94.37(6)	118.23(2)	126.64(1)	94.19(7)	114.11(3)	—	80.42

[a] Based on United States Department of Commerce estimated population as of July 1 of each year as reported in annual editions of the *Statistical Abstract of the United States.*

[b] Excludes Nevada.

Source: Derived from United States Bureau of the Census, *State Finances: 1942*, Vol. 3, "Statistical Compendium;" United States Bureau of the Census, *Government Finances in the United States: 1942;* United States Bureau of the Census, *State and Local Government Revenue in 1953;* and United States Bureau of the Census. *Compendium of State Government Finances in 1953* and *1956.*

in the case of individual income, inheritance, and pari-mutuel. Colorado's above average position is clearly in the inheritance tax field where per capita collections exceeded both the Western State and national averages in each of the three years considered.

The relative importance of individual taxes used by state governments as measured by the revenue produced by each tax to aggregate revenues is indicated in Table 4.11. Of particular interest is the degree to which states continue to use, if at all, the general property tax. It will be observed that Oregon is the only Western State that has completely abandoned this tax. The other ten states rely on the general property tax in varying degree, which in 1956, ranged from a high of 19.07 percent of total revenues in Wyoming to a low of 5.07 percent in Idaho. Colorado's ratio of 7.47 percent placed it at the median average for the Western States but substantially above the national average of 3.49 percent.

Apart from the relatively important role of the property tax in the state revenue systems in Wyoming and Arizona, principal revenues for state government in the eleven Western States are derived from taxes on general sales, motor fuel, and individual and corporate in-

Table 4.11

Percentage Distribution of Tax Revenues of State Government, Eleven Western States, 1942, 1953 and 1956

(Rank order of states appears in parenthesis)

Source	Colorado	Utah	Idaho	Montana	Wyoming	New Mexico	Arizona	Nevada	Washington	Oregon	California	Average 11 states	Average U.S.
General property													
1942	14.71(6)	19.82(3)	18.22(4)	17.69(5)	6.96(8)	13.58(7)	28.40(2)	29.85(1)	5.12(9)	0.00 —	4.45(10)	15.88	6.95
1953	6.74(5)	0.77(10)	5.61(9)	11.38(4)	17.55(1)	5.72(8)	13.76(3)	14.95(2)	6.23(7)	0.00 —	6.29(6)	8.90	3.46
1956	7.47(6)	7.54(5)	5.07(10)	9.00(3)	19.07(1)	6.77(7)	14.83(2)	8.27(4)	6.43(9)	0.00 —	6.62(8)	9.10	3.49
Individual income													
1942	8.04(3)	6.23(5)	6.87(4)	6.02(6)	0.00 —	3.04(8)	3.43(7)	0.00 —	0.00 —	20.02(1)	8.70(2)	7.80	6.40
1953	12.20(4)	10.59(5)	17.30(2)	13.09(3)	0.00 —	3.08(8)	7.57(7)	0.00 —	0.00 —	33.59(1)	8.26(6)	13.21	9.18
1956	14.08(4)	12.22(5)	19.59(2)	15.38(3)	0.00 —	3.42(8)	6.16(7)	0.00 —	0.00 —	42.51(1)	8.34(6)	15.21	10.27
Corporation income													
1942	3.16(7)	5.68(5)	11.49(2)	10.89(3)	0.00 —	1.50(8)	4.97(6)	0.00 —	0.00 —	13.26(1)	10.31(4)	7.66	7.03
1953	4.95(5)	6.02(4)	9.08(3)	4.30(7)	0.00 —	1.53(8)	4.62(6)	0.00 —	0.00 —	14.34(1)	10.43(2)	6.91	7.68
1956	4.21(7)	5.33(6)	7.67(4)	6.10(5)	0.00 —	1.71(8)	8.54(3)	0.00 —	0.00 —	10.13(2)	10.26(1)	6.74	6.65
Inheritance & gift													
1942	3.06(2)	2.09(4)	0.58(8)	1.63(6)	1.06(7)	0.29(10)	0.32(9)	0.00 —	3.48(1)	1.98(5)	2.77(3)	1.73	2.88
1953	2.84(1)	1.30(6)	0.64(8)	2.20(2)	0.60(7)	0.46(10)	0.19(9)	0.00 —	1.61(5)	2.17(3)	1.92(4)	1.39	2.10
1956	2.73(2)	0.90(7)	0.73(8)	2.77(1)	0.68(9)	1.60(5)	0.19(10)	0.00 —	1.58(6)	1.77(3)	2.38(4)	1.53	2.32
Insurance													
1942	2.26(6)	2.01(8)	2.84(1)	2.55(4)	2.29(5)	1.27(10)	1.16(11)	1.74(9)	2.03(7)	2.79(2)	2.57(3)	2.14	2.89
1953	2.33(7)	2.81(2)	3.91(1)	2.81(3)	2.35(6)	1.58(10)	1.50(11)	2.14(8)	1.76(9)	2.56(4)	2.56(5)	2.39	3.03
1956	2.38(7)	2.47(5)	3.71(1)	3.08(2)	2.40(6)	1.71(9)	1.71(10)	1.99(8)	1.65(11)	2.55(3)	2.55(4)	2.38	3.00
Alcoholic beverages													
1942	7.91(2)	0.62(11)	5.02(5)	10.10(1)	4.62(7)	4.44(8)	4.34(10)	5.66(3)	4.42(9)	2.81(6)	5.34(4)	5.03	8.00
1953	4.24(3)	1.54(10)	3.28(6)	7.44(1)	2.00(9)	2.42(8)	3.61(4)	4.28(2)	3.38(5)	1.51(11)	2.47(7)	3.29	5.16
1956	3.56(3)	1.22(10)	4.35(2)	5.55(1)	1.68(9)	2.05(8)	2.98(6)	3.00(5)	2.85(7)	1.16(11)	3.15(4)	2.87	4.81
Tobacco													
1942	0.00 —	2.03(3)	0.00 —	0.00 —	0.00 —	0.00 —	3.53(1)	0.00 —	2.85(2)	0.00 —	0.00 —	2.80	3.35
1953	0.00 —	1.89(8)	4.40(3)	7.81(1)	2.70(7)	3.71(5)	3.00(6)	5.71(2)	4.06(4)	0.00 —	0.00 —	4.16	4.44
1956	0.00 —	2.74(6)	4.42(2)	5.95(1)	2.10(8)	3.59(5)	2.34(7)	4.04(3)	3.88(4)	0.00 —	0.00 —	3.62	3.85
Gasoline													
1942	22.25(8)	21.40(10)	39.92(1)	36.94(4)	38.80(2)	27.00(6)	23.05(7)	37.64(3)	21.92(9)	36.05(5)	17.54(11)	29.32	24.17
1953	23.05(7)	24.48(5)	30.28(3)	32.98(2)	26.02(4)	22.78(8)	20.23(9)	35.31(1)	17.43(10)	23.52(6)	16.17(11)	24.75	19.13
1956	21.49(6)	21.17(7)	29.42(2)	34.92(1)	24.52(4)	21.63(5)	18.95(9)	25.57(3)	15.93(11)	20.73(8)	17.88(10)	22.93	20.09
General sales													
1942	26.70(5)	25.96(6)	0.00 —	0.00 —	28.35(4)	28.37(3)	22.47(7)	0.00 —	44.65(1)	0.00 —	40.28(2)	30.97	16.23
1953	30.25(6)	34.48(4)	0.00 —	0.00 —	30.02(7)	37.20(3)	32.71(5)	0.00 —	52.34(1)	0.00 —	40.46(2)	36.78	23.05
1956	28.05(7)	32.05(4)	0.00 —	0.00 —	28.15(6)	34.88(3)	31.95(5)	22.94(8)	55.52(1)	0.00 —	36.85(2)	33.80	22.70
Motor Vehicle licenses													
1942	8.91(5)	6.50(6)	2.53(10)	0.98(11)	12.90(3)	11.86(4)	5.43(7)	16.91(1)	4.27(9)	15.26(2)	4.76(8)	8.21	10.45
1953	7.19(6)	7.13(7)	12.19(3)	5.96(9)	11.67(4)	8.18(5)	6.55(8)	14.27(2)	4.66(11)	15.55(1)	5.54(10)	8.99	8.99
1956	8.02(6)	6.67(8)	14.21(3)	5.48(10)	14.23(2)	10.41(4)	6.37(9)	8.42(5)	4.50(11)	15.04(1)	6.68(7)	9.10	9.03
Severance													
1942	0.09(9)	3.85(3)	2.24(4)	5.38(1)	0.00 —	4.54(2)	0.00 —	1.76(5)	0.19(7)	0.34(6)	0.17(8)	2.06	1.60
1953	0.06(8)	3.70(2)	0.35(6)	3.56(3)	0.00 —	6.71(1)	0.00 —	0.67(4)	0.00 —	0.48(5)	0.07(7)	1.95	2.71
1956	2.36(4)	3.60(2)	0.19(7)	3.37(3)	0.00 —	8.00(1)	0.00 —	0.36(6)	0.00 —	0.49(5)	0.07(8)	2.31	2.70
Pari-mutuel													
1942	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.00 —	0.42(2)	0.00 —	0.14(4)	0.37(3)	0.53(1)	0.37	0.59
1953	1.70(2)	0.00 —	0.00 —	0.00 —	0.00 —	0.53(5)	1.25(3)	0.00 —	0.29(6)	0.71(4)	1.86(1)	1.06	1.48
1956	1.41(2)	0.00 —	0.00 —	0.00 —	0.00 —	0.07(6)	1.37(3)	0.00 —	0.27(5)	0.58(4)	1.59(1)	0.88	1.52
Other taxes													
1942	2.91(9)	3.81(8)	10.29(2)	7.82(3)	5.02(6)	4.11(7)	2.48(11)	6.44(5)	10.93(1)	7.08(4)	2.58(10)	5.77	9.46
1953	4.45(10)	5.29(8)	12.96(2)	5.47(7)	7.09(4)	6.10(5)	5.01(9)	22.67(1)	8.24(3)	5.53(6)	3.97(11)	6.41[a]	9.59
1956	4.24(8)	4.09(10)	10.64(2)	8.40(3)	7.17(5)	4.16(9)	4.61(7)	25.41(1)	7.39(4)	5.03(6)	3.63(11)	5.94[a]	9.57
Total taxes													
1942	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00
1953	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00
1956	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00

[a] Excludes Nevada.

Source: Derived from U. S. Bureau of the Census, *State Finances: 1942*, Vol. 3, "Statistical Compendium;" U. S. Bureau of the Census, *Government Finances in the United States: 1942;* U. S. Bureau of the Census, *State and Local Government Revenue in 1953;* and U. S. Bureau of the Census, *Compendium of State Government Finances* in 1953 and 1956.

comes. In the five states (Colorado, Utah, California, Arizona and New Mexico) that use all three taxes, aggregate receipts from these sources in 1956 ranged from a high of 73.33 percent of total state tax revenues in California to a low of 61.64 percent in New Mexico. Colorado with a ratio of 67.83 percent ranked in 3rd position, reading from high to low.

Of the eight states (Colorado, Wyoming, Utah, New Mexico, Arizona, Nevada, Washington and California) that tax general sales, receipts from this tax varied in 1956 from a high of 55.52 percent of total tax revenues in Washington to a low of 22.94 percent in Nevada. Similarly, of the eight states (Colorado, Utah, Idaho, Montana, New Mexico, Arizona, Oregon and California) that tax individual and corporate income, receipts ranged from a high of 52.64 percent of total revenues in Oregon to a low of 5.13 percent in New Mexico. Finally, of all eleven states taxing motor fuel, collection in 1956 ranged from a high of 34.92 percent in Montana to a low of 15.93 percent in Washington.

Local Governments. As noted in Table 4.12, Colorado's per capita tax of $76.63 for local government in 1953 placed it in 3rd leading position in the West. This figure was also above the general average for the nation. Similarly, Colorado's position in 1942 was somewhat above the eleven-state median average, ranking 5th in the over-all comparison.

Table 4.13 presents what has already been generally noted, namely, that local governments depend largely upon the general property tax for their means of support. Thus for 1953 the relative importance of this tax ranged from a high of 94.94 percent of all local tax revenues in Utah to a low of 77.58 percent in New Mexico. Colorado's ratio of 90.40 percent placed it in 7th ranking position in the eleven-Western State comparison. In this connection also, it is noteworthy that other sources of local revenue are becoming more important as evidenced by the relative increase of the aggregate of these taxes vis-a-vis the property tax for all Western States from 1942 to 1953.

Table 4.12

Per Capita[a] Tax Revenues of Local Governments in Eleven Western States, 1942 and 1953

(Rank order of states appears in parenthesis)

Source of revenue	Colorado	Utah	Idaho	Montana	Wyoming	New Mexico	Arizona	Nevada	Washington	Oregon	California	Average 11 states	Average U.S
General property													
1942	$32.90(6)	$27.18(8)	$33.14(5)	$47.02(1)	$31.49(7)	$13.15(11)	$17.56(10)	$37.01(3)	$20.86(9)	$34.48(4)	$40.80(2)	$30.51	$32.30
1953	69.27(3)	56.91(8)	64.92(5)	66.62(4)	63.36(7)	19.69(11)	48.14(9)	74.84(2)	40.42(10)	64.68(6)	77.03(1)	58.72	56.90
All other													
1942	2.10(3)	1.33(7)	0.64(11)	3.49(2)	2.08(4)	1.13(10)	1.15(9)	6.97(1)	1.96(5)	1.22(8)	1.60(6)	2.15	2.68
1953	7.36(4)	3.03(11)	6.14(6)	6.76(5)	5.23(8)	5.69(7)	3.33(10)	19.67(1)	8.38(2)	3.91(9)	8.23(3)	5.81[b]	8.16
Total													
1942	35.00(5)	28.51(8)	33.78(6)	50.51(1)	33.57(7)	14.28(11)	18.71(10)	43.98(2)	22.82(9)	35.70(4)	42.40(3)	32.66	34.98
1953	76.63(3)	59.94(8)	71.06(5)	73.38(4)	68.59(7)	25.38(11)	51.47(9)	94.51(1)	48.80(10)	68.59(7)	85.26(2)	65.78	65.06

[a] Based on U. S. Department of Commerce estimated population as of July 1 of each year as reported in annual editions of the *Statistical Abstract of the United States.*

[b] Excludes Nevada.

Source: Derived from U. S. Bureau of the Census, *State Finances: 1942*, Vol. 3, "Statistical Compendium;" U. S. Bureau of the Census, *Government Finances in the United States: 1942;* U. S. Bureau of the Census, *State and Local Government Revenue in 1953;* and U. S. Bureau of the Census, *Compendium of State Government Finances in 1953.*

Table 4.13

Percentage Distribution of Tax Revenues of Local Government, Eleven Western States 1942 and 1953

(Rank order of states appears in parenthesis)

Source of revenue	Colorado	Utah	Idaho	Montana	Wyoming	New Mexico	Arizona	Nevada	Washington	Oregon	California	Average 11 states	Average U.S.
General property													
1942	94.00(5)	95.33(4)	98.11(1)	93.09(8)	93.80(7)	92.09(9)	93.85(6)	84.15(11)	91.41(10)	96.58(2)	96.23(2)	93.51	92.34
1953	90.40(7)	94.94(1)	91.36(5)	90.79(6)	92.37(4)	77.58(11)	93.53(3)	79.19(10)	82.83(9)	94.30(2)	90.35(8)	88.88	87.46
All other													
1942	6.00(7)	4.67(8)	1.89(11)	6.91(4)	6.20(5)	7.91(3)	6.15(6)	15.85(1)	8.59(2)	3.42(10)	3.77(9)	6.49	7.66
1953	9.60(5)	5.06(11)	8.64(7)	9.21(6)	7.63(8)	22.42(1)	6.47(9)	20.81(2)	17.17(3)	5.70(10)	9.65(4)	11.12	12.54
Total													
1942	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00
1953	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00

Source: Derived from U. S. Bureau of the Census, *State Finances: 1942*, Vol. 3, "Statistical Compendium;" U. S. Bureau of the Census, *Government Finances in the United States: 1942;* U. S. Bureau of the Census, *State and Local Government Revenue in 1953;* and U. S. Bureau of the Census, *Compendium of State Government Finances in 1953 and 1956.*

CONCLUSIONS

Colorado's state and local tax structure differs little from that of other Western States in number and kinds of taxes used. Resting largely on a mixed property and consumption base, taxes tend to be regressive, which is most noted at the state level where sales taxes are predominant. Whether state and local taxes are, as a whole, higher, lower or about the same in Colorado than elsewhere is a question, however, that finds no direct or simple answer. Although the so-called "tax burden" measured by per capita taxes or per capita taxes to per capita personal income places Colorado well above the national average and at about a median position in Western State comparison, such indications of burden are highly limited. As averages they cannot tell how the burden is distributed nor do they disclose values received. Similarly, the impact of taxes on business development is not readily ascertained. Granting that a tax climate favorable to business is desirable this too must be seen in its proper perspective.

APPENDIX NOTE (Chapter IV)

State and local taxes are frequently assumed to exert a significant influence on the location of industrial activity. When low taxes are advertised by industrial development groups, when opposition to higher taxes is expressed on the grounds that business will not be attracted, when people fear the migration of present industry due to an unfavorable "tax climate" the implicit assumption is being made that business is deterred by high taxes and attracted by low taxes. The tenability of this seemingly reasonable assumption has become the subject of considerable analysis and critical review in recent years.

Staff discussion on this question has led to certain conclusions which are presented here as a supplementary note to the principal analysis of this chapter.

THE INFLUENCE OF STATE AND LOCAL TAXATION ON THE LOCATION OF INDUSTRY

A multitude of factors play a role in the location of industrial activity,[1] and therefore, a generalization concerning the significance of any one factor is quite tenous. However, it is reasonable to believe that a certain number of location decisions are made primarily on the basis of non-economic factors such as the health of the owner or the desire of the owner to reside in his home town. The scope of the discussion here, however, is necessarily confined to an analysis of those factors which are essentially economic in nature. A complete list of these economic factors would be difficult, if not impossible, to compile but some of the more important can be categorized as follows:[2]

Markets:
- Availability of markets.
- Availability of future markets.

Materials:
- Availability of raw materials.
- Availability of other materials.

Labor:
- Availability of labor.
- Cost of labor.
- Labor force productivity.
- Labor relations history.

Available Site and Plant Facilities:
- Availability of land.
- Availability of industrial fuels.
- Availability of water for industrial use.
- Existing building.
- Existing transportation facilities.

State and Local Considerations:
- Attitude of the community and local and state governments toward business.
- Availability of housing.
- Desirability of living conditions.
- General appearance of community.
- State and local laws and taxes.
- Subsidies and other financial inducements.

Climate:
- Effect on labor force.
- Effect on production.

Of the major factors which influence industrial location it is generally agreed that the most important one for a large part of industry is "... orientation toward the market to which the output of the plant must be delivered."[3] In addition, orientation toward materials and labor supply are generally considered to be of major significance. In contrast there is a wide divergence of opinion as to the locational significance of state and local taxes. On one side of the controversy are the industrial development groups who attach considerable importance to these taxes. On the other side are the individuals who take the position in the professional literature that taxes exert little, if any, locational influence. The latter position has been stated as follows:

> Governmental representatives should acquaint themselves with something which business has known for a long time, i.e., state and local tax structures are of relatively small importance in orienting or deterring industrial location.[4]

[1] For example, "How to Pick the Right Plant Site," *Modern Industry*, December 15, 1949, pp. 42-43, presents a checklist of nearly 200 items to be considered when choosing a plant site.

[2] For a complete discussion of the factors which influence the location of industry see Melvin L. Greenhut, *Plant Location in Theory and in Practice* (Chapel Hill, North Carolina: The University of North Carolina Press, 1956); Edgar M. Hoover, *The Location of Economic Activity* (New York: McGraw-Hill Book Company, Inc., 1948); Walter Isard, *Location and Space—Economy* (London: Chapman and Hall, Ltd., 1956); George T. Renner, "Geography of Industrial Location," *Economic Geography*, July, 1947; Herman Schumacher, "Location of Industry," *Encyclopedia of the Social Sciences*, Volume XIX, pp. 585-93; and Leonard C. Yaseen, *Plant Location* (New York: American Research Council, 1956).

[3] Schumacher, *op. cit.*, p. 586.

[4] John D. Garwood, "Taxes and Industrial Location," *National Tax Journal*, December, 1952, p. 369.

The following analysis is designed to critically examine the issue raised above by presenting analytical considerations as well as such empirical evidence as is available.

Delimiting the Problem

Most of the analytical discussions and inductive studies concerning the location effects of taxation have been confined to manufacturing. Although this limitation is often justified on the methodological need to reduce the problem to manageable proportions, a more tenable reason is that most non-manufacturing industries apparently locate for reasons other than possible tax advantages. For example, taxation clearly exerts little influence on the location of such industries as agriculture, mining, and construction. In addition, a major basic industry "government" can be excluded from consideration since tax structures would obviously not affect the location of federal, state and local government installations. Numerous other industries such as transportation, communications, public utilities, and real estate can also be excluded. Although the location of some firms in these groups could possibly be affected by taxes, it appears that taxation does not affect the location decisions of the large majority of these firms. An indication of the importance of the above mentioned industries may be obtained by comparing the personal income they produce with total personal income. It can be seen from Table 4.A1 that farming; mining; contract construction; finance, insurance and real estate; transportation, communications and public utilities; and government, together accounted for 37.3 percent of total personal income in the United States in 1957.

Of the three remaining major industrial groups, services, wholesale and retail trade, and manufacturing, it is not unreasonable to dismiss services and trade since other location factors, primarily the availability of markets, would more than offset the influence of taxation. It is clear, however, that location of more firms in these industries could be affected by taxes than in such industries as agriculture and mining.

The trade and service industries produced 31.6 percent of the 1957 personal income. Hence their exclusion from the discussion in conjunction with those industries previously omitted, leaves only manufacturing which accounted for 31.1 percent of the 1957 personal income (Table 4.A1). It should also be noted in this connection that in Colorado manufacturing accounted for only 14.8 percent of personal income in 1957. Hence the percent of Colorado industries for which taxes may play a significant location role appears to be even smaller than for the nation as a whole.

While most analyses of the locational importance of taxation pertain to all manufacturing firms, it is clear that numerous firms are "locationally dependent," that is, one location factor is so important for these firms that all other factors are relegated to an insignificant, or non-existent role. For example, some firms are highly restricted in their choice of a plant site by the nature of their production process. Industries depending on water, whether for power or for other purposes, such as the aluminum industry, and certain chemical, paper and leather manufacturers, must be located near a water source regardless of any other factors. Similarly, industries in which drainage facilities are important, or in which such operation characteristics as noise or odor are important, are limited in their choice of a location. The nature of the product manufactured may also restrict the choice of a plant site. As an example, numerous firms produce a bulky commodity which can be transported much more cheaply in raw material than finished product form. Another example is the large group of manufacturers who are assemblers and deal with a product which can be shipped much more economically in "knocked-down" form. In addition, those firms which manufacture highly perishable commodities often must be near their market to avoid costly or impractical transportation. The large group of firms which manufacture in order to supply another manufacturer would frequently have to be located reasonably near the buyer and would therefore have little control over location. For example, producers of most automobile parts must be near automobile manufacturers, in order to cooperate efficiently with them.[5]

Table 4.A1

Personal Income by Industrial Source United States and Colorado, 1957

Source	United States Amount (millions)	United States Percent of total	Colorado Amount (millions)	Colorado Percent of total
Farming	$14,450	5.2	$193	7.5
Mining	4,892	1.7	97	3.8
Contract construction	18,763	6.7	264	10.2
Manufacturing	86,831	31.1	382	14.8
Wholesale and retail trade	54,147	19.4	584	22.6
Finance, insurance and real estate	13,200	4.7	124	4.8
Transportation, communications and public utilities	22,945	8.2	250	9.7
Service and miscellaneous	33,989	12.2	324	12.5
Government	30,181	10.8	365	14.1
Total	279,398	100.0	2,583	100.0

Source: U. S. Department of Commerce, *Survey of Current Business*, August, 1958, pp. 21 and S-11.

It is clear from the preceeding discussion that a certain portion of American industry does not possess a sufficient degree of locational freedom

[5]Joe Summers Floyd, Jr., *Effects of Taxation on Industrial Location* (Chapel Hill, North Carolina: The University of North Carolina Press, 1952), p. 19.

that state and local taxation could exert any appreciable influence on its location. Even using an objective criterion such as personal income however, it is difficult to measure the significance of these firms. Nevertheless, non-manufacturing concerns accounted for 68.9 percent of the total personal income in 1957, and although the location of some of these firms may be affected by taxation it would appear that this is not true for the majority. Of the personal income produced by all manufacturing firms, it is impossible to determine that portion which was produced by locationally restricted firms. Nevertheless, all manufacturing firms together produced only 31.1 percent of the total personal income in 1957. Hence, if all manufacturing and even some non-manufacturing firms were locationally independent, it seems reasonable to conclude that more than half of the personal income produced in the United States is produced by firms for which taxes could exert little locational influence.

Although it appears that the location of only a part of American industry could be directly influenced by state and local taxes, an analysis of the effect of taxes on these firms is nevertheless worthwhile. If the location decisions of these firms are actually guided by state and local taxes, their location in a community could result in general economic growth which would in turn cause the establishment of other firms whose location is not directly influenced by state and local taxation. Hence, the location of many firms may not be directly influenced by state and local taxes but it is possible that these taxes exert an indirect influence on their location.

Types of Location Decisions. Location decisions arise in the following three situations: (a) the establishment of a new business; (b) the relocation of an existing business; and (c) the establishment of a branch plant.[6]

Decisions involving the establishment of a completely new business appear to constitute a fairly small part of the total number of location decisions made each year. When a new business is undertaken, other initiating problems are often more significant than where to locate. In addition, many new enterprises start out as small firms and funds for researching alternative locations are limited.

Decisions involving relocation also appear to be uncommon in relation to the total because few firms earning a reasonable profit will jeopordize it by moving a plant in order to obtain a greater profit. The problems involved in completely uprooting a plant and relocating it are, of course, numerous and often extremely costly to resolve. In addition to the cost of moving, there is the opportunity cost of the income which is lost while the move is being made.

The most frequently made plant location decisions seem to involve the establishment of branch plants. The most common preferences given for the building of a branch plant, rather than expanding a present plant, are: (a) to be nearer a growing market; (b) to permit the building of a more efficient plant; (c) to reap the economies of decentralization; and (d) to locate nearer a material source.

From the preceding discussion it appears that if state and local taxes exert any influence at all, it is primarily on those location decisions involving the establishment of a branch plant. Therefore, a belief that taxation can result in an extensive development of new businesses and the wholesale migration of existing businesses seems to be largely unfounded.

The Problem of Measurement

The question of the influence exerted by state and local taxes on location involves two subquestions. The first is how to measure tax burdens so they may in turn be compared. If it is contended that one area's "low taxes" will attract industry, it must be shown that taxes actually result in a smaller burden to industry in that area rather than in another. Given the difference in tax burdens, the second question is, what effect would such differences have on the location of industry. Although the measurement of tax burdens may appear to be simple, the fact is that such measurement is virtually impossible for reasons noted in subsequent discussion.

Two common methods of measuring comparative tax burdens, as noted in Chapter IV, are: (a) to reduce tax revenues to a per capita basis; and (b) to compare tax revenues with personal income. Such methods may give some indication of general tax levels but they give little indication of the tax burdens which would be significant in decisions involving industrial location. If, for example, a state raises substantial revenues from a personal income tax or a residential property tax, an apparently high tax area would have little deterrent effect upon the location of industry. Hence, the composition of tax structures is more important to location decisions than an over-all measure of tax levels such as per capita tax revenues or the ratio of revenues to personal income.

Another method sometimes used in an attempt to measure tax burdens is to compare tax rates. Such a procedure is, of course, meaningless unless the bases of the taxes are also comparable. For example, a comparison of corporate income tax rates would be meaningless unless exclusions, deductions, and other provisions were also compared. Similarly, there is the matter of administrative differences which often make comparisons of tax burdens in two areas extremely difficult.

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[6]This classification is based on that used by Glenn E. McLaughlin and Stefan Robock, *Why Industry Moves South*, National Planning Association, Committee of the South, 1949, pp. 18-20. An indication of the frequency of these types of location decisions can be obtained from this study. Of the 88 new plants examined, two were completely new businesses, three were relocations and 84 were branch plant establishments.

Another consideration which adds to the problem of measurement is the relationship between state and local taxes and the federal tax. The burden represented by the tax levels in two areas is substantially different if one compares total tax bills and not just state and local tax bills. This divergence is due to the federal income tax provision which permits deduction of state and local taxes. Hence, in the case of corporate tax burdens, the addition of the federal income tax has the effect of diminishing the differential in tax levels which would be incurred in various states. For example, if State A collected $10,000 more from a corporation than State B, the additional tax revenues would represent a burden to the corporation of only $4,800, since the federal government contributes a percent of the additional state and local tax revenues equal to the marginal rate of the federal tax, which in this case is assumed to be 52 percent. Therefore, a comparison of total tax levels is considerably more meaningful than a comparison of state and local taxes alone.

Moreover, any realistic evaluation of the impact of taxes on the location of industry must also take into account the level and character of the governmental services provided business by the taxing jurisdiction.[7] Low taxes usually mean that a community is foregoing government services. If the business concerns must as a consequence provide these services, the low taxes of an area may very well prove to be false economy.[8] For example, if a firm must provide additional fire and police protection, little savings will result from low taxes. Likewise, the ability of a firm to attract competent personnel will be greatly hindered if qualified schools are unavailable. Of course such specific benefits are usually difficult to relate directly to taxes paid. Nevertheless, general benefits are basically dependent on the general level of tax collections in a given community and cannot be ignored when comparing the tax burdens of industry.

Impact and Incidence of Taxes. Finally, there is the question of tax incidence and shifting, that is, who in the final analysis actually pays the tax? If taxes are to act as a location factor their incidence (final burden) as well as their impact (initial burden) must rest, at least in part, with the business firms involved. It is generally agreed, for example, that consumption taxes, such as tobacco and liquor taxes, are shifted totally to the consumer in the form of higher prices.[9] In this case, the business acts only as a tax collector and not as a taxpayer. Hence, these taxes would have little effect on the location of industry.

The levying of a tax on a business may have a multitude of effects. The tax may be shifted forward to the consumer in the form of higher prices, it may be shifted backward in the form of lower payments to the factors of production or lower prices to suppliers, it may be absorbed by the firm, thereby lowering profits, or finally a combination of any of the above may occur. In addition, output or input price changes may even be greater than the amount of the initial tax.[10]

In most cases it is very difficult to predict which of these effects the levying of a tax will have. Numerous factors will have an effect. The ability of a firm to shift taxes will depend primarily on the degree to which output and input prices can be modified without affecting the quantities sold or offered, or in more technical terms, demand and supply elasticities.[11] Another factor of some importance for shifting is price level movements. Forward shifting, for example, may be accomplished more easily in times of inflation than in other times.

Another determinant of a firm's ability to shift taxes is the location of the firm. Therefore, if the ostensible tax burdens of two localities are being compared, it should be remembered that the tax might be shifted in one locality and absorbed in another. For example, a firm's competitive position might permit it to shift the tax in one area but not in another. Similarly, the availability of labor in one area might be such that the tax could be shifted backward with ease whereas in another area backward shifting would be impossible.

Although there is considerable lack of agreement concerning the incidence of taxes, there is substantial agreement that the complete absorption of a tax by a firm would be rare. However, it is only the amount of taxes which are absorbed that would act as a location factor. Hence, if taxes are to play a significant role in the location of industry, it would have to be assumed that firms have little ability to shift taxes.

Considering the numerous problems encountered in attempting to measure comparative tax burdens, an analysis of the impact of these burdens on the location of industry must be made with caution, since the precision which can be obtained in measuring the effect of any variable is limited in part by the degree to which the variable can be defined.

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[7]The necessity of considering benefits as well as taxes in public finance has been succinctly summarized as follows: "Notwithstanding a widespread impression to the contrary, the government does not raise money only for the purpose of dropping it into the bottom of the sea." Harold M. Groves, *Financing Government* (fourth edition; New York: Henry Holt and Company, 1954), p. 223.

[8]An example of a case in which inadequate services played a more important location role than low taxes, can be found in "When Low Taxes Repelled an Industry," *American City*, August, 1950, p. 5.

[9]Groves, *op. cit.*, p. 102.

[10]The firm may seize the opportunity of an increased tax to increase prices by an amount in excess of the tax. Another occurrence which results in price increases in excess of the initial tax is "pyramiding" of a tax. This may occur when a tax is passed forward through several marketing stages, if the goods are "marked up" as a percent. Hence, business firms may even make a profit on the tax.

[11]Otto von Mering, *The Shifting and Incidence of Taxation* (Philadelphia: The Blakiston Company, 1942), p. 4.

Review of the Studies Which Have Been Conducted

The numerous studies which have been undertaken concerning the importance of taxes as a location factor can be classified by their approach or method used. The four most common are: (a) correlation method; (b) questionnaire or interview method; (c) computation of taxes as percent of total costs; (d) computation of hypothetical tax bills.

Correlation Method. Representative of the correlation-type approach is the frequently quoted study made by G. A. Steiner in 1938.[12] An attempt was made to compare "industrial development" with the "tax burdens" for nine states. The industrial development index was made up of the percentage changes over a 17-year period of 12 factors, including such indicators as value added by manufacture, per capita income, and population. The tax burden was measured by the changes in property tax collections, state and local taxes, and state and local taxes compared with corporate profits. The conclusion reached was that the changes in tax burdens had not affected changes in the growth of manufacturing.

A more recent and less complex study was made by the Twin Cities Business Executives' Research Committee in 1954.[13] Again, an attempt was made to measure the effect which taxes have on the rate of economic development. The ten states which had the highest ratios of state and local taxes to income, and the ten states which had the lowest ratios, were compared with the rate of "economic development" which, in this case, was measured by the increase in employment and value added by manufacture. When the ratios of taxes to income were compared to "economic development," it was found that in those states where taxes were relatively high, economic development had occurred at the most rapid rate. It would appear from this study that high taxes not only fail to deter or retard economic growth but actually foster it.

It can readily be seen that a major problem in the correlation type approach is in attempting to measure the tax burden, and industrial or economic growth. The Steiner Study has been criticized because it fails to "...develop valid measures of either the growth of manufacturing activity or the growth of tax loads on manufacturing corporations."[14] The same criticism may be made of the Executives' Research Committee Study. However, although these studies do not develop precise measures of tax loads of economic growth, they do indicate that economic growth is not necessarily precluded by apparently high tax loads.

A more fundamental and inherent difficulty involved in the correlation approach is the problem of inferring causality from co-variation. From the simultaneous occurrence of high taxes and rapid industrial growth one can only infer that high taxes do not preclude industrial growth. An inference that high taxes caused the growth or vice versa would be questionable. Closely related to this problem is the impossibility of isolating the impact of taxation on industrial growth. Development may occur in spite of the taxes, not because of them. It would be highly questionable to imply that post-war growth in California or Florida was due simply to tax policies; which a simple correlation analysis between taxes and "growth" would indicate.[15]

Questionnaire or Interview Method.[16] If an attempt is being made to discover how important taxes are as a location factor, it would seem that the least difficult method would be simply to ask businessmen how important they consider them. A study by the National Planning Association in 1949 is an example of the questionnaire method.[17] A detailed investigation was made of 88 industrial plants which had recently located in thirteen southern states. Although no attempt was made to numerically rank location factors by their degree of importance, the conclusion was reached that, "In almost all instances, it was clear that companies had carefully compared the tax burdens in different states."[18] Although the magnitude of the taxes was frequently offered as a factor, some significance was also attached to the variation of taxes. Hence, firms seem to be concerned with the certainty of tax costs and not only with the magnitude of the taxes. In addition, some firms viewed low taxes not only in terms of how the firm's cost structure would be affected, but also as an indication of a community's attitude toward business, this latter factor apparently being of some locational significance.

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[12] G. A. Steiner, "The Tax System and Industrial Development," *Bulletin of the National Tax Association*, January, 1938.

[13] Business Executives' Research Committee, *Industrial Location and the Minnesota Economy* (Minneapolis: University of Minnesota, School of Business Administration, 1954).
A separate part of this study utilizes the approach of comparing taxes to other costs, a discussion of which will be found in a later section of this appendix.

[14] Floyd, *op. cit.*, p. 14.

[15] For a complete discussion of the shortcomings of the aggregative-inferential approach to this problem see *Report of the Minnesota Tax Study Committee* (Minneapolis, 1956), p. 119, and Floyd, *op. cit.*, pp. 12-16.

[16] Two questionnaire-type studies which are pertinent to Colorado are discussed in a later section.

[17] McLaughlin and Robock, *op. cit.*

[18] *Ibid.*, p. 107.

In another study, 106 manufacturers who had recently located in New England were interviewed.[19] Company officials were asked to name the "principal factor" which influenced the location of the plant site. While many officials said that "personal considerations" were of prime significance, the author of the study concluded that taxes did not exert a significant influence on the location choice.[20]

Conclusions reached through the questionnaire approach should be accepted with caution because the approach contains several inherent difficulties. A major problem, as is true with all surveys, is that of getting a representative sample. This problem is especially difficult with a survey of manufacturing firms since there are few common characteristics of manufacturers. Another problem is the difficulty of finding categories, or reasons, which are meaningful. For example, the category "personal considerations" may or may not include the factors of taxes or labor. The most difficult problem inherent in the questionnaire method is that answers given frequently do not reflect the actual motivation behind the decisions. Although it may be contended that taxes are important as a location factor if businessmen *think* they are important regardless of their actual significance as measured by an objective standard such as costs, it would appear that costs will overcome unfounded subjective "beliefs" in the long run.

Taxes as Percent of Total Costs Method. This approach assumes that the percent of total business costs accounted for by state and local taxes is indicative of the locational significance of these taxes. Hence, the problem is simply to determine state and local taxes as a percent of total costs. A commonly used method of attempting to solve this problem is to utilize a cost questionnaire. One such study conducted utilized a sample of 612 Pennsylvania firms.[21] Of these 612 firms, 435 reported that state business taxes[22] were one percent or less of total costs. For the total number of firms (612), business taxes represenetd an average of only .55 of one percent of total costs.[23]

A more recent study done in Minnesota, also utilizing a questionnaire but including more state taxes, reached similar conclusions.[24] Using a 600-firm sample of the some 5,000 manufacturers in the State, firms were asked to estimate the percent of total costs represented by state and local taxes. The medians of all industry medians are as follows:[25]

Type of Tax	Percent
Real property	0.67
Personal property	0.80
Corporate income	0.52
Other (state and local)	0.43
Total	2.42

Although these studies clearly point to the conclusion that tax costs are a small percent of total costs, the tenability of the inference that taxes therefore play a small part in the location of industry is questionable. It would appear that the locational significance of any cost factor would be indicated by the differentials in costs which would be incurred in various localities and not simply by the percent of total costs accounted for by that factor. For example, if labor costs were identical in all locations, labor would exert little influence on industrial location even though it might represent a very large portion of total costs. Similarly, taxes would exert little influence on industrial location if they resulted in identical costs in all areas. Therefore, attempts to determine the locational significance of state and local taxes must center around the differentials in tax liabilities which would be incurred in various localities. In addition, the total tax differentials and not simply the state and local tax differentials are significant. As mentioned earlier, the introduction of federal tax burdens into the analysis greatly reduces the magnitude of the differentials and therefore the locational significance of taxation is actually less than would be indicated by viewing the differentials in state and local taxes alone.

Hypothetical Tax Bill Method. Predicated on the assumption that tax differentials between areas are more significant than absolute costs, several studies have attempted to measure the tax costs that would be incurred by an actual or hypothetical firm if it were located in alternate places. In the best known of the studies,[26] hypothetical tax bills were computed for *two* corporations alternatively placed in cities in 19 states, and for *one* corporation alternately placed in cities in four states. The state and local tax bills varied substantially although the

[19]G. H. Ellis, "Why New Manufacturing Establishments Located in New England," *Monthly Review of the Federal Reserve Bank of Boston*, April, 1949.

[20]*Ibid.*, p. 11.

[21]Jesse Burkhead and Donald C. Steele, "The Effect of State Taxation on the Migration of Industry," *Journal of Business of the University of Chicago*, July, 1950. Contrary to most studies done on the importance of taxes as a location factor, this study was not confined to manufacturing.

[22]"Business taxes" were defined as state corporate income tax and the capital stock tax (for domestic corporations) or the franchise tax (for foreign corporations operating in Pennsylvania).

[23]*Ibid.*, p. 168.

[24]Business Executives' Research Committee, *op. cit.*

[25]*Ibid.*, p. 49.

[26]Floyd, *op. cit.*

addition of federal tax reduced the inequality of the tax bills considerably.[27] The study leads the author to conclude that ". . . under certain conditions tax considerations may influence the selection of location for some, but by no means all, types of industrial plants."[28] This conclusion is extremely tenuous considering that only three firms were studied—quite a small sample from which to generalize.

In another study using the hypothetical tax bill method,[29] three hypothetical corporations were constructed on the basis of examining 50 actual corporate financial statements. The tax bills were then computed for these firms in 185 communities in 10 states. It was again found that tax bills varied considerably, although the magnitude of the differentials was diminished by the addition of the federal tax.[30] If tax differentials alone were indicative of the importance of taxes as a location factor, the size of the tax differentials in this study would indicate that taxes were quite significant. However, a very serious limitation on this inference is the implicit assumption in the hypothetical tax bill approach that "all other factors are equal"—which is obviously not true. Until these numerous other factors are taken into account, broad generalizations based on this method should be made with caution.

Studies Pertinent to Colorado

Although the studies discussed above are subject to methodological qualifications, in total they suggest that state and local taxes are less significant as a location factor than is often presumed. However, these studies, being general, do not necessarily apply to a specific taxing jurisdiction. Thus, a particular community may employ a tax which is extremely troublesome to business.[31] A more important possibility is that a community may be attracting the marginal firm for which taxes are, of course, an important location factor.[32] In addition, the influence of taxation appears to be more significant in a metropolitan area which covers several states, such as Metropolitan New York, than for a relatively isolated metropolitan center such as Denver.[33] For this reason, it is desirable to review two important studies which are pertinent to Colorado.

Garwood Study.[34] This study is an investigation of the factors influencing the location of 116 manufacturing firms established in Colorado and Utah between 1946 and 1950. Personal interviews were held with the officials of these firms and the importance of numerous location factors was discussed. The author concludes that the five major factors attracting industry to Colorado and Utah are, in order of importance: (1) markets, (2) materials, (3) labor, (4) available sites and plant facilities, and (5) climate. Concerning the effect of taxes it was found that:

> . . . most company officials had no comment to make on the state tax structure. Many owners had no idea as to the extent of their tax burdens and expressed no concern over any particular tax. Officials of fewer than ten firms had any comment to offer as to the taxes as they found them in their new locations.[35]

Although this study indicates that taxes are quite insignificant as a location factor, it should be remembered that the technique of informal interview and of subjectively evaluating the importance of various location factors may result in some distortion.

Colorado Business Bureau Study.[36] This extensive study was based on personal interview, wherein executives of 253 Colorado manufacturing plants, established between 1948 and 1957, were asked to indicate which of 30 selected factors had strongly influenced their choice; had some influence; or had no influence over their choice of an industrial site. One of the preselected factors was "State and Local Taxes." In reference to this factor, 87.3 percent of the firms interviewed said that the factor *did not* enter into their choice, 8.7 percent said that state and local taxes had "some influence," and only 4.0 percent said that the factor had "strongly influenced" their choice.[37] The 30 selected factors used in the study and the influence exerted by each are presented in Table 4.A2. It can be seen that the factor State and

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[27] *Ibid.*, pp. 138-40.

[28] *Ibid.*, p. 109.

[29] Pennsylvania Economy League, *The Relative Tax Cost to Manufacturing Industry*: 1957 Revision (Pittsburgh: Regional Industrial Development Corporation, 1957).

[30] *Ibid.*, pp. 34-48.

[31] For example, there is some evidence that removal of a long standing inventory property tax exemption in Baltimore may have had an adverse effect on the community's growth. The exemption has since been restored. See Harison Weymouth, Jr., "Baltimore's Tax Lesson," *Industrial Development*, August, 1958, pp. 69-71.

[32] A direct relationship is frequently presumed to exist between the establishment of industry and the welfare of a community. Such an assumption may be faulty if a community relies on attracting marginal firms for which low wages, tax concessions, and special inducements are mandatory conditions of remaining in business.

[33] A recent study concerning the location of industry within the New York Metropolitan Region reached the conclusion that taxes were contributing to a decentralization trend. See Allan K. Campbell, "Taxes and Industrial Location in the New York Metropolitan Region," *National Tax Journal*, September, 1958.

[34] John D. Garwood, "Industrial Migration to the West" (unpublished Ph. D. thesis, The University of Colorado, Boulder, 1951).

[35] *Ibid.*, p. 190.

[36] L. J. Crampon and Paul W. DeGood, Jr., *Industrial Location Survey* (Bureau of Business Research, University of Colorado, 1957). Also summarized in L. J. Crampon, "Factors Influencing the Selection of a Plant Site" (Boulder: Bureau of Business Research, Colorado University, n. d.).

[37] Crampon and DeGood, *op. cit.*, p. 69.

Local Taxes was ranked 27th, having been mentioned by 12.7 percent of the firms interviewed.

Although this study is subject to the inherent limitations of a questionnaire type study, it appears to be more reliable than the Garwood Study because the sample was larger, and the basis for attaching relative importance to each factor was somewhat more defensible.

Table 4.A2

Relative Importance of Location Factors 253 Colorado Manufacturing Firms Established between 1948 and 1957

Factor	Percent of responses attributing influence to factor		
	Strong influence	Some influence	Grand total
Availability of markets	44.3	17.0	61.3
Availability of future markets	26.9	23.3	50.2
Over-all growth of state or area	27.7	20.9	48.6
Desirability of living conditions	26.5	17.4	43.9
Availability of raw materials	27.3	15.8	43.1
Availability of needed labor	18.2	22.1	40.3
Land as a site for plant	22.9	16.2	39.1
General appearance of community	17.8	21.3	39.1
Cost of labor, existing wage rates	13.8	24.9	38.7
Existing transportation facilities	13.8	20.9	34.7
Existing building for plant	20.6	13.4	34.0
Attitude of community toward ind.	13.0	19.0	32.0
Electric power supply	11.5	19.0	30.5
Effect of climate upon production	12.6	17.8	30.4
Effect of climate upon labor force	11.5	15.4	26.9
Productivity of labor force	7.5	17.8	25.3
Employer-labor relations history	9.5	13.0	22.5
Water for industrial use	6.7	14.6	31.3
Warehousing and storage facilities	8.3	12.6	20.9
Industrial fuels-coal, oil, gas	9.1	11.1	20.2
Adequacy of industrial zoning	3.6	15.8	19.4
Availability of housing	5.1	13.8	18.9
Government attitude toward ind.	4.0	11.8	15.8
Other production materials	2.4	13.0	15.4
Local or state laws and regulations	2.4	13.0	15.4
Water for domestic use	5.1	9.9	15.0
State and local taxes	*4.0*	*8.7*	*12.7*
Existence of research facilities	2.0	10.3	12.3
Community financial subsidy	2.0	4.7	6.7
Objectivity of judicial attitude	0.0	3.2	3.2

Source: L. J. Crampon and Paul W. DeGood Jr., *Industrial Location Survey*, Bureau of Business Research, University of Colorado, 1957, pp. 68-69.

Summary and Conclusions

Because of the importance of other location factors, state and local taxes apparently play little role in the location of such industries as agriculture, mining, construction, government, communications, transportation, and portions of trade and services. In addition, some manufacturing firms are limited in their choice of a location site and therefore cannot attach substantial importance to taxation. In total these locational restricted concerns probably account for more than half of the total personal income produced in the United States. Other analytical considerations such as the problems of measurement and of shifting and incidence lead to the untenability of the assertion that state and local taxes are a cardinal factor in the location of industry. Several inductive studies, though subject to methodological qualifications, also point in the same direction. Moreover, for the Colorado area it appears that on the basis of such studies numerous other factors have played a more important role in the location of industry than taxation.

In conclusion, on the basis of available evidence the broad generalization can be made that state and local taxes exert a relatively insignificant influence on the location of industry, that a simple direct relationship between a "favorable tax climate" and rapid economic growth does not exist, and that the problem is substantially more complex than is frequently presumed.

CHAPTER V

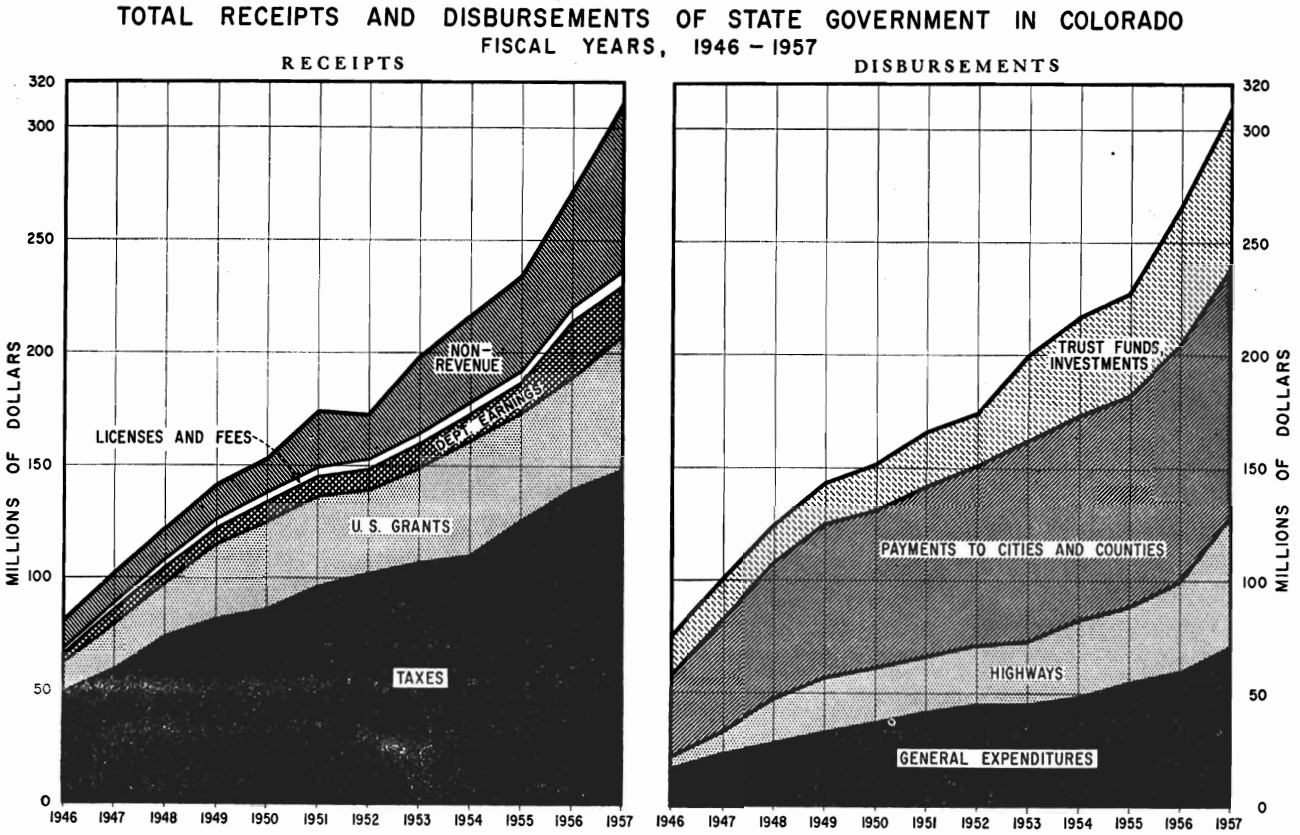
STATE GOVERNMENT FINANCE

The purpose of this chapter is to present in greater detail than was possible in Chapters III and IV the over-all disbursements' and receipts' picture of state government in Colorado as summarized in Tables 5.1, 5.2, and Chart 5.1. In addition, the State's fund structure is examined with particular attention directed to the question of financing the General Fund including its future expenditure and revenue requirements projected to 1965. In each analysis the period of principal reference covers the post-war years, or from 1946 to 1957 and, where data are available, to 1958.

Total Disbursements[1]

In the interpretation of total state disbursements it is important to distinguish between four board classes: (1) general expenditures, that is expenditures for operations and capital requirements of the State establishment as such, (2) payments of State collected funds to counties and cities, (3) payments for debt retirement (which must be excluded from general expenditures to avoid double counting since general

[1]Unless otherwise noted the discussion in this section is based on Table 5.1.



SOURCE: State of Colorado, Division of Accounts and Control, Annual Reports; Department of Revenue, Annual Reports; State Auditor, Annual Reports; and State Treasurer, Annual Reports.

CHART 5.1

Table 5.1

Total Disbursements of State Government in Colorado, Fiscal Years, 1946-1957

(thousands)

Disbursements	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
General expenditures												
General Government												
Legislative	$ 12	$ 229	$ 0	$ 276	$ 76	$ 265	$ 179	$ 256	$ 204	$ 396	$ 263	$ 510
Executive	325	608	765	785	828	931	1,087	1,050	1,150	1,372	1,258	1,423
Treasurer	86	99	62	76	72	95	83	99	91	113	101	124
Taxation and Revenue	976	1,868	1,450	1,606	1,718	1,789	1,961	2,178	2,651	3,191	3,477	3,962
Auditor	32	32	36	41	51	53	58	66	67	70	76	87
Legal affairs	91	103	118	141	178	177	193	196	208	256	254	292
State Department	261	313	363	359	356	399	419	444	463	521	520	594
Judicial	242	247	252	270	302	328	359	437	610	641	570	584
Total	2,025	3,499	3,046	3,554	3,581	4,037	4,339	4,726	5,444	6,560	6,519	7,576
Protection to Person and Property												
National Guard	118	158	225	231	200	246	167	217	239	221	250	301
State Patrol	396	644	1,085	1,203	1,186	1,260	1,361	1,389	1,573	1,648	2,155	2,239
Parole officer	—	—	—	—	—	8	130	165	163	180	192	227
Civil defense	—	—	—	—	—	28	70	130	118	129	148	224
Livestock inspection	221	253	92	70	191	200	228	228	246	258	261	293
Industrial relations	939	829	1,461	1,553	1,748	1,854	1,890	2,062	2,165	2,432	2,641	2,907
Commerce	283	549	433	438	449	478	509	535	588	600	644	713
Pari-mutuel racing	—	—	—	11	26	91	85	104	118	124	149	148
Other	14	—	—	—	28	29	34	33	45	44	60	60
Total	1,971	2,433	3,296	3,506	3,828	4,194	4,474	4,863	5,255	5,636	6,500	7,112
Development and Conservation												
Department of Game and Fish	838	1,483	1,868	2,440	2,289	2,365	2,751	3,005	3,249	4,231	4,151	3,807
Agriculture	678	573	680	647	767	741	806	981	1,164	1,509	1,171	2,669
Land administration	—	—	—	—	186	281	255	226	318	354	346	295
Other	480	481	852	919	516	537	546	627	733	757	863	890
Total	1,996	2,537	3,400	4,006	3,758	3,924	4,358	4,839	5,464	6,851	6,531	7,661
Health and Sanitation	857	885	1,009	1,051	1,649	2,393	1,811	1,545	1,670	1,772	1,342	2,461
Welfare	249	382	486	530	575	740	649	618	685	679	553	597
Penal, Eleemosynary, Reform institutions	4,109	5,742	6,237	7,727	8,510	11,105	11,636	10,645	11,819	13,169	13,593	16,403
Education												
State educational inst.	3,983	6,061	8,220	9,804	11,987	11,705	14,073	14,919	15,038	15,682	18,684	23,635
State educational agencies	253	1,005	1,635	1,915	2,252	2,462	2,495	2,298	2,159	2,507	2,676	3,465
Total	4,236	7,066	9,855	11,719	14,239	14,167	16,568	17,217	17,197	18,189	21,360	27,100
State highways	5,199	9,751	19,366	24,242	24,373	24,918	26,707	27,930	34,540	33,603	39,730	58,051
Interest	471	445	368	318	281	328	376	349	336	347	336	481
Miscellaneous	125	—	—	28	89	10	3	9	7	1,290	2,720	810
Total General expenditures	21,238	32,740	47,063	56,681	60,883	65,816	70,921	72,741	82,417	88,096	99,184	128,252
Payments to Cities and Counties												
Old age pension	23,690	33,212	36,469	40,919	40,930	45,101	45,224	49,876	50,912	52,397	57,272	57,136
Other welfare	3,645	3,225	5,219	6,053	6,522	7,338	8,879	9,171	10,159	10,849	11,442	12,351
Public school aid	4,132	5,274	9,085	9,055	10,009	10,092	11,151	14,798	15,084	15,380	19,472	22,975
County road fund	4,353	7,334	8,527	9,899	11,195	12,226	13,389	14,503	13,442	14,435	15,177	16,373
Other	320	413	1,116	1,884	1,055	689	640	581	563	565	1,056	1,037
Total	36,140	49,458	60,416	67,810	69,711	75,446	79,283	88,929	90,160	93,626	104,419	109,872
Debt retirement	1,880	1,573	1,697	1,728	1,771	2,196	1,887	1,952	1,927	328	323	904
Trust Funds, Investments, Transfers, etc.												
Dept. of Employment Security												
Transfers to U. S. Treasury	4,986	5,673	6,436	5,933	3,486	4,554	5,969	5,317	2,625	2,586	3,160	6,082
Employment security benefits	—	1,000	1,125	2,095	4,675	1,870	1,205	1,560	5,340	3,380	2,850	4,660
Old age insurance fund	—	—	—	—	—	—	382	530	1,336	1,650	1,875	2,064
State compensation ins.	1,741	1,400	1,557	1,741	2,394	2,635	3,212	3,507	4,087	4,190	4,799	4,668
Public employees retirement fund	—	—	414	469	573	836	1,081	1,297	1,503	1,902	2,255	2,649
Investments	3,583	3,874	3,077	4,167	4,528	7,870	6,934	7,823	11,558	16,093	28,403	25,203
Transfers, refunds, etc.	5,192	4,856	2,115	2,098	2,800	4,256	2,620	16,077	15,729	15,031	17,703	24,907
Total	15,502	16,803	14,724	16,503	18,456	22,021	21,403	36,111	42,178	44,832	61,045	70,233
Grand total disbursements	74,760	100,574	123,900	142,722	150,821	165,479	173,494	199,733	216,682	226,882	264,971	309,261

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Revenue, *Annual Reports;* State Auditor, *Annual Reports;* and State Treasurer, *Annual Reports.*

expenditures include outlays from borrowed funds) and (4) payments into or out of trust funds including the investment of surplus funds and miscellaneous inter-departmental transfers. Expenditures in the last category do not result in any change in the net value of State assets and are included in disbursements as shown in Table 5.1 only for purposes of presenting a complete statement of financial transactions.

General Expenditures.[2] The cost of operating and maintaining the various state departments and institutions including capital outlays amounted in 1957 to $128 million.[3] Of this amount expenditures for education accounted for 21.13 percent, state highways, 45.27 percent,

[2]Includes both operating and capital outlays.

[3]The terms "costs" and "expenditures" are used interchangeably.

Table 5.2

Total Receipts of State Government in Colorado, Fiscal Years, 1946-1957
(thousands)

Revenues	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
Revenue Receipts												
Taxes												
Property:												
General	$ 4,447	$ 4,340	$ 5,542	$ 5,953	$ 6,025	$ 6,245	$ 6,709	$ 6,705	$ 6,973	$ 7,242	$ 9,609	$ 10,810
Specific ownership	139	239	388	451	477	672	702	709	727	784	1,070	1,172
Total	4,586	4,579	5,930	6,404	6,502	6,917	7,411	7,414	7,700	8,026	10,679	11,982
Sales: [a]												
General	14,580	19,781	23,242	24,402	24,723	28,364	29,152	31,749	31,598	34,643	37,750	38,947
Use	946	1,205	1,541	1,384	1,373	1,698	1,834	1,964	2,255	2,341	2,720	3,123
Service	53	6	1	—	—	—	—	—	—	—	—	—
Total	15,579	20,992	24,784	25,786	26,096	30,062	30,986	33,713	33,853	36,984	40,470	42,070
Liquor:												
Alcoholic beverage [a]	4,464	3,913	3,798	3,584	3,640	4,147	3,802	3,941	3,777	4,113	4,354	4,559
Alcoholic bev. license	205	226	223	216	214	216	208	217	217	216	216	215
85% city and county	462	513	537	526	542	552	542	567	553	553	563	565
Total	5,131	4,652	4,558	4,326	4,396	4,915	4,552	4,725	4,547	4,882	5,133	5,339
Highway User:												
Motor fuel [a]	9,089	12,383	17,701	18,560	20,557	22,485	24,348	25,642	27,092	28,675	30,989	32,356
Motor vehicle license	2,625	2,965	3,401	3,656	3,948	4,287	4,468	4,916	5,083	6,417	5,023	6,188
Operators and chauffeur's licenses	163	128	163	170	163	179	244	176	299	656	413	390
P. U. C. carrier	1,098	1,274	1,444	1,696	1,909	2,338	2,555	2,867	2,908	3,691	6,540	6,344
Total	12,975	16,750	22,709	24,082	26,577	29,289	31,615	33,601	35,382	39,439	42,965	45,278
Insurance	1,075	1,374	1,645	1,783	1,943	2,125	2,362	2,714	3,032	3,192	3,594	3,903
Pari-mutuel	—	—	—	—	738	1,361	1,654	1,919	1,994	1,892	2,043	2,131
Income [a]	6,903	8,559	11,596	16,959	17,289	18,931	20,175	19,112	17,990	23,533	26,044	27,511
Gross income (oil and gas) [a]	—	—	—	—	—	—	—	—	2,544	3,525	3,346	3,895
Inheritance and gift	2,470	1,459	2,059	1,792	1,750	2,244	2,487	2,970	2,475	3,149	4,002	4,543
Miscellaneous [b]	267	276	331	268	263	265	351	521	581	556	651	714
Total taxes	48,986	58,641	73,612	81,400	85,654	96,109	101,593	106,689	110,098	125,178	138,927	147,366
Licenses and Fees:												
Game and Fish	1,047	1,538	1,986	2,483	2,349	2,525	2,958	3,091	3,026	3,127	3,512	4,035
Dept. of Agriculture	417	322	403	474	588	535	456	551	622	649	672	735
Secretary of State	419	544	362	491	495	507	540	362	446	511	541	617
State Bd. of Stock Inspection	129	156	160	146	145	175	160	166	180	193	161	314
Other [c]	217	240	364	419	462	585	532	642	733	825	1,086	1,036
Total licenses and fees	2,229	2,800	3,275	4,013	4,039	4,327	4,646	4,812	5,007	5,305	5,972	6,737
Departmental Earnings and Misc.												
Division of Commerce	206	116	87	250	305	302	432	207	207	234	290	323
Educational institutions	609	1,647	2,470	2,583	2,832	2,441	1,826	1,895	1,698	1,858	2,077	2,331
Department of Education	33	24	36	37	28	42	27	34	32	133	144	142
State Highway Dept.	216	1,439	361	927	1,252	1,087	1,702	2,765	2,926	2,274	9,879	8,443
Hospitals, penal and char. institutions	696	531	807	954	1,046	1,122	1,203	1,504	2,583	3,124	4,265	3,637
Division of Industrial Relations	31	23	10	42	47	47	10	43	42	43	55	57
Department of Public Health	68	58	58	97	112	130	108	133	83	182	159	159
Department of Public Welfare	195	198	198	123	206	253	535	211	252	534	519	544
National Guard	—	—	—	—	—	—	51	68	60	51	60	62
Department of Revenue	28	69	95	27	94	98	55	2	—	—	—	34
State lands	1,176	1,551	1,301	1,323	1,213	1,900	2,200	2,172	2,534	3,546	4,025	4,293
Interest on bonds	581	603	1,049	656	1,028	992	971	816	948	544	613	640
Unclassified	79	336	642	183	882	275	123	833	813	1,233	3,560	1,604
Total department earnings and miscellaneous	3,918	6,595	7,114	7,202	9,045	8,689	9,243	10,683	12,178	13,756	25,646	22,269
Receipts from U. S. Govt.												
Highways	N.A.	2,567	N.A.	N.A.	8,456	7,845	7,292	8,608	8,604	9,071	11,071	15,377
Public welfare	N.A.	13,669	N.A.	N.A.	19,420	22,150	20,774	24,715	28,752	26,769	27,494	27,229
All other	N.A.	N.A.	N.A.	N.A.	11,056	10,072	9,145	8,756	13,526	11,981	11,029	17,637
Total receipts	12,594	20,488	23,884	33,356	38,932	40,067	37,211	42,079	50,882	47,821	49,594	60,243
Total revenue receipts	67,727	88,524	107,885	125,971	137,670	149,192	152,693	164,263	178,165	192,060	220,139	236,615
Non-revenue receipts:												
Employment security taxes	4,998	5,672	6,435	5,954	3,525	4,537	6,374	5,882	4,009	2,594	3,179	6,095
State compensation ins. fund	1,918	2,130	2,104	2,388	2,590	2,809	3,852	3,822	4,981	5,154	5,890	6,645
Public employees retirement	898	1,176	1,548	2,081	3,228	3,934	4,782	6,059	7,122	7,981	9,004	10,595
Bond issues and warrants	0	0	0	0	0	6,300	0	0	2,389	0	0	8,000
Investments matured	2,394	1,535	1,360	1,586	2,626	2,884	2,282	1,786	3,335	9,510	13,980	15,374
Transfers, etc.	2,451	2,323	2,060	3,172	3,154	4,366	2,672	16,303	16,356	16,643	19,691	27,271
Total Non-revenue receipts	12,659	12,836	13,507	15,181	15,123	24,830	19,962	33,852	38,192	41,882	51,744	73,980
Grand total receipts	80,386	101,360	121,392	141,152	152,793	174,022	172,655	198,115	216,357	233,942	271,883	310,595

[a] Net after refunds.

[b] Includes foreign and domestic corporation tax, coal mine tax, metal mining tax, oil and gas conservation levy, predatory animal tax, hail insurance tax, safety and accident prevention tax, mattress stamp tax, revised statutes tax, gate admission tax, and P.U.C. tax.

[c] Includes auto title; penalty assessments, J.P. court fines; auto dealers and salesmen's licenses; and inspection stickers on autos.

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Revenue, *Annual Reports;* State Auditor, *Annual Reports;* and State Treasurer, *Annual Reports.*

penal and eleemosynary institutions 12.79 percent and "all other" 20.81 percent (Table 5.3).

Table 5.3

General Expenditure,[a] by Principal Functions of State Government in Colorado, Fiscal Year, 1957

Function	Amount (thousands)	Percent of total
Education		
Educational institutions	$23,635	18.43
Other	3,465	2.70
Total	27,100	21.13
State highways	58,051	45.27
Penal and Eleemosynary inst.	16,403	12.79
All other:		
General government	7,576	5.91
Protection to person and property	7,112	5.54
Development and conservation	7,661	5.97
Health and sanitation	2,461	1.92
Welfare administration	597	0.46
Miscellaneous	1,291	1.01
Total	26,698	20.81
Total	128,252	100.00

[a] Excludes payments by state to local governments, debt retirement and miscellaneous trust fund payments and transfers.

Source: Basic data secured from State of Colorado, Division of Accounts and Control, *Annual Report;* Department of Revenue, *Annual Report;* State Auditor, *Annual Report;* and State Treasurer, *Annual Report.*

Table 5.4 shows the trend of general expenditures since 1946. It will be observed that the total outlay of $128 million in 1957 exceeded its corresponding total in 1946 by 504 percent and that for 1950 by 111 percent. Expenditure increases over these periods have exceeded the rate of population growth as noted by per capita increases of 330 percent and 67 percent for the two periods (1946-1957 and 1950-1957), respectively. However, price inflation was an important factor contributing to the over-all expenditure changes noted. If allowance is made for price change, the "real" per capita outlays for the two periods noted increased at the rates of 147 percent and 25 percent, respectively.

Taking the more current period from 1950 to 1957 as the base of reference it will be observed that per capita expenditures (in uniform 1956 purchasing power dollars) increased from $58.03 in 1950 to $72.54 in 1957, or an increase of $14.51. Of this amount approximately two-thirds was accounted for by enlarged outlays for state highways, while the remaining one-third divided between state institutions (education, penal and eleemosynary) and other State functions.[4]

Payments to Counties and Cities. State payments to counties and cities amounted in 1957 to $110 million[5] which was directed to designated purposes as follows: old age pensions, 52 percent of total; other welfare, 11 percent; public school aid, 21 percent; county roads, 15 percent; and all other, 1 percent (derived from Table 5.1).

State disbursements to local governments have their principal revenue support in "shared taxes" consisting largely of the highway user taxes; excise taxes (Table 5.5); appropriations from the general fund; and federal grants. For 1957 "shared taxes" and special taxes (sales and liquor) covered 50 percent of total outlays to the counties and cities while general fund revenues and federal grants accounted for 21 percent and 29 percent, respectively. In summary, 71 percent of State disbursements to local government was financed from the State's own revenue sources.[6]

The role of the Federal Government in the local governmental aid picture is largely con-

Table 5.4

General Expenditures by Principal Functions of State Government in Colorado, Selected Fiscal Years, 1946-1957

Year	Total	Education	Highways	Penal and eleemosynary institutions	All other
		Amount (thousands)			
1946	$21,238	$ 4,236	$ 5,199	$ 4,109	$ 7,694
1948	47,063	9,855	19,366	6,237	11,605
1950	60,883	14,239	24,373	8,510	13,761
1952	70,921	16,568	26,707	11,636	16,010
1954	82,417	17,197	35,540	11,819	17,861
1955	88,096	18,189	33,603	13,169	23,135
1956	99,184	21,360	39,730	13,593	24,501
1957	128,252	27,100	58,051	16,403	26,698
Increase					
1946-1957	504%	540%	1,017%	299%	247%
1950-1957	111%	90%	138%	93%	94%
		Per capita[a]			
1946	$17.76	$ 3.54	$ 4.35	$3.44	$ 6.43
1948	37.26	7.80	15.33	4.94	9.19
1950	45.61	10.67	18.26	6.37	10.31
1952	51.84	12.11	19.52	8.51	11.70
1954	55.24	11.53	23.82	7.92	11.97
1955	56.95	11.76	21.72	8.51	14.96
1956	61.53	13.25	24.65	8.43	15.20
1957	76.38	16.14	34.57	9.77	15.90
Increase					
1946-1957	330%	356%	695%	184%	147%
1950-1957	67%	51%	89%	53%	54%
		Per capita[a] (in 1956 dollars)[b]			
1946	$29.31	$ 5.84	$ 7.18	$ 5.68	$10.61
1948	49.28	10.32	20.28	6.53	12.15
1950	58.03	13.57	23.23	8.10	13.13
1952	58.18	13.59	21.91	9.55	13.13
1954	58.95	12.30	25.42	8.45	12.78
1955	59.51	12.29	22.69	8.89	15.64
1956	61.53	13.25	24.65	8.43	15.20
1957	72.54	15.33	32.83	9.28	15.10
Increase					
1946-1957	147%	162%	357%	63%	42%
1950-1957	25%	13%	41%	15%	15%

[a] Population data used are from U. S. Department of Commerce, *Survey of Current Business.*

[b] Based on 1956 index of state and local costs presented in *Economic Report of the President,* January, 1958, p. 122.

Source. State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Revenue, *Annual Reports;* State Auditor, *Annual Reports;* and State Treasurer, *Annual Reports.*

[4] For a more detailed analysis of expenditure for state institutions see again Chapter III.

[5] This figure, taken from Table 5.1, is $1.3 million less than the total shown in Chapter XX, Table 20.13, which presents in detail all payments to cities and counties. The larger total of this latter tabulation is due in part to a different system of classification than that employed in Table 5.1 and, in part, to the inclusion of certain items not shown in the formal State accounts upon which Table 5.1 is based.

[6] Based on Table 20.13 (Chapter XX).

fined to old age pensions and other welfare payments.[7] This means therefore that State financed aid to the counties includes, in addition to old age pensions (financed by excise taxes), assistance for county highways (financed mainly by the State highway user taxes), and aid to public schools (financed largely from the State's General Fund).

Table 5.5

Percent of State Collected Taxes Shared With or Distributed to Counties and Cities in Colorado, Fiscal Year, 1957

(Exclusive of Appropriations from State General Fund and Federal Aids)

Tax	County and city share[a] Percent
Shared taxes	
Highway User Tax Fund	
Gross ton mile	35
Motor fuel	35
Motor vehicle license	35
Operators and chaffeurs license	35
Specific ownership tax A	[b]
Motor vehicle penalty assessments	50
Liquor	15[c]
Other taxes	
Sales (for welfare)	85
Inheritance (for welfare)	10[d]
Incorporation fees (for welfare)	10[d]

[a] Cities share to the amount of 5 percent of the highway user taxes.
[b] Distributed on formula basis.
[c] Retained by local governments.
[d] Percent is additive to basic tax.

Source: *Colorado Revised Statutes 1953*, Ch. 120-12-7, 8; Ch. 13-5-5; Ch. 13-4-132, 133; and Ch. 75-2-17, 18, 19, 20, 21, 23.

General Expenditures and Payments to Counties and Cities. A more complete procedure showing where the State's money has gone and perhaps a better basis for judging whether or not the public is getting its moneys worth for what appears as an enormous current expenditure total compared with past years may be had by combining general expenditures with payments to counties and cities. The aggregate of these two expenditure groups which amounted to $238 million in 1957 is reclassified by major functions or purposes, as shown in Table 5.6. In this frame of reference it will be seen that welfare payments accounted for 29.43 percent of total expenditures; education, 21.03 percent; highways, 31.26 percent and "all other" 18.28 percent. In summary, over 80 percent of Colorado's state government expenditures in 1957 (apart from debt retirement, and miscellaneous trust fund and transfer payments) were made for three major purposes, namely: welfare, education and highways.[8] Moreover, if outlays for penal and eleemosynary institutions are included as a type of welfare payment this would increase the ratio to approximately 87 percent, thus leaving only 13 percent of the aggregate expenditure total not accounted for by the "big three" functions of the State.

Table 5.6

Combined General Expenditures and Payments to Counties and Cities, by Principal Functions, of State Government in Colorado Fiscal Year, 1957

Function	Amount (thousands)	Percent of total
Welfare		
Old age pensions	$57,136	23.99
Other welfare	12,948	5.44
Total	70,084	29.43
Education		
Educational institutions	23,635	9.93
Public school fund	22,975	9.65
Other	3,465	1.45
Total	50,075	21.03
Highways		
State highways	58,051	24.38
County road fund	16,373	6.88
Total	74,424	31.26
All other		
Penal, and eleemosynary institutions	16,403	6.88
Miscellaneous	27,138	11.40
Total	43,541	18.28
Grand Total	238,124	100.00

Source: Derived from State of Colorado, Division of Accounts and Control, *Annual Report 1957;* Department of Revenue, *Annual Report 1957;* State Auditor, *Annual Report, 1957;* and State Treasurer, *Annual Report, 1957.*

Table 5.7 shows the trend of combined general expenditures and payments to counties and cities by functions since 1946. It will be seen that the total outlay of $238 million in 1957 exceeded its corresponding total in 1946 by 315 percent and the total for 1950 by 82 percent. However, on a per capita price-adjusted basis the corresponding percentage changes were 70 percent and 8 percent. Popularly expressed it can be said that expenditures of the State for every "man, woman and child" in Colorado in 1957 were—in uniform purchasing power dollars—8 percent greater than they were seven years ago, or in 1950, and 70 percent greater than in the first post-war year of 1946.

A test as to whether expenditures in "real" terms are in line with the realities of enlarged or improved public services and facilities realized would be difficult to make in any event. However, an 8 percent expenditure increase in 1957 over 1950 does not appear to be out of line with obvious gains in the past few years in such services as welfare, education and highways. Nor is the 70 percent increase—from 1946 to 1957—a matter that could be seriously questioned in terms of comparative gains in public services realized over this ten-year period.

Debt Retirement. The third expenditure classification, shown in Table 5.1, is debt retirement which in 1957 amounted to $904 thousand. Since the State does not have a general debt,

[7] For further discussion on federal and state aids see Chapters XIX and XX.

[8] As noted in Chapter III the ratio and subjects included closely approximate that found for combined state and local expenditures.

obligations retired consist essentially of highway bonds or tax anticipation warrants issued for State building purposes.[9]

Table 5.7

Combined General Expenditures and Payments to Cities and Counties, by Principal Functions of State Government in Colorado, Selected Fiscal Years, 1946-1957

Year	Total	Welfare	Education	Highways	All other
		Amount (thousands)			
1946	$ 57,378	$27,584	$ 8,368	$ 9,552	$11,874
1948	107,479	42,174	18,940	27,893	18,472
1950	130,594	48,027	24,248	35,568	22,751
1952	150,204	54,752	27,719	40,096	27,637
1954	172,577	61,756	32,281	47,982	30,558
1955	181,722	63,925	33,569	48,038	36,190
1956	203,603	69,267	40,832	54,907	38,597
1957	238,124	70,084	50,075	74,424	43,541
Increase					
1946-1957	315%	154%	498%	679%	267%
1950-1957	82%	46%	106%	109%	91%
		Per capita[a]			
1946	$ 47.97	$23.06	$ 6.99	$ 7.99	$ 9.93
1948	85.10	33.39	15.00	22.08	14.63
1950	97.82	35.97	18.16	26.64	17.05
1952	109.80	40.02	20.26	29.31	20.21
1954	115.67	41.39	21.64	32.16	20.48
1955	117.47	41.32	21.70	31.05	23.40
1956	126.30	42.97	25.33	34.06	23.94
1957	141.82	41.74	29.82	44.33	25.93
Increase					
1946-1957	196%	82%	327%	455%	161%
1950-1957	45%	16%	64%	66%	52%
		Per capita[a] (in 1956 dollars)[b]			
1946	$ 79.16	$38.05	$11.53	$13.18	$16.40
1948	112.57	44.17	19.84	29.21	19.35
1950	124.45	45.76	23.10	33.89	21.70
1952	123.23	44.92	22.74	32.89	22.68
1954	123.44	44.17	23.09	34.32	21.86
1955	122.75	43.18	22.67	32.44	24.46
1956	126.30	42.97	25.33	34.06	23.94
1957	134.68	39.64	28.32	42.10	24.62
Increase					
1946-1957	70%	4%	146%	219%	50%
1950-1957	8%	13%	23%	24%	13%

[a] Population data used are from U. S. Department of Commerce, *Survey of Current Business.*

[b] Based on 1956 index of state and local costs presented in *Economic Report of the President*, January, 1958, p. 122.

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Revenue, *Annual Reports;* State Auditor, *Annual Reports;* and State Treasurer, *Annual Reports.*

Trust Fund Payments and Miscellaneous. This category of State outlay includes various payments from trust funds and transfers including investments of State surplus funds. As such they do not affect the value of State assets and, therefore are not pertinent to this analysis.

TOTAL RECEIPTS[10]

Receipts of State government for the fiscal year ending in 1957 amounted in the aggregate to $311 million (Table 5.2 and Chart 5.1). Of this amount $237 million represented "revenue" and $74 million "non-revenue" receipts. Revenue receipts include all money or wealth received under such conditions that they increase the assets of the State government without increasing the liabilities. Principal revenue items include taxes, licenses and fees, department earnings and federal grants. Non-revenue receipts include all other items which are included in State accounts to secure a complete statement of receipts although they do not result in an increase in the net value of the State's assets. Principal among these are receipts for various trust funds (i. e. employment security, state compensation insurance and public employees retirement); receipts from bond issues and matured investments and interdepartmental transfers.

For the purposes of this study it is the changing magnitude and composition of revenue receipts that are of greatest interest. This is so for the reason that these receipts are the principal means by which the general operations of the State are financed including payments to cities and counties.

Taxes. As can be seen from Table 5.8 taxes constitute the larger part of total revenue receipts. Thus of total revenues[11] of $237 million reported for 1957, taxes accounted for 62.28 percent; licenses and fees, 2.85 percent; departmental and other earnings, 9.41 percent; and federal grants, 25.46 percent.

Aggregate state tax revenues in Colorado were, in 1957, approximately three times what they were in 1946, having increased from $49 million to $149 million, or at the rate of 200 percent. For the more recent period from 1950 to 1957 taxes increased from a total of $86 million to $147 million or at the rate of 72 percent.

Since population, prices and personal incomes also advanced sharply over this twelve-year period a closer measure of the changes in the

Table 5.8

Total Revenues of State Government in Colorado, Fiscal Years, 1946, 1950 and 1957

Revenue Source	1946	1950	1957
	Amount (thousands)		
Taxes	$ 48,986	$ 85,654	$147,366
Licenses & fees	2,229	4,039	6,737
Departmental earnings	3,918	9,045	22,269
Federal grants	12,594	38,932	60,243
Total	67,727	137,670	236,615
		Percent	
Taxes	72.33	62.22	62.28
Licenses & fees	3.29	2.93	2.85
Departmental earnings	5.78	6.57	9.41
Federal grants	18.60	28.28	25.46
Total	100.00	100.00	100.00

Source: Derived from State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Revenue, *Annual Reports;* State Auditor, *Annual Reports;* and State Treasurer, *Annual Reports.*

[9] For full discussion of both state and local debt see Chapter XXI.

[10] Unless otherwise noted the discussion in this section is based on Table 5.2.

[11] The terms "revenue" and "revenue receipts" are used interchangeably throughout the discussion in this chapter as are the terms "taxes," "tax revenue," "tax receipts" and "tax collections."

"burden" of the tax is had by drawing comparisons which allow for each of these factors. As noted in Table 5.9, per capita taxes increased from a total of $40.96 to $87.73 between 1946 and 1957, or at the rate of 114 percent; and from $64.16 to $87.73 between 1950 and 1957 or at the rate of 37 percent. However, if the effects of price increases are eliminated the per capita "real" increases (or the increase in uniform purchasing power dollars, in this case in 1956 dollars) for the two periods were 49 percent and 17 percent, respectively. In other words, the taxpayer on an average-per-person basis was called upon to divert to state government 49 percent more purchasing power (command over goods and services in the private market) in 1957 than in 1946 and 17 percent more than in 1950.

Table 5.9

Total Taxes of State Government: Per Capita and as a Percent of Personal Income[a] in Colorado, Fiscal Years, 1946-1957

Year	Per capita (current dollars)	Per capita (in 1956 dollars)[b]	Taxes as percent of personal income
1946	$40.96	$57.04	3.43
1947	47.44	57.71	3.54
1948	58.28	65.85	4.18
1949	62.86	71.76	4.54
1950	64.16	72.50	4.44
1951	72.86	76.29	4.21
1952	74.26	76.00	4.12
1953	74.29	75.50	4.28
1954	73.79	74.69	4.34
1955	80.92	82.15	4.54
1956	85.76	85.76	4.63
1957	87.73	84.84	4.41
Increase			
1946-1957	114%	49%	—
1950-1957	37%	17%	—

[a] Population and personal income data are from U. S. Department of Commerce, *Survey of Current Business.*

[b] Based on 1956 index of state and local costs presented in *Economic Report of the President*, January, 1958, p. 122.

Source: Derived from State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Revenue, *Annual Reports;* State Auditor, *Annual Reports;* and State Treasurer, *Annual Reports.*

Further examination of Table 5.9 reveals that State taxes amounted to 4.41 percent of aggregate personal income reported for the State in 1957—a ratio somewhat lower than that shown for 1950.

Comparatively, and as noted in Table 5.10, per capita state taxes in Colorado were, in 1957, below both the general and median average for the eleven Western States. On a per capita basis also, the ratio of Colorado's taxes to personal income was less than the general average as well as the median average of these states.

In drawing conclusions from these analyses it must, of course, be recognized that measures of tax burden based on per capita data are unrealistic in the sense that they do not take into account the distribution of taxes or incomes in any given taxpaying situation.[12] To the extent, however, that they do point to basic relationships it would appear that the over-all burden of state taxes in Colorado has not increased at the rate commonly supposed, but, in fact, could be regarded as having changed only moderately, all things considered. Per capita measures indicate also that Colorado is not out of line with other Western States.

Table 5.10

Per Capita State Taxes and Personal Income[a] Eleven Western States, 1957

(Rank order of State appears in parenthesis)

State	Per capita taxes	Per capita personal income	Per capita taxes as percent of per capita personal income
Colorado	$ 94.14[b](8)	$1,996(6)	4.72[b](10)
Utah	93.03(9)	1,694(9)	5.49(6)
Idaho	81.14(10)	1,630(10)	4.98(8)
Montana	80.60(11)	1,896(7)	4.25(11)
Wyoming	106.01(6)	2,038(5)	5.20(7)
New Mexico	119.75(4)	1,686(11)	7.10(1)
Arizona	98.55(7)	1,750(8)	5.63(5)
Nevada	137.76(1)	2,423(2)	5.68(4)
Washington	132.68(2)	2,128(3)	6.23(2)
Oregon	111.94(5)	1,914(4)	5.85(3)
California	121.53(3)	2,523(1)	4.82(9)
Average 11 States	107.01—	1,971—	5.45—
United States	87.31—	2,027—	4.31—

[a] Population and personal income data are from U. S. Department of Commerce, *Survey of Current Business.*

[b] Based on U. S. Bureau of Census data and hence differs from comparable figures in Table 5.9.

Source: Derived from U. S. Bureau of the Census, *Compendium of State Government Finances, 1957.*

Tax Structure.[13] Sales, highway user and income taxes constitute the principal source of tax revenue of the State. As shown in Table 5.11 these taxes accounted for 77.95 percent of total tax revenues in 1957. Viewed generally, it is further noted that "consumer taxes" (sales, liquor, highway user, insurance and pari-mutuel) accounted for 67 percent and general property 8 percent of total tax revenues. Accordingly, the State tax structure could be

Table 5.11

Percentage Distribution, by Principal Sources of Total Taxes of State Government in Colorado Fiscal Years, 1946, 1950 and 1957

Source	1946	1950	1957
Property	9.36	7.70	8.13
Sales	31.80	30.46	28.55
Liquor	10.47	5.13	3.62
Highway user	26.48	31.03	30.73
Insurance	2.19	2.27	2.65
Pari-mutuel	—	0.86	1.45
Income	14.09	20.18	18.67
Gross income (gas and oil)	—	—	2.64
Inheritance and gift	5.04	2.04	3.08
Miscellaneous	0.57	0.33	0.48
Total	100.00	100.00	100.00

Source: Derived from State of Colorado, Division of Accounts and Control, *Annual Reports;* Department of Revenue, *Annual Reports;* State Auditor, *Annual Reports;* and State Treasurer, *Annual Reports.*

[12] See Chapter IV for critical review of measures used.

[13] For interstate comparisons see Chapter IV.

regarded as being predominantly regressive in nature—a feature which tends to characterize state taxation in the West generally.

General Property Tax. Although receipts from the general property tax, including the specific ownership tax on automobiles, have more than doubled since 1946, no substantial modification of property tax policy for state financing purposes is indicated. Thus, the trend of rates has tended to hold fairly constant with a high of 4.53 mills reported for 1947 and a low of 2.70 shown for 1954. After 1954 the rate was lifted to over 3 mills and in 1956 the levy (collectable in 1957) was 3.56 mills (Table 5.12). This rate was in turn divided into 31 smaller levies made for specific purposes but mainly for educational and eleemosynary institutions.[14] (See Table 7.6.)

Table 5.12

Mill Levy for State Government and Assessed Valuation in Colorado, 1946-1957

Year	Mill levy	Assessed valuation (millions)
1946	3.42	$1,260
1947	4.53	1,342
1948	4.00	1,466
1949	3.86	1,592
1950	3.90	1,645
1951	3.36	1,733
1952	2.71	2,471
1953	2.71	2,567
1954	2.70	2,699
1955	3.63	2,871
1956	3.57	3,069
1957	3.56	3,151

Source: State of Colorado, Colorado Tax Commission, *Annual Reports.*

Retail Sales Tax. The sales tax (retail and user taxes combined) which, next to the highway user group, is a principal State tax on consumption expenditure brought in revenue totalling $42 million in 1957, or 28.55 percent of aggregate taxes collected in that year. As a part of the sales tax total, the use tax accounted for about $3 million or 2.12 percent of aggregate State tax revenues.

Since 1946 sales tax revenues have nearly tripled in amount but due to the increasing importance of other tax sources their relative position has tended to decline somewhat or from a high of 34.66 percent of total tax revenues in 1948 to a low of 28.55 percent in 1957.

Highway User Taxes. In 1957 the highway user taxes (motor fuel, motor vehicle licenses and the P. U. C. Carrier taxes) brought in $45 million in revenue, or 30.73 percent of aggregate State tax receipts. Total collections from the motor fuel tax amounting to $32 million was net after refunds of approximately $4 million.

[14]State of Colorado, Colorado Tax Commission, *Annual Report 1956*, p. 121.

The public utility carrier tax known as the "ton-mile tax" accounted in 1957 for somewhat over $6 million of revenue as it did in 1956. Prior to the 1954, and before the introduction of the ton-mile tax as now constituted, revenues from trucks had ranged upward from about $1 million in 1946 to $3 million in 1954.

Income Tax.[15] The income tax (individual and corporate combined) is the third largest revenue producer in the State's tax structure ranking next in order to sales and the highway user taxes. In 1957 income taxes after refunds amounted to $27.5 million or 18.67 percent of total tax revenue receipts in that year.

Since 1946 net collections from this tax have increased four fold; yearly increases have been continuous excepting in 1953 and 1954 which possibly reflects the slight recession during a portion of this period.

Other Taxes.[16] Of the remaining tax sources, which in 1957 accounted for 13.92 percent of total tax revenues, the principal individual taxes were the liquor tax, amounting to 3.62 percent of aggregate State tax receipts; the inheritance and gift tax, 3.08 percent; insurance tax, 2.65 percent; the tax on gross income from gas and oil production, 2.64 percent; pari-mutuel receipts, 1.45 percent; and miscellaneous other taxes, 0.48 percent. The gross income tax on gas and oil and pari-mutuel are the only new post-war taxes, other than the gross ton-mile tax, that have come into use since the end of World War II.

Licenses and Fees. The distinction between state income derived from taxes on the one hand, and on the other, that from "licenses and fees" is difficult to make in certain cases. A tax is defined as a compulsory contribution for general public purposes while licenses and fees are ordinarily interpreted as payments exacted as a condition to the exercise of a business or non-business privilege. It may be a flat or graduated rate in which revenue considerations are not, in any event, the primary consideration. For the purpose of this study licenses and fees include, as noted in Table 5.2, revenues derived largely from the sale of fish and game licenses in addition to which are payments exacted for privileges granted or services rendered by the departments of Agriculture, State, and the State Board of Stock Inspection. Included also are auto title fees, penalty assessments and Justice of Peace court fines, licenses of auto dealers and salesmen and payments for inspection stickers on cars.

[15]For a breakdown of individual and corporate income taxes see Chapters XII and XIII.

[16]For fuller description of the minor tax revenue sources see Chapter XVII.

In 1957 the aggregate revenues from licenses and fees amounting to $6.7 million accounted, as noted in Table 5.8, for 2.85 percent of total revenue receipts.

Departmental Earnings and Miscellaneous. Departmental earnings consist of a large number of miscellaneous items such as rents, interest on invested funds (bonds) and income from special services rendered by various State departments. Included also is the account entitled "sale of public lands" which does not, as such, represent income but is included in the category as a convenience in analysis.

Income from departmental earnings, as is equally true of receipts from licenses and fees discussed in the preceding paragraph, is largely dedicated to specific departmental uses and yields little, if any, general revenue as such.

Federal Aid.[17] Total grants and subsidies by the United States Government for welfare, highways, education and miscellaneous other purposes amounted to slightly more than $60 million in 1957, or a figure equal to approximately 41 percent of total taxes collected in 1957. The magnitude of this sum points to the significant role that federal government plays in the affairs of state government particularly in the fields of welfare and highways to which 75 percent of grants were dedicated in 1957.

Non-Revenue Receipts. Non-revenue receipts amounted to approximately $74 million in 1957. Of this amount $27 million represented intergovernmental transfers recorded internally as "receipts" by the departments receiving the funds. Other items included funds secured from the liquidation of bond investments amounting to over $15 million; the sales of bonds, $8 million; and receipts for various trust funds amounting in the aggregate to $24 million.

[17]For fuller description of federal grants see Chapter XIX.

Cash Assets

Colorado's over-all cash balance in the State Treasury at the end of fiscal 1958 amounted to $67 million, a figure which has steadily increased in recent years (Table 5.13). Of this amount slightly over one-half, or $35 million, was deposited in Colorado banks,[18] the remainder being held in the form of U. S. Treasury bills amounting to $21 million, and in other highly liquid forms (including "cash in drawer") amounting in the aggregate to $41 million.

A balance of $67 million (in addition there was also an investment account of $99 million[19]) would at first glance hardly support frequent popular references made in recent months to a "fiscal crisis" in the financial affairs of the State. Whatever foundation such allegations may have in fact, this apparent paradox can, in any event, be better understood by considering the nature of the balance itself.

First, it should be recognized that a balance of a certain size may exist because money has been borrowed. A second and most important consideration is the fact that the balance is an over-all balance, a kind of an average which seems to tell much but in reality tells little. As the financial organization of the State of Colorado may be visualized there exists a large

[18]Banks having custody of State funds as June 30, 1958 were distributed as follows:

Location	*Number of banks*	*Amount of deposit*	*Percent of total*
Denver	7	$19,521,727[a]	55.4
Pueblo	4	1,200,000	3.4
Colorado Springs	6	2,400,000	6.8
All other cities and towns	83	12,094,995	34.4
Total	100	35,216,722	100.0

[a] Of this amount $16,471,722 was on demand deposit and the remainder on time deposit drawing interest.

[19]The investment account is, however, largely dedicated to trust funds. Thus of the total of $99 million invested in 1958, the "Public Employees Retirement Fund" accounted for $56 million. The remainder was divided between the "Public School Permanent Fund" ($22 million), "State Compensation Insurance Fund" ($13 million), and all others ($8 million).

Table 5.13

Cash Assets of State Government in Colorado, Fiscal Years, 1950-1958

Item	1950	1951	1952	1953	1954	1955	1956	1957	1958
Cash in State Treasury									
Deposits in banks	$22,785,534	$28,909,468	$30,470,362	$33,446,198	$36,367,080	$37,615,585	$39,048,546	$46,245,188	$35,216,722
U. S. Treasury bills	19,941,000	16,935,820	22,902,980	18,533,532	13,112,567	16,977,022	22,015,960	16,869,240	20,947,632
Federal Reserve Bank									
Cashier's checks	3,520,000	1,183,000	1,400,000	1,000,000	3,000,000	3,500,000	0	0	0
U. S. Treasury checks	0	4,642,296	1,380,000	0	0	402,534	4,185,583	916,480	6,714,702[a]
Denver-Boulder Turnpike									
construction	0	3,487,330	0	248,727	149,760	0	0	0	0
State Building Anticipation warrants	0	0	765,964	75,745	61,619	42,291	0	0	2,676,050
Certified indebtedness	0								1,320,000
Cash in drawer	51,452	67,325	48,060	114,487	131,284	215,373	261,461	310,019	340,788
Total cash	46,297,986	55,228,239	56,967,366	53,418,689	52,822,310	58,752,805	65,511,550	64,340,927	67,215,894
Investments	32,309,959	37,296,438	41,947,913	47,984,837	56,208,265	62,791,737	77,214,275	87,042,821	99,487,223
Total assets	78,607,945	92,524,677	98,915,279	101,403,526	109,030,575	121,544,542	142,725,825	151,383,748	166,703,117

[a] Includes U. S. Treasury checks, cashier's checks, etc.

[b] This total is larger than that reported by Division of Accounts and Control as shown in Appendix Table 5.A. This is due to the fact the Treasurer's balance includes a reserve to pay outstanding warrants whereas the records of Accounts and Controls reflect the exact amount of warrants outstanding

Source: State of Colorado, *Annual Reports of State Treasurer.*

assortment of "funds" or pools—nearly 300 in number — into which the revenue stream empties. Each pool is fed as ordained by law or accounting practice, but each in any event, sustains directly or indirectly some State function. Thus it may happen that when the levels of the individual pools are measured some are found to be critically low while others may have a more than an adequate margin to cover needs. The meaning of a state "fiscal crisis" is ordinarily associated with one fund or the so-called "General Fund" which may have fallen short of meeting various demands placed upon it. This could be true despite the fact that the average or over-all level of cash is apparently satisfactory.

Basically the existence and size of any one fund can be traced to extensive State practice of earmarking revenues, the rationale of which is important to an understanding of the fund structure as it presently exists, and certain problems of State finance in which the need for increasing General Fund revenue is currently uppermost in public attention.

Earmarking—Definition and Rationale

Earmarking is a device, used in varying degree in all states, by which governmental receipts are designated by either constitutional or statutory law to finance specifically named functions. Receipts not earmarked are known as "general fund revenues," these being subject to appropriation for various purposes as determined by legislative action or appropriation.

Earmarking is intended to serve one or several of these stated purposes: (1) to implement the benefit or user theory of taxation, (2) to provide incentive or restraint, as the case might be, for a given public activity, (3) to protect a particular program from variations in legislative policy, and (4) to attempt to solve political differences.

The first of these is best illustrated by the taxation of motor fuel and the use of the proceeds thereof. Here the tax is levied on those who presumably benefit from the use of the highways and earmarking guarantees that the revenues from the tax will be used to support the purpose for which the tax was levied. The user principle is further recognized by the practice of refunding taxes to those who buy motor fuel for other purposes than propelling a vehicle over the roads.

Secondly, earmarking is commonly associated with regulatory agencies which collect fees for services rendered. Here the assurance that an agency's income will be used specifically to cover its costs satisfies those groups who must pay the tax or fee, but who otherwise might refuse to do so if the funds were used for the general support of government. Frequently, also, the motive for earmarking is to protect the general (or unallocated) revenue. The legislature may be willing to establish a new agency but is unwilling to finance its operations from general revenue. Related thereto may be the intent to supply either incentive or restraint to agency activity. Thus an agency may be assigned a certain percentage of the taxes it collects. Hence, the more it collects the more it has to work with. On the other hand, earmarking on this basis may restrict activity or force careful husbanding of available income.

Thirdly, earmarking may be designed to provide a governmental activity with a guaranteed source of income with a minimum possibility of change by legislative action. This is perhaps the most common reason for earmarking. The best example in Colorado is the old age pension program which by Constitutional provision is assigned 85 percent of all excise taxes.

Finally, it has sometimes been argued that tax earmarking is an effective means for "selling" a new tax or a higher rate on an old one if the people know where the money is going.

The practice of earmarking has been severely criticized, however, and for a number of reasons among which are the following:

(1) Earmarking tends to fix expenditure programs in perpetuity. Agencies or functions which have taxes or other income earmarked for their expenditures may develop a proprietary interest in the earmarked tax. If all state agencies or functions thought it necessary to secure a private source of tax revenue the state's financial structure would become increasingly rigid. Revision of law to adjust for changing expenditure patterns (or public needs) is slow at best. As a result, much time may elapse before measures are taken to check the dissipation of public funds.

(2) Closely related to the first is the argument that an agency supported by earmarked revenues has little incentive to increase its operating efficiency because its income is assured.

(3) The connection between the yield of a tax and the expenditure for which it is earmarked is ordinarily loose at best. In consequence, certain state activities may be more than adequately sustained while others are unduly curtailed for lack of funds.

(4) Implicit in each of the preceding arguments is the idea that earmarking, in principle, prohibits comprehensive and effective state budgeting, a defect which has been described in a study of Colorado state finance as follows:

> When appropriations are made to meet the needs of the State, consideration must be given to the relative as well as the absolute needs. This consideration of the relative importance of the numerous requests for appropriations cannot be made unless all, or practi-

cally all, of the State's revenue is paid into the General Fund and then made available for legislative appropriation. The general assembly is the policy determining body of the State. It has the responsibility to determine what activities are to be undertaken and to what extent they are to be conducted. Under present conditions, with important items of receipts already dedicated to particular activities statutory or constitutional provision, the legislature is prevented from determining the means of meeting the needs of government.[20]

Earmarking and Fund Accounting. A by-product of earmarking on an extensive scale is a highly complex system of "funds" designed to insure that the various dedicated revenues are properly committed and fully accounted for. The system has been likened to a household arrangement wherein the breadwinner's income is distributed between a series of individual pocketbooks each being labelled according to its special expenditure purpose (i. e., food, rent, clothing, etc.).

Technically, a fund has been defined as a:

> Sum of money or other resources set aside for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations, and constituting an independent fiscal and accounting entity.[21]

As such, a fund will show both receipts and expenditures as well as a resulting cash balance, if any.

For purposes of analyses, funds may be broadly classified into two general categories, namely: revenue funds and non-revenue funds.[22] The former are so designated since they function as accounting entities involving only revenues. And, with the exception of the "general fund," each designated fund serves as a means for controlling the expenditure of revenues dedicated by law in any given case to a specific function. The general fund, on the other hand, is flexible in use as determined by legislative appropriation. Hence earmarking, if carried to an extreme, may squeeze the general fund and the activities it supports to a point where a fiscal crisis may ensue. A crisis such as this tends unfortunately to distort popular thinking on the over-all financial position of a state. Thus, a general fund crisis becomes an over-all state financial crisis with profligate government pointed to as the cause of it all when in fact the real cause may be excessive earmarking—a condition which more than likely has been brought on by electoral decision rather than by administrative policy as such.

In addition to "revenue funds" other funds are ordinarily established to account for non-revenue receipts (receipts which, in the main, do not add to the net assets of the state) such as sinking funds, trust funds and the like. In addition, funds may be established for internal control purposes such as "revolving," "working capital," "clearing" and related but variously named funds.

Earmarking in Colorado[23]

In fiscal 1958 approximately 80 percent of the State's total revenues of $259 million were earmarked. Coincident thereto a total of 190 separate "cash funds" existed for purposes of accounting for revenues so dedicated. Accordingly, the remainder or general fund revenue represented the lesser part or only 20 percent. As shown in Table 5.14 constitutionally earmarked revenues (mainly from the sales and motor fuel taxes) constituted 57 percent of the State's aggregate revenues—a fact that points to the highly permanent commitment of a major portion of state revenue receipts (in this case mainly for old age pensions and highways); while revenues earmarked by statute accounted for 23 percent.

Table 5.14

Impact of Earmarking on Revenues of State Government in Colorado, Fiscal Year, 1958

(Non-earmarked and earmarked revenues identified by funds to which revenues are directed for expenditure)

Revenue	Number of funds	Net receipts (thousands)	Net receipts as percent of total
Non-earmarked revenue:			
General Fund (subject to complete legislative review and appropriation)	1	$ 53,291	20.53
Earmarked revenue:			
Appropriated cash funds (earmarked by statute as to purpose of the receipt but subject to annual legislative review and appropriation for specified purpose)	73	30,339	11.69
Budgeted cash funds (earmarked by statute for a specified purpose and available to agencies on a continuing basis but subject to budget review by Executive Department)	49	15,928	6.14
Restricted operating cash funds (earmarked by statute for a specified purpose and subject to no legislative or executive control)	35	2,182	0.84
Constitutionally established cash funds (earmarked by constitution and subject to no legislative or executive control)	8	148,709	57.30
Building mill-levy funds (created by statute and once obligated is subject to review only at close of building program)	24	9,097	3.50
Total revenues	190	259,546	100.00

Source: State of Colorado, Division of Accounts and Control.

[20]Leslie D. Howe, Jr. and Glenn Dinsmore Owens, "A Critical Analysis of the Colorado State Fund Structure" (Unpublished Master's thesis, University of Denver, 1948), pp. XIII-XIV.

[21]National Committee on Municipal Accounting, *Municipal Accounting Statement* (Chicago: rev. ed., 1941), p. 163.

[22]Revenue funds are here defined as those which hold and account for state receipts which add to the net assets of the state and are used for operating and capital expenditure purposes.

[23]Earmarking in this analysis is described essentially in terms of the funds used to account for revenues earmarked rather than by the specific revenues which are committed to specific purposes.

Other Receipts—Total Fund Structure. In addition to revenues other State receipts in 1958 amounted to $106 million which were earmarked or accounted for via a series of 100 separate funds (Table 5.15). In sum, this number plus the 190 revenue funds, or a total of 290 funds, comprised the State's fund structure in 1958. (See Chart 5.2 and Appendix Table 5.A.) From strictly an accounting and reporting point of view this enormously complex arrangement obviously present a challenge to those who must keep the books as it certainly must to the general public whose interest in state finance must be gleaned therefrom.

The General Fund

Colorado's General Fund is currently, as it has been in the past,[24] the most controversial subject of State finance as well as the central problem of legislative attention and concern. Such emphasis seems in a sense to be a contradiction. Basically, the General Fund has become a residual—or a kind of "stepchild"—which is fed only after all the others (earmarked revenue funds) are satisfied. Moreover, General Fund revenue, though sizable, is still a relatively minor part of the aggregate revenues of the State. In fact, revenues received in 1958 by the Highway Fund and the Old Age Pension Fund were each equal to, or even larger than aggregate receipts of the General Fund (Chart 5.2 and Appendix Table 5-A).

Despite this seeming over-emphasis on one specific area of State finance the fact remains that the General Fund stands out among all other funds as the one to be watched and to be talked about and even to be used as political fodder for election campaigns. Why is this?

[24]With the possible exception of the Old Age Pension Fund.

Table 5.15

Fund Structure of State Government in Colorado, Fiscal Year, 1958

(Number of funds, net receipts and ending balance)

Fund	Number of funds	Net receipts (thousands)	Balance 6/30/58 (thousands)
Revenue funds:			
General Fund	1	$ 53,291	$15,565
Appropriated cash funds	73	30,339	8,871
Budgeted cash funds	49	15,928	3,416
Restrictive operative cash funds	35	2,182	812
Constitutionally earmarked funds	8	148,709	15,079
Building mill-levy funds	24	9,097	6,930
Total	190	259,546	50,673
Other funds:			
Trust funds	12	29,457	1,402
Suspense	7	6,694	601
Working capital	9	2,786	486
Sinking fund	7	14,110	4,337
Bond and Coupon	8	2,343	350
Clearing	57	50,994	3,271
Total	100	106,384	10,447
Grand total	290	365,930	61,120

Source: State of Colorado, Division of Accounts and Control.

The General Fund in Colorado, as is true elsewhere, is the one and only fund over which the General Assembly has unfettered control. Secondly, it is from General Fund revenues that some of the most vital activities of the State are sustained. Lacking adequate guarantees from other sources (earmarked revenues) a large portion of the money needed to finance the State colleges and universities as well as penal and eleemosynary institutions must come from general revenues. Similarly dependent are the schools whose state aid grants must come from this source. It is in this latter area of expenditure that much of the pressure—both fiscal and political—on the General Fund has been felt in the last few years.

Revenues and Expenditures. The trend and pattern of General Fund revenues and expen-

Table 5.16

Revenues and Expenditures of General Fund of State Government in Colorado Fiscal Years, 1950-1958

(thousands)

Revenues:	1950	1951	1952	1953	1954	1955	1956	1957	1958
Income tax	$16,424	$17,987	$19,161	$18,156	$17,126	$22,424	$24,893	$26,321	$33,924
Income tax—oil and gas	0	0	0	0	2,492	3,082	2,863	3,515	2,837
Inheritance tax	1,661	2,019	2,360	2,829	2,013	2,903	3,680	4,185	4,193
Insurance tax	1,704	1,964	2,277	2,535	2,827	2,792	3,371	3,302	3,671
Pari-mutuel	645	1,313	1,581	1,798	1,652	1,825	2,042	2,131	2,036
Sales, use and liquor taxes	1,758	2,390	2,447	2,837	2,834	3,278	3,427	3,601	3,277
All other	1,480	1,543	1,649	1,834	2,099	2,126	3,071	3,052	3,632
Total receipts	23,672	27,216	29,475	29,989	31,043	38,430	43,347	46,107	53,570
Expenditures:									
Public school aid	9,125	9,125	10,000	12,500	11,725	11,500	14,000	16,237	21,850
Department of Education	469	469	671	761	952	1,035	1,455	1,622	2,091
Colleges and universities	4,251	4,923	6,420	5,226	7,127	8,625	9,673	11,546	15,064
Penal and eleemosynary institutuions	6,038	7,205	7,512	7,862	7,715	7,975	9,268	10,653	13,352
All other	4,581	5,179	4,198	6,908	4,668	6,127	5,473	6,104	7,026
Buildings	0	0	0	0	0	1,367	108	1,687	0
Total expenditures	24,464	26,901	28,801	33,257	32,187	36,629	39,977	47,849	59,383

Source: State of Colorado, Division of Accounts and Control.

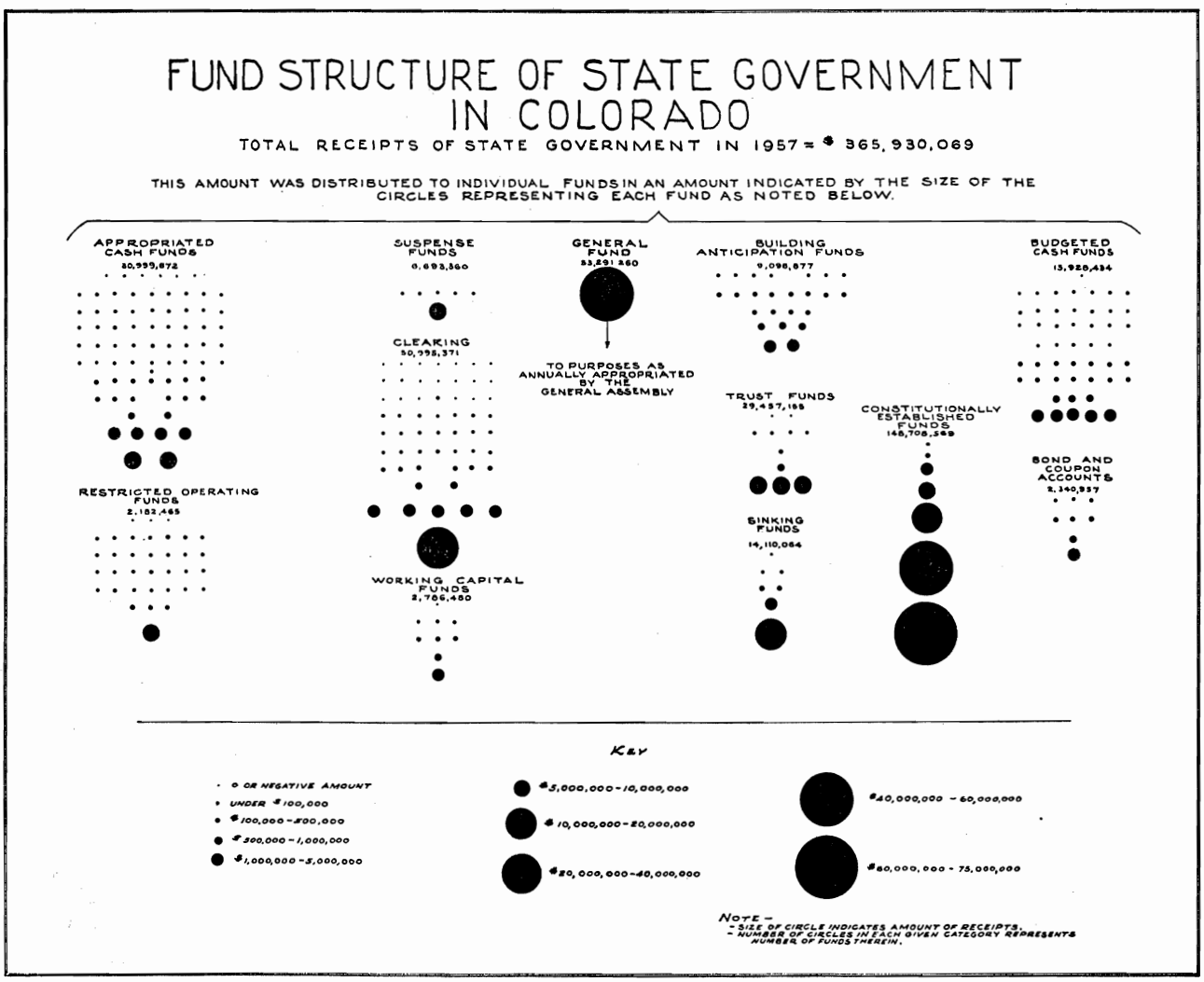


CHART 5.2

ditures presented in Table 5.16 and Charts 5.3 and 5.4 show what the financial pressure has been particularly since 1956. Thus, while total general revenues in 1958 amounting to $53 million exceeded aggregate general revenues in 1956 by $10.1 million this difference was more than offset by a corresponding expenditure increase of $19.4 million.

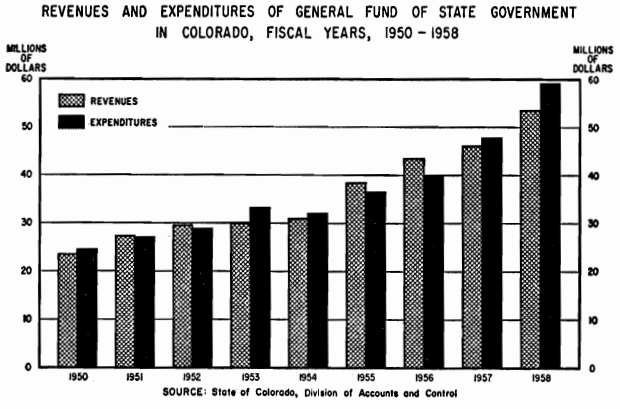


CHART 5.3

Further examination of Table 5.16 shows where the greatest expenditure requirements have developed. Looking first at revenues it will be observed that receipts from the income tax, which in 1958 accounted for well over one-half of total general revenues, increased from $24.9 million in 1956 to $33.9 million in 1958, or an over-all increase of $9 million. This, however, was nearly offset by public school aid alone which increased by $7.8 million. This sizable change came as a result of legislative action taken to implement the School Foundation Act which had been revised in 1957 to provide a higher minimum program of public school oper-

ation.[25] State action to implement this act added $6 million to General Fund outlays in 1957—an amount which will increase as legislative action moves toward its objective of achieving full implementation of the school aid program. Currently the ratio is less than complete or 80 percent.

Added to expenditures for school aid were other increases which, between 1956 and 1958, amounted to $3.5 million for state colleges and universities and $4.1 million for penal and eleemosynary institutions.

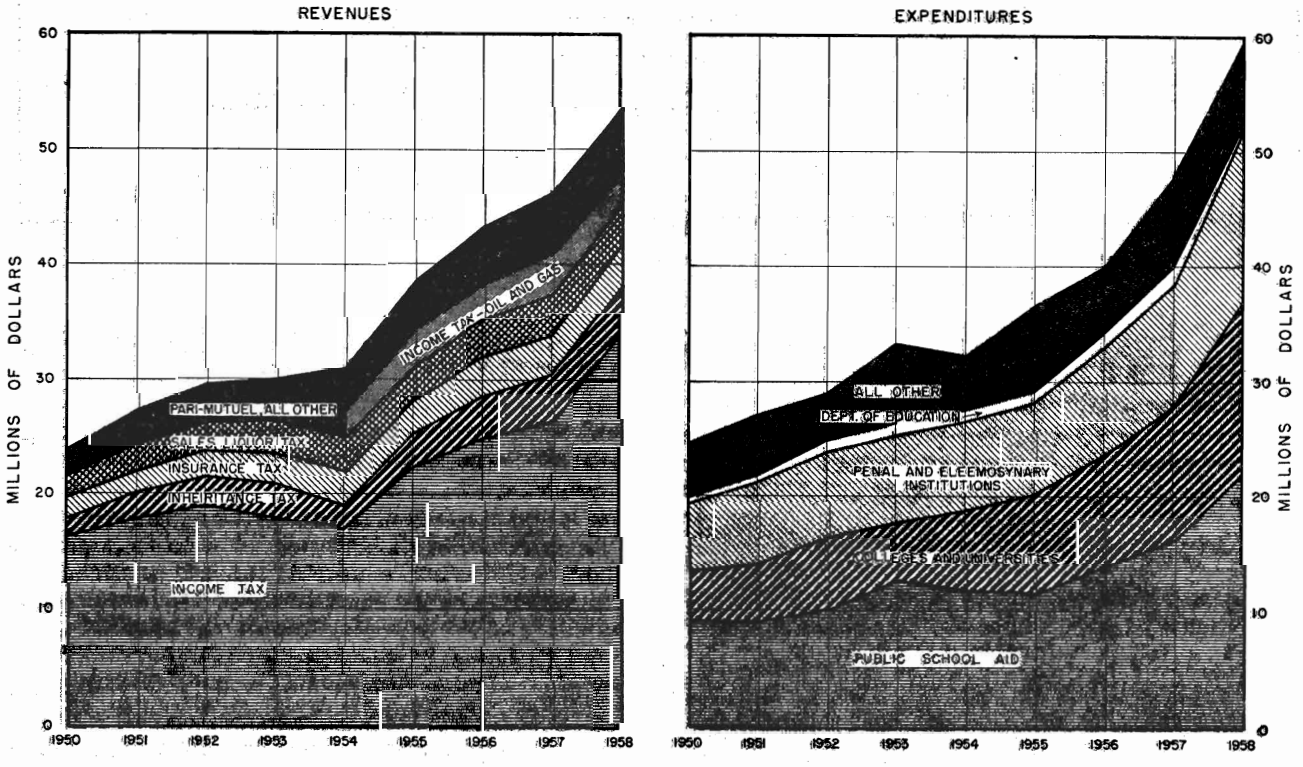
In sum, the pressing needs of education at both the public school and higher education levels constitute in the main the basic reasons for the increased demands on general revenue experienced during the past three years. It is here also where future expenditure increases are expected to develop.

General Fund Surplus. Recent accelerated expenditure requirements are reflected in the General Fund surplus which, as shown in Table 5.17, dropped from $19.2 million in 1956 to $11.6 million in 1958. The latter is the lowest reported balance since 1944 when the annual budget was less than one-fourth of what it is at the present time—a fact that points to the obvious and generally recognized inadequacy of surplus and therefore general revenues, as now constituted.

The purpose of the General Fund surplus suggests why its size at any given time serves, in part at least, as an index of the adequacy of General Fund revenue. Normally, the surplus is presumed to serve as a "working capital" or "revolving fund" to cover temporary lags of general revenue receipts behind expenditure. Secondly, surplus is expected to absorb annual

[25] In summary the program provides for classroom units having $5,200 and $4,500 values for school districts, toward which the county contributes the money raised from the 12-mill levy. The State undertakes to furnish the remainder. For further reference to the school aid formula, see Chapter XX.

REVENUES AND EXPENDITURES OF GENERAL FUND OF STATE GOVERNMENT IN COLORADO
FISCAL YEARS, 1950 — 1958



Source: State of Colorado, Division of Accounts and Control.

CHART 5.4

budget deficits as these may occur.[26] It should be noted that in the second case the over-all level of surplus is reduced whereas in the first case money flows back and leaves surplus intact assuming a current revenue and expenditure balance.

Table 5.17

General Fund Surplus of State Government of Colorado, Fiscal Years, 1940-1959

Year	Accumulated Surplus	Change from preceding year
1940	$ (54,900) [a]	—
1941	990,349	$+1,045,249
1942	1,995,355	+1,005,006
1943	4,962,921	+2,967,566
1944	8,277,687	+3,314,766
1945	12,327,811	+4,050,124
1946	15,040,872	+2,713,061
1947	14,576,399	— 464,473
1948	16,402,789	+1,826,390
1949	20,110,111	+3,707,322
1950	19,868,954	— 241,157
1951	20,414,686	+ 545,732
1952	21,586,625	+1,171,939
1953	18,672,858	—2,913,767
1954	18,265,759	— 407,099
1955	20,517,090	+2,251,331
1956	19,251,049	—1,266,041
1957	16,819,408	—2,431,641
1958	11,608,688	—5,210,720
1959	15,100,000 [b]	+3,491,312

[a] Deficit.

[b] Estimate.

Source: State of Colorado, Division of Accounts and Control.

Surplus as a "Revolving" or "Working Capital" Fund. General surplus as reported for June 30, 1958 and amounting to $11.6 million, is presumably insufficient to provide, without borrowing, the necessary working capital for the current 1959 fiscal year. This is apparent from 1958 experience which, as shown in Table 5.18, saw a maximum revenue lag in March amounting to $15.2 million. Thereafter accumulated cash revenue flow was accelerated but not, however, at a rate sufficient to catch up with accumulated expenditure. As above noted, the fiscal year-end balance in 1958 was $11.6 million or a figure $5.2 million below the 1957 balance of $16.8 million.

Recognition of the inability of existing surplus to provide necessary working capital to meet future anticipated peak demands caused the General Assembly in 1958 to enact legislation authorizing the temporary transfer to the General Fund of moneys from other funds, but exclusive of constitutionally established funds. This legislation provides also that the moneys borrowed for working capital will be paid back from general revenue in the same fiscal year in which the borrowings occur.[27]

Table 5.18

Monthly Cash Receipts and Expenditures of the State General Fund, Colorado Fiscal Year, 1958

(millions)

Month	Cumulative cash receipts	Cumulative cash expenditures	Difference
July	$ 3.9	$ 3.5	$+ .4
August	7.2	7.7	— .5
September	8.9	10.6	— 1.7
October	12.7	15.2	— 2.5
November	15.6	26.5	—10.9
December	17.8	29.7	—11.9
January	19.9	33.2	—13.3
February	23.1	36.8	—13.7
March	29.1	44.3	—15.2
April	41.2	50.3	— 9.1
May	49.2	58.3	— 9.1
June	53.6	59.3	— 5.7 [a]

[a] Amount transferred from surplus.

Source: State of Colorado, Division of Accounts and Control.

General Fund and Surplus — Current Problems and Issues. The preceding instituted measure to provide working capital has been one of a number of steps recently taken to "hold the line" until new revenue sources could be found to cover anticipated future expenditure demands upon the General Fund. In addition two legislative acts[28] designed to accelerate income tax payments were enacted neither of which, however, provides for an increase in taxes.

The first enacted in 1957 requires that all taxpayers, individual and corporate, shall pay their income tax for the previous year's earnings by April 15, of the succeeding year or be assessed a

[26] Terms such as "deficit" and "balanced budgets" used frequently both in official and public discussion may mean different things to different people. To some a deficit would mean a "current budget deficit" or that expenditures for the fiscal year exceeded revenues and this regardless of the fact that a surplus existed to absorb the deficit. To others, a deficit occurs only when no surplus exists to absorb it and money has to be borrowed. This is what occurred in Colorado in 1940 but has not happened since. Again a deficit may be considered to mean that money has had to be borrowed during the fiscal year for any reason whatsoever. Thus, money could be borrowed to provide for working capital. This would be regarded as a deficit in operations even though revenue and expenditures balanced out over the year. Other than pointing to a possible lack of adequate surplus for working capital purposes such an interpretation of a "deficit" is completely erroneous, since it presumes that borrowing, as such, results in a decline in net worth.

Because of these varying meanings it is important to examine the context in which the terms are used. In this study a deficit could mean either a "deficit for the fiscal year" or one in which such a situation exists only if money has had to be borrowed to cover the deficit. In either event the context will identify the exact meaning intended.

[27] *Session Laws of Colorado*, Chapter 6, First Extraordinary Session, 1958. Pertinent sections of the law read as follows:

From time to time during any fiscal year as orderly treasury management and fiscal procedure may require, and in accordance with the purpose of this act, upon written approval of the governor and the attorney general, the state controller and the state treasurer shall transfer, from any fund not specifically dedicated by the constitution of the State or not specifically exempted by Section 4, of this Act, to the general revenue funds such amounts of money as shall be required to insure prompt payment from the general revenue funds of any warrants drawn pursuant to appropriation made by the general assembly, provided, however, that the state controller shall first certify:

(1) That the general revenue funds have sufficient monies accruing to them in the same fiscal year to retransfer to the original fund all the monies so transferred, that appropriations do not exceed estimated general fund revenue, general cash revolving fund and surplus; and (2) That the cash funds from which the money is temporarily transferred to the general revenue funds has and will have sufficient money to enable it to meet its own obligations during the period prior to the anticipated retransfer from the general revenue funds.

[28] Popularly referred to as "Golden Gimmicks No. 1, and No. 2," the other or "No. 3," being that which permits borrowing from other cash funds.

penalty interest payment.[29] Previous legislation permitted corporations and certain individuals, but not wage earners, to pay past-due taxes over as much as a two-year period. This provision is estimated to have brought into the General Fund about $7 million of past due taxes in fiscal 1958. Without this temporary expedient, surplus at the end of fiscal 1958 would have dropped to around $4 million rather than to the $11 million level as reported.

The second legislative act enacted in 1958—the fiscal results of which will be realized in fiscal 1959—is expected to accelerate the inflow of income tax payments to the amount of $7 million.[30] Under provision of this law all income taxpayers, no matter what their sources of income, are required to pay their taxes as their income is earned. Previously only wage and salary earners had their income tax withheld and these withholdings remitted to the State quarterly. Under this program, all individuals except wage earners and salaried persons are required to make advance estimates of earnings and make quarterly tax payments on these estimates. Thus all taxpayers are put on the same basis.

A complete discussion of the policy of postponing a tax increase goes beyond the scope of this study. However, the principal arguments pro and con are pertinent here to the extent that they describe the fiscal problem of the General Fund as it has developed and as it currently exists.

Basically much of the problem stems from the State's inflexible revenue structure due to heavy earmarking which has put a squeeze on the General Fund. Although memories are short this is what occurred before World War II when the State had to borrow to finance its ordinary housekeeping activities. However, with the outbreak of war, pressure on general revenue was relieved due to the twin facts of increased revenue following upon enlarged employment and income and the forced contraction of State spending because of war time shortages. This was the time therefore to build general surplus which the State proceeded to do as shown in Table 5.17. Beginning with a deficit in 1940, the General Fund had by 1946 acquired a surplus of $11 million. Additions thereafter raised this figure to around $20 million—an average which obtained generally from 1949 to 1956.

The sharp decline since 1956 poses then the question of fiscal management as it relates both to action which has been recently taken but more importantly to policy action needed for the future.

Recent fiscal management policy, which has postponed increased taxation in the face of a considerably reduced surplus and anticipated enlarged General Fund expenditures, finds its support on grounds that new taxes or increased rates on existing taxes should not be introduced until a thorough review of the total tax structure is made. This recognizes that Colorado's tax system is a highly complex thing in which equity in the distribution of the burden has become increasingly difficult to determine and to resolve. Accordingly, to seize quickly upon a new tax or to enlarge the present revenue sources without adequate recognition of what the impact of such action might be on the taxpaying public would be ill-advised at best.

Opposed to this policy has been the argument that borrowing from other cash funds to meet working capital deficiency (an action anticipated in fiscal 1959) is an expensive alternative. Moreover to let surplus run to relatively low levels means that when taxes are increased they must necessarily be lifted sharply to replace surplus besides meeting accelerated current expenditures. It is argued therefore that if an earlier start had been made the tax increase could have been quite moderate with perhaps a gentle upward trend that could be taken in stride.

The particular measures used to bolster the General Fund have also been criticized on grounds that (a) the transfer to the General Fund of moneys borrowed from other cash funds, deprives the State of interest revenue and to that extent such transfer costs money. Moreover the invasion of the private preserves of these funds could hamper their operations and (b) the two acceleration devices used to augment income being "one-shot" affairs are a "snare and delusion" designed to minimize the seriousness of the "financial plight" of the State.

Answer to argument (a) concedes that the General Fund is now inadequate for covering peak working capital needs but raises the question as to whether General Fund surplus should be maintained at a level which would fully cover seasonal requirements. Such a policy, it is held, would lead to excess funds in certain months which would merely add to the State's over-all cash holdings which, in large extent, are earning very low interest—or none at all. It is further pointed out that business firms frequently borrow to cover seasonal cash requirements. If, however, a business did choose the alternative of not borrowing it certainly would not earmark its cash. If such were the case it would go broke in the process. Assuming then that seasonal borrowing by government is in accord with sound financial practice, whether it apply to business or government, what could be more reasonable than to borrow from cash that is earmarked?

In answer to argument (b) it is contended that the legislation enacted to accelerate income

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[29] *Session Laws of Colorado, 1957*, Chapter 269.

[30] *Session Laws of Colorado, 1958*, Chapter 57.

tax revenue, though designed as expedients to "hold the line," were also forward steps toward achieving greater equity between taxpayers and, as such, would have been enacted sooner or later.

Conclusions. Undoubtedly there is merit in the arguments advanced on both sides of the issues as described. It is clear in any event, however, that apart from their short-run implications—the much maligned "Golden Gimmicks Nos. 1 and 2" have added measurably to the basic effectiveness of Colorado's income tax law and its administration. Similarly, and again apart from its short-run implications, Golden Gimmick No. 3 is sound in principle. Borrowing to cover seasonal working needs is acceptable policy. Whether borrowing from other State funds is similarly acceptable is a moot question but on balance seems appropriate in the absence of a more fundamental reform of the State's inflexible cash fund structure. Such reform would call for a thoroughgoing consolidation of State functions and with it would also come the consolidation of revenues and cash subject to use for general appropriation by the Assembly.

In reference to the policy of delay in increasing revenues — which was, after all, the fundamental issue, not the "gimmicks"—this is now a matter of past policy no longer pertinent unless continued. This then raises the question of what the future needs of the General Fund appear to be and what action has to be taken and when.

Estimated General Fund Revenues and Expenditures, 1959-1965. It is estimated that General Fund revenues during the fiscal year ending 1959 will exceed expenditure (assuming an 80 percent implementation of the School Foundation Act) to an amount that will build up surplus from $11.6 million to $15.1 million.[31] Starting from this base of reference the estimated 1960 to 1965 revenue flow (assuming no change in the general revenue sources and rates) is expected to advance from $58.8 million in 1960 to $87.6 million in 1965. (See footnote references in Table 5.19 for description of estimating bases.)

Turning to the expenditure side of the budget picture from 1960 to 1965 it is first necessary here to recognize that projected totals will vary depending upon the particular assumptions made. Four of these seem most pertinent.

(1) Expenditures assuming 80 percent implementation of public school aid and 100 percent of all other estimated expenditure requirements,

(2) Expenditures assuming 100 percent implementation of public school aid and 100 percent of all other estimated expenditure requirements,

(3) Expenditures assuming 80 percent implementation of public school aid and 85 percent[32] of all other estimated expenditure requirements,

(4) Expenditure assuming 100 percent implementation of public school aid and 85 percent of all other estimated expenditure requirements.

By these assumptions the following revenue and expenditure relationships are indicated. (See also Table 5.19.)

Year	Revenues (thousands)	Expenditures (thousands)	Current surplus(+) or deficit (—) (thousands)
Assumption (1)—80% Implementation of School Aid and 100% of all other Estimated Expenditure Requirements			
1960	$58,856	$ 72,733	$—13,877
1961	64,593	78,516	—13,923
1962	70,016	82,506	—12,490
1963	75,677	86,425	—10,748
1964	81,472	89,993	— 8,521
1965	87,635	93,812	— 6,177
Assumption (2)—100% Implementation of School Aid and 100% of all other Estimated Expenditure Requirements			
1960	58,856	83,223	—24,367
1961	64,593	89,543	—24,950
1962	70,016	93,954	—23,935
1963	75,677	98,320	—22,643
1964	81,472	102,307	—20,835
1965	87,635	106,437	—18,802
Assumption (3)—80% Implementation of School Aid and 85% of all other Estimated Expenditure Requirments			
1960	58,593	65,309	— 6,453
1961	64,593	70,569	— 5,976
1962	70,016	74,139	— 4,123
1963	75,677	77,611	— 1,934
1964	81,472	80,781	+ 691
1965	87,635	84,136	+ 3,499
Assumption (4)—100% Implementation of School Aid and 85% of all other Estimated Expenditure Requirements			
1960	58,856	75,799	—16,943
1961	64,593	81,596	—17,003
1962	70,016	85,587	—15,571
1963	75,677	89,506	—13,829
1964	81,472	93,095	—11,623
1965	87,635	96,761	— 9,126

From these relationships it will be seen that, however viewed, Colorado faces continuing deficits which point to a needed sizable tax revenue increase in the near future beginning perhaps in the next fiscal year ending in 1960.

Estimated Expenditures for New Buildings. Not included in the foregoing General Fund projections are the estimated capital needs—mainly for new buildings including land—as submitted by the various state agencies. As noted in Table 5.20, annual expenditure requirements for these purposes projected from 1960 to 1965 would add to the annual General Fund deficits (as variously estimated in Table 5.19) amounts ranging from $457,000 to $1,580,000 exclusive of the large expenditure total of $19,036,000 projected for 1960. The latter amount covers mainly an addition to the University Medical School.

[31] Estimate by State of Colorado, Division of Accounts and Control.

[32] Past experience indicates that agency requests for purposes other than public school aid have been implemented by appropriation of approximately 85 percent of requested need.

Table 5.19

Revenues and Expenditures of General Fund, State Government of Colorado, Fiscal Year (actual), 1958, and Estimated, 1959-1965

(thousands)

Item	1958	1959	1960	1961	1962	1963	1964	1965
Revenues								
Income tax	$33,924	$41,300	$35,877	$37,527	$39,253	$41,059	$42,947	$44,922
Income tax (oil and gas)	2,837	2,800	2,800	2,800	2,800	2,800	2,800	2,800
Inheritance tax	4,193	4,200	4,303	4,408	4,516	4,627	4,740	4,856
Insurance tax	3,671	3,550	3,790	4,065	4,353	4,661	4,879	5,235
Pari-mutuel	2,036	2,360	2,356	2,414	2,473	2,533	2,595	2,658
Sales, use and liquor tax	3,277	7,800	6,400	9,968	13,127	16,417	19,843	23,406
All other	3,632	3,250	3,330	3,411	3,494	3,580	3,668	3,758
Total	53,570	65,200	58,856	64,593	70,016	75,677	81,472	87,635
Expenditures								
Public school aid								
80% implementation	21,850	23,027	23,237	25,536	26,726	27,665	28,579	29,303
100% implementation	0	0	(33,727)	(36,563)	(38,174)	(39,560)	(40,893)	(41,928)
Education agencies	2,091	2,245	3,608	2,780	2,906	3,192	3,358	3,514
Colleges and universities	15,064	15,639	21,041	22,984	24,734	26,452	28,006	29,880
Penal and eleemosynary institutions	13,352	13,262	14,702	16,150	16,868	17,418	17,919	18,632
All other	7,026	7,582	10,145	11,066	11,272	11,698	12,131	12,483
Total 80% implementation	59,383	61,755	72,733	78,516	82,506	86,425	89,903	93,812
Total 100% implementation	0	0	(83,223)	(89,543)	(93,954)	(98,320)	(102,307)	(106,437)
Current deficit								
80% implementation of school aid	5,813	0	13,877	13,923	12,490	10,748	8,521	6,177
100% implementation of school aid	0	0	24,367	24,950	23,938	22,643	20,835	18,802
Current deficit								
80% implementation of school aid and 85% implementation of other estimated expenditures	5,813	0	6,453	5,976	4,123	1,934	0	0
100% implementation of school aid and 85% implementation of other estimated expenditures	0	0	16,943	17,003	15,571	13,829	11,623	9,126

General note: Estimated revenue and expenditure data for 1959 from State of Colorado, Division of Accounts and Control.

Revenue estimates (1959-1965)

1. Income and insurance tax revenues were projected on an annual growth basis of 4.6 percent which is the same as the future growth rate of the State's personal income estimated by John Welles of the Denver Research Institute. (See Chapter 1.)
2. Inheritance, pari-mutuel and "all other" revenues were projected on an annual growth basis of 2.45 percent which is the same as the future growth rate of the State's population estimated by William Peterson of the University of Colorado. (See Chapter 1.)
3. Income tax (gas and oil) revenues were projected on a "no change" basis on the assumption that industry uncertainty warranted no other course.
4. Income from the sales, use and liquor taxes was estimated on the basis of the following analysis:

Year	Number of persons receiving pensions[a]	Annual sub-sistance	Annual total require-ment	Plus medical care	Grand total cost	Less outside income[b]	Sub total	Less OASI[c]	Net cost to State and Federal government	Less federal cost	Net cost to State	85% sales, use and liquor tax[d]	Amount to General Fund[e]
								(thousands)					
1958	54,000	$1,200	$64,800	$ 3,208	$68,008	$ 3,564	$64,434	$ 8,553	$55,881	$23,890	$31,991	$31,991	$ 0
1959	54,250	1,245	67,541	10,000	77,541	3,580	73,961	8,981	64,980	24,194	40,786	44,708[f]	3,922
1960	54,500	1,260	68,670	10,000	78,670	3,597	75,073	10,228	64,845	24,600	40,245	43,325	2,900
1961	54,500	1,260	68,670	10,000	78,670	3,669	75,001	11,551	63,450	24,600	38,850	45,318	6,468
1962	54,500	1,260	68,670	10,000	78,670	3,742	74,928	12,552	62,376	24,600	37,776	47,403	9,627
1963	54,500	1,260	68,670	10,000	78,670	3,817	74,853	13,586	61,267	24,600	36,667	49,584	12,917
1964	54,500	1,260	68,670	10,000	78,670	3,893	74,777	14,656	60,121	24,600	35,521	51,864	16,343
1965	54,500	1,260	68,670	10,000	78,670	3,970	74,700	15,756	58,944	24,600	34,344	54,250	19,906

[a] It is assumed that the number of old age pension recipients will increase until 1960 but will remain constant thereafter. This assumes also no change in the Federal Aid formula of $42.20 per Class A pensioner per month.

[b] Computed at $5.50 per month or $66.00 a year as an average for 1959-1960; thereafter increasing 2 percent a year.

[c] OASI income computed for 1959 as follows: 8 months x 17,150 x $42.11 per month = $5,777,492; 4 months x $45.05 per month x 17,780 = $3,203,956. For 1960 and thereafter 2½ percent increase per year on percentage of Class A-O.A.P. recipients also drawing OASI plus 10 cents per month increase on average benefit from OASI.

[d] Estimated annual increase at rate of 4.6 percent.

[e] Does not include an estimated annual addition of $3.5 million from 15 percent portion of sales, use and liquor tax.

[f] Includes a balance of $3,288,034 carried forward from preceding year.

Expenditure Estimates (1959-1965)

1. Expenditure projections are based on figures representing estimated future needs reported by the various agencies financed in whole or in part from General Fund.

Source: Data for 1958 from State of Colorado, Division of Accounts and Control.

These and the other projected annual requirements were omitted from the preceding General Fund estimates for the reason that they are considered as being highly uncertain both in amount and timing and, perhaps, in the method ultimately to be used for their financing. (A continuing mill levy device as currently employed in most of the building programs of the State might, for example, be an alternative.)

It is becoming apparent that both the State institutions (particularly the state hospital) and the colleges and universities will, over the next five years, require, or at least request, more new buildings than they have reported and as included in Table 5.20. If this is the case, and there is every indication that this is a strong likelihood, and assuming that General Fund financing is to be employed, it is obvious that a "capital budget" program must be developed to "even out" the irregularities of the demands placed on the General Fund. And, even if no further capital needs develop than what have already been

projected, it is clear that a "lumpy" outlay to the estimated amount of $19 million for fiscal 1960 calls for an immediate set-aside of current general revenue in preparation for its financing.

Capital Budgeting from General Revenues. The large subject of capital budgeting goes quite beyond the scope of this chapter. However, it is becoming increasingly evident that Colorado's building program must be projected on a basis wherein the General Fund must necessarily play a larger role than it has in the past. Operationally this would require that the General Fund be divided into two distinct parts or an "operating budget" and a "capital budget." The last is essentially a device for systematically planning both long-term needs and financial means wherein planned programs and priorities are reviewed annually and adjusted by the General Assembly according to conditions as these develop. Capital budgeting permits early revenue planning so that a pay-as-you-go policy can be established for at least a large portion of the capital outlay anticipated.

Table 5.20

Estimated Expenditures for Buildings and Land
State Government of Colorado
Fiscal Years, 1958-1965
(thousands)

Year	Institutions	Universities and colleges	Other	Total
1960	$4,149	$13,560[a]	$1,327	$19,036
1961	745	0	453	1,198
1962	719	0	623	1,342
1963	692	0	888	1,580
1964	50	0	407	457
1965	850	0	380	1,230

[a] Medical school building scheduled for 1960 or 1961.

Source: Expenditure projections are based on estimated future needs reported by the various agencies which are financed in whole or in part from the General Fund.

The inclusion of all building programs of the State under an established capital budget program financed from general revenue would establish a base of planning whereby the entire capital picture of the State could be seen and controlled as a whole. Its ultimate goal would see the elimination of specific mill levies dedicated as now to this and to that with not much over-all judgment possible as to which is more important and why.

From the standpoint of the agencies affected the freezing of revenues (by assigned mill levies on property)[33] as now obtains in large degree has the merit of permitting them to relax. They are certain that the money will be forthcoming thus assuring the completion of their building programs. In further support of such a policy it is argued that building programs cannot hazard the flexibility of year-to-year judgments of the General Assembly on long-term building programs. This, of course, questions the competency of the Assembly (and, indeed, representative government itself) to make sound decisions, a position which can hardly be established on any rational basis.

[33] See Chapter VII.

Summary and Conclusions

A summary review of over-all state government expenditures (including payments to counties and cities) shows that in per capita "real" terms, that is in constant purchasing-power dollars, total State outlay in 1957 was 8 percent greater than in 1950 and 70 percent greater than in 1946. In 1957, also, nearly 90 percent of total expenditures were for three principal purposes, namely, welfare, highways and education.

On the revenue side per capita taxes, also in "real" terms, showed for 1957 an increase of 37 percent over 1950 and 114 percent over 1946. Comparatively, per capita state taxes in Colorado were, in 1956, below both the general and median average for the eleven Western States. Similarly the ratio of Colorado state taxes relative to state personal income was less than the general average as well as the median average of these States.

Colorado's sources of state revenue in 1957 were generally divided between taxes which accounted for 62.28 percent of the total; licenses and fees, 2.85 percent; departmental earnings, 9.41 percent; and federal grants, 25.46 percent.

Approximately 80 percent of the State's revenue is earmarked—a fact which not only explains the existence of 190 "cash" funds (in addition to which there are 100 other funds or a total—cash and other—of 290), but explains also (in a basic sense) the current plight of the General Fund. As a kind of a residual legatee of State revenues, the General Fund is under severe pressure due to growing expenditure requirements in the face of inadequate revenue provision. Projected general revenues and expenditures to 1965 strongly indicate the immediate need for a sizable increase in revenue to avoid future General Fund deficits that existing surplus can no longer absorb.

Appendix Table 5.A

FUND STRUCTURE OF STATE GOVERNMENT IN COLORADO

Statement of Receipts (plus transfers in minus transfers out) and Balances of Individual Funds, Fiscal Year, 1958

(Total number of funds for each classification in parenthesis)

Fund	Receipts (plus transfers in minus transfers out)	Cash Balance 6/30/58
General Fund (1)	$53,291,260	$15,565,120
Appropriated Cash Funds (73)		
Aid to Dependent Children	7,704,550	1,081,599
Department of Revenue 57/58	5,139,616	1,517,871
Game, Cash	4,219,746	2,947,002
Public Welfare Administration	3,507,125	663,457
Aid to Needy Disabled	3,184,579	482,656
Colorado State Patrol	2,218,394	207,944
Federal Aid Projects	652,786	375,190
State Patrol Radio Sta., Oper.	504,345	139,444
Motor Vehicle Insp., St. Adm.	435,205	55,285
Fruit and Vegetable Inspection	324,727	85,282
Aid for Blind	295,794	39,907
State Inspection	295,066	23,436
Child Welfare Services, State	262,037	29,191
State Bd. of Land Comm.	254,084	65,436
Emergency Contingent	221,129	17,868
Public Utilities Comm., Spec.	215,978	197,779
State Fair Commission	209,556	112,524
Liquor Lic. and Tax. Adm.	183,160	30,833
Public Utilities Comm., Revolving	143,671	33,514
School for Deaf and Blind	121,293	64,542
State Home for Aged—Trinidad	113,118	7,343
Real Estate, Lic. Bd.	73,109	51,478
Poultry and Egg Inspection	72,651	48,361
State Inspection of Oils.	69,719	0
Weights and Measures	68,518	14,377
Produce Dealers	63,654	6,129
Coal Mine Inspection	58,639	1,189
Safety Device and Method	52,053	35,398
State Highway Safety Council	50,652	160
State Resturant Inspection	48,163	14,131
Nurse Exam., State Bd.	46,752	23,854
Metal Mining	42,624	64,698
Hail Insurance	32,332	14,036
Feed Control	30,174	22,080
Ground Water Fund	27,142	27,137
Practical Nurses Bd. of Exam.	27,054	13,115
Cosmetology, State Bd.	24,991	20,991
Pharmacy, State Bd.	23,621	3,202
Barber Exam., State Bd.	22,295	12,914
State Bd. of Reg. for Prof. Engrs.	22,026	14,280
Medical Examiners, State Bd.	20,262	23,166
State Hail Ins. Claims	19,383	0
Fishing Easements	18,684	18,558
Fertilizer Inspection	16,688	20,737
State Bd. of Exam. Teachers	16,205	11,133
Bedding Inspection	13,861	10,580
Accountancy	11,987	3,859
Dental Examiners	10,541	9,081
Plant and Insect Control	8,596	9,156
Architects, State Bd.	7,525	8,526
Military Special	7,063	1,285
Athletic Commission	6,720	100
Dairy Section	6,688	7,188
Funeral Dir. and Emb., State Bd.	6,155	5,991
Basic Sc. Bd. of Exam.	5,572	5,615
Insecticide Insp.	4,687	4,750
Chiropractic Exam.	4,468	404
Refrigerated Lockers	4,185	3,183
Veterinary Med. Examiners	3,538	3,126
Land Commissioners, Cash	3,530	1,191
Engineers and Land Surveyors Bd.	2,760	1,302
Optometric Exam., State Bd.	2,139	1,886
Collection Agency Bd.	1,692	1,969
Oleomargarine Inspection	1,192	6,320
Bd. of Reg. of Prof. Sanitarians	1,062	993
Abstractors Bd. of Exam.	739	650
Pvt. Theatrical Emply't. Agencies	127	291
Dept. of Revenue, Insp. St.	0	70,073
Shorthand Reporters, State Bd.	—73	114
Water Well Fund	—10,000	0
Brand Inspection	—47,053	74,389
Mineral Land Expense	—200,227	0
Dept. of Revenue 56/57	—671,752	0
Total	30,339,072	8,871,250
Budgeted Cash Funds (49)		
Colorado State Hospital	2,541,621	808,729
Dept. of Employment Admin.	2,533,258	209,462
Public Health Service Grants	1,893,305	147,539
Colorado State University	$ 1,596,440	$ 332,525
Colorado State College	1,305,027	345,438
State Penitentiary Convict Earn.	948,327	195,876
Colorado School of Mines	894,006	66,616
State Compensation Admin.	587,815	67,569
Children's Bureau Grants	499,181	122,938
Western State College	406,293	65,924
Fed. Voc. Educ. Rehabilitation	282,761	38,060
State Voc. Educ., Geo Barden	277,142	179,216
Blind Rehabilitation	240,329	102,733
Adams State College	214,690	14,490
Military	203,910	30,110
Colorado State Univ., Exper.	161,541	43,996
Ft. Lewis Ag. Mech. Arts College	150,430	1,989
State Reformatory, Canteen, Lib.	144,977	8,585
Child Welfare Services, Federal	114,971	5,018
Oil and Gas Conservation	114,069	100,741
State Home and Tr. Sch., Ridge	105,225	63,495
State Home and Tr. Sch., G. Jct.	104,953	110,840
Predatory Animal Control	71,229	42,294
Fed. Voc. Educ. Smith Hughes	63,385	53,385
Motor Vehicle Administration	60,980	26,757
Blind Rehabilitation, Federal	58,738	41,974
Fed. Voc. Educ. Vet. Tr.	56,501	44,011
State Library Heritage Fund	50,000	33,300
Colorado School of Mines, Exper.	38,242	17,523
Monte Vista Golden Age Center	33,898	14,123
Vending Stand Fund (Blind)	32,476	24,250
Colo. Comm. on Vets Ed. and Tr.	31,634	8,035
Ft. Lewis Exp. Farm	20,307	3,642
State Reformatory	19,836	1,360
Vibro Fund	13,895	4,212
Rodent Pest Control	13,192	3,739
Industrial School for Boys	11,497	3,807
State Vocation Education	11,163	1,142
Co-op Projects in Educ. Admin.	8,052	5,479
Colorado State Children's Home	4,410	9,359
State Insp. of Oils, Anti-freeze	2,375	3,081
State Voc. Educ. Rehab., Cash	2,091	1,786
Sch. for Deaf and Blind Library	1,620	4,382
Ft. Lewis Sch., Vet. on Farms	617	1,121
Private Public Health Grants	464	1,751
Livestock Water Tank	448	792
State Training Sch. for Girls	379	553
Colorado Comm. on Alcoholism	39	180
Timber Administration	0	2,404
Total	15,927,739	3,416,331
Restricted Operating Funds (35)		
School lunch Program, Federal	1,164,624	74,029
Sch. for Deaf and Blind, Land Proc.	299,600	296,426
Univ. of Colo. Sch. of Med. and Nurses Tr.	225,245	2,698
Civil Defence Survey Plan Tr. Fund	131,067	1,991
Civil Defence Trust Fund	86,375	46,307
Library Service Act	68,592	24,921
Game and Fish Conserv. Mag.	27,574	31,536
Colo. St. Univ. Land Income	26,874	11,884
State Planning Comm. Urban Plan	16,835	11,154
Unemployment	16,073	40,123
Federal Aid Proj. Income	16,038	15,677
State Historical Society	15,899	3,014
Sabin Memorial Fund	15,000	11,254
Supreme Court Library	13,149	32,303
Subsequent Injury Fund	11,250	66,743
Federal Lands, Materials Act	9,133	0
Public Bldg., Permanent	8,623	22,923
University Land, Permanent	4,635	125
Game and Fish Reclam. Proj.	3,615	2,040
Saline Land, Permanent	3,047	17,151
Colorado Migrants Projects	2,875	462
University Land, Income	2,463	332
Saline Land, Income	2,451	30,915
Public Bldg., Income	2,276	22,517
Penitentiary Loan Income	2,222	28,102
State Adult Education	2,000	2,000
Ft. Lewis Sch., Student U. Bldg.	2,000	0
Ft. Lewis Sch. Endow. Income	1,108	1,186

Appendix Table 5.A—(Continued)

Fund	Receipts (plus transfers in minus transfers out)	Cash Balance 6/30/58
State Home for Aged, Constr. Equip.	$ 755	$ 422
State Library	718	5,542
Colorado St. Hosp., Sp. Legacy	418	1,691
Monte Vista Golden Age Center	248	7,004
Civil Defence Disaster Relief	0	0
General Land Income	—10	0
Public Health Bldg. Cert. Fees	—307	0
Total	2,182,465	812,472
Constitutionally Established Funds (8)		
Old Age Pension	53,670,500	5,414,260
Health and Medical Care	6,867,600	5,209,146
Old Age Stabilization Funds	3,026,639	51,123
Pension Fund Income	48,361	45,405
State Highway Supp.	69,995,053	2,997,516
Highway User Tax Fund	14,985,842	1,244,788
Motor Veh. Penalty Assess.	114,551	116,492
J. P. Court Fines	23	0
Total	148,708,569	15,078,730
Building Anticipation Funds (24)		
Colorado State Hospital	1,634,125	3,306,193
University of Colorado	1,379,495	1,023
Colorado State University	916,294	15,361
Univ. of Colo., Dept. of Med.	662,749	491,711
State Home and Tr. Sch., Grand Junction	603,905	140,083
Capitol Building	460,958	912,205
Colorado State College	454,699	483,259
Colorado State Penitentiary	404,645	258,782
State Home and Tr. School, Ridge	385,079	269,024
State Training Sch. for Girls	362,616	127,909
Colorado State Reform Sch.	355,596	362,116
Colorado School of Mines	305,873	79,957
Western State College	294,684	29,696
Industrial School for Boys	258,817	168,779
Adams State College	212,173	3,343
Ft. Lewis Ag. and Mech. College	180,973	4,749
Colo. State Univ., Exp. St.	102,936	125,197
Dept. of Health, Bldg. Fund	68,992	68,992
Colorado State Fair Comm.	24,350	17,976
Small Projects, Bldg.	13,798	13,798
Colorado Sch. for Deaf and Blind	6,133	7,846
Monte Vista Golden Age Center	4,270	19,493
Military	2,902	16,641
Colorado State Children's Home	815	5,428
Total	9,096,877	6,929,561
Trust Funds (12)		
Public Employees Retire., School	9,519,023	540,851
Public Employees Retire., State	9,318,175	278,049
State Compensation Insurance	7,962,730	346,040
Public School, permanent	1,978,373	131,807
Public Employees Retire., Muni.	531,707	5,245
Public Employees Retire., Judges	104,372	5,340
Escheats	29,129	55,294
Ft. Lewis, School Endowment	10,691	2,036
Blind, Rehab. Trust Fund	2,170	20,963
Escheats, Corporate	1,050	11,918
Escheats, Blocked	0	2,021
Partition in Realty	—265	2,012
Total	29,457,155	1,401,576
Suspense Funds (7)		
Dept. of Employment, Clearing	6,582,060	5,335
Ton Mile, Suspense	62,421	342,357
Motor Fuel Tax, Suspense	45,476	119,107
Dept. of Revenue, Suspense	8,605(cr)	81,564
State Dept. of Agri., Suspense	3,035	42,455
Highway Users Tax, Suspense	638	638
Governors Mansion Bldg.	0	9,539
Total	6,693,630	600,995
Working Capital Funds (9)		
State Penitentiary Stores Rev. Fund	1,236,094	230,432
Colorado State Univ. Rev. Fund	865,489	54,569
Game and Fish Stores Rev. Fund	368,987	124,117
Veterinarian Rev. Fund	154,152	26,910
Purchasing Agt. Rev. Fund	133,472	23,007
Motor Car Pool Rev. Fund	23,305	10,511
Land Acquisition Commission	3,725	13,283
Dept. of Agri., Emerg. Hay Program	446	0
School Lunch Rev. Fund	0	2,817
Total	2,785,670	485,646
Sinking Funds (7)		
State Highway Antic. W. '56	$ 11,328,151	$ 3,174,304
State Highway Antic. W. '56 Sink.	2,186,390	960,000
Denver-Boulder Turnpike, Bond Prin.	372,564	112,437
Denver-Boulder Turnpike, Int.	165,647	55,011
State Home for Aged	32,126	16,470
Highway Bldg. and Auth.	25,530	0
State Highway Anticipation	—344	19,247
Total	14,110,064	4,337,469
Bond and Coupon Accounts (8)		
State Anticipation, 1956 Prin.	1,200,000	0
State Highway Anticipation, 1956 Int.	626,390	338,689
Denver-Boulder Turnpike, Int.	168,845	3,813
Highway Bldg. Auth. Prin.	141,000	0
Denver-Boulder Turnpike, Prin.	125,000	5,000
Highway Bldg., Int.	51,060	317
State Home for Aged, Int.	29,662	1,925
State Home for Aged, Prin.	1,000	0
Total	2,342,957	349,744
Clearing Funds (57)		
State Public School Fund	27,168,516	853,228
Dept. of Emply't. Sec. Benefits	11,010,000	0
Motor Fuel Tax Refund	4,446,174	0
Old Age Surv. Ins. Contrib.	2,400,011	6,272
Income Tax Withholding	1,683,526	100,000
University of Colorado	1,171,129	0
U. S. Mineral Leasing	1,006,269	1,382,641
Sales Tax	655,249	0
Firemen's Pension	600,000	0
Motor Veh. Spec. Owner Tax A	472,462	449,399
Policemen's Pension	450,741	0
Forest Reserve	261,252	0
Income Tax Refund	179,288	50,000
Colorado St. Univ. Land, Perm.	101,520	6,743
Motor Vehicle Safety	100,811	110,668
Public School Income	95,177	0
Denver-Boulder Turnpike	84,576	189,185
Inheritance Tax	50,337	0
Gross Ton-Mile Tax	25,792	0
Taylor Grazing Act	19,920	49
Liquor License Fund	16,847	0
Use Tax	15,275	0
Flood Control Land Oil	12,261	0
Colorado State Forest	1,477	1,430
Penitentiary Land, Permanent	987	13,901
Gift Tax	950	0
Miscellaneous	949	4,453
Hope Flannigan Rev. Fund	657	12,294
Aircraft Spec. Ownership Tax	326	326
Aircraft Registration	291	2,679
Foreign and Dom. Corp. Tax	201	0
Motor Fuel Tax Fund	135	0
Income Tax	105	0
Insurance	69	0
Motor Veh. Lic., 1958	66	0
State License	32	0
Chauffeurs and Oper. Lic.	4	0
Clark-McNary Forestry	0	560
Desert Land	0	3,558
Oil Income Tax	0	0
Income Tax, non-resident	0	0
85% City and County Liq. Lic.	0	0
Internal Improvement, Perm.	0	0
Internal Improvement, Income	0	0
Public School Income	0	0
Farm Loan Interest	0	0
U. S. Insured Farm Loans	0	0
State Public Welfare	0	0
Colorado Racing Commission	0	0
Auto Title	0	0
Motor Veh. Spec. Own. Tax B	0	0
Int. on Delinquent Taxes	0	0
Tax Apportionment Clear	0	0
State Highway Fund	—1,003	33,875
Res. for Outst. Warrants	—11,100	0
Motor Veh. Lic., 1957	—483,036	0
Oil Withholding Tax	—543,975	50,000
Total	50,994,268	3,271,261
Grand total	365,929,726	61,120,155

Source: State of Colorado, Division of Accounts and Control.

CHAPTER VI

ESSENTIALS OF A SOUND TAX SYSTEM

It is a truism that no meaningful measurement of any magnitude, subject or activity can be made without there being some accepted standard or basis of reasonable comparison. A standard may be a "principle" or an "ideal" or condition of desirability serving as a goal toward which action or contemplated action is directed.

In tax policy, as in other policy determination, certain criteria exist for guiding decisions as to what is best. In the following discussion these criteria or "tax principles" are examined as to their nature, scope and applicability. As such the analysis provides a basis or background for subsequent appraisal of Colorado's taxes considered individually and as components of the State's tax structure as a whole.

The Revenue Problem

The financial problems of the state as well as other governmental units are two-fold: (1) determining an essential or desirable level of services and consequently costs; and (2) formulating a suitable revenue system for meeting these costs. It should be recognized at the outset that there are also two approaches to any budget problem, cutting costs or increasing revenue. The basic question as to which course should be followed can only be answered by a continuing review of the needs versus resources relationship.

Governmental needs, unfortunately, like those of any individual or family group are often flexible in only one direction, namely upward. So long as the great majority of individuals who must pay the lion's share of the cost of public functions find it necessary to judge every personal outlay by the standard of what they can afford, the government likewise has a clear-cut responsibility to maintain a reasonable balance between needs and resources. Regardless of the pressing or critical character of the demands for increased public expenditures, a burden of governmental costs which impinges upon the essential personal and business resources of the private economy cannot be justified nor can it be financed in a palatable manner. The notion that government has access to an inexhaustable well of resources from which increments to the social welfare can be pumped in ever increasing quantities and without replenishment may provide a refuge for the reformer, but it offers little solace to the taxpayer.

Consistency of Public Programs and Means of Financing. Assuming that revenue needs have been tailored to the broad limitation of resources, a second major criterion must be considered. The revenue program basically is a means to an end — the attainment of the objectives of the various economic and social functions which the government performs. These objectives are not comparable to those of private enterprise, rather they look to the welfare of the group as a whole and that of the less fortunately situated members in particular. The financing measures employed obviously should be consistent with the social purposes of the public programs involved. Otherwise, the method of financing may nullify these ends in whole or in part. For example, one of the principal goals of public education is to ensure that educational opportunities are available to rich and poor alike and on an equal basis. Quid pro quo or direct benefit financing would clearly defeat this aim by restricting educational advantages to those who could afford to pay the full costs.

Particular Taxes and the Revenue System as a Whole. In the consideration of revenue principles it should be recognized that the effects of a particular tax, although significant, are not conclusive. Each revenue-producing measure must also be evaluated in relation to the system as a whole. Similarly, the revenue system of the state must be considered in the broader context of federal, state and local policies. This is not to suggest that inequitable or discriminatory effects in one quarter may be excused or rationalized by counter-irritants in

another, but rather that one must look at the over-all impact of public revenue measures as a basis of arriving at final judgments concerning any particular aspect of policy.

While the preceding statement of certain aspects of the revenue problem has been couched in general terms, its principal application is to the tax system which supplies the great bulk of governmental revenues. The following analysis of principles will be directed specifically to taxation although it is equally applicable to other revenue sources.

General Requirements of a Sound Tax or Tax System

The payment for public services is at best a painful process, and affects directly or indirectly the well-being of every individual and the profit position of every business organization. Indirect effects of taxation are reflected in changes in prices and incomes and the volume of production and employment. Thus, the distribution of the costs of government through taxation and other revenue measures is of utmost concern to all segments of the economy.

Government must obviously consider these direct and indirect effects of taxation on individuals, business enterprises and the economy as a whole. At the same time, those responsible for the formulation and administration of tax programs must focus their attention on the direct needs of the particular governmental unit. In general, these needs include the adequacy of existing revenue sources to meet current requirements, an essential element of flexibility in the revenue system and the avoidance of excessive administrative costs.

Students of tax policy, as might be expected, have given varied expression to the broad standards which should be applied in the formulation of tax policy. However, there is a general consensus on basic criteria. These may be summarily stated as follows: (1) productivity; (2) equity in the distribution of tax burdens; (3) recognition of the rights and problems of the taxpayer; and (4) adaptability of the tax program to the immediate and long-range needs of the economy as a whole. The question as to the priority or relative emphasis to be placed upon these principles, such as productivity and equity, for example, has been argued by tax economists, but is not of primary interest. Each of the requisites are important; they are clearly inter-related; and they must be interpreted in a relative rather than absolute sense.

Productivity. The primary purpose of taxation is to produce revenue. Specific regulatory or non-fiscal uses of the taxing power are not germaine to this analysis, though it should be recognized that all taxes have an important impact upon individual and group relationships. The problem of productivity is one of meeting immediate as well as future revenue requirements. Specifically, this means that the yield of individual taxes and the entire tax system must be predictable within reasonable limits, and that certain major tax sources be sufficiently flexible in structure and rates to handle the rising costs of government. Both state and local tax sources have been subject to an increasing strain over the last two decades, and there is every evidence that the presures will continue to mount. In the light of this situation, many legal as well as psychological barriers to higher level taxation will have to be removed.

It is often suggested that regularity or stability of tax yields is desirable from the standpoint of the governmental unit. While this idea has merit, no tax is perfect in this respect. More significantly, stability of receipts during a period of recession or depression, which is the time when stability would be desired, is probably attainable only at the expense of unduly burdensome or confiscatory effects upon the taxpayer and a heightening of general deflationary influences.

The revenue capabilities of a particular tax are dependent upon a variety of factors including rates, the general definition of the tax base, exemption practices, the efficiency of tax administration and the psychology of taxpayers. Taxes with a restricted base, such as those on "true" luxury items, very high incomes or exceptionally large estates are necessarily limited in yield regardless of the rates imposed. Similarly, taxes involving excessive costs of administration (10 percent or more) are generally unsatsifactory from the standpoint of productivity as well as the undue burden placed upon the taxpayer.

Equity in Taxation—General Considerations. Equity is a universally accepted goal of tax policy, and has many facets. In general, it is concerned with the way in which the costs of government are distributed among individual and institutional taxpayers.[1] As such it necessarily involves a series of social judgments relative to the existing and future economic relationships between individuals, family groups, business enterprises and other private organizations. More specifically, these judgments pertain to: (1) the type of individual and family income distribution pattern which is believed to be desirable and the tax measures best suited to the promotion of this end; (2) the proper role of business enterprises in the financing of governmental services and the most appropriate tax vehicles for obtaining their

[1]The actual location of the burden or its economic incidence is the consideration in question. The legal incidence of the tax may often differ from the actual incidence due to tax shifting by the person or firm upon whom the tax is originally imposed. The burden conceivably may be shifted forward to the final consumer or backward to the producers of raw materials or the labor force.

contribution; and (3) the desired framework of industrial organization and policy and the tax measures most likely to further this result. The foregoing aspects of the equity problem reflect judgments that are essentially positive in character. Equity in taxation also involves certain negative bases of evaluation. For example, it is generally agreed that discrimination is undesirable unless it is purposefully designed to achieve accepted goals of public policy. In the same vein arbitrary or capricious effects should certainly be avoided.

Some students of taxation in discussing the nature and scope of the equity problem have distinguished two major aspects, namely, vertical and horizontal equity. This approach serves to highlight certain major elements of the problem, and merits attention. Vertical equity is defined to include the elements associated with the distribution of individual and family incomes, in other words, the range of income from the lowest to the highest level. Horizontal equity, in turn, has reference to the relationship of individuals or family groups on the same income level and business enterprises of the same type or class. This approach to the explanation of equity is consistent with this analysis, and may contribute to a better understanding of the over-all problem.

Basic Approaches to Equity Problem. There is general agreement upon the desirability of equity in taxation and the essential aspects of the equity problem. The crucial questions as to the proper approach or approaches to the distribution of tax burdens, and how they should be implemented are naturally subject to varying interpretations. With respect to the first question, two broad theories concerning the distribution of tax burdens are presently accepted and applied with varying degrees of qualification by tax economists and those responsible for the formulation of tax policy. They are the "ability to pay principle" and the "benefits received standard." These theories, it should be noted, involve different and largely inconsistent ideas of tax equity.

While there is undoubtedly a preponderance of opinion favoring the ability to pay doctrine, a limited application of the benefit approach in certain areas of governmental financing is generally thought to be desirable. In addition to these broad standards there are two related concepts which merit special attention, namely, the "proportional versus progressive" issue, and the question of maintaining "economic incentives" or the essential bases of economic expansion in the private economy. In both cases the primary emphasis is usually placed upon the avoidance of allegedly undesirable results occasioned by extreme applications of the ability principle.

Ability to Pay Principle of Taxation. The ability to pay principle is based upon the broad proposition that those who possess income or wealth should contribute to the support of governmental functions in accord with their respective abilities. The obligation to pay arises as a consequence of one's status in the social group, but the actual determination of who shall pay and in what amount is necessarily an individual matter. The social orientation of the ability principle is fundamental, though perhaps it is not always fully understood. In contrast to the benefit standard under which each person or business concern would pay for the full value of services received, the ability approach recognizes the broad social purposes underlying most public programs and calls for a distribution of costs compatible with these purposes.

From the standpoint of either the individual or family unit the ability principle involves a determination of their current economic status (income and wealth), the minimum demands upon their resources for living and other essential costs, and consequently the actual capacity remaining, if any, to make tax payments.

Ability may also be interpreted in terms of the relative sacrifice occasioned or the utility of the income taken by tax payments. As in the case of the capacity to pay concept, these ideas lead to the conclusion that the ability of individuals to pay taxes, as reflected by income, increases progressively after essential costs or uses of income have been met. Thus, the broad implications of the ability principle in the case of individuals are self-evident: persons whose current resources are barely sufficient to meet absolute living or related costs have no taxpaying ability, and should not be required to make a tax contribution; and those whose resources exceed such minimal needs have taxpaying ability which tends to increase progressively in relation to income.

In the case of corporations, which are income-producing and distributing units, the existence of net income obviously reflects taxpaying ability. As the organization is impersonal and often retains a substantial portion of net earnings within the business, the extent of taxpaying ability involved is more difficult to determine. The specific problems encountered are treated in some detail in a later chapter.[2] However, in a broad sense the reasonable cost of owner or equity capital logically must be considered in determining the taxpaying ability of all business enterprises.

Application of Ability Standard. If the ability to pay principle is to be meaningful, it must be capable of fair and effective application in

[2]See Chapter XIII, The Corporate Income Tax.

the tax system. Does it meet this test? The answer must be in the affirmative, though there are many difficulties to be resolved. Net income, both personal and corporate, is generally accepted as the primary measure of ability. Property holdings or accumulated wealth are also said to reflect taxpaying ability, but in varying degree depending upon the nature of the capital and the income realized. In addition, certain economists support consumption expenditure either as a basic or supplementary standard. However, they are in a distinct minority.

Net income is the most realistic measure of ability because it reflects directly the sum of net receipts currently available for tax payments and meeting personal or other essential needs. Certain minimum requirements of the individual or family group are a condition of survival, and should not be encroached upon by government. Tax payments from this essential element of income will further impair the productivity of the persons concerned, restrict the market for consumption goods and probably necessitate the extension of social welfare aids. Similarly, the net income of business concerns must cover a reasonable return on the owner's investment to insure the maintenance of incentives for business expansion. Net income is clearly preferable to gross income as a measure of ability. The latter is either partially or wholly composed of cost elements for which the recipient merely serves as a distributing or transfer agency.

Accumulated wealth or property is a possible source of tax payment. However, such holdings may or may not reflect current taxpaying ability, and if they do it will vary widely in relation to the different types of property, individual properties of the same class and other economic factors. Use of property values as a direct measure of ability, therefore, is certain to produce highly variable results and may well have the unfortunate effect of confiscating such values. The latter consequence, needless to say, is the antithesis of that desired in the application of the ability principle. Two possible exceptions are property transferred at the death of the owner and gifts made during the lifetime of the owner without adequate consideration. Even in these circumstances the transfers would reflect taxpaying ability only to the extent that the sums received were unearned and exceeded the reasonable needs of the beneficiary.

Consumption outlay as a standard of determining taxpaying ability is both unsatisfactory and incomplete. It disregards the relative urgency of the needs being satisfied, and excludes the highly significant and generally productive use of income for saving and investment purposes. Basically, therefore, it involves a negation rather than an application of the ability approach.

Conclusions. The ability to pay principle of taxation is in accord with prevailing concepts of social justice and meets the test of practicality. Net income affords a reasonable and effective measure of taxpaying ability which may be supplemented by property holdings under certain conditions. The income measure logically is subject to the qualifications that the sum required to meet absolute living or other essential costs does not reflect taxpaying ability, and that the taxpaying ability reflected by income in excess of this amount increases on a progressive basis. At the same time, it should be recognized that the ability principle does not provide a complete and precise guide to all questions of tax policy. It does not answer specifically the practical issues as to the degree of progression which should be applied in the case of personal income nor the relationship which should obtain between personal and corporate tax rates. Also, extreme applications of the ability principle may well curb the essential bases of expansion in the private economy.

The Benefit Principle of Taxation. The benefit principle of taxation rests upon the broad proposition that governmental services are of benefit to the private economy and that their cost should be apportioned among individuals and private organizations on the basis of the relative benefits which they enjoy. Basically the theory provides a justification for taxation and a standard for distributing tax burdens. According to this theory the obligation to pay taxes as well as the measure of the amount to be paid is to be determined by the benefits received by the individual or business concern. As everyone is benefitted by public services, it logically follows that everyone should pay.

The general measure of benefits is variously stated as the "value" or "cost" of the services received. In either case cost appears to be the controlling factor. As the costs of particular governmental services are generally known, the problem of allocation is one of reducing these costs to a unit of service basis and then determining the units of service received. In other words, government would operate on a basis comparable to that of a huge, private supermarket with fixed prices for each item.

No one will dispute the basic assumption that the benefits conferred by public services justify the imposition of taxes to pay for them. However, the further assumption that the cost of the varied and complex activities of government can and should be calculated and assessed against each person on the basis of the individual benefits derived involves serious theoretical and practical shortcomings. In the first place, the fundamental concept of the individual's relationship to the government underlying the benefit principle is untenable in modern times. A price or quid pro quo basis of

exchange clearly does not exist between the citizen and the state with respect to most public services. The activities of present day democratic governments are commonly in the interests of general or group rather than individual welfare. Even if it were practical, a pure benefit approach would produce absurd results in the case of broad public programs such as national defense, public safety, education, public welfare and aid to agriculture or other industries.

In addition to this inherent fallacy, no reasonable formula has yet been devised for calculating the benefits to the individual from the important programs noted. Many of these services are essentially intangible in character, and an attempt to personalize their benefits is clearly impractical.

Conclusions. In view of the limitations noted, the proper role of benefit financing is necessarily a restricted one. In fact, it is only in those areas where the government actually functions as a private or commercial enterprise that the benefit principle appears to have a wholly logical application. Public utility services and others which are made available on a direct and sometimes voluntary basis clearly fall in this category. Among the major domestic programs of government today the most significant application of the direct benefit standard is in the financing of roads and streets. Highway users are called upon to pay the bulk of the costs of these facilities, and the owners of urban property bear the primary responsibility for the outlays on city streets. The application of the direct benefit approach in these areas is generally thought to be desirable. However, there are many special problems involved in the determination of relative benefits and in allocating costs. In addition, there are the social limitations arising from the admittedly regressive effects of certain of the taxes employed and the possibility that higher burdens will seriously restrict the use of such facilities by low income groups.

The Problem of Progressive Taxation and Economic Incentives

While the relative merit of progressive as contrasted to proportional taxation has been a perennial subject of debate by those interested in tax policy, the present theoretical controversy is concerned with the equity and desirability of extreme as opposed to moderate application of progressive taxation. From a practical standpoint it involves the use of extremely progressive rates under net income and death taxes, and the relative emphasis to be placed on these taxes as compared to sales, excise and property taxes. Proponents of steeply progressive net income and death tax rates maintain that this policy is a logical and equitable application of the ability principle, and that a substantial modification of the existing inequality in the distribution of income and wealth is also desirable upon other economic and social grounds. Opponents of the policy contend that it is discriminatory and unequitable, that it tends to destroy economic incentives, and that it is a threat to the maintenance of a free enterprise system. They also suggest that the present extremely progressive rates of the federal personal income tax are a major factor contributing to evasion and avoidance problems.

As the question of progression is closely related to the concept of economic incentives an examination of the latter concept is essential to an evaluation of both ideas and the issues involved. The term, economic incentives, refers to the economic stimuli which serve to promote productive activity in a private enterprise system. It encompasses the entire scope of economic rewards for accomplishment or success and conversely the penalties for failure. The concern with economic incentives, therefore, is as broad as the range of economic activity in which the people engage. It involves the economic motivation of the wage earner as well as that of the employer or businessman, the farmer, the professional worker, the financier and even the government employee.

The practical implications of economic incentives in the field of tax policy are equally comprehensive and far-reaching. It is quite evident that the high level of taxation presently needed to support the cost of governmental services substantially curtails the use of income and capital for private purposes. In a broad sense, therefore, it may be said to curb the incentives available in the private economy for all types of economic activity. The urge to increase the consumption level and consequently standards of living through the choices of the individual or family group, the desire to save and invest funds, the goal of expanding one's business or increasing profit margins—these and other individual or private institutional objectives are necessarily delimited by taxation. Equally important, however, are the products of governmental activity which also enhance the national income through the services and goods provided. Although the nature and distribution of these products and services are determined by collective action, they too play a major role in the broad system of motivations which stimulate economic activity.

The basic problem of economic incentives, therefore, is one of combining the areas of individual choices and rewards and social choices and benefits in such a manner as to maximize the level of production and the benefits resulting from the distribution of the product. There is also a secondary problem of balancing the in-

centives and consequently rewards available to various economic and social groups.

Conclusions. A comprehensive evaluation of the complex issues involved in the use of progressive taxation and the related but broader problem of maintaining economic incentives is beyond the scope of this analysis. However, certain broad conclusions are believed to be merited.

A substantial element of progression in the nation's tax structure, achieved primarly through progressive net income taxes, is clearly in accord with the ability to pay principle and presently accepted concepts of social justice. The current level of federal rates on the high bracket personal incomes approaches the point of confiscation, and provides an obvious example of extreme progression. While there are no absolute guides to determine what constitutes an equitable and desirable application of progression, the high bracket tax policy as it now obtains appears to violate both objectives. Certainly, its equity is doubtful; it seriously curbs, if it does not destroy, the incentives of those affected; it places a high premium on avoidance and evasion techniques; and it produces little revenue. On the other hand, it is not a serious threat to the maintenance of the private enterprise system because of its limited impact.

Recognizing the inherent limitations of progressive taxation which approaches the point of confiscation, it is equally clear that the attainment of a substantial element of progression in the over-all structure of governmental tax programs requires a primary reliance upon net income taxes. Death and gift taxes which incorporate progressive rates are of minor significance, and property taxes which embody proportional rates are either proportional or regressive in their effect depending upon the type of property and other factors. All other forms of taxation, with possible minor exceptions, involve varying degrees of regressive effect. Furthermore, all analyses of the combined effect of existing federal, state and local tax programs upon individual incomes indicate a distinctly regressive impact upon the very low income groups. Correction of this intolerable situation clearly calls for a greater emphasis upon "ability" as opposed to "benefit" taxation.

A logical and realistic appraisal of the economic incentives concept as applied to current tax policies leads to similar conclusions. The chief encroachments of existing policy upon the private rewards available for productive activity today are at the lowest and highest income levels. Government should constantly strive to avoid such extreme effects and to maintain a reasonable balance in the impact of tax burdens not only in relation to different income levels but other relationships between individuals or businesses in the same economic category. The broad question as to whether government is costing too much or aggregate tax burdens upon the private economy are too high is not a matter of tax equity, nor is it a problem alone of adequate incentives in the private economy. Rather, it is a fundamental issue as to the proper scope of governmental activity, and is not relevant to this discussion.

Other Principles and Considerations

The Rights and Interest of the Taxpayer. High taxpayer morale is clearly essential to the effective administration of tax laws, wholly apart from the inherent rights of those who support governmental functions. As a minimum, an intelligent concern with the taxpayer's problems requires a continuing effort: to broaden his understanding of the provisions of tax laws; to minimize the expense, inconvenience and interference associated with tax compliance, payment and collection; and to provide for prompt and fair treatment of his claims and complaints. The taxpayer to be sure has reciprocal responsibilities, but the manner in which these are discharged will probably depend in large part upon the treatment he receives at the hands of tax authorities.

Simplicity of the tax laws and certainty concerning the time and amount of payment also are often cited as desirable features of tax policy. While tax problems have become more complex since the days of Adam Smith who first suggested these criteria, they still have a reasonable application. Non-technical drafting of tax legislation and an adequate program of taxpayer education might reduce the demand for the services of tax lawyers and accountants, but they would be a boon to the taxpayer.

Finally, the conscientious taxpayer who pays his tax obligations in full when they are due is entitled to a reasonable assurance that others liable for a tax payment will do likewise. This assurance all too often does not exist, and laxity in meeting tax obligations as well as widespread evasion become the general rule. Such a situation is inexcusable, and constitutes the most flagrant type of inequity in the entire field of tax policy.

Adaptability of the Tax Program to Changing Levels of Economic Activity

The adaptability of tax programs to certain basic needs of the economy as a whole is not a new criterion of tax policy; but since the Great Depression of the 1930's it has been given much greater emphasis and more specific formulation. Particular attention has been directed to the problems of controlling economic fluctuations

(depression and boom tendencies), of combating what certain economists have termed secular stagnation and of preventing extreme inflation during war or defense emergencies. Full employment or some similar expression of economic well-being is now regarded as a major goal of public policy, and fiscal policy, including governmental expenditures, taxation and borrowing, is an accepted instrument for implementing this objective.

The actual or potential role of taxation is an important one both in curbing inflation and combating a threat of economic recession or depression. Increases in the rate or level of taxation serve to skim off excess purchasing power in the private economy and thereby reduce inflationary pressures, while tax reduction makes additional funds available for private expenditures thus tending to offset the actual or anticipated decline in spending, income and employment. Understandably, there is still considerable controversy regarding the relative desirability of across-the-board as opposed to more selective tax adjustments, and the broader issue of the relative emphasis to be placed on taxation as compared to other policy measures.

The principal requirement of the tax program for economic stablization purposes is flexibility both in an upward and downward sense. If tax policy is to make its maximum contribution in this field adjustments must also be made quickly. Needless to say, both conditions are difficult to attain, and must be viewed in a relative sense.

Principles of Taxation and State Policy

The basic principles of taxation have certain special implications in terms of state and local policy. They obviously merit attention at this point, though they will be thoroughly examined in the individual tax chapters. They include: the predominant role of the federal government in tax policy, both in establishing the general tax pattern and in particular areas such as net income and the special excise taxes on liquor and tobacco; the legal and the technical problems of the state by virtue of its limited jurisdiction and constitutional requirements; and certain broad economic considerations that are of special concern to the states.

Role of Federal Government. The primary position of the federal government in virtually all phases of government financing is axiomatic. In view of the magnitude of its revenue needs the choice of federal tax and other sources of financing clearly is the principal determinant of the nature and effects of public revenue programs. In particular, the emphasis placed upon personal and corporate net income and certain sales or excise taxes serves as a possible model for state action, but also may tend to delimit the scope of state policy. Double or multiple taxation of a given tax base certainly must be considered in appraising the equity and productive potential of a given source. However, it is the latter elements that are important, not the duality of use. The alleged saturation of the net income tax base by high federal and moderate state taxes, for example, is a delusion in the light of the accepted merits of this source. Certainly, the use of less equitable tax forms worsens rather than improves the economic effects of a given level of taxation.

Legal and Technical Problems. By virtue of their limited jurisdiction and federal or state constitutional limitations the states encounter a myraid of problems, many of which are peculiar to this level of government. The more significant factors contributing to these difficulties are: the interstate and foreign commerce limitation of the Federal Constitution; the immunity of federal agencies and instrumentalities; the due process requirement of the Fourteenth Amendment (Federal Constitution); specific state constitutional limitations relating to the taxing and borrowing powers; the problem of interstate and federal reciprocity in the granting of tax deductions, exemptions and credits; and the question of uniformity in tax treatment both as to legal concepts and tax burdens. In the formulation of state tax programs the state must also be cognizant of the needs and problems of its local subdivisions. While one might anticipate a similar concern by the federal government with the fiscal requirements of the states, there is little evidence that this consideration is a significant determinant of federal policy.

The State Economy. The nature and magnitude of the state's resources are obviously of basic importance in the formulation of tax programs. Colorado's resources both present and potential were considered in an earlier chapter. These resources obviously delimit in a broad sense the State's capacity to support governmental programs and consequently the level of taxation. Their character also serves to define within limits the appropriateness of certain tax measures. Finally, the broad aim of promoting a fuller and more effective utilization of existing resources highlights the importance of avoiding unduly burdensome taxation upon any segment of the State's economy.

CHAPTER VII

PROPERTY TAX

History of Property Tax in the United States

The property tax is perhaps as old as civilization. It was employed as a direct levy in ancient Greece and Rome and was subsequently introduced in Western Europe as a tax on land area rather than value. The latter type of tax on the value of property came into more general use with the establishment of individual property rights and market mechanisms.

The property tax in America dates back to early Colonial days and its applications were patterned after the English system. It became an important source of revenue for the American colonies, but the nature of the tax varied considerably in different sections. It was first employed by the New England colonies and later spread to the Middle and Southern groups. In New England the typical tax was a composite levy on "faculty," involving a poll tax, an additional amount based upon earning capacity and finally a levy on property. Generally, the tax applied to most forms of real and tangible personal property other than personal possessions not used to produce an income, and values of the different types of property were ordinarily specified in the tax statutes.

There was considerable resistance to the early development of property taxes in the Middle Colonies largely because of the predominance of the Dutch influence. Aside from limited experimentation during emergency periods, property taxes were not generally employed in the South until after the Revolutionary War. The owners of large plantations were able to control legislative policy during this early period, and the primary revenue sources were poll, custom, special excise and license taxes. The emergency created by the Revolutionary War necessitated the adoption of property taxes in Virginia, but it was not until 1850 that the State Constitution required the imposition of uniform and universal taxes on property.

Evolution of State and Local Policies. After the Revolutionary War broad developments in property taxation are readily discernible but specific data on the policies of individual states is very fragmentary. As a general rule, state and local property taxes were extended and consolidated during the period from 1800 to 1860; and they became the mainstay of local and the new state revenue systems. The broad trend was in the direction of a general property levy involving uniform rates on all classes of property. By 1860 uniformity requirements had been incorporated in the constitutions or laws of the great majority of states. The evolution of the tax in Ohio illustrates the general trend. In 1799 a territorial land tax was adopted; other specific forms of real and personal property were subject to the tax in 1825; and in 1851 a constitutional provision requiring a uniform general tax on all types of property was enacted.

The property tax continued to be a dominant element of state and local tax programs in the period following the Civil War, and a reverse trend towards the classification or special treatment of certain types of property appeared. However, the trend towards classification was slow in gathering momentum largely because of the uniformity requirements in the state constitutions. It originated as a consequence of generally unsatisfactory administration of the tax on personal property and the growing complexity of all forms of property as well as property rights. Savannah, Georgia is usually credited with initiation of the modern classification movement by adoption of a classified tax in 1868. It should be noted that the classified tax in contrast to the general levy involves differential treatment of various classes of property largely on the basis of their actual or potential income capacity. The classified form of tax increased in popularity during the first three decades of the present century, but interest in the "reform" has since declined.

In recent decades the importance of the property tax as a source of state revenue has also rapidly declined. This development is a direct result of the adoption of new tax forms by the states, as well as a recognition by state legislators of the primary dependence of local units on this traditional source of financing.

Nature and Types of Property Tax

The property tax as employed in the United States is imposed upon capital values. It is aimed at the wealth itself rather than income or other incidents of the use of property for productive purposes. The base of the tax, commonly market or sales value, is not intended to provide a direct or precise measure of taxpaying

ability, nor is it designed to measure directly the special or general benefits derived from particular governmental services. However, certain applications of the property tax do involve a special emphasis upon the ability factor and income is sometimes employed as a measure of capital value in cases where market or sales value data are not available.

Two principal forms of property tax are employed by state and local governments, namely, the so-called "general property tax" and the classified or differential levies. As the term implies, the general property tax is distinguished by its broad scope and the application of uniform rates to all types of property. As such, it is intended to achieve an equal burden on all classes of property regardless of their use or nature. On the other hand, the classified tax is intended to group property into a number of special categories, and to subject these categories to varying tax burdens depending upon the relative tax-paying capacity which they represent. Administrative considerations have also played a part in the determination of property classifications.

Broadly speaking, the classified tax has taken two forms involving a limited or partial classification and comprehensive classification. In the former instance, all property is grouped into two categories, real estate or tangible personalty and intangibles. Under the limited classification tax a low mill rate is applied (usually 1 to 10 mills) to various types of intangibles and a uniform rate to all other forms of property. In the case of the so-called comprehensive classification plans, a varying number of classes are established ranging from 5 to 21 and a differential burden is imposed on each class. The differential burden is achieved either by varying the tax rate or the percentage of the value base subject to the tax. About 15 states employ the partial classification type of tax as contrasted to 5 states which have comprehensive classification plans.

Another significant modification of the property tax has involved the exemption of intangible property and certain types of tangible personal property, usually household and other personal possessions of a non-income producing character. About one-fourth of the states now exempt intangibles entirely and several states do not tax non-income producing personalty. In both cases the development has been dictated by the administrative problems involved in the assessment of these forms of property and the limited or questionable taxpaying ability associated with such property. As a closely related step, many of the states have adopted special property taxes or various in lieu types of tax in the case of automotive vehicles, the operating property of public utilities and natural resource properties including oil and gas, other minerals and timber lands. In a few jurisdictions, differential treatment also has been applied to other forms of tangible personalty such as merchandise inventories and raw materials. These later developments are also attributable to administrative difficulties and considerations of tax equity.

Significance of Property Tax in State and Local Finance

The property tax, once the wheelhorse of state and local finance, has continued to produce an increasing amount of revenue. However, its relative importance in the nation's tax structure, as well as in the revenue systems of the states, has declined appreciably in recent decades. New forms of taxation at the municipal level have also reduced its importance to these units, but it is still the primary tax source for all forms of local government.

The general trend of property tax collections, both state and local, from 1902 to 1957 is shown in Table 7.1. Total receipts, state and local, which amounted to approximately $4,675 million in 1932 declined during the depression decade, but rose to over $7,367 million in 1950. Collections in 1957 totaled $13,097 million, an increase of nearly 44 percent over the receipts in 1950.

Table 7.1

Significance of Property Tax in State and Local Finance, Selected Years, 1902-1957

	State		Local	
Years	Property tax receipts (million)	Percent of total taxes[a]	Property tax receipts (million)	Percent of total taxes
1902	$ 82	52.56	$ 624	88.64
1913	140	46.51	943	89.72
1922	348	36.75	2,973	96.87
1932	323	17.09	4,353	97.43
1942	271	6.88	4,273	92.95
1946	253	5.08	4,904	92.83
1950	311	3.93	7,056	88.18
1957	479	3.30	12,618	86.95

[a] Unemployment compensation levies were excluded from state totals in computing relationship (1942-1957).

Source: U. S. Bureau of Census, *Historical Review of State and Local Finances*, June, 1948; and U. S. Bureau of Census, *Governmental Finances in the United States, 1922, 1950* and *1957*.

The declining significance of the tax for state purposes is illustrated by the fact that the states obtained 17.09 percent of their total tax receipts from this source in 1932, 6.88 percent in 1942, 3.93 percent in 1950, and 3.30 in 1957. Its relative significance today, as indicated in Table 7.2 varies widely. Nebraska received 32 percent of its tax revenue from property, whereas 1 state reported no collections and 14 others received nominal sums amounting to less than 1 percent of total tax revenue. Colorado's reliance on the property tax, which produced 7.9 percent of state tax receipts, is well above the average.

It should be noted, however, that the State obtained nearly 15 percent of its tax receipts from property in 1942. For the eleven Western States, as shown in Table 7.2, the average ratio in 1957 was 7.49 percent, and for the nation as a whole it was 3.30 percent. The decline of the property tax for state purposes is attributable primarily to two factors, the emergence of other major tax forms and the increasing financial pressures at the local level which have resulted in a deliberate policy of relinquishing the source to these units.

Table 7.2

Significance of Property Tax in State Finance, 1957

States	Property tax revenues (thousands)	Property tas as percent of total state taxes
Alabama	$11,366	4.95
Arizona	14,711	13.74
Arkansas	314	0.25
California	107,653	5.75
Colorado	12,049	7.86
Connecticut	[a]	[a]
Delaware	750	1.68
Florida	7,426	1.98
Georgia	928	0.30
Idaho	2,389	4.71
Illinois	697	0.10
Indiana	16,500	5.71
Iowa	3,792	1.53
Kansas	10,529	6.66
Kentucky	15,446	7.68
Louisiana	12,155	3.26
Maine	1,420	2.01
Maryland	9,111	3.55
Massachusetts	230	0.06
Michigan	33,671	4.36
Minnesota	14,942	5.11
Mississippi	3,532	2.14
Missouri	10,140	3.81
Montana	4,973	9.45
Nebraska	23,828	32.33
Nevada	2,185	6.20
New Hampshire	2,013	6.10
New Jersey	2,765	0.98
New Mexico	6,487	6.68
New York	2,803	0.08
North Carolina	8,309	0.22
North Dakota	2,623	5.07
Ohio	26,921	3.98
Oklahoma	[a]	[a]
Oregon	[a]	[a]
Pennsylvania	1,506	0.15
Rhode Island	[a]	[a]
South Carolina	889	0.48
South Dakota	628	1.47
Tennessee	[a]	[a]
Texas	32,407	4.92
Utah	2,671	3.46
Vermont	352	1.01
Virginia	14,126	4.47
Washington	22,984	6.48
West Virginia	292	0.18
Wisconsin	24,560	6.90
Wyoming	6,035	18.02
Aggregate average	——	3.30
11-Western States Average	——	7.49

[a] Not used for state purposes or collections less than $20,000.

Source: U. S. Bureau of Census, *Compendium of State Government Finance, 1957.*

The property tax is still the mainstay of local finance, though it is losing ground in the case of the municipalities and counties. For the country as a whole in 1957 it accounted for about 87 percent of the total local tax bill. This may be compared with 92.83 percent in 1942. The greater part of the decline was attributable to the introduction of new taxes by the cities and towns, which obtained 87 percent of their tax receipts from property in 1942 and about 73 percent in 1953.[1]

Colorado's dependence upon the property tax for local purposes in 1953 was approximately equal to the average for the eleven Western States, 90.1 percent (Table 7.3).[2] The property tax in Colorado was the sole source of locally-imposed taxes for the school and special districts, while the counties obtained 99.5 percent and the cities 70.6 percent of their tax revenues from property levies (Table 7.4).

Table 7.3

Comparative Use of the Property Tax by Local Governments, Eleven Western States and United States, 1953

State	Total local taxes (millions)	Property taxes (millions)	Property taxes as percent of total local taxes
Utah	$ 44.8	$ 42.6	94.9
Oregon	111.1	104.8	94.3
Arizona	46.1	43.1	93.5
Wyoming	20.2	18.6	92.4
Idaho	42.2	38.6	91.4
Montana	44.9	40.8	90.8
California	1,034.5	934.7	90.4
Colorado	110.0	99.3	90.3
Washington	120.9	100.1	82.8
Nevada	18.5	14.7	79.2
New Mexico	18.8	14.9	79.1
Total, Western States	1,612.0	1,452.2	90.1
United States	10,335.0	9,010.0	87.2

Source: U. S. Bureau of Census, *State and Local Government Revenue in 1953.*

Table 7.4

Comparative Use of Property Tax by Local Governments in Colorado, 1953

Type of local government	Total local taxes (millions)	Property taxes (millions)	Property taxes as percent of total local taxes
Cities	$ 36.2	$ 25.6	70.6
Counties	18.0	17.9	99.5
School districts	53.0	53.0	100.0
Special districts	2.8	2.8	100.0
Total	110.0	99.3	90.3

Source: U. S. Bureau of Census, *State and Local Government Revenue in 1953.*

The significance of the property tax for all units of government, state and local, in Colorado is somewhat above the Western State average, as well as the national average. Colorado's per capita property tax burden in 1953 amounted to $74.40. The average for the Western States was $65.52, while the national average was even lower, $59.22.[3] In relation to total state and local taxes a similar disparity is evident. Colorado obtained 48 percent of the total state and local tax revenue from property as compared with about 44 percent and 45 percent for the Western jurisdictions and all-states averages, re-

[1] U. S. Bureau of Census, *Governmental Revenue in 1950;* and U. S. Bureau of Census, *Summary of Governmental Finances in 1957.*

[2] This is the latest date for which local data by states are available.

[3] See Chapter IV, Tables 4.8 and 4.9.

spectively. A comprehensive analysis of local property tax burdens in Colorado is presented in Chapter XX, State-Local Relations.

It should be emphasized that the interest of state governments in the property tax is not confined to its revenue implications for state purposes. The structure of the tax is determined by state constitutional and statutory provisions. The state exercises broad controls over its administration and usually administers directly the tax on certain special types of property. Finally, the states are being called on to shoulder a larger and larger share in the financing of local services through tax sharing and other aid devises. The states, therefore, have no choice but to assume a continuing responsibility for the effective and equitable use of this source.

Rationale of Property Taxation

Throughout a long and checkered career, property taxes have not lacked support both on theoretical and practical grounds. At the same time, the equity of the different types of property taxes as well as their administrative deficiencies have been subject to severe criticism. About 30 years ago, one of the leading students of American taxation stated that the:

> general property tax was one of the worst taxes known to the civilized world and so flagrantly inequitable that its retention could be explained only through ignorance and inertia.[4]

The theoretical justification for property taxes rests mainly upon the benefits received and the ability to pay principles. Each basis of support has received considerable attention and emphasis. From the standpoint of benefits received, it is alleged that the property owner is the direct beneficiary of many governmental services as well as a continuing rise in the value of his property resulting from various types of public improvements. From the viewpoint of ability, property ownership is said to involve a distinctive or additional element of taxpaying capacity not reflected by income. In addition to these basic principles, the property tax has substantial justification on practical grounds. The productivity of the tax, its traditional role as a primary source of local revenue and the rapidly growing revenue needs of local governments have exerted an important influence in recent years.

The theoretical merit of property taxation, either as a measure of benefits or taxpaying ability, tends to be obscured by the varying character of the taxes employed, differences in administrative practice and results, and the confused situation concerning the incidence of the tax. It is quite obvious that a uniform tax on all forms of property has different economic implications than the classified tax which involves a differential burden. The fact that intangible property and certain types of tangible personal property usually escape taxation also complicates the problem of analysis. In a comprehensive study it would also be necessary to consider several special types of property tax proposals such as the single tax or a supplemental levy on site values or improvements. It is also quite obvious that the theoretical justification of property taxes cannot be considered apart from the question of incidence. Yet, the incidence of property taxes undoubtedly differs depending upon the form of tax, the nature of property, the use of property and changing economic conditions. While these factors clearly complicate the problem of analysis, they must be considered if meaningful judgments are to be made.

Benefit Bases of Property Taxation. The benefits received concept has two primary facets as applied to the general and classified property taxes. First, certain public services such as police and fire protection and the legal arrangements for maintaining property rights are of general benefit to property owners. Needless to say, the cost of these services is substantial and though the benefits involved are not limited to property owners, the protection they receive is of major significance. The other type of special benefit accruing to the owners of property arises as a consequence of various types of public improvement projects including streets, street lighting, primary and storm sewage systems and parks and recreational facilities. It is commonly assumed that these improvements directly increase property values. Consequently, all or a major part of their cost is usually assessed against the owners of property either through the special assessment device or the property tax.

It is generally recognized that there is a substantial element of validity in these claims of special benefit to property owners. However, the limitations of property ownership as a measure of benefits from such services are also evident. Actually, it is not possible to determine precisely the total incidence of benefits from particular governmental services. For example, what part of the total benefits derived from police and fire protection should be assigned to property owners? Individuals who own little or no taxable property also share directly and indirectly in the protection provided. Similarly, the social gains from various types of public improvements are also very widely dispersed. If an acceptable allocation of benefits could be arrived

[4] Edwin A. Seligman, *Essays in Taxation* (10th Edition; New York: The MacMillan Co., 1952), p. 62.

at with regard to property owners and other groups, the additional problem of apportioning the property owner's share among individual holders must then be resolved. Do all types of property both real and personal, income producing or non-income producing, benefit equally according to their taxable value? Are benefits from the governmental services in question equally distributed in relation to such value as between property holdings of great value and those of small value? The difficulty, if not impossibility, of objective answers to these questions is apparent. Finally, it should be emphasized that property ownership as well as other measures of special benefits are often inconsistent with the ability standard.

Property ownership as a measure of benefits involves the further assumption that the burden of the tax will remain on the property owner. However, in the instance of business and rental property the opposite result is typical. Taxes on these forms of property are usually shifted to the consumer or renter, at least that portion which represents a uniform element in cost of utilization. In these cases, therefore, the purpose of the benefit principle is likely to be thwarted.

Ability Bases of Property Taxation. The ability principle is often said to provide a substantial element of justification for property taxation. This assumption, basically, rests upon the concept that wealth in any form contributes to the individual's capacity to pay taxes. More particularly, there is usually a significant relationship between the amount of wealth that the individual owns and income. While this relationship is apparent in the case of certain types of income producing property, it is not necessarily proportional to value. Furthermore, some forms of property do not produce a cash or material income and there is a great variation in the rate of income from different types of income property. These factors obviously tend to limit and to distort the usefulness of property as a measure of taxpaying ability. Needless to say, inefficient and inequitable assessment practices greatly heighten the basic inequities involved. In view of the fact that all or a substantial part of the tax burden on income property is usually shifted, the ability basis of property taxation appears to fail in its most logical application. The classified property tax attempts in theory to give greater recognition to the ability factor than the general levy. However, this objective is often nullified in whole or in part by inadequate or inappropriate classifications and by ineffective administration. If a differential burden in relation to income is achieved, however, the likelihood of this portion of the tax being shifted is reduced.

It should be emphasized that there are several special aspects of property ownership which may evidence unique or additional taxpaying ability. These special situations include the accumulation of personal fortunes in the form of non-income property and the general appreciation in real property values occasioned by broad economic trends. Vast personal possessions do not produce cash income but they do make possible highly luxurious or conspicuous consumption which is non-essential in character. Some tax economists also suggest that the psychic income derived from such property is a proper object of taxation. The tendency for property values (real estate) to rise in a progressive society is an accepted fact. As these values are a result of social rather than individual action, the advocates of the single tax contend that they represent an unearned increment and consequently are the proper subject of heavy tax burdens. While gains in property values attributable to social progress are characteristic of the American economy, they tend to be capitalized as a consequence of relatively frequent sales transactions. Also, such gains are often illusory in that they may not be realized and may actually disappear as a consequence of social forces which produce declining values. Although these special aspects of property ownership are of limited and in some cases of questionable significance, they still may represent a partial justification of the ability basis of property taxation.

Conclusions on Theoretical Bases. Both the benefit and ability principles provide incomplete if not inadequate justification for the imposition of general or classified property taxes. Property ownership as a measure of benefits from particular governmental services has serious limitations and the varying incidence of taxes on different types of property results in inequitable effects. Property holdings are even less satisfactory as an indication of the owner's taxpaying ability. In the first instance, the measure is incomplete; secondly, it varies as between different types of property and at different periods of time; thirdly, the incidence of the tax remains on the owner in some cases and is shifted in others; and, finally, various features of the structure of the tax as well as the effects of inefficient administration greatly heighten the inherent inequalities. It may be concluded, therefore, that the property tax, both in its general and classified forms, lacks full justification on theoretical grounds. At the same time, it should be recognized that the philosophical bases of property taxation are much stronger than those of retail and general sales taxes.

Practical Aspects of Property Taxation. The most significant elements of strength of property taxation as well as its most serious shortcomings are attributable to practical considerations. The continued use and apparent virility of the property tax, particularly by local jurisdictions, may be readily explained. The property tax is a traditional institution and is so inextricably linked with the entire legal and economic fabric of local government that its abolition would necessitate revolutionary changes. From a financial standpoint, as previously indicated, the property tax produces the lion's share of local revenues. In fact, in most local units of government, it is the only significant source of locally imposed tax receipts. Revenues have also exhibited a high degree of stability which is a matter of major concern to these units of government. While new tax sources are being introduced by cities and counties, they have in no case served as a replacement for the property tax. Finally, the property tax, with all of its deficiencies, is generally accepted by the people as a necessary evil. Like the proverbial wart on one's face, its passing would probably be viewed with great trepidation.

The operative deficiencies of the property tax, associated chiefly with the assessment process, are well known. In the first place, the valuation of property for tax purposes involves many difficult and complex problems. Nevertheless, the administration of the property tax has traditionally been left to local units. This, in turn, has often resulted in unnecessary duplication of administrative units, incompetent and inadequate personnel and antiquated and ineffective methods of property appraisal. Almost every conceivable type of inequity is encountered in the results of the typical assessment process. The escape of certain types of property from taxation and a marked over-assessment of other forms is also characteristic. While most states have been consistent in their efforts to improve administration, the results generally have fallen far short of an ideal solution. Further attention will be directed to the administrative weaknesses of the property tax in the following discussion of the Colorado system.

History of Property Tax in Colorado

The original Constitution of the State of Colorado (1876) provided for the establishment of a uniform system of property taxation. In general, it specified that all property should be assessed at a just value unless its exemption was authorized. The same constitutional provision included 5 specific exemptions: (1) personal property up to a value of $200 for the head of a family; (2) ditches, canals and flumes used by the owners for irrigation purposes; (3) mines and mining property for a period of 10 years; (4) the property of governmental units; and (5) property used solely for religious worship, for schools or for charitable purposes and cemeteries not used or held for private profit.

The Constitution established the Office of County Assessor and provided that the Board of County Commissioners of each county should act as a County Board of Equalization to equalize valuations within the county. It also created a State Board of Equalization consisting of the Governor and 4 other elective state officials. Valuations were to be equalized on the basis of full cash value.

The State General Assembly acting under the above provisions initiated the first property tax law.[5] It provided that the county assessors should be elected for a term of 2 years and they were given the responsibility of assessing all property, both real and personal, within their jurisdictions. It was contemplated that the County Board of Equalization would eliminate inequalities in assessment within the county and that the State Board would equalize assessment as between the different counties.

Needless to say, the principles and procedures set forth in the Constitution and statutes were not fully implemented in practice. County assessors generally lacked the capabilities essential to an effective and systematic discharge of their responsibilities. In addition, the pressures from property owners to keep assessments down soon led to a competitive race by the assessors to reduce their county's share of taxes paid to the state government. These same pressures were exerted to prevent equalization of assessments within the individual counties.

Early Efforts to Equalize Property Assessments. In 1876 the State Board of Equalization detected certain serious inequalities in county assessments and ordered changes in assessments to correct these inequalities. The decision of the Board was questioned in the courts and in 1877 the Supreme Court ruled that the Board did not have power to raise the aggregate valuation of property in the State.[6] Inasmuch as the membership of the Board was ex-officio in character, further attempts to equalize assessments were abandoned during the next two decades.

The depression of the early 1890's put a severe strain upon the tax structure. Property valuations were reduced and tax delinquencies increased to a critical degree. Following several years of relative prosperity, county assessors were still reluctant to raise valuations. As a con-

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[5]The following summary of the history of the Colorado property tax through 1946 is adapted from a study by Earl C. Crockett, *Taxation in Colorado*, Report No. 3, "The Colorado Property Tax," (University of Colorado, 1947).

[6]People v. Lothrop, *3 Colo. 428* (1877).

sequence, a critical shortage of revenues developed both on the State and local levels. Finally, in 1899, the State Board of Equalization again attempted to achieve partial equalization of assessed values. On this occasion it changed the assessment of certain classes of property in the various counties. The decision was again appealed to the courts and the State Supreme Court ruled that this type of equalization was also unconstitutional.[7] Following this decision the State Board of Equalization adopted the following resolution:

> Whereas, every effort of the State Board of Equalization since its establishment has been invalidated by the adjudication of the Supreme Court, therefore, be it resolved, that in the judgment of this Board the power of said Board to equalize and adjust can only be made effective by constitutional amendment or by legislative enactment specifically designating its powers and directing the method of the performance thereof.[8]

After this declaration the assessment situation, so far as equalization was concerned, rapidly deteriorated.

Legislative Reforms. Starting in 1900 several attempts were made to bring about significant reforms in the administration of the property tax. Governor Thomas appointed a special commission to investigate property tax problems and to recommend solutions. As a consequence of the Commission's report in the year 1900, the State Legislature adopted a new revenue law in the following year, 1901. This law provided for the appointment of a State Board of Assessors to supervise and administer local property assessments, and through the efforts of this agency assessed valuations were increased from $216,000,000 in 1900 to $460,000,000 in 1901. Railroad corporation assessments alone were increased by $89,000,000. These companies refused to pay the higher taxes and challenged the law in the courts. The Supreme Court decision held that the State Board of Assessors did not have the power to raise assessments because county assessors under the Constitution did not have authority outside their respective counties.[9]

A further general revision of the State property tax statutes was adopted by the General Assembly in 1902. This law set forth a detailed procedure for assessing property and provided that all forms of property not specifically exempt under the Constitution were to be assessed annually at full cash value. The new law also provided for assessment of public utility properties by the State Board of Equalization and required annual meetings of the county assessors to discuss common problems involved in the assessment of property at its full cash value. In spite of these provisions it is interesting to note that the county assessors in 1908 agreed to assess all property at one third of its cash value.

The next significant attempt to improve property tax administration was the creation of the State Tax Commission in 1911 by the General Assembly. The Commission was composed of 3 members to be appointed by the Governor for 6-year terms. The Commission was granted broad powers to supervise assessment and to enforce the State laws relating to assessment. The powers of the State Board of Equalization, other than that of equalizing assessments, were transferred to the Tax Commission, including the power to assess public utility property.

In the first year of its operation, the Tax Commission increased the total State property valuations from $422,000,000 to $1,300,000,000. Needless to say, this action resulted in strong local opposition and in 1915 Weld and Denver counties initiated a measure to abolish the Tax Commission. The measure was defeated by a narrow margin, but the Tax Commission thereafter evidenced little enthusiasm for tax reform.

Equalization Efforts from 1912 to 1947. Several significant attempts to achieve greater equalization of property values were made in the period from 1912 to 1947. A proposal to abolish the State Board of Equalization and to place the authority for equalization in the Tax Commisever, two years later, a constitutional amendment was adopted giving the State Board of Equalization the responsibility of adjusting, equalizing, raising or lowering the valuation of real and personal property throughout the State and the valuation of the various classes of property. Once again the amendment required the assessment of property at its full cash value. While this amendment was intended to give the Board of Equalization unlimited powers to equalize assessments, it denied the power to make original assessments. Consequently, the courts have ruled that the Board could not examine the valuation of an individual taxpayer's property.[10]

In the administration of the above powers, the State Board of Equalization has made changes in the assessed valuations certified by the county assessors in all except 11 years of the 33-year period from 1914 to 1947. Decreases in assessed valuations were ordered in each year from 1915 to 1923, from 1924 through 1928,

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[7]People v. Ames, *27 Colo. 346* (1900).

[8]State of Colorado, State Tax Commission, *Annual Report, 1915*, p. 9.

[9]Union Pacific Railroad Company v. Alexander, *113F 347* (1901).

[10]Boulder County v. Union Pacific R.R. Co., *89 Colo. 110* (1931); also McGinnis v. Denver Land Co., *90 Colo. 72* (1931).

from 1930 through 1933, and in 1940. Increases were ordered in only six years, namely, 1923, 1934 and 1936 through 1939. Thus, the principal effect of the Board's action was to reduce assessed valuations, although property values increased significantly during the period noted. Two special studies of the Colorado property tax system, *A Survey of Colorado State Tax System* by Jens P. Jensen in 1930, and *The Colorado Property Tax* by Earl C. Crockett in 1947, have recommended the abolition of the State Board of Equalization. However, no action has been taken on these recommendations.

Exemption of Intangibles and the Specific Ownership Tax. Two special classes of property were excluded from the general property tax base in 1936. All forms of intangible personal property were exempt from the general property tax and the income from such property was subjected to a special surtax under the State Income Tax Law. This change was occasioned by the difficulties encountered in getting intangible property on the tax rolls and the obvious inequities resulting from partial assessment. Similar problems led to the exclusion of motor vehicles form the general tax base and the adoption of the Specific Ownership Tax on automotive vehicles. This tax required payment of a property tax on such vehicles as a condition of registration and has proved to be highly satisfactory.

State Reappraisal Program of 1947. By the late 1940's it became increasingly apparent that the level of assessment of all property was declining in relation to full cash value. Professor Crockett's study in 1947 reported an estimated increase of 50 percent in the actual value of property during the period from 1913 to 1941.[11] Nevertheless, the assessed valuation of property in the latter year was $179,000,000 lower than in 1913. Also, considering the marked inflation of property values during World War II, the 1946 valuation was still $47,000,000 lower than that in 1913. The State General Assembly, recognizing the critical financial problem, appropriated $100,000 to defray the cost of a state-wide property reappraisal program.[12] The legislation directed the State Tax Commission to undertake the reappraisal of all taxable property during the 1947-1949 biennium.

A Department of Reappraisal was created by the Tax Commission headed by a Director of Reappraisal. The State Tax Commission determined that the reappraisal should be made on the basis of 1941 costs of construction. This action was defended on the ground that the rise in property values during the war years was abnormal and temporary in character. The 1941 levels of value, therefore, were declared to represent "true cash value."

The general procedures involved in the reappraisal plan included the development of uniform assessment bases for all types of property; and the use of county assessors' staffs, subject to the assistance and supervision of state appraisal officers, to carry out the actual reappraisal of property in their jurisdictions. An Assessor's Real Estate Appraisal Manual, covering the approved bases of assessment, was published and distributed to the county assessors. In general, the Manual provided for: (1) the appraisal of buildings on the basis of their cost of reproduction using the 1941 level of construction cost and adjusting these costs for losses of value resulting from depreciation, obsolescence and other economic factors; (2) the valuation of agricultural lands according to their production capabilities; and (3) the appraisal of urban land on the basis of 1941 market value and other pertinent factors.

While the county assessors' offices hired additional personnel and generally undertook to cooperate in the reappraisal program, progress was very slow in some jurisdictions. The General Assembly appropriated an additional $113,000 for the program in the 1949-1951 biennium, but 5 years following the initiation of the program the work was not complete in any of the counties. Consequently, the Legislature directed the Tax Commission to make the reappraisal valuations effective for 1952. Many of the counties were not able to complete the work and a more or less arbitrary expedient was adopted. This measure required that the valuation of all property, which had not been reappraised, be increased by a percentage corresponding to the average increase in value on properties which had been reappraised.

As a result of the new appraisals, property valuations in the State increased from $1,733,000,000 in 1951 to $2,470,000,000 in 1952. While nearly all properties were increased in value, the extent of increase varied widely as between individual properties and various classes of property. There were, naturally, many protests by property owners and considering the methods employed to complete the reappraisal, it is not surprising that some of the protests were found to be valid. Consequently, the General Assembly in 1953 appointed a joint committee to investigate the situation. This committee recommended that special provision be made for review of the 1952 assessments, and a law was enacted permitting taxpayers to petition for review of their 1952 assessments without prejudice until May 1, 1953. The county assessors received numerous requests for review and many adjustments were made.

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[11] Crockett, *op. cit.*

[12] See Report of Colorado Legislative Council, *Colorado Property Assessment Methods*, 1958, pp. 5-9, for later history after 1946.

As the State Reappraisal Program was concerned primarily with the real property assessed by the county assessors, many property owners contended that their valuations were unfair in relation to the valuations of public utility property assessed by the State. This point of view appeared to have merit as the valuation of real estate under the reappraisal program had increased by over 58 percent from 1951 to 1952, while the assessed value of public utility property was increased by only 19 percent. The Tax Commission had not significantly changed its assessment of public utility property except for a general decision that assessment at 50 percent of value would achieve substantial equalization with local assessments. The State Legislature in response to these criticisms authorized a series of special investigations. Two independent studies by private experts were undertaken in 1953 on a limited basis. The results of these studies indicated that the Tax Commission's valuations were equal to or somewhat above the average for other forms of property.

Developments in Property Tax Policy Since 1953. While it was generally recognized that the state-wide reappraisal program had achieved substantial progress in the equalization of assessed values, later developments indicated that significant disparities still existed. In 1954 the Tax Commission recommended a substantial increase in the valuation of agricultural lands in one county and this action was approved by the State Board of Equalization. Similarly, in 1956, the Tax Commission recommended increases in the assessed valuation of farm improvements in 7 counties. These increases, however, were not approved by the State Board of Equalization. Finally, in 1958, the Tax Commission recommended an increase of $10,000,000 in the valuations of one county and the Equalization Board approved the recommendation. The county involved appealed this decision to the courts and the Supreme Court upheld the action of the Board.

The assessment of non-income producing personal property, including household furnishings and personal effects, has long been a serious problem in Colorado as well as other states. While most county assessors tended to rely largely on individual listing for this form of property, the assessors in several counties had attempted to carry out the annual assessment required by law. The results of the existing practices were obviously inequitable, and in 1956 the people adopted a constitutional amendment authorizing the Legislature to exempt such forms of property. In the following year the General Assembly made this exemption effective.

Recognizing the unsatisfactory status of property equalization as well as the deficiencies in various aspects of assessment procedure, the State Legislature in 1957 authorized two special studies of property taxation. The first was a Sales Ratio Study to be undertaken by the State Legislative Research Council, and the second involved a thorough investigation of Assessment Methods by the same agency. Part I of the Sales Ratio Study and the report on Colorado Property Assessment Methods were completed in December, 1958, and Part II of the former study early in 1959. Certain of the findings involved in these reports are considered in the following sections of the chapter.

Structure of the Property Tax in Colorado

Legal Basis of Property Tax. The legal structure of the property tax in Colorado is set forth in the State Constitution, statutes and regulations of the State Tax Commission. These provisions in turn have been interpeted and modified by numerous court decisions. Some of the decisions of the Tax Commission are in fact extra-legal in character, and the actual practice of tax assessors often bears little or no relation to the basic law or the rules prescribed by the Tax Commission. The status of the law as well as practice under it, therefore, is highly complex and often confused.

Article X of the State Constitution provides the general basis of property taxation as follows:

> All taxes shall be uniform upon each of the various classes of real and personal property located within the territorial limits of the authority levying the tax, and shall be levied, assessed, and collected under general laws, which shall prescribe such methods and regulations as shall secure just and equalized valuations for assessments of taxes upon all property, real and personal, located within the territorial limits of the authority levying the tax; provided, however, that the general assembly may, by law, exempt from taxation household furnishings and personal effects which are not used for the production of income at any time.

The provisions concerning exemption of certain types, uses or users of property, the specific ownership tax on automotive vehicles, the establishment of county and state boards of equalization, the right of the General Assembly to take steps for the equalization of property values, the maximum limit on the mill levy for state purposes, the special classification or exemption of personal property, and the prohibition against relinquishing the right to tax the property of corporations are also set forth in the Constitution. Other important features of the property tax law are contained in Chapter 137, Articles 1 through 11 of the *Colorado Revised Statutes.*

It should be emphasized that the Constitutional provisions generally permit broad discretionary power to the Legislature insofar as

classifying property and assessment methods and procedures are concerned. Exemptions, on the other hand, are strictly defined, and can only be extended or curtailed through the amendment process. The latter feature is probably advantageous as it makes it more difficult for pressure groups to obtain preferential treatment.

Definition of Tax Base. The property tax in Colorado applies to all classes of real and personal property including property rights unless specifically exempt. Tax liability attaches to the property, though the tax assessed is to be paid by the owner or owners. Thus, action to collect overdue or delinquent taxes is taken against the property rather than the owners.

The State Constitution as well as the statutes require that the tax shall be applied to the "full cash value" of the property. This requirement, however, has been honored more in the breach thereof than by observance. County assessors and the State Tax Commision have not been appreciably influenced by it.

Exemptions. Exemptions have significantly narrowed the general tax base in Colorado as well as other states. The specific exclusions authorized may logically be grouped in three categories as follows: (1) those relating to the ownership of the property; (2) those involving the nature of the property; and (3) those related to particular uses of property.

Property owned by the federal government, the State and its local subdivisions is exempt. In the case of the national government the exemption is implicit in the doctrine of intergovernmental immunity,[13] and for other units it is specifically authorized in the State Constitution. Other exempted owners include: banks (personal property only) and county fair associations. In the latter instance the law calls for abatement or refund of taxes imposed, and in practice this is equivalent to exemption. The state and local governmental unit exemption is common to all of the states with certain minor exceptions.

Three important types of personal property are exempt by constitutional provision: (1) intangible personal property; (2) household furnishings and personal effects which are not at any time used for the production of an income; and (3) motor vehicles, trailers and semi-trailers other than those in process of manufacture and held in storage or in stock by manufacturers, distributors and dealers. The exemption of intangibles was adopted at the time the State Income Tax Law was passed, and a special in lieu surtax on the income from intangibles was incorporated in the income tax. This exemption simply recognized a situation which existed in fact, that such property was not being assessed. Over one-fourth of the states follow a similar policy of exempting all or most forms of intangibles, and a large number also exempt particular types of intangibles.

The personal property exemption was authorized by constitutional amendment in 1956, and was initiated the following year by action of the State Legislature. It is limited to household furnishings other than fixtures (items attached to the building) and ordinary personal possessions such as clothing, jewelry, books, etc., which are non-income producing. Incomplete and inequitable assessment as well as a recognition of the fact that such property normally involves little or no taxpaying ability were factors motivating this development. Prior to 1957 a $200 exemption was extended to the head of the household. The majority of the states have the limited sum exemption, ranging from $100 to $500, but complete exemption is becoming increasingly popular.

The exemption of motor vehicles simply substituted a special levy, the specific ownership tax, for the general tax. The change was designed to ensure effective assessment and collection of the tax on such vehicles by linking the tax payment to the registration process. Results have proved to be highly satisfactory, and the practice is employed by a number of other states.

Property, both real and personal, used solely and exclusively for religious worship, for schools not held or conducted for profit, for strictly charitable purposes, and also cemeteries not used or held for profit, is exempt. This type of exemption is universally employed, although its scope in terms of non-religious uses varies.

Other minor special exclusions include: the ditches, canals and flumes owned and used by farmers to irrigate their own land; the residence and land on which it is situated, owned by a church or synagogue and used as a dwelling for a minister, priest or rabbi, up to an assessed value of $6,000; and the increase in value of lands resulting from the planting and growing of trees for a period of 30 years unless the timber becomes mature and suitable for use prior to that time.

While the principal exemptions under the Colorado law result in a substantial reduction of the property tax base, they are generally typical of state practice and have strong support both on theoretical and practical grounds. It should be noted that there are several other special group exemptions which are found in some states such as veterans, owners of homesteads and owners of farm machinery, that are not permitted in Colorado. This fortunate circumstance may be attributable to the fact that a constitutional amendment is required for such favors.

[13] While federal land or other property leased to private individuals or businesses for profit-making activities is not taxed in Colorado, it is doubtful whether immunity attaches to such property.

General Basis and Standards of Assessment. While the constitutional and statutory basis of assessment in Colorado is "full cash value" or "true and full cash value," this has been interpreted and modified by statutory provisions and decisions of the State Tax Commission. The law establishes market value as the general guide to true value, but in the case of property which does not have an ascertainable market value other measures are specified. These measures include the value of the use and the capability of use, together with any other just method of determination. In the instance of corporations, the value of securities (stocks and bonds) outstanding is to be considered, and if other methods are inapplicable the cost of replacement or other just means may be employed. The foregoing basis and standards of assessments do not apply to metalic mineral properties, and the law contains special provisions relative to the assessment of several other types of property including merchandise inventories, public utilities and livestock. In addition to these special treatment situations the Tax Commission has made its own interpretation of the full cash value requirement, and has established specific rules for the assessment of most forms of property under a broad classification plan.

Under the revaluation program initiated in 1947, the Tax Commission in 1951 determined that 1941 construction costs reflected full or true cash values for buildings. This decision has not been questioned in the courts, though the fallacy of the assumption soon became apparent. It constitutes the broad basis of present assessment policy. At the same time (1951), the Tax Commission also established a system of appraising agricultural lands according to their productive capability, and specified the basis of assessment for other types of land. These rules were incorporated in the Assessor's Manual, and became the official basis of assessment under the revaluation program. They have been modified in certain details by later orders of the Commission. In 1958, 88 classifications of real and personal property were established for assessment purposes.

Specific Bases of Assessment; Major Types of Property. The specific bases of assessment, as prescribed by law or Tax Commission decisions, for the major types of property and those presenting distinctive problems will now be examined. Six broad categories are employed; namely, (1) agriculture land, (2) extractive or natural resource lands, (3) situs land, (4) improvements, (5) personal property, and (6) public utilities.

Agricultural Land. Agricultural land may be generally defined as land which derives its value primarily from its use in producing agricultural products or the raising of livestock. There is no specific statutory basis for assessing such land, although the law states that such lands "... shall be valued as a unit with the improvements and water rights located upon them."[14] The policy as set forth by the Commission provides for capitalizing the net income that was produced over a ten-year period on a typical farm under average management. Average net income values are to be calculated for each class or type of land within a homogeneous area. The ten-year period used is from 1933 to 1943. The specific procedures for implementing this policy, as laid down in the Assessor's Manual, are highly complex. It should also be noted that the income period specified includes the trough of the depression years.

Extractive Land. The law distinguishes two classes of mineral property for purposes of assessment: producing mines and non-producing mineral properties. Producing mines are defined as those with gross production in excess of $5,000, and the concept is further limited to mines producing gold, silver, lead, copper or other precious or valuable minerals. Thus, the provision may generally be said to include metallic mineral producing properties. However, iron, coal, asphaltum, quarries and land valuable because it contains other metals, minerals or earth are specifically excluded. To avoid confusion it is generally agreed in practice that tungsten, zinc, molybdenum, vanadium, uranium, tin and beryllium shall also be included under the "producing mines" category.

The law requires that the producing mines shall be assessed at either one-fourth of the gross proceeds or, if the net proceeds are more than one-fourth of the gross proceeds, at the net proceeds. Machinery and surface improvements are to be assessed separately at their actual value.

Non-producing mines or mining claims or possessory rights not classified as producing mines are simply to be assessed at the value thereof, which obviously provides no positive guidance to the assessor. The law does specify, however, that non-producing mines may not be assessed at a greater sum per acre than is assessed against the lowest valued producing mine in the same locality.

Coal lands, whether producing or non-producing, are excluded from the special assessment category. They have been classified by administrative decision of the Tax Commission, and are assessed on a flat sum per acre basis. The Tax Commission has prescribed a special

[14] *Colorado Revised Statutes, 1953*, Chapter 137-12-9.

basis of assessment for producing oil and gas wells; namely, 87½ percent of the value of the product at the well-head. The average price per barrel is used on oil and posted field prices for gas.

Separable or severed private mineral rights on non-producing mineral lands are supposed to be assessed at $1.00 per acre. While there is a relatively small amount of privately owned commercial timber land, by practice it is usually assessed on an acreage basis, the value of the timber being added to that of the land.

Situs Land. Situs land in general is land that derives its value from its actual or potential use as a location for buildings and other improvements and which is neither agricultural or extractive in nature. The statutes do not provide for a specific basis of assessment, but the Tax Commission has decreed that it be assessed at 40 percent of average market value.

In arriving at the average market value attention may be given to rental value, sales of comparable property, income produced and any other factors that may influence value. If there are improvements on the land, the value of the property is calculated as a unit and the replacement cost of the buildings is deducted to determine the value of the land.

The procedures recommended by the Commission in the valuation of situs land are those generally accepted and applied by expert appraisers.

Improvements on Land. Improvements upon land are generally defined as all structures or items of property which are permanently affixed to the land. By statutory definition they also include water rights. There are no statutory provisions relating to the specific basis for assessment of improvements. However, the law requires that they shall be listed and valued separately from the land, except in the case of property used for agricultural purposes. In the latter instance, the law specifies that the valuation shall apply to the entire unit.

As previously indicated, the Tax Commission, in connection with the revaluation program of 1947-1951, prescribed that improvements should be assessed on the basis of 1941 construction costs with appropriate deduction for depreciation and other specific factors affecting the value of the particular property. Additions to the original building are assessed on the same basis. It may be noted that normal depreciation deductions were limited to 60 percent, and that no building should be reduced in value more than 80 percent if it was fully utilized, and 90 percent so long as the building remained standing. While the law specifies that farm land and improvements be valued as a unit, the policy is to obtain unit value by appraising the component elements. Tax Commission policy includes the general concept that the combined assessed value of farm lands and improvements should not exceed the fair pre-inflationary sale value of the property.

Personal Property. The types of personal property subject to the property tax in Colorado may logically be classified as (1) livestock, (2) merchandise and manufacturers, and (3) all other personal property. The assessment of personal property is generally governed by rules laid down by the Tax Commission. However, the law does provide for annual assessment of such property and states that livestock and agricultural or livestock products held in a raw or unprocessed state by the farmer shall not be included within the terms "merchandise" or "manufacturers." The basis for assessing livestock is determined by the Tax Commission and the Colorado Assessors Association, and annual circulars are issued which set forth the recommendations for most classes of personal property including livestock. The recommendations specify the minimum average assessed values per head in the case of livestock.

The general rules pertaining to the assessment of merchandise and manufacturers are laid down in the statutes. They provide that the assessor shall ascertain the average amount invested in such property during the tax year. Owners of merchandise or manufacturers are required to list the sums invested in the property during each calendar month of the year. The actual standard of assessment as recommended by the Commission is 50 percent of the average inventory. As a matter of policy, the so-called average inventory is supposed to include a minimum of two inventories, the opening and closing.

Three methods of assessing other types of personal property including furniture, fixtures, machinery and equipment, are approved by the Tax Commission and are in actual use by assessors. These bases are as follows: (1) conversion of original cost to the 1941 level of construction cost and allowance of annual depreciation, (2) 40 percent of original cost, and (3) 80 percent of book value. The first basis is not widely used because of difficulties involved in its application.

Public Utilities. The rules concerning the assessment of public utilities' properties are set forth in some detail in the statutes. While these provisions specifically designate certain types of utilities, others have been added to the list by judicial and administrative determination. Generally speaking, the following types of services are considered to be public utilities: railroads, airlines, telephone and telegraph, electric power, natural gas, gas pipe line and other pipe lines, domestic water, irrigation, and car lines. The responsibility for assessing such property is vested in the Tax Commission. While the law

requires that the Commission shall fix a value for the entire operating property of each company, it does not specifically indicate in detail how such value is to be determined. The Commission, however, is required to consider the value of capital stock and bonds and any other appropriate evidence of value. Property of a public utility company, which is not used in the operation of its main business, is specifically excluded and is to be assessed by the county assessor of the county in which it is situated.

The statutes further provide for the allocation of a portion of the total value of interstate companies to Colorado on the basis of the proportion of track mileage in Colorado to the total track mileage in the system for railroads, and the proportion of line mileage in Colorado as compared to total line mileage in the system for telephone and telegraph companies. The allocation of the values of such property to local taxing jurisdictions within the State is based upon *main* track mileage for railroads and wire mileage for telephone and telegraph companies.

In determining the value of utility properties the Tax Commission considers three factors: (1) planned account or historical cost, (2) average market value of stocks and bonds for the preceding 12-month period, and (3) capitalization of net operating revenues during a 5-year period. The emphasis upon these factors varies with the type of utility and sometimes as between individual companies. The utility property is then assessed at 40 percent of the value allocated to Colorado.

Assessment Organization. The original assessment of property in Colorado, as in most other states, is vested in the office of the County Assessor. Public utility property which is assessed by the State Tax Commission is the one exception to this rule. There are presently 63 county assessors—62 of them are elected and the assessor in the City and County of Denver is appointed under a Home Rule Charter provision. The elective assessors serve for a 4-year term. It should be noted that the term of office was extended from 2 to 4 years and the salaries of assessors were substantially increased in 1954.

Various qualifications and disqualifications pertaining to the office of the county assessor are set forth in the State statutes, but they are not concerned with the technical capabilities of the candidates. The Colorado State Tax Commission is also charged with certain broad responsibilities concerning the assessment of property. This Commission consists of three members, who are appointed by the Governor under Civil Service regulations, and who hold office subject only to Civil Service laws and regulations. In general, the Commission is required to adopt reasonable rules and regulations concerning the method and manner of valuing real or personal property for tax purposes.

The Commission has the specific duty and power: (1) to supervise the administration and enforcement of all laws relating to the assessment and levying of property taxes; (2) to supervise county assessors, Boards of County Commissioners, County Boards of Equalization and the other officers concerned with the assessment and levying of property taxes with the object of insuring that the assessments are made on a just and uniform basis and at the true and full cash value of the property; (3) to re-appraise property in any county or municipality when in the judgement of the Commission such property has not been assessed at its true and full cash value; (4) to require county assessors to place upon the assessment roll any property which, for some reason, has escaped assessment and taxation; (5) to provide forms of returns to be made by assessors to its office and to formulate and transmit to assessors such instructions as may be deemed necessary or desirable to carry out are provisions of state law; (6) to prescribe uniform procedures relative to the keeping of assessment and tax records; (7) to investigate the activities and methods used by county assessors, county commissioners, county boards of equalization and county treasurers pertaining to the assessment and equalization of property taxes; and (8) to call annual meetings of county assessors and such other meetings as it may deem appropriate.

Thus, the State Tax Commission appears to have adequate authority to supervise and control virtually all phases of county assessment practice as well as the levying of property taxes and the equalization of assessed values of real and personal property.

Collection of the Property Tax. Property taxes in Colorado are collected by the elective County Treasurer. Assessment rolls are certified to this official by the county assessor, and tax bills are transmitted to the owner on the basis of this record. The treasurer also has the responsibility of assessing any property that has been omitted from the tax rolls.

Property taxes for a particular year are due on January 1 of the following year. However, the taxpayer is given an option of paying the tax in two installments on the last day of February and the last day of July, respectively, or one lump sum on April 30 without penalty. In practice, therefore, taxes become delinquent and subject to penalties after the dates specified. Several legal procedures are available to the treasurer for collecting delinquent taxes including: the tax sale of tax delinquent real estate; direct action against personal property involving a distraint order and sale; and suit against the owner to obtain a court judgement. The former methods are most frequently employed. In the case of a sale of real estate, the owner has the right of redemption within a 3-year

period. Taxes delinquent for a period of six years may be cancelled by action of the county commissioners.

Specific penalties in the case of delinquent taxes include interest at the rate of ½ of 1 percent per month plus an additional penalty after August of ⅔ of 1 percent per month on the taxes due. With the exception of the general depression period of the 1930's, no serious problems have been encountered in keeping tax delinquencies within reasonable bounds.

Equalization and Review Machinery. The Constitution makes provision for county boards of equalization and the State Board of Equalization. The county boards are composed of the county commissioners, and their functions are to hear and act upon complaints of individual taxpayers concerning assessments, to order the assessor to supply omissions in assessments and to equalize assessments among the taxpayers within the county. The Constitution requires equalization on the basis of full cash value. The boards meet on the third Monday in July and hearings may extend through July 28.

The State Board of Equalization consists of the Governor, State Auditor, State Treasurer, Secretary of State and Attorney General. It is the duty of the Board to adjust, equalize, raise or lower the valuation of real or personal property and the valuation of any item or items of the various classes of such property. Equalization is to be in terms of full cash value, and the Board has full authority to order any county assessor to change or equalize assessments and correct omissions in assessment. It does not have the power, however, to make original assessments. If the Governor is satisfied that an assessor has willfully failed or refused to comply with the law, he may remove such an assessor by executive order.

It should be noted that it is also the function of the Tax Commission to examine the abstract of assessment for each county, and the Commission may order such percentage increases or decreases in the over-all assessment as to equalize valuations at full cash value.

The Property Tax Calendar. The property tax calendar is a prolonged one extending over the period from February 1 of a given year to August 1 of the following year. Under 1957 amendments the date for initiation of assessment was changed from March 1 to February 1. It should be noted that assessors had requested the January 1 beginning date for assessment as this would permit the use of the end-of-the-year statements for inventories and other taxes. The process of assessment may continue throughout the first half of the year but is normally completed by May 1. The assessor is required to notify each taxpayer whose assessment has been changed of this change before July 1.

The County Board of Commissioners, acting as a Board of Equalization, is required by law to hold hearings between the third Monday in July and the twenty-eighth of July. Immediately thereafter, by August 1, the assessor must file a summary abstract of property assessments in the county, including any changes made by the Board of Equalization, with the State Tax Commission. In actual practice, these abstracts are usually filed between August 1 and August 20.

The State Tax Commission meets to examine assessment abstracts not later than the second Monday in September. If any changes are thought to be desirable the Commission submits its recommendations to the State Board of Equalization.

The State Board of Equalization meets on the third Monday in September and must complete its work within a week. It examines the assessment rolls submitted by the State Tax Commission, and if changes are made to equalize assessments among the counties, it must notify the assessors of such changes and provide an opportunity for a hearing on the changes. The assessor may appeal the decision of the State Board to the District Court of the county of which he is the assessor, and such appeal must be heard summarily.

The State Board of Equalization also determines the rate of the state tax to be collected by the county and this is certified to the County Clerk by the State Auditor along with any changes made in the original assessment.

Not later than October 1 the assessor must declare to the clerk of each town and to the County Superintendent of Schools the total valuation of assessable property within their jurisdictions. The local officials of each town, school and other taxing district, in turn, must certify their respective mill levies for the coming year to the Board of County Commissioners. The latter then certify the combined levies to the county assessor who extends the rates against the valuations and computes and transmits the individual tax as assessed to the county treasurer for collection.

Technically, the property taxes assessed are for the preceding year and are due and payable on January 1. However, the taxpayer is permitted an option of paying one-half of the tax before March 1 and the remainder before August 1, or, payment of the tax in one payment before the last day of April.

Thus, the property tax calendar extends over a period of eleven months in the levying and assessment of the tax and eighteen months before the tax due is collectible in full. Various proposals have been made for reducing the time lag both as respects the levying and assessment of the tax and its collection. However, the mechanics of the administrative process are such that a significant reduction in the time allowed does not appear to be feasable apart from a basic

change in administrative procedures. Inadequate staff in many of the county assessors' offices as well as the cumbersome nature of the equalization procedure are probably the major obstacles to such reform. The changes in the nature of the assessment process suggested in a later section of the chapter would require an overhauling of the assessment and equalization aspects of the tax calendar.

Rates of the Property Tax. The rates of the property tax in Colorado exhibited a gradual rise during the two decades following 1930, declined significantly following the revaluation in 1947-1951, and have increased sharply since 1954. As indicated in Table 7.5 the average aggregate mill levy for all units was approximately 31 mills in 1930; rose to 37.48 mills in 1940; reached a peak of nearly 52 mills in 1951; fell to about 39.5 mills in 1952; and was back to the 52 mill level in 1957.

All governmental units have shared in the increased property taxes levied. However, rate increases in recent years have been most marked in the case of the school districts. Comparing 1953 and 1957 average millage rates, these units showed a 26.5 percent rise, cities and towns 12.7 percent, and the counties 11.8 percent.[15] The fact that the schools have been primarily responsible for current increases is, of course, a reflection of the great expansion in educational requirements and the sole dependence of these units upon this tax source. Many municipalities have deliberately avoided increases in their property tax rates in recognition of this problem, while others have closely approached or attained their maximum mill rate under the State law. The State millage rate of 3.56 mills in 1957, though recently increased for institutional building requirements, is obviously of minor importance in the over-all rate picture. A breakdown of the 1957 levy by purpose is shown in Table 7.6.

It should be noted that there are extreme variations in millage rates on property from one jurisdiction to another. As indicated in Appendix Table 20A, the combined rates for school, county and municipal purposes in the 78 Colorado cities with populations of 1,000 or over ranged from 39.80 mills in Fort Morgan to 99.05 mills in Victor. Levies for municipal purposes varied from 7 mills in Fort Morgan to 30 mills in Erie; total school levies from 19.50 mills in Telluride to 42.80 mills in Littleton; and levies for county purposes from 4.62 mills in Aguilar to 25.05 mills in Victor.

Property Tax Receipts. Property tax receipts (taxes levied) in Colorado as shown in Table 7.5 amounted to over $49 million in 1930, but declined sharply during the trough of the Great Depression and did not regain and surpass this level until 1946. The relatively low yields during the World War II period are surprising in view of the marked inflation in property values and higher millage rates. They were, of course, attributable to the extremely low level of assessment which characterized state practice

[15] See Chapter XX, Table 20.5.

Table 7.5

Average Mill Levy and Property Taxes Levied in Colorado, 1930-1957

Year	Average levy[a] (mills)	State	County	Municipal	County public school	Special school	Total
1930	31.01	$5,710,519	$10,088,346	$ 9,353,494	$ 5,786,907	$18,267,450	$49,206,716
1931	31.19	5,050,622	8,733,128	8,753,895	5,557,516	16,768,640	44,863,801
1932	31.23	4,482,057	7,411,658	7,897,828	5,280,083	14,926,305	39,997,931
1933	33.46	3,745,196	7,229,104	7,236,566	4,802,598	13,779,605	36,793,069
1934	33.49	3,749,125	7,459,086	7,238,172	4,730,441	13,636,177	36,813,001
1935	33.96	3,268,849	7,685,489	7,753,184	4,792,005	13,462,059	36,961,586
1936	34.50	3,316,553	8,179,228	7,948,636	4,830,877	13,863,511	38,138,805
1937	36.67	5,002,024	8,636,312	8,066,232	4,871,440	14,181,968	40,757,976
1938	36.66	4,970,548	8,872,102	7,490,693	4,236,093	14,830,933	40,400,369
1939	37.71	4,906,543	7,454,306	10,274,713	4,099,720	15,285,619	42,020,901
1940	37.48	4,842,379	7,108,136	10,336,038	3,875,593	15,546,956	41,709,102
1941	37.18	4,788,820	7,357,844	10,081,451	3,959,849	15,701,188	41,889,152
1942	35.96	4,657,352	7,003,992	10,215,071	3,763,523	16,139,973	41,779,911
1943	35.74	4,595,903	6,933,872	10,832,754	3,515,417	16,793,520	42,671,466
1944	36.11	4,412,171	6,932,737	11,780,511	3,363,125	17,280,785	43,769,329
1945	38.72	4,267,319	10,164,072	10,121,871	3,520,575	19,139,663	47,215,500
1946	41.51	4,310,125	11,589,498	10,593,681	3,627,850	22,200,351	52,321,505
1947	46.37	6,079,752	13,719,884	11,872,574	3,928,819	26,623,632	62,224,661
1948	47.65	5,866,189	15,682,789	12,823,369	4,199,780	31,309,232	69,881,359
1949	49.06	6,145,150	18,627,911	13,979,322	4,312,045	35,043,391	78,107,819
1950	49.41	6,414,031	18,653,416	14,164,075	4,477,683	37,548,951	81,258,156
1951	51.94	6,687,786	19,761,517	15,572,362	4,632,748	43,382,562	90,036,975
1952	39.49	6,695,347	20,365,202	15,970,013	6,465,977	48,065,340	97,561,879
1953	42.11	6,957,317	24,016,783	16,582,069	6,700,349	53,843,988	108,100,506
1954	44.33	7,286,804	26,767,835	17,133,902	7,015,824	61,427,904	119,632,269
1955	46.55	10,420,781	28,412,438	20,039,699	8,534,554	66,216,721	133,624,193
1956	49.34	10,956,732	32,789,782	22,256,991	9,172,653	76,268,186	151,444,344
1957	51.79	11,216,974	35,002,341[b]	22,993,777	23,315,493	70,647,060	163,175,645
1957 (in percent)	—	6.87	21.45	14.09	14.29	43.30	100.00

[a] Derived by dividing total state assessed valuation into total levy shown in last column.

[b] Special improvement districts included in county in the amount of $4,372,750.

Source: State of Colorado, Tax Commission, *46th Annual Report*, 1957, p. 126.

during this period. Since 1946 property tax yields have grown significantly on an annual basis. Totaling over $52 million in 1946, they were up to $81 million in 1950; and were slightly more than double the latter figure in 1957 or $163 million.

The preponderant position of the public schools in the utilization of this source is evidenced by the fact that school district and county school levies accounted for nearly 58 percent of the total in 1957. The counties share (other purposes) was 21 percent;[16] the cities—14 percent; and the State's, less than 7 percent. Needless to say, the relative share of all governmental units, other than school districts, in property tax revenues has been declining in the last few years, and this trend may be expected to continue at least until the peak load upon public school facilities occasioned by rising birth rates has been reached.

Table 7.6

State Maintenance, Building Levies and Revenue in Colorado for 1957, as Adopted by The State Board of Equalization

Maintenance Funds	Expires December	1957 Levy	1957 Revenue
University of Colorado (Boulder)	——	0.35168	$ 1,107,338.25
University of Colorado (Medical and Training School)	——	0.06764	212,978.73
Colorado State University (A&M)	——	0.17616	554,676.71
Colorado State University (Experiment Station)	——	0.04851	152,743.91
Fort Lewis School	——	0.03328	104,789.06
School of Mines	——	0.10768	339,053.07
School of Mines (Experiment Station)	——	0.01093	34,415.40
Colorado State College (Greeley)	——	0.17616	554,676.71
Western State College	——	0.06795	213,954.83
Adams State College	——	0.03381	106,457.88
Stock Inspection	——	0.02254	70,971.92
State Fair Commission	——	0.02030	63,918.81
State Military	——	0.04734	149,059.92
Police Pensions	——	0.13528	425,957.46
Total Maintenance funds	——	1.29926	4,090,992.66
Building Levies			
Adams State College	1965	0.06380	200,887.68
State Fair Commission	1965	0.01068	33,628.22
Colorado State Hospital	1961	0.58156	1,831,163.64
Department of Public Buildings (Division of Planning)	1965	0.10622	334,455.95
Fort Lewis School	1965	0.05164	162,599.37
Colorado State University (A&M)	1965	0.27556	867,658.46
Colorado State University (Experiment Station)	1965	0.03097	97,515.54
Colorado State College	1965	0.13671	430,460.11
State Penitentiary	1961	0.12160	382,883.11
University of Colorado	1965	0.41481	1,306,116.29
University of Colorado (Department of Medicine)	1965	0.19327	608,551.13
Western State College	1965	0.08792	276,834.56
School of Mines	1965	0.09129	287,445.71
Small Projects Building Fund	1963	0.09471	298,214.30
Total Building funds	——	2,26074	7,118,414.07
Grand Total		3.56000	11,209,406.73

Source: State of Colorado, Tax Commission, *46th Annual Report, 1957*, p. 117

Property Tax Burdens and Their Distribution by Major Classes of Property. It is evident that the true burden of the property tax is not reflected by millage rates or by the amount of tax receipts. Whereas millage rates increased during the 1930's and the early 1940's receipts were substantially below the 1930 level, and while the aggregate rate fell from 52 mills in 1951 to 39.5 mills in 1952, revenues increased from $90 million to $97 million. The key to the property tax burden situation in Colorado, as in many other states, is assessed valuations, and, more particularly, the relationship between assessed values and the actual market or cost values of property at any particular time. Thus, any judgment concerning property tax burdens and the future potentialities of this revenue source is dependent upon an examination of the trend of assessed valuations and their relationship to current or market values. The former data are readily available on a long-term basis, but the latter information, unfortunately, can only be obtained by intensive research and that available is limited to certain periods and in other respects.

Trends in Assessed Valuations. The general trend in assessed valuations in Colorado from 1870 through 1957 is shown in Table 7.7. In view of the progress of the State's economy throughout this period, the level of assessed valuation reveals some strange results. Throughout the early history of the State assessed valuations manifested a gradual increase from 1870 to 1894. They declined during the remainder of the decade, and this development led to a reappraisal of property which was reflected in the 1901 valuations. The reappraisal resulted in an increase of assessments from $217 million in 1900 to $466 million in 1901 or a rise of 115 percent.

Total Assessed Values in Colorado, 1870-1957

After the reappraisal, however, valuations again declined and were maintained at a lower level until a second reappraisal in 1912. This revaluation produced even more extreme results with the 1913 valuations amounting to $1,307 million, a rise of 209 percent as compared to the previous year. Assessed valuations showed only a minor increase during the next 18 years, totaling $1,586 million in 1930. They decreased by about ⅓ during the depression period and did not regain the 1930 level until 1949.

The most recent state-wide reappraisal of property, initiated in 1947 and completed in 1951, brought about a significant but modest increase in assessed valuations of 42 per cent. Since 1952 a further increase of 21.6 percent has occurred. The total assessed valuation of property in the State in 1957 was $3,151 million.

On the basis of the Jensen and Crockett studies of the property tax in Colorado it seems apparent that assessed valuations have only approached the "full cash value" legal standard on two occasions, namely, 1901 and 1913. The

[16] Special district taxes are included in the county total.

Table 7.7

Total Assessed Values in Colorado, 1870-1957

Year	Valuation (millions)
1870	$ 17
1871	24
1872	[a]
1873	36
1874	44
1875	45
1876	44
1877	45
1878	43
1879	58
1880	74
1881	96
1882	104
1883	111
1884	116
1885	115
1886	124
1887	131
1888	169
1889	193
1890	221
1891	231
1892	237
1893	239
1894	209
1895	203
1896	207
1897	199
1898	192
1899	203
1900	217
1901	466
1902	354
1903	333
1904	342
1905	349
1906	356
1907	367
1908	375
1909	401
1910	415
1911	414
1912	423
1913	1,307
1914	1,310
1915	1,249
1916	1,212
1917	1,305
1918	1,422
1919	1,495
1920	1,590
1921	1,578
1922	1,549
1923	1,544
1924	1,541
1925	1,541
1926	1,547
1927	1,565
1928	1,578
1929	1,587
1930	1,586
1931	1,438
1932	1,281
1933	1,100
1934	1,099
1935	1,088
1936	1,106
1937	1,112
1938	1,102
1939	1,114
1940	1,113
1941	1,127
1942	1,162
1943	1,194
1944	1,212
1945	1,219
1946	1,260
1947	1,342
1948	1,467
1949	1,592
1950	1,645
1951	1,734
1952	2,471
1953	2,567
1954	2,699
1955	2,871
1956	3,069
1957	3,151

[a] Not available.

Source: State of Colorado, State Tax Commission, *46th Annual Report, 1957.*

1947-1951 reappraisal was officially intended to reflect 1941 costs or market values, which were admittedly fractional in terms of actual property values (about 40 percent) at the time the reappraisal was undertaken. Initial results of the Sales Ratio Study indicate that the average ratio of assessment in Colorado at the present time is only about 28 percent.

While it is obviously not possible to determine the precise effect of adherence to the full cash value standard of assessment in recent decades, the 1913 assessed valuations do provide a possible base for estimating such values. Assuming that the 1913 valuations reflected the full cash value standard, the probable level of full cash valuations since that time were calculated using two factors of change; namely, the indices of population and construction costs. The population factor showed an over-all 90 percent increase from 1913 to 1957 and construction costs a four-fold increase. The composite index for certain selected years was then applied to the assessed valuations to arrive at the theoretical full cash valuations presented in Table 7.8.

According to these data, the full cash value of property in Colorado for 1957 would have been approximately $12,280 million rather than the $3,151 million actually assessed. The findings of the Sales Ratio Study indicate a full cash valuation of about $11,250 million in 1957 or approximately $1,000 million less. Consequently, the calculations appear to be reasonably accurate. The significance of the estimated full cash valuations for earlier years may be readily seen by dividing the actual taxes levied into the full cash value base. Thus, the effective millage rates would have been as follows:

Years	Average Effective Mill Levy
1933	16.00
1938	13.50
1943	10.70
1948	9.20
1953	10.90
1957	13.30

Stated in different terms, the annual property tax in Colorado levied by all units of government amounted to: 1.6 percent of full value in 1933, 1.35 percent in 1938, 1.07 percent in 1943, 0.90 percent in 1948, 1.09 percent in 1953 and 1.33 percent in 1957.

While the estimates of the full cash value of property since 1913, and consequently the burden of the property tax as related to such values, constitute rough approximations, it is evident that assessed valuations bore little relationship to the actual value of property. Increases in millage rates and the amount of property taxes assessed, therefore, provide no indication of the actual burden of the property tax. Finally, it is quite clear that the present effective rate of the property tax on the present value of property in Colorado is less than 1.5 percent.

Table 7.8

Estimate of Theoretical Full-Value Assessments in Colorado, Based on the 1913 Reappraisal, by Five-Year Intervals, 1913-1957, and Estimate of Average Mill Levy on Full-Value Assessments, 1933-1957

Year	Population index (1)	Construction cost index[a] (2)	Composite index[b] (3)	Actual assessment index[c] (4)	Actual assessment[d] (in millions) (5)	Theoretical full-value[e] (millions) (6)	Total property tax levy[d] (thousands) (7)	Average mill levy on current assessment[d] (8)	Average mill levy based on theoretical full-value[f] (9)
1913	100	100	100	100	$1,307	$1,307	N.A.	N.A.	—
1918	103	153	158	109	1,422	2,060	N.A.	N.A.	—
1923	110	189	208	118	1,544	2,700	N.A.	N.A.	—
1928	116	185	215	121	1,578	2,800	N.A.	N.A.	—
1933	125	147	178	84	1,100	2,300	$36,793	33.46	16.00
1938	126	185	233	84	1,102	3,000	40,400	36.66	13.50
1943	133	232	309	91	1,194	4,000	42,671	35.74	10.70
1948	144	404	582	112	1,467	7,600	69,880	47.65	9.20
1953	166	458	760	196	2,567	9,900	108,100	42.11	10.90
1957	190	495	940	241	3,151	12,280	162,175	51.79	13.30

[a] Boeckh residential construction costs 1913 = 100.
[b] Col. 1 x Col. 2 + 100.
[c] 1913 = 100.
[d] Source: State of Colorado, State Tax Commission Reports.
[e] Col. 3 applied to 1913 value.
[f] Col. 7 + Col. 6.

Distribution of Assessed Valuations by Types of Property. The distribution of total assessed valuations by the major classes of property for selected years is shown in Table 7.9. Percentage-wise, in 1957 town and city lots and residential improvements accounted for 38.07 percent of the total assessed valuation; rural land and improvements, including improvements on public lands—13.74 percent; corporation property assessed by the Tax Commission, or public utilities — 11.77 percent; commercial improvements—9.28 percent; miscellaneous properties — 8.37 percent; merchandise — 7.75 percent; timber, oil and coal properties — 4.40 percent; industrial improvements — 4.04 percent; livestock—1.67 percent; and metalliferous mining properties—0.91 percent. Due to a change in property classifications in 1957 the data for earlier years are not strictly comparable. However, there has been a substantial decrease in the relative importance of metalliferous mining properties and livestock throughout the entire period. In contrast, there has been a significant increase in the relative position of timber, oil and coal properties and merchandise inventories since 1941. Finally, the major categories of rural and urban lands and improvements have maintained a relatively stable position since 1941.

Policy Issues and Administrative Problems

General Standard of Assessment. The determination of an appropriate standard of assessment and its consistent application by those

Table 7.9

Comparative Assessments by Type of Property in Colorado Selected Years, 1912-1957

Type of Property[a]	Assessment (in millions)						Percent of total					
	1912	1913[b]	1941	1951	1952[b]	1957	1912	1913[b]	1941	1951	1952[b]	1957
Land and improvements including improvements on public lands[c]	$89.9	$322.9	$287.1	$305.4	$479.1	$432.5	21.27	24.71	25.47	17.62	19.39	13.74
Metalliferous mining properties	18.0	46.0	33.7	26.4	39.8	28.8	4.27	3.52	2.99	1.53	1.61	0.91
Timber, oil and coal properties	8.4	20.5	11.7	44.1	80.1	138.5	1.98	1.57	1.04	2.54	3.24	4.40
Town and city lots and residential improvements	169.0	465.1	415.1	657.3	1,039.6	1,198.7	40.00	35.60	36.83	37.92	42.08	38.07
Livestock	18.0	63.6	39.5	76.7	105.0	52.5	4.26	4.86	3.51	4.42	4.25	1.67
Merchandise	16.7	48.1	65.9	163.1	186.1	243.9	3.95	3.68	5.84	9.41	7.53	7.75
Corporations assessed by the Tax Commission	61.0	260.2	197.1	245.4	293.1	370.6	14.44	19.92	17.49	14.16	11.86	11.77
Miscellaneous properties less exemptions	41.5	80.2	77.0	215.0	248.1	263.6	9.83	6.14	6.83	12.40	10.04	8.37
Commercial improvements on rural and urban properties	—	—	—	—	—	292.4	—	—	—	—	—	9.28
Industrial improvements on rural and urban properties	—	—	—	—	—	127.2	—	—	—	—	—	4.04
Total	422.5	1,306.6	1,127.1	1,733.4	2,470.9	3,148.7	100.00	100.00	100.00	100.00	100.00	100.00

[a] Classifications are those in use at the time shown.
[b] Reappraisals effective.
[c] Excludes mining properties, timber, oil and coal properties, town and city lots.

Source: Adapted from State of Colorado, Tax Commission, *46th Annual Report, 1957*, p. 116.

responsible for property appraisal has always been a fundamental problem in the property tax field. State laws in most jurisdictions have prescribed 100 percent assessment in terms of current market or sales value, but Colorado as well as other states having this requirement have generally practiced fractional assessment in widely varying degree.[17]

In spite of the recognized deficiencies in practice, tax experts ordinarily support the full value measure. This support is attributable primarily to the fact that 100 percent of present values provides a more realistic and sounder basis of calculating relative values. In the first place, it is a more readily determinable and understandable base. Secondly, inequities in assessment tend to stand out more clearly, and if they persist are less onerous by virtue of the larger base. Finally, this standard places greater emphasis upon the necessity of keeping assessed values on a current basis, a condition that is essential to equitable assessment. Of course, assessment on the basis of present values does not require the 100 percent base. Thus, there are really two facets of the problem under consideration, namely, the question of 100 percent versus a lower ratio of assessment, and the base to which the percentage factor is applied, or, present values versus values at some earlier period.

The principal objection to 100 percent assessment, which is normally though not necessarily identified with current value, is that it would result in a tremendous increase in the tax base, and thereby open the door to an increase in property tax burdens. Fractional assessment, especially when it is not authorized by law, is also preferred on the ground that taxpayer psychology is generally more favorable and there is less likelihood of individual complaints concerning assessments. In other words, underassessment tends to disguise the true burden of the tax and serves as a cover for various types of inequities involved in the typical assessment process. It will be noted that these considerations have a practical or expediency orientation.

Ideally, there is little doubt that 100 percent assessment on the basis of current values is the best standard of assessment. The advantages claimed for this approach are generally valid. The key element in the standard from the standpoint of equity, however, is the use of current or present values. In a rapidly growing economy, such as that of Colorado, not only the level of property values but the value relationships between individual properties and different types of property are constantly shifting or changing. To ensure wholly equitable results in a relative sense, property would have to be revalued every year, and if assessed values are more than three years behind the current relationship serious inequities are inevitable. Certainly, under the latter circumstances true equalization of assessed values is impossible. The fiction, widely held at various times during the history of property taxation, that there is any true or real level of values other than that presently existing has long since been exploded.[18]

Once present value or the closest possible approximation thereto is established as the general basis of assessment the question of the ratio of assessment may be treated in its proper perspective. While the 100 percent factor is desirable from certain points of view it is not essential to equitable results. Rather, any reasonable ratio uniformly applied will achieve this end. Considering the practical problem which would arise as a consequence of converting the present average assessment ratio in Colorado of around 28 percent to 100 percent, a fractional assessment factor is preferred. As there are marked inequalities in the average ratio as between counties it is not possible to select a factor that would leave existing assessed valuations undisturbed. A 40 percent of present values basis of assessment would appear to be reasonable as this reflects the approximate maximum in terms of existing practice and the effects would not be revolutionary in terms of extending the valuation base in most jurisdictions.

Adoption of such a percentage factor applied to current values as determined by market or cost data, however, should be accompanied by provision for the automatic adjustment of state and local rates to ensure that property tax burdens in the individual taxing units would not be increased or reduced by this action. A constitutional amendment will obviously be required to effect the changes indicated.

Frequency of Assessment. The failure of county assessors to re-assess real property and sometimes certain types of personal property within a reasonable period of time has been a major factor contributing to low levels of assessment, and serious inequities between individual properties and different types of property. Regardless of the reasons for this deficiency, no general standard or basis of assessment will produce satisfactory results unless

[17]Several states have attempted to implement the 100 percent of current values standard in recent years.

[18]It should be noted that the Director of the 1947-1951 State Re-appraisal Program and the State Tax Commission were faced with a two-pronged practical problem, namely, the Constitutional requirement of 100 percent cash value assessment, and the inevitable political and economic repercussions which would have followed an application of this rule to the inflated value structure of the early post-war period. Whether their decision to use 1941 costs was desirable or not is a moot point.

property is re-appraised at relatively frequent intervals. Assessment on present values obviously requires a minimum time lag between the actual date of assessment and the current values situation.

Three years should provide adequate time for a complete re-appraisal of real estate once a sound, equalized assessment is achieved, and this period is not excessive in terms of maintaining a proximate relationship to current values. This change in existing practice would require the institution of a continuing assessment program with one-third of the property in each county being re-assessed each year. A further advantage of the plan is that it would permit the use of full-time staff with some degree of competence in appraisal work. It should be noted that a similar approach is now followed in the City and County of Denver and certain other assessment offices, and the three-year rule as well as continuing assessment is widely used in other states. Personal property should be re-assessed every year due to its fluid character. This is the requirement under the present law, and the rule is actually followed in many jurisdictions.

No serious problems should arise in requiring adherence to the above rules in most jurisdictions. However, some of the counties with sparse populations and limited economic resources to support the assessment and other governmental functions may find the proposed plan of assessment very difficult if not impossible to implement. In the interest of good government in general such counties should be consolidated or re-organized to assure a more adequate tax base. State aid is a possible alternative, but preferably it should be employed as a supplementary measure if necessary after such reorganization has been achieved. The proposal involving state assessment of extractive lands, if adopted, would largely resolve the major assessment problem in certain of the counties falling within the group under consideration.

Specific Bases of Assessment; Problems and Issues. The legal or official bases of assessment for certain types of property as well as the practice of county assessment offices in applying them involve important policy issues and administrative problems. These questions will be considered with reference to the major categories of property drawing heavily on the factual data presented in the Assessment Methods Report of the Legislative Council.

Agricultural Lands. The present method of assessing agricultural land involves the capitalization of net income approach based upon the ten-year average, 1933-1943. As previously indicated, the procedures in applying this method as outlined by the Tax Commission are highly complex.

The desirability of any particular basis of assessment must be appraised in terms of its equity and conformance to the general standard of assessment, its practicality and the actual results achieved. In the first instance the income standard of assessment, though providing a measure of taxpaying capacity, is often inconsistent with market or cost values. It is, of course, wholly inconsistent with the cost or market value basis in the case of non-income properties such as personal homes or residences. Furthermore, its application to only one type of income property is bound to produce inequities. Finally, the present use of average incomes during a base period which included most of the worst depression years of the 1930's is unrealistic and highly inequitable from any point of view. If the income standard is to be used in the future, it certainly should be applied on a current, moving-average base.

The practicality of the income standard in the case of farm land is highly questionable apart from actual results. It requires continuing data on average yields, grazing practices, and basic costs which are generally not available in the form needed by assessors.[19] Farm income records, as in the case of certain other small, independently owned businesses, are notoriously deficient. Furthermore, market or sales value data, although not current in some instances, are generally more accessible and reliable.

A consideration of actual practice and the findings of the Assessment Methods Report reveal that the present method is not being effectively or uniformly applied in the majority of counties; that guess work is often used as a substitute for essential facts; that some assessors have made no attempt to use the method; and that extreme inequalities exist between counties as to levels of assessment for the same type of land as well as different types of land.[20] The Sales Ratio Study tends to substantiate the existence of these inequities, and further indicates a substantial disparity in the average ratio of assessment for agricultural as compared to urban land.[21]

In spite of the considerations noted, the Assessment Methods Report concludes that the present method is the best available. This position is believed to be unwarranted both on theoretical and practical grounds. Market value information is sufficiently accessible to provide a firm basis of assessment for most classes of

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[19]See Colorado Legislative Council, *Colorado Property Assessment Methods*, Research Publication No. 28, December, 1958, pp. 42-43.

[20]*Ibid.*, pp. 45-53.

[21]Colorado Legislative Council, *Sales Ratio Study*, Research Publication No. 27, December, 1958, p. 26.

agricultural land in most counties. Under a proper and uniform system of classification prescribed by the State adequate general data on sales transactions for each class of property can be made available to all assessors to supplement the specific information that they have obtained. In this respect, the data provided through a continuing sales ratio study should serve as a general guide to the Tax Commission and individual assessors. Direct use of specific transaction data is not recommended as this might well break down the reliability of the information reported.

It should be emphasized that sales or market value is the principal basis of determining the value of agricultural as well as urban land throughout the United States. Capitalization of net income, if it is used for assessment purposes, is generally employed as only one of several factors in valuing such specialized types of property as public utilities and mines. In the case of these special forms of property, market or sales data, other than the market value of outstanding securities, are seldom available.

Use of sales data as the specific basis of valuing agricultural land does not preclude the employment of such information as may be available on yields, prices and income for the purposes of checking long-term trends in market or sales values.

Extractive or Natural Resource Land. The application of the property tax to mineral and timber lands has always presented a difficult problem to policy-makers as well as tax administrators. Policy-wise the problem is two-fold: (1) of arriving at a basis of assessment which will produce consistent results as compared to other forms of property; and (2) of formulating an assessment policy which will give adequate recognition to the depletable character of such resources. A third facet of the problem, which is of concern to legislators and assessors alike, is the practicality of the assessment plan and its uniform application. Further special complications arise with respect to non-producing mineral lands and immature, growing timber stands.

Several different positive approaches to these problems have been employed by the various states, apart from the widespread practice of gross underassessment by local assessors on a highly irregular and unsystematic basis. These efforts include (1) the adoption of a complex cost-income declining value assessment plan administered by the state, as exemplified by the practice of Minnesota and Michigan; (2) an attempt to achieve scientific assessment based upon the current value of the resource through the use of expert geological data under a centralized state assessment program; (3) the introduction of special assessment bases for certain types of mineral property not related to the capital value of the resource, as in Colorado; and (4) the substitution of a severance tax for the property levy on producing mineral and timber-properties.[22]

The first approach (Minnesota-Michigan) is sound from a theoretical standpoint, but it is highly complex, and would be extremely difficult to apply to the varied types of mineral resources and production situations in Colorado. State administration of this plan would be a must.

The second approach is employed by a number of states with widely divergent results. Use of the current value basis of assessment involves a general determination of the extent of the resource, its quality and its worth as measured by present prices. To avoid possible over assessment the quantity of the resource should be conservatively estimated with annual decreases in the estimated total value as determined by production rates. It should be emphasized that the depletion factor in the case of a mine or oil well is basically no different than the depreciation or obsolesence factor in the case of buildings or other property subject to these influences. While state assessment affords an opportunity to utilize experts and to achieve uniformity in assessment results, these advantages are not assured. Rather they are dependent upon the quality and quantity of the administrative staff, and this in turn requires legislative understanding and cooperation in providing adequate appropriations. The feasibility of this method has been demonstrated under the conditions noted.

The special bases of valuation approach to the assessment of producing mineral lands, such as gross or net product, bear no reasonable relation to the capital value of the resources, and are certain to produce inconsistent and inequitable results as between individual mining properties of the same type and of different types. These effects arise as a consequence of the fact that the value of one year's product of an oil well or mine constitutes a fractional element of the total value of the property, and that there are extreme variations in the productive life of mineral properties. These disparities tend to be greatly magnified under the differential practices of a local assessment situation. The one advantage which attaches to the gross product basis, in particular, is that production and price data can be obtained with relative ease.

The present differential bases of assessing oil and gas, "producing mines" and coal mines are unequal and involve a marked discrimination against oil and gas properties. In actual

[22]See E. H. Plank, *Public Finance* (Homewood, Illinois: Richard D. Irwin Inc., 1958), pp. 519-529.

practice, the 87½ percent of the value of the gross product basis for oil and gas appears to be quite uniformly applied; the provision concerning producing mines, which requires 25 percent of gross product or the net product if that is greater, is operative only in terms of gross product; and a special assessment classification plan established by the Tax Commission for coal lands, which is supposed to produce equalized assessments, has failed to achieve any semblance of uniformity.[23]

The use of the severance tax as a substitute for the property tax on productive natural resource properties has often been proposed, but has seldom been practiced. The great majority of the severance tax states, as indicated in Chapter XIV, employ the tax as an additional rather than alternative levy. Colorado's practice in granting a property tax credit against the severance tax on oil and gas income is one of the exceptions to this policy. In general, the severance tax is said to be preferable to the property tax in the following respects: it is related to the quantity or value of production and cannot become a cumulative charge on the capital value of the property during periods when it is unproductive or production is at a low level; the burden of the tax is more likely to be shifted to consumers; and it is relatively easy to administer in contrast to the admittedly complex and technical problem of determining the capital value of mineral deposits. These alleged advantages of the severance tax, as noted in the later discussion of this source, have considerable merit.

In the light of this apparent preponderance of evidence the failure of most states to utilize the severance tax as an alternative or in lieu levy may be somewhat surprising. However, the reasons for the general policy are quite clear. In the first place, natural resource properties are usually subject to low level or fractional assessment under the property tax. Secondly, they are given preferential treatment under the federal and many state income taxes, particularly as regards depletion allowances. Thirdly, local governments, which are largely dependent upon the property tax, are reluctant to part with a certain, stable source of income, subject to their control, in exchange for one that is less certain and is dependent upon the beneficence of state legislative policy. Finally, state legislatures are looking for additional or new sources of revenue to finance rapidly rising costs, and understandably are less concerned with restructuring tax systems particularly if the gains in terms of equity are open to question. In short, the actual problems associated with the application of the property tax to mineral resources plus the relative advantages of the severance tax as an alternative source are generally thought to be less significant and compelling than the fiscal gains from the property tax plus the theoretical and revenue advantages of the severance tax as an additional levy.

The chief concern in the assessment of nonproducing mineral lands or rights therein is one of ensuring uniformity of assessment in relation to some reasonable measure of value. Low level, if not nominal, assessment, is generally indicated in view of the unproductive status of the property. However, there are marked differences in potential value, and expert judgment is required both in terms of developing appropriate classifications and determining the specific level of assessment for each class. This competence seldom exists on the local level, and uniformity of treatment is virtually impossible of attainment apart from centralized state assessment. As there is relatively little commercial timber production in Colorado, this facet of the natural resource problem will not be examined.

In conclusion, it is evident that the present bases of assessing producing mineral properties involve varying degrees of fractional assessment as related to capital value, and are discriminatory both as between oil and gas and other minerals and mineral properties as compared to other forms of property. Assessment on the basis of the estimated current value of the resource, subject to annual adjustment according to the rate of depletion, is feasible, and is definitely preferred to the gross product method. Centralized state assessment by an expert staff would be essential, but this is desirable in any case to ensure uniformity and consistency of results. Under this approach the general ratio of assessment would be applied, and the assessed values allocated back to the county or counties in which the property is located.

Site Land. The present legal basis of assessing urban land and other land not used for agricultural or extractive purposes according to the market value measure as outlined by the Tax Commission is sound, and will produce equitable assessment if uniformly applied. The latter result, as revealed by the Sales Ratio Study, is not being achieved, but it can be under an effective system of state aid and control over local assessment practices. These conclusions are in accord with the findings and recommendations of the Assessment Methods Report.[24]

Improvements. The general approach to the valuation of improvements in Colorado, namely, replacement costs new minus depreciation or other factors which serve to reduce value, is the most desirable method. Use of 1941 costs, however, is unrealistic and inequitable, and current costs should be substituted. The pro-

[23] *Colorado Property Assessment Methods, op. cit.*, pp. 57-66.

[24] *Ibid.*, pp. 80-81.

cedures established by the Tax Commission for applying the replacement cost measure are also needlessly complex in certain cases, depreciation as well as cost schedules are outdated, and the system of classification for different types of improvements needs overhauling. The statutory requirement that farm lands and improvements be valued as a unit, whereas other improvements are valued separately from the land, is highly questionable. To ensure reasonable consistency of results a uniform policy of valuing all improvements separately and on the same cost basis is essential.

Assessment practice, as demonstrated by the Assessment Methods and Sales Ratio studies, is marked by widespread deviation from the procedures set forth in the Assessor's Manual and extreme disparities exist in the level of assessment as between individual improvements of the same type and different types of improvements both within a particular county and from one county to another.[25] The institution of a uniform basis of assessment, simplified and standardized procedures, and an effective system of state control are the obvious answers to these problems.

Personal Property; Inventories or Stocks of Goods on Hand. The assessment of personal property, by virtue of its varied, fluid and mobile character, is another difficult problem area. Certain classes of personalty, such as merchandise and manufacturing inventories, present theoretical as well as practical difficulties, and the assessment of livestock and agricultural products in the hands of the farmer involves similar considerations. A relatively new type of mobile property, the home or house trailer, also has become a source of chronic headaches to assessors and on occasion to the owners of the homes and trailer parks.

Assessment policy with respect to merchandise and manufacturing inventories has been the subject of continuing controversy in Colorado as well as other states. The owners of such property contend that it is being overassessed relative to other property (50 percent of average investment value); and that the incidence of the tax is highly unequal as a consequence of varying rates of stock turnover. Actually, the fluid character of this type of property makes it very difficult if not impossible to achieve equal treatment as compared to relatively fixed or long-life assets. Farm products in the hands of the farmer and to a somewhat lesser degree livestock are similar in character.

Cost of commodities in inventory constitutes the most logical and feasible basis of assessment. Market value is subject to frequent fluctuations, and would be more difficult to compute on an average basis. Furthermore, the cost basis is clearly preferable from the standpoint of the owners of such property.

Exemption is unacceptable as it would involve a serious discrimination against other forms of property both real and personal, and would substantially reduce the tax base. Possible alternative or in lieu tax approaches, such as gross receipts and value added, could be employed to offset revenue losses. However, they are open to the same type of objections.

The gross receipts base, for example, disregards the average amount of capital invested in stock, and penalizes high rate of turnover concerns. Thus, the gross receipts base fails to equate the tax burden in terms of the value of the capital invested factor which is the fundamental aim of the property tax. The "value added" tax concept is designed to serve as a substitute for a general sales tax on the various stages in the production and distribution of commodities. Specifically, it is intended to limit the tax base on each level to the contribution which that type of business makes to the total value of the product as represented by the consumer price. In other words, its purpose is to avoid a pyramiding of the tax base, and the tax on a tax effect of the general sales tax. To the degree that this aim is achieved it washes out the significant element of capital investment involved in the cost of goods purchased.

The general merit of the cost basis of valuing inventories is further attested by the fact that this is the typical approach in other states.

In applying the cost method, a basic question arises as to whether the total or average amount invested in inventory during the year should be employed. While the latter or average amount is usually fractional as compared to the total investment, it is the generally accepted basis. It should be noted, however, that the average cost measure is computed on purchase cost rather than total cost of goods sold. The determination of the average amount of capital invested in inventory throughout the year presents certain technical problems, but they are not insurmountable. Ideally, this determination should be based upon a 12-month average as recommended by the Tax Commission. However, this is not feasible in all cases, and the Tax Commission rules permit as a minimum the use of opening and closing inventories. Due to the possibility of manipulation, a quarterly inventory minimum requirement would obviously be preferable, and should be feasible except for certain small, independent concerns.

The present percentage assessment factor of 50 percent appears to be high in relation to the average ratio of 28 percent of market or sales value for all types of property. However, con-

[25] *Ibid.*, pp. 87-102.

sidering the fact that the 50 percent is applied to purchase costs rather than cost of sales, and the vagaries of local assessment practice, it is impossible to determine the precise effect of the present policy and its equity as related to the treatment of other forms of property. Under the present circumstances, therefore, there is insufficient evidence to justify a change in the 50 percent rule.

While the Constitution provides that agricultural products, except those in the hands of a retailer, shall not be regarded as merchandise, it does not exempt such property nor does it prescribe a method of assessment. In actual practice, however, these products in the hands of the farmer generally are not assessed. The desirability of exemption is questionable, but it should not be practiced without legal authorization in any case.

The present basis of assessing livestock is unsatisfactory in several respects. In the first place, no definite standard or measure of value is prescribed in the Constitution or statutes (other than full cash value). As a consequence, the Tax Commission with the assistance of county assessors annually determine a schedule of so-called "minimum average valuations" for the various types of animals. It is not known what these recommended values are based on other than the opinions of those participating in their formulation. Secondly, in actual practice these values tend to become standard or uniform bases of assessment, which is not the intent of the Commission and obviously fails to reflect actual differences in value.

A specific measure of value should be established by statute for livestock, and market value is clearly the most realistic. The percentage of assessment should, of course, be related to the general standard to ensure consistency of results.

As mobile homes used on the highways are supposed to be taxed under the specific ownership tax on motor vehicles, this problem will be discussed in that connection. Other miscellaneous types of personal property including office furniture and fixtures, machinery and equipment are assessed on varying bases. The Tax Commission recommends three methods, but the typical approach is 40 percent of cost without conversion to any standard level of cost and without annual depreciation. The results naturally are extremely variable both as between counties and different types of property in the same county. A uniform statutory basis of assessment is obviously required if any degree of equalization is to be achieved. Replacement cost minus depreciation is the most appropriate basis in terms of the recommended current values standard for real property. Replacement costs would also be easier to ascertain than actual costs and average depreciation schedules could be developed and applied in most instances. It is recognized that this basis may be subject to strong opposition from property owners. However, actual cost less depreciation is extremely difficult to ascertain and due to differences in accounting practice a reliance on book values would produce highly variable results. Liberal allowances for depreciation would also provide a means of offsetting possible burdensome effects during the years immediately following the introduction of the replacement cost basis.

Public Utilities; Assessment Problems. The assessment of the property of public utilities is a highly complex and technical problem. While responsibility for assessing such property (used in operations) has appropriately been vested in a state agency, the Tax Commission, it is impossible to evaluate the results of the Commission's policy apart from a comprehensive investigation of all facets of present practice. The Legislative Council Committee on Colorado Assessment Methods, recognizing the enormity of the task, recommended a special study.

There are basically two policy questions to be resolved, namely, the appropriateness of the valuation formulas presently being employed and the effect of the factor used to allocate total valuation to Colorado. A third issue, which is not an assessment problem, concerns the equity of the measures applied in allocating assessed valuations to the local assessing units. In practice there are many points at which the assessment formulae applied may break down, and thus fail to achieve their specific or over-all objectives. Illustrative of the type of questions involved in the assessment problem are the following: what is a proper rate for capitalizing net operating revenue; should the income base be total net earnings on assets used or held for use by the utility; is there any justifiable reason for employing book accounts and if so are they properly defined; is the market value of outstanding securities a reliable factor of measuring present value and is the weight assigned to it reasonable; and should the replacement cost new minus depreciation method, which represents the closest possible approximation to market value, be employed? These are only a few of the more obvious points.

Any investigation of existing policy and practice must deal with broad policy implications as well as techniques if it is to accomplish the purposes intended. Furthermore, any analysis of specific valuation factors will be largely unmeaningful unless it is predicated upon a definite general standard of valuation such as current value, historical cost or capitalized net incomes which is consistent with that used for other types of property. As the former concept of current value measured by market

value or replacement cost is the basis recommended throughout this analysis for most other forms of property it is the logical approach to public utility valuation. Needless to say adoption of this basis would involve a marked change in present policy as well as the results thereof.

Allocation of Public Utility Assessments to Counties. Apart from a declaration of state policy to the contrary, it must be assumed that the purpose of state assessment of public utility property is to ensure effective and equitable assessment results. If this is the sole objective, the allocation of assessed valuations within the State should correspond to the actual location of all types of public utility assets used in the provision of the product or service. In the case of railroads, the main-line track mileage allocation factor effectively negates this result, and bears no relationship to any logical basis of distinction. A case conceivably might be made for distributing part of the assessed values of railroads between the counties on the basis of equalizing needs-resources relationships. However, any similarity between the results of the present factor and these considerations is purely coincidental. Purposeful discrimination directed to recognized fiscal or economic objectives may be defensible under certain conditions, but the present allocation factor is wholly capricious in its effects, and does not meet the requirements of sound policy either in terms of actual location of railroad property or equalization.

Similar questions arise in the allocation of telephone valuations by line mileage, although the effects are not as extreme. The total allocation of state assessed public utility valuations as shown in Table 7.10 reveals the strange situation in which such valuations amount to 9 percent or less of total valuations in 4 of the 5 most populous counties and reaches a peak of 76 percent in Eagle County with a population of 4,700.

Specific Ownership Tax and The Mobile Home Problem. The specific ownership tax has proved to be a highly effective substitute for the general property tax except for the special case of mobile homes. While the 3 percent rate appears to be unreasonable in view of the effective rates of less than 1½ percent on general property, the actual burden of the 3 percent rate is substantially reduced by the established tax value rule. This rule provides that the value for tax purposes is 75 percent of the complete delivered price, and the assessed value for the first year is 70 percent of this amount. Thus, if the total price paid for the new car is used as a measure, the effective burden of the tax in the first year is 1.575 percent. It may, of course, be argued that this is not a fair measure as the market value of the car declines significantly once it leaves the dealer's premises. On this line of reasoning, 80 percent of the sales price would constitute actual value to the owner, and the 3 percent tax applied to 70 percent of this value would involve an effective tax of 2.1 percent which is much higher than for other property. In terms of future policy the burden of this tax should be reasonably equated with that on other forms of personal property, and it should be recognized that the value of a new car in the hands of the owner is not the price

Table 7.10

Public Utility Valuation, by Population of Counties in Colorado, 1957

County	1957 Population[a]	Public utility valuation as percent total assessed value
Denver	515,000	8.1
El Paso	118,000	8.7
Pueblo	116,000	15.9
Jefferson	105,000	7.1
Arapahoe	95,000	9.3
Weld	75,500	18.2
Adams	75,000	13.8
Boulder	60,000	18.2
Mesa	53,200	15.7
Larimer	49,500	9.5
Otero	25,800	19.8
Las Animas	24,300	42.7
Morgan	22,200	9.6
Logan	21,100	18.4
La Plata	20,300	32.1
Fremont	19,300	30.3
Delta	18,000	20.0
Montrose	16,400	11.4
Prowers	14,800	22.9
Rio Grande	12,900	16.7
Garfield	12,500	42.2
Montezuma	12,200	11.1
Alamosa	11,000	38.0
Yuma	10,500	12.9
Conejos	10,000	29.1
Huerfano	9,800	50.3
Routt	8,900	25.1
Bent	8,800	47.8
Kit Carson	8,300	7.8
Baca	7,800	38.6
Lake	7,600	9.0
Washington	7,300	6.4
Chaffee	7,200	47.9
Moffat	6,700	10.3
Costilla	6,000	40.3
Gunnison	5,800	7.9
Lincoln	5,600	30.1
Saguache	5,200	7.5
Crowley	5,100	25.1
Sedgwick	4,900	13.7
Rio Blanco	4,800	5.1
Phillips	4,800	11.0
Eagle	4,700	76.1
Elbert	4,300	35.4
Douglas	4,100	52.8
Grand	4,100	37.1
Clear Creek	3,400	21.2
Cheyenne	3,300	47.6
Archuletta	3,000	38.9
San Miguel	2,900	23.1
Kiowa	2,800	41.7
Teller	2,800	15.1
Pitkin	2,300	15.9
Dolores	2,100	15.0
Jackson	2,100	30.1
Ouray	2,100	23.7
Park	1,800	4.9
Custer	1,500	3.5
San Juan	1,300	46.5
Summit	1,200	23.1
Gilpin	850	41.4
Mineral	650	67.9
Hinsdale	275	1.8

[a] State Planning Division estimate.

Source: Adapted from State of Colorado, State Tax Commission, *49th Annual Report*, 1957.

paid to the dealer. Implementation of this policy obviously would require a lowering of the assessment ratio.

The depreciation schedule established under the tax law as indicated in Table 7.11 is somewhat more liberal than actual depreciation during the first six years of the life of the vehicle and less liberal in the 8th and 9th years. However, the discrepancies favor most car owners, and are not serious in their over-all effects.

Table 7.11

Relationship Between Legal Value and Actual Value of Automobiles, Year of Life of Automobile, Colorado, 1958

Period	Tax rate (percent)	Legal value[a] (percent)	Average value[b] (percent)
First year	3	70	80
Second year	3	50	60
Third year	3	40	50
Fourth year	3	30	40
Fifth year	3	15	30
Sixth year	3	15	20
Seventh year	3	15	15
Eigth year	3	15	10
Ninth year	3	15	5
Thereafter	3 or $1.50[c]	[c]	5

[a] Applied to established tax value—75 percent of complete delivered price.
[b] Based on relationship of average retail price to "advertised delivered price" as shown by NADA for each of the past ten years projection of four common models of cars.
[c] Not less than $1.50 nor more than 3 percent of 15 percent.

Source: Adapted from *Colorado Revised Statutes, 1953.*

The State law presently provides for the registration and taxation of mobile or trailer homes under the specific ownership tax, unless they are not to be operated or driven on the highways of the State during the year. In the latter event the owner must apply for exemption and file an affidavit with the county clerk and recorder, and the home then becomes subject to the regular tax on personal property. While all trailer homes are legally subject to a tax under these provisions, the actual result is that they often escape taxation. Those that are exempt from the specific ownership tax may be moved out of the trailer parks during the assessment period; there is insufficient checking to determine their proper tax status; and the assessment practice by county assessors varies widely from one jurisdiction to another. Owners contend that the impact of the tax imposed is inequitable as virtually all household equipment is built-in and, therefore, taxable in contrast to the exemption of movable equipment in regular homes. There is also the question as to whether a distinction should be made between the trailers that are regularly employed as a place of abode and those that are less frequently used for trips and vacation jaunts.

The problem of ensuring the taxation of all trailer homes may best be resolved by employing a single tax method. As registration of such vehicles is required in any instance, and as the specific ownership tax is likely to be more effectively and uniformly applied, this approach is preferred. However, these results are not assured and a special checking procedure should be instituted to compel owners to register. Trailer park proprietors who lease or rent such homes should also be specifically covered. It is not feasible from an administrative standpoint to make a distinction between trailer homes on the basis of use. If this is attempted, it simply opens up another opportunity to evade full tax responsibility.

The alleged inequity of taxing built-in fixtures in trailer homes when movable equipment in regular homes is exempt undoubtedly exists in some cases. A flat percentage of total value allowance based upon the typical relationship would probably be the most appropriate method of coping with this situation as an individual determination of the value of fixtures would not be feasible. It may, of course, be questioned whether the difference in burden is of sufficient magnitude to justify such action.

The Equalization Problem. The history of the equalization problem in Colorado is largely one of inaction both in terms of continuing controls and general re-valuation programs. Three general attempts to equalize assessed values have been made in 1901, 1913 and 1947-1951. Each of these efforts yielded substantial results insofar as the level of assessed valuations was concerned, but each failed to achieve true equalization in many facets of assessment relationships. The last effort was probably the most comprehensive, but its shortcomings, as revealed by the Sales Ratio Study, are all too evident.

Gross under-assessment, as measured by current market or sales values, is prevalent in all counties, but there are extreme variations as between counties. The state-wide average ratio of assessment for county-assessed property was about 28 percent.[26] It should, of course, be recognized that the 1941 level of costs standard applied in the 1947-1951 re-appraisal program is largely responsible for this low level of assessment. More significantly, the average ratios by counties ranged from 14.1 in Jackson County to 40.9 percent in Saguache County. Seven counties had average ratios above 35 percent and eight had ratios below 20 percent. On the other hand, one-third of the counties had ratios falling within a 4 percentage point range from 24 to 28 percent. Among the ten most populous counties the range is from 23 percent in El Paso to 32.2 in the City and County of Denver. It is quite apparent that the State still has a long way to go in achieving a reasonable equalization of assessment levels in the various counties. The over-all average ratios by counties also tend to conceal the actual disparities which exist in several respects. In the

[26] *Sales Ratio Study*, Part One, *op. cit.*, p. 14.

first place, the method of computing the ratios involves an exclusion of the upper extreme 25 percent and the lowest 25 percent of the cases. While this approach is believed to be sound for over-all county comparisons, it obviously excludes the extremes so far as a particular county is concerned. In the second place, the county averages obviously do not show differentials with respect to various types of property or as between individual properties of the same type.

The statewide average ratios for specified classes of urban and rural property as shown in Table VI (Part One) of the Sales Ratio Study reflect an extreme variation—from 37.1 percent for industrial buildings to 16.7 percent for miscellaneous unimproved rural land. Urban residental properties had an average ratio of between 31 and 32 percent while improved agricultural properties were assessed at an average ratio of 25.7 percent. All urban property had an average ratio of 29.5 percent as compared to the all rural ratio of 24.3 percent.

Inter-county comparisons by classes of property, which are presented in Part Two of the Sales Ratio Study, show extreme inequalities. Similarly, the variations within individual counties both as to types of property and particular properties of the same class are often so marked that no semblance of uniformity exists.

Further elaboration of the apparent assessment inequalities would serve no useful purpose. The inequities that exist are critical in nature and all-prevading in scope and they must be eliminated.

Five basic steps are essential in dealing with this problem. First, an equitable and practical standard of assessment based upon current values must be established. Second, specific bases of assessment, consistent with the general standard and feasible of application, must be adopted. Third, uniform procedures of assessment should be prescribed by the State. Fourth, the assessment process must be placed upon a continuing basis with full re-assessment of personal property every year and real estate over a three-year period. And fifth, an adequate system of state control over local assessment practice which incorporates a comprehensive research program, state aid and effective enforcement techniques must be instituted. Equalization of assessment results is essentially a matter of sound policy and procedure, effectively and uniformly applied, and there are no shortcuts or panacea solutions.

The State's Role in Property Assessment and Equalization

The State Tax Commission presently has direct responsibility for the assessment of most forms of public utility property, and it is proposed that this responsibility be extended to extractive lands. In each case the technical difficulties involved in the appraisal process and the impracticality of achieving uniform results under local assessment are the motivating factors. While similar considerations might logically suggest centralized state assessment of all property (Maryland has adopted such a plan) this radical departure has not appeared to be feasible in most jurisdictions. State aid to and supervision of local assessment has proved to be both an appropriate and feasible alternative. The degree of success attained in both the direct assessment and control areas, however, varies widely from one state to another. Although the state government has the economic resources to establish an administrative authority with the necessary power and the quality and quantity of staff required for effective results, all too often this has not been accomplished.

Colorado is a typical example of a state that has created an administrative agency with broad responsibilities to supervise local assessment practice and to achieve equalization of assessments, but has failed to take the steps necessary to ensure an effective discharge of these responsibilities. There are undoubtedly many factors that have contributed to this situation including unfavorable court decisions in the early years, a lack of interest in or appreciation of the equalization problem, local resistance and the lack of effective executive control over the administrative agency involved.

A correction of the administrative problem appears to be essential as a first step in view of the fact that the Tax Commission has adequate powers in most areas. This will require re-constitution of the agency with a single head appointed by and responsible to the Governor. Logically, all aspects of tax administration should be centralized in one agency, namely, the Department of Revenue. Thus, the State's responsibilities in property assessment and equalization would be assigned to a Division of this Department. A second possibility, which is definitely inferior to the consolidation of the two agencies, is the establishment of a separate Department of Property Tax Assessment and Equalization with a director appointed by the Governor. In either case, final appeal to the State Board of Equalization on equalization decisions might well be retained.

Once administrative responsibility is achieved, competent and adequate staff must be provided. Economy in such matters is a delusion, but because there are no citizen pressure groups involved it is frequently practiced, nevertheless.

State Use of the Property Tax Source. State policy in general reflects a marked trend to relinquish the property tax source to local governments. Considering the increasing pressures upon local units to finance essential services and the limited tax resources available to them, this policy is undoubtedly sound. As

indicated in Chapter XX, certain local governments in Colorado, particularly municipalities, face a critical financial problem, and their principal if not only major tax source has already reached the legal or economic maximum. While State withdrawal from the property tax field will not wholly resolve such problems, it would afford substantial relief. Of course, legal rate limits would have to be adjusted to permit utilization of the additional levies.

From the standpoint of the State the loss of revenue from the property tax, some $11.2 million, can be made up from other sources such as the income or severance taxes. Existing millage rate commitments for capital construction extending through 1965 must be met, but after this date such needs can be financed under a capital budgeting program from the General Fund. The present State mill rate for operating purposes can and should be discontinued at the first opportunity.

CHAPTER VIII

RETAIL AND GENERAL SALES TAXES

Since the early 1930's broad based sales taxes have emerged from obscurity to become a leading source of tax revenue for state governments in thirty-three states. The first modern version of a state general sales tax was adopted by West Virginia in 1921. Measured by gross sales the tax applied to retailers, extractive industries and several other types of business enterprise. It was passed to meet a financial emergency, and the relatively high rates on natural resource industries reflected a desire to shift some of the tax burden to this group. Another general tax with a broadened base and increased rates was substituted in 1925. Georgia followed West Virginia in 1929 with the passage of a low rate tax on the gross receipts of retail, wholesale and manufacturing enterprises. However, this act was allowed to expire in 1931.

The Great Depression of the early 1930's triggered an avalanche of new adoptions: Kentucky and Mississippi in 1930; Pennsylvania in 1932; Arizona, California, Illinois, Indiana, Michigan, New York, North Carolina, Oklahoma, South Dakota, Utah and Washington in 1933;[1] Iowa and Missouri in 1934; Arkansas, Colorado, Florida, Idaho, Maryland, New Jersey, New Mexico, North Dakota, Ohio and Wyoming in 1935; Louisiana in 1936; and Alabama and Kansas in 1937.

The great majority of the new taxes applied only to gross sales or receipts at the retail level. However, the Arizona, Mississippi, New Mexico, North Carolina and Washington laws covered other specified businesses, and the Indiana levy was unique, being imposed on the gross income of individuals and businesses above certain flat sum exemptions.

Without exception these taxes were a direct outgrowth of financial crises engendered by the depression. The economy of most of these states was preponderantly agricultural, and farm incomes were hit much harder than industrial incomes. In all cases property and other tax receipts had fallen sharply, and the maintenance of basic programs such as education and the protection of life and property was endangered. At the same time there were imperative demands for increased relief and other welfare outlays. While the combination of special circumstances and pressures varied from one state to another, the sales tax was generally regarded as undesirable because of its allegedly regressive impact upon low-income groups. Despite this inherent shortcoming the tax was believed to be an essential expedient. The influence of the equity consideration was evidenced by the fact that eight states allowed the "emergency" levies to expire or repealed them within a two-year period following their adoption. In the remaining states, however, the tax was retained to meet continued urgent financial requirements for education, welfare and highway purposes.

Since World War II ten more states have joined or re-entered the sales tax fold. Connecticut, Main, Nevada, Rhode Island, South Carolina and Tennessee adopted the tax for the first time; and Florida, Georgia, Maryland and Pennsylvania re-established the levy after a lapse of from eight to twenty years. All of the more recently enacted taxes are limited to retail sales and to all intents are permanent measures.

The great popularity of sales taxes today, amply attested by the developments noted, may be attributed to several factors. In the first place, state revenue needs are increasing and the tax has demonstrated its productivity. Secondly, the base of existing sales taxes is also limited so that their regressive effects are not as significant as they were assumed to be in the early years of their use. Finally, a revolutionary increase in the emphasis upon ability to pay taxation by the federal government in the form of progressive net income taxes has seemed to preclude significant extensions of these taxes by the states and may have lessened the concern with this aspect of equity.

Another development in the sales tax field which has important implications for the states is the increasing use of such taxes by cities and other local units. Following the passage of enabling legislation, 290 municipalities and 38 counties are now imposing the retail tax in California, and its use is spreading in other states. Continued revenue shortages on the local level will undoubtedly accentuate this trend as well as the pressures for other means of meeting local revenue problems. The states have an obvious responsibility to assist their local subdivisions in seeking solutions to their

[1]Oregon also adopted a sales tax, but it was killed by a popular referendum vote.

problems, and local sales taxes are at least a partial answer. Needless to say, local use of sales taxes tends to delimit the possible range of productivity of this source for state purposes. At the same time, it may lessen somewhat the demands for increased state aid. These and other facets of the question will be examined in Chapter XX dealing specifically with state-local fiscal relations.

Types of Sales Taxes

Sales taxes currently in use in the thirty-three states, as shown in Table 8.1, include several broad types of levies. Their general nature and effects identify them with the sales tax family but there are many differences in their scope, the description of the tax base and their legal incidence. The scope of sales taxes or their coverage in terms of type of business affected, ranged from that which covers only the retail concern, or transactions at the retail level, to that which includes virtually every type of business activity (i. e., wholesaling, manufacturing, extractive industries, etc.). Logically, taxes restricted to retail transactions are classified as "retail sales" taxes and those that include transactions involving other concerns as well are classified as "general sales" taxes. In actual practice the latter classification does not tell the full story as some of the levies falling in this class apply only to retail and wholesale transactions while others extend to nearly all forms of business. Another designation often used to differentiate the scope of the tax is based upon the stage or stages in the production and marketing processes which the tax covers. Thus the tax may be referred to as a "single-" or "multiple-" stage levy.

The general description of the tax base provides a second possible basis of classification with three concepts employed, namely, "gross sales," "gross receipts," and "gross income." While gross sales is somewhat less inclusive than gross receipts, this distinction disappears when the term "gross receipts from sales" is used. But even here the term may be linked with the so-called privilege type of tax whose legal incidence is upon the business rather than the consumer. Aside from these ambiguities of terminology, the distinctions are perhaps of minor import.

On the other hand, the use of the term "gross income" to describe the tax base is an entirely different matter. As defined in the Indiana law, this concept includes virtually all individual, business and professional income with no deductions. The Indiana tax, therefore, must be treated as a distinct type, and is grouped with sales taxes only for purposes of convenience in analysis.

Sales taxes are generally regarded as taxes on consumption for the obvious reason that the burden is usually passed on to the consumer. In practice, however, many of the state sales tax laws specifically state that the tax is imposed upon the seller for the "privilege of doing business in the state." Technically, therefore, these levies are "privilege taxes" in contrast to the majority which are specifically or by implication classed as "consumer taxes."

Table 8.1

Date of Tax Legislation and Type of Sales Tax by States, 1957

State	Year first adopted	Type of Tax: Retail sales	Wholesale sales	Sales of extractive industries	Other
Alabama	1937	x			
Arizona	1933	x	x	x	
Arkansas	1935	x			
California	1933	x			
Colorado	1935	x			
Connecticut	1947	x			
Florida	1935	x			
Georgia	1929	x			
Illinois	1933	x			
Indiana	1933	[a]	[a]	[a]	[a]
Iowa	1934	x			
Kansas	1937	x			
Louisiana	1936	x			
Maine	1951	x			
Maryland	1935	x			
Michigan	1933	x	[b]	[b]	[b]
Mississippi	1930	x			
Missouri	1934	x			
Nevada	1955	x			
New Mexico	1935	x	x	x	x
North Carolina	1933	x	x		
North Dakota	1935	x			
Ohio	1935	x			
Oklahoma	1933	x			
Pennsylvania	1932	x			
Rhode Island	1947	x			
South Carolina	1951	x			
South Dakota	1933	x			
Tennessee	1947	x			
Utah	1933	x			
Washington	1933	x	[b]	[b]	[b]
West Virginia	1921	x	[b]	[b]	[b]
Wyoming	1935	x			

[a] This is a gross income tax on personal and business income with flat sum exemptions.

[b] These taxes are separate levies based upon gross receipts or gross income.

Source: Commerce Clearing House, *State Tax Service.*

Retail versus General Sales Taxes. Twenty-six of the state sales tax structures, including the Colorado tax, are of the single-stage retail type. Six are general or multiple-stage sales taxes, and the Indiana levy, as previously indicated, is a gross income tax. All of the general sales taxes apply to retail transactions, but the coverage of other businesses varies from state to state. The Michigan, New Mexico, Washington, and West Virginia laws are the most inclusive with retail, wholesale, manufacturing, extractive and specified other activities subject to the tax.[2] The North Carolina tax is limited to retailing and wholesaling, while the Arizona levy includes retailing, wholesaling and extractive industries.

[2] It should be noted that laws in each of these jurisdictions except New Mexico actually involve two taxes, one applying to retail sales and the second to other types of business.

The preponderance of the single-stage retail tax at the state level is significant, and merits special attention. Actually, it is explainable largely on fiscal and administrative grounds. In terms of the dollar volume of sales the tax base is obviously much larger at this level. Also many of the tax jurisdictions have relatively little manufacturing or natural resource industries other than agriculture. Administratively, every additional type of business taxed tends to add to the enforcement problem. Another consideration that may serve to deter use of the multiple-stage form is "tax pyramiding." If several or all of the stages in the production and marketing of goods are taxed, the consumer is faced with a pyramided burden in the sense that he is paying a tax on a tax. Incidently, this effect has undoubtedly been an important factor in causing the multiple-stage states to impose relatively low rates on wholesaling and manufacturing as compared to retail sales. High rates on natural resource industries, it should be noted, are generally motivated by special considerations associated with severance taxation.

Rationale of Sales Taxes

The merit of any tax must be appraised in the light of certain accepted standards both theoretical and practical. In the case of retail and general sales taxes practical considerations rather than conformance to theoretical principles provide the primary justification. In other words, such factors as yield, relative ease of administration, convenience of payment and an apparent lack of acceptable alternatives have assumed a greater weight in policy formation than the adverse effects of the tax upon income distribution.

Productivity. The general revenue producing capabilities of the retail and general sales taxes are a matter of record. They tap the flow of funds in the economy at strategic points both in terms of volume and its measurability. Consumption expenditure, which constitutes the bulk of total outlays in the nation's economy, is the direct target of the retail tax. Inclusion of sales at other specified levels of production and distribution obviously extends the base in the direction of a gross expenditures levy and at the same time increases the volume of retail outlays. While the impact of the retail tax on consumption expenditures is limited by the commodity emphasis (failure to include most services) and by specific exclusions, deductions and exemptions, the tax base is still very large compared to that of other general tax forms. In 1957, for example, the combined base of the personal and corporate income taxes in Colorado was $1,022,771,000 as compared with $2,000,000,000 for the retail sales tax. The assessed value of property was $3,069,112,462 or 153 percent of the sales tax base. From the standpoint of administrative determination of taxable sales, also, the problem is much simpler than for a refined concept such as "taxable net income."

Another aspect of the productivity of a tax which is often said to be advantageous is stability. This feature is desired for the reason that expenditure requirements tend to be flexible only in one direction, namely upward. Thus, stability is actually desired only during a down-swing in economic activity. The retail or general sales tax yields are clearly responsive to changes in the dollar volume of business, and yields fluctuate more than those of the property and motor fuels tax. At the same time, sales tax receipts are relatively more stable than those from the net income taxes. It should, of course, be pointed out that stability of yield during a period of recession or depression is only achieved by inflicting serious hardship on the taxpayer whose ability to pay has declined.

Most forms of tax will produce more revenue by raising rates or broadening the base. However, in the case of the sales tax the mechanics of adjustment as well as the economic issues involved are relatively simple. The rate is uniform and the effect of an increase on yield can be readily ascertained. Similarly, the distribution of the tax burden is largely predetermined or fixed. There are no complex issues such as how an additional burden under the personal income tax is to be distributed among the several income and progressive rate classes. This type of advantage may explain, but obviously does not justify the use of sales taxes.

Ease of Administration. Retail as well as general sales taxes are commonly assumed to be easy to administer. This assumption, if properly qualified, is not without foundation. Viewed in relation to personal net income and property taxes it is undoubtedly valid. On the other hand, no tax is easy to administer if the objective sought is to enforce full tax liability and payment by all taxpayers. The specific problems of sales tax administration are considered in a later section, but effective enforcement requires a comprenhensive office and field audit effort by a large and competent staff.

The advantage which the sales tax has, as compared to certain other taxes, is attributable primarily to the relatively small number of taxpayers and tax returns, the relative simplicity and number of the computations involved on the return, and the availability of substantiating evidence or records for checking purposes. The fact that the seller collects the tax and usually passes the burden on to the buyer may tend to lessen the incentive for evasion,

but experience has demonstrated the fallacy of relying on this influence. Direct costs of administering the retail and general sales taxes as compared to the other major taxes provide some substantiation of the relative ease of administration claim. However, this relationship varies significantly from one state to another, and if a seller's discount is permitted the total expense may exceed that for other taxes.

Incidence of General or Retail Sales Tax. The question of the incidence of a tax is obviously of major importance in determining its economic effects. In the case of the sales tax it is generally assumed that the bulk of the burden falls upon the consumer of the finished product or service. While this assumption is fully merited, the manner in which the tax is shifted and the exceptions to the rule of shifting must be closely scrutinized.

Shifting the Tax. Shifting of the tax to the purchaser is normally accomplished by the simple expedient of adding the tax to the price. Under the Colorado consumer type of tax law this procedure is mandatory, and it is illegal for the retailer to advertise that he is absorbing the tax. These requirements may possibly facilitate shifting of the tax on an individual transaction basis, but they are by no means determinative. A business subject to competitive pressures from untaxed concerns, for example, may lower its price before tax so that the total price including tax is equal to that of its competitors. Thus, the burden is actually on the business, though it appears by casual examination to have been shifted. Other possible methods of shifting the tax should be noted, namely, securing a lower price from suppliers (backward shifting), and lowering of the quality of the product or reducing the quantitative unit in which it is sold. Backward shifting will probably not be considered unless forward shifting is impossible, and it is unlikely that an appreciable number of business firms would be in a position to influence the supplier's price. Likewise, the lowering of quality or quantity are expedients generally not available to the retailer or wholesaler, and involve serious limitations in the case of manufacturers and processors.

The conclusion that retail or general sales taxes are ordinarily passed on to the consumer is based upon objective as well as empirical evidence. The tax is clearly a cost of doing business; the cost is the same for all businesses within a broad category or class; popular psychology is favorable to shifting—it is expected —and the manner of payment is convenient; the demand for most of the items taxed is relatively inelastic; where the purchase condition is elastic, the low rate and amount of the tax is not likely to deter consumption significantly; and the seller's side of the market on the retail level is competitive. Observation of business practice and the views of management reinforce these considerations. The legal requirements in the Colorado law, as previously indicated, also tend to facilitate shifting.

Case of Privilege-Type Taxes. It should be noted that the impact of the tax burden which is subject to shifting upon buyers may be considerably different in the case of retail and general sales taxes which do not require separate accounting and collection of the tax on each transaction (certain of the privilege-type taxes). In these cases each seller determines how he will recover the tax costs, and there are many possible approaches to the distribution of the burden among the various classes of goods sold. Consequently, it would be impossible to ascertain the specific impact of the tax on the consumers of particular goods or services.

Exceptions to General Rule of Shifting. The exceptional situations which may compel the retailer to absorb part or all of the sales tax include the existence of substantial competition which is not subject to the tax or pays a lower tax; particular services or products produced and sold under monopoly conditions; the "customary price" purchase case; and the possible impact of the bracket arrangement on special types of businesses which would make it impossible for them to collect the full tax due. Effective competition of the "no or lower tax" variety is most likely to arise in the case of retailers located close to the state boundary and in the instance of mail order purchases by residents from out-of-state sources. The borderline competition situation is not serious in Colorado as most of the neighboring states have sales taxes with identical rates (all except Nebraska and Texas), and there are very few concentrations of retail business near the border of the jurisdictions which do not tax retail sales. It is impossible to determine the degree to which mail order competition is increased by buyers seeking to avoid the retail sales tax. It will, of course, depend in large part upon the success of the tax enforcement agency in collecting the applicable sales and use taxes. Assuming that there is some loss of business by certain resident firms, tax absorption is highly improbable. In the first place, the merchant is not likely to be aware of the extent of such buying, and adjustment of prices to meet this limited form of competition would ordinarily be more costly than the loss of trade.

Public utility service is the principal area of monopoly operation on the retail level which is subject to the tax. While there is a possibility of tax absorption by high profit concerns, it is

extremely remote. The power to shift is present; regulatory laws anticipate shifting; the sales tax requires it; demand in most cases is inelastic; and actual practice evidences that the tax is shifted.

The customary price situation involving such items as chewing gum, soft drinks and candy bars presents a special shifting problem, particularly if the tax law requires that the tax be collected on the individual transaction. Strong consumer resistance is likely to develop if the price is increased, although this may well be a temporary reaction. The alternative methods of shifting through reducing the quantity of the unit or its quality may be feasible. In fact, both have been tried in response to rising costs in general and the approach has proved to be satisfactory within limits. If an increase in price is the only practical way to shift the tax, the further problem of many of the sales of such items falling below the minimum taxable sum must be reckoned with. Where such items are a major element of total taxable sales tax absorption will undoubtedly occur. However, the conditions postulated are obviously very limited in their application.

Particular versions of the bracket system have also worked a hardship on certain variety stores. Inflation has eliminated part of the problem and modifications of the brackets will generally assure adequate tax collections for such businesses. In any case there are no serious complaints by these concerns under the present Colorado bracket plan.

In general, the special circumstances which may prevent shifting of the state retail sales tax are even less significant in Colorado than in many other jurisdictions. Consequently, there seems to be little reason to question the premise that the great bulk of the tax burden falls on the consumer. At the same time, the inequitable aspects of tax absorption for the relatively small number of firms involved should not be minimized.

The Question of Ability and Benefits Received. It is generally recognized that the retail and general sales taxes do not conform to accepted principles concerning the equitable distribution of tax burdens. They are said to violate in greater or lesser degree the basic elements of the ability to pay theory, and constitute at best a rough and inadequate measure of benefits received. These views presume that the bulk of the tax burden falls upon the consumer and this assumption, as noted above, is generally valid.

From the standpoint of the individual, at least, net income is commonly accepted as the best measure of taxpaying ability. There are a few dissenters who hold that consumption expenditures are the best guide, but this concept completely disregards the obvious difference between essential and non-essential outlays whether for consumption or investment. It is equally clear that the limited consumption expenditure base of the sales tax is not directly related to net income. Total consumption outlays are not proportional to net income, and specific inclusions, exclusions and exemptions tend to widen rather than lessen the disparity in most instances. Secondly, there is no exemption related to minimum living costs for an individual or family group. The typical tax base (including food) does not apply to total net income, but the proportion of taxable income declines rather than increases as income rises. In other words, the burden of the tax as related to net income is regressive. Furthermore, this effect tends to be magnified the greater the number of persons that must be supported by a given income. Finally, the ability principle involves the concept that ability to pay rises faster than income or at a progressive rate. Even with food exempted the retail sales tax only approaches proportionality on the low and medium income levels, and is regressive above this point. Taxation of food makes it regressive throughout all income ranges. Thus, the most serious objection to the retail or general sales taxes is attributable to their burdensome effect upon low and medium incomes and that of large family groups in particular.

It may be argued that the above effects of sales taxes are not significant because they serve to balance or offset in part the steeply progressive impact of net income taxes. Certainly the merit of any tax should be considered in relation to the tax structure as a whole, and the combined effect of all federal, state, and local taxes is the final test. At the same time, it is the component parts that make up the whole, and a more equitable tax should always be preferred over a less equitable form. The over-all effects of the Colorado tax system upon income distribution are examined elsewhere in this study, and they certainly do not merit an attitude of complacency concerning the regressive influence of the retail sales tax.

Differential rates under the general sales taxes, such as the high rates for certain natural resource producers, are open to a charge of inequity, but here again one must look at the total tax burden as compared to other businesses and the comparative burden in other jurisdictions. Further inequities as between taxed businesses may arise as a consequence of varying competitive situations which make it impossible for certain concerns to shift all of the tax.

Expediency. Retail and general sales taxes are usually defended on other grounds, both political and economic. They are said to be politically expedient both by virtue of the ease of payment (a series of small amounts) and the fact that the taxpayer is unaware of the total burden involved. These considerations, particularly the former, undoubtedly influence legislative policy. While convenience of tax payment should be considered, it is obviously not a primary criterion of sound tax policy. The second idea might be termed the "sucker theory" of taxation and has no place in the formulation of a sound tax program.

Another argument frequently employed to support sales as well as other forms of taxation is that there are no acceptable alternatives. Generally speaking, this view reflects a convenient rationalization of the problem. It is suggested that existing revenue sources have already been pushed to the maximum. A new tax, it is assumed, will somehow make the additional burden less onerous. In reality this assumption can only be valid if the new tax is more equitable than existing sources. All taxes must be paid ultimately from current income or accumulated capital, and the desirability of a particular tax must be judged in terms of its relative impact on these resources.

Fiscal Significance of Sales Tax

State retail or general sales taxes are presently the major source of tax revenue in the great majority of the thirty-three states that employ them. As shown in Table 8.2, sales tax receipts in 1957 totalled $3.4 billion or 33 percent of the aggregate tax receipts of these jurisdictions. While the relative significance of the tax ranged from 56 percent in Washington to 18 percent in Maryland, twenty-six of the states obtained more than 25 percent of their revenues from this source. The relative position of the Colorado tax, which produced 27 percent of total tax receipts, is well below the thirty-three state average.

Differences in the relative importance of the sales tax are attributable to a variety of factors including the scope of the tax, exemptions and rates as well as the other tax forms employed by each jurisdiction. The pertinent aspects of these policies will be considered in a later section dealing with the sales tax in Colorado.

Sales Taxation in Colorado

Development and Principal Provisions of Colorado Sales Tax Laws. The Colorado Retail Sales Tax, adopted in 1935 as an emergency measure, was quickly incorporated in the regular tax structure. This was accomplished by a well organized and aggressive Old Age Pension group through an initiated constitutional amendment passed in November, 1936, by a large majority of the popular vote. The amendment incorporated what proved to be the most liberal pension program in the country. The key provisions removed the emergency feature of the sales tax law, and set aside, as of January 1, 1937, 85 percent of all net revenues from excises on retail sales or other purchase transactions, and other excises on storage, use or consumption of any product now or hereafter imposed, for the Old Age Pension Fund. Similarly, 85 percent of certain licenses were also earmarked for this Fund. The existing and future revenue potential of the earmarked taxes was further protected by a requirement that any reduction or loss of revenue through repeal or amendment of these taxes must be replaced by a sum equivalent to their yield in the year preceding such action. Thus, the role of the retail sales tax in Colorado was effectively identified with the State's pension program, and no significant changes in this relationship were made until 1956.[3]

The sales tax law has undergone a series of amendments relating to the structure of the tax and its administration. While the amendments have not been far-reaching in their effects, some are worthy of special mention.

Table 8.2

Total Sales Tax Revenues and Percent of Sales Taxes to Total Tax Revenues, by States, 1957

State	Sales tax revenues (thousands)	Sales tax revenue as a percent of total state tax revenue
Alabama	$74,265	32.33
Arizona	35,325	33.00
Arkansas	35,763	28.55
California	603,333	36.85
Colorado	42,069	27.45
Connecticut	79,198	34.79
Florida	100,880	26.85
Georgia	124,282	39.51
Illinois	296,062	43.86
Indiana	123,758	41.51
Iowa	86,686	34.96
Kansas	51,269	32.44
Louisiana	80,760	21.65
Maine	17,122	24.26
Maryland	45,762	18.25
Michigan	328,805	42.61
Mississippi	55,580	34.62
Missouri	100,629	37.80
Nevada	9,914	28.11
New Mexico	35,231	36.27
North Carolina	73,595	19.90
North Dakota	14,218	27.47
Ohio	234,588	34.66
Oklahoma	49,753	21.10
Pennsylvania	189,933	19.27
Rhode Island	15,085	24.11
South Carolina	53,469	29.00
South Dakota	13,010	30.49
Tennessee	92,407	34.36
Utah	23,410	29.20
Washington	197,950	55.77
West Virginia	79,334	51.13
Wyoming	9,670	28.86
Total	3,373,115	33.44

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1957.*

[3] See section, "Disposition of Sales Tax Receipts," of this chapter.

A series of amendments were adopted in 1939 with the general purpose of strengthening the procedures for assessment and collection of the tax. They extended the scope of the tax lien as a collection device; established the priority of the lien except for mortgages of prior record; provided for an additional penalty of 10 percent on unpaid taxes; and authorized the use of the distraint action in collecting delinquent taxes. In 1943 newspapers were excluded from the definition of tangible personal property; and sales of coal, gas, fuel oil and coke for manufacturing, mining, irrigation and building construction, and telephone and telegraph service, newsprint and printers ink were exempt.

Changes adopted in 1945 extended the tax base to include: intrastate telephone and telegraph service; exchanged property; gas and electric service; and meals and cover charges. A revised bracket system was also established following protests by variety and other retail stores, and a 5 percent discount to cover taxpayers' compliance costs was initiated. Finally, tokens were discontinued as a consequence of difficulties in obtaining materials, heavy losses in circulation and general public dissatisfaction. Revisions since 1945 have been of minor consequence except for the 1956 constitutional amendment relating to the earmarking and use of receipts, which is described in a later section of the chapter.

The Service Tax. The so-called Service Tax was also enacted in 1935. This law in effect broadened the scope of the sales tax to include various services commonly exempt under the retail form. In particular, it applied to professional and personal services including "business, custom, recreational, structural, personal and the professions." Although certain administrative problems were encountered, the measure was very productive. However, increasing opposition developed especially from the professional groups, and the tax was repealed in 1945.

Definition of Taxable Sales. The determination of taxable sales or transactions whether by statute or regulation is by no means a simple matter. Broadly speaking there are three facets of the problem: (1) the nature of the transaction; (2) the level at which the sale is made or the type of business or person making it; and (3) the use to be made of the product or service involved. In defining the nature of the sale or transaction there is a possible choice between the restrictive "closed transaction" concept, the all inclusive "any transfer" provision or an intermediate position.

The consumer-type retail sales taxes are designed to apply only to retail transactions, and the transaction rather than the business involved is the focal point of the tax. The nature of the retail sale must be clearly distinguished. Generally speaking, the definition should be in terms of the purpose or use for which the goods are intended, and the sale of products for purposes of resale would be clearly excluded. However, this does not resolve the case of goods to be used in the production, processing or sale of other goods or services. It is clear that insofar as such goods or services are incorporated in another product a single-stage retail tax should not be imposed. However, a decision must still be made concerning such items as office supplies, utility services and the machinery and equipment used by manufacturers, processors and wholesalers.

The Colorado tax is levied "on the purchase price paid or charged upon all sales and purchases of tangible personal property (and specified services) at retail." The tax is on the purchase or sales transaction; it is to be paid by the purchaser and is collected by the seller. Sales are very broadly defined to include "closed transaction," "installment and credit sales," and "any transfer, exchange or barter, conditional or otherwise... for a valuable consideration...." Casual sales, those made outside of regular merchandising channels, are also taxable with the exception of farm auction close-out sales. Finally, a right to continuous possession of an article through a lease or rental contract which would be taxable if sold outright is also considered to be a sale. Thus, the Colorado law is comparable to those of other jurisdictions employing an "all inclusive" concept of sales, and the revenue implications are self-evident.

Similarly, "sales at retail" are also broadly defined as "all sales made within the state except wholesale sales." This provision is distinctive and somewhat misleading, but is clarified by other related provisions and regulations. Actually, all sales for use, consumption or for any purpose other than resale are considered to be retail sales. However, sales to manufacturing or processing plants where the property becomes an ingredient or component part of the product are specifically exempt. Two other specific exemptions are allowed, namely, containers and other materials used for packaging property for sale or resale, and industrial uses of fuel and power. In effect, therefore, the Colorado tax applies to most purchases for consumption and many sales transactions outside regular retail channels. With the two exceptions noted above, it follows the limited "physical ingredient" exemption rule insofar as sales to business or industrial establishments are concerned.

The Tax Base. The tax base of the Colorado levy (as well as that of other jurisdictions) is substantially modified by a series of specific inclusions, exclusions and exemptions. These provisions encompass a wide variety of transactions, commodities and institutional relation-

ships. Unfortunately, there is little uniformity from one state to another in the use of the classifications noted.

Inclusions. As previously indicated, the primary impact of the retail sales tax in Colorado is upon "tangible personal" commodities or property. It does not apply to real estate, intangible property or water in pipes, conduits and reservoirs. The most important inclusions are the sale of telephone, telegraph, gas and electric services and the serving of meals. Other services such as personal or professional, amusement, lodging, rentals and investment are not taxed. Although of minor significance, purchases of taxable items to be used as gifts, sales to employees, sales on interstate trains and purchases by owners or landlords of buildings to be used by tenants are taxable.

Exclusions. Newspapers are the only specific exclusion of any significance other than the categories of sales or transactions indicated in the discussion of taxable sales.

Exemptions. There are a variety of specific exemptions involving commodities, sales to certain private and governmental institutions and transactions which are not taxable by virtue of Federal Constitutional limitations. The commodity exemptions by category are as follows:

(1) Farm: Auction close-out sales; feed; fertilizer; goats, hogs, horses for breeding purposes, lambs, cattle and sheep; orchard trees; and seeds.

(2) Other: Beer, wines, and liquors; containers, labels and shipping cases; cigarettes and tobacco products other than cigars; fuel and power for direct manufacturing and processing use; motor fuel; and newspapers, newsprint and printer's ink.

It should be noted that the exemption of motor fuel, liquor and other intoxicating beverages, cigarettes and other tobacco products is based on a general provision concerning property taxed under the special excise taxes. Sales of property subject to a Colorado or federal excise of more than 12½ percent are entitled to the exemption.

Sales to four broad classes of institutions are not taxable, namely: Colorado state departments, agencies and instrumentalities; Colorado cities, towns and other sub-divisions; federal agencies, institutions and instrumentalities; and private religious, charitable and eleemosynary institutions when the goods or services are used for such purposes. The exemption of sales to the federal government is required by the Federal Constitution, while the others are matters of policy.

In addition to the federal agencies and instrumentalities exemption noted above, federal constitutional principles restrict the taxation of interstate and foreign transactions and certain sales made on federal military or Indian reservations. A blanket provision of the law exempts all sales which the State is prohibited from taxing under the Constitution or laws of the United States. The specific scope of the exemption is then determined by regulations made in conformity with the latest decisions of the United States Supreme Court. In general, neither import or export transactions which involve the use of an interstate carrier prior to the buyer taking possession of the goods can be taxed. This prohibition is absolute in the case of exports. With respect to imports, however, activities of the seller in Colorado, including a sales agency and a retail or wholesale outlet through which the sale might have been consumated, serve to make the transaction taxable. Purchases outside the State which are not taxable directly are, of course, legally subject to the "use tax." This levy, which is designed to prevent avoidance of the sales tax, is considered in a later section of the chapter.

Sales made on federal lands to private persons are now generally subject to the tax. The exceptions are sales by military post exchanges or commissaries to authorized military personnel, and sales made within an Indian reservation to an Indian who is a registered member of the tribal group.

The policy aspects of Colorado's exemption practice are very strict. Both in number and in scope they represent a relatively limited encroachment on the tax base. With the exception of cigarettes and liquor they are the typical exemptions found in most of the state sales tax laws.

Retail Sales Tax Base in Colorado and Other States. The general definition of a taxable sale or transaction in the Colorado law, as previously indicated, is very broad and inclusive. Similarly, sales for use or consumption to other businesses are generally taxable subject to the "physical ingredient" and certain "direct use" exceptions. In both instances these rules are a logical outgrowth of the basic intent to level a single-stage tax at the retail level. So long as the concept of a retail tax is maintained, therefore, the existing provisions closely approximate a maximum coverage.

In the area of specific inclusions, exclusions and exemptions interstate comparisons are more complex, but nonetheless important. To facilitate this phase of the analysis the more significant aspects of state practice in the thirty-three jurisdictions levying a sales tax are summarized in Table 8.3. No attempt is made to distinguish the specific classifications employed (detailed inclusions, exclusions or exemptions), only their effect.

Commodities. The classes of commodities and specific products excepted from the sales tax in certain states which have an important impact on the tax base are relatively limited. They include food (consumed off premises or on premises); medicine; farm products, feed, seed and fertilizer; liquor; motor fuel; and cigarettes. Of these, food is obviously the major item. Eight states exempt food to be consumed off the premises, but only two exclude restaurant meals. Thus, Colorado's practice of taxing food is in conformity with that of the great majority of states. The situation with regard to medicine (often limited to prescription drugs) is exactly the same. Farm products, excluding seed and feed and breeding stock, are taxable under specified conditions in only thirteen jurisdictions. While Colorado does not exempt farm products as a general category, many specific items are exempt and most types of farm crops sold by the farmer fall within the "sale for resale" exclusion. Sales of feed, seed and fertilizer are exempt under every state sales tax except that of Oklahoma and the gross income tax in Indiana.

State practice varies widely in the case of alcoholic beverages, motor fuel and cigarettes, the products generally subject to substantial special excise taxes on both the federal and state levels. Liquor is taxable in twenty-one states; motor fuel in only five, and cigarettes in sixteen. Colorado, it will be recalled, exempts all three.

Services. The great majority of the states tax one or more types of services, but this is accomplished by specific inclusion. There is no general pattern as to the services covered. Of those shown in Table 8.3, nineteen states (including Colorado) tax domestic gas and electric service; sixteen, admissions; sixteen, motel and hotel lodging; sixteen, including Colorado, communications; eleven, domestic water; nine, transportation; and four, repairs and installation. Other

Table 8.3

States Imposing Sales Taxes on a Selected Sample of Commodities and Services and Major Exemptions, 1957

("E" indicates exempt and "T" indicates taxed)

	Commodities							Services						
State	Food	Medicine	Farm products	Feed, seed and fertilizer	Alcoholic beverages	Motor fuel	Cigarettes tobacco	Gas and electric domestic	Water domestic	Communications	Transportation	Admissions	Repair and installation	Motel and hotel
Alabama	T	T	E	E	E	E	T	E	E	E	E	T	E	E
Arizona	T	T	E	E	T	E	T	T	T	T	E	T	E	T
Arkansas	T	T	E	E	T	E	T	T	T	T	E	T	E	T
California	E	T	E	E	T	E	T	E	E	E	E	E	E	E
Colorado	T	T	E[a]	E	E	E	E	T	E	T	E	E	E	E
Connecticut	E	E	E	E	T	E	E	E	E	E	E	E	E	E
Florida	E[i]	E	E	E	E	E	E	E	E	E	E	E	E	T
Georgia	T	T	E	E	T	E	E	T	E[b]	T[a]	T	E	T	T
Illinois	T	E	T	E	T[c]	T[c]	T[c]	E	E	E	E	E	E	E
Indiana	T	T	T	T	T[c]	T[c]	T[c]	T	T	T	T	T	T	T
Iowa	T	T	T	E	E	E	E	T	T	T	E	T	E	E
Kansas	T	T	T	E	E	E	E	T	T	T	E	T	E	E
Louisiana	T	T	T	E	T	E	T	E	E	E	E	T	E	T
Maine	E[i]	E	T	E	E[d]	E[e]	E	T	T	E	E	E	E	T
Maryland	E	E	E	E	T	E	T	T	E	E	E	E	E	T
Michigan	T	T[f]	E	E	T[e]	T[e]	T	T	E	E	E	E	E	T
Mississippi	T	T	E	E	T	T[e]	T[e]	T[g]	T[g]	T	T	E	E[a]	T
Missouri	T	T	E	E	T	E	T	T	T	T	T	T	E	T
Nevada	T	T	E	E	T	E	T	E	E	E	E	E	E	E
New Mexico	T	T	E	E	T	E	T	E	E	T	E	E	T	T
North Carolina	E	E	E	E	E[h]	E	T	E	E	E	E	E	E	T
North Dakota	T	E	T[a]	E	E	E	E	T	T	E	E	E	E	E
Ohio	E	T	T[a]	E	E[a]	E	E	E	E	E	E	E	E	E
Oklahoma	T	T	E	T	T	E	E	T	E	T	T	T	E	T
Pennsylvania	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Rhode Island	E	E	—	E	T	E	E	T	T	E	E	E	E	E
South Carolina	T	T	E	E	T	E	T	E	E	E	E	E	E	T
South Dakota	T	T	T	E[a]	E	E	E	T	T	E	E	T	E	T
Tennessee	T	T	E	E[a]	T	E	E	E	E	E	E	E	E	T
Utah	T	T	E	E	T[a]	E	E	T	E	T	T	E	E	E
Washington	T	T	—	E	T	E	T	E	E	E	E	E	T	T
West Virginia	T	T	T	E	T	E	T	E	E	E	E	T	T	T
Wyoming	T	T	T[a]	E	E	E	E	T	E	T	T	T	E	E
Totals														
Taxable	24	24	13	2	20	4	16	19	11	16	9	16	4	16
Exempt	9	9	20	31	13	29	17	14	22	17	24	17	29	17

[a] With specified exceptions.
[b] Municipal corporations only.
[c] Special excise deductible from gross receipts.
[d] Sold by state liquor stores.
[e] Sales tax deducted from any refund.
[f] Only 50% of charge for prescription drugs.
[g] Except municipally owned.
[h] Except beer and wine.
[i] Except meals prepared by retailer.

Source: Ohio Department of Taxation, Research Division; *Retail Sales Tax Comparative Tables, 1957.*

classes of service such as personal, professional and investment are usually exempt, although a substantial minority include certain personal service activities. The general disposition to exclude services seems to reflect primarily the commodity bias of existing sales taxes, although other factors, such as the existence of special taxes, are also operative in particular cases. Colorado's practice in singling out gas, electricity and communications for taxation exhibits the same lack of logical direction found in most jurisdictions.

Implications of Existing Practices. Certain commodity exemptions as well as the taxability of particular services have important effects upon revenue, the equity of the tax and the administrative problem. From the standpoint of revenue and equity, food is a key item. Normally it accounts for approximately 20 percent of the retail tax receipts. At the same time, exemption of food consumed off the premises largely relieves the regressive impact of the tax on low as compared to average-income groups. The choice, therefore, is clearcut, revenue vs. greater equity. Medicine involves the same conflict of purposes, but the effects are relatively inconsequential.

Sales of farm products by the farmer are usually for resale and such sales logically should be exempt under the retail tax. Direct sales to consumers are of minor import and difficult to check, but Colorado's provision taxing certain of these sales is sound theoretically. The feed, seed and fertilizer exemptions, so far as farmers are concerned, are applications of the physical ingredient and direct-use rules. They are justifiable in view of the single-stage character of the retail tax. Colorado's practice of exempting fertilizer used by farmers in producing crops and taxing lawn use is consistent with the general policy in the great majority of states.

Exemption of alcoholic beverages, motor fuel and cigarettes, which are the "big three" in terms of special excise tax receipts, is designed to avoid further "piling on" of tax burdens. The states all impose substantial special taxes on motor fuel and liquor and the majority tax cigarettes. Considering the heavy federal taxes, the percentage tax burdens range from 60 to 80 percent on hard liquor; 50 to 60 percent on cigarettes; and about 30 percent on motor fuel in many jurisdictions. Colorado's policy is more liberal than that of the majority of states both in exempting all three items, and in making federal as well as state taxes a basis for exemption. Taxation of cigarettes, liquor and motor fuel is profitable revenue-wise, the three items accounting in 1957 for 10 percent or more of the collections in the taxing states.[4] It is defended on the ground that the special excise and retail taxes are independent levies and are justified on distinctive grounds. Needless to say, this is a "keyhole approach" to the question of equity.

The commodity bias of retail and general sales taxes is difficult to explain. Consumer services in general provide as logical a basis of taxation as commodities on both theoretical and revenue grounds. The existence of special taxes on certain utility services or admissions may suggest exemption of these items, and investment services are normally not associated with the consumption process. Apart from these cases in which the reasoning is not conclusive, there are no theoretical bases of exemption other than those that would apply to certain basic commodities. Inclusion of consumption services with specific exemptions for activities subject to special taxes would greatly increase the revenue potential in Colorado and most other states. The administrative problem would be extended, but the present difficulty of checking evasion on services rendered in connection with the sale of taxed commodities would be eliminated.

In conclusion, the breadth of the retail sales tax base in Colorado compares quite favorably with that of other states. The commodity exemptions are those typically found in other states with the exception of liquor and cigarettes. In the services category only three types of public utilities are taxed. While such a limited application of the tax to services is not unusual, this area affords the primary opportunity for enlarging the base of the retail tax. The implications involved in changing the form of the tax to a multiple-stage levy are examined in the concluding section of the chapter.

The Small Sales Problem. The tax treatment of sales which involve a fractional tax liability of less than ½ of 1¢ has always been a troublesome problem. It arises on any sale involving a small fraction of a dollar. If such sales or portions of a sale are exempt, a question of equity is raised. Businesses with a large volume of these transactions may also be injured through failure to collect sufficient tax to cover their percentage tax liability on total taxable sales. On the other hand, collection of a full penny tax on the fractional amounts would obviously be discriminatory and would no doubt result in excess collections by the type of business indicated.

In the early history of the state sales taxes pressure was brought to bear on Congress to mint ½ cent pieces, but to no avail. As an alternative some fourteen states resorted to the issuance of tax tokens. They varied in denomination from 1 to 5 mills, in size, and in the types of materials used. Without exception, however, they soon came to be regarded as a nuisance by busi-

[4]Estimated on the basis of data from selected taxing states.

nessmen and taxpayers alike. Due to heavy losses in circulation, cost of issuing and distributing them also became excessive.

The states that did not use tokens generally resorted to the device of establishing fixed brackets for tax collection, and this plan is now employed in the great majority of sales tax jurisdictions. It ordinarily involves the stipulation of a minimum fractional sum under fifty-cents on which no tax is due, the range under one dollar for a 1¢ tax and the breaking point for collection of additional tax on sums in excess of one dollar. In Colorado with a 2 percent rate, sales amounting to less than 19¢ are exempt; those from 19¢ to 68¢ inclusive, pay a 1¢ tax; and those from 69¢ to $1.18 inclusive, pay a 2¢ tax. Vendors are required to remit a minimum tax of 2 percent on their total taxable sales and any excess over 2 percent that they collect. These breaking points appear to be generally satisfactory from the standpoint of taxed concerns, and there is no desirable alternative to the bracket arrangement.

Interstate Sales and the Use Tax. As previously indicated, goods sold to persons or firms outside the state and delivered by interstate carrier are not taxable by the exporting state. A similar immunity was once thought to apply to such goods in the state of import so long as they remained in the "original package." However, this latter aspect of immunity has been delimited by judicial decision in cases where the seller carries on a regular retail business or maintains a sales office in the state receiving the goods. The use or compensating tax was introduced by Washington in 1935 to meet the general problem of tax avoidance resulting from out-of-state buying by residents. It is now employed by all of the retail and general sales tax states except Missouri, and apart from specific exemptions this makes it legally feasible to tax interstate sales in the state of import.

The Colorado use tax, which follows the general pattern found in other jurisdictions, applies to the "use, storage or consumption" of tangible personal property purchased at retail and not subject to the Colorado sales tax. Use is interpreted as control over the goods. The basic features of the tax including the definition of taxable sales, exemptions and rates are identical to those of the sales tax.

Special exemptions are extended to non-residents who bring property into the State for personal use and who are here temporarily, and who purchased property outside the State for use there and the first and substantial use was outside of Colorado. Automobiles purchased for immediate transportation and use outside the State are not taxed if a temporary transit permit is secured or if the vehicle is registered in another state. Also, automobiles purchased outside the State and brought into the State for use within a period of one year following the transaction are not taxable if the owner can prove that a sales or use tax was paid in another jurisdiction.

The use tax serves to close the legal loophole for avoidance insofar as interstate transactions are concerned. However, enforcement of tax liability is extremely difficult, and there is undoubtedly considerable evasion at best. Another possible effect of the use tax should be noted. While its primary purpose is to ensure payment of a tax on interstate sales, it may result in a double tax under certain of the state statutes. In particular, this may occur unless the use tax is restricted to transactions on which no sales tax has been paid. The Colorado law, as well as those of several other states, does not contain this limitation.

Administrative Organization and Procedure. The Colorado sales and use tax is administered by the State Revenue Department, the central State agency concerned with tax administration. Immediate responsibility for enforcement under the supervision of the Director of Revenue appointed by the Governor, is vested in a special staff consisting of a chief auditor and three office auditors, one of whom works on the use tax.

Field audits for the sales and other taxes administered by the Department are handled by a general staff of revenue agents who operate out of Denver and 4 district offices. Special legal actions are the responsibility of the collection unit of the Department.

Collection and Payment of Tax. The initial responsibility for collection and payment of the sales tax is upon the vendor or seller. Thus, the taxed concern becomes the agent of the State in this phase of administration, and is required to obtain a sales tax license if it does not have a license under the State Store License Act. The situation is somewhat different in the case of the use tax. While out-of-state firms who maintain facilities or solicit orders in the State are required to collect the sales or use tax, where such conditions do not obtain the purchaser becomes liable for payment.

The total liability for collection and payment amounts to 2 percent of taxable sales or more if an excess is collected. In terms of the individual transaction the entire sales price or value of the item sold is taxable except for property taken in trade which is to be resold. Credits are allowed for returned property, worthless accounts and readjustments in price, and either credits or refunds are permitted for overpayment of tax due to errors or cancelled sales. In the special case of credit, installment or conditional sales

the tax must be collected on each payment. If a dispute arises between the seller and the buyer as to the taxability of a transaction, the tax must be collected, and the buyer may submit a claim for a refund.

Businesses liable for tax collections and payments must file returns and remit the tax due on a monthly basis with one exception. If the tax due amounts to less than $20 per month, they may file and pay by the quarter. Each business is given an option of reporting and paying the tax either on the cash or accrual method, but once the choice is made it cannot be changed except by approval of the Director of Revenue.

To ensure an adequate basis of determining tax liability the buisness must keep and preserve for three years all invoices and other official records of goods purchased for resale and suitable records of sales.

As a compensation for its services the business is permitted to retain 5 percent of the tax due and collected. This allowance is very liberal as compared to the practice of other jurisdictions. Only 16 of the states provide for any compensation, and the percentage discounts granted in other states are either 2 or 3 percent.[5]

Enforcement, Delinquent Taxes and Penalties. Sales or use tax payments become delinquent if not made on the final date specified for filing of the return. Special procedures and penalties are provided in the case of insufficient payment, failure to file a return or refusal to file and false or fraudulent returns or statements. In cases of insufficient payment or no return, the taxpayer is given written notice of the assessment and has ten days to pay or request a hearing. Penalties become applicable after the 10 days notice. The penalties are ½ of 1 percent interest per month if no return is filed and a flat 10 percent of tax plus 1 percent monthly in the case of refusal to file. If fraudulent intent is involved, the penalty is 50 percent of tax plus 1 percent interest per month. Fraud also constitutes a misdemeanor punishable by a $1,000 fine and 6 months in jail.

If delinquent taxes plus additional assessments and penalties are not paid, any property of the taxpayer may be seized and sold to satisfy the claim under a distraint order. The law provides that the tax collected be held in trust, and the Revenue Department claims a prior lien on goods, stock in trade and fixtures used in retail business extending over a one-year period. Civil suit may also be instituted. Except in the case of fraud, there is a three-year limitation upon such action.

Sales Tax Rates in Colorado and Other States. The retail sales tax rate in Colorado has remained at 2 percent since its adoption in 1935. As shown in Table 8.4 thirteen states impose a 2 percent rate; Illinois and Kansas—2½ percent; fifteen—3 percent; Pennsylvania—3½ percent; Washington—4 percent; and Indiana—⅜ of 1 percent. Eight of the states which employed the tax on January 1, 1952 have increased their rates since that date, in most cases from 2 to 3 percent.

The constancy of the rate in Colorado is probably attributable to the inflexible earmarking provisions which reserved 85 percent of sales tax receipts for welfare purposes, and the fact that receipts have been more than adequate to pay one of the highest old age pensions in the country. The 1956 amendment has changed this situation in that the overflow (excess of $100 pension, medical benefits reserve and contingency reserve) will go into the General Fund. In view of this new policy and the practice of other states, it is quite evident that the present 2 percent rate in Colorado does not represent a practical maximum. California and Florida both impose a 3 percent state sales tax, in addition to widespread local levies ranging from ½ to 1 percent.

Table 8.4

State Tax Rates on Retail Sales, Other Sales and Gross Income, 1958

State	Retail sales tax rate (percent)	Wholesale (percent)	Extractive (percent)	Manufacturing (percent)	Other personal and professional service (percent)
Alabama	3	—	—	—	—
Arizona	2	0.25	1.00	—	1.00
Arkansas	3	—	—	—	—
California	3	—	—	—	—
Colorado	2	—	—	—	—
Connecticut	3	—	—	—	—
Florida	3	—	—	—	—
Georgia	3	—	—	—	—
Illinois	2½	—	—	—	—
Indiana	⅜	0.25	1.00	1.00	1.00
Iowa	2	—	—	—	—
Kansas	2½	—	—	—	—
Louisiana	2	—	—	—	—
Maine	3	—	—	—	—
Maryland	3	—	—	—	—
Michigan	3	0.65[a]	0.65[a]	0.65[a]	0.65[a]
Mississippi	3	0.125	3.00	—	3.00[b]
Missouri	2	—	—	—	—
Nevada	2	—	—	—	—
New Mexico	2	0.125	0.50	0.25	2.00[b]
North Carolina	3	—	—	—	—
North Dakota	2	—	—	—	—
Ohio	3	—	—	—	—
Oklahoma	2	—	—	—	—
Pennsylvania	3½	—	—	—	—
Rhode Island	3	—	—	—	—
South Carolina	3	—	—	—	—
South Dakota	2	—	—	—	—
Tennessee	3	—	—	—	—
Utah	2	—	—	—	—
Washington	4	0.40[a]	0.40[a]	0.40[a]	0.60[a b]
West Virginia	2	0.195[a]	1.3-7.8[a]	0.39[a]	1.00[a]
Wyoming	2	—	—	—	—

[a] These are separate taxes applying to gross receipts in Michigan and Washington and gross income in West Virginia.

[b] Applies to personal and professional service.

Source: Commerce Clearing House, *State Tax Guide.*

Consideration of the desirability of a rate increase, apart from the question of need, should be predicated upon a precise determination of the revenue implications for the General Fund, the economic effects of the sales tax, the pos-

[5] Clinton V. Oster, *State Retail Sales Taxation* (Bureau of Business Research, Ohio State University, 1957), p. 94.

sibility of increasing local use and, of course, the alternatives available. These aspects will be examined in later sections of the chapter and other parts of the report.

Colorado Sales Tax Revenues. The general importance of the retail sales tax in Colorado and other states was indicated in an earlier section of this chapter. Particular aspects of its productivity in Colorado, as well as certain comparative data will now be examined.

The long-term trend of sales and use tax receipts, their percentage significance in the State's tax system and the yield of the special services tax during the period of its use (1938-1945) are shown in Table 8.5. Net collections from the sales tax have increased each year since the tax was adopted, except for a slight decline in 1954. The yield of $38,947,392 in 1957 represented an increase of 482 percent over the $6,689,000 received in the second year of the sales tax, 1937. While the rise in receipts has been tremendous considering the constant rate and the fact that the legal scope of the tax base has not been extended, the percentage significance of sales tax collections to total tax receipts varied from a low of 22 percent in 1941 to a high of 34 percent in 1947. It has declined in relative importance since 1947 due primarily to the rapid growth of highway user tax receipts.

Use tax collections have increased more sharply than sales tax collections—from $72,000 in 1937 to $3,122,888 in 1957. This development is largely a reflection of more extensive and effective enforcement efforts as additional experience was gained in administration. While the use tax receipts and consequently the relative importance of the tax fluctuates from year to year, it has averaged around 2 percent of total tax collections since 1946. In relation to total sales and use tax revenues it accounted for a modest but significant 7.4 percent in 1957.

Combined sales and use tax receipts have averaged about 30 percent of total State tax revenues since 1943. Thus, it has been the major single source of State tax collections exceeding the combined yield of the personal and corporate income taxes and closely rivaling the highway user tax group in recent years.[6]

The ill-fated service tax was a good revenue producer in spite of taxpayer resistance and serious administrative problems. It averaged around 4 percent of State tax receipts, and during the eight-year period, 1938-1945 inclusive, service tax yields amounted to 16 percent of total sales and use tax collections.

Analyses of gross sales and taxable sales in Colorado made by the Department of Revenue indicate that allowable deductions slightly exceed taxable sales.[7] The fact that slightly less than one-half of reported sales are taxable demonstrates the limited scope of the retail tax and the crucial character of exemption and deduction policies. While comparisons are subject to obvious qualifications, the ratio of taxable to non-taxable sales in Utah, which has a comparable law, is also approximately 50 percent.

Relative Importance of the Tax in the Western States. The yield of the Colorado sales and use tax as compared to that of the seven other Western States using the levy is considerably below average. As indicated in Table 8.6, in 1957 Colorado ranked lowest or in eighth position,

[6] See Chapter IV, Table 4.7.

[7] State of Colorado, Department of Revenue, *Annual Reports, 1945-1954.*

Table 8.5

Retail Sales, Use and Service Tax Revenues in Colorado, 1936-1957

Year	Net Tax Revenues				Percent of Total State Tax Revenues			
	Sales	Use	Services	Total	Sales	Use	Services	Combined
1936	$ 5,809,000[a]	$ N. A.	$ —	$ 5,809,000	N. A.	N. A.	—	N. A.
1937	6,689,000	72,000	—	6,761,000	30.52	0.33	—	28.44
1938	6,820,938	90,033	1,273,002	8,183,973	26.93	0.36	5.03	32.46
1939	6,856,570	333,913	1,289,892	8,480,375	23.61	1.15	4.44	29.20
1940	7,281,529	330,527	1,192,722	8,804,778	22.15	1.00	3.63	26.78
1941	7,774,249	442,681	1,236,643	9,453,573	21.96	1.25	3.49	26.70
1942	8,499,224	410,628	1,368,480	10,278,332	22.80	1.10	3.67	27.57
1943	9,515,499	350,828	1,801,887	11,668,214	23.93	0.88	4.53	29.34
1944	10,254,531	411,419	1,851,052	12,517,002	25.58	1.03	4.62	31.23
1945	11,321,047	557,638	1,593,597[b]	13,472,282	27.62	1.36	3.89	32.87
1946	14,580,788	945,883	52,788	15,579,459	29.76	1.93	0.11	31.80
1947	19,781,782	1,204,440	6,122	20,992,344	33.73	2.05	0.01	35.79
1948	23,242,132	1,540,937	948	24,784,017	31.57	2.09	—	34.66
1949	24,401,843	1,383,834	147	25,785,824	29.98	1.70	—	31.75
1950	24,723,536	1,373,325	—	26,096,861	28.86	1.60	—	30.46
1951	28,364,452	1,698,049	—	30,062,501	29.51	1.77	—	31.28
1952	29,152,464	1,833,970	—	30,986,434	28.70	1.80	—	30.50
1953	31,749,388	1,963,465	—	33,712,853	29.76	1.84	—	31.51
1954	31,597,904	2,255,279	—	33,853,183	28.70	2.05	—	30.75
1955	34,643,005	2,340,935	—	36,839,940	27.67	1.87	—	29.54
1956	37,749,658	2,730,379	—	40,480,037	27.17	1.96	—	29.13
1957	38,947,392	3,122,888	—	42,070,280	26.43	2.12	—	28.55

[a] Includes total for sales and use tax collections.
[b] Service Tax was repealed in 1945.

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* and Colorado State Department of Revenue, *Annual Reports.*

in terms of the percentage of total tax receipts derived from the sales tax; eighth in collections per capita; and seventh in the ratio that sales tax revenues bear to total state income payments. The relatively low ratio of sales to total tax revenues is not particularly significant in view of the important differences in sales as well as other general tax practices. Washington and California impose higher rates, and Arizona and New Mexico employ general sales as opposed to the retail levies of the other states. The Nevada, Utah and Wyoming ratios are also above that of Colorado, but not significantly.

A broader thirty-three state comparison of sales tax collections to total revenue shows Colorado in 1957, in twenty-fifth position or well below the median (Table 8.2). The mean average, based on aggregate yields, of 33.44 percent was also well above the ratio in Colorado. These relationships, obviously, are subject to the same qualifications noted above.

The comparatively low per-capita collections and percent of income taken by the sales tax in Colorado are significant from a burden standpoint. They demonstrate very clearly that the sales tax is less burdensome in this State than in any of the other Western States except Nevada. The reasons for this situation apart from the general factors noted are not readily apparent. Further examination of these relationships in two of the neighboring states, Utah and Wyoming, which impose a 2 percent retail tax, provides a partial explanation.

Table 8.6

Retail and General Sales Tax Yield Relationships in Eight Western States, 1957

(Rank of order of states in parenthesis)

States	Percent of total tax revenues	Per capita revenues	Sales tax revenues as percent of personal income [a]
Colorado	27.45(8)	$25.84(8)	1.35(7)
Utah	29.20(5)	28.38(7)	1.65(5)
Wyoming	28.86(6)	30.60(6)	1.55(6)
New Mexico	36.27(3)	43.44(3)	2.56(2)
Arizona	33.00(4)	32.53(5)	1.76(3)
Nevada	28.11(7)	38.73(4)	1.12(8)
Washington	55.77(1)	74.00(1)	3.38(1)
California	36.85(2)	44.79(2)	1.74(4)
Average 8 States	32.42	39.79	—
Average 33 States	33.44	29.89	—

[a] 1956 data are employed.

Source: U. S. Bureau of Census, *Compendium of State Government Finances in 1957.*

In Utah the tax base is somewhat more inclusive (alcoholic beverages and admissions) and per capita incomes are lower than in Colorado. Thus, the higher burden might logically be anticipated. The burden is also higher in Wyoming, however, which has a comparable tax base and per capita income almost equal in amount. The difference in impact, therefore, would have to be accounted for in terms of variations in individual expenditure patterns or the effectiveness of tax enforcement in the two jurisdictions. These illustrations as well as the more general factors noted serve to indicate the limited usefulness of the comparative data and the difficulties inherent in interpreting such information on a meaningful basis.

Costs of Collection. The direct costs of administering the retail sales tax, as shown in State Revenue Department reports, has averaged well under 1½ percent during the last decade. In the early years following adoption of the tax costs were much higher, ranging from 2 to 3 percent. Costs of collection of the use tax have followed a similar pattern, but were somewhat higher until 1957. The combined expense of administration is only influenced in slight degree by the use levy in view of its modest yield.

Table 8.7

Cost of Collection of Retail Sales, Use and Service Taxes in Colorado, 1942-1957

Year	Percent of total tax revenues			
	Sales	Use	Sales and use	Service
1942	2.85	3.75	2.89	8.80
1943	2.13	3.30	2.18	6.13
1944	2.04	2.86	N.A.	6.01
1945	1.85	3.38	1.92	5.91
1946	1.88	3.28	1.96	—
1947	1.36	3.06	1.45	—
1948	1.27	2.50	1.35	—
1949	1.23	2.91	1.32	—
1950	1.20	3.23	1.31	—
1951	1.13	2.72	1.22	—
1952	1.17	2.45	1.25	—
1953	1.16	2.48	1.24	—
1954	1.40	2.24	1.46	—
1955	1.37	1.75	1.40	—
1956	1.22	1.82	1.26	—
1957	1.57	1.45	1.56	—

Source: State of Colorado, Department of Revenue, *Annual Reports, 1943-1957.*

While it is difficult, if not impossible, to obtain accurate information on administrative costs in many jurisdictions, the available data indicate that Colorado was close to the median position in 1957. The weighted average collection costs (according to total collections) for twelve states which accounted for almost two-thirds of total sales and use tax revenue in 1955 was 1.47 percent.[8] Costs ranged from a low of 0.85 percent in Michigan to a high of 3.82 percent in Ohio which employs a special collection device of prepaid tax receipts. Otherwise, California's cost of 2.01 percent constituted the maximum in the twelve-state comparison. The declining ratio of administrative expense in Colorado since the adoption of the tax generally parallels the experience of other states.

[8] Oster, *op. cit.*, p. 162.

The direct costs of administration for the retail and general sales taxes compare very favorably with those of other major tax forms. They are also very reasonable in terms of a commonly accepted hypothetical range for a "good tax," namely, 2 to 5 percent. To be realistic, however, the retailer's discount should be added to state costs. This results in a total cost for Colorado of approximately 6.5 percent. Other states making such allowances are less liberal, and their total costs with the exception of Ohio are still below 5 percent.[9]

The most significant question concerning the cost of administering the sales tax in Colorado and elsewhere is whether the expenditure of funds and effort is sufficient to maximize revenues and to minimize evasion. Low cost may well mean ineffective administration accompanied by heavy revenue losses and serious inequities between taxpayers. While it is very difficult to evalute administrative accomplishment, this problem is examined in a later section of the chapter.

Source of Sales Tax Receipts. The source of sales tax collections as to types of business and geographical area is of concern both in policy formulation and administration. Such information is also of value to businessmen and to others interested in general economic trends. From a policy standpoint it is essential to know how the burden of the tax is distributed among various classes of goods and services, and this requires a detailed breakdown of collections by type of business. Similarly, in checking tax returns for possible evasion the availability of such data makes it possible to develop typical ratios of taxable to tax-exempt sales for each class of business. The interest of business groups in sales trends on a local as well as a statewide basis requires no elaboration.

The State Revenue Department maintained a comprehensive series of collections by business classes and by county through 1954. Since that date the breakdown by types of business is not available, but its resumption is planned in the near future. Using four representative years from 1942 to 1954, Table 8.8 shows the trend of collections by broad categories of business. As might be anticipated, the food group far outranked other classes, and remained virtually constant at an average of approximately 26 percent. In the earlier years general merchandise ran a close second, but has steadily declined in relative importance from 22 percent in 1942 to 16 percent in 1954. This change is largely attributable to the growing importance of automobiles and automotive products which increased from about 13 to nearly 17 percent. Other categories of business exhibiting substantial gains were: lumber and building products; manufacturing, trading and jobbing; and furniture. On the other hand, clothing and unclassified retail businesses showed declines. The fact that less than 1 percent of collections are presently derived from professional and personal services is, of course, a result of the general policy of excluding the major service activities.

The trends cited may logically be expected to continue. Their significance with reference to possible changes in exemption policy, as well as the burden of the tax on income groups, is examined in the concluding parts of this chapter.

Table 8.8

Sales Tax Receipts, by Type of Business, in Colorado, Selected Calendar Years, 1942-1954

Business classification	Percent of total tax paid			
	1942	1946	1950	1954
Food group	26.28	27.71	25.20	26.43
Automotive group	12.89	13.17	18.89	16.69
General merchandise	22.67	22.67	18.01	16.47
Lumber and building	6.94	6.16	8.09	8.85
Mfg., trading and jobbing	5.99	5.56	6.49	7.91
Public utility	6.61	4.79	5.22	6.07
Furniture	3.31	3.90	5.00	5.73
Apparel	7.07	8.31	5.96	5.50
Unclassified retail	6.95	6.39	6.14	5.38
Prof. and personal services	0.74	1.02	0.80	0.87
Farm and garden produce	0.55	0.32	0.20	0.10
Total	100.00	100.00	100.00	100.00

Source: State of Colorado, Department of Revenue, *Annual Reports*, for the indicated years.

The relationship of tax collections from independents, chain stores and foreign corporations, as depicted in Department of Revenue data, does not reveal a significant long-term trend. While the proportion of taxes collected from chains increased from 16.9 percent in 1950 to 19.8 percent in 1956, the comparable ratio in 1943 was 19.1 percent.[10]

Specific data are not available indicating the impact of the sales tax on large and small firms. However, it is evident that the bulk of sales tax collections are obtained from a relatively small proportion of the total number of concerns filing returns. It is estimated currently that 30 percent of the taxed businesses file on a quarterly basis which means that their tax liability ordinarily amounts to less than $20 per month.

The data on sales tax collections by counties are incomplete, showing only the taxes paid by "independent outlets." These collections in 1957 accounted for two-thirds of the total. They reveal, as might be expected, a high degree of concentration of sales tax revenues. Denver City and County alone produced over 40 percent of the total sales tax revenues from such outlets; three counties, Denver, El Paso, and Pueblo,

[9]Ibid. pp. 94 and 162.

[10]State of Colorado, Department of Revenue, *Annual Reports*.

paid in over half or 54.77 percent; and the ten most productive counties (add Jefferson, Arapahoe, Boulder, Mesa, Weld, Larimer and Adams) accounted for nearly four-fifths. Allocation of chain store sales would probably magnify rather than lessen the concentration indicated.[11]

Disposition of Retail Sales and Use Tax Revenue. Colorado's most important general source of tax revenue has been dedicated to welfare purposes since 1936. A constitutional amendment adopted in that year earmarked 85 percent of net retail sales and use taxes, state liquor taxes and licenses and any other excises which might be adopted at a later date for pension purposes. The remaining 15 percent was set aside for other welfare programs. A prior deduction of 5 percent for tax administration by the Revenue Department was authorized, and in practice 5 percent has also been reserved for the administration of the welfare programs. In terms of the proportion of State tax receipts involved, both actual and potential, and the liberality of the old-age pension grants which resulted, this action was unparalleled.

While the earmarking arrangement appeared to dedicate all of the revenues from the above sources to welfare purposes, there has been a small surplus available for General Fund use. This surplus arose as a consequence of the fact that the funds reserved for "other welfare" functions and for administrative expense were not fully utilized. In the years immediately preceding the new earmarking amendment adopted in 1956 General Fund transfers normally amounted to about 8 percent of net sales and use collections. Coincidentally, the total excise tax transfers accounted for approximately the same percentage of total General Fund receipts.[12]

The earmarking formula was significantly altered by the 1956 amendment, but the immediate effect was to extend the scope of benefits to the State's dependent aged. The amount of funds to be used for welfare purposes from the sources noted is now determined by certain specified needs as follows: (1) the payment of a basic $100 per month pension (subject to adjustment on the basis of changing economic needs and is now $105); (2) the creation and maintenance of a new $5,000,000 stabilization fund to ensure payment of prescribed pension benefits; and (3) the provision of a maximum of $10,000,000 a year to meet the cost of a new medical care program for pensioners. The 5 percent authorizations for tax and welfare administration were not changed.

It is impossible to determine the precise effect of the new provisions on the General Fund. The $100 pension requirement is a minimum and rising costs of living have already resulted in a $5 increase. The number of persons eligible for State pensions has been relatively stable in recent years and may actually decline in the future as a consequence of the expanded coverage of the federal plan. However, this situation obviously involves an element of uncertainty. The cost of benefits under the new medical care plan which is to be inaugurated in 1958 is also indeterminate, but cannot exceed $10,000,000.

Estimates made in 1956 indicated that a small but increasing surplus would be available for General Fund use in the early 1960's. Actual developments to January 1, 1958 have been more favorable than anticipated. In addition to payment of the minimum pension, the $5,000,000 contingency reserve has been established and some $4,000,000 has been placed in the medical care fund. Assuming no further increase in the $105 pension rate and on the basis of projected sales and excise tax collections, the Budget Office estimates that there will be a substantial increment to the General Fund in 1959. A somewhat smaller sum will be available in fiscal 1960, but this is expected to increase significantly in subsequent years.

General revenue projections and General Fund relationships are dealt with in another section of this report. However, it is evident that the retail sales and use tax receipts will become an increasingly important source of general financing in the near future. This will be the case under existing provisions of the tax and welfare laws. If the tax rate is increased or the base extended, all additional revenues should be available for General Fund purposes.

Enforcement of Sales and Use Tax Liability: Problems. Enforcement of full tax liability against all those who are legally liable for payment is one of the basic objectives of tax policy. While this degree of attainment is impossible, there should be a continuing effort to strengthen the assessment and collection process. The reasons for concern are self-evident. Evasion means loss of revenue as well as inequities between taxpayers. Furthermore, the existence of evasion, even though it may be of minor significance at a particular time, breeds more evasion. The key questions in the case of the sales and taxes and other self-assessed levies are: (1) do all persons or businesses subject to the tax file returns; (2) is the information presented in the return complete and accurate; and (3) are the taxes assessed collected promptly and without discrimination. The relative simplicity of the sales and use tax provisions appear to justify a concentration of administrative effort on preventing evasion rather than avoiding possible overpayments.

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[11] *Ibid.*

[12] State of Colorado, reports of Division of Accounts and Control, October, 1957.

The effectiveness of tax administration obviously involves many intangible elements such as the spirit of the organization, individual staff attitudes and the psychology of the taxpayer group. While these matters are highly important, they cannot be measured objectively. The following analysis of the sales and use tax administration, therefore, must necessarily be incomplete and fall short of the conclusive judgements which a more intensive investigation would permit.

Enforcement Procedures and General Results. The basic requirement of a store or sales tax license is the technique for ensuring that businesses or individuals subject to the tax file returns. Enforcement of the license provision concerning the sales and use tax is the primary responsibility of one staff member in the office audit division of the central office. Typical methods of checking the establishment of new businesses and dissolutions or bankruptcies are employed. However, there is no systematic back-checking to determine whether licensees actually file returns.

Returns received in the mail room are "batched" by type of tax and sent to the proving section. There they are checked for arithmetical errors and obvious irregularities. If no errors or irregularities are detected, the great bulk of sales tax returns are then filed. Use tax returns are sent to the Office Audit Section and are briefly reviewed by an experienced auditor. Irregular returns are also sent to this section for appropriate action. There are three auditors in the office audit staff. One is concerned with the use tax and one with the refund problems involved in the case of certain types of transactions and institutions.

Field audit investigations of sales and use tax liability are carried on by the staff of the General Field Audit Section. This unit also is responsible for income, motor fuel and ton-mile audits. The staff consists of four chief auditors or audit supervisors, twenty-three revenue agents and two staff auditors. Many of the audits performed cover income, sales and use taxes. Consequently the number of agents devoting full time to sales and use tax audits can only be approximated.

Field agents and auditors assist the central and district offices in advising taxpayers during the period preceding April 15, and two agents were assigned as district office supervisors for approximately a full year in 1957. Also, two agents were assigned solely to ton-mile and fuel tax work. The net effect of these arrangements is to reduce the number of agents available for income, sales and use tax investigations to about 18.4. Considering the total number of audits performed by tax, it appears that about 12 of the field staff devoted full time to sales and use tax investigations. If the three office auditors are included, the Revenue Department has 0.352 percent of an auditor for each $1,000,000 of tax collected.[13]

The field staff performed 383 sales and 719 use tax audits during the 1957 fiscal year. These 1,102 audits represented about 3 percent of the total sales and use tax licenses. (No out-of-state audits were conducted, and there is no interchange of information with other states.) Additional sales tax assessments amounted to $69,127 and use taxes to $133,099 or a total of $202,227 in 1957. Thus, each field agent was responsible for additional assessments of $16,800. Collections are normally somewhat less than assessments, but, as might be anticipated, the relationship may vary significantly in particular years. It should be noted that the assessment totals indicated do not include interest or other penalties. In fact, there is no general record of such penalties.[14]

A highly significant phase of any field audit program is the manner of selecting taxpayers' returns for audit. The practice followed in the case of the sales tax is largely fortuitous. Questions concerning the income tax often provide the basis for the investigation. Use tax audits are often initiated by the office auditor who scans these returns. As previously indicated there is no comparable check of sales tax returns by the office audit section. Thus, irregular returns and those involving certain types of statutory refund claims constitute the only regular or continuing basis of office referral in the case of the sales tax.

Field audit reports are reviewed by the audit supervisor and appropriate action is taken. Usually, this involves a ten-day notice of deficiency assessment with interest (½ of 1 percent per month). The taxpayer is given an opportunity to be heard. Subject to possible adjustments of the assessment, the claim goes to the collection section if not paid in the prescribed period. The principal collection technique is the distraint order, a direct proceeding against the taxpayer's property. The Department claims a prior lien position on the ground that the taxes collected and due are in the nature of a trust. While this appears to be a logical assumption, it has not been validated by court action.

Conclusions: Sales and Use Tax Administration. The foregoing analysis of sales and use tax enforcement is based on information supplied by Colorado Department of Revenue staff officers. Any inaccuracies in interpreting the data are the responsibility of the author; and

[13] State of Colorado, Department of Revenue, Field Audits Division estimates.

[14] *Ibid.*

inadequacies are generally attributable to the fact that certain information was not available.

In general, the sales and use tax enforcement effort appears to have significant elements of strength as well as important limitations. The general competency of the staff and their dedication to the job to be done is not subject to question on the basis of the information available. Field audit reports give evidence of a thorough and comprehensive investigation. Finally, field-audit results, in the case of the sales tax, indicate a substantial, but not critical evasion problem. This indication must be viewed in the light of the scope and selectivity of the audit program. Use tax audits generally are very productive, but this situation is typical in view of the inherent complexities of administration involved.

Certain limitations of the enforcement program are self-evident while others are merely suggestive. It should also be emphasized that nearly all the deficiencies are either directly or indirectly an outgrowth of the limited staff available for office and field investigation. In view of the importance of this factor it merits primary consideration.

There are no fixed guides for determining the number of professional staff required for effective results. However, there are several logical bases of judgment including: the practice of other states which are generally thought to be leaders in sales tax administration; the adequacy of the procedures followed in terms of accepted standards; and the productivity of the audits conducted. Using California, Ohio and Michigan for comparative purposes, the relative number of auditors per $1,000,000 of tax collections is as follows:[15]

California	1.50
Ohio	.97
Michigan	.73
Colorado	.35

California has the most comprehensive audit program of any state and the highest ratio of auditors. However, a recent study by the State Board of Equalization indicates the desirability of additional audit effort in the case of certain types of returns. In addition to a high ratio of audit staff, Ohio employs the special pre-paid tax receipt method of collection which is designed to secure the cooperation of the buyer in the collection process. While Colorado's staff ratio is less than half that of Michigan, it was recently recommended that 150 more auditors be employed in the latter state. In terms of the proportion of taxpayers' records audited in 1957 the 1,102 audits represent only 3 percent of the total. This fractional degree of coverage, which is even lower considering only sales taxes, can hardly be said to provide an adequate deterrent to evasion.

Staff limitations are equally apparent in certain crucial aspects of audit procedure. In the initial phase of enforcement following the clerical proving process, an office check of each taxpayer's return by experienced auditors at least once a year is highly desirable. To aid in this process and to enable the office audit staff to give a reasonable direction and emphasis to its work, the returns should be sorted and classified prior to this check. In addition to the under-payments and over-payments that may be detected, the office audit provides a meaningful though not exclusive method of selecting returns for field investigation.

A systematic approach to field-audit investigations, either through a selective screening process occasioned by office audits or a recognized method of sampling, is a minimum requirement. The saturation method in which all taxpayers' records would be subject to audit over a period of 3 or 4 years is a desirable alternative. California is the only state whose methods approach this objective. (The program of the City and County of Denver is designed to achieve this result.)

As a further evidence of understaffing there is a marked paucity of information on various aspects of the sales tax picture which makes certain types of policy and administrative analysis impossible. Examples of the lack of data include: no breakdown of tax collections by type of business since 1954; no analysis of tax collections by size of business since 1954; no record of specific exemptions or deductions claimed since the years immediately following the adoption of the sales tax law; and no cumulative account of interest or other penalties imposed.

Sales and use tax audits are presently very productive. There is no reason to believe that an expanded effort would yield diminishing returns. In fact, a more selective, systematic approach might well produce greater returns. Without exception the experience of other states which have expanded and strengthened their audit programs has been highly successful. The field audit section has suggested that the number of agents be increased from 23 to 30 for best results. This would probably make 3 or 4 additional staff available for sales and use tax work, but would fall far short of the minimum requirements for the type of program outlined above.

Economic Effects of Retail Sales Tax

The economic effects of retail sales taxes fall logically into two categories, direct and indirect. Direct effects are primarily a resultant of the incidence of the tax or the ultimate location

[15] Oster, *op. cit.*, pp. 163-164; also, Ronald B. Welch, *The Sample Sales Tax Audits Program*, California State Board of Equalization, Division of Research and Statistics, February, 1954.

of the burden. However, the obligations of the retailer to collect and pay the tax are also a direct consequence of the levy. Indirect effects include such factors as the impact of the tax on the level of expenditures or business activity, changes in consumption patterns and the propensity to consume and the possible implications arising from the unequal or discriminating influence of the tax as between different businesses. In analyzing these effects of the tax, its impact upon individual or family incomes, on the one hand, and business enterprises, on the other, will be stressed.

Impact of the Retail Tax on Individual and Family Incomes. The allegedly unfavorable effect of retail and general sales tax upon the incomes of low and medium income groups is, as previously noted, the primary objection to this form of tax. The extent of its regressive influence and the seriousness of such effects are the chief points at issue. Needless to say the first question can only be answered with reference to a particular tax, the definition of taxable sales and the special inclusions, exclusions and exemptions involved. The problem of analysis is complicated by the lack of complete data on consumer incomes and consumption patterns on a state basis. However, there have been many studies relating to national and particular state taxes. Their results are not conclusive in certain respects and do not pertain directly to the Colorado law, but assuming a broad-based tax they all indicate a substantial regressive effect upon the very low income groups.[16] There are two sources of primary data concerning consumer incomes and consumption patterns in Colorado and the Western Region. Both will be employed in estimating the effects of the Colorado tax. The second question concerning the significance of possible regressive influences is obviously a matter of judgment, and will be approached from that standpoint.

The two sources noted above are a Census Bureau analysis of family incomes and expenditures in the Denver Area in 1948, and a comprehensive national survey of consumer expenditures in the United States (including the eleven Western States) conducted by *Life* Magazine in 1957. In both cases the sample used was selective but limited. The concept of income employed was cash or money income.

The impact of the Colorado tax on various income groups based on the Census data is shown in Table 8.9. Comparing the lowest and highest income classes, the effect appears to be markedly regressive. Excluding the $1,000 and below class, there is still a substantial element of regression throughout except for the $4,000 to $5,000 class.

Table 8.9

Estimated Effect of Colorado Retail Sales Tax by Income Levels

(Denver Area Income and Consumption Data for 1948)

Income Category	Income	Sales tax liability	Percent of income paid in tax
Under $1,000	$ 467	$ 20.26	4.34
$1,000—2,000	1,621	25.06	1.55
2,000—3,000	2,632	38.18	1.45
3,000—4,000	3,471	46.68	1.34
4,000—5,000	4,378	61.36	1.40
5,000—6,000	5,415	68.16	1.26
6,000—7,500	6,695	83.09	1.24
7,500–10,000	8,509	103.74	1.21
10,000 and over	14,514	103.54	0.71

Source: Computed from basic data on income and consumption patterns in Denver Area, Bureau of Census study, presented in U. S. Department of Labor, *Monthly Labor Review*, Volume 69 (July-December), 1949.

Similar though less extreme differentials in burden are indicated using the recent *Life* study of income and consumption patterns in the Western Region. The effect of the Colorado 2 percent tax is regressive throughout the entire income range, but the differential between the lowest and highest income categories is much less than indicated by the Census data (Table 8.10). It should, of course, be noted that the lowest category of income shown in Table 8.9 of $1,000 and under is not included in the analysis based on the Western Region data. Excluding the $1,000 and less income class, the effects shown are strikingly similar.

Table 8.10

Impact of Colorado Retail Sales Tax by Income Levels

Income category	Computed[a] average income	Tax liability according to Colorado law	Percent of income paid in tax
Under $2,000	$1,500	$ 25.99	1.73
$2,000—$2,999	2,500	38.25	1.53
3,000— 3,999	3,500	51.62	1.47
4,000— 4,999	4,500	56.59	1.26
5,000— 6,999	6,000	64.50	1.07
7,000— 9,999	8,500	76.31	0.90
10,000 and over	13,000	103.99	0.80

[a] Based on *Life* study data for the eleven Western States.

Source: Alfred Politz Research, Inc., *Life Study of Consumer Expenditures, A Background for Marketing Decisions*, Volume I, New York, 1957.

It is quite evident that the Colorado retail sales tax as presently constituted imposes a heavier burden on the lower income groups or is regressive in its effects. It is equally clear

[16] U. S. Treasury, Division of Tax Research, *Considerations Respecting a Federal Retail Sales Tax*, Hearings on Revenue Revision, 1943, Ways and Means Committee, 78th Congress, 1st Session, Table 1, p. 1166; James W. McGrew, "Effect of a Food Exemption on the Incidence of a Retail Sales Tax," *National Tax Journal*, December, 1949, Tables 1 and 2, pp. 365-366; Donald C. Miller, "Sales Tax Progressivity Attributable to a Food Exemption," *National Tax Journal*, June, 1951, pp. 148-159; and R. A. Musgrave, "The Incidence of the Tax Structure and Its Effects on Consumption," *Federal Tax Policy for Economic Growth and Stability* (Papers submitted by panelists to the Joint Committee on the Economic Report, 84th Congress, 1st Session, Washington, D. C., 1955), pp. 96-113.

that the taxation of food is a major factor influencing the economic impact of the tax. The data in Colorado indicate that the exemption of food consumed off the premises would substantially relieve but not eliminate regressive effects in the low- and middle-income ranges. On the basis of the money-income measure these results are consistent with those of studies undertaken in other states.

Another relationship is indicated by the data in the Colorado as well as by other studies, namely, that the burden of the tax is greater for a large family than a small one within any particular income range. This effect is a logical expectation in view of the greater living cost requirements of such families for the items subject to the sales tax. Finally, it should be noted that the results of the studies shown are subject to important shortcomings. In the first place, the data employed are incomplete and in particular instances may not be fully representative. Secondly, the cash-income measure employed in these analyses does not produce wholly meaningful results either for the "under $1,000 or $10,000 and over" categories. In the case of the "under $1,000" group very few individuals or families actually live on this amount, and in the latter category which lumps together all incomes of $10,000 or more the results are obviously not representative for very high-income receivers.

The regressive effect of the Colorado retail sales tax should be evaluated in terms of accepted principles of equity in taxation, considering its impact upon the entire tax system of the State and the Nation. Needless to say, this is a large order. The ability to pay principle, involving a progressive tax burden in relation to net income, is undoubtedly the most widely accepted standard both in terms of theoretical and popular support. Considering the evidence cited, the nature of the tax base and the fact that specific exemptions are not extended to the lower income groups, the sales tax obviously does not conform to this standard. The basic issue, therefore, becomes one of determining whether its unfavorable effects in terms of income and size of family are adequately offset by other elements of the tax structure. Primarily, this is a matter of judging the relative impact of the progressive personal and corporate net income taxes, on the one hand, and the regressive impact of the retail sales and similar levies on the other. As this broad question of balance is dealt with elsewhere in the report further discussion at this point would be repetitious.

Effect of Retail Sales Tax Upon Business. Generally speaking, the retail sales tax is not regarded as a serious deterrent to business expansion either of established concerns or new enterprises. This view is probably attributable primarily to the fact that the burden is usually shifted to the consumer. Certainly, this is an important consideration to the individual business even though it does not take account of indirect or long-range influences. Other aspects of the tax that may be considered advantageous are: that it applies to all businesses within certain broad categories; the rate is proportional or equal; the amount of the tax varies directly with business volume whereas the property tax or real property tax, for example, are relatively fixed; and the tax is collected on each day's business and is normally remitted on a convenient, monthly basis. In exceptional cases the businessman may also be favorably inclined towards the tax by virtue of excess collections.

Tax Absorption. The inequities and other unfavorable direct effects of the tax insofar as business is concerned are associated with its incidence and the compliance problem. The special circumstances, as indicated in the discussion of incidence, which make it impractical or undesirable to shift the tax obviously involve an inequitable and discriminatory burden on the business affected. The existence of direct competition from concerns not subject to the tax is the most serious situation and it cannot be wholly avoided. Merchants located close to the Nebraska and Texas borders are potentially subject to this pressure, but fortunately there are no cases of large towns in immediate proximity to places of comparable size across the State line. The other states bordering on Colorado all impose a 2 percent retail tax so there is no present reason for concern in these areas. Further exceptions to the rule of shifting generally involve only partial tax absorption and these effects are limited to a fractional element of the total businesses taxed.

In certain analyses of state retail sales taxes considerable stress is placed upon the distribution of tax payments according to the size or other characteristics of the businesses taxed. While this information is interesting and may be useful in some respects, it does not throw any light on the problem of equity or burden as related to the businesses taxed. For example, the fact that businesses reporting total sales in excess of $50,000 per year pay a very high percentage of the total sales tax confirms the importance of such firms in the retail field, but there is no basis for suggesting that they pay too much or too little.

Compliance Burden. The expense entailed by the taxed concern in collecting the tax, keeping adequate records, filling out and filing tax returns and dealing with questions that arise concerning tax liability and payment is a direct and substantial burden. While compliance costs of varying significance are encountered under all forms of taxation, the role of the retailer or other taxed entity in the case of consumer-type

sales tax is somewhat different than that of the ordinary taxpayer. In the first place, the legal as well as actual incidence of the tax is upon purchaser or consumer. The businesses whose sales are subject to the tax are acting as tax collectors rather than taxpayers. This situation is not unique as employers have a similar responsibility to withhold personal income taxes. However, the fact that such responsibilities are not unique in the case of the sales tax does not justify a policy of disregarding the costs involved. Secondly, the evidence available indicates that the burden of compliance is somewhat greater than that encountered in other situations where the business is acting as a tax collector rather than a taxpayer.

In an individual case-type study Professor James W. Martin estimated average compliance costs for the sales tax at 2.3 percent.[17] This investigation as well as other sources indicate an extreme variation in such costs for different types of business. The highest costs generally arise in those firms which have a large volume of small sales and those in which exempted sales constitute a major portion of total sales. It should be noted that the privilege form of retail or general sales tax presents a different problem in two respects. In this instance the business is the legal subject of the tax, and if the taxed concern is permitted to choose the basis of distributing the tax burden compliance costs will probably be much lower. Thus, the justification for compensating the taxed business is not as strong as for the consumer-type levy.

Colorado and thirteen other sales tax jurisdictions have recognized the compliance cost burden by providing percentage discounts related to the amount of the tax due. The discounts range from 2 to 5 percent, Colorado alone permitting the maximum. In the remaining states, seven grant a 2 percent and six a 3 percent allowance. Two other states permit retailers to retain any excess tax resulting from the breakage points under their bracket plans. The latter arrangement is obviously subject to criticism as the specific results of the bracket formula are difficult if not impossible to calculate for many businesses, and if they can be computed the amount of the allowance would vary widely for different types of operation.

The policy of compensating taxed concerns for special collection service costs is believed to be sound. The amount that should be allowed in the case of the consumer-type retail tax cannot be precisely determined considering the great variation in indicated compliance costs. However, the 5 percent discount under the Colorado law is very liberal, and a reduction to 2 or 3 percent appears to be defensible.

Secondary Economic Effects. The indirect or secondary effects of the retail sales tax can be readily identified in general terms, but are difficult if not impossible to measure. Perhaps the most important aspect of these effects is the impact of the tax upon consumer purchasing power and prices. Broadly speaking, the tax increases the price of taxed goods and services thereby reducing consumer capacity to buy in terms of goods, at least in the short-run. As the bulk of the tax burden involved in higher prices tends to fall upon the low and medium income groups the sales tax is commonly assumed to have a significant deflationary influence.

While all taxes tend to involve some deflationary effect on the private economy the assumption of a marked deflationary effect in the case of the sales tax is highly questionable. The initial rise in prices occasioned by a new tax or increased burden of existing levies actually inflates prices and thereby deflates private purchasing power. Any deflationary impact on prices to which these terms are ordinarily applied will be a resultant of subsequent effects of the tax. To a considerable degree the initial rise in prices provoked by the tax will be offset by a general round of price and wage increases providing that the economy is in a healthy or expanding state. The expenditure of the sales tax revenue by the government also tends to maintain or increase the flow of funds in the economy unless the receipts are used to retire bank-held debt. Thus a deflationary influence on prices would only arise if the general rise in wages and prices resulting from these factors was insufficient to maintain consumer purchasing power at the previously existing level. This result would be a certainty if the general economic climate were deflationary, and would eventually force a decline in prices.

The influence of the retail sales tax on prices, therefore, involves both inflationary and deflationary potentials. The balance or net impact will be determined largely by the general state of the economy, and will tend to accentuate rather than counteract the existing trend.

Another aspect of the impact of the retail sales tax on business is its possible effect upon consumption patterns and consequently the relative volume of sales both of taxed and untaxed items. Certain shifts in consumer buying habits especially as between taxed and untaxed goods or services may logically be anticipated. It seems reasonable to assume that the immediate increase in cost of essential goods and services occasioned by the retail tax would be reflected in reduced outlays for non-essentials, both taxed and untaxed. Needless to say con-

[17] James W. Martin, "Costs of Administration: Examples of Compliance Expenses," *Bulletin of the National Tax Association*, April, 1944, p. 203.

sumer attitudes rather than absolute requirements are controlling. As attitudes vary on particular items the specific character of the probable change in buying habits cannot be ascertained. The shifts that do occur may well be temporary if the secondary effects of the tax tend to offset the initial loss of private purchasing power. In the area of governmental spending, which is made possible by sales tax revenues, it is quite evident that the pattern of consumption differs from that of the individual. Basically, it is non-personal in character and tends to correspond generally to that of private business except that labor and other services generally assume a more significant role.

Summary: Future Role of Retail Sales Tax

Revenue Potential. The retail sales and use taxes offer excellent potentialities for financing future State needs. On the basis of existing provisions there should be substantial transfers to the General Fund after 1960. Major contributions, however, will be dependent upon changes in the tax base and/or rates. Such changes, if they are deemed advisable, obviously should be tempered by considerations of equity. State policy also must be cognizant of the implications of probable extensions of local use.

The chief possibilities of broadening the retail tax base are: the withdrawal of the exemption on motor fuel, liquor and tobacco; and the inclusion of various services such as amusements, personal service activities, commercial lodging, automobile and miscellaneous repairs. Changing the form of the tax to a general levy covering wholesaling, manufacturing, processing, etc., is another significant possibility. The principal offsetting change, which is commended on grounds of equity, is the exemption of food.

Estimates of the effect of these changes upon revenues in 1957 are shown in Table 8.11. The estimates concerning services are believed to be conservative as they are based upon sales by enterprise classes rather than total service sales. Revenues from motor fuel are predicated upon reported gallonage under the fuel tax at an assumed average of 30¢ per gallon; liquor and tobacco receipts are related to general consumption data, the latter on cigarettes only; and the effect of a food exemption is based on actual experience under the existing levy.

Taxation of the three special excise commodities would have added about $6,238,000 or 12 percent to the 1957 collections. The four types of services would have increased yields by $4,725,000 or over 10 percent. The revenue effects of changing the form of tax from a retail to general levy obviously will depend upon the definition of taxable transactions and rates. No specific estimate is presented in view of the wide range of possibilities. Another aspect of the present law that may merit attention from a revenue standpoint is the 5 percent vendor's discount. As previously indicated this allowance is exceptionally liberal, and might reasonably be lowered to 2 or 3 percent. The former change would have increased yields by roughly $1,300,000 in 1957.

Table 8.11

Estimated Effect of Changes in Tax Base and Rates on Yield of Retail Sales and Use Taxes in Colorado

Change	Estimated yield (1957 base)	Estimated decrease
Food exemption		
All food		$10,428,485
Food consumed off premises		8,408,287
Removal of exemption		
Motor fuel	$3,315,000[a]	
Liquor	1,723,000[b]	
Cigarettes	1,200,000[c]	
Total	6,238,000	
Inclusion of:		
Amusements	1,384,000[d]	
Personal service enterprises	1,252,000[d]	
Lodging: Hotels, Motels and Camps	1,094,000[d]	
Automobile and other repairs	995,000[d]	
Total	4,725,000	
Rate increases		
½ of 1 percent	10,248,660 (sales and use)	
1 percent	21,293,321 (sales and use)	
Reduction of Vendor's disc. to 2%	1,300,000	

[a] U. S. Bureau of the Census, *Census of Business, 1954*, Vol. II, "Retail Trade Area Statistics," Tables 6-4 and 6-5.
[b] See Chapter IX.
[c] See Chapter XVIII.
[d] U. S. Bureau of the Census, *Census of Business, 1954*, Vol. VI, Tables 6-4 and 6-5.

Exemption of all food to be consumed on or off the premises would have reduced tax collections by approximately $10,428,000 in 1957 or 26.4 percent. A limited exemption confined to food to be consumed off the premises would cut receipts by about 21.3 percent, and this is the form that the exemption usually takes.

Proportional effects may reasonably be anticipated from a ½ of 1 percent or 1 percent increase in sales and use tax rates. As related to 1957 taxable sales and use transactions the increase in revenue would have been $10,646,660 and $21,293,321, respectively.

Economic Implications of Policy Changes. The revenue potentialities through broadening the sales tax base and/or increasing rates are obviously excellent. The desirability of such action is another matter. Taxation of motor fuel, liquor and cigarettes under the retail sales tax is a debatable policy. All three are taxed by the federal government; and the State also imposes special excises on motor fuel and liquor. Proponents maintain that the special taxes have an independent justification wholly apart from

that of the general-type tax. However, this position appears to be in conflict with the basic concept that tax policy and tax burdens should be viewed in the aggregate. The real issue would seem to be whether these commodities are presently subject to sufficiently burdensome taxes in relation to other products and alternative tax base. The answer is not clear-cut. Moral considerations may be used to justify even a prohibitive level of taxation on liquor and to a lesser degree, tobacco. In the case of motor fuel it should be recognized that the existing level of taxation is only merited in terms of the special user relationship, and the rates will undoubtedly rise to meet growing costs. Imposition of a general tax under these circumstances seems to be a case of adding "insult to injury."

Taxation of the services noted will not appreciably alter the economic impact of the retail tax, and there are no compelling reasons for exclusion of these transactions. There is also a definite trend to include such activities in other sales tax jurisdictions.

The exemption of food purchased for consumption off the premises would substantially relieve the regressive effect of the tax on low- and medium-income groups. However, the heavy revenue losses which would be involved may preclude such action at the present time and under constitutional provisions the loss would have to be made up by sales or excise increases on other goods or services. If sales or excise rates are increased at some future date, the possibility of implementing this reform should be thoroughly explored.

Assuming an urgent need for revenue, the policy issues involved in increasing the rate of the sales tax are clearly defined. The sales tax will produce the revenue, and the burden of the Colorado tax, per capita and in relation to income payments, ranks eighth among the eight Western State levies. At the same time, the sales tax does not conform to the ability principle, and actually hits the low- and medium-income groups harder than the higher-income classes. The decision to be made, therefore, is whether there are alternative sources, which are more acceptable from the standpoint of equity.

In the area of administration a more systematic and vigorous enforcement would undoubtedly produce a net increase in tax yields, and by lessening evasion would also reduce inequities as between taxed concerns. The most striking example in government of the old adage "penny wise and pound foolish" is provided by so-called economies in appropriations for tax administration. Such practice may be further characterized as a "tax subsidy to the tax evaders."

The General versus Retail Sales Tax. Adoption of a general sales tax covering retailing, wholesaling, manufacturing and processing and extractive industries other than agriculture would substantially increase yields even if moderate rates were employed in the case of non-retail activities. However, there are several serious objections to this form of tax. In the first place, it has a pyramiding effect upon the burden of the tax. Secondly, the total tax burden involved varies as between types of business and individual enterprises of the same class depending upon the degree of integration which exists in the production and distribution process. Finally, the administrative problem is enhanced through increasing the number of taxpayers and the necessity of distinguishing the nature of the new activities taxed for the purpose of applying differential rates. The existence of a substantial special severance tax on the oil industry in Colorado would also raise a question as to the appropriateness of imposing a general levy on this field of production. In view of the broad criticisms noted, a change to the general form of sales tax does not appear to be desirable.

CHAPTER IX

ALCOHOLIC BEVERAGE TAXES

A special excise tax is levied on the consumption of alcoholic beverages by the Federal government, all 48 states, the District of Columbia, and numerous municipalities. Public revenues in the form of excise taxes, license fees, import duties, and profits from state operated stores exceeded $4 billion in 1956. Of this total, $3,085 million was collected by the Federal government; $921 million by the states; and $91 million by local governments.[1]

States vary in considerable detail in the degree of control exercised over the sale of alcoholic beverages. Broadly classified, however, they fall into two groups. Thus, states which regulate the sale of alcoholic beverages by licenses and permits are considered license states, and states which have control over some phase of the marketing of alcoholic beverages are considered monopoly states. Most of the latter confine their operation to the sale of packaged liquor and allow private concerns to operate "on-sale" establishments, but there are, however, certain exceptions.

The Federal government and all license states (29 in number) levy a tax on distilled spirits, malt beverages, and wines. All of the non-license (monopoly and "dry") states levy a tax on malt beverages[2] and many of the monopoly states subject spirits and wine to an excise tax, generally as a percent of the retail selling price.

Trends in Consumption of Alcoholic Beverages in the United States

As can be seen from Table 9.1, per capita consumption of alcoholic beverages in the United States has historically been subject to marked fluctuations. These fluctuations are due to changing social attitudes, changing levels of national income, occurrence of national crisis and numerous other factors. In the middle of the 19th century per capita consumption of distilled spirits reached a total of 2.24 gallons annually, a rate that has not been reached since. By 1915, consumption declined to an annual per capita rate of 1.26 wine gallons.[3]

Following the repeal of prohibition, consumption of spirits occasionally neared or exceeded the pre-prohibition level; generally, however, consumption was less. In 1956, annual per capita consumption of spirits was 1.13 gallons. Per capita consumption of beer increased from a modest 1.58 gallons in 1850 to 18.4 gallons in 1915. Post-prohibition consumption of beer has tended to be lower than the 1915 rate; the trend being downward since 1950 or from 17.26 gallons in 1950 to 15.99 gallons in 1956. The consumption trend for wine has been less erratic than has the trend for spirits and beer consumption. With the exception of the prohibition era, the consumption of wine increased fairly steadily from 1850 to 1950, reaching, in the latter year, a per capita high of .93 gallons. Since that time the rate has declined slightly.

Table 9.1

Per Capita Consumption of Alcoholic Beverages in the United States, Selected Years, 1850-1956

Year	Spirits (gallons)	Malt liquors (gallons)	Wines (gallons)
1850	2.24	1.58	.27
1870	2.07	5.31	.32
1915	1.26	18.40	.33
1930	.08	0.00	.03
1940	1.02	12.58	.66
1945	1.22	18.86	.73
1950	1.02	17.26	.93
1951	1.23	16.97	.87
1952	1.00	16.94	.85
1953	1.10	16.79	.90
1954	1.12	16.68	.86
1955	1.07	16.13	.89
1956	1.13	15.99	.89

Source: U. S. Bureau of the Census, *Statistical Abstract of the United States: 1957*, p. 806.

Rationale of the Tax

A tax levied on the consumption of alcoholic beverages can reasonably be classified as a sumptuary excise since the traditional rationale for imposition of the tax has been to discourage the consumption of a product deemed undesirable by society. Liquor (as well as tobacco) has been considered detrimental to consumers

[1] Distilled Spirits Institute, *Public Revenues From Alcoholic Beverages* (Washington, D. C., 1957), p. 7.

[2] Oklahoma and Mississippi collect excise taxes on beer. They are nevertheless considered "dry" states because Oklahoma prohibits the sale of beverages in excess of 3.2 percent alcohol and Mississippi prohibits the sale of beverages in excess of 4 percent alcohol.

[3] Consumption data are usually understood to be in terms of a wine gallon which is a regular 128-ounce gallon. Tax rates, however, are often expressed in terms of a proof gallon which is one gallon of hundred proof (50 percent alcohol) liquor. Hence, a gallon of 200 proof liquor, which would be pure alcohol, would be two proof gallons.

and society but not "sufficiently objectionable to require outright prohibition."[4] If high taxes are to discourage consumption of a product, the assumption must be made that the tax which is levied on business firms will be shifted, at least in part, to the consumer in the form of higher prices, and that higher prices will discourage consumption. In view of the substantial revenues that have been derived from liquor taxes it would appear that consumption has not been significantly discouraged. It is, of course, impossible to say how much consumption would have occurred had the tax not been imposed.

Closely related to the sumptuary rationale is the reasoning that society incurs a "social cost" due to the consumption of alcoholic beverages and a tax should therefore be imposed to reimburse society for this cost.[5] In addition to providing a basis for the imposition of a tax on liquor, this concept also affords a justification for the imposition of dealer license fees. This is because the liquor industry is presumed to result in a greater social cost than most other industries. The fees are also considered to be justified on grounds that they provide operating revenue to cover costs of the control authority.

If consumption taxes are to be used by a taxing authority, it is often contended that luxuries—and liquor is presumed to fall within this category—should be taxed at a higher rate than necessities. A distinction between luxuries and necessities, however, is usually a manifestation of an individual's personal tastes rather than being founded upon a rational definitional base. The difference of opinion over luxuries and necessities has led to the contention that luxury taxes are arbitrary and discriminatory because they use personal-taste patterns as the basis of the distribution of the tax burden—an allocational method of questionable merit.

The most common indictment made against liquor taxes is that they are regressive, that is, a higher proportion of income is taken from the lower rather than the higher income groups. An additional regressive factor is the use of specific rates in the taxing of alcoholic beverages. This results in the consumer's incurring the same dollar tax burden irrespective of the selling price of the beverage.

Although the regressivity of the liquor tax is partially offset by the tendency for greater consumption in the higher income groups, it is generally agreed that the tax is regressive. Granting this regressivity, however, it has been argued that if the tax system is viewed in total it remains progressive since the regressive liquor tax is more than offset by the progressive income tax. Implicit in this justification is the belief that the income tax, by itself, is excessively progressive.

Consumption taxes, such as the liquor tax, are subject to the charge that there is a distortion in the allocation of resources which is not present when a tax such as the income tax is imposed. Although this indictment is valid, re-allocation of resources is the purpose of the tax since it is designed to discourage the consumption of liquor. An unexpected distortion may result however, because consumers may not curtail their purchases of liquor but instead curtail the purchase of the so-called necessities in order to meet the higher prices of liquor. However, if the purpose of a liquor tax is simply to yield revenue, the indictment of the tax on the score that it distorts resources is relevant as well as valid. Closely related to this charge is the contention that the tax system should not be used as a vehicle for influencing society's consumption patterns.

The sumptuary effectiveness of a tax will depend on the availability of substitutes for the product in question, that is, the price elasticity of the demand for the product. Contrary to this necessary elasticity, consumption of alcoholic beverages appears to be somewhat unresponsive to changes in price.[6] Although this characteristic is undesirable from a sumptuary viewpoint, it is quite desirable from a fiscal viewpoint because higher prices effected through the imposition of a tax will not result in curtailed purchases and contraction of the tax base and therefore tax revenue.

The consumption of alcoholic beverages also tends to be unresponsive to changes in aggregate income. Hence, the taxation of alcoholic beverages results not only in a lucrative but also a relatively stable source of revenue.

The liquor tax tends to have a greater deflationary impact than the income tax. If a certain amount of revenue is taken from consumer spending, the deflationary effect will be greater than if the same amount of revenue is taken from income, i.e. both spending and savings. However, the extent to which a liquor tax could act as an anti-inflationary force would be of minor significance.

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[4]John F. Due, "Federal Excise Taxation," *Bulletin of the National Tax Association*, December, 1947, p. 67.

[5]If it were possible to estimate the social cost resulting from the consumption of alcoholic beverages it would undoubtedly be considerable. A survey made in Denver in 1953 revealed that about 70 percent of the cases handled by the Denver police court involved charges of drunkenness. About 20 percent of the traffic court cases were for drunken driving. "The cost to the city of apprehending and identifying the defendants, of trying the cases and of incarcerating convicted offenders, is considerable." Budget and Personnel Office, City and County of Denver, *Financing Municipal Government in Denver* (Denver, 1956), p. 172.

[6]Although numerical estimates of elasticity are subject to methodological qualifications and are often of questionable value, the price elasticity of the demand for alcoholic beverages has been estimated at between minus 1.0 and minus 1.5. See J. P. McKenna and F. M. Boddy, "How Bad Are Liquor Taxes?", *Proceedings of the National Tax Association* (Louisville, Ky., 1953), p. 31.

It has been argued that consumption taxes broaden the tax base and therefore create a tax awareness which results in a check on extravagant government expenditures. Just the opposite effect appears to be true of liquor taxes, however, since they are levied indirectly and "hidden" in the price of the product. Although this taxing technique results in a tax unawareness, and possible extravagant expenditures, it is desirable from the standpoint of being relatively "painless" and therefore politically popular as well as meeting the test of convenience. This ease of payment also results in administrative ease, especially on the federal level where the tax is levied on manufacturers. Evasion of the tax through illegal production is considered the major administrative problem of the liquor tax.[7] This problem appears to be due more to the high federal rate than to the nature of the tax itself.

History of the Tax

Federal Liquor Tax. The Federal excise tax on distilled spirits was first levied in 1791 and was the "first form of internal duty laid in the United States."[8] Enactment of the duty was met with considerable hostility and led to the famous Whiskey Insurrection in 1794 in which President Washington ordered 13,000 militia to the scene of disorder. Suppression of the insurrection was considered to be the first sign of the emergence of a sovereign federal state.

An inadequate yield, excessive collection costs, and continued hostility to the tax, resulted in the repeal of the first liquor excise in 1802.[9] However, the liquor excise was again imposed during the War of 1812 but was repealed in 1817 after President Monroe, in his message to Congress, recommended the repeal of all internal taxes.

Alcoholic beverages were not subject to a tax from 1818 until 1862, when an excise tax was again imposed. Continued rate increases by Congress and failure to include floor stocks in the tax base resulted in legislative profiteering and the notorious "Whiskey Ring."

The anti-liquor movement led from extensive state-local option laws to state prohibitory laws and finally to the Eighteenth Amendment which prohibited the "manufacture, sale, or transportation" of intoxicating beverages. The effect of National Prohibition on the consumption of alcoholic beverages is debatable,[10] but the effect on liquor tax collections is certain since revenue fell from $483 million in 1919 to $9 million in 1932 (Table 9.2).[11]

Table 9.2

Federal Liquor Tax Revenues and Rates Selected Years, 1895-1956

Year	Total liquor tax revenues (millions)	Liquor tax revenues as percent of total tax revenues	Prevailing rate (per proof gallon)
1895	$ 112	34.5	$1.10
1900	183	32.3	1.10
1910	209	30.9	1.10
1919	483	9.4	6.40
1932	9	0.0	6.40
1935	411	10.8	2.00
1938	568	9.7	2.25
1940	624	11.6	3.00
1942	1,084	8.5	4.00
1944	1,618	3.7	9.00
1946	2,526	5.7	9.00
1948	2,255	4.9	9.00
1950	2,219	5.4	9.00
1952	2,549	3.7	10.50
1954	2,783	4.1	10.50
1956	2,921	4.4	10.50

Note: Years prior to 1938 chosen to show general trend and effects of prohibition.

Source: Revenue data for 1895-1944 taken from U. S. Bureau of the Census, *Historical Statistics of the United States, 1789-1945*, pp. 298, 302; data for 1944-1952 taken from U. S. Bureau of the Census, *Continuation to 1952 of Historical Statistics of the United States, 1789-1945*, p. 38; data for 1954 taken from U. S. Bureau of the Census, *Statistical Abstract of the United States, 1955*, pp. 350, 357, and data for 1955-1956 taken from U. S. Bureau of the Census, *Statistical Abstract of the United States, 1957*, pp. 363-368; rates for 1895-1932, Tun Yuan Hu, *The Liquor Tax in the United States 1791-1947*, Appendix II, and 1935-1956 rates taken from Distilled Spirits Institute, *Annual Statistical Review, 1957*, pp. 4-5.

In early 1933, legislators, carrying out campaign promises, first amended the Volstead Act by declaring that alcoholic beverages of no more than 3.2 percent alcohol were non-intoxicating and therefore not prohibited. Following this action a repeal amendment was passed by large majorities and sent to the states for ratification. In December, 1933, the required number of states ratified the amendment and the "noble experiment" joined other national prohibition attempts and became history.[12]

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[7]See the roundtable discussion, "The Federal Whiskey Tax Rebellion," *Proceedings of the National Tax Association* (Louisville, Ky., 1953), pp. 3-40, for a complete discussion of the extent of illicit liquor traffic in the United States.

[8]Tun Yuan Hu, *The Liquor Tax in the United States, 1791-1947* (Graduate School of Business, Columbia University: New York, 1950), p. 11.

[9]The tax yielded only $3.6 million in its 10 years of operation and over $1 million was expended in suppressing the Whiskey Insurrection. The wide dispersment of taxpayers resulted in a collection cost of about 20 percent over the 10-year period. See Hu, *Ibid.*, pp. 30-32.

[10]One estimate places the per capita consumption rate in 1930 at approximately one-third of the 1914 level. See Department of Justice, "Possible Production of Illegal Liquor in the United States for the Fiscal Year Ending June 30, 1930," (Senate Document No. 3.7, 71st Congress, 3rd Session), Vol. I, pp. 117-47. Another study reached the conclusion that prohibition decreased liquor consumption by approximately one-third. See Clark Warburton, *The Economic Results of Prohibition* (Columbia University Press: New York, 1932), p. 260.

[11]A tax was imposed on the production of alcohol which was for non-beverage use during prohibition.

[12]For an economic interpretation of the prohibition movement see Louis M. Hacker, "Rise and Fall of Prohibition," *Current History*, 36:622-73, 1932.

Although the liquor control problem became the responsibility of the states following repeal, the federal government continued to obtain large sums of money from the taxation of alcoholic beverages. As can be seen from Table 9.2, increased rates were a contributory factor in the trend of increasing liquor tax collections. Rates were increased from $2 per gallon in 1935 to $10.50 per gallon in 1952. The resulting revenues increased from $411 million in 1935 to $2.9 billion in 1956. The liquor tax occupied an important position in federal finance at the turn of the century, accounting for approximately thirty-three percent of total tax revenues (Table 9.2). In recent years the liquor tax has become relatively less important, accounting for only 4.4 percent of total tax revenues in 1956.

State Liquor Taxes. Prior to adoption of the Eighteenth Amendment, states, counties, and municipalities collected considerable amounts of revenue from the imposition of liquor license fees or occupation taxes but the field of excise taxation was left to the federal goverment. As noted above, when the Twenty-First Amendment was adopted, liquor control became a state problem. Extensive use of excise taxes by the states quickly followed. Many license states, anticipating repeal of the Eighteenth Amendment, had removed state constitutional restrictions and established liquor control systems prior to repeal. When ratification of the Twenty-First Amendment was announced on December 5, 1933, the sale of all alcoholic beverages became legal and a tax was immediately imposed in thirteen license states. Following the imposition of a tax in these states in 1933, 5 more license states adopted a liquor tax in 1934, 6 more in 1935, 3 more between 1936 and 1939, and finally the last one in 1949. The year of adoption of the tax by the various states as reported in the Distilled Spirits Institute, *Annual Statistical Review, 1957,* is summarized below:

1933		
Arizona	Delaware	New Jersey
California	Indiana	New Mexico
Colorado	Maryland	New York
Connecticut	Massachusetts	Rhode Island
		Wisconsin
1934		
Florida	Kentucky	Minnesota
Illinois	Louisiana	Missouri
1935		
Arkansas	Nevada	South Dakota
Nebraska	South Carolina	Texas
1936		
North Dakota		
1938		
Georgia		
1939		
Tennessee		
1949		
Kansas		

Hence, 25 of the 29 license states which presently impose an excise tax on alcoholic beverages adopted the tax between 1933 and 1935.

Although twenty-eight states adopted the license system of liquor control when prohibition was repealed, seventeen states elected the monopoly method of liquor control while three states remained "dry."[13] The adoption of monopoly systems by certain states can be explained partly in terms of their nearness to Canada where this form of control was in use. As can be seen in Chart 9.1, of the states bordering Canada only 3 did not elect the monopoly control method, namely North Dakota, Minnesota, and New York. The pattern of liquor control systems established in the 1930's has remained unchanged. No license states have become monopoly states, although this change has occasionally been suggested, nor have any monopoly states become license states.[14] With repeal of the Eighteenth Amendment and the adoption of excise tax systems in numerous states, liquor taxes and license fees became an important source of revenue for state and local governments. The revenue obtained by the states from this source amounted to approximately $.5 billion in 1942, $.8 billion in 1950, and over $1 billion in 1956.[15]

Liquor Tax in Colorado—Revenue Trends. In 1932, the Colorado electorate approved a Constitutional Amendment which repealed previous liquor laws and legalized the sale of alcoholic beverages, subject to the U. S. Constitution. In August, 1933, the legislature enacted a hastily drawn liquor control act. Hence, with the ratification of the Twenty-First Amendment to the Federal Constitution,[16] the sale of alcoholic beverages became legal in Colorado and an excise tax was immediately effected.

Revision of defective provisions of the 1933 liquor control law was undertaken in 1934. Numerous inconsistencies in the 1933 law led to its repeal and the enactment of a completely new law in 1935. The "Liquor Code of 1935" remains the law under which liquor traffic is controlled in Colorado.

Revenues from Colorado liquor taxes increased from 1936 until 1946 (Table 9.3). Although revenues from this source decreased in 1950 they were near the 1946 level in 1957. It can be seen in Table 9.3 that spirits have tended to increase in importance, beer has remained

[13]Kansas remained "dry" until 1949 at which time it became a license state.

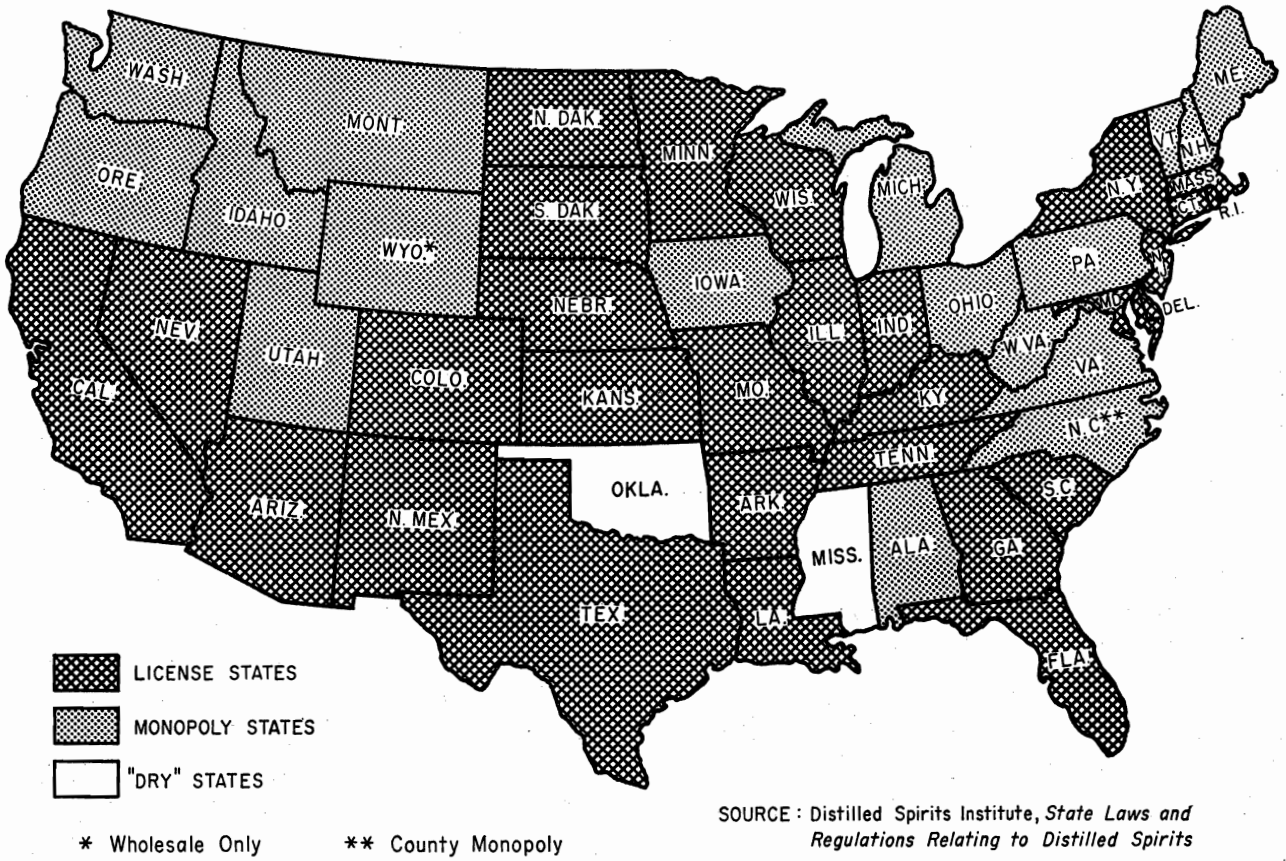
[14]A more complete discussion of the monopoly method of liquor control will be found in a later section of this Chapter.

[15]Distilled Spirits Institute, *Public Revenues, op. cit.,* p. 7.

[16]Colorado was the twenty-sixth state to ratify the Twenty-First Amendment. The vote on the ratification question was 133,906 in favor of repeal and 63,089 against it. See Hal Hagen, "Liquor Control by the Colorado License System" (Unpublished Master's Thesis, Colorado University, 1948), p. 55.

LIQUOR CONTROL SYSTEMS IN THE UNITED STATES

1957



SOURCE: Distilled Spirits Institute, *State Laws and Regulations Relating to Distilled Spirits*

CHART 9.1

fairly stable with the exception of the immediate post war period, and wine has tended to decline in importance.

Prior to 1936, thirty-five percent of the liquor revenue was apportioned to the general welfare fund, 60 percent to the General Fund, and 5 percent to the State Licensing Authority for administrative expenses. Revenue from locally issued licenses were retained locally.[17] With the adoption of a 1936 constitutional amendment, however, 85 percent of all revenues collected from liquor sources was earmarked for the Old Age Pension Fund.

[17] *Ibid.*, p. 105.

Table 9.3

Excise Tax Revenues from Spirits, Beer, and Wine in Colorado, Selected Calendar Years, 1936-1957

Year	Revenues from spirits (thousands)	Percent of total	Revenues from beer (thousands)	Percent of total	Revenues from wine (thousands)	Percent of total	Total alcoholic beverage revenues (thousands)
1936	$1,738	75.7	$317	13.8	$241	10.5	$2,296
1941	1,819	75.9	344	14.4	233	9.7	2,396
1945	3,096	81.4	483	12.7	227	6.0	3,805
1946	4,027	83.2	513	10.6	302	6.2	4,843
1950	3,182	78.7	603	14.9	256	6.3	4,041
1955	3,273	78.5	625	15.0	269	6.4	4,168
1956	3,648	80.3	628	13.8	269	5.9	4,545
1957	3,637	80.4	624	13.9	264	5.8	4,525

Source: Unpublished report, State of Colorado, Department of Revenue, "Alcoholic Beverages—Tax Revenue and Consumption in Colorado," p. 3.

Total per capita revenue from taxes on alcoholic beverages reached $3.54 in 1946 (Table 9.4). Since that time the per capita burden of each type of alcoholic beverage has followed a general downward trend.

Table 9.4

Per Capita Revenue from Alcoholic Beverages in Colorado, Selected Calendar Years, 1941-1957

Year	Spirits	Beer	Wine	Total
1941	$1.61	$.31	$.21	$2.13
1945	2.71	.42	.20	3.33
1946	3.54	.45	.27	4.26
1950	2.40	.46	.19	3.05
1955	2.12	.40	.17	2.69
1956	2.26	.39	.17	2.82
1957	2.17	.37	.16	2.71

Source: Unpublished report of the State of Colorado, Department of Revenue, "Alcoholic Beverages—Tax Revenue and Consumption in Colorado," p. 4.

Per capita consumption of alcoholic beverages in Colorado reached a peak in 1946 which has not been reached since. It can be seen from Table 9.5 that per capita consumption of spirits and beer has increased since 1941 but 1946 remains the highpoint. Recent per capita wine consumption has been below both the 1941 and 1946 levels.

Table 9.5

Per Capita Consumption of Alcoholic Beverages in Colorado, Selected Calendar Years, 1941-1957
(gallons)

Year	Spirits	Beer	Wine	Total
1941	1.01	10.20	.92	12.13
1945	1.69	14.05	.89	16.63
1946	2.21	15.04	1.20	18.45
1950	1.50	15.16	.89	17.55
1955	1.32	13.49	.82	15.63
1956	1.42	12.98	.79	15.19
1957	1.36	12.44	.76	14.56

Source: Unpublished report, State of Colorado, Department of Revenue, "Alcoholic Beverages—Tax Revenue and Consumption in Colorado," p. 4.

Use of the Tax by Colorado and Other States

Since license states and monopoly states are not comparable, the following discussion will be confined to license states. Monopoly states will be discussed in a later section of this Chapter.

Liquor revenues are collected by the states in the form of an excise tax on the sale of alcoholic beverages and license fees (discussed in a later section) levied on liquor manufacturers, wholesalers, and retailers. In addition to these two forms of revenue, 16 of the 29 license states include alcoholic beverages in their sales tax base.[18] It can be seen from Table 9.6 that this inclusion results in a substantial yield in some states, especially California and Illinois. A total of approximately $34.6 million was collected in 1956 or an average per capita amount of $1.34. These amounts do not include collections from five states for which data were not available.

Of the 13 license states which do not presently include alcoholic beverages in a sales tax base, 9 do not have a sales tax. Therefore, there are only 4 license states which have a general sales tax and exclude alcoholic beverages from the sales tax base—Colorado, Florida, North Dakota and South Dakota.

The common practice of including alcoholic beverages in the sales tax base as well as subjecting it to a special excise tax would seem to be inequitable on the grounds of double taxation. However, since taxes are paid out of income it is the effective aggregate rate on a given commodity, not the number of taxes levied on the commodity which is significant. In most states where alcoholic beverages are included in the sales tax base, the combined effect of the two levies is usually taken into consideration when establishing an excise tax rate.[19] For this reason comparison of rates and burdens between states is more meaningful if the sales tax yield of alcoholic beverages in the various states is taken into consideration.

Table 9.6

General Sales Tax Revenues from Sale of Alcoholic Beverages, Eleven License States, 1956[a]

State	General sales tax revenues (thousands)	Per capita revenues	Sales tax rates (percent)
Arizona	$ 1,100	$1.04	2
Arkansas	1,000	.55	3
California	50,800	3.78	state 3 local 1
Connecticut	2,925	1.31	3½
Georgia	3,953	1.06	3
Illinois	16,992	1.80	2½
Kansas[b]	917	.44	2
Maryland	2,425	.86	2
New Mexico	1,665	2.04	.125—2
Rhode Island	800	.97	2
South Carolina	1,983	.84	3
Average	—	1.34	—

[a] Indiana, Louisiana, Missouri, Nevada and Tennessee also collect revenues from the inclusion of alcoholic beverages in the sales tax base. Mississippi, a "dry" state, includes beer in the sales tax base and collected over $1 million from this source in 1956.
[b] 2% Retail Liquor Sales Enforcement Tax applicable to alcoholic beverages over 3.2 percent alcohol.

Source: Distilled Spirits Institute, *Public Revenues from Alcoholic Beverages, 1956*, pp. 11, 16-61.

The common charge of regressivity made against alcoholic beverage taxes is somewhat mitigated if liquor is included in the general sales tax base. However, the extent to which the regressivity of a high excise tax can be mitigated by a low sales tax is, of course, slight.

In terms of revenue producing considerations, inclusion of liquor in the sales tax base has much to commend it. If a specific rate is utilized,

[18] Seven of the 17 monopoly states also include alcoholic beverages in their sales tax base. This inclusion yields an estimated $18 million, or an average per capita collection $.84. See Distilled Spirits Institute, *Public Revenues, op. cit.*, pp. 11, 14-15.

[19] Don E. Dickey, *Alcoholic Beverage Taxation in Florida* (Florida Citizens' Tax Council: Tallahassee, 1956), p. 16.

increased revenues are due either to increased consumption, increased rates, or both. However, if a general sales tax is used, revenues will increase not only with increases in consumption or rates but also with increases in the price level.

An estimate of the potential revenue which could be effected by inclusion of liquor in the sales tax base in Colorado will be discussed in a later section of this Chapter.

Alcoholic beverages manufactured locally are often taxed at a lower rate than beverages imported into the state. Michigan and Missouri have even been able to enforce an embargo on the importation of liquor from certain states.[20] It would seem that such interference with interstate commerce would violate the commerce clause of the U. S. Constitution. However, the Twenty-First Amendment has been interpreted as superseding the commerce clause—"Each state is a sovereignty in its own right."[21] The wisdom of permitting this clause to be ignored may be questionable but nevertheless, "state trade barriers with regard to liquor are legal practically without limit."[22]

Tax Rates and Revenues in the States. The various alcoholic beverage tax rates in each of the license states is shown in Table 9.7. The average liquor tax rate for the 29 license states in 1957 was $1.59 per gallon. Colorado's rate of $1.60 per gallon was nearly identical to the average rate for the 29 states, but slightly above the median rate. It can also be seen that Minnesota employs the highest rate of $2.75 per gallon while South Dakota employs the lowest rate of $.75 per gallon. Eleven states employ a higher rate on spirits than Colorado while seventeen states employ a lower rate.

Wine rates, follow the general pattern of alcoholic beverage tax rates, and are graduated according to alcoholic content. A distinction is frequently made between light wine and fortified wine. Generally, light wine contains less than 14 percent alcohol and fortified wine more than 14 percent alcohol.[23] Wine of more than 24 percent alcohol, which is unusual, is taxed at a higher rate or it is taxed under the same rates as spirits. The average rate for light wines in 1957 was $.29 per gallon, while the median rate was $.20 per gallon (Table 9.8).

Table 9.7

Alcoholic Beverage Tax Rates: 29 License States, 1957

State	Spirituous liquor (per gallon)	Wine[a] Light (per gallon)	Wine[a] Fortified (per gallon)	Beer (per gallon)
Arizona	$1.20	$ .36	$ .36	$.075
Arkansas	2.50	.75[b]	.75[b]	.156
California	1.50	.01	.02	.020
Colorado	1.60	.12	.24	.030
Connecticut	1.00	.10	.10[c]	.032
Delaware	1.15	.35	.35	.065
Florida	2.17	1.00[d]	1.40[d]	.240
Georgia	1.00[e]	.20	.50[f]	.300
Illinois	1.02	.15	.40	.040
Indiana	2.08	.40	.40	.088
Kansas	1.00	.15	.40	.100
Kentucky	1.28	.50	.50	.081
Louisiana	1.68	.11	.21	.323
Maryland	1.50	.20	.20	.030
Massachusetts	2.25	.30	.30	.065
Minnesota	2.75	.22	.66[g]	.071[h]
Missouri	.80	.02	.10	.020
Nebraska	1.20	.20	.55	.040
Nevada	.80	.15	.25	.030
New Jersey	1.50	.10	.10	.033
New Mexico	1.30	.28	.28	.050
New York	1.50	.10	.10	.033
North Dakota	2.50	.50	.60[i]	.160[i]
Rhode Island	2.00	.20	.20	.034
South Carolina	2.72	.90	.90	.375
South Dakota	.75	.15	.30[k]	.073[l]
Tennessee	2.00	.70	.70	.110
Texas	1.41	.11	.22	.140[m]
Wisconsin	2.00	.10	.20	.032
Average	1.59	.29	.39	.098
Median	1.50	.20	.30	.065

[a] For purposes of this table, light wine is wine containing not more than 14 percent alcohol and fortified wine is wine containing more than 14 percent alcohol. Wine classifications for tax purposes vary among states.
[b] Domestic wines, 5 cents.
[c] Over 21 percent alcohol, 25 cents.
[d] Manufactured in Florida; light wines, 20 cents, fortified wines, 30 cents.
[e] $.50 if manufactured in Georgia.
[f] Domestic only. Light foreign wine $1, fortified foreign wine $2.
[g] 21 percent to 24 percent alcohol, $1.32.
[h] Less than 3.2 percent alcohol, $.035.
[i] 21 percent to 24 percent alcohol, $.80.
[j] Over 4 percent alcohol, $.20.
[k] 21 percent to 24 percent alcohol, $.60.
[l] Plus 10 percent of receipts for sale thereof.
[m] Malt liquor over 4 percent, $.165.

Source: Compiled from Commerce Clearing House, *State Tax Guide, All States*, pp. 3521-3584.

The median rate is probably a more meaningful measure of central tendency, since several states such as Florida, South Carolina, and Tennessee have extremely high rates which distort an arithmetic average. Colorado's rate of $.12 per gallon for light wine was substantially below the median rate of $.20 for the 29 states. Although fortified wine is often taxed at a higher rate than light wine, occasionally it is taxed at the same rate. The 29-state average rate for fortified wine was $.39 per gallon, and the median rate was $.30. Again the median rate seems to be a more meaningful measure of central tendency. The median rate of $.30 per gallon was 25 percent greater than Colorado's rate of $.24 per gallon.

Beer rates vary widely from a high of $.375 per gallon in South Carolina in 1957 to a low of $.02 in California. A few unusually high rates

[20] Richard W. Lindholm, *Public Finance and Fiscal Policy* (Pitman Publishing Co.: New York, 1950), p. 460.

[21] Council of State Governments, *Preliminary Report on Interstate Cooperation in Liquor Legislation*, 1938, p. 1.

[22] Robert C. Brown, "The Legal Aspects of Trade Barriers," *Bulletin of the National Tax Association*, January, 1940, p. 11. Also see L. H. Kimmel, "Economic Effects of Sales and Excise Taxes," *Proceedings of the National Tax Association* (Toronto, 1952), pp. 650-658; and, Earl R. Rolph, "Interregional Trade and State Excise Taxes," *National Tax Journal*, 8:388-92, December, 1955.

[23] These classifications are not uniform in all states. For example, several states, including Colorado, use the terms "dry" and "sweet."

distort the average of $.098. Colorado's rate of $.03 is less than half the median rate of $.065 for the 29 states.

Table 9.8

Alcoholic Beverage Tax Revenues: 29 License States, 1956

(Rank order of states in parenthesis)

State	Total liquor tax revenues (thousands)	Per capita liquor tax revenue[a] Exclusive of sales tax on liquor	Includes sales tax on liquor	Liquor tax revenues as percent of total tax revenues
Arizona	$ 2,786	$2.64(24)	$3.68[b](17)	2.5(27)
Arkansas	5,725	3.15(17)	3.70[b](16)	4.9(11)
California	38,992	2.90(20)	6.68[b](2)	2.5(26)
Colorado	4,354	2.70(23)	2.70 (26)	3.0(24)
Connecticut	7,039	3.15(16)	4.46[b](9)	3.4(20)
Delaware	1,549	3.85(9)	3.85 (14)	3.2(21)
Florida	34,606	9.18(1)	9.18 (1)	10.3(1)
Georgia	19,096	5.14(4)	6.20[b](4)	6.5(5)
Illinois	26,262	2.78(22)	4.58[b](8)	4.1(15)
Indiana	13,797	3.13(18)	3.13[c](24)	4.9(12)
Kansas	4,951	2.35(25)	2.79[b](25)	3.1(22)
Kentucky	13,063	4.33(8)	4.33 (11)	7.6(2)
Louisiana	17,804	5.93(2)	5.93[c](5)	5.2(10)
Maryland	8,784	3.12(19)	3.98[b](13)	3.5(19)
Massachusetts	23,778	4.94(5)	4.94 (6)	6.2(6)
Minnesota	15,239	4.70(6)	4.70 (7)	5.4(9)
Missouri	5,972	1.40(29)	1.40[c](29)	2.3(28)
Nebraska	2,626	1.86(28)	1.86 (28)	3.5(18)
Nevada	858	3.47(12)	3.47[c](20)	2.9(25)
New Jersey	18,814	3.48(11)	3.48 (19)	7.3(3)
New Mexico	1,761	2.16(27)	4.20[b](12)	2.0(29)
New York	51,487	3.18(15)	3.18 (23)	5.8(7)
North Dakota	2,869	4.37(7)	4.37 (10)	5.7(8)
Rhode Island	2,322	2.80(21)	3.77[b](15)	3.8(17)
South Carolina	12,798	5.44(3)	6.28[b](3)	7.2(4)
South Dakota	2,325	3.34(13)	3.34 (21)	4.8(13)
Tennessee	7,642	2.20(26)	2.20[c](27)	3.1(23)
Texas	28,732	3.22(14)	3.22 22)	4.6(14)
Wisconsin	13,168	3.50(10)	3.50 (18)	4.0(16)

[a] Based on population estimates of the U. S. Bureau of the Census as of July 1, 1956 as presented in *Survey of Current Business*, August, 1957.

[b] States which include alcoholic beverages in their sales tax base.

[c] Includes alcoholic beverages in sales tax base, but data are not avail-

Source: Adapted from U. S. Bureau of the Census, *Compendium of State Government Finances in 1956*, pp. 11-12, and Distilled Spirits Institute, *Public Revenues from Alcoholic Beverages 1956*, pp. 14-15.

From a viewpoint of comparative rates on alcoholic beverages, Colorado's rate on spirituous liquor would seem to be comparable to other license states. However, Colorado's rates on light wine, fortified wine, and beer appear to be substantially below the average rate for the license states and considerably below the median.

In the case of alcoholic beverage taxes, an interstate comparison of tax rates is not necessarily indicative of the relative liquor tax burdens among the states since some states, as mentioned earlier, include alcoholic beverages in the sales tax base.

It can be seen from Table 9.8 that several states collected substantial revenues from taxes on alcoholic beverages in 1956. In terms of per capita collections, exclusive of sales tax revenue from liquor, Florida had the highest rate, $9.18, while Missouri had the lowest rate, $1.40. Colorado's per capita rate of $2.70 was substantially below the average per capita rate of $3.60.

Interstate comparison of relative tax burdens tends to be more meaningful if per capita collections reflect the revenue from alcoholic beverages due to the sales tax, as well as from the liquor tax. On this basis Colorado's rate of $2.70 was considerably lower than the average for the license states, $4.11. This low rate ranked Colorado 26th, only three states having a lower relative burden.

Further examination of Table 9.8 shows that the fiscal significance of the liquor tax varied widely from state to state in 1956—from 10 percent of total tax revenue in Florida to 2 percent in New Mexico. Colorado's liquor tax collections amounted to approximately 3 percent of total tax revenue which placed Colorado somewhat below the average of 4.6 percent for the 29-license states.

In summary, Colorado's tax burden is below the 29-state average if total liquor taxes on a per capita basis are compared. If sales tax collections due to liquor sales are included, Colorado is substantially below the average. In addition, the liquor tax in Colorado is of less relative importance in the over-all revenue structure than is the case in most of the 29 states.

Administration of the Tax in Colorado. Excise taxes on alcoholic beverages and license fees are administered in Colorado by the Liquor License Division, which is under the Secretary of State. Prior to 1941, the enforcement and revenue collecting functions were performed by one agency. Since that time, however, the revenue collection function has been performed by the Revenue Department, while the Liquor License Division is responsible for administration of the Colorado Liquor Code as well as the Colorado 3.2 Beer Act. The latter agency maintains a daily perpetual inventory of alcoholic beverages within the State and is therefore able to determine the alcoholic beverages which are subject to the tax. This separation of enforcement and collection functions appear to be quite effective.

Collection costs incurred by the Liquor License Division have been approximately 4 percent of total collections.[24] This ratio compares favorably with the hypothetical 2-5 percent criterion of a "good tax." The costs incurred by the Revenue Department however, are not included. These costs appear to be small since most of the administration of the liquor tax is performed by the Liquor License Division.

One of the major administrative problems associated with the liquor tax is the evasion encouraged by high rates. The most common form of evasion is illegal production which appears to

[24] Colorado Liquor License Division, *Annual Report, 1957*, p. 4.

be largely confined to the southeastern United States, and is of little significance in Colorado.[25]

The purchase of out-of-state liquor made in order to take advantage of lower tax rates proposes an additional evasion problem. For example, it is reported that some purchases of liquor are made in Iowa by Minnesota residents in order to avoid the higher tax in Minnesota.[26] Because of rates in surrounding states and the geographical location of municipalities in Colorado, this problem does not appear to be of significance in the State.

From a viewpoint of state revenues the most serious form of evasion is bootlegging or the sale of alcoholic beverages on which there has been no tax paid. The propensity to engage in illicit liquor traffic is strengthened by high tax rates. An effective method for eliminating extensive bootlegging is the stamping requirement used by Colorado and 32 other states whereby stamps are purchased by liquor dealers and affixed to the bottles. A field investigator is then in a position to check a given inventory to see that the tax has been paid.[27] An alternative administrative procedure which could be adopted in Colorado would be to utilize a reporting system of enforcement similar to that presently used in the case of beer. Such a system would result in some savings to the State and would relieve merchandisers of the expense involved in purchasing, affixing, and cancelling the stamps. It should be noted, however, that a system appropriate for beer may not be appropriate for spirits. For example, the State tax on a case of beer is less than $.07, while the tax on a case of spirits amounts to $4.80.

Colorado Municipalities. License fees are collected from liquor retailers in Colorado by both the state and municipalities in which the vendors are located. Prior to 1936, license fees were collected locally and also retained by the localities. However, in 1938, the Supreme Court held that the Old Age Pension earmarking amendment, passed in 1936, applied to locally collected liquor license fees as well as to state license fees. Hence, 85 percent of the license fees collected locally for the State became earmarked for the Old Age Pension Fund. Colorado municipalities now retain only 15 percent of the state license fees they collect.

Having lost this source of revenue, but still faced with costs associated with the sale of alcoholic beverages, several municipalities levied an occupation tax on liquor retailers.[28] In 1949, this type of ordinance was held not to be in conflict with Article XXII of the Constitution, which provides for exclusive state control of alcoholic beverages, as long as the ordinance was for revenue purposes and not for regulatory purposes. Since that time numerous municipalities have adopted an occupation tax on liquor dealers. In 1954, Colorado municipalities collected approximately $127,000 from this source.[29]

A Colorado municipality presently has the right of local option, that is, the legal ability to exempt itself from the state liquor law thereby effecting a "dry" municipality. Although many other states grant local option provisions to other governmental jurisdictions such as counties, Colorado's local option extends only to municipalities. Attempts have been made in Colorado in the past to have local option extended to counties, election wards, and precincts but without success. There is undoubtedly some fear that local option will be used as a vehicle for state prohibition as it was in the period immediately preceding national prohibition.

Beer of no more than 3.2 percent alcohol is exempted from local option provisions on the grounds that it is non-intoxicating. Although it is legally non-intoxicating, it is nevertheless denied to persons under 18 years of age.

Use of Liquor Licenses by Colorado And Other States

Historically, the issuance of liquor licenses has been for the purpose of offsetting the costs incurred by governments in exercising control over the liquor industry. The "special benefit" nature of non-tax revenues is especially applicable to liquor licenses and has been well summarized by William H. Anderson.[30]

> It can be considered, therefore, that the principal distinction between non-tax revenues and taxes lies in the degree of *general benefit* as contrasted with *special benefits.* The charges may be called taxes when the general benefit is the outstanding feature, and they may be referred to as non-tax revenues when the special benefit is most significant.

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[25]In 1953, 93 percent of the stills and mash seized by the Federal government were in states south of the Ohio River and east of the Mississippi River. See McKenna and Boddy, "How Bad Are Liquor Taxes?",*op. cit.*, p. 36. See the same volume for statements by representatives of the liquor industry that illegal production is widespread and not confined to the southern states.

[26]E. B. Schmidt, "Selective Sales Taxes," *Proceedings of Conference on State and Local Tax Systems* (Laramie, Wyoming, 1957), p. 70.

[27]H. C. Wilson of the Liquor License Division reports that the Colorado stamping requirement has been quite effective in curtailing the sale of liquor on which the tax has not been paid, and that abandonment of the requirement would create a serious enforcement problem.

[28]For a sample ordinance levying such an occupation tax see Hal Hagen, "Municipalities and Liquor License Fees," *Colorado Municipalities,* April, 1946, pp. 63-66.

[29]Colorado Municipal League, *Selected Non-Property Revenues of Colorado Cities and Towns* (Boulder, 1955), pp. 3-5.

[30]William H. Anderson, *Taxation and the American Economy* (Prentice-Hall, Inc.: New York, 1951), p. 489.

Licenses, in addition to being used to obtain revenue to cover costs of administration, are often used to control the number and character of licensees as well as to encourage local manufacture of alcoholic beverages.

One of the problems associated with the licensing of liquor retailers is the resulting restriction of licenses issued. This restriction is due to the pressures exerted by the liquor dealers, who desire to achieve a partial monopoly position, and by those groups and individuals who wish to avoid having liquor dealers become ubiquitous.

If it is in the public interest to restrict the number of liquor dealers, the inevitable consequence is the accruing of a monopoly profit. Although this monopoly profit, effected by the government, presently accrues to the liquor dealers, it could reasonably be argued that this profit should accrue to the state to be enjoyed by the general public. This shifting of the monopoly benefits to the general public could be achieved in one of two ways. The first, and the one most difficult to achieve, would be for the government to adopt a monopoly control system. The second alternative would be the adoption of substantially higher license fees (replacing the present system) which would have the effect of reducing the number of liquor dealers—an objective which is presently achieved by legal requirement. A slight alteration of the second method would be to issue licenses on a competitive basis, that is, licenses would be issued to the highest bidders. This technique, of course, has the inherent danger of collusive bidding.

Although the present situation of allowing monopoly profits to accrue to the liquor dealers does not seem equitable to the general public, it is somewhat mitigated by the lack of knowledge as to the extent of monopoly profits realized.

License fees vary substantially in the states since the objectives for issuing the license vary. Higher fees are usually paid by distillers than by wholesalers. Wholesalers in turn usually pay higher fees than retailers. Off-sale liquor stores generally enjoy a lower rate than on-sale establishments. Because of this wide variation in license fees, a valid interstate comparison is extremely difficult. In addition, there is wide difference in the types of licenses issued. Some states, such as Colorado, issue licenses which allow the retailer to sell only 3.2 percent beer. Many states do not distinguish between so-called "light" beer and regular beer.[31]

Another example of dissimilar privileges applying to licenses is the prohibition in some states of an on-sale dealer making package sales. Even if a valid interstate comparison of license fees could be made, the desirability or usefulness of such a comparison is questionable.

If one state is to be compared to another, it would have to be assumed that the two states had similar motives, that is, one was not encouraging the liquor industry while the other was restricting it. Likewise, it would have to be assumed that costs within the states were not dissimilar if license fees were levied to support the cost of regulatory agencies. Or, if a state wishes to use its license system as a source of revenue or as a vehicle to capture monopoly profits, it must measure its license system in those terms rather than using the rates in other states.

Colorado's 1957 license rates are shown in Table 9.9. Since the fee for "off-sale" retailers was only $200 annually and the fee for "on-sale" retailers[32] (hotels and restaurants) are only $350, there is little evidence that the State is attempting to capture monopoly profits.

Table 9.9

Alcoholic Beverage License Rates in Colorado, 1957

Type of licensee	License issued by State	License issued by locality[a]
A. Alcoholic Beverages		
Brewery or winery	$ 250	—
Distiller or rectifier	1,000	—
Beer wholesaler	500	—
Wine or spirits wholesaler	1,000	—
Retailers and drug stores	50[b]	$150
Railroad cars	25	—
Hotels and restaurants	25	325
Clubs	25	100
B. Beer and Wine Only		
Hotels & restaurants	$ 25[b]	$150
Resort hotels	200	—
C. 3.2% Beer Only		
Manufacturers and wholesalers	$ 100	—
Retailers	25[b]	$ 25

[a] 85% of license fees collected by municipalities and counties accrues to the State.
[b] If establishment is not located within a locality, an additional fee is collected.

Source: Commerce Clearing House, *State Tax Reporter: Colorado, 1956*, pp. 3591-92.

The object of Colorado's license fees seems to be that of covering costs incurred by the State liquor authority. Costs incurred by the Liquor License Division in 1957 were approximately $202,000 while license fee collections by the State were $219,000.[33]

[31] "Light beer" is the result of the modification of the Volstead Act by Congress prior to repeal of prohibition. It was held that beer of no more than 3.2 percent alcohol was non-intoxicating and could therefore be sold. Several states took this reasoning out of the context of the times in which it originated and held that since 3.2 percent beer is legally defined as non-intoxicating, it could be sold to minors between the ages of 18 and 21. Colorado and only six other states have taken this position.

[32] When prohibition was repealed it was hoped that the return of the old time saloon could be avoided. Some states, such as Colorado, prohibited by law the issuance of a license to saloons. Licenses in Colorado are issued to "restaurants." To contend that neither "saloons," "taverns," nor "bars" exist in Colorado is a matter of definition.

[33] *Annual Report of the Liquor License Division, 1957*, p. 3.

The Monopoly Method of Liquor Control

The philosophy of the Volstead Act rested on the contention that the consumption of alcoholic beverages in any form, of any strength or quality, was detrimental and objectionable, if not actually sinful.[34] As the unenforceability of complete national abstinence became apparent, a theory of neutrality replaced the prohibition philosophy. When the problem of liquor control was turned over to the states, this position of general neutrality was evidenced by most states' allowing the sale and consumption of alcoholic beverages but at the same time determined not to allow return of the saloon with its accompanying social problems.[35]

Some states, more determined than others to avoid the problems of the pre-prohibition days, adopted the monopoly method of liquor control. The reasons for adoption of a monopoly system by 17 states are numerous, and the fear of some states that if a license system were adopted a change-over at some future date would be impossible appears to have been well founded. The pattern of liquor control was rigidly established in the 1930's; all of those states adopting the license technique have retained it and all of those states adopting the monopoly technique have retained it. The only change in recent years was the change-over by Kansas in 1949 from a dry state to a license control state. The advantages claimed for the monopoly method of control are primarily of a social control nature but revenue considerations are often significant. It is claimed that the monopoly method can better maintain the marketing of alcoholic beverages in a climate of neutrality, even though the control in most monopoly states extends only to operations of package liquor stores.[36] It is argued that the monopoly method can establish neutrality by removing the profit motive inherent in the license system, and by exercising strict control over the number of licenses issued, the hours of sale, the extent of advertising, pricing policies, and the quality of merchandise.[37] Another advantage appears to be the more effective control of under-age drinking. Michigan, for example, requires that all persons between the ages of 21 and 25 secure an age identification card which must be shown when intoxicating beverages are purchased. The license system has in some cases been able to achieve as effective a control as the monopoly system and there seems to be some agreement that, ". . . as to the effectiveness of monopoly control measures, no definite conclusion can be drawn."[38]

The revenue considerations involved in the monopoly system of liquor control are less subject to disagreement than the control considerations. The greater revenues received by the monopolies have been observed by numerous writers, and it has been pointed out that these revenues are often the result of public profit motive replacing profit motive and a policy of neutrality thereby being ignored. Greater revenues do not necessarily imply that the state is encouraging the consumption of alcoholic beverages, however. If a policy of attempting to capture monopoly profits is followed, substantial revenues would be effected. Another possible reason is that monopoly systems may be able to control bootlegging more effectively and therefore secure greater tax receipts.

Interstate comparisons between monopoly states and license states are somewhat difficult to make but the average per capita revenue for the monopoly states in 1956 was about $8.00 while the average per capita revenue for the license states was only about $4.25.[39]

The adoption of a monopoly system of liquor control by a license state involves numerous problems, the least of which is that it has never been done before. Nevertheless, it has been advocated, it has fiscal advantages, and it may permit more effective liquor control.

The scope of this study does not permit a complete analysis of the desirability, or possibility, of Colorado's adopting a "quasi-monopoly" control over the distribution of alcoholic beverages. This omission, however, should not be interpreted as opposition to adoption of such a system. Considering the possible advantages of the monopoly system and the magnitude of the problem, further study of this system would undoubtedy be of value.[40]

Possible Changes in Colorado

Excise Tax Rates. The present excise tax rate of $1.60 per gallon on distilled spirits in Colorado is almost identical to the average rate of

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[34]Hal Hagen, *Liquor Control By the Colorado License System*, *op. cit.*, pp. 16-17.

[35]Franklin D. Roosevelt in the repeal proclamation in 1933, asked the states not to allow the return of the saloon either in its old form or in some modern guise. "Since this time the saloon has been returning under a new guise, the tavern." Hagen, *Ibid.*, p. 8.

[36]Some of these states, however, prohibit the sale of alcoholic beverages for consumption on the premises. It has been suggested that the term "quasi-monopoly" would be more appropriate for this type of liquor control. See Roy and Gladys Blakey, *Sales Taxes and Other Excises* (Public Administration Service: Chicago, 1945), p. 96.

[37]For a complete discussion of the monopoly method of liquor control see Blakey, *ibid.*, pp. 96-100; Jacob B. Taylor, *The Monopoly Liquor Control: An Appraisement, After Seven Years* (National Alcoholic Beverage Control Association: Columbus, Ohio, 1941); Glenn D. Morrow and Orba F. Traylor, *State Liquor Monopoly on Private Licensing* (Frankfort, Kentucky, 1940); and J. E. Eubanks, *Ben Tillman's Baby: The Dispensary System of South Carolina* (Augusta, Georgia, 1950).

[38]Morrow and Traylor, *ibid.*, p. 6.

[39]Computed from Distilled Spirits Institute, *Public Revenues*, *op. cit.*, pp. 16-63.

[40]The Minnesota Tax Study Committee recommended the consideration of a monopoly system at the wholesale level if additional revenues were needed. *Report of the Minnesota Tax Study Committee* (Minneapolis, 1956), p. 602.

$1.59 per gallon and is slightly above the median for spirits in the 29 license states. If comparability with other license states is to be the criterion, Colorado would be unjustified in increasing the tax rate on spirits at the present time.

In comparison with the license states, Colorado would be justified in increasing the present tax rates on light wine, fortified wine, and beer.

The present tax rate on light wine in Colorado is $.12 per gallon. This rate is considerably below the median rate, which is a more meaningful measure of central tendency than the average rate, for the 29 license states of $.20 per gallon. If Colorado were to increase the tax on light wine from $.12 per gallon to the 29-state median rate of $.20 per gallon, it is estimated that light wine tax collections would be increased by approximately $25,000.[41]

Colorado's tax rate on fortified wine (over 14 percent alcohol) was $.06 below the median rate of the license states in 1957. If Colorado were to increase the tax rate to the median rate of $.30 per gallon, fortified wine tax collections would be increased by approximately $55,000.

Wine rates in Colorado are graduated according to alcoholic content, wines of less than 14 percent alcohol being taxed at a rate of $.12 per gallon, and wines containing over 14 percent being taxed at $.24 per gallon. If Colorado increased the wine tax rates in order to be comparable with the median rate in the license states, the difference in rates would not be as extreme. If light wine were taxed at $.20 per gallon and fortified wine at $.30 per gallon, the higher proof wine would carry only a 50 percent higher rate whereas it presently carries a 100 percent higher rate. Nevertheless, the rates would still be graduated according to alcoholic content and any graduation is somewhat arbitrary in nature.

Colorado's present rate of $.03 per gallon on beer is less than half the median rate of $.065 per gallon in the 29 license states. If rates were increased it would undoubtedly be more convenient simply to double the present rate than to increase the rate to $.065 per gallon. If the $.03 per gallon rate on beer were doubled to $.06 per gallon, it is estimated that beer tax collections would be increased by approximately $625,000.

In summary, total tax collections would be increased by approximately $700,000 if excise rates on wines and beer were increased in the manner discussed above. The bulk of these increased revenues would be due to the increased tax rate on beer.

License Fees. An interstate comparative analysis is of little significance in the case of license fees, since license privileges and objectives in collecting the fees are not comparable. Some states collect fees to offset costs of the license authority, others impose license fees for revenue purposes, while others attempt through the license device to either encourage or discourage the liquor industry.

Colorado's license system is somewhat involved since license fees are collected both by the State and by municipalities which remit 85 percent of the collections to the State. It does not appear that the State should receive 85 percent of the license fees collected locally since localities incur a substantial cost due to the sale of alcoholic beverages. This apparent injustice is somewhat mitigated by the fact that many municipalities have imposed an occupation tax. In addition, it would be difficult to pass a constitutional amendment which would probably be needed to alter the present system.

That portion of the license fees collected by the State appears to be motivated by the desire to offset the costs incurred by the Liquor License Division. Therefore, as long as costs are exceeded by revenues there is little reason to increase the fees. If the objective should change to one of attempting to capture the monopoly profit created by the State in restricting licensees, an increase in rates would be warranted. The demand for liquor licenses appears to be somewhat inelastic at the present fee level, and any increase would probably cause revenue to be enlarged in nearly the same proportion as the fee increase. If rates were raised high enough, however, the number of licenses demanded would begin to decrease. The number of liquor dealers would, therefore, be restricted by the high fees and, in addition, the State would be collecting substantial revenues. The level to which fees would have to be raised to achieve the desired number of licensees would have to be found by trial and error, that is, increase fees until the desired number of licensees is reached. If there were insufficient applicants to adequately fulfill the needs of a community, the fees could be lowered.[42]

One effect that would probably result from this approach would be to encourage competition, the effects of which are usually desirable.

[41] Estimates of potential revenues are based on 1957 data contained in the *Annual Report of the Liquor License Division, 1957*. See an earlier section of this chapter for a complete interstate comparison of tax rates on alcoholic beverages.

[42] An implicit assumption in this type of argument is that the incidence of the license fee rests largely with the dealer. Such an assumption is not beyond question. If the total fee is shifted forward, it simply becomes an additional tax on the liquor consumer.

In the case of liquor retailing, however, it is occasionally argued that severe competition often results in intemperance.

Inclusion of Alcoholic Beverages in the Sales Tax Base. Of the 29 license states, 20 have a general sales tax. Of these 20 states, 16 include alcoholic beverages in the sales tax base. The four license states which exempt alcoholic beverages from the sales tax base are Colorado, Florida, North Dakota, and South Dakota.

Estimating the potential revenue if Colorado were to include alcoholic beverages in the sales tax base is somewhat difficult, but it appears that this modification would increase the sales tax collections by $1,550,000 to $1,875,000[43].

[43]Arizona, Maryland, and Rhode Island impose a 2 percent general sales tax and include alcoholic beverages. It can be seen from Table 9.7 that per capita collections in 1956 by these states were $1.04, $.86, and $.97, respectively. Assuming consumption patterns are somewhat comparable in these states and Colorado, potential revenues can be estimated using each of the above per capita rates and the estimated Colorado population for 1959 of 1,801,000, and using Arizona's per capita collection rate, Colorado collections would be $1,873,000. Using Maryland's rate, collections would be $1,548,000, and using Rhode Island's rate, collections would be $1,747,000. Using the average rate for the three states of $.957, Colorado collections would be $1,723,000.
Population estimate for 1959 is from William Peterson, *A Critical Survey of Several Forecasts of the Population of Colorado*, State of Colorado, Department of Natural Resources, July, 1957, p. 31.

Sales Tax at Wholesale Level. A possible procedure would be to levy a sales tax on alcoholic beverages at the wholesale level. Different percentages would be used for different types of beverages. For example, the rate for beer could be 6 percent; for wine, 9 percent; and for spirits, 12 percent. An advantage of such a system would be that it would lessen, to some degree, the regressivity of the liquor tax. While it is difficult to determine the effects of such a procedure, the State could collect additional revenue of between $2 million and $2.5 million. A similar amount of revenue could be collected if a flat rate of approximately 10 percent were used.

Summary. In summary, the above rate changes and inclusion of alcoholic beverages in the sales tax base would yield the following revenues:

Increase light wine rate from $.12 per gallon to $.20 per gallon	$ 25,000
Increase fortified wine rate from $.24 per gallon to $.30 per gallon	55,000
Increase beer rate from $.03 per gallon to $.06 per gallon	625,000
Include alcoholic beverages in sales tax base	1,723,000
Total	$2,428,000

CHAPTER X

HIGHWAY USER TAXES

The United States has the most highly developed network of rural and urban roads in the world, and the number of vehicles, as well as the volume of traffic using these facilities, is constantly increasing. As of 1955 improved highway and street mileage totalled 3,418,214 miles, and there were 62,760,000, motor vehicles which traveled an estimated 603,434,000,000 miles.[1] In contrast to the policy for other transportation media, the responsibility for construction and maintenance of these facilities is borne by government. Needless to say the problem of financing is a tremendous one, and is growing in magnitude each year.

Nature and Development of Highway User Taxes

The principal burden of administering and financing modern highway and road systems has fallen upon the states with substantial assistance from the federal government. State policy has assigned the lion's share of the cost to the owners of motor vehicles through the medium of the so-called special benefit or user taxes. City streets have continued to be primarily a local responsibility financed largely by the property owner.

The special user tax approach involves two major types of levies, namely, motor fuel and vehicle license or registration taxes. These taxes are universally employed by the states and by a limited number of cities. The federal government also taxes motor fuel on a special benefit basis. A third form of tax involving a special or additional burden on certain classes of commercial carriers is now used by twenty-nine states. In addition, there are a number of special charges imposed by the states on vehicle owners or operators. They include operator's and chauffeur's licenses; certificate of title or transfer fees; caravan fees; administrative services charges; tolls; and fines for traffic violations. Municipal parking meter charges constitute another minor, but not insignificant, method of extracting revenue from the vehicle owner.

Registration Tax. Registration of motor vehicles was initiated in 1901 by New York and became universal in 1915 with the adoption of the Louisiana law. While the original purpose of registration was regulatory, that is, to protect the citizenry from the dangers to body and limb caused by the mechanical monsters, and to provide an official record of ownership, revenue potentials were soon recognized and utilized. The development was gradual until the 1920's, but since that time changes in the base and rate as well as increases in the number of vehicles have occasioned rapidly rising yields.

Graduated licenses relating to some physical characteristic of the vehicle such as weight, horsepower or capacity were first introduced in 1913, and the concept of the license charge as a special tax on highway use was directly associated with this action. Some jurisdictions also included value or age factors which reflected the property tax approach, but perhaps also contributed to the tax or revenue function of the license.

Later developments in the use of the registration tax have tended to delineate its function as a member of the special user tax family to one of measuring the impact of different types and weights of vehicles on highway costs. In addition to the "relative damage to the roads" concept this tax is thought to afford a convenient means of assigning certain basic elements of highway cost attributable to the individual vehicle regardless of its special characteristics.

Motor Fuels Tax. Oregon introduced the first gasoline tax in 1919, and in the short period of one decade all of the other states had followed suit. The fuel tax quickly assumed its present role as a measure of highway use or vehicle travel. Technical complications arose as new types of fuel and engines were developed, but most of these problems have been resolved by extensions of the tax base to all forms of fuel used to propel motor vehicles on the highways. There is still a question, however, as to the desirability of differential rates for certain of the special fuels now employed.

Special Carrier Taxes. The third type of special user tax, often termed a third structure levy, which applies to specified types of property and passenger vehicles, is a development of the last three decades. The intent of these levies is to impose an additional burden upon commercial or business carriers who use highway facilities for profit-making activities. In earlier years these taxes were regarded as payments for special benefits received, but they are presently defended as a means of assigning the additional

[1] U. S. Bureau of Public Roads, *Highway Statistics, Summary to 1955*, 1957.

elements of highway costs attributable to such vehicles. Colorado introduced a special ton-mile and passenger-mile tax on common carriers in 1927, and there are now twenty-nine states that employ some form of additional tax on certain broad classes of commercial vehicles. The tax base varies widely including ton and passenger miles, weight or capacity, mileage, gross receipts and flat fees. Variations exist also in respect to the level of rates imposed. Generally speaking, the states which levy substantial third level taxes impose low rate license charges, and vice versa.

Productivity of Highway User Taxes

Highway user taxes are obviously a major element in the tax systems of the states at the present time. They produced over four billion dollars in 1957 or nearly 29 percent of total state tax revenues (Table 10.1). The motor fuels tax, in the aggregate, out-produced the registration and other special taxes by more than a 2 to 1 margin, accounting for 19.5 percent of total state tax revenues as compared to 9.4 percent for the other levies. Since World War II, the relative importance of the former tax has gradually increased. The percentage significance of the user taxes in Colorado, 29.7 percent, is slightly above the 48-state average.

There is marked difference in the relative significance of both types of taxes from state to state. In the case of the motor fuels tax the range in 1957 was from a low of 9.2 percent of total tax revenues in New York to 40.6 percent in Nebraska. The proportion of total revenues derived from the motor fuels tax was below the aggregate average of 19.5 percent in nineteen states and above it in twenty-nine. Twelve of the twenty-nine higher yield states derived more than 25 percent of their total tax revenues from this source. A much greater variation existed in respect to registration and operator's license revenues. Their percentage significance ranged from slightly over 2 percent in Alabama to over 22 percent in New Jersey. Six states, five of which are in the South, obtained less than 5 percent of their tax revenues from this source, while seventeen derived 12 percent or more. Colorado was slightly below the aggregate average of 9.4 percent.

Rationale of Special User Tax Financing

The Theoretical Problem. The special user tax approach to financing highways and roads is generally accepted by the people, and the taxes employed have generally kept pace with the rapidly rising cost of the facilities. These levies, motor fuel, license and special carrier taxes, represent the most significant application of the direct benefit principle of taxation in the nation's tax structure. Quite logically, the bulk of the revenue produced is earmarked for highway purposes.

Table 10.1

State Motor Fuel and Registration Tax and Operator's License Revenues, 1957

State	Motor fuel revenues		Registration tax & operator's license revenue	
	Amount (thousands)	Percent of total taxes	Amount (thousands)	Percent of total taxes
Alabama	$ 63,473	27.63	$ 4,956	2.14
Arizona	19,701	18.41	7,952	7.43
Arkansas	34,086	27.21	12,689	10.13
California	291,295	17.80	112,213	6.85
Colorado	32,390	21.13	13,199	8.61
Connecticut	41,993	18.44	15,746	6.92
Delaware	7,270	16.26	3,901	8.73
Florida	101,072	26.91	45,832	12.20
Georgia	74,867	23.80	15,418	4.90
Idaho	13,998	27.60	8,508	16.78
Illinois	129,441	18.73	91,773	13.28
Indiana	69,169	23.20	35,027	11.75
Iowa	55,229	22.28	43,316	17.47
Kansas	35,545	22.49	19,599	12.40
Kentucky	54,216	26.95	11,345	5.64
Louisiana	56,908	15.25	12,588	3.38
Maine	20,907	29.63	8,748	12.40
Maryland	47,183	18.82	22,216	8.86
Massachusetts	62,393	15.08	22,646	5.48
Michigan	135,845	17.61	72,939	9.45
Minnesota	50,148	17.14	36,287	12.40
Mississippi	40,057	24.95	7,043	4.39
Missouri	41,550	15.61	34,192	12.85
Montana	17,681	33.59	3,741	7.11
Nebraska	29,947	40.64	4,875	6.62
Nevada	7,744	21.96	3,832	10.87
New Hampshire	9,156	27.52	6,169	18.55
New Jersey	70,632	25.16	62,392	22.22
New Mexico	20,770	21.39	10,275	10.58
New York	132,592	9.20	129,249	8.97
North Carolina	91,155	24.65	27,504	7.44
North Dakota	10,638	20.56	8,740	16.89
Ohio	142,070	20.99	94,747	14.00
Oklahoma	52,772	22.39	33,415	14.18
Oregon	34,145	17.60	26,269	13.54
Pennsylvania	180,972	18.37	81,559	8.28
Rhode Island	9,313	14.89	6,435	10.29
South Carolina	45,632	24.75	8,882	4.82
South Dakota	11,076	25.96	6,028	14.13
Tennessee	71,433	26.56	22,344	8.31
Texas	164,702	25.00	65,039	9.87
Utah	15,535	20.24	5,163	6.73
Vermont	6,691	19.16	6,081	17.42
Virginia	68,890	21.81	22,366	7.08
Washington	54,628	15.39	17,467	4.92
West Virginia	28,354	18.28	13,314	8.57
Wisconsin	64,581	18.14	38,379	10.78
Wyoming	8,166	24.38	5,418	16.17
Total	2,828,011	19.46	1,367,816	9.41

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1957.*

The general concept that those who benefit directly from the use of highway and road facilities should bear the primary responsibility for their cost is simple and logical. It also appears to be equitable and desirable. What could be more appropriate than a policy which assesses the costs against those that benefit directly from their use?

While few have questioned the basic assumptions of this policy, it does lose some of its apparent logic in actual application. Further investigation reveals significant theoretical as well as practical limitations. Why single out this governmental function for financing via the direct benefit approach? Why not finance public education in the same manner? Is the ability

to pay standard of apportioning tax burdens invalid as applied to highways and roads?

Assuming that these questions can be answered satisfactorily (if one is committed to the benefit approach), the inherent problem of measuring the benefits must then be resolved. While the immediate and primary benefits of highway and road facilities are said to accrue to the user group, non-users certainly also derive substantial general or indirect benefits from this highly important segment of the nation's transportation system. What is the relative importance of the two types of benefits, and does it vary according to the nature of the facility (interstate, state and county roads)? Another related benefit issue arises in the case of city streets which are not a part of the national or state highway network. In the past another group of "direct beneficiaries," the property owners, have borne the bulk of these costs, usually through the special assessment device. This practice, which may appear to be inconsistent with the user tax policy, involves the obvious question as to whether a different basis of financing is justified and desirable.

Once the proper scope of user or other benefit bases of financing has been determined, the highly significant problem of calculating relative benefits for the various classes of users must be dealt with. This difficulty is avoided, though somewhat arbitrarily in the case of the property owners' liability for street costs, by using a front foot or total value of property measure. In the case of the user group it is generally assumed that benefits are coincidental with the costs occasioned by each class of users, or that costs constitute the only practical general measure of benefits. The final step in the implementation of the special user tax approach, therefore, is the selection of one of more indices of use which will reflect most accurately the cost responsibility of all classes of users.

In seeking a satisfactory answer to the questions and problems involved in the highway user tax field, it should be recognized that such issues are not unique. The solutions adopted must necessarily lean heavily on subjective judgment tempered by a full consideration of practical obstacles. Any other view of the situation is both unrealistic and indefensible.

Is the Special User Tax Approach Justifiable? Three basic propositions constitute the foundation of highway user taxation as presently practiced. First, by asuming responsibility for the construction and maintenance of motor transportation facilities the government has embarked upon a public service undertaking comparable in many ways to the public utility services commonly provided by private enterprise. Cost of service financing, therefore, is assumed to be appropriate and desirable. Second, it is often assumed by students of tax policy that a limited application of the benefit principle is desirable. And, finally, the user taxes are highly productive and meet the other practical requirements of a sound tax.

The suggested parallel between the provision of motor transportation facilities and other transportation or public utility services is certainly valid in some degree. However, the generality and diversity of use factors in the case of motor transportation involve broad economic and social implications that differ both in nature and degree. The fact that government has undertaken responsibility for providing these facilities tends to broaden and extend the use pattern as well as the scope and incidence of benefits. Given this development a strict cost of service approach to financing becomes inappropriate unless one is prepared to deny use to those who can not pay their share of the cost and to disregard general benefits not directly related to use. Neither of these courses is acceptable from a policy standpoint. The level of user charges should be tempered by a concern for their social impact, and the significance of general or indirect benefits logically must be considered in formulating the revenue program. In the case of commercial users the fact that other private modes of transportation have received substantial governmental subsidies should also be recognized.

While strict private utility financing is obviously unsound as applied to the highway and road function, the user approach is believed to have merit within the broad limits suggested. The service being performed is different than public education, for example. In the latter case the broad social objectives and the generality of the benefits sought are paramount. Cost financing, even if limited in its scope, would tend to nullify or defeat these ends.

The general idea that the benefit principle of financing governmental services should be given some place in the nation's tax structure is supported on several grounds. Popular versions suggest that "everybody benefits—everybody should pay," or "those who benefit should pay." Benefit taxes are also recommended as a balancing factor to offset allegedly extreme applications of the ability to pay principle embodied in the steeply progressive federal personal net income taxes. In general, these concepts do not strengthen or detract from the case for special highway user tax financing. The everybody benefits—everybody pays idea is not consistent with the second or direct benefit approach which is reflected in highway user taxation. Judgments as to the proper role of direct benefit financing logically must be based upon the nature and objectives of the particular function, as well as the impact of the taxes involved upon the tax structure as a

whole and the distribution of burdens thereunder. Insofar as the latter situation is concerned, it should be recognized that existing tax policies involve many levies which are defended on grounds of benefit or certainly are not in accord with the ability to pay principle. The best evidence available also indicates that the total tax burden now involves an element of regressive effect comparing the very low and medium income groups. The bias to be overcome for these groups, therefore, is a regressive not a progressive one.

Broadly speaking, the practical aspects of highway user taxation are very favorable. Both the fuel and registration taxes are, as previously noted, highly productive. Effective administration has generally been attained, and the costs are not excessive. The time and method of payment is convenient, and taxpayer psychology is generally good. Special taxes on commercial carriers, depending largely on the tax base, may present certain problems. Weight-distance levies, which are probably best suited to the purposes of this form of taxation, are not easy to administer, the compliance problem is complex, and there is strong opposition by the carrier group. At the same time, effective enforcement is feasible and results in substantial yields.

In conclusion, the special motor vehicle owner tax approach to highway financing is believed to be sound within the limits suggested. Tax burdens should not be so heavy as to seriously penalize or restrict the use of groups whose ability to pay is limited. Also, non-users who derive substantial general benefits or other types of special benefit, should contribute a reasonable proporation of the costs through other forms of taxation.

Responsibility for Highway, Road and Street Costs. Determination of the proper share of the cost of highway, road and street costs to be borne by the user and non-user groups is obviously a highly complex problem. While various theoretical proposals have been advanced, they are either unrealistic or fall short of providing the precise guides needed for policy decisions. Current practice, which assigns somewhat more than half the costs to motor vehicle owners, appears to be largely fortuitous. Certainly, there is no consensus of opinion concerning a given ratio or even range of responsibility.

The difficulties inherent in the problem do not merit an attitude of complacency or indifference. As a point of departure, it is generally recognized that the provision of good highways and roads and comparable facilities in urban areas are integral parts of the over-all problem. So-called farm-to-market roads serve as feeders to state and national highways in the same sense that streets in residential areas channel traffic into arterials, throughways or freeways. Broad decisions concerning financing, therefore, should be predicated upon the total cost of all facilities.

Three of the proposals for allocating costs between motor vehicle owners and other groups merit attention, namely, the "added expenditure," "differential benefit," and "predominant use" concepts.

Added Expenditure Concept. The added expenditure notion suggests that all costs incurred as a consequence of the advent and growth of motor vehicle travel be assigned to this user group. Considering the fact that other uses have virtually disappeared, this proposal sponsored by the railroads would throw the great bulk of the burden on the vehicle owner group. It also conveniently disregards the substantial governmental subsidies extended to other forms of transportation.

Differential Benefit. The differential benefits idea proposes that costs be allocated in accordance with the ratio of special benefits to motor vehicle owners, which have arisen since the inception of motor vehicle travel, to general benefits not associated with such travel. It arrives at approximately the same result as the added expenditure approach, and is equally unacceptable. In each case, the basis of the calculation is a situation that existed over 50 years ago. However, the obvious misconception involved is the idea that highways and streets have significant values which are not a function of use by motor vehicles. Aside from occasional use by pedestrians, bicycles and other foot-propelled devices, which do not require this type of facility, all benefits derive from actual or potenial use.

Predominant Use. The predominant use concept distinguishes two primary purposes of road and street facilities: (1) access to property or local service to residents, and (2) motor vehicle transportation. Once again both purposes are served by use, and the use is predominantly by motor vehicles. While this proposal does not provide a measure of the relative importance of the two uses, it does suggest that the basis of allocating costs among users should be related to the principal use involved for each facility.

Conclusion. The proposals for cost allocation considered do not resolve the problem of determining relative benefits and assigning costs between the direct users who own and operate motor vehicles and those who derive general or indirect benefits from such use. These groups, it should now be apparent, are not separable, but over-lapping in character as motor vehicle owners are recipients of both types of benefit. In view of this situation and

the widespread incidence of motor vehicle ownership there is a logical basis for assigning well over half the costs to the direct use beneficiaries. The essential limitation upon this approach, as previously indicated, is to avoid a level of taxation upon certain groups of motor vehicle owners which will substantially curtail their use. Further studies of the economic impact of the taxes employed are needed to ascertain what this suggested maximum is. Assuming that a reasonable ratio can be established, the next step is to formulate specific techniques for assigning the pre-determined cost responsibilities to the general beneficiaries and the motor vehicle owners.

How Should General or Indirect Benefit Costs Be Apportioned? Considering the broad incidence of the general benefits from highway and street facilities, a broadly-based revenue source is logically required. The property, sales or net income taxes or perhaps a combination of two or more of them are the obvious alternatives. Property has borne the brunt of city street and often rural road financing. In the case of streets, particularly those in residential areas, the special assessment device is commonly employed, and for the rural roads not in the state or national networks a mill levy on property is typical. The charge against property for such purposes, whether special or general, is justified on the basis of the special benefit enjoyed. The benefits are generally identified as providing convenient access to the owner's property, and thereby increasing its value. Thus, the special assessment or the property tax becomes a means of measuring another form of special benefit, rather than general benefits which accrue to all.

Both of the other major tax forms—sales and net income—have similar limitations as instruments for apportioning costs based upon general benefits. The general or retail sales tax is directed at consumer expenditure, and, though everyone pays, the amount paid is not a complete reflection of benefits. Net income taxes are highly selective, and are intended to measure ability not benefits. It follows, therefore, that none of the general taxes presently in use provide a realistic and comprehensive measure of general benefits. More significantly, even if such a tax could be developed it would undoubtedly be in serious conflict with the ability to pay principle.

Considering the additional fact that the special taxes on motor vehicles are not related to ability, one may reasonably conclude that the remaining element of costs should be met by taxes which have an ability emphasis or at least are not inconsistent therewith. Within limits the property tax serves the desired objective. Property ownership gives some evidence of taxpaying ability. At the same time, the owners derive substantial benefits from highway and street facilities. However, there is an obvious limitation upon the tax load which may be equitably imposed on property. No tax should be pushed to the point that it confiscates capital or the income therefrom. In attempting to avoid such effects net income taxes are the logical and most acceptable source.

Allocating User Costs Among Various Classes of Vehicles. The proper allocation of the highway and street costs assigned to motor vehicle owners among the various types of vehicles is a crucial and certainly the most troublesome problem in this field of taxation. The broad factors which should be considered in assigning costs are generally known and accepted by students of highway financing problems. They are: the requirement of adequate facilities to accommodate a given number of individual vehicles; the extent of the use factor; and special elements of wear and tear on the facilities associated with the total weight of the vehicle (vehicle and load) and its distribution (by axles or tire surface). In other words, there is the "readiness to serve" factor, a function of the number of vehicles; relative use, as reflected in miles traveled; and relative damage, which is attributable primarily to aggregate weight and its distribution. While these elements of the cost problem suggest a basis of differentiating costs, they do not provide the specific measures for determining actual allocations by vehicle groups. It may be suggested that the attempt to distinguish separable cost factors is superficial in that they are all inter-related. While the relationship is self-evident, the breakdown permits greater selection or refinement in the choice of tax bases. Also, the results of this approach are not subject to criticism if the combined impact of the taxes employed is in conformity with reasonable standards of individual and group taxpaying capacity.

Readiness to Serve. The accommodation or readiness to serve aspect of cost, as previously indicated, may logically be attributed to the existence of the vehicle. The fact that there are a specified number of vehicles to be accomodated is the primary determinant. Costs of right of way and certain basic elements of planning and engineering, traffic safety and administrative expense are illustrative of this element. The width requirement on highways and streets is also largely controlled by the number and size of vehicles to be accommodated.

The extent of these costs cannot be precisely determined. However, the incremental cost plan of apportioning the burden among vehicle groups does provide a feasible method of assignment, and will be considered in later analyses of specific measures. In general, the type of cost under consideration seems to merit a uniform

charge on each type of vehicle. Differences in the size of vehicles logically would affect such costs, and might be reflected in a heavier charge for large trucks and buses. In any case, the registration or license tax is an appropriate means of recovering these costs. The level of rates or the relative emphasis to be placed on this element of cost can only be determined by subjective judgment. It is generally agreed, however, that these costs, and consequently the revenue to be collected, are secondary to the relative use and weight elements.

Relative Use. Use of highway and street facilities is commonly thought to be the major factor influencing costs, although vehicle weight and weight distribution are the principal factors differentiating the costs occasioned through use by the various types of vehicles. Fuel consumption is highly regarded as a measure of relative use. Although there are significant variations in mileage per-gallon-of-fuel for vehicles of the same class and as between classes of vehicle, these differences are usually not reflected in fuel tax policy. In addition to the administrative problems inherent in a complex differential rate structure, the uniform tax per gallon generally results in a higher tax per mile on the heavy vehicles. The bias of the tax, therefore, is in the right direction. Special fuels and types of engine, diesel in particular, present a different problem as mileage per gallon varies substantially for vehicles of the same weight depending upon whether they use regular or special fuels and are powered by combustion or diesel-type engines. Scientific data indicate a substantial miles-per-gallon advantage on special types of fuel used in private passenger cars, and savings of from 30 percent to 70 percent for commercial vehicles equipped with diesel engines.[2]

Considering the limited use of special fuels other than diesel, it may be expedient to disregard this element of discrimination. In the case of diesel fuel, however, the degree of variance as well as the importance of the use appear to justify a differential rate — a matter considered in the subsequent analysis of motor fuel taxes.

Damage Factor: Weight and Its Distribution. The relative damage factor, which is commonly thought to be a peculiar function of weight and weight distribution, presents the most difficult and certainly the most controversial problem of cost analysis and apportionment. As a practical matter, the specific problem is one of determining a reasonable base or bases for assigning the additional costs occasioned by weight and its distribution. Vehicle ownership and use are taxed directly under the registration and fuels taxes. It must be recognized, however, that costs caused by weight and its distribution are also a direct outgrowth of use.

Three specific approaches to this cost problem are currently being used or are under consideration. They are, (1) the graduated weight measure, either in aggregate or by axle; (2) the weight and distance or ton-mile basis; and (3) the incremental cost method. Other bases of taxation are being used in the case of commercial carriers including gross receipts and flat fees, but they are obviously not intended to measure relative damage. It should be emphasized at the outset that any one of the three approaches to distributing the costs involved would produce equitable results if the full facts concerning the contribution of the different vehicle groups to costs were known. These data, unfortunately, can only be obtained through a series of long range, controlled use studies made under varying physical conditions. The relatively few pilot investigations that have been conducted serve to confirm the general proposition, which is self-evident, that heavy truck and bus traffic requires higher cost facilities and substantially increases maintenance expense. In view of the deficiency in basic data the approach adopted will inevitably involve a large measure of subjective judgment, and will therefore, be subject to criticism on more or less logical grounds.

Major Allocation Problem: Costs Attributable to Weight and Weight Distribution. An analysis of the three approaches, within the broad limitation noted, logically should be directed to the primary elements of strength and weakness, both theoretical and practical, of each method. Of course, such an evaluation presumes the existence of certain criteria which are either generally accepted or stand the test of reasonableness. While these criteria may be stated in various ways, the following points are believed to be crucial:

(1) Does the approach or measure adequately reflect the differential elements of cost, namely, weight, weight distribution and use?

(2) Does it provide a specific base or bases for determining the actual tax burdens of different vehicle groups?

(3) Can the taxes involved be administered effectively and at reasonable cost?

(4) Are there undesirable effects in actual application which could be avoided by one of the other methods?

Graduated Weight Basis. The graduated weight measure will be considered first in view of its relative simplicity and the fact that it is most widely used. It involves a classification of vehicles by weight categories. The basis of

[2]See Report of Highway Planning Committee, *Colorado's Highway Needs and Highway Financing*, October, 1950, III, pp. 18-23, and motor fuel tax analysis.

classification should be and usually is gross weight, which may be defined as empty weight plus an average load or empty weight plus an assumed maximum load. Further refinement is achieved by relating the total weight to the number of axles thus reflecting the distribution factor. The number of weight classes to be employed is a matter of judgment, and should be based upon engineering data or opinion as to meaningful differences in terms of cost.

The graduated weight method as defined above affords a convenient and understandable approach to the weight and weight distribution aspects of cost. The measure involved is specific and is adaptable to a differential taxing policy. It is also comparatively easy to administer, and both collection and compliance costs are minimized in relation to the other alternatives.

On the other hand, this method involves an average or hypothetical measure of vehicle loads. In other words, it does not reflect actual loads carried. More significantly, it disregards actual use, and the weight factors apart from use are rather unmeaningful. Of course, this deficiency may not be too important in the case of large commercial carrier operations where vehicle use approaches a maximum. The degree of discrimination against certain small or irregular operations and other types of carriers, however, it is likely to be very great. This type of inequity, it should be noted, is merely reversed by extending lower rates to particular classes of carrier, such as all contract or all private.

Another fundamental weakness of the graduated weight method is that it does not provide a measure of the actual differential tax burden to be imposed upon vehicles in the various weight classifications. Thus, this basic aspect of policy formulation is dependent at best upon admittedly incomplete data as to relative damage. Even though the most informed engineering opinion is consulted, the result is likely to be very conservative in terms of the share of costs assigned to the heavy commercial vehicles.

Weight Distance or Ton-Mile Basis. The weight-distance or ton-mile concepts reflect an obvious extension of the graduated weight basis. In short, they combine the basic weight and use factors. While the two ideas vary in specific application their basic purpose is identical. The weight-distance standard logically would seem to include the ton-mile basis. However, as actually employed in Oregon and several other states, it involves two independent measures of tax liability: (1) the gross vehicle weight or axle weight category which is based on an assumed average or maximum, and (2) the number of miles traveled. Rates per mile are then graduated according to the ascending weight classes. In the case of the ton-mile method the measure is a composite of the actual gross weight and of the vehicle and load mileage traveled, namely, the carriage of one ton a distance of one mile. The principal difference in the nature of the two concepts, therefore, is that actual rather than assumed weight is the basis of the ton-mile calculation.

Both the weight-distance and ton-mile approaches are preferable to the graduated weight method as measures of cost. The motor fuels tax does little more than provide a general index of use without regard to the differential aspects of costs resulting from use by the heavy classes of vehicles. Inclusion of an additional use factor, therefore, is highly desirable. The average weight of load assumption involved in the weight-distance method is clearly inferior to the actual load carried basis and will inevitably produce certain inequities. However, it avoids the problem of keeping and verifying individual haul records by vehicle in the case of trucks and buses, which are necessary under the ton-mile plan. Minor variations in load by private passenger cars and small trucks or busses may, of course, be disregarded, This requirement of the ton-mile approach is its principal advantage and at the same time its most serious limitation.

Obtaining and checking mileage data also presents a difficult problem in the instance of certain types of vehicle and operations. In particular, it is infeasible for private passenger cars; it is almost impossible for small irregular private or contract carriers; and it requires special enforcement procedues for regular intrastate and interstate operators. From a practical standpoint the fuel tax provides an adequate measure of use for passenger cars and other small vehicles. Also, in relating over-all burdens by vehicle group, an average mileage may be assumed. Typical weight and mileage assumptions also may be made for the types of private and contract carriers noted. Exemption is a possible but obviously inequitable alternative. Ports of entry and regular checking by the highway patrol are essential to cope with interstate vehicles, and field inspection is required for all regular route operations.

The weight-distance and ton-mile approaches, particularly the latter, do provide feasible methods of differentiating costs attributable to the various classes of vehicles. They also afford specific bases for the imposition of differential tax burdens. However, there is nothing magical about the ton-mile approach. The greater damage to highways resulting from use by heavy vehicles may or may not be in proportion to ton-miles. It must be recognized that this basis of vehicle taxation like the others considered is founded upon an assumed relationship; it can neither be established nor disproved with the information presently available.

Incremental Cost Approach. The incremental cost method of allocating user costs, has received considerable support on theoretical grounds, and has recently been the subject of special studies in several states.[3] In general, the incremental cost approach starts with the presumption that costs are segregable in terms of number of vehicles, vehicle travel, traffic volume and weight use elements. All costs are assignable on the basis of the particular type of facility and the relative use by different classes of vehicles. This feature is distinctive and is thought to be more realistic than the ton-mile approach which is not concerned with the specific type of facility. The primary attribute of this method, however, is the way in which construction costs occasioned by weight are calculated. As a first step the cost of a "basic road" to accomodate a typical low weight vehicle, passenger cars and light trucks for example, is determined. Secondly, the additional costs required to construct roads that will handle the traffic of the successive classes of heavier vehicles are then estimated in accord with the best engineering and cost data available. Each vehicle class beyond the first or basic category is then assigned its special element of cost plus a proportionate share of the cost for preceding classes. This approach, it should be noted, does not cover maintenance or other non-capital outlays. They still must be apportioned on other bases.

Once the incremental cost relationships have been established by weight groups for different types of facilities, the actual costs are calculated for each weight group according to a uniform measure. The measure selected in two of the most recent studies was axle miles.

The incremental cost method, as previously noted, has received broad support on theoretical grounds. It undoubtedly would have been more widely used except for the lack of essential data and the complexities of the computational and cost assignment problems. A realistic appraisal of its merit is equally difficult. The alleged theoretical desirability of the approach hinges upon the fact that it employs a cost accounting technique and actual travel data as a basis of cost allocations. Thus, it appears that the scientific method has been substituted for guesswork. While appearances are not wholly deceptive in this instance, it is axiomatic that the results of any problem-solving technique are no better than the basic asumptions which underlie it. If the incremental cost method is to produce more equitable results, the judgments made must be more realistic and this, in turn, requires improved techniques and/or more adequate data. Does the incremental cost approach meet these tests?

The two key questions to be resolved as previously indicated are: (1) the relative proportion of total user costs to be assigned on a per vehicle basis, a use or traffic volume basis and a weight and weight distribution basis; and (2) the specific allocation of weight costs by vehicle groups. The incremental cost method does not contribute directly to a solution of the first question. While travel data for different classes of vehicles are made available, the relative importance of the true basic cost elements still has to be estimated. Needless to say the decision at this point is crucial, and there is no reason to suggest that it will be materially affected by use of the incremental cost approach.

The incremental technique of apportioning weight costs appears to be logical and equitable. However, it too is dependent upon certain basic assumptions. The "basic road" concept for an assumed category of "basic vehicles" is hypothetical not actual. Why should the basic vehicle for which this hypothetical road is designed be required to contribute on a weight basis? Perhaps they are already paying their share on a per vehicle and use basis. More significantly, how are the limits and number of different weight groups to be determined? Adequate facts are not available to ascertain the relative damage to existing highways occasioned by the different classes of vehicles. Are they available to determine differential costs of construction for vehicles in ascending weight classifications? Finally, in view of the fact that existing highways and roads are built to varying standards and specifications, is there any reasonable relationship between the actual ratio of wear and tear by these groups of vehicles on the highway facilities presently available and the differential cost of construction ratio for the theoretical highways employed in the incremental cost analysis?

The foregoing questions should serve to illustrate the dependence of this aproach upon judgements that are largely if not entirely subjective in character. At the same time, the method represents a noble attempt to apply scientific techniques to the problem. It calls for the utilization of the best data and brains available, and thereby creates a favorable climate for advances in knowledge. However, unless its limitations are recognized and each step in the analysis is subject to searching scrutiny, the results may be just as arbitrary as those of alternative approaches.

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[3]See *Equitable Highway Cost Allocation in North Dakota*, Bureau of Business and Economic Research, University of North Dakota, September, 1956; *Financing Kentucky's Roads and Streets*, Bureau of Business Research, University of Kentucky, 1956; William D. Ross, *Financing Highway Improvements in Louisiana*, Division of Research, College of Commerce, Louisiana State University, 1955; *An Incremental Cost Analysis Based Upon the 10 Year A. S. F. Proposed Highway Program*, Public Administration Service (Chicago, 1954); and D. F. Pancoast, *Allocation of Highway Costs in Ohio by the Incremental Method*, Ohio Department of Highways, 1953.

Conclusions Concerning Cost Allocation Bases. Summarizing the discussion of the cost problem and the principal approaches thereto, the following conclusions are inescapable. None of the methods considered provide answers that are sound and equitable per se. This result is inevitable until the full facts concerning cost responsibility become available through controlled use research. In other words, there are no short-cuts or panaceas. Meanwhile, the weight-distance (axle and ton-mile) or the incremental cost methods are defensible, but arbitrary or inequitable effects in either case cannot be wholly avoided. Informed judgment as well as broad policy considerations external to the particular approach may dictate modifications in both cases. Certain of the general policy guides merit special emphasis at this point. The total tax burden assigned to different vehicle groups should be determined and subject to review in terms of avoiding tax loads that will seriously penalize or curtail use by any class of user. The economic impact of user taxes on the owners of private passenger cars and on the competitive position of the motor transportation industry are the specific elements of concern. Another factor merits attention wholly on grounds of expediency. Few if any states, regardless of equity or logic, can afford to impose taxes on any significant group of users that are revolutionary in terms of average national or regional burdens.

History of the Special User Taxes In Colorado

Colorado's development of highway user taxation reflects a high degree of pioneering effort and effective leadership in nearly every action initiated and policy formulated with respect to this important source of revenue.

Motor Fuels Tax. Colorado enacted in April, 1919, a 1¢ per gallon tax on gasoline, kerosene and other fluid substances derived from petroleum when used for power purposes in propelling motor vehicles[4] (distillate, crude oil and other residual or unrefined products were specifically exempt). This action followed that of Oregon by only a few weeks, and the statute was one of the four adopted in this year.

Requirements of a rapidly expanding highway system and the general productivity and popularity of the tax led to three successive rate increases in the 1920's (2¢ in 1923, 3¢ in 1927 and 4¢ in 1929).[5] The definition of taxable fuel was also frequently revised to take account of new developments in basic as well as compounded or blended products. There was agitation for further increases in the early 1930's, but, except for a temporary (6 months) 1¢ rise for relief purposes in 1934, the 4¢ a gallon rate was maintained until 1947. In 1943, however, new measures were adopted which applied the regular rates to so-called "special fuels" including diesel and liquefied petroleum gases.[6] This action, it may be noted, preceded the rapid growth in the use of such fuels during the next decade.

The highways of the nation including those in Colorado were in a sad condition at the end of World War II. To meet these needs and to match higher federal aid grants, the fuel tax rate was raised to its present level of 6¢ in March, 1947. The increase was to have expired on June 30, 1953, but the legislature passed a revised statute including the higher rate in that year.[7] This act constitutes the present basis of fuel taxation.

Registration Tax. Colorado inaugurated the registration of motor vehicles in 1913.[8] The law provided that each vehicle must be licensed annually and required payment of fees ranging from $2 for motorcycles to $10 for vehicles with horsepower ratings above 41. In 1919 the base was changed and trucks were separately classified.[9] All vehicles except trucks were taxed on the general basis of ½ of 1 percent of the original cost price. The minimum fee was fixed at $5 and value reductions of 30 and 20 percent were permitted for five-year old and eight-year old vehicles, respectively. The principle of rate graduation based upon carrying capacity was applied to trucks and trailers. Fees ranged from $10 for a one-ton truck to $50 for a 5-ton; and $25 for each additional ton over 5. Trailers of 1- to 2-tons were taxed at $10 and $5 for each additional ton.

The Motor Vehicle Department was established in 1931, and significant changes were made in the license taxes for all vehicles except trucks.[10] The basis of licensing private passenger cars was changed to manufacturer's shipping or net weight. Tractors not used exclusively for farming were subject to a rate based upon carrying capacity. Finally, a minimum fee of $10 plus $1 for each seat over 9 was imposed on regular buses, and a similar but lower rate on school buses. In 1933 the legislature enacted for relief purposes special fees based upon the value of vehicles. However,

[4] *Session Laws of Colorado*, 1919, H. B. 406, Ch. 168.

[5] *Session Laws of Colorado*, 1923, H. B. 423, Ch. 153; S. L. 1927; H. B. 153, Ch. 140; and S. L. 1929, H. B. 529, Ch. 139.

[6] *Session Laws of Colorado*, 1943, H. B. 484, Ch. 75.

[7] *Session Laws of Colorado*, 1953, H. B. 436, Ch. 16.

[8] *Session Laws of Colorado*, 1913, S. B. 49, Ch. 14.

[9] *Session Laws of Colorado*, 1919, H. B. 471, Ch. 161.

[10] *Session Laws of Colorado*, 1931, H. B. 56, Ch. 122.

these fees were invalidated by the courts. House trailers and coaches were licensed in 1947 on the basis of carrying capacity, but at nominal rates.[11]

The next important steps in the development of the registration or licensing structure were taken in 1955 following the report of the Highway Planning Committee.[12] This agency, established by executive order in 1949, undertook a comprehensive study of the State's highway and road problems including existing and long-range needs, the financing problem and the division of responsibility for highway facilities between the state and local units. The final report recommended the ton-mile and passenger-mile bases of taxing inter-city trucks and buses, supplemented by nominal license fees. These proposals with minor changes were adopted by the legislature, and constitute the present taxing system.

Special Motor Carrier Taxes. Colorado was also one of the first states to impose special or additional taxes on certain types of commercial carriers. Motor vehicles hauling passengers or freight for hire in competition with the railroads were brought under public utility regulation in 1915[13] and special taxes on common carriers were inaugurated in 1927.[14] In addition to the regular registration fees, trucks were charged 5 mills per mile on each ton of freight carried and buses one mill per mile on each revenue passenger. Other trucks and trailers including contract and private were also subjected to higher taxes, but this legislation was repealed two years later and the taxes collected were refunded. The intent of the legislature to put a special tax on the commercial vehicles as compensation for use of the public highways was clearly defined.

Further legislation aimed at so-called "private carriers" was adopted in 1931.[15] Private carriers (other than common) were grouped in two classes: A—those operating over established routes or between fixed termini, and B—those not operating as in A and including carriage of own property to consignees for compensation. Class A were taxed on the same basis as common. Class B "permit taxes" were imposed upon carrying capacity: $50 for vehicles of 1-ton or under, and $25 per ton for each additional ton. Farm vehicles and school buses were excluded.

Rates of taxation on property-carrying vehicles were reduced twice during the depression period but the bus tax remained unchanged. In 1935 the 5 mill tax was cut to 3 mills[16] and in 1937 it was lowered to 2 mills.[17] Carriers transporting their own property to consignees were excluded from the operation of the Private Carrier Act in 1935, and special rules concerning vehicles carrying owned or leased property sold or to be sold in furtherance of a private commercial enterprise were embodied in the Commercial Carrier Act of that year.[18] The general revision of 1955, previously noted, provides the framework of the present system.

Taxation of Motor Fuels In Colorado

Specific Purposes of Motor Fuels Tax. The taxation of the fuel used to propel motor vehicles on the highways or streets in Colorado actually involves two levies. The first applies to regular fuel, primarily gasoline, and the second, to special fuels including those used in diesel-powered vehicles and liquefied petroleum gases when used in motor vehicles. The broad role of the fuels tax in the special benefit or user tax system is to measure the relative use of motor transportation facilities provided at public expense. Extent of use is thought to be a major determinant of benefits and also costs.

While these broad generalizations concerning the purposes of fuels taxation have not been seriously questioned it is quite evident that they leave much to be desired as practical guides to policy formulation. Gallons of fuel consumed do not provide a wholly accurate measure of miles traveled by vehicles of the same type, and as between classes of vehicles the differentials are extreme. The variations in mileage per gallon of fuel for private passenger cars are considerable, but the great majority of such vehicles would probably fall within a 12 to 20 miles range. In the case of trucks and other heavy vehicles miles per gallon decline significantly as weight increases. In a given weight class for large trucks and buses diesel fuel generally is more effective than gasoline. The actual studies undertaken naturally involve some difference in specific results due to the varying conditions involved. However, the following

[11] *Session Laws of Colorado*, 1947, H. B. 353, Ch. 127.

[12] Highway Planning Committee, *Colorado's Highway Needs and Highway Financing; Preliminary Report*, October, 1950.

[13] *Session Laws of Colorado*, 1915, S. B. 422, Ch. 133 and S. B. 421, Ch. 134.

[14] *Session Laws of Colorado*, 1927, H. B. 430, Ch. 134, Sec. 7.

[15] *Session Laws of Colorado*, 1931, H. B. 173, Ch. 120.

[16] *Session Laws of Colorado*, 1935, S. B. 293. Ch. 165.

[17] *Session Laws of Colorado*, 1937, Ch. 25, 26 and 27.

[18] *Session Laws of Colorado*, 1935, S. B. 296, Ch. 167.

data taken from the recent North Dakota incremental cost analysis are illustrative.[19]

Type of Vehicle	Fuel	Gross Weight (pounds)	Miles per gallon	Gallons per ton mile
Passenger Car	Gasoline	3,000	16.6	.0323
Truck	Gasoline	8,000	13.8	.0284
Truck	Gasoline	24,000	7.2	.0176
Truck	Gasoline	60,000	3.7	.0111
Truck	Diesel	60,000	5.5	.0074

The basic policy question raised by such evidence is whether a uniform rate policy for all types of users and different types of fuel is justifiable. The fact that fuel consumption is greater for the heavier vehicles is often said to be appropriate in view of the greater damage to the roads caused by such vehicles. However, recognition of this general relationship does not resolve the problem of equity involved. If the fuels tax is to be used as a basis of distributing costs attributable to weight as well as use, it obviously should be related to some reasonable over-all measure of such costs. Also, the aggregate tax burden of each class of vehicle should be related to its total cost responsibility. As previously indicated, the ton-mile and incremental cost approaches are commonly thought to be the most acceptable methods of cost allocation. While the uniform rate fuels tax does involve a substantial differential burden based upon weight, fuel consumption and consequently the tax burden does not increase in relation to ton miles. Similar though somewhat lesser disparities are evident under the incremental cost measure of responsibility. The estimated distribution of the fuels tax burden by classes of vehicles is shown in a later section of this chapter. In view of the obvious inadequacies of the fuels tax as a basis of allocating highly complex weight cost elements it would be ridiculous to attempt to employ the tax for this purpose. At the same time, it is obviously unfair to disregard the differential burden of the tax in terms of weight.

The differential impact of the uniform rate tax in terms of the type of fuel used is another matter. Diesel-propelled vehicles, as well as those using certain other special fuels, presently enjoy a substantial tax advantage both in relation to use and weight. The extent of the advantage according to the best data available averages around 50 percent and there is no justification for continuing such a discrimination.[20]

With the qualifications indicated the motor fuels taxes provide a highly effective and acceptable instrument for enforcing a major portion of the highway users' tax responsibilities. Receipts have grown rapidly and are highly stable in terms of the effect of changes in the level of economic activity. This form of taxation is also relatively easy to administer, with the exception of the special fuels levy. The problem in the case of special fuels, particularly liquefied petroleum gases, is attributable to the fact that motor vehicle use is an infrequent and relatively unimportant element of total consumption. Finally, public psychology has been surprisingly favorable to the fuels taxes in spite of the rising burden involved.

The economic impact of the fuels taxes upon various income groups is an often neglected but important aspect of policy formulation. While these and other effects are relevant to the general question of justification they are considered in a later section of the chapter.

The Tax Base. The definition of taxable fuels under the Colorado statute distinguishes two categories of fuel, namely, so-called "motor fuel" and special fuels. The former, motor fuel,

> . . . means and includes gasoline, casing-head or natural gasolines, benzol, benzene and naptha and any liquid prepared, advertised, offered for sale, sold for use or used, or usable in internal combustion engines for the generation of power. It does not include kerosene oil or kerosene distillate, except when advertised, offered for sale, sold for use, or used, alone or blended or compounded with other products, for the generation of power in internal combustion engines for the propulsion of motor vehicles upon the public highways.[21]

Thus, the first types of fuel noted, gasoline, etc., are included without reference to use in motor vehicles, and the second, kerosene and kerosene distillate, only when used in motor vehicles on the highways. In general, the legal description of motor fuel is all inclusive and nontechnical in character.

Special fuels including diesel and liquefied petroleum gases, however, are not taxable under the above definition. They are presently taxed under special provisions as follows:

> An excise tax of six cents (6¢) a gallon is hereby imposed on *any liquid* used as a fuel in a diesel-powered vehicle within the State of Colorado, and . . . all liquefied petroleum gases used in a motor vehicle within the State of Colorado, except when such fuels are used in the operation of farm vehicles on farms or ranches.[22]

Exemptions, Credits and Refundable Uses. While the definitions of motor and special fuels are very broad, the typical exclusions involving

[19] North Dakota Cost Allocation Study, *op. cit.*, p. 70.

[20] See Highway Planning Committee, *op. cit.*, pp. III-18 to III-23.

[21] *Colorado Revised Statutes, 1953*, Ch. 138-3-1.

[22] *Ibid.*, Ch. 138-3-2-(3).

governmental and non-highway uses and credits for special purposes are provided. In addition to the exceptions noted in the general definition, there are two exemptions involving federal and state use which are handled by exemption certificates and permits. Sales to the U. S. Government and its agencies in single deliveries exceeding 300 gallons are subject to the exemption procedure. Payment of tax is technically required on sales in lesser amount but the tax is refundable. These sales are non-taxable by virtue of federal constitutional principles. Use of fuel for State purposes in State-owned vehicles is exempt by regulation under a statutory provision relating to use by state and local subdivisions.

Other excepted uses require payment of the tax, but are subject to refund or credit under stipulated procedures.[23] These uses include virtually all non-highway purposes as follows: stationary gas engines; motor vehicles operating on fixed rails or not operating on highways; farm vehicles, implements and machinery when used for agricultural purposes on farms or ranches; motor boats; airplanes and aircraft; cleaning and dyeing; and other commercial uses not involving use of the highways. Taxes are also refundable on use by towns, cities, counties or other local governmental units in vehicles owned and operated by such units.

Refund claims for the above uses are subject to the specific limitations that they must involve 20 gallons or more, the fuel must be used before filing of the claim and the claim must be filed within 6 months after the fuel is used. Special provision is made for refunding or crediting of tax in the case of lots of fuel of 500 gallons or more which is lost or destroyed while in the hands of a distributor. Finally, there is an allowance of 2 percent of the motor fuel received to the distributor to cover losses in transit and unloading and the costs of collecting and paying the tax. The distributor, however, must give one-half of this allowance to the retailer.

Use of Fuel Not Taxed to Distributor. A use tax is imposed on motor fuel, except diesel fuel, used in the State for propelling motor vehicles on the streets or highways or imported into the State for use or sale in cases where a licensed distributor has not paid and is not liable for payment of the tax.[24] Amounts of fuel in excess of 20 gallons brought into the State in the fuel tank of a motor vehicle are also subject to the use levy. As diesel and other special fuels are taxed to the user they are not covered by the use tax provisions.

[23] *Ibid.*, Ch. 138-3-3.

[24] *Colorado Revised Statutes, 1953*, Ch. 138-3-2-(2).

Comparison of Tax Base in Colorado and Other States. Colorado's practice of granting full exemption or refund rights for non-highway uses of fuel is in conformity with the special user principle of taxation, and reflects the practice of the large majority of states and the federal government. Exemption of governmental uses including federal, state and local units is also the general rule.

In spite of the theoretical considerations involved and the weight of state practice there has been a definite trend during the last two decades to limit or deny the exemption or refund privilege on non-highway uses of motor fuel.[25] The encroachment varies from full taxation to various specific limitations.[26] Three states, including Utah and Wyoming, have abandoned the exclusion of non-highway uses entirely and *eleven* other jurisdictions have restricted the exemption or refund status of particular non-highway uses. In most of these jurisdictions, also, something less than the full tax is refunded on the favored uses. The non-highway uses most frequently subject to partial or full taxation are aviation and other non-agricultural. A number of states do not exempt use of motor fuel by their local subdivisions, but this is not a new development. Colorado changed its policy to include all local use in 1953. Prior to 1953 the exemption was limited to publicly owned vehicles used in the construction, repair and maintenance of streets and highways.

Extension of the tax base by including either partially or wholly non-highway uses of motor fuel is defended as a practical expedient. It substantially increases tax yields, and at the same time eliminates the serious administrative problem of checking and controlling tax refunds. It is also suggested that the refundable uses are relatively inconsequential; that the costs of preventing evasion are virtually prohibitive; and that the special user tax approach involves many imperfections in addition to the fact that it falls far short of meeting the total costs of highways and streets. It should be noted that the State Highway Planning Committee's Report of 1950 supported the existing policy of exemption.

The merit of the exemption versus taxation question logically must be evaluated in terms of the broad criteria or purposes of the special user tax system. Certainly the present level of fuels and other taxes on the user groups could not be justified on other grounds. An expediency solution to special issues or problems arising in

[25] Special fuels are not involved as the taxable use in the exceptional situation.

[26] Federation of Tax Administrators, *State Gasoline Tax Refunds Amounts and Procedures*, Research Report, No. 40, 1955.

the application of any generally accepted form of tax also leads inevitably to a negation of the basic goals or objectives of the tax. Within this broad frame of reference the policy of taxing non-highway uses of motor fuel is believed to be inacceptable. Furthermore, the practicality of effective control of the refund problem has been demonstrated. While substantial outlays are required, the total costs of fuel tax enforcement are still relatively low.

The argument that non-highway uses are relatively inconsequential and, therefore, the impact of the tax upon such users may be disregarded obviously involves a questionable basis of judgment. Quantitatively, the uses in question average around 12 percent of total consumption which is hardly insignificant.[27] The inequity occasioned by a policy of taxation however, is the major concern. Surely, the extension of the base of this special users' tax to uses which are wholly inconsistent with the purposes of the tax cannot be passed over as being unimportant. Furthermore, while it is impossible to achieve perfection in the structure and application of any tax, the objective of sound public policy is to eliminate or reduce elements of inequity, not to introduce new ones.

Legal Impact of Fuels Tax. The distributor who first receives "motor fuel" in the State after it has left the refinery or other point of origin is liable for payment of the tax on such fuel. If the distributor is also the refiner, the latter is primarily liable. The amount of fuel taxable is determined by the invoice covering the transaction subject to the allowance of 2 percent for losses in handling and costs of collecting and paying the tax. Fuel received which is sold outside the State is not taxable, or if a tax has been paid, it is subject to credit. Colorado practice in taxing the first distributor who receives the fuel in the State is typical, and obviously delimits the enforcement problem by reducing the number of taxpayers.

The use tax, which supplements the motor fuel tax, is payable by any person who uses such fuel or imports it into the State for use or sale in cases where a licensed distributor has not paid or is not liable for the tax. For purposes of tax liability such persons are considered to be distributors.

In contrast to the legal incidence of the motor fuel tax, the owners or operators of motor vehicles powered by diesel fuels and liquefied petroleum gases are primarily liable for payment of the tax. Dealers selling special fuels, however, are licensed and the law requires that they must fully account for and report all fuel sold. Failure to do so may make the dealer liable for payment of the tax. While many states follow the reverse policy of making the dealer directly responsible for payment, the weight of opinion is almost equally divided as to the desirability of the two approaches.

Rates of Fuels Tax. Fuels tax rates for the 48 states and the District of Columbia as of January 1, 1958 are shown in Table 10.2. The Colorado rate of 6¢ per gallon on motor and special fuels is currently employed by the largest number of states (19). The 6¢ per gallon rate is slightly below the median average with 12 jurisdictions levying lower rates and 17 higher. Four states, however, impose a 6.5¢ rate. The range is still considerable from 3¢ in Missouri to 7.58¢ in Oklahoma. There has been a sharp rise in fuels tax rates in recent years. Thirty-two states increased their rates from 1945 to 1951, and 29 have raised rates in the last six years.[28] In view of projected increases in highway expenditures further rises may logically be anticipated.

A growing number of states are imposing a differential rate on diesel and certain other special fuels. In most of the eleven jurisdictions involved the additional tax is 2¢ per gallon, but several use a 1¢ or 1.5¢ differential (Table 10.2). There are also two states, Kentucky and Virginia, that impose a 2¢ additional tax on fuel used by certain types of commercial carriers. The latter practice reflects the application of a weight distance or incremental cost measure of relative responsibility which generally leads to higher taxes on the heavier classes of vehicles.

Motor and Special Fuel Tax Receipts. The rise in Colorado motor fuel tax receipts since the adoption of the tax law in 1919 is shown in Table 10.3. It is an almost unbelievable record, though the experience has been duplicated in other states. While successive rate increases in 1923, 1927, 1929 and 1947 have had a significant effect, they are overshadowed by the impact of the increasing number of vehicles and miles traveled. During the first decade, 1920 to 1930, rates were tripled and net revenues increased by 1,098 percent. From 1930 to 1940, although this was the period of the Great Depression and the rate was not changed (except for one year), receipts increased by nearly 36 percent.

There was a slight decline in receipts in the trough of the depression years 1932 through 1935, but the staying power of the tax was amply demonstrated considering a decline of about 50 percent in the national income. Revenues rose by 150 percent in the decade from 1940 to 1950 with only a 20 percent increase in rates. Again, there was a fall in receipts during the

[27] See Table 10.3.

[28] Federation of Tax Administrators, *Tax Administrators News*, Public Administration Service.

war years of approximately 25 percent (1944 compared to 1942) attributable on this occasion to the stringencies of gasoline rationing. Since 1950 revenues have increased by more than 57 percent.

Table 10.2

State Motor Fuel Tax Rates
January, 1958

State	Gasoline (cents per gal.)	Other fuel (cents per gal.)
Alabama	7	7
Arizona	5	5
Arkansas	6.5	6.5
California	6	6-7
Colorado	6	6
Connecticut	6	6
Delaware	5	5
Florida	7	7
Georgia	6.5	6.5
Idaho	6	6
Illinois	5	5
Indiana	6	6
Iowa	6	6-7
Kansas	5	5-7
Kentucky	7	7-9
Louisiana	7	7
Maine	7	7
Maryland	6	6
Massachusetts	5.5	5
Michigan	6	6
Minnesota	5	5
Mississippi	7	8
Missouri	3	3
Montana	7	7-9
Nebraska	7	7
Nevada	6	6
New Hampshire	6	6
New Jersey	4	4
New Mexico	6	6
New York	4	4-6
North Carolina	7	7
North Dakota	6	6
Ohio	5	5
Oklahoma	7.58	7.58
Oregon	6	6
Pennsylvania	6	6
Rhode Island	4	4
South Carolina	7	7
South Dakota	6	7
Tennessee	7	7
Texas	5	5-6.5
Utah	6	6
Vermont	6.5	—[a]
Virginia	6	6-8
Washington	6.5	6.5
West Virginia	6	6
Wisconsin	6	6
Wyoming	5	5-7
District of Columbia	6	6

[a] Kerosene and diesel fuel not subject to tax.

Source: Federation of Tax Administrators, *Tax Administrators News*, Public Administration Service.

As a consequence of the remarkable growth in fuels tax collections, the levy has assumed a predominant position in the highway user tax field, and by 1950 had become a major source of State tax income. In relation to total highway user tax receipts, fuels tax revenues reached a peak of 85 percent in 1953. Since that year its relative position has declined slightly to 82 percent in 1957.[29] The decline is attributable to the rapid rise of collections from the ton-mile tax on "for hire" carriers. Following an upward revision of rates in 1955, receipts from the latter levy have more than doubled. The important role of the fuels tax in the State's total tax structure is also impressive. It accounted for about 45 percent of State tax receipts in 1930[30] and 25 percent in 1940. It maintained this approximate position from 1948 until 1954, and has declined slightly in the last three years, the 1957 ratio being 22 percent (Table 10.3).

Special fuels tax receipts are included in the total collections shown in Table 10.3. While they are a relatively minor factor in the overall picture, revenues have more than tripled in the last seven years. Collections amounted to $1,665,884 in 1957 as compared to $505,131 in 1950.[31] Increasing use of such fuels as well as a somewhat greater emphasis on checking returns are undoubtedly the major reasons for the rapid rise in receipts.[32]

Table 10.3

Colorado Motor and Special Fuel Tax Revenues, 1919-1957

Year[a]	Total revenues	Refunds Amount	Refunds Percent of revenues	Net revenues	Percent of total state taxes
1919	$ 316,973	$ 4,139	1.3	$ 312,834	N.A.
1920	510,290	7,381	1.4	502,909	N.A.
1921	584,034	6,960	1.2	577,074	N.A.
1922	664,885	23,140	3.5	641,745	N.A.
1923	942,764	11,590	1.2	931,174	N.A.
1924	1,802,903	33,209	1.8	1,769,694	N.A.
1925	1,874,408	30,537	1.6	1,843,871	N.A.
1926	2,199,524	59,271	2.7	2,140,253	N.A.
1927	3,435,437	133,812	3.9	3,301,625	N.A.
1928	3,985,070	279,703	7.0	3,705,367	N.A.
1929	5,540,532	428,376	7.7	5,112,156	N.A.
1930	6,643,111	615,835	9.3	6,027,276	N.A.
1931	6,857,517	769,297	11.2	6,088,220	N.A.
1932	6,135,282	659,144	10.7	5,476,138	N.A.
1933	6,013,136	654,743	10.9	5,358,393	N.A.
1934	7,300,774	855,745	11.7	6,445,029	N.A.
1935	6,814,599	809,973	11.8	6,004,626	N.A.
1936	7,855,299	1,042,474	13.3	6,812,825	N.A.
1937	8,659,029	1,214,575	14.0	7,444,454	N.A.
1938	8,623,328	1,154,776	13.4	7,468,552	N.A.
1939	9,037,922	1,215,334	13.4	7,822,588	N.A.
1940	9,554,090	1,344,638	14.1	8,209,452	24.97
1941	9,853,887	1,351,081	13.7	8,502,806	24.00
1942	9,915,016	1,311,207	13.2	8,603,809	23.08
1943	8,549,562	1,325,554	15.5	7,224,008	18.17
1944	7,812,511	1,331,776	17.0	6,480,735	16.18
1945	8,030,383	1,544,579	19.2	6,485,804	15.83
1946	10,851,839	1,762,808	16.2	9,089,031	18.55
1947	14,491,847	2,121,779	14.6	12,370,068	21.09
1948	21,877,956	4,176,464	19.1	17,701,492	24.05
1949	23,083,730	4,521,080	19.6	18,562,650	22.80
1950	24,857,452	4,298,295	17.3	20,559,157	24.00
1951	26,618,882	4,133,753	15.5	22,485,129	23.40
1952	28,527,010	4,177,297	14.6	24,349,713	24.08
1953	29,604,630	3,914,777	13.2	25,689,853	24.08
1954	31,017,609	3,970,044	12.8	27,047,565	24.57
1955	32,544,057	3,837,140	11.8	28,706,917	22.93
1956	35,092,215	4,077,238	11.6	31,014,977	22.32
1957	36,355,296	3,965,152	10.9	32,390,144	21.98

[a] Data are for calendar years from 1919 through 1940, and fiscal years since 1940.

Source: Colorado State Department of Revenue, *Annual Reports* from 1934 to present; State Highway Planning Commission Reports for prior years.

[29] State of Colorado, Department of Revenue, *Annual Reports.*

[30] State of Colorado, Division of Accounts and Control, *Annual Report.*

[31] State of Colorado Department of Revenue, *Annual Reports.*

[32] As all special user tax receipts are earmarked for highway and related uses, their disposition is considered following the discussion of the individual taxes.

Influence of Refunds and Exemptions on Collections. Refund policies with respect to non-highway uses of motor fuel have had a significant impact on motor fuels tax collections since 1927. In the early period following the adoption of the fuels tax, refunds ranged from 1 to 4 percent of gross collections. Although not specifically mentioned in the law until the 1927 Act, refunds were granted on application. The low rates of the tax were probably another factor contributing to their minor character. After 1927 refund allowances as indicated in Table 10.3 steadily increased in importance (excluding small declines in certain depression years), reaching a peak of over 19 percent of gross collections in 1945. The rise during the war years from 13 percent in 1942 to 19 percent in 1945 was a direct reflection of the decreased use of fuel for taxable private uses. Refunds declined in percentage significance in 1946 and 1947, though increasing in absolute amount. Substantial increases followed in 1948 and 1949 reaching a new high of nearly 20 percent in the latter year. Lack of administrative staff and consequently enforcement effort was probably a major influence in these years. Since 1949 intensified administration has sharply reversed the trend, refunds dropping to 11 percent in 1957. This reduction was achieved in spite of the fact that refunds to municipal governments were extended to all municipal uses of fuel in 1955.

Agricultural use accounts for the bulk of refund payments, 78.3 percent in 1954.[33] Governmental use, including state highway, counties, cities and towns, is the next most important, accounting for 9.2 percent. Industrial and contractors use ranks third, 7.8 percent; and aviation fourth at 4.1 percent. Rail and all other amount to less than 1 percent. If all aviation fuel had been handled on a refund basis in 1954, total refunds would have been increased by one-third.[34]

It should be noted that the refund totals do not include certain exempted fuel uses or the 2 percent allowance to distributors (1 percent to distributor and 1 percent to retailer) for evaporation and collection expense. The principal elements of exempted use on which a tax is not paid are bulk sales to the federal government and state agencies and aviation fuel. The tax on aviation fuel was generally handled on a refund basis in early years, but is now commonly exempted due to the distributor status of most of the outlets. On a gallonage basis in recent years the total exempt fuel averaged around 8 to 10 percent. The two percent allowance must be added to this figure to arrive at the tax free total.

[33]State of Colorado, Department of Revenue, *Annual Report*, 1954. Refund data are not available since 1954.

[34]State of Colorado, Department of Revenue, *Annual Reports.*

While the refund provisions under the Colorado law are very liberal, the present proportion of refunds and exemptions to gross collections is believed to be high. The institution of regular field inspection would undoubtedly be very productive from a revenue standpoint.

Cost of Collecting Fuels Tax. The costs of administering fuels taxes in Colorado are relatively low. During the past decade, as indicated in Table 10.4, they have ranged from less than ½ of 1 percent to .77 percent of total fuels taxes in 1957. The rise in costs in 1957 reflects a change in the record-keeping system, and the effort devoted to office checking of refund claims. Approximately one-half of the 2 percent allowance to distributors and retailers should also be regarded as a collection expense. Total costs, therefore, are well under 2 percent.

Low administrative costs per se do not indicate effective administration. While administrative procedures are generally sound, increased emphasis upon field audits and the special fuels tax in particular would undoubtedly yield significant returns. Increased outlays, therefore, should be contemplated. These as well as other facets of administration are treated in the section on administrative practices and problems.

Table 10.4

Percentage Cost of Administering Colorado Motor Fuels Tax, 1941-1957

Year	Percent of collections
1941	1.15
1942	0.64
1943	0.67
1944	0.73
1945	0.75
1946	0.59
1947	0.52
1948	0.49
1949	0.42
1950	0.40
1951	0.40
1952	0.41
1953	0.38
1954	0.44
1955	0.56
1956	0.52
1957	0.77

Source: Colorado State Department of Revenue, *Annual Reports.*

Administration of Fuels Tax. The fuels tax law requires the filing of returns and payment of tax on a monthly basis by the distributors of motor fuel, users of motor fuel on which a tax has not been paid by a distributor, and the users of special fuels in motor vehicles.

Each distributor or user liable for filing a return and payment of tax must obtain a license.

Dealers or sellers of special fuels must also obtain a license, and are secondarily liable for payment of the tax if it is not paid by the user. They are required to keep a permanent record (at least three years) of all sales of special fuels. Several special types of informational or supplemental reports are required of distributors of motor fuel, and carriers of motor fuel on Colorado highways must report all pertinent facts concerning such shipments.

In the case of failure of a distributor to file a return and to pay the tax due, or if false or misleading information is submitted with or without the intent to defraud, the distributor upon notification by the Department of Revenue is subject to a penalty of 10 percent of the tax due plus interest at the rate of 8 percent per year. The penalty may be waived at the discretion of the Director if the tax is paid within 10 days of notification (much longer in practice). The distributor by law is designated as a trustee of all taxes collected, and the Department of Revenue has attempted to maintain a prior claim to such funds. Users are subject to similar penalty and interest payments on delinquent taxes, and establishment of intent to evade constitutes a misdemeanor punishable by a fine of $1,000 and a jail sentence (county jail) of not more than one year.

Jeopardy assessments may be made in cases where delay will prejudice collection, and a distraint warrant may be issued against the goods or property of the tax debtor. Public sale of such assets may then be held in not less than 10 days or more than 60 days following notification and publication or posting of such notice. The lien procedure may also be used though it is generally less effective.

The statutory requirements and procedures summarized above are comprehensive and provide an adequate legal basis for effective enforcement. While this aspect of administration is important, the final test lies in the area of enforcement procedure and the personnel available for this activity.

Administrative Organization and Staff. The initial and primary phases of the motor and special fuels tax administration are the responsibility of the Motor Fuel Section of the Division of Taxation of the Department of Revenue. This section is under the direction of a Supervisor and Assistant Supervisor. The other professional staff consists of 4 auditors (3 grade II and 1 grade I), five audit clerks and an administrative secretary who supervises the audit clerks. This staff is concerned solely with the office processing and auditing of returns as field investigations are carried on by the general Field Investigation Section. In addition to tax and informational returns the Motor Fuel Section processes all refund claims.

Office Checking and Audit Procedures. The general organization of the section's work and the procedures followed may logically be divided into three categories, namely, motor fuel tax returns, special fuels tax returns and refund claims.[35] Each motor fuels tax return (some 280 per month) is verified and subject to an individual check by the 4 auditors, with assistance from the supervisors, on a monthly basis. This audit cannot be comprehensive except for the returns which involve questionable items. Basically, the office audit is a process of checking the return against the data received from the various informational reports.

The special fuels tax returns are verified for mathematical accuracy by the machine operators and clerical staff. Nearly 15,000 special fuel permits were issued in 1956 so the volume is considerable. For practical purposes there is no follow-up on these returns, either office audits or field investigations.

Refund claims, which must be accompanied by invoices of fuel purchased and equipment schedules for certain contractors, commercial, and industrial users, are checked by the 5 audit clerks under the supervision of the administrative secretary. The checking process involves a totaling of the gallonage and examination of invoices and equipment schedules. As the number of claims filed exceed 50,000 per year the time spent on the individual claim is obviously limited. While applicants for refunds are legally required to keep complete records there is no general field inspection service to follow through on these provisions.

Field Audits. The field audit effort on fuels taxes is extremely inadequate. The equivalent of only 164 man-days time is devoted to this purpose.[36] Some 59 audits were made in 1957. Additional taxes of $24,831 were assessed and $11,534 was collected. Considering the fact that the equivalent of slightly over half-time for one field agent was spent on these audits, the assessments were substantial.

It should also be noted that there is little time devoted to an important aspect of fuel consumption, namely, that of interstate carriers. The administrative staff suggests that the large companies generally cooperate — some 50-odd file reports each year. By inference the others may or may not be paying a fair share of taxes in Colorado. A similar situation exists in the case of special fuels—the taxes paid in are accounted for. In the case of carriers subject to the ton-mile tax the information obtained in checking tax liability for this levy would be very helpful in validating fuel tax returns if it could be used.

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[35] All information concerning the Section's activities was obtained from the Supervisor and Assistant Supervisor.

[36] Data supplied by the Head of the Field Audit Section.

Strengthening Fuels Tax Administration. There are several specific aspects of fuels tax administration that should be strengthened including the size and grade of staff. The handling of special fuels tax returns is obviously mechanical and incomplete. Establishment of a limited field inspection service for refunds is also imperative, and further effort should be directed to the checking of tax liability in the case of interstate carriers.

The need for an approximate doubling of the office audit staff and a comparable expansion of the field investigation force is indicated. Supervisory staff also suggest the desirability of higher classification auditors and the specialization of field agent activities.[37]

Tightening of enforcement along the lines noted should yield substantial results both in terms of revenue and tax equity. At least this has been the experience of every state, in which such conditions have prevailed, following the extension of enforcement efforts.

Fuels Tax Policy Issues. While the area of motor fuels taxation in Colorado does not involve major policy problems of a distinctive nature, there are several questions that merit attention. They include the tax free status of certain uses and users of fuel, the equity of the present uniform rate on gasoline as related to diesel and other special fuel and the economic impact of the fuels taxes on the incomes of individual, non-commercial users. Increasing federal encroachment upon the fuels tax base is also a significant problem.

Tax Free Uses and Users of Motor Fuel. The exclusion of non-highway uses of motor fuel either through exemption or refund procedures presents a clear-cut policy issue. The question, as previously indicated, is one of equity versus revenue. Exemption of sales of fuel to the federal government is dictated by constitutional immunity. The same practice with respect to state and local government use is wholly a matter of policy, and the policy is generally thought to be sound.

There is obviously no theoretical justification for extending the scope of the motor fuel tax to non-highway uses. The special use or benefit relationship provides the sole justification for a tax of this magnitude upon this product. Furthermore, the fact that non-taxation of other uses creates administrative problems and that widespread evasion is suspected does not alter the theoretical relationships involved.

The revenue implications of taxing non-highway uses require little elaboration. Refunds currently amount to about 11 percent of gross collections and the aviation fuel exemption added to this figure would mean a total loss of revenue due to non-highway uses of 14.6 percent of gross collections or about $5,307,873 for 1957.

Differential Rate on Diesel and Other Special Fuels. The desirability of a differential tax rate on diesel and other special fuels was examined in an earlier section of the chapter, and it was concluded that a differential burden is justified. Available evidence indicates an average fuel saving of approximately 50 percent, but there is considerable variation depending upon vehicle type, weight and other factors. The additional taxes on such fuel presently employed by nine states range from 1 to 2 cents per gallon. Actually, the 2¢ differential is conservative, and should represent a minimum with the existing general rate of 6¢ per gallon. Adoption of the additional rate would increase revenues from special fuels by about one-third, but the impact on total fuels tax collections would not be too significant.

Economic Impact of Motor Fuels Tax on Individual Users. The general public acceptance, which the fuels tax enjoys as a method of highway financing, has apparently led to an attitude of indifference concerning its economic effects upon the individual owners of private passenger cars. This situation is in direct contrast to the well organized, highly vocal commercial carrier group who oppose any attempt to increase its tax burdens. While there are no specific data showing the impact of the fuels tax on the incomes of non-business or commercial users, it is quite evident that the flat rate tax has a regressive effect. The decreased mileage obtained by heavier cars, greater mileage traveled and ownership of two or three cars commonly associated with rising incomes are not sufficient to offset the higher income factor. Regression is probably most marked comparing the very low and medium income categories and, of course, the very high income groups as related to the low and medium levels. The importance of the fuel tax burden to the typical $5,000 per year income family may be simply illustrated. Such a family normally drives about 10,000 miles per year, and pays about $50 tax to the state and $25 to the federal government. This burden may be compared with an estimated state sales tax payment of $68 for the $5,000 to $6,000 income group. In the light of these relationships and the rising rates of state and federal taxes further attention should be directed to the specific effects of the motor fuels tax on low- and medium-income groups.

Federal Encroachment on Fuels Tax Base. The recent doubling of federal rates on motor fuel and adoption of the special benefit approach to financing federal highway outlays raises

[37] Three of the four auditors are grade II.

anew a serious problem of federal-state revenue relationships. The paramount position of the national government in the field of individual and corporate income taxes and other special excise or sales taxes, the growing revenue problems of state and local governments, and increasing federal aids are all evidence of the basic fact that the revenue capabilities of the subordinate units are of primary concern. While Congress may find it convenient or expedient to invade this and other fields pioneered by the states, this action is wholly unjustified in terms of the over-all revenue needs and resources of the units involved. The regressive impact of the fuels tax lends further weight to this conclusion. State protests in the past have apparently had little effect, but perhaps more vigorous action by the states will eventually demonstrate the fallacy of the federal government doling out increasing aid with one hand and taking away state tax resources with the other.

Registration Tax, Operators' Licenses and Other Motor Vehicle Fees In Colorado

The broad purposes of the vehicle registration tax as an element of the special highway user tax structure were considered in an earlier connection. Other than the traditional object of identifying vehicles and vehicle ownership, its principal functions today are to measure the "readiness to serve" aspect of costs and the relative damage to facilities by the different types of vehicles. Weight and its distribution by axles or tire surface are thought to be the chief differential factors contributing to costs, both construction and maintenance. Graduated taxes in relation to weight, therefore, are the general rule.

Registration taxes also serve to distinguish the economic nature of use, that is, commercial (for hire), other private and public. This end, though not associated with the basic purpose of measuring cost responsibility, is incorporated in all state registration and carrier tax systems. It apparently involves the social judgment that those using public facilities to realize a profit should pay an additional tax for the privilege. The additional burden may also be intended to equalize in part the competitive advantage which motor carriers are often said to enjoy through having a roadbed provided at public expense. While these concepts call for the inclusion of all types of business and income-earning uses, in actual practice, the higher tax is imposed (with minor exceptions) only on common and contract carriers. A further departure from the underlying theory is very common—farm trucks being favored over other private carriers. Differential use factors cannot be a justification for these discrepancies as there is no measure of use involved in the typical registration tax structure. Public use in one form or another is ordinarily given preferential treatment. The reasons are familiar but unrelated to the primary purposes of the registration tax.

The value of the vehicle is also often reflected in registration tax practice, particularly with respect to private passenger cars. Here again, this element has no connection with the generally accepted goals of the tax. In some cases, however, the registration charge includes a property tax equivalent, and in this instance a value or age factor makes sense. Collection of the property tax as a separate charge at the time of registration, which is Colorado's approach (specific ownership fee), takes advantage of an effective administrative technique, and should avoid confusion concerning the nature of the two taxes.

Specific Bases of Registration Tax: Colorado and Other States. The specific bases for registering motor vehicles vary as to type of vehicle, vehicle use and user categories. There is also great diversity in practice from one state to another. In fact, the variations are so great that inter-state comparisons become exceedingly difficult. In relation to the bases of registration three broad classes of vehicles will be distinguished: private passengar cars, trucks and buses.

Private Passenger Cars. Private passenger cars in Colorado are licensed according to "shipping weight," three categories being employed. This concept of weight is roughly equivalent to net, empty or unladen weight, and is the most popular factor for this class of vehicle. However, an increasing number of jurisdictions are using a flat or uniform fee on the ground that the differential in weight for such vehicles is not sufficient to be meaningful from the standpoint of cost responsibility. It also simplifies administration and record-keeping in some degree. Other bases employed include: horsepower, which is not a reliable indicator of weight; and combinations of weight and age or value. Either the present basis of net weight or the uniform charge are the preferred bases of registration for these vehicles.

Trucks or Property-Carrying Vehicles. In the case of trucks or property-carrying vehicles, Colorado uses empty weight for all categories. Practice in other jurisdictions reflects a predominance of this factor and gross weight.[38] The latter concept, which obviously is more directly indicative of cost responsibility, is variously de-

[38] Commerce Clearing House, *General State Tax Law Service*, 1958.

fined as empty weight plus a maximum load or an assumed average load. A preference for gross weight per unit accompanied by an axle differential is indicated in the states that do not impose a special or additional tax on commercial carriers, and thirty jurisdictions now use the gross weight factor as compared to fourteen using empty or unladen weight. Rated capacity is still employed in a few jurisdictions, although it bears little relationship to loads actually carried.

Colorado licenses trailers and semi-trailers separately from trucks and truck-tractors, and this practice is widely followed, especially by the states using a net weight factor. The gross-weight basis logically calls for licensing of the combination as a single operating unit, and this is the general rule. It should be noted that different bases may be employed in registering farm trucks and/or light trucks. Colorado does not use a distinctive base, and the practice is on the decline with differential burdens being reflected in the rate schedules.

In terms of the broad principle that registration taxes should reflect relative damage or cost responsibility gross weight per axle is clearly the most appropriate basis of licensing medium or heavy weight trucks.[39] Similarly, combinations should be registered as units rather than by their component parts. Differential bases of registering trucks (other than panel or pickup) are discriminatory and should be avoided. The combined effect of the empty weight basis of registration and the ton-mile tax, which involves gross weight and mileage factors for common and contract carriers, is to give private carriers an additional advantage as compared to a gross-weight basis of registration.

Buses. Colorado registers buses, both commercial and other private, according to seating capacity. This factor does not adequately reflect weight, particularly empty weight. A combination of empty weight and seating capacity or gross weight is more commonly employed, and is preferable for the reasons previously cited in the case of trucks. The private carrier facet of the problem is not significant because seating capacity does reflect in part relative gross weight, and there is little private carrier activity in the case of buses.

Registration Tax Rate Schedules. The registration tax rate schedules in Colorado, as well as other states, are complex in character. The degree of complexity may be visualized by comparing the following schedules of Utah and Wyoming (Tables 10.5, 10.6, and 10.7) with that of Colorado. Seven basic classifications according to type of vehicle or vehicle use are employed in the Colorado schedules, and some states have more. There is no semblance of uniformity from state to state in the primary classifications and further variations exist on sub-classes, such as the number of axles factor, and the special classes, including city, inter-city and interstate. Needless to say, the rates imposed also cover a broad range.

Table 10.5

Colorado Motor Vehicle Registration Tax Rates, 1958

Class of Vehicle	Fee charged
Passenger cars	
2,600 lbs. and under (shipping weight)	$ 5.00
2,600 to 4,500 lbs.	5.00 plus 15¢ per 100 lbs.
over 4,500 lbs.	7.85 plus 60¢ per 100 lbs.
Inter-city trucks and truck tractors[a]	
Under 4,500 lbs. (empty-weight)	8.75
4,000 to 4.500 lbs.	8.75 plus 75¢ per 100 lbs.
over 4,500 lbs.	17.50
Trailers and semi-trailers	
Under 1,200 lbs. (empty-weight)	2.00
1,200 lbs. and over	5.00
Farm trucks and truck-tractors[b]	
Under 4,000 lbs. (empty-weight)	7.00
4,000 to 10,500 lbs.	7.00 plus 45¢ per 100 lbs.
over 10,500 lbs.	36.25 plus $1.05 per 100 lbs.
Intra-city trucks, truck-tractors[c]	
Under 4,000 lbs. (empty-weight)	7.00
4,000 to 10,500 lbs.	7.00 plus 75¢ per 100 lbs.
over 10,500 lbs.	55.75 plus $1.75 per 100 lbs.
Buses (seating capacity)	
9 seats or less	20.00
over 9 seats	20.00 plus $1.00 per seat over 9.
School buses (private)	
25 seats (juvenile) or less	15.00
over 25 seats	15.00 plus 50¢ per seat over 25.

[a] Inter-city travel subject to ton-mile tax, or if within radius of 10 miles
[b] of city regular fees plus 25 percent.
Owned by farmer or rancher and used for transporting own products or goods.
[c] Vehicles, excluding farm, which are not subject to ton-mile tax.

Source: Commerce Clearing House, *Colorado State Tax Law Service.*

Colorado's motor vehicle tax rates are shown in Table 10.5. The rate on private passenger cars reflects a moderate weight differential and is comparable to that of other jurisdictions which employ a weight factor. The weight basis of licensing this type of vehicle, while not essential from the standpoint of the relative cost concept, does permit a higher charge and consequently increased revenue from the heavier cars as compared to the flat fee method.

In the registration of property-carrying vehicles, trucks and combinations, the Colorado schedule distinguishes three primary classes of vehicles and one special class. The primary classes are: (1) Intra-city trucks and truck-tractors which are not subject to the ton-mile tax and includes private carriers other than farm; (2) inter-city trucks and truck-tractors

[39] In the case of panel and pickup trucks load is not a highly significant factor, though a uniform base is logical.

subject to the ton-mile tax which includes most common and contract carriers, and (3) farm trucks and truck-tractors when owned by the farmer or rancher and used for transporting his own products. A final special category is provided for trailers and semi-trailers.

Table 10.6

Utah Registration Tax Rates, 1958

Class of Vehicle	Rate charged
Private passenger cars (not for hire)	$ 5.00
Vehicle transporting persons for hire or transporting property[a]	
6,000 lbs. or less (gross weight)	$ 7.50
6,001— 9,000	15.00
9,001—12,000	25.00
12,001—15,000	35.00
15,001—18,000	50.00
18,001—21,000	65.00
21,001—24,000	80.00
24,001—27,000	100.00
27,001—30,000	120.00
30,001—33,000	140.00
33,001—36,000	160.00
36,001—39,000	180.00
39,001—42,000	200.00
42,001—45,000	225.00
45,001—48,000	250.00
48,001—51,000	275.00
51,001—54,000	300.00
54,001—57,000	325.00
57,001—60,000	350.00
60,001—63,000	375.00
63,001—66,000	400.00
66,001—69,000	430.00
69,001—72,000	460.00
72,001—75,000	490.00
75,001—over	520.00
Trailers and semi-trailers not otherwise registered	5.00
House trailers	5.00
Non-resident operators of 2 or more vehicles in interstate commerce[b]	
25,000 lbs. or less (gross weight)	½¢ per mile
25,000—45,000	1¢ per mile
45,000—60,000	1¼¢ per mile
60,000—above	1½¢ per mile

[a] Combinations are registered as a unit.

[b] May be permitted to pay the milage tax in lieu of above gross weight tax.

Source: Commerce Clearing House, *Utah State Tax Law Service.*

The tax schedules involve the customary differential in favor of farm trucks. However, heavy farm trucks pay a substantial registration tax which increases at $1.05 per 100 lbs. over 10,500 lbs. In the other two classes of trucks and truck-tractors there is a combination of the intra-city and inter-city distinction and the type of carrier (common, contract and private) concept. This type of classification is employed by other states, but the type of carrier basis is more widely used. In the tax schedules a direct relationship to the ton-mile tax is self-evident. Whereas, inter-city or specified commercial carriers are often taxed at a much higher rate than intra-city or private, the reverse policy is followed in Colorado. Furthermore, the level of registration tax rates for the vehicles subject to the ton-mile tax is understandably very low in relation to those of other states which do not impose a heavy additional tax on such vehicles. Thus, an interstate comparison of rates of the registration tax alone is wholly unmeaningful.

Two use categories of buses are distinguished for registration tax purposes: (1) school (private); and (2) others which includes all for-hire and private other than school. The rate is substantially higher for the non-school, and this is the customary practice. Again, however, the level of rates for the for-hire non-school, in particular, is fractional as compared to that of states which do not impose the special passenger-mile tax on this class of users.

While there is no point in attempting to make specific interstate comparisons of registration tax rates, the over-all problem of user tax burdens by visual, use, and weight categories is treated in a later section of the chapter. Some indication of general burdens is also afforded by the per capita-yield data presented in Chapter IV, Table 4.8.

Table 10.7

Wyoming Registration and Special Carrier Tax Rates, 1958

Vehicle Classes	Rate charged
Passenger cars (9 pass.) Busses (7 pass.)	$ 7.50
Motorcycles	2.50
School buses	5.00
Buses, trucks, trailers, house trailers and semi-trailers	
1,000 lbs. or less (empty weight)	1.00
1,001—3,500	7.50
3,501—4,500	10.00
4,501—5,500	15.00
5,501—6000	20.00
over 6,000	30.00
Common contract and private carriers conpensatory fees[a]	1.00
Freight and express—gas	
Less than 4,000 lbs. (empty weight)	5.00
4,000—6,000	10.00
6,000—7,000	15.00
over 7,000	1½ mills per ton-mile
Freight and express, butane or propane	1½¢ mills per ton-mile plus 5¢ per gallon
Freight and express, diesel	1½ mills per ton-mile plus 7¢ per gallon
Passenger—gas	1 7/10¢ per mile traveled
Passenger—other fuel	2½¢ per mile traveled

[a] Municipal or city are excluded.

Source: Commerce Clearing House, *Wyoming State Tax Law Service.*

Yield of Registration Tax, Operators' Licenses and Other Fees. Collections from the registration tax and related licenses and fees during the period from 1941 to 1957 inclusive are shown in Table 10.8. Registration receipts have increased steadily, except for the World War II years. At the same time, the relative importance of the tax in the State's tax system has declined from 7.4 percent of total tax revenues in 1941 to 4.7 percent in 1957. A similar decline is evident in the position of the tax in the highway user tax program. The absolute increase in revenues, it should be emphasized, is attributable to the growing number of vehicles licensed rather than a higher burden per

vehicle. In fact, the average tax per vehicle has remained at virtually a constant level since 1945 (around $7.50), and is only slightly higher than in 1941 ($6.60).

Operators' and chauffeurs' licenses, as might be anticipated, are of minor significance. While these receipts have increased on a long-term trend basis, they vary from year to year and have always been less than 1 percent of total tax receipts. The other special fees in the order of their importance in 1957 are as follows: certificate of title—$256,552; permit and inspection—$80,173; and Public Utility Commission general revenue—$42,494.[40] They totalled approximately $380,000 or about ¼ of 1 percent of total State tax collections in 1957.

Table 10.8

Revenues from Registration Tax, Operators' Licenses and Miscellaneous Fees, Colorado 1941-1957

Year	Registration tax revenues	Operators' licenses revenues	Other miscellaneous revenues	Total registration and other	Percent of total tax revenue
1941	$2,440,767	$ 91,585	$101,517	$2,633,869	7.44
1942	2,447,745	113,265	85,949	2,646,959	7.10
1943	2,365,051	135,807	83,925	2,584,783	6.50
1944	2,265,591	81,433	74,885	2,421,909	6.04
1945	2,324,583	119,540	77,031	2,521,154	6.15
1946	2,625,103	163,000	86,685	2,874,788	5.87
1947	2,958,518	127,567	123,715	3,209,800	6.56
1948	3,383,868	163,407	135,659	3,682,934	5.00
1949	3,655,483	170,338	167,481	3,993,302	4.91
1950	3,954,298	162,830	203,779	4,320,907	5.04
1951	4,287,197	178,699	229,672	4,695,568	4.89
1952	4,468,163	243,807	338,640	5,050,610	4.97
1953	4,911,056	175,616	295,892	5,382,564	5.05
1954	5,083,585	298,755	371,907	5,754,247	5.23
1955	5,598,323	656,175	373,516	6,628,014	5.29
1956	5,841,320	413,320	430,806	6,685,446	4.81
1957	6,184,090	389,994	379,216	6,953,300	4.72

Source: State of Colorado, Department of Revenue, *Annual Reports.*

Administration and Costs of Collection. The administration of the tax and certain other related provisions of the Motor Vehicle Code is "farmed out" to the counties, and they are compensated for this service. Procedures are subject to State supervision and appear to be satisfactory. The State Department of Revenue has recently installed data processing facilities which are available to the counties, and fifteen counties have made arrangments to use this service in 1959.

The costs of administering the registration tax in recent years has averaged around 6 percent of receipts.[41] In view of the somewhat complex procedures and record-keeping involved this percentage factor is probably not excessive, though some states have a lower cost ratio.

[40] Colorado State Department of Revenue, *Annual Report,* 1957.

[41] See State of Colorado, Department of Revenue, *Annual Reports.*

Policy Issues Concerning Registration Tax. There are no serious problems or policy issues with reference to the registration tax as such. However, the inter-relationship of this tax and the special ton- and passenger-mile tax involves several important theoretical and practical problems which will be considered in the concluding section of the chapter. It should be noted that the question of reciprocity in the registration of interstate vehicles is not a significant problem in Colorado. In the first place, the Colorado law provides for full reciprocity on an individual state basis, and, secondly, the registration tax on for-hire trucks and buses is nominal in amount by virtue of the imposition of the ton- and passenger-mile tax.

Special Commercial Carrier Taxes In Colorado and Other States

Nature and Use of Special Commercial Carrier Taxes. The imposition of special or additional taxes on certain classes of commercial carriers has become increasingly popular during the last three decades. These taxes have taken various forms, and differ markedly in terms of their relationship to other user taxes and their overall effects. Consequently, there is some confusion as to the nature of the taxes and the terminology employed to describe them.

Basically, the so-called special carrier taxes are designed to impose a higher or additional tax burden on certain commercial carriers. In most instances they are limited to "common" and "contract" carriers which operate on an inter-city or inter-state basis, but there are some exceptions. While the purpose of levying a differential burden on these types of commercial carriers is self-evident, the policy approaches to this end are diverse and complex. The simplest method in terms of the tax structure is to incorporate the additional burden in the registration tax classification and rate schedules. This approach avoids a special or so-called third structure tax (in addition to registration and fuel taxes), but may not achieve the degree of refinement desired in terms of use-weight factors. Thus, the fact that a state does not impose a special or third tax on for-hire carriers does not mean that these carriers are escaping a differential burden. The alternative approach of levying a special tax permits a wide choice of tax bases and tends to highlight the apparent purpose involved.

However, the use of a special or third structure tax may also be illusory in terms of the relative tax burdens involved. Two elements of current state practice in certain jurisdictions may tend to disguise the real burden situation. In some states, as in Colorado, the registration tax for the vehicles subject to the special levy is nominal in amount, and in others the special tax

carriers are subject to the regular registration taxes. Several jurisdictions also have in lieu provisions in their laws which complicate the actual burden situation.

Special or additional taxes on certain commercial carriers are presently employed by 29 states. They vary significantly in scope, the nature of the tax base and rates. With a few exceptions they apply to licensed "for hire" carriers of property and passengers. Generally speaking, they do not include private or intra-city carriers. It should be noted that the 29 taxing states, as shown in Table 10.9, do not include the jurisdictions which have special taxes on interstate carriers only, nor those which have special levies in lieu of registration taxes. However, the "in lieu" tax states are shown separately.

Of the 29 states, seven use a mileage base; eight impose the tax on graduated weight; eight use a gross receipts measure; three, including Colorado, utilize ton and/or passenger miles; and three levy a flat rate of $10 or more per vehicle. Inclusion of the flat rate taxes is subject to question as most states impose nominal flat fees per vehicle on P.U.C. licensed carriers. However, the $10, or more charge is distinctive, and merits mention.

Three of the special in lieu taxes (in Illinois, Maryland and Mississippi) are in lieu of registration taxes, and each of the typical tax bases are represented. Connecticut's gross receipts tax on common carrier buses is in lieu of all other taxes, and the mileage tax in Florida is in lieu of property taxes. It should be noted that several states, including New Mexico, Idaho, and Oklahoma, have repealed ton-mile taxes in recent years; and the Utah tax was held to be unconstitutional. The action of the former states may be attributed primarily to administrative problems and strong carrier opposition.

Carriers Subject to Colorado Ton- and Passenger-Mile Taxes and Tax Base. The Colorado ton-mile tax upon property-carrying vehicles applies to all inter-city, non-farm trucks, truck tractors, trailers or semi-trailers, or combination thereof operated on the public highways and having an empty weight in excess of 4,500 pounds. If such vehicles, operating primarily within the limits of a city, city and county or town, are also used on an inter-city basis, the owners must pay the ton-mile tax on this portion of their travel. A further exception is made if the vehicle is only used intra-city and within a radius of ten miles of the city. In the latter case, the vehicle owner must pay an additional registration fee amounting to 25 percent of the regular fee, and is not subject to the ton-mile tax. Thus, the Colorado ton-mile levy is imposed on for-hire and private carriers which meet the inter-city, non-farm requirements.

The tax is imposed on a differential basis. That is, the ton miles represented by the empty weight of the vehicle times miles traveled in Colorado are subject to a 8-mill tax, and the ton miles reflected by load carried times miles traveled in Colorado are taxed at 2 mills.[42]

The Colorado passenger-mile tax applies to all vehicles carrying passengers for hire on the public highways of the State except intra-city buses, taxicabs and limousines and school buses owned by a school district. The actual number of revenue passengers carried times the miles traveled is the base for imposing the one-mill tax.

[42]The Director of the Department of Revenue may upon his own motion or the request of the vehicle owner or operator determine an average load for the vehicle which is then used as a basis for computing the load factor.

Table 10.9

Classification of States According to Tax Base Used for Special Commercial Carrier Taxes,[a] 1958

Tax Base					
Mileage	Gross receipts	Graduated weight	Ton - or passenger-mile	Flat fee[b]	In Lieu other taxes[c]
Alabama	Arizona	Iowa	Colorado	Georgia	Connecticut[e]
Idaho	California	Nebraska	Oklahoma (pass. mile)	Indiana	Florida[f]
Michigan	Louisiana	Rhode Island	Wyoming	Kansas	Illinois[g]
New York[d]	Montana	South Carolina			Maryland[h]
North Dakota	North Carolina	South Dakota			Mississippi[i]
Ohio	Pennsylvania	Tennessee			
Oregon	Texas (Contract)	Washington			
	Virginia	West Virginia			

[a] These taxes are additional levies on licensed for-hire carriers of passengers and property unless otherwise indicated.
[b] $10 or more per vehicle.
[c] These taxes are in lieu of registration or other taxes as indicated and apply to one or more categories of licensed vehicles. In lieu features applying only to interstate or unlicensed carriers are excluded.
[d] Property carriers only.
[e] Gross receipts on common carrier buses (all other taxes).
[f] Mileage (ad valorem).
[g] Mileage-weight (registration).
[h] Passenger-mile and graduated weight (registration).
[i] Gross receipts, graduated weight or ton-mile (registration).

Source: Commerce Clearing House, *General State Tax Law Service, 1958.*

Rates of Special Commercial Carrier Taxes: Colorado and Selected States. Considering the differences in the nature of special commercial carrier taxes and their relationship to other highway user taxes, rate comparisons are of limited value. The summary of rate schedules under the mileage, gross receipts and ton- and passenger-mile taxes shown in Table 10.10 indicates some degree of uniformity in burden. In the case of the mileage taxes the rates range from 1 to 48 mills, and are graduated on the basis of weight, seating capacity or axles. The rates in North Dakota and Oregon reflect the maximum which may equal or exceed 3¢ per mile (Oregon's schedule goes to 4.8¢ on Class A carriers). It should be noted that motor fuel taxes may be credited against mileage taxes in Oregon.

The rates of the gross receipts taxes exhibit less variation, ranging from ½ of 1 percent to 2½ percent with the exception of the 6 percent levy on the gross revenue of property carriers in North Carolina. Montana's rate of ½ of 1 percent on the gross operating revenue of common and contract carriers constitutes the minimum levy.

Among the three states shown in Table 10.10 using the ton- and/or passenger-mile tax, the Colorado rate on vehicle load of 2 mills is the maximum. Considering their over-all effect, however, the Wyoming rates are comparable to those of Colorado. The graduation noted in the instance of mileage taxes is, of course, built-in in the case of the ton- and passenger-mile levies.

Table 10.10

Selected Special Commercial Carrier Tax Rates By States, 1958

State	Coverage: type of carrier	Tax base	Tax rates
	A. Mileage Taxes		
Alabama	Passenger	Graduated (seating capacity)	¼-1¢ per mile
	Freight	Per axle	¼-⅛¢ per mile
Idaho	Passenger and freight (over 16,000 lbs. gross weight) [a]	Graduated (gross weight)	5.25-12.35 mills additional (other fuel)
Michigan	Passenger	Graduated (seating capacity)	1-2 mills per mile
	Freight	Graduated	3-4 mills (tractors) 1-3 mills (trucks)
New York	Freight only	Graduated (gross weight)	6-35 mills per mile
North Dakota	Freight	Graduated	1.5-3¢ per mile
Ohio	Trucks and combinations	Graduated (axles)	½¢-2½¢ per mile
Oregon	Four categories (A, B, C, D)	Combined weight	1.5-48 mills per mile (Class A: Gas)
	B. Gross Receipts Taxes		
Arizona	Passenger	Gross receipts	2.25 percent
	Property	Gross receipts	2.50 percent
California	For hire	Gross receipts	1.50 percent [b]
Louisiana	For hire	Gross receipts	2.00 percent
Montana	Common and contract	Gross operating revenue	0.50 percent
North Carolina	Passenger	Gross revenue	1.50 percent
	Property		6.00 percent
Pennsylvania	Intra-and Inter-state	Gross receipts	0.80 percent
Texas	Contract	Gross receipts	2.42 percent
Virginia	For hire (inter-city)	Gross receipts	2.00 percent plus 0.20 percent
	C. Ton-or Passenger-Mile Taxes		
Colorado	Freight (inter-city)	Ton miles	0.8 mill for vehicle, 2.0 mills for load
	Passenger (inter-city)	Passenger miles	1.0 mill
Oklahoma	Passenger (inter-city)	Passenger miles	0.5 mill
Wyoming	Freight & Express [c]	Ton miles	1.5 mills

[a] Also farm and non-commercial over 24,000 lbs. gross weight.
[b] Total taxes and licenses not to exceed 2 percent of gross receipts
[c] Passenger carriers are subject to a mileage tax of 1 7/10¢ per mile for gas and 2½¢ for other fuels.

Source: Commerce Clearing House, *General State Tax Law Service, 1958.*

Receipts of Ton - Mile and Passenger - Mile Taxes in Colorado. The ton-mile and passenger-mile taxes on inter-city for hire, property and passenger carrying vehicles, respectively, have been an important factor in the highway user tax picture since their inception. Revenues, as indicated in Table 10.11, show a gradual increase each year from 1941 to 1954 (1945 and 1946 excepted). Also, receipts in 1957 are more than double the 1954 collections. Thus, the tax has shown a marked increase in relative importance both with respect to the tax system as a whole and the highway user tax program since the 1955 revisions. The 1957 receipts from this source also exceeded those from the registration tax for the first time. It should be noted that the collections shown in Table 10.11 are gross revenues. Refunds are ordinarily not significant (less than 1 percent), though they amounted to $297,850 in 1956, the first year following the passage of the revised tax law.

Since 1955 the cost of collecting the ton- and passenger-mile taxes has averaged around 3 percent. This is a reasonable cost factor, and compares favorably with the general tax sources. The most important consideration, of course, is whether the tax is being effectively administered.

Administration of the Ton- and Passenger-Mile Tax. The Ton-mile Section of the Taxation Division of the Department of Revenue is directly responsible for administering the special commercial carrier taxes. This unit has had 12 (authorized) auditors and 3 audit clerks in addition to the director. It is concerned solely with office audits. Field audits are the responsibility of the general field investigation staff of the Department of Revenue. Port-of-entry and state patrol officers also assist the ton-mile section in obtaining information to check tax liability.

Table 10.11

Revenues from Ton- and Passenger-Mile Taxes Colorado, 1942-1957

Year	Revenues	Percent of total tax revenues
1942	$ 821,515	2.20
1943	1,042,042	2.62
1944	1,125,519	2.81
1945	1,081,529	2.64
1946	1,101,763	2.25
1947	1,304,625	2.22
1948	1,459,662	1.93
1949	1,711,452	2.11
1950	1,909,729	2.23
1951	2,337,719	2.43
1952	2,555,692	2.52
1953	2,867,209	2.69
1954	2,908,285	2.64
1955	4,508,893	3.60
1956	5,666,241[a]	4.08
1957	6,344,257	4.31

[a] Refunds amounted to $297,850 in this year following the changes in the law in 1955, and are deducted from gross collections.

Source: State of Colorado, Department of Revenue, *Annual Report.*

In general, the administrative procedure for the ton-mile tax involves a dual system of reporting. Each carrier subject to the tax is required to file comprehensive reports of its operations and tax liability on a monthly basis. Port slips showing basic data on each vehicle are collected by port officials and similar information is obtained by the state patrol on all vehicles checked. The information on the patrol and port slips is then cross-checked against carrier reports. There are some 16,000 active ton-mile accounts, and around 200,000 port and 50,000 patrol slips are received each month. Needless to say the volume of paper work involved is tremendous, and the unit is about 2 months behind in its audit work.

A penalty of 50 percent of the tax due plus 1 percent interest per month is provided in the case of fraudulent returns, and 1 percent interest monthly if no return is filed. While the fraud penalty is seldom applied, the ton-mile section takes strong measures in cases of an underpayment of tax. An under-payment discovered in one month is checked out for two additional months, and if the discrepancy is maintained the carrier is billed on a percentage basis for three-years back taxes. If the carrier protests the assessment, he has the option of bringing his records in for a complete audit or paying for the cost of a field audit. Needless to say, the above practice usually gets results.

The enforcement procedures in the case of the ton-mile tax appear to be basically sound. However, they are adapted primarily to the interstate carriers. While the state patrol slips and other supplementary measures provide a reasonable check upon intra-state operators, it is recognized that some evasion exists. The problem of enforcement for this type of operation is also complicated by the exclusion of intra-city and metropolitan licensed vehicles (which operate within a ten-mile radius of a city) and intensified enforcement effort is undoubtedly required in this area. On the whole, additional audit staff appears to be highly desirable. Each auditor, on the average, pays his salary in one month of audit work. If maximum results are to be achieved, it is also essential that the ton-mile tax unit be permitted to use several of their specialized staff for field investigations. Very few field audits are conducted by the general field investigators, and there is a considerable lapse of time between the request for an audit and its performance.

Disposition of Highway User Tax and Fee Receipts

All highway user tax receipts in Colorado are earmarked by constitutional provisions for highway, road and street purposes. The motor and special fuels tax revenues along with registration fees, operators' licenses and special carrier taxes are placed in the special Highway Users Tax Fund, after the administrative expense for each source has been deducted. Two additional elements of administrative outlay are then deducted, that of maintaining motor vehicle inspection stations and the cost of the state highway patrol operation. The inspection station expense amounted to .7 percent and the highway patrol 5 percent of net revenues in 1957.

The remainder of the fuel and other earmarked revenues is distributed to the State Highway Fund, County Road Funds and cities and town (for street purposes) on a 65, 30 and 5 percent basis, respectively. The City and County of Denver, by special provision, receives only its proportion of the city share.

The allocation of the county and city and town shares to individual units is based upon two formulas. Twenty percent of the county total is distributed according to "rural motor vehicle registrations" and the remaining 80 percent on the basis of the adjusted mileage of open and used rural roads. In the case of cities and towns, the two factors are reversed with 80 percent being distributed according to "adjusted vehicle registrations,"[43] and the other 20 percent in relation to the mileage of open and used city streets.[44] The necessary computations in the application of these formulas are made by the State Highway Commission staff.

[43] The gross registration factor is weighted on a graduated basis from 1 to 12, depending upon the number of registrations.

[44] For actual distribution of receipts to counties and cities see Chapter XX.

State Sharing of User Funds with Local Governments. State policies concerning the distribution of funds among the three units of government have been subject to continuing attack by municipalities. They contend that their share should be increased primarily on two grounds: (1) the share which they receive is only a fractional element of their contribution; and (2) the arbitrary and distinctive methods of financing streets employed in earlier periods are no longer realistic or equitable. Denver officials have charged outright discrimination in that the consolidated city and county is denied the larger county share.

The critical financial problems of most Colorado municipalities certainly merit a thorough review of their claim for a larger share of highway user taxes on theoretical as well as practical grounds. The basic concept of rural highway and road versus city street financing has undergone significant changes since the establishment of state highway systems. Initially, it was assumed that the two types of facilities served different purposes and should be financed by distinctive methods. In particular, state highways being general use facilities should rely on receipts from user taxes, and the cost of city streets whose use was limited largely to city residents should be met by special assessments or property taxes upon the "primary beneficiaries." The same line of reasoning suggested that the cost of secondary rural roads should be met largely from property taxes. This approach worked no serious hardships in the early days of limited motor vehicle travel. As the number of vehicles and mileage traveled increased students of highway finance sought to clarify the theoretical basis of public policy. Although specific interpretations varied, the broad principal of predominant use became the accepted basis of public policy. It called for a classification of facilities according to their primary uses, general or through traffic, on the one hand, and, access to property, on the other. In practice this meant that the state highway system should be supported by the special user taxes and other facilities by taxes or assessments on property-owners. While the theory obviously placed minor rural roads in the same category as city streets (not a part of the state highway system) and required state financing of all state highways, it was some time before the states assumed full responsibility for financing state highways within municipal boundaries.

The rapid growth of vehicle and traffic volume starting in the late 1920's was paralleled by the extension of state highway system mileage primarily in rural areas. Thus, the states assumed increasing responsibility either directly or through state aid for financing rural roads. Increasing federal aid for designated primary systems greatly facilitated this development. The states, however, generally continued to restrict aid to municipalities to primary federal-state highways until the period following World War II. During the last decade and a half a combination of factors has served to fundamentally alter the character of motor vehicle travel, the nature and cost of the facilities required, and, consequently, the problem of financing them. The facts are common knowledge. The long-term urbanization trend under the impact of phenomenal population growth has occasioned an almost unbelievable expansion of urban areas, and municipal boundaries. The bulk of motor vehicle travel both private and commercial is now concentrated in our cities and surrounding urban communities, the vehicles continually increase in size and horsepower, and the resultant problems of traffic congestion and control which are greatly augmented by increasing state and interstate traffic have created a literal nightmare for city administrations. Quiet city streets of the so-called access type are rapidly being transformed into arterials, throughways, freeways, and traffic interchange problems formerly handled by the relatively simple, one level cloverleaf are now being converted to two, three, four and five level street stacks. While these and other changes are being made as quickly as possible, needs have far-outdistanced improvements. Traffic bottlenecks are increasing, and the primary obstacle is inadequate municipal sources of financing.

It is obvious that a policy which denies cities and towns a substantial and increasing share of motor vehicle tax funds is inacceptable on theoretical grounds and wholly unrealistic in terms of the practical problems involved. First, the predominant use principle requires that a large and constantly increasing part of urban facilities be classified as general rather than access, and that state financing be provided on the same basis as for general use facilities outside municipal boundaries. Second, state aid is presently being extended for certain rural roads that are primarily access in character. Equity also clearly dictates uniformity in this phase of state policy. In short, so long as the type of use and nature of benefits principle is employed as a basis of financing policy, there is no justification for applying it in a discriminatory manner. From a practical standpoint, also, the most crucial technical and financial problems of developing and maintaining adequate motor transportation facilities are centered in the urban areas. Interstate or through traffic may be diverted around or to one side of the cities and towns to lessen congestion and save time for the tourist, although the urban economy may suffer. However, a state highway program and policy which disregards the needs of the majority of motor vehicle owners and the

major portion of traffic volume is clearly unsound. Such action is even more flagrant when this same group of urban users is paying the lion's share of the cost of a system financed by special user benefit taxes.

Earmarking of Highway User Revenues for Highway Purposes. The question of earmarking highway user tax revenues for highway purposes does not present a serious problem in Colorado. All such funds are dedicated to highway and related uses. While students of governmental finance have often questioned the desirability of earmarking as a general practice, the great majority now accept its application in the highway field as a special case situation. Both the nature of the service function and the special benefit basis of financing employed are thought to justify the exception.

In contrast to the general policy of earmarking, a small number of states have directed a portion of user tax revenues to other uses such as education and welfare. This practice has naturally occasioned violent criticism by special user groups. The crux of the situation, however, is whether the total expenditures of the state on highway, road and street facilities is less than, in balance with, or exceeds user tax collections. Only in the first instance where total expenditures are less than user tax receipts is there any real or net diversion. This condition, it should be noted, actually exists in a small minority of the states which practice diversion.

Highway User Tax and Fee Burdens

The earlier discussion of the theoretical aspects of special user taxation focused attention on the controversial allocation of costs problem. The primary issues from a practical standpoint are to determine how the user tax load should be distributed among various types of vehicle, vehicle weight and use groups, and to select the most appropriate tax measures for implementing this objective. While decisions on the relative burden issue should be predicated upon the broad concepts of relative damage or cost and perhaps nature of use, the actual evidence concerning the damage factor is incomplete and provides a general rather than specific policy guide. Additional controlled-use studies are essential to a wholly objective solution of this aspect of the problem. Another major obstacle to sound policy judgments has been the lack of adequate data concerning the specific effect of particular tax measures on various user groups and, more significantly, the over-all impact of user tax policy in individual states. The latter deficiency has prevented interstate comparisons on a comprehensive basis.

Source of Data on User Tax and Fee Burdens. In 1955 the Bureau of Public Roads of the United States Department of Interior initiated an ambitious, nation-wide research project designed to clarify the distribution of user tax burdens under existing state laws.[45] The Bureau defined the broad terms of the study and the procedures to be employed, and directed the state highway authorities to make the analysis on the basis of 1956 tax policies. While the details of research methodology are not pertinent to this discussion, scientific sampling procedures were required in the absence of actual data.

In general, the study plan called for a breakdown of total user tax and other charges on a uniform gross weight schedule basis. Vehicles were further classified as to: (1) visual groupings (single unit trucks, combinations, buses, etc.); (2) nature of use (for hire, not for hire, farm, other); (3) type of fuel used (gasoline, diesel and other); and (4) number of axles. The number of vehicles in each weight category was indicated, and the average miles traveled for most types of vehicle, use, fuel, axle, and weight categories were presented in separate schedules.

The Colorado State Highway Department, Division of Research and Statistics, completed the research project in 1957, and the results were made available to the Governor's Tax Study Group. Considering the obvious importance of the information, the chief executives of the other ten Western States were requested to supply copies of their reports for purposes of comparative analysis. Nine jurisdictions complied with this request, namely, Arizona, California, Idaho, Montana, Nevada, Oregon, Utah, Wyoming and Washington. However the reports from two states, Utah and Montana, were incomplete and not readily adaptable to a meaningful comparison of burdens by specific vehicle, use and weight categories.

The first phase of this analysis is concerned with a summary of the distribution of special user tax burdens in Colorado, and the second deals with interstate comparisons. It should be emphasized that the basic data in the individual state reports are subject to certain limitations. The Colorado study is one of the best, but the sampling procedures employed, though scientifically designed by the Bureau of Public Roads, do not necessarily produce valid results in individual weight categories which only include a few vehicles. Therefore, one must look at the trend of costs for a particular class rather than the individual weight categories to obtain a wholly accurate picture. In the case of interstate comparisons, the necessary data are often not available in some of the states. With these qualifications the data employed in this analysis are believed to constitute a sound foundation for burden comparisons, and they represent a major advance in the factual information available for the formulation of user tax policy.

[45] Motor Vehicle Classification, *Section 210 Study*, Federal Aid Highway Act of 1954.

Distribution of Highway User Tax and Fee Burdens in Colorado

Tax and Other User Payments; Major Vehicle Groups. The distribution of highway user tax burdens in Colorado for 1956 is shown in Tables 10.12 and 10.13. User tax and fee payments by type of charge for the major vehicle groups are summarized in Table 10.12. Total user tax and other payments of the 819,143[46] vehicles registered in Colorado in 1956 amounted to approximately $45,632,000. The owners of private passenger cars (611,886 vehicles) accounted for the bulk of total payments or 63 percent. The 157,286 single unit trucks (all major uses) were responsible for 19.3 percent of the total; the 6,763 combinations (all major uses) 16.2 percent; and the 1,803 buses 1.5 percent. The 26,369 for hire vehicles, which include generally the inter-city common and contract carriers of property and passengers, accounted for 21.8 percent of the total as compared to 78.2 percent for the not-for-hire or private vehicles. The latter relationship of 22 to 78 percent is particularly significant in view of the controversy concerning the present responsibility of the two groups for highway financing in Colorado.

The predominant role of the motor fuels tax in the total tax and fee burden for most categories of users is strikingly portrayed in Table 10.12. Other taxes and fees exceeded fuel tax payments only in the case of for-hire single unit trucks and combinations. For private passenger cars motor fuels taxes represented 80 percent of user payments; registration fees slightly over 12 percent; and other fees about 7.6 percent. In the case of single unit not-for-hire trucks, motor fuel taxes constituted 69.2 percent of total payments; registration fees 22.6 percent; and other fees 8.2 percent. The division of the user tax payments for single unit farm trucks presents an interesting variation. Motor fuels taxes represented only 61.2 percent of the total; registration 29 percent; and other fees 9.8 percent. This is in spite of the fact that registration rates for farm trucks (above the minimum weight) are lower than for the other private carriers. For farm combinations the distribution of the user burdens is closer to a reasonable expectation, the motor fuels tax accounting for 75 percent of the total. However, other not-for-hire combinations show a much higher fuel tax ratio of 88.7 percent.

[46] See footnote, Table 10.11.

Table 10.12

User Tax and Fee Payments by Type of Charge and Totals
Major Vehicle Groups, Colorado, 1956

Vehicle groups	Number of vehicles[a]	Registration fees	Other fees	Ton- and passenger-mile taxes	Motor fuel taxes	Total taxes and fees[b]	Percent of total user payments
			A. Number of Vehicles and Payments				
Single unit trucks							
For hire[c]	20,500	$ 271,980	$ 82,293	$ 919,137	$ 1,197,822	$ 2,471,232	5.42
Not for hire[d]	87,459	971,692	351,075	—	2,974,094	4,296,861	9.42
Farm	49,327	587,576	198,003	—	1,237,147	2,022,731	4.43
Combinations							
For hire[c]	4,515	96,304	20,370	4,629,596	1,999,916	6,746,186	14.78
Not for hire[d]	2,024	60,552	9,061	—	547,840	617,453	1.35
Farm	224	6,748	1,020	—	23,001	30,769	0.07
Busses							
For hire[c]	765	38,136	4,215	246,316	305,483	594,150	1.30
Not for hire[d]	1,038	21,955	5,726	—	51,900	79,581	0.17
Automobiles							
For hire[c]	589	3,417	3,050	—	134,880	141,347	0.31
Not for hire[d]	611,886	3,519,165	2,170,496	—	22,941,843	28,631,504	62.75
Totals	778,327	5,577,525	2,845,314	5,795,049	31,413,926	45,631,814	100.00
			B. Percent of Total User Tax Payments				
Single unit trucks							
For hire[c]	—	11.01	3.33	37.19	48.47	100.0	—
Not for hire[d]	—	22.61	8.17	—	69.22	100.0	—
Farm	—	29.05	9.79	—	61.16	100.0	—
Combinations							
For hire[c]	—	1.43	0.30	68.62	29.65	100.0	—
Not for hire[d]	—	9.50	1.79	—	88.71	100.0	—
Farm	—	21.93	3.32	—	74.75	100.0	—
Buses							
For hire[c]	—	6.42	0.71	41.46	51.41	100.0	—
Not for hire[d]	—	27.58	7.20	—	65.22	100.0	—
Automobiles							
For hire[c]	—	2.42	2.16	—	95.42	100.0	—
Not for hire[d]	—	12.29	7.58	—	80.13	100.0	—

[a] Trailers, which are separately registered are generally included as part of a combination unit, and special mobile equipment are excluded. Consequently, 40,816 registered vehicles do not appear in the total number of vehicles indicated.

[b] The total allocation of user payments shown represents 99.9 percent of actual net collections in calendar 1956.

[c] The for hire category includes vehicles subject to the special ton- or passenger-mile taxes.

[d] Not for hire vehicles include all of those which are not subject to the ton- and passenger-mile taxes other than farm and publicly-owned vehicles.

Source: Adapted from Motor Vehicle Classification, *Section 210 Study*, Federal Aid Highway Act of 1956.

In the case of for-hire vehicles, which are subject to the ton- or passenger-mile taxes, the special tax payments, as might be anticipated, are a major element of the total burden. However, there is a considerable variation in the relative importance of the ton- and passenger-mile tax payments, from 68.8 percent for combinations to 37.1 percent for single unit trucks. In the instance of for-hire buses, the special tax accounts for 41.5 percent of the total payments. The markedly higher ratio of the ton-mile tax payments for combinations, is, of course, attributable to the greater relative importance of the load factor and the higher rate on this element (2 mills as compared to .8 mill on empty vehicle weight).

Distribution of User Tax and Fee Burdens by Specified Classes of Vehicle. A further breakdown of special user tax and fee burdens by specified vehicle classes, showing total user taxes, percent of total user payments, average costs per vehicle and average cost per mile is presented in Table 10.13. These data highlight the relative distribution of user tax burdens in Colorado by all major vehicle classes including visual, type of use, fuel consumed and number of axles. The picture is necessarily complex, but certain broad patterns are evident, particularly in the average cost-per-mile data. The average costs per vehicle, which have been employed in earlier analyses of user tax burdens, do not correspond directly to the more meaningful cost per mile measure, but there is some degree of correlation.

The over-all range in costs per mile for all classes of vehicles and uses is extreme, from 3/10¢ for diesel-propelled farm combinations (semi-trailer, four-axle units) to 5.2¢ per mile for gas-propelled for-hire combinations, (truck-trailer, four-axle units). As there were only 12 vehicles involved in the lowest cost group, the results are open to question.[47] Therefore, the 6/10¢ per mile average cost for private passenger cars and not-for-hire, gas-propelled, two-axle, single-unit trucks may well represent the actual minimum.

For-Hire Combinations. For-hire combinations, as might be expected, were subject to the highest costs. The average cost per mile within this broad group of vehicles ranged from the maximum of 5.24¢ to 2.4¢. The larger, heavier types of combination, such as truck-full-trailer, tractor semi- and full-trailer and five-axle semi-trailers, in the order indicated, were taxed more heavily than other units. Generally speaking, the gas propelled units paid more than the diesel, though several classes were on a par. Average costs per vehicle for the entire for-hire

[47] The individual vehicles travelled an estimated 41,000 miles each; so the fuel tax was either under-stated or evaded.

Table 10.13

Distribution of Special User Tax and Fee Burdens by Specified Classes of Vehicle, Colorado, 1956

Type of Vehicle and Use	Number of vehicles[a]	Taxes and fees Amount[b]	Percent	Av. cost per vehicle	Av. cost per mile[b]
Single unit trucks					
For hire: gas					
2 axles	19,652	$2,187,112	4.80	$ 111	$0.012
3 axles	768	243,944	0.53	318	0.025
Not for hire: gas					
2 axles	83,197	3,661,816	8.02	44	0.006
3 axles	4,084	588,722	1.29	144	0.010
Farm: gas					
2 axles	49,178	2,018,382	4.42	41	0.007
3 axles	149	4,349	0.01	29	0.026
For hire: diesel					
2 axles (6 tires)	12	8,112	0.02	676	0.026
3 axles	25	14,128	0.03	565	0.023
Not for hire: diesel					
2 axles (6 tires)	12	4,956	0.01	413	0.016
3 axles	128	32,021	0.07	250	0.011
For hire: other fuel	43	17,936	0.03	417	0.017
Not for hire: other fuel	38	9,346	0.02	246	0.014
Combinations					
For hire: gas					
Semi-trailer					
3 axles	1,178	528,744	1.16	449	0.024
4 axles	1,265	1,221,361	2.68	965	0.033
5 axles	283	386,497	0.85	1,366	0.038
Full trailer					
4 axles: tractor	72	184,073	0.40	2,557	0.052
4 axles: truck	63	77,033	0.17	1,223	N.A.
Semi- and full trailer					
5 axles	16	56,835	0.12	3,552	0.036
6 axles	14	28,654	0.06	2,047	0.048
Not for hire: gas					
Semi-trailer					
3 axles	785	177,855	0.39	227	0.016
4 axles	564	145,089	0.32	257	0.010
5 axles	170	67,013	0.15	394	0.009
Full trailer: tractor and trucks					
4 axles	40	10,666	0.02	267	N.A.
Semi- and full trailer					
5 axles	46	4,111	0.01	89	0.029
Farm: gas					
Semi-trailer					
3 axles	102	9,671	0.02	95	0.012
4 axles	60	4,723	0.01	79	0.016
5 axles	22	2,866	0.01	130	0.012
Full trailer					
4 axles	7	4,438	0.01	634	0.010
For hire: diesel					
Semi-trailer					
3 axles	80	135,346	0.30	1,692	0.024
4 axles	365	822,040	1.80	2,252	0.029
5 axles	1,031	2,903,368	6.36	2,816	0.037
Full trailer					
5 axles	20	92,027	0.20	4,601	0.035
Semi- and full trailer					
5 axles	34	127,363	0.28	3,746	0.037
Not for hire: diesel					
Semi-trailer					
3 axles	37	7,312	0.02	198	0.011
4 axles	98	30,671	0.07	313	0.014
5 axles	161	145,327	0.32	903	0.011
Full trailer					
4 axles	12	8,595	0.02	716	0.011
5 axles	15	1,267	0.003	84	0.020
Semi- and full trailer					
5 axles	24	4,543	0.01	189	0.013
Farm: diesel					
Semi-trailer					
3 axles	14	6,908	0.02	493	0.009
4 axles	12	1,312	0.003	109	0.003
5 axles	7	851	0.002	121	0.010
For hire: other fuel					
Semi-trailer					
4 axles	62	79,063	0.17	1,275	0.029
5 axles	32	103,782	0.23	3,246	0.038
Not for hire: other fuel					
3 axles	44	2,681	0.01	61	0.010
4 axles	16	5,945	0.01	372	0.012
5 axles	12	6,378	0.02	531	0.016
Buses					
For hire: gas	385	331,041	0.73	860	0.029
For hire: diesel	356	239,376	0.52	672	0.018
For hire: other fuel	24	23,733	0.05	989	0.032
Not for hire: gas	1,038	79,581	0.17	77	0.016
Automobiles					
For hire: gas	589	141,347	0.31	240	N.A.
Not for hire: gas	611,886	28,631,504	62.75	47	0.006
Grand total	778,327	45,631,814	100.00	—	—

[a] Trailers, which are separately registered are generally included as part of a combination unit, and special mobile equipment are excluded. Consequently, 40,816 registered vehicles do not appear in the total.
[b] The total allocation of user payments shown represents 99.9 percent of actual net collection in calendar 1956.

Source: Adapted from Motor Vehicle Classification, *Section 210 Study*, Federal Aid Highway Act of 1956.

combination group show a much broader range from $4,601 in the case of diesel-propelled, truck-full-trailer, five-axle units to $449 in the instance of gas-propelled, semi-trailer, three-axle units. Differences in the average cost per vehicle factor, not otherwise reflected, are attributable basically to variations in miles travelled.

For-Hire Buses. For-hire buses in Colorado rank second in burden as measured by cost per mile. The cost range for these vehicles overlaps the lower level of for-hire combinations costs. Buses using fuels other than gas or diesel are subject to a 3.2¢ per mile burden; gas propelled, 2.9¢; and diesel propelled, 1.8¢. The advantage of the diesel-powered units is obviously very marked. Average costs per vehicle follow the same pattern with a $989 maximum for the "other" fuel units and a $672 minimum for the diesel units.

For-Hire, Single-Unit Trucks. Broadly speaking, the for-hire single-unit-truck group is third highest in costs per mile. The range is very wide from a maximum of 2.6¢ per mile to a minimum of 1.2¢. Various classes of not-for-hire and farm combinations, as well as not-for-hire single-unit trucks, overlap this cost spread. No differential as between gas- and diesel-powered units is discernible. The overlap in the case of combinations is not surprising as the ton-mile tax on for-hire single-unit trucks is not the primary burden element for the latter vehicle group. The high cost shown (2.6¢ per mile) for farm single-unit, three-axle trucks is not logical, and is attributable primarily to the low miles travelled assumptions for this and certain other classes of farm vehicles.[48] Average costs per vehicle for the for-hire single-unit trucks varies from a high of $676 (diesel two-axle) to a low of $111 (gas-two axle).

Not-for-Hire Combinations. Not-for-hire combinations are next in line, with costs per mile ranging from 2¢ to 9/10¢. The larger, heavier types of unit generally are in the higher cost brackets, though there are some exceptions. The heterogenous character of the vehicles involved in this classification is undoubtedly a major factor in explaining the wide cost spread.

The weight categories and number of vehicles in each weight category have a more significant impact on costs for this group of vehicles as there is no ton-mile tax.[49] Mileage assumptions are also a significant element affecting costs for these vehicles.[50] Average costs per vehicle for this group range from a high of $903 to a low of $84.

[48]See Colorado Motor Vehicle Classification, *Section 210 Study*, Federal Aid Highway Act of 1956, Table E-1-1.

[49]See Table 10.13.

[50]Colorado Motor Vehicle Classification, *loc. cit.*

Other Classes of Vehicles. Not-for-hire buses, gas-powered, occupy an intermediate position in terms of cost per mile, or 1.6¢. The average cost per vehicle is $77. The various classes of not-for-hire and farm trucks fall in the medium and lower cost ranges from 1.6¢ to 6/10¢ per mile. Not-for-hire, diesel-powered, two-axle units pay the maximum and the not-for-hire, gas-propelled, two-axle units, the minimum. Average costs per vehicle vary from $413 to $41. Private passenger cars, as previously indicated, reflect the practical minimum of 6/10¢ per mile, with an average per vehicle cost of $47.

The following comparative analysis of user tax and fee burdens in Colorado and other Western States, which shows costs by individual weight categories, will bring into sharper focus the burden differentials in Colorado.

Comparison of Highway User Tax and Fee Burdens In Western States

Basis of Comparison. Interstate comparisons of highway user burdens present a difficult problem by reason of the variations in types of tax, tax bases and rates employed. Individual tax relationships are not particularly meaningful unless they can be adapted to a uniform measure as in the case of the fuels taxes. Even then it is the over-all burden, rather than particular components, that is significant. The Bureau of Public Roads Study reports from the individual states generally provide the basic data needed on total burdens. Once the total taxes and fees paid by a particular type of vehicle, devoted to a given use, consuming a certain type of fuel and with a given number of axles is determined, an average tax per vehicle can be computed. However, the average tax per vehicle basis of comparison is deficient because it does not take account of differences in average miles travelled which affect motor fuels tax liability. The comparative analysis of user burdens, therefore, is in terms of costs per mile.

Basically, the study covers eight Western States including Colorado. In particular instances, however, data in certain states were either not available or not comparable, and in such cases a smaller number of states are involved. To highlight the relative burden position of Colorado, the textual tables and analysis stress the average cost per mile, the cost in Colorado and the cost in Colorado as a percent of the average. The number of states involved in the computation of the average for each category and the jurisdictions whose costs are definitely higher or lower than those of Colorado are also indicated. It should be noted that the cost data for individual states from which the burden relationships were calculated are shown in Appendix Table 10-A.

Single-Unit Trucks, For-Hire — Gas: Cost Comparisons. The cost relationships of Colorado and the other Western States in the case of single-unit trucks are presented in Table 10.14. In the for-hire, gas-propelled two- and three-axle vehicle classes Colorado's costs per mile are well below the average in all weight categories. The range of Colorado's cost for the two-axle group is from .7¢ to 1.6¢ per mile, and from 1.7¢ to 2.7¢ per mile for the three-axle group. Average costs in the Western States, on the other hand, vary from 8/10¢ per mile to 2¢ for two-axle vehicles, and from 2.4¢ to 4.6¢ for three-axle vehicles. It will be noted that Colorado costs per mile as well as the average costs are substantially higher for the three-axle vehicle group.

On an over-all basis, costs for two-axle vehicles are substantially higher than those of Colorado in California, Oregon, Washington and Wyoming, and are lower than Colorado's cost in two states, Idaho and Arizona.[51] The relationship for the three-axle group is substantially the same.[52]

Single-Unit Trucks, Not-for-Hire—Gas: Cost Comparisons. In the instance of not-for-hire, gas-propelled single-unit trucks Colorado costs per mile are again well below the average in most weight categories. The only exceptions are in three of the lower weight two-axle classes for which Colorado's costs are equal to the average. The discrepancy between Colorado's cost and the average widens appreciably in the heavier two-axle weight categories and in the three-axle group as a whole. For the latter group Colorado's costs range from ¼ to ½ that of the average. As indicated in Table 10.14, the cost in Colorado remains virtually constant throughout the two-axle group, while the average cost increases progressively in relation to weight. For the lower weight three-axle vehicle categories Colorado's costs actually decline, while the average costs tend to increase throughout the entire weight range.

For the two-axle grouping, costs in California, Oregon, Washington and Wyoming are substantially higher than in Colorado, and those in Arizona and Idaho are approximately the same as in Colorado.[53] In the three-axle group costs are higher in all of the other states than in Colorado.[54]

[51] Appendix Table 10-A.
[52] *Ibid.*
[53] *Ibid.*
[54] *Ibid.*

Single-Unit Trucks, Farm—Gas: Cost Comparisons. The cost relationships in the case of single-unit, gas-propelled farm trucks are substantially different, particularly in the three-axle group. While Colorado's costs are somewhat less or about average for the two-axle farm vehicles, they are above average for most of the three-axle group. However, the marked difference for the three-axle class is attributable primarily to very low mileage assumptions, and the limited number of states for which comparable data were available. Of the three other states included, Idaho, Oregon and Washington, only Idaho's costs were lower than those of Colorado for both the two- and three-axle group.[55]

Single-Unit Trucks, For-Hire-Diesel: Cost Comparisons. Comparable cost-weight categories of the single-unit, for-hire, diesel-propelled trucks are strictly limited. This is attributable to the relatively small number of such vehicles, and varying uses in the different states. However, in the three-axle group Colorado's costs are substantially below the average. Costs are generally higher in California, Nevada and Wyoming, and lower in Arizona and Idaho.[56] Costs in Colorado, it may be noted, are slightly lower for the heavy diesel-propelled for hire trucks than for the gas-propelled.

Single-Unit Trucks, Not-for-Hire-Diesel: Cost Comparisons. In the case of single-unit, not-for-hire, diesel-propelled trucks Colorado's costs range from ½ to ⅔ those of the other states. Costs are higher than those of Colorado in 5 states, California, Nevada, Oregon, Washington and Wyoming; lower in only one state, Arizona; and about the same in Idaho.[57] There is little difference in Colorado's costs for the single-unit, not-for-hire gas-propelled as compared to the diesel-propelled trucks.

Summary: Single-Unit Trucks—Cost Comparisons. Generally speaking, the user tax and fee costs per mile for single-unit trucks in Colorado are well below the average in the Western States. The one exception is the case of certain farm vehicles, and for this type of use comparative data were limited to a maximum of 4 states and mileage assumptions in Colorado were exceptionally low. The differential in Colorado favoring all other use categories of single-unit trucks is most marked in the case of not-for-hire vehicles, and gas-propelled in particular.

[55] *Ibid.*
[56] *Ibid.*
[57] *Ibid.*

Table 10.14

Comparative User Burdens Per Mile Traveled by Visual, Use and Gross Weight Categories Western States and Colorado, 1956

Gross Weight (hundreds)	Average cost per mile (in Western States as per sample)	Cost per mile Colorado	Colorado cost as percent of average	Number of states in sample
	A. Single unit trucks			
For hire: gas 2 axles (all)				
40 - 49	$0.008	$0.007	87	6
50 - 59	0.009	0.008	89	7
60 - 79	0.011	0.010	91	8
80 - 99	0.013	0.009	69	7
100 - 119	0.018	0.010	56	8
120 - 139	0.015	0.011	73	8
140 - 159	0.017	0.012	71	8
160 - 179	0.017	0.013	76	8
180 - 199	0.016	0.013	81	8
200 - 219	0.017	0.014	82	8
220 - 239	0.018	0.015	83	8
240 - 259	0.020	0.016	82	8
For hire: gas 3 axles				
200 - 219	0.024	0.017	73	6
220 - 239	0.024	0.017	70	5
240 - 259	0.023	0.018	80	6
260 - 279	0.026	0.010	38	7
280 - 299	0.029	0.019	66	6
300 - 319	0.025	0.020	81	7
320 - 359	0.031	0.026	82	7
360 - 399	0.031	0.026	83	7
400 - 449	0.046	0.027	59	7
Not for hire: gas 2 axles				
40 - 49	0.005	0.005	100	5
50 - 59	0.006	0.006	100	6
60 - 79	0.008	0.006	75	7
80 - 99	0.008	0.007	87	7
100 - 119	0.013	0.009	69	7
120 - 139	0.009	0.009	100	7
140 - 159	0.014	0.009	64	7
160 - 179	0.015	0.009	60	7
180 - 199	0.015	0.009	60	7
200 - 219	0.013	0.009	69	7
220 - 239	0.015	0.009	60	7
240 - 259	0.016	0.008	50	7
260 - 279	0.021	0.009	43	5
Not for hire: gas 3 axles				
180 - 199	0.016	0.006	37	7
200 - 219	0.018	0.004	22	7
220 - 239	0.021	0.005	23	5
240 - 259	0.023	0.006	26	7
260 - 279	0.026	0.006	23	7
280 - 299	0.026	0.008	31	6
300 - 319	0.024	0.009	37	7
320 - 359	0.020	0.010	50	8
360 - 399	0.029	0.010	34	7
400 - 449	0.031	0.010	32	7
Farm: gas[a] 2 axles				
40 - 49	0.006	0.005	83	2
50 - 59	0.007	0.005	71	3
60 - 79	0.009	0.006	67	4
80 - 99	0.010	0.009	90	4
100 - 119	0.011	0.011	100	4
120 - 139	0.012	0.012	100	4
140 - 159	0.013	0.014	107	4
160 - 179	0.014	0.012	86	4
180 - 199	0.015	0.012	80	4
200 - 219	0.016	0.012	75	4
220 - 239	0.016	0.012	75	4

Table 10.14 (Continued)

Comparative User Burdens Per Mile Traveled by Visual, Use and Gross Weight Categories Western States and Colorado, 1956

Gross Weight (hundreds)	Average cost per mile (in Western States as per sample)	Cost per mile Colorado	Colorado cost as percent of average	Number of states in sample
	A. Single unit trucks (cont.)			
Farm: gas 3 axles				
180 - 199	$0.021	$0.028	133	4
200 - 219	0.020	0.027	135	4
220 - 239	0.030	0.028	93	2
240 - 259	0.026	0.026	100	4
260 - 279	0.022	0.029	132	3
320 - 359	0.025	0.025	100	3
360 - 399	0.020	0.024	120	3
400 - 449	0.025	0.027	108	3
For hire: diesel 2 axles[b]				
320 - 359	—	0.024	—	—
360 - 399	—	0.022	—	—
400 - 449	—	0.029	—	—
For hire: diesel 3 axles				
320 - 359	0.025	0.021	84	6
360 - 399	0.033	0.023	70	6
400 - 449	0.033	0.024	73	7
Not for hire: diesel 3 axles				
280 - 299	0.007	0.004	57	5
300 - 319	0.012	0.008	67	6
320 - 359	0.020	0.012	60	7
360 - 399	0.021	0.014	67	5
400 - 449	0.022	0.011	50	7
	B. Combinations			
For hire: gas with semi-trailer 3 axles				
220 - 239	0.022	0.019	88	4
240 - 259	0.021	0.019	90	5
260 - 279	0.025	0.020	80	5
280 - 299	0.022	0.021	96	6
300 - 319	0.024	0.021	88	7
320 - 359	0.026	0.022	85	7
360 - 399	0.023	0.023	102	8
400 - 449	0.027	0.025	93	8
500 - 549	0.032	0.029	92	4
550 - 599	0.032	0.031	98	4
For hire: gas with semi-trailer 4 axles				
320 - 359	0.019	0.022	115	4
360 - 399	0.027	0.024	91	4
400 - 449	0.026	0.028	107	6
450 - 499	0.042	0.030	72	6
500 - 549	0.035	0.031	89	7
550 - 599	0.035	0.034	99	7
For hire: gas with semi-trailer 5 axles or more				
500 - 699	0.037	0.036	99	6
700 and over	0.037	0.038	101	6

semi- and full-trailer units. Costs for all of the for-hire combinations in Colorado show a significant progression in relation to weight.

In the case of not-for-hire combinations, Colorado's costs are markedly below the average, and for the gas-propelled units Colorado's costs are virtually constant in relation to weight. The latter situation is in sharp contrast to that of most other states whose costs show a progressive trend as weight increases. Comparable data generally are not available for the truck full-trailer and tractor semi- and full-trailer units both gas and diesel. The information is also limited to a few weight categories in the case of diesel-propelled tractor semi-trailers.

Although meaningful interstate comparisons cannot be presented in the case of farm combinations, it should be emphasized that costs in Colorado are very low in most categories. Typically, they are about the same as for the not for-hire vehicles.[69]

Buses, For-Hire—Gas and Diesel: Cost Comparisons. Colorado's costs in the instance of for-hire, gas-propelled buses are generally below average, except for the three highest weight categories (22,000 to 27,000 lbs.). There is a marked progression of costs in Colorado throughout the entire weight range. In the instance of for-hire, diesel-propelled buses Colorado is well above the average, except for one weight category. Data in Colorado and most of the other states are spotty and the bases of comparison are limited.[70] Typically, the costs for the diesel-propelled buses in Colorado are not as high as for the same weight gas-propelled vehicles. Although comparative data for the not-for-hire gas-propelled buses are not shown in Table 10.14, Colorado's average cost of 1.6¢ per mile is very low in relation to those of other states.[71]

Private Passenger Cars: Cost Comparisons. The costs per mile for private automobiles in Colorado are exactly equal to the average (7 states) or 6/10¢ per mile. Three other states, California, Nevada and Oregon, have the same cost figure; Washington is higher with 7/10¢ per mile; and Arizona and Wyoming are lower with 4/10¢ and 5/10¢ per mile, respectively. Comparable data are not available for these vehicles in Idaho.

Conclusions: Highway User Burdens In Colorado

The foregoing analysis of highway user burdens in Colorado and in most of the Western States obviously does not provide all of the answers to the burden problem. It does provide certain broad facts essential to intelligent policy formulation. First, it is apparent that Colorado's charges on the for-hire carrier group are not excessive in relation to the average for the Western States considered. For this type of carrier the costs per mile in Colorado vary from about 25 percent below average to 25 percent above, and there are relatively few categories that are above. Those categories for which Colorado's costs are above average are predominately the larger, heavier vehicles.

Second, it is equally clear that user charges in Colorado are abnormally low in the case of not-for-hire and farm vehicles. Colorado's costs per mile range as low as 21 percent of the average, and the disparity tends to be greatest in the instance of the heavier classes of not-for-hire vehicles. For several types, as noted earlier, Colorado's costs are actually constant or regressive in relation to weight. Considering the practice of other Western States, the low level of Colorado's charges on the not-for-hire and farm vehicles appears to represent the most serious deficiency in State policy. Needless to say, this situation bears out the contention that for-hire vehicles are subject to discriminatory burdens in relation to other use categories.

Finally, it should be recognized that the Bureau of Public Roads Study Project in Colorado, as well as in other states, involves a significant beginning in actual burden analysis. Further research is necessary to fill in certain gaps in the basic data and to validate the results for specific categories of vehicles which appear to be questionable. Although these cases do not affect the general burden pattern, the soft spots in the data should be firmed up.

Other Highway User Tax Policy Problems

The earlier discussion of highway user tax policies in Colorado and the burden analysis clearly demonstrates that there are many important problems yet to be resolved in this field. In addition to the questionable aspects of present policy in the sharing of user receipts with local units, there are significant issues relating to the structure of the tax and fee system and the distribution of user burdens among various classes of users. There is also the practical consideration of the future revenue potential of user charges.

Tax Structure and Burdens. The principal problems concerning the effects of Colorado's user tax system are associated with the registration and special carrier taxes. The ton- and passenger-mile tax, as well as alternative levies on the commercial carrier group has been the focal point of controversy in Colorado and in other states. The attempt to impose any form of differential burden upon the industry has resulted in strong opposition from the well-organized and liberally-financed carrier associ-

[69] See Table 10.13.
[70] Ibid.
[71] See individual state reports.

ations. The present basis of registering not-for-hire and farm trucks and combinations and the rate on diesel fuel as compared to gasoline are further elements of concern.

The Ton-Mile Tax. Specifically, the motor carrier industry has charged that the ton-mile tax in Colorado is inequitable and discriminatory, that it is driving interstate operators out of the State and that the tax cannot be effectively enforced. The fact that a number of states have abandoned this form of tax is cited as additional evidence of its allegedly undesirable character. Needless to say, these are serious criticisms, and merit careful scrutiny.

The equity of the ton-mile tax is dependent basically upon the degree to which the tax conforms to accepted principles of user taxation. In other words, does this tax, used in conjunction with other user taxes and fees, result in a reasonable allocation of user burdens? From a theoretical standpoint the answer is clear. The tax does permit a substantial graduation in burden related directly to both the damage and use concepts. Potentially it distributes the burden more equitably than alternative levies such as mileage or gross receipts taxes which only consider one element of user responsibility (mileage), or are not related directly to either the damage or use factors (gross receipts). If the rates of the tax are not excessive and if the burden upon the carriers subject to the levy is properly correlated with that of other user groups, the results are not subject to question.

Recognizing the theoretical merit of the tax, what are the actual results of the present ton-mile tax in Colorado? As indicated in the burden analysis the impact of the tax occasions a marked element of progression in burden throughout the weight ranges for all classes of for-hire vehicles. Graduation of the burden is undoubtedly desirable. However, the present differential in rates as between the empty vehicle and vehicle load produces a maximum burden that is somewhat above the Western State average for some vehicles in the heaviest weight categories (gross weight). Although Colorado's policy may be defensible in terms of over-all burden, adjustment of the differential as well as the maximum mill levy would remove any reasonable basis of criticism.[72] The precise adjustment in rates which is needed to accomplish these ends should be determined by the research staff of the Highway Department, and no appreciable loss in revenue would be involved.

The most serious inequity in the economic impact of Colorado's user tax system at the present time is the extremely low costs for most classes of not-for-hire and farm trucks and combinations. The extremely preferential treatment accorded these types of use and vehicles cannot be justified. These vehicles are employed in business and profit making activities, though perhaps not as intensively as the for-hire group. A cost differential of from 25 to 30 percent would appear to be reasonable, and Colorado's policy might appropriately be adjusted to conform to this guide as well as the practice of the majority of Western States.

In general, the charge that Colorado's ton-mile tax is driving commercial carriers out of the State does not appear to be merited on the basis of relative burdens. However, Colorado's costs are high and if alternative routes through lower cost states exist in the case of east-west transcontinental hauls some re-routing is a logical expectation. At the same time, it should be recognized that the conditions under which this action is likely to be profitable are limited, and profits are the primary determinant of business policy. From a factual standpoint there is no indication in the records of the Ton-Mile Section that any traffic has been diverted from Colorado following the passage of the 1955 tax law. With the adjustments in burden previously indicated, therefore, Colorado may well disregard possible future claims of commercial carrier groups that the State's user tax burdens are excessive and tend to drive business out of the State.

The ton- and passenger-mile taxes are relatively difficult to administer, but they can be effectively enforced at a cost that is not excessive. Checking of weights and routes by the ports of entry and by the State Patrol accompanied by periodic inspection of carrier records are the keys to such enforcement. Colorado is presently relying on port of entry and Patrol plus carrier reports. This procedure is reasonably satisfactory, but an emphasis upon inspection of carrier records is highly desirable. An expansion of office as well as field inspection staff is indicated.

Registration and Fuels Taxes. The base of Colorado's registration tax on not-for-hire and farm trucks and combinations should be changed from empty to gross weight. The empty weight concept is unrealistic and is inconsistent with the ton-mile base in the case of for-hire, intercity vehicles. It also contributes to the present undesirable burden differential between these user groups. Such a change would be in accord with the practice of the majority of states, and would facilitate the adjustments in burden recommended in the discussion of the ton-mile tax.

An additional rate on diesel fuel amounting to approximately one-third of that on regular fuel or 2¢ per gallon is believed to be highly desirable. This would offset the conservatively

[72]Existing evidence concerning the precise relationship between the weight and weight distribution factors and damage is incomplete. A specific evaluation of burden relationships upon this basis, therefore, is infeasible.

estimated advantage in terms of miles per gallon enjoyed by the users of such fuel. It should be noted that the burden analysis in Colorado does not provide a firm basis for conclusions concerning diesel as opposed to gas-powered vehicles. While the differential indicated favors diesel-propelled vehicles, limited type individual vehicle studies are required in this type of problem situation and provide the basis for the foregoing recommendation.

Revenue Potential of Highway User Taxes And Fees

Past experience suggests that the revenue potential of the user tax system is excellent. Receipts will undoubtedly increase substantially on an annual basis under existing provisions of the tax laws. Certainly, the continued growth of all phases of motor transportation must be assumed. If user payments fail to keep pace with rising costs, rate increases generally may be expected to produce proportionally larger yields. However, broad policy considerations involving the economic impact of particular taxes and user taxes as a whole do suggest certain limitations. In particular, the burden of individual user taxes or user financing in general should not be pushed to the point of denying or seriously restricting the use of facilities by any class of socially beneficial user.[73] The burden of fuel and registration taxes upon the owners of private passenger cars, for example, tends to be regressive and may well be approaching the point at which curtailed use is encountered.

Recognizing these limits, which cannot be precisely defined, the future revenue potential of the user tax system is still substantial. In particular, there are several changes in Colorado's present user tax system which are desirable per se that would produce significant increases in current revenues. Adoption of a reasonable schedule of rates based upon gross weight for not-for-hire and farm vehicles would produce at the minimum around $1,600,000 per year.[74] Tighter enforcement of existing taxes, especially in the case of motor fuel tax refunds, the special fuels tax, the fuels tax in the case of interstate carriers and the ton-mile tax would be highly productive as judged by the experience of other states. The imposition of a differential rate on diesel fuel would result in a minor increase in revenue but is essential on grounds of equity. The suggestion that the ton-mile tax rate differential be adjusted would not appreciably affect the total yield of the levy.

An increase in the rates of the motor fuels tax obviously offers the greatest return from a revenue standpoint. A 1¢ per gallon rise in the present 6¢ rate would produce in excess of $5,000,000 in net collections. In view of the rates in adjoining states and the economic effect of the tax on no-business users this action does not appear to be desirable at the present time.

[73] Highway use logically should be restricted to sizes and weights of vehicles that the facilities are constructed to handle.

[74] This assumes an approximate doubling of existing rates which would fall far short of achieving the suggested burden differential between these users and for-hire group.

Appendix Table 10.A

Special Highway User Tax and Other Charges Per Mile by Type of Vehicle Use and Gross Weight Categories, Eight Western States, 1956

Selected Registered Gross Vehicle Weight Classes (in hundreds of pounds)	Cost per mile							
	Colorado	Arizona	California	Idaho	Nevada	Oregon	Washington	Wyoming
I. Single Unit Trucks								
A. For Hire: Gas—2 Axles (all)								
40 - 49	$ 0.007	$ 0.008	$ 0.012	N.A.	$ 0.006	$ 0.009	N.A.	$ 0.006
50 - 59	0.008	0.004	0.013	N.A.	0.006	0.010	$ 0.011	0.008
60 - 69	0.010	0.009	0.014	$ 0.005	0.007	0.019	0.014	0.009
80 - 99	0.009	0.008	0.019	N.A.	0.010	0.008	0.017	0.017
100 - 119	0.010	0.010	0.017	0.010	0.012	0.014	0.020	0.054
120 - 139	0.011	0.011	0.017	0.010	0.012	0.019	0.018	0.024
140 - 159	0.012	0.011	0.018	0.016	0.016	0.026	0.019	0.018
160 - 179	0.013	0.012	0.019	0.012	0.018	0.027	0.019	0.019
180 - 199	0.013	0.011	0.019	0.010	0.016	0.021	0.020	0.019
200 - 219	0.014	0.011	0.019	0.012	0.019	0.022	0.019	0.019
220 - 239	0.015	0.013	0.020	0.012	0.018	0.021	0.020	0.024
240 - 259	0.016	0.013	0.023	0.013	0.016	0.020	0.022	0.033
B. For Hire: Gas—3 Axles (all)								
200 - 219	0.017	0.016	0.024	N.A.	N.A.	0.022	0.023	0.039
220 - 239	0.017	N.A.	0.026	N.A.	N.A.	0.019	0.024	0.033
240 - 259	0.018	0.016	0.025	0.012	N.A.	N.A.	0.026	0.038
260 - 279	0.010	0.019	0.028	0.019	N.A.	0.032	0.032	0.039
280 - 299	0.019	0.023	0.029	N.A.	N.A.	0.037	0.027	0.038
300 - 319	0.020	0.017	0.029	0.011	N.A.	0.026	0.024	0.046
320 - 359	0.026	0.021	0.029	N.A.	0.027	0.043	0.039	0.036
360 - 399	0.026	0.020	0.031	0.016	0.043	0.036	N.A.	0.045
400 - 449	0.027	0.023	0.032	0.018	0.140	0.035	N.A.	0.046
C. Not For Hire: Gas—2 Axles (all)								
40 - 49	0.005	0.005	0.008	N.A.	N.A.	0.006	N.A.	0.003
50 - 59	0.006	0.006	0.008	N.A.	N.A.	0.006	0.009[a]	0.004
60 - 79	0.006	0.007	0.009	0.006	N.A.	0.008	0.014	0.005
80 - 99	0.007	0.008	0.010	0.008	N.A.	0.007	0.012	0.006
100 - 119	0.009	0.009	0.012	0.031	N.A.	0.010	0.013	0.009
120 - 139	0.009	0.010	0.013	0.008	N.A.	0.015	0.015	0.011
140 - 159	0.009	0.011	0.014	0.014	N.A.	0.018	0.016	0.018
160 - 179	0.009	0.012	0.015	0.009	N.A.	0.021	0.018	0.018
180 - 199	0.009	0.011	0.015	0.011	N.A.	0.019	0.019	0.018
200 - 219	0.009	0.012	0.016	0.010	N.A.	0.020	0.020	0.015
220 - 239	0.009	0.013	0.017	0.011	N.A.	0.019	0.022	0.016
240 - 259	0.008	0.014	0.019	0.009	N.A.	0.020	0.024	0.015
260 - 279	0.009	0.032	N.A.	0.016	N.A.	0.022	0.027	N.A.
D. Not For Hire: Gas—3 Axles (all)								
180 - 199	0.006	0.008	0.019	0.025	0.014	0.022	0.020	N.A.
200 - 219	0.004	0.020	0.021	0.015	0.011	0.031	0.026	N.A.
220 - 239	0.005	N.A.	0.023	N.A.	0.014	0.034	0.031	N.A.
240 - 259	0.006	0.042	0.021	0.014	0.016	0.037	0.027	N.A.
260 - 279	0.006	0.035	0.026	0.027	0.018	0.029	0.041	N.A.
280 - 299	0.008	0.033	0.026	N.A.	0.023	0.033	0.034	N.A.
300 - 319	0.009	0.020	0.025	0.023	0.022	0.033	0.035	N.A.
320 - 359	0.010	0.019	0.025	0.014	0.020	0.042	0.030[a]	0.084
360 - 399	0.010	0.020	0.027	0.021	0.025	0.040	N.A.	0.059
400 - 449	0.010	0.022	0.028	0.020	0.027	0.044	N.A.	0.069
E. Farm: Gas—2 Axles (all)								
40 - 49	0.005	N.A.	N.A.	N.A.	N.A.	0.007	N.A.	N.A.
50 - 59	0.005	N.A.	N.A.	N.A.	N.A.	0.008	0.009[a]	N.A.
60 - 79	0.006	N.A.	N.A.	0.006	N.A.	0.014	0.011	N.A.
80 - 99	0.009	N.A.	N.A.	0.006	N.A.	0.011	0.014	N.A.
100 - 119	0.011	N.A.	N.A.	0.007	N.A.	0.013	0.015	N.A.
120 - 139	0.012	N.A.	N.A.	0.007	N.A.	0.015	0.015	N.A.
140 - 159	0.014	N.A.	N.A.	0.007	N.A.	0.016	0.016	N.A.
160 - 179	0.012	N.A.	N.A.	0.009	N.A.	0.018	0.019	N.A.
180 - 199	0.012	N.A.	N.A.	0.013	N.A.	0.015	0.021	N.A.
200 - 219	0.012	N.A.	N.A.	0.016	N.A.	0.016	0.020	N.A.
220 - 239	0.012	N.A.	N.A.	0.012	N.A.	0.017	0.021	N.A.
F. Farm: Gas—3 Axles (all)								
180 - 199	0.028	N.A.	N.A.	0.018	N.A.	0.014	0.025	N.A.
200 - 219	0.027	N.A.	N.A.	0.010	N.A.	0.017	0.028	N.A.
220 - 239	0.028	N.A.	N.A.	N.A.	N.A.	N.A.	0.033	N.A.
240 - 259	0.026	N.A.	N.A.	0.017	N.A.	0.027	0.035	N.A.
260 - 279	0.029	N.A.	N.A.	0.013	N.A.	0.023	N.A.	N.A.
320 - 359	0.025	N.A.	N.A.	0.026	N.A.	0.024	N.A.	N.A.
360 - 399	0.024	N.A.	N.A.	0.015	N.A.	0.021	N.A.	N.A.
400 - 449	0.027	N.A.	N.A.	0.021	N.A.	0.027	N.A.	N.A.
G. For Hire: Diesel—2 Axles (all)								
240 - 259	N.A.	0.007	0.030	N.A.	N.A.	0.037	0.039	N.A.
320 - 359	0.024	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
360 - 399	0.022	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
400 - 449	0.029	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
H. For Hire: Diesel—3 Axles (all)								
320 - 359	0.021	0.009	0.036	N.A.	0.024	N.A.	0.024[a]	0.034
360 - 399	0.023	0.011	0.037	0.008	0.069	N.A.	N.A.	0.052
400 - 449	0.024	0.012	0.037	0.007	0.061	0.142	N.A.	0.042

Appendix Table 10.A (Continued)

Special Highway User Tax and Other Charges Per Mile by Type of Vehicle Use and Gross Weight Categories, Eight Western States, 1956

Selected Registered Gross Vehicle Weight Classes (in hundreds of pounds)	Cost per mile							
	Colorado	Arizona	California	Idaho	Nevada	Oregon	Washington	Wyoming
II. Combinations								
A. For Hire: Combinations with Semi-trailer—Gas—3 Axles								
220 - 239	$ 0.019	$ 0.018	$ 0.025	N.A.	N.A.	N.A.	$ 0.025	N.A.
240 - 259	0.019	0.019	0.025	N.A.	N.A.	$ 0.024	0.019	N.A.
260 - 279	0.020	0.016	0.024	N.A.	N.A.	0.029	0.036	N.A.
280 - 299	0.021	0.019	0.025	N.A.	$ 0.019	0.026	0.023	N.A.
300 - 319	0.021	0.018	0.024	$ 0.027	0.023	0.026	0.026	N.A.
320 - 359	0.022	0.032	0.024	0.017	0.021	0.039	0.024	N.A.
360 - 399	0.023	0.023	0.024	0.009	0.027	0.036	0.020[b]	$ 0.018
400 - 449	0.025	0.022	0.024	0.009	0.036	0.049	0.025[b]	0.025
500 - 549	0.029	N.A.	N.A.	0.006	N.A.	N.A.	0.048[b]	0.044
550 - 599	0.031	N.A.	N.A.	0.010	N.A.	N.A.	0.014	0.037
B. For Hire: Combinations with Semi-trailer—Gas—4 Axles								
320 - 359	0.022	N.A.	0.024	N.A.	N.A.	0.014	0.018[b]	N.A.
360 - 399	0.024	N.A.	0.024	0.009	N.A.	0.049	N.A.	N.A.
400 - 449	0.028	0.021	0.024	N.A.	N.A.	0.010	0.026[b]	0.049
450 - 499	0.030	0.026	0.024	N.A.	N.A.	0.054	0.036[b]	0.079
500 - 549	0.031	0.025	0.024	0.017	N.A.	0.056	0.061[b]	0.033
550 - 599	0.034	0.029	0.024	0.010	N.A.	0.072	0.038[b]	0.035
C. For Hire: Combinations with Semi-trailer—Gas—5 Axles or more								
650 - 699	0.036	0.033	0.027	0.013	N.A.	0.051	0.062[b]	N.A.
700 and over	0.038	0.033	0.027	0.015	N.A.	0.057	0.055[b]	N.A.
D. For Hire: Combinations with Full trailer—Gas—4 Axles								
650 - 699	0.066	N.A.	N.A.	N.A.	N.A.	N.A.	0.071[b]	N.A.
700 and over	0.040	N.A.	N.A.	0.017	N.A.	0.059	N.A.	N.A.
E. For Hire: Combinations with Semi-trailers and Full trailer—Gas—5 Axles								
650 - 699	0.040	0.030	0.031	N.A.	N.A.	0.054	0.033	N.A.
700 and over	0.039	0.025	0.035	N.A.	N.A.	N.A.	N.A.	N.A.
F. For Hire: Combinations with Semi-trailers and Full trailer—Gas—6 Axles								
650 - 699	0.037	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
700 and over	0.042	0.052	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
G. Not for Hire: Combinations with Semi-trailer—Gas—3 Axles								
180 - 199	0.012	0.010	0.017	N.A.	N.A.	N.A.	0.060	N.A.
200 - 219	0.013	0.017	0.016	0.014	N.A.	0.025	0.029	N.A.
220 - 239	0.013	0.008	0.016	N.A.	N.A.	0.020	0.017	N.A.
240 - 259	0.011	0.015	0.017	0.011	N.A.	0.027	0.049	N.A.
260 - 279	0.012	0.014	0.017	N.A.	N.A.	0.055	0.030	N.A.
280 - 299	0.010	0.012	0.017	0.018	N.A.	0.024	0.026	N.A.
300 - 319	0.010	0.013	0.018	0.012	0.046	0.024	0.025	N.A.
320 - 359	0.010	0.012	0.018	0.011	0.032	0.046	0.030	N.A.
360 - 399	0.010	0.015	0.018	0.003	0.031	0.033	0.026	0.017
400 - 449	0.011	0.014	0.020	0.007	0.036	0.038	0.023	0.020
H. Not For Hire: Combinations with Semi-trailer—Gas—4 Axles								
320 - 359	0.013	0.024	0.019	N.A.	N.A.	N.A.	0.016	N.A.
360 - 399	0.013	0.043	0.019	0.011	N.A.	0.061	N.A.	N.A.
400 - 449	0.012	0.023	0.020	0.014	N.A.	0.063	0.024	N.A.
450 - 499	0.013	0.014	0.020	0.012	N.A.	0.052	0.029	N.A.
500 - 549	0.010	0.017	0.020	N.A.	N.A.	0.062	0.032	0.035
550 - 599	0.010	0.016	0.022	0.013	N.A.	0.074	0.032	0.036
I. Not For Hire: Combinations with Semi-trailer—Gas—5 Axles or more								
650 - 699	0.008	0.017	0.026	N.A.	N.A.	0.049	0.101	N.A.
700 and over	0.010	0.021	0.025	N.A.	N.A.	0.054	0.029	N.A.
J. Not For Hire: Combinations with Full trailer—Gas—4 Axles								
600 - 649	N.A.	N.A.	N.A.	N.A.	0.026	0.055	0.025	N.A.
650 - 699	0.048	N.A.	N.A.	N.A.	N.A.	N.A.	0.129	N.A.
K. Not For Hire: Combinations with Semi- and Full trailer—Gas—5 Axles								
650 - 699	0.021	N.A.	N.A.	N.A.	N.A.	0.036	N.A.	N.A.
700 and over	0.021	N.A.	N.A.	N.A.	N.A.	0.046	0.034	N.A.
L. For Hire: Combinations with Semi-trailer—Diesel—3 Axles								
280 - 299	0.014	N.A.	0.026	N.A.	N.A.	N.A.	N.A.	N.A.
300 - 319	0.019	0.015	0.028	N.A.	N.A.	N.A.	N.A.	N.A.
320 - 359	0.020	0.037	0.028	N.A.	N.A.	0.037	N.A.	N.A.
360 - 399	0.023	0.014	0.029	N.A.	N.A.	0.101	N.A.	0.026
400 - 449	0.024	0.015	0.029	0.004	N.A.	0.148	0.023	0.047
500 - 549	0.031	N.A.	N.A.	N.A.	0.078	0.077	N.A.	N.A.
550 - 599	0.030	N.A.	N.A.	0.004	0.031	N.A.	0.021	N.A.
M. For Hire: Combinations with Semi-trailer—Diesel—4 Axles								
500 - 549	0.028	0.020	N.A.	0.008	N.A.	0.072	0.020	0.041
550 - 599	0.030	0.020	N.A.	0.006	N.A.	0.142	N.A.	0.035

Appendix Table 10.A (Concluded)

Special Highway User Tax and Other Charges Per Mile by Type of Vehicle Use and Gross Weight Categories, Eight Western States, 1956

Selected Registered Gross Vehicle Weight Classes (in hundreds of pounds)	Cost per mile							
	Colorado	Arizona	California	Idaho	Nevada	Oregon	Washington	Wyoming
N. For Hire: Combinations with Semi-trailer—Diesel—5 Axles								
650 - 699	0.036	0.023	0.031	0.005	N.A.	0.062	0.072	0.031
700 and over	0.037	0.025	0.031	0.007	N.A.	0.061	0.030	0.040
O. For Hire: Combinations with Full trailer—Diesel—5 Axles								
600 - 649	0.035	N.A.	0.032	N.A.	N.A.	N.A.	N.A.	N.A.
650 - 699	0.033	0.020	0.032	0.009	0.022	0.058	0.022	0.081
700 and over	0.036	0.018	0.033	0.009	0.030	0.059	0.022	0.034
P. For Hire: Combinations with Semi-trailer and Full trailer—Diesel—5 Axles								
650 - 699	0.036	N.A.	0.032	N.A.	N.A.	N.A.	N.A.	N.A.
700 and over	0.038	0.020	0.032	0.007	N.A.	0.064	0.020	N.A.
Q. Not For Hire: Combinations with Semi-trailer—Diesel—3 Axles								
400 - 449	0.008	N.A.	0.024	0.004	0.028	0.014	N.A.	N.A.
R. Not For Hire: Combinations with Semi-trailer—Diesel—4 Axles								
500 - 549	0.011	N.A.	0.029	0.007	0.012	0.076	N.A.	N.A.
550 - 599	0.013	N.A.	0.026	0.005	0.017	0.135	N.A.	N.A.
III. Buses								
A. For Hire—Gas								
40 - 49	0.011	0.053	0.017	0.004	N.A.	N.A.	N.A.	N.A.
50 - 59	0.014	0.077	0.019	N.A.	N.A.	N.A.	N.A.	N.A.
60 - 79	0.016	0.035	0.020	0.007	N.A.	N.A.	0.010	N.A.
80 - 99	0.019	0.041	0.023	N.A.	N.A.	N.A.	0.019	N.A.
100 - 119	0.021	0.069	0.026[b]	0.011	N.A.	N.A.	0.014	N.A.
120 - 139	0.020	0.018	0.032	0.022	N.A.	N.A.	0.017	N.A.
140 - 159	0.024	0.020	0.034[b]	0.018	N.A.	N.A.	0.018	N.A.
160 - 179	0.025	0.021	0.033[b]	0.029	N.A.	N.A.	0.019	N.A.
180 - 199	0.024	0.074	0.038[b]	0.018	N.A.	N.A.	0.029	N.A.
200 - 219	0.031	0.051	0.034	0.020	N.A.	N.A.	0.030	N.A.
220 - 239	0.034	0.016	N.A.	0.023	N.A.	N.A.	0.026	N.A.
240 - 259	0.044	0.017	N.A.	0.023	N.A.	N.A.	0.027	N.A.
260 - 279	0.052	0.021	N.A.	0.048	N.A.	N.A.	0.028	N.A.
B. For Hire—Diesel								
160 - 179	0.023	N.A.	0.084[b]	N.A.	N.A.	N.A.	0.003	N.A.
180 - 199	0.019	N.A.	0.137[b]	N.A.	N.A.	N.A.	0.017	0.015
200 - 219	0.018	N.A.	0.142[b]	N.A.	N.A.	0.013	0.010	0.015
220 - 239	0.033	N.A.	N.A.	N.A.	N.A.	0.020	0.014	0.017
240 - 259	0.014	N.A.	N.A.	N.A.	N.A.	0.099	0.015	0.018
260 - 279	0.052	N.A.	N.A.	N.A.	N.A.	0.047	N.A.	0.018
IV. Autos								
A. Not For Hire—Gas								
0 - 39	0.006	0.004	0.006	N.A.	0.006	0.006	0.007	0.005

[a] Weight categories not comparable.
[b] Averages since data are reported in 1000 lb. categories.
Source: Adapted from Motor Vehicle Classification, *Section 210 Study*, Federal Aid Highway Act of 1956.

CHAPTER XI

INSURANCE TAX

The special nature and function of insurance companies has caused such enterprise to be generally subjected to tax treatment which is different in important respects from that afforded other business institutions. The first state to impose an insurance tax was Connecticut which, in 1816, placed a six percent levy on the capital stock of all insurance companies operating in the State. New York followed in 1824 with a 10 percent tax on the gross premiums of foreign fire insurance companies (companies organized out-of-state) and by the time of the Civil War a special tax on insurance companies was common to all states. This system of special taxes continues to the present time.

Some of the early features of insurance tax legislation have been largely discarded. For example, the early tendency to exempt domestic companies from the tax has almost disappeared. In states where this provision did not originally apply, the frequently used differential rate favoring domestic over foreign companies has also been reduced in importance.

On the other hand, certain features have been generally retained of which the use of gross premiums as a basis of the tax is the most important. The adoption of gross premiums rather than net income as the tax base is explained by the difficulty of ascertaining net income for certain types of insurance carriers. In the case of life insurance companies particularly, there is the difficult technical question of what constitutes the required legal reserve to be maintained and therefore the allowable deduction from gross income. Moreover, in the case of mutual companies, difficulty arises in determining taxable net income where the receipts in excess of necessary expenses and additions to reserves are redistributed to policyholders in the form of reduced rates and/or dividends.

Another of the early features of insurance tax legislation which continues to be a part of present day law in most states is the so-called "retaliatory" clause. In effect this feature tends to equalize the rate of tax levied upon insurance company premiums by the various states. For example, if the rate were increased in Colorado, while Washington had lower rates, the retaliatory provisions of the law would take effect and the tax paid on business written in Washington by Colorado companies would be increased, although competing companies domiciled elsewhere would continue to pay the lower tax rate.

Legal Status of Insurance Taxes

A legal question in early tax legislation was whether the insurance business was a valid subject of taxation by states since such business could be considered interstate commerce.

In 1869 in the case of Paul v. Virginia the U. S. Supreme Court held that the insurance industry was local business and subject to state regulation.[1] Similarly, in 1931 the Court held that insurance was not commerce, either state or interstate, and could be taxed by the states without violation of the federal constitution.[2] In 1944, however, the Court ruled that the insurance business was a matter of interstate commerce subject to the federal anti-trust laws.[3] As a result of this decision it was feared by some states that laws which discriminated against foreign companies would be found unconstitutional. The McCarren Act of 1945, however, clarified the rights of the states by providing that state taxation of insurance companies was legal if it did not conflict with federal policy, even though the insurance industry was interstate commerce.[4] Also, in 1946, the U. S. Supreme Court upheld California and South Carolina insurance laws which imposed higher tax rates on foreign companies.[5]

Rationale of Insurance Taxes

Insurance taxes were first sanctioned in order to cover costs of operating insurance departments. Insurance commissioners required trained personnel and it was considered equitable for insurance companies to bear the burden of these costs. Currently, however, the costs

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[1]Harold M. Groves, *Financing Government* (fourth edition; New York: Henry Holt & Co., 1954), p. 346. See also Paul v. Virginia, 4 Wall 168 (1869).

[2]New York Life Insurance Co. v. Deer Lodge County, 231 U. S. 508.

[3]U. S. v. Southeastern Underwriters Association, 322 U. S. 533.

[4]E. H. Plank, *Public Finance* (Homewood, Illinois: Richard D. Irwin, 1953), pp. 509-510.

[5]Prudential Insurance Co. v. Benjamin, 325 U. S. 408 (1946), and Robertson v. California, 328 U. S. 440 (1946).

of insurance departments tend in most states to be much less than the amount of insurance taxes collected.

The development of insurance taxation as a source of general revenue, that is taxation to bring in revenue over and above costs of administration, has been opposed on a number of grounds. It is claimed, for example, that the tax, because of shifting, results in higher insurance costs to the public. This in turn tends to deter savings—in the nature of life and annuity contracts. Accordingly, so the argument runs, public welfare expenditures must necessarily increase to fill the gap. It is also pointed out that the tax is regressive in that it places a heavier burden on the lower income groups which are, in relation to personal income, relatively large holders of life and annuity policies. It is further contended that if a levy on gross premiums is not shifted, double taxation results since it is usual for insurance companies to be subject also to the general property tax. An additional objection is raised by certain types of insurance carriers, notably mutual companies and fraternal and benevolent societies who feel that since they are allegedly non-profit enterprises they should be free of taxes. This objection has apparently carried much weight since most states now grant exemptions to organizations of this type. Finally, insurance taxes are opposed on the grounds that they discourage the development of the industry in the state (if domestic companies are taxed) or drive it to more favorable tax climes.

Proponents of the insurance tax answer these arguments point by point. The criticism that the tax decreases savings is declared to be inconsistent with the claim that the tax is shifted. If, as opponents charge, the tax is passed on to the consumer (buyer of insurance) then savings in the form of life insurance will not be affected. If, on the other hand, higher premiums cause a large decline in the amount of insurance purchased, then savings in the form of life insurance will decline. But total community savings need not be reduced since other forms of savings exist.

Closely related to the foregoing and bearing upon the opposition argument that insurance taxation will drive up relief roles and welfare expenditures, proponents of the tax raise the following questions: (1) Will people who depend on welfare spending be influenced by a change in the price of insurance? (2) Would potential policyholders actually be deterred from buying insurance even if the price went up? In addition to raising these questions proponents point out that historic data show little significant correlation between the movement of welfare expenditures and insurance sales.

In reply to the claim that the tax is regressive, supporters of the tax hold that this may in fact be the case but counter with the observation that the insurance tax is no more objectionable on this score than a host of commonly used sales taxes.[6]

On the question of double taxation it is further observed that insurance companies are, in effect, largely exempt from the property tax. This follows from the fact that the assets of insurance companies are intangibles, in the main, and in many states such property is exempt from the general tax. Moreover, the double tax argument is regarded as entirely without force when the opposition contends, as they do, that the burden of the tax is borne by the policyholder since this admits ability to shift the tax elsewhere.

Despite efforts to either eliminate or reduce insurance tax rates state legislatures generally have remained adamant. The two major reasons for the retention of the tax have rested on the practical consideration of revenue need as well as on grounds of equity. In respect to the latter, it has been generally recognized that unlike most business enterprises insurance companies pay no other form of sales tax, nor do they pay an income tax as a rule. Moreover, their property tax is usually very low. Under these conditions a special levy has appeared as an appropriate compensatory tax equalizing the tax burdens between the insurance industry and other industries. Finally, the insurance tax is indirect and can easily be disguised in higher premiums.

Insurance Taxation in Colorado

A special tax on insurance companies in Colorado dates from 1883 when a levy of 2 percent was placed on net premiums; this was changed in 1885 to a levy on gross premiums. The stated purpose of the tax was to cover costs of regulating the insurance business. The act provided that additional assessment could be made upon individual companies in proportion to the volume of their Colorado business should proceeds of the tax be inadequate to cover regulatory costs. Alternately, excess tax receipts were to be turned over to the school fund until 1885 and thereafter to the general fund. This latter provision currently applies with the exception of receipts from taxes on foreign fire underwriters which are paid into the Fireman's Pension Fund.[7]

The excess of tax receipts over administrative costs raised the question of the legality of an

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[6] Adequate data are not available on insurance holdings by income groups. One tax study group has suggested that insurance purchases increase more than proportionately to income, and that an insurance tax is therefore less regressive than other types of sales taxes. State of New York, Temporary Commission on the Fiscal Affairs of State Government, *A Program for Continued Progress in Fiscal Management*, Vol. 2, 1955, pp. 275-277.

[7] State of Colorado, *Session Laws*, 1883, and 1885.

insurance tax as a revenue measure. The issue was decided in the case of the Colorado National Life Insurance Company v. Clayton, when the State Supreme Court held that the intent of the law was to provide funds for operating the insurance department (first established in 1907) and that tax collections in excess of the amount necessary for that purpose did not invalidate the law.[8]

General Provision of Colorado Insurance Law. All insurance companies doing business in the State unless expressly exempted are subject to a 2 percent tax on gross premiums collected or contracted for on policies of insurance covering risks within the State. Specifically the law reads as follows:

> All insurance companies doing business in the state shall pay—a tax of two per cent on the gross amount of all premiums collected or contracted for on policies or contracts of insurance covering property or risks within this state—after deducting from the gross amount of such premium the amount received as re-insurance premium on licenses in the state, and in the case of companies, other than life, the amount paid to policyholders as return premiums. - - [9]

In addition to the premium tax, insurance companies pay to the State various fees and charges as listed in Table 11.1.

Table 11.1

Total Receipts of Insurance Department Colorado, Fiscal Year, 1957

Receipts		Amount
Agents licenses[a]		$ 78,520
Employees licenses		752
Brokers licenses		20,255
Company financial allotment		35,522
Certificates of authority		9,772
Agents and brokers exam. fees[a]		20,545
Articles of incorporation		2,515
Certified copies		
Miscellaneous fees		
Gross premium tax		
Multiple line	$1,547,730	
Life	2,089,212	
Fire and mutual fire	89,653	
Casualty	166,694	
Reciprocal	134,699	
Surplus line	15,345	
Mutual benefit	203	
Assessment	56,956	
Total		4,100,492
Total		4,271,163

[a] Less refunds.

Source: State of Colorado, Commissioner of Insurance, *76th Annual Report, 1958.*

Exemptions. The law expressly exempts from the tax certain types of insurance companies which include:

> All fraternal and benevolent associations—organized under the laws of this state and doing business in this state, and all purely mutual fire insurance companies organized and operated under the laws of this state.[11]

Tax exemption applies in full also to all companies, not otherwise exempt, whose assets consist of 50 percent or more of approved property in the State.

> If any company shall have 50 percent or more of its assets invested in bonds or warrants of this state, or of any county, city, town or district of this state and other property within this state in which said company is permitted by law to invest its funds, then said company shall not be required to pay the tax herein provided.[12]

An amendment of this provision specifies that a domestic type company may satisfy the 50 percent investment requirement by having the same proportion of its total reserves invested in Colorado as its Colorado business (measured by the face value of policies outstanding in the State) bears to its total business or outstanding policies.

> If any domestic type insurance company shall have and keep deposited in banks and trust companies within this state and otherwise invested, as required by law, in securities in this state, such a proportion of the companies entire reserves as the outstanding policies in Colorado are in proportion to all of the company's outstanding policies, the company shall to all intents and purposes be deemed to have 50 percent of its assets invested in banks, warrants and other properties within this state.[13]

This provision makes it possible for domestic companies to qualify for tax exemption if less than one-half of their assets are invested in Colorado. This could happen in cases where a domestic company had a larger part if its business (outstanding policies) in states other than Colorado. This, in fact, currently exists in the case of three Colorado companies which are tax exempt. (See Table 11.2.)

It is obvious that the purpose of these provisions is to exempt from the tax all domestic companies since foreign companies would have great difficulty in meeting the 50 percent requirement. In practice all domestic companies take advantage of these provisions while no foreign company does.[14]

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[8] 54 Colorado 256.

[9] *Colorado Revised Statutes, 1953,* Ch. 72-1-14.

[11] *Ibid.*

[12] *Ibid.*

[13] *Colorado Revised Statutes, 1953,* Ch. 72-2-11.

[14] As reported by the State Commissioner of Insurance.

Table 11.2

Total Assets and Assets Invested in Colorado of Domestic Life Insurance Companies in Colorado,[a] 1958
(thousands)

Company	Total Assets			Assets invested in Colorado						
	Total	U. S. securities	Assets less U. S. securities	Total	Bonds	Stocks	Mortgages	Real estate	Cash	All other
Atlantic and Pacific Insurance Co.	$ 275	$ 0	$ 275	$ 205	$ 4	$ 0	$ 99	$ 0	$ 86	$ 16
Bankers Union Life Insurance Co.	17,086	453	16,633	7,669	1,353	0	4,030	819	853	614
Capitol Co-operation Life Insurance Co.	2,109	224	1,885	1,880	0	35	1,399	242	181	23
Capitol Life Insurance Co.	42,447	3,933	38,514	15,915	774	0	11,324	667	445	2,765
Colorado Credit Life Insurance Co.	2,299	150	2,149	1,845	0	0	0	903	770	172
Frontier Life Insurance Co.	478	107	371	301	49	0	0	0	205	47
Howard Life Insurance Co.	2,300	156	2,144	2,144	0	345	1,572	148	69	10
Mile High Insurance Co.	1,147	598	549	347	0	0	42	0	141	164
National Farmers Union Life Insurance Co.	6,455	475	5,980	4,420	45	17	1,573	2,347	352	86
National Western Life Insurance Co.	588	102	486	485	146	0	0	85	207	47
Perpetual Life Insurance Co.	734	546	188	142	0	0	0	0	142	0
Security Life and Accident Co.	47,277	3,116	44,161	12,876	961	828	7,787	1,498	683	1,119
State Life Insurance Co. of Colorado	1,058	101	957	680	50	0	380	0	231	19
United American Life Insurance Co.	13,089	251	12,838	8,968	744	0	6,128	492	84	1,520
Western Farm Bureau Life Insurance Co.	3,991	274	3,717	2,297	831	0	1,342	0	56	68
Western Reserve Life Insurance Co.	1,155	30	1,125	1,100	53	190	709	94	50	4
Total	142,488	10,516	131,972	61,274	5,010	1,415	36,385	7,235	4,555	6,674

[a] Not all domestic life companies are included in this tabulation but those that are accounted for over 95 percent of the total assets of domestic life companies in 1958.

Source: Data reported by individual companies.

While tax exemption is important to the individual companies the loss of revenue to the State on this account is small compared with what it would be if foreign companies were also exempt. Thus, as shown in Table 11.3, the 37 domestic insurance companies (exclusive of fraternal and benevolent association and domestic fire insurance companies which are otherwise exempt) received $15.3 million or 7 percent of total premiums paid in Colorado in 1957. In the life insurance business only the comparable ratio was 10 percent.

Other Taxes on Insurance Companies. Aside from the gross premiums tax no taxes other than the general property tax can be levied on insurance companies. Specifically the law states that the gross premiums tax:

> shall contribute all taxes collectible under the laws of this state—and no other occupation tax or other taxes shall be levied or be collected from any insurance company by any county, city or town within this state, but this law shall not be construed to prohibit the levy and collection of state, county, and municipal taxes upon the real and personal property of such.[15]

Fiscal Importance of Tax. As noted in Table 11.4 state revenues from the insurance tax increased from $1,075,138 in 1946 to $3,903,118 in 1957. For the same period per capita collections increased from $ .90 to $2.33. Insurance tax revenues in relation to personal income in-

[15] *Colorado Revised Statutes, 1953*, Ch. 71-1-14.

Table 11.3

Number of Insurance Companies and Premiums Collected in Colorado, 1957

Type of Company	Number			Premiums Collected		
	Foreign companies	Domestic companies	Total	Foreign companies (thousands)	Domestic companies (thousands)	Total companies (thousands)
Life insurance	192	21	213	$102,017	$11,311	$113,328[a]
Multiple line	299	2	301	75,461	1,616	77,077
Fire insurance (stock)	39	4	43	3,015	912	3,930
Fire insurance (mutual)	21	2[b]	23	598	620	1,215
Casualty[c]	75	9	84	8,088	1,024	9,112
Assessment	1	0	1	2,848	0	2,848
Mutual benefit	0	4[b]	4	0	48	48
County mutual	0	6[b]	6	0	677[d]	677
Reciprocals	23	1	24	5,752	431	6,183
Fraternal societies	33	4	37[b]	1,904	298[d]	2,202
Total	683	53	736	199,683	16,937	216,620

[a] Includes accident and health premiums collected by life companies.
[b] Exempt from gross premium tax.
[c] Excludes State compensation insurance fund.
[d] Assessments received.

Source: State of Colorado, Commissioner of Insurance, *76th Annual Report, 1958.*

creased from .08 percent to .12 percent. Thus, a rather marked increase in per capita collections has had only a modest impact on personal income.

Although the insurance tax, which in recent years has accounted for about 2.5 percent of total tax receipts of the State, is clearly a minor source of revenue it is important to recognize that these revenues are unincumbered because they flow directly into the General Fund. In 1957, insurance taxes represented slightly over 7 percent of total General Fund revenue, a ratio which could readily spell the difference between a deficit or a surplus in this vital area of the State's financial operation.

Table 11.4

Total and Per Capita Insurance Tax Revenues in Relation to Total Tax Revenues and Personal Income, Colorado, Fiscal Years, 1946-1958

Year	Total insurance tax revenues[a]	Per capita[b] insurance tax revenues	Insurance tax revenues as a percent of total State tax revenues	Insurance tax revenues as a percent of personal income
1946	$1,075,138	$ .90	2.19	0.08
1947	1,374,460	1.11	2.34	0.08
1948	1,645,235	1.30	2.23	0.09
1949	1,783,060	1.38	2.19	0.10
1950	1,942,994	1.46	2.27	0.10
1951	2,124,989	1.61	2.21	0.09
1952	2,361,936	1.73	2.32	0.10
1953	2,714,360	1.89	2.54	0.11
1954	3,031,966	2.03	2.75	0.12
1955	3,192,381	2.06	2.55	0.12
1956	3,594,164	2.23	2.59	0.12
1957	3,903,118	2.33	2.65	0.12
1958	4,271,164	N. A.	N. A.	N. A.

[a] Includes various licenses and fees which in fiscal 1958 amounted to $170,672 of the $4,271,164 total.
[b] Based on U. S. Department of Commerce estimated population as of July 1, of each year as presented in annual editions of the *Statistical Abstract of the United States.*

Source: U. S. Department of Commerce, *Personal Income Supplement to Survey of Current Business, 1956;* and Commissioner of Insurance, State of Colorado, *Annual Reports.*

Moreover, as noted in Table 11.5, a large percentage of insurance tax collections are available for general expenditure since the costs of the insurance department measured from 1946 have not exceeded 3⅔ percent of total revenue.

Table 11.5

Insurance Tax Revenues and Administrative Costs of Insurance Department in Colorado Fiscal Years, 1946-1958

Year	Total insurance tax revenues[a]	Administrative costs	Administrative costs as a percent of total insurance tax revenues
1946	$1,075,138	$ 35,024	3.03
1947	1,374,460	37,135	2.70
1948	1,645,235	52,296	3.18
1949	1,783,060	53,594	3.01
1950	1,942,994	67,862	3.49
1951	2,124,989	72,498	3.41
1952	2,361,936	79,074	3.35
1953	2,714,360	84,785	3.20
1954	3,031,966	93,588	3.24
1955	3,192,381	107,723	3.37
1956	3,594,164	109,263	3.04
1957	3,903,118	133,133	3.41
1958	4,271,164	156,696	3.67

[a] Includes various licenses and fees.

Source: Commissioner of Insurance, State of Colorado, *Annual Reports.*

Area Comparisons

Western State Comparisons. Table 11.6 summarizes the status of each of the eleven Western States relative to the nature of insurance tax base, companies covered, exemptions and tax rates. Unless otherwise noted the following discussion relates to all forms of insurance sold in this group of states and to data in Table 11.6.

Tax Basis, Rates and Exemptions. Each of the eleven Western States, with the exception of Oregon in the case of domestic companies, uses gross premiums as the principal basis of its insurance tax. Oregon taxes the net income of its domestic companies but uses gross premiums as the basis for taxing its foreign companies. California, in the case of marine insurance, taxes profits as does Utah. Deductions allowed for gross premiums typically include return premiums, premium cancellations, dividends and amounts received as reinsurance premiums.

Nominal tax rates in the eleven Western States range from a high of 3 percent in Idaho to a low of 1 percent in Arizona and Washington. In practice, however, the nominal rate may be quite different from the effective rate due to rate schedules that vary by types of companies and to varying exemptions. Thus, in Arizona and Washington a higher rate applies to foreign than to domestic companies while in Oregon, as already noted, taxes gross premiums of foreign companies but levies on net income in the case of domestic companies. Montana's rate structure is complicated by a classification scheme in which rates differ in accordance with the size of the insurers' gross premiums as well as by type of business. In addition, some states have the retaliatory feature while others do not. Included among the former are Arizona, Colorado, Montana, Oregon, Utah and Washington.

Exemption policy differs in important respects between the Western States as is equally true for all states in the nation. Thus, Colorado is one among four Western States that grants tax exemptions in whole or in part if a specified portion of a company's assets are invested in the state in question. Colorado law allows full exemption to any company if 50 percent or more of its total assets are invested in the State. Idaho reduces its rate from 3 to 1 percent for companies which have 25 percent of their gross assets in securities and first mortgages within the State. New Mexico and Montana also apply a lower rate to firms having a certain specified amount of their assets invested locally.

Exemptions are sometimes given in whole or in part to mutual companies—a non-profit form of business enterprise in which receipts in excess of costs and reserve allowances are presumably returned to policyholders. In practice, exemption of mutuals is highly selective and lim-

Table 11.6

Insurance Tax Structure, Eleven Western States, 1957

State	Type of taxable insurance companies	Base	Rate (percent)	Exemptions[a]
Arizona	Foreign	Gross premiums	2.00	Fraternal benefit societies; title insurance companies; domestic benefit insurers; domestic hospital and medical service corporations; some surplus line brokers.
	Domestic	Gross premiums	1.00[b]	
California	All	Gross premiums	2.35[c]	Fraternal benefit societies; charitable and benevolent associations; agricultural nonprofit cooperative associations; some surplus brokers; withdrawn insurers.
Colorado	All	Gross premiums	2.00[d]	Fraternal benefit societies; domestic mutual fire insurance companies; mutual employers liability associations; mutual benefit associations; benevolent societies; also all companies with 50 percent of their assets invested in Colorado securities.
Idaho	All	Gross premiums	3.00[e]	Fraternal benefit societies; domestic fire insurance companies; non-profit medical, surgical and hospital corporations.
Montana	All	Gross premiums	2.25[f]	Fraternal benefit societies; stock and mutual life insurance companies; mutual rural insurance companies; assessment life insurance companies.
Nevada	All	Gross premiums	2.00	Fraternal and labor insurance companies protecting members and families only; some surplus brokers; land value insurance companies.
New Mexico	All	Gross premiums	2.00[g]	Fraternal benefit societies.
Oregon	Foreign	Gross premiums	2.25[h]	Fraternal benefit societies; domestic benevolent companies except for some casualty companies.
	Domestic	Net income	varies	
Utah	All	Gross premiums	2.25[i]	Fraternal benefit societies; some county mutual fire companies; non-profit hospital service benefit associations; cooperative life insurance associations.
Washington	Foreign	Gross premiums	2.00	Fraternal benefit societies; benevolent associations; title insurance companies.
	Domestic	Gross premiums	1.00[j]	
Wyoming	All	Gross premiums	2.50[k]	Fraternal benefit societies.

[a] Although it is not always specifically noted, medical and hospital associations are apparently exempt from all taxes except real estate under the nonprofit, benevolent classification.

[b] Surplus line brokers pay 3 percent; underwriters covering workmen's compensation and occupational diseases pay 2 percent, both on the base of gross premiums.

[c] Ocean marine carriers pay 5 percent of underwriting profits on business in State; surplus line brokers pay 3 percent less 3 percent of returned premiums.

[d] Surplus line brokers pay 2 percent of net premiums, as applies also in the case of inter-insurance receipts.

[e] Rates reduced to 1 percent if 25 percent of assets are invested in State.

[f] Rate is 1.25 percent if gross premiums are less than $5,000 and 2.25 percent if more than $5,000; also rate is ¼ of 1 percent additional on gross premiums of fire insurance companies. Rates reduced for any company which has 50 percent or more of its capital stock invested in the State.

[g] Rate is ½ of 1 percent if 50 percent of assets are invested in New Mexico.

[h] Foreign marine companies pay 5 percent of underwriting profits on business in State; all fire and auto insurance companies pay a fire marshall tax of ½ of 1 percent in addition.

[i] Surplus line brokers pay 3 percent; marine companies pay 5 percent of apportioned underwriting profits.

[j] Ocean marine companies pay an additional ¾ of 1 percent.

[k] Annuity companies pay 1 percent of gross premiums; companies not authorized to do business in the State pay 5 percent.

Source: Commerce Clearing House, *State Tax Guides, 1957.*

ited. Colorado goes perhaps as far, if not farther than any Western state by exempting domestic mutual fire insurance companies, employers mutual liability associations and mutual benefit associations. Every Western state exempts fraternal and benevolent associations.

Finally, all the Western States, with the exception of Nevada, expressly exempt insurance companies from one or more of the major taxes, particularly the corporate income tax. Utah is unique in expressly exempting insurance companies from all other forms of state taxation.[16]

Comparative "Tax Burden" and Revenues. Because of differences in rate schedules and exemptions, no precise determination can be made as to whether, on the average, one state imposes a heavier tax burden than another on insurance companies operating within its boundaries. It would appear, however, that Colorado's tax is more lenient than the average for the eleven Western States. Thus, Colorado's nominal rate of 2 percent on both foreign and domestic companies is equal to that of two states, New Mexico and Nevada, but below that of five other states, Idaho, Wyoming, California, Montana and Utah. Also Colorado's exemption policy, which eliminates all domestic companies from the premiums tax base, appears to be relatively liberal.

[16] Commerce Clearing House, *State Tax Guide—Utah*, 1957.

Table 11.7

Total and Per Capita Insurance Tax Revenues in Relation to Total State Tax Revenues and Personal Income, Eleven Western States, 1957

(Rank order of states appears in parenthesis)

State	Total insurance tax revenues (thousands)	Per capita insurance tax revenues	Insurance tax revenues as percent of total state tax revenues	Insurance tax revenues as percent of personal income
Arizona	$ 1,917 (5)	$1.69 (11)	1.79 (8)	0.10 (10)
California	43,223 (1)	3.10 (1)	2.64 (3)	0.12 (6)
Colorado	3,738 (4)	2.23 (7)	2.44 (5)	0.11 (7)
Idaho	1,884 (6)	2.94 (2)	3.71 (1)	0.18 (1)
Montana	1,544 (9)	2.32 (5)	2.93 (2)	0.12 (4)
Nevada	616 (11)	2.31 (6)	1.75 (9)	0.09 (11)
New Mexico	1,550 (8)	1.87 (10)	1.60 (11)	0.11 (8)
Oregon	4,312 (3)	2.44 (4)	2.22 (7)	0.13 (2)
Utah	1,879 (7)	2.21 (8)	2.45 (4)	0.13 (3)
Washington	5,923 (2)	2.17 (9)	1.67 (10)	0.10 (9)
Wyoming	801 (10)	2.53 (3)	2.39 (6)	0.12 (5)
Average:				
Western States	—	2.35	2.32	0.12
United States	—	2.51	2.94	0.12

Source: U. S. Bureau of the Census, *Compendium of State Government Finances*, 1957; and U. S. Department of Commerce, *Survey of Current Business*, August, 1958.

As seen in Table 11.7, Colorado's per capita collections from insurance companies amounting to $2.23 in 1957 was below the Western average of $2.35 as well as the national average of $2.51. Similarly, Colorado's collections as a percent of personal income amounting to .11 percent was below both the Western and national average of .12 percent.

Comparison Between All States. Because of the great variation in provisions of insurance tax laws a complete comparative analysis of insurance tax policies covering all forty-eight states would run to considerable length and go quite beyond the scope of this report. However, some insights into certain state policies may be had by confining the review to life insurance companies and the rates at which they are taxed. Table 11.8 presents for all states the tax rates applicable to both life and annuity policies of foreign and domestic companies. Highlights of this tabulation may be summarized as follows:

(1) For foreign life companies all 48 states levy a tax on gross premiums on life insurance but only 27 states tax annuities. The rates on life insurance vary from a low of 1.75 percent to a high of 4 percent. The prevailing rate which is 2 percent is found in 27 states.

(2) For domestic life companies 34 states levy a tax on gross premiums on life insurance and 22 states tax annuities. As in the case of the tax rate for foreign companies the prevailing rate is 2 percent.

Of the 14 states that do not tax the gross premiums of domestic life companies the majority reach the companies by other means such as a tax on gross or net income and by a tax on capital stock.

(3) Virtually all of the states (30 out of 34) that have a corporate income tax exempt insurance companies from this tax if a gross premiums tax is used.

(4) Eleven states (Alabama, Colorado, Florida, Georgia, Idaho, Louisiana, Montana, New Mexico, Oklahoma, South Carolina, and Texas) make some tax concession if companies have a designated percentage of their assets invested in the state. Colorado is the only state in the group which goes as far as to permit complete exemption on this account.

Should Domestic Companies in Colorado Be Taxed?

One particular feature of the Colorado insurance tax law which calls for re-examination is the existing tax exemption of domestic companies made possible by their compliance with the 50 percent investment rule. As earlier noted this exemption is not applicable in practice to foreign companies.

Table 11.8

Premium Tax Rates Applicable to Foreign and Domestic Life Insurance Companies in United States, 1957

State	Foreign Companies		Domestic Companies	
	Life insurance	Annuities	Life insurance	Annuities
	Rate in percent			
Alabama	3.00[a]	1.00	0.50	0.50
Arizona	2.00	0.00	1.00	0.00
Arkansas	2.25	2.25	0.00	0.00
California	2.35	2.35	2.35	2.35
Colorado	2.00[b]	2.00[b]	2.00[b]	2.00[b]
Connecticut	1.75	0.00	1.75	0.75[c]
Delaware	1.75	0.00	1.75	0.00
Florida	2.00[d]	1.00[d]	0.00	0.00
Georgia	2.25[e]	2.25[e]	2.25[e]	2.25[e]
Idaho	3.00[f]	3.00[f]	3.00[f]	3.00[f]
Illinois	2.00	2.00	0.00[g]	0.00[g]
Indiana	3.00	0.00	0.00[h]	0.00[h]
Iowa	2.00	2.00	2.00	2.00
Kansas	2.00	2.00	0.00	0.00
Kentucky	2.00	2.00	0.00	0.00
Louisiana	2.00[i]	2.00[i]	2.00[i]	2.00[i]
Maine	2.00	2.00[j]	1.00	1.00[j]
Maryland	2.00	1.00	2.00	1.00
Massachusetts	2.00	0.00	2.00	2.00
Michigan	2.00	0.00	0.00[k]	0.00[k]
Minnesota	2.00	0.00	2.00	0.00
Mississippi	3.00	2.00	1.50[l]	1.00
Missouri	2.00	2.00	2.00	2.00
Montana	2.50[m]	2.50[m]	2.50[m]	2.50[m]
Nebraska	2.00	2.00	0.40	0.40
Nevada	2.00	0.00	2.00	0.00
New Hampshire	2.00	2.00	2.00	2.00
New Jersey	2.00[n]	1.00[n]	2.00[n]	1.00[n]
New Mexico	2.00[o]	0.00[o]	2.00[o]	0.00[o]
New York	1.75	0.00	1.75	0.00
North Carolina	2.50	2.50	1.50	1.50
North Dakota	2.50	2.50	0.00	0.00
Ohio	2.50	0.00	0.00[p]	0.00
Oklahoma	4.00[q]	0.00	0.00	0.00
Oregon	2.25	0.00	0.00[r]	0.00
Pennsylvania	2.00	0.00	0.00[s]	0.00[s]
Rhode Island	2.00	0.00	2.00	0.00
South Carolina	2.00[t]	0.00[t]	2.00[t]	0.00
South Dakota	2.50	1.25	0.50	0.50
Tennessee	2.00	1.50	1.75	1.50
Texas	3.30[u]	0.00	1.10[u]	0.00
Utah	2.25	0.00	2.25	0.00
Vermont	2.00	0.00	2.00	0.00
Virginia	2.25	0.00	2.25	0.00
Washington	2.00	2.00	1.00	1.00
West Virginia	3.00	1.00	3.00	1.00
Wisconsin	2.00	0.00	[u]	[u]
Wyoming	2.50	1.00	2.50	1.00

[a] Foreign company rates reducible to a minimum of 2 percent. Reduction at rate of .10 of 1 percent for each 1 percent of assets invested in Alabama securities.
[b] Tax waived if 50 percent or more of assets are invested in Colorado securities.
[c] No tax after 1960.
[d] Some reduction permitted if regional home office is in Florida.
[e] If 25 percent of assets are invested in State the rate is 1.25 percent; if 75 percent the rate is .50 percent.
[f] Rate reduced to 1 percent if 25 percent of assets are invested in the State.
[g] Tax on capital stock.
[h] Subject to gross income tax.
[i] Tax reduced by one-third if one-sixth of total assets are invested in State.
[j] Only annuities issued after July 31, 1943 are taxable.
[k] An annual tax of 5 mills is paid upon each dollar of capital and surplus not to exceed $50,000.
[l] Differences between ad valorem taxes up to $20,000 and one-half of foreign company rate.
[m] May deduct whatever tax is already paid if 50 percent of capital stock is invested in State.
[n] Maximum taxable premiums limited to 12.5 percent of total premiums.
[o] Rate is reduced to .50 percent if 50 percent of assets are invested in State.
[p] A franchise tax is levied on capital and surplus.
[q] Rate is reduced if specified percentage of assets are invested in State.
[r] Subject to income tax.
[s] Tax on capital stock.
[t] Rate is reduced if specified percentage of reserves are invested in State.
[u] Tax is on renewal premiums only. Rate is reduced if a specified percentage of reserves are invested in State. If gross premium receipts from all sources are less than $450,000 the rate is 55/80 of 1 percent.
[v] Domestic companies pay license fee of 3.5 percent of gross income from all sources excepting interest required to maintain reserves, rents from real estate on which company has paid taxes assessed, and insurance premium and annuity considerations. Tax is limited to an amount which, when added to valuation fee does not exceed percentage of foreign company premium tax on like amount of business. No company with insurance in force of $450 million or more shall pay less than the specified premium of foreign company premium tax.

Note: Insurance companies paying a premium tax are specifically exempted from the corporate income tax in 30 of the 34 states which have the latter tax.

Source: Commerce Clearing House, *State Tax Guide, 1957.*

A principal argument against exemption with or without the investment tie-in (which itself is subject to question as a basis for exemption) is that insurance companies operating in Colorado are not subject to any tax other than that levied on general property. As such they are favored over other profit making enterprises which are subject to the income tax. Such discrimination appears to have little, if any, rational basis either in terms of relative services received from government or in ability to pay taxes. If it is argued that domestic companies should be subsidized for investing a relatively large proportion of their assets in Colorado the answer is, of course, that Colorado needs no subsidy to attract capital.[17] If this were the case Colorado's growth would have long since stopped. Moreover, foreign companies without exemption are investing large amounts in the State. Although for individual companies the amounts invested are less in proportion to their assets than holds for the domestic companies the absolute amounts may in cases far exceed those of the domestic companies.

[17] In accordance with sound economic principles, taxes should have a minimum influence in determining the allocation of economic resources in a relatively free market. Such allocation in a private enterprise system will best be determined according to the pattern of consumer preferences and relative costs. This being so, the existing tax subsidy for investing money in Colorado would be considered both economically and socially undesirable.

Table 11.9

Selected Data for Domestic Insurance Companies[a] in Colorado, 1957

(Dollar totals in thousands)

Life insurance companies	Date of incorporation	Assets	Liabilities	Capital	Surplus	Net gain before dividends[b] (life co's) or net income before fed. tax (all other co's.)	Total insurance in force	Premiums collected on Colorado business
American Founders Life Ins. Co.	1955	$ 1,309	$ 754	$ 209	$ 346	$—422	$ 17,461	$ 361
Atlantic and Pacific Ins. Co.	1954	232	77	100	55	—7	1,841	102
Bankers Union Life Ins. Co.	1930	15,518	13,277	250	1,991	576	51,276	537
Capitol Cooperative Life Ins. Co.	1954	1,852	1,347	200	305	109	19,831	428
Capitol Life Ins. Co.	1905	38,641	36,147	250	2,244	508	285,200	2,174
Colorado Credit Life	1949	1,922	1,012	300	610	73	136,689	638
Frontier Life Ins. Co.	1957	240	45	100	95	45	2,673	127
Great Eastern Mutual Life Ins. Co.	1945	986	685	153	148	11	11,083	326
Howard Life Ins. Co.	1954	1,953	1,559	100	294	104	15,059	599
Mile High Life Ins. Co.	1956	208	25	125	58	—45	2,585	51
Mountain States Life Ins. Co.	1955	266	53	142	71	—45	12,461	38
National Farmers Union Life Ins. Co.	1937	5,627	4,763	350	514	61	98,942	458
Nation Western Life Ins. Co.	1956	359	94	163	102	—45	1,056	9
Olinger Life Ins. Co.	1957	1,157	1,006	100	51	57	10,166	232
Perpetual Life Ins. Co.	1956	752	151	380	221	—109	4,419	120
Professional and Business Life Ins. Co.	1946	8,488	7,513	300	675	675	55,375	683
Security Life and Accident Co.	1929	44,010	39,191	250	4,569	921	554,586	2,152
State Life Ins. Co.	1955	740	30	373	337	—81	661	72
United America Life Ins. Co.	1936	11,754	11,004	250	500	259	68,681	1,425
Western Farm Bureau Life Ins. Co.	1952	3,059	2,552	202	305	141	60,001	238
Western Reserve Life Ins. Co.	1956	1,021	795	100	126	60	13,740	541
Total		140,094	122,080	4,397	13,617	2,846		11,311
Multiple Line Companies								
Colorado Farm Mutual Ins. Co.	1950	1,889	995	400	494	146	•	1,389
Merchants Fire Ins. Co.	1907	4,508	3,028	600	880	100	•	227
Total		6,397	4,023	1,000	1,374	246	•	1,616
Fire Insurance Companies (stock)								
Allied National Ins. Co.	1951	301	141	100	90	—21	•	246
American Standard Ins. Co.	1951	249	70	200	—20	—48	•	73
Colorado Ins. Co.	1952	714	214	300	200	—5	•	245
Frontier Ins. Co.	1923	1,194	621	400	173	19	•	348
Total		2,458	1,046	1,000	443	—55	•	912
Casualty Companies[d]								
Centennial Casualty Co.	1949	445	207	110	128	42	•	18
Employers Mutual Ins. Co.	1915	585	377	50	158	65	•	130
Guaranty Mutual Ins. Co.	1928	112	103	0	9	—48	•	54
Guaranty National Ins. Co.	1955	258	133	0	125	—26	•	254
Intermountain Casualty Co.	1953	536	223	200	113	19	•	98
Mountain Standard Ins. Co.	1953	179	63	79	37	—36	•	149
Rocky Mountain Empire Ins. Co.	1956	131	25	56	50	—2	•	59
Texas General Indemnity Co.	1948	1,331	917	100	314	215	•	—
Western Standard Indemnity Co.	1953	273	202	50	21	—20	•	262
Total		3,850	2,250	645	955	209	—	1,024
Reciprocals								
Manufacturers and Wholesalers Indemnity Exchange	1919	1,770	805	0	965	218	•	431

[a] Exclusive of fraternal and benevolent associations and mutual fire insurance companies which are expressly exempt from gross premiums tax.

[b] Before dividends to policyholders and stockholders.

[c] Figures not presented in published annual report and are therefore omitted in this tabulation.

[d] Exclusive of State compensation insurance fund.

Source: State of Colorado, Commissioner of Insurance, *76th Annual Report, 1958.*

The subsidy argument can be pushed in another direction by pointing to the fact that the domestic companies are for the most part newly started and therefore small in capital and business volume. (See Table 11.9.) This being so, tax exemption is needed to promote their development. Recognizing that it is desirable to encourage the development of new and small business it must also be recognized that "infant industry" is universal and equity demands that all new business concerns be similarly treated should tax concessions be made on this account. Moreover, a tax concession is a weak reed for supporting an industry which in private competitive economy must and should be expected to stand on its own feet.

How Should Domestic Companies Be Taxed?

Assuming that the domestic companies in Colorado should take their place beside foreign insurance companies as well as other business enterprise and contribute their fair share of taxes to the State the problem then arises as to what type of tax would accomplish this end. Under the universally adopted gross premiums tax, insurance companies generally have claimed that they were more heavily taxed than other businesses. Although measurement of relative tax burdens is difficult at best there is no concrete evidence to substantiate this claim. Nor have insurance companies come forth with any alternatives which could be effectively implemented in lieu of the much maligned premiums tax. What then are possible alternatives?

Corporate Net Income Tax. The use of the corporate income tax appears on the surface at least to be the best method of taxing insurance companies. Since it reaches income and therefore ability to pay it would bring insurance taxation into conformity with other businesses paying a similar tax. Unfortunately, and as earlier noted, the net income of insurance companies is not readily ascertained. The problem of arriving at net income particularly for mutual companies but, in large degree for stock companies also can be resolved only by a more or less general adoption by the states and the companies of arbitrary standards of reasonable expenses and costs. Such an effort has not yet been attempted by either taxing agencies or insurance associations. Until this is done, if it can be done in any mutually satisfactory way, the income tax cannot be used effectively as an insurance tax.

Capital Stock Tax. Another alternative is the capital stock tax. Several states as indicated in Table 11.8 are using this tax in limited degree but largely as a supplement to the premium tax. The principal disadvantages of this form of tax are: (1) it is difficult to apply in the case of mutual companies, (2) prices of stock are not necessarily true indices of value, (3) prices may be lacking where stock is closely held, (4) valuation is difficult where there is a parent and subsidiary company relationship and (5) the determination of book value when market value is not available is difficult to ascertain because of the peculiarities of insurance accounting wherein true costs and income are not identified in the usual sense.

Application of the Gross Premiums Tax. The two aforementioned alternatives not being feasible, as evidenced by their limited adoption, directs attention again to the gross premiums tax as the more likely tax to use in reaching domestic companies in Colorado. Admittedly the tax at best is a crude device for reaching taxpaying capacity. To the extent that the tax is shifted it becomes a regressive franchise tax on the policyholder. The contention that the premium tax places a heavier burden on insurance companies than does an income tax on other businesses is valid only if the tax is not shifted, a situation which is not likely to occur, at least to the full amount of the tax levied. Similarly it has been held that since the premium tax is a proportional tax it places a heavier burden on new and small companies. Again this assumes that tax shifting does not take place.

The principal advantages of the gross premium tax is clearly the ease with which the tax base can be ascertained. Then too the larger companies pay more of the tax and it does provide a substantial amount of revenue. Finally, to the extent that the tax is not shifted it serves, in some degree, as a substitute for the income tax. In the absence of a more effective alternative state legislators have generally accepted the gross premiums tax as the most appropriate levy for reaching the insurance business.

Potential Revenues From Modification of Existing Colorado Law

If Colorado were then to eliminate its existing investment provision of the law, which has the effect of exempting all of its domestic insurance companies, this would add $15,294,000 to the tax base as measured by gross premiums in 1957.[18] At the present nominal rate of 2 percent this would add $306,000 to tax revenues. If, however, the tax rate were applied to "new" premiums—that is only to premiums on policies written from the date when tax exemptions

[18]This includes domestic life insurance companies, multiple line companies, fire insurance companies (stock companies only) casualty companies and reciprocals. (For basis of computation see Table 11.3.)

were removed—the estimated additional tax revenue would amount to $46,000.[19]

If domestic companies, otherwise exempt, were taxed (e.g. fraternal societies, mutual fire insurance companies, mutual benefit associations and county mutual protective associations) the tax base, measured by gross premiums collected in 1957, would be increased by $1,643,000 with a tax potential of $33,000.[20]

Changing the Rates on Foreign Companies. Table 11.10 shows the fiscal effect of increasing Colorado's 2 percent tax rate on foreign companies comparable with those used in a number of the Western States.[21] It will be observed that if Colorado's rate in 1957 had been 2.25 percent, which is the rate used in Utah, its revenues for that year would have been $534,000 over what they were. Similarly at the rate of 2.50 percent, which is the rate used in Wyoming, revenues would have been enlarged by $1,068,000 and by $2,136,000 if the rate had been 3 percent as in Idaho.

[19] This figure is based on the reports of a representative list of domestic companies which estimate that approximately 15 percent of their 1957 premiums income in Colorado was from new business or policies written in that year.

[20] This figure includes total premiums. For basis of computation, see Table 11.3.

[21] Because of retaliatory legislation in most states an increase of the rate on foreign companies would also increase the rate on domestic company business done in other states if the latter did not have a rate above 2 percent.

Table 11.10

Estimated Insurance Tax Revenues With Varying Rates Applied to 1957 Calendar Year Gross Premiums Base of Foreign Companies Operating in Colorado

Rate (Percent)	Estimated revenues	Estimated increase over 1957 revenues
2.00	$4,271,164[a]	$ —
2.25	4,805,059	533,895
2.50	5,338,955	1,067,791
3.00	6,406,746	2,135,582

[a] Actual premium revenue from a gross premium base of $222,974,812. The succeeding estimated figures have been increased in the proportion that the assumed rate increases bear to each other. It should be recognized that estimated revenue totals are conservative for purposes of estimating future revenues since premium volumes will be constantly increasing.

CHAPTER XII

PERSONAL INCOME TAXATION

The personal income tax is the most important single tax in the United States. It alone in our battery of taxes is based directly on the ability-to-pay principle and provides the major element of progressivity in the nation's over-all tax structure. As a dominant and permanent feature of the American fiscal system, it is essentially a twentieth century phenomenon which has been aptly described as "the outstanding contribution of popular and liberal philosophy to modern fiscal practice."[1]

Taxation cannot be divorced from expenditure policy and the growth of federal income taxation in the United States may be attributed primarily to the continuous increase in the cost of financing war and national security.[2] Similarly, on the state level, the expansion of government expenditures, particularly for education, highway construction, and social welfare services, has been basically induced by the increase in population, urbanization, the development of modern technology, and the industrialization of the economy. Thus the growth in the importance of both federal and state personal income taxation reflects the unprecedented rise in governmental services and expenditures during the past half century and the public's insistent demands that the increased tax burdens be distributed more directly, widely and equitably. Today, in addition to the federal government, more than three-fifths of the states, plus numerous local taxing jurisdictions, mainly in Pennsylvania, Ohio and Kentucky, have incorporated some variant of the personal income tax into their revenue structures.

Although the net income tax is a relatively modern innovation, the origins of the tax can be traced back to its sporadic use as a graduated poll tax in England during the Middle Ages,[3] and to the "faculty" taxes levied upon professional people and artisans in the early American colonies.[4] Some forms of state income taxes, ineffectively administered by local assessors, persisted in a few states throughout the nineteenth century. The first American federal levy on personal incomes was passed by Congress as an emergency measure during the Civil War and the first peace-time version was enacted in 1894 only to be declared unconstitutional by the Supreme Court the following year.[5] It is generally agreed that the real beginnings of personal income taxation in the United States were marked by Wisconsin's enactment of a centrally administered state income tax in 1911 and by the passage of the 16th Amendment and the federal income tax act of 1913. The success of these measures soon became apparent and during the next two decades a dozen states introduced centrally administered income taxes. Another wave of the adoptions occurred in the nineteen-thirties[6] when sixteen more states, including Colorado, enacted income tax laws in order to cope with the fiscal problems caused by the Great Depression and to relieve the badly strained general property tax. Although there have been no additional state adoptions of the personal income tax since the nineteen-thirties,[7] an unparalleled increase in the amount of individual income tax collections has taken place on both the federal and state levels as shown by Table 12.1.

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[1] H. C. Simons, *Personal Income Taxation* (Chicago: University of Chicago Press, 1938), p. 41.

[2] Federal expenditures for national defense have averaged over 90 percent of the total federal outlays for goods and services purchased since the beginning of World War II, 1940-57 inclusive. See U. S. Department of Commerce, *Statistical Abstract of the United States*, 1956; and *Survey of Current Business*, April, 1958.

[3] S. Dowell, *History of Taxation and Taxes in England* (London: Longmans, Green and Company, 1884), Vol. 1, pp. 95-130.

[4] E. H. Plank, *Public Finance* (Homewood, Ill.: Richard D. Irwin, Inc., 1953), p. 228.

[5] *Pollack v. Farmers Loan and Trust Co.*, 157 U. S. 429 (1895), 158 U. S. 601 (1895).

[6] State adoptions of personal income taxation in addition to Wisconsin were as follows:

1912—Mississippi
1917—Montana, Massachusetts, Missouri, New York
1919—North Dakota
1921—Delaware, North Carolina
1926—South Carolina, Virginia, Arkansas, Oregon
1931—Georgia, Idaho, Utah, Vermont
1933—Alabama, Arizona, Kansas, Minnesota, New Mexico
1934—Iowa, Louisiana
1935—California, Oklahoma
1936—Kentucky
1937—Colorado, Maryland

U. S. Bureau of the Census lists 31 personal income tax states, but New Hampshire (1923) and Tennessee (1931) limit the tax only to incomes derived from interest and dividends and are excluded from the above compilation.

[7] A corporate income tax was enacted in Rhode Island in 1947, and in Delaware and New Jersey in 1957.

Table 12.1

Personal Income Tax Collections in the United States, Fiscal Years, 1942-1957

	Collections (millions)		Percent of total tax collections	
	1942	1957	1942	1957
Nation as a whole	$3,527	$37,387	16.8	37.8
Federal Government only	3,251	35,620	26.5	51.0
The 29 income tax states	249	1,557	9.2	18.5
Colorado	3	23	8.0	15.7
Colorado General Fund	2[a]	22[a]	33.3[a]	48.4[a]

[a] Revenue only.

Source: U. S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States: 1949*, p. 398; *Governmental Finances in the United States: 1952* and *1957*, Table 2; *Compendium of State Government Finances in 1957*, Table 5; State of Colorado, Department of Revenue, *Sixteenth Annual Report*, 1958, Table 17; and *State of Colorado Budget Reports*, 1943 and 1958.

It will be noted that in a decade and a half the increase in federal income tax receipts was ten-fold, and for state receipts six-fold. Equally significant is the fact that during this same period the relative importance of the tax (expressed as a percentage of total tax collections) actually doubled for Colorado and the other income tax states, as well as for the federal government. During fiscal year 1957 the combined value of tax collections from this source for federal, state and local units of government exceeded $37 billion, or comprised almost two-fifths of the nation's total tax revenues. On the state level alone they amounted to more than $1.5 billion, or 18.5 percent of the total taxes collected by the twenty-nine states which levy personal income taxes. There were, of course, wide variations in the relative importance of the tax between individual states, ranging from 4 percent for Mississippi to 48 percent for Oregon. In Colorado, personal income taxes provided $20 and $23 million during fiscal 1956 and 1957, respectively, or approximately 14 and 16 percent of the total tax collections for these years. Although the percentage share obtained from this source by Colorado is below the average of the other income tax states, the aggregate data do not fully disclose the quantitative significance of the tax in the State's fiscal structure. Colorado currently is earmarking more than 70 percent of its tax revenues for specific expenditure purposes.[8] Of the "big three" revenue raisers for the State—sales, highway user and income taxes—only the proceeds of the latter are available for legislative appropriations. As such the income tax constitutes the principal source of revenue for the State's General Fund. In 1957 personal income tax collections alone provided almost one-half, and when combined with the corporate income tax they accounted for 58 percent of the total tax receipts making up the General Fund.[9] This does not imply that the income tax is relatively too heavy or that the level of services currently financed by earmarked funds would be appreciably altered if such taxes were freed from earmarking and transferred to the General Fund. But it does indicate that in light of the constitutional earmarking of excise, sales and highway user taxes, and the continued declining importance of the property tax on the state level, it is not unlikely that the major reliance for providing new revenues and achieving fiscal flexibility will continue to fall mainly upon the income tax. On this score alone the income tax may be the key to the problem of state finance.

[8] State of Colorado, *Budget Report*, January, 1958, Statement III.

The Rationale of Income Taxation

The personal income tax probably conforms in principle more closely than any other single tax to the ideal of the good tax. Ever since the publication of Adam Smith's celebrated canons of taxation in 1776[10] public finance scholars have agreed that one of the most basic requisites of sound taxation is that it be fair—that it result in an equitable allocation of the tax burden. And today the generally acknowledged standard of fiscal fairness is that taxes be levied in accordance with the taxpayer's economic well-being or "ability-to-pay" as reflected by his net income adjusted for variation in family obligations. It is recognized that exact differences between individuals' taxpaying capacities cannot be measured precisely by any single criterion. Personal net income, for example, only indirectly takes into account differences in accumulated wealth or rates of saving and spending, factors which also could be considered as affecting tax equity. Nevertheless, no other single factor is as general or significant a measure of relative economic well-being and taxpaying capacity as personal income received. This is especially so for an industrialized economy such as ours in which approximately three-fourths of the nation's total personal income is received in the form of wages, salaries and non-property income, and only one-fourth takes the form of interest, rents and profits arising from the ownership of wealth.[11]

Legally, taxes are based on a variety of specific things and transactions, such as the

[9] *Ibid.*

[10] A. Smith, *Wealth of Nations*, Bk. V, Chap. 2. Smith's first canon of taxation was that "the subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." This implies that both the "ability-to-pay" principle and the "benefit" principle of taxation are essentially to be based on income received (or "revenue" in Smith's terms).

[11] U. S. Department of Commerce, *Survey of Current Business*, April, 1958.

assessed value of real estate, the sale of liquor, cigarette consumption, the purchase of gasoline; but whether direct or hidden the impact of taxes is always on people. Regardless of the type of tax levied—income, property, general sales, or specific excise—its effect is to leave the person upon whom the incidence of the tax falls with less real income (i.e., with less money income, higher prices on goods and services purchased, or both) than would have been the case in the absence of the tax. In this sense practically all taxes are "income taxes" in that they ultimately must be paid from the economy's real income stream.[12] *In other words, the various types of taxation used by the state actually do not represent alternative sources of revenue, but rather different allocations of the tax burden since the distribution patterns of the sundry tax bases and rates by income groups do not parallel each other.*

The great bulk of state taxes based on general sales, alcohol, tobacco, gasoline, motor vehicles and residential real estate fall directly on family consumption expenditures and, thus, work out to be regressive in character. For example, on the basis of the comprehensive LIFE *Study of Consumer Expenditures* for the year 1956, it appears that the Colorado sales tax burden on families with annual incomes of $2,000 or less was 1.7 percent, or more than twice as much as that on families with incomes of $10,000 or more for whom the sales tax burden worked out to be approximately .8 of 1 percent.[13] Similarly, on a broader scale it has been estimated by a national tax authority that combined state and local property, excise and sales tax levies in 1954 averaged 9.4 percent of the pre-tax incomes for all spending units in the nation with annual incomes of $2,000 or less, and was only 5.3 percent for spending units with incomes of $10,000 or more.[14] This regressivity of state sales taxation is further confirmed by a post-war comparative study of income and sales taxation for the State of Washington which also showed that "families with incomes of $1,000 pay twice as large a percentage of their incomes in sales taxes as do families with incomes of $10,000 or more."[15]

In brief, only the personal income tax is directly based on the ability-to-pay principle as measured by net income. The tax liability is legally related to the amount of income received and some allowance is provided for the cost of acquiring gross income. As a direct tax it generally cannot be shifted by the initial taxpayer to others through the pricing system and result in a distortion of the apparent distribution of the costs of supporting state government. And an income tax system that incorporates withholding and "pay-as-you-go" features matches to a large degree the administrative convenience and collection advantage of sales and excise taxes[16] which allegedly are relatively painless in that they only extract a few pennies at a time from the taxpayers' pockets. And since the income tax is not likely to be hidden by the shifting process the people know or can easily ascertain what taxes they are actually paying. This is of considerable importance in a democratic society which always must be concerned with developing a responsible and tax-conscious citizenry.

The tax also provides the fiscal structure with a large degree of inherent flexibility—individual tax liabilities, as well as state revenue, automatically adjust to changing economic conditions. During periods of national economic growth characterized by increased governmental services and expenditures the rise in personal income automatically provides an expanded income tax base and tax yield which in part helps meet the state's need for greater revenues. Also, from the individual taxpayer's point of view, because the tax is assessed only during those periods in which net income is earned it proves to be significantly less burdensome than relatively fixed taxes such as those based on real property values or the purchase of commodities which are highly income inelastic. This is particularly evident in the case of farmers and small businessmen whose incomes are subject to considerable cyclical fluctuations and for individuals whose incomes fall drastically because of some personal misfortune. Of course, it would appear by definition that the counterpart of flexibility for the taxpayer is instability of revenue for the state. These concepts are said to be merely the two sides of the same coin. But it does not follow that the advantages of one are necessarily offset by the

[12] An apparent exception is the taxpayer with insufficient current income who lives off his capital by drawing upon past accumulated savings or inherited wealth in order to meet his tax liabilities. In this case the current tax actually is being paid from past income; contrariwise, if paid with borrowed funds it could be considered a charge against future income.

[13] Alfred Politz Research, Inc., *Life Study of Consumer Expenditures: A Background for Marketing Decisions* (New York, 1957), Volume 1.

[14] R. A. Musgrave, "The Incidence of the Tax Structure and Its Effects on Consumption," *Federal Tax Policy for Economic Growth and Stability*, Papers Submitted by Panelists to the Joint Committee on the Economic Report, 84th Congress, 1st Session (Washington, D.C., 1955), pp. 96-113.

[15] P. W. Cartwright, "Public Attitudes Towards Sources of State Revenue," *National Tax Journal*, Dec., 1949, p. 370.

[16] The cost of administering the personal and corporate income taxes in Colorado since the introduction of payroll withholding in 1954 has averaged 3 percent of the total collections, whereas the cost of collecting state cigarette taxes has been estimated to be 6 to 7 percent of the gross tax. See Chapter XVIII, below.

disadvantages of the other. Tax flexibility is highly desirable for the individual taxpayer in terms of convenience and fairness, and for the economy as a whole in that it helps mitigate the swings of the business cycle. On the other hand, it is obvious that instability of revenue yields makes the planning of public expenditures and fiscal budgeting extremely difficult, particularly for state and local authorities. However, so-called "stable taxes" such as those based on property, also have proven to be highly unstable sources of revenue during periods of severe economic crisis as in the nineteen-thirties when state and local governments were confronted with an "avalanche of property-tax delinquencies and forced sales."[17]

Moreover, it should be noted that the personal income tax ordinarily is not levied upon incomes below some socially acceptable minimum standard of living. By use of exemptions and deductions the legal definition of taxable income takes into consideration the size of family, physical infirmities of old age and blindness, and extraordinary drains on income due to medical expenses or casualty losses. On the other hand, the application of graduated rates to incomes above the socially determined minimum standards of living provides the major element of progressivity to the state's revenue structure.[18] All of these factors make the personal income tax eminently fair and convenient. To summarize, since income received is the most satisfactory measure of economic well-being, the apportionment of the cost of state government will conform to the ideal of tax equity based on the ability-to-pay principle to the extent that a graduated personal income tax is used as a principal source of state revenue.

In addition to being the most desirable form of taxation in terms of equity considerations, it appears that the personal income tax has less adverse effects than other leading types of taxation on the operation of the economy in terms of economic efficiency. It substantially meets the test of tax neutrality which has been defined as "taxation that does not alter the allocation of resources."[19] All taxes, of course, have some influence on the structure of relative prices, production and employment which prevail in the private sector of the economy. There are no neutral taxes in the sense that a tax can be completely independent of the economic activity which individuals undertake. It is generally understood, that sales, excises and ad valorem levies relatively have the greatest *direct* effect on the market prices of individual goods and services taxed and, therefore, directly disturb economic relationships which otherwise would emerge from the operation free-market forces. In other words, such taxes distort the allocation of resources unless it can be shown that the tax offsets competitive imperfections in the system or helps achieve other socially desired goals of the private enterprise economy. On the other hand, a uniform lump-sum levy which is not passed on to others, such as a poll tax, might be considered ideal by the neutrality criterion although it obviously would prove to be inequitable by accepted standards of fiscal fairness. But even the poll tax leaves the taxpayer with less purchasing power, and the reduction in income influences his spending and saving decisions. Similarly, the personal income tax is levied in part upon economic surpluses and to the extent that the tax cannot be directly shifted through the market it too has only an "income effect" on price neutrality. Moreover, it is not likely that any significant shifting of the tax occurs indirectly through changes in the supply of the factors of production.[20] Although economic analysis indicates that theoretically all taxes should have some finite impact on factor supply there is no conclusive evidence that the personal income tax actually deters work incentives or discourages aggregate investment. To the contrary, such evidence as is available supports the proposition that the imposition of income taxes has had a tendency to stimulate effort and risk-taking on the part of many individuals who attempt to compensate for the loss in "take-home" income due to taxation.[21] In brief, the personal income tax is highly neutral in that it does not tend to distort the structure of relative prices or materially alter the patterns of consumption and production, and thus it has minimal adverse effects on the efficiency of the

[17] A. H. Hansen and H. S. Perloff, *State and Local Finances in the National Economy* (New York: W. W. Norton, 1944), p. 39. For example, in Colorado state assessed valuations declined by about 31 percent, and state property tax collections fell by more than 35 percent during the four year period from 1929 to 1933. And "at the end of the calendar year (1933) the tax delinquency was 26.6 percent by counties, ranging from 66.3 percent in Costilla County . . . to 3.6 percent in Jackson." Colorado State Tax Commission, *22nd Annual Report*, 1933, p. 6.

[18] Only if deductibility of federal tax in the computation of state taxable income is limited or not permitted. See subsequent sections for detailed analysis of this problem.

[19] H. M. Groves, "Neutrality in Taxation," *National Tax Journal*, March, 1948.

[20] R. Goode, "The Income Tax and the Supply of Labor," *Journal of Political Economy*, October, 1949.

[21] See for example: J. Cooper, "Taxation and Incentives in Mobilization," *Quarterly Journal of Economics*, February, 1952; G. F. Break, "Income Taxes, Wage Rates and Incentives to Supply Labor Service," *National Tax Journal*, December, 1953; "Income Taxes and Incentives to Work," *American Economic Review*, September, 1957; I. H. Saunders, *Effects of Taxation on the Executive* (Boston: Harvard University Graduate School of Business Administration, 1951); J. K. Butters, et. al, *Effects of Taxation: Investment by Individuals* (Boston: Harvard University Graduate School of Business Administration, 1953); and J. K. Butters, "Taxation, Incentives, and Financial Capacity," *American Economic Review*, Supplement, May, 1954, p. 505.

economy as judged by the market standards of a free-enterprise system.[22]

Another related advantage of the income tax is that it automatically provides a counter-cyclical effect to the fluctuations which occur in over-all business activity. The achievement of domestic economic stability is widely recognized today to be an important goal of governmental fiscal policy. For example, post-war federal legislation has explicitly stated that it "is the continuing policy and responsibility of the federal government. . . to promote maximum employment, production and purchasing power."[23] At the state and local levels, however, tax policy understandingly must be more concerned with developing adequate and stable sources of revenue than with compensating for the ups and downs in general business activity. Nevertheless, state taxes that automatically have a stabilizing effect are to be preferred over those which aggravate the business cycle. On this score the graduated personal income tax is unique in that it adds a degree of "built-in flexibility" to the private sector of the economy. Without legislative (or deliberate) alteration of the structure of tax rates or change in definition of tax base the total revenues from this source will vary directly and progressively with changes in levels of aggregate employment and income. In periods of prosperity the sharp rise in income tax collection tends to dampen private spending and check inflationary forces which lead to "boom and bust." Contrariwise, in periods of depression the automatic reduction in the public's tax liability helps to induce consumption and investment expenditures which tend to mitigate the severity of the business contraction, unemployment and price deflation. In passing, it may be noted that one of the obstacles to economic stability before World War II was the "fiscal perversity" of state and local government units whose collective taxing and spending activities intensified rather that moderated the forces behind both inflation and depression.[24] During the post-war era the continuous growth of total state and local expenditures, from less than $10 billion in 1946 to over $35 billion in 1957, has been one of the primary factors accounting for the general economic prosperity and stability which has characterized this period. And with state and local taxes constituting more than one-quarter of the nation's total tax bill during the past decade[25] it would appear that all units of government will continue to have some responsibility for pursuing tax policies which do not unnecessarily induce economic instability.

Apart from the administrative considerations treated in the latter part of this chapter, the rationale for utilizing the personal income tax as a major source of state revenue is that it, more than any other single type of state taxation, meets the four basic criteria of a "good tax" for a modern industrialized economy: (1) *adequacy*—it directly reflects the state's taxable capacity inasmuch as all taxes ultimately are paid from the state's income stream; (2) *fairness*—it conforms with the ability-to-pay principle which is socially accepted as the standard of equity for the apportionment of the tax burden; (3) *neutrality*—it has minimal adverse effects on economic efficiency as determined by market standards; and (4) *flexibility*—as a compensatory fiscal device ("built-in stabilizer") it contributes to the state's economic welfare by lessening the degree of instability in the private sphere of the system.

History of Personal Income Tax Legislation in Colorado

Prior to World War II the history of income taxation in Colorado, as in many other states was closely related to perennial attempts to reform the administration of state property taxation. As already noted, the first successful development in this direction was Wisconsin's enactment of a centrally administered state income tax in 1911. The following year, the newly created Colorado State Tax Commission, in its first annual report, advocated the use of an income tax as a supplementary source of state revenue. The Commission's strongest recommendation for the tax was made in its *7th Annual Report* in which it explicitly stated that:

> years of experience by every state in our nation has conclusively demonstrated that a success cannot be made of trying to tax intangibles. Experience has likewise demonstrated that the income tax for all purposes is the only rational solution of the problem. Of all systems, the income tax is by far the fairest.[26]

This remained the Commission's position throughout the next decade notwithstanding the unsuccessful attempts made to pass an income tax amendment to the State Constitution by farmers who formed a Colorado State Tax Revision Committee in 1922 and by Governor Sweet's

[22] It may be noted that one cannot logically argue that he favors a private enterprise system in which market forces are determinate and at the same time advocate in place of the income tax the extensive use of sales and excise levies which misallocate resources as well as work out to be regressive in character.

[23] Employment Act of 1946, 79th Congress, 2nd Session, Chap. 33, P.L. 304.

[24] See A. H. Hansen and H. S. Perloff, *State and Local Finances in the National Economy* (New York: W. W. Norton & Co., 1944), Chapter IV.

[25] U. S. Department of Commerce, Bureau of Census, *Governmental Finances in the United States: 1947-1957.*

[26] State of Colorado, State Tax Commission, *7th Annual Report*, 1918, p. 7.

administration in 1923 and 1924. No additional income tax referenda were initated during the twenties but the public continued to be concerned with the inherent administrative weaknesses of the property tax. In 1930 the Denver Chamber of Commerce commissioned Professor J. P. Jensen, a national tax authority, to make a comprehensive study of the State's fiscal structure. In his final report, Jensen noted that the "first and greatest requirement of a state tax system is that the aggregate tax each taxpayer pays must bear some reasonable relation to his net income" and that it would not be possible to reduce taxes on property so long as no other taxes, such as income taxes, were permitted.[27] With the advent of the Great Depression the Tax Commission changed its former position and advocated a state sales tax as the "panacea" for resolving the State's aggravated financial difficulties.[28] A large body of public opinion, however, continued to favor the personal income tax. Two bills, one with graduated and the other with flat rates, were defeated in the legislature ostensibly because there were some doubts "as to their legality without constitutional amendment," and three more unsuccessful attempts to amend the constitution were made in the early nineteen-thirties.[29] In 1935 an income tax bill, still based on the belief that an amendment was not necessary, was passed by the legislature, but Governor Johnson vetoed the act on grounds that in his opinion it was unconstitutional. Finally, in 1936, with strong support throughout the State from organized labor, farm, and public education groups, the income tax amendment was passed by popular referendum.[30] The following year, after a quarter of a century of fiscal controversy on this score, Colorado's first income tax was enacted, effective July 1, 1937.

The basic provisions of the original act and the major statutory revisions made during the next two decades are summarized below:

(1) *Coverage.* The tax was and continues to be applicable to all residents within the State and all non-residents who receive all or part of their personal income from sources within the State.

(2) *Deductions.* Determination of taxable income in general follows the federal practice of permitting some deductions for charitable contributions, interest paid, casualty losses, medical expenses, and taxes paid other governmental units. The importance of the latter is that since its inception in 1937 the State has permitted full deductibility of federal income tax in the determination of taxable income for State purposes.

(3) *Exemptions.* The original 1937 normal tax exemptions were $1,000 for a single person, $2,500 for married persons or head of household, and $400 for each additional exemption other than husband or wife. Since 1937 the normal tax base has twice been widened considerably[31] by statutory lowering of normal tax exemptions: in 1947 they were reduced to a uniform $600 individual exemption. Finally, they were restored to the current $750 individual exemption which became effective January 1, 1957.

(4) *Tax rates.* The original 1937 normal marginal tax rates ranging from 1 percent on the first $1,000 of taxable income to 6 percent on that over $10,000 also prevailed for a decade. The first major rate revision occurred in 1947 when the statutory rates were made slightly more progressive and raised to the current levels ranging from 1 percent on the first $1,000 of net taxable income to 10 percent on that over $11,000. However, in 1950 the State Legislature enacted a temporary 20 percent credit against the normal tax liability of all taxpayers which in effect reduced the statutory marginal rates by an equal percentage for all income brackets. This "temporary" 20 percent reduction was subsequently put into effect each successive year until 1957 when it was lowered to 15 percent.

(5) *Surtax.* In addition to the normal tax, the original 1937 act levied a surtax of 2 percent, without exemptions, upon all interest and dividend income received in lieu of a property tax on intangibles. The 2 percent surtax rate has been continued since the inception of the tax and is currently effective. However, the surtax exemption provision has twice been revised upwards resulting in a relative narrowing of the surtax base: in 1943 a $200 surtax exemption per individual was permitted; and in 1951 it was further increased to the current exemption of $600.

(6) *Collections.* The original 1937 act, conforming to the then existent federal practice, provided for payment of the tax on a quarterly basis during the year following the taxable period in which the income was received. This resulted in a one year lag between the periods in which the tax was incurred and collected. In 1954 a partial withholding plan was introduced, limited to payrolls only, with collection from employers on all wage and salary income. Al-

[27] J. P. Jensen, *Survey of Colorado State Tax System* (Denver, 1930), p. 35.

[28] See Colorado State Tax Commission, *20th Annual Report*, 1931, p. 4; and *21st Annual Report*, 1932, p. 8.

[29] Twice in 1932 and once in 1933.

[30] The Income Tax Amendment (Section 17, Article X) states: The General Assembly may levy income taxes, either graduated or proportional or both graduated and proportional for the support of the State, or any political subdivision thereof, or for public schools, and may, in the administration of an income tax law, provide for special classification or limited taxation or the exemption of tangible and intangible personal property.

[31] See Table 12.2.

though other income tax levying states also had initiated withholding during the post-war years,[32] Colorado's scheme was unique in its administrative simplicity—it merely required that employers withhold from payrolls an amount equal to 4 percent of the amount withheld for federal income tax purposes. Taxpayers not subject to the above payroll withholding were placed on a comparable "pay-as-you-go" basis by an income tax amendment passed in 1958, effective with the taxable year 1959,[33] which requires such taxpayers to make a declaration and pay an estimated tax on income received during current taxable years.

(7) *Allocation.* Finally, the original 1937 act provided that all income tax collections were to be used for support of public schools as replacement for local property taxes. Two years later the legislature diverted 65 percent of income tax revenues to the State's General Fund and in 1947 the earmarking of the remaining 35 percent for school purposes was completely abandoned. Since then all income tax collections flow to the State's General Fund.

Extension of Personal Income Taxation in Colorado

The historical growth of the personal income tax in Colorado as measured by the number of individuals required to file and by the number subject to the tax is shown in Tables 12.2 and 12.3

It will be noted that the personal income tax, originally levied on a relative handful of the State's wealthier taxpayers, has been broadened during the post-war years to the point where it today affects practically all families and unrelated individuals in the State except those in the very lowest income groups. The total number of returns filed rose continuously from about 52,000 in 1938 to more than half a million in 1958, a phenomenal tenfold expansion since the inception of the tax. And the growth in the number of taxable returns during the same period rose from slightly more than 38,000 to about 400,000, which also represented an increase of more than 1,000 percent. The expansion in the number of taxpayers from 1938 through 1947 mainly reflected the World War II and immediate post-war prosperity and concomitant rise in personal incomes in Colorado. However, the continued upward trend after that year cannot be primarily attributed to the growth in per capita money income or population for these factors increased during the entire 20-year period by only 50 and 300 percent, respectively, as shown in Table 12.3 and Chart 12.1. In other words, the remarkable expansion in both the number of total and taxable returns filed during this period essentially reflects the broadening of the tax base by statutory revision. For example, the greatest annual increase occurred in 1948 when the number of taxpayers almost doubled in one year as a result of the lowering of the original exemption of $1,000 to $750 per individual. Similarly, the further reduction of the exemption to $600 in 1951 increased the total number of taxpayers by an additional 29 percent and raised the ratio of taxable to nontaxable returns from approximately 7:3 to 8:2 (i.e., eight out of every ten returns filed showed some positive amount of tax liability). The introduction of payroll withholding in 1954 also enlarged the tax base—but not by as much as achieved through the lowering of the exemptions. The number of taxable returns increased by 17 percent, but the ratio of taxable to nontaxable returns remained practically unchanged. On the other hand, the greater impact of changing exemption values on the number of taxpayers and the amount of

Table 12.2

Number of Taxable and Nontaxable Individual Returns Filed in Colorado During Calendar Years 1938-1958

Year	Number of individual returns filed[a]			Number of taxable returns as percent of	
	Total	Taxable	Nontaxable	Total returns	Colorado's population
1938	51,807	38,436	13,371	74.2	3.5
1939	58,026	44,152	13,874	76.1	3.9
1940	61,048	46,348	14,700	75.9	4.1
1941	73,222	52,716	20,506	72.0	4.7
1942	88,353	64,475	23,878	73.0	5.7
1943	104,325	79,038	25,287	75.6	6.9
1944	111,524	77,701	33,823	69.7	6.9
1945	119,275	84,969	34,306	71.2	7.6
1946	126,650	89,675	36,975	70.8	7.5
1947	156,098	117,066	39,032	75.0	9.5
1948	294,769	224,496	70,273	76.2	17.8
1949	306,860	227,286	79,574	74.1	17.6
1950	331,661	233,203	98,458	70.3	17.5
1951	343,281	248,587	94,694	72.4	18.8
1952	338,208	320,805	67,403	82.6	23.5
1953	422,022	346,243	75,779	82.0	24.1
1954	441,555	363,459	78,096	82.3	24.4
1955[b]	473,519	387,126	86,393	81.8	24.8
1956[b]	502,458	414,789	87,669	82.5	25.5
1957[b]	509,074	424,361	84.713	83.4	25.4
1958[c]	534,821	391,093	133,728	74.5	—

[a] Excludes fiduciary and partnership (information) returns.

[b] The total number of taxable returns for years 1955-57 reported in the Department of Revenue, *Annual Reports*, have been adjusted to exclude refund returns classified as "taxable" which have no normal or surtax liability.

[c] Data based on sample survey of 1957 returns filed in 1958.

Source: State of Colorado, Department of Revenue, *Annual Reports, 1942-1957.*

[32] The nine other states with payroll withholding and year of adoption are:

Alabama (1956)	Idaho (1955)	Montana (1955)
Arizona (1954)	Kentucky (1954)	Oregon (1948)
Delaware (1953)	Maryland (1955)	Vermont (1951)

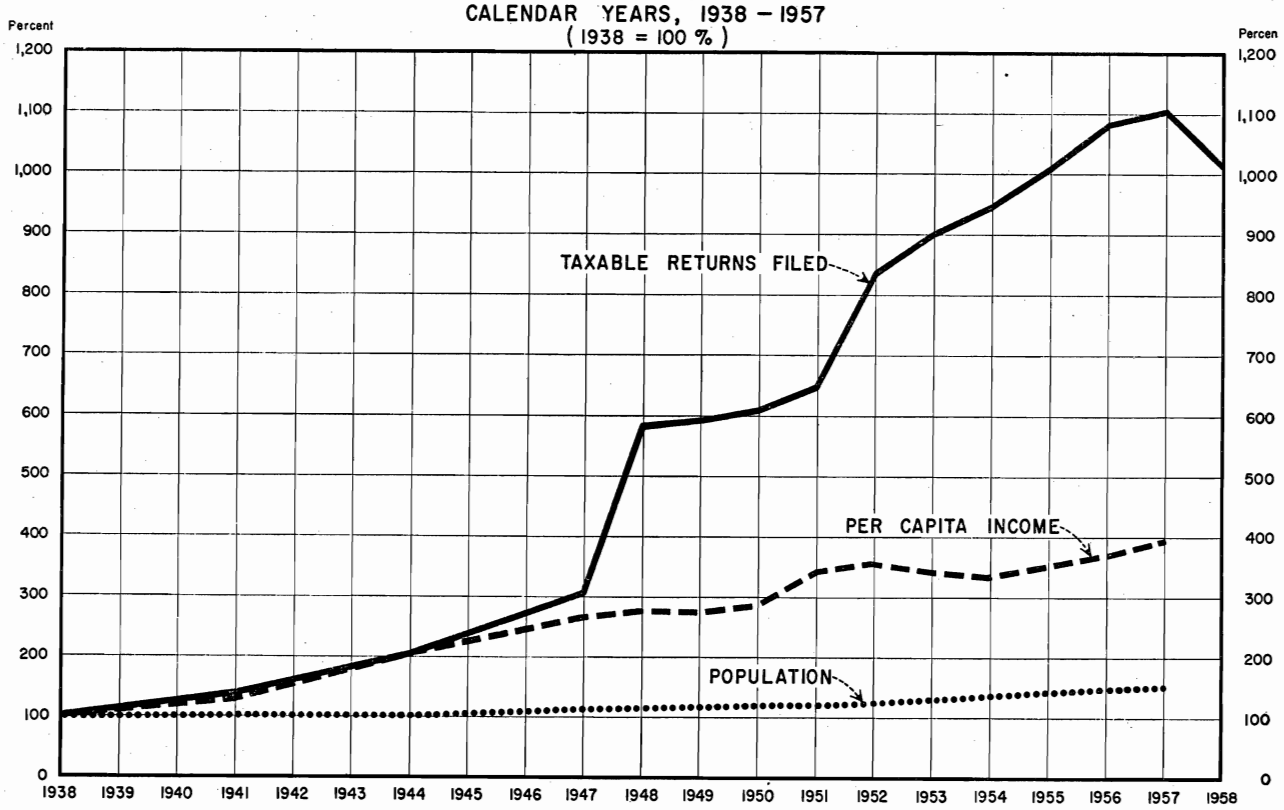
[33] *Session Laws of Colorado*, 1958, Ch. 57. This applies to taxpayers whose tax liability during the preceding taxable year exceeded the amount withheld, if any, by $20 or more.

tax revenues collected is further evidenced by the 1957 experience. Notwithstanding the reduction in the "temporary" tax credit from 20 to 15 percent and the continued rise in the State's population and per capita income, the restoration of the $750 individual exemption in 1957 resulted in a significant contraction of the tax base. The total number of returns filed during the first six months of 1958 showed a 3 percent increase, but the number of taxable returns[34] was actually 7.6 below the previous year's total and represented only 75 percent of all returns filed. If the 1956 statutory exemption and tax credit provisions had been in effect in 1957 it is estimated that at least some 50,000 additional persons who paid no tax on their 1957 incomes would have incurred some tax liability and the total individual income tax colections from all taxpayers would have been on net balance $1.5 million greater.

Expressed in relative terms, the extended coverage of the personal income tax in its present form is indicated by the fact that the total number of taxpayers expanded from less than 5 percent of the State's total population before World War II to 25 percent in each year since 1955. For example, the more than one-half million resident tax returns for 1957 filed in 1958 accounted for about 1,350,000 taxpayers and dependents, based on an average of 2.6 exemptions per return, exclusive of extra exemptions granted for old age and blindness. This means that either as taxpayers or dependents of taxpayers 81 percent of the State's 1957 population can be traced directly to the 1957 resident tax returns filed in the first six months of 1958. Moreover, the latest available federal data show that the number of federal individual income tax returns filed in Colorado during the

[34]Since the inception of payroll tax withholding in 1954 the Colorado Department of Revenue has classified all refund returns, including those with neither normal nor surtax liability, as taxable returns. The latter constitute about 9 percent of the Department's reported "taxable returns" and the totals for these categories in Tables 12.2 and 12.3 have been adjusted and decreased accordingly for the years 1955-57.

RELATIVE GROWTHS OF TAXABLE INCOME TAX RETURNS FILED, PER CAPITA INCOME AND POPULATION IN COLORADO
CALENDAR YEARS, 1938 – 1957
(1938 = 100 %)



SOURCE: State of Colorado, Department of Revenue, Annual Reports; U. S. Department of Commerce, Personal Income By States Since 1929 and Survey of Current Business, August 1958

CHART 12.1

calendar year 1956 was slightly less than 553,000, or approximately 10 percent above the number of Colorado individual income tax returns filed the same year. [35] The fact that the total number of federal returns exceeded the number of Colorado returns filed in 1956 when both federal and Colorado filing requirements were essentially the same may be partly explained by the federal distribution of returns between the states which is "primarily based on the district in which the return is filed" (rather than classified on the basis of the taxpayer's residence or territorial source of income), and partly by better taxpayer compliance induced by the higher federal tax rates and liability.

Table 12.3

Absolute and Relative Growth of Taxable Returns Filed, Population, and Per Capita Incomes for Colorado, For Selected Years 1938 - 1957

				—Relatives (1938 = 100)—		
Year	Number of taxable returns	Population (thousands)	Per capita income	Number of taxable returns	Population	Per capita income
1938	38,436	1,112	$ 507	100.0	100.0	100.0
1941	52,716	1,124	648	137.2	101.1	127.8
1944	77,701	1,124	1,063	202.2	101.1	203.2
1947	117,066	1,236	1,338	304.6	111.2	263.9
1948	224,496	1,263	1,394	584.1	113.6	275.0
1949	227,286	1,295	1,385	591.3	116.5	273.2
1950	233,203	1,335	1,446	606.7	120.1	285.2
1951	248,587	1,319	1,732	646.8	118.6	341.6
1952	320,805	1,368	1,804	834.6	123.0	355.8
1953	346,243	1,436	1,735	900.8	129.1	342.2
1954	363,459	1,501	1,694	945.6	135.0	334.1
1955	387,126	1,560	1,784	1,007.2	140.3	351.9
1956	414,789	1,628	1,870	1,079.2	146.4	368.8
1957	424,361	1,673	1,996	1,104.1	150.4	393.7

Source: State of Colorado, Department of Revenue, *Annual Reports*, 1942-57; U. S. Department of Commerce, *Personal Income By States Since 1929;* and *Survey of Current Business, August*, 1958.

The extension of personal income taxation in Colorado during the past two decades also is indicated by the absolute and relative changes which have occurred in the annual dollar amounts of collections from this source.

Table 12.4 shows that personal income tax receipts rose from less than $1.8 million on the 1938 returns filed and paid in 1939 (the first full year for the tax) to more than $21.8 million, net of refunds, in 1957. This represents a twelve-fold increase in collections at current prices and a six-fold increase when measured in dollars of constant purchasing power.[36] Although this expansion in income tax collections in part reflects population growth, rising money incomes, and the high levels of employment and prosperity of the war and post-war decades, the largest annual increases occurred in the years immediately following basic statutory revisions in the tax, such as the lowering of exemptions, the raising of rates, and the introduction of payroll withholding. Thus, in 1955 when wage earners were placed on a "pay-as-you-go" basis without forgiveness of the previous year's tax liability, collections increased by $7 million, or more than 50 percent, and since then have continued above the $20 million level.

Table 12.4

Colorado Income Tax Collections Calendar Years, 1938-1957

	Amount of collections (thousands)			Personal income tax as percent of		
Year	Personal income taxes [a]	Corporation income taxes	Total income taxes	Total income tax revenue	Total State taxes [b]	Total personal income
1939	$ 1,775	$1,054	$ 2,829	62.7	5.9	0.31
1940	2,136	1,225	3,361	63.6	6.4	0.35
1941	2,437	1,106	3,543	68.8	6.9	0.33
1942	3,155	1,441	4,596	63.6	8.4	0.31
1943	3,705	2,456	6,161	60.1	9.3	0.31
1944	3,382	2,977	6,359	53.2	8.4	0.28
1945	3,088	3,039	6,127	50.4	7.5	0.23
1946	4,203	2,629	6,832	61.5	8.6	0.29
1947	5,770	3,862	9,632	59.9	9.8	0.35
1948	7,100	5,274	12,374	57.4	9.6	0.40
1949	12,233	6,466	18,699	65.4	15.0	0.68
1950	11,362	6,015	17,377	65.4	13.3	0.59
1951	12,981	6,688	19,669	66.0	13.5	0.57
1952	14,074	5,816	19,890	70.8	13.9	0.57
1953	13,117	5,215	18,332	71.6	12.3	0.53
1954	13,444	5,666	19,110	70.4	12.2	0.53
1955 [c]	20,726	5,828	26,554	78.1	16.6	0.74
1956 [c]	22,637	4,641	27,278	83.0	16.3	0.74
1957 [c]	21,824	5,855	27,679	77.7	14.8	0.65

[a] Combined total for individual and fiduciary returns.
[b] Based on fiscal year data.
[c] Adjusted to exclude withholding refunds.

Source: State of Colorado, Department of Revenue, *Annual Reports*, 1942-1957; U. S. Department of Commerce, *Personal Income by States Since 1929;* and *Survey of Current Business*, August, 1958.

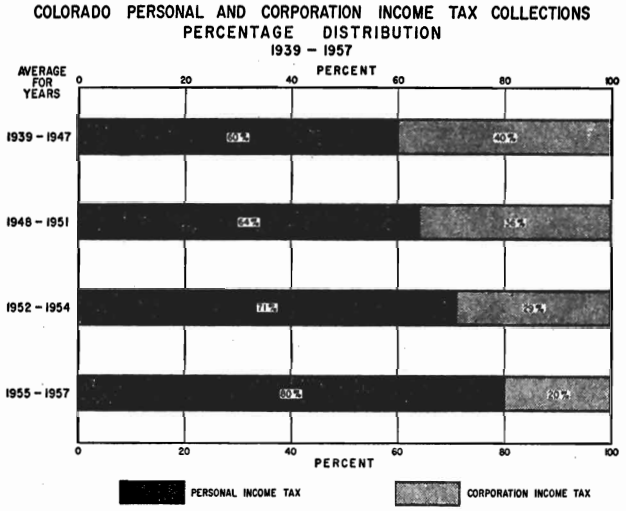
The change in the relative significance of the tax is measured by personal income tax revenues expressed as percentages of total income tax revenues, total state tax collections, and the total personal income received annually. All three are good indicators of the growth of personal income taxation in Colorado since 1938. Moreover, on the basis of the above data, it appears that with the expansion of personal income taxation, the corporation net income tax has become relatively less important, as shown in Chart 12.2. During the first ten years of state income taxation, payments made by individuals and fiduciaries averaged about 60 percent of the State's total income tax receipts,[37] with the cor-

[35] U. S. Treasury Department, *Statistics of Income for 1955* (Washington, 1958), p. 51.

[36] The U. S. Department of Labor's Consumer Price Index actually doubled during the past 20 years, rising from 60.3 in 1938 to 120.2 in 1957. See the *Economic Report of the President* (Washington, 1958), p. 160.

[37] Collections from fiduciaries and trusts have averaged about one percent of total income tax collections since the enactment of the tax in 1937.

poration tax providing the remaining 40 percent. Since then the ratio has steadily risen and in recent years the personal tax has accounted for as much as 80 percent of the total while the corporate has averaged about 20 percent. [38] The growing importance of the personal income tax is further revealed by the fact that over the years it has provided an increasingly larger share of Colorado's total tax revenues—from less than 6 percent in 1939 to approximately 15 percent in 1957. And although the tax has never accounted in any one year for as much as one percent of the State's total personal income received before tax, nevertheless when measured as a percentage of such income it actually doubled during the period under consideration.



Source: Table 12.4

CHART 12.2

In summary, it is evident that the statutory revisions of the Colorado personal income tax law—particularly the lowering of exemptions and introduction of payroll withholding — coupled with the growth in population and money income during the past two decades have resulted in the tax being transformed from a minor source of school revenues, originally levied as a substitute for the property tax on intangibles, into a major source of general revenue collected on an extensive basis from the vast majority of Colorado's householders and employed single individuals.

[38]The relative instability and decline of the corporate income tax in the face of generally increased economic activity in Colorado during the past 10 years are fully analyzed in the next chapter.

Basic Features of Personal Income Taxation in Colorado

As in most other states, the Colorado income tax statute[39] levies a tax on the net income of individuals, fiduciaries and corporations. In general, the taxation of fiduciaries (estates and trusts) is substantially similar to that of individuals and is considered part of the personal income tax structure in this study. The corporate income tax, however, differs significantly in both rate and base from the personal income tax and for analytical purposes is discussed separately in the next chapter. The basic features of personal income taxation in Colorado compared with that of other states are briefly described below.

Coverage. Every resident of Colorado who has an annual gross income of $750 or more, or receives $600 or more from interest and dividends, must file a state income tax return. Unmarried individuals file separate returns. Taxpayers who are married on the last day of the taxable year, may file joint or separate returns, but the Colorado statute does not permit income-splitting as is the case under the federal code and in a few community-property states.[40] In addition, individuals receiving less than $750 in annual income may elect to file a return in order to obtain a refund for taxes withheld from earnings. Part-time residents of the State must file a return if their gross income exceeds their pro-rated exemptions. Also, every non-resident of the State must file a return if he derived income from Colorado sources, apportioning his deductions and exemptions in accordance with the ratio of his Colorado income to total income for the taxable year.

The total number of taxable and nontaxable 1957 returns filed in 1958, classified by residency and marital status, is shown in Table 12.5.[41]

It will be noted that of the more than one-half million personal income tax returns filed in Colorado in 1958 almost 94 percent were from full-time residents and 5 percent from part-time residents of the State. The six thousand non-resident returns represented only slightly more than 1 percent of the total and as such appear to

[39]*Colorado Revised Statutes*, 1953, Ch. 138, Article I, Sec. 1-60, as amended.

[40]See Table 12.6.

[41]Detailed Colorado individual income tax data for 1957 included in this report were compiled from a sample of all individual income tax returns filed during the first six months of 1958. On the basis of previous years' experience it appears that approximately 99 percent of the year's total individual returns are filed during the first half of the calendar year. The sample survey excluded fiduciary, prior-year delinquent and tentative returns. A detailed explanation of the sources of the 1957 data, methods of estimation, description of the sample and limitations of the data are presented in the Appendix to this chapter.

be relatively unimportant. This very low nonresident filing may be accounted for mainly by the fact that Colorado's major urban centers are located considerable distances from surrounding border states and hence do not provide wage earners, businessmen and professional people who earn their incomes in Colorado with the opportunity of living in "bedroom communities" situated across the state line. Thus, to a large extent Colorado is spared one of the more difficult administrative problems of state personal income taxation—the collection of tax from out-of-state residents.

Table 12.5

Taxable and Nontaxable Individual Income Tax Returns Filed in Colorado 1958 Classified by Residency and Marital Status of Taxpayer

Status of Taxpayer	All returns		Taxable returns		Nontaxable returns	
	Number	Percent of total	Number	Percent of total	Number	Percent of total
Residency						
Full-time res.	491,364	93.6	365,193	93.4	126,171	94.4
Part-time res.	27,049	5.2	21,145	5.4	5,904	4.4
Total res.	518,413	98.8	386,338	98.8	132,075	98.8
Total non-res.	6,408	1.2	4,755	1.2	1,653	1.2
Total filed	524,821	100.0	391,093	100.0	133,728	100.0
Marital						
Married-Joint	279,891	53.3	197,507	50.5	82,384	61.6
Married-Separate	100,227	19.1	87,003	22.2	13,224	9.9
Single-Separate	144,703	27.6	106,583	27.3	38,120	28.5
Total filed	524,821	100.0	391,093	100.0	133,728	100.0

When classified by the marital status of the taxpayers, approximately three-fourths of the Colorado state income tax returns were filed by married individuals and one-fourth by single persons. Joint returns of husbands and wives represented more than 50 percent of all returns filed. However, this percentage is lower than that for the joint returns filed under the federal income tax code. The latest available Treasury data indicate that 61 percent of total number of federal individual returns filed in 1956 were joint returns of married couples.[42] It is reasonable to expect a higher proportion in the federal levy since Colorado does not permit income-splitting, while federal tax schedules incorporate a "split-income" provision for married couples which in general eliminates any advantage to be derived from separate filing under the federal code. For the same reason, the relative number of separate returns filed by married individuals under the state tax, about one-fifth of the total returns, is considerably higher than under the federal tax.

Tax Base. The income tax from a conceptual point of view is somewhat more complex than other taxes, particularly with regard to the determination of the tax base on which the rates are to be applied. With most other forms of taxation the tax rate is based upon some readily measurable physical or economic commodity or transaction. Under personal net income taxation, however, the tax base—*net taxable income*—must be derived from a series of accounting computations[43] (whether worked out by the individual taxpayer or incorporated in an optional tax table) which require clearcut and fairly rigorous statutory definitions of economic concepts such as gross income, business expenses, adjusted gross incomes, personal deductions, exemptions and credits. Although the federal government and most income tax levying states follow the same general pattern in the determination of "net taxable income" they differ significantly in their statutory definitions of these concepts and in their treatment of specific inclusions and exclusions from taxable income. Thus, large variations in the income tax base occur between taxpayers of the several states who have essentially the same pre-tax incomes. Obviously, interstate comparisons of income tax rate structures are of little value unless these differences in the tax base are also taken into consideration.

The major types of income inclusions and exclusions and expense deductions and exemptions which make up the income tax base under the Colorado statute are briefly described and in some instances compared with the statutory provisions of other states in the discussion below.

Gross Income. This term is broadly defined to include all forms of compensation for services rendered, interest earned, dividends, rents, royalties, gains (and losses), business profits and the like. It is an all-inclusive concept comprising, according to the statute, "income derived from any source whatever" unless specifically excluded by law.

Exclusions from Gross Income. The following are the most important items specifically excluded from gross income, and thus from taxation, under the Colorado statute:

[42] U. S. Treasury Department, *Statistics of Income for 1955* (Washington, 1958), p. 4.

[43] The derivation of the tax base for the Colorado personal income tax is shown by the following outline:
1. Personal income received from all sources
2. Less: Statutory exclusions from gross income
3. Equals: Gross income to be reported
4. Less: Business and travel expense
5. Equals: Adjusted gross income
6. Less: Statutory personal deductions plus federal income tax
7. Equals: Net income before personal exemption
8. Less: Statutory personal exemptions
9. Equals: Net taxable income—the tax base for normal rates

1. Interest on federal securities and other obligations of U. S. instrumentalities because of the federal constitution.

2. Certain types of dividends receipts, such as corporate stock dividends, stock rights, and mutual insurance company dividends.

3. Capital gains from the sale of assets to the extent of 50 percent of the gain if the asset has been held by the taxpayer for 6 months or more. The same percentage applies to losses except the maximum capital loss deductible against other gross income is limited to $2,000. Special treatment of long-term capital gains is recognized to be an important tax-saving provision for individuals in the upper-income groups whose incomes are mainly derived from sources other than wages, salaries and business profits. However, as shown in Table 12.6, the majority of income tax states do not distinguish between capital gains and other types of taxable income. Fifteen of the 29 states which levy personal income taxes include 100 percent of all capital gains in the tax base regardless of the length of time the assets were held by the taxpayers. Only eight states in addition to Colorado exclude 50 percent of long-term capital gains defined as realized earnings on assets held at least six months. California, the District of Columbia, and Oklahoma use longer holding periods with sliding scales of percentage exclusions. Maryland and Vermont are the only two states which exclude all capital gains from the tax base.

4. Gifts, bequests and inheritances. Although these receipts are excluded from gross income any income produced by such property is taxable.

5. Leasehold improvements if the lessor does not realize income when such improvements vest in the owner by reason of forfeiture or termination of lease.

6. Retirement allowances and pensions under certain union agreements, the federal OASI program, and the federal civil service act. In addition, income from other types of pensions and annuities in excess of 3 percent of the cost is also excluded from taxable gross income until the aggregate receipts equal the total cost of the contract.

7. Life insurance benefits by reason of the death of the insured, damages received in payment for personal injuries, and benefits from accident, health and workmen's compensation insurance.

8. Compensation, mustering-out pay, and payments to dependents of active and reserve members of the armed forces, with an annual maximum exclusion of $2000 if the United States is at war, and a maximum of $1000 if not at war.

9. Patronage dividends, refunds and rebates from cooperative organizations on expenditures made for personal, living or family expenses.

10. Rental value of a vicarage or parsonage.

11. Alimony. In contrast with the federal code, the receipt of alimony is excluded from gross income but the payment is not allowed as a personal deduction.

Table 12.6

Comparative State Summary of Selected Personal Income Tax Base Factors, 1958

State	Provision for splitting of income	Include all capital gains in: Tax base	Include all capital gains in: Percent included[a]	Permit full deductibility of federal income taxes
Alabama	No	Yes	100	Yes
Arizona	Yes	No	50	Yes
Arkansas	No	Yes	100	No
California	Yes	No	[b]	No
Colorado	No	No	50	Yes
Delaware	No	Yes	100	No[c]
District of Columbia	No	No	[d]	No
Georgia	No	No	50	No
Idaho	Yes	Yes	100	Yes
Iowa	No	No	50	Yes
Kansas	Yes	No	50	Yes
Kentucky	No	No	50	Yes
Louisiana	Yes	Yes	100	Yes
Maryland	No	No	—	No
Massachusetts	No	Yes	100	No[e]
Minnesota	No	Yes	100	Yes
Mississippi	No	Yes	100	No
Missouri	No	No	50	Yes
Montana	No	No	50	Yes
New Mexico	Yes	Yes	100	Yes
New York	No	No	[f]	No
North Carolina	No	Yes	100	No
North Dakota	No	No	50	Yes
Oklahoma	Yes	No	[g]	Yes
Oregon	Yes	Yes	100	Yes
South Carolina	No	Yes	100	No[h]
Utah	No	Yes	100	Yes
Vermont	No	No	—	No
Virginia	No	Yes	100	No
Wisconsin	No	Yes	100	No[i]

[a] If less than 100 percent, the reduced percentage applies only to long-term capital gains on assets held 6 months or longer unless otherwise noted.

[b] California includes capital gains at:
100 percent on assets held 1 year or less,
80 percent on assets held 1 to 2 years,
60 percent on assets held 2 to 5 years,
40 percent on assets held 5 to 10 years,
30 percent on assets held 10 years or longer.

[c] Limited to $300 per taxpayer.

[d] District of Columbia includes capital gains at: 100 percent on assets held less than 2 years, and completely excludes capital gains on assets held 2 years or longer.

[e] Limited to earned and business income only. Not permitted against dividends, interest, annuities and capital gains.

[f] New York taxes capital gains separately at one-half the normal income tax rate.

[g] Oklahoma includes capital gains at: 100 percent on assets held 18 months or less, 66⅔ percent on assets held 18 to 24 months, 50 percent on assets held 24 months or longer.

[h] Limited to $500 per taxpayer.

[i] Limited to 3 percent of net income before deduction of federal income tax.

Source: Income tax statutes, regulations and tax forms of the several states.

In addition to the above, it should be noted that although not explicitly covered by statute the imputed income from non-exchange productive activities and assets, such as the rental value of owner-occupied residences, "do-it-yourself" building projects, housewife services, and home-grown produce consumed by farm families, also are generally excluded from reported

gross income and taxation under both federal and state income tax statutes.[44]

Adjusted Gross Income. This term may be broadly defined as the gross income described above less the deduction of various types of expenses paid or incurred in the earning of taxable income, or in connection with the maintenance of property held for the production of taxable income. Such expenses, generally referred to as business deductions, under the Colorado act uniquely include all travel expenses connected with employment. The statute specifically provides that "adjusted gross income" means gross income minus:

1. Trade and business expenses of taxpayers other than employees of such trades and businesses.
2. Travel, lodging and other reimbursible expenses incurred in connection with employment.
3. Travel (commutation) expenses incurred in traveling to and from any place of employment. In lieu of itemizing the actual cost of travel the taxpayer may take a flat annual deduction of $75 against gross income.
4. Expenses attributable to property held for the production of rents and royalties.
5. Losses from the sale or exchange of property, including gambling losses to the extent of gambling gains.

Several specific items included in the above listed deductible business expenses are accorded special treatment under the Colorado act in the determination of adjusted gross income and in some instances may materially affect the size of the income tax base. For example, depletion is allowed for the exploitation of natural resources "in the case of mines, oil and gas wells, other natural deposits and timber." It may be calculated on the basis of the cost or adjusted basis of the property or it may be calculated by the application of statutory percentages (ranging from 10 percent to 50 percent dependent on type of resource) to the gross income of the property being exploited. The latter method, as under the federal provisions, makes it possible for a taxpayer over a period of years to deduct an aggregate amount of depletion which is actually in excess of the total cost (value) of the property involved. Similarly, the present tax base is reduced by accelerated depreciation of capital investments—"fast write-offs" taken over a five year period by taxpayers who have received certificates of necessity from the federal government. And although the costs incurred for the permanent improvement of existing property are not deductible, the cost of repairs, maintenance and current upkeep of such property is considered to be a deductible business expense. The line between these concepts necessarily is somewhat tenuous and rather difficult to assess.

Intangible assets which have a limited life expectancy, such as patents, copyrights, leaseholds, franchises, licenses, and even good will under certain conditions, may be amortized for tax purposes and the determined allowance is permitted as a deductible business expense against taxable gross income. Finally, taxes incurred in a trade or business also are deductible as business expenses with the exception of the following: Colorado state income taxes, taxes paid to another state for which a tax credit is permitted under the Colorado income tax law, federal income taxes paid on income not subject to the Colorado income tax, death duties and gift taxes, and local assessment levies which affect the value of property.

Personal Deductions from Adjusted Gross Income. As in most other states, Colorado does not allow deductions from adjusted gross income for "personal, living or family expenses" except those explicitly provided for by statute. However, it is in the treatment of these specific personal deductions from adjusted gross income, particularly federal income taxes and optional standard deduction, that some of the most important differences occur between the income tax bases of the various states as shown in Tables 12.7, 12.8 and 12.9. The principal deductions permitted under the Colorado statute are:

1. Interest paid during the taxable year on outstanding indebtedness but not deducted as business expense.

2. Federal income taxes paid during the taxable year, and all other taxes paid except the following: self-employment taxes, social security taxes, state income taxes, death duties and gift taxes, federal liquor, tobacco and excise taxes, and special assessments levied for the improvement of property. Table 12.6 shows that about half the states, including Colorado, permit full deductibility of federal income taxes; that eight others and the District of Columbia permit none; and that the remaining four allow limited deductibility ranging from 3 percent of net income to a flat $500.

3. Charitable contributions or gifts not to exceed 15 percent of the net income of the taxpayer before the deductions of such donations. This provision conforms with the general practice of the other income tax states, about half of them limit contributions to 15 percent of adjusted gross or net income and the others mainly use a 20 percent limit.

4. Medical and dental expenses in excess of 5 percent of adjusted gross income. On an individual return the deduction is limited to $1,250 per exemption and maximized at $2,500. On a joint return it is limited to $5,000. The wide vari-

[44]For an analysis of the effects of the exclusion of imputed income, particularly the net rental value of owner-occupied homes, on the tax base and progressivity see W. Vickrey, *Agenda for Progressive Taxation* (New York: The Ronald Press Company, 1947), Chapter II.

ation between the states in the handling of this deduction is shown in Table 12.7. About one-third of the income tax states permit medical deductions to the extent that they exceed 5 percent of the adjusted gross income. Arizona and Minnesota allow the entire medical expense as deductions from taxable income, and other states either follow the federal code or allow only those expenses over some stated dollar amount, ranging from $50 in Kansas to $200 for a married couple in Oklahoma.

5. Casualty and theft losses not compensated for by insurance or otherwise.

6. Bad debt losses, including worthless stocks and bonds if deducted in the year of the actual loss.

Table 12.7

Medical Expense Deductions Permitted by Personal Income Tax States, 1958

State	Expenses permitted in excess of:	Maximum permitted: Single individuals	Maximum permitted: Married couples
Alabama	5% gross income	$1,250	$ 2,500
Arizona	Permit total expense	2,500	5,000
Arkansas	3% adj. gross income	5,000	10,000
California	5% adj. gross income	1,250	2,500
Colorado	5% adj. gross income	2,500	5,000
Delaware	5% adj. gross income	[a]	[a]
District of Columbia	5% adj. gross income	1,250	2,500
Georgia	5% adj. gross income	1,250	1,250
Idaho	$100	[a]	[a]
Iowa[b]	3% adj. gross income	2,500	5,000
Kansas	$ 50	[a]	[a]
Kentucky[b]	3% adj. gross income	2,500	5,000
Louisiana	None	—	—
Maryland	3% adj. gross income	1,250	2,500
Massachusetts	None	—	—
Minnesota	Permit total expanse	[a]	[a]
Mississippi	None	—	—
Missouri	5% adj. gross income	1,250	2,500
Montana[b]	3% adj. gross income	2,500	5,000
New Mexico	None	—	—
New York	3% net income[c]	1,250	2,500
North Carolina	5% net income	5,000	5,000
North Dakota	3% adj. gross income	2,500	5,000
Oklahoma	$100 single, $200 joint	750	1,500
Oregon	5% adj. gross income	1,250	5,000
South Carolina	5% adj. gross income	[a]	[a]
Utah	5% gross income	750	1,500
Vermont[b]	3% adj. gross income	2,500	5,000
Virginia[d]	5% adj. gross income	1,250	2,500
Wisconsin	$ 75	1,500	1,500

[a] No maximum limit.

[b] Same as federal provision—$2,500 per exemption with limit of 2 exemptions on separate returns and 4 exemptions on joint returns.

[c] New York—in excess of 3% of net income under $6,000, 5% over $6,000.

[d] Virginia—$1,250 per exemption with limit of 2 exemptions on separate returns and 4 exemptions on joint returns.

Source: Income tax statutes, regulations and tax forms of the several states.

In lieu of itemizing the personal deductions, Colorado resident taxpayers on a full calendar year basis with adjusted gross income of $5,000 or less may compute their taxes on the basis of a table prescribed by the Department of Revenue which incorporates a standard deduction of approximately 10 percent of the adjusted gross income plus an amount equal to the federal income taxes paid. Taxpayers with adjusted gross income of $5,000 or more may also use a standard deduction of 10 percent of adjusted gross income of $1,000, whichever is lesser, plus an amount equal to the federal income tax paid. For married taxpayers filing separate returns the maximum standard deduction for each spouse is $500 plus the federal income tax paid. Although some form of standard or optional deduction in lieu of itemizing personal expenses is permitted by practically all the income tax states (the only exceptions are Delaware, Massachusetts, New Mexico and North Dakota) there is little uniformity in the treatment of this item as shown in Table 12.8. The deductions vary from 5 percent of net income to 10 percent of adjusted gross income with maximum permissible deductions ranging from $250 to $1,000. The most common practice, used by twelve states and the District of Columbia, is to permit a married couple filing a joint return a deduction of 10 percent of adjusted gross income, or $1,000, whichever is lesser. However, of these states only Colorado and three others permit the taxpayer to take the federal income tax deduction in addition to the standard deduction. More than half the states do not allow the deductibility of federal income taxes when taxpayers take standard deductions.

Table 12.8

Optional Standard Deductions Permitted by Personal Income Tax States, 1958

State	Percent of gross or net income permitted[a]	Maximum permitted: Single individual	Maximum permitted: Married Separate	Maximum permitted: Married Joint
Alabama	7[b]	$ 500	$ 500	$ 500
Arizona	10[b]	500	500	1,000
Arkansas	10	1,000	500	1,000
California	6	300	300	600
Colorado	10[b]	1,000	500	1,000
Delaware[c]	—	—	—	—
District of Columbia	10	1,000	500	1,000
Georgia	10	1,000	500	1,000
Idaho	10[b]	500	500	500
Iowa	5[b]	250	250	250
Kansas	10[b]	400	400	400
Kentucky	10[b]	500	500	500
Louisiana	10[b]	500	500	500
Maryland	10	500	500	1,000
Massachusetts[c]	—	—	—	—
Minnesota	10	1,000	1,000	1,000
Mississippi	10	500	500	500
Missouri	5[b]	500	500	500
Montana	10	500	500	500
New Mexico[c]	—	—	—	—
New York	10	500	500	500
North Carolina	10	500	500	1,000
North Dakota[c]	—	—	—	—
Oklahoma	10[b]	500	500	1,000
Oregon	5[b]	250	250	500
South Carolina	10	500	500	1,000
Utah	10[b]	1,000	500	1,000
Vermont	10	1,000	500	1,000
Virginia	5	500	250	500
Wisconsin[d]	—	450	450	450

[a] Generally based on adjusted gross income but a few states use net income. Detailed provisions vary.

[b] Deduction of federal income tax allowed *in addition* to standard deduction.

[c] Do not permit standard deductions for personal expense.

[d] Taxpayers may use optional tax table if adjusted gross income is under $5,000; a standard deduction of $450 if income is over $5,000.

Source: Income tax statutes, regulations and tax forms of the several states.

Personal Exemptions. Under the Colorado statute, as amended in 1957, a resident taxpayer is entitled to a personal exemption of $750 for himself, his spouse, and for any qualified dependent whose gross income was less than $750. In addition, Colorado grants the taxpayer additional exemptions if he or his spouse are blind and/or 65 years of age or older. Table 12.9 is a comparative summary of the exemption practices for the twenty-nine income tax states and the District of Columbia. Although practically all the states permit some form of personal exemptions, the large variations in the treatment of this factor also have given rise to significant differences between the tax bases of the several states. For example, only five states follow the federal code of allowing a standard $600 exemption per individual. The combinations of the other states range from $500 for a single individual and $1,000 for a married couple in Vermont, to $4,000 and $6,000 exemptions for similar categories in Mississippi. Moreover, six states have introduced, in lieu of exemptions that reduce the tax base, flat dollar credits as deductions from normal tax. The rationale for the use of the tax credits in place of exemptions is that the value of the credit varies only with the size of the taxpayer's family regardless of the level of income, whereas the value of the personal exemption varies directly with both the size of family and level of income. For example, Wisconsin grants all taxpayers, regardless of income class and marginal tax rates, a uniform $7 tax credit for each taxpayer, spouse and dependent covered by the return. In contrast, the exemptions in Colorado have varying values dependent upon the taxpayer's income class—a single exemption in Colorado is worth $75 to taxpayers with incomes subject to the 10 percent marginal tax rate and only $7.50 to those in the lower income classes subject to the 1 percent rate. In any case, after deducting personal exemptions from net income the remainder is the net taxable income which represents the base for applying the normal tax rates.

Table 12.9

Exemptions and Credits for Dependents Permitted by Personal Income Tax States 1958

State	Personal exemption: Single individual	Personal exemption: Married or head of family	Credits for dependents
Alabama	$1,500.00	$3,000.00	$300.00
Arizona	1,000.00	2,000.00	600.00
Arkansas[a]	17.50	35.00	6.00
California	2,000.00	3,500.00	400.00
Colorado	750.00	1,500.00	750.00
Delaware	600.00	1,200.00	600.00
District of Columbia	1,000.00	2,000.00	500.00
Georgia	1,500.00	3,000.00	600.00
Idaho	700.00	1,500.00	200.00
Iowa[a]	15.00	30.00	7.50
Kansas	600.00	1,200.00	600.00
Kentucky[a]	13.00	26.00	13.00
Louisiana[b]	2,500.00	5,000.00	400.00
Maryland	800.00	1,600.00	800.00
Massachusetts[c]	2,000.00	2,500.00	400.00
Minnesota[a]	10.00	30.00	10.00
Mississippi	4,000.00	6,000.00	—
Missouri	1,200.00	2,400.00	400.00
Montana	600.00	1,200.00	600.00
New Mexico	1,500.00	2,500.00	200.00
New York	1,000.00	2,500.00	400.00
North Carolina[d]	1,000.00	2,000.00	300.00
North Dakota	600.00	1,500.00	600.00
Oklahoma	1,000.00	2,000.00	500.00
Oregon	600.00	1,200.00	600.00
South Carolina	1,000.00	2,000.00	400.00
Utah	600.00	1,200.00	600.00
Vermont	500.00	1,000.00	500.00
Virginia	1,000.00	2,000.00	200.00
Wisconsin[a]	7.00	14.00	7.00

[a] Instead of personal exemption these states use the indicated dollar tax credit against normal tax.

[b] The exemptions are deductible from lowest income tax bracket only, and are equivalent to tax credits of $50, $100 and $8, respectively.

[c] In case of a joint return the smaller of $4,000 or $2,000 plus the income of the spouse with smaller income. In addition, $500 for dependent spouse with income of less than $2,000.

[d] Additional exemption of $1,000 allowed a married woman with separate income.

Source: Income tax statutes, regulations and tax forms of the several states.

Normal and Surtax Rates. As already noted, the current statutory marginal rates in Colorado have prevailed since 1947, but in effect have been reduced each year since 1950 by the annual legislative enactment of a tax credit against normal tax liability. The tax credit of 15 percent for taxable year 1957 lowered the statutory marginal rates by an equal percentage for all income brackets. Table 12.10 shows the 1957 statutory and net marginal rates.

Table 12.10

Colorado Normal Tax Rates, 1957

Net taxable income	Statutory marginal rate	Net marginal rate
$ 0 to $1,000	1.0	0.85
1,001 to 2,000	1.5	1.275
2,001 to 3,000	2.0	1.70
3,001 to 4,000	2.5	2.125
4,001 to 5,000	3.0	2.55
5,001 to 6,000	4.0	3.40
6,001 to 7,000	5.0	4.25
7,001 to 8,000	6.0	5.10
8,001 to 9,000	7.0	5.95
9,001 to 10,000	8.0	6.80
10,001 to 11,000	9.0	7.65
11,001 and over	10.0	8.50

These rates are, of course, applied to "net taxable income" which will be significantly smaller than the "adjusted gross income" and "personal income received" for many taxpayers as indicated in the above description of the tax base. Moreover, it is important in any discussion of income tax rates to distinguish the *marginal* or bracket rate from the *average* or effective rate. The former is the tax rate applied, in the case of Colorado, to each $1,000 *increment* of net taxable income; whereas the latter represents the *total* dollar amount of normal tax liability expressed as a percentage of the *total* net taxable income. The incremental and total dollar amount of tax liability for varying levels of income based on the marginal or bracket rates, adjusted for the "temporary" 1957 tax credit of 15 percent, and the computed average or effective rates (the total normal tax liability

expressed as a percentage of the total net taxable income, are shown in the following tabulation:

Table 12.11

Colorado Normal Tax Liability and Average Tax Rates, 1957

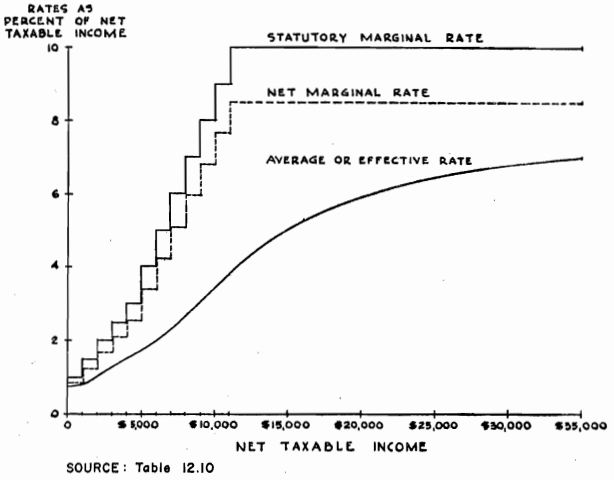
Net taxable income			Net marginal	Dollar amount of tax liabilty		Average or effective
Total	Brackets		rate	Increment	Total	rate
$ 1,000	First	$1,000	0.85	$ 8.50	$ 8.50	0.85
2,000	Second	1,000	1.275	12.75	21.25	1.06
3,000	Third	1,000	1.70	17.00	38.25	1.28
4,000	Fourth	1,000	2.125	21.25	59.50	1.49
5,000	Fifth	1,000	2.55	25.50	85.00	1.70
6,000	Sixth	1,000	3.40	34.00	119.00	1.98
7,000	Seventh	1,000	4.25	42.50	161.50	2.31
8,000	Eighth	1,000	5.10	51.00	212.50	2.66
9,000	Ninth	1,000	5.95	59.50	272.00	3.02
10,000	Tenth	1,000	6.80	68.00	340.00	3.40
11,000	Eleventh	1,000	7.65	76.50	416.50	3.79
12,000	Twelfth	1,000	8.50	85.00	501.50	4.18

It is evident from Table 12.11 that except for the first bracket the average normal income tax rates are always smaller than the net marginal rates at all levels of net taxable income, and considerably smaller than the nominal statutory rates shown in Table 12.10. For example, the Colorado income taxpayer who had taxable income of $5,000 in 1957 was subjected to a net marginal rate of 2.55 percent, but an average rate which was only two-thirds as large—1.7 percent. Similarly, the taxpayer with a net taxable income of $12,000 had to pay a top marginal rate of 8.5 percent but an average rate of only 4.2 percent—actually less than one-half the marginal rate. Of course, as net taxable income rises above the level to which the maximum rate first applies, the marginal rate remains constant as the average continues to increase. However, the latter will never reach the marginal and, therefore, is always the lesser of the two rates. The relationship of these Colorado rates to each other at varying levels of income are shown in Chart 12.3.

In addition to the normal tax, Colorado levies a flat 2 percent surtax on income derived from interest and dividends in excess of $600 for a single individual, and $1,200 for a married couple filing jointly if each spouse independently has surtaxable income in excess of $600. Any distributive income from estates, trusts, partnerships or other unincorporated business which represents interest or dividends is also subject to the surtax on the taxpayer's individual return. Under the present statute, surtaxable income is also subject to normal tax, but in a few instances taxpayers liable for surtax may not have to pay any normal tax because of their relatively large personal deductions and exemptions against the latter.

Table 12.12 is a comparative summary of statutory tax rates for the 29 personal income states and the District of Columbia. In addition

RELATIONSHIP OF COLORADO MARGINAL (BRACKET) AND AVERAGE TAX RATES 1957



SOURCE: Table 12.10

CHART 12.3

to showing the minimum and maximum marginal rates, including surtaxes, surcharges and tax credits, the table indicates whether the net rates have been increased or decreased during the past few years.

As with the tax base, there is considerable variation between the rate structures of the states and no two have identical tax schedules. The most common unadjusted minimum rate, used by almost half the states, is 1 percent. However, it is applied to varying amounts of taxable income, ranging from the first $1,000 of income in nine states, including Colorado, to the first $10,000 of income in New Mexico. The highest beginning rates are in Maryland, North Carolina and Oregon where the tax structures start at 3 percent. There is even less uniformity with regard to maximum marginal rates. They range from a low of 3.75 percent on taxable income in excess of $4,000 in Iowa to a high of 11 percent on taxable income in excess of $15,000 in North Dakota. The next highest unadjusted maximum rates are to be found in Colorado and Minnesota where a rate of 10 percent is applied to taxable incomes above $11,000 and $20,000, respectively. But when modifications in rate structures due to temporary surcharges and tax credits are taken into consideration Colorado's maximum *net* marginal rate of 8.5 percent is then exceeded by those of five other states—Idaho, Minnesota, North Dakota, Oregon and Wisconsin. Moreover, the 6.25 percent increase in Colorado's bracket rates in 1957,[45] the first

[45]The reduction in the temporary credit against normal tax from 20 percent in 1956 to 15 percent in 1957 represented a 6.25 percent increase in net marginal rates for all tax brackets. But, the simultaneous reduction in the tax base effected by raising the personal exemptions from $600 to $750 per individual *more than offset the rate increase.* On net balance, approximately 80 percent of the taxpayers actually had their income tax liability reduced, 17 percent were unaffected, and only 3 percent had an increased tax bill due to the statutory changes in rates and exemptions.

change made in the net tax schedule since 1950, is relatively small when compared with increases ranging from 20 to 50 percent put into effect since 1954 by some ten other states and the District of Columbia. The only state to increase rates less than Colorado was Mississippi which raised its taxes by approximately 3 percent. On the other hand, fifteen states have not changed their rate structure and two states have actually decreased their statutory rates during this same period. Thus, on the basis of the above rate comparisons it would appear that Colorado ranks among the half-dozen states with the highest state personal income tax rates in the nation.

Table 12.12

Comparative State Summary of Statutory Personal Income Tax Rates, 1957

State	Minimum marginal rate		Maximum marginal rate		Rates changed since 1954
	Percent	Applied to first	Percent	Applied to income over	
Alabama	1.5	$ 1,000	5.0	$ 5,000	No
Arizona	1.0	1,000	4.5	7,000	No
Arkansas	1.0	3,000	5.0	25,000	No
California	1.0	5,000	6.0	25,000	No
Colorado[a]	1.0	1,000	10.0	11,000	Increase
Delaware[b]	1.5	3,500	8.0	8,000	Increase
District of Columbia	2.5	5,000	5.0	25,000	Increase
Georgia	1.0	1,000	6.0	10,000	Decrease
Idaho[c]	2.0	1,000	8.0	5,000	Increase
Iowa	0.75	1,000	3.75	4,000	No
Kansas[b]	1.5	2,000	5.5	7,000	Increase
Kentucky[d]	2.0	3,000	6.0	8,000	Increase
Louisiana	2.0	10,000	6.0	50,000	No
Maryland[b]	3.0	[e]	5.0	[e]	Increase
Massachusetts	2.5	[f]	6.0	[f]	Increase
Minnesota[g]	1.0	1,000	10.0	20,000	No
Mississippi[h]	2.0	5,000	6.0	25,000	Increase
Missouri[i]	1.0	1,000	4.0	9,000	No
Montana[j]	1.0	1,000	5.0	7,000	Increase
New Mexico	1.0	10,000	4.0	100,000	No
New York[k]	2.0	1,000	7.0	9,000	Decrease
North Carolina	3.0	2,000	7.0	10,000	No
North Dakota	1.0	3,000	11.0	15,000	No
Oklahoma	1.0	1,500	6.0	7,500	No
Oregon	3.0	500	9.5	8,000	Increase
South Carolina	2.0	2,000	5.0	6,000	No
Utah	1.0	1,000	5.0	4,000	No
Vermont	2.0	1,000	7.5	5,000	Increase
Virginia	2.0	3,000	5.0	5,000	No
Wisconsin[l]	1.0	1,000	8.5	14,000	Increase

[a] Less normal tax credit of 15 percent for 1957, plus 2 percent surtax on income over $600 from intangibles.

[b] Rates effective for taxable year, 1958.

[c] Plus surtax of 10 percent on income over $2,000, less $5 tax reduction per dependent.

[d] Plus surtax of 10 percent of first $25 of normal tax, 20 percent of next $75, and 30 percent of all over $100.

[e] All income subject to 3 percent rate, except investment income over $500 subject to 5 percent rate.

[f] Rate of 2.5 percent applies to earned and business income; 6 percent rate to interest, dividends, and capital gains; and 15 percent to annuities. In addition, all income subject to 23 percent surtax

[g] Plus 5 percent surtax on rates before personal credit, and additional 5 percent surtax after credit.

[h] Plus surtax of 14 percent.

[i] Rates are average and not marginal, i. e., apply to entire income and not brackets.

[j] Minimum tax of $10.

[k] Less 15 percent of first $100 of tax liability and less 10 percent of next $200 of tax liability for 1957.

[l] Plus surtax of 20 percent after tax credits for years 1955-58.

Source: Income tax statutes, regulations and tax forms of the several states.

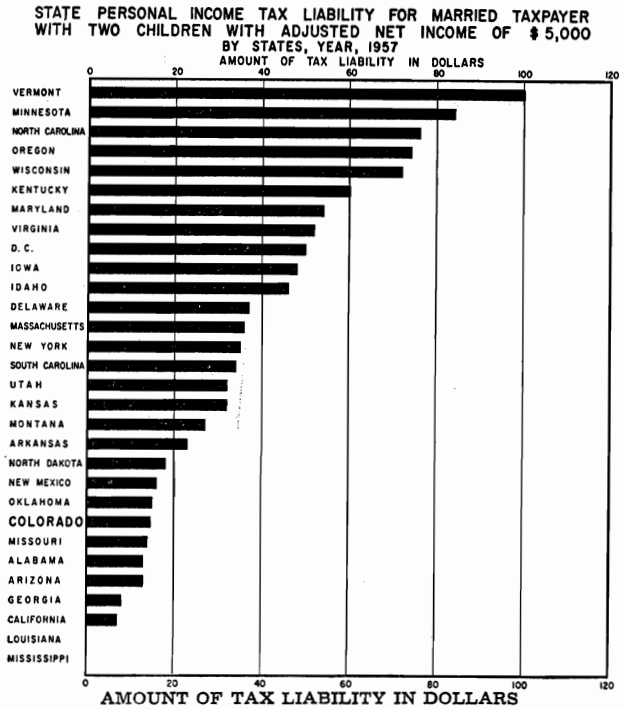
Interstate Comparisons of Personal Income Tax Liability

As has already been indicated, interstate comparisons of tax rate structures, particularly when used as the basis for analyzing relative tax burdens, may be grossly misleading, if not meaningless, unless the large variations between the tax bases of the several states due to differences in the treatment of such factors as income-splitting, federal tax deductibility, and personal exemptions are also taken into consideration. This is done in Tables 12.13 and 12.14 and Charts 12.4 through 12.6, which show what the computed personal income tax liabilities would be at eight different levels of adjusted net income in each of the twenty-nine income tax states and the District of Columbia for a married couple with two dependent children. In order to maintain comparability between the states and keep the analysis relatively simple, it is further assumed that the wife has no independent income and that the family receives no income from intangible assets or capital gains. The income levels represent "adjusted net income" which as used here refers to the taxpayer's income *after* deduction of whatever personal or non-business expenses the various states and federal government allow in the determination of taxable income, but *before* either either federal or state income taxes, and *before* any personal exemptions or tax credits. Of course, the "adjusted net income" will always be smaller, and in some instances by a considerable amount, than the family's adjusted gross income or personal income received during the taxing period.

The computed tax liabilities which prevailed in the various states in 1957 for such families with adjusted net incomes of $10,000 or less are shown on a comparative basis in Table 12.13.

It will be noted that at the first four levels of income Colorado uniformly falls in the lowest quartile of the nation's income tax states when they are ranked by the dollar amount of income tax liability. At the $3,000 level of income the married taxpayer with two children would have no tax obligation in Colorado (nor in fifteen other personal income tax states and the District of Columbia).

At the $5,000 level no tax would be due in Louisiana or Mississippi, but the Colorado tax of $14.62, representing an average or effective rate of less than 3/10 of 1 percent of the adjusted net income, exceeds the tax that would be paid by a comparable family in only five of the other twenty-seven taxing jurisdictions as shown in Chart 12.4. Of the eleven Western States that are the basis for intra-regional comparisons made in this study only three—Nevada,



Source: Income Tax Statutes, Regulations, and Tax Forms of the States

CHART 12.4

Washington and Wyoming—do not levy personal income taxes. The eight states which use income taxation as part of their fiscal structures are: Arizona, California, Colorado, Idaho, Montana, New Mexico, Oregon and Utah. When Colorado is compared with the seven other Western States which also levy personal income taxes, only Arizona and California impose a smaller tax at this level of income.

Similarly, at the $8,000 and $10,000 levels of income Colorado ranks correspondingly low among the income tax levying states—23rd and 24th—and the tax liability would be $56.27 and $98.72, or 7/10 of 1 percent and slightly less than 1 percent, respectively, of the adjusted net income. And at these levels of income half of the Western States—Oregon, Idaho, Utah and Montana—require the payment of income taxes considerably above those of Colorado. For example, the Oregon income tax works out to be almost four times as large as the Colorado tax at the $8,000 level of income, and more than three times as large at the $10,000 level, as shown in Chart 12.5.

In brief, under the assumed conditions, the computed dollar amount of income tax liability for Colorado taxpayers with adjusted net in-

Table 12.13

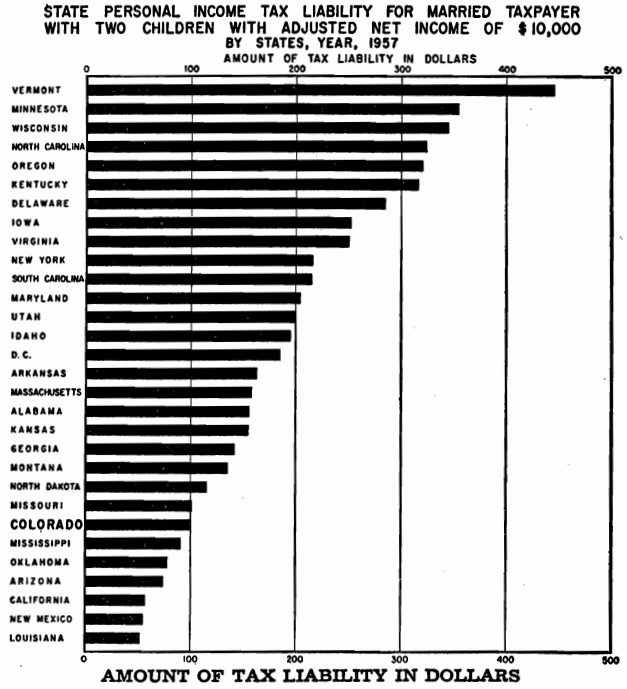
Comparative State Personal Income Tax Liability for Selected Levels of Adjusted Net Income $10,000 and Less, for Taxable Year 1957[a]

$3,000			$5,000			$8,000			$10,000		
Rank	State	Tax	Rank	State	Tax	Rank	State	Tax	Rank	State	Tax
1	Vermont	$20.00	1	Vermont	$100.00	1	Vermont	$295.00	1	Vermont	$445.00
2	Oregon	14.40	2	Minnesota	84.21	2	Minnesota	235.12	2	Minnesota	353.84
3	N. Carolina	12.00	3	N. Carolina	76.00	3	Wisconsin	213.00	3	Wisconsin	343.80
4	Virginia	12.00	4	Oregon	74.00	4	Oregon	211.36	4	N. Carolina	324.00
5	Montana	10.00	5	Wisconsin	72.00	5	N. Carolina	210.00	5	Oregon	320.56
6	Wisconsin	9.78	6	Kentucky	60.38	6	Kentucky	209.02	6	Kentucky	316.04
7	Minnesota	9.68	7	Maryland	54.00	7	Idaho	160.14	7	Delaware	285.00
8	Delaware	7.50	8	Virginia	52.00	8	Delaware	155.00	8	Idaho	251.53
9	Kansas	7.50	9	D. C.	50.00	9	Virginia	150.00	9	Virginia	250.00
10	Kentucky	6.16	10	Iowa	48.00	10	Maryland	144.00	10	New York	215.50
11	Utah	4.80	11	Idaho	45.52	11	Iowa	136.80	11	S. Carolina	215.00
12	N. Dakota	1.80	12	Delaware	37.40	12	New York	128.20	12	Maryland	204.00
13	S. Carolina	1.60	13	Massachusetts	36.28	13	S. Carolina	128.00	13	Utah	200.40
			14	New York	34.85	14	D. C.	125.80	14	Iowa	195.30
			15	S. Carolina	34.00	15	Utah	122.40	15	D. C.	185.00
			16	Utah	32.40	16	Massachusetts	109.10	16	Arkansas	163.00
			17	Kansas	32.00	17	Arkansas	103.00	17	Massachusetts	157.07
			18	Montana	26.60	18	Kansas	98.44	18	Alabama	156.36
In Colorado, fifteen other states, and the District of Columbia, a taxpayer at this income level would not pay any state income tax.			19	Arkansas	23.00	19	Alabama	86.16	19	Kansas	155.32
			20	N. Dakota	17.80	20	Montana	83.44	20	Georgia	142.00
			21	New Mexico	15.80	21	Georgia	74.00	21	Montana	135.32
			22	Oklahoma	14.80	22	Missouri	61.20	22	N. Dakota	115.40
			23	**Colorado**	**14.62**	**23**	**Colorado**	**56.27**	23	Missouri	101.24
			24	Missouri	14.20	24	N. Dakota	54.44	**24**	**Colorado**	**98.72**
			25	Alabama	13.20	25	Oklahoma	46.96	25	Mississippi	91.20
			26	Arizona	12.80	26	Mississippi	45.60	26	Oklahoma	78.16
			27	Georgia	8.00	27	Arizona	44.72	27	Arizona	74.16
			28	California	7.00	28	New Mexico	39.48	28	California	57.00
			29	Louisiana	—	29	California	37.00	29	New Mexico	55.08
			30	Mississippi	—	30	Louisiana	20.96	30	Louisiana	52.16
Average for all States		$ 3.91			$ 36.36			$119.46			$191.24
Colorado as percent of National average		—			40.2			47.1			51.6
Colorado as percent of net adjusted income		—			0.3			0.7			1.0

[a] The computed tax liabilities for each state at the four assumed levels of adjusted net income are based on the following assumptions: (1) the taxpayer is married and has two dependent children; (2) wife has no income, and family receives no income from dividends, interest or capital gains; and (3) the adjusted net income is *after deductions* of whatever "personal" and/or "non-business" expenses the various states and federal government allow; but *before* any personal exemptions, or credits, and *before* either federal or state income taxes.

Source: Computed from the individual income tax regulations, instructions, and forms of the several states.

comes of $10,000 or less works out to be lower than that of similar taxpayers in three-fourths of the other income tax levying states. Or stated differently, it appears that a married taxpayer with two dependent children whose adjusted net income is $10,000 or less would incur in Colorado an income tax liability which was approximately only one-half that of the national average, and about one-fifth that of a taxpayer with comparable income in the state with the highest tax.

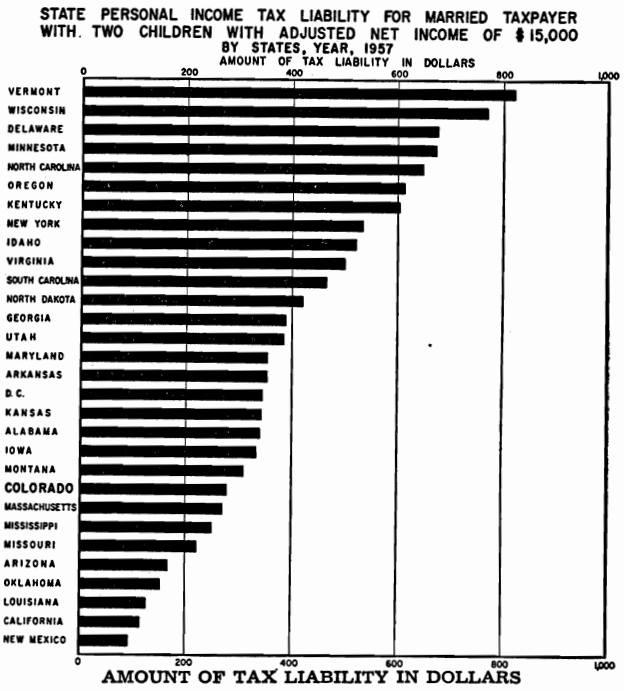


Source: Income Tax Statutes, Regulations, and Tax Forms of the States

CHART 12.5

The comparative tax liabilities for taxpayers with adjusted net incomes of $15,000 and more are presented in Table 12.14. At these upper income levels Colorado's rank among the states is relatively higher than was the case for the lower and medium adjusted net incomes used in Table 12.13, but the dollar amount of computed tax liability for the Colorado taxpayer remains below the average for the twenty-nine income tax states and the District of Columbia at all levels of income.

At the $15,000 level the Colorado tax is $278.80, or less than 2 percent of the adjusted net income, and only eight states in the nation impose a smaller tax as shown in Chart 12.6. As income increases the relative position of Colorado among the states rises and at $25,000 the Colorado tax is above the median for all the states but continues to be below the national average and about two-thirds that of Oregon, the top-ranking Western State. At the $50,000 and $100,000 levels of income the Colorado tax liabilities of $1,871.36 and $3,313.98, representing approximately 4 and 3 percent of adjusted net income, continue to be below the national averages. At these higher levels of adjusted net income Colorado's rank among the states successively drops below the median to the 17th and 18th positions, primarily because the federal income tax deductibility provision has a relatively greater impact on the state tax. For example, not one of the five states imposing the heaviest taxes permits full deductibility of the federal tax in the computation of the state income tax liability. Among the fifteen states ranked above the median only five allow full deductibility at the $50,000 level, and only three allow it at the $100,000 level.



Source: Income Tax Statutes, Regulations, and Tax Forms of the States

CHART 12.6

When compared with the other seven Western States levying income taxes, Colorado ranks about in the middle at these income levels of $15,000 and more. Oregon and Idaho consistently impose heavier income taxes than Colorado. And California, with both a lower tax rate structure and an income-splitting provision, levies a tax almost one-fourth greater than Colorado at the $100,000 level because it does not permit any federal income tax deductibility in the determination of the state tax. In summary, although Colorado's top marginal income tax rate is one of the half-dozen highest in the nation, the com-

Table 12.14

Comparative State Personal Income Tax Liability for Selected Levels of Adjusted Net Income $15,000 and More, for Taxable Year 1957[a]

$15,000			$25,000			$50,000			$100,000		
Rank	State	Tax	Rank	State	Tax	Rank	State	Tax	Rank	State	Tax
1	Vermont	$820.00	1	Wisconsin	$1,758.90	1	Wisconsin	$4,232.40	1	Wisconsin	$9,179.40
2	Wisconsin	769.50	2	Vermont	1,570.00	2	Delaware	3,475.00	2	Delaware	7,475.00
3	Delaware	675.00	3	Delaware	1,475.00	3	Vermont	3,445.00	3	Vermont	7,195.00
4	Minnesota	672.95	4	N. Carolina	1,348.00	4	N. Carolina	3,098.00	4	N. Carolina	6,598.00
5	N. Carolina	648.00	5	Minnesota	1,326.59	5	New York	2,984.00	5	New York	6,484.00
6	Oregon	613.00	6	New York	1,234.00	6	Minnesota	2,677.95	6	Mississippi	5,802.60
7	Kentucky	603.70	7	Oregon	1,211.54	7	Georgia	2,488.00	7	Georgia	5,488.00
8	New York	534.00	8	Kentucky	1,121.00	8	N. Dakota	2,455.76	8	Virginia	4,750.00
9	Idaho	521.60	9	Idaho	1,105.22	9	Oregon	2,388.02	9	S. Carolina	4,715.00
10	Virginia	500.00	10	N. Dakota	1,093.52	10	Mississippi	2,382.60	10	Minnesota	4,549.11
11	S. Carolina	465.00	11	Virginia	1,000.00	11	S. Carolina	2,215.00	11	Arkansas	4,503.00
12	N. Dakota	420.00	12	Georgia	988.00	12	Idaho	2,195.01	12	D. C.	4,475.00
13	Georgia	388.00	13	S. Carolina	965.00	13	Virginia	2,130.50	13	N. Dakota	4,322.68
14	Utah	385.00	**14**	**Colorado**	**818.72**	14	Kentucky	2,086.95	14	California	4,242.00
15	Maryland	354.00	15	Utah	816.60	15	Arkansas	2,003.00	15	Oregon	4,000.36
16	Arkansas	353.00	16	Arkansas	753.00	16	D. C.	1,975.00	16	Idaho	3,688.54
17	D. C.	345.00	17	Mississippi	741.00	**17**	**Colorado**	**1,871.36**	17	Kentucky	3,410.76
18	Kansas	343.50	18	D. C.	740.00	18	Maryland	1,404.00	**18**	**Colorado**	**3,313.98**
19	Alabama	340.00	19	Kansas	708.26	19	Kansas	1,389.38	19	Maryland	2,904.00
20	Iowa	333.75	20	Alabama	671.60	20	Utah	1,335.80	20	Kansas	2,322.84
21	Montana	310.00	21	Maryland	654.00	21	California	1,285.00	21	Oklahoma	2,255.28
22	**Colorado**	**278.80**	22	Montana	641.60	22	Montana	1,260.80	22	Utah	2,184.40
23	Massachusetts	270.60	23	Iowa	582.45	23	Oklahoma	1,236.96	23	Alabama	2,137.40
24	Mississippi	250.80	24	Oklahoma	493.92	24	Alabama	1,190.80	24	Montana	2,109.40
25	Missouri	221.50	25	Missouri	486.28	25	Iowa	1,046.85	25	Arizona	1,739.96
26	Arizona	167.00	26	Massachusetts	474.53	26	Missouri	981.64	26	Iowa	1,683.30
27	Oklahoma	153.00	27	Arizona	418.94	27	Arizona	976.22	27	Missouri	1,660.52
28	Louisiana	126.00	28	California	321.00	28	Massachusetts	855.34	28	Louisiana	1,407.52
29	California	114.00	29	Louisiana	258.64	29	Louisiana	728.64	29	Massachusetts	1,377.23
30	New Mexico	92.00	30	New Mexico	158.32	30	New Mexico	364.32	30	New Mexico	755.64
Average for all States		$402.29			$864.52			$1,938.64			$3,891.00
Colorado as percent of National average		69.3			94.7			96.5			85.2
Colorado as percent of net adjusted income		1.9			3.3			3.7			3.3

[a] The computed tax liabilities for each state at the four assumed levels of adjusted net income are based on the following assumptions: (1) the taxpayer is married and has two dependent children; (2) wife has no income, and family receives no income from dividends, interest or capital gains; and (3) the adjusted net income is *after deductions* of whatever "personal" and/or "non-business" expenses the various states and federal government allow; but *before* any personal exemptions, or credits, and *before* either federal or state income taxes.

Source: Computed from the individual income tax regulations, instructions and forms of the several states.

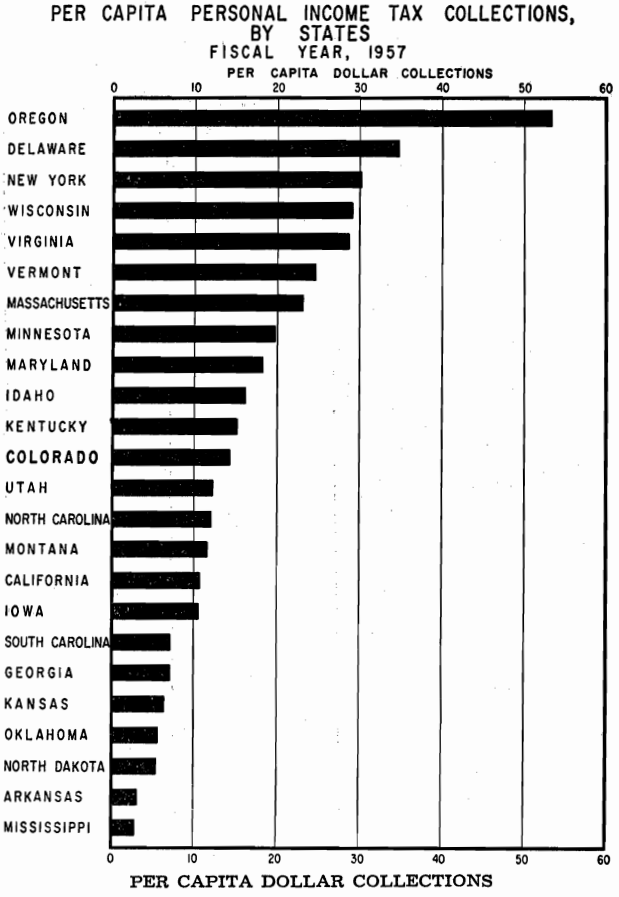
puted tax liability of Colorado taxpayers actually works out to be significantly below the national averages at all levels of income, with the deviation being considerably larger for those taxpayers who have adjusted net incomes of $10,000 or less. And it is important to note that the vast majority of income taxpayers in Colorado, as elsewhere throughout the nation, are to be found in these medium and lower income categories.

Interstate Comparisons of Personal Income Tax Collections

Interstate comparisons of tax collections represent another basis commonly used for analyzing a specific tax in a state's fiscal program. Table 12.15 shows the personal income tax collections expressed in both absolute and relative terms for the twenty-four states for which data were available for the fiscal year, 1957.

The wide variation shown in the total dollar amount of state collections, ranging from almost a half billion to less than $4 million, when considered alone is not very meaningful. For example, New York's revenue from this source was more than a hundred times larger than North Dakota's, but after the data are reduced to per capita figures the ratio becomes less than six to one. Of course, interstate tax comparisons based on averages and "averages of averages" actually may conceal as much as they reveal, particularly in the case of personal income taxation. Reducing total tax collections to a per capita basis adjusts for the population variable but obviously does not take into account other major factors, such as differences between the states' over-all tax structures, levels of income and economic activity, and patterns of income distribution. For example, per capita personal income tax collections in Colorado were almost 20 percent larger than those in North Carolina, although total collections actually accounted for a significantly smaller percentage of personal income received before tax in Colorado than in North Carolina and, therefore, represented a smaller relative tax burden. Similarly, states such as Kentucky and North Dakota which have comparatively low per capita tax collections generally ranked high in terms of the computed tax liability for a representative family of four

at varying levels of taxable income as shown in Tables 12.13 and 12.14. And since the very essence of progressive income taxation is that it not be levied as a capitation tax, perhaps a more important limitation of the per capita analysis is the fact that it conceals both the extensiveness of the tax, i.e., the relative number of individuals actually affected, and the apportionment of the tax burden among the various income groups within the taxing jurisdiction. But within these limitations, the per capita data do reveal the general levels of income taxation which prevail in the several states. For the fiscal year 1957 per capita state collections ranged from a high of $53 in Oregon to a low of less than $3 in Mississippi as shown on Chart 12.7.



SOURCE: U. S. Bureau of the Census, Compendium of State Government Finance, 1957

CHART 12.7

On this basis Colorado ranked twelfth among the twenty-four states but its average collection of $14.24 was almost 15 percent below the unweighted national average of $16.70. Moreover, its tax was only about one-fourth as large as the per capita tax in Oregon, the state which is most comparable to Colorado in other basic economic characteristics such as size of population, income produced, total wages, and federal tax collections.[46]

Table 12.15

Comparative State Personal Income Tax Collections, Fiscal Year 1957[a]

State	Total amount of personal income tax collections (thousands)	Amount of per capita collections	Personal income tax as percent of: State's total tax revenues	Personal income tax as percent of: State's total personal income[b]
Arkansas	$ 5,431	$ 3.07	4.3	0.27
California	143,339	10.64	8.8	0.41
Colorado	23,188	14.24	15.7	0.69
Delaware	14,471	34.62	32.4	1.21
Georgia	25,985	7.01	8.3	0.48
Idaho	10,082	16.13	19.9	0.97
Iowa	28,673	10.41	11.6	0.57
Kansas	13,266	6.31	8.4	0.35
Kentucky	45,346	15.13	22.5	1.09
Maryland	51,355	18.18	20.5	0.82
Massachusetts	111,222	23.11	26.9	0.98
Minnesota	64,445	19.77	22.0	1.05
Mississippi	5,982	2.78	3.7	0.29
Montana	7,750	11.56	14.3	0.60
New York	476,312	30.10	33.1	1.16
North Carolina	52,873	12.00	14.3	0.89
North Dakota	3,444	5.36	6.7	0.37
Oklahoma	12,563	5.60	5.3	0.34
Oregon	92,245	53.23	47.6	2.73
South Carolina	16,387	7.04	8.9	0.59
Utah	10,081	12.22	13.1	0.70
Vermont	9,132	24.61	26.2	1.51
Virginia	106,048	28.63	33.6	1.68
Wisconsin	110,256	29.11	31.0	1.49
All States	1,439,658	16.70	19.6	0.89

[a] Alabama, Arizona, Louisiana, Missouri and New Mexico are excluded from the above compilations because the Bureau of Census data show only combined corporate and personal income tax collections for these states.
[b] Personal income received data are on a calendar year basis.

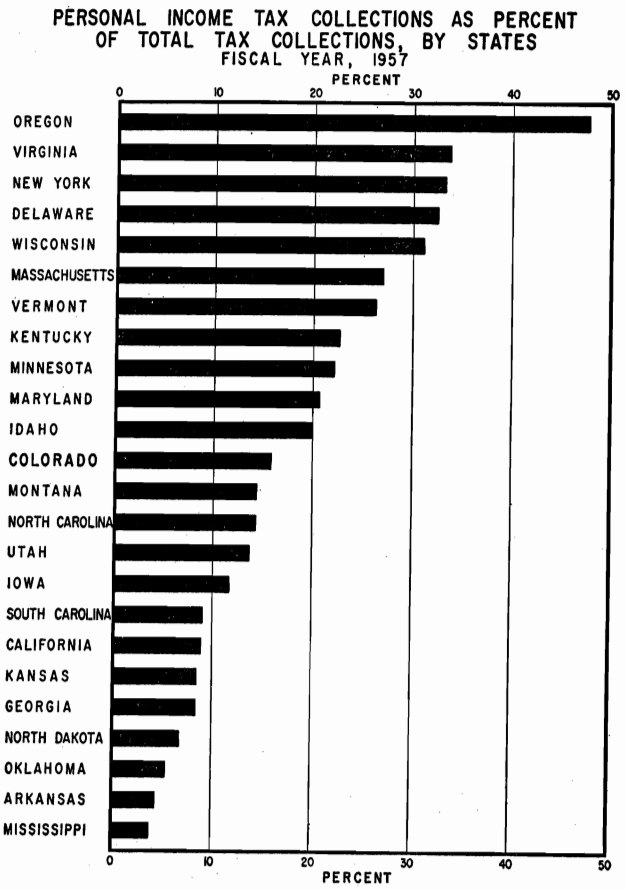
Source: U. S. Department of Commerce, Bureau of the Census, *Compendium of State Government Finance in 1957;* and *Survey of Current Business*, August, 1958.

When compared with respect to the relative extent that personal income taxation was used in the over-all tax structure, as shown in Chart 12.8, Colorado again ranked twelfth and Oregon first among the income tax levying states for which data were available. As already indicated,

[46]The remarkable similarity of the economic bases of the two states is shown by the following comparative data for 1957:

Economic bases	Colorado	Oregon	Range for all states: Maximum	Range for all states: Minimum
Total population (thousands)	1,673	1,769	15,888	267
Area (thousand square miles)	104	97	267	1
Per capita personal income	$1,996	$1,914	$ 2,821	$958
Personal income produced (millions)	$3,339	$3,385	$40,954	$626
Wages and salaries	$2,120	$2,215	$28,457	$400
Proprietors farm income	$ 150	$ 148	$ 994	$ 5
Proprietors non-farm income	$ 390	$ 436	$ 3,534	$ 59
Property income	$ 450	$ 411	$ 6,247	$ 73
Transfer payments	$ 225	$ 246	$ 2,402	$ 29
Total number federal individual tax returns filed in 1956 (thousands)	553	593	6,394	96
Total amount federal individual tax collections in 1956 (millions)	261	285	3,947	41

Source: U. S. Department of Commerce, *Survey of Current Business*, August, 1958; U. S. Treasury Department, *Statistics of Income for 1955.*

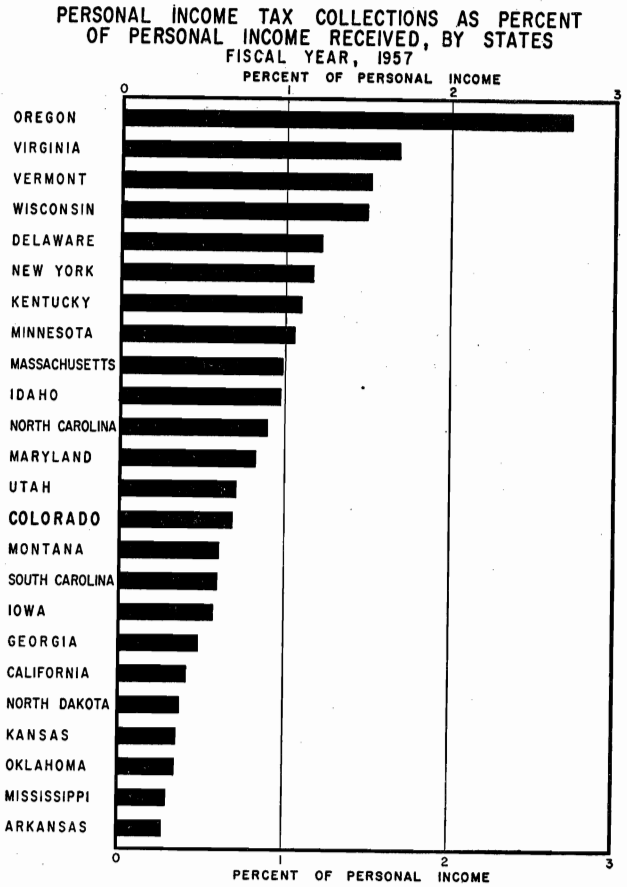


Source: U. S. Bureau of the Census, Compendium of State Government Finance, 1957.

CHART 12.8

Oregon's collections accounted for almost one-half of its total taxes. Other states which also utilized the tax extensively, obtaining about one-third of their revenue from this source, were Delaware, New York, Virginia and Wisconsin. In contrast, Colorado's personal income tax revenues of $23 million for fiscal year 1957 represented less than one-sixth of its total taxes and as such the Colorado ratio was below the national average and only about one-third as large as that of Oregon. Similarly, when the tax is expressed as a percentage of income Colorado ranked fourteenth among the twenty-four states as shown in Chart 12.9 Its personal income tax collections amounted to less than 7/10 of 1 percent of the total personal income received before tax. This was approximately four-fifths and two-thirds of the national and Western State averages, respectively; whereas the Oregon tax-income ratio of 2.7 percent was the highest of any state and four times as large as the Colorado percentage.

In summary, it is evident that on the basis of interstate comparisons Colorado is a relatively low personal income tax state whether measured by the amount of tax liability imposed on representative families at varying levels of income or in terms of the total amount of income tax revenues collected from families and individuals subject to the State's taxing jurisdiction. Notwithstanding the limitations of the comparative data, it is also evident that the tax takes a significantly smaller percentage of personal income received in Colorado than in most other states and that Colorado's utilization of personal income taxation in its over-all fiscal structure is below the national average and considerably below that of Oregon, the one state which in other basic economic characteristics is most comparable to Colorado.



Source: U. S. Bureau of the Census, Compendium of State Government Finance, 1957.

CHART 12.9

Erosion of the Income Tax Base

Colorado's relatively low personal income tax liabilities and collections, as already noted, may be attributed primarily to the nature of the State's income tax base rather than the structure of rates. Analysis of the 1957 returns filed in

1958 indicates that a large part of the tax base is simply "eroded away" before any rates are applied. Thus, the major portion of the personal income received by Colorado residents in 1957 was never subjected to income tax since it never found its way into the tax base.

Personal income for Colorado, as estimated by the U. S. Department of Commerce, amounted to $3,339 million for the calendar year 1957.[47] In contrast, the data reported on the 1957 Colorado individual income tax returns show that the *net taxable income* used as the basis for the computations of normal tax amounted to about $800 million, or less than 25 percent of the total personal income received in Colorado during that year. The large gap of more than $2.5 billion between the actual flow of income and that finally subjected to the State's personal income tax can be attributed mainly to the following four factors: (1) basic differences in the conception and statutory definition of income; (2) legal and illegal underreporting of income by taxpayers; (3) extensive use of statutory personal expense deductions, particulary the federal income tax; and (4) statutory personal exemptions.

The derivation of Colorado's adjusted gross income for tax purposes from personal income received in 1957 is summarized in Table 12.16 which is based, in part, on post war studies of the relationship of federal taxable and personal income.[48] Although these figures are estimates, in broad terms they represent the relevant magnitudes of the components that determine taxable income and, as such, are indicative of the factors which account for erosion of this part of the Colorado income tax base.

It will be noted that on the basis of personal income of $3,339 million (Table 12.16, column 1), the corresponding adjusted gross income that should have been reported for tax purposes amounted to $2,880 million (column 3). The gap between the two measures represents Colorado's specific statutory exclusions from gross income[49] and other conceptual differences in the definition of income. For example, the Department of Commerce concept includes such nontaxable components as imputed rent of owner-occupied residences, imputed and accrued interest, government and business transfer payments, and income in kind. On the other hand, it excludes

[47]The aggregate annual flow of income to individuals, both on a national and statewide basis, is estimated by the National Income Division, Office of Business Economics, U. S. Department of Commerce. Personal income for national income accounting purposes is broadly defined as the sum of: wages, salaries and other labor income; interest, dividends and rents received by persons; net income of non-corporate enterprise (business, farm, professional, and other self-employed individuals); and government and business transfer payments (such as veterans' benefits and unemployment compensation). The 1957 estimate of personal income for Colorado is reported in "Regional Income Distribution in 1957," U. S. Department of Commerce, *Survey of Current Business*, August, 1958, Table 55, p. 20.

[48]Joseph A. Pechman, "Erosion of the Individual Income Tax," *National Tax Journal*, March, 1957, pp. 1-25; Daniel M. Holland and C. Harry Kahn, "Comparison of Personal and Taxable Income," *Federal Tax Policy for Economic Growth*, Papers Submitted by Panelists to the Joint Committee on the Economic Report, 84th Congress, 1st Session (Washington, D.C., 1955), pp. 313-338; and Selma F. Goldsmith, "An Appraisal of Basic Data Available for Constructing Income Size Distributions," *Studies in Income and Wealth*, National Bureau of Economic Research (New York, 1951), Volume XIII, pp. 266-327.

[49]*Supra.*, pp. 277-279.

Table 12.16

Relationship of Colorado Personal Income and Adjusted Gross Income Reported on Tax Returns, 1957

Type of Income	(1) Department of Commerce 1957 Colorado personal income[a] (millions)	(2) Statutory exclusions and conceptual differences[b] (millions)	(3) Corresponding adjusted gross income (millions)	(4) Amount of gross income underreported (millions)	(5) Adjusted gross income reported on tax returns[c] (millions)
Wages, salaries and other labor income	$2,188	$— 99[d]	$2,089	$—265[e]	$1,824
Proprietors' income	540	— 66[f]	474	—157	317
Farm income	150	— 33	117	— 50	67
Business and professional	390	— 33	357	—107	250
Property income	450	—175[g]	275	— 74	201
Transfer payments	225	—225	—	—	—
Personal contributions for social insurance	—64	+64	—	—	—
Net capital gains[c]	—	+37	37	—	37
Annuities[e]	—	+5	5	—	5
Totals	3,339	—459	2,880	—496	2,384

[a] U. S. Department of Commerce, *Survey of Current Business*, August, 1958, Table 55, p. 20.
[b] Wages, proprietors', and property income adjustments based on national ratios.
[c] Based on sample survey of Colorado income tax returns for 1957.
[d] Employer contributions to social insurance, nontaxable military pay and allowances, etc.
[e] Includes wage income legally exempted from reporting.
[f] Primarily income in kind and imputed income.
[g] Imputed rent on owner-occupied dwellings, imputed and accrued interest, income of non-profit organizations, etc.

certain forms of income considered taxable under the Colorado code, such as net capital gains, employee contributions to social security, and annuity payments in excess of cost. In order to derive the adjusted gross income which corresponds with the Department of Commerce estimate of personal income received by Colorado residents in 1957, it is necessary to adjust for the above differences in conception. The largest single adjustment required is the deduction from personal income of the $225 million for transfer payments not subject to taxation. In contrast, the $64 million of personal contributions to social insurance, omitted from the personal income measure, must be added back into the tax base.

Another important adjustment is the inclusion of net capital gains in the adjusted gross income total. As already noted, Colorado is among the minority of income tax states which statutorily excludes 50 percent of long-term capital gains from the tax base. It is estimated that the $37 million of net capital gains reported on the 1957 returns actually represented about $83 million of net long-term gains and $4 million of net short-term losses. Or stated differently, this special provision in the Colorado code resulted in the exclusion of more than $40 million, or approximately 5 percent of the 1957 personal income tax base. In addition to its erosion effect, the special treatment accorded capital gains has been widely criticized by tax authorities in terms of its inequity and regressivity.[50] A taxpayer whose income primarily consists of long-term capital gains obviously enjoys a special tax benefit not available to taxpayers with equal pre-tax incomes derived from other sources, such as business or farm profits, which are 100 percent includable as taxable income by statutory definition. And the exclusion of 50 percent of long- term capital gains introduces an element of regressivity since the receipt of this type of income generally is concentrated in the upper income groups. For example, on the basis of the survey data it appears that less than 10 percent of all taxpayers reported capital gains income, and among those that did, the 2 percent of taxpayers with adjusted gross incomes of $10,000 or more accounted for over 50 percent of the total amount of net long-term capital gains reported on all tax returns.[51]

Table 12.16 (column 2) shows the adjustments which were also made to wage, entrepreneurial and property incomes in order to take account of conceptual differences between personal and taxable income.[52] The wage difference amounted to less than $100 million, or approximately 4 percent of the total wage income estimated by the Department of Commerce. It mainly reflects employers' contributions to social insurance and nontaxable military pay and allowances. The incomes of businessmen, farmers and other self-employed persons were decreased by $66 million, or about 12 percent, as a measure of the receipt of income in kind and imputed income. The largest adjustment was made to the property income component which was reduced by $175 million, or almost 40 percent, primarily because neither the State nor federal income tax code makes any reference to imputed interest and rent.[53] The latter may be defined as the amount of income which could have been obtained as a net return on home investment if owner-occupied residences were rented to others. Several tax authorities have contended that the omission of such rental income from the tax base confers "an immense tax benefit to the person who occupies his own home" and results in tax discrimination between renters

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[50]Published criticism of capital gains taxation is practically limited to the federal tax because of the relatively high marginal rates involved under the federal code and the general recognition that the federal tax is significantly more crucial than state taxes in investment decision-making. In consideration of the comparatively low state rates and federal tax deductibility, the rationale for preferential treatment of capital gains becomes less tenable on the state level.

The following are cited merely as representative of the voluminous literature on the subject: L. H. Seltzer, *The Nature and Tax Treatment of Capital Gains* (New York: National Bureau of Economic Research, 1951); H. Simon, *Personal Income Taxation* (Chicago: University of Chicago Press, 1938), Chap. VII, pp. 148-169; W. Vickrey, *Agenda for Progressive Taxation* (New York: The Ronald Press Company, 1947), Chap. V, pp. 135-150; H. Groves, *Financing Government* (New York: Henry Holt and Company, 1954), pp. 168-173; W. W. Heller, "Investors' Decisions, Equity, and the Capital Gains Tax," *Federal Tax Policy for Economic Growth and Stability*, pp. 381-394, and "Practical Limitations on the Federal Net Income Tax," *Journal of Finance*, September, 1952, pp. 185-199; W. Cary, "Pressure Groups and the Revenue Code," *Harvard Law Review*, Vol. 68 (1955), pp. 745-780; R. E. Paul, "Erosion of the Tax Base and Rate Structure," *Federal Tax Policy for Economic Growth and Stability*, pp. 297-311; and H. M. Somers, "An Economic Analysis of the Capital Gains Tax," *National Tax Journal*, September, 1948, pp. 226-232.

[51]The following tabulation shows the net long-term capital gains reported on the 1957 Colorado returns classified by adjusted gross income groups:

Adjusted gross income class	Total number of taxpayers	Number of taxpayers reporting	Long-term capital gains included at 50 percent: Percent of total taxpayers	Net amount of capital gain (thousands)	Average net gain
$ 0 - 4,999	357,600	27,000	7.6	$12,630	$ 467
5,000 - 7,999	120,700	11,000	9.1	5,244	476
8,000 - 9,999	23,000	3,900	17.0	2,193	562
10,000 - 14,999	14,320	4,310	30.1	4,363	1,012
15,000 - 49,999	8,532	4,364	51.1	8,495	1,946
50,000 and over	669	507	75.8	8,693	17,145
Total[a]	524,821	51,081	9.7	$41,617	—

[a] Sum of items may not equal total because of rounding.

[52]These adjustments, based on ratios developed by Holland from federal data, were made on the assumption that the national ratios were applicable to the State since Colorado's per capita personal income in recent years has closely approximated the median for the Nation. See Holland, *op. cit.*, Table 1, p. 315.

[53]In contrast, under the income tax laws of England and several other countries imputed rent derived from the ownership of real property explicitly is considered to be income and is taxed accordingly. See Simon, *op. cit.*, pp. 113-119.

and homeowners.[54] Moreover, this type of tax exemption has a regressive effect on the tax structure since the extent of homeownership among taxpayers tends to vary directly with income. For example, a recent Federal Reserve study indicates that in 1957 about 80 percent of non-farm households with incomes of $10,000 or more owned their own homes, whereas homeownership was only 40 percent among those with net incomes of $4,000 or less.[55] However, since estimates of imputed income are included in the Department of Commerce measures of interest and rent it is necessary to make appropriate adjustment for these factors in the derivation of taxable income.

After all of the above adjustments are taken into consideration it appears on net balance that $459 million, or approximately 14 percent of the personal income received in Colorado, did not find its way into the state income tax base because of statutory exclusions and conceptual differences. Comparable studies made on the national level indicate that more than 11 percent of personal income is excluded from the federal tax base for the same reasons.[56] The Colorado and federal percentage estimates of this type of leakage from the tax base should roughly approximate each other since the broad definitions of adjusted gross income for tax purposes are generally similar under both codes.

Although we can definitionally account for about $459 million of income excluded from the adjusted gross income concept, the gap between the personal income total (column 1) and the adjusted gross *actually* reported on the returns filed (column 5) amounted to almost $960 million. Thus, the other missing $500 million, approximating 15 percent of the personal income flow, must be considered unreported income which never found its way into Colorado's normal income tax base.[57] In part, it can be explained by the fact that returns were not legally required from an undisclosed number of individuals whose incomes were below the required filing minimum of $750 per annum.[58] The remainder of this leakage represents the underreporting of income due to deliberate tax evasion and/or oversight on the part of taxpayers. It is difficult to come up with any exact figures as to the magnitude of these factors, but rough estimates of the degree of underreporting of particular types of income can be obtained by comparing the wages and salaries, entrepreneurial incomes, and property incomes actually reported on the 1957 tax returns (column 5) with the estimated amounts that taxpayers should have reported on the basis of the data which correspond with the Department of Commerce income figures for Colorado (column 3).

The distribution of the major sources of adjusted gross income is shown in Table 12.17 and the percentage variations in reporting particular types of income on the Colorado tax returns appear in Chart 12.10. It is estimated that 87 percent of the total wages and salaries received showed up on the 1957 returns and 13 percent went unreported. However, the studies of both Goldsmith and Holland indicate that only about 5 percent of wages and salaries was underreported on federal income tax returns during 1946 and 1952.[59] Because taxpayers generally report the same amount of wage income on both their federal and state tax returns, particularly since the Colorado payroll withholding is tied to the federal withholding reported by employers, it is reasonable to assume that the 5 percent national ratio of wage leakage is applicable to the 1957 Colorado state income tax returns. Thus, it appears that approximately $150 million, or more than half of the 13 percent of labor income unreported on the Colorado returns, represented wages which were legally excluded from adjusted gross income primarily because incomes were below the minimum required for filing. In contrast, the percentages of underreporting of the other major sources of income are significantly higher than that calculated for wages and salaries and, in part, must be attributed to the fact that comparable "withholding-at-source" methods of collection are not applied to non-wage incomes. It is estimated that about 27 percent of the income derived from

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[54] B. L. Balch, "Individual Income Taxes and Housing," *National Tax Journal*, June, 1958, pp. 168-182; R. E. Paul, "Erosion of the Tax Base and Rate Structure," *Tax Law Review*, Vol. 11, 1956, pp. 203-214; D. B. Marsh, "The Taxation of Imputed Income," *The Political Science Quarterly*, December, 1943, pp. 317-336; H. Simon, *op. cit.*, pp. 112-119; and W. Vickrey, *op. cit.*, pp. 18-24.

[55] Federal Reserve System—Survey Research Center of the University of Michigan, "1957 Survey of Consumers Finances: Housing and Durable Goods," *Federal Reserve Bulletin*, June, 1957, p. 639.

[56] Holland estimated the conceptual difference between personal and adjusted gross income for the federal income tax to be 11.6 percent for 1952. Similarly, the estimates reported by Pechman for this conceptual difference averaged 11.3 percent for the nine years, 1948-1956 inclusive. See Holland *op. cit.*, Tables 2 and 3, pp. 315-317; and Pechman, *op. cit.*, Table 1, p. 4.

[57] Some part of this unreported income may represent statistical errors since neither the Department of Commerce nor the Colorado income tax survey data are absolutely precise figures. See Appendix to this chapter for methods of estimation, description of sample, and statistical limitations of the Colorado income tax data.

[58] As noted, on the basis of the 1957 resident returns filed in 1958 approximately 20 percent of Colorado's total population were neither income taxpayers (in the reporting sense) nor the dependents of taxpayers. However, it is not possible to ascertain the number in this group that were legally exempted from filing because of inadequate income. Moreover, many individuals who were legally exempted filed returns in order to obtain payroll withholding refunds. About 15,000 nontaxable refund returns, or 12 percent of the total number of nontaxables were in the adjusted gross income category of $750 or less in 1957.

[59] Goldsmith, *op. cit.*, p. 302; and Holland, *op. cit.*, p. 320, Table 4.

the ownership of property, 30 percent of the income of business and self-employed professional persons, and 43 percent of farm income were *not reported* on the 1957 Colorado tax returns. On the other hand, the estimates on the underreporting of farm and property incomes (dividends, interest and rents) for the Colorado returns worked out to be considerably lower than those calculated for federal returns by Goldsmith and Holland.[60] But it should be noted that the latter, except for the category of nonfarm business income, generally confirm the pattern of the Colorado estimates.

Table 12.17

Distribution of the Major Sources of Adjusted Gross Income Reported on Colorado Personal Income Tax Returns, 1957[a]

	Amount (thousands)	Percentage distribution
Wages and salaries	$1,824,233	76.5
Proprietors' (entrepreneurial) income	316,374	13.3
Business income	180,912	7.6
Farm income	66,760	2.8
Self-employed professional	61,390	2.6
Miscellaneous[b]	7,312	0.3
Property income	200,822	8.4
Dividends	71,072	3.0
Interest	63,897	2.7
Rents and royalties	65,853	2.8
Net capital gains	37,463	1.6
Net long-term capital gains[c]	41,617	1.8
Net short-term capital losses	—4,154	0.2
Annuities	4,793	0.2
Adjusted gross income[d]	$2,383,685	100.0

[a] Based on survey of Colorado 1957 tax returns filed in 1958.
[b] Proprietor income of taxpayers whose primary sources of income were wages, or interest, dividends, rents, etc.
[c] Total net long-term capital gains were $83.3 million, of which 50 percent were taxable by statute.
[d] Before travel allowance deduction.

In the aggregate it appears that the adjusted gross income leakage on the 1957 Colorado tax returns was in the neighborhood of $500 million, and that the amount underreported by taxpayers, deliberately or through oversight, ranged between $300 and $350 million, or approximately 10 to 12 percent of the total adjusted gross income that should have been reported for tax purposes. Again, the reader is forewarned that these data are imprecise, although generally indicative of the importance of the problem.[61] Of course, in terms of taxpayer compliance the voluntary reporting of 88 to 90 percent of the adjusted gross income represents a very substantial proportion of taxable income and, as such, makes clear that the erosion of the Colorado personal income tax base cannot be mainly attributed to widespread underreporting of income. Nevertheless, the marked variations in the degree of reporting different types of income creates serious "horizontal" inequities in the tax system. As observed by Holland:[62]

> . . . some taxpayers because of the particular sources from which their income derives, are in a better position to play the game of tax avoidance than others. A game not open equally to all is unfair . . . . This is a matter of concern because it leads to continual taxpayer irritation and ultimate disrespect for the income tax whose success depends on a high standard of reporting.

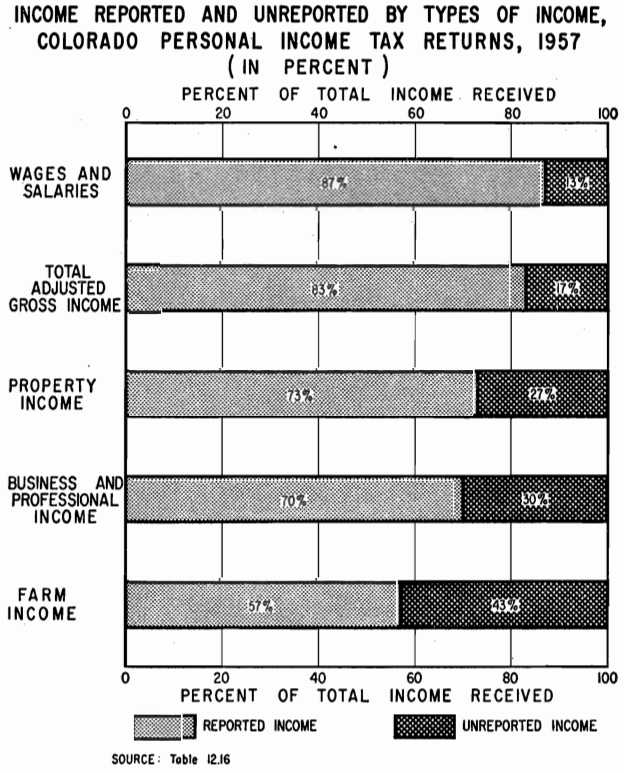

CHART 12.10

[60] The Goldsmith and Holland estimates for the underreporting of particular types of income on federal tax returns for 1946 and 1952 are as follows:

Type of income	Percentage estimates of underreported income: 1946[a]	1952[b]
Wages and salaries	5	5
Proprietors' income	29	30
Farm Income	64	61
Business and professional	13	12
Property income	42[c]	39[d]
Dividends	24	13
Interest	63	61
Rent	55	—

[a] Goldsmith, *op. cit.*, p. 302.
[b] Holland, *op. cit.*, p. 320, Table 4.
[c] Computed average of the reported rates on dividends, interest and rents, weighted by Holland's 1952 national data.
[d] Based on the Goldsmith rate for rents since Holland has no rent estimate.

[61] It may be appropriate, however, to remind the reader at this point of the maxim that "it is better to be loosely correct, than precisely incorrect."

[62] *Op. cit.*, p. 317.

Table 12.18

Derivation of the Colorado Personal Income Tax Base[a] from Personal Income Received, 1957

		Amount (thousands)	Percentage distribution based on: Personal income	Adjusted gross income
1.	Personal income received[b]	$3,339,000	100.0	—
2. Deduct:	Statutory exclusions and conceptual differences[c]	459,000	—13.7	—
3. Equals:	Corresponding adjusted gross income (before travel allowance)	2,880,000	86.3	—
4. Deduct:	Unreported adjusted gross income[d]	496,315	—14.9	—
5. Equals:	Reported adjusted gross income on all returns (before travel allowance)[e]	2,383,685	71.4	100.0
6. Deduct:	Statutory travel allowance	44,379	—1.3	—1.9
7. Equals;	Adjusted gross income on all tax returns	2,339,306	70.1	98.1
8. Deduct:	Adjusted gross income of nontaxable returns	282,140	—8.5	—11.8
9. Equals:	Adjusted gross income of taxable returns	2,057,166	61.6	86.3
10. Deduct:	Statutory personal expenses of taxable individuals:			
	(a) Itemized deductions[f]	163,031	—4.9	—6.8
	(b) Standard deductions[f]	94,761	—2.8	—4.0
	(c) Federal income tax deductions	275,947	—8.3	—11.6
	Total deductions	533,739	—16.0	—22.4
11. Equals:	Adjusted net income of taxable returns	1,523,427	45.6	63.9
12. Deduct:	Personal exemptions of taxable individuals	724,568	—21.7	—30.4
13. Equals:	NET TAXABLE INCOME (NORMAL TAX BASE)	798,859	23.9	33.5
14. Add:	NET SURTAXABLE INCOME (SURTAX BASE)	79,958	2.4	3.4
15. Equals:	NET INDIVIDUAL INCOME TAX BASE	878,817	26.3	36.9

[a] Excludes taxable income of fiduciaries.
[b] U. S. Department of Commerce, *Survey of Current Business*, August, 1958, Table 55, p. 20.
[c] *Supra.*, Table 12.16, column (2).
[d] *Supra.*, Table 12.16, column (4).
[e] This and all subsequent items based on data derived from survey of Colorado 1957 personal income tax returns.
[f] Except for federal income tax.

In brief, almost $1 billion, or about 29 percent of the total personal income received in Colorado in 1957, never found its way into the adjusted gross income reported on all returns because of explicit statutory exclusions, conceptual differences in the definitions of income, and legal and illegal underreporting of income. Stated positively, only $2.4 billion, or 71 percent of the total flow of personal income received by Colorado residents in 1957, as measured by the Department of Commerce, was reported on the individual tax returns filed for that year. This is considerably less than the comparable 81 percent ratio of adjusted gross to personal income maintained on federal income tax returns in recent years.[63] In part, it reflects the fact that administrative enforcement and taxpayer compliance on the national level continue to be significantly superior to that achieved on the state level.

Table 12.18 summarizes the derivation of net taxable income from personal income received and Chart 12.11 shows the major factors responsible for the shrinkage of the 1957 Colorado individual income tax base. The preceding analysis of excluded and underreported income accounted for less than $1 billion of the total leakage in the circuit flow of income from receipt to tax base. Various deductions permitted under the Colorado code—particularly statutory personal expenses and personal exemptions—accounted for the remaining gap of $1.6 billion which was two-thirds of the $2.4 billion of adjusted gross income (before travel allowance) reported on all returns.

Generally, adjusted gross income represents the taxpayer's income net of expenses incurred in earning such income. In the case of the Colorado tax, however, it is useful to distinguish adjusted gross income *before* and *after* travel allowance since Colorado is unique among the income tax states in permitting a standard minimum travel expense deduction of $75 to all

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[63] The ratios of reported adjusted gross income on federal tax returns to national personal income for the five most recent years for which data were available are calculated below:

Year	Adjusted gross income on federal returns[a] (billions)	National personal income[b] (billions)	Adjusted gross income as percent of personal income
1956	$265[c]	$327	81
1955	249	306	81
1954	230	287	80
1953	230	286	80
1952	217	272	80

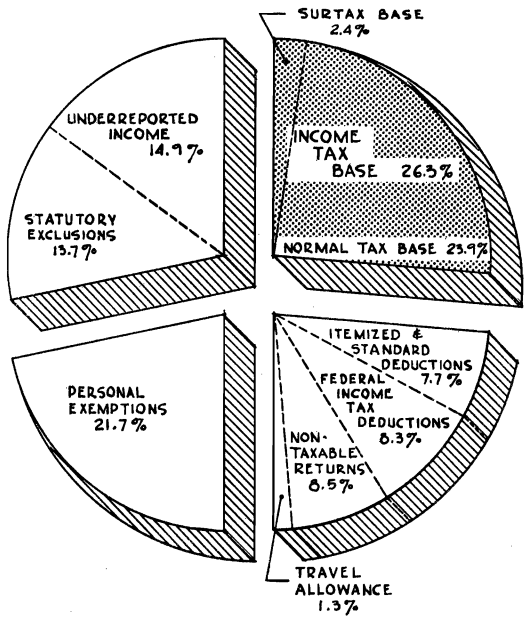
[a] U. S. Treasury Department, *Statistics of Income for 1955* (Washington, 1958), p. 62, for years 1952-1955, inclusive.
[b] *Economic Report of the President* (Washington, 1958), p. 129.
[c] Pechman, *op. cit.*, p. 4.

taxpayers with earned income. This provision alone removed more than $44 million from the tax base, or slightly less than 2 percent of the adjusted gross income. The latter, after travel allowance, was $2,339 million, or almost exactly 70 percent of the personal income received by Colorado residents in 1957. If from this figure we further subtract the $282 million of income reported on nontaxable returns,[64] we obtain an adjusted gross income of approximately $2,000 million for those individuals subject to normal tax.

In turn, the statutory personal expense deductions taken by taxable individuals totaled $534 million which represented more than one-fourth of their adjusted gross income. Moreover, the relative importance of the Colorado provision permitting full deductibility of federal income taxes in addition to other personal expenses is indicated by the fact that the $276 million of federal tax deduction accounted for more than the total amount of all other itemized and standard personal expenses reported on taxable returns. But the largest single factor responsible for the shrinkage of the tax base, as shown in Chart 12.11, was the personal exemption deduction which in 1957 was raised by the legislature from $600 to $750 per taxpayer and dependent. The exemption increase on taxable returns alone eliminated some $145 million of income from the tax base, and the dollar value of the total exemptions claimed by taxable individuals was $725 million—a deduction in excess of one-third of the reported adjusted gross income of this group.

After these exemptions are deducted, the remaining $800 million constituted the *net taxable income* used as the basis for the computation of the normal tax liabilities on the 1957 returns. In brief, it appears that after statutory personal expense and exemptions are taken the normal tax base represented only about one-fourth of the personal income received and one-third of the income reported on all taxable and nontaxable returns. To the net taxable income we must add the *net surtaxable income,* i.e., gross income from intangibles less surtax exemptions,[65] which amounted to another $80 million, or more than 10 percent of the net income subject to normal tax.

MAJOR FACTORS RESPONSIBLE FOR THE EROSION OF 1957 COLORADO PERSONAL INCOME TAX BASE



SOURCE : TABLE 12.10

CHART 12.11

Thus, at the end of the income circuit, the net individual income tax base for Colorado was $880 million, or just slightly more than one-third of the adjusted gross income actually reported on all tax returns. Viewed in terms of erosion, it is estimated that only 26 percent of the total personal income received by Colorado residents in 1957 found its way into the State's individual income tax base and, hence, three-fourths was never subjected to state income taxation. In contrast, federal returns reveal that more than 40 percent of the personal income received by the nation as a whole was included in the federal income tax base during the most recent years for which data are available.[66] The fact that the State ratio is more than one-third lower than the federal must be attributed in large part to the higher personal exemptions on the state level and the reciprocal income tax deductibility provisions which result in a con-

[64]Nontaxable returns were eliminated at this point in the analysis because the sum of personal expenses and exemptions exceeded the adjusted gross income for these returns, as shown by the following tabulation:

Nontaxable Returns	Amount (thousands)
Personal expenses:	
(a) Itemized deductions	$ 25,482
(b) Standard deductions	19,233
(c) Federal income tax deductions	8,937
Total	53,652
Personal exemptions	347,017
Sum of personal expenses and exemptions	400,669
Reported adjusted gross income	282,140
Excess of deductions and exemptions over adjusted gross income	118,529

[65]Net surtaxable income as reported on the 1957 taxable returns was equal to the $123.3 million of gross surtaxable income less $43.3 million of surtax exemptions.

[66]Total personal income for the United States amounted to $285 billion in 1954 and $307 billion in 1955; total taxable income reported on federal returns was $115 and $128 billion, respectively for these two years. See U. S. Department of Commerce, *Survey of Current Business,* August, 1958, Table 1, p. 13; U. S. Treasury Department, *Statistics of Income for 1954* (Washington, 1957), Table 1, p. 33; and *Statistics of Income for 1955* (Washington, 1958), Table 1, p. 18.

siderably large bite being taken from the State tax base because of the relatively high federal rate structure. Finally, to carry the analysis one step further, it should be noted that the normal and surtax rates applied to the "eroded" tax base produced a total tax liability of $18.3 million for Colorado taxpayers in 1957.[67] Expressed as average rates, it means that this tax liability worked out to be only 2.1 percent of net taxable income, .8 of 1 percent of all reported adjusted gross income (taxable and nontaxable after travel allowance), and .5 of 1 percent of the total personal income received in Colorado that year, as estimated by the U. S. Department of Commerce.

Personal Deductions and Exemptions

The comparative magnitudes and distribution of the statutory personal expense deductions and exemptions reported by Colorado taxpayers on their 1957 returns are reviewed in this section. Under the Colorado code the deduction of allowable personal expenses is provided for by the following three methods:

Itemized deductions—All taxpayers have the option of itemizing personal expenses which are explicitly covered by statute, such as medical expenses, contributions, interest and taxes.

Optional standard deductions — In lieu of itemizing, taxpayers with adjusted gross incomes of $5,000 or more may elect to take a standard deduction of 10 percent of their adjusted gross income or $1,000, whichever is lesser, plus an amount equal to the federal income tax paid during the taxable year. In the case of married taxpayers filing separately the maximum deduction is limited to $500 for each spouse.

Table deductions—Taxpayers with adjusted gross incomes of less than $5,000 may use a tax table prescribed by the Department of Revenue which incorporates a standard deduction equal to 10 percent of adjusted gross income, plus an amount equal to the average federal income tax paid by such taxpayers.[68]

Table 12.19 shows the number of returns filed and the total value of the personal expense deductions for 1957 classified by the above categories.

Table 12.19

Major Types of Personal Expense Deductions Reported on Colorado Individual Income Tax Returns, 1957

Type of deduction	Tax returns[a] Total number filed	Tax returns[a] Percent of all returns	Total deductions Amount (thousands)	Total deductions Percent distribution	Average deduction per return
Table					
Standard deduction	260,100	49.6	$ 66,618	11.3	$ 256
Federal income tax	105,600	20.2	55,600	9.5	527
Total	260,100	49.6	122,218	20.8	470
Optional standard					
Standard deduction	80,228	15.3	47,375	8.1	597
Federal income tax	77,858	14.8	68,211	11.6	876
Total	80,228	15.3	115,586	19.7	1,441
Itemized					
Medical expense	62,684	12.0	19,982	3.4	318
Miscellaneous	99,937	19.0	25,415	4.3	254
Contributions	153,608	29.3	31,207	5.3	203
Interest expense	127,774	24.4	54,901	9.4	429
Other taxes	174,311	33.2	57,009	9.7	327
Federal income tax	165,772	31.6	161,073	27.4	971
Total	184,493	35.1	349,587	59.5	1,895
Total, all returns	524,821	100.0	587,391	100.0	1,119

[a] Not additive.

The itemized deductions were quantitatively the most important, exceeding the dollar value of the table and optional standard deductions combined. Although one-half of all taxpayers used the tax table, their deductions amounted to only $122 million, or one-fifth of the total. And of this group, approximately 60 percent did not have any deductible federal income tax expense.[69] The optional standard deductions in the aggregate were the least important. They numbered less than one-sixth of the returns filed and amounted to only $115 million, or less than one-fifth of the total. It appears that taxpayers in this category had relatively few deductible expenses to itemize other than federal income taxes since the latter were reported on 97 percent of the returns and exceeded the standard deduction by more than $20 million. In contrast, itemized expenses were reported on more than one-third of the tax returns and totaled almost $350 million, or approximately three-fifths of the deductions claimed by all taxpayers. Moreover, when the data are expressed as averages, the itemized deductions were four times as large as those based on the tax table and one-third larger than the optional standard deduction.

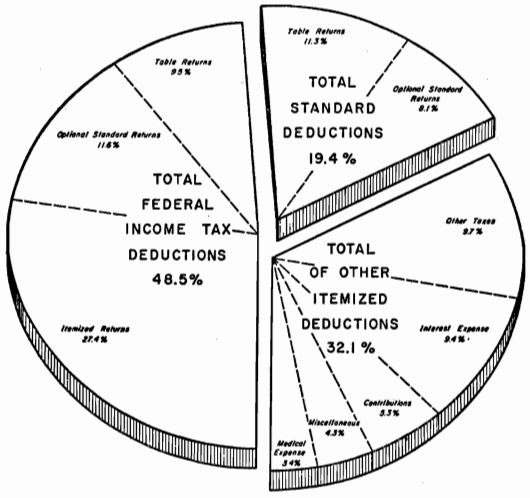
[67]The above $18.3 million of tax liability is only for the regular 1957 returns filed in 1958, and is exclusive of fiduciary, deficiency, tentative and prior-year delinquent returns. In contrast, the $21.8 million of tax collections for 1957 shown in Table 12.4 includes revenues from all types of returns and actually represents the tax liability reported on 1956 returns filed in 1957.

[68]Taxpayers using the prescribed tax table may file returns either on Form 104, the regular tax return, or on Form 104A, a tabulating machine card which is limited in use to full-time resident taxpayers with adjusted gross incomes of less than $5,000 derived solely from "salaries, wages, commissions, dividends and interest." Standard deductions based on the above two forms of returns will be designated as "table deductions" in order to distinguish them from the "optional standard" deductions taken by taxpayers who do not use the table.

[69]Of course, the relatively small percentage of taxpayers subject to federal tax in this category is mainly due to the fact that it includes the bulk of individuals with the lowest adjusted gross incomes. For example, the distribution of nontaxable returns by type of deductions was as follows: 78 percent table deductions; 19 percent itemized deductions, and only 3 percent optional standard deductions.

As is strikingly evident, the most important single deduction was the federal income tax expense. It was taken by 90 percent of the taxpayers filing itemized returns and amounted to more than $161 million, or 46 percent of the total of itemized expenses. When aggregated for all returns filed—table, optional standard and itemized—it amounted to $285 million, or practically one-half of the total deductions claimed by all taxpayers, as shown on Chart 12.12. The "other taxes" category of $57 million was the second largest itemized expense but only accounted for 10 percent of the total deductions. In turn, the deductible interest expense was slightly smaller —about $55 million, or 9 percent of the total. Charitable contributions were reported by 29 percent of the taxpayers but amounted to only 5 percent of the total deductions, and miscellaneous expenses were reported by 19 percent of the taxpayers and accounted for 4 percent of the total (Chart 12.13).

PERCENTAGE DISTRIBUTION OF TOTAL DOLLAR AMOUNT OF PERSONAL EXPENSE DEDUCTIONS REPORTED ON COLORADO INDIVIDUAL INCOME TAX RETURNS, 1957

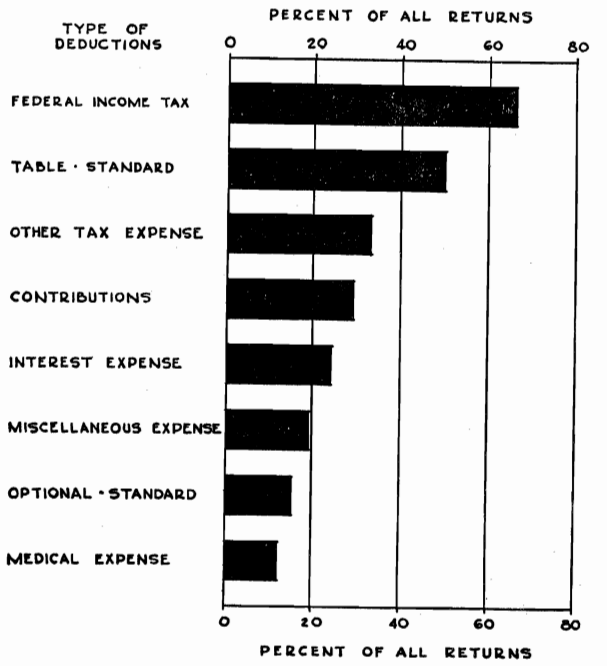


SOURCE: Table 12.19

CHART 12.12

Quantitatively, the least important itemized deduction was represented by allowable medical expenses which were claimed by only 12 percent of the taxpayers and amounted to less than $20 million, or approximately 3 percent of the total deductions reported on all returns. The relatively small amount of deductible medical expense is partly explained by the fact that the Colorado statute permits the deduction of only such expenses in excess of 5 percent of adjusted gross income while the federal code and eight other income tax states allow medical

PERCENTAGE OF ALL TAXPAYERS REPORTING MAJOR TYPES OF DEDUCTIONS ON COLORADO INDIVIDUAL INCOME TAX RETURNS 1957



SOURCE : TABLE 12.19

CHART 12.13

expenses in excess of 3 percent.[70] It is estimated that if Colorado had used 3 percent as the break-off point the allowable medical expenses would have been approximately $7 million larger for those taxpayers who reported medical deductions on their 1957 returns.[71] In general terms, however, the broad variations in the number and amount of these major forms of deductions—standard and itemized—may be attributed essentially to the distribution of income before tax since deductible expenses for tax purposes tend to vary in a significant manner with levels of taxpayer income.

Table 12.20 and Chart 12.14 show the total, itemized and standard deductions reported on the 1957 Colorado tax returns classified by adjusted gross income categories.

Taxpayers with incomes of less than $5,000, representing 68 percent of all individuals filing returns, had personal deductions of $205 million or 35 percent of the total reported; those with incomes from $5,000 to $10,000, representing 27

[70] *Supra.*, Table 12.7.

[71] The total adjusted gross income for taxpayers who claimed allowable medical expenses on their 1957 returns was approximately $350 million.

Table 12.20

Distribution of Personal Expense Deductions by Adjusted Gross Income Classes, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Adjusted gross income	Total of personal deductions	Federal income tax deductions[a]	Other itemized deductions[b]	Combined standard deductions[c]
A. Dollar amounts (in thousands)					
$ 0 - $4,999	$ 963,169	$204,966	$ 84,865	$ 51,880	$ 68,121
5,000 - 7,999	744,463	186,153	79,511	74,471	32,271
8,000 - 9,999	203,492	55,478	26,548	21,672	7,258
10,000 - 14,999	168,488	46,027	24,379	17,057	4,591
15,000 - 49,999	201,022	66,412	45,103	19,605	1,704
50,000 and over	58,672	28,356	24,478	3,830	48
Total	2,339,306	587,392	284,884	188,515	113,993
B. Percent of adjusted gross income					
$ 0 - $4,999	100.0	21.3	8.8	5.4	7.1
5,000 - 7,999	100.0	25.0	10.7	10.0	4.3
8,000 - 9,999	100.0	27.3	13.0	10.7	3.6
10,000 - 14,999	100.0	27.3	14.4	10.1	2.7
15,000 - 49,999	100.0	33.0	22.4	9.8	0.8
50,000 and over	100.0	48.3	41.7	6.5	0.1
Total	100.0	25.1	12.2	8.1	4.9

[a] Combined table, optional standard, and itemized returns.
[b] Itemized deductions, exclusive of federal income tax, listed in Table 12.21.
[c] Table and optional standard deductions, exclusive of federal income tax.

percent of the taxpayers, accounted for another $242 million, or 40 percent; while the remaining three categories with incomes above $10,000, representing less than 5 percent of all taxpayers, deducted personal expenses in excess of $140 million, or 24 percent of the total. Similarly, when the deductions were measured as percentages of adjusted gross income there were important variations between income levels. Taxpayers with incomes above $50,000 reduced their taxable incomes by 48 percent as a result of legally deductible expenses; whereas, those with incomes of less than $5,000 were able to claim deductions which averaged only 21 percent. When federal income tax expense was considered by itself the degree of direct variation between income levels became even more pronounced, ranging from 42 percent for the highest income category to 9 percent for the lowest.

On the other hand, the standard deductions actually varied inversely with income—from slightly more than 7 percent for taxpayers with incomes below $5,000 to less than one-tenth of 1 percent for those above $50,000. Of course, this primarily reflects the fact that the ratio of itemized to standard returns was considerably greater at the higher levels of income. In the lowest income class three-fourths of all taxpayers used the tax table or took the optional standard deduction, but at income levels above $10,000 the situation was reversed with approximately one-fourth of the taxpayers taking standard deductions and three-fourths itemizing their expenses.

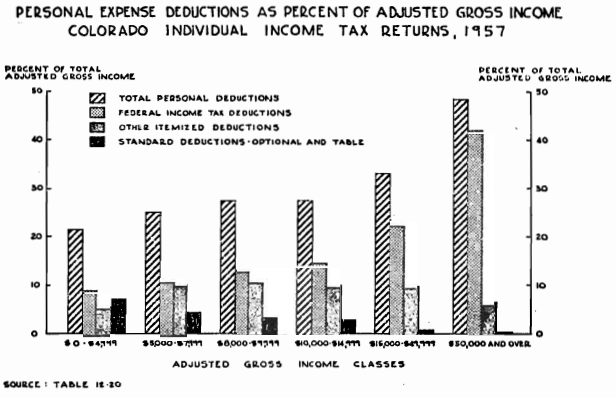


CHART 12.14

The total dollar amount of itemized deductions, exclusive of the federal tax expense, when measured as a percentage of adjusted gross income indicated a relatively high degree of stability between income levels—approximately 10 percent for each of the four income categories between $5,000 and $50,000, and about 6 percent at both ends of the income scale. But here, also, there were some marked differences between specific itemized expenses when classified by adjusted gross income, as shown in Table 12.21. For example, individuals with incomes between $5,000 and $10,000, representing 27 percent of the taxpayers and 41 percent of the income reported on all returns, accounted for 59 percent of the total interest expense and 52 percent of the "other tax" deductions. In consideration of the fact that interest costs and property taxes on owner-occupied residences are deductible expenses and the recent estimate that "consumers with incomes of $5,000 or more owned more than one-half of all nonfarm houses early this year (1957),"[72] the above percentages partly reflect the tax advantage of homeownership for Colorado taxpayers in the middle income categories.[73]

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[72] Federal Reserve Board of Governors—Survey Research Center of the University of Michigan, "1957 Survey of Consumer Finances: Housing and Durable Goods," *Federal Reserve Bulletin*, June, 1958, p. 630. The Federal Reserve estimate is for the nation and its income categories of spending units are not strictly comparable with those developed above for individual taxpayers. However, the conceptual difference will not materially alter the picture and since Colorado is a fairly typical state, it may be assumed that a somewhat comparable distribution of home ownership prevails in Colorado.

[73] As noted, both the federal and state tax codes provide taxpayers who own their homes with a double tax advantage for in addition to the above deductible expenses the imputed rental values of owner-occupied residences are excluded from the tax base.

Table 12.21

Distribution of Itemized Personal Expense Deductions by Adjusted Gross Income Classes, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Total of itemized deductions	Medical expenses	Miscellaneous expenses	Charitable contributions	Interest expenses	Other tax expenses	Federal income tax expenses[a]
			A. Dollar amount (in thousands)				
$ 0 - $4,999	$ 77,704	$ 8,847	$ 7,437	$ 7,747	$12,625	$15,224	$ 25,825
5,000 - 7,999	116,363	7,532	7,619	11,041	25,229	23,050	41,891
8,000 - 9,999	37,864	1,777	2,798	3,281	7,053	6,763	16,192
10,000 - 14,999	33,324	1,119	2,752	3,070	4,777	5,339	16,268
15,000 - 49,999	57,205	652	3,478	4,557	4,418	6,500	37,599
50,000 and over	27,128	55	1,331	1,511	799	134	23,298
Total[b]	349,588	19,982	25,415	31,207	54,901	57,010	161,073
			B. Percentage distribution				
$ 0 - $4,999	22.2	44.2	29.3	24.8	23.0	26.7	16.0
5,000 - 7,999	33.3	37.7	30.0	35.4	46.0	40.4	26.0
8,000 - 9,999	10.9	8.9	11.0	10.5	12.8	11.9	10.1
10,000 - 14,999	9.5	5.6	10.9	9.8	8.7	9.4	10.1
15,000 - 49,999	16.3	3.3	13.6	14.6	8.0	11.4	23.3
50,000 and over	7.8	0.3	5.2	4.9	1.5	0.2	14.5
Total[b]	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[a] Exclusive of federal income tax for table and optional standard returns.
[b] Sum of individual income classes may not equal totals because of rounding.

The allowable medical expense was the only itemized deduction permitted under the Colorado code which on a percentage basis was concentrated in the lowest income category. Of the total number of taxpayers reporting medical expenses, more than 50 percent had incomes of less than $5,000, and only 5 percent were in the income class of $10,000 or more. Similarly, in terms of the actual dollar amount of medical deductions allowed, more than 44 percent was claimed by taxpayers in the lowest income category and less than 10 percent by those in the top income classes above $10,000. And although the average was considerably larger for taxpayers with higher incomes, the medical expense was the only itemized deduction which as a percentage of adjusted gross income varied inversely with the levels of income and worked out to be relatively most important for the lower income groups.

The following tabulation shows the average value of some specific expenses reported on the 1957 itemized returns, classified by adjusted gross income.

Table 12.22

Average Value of Selected Itemized Deductions Colorado Individual Income Tax Returns 1957

Adjusted gross income classes	Average deduction per taxpayer reporting: Medical expense	Contributions	Federal tax expense
$ 0 - $4,999	$ 286	$ 125	$ 363
5,000 - 7,999	306	178	655
8,000 - 9,999	411	237	1,137
10,000 - 14,999	522	336	1,741
15,000 - 49,999	881	707	5,631
50,000 and over	1,619	2,544	37,820
Total	318	203	971

In brief, it is evident from the over-all data that not withstanding the above differences Colorado taxpayers in the higher income classes generally were able to charge a significantly larger absolute and relative amount of deductible expenses against their reported adjusted gross income than was possible for other taxpayers, and primarily because of the statutory provision permitting the deductibility of federal income taxes.

The personal exemption deduction of $750 per taxpayer and dependent provided by the Colorado income tax code,[74] is the largest single factor accounting for the erosion of the Colorado individual income tax base. The total dollar value of exemptions exceeded $1,000 million, or 46 percent of the adjusted gross income reported by all taxpayers. By itself, the $150 statutory increase in the 1957 exemption resulted in a reduction of more than $200 million in the tax base. The total of personal exemptions claimed on the 1957 tax returns, classified by the number per return, is shown in the following tabulation.

Table 12.23

Personal Exemptions, Classified by Number per Return, Colorado Individual Income Tax Returns, 1957

Exemptions per return	Returns filed: Number	Percent	Exemptions claimed: Number	Percent
1	163,949	31.2	163,949	11.5
2	115,265	22.0	230,530	16.1
3	76,791	14.6	230,373	16.1
4	93,222	17.8	372,888	26.1
5	43,415	8.3	217,075	15.2
6	19,576	3.7	117,456	8.2
7 and over	12,603	2.4	96,509	6.8
Total	524,821	100.0	1,428,780	100.0

[74] See Table 12.9.

On the basis of the survey data, the exemptions represented an average of 2.7 per return and an average deduction in taxable income of more than $2,000 per taxpayer. Approximately 30 percent of the taxpayers had only one exemption, almost 50 percent claimed at least three, and less than 15 percent were able to take five or more exemptions. The above percentage distribution essentially reflects the age and family structure of the Colorado population in 1957, but the table understates the actual number of exemptions per family to the extent that married individuals filed separate returns.[75] Moreover, the data also include the extra exemptions granted under the Colorado code to taxpayers who are blind or aged 65 or more, as shown below.

Table 12.24

Extra Exemptions for Taxpayers Aged 65 or More and/or Blind, Colorado Individual Tax Returns, 1957

Type	Returns filed		Exemptions claimed	
	Number	Percent	Number	Percent
Age 65 or more 1 exemption	36,606	69.9	36,606	55.0
Age 65 or more 2 exemptions	14,052	26.9	28,104	42.2
Total	50,658	96.8	64,710	97.2
Blind 1 to 3 exemptions[a]	1,703	3.2	1,840	2.8
Total	52,361	100.0	66,550	100.0

[a] Includes taxpayers who were blind *and* aged 65 or more.

Extra exemptions were reported by one out of every ten taxpayers filing Colorado tax returns and practically 97 percent of such exemptions were claimed by taxpayers aged 65 or more and only 3 percent by the blind. On the whole, the extra exemptions appear to have had a relatively small impact on the income tax base for they represented less than 5 percent of the total exemptions taken by all taxpayers, and dollarwise amounted to less than $50 million, or approximately 2 percent of the adjusted gross income reported on all returns.

Table 12.25 shows the distribution of the extra and regular exemptions reported on the 1957 tax returns classified by adjusted gross income.

There was a greater concentration of extra exemptions than of regular exemptions in the lowest income category—almost 80 percent of the former in contrast with about 60 percent of the latter. Also, the average number of regular exemptions per return rose from 2.3 to 3.4 with the increases in taxpayer incomes to the $10,000 level, and then varied inversely, dropping successively to an average of 2.7 per return for the top income class of $50,000 and more. However, as noted above,[76] it is important to bear in mind that the *actual tax saving* obtained from any single $750 personal exemption varied directly and significantly with taxable income, ranging from $75 for taxpayers subject to the 10 percent marginal rate to $7.50 for those in the lowest income bracket subject to the 1 percent rate. And, of course, this direct variation between tax savings and income levels also held for all the other personal expense deductions described above.

Table 12.25

Distribution of Personal Exemptions by Adjusted Gross Income Classes, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Extra exemptions		Regular exemptions		
	Number	Percent	Number	Percent	Average
$ 0 - $4,999	52,800	79.3	809,400	59.4	2.26
5,000 - 7,999	8,650	13.0	398,800	29.3	3.30
8,000 - 9,999	1,640	2.5	77,480	5.7	3.36
10,000 - 14,999	1,760	2.6	47,800	3.5	3.35
15,000 - 49,999	1,496	2.3	26,968	2.0	3.16
50,000 and over	204	0.3	1,782	0.1	2.66
Total	66,550	100.0	1,362,230	100.0	2.59

In addition to the normal exemptions the Colorado code permits taxpayers to take a special exemption against surtaxable income derived from interest and dividends. Currently it is $600 for a single individual and is limited to $1,200 on a joint return if both husband and wife each have surtaxable incomes of $600 or more. Table 12.26 shows the gross and net surtaxable income reported on the 1957 Colorado tax returns, classified by the adjusted gross income categories used above.

Table 12.26

Gross and Net Surtaxable Income Reported on All Individual Income Tax Returns Colorado, 1957

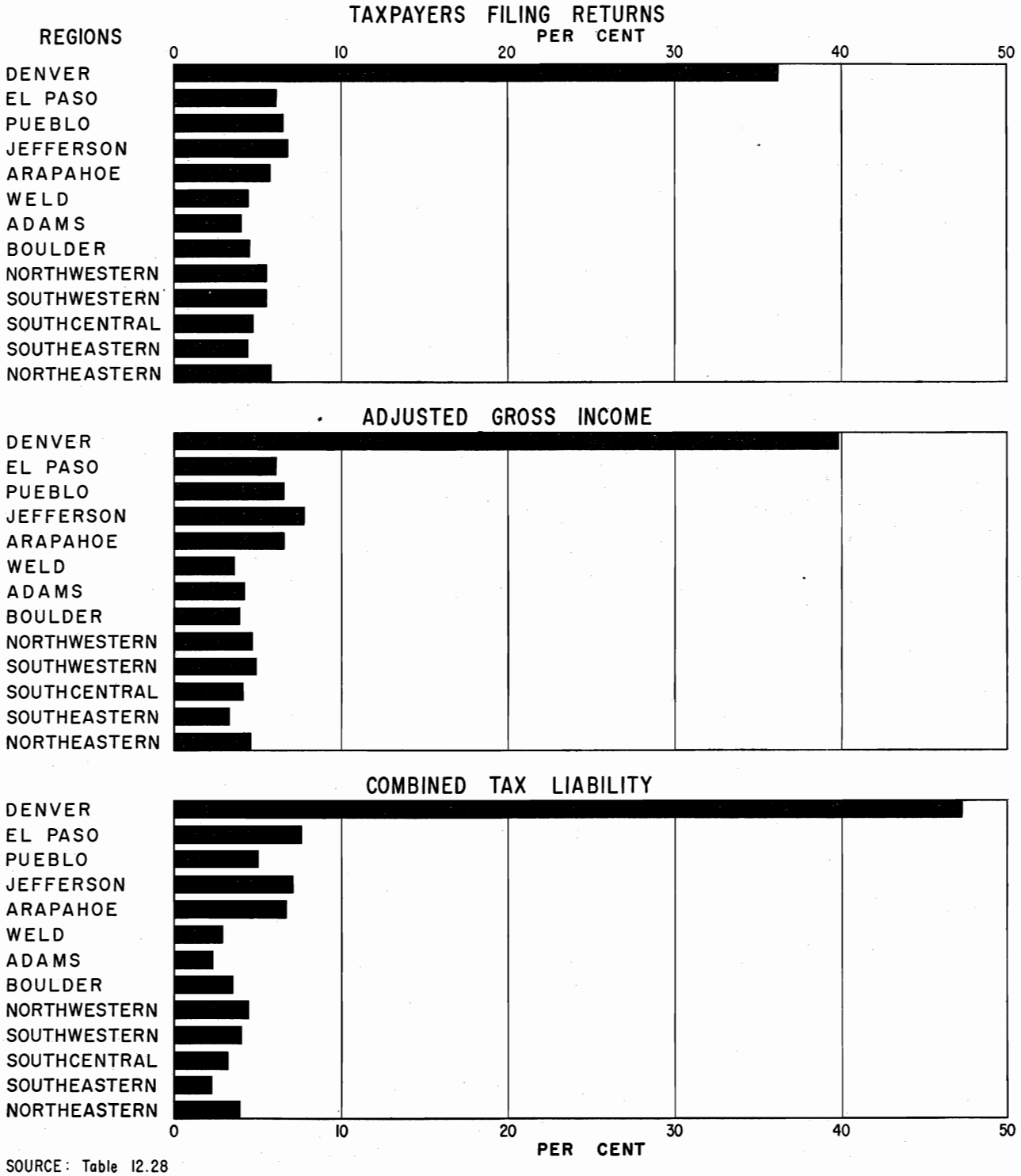
Adjusted gross income classes	Gross surtaxable income	Net surtaxable income	Net as percent of gross
A. Number of returns filed			
$ 0 - $4,999	45,900	11,550	25.2
5,000 - 7,999	30,200	5,450	18.1
8,000 - 9,999	9,420	2,220	23.6
10,000 - 14,999	8,220	3,330	40.5
15,000 - 49,999	6,532	3,840	58.8
50,000 and over	608	537	88.3
Total	100,880	26,927	26.7
B. Dollar amounts (in thousands)			
$ 0 - $4,999	$ 43,337	$13,725	31.7
5,000 - 7,999	16,051	8,865	55.2
8,000 - 9,999	8,524	5,503	64.6
10,000 - 14,999	13,291	10,045	75.6
15,000 - 49,999	29,262	24,417	83.4
50,000 and over	17,530	17,403	99.3
Total	127,995	79,958	62.5

On the basis of the above survey data, more than a hundred thousand of Colorado's half million taxpayers reported *gross* surtaxable income which amounted to $128 million. However, after surtax exemptions were deducted, less

[75] *Supra.*, Table 12.5.
[76] *Supra.*, p. 28.

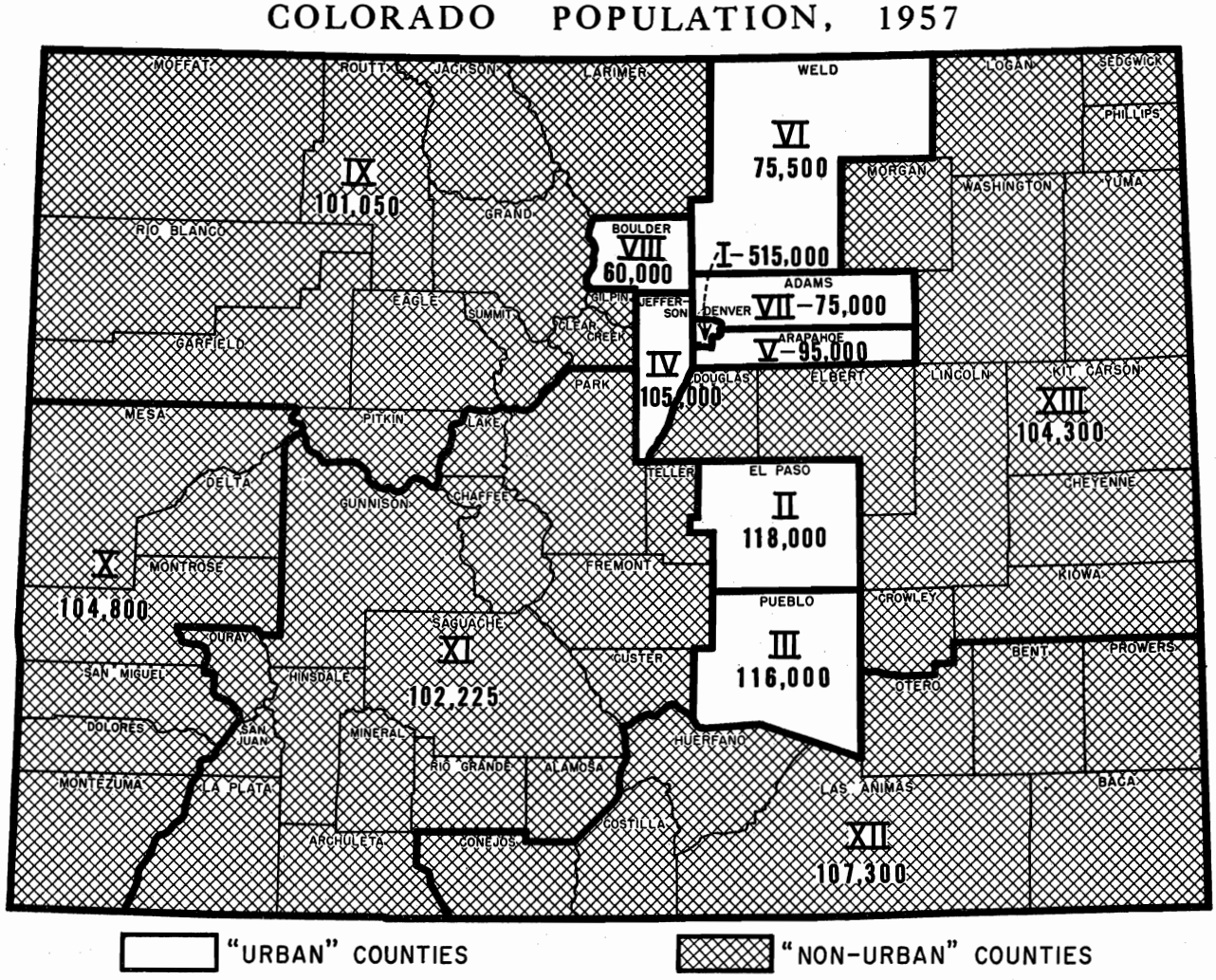
TOTAL NUMBER OF TAXPAYERS FILING RETURNS, ADJUSTED GROSS INCOME AND COMBINED TAX LIABILITY BY GEOGRAPHIC REGIONS, COLORADO INDIVIDUAL INCOME TAX RETURNS, 1957

(IN PERCENT)



SOURCE: Table 12.28

CHART 12.16



SOURCE: State of Colorado, State Planning Division, Colorado Year Book, 1956-1958

CHART 12.17

income, and tax reported on the 1957 tax returns. In brief, it is evident on the basis of the survey data that the personal income tax in Colorado works out to be essentially an urban tax due to the marked concentration of income, wealth and economic activity in the geographic band of metropolitan counties situated along the east-central slope of the State.

Table 12.29 and Chart 12.18 present the same basic data, classified by adjusted gross income categories.

Again in answer to the basic question of "Who pays the tax?" it is patently evident that in terms of income classes the overwhelming majority of taxpayers with adjusted gross incomes of less than $10,000 accounted for significantly less than half of the total tax reported on the 1957 returns.[78] These data primarily reflect the existent inequality and concentration of income before tax, the extensive erosion of the tax base, and the low marginal rates for the lowest taxable income brackets.

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[78]The above data are based on individual tax returns and should not be interpreted as family units, particularly in light of the substantial number of separate returns filed by married individuals—approximately 20 percent of the total of all 1957 tax returns.

Table 12.28

Number of Taxpayers, Adjusted Gross Income, and Tax Liability, Classified by Geographic Regions Based on Population, Colorado Individual Income Tax Returns, 1957

	Regions	July 1, 1957 Population[a] Total Number	Percent	Taxpayers filing returns Total Number	Percent	Adjusted gross income Amount (thousands)	Percent	Combined tax liability[b] Amount (thousands)	Percent
I	Denver County	515,000	30.7	187,791	36.2	$ 925,517	39.8	$ 8,582	47.2
II	El Paso County	118,000	7.0	31,544	6.1	140,961	6.1	1,375	7.6
III	Pueblo County	116,000	6.9	33,677	6.5	153,198	6.6	907	5.0
IV	Jefferson County	105,000	6.3	35,498	6.8	179,996	7.8	1,280	7.1
V	Arapahoe County	95,000	5.7	29,408	5.7	153,508	6.6	1,213	6.7
VI	Weld County	75,500	4.5	22,752	4.4	83,006	3.6	520	2.9
VII	Adams County	75,000	4.5	20,491	4.0	96,601	4.2	424	2.3
VIII	Boulder County	60,000	3.6	23,132	4.5	89,998	3.9	628	3.5
IX	Northwestern Counties[c]	101,050	6.0	28,299	5.5	109,025	4.7	788	4.4
X	Southwestern Counties[d]	104,800	6.2	28,435	5.5	112,854	4.9	720	4.0
XI	Southcentral Counties[e]	102,725	6.1	24,505	4.7	95,491	4.1	569	3.2
XII	Southeastern Counties[f]	107,300	6.4	23,082	4.4	75,981	3.3	389	2.2
XIII	Northeastern Counties[g]	104,300	6.2	29,800	5.8	106,202	4.6	702	3.9
	Total[h]	1,679,675	100.0	518,413	100.0	2,322,338	100.0	18,099	100.0
	Non-resident taxpayers	—	—	6,408	—	16,968	—	228	—
	Grand total	—	—	524,821	—	2,339,306	—	18,327	—

[a] State Planning Division, *Colorado Year Book, 1956-1958*, p. 277.
[b] Combined normal and surtax liability.
[c] Larimer, Garfield, Routt, Moffat, Rio Blanco, Eagle, Grand, Clear Creek, Pitkin, Jackson, Summit, Gilpin counties.
[d] Mesa, Delta, Montrose, Montezuma, San Miguel, Dolores counties.
[e] La Plata, Fremont, Rio Grande, Alamosa, Lake, Chaffee, Gunnison, Saguache, Archuleta, Teller, Ouray, Park, San Juan, Custer, Mineral, Hinsdale counties.
[f] Otero, Las Animas, Prowers, Conejos, Huerfano, Bent, Baca, Costilla Counties.
[g] Morgan, Logan, Yuma, Kit Carson, Washington, Lincoln, Crowley, Sedgwick, Phillips, Elbert, Douglas, Cheyenne, Kiowa counties.
[h] Totals may not equal sum of regions because of rounding.

It will be noted that individuals with incomes of less than $3,000, representing more than 37 percent of all taxpayers, had 13 percent of the adjusted gross income but were liable for only 4 percent of the total personal income tax. Of course, this group of taxpayers is composed of families and individuals with the lowest incomes—the reported adjusted gross income for the group averaged less than $1,600 per taxpayer—and such taxpayers with two or more exemptions would not be subject to any income taxation. For example, the survey data reveal that almost 100,000 nontaxable returns, or more than 70 percent of the total nontaxables, were filed by taxpayers with incomes of less than $3,000.

In the next category, taxpayers with incomes from $3,000 to $5,000, representing 31 percent of the returns, reported 28 percent of the total income and 12 percent of the tax. When the data are cumulated for all returns with incomes below $5,000, it appears that 68 percent of the taxpayers, with 41 percent of the adjusted gross income, accounted for only 16 percent of the total tax liability. Similarly, the percentages of the total tax accounted for by the next two categories in the income scale were less than their respective shares of the adjusted gross income, but by successively smaller amounts, as may be reasonably expected under a system of progressive taxation. Thus, taxpayers with incomes ranging from $5,000 to $10,000 represented another 27 percent of the returns and 40 percent of the income, but accounted for only 27 percent of the tax.

In contrast, taxpayers with reported incomes of $10,000 or more represented less than 5 percent of all taxpayers and 18 percent of the adjusted gross income, but as a group were liable for 57 percent of the total normal and surtax reported on the 1957 tax returns. However, it is important to note that the combined income tax liability for this small minority of taxpayers with incomes of $10,000 or more averaged less than *2.5 percent* of their reported adjusted gross incomes, and on the same basis it averaged only *.3 of 1 percent* for the vast majority of taxpayers with incomes below $5,000.

Table 12.29

Number of Taxpayers, Adjusted Gross Income and Tax Liability, Classified by Adjusted Gross Income Categories, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Total returns filed	Adjusted gross income (thousands)	Combined income tax liability[a] (thousands)
A. Number of taxpayers and dollar amounts			
$ 0 - $2,999	196,500	$ 312,881	$ 728
3,000 - 4,999	161,100	650,289	2,199
5,000 - 7,999	120,700	744,463	3,446
8,000 - 9,999	23,000	203,492	1,512
10,000 - 14,999	14,320	168,488	2,098
15,000 - 24,999	5,732	107,776	2,575
25,000 - 49,999	2,800	93,245	3,375
50,000 and over	669	58,672	2,395
Total[b]	524,821	2,339,306	18,328
B. Percentage distribution			
$ 0 - $2,999	37.4	13.4	4.0
3,000 - 4,999	30.7	27.8	12.0
5,000 - 7,999	23.0	31.8	18.8
8,000 - 9,999	4.4	8.7	8.3
10,000 - 14,999	2.7	7.2	11.4
15,000 - 24,999	1.1	4.6	14.0
25,000 - 49,999	0.5	4.0	18.4
50,000 and over	0.1	2.6	13.1
Total[b]	100.0	100.0	100.0

[a] Combined income tax liability of normal and surtax.
[b] Totals may not equal sum of items because of rounding.

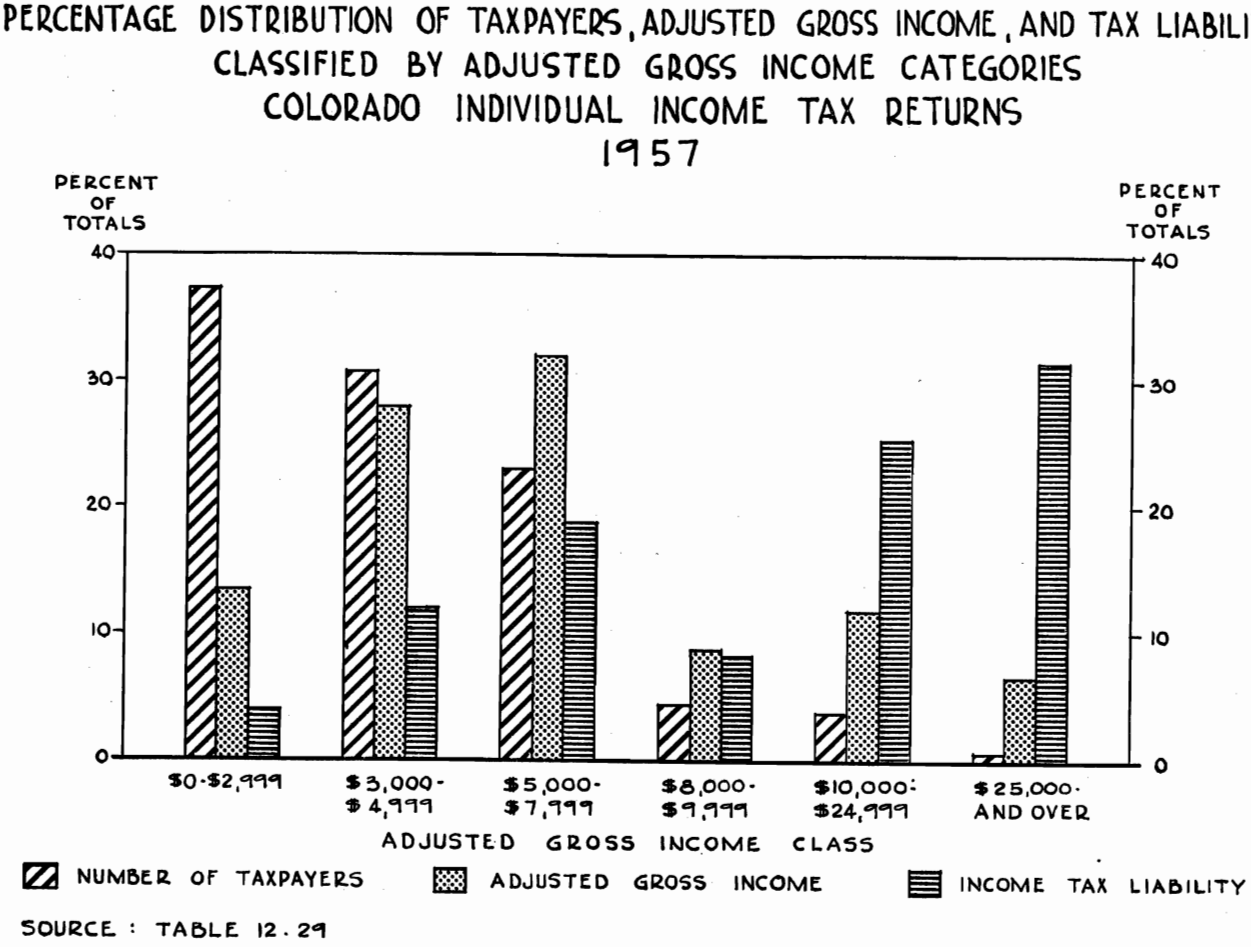


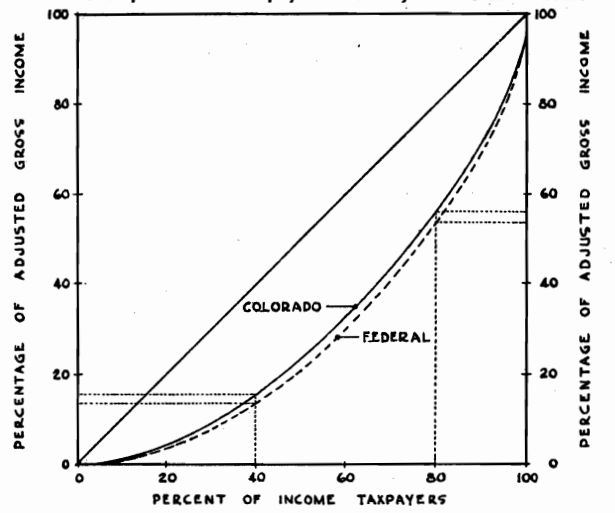
CHART 12.18

The relative progressivity of the Colorado income tax structure compared with that for the federal income tax is shown by the three diagrams on Chart 12.19. The federal distributions are based on the most recent available data — 1955 tax returns filed in 1956.[79] Diagram "A" relates the percentages of taxpayers, cumulated from the lowest income class to the highest, with the corresponding percentages of adjusted gross income reported on the State and federal returns. The 45° curve is the line of equal income distribution for it represents what the relationship would have been if the total dollar amount of adjusted gross income were distributed equally among all taxpayers, i.e., 20 percent of the taxpayers would account for 20 percent of the income, 40 percent of the taxpayers would account for 40 percent of the income, etc. The two curves below the 45° line are the cumulative percentage distributions of adjusted gross income actually reported on the State and federal returns, respectively. Thus the vertical distance by which the actual curve diverges from the 45° line may be considered a measure of the inequality in the distribution of adjusted gross income. It will be noted that the State and federal curves parallel each other rather closely, with the inequality being somewhat less for the State. For example, the 40 percent of State taxpayers with the lowest incomes accounted for approximately 16 percent of the total amount of adjusted gross income shown on the State returns, where as the same percentage of federal taxpayers accounted for 13 percent of the federal income. Similarly, 80 percent of State and federal taxpayers accounted for 58 and 54 percent of the respective State and federal total incomes. As already noted, the smaller degree of inequality on the State level is partly due to the fact that a considerably higher pro-

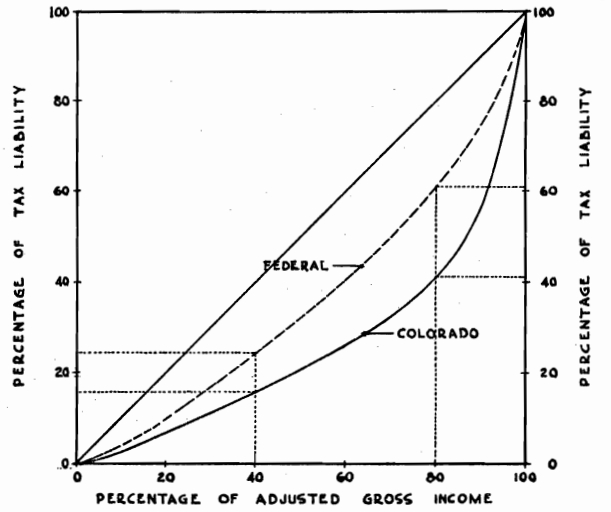
[79] U. S. Treasury Department, *Statistics of Income for 1955* (Washington, 1958), Table 1, p. 18.

RELATIONSHIPS BETWEEN ADJUSTED GROSS INCOME, NUMBER OF INDIVIDUAL INCOME TAXPAYERS AND TAX LIABILITY COLORADO, 1957, AND FEDERAL, 1955

A. Relationship Between Taxpayers and Adjusted Gross Income



B. Relationship Between Adjusted Gross Income and Tax Liability



C. Relationship Between Taxpayers and Tax Liability

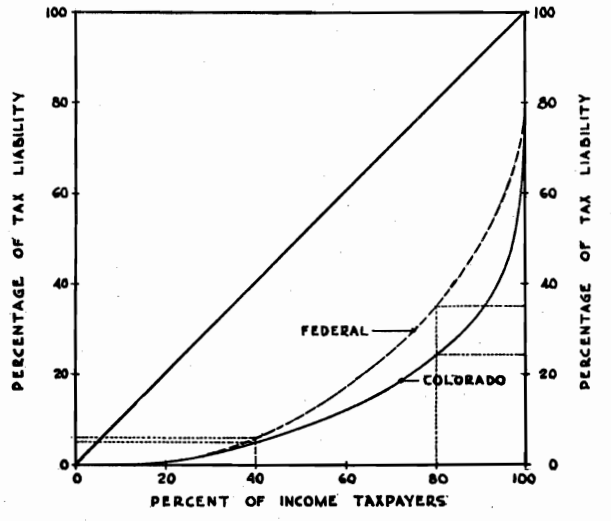


CHART 12.19

portion of separate returns were filed under the Colorado tax since it does not incorporate a split-income provision such as provided by the federal code which practically eliminates the advantage of separate filing for married individuals with independent incomes. In short, on the basis of Diagram "A" it appears that the degree of income inequality in both cases was essentially the same and, therefore, major differences between the relative distributions of State and federal income taxes must be attributed primarily to differences in personal expense deductions, exemptions and the progressivity of the respective tax structures.

Diagram "B" provides a comparative measure of income tax progressivity by relating the cumulative percentages of adjusted gross income with the corresponding percentages of tax liability. The 45° curve in this diagram represents what the relationship between income and taxes would be if a proportional, instead of progressive, rate structure were used, i.e., a uniform percentage rate for all levels of income so that 20 percent of the income would invariably produce 20 percent of the total tax, 40 percent of the income would produce 40 percent of the total tax, etc. Again the two curves below the 45° line represent the actual percentages of total taxes produced by the corresponding cumulated adjusted gross income reported on the State and federal returns. In this case, the vertical distances between the actual curves and the 45° line of proportional taxation measure the relative progressivity of the State tax structure in 1957 and the federal tax structure in 1955. For example, Diagram "B" shows that the 40 percent of total adjusted gross income reported by State taxpayers in the lowest income classes produced only 16 percent of the total state income tax, whereas the same percentage of income on the federal level produced 23 percent of the total tax. Similarly, the 80 percent of income accounted for by State taxpayers cumulated from the bottom produced 41 percent of the tax; whereas on the federal level the same percentage of income produced more than 60 percent. Reversing the analysis and cumulating from the top down, the diagram shows that taxpayers in the highest income categories who accounted for 20 percent of the total income actually were liable for 59 percent of the total tax on the State level and less than 40 percent on the federal level. Thus, with the State curve falling below the Federal curve it is evident that the former was markedly more progressive than the latter.

Diagram "C" indicates the comparative progressivity of the two tax structures by relating the cumulative percentage of taxpayers with corresponding percentages of tax liability. In this diagram the 45° curve represents what the distribution of the tax would be if all taxpayers were liable for exactly the same dollar amount

of income tax so that 20 percent of the taxpayers would pay 20 percent of the tax, 40 percent would pay 40 percent of the tax, etc. The vertical distance by which the actual curves diverge from the 45° line of equal dollar taxation also may be considered a measure of the progressivity of the state and federal tax structures. Although the State and Federal curves practically parallel each other for the 40 percent of taxpayers with the lowest incomes, primarily because of the concentration of nontaxable returns in these income categories, it will be noted that the 80 percent of State taxpayers with the lowest incomes paid only 24 percent of the total State tax, while the same percentage of federal taxpayers were liable for more than 34 percent of the total federal tax. Since the State curve falls below the Federal, again it is apparent that the Colorado income tax structure is comparatively more progressive than the federal tax structure. However, it is important to bear in mind that the relative progressivity of a tax structure does not indicate either the actual magnitude or burden of the tax. Obviously, a highly progressive but insignificant tax does not offset the effects of a quantitatively important but regressive tax—either in terms of revenue or equity. As already noted in the preceding sections, on the basis of interstate comparisons, the 1957 Colorado income tax actually worked out to be significantly below the national averages for all the income tax levying states whether measured in terms of per capita tax, total tax collections, personal income received, or computed tax liability for varying levels of income. Without considering at this point the extent to which reciprocal federal-state income tax deductibility further reduced the real tax burden, it is patently evident that the Colorado income tax has not proven to be heavy or burdensome for any broad income category of taxpayers, notwithstanding its comparatively high degree of progressivity.

Table 12.30 and Chart 12.20 present a distribution by size of the actual dollar amounts of income tax liability incurred by Colorado taxpayers on their 1957 tax returns.

Table 12.30

Number of Taxpayers Classified by Size of Tax Liability Colorado Individual Income Tax Returns, 1957

Dollar amount of tax liability[a]	Taxpayers filing returns: Number		Cumulated number	
	Total	Percent	Total	Percent
None	133,728	25.5	133,728	25.5
$ 1 - $ 5	78,139	14.9	211,867	40.4
6 - 10	66,292	12.6	278,159	53.0
11 - 15	45,792	8.7	323,951	61.7
16 - 20	44,140	8.4	368,091	70.4
21 - 30	54,453	10.4	422,544	80.5
31 - 50	46,960	9.0	469,504	89.5
51 - 100	32,236	6.1	501,740	95.6
101 - 500	17,646	3.4	519,386	99.0
501 - 1,000	2,846	0.5	522,232	99.5
1,000 and over	2,589	0.5	524,821	100.0
Total	524,821	100.0	—	—

[a] Combined normal tax and surtax liability.

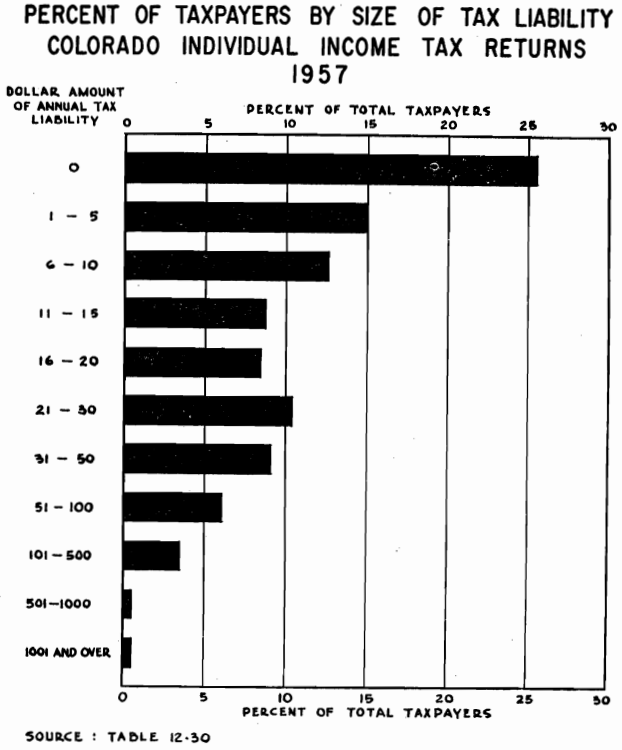


CHART 12.20

Perhaps more strikingly than any other single set of data the above table reveals the extent to which Colorado taxpayers are nominally bearing the cost of state government through personal income taxation. First, it should be noted that more than a fourth of all individuals filing returns, approximately 134,000, paid neither normal tax nor surtax on their 1957 reported income. Another 78,000 incurred a total income tax which ranged from $1 to $5. Thus, for some 200,000 taxpayers, representing 40 percent of all individuals filing returns, the personal income tax was less than $5 for the year. In other words, for 40 percent of the State's taxpayers the net reduction in "take-home" pay or income due to the imposition of the Colorado income tax actually amounted to less than 10 cents a week. Similarly, on a cumulated basis more than half the taxpayers paid a tax of $10 or less, and three-fourths paid a tax of $25 or less for the year. Since it cost the State on the average more than $2 to process a single income tax return,[80] it would appear that a large part of the Department of Revenue's personal income tax collec-

[80] State of Colorado, Department of Revenue, *Sixteenth Annual Report*, 1957, Tables 12 and 16. This report only shows combined administration and collection costs for all income taxes (personal, corporate and oil and gas) on a fiscal-year basis. It amounted to $1,085,735 for fiscal year 1957, and the average number of returns, exclusive of partnership information returns, for calendar years 1956-57 was 501,150. Thus, on the basis of these data, the over-all average cost of processing a return was $2.15 for fiscal year 1957.

tion and administration activity takes on the character of "pouring water in a bushel basket."

With regard to tax liabilities at the upper end of the income scale, less than 5 percent of all taxpayers had a combined normal and surtax in excess of $100 a year, and less than 1 percent paid state income taxes in excess of $500. Moreover, the above amounts of tax liability did not constitute the real or effective state income tax burden since practically all taxpayers in these categories were able to use their state income taxes as legal expenses against their federal tax liability. Without considering at this point the effect of reciprocal income tax deductibility on tax burdens, it is evident on the basis of the survey data that for the overwhelming majority of Colorado taxpayers the nominal amount of personal income tax liability incurred in 1957 was significantly less than the other taxes they paid, particularly sales and excises, for the financing of state government.[81]

Finally, a measure of the relative magnitude of the personal income tax for the major income categories of Colorado taxpayers is obtained by expressing the combined normal tax and surtax liability as percentages of the total amounts of taxable income reported on the 1957 returns, as shown by the following table.

Table 12.31

Normal Tax, Surtax, and Total Income Tax Liability, Classified by Adjusted Gross Income Categories, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Normal tax liability (thousands)	Surtax liability (thousands)	Total income tax liability (thousands)	Total net income before tax[a] (thousands)	Total tax as a percent of net income
$ 0 - $4,999	$ 2,652	$ 275	$ 2,927	$263,768	1.11
5,000 - 7,999	3,269	177	3,446	253,156	1.36
8,000 - 9,999	1,402	110	1,512	89,602	1.69
10,000 - 14,999	1,897	201	2,098	91,369	2.30
15,000 - 49,999	5,462	488	5,950	135,703	4.38
50,000 and over	2,047	348	2,395	45,219	5.30
Total	16,279	1,599	18,328	878,817	2.09

[a] Combined net taxable income and net surtaxable income.

The data reveal that of the combined income tax liability, the normal tax represented over 91 percent and the surtax slightly less than 9 percent of the total. The latter, however, was more highly concentrated than the normal tax among taxpayers in the upper income categories. Less than one-third of the individuals reporting surtax had incomes above $10,000, but as a group they accounted for approximately two-thirds of the total surtax liability. Because the tax is levied at a proportional rate of 2 percent the relative liability was, of course, uniform for taxpayers in all income categories.

[81] For example, it is estimated that the Colorado state sales tax averaged $57 a year for families with before-tax income of $4,000 to $5,000. See Chapter VIII, below of this study.

As may be reasonably expected, the total income tax liability expressed as a percentage of the net tax base varied directly with the levels of income, ranging from 1.1 percent for the vast majority of taxpayers with incomes of less than $5,000 to 5.3 percent for the very small minority in the top income category of $50,000 and over. Notwithstanding the propressive rate structure, the combined tax liability on an over-all basis averaged only 2.1 percent of the total normal and surtaxable income base, and less than .8 of 1 percent of the adjusted gross income reported on all 1957 tax returns.

Tax Burdens and Reciprocal Tax Deductibility

The preceding analysis of the distribution of the State income tax liability does not necessarily reflect the magnitude nor progressivity of the true tax burden. As indicated above, it is important to distinguish marginal or incremental tax costs from average costs, particularly since the former are invariably larger under a statutory tax rate structure which is progressive. Similarly, it would be misleading if the nominal tax burden, whether expressed in marginal or average terms, were not distinguished from the real or effective tax burden. In the case of state income taxation, the nominal burden is represented by the tax liability, i.e., the amount of tax the individual pays and the state collects; whereas, the real burden is measured by the net increase in tax cost which may be attributed to the imposition of the state tax i.e., the net amount by which a taxpayer's state and federal income tax liability *combined* exceeds the federal tax he would have paid in the absence of any state income tax. If federal and state income taxes were not used as partial offsets against each other, the nominal and effective tax burdens would be identical. The federal code, however, permits the deduction of all state income taxes in the computation of taxable income for the federal tax purposes and, in turn, about half of the states which levy income taxes, including Colorado, permit the full deductibility of the federal tax.[82] Thus, each tax reduces the liability on the other, and it is this reciprocal deductibility which gives rise to the difference between the net increase in cost to the taxpayer and the amount of income tax collected by the state.

Table 12.32 compares the nominal and real marginal costs of the Colorado income tax on

[82] *Supra*, Table 12.6. However, it is important to note that the State permits federal income tax deductibility on all types of returns—itemized, standard and optional—but the federal code permits the deduction of state income taxes only on itemized returns. Thus, an increase in state income tax cannot be used as an offset against the federal tax by taxpayers who, when filing federal returns, use the table or take the standard deduction. The majority of taxpayers with incomes of $10,000 or more filed federal returns on an itemized basis in 1956. See U. S. Treasury, *Statistics of Income for 1955*, Tables 1 and 5.

$100 of additional income received by taxpayers at varying levels of *net income* after all legal expenses and exemptions, exclusive of income taxes paid, have been deducted. In order to simplify the analysis it is assumed the taxpayer is a single individual, the additional income is not derived either from capital gains or intangible assets subject to surtax, and that the taxpayer itemizes personal expense deductions on his federal return. Since the dollar amounts of tax liability shown in the table are based on $100 increments of income, they actually represent the percentage rates of taxation on net income before any income tax paid.

Table 12.32

Nominal and Effective Marginal Tax Costs on $100 Increments of Net Income for Single Taxpayer Under the Colorado Individual Income Tax, 1957

Taxpayer net income before any income tax[a]	(1) State income tax liability and revenue	(2) Combined federal and state tax liability	(3) Federal tax liability if no state income tax	(4) Net (real) cost of state income tax to taxpayer
$ 3,000	$1.57	$23.23	$22.00	$1.23
7,000	2.83	31.98	30.00	1.98
11,000	4.46	40.77	38.00	2.77
17,000	5.26	52.63	50.00	2.63
19,000	4.96	55.33	53.00	2.33
21,000	4.66	58.05	56.00	2.05
29,000	4.05	63.59	62.00	1.59
55,000	2.70	75.67	75.00	.67
175,000	1.10	90.11	90.00	.11

[a] Levels of income are the midpoints of selected income brackets for federal tax and are net of all deductions and exemptions, except for federal and state income taxes paid.

The real cost of the state income tax (column 4) at all levels of income is significantly less than the amount paid to the State (column 1). For example, under conditions of mutual deductibility, a taxpayer at the $3,000 level of income who received an additional $100 of taxable income would pay on the increment of income a *combined* federal-state tax of $23.23, of which $1.57 would represent the amount paid to the State.[83] In the absence of any state tax, however, the full $100 would have been subject to the federal statutory rate of 22 percent, or $22.00 of tax liability. Therefore, the net cost of the state income tax to the taxpayer is the $1.23 difference between the $23.23 of combined tax liability (column 2) and the $22.00 of federal tax taken alone (column 3), or 1.23 percent of the net marginal income before any tax. In other words, the taxpayer's real tax burden would amount to 78 percent of each tax dollar paid to the State, and the remaining 22 percent would be absorbed by the federal government since it represents the federal tax loss due to the deductibility of the state tax.

This difference between the nominal and effective cost of the State income tax becomes significantly greater for taxpayers in the higher income categories. A taxpayer with net income of $17,000 in the 50 percent federal tax bracket pays his state income tax with 50¢ after-federal-tax dollars, and his nominal tax liability of $5.26 is cut in half. Although the statutory rate under Colorado code at this income level is 10 percent, the nominal rate with mutual deductibility is 5.26 percent and the real state income tax burden works out to be only 2.63 percent. Similarly, taxpayers with incomes in the 90 percent federal tax bracket[84] are able to pay their state income taxes with extremely cheap 10¢ after-federal-tax dollars, or $9 out of every $10 of state income tax receipts in this case is indirectly financed by the federal government. For such taxpayers the real tax burden on a $100 increment of income turns out to be only 11¢ or 1/10 of 1 percent of the net income before tax. Thus, when reciprocal tax deductibility is taken into consideration the effective marginal rates of the personal income tax actually become regressive above the $11,000 income level, notwithstanding the progressivity of the statutory rate structure.

It should be noted that although the net amounts of federal and state income taxes are both reduced by mutual deductibility, the percentage absorption of state tax by the federal government is essentially a function of the taxpayer's federal tax because of its significantly higher rate structure. Thus, the ratio of the nominal burden to effective burden for the state income tax results from taking the state tax as a deduction against the federal tax, and not the reverse. This means that the elimination of the federal tax, in whole or in part, as an allowable expense deduction on the state returns could only reduce the percentage of state tax currently absorbed by the federal government to the extent that some taxpayers would be shifted to a lower federal tax bracket. Moreover, the differential tax burdens between states is reduced by taking the state tax as a partial offset against the federal, and not the reverse. For example, a Colorado taxpayer with an income of $55,000 before state or federal income tax, subject to the state marginal rate of 10 percent, would be able to reduce his marginal tax bill by only .67 percent if he moved to a state which levied no personal income tax but had a similar tax structure in all other respects.[85]

[83] Computation of state and federal income tax liabilities under conditions of reciprocal deductibility was based on the following equations: $X = r_x(\$100 - Y)$ and $Y = r_y(\$100 - X)$, when X=federal tax, Y=state tax, r_x=federal statutory (bracket) rate, and r_y=state statutory (bracket) rate.

[84] On federal returns the 90 percent bracket for single individuals is $150,000 to $200,000, but for married individuals filing jointly, it is $300,000 to $400,000 because the federal code incorporates a split-income provision in its rate structure.

[85] If all states had identical personal income distributions and state income tax structures, no single state could benefit from the federal provision permitting deductibility of state income taxes, particularly since the total amount of revenue required by the federal government is essentially determined by the level of federal expenditures. However, to the extent that all states do not have either the same distributions of income or personal income tax structures, those states which rely more heavily on income taxation, in effect, are financing part of their state expenditures at the expense of taxpayers in the other states. Of course, it also holds for other forms of state taxation which are likely to be reported and fully utilized as deductions on itemized federal tax returns.

In short, it is evident that as a result of the existent pretax income structure, the extensive erosion of the tax base, the relatively low marginal rates for the bottom tax brackets, and the indirect absorption of a substantial part of the state tax by the federal government, the Colorado personal income tax has not proven to be a substantial source of state revenue nor has it imposed an unduly heavy tax burden on the Colorado taxpayer.

Estimates of the Effects of Selected Income Tax Revisions

On the basis of the preceding detailed survey it is possible to estimate the effects on State revenues and taxpayer costs of revisions in the following seven features of the present code:

1. Personal exemption provision
2. Federal income tax deductibility
3. Special treatment of capital gains income
4. Special $75 minimum for travel allowance
5. Surtax on income from intangible assets
6. Medical expense allowance
7. Basic statutory rate structure, particularly the lower tax brackets.

The impact of such revisions on different classes of taxpayers may be gauged by applying the percentage changes in revenues to the average income tax liability reported on all 1957 Colorado individual income tax returns shown in the table below.

Table 12.33

Average Combined Normal and Surtax Liability, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Total number of returns filed	Total income tax liability (thousands)	Average combined tax liability
$ 0 - $ 4,999	357,600	$ 2,927	$ 8.19
5,000 - 7,999	120,700	3,445	28.54
8,000 - 9,999	23,000	1,512	65.74
10,000 - 14,999	14,320	2,098	146.51
15,000 - 49,999	8,532	5,950	697.37
50,000 and over	669	2,396	3,581.46
Total	524,821	18,328	34.92

It must be borne in mind that the figures presented in the following tables are based on 1957 returns, filed in 1958, and therefore, do not take into account subsequent changes in the level of income and pattern of income distribution. Also the real or effective costs to the taxpayers are considerably less than the stated increase in revenues since taxpayers who itemize their deductions on federal returns, generally those in the upper income categories, will use the increase in state taxation as an offset against their federal income tax liability. For example, the federal government indirectly will finance one-half of any state income tax increase for taxpayers in the 50 percent federal bracket class. Therefore, the data provide conservative estimates of the magnitude, distribution and costs to the taxpayer of possible legislative changes in the Colorado income tax which would raise additional General Fund revenues and at the same time result in a more equitable and balanced tax structure. As such the tables and analyses presented below should prove to be useful guides for tax policy.

1. Personal Exemptions. The largest single factor accounting for the shrinkage of the tax base in 1957 was the personal exemption deduction which exceeded $1 billion. The estimated impact on State revenue and taxpayer cost of an additional $100 increase or decrease in the value of the exemptions, in terms of the 1957 rate structure, is shown below.

Table 12.34

Estimated Effect on Revenue and Taxpayer Cost of a $100 Revision in the Personal Exemption Deduction, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Amount of change in state revenue (thousands)	Percentage change relative to 1957 tax
$ 0 - $ 4,999	$ 684	23.4
5,000 - 7,999	533	15.5
8,000 - 9,999	130	8.6
10,000 - 14,999	114	5.4
15,000 - 49,999	137	2.3
50,000 and over	15	0.6
Total	1,613	8.8

On the basis of the data, it appears that every $100 of personal exemption reduces State revenues by more than $1.6 million. It is evident that the impact of any revision in the value of the exemption is mainly concentrated in the lower income categories for more than four-fifths of all personal exemptions are claimed by taxpayers with incomes of less than $8,000. Since the percentage change in tax liability resulting from the alteration of the exemption varies inversely with income levels, raising the value of the exemptions makes the tax structure more progressive. For example, the 1957 legislative action, which concurrently increased the exemptions by $150 and reduced the tax credit from 20 to 15 percent, resulted in a net tax reduction of approximately $1.5 million for more than 80 percent of all Colorado personal income taxpayers. The cost of the exemption increase to the State was about $2.4 million, and the change in net rates yielded approximately $.9 million. Also, an estimated 50,000 individuals paid no tax on their 1957 incomes who otherwise would

have incurred some tax liability as a result of the exemption increase. Because of the lack of adequate statistical data at the time these income tax revisions were made, neither the Administration nor the Legislature could accurately estimate what the net effect of such changes would be on state revenue or taxpayer costs.

2. Federal Income Tax Deductibility. As noted, the quantitatively most important single personal expense deduction taken on the 1957 returns was the federal income tax which amounted to practically one-half of the total deductions claimed by all taxpayers on their 1957 returns. Table 12.35 shows the increased State revenues and taxpayer cost which would result from partially or wholly eliminating the federal income tax deductibility provision from the present Colorado personal income tax code.

Table 12.35

Increased State Revenue and Taxpayer Cost of Selected Changes in Deductibility of Federal Income Tax Provision, Colorado Individual Income Tax, 1957

Adjusted gross income classes	"A" Deductibility of $300 of federal income tax permitted	"B" Deductibility of 10 percent of federal tax permitted	"C" No deductibility of federal income tax permitted
A. Amount of increase in State revenues (thousands)			
$ 0 - $ 4,999	$ 641	$ 919	$ 1,024
5,000 - 7,999	849	1,278	1,458
8,000 - 9,999	543	658	739
10,000 - 14,999	887	950	1,092
15,000 - 49,999	3,392	3,277	3,658
50,000 and over	2,029	1,891	2,098
Total	8,341	8,973	10,069
B. Percentage increase over 1957 tax liability			
$ 0 - $ 4,999	21.9	31.4	35.0
5,000 - 7,999	24.6	37.1	42.3
8,000 - 9,999	35.9	43.5	48.9
10,000 - 14,999	42.3	45.3	52.0
15,000 - 49,999	57.0	55.1	61.5
50,000 and over	84.7	78.9	87.6
Total	45.5	49.0	54.9

Alternative "A" would permit taxpayers to take up to $300 of their federal tax as a personal expense deduction in the computation of their state net taxable income. Such a change would conservatively yield more than $8 million of additional revenue to the State, and cost the taxpayer considerably less because of the large amount which would be absorbed, in effect, by the federal government as a result of deductibility. It is estimated that approximately one-half of all taxpayers would be affected, but only one-third of those with incomes of less than $5,000. In other words, the percentage increase in tax cost would be progressive by income categories.

The distribution of the effective tax burden would be less progressive if a fixed percentage of the federal tax rather than a lump sum was used as the deductibility limit. For example, as illustrated by alternative "B", if the Colorado taxpayer were permitted to deduct only 10 percent of his federal tax on the state returns, the additional state revenue would approximate $9 million. Under this example, more than three-fifths of the taxpayers would be affected, and almost one-half of those in the lowest income category. Of course, changing the percentage limit would result in coresponding changes in state revenue and taxpayer cost, but it would not materially affect the progressivity or relative distribution of the real tax burden.

As already indicated, one-third of the states which levy personal income taxes *do not permit any deduction* of federal income tax in the computation of the state tax liability.[86] If Colorado should adopt such a provision, as shown by alternative "C", it is estimated on a conservative basis that the State would obtain more than $10 million in additional revenue. In this case the number of taxpayers affected and the relative distribution of this tax burden by income categories would be similar to that of alternative"B" and again significantly less progressive than alternative "A". Moreover, it is important to note that if the latter were adopted it would eliminate with one clean sweep what is probably the most awkward, intricate and troublesome feature of the present state tax from the standpoint of compliance for most taxpayers other than those who use the tax table—namely, the completion of Schedule I of Form 104 which requires the computation of the federal tax deduction on a net cash basis.

3. Special Treatment of Capital Gains Income. Revision of the present code to close the so-called "capital gains loophole" would require the inclusion in the normal tax base of 100 percent of all net capital gains, regardless of the length of time the assets were held by taxpayers. Table 12.36 indicates what the increased State revenues and taxpayer costs would be if the Colorado code were modified to eliminate the special treatment of this form of income.

Table 12.36

Estimated Increase in State Revenue and Taxpayer Cost If 100 Percent of Net Capital Gains Included in Normal Tax Base, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Amount of increase in State revenue (thousands)	Percentage increase over 1957 tax liability
$ 0 - $ 4,999	$ 134	4.6
5,000 - 7,999	70	2.0
8,000 - 9,999	37	2.4
10,000 - 14,999	102	4.9
15,000 - 49,999	417	7.0
50,000 and over	641	26.8
Total	1,401	7.6

[86] *Supra*, Table 12.6.

The revision of his provision would yield $1.4 million of additional State revenue. In this case, the federal government in effect would indirectly absorb a large percentage of the increased cost since the capital gains are highly concentrated in the upper income groups which are subject to the highest federal tax rates. For example, on the basis of the data less than 10 percent of the Colorado taxpayers reported long-term capital gains on their 1957 returns, and among those that did the 2 percent with incomes of $10,000 or more accounted for more than 50 percent of the total net long-term capital gains reported on all returns. Moreover, the very small minority of taxpayers reporting capital gains who had incomes in excess of $50,000 actually represented less than 1/10 of 1 percent of all taxpayers but as a group they accounted for more than 20 percent of the total amount of capital gains. The average long-term capital gain in this category was slightly more than $34,000 per taxpayer, of which only 50 percent was subject to state tax. And if such gains were included in the State's normal tax base at 100 percent, approximately two-thirds of the increased tax cost would be absorbed by the federal government and the taxpayer's incremental real cost would be less than one-third of the additional revenue received by the State.

4. Special $75 Minimum Travel Allowance. As noted, the Colorado income tax code is somewhat distinctive in its treatment of travel expense. It permits the taxpayer to deduct all expenses incurred in commuting to and from any place of employment, with a flat minimum of $75 which may be taken in lieu of itemizing the actual expense. Table 12.37 below shows the estimated revenue and cost effects which would result from the elimination of this provision.

Table 12.37

Estimated Increase in State Revenue and Taxpayer Cost If $75 Minimum Travel Allowance Not Permitted as Deduction on Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Amount of increase in State revenue (thousands)	Percentage increase over 1957 tax liability
$ 0 - $ 4,999	$138	4.7
5,000 - 7,999	94	2.7
8,000 - 9,999	20	1.3
10,000 - 14,999	15	0.7
15,000 - 49,999	13	0.2
50,000 and over	1	*
Total	281	1.5

* Less than 1/100 of 1 percent.

On the basis of the survey data almost 300,000 taxpayers claimed a travel expense deduction which averaged $150 per return. If the provision were revised to allow only itemized travel expenses in excess of $75, it is estimated the State would obtain less than $300,000 of additional revenue, with the major cost borne by taxpayers with incomes of less than $5,000. However, even for these taxpayers the increased cost would be minimal, less than 40¢ per taxpayer per year, since the average income tax for this group amounted to only $8.19 during 1957. In short, revision of the travel expense allowance would not have any appreciable effect upon state revenues or taxpayers cost, but should be considered in terms of simplifying taxpayer compliance by bringing this feature of the Colorado statute in closer accord with the federal code.

5. Surtax on Income from Intangible Assets. Another unique provision of the Colorado income tax has been the levying of the 2 percent surtax on income derived from intangible assets —primarily interest and dividends. As in the case of the special treatment of long-term capital gains, designating a particular source of income for either lighter or heavier taxation under the personal income tax inevitably results in "horizontal" inequities between taxpayers who in other respects are in similar economic circumstances. The effect of the elimination of the surtax on State revenue and taxpayer real savings is shown below.

Table 12.38

Estimated Decrease in State Revenue and Taxpayer Cost If Surtax on Income from Intangibles is Eliminated from Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Amount of decrease in State revenue (thousands)	Percentage decrease in 1957 tax liability
$ 0 - $ 4,999	$ 257	9.4
5,000 - 7,999	177	5.1
8,000 - 9,999	110	7.3
10,000 - 14,999	201	9.6
15,000 - 49,999	488	8.2
50,000 and over	348	14.5
Total	1,599	8.7

It is estimated that the loss in State revenue from such a revision in the tax would amount to $1.6 million. On the basis of the survey data almost two-thirds of the 27,000 taxpayers who would benefit had incomes of less than $8,000 in 1957. (See Table 12.26.) Although the largest nominal saving would accrue to taxpayers with incomes in excess of $50,000, the largest percentage of taxpayer real saving would be enjoyed by taxpayers with incomes of less than $5,000.

6. Medical Expense Allowance. The personal income tax is widely accepted as the fairest of taxes because it takes into consideration, in addition to income, variations in the taxpayers' size of family, physical infirmities of old age and blindness, and extraordinary drains on family income due to serious illness and accidents. With regard to the latter, however, the Colorado code is less generous than the federal govern-

ment in that it permits the deduction of only those expenses in excess of 5 percent of adjusted gross income. On the basis of the survey data the medical expense allowance reported on all 1957 tax returns was dollarwise the least important of the itemized deductions, and it was claimed by less than one-eighth of the taxpayers, mainly concentrated in the lowest income category. Serious consideration should be given to liberalizing this provision. Table 12.39 below shows what the estimated effect on State revenue and taxpayer cost would be if Colorado should revise the medical expense deduction: (a) to conform with the federal provision which allows such expenses in excess of 3 percent of the adjusted gross income, as is the present practice in eight other income tax states; or (b) to allow as legal deductions the entire medical expense incurred by a family as is currently done in Arizona and Minnesota.

Table 12.39

Estimated Decrease in State Revenue and Taxpayer Cost of Selected Changes in Medical Expense Deduction on Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Amount of decrease in State revenue (thousands)	Percentage decrease in 1957 tax liability
A. Allowance in excess of 3 percent of adjusted gross income		
$ 0 - $ 4,999	$ 21	0.7
5,000 - 7,999	42	1.2
8,000 - 9,999	13	0.9
10,000 - 14,999	12	0.6
15,000 - 49,999	16	0.3
50,000 and over	4	0.2
Total	108	0.6
B. Allowance of full medical expense[a]		
$ 0 - $ 4,999	$ 53	1.8
5,000 - 7,999	102	3.0
8,000 - 9,999	32	2.1
10,000 - 14,999	29	1.4
15,000 - 49,999	40	0.7
50,000 and over	9	0.4
Total	265	1.4

[a] Based only on returns which reported medical deductions.

It will be noted that if alternative "A" were followed the loss in State revenue would be only about $100,000. This appears to be a very small cost for achieving greater equity and taxpayer convenience which should result from conforming more closely with the federal provision. In the case of alternative "B" it is estimated that the loss to the State would be less than $300,000, but this is somewhat understated for it does not take into account the additional taxpayers who would also take medical deductions if there were no adjusted gross income limitation. In the aggregate the taxpayer savings under either alternative do not appear to be very large—on the average about 1 percent of the total tax liability. However, it could prove to be quite significant for the individual family struck with a catastrophic illness or accident during the taxable year and, perhaps more importantly, such liberalizing revisions of the code would help to improve taxpayer morale with regard to the equity and fairness of the tax burden.

7. Statutory Bracket Rates. Notwithstanding the possible revision of the tax base, in light of the entire preceding analysis consideration must be given to raising the relatively low statutory rates for the bottom tax brackets if the Colorado income tax is to be broadened to the point where it actually serves as the major fiscal instrument for meeting the State's continuing need for increased General Fund revenues.

Table 12.40 shows three hypothetical tax structures which would raise the normal rates in the lower brackets while retaining or reducing the present rates for the upper brackets. It should be noted, however, that all taxpayers with any taxable income would be affected by an upward revision of the first bracket rate.

Table 12.40

Possible Alternative Normal Tax Rate Structures for the Colorado Individual Income Tax

Net Taxable income brackets	1958 marginal rates	Alternative hypothetical rate structures "A"	"B"	"C"
$ 0 - $ 1,000	1.0	2.0	3.0	3.0
1,001 - 2,000	1.5	2.5	3.25	3.5
2,001 - 3,000	2.0	3.0	3.5	4.0
3,001 - 4,000	2.5	3.5	3.75	4.5
4,001 - 5,000	3.0	4.0	4.0	5.0
5,001 - 6,000	4.0	4.5	4.5	5.5
6,001 - 7,000	5.0	5.0	5.0	6.0
7,001 - 8,000	6.0	6.0	6.0	6.5
8,001 - 9,000	7.0	7.0	7.0	7.0
9,001 - 10,000	8.0	8.0	8.0	7.5
10,001 - 11,000	9.0	9.0	9.0	8.0
11,001 and over	10.0	10.0	10.0	8.0

Schedule "A" starts at 2 percent, the beginning rate used in eight other income tax states, and then matches the present Colorado statutory rate structure at 5 percent and above. Schedule "B" starts at 3 percent, the beginning rate currently in effect in Oregon and North Carolina,[87] and then parallels schedule "A" for taxable income in excess of $4,000. Finally, schedule "C," the least progressive structure of the three, also starts at 3 percent, but increases throughout at ½ percent breaks for every $1,000 and reaches a maximum of 8 percent on all net taxable incomes in excess of $10,000. The latter is below the 9.5 percent maximum rate used by Oregon, but above the North Carolina maximum of 7 percent. However, Oregon allows full deductibility of the federal income tax in the computation of taxable income, whereas North Carolina doesn't permit any.

Table 12.41 compares the effect of the above three rate structures on state revenue and taxpayer cost.

[87] *Supra*, Table 12.12.

Table 12.41

Estimated Increase in State Revenue and Taxpayer Cost of Alternative Normal Tax Rate Structures Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	"A" Rate structure ranging from 2 to 10 percent	"B" Rate structure ranging from 3 to 10 percent	"C" Rate structure ranging from 3 to 8 percent
A. Amount of increase in State revenues (thousands)			
$ 0 - $ 4,999	$2,147	$ 4,117	$ 4,331
5,000 - 7,999	2,206	3,882	4,411
8,000 - 9,999	735	1,180	1,486
10,000 - 14,999	608	930	1,300
15,000 - 49,999	406	757	369
50,000 and over	71	102	—259
Total	6,173	10,968	11,638
B. Percentage increase over 1957 tax liability			
$ 0 - $ 4,999	73.4	140.7	148.0
5,000 - 7,999	64.0	112.7	128.0
8,000 - 9,999	48.6	78.0	98.3
10,000 - 14,999	30.0	44.3	62.0
15,000 - 49,999	6.8	12.7	6.2
50,000 and over	3.0	4.3	—10.8
Total	33.7	59.8	63.5

On the basis of the 1957 returns and assuming no change in the normal and surtax base provisions, it is estimated that schedule "A" would yield more than $6 million of additional normal tax revenue; schedule "B" would increase State revenues by $11 million; and finally, schedule "C" would yield almost $12 million. Under all three, the distribution of both the nominal and real burden of the increased tax would vary inversely with levels of income, resulting in a significantly more productive but less progressive tax structure. And in the case of schedule "C", although the total amount of increase would be the greatest, the very small minority of taxpayers with incomes in excess of $50,000 would actually enjoy a nominal tax saving of almost 11 percent.

Table 12.42 presents estimates of the additional revenue and taxpayer cost which would result from combining each of the above hypothetical tax rate structures (Table 12.41) with the following suggested modification of the tax base: inclusion of 100 percent of net capital gains in the normal tax base (Table 12.36); elimination of the 2 percent surtax on intangibles (Table 12.38); and allowance of full medical expense deduction (Table 12.39). Of course, a large number of alternative combinations are possible and the three selected illustrate the quantitative importance of some of the revisions considered in the preceding analysis. Moreover, in each case the increase in the State revenue is understated since the amount of additional tax liability attributed to rate change was computed on the 1957 taxable income, while that due to the revision of the tax base itself was computed in terms of the 1957 rate structure. Notwithstanding the limitations of the combined data, they indicate the approximate magnitude and distribution of the increased tax liability which would result from these alterations in the rate and base of the Colorado personal income tax.

Table 12.42

Summary of Combined Estimates of Changes in Tax Base and Normal Tax Rate Structure Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Revision "A" with rates of 2 to 10 percent and revision of tax base	Revision "B" with rates of 3 to 10 percent and revision of tax base	Revision "C" with rates of 3 to 8 percent and revision of tax base
A. Amount of increase in State revenues (thousands)			
$ 0 - $ 4,999	$1,953	$ 3,923	$ 4,137
5,000 - 7,999	1,997	3,673	4,202
8,000 - 9,999	630	1,075	1,381
10,000 - 14,999	480	802	1,172
15,000 - 49,999	295	646	258
50,000 and over	355	386	25
Total	5,710	10,505	11,175
B. Percentage increase over 1957 tax liability			
$ 0 - $ 4,999	66.7	134.0	141.3
5,000 - 7,999	58.0	106.6	122.0
8,000 - 9,999	41.7	71.1	91.3
10,000 - 14,999	22.9	38.2	55.9
15,000 - 49,999	5.0	10.9	4.3
50,000 and over	14.8	16.1	1.0
Total	32.2	57.3	61.0

As conservative estimates, such revisions would yield between $6 and $11 million of additional revenue for the General Fund. Revision "C" would produce the largest increase and "A" the smallest, but in each case the relative change in the tax burden for taxpayers, grouped by adjusted gross income categories, would vary inversely with the income levels. Thus, the increased revenue productivity would be obtained by making the tax structure successively less progressive.

A rough measure of the degree of change in the allocation of the aggregate income tax burden which would result from the suggested changes in base (capital gains, surtax and medical expense) and rate can be obtained by comparing the distribution of the total tax liability which would be incurred under revisions "A", "B", and "C" with that of the 1957 Colorado tax and the 1955 federal tax, as shown below.

Table 12.43

Percentage Distributions of Total Personal Income Tax Liability, Classified by Major Adjusted Gross Income Categories for Selected Federal and Colorado Tax Structures

Adjusted gross income classes	1955 Federal personal income tax[a]	1957 Colorado personal income tax[b]	Selected hypothetical Colorado tax structures[c] Revision "A"	Revision "B"	Revision "C"
$ 0 - $4,999	25.2	16.0	20.3	23.8	23.9
5,000 - 7,999	26.8	18.8	22.6	24.7	25.9
8,000 - 9,999	9.2	8.3	8.9	9.0	9.8
10,000 - 14,999	9.1	11.4	10.7	10.0	11.1
15,000 - 49,999	16.7	32.4	26.0	22.9	21.1
50,000 and over	13.1	13.1	11.5	9.6	8.2
Total[d]	100.0	100.0	100.0	100.0	100.0

[a] U. S. Treasury, *Statistics of Income for 1955*, Table 1, p. 18.
[b] Based on Table 12.31.
[c] Based on Table 12.31 and Table 12.42.
[d] Total may not equal sum of parts because of rounding.

It is evident on the basis of the above data that although the net effect of each of the specified revisions would be to increase the relative tax liability of taxpayers in the three lowest income categories—those with incomes of less than $10,000, representing more than 95 percent of all returns filed in 1958—the over-all Colorado income tax structure would continue to remain significantly more progressive than the federal tax was in 1955, the most recent year for which data are available. And as already noted, the marked variance between the state and federal progressions cannot be attributed primarily to differences in income distribution for on this score Colorado appears to be practically a median state and its adjusted gross income pattern closely parallels that of the nation as a whole.[88]

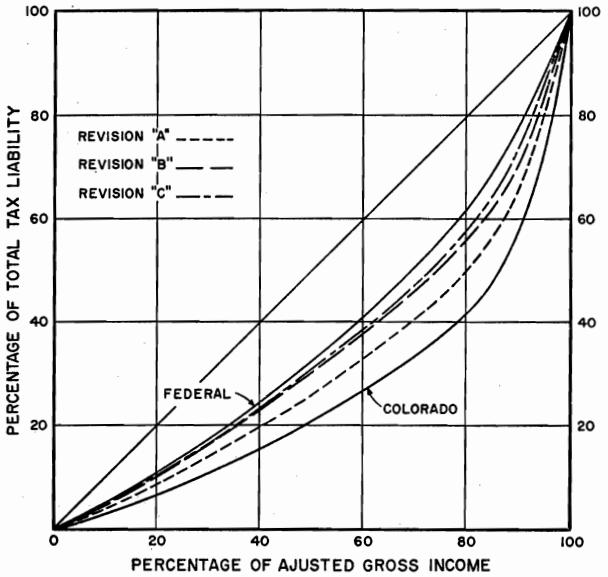
The comparative progressivity of the three alternative revisions is shown even more clearly by Chart 12.21 which relates the cumulated percentage of adjusted gross income with the corresponding percentage of tax liability. The vertical distances between the 45° line of proportional taxation and the curves representing the revisions "A", "B", and "C", as well as the actual State and Federal distributions, roughly measure the relative degree of progressivity of these alternative tax structures. Although revision "A" lies below "B", and "B" below "C", it is evident that all three fall between the actual 1955 Federal and 1957 State curves. In other words, any one of the three revisions would result in the State tax remaining significantly *more* progressive than the federal tax structure, notwithstanding the relatively heavier tax burden levied on the overwhelming majority of taxpayers with incomes of less than $5,000. In summary, modification of the tax base—inclusion of capital gains at 100 percent, elimination of the surtax, and allowance of full medical expenses as a deduction—plus the upward revision of the tax rates for the lowest brackets would not only raise a substantial amount of additional state revenue for the General Fund, but would also result in a more equitable and still highly progressive income tax system—one more progressive than the federal.

[88]The remarkably close similarity between the Colorado and national percentage distributions of both the number of income tax returns filed and the adjusted gross income, based on the 1957 State survey data and the 1955 federal data, is revealed by the following tabulation:

Adjusted gross income classes	Number of returns filed		Adjusted gross income	
	Colorado[a]	Federal[b]	Colorado[a]	Federal[b]
$ 0 - $ 4,999	68.1	70.6	41.2	41.7
5,000 - 7,999	23.0	21.0	31.8	30.1
8,000 - 9,999	4.4	4.0	8.7	8.2
10,000 - 14,999	2.7	2.6	7.2	7.2
15,000 - 49,999	1.6	1.6	8.6	9.0
50,000 and over	0.1	0.2	2.6	3.8
Total[c]	100.0	100.0	100.0	100.0

[a] *Supra*, Table 12.29.
[b] U. S. Treasury, *Statistics of Income for 1955*, Table 1, p. 18.
[c] Total may not equal sum of items because of rounding.

PROGRESSIVITY OF THREE ALTERNATIVE REVISIONS OF THE COLORADO INDIVIDUAL INCOME TAX STRUCTURE COMPARED WITH THE PROGRESSIVITY OF THE FEDERAL INCOME TAX STRUCTURE



SOURCE: Table 12.43 and U. S. Treasury, Statistics of Income for 1955, Table 1.

CHART 12.21

Personal Income Tax Administration

The administration of income taxes in Colorado, like that under the federal and other state statutes, is governed by the fact that the tax is self-assessed. There are fundamentally three basic steps in income tax administration: taxpayers must be identified and those who do not report must be located, returns must be verified, and the tax must be collected. Although it can be assumed that the majority of taxpayers prepare and file honest returns, such practice is likely to continue only so long as administration of the tax is honest, equitable, and effective. Administration must be consistently good or extensive evasion results, the state loses revenue, and the apportionment of the tax burden becomes less equitable.

Administration Procedures. Under the Colorado statute, responsibility for the administration of the income tax rests with the Director of Revenue.[89] He has authority, within the limits of the statute, to adopt rules and regulations which become valid and binding upon all taxpayers. Broadly, the Revenue Department identifies and locates taxpayers by the use of information returns and payroll withholding returns filed by employers. These returns provide the Department with the names, addresses,

[89]*Colorado Revised Statutes, 1953*, Ch. 138-1-42.

amounts of income, tax payments, and other relevant information. In addition, the Department has the power to examine books, records and any other pertinent papers of taxpayers in order to verify the validity of any income tax return. In its efforts to implement this verification, it also has the power to subpoena both taxpayers and witnesses through the State District Courts.

In general, the procedure to be used in the assessment of any deficiencies is prescribed by the statute and accompanying regulations.[90] It is significant to note that virtually all additional assessments, made as a result of audits by the Revenue Department, are settled at either the conferee level or by the Deputy Revenue Director. During the two decades of income taxation in Colorado only 127 cases have resulted in litigation.

The auditing procedure involved in verifying returns consists of both office audits and field audits. In recent years approximately 27,000 returns annually have been subject to office audit, or approximately 5 percent of the total number of individual and corporate income tax returns filed. In 1958, total assessment deficiencies were approximately $1,000,000, refunds were about $350,000,[91] and the State obtained additional revenue of $650,000 as a result of office auditing. The staff was composed of forty agents with an average annual salary of about $5,500, but the average net assessment per agent was roughly $16,000. In other words, on the average each agent produced three times his salary in the form of assessments. Moreover, this figure grossly understates the average revenue productivity of agents since the staff devotes practically six months of the year to tasks unrelated to the auditing of income tax returns.[92] Thus, the forty man staff is really equivalent to that of twenty agents devoting their full time to the examination of income tax returns exclusively. In light of the above, it is evident that immediate consideration should be given to increasing the size of the office auditing staff. It has been estimated that ten more agents could be effectively utilized, and if such action were taken it appears that the State could obtain additional revenue of approximately $100,000 above the additional salary costs.

In contrast to the office auditors, field agents examine sales, use, motor fuel, and gross ton-mile tax reports as well as income tax returns. Moreover, they also spend about six months of the year in performing sundry non-auditing tasks. Although it is difficult to determine the actual time devoted to the examination of income tax returns, it has been estimated by the Department of Revenue that the income tax auditing done by its 25 field agents in 1957 was at most equivalent to approximately four men working full time. In the same year, total income tax assessments made in the field amounted to approximately $100,000 and agents' salaries averaged $6,300 annually. Thus, the assessments were about four times what would have been the combined salaries of four agents working exclusively on income tax returns. Since it is impractical for any one agent in the field to work exclusively on the income tax, it may be more meaningful to compare the total annual assessments of approximately $1 million from field audits of all taxes with the total number of auditors. On this basis each auditor annually assessed $40,000 gross or, deducting the average salary of $6,300, about $33,700 net. It has been estimated that the field auditing staff could effectively be increased by five agents.[93] And finally, it should be noted that tax inequities as well as revenue losses inevitably result from a policy which attempts to "save taxpayer money" by maintaining an insufficient staff of auditors and an ineffective system of tax return verification.

Colorado is one of several states participating in a program for the exchange of tax audit information with the U. S. Bureau of Internal Revenue. This program has been in operation in Colorado since the early 1950's. The Revenue Department takes abstracts from those federal audit reports which produced changes in the federal tax liability of individual taxpayers, and similarly Colorado permits the Bureau of Internal Revenue to abstract information from state returns.[94] In fiscal 1958, approximately 9,000 federal returns were abstracted which resulted in gross assessments of approximately $515,000, or about one-half of the total assessments made by the State office audit staff. Although this program is well conceived and reasonably effective, it is limited solely to comparing state returns with those federal returns which have been revised as a result of federal audits. To expand the program, the Revenue

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[90] *Ibid*, Ch. 138-1-35.

[91] These refunds are the result of errors discovered by office auditing and should not be confused with withholding refunds.

[92] Examples are assisting taxpayers with return preparation, opening mail during the filing period, assisting the Clearing Section and performing sundry other special tasks.

[93] For a complete discussion of the problems involved in determining the proper size of a field auditing staff, see R. B. Welch, "Measuring the Optimum Size of a Field Audit Staff," *National Tax Journal*, 1954, pp. 210-221.

[94] To facilitate this exchange program, three agents from the office auditing staff are permanently assigned to the New Customs House, preparing abstracts from adjustments made on federal returns. For a complete discussion of cooperative audit programs related to state income taxes, see C. Penniman, "Selected Problems in State Income Tax Administration," *Proceedings of the National Tax Association* (Detroit, 1955), pp. 488-90.

Department could microfilm all federal returns filed in Colorado, or abstract a random sample[95] of federal returns which were not affected by federal auditing. This would provide a means of test-checking Colorado returns of taxpayers who may have filed correctly on the federal level, but incorrectly on the state level.

The third major aspect of income tax administration is the collection of the tax. Certain collection procedures are specified by the statute, but only in relation to penalties which may be assessed and the legal action which may be taken by the Revenue Department.[96] While a detailed examination of cash flows, accounting procedures, and internal checks involved in the collection of the tax would be desirable, such an analysis was not within the scope of this study.

Cost of Administration. Total costs incurred by the Revenue Department in administering the personal and corporate income taxes are shown in the following table.

Table 12.44

Total Income Tax Collections and Cost of Administration, Colorado Income Tax Returns, Fiscal Years, 1947-1957

Year	Total corporate and personal income tax collections	Cost of income tax administration	Administrative costs as percent of total collections
1947	$ 8,634,796	$243,637	2.82
1948	11,682,199	373,033	3.19
1949	17,064,672	427.820	2.51
1950	17,495,008	436,478	2.49
1951	19,022,355	461,942	2.43
1952	20,255,644	538,945	2.66
1953	19,173,261	632,869	3.30
1954	18,301,139[a]	667,932[b]	3.65
1955	24,093,315[a,c]	777,598[b]	3.23
1956	27,529,869[a,c]	882,584[b,d]	3.20
1957	29,383,579[a,c]	955,697[b,d]	3.25

[a] Excludes collections from Oil and Gas Production Tax.
[b] Adjusted for pro-rata administrative costs allocated to Oil and Gas Tax collections.
[c] Includes collections from withholding tax, which became effective July 1, 1954.
[d] Includes allocated I. B. M. expense.

Source: State of Colorado, Department of Revenue, *Annual Reports*, 1947-1957.

Total administrative costs during fiscal year 1957 amounted to $955,697, which represented 3.25 percent of the total income tax collections. This is within the 2 to 5 percent range which generally is considered to be an important characteristic of a "good tax" from the collection aspect. It compares favorably with the 1957 cost-collection ratio for the ton-mile tax of 3.31 percent, and although above the Colorado ratio for the sales and use tax of 1.56 percent, it is considerably below the estimated 6 to 7 percent collection cost of a state cigarette excise tax.[97]

Another measure of the cost of income tax administration is to relate the total number of returns filed to total costs, deriving an average cost per return, as shown by Table 12.45.

Table 12.45

Administrative Cost per Return for the Colorado Income Tax, Fiscal Years 1949-1957

Year	Personal and corporate income tax returns filed[a]	Cost of income tax administration	Cost per return
1949	238,550	$ 427,820	$1.79
1950	309,387	436,478	1.41
1951	328,220	461,942	1.41
1952	347,022	538,945	1.55
1953	375,940	632,860	1.68
1954	416,142	772,757	1.86
1955	443,723	894,079	2.01
1956	470,133	987,617[b]	2.10
1957	501,147	1,085,735[b]	2.17

[a] Excludes partnership information and oil and gas returns.
[b] Includes allocated I. B. M. expense.

Source: State of Colorado, Department of Revenue, *Annual Reports*, 1949-1957.

The data show that while the number of total corporate and personal returns has increased by 62 percent since 1950, administrative costs have increased by 149 percent, and the corresponding cost per return rose from $1.41 to $2.17. This 54 percent increase may be explained largely in terms of the rising price level. The upward trend in average cost may be expected to continue as long as the economy is characterized by inflationary pressures, although more efficient utilization of equipment and staff by the Department would help offset this tendency.

Administrative Problem Areas. The problems involved in administration of the Colorado income tax are not dissimilar to those in most of the other states which tax income. In addition to minimizing his tax bill, the taxpayer is interested in convenience, ease of preparation, and simplicity of the tax return. The state's interest is in collecting the proper amount of revenue in an economical, effective, and equitable manner. Hence, administrative problems, and suggested alternative procedures, must be evaluated from both the state's as well as the taxpayer's viewpoint.

The Income Tax Return. The center of any self-assessed income tax system is obviously the tax return—its preparation, characteristics, and

[95] For a discussion of this and other exchange procedures see the article prepared by the Bureau of Internal Revenue, "Exchange of Information for Purposes of Federal, State, and Local Tax Administration," *National Tax Journal*, 1949, pp. 151-56.

[96] *Colorado Revised Statutes, 1953*, Ch. 138-1-37.

[97] State of Colorado, Department of Revenue, *Annual Report, 1957*, p. 16, and Chapter XVIII of this study.

ability to yield the proper amount of revenue. Ease of payment, convenience and certainty are well-established principles of taxation. Moreover, the equitable distribution of the tax burden and the yield of the tax itself depends to a large degree on the effectiveness and simplicity of the return. The nature of the return should continuously be evaluated in terms of changing economic conditions, and proposed alternatives should be discussed in an effort to render the return a more effective "tax collector."

An apparently complicating factor in the preparation of the Colorado income tax return is the multiplicity of forms and schedules which must be used under various circumstances by the taxpayer. The use of a large number of forms, however, is not necessarily undesirable and should be viewed in light of several considerations. First, taxpayers are a highly heterogeneous group, and since the major virtue of the income tax is its ability to allocate the tax burden on the basis of ability-to-pay, the return must be consistent with this goal. A simple tax on income, such as a gross receipts tax, might result in a less complicated return but its imposition violates the essential rationale of income taxation. Another consideration is the fact that a multiplicity of forms and schedules usually simplifies return preparation rather than complicates it. The multitude of forms could, of course, be combined into one voluminous return, but in addition to creating taxpayer confusion, such action would render processing and auditing by the Revenue Department extremely difficult. Nevertheless, the number of forms and schedules required should be examined periodically in light of taxpayer convenience as well as administrative ease.

Another problem area, involving return preparation, results from the fact that the taxpayer must make virtually two independent computations because of differences between the federal and the state income tax codes. At the present time some of the more significant differences are the following:[98]

1. Head of household and income-splitting provisions.
2. Treatment of items such as capital gains and losses, annuities, alimony, and insurance proceeds; and adjusted gross income differences, such as employee travel expense to and from work.
3. Exclusions from gross income, involving such items as the treatment of death benefits, armed service compensation, dividend exclusions and credits, and retirement income.
4. Deductions, including such items as carrying charges, taxes, losses, bad debts, contributions, net operating loss deductions, medical expenses, child care, and depreciation and depletion.
5. Exemptions.

In consideration of the above, it has frequently been proposed that state income taxation should be related either directly or indirectly, to the federal income tax.[99]

Harmonizing state income tax provisions with those of the federal government could be achieved in a number of ways. The most thoroughgoing integration involves a direct tie-in with the taxpayer's federal income tax liability—a state tax levy which is equal to a percentage of the federal tax. Alaska, an outstanding example, collects an amount equal to 10 percent of the federal tax. Computation simply involves moving the decimal point one place to the left. A variation of this type of direct tie-in is to provide a separate state tax system and give the taxpayer the option of paying a percentage of the federal tax or filing under the state's system. In recent years, Utah and New Mexico have experimented with this type of procedure, but after a short period of time abandoned it for reasons which are subsequently discussed.

Another method of integrating state and federal income taxes is for states to adopt certain features of the federal tax, particularly the federal definition of net taxable income. Having accepted this base, states may then utilize any rate structure they wish. Vermont is the outstanding example of a state which uses this method, not only with respect to the personal income tax base but also the corporate income tax base.[100] Massachusetts, Connecticut, Rhode Island, New York, and Pennsylvania also rely to some degree on the federal definition of taxable income, for either their personal or corporate income tax.[101] Of course, many states undoubtedly use specific features of the federal code as a guide for their state tax code, but not as a fixed and continuing policy.[102]

[98]For a complete discussion of these and approximately 86 other differences see Legislative Council, "Colorado Income Tax Selected Problems, Part I," *Legislative Council Report to the Colorado General Assembly*, Research Publication 9-2, 1955.

[99]A more extreme proposal, which is also founded on other reasons, is for the states to abandon income taxation and leave the field exclusively to the federal government. As compensation for this abandonment, the federal government would either share its income tax receipts with the states or increase grants-in-aid. However meritorious this proposal may be, the likelihood of its fruition in the immediate future seems quite negligible. For further discussion of this proposal, see H. C. Simons, *Personal Income Taxation* (Chicago: University of Chicago Press, 1938), pp. 214-15.

[100]This form of integration has even been given the name "the Vermont type." For a brief history of Vermont's adoption of this system, see J. K. Lasser, "State Income Taxation in Vermont," *National Tax Journal*, 1948, pp. 60-66.

[101]R. M. Kamins, "Federal-Based State Income Taxes," *National Tax Journal*, March, 1956, p. 47.

[102]Still another minor way in which states may utilize the federal income tax is to base state withholding on a percentage of the federal tax withheld. Colorado, for example, withholds 4 percent of the federal tax withheld.

Certain advantages may be claimed for tying-in to the federal code either directly or indirectly. The taxpayer is able to compute his tax with more ease, especially when the state tax is simply a fraction of the federal tax. Some administrative problems involving verification may be performed with greater ease through cooperation with the federal authorities.[103] It is even possible to transfer all auditing duties to federal agents, for which the state would pay a fee. Another advantage claimed for tying-in is the potential increase in revenue which could be realized by some states. This point has little merit, however, since revenues, of course, could be increased in any number of other ways within the present framework.

In contrast to these possible advantages, numerous criticisms have been made with regard to integrating state and federal income taxes. While some emphasis may be placed on the desirability of maintaining state autonomy, a more important point is that an income tax on the state level is significantly different than an income tax on the federal level. While state income taxes commonly yield less than 20 percent of total state revenue, the federal income tax accounts for approximately 70 percent of total federal taxes.[104] Moreover, many provisions relating to federal income taxation are not equally applicable to state income taxation. For example, the traditional rationale, whatever its merit, for the liberal treatment of capital gains is founded on the fear that the high *marginal* tax rates on the federal level might impair capital formation. Hence, in reference to state taxation, where a much lower rate is in effect, the manner in which capital gains should be treated is quite different.[105]

A major assumption involved in the belief that a federal tie-in would be desirable is that federal regulations "are as likely to be as equitable as those developed by a state tax commission and much more likely to be consistent and available."[106] This, however, is not necessarily tenable as evidenced by certain federal provisions which are considered by some tax authorities to be loopholes, such as the "usual quota of 'private relief' provisions" in the Internal Revenue Code of 1954.[107] Additional criticism of the federal code is not difficult to find. One writer comments on the problems of administration and compliance in the IRC of 1954 as follows: "Whereas the objective was simplification, the net result . . . has been to make administration and compliance much more difficult than in the past."[108] It also appears that the federal income tax base has been defined primarily in light of the federal rate structure and, therefore, state use of the same base is of questionable tenability. The serious problem of the continuous erosion of the federal rate structure as well as well as the base has been noted by numerous public finance authorities.[109] While criticism of the federal income tax does not insure that the states can propose a more effective tax, it does indicate that the federal tax is not the sole criterion for good state taxation.

Another criticism of the federal tie-in relates to the loss of control over state revenue. Time-lags necessarily occur between changes in the federal code and possible changes in the state's system. A direct tie-in assumes that changes in federal and state revenue requirements occur simultaneously, which may or may not be the case. Moreover, states lack the financial capacity to cope with the revenue flexibility inherent in an income tax system which accounts for a significant portion of total revenue.[110] Thus, while the federal government may incur significant deficits in times of recession, states must curtail expenditures or seek other revenues to replace the losses of a federally-based income tax.

Numerous technical criticisms may be levied against a federal tie-in. Some of the more significant are as follows:

1. Computation of federal net income includes income from certain federal bonds whereas the states do not have the power to tax such income.

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[103]Substantial cooperation with federal authorities is also possible under state income taxes which are unrelated to the federal code. See Bureau of Internal Revenue, "Exchange of Information for Purposes of Federal, State, and Local Tax Administration," *op. cit.*, pp. 151-56.

[104]*Federal Reserve Bulletin*, January, 1959, p. 47.

[105]For this reason over half the income taxing states treat capital gains differently than the federal government.

[106]R. M. Kamins, *op. cit.*, p. 51.

[107]A. W. DeWind, "A Technical Appraisal of the Internal Revenue Code of 1954," *National Tax Journal*, 1955, p. 66. For a less critical view of the Code, see K. W. Gemmill, "An Appraisal of the Internal Revenue Code of 1954," *National Tax Journal*, 1955, pp. 36-39.

[108]J. A. Pechman, "Individual Income Tax Provisions of the 1954 Code," *National Tax Journal*, 1955, p. 135. For still another critical appraisal of the 1954 Code, see C. S. Shoup, "The Dividend Exclusion and Credit in the Revenue Code of 1954," *National Tax Journal*, 1955, pp. 136-147.

[109]For a critical discussion of these and other issues see the following: W. Cary, "Pressure Groups and the Revenue Code," *Harvard Law Review*, Vol. 68, 1955; W. W. Heller, "Practical Limitations of the Federal Income Tax," *Journal of Finance*, 1952; R. E. Paul, "Erosion of the Tax Base and Rate Structure," *Federal Tax Policy for Economic Growth and Stability* (Washington, D.C.: U. S. Government Printing Office, 1955); L. H. Seltzer, "Capital Gains and the Income Tax," *American Economic Review*, Vol. 40, 1950; P. Strayer, "Individual Income Tax and Income Distribution," *American Economic Review*, Vol. 45, 1955.

[110]H. M. Groves, *Financing Government* (fourth edition; New York: Henry Holt & Co., 1954), p. 205.

2. Many states tax income from bonds of other states and their municipalities, but the taxation of this income by the federal government is considered to be unconstitutional.
3. Many states do not permit the deduction of state income taxes, whereas the federal government does.
4. Certain problems are created by the different basic compliance dates of state and federal taxes.

Moreover, a major technical problem associated with state income taxation, especially corporate, is the allocation of interstate incomes. This could not be solved by a federal tie-in, i.e., determining what portion of total income is earned within a given state.[111]

A final problem involved with a federal tie-in is the questionable constitutionality of such a measure. It has been suggested that adoption of the federal income tax statutes by reference would be constitutional in most cases,[112] but a 1955 opinion by the Attorney General of Colorado indicated that a tie-in by Colorado with the federal code would be constitutional only "if the statute were carefully drawn" and were on an optional basis.[113] The latter opinion was further qualified by pointing to the difficulty of rendering a decision without the presence of actual legislation.

Although a federal tie-in would simplify computation by the taxpayer, numerous alternatives could achieve this objective within the present state system. For example, a major source of confusion in the present return is computing the deduction allowed for federal income taxes paid. Schedule I of the Colorado personal income tax form, which requires computation of the federal tax on a cash basis, probably causes more difficulty for the taxpayer than any other feature of the return. While a direct tie-in to the federal code would eliminate this source of confusion, it could also be removed simply by disallowing federal deductibility on the state level. Although a decision to eliminate federal deductibility must be evaluated essentially in terms of its impact on the distribution of the tax burden, it should be kept in mind that a major virtue of such a policy would be simplification of the taxpayer's computation of his tax liability. Another source of some confusion is the deduction allowed for traveling expenses going to and from work. Without any direct tie-in to the federal code, this type of compliance difficulty could be eliminated simply by disallowing the travel deduction provided under the State code. Such a decision, however, should be based on considerations of taxpayer equity as well as taxpayer convenience.

In conclusion, the numerous criticisms of a federally-tied state income tax appear to outweigh the one major advantage—simplification of tax liability computation. State sovereignty and taxpayer equity should not be sacrificed solely for the purpose of achieving convenience in the preparation of returns. Moreover, a certain amount of simplification is possible without delegating state responsibility to Congress and federal tax administrators. Of course, the federal code should be continuously used as a guide for possible improvement of the state tax, but any revision should be exaluated on its own merits, and not adopted simply because it has been deemed desirable by the federal government.

Withholding Provisions. Withholding of state income taxes by employers is relatively new. Oregon led the way in 1948, and since then nine other states, including Colorado, have adopted a form of withholding.

The primary advantage of withholding is that the state is able to collect a greater amount of revenue in a manner which is less burdensome to the taxpayer. Despite this advantage, withholding creates a refund problem, the magnitude of which is determined by the relationship between the amount withheld and the taxpayer's liability. Although it is generally contended that it is better to withhold too much than too little, the number of refunds processed should not reach such proportions that possible gains from the system are cancelled out. However, even when numerous refunds are made, the state has the use of interest-free money from the time of withholding to the time of the refund.

The magnitude of the refund problem in Colorado may be demonstrated by comparing refunds with the returns which are subject to withholding as shown in Table 12.46.

It will be noted that approximately two-thirds of the returns subject to withholding required refunds and nearly one-fourth of the total dollar amount withheld was returned to taxpayers in the form of refunds. In addition, the problem is concentrated in the lower income group, as shown by the fact that over 75 percent of the total number and total dollar amount of refunds were made to taxpayers with incomes of less than $5,000.

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[111] M. M. Kassell, "Progress Toward Achieving Uniformity in State Income Tax Administration," *Income Tax Administration* (New York: Tax Institute, Inc., 1948), pp. 298-99.

[112] R. M. Kamins, *op. cit.*, pp. 50-51.

[113] Legislative Council, *op. cit.*, p. 3.

Table 12.46

Withholding Returns and Refunds for Normal Tax, Colorado Individual Income Tax Returns, 1957

Adjusted gross income	Total withholding	Total refunds	Refunds as a percent of withholding
A. Number of returns and refunds			
$ 0 - $ 4,999	259,350	203,400	78.4
5,000 - 7,999	107,100	61,150	57.1
8,000 - 9,999	18,520	5,160	27.9
10,000 - 14,999	9,230	590	6.4
15,000 - 49,999	4,104	84	2.1
50,000 and over	313	9	2.9
Total	398,617	270,393	67.8
B. Amounts of returns and refunds (thousands)			
$ 0 - $ 4,999	$3,433	$1,242	36.2
5,000 - 7,999	2,997	654	21.8
8,000 - 9,999	816	62	7.6
10,000 - 14,999	530	10	1.9
15,000 - 49,999	516	13	2.5
50,000 and over	122	3	2.5
Total	8,414	1,983[a]	23.6

[a] Totals do not equal sum of items due to rounding.

Source: Survey data of 1957 returns filed in 1958.

In an effort to solve the problem of excessive refunds seven of the ten states which employ withholding utilize tables similar to those of the federal government. Of the three remaining states, Arizona withholds ½ percent of total wages, while Utah and Colorado withhold a percent of the federal tax withheld.[114] It appears that a withholding table which takes into account levels of income, exemptions, and a standard deduction, would provide a withholding pattern which most closely corresponds with actual tax liability. While the use of such a table would decrease the number of refunds in the lower income levels, it would not be as effective in the upper income groups where itemized deductions are much more common.

Another approach to this problem would be to base state withholding on federal withholding, but as a percentage which is *graduated* according to the amount withheld for the federal tax. This would involve the least amount of change in the present witholding system if the revision were limited to the use of only two "flat-percentage" rates. For example, a 3 percent rate could be applied in the case of taxpayers with federal tax withholding of $50 or less a month, and a 5 percent rate could be used for those with federal withholding in excess of $50. This would roughly approximate a break at the $5,000 level of adjusted gross income for the average taxpayer and, therefore, would more adequately relate state tax withholding to tax liability. Of course, if the present state personal income tax structure were revised upward, particularly for the lower income groups, then the present 4 percent rate could be retained for taxpayers with federal withholding of $50 or less a month, and a 6 percent rate could be applied to those with federal withholding above $50.

Broader Application of Tax Tables. The Colorado statute provides a taxpayer with the option of using a prepared tax table for the determination of his income tax liability provided his adjusted gross income is under $5,000. Such factors as personal expense deductions and the federal income tax are computed into the tax due. There is little doubt that this procedure greatly simplifies the preparation of tax returns and reduces the amount of verification and auditing which otherwise must be undertaken by the Revenue Department.

Attention should be directed to the possibility of expanding the present table to include taxpayer with the adjusted gross incomes up to $10,000. Such a revision would materially simplify the preparation of returns for taxpayers, would reduce auditing and other administrative costs, and at the same time should not result in any significant revenue change for the state. The number of taxpayers using different computation methods in the preparation of the 1957 returns is shown in the table below.

Table 12.47

Number of Taxpayers Classified by Computation Method Used, Colorado Individual Income Tax Returns, 1957

Adjusted gross income classes	Total number of returns filed	Number of taxpayers using: Itemized deductions	Standard deduction	Tax table
$ 0 - $4,999	357,600	87,000	10,500	260,100
5,000 - 7,999	120,700	66,100	54,600	—
8,000 - 9,999	23,000	14,460	8,540	—
10,000 - 14,999	14,320	9,530	4,790	—
15,000 - 49,999	8,532	6,780	1,752	—
50,000 and over	669	623	46	—
Total	524,821	184,493	80,228	260,100

Source: Survey data of 1957 returns filed in 1958.

On the basis of these data, it appears that the extension of the present table to $10,000 of adjusted gross income could affect as many as 63,000 taxpayers with incomes between $5,000 and $10,000 who chose the optional standard deduction in 1957. It may be assumed that taxpayers are primarily concerned with minimizing their tax liability and that in most cases considerations of convenience are secondary. Therefore, it is unlikely that those who find it beneficial to itemize would use the table. On the other hand, taxpayers presently taking the optional standard deductions probably would use the extended tax table as long as the "built-in" federal tax deduction was equal to or greater than their actual federal tax liability. The major convenience to taxpayers with incomes between $5,000 and $10,000 would be that they no longer would be required to complete Schedule I—the taxpayer's computation of his federal income tax deduction on a cash basis.

[114] W. W. Heller and C. Penniman, "A Survey and Evaluation of State Income Tax Withholding," *National Tax Journal*, December, 1957.

In summary, if Colorado income tax administration is to be improved consideration should be given to expansion of the present auditing staff, simplification of return preparation without resorting to any direct tie-in with the federal code, use of a withholding technique which more nearly reflects taxpayers' liability, and the extension of the present $5,000 tax table to $10,000.

APPENDIX NOTE ON DESCRIPTION OF SAMPLE

The data presented in this chapter for the Colorado individual income tax returns for 1957 are based on a stratified, cluster, systematic sample consisting of 100 percent of returns showing adjusted gross income of $50,000 and more, and of various lesser percentages of returns showing adjusted gross income of under $50,000. The number of individual income tax returns selected for the sample was 10,182, which represented slightly less than 2 percent of the 520,196 returns actually filed by Colorado income taxpayers between January 1, 1958, and June 20, 1958, exclusive of irregular returns. The latter represented fiduciary, tentative, prior-year delinquent, and partnership information returns not included in either the sample or the population from which the sample was drawn. On the basis of the three previous years' experience it was found that approximately 99 percent of the year's total number of individual income tax returns are filed during the first six months of the calendar year. Data as extensive as that required for the preceding anaylsis of the Colorado personal income tax could be obtained only on a sampling basis if the data were to be current and the study completed within the prescribed time limit. On the basis of accepted statistical principles the sample was designed to achieve a fixed degree of sampling reliability at minimum cost.

Description of the Sample. The Department of Revenue sorted all 1957 individual income tax returns received in 1958 according to whether the taxpayer's reported adjusted gross income was less than $10,000 or not, and the returns were then batched in envelopes, with approximately 100 returns per batch. Within each of these two strata of batches a sample of batches (clusters) was systematically selected. The returns in each sample batch, in turn, were then systematically selected according to a plan which prescribed different sampling fractions for each of seven adjusted gross income groups. The prescribed sampling ratios used for the selection of the batches and the returns within each sample batch, classified by adjusted gross income, are shown in Table 12A.1.

On the basis of the sampling fractions, income tax returns for the sample were selected from each adjusted gross income stratum. As noted in Table 12A.1, the sampling ratio achieved for the seven income categories combined was approximately one out of every 51 Colorado income tax returns filed during the period covered. In order to extend the sample values to that of the returns represented they were multiplied by "weighting factors" which are the reciprocals of the over-all sampling fractions, e.g., the estimated number of returns showing incomes of less than $5,000 was obtained by multiplying the 2,384 returns in this stratum of the sample by the factor of 150. It is important to note that when the number of sample returns in each of the seven income categories is inflated to population size, the estimated total number of returns (524,821) based on the sample works out to be 100.9 percent of the total number of the regular returns processed by the Department of Revenue during the period to which the sample was limited. In other words, the estimate derived from the sample comes within 1 percent of the number actually filed by income taxpayers.

Table 12A.1

Sampling Fractions Between Batches and Within Batches

Adjusted gross income classes	Prescribed sampling ratios: For all batches	Within each batch	On an overall basis	Total returns in sample
$ 0 - $ 4,999	1/20	2/15	1/150	2,384
5,000 - 7,999	1/20	2/5	1/50	2,414
8,000 - 9,999	1/20	1/1	1/20	1,150
10,000 - 14,999	1/1	1/10	1/10	1,432
15,000 - 24,999	1/1	1/4	1/4	1,433
25,000 - 49,999	1/1	1/4	1/4	700
50,000 and over	1/1	1/1	1/1	669
Total	—	—	1/51[a]	10,182

[a] Achieved ratio.

Reliability of Estimates from the Sample. The data from returns showing adjusted gross income of $50,000 or more are not subject to sample variability since all such returns were included in the sample. However, the estimates which include data from returns with adjusted gross income of less than $50,000 are subject to sampling variability. Since a sample is only a part of the population from which it comes, differences are likely to occur between sample estimates and the corresponding values obtained from examination of the entire population made under identical circumstances, i.e., from a census of the universe. A measure of how well sample values approximate those that would have been obtained from a census is called a measure of sampling reliability. Such a measure generally depends upon the number of samples on which

an estimate is based as well as the variation between the individual sample values. A measure of sampling reliability for each item in the study could be estimated from the sample itself, but due to the complexity of the computations and the large number of items involved, it is impractical to derive individual estimates for all sample values. However, the following estimates of sampling reliability at the 95 percent level of confidence were computed for three highly significant items in the study—4.4 percent for adjusted gross income, 4.0 percent for the number of exemptions, and 2.7 percent for the combined normal and surtax liability reported on all returns. This means that the chances are 95 out of 100 that: (1) the sample value for total adjusted gross income, which was $2,384 million, will not differ from that obtained from a census of all returns by more than 4.4 percent; (2) that the estimated total number of personal exemptions, which was 1.4 million, will not differ from an actual count of all exemptions by more than 4 percent; and (3) that the estimated total tax liability of $18.3 million will not differ from the actual by more than 2.7 percent. Moreover, it is reasonable to assume that the estimates for adjusted gross income, personal exemptions, and tax liability do not possess a lesser degree of reliability than other associated sample values. For example, since estimates of other money amounts derived from the sample are closely related to or depend on adjusted gross income it may be confidently assumed that they also possess a comparable degree of reliability.

Another indication of the reliability of the sample estimates is revealed by comparing the estimate of the aggregate amount of combined normal and surtax liability derived from the sample with that computed by the Department of Revenue on the basis of actual tax liability reported on all returns from which the sample was drawn. The Department of Revenue figure for the total tax liability on the returns filed during the period was $18,567,216, whereas the aggregated sample estimate amounted to $18,327,614, or 98.7 percent of the actual. In other words, the sample estimate was only 1.3 percent less than the actual figure obtained from a complete census of this item. Equally significant is the fact that this 1.3 percent margin of error for total tax liability is actually less than one-half as large as the 2.7 percent estimate of sampling reliability obtained for this item at the 95 percent level of confidence, as noted above.

Other Limitations of the Data. In addition to sampling variability the data used as the basis for the analysis of the 1957 personal income tax returns are subject to a number of other limitations which are inherent in any survey. Since the returns were used in pre-audit form, they do not reflect the changes which will be made on some of the returns as a result of the Department of Revenue's auditing program. Moreover, controls maintained over the selection, processing and editing of the sample data do not completely eliminate the possibilities of errors having been made in recording, coding, editing and tabulating. The exact extent to which such errors affect the accuracy of the estimates is unknown, but it is believed that the quality of the survey data would not have been as high had a complete census of the returns been undertaken.

CHAPTER XIII

THE CORPORATION INCOME TAX

The corporation income tax has become widely accepted as an indispensable component of the modern American tax structure. It has proved to be a highly productive source of revenue, an essential instrument of fiscal policy, and an important supplement to the personal income tax. On the state level it has grown more rapidly during the past two decades than any other major source of state tax revenue. Not only is the tax second in quatitative importance, but it has been described as the nation's "second-best tax."[1]

The present federal corporate income tax was adopted in 1909,[2] four years before the enactment of the federal personal income tax. During World War I federal corporate income tax revenues were more than twice as large as personal income tax revenues,[3] and throughout the inter-war period of 1925-1940, they exceeded the personal income tax collections in every year but two.[4] It has been only since World War II that the latter have remained consistently greater than corporate income tax receipts.

On the state level the patterns of development of corporate and personal income taxation generally have been similar. Beginning with Wisconsin's income tax act of 1911, the two forms of state income tax usually have been enacted in the same statute, as in the case of Colorado. At present all states which levy a regular personal income tax also use a corporation income tax of some type, and income taxes are limited solely to corporations in four states—Connecticut, Rhode Island, New Jersey and Pennsylvania. At present thirty-four states and the District of Columbia levy taxes on corporate net income. Twelve states introduced corporate income taxes prior to 1929; nineteen others, including Colorado, adopted them during the decade of the Great Depression; and three more states have enacted the tax since World War II.[5]

The growth and relative importance of federal and state corporate income tax collections are shown in Table 13.1.

Table 13.1

Corporate Income Tax Collections in the United States for Selected Fiscal Years 1939, 1950 and 1957

Jurisdiction	1939	1950	1957
A. Amount of collections (millions)			
Nation as a whole	$1,276	$11,488	$22,628
Federal government only	1,156	10,854	21,531
27 income tax states[a]	108	624	1,046
Colorado	1	6	4
B. Percent of total tax collections			
Nation as a whole	14.5	24.0	23.9
Federal government only	22.4	27.9	26.9
27 income tax states[a]	5.0	11.5	11.8
Colorado	2.0	6.5	2.9

[a] Excludes five states which do not segregate corporate and personal income tax receipts.

Sources: U. S. Department of Commerce, Bureau of the Census, *Compendium of State Government Finances, 1950-1957;* and *Financial Statistics of States, 1939 and 1949; Statistical Abstract of the United States, 1948-1958;* and *Annual Report of the Secretary of the Treasury for Fiscal Year 1957.*

On the basis of the above data it appears that corporate tax collections increased almost twenty-fold on the federal level and approximately ten-fold on the state level in less than two decades. Moreover, the 27 corporate income tax states, for which separate data were available, showed a greater increase in the relative importance of the corporate tax than did the federal government during this period. Corporate tax collections for the states, expressed as a percentage of their total tax receipts, more than doubled from 1939 to 1957, increasing from

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[1] Richard Goode, *The Corporation Income Tax* (New York: Wiley & Sons, Inc., 1951), p. 217.

[2] The federal income tax act of 1894, which contained a corporation income tax, was declared unconstitutional in 1895 because of its direct personal income tax provisions. In order to avoid similar constitutional disqualification, the corporate income tax act of 1909 statutorily defined the tax as a "corporate excise tax on the privilege of doing business."

[3] *Statistical Abstract of the U. S., 1947,* pp. 325, 333.

[4] *Annual Report of the Secretary of the Treasury, 1946,* p. 405. Receipts from the corporation and personal income taxes were not reported separately for the fiscal years 1918-1925.

[5] State adoptions of corporate income taxation were as follows:

1911—Wisconsin
1912—Mississippi
1915—Connecticut
1917—Missouri, Montana, New York
1919—North Dakota, Massachusetts
1921—North Carolina
1922—South Carolina
1923—Tennessee
1926—Virginia
1929—Arkansas, California, Georgia, Oregon
1931—Idaho, Oklahoma, Utah, Vermont
1933—New Mexico, Alabama, Arizona, Kansas, Minnesota
1934—Iowa, Louisiana
1935—Pennsylvania
1936—Kentucky
1937—Colorado, Maryland
1939—District of Columbia
1947—Rhode Island
1957—Delaware, New Jersey

5 to almost 12 percent; whereas, the federal receipts only rose from 22 to 27 percent. In sharp contrast, the development of the Colorado corporate income tax during the same period did not parallel either the experience of the other income tax states or the federal government. Although as a percentage of total tax collections the Colorado corporate income tax always has been below the average of the other states, revenue yields from this source in Colorado roughly increased at the same rate as in the other states from 1939 to 1950. Since then, however, Colorado corporate income tax collections actually have declined by approximately 25 percent—from slightly less than $6 million in 1950 to $4.4 million in 1957—while corporate tax collections for all states combined rose by almost 75 percent. On a relative basis, corporate income tax receipts increased from 2 percent of Colorado's total tax revenues in 1939 to 6.5 percent in 1950, only to fall back to 2.9 percent by 1957, despite the fact that the State experienced considerable economic expansion during the period. This relative decline in the tax may largely be attributed to the American Can case of 1947 which severely limited the legal definition of Colorado taxable income for foreign interstate corporations doing business within the State, and consequently resulted in a shrinkage in the State's corporate tax base. In short, the corporation income tax, traditionally underutilized as a source of State revenue, has become even less important in Colorado's over-all tax structure in recent years.

The Rationale of Corporate Income Taxation

A fundamental justification for corporate income taxation is the special benefit or privilege theory, as developed by a series of court decisions. As early as 1911, the U. S. Supreme Court upheld the corporate income tax as "an excise upon the particular privilege of doing business in the corporate capacity," and termed it "a tax upon the doing of business with the advantages which inhere in the peculiarities of corporate or joint-stock organization."[6]

Originally, the privilege theory of corporate taxation was associated with the origin of the corporate form itself. The earliest corporations were granted by the state particular monopoly privileges or exclusive franchises to carry on business in specified regions or communities. As the nature of the corporation changed and corporate charters became more generalized and more easily obtainable by all types of business concerns, the actual development of modern big business became dependent upon the corporation form of organization. Apart from the legal right of existence, the specific privileges or benefits conferred by a corporate charter are: limited liability of stockholders, perpetual life, easy transfer of ownership, diffused sources of financing, and possibilities for intercorporate affiliation. As noted by Goode:[7]

> These characteristics make it easy for corporations to grow in size and power and to tap new sources of finance and wide markets. Undoubtedly they make possible modern big business as we know it and help to account for a large part of corporate profits.

If the benefit principle is accepted as a valid justification of a special tax on corporations, then the amount of corporate net income or profits reflects the benefits of incorporation better than any other single measure of business activity. "The fact that business is done in the corporate form, despite special corporation taxes, is a clear indication that the charter is worth something."[8]

A second major justification of the corporate income tax has been termed the government "partnership in enterprise" principle.[9] According to this view, the remarkable success of modern business in the corporate form justifies special direct taxation of corporate enterprise. The tax provides a way of tapping directly the community's income stream at one of its principal sources, and in so doing it serves as an important supplement to the personal income tax. If government is justified in taxing income after its distribution to the individual agents of production, it is no less justified in taxing part of the yield from production directly at its source. The "partnership principle" also provides a rationale for the carry-back and carry-over of losses for tax purposes, in that government under such provisions shares the losses as well as the gains of enterprise. In other words, the tax "does not substantially modify the chances and risks involved in a business venture, since the government participates in both gains and losses."[10] In short, an important part of the responsibility of both state and federal government is to help maintain the kind of conditions under which free enterprises can flourish and the concomitant obligation of successful corporate enterprises is to bear a share of the costs of government. Corporations are taxed separately from their individual legal owners because they are established and function as separate and independent economic entities.

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[6] *Flint v. Stone Tracy Co.*, 220 U. S. 107, (1911).

[7] Goode, *op. cit.*, p. 28.

[8] *Ibid.*, p. 29.

[9] Gerhard Colm, "The Corporation and the Corporate Income Tax in the American Economy," *Proceedings of the American Economic Association*, May, 1954, pp. 486-503.

[10] *Ibid.*, p. 496.

The economic effects of the corporate income tax have made it a principal instrument of fiscal policy. The flexibility of its yield exceeds that of any other tax and it contributes significantly to the over-all stability of the economy. On the state level, the degree of flexibility of the corporate income tax, and consequently its stabilizing effect, is considerably less than for the federal tax. Nevertheless, for all states combined the stabilizing effect of corporate income taxation is quantitatively important. Moreover, during periods of economic growth characterized by increased demands for state services the rise in corporate income automatically provides an expanded corporate income tax base and tax yield which in part helps meet the state's need for greater revenues.

In order to assess the distribution of the burden of a tax, it is necessary to distinguish its impact, i.e., the economic units upon which the tax is levied, from its incidence, i.e., the persons upon whom the burden of the tax ultimately comes to rest. While it is difficult generally to determine accurately the incidence of any tax, the numerous shifting possibilities open to the corporate income tax render a precise determination of the distribution of its burden impossible. Perhaps the most accurate description is provided by the theory of "tax diffusion" which holds that the burden of the corporate income tax is shifted to consumers, wage-earners, and stockholders; and in part is reflected by reduced undistributed corporate profits. Over a long period the tax becomes so imbedded in the commodity price structure and in equity values that its burden is diffused broadly throughout the economy.

Finally, it should be noted that there are two major considerations which specifically favor the use of the corporate income tax by state government. Due to the limited taxing jurisdiction of state governments, the personal income tax cannot reach the entire income produced within the state and corporate profits channeled to out-of-state stockholders will escape a state's taxable income base entirely unless a corporate income tax is also levied. In other words, the corporate tax provides an effective and practical means for states to tax corporate profits originating within their boundaries, and thus, supplements a personal income tax which does not apply to the interest and dividends received by non-residents of the state. Secondly, the over-all state and local tax structure is essentially regressive and to the extent that the corporate income tax burden is borne by the stockholders, it provides an element of progressivity. For all of the above reasons, the corporate income tax works out to be a necessary, productive and equitable feature of a state tax structure in a modern big-business economy.

History of the Corporation Income Tax in Colorado

The Colorado corporation income tax became effective on July 1, 1937, at an initial rate of 4 percent of corporate taxable net income. The enactment followed years of agitation for an income tax, beginning as early as 1912 and finally culminating successfully in the income tax amendment of 1936.

One important argument used throughout the period to support a corporation income tax was based on the inadequate assessment of intangible and real property owned by individuals. It was argued in Colorado, as in other states, that a corporation income tax would be a more effective means of taxing these two categories of property.

A related problem was the difficulty the State Tax Commission encountered in attempting to determine the assessed value of corporations for general property taxation. By 1915 the Tax Commission was setting the assessed value for some 300 corporations, which entailed no less than 105 hearings and 42 rehearings.[11] Moreover, the authority granted the Commission for this task was ambiguous and ill-defined. An independent report in 1916 noted that "just how far the law permits the Commission to go in assessing corporations is not definitely known."[12]

The difficulties inherent in the assessment of corporate property were compounded by an amendment in 1914 empowering the State Board of Equalization to alter valuations of corporate property as determined by the Tax Commission. Until this power was curbed by a court decision in 1929, the Board of Equalization was petitioned by numerous corporations, and generally granted their requests for lower assessments. For example, the Tax Commission stated that:[13]

> . . . in 14 years, the Board has lowered this Commission's valuations on public utilities, railroads, and other like corporations, approximately $30,667,810 . . . In all that time not a single increase in valuations has been made or ordered, and, with one exception, all its reductions have been given to corporate property. In other words, its equalization has been 100 percent downward and confined to corporations.

Also, during this period the courts interfered with the assesment of corporate property. It was contended that Colorado was practically the only state where valuations fixed by the State Tax Commission could be attacked in court based solely on the proposition that the valu-

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[11]State of Colorado, State Tax Commission, *Fourth Annual Report*, 1915, p. 3.

[12]R. M. Haig, *The Work of the Colorado Tax Commission*, Denver, 1916, pp. 69-70.

[13]State of Colorado, State Tax Commission, *Fifteenth Annual Report*, 1926, p. 8.

ations were too high. This practice was stopped by a Colorado Supreme Court decision in 1934, in which it was declared that the "lower Court obviously misapprehended its proper function."

Thus, the taxation of corporations under the general property tax in the period before 1937 was extremely difficult and inadequate, and despite the fact that some of the deficiencies were remedied, they all served to help strengthen the growing pressure for a corporation income tax.

The 1937 corporation income tax provisions and regulations were patterned closely after those of the federal code in effect at that time. The principal statutory amendments and court interpretations affecting the Colorado corporate income tax base since 1937 are as follows:

1947—The American Can case, in which the court restricted the legal definition of "Colorado sales" made by interstate firms, thereby reducing the Colorado taxable income base.[14]

1951—An amendment to broaden the Colorado tax base of interstate firms by defining Colorado taxable income as corporate "income from any activities carried on in this state, regardless of whether carried on in intrastate, interstate or foreign commerce."

1952—An amendment changing the status of savings and loan associations, credit unions, and cooperatives under the Act. Savings and loan associations were to be treated essentially as ordinary corporations, and credit unions and cooperatives were required to apply individually for tax exempt status.

1953—An amendment which provided that net capital losses could be carried over as a deduction from gross income for four succeeding tax years, limited to an annual deduction of $2,000 in excess of any net capital gains. Net operating losses were allowed a four-year carryover and were to be treated as short-term capital losses. The statutory depletion allowance for coal-mining firms was increased from 5 to 10 percent of the yearly gross income. The Oil and Gas Gross Receipts Tax was enacted as an amendment to the Income Tax Act and thus could not be used as a deduction against corporate taxable income.

1954—The Colorado Revised Statutes (1953) became effective, including a substantive alteration in the Income Tax Act which made the Oil and Gas Gross Receipts Tax deductible under the regular income tax.

1955—Contributions claimed as deductions by interstate firms were limited to 5 percent of their Colorado taxable net income.

1958—An amendment which redefined the "Colorado sales" factor of the allocation formula used by interstate firms.[15]

In addition to the above changes in tax base, variations in the statutory rate of the corporation tax have been made as follows: in 1947 the rate was raised from 4 to 5 percent of corporate net income for a temporary period. In 1949 the rate reverted automatically to 4 percent, but in March of that year the 5 percent rate was again adopted. In 1950 a "temporary" 20 percent rate reduction was granted, which was annually re-enacted for six more years. In 1957 the tax credit was set at 15 percent, and finally in 1958 the "temporary" reduction was allowed to lapse, restoring the 5 percent statutory rate. During this period the rate on banks remained at 6 percent of net income, except for the single year 1950 when the 20 percent reduction was also extended to banks.

The expansion in the scope of the Colorado corporation income tax is indicated by Table 13.2.

Table 13.2

Number of Colorado Corporate Income Tax Returns Filed, Calendar Years, 1938-1958

Year	Number of returns filed			Taxable returns as percent of total
	Total	Taxable	Non-taxable	
1938	6,180	1,992	4,188	32
1939	5,830	1,963	3,867	34
1940	5,625	2,183	3,442	39
1941	4,863	1,969	2,894	40
1942	5,449	2,763	2,686	51
1943	5,576	3,443	2,133	62
1944	5,480	3,540	1,940	65
1945	5,701	3,749	1,952	66
1946	6,115	4,226	1,889	69
1947	5,647	3,881	1,766	69
1948	6,218	4,171	2,047	67
1949	6,252	4,005	2,247	64
1950	6,835	4,291	2,544	63
1951	7,328	4,786	2,542	65
1952	7,759	5,190	2,569	67
1953	8,250	5,099	3,151	62
1954	8,997	5,517	3,480	61
1955	9,487	6,616	2,871	70
1956	9,814	6,128	3,686	63
1957	11,733	8,174	3,559	70
1958	12,009	7,885	4,124	66

Source: State of Colorado, Department of Revenue, *Annual Reports*, 1942-1957.

While the total number of corporations filing returns increased by about 100 percent from 1939 to 1958, the number of taxable returns increased by over 300 percent. The latter rose from less than 2,000 in 1939 (the first full year of the tax) to almost 8,000 in 1959. Expressed as a fraction of the total, they increased from about one-third to two-thirds by the mid-forties, and have remained approximately at this level since the war.

[14] *State v. American Can Co.*, 117 Colorado 312; 186 P. (2d) 779.

[15] In addition to the above revisions an amendment was passed in 1958 which placed the payment of the tax on a current year basis. All corporations with expected tax liabilities in excess of $1,000 were required to pay their taxes in the same year in which the liabilities were incurred.

Fiscal year collections from the Colorado corporate income tax are shown in the following table.

Table 13.3

Net Collections from the Colorado Corporate Income Tax
Fiscal Years, 1939-1958

Year	Net collections after refunds: Amount (thousands)	Index (1939 =100)	As percent of total collections
1939	$ 706	100	2.0
1942	1,218	173	3.2
1944	2,319	329	5.6
1945	2,546	361	6.0
1946	3,301	468	6.5
1947	3,076	436	4.6
1948	4,620	654	5.6
1949	5,783	819	6.4
1950	5,987	848	6.5
1951	6,535	926	6.5
1952	6,121	867	5.8
1953	5,515	781	4.9
1954	6,153	872	5.4
1955	5,677	804	4.3
1956	6,071	860	4.2
1957	4,399	623	2.9

Source: U. S. Department of Commerce, Bureau of the Census, *State Government Finances, 1946;* and *Compendium of State Government Finances, 1947-1957.*

On the basis of the above data it is evident that the corporate income tax has been a relatively minor source of state revenue. Throughout the period net receipts from this tax ranged from 2 to 6.5 percent of the total tax collections. Corporate tax revenues rose steadily from $.7 million in 1939 to $6.5 million in 1951. The following six years, while the State economy in general continued to expand[16] corporate tax collection remained under the 1951 level and reached a low of $4.4 million in 1957. In large part, this decline was due to the effects of the American Can case which diminished legally taxable income of foreign interstate firms operating in Colorado and the corporate tax refunds made pursuant to this decision. A single refund of almost $.4 million was made as late as fiscal 1957. However, it appears that the effects of the American Can decision had been fully absorbed into the corporate tax structure by 1958, for in that year net collections showed a strong element of normal growth for the first time since 1951. Moreover, the tax base will be enlarged if the 1958 amendment redefining the "sales" component of the allocation formula works out to be successful, and corporate tax collections should continue to increase with expanding economic activity.

Tables 13.4 and 13.5 compare Colorado's corporate income tax collection with that of the other 26 income tax levying states for which data were available for fiscal year 1957.

[16]During this period Colorado personal income increased by 74 percent and taxable retail sales of foreign corporations rose by 94 percent.

Table 13.4

Comparative State Corporate Income Tax Collections
Fiscal Year, 1957[a]

State	Corporate income tax collections (thousands)	Total state tax collections (thousands)	Corporate income tax collections as percent of total collections: Percent	Rank
Arkansas	$ 9,777	$ 125,260	7.8	15
California	167,339	1,637,187	10.2	9
Colorado	4,399	153,255	2.9	25
Connecticut	29,765	227,614	13.1	4
Georgia	21,850	314,513	7.0	20
Idaho	4,135	50,714	8.2	14
Iowa	3,861	247,906	1.6	27
Kansas	4,605	158,035	2.9	24
Kentucky	17,470	201,160	8.7	12
Maryland	19,457	250,637	7.8	16
Massachusetts	30,449	413,595	7.4	18
Minnesota	21,706	292,567	7.4	17
Mississippi	13,920	160,523	8.7	13
Montana	2,360	52,632	4.5	22
New York	251,284	1,440,454	17.4	1
North Carolina	45,582	369,779	12.3	6
North Dakota	1,174	51,750	2.3	26
Oklahoma	10,457	235,720	4.4	23
Oregon	20,713	193,985	10.7	8
Pennsylvania	164,059	985,222	16.7	2
Rhode Island	7,880	62,563	12.6	5
South Carolina	17,412	184,344	9.5	10
Tennessee	19,647	268,896	7.3	19
Utah	8,224	76,746	10.7	7
Vermont	2,283	34,916	6.5	21
Virginia	27,453	315,908	8.7	11
Wisconsin	55,646	355,977	15.6	3
Total	982,907	8,861,858	11.1	—

[a] Alabama, Arizona, Louisiana, Missouri, and New Mexico are not included because personal and corporate income tax collections were not reported on a segregated basis.

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1957*, p. 11.

On the basis of Tables 13.4 and 13.5 it will be noted that the corporation income tax is highly unutilized as a source of state revenue in Colorado when compared with that of other income tax states. Colorado's collections, which amounted to less than 3 percent of its total tax revenues, was significantly below the national average of 11 percent, and ranked 25th among the 27 corporate income tax states for which corporate tax data were available. It is interesting to note that the six states which on a relative basis utilize the tax most fully as a part of their tax structures—New York, Pennsylvania, Wisconsin, Connecticut, Rhode Island and North Carolina—do not allow corporations to deduct their federal income tax payments from state taxable income; whereas, the half-dozen lowest ranking states—Montana, Oklahoma, Kansas, Colorado, North Dakota, and Iowa—all permit such federal income tax deductibility. Or viewed differently, corporate income tax collections for 1957 for the nine states which permitted federal income tax deductibility averaged 5 percent of their total tax revenues, whereas for the 18 states which do not permit deductibility the corporate tax collections averaged more than 10 percent. Table 13.5 presents three other relevant measures used as the basis for making interstate

Table 13.5

Comparative State Corporate Income Tax Collections as Percentages of Total State Income Tax Collections, Federal Corporate Income Tax Collections, and Personal Income Received Fiscal Year, 1957

Corporate income tax collections as percent of total state income tax collections			Corporate income tax collections as percent of federal corporate tax collections			Corporate income tax collections as percent of personal income		
Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Connecticut	100.0	1	Mississippi	7.9	1	N. Carolina	0.77
2	Pennsylvania	100.0	2	S. Carolina	6.2	2	Wisconsin	0.75
3	Rhode Island	100.0	3	Arkansas	5.3	3	Pennsylvania	0.70
4	Tennessee	81.6	4	Utah	4.3	4	Mississippi	0.67
5	Mississippi	69.9	5	Oregon	4.0	5	S. Carolina	0.62
6	Arkansas	64.4	6	Wisconsin	3.8	6	New York	0.61
7	California	53.9	7	Tennessee	3.3	7	Oregon	0.61
8	South Carolina	51.2	8	Idaho	3.2	8	Utah	0.57
9	North Carolina	46.3	9	Vermont	2.9	9	Arkansas	0.48
10	Georgia	45.7	10	Pennsylvania	2.8	10	California	0.48
11	Oklahoma	45.4	11	Georgia	2.7	11	Connecticut	0.47
12	Utah	44.9	12	North Carolina	2.6	12	Rhode Island	0.46
13	New York	34.5	13	California	2.5	13	Virginia	0.45
14	Wisconsin	33.5	14	Rhode Island	2.4	14	Kentucky	0.42
15	Idaho	29.1	15	Virginia	2.2	15	Tennessee	0.41
16	Kentucky	27.8	16	Connecticut	2.1	16	Georgia	0.40
17	Maryland	27.5	17	Minnesota	1.8	17	Idaho	0.40
18	Kansas	25.8	18	Montana	1.7	18	Vermont	0.36
19	North Dakota	25.4	19	New York	1.7	19	Minnesota	0.35
20	Minnesota	25.2	20	North Dakota	1.5	20	Maryland	0.31
21	Montana	23.8	21	Massachusetts	1.4	21	Oklahoma	0.28
22	Massachusetts	21.5	22	Oklahoma	1.3	22	Massachusetts	0.27
23	Virginia	20.6	23	Kentucky	1.1	23	Montana	0.19
24	Vermont	20.0	24	Maryland	1.1	24	Colorado	0.13
25	Oregon	18.4	25	Kansas	0.9	25	North Dakota	0.13
26	Colorado	16.0	26	Iowa	0.7	26	Kansas	0.12
27	Iowa	11.9	27	Colorado	0.5	27	Iowa	0.08
	Average	40.8		Average	2.1		Average	0.50

Source: Adapted from U. S. Bureau of the Census, *Compendium of State Government Finances in 1957*, p. 11; U. S. Bureau of the Census, *Statistical Abstract of the United States, 1958*, p. 373; and U. S. Department of Commerce, *Survey of Current Business*, August, 1958, p. 21.

comparisons. Colorado's corporate income tax collections, when expressed as percentages of total state income tax collections, federal corporate tax collections, and state personal income receipts, ranked 26th, 27th and 24th, respectively, among the 27 corporate income tax states for which data were available for fiscal 1957. Thus, the Colorado corporate income tax clearly plays a much less important role in state government finance than is the practice of the vast majority of other income tax states.

Basic Provisions of the Colorado Corporate Income Tax

Under the Colorado Income Tax Act, the scope of the corporation tax is somewhat broader than the legal definition of a "corporation." The tax applies equally to "associations and joint-stock companies and organizations by whatever name known, which act or do business in an organized capacity."[17] The only types of business organizations specifically excluded from the provisions of the Colorado corporation income tax are estates, trusts and partnerships. A number of types of non-profit organizations are tax-exempt under the law. In order to qualify for tax-exemption, an organization must submit proof of its non-profit status to the Director of Revenue, and must belong to one of the tax-exempt categories listed in the law.[18] The coverage of the Colorado corporation income tax regarding the types of organizations exempted under the statute, as well as the definition of organizations taxable as corporations, is essentially similar to that of the federal tax and the majority of state corporate income taxes. However, the Colorado statute includes special provisions for the taxation of banks, including national banking associations, state banks, industrial banks, trust companies, finance and loan associations, and Morris Plan companies. The income tax on a bank is "for the privilege of exercising its corporate franchise within the State . . . (as) measured by its net income," and is in lieu of all state and local property taxation of intangible bank assets.

The Colorado corporate income tax, except in the case of banks, is a direct tax *levied* on corporate net income, in contrast to a corporate excise, privilege or annual franchise tax which is *measured* by net income. As noted above, the Colorado Income Tax Act, as amended in 1951, imposes the tax upon a corporation's net income

[17] This definition includes savings and loan associations, credit unions and cooperatives, but does not include municipal or public corporations. *Colorado Revised Statutes, 1953*, Ch. 138-1-1.

[18] *Colorado Revised Statutes, 1953*, Ch. 138-1-8.

that is "derived from sources within Colorado, including intrastate, interstate and foreign commerce carried on within the State of Colorado."

Tax Base Provisions. The definition of corporate "gross income" under the Colorado statute is that income received from all sources unless specifically excluded by law. The exclusions from gross income under the corporate tax are the same as those under the personal tax, except for an additional exclusion of 85 percent of all intercorporate dividend receipts. In this respect, the Colorado statute differs from that of the majority of the other corporate income tax states as shown by Table 13.6. Only six other states are as generous as Colorado, sixteen states exempt only those dividends paid out of corporate income already taxed by the taxing state, and eight states do not allow any exclusion of dividend receipts.

Table 13.6

Comparative State Summary of Selected Corporate Income Tax Base Factors, 1958

State	Deductibility of federal income tax permitted	85% or more of all types dividend receipts excluded[a]	Exclude interest receipts from: State and local bonds	Exclude interest receipts from: Federal bonds and obligations	Net capital gains included at 100%	Amount of net capital losses permitted
Alabama	Yes	No	Yes	Yes	Yes	Full
Arizona	Yes	No	Yes	Yes	Yes	Full
Arkansas	No	No	Yes	Yes	Yes	Full
California	No	No	No	No	Yes	Full
Colorado	Yes	Yes	No	Yes	Yes	$2,000
Connecticut	No	Yes	No	No	[b]	[b]
Delaware	No	Yes	Yes	Yes	No	None
Georgia	No	No	Yes	No	Yes	Full
Idaho	Yes	No	No	No	Yes	None
Iowa	Yes	Yes	No	Yes	[b]	[b]
Kansas	Yes	No	No	No	Yes	$2,000
Kentucky	No	No	No	No	[b]	[b]
Louisiana	Yes	No	Yes	No	Yes	None
Maryland	No	No	Yes	No	No	Full
Massachusetts	No	No	No	No	Yes	Full
Minnesota	Yes	Yes	No	No	No	$1,000
Mississippi	No	No	Yes	Yes	No	Full
Missouri	Yes	No	Yes	Yes	No	$2,500
Montana	Yes	No	No	No	Yes	Full
New Jersey	No	No	No	No	Yes	Full
New Mexico	Yes	No	Yes	Yes	Yes	Full
New York	No	No	No	No	[b]	[b]
N. Carolina	No	No	Yes	Yes	Yes	Full
N. Dakota	Yes	No	Yes	Yes	No	[c]
Oklahoma	Yes	No	No	No	Yes	Full
Oregon	No	No	No	No	Yes	Full
Pennsylvania	No	Yes	No	No	Yes	Full
Rhode Island	No	No	Yes	Yes	[b]	[b]
S. Carolina	No	No	Yes	Yes	Yes	Full
Tennessee	No	No	No	No	Yes	Full
Utah	Yes	Yes	No	No	Yes	Full
Vermont	No	No	Yes	Yes	[b]	[b]
Virginia	No	No	Yes	Yes	Yes	Full
Wisconsin	No[d]	No	No	No	Yes	Full

[a] "No" indicates that state either includes all dividend receipts in taxable income, or excludes only specific limited categories of dividend receipts.
[b] Same as federal code.
[c] Excludes 50 percent of long-term losses only.
[d] Deductibility of federal tax limited to 10 percent of state taxable income.

Source: Commerce Clearing House, *State Tax Guide, 1958*, and corporation income tax forms and instructions of the several states.

The state is prohibited from taxing dividends from corporations owned or sponsored by the federal government, or interest derived from obligations of the United States and its agencies (interest from bonds of the T.V.A. is an exception).[19] However, interest from state and municipal bonds in Colorado is not excluded from the tax base, and in this respect Colorado conforms to the practice of the majority of income tax states.

Net capital gains to corporations are fully taxable under the present income tax statute and on this score Colorado also is in line with most other income tax states. Twenty-two of the 34 states require full inclusion of net capital gains, and nineteen states allow full exclusion of net capital losses. Fourteen states, including Colorado, impose restrictions of various sorts on the deductibility of net capital losses.[20]

The corporate income tax bases of the various states also differ in the particular deductions from gross income allowed in computing taxable net income. The specific deductions allowed under the Colorado statute are as follows:

1. Ordinary and necessary business expenses, salaries, traveling expenses and rentals.
2. Interest paid on indebtedness, except that incurred to purchase or to carry tax-exempt securities; and for savings and loan associations, amounts paid or credited on share capital, share accounts and savings accounts.
3. All taxes, except: (a) those levied under the Colorado income tax, other than the oil and gas gross income tax; (b) income taxes paid to another state, the District of Columbia, and territories or possessions of the United States (but interstate corporations allocating income to Colorado may deduct the above taxes); and (c) death and gift taxes, and special local assessments which tend to increase the value of the property assessed.
4. Uninsured or otherwise uncompensated losses.
5. Net capital losses, to a maximum amount of $2,000 in a given year. Capital losses may be carried forward for four succeeding years, for a maximum amount of $2,000 above capital gains in each of the years.
6. Net operating losses from previous years, to a maximum amount of $2,000 above net capital gains in the given taxable years, may be carried forward for four successive years.
7. Bad debts charged off during the year.
8. Reasonable allowance for depreciation and obsolescence of property used in the trade or business.

[19] A state may not levy a direct tax upon federal obligations or the income therefrom, but in the case of corporate franchise or privilege taxes, income from federal securities may be included in the measure of the tax base. See Miller et al. v. Milwaukee, 1927, 1 STC P265, 272 U. S. 713, 47 S.Ct. 280; Pacific Co., Ltd., v. Johnson, 1932, 1 STC P275, 285 U. S. 480, 52, S.Ct. 424.

[20] Eleven states, including Colorado, allow operating loss carryover, but only four states allow the carryover for a smaller number of years than Colorado does. Colorado also is unique in limiting the amount of loss carryover in any one year to $2,000 in excess of the net capital gains of that year.

9. Depletion allowances, as follows: (a) *for oil and gas producers*—adjusted cost basis or 27 percent of gross income (excluding any rents or royalties paid); (b) *for coal mines*—adjusted cost basis, or 10 percent of gross income; (c) *for mineral and other mines*—adjusted cost basis, or 40 percent of gross income (excluding any rents or royalties paid); and (d) *for timber growers*—adjusted cost basis. If the taxpayer is using the percentage-of-income type of depletion allowance, it may not exceed 50 percent of current *net* income, but in no case is the allowance less than it would be if computed on the adjusted cost basis.
10. Chairtable gifts, limited to 5 percent of net income, (i.e., 5 percent of net income allocated to Colorado in the case of interstate firms).
11. In the case of R.E.A. and other cooperatives, all patronage-dividends, refunds, rebates, or capital credits paid, credited, or allocated to members.
12. In the case of savings and loan associations, additions to a reserve established for the sole purpose of meeting or absorbing losses, up to 5 percent of net income.

The deductions allowed under the Colorado statute generally parallel those of the other corporate income tax states. However, with regard to the most important single deduction, federal income taxes paid, Colorado is in the distinct minority among the corporate income tax states of the nation. Out of thirty-four states presently using corporate income taxes, nineteen do not permit any deductibility of federal income taxes, and Wisconsin permits limited deductibility only. It may be noted that the states which permit federal tax deductibility are primarily agricultural states and their corporate income tax revenues are relatively small. In contrast, the states which do not permit federal deductibility are generally the important industrial and manufacturing states, and the corporate income tax accounts for a significantly higher proportion of their total tax collections.

Tax Rate Provisions. The nominal statutory rate of the Colorado corporate income tax was 4.25 percent of taxable net income in 1957, and 5 percent in 1958. For banks, the nominal rate was 6 percent in both years. Table 13.7 presents an interstate comparison of nominal corporate income tax rates in use throughout the nation in 1958. It will be noted that twenty-eight states used a single rate and only six had progressive rate structures. The most commonly used rate was 5 percent, levied by seven states including Colorado, and it represented the median for all the corporate income tax states. In terms of "effective rates," however, the Colorado tax was considerably below the national median at all levels of corporate net income, as shown by Table 13.8. The "effective rate" measures the actual tax cost attributable to the imposition of the state tax expressed as a percent of the firm's

Table 13.7

Comparative Statutory State Corporate Income Tax Rates, 1958

Rank	State	Statutory rates[a]
1	Idaho	8.8
2	Minnesota	7.3
3	Kentucky[b]	7.0 - 5.0
4	Wisconsin[b]	7.0 - 2.0
5	Massachusetts[b]	6.765
6	North Carolina[b]	6.0
7	Oregon[b]	6.0
8	Pennsylvania[b]	6.0
9	North Dakota	6.0 - 3.0
10	Mississippi[b]	6.0 - 2.0
11	New York[b]	5.5
12	Rhode Island[b]	5.5
13	Delaware[b]	5.0
14	Maryland[b]	5.0
15	**Colorado**	**5.0**
16	Montana	5.0
17	South Carolina[b]	5.0
18	Vermont[b]	5.0
19	Virginia[b]	5.0
20	Arizona	5.0 - 1.0
21	Arkansas[b]	5.0 - 1.0
22	California[b]	4.0
23	Georgia[b]	4.0
24	Louisiana	4.0
25	Oklahoma	4.0
26	Utah	4.0
27	Connecticut[b]	3.75
28	Tennessee[b]	3.75
29	Kansas	3.5
30	Alabama	3.0
31	Iowa	2.0
32	Missouri	2.0
33	New Mexico	2.0
34	New Jersey[b]	1.75
	Median	5.0

[a] Two rates represent the maximum and minimum rates of a progressive rate structure.
[b] Do not permit full deductibility of federal income tax.

Source: Commerce Clearing House, *State Tax Guide, 1958.*

total net income before either federal or state income taxes. In other words, the effective or actual cost of the tax to the corporation is the net amount by which the firm's total state and federal income tax liability *combined* exceeds the federal tax the firm would have incurred in the absence of a state income tax. The data show that at the $25,000 level of net income the Colorado effective rate was 2.5 percent and the State ranked 21st, at the $1 million level the rate was only 1.2 percent, and at levels of net income above $50,000 Colorado ranked 24th, or among the lowest one-third of the states levying corporate income taxes. This comparatively low position primarily results from the fact that Colorado is among the minority of states which permit the deductibility of the federal income tax in the computation of the state tax liability. Thus, nineteen of the twenty states which do not permit full federal tax deductibility have higher effective corporate income tax rates than Colorado at all levels of income above $50,000, although half of these states have statutory rates which are actually equal to or smaller than the Colorado nominal rate. Moreover, it is im-

Table 13.8

Comparative Effective State Corporate Income Tax Rates at Selected Levels of Net Income, 1958

Effective rate at $25,000[a]			Effective rate at $50,000[a]			Effective rate $1,000,000[a]		
Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Massachusetts[b]	4.7	1	Massachusetts[b]	4.0	1	Wisconsin[b]	3.4
2	Idaho	4.4	2	Wisconsin[b]	3.9	2	Kentucky[b]	3.4
3	Wisconsin[b]	4.4	3	Kentucky[b]	3.5	3	Massachusetts[b]	3.3
4	North Carolina[b]	4.2	4	North Carolina[b]	3.5	4	North Carolina[b]	2.9
5	Oregon[b]	4.2	5	Oregon[b]	3.5	5	Oregon[b]	2.9
6	Pennsylvania[b]	4.2	6	Pennsylvania[b]	3.5	6	Pennsylvania[b]	2.9
7	New York[b]	3.8	7	New York[b]	3.2	7	Mississippi[b]	2.9
8	Rhode Island[b]	3.8	8	Rhode Island[b]	3.2	8	New York[b]	2.7
9	Minnesota	3.6	9	Idaho	3.2	9	Rhode Island[b]	2.7
10	Delaware[b]	3.5	10	Delaware[b]	3.0	10	Delaware[b]	2.4
11	Kentucky[b]	3.5	11	Maryland[b]	3.0	11	Maryland[b]	2.4
12	Maryland[b]	3.5	12	South Carolina[b]	3.0	12	South Carolina[b]	2.4
13	South Carolina[b]	3.5	13	Vermont[b]	3.0	13	Vermont[b]	2.4
14	Vermont[b]	3.5	14	Virginia[b]	3.0	14	Virginia[b]	2.4
15	Virginia[b]	3.5	15	Mississippi[b]	2.9	15	Arkansas[b]	2.4
16	California[b]	2.8	16	Minnesota	2.6	16	Idaho	2.2
17	Georgia[b]	2.8	17	Arkansas[b]	2.4	17	California[b]	1.9
18	Mississippi[b]	2.7	18	North Dakota	2.4	18	Georgia[b]	1.9
19	Connecticut[b]	2.6	19	California[b]	2.4	19	Connecticut[b]	1.8
20	Tennseess[b]	2.6	20	Georgia[b]	2.4	20	Tennessee[b]	1.8
21	**Colorado**	**2.5**	21	Connecticut[b]	2.2	21	Minnesota	1.8
22	Montana	2.5	22	Tennessee[b]	2.2	22	North Dakota	1.4
23	North Dakota	2.5	23	Arizona	2.0	23	Arizona	1.2
24	Arizona	2.2	**24**	**Colorado**	**1.8**	**24**	**Colorado**	**1.2**
25	Arkansas[b]	2.2	25	Montana	1.8	25	Montana	1.2
26	Louisiana	2.0	26	Louisiana	1.4	26	Louisiana	1.0
27	Oklahoma	2.0	27	Oklahoma	1.4	27	Oklahoma	1.0
28	Utah	2.0	28	Utah	1.4	28	Utah	1.0
29	Kansas	1.7	29	Kansas	1.2	29	New Jersey[b]	0.8
30	Alabama	1.5	30	Alabama	1.1	30	Kansas	0.8
31	New Jersey[b]	1.2	31	New Jersey[b]	1.0	31	Alabama	0.7
32	Iowa	1.0	32	Iowa	0.7	32	Iowa	0.5
33	Missouri	1.0	33	Missouri	0.7	33	Missouri	0.5
34	New Mexico	1.0	34	New Mexico	0.7	34	New Mexico	0.5
	Median	2.75		Median	2.4		Median	1.9

[a] On net income before any income tax.
[b] Do not permit full deductibility of federal income tax.

Source: Commerce Clearing House, *State Tax Guide, 1958.*

portant to note that income tax deductibility transforms slightly progressive and proportional nominal corporate rates into regressive effective rates, with the regressivity being considerably greater for the minority of states which allow the full deductibility of the federal tax. For example, this is shown for Colorado in the table below which compares the 1958 effective rates in Colorado for firms at different levels of net income with the effective rate which would prevail if federal tax deductibility on the state level were not permitted.

Table 13.9

Effective Rates of the Colorado Corporate Income Tax at Selected Levels of Net Income, 1958

Net income before all income taxes	Effective rates with federal tax deductibility	Effective rates without federal tax deductibility
$ 25,000	2.49	3.50
50,000	1.78	2.95
100,000	1.46	2.68
500,000	1.24	2.46
1,000,000	1.21	2.43

It will be noted that under Colorado's present statutory rate of 5 percent, the effective rate for the firm with $25,000 of net income before tax is more than twice as large as that for the firm with $1 million of income; whereas, if the deduction of the federal tax were not permitted by the State the effective rate for the smaller firm would be about 50 percent greater than that for the larger firm. In short, reciprocal tax deductibility makes the effective state corporate income tax structure more regressive as long as the federal nominal rate structure is slightly progressive (30 percent on the first $25,000 of corporate taxable income, and 52 percent on income in excess of $25,000).

Allocation of Interstate Income. One of the most difficult problems of corporate income taxation on the state level is the apportionment or allocation of net income for tax purposes by interstate firms, i.e., by firms carrying on business both within and without the State of Colorado. Among the corporate income tax states, three types of methods are in general use for apportioning interstate corporate income: (1) separate accounting, (2) allocation of particular classes of income to the state in which they may be said to have a taxable situs, and (3) apportionment by an allocation formula. Most states allow the separate accounting method whenever the taxpayer's accounts are kept in a manner which reflects the business attributable to the taxing state, and some states prescribe this method. Every state, however, provides a stat-

utory allocation formula of some sort, since many types of interstate incomes cannot be directly attributed to any given state.

In Colorado, both general methods of apportionment—separate accounting and formula allocation—were provided for in the original statute, and both were used widely until 1958,[21] when the separate accounting method was eliminated by statutory amendment[22] as a general method of apportionment. The amended act provides for the allocation of interstate income as follows: (1) interest, dividends, and royalties or similar receipts are to be allocated to the state in which the principal place of business of the corporation is located;[23] (2) rents and capital gains and losses are to be allocated to the state in which the property or capital asset is located, and (3) the remainder of net income is to be allocated by the statutory two-factor formula based on property and sales. The property factor (the ratio of a firm's Colorado tangible property to its total property) is applied to one-half of a firm's total net income which cannot be directly allocated to Colorado, and the sales factor (the ratio of a firm's Colorado gross receipts to total receipts) is applied to the other half. In effect, an interstate firm's net income not directly allocable to Colorado is multiplied by the average value of the property and sales ratios, each weighted equally, in order to determine the amount of income subject to the state tax.

Colorado's two-factor allocation formula, however, is unique among the thirty-four corporate income tax levying states. As shown in Table 13.10 twenty-eight states use a three-factor formula, generally composed of property, gross receipts and payroll components. The property factor usually consists of all tangible property used in connection with the business and six states specifically include rental property. The payroll factor usually consists of all wages, salaries, bonuses, commissions, or other payments made to employees, but compensation of officers is not always included. In a few states the sales factor also includes various types of non-operating income, such as rents and royalties. The half dozen states which substitute costs for payrolls in their formulas variously define such cost components as manufacturing or selling costs only, as operating costs, or as all business expenses.

Table 13.10

Components of Statutory Allocation Formulas State Corporate Income Taxation, 1957

State	Tangible property	Sales or gross receipts	Payroll or other costs[a]	Allow separate accounting[b]
Alabama	X	X	X[a]	Yes
Arizona	X	X	X	Yes
Arkansas	—	X	—	Yes
California[c]	X	X	X	—
Colorado	X	X	—	No
Connecticut	X	X	X	—
Delaware	X	X	X	Yes
Georgia	X	X	X	—
Idaho	X	X	X	Yes
Iowa	—	X	—	No
Kansas	X	X	X[a]	Yes
Kentucky	X	X	X	—
Louisiana	X	X	X	Yes
Maryland	X	X	X	Yes
Massachusetts	X	X	X	—
Minnesota	X	X	X	Yes
Mississippi	X	X	X	—
Missouri	—	X	—	Yes
Montana[d]	X	X	X	Yes
New Jersey	X	X	X	—
New Mexico	X	X	X[a]	Yes
New York	X	X	X	—
North Carolina	X	X	X	—
North Dakota	X	X[e]	—	Yes
Oklahoma	X	X	X[a]	—
Oregon	X	X	X	Yes
Pennsylvania	X	X	X	—
Rhode Island	X	X	X	—
South Carolina	X	X	X	Yes
Tennessee	X	X	X[a]	Yes
Utah	X	X	X	—
Vermont	X	X	X	—
Virginia[f]	X	X	—	Yes
Wisconsin	X	X	X[a]	—

[a] Indicates manufacturing or selling costs used as third factor instead of payroll.
[b] "No" indicates that separate accounting is specifically not allowed.
[c] Purchases, costs, or other factors may be used.
[d] Recommends standard three-factor formula, but does not require it.
[e] Second factor is a "business ratio" of wages, costs and gross receipts.
[f] Sum of property and gross receipts in both numerator and denominator.

Source: Commerce Clearing House, *State Tax Guide, 1958*, and individual state income tax instructions and regulations.

The statutory definition of a sale made by an interstate firm within the given state constitutes one of the major differences between the allocation formulas of the several states. Thirty-three of the 34 states include sales as a basic factor in their formulas. The principal criteria used in the various definitions of in-state sales for tax purposes are shown in Table 13.11.

As is evident, the most widely used method is to attribute the sale to the given state if it is "principally secured, negotiated or effected by

[21] The distribution of interstate firms by the allocation methods used on their 1957 Colorado returns filed in 1958 was:

	Number of firms
Direct allocation based on separate accounts	446
Regular statutory allocation formula	951
Special allocation formulas approved by Director of Revenue	43
Total number of interstate firms	1,440

[22] See 1958 amendments to *Colorado Revised Statutes*, Ch. 138-1-28.

[23] The allocation of such receipts as interest, dividends, and royalties was made more clear-cut by this amendment. Under the original statute they were allocated to Colorado only if "received in connection with business transacted and property located within the state." (*Colorado Revised Statutes*, 1953, Ch. 138-1-28, par. 2.) This provided a loophole for some domestic firms who, by holding a sizable part of their intangible assets in out-of-state banks, had been able to claim that the income from such investments was not taxable to Colorado.

Table 13.11

Statutory Criteria of Sales by Foreign Interstate Firms State Corporate Income Taxation, 1957

Criteria	Number of states
Destination of goods	4
Place where order accepted and/or title passed	2
By or through offices, agencies, or branches in the state	15
From stocks or warehouses in the state	4
Combinations of above	3
Other or not specified	6
Total	34

employees, agents, offices or branches of the corporation located in this state,"[24] or if it is any sale except those "negotiated or effected by agents or agencies chiefly situated at, connected with, or sent out from premises . . . outside the state."[25] Only a few states in addition to Colorado now use the destination of goods sold as the chief criterion for an in-state sale, although in many ways this is the simplest and least ambiguous criterion. It is interesting to note, however, that under the Colorado statute the legal definition of a "Colorado sale" by a foreign firm has actually been the most crucial determinant in the operation of the allocation formula. From 1937, when the original statute was enacted, until 1954 the Department of Revenue attempted to uphold the interpretation of a "Colorado sale" as one in which the merchandise involved was transported to some destination within the State. In the American Can decisions, however, it was ruled that the location of a sale for tax purposes was to be determined by the place where the sale contract was approved and/or title to the merchandise was passed. Finally, the 1958 amendment which redefined a sale in terms of the destination of the goods, explicitly provided that the place where the contract is approved or title is passed shall not be used as the criterion for determining the Colorado sales of interstate firms. The effect of this last attempt to close the "loophole" caused by the American Can cases of a decade ago will not become apparent until the 1959 corporate tax levy is collected in 1960. But in any case, Colorado continues to be one of the two states in the nation (the other is Virginia) operating under a two-factor formula in which the sales component is a basic determinant of the amount of an interstate firm's net income subject to state corporate income taxation. In order to attain uniformity in the allocation procedures of all the states, and thereby achieve more equitable taxation of corporate net income derived from interstate business, the National Tax Association, the National Association of Tax Administrators, and the American Bar Association have recommended that all states adopt a standardized version of the three-factor formula currently used by twenty-two states.[26]

[24] *Maryland Income Tax Regulations, 1956*, 3(d) section (f).

[25] *Minnesota Income Tax Regulations, 1956*, article 19-4, section (4).

Distribution of the Colorado Corporate Income Tax Base

A detailed analysis of the types of firms subject to the Colorado corporate income tax during taxable year 1957, classified by geographic scope of operations, principal place of business, and asset size of firms, was made on the basis of a census of all 1957 regular returns filed by interstate firms, and a systematic sample of those filed by firms whose operations were confined solely to Colorado.[27] Table 13.12 shows the number of active firms filing 1957 corporate returns, classified on the basis of the first two factors.

Table 13.12

Distribution of Firms and Corporate Taxable Income by Scope of Operations and Principal Place of Business,[a] Colorado Corporate Income Tax Returns, 1957

Type of firm	Total number of firms	Taxable Corporations: Number of firms	Taxable Corporations: Percent dist.	Taxable income: Amount (thousands)	Taxable income: Percent dist.
Colorado firms					
Domestic	7,420	3,769	79.6	$ 63,123	43.9
Foreign	324	110	2.3	4,053	2.8
Total	7,744	3,879	81.9	67,176	46.7
Interstate firms					
Domestic	184	122	2.6	35,820	24.7
Foreign	1,256	733	15.5	40,958	28.6
Total	1,440	855	18.1	76,778	53.3
All firms					
Domestic	7,604	3,891	82.2	98,943	68.6
Foreign	1,580	843	17.8	45,011	31.4
Total	9,184	4,734	100.0	143,954	100.0

[a] Classification of firms is based on following definitions:
Colorado firms—net income derived solely from Colorado operations, i. e., intrastate firms.
Interstate firms—net income derived from operations in Colorado and other states.
Domestic firms—main offices located in Colorado, i. e., domestic commercial domicile.
Foreign firms—main offices located outside Colorado, i. e., foreign commercial domicile.

On the basis of the survey data it appears that less than five thousand corporations, or only about one-half of the nine thousand active firms

[26] The effects on Colorado tax revenues and corporate tax costs which would have resulted if firms filing Colorado returns in 1958 had been required to use a three-factor formula (i.e., the addition of a payroll factor) in the computation of their 1957 corporate tax liability are presented in the final section of this chapter.

[27] For the purposes of this survey the taxable year 1957 included the returns of firms filing on a calendar year basis as well as those with fiscal years ending between April 1, 1957 and March 31, 1958. Delinquent returns, informational returns of tax exempt corporations, and returns filed by firms inactive in Colorado during 1957 were excluded from this part of the analysis. As a group they accounted for the difference between the total number of returns used in the survey and the number reported by the Department of Revenue for 1957.

filing Colorado state income tax returns in 1958, reported Colorado taxable income for 1957. Of this group, the 100 percent Colorado firms (intrastate firms), representing more than four-fifths of the total number, accounted for less than one-half of the tax base. In contrast, interstate firms operating in Colorado represented less than one-fifth of the returns but accounted for more than one-half of the taxable income. Moreover, the intrastate firms were primarily domestic corporations with main offices located in Colorado; in contrast, six out of every seven interstate firms were foreign corporations with main offices and operations domiciled outside the State. In short, the intrastate domestic firms are relatively large in number but small in size as measured by taxable income, whereas the interstate firms, both domestic and foreign, are relatively few in number but large in size and taxable income. This distribution pattern is further evidenced by Table 13.13 which shows the distribution of the number of firms and Colorado taxable income classified by the asset size of the nine thousand active corporations which filed returns in 1958.

Table 13.13

Distribution of Firms and Corporate Taxable Income, Classified by Asset Size of Corporations,[a] Colorado Corporation Income Tax Returns, 1957

Asset size (thousands)	Total number of firms	Taxable Corporations: Number of firms	Taxable Corporations: Pct. dist.	Taxable Income: Amount (thousands)	Taxable Income: Pct. dist.
Colorado firms[a]					
Less than $ 100	4,320	1,729	44.6	$ 6,887	10.3
$100 to 1,000	2,577	1,636	42.1	25,408	37.8
1,000 to 10,000	451	323	8.3	22,271	33.2
10,000 to 100,000	45	45	1.2	10,867	16.2
100,000 and over	0	0	0.0	0.0	0.0
Unclassified	351	146	3.8	1,743	2.5
Total	7,744	3,879	100.0	67,176	100.0
Interstate firms[a]					
Less than $ 100	90	30	3.5	239	0.3
$100 to 1,000	322	156	18.2	2,128	2.7
1,000 to 10,000	469	253	29.6	11,300	14.7
10,000 to 100,000	363	267	31.2	22,344	29.1
100,000 and over	167	132	15.5	38,958	50.8
Unclassified	29	17	2.0	1,809	2.4
Total	1,440	855	100.0	76,778	100.0
All firms					
Less than $ 100	4,410	1,759	37.1	7,126	4.9
$100 to 1,000	2,899	1,792	37.9	27,536	19.1
1,000 to 10,000	920	576	12.2	33,571	23.3
10,000 to 100,000	408	312	6.6	33,211	23.1
100,000 and over	167	132	2.8	38,958	27.1
Unclassified	380	163	3.4	3,552	2.5
Total	9,184	4,734	100.0	143,954	100.0

[a] See footnote, Table 13.12.

It will be noted that 87 percent of the taxable Colorado firms had assets of less than $1 million but accounted for only 48 percent of the total taxable income reported by intrastate firms on the 1957 corporate returns. In the case of the taxable interstate firms almost 80 percent had assets in excess of $1 million, and the 15 percent of the firms in the $100 million and over category accounted for more than 50 percent of the total interstate tax base. On an over-all basis, the smallest firms, those with assets of less than $1 million, represented three-fourths of the total number of taxable firms but accounted for only one-fourth of the taxable income; whereas the largest firms, those with assets of $10 million or more, represented less than one-tenth of the total number of taxable returns but accounted for more than one-half of the total reported taxable income.

Erosion of the Tax Base

The derivation of the 1957 Colorado corporate income tax base for both intrastate and interstate firms is presented in Table 13.14.

The data show that only about 50 percent of the corporate net income earned in Colorado in 1957 was taxable because of the specific statutory allowances permitted under the Colorado corporate income tax. The taxable firms operating in the State that year reported Colorado net income of $286 million, but only $144 million was subject to state tax. Moreover, except for the dividend credit, the interstate firms benefited significantly more from the statutory deductions than did the intrastate Colorado firms. The combined depletion allowance and oil and gas income tax credit for Colorado firms amounted to 3 percent of their total net income, whereas the same items for the interstate firms amounted to 8.4 percent. Also, when the data were classified by the situs of the commercial domicile of the reporting firms, it appears that the tax benefits derived from these two statutory allowances mainly benefited foreign corporations. For example, foreign firms accounted for 59 percent of the total depletion allowance and 88 percent of the oil and gas credit claimed by all Colorado intrastate firms. And among the interstate corporations the concentration of benefits was even greater—foreign firms accounted for 98 and 99 percent, respectively, of the total depletion allowance and oil and gas income tax credit claimed by all firms in this category. However, as indicated in Table 13.14, these first three types of statutory allowances permitted in the computation of the corporate income tax base amounted to only 7.5 percent of the total Colorado corporate net income reported on the 1958 tax returns.

Federal Tax Deductibility. The quantitatively most important single factor accounting for the erosion of the corporate income tax base was the deduction of the federal corporate income tax. This provision alone reduced the tax base by $120 million, or 42 percent of the total net income derived from the Colorado operations of the reporting corporations. In the case of the 100 percent Colorado firms the federal tax deduction amounted to more than $38 mil-

Table 13.14

Derivation of the Colorado Corporate Income Tax Base[a] Taxable Firms Operating in Colorado, 1957

	Colorado firms		Interstate firms		All firms	
	Amount (thousands)	Percent	Amount (thousands)	Percent	Amount (thousands)	Percent
Total Colorado net income before selected allowances and income taxes	$111,090	100.0	$174,705	100.0	$285,795	100.0
Less:						
85% dividend credit	2,239	2.0	1,119	0.7	3,358	1.2
Depletion allowance	3,121	2.8	11,695	6.7	14,816	5.2
Oil & Gas Income Tax	172	0.2	3,042	1.7	3,214	1.1
Statutory allowances	5,532	5.0	15,856	9.1	21,388	7.5
Equals:						
Reported net income before any income taxes	105,558	95.0	158,849	90.9	264,407	92.5
Less:						
Federal income tax payments claimed in Colorado returns	38,382	34.5	82,071	47.0	120,453	42.1
Equals:						
Colorado taxable income	67,176	60.5	76,778	43.9	143,954	50.4

[a] See footnote Table 13.12.

lion, or almost 35 percent of their total net income for the taxable year. And for the interstate firms it was significantly larger, amounting to more than $82 million, or 47 percent of their total Colorado net income.

The greater effect of federal tax deductibility upon the tax base of interstate firms partly reflects the larger average Colorado income, and correspondingly the larger average federal tax liabilities of these firms. Moreover, since the federal corporate tax rate structure is progressive, the relatively more profitable interstate firms pay a larger proportion of their Colorado net income in federal taxes and, therefore, have proportionally larger deductions against their state tax than do the less profitable Colorado firms operating solely within the State. But it also should be noted that, in part, the relatively greater federal tax deductions taken by the interstate firms result from the fact that Colorado permits them to allocate their federal income tax liability by the same method used in the allocation of their interstate income. Thus, an interstate firm with a given amount of Colorado net income generally will be able to claim a larger federal tax deduction on its Colorado business than a 100 percent Colorado firm, even though both report the same amount of net income from their Colorado operations. This is illustrated by Table 13.15 which is based on two corporations, one intrastate and the other interstate, that have equivalent amounts of Colorado net income before tax, but for whom the tax liability works out to be significantly different.

It is evident that because of the allocation and deductibility of the progressive federal tax, the relatively larger interstate firm pays a Colorado corporate tax that is almost one-third smaller than that incurred by the 100 percent Colorado firm, although both earned the same amount of net income on their Colorado operations. (Table 13.15). In short, the allowance of federal tax deductibility in the computation of the state tax favors interstate firms more than it does those firms which are wholly intrastate. Moreover, since 86 percent of the taxable interstate corporations which filed returns in 1958 were foreign firms, and 97 percent of the taxable intrastate corporations were domestic, it appears that the federal tax deductibility provision of the state statute also works out to be more favorable for foreign corporations.

Table 13.15

Differential Effect of Federal Income Tax Deductibility upon Comparable Intrastate and Interstate Colorado Corporations

	Colorado intrastate firm	Any interstate firm
1. Allocated Colorado net income from operations within Colorado[a]	$25,000	$25,000
2. Total net income from over-all operations, within and without Colorado	25,000	1,000,000
3. Ratio of Colorado operations to total operations (1 ÷ 2)	100%	2.5%
4. Total federal corporate income tax liability[b]	$ 7,233	$514,184
5. Federal tax liability allocated to Colorado operations (3 x 4)	7,233	12,855
6. Net taxable income for Colorado corporate income tax (1 — 5)	17,767	12,145
7. Colorado statutory tax rate	5%	5%
8. Colorado corporate income tax liability (6 x 7)	$ 888	$ 607

[a] After all expenses, but before federal and state income tax.
[b] Based on present federal and state income tax rates.

Deductibility of the Oil and Gas Gross Income Tax. The oil and gas gross income tax, enacted in 1953 as an amendment to the Colorado Income Tax Act, was originally not an allowable

deduction in the computation of personal or corporate taxable income. It was enacted as subsection (f) of Section 2 of the original Colorado Income Tax Act, as amended. Section 1 of the amendment stated:[28]

> Section 2, Chapter 175, Session Laws of Colorado 1937, as amended, is hereby further amended by adding a new subsection (f), reading as follows . . .

Section 2 of the original income tax act already included the personal income tax, the corporate income tax, the income taxation of fiduciaries, the income tax provisions relating to partnerships, and the income taxation of banks. And significantly, these Section 2 taxes, in turn, were explicitly excluded from the allowable deductions permitted in the computation of net income by Section 5 of the original act which stated:[29]

> Section 5: Deductions Allowed . . . Subsection (c). Taxes paid during the taxable year, except taxes levied under the provisions of section 2 of this Act . . .

In brief, by being enacted as an amendment to Section 2 of the original act, the oil and gas gross income tax could not be used as a deduction in the computation of the normal personal or corporate income tax base. The non-deductibility feature of the oil and gas tax was further clarified shortly after the enactment of the amendment by the issuance of a Department of Revenue memorandum which stated:[30]

> Section 5 (c) of the Income Tax Act prohibits any taxes imposed by this Act, from being a deduction in the computation of any tax due thereunder. Therefore, the tax upon the gross income produced within the State of Colorado, as provided in the 1953 Amendment to the Income Tax Act, is not an allowable deduction in computing the normal tax under the Income Tax Act.

Nevertheless, under the Colorado Revised Statutes of 1953 the oil and gas gross income tax was excluded by the Committee for Statute Revisions from the taxes not allowed as deductions in the computation of ordinary net taxable income. Section 2 of the original act, as amended, was revised as six separate sections, numbered 138-1-2 (Individual Income Tax) through 138-1-7 (Oil and Gas Gross Income Tax). But Section 5 of the original act which listed the specific deductions allowed in computing net income, renumbered as Section 138-1-12, was effectively changed in the Revised Statutes. The subsection referring to taxes allowed as deductions against regular income had been altered to read:[31]

> Section 138-1-12, Deductions Allowed . . . Subsection (3) Taxes. Taxes paid during the taxable year, except taxes levied under the provision of sections 138-1-2 to 138-1-6 . . .

In other words, part of the amended Section 2 of the original act, renumbered as Section 138-1-7 had been omitted from the non-deductible taxes included in the new Section 138-1-12, and thus the oil and gas gross income tax was no longer included among the taxes specifically not allowed as deductions in computing the regular income tax.

It is apparent that by this renumbering and omission the Committee for Statute Revision actually had effected the substantive change in the Income Tax Act, notwithstanding the fact that the 1951 act which had established the Committee for Statute Revision had provided that:[32]

> All of the foregoing (i.e., the adoption of a uniform arrangement and numbering system) shall be done in such form and manner as to preserve the intent, effect and meaning of any and every . . . statutory provision.

And it should be noted that the 1953 act providing for the general revision of the Colorado statutes had explicitly stated:[33]

> The classification and arrangement by chapter, article and number system of sections of Colorado Revised Statutes 1953 . . . form no part of the legislative text enacted hereby; such inclusion is only for the purpose of convenience, orderly arrangement and information, and, therefore, no implication or presumption of a legislative construction is to be drawn therefrom.

But it was precisely through a shift in the section number and classification of the oil and gas gross income tax that the status of the tax was, in effect, changed from a non-deductible to a deductible expense under the regular income tax.

Since the Colorado Revised Statutes 1953 did not become effective until December 1, 1954, the diminution of the regular income tax base as a result of the deductibility of the oil and gas tax on a full taxable year basis did not occur until 1955. It is estimated from the survey data that the total loss in tax revenue due to this provision from 1955 through 1958 under the corporate income tax alone has been approximately $600,000. Thus, if the immediate past trend of corporate oil and gas tax collections continue, the

[28] *Session Laws of Colorado, 1953*, Ch. 181, p. 352.

[29] *Session Laws of Colorado, 1937*, Ch. 175, p. 690.

[30] State of Colorado, Department of Revenue, Memorandum on the Position of the Department of Revenue under House Bill 458 of the 1953 General Assembly, May 1, 1953.

[31] *Colorado Revised Statutes, 1953*, Ch. 138-1-12 (3).

[32] *Session Laws of Colorado, 1951*, Ch. 259, p. 729.

[33] *Session Laws of Colorado, 1953*, Ch. 63, p. 198.

revenue loss resulting from their deduction from net income in the computation of the corporate income tax base will average approximately $200,000 annually over the next several years.

The American Can Case. The Colorado corporate income tax base was further eroded during the past decade by the court decisions in the American Can case.[34] In this suit the interpretation of *Colorado sales* by foreign corporations, as developed by the Revenue Department in apportioning the incomes of such firms for tax purposes, was effectively challenged. The point at issue in the case was not whether the type of Colorado sale disputed by the American Can Company could itself properly be included in the Colorado taxable income of a foreign corporation, but whether or not it should be included in the sales ratio of the "allocation formula" used by the interstate firms.[35]

The Denver District Court ruled, and its decision was upheld by the Colorado Supreme Court, that the sale of goods ordered from Colorado and destined for Colorado did not necessarily constitute a Colorado sale for a foreign firm, since such orders were not binding on the company "unless and until accepted by it at one of its foreign offices." In other words, the courts' criterion of a Colorado sale was not the destination of goods sold, but rather the location at which the contract was approved or the title to the goods passed. For a foreign corporation to avoid acquiring Colorado sales for tax purposes, it needed only to insist when making sales to Colorado customers that the sale contract be aproved at one of its foreign offices, and/or that the goods be shipped into Colorado f.o.b. point of delivery. Such sales would then be excluded from the numerator, or Colorado sales factor, of the allocation formula, and the amount of taxable income attributable to the Colorado operations of the firm would be reduced correspondingly. In brief, the net effect of the American Can case was to wipe out a considerable part of the Colorado corporate income tax base.

The total quantitative significance of this alteration in the definition of "sales" for allocation purposes is suggested by the amount of actual tax assessments and subsequent refunds directly related to the disputed definition, and by the shrinkage of the over-all corporate tax base since 1951, a period characterized by economic growth for Colorado when measured by other indices.

Even before the American Can case some foreign corporations had ignored the broader definition of Colorado sales which the Revenue Department was trying to enforce. In 1943 the Department instituted a program of out-of-state field audits against such firms and when the program was finally discontinued a decade later it had accounted for more than $1 million of additional corporate income tax assessments.[36] Moreover, this amount represented only a part of the corporate tax revenue attributable to the Revenue Department's position on this matter, for during the earlier period many foreign interstate companies voluntarily had abided by the broader definition of a Colorado sale. After the American Can case, however, the State had to refund approximately $1 million to foreign companies in settlement of corporate tax claims based on the court decisions.[37] Again, this amount represented only a part of the total tax loss resulting from the American Can case, for the courts' narrower definition of Colorado sales was subsequently adopted by a growing number of firms which were not subjected to the extra tax assessments and, therefore, claimed no refunds.

The quantitative significance of this altered conception of the sales factor in the allocation formula is also indicated by the extent corporate income tax collections declined during the greater part of the decade following the American Can decisions. It should be noted, however, that the over-all revenue effects of the case were forestalled for several years. The Revenue Department first took the position that the court decisions of 1947 applied only to the American Can Company and that any other interstate firm which wanted to use the narrower definition of a Colorado sale in its allocation formula would also have to initiate and win a court case to that effect. Only after the Department's unsuccessful attempt in 1951 to bring a second "American Can case" before the court was the narrower definition of a Colorado sale widely utilized in the allocation formulas of foreign interstate firms.[38] But, as already noted above

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[34] *State of Colorado v. American Can Company*, (1947), 117 Colorado 312; 186 Pac. (2d) 779.

[35] In at least two U. S. Supreme Court rulings it has been held that unless a corporation owns no property within a state and carries on no business within the state, a portion of its income from interstate commerce may be attributed to and taxed by that state. *Interstate Oil Pipe Line Company v. Stone* (1949), 337 U. S. 662, 69 S. Ct. 1264; *Underwood Typewriter Company v. Chamberlin* (1920), 254 U. S. 113, 41 S. Ct. 45.

Moreover, it has also been ruled that "apportionment of income in accordance with a formula of this type (such as the Colorado allocation formula) is prima facie valid and can be refuted only upon a positive showing by the taxpayer that it reaches an arbitrary and unreasonable result wholly out of accord with the facts and by a showing of what the true net income within the state should be." *Butler Brothers v. McColgan*, (1942), 315 U. S. 501, 62 S. Ct. 701.

[36] State of Colorado, Department of Revenue, *Annual Reports*, 1946, 1953, and 1957.

[37] These refunds were begun in 1954 and only completed as recently as 1957.

[38] The Revenue Department attempted to obtain a reversal of the earlier ruling on the basis of the 1951 income tax amendment which redefined Colorado taxable income for interstate corporations. The Denver District Court refused to hear the case on the grounds that the legal issues involved had been resolved by the American Can decisions of 1947.

(Table 13.3), it was during the period from 1951 to 1957 that corporate income tax collections in Colorado revealed the extraordinary decline from $6.5 million to $4.4 million, a contraction in excess of 30 percent in six years. Thus, the timetable of the gradually unfolding effects of the American Can case and the period of unprecedented shrinkage in the corporate income tax base practically coincided. Furthermore, during this same period other important measures of economic activity in Colorado revealed consistent growth. For example, from 1950 to 1957, total personal income received in Colorado as reported by the United States Department of Commerce increased by 73 percent[39] and taxable retail sales in Colorado made by foreign corporations, increased by 93 percent.[40]

It appears that by 1958 the effects of the American Can case generally had been absorbed by the corporate tax structure. Collections in that year rose to $6.5 million, achieving the level of 1951 for the first time since that year. Also the tax refunds paid by the State in settlement of claims pursuant to the case were completed in 1957 and, finally, the State Legislature in 1958 tried to close this sales "loophole" by amending the allocation formula of the Income Tax Act. The most significant part of the amendment which redefined a Colorado sale for foreign interstate corporations stated that includable sales would henceforward be:[41]

> Sales where the goods, merchandise and property is received in this state by the purchaser . . . the place at which the goods are ultimately received after all transportation had been completed shall be considered as the place at which the goods are received by the purchaser . . . The place where the order is taken or approved or the place where title to property passes shall be disregarded for the purposes of determining sales which are assignable to this State under this section.

The 1958 amendment thus was aimed explicitly at eliminating the type of erosion of the corporate income tax base caused by the American Can decisions. If successful,[42] the tax base should expand significantly and it is estimated that annual collections from this source should increase between $2 and $3 million as a result of the redefinition of the sales factor used in the allocation formula of interstate firms operating in Colorado.

The Distribution and Burden of the Tax

On the basis of the 1957 survey data prepared for this study, the distribution of the corporate income tax by type of firm, amount of tax liability, and real tax burden is presented for the first time since the inception of income taxation in Colorado in 1937.

As already noted, it is important to distinguish the nominal tax liability from the real or effective tax burden. In the case of the state corporation tax, the nominal tax liability is represented by the amount of tax the firm actually pays and the state collects; while the effective tax liability or real tax burden is measured by the net increase in tax cost which may be attributed solely to the imposition of the state tax, i.e., the net amount by which the firm's state and federal income tax *combined* exceeds the amount of federal corporation tax the firm would have paid in the absence of any state income tax. Since the federal code permits the deduction of all state taxes in the computation of the federal corporate income tax, and Colorado permits the full deductibility of the federal income tax in the computation of the state income tax, each tax reduces the effective liability of the other. It is this reciprocal deductibility which gives rise to the difference between the effective cost of the state income tax to the firm and the amount of income tax actually collected by the state. In short, the imposition of the state corporation tax reduces the firm's federal tax and, thus, the effective liability of the Colorado income tax is the nominal amount of tax paid to the State less the consequent saving in the federal tax.

Moreover, in evaluating the burden of the Colorado income tax on corporations, it is important to recognize: (1) that in some instances the tax, in whole or in part, is shifted by the firm to its customers or factor sources, in which case the incidence or real burden of the tax does not fall entirely upon the firm and its stockholders; and (2) that the more meaningful measures of tax burden are those expressed in relative terms—the firm's net income tax cost computed as a percentage of operating revenues, total costs, and total taxes.

In Table 13.16 below, the 1957 nominal and effective tax liabilities for the major categories of corporations subject to the Colorado tax are compared.

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[39] U. S. Department of Commerce, *Survey of Current Business*, 1951-1958.

[40] State of Colorado, Department of Revenue, *Annual Reports*, 1951-1957.

[41] *Session Laws of Colorado, 1958*, Ch. 56, Section 3 (a), p. 271.

[42] It should be noted that the 1958 amendment may not achieve its purpose due to the somewhat ambiguous wording of the final sentence in the subsection which reads:

> The word 'sales,' as used in this subsection shall not be construed to include sales made to purchasers in this state if the taxpayer does not thereby derive income from sources within this State.

Whether or not this one sentence will have the effect of undermining the clear intent of the remainder of the amendment will not be known, of course, until the 1958 returns, filed in 1959, are audited, tax assessments made on the basis of the new definition, and possibly court interpretations of the amendment are obtained.

Table 13.16

Distribution of Nominal and Effective Tax Liabilities of Firms, by Scope of Operations and Principal Place of Business,[a] Colorado Corporate Income Tax Returns, 1957

Type of Firm	Nominal tax liability[b] Amount (thousands)	Percent dist.	Effective tax liability[c] Amount (thousands)	Percent dist.	Real cost of nominal tax dollars[d]
Colorado firms					
Domestic	$2,864	45.5	$1,535	47.1	$.54
Foreign	170	2.7	90	2.8	.53
Total	3,034	48.2	1,625	49.9	.54
Interstate firms					
Domestic	1,511	24.0	735	22.5	.49
Foreign	1,750	27.8	899	27.6	.51
Total	3,261	51.8	1,634	50.1	.50
All taxable firms					
Domestic	4,375	69.5	2,270	69.6	.52
Foreign	1,920	30.5	989	30.4	.51
Total	6,295	100.0	3,259	100.0	.52

[a] See footnote a, Table 13.12.

[b] Amount of tax to be paid to State.

[c] Nominal tax liability less reduction in federal income tax attributable to deduction of Colorado income tax.

[d] Ratio of effective tax liability to nominal tax liability.

The total nominal tax liability of $6.3 million reported on the 1957 Colorado corporate income tax returns was distributed almost equally between the 100 percent Colorado intrastate firms and the interstate firms. The former accounted for slightly more than 48 percent of the total tax liability while the latter was liable for the balance. The average nominal tax per firm[43] was less than $800 for the 100 percent Colorado corporations and almost $4,000 for the interstate firms. Domestic interstate corporations had an average in excess of $12,000 per firm, the highest for any category, in comparison to an average of slightly less than $2,500 for foreign interstate companies. But approximately one-third of the interstate firms allocated less than 1 percent of their total net income to their Colorado operations.[44] Although the foreign firms incurred the major share of the tax liability of all interstate firms, the latter as a group accounted for less than one-third of the total tax liability since the Colorado intrastate firms are almost all domestic corporations. Moreover, it should be noted that the distribution pattern of the effective tax liability (real cost) practically parallels that of the nominal tax. This may reasonably be expected under the present federal corporate tax rate structure, and the data show that on the average the firms in each of the categories are able to pay their state corporate income tax with approximately "50 cents-after-federal tax" dollars. Thus, the real cost of each dollar of state income tax liability was $.54 for the Colorado intrastate firms, only $.50 for the interstate firms, and $.52 for all firms combined. In aggregate terms, the real cost of the $6.3 million of 1957 Colorado corporate income tax to the firms was only $3.3 million. The other $3 million represents the amount of state tax indirectly absorbed by the federal government as a result of reciprocal deductibility.

Table 13.17 shows the nominal and real state tax costs of all taxable firms, classified by size of the tax liability reported on the 1957 returns.

Practically two-thirds of all taxable firms in 1957 incurred a total nominal state income tax of less than $500, which on the average was paid with "73 cents-after-federal tax" dollars. And six out of every seven firms in this lowest tax category were intrastate corporations with operations confined solely to Colorado. In contrast, at the other extreme, only 2 percent of the firms had a state tax liability of $10,000 or more, and on the average these companies were able to pay their Colorado income tax with "46 cents-after-federal tax" dollars. And among this latter group, more than three-fifths of the total number were represented by interstate corporations. On the basis of the above data, it is evident that the real cost of each dollar of nominal tax liability varied inversely with the absolute level of profits for both intrastate and interstate corporations.[45] In other words, the effective relative cost of the Colorado corporate income tax is considerably higher for the large number of small and less profitable firms than for the handful of large corporations (predominantly interstate) which reported greater absolute profits. This is another reflection of the "effective regressivity" of the Colorado corporate income tax—the 5 percent statutory rate which actually works out to be an *effective tax rate* that is more than twice as high for the small firm as it is for the largest corporations.[46]

Tables 13.18 through 13.20 show three important measures of the relative burden of the Colorado income tax upon corporations. The first of these tables develops the net cost of the

[43] Derived by dividing the nominal tax liabilities for each category in Table 13.16 by the number of taxable firms reported in Table 13.12.

[44] In 1957, corporations using the formula method of allocation, in contrast to the separate accounting method, constituted 69 percent of all interstate firms and accounted for 73 percent of the total tax liability of interstate firms. Among companies using the formula, about 44 percent allocated less than 1 percent of their total net income to Colorado.

[45] The fact that within each tax category the Colorado intrastate firms had a lower real cost per tax dollar than the interstate firms, while between the groups as a whole the interstate firms had the lowest average real costs, is accounted for by the heavy concentration of tax liabilities of the interstate firms in the highest tax brackets where the real cost per tax dollar is the lowest.

[46] See Table 13.9.

Table 13.17

Distribution of Nominal and Effective Tax Liabilities of Firms[a] Classified by Dollar Amount of Nominal Tax Colorado Corporate Income Tax Returns, 1957

Dollar amount of nominal tax liability	Taxable Corporations: Number of firms	Taxable Corporations: Percent	Nominal tax liability[b]: Amount (thousands)	Nominal tax liability[b]: Percent	Effective tax liability[c]: Amount (thousands)	Effective tax liability[c]: Percent	Real cost of each nominal tax dollar[d]
Colorado firms							
Below $ 500	2,679	69.1	$ 418	13.8	$ 293	18.0	$.70
500 - 999	615	15.8	439	14.5	296	18.2	.68
1,000 - 4,999	493	12.7	1,028	33.9	521	32.1	.51
5,000 - 9,999	54	1.4	359	11.8	167	10.3	.47
10,000 and over	38	1.0	790	26.0	348	21.4	.44
Total	3,879	100.0	3,034	100.0	1,625	100.0	.54
Interstate firms							
Below $ 500	454	53.1	96	2.9	82	5.0	.85
500 - 999	116	13.6	81	2.5	63	3.9	.78
1,000 - 4,999	185	21.6	418	12.8	226	13.8	.54
5,000 - 9,999	40	4.7	276	8.5	132	8.1	.48
10,000 and over	60	7.0	2,390	73.3	1,131	69.2	.47
Total	855	100.0	3,261	100.0	1,634	100.0	.50
All taxable firms							
Below $ 500	3,133	66.2	514	8.2	375	11.5	.73
500 - 999	731	15.4	520	8.3	359	11.0	.69
1,000 - 4,999	678	14.3	1,446	22.9	747	22.9	.52
5,000 - 9,999	94	2.0	635	10.1	299	9.2	.47
10,000 and over	98	2.1	3,180	50.5	1,479	45.4	.46
Total	4,734	100.0	6,295	100.0	3,259	100.0	.52

[a] See footnote [a], Table 13.12.
[b] Amount of tax to be paid to State.
[c] Nominal tax liability less reduction in federal income tax attributable to deduction of Colorado income tax.
[d] Ratio of effective tax liability to nominal tax liability.

tax as a percentage of corporate operating revenues, and as such provides some evidence of the magnitude of its impact on the price structure if the entire tax were shifted forward to the customers of the taxed corporations. Various empirical studies in recent years have indicated that even the high federal taxes of the post-war period have been largely shifted through corporate price increases.[47] As already noted, the ability of a firm to shift the income tax depends upon the elasticities of demand and supply of its products, the nature of the market structure in which it operates, and other technical characteristics of its industry. One of the primary determinants in any situation, however, is simply the size of the relative price increase necessary to recover the amount of tax through additional sales revenues—and the smaller the required price increase, the more likely the tax will be shifted.[48]

Table 13.18, shows the net cost of the Colorado corporate income tax for 1957 expressed as a percentage of corporate operating revenues for the major categories of taxable firms.

Table 13.18

Net Cost of the Colorado Corporation Income Tax as Percentage of Gross Operating Revenues of Taxable Corporations, 1957[a]

Type of Firm	Gross Colo. operating revenues (thousands)	Net cost of corporate income tax[b] (thousands)	Net cost of tax as percent of gross revenues
Colorado firms			
Domestic	$1,639,687	$1,535	0.09
Foreign	88,977	90	0.10
Total	1,728,664	1,625	0.09
Interstate firms			
Domestic	507,372	735	0.14
Foreign	1,252,550	899	0.07
Total	1,759,922	1,634	0.09
All firms			
Domestic	2,147,059	2,270	0.11
Foreign	1,341,527	989	0.07
Total	3,488,586	3,259	0.09

[a] See footnote a, Table 13.12.
[b] See Table 13.16.

For all taxable corporations in Colorado the $6.3 million of nominal state income tax liability amounted to less than 2/10 of 1 percent of the $3,489 million of Colorado gross operating revenues these firms reported on their 1957 returns. More significantly, the $3.3 million net cost of the tax to these firms (the effective tax liability) actually averaged 9/100 of 1 percent of the total operating revenues of all taxable firms, with no

[47] See, for example, E. M. Lerner and E. S. Hendriksen, "Federal Taxes on Corporate Income and the Rate of Return on Investment in Manufacturing, 1927 to 1952," *National Tax Journal*, September, 1956. For a comprehensive survey of the recent literature on corporate tax shifting see B. U. Ratchford and F. B. Han, "The Burden of the Corporate Income Tax," *National Tax Journal*, December, 1957.

[48] M. Beck, "Ability to Shift the Corporate Income Tax: Seven Industrial Groups," *National Tax Journal*, September, 1950.

variance appearing between the relative real costs incurred by intrastate and interstate firms. The data reveal, however, some marked differences when the firms are classified in terms of situs of business domicile—the real cost of the tax was 11/100 of 1 percent of the operating revenues of the domestic corporations, and only 7/100 of 1 percent for foreign firms.

In any case, on an over-all basis, if a corporate tax of this magnitude were largely shifted forward to the customers of the taxed firms, it would result in practically imperceptible unit price increases for most goods and services produced by the taxed firms. And in long-run periods of general economic expansion and buoyant sellers markets, such as has characterized the Colorado economy during the post World War II era, it would not be unlikely for such taxes to be shifted forward and built into the existing corporate price structure.[49]

Table 13.19 below shows the net cost of the 1957 Colorado corporate income tax as a percentage of the total business expenses allocated to Colorado by taxable firms filing returns with detailed cost information.

Table 13.19

Net Cost of the Colorado Corporation Income Tax as Percentage of Total Business Expenses for Corporations Reporting Cost Items, 1957[a]

Type of Firm	Total business expenses[b] (thousands)	Net cost of corporate income tax (thousands)	Net cost of taxes as percent of total expenses
Colorado firms			
Domestic	$1,578,912	$1,535	0.10
Foreign	82,522	90	0.10
Total	1,661,434	1,625	0.10
Interstate firms[c]			
Domestic	105,660	253	0.24
Foreign:	168,421	143	0.08
Total	274,081	396	0.15
All firms[d]			
Domestic	1,684,572	1,787	0.11
Foreign	250,943	234	0.09
Total	1,935,515	2,021	0.10

[a] See footnote a, Table 13.12.
[b] Includes all direct and indirect business expense, and all statutory allowances except federal income tax.
[c] Includes only interstate firms using separate accounting methods of allocation of income and expense (198 taxable firms in 1957). The interstate firms using the allocation formula method do not report Colorado cost items.
[d] Combined Colorado and interstate firms listed above.

On the basis of the survey data, the net cost of the Colorado corporate income tax amounted to 10/100 of 1 percent of the total business expenses for the Colorado intrastate firms, and 15/100 of 1 percent for the interstate firms which used separate accounting methods for allocating their Colorado income and expenses. When the firms were classified on the basis of commercial domicile the difference between categories was even smaller, the tax amounted to 11/100 of 1 percent of the total expenses of the domestic firms and only 9/100 of 1 percent for the foreign corporations. For all firms included in the table, the real cost of the tax averaged 1/10 of 1 percent of the total business expenses reported. Thus, even if it is assumed that no part of the tax was shifted in the pricing process, which is unlikely, it appears that the real burden of the Colorado corporate income tax is relatively insignificant when compared with the total business expenses of the taxed corporations.

Table 13.20 shows the net cost of the Colorado income tax as a percentage of the total federal, state and local tax liability incurred by corporations on their Colorado operations.

Table 13.20

Net Cost of the Colorado Corporation Income Tax[a] as Percentage of the Total Tax Liability Incurred on Corporate Business in Colorado, 1957

Type of firm	Business taxes on Colorado Operations (thousands): Federal income tax[b]	State income tax	All other taxes[c]	Total tax liab.	Net cost of state income tax	Net cost as percent of total tax liability
Colorado firms						
Domestic	$35,336	$2,864	$20,999	$59,199	$1,535	2.59
Foreign	3,046	170	1,118	4,334	90	2.10
Total	38,382	3,034	22,117	63,533	1,625	2.56
Interstate firms						
Domestic	35,111	1,511	5,385	42,007	735	1.75
Foreign	46,960	1,750	1,856	50,566	899	1.78
Total	82,071	3,261	7,241	92,573	1,634	1.77
All firms						
Domestic	70,447	4,375	26,384	101,206	2,270	2.24
Foreign	50,006	1,920	2,974	54,900	989	1.62
Total	120,453	6,295	29,358	156,106	3,259	2.08

[a] See footnote a, Table 13.12.
[b] Federal income tax apportioned to Colorado only.
[c] Omits "other Colorado taxes," except Oil and Gas Gross Income Tax, of interstate firms using the formula allocation method of apportioning income. Therefore, total tax liability of interstate firms is understated and the net cost of the state income tax as percent of total tax bill for these firms as a group is overstated.

The $3.3 million net cost of the state income tax represented only slightly more than 2 percent of the $156 million of total Colorado business tax liability reported by taxable corporations on their 1957 state tax returns.[50] This is simply another indication of the negligible significance of the total state income tax when compared with the over-all amount of business tax incurred by all firms on their Colorado operations. Moreover, it will be noted that for the

[49] Ratchford and Han, *op. cit.*, p. 323. It may be noted that in the shifting of a tax, commodity price increases are required only in the period following the initial imposition of the tax or increase in its effective rate. Once the normal amount of tax has been built into the corporate price structure, no further price increases are necessary to bring about the shifting of each successive year's tax liability.

[50] The reason the $3.3 million of *effective* state tax is used as the numerator in the ratio of state income tax to total tax liability, and not the $6.3 million of nominal state tax included in the total tax liability, is that the former represents the net increase in the total tax attributable to the imposition of the state tax. In other words, the federal tax would have been approximately $3.0 million larger in the absence of any state income tax and, thus, this $3.0 million figure plus the $3.3 million net cost of the state income tax equals the $6.3 million which is included in the denominator of the ratio.

Colorado intrastate firms the state tax amounted to about 2.6 percent of their total tax bill, while for the interstate firms it averaged slightly less than 1.8 percent. This difference, of course, is primarily attributable to the fact that the interstate firms generally derive the greater benefit from the federal tax deductibility provision of the Colorado statute. As already noted, the total amount of federal taxes deducted by the interstate firms in the computation of their state tax was more than twice as large as that reported by firms operating solely in Colorado. Thus, the larger federal taxes claimed by the interstate firms more than offset the effect of "all other taxes" paid, of which three-fourths was accounted for by Colorado intrastate firms. Similarly, when the firms were classified on the basis of business domicile, this measure of the net cost of the state tax was about 50 percent larger for domestic firms than for foreign corporations.

In summary, the above analysis of the relative burden of the Colorado income tax upon corporations revealed that the net cost of the 1957 tax for all taxable firms averaged:

(a) 9/100 of 1 percent of corporate gross operating revenues obtained from Colorado business;

(b) 1/10 of 1 percent of total business expense apportioned to Colorado operations; and

(c) 2.1 percent of the total federal, state and local tax liability incurred on their Colorado business.

All three measures indicated that the relative net cost of the state income tax for foreign corporations as a group was significantly lower than that for the domestic firms. On the other hand, the only marked contrast between the intrastate and interstate corporations, as such, was in the measure of net cost as a percentage of the total business tax bill in Colorado. Notwithstanding these differences among the various groups, it is evident that by almost any standard the real cost imposed upon all categories of corporations by Colorado income taxation cannot be considered unduly burdensome, even if these taxes were never shifted in the pricing process. When it is further noted that the tax has in part been absorbed into the general corporate price structure, the impact of the Colorado corporation income tax upon the decision-making of the firm, particularly with regard to location, appears to be practically negligible.

Estimates of the Effects of Selected Tax Revisions

On the basis of the survey data obtained from the 1957 tax returns, it is possible to estimate the increase in State revenues and taxpayer costs which would have resulted if selected statutory changes in the corporate income tax base and rates had been in effect that year. Four of the tax base revisions considered are the elimination of the oil and gas gross income tax credit, the 85 percent dividend exemption, the depletion allowance, and the deductibility of federal income tax allocable to Colorado operations. These are summarized below:

Table 13.21

Estimated Increases in State Revenues and Taxpayer Costs Resulting from Selected Changes in the Tax Base, Colorado Corporate Income Tax, 1957

Elimination of:	All taxable corporations[a] dollar amount of increase in: State revenues (thousands)	Taxpayer real costs (thousands)
(a) Oil and gas gross income tax credit	$ 137	$ 71
(b) Exemption of 85% of dividend receipts	143	74
(c) Statutory resource depletion allowance	550	285
(d) Federal corporate income tax deductibility	5,223	2,655
Totals	6,053	3,085

[a] Some non-taxable firms in 1957 would have been taxable that year had these statutory changes been in effect, and since the above estimates apply only to taxable firms they understate the aggregate amount of increases that would have resulted from these revisions.

It is evident that the first three listed deductions—the oil and gas tax credit, the 85% dividend exemption and the depletion allowances—are not quantitatively significant, amounting to less than $.9 million, or less than one-seventh of the total increase in State revenues that would have resulted from all of the above statutory changes. In contrast, the elimination of the federal tax deductibility provision alone would have accounted for more than six-sevenths of the total, and would have yielded $5.2 million of additional corporate income tax revenues in 1957. The real cost of the latter to the firms would have been less than $2.7 million, and the federal government indirectly would have financed the balance of $2.5 million since this would represent the amount of federal income tax saving obtained by the firms subjected to the increased state tax. In short, they would have paid the increased tax with "51-cents-after-federal-tax" dollars and the net cost of the revised total tax liability for all taxable firms would have been less than 2/10 of 1 percent of their gross operating revenues. It is further estimated that the removal of the federal tax deductibility provision would produce in fiscal year 1960 additional revenues ranging from $7 to $7.5 million. Therefore, the $5.2 million increase should be considered a conservative estimate since it does not take into account normal economic growth or the revision in the definition of an interstate sale provided by the 1958 amendment to the Income Tax Act.[51]

[51] The 1958 statutory change in the allocation procedure should increase the Colorado tax liability, but also the claimed federal tax deduction of many foreign interstate firms. The net effect of the new sales definition will be diminished by the extent of the additional federal tax deduction; but by the same token the elimination of federal tax deductibility will be magnified by the prior change in the allocation procedure.

Table 13.22 shows the distribution of the estimated increase in tax liability which would have resulted from the elimination of federal tax deductibility in the computation of the 1957 State corporate income tax.

Table 13.22

Distribution of Estimated Increase in State Tax Liability If Federal Income Tax Deductibility Eliminated from Colorado Corporate Income Tax Returns, 1957

Type of firm	Taxable corporations[a] Number of firms	Percent of total	Increased tax liab. Amount (thousands)	Percent of total
Colorado firms				
Domestic	3,769	79.6	$1,604	30.7
Foreign	110	2.3	128	2.5
Total	3,879	81.9	1,732	33.2
Interstate firms				
Domestic	122	2.6	1,504	28.8
Foreign	733	15.5	1,987	38.0
Total	855	18.1	3,491	66.8
All taxable firms				
Domestic	3,891	82.2	3,108	59.5
Foreign	843	17.8	2,115	40.5
Total	4,734	100.0	5,223	100.0

[a] Based on Table 13.12, see footnote a.

It will be noted that 67 percent of the increase in Colorado tax revenues which would have resulted from not allowing federal tax deductibility would be borne by interstate corporations, notwithstanding the fact that such firms represented only 18 percent of the total number of taxable firms and accounted for 52 percent of the actual 1957 tax liability. Since the vast majority of interstate corporations are foreign, while virtually all of the 100 percent Colorado firms are domestic, the tax increase would have fallen relatively more heavily upon the foreign firms. For example, they would have paid over 40 percent of the total tax increase, although as a group they represented less than 18 percent of all taxable firms and accounted for less than 31 percent of the 1957 tax liability. Similarly, when the firms are classified by asset size it appears that one-fourth of the firms (the largest with assets in excess of $1 million) would have borne over three-fourths of the total nominal tax increase.[52]

Table 13.23 shows the percentage increases in State revenues and taxpayer real costs resulting from the elimination of federal tax deductibility.

The $5.2 million of additional State revenue and nominal tax liability would have represented an 83 percent increase in the Colorado income tax bill for all firms. As already noted, it would have been paid with "51-cents-after-federal-tax" dollars. The increase would have amounted to 57 percent for the Colorado intrastate firms and 107 percent for the interstate corporations. This marked variance between the two categories, of course, is due to the fact that the federal tax deductions claimed in 1957 reduced the taxable income of the Colorado intrastate firms by only 36 percent, and that of the interstate firms by almost 52 percent.[53] Similarly, in both groups, the percentage increases in nominal and real tax liability are significantly higher for the foreign firms than for the domestic corporations. In brief, it appears that the elimination of federal tax deductibility in the computation of the State corporate income tax would increase the nominal and real State tax liability for the minority of large, interstate, foreign corporations significantly more than for the vast majority of small, intrastate, domestic firms whose operations are wholly confined to Colorado. Finally, it should be noted that the net cost of the 1957 increased tax for all firms, when expressed in relative terms, would have amounted to only 2.1 percent of their combined total federal and state income tax liability, 1.6 percent of their total local-state-federal tax bill allocable to Colorado operations, and .07 percent of their total business expenses.

Table 13.23

Distribution of Estimated Increases in State Revenue and Taxpayer Costs If Federal Income Tax Deductibility Eliminated from Colorado Corporate Income Tax Returns, 1957[a]

Type of firm	Additional revenue to State Amount (thousands)	Percent over 1957[b]	Additional net cost to corporations Amount (thousands)	Percent over 1957[b]	Real cost to corporations of additional tax dollars
Colorado firms					
Domestic	$1,604	56.1	$ 924	60.2	$.58
Foreign	128	80.5	64	71.1	.50
Total	1,732	57.4	988	60.8	.57
Interstate firms					
Domestic	1,504	99.5	722	98.2	.48
Foreign	1,987	113.5	945	105.1	.47
Total	3,491	107.0	1,667	102.0	.48
All taxable firms					
Domestic	3,108	71.1	1,646	72.5	.53
Foreign	2,115	110.8	1,009	102.0	.48
Total	5,223	83.2	2,655	81.5	.51

[a] See footnote a, Table 13.12.

[b] Computed on basis of Table 13.16. For any given firm, the percentage increases in tax liability and net cost are identical. For groups of firms, the percentage increases for the aggregates will differ because of weighting.

The total revenue increase of $5.2 million that would have resulted from not allowing federal tax deductibility on the 1957 returns, also could have been achieved by raising the statutory rate of the corporate income tax 3.75 percentage points (from 4.25 to 8 percent). There are, how-

[52] See Table 13.13 for size distributions of intrastate and interstate firms.

[53] See Table 13.14.

ever, three important respects in which broadening the tax base by eliminating reciprocal deductibility is preferable to a rate increase for raising the same amount of additional revenue. First, a change in tax base would place the intrastate and interstate firms on a more equitable basis since the latter benefit both absolutely and relatively more from federal tax deductibility than do the corporations with operations limited solely to Colorado.[54] Second, the change in tax base would lessen the "effective regressivity" of the Colorado corporate income tax,[55] an effect that otherwise could be achieved only by adopting a progressively graduated structure of nominal tax rates.[56] Third, by broadening the corporate tax base and retaining the present 5 percent nominal rate Colorado would be conforming to the practice of the overwhelming majority of the 34 income tax states with regard to the treatment of federal tax and at the same time would be retaining a statutory rate which was equal to the national median.[57] However, in terms of the relative utilization of the corporate income tax as a source of State revenue, if the federal tax deductibility had not been permitted on the 1957 returns, Colorado's rank would have been 20th from the top (instead of 25th) among the 27 corporate income tax states for which data were available.[58]

The Statutory Allocation Formula. As noted above, the particular form of Colorado's allocation formula is now unique among the states.[59] As recently as 1954 five other states used the two-factor formula based on property and sales ratios, now Colorado stands alone in its use. In view of the importance of the statutory allocation formula, both with regard to tax equity and revenue, an analysis was undertaken to measure the quantitative effects which would have resulted if the standard three-factor formula, currently required by 22 other income tax states, had been used in 1957 by interstate firms reporting Colorado income.[60]

The table below presents the over-all effect of adding a payroll factor to the present Colorado statutory two-factor allocation formula.

Table 13.24

Effect of Adopting a Standard Three-Factor Allocation Formula on Interstate Firms Classified by Principal Place of Business, Colorado Corporate Income Tax Returns, 1957

A. Number of firms affected[a]

Type of firm:	Increase	Decrease	Total
Domestic	58	27	85
Foreign	257	466	723
Total	315	493	808

B. Dollar change in tax liability (thousands)[b]

Type of firm:	Increase	Decrease	Net Amount
Domestic	$164	$ 75	+$ 89
Foreign	517	210	+ 307
Total	681	285	+ 396

C. Percentage change in tax liability

Type of firm:	Increase	Decrease	Net Amount
Domestic	27.8	22.1	+ 9.6
Foreign	97.6	26.0	+23.0
Total	60.9	24.8	+17.5

[a] Based on 867 firms for which data were available, representing 87 percent of the total number of firms using an allocation formula. Of these, 59 non-taxable firms were unaffected by the change in formula.

[b] Tax liability computed at rate of 5 percent.

The data show that the use of a three-factor formula in the allocation of the 1957 interstate income would have altered the tax liabilities of 808 firms, or 93 percent of the total number of allocation formula-using firms for whom data were available. But of these, only 315 firms, or 39 percent of the number affected, would have had a tax increase—the remainder would have benefited from lowered tax liabilities. Similarly, about one third of the foreign firms

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[54] See Tables 13.15 and 13.23.

[55] See Table 13.9.

[56] Elimination of federal tax deductibility would lessen the effective regressivity of the Colorado corporate income tax but would not overcome it entirely. The only states having effective corporate tax rates that are not regressive throughout their entire range are those that have adopted progressively graduated structures of statutory rates. The tabulation below shows the average nominal rates required at various income levels before all income taxes in order to maintain a constant (proportional) effective tax rate when federal tax deductibility is *not* permitted.

AVERAGE NOMINAL RATES REQUIRED AT SELECTED INCOME LEVELS TO ACHIEVE CONSTANT EFFECTIVE RATES UNDER A STATE CORPORATION INCOME TAX

	Nominal rates required to achieve constant (proportional) effective rates of:			
Net income level	4%	3½%	3%	2½%
$ 25,000	5.71	5.00	4.29	3.57
50,000	6.78	5.93	5.08	4.34
100,000	7.48	6.54	5.61	4.67
500,000	8.15	7.13	6.11	5.09
1,000,000	8.24	7.21	6.18	5.15

Of course, if reciprocal tax deductibility is allowed the required nominal rate structure for achieving each of the constant effective rates would be considerably higher and more progressive at all income levels.

[57] See Tables 13.6 and 13.7.

[58] See Table 13.4.

[59] See Table 13.10.

[60] The computations were made by the Division of Program Analysis, Bureau of Old Age and Survivors Insurance, U. S. Department of Health, Education and Welfare. A payroll ratio for each corporation, computed on the basis of 1957 Colorado payroll data provided by the Colorado Department of Employment and 1957 OASI national payroll data, was combined with the actual sales and property ratios reported on the 1957 returns. Thus, a three-factor allocation ratio was obtained for each firm. This ratio, in turn, was used to derive Colorado taxable income which was then compared with the reported 1957 taxable income based on the two-factor formula. The firms were then classified, and the data aggregated on the basis of whether the change to a three-factor formula resulted in an increase or decrease in taxable income. The over-all change in the tax liability of each category of firms was then calculated as the final step. The analysis was carried out for 867 firms for which detailed data were available, and these companies represented 87 percent of the 995 interstate firms which used the formula method of allocating income on their 1957 Colorado tax returns.

would be affected adversely, while more than two-thirds of the domestic firms would have reported greater taxable income. However, in terms of the dollar amount of tax involved, the addition of the payroll factor would on net balance have increased the taxable income of all interstate firms by approximately $8 million. At a tax rate of 5 percent, this net increase would have produced additional revenues of almost $.4 million, or a tax increase of approximately 18 percent for all firms affected.[61] More than three-fourths of the net increase would have fallen upon foreign interstate firms which in 1957 under the two-factor formula accounted for slightly more than one-half of the total tax liability of all interstate firms.[62] This relatively heavier impact, dollarwise, on foreign firms is also indicated by the fact that the net percentage increase would amount to less than 10 percent for the domestic firms, and more than 20 percent for the foreign corporations. With regard to the specific group of interstate firms adversely affected, the increase would be about 28 percent for domestic corporations, but almost 98 percent for the foreign firms. In brief, although a larger absolute and relative number of out-of-state firms than domestic companies would have benefited from tax decreases, the foreign firms also would have accounted for the largest absolute and relative dollar amount of tax increases if a payroll factor had been used in the allocation formula applied to the net income reported on the 1957 Colorado corporate tax returns.

Table 13.25 shows the effect of a three-factor formula applied to the 1957 income tax returns filed by interstate firms, classfied by asset size.

It is evident that less than one-half of the firms in each size category would be subjected to a tax increase as a result of the addition of the payroll factor. However, when the effect is measured dollarwise, only those firms with assets ranging from $1 to $10 million would generally benefit from the change—on net balance, a reduction of 11 percent. More significantly, the largest part of the increase in taxable income allocable to Colorado, two-thirds of the total, would be borne by the very largest interstate corporations, those with assets of $100 million or more. For this category, the increase in tax liability would amount to almost 113 percent, in contrast to an average increase of 61 percent for all interstate firms subjected to the tax increase. In other words, it appears that the tax reductions would be relatively small and widespread among all size categories of firms, while the tax increases would be relatively large and concentrated among the biggest interstate firms.

Table 13.25

Effect of Adopting a Standard Three-Factor Allocation Formula on Interstate Firms Classified by Asset Size, Colorado Corporate Income Tax Returns, 1957

A. Number of firms affected[a]

Asset size (millions)	Increase	Decrease	Total
Under $ 1	68	82	150
$ 1 to 10	89	167	256
10 to 100	99	164	263
100 and over	53	72	125
Not classified	6	8	14
Total	315	493	808

B. Dollar change in tax liability (thousands)[b]

Asset size (millions)	Increase	Decrease	Net Amount
Under $ 1	$ 26	$ 6	+$ 19
$ 1 to 10	21	61	— 40
10 to 100	197	69	+ 128
100 and over	435	143	+ 292
Not classified	3	5	— 2
Total[c]	681	285	+ 396

C. Percentage change in tax liability

Asset size (millions)	Increase	Decrease	Net Amount
Under $ 1	102.4	28.1	+40.3
$ 1 to 10	14.7	28.4	—11.2
10 to 100	35.2	20.0	+14.1
100 and over	112.9	26.3	+31.4
Not classified	51.4	28.5	— 7.9
Total	60.9	24.8	+17.5

[a] Based on 867 firms for which data were available, representing 87 percent of the total number of firms using an allocation formula. Of these, 59 non-taxable firms were unaffected by the change in formula.

[b] Tax liability computed at rate of 5 percent.

[c] Items may not add to totals due to rounding.

Table 13.26 probably is one of the most useful for assessing the impact of the adoption of a three-factor formula, for the firms are classified by the percentage of their nationwide net income allocated to Colorado.

It is evident on the basis of data presented in Table 13.26 that the majority of firms in the first two categories, those with less than 25 percent of their total net income allocated to Colorado, would have experienced a tax decrease as a result of the addition of a payroll factor. On the other hand, for the majority of firms with a larger ratio of Colorado net income such a revision would have resulted in an increased tax liability for 1957. When the impact of the adoption of a three-factor formula is assessed by the dollar amount of change in tax liability, it appears that approximately two-thirds of the total net increase in tax revenues ($257,000 of the $396,000) would come from those interstate corporations that in 1957 allocated less than 1 per-

[61] As noted, only 87 percent of the interstate firms are included in the analysis and, therefore, the net increase of $396,000 represents about a 12 percent tax increase for all interstate firms, and approximately a 6 percent increase in the total corporate tax liability of all firms—interstate and intrastate—combined.

[62] See Table 13.16.

cent of their total net income to Colorado. Moreover, all categories of firms with a ratio of Colorado income of less than 50 percent would on net balance have experienced a tax increase, while those with 50 percent or more of their net incomes originating in Colorado would, as a group, have benefited taxwise by the use of a three-factor allocation formula. In terms of the percentage change in tax liability, those firms with a Colorado income ratio of less than 1 percent would have been subjected to a 180 percent increase in taxable income, whereas for the two categories with income ratios of 50 percent or more the increased tax would have been only 7 and 4 percent respectively. For the firms benefiting from the addition of a payroll factor, the percentage tax decrease would be fairly uniform for the different categories of firms, and in no case would it amount to 30 percent of the total tax liability.

Table 13.26

Effect of Adopting a Standard Three-Factor Allocation Formula on Interstate Firms Classified by Ratio of Colorado Taxable Income to Total Net Income, Colorado Corporate Income Tax Returns, 1957

A. Number of firms affected[a]

Colorado taxable income ratio[d]	Increase	Decrease	Total
Less than 1%	165	263	428
1% to 25%	93	182	275
25% to 50%	23	22	45
50% to 75%	16	11	27
75% to 100%	18	15	33
Total	315	493	808

B. Dollar change in tax liability (thousands)[b]

Colorado taxable income ratio[d]	Increase	Decrease	Net Amount
Less than 1%	$347	$ 89	+$257
1% to 25%	206	111	+ 96
25% to 50%	116	38	+ 78
50% to 75%	9	11	— 2
75% to 100%	2	35	— 32
Total	681	285	+ 396

C. Percentage change in tax liability

Colorado taxable income ratio[d]	Increase	Decrease	Net Amount
Less than 1%	179.8	28.6	+50.9
1% to 25%	42.4	24.3	+10.1
25% to 50%	45.9	28.6	+20.1
50% to 75%	7.3	9.2	— 0.8
75% to 100%	4.0	28.8	—17.9
Total	60.9	24.8	+17.5

[a] Based on 867 firms for which data were available, representing 87 percent of the total number of firms using an allocation formula. Of these, 59 non-taxable firms were unaffected by the change in formula.

[b] Tax liability computed at rate of 5 percent.

[c] Items may not add to totals due to rounding.

[d] Colorado net taxable income based on the statutory two-factor formula expressed as percentage of total nationwide net income reported by each firm on their 1957 return.

In summarizing the effects which would have occurred through the addition of a payroll ratio to the allocation formula under the Colorado corporate income tax in 1957, several facts stand out in importance:

(1) The majority of all interstate firms, approximately 60 percent of the total number, would have benefited by a reduction in tax liability;

(2) But on net balance it would have produced an increase in the income tax base of about $8 million, and an over-all increase in tax revenue of approximately $.4 million;

(3) More than three-fourths of the net tax increase would have fallen upon foreign interstate firms for whom the increase would have been 23 percent, in contrast to an increase of 10 percent for domestic firms;

(4) Almost three-fourths of the net tax increase would have fallen upon the largest interstate firms, those with assets of $100 million or more, and the increase for this category would have been 31 percent, in contrast to an average of 18 percent for all firms;

(5) Almost two-thirds of the net tax increase would have fallen upon national corporations that allocate less than 1 percent of their total net income to Colorado, and the increase for this category would have been 51 percent; in contrast, firms which allocate 50 percent or more of their income to Colorado would on net balance actually have experienced a reduction in tax.

In short, it appears that the major burden of a tax increase resulting from a revision of the allocation formula would fall upon the large, foreign, interstate corporations which allocated less than 1 percent of their total net income to their Colorado operations.

Inasmuch as the above findings were based on the 1957 survey data, they are useful for estimating the effects of proposed revisions in the present two-factor formula only to the extent that essentially the original relationships between the sales, property and payroll factors continue to hold. Moreover, it is important to note that the addition of a payroll factor would increase an interstate firm's Colorado taxable income only if the value of the payroll ratio was greater than the average value of the property and sales ratios already included in the present allocation formula. Since the geographic distributions of property and payrolls for most national corporations are closely correlated, it is reasonable to assume that the ratios based on these data tend to have similar values. If the introduction of a payroll factor causes increased taxation for such firms, it simply means that the value of their reported sales ratios were significantly smaller than their payroll ratios.

The preceding analysis of the 1957 Colorado corporate tax returns has shown that the introduction of a three-factor allocation formula would have caused the bulk of the tax increase to fall upon the large, foreign, interstate firms which allocate only a very small fraction of their total net income to the State. Thus, it is evident that the 1957 Colorado sales ratios reported by these firms must have been relatively low—and primarily because of the restrictive legal interpretation given to a "Colorado sale" by the courts in the American Can cases. How-

ever, if the 1958 income tax amendment, which attempted to close the sales "loophole" by redefining a Colorado sale, effectively raises the value of the sales ratios of interstate firms, then the net effect of the addition of a payroll factor to the present two-factor formula probably would be to reduce the state tax liability of large foreign interstate firms, while at the same time increase the relative tax burden of domestic firms which have proportionally greater employment and payrolls in Colorado. On net balance, the adoption of a three-factor formula by Colorado would result in an increase in state tax revenues only if the average value of the sales ratios of the interstate firms (domestic and foreign) continued to be smaller than the average value of their payroll ratios. On the other hand, if the broader definition of a Colorado sale, as provided by the 1958 income tax amendment, should prove to be effective and raise the average value of the sales ratios of interstate firms above that of their payroll ratios, then the use of a three-factor formula would result in a decrease in State corporation income tax revenues. But whether or not the 1958 amendment will have a significant impact on the sales ratios reported by interstate firms will not be known, of course, until after the 1959 tax returns, filed in 1960, are processed and audited by the Revenue Department, tax assessments made on the basis of the new definition, and possibly court interpretations of the amendment are obtained.

In consideration of all of the above, and particularly the fact that even under the restricted American Can case definition of a Colorado sale the addition of a payroll factor would have increased the 1957 State corporate income tax revenue by only 6 percent, it would appear that Colorado's present two-factor allocation formula should not be substantially revised until a more adequate and clear-cut case can be made for revision on the grounds of both equity and revenue. Moreover, as already noted, the elimination of the federal income tax deductibility provision would offset some of the inadequacies of the present allocation formula, as well as reduce the regressivity of the effective rate structure.

CHAPTER XIV

SEVERANCE TAX

The severance tax upon certain types of natural resource production is largely a development of the present century. It is a special tax both in terms of its scope and the objectives it is intended to serve. The tax is now employed by some 28 states, but it is a minor source of revenue in most of these jurisdictions.

Nature of Tax

The serverance tax is commonly defined as a levy on the extraction or removal of certain natural resources from the soil or water. It is applied to virtually all kinds of sub-soil resources, including oil, gas and other minerals, and timber. These resources, as contrasted to agricultural products, are either not reproducible or, in the case of timber, require a long period of growth. The distinctive character of the resources gives rise to special taxing problems, and the severance tax is designed to provide a partial solution to these problems.

While the term severance clearly implies that the tax is imposed upon the act of severing or removing a resource from its natural location, this is often not the case. Physical units of the product are only one of several bases upon which the tax is imposed including sales, gross receipts and gross income. The terminology used by state legislatures in describing the tax is also highly variable. In addition to the basic term, the tax may be called an occupation, privilege, production or special excise levy.

Considering the variations in the tax base and legal descriptions of the tax, it is often difficult to distinguish the character of a particular tax as well as the legislative intent. Certain jurisdictions, for example, impose very heavy rates on natural resource production (higher than manufacturing or retail sales) under their general sales tax. Though there is no indication in the law that the additional tax represents a severance tax, this is the apparent purpose. Thus, the existence of a special or additional tax on the resources in question logically may be said to constitute severance taxation.

Severance taxes were originally conceived as a substitute for the property tax. If the tax is in lieu of property taxes, therefore, there is a reasonable pesumption that it is intended to be a severance levy. Actual state practice, it should be noted, usually does not conform to the alternative tax concept.

The above characteristics generally serve to distinguish servance taxes. However, the features noted are subject to question in particular instances, and it is not surprising that laymen as well as tax authorities often disagree in their interpretations of this form of taxation.

Development and Principal Features. Michigan pioneered the development of severance taxation by adopting a tax on specified mineral resources in 1846, and Pennsylvania and Minnesota followed in 1874 and 1881, respectively. All of these jurisdictions had extensive coal, iron ore and other mineral resources, and have depended upon the tax as a substantial source of state tax receipts. In the early 1900's several of the major oil-producing states adopted the tax. Texas and West Virginia led the way in 1907, and Oklahoma and Louisiana followed in 1908 and 1910. Most of the present state severance taxes were adopted in the period preceding and following World War I. Twenty-eight states now impose severance taxes on various types of mineral products. In addition to these taxes, six states (Arizona, Indiana, Mississippi, New Mexico, Washington, West Virginia) include certain extractive industries under their general sales levies.[1] The latter practice may or may not reflect an intent to put a special or additional tax burden on these resources. It should also be noted that there are twenty jurisdictions (most of which impose severance taxes) that have modified their property tax treatment of forest lands.[2]

The general scope, base and rates, as well as the in lieu features of the severance taxes in the twenty-eight states are shown in Table 14.1. Oil and gas resources are taxed in the largest number of states or in twenty-three; coal and/or iron ore in nine; other specified minerals in eleven; and timber in six. Ten jurisdictions restrict their severance taxes to oil and gas, and an equal number have relatively comprehensive levies applying to three or more types of mineral or other resources.

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[1] Ohio Department of Taxation, *Severance Taxation* (Division of Research, Columbus, Ohio, 1956), Table 2, p. 18.

[2] *Ibid.*, Table 3, pp. 19-21.

produced (with the exception of timber), it is also highly important that the enterprises engaged in this type of production pay a proportionate share of the total tax burden.

The property tax, as previously indicated, may have the effect of stimulating rapid and wasteful production or cropping methods, whereas the severance tax does not involve this influence. In fact, the latter tax which only applies to resources which are currently productive may tend to deter or prevent present use in the case of marginal or high cost properties. Thus, the severance tax may have a positive influence in promoting conservation objectives as opposed to the potential negative impact of the property tax.

Absentee Ownership and Special Tax Advantages. In many states, including Colorado, a large proportion of mineral and timber resources are owned by non-resident corporations or individuals. Absentee ownership, rightly or wrongly, is often subject to public disfavor, and proponents of severance taxes sometimes suggest that the people are entitled to an additional tax dividend from such production (over and above regular taxes). While the idea of a discriminatory tax is indefensible, absentee owners may largely escape general tax burdens. The severance tax, therefore, may be used to offset this advantage, and is an effective instrument for achieving proportionality of tax burdens.

The owners of mineral and timber resources also are said to enjoy substantial tax advantages under certain general tax forms, and the severance tax is supported as a means of offsetting these favors. In particular, it is alleged that the ratio of assessment under the property tax is extremely low and that the oil and certain other mineral industries are extended special privileges under federal and many state income tax laws. While a special basis of assessing producing oil properties is employed in a number of states, including Colorado, there is little doubt that non-producing oil lands and other mineral properties are usually grossly under-assessed as compared to other types of real estate. The inherent difficulties in determining the extent and value of mineral deposits, the tendency to permit self-assessment by mining companies and the alternative practice of assessing the property almost entirely on the basis of surface developments and improvements have all contributed to this result.[4] The implications of Colorado's special bases of assessment and actual assessment practices are considered in the final section of this chapter.

It is generally recognized that the special "percentage depletion" allowances granted to oil and other mineral producers under the federal and certain state income tax laws (Colorado is a notable example) are very liberal. However, unless they are determined to be excessive they do not in any way justify offsetting or additional tax burdens.[5]

Finally, it should be emphasized that natural resource industries have a tax responsibility equal to that of other forms of production. It is evident that this responsibility is not being met under existing assessment practices and provisions of the property tax law in many states. The question as to whether depletion allowances are excessive is obviously debatable. While appropriate changes in these taxes and/or their administration would seem to be preferable on theoretical grounds, the imposition of reasonable severance taxes to compensate for the deficiencies that exist is an acceptable alternative. In the case of the property tax it may also be the most practical and expedient course of action. If under-taxation is regarded as a significant factor in the imposition of severance taxes, however, it is important that a uniform basis of assessment for such properties be established and enforced. Otherwise, there is no firm basis for determining the tax differential which is to be made up.

Productivity and Ease of Administration. The productivity of severance taxes in states which have substantial mineral deposits or timber production has been fully demonstrated. Substantial revenues are derived in many of these jurisdictions. As a consequence of the relatively small number of taxpayers and the relative simplicity of the tax base (production units, sales or income), the administrative problems are not difficult or unique in character. These features, as indicated in other sections of this study, do not justify the imposition of a tax, but they are important considerations nonetheless.

State-Wide Sharing of Fiscal Benefits. The imposition of severance taxes by the state governments permits a broader distribution of the fiscal benefits from the taxation of the resources in question. By their nature these resources are usually concentrated in limited areas, and locally imposed and administered taxes necessarily mean a concentration of tax receipts in the favored areas. This situation is both inequitable and undesirable, but the legitimate needs of the local units involved must be recognized and provided for. If the severance tax is in addition to the property tax, the needs of local governments can be adequately met through the latter levy. The severance tax pro-

[4] Earl Crockett, "Should Colorado Adopt a Severance Tax?" *Taxation in Colorado*, Report No. 2, 1946, p. 38.

[5] The policy issues involved are discussed in Chapters XII and XIII dealing with the personal and corporate income taxes.

ceeds may then be used for state purposes or distributed to all local units on the basis of general formulae involving the needs and resources relationship. If the severance tax is in lieu of the traditional property tax, the bulk, if not all, of the revenues should be allocated to local governments in a manner that will assure adequate revenues to the localities in which the resources are located.

Effect of Severance Tax on Resource Development: Tax Incidence. The principal criticism of severance taxes is that they have an unfavorable effect upon resource development, and high cost production in particular. This charge is obviously a serious one and merits special attention. At the outset, it is obvious that a severance tax, with the possible exception of one based upon net income, increases production costs. In fact, all taxes based upon cost factors have this effect. That is, they either increase living costs of the individual or the operating or fixed costs of business concerns. In a broad sense, therefore, they tend to curb incentives to consume or to invest funds in the private economy. The crucial question to be answered in the case of the severance tax, or any tax for that matter, is whether it places a disproportionate or unequal burden upon the particular groups involved. The answer, obviously, is dependent primarily upon the impact of the tax system as a whole. The severance tax is only one component of the tax system and not necessarily the most important one.

There is no reason to suggest that a severance tax will seriously restrict resource development or utilization unless it is applied in a punitive or discriminatory manner. The increased costs occasioned by severance taxes, like property or sales tax costs, normally are recovered through the price charged for the product. Mineral and timber production, with minor exceptions, is carried on under monopolistic or semi-monopolistic conditions, and "administered" or controlled prices are the general rule. In such circumstances it must be presumed that the incidence of the tax is generally upon the consumer. Thus, the severance tax cannot have an unduly burdensome effect upon production, which would otherwise be profitable, if it is employed on a reasonable basis.

This conclusion is subject to two qualifications. Mineral or timber production which is definitely marginal or sub-marginal under given market conditions will be adversely affected by any increase in costs. However, the relative position of such production in the industry will not be changed by imposition of a severance or other general taxes. Needless to say, a tax based upon net income would be most advantageous for such concerns. It should also be emphasized that tax policy for any important segment of the economy cannot reasonably be predicated upon the economic status of high cost and probably inefficient producers. Nor can tax favors to an entire industry be justified on the basis of the economic woes of such enterprises. From a conservation standpoint it would also be highly undesirable to resort to tax or other subsidies to the marginal or sub-marginal properties. If an entire industry is temporarily or chronically subject to a cost-price squeeze, tax relief or other types of governmental aid may conceivably be justified. Even in this case, however, the benefits versus costs to the state as a whole should be carefully weighed.

The second qualification is that the severance tax be imposed in a manner consistent with accepted principles of tax equity. Discriminatory or unequal tax burdens, in terms of other types of production in the state or relative to those imposed by other states, upon the resources in question are indefensible in the first instance and of dubious merit in the second. However, state tax practice (including Colorado) with respect to mineral and timber resources usually reflects the other extreme of under-taxation. The tax advantages which these resources enjoy under the property and income taxes have already been noted. The analysis of interstate relationships in the severance tax field will indicate the general extent of favorable treatment in this area.

Instability of Severance Tax Receipts. The alleged instability of severance tax receipts and the problems of financing local governments which may be associated therewith is distinctly a secondary aspect of the severance tax problem. In the first place, the actual variations in severance tax yields are not as great as is often assumed, and are confined to certain specific resources usually of a minor character. Secondly, unless the severance tax is in lieu of property taxes no special problem of financing local governments is involved. If an in lieu feature is included and yields are variable, the problem is not insoluble. Under these circumstances the state has the responsibility of providing assistance to the local units on a continuing basis which is at least equivalent to the revenues that would have been obtained from the property tax. In the case of registered timber lands, for example, several jurisdictions employing severance taxes have permitted the local units to continue low level, uniform per-acre taxes, and in one instance, the state matches this amount. Thus, there are various possible approaches to this problem.

Conclusions. The case for severance taxes on mineral and timber resources is believed to be sound subject to certain qualifying conditions. It is dependent in part upon state policy,

whether the tax is employed as a substitute for the property tax or as an additional levy. In the former case, it is quite evident that the severance tax is preferable to an inefficiently and inequitably administered property tax. From the standpoint of conservation objectives it is also believed to be superior to a scientifically applied annual tax on the decreasing value of the resource.[6] Moreover, it is generally recognized that the severance tax is much easier to administer than the property tax.

The severance tax may be appropriately employed as an additional levy to compensate for irregular or low level assessments under the property tax. It is an effective measure for ensuring that mineral and timber production make a proportionate contribution to the cost of state and/or local government provided that the burden is properly correlated to that of the general and special taxes on other types of interprise. At the same time, it should not be employed as a punitive device. In this connection it should be recognized that the adoption of a severance tax program does not relieve the state of the responsibility for achieving a uniform statewide assessment of mineral and timber properties.

The questions of policy involved in the instance of a particular branch of the mining industry which is temporarily or chronically depressed are extremely complex. Certainly, the introduction of a new tax or the raising of existing taxes under these circumstances would appear to be ill-advised. Tax favors or other aids by an individual state, however, may well be ineffective in dealing with such problems.

History of Severance Taxes in Colorado

Colorado's experience with severance taxes dates back to 1913, although the first levy of major importance from a revenue standpoint was the oil and gas tax adopted in 1953. However, severance taxation has been a continuing issue of legislative concern for several decades.

The 1913 law imposed a low-rate tax on each ton of coal mined in the State—the rate currently amounts to 7/10 cents per ton.[7] The purpose of this levy was to finance State regulatory and inspection measures, and while it took the form of a charge on production, it was not intended as a general revenue source. As a consequence of declining production in Colorado's coal-mining industry, receipts totalled only $22,787 in 1957.[8]

The second severance-type tax was adopted in 1951, and is designed to finance state conservation activities in the oil and gas industries. Producers or purchasers of oil and natural gas are required to pay a tax of 2 mills per barrel on oil and 2 mills per 50,000 cubic feet of gas.[9] Payments are earmarked for a special conservation fund, and amounted to $116,295 in 1957.[10] This levy, also, is obviously of minor importance from a revenue standpoint.

The 1953 law imposed a substantial severance tax on oil and natural gas industries. It is applied to the gross income from oil and gas production.[11] This legislation marked the culmination of a long period of agitation for severance taxes. Earlier efforts to adopt such a tax in the legislature had failed, and an initiated constitutional amendment met a similar fate in 1952. The specific features of the tax are discussed in the following section of the chapter.

Several other minor taxes or charges are imposed upon the mining industry, but they are not severance taxes in the strict sense of the term. They include: (1) a tax of 1/10 of 1 percent on the assessed value of producing metalliferous mining properties;[12] (2) an ore buyer's license of $100 per year for the right to mill, sample, concentrate, reduce or purchase for sale;[13] (3) an annual license fee on producing coal mines of from $10 to $50 depending upon the level of output;[14] and (4) a royalty charge of 15 cents per ton on mining companies extracting coal from state-owned lands.[15] None of these taxes or licenses are significant revenue-wise. The first tax, however, is most productive, collections amounting to $33,404 in 1957.[16]

In view of the recent adoption of the oil and gas severance tax and its limited scope, it is evident that Colorado is still in the pioneering stage of severance taxation.

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[6] If related to yield, as in the case of the Minnesota and Michigan taxes on iron ore, this advantage would not be operative.

[7] *Colorado Revised Statutes, 1953*, Ch. 92-11-1.

[8] State of Colorado, Division of Accounts and Control.

[9] *Colorado Revised Statutes, 1953*, Ch. 100-6-20.

[10] State of Colorado, Division of Accounts and Control.

[11] *Session Laws of Colorado, 1953*, p. 352, 1 and 2; and *Colorado Revised Statutes, 1953*, Ch. 138-1-7.

[12] *Colorado Revised Statutes, 1953*, Ch. 92-34-1.

[13] *Ibid.*, Ch. 92-29-1.

[14] *Ibid.*, Ch. 92-11-1.

[15] *Ibid.*, Ch. 112-3-40.

[16] State of Colorado, Division of Accounts and Control.

Severance Tax on Oil and Natural Gas in Colorado

The Tax Base. The 1953 oil and gas severance tax, as previously noted, is based upon gross income and provides for significant credits and a specific exemption. It applies to "that portion of gross income of every person which is derived from the production or extraction of crude oil, natural gas, or both, from petroleum deposits located within Colorado."[17] The statute makes clear that "this means that entire amount realized from the sale or other disposition of all crude oil and natural gas produced or extracted during any taxable year from petroleum deposits located within the state."[18] Royalty income is expressly included within the severance tax base and a 3 percent tax on such income is withheld either by the producer or first purchaser.

Although the severance tax is based upon gross income, it was originally intended to be an additional tax with no deduction allowed in determining state personal and corporate net income tax liability. In fact, at the time the severance tax law was passed, in 1953, the income tax statute contained a specific provision denying an income deduction for any tax levied under the act. However, in the process of copying and revising State statutes in the *Colorado Revised Statutes, 1953,* which became the official law of the State, this clause was omitted. The oil and gas tax paid, therefore, is now an allowable deduction in computing net income under both the personal and corporate taxes. Considering the fact that the effective rate of the oil and gas tax approaches 5 percent of gross income for large companies, the deduction may well result in no net income tax being paid by such corporations. The effect in the case of individuals is likely to be less marked.

Property taxes, with certain exceptions, are creditable against severance tax liabilities. The exceptions are ad valorem taxes on equipment and facilities used in drilling for, production of, storage of and pipeline transportation of crude oil and natural gas. Thus, the oil and gas severance tax is for practical purposes in lieu of property taxes upon the oil and gas deposits and leasehold or royalty interests therein.

The only specific exemption is that of royalty payments to the United States government and to the State of Colorado. The first is dictated by national constitutional requirements and the latter by policy considerations.

The gross income base of the oil and gas tax reflects an attempt by the Legislature to avoid the application of the constitutional provisions allocating 85 percent of sales and other excise tax receipts for welfare purposes. Although an opinion of the Attorney General held that a severance tax on oil and gas produced in Colorado would not be an excise subject to such allocation,[19] the Legislature sought to ensure this result by enacting the law under Article 10, Section 17 of the Constitution pertaining to classified income taxes. The Attorney General's opinion also affirmed the validity of the latter approach.[20]

In spite of these precautions the constitutionality of the tax is presently in question. A test case brought by the California Company in the District Court was decided on February 15, 1958, and upheld the validity of the tax.

The decision by Judge Edward J. Keating denied the following company allegations: (1) that the severance tax denies equal protection under the law and is arbitrary and discriminatory; (2) that the severance tax is not a proper income tax and was improperly drawn; (3) that the severance tax is an unreasonable burden on interstate commerce; and (4) that the severance tax cannot be collected because most of the oil comes from federal lands located within the State. The company's contention that the act was unconstitutional because it was passed March 27, 1953, but was made retroactive to January 1, 1953, was also denied.

Following its loss in the District Court, the California Company filed an appeal with the Supreme Court of Colorado which had not been decided as of December 5, 1958. If the Colorado Supreme Court affirms the District Court decision, the California Company may appeal to the United States Supreme Court. Thus, the final decision on the constitutionality of the severance tax could be postponed for several years, given the crowded docket of the U. S. Supreme Court. In the meantime the severance tax is being paid under protest.

Another issue concerning the base of the oil and gas tax which arose in the legislature was

[17] *Colorado Revised Statutes, 1953,* Ch. 138-1-7.

[18] *Ibid.*

[19] Quoted in *The Denver Post,* February 9, 1953.

[20] *Ibid.*

whether it should be a substitute for ad valorem taxes levied by local units and the State on natural resources. This question also involved legal implications, and an opinion of the Attorney General held that:

> The ad valorem tax on leasehold rights and royalty interests is a tax on real estate and is subject to the uniformity provisions of the Constitution, so that it cannot be replaced by a severance tax or an income tax upon oil and gas production.[21]

Consistent with this opinion the law does not replace the ad valorem tax on property, but a tax credit is given for property taxes on the oil and gas deposits and rights therein.

Considering the extent and variety of its mineral resources and the practice of other states, the scope of Colorado's tax is obviously very limited. Colorado is the only state that employs a gross income severance tax base for taxing oil and gas production. (See Table 14.1.) However, this base is roughly comparable to the gross or market value measure which is employed by over one-half of the taxing states. Among the six states which include mineral and other natural resource production under their general sales taxes four also use gross income as a measure.[22] While the Colorado tax technically is not in lieu of property taxes, the credit granted for property taxes on the mineral deposits in effect achieves this result. The credit feature of the Colorado tax substantially restricts yields, but it is at the expense of the State rather than the local units. Thus, the credit approach is obviously preferable to the in lieu provision in so far as local governments are concerned.

Rates of the Severance Tax in Colorado and Other States. The rate schedule on the gross income derived from oil and gas production in Colorado is graduated as follows:

$25,000 or less	2 percent
Over $25,000 to $100,000	3 percent
Over $100,000 to $300,000	4 percent
Over $300,000	5 percent

Colorado is the only state using a progressive rate structure. This feature obviously gives the small independent operator a significant advantage, but the bulk of the production falls in the higher or maximum rate categories.

Severance taxes on oil and gas production in other states, as shown in Table 14.1, exhibit a marked variation in rates. Those which are imposed upon gross or market value of the product range from 2/5 mill per dollar in Wyoming to 6 percent in Mississippi. Among other states in this region, Montana and Nebraska levy a 2 percent tax; New Mexico 2½ percent plus a 2 percent gross income "occupational tax;" North Dakota — 4¼ percent; Oklahoma — 5 percent; Texas—4.6 percent on oil and 7 percent on gas; and Utah—1 percent. Considering the fact that the taxes in the other states noted do not include an in lieu feature, the rates of the Colorado tax are certainly moderate. Wyoming's levy, it should be noted, is primarily a conservation measure, and is not intended to produce substantial revenue.

It is apparent that rate comparisons involving the severance and related taxes on oil and gas production do not present a complete picture of relative tax burdens. The property tax and other general taxes may be equally if not more significant. Data on the application of these taxes in other states, unfortunately, are not readily available.

Oil and Gas Severance Tax Recipts. Receipts from the Colorado severance tax on oil and gas, as indicated in Table 14.2, amounted to $3,894,708 in the fiscal year 1957 or approximately 2.64 percent of total State tax collections. Thus, the severance tax ranks tenth in the complex of taxes imposed by the state government.

Table 14.2

Oil and Gas Severance Tax Receipts in Colorado, 1954-1957

Year	Severance tax revenues (net)	Severance taxes as percent of total State taxes	Per capita severance tax revenues	Severance taxes as percent of personal income
1954	$2,544,287	2.31	$1.71	0.10
1955	3,524,893	2.82	2.28	0.13
1956	3,345,567	2.41	2.08	0.11
1957	3,894,708	2.64	2.33	0.12

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* and U. S. Department of Commerce, *Survey of Current Business*, August, 1957, and August, 1958.

Receipts from the severance tax increased 53 percent between 1954 and 1957. The over-all rise in State tax collections during the same period was 34 percent. The most significant increase occurred in 1955 as a consequence of greater petroleum production in the Denver-Julesburg basin.

Administration of the Oil and Gas Tax. The oil and gas tax as it applies to individual and corporate income is administered as an integral part of the state income tax structure. These aspects of revenue administration are treated in Chapters XII and XIII, repectively. As no special enforcement effort is directed to the oil and gas tax, the increase in administrative costs occasioned by the levy is undoubtedly inconsequential.

[21] *Ibid.*

[22] Ohio Department of Taxation, *Severance Taxation, op. cit.*, Table 2.

Comparative Significance of Severance Taxation in Colorado and Other States

A comparative analysis of the fiscal significance of severance taxes in Colorado and other leading mineral producing states is obviously essential as a basis of evaluating present as well as future policies in this field. The value of mineral production is the key factor in the actual as well as potential productivity of the severance tax. This element, therefore, is considered first, followed by an examination of severance tax yields and severance tax receipts as a percentage of the value of mineral production. The importance of the severance tax in terms of total state tax recipts is also indicated.

Estimated Value of Mineral Production. The estimated value of mineral production in each of the forty-eight states for 1956 is shown in Table 14.3. It will be observed that Colorado ranks in 17th place, nationally. According to the United States Bureau of Mines, *Mineral Yearbook,* Colorado's position has declined from 15th place in 1954. In this two-year period both Arizona and Utah moved ahead of Colorado in the value of mineral output. Although ranking in 17th place nationally, the value of mineral production in Colorado amounted to over $309 million in 1956. It will be noted that seven of the top twenty-eight states with mineral production valued in excess of $100 million do not impose severance taxes. However, in the case of West Virginia, which ranks in 5th place, extractive industries are subject to heavy rates under the general sales tax system.

Total Receipts from Severance Taxes. Among the twenty-seven states which reported severance tax collections in 1956, Colorado ranked eighth in the amount of revenues collected.[23] This is in marked contrast to its position (22nd), prior to the adoption of the oil and gas income tax, and its present status (17th) in mineral production. On the other hand, Colorado's receipts amounted to less than 1 percent of the total severance tax collections of $360 million for all states in 1956.

Severance Tax Receipts in Relation to Value of Mineral Production. Severance tax collections as a percentage of mineral income are clearly more indicative of the relative emphasis upon this form of taxation. Ten jurisdictions collected taxes in excess of 1 percent of the value of mineral production in 1956. In five of these states, Minnesota, Louisiana, Oklahoma, Mississippi and Texas, receipts exceeded 4 percent of mineral income. The New Mexico and Colorado collections were slightly over 1 percent. Of the remaining states only Montana, Utah and Oregon had collections amounting to more than ½ of 1 percent of the value of their mineral output (timber in Oregon). Thus, significant applications of the severance tax to mineral production as a whole are limited to thirteen states.

Table 14.3

Mineral Production and Severance Tax Revenue, By States, 1956

State	Value of mineral production (thousands)	Severance tax revenue (thousands)	Severance tax revenue as percent of value of mineral production	Severance tax revenue as percent of total state tax revenue
Texas	$4,197,640	$184,798	4.40	29.66
California	1,555,267	1,131	0.07	0.07
Louisiana	1,281,849	73,484	5.73	21.79
Pennsylvania	1,084,939	—	—	—
West Virginia	935,073	—	—	—
Oklahoma	757,116	32,118	4.24	11.29
Illinois	572,321	—	—	—
Minnesota	501,027	34,707	6.92	12.20
Kansas	493,815	343	0.07	0.21
New Mexico	488,603	7,139	1.46	8.00
Arizona	479,551	—	—	—
Kentucky	443,168	243	0.05	0.14
Michigan	394,536	667	0.17	0.09
Ohio	375,487	—	—	—
Utah	374,698	2,471	0.66	3.60
Wyoming	314,797	—	—	—
Colorado	309,505	3,406	1.10	2.36
New York	237,016	—	—	—
Montana	213,728	1,660	0.78	3.37
Virginia	208,806	199	0.10	0.09
Indiana	195,674	333	0.17	0.12
Alabama	189,186	931	0.49	0.42
Missouri	163,693	71	0.43	0.03
Florida	140,490	52	0.04	0.01
Tennessee	137,859	[a]	—	—
Arkansas	134,677	4,354	3.23	3.71
Mississippi	132,875	8,526	6.42	5.65
Nevada	126,235	104	0.08	0.36
Idaho	75,152	92	0.12	0.19
Nebraska	71,776	377	0.10	0.50
Georgia	67,912	—	—	—
Iowa	66,529	—	—	—
Wisconsin	65,907	156	0.24	0.21
New Jersey	64,279	—	—	—
Washington	61,619	—	—	—
North Dakota	53,555	1,806	3.37	3.57
South Dakota	41,797	684	1.64	1.41
Maryland	40,532	—	—	—
North Carolina	39,985	—	—	—
Oregon	34,001	798	0.63[b]	0.49
Massachusetts	25,085	—	—	—
Vermont	23,131	—	—	—
South Carolina	21,342	—	—	—
Maine	12,179	—	—	—
Connecticut	11,876	—	—	—
New Hampshire	3,436	9	0.26	0.30
Rhode Island	1,627	—	—	—
Delaware	1,232	—	—	—

[a] State has tax but no revenue reported. (See Table 14.1.)

[b] Percent of estimated value of timber production rather than mineral production which is not taxed.

Source: U. S. Bureau of Mines, *Mineral Industry Survey: Area Reports,* preliminary 1956 and 1957; U. S. Department of Commerce, *Survey of Current Business,* August, 1957; Commerce Clearing House, *State Tax Guide,* 1957; U. S. Bureau of Census, *Compendium of State Government Finances, 1956.*

[23] As later data on the value of mineral production are not available, tax collections for 1956 are employed for comparative purposes. Although Tennessee is listed as a severance tax state, no revenue was reported.

Severance Tax Receipts in Relation to Total State Tax Collections. The severance tax may be considered as a major source of state revenue in only four states—Texas, Louisiana, Minnesota and Oklahoma. It is a significant minor source, however, in seven other jurisdictions including Colorado. Needless to say, its importance in the tax system of a particular state is dictated primarily by the state's general tax policies rather than the scope and rates of its severance tax.

Relative Importance of Severance Taxes in Eleven Western States. The relative role of severance taxes in the eleven Western States is summarized in Table 14.4. Two of these states, Arizona and Washington, do not impose severance taxes and Wyoming's levy is nominal in amount. Arizona and Washington, however, tax extractive industries under their general sales taxes. Colorado's severance tax receipts are second only to New Mexico in the eight taxing states. However, the Colorado tax ranks fourth in terms of: ratio of severance tax collections to total state tax receipts; the ratio of severance tax collections to personal income payments; and in relation to per capita receipts. In general, therefore, Colorado's position is close to the average for the eight states.

Table 14.4

Fiscal Significance of Severance Taxes, Eleven Western States, 1956

(Rank order of states appears in parenthesis)

State	Severance tax revenue (thousands)	Severance tax revenue as percent of total state tax revenue	Severance tax revenue as percent of personal income	Per capita severance tax revenue
Colorado	$3,406(2)	2.36(4)	0.11(4)	$2.11(4)
Utah	2,471(3)	3.60(2)	0.19(2)	3.04(2)
Idaho	92(8)	0.19(7)	0.01(7)	.15(7)
Montana	1,660(4)	3.37(3)	0.14(3)	2.60(3)
New Mexico	7,139(1)	8.00(1)	0.59(1)	8.76(1)
Nevada	104(7)	0.36(6)	0.02(6)	.42(6)
Oregon	798(6)	0.49(5)	0.02(5)	.46(5)
California	1,131(5)	0.07(8)	[a](8)	.08(8)
Arizona	—	—	—	—
Washington	—	—	—	—
Wyoming	—	—	—	—

[a] Less than .5 of 1 percent.

Source: U. S. Bureau of Census, Department of Commerce, *Compendium of State Government Finances in 1956;* and Department of Commerce, *Survey of Current Business,* August, 1957.

New Mexico's role as the leading Western severance-tax state is attributable primarily to three factors: (1) its 10th place ranking in mineral production; (2) the broad scope of its severance tax;[24] and (3) the substantial rates imposed.[25] It should be noted that the severance tax in New Mexico is not in lieu of property taxes, and that the sales tax also applies to certain extractive industries.

Utah, which ranks second in the Western State comparison in all respects except total collections, is 15th in terms of total value of mineral output (nationally); the severance tax applies to metal ores, oil and natural gas; and the rates of the tax are moderate as compared to those of the leading states in the field of severance taxation.[26] Utah's tax is also an additional levy.

Montana's severance tax, which ranks fourth among the Western States in total receipts and third in other respects, is a broad-based levy with varying rates. It is not in lieu of property taxes. The value of mineral production is substantially lower than in Colorado.

While California ranks fifth in terms of severance tax collections in the Western State group, the severance tax is designed to meet only the cost of conservation measures. The rates are re-determined annually and are nominal. Considering the fact that California is the second ranking state, nationally, in mineral production, the yield of slightly over $1 million is obviously inconsequential.

Oregon's severance tax, which is limited to timber, ranks sixth in total collections. The rate is low, and there is a 25,000 board feet exemption. The tax is not in lieu of property taxes.

The other two Western States that levy severance taxes, Nevada and Idaho, derive little revenue from this source. They rank 28th and 29th nationally in the value of mineral production, and rates are relatively low.

Conclusions; Interstate Comparisons. The varying role of the severance tax as a means of obtaining revenue from natural resource production is strikingly portrayed in the foregoing analysis. The tax has achieved a substantial degree of acceptance in the leading mineral-producing states, but even in the states that use it the relative emphasis differs markedly. This devergence in practice is evident in the eleven Western States as well as nationally. The fact that the tax is generally an additional tax and that property tax assessment policies and results vary widely from one state to another is undoubtedly a partial explanation. From a practical standpoint the strength of industry opposition may also be a determining factor in some jurisdictions.

Colorado's oil and gas tax would rank with the leaders, except for the property tax credit. The net effect appears to be a very moderate over-all tax on these resources. Among the states that impose severance taxes for revenue purposes and have a significant variety and amount of other mineral resources, the limited scope of Colorado's tax is largely unique. Unless there are compelling reasons for their exclusion,

[24] See Table 14.1.
[25] Ibid.
[26] Ibid.

therefore, the taxation of other minerals appears to be wholly logical and certainly consistent with the practice in the neighboring states of New Mexico and Utah.

Distribution of Severance Tax Burdens

The actual extent and distribution of the oil and gas tax burdens, both for corporations and individuals, obviously has an important bearing upon the desirability of the tax and particular features thereof. As the severance tax is associated with the state income tax, the study of corporate and personal tax returns undertaken in Chapters XII and XIII provides the factual data for an analysis of severance tax burdens.

The specific information concerning severance tax liability for corporate and personal taxpayers is presented in Tables 14.5 and 14.6, respectively. Corporate tax liability is shown for interstate and Colorado companies, both domestic and foreign, by asset classifications. The tax liability of individuals is depicted by broad income categories and by taxable and non-taxable returns. The taxable returns include those that showed a net tax liability after the ad valorem credit, as contrasted to the non-taxable, in which the property tax credit exceeded oil and gas tax liability.

Number and Nature of Firms Reporting Tax Liability. During the taxable year period covered by the basic income tax data, 135 corporations reported gross oil and gas tax liability. A much smaller number, 95, actually paid a net tax. The bulk of the companies reporting gross tax liability (97) as well as those which paid an oil and gas tax (67) were domiciled or had their headquarters outside of Colorado. The majority of these corporations operated on an interstate basis, 80 and 53, respectively. The predominance of the foreign and interstate companies in the Colorado severance tax picture is even more marked in the case of gross tax liability and taxes paid.

Impact of Oil and Gas Tax on Corporations. The 135 corporations reporting oil and gas income, as indicated in Table 14.5, showed a gross tax liability of approximately $5,900,000. Property tax credits against the gross tax amounted to about $2,836,000 or 48 percent. Thus, the ad valorem tax credit provision reduced the potential severance tax yield by nearly one-half, and, 40 of the 135 reporting companies paid no tax. The net tax liability reported amounted to approximately $3,214,000. While this total exceeds the difference between the gross tax and the ad valorem credit by nearly $150,000, the discrepancy is probably attributable to cases in which the credit was in excess of the gross tax liability for particular companies.

Comparing the tax liability of foreign and domestic concerns, the former accounted for 98.41 percent of gross taxes reported and 98.89 percent of net taxes. Interstate companies not headquartered in Colorado reported 90.86 percent of the gross tax, and 94.24 percent of the net tax. It is evident, therefore, that the great

Table 14.5

Corporate Oil and Gas Income Tax Liability by Domicile and Asset Classification Taxable Year (1957)[a]

Value of Assets	Domestic[a]						Foreign[b]						Percent of tax liability
	Total oil and gas tax		Ad valorem credit		Net oil and gas tax liability		Total oil and gas tax		Ad valorem credit		Net oil and gas tax liability		
	No. of firms	Gross oil and gas tax	No. of firms	Amount	No. of firms	Amount	No. of firms	Amount	No. of firms	Amount	No. of firms	Amount	
A. Interstate Firms													
Not classified	1	$ 6,000	1	$ 4,300	1	$ 1,700	4	$ 5,900	2	$ 3,800	3	$ 2,100	0.13
Under $100,000	0	—	0	—	0	—	1	300	1	200	0	—	0.00
$ 100,000—$ 500,000	2	2,500	1	200	2	2,300	3	7,300	3	6,500	2	800	0.10
500,000— 1,000,000	3	6,500	3	3,100	2	3,500	4	4,100	2	4,400	2	1,800	0.17
1,000,000— 5,000,000	4	400	2	400	2	200	15	171,500	13	71,700	11	100,200	3.30
5,000,000— 10,000,000	1	5,100	1	3,600	1	1,500	5	40,900	5	40,500	1	9,400	0.36
10,000,000— 50,000,000	3	23,400	3	19,600	3	3,800	21	367,000	16	220,300	13	149,400	5.04
50,000,000 and over	0	—	0	—	0	—	27	4,763,600	24	2,127,000	21	2,765,000	90.90
Totals	14	43,900	11	31,200	11	13,000	80	5,360,600	66	2,474,400	53	3,028,700	100.00
B. Colorado Corporations[c]													
Not classified	2	200	0	..	2	200	6	120,010	6	72,200	4	49,600	28.94
Under $100,000	9	5,400	6	5,300	5	1,500	1	200	0	—	1	200	0.99
$ 100,000—$ 500,000	10	19,800	7	10,400	7	9,500	1	10,800	1	7,800	1	3,000	7.26
500,000— 1,000,000	3	24,600	2	13,100	3	11,500	0	—	0	—	0	—	6.68
1,000,000— 5,000,000	0	—	0	—	0	—	3	26,300	3	24,600	3	2,100	1.22
5,000,000— 10,000,000	0	—	0	—	0	—	1	100	0	—	1	100	0.06
10,000,000— 50,000,000	0	—	0	—	0	—	1	1,500	1	1,400	1	100	0.06
50,000,000 and over	0	—	0	—	0	—	4	286,700	4	195,300	3	94,300	54.79
Totals	24	50,000	15	28,800	17	22,700	17	445,700	15	301,300	14	149,400	100.00

[a] Interstate firms headquartered in Colorado.
[b] Interstate firms with headquarters outside Colorado.
[c] Corporations classified as wholly Colorado firms.

Source: Corporate tax returns covering approximately one corporate tax year (1957 and part of 1958 calendar year). See Chapter XIII.

bulk of the oil and gas tax burden on corporations is paid by absentee firms. The relative importance of the property tax credit for the four broad classes of firms varies significantly. The interstate concerns headquartered in Colorado receive the greatest benefit, the credit amounting to 71 percent of their gross tax; Colorado corporations not headquartered in Colorado are second with about 68 percent; the Colorado corporations headquartered in the State are third with nearly 58 percent; and the foreign interstate concerns last with 46 percent.

The data in Table 14.5 also indicate a marked concentration of the corporate oil and gas tax burden on interstate concerns with assets of $50,000,000 or more. Of the 27 corporations in this asset category, 21 accounted for nearly 91 percent of the net tax of the interstate organizations, 6 of the 27 not being subject to a net tax. The $10,000,000 to $50,000,000 asset group, which included 24 companies, was responsible for 5 percent of the total tax of interstate firms, and only 6 showed a net tax liability. Finally, the $1,000,000 to $5,000,000 asset group, involving 19 companies, accounted for 3.3 percent of the total tax for interstate companies and all others less than 1 percent.

The concentration of tax liability on firms in the larger asset classes is not nearly as marked among those operating solely in Colorado. However, the data are less revealing in that 8 companies, which were responsible for nearly 29 percent of the tax for the Colorado concerns, could not be classified as to assets. Of the remaining 33 Colorado corporations, the $100,000 to $1,000,000 asset categories accounted for nearly 14 percent of the total tax liability for such companies, and the $50,000,000 and over class nearly 55 percent.

The effective rate of the oil and gas tax in relation to gross oil and gas income exceeds the minimum tax rate of 2 percent only in the case of foreign, interstate companies.[27] It amounted to 2.68 percent for this class. Colorado corporations headquartered in other states were subject to a 1.45 percent effective rate; Colorado corporations headquartered in the State—1.32 percent; and interstate companies headquartered in Colorado—0.94 percent. The markedly higher effective rate for foreign, interstate companies may be attributed primarily to the impact of the progressive rates on the large income concerns, and the fact that the property tax credit is proportionally of lesser importance in influencing net tax liability.

Impact of Oil and Gas Tax on Individual Incomes. The results of the sampling procedure employed in the analysis of individual income tax returns (shown in Table 14.6) indicates that there were approximately 4,222 persons reporting oil and gas tax income. Of this number some 2,986 returns showed net oil and gas tax liability, and the property tax credit exceeded gross oil and gas tax liability for some 1,236 individuals. In other words, the ad valorem credit wiped out any severance tax liability for about 30 percent of the individuals receiving oil and gas income.

The total net tax liability of individual taxpayers, as reflected by the taxable returns, amounted to $214,611. Individuals, therefore, were responsible for only 6.3 percent of the total net severance tax liability. The gross tax liability for all personal returns both taxable and non-taxable totalled $503,630, and ad valorem credits amounted to $430,101 or over 85 percent of the gross tax. Thus, the property tax credit, in the case of individuals, eliminated the great bulk of potential revenue from the oil and gas tax. This substantial disparity in the effect of credit as between individual and corporate tax liability may be explained in large degree by the individual ownership of oil and gas deposits which are leased by the producing companies.

The distribution of the individual oil and gas tax burden by selected income categories, as shown in Table 14.6, reveals a broad spread ranging from about 5 percent of the total tax for the $8,000 to $10,000 income group to 38 percent for the $50,000 and over income class. The $15,000 to $50,000 income category was responsible for nearly 27 percent of the total tax; the $5,000 to $8,000 group—12 percent; the $0 to $5,000 class—nearly 10 percent; and the $10,000 to $15,000 group—about 8 percent. While the proportion of the total tax load shown for the $0 to $8,000 income classes is relatively large, it should be remembered that the great majority of individual taxpayers fall in this income range.

It will be noted that there is a marked difference in the significance of the property tax credit for different income classes in the case of the taxable returns. The range is from a credit of less than 2 percent of the gross tax for the $5,000 to $8,000 income group to slightly over 50 percent for the next income category ($8,000 to $10,000). This extreme divergence logically must be explained by differences in the nature of individual royalty rights, and, consequently, the availability of the property tax credit.

The effective rate of the oil and gas tax on the gross oil and gas income of individuals liable for payment of a tax was 1.65 percent.[28]

[27] Derived from basic data on corporate income tax liability in Colorado.

[28] Derived from basic data on individual income tax liability in Colorado.

Table 14.6

Individual Oil and Gas Income Tax Liability by Income Classes Taxable and Non-taxable Colorado Individual Income Tax Returns 1957

	Taxable Returns					Non-taxable Returns		
Income categories	Number of taxpayers	Gross Oil and gas tax	Ad valorem credit	Net tax liability	Percentage distribution of tax	Number of returns	Gross oil and gas tax	Ad valorem credit
$ 0—$ 4,999	1,800	$ 35,100	$ 13,950	$ 21,150	9.86	750	$ 63,150	$155,400
5,000— 7,999	550	27,000	450	26,550	12.37	200	19,450	26,850
8,000— 9,999	220	21,300	10,680	10,620	4.95	80	10,860	15,680
10,000— 14,999	110	17,550	1,280	16,250	7.57	100	23,250	37,520
15,000— 49,999	248	93,304	35,512	57,784	26.92	88	25,556	41,144
50,000 and over	58	146,648	64,388	82,257	38.33	18	20.462	27,247
Totals	2,986	340,902	126,260	214,611	100.00	1,236	162,728	303,841

Source: Study of individual income tax returns based upon sampling procedure. (See Chapter XII.)

Although this is considerably lower than that applicable to the gross oil and gas income of foreign-interstate companies, it represents an approximate average of the rates for the four classes of corporations.

Potentialities of Severance Taxation in Colorado

The future role of severance taxation in Colorado should be governed primarily by considerations of equity and the economic impact of the tax on resource development and utilization. Revenue potentials are important, but of secondary concern.

Desirability of Extending the Tax Base and Other Policy Changes. The gross income base and rate structure of the present oil and gas tax appear to be well adapted to the purposes of this form of taxation. The progressive feature of the rate schedule provides a substantial incentive to new firms and the small operator. The principal questions at issue are the desirability of extending the tax to other types of minerals and the removal of the property tax credit which substantially reduces the burden of the tax as well as the yield.

From the standpoint of equity, the broad objective of tax policy in this field, as previously indicated, is to achieve equality of tax burdens upon different types of mineral production and as compared to other forms of productive activity. Similarly, it is desirable to maintain a reasonable relationship between the tax burdens upon such resources in Colorado and in neighboring states.

The recent report of the Legislative Council Committee on Colorado Property Assessment Methods indicates an extreme variation in the assessment base for different types of mineral production as well as highly variable results in the application of these rules. Three official bases of assessment, as explained in Chapter VII, are employed: (1) 87½ percent of the value of the gross product in the case of oil and gas properties; (2) 25 percent of the value of the gross product or the total net income (whichever is greater) in the instance of other "producing" mineral properties; and (3) a flat sum per acre (highly variable) for "non-producing" mineral holdings. The differential between oil and gas and other producing mineral properties is obviously extreme, and would be highly discriminatory except for the credit for property taxes allowed under the oil and gas severance tax. The flat sum per acre basis of assessment for various types of non-producing mineral lands is also likely to be highly inequitable. As the amount of the assessment is left to the discretion of the individual assessor this result is virtually assured.

It should be emphasized that the gross or net product bases of assessment bear no necessary relationship to capital value. They clearly result in fractional assessment in relation to such values, and in widely varying ratios. Furthermore, there is little doubt that most producing and non-producing mineral properties are subject to a much lower ratio of assessment (assessed value vs. capital value) than other types of real estate and income-producing personalty.

Considering present practices in the assessment of mineral properties, the property tax credit for oil and gas producers under the severance tax, and the highly favorable treatment of mineral production under the State net income tax, it is obvious that Colorado is not achieving equal tax burdens upon various types of mineral production or as between mineral resources and other forms of property. The present oil and gas tax involves some additional burden on these industries but falls short of the broad equality objective, and other forms of mineral production are generally under-taxed.

In terms of the practice of neighboring states, the rates of the Colorado oil and gas tax are much lower than the Texas, Oklahoma and New

Mexico levies. Utah imposes a 1 percent tax and Wyoming does not have a severance tax. Moreover, the four neighboring states taxing these resources use the severance tax as an additional levy. The property tax credit under Colorado's oil and gas levy, as indicated in the burden analysis, reduces the over-all effective burden of the severance tax by about 50 percent. Its effects as between taxpayers are capricious, though it does tend to have an equalizing influence on over-all tax burdens (state income and property taxes). If Colorado's policy is out of line with that of the leading oil producing states in the region, therefore, it involves a substantially lower rather than higher burden situation.

In considering the equity of tax burdens on mineral properties, it should also be emphasized that taxes entering into the cost of production are typically shifted to consumers in the form of higher prices. The severance tax is no exception to this rule. Under normal conditions it is shifted, and will involve some degree of regressive effect upon low and medium as compared to high income groups. As the bulk of mineral production is consumed outside the State this burden is widely diffused throughout the entire economy. Needless to say, the severance tax burden which is shifted cannot at the same time involve a direct burden upon the industry. It should be recognized, however, that special conditions may arise in a given line of mineral production which make shifting impossible either in the short-run or long-run. These conditions include a temporarily unfavorable market and the case of a chronically-depressed or declining industry. The former type of situation is not restricted to natural resource production, and should not influence the formulation of long-range taxing policy. The latter constitutes a special problem.

The effect of severance taxes upon resource development and utilization will depend upon the over-all impact of tax policy and the economic status of the particular type of mineral production involved. The first factor has been thoroughly explored. Colorado's tax policy in the general as well as severance tax areas is very liberal. It involves substantial tax favors to the industries in question, including oil and gas production. In the light of the "administered pricing policies" in these and certain other lines of mineral production and existing tax practices, a considerably heavier tax burden should not prejudice development or production activities.

The potentially undesirable effects of tax policy upon mineral development and production are limited to chronically depressed or declining areas of production. Marginal or submarginal operations in a field of production which is generally profitable as previously noted do not merit preferential treatment. The former situation, however, presents a difficult policy problem.

Once the existence of such conditions in an industry has been demonstrated and the causes ascertained, there are two primary policy issues to be resolved. First, is the industry of sufficient importance in the state's economy to justify assistance provided at the expense of the general taxpayer, and will such action contribute to a solution of the basic problem? Second, assuming a positive answer to these questions, what is the most appropriate method or methods of extending such assistance? Thus, it is quite obvious that any reasonable approach to the problem of such industries must be much broader than the tax policy aspects.

At the present time, with certain exceptions, the economic status of Colorado's mining industries is not definitely known. The specific information concerning costs, profits and/or deficits, and the relative position of Colorado producers in the over-all production or supply picture, are not available or have not been verified. Yet, these facts are essential to intelligent policy formulation. Until these data are provided through a comprehensive investigation by experts not associated with the interest groups involved, state taxation probably should be restricted to the areas in which the economic status of production is known.

In the absence of such data, strong industry claims of unprofitable operation certainly merit attention. However, if 20 to 40 percent depletion allowances are employed as a basis of calculating net income these claims obviously require further scrutiny. If unprofitable operation on the basis of actual depletion is established and if output has been declining over an extended period, the introduction of a severance tax as an additional levy would appear to be ill-advised. A revision of current policy to provide more equitable and consistent application of existing taxes is also desirable. It should be emphasized, however, that tax relief alone is not likely to resolve the problems of depressed industries. Certainly the minimal property tax burdens on mineral production in Colorado cannot be said to be a significant influence upon the economic status of the industries involved. The principle effort of the state government, therefore, should be directed to the underlying causes of unprofitable operation in the particular area of mineral production.

Conclusions

Policy Issues. In general, Colorado's present tax policies are highly favorable to producing mineral properties. They are subject to fractional assessment in varying degree under the property tax, and they receive very liberal depletion allowances under the net income tax. As compared to other forms of mineral production, oil and gas are subject to an additional burden. Thus, a discriminatory situation exists

favoring other types of minerals. In relation to the tax policies of most neighboring states, however, the severance tax on oil and gas is very moderate. This effect is a direct result of the property tax credit.

In conclusion, two changes in severance tax policy are merited on grounds of equity, and should not prejudice resource development or utilization. First, the base of the present tax should be extended to certain other lines of mineral production. A selective approach involving other major types of minerals, such as molybdenum, vanadium and uranium is indicated. Second, the property tax credit should be eliminated. Finally, it is essential that the present property assessment regulations as well as practices be overhauled to ensure consistent and equitable results.

Revenue Potential of a Broader-Based Tax. The approximate effect of the changes indicated upon tax receipts have been estimated using the basic data provided by the burden analysis. Elimination of the property tax credit would have increased 1956 receipts by slightly more than $3,000,000. Extension of the present oil and gas tax rates, without a property tax credit, to molybdenum, vanadium, and uranium would have produced approximately $2,200,000.[29] Thus, the percentage of increase factors for the two changes individually are 88 and 64.6 percent, respectively. On an over-all basis, therefore, they should increase current receipts by about three times.

It should be noted that oil production in Colorado and consequently receipts have declined during the last year. While this situation is temporary at least in part, the trend of production in the immediate future will probably remain at a fairly constant level. Barring an unforeseen acceleration in shale oil development, therefore, a substantial increase in yields is dependent upon changes in the scope and base of the present tax.

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[29]The combined value of the product in 1956 was estimated at $57,980,000 and the calculated effective rate of the tax was 3.81 percent.

CHAPTER XV

INHERITANCE, ESTATE AND GIFT TAXES

The two principal types of death taxes employed in the United States are the inheritance tax and the estate tax. At one time the term "inheritance taxes" was somewhat synonymous with "death taxes" but in more recent times it refers to a tax levied on the beneficiaries of an estate. An estate tax is a tax, the incidence of which is on the estate and is paid before the heirs receive their shares. It is generally agreed that the estate tax is easier to administer and a more lucrative revenue producer but that the inheritance tax is more just if measured in terms of ability-to-pay.[1]

Death taxes are usually considered to be levied on the act of transferring property, not on the property itself. Hence the tax is interpreted to be an indirect tax and not subject to the problems faced by a direct tax.[2] In the past, death taxes were often interpreted as property taxes and therefore of a direct nature since early state death taxes were confined to personal property and were justified on the basis that such property had escaped taxation during the lifetime of the owner.[3]

History and Description of Death Taxes

Death taxes are one of the oldest forms of taxation, having been used in ancient Egypt and Greece.[4] The feudal system of the Middle Ages was characterized by certain forms of inheritance taxes and the more recent development of the institution of private property has resulted in the extensive use of inheritance taxes throughout the world.[5] In modern times, England stands out as the country in which death taxes have been most fully developed.

Prior to the First World War, the federal government of the United States imposed various death taxes which were temporary emergency measures. In 1916, the estate tax was permanently added to the federal tax system, although it was considered temporary legislation at the time. The early tax carried rates which ranged from 1 to 10 percent, while the present rates range from 3 to 77 percent. In 1924 abandonment of death taxes by the federal government was advocated on the grounds that it would free this source of revenue for the states.[6] Although the attempt proved unsuccessful, a provision was written into the federal law which allowed a credit up to 25 percent of the federal estate tax for death taxes paid to states. This 25 percent credit was increased to 80 percent in 1926, when federal rates were also reduced. In recent years rates have been increased but the 80 percent credit is applicable only to the basic rates of 1926. Therefore, the 80 percent credit no longer represents the degree of abandonment by the federal government of the estate tax that it once did.

Although federal estate tax collections have continually increased in recent years, the tax has remained a stable source of revenue in terms of relative fiscal importance. It can be seen from Table 15.1 that federal inheritance tax collections increased from $706 million in 1950 to $1,171 million in 1956.[7]

Even though a dozen states attempted to levy an inheritance tax in the nineteenth century,[8] the only state which enjoyed substantial success was New York, where a proportional inheritance tax was levied in 1895. In 1903 Wisconsin levied a progressive inheritance tax which was later to become a model for other state death-tax systems. During this period, several states

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[1]For a complete discussion of the historical distinction between the estate tax and the inheritance tax see William J. Shultz, *The Taxation of Inheritance* (Boston: Houghton Mifflin Company, 1926), Chapter 13.

[2]Commerce Clearing House, *State Tax Guide: All States* (Chicago, 1956), p. 8911.

[3]Harold M. Groves, *Financing Government* (fourth edition; New York: Henry Holt and Company, 1955), p. 221.

[4]William J. Shultz, "Inheritance Taxation," *Encyclopaedia of the Social Sciences*, Volume 8, p. 43.

[5]That inheritance is a necessary institution of a capitalistic society has frequently been questioned by various economists. John Stuart Mill proposed a strict limitation of the amount an individual could inherit and Jeremy Bentham advocated abolition of the institution of inheritance except for direct heirs.

[6]It has been argued that the state has the ultimate title to land and other property and is therefore in a better position to levy inheritance taxes. However, if the federal government were to abandon death taxes, competition between the states might result in death tax rates being driven to a minimum. Other arguments for federal retention of the estate tax are that inheritances are very difficult to localize or attribute to one state and that multiple taxation frequently occurs in state death-tax systems.

[7]Prior to the Second World War, the federal estate tax was of more fiscal significance than since 1950, often accounting for as high as 5 percent of total federal revenues, as in 1940.

[8]Pennsylvania imposed the first state inheritance tax in 1826 although some forms of probate duties existed in earlier periods.

attempted to attract wealthy individuals by imposing little or no inheritance tax. Florida, for example, passed a constitutional amendment forbidding the imposition of an inheritance tax. With the adoption of the federal credit in 1924, a major impetus was given to the adoption of inheritance taxes by the states because the taxpayers would pay the same amount of taxes but a substantial part of it would now be paid to the state rather than to the federal government. Accordingly, all the states, with the exception of Nevada, have adopted some type of death tax in order to take advantage of the federal credit. Although some states impose a tax equal to the federal credit only, the more common method is to impose an inheritance tax supplemented by an estate tax. The latter usually is applicable only if the inheritance tax fails to equal the federal credit. Hence, the estate tax is usually supplementary and designed only to insure full absorption of the federal credit. This technique has been adopted in 32 states, Colorado included.

Table 15.1

Federal and State Death and Gift Tax Revenues 1950-1956

(Dollar totals in millions)

	Federal				All States			
Year	Estate	Gift	Total	Death taxes as percent of total budget receipts	Inheritance	Gift	Total	Death taxes as a percent of total taxes
1950	$ 657.4	$ 48.8	$ 706.2	1.9	$167.9	$2.7	$170.6	2.1
1951	638.5	91.2	729.7	1.5	190.2	5.4	195.6	2.2
1952	750.6	82.6	833.2	1.4	207.2	3.8	211.0	2.1
1953	784.6	106.7	891.3	1.4	217.6	4.4	222.0	2.1
1954	863.3	71.8	935.1	1.5	242.7	4.4	247.1	2.2
1955	848.5	87.8	936.3	1.6	243.7	5.3	249.0	2.1
1956	1,053.9	117.4	1,171.3	1.8	304.6	5.8	310.4	2.3

Source: Adapted from Analysis Staff, Tax Division, Treasury Department, "Federal and State Inheritance and Estate Taxes," September, 1957.

State death taxes are one of the most firmly established state revenue sources, as evidenced by the fact that the 47 states have retained this tax for over 25 years.[9]

A major problem associated with the inheritance or estate tax is the *inter vivos* gift (between living persons) which is made prior to death and in anticipation of the death tax. To avoid inheritance or estate tax revenue losses due to this subterfuge, twelve states, Colorado included, have adopted a gift tax. In many of the 12 states, gift tax rates are the same as the inheritance tax rates. The purpose of the gift tax is not to yield revenue, but rather to act as an administrative supplement to state death-tax systems.[10] Nevertheless, a large number of states, presumably motivated by the small gift tax revenue in other states, have failed to enact a gift tax. The inheritance or estate tax revenue loss due to this failure is impossible to estimate, but it could be substantial.[11]

Total state inheritance tax collections have continually increased in recent years, and as can be seen from Table 15.1 they exceeded $310 million in 1956. However, as a percent of total taxes, inheritance taxes have remained fairly constant in recent years, providing slightly more than 2 percent of the total taxes collected in all states.

Rationale of Death Taxes

Most of the arguments supporting inheritance taxes view these taxes as a means of achieving a desirable qualification of the institution of private property in the same manner that various laws qualify the use of private property. It has been argued, however, that inheritance taxes can be used as a vehicle for abolishing inheritance, an institution which it is held is not only unnecessary in a capitalistic society, but is socially undesirable. Confiscatory inheritance taxes could also be justified as a partial means of eliminating private property although ". . . the socialist school of writers has generally ignored the inheritance tax, viewing it merely as an undesirable palliative of the evils they are attacking."[12]

The arguments which are offered in support of inheritance taxes with something less than confiscatory rates are numerous and are presented from various points of view.

One legalistic argument is that inheritance is not a right but rather a privilege granted to the people by the state. Were there no heirs to the estate, the property would pass to the state, on grounds that the state holds *ultimate* title to all land and other property. Hence, a tax levied on the transfer of property is a payment for the privilege of being able to inherit property. Another legalistic argument is that the estate could not have been amassed had not the state provided the environment for such accumulation.

[9] L. Laszlo Ecker-Racz, "State Taxes After the 1956-1957 Legislative Sessions," *National Tax Journal*, December, 1957, p. 296.

[10] Total state gift tax collections have averaged only about 2 percent of total state death tax collections in recent years. See U. S. Bureau of the Census, *Compendium of State Government Finances*, Annual Reports.

[11] Per capita death burdens do not appear to be lower in non-gift tax states than in states which impose a gift tax. However, a per capita comparison is of questionable value as an indicator of the extent of avoidance through the use of *inter vivos* gifts because of the different state tax rates, and the differing number and extent of wealthy persons in the states.

[12] Shultz, "Inheritance Taxation," *op. cit.*, p. 45.

The point is made that the state not only provided the opportunity, but in addition protected the property once it had been accumulated. Hence, the state is viewed as a partial contributor to the estate and, therefore, as a co-owner is entitled to share in the benefits of the estate. The state's share is simply taken at a convenient time, that is, when the estate is being divided and distributed at the death of the ostensible owner. Presumably, the rates of the tax would correspond to the degree to which the state has been responsible for the accumulation of the estate. Logically it would seem that 100 percent rates could be justified on the basis that man could not exist without the state. This argument lacks force if one views the state as a product of man rather than man as a product of the state.

From an egalitarian viewpoint, inheritance taxes are supported on the grounds that they tend to reduce the inequality of income distribution. The burden of the tax is on the wealthy while the benefits of the tax are enjoyed, through the state, by all. Implicit in this argument is the belief that society would benefit if incomes were more equally distributed, a point generally agreed upon although the degree of equality desired has not been defined.

Few taxes have received support from both liberal and conservative points of view as has the inheritance tax. In addition to the equalitarian argument mentioned above, the taxes are also supported from an individualistic viewpoint.[13] It is held, for example, that unqualified inheritance creates a concentration of wealth that places the average individual at a disadvantage although he may be more competent. It is argued that an environment should be created in which individuals may excel to the full extent of their ability. Part of this environment is equality of opportunity. A sense of "fair play" dictates that individuals begin from the same "starting line."

One of the more frequently offered justifications for the taxation of inheritance is that it conforms closely to the widely accepted principle of ability-to-pay. It is held that little sacrifice is involved in inheritance taxation because the decedent, of course, incurs no sacrifice and the beneficiary incurs no sacrifice because the inheritance is in the nature of a "windfall." This justification of the inheritance tax has been subject to criticism on the grounds that ability-to-pay may or may not be present when an estate is transferred. If a dead person can incur no sacrifice it is equally true that he has no ability-to-pay. If it is the ability-to-pay of the beneficiary that is being singled out, there is doubt that inheritance necessarily indicates ability-to-pay because the financial position of the beneficiary prior to the inheritance is not taken into account. Most inheritance taxes are graduated according to the size of the inheritance and not according to the financial well-being of the inheritor.[14] The ability-to-pay principle seems to be more appropriate for justifying the progressivity of inheritance taxes than for the levying of the inheritance tax itself.

In addition to the above justifications of the inheritance tax, it is also argued that these taxes have little economic impact upon the beneficiary because the inheritance is an "economic surplus" or unearned income. In addition, it appears that the tax is easy to administer, reaches property which, due to evasion or avoidance, has previously escaped taxation, and is a tax which is relatively difficult to shift.

An argument frequently made against inheritance taxes is that they adversely affect the capital or potential capital of a country in several ways. First, it is argued that individuals will not accumulate savings if they are not allowed complete freedom in their disposition. At one time the desire to bequeth assets to one's children may have been a strong incentive in the accumulation of capital, but it is doubtful if this is significant today. If the freedom of disposing of one's assets at death acts as an incentive it is only one of many incentives.[15] It might equally be argued that in some cases the inheritance tax results in greater savings because more savings are necessary to pay the tax as well as leave an estate of some size.

Another way in which inheritance taxes are alleged to decrease the capital of the country is that capital goods must be sold to meet the burden of the tax. In some cases the sale of capital goods may be necessitated by the inheritance tax but it is fallacious to argue that this decreases the capital of the country because what one individual sells another buys and society therefore incurs no net gain or loss. Closely related to the preceding argument is the more valid contention that inheritance taxes tend to accelerate the business concentration movement partly because of uncertainty of burden at the

[13] No less of an individualist than Andrew Carnegie supported the taxation of gratuitous bequests.

[14] Inheritance taxes graduated according to the financial position of the recipient have been advocated and were actually attempted in Germany and Italy in the early 20th century. The attempts proved unsuccessful due to administrative difficulties.

[15] Even if one assumes that inheritance taxes result in decreased savings, it should be pointed out that decreased savings need not result in decreased capital; on the contrary it may result in just the opposite. The act of saving and the act of investing, i.e., purchasing capital goods are separate and usually done by different groups of people with different motivations. If inheritance taxes decrease savings, adherents of Hansen's stagnation thesis, which in its simplest form states that savings forthcoming at full employment are excessive for maintenance of full employment, would consider decreased savings an advantage of inheritance taxes.

individual's death.[16] Another factor is the fear that the estate will be in an illiquid position thereby necessitating forced sale of securities held by the estate and the probably ensuing loss, as well as the possible jeopardy to the concern in which the securities are held. Uncertainty of burden is contrary to established principles of taxation, but when it is responsible for accelerating a possible concentration movement, the undesirability is compounded. This indictment seems to have considerable merit, but applies more to the administration of the tax than to the nature of the tax itself. For example, much of the uncertainty of the burden is due to the valuation of closely held securities, and administrative improvement is possible in this area.

Another argument offered against inheritance taxes is that they fall on upper income groups which are most responsible for capital accumulation, and therefore the tax tends to decrease the potential capital of the country. This argument makes the fallacious assumption that savings and investment are synonomous, as well as ignoring the fact that the tax collections may be used by the government to purchase capital goods such as roads, dams, and so forth.

A possible effect of inheritance taxes is that they may be self-defeating. If steeply graduated inheritance taxes are added to a tax system which relies heavily on progressive income taxes, the effect would probably be to decrease the size of inheritances, thereby decreasing the tax base and tax revenues. However, it would appear that rates would need to be considerably higher than they now are. Also, one of the major reasons offered for levying an inheritance tax is to avoid undue concentrations of wealth. If this objective were fully achieved, there would be little revenue forthcoming from the tax.

A final argument against inheritance taxes is that they adversely affect gifts for educational and charitable purposes. It is argued that the continuation of private philanthropy rests on large estates and that diminuation of these estates will diminish the useful services performed by private philanthropic organizations.[17] Although inheritance taxes might have this effect in the long run, the short-run effect is probably to encourage contributions to private philanthropic organizations because they are exempt from the tax. Hence, the government is subsidizing philanthropic organizations through the inheritance tax exemption as well as the more commonly thought of income tax deductions.[18] In the long run, it appears that charitable organizations could be adversely affected by inheritance taxes, although rates would probably need to be somewhat higher than they presently are. If society deems it desirable to attempt to diminish concentrations of wealth through inheritance taxes, it should recognize that such action may adversely affect private philanthropy to some extent. The cost of this possibility must be weighed against the advantages of possible diminished concentrations of wealth.

Death Taxes in Colorado

Colorado first imposed an inheritance tax in 1901.[19] The original legislation has been amended from time to time notably in 1927 when the tax rates were increased to take advantage of the federal credit introduced in 1924 and amended in 1926. The proceeds from a additional tax of 10 percent, imposed in 1933, accrued to the pension fund of the counties but have since been made payable to the Old Age Pension Fund. In 1937 the gift tax was introduced which in conjunction with the inheritance tax presently constitutes the death tax system of the State.

State revenues from death taxes have increased generally over the past three decades. Throughout the 1930's they fluctuated around $1 million annually and in the 1940's they ranged between $1 million and $2 million.[20] A sharp raise is noted thereafter, particularly between 1954 and 1957 when revenues almost doubled, or from $2,475,000 to $4,544,000. Despite these increased revenues the ratio of death tax collections to total state tax revenues has not changed significantly. As noted in Table 15.2 this ratio has averaged between 2 and 3 percent since 1950.

As a part of total death tax revenues, the gift tax has since 1950 varied from 17 percent in 1954 to 2 percent in 1952. Inasmuch, however, as the gift tax is basically intended to prevent the avoidance of the inheritance tax a ratio of this amount is by no means insignificant. Thus, in 1954 the tax yielded over $400,000 and nearly $300,000 in both 1956 and 1957 — or amounts which otherwise might have been lost had there been no gift tax.

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[16] For a complete discussion of this argument, see Harold M. Somers, "Estate Taxes and Business Mergers," *Journal of Finance*, 8:201-10, May, 1958; and, J. Keith Butters, Lawrence E. Thompson, and Lynn L. Bollinger, *Effects of Taxation: Investments by Individuals* (Boston: Harvard University, 1953), pp. 34, 171.

[17] One could question the implicit assumption that philanthropic organizations perform more useful services than could have been performed had the money accrued to the government in the form of taxes and been spent for similar purposes.

[18] Groves, *op. cit.*, pp. 225-26.

[19] Colorado Legislative Council, *Colorado Tax Structure*, Research Publication No. 9-1, 1954, p. 1.

[20] Earl C. Crockett, *Colorado's Tax Structure* (Boulder: University of Colorado Press, 1950), p. 41.

Table 15.2

Death Tax Revenues in Colorado 1946-1957

Year	Inheritance (thousands)	Gift (thousands)	Total inheritance and gift tax revenues (thousands)	Inheritance and gift tax revenues as percent of total tax revenues
1946	$2,293	$177	$2,470	5.04
1947	1,381	78	1,459	2.49
1948	1,931	128	2,059	2.80
1949	1,716	76	1,792	2.20
1950	1,695	55	1,750	2.04
1951	2,048	195	2,243	2.33
1952	2,385	102	2,487	2.45
1953	2,860	110	2,970	2.74
1954	2,056	419	2,475	2.25
1955	2,941	207	3,148	2.51
1956	3,703	299	4,002	2.88
1957	4,262	282	4,544	3.08

Source: State of Colorado, Division of Accounts and Control, *Annual Reports*, 1946-1957.

Inheritance Tax. Colorado's inheritance tax is quite similar to the inheritance taxes adopted in other states. Certain deductions and exemptions are allowed and the rates are graduated not only according to the value received but also according to the relationship of the inheritor to the deceased.

The present inheritance tax statute calls for a tax on the transfer of property by will, intestacy, or by gift in contemplation of death. Within the meaning of the law, every person is presumed to have died a resident of Colorado, if he has lived in the State during and for the greater part of any 12 consecutive months of the 24 months preceding his death.

The tax is imposed on all the property transferred by the decedent, in trust or otherwise, with deductions and exemptions allowed as discussed below. The tax applies to all transfers of property, whether real or personal, tangible or intangible, and wherever situated or located. The transfer of real property and tangible business property by a non-resident is subject to tax only if such property is located within the State. If intangibles are involved, the transfer is taxed if the intangibles have acquired an actual or a business situs in the State.

The statute further provides that the tax shall be based on the fair market value of the property, such value being established by appraisal at the date of death. Life insurance proceeds of less than $75,000 are exempted from the tax.

Certain other property is exempt from the tax. The pertinent provisions of the statute are that all transfers to or for the use of the United States, any state or political subdivision thereof, any public institution, corporation or association formed for charitable, benevolent, educational, or religious purposes, are exempt.

Various deductions are permitted in arriving at the fair value of the property to which a transfer is related. The deductions are limited to the following:

1. Debts of the transferor which are lawful claims against his estate.
2. Taxes:
   a. On real and personal property within the State and which were a lien and and unpaid at the date of death.
   b. Income taxes on the transferor's income up to the date of death.
3. Funeral expenses and any amount up to $500 to be spent for a memorial or monument.
4. Executor and administrator fees or commissions.
5. Administrative expense, including reasonable attorney fees, but not including clerical expenses.
6. Certain miscellaneous items.

It should be noted that Colorado does **not** allow deduction of the Federal estate tax before computing the state inheritance tax liability although twenty-five other states do allow this deduction. [21]

Table 15.3 shows the present rate structure of Colorado's inheritance tax. It will be observed that beneficiaries are classified by nearness of relationship to the decedent, Class A applying to very near relatives and Class D to unrelated persons. These classes are subject to different exemptions and rates. It will be noted also that a wife is given a $20,000 exemption while distant relatives or unrelated persons have no exemption unless the transfer is less then $500 in which case there is no tax. Rates range from 2 to 8 percent for Class A beneficiaries, and from 7 to 16 percent for unrelated persons, depending upon the value of the bequest.

Gift Tax. The gift tax in Colorado is very similar to the inheritance tax. Gift recipients are classified according to their relationship to the grantor and are subject to a graduated tax, the rates being the same as those for the inheritance tax.

The tax is imposed on all transfers of property, whether the gift is direct or indirect and whether the property is real or personal, tangible or intangible. All transfers of property within the States are taxed whether made by residents or non-residents. Gifts made to governmental jurisdictions or institutions organized for charitable, educational, or religious purposes are exempt.

Exemptions are identical to those of the inheritance tax except that Class C and D recip-

[21] U. S. Treasury Department, *Overlapping Taxes in the United States* (Washington, D. C., 1954).

Table 15.3

Inheritance Tax Rates[a] in Colorado, 1957
(Rates in percent)

Beneficiary	Exemptions	Amount of inheritance after exemption (in thousands)															
		Up to $2.5	$2.5-5	$5-10	$10-15	$15-20	$20-25	$25-30	$30-40	$40-50	$50-75	$75-100	$100-150	$150-200	$200-250	$250-500	Above $500
Class A																	
Wife, father, mother, husband, child, legally adopted child or lineal legitimate descendant	$20,000	2	2	2	2	2	2	2	2	2	4	5	7	7½	7½	7½	8
	10,000	2	2	2	2	2	2	2	2	2	4	5	7	7½	7½	7½	8
Class B																	
Daugher-in-law, son-in-law, grandparent, brother, sister, mutually acknowledged child, step-child	2,000	3	3	3	5	5	7	7	7	7	8	8	9	9	10	10	10
Class C																	
Aunt, uncle, niece or nephew, or any lineal descendant of the same	0[b]	4	5	6	7	8	9	9	10	11	12	12	12	12	12	13	14
Class D																	
All other persons and corporations	0[b]	7	8	9	10	12	12	14	14	14	14	14	14	14	14	14	16

[a] An additional tax of 10 percent of the inheritance tax is imposed.

[b] Transfer entirely exempt if less than $500.

Source: *Colorado Revised Statutes 1953*, pp. 77-78.

ients are allowed a $500 exemption. In addition to these lifetime exemptions, Class A recipients are allowed to annually exclude the first $2,500 received; Class B recipients, the first $1,500 received; and Class C and D recipients, the first $1,000.

Administration. Both the inheritance tax and gift tax are administered by the office of the Attorney General. Collection of the tax, however, is vested with the Revenue Department. In the United States today, only three states lodge this area of jurisdiction with the department of law. The greater number of states place the administration of the statute in the tax department or in a revenue department.[22]

The number of estates handled by the Inheritance Tax Division in the past few years has remained fairly stable between 8,000 and 9,000. Approximately two-thirds are waiver estates and about one-third are in the form of assessments. Currently, the number of gift tax returns is averaging approximately 500 per year and a little more than one-half of these are taxable.[23]

Administrative costs incurred by the Inheritance Tax Division have continually increased in recent years, nearly doubling between 1950 and 1957 or an increase from $50,833 to $95,379 (Table 15.4). However, tax collections tended to increase more rapidly than costs during the period so that the ratio of costs to collections actually declined from 2.9 percent in 1950 to 2.1 percent in 1957.

[22] *State Tax Guide: All States, op. cit.*

[23] Records of the Colorado Inheritance Tax Division.

Table 15.4

Administrative Costs: Inheritance Tax Division State of Colorado, 1950-1957

Fiscal year	Total cost	Inheritance and gift tax revenues	Costs as a percent of revenues
1950	$50,833	$1,750,000	2.9
1951	52,455	2,243,000	2.3
1952	60,672	2,487,000	2.4
1953	68,123	2,970,000	2.3
1954	74,791	2,475,000	3.2
1955	82,692	3,148,000	2.6
1956	86,865	4,002,000	2.2
1957	95,379	4,544,000	2.1

Source: State of Colorado, Division of Accounts and Control, *Annual Reports;* and Reports of Inheritance Tax Division.

Interstate Comparison of Death Taxes

As noted in Table 15.5 thirty-seven states levy an inheritance tax and, with the exception of Oregon, these states also have a differential estate tax. The latter is designed to fully absorb the federal credit and is applied only when the federal credit exceeds the state inheritance tax. Of the remaining 11 states, 7 impose an estate tax based on the 1926 federal levy, 3 impose an independent estate tax, and one state, Nevada, does not have a death tax in any form.

Of the 37 states which impose an inheritance tax, only 11 states, including Colorado, have a

gift tax.[24] The 26 states which fail to employ a gift tax in conjunction with their inheritance tax undoubtedly experience some avoidance through *inter vivos* gifts. How much revenue is lost on this account is, of course, impossible to estimate.

Table 15.5

Types of Death and Gift Taxes By States, 1958

State	Inheritance tax	Estate tax based on federal levy (1926)	Independent estate tax	Differential estate tax	Gift tax
Alabama		x			
Arizona		x		x	
Arkansas		x			
California	x			x	x
Colorado	x			x	x
Connecticut	x			x	
Delaware	x			x	
Florida		x			
Georgia		x			
Idaho	x			x	
Illinois	x			x	
Indiana	x			x	
Iowa	x			x	
Kansas	x			x	
Kentucky	x			x	
Louisiana	x			x	x
Maine	x			x	
Maryland	x			x	
Massachusetts	x			x	
Michigan	x			x	
Minnesota	x			x	x
Mississippi		x			
Missouri	x			x	
Montana	x			x	
Nebraska	x			x	
Nevada	*	*	*	*	*
New Hampshire	x			x	
New Jersey	x			x	
New Mexico	x			x	
New York		x		x	
North Carolina	x			x	x
North Dakota			x		
Ohio	x			x	
Oklahoma			x	x	x
Oregon	x		x		x
Pennsylvania	x			x	
Rhode Island	x		x	x	x
South Carolina	x			x	
South Dakota	x				
Tennessee	x			x	x
Texas	x			x	
Utah			x		
Vermont	x			x	
Virginia	x			x	x
Washington	x			x	x
West Virginia	x				
Wisconsin	x			x	x
Wyoming	x			x	
Totals	37	7	5	37	12

* No death taxes.

Source: Reports of U. S. Treasury Department, Analysis Staff, Tax Department.

Although the federal credit has had the effect of preserving the death tax as a source of state revenue, some states continue to use the tax as a competitive device to attract or retain wealthy persons. States such as Florida and Arizona continue to follow their traditional pattern by imposing a state tax equal only to the federal credit. Nevada, as noted above, imposes no death tax at all. As long as some states continue to impose minimum death taxes, the attempt to raise substantial revenues by this means by other states could result in losses of some wealthy citizens. Although some individuals might relocate because of favorable death tax differentials, numerous other factors would play a significant part in the establishment of a residence. A desirable climate, for example, could often be more important than the structure of the death taxes within a state. In addition, it is the difference in the various state death taxes and not the total amounts that would be important as a location factor. These differences would be small in many cases, since a large portion of the death tax liability which an individual incurs is paid to the federal government and cannot be escaped by moving from one state to another.

Total death and gift tax revenues vary substantially between the states. As noted in Table 15.6 per capita collections in 1956 ranged from a high of $14.86 in Delaware to a low of $.14 in Arkansas.[25] Colorado's per capita collections were $2.44 which exceeded the 47-state per capita average of $1.75. In rank order, as noted in Table 15.6, Colorado is ninth, that is, 8 states impose a higher per capita death tax burden while 38 impose lower death tax burdens.

A substantial difference in per capita death tax burdens among the states is due not only to a difference in death tax structures, but also to wide variations in the wealth of states. Therefore, if death tax collections are taken as a ratio of a state's personal income, it is somewhat more meaningful than reducing death taxes to a per capita basis.[26] Only in Delaware do death taxes exceed ½ of 1 percent of personal income, and in many states, they are less than 1/10 of 1 percent of personal income. The average for all states is 0.09 percent. Colorado's rate of 0.13 percent is somewhat above the average for the 47 states.

Death taxes as a source of revenue play a minor role in most states, although in Connecticut, Delaware, New Jersey, and Pennsylvania, these taxes accounted for over 5 percent of total state revenues in 1956. The average for the 47 states, however, was only 2.1 percent. Colorado's 2.7 percent again places the State above the national average.

[24] It can be seen from the table that 12 states in total employ a gift tax. Oklahoma levies no inheritance tax but employs a gift tax in conjunction with an estate tax.

[25] Comparison of per capita death tax burdens should be used with caution because death taxes are paid by a relatively small proportion of the population.

[26] This method still fails to account for differences in the wealth distribution within the states.

Table 15.6

Death and Gift Tax Revenues Compared With Total Tax Revenues and Personal Income 47 States, 1956

(Rank order of states appears in parenthesis)

State	Revenue from death and gift taxes (thousands)	Per capita death and gift tax revenues	Ratio of death and gift tax revenues to personal income (percent)	Ratio of death and gift tax revenues to total taxes (percent)
Alabama[a]	$ 547	$ .17(45)	0.01	0.25
Arizona[a]	192	.18(44)	0.01	0.19
Arkansas[a]	256	.14(47)	0.01	0.22
California[b]	36,452	2.71(14)	0.11	2.38
Colorado[b,c]	3,936	2.44(9)	0.13	2.73
Connecticut	11,150	5.00(2)	0.19	5.42
Delaware	5,974	14.86(1)	0.52	12.36
Florida[a]	3,483	.92(27)	0.05	1.04
Georgia[a]	886	.24(43)	0.02	0.30
Idaho	347	.56(38)	0.04	0.73
Illinois	19,976	2.12(7)	0.09	3.12
Indiana	4,741	1.07(18)	0.06	1.70
Iowa	4,759	1.77(25)	0.11	2.07
Kansas	1,728	.82(33)	0.05	1.08
Kentucky	3,254	1.08(19)	0.08	1.90
Louisiana[b]	2,705	.90(29)	0.06	0.80
Maine	2,232	2.45(10)	0.15	3.36
Maryland	4,156	1.48(20)	0.07	1.66
Massachusetts	17,165	3.57(4)	0.16	4.43
Michigan	8,524	.53(39)	0.11	1.12
Minnesota[b]	4,864	1.50(21)	0.09	1.71
Mississippi[a]	627	.30(41)	0.03	0.42
Missouri	3,621	.85(31)	0.05	1.41
Montana	1,366	2.14(8)	0.11	2.77
Nebraska	225	.16(46)	0.01	0.30
New Hampshire	1,388	2.48(12)	0.14	4.51
New Jersey	15,009	2.78(15)	0.11	5.81
New Mexico	1,427	1.75(24)	0.12	1.60
New York[a]	53,694	3.32(3)	0.14	3.96
North Carolina[b]	3,963	.69(37)	0.09	1.12
North Dakota[a]	202	.31(40)	0.02	0.40
Ohio	4,902	.25(42)	0.05	0.77
Oklahoma[a,b]	3,988	1.78(26)	0.11	1.74
Oregon[b]	2,860	1.66(23)	0.09	1.77
Pennsylvania	42,644	3.89(5)	0.19	6.07
Rhode Island[b]	2,115	2.55(13)	0.13	3.49
South Carolina	2,483	1.06(17)	0.09	1.39
South Dakota	623	.90(28)	0.07	1.29
Tennessee[b]	3,496	1.01(16)	0.08	1.40
Texas	8,092	.91(30)	0.05	1.30
Utah[a]	618	.76(34)	0.05	0.90
Vermont	615	1.66(22)	0.10	1.92
Virginia[b]	2,585	.71(35)	0.04	1.14
Washington[b]	5,340	2.00(6)	0.10	1.58
West Virginia	1,626	.82(32)	0.06	1.13
Wisconsin[b]	9,284	2.47(11)	0.13	2.82
Wyoming	226	.70(36)	0.04	0.68
Average	—	1.75	0.09	2.13

[a] Employs an estate tax only.
[b] These states supplement their inheritance tax with a gift tax.
[c] Differs slightly from data in Table 15.1 due to different source.

Source: U. S. Department of Commerce, Office of Business Economics, *Survey of Current Business*, August 1957, p. 11; and, U. S. Department of Commerce, Bureau of the Census, *Compendium of State Government Finances, 1956*, p. 11.

Inheritance Tax Exemptions and Rates. Death tax exemptions and rates are virtually impossible to compare because of the great variation between states. Exemptions are established by the classification of heirs and these classes frequently differ widely. Rate structures are difficult to compare because of varying rates of progressivity. This difficulty is compounded by the two-way progressivity of death taxes, that is, graduation by relationship to the deceased as well as the amount of inheritance received. One method which gives some indication of the difference in exemptions and rates is to select common heirs and examine the exemptions and rates which would be applicable. Table 15.7 shows the exemptions which apply to 5 selected groups of heirs and the range of rates which apply to 4 groups. In addition, the progressivity of the rates is indicated by showing the size of the first bracket and the level at which the top rate applies for a spouse.

In reference to the exemptions which are allowed a widow, it will be noted that the most frequently allowed exemption is $10,000 (found in 14 states). Colorado by allowing an exemption of $20,000 is considerably more liberal than the average. Only 8 of the 37 states allow a higher exemption, or impose no tax at all, while 25 states allow a lower exemption for a widow.

The most frequent exemption for a minor child is $10,000 which is allowed in 14 states including Colorado. Only 8 states allow a higher exemption or impose no tax at all, while 16 states offer a lower exemption for a minor child.

The most frequent exemption for an adult child is $5,000 allowed by 11 states. Nearly as common is the $10,000 exemption found in 10 states including Colorado. This exemption for an adult child is exceeded in only 8 states while 19 states permit a smaller exemption.

The most frequently occuring exemptions for a brother or sister are $500 and $1,000 each found in 9 states. Colorado's exemption of $2,000 is exceeded in only 9 states, while 25 states allow a lower exemption or no exemption at all.

Exemptions for non-relatives are not allowed in thirteen states. Colorado, Missouri and New Jersey follow the unusual practice of not allowing an exemption if the beneficiary's share is over $500. If, however, the share is under this amount, it is exempt. Though this procedure is designed to simplify administration, some inequity results on this account in the case of gifts around $500.

All things considered, Colorado appears to be more generous than most states in regard to exemptions. Yet, as was mentioned earlier, her death tax burden appears to be greater than that of many other states. Paradoxically also is the fact that Colorado allows exemptions to be taken before the rates are applied, while 19 states deduct exemptions from the first bracket. Hence, an exemption in Colorado is applicable to the top bracket whereas the exemption is deducted from the first bracket in the other states. The latter method results in a substantially smaller loss of revenue.

A close comparison of death tax rates among the states is difficult to make because of differences which exist in rates of progression, exemptions allowed, evaluation practices, deductibility features, and other provisions of the laws. However, it would appear that Colorado's rate structure is not substantially out of line with structures in other states although it seems somewhat higher. Since Colorado allows generous exemptions, and yet has a fairly high death tax burden, the discrepancy must be explained largely by Colorado's somewhat higher-than-average rate structure.

Table 15.7

State Inheritance Tax Exemptions and Rates for Selected Categories of Heirs July 1, 1957

State[a]	Exemptions: Widow	Minor child	Adult child	Brother or sister	Other than relative	Rates (percent): Spouse or minor child	Adult child	Brother or sister	Other than relative	In case of spouse: Size of 1st bracket	Level at which top rate applies
California[b, c]	$24,000	$12,000	$ 5,000	$ 2,000	$ 50	2-10	2-10	5-15	7-16	$25,000	$ 500,000
Colorado[d]	20,000	10,000	10,000	2,000	500[e]	2- 8	2- 8	3-10	7-16	50,000	500,000
Connecticut[b, f]	50,000	10,000	10,000	3,000	500	2- 8	2- 8	3- 9	8-14	25,000	1,000,000
Delaware[b]	20,000	3,000	3,000	1,000	0	1- 4	1- 4	2- 5	5- 8	50,000	200,000
Idaho[c]	10,000	10,000	4,000	1,000	0	2-15	2-15	4-20	8-30	25,000	500,000
Illinois	20,000	20,000	20,000	10,000	100	2-14	2-14	2-14	10-30	20,000	500,000
Indiana[b]	15,000	5,000	2,000	500	100	1-10	1-10	5-15	7-20	25,000	1,500,000
Iowa	40,000	15,000	15,000	0	0	1- 8	1- 8	5-10	10-15	10,000	300,000
Kansas	75,000	15,000	15,000	5,000	200	.5- 5	1- 5	3-12.5	5-15	25,000	500,000
Kentucky	10,000	10,000	5,000	1,000	500	2-10	2-10	4-16	6-16	20,000	500,000
Louisiana[b, c]	5,000	5,000	5,000	1,000	500	2- 3	2- 3	5- 7	5-10	5,000	20,000
Maine	10,000	10,000	10,000	500	500	2- 6	2- 6	8-12	10-16	50,000	250,000
Maryland[c]	150	150	150	150	150	1	1	7.5	7.5	Entire share	Entire share
Massachusetts[c, g]	10,000	10,000	10,000	1,000	1,000	1- 9	1- 9	4-15	6-15	10,000	1,000,000
Michigan[b, h]	30,000	5,000	5,000	5,000	0	2- 8	2- 8	2- 8	10-15	50,000	750,000
Minnesota[b]	10,000	10,000	5,000	1,000	100	1-12	1-12	3-36	5-60	15,000	1,100,000
Missouri[b]	20,000	5,000	5,000	500	100[e]	1- 6	1 -6	3-18	5-30	20,000	400,000
Montana[b]	17,500	2,000	2,000	500	0	2- 8	2- 8	4-16	8-32	25,000	100,000
Nebraska[b]	10,000	10,000	10,000	10,000	500	1	1	1	6-18	Entire share	Entire share
New Hampshire	No tax	No tax	No tax	0	0	No tax	No tax	8.5	8.5	No tax	Entire share
New Jersey[b]	5,000	5,000	5,000	500[e]	500[e]	1-16	1-16	5-16	8-16	50,000	3,700,000
New Mexico[c, f]	10,000	10,000	10,000	10,000	500	1	1	5	5	Entire share	Entire share
North Carolina	10,000	5,000	2,000	0	0	1-12	1-12	4-16	8-17	10,000	3,000,000
Ohio[b]	5,000	5,000	3,500	500	0	1- 4	1- 4	5- 8	7-10	25,000	200,000
Oregon	No tax	No tax	No tax	1,000	500	No tax	No tax	1-20	4-25	No tax	No tax
Pennsylvania	750	0	0	0	0	2	2	15	15	Entire share	Entire share
Rhode Island[b, d]	10,000	10,000	10,000	5,000	1,000	1- 7	1- 7	2- 8	5-11	25,000	1,000,000
South Carolina	10,000	7,500	5,000	500	200	1- 6	1- 6	2- 7	4-14	20,000	300,000
South Dakota	10,000	10,000	10,000	500	100	1- 4	1- 4	3-12	5-20	15,000	100,000
Tennessee[b]	10,000	10,000	10,000	1,000	1,000	1- 7	1- 7	5-15	5-15	25,000	500,000
Texas[b, c]	25,000	25,000	25,000	10,000	500	1- 6	1- 6	3-10	5-20	50,000	1,000,000
Vermont[b]	15,000	15,000	15,000	0	0	2- 6	2- 6	12	12	25,000	250,000
Virginia	5,000	5,000	5,000	2,000	1,000	1- 5	1- 5	2-10	5-15	50,000	1,000,000
Washington[b, c]	10,000	5,000	5,000	1,000	0	1-10	1-10	3-20	10-25	25,000	500,000
West Virginia[b]	15,000	5,000	5,000	0	0	3-13	3-13	4-18	10-30	50,000	1,000,000
Wisconsin[b, i]	15,000	2,000	2,000	500	100	2-10	2-10	2-10	8-40	25,000	500,000
Wyoming	10,000	10,000	10,000	10,000	0	2	2	2	6	Entire share	Entire share

[a] With the exception of Oregon, South Dakota and West Virginia, all states impose an estate tax in addition to the inheritance tax in order to assure full absorption of the 80 percent federal credit.
[b] Exemptions are deductible from 1st bracket.
[c] Half of the community property passing to surviving spouse is not taxable.
[d] Additional taxes, equal to 10 percent of the inheritance tax, are also imposed.
[e] No exemption is allowed if beneficiary's share exceeds the amount shown in the exemption column.
[f] The exemption shown is the total exemption for all beneficiaries falling into the particular class and is shared by them proportionately.
[g] Additional taxes, equal to 23 percent of the inheritance tax, are also imposed.
[h] Transfers of real property are taxed at ¾ths of the indicated tax rates.
[i] These rates are subject to the limitation that the total tax may not exceed 15 percent of the beneficiaries share. An additional tax equal to 30 percent of the inheritance tax is also imposed.

Source: Reports of the Treasury Department, Analysis Staff, Tax Division.

Gift Tax Rates and Revenues. Colorado and eleven other states impose a gift tax. With the exception of Oklahoma, where no inheritance tax is employed, the gift tax is used as a supplement to the inheritance tax. Gift taxes are usually graduated according to nearness of relationship and the size of the gifts. Exemptions are allowed various classes of recipients. In addition to these lifetime exemptions allowed in many states, there are also certain annual exclusions. Some states, as well as the federal government, have set gift tax rates at 75 percent of the inheritance tax rates.[27] The gift tax in Colorado is levied at the same rates as the inheritance tax.

Although it is difficult to compare gift tax rates and exemptions, an effort has been made in Table 15.8 to show exemptions and rates applicable to selected heirs. As will be noted, Colorado does not appear to be unreasonably out of line with other states although there is some evidence that rates are slightly above the average. Table 15.8 also shows the annual exclusion allowed by the states. Colorado's exclusion of $2,500 does not differ markedly from the average.

Gift tax revenues on a per capita basis vary widely. It will be seen in Table 15.9 that collections in 1956 ranged from a high of $.25 in Wisconsin to a low of $.05 in Louisiana. Colorado's revenue of $.18 was exceeded by collec-

[27] *Report of the Governor's Minnesota Tax Study* (Minneapolis, 1956) p. 356.

Table 15.8

State Gift Tax Rates Exemptions Selected Categories of Donees, 1957

State	Lifetime exemption: Wife	Minor child	Adult child	Brother or sister	Other	Rates (percent): Spouse or minor child	Adult child	Brother or sister	Other	Annual exclusion
California	$24,000	$12,000	$ 5,000	$ 2,000	$ 50	2-10	2-10	5-15	7-16	$4,000
Colorado	20,000	10,000	10,000	2,000	500	2- 8	2- 8	3-10	7-16	2,500 Spouse-child 1,500 Brother-sister 1,000 Other
Louisiana	30,000	30,000	30,000	30,000	30,000	2- 3	2- 3	5- 7	5-10	5,000 Spouse-child 1,000 Brother-sister 500 Other
Minnesota	10,000	10,000	5,000	1,000	None	.75- 9	.75- 9	2.25-27	3.75-45	3,000
North Carolina	25,000	25,000	25,000	None	None	1-12	1-12	4-16	8-17	1,000
Oklahoma	None	None	None	None	None	1-10	1-10	1-10	1-10	3,000
Oregon	10,000	10,000	10,000	10,000	10,000	1.5-12	1.5-12	1.5-12	1.5-12	5,000 Spouse-child 1,000 Other
Rhode Island	25,000	25,000	25,000	25,000	25,000	1- 7	1- 7	1- 7	1- 7	4,000
Tennessee	None	None	None	None	None	1- 7	1- 7	5-15	5-15	10,000 Spouse-child 5,000 Other
Virginia	5,000	5,000	5,000	2,000	1,000	1- 5	1- 5	2-10	5-15	
Washington	10,000	10,000	10,000	1,000	None	.9- 9	.9- 9	2.7-18	9-22.5	3,000
Wisconsin	15,000	2,000	2,000	500	None	2-10	2-10	2-10	8-40	1,000

Source: Commerce Clearing House, *State Tax Guide, All States.*

Table 15.9

Gift Tax Revenues: Total Per Capita Average Rates, Total State Taxes in Twelve States 1956

State	Gift tax revenues (thousands)	Per-capita: Amount	Per-capita: Rank	Ratio of Gift Tax to Total Taxes: Percent	Ratio of Gift Tax to Total Taxes: Rank
California	$2,163	$.16	4	0.14	6
Colorado	299	.18	3	0.21	4
Louisiana	143	.05	12	0.04	12
Minnesota	466	.14	5	0.16	5
North Carolina	415	.07	7	0.12	7
Oklahoma	506	.23	2	0.22	3
Oregon	100	.06	9	0.62	1
Rhode Island	51	.06	8	0.08	9
Tennessee	202	.06	10	0.08	10
Virginia	204	.06	11	0.09	8
Washington	283	.11	6	0.08	11
Wisconsin	943	.25	1	0.29	2

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1956*, p. 11; and U. S. Department of Commerce, Office of Business Economics, *Survey of Current Business*, August, 1957, p. 11.

tions in only two states, Oklahoma, and Wisconsin. It will also be noted that Colorado's ratio of death taxes to total taxes places it fourth highest among the 12 gift-tax states.

Summary. Colorado appears to have a somewhat higher death tax burden than the national average as measured by per capita revenues, the ratio of death taxes to personal income, and the ratio of death taxes to total revenues.

The relatively liberal exemptions and the deductibility feature allowed by Colorado are offset by its somewhat higher-than-average rate structure. These rates however, are not far out of line with other states so that downward revision is not indicated at this time.

CHAPTER XVI

PARI-MUTUEL TAX

The tax on pari-mutuel racing is a source of revenue in twenty-four states of which seven are located in the West. Of this total number also, four states—Michigan, New Mexico, Colorado and Nevada—have introduced pari-mutuel since World War II.

In most of these states the tax is a relatively minor source of state government revenue, the notable exceptions being Florida, New Hampshire, New Jersey and Rhode Island. In 1957 collections amounted to approximately $225 million or approximately 2.6 percent of aggregate tax revenues of the states employing this tax (Table 16.1).[1]

Although revenues from pari-mutuel are relatively small on the whole, the tax as such has been the subject of heated argument in all states where it has been introduced or where its adoption has been under consideration. This has been due to the nature of the tax which calls for the legalization of betting on racing (horses and/or dogs), an action which in the eyes of many people is contrary to public policy.

The support of legalized betting on races has come from those who see in pari-mutuel an opportunity to secure much needed additional revenue for the state treasury. This, perhaps, has been the most telling argument advanced in its favor as far as the general public is concerned. Secondly, and where applicable, the point has been made that pari-mutuel will attract tourists thus helping business as well as government by enlarging other tax bases, notably the sales tax. Thirdly, and without arguing that gambling is not an evil, it is contended that people have an innate propensity to play games of chance (which any minister of the gospel would argue applies to all forms of evil). This being so, the state may as well recognize the "facts of life" by diverting in part, some fools' money to constructive purposes (in this case the "commission" exacted by government for controlling the activity within bounds) which otherwise would go to unscrupulous bookmakers. There is the added thought that for the loser at the race tracks there is some consolation in the fact that at least a part of his losses "went for a good cause."

Opponents of pari-mutuel base their case on both economic and moral grounds. The separation is difficult to make since one is essentially a part of the other. The economic argument is premised on tax theory as well as business economics. The tax, per se, has been described as being basically unfair since its incidence is on only a small part of the population having certain tastes. In answer to this the observation can, of course, be made that the tax burden is "self inflicted" which could be avoided by not betting. A more potent economic argument is that it hits the little fellow who cannot afford to lose. Since the person of small means has presumably as much "propensity to play games of chance" as those of larger means—besides there are many more of the former than the latter—the deleterious effect of his losing is felt in a decline in neighborhood grocery sales and collections and an opposite trend in public welfare needs.

Table 16.1

State Revenue from Pari-Mutuel, by States
1957

State	Revenue from pari-mutuel Total (thousands)	Revenue from pari-mutuel Per capita	Total state taxes (thousands)	Revenue from pari-mutuel as percent of total state taxes
East Coast				
Delaware	$ 1,980	$4.52	$ 44,698	4.43
Florida	24,366	5.94	375,661	6.49
Maine	836	0.89	70,565	1.18
Maryland	9,452	3.26	250,637	3.77
Massachusetts	11,513	2.37	413,595	2.78
New Hampshire	2,812	4.92	33,265	8.45
New Jersey	23,578	4.19	280,729	8.40
New York	71,168	4.48	1,440,454	4.94
Rhode Island	7,119	8.26	62,563	11.38
West Virginia	2,412	1.22	155,134	1.55
Central and South				
Arkansas	1,256	0.71	125,260	1.00
Illinois	16,425	1.70	690,765	2.38
Kentucky	1,810	0.59	201,160	0.90
Louisiana	2,734	0.89	372,927	0.73
Ohio	7,317	0.79	676,731	1.08
North Central				
Michigan	7,494	0.96	771,482	0.97
South Dakota	303	0.43	42,659	0.71
West				
Arizona	1,506	1.32	107,029	1.41
California	26,733	1.92	1,637,187	1.63
Colorado	2,120	1.27	153,255	1.38
Nevada	N.A.	N.A.	—	N.A.
Oregon	880	0.50	193,985	0.45
New Mexico	65	0.09	97,114	0.07
Washington	997	0.37	354,922	0.28
Total, all states	224,876	2.36	8,551,777	2.63

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1957;* and U. S. Department of Commerce, *Survey of Current Business*, August, 1957.

[1]U. S. Department of Commerce, *Compendium of State Government Finances in 1957.*

Morally, the argument advanced against pari-mutuel is absolute. Gambling, it is held, and in any form whatsoever, undermines both economic and moral values. Here the moral and economic considerations merge into a general indictment that a system based on betting weakens productive incentive with ensuing breakdown of economic effort and moral stamina.

Whatever the position taken in any pro and con discussion, as outlined, it needs to be recognized that pari-mutuel can, on a number of grounds, be sharply distinguished as a system of betting from such seemingly related games of chance as the slot machine and associated games most frequently identified with Las Vegas, Nevada. This stems largely from the fact that pari-mutuel is essentially a system of betting "among ourselves" in which "rigging" can be held to a minimum.

Development and Nature of Pari-Mutuel Wagering

Until the advent of pari-mutuel, wagers on racing were made either directly between persons or with bookmakers. The latter, generally outlawed in this country, is best described as a separate contract between the player and the layer of odds in which they agree on the amount wagered, the odds and the conditions of the wagers. Abuses under this system, in which the integrity of the bookmaker was generally subject to question, led to quick acceptance of "pari-mutuel"—invented in 1873 by a Frenchman, Pierre Oller, a chemist and perfumer. Pari-mutuel proved so popular that the French Government gave it legal sanction in 1887.

The word "pari-mutuel" is from the French pari, meaning "wager," and mutuel meaning "with reciprocal interests," or in common. The broad meaning of the term is to wager in common or to wager "among ourselves"—in contrast to wagering with a bookmaker or between individuals. In essence the process is essentially one of "pooling bets" cooperatively and distributing the pool to the winners in a manner decided upon by rule.

Pari-mutuel as adopted by states in this country varies little in principle from practices followed abroad. The distinctive feature of the American system is the use of three pools (one to "win," one to "place" and one to "show") rather than two as elsewhere. An added feature used now universally is the so-called "totalizer." This is a mechanical device corresponding to a huge cash register which records and computes all transactions quickly and accurately. A racing fan sufficiently grounded in mathematics and knowing the percentages which prevail locally can figure any wager within a matter of minutes and compare it with the official payoff. Such a convenience has ensured a public check on the honesty of the payoffs and has instilled confidence in the racing operations not otherwise possible. It is generally agreed that pari-mutuel wagering in the United States which had its greatest growth in the 1940's and the 1950's came partly in response to the popularity of the pari-mutuel as a system but more particularly after a "totalizer" became required equipment at race tracks throughout the country.

The manner by which pari-mutuel operates in most states both in terms of organization and in the handling of bets has been succinctly described in a recent study as follows:

> Under the Pari-Mutuel System of betting, the racing associations operate the system under regulations. The patrons purchase the tickets at windows at varying amounts, the basic tickets costing two dollars. Tickets may be bought for a horse to "win," "place" (place second or to "show" (place third), and any number of tickets may be purchased on any number of horses in a race to finish in all or any of the three successful positions. All of the money bet on horses to "win," less deductions for the state and racing associations, is prorated among the persons holding tickets on the winning horse, and all the money for second or "place" and third or "show" are similarly divided among those holding tickets on horses which finish second or third.
>
> When a patron purchases a ticket, the seller presses a button which automatically releases the ticket. The same impulse records, on an electrically operated machine known as a "Totalizer," the amount of the bet, the number of the horse selected, and whether the ticket is for "win," "place" or "show." The totalizer adds the money bet on each horse in a race in the three separate pools and accumulates the totals for each pool. All such statistics, and the odds for the different horses in the winning pool, are projected on a larger indicator in the infield in view of the public.[2]

Pari-Mutuel in Colorado

The voters of Colorado, in the November, 1948, election, passing on a referendum initiated by the 1947 General Assembly, legalized pari-mutuel wagering on races in the State and approved a pari-mutuel tax.

The law as presently constituted provides for an administrative body of three commissioners who serve without compensation except for necessary travel expense. Statutory provisions definitely prescribe stringent qualifications of applicants for licenses, or for their renewal, to conduct racing meets. Regulations also spell out in detail the conditions governing facilities used in serving the public and other matters such as the timing and duration of meets, and the licensing of personnel and participants in races. Following general state practice betting

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[2]Legislative Research Council, *Report on Agricultural Fairs and Pari-Mutuel Racing in Massachusetts* (Legislative Research Bureau, Boston, Mass., March 12, 1958), pp. 11-12.

by minors is prohibited as is wagering other than by the pari-mutuel method.

For the privilege of conducting racing meets in Colorado a licensee (generally referred to as an "association" or "club") pays to the State 5 percent of the gross receipts of all pari-mutuel wagering (known also as "pari-mutuel sales" or "handles") with the association taking another 10 percent as permitted by law. Thus 85 percent of total wagers are returned to the winners.

Breakage set at 10 cents was originally retained by the State but since 1954 proceeds from this source have reverted to the racing associations. (Breakage represents the odd-cents surplus resulting from paying winnings in even multiples of 10 cents or 5 cents as the case may be.) For example, if a winning pool, divided among winners at track odds, equaled $6.38, payment to each winner would be reduced, on a 10 cent break, to $6.30, leaving a breakage of 8 cents.

The diversion of breakage to the associations came as a result of State Supreme Court decision which ruled that the law was unclear on the question of breakage and hence the State could not claim it. Since annual breakage after 1954 has averaged over $300,000 this decision caused a corresponding loss to the General Fund to which all pari-mutuel revenue is dedicated.

Originally also, the referendum approved by the electorate included a provision which called for a 1 percent income tax on all winnings. However, subsequent statutory revisions removed this feature. On the basis of current betting volumes income from such a tax would have amounted to over $300,000 annually.

Racing Associations. There are currently eight licensed tracks in Colorado, their names and total handle in 1957 being reported as follows by the Colorado Racing Commission in its annual report.

Name	Pari-Mutuel "Handle" in 1957
Brush Racing Association, Brush	$ 194,212
Centennial Turf Club, Littleton	9,983,519
Rocky Mountain Quarter Racing Association, Littleton	2,056,004
Cloverleaf Kennel Club, Loveland	5,774,791
Colorado Sports Racing Association, Grand Junction	767,252
Mile High Kennel Club, Derby	15,856,363
Pueblo Kennel Association, Inc., Pueblo	2,549,490
Rocky Mountain Kennel Club, Inc.	4,655,809

Aggregatively, as shown in Table 16.2, income of the race track licensees (or 10 percent of handle and breakage) has increased from a total of slightly over $1 million in 1949 to approximately $4.5 million in 1957. It will be observed also that, on the average, approximately 8 percent of total annual income after 1954 has been accounted for by receipts from breakage.

Table 16.2

Income of Racing Associations in Colorado Calendar Years, 1949-1957

Year	10 percent commission on wagers (thousands)	Breakage (thousands)	Total income (thousands)	Percent change of income from preceding year
1949	$1,106	$ 0	$1,106	—
1950	2,219	0	2,219	100.63
1951	2,614	0	2,114	—4.73
1952	3,188	0	3,188	50.80
1953	3,268	0	3,268	2.51
1954	3,430	331	3,761	15.08
1955	3,792	337	4,129	9.78
1956	4,209	348	4,557	10.36
1957	4,184	332	4,516	—1.00

Source: State of Colorado, Colorado Racing Commission, *Ninth Annual Report.*

Pari-Mutuel Wagering—General Trends. Factors affecting the dollar volume of betting or "handle" at the races and hence, state revenues derived therefrom, are essentially three, namely: (1) length of racing season, (2) attendance, and (3) average size of bets. As will be seen from Table 16.3, the length of the racing season in Colorado advanced from a total of 180 days in 1949 to 366 days in 1957. Similarly annual attendance, which started out at around one-half million persons in 1949, moved rapidly upward thereafter reaching a high of 1.3 million persons in 1956.

Increased attendance is, in turn, reflected in the aggregate amount of annual wagers which has steadily advanced in size since 1949 reaching a high of $42 million in 1956. Parallelling this advance and, in part, accounting for it has been an equally steady rise in the amount of average-bets-per-person-in-attendance, or an increase from $18.57 in 1949 to $33.41 in 1957—the latter year marking the highest figure on record to date.

Although these factors in combination reflect a generally enlarged interest in racing it is well to note that the pattern marked is not uniformally consistent when data for individual years are considered. A review of year-to-year attendance changes shown in the second column of Table 16.3 indicates that business conditions exercise a fairly strong influence on attendance. Thus, in the recession years of 1953 and 1957 the number of persons going to the races decreased sharply from the preceding year. As a result, and despite an actual increase in the average size of bets in both years, the aggregate volume of wagers declined, or at the rate of 2.11 percent from 1952 to 1953 and 4.59 percent from 1956 to 1957. On the basis of these limited data it would appear that at the first sign of a general business decline the small better is the first to stay away from the tracks while persons of larger means are not deterred, at least at the outset.

Table 16.3

Number of Racing Days, Attendance, and Pari-Mutuel Wagers, Colorado, Calendar Years 1949-1957

Year	Racing days	Attendance	Percent change from preceding year	Total amount of mutuel wagers ("handle") (thousands)	Percent change from preceding year	Average per capita wager	Percent change from preceding year
1949	180	595,159	—	$11,056	—	$18.57	—
1950	239	881,640	48.13	22,189	100.70	25.16	35.48
1951	237	926,738	5.12	26,137	17.79	28.20	12.08
1952	237	1,044,789	12.74	31,885	21.99	30.51	8.19
1953	237	1,022,726	—2.11	32,677	2.48	31.95	4.72
1954	250	1,079,111	5.51	34,304	4.98	31.78	—0.53
1955	319	1,176,281	9.17	37,919	9.53	32.23	1.41
1956	356	1,312,152	11.55	42,093	11.00	32.07	—0.50
1957	366	1,251,931	—4.59	41,837	—0.61	33.41	4.18

Source: State of Colorado, Colorado Racing Commission, *Ninth Annual Report.*

Fiscal Importance of Pari-Mutuel Tax. As shown in Table 16.4 state revenue from pari-mutuel racing in fiscal 1957 totalled $2.1 million, a figure exceeding any preceding annual total since the inception of the tax. This figure represented also 1.47 percent of aggregate tax revenues of the State in 1957 and 4.57 percent of total general revenue.

Table 16.4

Revenue From Pari-Mutuel Tax in Colorado Calendar Years, 1950-1957

Year	Revenue from pari-mutuel	Percent of total State tax revenues	Percent of total State general revenues (General Fund)
1950	$ 738,324	0.86	2.73
1951	1,361,252	1.42	4.82
1952	1,653,947	1.63	5.36
1953	1,919,123	1.80	6.00
1954	1,994,357	1.81	5.32
1955	1,891,797	1.51	4.75
1956	2,042,550	1.47	4.71
1957	2,120,236	1.47	4.57

Source: State of Colorado, Colorado Racing Commission, *Ninth Annual Report.*

The extent to which Colorado's pari-mutuel tax produces revenue over and above expenses of administration is shown in Table 16.5. As noted therein expenditures in 1957 amounted to $157,000 which when subtracted from the State's gross take of $2,092,000 (5 percent commission) left a net balance for the treasury amounting to $1,947,000.

Since 1953 expenditures have increased faster than gross income which has been due in part to the assumption by the State of certain costs which during the earlier years of pari-mutuel racing in the State, was shared with the racing associations or licensees—a case in point being the costs involved in the laboratory testing of animals.

State Tax Rates and Fees — Colorado and Other States. As noted in Table 16.6, all twenty-four states which have pari-mutuel racing provide for breakage but differ in respect to its distribution. With the exception of California, the seven Western States permit the race track operators to keep all breakage. In the remaining states the general practice is to divide such receipts between the operators and the state, the exceptions being Florida and New Jersey which claim the entire return from breakage.

Table 16.5

Gross and Net State Government Revenue From Pari-Mutuel Taxation, Colorado, Calendar Years 1949-1957

(Dollar amounts in thousands)

Year	5 percent Commission on sales	Breakage	Total income (including lic. fees)	Percent change of total income from preceding year	Expenses	Percent change of expenses from preceding year	Revenue less expenditures	Percent change of income less expenditures from preceding year
1949	$ 553	$113	$ 670	—	$ 26	—	$ 644	—
1950	1,109	259	1,376	105.37	N.A.	—	N.A.	—
1951	1,307	298	1,612	17.15	78	—	1,534	—
1952	1,594	340	1,942	20.47	99	26.92	1,843	20.14
1953	1,634	331	1,974	1.65	121	22.22	1,853	0.05
1954	1,715	0	1,725	—12.61	112	—7.44	1,613	—12.95
1955	1,896	0	1,905	10.43	128	14.28	1,777	11.02
1956	2,105	0	2,116	11.08	150	17.19	1,966	11.06
1957	2,092	0	2,104	—0.57	157	4.67	1,947	—0.97

Source: State of Colorado, Colorado Racing Commission, *Annual Reports, 1949-1957.*

All states tax total wagers on either a flat or graduated basis. Colorado's flat rate of 5 percent corresponds with the rate used in Washington, Arkansas, and West Virginia. Generally speaking, a 5 percent rate could be regarded as a fair average covering the entire twenty-four state group.

Little use is made of license fees and admission taxes for revenue. Only six states—Arkansas, Delaware, Kentucky, Louisiana, Nevada and New Mexico—use a license fee in combination with an admission tax.

Table 16.6

Structure of Assessments and Rates Applicable to Pari-Mutuel Racing in all States, 1957

State	Breakage: Breakage multiple (cents)	Breakage: State's share (percent)	Tax on total wagers (percent)	License and fee (dollars)	Admission tax
East Coast					
Delaware	10	50	3.50	750–5,000	$.20
Florida	5	100	4–8[a]	0	.15
Maine	10	0	7	10–5,000	0
Maryland	10	50	5–7	25–1,000[b]	0
Massachusetts	10	50	2–9.25[a]	0	0
New Hampshire	10	0	5.50–9.50[a,c]	0	0
New Jersey	10	100	6–8[a]	0	0
New York	5	50–60	5–11[a]	0[d]	0
Rhode Island	10	50	7.50	0	0
West Virginia	10	0	5	250–500	0
Central and South					
Arkansas	10	33⅓[e]	5	500[b]	.10
Illinois	10	50	4–6[a]	500–2,500[b]	.20
Kentucky	10	0	4–6[a]	500–2,500[b]	.15
Louisiana	10	0	7	1,000	.10
Ohio	10	50	2.75–6.75[f]	0	0
North Central					
Michigan	10	50	4–6[a]	100–500	0
South Dakota	10	0	3	0	0
West					
Arizona	10	0	4–6[a]	0	0
California	5	100	4–6[a]	0	0
Colorado	10	0	5	0	0
Nevada[g]	10	0	2	50[b]	0
Oregon	5	0	3–7[a]	425–500[b]	0
New Mexico	5	0	0.50	50[b]	10%
Washington	5	0	5	0	0

[a] Graduated rate depending on amount wagered.
[b] Daily license fee.
[c] Plus ¼ of 1% to Agricultural Fairs of State.
[d] Franchise fee of $1,000 per day paid by non-profit associations.
[e] Plus 33⅓ percent to Racing Associations.
[f] Plus ½ of 1 percent to Ohio Fairs Fund.
[g] Racing suspended in 1957, therefore these are 1956 rates.

Source: National Association of State Racing Commissioners, *Statistical Reports on Horse Racing in the United States for the Year 1957;* and Commerce Clearing House, *Topical Law Reporter. 1958.*

Conclusion

It is apparent that in spite of opposition legalized pari-mutuel wagering in Colorado has become a permanently established enterprise in the State. The fact that six other Western States have adopted pari-mutuel racing gives support to this conclusion. Moreover, revenues, though relatively minor, have nonetheless been a significant factor in balancing the hard pressed General Fund of the State.

Colorado's administrative as well as rate structure appears in most respects to be in line with the Western States. This also applies to the diversion of all breakage receipts to the racing associations. This feature of the law has been questioned in some quarters on grounds that such income was originally intended to revert to the State. However, developmental costs and a relatively low volume indicate that the breakage factor may spell the difference between a profit and loss to the associations. Under these conditions, a change of policy at this time may not be warranted.

CHAPTER XVII

MISCELLANEOUS STATE GOVERNMENT REVENUES

The purpose of this chapter is to present a brief review of all State government revenue sources not covered in preceding chapters. The individual subjects are variously classified as "miscellaneous taxes," "licenses," "fees," and "earnings." In large degree, the sources included are "special" levies or charges designed to recover costs of rendering certain State services or privileges granted to persons or groups of persons engaged in particular activities. Hence, the revenues derived are largely, but not entirely, earmarked for expenditure of the particular agency rendering the service in question and not available as General Fund revenue.

Although the receipts from a number of individual sources described below are relatively small they constituted, when combined with other items, a total of nearly $30 million or 13 percent of aggregate state revenues in 1957 (Table 17.1).

Table 17.1

Revenues from Miscellaneous Taxes, Licenses and Fees and Departmental Earnings and Other Sources, State Government in Colorado Fiscal Year, 1957

Revenue Source	Amount (thousands)
Miscellaneous Taxes	
Foreign and domestic corp. tax	$ 268
Coal mine tax	23
Metal mining tax	33
Oil and gas conservation levy	116
Predatory animal tax	57
Hail insurance tax	15
Safety and accident prevention tax	31
Mattress stamp tax	20
Tax for revised statutes	20
Gate admission, athletic commission	6
P. U. C.	125
Total	714
Licenses and Fees	
Game and Fish	4,035
Secretary of State	617
Department of Agriculture	735
State Board of Stock Inspection	314
Auto title	256
Penalty Assess. and J. P. Court fines	623
Dealer's and salesmen's licenses	77
Inspection stickers	80
Total	6,737
Departmental Earnings and Miscellaneous	
Educational institutions	2,331
State Highway Department	8,443
Penal and eleemosynary institutions	3,637
State lands	4,293
All other	3,565
Total	22,269
Grand Total	29,720

Source: State of Colorado, Division of Accounts and Control. (See also Table 5.2.)

Miscellaneous Taxes

The individual taxes described in this section are highly limited and specialized in purpose. From some points of view most of them could be treated as license fees or charges. However, the official State reports refer to them as taxes and for the sake of consistency they are so designated here.

Foreign and Domestic Corporation Tax. In 1901 Colorado introduced an incorporation or entry fee and in 1907 an annual franchise tax on all corporations (foreign and domestic) doing business within its boundaries. The first applies to a newly incorporated domestic corporation or the first entrance into the State of a foreign corporation as the case might be, and the second or the franchise tax, applies to all business corporations operating within the State. In addition, the law provides for sundry minor corporate charges for State services in connection with such matters as filing amendments, changing corporate titles, enlarging authorized capital stock and the like. Although not a part of the basic tax rate structure, there is an additional levy of 10 percent based on the incorporation fee, the proceeds from which are directed to the Old Age Pension Fund. Otherwise all revenues are available to the State's General Fund.

Corporation franchise or privilege taxes are imposed on the theory that the privilege *to be* a corporation and *to do business* as a corporate entity has a value over and above the value of the real and tangible personal property of the corporation which is normally covered by the general property tax. The tax is also regulatory in nature since it involves some degree of control over corporate operations. For these reasons then most states have a tax comparable in nature to that in Colorado.

Administration of the tax is vested in the Office of the Secretary of State. In practice compliance in respect to paying filing and entry fees is more or less on the basis of an "honor system" in which corporations are presumed to be aware of their responsibilities and will accordingly meet their obligations to the State. This applies equally to payments of the annual franchise tax. Each corporation, for the purpose of paying the latter tax, must by May 1, of each

year, file an annual report reflecting its financial condition at the close of business for the preceding calendar year. The corporation self-assesses the tax as computed from its annual report and forwards the amount with the annual report to the office of the Secretary of State. Taxes unpaid for two years are deemed to be delinquent.

Currently the tax is producing revenues amounting to slightly over $265,000 annually which represents a gain of over $100,000 from 1950 (Table 17.2). The number of corporations reporting in 1957 came to a total of approximately 14,500[1] — a figure which in the light of recent developments can be expected to steadily increase.

Table 17.2

Revenue from Foreign and Domestic Corporation Taxes, Colorado, Fiscal Years, 1946-1957

Year	Amount
1946	$105,132
1947	114,343
1948	134,425
1949	134,427
1950	145,683
1951	151,094
1952	165,407
1953	176,063
1954	197,057
1955	215,692
1956	239,991
1957	267,841

Source: State of Colorado, Division of Accounts and Control.

New Legislation. In 1958 the General Assembly re-codified the corporation law of the State and also set up a new license and tax rate schedule which will go into effect January 1, 1959.[2] The rate change was designed to equalize charges between the domestic and foreign corporation without decreasing the revenues received either for the General Fund or the Old Age Pension Fund. Under the new rate schedule all foreign corporations will pay a flat sum of $60 as distinguished from the graduated fee schedule applicable to domestic corporations. Foreign corporations will, however, pay the franchise taxes on the same revised basis as the domestic corporation.

The impact of the new arrangements on potential revenues is particularly noted in the case of the smaller corporations (capitalization $100,000 and under) which account for more than 80 percent of all corporations operating in the State. Thus, a domestic corporation of say $100,000 capitalization would under present law pay a filing fee of $30 and an annual tax of $10. Under the new law, the payment would be the same for corporations with capitalization of $100,000, $75,000 and $50,000, or in each case $40.

The new rate structure will not, however, place Colorado out of line with other Western States, as noted in Tables 17.3 and 17.4, which show rates for each of the Western States for a selected sample of capitalization bases ranging from $50,000 to $100,000. Colorado's position will continue to be near the median in respect to both filing fees and annual franchise taxes.

Table 17.3

Filing Fees, by Size of Capital, of Domestic Corporations in Eleven Western States 1957

$50,000 Capital		$75,000 Capital		$100,000 Capital	
State	Fee	State	Fee	State	Fee
Washington	$50.00	Washington	$75.00	Washington	$100.00
Montana	50.00	Montana	75.00	Montana	100.00
Idaho	40.00	Idaho	75.00	Idaho	75.00
Nevada	40.00	Oregon	50.00	Nevada	75.00
Oregon	30.00	Wyoming	50.00	Oregon	50.00
California	25.00	Nevada	40.00	California	50.00
Wyoming	25.00	California	25.00	Wyoming	50.00
New Mexico	25.00	New Mexico	25.00	Colorado	30.00[a]
Arizona	25.00	Arizona	25.00	Arizona	25.00
Colorado	20.00[a]	Colorado	25.00[a]	New Mexico	25.00
Utah	12.50	Utah	18.75	Utah	25.00

[a] New rate of $40 for corporations with authorized capital stock of $50,000 and under $150,000. To go into effect January 1, 1959.

Source: Commerce Clearing House, *State Tax Guide;* and Prentice-Hall, *Corporation Service*, Vol. I, "State Taxes."

Table 17.4

Annual Franchise Taxes, by Size of Capital of Domestic and Foreign Corporations, Eight Western States,[a] 1957

$50,000 Capital		$75.000 Capital		$100,000 Capital	
State	Tax	State	Tax	State	Tax
New Mexico	$50.00	New Mexico	$75.00	New Mexico	$100.00
Idaho	50.00	Idaho	75.00	Idaho	75.00
Washington	30.00	Oregon	50.00	Washington	55.00
Oregon	30.00	Washington	42.50	Oregon	50.00
Arizona	25.00[b]	Arizona	25.00[b]	Arizona	25.00[b]
Colorado	10.00[c]	Colorado	10.00[c]	Colorado	10.00[d]
Nevada	10.00[b]	Nevada	10.00[b]	Nevada	10.00[b]
Wyoming	5.00	Wyoming	10.00	Wyoming	10.00

[a] Utah, Montana and California are not included in the Western States comparison since the annual tax in these states is based on net income.

[b] Flat fee.

[c] New rate of $20 to go into effect January 1, 1959.

[d] New rate of $40 to go into effect January 1, 1959.

Source: Commerce Clearing House, *State Tax Guide, All States;* and Prentice-Hall, *Corporation Service*, Vol. I, "State Taxes."

Coal Mine Tax. In 1913 the coal operators of the State sponsored the "Coal Mine Tax" for the purpose of establishing a state coal mine inspection department. The tax is levied on the owners and operators of coal mines and includes both a license fee and an annual tax. The present license fees range from $10 to $50 depending on the tonnage produced annually and the tax levy is 7/10 of 1 cent per ton of coal produced at each mine.[3] The State Coal Mine Inspection Depart-

[1] As reported by Office of the Secretary of State of Colorado.

[2] *Session Laws of Colorado, 1958*, Ch. 32, 123.

[3] *Colorado Revised Statutes, 1953*, 1957 Cumulative Supplement, Vol. 4, Ch. 92, 11-1.

ment collects both the fees and the tax, the proceeds being deposited with the State Treasurer in a cash fund reserved for the office of the State Mine Inspector. The chief coal mine inspector administers the fund to regulate and to enforce coal mining laws, to safeguard mining operations by examinations and inspections, and to make reports relative to all statistics on mining operations.

Although the coal mine tax was originally intended to cover expenditures of the Department it is evident from Table 17.5 that this has not been the case. In fiscal 1958, for example, the excess of expenditures over revenues amounted to $28,900. Revenue deficiency has existed since 1951 with the result that the Department has had to be subsidized since that time by appropriations from the General Fund.

Table 17.5

Expenditures and Revenues of Coal Mine Inspection Department, in Colorado Fiscal Years, 1953-1958

Year	Expenditures	Revenues	Excess expenditures over revenues
1953	$45,973	$30,673	$15,300
1954	44,673	29,334	15,339
1955	46,382	27,882	18,500
1956	48,626	30,926	17,700
1957	51,582	28,082	23,500
1958	59,475	30,575	28,900

Source: Records of State of Colorado, Coal Mine Inspection Department.

The failure of revenues to match expenditures has been caused by the increase in costs of administration and the decrease in revenue resulting from reduced coal output (Table 17.6).

Table 17.6

Coal Production in Colorado, 1951-1957

Year	Tons of coal
1951	4,111,945
1952	3,643,523
1953	3,598,867
1954	2,922,365
1955	3,366,490
1956	3,303,661
1957	3,324,787

Source: Records of State of Colorado, Coal Mine Inspection Department.

There are no easy solutions to this dilemma. The State's coal mining industry is presently a sick business and there is little hope of improvement during the next ten years. An increase in the present mill levy or some other new charge would only place an additional burden on coal operators whose profits are declining. In addition, the services that the Department renders are vital to the industry and to the safety of the individual miner. The Department is apparently operating on as efficient a basis as it possibly can and yet render adequate services to the coal industry; so curtailing of services would not be prudent. In the final analysis there is little the State can presently do other than to continue to make up the deficit for the Department until the coal mining business itself recovers sufficiently to once again pay for these special state services.

Metal Mining Tax. The metal mining tax, which dates from 1921 and originally sponsored by the mining interests, is a special annual levy of one-tenth of one percent on the assessed valuation of all producing and non-producing metalliferous mining properties.[4] Levied and collected by the counties, collections, which amounted in fiscal 1956-57 to $33,404, are transferred to a State fund known as the "Metal Mining Fund" from which State appropriations are made for such purposes as may be in the interest of the mining industry.[5] Currently the Department, which is fully sustained by the tax revenues collected has a staff of four persons who are primarily engaged in keeping the industry informed on developments of mining both in the State and nation as a whole. In addition, it assists in sponsoring legislation designed to advance the mining industry in the State.

Oil and Gas Conservation Levy. This is an industry-sponsored tax imposed on every producer of oil and natural gas. The levy is two mills on each barrel of oil, and two mills on each 50,000 cubic feet of natural gas produced or marketed within the State.[6] Proceeds of the tax are used to cover costs of a special Oil and Gas Conservation Commission established to promote conservation of oil and gas on the surface or underground.

The past five years has witnessed a steady growth in the Commission's services. As a result the number of employees has increased from three to fifteen with accompanying advance in costs as noted in Table 17.7. Up to the present, revenues from the annual levy have been more than adequate to meet added costs. Indications are, however, that by fiscal 1961 tax income will not be sufficient unless services are curtailed or added revenues are forthcoming.[7] In view of the recognized importance of conservation in this area a reduction of the Commission's services is not believed to be a wise step to take in any event. There are various other possibilities. One,

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[4] *Colorado Revised Statutes, 1953*, Cumulative Supplement, Vol. 4, Ch. 92, 34-1.

[5] State of Colorado, Division of Accounts and Control.

[6] *Colorado Revised Statutes, 1953*, Ch. 100, 6-2 and 20.

[7] Based on discussion with Director of Oil and Conservation Division.

of course, would be the discovery of new oil and gas fields but this is too uncertain. Another would be to raise the mill levy to 3 or 3.5 mills, which at predicted oil production would suffice to balance receipts and expenditures. The Commission reports also that a specific fee of $25 could be required for all permits to drill, plugging forms, and petitions on bearings. Finally, it has been suggested that anuual levy could be based on total oil and gas production measured against the cost of the Commission's services.[8] This would mean a flexible rate schedule but one by which expenditures and revenues would match each year thus avoiding any possibility of having to dip into the General Fund.

Table 17.7

Expenditures and Revenues of Oil and Gas Conservation Commission Colorado Fiscal Years, 1953-1957

Year	Expenditures	Revenues	Surplus
1953	$ 28,577	$ 37,992	$ 9,415
1954	51,587	80,635	29,048
1955	75,028	100,721	25,693
1956	91,289	112,791	21,502
1957	104,558	114,754	10,196

Source: State of Colorado, Oil and Gas Conservation Commission.

Predatory Animal Tax. This special tax, introduced in 1941, was sponsored by the stockgrowers for the purpose of financing a program of predatory animal and rodent control. The heavy toll taken by predators of sheep, cattle, and poultry has made it apparent that to be effective such a program has to be conducted on a statewide basis and financed accordingly. The original tax was fixed at a 10-mill rate on each dollar of assessed valuation of all sheep and goats except those in feed lots. In 1957 this rate was increased to 20 mills due to the decreased valuation of sheep and increased costs of services required.[9]

As currently administered the tax is collected by the county and transferred to a State fund from which disbursements are made as determined by the State Department of Agriculture. The fund as such never runs a deficit since services are stopped if funds are depleted. However, at the present tax rate, financing is deemed adequate for all purposes. In the event that additional services are needed, individual stockgrowers may secure them by paying an extra fee. Aside from these special cases, funds are allocated to counties in proportion to taxes paid.

Hail Insurance Tax. The State's hail insurance program, adopted in 1929, is financed solely from premiums on hail insurance policies, the purchase of which is optional with individual farmer. Premiums are based on classifications established by the State Agricultural Commission and on previous loss ratios.[10] Rates vary between counties and with the general crop outlook.

The program is administered by the State Department of Agriculture assisted by a technically trained staff which is augmented during the spring and summer by 50 to 75 sales representatives. Costs of the program vary from year to year depending upon the amount of insurance sold and the number of loss claims. Rates have always been adequate to cover losses and to build a small reserve fund which currently amounts to $22,500.[11]

Although the program has not resulted in any cost to the general taxpayer, and could not in any event since losses must be paid from premium collections only, the question may nevertheless be raised as to why the State has entered this business. The answer is that private insurance companies are not highly interested in writing hail insurance and when they do the rates that must be charged tend to be high. The State program was sponsored by the farmers largely for the purpose of getting lower rates which presumably has been accomplished. As noted in Table 17.8, for a sample group of counties, the comparative rates between the State Department and a large private underwriter show in each instance a substantial differential favoring the State.

Table 17.8

Comparative Private and State Crop Hail Insurance Rates Covering Wheat and Oats in Selected Counties in Colorado, 1958

	Percent of Crop Value	
County	Private rate	State rate
Adams	9-15	10
Arapahoe	9-15	11
Baca	8-12	8
Cheyenne	10-12	6
Larimer	7-10	6
Morgan	12-18	14
Phillips	14-18	16
Washington	12-16	8
Yuma	14-18	13

Source: State of Colorado, State Hail Insurance Department, and Reports of the Aetna Insurance Company, Denver, Colorado.

[8]This arrangement is presently in use in Wyoming.

[9]*Colorado Revised Statutes, 1953*, Cumulative Supplement, Vol. 2, Ch. 8, 7-4.

[10]*Colorado Revised Statutes, 1953*, Ch. 6, 4-5 and 15.

[11]State of Colorado, Division of Accounts and Control.

Safety and Accident Prevention Tax. This tax, introduced in 1940, is imposed on all organizations including the State Compensation Insurance Fund which insures employers against liability for personal injury or death of employees under the provisions of the Workmen's Compensation Act of Colorado. The levy is at the rate of one-half of one percent of the amount of premiums collected and, in the case of self-insurers, the rate is applied against payrolls to arrive at an amount equivalent to that which would have been paid if the accounts had been insured.

Proceeds of the tax are used to cover costs incurred by the State in promoting and encouraging the adoption by industry of safety devices, standard safety methods and the continuous study and improvement of industrial safety. The activity as such is vested in the Safety Device and Method Section of the State's Industrial Commission. The law calls for an annual appropriation from a cash fund established for the purpose with the added proviso that if the balance exceeds $20,000 the tax shall be abated for a year—a situation which will obtain for the fiscal year, 1959.

Mattress Stamp Tax. This is a special tax imposed on all persons engaged in the manufacturing, the remaking, or the renovation of any article of bedding. Persons or firms so engaged pay an annual license fee of $25; in addition to which they are required to buy stamps at the rate of $20 per thousand which must be attached to the merchandise sold.[12]

This tax is administered by the State Department of Public Health, and the funds provided, which amounted to $19,910 in fiscal 1957, cover the cost of inspection service which is essentially that of seeing to it that all bedding is properly tagged, stamped and fit for sale.[13] The Department does not have a separate bedding inspection section as such, but assigns inspectors to do the work on a part-time basis in addition to their other duties in the Department. The present rate is adequately covering the costs of rendering these bedding inspection services.

Tax for Revised Statutes. This tax is a special fee of one dollar levied upon each and every civil action filed in the office of a clerk of a court of record of the State of Colorado. The purpose of this fee is to reimburse the General Fund for appropriations heretofore and hereafter made for the use of the Committee on Statute Revision.[14]

The history of the tax dates back to 1951 when the General Assembly set up a special department to compile and publish a revision of the Colorado Statutes which was completed in 1953. To date there have been 2,400 sets of the Revised Statutes distributed of which 1,500 have been sold and 900 have been distributed for use in the various State agencies.

Currently, the department has three employees engaged in preparing for publication every other year supplements to the 1953 Revised Statutes. It is presently estimated that a complete new revision will be made in 1965 which is some eight years earlier than originally planned. The current expenses of the department are running about $28,000 annually as against about $20,000 revenue.[15] In effect, the department pays two-thirds of its expenses and the General Fund pays one-third. The latter is presumably justified on grounds that the various State agencies receive one-third of the total number of publications. The State could, however, if it chose to do so, raise the levy in order to eliminate the present cost to the General Fund as well as creating a surplus to cover future planned statute revision in 1965. It is estimated that this could be accomplished if the rate were doubled—to two dollars. The increased charge would probably not deter any civil suits from being filed and would place the cost burden of revising the statutes on those persons using the facilities of the courts.

Gate Admissions—Athletic Commission. Any licensed persons who conduct boxing or wrestling contests in the State of Colorado to which an admission fee is charged must pay to the State a 5 percent tax on the gross proceeds of the contest, excluding, however, federal taxes.

The receipts and expenditure relationships including the cash balance credited to Commission activities for selected years since 1950 are as follows:[16]

Fiscal year	Receipts[a]	Expenditures	Cash balance end of year
1950	$11,867	$6,876	$ 57
1955	11,213	9,274	3,251
1956	7,689	7,063	0
1957	8,601	6,807	1,626
1958	7,466	8,498	99

[a] Includes taxes and fees.

[12] *Colorado Revised Statutes, 1953*, Ch. 66, 17-9.
[13] State of Colorado, Division of Accounts and Control.
[14] *Colorado Revised Statutes, 1953*, 1957 Cumulative Supplement, Vol. 5, Ch. 135, 4-29.
[15] State of Colorado, Division of Accounts and Control.
[16] State of Colorado, Division of Accounts and Control.

Revenue from this activity is contingent upon the number of boxing or wrestling matches staged annually. The past few years have produced few contests, due primarily to the present depressed situation in professional boxing, a condition partially attributed to television.

Since the primary source of revenue is obtained from exaction of the 5 percent tax, it is relevant to consider the fee structure as a source of supplemental aid to offset increased expenditures. At the December, 1957 meeting of the Commission, it was suggested that some fees be increased and where no fees obtained to inaugurate a fee, namely: raise referee license fees from $10 to $25, manager license fees from $10 to $25, seconds' fees from $5 to $10 and to impose fees on those who are not currently charged, such as, trainers a $5 fee, announcers and judges, a $10 fee.

This schedule was suggested because amateur licenses were scaled down from $500 to $200 in 1957 and deputy commissioners fees were raised from $5 to $15 per event. Expenditures decreased somewhat, however, because the Secretary of the Commission has been the only full time employee of the Commission, and no part-time help was used.

Aircraft Ownership Tax.[17] The law places an annual specific ownership tax on all aircraft within the State except:

(1) Aircraft owned or used by a department of the federal or state government.

(2) Aircraft owned or used by air carriers as such term is defined by the federal Civil Aeronautics Act of 1938, as amended.

(3) Aircraft constituting stock in trade of a manufacturer, dealer, distributor or retailer of aircraft.[18]

The annual tax is a percentage of factory list price diminishing each year. The rate of 3 percent is applied to 70 percent of factory list price the first year, 50 percent the second, 40 percent the third, 30 percent the fourth, 20 percent the fifth, 10 percent the sixth and 5 percent of list price thereafter.[19]

In 1957 there were 175 aircraft owners paying this tax which amounted to $1,377. It is estimated that there may actually be 2,000 private planes that should be taxed. If this is the case, the State and its political subdivisions are failing to collect at least $40,000 of revenue annually.[20]

Departmental Licenses and Fees

Game and Fish Department. The Game and Fish Department came into existence because of public interest and concern in conservation. Perpetuation and continuance of game and fish resources is dependent in large degree upon revenues prorated from the sale of licenses which local sportsmen initiated as a means of providing monies for management of game and fish resources.

Beginning with the depression years of the 1930's active financial support of conservation was extended to the Department by the federal government through the Dingwell-Johnson and Pittman-Robertson Acts. According to these Acts receipts from the federal tax on firearms, fishing rods and related items may be granted to the state (contingent upon matching by state aids) according to the proportionate share of fishing and hunting licenses in the state. These grants are designed to encourage state projects relating to fish and game restoration and management. In 1957-58, Colorado received $555,000 for wildlife restoration and the General Assembly's matching share of $185,000 brought the total to $740,000, the equivalent of 18 percent of the net income of the Department.

The total gross income from the sale of licenses (hunting, fishing and miscellaneous) amounted to $4,265,966 in fiscal 1958.[21] After deduction of agents' license commissions of $144,978 or 3.4 percent of gross income, total net income amounted to $4,120,988.

Since World War II or from 1946 to 1957 departmental revenues from fees have increased from $1,047,000 to $4,266,000 or at the rate of 300 percent. This increase is attributed to a number of factors of which Colorado's continued appeal as a tourist haven and increased personal incomes are most important.

Although the increase in departmental revenues is fiscally significant, the economic value of hunting and fishing to the people of Colorado should not be overlooked. It is estimated that in 1957 a total of $81 million was spent in the State by sportsmen for hunting and fishing supplies including food and clothing but exclusive of license fees. Of this amount nearly one-half or $39 million was spent by non-residents.[22]

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[17]This tax is essentially an ad valorem tax and is therefore not included in Table 17.1.

[18]*Colorado Revised Statutes*, Ch. 5-3-3.

[19]*Colorado Revised Statutes*, Ch. 5-3-6.

[20]In 1953 the State assigned one man to enforce the tax and as a result 495 planes were registered. In this connection it is of interest that there were, in 1958, an average of 200 privately owned planes at Stapleton airport alone.

[21]State of Colorado, Department of Game and Fish, *Annual Report, 1957-1958*, pp. 4-5.

[22]*Ibid.*, p. 3.

Continuance of this outlay is dependent on a number of factors: the continual production of fish and control of other wild life, the degree to which pollution of streams by industrial and mining wastes is reduced and the assurance of an adequate water supply for fishing streams. When these factors are related to an anticipated rapid rate of population growth, a greater influx of tourists and the constantly increasing need of recreation outlets as work-week hours decline, it is apparent that existing fees will not carry the ultimate cost. Since the benefit principle applies here, the needed expansion of facilities is dependent in large degree on what sportsmen are willing to pay in added fees.

Regulatory Boards—Department of State. A summary review of license revenues and expenditures of the various regulatory boards and bureaus in the Department of State is presented in Table 17.9. As will be noted these activities show for the period considered—from 1955 to 1958—a fairly balanced relationship between revenues and expenditures.

Department of Agriculture. The marketing of Colorado's farm products is subject to various regulatory sections under the jurisdiction of the Department of Agriculture. These sections are charged with the responsibility of enforcing statutory regulations designed to protect the public's interest. How well the public can be served is contingent upon adequate inspection facilities, assurance of which is dependent, in the main, on collecting the required fees.

In the fiscal year ending 1958, the Department collected $652,000 in licenses and fees while its expenditures totalled $609,000. It is noteworthy, and perhaps significant, that over the past three years, 1956-1958, revenues increased at the rate of 17 percent while expenditures increased by 37 percent. Of the Department's eleven sections, five showed, for the period, a decline in license revenue while, for the remainder, expenditures increased more rapidly than revenue (Table 17.10).

Dairy Section. This Section is responsible for the inspection of milk and cream receiving stations and concentrating plants. The fee schedule adopted in 1913 and modified in 1923 still applies. This calls for a $2.50 fee for the inspection of each milk or cream receiving station and a $10.00 fee for concentrating plants. Since license revenue has declined in recent years—coupled with an opposite trend in the volume of milk sold—it becomes increasingly apparent that a pre-war rate structure is inadequate to cover costs of effective inspection service.

Feed Control. This Section collected $33,300 in fees during 1958 from the $0.10 per ton State charge (to defray the cost of State feed inspection including brand inspection) on commercial feed sold in bulk or in containers. This would approximate 300,000 tons which at average market cost of $72 per ton would amount to $21.6 million. In this connection it is of interest that the U. S. Census data for 1954 (the latest date available) show a total farm expenditure in Colorado of $64.5 million for livestock and

Table 17.9

Revenues and Expenditures of Regulatory Boards and Bureaus of Department of State,[a] Colorado Fiscal Years, 1955-1958

Boards	1955		1956		1957		1958	
	Revenues Licenses and fees	Expenditures	Revenues Licenses and fees	Expenditures	Revenues Licenses and fees	Expenditures	Revenues Licenses and fees	Expenditures
Abstractors	$ 2,075	$ 1,676	$ 1,900	$ 1,715	$ 1,925	$ 1,760	$ 821	$ 2,100
Accountancy	10,140	8,957	11,720	11,695	12,312	11,252	13,317	12,139
Architects	6,215	3,354	8,490	5,137	8,060	2,892	10,870	5,207
Barbers	22,686	18,420	23,132	19,117	25,056	20,060	26,272	21,305
Basic Science	8,817	5,017	7,357	5,102	7,734	5,104	8,422	5,379
Chiropractic	3,267	2,908	3,245	3,543	5,385	4,021	4,965	6,069
Collection Agency	3,183	2,298	3,180	2,065	3,086	1,926	3,470	2,037
Cosmetology	31,625	25,215	32,988	25,930	35,039	24,205	35,290	24,593
Dentists	10,376	8,513	12,134	9,329	12,526	9,514	12,100	11,509
Engineers	17,316	15,826	17,822	16,705	18,663	15,141	25,211	21,121
Land Surveyors	3,356	1,165	2,764	3,380	2,980	2,928	3,067	3,572
Funeral Directors and Embalmers	3,731	2,418	3,793	2,745	3,612	2,156	7,909	3,043
Medical	26,212	14,951	25,098	15,143	25,748	17,234	27,627	15,542
Nurse	43,292	37,460	47,787	39,884	51,204	44,964	51,947	50,698
Optometric	3,540	2,323	3,390	2,569	3,540	2,708	2,980	2,471
Pharmacy	29,998	26,766	29,439	28,611	30,499	30,375	26,134	32,974
Real Estate Brokers	43,711	28,622	75,334	38,015	73,896	70,212	81,232	77,972
Short Hand Reporters	105	—	60	—	210	21	105	—
Veterinary Medicine	1,203	1,244	2,071	952	2,510	1,076	3,931	2,147
Total	270,848	207,133	311,704	231,637	323,985	267,549	345,670	299,878

[a] For total revenues of Department of State for 1957 see Table 17.1 and for other years Chapter V, Table 5.2.

Source: State of Colorado, Division of Accounts and Control.

Table 17.10

Revenues and Expenditures of Department of Agriculture, by Principal Activities,[a] Colorado

Fiscal Years 1950-1958

	1950	1951	1952	1953	1954	1955	1956	1957	1958
Revenues									
Dairy section	$ 8,192	$ 6,074	$ 5,077	$ 8,426	$ 10,427	$ 12,316	$ 9,913	$ 7,349	$ 6,927
Feed control	26,169	27,886	31,453	29,270	30,074	30,974	31,328	36,501	33,300
Fertilizer section	4,161	13,420	11,932	15,644	16,391	16,156	14,909	18,451	18,482
Fruit and vegetable inspection	291,629	286,374	191,154	271,495	274,340	290,461	270,333	326,926	341,818
Insecticide inspection	7,475	4,830	4,770	4,770	8,581	8,698	9,933	8,511	4,414
Oleomargarine	1,250	1,525	750	1,800	1,275	1,575	1,325	1,250	1,200
Plant and insect control	3,006	2,708	2,133	2,133	3,103	6,375	7,532	8,248	9,543
Poultry and egg inspection	29,755	29,765	44,367	44,785	45,684	42,686	51,019	76,757	79,968
Produce dealers	52,723	52,794	57,139	61,182	66,113	67,545	71,859	53,927	70,712
Refrigerated lockers	5,175	5,920	5,900	3,850	5,250	5,050	5,000	4,975	4,650
Weights and measures	—	—	—	—	53,990	38,716	83,047	50,780	78,918
Total	429,535	431,296	354,675	443,355	515,228	520,552	556,198	593,675	649,932
Expenditures									
Dairy section	3,282	3,252	7,428	3,148	5,338	8,177	8,474	11,453	9,652
Feed control	26,810	28,285	24,646	24,936	23,369	23,585	21,275	29,846	29,147
Fertilizer section	7,894	8,139	11,030	11,030	10,362	9,418	12,836	15,233	17,260
Fruit and vegetable inspection	225,565	195,231	201,125	232,959	238,740	250,704	237,016	285,757	301,328
Insecticide inspection	2,221	2,567	10,915	5,980	3,503	7,628	6,439	8,565	10,245
Oleomargarine	30	62	1,792	299	360	712	177	691	768
Plant and insect control	4,773	5,063	2,106	3,731	2,053	2,530	2,745	6,123	9,588
Poultry and egg inspection	28,538	23,698	29,297	53,935	35,875	42,571	41,274	54,121	70,120
Produce dealers	52,334	50,706	52,815	55,233	58,860	61,846	60,956	60,979	63,869
Refrigerated lockers	5,580	5,421	5,423	4,445	4,123	6,070	5,332	2,802	3,115
Weights and measures	—	—	—	—	53,134	59,655	48,221	51,546	59,337
Total	357,027	322,424	346,577	395,696	435,717	472,896	444,745	527,116	574,429

[a] Exclusive of miscellaneous revenue and expenditure items. For the over-all total of revenues of the Departments for 1957 see Table 17.1 and for other years Chapter V, Table 5.2.

Source: State of Colorado, Division of Accounts and Control.

poultry feed. This suggests strong likelihood that there is considerable under-reporting in this inspection area.

Fertilizer Section. In fiscal 1958, this Section collected $18,482 in revenue, of which approximately $4,000 represented registration fees of fertilizer brands. The balance, or $14,000, was collected from the State-imposed fee of $0.25 per ton on fertilizer manufactured in the State. On this basis, this would mean that 56,000 tons of fertilizer were manufactured in the State in 1958.

The head of the Fertilizer Section estimates that the amount of fertilizer reported as manufactured was about 50 percent of what actually should have been reported.[23]

Fruit and Vegetable Inspection. This Section is the single largest revenue producer under the jurisdiction of the Department of Agriculture, accounting for 51 percent of total departmental receipts. As noted earlier, in most sections expenditures are rising more rapidly than revenue, and this is notably true in the Fruit and Vegetable Section. This is reflected in expenditure and revenue projections which were submitted from 1958 to 1960 as noted below:

	Revenues		Expenditures	
Fiscal year	Estimated amount	Percent increase	Estimated amount	Percent increase
1958	$341,818	—	$333,553	—
1959	362,622	6.0	374,310	10.0
1960	416,273	15.0	471,137	26.0

On the basis of this projection the Department requested appropriation increases of $58,427 in 1958, $32,205 for 1959 and $60,000 in 1960 to take care of seasonal inspection.

This Section has discretionary power to levy fees that will cover inspection costs. But during fiscal 1958 it sought an additional appropriation of $15,000, three-fourths of which was granted to cover deficiency costs. Unforeseen developments undoubtedly arise necessitating additional funds, but since the Section has the power to levy fees commensurate with costs, the request for appropriations does not appear to be warranted on any sustained basis.

Oleomargarine. Fees collected by this Section, which is administered by the Dairy Section, are minor in amount. Collections have been and continue to be substantially in excess of expenditures.

[23] Colorado General Assembly, Joint Sub-Committee on Appropriations, "Staff Report to the Committee on Administration and Programs of the State Department of Agriculture," Budget Report 58-2, August, 1958.

Poultry and Egg Inspection. During the past three years approximately 2.5 million chickens and turkeys were sold from farms by Colorado farmers.[24] It is reasonable to assume that a substantial portion of sales were made to processing plants within the State for the domestic market. If the revenue from the sale of clips (State charge to poultry processors for inspection) is used as a criterion apparently this is not the case. The revenue from the sale of clips amounted to $1,341 in 1957, $849 in 1956 and $526 in 1955.[25] At the current charge of ¼ cent per clip per bird this means that 20 percent of the birds sold from Colorado farms in 1957 found their way into local poultry processing plants, and only 13 percent in 1956. In 1955, when approximately 3 million birds were sold from Colorado farms, the State received $526 from the sale of clips, or 7 percent of the poultry sold found its way into local plants. On this basis either most of Colorado's poultry is sold out of the State—a questionable assumption—or sales in the State are greatly under-reported—an assumption which appears more plausible.

Egg Licenses. The revenue obtained from egg licenses amounted to $43,000 in 1957. This money was derived from the license fees charged wholesalers and retailers for State inspection service.

The law governing egg licensing was initiated in 1933, changed in 1935, and modified radically, relative to licenses and fees in 1957. Antiquated provisions of the law were stricken and the fee scale graduated according to the volume of eggs processed by wholesalers and the gross sales of retailers. How well the new schedule of charges will meet changed conditions remains to be tested since the new law went into effect January 1, 1958. The bracket system of fee charges on wholesalers and retailers is a realistic attempt to graduate in accordance with volume of business. One point of contention, however, is the $2.00 fee currently charged the Class I retailer (gross sales under $50 thousand annually). This very nominal fee of $2.00 is inadequate to cover inspection costs. Egg inspectors visit each retail outlet once every five weeks, or make approximately 10 visits annually. This places the cost of inspection at $0.20 per call which is hardly commensurate with the cost of paying the inspector's salary and travel.

[24]Colorado Agriculture Statistics, *op. cit.*, pp. 89-90.

[25]State of Colorado, Division of Accounts and Control, *Annual Reports.*

State Board of Stock Inspection. Approximately 30 percent of the revenue obtained by this Board is from the 1/30 mill levy imposed upon the assessable value of all taxable property in the State. The balance, or 70 percent, is obtained from recording brands, stallion licenses and butcher licenses; the bulk of this portion of the revenue being obtained from the brand inspection. It is quite apparent that the first item is not being fully collected. The stallion fee is $5. In 1957 a total of $40 was collected on this account.

Plumbing Inspection. In 1957 fees collected for the examination of plumbers, license renewals and plumbing installation permits amounted to $21,883.[26] Of this amount installation permits amounted to approximately $11,000. Permit fees range from $0.25 for a single fixture installation to $2.00 for five fixtures. The typical one-family dwelling has six fixtures which, translated into inspection fees, should amount to $2.25.

That there is considerable under-collection of fees for plumbing inspection is clearly indicated from sample analysis. For example, in the Denver Metropolitan Area alone there were 7,513 new one-family dwelling units built in the first eleven months of 1958, or an estimated total of 8,200 for the entire twelve months.[27] Simple computation indicates that State inspection fees should have amounted to aproximately $18,440 for this construction alone. This figure is, as noted, exclusive of building in the rest of the State, and does not take into account duplexes, apartments or industrial and commercial buildings, nor remodeling of existing buildings.

Board of Standards—Child Care. Foster Boarding Homes, which include nursery schools, day nurseries and children camps that maintain a home for children under 16 years of age and are duly licensed can operate in the State without charge. In 1957 the cost of inspection for this program was $22 thousand,[28] which was borne by the State and financed through the General Fund.

During 1958 a total of 1,923 licenses were issued as follows:[29]

[26]State of Colorado, Division of Accounts and Control.

[27]*Daily Journal*, December 30, 1958.

[28]State of Colorado, Division of Accounts and Control.

[29]State of Colorado, Board of Standards.

Type of Foster Boarding Homes	Number of licenses issued
Nurseries	112
Family foster homes	1,132
Institutional foster homes	20
Children's camps	112
Welfare (children boarded in private homes)	534
State Home for Dependent Children	13
Total	1,923

These institutions cared for 19,967 children. Fifty-six percent of the children were cared for in children's summer camps of which a known 5 percent of the operators maintained an out-of-state residence.

Licensees engaged in caring for children under the above categories are doing so for profit and they could reasonably be expected, as any other business enterprise, to reimburse the State for inspection service.

Departmental Earnings, Charges and Miscellaneous Receipts. As noted in Table 17.1 state government received a total of $22.3 million in 1957 from various sources classified as earnings, "charges for services" rendered and other receipts. The latter includes approximately $1 million from the sale of land and buildings. Apart from this the total represents income or revenue receipts. In view of the many miscellaneous categories within this general topic the following discussion is limited to a brief review of several selected subjects.[30]

Educational Institutions. Earnings of the educational institutions consist essentially of tuition and fees, the total of which increased from approximately $4 million in 1952 to $5.8 million in 1957, or a gain of 45 percent (Table 17.11).[31]

Table 17.11

Tuition and Fees Collected by Institutions of Higher Learning, Colorado, Selected Fiscal Years, 1952-1957

Institution	1952	1954	1956	1957
Adams State College	$ 49,147	$ 54,743	$ 66,154	$ 70,120
Colo. State Univ.	581,076	601,441	759,683	861,017
Colo. State College	499,916	445,094	547,940	613,810
Fort Lewis A. & M.	74,509	10,405	12,286	33,578*
Colo. Sch. of Mines	384,159	342,339	423,588	502,840
University of Colo.	2,302,933	2,529,302	3,193,734	3,585,096
West. State College	103,849	84,878	113,519	132,091
Total	3,995,589	4,068,202	5,116,904	5,798,552

* Includes sale of surplus materials.

Source: State of Colorado, Budget Reports 1952-1957.

[30]For a statistical review of principal subjects in this category see again Chapter V, Table 5.2.

[31]The total figure for 1957 as noted in Table 17.11 is larger than its corresponding total in Table 17.1 since the latter was exclusive of tuition payments at the University of Colorado.

State Highway Department. Receipts of the State Highway Department consist mainly of reimbursements for roads services performed for other governmental units mainly smaller municipalities. In 1957 receipts of this nature amounted to $8.4 million and in 1956 the total was $9.8 million. These figures are substantially over preceding years as noted in Chapter V, Table 5.2.

Boulder Turnpike Charges. Receipts from the Boulder Toll Road currently average around one-half million dollars. Since 1952 annual collections have been as follows:[32]

Fiscal Year	Collections
1952	$146,207
1953	437,109
1954	483,137
1955	462,203
1956	488,077
1957	519,519

Penal and Eleemosynary Institutions. Earnings from various activities at the state institutions increased from $1.2 million in 1952 to $3.6 million in 1957, or a gain of 200 percent. By institutions the 1957 aggregate was distributed as follows:[33]

Institutions	Earnings
Colorado State Hospital	$2,469,416
Colorado State Penitentiary	547,890
State Home & Tr. Sch.—Ridge	95,438
State Home & Tr. Sch.—G. Jctn.	76,496
Colorado Sch. for Deaf & Blind	37,943
Colo. St. Soldier's & Sailor's Home	29,848
State Industrial Sch. for Boys	8,303
Colorado State Childrens' Home	6,371
State Home for Aged	5,747
Unclassified	359,548
Total	3,637,000

State Lands. Receipts from the income and sale of lands owned by the State have since 1950 changed as follows:[34]

Year	Receipts
1950	$1,213,300
1954	2,534,396
1956	4,024,966
1957	4,292,878

State lands, originally acquired by grants from the Federal Government are set aside by law to create funds for specific purposes. By far the most important of these is education which is reflected in the following inventory of State lands as of June 30, 1956:[35]

[32]State of Colorado, Division of Accounts and Control.

[33]*Ibid.*

[34]*Ibid.*

[35]State of Colorado, *Report of State Board of Land Commissioners.*

Fund	Acres
School and Indemnity School land	2,774,220
Permanent Fund Lands (Foreclosed)	53,736
Agricultural College Lands	26,695
Internal Improvement Lands	164,775
Penitentiary Lands	8,601
Public Building Lands	4,517
Reformatory Lands	520
Saline Lands	15,089
University Lands	4,266
State Forest	71,000
Total	3,123,419

The terms of the grants from the Federal Government provide that the proceeds from the sale of lands shall go into permanent funds to be invested. Only the interest therefrom and the income derived from the administration of the unsold lands can be used for the benefit of the schools or such special interests as provided in the original grants.[36]

[36] For further discussion on this point see Chapter XX on "Sources of Revenue for State Aid."

CHAPTER XVIII

THE TOBACCO TAX

History and Description of the Tax

A special excise tax is levied on the consumption of tobacco products by the Federal Government, forty-two states, the District of Columbia, and municipalities in several states. Annual revenue exceeds two billion dollars, most of which is due to the tax on cigarettes.

The two unusual characteristics of the demand for tobacco have historically made the product a favorite object of special taxation. First, the consumption of tobacco is not altered significantly if the selling price is increased. Therefore, the levying of a relatively high tax, which will increase the selling price, will not deter consumers from buying the product, thereby destroying the tax base. The second unusual characteristic of the demand for tobacco is that consumption is not significantly altered with a decline in the income of the buyers. Hence, the first characteristic results in a lucrative source of revenue, and the second characteristic results in a relatively stable source of revenue irrespective of fluctuations in business activity.[1]

The indirect manner in which tobacco is taxed may also explain its historical popularity in the taxation field. The tax is levied either on the manufacturer or on the wholesaler which not only results in a lower collection cost than would be incurred if the tax were levied on consumers, but also provides substantially less resistance to the tax.

Consumption of tobacco has continually increased due to changing social customs and population growth. A stigma is no longer generally attached to the cigarette smoker, even in the case of the female smoker, as was once true. Population growth has also resulted in increased tobacco consumption although population composition has a significant impact on consumption and its changing nature may occasionally offset any absolute population increase.

The "cancer scare" resulted in a decline in tobacco consumption in 1955. A substantial shift from regular cigarettes to filter-tip cigarettes has mitigated this fear and tobacco consumption is again on the increase with filter-tip cigarettes now accounting for about 40 percent of the cigarette market.[2] Three-fourths of those states which levy a cigarette tax showed an increase in consumption in 1956.[3]

Although the Federal Government taxes other tobacco products in addition to cigarettes, many states tax only cigarettes. The consumption of other tobacco products such as cigars, smoking tobacco, chewing tobacco, and snuff have declined in their relative importance in recent years. Although cigarette consumption increased in 1956, consumption of other tobacco products did not.[4]

Tobacco Taxation by the Federal Government. The federal tax on tobacco is levied on manufacturers at the rate of eight cents per pack of cigarettes and an ad valorem rate is applied on other tobacco products.

Since the tax is levied only on manufacturers, a relatively small cost of collection is incurred. There were only about 1,000 tobacco, cigar, and cigarette manufacturers in the United States in 1956, and of this number over 800 were cigar manufacturers.[5]

The tax eventually makes its way to the consumer in the form of higher prices. The levying of a tax on a manufacturer runs the risk of "pyramiding." If each seller in the merchandising chain marks up the produce as a percent, each seller would be realizing a profit on the tax and the increased price paid by the consumer would therefore exceed the initial tax. This danger is reduced in the case of the states, which usually levy the tax on the wholesaler.

Federal tobacco tax revenues have displayed a continually rising trend in the past two decades. As can be seen in Table 18.1, however, a

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[1]The unusually low price and income elasticity of tobacco has frequently been observed. Although numerical elasticity estimates are subject to methodological qualifications, one writer estimates price elasticity at minus .1 and income elasticity at plus .5. See Frank H. Maier, "Consumer Demand for Cigarettes Estimated from State Data," *Journal of Farm Economics*, November, 1955. For a complete discussion of the relation between tobacco consumption and income, see Seymour M. Sarkin and Arthur G. Conover, *Tobacco Smoking in the United States in Relation to Income* (Marketing Research Report No. 189, U. S. Department of Agriculture, Agricultural Marketing Service, Washington, D. C., 1957).

[2]*Tax Administrators News*, January, 1958, p. 5.

[3]*Tax Administrators News*, June, 1957, pp. 61-62.

[4]*Ibid.*

[5]U. S. Treasury Department, *Statistics Relating to the Alcohol and Tobacco Industries* (Washington, D. C., 1957), pp. 64-66.

decline was recorded in 1954 as well as in 1955. Tobacco receipts as a percent of total receipts reached over 3 percent throughout the 1940's but declined to less than 2½ percent in the early 1950's. This decline is due to a number of factors of which the recent "cancer scare" may be one.

Table 18.1

Internal Revenue Collections and Federal Tobacco Tax Yields in the United States Selected Years, 1936-1956

Period or year	Total internal revenue collections (millions)	Tobacco tax yield (millions)	Tobacco tax yield as percent of total
1936–1940 (av.)	$ 4,871	$ 562	1.15
1941–1945 (av.)	25,342	865	3.41
1946–1950 (av.)	40,213	1,271	3.16
1951–1955 (av.)	64,270	1,550	2.41
1953	69,687	1,655	2.37
1954	69,920	1,580	2.26
1955	66,289	1,571	2.37
1956	75,113	1,613	2.15

Source: Bureau of the Census, *Statistical Abstract of the United States: 1957*, p. 368.

Tobacco Taxation by the States. Beginning with Kansas in 1909, the number of states using a tax on tobacco has continually grown. In 1955, Missouri approved a cigarette tax in a general election and effective January 1, 1956, became the 42nd state to impose a cigarette tax. Eleven of these states also impose a tax on other tobacco products. Fifteen states adopted a tobacco tax during the depression and eleven states have adopted a tobacco tax since the end of the Second World War.[6] Most state adoptions of cigarette taxes have not been on a temporary and emergency basis, as has been true of the adoption of many other excises, especially on the federal government level.[7]

Some states have earmarked the receipts from the tobacco tax for various purposes. Illinois, for example, attempted to float bonds for a Veterans' Bonus, the additional revenue to be provided through increasing the rate of the cigarette tax.[8] Washington earmarked a one-cent rate increase for the servicing of school construction bonds. Some states also credit a portion of the receipts from the cigarette tax to a special fund which is apportioned to local governments. In Minnesota for example, one-fourth of the revenues are appropriated for local apportionment, with three-fourths accruing to the General Revenue Fund.[9] Florida also has an arrangement whereby local governments share in the tobacco tax receipts.[10]

Were Colorado to adopt a tobacco tax, either of the above arrangements would probably be unconstitutional, since the Colorado Constitution presently provides that 85 percent of the revenues from any additional excise tax must accrue to the Old Age Pension Fund.[11]

A more complete discussion of tobacco taxation in the states and in Colorado will be found in later sections of this chapter.

Tobacco Taxation by Municipal Governments. Taxation by municipalities in the United States is not extensive. Several states, Wyoming for example, have denied municipalities the power to tax cigarettes when the state utilizes this source of revenue. In other states, however, a state cigarette tax has been imposed in addition to the existing tax levied by municipalities.

Municipalities in eleven states (Alabama, Colorado, Florida, Illinois, Maryland, Missouri, New Jersey, New Mexico, New York, Tennessee and Virginia) have the power to levy a tax on cigarettes.[12] Widespread use of the cigarette tax by municipalities in these states is not common, however. Illinois does not permit municipalities to levy a cigarette tax in addition to a sales tax; therefore, the cigarette tax is presently not in use by any Illinois cities. Only a few municipalities utilize the cigarette tax in New Jersey, New York, Tennessee, and Virginia.[13] New Mexico permitted municipalities to tax cigarettes prior to 1955, at which time authority was withdrawn unless the municipality had previously issued bonds to be financed by the cigarette tax. At present only a limited number of New Mexico municipalities continue to levy the tax. Although municipalities in Florida levy a tax, it is an offset against the state levy and is collected by the state.

Numerous municipalities in Colorado and Maryland levy a cigarette tax but these states do not employ a cigarette tax. In only Alabama and Missouri is there a state tax and a more than limited use of the tax by municipalities.

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[6] See *Tax Administrators News*, January, 1957, and *Report of the Minnesota Tax Study Committee* (Minneapolis, 1956), p. 383.

[7] Benjamin M. Parker, "The National Debt and Excise Taxes," *Taxes*, June, 1956, p. 400.

[8] *Tax Administrators News*, September, 1957, p. 101.

[9] *Minnesota Tax Study*, *op. cit.*, p. 385.

[10] William P. Dillingham, *Cigarette Taxation in Florida* (Tallahassee, 1956), pp. 14-19.

[11] *The Constitution of the State of Colorado*, Revised to May 1, 1958 (Denver), pp. 77-80.

[12] *Tax Administrators News*, December, 1957, p. 133.

[13] L. Laszlo Ecker-Racz, "State Taxes After the 1956-1957 Legislative Sessions," *National Tax Journal*, December, 1957, p. 295.

The cigarette tax applied by all municipalities in the country has been estimated to yield approximately $40 million annually.[14]

Colorado Municipalities. About 28 municipalities in Colorado levy a cigarette tax; most of these municipalities adopted the tax since World War II. Approximately one and one-quarter million dollars was collected by municipalities from this source in 1954.[15] A tax of from one to three cents per pack is levied as well as a retailers' and wholesalers' fee.

A major criticism of the use of a tobacco tax by a municipality is that it results in consumers' purchasing cigarettes in areas outside the city where the tax is not applicable. A saving of 20 cents or 30 cents per carton may be sufficient inducement to cause consumers to patronize a non-taxed establishment. Although a loss in sales by city merchants with the introduction of a tax has not been completely verified, there is some evidence to indicate that out-of-city establishments enjoy an increase in sales.[16]

Denver provides a good example of the competitive nature of the tax. Although many surrounding municipalities have imposed a cigarette tax, the rates tend to be lower than the Denver rate.

Rationale of the Tax

Sumptuary Considerations. The traditional rationale for the taxation of tobacco is that the consumption of tobacco is undesirable, from a social and an individual point of view, and should therefore be discouraged by levying a heavy tax on tobacco. It is argued that tobacco is undesirable from a social viewpoint in that smoking involves a tremendous social cost in the form of fire losses and the maintenance of preventive and protective measures. Tobacco is also considered undesirable from the viewpoint of the individual since it is believed to be detrimental to proper health. At one time tobacco was considered undesirable from a moralistic viewpoint in the same way as narcotics, and often, liquor, are viewed today.

Careless smoking is undoubtedly responsible for a substantial social cost. The adverse effect of tobacco on the health of an individual is less definite and considerably more controversial.

Even assuming that tobacco consumption is undesirable, a substantial amount of controversy exists concerning the effect of a tax on tobacco consumption. It is argued that high taxes will not in fact discourage the consumption of tobacco. Since the tax is usually levied on the manufacturer or wholesaler, it must be assumed that this tax burden reaches the consumer in the form of higher prices if the consumer is to be discouraged from buying tobacco. Although the incidence of a tobacco tax will usually rest with the consumer, it is possible that due to competitive conditions, some absorption may occur at various stages in the merchandising chain. Another alternative, however, is that the higher price paid by the consumer may exceed the amount of the tax. This occurrence could be due to "pyramiding" or simply price increases in excess of the initial tax.

If the reasonable assumption is made that a tobacco tax will reach the consumer in the form of higher prices, there is still considerable doubt that tobacco consumption will be substantially decreased. If higher prices are to discourage the consumption of a product, the demand curve for that product must be elastic; that is, the product must have reasonably close substitutes. Although some smokers may be able to substitute other products for tobacco, this substitution does not seem likely for the average smoker. Higher tobacco prices may, however, have a certain discouraging effect on the non-smoker who might otherwise acquire the habit. If the objective of a tobacco tax is to discourage the "undesirable" consumption of tobacco, the attempt could prove abortive because individuals may consume the same amount of tobacco, but the higher price of tobacco will necessitate curtailed purchase of other goods, perhaps "desirable" goods.

A closely related approach to the sumptuary rationale of tobacco taxation is the contention that tobacco is a luxury and should therefore be heavily taxed. If a rigorous attempt is made to define "luxury" or "necessity," the approach becomes untenable.

Equity Considerations. In the area of equity considerations, the most common indictment made against tobacco taxes is that they are regressive, that is, a higher proportion of income is taken from lower income groups than from higher income groups. This characteristic is the reverse of the widely accepted principle of ability to pay. A possible rejoinder is that although the tax is regressive, it is not as regressive as is often contended. Although empirical estimates of the regressivity of tobacco taxes are hazard-

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[14] *Minnesota Tax Study*, *op. cit.*, p. 384.

[15] Colorado Municipal League, *Selected Non-Property Revenues of Colorado Cities and Towns* (Boulder, Colorado, 1955), p. 11. For additional discussion of the cigarette tax as a municipal source of revenue in Colorado see Chapter XX.

[16] Colorado Municipal League, *op. cit.*, p. 11.

ous, one author estimates that tobacco taxes are roughly proportional below the $3,000 income level and regressive thereafter.[17] Even if this estimate is assumed to be reasonable, it is difficult to argue that regressivity, in itself undesirable, becomes desirable simply because it is not extreme.

Another argument often advanced to extenuate the regressivity of the tobacco tax is the need for diversity in a tax structure. Although the tobacco tax is regressive, it is offset by an income tax which is basically progressive. Hence, it is argued that the structure remains progressive although certain individual taxes are regressive. The tobacco tax is not advocated to the exclusion of all others, and presumably diversity is needed to tax those individuals who escape the income tax or other taxes in the system.

One approach to analyzing the equity of a given tax is to rely on a pragmatic "social concept," that is, is the tax favored or opposed by the public. Although the public tends to favor progressive taxation, several surveys indicate that the cigarette tax is considered to be a "fair tax."[18] This paradoxical position of the public is difficult to explain but should perhaps be taken into consideration when viewing the tobacco tax.

A classic summary of consumption taxes and the equity criterion has been made by Henry C. Simons:

> The plain fact, to one not confused by moralistic distinctions between necessities and luxuries, is simply that taxes like the tobacco taxes are the most effective means available for draining government revenues out from the very bottom of the income scale.[19]

The tobacco tax has been subjected to such widespread criticism in the area of sumptuary and equity considerations that emphasis has shifted to administrative considerations.

Administrative Considerations. The consumer meets the burden of a cigarette tax by paying a few cents each time he purchases a pack of cigarettes. For this reason the tax is considered to be relatively "painless" and easy to collect as opposed to collecting the same annual amount at one time. This reasoning seems to resemble the principle of the "most feathers for the least squawking," and although this principle must undoubtedly be relied upon to a certain extent in the financing of modern government, there may be a tendency for public expenditures to become extravagant if the public is constantly taxed in numerous subtle ways. Convenience of payment, however, has long been a meaningful criterion in measuring the desirability of a revenue source; and most taxes are subject to a charge of subtlety, for example, to some extent the withholding technique of income taxation.

Any tax must, of course, be subjected to the test of adequacy of yield. The ease of payment associated with the tobacco tax makes it possible to levy a rate sufficiently high to make possible a sizable yield. It should be pointed out that one cannot logically argue that the tax will discourage consumption of an "undesirable" product, and at the same time argue that the tax will yield well, since the objectives are contradictory —if one succeeds the other must fail. The tobacco tax has notably fulfilled the adequacy test in the past.

Closely related to the adequacy concept is the criterion of stability. A tax which has a flexible yield, such as the income tax, is often viewed as a favorable factor in federal finance since it tends to act as a "built-in stabilizer" in times of business fluctuations. On the state government level, however, it is argued that stability is a necessity since the state lacks the power and flexibility possessed by the federal government to maintain existing services. The tobacco tax has adequately displayed its stability in the past. Between 1929 and 1933, National Income declined by 55 percent whereas the federal tobacco tax receipts declined by only 7 percent.[20]

Tobacco Taxation by the States

In addition to subjecting cigarettes to a special excise tax, as is done in forty-two states, cigarettes may also be included in the base of the state sales tax. Of the thirty-three states which have a sales tax, seventeen include cigarettes in the base. Fifteen of the remaining sixteen states exempt cigarettes from the sales tax base, but subject them to a special excise tax. The one state which exempts cigarettes from the sales tax base and does not employ a special excise tax on cigarettes is Colorado.

As can be seen from Table 18.2, fourteen states tax tobacco both with a sales tax and a special

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[17] Warren A. Law, "Tobacco Taxation in the Revenue System," *National Tax Journal*, December, 1953, p. 373. Another study taken from older data shows tobacco taxes to be regressive throughout. See Senate Interim Committee on State and Local Taxation, *State and Local Taxes in California: A Comparative Analysis* (California Legislature, 1951), p. 345.

[18] For a discussion of public attitudes with regard to the tobacco tax, see Hadley Cantril (ed.), *Public Opinion* (Princeton, 1951), pp. 852-854.

[19] Henry C. Simons, *Personal Income Taxation* (Chicago, 1938), p. 40.

[20] National Income declined from $85.1 billion to $46.6 billion, and federal tobacco tax receipts declined from $434.4 million to $402.7 million. Data from Department of Commerce, Bureau of the Census, *Historical Statistics of the United States* (Washington, D. C., 1949), p. 12 and p. 302.

excise tax. Three states tax tobacco only under a sales tax, and twenty-eight states tax it under a special excise tax only. Of the forty-eight states, there are only three states which subject tobacco to neither a sales tax nor a special excise tax—Colorado, Oregon and Virginia; the latter two states having no sales tax.

Table 18.2

Taxation of Cigarettes by States, 1956

State	Special excise tax on cigarettes	Cigarettes included in sales tax base
Alabama	x	x
Arizona	x	x
Arkansas	x	—
California	—	x
Connecticut	x	—
Delaware	x	—[a]
Florida	x	—
Georgia	x	x
Idaho	x	—
Illinois	x	x
Indiana	x	x[b]
Iowa	x	—
Kansas	x	—
Kentucky	x	—[a]
Louisiana	x	x
Maine	x	—
Maryland	—	x
Massachusetts	x	—[a]
Michigan	x	x
Minnesota	x	—[a]
Mississippi	x	x[b]
Missouri	x	x
Montana	x	—[a]
Nebraska	x	—[a]
Nevada	x	x
New Hampshire	x	—[a]
New Jersey	x	—[a]
New Mexico	x	x
New York	x	—[a]
North Carolina	—	x
North Dakota	x	—
Ohio	x	—
Oklahoma	x	—
Pennsylvania	x	—
Rhode Island	x	—
South Carolina	x	x
South Dakota	x	—
Tennessee	x	—
Texas	x	—[a]
Utah	x	—
Vermont	x	—[a]
Washington	x	x
West Virginia	x	x
Wisconsin	x	—[a]
Wyoming	x	—
Colorado	—	—
Oregon	—[a]	—
Virginia	—[a]	—

[a] State has no sales tax or gross receipts tax.
[b] Special excise deductible from gross receipts.

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1956*, p. 12, and Ohio Department of Taxation, Research Division, *Retail Sales Tax: Comparative Tables*, pp. 7-8.

Virginia has numerous plants and many employees engaged in the manufacture of cigarettes and other forms of tobacco.[21] Oregon, in November, 1956, defeated a cigarette tax proposal in a general election. This action marked the fifth time the electorate rejected a cigarette tax proposal over a period of fourteen years.[22] Colorado's failure to adopt a cigarette tax is probably due to the constitutional provision which would earmark 85 percent of the proceeds for the Old Age Pension Fund. This point will be more completely discussed in a later section.

Interstate Comparison of Rates. With the exception of New Hampshire and Washington, the cigarette tax is levied on either a per cigarette or per pack basis. Rates vary from two cents to eight cents per standard pack of twenty cigarettes. Some states apply a higher rate if the length or weight of the cigarette exceeds certain set standards. Only a few minor brands, however, exceed the requirements, and the standard rate therefore applies to the large majority of cigarettes sold. The practice of using a specific rate results in a regressive rate structure, since a pack of cigarettes carries the same tax irrespective of its selling price. New Hampshire has attempted to overcome this inequity by levying the tax on an ad valorem basis—15 percent of the intended retail sales price.[23] Washington has also attempted to apply the rate on the basis of the selling price. It has been specified by the State, however, which brands are subject to the standard rate of five cents per pack. Most cigarettes sold fall into this category.

In an attempt to improve the cigarette tax, from the viewpoint of equity, it has been suggested that states adopt a proportional rate structure similar to New Hampshire's, or even a progressive rate structure.[24] Although this innovation would result in some improvement, the market price of the major cigarette brands does not vary sufficiently to result in a substantial improvement. Such improvement in equity as would result would be at the expense of administrative ease, especially if an attempt were made to adopt a progressive rate.

Chart 18.1 shows those states which have adopted a cigarette tax and the rates applied to a standard pack of cigarettes. Arizona and Missouri have the lowest rate, two cents per pack, while Montana and Louisiana have the highest rate, eight cents per pack. Of the six states which do not employ a special excise tax, California, North Carolina and Maryland subject cigarettes to a general sales tax.

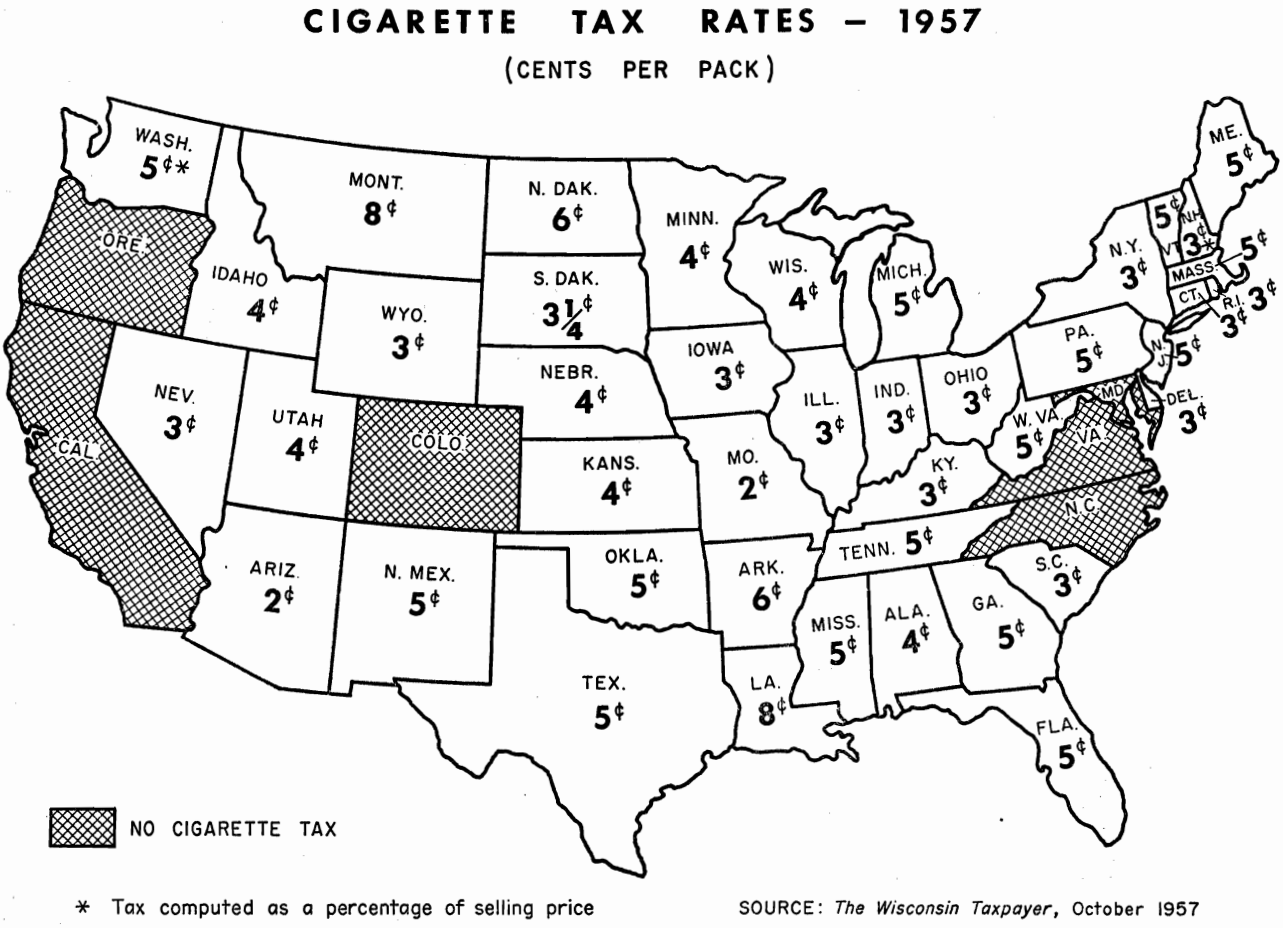
Table 18.3 is a summary of the various rates and it can be seen that five cents per pack is the most common rate, being employed by fifteen states. The second most common rate is three cents which is employed by thirteen states. The median rate is slightly more than four cents.

[21] North Carolina is also a major tobacco producing state but cigarettes are included in the sales tax base. This method of tobacco taxation results in a substantially lower rate than if a special excise tax were employed. See Tennessee Taxpayers Association, *Trends in Public Finance* (Nashville, 1956), p. 24.

[22] *Tax Administrators News*, November, 1956, p. 124.

[23] Commerce Clearing House, *State Tax Reporter: New Hampshire*, p. 5581.

[24] Law, *op. cit.*, pp. 377-80.



* Tax computed as a percentage of selling price

SOURCE: *The Wisconsin Taxpayer*, October 1957

CHART 18.1

Table 18.3

Number of States Employing Various Tax Rates 1957

Tax per package of cigarettes (cents)	Number of states
2	2
3	13
3.25	1
4	7
5	15
6	2
8	2

Source: *The Wisconsin Taxpayer*, October, 1957, p. 3.

There has been a trend in the post-war period toward adoption of a cigarette tax by the states. In addition, a trend toward increasing rates culminated in seven states increasing rates in 1957.[25] Occasionally, a rate is increased with the intention of using the funds for a special purpose and the rate increase is therefore on a temporary basis only.

Revenues Collected by the States. The forty-two states levying a tobacco tax collected $514.7 million from this source in 1956. This amount represented slightly less than 4 percent of the total taxes collected by all states.

Table 18.4 illustrates the extent to which states have relied on the tobacco tax in the past two decades. Collections from this source in every year exceeded collections in the previous year. This increase is due to increasing consumption and tax rates as well as an increasing number of state adoptions. Tobacco tax collections as a percent of total taxes continually increased until 1950 when they exceeded 5 percent of total taxes. Since 1950, more reliance has been placed on other sources of revenue.

[25] *Tax Administrators News*, August, 1957, p. 85.

Table 18.4

Total State Tax Revenue and Tobacco Tax Revenue, Selected Years, 1932-1956

Year	Total tax revenue all states (millions)	Tobacco tax revenue (millions)	Tobacco tax as percent of total tax revenue	Number of states using tobacco tax
1932	$ 1,890	$ 19	1.01	13
1934	1,979	25	1.26	15
1936	2,618	44	1.68	20
1938	3,132	55	1.76	21
1940	3,313	97	2.93	26
1942	3,903	130	3.33	28
1944	4,071	159	3.91	30
1946	4,937	198	4.01	31
1948	6,743	337	5.00	39
1950	7,930	414	5.22	40
1952	9,857	449	4.56	41
1954	11,089	464	4.18	41
1956	13,375	515	3.85	42

Source: Data for 1932-1952 taken from U. S. Bureau of the Census, *Historical Statistics on State and Local Government Finances*, 1902-1953, p. 19; data for 1954 taken from U. S. Bureau of the Census, *Compendium of State Government Finances in 1954*, pp. 11-12; and data on number of states using tax taken from *Tax Administrators News*, January, 1957, p. 1.

Collections from the tobacco tax compared to total taxes collected gives an indication of the relative extent to which each state relies on the tobacco tax as a revenue source. Table 18.5 shows that some states rely rather heavily on the tobacco tax. The average percent represented by tobacco tax collections in the forty-two states utilizing the tax was 4.8. New Hampshire, however, with 9.7 percent received more than twice the 42-state average. New Jersey and Maine also relied rather heavily on the tobacco tax in 1956. In 1953 the three states relying most heavily on the tobacco tax were New Hampshire with 11.4 percent, New Jersey with 10.4 percent, and Massachusetts with 8.8 percent.[26]

Taxation of Other Tobacco Products. The taxing of tobacco by the states is limited primarily to cigarette taxes. In several states, however, the taxing of other tobacco products yields substantial revenues. Although ten states receive revenues from non-cigarette tobacco taxes, seven states do not segregate collection data between cigarette and non-cigarette levies. Three states, Minnesota, Oklahoma and Tennessee, do segregate the data however.

It can be seen from Table 18.6 that Minnesota and Oklahoma collect over one million dollars annually from taxes levied on tobacco products other than cigarettes. These collections represented about nine percent of the total tobacco tax collections. Tennessee collections represent about five percent of tobacco tax collections. The percentage of tobacco tax collections derived from non-cigarette tobacco taxes for all states employing such taxes is estimated to range from ten to fifteen percent.[27]

One estimate places the non-cigarette tobacco tax collections total for all states at approximately $8 million in 1955.[28] These collections rep-

[26]Harold L. Henderson, "An Analysis of the Forty-Eight State Tax Systems in 1953," *Proceedings of the National Tax Association* (Bretton Woods, 1954), p. 172.

Table 18.5

Total Tax Revenues, and Tobacco Tax Revenues by States Having Tobacco Tax, 1956

State	Total taxes (millions)	Tobacco taxes (millions)	Tobacco taxes as percent of total collections
Alabama	$ 220.5	$10.2	4.6
Arizona	99.7	2.3	2.3
Arkansas	117.2	6.9	5.9
Connecticut	205.6	10.1	4.9
Delaware	48.7	1.6	3.3
Florida	335.4	4.9	1.5
Georgia	295.3	15.0	5 1
Idaho	47.5	2.1	4.4
Illinois	641.1	32.9	5.1
Indiana	279.7	13.9	5.0
Iowa	230.4	7.1	3.1
Kansas	160.3	5.4	3.4
Kentucky	171.3	8.3	4.8
Louisiana	337.2	20.7	6.1
Maine	66.5	5.6	8.4
Massachusetts	387.3	29.0	7.5
Michigan	758.4	26.7	3.5
Minnesota	284.4	12.7	4.5
Mississippi	150.8	7.6	5.0
Missouri	257.4	5.1	2.0
Montana	49.3	2.9	5.9
Nebraska	74.9	4.0	5.3
Nevada	29.2	1.2	4.1
New Hampshire	30.8	3.0	9.7
New Jersey	258.2	22.9	8.9
New Mexico	89.3	3.2	3.6
New York	1,356.6	59.7	4.4
North Dakota	50.6	3.0	5.9
Ohio	636.1	24.7	3.9
Oklahoma	229.6	11.1	4.8
Pennsylvania	702.1	43.6	6.2
Rhode Island	60.6	3.3	5.4
South Carolina	178.9	5.8	3.2
South Dakota	48.4	1.8	3.7
Tennessee	250.0	13.9	5.6
Texas	623.1	43.9	7.0
Utah	68.6	1.9	2.8
Vermont	32.0	1.8	5.6
Washington	337.7	13.1	3.9
West Virginia	144.1	7.0	4.9
Wisconsin	329.3	14.3	4.3
Wyoming	33.1	.7	2.1
Average	—	—	4.8

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1956*, pp. 11-12.

Table 18.6

Cigarette and Non-Cigarette Tax Revenues in Three States, 1956

State	Total tobacco tax revenues (thousands)	Cigarette tax revenues (thousands)	Other tobacco tax revenues (thousands)	Other tobacco tax revenues as percent of total tobacco tax revenues
Minnesota	$12,724	$11,619	$1,105	8.7
Oklahoma	11,105	10,076	1,029	9.3
Tennessee	13,936	13,258	678	4.9

Source: Total tobacco revenues taken from U. S. Bureau of the Census, *Compendium of State Government Finances in 1956*, p. 12; and other tobacco tax revenues taken from National Tobacco Tax Association, *Comparative Tobacco Tax Collections, Per Capita Tobacco Tax Collections, Per Capita Cigarette Consumption, By States for 1956*, pp. 8-9.

[27]National Tobacco Tax Association, *Comparative Tobacco Tax Collections, Per Capita Tobacco Tax Collections, Per Capita Cigarette Consumption, By States for 1956* (Chicago, 1957), p. 3.

[28]Dillingham, *op. cit.*, p. 23.

resented 8.7 percent of the total state tobacco tax collections in that year.

Most states tax the consumption of cigars, smoking tobacco, chewing tobacco, and snuff. Several states, however, confine the levy to cigars only. Contrary to the specific tax placed on cigarettes by most states, other tobacco products are usually taxed on an ad valorem basis.

Just as the rationale for a tobacco tax rests more on revenue requirements, political expediency and lack of alternatives, than on equity considerations, the exclusion of other tobacco products by most cigarette taxing states is untenable from an equity viewpoint. Discrimination between the cigarette smoker and the cigar or pipe smoker is presumably mitigated by the inconvenience of collection and low yields resulting from levies placed on the latter groups. The fact that ten states continue to tax other tobacco products tends to qualify this rationale, however.

Administration of the Tax By the States

The cigarette tax is administered in most states by selling stamps to the "first handler" of cigarettes, usually the wholesaler, who is required to affix the stamps to the packs of cigarettes. In return for affixing the stamps, which will show that the tax has been paid, the wholesaler is given a discount when the stamps are purchased. The discounts vary from 1 percent in Michigan to 10 percent in Mississippi and South Carolina. Table 18.7 shows the discounts which are given by the various states. Several states allow different discounts, depending on whether the dealer is a vending machine operator, a wholesaler, a jobber, or a retailer. Also discounts vary slightly in several states depending on the quantity of stamps purchased by the dealer.

The discounts must of course be taken in relation to the various rates if the money amount allowed by each state to the dealer for affixing stamps to a given number of cigarette packages is desired.

Michigan and Massachusetts do not utilize stamps in the administration of their cigarette tax. Individuals responsible for the tax are required to file monthly and pay the tax liability at that time. Since dealers are not required to affix stamps, discounts are low and given only for compliance. Michigan allows a 1 percent discount, and Massachusetts gives no discount but the Commissioner has the power to grant a discount if the dealer incurs unusual compliance costs. Without the use of stamps it would seem that these states would be faced with an evasion problem. Enforcement of the tax, however, has been rigorous and consumption data would indicate that the enforcement has been effective.[29] Michigan's per capita annual consumption of 2,408 cigarettes and Massachusetts' consumption of 2,462 both exceed the national average of 2,356.[30]

Table 18.7

Cigarette Tax Discounts by States Having Tobacco Tax (1956)

State	Discount (percent)
Alabama	7.5
Arizona	5.0
Arkansas	6.0
Connecticut	4.5
Delaware	5.0
Florida	4.0
Georgia	8.0
Idaho	5.0
Illinois	5.0
Indiana	7.5
Iowa	5.0
Kansas	8.0
Kentucky	6.0
Louisiana	9.0
Maine	3.5
Massachusetts	2.0[a]
Michigan	1.0
Minnesota	4.0
Mississippi	10.0
Missouri	2.0
Montana	5.0
Nebraska	5.0
Nevada	5.0
New Hampshire	5.0
New Jersey	3.0
New Mexico	4.0
New York	4.0[b]
North Dakota	5.0
Ohio	3.3
Oklahoma	4.0
Pennsylvania	4.0
Rhode Island	5.0
South Carolina	10.0[c]
South Dakota	7.0
Tennessee	5.0
Texas	3.0
Utah	5.0
Vermont	4.0
Washington	2.5
West Virginia	4.0
Wisconsin	3.8
Wyoming	8.0

[a] Range from ½ to 2 percent.
[b] Range from 3.8 to 4 percent.
[c] Range from 5 to 10 percent.

Source: National Tobacco Tax Association, *Comparative Tobacco Tax Collections, Per Capita Tobacco Tax Collections, Per Capita Cigarette Consumption, By States for 1956*, pp. 6-8.

The Governor's Minnesota Tax Study Committee recently recommended that Minnesota abandon the use of stamps and the allowing of discounts.[31] It was estimated that such action would increase annual revenue by some $500,000.[32]

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[29] Consumption data are computed on the basis of tax receipts. Interstate comparisons are therefore usually meaningful as a measure of evasion.

[30] National Tobacco Tax Association, *Comparative Tobacco Tax Collections, Per Capita Tobacco Tax Collections, Per Capita Cigarette Consumption, By States for 1956* (Chicago, 1957), pp. 6-8.

[31] Minnesota Tax Study, *op. cit.*, pp. 600-601.

[32] *Ibid.*, p. 391.

Collection Costs. The cost of collecting a tobacco tax is usually considered to be relatively low as compared with other taxes. It has been argued, however, that tobacco taxes are not inexpensive to collect on the state government level since the dealer discounts should be included in the costs.[33] From the taxpayer's viewpoint, the difference between the amount he pays and the amount the state receives would seem to be a cost of collection. If discounts of approximately 5 percent are included, collection costs are estimated to range from 6 to 7 percent.[34] This amount is somewhat in excess of the hypothetical 2 to 5 percent range which is considered to constitute a "good tax." If discounts are excluded, collection costs are well below the 5 percent maximum.

Evasion. Evasion of the cigarette tax is primarily achieved in four ways: interstate shipment directly to consumers by firms in non-tax states, individuals bringing untaxed cigarettes into the state for personal use, bootlegging cigarettes to be sold, and abuse of the tax-free provisions granted to military installations.

Direct shipment by mail order houses at one time constituted the most serious problem of evasion. A use tax, carrying the same rate as the cigarette tax, was imposed in most states, but enforcement agencies were unable to discover many of the interstate shipments. With the passage of the Jenkins Act in 1949, this source of evasion was substantially curtailed. This law requires interstate shippers to notify the state into which shipments are being made. There is undoubtedly some evasion of this type still occurring but the effectiveness of the Jenkins Act has been praised by many groups.[35]

The imposition of the use tax and tax adoptions by nearby states has probably discouraged individuals from bringing in cigarettes from other states.

Bootlegging of cigarettes would necessitate a retail outlet. Since stamps are affixed to cigarette packs and retailers are periodically checked in addition to having their books audited, few retailers would be willing to undertake the risk involved. Extensive smuggling would also appear unlikely, considering the profit to be realized by either the bootlegger or the retailer. Even if the entire tax represented clear profit, the margin of only thirty dollars (using the most common rate of five cents) per case of sixty cartons, would not seem sufficient to attract many smugglers.

Cigarettes sold to military installations and Veterans Administration facilities are exempted from the tax. Some cigarettes undoubtedly escape taxation by abuse of this exemption. Although estimates of the revenue loss due to this form of evasion are obviously tenuous, one writer has estimated that Florida loses some one-half million dollars annually.[36]

The evasion problems involved in the administration of a cigarette tax seem to have been overemphasized. The National Tobacco Tax Association estimates that evasion of state cigarette taxes in 1956 amounted to only 2.4 percent of the national consumption figures.[37]

Colorado and The Tobacco Tax

Colorado stands with a small minority of states which do not levy a tax on the consumption of tobacco. The primary reason for Colorado's failure to adopt a tobacco tax can probably be found in the constitutional provision which would earmark the bulk of the proceeds of the tax for the Old Age Pension Fund. Prior to the constitutional amendment in 1956, the tobacco tax was not an alternative to be considered if a way was being sought to provide additional revenues for the General Fund. Although the Constitution still provides that the Old Age Pension Fund shall receive ". . . eighty-five percent of the net revenue derived from any excise taxes now or hereafter levied upon the storage, use, or consumption of any commodity or product . . . ,"[38] the amendment provides for a basic pension payment and the establishment of a medical care fund and contingency reserve. After these requirements are fulfilled any additional receipts will overflow into the General Fund. The Budget Office estimates that there will be a small overflow in the fiscal year 1960, and an increasing amount thereafter. Hence, the revenues resulting from the adoption of a cigarette tax by Colorado would in the future accrue largely to the General Fund rather than to the old age pensioners in the State.

Potential Yield of a Cigarette Tax in Colorado. The potential yield of a cigarette tax can be computed by multiplying the estimated population times the estimated per capita cigarette consumption times the tax rate. Since estimat-

[33] Law, *op. cit.*, p. 375.

[34] *Ibid.*

[35] The National Tobacco Tax Association at its annual meeting in 1956 applauded the curtailment of evasion effected by the Jenkins Act. See *Tax Administrators News*, March, 1956, p. 31.

[36] Dillingham, *op. cit.*, p. 22.

[37] National Tobacco Tax Association, *Estimated State Cigarette Tax Evasion in 1956* (Chicago, 1957), p. 1.
For a lengthy discussion of the history and present status of state tobacco tax evasion, see Warren A. Law, "Evasion of State Tobacco Taxes," *National Tax Journal*, June, 1954, pp. 164-176.

[38] *The Constitution of the State of Colorado*, Revised to May 1, 1958 (Denver), p. 77.

ing the tax yield involves several other estimates and several assumptions, the final figures should be considered approximations only.[39]

The 1960 population has been estimated at 1,801,000.[40] Per capita cigarette consumption in 1956 is estimated at 2,462.7 cigarettes.[41]

Assuming that per capita cigarette consumption in 1960 does not vary from that of 1956, the approximate revenues that would be effected by the application of different rates are as follows:

Rate (cents per pack)	Revenue (thousands)
2	$ 4,435
3	6,653
4	8,871
5	11,088
6	13,306
7	15,524
8	17,741

The range of rates in the Rocky Mountain States is from two cents in Arizona to eight cents in Montana. Of the states which border Colorado one state (Wyoming) has a three cent rate, three states (Nebraska, Kansas and Utah) have a four cent rate, and two states (New Mexico and Oklahoma) have a five cent rate. A four cent rate would, therefore, be the most appropriate if comparability with bordering states is to be a major consideration. If Colorado municipalities are taken into consideration, a State rate of only 2¢ per pack would be appropriate. Although this comparability is usually the case there are exceptions, such as Montana with an eight cent rate bordering on Wyoming with a three cent rate; or Arkansas with a six cent rate bordering on Missouri with a two cent rate.

The estimated revenues above are gross and several deductions would be necessary, such as administrative costs, to arrive at a potential net revenue estimate. Although many states utilize stamps and allow dealers discounts, an alternative procedure, which was discussed earlier, would be to require dealers to file a return monthly and pay the tax at that time. The auditing that would be required under such a procedure might be combined with the auditing that is now done for the sales tax. Another possible reduction which should be considered would be the decrease in sales tax revenues which might result from the imposition of a cigarette tax. Assuming that consumers decreased their purchase of goods now subject to the sales tax in order to meet the tax on cigarettes, some loss in sales tax revenues would occur. Considering the relatively low sales tax rate, however, any loss would appear to be slight.[42]

Potential Yield of Tax on Other Tobacco Products. Many states which impose a cigarette tax do not levy a tax on other tobacco products such as cigars, smoking and chewing tobacco, and snuff. From an equity viewpoint, other tobacco products should be taxed to avoid discriminating against the cigarette smoker. However, from a productivity and administrative standpoint, as mentioned earlier, many states presumably feel that the tax is unjustified.

Attempting to estimate the potential yield of a tax on other tobacco products is difficult. However, it appears likely that in Colorado a tax on cigars, smoking and chewing tobacco, and snuff would yield between $600,000 and $700,000 in gross revenue annually.[43]

If adoption of the tax were being considered, the desirable equity effects and the potential revenues that could be obtained would have to be weighed against the problems involved in the administration of a tax on other tobacco products.

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[39]The first year revenues of a cigarette tax in Missouri exceeded their estimated potential yield by approximately one million dollars. See *Tax Administrators News*, February, 1957, p. 18.

[40]William Petersen, *A Critical Survey of Several Forecasts of the Population of Colorado*, State of Colorado, Department of Natural Resources, July, 1957, p. 31.

[41]Computed from data reported in National Tobacco Tax Association, *Estimated State Cigarette Tax Evasion in 1956* (Chicago, 1957), pp. 7-8. This estimated consumption figure compares with a national average in 1956 of 2,356, the average for the Rocky Mountain States (Utah excluded) of 2,400, and the Wyoming average of 2,494. See National Tobacco Tax Association, *Comparative Tobacco Tax Collections, Per Capita Tobacco Tax Collections, Per Capita Cigarette Consumption, By States for 1956* (Chicago, 1957), pp. 6-7.

[42]Even assuming that the total revenue raised under a cigarette tax resulted in a decrease in purchases subject to the sales tax of an equal amount, the loss in sales tax revenue would be equal to only two percent of the cigarette tax revenue.

[43]With the exception of Minnesota, Oklahoma, and Tennessee, collections from the taxation of other tobacco products are not segregated from total collections which include cigarettes. The estimate of $600,000 to $700,000 is based on estimated Colorado population in 1960 and the average per capita yield of the taxes imposed by the above three states on other tobacco products. If the estimate is to be reasonably accurate, it must be assumed that consumption of other tobacco products in Colorado is comparable to that in these three states and that a comparable average rate is utilized.

CHAPTER XIX

FEDERAL GRANTS

Federal grants to states may be defined as payments in money, land or in kind in order to encourage some activity by state government. If the grant requires matching funds by the state, it is usually referred to as a grant-in-aid. Grants-in-aid are by far the largest part of total federal grants. Other types include grants for employment security administration, grants to specific state government agencies, and funds paid to the state treasurers to be directly disbursed to local governments. Excluded from federal grants, as here defined, are direct payments to individuals and to local governments or institutions, amounts paid to state governments for distribution to unemployed persons, payments to business organizations, salary payments to government employees, and direct payments to state institutions such as land-grant colleges.

History of Federal Grants

Federal grants originated in 1787 with the Northwest Ordinance which allocated the 16th section of each federal township to the states in order to encourage public education. The Morrill Acts of 1862 and 1890 made grants of land and later money for college facilities in the agriculture and mechanic arts. A money grant was authorized in 1879 to purchase educational material for the blind, and in 1887 money grants were made for agricultural experiment stations. A year later, in 1888, Congress instituted similar payments to the states to assist in the development of homes for disabled soldiers and sailors.

Grants in money for varied activities have replaced the early system of land grants for education. The Smith-Lever Act of 1914 for agricultural extension work, and the Highway Act of 1916 signalled the emergence of the modern federal grant system. The great depression of the 1930's caused grants to increase sharply in both amount and type. The Social Security Act of 1935 introduced three vital forms, namely: public welfare, public health, and unemployment compensation administration. The encouragement offered to states by federal grants, for example, in the area of public welfare, is reflected in the fact that by 1938 virtually every state had programs covering old-age assistance, aid to dependent children, aid to the blind, unemployment insurance, maternal and child health, crippled children and public health.

Rationale of Federal Grants

Grants and their expansion have found support and justification on a number of grounds. In general terms grants have been pointed to as importantly assisting in the solution of problems common to all states and localities, with the result that the nation as a whole is strengthened. On this general premise advocates of the grant system hold that federal aid is perhaps the only effective means by which minimum standards of public services (such as highways and welfare) can be established. Closely related thereto is the argument that new and vital programs requiring interstate cooperation (i.e., highways) are possible only by some degree of federal intervention and financial assistance. Finally, federal grants are also said to have a healthy social effect since they are financed by progressive taxes, the proceeds from which are, in some degree, distributed to the states on the basis of need.

Principal opposition to the federal grant system has grown from the feeling that federal control follows as a consequence of aids and deprives the states of their sovereign right of self-determination. It is believed also that enlarged federal authority tends not only to dull state and local initiative but, what is perhaps equally important, tends to starve certain public activities of needed financial support because of a tendency to use an excessive amount of the states' tax resources for federal matching purposes.

Trend and Current Pattern of Federal Grants in United States

As noted in Table 19.1 federal grants for the country as a whole increased from a total of $228 million in 1932 to more than $5 billion in 1958. It will be further noted that the year-to-year changes during this period in the amount of grants (measured in relationship to total federal expenditures) have varied widely depending on whether the country was at war or peace, in depression or prosperity. Currently it appears that grants in relation to annual federal budgets are increasing, as evidenced by a 7 percent ratio in 1958 of grants to annual federal budgets—which is the highest since 1940.

Table 19.1 also shows that federal grants have become an important revenue source for state and local governments. Since 1934 grants have

varied from 7.9 percent to 31.2 percent of total state-local revenues with a recent tendency to stabilize at about 12 percent.

Table 19.1

Federal Grants in Relation to Federal Expenditures and to State and Local Revenues From Own Sources Selected Fiscal Years, 1932-1958

Year	Federal grants (millions)	Federal grants as percent of total federal expenditures	Federal grants as percent of state and local revenues from own sources
1932	$ 228	4.9	3.3
1934	1,848	27.6	27.8
1936	2,318	27.3	31.2
1938	2,180	32.1	25.9
1940	2,401	26.5	27.8
1942	1,826	5.4	19.2
1944	1,009	1.1	10.2
1946	901	1.5	7.9
1948	1,629	4.9	10.7
1950	2,226	5.6	12.2
1952	2,393	3.7	10.7
1954	2,986	4.4	11.7
1955	3,126	4.8	11.5
1956	3,642	5.5	11.9
1957[a]	3,943	5.6	N. A.
1958[a]	5,201	7.0	N. A.

[a] Payments from the Federal-aid highway trust fund are included in both the grant total and the Federal expenditure total. The amounts for 1958 are budget estimates published in January, 1958 (the budget for 1959).

Source: House Report No. 2533, *Federal-State-Local Relations: Federal Grants in Aid*, Thirtieth Report by the Committee on Government Operations, 1958.

As shown in Table 19.2 the pattern of federal grants has changed markedly over the past decade. Taking 1946 and 1956 as years of reference, it will be observed that aids for highways which accounted for 8 percent of total aids in 1946 amounted to 24 percent in 1956. On the other hand, public assistance for the same years declined relatively (but not absolutely) from 54 percent to 48 percent of total federal grants, while "other" aids decreased from 25 percent to 16 percent.

Table 19.2

Composition of Federal Grants to All States 1946 and 1956

Type of Grant	1946 Amount (thousands)	1946 Percent of total grants	1956 Amount (thousands)	1956 Percent of total grants
Public assistance[a]	$432,000	54.00	$1,670,951	47.98
Education	99,000	12.38	344,077	11.37
Highways	66,000	8.25	738,695	24.41
Other[b]	203,000	25.37	272,931	16.24
Total	800,000	100.00	3,026,654	100.00

[a] Public assistance includes old-age assistance, aid to dependent children, aid to blind, and aid to needy disabled.

[b] The category "other" includes grants for defense, health and hospitals, non-highway transportation, natural resources including agriculture employment security administration, and miscellaneous items.

Source: U. S. Bureau of the Census, *Revised Summary of State Government Finances, 1942-1950;* and U. S. Bureau of the Census, *Compendium of State Government Finances in 1956.*

Federal Grants in Colorado

In 1957 federal grants to Colorado as noted in Table 19.3 totalled $55.5 million—an amount equal to approximately 23 percent of total revenue receipts of the state government. Of this amount highway grants accounted for 28 percent, public assistance for 49 percent, and all other, 23 percent. Old age assistance alone constituted 35 percent of total grants and 71 percent of all grants for public welfare.

Probably the most significant change in the federal grant picture which has taken place in Colorado in recent years is the step-up in highway grants which, between 1950 and 1957, increased at the rate of 82 percent. The corresponding increase in public welfare payments was 40 percent.

Table 19.3

Federal Grants in Colorado, Selected Fiscal Years, 1950-1957
(Thousands)

Item	1950	1955	1956	1957
Federal grants-in-aid				
Highways	$ 8,456	$ 9,071	$11,071	$15,377
Public welfare				
Old age pension	16,301	19,359	19,815	19,411
Aid to dependent children	2,266	4,168	4,242	4,292
Aid to blind	119	119	123	128
Industries for blind rehabilitation	26	37	38	65
Child welfare	57	80	76	91
Aid to needy disabled	0	1,772	1,890	1,949
Administration	651	1,234	1,311	1,293
Total	19,420	26,769	27,495	27,229
Public Health				
Public Health services	922	259	579	782
Children's Bureau	247	288	349	439
Other	8	726	43	552
Total	1,177	1,273	971	1,773
Education				
School lunch program	398	825	866	1,136
Vocational education and rehabilitation	1,338	525	506	553
Other	0	0	0	40
Total	1,736	1,350	1,372	1,729
Veterans				
Veterans' education	69	38	37	35
Soldiers and Sailors Home	26	14	17	25
Total	95	52	54	60
Game and fish	189	427	338	659
Other	0	500	0	1,500
Total Federal grants-in-aid	31,073	39,442	41,301	48,327
Employment Security Administration	1,323	1,486	1,714	2,310
Other Federal funds to State departments	23	50	80	62
Federal funds to counties				
Forest Reserve funds	218	283	296	317
Mineral Leasing Act	1,600	3,139	3,261	4,257
Taylor Grazing Act	14	20	19	21
Other	6	21	73	188
Total	1,838	3,463	3,649	4,783
Grand Total	34,257	44,441	46,744	55,482

Source: Colorado State Planning Commission, *Colorado Year Book, 1956-1958* and reports of the State of Colorado, Division of Accounts and Control.

The increase of federal funds for highways reflects the accelerated activity in road building generally and the initiation of the interstate highway system. On the other hand, the smaller rate of increase in public welfare payments may be attributed to the early institution in Colorado of relatively adequate standards for receiving old age benefits; consequently sizable aids were available to the State prior to 1950.

State Comparisons

As shown in Table 19.4, Colorado's per capita total federal grants in 1957, amounting to $36.55, placed it in 8th leading position among the forty-eight states and in 5th position in relation to the eleven Western States.

Table 19.4

Federal Grants in 48 States, Fiscal Year, 1957
(Rank order of states appears in parenthesis)

State (By income groups)[a]	Per capita grants — Total	Public assistance[b]	All other[c]	Grants as percent of personal income	Grants as percent of total state revenue
High-Income Group					
Nevada	$65.45(1)	$ 6.22(36)	$59.23(1)	2.8	29
California	28.45(20)	12.63(10)	15.82(23)	1.2	16
Washington	27.59(21)	13.65(6)	13.94(31)	1.4	15
Rhode Island	25.50(24)	8.03(30)	17.47(20)	1.3	25
Delaware	22.75(32)	4.25(46)	18.50(18)	0.8	13
Massachusetts	19.97(36)	10.46(16)	9.51(44)	0.9	18
New York	18.28(39)	7.48(33)	10.80(41)	0.7	16
Maryland	18.25(40)	4.26(45)	13.99(30)	0.9	16
Michigan	17.53(41)	5.72(39)	11.81(38)	0.8	13
Ohio	16.78(42)	6.21(37)	10.57(42)	0.8	17
Illinois	15.88(44)	6.18(38)	9.70(45)	0.7	17
Pennsylvania	15.57(45)	5.14(43)	10.43(43)	0.8	14
Connecticut	14.69(46)	5.17(42)	9.52(46)	0.5	12
Indiana	13.37(47)	4.67(44)	8.70(47)	0.7	14
New Jersey	10.81(48)	2.81(48)	8.00(48)	0.5	14
Average	18.76—	7.29—	11.47—	0.8	16
Middle-Income Group					
Wyoming	58.79(3)	7.91(31)	50.88(2)	3.1	26
Montana	50.00(4)	9.52(20)	40.48(4)	2.7	32
Colorado	36.55(8)	16.63(4)	19.92(14)	2.0	24
Missouri	33.35(12)	18.95(3)	14.40(26)	1.8	34
Arizona	31.17(14)	9.84(18)	21.33(10)	1.9	21
Utah	29.85(17)	7.80(32)	22.05(9)	1.9	21
Texas	28.77(18)	11.60(14)	17.17(21)	1.7	26
Kansas	28.61(19)	9.80(19)	18.81(16)	1.7	25
Oregon	27.07(23)	6.58(35)	20.49(12)	1.4	17
Nebraska	25.07(26)	7.39(34)	17.68(19)	1.6	28
Maine	24.94(27)	8.62(25)	16.32(22)	1.5	22
Minnesota	23.43(30)	8.72(23)	14.71(25)	1.4	17
Florida	23.06(31)	11.44(15)	11.62(39)	1.3	18
Iowa	22.58(33)	8.48(28)	14.08(28)	1.4	18
Virginia	18.90(37)	3.65(47)	15.25(24)	1.2	17
New Hampshire	18.75(38)	5.37(41)	13.38(34)	1.0	20
Wisconsin	16.73(43)	5.59(40)	11.14(40)	0.9	14
Average	26.43—	10.07—	16.36—	1.5	22
Low-Income Group					
New Mexico	62.98(2)	12.95(8)	50.03(3)	4.2	27
Oklahoma	47.12(5)	22.85(2)	24.27(8)	3.0	29
Louisiana	39.62(6)	26.50(1)	13.12(35)	2.7	20
South Dakota	38.42(7)	9.41(21)	29.01(5)	2.9	30
North Dakota	36.09(9)	8.36(29)	27.73(6)	2.6	23
Alabama	34.46(10)	15.81(5)	18.65(17)	2.8	30
Idaho	34.45(11)	8.55(26)	25.90(7)	2.2	26
Arkansas	32.79(13)	12.83(9)	19.96(13)	2.9	31
Vermont	30.02(16)	9.02(22)	21.00(11)	1.8	21
Georgia	27.25(22)	13.19(7)	14.06(29)	1.9	23
Kentucky	25.45(25)	11.64(13)	13.81(32)	1.9	27
West Virginia	24.72(28)	12.10(11)	12.62(36)	1.7	24
Tennessee	24.02(29)	9.89(17)	14.13(27)	1.8	23
North Carolina	22.21(34)	8.49(27)	13.72(33)	1.7	19
South Carolina	21.14(35)	8.69(24)	12.45(37)	1.8	19
Mississippi	31.12(15)	11.73(12)	19.39(15)	3.3	28
Average	30.54—	13.38—	17.16—	2.3	24
United States	23.11—	9.23—	13.88—	1.2	19

[a] States are listed in rank order and by groups according to average-per capita personal income from 1954 to 1956. The three income groups listed are as follows: "high-income group" (per capita income range from $2,630 to $1,874); "middle-income group" ($1,827 to $1,560); and "low-income group" ($1,546 to $926).

[b] Includes old-age assistance, aid to dependent children, aid to the blind, and aid to the permanently and totally disabled.

[c] Includes unemployment insurance and employment service administration; distribution to state accounts in unemployment trust fund of certain tax collections; maternal and child health services, services for crippled children, and all public health education, agriculture, veterans, housing, natural resource conservation, and defense grants.

Source: House Report No. 2533, *Federal-State-Local Relations: Federal Grants in Aid*, Thirtieth Report by the Committee on Government Operations, 1958.

In per capita grants for public assistance Colorado was surpassed nationally by only three states, Louisiana, Oklahoma and Missouri. In per capita grants for purposes other than public assistance Colorado ranked 13th in the nation being exceeded by all of the other Western States except California and Washington.

In comparison with the sixteen "middle income" states as classified in Table 19.4, Colorado's ratio of federal grants to total state governmental revenues, amounting to 24 percent in 1957, was above this general group average of 22 percent. Similarly, Colorado's federal grants as a ratio of the State's total personal income, amounting to 2 percent, was above the general group average of 1.5 percent.

Colorado's relatively high ranking position as a recipient of federal aid can be attributed to a number of factors, principally its greater-than-average old age pension payments which have more than matched the maximum federal aids possible under the national old age pension program. Apart from welfare, Colorado ranks well above the average in "other" aids, of which grants for highways is the principal component. Since the distribution of highway grants is based on a formula in which the size of a state's area is an important factor, it follows that Colorado which embraces a relatively large area — as is generally true for all Western States — has an advantage.

The nature and scope of federal aid as summarized in preceding sections is further described below in which specific grant programs are considered as a whole or in terms of their related parts. The order of presentation follows the subjects as listed in Table 19.3 and includes a general description of each program as well as a statement of its meaning in fiscal terms to Colorado. In this latter connection the reader is reminded that federal grants as shown in Table 19.3 are the actual receipts for a given year but not necessarily the expenditures from this source in that year. In the analysis which follows it is the latter which is the subject of principal interest.

Highways and Roads

Federal money grants for highway construction were inaugurated by the Federal Aid Road Act of 1916 which authorized appropriations for rural post roads. Since then Congress has gradually widened and greatly increased federal aid which currently calls for regular appropriations for a three-fold system of highway development namely: (1) the federal-aid primary system which ordinarily is allotted 45 percent of total appropriations; (2) the federal-aid secondary system which is allocated 30 percent of the total; and (3) the federal aid extension of these sys-

tems into urban areas, which usually receives the remaining 25 percent. Allocation to particular states is determined by size of the state in area, population and certain urban and rural factors. Federal funds are available to finance from 50 to 55 percent of the total costs of highways including the entire cost of eliminating railway-highway crossings, up to specified amounts.

In addition, provision is made for the establishment of a National System of Interstate Highways, not to exceed 40,000 miles in length. This was extended to 41,000 by a 1956 amendment (which was supported by Colorado officials in order to permit adding a Denver to Salt Lake City designation). Sums for 1958 and 1959[1] were apportioned mainly according to population and land areas, but sums for the fiscal years 1960 through 1969 are to be apportioned among the states in the ratio which the estimated cost of completing the Interstate System in each state bears to the estimated cost of all the states.

The federal share for projects on the National System of Interstate Highways is 90 to 95 percent. The Act of 1956 authorized reimbursement to states for public moneys spent on relocation of public utilities necessitated by the construction of federal-aid highway projects. State legislation to authorize such use of public funds in Colorado was vetoed by the Governor in 1957 as an unjustified use of Colorado taxes.

In the 1956 calendar year the Colorado Highway Department reported current receipts of $48,752,447, of which $13,261,442 represented federal grants.[2] In 1957 Colorado's apportioned federal aid amounted to $28,876,985 which was allocated for the following purposes: interstate system, $15,976,461; primary system, $6,713,614; secondary system, $4,484,240; and urban, $1,702,-670.[3]

Public Welfare[4]

Public welfare grants are the second major category of aids received by Colorado and cover a wide variety of assistance programs of which old age assistance is by far the largest. Aggregate expenditures from federal grants for all welfare purposes in 1957 amounted to $29,804,-670 or 38.1 percent of the State's total welfare payments of $78,161,392. The relative federal contribution to welfare expenditures by individual program ranged from a high of 59.4 percent in the case of aid to dependent children to no contribution in two cases (general assistance and tuberculosis hospitalization) as shown in Table 19.5.

Basis and Conditions for Receiving Welfare Aids. The various bases or conditions by which states receive federal aids can best be reviewed in terms of the individual components of the over-all welfare program. In their essentials these are as follows:

Table 19.5

Expenditures for Public Welfare, by Programs and Sources of Funds, in Colorado, Fiscal Year 1957

(Dollar amounts in thousands)

Program	Total expenditures	Source of Funds: From state and county funds	Source of Funds: From federal grants	Federal aid as percent of total expenditures
Old age assistance	$57,475	$36,213	$21,262	37.0
Dependent children	7,992	3,244	4,748	59.4
Foster care of children	552	546	6	1.2
Aid to blind	336	202	134	39.9
Aid to permanently and totally disabled	3,702	1,593	2,109	57.0
General assistance	3,497	3,497	0	0.0
Tuberculosis hospitalization	473	473	0	0.0
Administration	4,134	2,588	1,546	37.4
Total	78,161	48,356	29,805	38.1

Source: State of Colorado, Department of Public Welfare, *Colorado Public Welfare Fiscal Report, 1956-1957*, p. 41.

(1) Old age assistance. Federal grants for old age assistance cover 80 percent of the first $30 paid to each recipient 65 years of age and over; 50 percent of the next $30; 50 percent of medical care expenses paid by the state but not to exceed $3 per month per person; and 50 percent of necessary administrative expenses.

(2) Aid to dependent children. The federal government will finance monthly payments of $32 for the relative with whom the dependent child lives, $32 for the first dependent child and $23 for each other dependent child; medical care payments in the case of dependent children cannot exceed $3 per adult (with whom the child lives) aided, and $1.50 per child.

(3) Foster care of children. Federal aid is offered to states with approved plans of child welfare services for the protection and care of homeless, dependent and neglected children and children in danger of becoming delinquent, and for the return of runaway children. The program makes federal allotments largely on the basis of rural population under 18 years of age.

[1] Unless otherwise indicated, yearly totals in this and succeeding sections of this chapter are for fiscal years ending June 30.

[2] The other two major categories of receipts were highway user taxes of $25,702,876 and bond and anticipation warrants of $8,000,-000. (See *Colorado's Annual Highway Report for 1956*, p. 1 of statistical appendix).

[3] State of Colorado, *Annual Highway Report for 1957*.

[4] Data included in the text of this section are from State of Colorado, Department of Public Welfare, *Colorado Public Welfare Fiscal Report, 1956-1957*, p. 41.

(4) Aid to the blind. Grants are made to states with approved plans of financial aid to the needy blind to encourage each state to help such individuals attain self-support or self-care. The allotment formula is similar to that for old age assistance. Aid to the blind includes money payments, medical care, remedial care recognized under state law but excludes payments to or care of persons in certain institutions.

Rehabilitation projects for blind persons were provided in the Vocational Rehabilitation Amendments of 1954, which authorized the U. S. Office of Education to cooperate with states in acquiring vending stands or other equipment and initial stocks and supplies for use by the severely handicapped, including the blind.

(5) Aid to the permanently and totally disabled. Since 1951 federal payments have been made to states with approved plans offering financial assistance to needy individuals eighteen years of age or older who are permanently and totally disabled. States are encouraged to help such individuals attain self-support or self-care, but aid does not cover the dependents of such persons. The formula for determining the federal contribution is the same as for old age assistance.

(6) Administrative cost grants. Federal absorption of some part of the administrative costs of public welfare services is determined by the U. S. Department of Health, Education and Welfare.

Public Health

Federal aid programs for public health cover five principal areas as follows:

(1) Public Health Service Grants. These are available for use in the control, prevention and treatment of venereal disease, tuberculosis, heart disease, mental disease, cancer, and for establishing general health services at state and local levels. All types of health grants except for venereal disease control are allotted to states according to population, per capita income and special health problems. Funds for venereal disease control are awarded on a project basis and do not require matching. With the exception of the program for the treatment of tuberculosis for which grants must be matched dollar for dollar, all other grants call for a state and local payment of $1 for every two federal dollars.

In 1957 in Colorado total expenditures by the State Health Department amounted to $1,475,433 of which funds from federal aid covered 59.16 percent or a total of $872,878.

(2) Water and Air Pollution. Grants for this program are available to the states, on a state or an interstate basis, to aid in meeting the costs of controlling water pollution. Allotments to the states are on the basis of population, the extent of the water pollution problem, and financial needs. Matching requirements are determined by each state's per capita income level. Grants are also available to states or other agencies for construction of treatment works to prevent the discharge of untreated or inadequately treated sewage or other waste into any waters. Population and income determine these grants which cannot exceed $250,000 to a single community.

In 1957 a total of $21,308 of federal grant money was expended for water pollution control activity in Colorado. Grants are also made to states and other agencies for the prevention and abatement of air pollution. No grants of this kind were made to Colorado until 1957 when $6,025 was allocated to the State to be used in fiscal 1958 and part of 1959. No state funds are available for this purpose.

(3) Hospital Surveys and Construction. Grants are made for surveys of diagnostic or treatment centers, chronic disease hospitals, rehabilitation facilities, and nursing homes. Such grants require matching expenditures and are made according to population and per capita income.

In 1957 Colorado received $3,000 in federal grants for administration of hospital surveys, consultation, etc., and $903,710 for hospital construction. The latter figure is not included in the total of federal grants received by the Colorado State Department of Health since the money is paid to the construction firms involved.

(4) Maternal and Child Health Services. Federal grants are used to enable states, especially in rural areas and in economically depressed areas, to provide maternal and child health services. Allocations to states are made according to number of live births and other indices of need. Some grants must be matched by the state dollar for dollar. Grants to Colorado of $138,643 in 1957 were used for such purposes as dentistry, social services, nursing, premature births and other related purposes.

(5) Crippled Children. Congress has provided for federal grants to states to aid

[5]Data included in the text of this section were obtained from the State of Colorado, Department of Public Health.

crippled children, particularly in rural and economically depressed areas. The aid provides services for locating crippled children, and for medical, surgical, corrective and other services and care, and facilities for diagnosis, hospitalization and after care for children who are crippled or who are suffering from conditions which lead to crippling. Expenditures from federal funds for these purposes in Colorado in 1957 amounted to $139,379.

Education[6]

Federal aid for education consists of eight distinctive programs as follows:

(1) Vocational Education. Since 1917 a federal program for vocational education has included training in agriculture, distributive occupations, home economics, trades and industry, practical nursing and fishery trades. Federal grants, which require equal matching by states and localities, are determined by population formulas which vary depending upon the type of training program established. In 1958 expenditures from federal grants for vocational education in the State amounted to $351,663 while the State contributed for the same purposes a total of $243,199.

(2) School Lunch Program. The Secretary of Agriculture, since the National School Lunch Act of 1946, makes allocations of funds and food to public and non-profit school systems. State and local units match federal grants which are determined by school-age population and per capita income in the states. The Commodity Credit Corporation makes direct distribution of food to the schools in lieu of cash and allocates other perishable food acquired under the price support program.

In 1957 expenditures in Colorado from federal grants for school lunches totalled $662,605 while commodity distributions based on cost to the U. S. Department of Agriculture totalled $1,216,000. State cash contributions for administration were $46,695 and district and local units made cash expenditures of $195,320.

(3) School Milk Program. The U. S. Department of Agriculture makes money grants to the states to increase the consumption of fluid milk by children in non-profit schools of high-school grade and under and in summer camps and similar non-profit institutions which are devoted to the care and training of underprivileged children. No matching requirements are included in the Act. In 1957, expenditures from grants to the State for school milk amounted to $436,000.

(4) Cooperative Research in Education. The U. S. Commissioner of Education is authorized under an act of 1954 to enter into contracts or jointly financed cooperative arrangements with universities, colleges and state educational agencies for the purpose of conducting research, surveys and demonstrations in the field of education. Colorado receipts from this source to date have amounted to $34,500 which are being used to finance a study of migrant labor in the State.

(5) Education of the Blind. An annual federal appropriation is made payable to the American Printing House for the Blind, for the manufacture and distribution of books and other materials to public institutions in which blind people are educated. Allocation to the states is made on the basis of the number of blind persons in public institutions. The value of materials received by Colorado in 1957 amounted to $1,300.

(6) Public Library Services for Rural Areas. A total of $7,500,000 is available each year for grants to states which have approved plans for extension of public library services to rural areas. Grants are determined by rural population and per capita income and require matching expenditures by the states. Colorado's expenditures from federal grants amounted in 1958 to $65,987.

(7) A major source of federal funds for educational purposes are grants for school construction and operation in areas where activities of the federal government have had a significant influence upon school population. In 1957, expenditures from federal grants to Colorado for school construction totalled $2,385,072 and for school operation, $2,319,325.

(8) Grants were begun in 1920 to aid states in preparing disabled persons for gainful employment. Grants are used for training, counseling, placement, the provision of artificial appliances, and physical restoration. The amendments of 1954, while expanding the amount of federal grants, require the states to gradually assume a larger part of the cost of the program. Funds are allocated on the basis of population and per capita income by the Office of Vocational Rehabilitation in the Department of Health, Education and Welfare. Federal grants expended in Colorado in 1957 totalled $222,397.

[6]Data included in the text of this section are from the State of Colorado, State Department of Education.

Veterans[7]

Since 1888 grants of $700 a year for each disabled veteran in state homes have been made on a matching basis. On this basis Colorado in 1957 spent for its Soldiers and Sailors Home in Monte Vista $105,106 of which total federal grants accounted for $24,000.

Additional federal aid amounting to $35,000 was received by Colorado in 1957 for purposes of conducting studies of eligibility requirements for veterans' vocational and rehabilitation programs.

Agriculture

Federal grants for agriculture are, for the most part, made directly to particular state institutions, notably to Colorado State University for such purposes as agricultural extension work and agricultural marketing and research. Since direct financing is involved and federal funds do not pass through the State treasury, the programs covered are not further considered here.

There have been, however, certain emergency programs in which direct grants have been made to the State for agricultural purposes. In 1955, for example, a federal grant of $500,000 was paid to the State to assist in an emergency induced by the drought and resulting farm shortage of hay. The funds were used to cover shipping costs of hay that had to be imported into the State. In 1957 drought conditions resulted in an additional grant of $1,500,000.

Game and Fish

Receipts from the federal tax on firearms, fishing rods, and related items may be granted to states according to their proportionate shares of fishing and hunting licenses in all states. Grants are designed to encourage state projects relating to fish and game restoration and management and may be withheld in the absence of certain state laws governing the wildlife and fish conservation policy. The federal contribution, administered by the Fish and Wildlife Service of the Department of the Interior, is limited to 75 percent of the cost of approved projects.

In the calendar year 1956, net income of the Colorado Game and Fish Department was $3,987,427 and total expenditures were $3,084,905. Federal grants were $113,760 for fish management and $485,843 for wildlife management, a total of $599,603, or 15.04 percent of the Fish and Game Department's net income, and 19.43 percent of its total expenditures.[8]

[7]Data included in the text of this section are from the State of Colorado, Division of Accounts and Control.

[8]State of Colorado, Game and Fish Department, *Annual Report, 1956.*

Employment Security Administration

Federal grants for public employment office administration and grants for the administration of unemployment compensation systems were begun by the Wagner-Peyser and Social Security Acts of 1933 and 1935. These two programs constitute the states' employment security programs. Administrative expenses of plans approved by the Bureau of Employment Security in the Department of Labor are paid entirely by federal grants. (See Table 19.3 for grants to Colorado.)

Other Federal Funds Allocated to State Departments

In addition to the preceding programs, federal funds are available to the states for a series of miscellaneous purposes of which forest conservation and civil defense are examples.

Federal aid for forest conservation began in 1911 and is designed to effect state and private forestry cooperation. The U. S. Department of Agriculture's Forest Service assists in forest fire problems, reforestation and other activities directed toward more effective management of woodlands. Federal grants require matching but no funds were granted to Colorado under these programs in 1957.

Under the terms of the Federal Water Power Act of 1920 as amended, 37½ percent of the charges arising from water power licenses for the occupancy and use of national forests and public lands within any state is to be paid to that state. The Federal Power Commission makes the grants which, however, have been relatively limited in amount.

The Federal Civil Defense Act of 1950 authorizes the Federal Civil Defense Administrator to make grants to the states on the basis of individual project applications for the purchase of civil defense materials and for the training of civil defense workers. Grants require dollar-for-dollar matching, and totalled $57,000 in Colorado in 1957.

Federal Funds for Distribution to Counties[9]

Apart from federal aids directed to over-all state functions certain aids are specifically labeled for the use of counties and other local governments. Purposes for which funds are dedicated are various as noted by the programs briefly reviewed below.

Under present federal law, 25 percent of national forest receipts, inclusive of receipts from mineral deposits on national forest lands, are allocated to the states in which forest reserves are located.

[9]For the amounts received in Colorado under these various authorizations see Table 19.3.

The Flood Control Act of 1941 provides that 75 percent of receipts from leasing of lands acquired by the federal government for flood control, navigation, and related purposes are to be paid to the states for schools and roads of the counties in which the property is located, or for defraying costs of county governments.

The Mineral Lands Leasing Act of 1920 provides that 37½ percent of the receipts from bonuses, royalties and rentals from lease of certain public lands containing certain mineral deposits is to be paid to the states in which the leased lands are located. These proceeds are used for roads or schools and are administered by the Department of the Interior.

The Taylor Grazing Act of 1934 provides that 12½ to 50 percent of the grazing fees collected under the terms of the Act will be paid to the states in which the lands are located. Similar provisions apply to Indian lands ceded to the United States; proceeds from the sale or use of which may be used for school and road purposes in the counties.

An act of 1950 authorized federal grants to states and local governments in case of major disaster such as flood, hurricane, drought, earthquake, etc., which, in the opinion of the Federal Civil Defense Administrator as delegated spokesman for the President, warrant disaster relief. Contributions may be in the form of money, property, services, construction, etc.

Since 1947 the departments of Interior and Agriculture have been authorized to dispose of mineral and vegetable materials on public lands, allocating the money receipts from such disposal in roughly the same manner as money received from the sale of public lands.

The Housing and Home Finance Administrator is authorized to make urban planning grants to state planning agencies, the federal grant to cover no more than 50 percent of the costs of the work for which the grant is made.

Funds for survival plan studies are available from the Civil Defense Administration. Funds from this source have recently financed a Colorado study of possible survival procedures in the event of military or other disaster.

Other Federal Aid Programs

A number of federal grant programs, mostly of recent origin and which are either not currently used or used only on a limited basis in Colorado, are enumerated below for whatever interest they may have for purposes of expanding federal financial aid to the State.

(1) Public assistance programs were enlarged by the Social Security amendments of 1956 which provided funds for training welfare personnel.[10] Appropriations were also authorized for cooperative research or demonstration projects between the U. S. Department of Health, Education and Welfare and the individual state welfare departments.[11]

(2) Congress in 1956 enacted legislation which would assist states in promoting natural resource conservation through soil-building and soil and water projection projects,[12] forest land tree planting and reforestation,[13] prevention of erosion and reduction of damage from floodwater and sediment in small watersheds,[14] and construction of small reclamation projects.[15]

(3) Apportionment of revenues in the Upper Colorado Basin Fund to Colorado, Utah, Wyoming and New Mexico in specified percentages can be used to defray certain construction costs of participation projects in these four states.[16]

(4) The Housing Acts of 1949 and 1954 authorize grants to localities for clearance and redevelopment of slum areas and the rehabilitation and conservation of blighted areas. Although grants for these purposes are directed specifically to local communities, the latter derive their authority from specific state enabling acts or from amendments to state housing legislation.

Summary and Conclusion

Comparatively, and measured by various criteria, Colorado ranks high among the forty-eight states as a recipient of federal grants. This is due to a combination of factors of which a sparse population is one; another factor is the relatively large State old-age pension pro-

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[10]Title 7, added August 1, 1956 by Section 705.

[11]Title 11, Section 1110, added August 1, 1956 by Section 301.

[12]Soil Conservation and Domestic Allotments Act of April 27, 1935, as amended by Department of Agriculture Organic Act of August 3, 1956.

[13]Section 401 of the Agriculture Act of 1956.

[14]Small Reclamation Projects Act of 1956.

[15]Watershed Protection and Flood Prevention Act of 1954 (under the administration of the Soil Conservation Program of the Department of Agriculture).

[16]Act of April 11, 1956.

gram which gives full implementation to federal aids for this type of public welfare. Coupled with this is the fact that highway aid is a function of size of area and Colorado, as one of the largest states in area, is favored accordingly.

However, a relatively favorable federal aid position does not necessarily indicate that Colorado is taking full advantage of federal assistance in the various programs eligible for financial aid. Whether such a state policy is desirable is an open question since aids are obtained at a price and the price may be high. Nevertheless a recognition that participation in jointly financed state-federal programs can and frequently does relieve pressure on state finances calls for a careful and continuous review of federal aid legislation as it is enacted and amended from time to time. Thus, an oversight here, or lack of understanding there, which could cause valuable grants to be lost to the State, is as important to the taxpayer as other oversights in government operation.[17]

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[17]Staff review of Colorado's administrative operation indicates that information on federal aid programs is scattered and not studied in any one place in whole or in part as to its full potentials and possibilities. It has been suggested that affected departments should each delegate to some person in the department the responsibility for gathering information and analyzing federal legislation with the view of assertaining the economy of securing additional grants. As an alternative to deparmental specialists it has been suggested that this function be centralized to serve all agencies including the General Assembly. Either of these alternatives should accomplish two primary objectives. First, a department head would have access to complete information of federal grant availability, restrictions, and requirements of programs as these might affect his particular department. Second, legislators could depend on precise data when budget requests were made. For example, a department would be able to say that in order for the State to receive federal support for a given project, a specified number of State dollars would be needed. The legislature could make its decision on the need and desirability of the projects proposed. Neither departmental nor legislative policymakers would be operating on a partial basis of information which could result in inappropriate legislation.

The problem can be illustrated by citing an example from recent State action. In fiscal 1958, allocations of federal grants to Colorado for vocational rehabilitation amounted to $520,148. This required State matching-funds of $309,433 of which only $186,553 was forthcoming. Thus $197,236 of federal fund allocations "died on the vine" for want of $122,880 State dollars.

Perhaps this was calculated state policy and reflected a decision by the General Assembly that certain vocational rehabilitation projects were not needed or at least not pressing. However, the organization of information to insure that such was the case does not now appear to be established on a basis to achieve the best results.

CHAPTER XX

STATE-LOCAL RELATIONS

A total of approximately 1,700 local governments share with the State the responsibility for governing in Colorado.[1] Although the local units derive their powers from the State, existing law allows them a high degree of administrative authority including the power to tax and to spend. In this complex of jurisdictional arrangements, wherein wide variations also exist in the economies of the individual governing units, clashes of interest between state and local government as well as between individual local units are bound to occur. The task of coordination is therefore a difficult one but one that must be done effectively to assure stable and responsible self-government.

Inter-governmental relations concern matters that are both fiscal and non-fiscal in nature.[2] Fiscal considerations are paramount, however, since they involve the capacity of government, at both the state and local levels, to develop and carry out effective programs of public services while, at the same time, preserving financial stability. Close fiscal cooperation and balance here is primarily dependent upon state law in which the State must assume the principal role in laying the basis for a sound local tax system supplemented by shared taxes and grants which will be both equitable and adequate in meeting the expenditure needs of each of the local units established.

The role of the state in providing a local tax base commensurate with locally assigned functions is by all odds the most vital consideration in state-local relationships as these are presently constituted. Rapidly mounting costs in the post-war years, in the face of a more or less "boxed-in" tax structure at the local level, has caused the responsibility to become a matter of primary concern for all jurisdictions.

The policy of state payments to local governments has resulted also in a problem area of increasing importance. A fundamental question arising therefrom is the part that the state should play in the supervision of local spending of funds allocated by the state. If it is recognized that the state has a responsibility here, the question of how far state supervision can go without unduly restricting local self-determination finds no easy answer. Added to this are a host of issues involving questions of equity in the distribution of aids, of formulas used, and of judgments as to who, and what, shall be aided and why.

A complete discussion of these highly involved and controversial fields of fiscal policy would reach beyond the scope of this study. Accordingly, the following analysis is limited essentially to a descriptive review of the local tax base and the aid structure with some reference to problem areas that have developed therein.

Total Revenues of Local Government

In 1956[3] local governments (counties, school districts and municipalities) in Colorado derived, in the aggregate, 61 percent of their total revenue receipts from local tax sources while the remainder or 39 percent came from state-local shared taxes and state grants (Tables 20.1-20.3).[4]

Table 20.1

Total Revenues of Counties[a] in Colorado, 1956
(In thousands)

Revenue source	Amount (thousands)	Percent
Property tax[b]	$ 21,034	20.05
Other local revenue[c]	19,777	18.85
Shared taxes		
Highway User Tax Fund	11,819	11.26
Specific Ownership Tax A	250	0.24
Motor vehicle penalty assessment	75	0.07
Liquor	49	0.05
Total	12,193	11.62
Grants-in-aid		
Public welfare	49,370	47.06
All other[d]	2,535	2.42
Total	51,905	49.48
Grand Total	104,909	100.00

[a] Excludes City and County of Denver with exception as noted in "d" below.

[b] Excludes county levies for public schools.

[c] Estimated from representative sample of individual county audits.

[d] Includes firemen's and policemen's pensions amounting to $1,056,000 payable to both counties and cities. Since it was not possible to divide this amount between these jurisdictions (including Denver) the aggregate is shown for counties.

Source: Audit reports of individual counties and State of Colorado; State Tax Commission, *Annual Reports;* and records of Division of Accounts and Control.

[1] Data particularly pertinent as background for this chapter are found in Chapters I-IV.

[2] In this and succeeding sections of the chapter special improvement districts are excluded from the discussion of local governments.

[3] Latest date for which complete data are available.

[4] Ratios derived are based upon data shown in Tables 20.1-20.3 plus receipts by Denver from specific ownership Tax A and state aid for public welfare which were excluded from the table as given. (See also footnote "c," Table 20.3.)

Table 20.2

Total Revenues of School Districts in Colorado 1956

Revenue source	Amount (thousands)	Percent
Property tax[a]	$74,751	76.99
Other local revenue[b]	2,000	2.06
Grants-in-aid		
Basis of distribution:		
Aggregate days of school attendance	9,333	9.61
Classroom units	9,643	9.93
Junior colleges	287	0.29
Special assistance	210	0.22
School lunch, etc.	870	0.90
Total	20,343	20.95
Grand Total	97,094	100.00

[a] Includes county levies for schools.
[b] Extimates from Colorado State Department of Education.

Source: State of Colorado, State Tax Commission, *Annual Reports;* and records of Division of Accounts and Control.

The relative degree of dependence on local revenue sources, or conversely the relative reliance on shared taxes and aids varies considerably between the three principal classes of local government. Thus for 1956 the counties (exclusive of Denver)[5] depended upon their own local resources for 38.9 percent of their revenue requirements, while the comparable ratios for the school districts and municipalities[6] were 79.0 percent and 95.4 percent, respectively (Tables 20.1-20.3). The third-ranking position of the counties is attributed largely to the fact that the state payments to the counties for welfare accounted for nearly one-half of the total county receipts.

Local Property Taxes

In the over-all, local property taxes are the principal means by which locally raised reven-

[5]Because of the dual city-county position of Denver it is convenient to exclude this governmental unit from county analysis but to include it under municipalities with certain state aids omitted as noted in footnote "c" of Table 20.3.

[6]Excluding state aids to Denver for public welfare.

Table 20.3

Total Revenues of Municipalities[a] in Colorado, 1956

Revenue Source	Denver	Pueblo	Colorado Springs	7 Cities (Pop. 10,000-20,000)	11 Cities (Pop. 5,000-10,000)	14 Cities (Pop. 2,500-5,000)	37 Cities (Pop. 1,000-2,500)	Total
Local Revenue				Amount (thousands)				
General property	$20,922	$ 1,395	$ 1,100	$ 3,014	$ 1,142	$ 870	$ 1,049	$29,492
Sales	4,896	574	0	0	0	0	0	5,470
Local Liquor	0	61	15	20	3	18	11	128
Tobacco	958	91	0	162	63	48	66	1,388
Franchise	1,580	150	46	185	123	72	47	2,203
Utility[b]	0	0	620	137	352	38	20	1,167
Licenses and permits	1,012	111	114	244	101	65	122	1,769
Court fines	1,651	217	202	370	119	98	100	2,757
Parking meters	404	125	171	240	173	39	22	1,174
Other income	4,155	132	163	335	213	108	210	5,316
Total	35,578	2,856	2,431	4,707	2,289	1,356	1,647	50,864
Shared taxes								
Highway user	1,035	144	114	236	142	110	127	1,908
Liquor	27	6	2	4	2	4	5	50
Total	1,062	150	116	240	144	114	132	1,958
Grants-in-aid[c]	422	58	0	0	0	0	0	480[c]
Grand total	37,062	3,064	2,547	4,947	2,433	1,470	1,779	53,302
Local Revenue				Percent				
General property	56.45	45.53	43.19	60.92	46.94	59.26	58.96	55.33
Sales	13.21	18.73	0.00	0.00	0.00	0.00	0.00	10.26
Local liquor	0.00	1.99	0.59	0.40	0.12	1.22	0.62	0.24
Tobacco	2.58	2.97	0.00	3.27	2.59	3.27	3.71	2.60
Franchise	4.26	4.89	1.81	3.74	5.05	4.90	2.64	4.13
Utility	0.00	0.00	24.34	2.77	14.47	2.59	1.12	2.19
Licenses and permits	2.73	3.62	4.48	4.93	4.15	4.42	6.86	3.32
Court fines	4.45	7.08	7.93	7.48	4.89	6.67	5.62	5.17
Parking meters	1.09	4.07	6.71	4.85	7.11	2.66	1.24	2.20
Other income	11.23	4.33	6.40	6.79	8.76	7.37	11.82	10.00
Total	96.00	93.21	95.45	95.15	94.08	92.24	92.58	95.43
Shared taxes								
Highway user	2.79	4.70	4.48	4.77	5.84	7.49	7.14	3.58
Liquor	0.07	0.20	0.07	0.08	0.08	0.27	0.28	0.09
Total	2.86	4.90	4.55	4.85	5.92	7.76	7.42	3.67
Grants-in-aid	1.14	1.89	0.00	0.00	0.00	0.00	0.00	0.90
Grand total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

[a] Includes all cities and towns (excepting six) in Colorado with a population of 1,000 and over. Population data used are those reported by the U. S. Census for 1950.
[b] Includes transfers to general funds from city-owned utilities.
[c] For airports only. Excludes firemen's and police pensions which are included in county summary (Table 20.1). Also excluded (for City and County o Denver) are receipts from specific ownership tax and from state aids for public welfare amounting to $72,000 and $19,343,000, respectively. These receipts for Denver were excluded since other cities and towns do not have comparable receipts. Their figures are, however, included in the text discussion as indicated by footnote 4, Chapter XX.

Source: Audit reports of individual cities, 1956; and State of Colorado, Division of Accounts and Control.

ues are obtained. As will be seen in Table 20.4, property taxes in 1956 accounted for 74.3 percent of all local revenue. Here again, however, considerable difference in revenue patterns exists between the various classes of local government. Thus, property tax revenue accounted for 97.4 percent of locally raised revenue for the support of school districts, 58.0 percent for municipalities, and 51.5 percent for the counties.

While variations from these average ratios necessarily obtain for individual jurisdictions, the dispersion is perhaps most marked between cities and towns (municipalities) where non-property tax alternatives exist in greater extent than for either the counties or school districts. As noted also in Table 20.4 the relative importance of the property tax to other local sources tends to vary inversely with the size of the city. However, Denver shows a higher rate (58.8 percent) than either Pueblo or Colorado Springs. It is also greater than the average (49.9 percent) for the 11 cities with a population from 5,000 to 10,000. This latter group includes several cities, notably Longmont and Loveland, who depend heavily on income from publicly owned utilities.

Table 20.4

Relative Importance of Property Taxes as a Source of Locally Raised Revenue, by Units of Government in Colorado, 1956

Unit	Total revenue from local sources (thousands)	Revenue from property taxes (thousands)	Revenue from property taxes as percent of total revenue from local sources
County[a]	$ 40,811	$ 21,034	51.5
School districts	76,951	74,751[b]	97.4
Municipalities			
Denver	35,578	20,922	58.8
Pueblo	2,856	1,395	48.8
Colorado Springs	2,431	1,100	45.2
7 cities (pop. 10,000-20,000)	4,707	3,014	64.0
11 cities (pop. 5,000-10,000)	2,289	1,142	49.9
14 cities (pop. 2,500-5,000)	1,356	870	64.2
37 cities (pop. 1,000-2,500)	1,647	1,049	63.7
Total	50,864	29,492	58.0
Grand total	168,626	125,277	74.3

[a] Excludes City and County of Denver.
[b] Includes county levy for schools.

Source: Derived from Tables 20.1 and 20.3.

Legal Limits. Apart from economic considerations the law has in varying extent placed certain limits as summarized below on the power of local units to levy a tax on property.

County

General Fund Board of County Commissioners is authorized to fix rates of levy annually for county general fund, but rates are limited by total assessed valuation in county, ranging from 12 mills for counties with value less than $1,000,000 to 1 mill for counties with valuation of $300,000,000 and over. C. R. S., 1953, Ch. 36-3-1).

Contingent Fund Board is authorized to establish a contingent fund for expenditures caused by a public enemy, or some contingency that could not have reasonably been foreseen at the time of budget, and to redeem outstanding warrants issued, and to fix rates of the levy annually for such fund (C. R. S., 1953, Ch. 36-2-7).

Public Works Fund Board is authorized to create a public works fund for the construction of specified public buildings or additions thereto or to supplement bond issue for same and to levy annually therefor a tax not in excess of 3 mills without a vote of the taxpayers, or to levy a special tax in an amount submitted to and approved by the taxpayers of over 3 mills (C. R. S., 1953, Ch. 36-3-3).

Public Welfare Fund Board is authorized to levy at such a rate as will provide for budget estimates of county welfare department, but such levy shall be within certain limitations fixed by law, ranging from a maximum of 6 mills to a minimum of 2.5 mills on assessed valuation per capita. (C. R. S., 1953, Ch. 119-3-6.)

Road and Bridge Fund Board is authorized to levy a tax on general property for a county road and bridge fund in a sum sufficient to provide necessary funds, in addition to other sources of revenue, to cover county road and bridge budget estimates (C. R. S., 1953, Ch. 120-1-3).

Public Hospital Board is authorized to levy not to exceed 1 mill each year for the establishment and maintenance of a public county hospital (Sec. 1, Ch. 110, L. 43).

Public Schools Board is required to levy a tax of 12 mills annually for purpose of paying county's share of cost of public school finance program under the "Public School Foundation Act," but may be reduced to the extent of the requirements of classroom unit values as calculated under the Act (C. R. S., 1953, Ch. 123-26-7).

School Districts

Special School Tax School board is directed to certify to board of county commissioners the aggregate amount necessary for the operations of the school district for the ensuing year. Board of county commissioners is required to levy such rate (taking into account revenues from school fees paid by the game and fish commission), as allowed by law, as will produce this amount. School board may include in its certification an amount for library purposes but not to exceed 0.1 of 1 mill (C. R. S., 1953, Ch. 123-3-1).

High Schools School board is directed to certify to the county commissioners for the maintenance of any high school district a levy not to exceed 10 mills on the dollar. An additional levy of not to exceed 2 mills may be made if approved by a majority vote at a

special election called for the purpose of submitting question of such additional levy. (C. R. S., 1953, Ch. 123-14-15 as amended by Ch. 123-14-17).

Municipalities

General Fund City council or board of trustees are authorized to levy taxes on general property for general and special purposes. State law imposes no rate limitation as such. However, individual city charters may, and frequently do, establish limits in one degree or another. (C. R. S., 1953, Ch. 139-32-1.)

Park Fund City council (in cities of first and second class) is authorized to levy not more than 1.5 mills on assessed valuation for a "park fund." (C. R. S., 1953, Ch. 139-88-15.)

Municipal Library Fund City council is authorized to levy a tax of not more than 1.5 mills for establishment and maintenance of a municipal library (C. R. S., 1953, Ch. 84-1-15).

Firemen's Pension Fund (1) City council (in city or city and county of over 100,000 inhabitants and having a paid fire department) is requried to impose an annual tax of 5 cents on each $100 valuation for the firemen's pension fund. (C. R. S., 1953, Ch. 139-80-3.)

(2) City council (in each city of 50,000 to 100,000 inhabitants) shall levy a tax of 0.5 mill or so much thereof as may be required to raise the firemen's pension fund to $125,000. (C. R. S., 1953, Ch. 139-50-6.)

Policemen's Pension Fund City council (in each city or city and county of over 100,000 inhabitants) shall levy an annual tax of one cent on each $100 of value of taxable property if the sum credited to the policemen's pension fund is less than $300,000. (C. R. S., 1953, Ch. 139-81-3.)

Coincident with these limitations is the statutory provision that no tax jurisdiction in the State (regardless of ceiling rates) can impose a mill levy which would cause currently budgeted revenue to exceed that of the previous year by more than 5 percent.[7]

Legal Limits Intended or Unintended. Rate limitations must also be viewed in relation to the valuation bases which exist. Presumably when most limits were established the measure of "full" or "true" value of property was intended. Under existing practice, the average assessment ratio is evaluated at 28 percent.[8] In other words, nearly three-fourths of the potential of the tax base is not being utilized. This situation has, particularly in recent years, worked to the disadvantage of fast growing communities where the need for additional income has become increasingly acute. Thus, in Denver, to take a case in point, the county maximum levy of 1 mill for general fund outlay brings in (on a current 33 percent assessment basis)[9] approximately $1 million which, for fiscal 1959, fell short by about $4 million of covering the operating needs of strictly "county" functions amounting to over $6 million.[10]

To correct assessments to derive greater revenue would appear to be the obvious answer. However, and as noted in Chapter VII, Denver's current assessment ratio is higher than the average. To make it even higher than it now is would, in view of the state levy and the school aid formulas, cause Denver taxpayers to be penalized relative to taxpayers in other counties.

Average Mill Levies—Counties, Schools and Municipalities. The capacity and adequacy of the property tax for financing the revenue requirements of the three classes of local government is difficult to measure because of varying economic factors and assessment ratios employed. One general measure is to note the relative size of tax rates and their change over time. In the latter case, an increase would reflect added pressure on the base with a consequent reduction in its elasticity and potential for further use.

In the over-all, as shown in Table 20.5, local tax rates have increased substantially in recent years as has been equally true of the tax base itself. Thus, from 1953[11] to 1957 the average county levy increased from 8.69 mills to 9.72 mills, or an increase of 12 percent, while the school levy (including the county school levy) increased from 23.58 mills to 29.82 mills, or at the rate of 26 percent. Similarly, the average municipal rate advanced from 11.48 mills to 12.94 mills, or an increase of approximately 13 percent. For the same period also, assessed values for the State as a whole increased by 23 percent.

Variation of Mill Levies by Individual Local Units. A more detailed insight into what the trends have been may be had by noting changes

[7] *Colorado Revised Statutes, 1953*, Ch. 36-3-2.

[8] See Chapter VII.

[9] *Ibid.*

[10] As reported by the Department of Revenue, City and County of Denver.

[11] The year 1953 was selected as a base of reference since it is perhaps the earliest year in which the full impact of the Reappraisal Act of 1947 was felt in assessment values.

Table 20.5

Assessed Value of General Property, Average Mill Levy and Property Tax Revenue By Classes of Local Governments in Colorado, 1953-1957

Unit	1953	1954	1955	1956	1957	Percent increase 1953-1957
			Assessed value (thousands)			
County	$2,567,276	$2,698,816	$2,870,739	$3,069,112	$3,150,835	22.7
School	2,567,276	2,698,816	2,870,739	3,069,112	3,150,835	22.7
Municipal	1,444,546	1,531,637	1,631,310	1,751,026	1,777,119	23.0
			Average levy (mills)			
County	8.69	9.12	9.04	9.49	9.72	11.8
School[a]	23.58	25.36	26.04	27.84	29.82	26.5
Municipal	11.48	11.19	12.28	12.71	12.94	12.7
			Revenue (thousands)			
County	$ 22,304	$ 24,607	$ 25,968	$ 29,123	$ 30,629	37.3
School[a]	60,544	68,444	74,751	85,441	93,962	55.2
Municipal	16,582	17,134	20,040	22,257	22,994	38.7

[a] Includes county levy for schools.

Source: State of Colorado, Colorado Tax Commission, *Annual Reports.*

in levies for all purposes—county, school and municipal—as they have occurred in each of Colorado's 78 cities having a population of 1,000 or more as shown in Appendix Table 20.A and as further summarized in Table 20.6. In the latter tabulation it will be seen that from 1953 to 1957 county levies decreased in 31 cities with a maximum increase ranging up to 4 mills in 41 cities.[12] Similarly levies declined in 19 cities, remained constant over the period in 15 cities and increased in 44 cities with the most frequently occurring individual gains amounting to a maximum of 4 mills. In the case of the schools (including the county school levy) tax rates declined in only 6 cities while the remaining 72 cities experienced an increase ranging most frequently up to 8 mills.

From these trends and relationships it is apparent that the over-all local pressure on Colorado's property base is due essentially to the public school system which in 1957 accounted also for approximately two-thirds of property tax revenues (Table 20.5). On the other hand the relatively low county levies may be attributed to a fairly limited expenditure requirement in which growth demands have not been particularly marked. Similarly, municipal rates are also relatively low and have held fairly constant in recent years. The municipal picture is deceptive, however, when interpreted in the light of municipal expenditure trends and revenue requirements. In the largest cities growth has been extremely rapid and on the face of it pressures on the property base should have reflected this accordingly. This paradox can be explained in part by rate limitations imposed by city charters and in part by city opportunity—not available to either counties or school districts—to utilize other than property tax sources. The fact that alternative revenue sources have been increasingly used by the cities, as noted in later discussion, is of itself significant since it indicates that the property base is no longer capable of supporting all hands.

[12]The record of mill levy change for Colorado's 62 counties (exclusive of Denver which is included in the tabulation for municipalities) when considered within the frame of a sample of 78 cities and towns, results in some duplication. However, this is held to a minimum since all counties are represented in the 78-city sample.

Table 20.6

Changes in Mill Levy from 1953 to 1957 on General Property in All Cities and Towns in Colorado of Over 1,000 Population

(Mill levy classified by purpose)

Change in mill levy by class intervals (mills)	Municipal levy	County levy	School levy[a]	Total levy
	Number of cities and towns			
Decrease				
More than 2.00	7	3	2	2
From 0 to 2.00	12	28	4	5
No change	15	0	0	0
Increase				
0.00 - 3.99	33	41	22	20
4.00 - 7.99	9	5	35	19
8.00 - 11.99	1	0	11	21
12.00 - and over	1	0	4	11
Total cities and towns	78[b]	77	78	78

[a] Includes county levy for schools.
[b] Includes Denver which is excluded from county category.

Source: Derived from State of Colorado, State Tax Commission, *Annual Reports.* (For details see also Appendix Table 20.A.)

The Over-All Local Property "Tax Burden". Although no "general rule" or single index exists for determining when a property tax in a given locality has reached its practical "maximum," it has been quite generally assumed that an over-all rate beyond 2 percent (20 mills) on the *sales value* of property would cut into

capital and become economically unjustified.[13] On the basis of an average assessment ratio of 30 percent (which is slightly above the general state average) a prohibitive rate by the preceding assumption would be 60 mills—which may be compared with the over-all average rate for counties, school districts and municipalities (but exclusive of the State levy and special districts) amounting to 52 mills in 1957.

Admittedly the assumption of a "2 percent maximum" is subject to question in view of the many variables in any given case. Among these, economic capacity and the use of other taxes are important criteria of judgment. However, it is, in any event, suggestive of the burden on property which for Colorado would seem to be at least nearing its limit for local government use.

Local Non-Property Taxes

Apart from certain miscellaneous income items (e. g. fees, fines and earnings) not ordinarily regarded as taxes, counties and school districts in Colorado rely on property taxation as their principal source of local revenue. Hence, a discussion of local non-property revenue sources is pertinent only to municipalities.

As was noted above, the adoption of other sources of municipal revenues has been more or less forced upon the cities, a fact not peculiar to Colorado, however, but general throughout the nation. As shown in Table 20.7 over $1 billion in non-property taxes was collected in 1955 by all cities in United States with a population over 10,000. It will be further observed that in terms of number of cities, the most popular non-property taxes are public utility receipts, sewer and refuse service charges, admissions and amusement taxes, business gross receipt taxes, and sales taxes.

In Colorado the most commonly used non-property taxes are those imposed on tobacco, utilities and liquor. Generally employed also are a miscellaneous variety of licenses and permits which in the aggregate are relatively important.[14] The sales tax is also used but, as noted below, is limited to Denver and Pueblo.

Municipal Sales Tax. Nationally the municipal sales tax is becoming increasingly important which is particularly true in California

Table 20.7

Municipal Non-Property Taxes and Service Charges, (All cities with population over 10,000 in United States) 1955

Tax or service charge	Number of cities imposing tax	Total yield from tax (millions)	Per capita yield
Admissions and amusements	197	$ 22	$ .86
Business gross receipts	189	145	5.74
Cigarette and tobacco	84	37	1.89
Deed transfer	8	5	1.58
Garbage and refuse service	310	40	2.84
Gasoline	39	20	5.23
Income	48	109	16.25
Liquor and alcoholic beverages	37	12	2.22
Motor vehicle	135	43	2.18
Occupancy (Hotel)	8	8	.84
Poll or per capita	136	5	.83
Public utility gross receipts	341	98	2.31
Sales	171	392	16.25
Sewer service	313	99	3.25
Total	—	1,035	—

Source: *Municipal Non-Property Taxes, 1956 Supplement to Where Cities Get Their Money* (Chicago: Municipal Finance Officers Association, 1956), p. 18.

where 290 municipalities (and 38 counties) are now imposing a sales tax.[15] Among the larger cities (cities over 250,000) most recent data show that 9 municipalities, including Denver, have a general sales tax (Table 20.8).

While not generally used in Colorado, the considerable importance of the municipal sales tax for Denver and Pueblo is evidenced by total collections in 1956 amounting to $4,896,000 and $574,000 for these two cities, respectively, or 13 percent and 19 percent of their total locally collected revenues (Table 20.3).

Municipal Sales Tax in Denver. The sales tax, adopted as a permanent measure by Denver in 1948, came as a result of the inability of the property tax to cope with the rapidly increasing needs of combined city-county government and the school systems. The sales tax has been a successfull tax despite early apprehension on grounds that it was a "layered tax," that it was "regressive"; and that "it would drive business out of the city." As a revenue producer, the tax has proved itself. Its regressivity has been reduced (though not entirely) by selected exemptions. It has, in instances, undoubtedly hurt certain business units near the suburbs. Though not measurable, the over-all negative effects on this account are not believed to be considerable. Compliance has been good and perhaps better than experienced by the State.[16]

[13]The calculations and the basis for the 2 percent maximum may be illustrated by a quick proof as follows: Take annual rentals at 11 percent of sales value, which is an average relationship; assume next that 6 of the 11 percentage points are required for interest on the mortgage or for capital return as the case may be; and 2 and 1 percentage points, in addition, for depreciation and maintenance costs, respectively. This leaves 2 percent available for taxes. To tax more than that would be to levy against capital rather than against return to capital. (For further discussion on this see *Financing Municipal Government in Denver*, City and County of Denver, 1955, p. 7.)

[14]Colorado Municipal League, *Municipal Non-Property Revenues*, April, 1959.

[15]See Chapter VIII.

[16]On this point see *Financing Municipal Government in Denver, op. cit.*, pp. 108-112.

Table 20.8

Municipal General Sales, Use and Gross Receipts Taxes, Cities over 250,000 Population in 1950
Selected Data, 1957

City	Population in 1950 (thousands)	Year tax adopted	Tax rate (percent)	Sales tax collections (thousands)	Total tax collections (thousands)	Sales tax collections as percent of total tax collections	Sales tax collections per capita	Sales tax collections per capita per one cent of levy (dollars)
New York	7,892	1934	3.0	$366,944	$1,308,677	28.0	$46.50	$15.50
Los Angeles	1,970	1946	1.0	39,313	122,465	32.1	19.96	19.96
Washington, D. C.	802	1949	2.0	20,384	143,258	14.2	25.42	12.71
San Francisco	775	1947	0.5	9,469	80,443	11.8	12.22	24.44
Pittsburgh[a]	677	1947	0.2	3,208	37,890	8.5	4.74	23.70
New Orleans	570	1938	1.0	8,710	24,477	35.6	15.28	15.28
Denver	416	1948	1.0	4,845	31,438	15.4	11.65	11.65
Oakland	385	1946	1.0	6,124	21,492	28.5	15.91	15.91
San Diego	334	1946	1.0	6,065	18,195	33.3	18.16	18.16
Total	13,821			465,062	1,788,335	26.0	33.65	

[a] Similar rate is imposed on sales by manufacturers, wholesalers, and professionals.

Source: Commerce Clearing House, *State Tax Reporters* (Chicago, 1957); U. S. Bureau of the Census, *Compendium of City Government Finances in 1957* (Washington, 1957), p. 28.

The tax, as presently administered, calls for a levy of 1 percent on the purchase or exchange of tangible personal commodities, and a few services, at retail. The tax is computed separately and added to the price of the commodity. The retailer is specifically forbidden to advertise or indicate that the tax is assumed or absorbed in any way. Hence, the tax is a consumer-type tax and not a "hidden tax" as are many specific sales taxes.

As distinguished from the State sales tax, the Denver tax exempts from the base all foods other than restaurant meals. This effort to reduce the regressive features of the general sales tax does, however, reduce potential revenues by an estimated 20 percent.[17] Other exemptions include prescription drugs; personal and other services except local telephone and telegraph, gas, electricity, and other heating fuels; articles sold to manufacturing, processing, mining, construction and railroad enterprises to be used outside the City; sales to governmental, religious, and charitable institutions; and sales of feed, seed, livestock, poultry and other special farm items.[18]

Municipal Sales Tax in Pueblo. A municipal sales tax was approved by Pueblo voters in the 1955 general election. Reasons for the introduction of this tax were much the same as those noted for Denver, namely rising costs for both the city and schools and this in the face of an overworked property base no longer capable of sustaining both.

Provisions of the Pueblo tax are quite similar to those for Denver. The tax rate is 1 percent and the major exemption is food. Unlike Denver, however, Pueblo has a 1 percent use tax. The latter levys on the privilege of storing, using or consuming articles of tangible personal property purchased at retail from sources outside the cooperate limits of the city.[19]

Municipal and State Levies—Interstate Comparisons. The imposition of a municipal sales tax must be made with due regard for comparable taxes in other cities but particularly so in the event that the state itself has a sales tax. One of the reasons for the limited use of the sales tax by municipalities in Colorado is the fact that the State also has this tax. Hence, the 1 percent tax in Denver and Pueblo is a "layered tax" which, without allowing for differences in the composition of the tax base, means that the combined state and local levy amounts to 3 percent.

In other states, municipal rates range from ½ to 3 percent but not all of these places are located in states where a state levy is imposed. Thus, for all cities over 250,000 population the relationships—state and local—are as follows: (See also Table 20.8).

City	Sales tax rates — Municipal	State[20]	Total
New York	3.0	none	3.0
Los Angeles	1.0	3.0	4.0
Washington	2.0	none	2.0
San Francisco	0.5	3.0	3.5
Pittsburgh	0.2	3.0	3.2
New Orleans	1.0	2.0	3.0
Denver	1.0	2.0	3.0
Oakland	1.0	3.0	4.0
SanDiego	1.0	3.0	4.0

As can be see, the combined Denver and Colorado rate of 3 percent places Denver somewhat below the four listed California cities but on the same leval with two cities—New Orleans

[17] *Ibid.*, p. 109.

[18] *Ibid.*, p. 108.

[19] City of Pueblo, Colorado, *Retail Sales and Use Tax Ordinance No. 2189*, Section 20.

[20] See Chapter VIII, Table 8.4, for state rates.

and New York. Only Washington D. C. has a rate lower than the combined Denver-Colorado rate. Should, however, either Denver (or the State) increase rates such action would likely place Denver near or above the top in this inter-city comparison group — a distinction which, in view of the regressivity of the tax could be regarded as a dubious one at best. This, of course, is not only a matter which affects municipal tax policy but one which is equally applicable to tax policy decisions at the state level.

Future Outlook for Municipal Sales Taxes in Colorado. Home-rule cities in Colorado have undoubtedly the power to adopt a sales tax. The likelihood that cities other than Denver and Pueblo will introduce this tax in the future is contingent not only on future revenue requirements and the potentialities of existing revenue sources but on possible State action that could, should the tax be increased by the State, prohibit its use, or restrict larger use by municipalities. This possibility is a hazard now faced by Denver and Pueblo, and all cities are aware of it. Here state-local fiscal cooperation in tax policy determination is entirely absent—lack of which creates uncertainty in tax structuring by both the state and municipal governments.

The possible loss of business to a non-taxed community is another factor which tends to discourage local adoption of sales taxation. Although, as earlier noted, the City of Denver has lost some business to the suburbs on this account, it is clear that the attraction of a large central market has tended to overcome this development to a high degree.[21] However, smaller communities might find no offsetting advantage and could be severely hurt. In Some states, such a limitation could be eliminated by establishing a centrally administered tax, collected by the state and distributed to the local communities. However, in Colorado, the constitutional provision that 85 percent of state-collected excise taxes must be earmarked for the Old Age Pension Fund would likely prohibit the use of this alternative. Moreover, aside from this legal stumbling block, it is possible that communities would be forced under such an arrangement to accept sales tax revenues even if the revenues were not needed or in cases where the citizens were opposed to the tax in principle. The latter would, in this circumstance, violate local autonomy and home rule concepts.

Cigarette Tax. Colorado is one among eleven states (Alabama, Colorado, Florida, Illinois, Maryland, Missouri, New Jersey, New Mexico, New York, Tennessee and Virginia) which authorizes cities to levy a tax on cigarettes.[22] Some states, however, do not permit a local tax but instead, as in Minnesota, impose a state tax which, in turn, is shared with the municipalities.[23]

Of the eleven states authorizing local taxation, extensive municipal use of the cigarette tax occurs in only four, Colorado being one of them. Widespread use of the tax by Colorado municipalities, 37 in all, is probably due to the failure of the State to utilize the tax—a fact perhaps attributable in large extent to the constitutional provision that 85 percent of state collected excise taxes must be diverted to the Old Age Pension Fund.

In 1958 total collections from the local cigarette tax (called an "occupation tax" in Denver and in a number of other cities in the State) amounted to $1,612,465. Although varying in relative importance, revenues have tended to be fairly substantial in most of the cities and towns using the tax. As noted in Table 20.9 revenues from this source in 1956 ranged from a high in Cortez of 42.42 percent of property taxes levied to a low in Denver of 5.49 percent. Denver collections of nearly $1 million accounted for approximately 60 percent of aggregate municipal collections in the State.

Further examination of Table 20.9 shows that present rates imposed by Colorado cities range from 1 to 3 cents per pack, with the large majority of cities using a rate of 2 cents. Since the tax is usually collected by the sale of stamps to business firms, a discount is usually given, presumably to cover the cost incurred in attaching the stamps to the cigarette packs. In most cases these discounts are 8 or 10 percent. It is of interest that state cigarette tax discounts average only about 5 percent. An immediate increase in municipal tobacco taxes could, of course, be effected by giving less liberal dealer discounts.

In addition to levying a tax on cigarettes, the cities generally provide for a tax, via a license, on cigarette wholesalers and retailers. Most wholesalers license fees are $5, while those for retailers range from $1 to $5.[24]

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[21] *Financing Municipal Government in Denver, op. cit., p. 111.*

[22] *Tax Administrators News*, December, 1957, p. 133.

[23] For a complete discussion of the use of the cigarette tax by states, see Chapter XVIII.

[24] Colorado Municipal League, *Municipal Non-Property Revenues*, April, 1959, pp. 12-13.

(*Note*: This source shows the results of a survey of approximately 150 cities in Colorado. Such data as are presented therefrom refer to this number rather than the entire universe or total unincorporated municipalities in the State.)

Table 20.9

Cigarette Tax in Colorado Municipalities, 1958

Municipality[a]	Tax per pack[b]	Cigarette tax revenue	Tobacco tax revenue as percent of municipal property tax revenue[c]
Denver	$.02	$ 993,889	4.75
Pueblo	.01	99,523	6.10
Colorado Springs	.01	82,501	5.81
Pop. 10,000 to 20,000			
Aurora	.02	68,683	11.89
Boulder	.02	54,997	9.13
Englewood	.01	40,207	7.97
Grand Junction	.02	40,958	7.69
Trinidad	.02	14,251	8.45
Pop. 5,000 to 10,000			
Alamosa	.02	12,123	12.04
Durango	.03	35,483	20.49
Pop. 2,500 to 5,000			
Cortez	.03	35,960	81.23
Delta	.02	11,841	17.50
Gunnison	.02	10,328	25.54
Las Animas	.02	5,561	11.96
Montrose	.02	14,843	16.69
Pop. 1,000 to 2,500			
Akron	.02	5,540	13.35
Brush	.02	10,802	17.64
Glenwood Springs	.02	7,927	13.14
Holyoke	.02	4,800	17.56
Julesburg	.02	6,061	16.32
Limon	.02	5,891	10.18
Meeker	.02	5,621	19.13
Pagosa Springs	.03	3,960	25.52
Paonia	.02	2,941	19.39
Rifle	.02	8,354	23.09
Saguache	.02	1,608	21.80
Steamboat Springs	.02	6,834	15.89
Telluride	.03	2,691	27.53
Pop. under 1,000			
Aspen	.02	5,331	11.84
Bayfield	.03	942	32.31
Castle Rock	.01	1,218	6.63
Naturita	.02	3,048	68.88
New Castle	.02	827	28.93
Nucla	.03	4,434	55.58
Rico	.02	N. A.	—
Walden	.02	2,487	17.53
Total	—	1,612,465	—

[a] Cities classified according to U. S. Census of Population for 1950.
[b] Per package of 20 cigarettes. Rates may vary from these for a larger sized package.
[c] Property tax revenues are the levies for 1957 but collectible in 1958 as reported by the State Tax Commission.

Source: Colorado Municipal League, *Municipal Non-Property Revenues*, April, 1959.

Special Problems. The cigarette tax, when used by municipalities, tends to become somewhat competitive. As in the case of the general sales tax, but on a more limited basis, if a taxing municipality borders a non-taxing area, consumers tend to patronize the latter whenever possible. A good example of the competitive nature of the tax is presented in the Denver Metropolitan Area, where Denver taxes cigarettes at 2 cents per pack, while Aurora and Englewood undercut this figure by one cent per pack. The differential may not be sufficiently great to substantially divert the cigarette businesses to the suburbs. It does show, in any event, that a "competitive tax" has potentials that could importantly distort trade channels to the advantage of some retailers but at the expense of others.

Again, as in the case of sales tax, the answer would seem to lie in a state collected and locally distributed cigarette tax. But for the same reasons as noted in the case of a general sales tax, such an arrangement would likely be defeated, even if desirable, by existing constitutional limitations.

Liquor Tax. The origin of the local liquor tax in Colorado can be traced to the adoption of the Old Age Pension Amendment in 1936. Prior to this date the State collected revenue from an excise tax on the sale of alcoholic beverages and the issuance of licenses to liquor manufacturers, wholesalers, and retailers. At the same time, municipalities imposed a separate license fee and retained the revenues locally. In 1938 the Supreme Court ruled that the provisions of the 1936 Old Age Pension Amendment applied to these locally collected and retained license fees.[25] Hence, 85 percent of the locally collected fees had to accrue to the Old Age Pension Fund. As a part of this ruling, the court also held that municipalities can collect liquor license fees only for the State since regulation of the sale of alcoholic beverages must be performed exclusively by the State. The effect of this ruling is that municipalities now retain only 15 percent of the state liquor license fees they collect which, in 1957, amounted to $98,431.[26]

Still faced with the local costs associated with the sale of alcoholic beverages, municipalities turned to the Colorado laws which give cities of the first and second class, and incorporated towns, the power to license, regulate and tax business establishments. [27] On the basis of this law, a number of municipalities proceeded to impose a license fee on retail liquor dealers, not as a regulatory but as a revenue measure. In 1948 the State Supreme Court upheld a Grand Junction ordinance imposing a local liquor license for revenue purposes. The court held that such licenses did not come under the Old Age Pension Amendment as long as they were solely for revenue purposes and did not infringe upon the State's exclusive right to regulate the sale of alcoholic beverages.[28] Following this favorable ruling, municipal adoption of occupation taxes on liquor dealers be-

[25] Denver v. People, 103 Colorado 573, 88 Pac. (2d) 89.
[26] *Colorado Revised Statutes, 1953*, Ch. 139-75-1 and Ch. 139-78-3.
[27] *Colorado Statutes Annotated, 1935*, Ch. 163, Sections 69 and 89.
[28] Post et, al., v. City of Grand Junction, 195 P. (2d) 958.

came widespread. In 1958 52 Colorado municipalities collected revenues from such an "occupation tax."[29]

Current rates of local liquor licenses vary from $25 to $1,050, averaging approximately $392. Licenses which allow the sale of liquor for on-premises consumption tend to carry a higher rate than those which permit the sale of liquor for off-premise consumption. Since the basic rationale for the collection of local liquor license fees is that the locality incurs certain added expenses due to the sale of liquor, the graduation in rates would suggest that a greater cost results from the sale of liquor for on-premises consumption than for off-premises consumption.

The range of rates imposed on various types of dealers is as follows:[30]

Type of license	Range of rates
On-premise consumption	$2 - $1,050
Hotels and resturants	2 - 1,500
Sale by the drink	2 - 1,500
Off-premise consumption	2 - 750
Clubs and lodges	2 - 400
3.2 Beer outlets	2 - 375

The rates imposed by some of the larger Colorado cities are as follows:[31]

Type of License	Pueblo	Colorado Springs	Grand Junction
On-premise consumption	$500.00	$350.00	$250.00
Hotels and resturants	500.00	350.00	250.00
Sale by the drink	500.00	350.00	250.00
Off-premise consumption	200.00	350.00	250.00
Clubs and lodges	200.00	140.00	100.00
3.2 Beer outlets	75.00	75.00	100.00

The license rates in the larger cities and towns tend to exceed the state license fee while the situation is reversed for the smaller towns. For example, the locally collected State license fee for a hotel or restaurant is $325 while Pueblo and Englewood collect a fee of $500, and Holly and Aspen collect only $200.

It should be noted that local liquor occupation taxes have been confined to retailers, thereby omitting manufacturers and wholesalers. Although the inclusion of manufacturers and wholesalers would not provide any significant revenue for many cities and towns, it could be quite important in several of Colorado's larger cities.

Englewood, Aurora and Littleton employ local liquor taxes, but Denver as yet has not adopted this revenue source, which it is estimated could enlarge Denver's budgeted income by approximately $240,000.[32]

Franchise Taxes. A total of 77 municipalities in Colorado levy a so-called franchise tax on private utilities. As can be seen from Table 20.3 revenues from this source including income derived from publicly owned utilities amounted to approximately $3.4 million or 6.2 percent of total local collected revenues.[33]

Franchise taxes are defended on grounds that they constitute a charge for the privilege of using streets and other municipal services. In addition, public utility companies commonly have a monopoly and the tax is considered a payment for this right. While these special taxes tend to be good revenue producers, the justification for their imposition is not completely tenable. The singling out of this type of business for special taxation is somewhat arbitrary, and more significantly, the tax tends to result in higher prices for public utility services and is therefore little more than an added tax on public utility consumers.

The three types of utilities most frequently taxed in Colorado are gas, electric, and telephone companies. In addition, a few municipalities collect revenues from other public utilities such as closed circuit television, transit, and telegraph companies.

Three principal methods of taxing public utilities are employed. The most common is to charge the company a percent of the gross receipts which are earned within the city limits. A second method is to charge a flat rate which is collected annually or monthly. Another method occasionally used is to require the utility to furnish free services to the municipality in lieu of any special taxes. These methods are often combined, such as requiring the utility to provide free services to the municipality as well as levying a tax on the basis of gross receipts.

Utility taxes are usually effected through a franchise, by ordinance (usually as an occupation tax), or through an agreement between the municipality and the public utility.

Rates generally range from 1 to 3 percent of gross receipts. Occasionally, however, a lower or higher rate is employed, as in Denver where the rate on telephone utilities is ½ percent of gross receipts, or in Manitou Springs where the rate on electric utilities is 8 percent of gross receipts.[34]

Income From Municipally Owned Utilities. In addition to franchise taxes imposed on privately owned utilities a limited number of Colorado cities derive sizable general fund income from the operation of municipally owned utilities. An example is Colorado Springs, which,

[29]Colorado Municipal League, *Municipal Non-Property Revenues, op. cit.*, pp. 8-11.

[30]*Ibid.*

[31]*Ibid.*

[32]*Financing Municipal Government in Denver, op. cit.*, p. 173.

[33]Colorado Municipal League, *Municipal Utility Taxes in Colorado*, 1958, p. 1.

[34]*Ibid.*

in 1956, transferred to its general fund $620,000 from its "Utilities Division in Lieu of Taxes." This amount represented approximately one-fourth of the City's total locally collected revenues. Other cities drawing heavily on "profits" from publicly owned utilities, as shown by 1956 transfers to the general fund, are Boulder ($40,000); Fort Collins ($57,000); Lamar ($66,000); Longmont ($185,590); and Loveland ($100,000).[35]

Aside from the rationale of socialization upon which revenue collections in these cases are premised, it should be noted that, in effect, municipalities are taxing the user of a specific service to cover general costs of government. As such the collection becomes a consumer tax with a feature that tends to defeat the idea of socialized benefits equitably distributed.

To some a preferable policy would be to provide utility services at cost thus giving the benefit to those who use the services rendered. This would also obviate the hazard of paying out capital for general use because of a possible inadequate depreciation and maintenance policy.

Proponents of general fund financing from profits of publicly owned utilities argue, however, that "general costs" are involved in operating a publicly owned utility and to ignore this fact would be unfair to the general taxpayer. Hence an "in lieu" tax is equitable and justified. However, when the "in lieu" tax is clearly excessive the rationale of such a charge must obviously rest on some other basis. Here presumably "expediency" and "productivity" would constitute the major reasons advanced.

Licenses and Permits.[36] Receipts from licenses and permits are generally classified as "non-tax" revenues. While taxes are a compulsory contribution levied and the revenue spent for the general welfare without regard to benefits for particular individuals, non-tax revenues are characterized by the more or less voluntary choice on the part of the individual as to whether or not he will receive the benefit and pay for it.[37]

Use of licenses and permits by Colorado municipalities varies widely. In general, however, permits are usually confined to building permits while licenses take the form of specific occupation taxes. In addition, a few municipalities employ a general occupation tax requiring all business firms to purchase a license. Although most license fees are levied primarily for revenue purposes, regulatory objectives are occasionally involved. The most common types of business licenses are discussed below.

Amusement Machines. Juke boxes and pinball machines are the most frequently regulated amusement machines. Approximately 50 Colorado municipalities levy a license fee on this type of business.

Operators and dealers are usually differentiated and licensed separately, with the fee generally higher for the operator. In addition, a fee is usually charged on a per machine basis. The most common fee is $10 per machine, although a substantially higher rate is occasionally employed.

Auctioneers. Approximately 30 municipalities regulate auctioneers through licensing. Annual fees vary from $5 to $200, with a fee of $25 being the most common. Some fee schedules also include a per day rate for auction firms which do not operate on a continuous basis. These fees vary from $1 to $25 per day, the most common fee being $5 or $10. Occasionally auctioneers handling new merchandise and transient auctioneers are differentiated and required to pay a higher fee.

Barbershops. Barbershop licenses are required in 8 communities. An annual flat fee is usually charged which varies from $1 to $20. Rates are also based on the number of chairs used.

Billiard Halls. Billiard hall licenses are required in virtually every community in Colorado. Rates are usually on an annual flat-rate basis with an additional fee for each table used. Annual fees average $25 while table fees range from $5 to $60 for the first table and $5 to $30 for other tables.

Builders and Contractors. Approximately 15 cities require contractors to purchase a license while about 40 communities require electricians and plumbers to purchase a license. A carpenter's license is also required in several cities.

License fees for limited contractors range from $10 to $50, while the fees for unlimited contractors range from $25 to $100. Electricians' fees average $35, and plumbers' fees $12. An additional fee is occasionally charged electricians and plumbers on the basis of whether they are masters or journeymen.

Carnivals and Circuses. Carnival and circus licenses are required in about 40 Colorado cities, with rates varying substantially. The most common rates are $25 or $50 per day, although a

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[35] From audit reports of individual cities.

[36] Unless otherwise indicated, data presented in this paragraph are from Colorado Municipal League, *Municipal Non-Property Revenues*, *op. cit.*

[37] William H. Anderson, *Taxation and the American Economy* (New York: Prentice Hall, Inc., 1951), pp. 488-89.

substantially higher rate is occasionally employed, as in Denver which has a rate of $200 per day.

Dance Halls. Dance hall licenses are required in about 30 cities. Rates are based on daily and/or yearly rates. These licenses produce little revenue and are primarily for regulatory purposes.

Gasoline Stations. Gasoline station licenses are required in 9 communities. In most cases annual fees are based on the number of pumps. The fee schedule (first pump) ranges from $5 to $25.

Pawnbrokers. Pawnbroker licenses and fees are collected in 18 communities. Rates range from $25 to $400 annually, with the larger amount applicable to Denver and Boulder.

Photographers. Photographers are required to purchase a license in 27 communities. Permanent photographers are frequently differentiated from itinerant photographers, with a higher rate being employed for the latter. Annual rates for permanent photographers vary from $5 to $50, while rates for itinerant photographers are generally $5 or $10 per day.

Theaters. Theater licenses are required in 42 communities. Annual flat rates are usually employed and vary substantially. Rates of $50 to $200 are common in the larger cities, while lower rates are generally employed in the smaller towns.

Trailer Courts. Trailer court licenses are required in 26 communities. Fees are usually on an annual basis with a charge for each trailer. Annual fees vary from $2 to $100, while trailer changes range from $2 to $20 per trailer.

Court Fines. Fines, fees, and forfeits are voluntary and involuntary payments to the municipalities for services rendered through the courts. The rationale for the use of fines and fees is primarily to cover the expenses incurred by the courts, although many fines are punitive in nature. Traffic court fines, however, frequently offset deficits incurred by other courts. In Denver, for example, revenue from traffic fines carries the "burden" of Denver's total court costs—county, district, municipal, and juvenile.[38]

Court fines for all cities accounted for $2,757,000 in 1956, or over 5 percent of total local revenues (Table 20.3). It should be pointed out, however, that the expenses incurred by the courts often exceed revenues, and the revenues from court fines are therefore not available for general revenue purposes.

[38] *Financing Municipal Government in Denver, op. cit.*, pp. 131-132.

Parking Meters. As shown in Table 20.10 revenues from parking meters have become increasingly important in recent years. Currently twenty-five municipalities in the State have parking meter charges which in 1956 amounted in the aggregate to $1,174,000 or slightly over 2 percent of total local revenues. (See Table 20.3.)

Although parking meters involve a sizable original cost, as well as installation and maintenance expenses, they are nevertheless a fair revenue producer. However, the justification for parking meters is that they are regulatory in nature and are closely related to the subject of traffic control.

Interestingly, parking meters have become somewhat competitive in nature. Denver, for example, receives substantial revenues from this source while Englewood and Aurora do not utilize meters at all. As traffic becomes more congested and municipal revenue needs continue to grow, the use of parking meters will undoubtedly increase.

Table 20.10

Receipts from Parking Meters, Selected Cities in Colorado, 1949 and 1956

City	1949	1956
Denver	$366,300	$ 403,728
Pueblo	82,614	125,270
Colorado Springs	101,096	171,136
Boulder	25,834	51,914
Fort Collins	34,711	32,575
Grand Junction	50,224	70,470
Greeley	44,788	66,322
Trinidad	15,263	18,385
Loveland	7,701	20,565
Sterling	23,199	15,858
Alamosa	6,615	13,957
Lamar	6,643	7,627
Fort Morgan	0	20,211
Total	764,988	1,018,018

Source: Audit reports of individual cities.

Alternative Municipal Revenue Sources. The municipal income tax, wheelage taxes, and refuse collection fees have gained a certain popularity in other states. While the first two are not utilized by Colorado cities and the last on a limited basis only, the growing needs of municipalities for additional revenue may necessitate considering these sources in the future. For this reason, a brief discussion of these revenue sources as they are found in cities throughout the country is presented below.

Municipal Income Tax. The municipal income tax, as it is generally employed, is a levy on the gross income of residents, and the income of non-residents which is earned within the taxing jurisdiction. Provisions allowing for personal exemption and deductions are uncommon.

In 1955, an income tax was imposed by 48 municipalities with populations over 10,000, and about 350 other local units of government.[39] The majority of these jurisdictions were in Pennsylvania where boroughs and school districts as well as cities enjoy the power to tax income. In addition, 16 cities in Ohio, 4 cities in Kentucky, and 1 city in Missouri employed a tax on income.

Several advantages have been attributed to the income tax as a local source of revenue. Since it is usually based on gross income, substantial amounts of revenue can be effected by the imposition of relatively low rates. Another advantage is that the tax requires suburban citizens to contribute a part of the revenue needed to finance services which they enjoy by working in the city.

The tax is criticized on the basis of administrative complexity and evasion possibilities. Since all forms of income cannot be subject to withholding, some income undoubtedly escapes reporting. The major criticism of the tax is that in practice it tends to be regressive. Certain types of property income are often excluded, exemptions and deductions are uncommon, and a proportional rate is usually employed. The tax, however, need not be used in a regressive manner. Exemptions and deductions could be allowed and a progressive rate structure could be used. Were the tax employed in such a manner, the smaller base would necessitate higher rates to effect the same revenue. If taxpayers are more concerned with tax rates than with tax bases, this procedure might be unpopular. Even if exemptions and deductions are not allowed and a proportional rate structure is used, the tax is still probably less regressive than other local sources of revenue.

The Colorado Supreme Court recently ruled that municipalities in Colorado do not have the power to levy a tax on incomes. Considering the advantages attributed to the tax and the growing municipal revenue needs, however, enabling legislation may eventually be enacted which will permit the use of this local source of revenue.

Wheelage Taxes. Wheelage taxes are local levies on motor vehicles using city streets. Commonly a flat rate per vehicle or a fee based on weight or horsepower is charged.

This local source of revenue is employed by 134 cities with populations over 10,000 and several hundred smaller cities in 12 states. Three-fourths of the larger cities in the group are located in Illinois, Missouri, Virginia, and North Carolina.[40]

The justification for the local taxation of motor vehicles is based on the benefit principle. Since automobile and truck operators derive special benefit from the city streets, it is argued that they may be called upon to make a contribution to the cost and maintenance of these facilities. Consistent with this rationale is the common practice of earmarking the proceeds from wheelage taxes for the support of expenditures on streets and city access roads or traffic control functions. Only occasionally are the proceeds available as general revenue.

Wheelage taxes have been criticized on the grounds that they involve double taxation because motorists are subject to a variety of federal and state taxes related to the ownership of motor vehicles. In addition, it is somewhat untenable to contend that only the motoring public receives benefits from city streets.

Another complaint against the tax is that it is difficult to enforce, especially if rates are more than moderate. To overcome this latter difficulty, local administration is occasionally related to state registration programs. Some cooperation between taxing jurisdictions would appear to be a prerequisite to effective administration of these taxes.

Although local vehicle taxes involve certain theoretical and administrative problems, they have achieved considerable popularity in some states and may become more widely utilized in the future.

Refuse Collection Charges. Approximately 310 cities in the country with populations over 10,000 impose a fee or charge for the collection of refuse from residences and business concerns. In 1956, the estimated revenue from these charges was $40 million (Table 20.7).

Commonly, refuse collection is done by the city and financed from general revenue. Although the imposition of a fee for this service may be rationalized on the benefit principle, a more frequent justification is simply the need for additional municipal revenue.

In practice, there is little uniformity as to either the base or rates established for refuse collection. The fee is often confined to garbage collection but occasionally includes rubbish, ashes, and other classes of refuse. Charges are assessed on either an annual or a monthly basis, though the latter is the more common. Rates vary from $4 a year in Little Rock, Arkansas, to 90 cents a month in Dallas, Taxas.[41]

While refuse collection charges and similar fees have been referred to as "nuisance taxes," their popularity may continue to grow unless cities find alternative revenue sources to meet their growing needs.

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[39]Table 20.7 and *Report of the Minnesota Tax Study Committee* (Minneapolis, 1956), p. 490.

[40]*Report of the Minnesota Tax Study Committee, op. cit.*, p. 504.

[41]*Financing Municipal Government in Denver, op. cit.*, p. 178.

State Payments to Local Governments — General

The practice of transferring state funds for local use is premised on a series of reasons or objectives, all of which have, in one degree or another, played a part in establishing the rationale of the over-all aid structure found in any given state. The principal of these may be listed as follows:

(1) The division of functions between the state and local governments, desirable as any given arrangement may be, does not of itself assure a similar division of financial means to support governmental functions. Indeed it is likely that at the local level, where access to various tax resources are limited, funds will be short whereas at the state level they may be more than adequate. As a compromise, a state may assume more functions or transfer additional funds to the localities. In practice, where such imbalance occurs states have followed either one or a combination of both methods with no consistent pattern indicated.

(2) State-local transfers are also widely used because they represent an acceptable way of influencing local units of government to act in support of certain statewide objectives. Thus, the Social Security Act has caused counties, as in Colorado, to adopt standards of performance otherwise not possible.

(3) Transfers or grants have been adopted in order to equalize the level of service offered by communities with gross differences in tax-paying capacity. Thus, it is quite generally recognized that all children in the state should have the same opportunity to achieve a basic minimum level of education. A similar concept attaches to the provision for public welfare such as the care of the aged, dependent children and related social service functions.

(4) Grants-in-aid are also justified on grounds that certain services provided by local governments benefit persons other than those who contribute directly to their tax support. Thus, in the case of public highways and schools the interest and benefits received are statewide. This being so, it is held that over-all state support is called for as a partial compensation to the communities for direct costs incurred.

(5) In some cases certain taxes cannot be effectively administered at the local level although the proceeds therefrom "belong" to the communities. Here state administration is called for with appropriate returns made on some equitable basis. An example in Colorado is the specific ownership tax "Class A" which is a levy on commercial vehicles allocated to counties in proportion to the distance travelled by such vehicles within each county.

(6) Finally, grants-in-aid are used as a device for meeting rising costs of certain locally administered governmental service thus relieving the strain upon a heavily burdened local property tax. This is supported on grounds that, unlike the state, most local units have no alternative to the property tax.

Table 20.11

State Payments to Local Governments, by Functions, Eleven Western States, 1956

State	Education	Public welfare	Highways	All other	Total State aids	Total State expenditures
			Amount (thousands)			
Colorado	$ 20,832	$ 68,488	$15,101	$ 2,107	$ 106,528	$ 222,866
Utah	23,957	0	2,817	1,523	28,297	102,874
Idaho	10,252	0	6,573	1,943	18,768	80,542
Montana	12,375	307	0	855	13,537	87,266
Wyoming	12,906	3,539	2,010	2,761	21,216	60,408
New Mexico	43,011	0	2,998	1,143	47,152	144,736
Arizona	23,693	0	5,611	18,338	47,642	144,105
Nevada	7,411	0	1,772	1,057	10,240	43,076
Washington	100,218	0	23,996	26,430	150,644	435,671
Oregon	38,295	867	20,246	3,253	62,661	234,079
California	515,038	305,257	96,229	140,173	1,056,697	2,043,353
			Percent of Total State Expenditures			
Colorado	9.35	30.73	6.77	0.94	47.79	100.00
Utah	23.29	0.00	2.74	1.48	27.51	100.00
Idaho	12.73	0.00	8.16	2.41	23.30	100.00
Montana	14.18	0.35	0.00	0.98	15.51	100.00
Wyoming	21.36	5.86	3.33	4.57	35.12	100.00
New Mexico	29.72	0.00	2.07	0.79	32.58	100.00
Arizona	16.44	0.00	3.89	12.73	33.06	100.00
Nevada	17.20	0.00	4.11	2.46	23.77	100.00
Washington	23.00	0.00	5.51	6.07	34.58	100.00
Oregon	16.36	0.37	8.65	1.39	26.77	100.00
California	25.20	14.94	4.71	6.86	51.71	100.00

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1956.*

State Payments to Local Governments in Western States

On the basis of 1956 Census data, as shown in Table 20.11, state government in Colorado paid a total of approximately $106.5 million to local governments on programs for education, welfare, highways and miscellaneous other locally administered programs. This amount accounted for 47.8 percent of the State's total expenditures — a ratio exceeded by only one other state, California. Further examination of Table 20.11 shows, however, that 6 states make no grants to local government for public welfare. That is to say, in these instances the state paid the whole cost of the welfare program directly rather than through the county treasurers as in Colorado and California. Hence the over-all ratios for both these states are magnified to that extent. Differences in financial administration are also apparent in the case of highway programs which in the case of Montana shows no state-local payments on this account.

For comparative purposes more reliable data are indicated for aids to education. Colorado, with a ratio of 9.35 percent of total state expenditures directed to public school aid, places last in the comparison group of eleven Western States which is led by New Mexico with a ratio of 29.7 percent. Colorado's comparative position in the West is further indicated in Table 20.12 which shows state aids on a per capita basis. It will be seen that Colorado with a per capita figure of $12.92 again places last in the eleven-state group with New Mexico in a leading position with a per capita total of $52.77.

Table 20.12

Per Capita State Aid for Education
Eleven Western States
1956

State	Per capita[a]	Rank
Colorado	$12.92	(11)
Utah	29.50	(6)
Idaho	16.40	(10)
Montana	19.40	(9)
Wyoming	40.20	(2)
New Mexico	52.77	(1)
Arizona	22.41	(7)
Nevada	30.00	(5)
Washington	37.58	(4)
Oregon	22.29	(8)
California	38.34	(3)

[a] Based on population estimates as of July 1, 1956, as presented in U. S. Department of Commerce, *Survey of Current Business*, August, 1958, p. 13.

Source: Adapted from U. S. Bureau of the Census, *Compendium of State Government Finances in 1956.*

State Payments to Local Governments in Colorado

Table 20.13 presents in detail aggregate state payments to local units of government in Colorado for 1957.[42] As will be observed, the total state-local transfer amounted to $111.3 million of which $32 million — channeled mainly through the State Treasury — came from the federal government and the remainder or $79.3 million consisted of state collected but locally shared taxes and grants from general state revenues. In all cases the moneys distributed were dedicated to specific functions as required by state or federal law. The principal function financed was public welfare which accounted for nearly two-thirds of the total or 62.5 percent. Other functions in order of relative amounts distributed were for education, 22 percent; highways, 12.7 percent; and all other, 2.8 percent. Viewed in terms of class of local governmental unit receiving funds, the distribution of the total was as follows: counties 76.1 percent, school districts 22.0 percent, and cities and towns 1.9 percent.

Shared Taxes and Grants-in-Aid

Payments to local units of government are generally categorized as either shared taxes or grants-in-aid. By usual definition shared taxes constitute a transfer of revenue from earmarked taxes without limitations as to the use of the funds, while grants-in-aid are payments from state revenues or from federal grants to be used by the local governments only for a specified purpose.[43] This definition does not, however, fit all cases. In Colorado, for example, the state-collected motor fuel tax is apparently a "shared tax" and is so called. However, its use is specified and, in that sense, constitutes (by definition) a grant-in-aid.

Consistent with state usage of terms, but recognizing that any classification must be somewhat arbitrary in any event, the following will be identified and discussed as shared taxes: payments from the highway user fund, specific ownership tax A, motor vehicle penalty assessments, and the liquor tax. All other payments, mainly for education and public welfare, will be considered as grants-in-aid.

Shared Taxes in Colorado

In 1957, a total of $14,770,000 was transferred from the State to cities and counties in the form of shared taxes (Table 20.13). Payments from the highway user fund accounted for $14,-180,000 or 96 percent of the total. The other shared taxes (Specific ownership tax A, motor vehicle penalty assessments, and the liquor tax) together accounted for the remaining 4 percent,

[42] Unless otherwise indicated the discussion in this and succeeding sections is based on data for 1957 as distinguished from preceding analysis which, in the main, covered the year 1956.

[43] Harold M. Groves, *Financing Government* (fourth edition; New York: Henry Holt and Company, 1954), pp. 467-468.

or a total of only $590,000. Hence, a discussion of shared taxes in Colorado is concerned primarily with payments from the Highway User Fund.

The Highway User Fund. The receipts from the motor fuel tax, the gross ton-mile tax, motor vehicle license fees, and operators' and chauffeurs' license fees are ear-marked and accrue to the Highway User Tax Fund. After administrative costs and the expenses of the highway patrol have been met, this fund is allocated to municipalities, counties, and the state highway fund for designated road and street purposes.

In 1957, the Highway User Fund amounted to $43,057,000 after administrative expenses had been met but before the costs of maintaining the highway patrol and inspection stations had been deducted. Of this total, revenue from the motor fuel tax accounted for $32,098,000 or nearly 75 percent of the Highway User Fund. The gross ton-mile tax accounted for $5,748,000 (13 percent) and the motor vehicle license fees for $5,122,000 (12 percent). Operators' and chauffeurs' fees were relatively insignificant, amounting to $89,000 or .2 percent of the total.

After deducting expenses of the highway patrol and the motor vehicle inspection stations totalling $2,533,000, the net amount of the Highway User Tax Fund to be distributed to municipalities, counties, and the state highway fund was $40,519,000.[44]

Allocation of the Highway User Tax Fund. The Highway User Tax Fund is allocated on the basis of 56 percent to the State Department of Highways, 30 percent to the counties and 5 per-

[44]State of Colorado, Division of Accounts and Control.

Table 20.13

State and Local Shared Taxes and Grants-in-Aid to Local Governments in Colorado Fiscal Year, 1957

(Thousands)

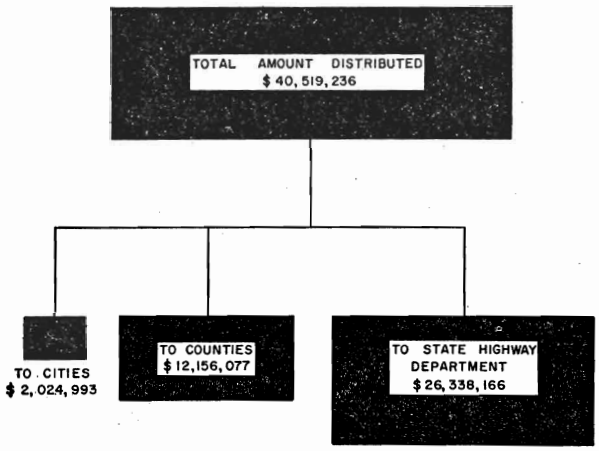
Tax or grant	From federal	From state	Total from federal and state	To counties	To school districts	To cities and towns
Shared taxes						
Highway user tax fund						
Gross ton mile	0	$ 1,900	$ 1,900	$ 1,629	0	$ 271
Motor fuel	0	10,579	10,579	9,068	0	1,511
Motor vehicle license	0	1,673	1,673	1,434	0	239
Operators and chauffeurs license	0	28	28	24	0	4
Total	0	14,180	14,180	12,155	0	2,025
Specific ownership tax A	0	375	375	375	0	0
Motor vehicle penalty assessments	0	115	115	115	0	0
Liquor	0	100	100	50	0	50
Total shared taxes	0	14,770	14,770	12,695	0	2,075
Grants-in-aid						
Public welfare						
Old age pensions	$21,021	36,115	57,136	57,136	0	0
Aid to dependent children	4,704	1,343	6,047	6,047	0	0
Aid to needy disabled	2,100	717	2,817	2,817	0	0
Public welfare administration	1,293	1,473	2,766	2,766	0	0
Tuberculosis assistance	0	131	131	131	0	0
Child care	5	232	237	237	0	0
Aid to blind	138	115	253	253	0	0
Emergency	0	191	191	191	0	0
Total	29,261	40,317	69,578	69,578	0	0
Education						
Agregate days	0	10,003	10,003	0	$10,003	0
Classroom units	0	11,975	11,975	0	11,975	0
School transportation	0	687	687	0	687	0
Special assistance	0	3	3	0	3	0
Junior colleges	0	308	308	0	308	0
School lunches	1,094	0	1,094	0	1,094	0
Vocational lunches	252	128	380	0	380	0
Total	1,346	23,104	24,450	0	24,450	0
Public health	113	41	154	154	0	0
Other						
Federal lands material act	15	0	15	15	0	0
Flood control lands act	18	0	18	18	0	0
U. S. mineral leasing act	892	0	892	892	0	0
Taylor grazing act	21	0	21	21	0	0
Colorado state forest	0	2	2	2	0	0
Forest reserve	316	0	316	316	0	0
Firemens pension	0	600	600	600[a]	0	0
Policemens pension	0	437	437	437[a]	0	0
Total	1,262	1,039	2,301	2,301	0	0
Total grants-in-aid	31,982	64,501	96,483	72,033	24,450	0
Grand total	31,982	79,271	111,253	84,728	24,450	2,075

[a] Reallocated in large part to cities.

Source: State of Colorado, Division of Accounts and Control.

cent to the cities and towns.[45] In fiscal 1957, the amounts distributed from the Highway User Fund were as follows: State Highway Fund, $26,338,166; counties, $12,156,077; and cities, $2,024,993 (Chart 20.1).

DISTRIBUTION OF COLORADO HIGHWAY USER FUNDS, 1957



SOURCE: State of Colorado, Division of Accounts and Control

CHART 20.1

The county share of the fund is divided among the 62 counties according to a formula based on mileage and vehicle registrations in each county. Eighty percent of the county share is apportioned according to county road mileage adjusted to reflect differences in terrain and building and maintenance costs. The factor used for each county ranges from 1 to 3. For example, Kit Carson County in Eastern Colorado is designated as a "plains" county and therefore an adjusting factor of only 1 is applied. Garfield County, however, is a "mountainous" county and therefore an adjusting factor of 3 is used.[46] The remaining 20 percent of the fund is apportioned on the basis of the registered rural vehicles within each county. Mileage of state highways, city streets, and city vehicle registration are not considered in the allocation of the county share. For purposes of county allocation, the City and County of Denver is not considered a county.[47]

The city share of the user fund (or 5 percent) is allocated on a somewhat different basis. Eighty percent is distributed on the basis of "adjusted" urban vehicle registration. The actual number of urban vehicles registered in each municipality is adjusted "to reflect the increased standards and costs of construction resulting from the concentration of vehicles in cities and incorporated places." The adjustment factor ranges from 1 to 2. Municipalities with an actual registration of 500 vehicles or less receive an adjustment factor of 1.0 while municipalities with a registration of 185,001 vehicles or more are given an adjustment factor of 2.0. Municipalities with registration between these two extremes are rated accordingly on the basis of a statutory graduated scale.

The remaining 20 percent of the municipal share of the fund is allocated on the basis of the urban mileage which lies within each municipality. State Highway mileage is excluded in this computation.

Criticism of Highway User Fund Allocation to Cities. The allotment of only 5 percent of the user fund to cities has become a major criticism of the allocation formula. Denver as a city-county has a special problem in that it receives funds as a city only.

The case for revising the formula to allow cities a larger share is based on a series of interrelated arguments. One argument, prominently advanced, is premised on a kind of a user doctrine that "he who pays should receive." Thus it is argued that since a larger part of the user fund is contributed by urban residents, cities should accordingly participate in the fund to a degree greater than now obtains. Although it is difficult to accurately estimate the urban residents contribution, it is known that approximately two-thirds of the motor vehicles currently registered in Colorado belong to city and town residents.[48] Hence, it is not unreasonable to assume that urban residents account for more than one-half of the payments into the highway fund. From this, it may then be argued that the 5 percent city allocation represents a significant inequity in highway user taxation.

A second argument favoring a larger city share is based on the thesis that relative costs

[45] *Colorado Revised Statutes, 1953*, Ch. 120-12-6, 7, and 8.

[46] State of Colorado, Department of Highways, *Colorado's Annual Highway Report for 1956*, p. IX.

[47] *Colorado Revised Statutes, 1953*, Ch. 120-12-7.

[48] Conrad L. McBride, *County Road Administration in Colorado* (Denver: Bureau of State and Community Service, 1958), p. 17.

of highway construction and maintenance as between the state, county and cities should be a consideration in the allocation formula. By such reckoning, and based on 1956 data, cities in Colorado are found to have accounted for approximately 18 percent of all highway and street expenditures in the State.[49]

Neither of these arguments standing alone can adequately supply either a theoretical or practical basis for revising the city formula as it now exists. The argument based on "so much paid . . . so much received" relies on the benefit principle without fully recognizing either benefits received or ability to pay. Nor does the argument based primarily on the criterion of "need" add much to the city case.

More substantial, however, is the position premised on a more realistic interpretation of the "theory of basic access." In essence this theory holds that users should bear the costs of all primary roads while non-users should cover costs of all access roads. Historically, Colorado has tended to place the liability for the cost of state roads on highway users while that of city streets has been laid largely on the non-user, that is, by taxation unrelated to the use of primary highways, such as the property tax. Historically, also, counties and "county roads" have tended to occupy a kind of middle position being financed by both user and non-user groups.

Basic access, as narrowly construed in the past, has however ignored the tremendous revolution in highway traffic which has increasingly converged on cities. Increasing traffic congestion has not only become a number one problem for the cities but has also importantly affected the use and efficiency of the entire primary network of the interstate as well as intrastate highway systems. Under these circumstances the city street problem has become one which can no longer be regarded realistically as essentially a local problem, but one which deserves recognition as being also a State problem and, therefore, a cost properly assessable to the highway user. Failure to recognize this, accounts for the relatively low city share of highway funds—an anachronism which has and continues to hurt not only the cities but the entire transportation system of the State.[50]

The Administrative Role of Counties A second major criticism is indirectly related to the allocation formula in that it questions the capacity of the counties to adequately finance and administer the "county road" system as presently constituted. In effect this argument calls for an extension of state administration to encompass a larger responsibility for county roads with county participation in the highway fund modified accordingly. A recent definitive study on county road administration in Colorado by Professor Conrad L. McBride of the University of Colorado presents the case for reorganization along these lines as follows:

> In summary, certain important facts emerge clear and unequivocal. First, the costs of maintaining an adequate system of county highways and roads is now and will be an excessively expensive obligation upon many of our counties. This is owing in part to the fact that county road responsibilities bear no relationship to the relative capacity of the counties to meet the financial requirements involved in providing an adequate road system. Basically, the counties were organized at a time when the motor car was a myth, not a standard of transportation. Consequently, counties were not established with modern road problems in mind . . .
>
> Second, the major financial burden for developing and sustaining the road system in the state devolves upon the taxpayers and highway users in the urban areas of the state. While it is not unusual for governments to redistribute wealth through tax devices, neither is it inappropriate nor unusual for those who contribute the major share of the funds to insist upon effective accountability and efficient administration of public programs. Since the state, in this case, is the collecting and redistributing agency, it inevitably assumes primary responsibility for protecting the interests of those upon whom the financial burden falls . . .
>
> The third fact is that the organizational structure of county government is not well adapted to road administration. While it is true that the three electoral districts in the counties may provide for strong local control over the members of the board, it is also true that such local control frequently results in fragmentation of programs and lack of coordination among the commissioners. Moreover, local controls tend to abridge and frustrate the basic non-local considerations which are equally deserving of recognition by the board.
>
> The present organization also facilitates the depositing of authority and responsibility over technical or professional matters in the hands of laymen. To be sure state statutes provide for the appointment of trained, competent, professional supervisors to administer road affairs in the various counties; but, the flexibility of the statutes has permitted many boards of commissioners to ignore statutory intent and to proceed under systems which reject the very premises of professionalization.
>
> Finally, the present system is such that city-county cooperation and county-county cooperation is virtually non-existent, and county-state coordination often becomes involved in excessive negotiation and red tape. In this connection perhaps the strongest argument against current arrangements at the county level is that boards of commissioners

[49] State of Colorado, Highway Department, *Annual Report for 1956*, pp. 11, 23 and 39.

[50] For further discussion on this point see Chapter X of this report.

almost never recognize any responsibility to residents of municipalities in road matters . . . By direct assertion, fortified by a variety of data, county spokesman have affirmed the author's contention that most county roads are genuinely part of the state road system. These affirmations have been in evidence primarily as arguments for increased state financial aid to the counties. Secondary evidence is revealed by the fact that Colorado is a favorite haven for tourists who seek to explore many of the out-of-the-way places in the state, and also by the fact that sportsmen, both resident and non-resident, make enormous use of rural roads during summer and autumn months. There can be little doubt that the state as a whole benefits from tourism and the wanderlust of sportsmen. But, good roads are vital to the continued growth of both of these activities. Economy and efficiency are, therefore, of first priority importance . . .

Since the basic functions of counties lie mainly in the category of ministerial services performed at the local level in behalf of the state, since the great bulk of operating revenues in many counties are state distributed funds, and since many of these same counties exhibit neither the capacity nor the desire to maximize efficiency and economy in the road field, we are led to the conclusion that the state has an undeniable obligation to remove responsibility for all "state roads" from the jurisdiction of counties as they are presently constituted.[51]

The case for local autonomy is stressed in opposition to any change of the present system. Many problems, it is argued, are local in nature and should be dealt with locally without undue supervision and interference from the State.

Although it is beyond the scope of this report to fully analyze the preceding arguments, there is evidence that the present system of financing is costly and, in part, needless. The essential question which must be answered is how high a price are the people willing to pay for the degree of local autonomy which the present system affords.

Specific Ownership Tax "A." The specific ownership tax "A" is a state collected levy on commercial carrier vehicles. The revenues from this tax are returned "to the counties in proportion to the distance traveled across each county as compared with the total distance of the route within the state of Colorado."[52] This procedure of state collected levies being returned to the counties is due to the fact that carrier vehicles seldom confine their operations to one county. Hence, there is a need for some type of allocation mechanism.

In determining the amount to be paid by each Class A taxpayer, the Tax Commission takes into account the length of time for which the vehicle is operated in intra-or interstate commerce and the total number of miles of operation. Consideration is also given to any reciprocal agreements between Colorado and other states which relate to property taxation of motor vehicles.

Table 20.14 shows the rates and bases that are utilized in levying the tax. It will be noted that the rate remains constant (3 percent) while the base decreases with the passage of time. In addition, the base is expressed as a percent of "established tax value" which is, in turn, a percent of actual value.

Table 20.14

Specific Ownership Tax "A" Schedule of Rates and Bases, Colorado, 1958

Period	Tax rate (Percent)	Legal value (Percent of established tax value) [a]	Tax rate as percent of original value
1st year	3	70	1.575
2nd year	3	50	1.125
3rd year	3	40	0.900
4th year	3	30	0.675
5th year	3	15	0.338
6th year	3	15	0.338
7th year	3	15	0.338
8th year	3	15	0.338
9th year	3	15	0.338
Thereafter	3[b]	—[c]	—

[a] Established tax value is 75 percent of delivered price of vehicle, state and local taxes excluded.
[b] Minimum of $1.50.
[c] Value to be determined by State Tax Commission in accordance with market value, not to exceed 15 percent of established tax value.

Source: *Colorado Revised Statutes, 1953*, Ch. 13-5-5.

In 1957, $375,000 was returned to the various county road funds from the state collected specific ownership tax "A".[53]

Motor Vehicle Penalty Assessments. Vehicle penalty assessments include the receipts collected from certain highway traffic violations. These fees are applicable only when another penalty is not provided for and do not apply to any violation which is tried in a court.[54] The recipient of a ticket involving these violations pays the specified amount to the State Revenue Department. These moneys are paid to the State Treasurer, who in turn pays "one-half of the receipts to the state highway fund and one-half to the county treasurer of the county in which the violation took place."[55]

[51] Conrad L. McBride, *County Road Administration in Colorado*, *op. cit.*, pp. 37-39.
[52] *Colorado Revised Statutes, 1593*, Ch. 13-5-5.
[53] State of Colorado, Division of Accounts and Control.
[54] *Colorado Revised Statutes, 1953*, Ch. 13-4-132.
[55] *Colorado Revised Statutes, 1953*, Ch. 13-4-133.

Receipts from vehicle penalty assessments are a relatively unimportant source of county revenue, amounting to a total of only $115 thousand in 1957 (Table 20.13).

Liquor License Fees. Two state license fees are collected from each liquor retailer in Colorado. One fee is collected and retained by the State while another fee is collected by the municipalities, or by the counties if the retailer is located outside the corporate limits of a municipality.[56] In accordance with the Old Age Pension Amendment, 85 percent of the locally collected license fees accrue to the State Welfare Fund, while the remaining 15 percent is retained by the municipalities and counties.[57] Since these revenues are shared by the State and cities and counties, they may be classified as shared taxes. However, it will be noted that the fees resemble a "shared tax in reverse" since they are collected locally and shared with the State rather than the more common procedure of the state collecting the fees and sharing them with the local units of government.

The rates of locally collected liquor license fees vary depending on the type of retailer involved. The annual amount of these fees range from $325 for a hotel or restaurant to $100 for a private club (Table 20.15).

Table 20.15

State Liquor License Fees, Colorado, 1959

Type of business	State license fee collected by State	City	County*
Manufacturer-liquor	$1,000	$ 0	$ 0
Manufacturer-beer	250	0	0
Wholesaler-liquor	1,000	0	0
Wholesaler-beer	500	0	0
Retail liquor store	50	150	250
Drug store	50	150	250
Beer and wine only	25	150	250
Hotel and restaurant	25	325	325
Club	25	100	100

* Applicable only if retailer is located outside city limits.

Source: *Colorado Revised Statutes, 1953*, Chapters 75-2-17, 75-2-18, 75-2-19, 75-2-20, 75-2-21 and 75-2-23.

While the State collects a fee from liquor and beer manufacturers, and wholesalers, locally collected licenses are confined to various types of retailers.

Due to the fact that 85 percent of the locally collected fees are constitutionally allocated to the State, they represent an unimportant local source of revenue. The total state liquor fees collected by cities and counties and the respective state and local shares are shown in the following tabulation.[58]

Year	Total revenue	State share	Local share
1954	$650,000	$552,500	$97,500
1955	656,135	557,735	98,400
1956	658,225	559,493	98,732
1957	656,206	557,775	98,431

It can be seen that revenues of approximately $98,000 when divided among 63 counties and over 200 municipalities, result in a small amount for each recipient. For example, the following tabulation shows the amounts received by several selected cities in 1957:[59]

Denver	$27,066
Pueblo	5,948
Colorado Springs	2,021
Grand Junction	1,159
Trinidad	1,624
Durango	994
Lamar	498
Englewood	608
Loveland	218

The present system by which the State receives 85 percent of the locally collected state license fees has been criticized on the grounds that local units of government incur a substantial cost due to the liquor business and they should therefore be allowed to retain a larger share of the fees they collect. Although there is merit to this argument, the State's share is, in any event, constitutionally determined under the present system. Hence, it appears that cities will have to rely on local occupation taxes to help pay the additional costs associated with the liquor business or seek the passage of a constitutional amendment exempting certain license fees from the old age pension earmarking.

Grants-in-Aid in Colorado

In 1957, a total of $96 million was transferred from the state to local governments in the form of grants-in-aid (Table 20.13). Functionally and on a relative basis this total was distributed as follows: welfare, 72.1 percent; education, 25.3 percent; and all other 2.6 percent. Of the total amount, also, 33.1 percent came from federal sources (mainly by direct grants to states) and the remainder or 66.9 percent from the State's own resources—the distribution by major functional groups being the following:

Function	Source of funds—percent of total Federal	State	Total
Welfare	42.0	58.0	100.0
Education	5.5	94.5	100.0
All other	56.0	44.0	100.0
Total	33.1	66.9	100.0

[56]The state license fee collected by municipalities or counties is not to be confused with the occupation liquor license fee collected by some Colorado cities.

[57]For additional discussion of the effect of the pension amendment on local liquor taxes see the previous section of this chapter concerned with local non-property sources of revenue and the chapter on the state liquor tax.

[58]Annual Reports of the Colorado Liquor License Division.

[59]Colorado Municipal League, *Municipal Non-Property Revenues*, April, 1959, pp. 6-9.

Worthy of note is the fact that aid for education is primarily a state-financed function and, therefore, subject to little, if any, federal determinations. In contrast, welfare is, and will undoubtedly continue to be, a program importantly assisted (and controlled) by the Federal government.

Public Welfare.[60] State payments (from federal and/or state funds) for welfare cover the following individual programs: (1) old age pension, (2) aid to dependent children, (3) aid to the blind, (4) aid to needy disabled, (5) child welfare, (6) tuberculosis hospitalization, and (7) administration. Not included as an aid program is "general assistance" which is financed exclusively by the counties. Apart from this program, the financing of welfare in Colorado is a responsibility variously shared by the federal, state and county governments depending upon the program in question. By formula, the combined federal and state shares compared with county participation is as follows:[61]

Program	Federal-State share (percent)	County participation (percent)
Old age pension	100	0
Aid to dependent children	80	20
Aid to blind	80	20
Aid to needy disabled	80	20
Child welfare	50	50
Tuberculosis hospitalization	50	50
Administration	80	20

The application of this formula to welfare expenditures in 1957 is shown in Table 20.16.[62] This presentation is somewhat more revealing since it gives a breakdown of the contributions to the individual programs by each of the three governmental units—federal, state and local. It will be observed that Colorado's total welfare expenditures, amounting to $81 million in 1957, were covered by federal funds to the extent of 38.1 percent, while the state and local contributions were 52.4 percent and 9.5 percent, respectively.

With the exception of old age pensions, which are paid entirely out of state and federal funds, all other welfare aids require some outlay by the counties. Although direct payments to beneficiaries from state and federal funds are made by the counties, basic administrative policy rests with the State.

[60]On this subject see also Chapters III and XIX.

[61]The formula presented is from State of Colorado, Department of Public Welfare, *Colorado Public Welfare Fiscal Report, 1956-1957*, p. 7.

[62]See also Chapter XIX, Table 19.5.

Table 20.16

Expenditures for Public Welfare, by Programs and Sources of Funds, in Colorado Fiscal Year, 1957

Program	Total expenditures (thousands)	Source of funds (percent) Total	Federal	State	County
Old age pension	$57,475	100.0	37.0	63.0	0.0
Aid to dependent children	7,992	100.0	59.4	18.3	22.3
Aid to blind	336	100.0	39.9	37.5	22.6
Aid to needy disabled	3,702	100.0	57.0	20.6	22.4
Child care	552	100.0	1.1	46.0	52.9
Tuberculosis hospitalization	473	100.0	0.0	50.0	50.0
General assistance	3,497	100.0	0.0	0.0	100.0
Total	77,027	100.0	38.2	52.7	9.1
Administration					
County departments	3,567	100.0	36.8	43.9	19.3
State department	567	100.0	41.3	58.7	0.0
Total	4,134	100.0	37.4	45.9	16.7
Grand total	81,161	100.0	38.1	52.4	9.5

Source: State of Colorado, Department of Public Welfare, *Colorado Public Welfare Fiscal Report, 1956-1957*, p. 41.

The various titles of the Social Security Act, creating the so-called "categorical aids," each require that if a program is administered by the local units of government, it becomes uniformly mandatory upon them. State law which embodies federal conditions of administration therefore dictates the basic outlines of the public assistance programs and the counties are to a significant extent merely administrative agents for the State and Federal government. Thus, any person applying for public assistance via a duly constituted county welfare department may, if such application is denied, appeal to the State Welfare Department. A ruling for or against the appellant would, in any event, be binding upon the county.

Viewed in this light, the welfare program at the county level is not so much a county program supported by state and federal aid but rather a state-federal program supported by state, federal and, in most cases, by county funds. This distribution is important since it points to the very narrow limits within which counties have any freedom of choice.

Old Age Pensions. As noted earlier, Colorado's pension program is one of the most liberal in the country.[63] For fiscal 1957 the average monthly amount paid was $82.36 per eligible person over 65 years of age. This figure placed Colorado in the 6th leading position among the states. To make such payments possible (including payments to eligible persons in the age bracket from 60 to 65—a program financed by

[63]On this and other aspects of the pension program see again Chapter III.

the State exclusively) the State provided funds, mainly from the sales tax, in the amount of $36 million to which the federal government added $21 million according to the following formula:[64]

80% of first $30 paid to each recipient 65 years of age and older

50% of next $30

50% of medical care expenses not to exceed $3 per month per person

50% of administrative expenses.

Thus, for 1957 a grand total of $57 million was paid out for old age pensions in Colorado.

Effective as of January 1, 1957, an amendment to the State Constitution fixed a "basic minimum award of $100 monthly"[65] and, in addition, provided for a health and care program for eligible pensioners fixed at a yearly maximum cost of $10 million.

The administration of the program as a whole is essentially a responsibility of the State Department of Public Welfare although payments are made through each of the 63 county welfare departments. Thus, the latter serve simply as arms of the State making no financial contribution to the program as such. However, the counties are required to cover 20 percent of administrative costs for all state-federal supported welfare programs.

Aid to Dependent Children. The "ADC" program is contained in Title IV of the Social Security Act and provides federal aid, the terms being that the federal government will pay $32 to the relation with whom the dependent child lives; $32 for the first dependent child and $23 for each other dependent child; and medical care payments not to exceed $3 per adult aided (with whom the child lives) and $1.50 per child. Federal aids plus state funds are then used to reimburse the counties up to a maximum of 80 percent of their reported needs based on federal-state standards of dependence..

In 1957, aid to dependent children amounted to $8 million of which the federal-state-county contributions were $4.7 million, $1.5 million, and $1.8 million, respectively.

The extent of need is evidenced by 1957 data reported by the State Department of Public welfare[66] which shows that, on the average, 12.03 families out of every thousand in the State were recipients of aid. For Denver, which accounted for slightly over 40 percent of the average monthly case load, there were 14.3 families in every thousand who received aid.

For 1957, also, the average monthly payment per family was $112.20 for the State as a whole or a cost of $4.94 per capita for the year. Highest cost per capita was in Huerfano County at $17.20. Denver County's cost was $6.61 per person living in Denver.

Aid to Blind. Title X of the Social Security Act provides federal aid for the needy blind on terms equivalent to those for old age pensions. However, as in the case of aid to dependent children, state funds were added to reimburse the counties up to 80 percent of their reported needs, the remaining 20 percent constituting, therefore, the county cost on the program. In 1957 aid to the blind amounted to $335,628 of which the federal, state and county contributions amounted to $133,341, $125,688 and $76,599 respectively.

Aid to Needy Disabled. The 1950 amendments to the Social Security Act added Title XIV to that Act providing aid to the "permanently and totally disabled" (APTD), called in Colorado, "Aid to Needy Disabled" (AND). Before 1951, persons between 18 and 65 years of age, disabled and in need, not covered by ADC, aid to the blind or old age pensions, were forced to rely upon a program of "General assistance," later described. The provision of the federal amendment in 1950 caused Colorado to begin in 1951 a program of Aid to Needy Disabled which in 1957 had an average monthly case load of 5,218 and an average monthly payment of $58.99.[67]

Federal aid on the program is equivalent to that applicable to the old age pensions. Federal and state contributions are designed to reimburse up to 80 percent of the total outlays reported by the counties. In 1957, total expenditures in the program amounted to $3,702,084 of which the federal, state and county participations were $2,108,665, $762,923, and $830,496, respectively.

Child Welfare. Expenditures for the care of children in approved foster homes and institutions are shared equally by the State and county. Care includes a rate per day (the median in 1957 was $1.75) paid to the foster homes and allowances, personal supplies and clothing as needed by the individual child. Care in an unapproved home, and the costs of transportation, hospitalization and medical care, are financed entirely from county funds.

As distinguished from the preceding programs, child welfare receives support of an emergency character only from federal funds.

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[64]On this see also Chapter XIX.

[65]This figure is subject to upward adjustment contingent on a cost of living factor.

[66]State of Colorado, Department of Public Welfare, *op. cit.*

[67]*Ibid.*, p. 29.

In 1957, total costs of the program amounted to $552,231 of which the federal share was only $6,330[68] while the state and county costs were $253,953 and $291,948, respectively.

Tuberculosis Hospitalization. Colorado provides assistance towards the cost of tuberculosis hospitalization of needy tubercular patients in an approved sanitarium. The State and counties share costs on a 50-50 basis. Expenditures for the fiscal year 1957 totaled $472,995.

General Assistance. The general assistance program is a sort of "residual" program in that it covers cases of need excluded from preceding programs. It is also distinctive in being a locally financed program without benefit of either state or federal aid.

State aid was available for general assistance until 1952 when only the "tag ends" of the funds available were paid out. It may be that the State's decision to abandon aid for general assistance grew out of the fact that the State had, during the same year, assumed an obligation on the new federal program of Aid to the Needy Disabled. It had been stated publicly by various welfare officials that the bulk of the general assistance cases at that time were actually disabled persons who would become eligible under the new APTD or AND programs. Experience unhappily did not fully justify this optimistic view. It may also be that optimism over the high level of employment prevailing in 1950 and 1951 led to the belief that state aid for general assistance was not needed, on the premise (contrary to fact) that any person over 18 or under 65 could get a job.

A review of the scope of general assistance points to the fallacy of any assumption that as a "residual" program it can be taken in stride by local financial effort.

In many cases general assistance is needed for resident persons who still cannot qualify for one of the existing welfare programs. This applies particularly to aged persons who lack residence to qualify for the Old Age Pension. In many cases, also, persons who do qualify under these programs need supplemental aids to carry them through. Finally, the transient problem is one that falls heavily on certain communities, particularly the larger cities.

As a result then of these "uncovered" areas of need, a continuing and sizable demand is placed on local funds for this purpose which, in 1957, amounted to a total of approximately $3.5 million or nearly one-half of county financed welfare payments on all programs of welfare. Yet the average monthly payment per person for general assistance was only $11.88 with individual county payments varying from a low of $3.52 to a high of $30.44.

The lack of state and federal aid in these cases means, therefore, (and aside from its fiscal implications for local finance) that a kind of "built-in" inequity exists in present welfare programs in the State. Thus, the needs of persons whose requirements may be equal from a personal budgetary standpoint are met at different rates depending upon the program applying in any given case. The old age pensioner will have his needs covered most fully. The ADC, AND, and AB cases will be covered reasonably well thanks to an 80 percent state-federal reimbursement. Below these categories, however, welfare becomes essentially a matter of how much is available for the purpose. That a less than minimum subsistence allotment is made per applicant is evident from county experience generally—a fact which points strongly to the need for reconstituting this aid program on a more realistic basis than now exists.

Education. In recent years approximately 20 percent of Colorado's public school expenditures, including debt service have been financed by state aids in one form or another (Table 20.17). This ratio may be expected to increase as a result of the School Foundation Act adopted in 1957. In this Act, the product of considerable

[68]This amount was paid in three "extreme hardship cases" reported for Huerfano, Costilla and Las Animas counties. (Source: State Department of Public Welfare.)

Table 20.17

Public School Expenditures and State Aid in Colorado
Fiscal Years, 1951-1957
(Dollar amounts in thousands)

Year	Current expenditures	Debt service	Total expenditures (current expenditures and debt service)	State aid	State aid as percent of total expenditures	Enrollment
1951	$46,975	$ 5,549	$ 52,424	$10,093	19.2	224,056
1952	51,377	5,728	57,105	10,000	17.5	231,533
1953	60,289	7,218	67,507	14,798	21.9	252,326
1954	68,056	9,852	77,908	15,084	19.4	271,760
1955	73,676	11,120	84,796	15,380	18.1	289,690
1956	84,639	12,721	97,360	19,472	20.0	307,753
1957	94,882	14,342	109,224	22,973	21.0	326,200

Source: State of Colorado, Department of Education, *These are the Facts*, January, 1958.

research by an interim committee of the Legislative Council, the General Assembly redefined the minimum or foundation program in more realistic terms than had existed previously. The classroom unit values were raised, classroom sizes were changed and local support was computed on a higher county mill levy and divided among the districts in the county on the basis of school attendance. The State agreed to make up the difference, to the extent it has funds available, between the minimum support program and the yield of the established 12-mill county school levy.

Because of the considerable public interest which attaches to this program and its future fiscal implications for both the state and local governments, a review of its principal features are presented below in some detail in terms of (1) the sources of funds used for state aid, and (2) the state aid plans as presently constituted.

Sources of Revenue for State Aid. State aid funds are derived from two principal sources, namely: The Permanent School Fund, and general revenue from other sources as appropriated by the General Assembly. These have been described by the State Board of Education as follows:[69]

> (1) *Permanent School Fund*—The principal of the Public School Fund, June 30, 1957, amounted to $21,813,329 in cash and investments in bonds and farm loans. The State still owns 2,800,000 acres of school lands, most of which are leased. No appraisal value has been established for these lands. In addition, there are about 100,000 acres under certificate of purchase. Proceeds from the sale of school lands, estates that escheat to the State, gifts and grants to the state for educational purposes, are added to the principal of the fund. Such additions amounted to $1,013,274 in 1956-57.
>
> The net income from the fund (as a whole), including interest on investments and royalties on lands, transferred to the State Public School Fund was $3,473,609 in 1956-57 and $3,818,889 in 1957-58. The gross income is first subject to payment of premiums upon investments, the purchase of necessary school district reporting supplies, pamphlets and school laws. The quarterly balance of the Public School Income Funds are paid into the State Public School Fund to be held as an accumulative "direct grant reserve" distributed on May 1 each year to all eligible school districts upon the basis of the aggregative days of attendance in the preceding school year.
>
> (2) *Legislative Appropriation*—All State school funds, except the income from the permanent school fund and lands, and from Federal mineral leases, are now provided through legislative appropriations from the General Fund. Budgetary estimates, as described in the State aid programs (later described) are used by the Legislature in determining the amounts of the appropriations. Special purpose appropriations are distributed through the General Fund of the State.

State Aid Plans

A. General Purpose Flat Grant

(1) *State Public School Fund—Aggregate Days Attendance Distribution.* To participate in the distribution of the State Public School Fund, the school board must elect to accept the terms of the Act; must maintain school for at least 170 days during 1956-57 and 172 days during the school year thereafter; and must pay teachers not less than sixty-five percent of the classroom unit value for the type of certificate held. For the full-time teacher holding a graduate certificate, the minimum salary is $3,380 and for the teacher holding other than a graduate certificate, $2,925 is the minimum salary. The county is required to levy twelve mills for the Foundation Program. Participation is available to all public school districts except Junior College districts with no district mill levy required.

The distribution is to permit all school districts to participate in the revenue from the public school lands upon a general-purpose flat grant basis. On May 1, 1958, the money available for 1957-1958 was apportioned to 51,016,256 aggregate days of attendance during the 1956-57 school year in the amount of 6.23700976 cents per aggregate days attendance. Funds received are to be used for current expenses as implied by the law which reads: "No funds received from the State Public School Fund shall be used by any school district for debt service or capital outlay."

(2) *State Public School Fund—Junior College Distribution.* To participate in this distribution, the district having a junior college organized under the Junior College Act must report to the State Board of Education the number of students and the hours of credit earned by these students for the preceding regular academic year.

The State Board of Education allocates $1,050 for each seven students carrying an average of 45 quarter hours or 30 semester hours of credit for the preceding school year.
Fund is to be used in the same manner as noted in paragraph (1) above.

B. General Purpose Equalizing Grant

(1) *State Public School Fund—Minimum Equalization Program Distribution.* The requirements for participation are the same as for the Aggregate Days of Attendance Distribution as described in paragraph (1) above.

The State Board of Education allocated to local school districts the deficiency, if any, between (1) the value of classroom units to which the district is entitled by calculations, and (2) the amount raised by a twelve mill levy upon the county, apportioned among the districts in proportion to their total classroom unit values. Under (1) the calculations provided classroom units which average 85 percent of the certified personal employed. The value of the classroom unit is $5,200 for those served by teachers holding graduate certificates; remainder units for those served by

[69] The principal data and discussion on state aid in this section of the report are quoted in whole or in part from releases of the State of Colorado, Department of Education, Division of Finance, Forms SF-1.1-3, June, 1958.

teachers holding graduate certificates; remainder units have a value of $4,500, if served by teachers holding other than graduate certificates. Under (2) the obligation of the State is met by prorated payments to the extent that the funds available permit. The proration factor for 1957-58 was 81.8379708 percent of the total State Equalization obligation.

The aggregate days of attendance (limited to 180 school days) of the preceding year are divided by 172 for all districts. The calculated A. D. A. thus derived provides one classroom unit for the first 15 A. D. A., one additional classroom unit for each of the next 20 A. D. A. and additional classroom units for each of the next three 20 A. D. A. and additional classroom units for each 25 A. D. A. thereafter. Calculations are to the nearest major fraction of one-tenth, with no district having less than three-fourths of a classroom unit if a teacher is employed.

Certified professional personnel must actually be employed in support of the calculated units. Pupils in attendance for one-half day, or less, count as one-half day of attendance and kindergarten pupils also count as one-half day of attendance.

If a school district has an increase during the first twelve weeks of the current year in excess of seven percent over the first twelve weeks of the preceding year, the A. D. A. in excess of seven percent provides additional classroom units at the rate of 25 A. D. A. per classroom unit.

If high school districts have fewer than 150 pupils or districts maintaining twelve grades have attendance centers of fewer than 300 pupils, the State Board may make a determination and grant additional classroom units needed to carry out a desirable educational program not to exceed three additional units for each attendance center.
Fund is to be used in same manner as noted in paragraph (1) above.

(2) *State Public School Fund—Emergency Distribution.* The requirements for participation are the same as for the Aggregate Days of Attendance as described in paragraph (1) above.

The State Board of Education is required to withhold from normal distribution 1.5 percent of the appropriation as a "contingency reserve." The State Board of Education has the authority to make payments from the Contingency Fund for (1) financial emergencies caused by an act of God, (2) sudden increases in enrollment, (3) temporary enrollment, (4) efforts of the district to provide sufficient funds for its own use, and (5) standards of education maintained by the district.

Any balance remaining in the State Public School Fund on May 31 becomes available for equalization proration.

Fund is to be used in same manner as noted in paragraph (1) above.

C. *Special Purpose Flat Grant*

(1) *Public School Transportation Fund.* To participate in this distribution, a school district must have spent for maintenance and operation for transportation of pupils to and from the residence and a school maintained by the district, a sum in excess of the amount which would be produced by a levy of one-half mill.

The State Board of Education allocates eight cents for each mile traveled in the transportation of pupils as described, together with an allocation of four cents for each pupil day of transportation. In addition, there is provision of fifteen cents per pupil day for board in lieu of transportation. The payments are in respect to events in the preceding year.

Entitlements are limited to seventy-five percent of the actual expenditures. In case of a deficiency, the fund is prorated on a straight-line basis. For 1957-58, the proration factor was 91.5641568 percent.

No restrictions prevail as to the use of the fund since it is in effect a reimbursement for transportation expense.

(2) *Education of Physically and Mentally Handicapped Children Appropriation.* A school district is reimbursed for actual "excess cost" (as determined by formula) for providing educational facilities for physically and mentally retarded children between the ages of 6 and 21 years.

(3) *Vocational Education Appropriation.* A school district is partially reimbursed by the State for programs of vocational education meeting the standards prescribed by the State Board of Vocational Education.

(4) *State School Organization Fund.* Each legally formed school planning committee in each county organized under "The School District Organization Act of 1957" is entitled to receive an amount not to exceed $500 for expenses incurred.

Issues and Outlook. Currently school districts are receiving about 80 percent of the amount of state aid needed to fully implement the foundation program as defined in the 1957 law. As interpreted, the law does not compel full or "100 percent implementation" since the obligation of the State is presumably met by prorated payment "to the extent that the funds available permit." Decision of the last General Assembly not to appropriate the full amount, which would have called for an additional General Fund expenditure of approximately $10 million was based on several considerations among which the lack of funds for the purpose was undoubtedly the major one. Militating also against full implementation was executive and legislative belief that further state assistance should await the outcome of the Legislative Council study of assessments and such correction of assessment inequalities as the study might reveal. The importance of uniformity of valuation in the administration of the state aid program is clear when it is recognized that state aid payments are designed to fill the gap between the requirements of an established minimum support program and the yield of a 12-mill county school levy. Since the school aid payments are premised on the imposition of a 12-mill county levy, which will be uniform

also in terms of the assessment base, any variation in assessment ratios between counties would obviously cause an inequitable distribution of aids.

The wisdom of instituting full implementation was also questioned on grounds that funds expended would not be utilized effectively in view of the excessive number of school districts. Holding back state aids pending further consolidation, as called for by the School Reorganization Act of 1957,[70] appeared therefore as an appropriate step to take to force districts to move faster than might otherwise obtain.

Conceptually, Colorado's state aid formula, as now established, is believed to be sound. Unfortunately it is based on an assumption of uniform assessment that will likely continue to plague its effective implementation. Moreover, its use as a club to force consolidation creates certain differences that probably will be resolved in time.

Whatever these problems may be and how they will be met, the case for full implementation at an early date is undeniably strong. This has its main support in the clearly demonstrated need witnessed by a sharply increased public school enrollment and average costs per pupil as earlier noted in Chapter III of this report.[71] Moreover, future enrollment trends and aggregate outlays therefor are expected to continue at an increasing rate. In the light of these developments, plus a clear sign that the local property tax base is nearing its maximum utilization, it is apparent that the part played by school aid in Colorado (which in the past has probably been relatively less in relation to school population than any other Western state as noted earlier) must become increasingly important.

Public Health.[72] Local expenditures for public health in fiscal 1958 are reported by the State Department of Public Health to total $2,154,962. The State and federal budgeted aid amounted to $170,141 or 7.9 percent of the total. In 1957, state and federal aids amounted to $154,000 of which the federal government contributed $113,000 and the State $41,000. (See Table 20.13.)

Three kinds of grants are being made currently to local departments of public health. These are:

(1) "Organized"[73] local health departments, with a full-time director and staff, are given funds (budgeted to the amount of $158,000 for state and federal aid for fiscal 1958) on the basis of historical development, need, and the availability of funds. Areas designated as being served by organized health departments are, (1) Boulder, Mesa, Otero and Weld counties; (2) City-County El Paso, Northeast Colorado, Pueblo—City-County, San Juan Basin, Tri-County and Denver City-County. These areas as a whole include 22 counties and embrace the major portion of the State's population.

(2) "Unorganized" local health departments (budgeted to the amount of $12,267 in state and federal aid for fiscal 1958) are found in the remaining 41 counties. Aids are distributed on a basis which will pay up to one-third of the salary (but none of the other expenses) for the number of nurses shown in the following schedule:

County population	Number of nurses[a]
Less than 2,500	½
2,500 - 12,500	1
12,500 - 25,000	2
25,000 and over[b]	1

[a]A county may employ more nurses than indicated in the schedule but the State will contribute only for the number shown.

[b]Counties of this size should have full-time health departments to which the State contributes on a different basis.

(3) Reimbursements to mental health clinics (budgeted to the amount of $70,000 for state and federal aid for fiscal 1959), are alloted to counties on a formula basis in which population and per capita assessed valuations are the principal factors. Counties qualifying for aid must have local mental health programs. Currently only 10 counties are so established.

Record of State Aid for Public Health. It is notable that the State allotted locally $217,326 to Public Health in 1953 but in the following year, 1954, this allotment was cut to $153,830 and was further reduced to a low of $150,555 in 1956 (Table 20.18). These restrictions represented a cut of both federal and state allotments, and it is only in this year's 1958-1959 budget that the State Department of Public Health is again approaching what had been a standard figure ($190,000). Also worthy of note is the continual increase in local funds which have been available for public health purposes in recent years.

[70]See Chapter II.

[71]See Chapter III.

[72]Data included in this section are from State of Colorado, Department of Public Health.

[73]"Organized" health departments which are listed by name have been set up according to the 1947 Section Law and are administered through a local board, a medical officer, and in all instances employ sanitarians and nurses. Departments not meeting these standards are not named but generally referred to under the general designation of "unorganized departments."

Table 20.18

State Allotments[a] to Local Departments of Health in Colorado, Fiscal Years 1951-1958

Year	Organized counties	Unorganized counties	Total
1951	$182,048	$11,516	$193,564
1952	103,096	8,451	211,547
1953	210,073	7,253	217,326
1954	146,405	7,425	153,830
1955	148,089	5,941	154,030
1956	144,305	6,250	150,555
1957	142,216	9,727	151,943

[a] Exclusive of allotments to mental health programs.

Source: State of Colorado, Department of Public Health.

Thus $1,281,794 was expended locally in 1953; in 1958 the local departments spent $2,154,962.

Conclusions. Insofar as significant areas of the State remain without the benefit of local or district full-time health programs, it is clear that Colorado needs to re-examine its existing aid structure both in terms of amounts paid and coverage. While the legal initiative should come from the local areas, the financial inducement and organizing help is clearly a state responsibility.

Appendix Table 20.A

Mill Levies in Cities and Towns for Municipal, County and School Purposes Colorado, 1953, 1956 and 1957

City or town[a] (counties in parenthesis)	Municipal levy			County levy			Schools (county and school district levy)			Total levy		
	1953	1956	1957	1953	1956	1957	1953	1956	1957	1953	1956	1957
Population 20,000 and over												
Denver (Denver)	15.95	20.40	20.30	[b]	[b]	[b]	23.60	27.40	29.85	39.55	47.80	50.15
Pueblo (Pueblo)	22.75	19.75	19.75	7.30	8.78	8.98	33.03	36.16	37.47	63.08	63.69	66.20
Colorado Springs (El Paso)	12.50	15.80	16.30	6.99	10.23	11.83	26.25	32.62	33.70	45.74	58.65	61.83
Population 10,000-20,000												
Aurora (Arapahoe-Adams)	10.87	11.50	12.50	7.85	5.63	6.15	23.81	28.43	30.30	42.53	45.56	48.95
Boulder (Boulder)	12.40	12.25	13.75	11.40	10.28	10.10	25.17	27.79	29.47	48.97	50.32	53.32
Englewood (Arapahoe)	10.47	13.00	13.00	5.95	6.39	7.12	29.82	40.24	42.00	46.24	59.63	62.12
Fort Collins (Larimer)	11.85	13.00	14.00	9.84	10.25	8.60	20.35	24.75	25.30	42.04	48.00	47.90
Grand Junction (Mesa)	18.50	20.00	17.40	9.42	9.07	10.46	36.04	43.53	40.08	63.96	72.90	67.94
Greeley (Weld)	13.50	15.40	15.40	9.65	10.50	10.50	28.60	30.57	32.54	51.75	56.47	58.44
Trinidad (Las Animas)	18.05	20.35	20.35	18.60	15.98	16.84	38.24	39.02	39.79	74.89	75.35	76.98
Population 5,000-10,000												
Alamosa (Alamosa)	16.80	16.30	16.44	7.88	9.10	10.32	26.65	26.51	30.51	51.33	51.91	57.27
Canon City (Fremont)	16.00	15.50	15.50	8.54	8.30	9.30	29.65	32.85	35.28	54.19	56.65	60.08
Durango (La Plata)	10.98	12.68	12.92	13.47	14.10	15.00	20.11	24.00	27.94	44.56	50.78	55.86
Fort Morgan (Morgan)	7.00	7.00	7.00	7.44	5.40	6.30	25.45	28.50	26.50	39.89	40.50	39.80
Golden (Jefferson)	13.00	13.00	13.50	13.74	12.43	12.01	26.75	36.45	36.17	53.49	61.88	61.68
La Junta (Otero)	12.60	12.60	12.60	10.99	14.08	14.59	26.90	35.76	38.87	50.49	62.44	66.06
Lamar (Prowers)	10.00	10.00	10.00	8.19	6.88	8.37	28.70	31.00	35.02	46.89	47.88	53.39
Longmont (Boulder)	6.20	8.20	9.79	11.40	10.28	10.10	20.29	23.25	23.68	37.89	41.73	43.48
Loveland (Larimer)	9.30	11.12	11.31	9.84	10.25	8.60	18.35	22.62	24.78	37.49	43.99	44.69
Sterling (Logan)	16.99	17.81	17.81	13.49	8.85	10.95	23.75	22.90	28.79	54.23	49.56	57.55
Walsenburg (Huerfano)	15.75	15.75	15.75	24.24	24.20	24.20	19.75	23.50	25.00	59.74	63.45	64.95
Population 2,500-5,000												
Brighton (Adams)	16.06	15.45	12.45	7.85	5.63	6.15	28.47	29.54	31.54	52.32	50.62	50.14
Cortez (Montezuma)	12.00	12.00	12.00	14.29	13.76	13.00	21.83	27.52	38.27	48.12	53.28	63.27
Craig (Moffat)	21.00	21.00	21.00	7.90	8.50	8.50	25.86	23.18	27.02	54.76	52.68	56.52
Delta (Delta)	14.60	14.76	16.00	14.56	14.85	15.60	26.97	33.20	34.67	55.53	62.81	66.27
Edgewater (Jefferson)	10.00	10.00	10.50	13.74	12.43	12.01	27.45	36.45	36.47	51.19	58.88	58.98
Florence (Fremont)	17.75	19.80	19.80	8.54	8.30	9.30	30.70	33.51	36.69	56.99	61.61	65.79
Gunnison (Gunnison)	14.80	15.30	15.30	17.04	15.72	14.72	26.52	32.06	31.40	58.36	63.08	61.42
Las Animas (Bent)	13.00	19.50	19.50	9.47	8.34	9.46	25.64	25.49	21.88	48.11	53.33	50.84
Leadville (Lake)	30.50	32.44	28.41	9.97	8.27	8.25	27.53	38.00	33.00	68.00	78.71	69.66
Littleton (Arapahoe)	6.80	10.80	10.80	5.95	6.39	7.12	27.87	38.19	42.80	40.62	55.38	60.72
Manitou Springs (El Paso)	19.87	18.10	16.39	6.99	10.23	11.83	24.45	31.76	28.51	51.31	60.09	56.73
Monte Vista (Rio Grande)	20.00	20.00	20.00	8.75	10.50	11.00	23.05	28.26	28.48	51.80	58.76	59.48
Montrose (Montrose)	12.63	12.10	14.85	10.54	10.57	12.57	24.87	33.92	31.72	48.04	56.59	59.14
Rocky Ford (Otero)	18.75	18.00	18.00	10.99	14.08	14.59	25.00	27.80	31.50	54.74	59.88	64.09
Salida (Chaffee)	18.42	20.42	20.40	10.44	10.30	10.30	21.35	23.30	24.25	50.21	54.02	54.95
Population 1,000-2,500												
Aguilar (Las Animas)	20.00	20.00	20.00	18.60	15.98	16.84	30.13	32.05	33.40	68.73	68.03	70.24
Akron (Washingron)	15.03	18.80	21.50	10.67	4.10	4.62	19.81	26.35	30.44	45.51	49.25	56.56
Antonito (Conejos)	21.31	21.31	21.14	12.95	14.43	17.00	22.35	20.50	22.00	56.61	56.24	60.14
Arvada (Jefferson)	10.00	10.00	10.00	13.74	12.43	12.01	24.65	36.45	36.47	48.39	58.88	58.48
Brush (Morgan)	10.50	11.80	13.00	7.44	5.40	6.30	25.45	27.60	28.70	43.39	44.80	48.00
Burlington (Kit Carson)	8.00	8.00	8.50	8.67	9.65	11.15	20.58	21.57	21.08	37.25	39.22	40.73
Center (Saguache)	11.00	11.50	13.00	13.00	12.50	13.75	21.25	24.26	31.76	45.25	48.26	58.51
Del Norte (Rio Grande)	15.00	15.50	15.45	8.75	10.50	11.00	23.73	29.80	29.37	47.48	55.80	55.82
Eaton (Weld)	17.50	15.44	17.15	9.65	10.50	10.50	23.50	25.89	26.50	50.65	51.83	54.15
Erie (Weld)	19.50	25.34	30.10	9.65	10.50	10.50	30.90	32.30	30.84	60.05	68.14	71.44
Estes Park (Larimer)	17.60	14.40	13.40	9.84	10.25	8.60	16.45	18.00	21.00	43.89	42.65	43.00
Fort Lupton (Weld)	12.00	12.00	12.00	9.65	10.50	10.50	25.00	24.54	26.76	46.65	47.04	49.26
Fowler (Otero)	13.15	12.78	12.78	10.99	14.08	14.59	23.05	28.50	32.50	47.19	55.36	59.87
Fruita (Mesa)	25.00	23.80	20.00	9.42	9.07	10.46	36.04	45.47	40.69	70.46	78.34	71.15
Glenwood Springs (Garfield)	15.60	14.44	14.44	11.39	11.25	11.20	21.72	23.29	26.15	48.71	48.98	51.79
Holly (Prowers)	17.00	18.00	18.00	8.19	6.88	8.37	24.25	30.10	32.92	49.44	54.98	59.29
Holyoke (Phillips)	13.43	12.00	12.00	6.75	6.96	8.20	22.89	28.98	26.81	43.07	47.94	47.01
Idaho Springs (Clear Creek)	15.00	16.00	16.00	20.04	21.05	21.00	25.82	34.90	33.00	60.86	71.95	70.00
Julesburg (Sedgwick)	14.41	15.50	15.50	9.02	11.21	12.04	28.29	31.92	39.33	51.72	58.63	66.87
Lafayette (Boulder)	12.22	9.62	9.50	11.40	10.28	10.10	29.53	28.80	30.62	53.15	48.70	50.22
Limon (Lincoln)	21.46	25.51	27.06	8.09	9.05	11.25	22.38	24.16	24.20	51.93	58.72	62.51
Louisville (Boulder)	15.36	15.36	15.36	11.40	10.28	10.10	21.35	28.82	36.32	48.11	54.46	61.78
Manassa (Conejos)	13.47	12.60	12.60	12.95	14.43	17.00	24.95	27.70	24.00	51.37	54.73	53.60
Meeker (Rio Blanco)	16.84	18.43	19.07	6.27	6.35	7.37	17.54	19.80	23.76	40.65	44.58	50.20
Oak Creek (Routt)	11.27	18.50	18.50	7.08	8.02	8.74	40.47	43.00	42.50	58.82	69.52	69.74
Ordway (Crowley)	13.70	14.00	14.00	12.00	11.75	11.75	28.05	31.00	29.00	53.75	56.75	54.75
Ouray (Ouray)	25.00	22.90	32.90	14.70	9.75	12.85	25.51	22.88	25.17	65.21	55.53	70.92
Pagosa Springs (Archuleta)	16.15	17.16	19.17	10.84	11.63	12.61	22.89	25.98	27.76	49.88	54.77	59.54
Paonia (Delta)	12.80	14.30	14.30	14.56	14.85	15.60	30.47	33.20	31.67	57.83	62.35	61.57
Rifle (Garfield)	14.61	14.67	18.20	11.39	11.25	11.20	25.51	30.75	33.36	51.51	56.67	62.76
Saguache (Saguache)	11.80	12.40	16.50	13.00	12.50	13.75	18.44	27.36	27.90	43.24	52.26	58.15
Silverton (San Juan)	28.90	30.00	30.00	24.25	20.50	20.50	24.25	27.36	25.00	77.40	77.86	75.50
South Canon (Fremont)	14.50	16.00	17.00	8.54	8.30	9.30	29.25	32.85	35.28	52.29	57.15	61.58
Springfield (Baca)	12.00	12.00	12.00	8.64	10.69	10.19	24.85	29.55	31.85	45.49	52.24	54.04
Sheridan (Arapahoe)	9.70	7.60	7.58	5.95	6.39	7.12	27.94	28.80	34.90	43.59	42.79	49.60
Steamboat Springs (Routt)	13.90	13.90	13.90	7.08	8.02	8.74	24.29	29.60	30.20	45.27	51.52	52.84
Telluride (San Miguel)	18.39	23.00	24.00	10.54	7.30	8.80	24.25	19.00	19.50	53.18	49.30	52.30
Victor (Teller)	21.88	40.00	42.00	19.04	19.00	25.05	26.85	29.50	32.00	67.77	88.50	99.05
Westminster (Adams)	10.00	12.00	12.00	7.85	5.63	6.15	37.20	39.85	40.35	55.05	57.48	58.50
Windsor (Weld)	15.00	14.00	14.00	9.65	10.50	10.50	25.10	24.98	25.11	49.75	49.48	49.61
Wray (Yuma)	14.00	14.00	14.00	7.40	8.30	7.80	22.45	27.40	29.50	43.85	49.70	51.30
Yuma (Yuma)	10.00	10.00	10.00	7.40	8.30	7.80	19.60	25.99	27.63	37.00	44.29	45.43

[a] Classification of cities or towns is based on *1950 Census of Population.*

[b] Included in Municipal levy.

Source: State of Colorado, State Tax Commission, *Annual Reports.*

Appendix Note (Chapter XX)

In as a broad a review of state and local fiscal policy relationships as presented in the preceding analysis it was obviously impossible to consider specific situations of individual tax jurisdictions. Admittedly all communities, urban and rural, face more or less similar problems of public finance both in respect to the adequacy of their tax bases in the face of mounting expenditure requirements as well as in their relationship to state aids. However, these problems may vary substantially in individual cases both in degree and scope. Most marked perhaps are those found in the State's larger urban centers where rapid population growth has forced adjustments of which not all are fiscal in nature.

The staff of this study has recognized that the importance of the "urban problem" requires certain illustrative case analysis to bring out more fully the specific issues involved. Accordingly city officials were requested to submit principal problems relative to city finance as they saw them and to suggest possible solutions. From a series of communications received in response thereto, two have been selected for their representativeness and are presented below in the exact form that they were received. The first, from Dr. Leo C. Riethmayer, Professor of political science at the University of Colorado, and Mayor of the City of Boulder, points to certain problem areas which can be regarded as typical of those found in the medium-sized city in the State. The second communication from J. D. Arehart, a member of the staff of the Department of Revenue of the City and County of Denver, describes, as he sees it, the fiscal problem of Denver. Opinions and conclusions given are those of the writers only and do not necessarily represent the viewpoint of the city governments with whom they are associated nor are they necessarily the conclusions of the staff of this study.

MUNICIPAL PROBLEM IN COLORADO[1]

In accordance with your recent suggestion I am listing a number of items which in my opinion should be considered as part of the tax study project which you have in progress.

As you know the Constitutional provisions and laws which provide for our local governments, their relationships with the state government and with one another, their respective roles, and their sources of revenue were enacted when Colorado was an agrarian state. With more than 70 percent of its people now living in cities and towns, Colorado has become essentially an urban state, and the old governmental arrangements are no longer adequate, and the taxing patterns are highly inequitable. You know, of course, that urbanization has brought demands for municipal-type services, and for the need of a proper and equitable system of obtaining revenues for providing these services.

Here are some of the very pressing problem areas and some thoughts on possible solutions.

1. The inequity of existing legal provisions under which counties (in all counties other than Denver) levy the same property tax rates within city limits as on property outside city limits. In certain fields, such as highways, the counties spend all of the money collected outside of city limits, and in a number of fields, such as law enforcement, they generally spend most of the money collected outside of city limits. Consideration should be given to the enactment of legal provisions which would limit the power of counties to levy taxes inside of city limits to rates which are only a certain fraction of the rate which is imposed outside of city and town limits. Legal provisions which provide for a differential of a certain type exist in the State of Iowa (in general, counties may not levy more than ⅝ of one mill inside of city limits, *Iowa Code Annotated*, 1958, Section 309.7), and as is well known, there is complete separation of cities of certain size from counties in the State of Virginia, with, of course, no taxes at all levied in the city by the county.

Another way of approaching this problem is to consider the withdrawal of the state (the county is a mere subdivision of the state through which the state is acting) entirely from the property tax field, particularly in the field of property taxation for county road purposes. Such a move should also be accompanied by the transfer of the construction, maintenance and general administration of those state roads which are now known as county roads to the State Highway Department.

2. The inequity of existing legal provisions which permit counties to perform certain municipal-type functions (e.g., the paving of local streets) in unincorporated urban fringe areas and to finance such activities from tax funds

[1]By Leo C. Riethmayer, Professor of Political Science, University of Colorado and Mayor of City of Boulder.

supplied largely by property owners in cities and in genuinely rural areas. Consideration should be given to possible legal provisions which would prohibit counties from providing municipal-type services unless those services are paid for directly by those persons who received the services. At the same time efforts should be made to avoid unnecessary duplication of governmental units and service areas at the local level by considering the limiting of the activity of counties to enter the municipal-type service field to areas which cannot be annexed to an existing municipality, or if the area is removed from an existing municipality, it is unable to incorporate and support a municipal government. The creation of special districts should be prohibited except under very special conditions.

3. The inequity of the present practice of assessing railroad property on a mainline track mileage basis.

4. The present county practice of charging fees of up to two percent for the collection of property taxes for other local governments. As county taxpayers whose property happens to be located inside of city limits, those county taxpayers are already paying a substantial part of the county taxes (e. g., the county taxpayers having property inside the city limits of Boulder pay approximately 40 percent of the property tax bill in Boulder County).

5. The present legal provisions under which only five per cent of state highway user fund monies are allocated to municipalities.

6. The present legal provisions governing the distribution of specific ownership tax receipts to units of government.

7. The present legal provisions which provide for the allocation of only 15 percent of the receipts of state liquor license fees and taxes to municipalities. Costs of enforcement and other problems which are associated with liquor outlets are largely the responsibility of the municipalities which receive such a small fraction of the revenues.

8. The present practice of the state government when it demands that municipalities meet certain standards and that they pay for the capital improvements necessary to meet those standards exclusively from their own funds, i.e., sewage treatment works which must be constructed to certain specifications by order of the state government without state financial assistance even though the benefits of pollution control accrue to many individuals and properties outside of the cities in various parts of the State.

DENVER'S FISCAL PROBLEMS[2]

Within the next year Denver must take one or both of two courses of action neither one of which could be regarded as anything but disagreeable from both an administrative as well as a popular point of view. These actions have been stated simply as (1) a decrease in the level of municipal services and/or, an increase in taxes.

The purpose of the following analysis is to describe some of the factors which have contributed to Denver's problem and to suggest measures which might be taken.

Denver's Economic and Fiscal Position in the State

As the largest city in Colorado and containing over 30 percent of the State's population, Denver can be looked upon as the major focal point of economic activity in the State as well as the region. The wide discussion elicited by the City's recent attempt to enact a municipal income tax (which developed as the result of the City's recent major atttempt to solve what it considered to be a local revenue problem, via a municipal income tax), attests to this fact. The reasons for the particular interest shown by the counties adjacent to Denver is evident from Table 1. As indicated, an estimated 200,000 people reside within the urban periphery of the City and County of Denver. Although the City itself contains but one-third of the State's population, the City's day-time population swells by an additional 60,000 workers from the suburban area. As an industrial and commercial center, Denver offers employment to more than 40 percent of the State's population.

Although accurate figures are not available as to the relative importance of Denver to the State's total fiscal picture, state retail sales tax figures are available and are significant. As indicated in Table 2, Denver has consistently accounted for over 40 percent of the State's annual revenues from this source. This may be taken as indicative of the importance of Denver

[2]By J. D. Arehart, Department of Revenue, City and County of Denver, formerly research consultant on two major city studies entitled, *Working Denver* (1953), and *Financing Muncipal Government in Denver* (1955).

Table 1

Population of Denver and Urban Periphery, 1950 and 1958

	1950	1958	Percent increase
Denver	415,786	530,000[a]	27.5
Urban Periphery[b]	80,000[a]	200,000[a]	150.0
Colorado	1,325,089	1,679,675[a]	26.70

[a] Estimated.
[b] Excludes rural areas and county seats.

Source: U. S. Bureau of the Census and estimates of Denver Chamber of Commerce.

for other sources of revenue such as the state income tax, state gosoline tax, and state liquor tax, to name a few.

As the locus of economic activity for nearly one-half of the State's population, Denver's fiscal problem is essentially a State problem and as such calls for state-wide action in which both constitutional revision and legislative action are called for.

The specific problem areas discussed below cover (1) the limitations of the property tax as a source of Denver's revenue, (2) the state aid formulas as they affect Denver, and (3) city growth and the question of annexation.

Urban Finance and the Property Tax

Uniform Assessments. Owing to the fact that the State levies a tax upon property for building programs for the State's institutions, the lack of uniformity in the assessment procedures has penalized those counties in which valuations more nearly approach market value. The dollar volume is relatively small because of the low rate which the State imposes and is not as fiscally important as it is unjust. Other discrepancies arise because of the lack of uniform assessments, however, not the least of which arise from the method of allocating state aid discussed in a later section but more particularly in respect to the location of industry.

Recent studies have indicated that national locational shifts by commerce and industry in the long run are not dictated by the tax bill. It can be demonstrated that given sufficient time, taxes tend to "catch up." Indications are, however, that locational shifts are prevalent within an urban economic entity which is jurisdictionally fragmentized (Table 11) and where there is a significant degree of latitude either in the rates of taxation or assessment practices. The lack of uniform assessments of real property and of inventory in the Denver Area is evidence of this fact. The City and County of Denver has witnessed the exodus of many firms because of lower assessments in adjacent jurisdictions.

There can be no doubt that business firms will and must seek their minimal tax bill so long as there is no danger in decreasing output. Tax colonies within an urban economic entity are conducive to such a development. With modern means for quick and flexible motor-truck transportation, no firm is substantially affected by shifting its location from Denver to, say Adams county even though the firm's sales are 100 percent within the former.

So long as the *ad valorem* tax is the cornerstone of municipal finance and so long as fractional assessment practices prevail, the exodus of firms required to stock large inventories will continue.

Two remedies are apparent: (1) uniform assessments within an urban economic entity and enforced by the State Tax Commission must be mandatory in fact, or (2) the urban entity should fall under a single assessment jurisdiction.

Allocation of Railroad Assessments. This particular element in the property tax structure of the State of Colorado has received too little publicity, but it is one of the most commonplace inequities. Although the allocation of railroad assessments creates no special problem, it does place an extra burden upon the Denver taxpayer and in effect constitutes a hidden subsidy to the remainder of the State.

The subsidy arises from the method of allocation and not from under-assessment of property. The Colorado State Tax Commission, as the assessing authority, must distribute to the counties the assessed value of railroads according to the relation which the miles of main line track within each county bears to the firm's total mileage within the State. The value of rolling stock of firms other than railroads is

Table 2

State Retail Sales Tax Collections Colorado, Selected Years, 1950-1957

	1950	1954	1955	1956	1957
Colorado	$17,965,855	$22,058,165	$23,948,880	$26,039,945	$26,290,227
City and County of Denver	7,201,013	8,894,408	9,717,886	10,537,629	10,637,376
Percent from Denver	40.0	40.3	40.5	40.4	40.4

Source: Colorado State Planning Commission, *Colorado Year Book, 1956-1958.*

allocated according to the relationship between the miles traveled within each county and the total miles traveled within the State.

As the smallest county in the State in geographical terms, the City and County of Denver is credited with less than eight miles of main line trackage and ranks last in railroad assessments per capita in an array of Colorado's seventeen largest counties. As shown in Table 3 Denver was allotted, in 1957, railroad assessments amounting to $1,657,510 or $3.00 on a per capita basis. Applying the Denver 1958 mill levy of 50.15 mills, Denver collected, on this basis, $83,-124 from railroads for municipal and school purposes.

Table 3

Railroad Assessments Allocated to Seventeen Largest Counties Colorado, 1957

County	Alloted railroad assessments	Assessments (per capita)
Logan	$ 4,371,660	$207
La Plata	3,655,480	180
Fremont	3,079,220	159
Delta	2,784,170	155
Weld	10,843,140	144
Morgan	2,994,060	135
Otero	3,379,800	131
Las Animas	2,225,780	84
Mesa	3,984,370	75
Larimer	3,480,880	70
Adams	3,648,420	49
Pueblo	5,512,920	48
El Paso	4,781,890	41
Boulder	2,215,190	37
Arapahoe	1,885,160	20
Jefferson	1,224,730	12
Denver	1,657,510	3

Source: State of Colorado, State Tax Commission, *Annual Report, 1957.*

It may be argued, and rightly so, that the terminal facilities supply an economic advantage which other counties do not enjoy, e.g., payrolls. The fact cannot be discounted, however, that governmental expenditures are also higher as a consequence. Not only must the local government police the facilities, but it must also provide the usual municipal services such as sewerage, fire protection, education, health and sanitation services for which, under current methods of allocation, $83,000 is small recompense, indeed.

Remedial measures have been suggested which would require an amendment to the present law. The State Tax Commission, for example, would proceed to assess all railroad property as it now does, but it would place a value upon all real property not used in conjunction with trackage and allocate such value to the assessments rolls of the county in which such real property is located. All real property used in conjunction with trackage would be allocated as is presently done, i. e., on the basis of the ratio of trackage in the county and the total trackage in the State. Rolling stock assessments would be continued on the present basis.

In this manner, the counties, and cities in which non-trackage real estate is located, would realize revenue as recompense for the governmental amenities enjoyed by such firms. Other counties would not be penalized by the amendment for they are now receiving an amount in excess of the real costs of the community services rendered to railroads and their employees.

Property Tax and Need for Alternative Sources of Revenue. Whatever utility the property tax contains, it was established in an era when there was some semblance of correlation between property ownership, municipal services and ability to pay or benefits received. Since that day, however, economic progress has advanced to the point where many incomes are neither related to nor dependent upon, the ownership of property. This is particularly true in urban areas whose economies are of the non-industrial type, i.e., services and professional. The more highly developed an economic system becomes, the more independent it becomes of property.

In regard to municipal services, real property's demand for services is primarily related to fire and police protection, but their owners and occupants demand and are entitled to municipal services which are totally unrelated to property or property values.

The contemporary municipality is required and expected to provide the latest in technological and scientific developments such as sanitation, health, sewage treatment, freeways, educational facilities, and police and fire protection. In addition, and completely independent of property, the State requires the City and County of Denver to maintain a system of Courts in which all attorneys may practice regardless of residence, an institution of confinement, a District Attorney, a Juvenile Hall and, moreover, to meet certain standards established by law which are unrelated to property income or economic status of the owner, e. g., secondary sewage treatment.

The inference to be drawn from the above, is that the value of any municipality is best measured by the income generated by its economy and its corollary, the proper level of municipal expenditures is best determined by the number and income of its economic citizens. Neither of these may be determined by property holdings or values yet the maximum level of taxation, the maximum level of debt and allocation of state grants-in-aid are premised thereon.

Perhaps the best evidence of the unrealistic fiscal premise from which the City and County of Denver must function lies in its continuous efforts which are per force required to circumvent the economic anachronism which threatens

its existence. Denver, however, is not alone in its endeavors to seek revenues from non-property sources. Other municipalities in the State have taxes on cigarettes, liquor, parking spaces, occupations, and so forth in order to provide a proper level of community services.

If the maximum property mill levy in Denver must remain at 15 mills, and there is evidence that it should because of the property tax needs of public schools, municipalities and Denver in particular must be given further fiscal latitude in the non-property area. This has been accomplished in many other states after their large municipalities reached an impasse in financial affairs. In addition, the debt limit of cities should either be based on full market value or related to ability to pay. (For example, a per capita debt figure of $100 could be used as a maximum limit, or perhaps a percentage of municipal outlay based upon a five-year average could be used. Either of these would be a more realistic premise than 3 percent of property at a fraction of its market.)

Shared Taxes and State Aids

The Highway User Fund. The Highway User Tax Fund was created by the Legislature as a device to finance Colorado's highways by the imposition of a tax upon highway users. Revenues to the fund are derived from a 6-cent per gallon motor fuel tax (excepting motor fuel consumed by non-highway users), vehicle registration or license fees, and the ton-mile and passenger-mile tax on commercial vehicles.

The principal source of revenue is the motor fuel tax which accounts for over 70 percent of the fund's total receipts. Figures are not available as to the amounts paid to the fund by counties, but it may be assumed that a large portion of the receipts originate within the City and County of Denver. Using the number of automobiles registered as a basis, it is estimated that Denver citizens contribute 27 percent of the receipts to the Highway User Fund (Table 4).

Data showing the distribution of monies from the Highway User Tax Fund are available and are presented in Table 5. As can be seen, Denver receives $1.96 per capita from the fund and is last in the array of seventeen of Colorado's largest counties. This may be compared with nearly $17 per capita received by residents of Las Animas County. It should be noted that all counties but Denver participate in the distribution on the same basis. Denver is not considered as a county and participates only as a city.

Table 5

Distribution of State Highway User Tax Fund Seventeen Largest Counties, Colorado, 1958

County	Amount received	Per capita
Las Animas	$ 404,180	$16.63
Logan	331,070	15.69
Delta	245,258	13.62
Fremont	231,382	11.99
Morgan	257,898	11.62
La Plata	233,440	11.50
Weld	849,410	11.25
Mesa	528,263	9.93
Larimer	478,887	9.67
Adams	556,150	7.42
Otero	181,877	7.05
Jefferson	706,550	6.73
El Paso	601,401	5.10
Boulder	302,017	5.03
Arpahoe	363,181	3.82
Pueblo	404,919	3.49
Denver	1,011,131	1.96

Note: These figures include state aid to incorporated places within these counties.

Source: Colorado State Highway Department.

The intended purpose here is to reveal the obvious inequities in the current distribution of funds. For comparability, therefore, all figures include both the funds allotted to counties and to each incorporated city within each county.

The inequity of the current formula can be readily seen in Table 5 which shows the estimated proportions contributed to the fund and the shares allotted to the several agencies from the fund. Cities in Colorado, including Denver, contribute 68 percent to the fund but receive only 5 percent in return. In addition to the 27 percent which it contributes to the Highway User Tax Fund, the City and County of Denver

Table 4

Contribution and Allocation of Highway User Tax Fund, and Expenditures for Colorado State, Counties and Cities, 1958

Government unit	Contributions to highway fund[a]		Allocation of highway fund		Expenditures for streets and highways	
	Amount	Percent	Amount	Percent	Amount	Percent
Colorado total	$52,722,946	100	$42,818,516	100	$104,271,695	100
State highways	—	—	27,832,035	65	65,694,788	63
Counties (except Denver)	16,871,343	32	12,845,555	30	21,284,706	20
Cities (except Denver)	21,616,408	41	1,129,794	3	7,945,034	8
Denver	14,235,195	27	1,011,131	2	9,347,167	9

[a] Estimates based on vehicle registration.

Source: Colorado State Department of Highways.

expended from local revenue sources in excess of $8 million for streets and highways in 1958. Total street and highway expenditures by Denver alone accounts for 9 percent of the State's total for such purposes.[3]

From the above discussion, it could be argued that Denver should receive from the fund an amount equal to its proportionate expenditures on the entire State's highway system, or 9 percent. Such a share, in 1958, would have raised Denver's allotment from an estimated $1,011,131 to $3.8 million or nearly one-third its annual outlay for such purposes. As can be seen, in Table 6, Denver's current one to nine ratio does not approach the one to two ratio now enjoyed by the remainder of the State. An increase in Denver of one to three would still fall short of the average.

Table 6

Per Capita Highway User Receipts and Per Capita Expenditures For Streets and Highways, Denver, Colorado, 1958

	Amount recorded per capita	Amount spent per capita	Percent aid
Denver	$2.00	$18.00	11.1
Counties in Colorado (excepting Denver)*	12.00	25.00	48.0

* Includes incorporated cities' share of fund.

State Aid to Education. Although not a jurisdictional problem of the municipal government of the City and County of Denver, the distribution of state aid to education has a direct bearing upon the municipal taxpayer to whom the city must look for revenue. As such, any remedial measures attained with respect to the existing distribution of educational funds must alleviate somewhat the Denver taxpayers' total governmental burden.

As shown in Table 7, Denver is not only the largest county in terms of population, but is also the largest in terms of students in the public schools. For purposes of discussion and to eliminate the lower extremes in a total county array, Table 7 contains the seventeen largest counties each of which contains at least one percent of the State's total population. As indicated, the Denver Public Schools are educating 24 percent of the students in Colorado, but receive only 10 percent of the aid to education.

It may be argued that Denver is justified in receiving a disproportionate share owing to its economic wealth. On the surface this appears true, but in light of the sales-assessment ratios recently published by the Legislative Council, Denver's per capita burden is larger than all but four of the largest counties in the State. As shown in Tables 8 and 9, when property assessments are adjusted to full value, Denver's mill levy to meet local school costs is exceeded by only four other counties.

Table 7

Distribution of Population, Students and State Aid to Education, Seventeen Largest Counties Colorado, 1957

County (Population*)	Percentage of population	Percentage of students	Percentage of school aid
Denver (515,000)	30.2	24.2	9.9
El Paso (118,000)	6.9	6.9	7.4
Pueblo (116,000)	6.8	7.3	8.4
Jefferson (105,000)	6.2	6.3	7.6
Arapahoe (95,000)	5.6	6.9	8.1
Weld (75,500)	4.4	4.9	5.6
Adams (75,000)	4.4	4.2	5.7
Boulder (60,000)	3.5	3.4	3.1
Mesa (53,200)	3.1	3.4	5.1
Larimer (49,500)	2.9	2.9	2.6
Otero (25,800)	1.5	2.1	3.0
Las Animas (24,300)	1.4	1.7	3.2
Morgan (22,200)	1.3	1.7	1.4
Logan (21,100)	1.2	1.5	1.0
La Plata (20,300)	1.1	1.2	1.3
Fremont (19,300)	1.1	1.1	1.5
Delta (18,000)	1.1	1.2	1.3

* Estimated by Colorado State Planning Commission.

Source: Compiled from *Colorado Year Book, 1956-1958.*

This is true notwithstanding the fact that Denver spends less per capita upon public education than eleven of the seventeen counties considered. The per capita burden in Denver is relatively high for the sole reason that state aid to education is distributed upon a base which does not completely reflect local need and ability to pay. For example, as shown in Table 8, seven of the larger counties in the State have a higher per capita property assessment based on full value than Denver, yet in each instance these counties receive more state aid per capita than is received by the Denver taxpayer. Further evidence of the maldistribution is shown in Table 10. In the array of seventeen larger counties, Denver ranks last in state aid received per student.

It may be concluded from the data presented herein, that the present method of allocating state aid to education is not only unjust in respect to proportionate shares of students or population, but also is more burdensome upon the Denver taxpayer than any other in the State. This may be pointed up by the fact that if Denver were to double its aid per capita from $4.00 to $8.00, the City would still rank last in the array of seventeen counties. If distribution were made upon true property values as established by the sales-assessment ratios published by the

[3] To further point up the magnitude of Denver's highway costs, it may be noted that upon two occasions within the last two years, a citizen's "Capital Improvements Budget Committee" has recommended the city expend nearly $5 million per year in addition to its current street outlay. For this, Denver would receive no direct aid from the State. The method now being utilized by the State for allocation of the fund gives no recognition to such contributions made to the state highway system by municipalities in heavily urbanized areas.

Table 8

Property Values, School Revenues and State Aid Per Capita, Seventeen Largest Counties Colorado, 1957

County	Per capita property assessments[a]	Per capita school expenses[b]	Per capita state aid	Per capita local cost	Per capita state aid as percent of per capita school expenses
Las Animas	$4,904	$74	$30	$44	40.5
Otero	4,281	71	27	44	38.0
Delta	4,381	59	23	36	39.0
Mesa	5,317	79	22	57	27.8
Arapahoe	5,210	69	20	49	28.9
Fremont	5,958	56	18	34	32.1
Adams	6,370	68	17	51	25.0
Weld	6,722	64	17	47	26.6
Jefferson	5,873	64	17	47	26.6
Pueblo	5,403	63	16	47	25.4
La Plata	7,255	50	15	35	30.0
Boulder	6,307	56	12	44	21.4
Morgan	10,388	78	14	64	17.9
El Paso	6,248	57	14	43	24.6
Larimer	6,157	50	12	38	24.0
Logan	12,345	92	10	82	10.9
Denver	6,211	59	4	54	6.8

[a] Property adjusted to 100 percent value based upon the average sales-assessment ratios published by Legislative Council.
[b] Revenues received for 1956-1957 school year.

Source: Compiled from data in *Colorado Year Book, 1956-1958* and Colorado Legislative Council.

Legislative Council rather than upon actual assessments as now obtains, Denver's share would be more equitable.

State Aid to Counties for General Assistance. One of the most costly undertakings now being administered by the larger counties in Colorado is the general assistance category of the welfare program. Under the current law, Colorado's counties must provide, from local revenue sources, general assistance to the needy not qualified for other types of assistance. The expenditures for such purposes amounted to $3,709,762 in 1957.[4] Denver alone spent $1,399,462 in 1957, or 38 percent of the total general assistance expenditures of all counties of the State.

A recent amendment to the Constitution concerning the old age pension program entitles the State's General Fund to the surplus from the state sales and excise tax in excess of the amount necessary to administer the program. Recent estimates indicate that the surplus may approach $15 million by 1965.

In view of the financial restrictions and limitations placed upon county governments, some relief may be attained by state participation in the county general assistance program. The "spill over" in the old age pension program could be used as a matching grant on, say, a 50-50 basis, or an 80-20 basis as is now done to assist counties in meeting the cost of administering the State's

Table 9

Index of Taxpayer's Burden Upon Per Capita Property Assessments, Seventeen Largest Counties, Colorado, 1957

County	Mill levy required to meet per capita local share of school expenses[a]	Index of burden per capita (Denver = 100)
Adams	8.00	92.1
Arapahoe	9.40	108.2
Boulder	6.97	80.2
Delta	8.22	94.6
Denver	8.69	100.0
El Paso	6.88	79.2
Fremont	5.71	65.7
Jefferson	8.00	92.1
La Plata	4.82	55.5
Larimer	6.17	71.0
Las Animas	8.97	103.2
Logan	6.64	76.4
Mesa	10.72	123.3
Morgan	6.16	70.9
Otero	10.27	118.2
Pueblo	8.69	100.0
Weld	6.99	80.4

[a] Based upon assessments at full value.

Source: Compiled from Table 8.

Table 10

State Aid to Education Per Pupil[a] Seventeen Largest Counties Colorado, 1957

County	Per student aid
Las Animas	$155.00
Delta	126.00
Mesa	124.00
Otero	118.00
Fremont	115.00
Adams	113.00
Jefferson	100.00
Weld	100.00
Arapahoe	99.00
Pueblo	96.00
El Paso	90.00
La Plata	88.00
Larimer	77.00
Boulder	76.00
Morgan	66.00
Logan	53.00
Denver	34.00

[a] Average daily attendance.

Source: Compiled from *Colorado Year Book, 1956-1958.*

[4] Colorado State Department of Public Welfare, *Annual Report, 1957.*

welfare program. State participation along these lines would alleviate the local burden of county general assistance expenditures. Under such a program, Denver would receive about $700,000 on a 50-50 basis or $1,120,000 on an 80-20 basis.

Historically the revenues from the sales tax have been used for causes akin to welfare, such as the old age pension. It appears only just, therefore, that all welfare problems be partially mitigated prior to the diversion of such funds to other worthy purposes.

Annexation of Territory

The current statutes regulating annexation of territory to municipalities have fiscal implications which have not been adequately recognized in the State of Colorado. This specific problem is of concern to all of the larger cities in the State and is not alone a problem peculiar to the City and County of Denver, although it is perhaps more urgent there than in any other city in the State.

As the core of a large urban area which surrounds it, Denver is confronted with jurisdictional paralysis imposed by the limitations provided in the State annexation statutes. The limiting factor in current annexation law is the provision which prohibits a municipality from annexing territory without petition and approval of the property owners and qualified electors therein. Prima-facie, this appears to be compatible with the principles of democracy. Upon examination, however, it may be seen that such a law is the matrix of governmental confusion within any given urban area. The provision permits any group of citizens however large or small to initiate tax colonies upon the borders of the core city which supplies the economic life-blood of the entire area and to which the colonies owe their very existence.

Further examination will reveal that such a procedure is not democratic at all for it permits segments of the economic entity to escape its fundamental responsibility to the social and economic area of which it is inextricably a part.

Furthermore, the colonies create an intricate pattern of commingled problems, the solution of which can be attained in no other way short of governmental consolidation. It is ironic that a community which works and must necessarily think alike is prohibited from seeking its common ground in the business of government.

The fiscal problems generated by the fragmentation of the economic and social entity are obvious. The entire urban area creates a demand for the usual municipal services and has little respect for jurisdictional boundaries established by law. Such demands call for revenues which the economic entity must forfeit for such purposes. Political subdivisions block the necessary flow of income into a single government, however, and each subdivision tends to become unbalanced both economically and financially. Therefore, no jurisdictional fragment of the entity is fiscally capable of meeting the problem alone, yet the laws permit no alternatives.

To illustrate the significance of this problem, one need only to look at the states of Texas and Virginia. These states have recognized that the fundamental purpose of municipal government is to provide social amenities to people and to exact taxes from all who benefit directly or indirectly from such amenities. As such, the State of Texas permits municipalities to annex territory by ordinance so that those who enjoy the fruits of the municipality may also participate in its continuance. In Virginia, the municipality petitions the district court for permission to annex its periphery when such can be identified as urban and when the municipality is capable of servicing the area.

In the field of international affairs there is a term "balkanization" which everyone interprets as the converse of stability. In Colorado's municipal affairs, however, balkanization is defended as virtuous and preferable. It would appear that as the metropolitan area grows, the more virtuous balkanization becomes. Witness the crop of incorporations and special districts that have sprung up in the territory that was once Denver's hinterland. (See Table 11.)

Table 11

Units of Government in Denver Metropolitan Area 1957

Unit	Number
Counties	4
Incorporated places	21
School districts	52
Special districts	124
Total units of government	201

Source: Colorado State Tax Commission, *Annual Report, 1957.*

The consequences, of this pattern of local government, which has been and is being established within Colorado's urban areas, must lead inexorably to inefficient use of government, excessive and needless taxes, the loss of democratic government on the local level, and urban chaos.

Much could be done to avert this headlong rush to an end which no one really wants. Some urban problems are in fact superficial and self-imposed merely for the lack of a realistic approach to the jurisdictional conflict between a municipality and its economic and social spheres. More liberal laws to permit annexation prior to the urban build-up in the periphery would solve many problems.

A great deal could be accomplished by the State Legislature in this regard, for it must be recognized that the municipality is a bona fide instrument of government and if it is not, legislation should be enacted to abolish it for an acceptable substitute.

In an age when most thoughtful people are pleading for a return of "local" government, it is logical and right for a superior level of government to assist the metropolis in its efforts to seek its salvation.

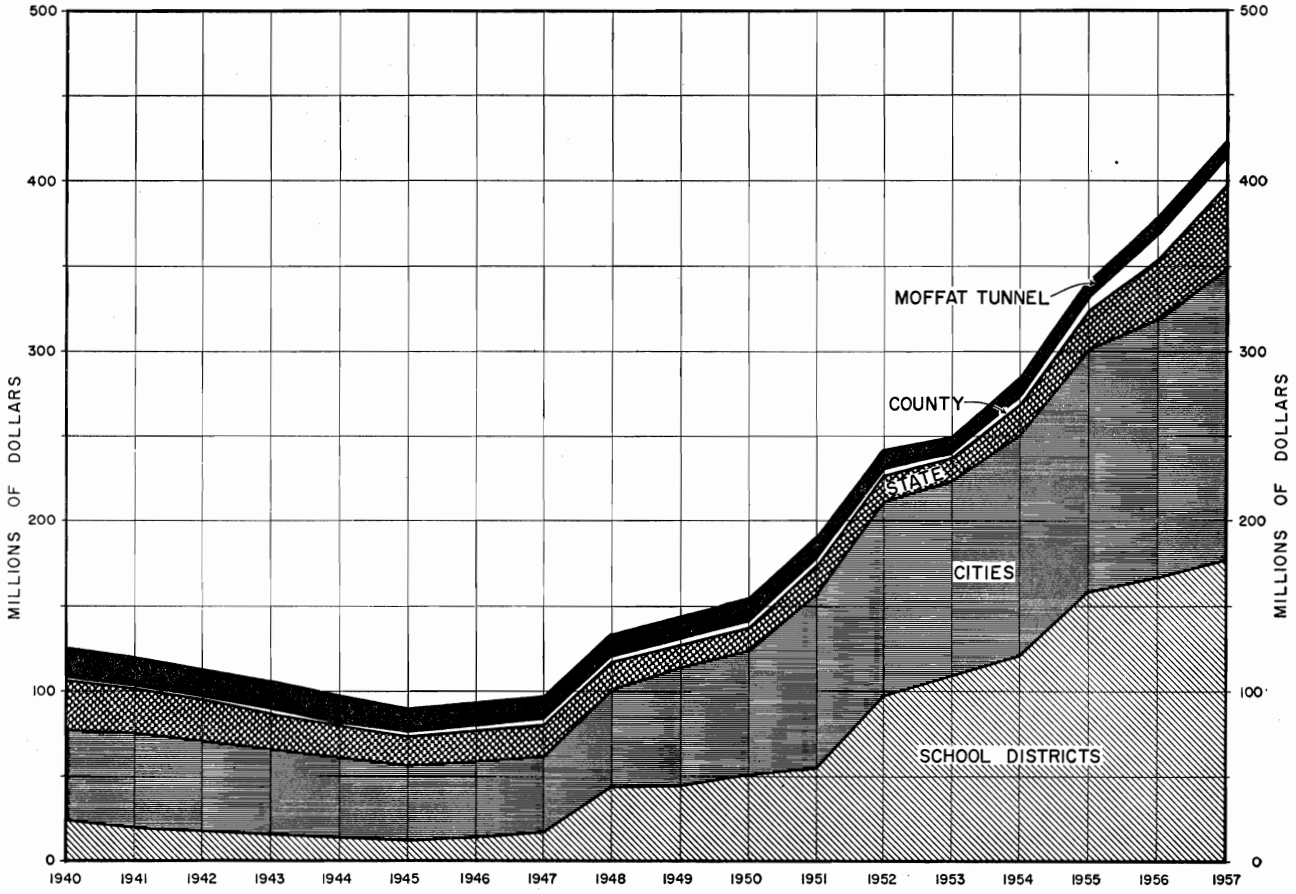
CHAPTER XXI

STATE AND LOCAL DEBT

Rapid post-war growth of Colorado's industries and population has resulted in a corresponding increase in the need for public facilities such as highways, schools and other public structures at both the state and local levels of government. Although operating budgets have been balanced on the whole, capital programs have, in the main, necessitated borrowing on a scale heretofore unknown. Thus in 1957 Colorado's aggregate state and local debt[1] reached an all-time high of $421 million—a figure nearly four times what it was before World War II and nearly three times the figure reported for 1950. Much of this increase is associated with the financing of schools and municipalities which, in the aggregate, accounted for 80 percent of

[1]In the discussion of the public debt in this chapter short term debt is excluded.

BONDED DEBT, BY UNITS OF GOVERNMENT IN COLORADO
1940 – 1957



SOURCE: Colorado State Planning Commission, Colorado Year Books, 1940–1958 and 1958 Report on Bonded Indebtedness in Colorado; and U.S. Bureau of Census, Compendium of State Government Finances, 1940–1957.

CHART 21.1

total outstanding debt in 1957 (Table 21.1 and Chart 21.1).

In the following analysis this over-all change is reviewed for each of the various levels of government in the State covering the period from 1940 to 1957. As a part of the review principal features of the law controlling public debt for each unit of government are also presented.[2]

State Debt

Legal Basis. As a state jurisdiction Colorado is not permitted to contract any debt except to meet casual deficiencies of revenue, to provide for the construction of public buildings and to borrow for such emergencies as suppressing insurrection, defending the State, and assisting in defending the United States. Colorado (including its subdivisions) is further restricted in contracting public debt by a prohibition against pledging the State's assets or credit for the benefit of individuals or private enterprises. In no case may a debt be created except by a law which is irrepealable until the indebtedness has been fully paid or discharged. The law must specify the purpose of the funds and must also provide for a tax sufficient to pay the principal and interest within the specified time limit of the debt. Funds arising from taxes so provided may not be used for any other purpose. Debts contracted for the construction of public buildings or deficient revenue may not have a maturity of less than ten years, nor a maximum maturity of more than fifteen years.

The State Constitution also contains restrictions on the amount of debt that can be contracted. Thus debt incurred to meet a revenue deficiency may not exceed eight hundred and fifty thousand dollars. Moreover, debt incurred for the erection of public buildings may not exceed one-half mill of each dollar of assessed valuation; and the aggregate amount of such debt may never at any time exceed the sum of fifty thousand dollars. However, section five provides that debt for the purposes of erecting public buildings may be created, in the aggregate, to an amount exceeding three mills on each dollar of assessed values; provided, that before going into effect, the law is approved by the vote of the majority of the qualified electors. To exceed these limits a popularly approved constitutional amendment must be enacted.

Preceding debt limitations do not apply, however, in the case of institutional or "non-guaranteed" debt, of which debts of the State Highway Department, and institutions of higher learning are principal examples. Thus the Department of Highway can issue revenue anticipation bonds and warrants payable solely from revenues derived from taxes or projects but such issue may take place only with the affirmative majority vote of the Highway Department and the approval of the Governor.[3] In this case no direct

[2]The laws pertaining to the borrowing powers and restrictions of the State of Colorado are primarily contained in three sections of Article XI, of the State Constitution. Section three of this Article sets forth the limitations of the debt of state government. Section four deals with the laws creating debt in general, while section five covers the creation of debt for public buildings. Reference to county indebtedness is found in section six. Sections seven and eight refer to debt for school buildings and municipalities, respectively. Additional rules relating to other agencies are contained in the Colorado statutes.
In the absence of citations the discussion in this Chapter pertaining to the legal basis of state and local debt is based upon these named sections of the State Constitution.

[3]Johnson v. McDonald (1935) 97 C 324, 49 P. 2d 1017.

Table 21.1

Bonded Debt,[a] by Units of Government, in Colorado, 1940-1957
(Thousands)

Year[b]	State[c]	Moffat tunnel	County and special improvement districts[d]	School districts[e]	Municipal[f]	Total
1940	$29,133	$15,470	$ 1,626	$20,336	$ 57,586	$124,151
1941	26,603	15,470	1,488	18,961	56,436	118,958
1942	24,066	15,470	1,273	17,086	54,238	112,133
1943	22,097	15,470	1,060	15,490	50,926	105,043
1944	20,112	14,887	1,198	13,660	46,989	96,846
1945	18,294	14,580	1,138	12,828	43,226	90,066
1946	19,482	14,000	1,772	14,635	43,367	93,256
1947	17,916	13,001	3,060	18,403	44,019	96,399
1948	16,066	12,571	3,099	44,359	57,101	133,196
1949	14,432	12,105	3,198	44,957	69,114	143,806
1950	13,510	11,422	3,255	50,704	74,179	153,070
1951	17,107	10,736	3,692	56,456	101,264	189,255
1952	16,603	10,050	2,917	98,231	112,845	240,646
1953	14,269	9,364	2,847	109,321	114,148	249,949
1954	18,874	9,164	3,093	121,159	129,725	282,015
1955	21,875	8,278	7,979	158,564	143,733	340,429
1956	34,421	7,571	15,285	166,140	153,836	377,253
1957	47,389	6,899	17,264	177,488	172,149	421,189

[a] Long-term debt and exclusive of tax anticipation warrants against property tax.
[b] Fiscal years ending June 30, for state and December 31, for all other units of government.
[c] Includes general and non-guaranteed debt. The State has had no general debt since 1950.
[d] County bonds represent a relatively small part of total. Special district bonds include all bonds for which records are kept by the district treasurer. Excludes special districts bonds, (issued in municipalities) for which records are kept by the city treasurer.
[e] Prior to 1954 county high school bonds were not included.
[f] Includes special district bonds for which records are kept by city treasurer.

Source: Colorado State Planning Commission, *Colorado Year Books, 1940-1958* and *1958 Report on Bonded Indebtedness in Colorado;* and U. S. Bureau of the Census, *Compendium of State Government Finances, 1940-1957.*

liability attaches to the State or the Department of Highways other than the obligations to apply the taxes assigned for debt retirement. Similarly revenue bonds can be issued to finance the construction of toll roads with net revenue so derived applied to the debt.[4]

Much in the manner of the Highway Department the State's colleges and universities can, for purposes of constructing school facilities, issue tax anticipation warrants or pledge for retirement of debt contracted the anticipated net revenues from the facilities acquired. The debt may take the form of bonds, certificates, or warrants and these may be refunded at the discretion of the governing board of the institution in question.[5] Although the State is not liable for debt repayment from general revenues it can be presumed that such would be the case should default occur.

Outstanding Bonded Debt. In reviewing the State's outstanding long-term debt it is well at the outset to recognize its two forms namely, "general" debt and "non-guaranteed" debt. The first is serviced from general revenue and is said, therefore, to be backed by the "full faith and credit" of the State. Non-guaranteed debt is represented primarily by issues of the various state agencies (i.e., Highway Department and colleges and universities) and are not a direct liability of the State. Such obligations are, however, covered, as noted in the preceding section, by special revenues or tax levies established by law.

Colorado's state government debt in 1957, amounting to $47.4 million, was the largest on record, being nearly four times what it was in 1950. As can be seen in Table 21.1, state debt since 1940 forms a U-shaped pattern with 1940 and 1957 marking the upper points and 1950 the lowest during the 1940-1957 period.

As noted in Table 21.2, the State has had no general debt since 1950. Accordingly, its outstanding indebtedness in 1957 consisted entirely of non-guaranteed obligations issued by its various departments, institutions and other agencies.

Table 21.3 shows the purposes for which state debt has been contracted. It will be observed that, of the total of $47.4 million outstanding in 1957, highways accounted for $23.1 million, colleges and universities, $23.5 million and all other purposes $.8 million.

[4]*Colorado Revised Statutes, 1953*, Vol. 5, p. 413.
[5]*Ibid.*, p. 680.

Table 21.2

Bonded Debt of State Government in Colorado Fiscal Years, 1940-1957

(Thousands)

Year	General obligations	Non-guaranteed obligations	Total
1940	$2,908	$26,225	$29,133
1941	2,637	23,966	26,603
1942	2,155	21,911	24,066
1943	1,804	20,293	22,097
1944	1,507	18,605	20,112
1945	1,200	17,094	18,294
1946	898	18,584	19,482
1947	590	17,326	17,916
1948	530	15,536	16,066
1949	470	13,962	14,432
1950	437	13,073	13,510
1951	0	17,107	17,107
1952	0	16,603	16,603
1953	0	14,269	14,269
1954	0	18,874	18,874
1955	0	21,875	21,875
1956	0	34,421	34,421
1957	0	47,389	47,389

Source: U. S. Bureau of the Census, *Compendium of State Government Finances, 1940-1957.*

Table 21.3

Bonded Debt, by Purposes, of State Government In Colorado, Fiscal Years, 1940-1957

(Thousands)

Year	Highways and State toll facilities	Colleges and universities	Public Welfare and other	Total
1940	$24,191	$ 2,691	$2,251	$29,133
1941	22,718	2,366	1,519	26,603
1942	21,014	1,921	1,131	24,066
1943	19,356	1,832	917	22,097
1944	17,661	1,683	768	20,112
1945	15,929	1,659	706	18,294
1946	14,196	4,636	650	19,482
1947	12,375	4,951	590	17,916
1948	10,738	4,798	530	16,066
1949	9,070	4,892	470	14,432
1950	7,332	5,741	437	13,510
1951	11,872	5,189	46	17,107
1952	10,052	6,510	41	16,603
1953	8,108	6,124	37	14,269
1954	8,573	10,268	33	18,874
1955	8,251	13,595	29	21,875
1956	15,969	17,603	849	34,421
1957	23,063	23,478	848	47,389

Source: U. S. Bureau of the Census, *Compendium of State Government Finances, 1940-1957.*

Highway Debt. Historically the financing of highways has accounted for the bulk of the outstanding debt of the State. Since 1954, however, the aggregate obligations of the State's colleges and universities have exceeded that of the Highway Department. In 1957 the outstanding debt of these two general groups was about evenly divided, each having slightly over $23 million outstanding. Together, they accounted for 98 percent of the total debt of the State.

Current highway debt, while larger than it has been for many years, was still under that reported for 1940—a fact which in view of price inflation means that in "real" or in uniform-purchasing-power terms present highway debt is much below that of the immediate pre-war years.

Colorado's highway obligations presently outstanding fall into three general categories, namely: highway anticipation warrants payable from motor fuel and motor vehicle revenues, highway building authority bonds issued to

finance the construction of the State Highway Office Building in Denver also payable from motor fuel and motor vehicle revenues, and Denver-Boulder Turnpike revenue bonds payable from highway tolls.

The issue of highway warrants was authorized to the amount of $35 million by popular vote in 1954. Provisions of governing law limits their issue to $8 million per year until 1960. As of May 1, 1957 a total of $15.4 million of warrants were outstanding.

The second category of outstanding highway obligations is the Highway Building Authority bonds which in May 1, 1957 amounted to $7.9 million. In the third category, or the Denver-Boulder Turnpike revenue bond issue, a total of $5.6 million was outstanding on May 1, 1957. However, collections from tolls has built up a sizable surplus which has to be invested because of penalties imposed for early bond retirement.[6]

Colleges and Universities. As distinguished from highway debt the presently outstanding issues of the State's colleges and universities, which in 1957 amounted to $23 million, exceed any previous year on record. This is attributed to the rapid growth of student population and the need therefore for dormitory facilities.[7] Since the latter are revenue producing, their financing by bond issue supported by anticipated income from these facilities has been a natural financing device adopted by the institutions generally. As noted below nearly all of the current (June 30, 1957) outstanding institutional debt is in this form.[8]

University of Colorado	
Dormitory revenue bonds	$6,493,000
Student apartment revenue bonds	1,025,000
Faculty dormitory revenue bonds	333,000
Student Memorial Center revenue bonds	1,600,000
Stadium revenue bonds	300,000
Total	9,751,000
Colorado State University	
Dormitory revenue bonds	5,082,000
Refunding and improvement revenue bonds	839,000
Dormitory and student union building bonds	1,055,000
Total	6,976,000
Colorado State College	
Girls' dormitory bonds	76,000
Men's residence hall revenue bonds	140,000
Dormitory revenue bonds	2,750,000
Total	2,966,000
Western State College	
Dormitory revenue bonds	1,654,000
Colorado School of Mines	
Dormitory revenue bonds	487,000
Adams State College	
Dormitory revenue bonds	833,000
Grand total	22,667,000[9]

These data are exclusive of tax anticipation warrants which have been issued in certain cases by various institutions against continuing property levies for building purposes.

Other State Agencies. Two other state agencies have outstanding debt (exclusive of tax anticipation warrants) these being the State Board of Control for State Homes and the Department of Employment. The first agency, created by law in 1957, has authority to finance the construction or acquisition of homes for aged persons through the issue of warrants in amount not to exceed $1,000,000 and payable from income derived from the operation of the homes.[10] A total of $848,000 in warrants was issued in 1955.

The second agency, or the Department of Employment, was authorized to issue bonds for the construction of a building at E. 12th Avenue and Sherman Street in Denver. Bonds outstanding to date total $1,710,000.[11]

Finally, a number of other state agencies exclusive of the colleges and universities, as previously noted, have issued anticipation warrants against state property taxes earmarked for them. Among these institutions are the State Fair Commission, the State Penitentiary, the State Reformatory, the State Training School for Girls, the State Home and Training School at Ridge, the State Military and State Capitol buildings.[12]

Debt Service. The cost of financing state activities by borrowing amounted in 1957 to slightly over $1 million—a figure which like the

[6]Colorado State Planning Commission, *1957 Report on Bonded Indebtedness in Colorado.*

[7]See Chapter III for college and university enrollment in Colorado.

[8]Data from *Moody's, Municipal and Government Manual* (New York, 1958), pp. 284-285.

[9]Total for 1957 from *Moody's Municipal and Government Manual* differs in amount from that reported by the U. S. Bureau of the Census as shown in Table 21.3.

[10]*Forty-First General Assembly of the State of Colorado, Session Laws of Colorado, 1957,* pp. 777-778.

[11]This total does not, however, appear in the figure reported for total state debt shown in Table 21.3.

[12]Total tax anticipation warrants against property taxes amounted to $1,998,174, a figure not included however in the figures on long-term debt of the State as shown in Table 21.3.

debt principal is the highest on record. However, in light of increased expenditures, interest costs, relative to say 1940, appear to be modest indeed. As reported in Table 21.4, State outlay for interest in 1940 amounted to $873,000.

Table 21.4

Interest Cost of Bonded Debt of State Government in Colorado Fiscal Years, 1940-1957
(Thousands)

Year	Interest
1940	$ 873,000
1941	844,000
1942	766,000
1943	686,000
1944	634,000
1945	566,000
1946	533,000
1947	478,000
1948	484,000
1949	426,000
1950	377,000
1951	405,000
1952	515,000
1953	507,000
1954	476,000
1955	586,000
1956	839,000
1957	1,057,000

Source: U. S. Bureau of the Census, *Compendium of State Government Finances, 1940-1957.*

Table 21.5 indicates the scheduled maturity dates of the total debt presently outstanding. It will be seen that approximately $2 million of debt is scheduled for maturity for each of the next twelve years. Consequently, nearly one-half of the present debt total will be retired by 1970.

Table 21.5

Bonded Debt Maturing at End of Fiscal Year State Government in Colorado, 1957
(Thousands)

Year	Amount maturing
1957	$ 376
1958	1,903
1959	2,025
1960	2,058
1961	2,017
1962	1,971
1963	1,875
1964	1,908
1965	1,922
1966	1,950
1967	1,980
1968	1,990
1969	1,952
1970 and thereafter	23,462
Total	47,389

Source: U. S. Bureau of the Census, *Compendium of State Government Finances, 1957.*

State Debt in Western States. Colorado's per capita state government debt in 1957 placed it in 6th position in the comparison group of eleven Western States as shown in Table 21.6. It will be observed also, as shown in Table 21.7, that in the aggregate educational institutions had an outstanding debt of $592 million, or a total representing about one-third of the eleven-state debt for all state purposes. It will be further noted that whereas all the states had some debt outstanding for education this was not as generally true for highways. Here five of the eleven states did not have any highway debt at all; these states being Utah, Idaho, Wyoming, Arizona and Nevada.

Table 21.6

Bonded Debt of State Government Eleven Western States, Fiscal Year, 1957

State	General (thousands)	Other* (thousands)	Total (thousands)	Per capita	Rank per capita debt
Colorado	$ 0	$ 47,389	$ 47,389	$ 28.33	6
Utah	0	4,467	4,467	5.25	11
Idaho	2,000	3,990	5,990	9.36	10
Montana	6,670	35,691	42,361	63.61	4
Wyoming	0	4,188	4,188	13.25	7
New Mexico	27,678	18,840	46,518	56.05	5
Arizona	75	11,207	11,282	9.93	9
Nevada	3,064	0	3,064	11.48	8
Washington	49,140	222,431	271,571	99.77	2
Oregon	181,768	99	181,867	102.81	1
California	1,039,792	119,443	1,159,235	83.27	3
Total	1,310,187	467,745	1,777,932	—	—

* Includes issues of state agencies not guaranteed by the full faith and credit of state.

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1957.*

Table 21.7

Bonded Debt by Principal Purposes of State Government Eleven Western States, Fiscal Year, 1957

State	Education (thousands)	Highways (thousands)	Other (thousands)	Total (thousands)
Colorado	$ 23,478	$ 23,063	$ 848	$ 47,389
Utah	4,467	0	0	4,467
Idaho	3,990	0	2,000	5,990
Montana	15,759	3,000	23,602	42,361
Wyoming	2,908	0	1,280	4,188
New Mexico	15,562	12,846	18,110	46,518
Arizona	11,207	0	75	11,282
Nevada	1,384	0	1,680	3,064
Washington	64,518	121,321	85,732	271,571
Oregon	11,342	56,950	113,575	181,867
California	437,670	127,093	594,472	1,159,235
Total	592,285	344,273	841,374	1,777,932

Source: U. S. Bureau of the Census, *Compendium of State Government Finances in 1957.*

Moffat Tunnel District

The Moffat Tunnel District which comprises Grand, Routt, Moffat and parts of six other counties (Denver, Adams, Boulder, Jefferson, Gilpin and Eagle) was originally authorized to issue bonds to the amount of $6,720,000 to cover cost of tunnel construction. Subsequent authorization added $8,750,000 to the original amount. Of the aggregate of $15,470,000 authorized and issued a total of $8,571,000 has been retired leaving a current outstanding debt of $6,899,000. To date the Moffat Tunnel Commission (a five-member management board elected every two

years, has paid interest amounting to $24,269,000. By the date of final retirement in 1983, it is estimated that total interest payments will have amounted to $44,000,000 bringing the total outlay, interest and principal, to almost $60,000,000.[13]

The Denver and Rio Grande Western Railroad will eventually pay $18,270,000 of the total cost; their 1957 payments alone having amounted to $404,000. The Denver Water Board pays $10,000 annually and the Western Union $500 a year. Aside from these payments the general taxpayer covers the remainder.

County Debt

Legal Basis. The State Constitution provides that a county can contract debt for the construction of public buildings, roads and bridges. It limits, however, the amount of debt that can be contracted in any one year to one dollar and fifty cents of each thousand dollars of assessed valuation in counties having assessed valuation in excess of five million dollars. Counties with taxable property of less than this amount are limited to three dollars on each thousand dollars of assessed value.

The total amount of county debt outstanding for all purposes is limited to twice the yearly contracting limit. However, with the majority approval of the qualified voters, additional debt may be contracted by the commissioners of any county. Such addition can be to an amount which will not increase aggregate debt to a total exceeding six dollars per thousand dollars valuation in counties valued at over 5 million dollars and for counties with a valuation of less than this amount aggregate debt cannot exceed twelve dollars per thousand dollars of assessed property value. Any bonds issued may not have final maturity dates later than twelve years from issuance.[14]

Funding may take place in any county with a floating indebtedness of over five thousand dollars. Such action must have the majority consent of the voters. Refunding bonds may also be used, without voter consent, however, so long as the interest rate does not exceed 5 percent.[15]

Outstanding Bonded Debt. County government has had no occasion to borrow on a long-term basis in recent years as evidenced by a total outstanding debt of only $400,500 on December 31, 1957.

[13] *Denver Post*, July 27, 1958.
[14] *Colorado Revised Statutes*, 1953, Vol. II, pp. 969-970.
[15] *Ibid.*, pp. 965 and 971.

Special Improvement District Debt

Legal Basis. Numerous special improvement districts exist in Colorado which may be broadly classified as improvement districts in cities and towns, and all other including principally water, sanitation, irrigation, fire and safety protection districts.[16] Improvement districts are governed by boards which have the authority to issue bonds. However, the boards must respect various legal limitations relating to maturity and interest payment dates, purposes for which debt may be incurred, specific minimum and maximum issues and approval of the persons to be benefited and who will ultimately be assessed for the cost. Where applicable special improvement districts are also governed by special charter provisions of cities and towns.

In the case of improvement districts in cities and towns bonds may be issued up to 25 percent of the assessed value of the district and must be payable serially within three years after issuance and may not have maturities of more than twenty years. An election must be held whenever a special improvement will result in a debt greater than five thousand dollars. Ad valorem taxes may be levied on all taxable property within the district in an amount sufficient to pay off the indebtedness when due. However, such debt may not be considered as a liability of any municipality in which the special district is located.[17]

Bond issues of special districts, other than those in cities and towns, are subject to limitations closely resembling the provisions as outlined above.

Outstanding Bonded Debt. Special improvement district debt (exclusive of districts located in municipalities and where district bond issues are recorded by the city treasurer) amounted in 1957 to a total of $16,864,000, which, when added to county debt of $400,000, results in a 1957 total county and district debt of $17,264,000. This figure greatly exceeds totals reported annually prior to 1956 as noted in Table 21.1.

Recent large increases in special district debt (exclusive of district debt in cities) have occurred primarily in Adams, Arapahoe and Jefferson counties, which together in 1957 accounted for $10,400,000 or 60 percent of total special district debt outstanding.[18] These counties having experienced a very heavy population increase have presumably attempted to provide

[16] On the nature of special districts see again Chapter II.
[17] *Colorado Revised Statutes, 1953*, Vol. 4, pp. 561 and 567-568.
[18] See Table 21.9.

services such as water, sewage and safety protection on a scale which would be required of a large metropolitan community which these areas really are in large degree.

Outstanding debt of special districts located entirely within cities amounted to $12,572,388 of which $8,156,000 were issues of the City and County of Denver.[19]

School District Debt

Legal Basis. The board of education of any school district cannot contract debt for school buildings without approval of a majority of the qualified voters of the district. First- and second-class school districts may not have a total bonded indebtedness greater than 10 percent of assessed property value and third-class districts may not exceed seven percent. However, the board of education of a school district may apply to the State Tax Commission for permission to raise the limit to 15 percent of assessed value in first- and second-class districts and up to 10 percent in third-class districts. First-class districts must have more than one thousand students, while the dividing line between second- and third-class districts is three hundred and fifty students.

The School District Reorganization Act of 1949, as amended, limits the bonded debt of any new school district to 10 percent of assessed valuation. An appeal provision of an additional 5 percent is included in the Act. The District Organization Act of 1957 makes similar provisions.

County high school districts, as well as union high school districts of incorporated towns, may combine bonded debt with the approval of the voters. The limit is set at 5 percent of assessed valuation with a possible increase to 10 percent upon appeal to the State Tax Commission.

Outstanding Bonded Debt. As of December 31, 1957, the outstanding bonded debt of all the public school districts in the State amounted to $177 million or 42 percent of aggregate State and local debt for all purposes. The school debt though broadly distributed was highly concentrated in the four county Denver Metropolitan Area, which as a unit accounted for 60 percent of the all district total as shown below:

Public School Districts Denver Metropolitan Area	School debt	Percent of total
Adams	$ 8,771,500	4.94
Arapahoe	18,076,800	10.18
Denver	65,172,000	36.72
Jefferson	13,908,200	7.84
All other areas	71,559,500	40.32
Total	177,488,000	100.00

[19]Colorado State Planning Division, *1958 Report on Bonded Indebtedness in Colorado*, p. 11.

The public school debt, which has more than doubled since 1950, reflects the sharp advance in school enrollment which between 1950 and 1956 increased from 227,000 to 308,000.[20] A contributing factor also was the backlog of needs which developed during the wartime and immediate postwar period.

Municipal Debt

Legal Basis. Municipalities may contract long-term indebtedness only by the use of an irrepealable ordinance. The ordinance must state the purpose for which funds are to be acquired and must provide for the levy of a tax, no greater than twelve mills per dollar of assessed valuation, sufficient to pay principal and interest when due. Maturities on municipal obligations may be no longer than fifteen nor less than ten years.

The creation of debt within a city or town must have the majority approval of the voters. Furthermore, debt may not be created in excess of three percent of the assessed valuation of the municipality.

Bonds may be issued for the purpose of funding any floating indebtedness of a municipality, provided a majority of the electors approve the issue. The term floating indebtedness does not include outstanding interest-bearing bonds. Any issuance of funding bonds must be preceded by an ordinance which established the date, interest rates and maturity dates. Maturity dates must be at least five and not more than twenty-five years from the issuance date.[21] Refunding bonds may be issued, without popular consent provided that interest rates are not increased.

Debt limitations defined by the State Constitution[22] as above noted do not however apply to debts contracted for supplying water. Excluded from these limitations also is the debt of special improvement districts within a city or town[23] and obligations to be retired out of revenues from special projects.[24]

Outstanding Bonded Debt. The character and amount of municipal bonds outstanding on December 31, 1957, consisted of the following:[25]

Bonds	Amount
General obligation	$ 42,678,000
Revenue	116,898,200
Total	159,576,200

[20]See Chapter I.

[21]*Colorado Revised Statutes, 1953*, Vol. 6, pp. 244-245.

[22]*Constitution of the State of Colorado*, Article XI, Sec. 8.

[23]Sanborn v. City of Boulder (1923) 74 C 348,221 p. 1077.

[24]Searle v. Haxteen (1928) 84 C 494,271 p. 629.

[25]Colorado State Planning Division, *1558 Report on Bonded Indebtedness in Colorado*, p. 11.

If to this amount is added the outstanding special improvements bonds amounting to $12,572,000 issued by special districts located within the cities, the municipal debt considered in this broader sense amounted to $172,148,588—or a total slightly under the total school district debt in the State in 1957. As was noted also for the school districts, the municipal debt including that of the special improvement districts located within the municipalities is highly concentrated in the Denver Metropolitan Area which in 1957 accounted for 69 percent of the total; the distribution by cities and towns in the Denver Area being as follows:[26]

Denver Metropolitan Area	Municipal debt
Brighton	$ 577,000
Aurora	4,839,000
Commerce Town	718,000
Westminster	1,126,000
Thornton	0
Englewood	4,093,000
Littleton	734,000
Sheridan	58,000
Denver	100,640,090
Arvada	1,334,000
Edgewater	4,093,000
Golden	270,000
Total	118,482,090
All other municipalities	53,666,498
Total municipalities	172,148,588

Distribution of Local Government Debt: Cities and Towns vs. Rural. Tables 21.8 and 21.9 present in detail the distribution of local debt between cities and towns (municipalities) and rural areas (exclusive of cities and towns). In each case special district and school district bonded indebtedness has been allocated to each of these two divisions on a basis as described in the footnotes of the tables. Table 21.8 shows the allocated grand total local debt of cities and towns of 2,000 population or more and Table 21.9 the "rural area debt by counties."

In the over-all, the highest per capita debt is found in the cities and towns which in 1957 had a total per capita average of $270 as compared with the rural area average of $128.

On a per capita basis also the ten cities and towns having the highest debt were the following:

City or town	Per capita debt
Commerce Town	$884
Walsenburg	395
Colorado Springs	383
Cortez	328
Trinidad	325
Denver	322
Englewood	317
Brush	302
Littleton	288
Grand Junction	287

For the rural sections the leading areas (by counties) were:

County	Per capita debt
Arapahoe	$267
Adams	239
Dolores	232
Logan	223
Jefferson	198
El Paso	191
Moffat	181
Pitkin	175
Montrose	169
Lake	167

Summary and Conclusion

Financing debt implies added future tax payments magnified by interest cost. When the need for heavy capital improvements is pressing, which usually obtains in a rapidly growing community, borrowing within reasonable limits of future tax capacity is the only means to quickly cover expenditure requirements.

Colorado's present debt at both the state and local levels of government does not in the aggregate indicate excessive use of credit. Outstanding issues of the State government are largely for the construction of highways and college and university dormitories, and, as such are self-liquidating. Moreover, they appear to be adequately covered by anticipated income. Interstate comparisons show also that per capita state government debt is presently at the median average for the eleven Western States.

At the local level debt consists essentially of issues of the school districts and municipalities which together accounted in 1957 for 80 percent of total state and local debt. In turn, nearly two-thirds of this ratio was applicable to the four-county Denver Metropolitan Area where the most rapid population growth has occurred. It is in terms of this development and the adjustment of public expenditures thereto that much of the present indebtedness of the State and local governments as a whole can be explained.

[26] *Ibid.*, pp. 11, 22-25.

Table 21.8

Bonded Debt in Colorado Cities and Towns of 2,000 Population or More
December 31, 1957

City	Municipal		Special[a] improvement district (thousands)	Municipal share of school district[b] (thousands)	Total (thousands)	Per Capita[c]	
	General (thousands)	Revenue (thousands)				Total	Rank
Alamosa	$ 148	$ 49	$ 37	$ 208	$ 442	$ 74	44
Arvada	1,128	188	18	1,119	2,453	245	14
Aurora	623	3,450	766	5,072	9,911	275	13
Boulder	431	3,280	700	2,253	6,664	202	19
Brighton	50	453	74[d]	392	969	162	22
Brush	21	530	20	365	936	302	8
Burlington	16	75	40	119	250	111	35
Canon City	0	523	61	319	903	133	27
Center	0	172	94[d]	31	297	135	26
Colorado Springs	854	19,160	329	9,165	29,508	383	3
Commerce Town	0	0	718	1,127	1,845	884	1
Cortez	342	105	192[d]	606	1,245	328	4
Craig	0	187	0	257	444	120	30
Del Norte	124	0	0	66	190	86	41
Delta	63	374	100	80	617	137	25
Denver	20,813	65,393	14,434[e]	65,172	165,812	322	6
Durango	806	0	0	747	1,553	158	23
Edgewater	0	0	0	368	368	73	45
Englewood	2,996	732	365	5,422	9,515	317	7
Florence	0	0	25	165	190	68	48
Ft. Collins	1,706	145	158	1,155	3,164	117	31
Ft. Morgan	0	0	0	657	657	94	39
Glenwood Springs	0	570	0	158	728	219	17
Golden	0	270	0	701	971	122	29
Grand Junction	764	2,090	408	2,674	5,936	287	10
Greeley	10	3,029	0	2,839	5,878	235	15
Gunnison	0	226	0	111	337	112	34
Lafayette	70	369	0	124	563	225	16
La Junta	390	590	0	485	1,465	179	20
Lamar	1,029	550	78	469	2,126	279	12
Las Animas	0	55	50	92	197	61	49
Leadville	0	0	157[d]	209	366	81	42
Littleton	458	76	0	2,450	2,984	288	9
Longmont	0	0	0	610	610	61	50
Loveland	307	0	5	658	970	102	36
Manitou Springs	140	0	0	350	490	140	24
Monte Vista	296	0	0	155	451	113	33
Montrose	0	231	96[d]	238	565	94	38
Pueblo	1,760	6,305	890	6,085	15,040	166	21
Rocky Ford	176	94	0	299	569	126	28
Salida	0	225	0	0	225	45	51
Sheridan	0	0	58[d]	145	203	69	47
Springfield	28	415	0	177	620	282	11
Steamboat Springs	0	15	0	167	182	87	40
Sterling	331	0	106	1,031	1,468	115	32
Thornton	0	0	0	1,000	1,000	98	37
Trinidad	555	3,098	0	318	3,971	325	5
Walsenburg	591	1,586	184	9	2,370	395	2
Westminster	962	0	164[d]	919	2,045	205	18
Wray	51	0	0	128	179	73	46
Yuma	36	0	0	124	160	80	43
Total	38,075	114,610	20,327	117,590	290,602	270	—

[a] Includes all special improvement district debt upon which records are kept by city treasurer.

[b] The amounts shown for county and school district bonds represent only the city's share of the total debt of the district or county bond issue. The city's share is calculated by using a ratio of the assessed valuation of the city to the assessed valuation of the school district or county.

[c] Based on estimated population reported for July 1, 1957 by Colorado State Planning Commission.

[d] The amount shown as special improvement district bonds for the cities indicated by this footnote include the city's share of water, sanitation, or recreation district bonds. Retirement of these bonds is the obligation of the district rather than the city. The city's share is calculated by using a ratio of the assessed valuation of the city to the assessed valuation of the special district.

[e] Includes an amount of $6,278,090 representing Denver's share of the Moffat Tunnel District bonds.

Source: Colorado State Planning Commission, *1958 Report on Bonded Indebtedness in Colorado.*

Table 21.9

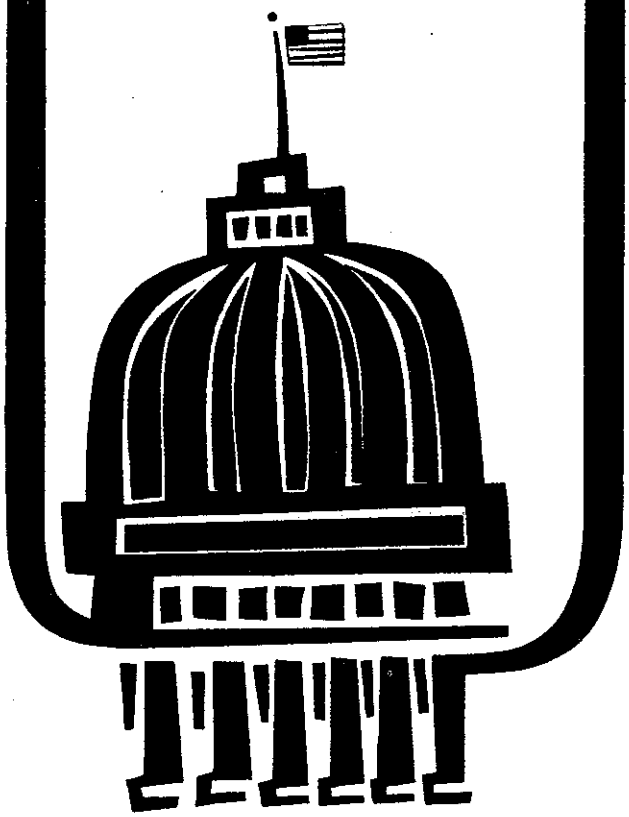
Bonded Debt in Colorado Counties (excluding Municipal Special District and School District Debt in Cities and Towns of 2,000 Population or More) December 31, 1957

County[a]	County[b] (thousands)	Special improvement district[c] (thousands)	School district[c] (thousands)	Total (thousands)	Per capita[d] Total	Per capita[d] Rank
Adams	$ 0	$ 4,026	$ 2,798	$ 6,824	$239	2
Alamosa	33	36	90	159	32	50
Arapahoe	0	1,978	7,524	9,502	267	1
Archuleta	0	0	164	164	55	40
Baca	0	30	383	413	74	33
Bent	0	35	111	146	26	52
Boulder	0	591	1,603	2,194	141	14
Chaffee	0	168	40	208	94	25
Cheyenne	0	11	204	215	65	36
Clear Creek	0	0	227	227	67	35
Conejos	0	0	410	410	41	46
Costilla	0	0	326	326	54	41
Crowley	0	12	245	257	50	42
Custer	0	0	160	160	107	20
Delta	0	4	140	144	11	57
Dolores	0	200	287	487	232	3
Douglas	0	0	176	176	43	44
Eagle	0	0	177	177	38	48
Elbert	0	36	368	404	94	25
El Paso	0	790	6,366	7,156	191	6
Fremont	0	61	242	303	31	51
Garfield	0	107	636	743	81	30
Gilpin	0	0	37	37	43	45
Grand	0	309	298	607	148	12
Gunnison	0	0	54	54	19	56
Hinsdale	0	0	0	0	0	—
Huerfano	0	0	77	77	20	55
Jackson	0	0	137	137	65	37
Jefferson	100	4,396	11,720	16,216	198	5
Kiowa	0	0	13	13	5	59
Kit Carson	0	174	406	580	96	23
Lake	0	168	350	518	167	10
La Plata	0	0	465	465	44	43
Larimer	0	263	1,474	1,737	134	17
Las Animas	0	24	265	289	24	54
Lincoln	0	0	462	462	82	29
Logan	221	99	1,542	1,862	223	4
Mesa	0	1,050	3,515	4,565	140	15
Mineral	0	0	0	0	0	—
Moffat	0	68	474	542	181	7
Montezuma	0	196	939	1,135	135	16
Montrose	16	352	1,394	1,762	169	9
Morgan	0	1	1,799	1,800	149	11
Otero	0	14	747	761	58	39
Ouray	0	0	18	18	9	58
Park	0	0	139	139	77	31
Phillips	0	0	399	399	83	28
Pitkin	0	323	80	403	175	8
Prowers	0	139	213	352	24	53
Pueblo	30	77	3,577	3,684	146	13
Rio Blanco	0	117	466	583	121	18
Rio Grande	0	0	411	411	61	38
Routt	0	0	619	619	91	27
Saguache	0	100	216	316	105	21
San Juan	0	0	0	0	0	—
San Miguel	0	78	218	296	102	22
Sedgwick	0	0	453	453	92	26
Summit	0	0	46	46	38	49
Teller	0	0	109	109	39	47
Washington	0	79	708	787	108	19
Weld	0	710	2,926	3,636	72	34
Yuma	0	0	463	463	76	32
Total	400	16,822	59,906	77,128	128	—

[a] Excludes Denver which is shown in tabulation for cities in Table 21.8.
[b] Since county debt is small its allocation to cities and towns was not made other than for Denver. (See Table 21.8.)
[c] Residual after allocation to cities and towns. See footnotes Table 21.8.
[d] Based on estimated population reported for July 1, 1957 by Colorado State Planning Commission.

Source: Colorado State Planning Commission, *1958 Report on Bonded Indebtedness in Colorado.*

Governor's
Local Affairs
Study Commission



LOCAL GOVERNMENT IN COLORADO

Colorado 1966

LOCAL GOVERNMENT IN COLORADO

Findings and Recommendations

FINAL REPORT

of the

GOVERNOR'S LOCAL AFFAIRS STUDY COMMISSION

Denver, Colorado

September, 1966

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Robert Wherry, Denver

STAFF

Harry O. Lawson, Director
J. D. Arehart, Senior Fiscal Analyst
Charles B. Howe, Staff Attorney
Declan J. O'Donnell, Staff Attorney
Ira H. Grinnell, Research Associate
Steve Teglovic, Statistician
Winifred H. Lewis, Statistician
Dodie Gale, Office Manager
Lillian L. Bullinger, Stenographer

* Resigned.

** Deceased

Note: The Commission consisted of 100 members, most vacancies were filled, which accounts for this membership list being in excess of 100.

State of Colorado

EXECUTIVE CHAMBERS

DENVER

JOHN A. LOVE
Governor

Under authorization of and funding by the Legislature, and by appointment of the Governor, some one hundred of Colorado's leading citizens embarked in 1963 on an intensive study of the problems and trends of local government within the State. A wide range of experience, great competence, and much dedicated effort was brought to this most important task.

The study to date has resulted in much effective legislation, many challenges, and great insight into the future direction of government in Colorado.

It is with deep gratitude to the members of the Local Affairs Study Commission that I commend this report to all who are interested in the future of Colorado.

Sincerely,

John A. Love

John A. Love

FOREWORD

This document is entitled a report, it is really a story. It is written by the Governor's Local Affairs Study Commission, but the people of Colorado produced the subject matter and the figures. These people, by their way of life, their ambitions and their work, their finances and their politics, their dreams for the future, and their belief in America, have molded a system of government which extends from Washington, D.C. to every city, hamlet, and farm in this state. The report is about those governments—with emphasis on counties, municipalities, and special districts—and their relationships with each other.

This story has no ending. The people of Colorado will continue to write new chapters; the very nature of democracy and the character of our state make it imperative that we never cease to be concerned with government and that no plan be so rigid that it will fail to meet the needs of the people it serves.

House Bill 466, First Regular Session of the Forty-Fourth General Assembly, was signed into law on April 3, 1963 by Governor John A. Love. Thus began an important chapter in the governmental history of this state. Under this law the governor appointed one hundred citizens to "study the problems of local governmental units in urban areas and their relationship to each other; accumulate factual information; and develop proposals for enabling legislation to provide local governments of the state with means to solve their problems on a local basis."

How well did the Commissioners carry out their task? To study the problems of local government, the Commission divided itself into three major committees: the Metropolitan Committee, the State-Wide Committee, and the Finance Committee. Each committee assumed a specific study responsibility and organized its own approach to its task.

The Metropolitan Committee, under the leadership of Gale Sellens, Representative Allen Dines, and Mrs. Sally Jordan, directed its attention to the problems of the Denver urban community. The members surveyed the multiplicity of governments in the area and how well they worked together. They interviewed citizens who lived in the community to find out what they expected from their government. Every public service offered to these citizens was analyzed, and the efficiency and cost of their performance were recorded. After the committee found out what the people had and what they expected, these conclusions were projected on the growth patterns established by demographers who were looking at Colorado in the future. Their estimates and the committee findings pointed clearly towards some form of metropolitan government that would cut across traditional boundaries and make available certain basic government services to all within the urban area on equal terms. To carry out this plan the committee proposed certain statutory and constitutional changes that would provide methods for solution by the people themselves.

The State-Wide Committee chose its own method and pace for proceeding. It studied local governments outside of the metropolitan areas and went immediately to the people in developing this study. With John Holloway, the late Senator Wilkie Ham, and Representative Betty Miller chairing the meetings, this group held regional hearings throughout Colorado. Committee members looked at the makeup of local government and inquired into its operations on a local basis. This study lent itself to some immediate solutions, and this committee soon developed legislative proposals that were quickly enacted into law. The members did not, however, overlook the "long pull" and, through cooperation with the Metropolitan Committee, a proposal for local government reorganization to meet the specific needs of rural areas was developed.

The third major committee organized was the Finance Committee. Under the guidance of Farrington Carpenter (succeeded by Joe Lacy), Raymond Danks, and Miss Jean Evans, this group assumed the monumental, if somewhat frustrating, task of finding a sound and equitable financial basis for local government operations. The members assigned first priority to a review of all local government budgets during a specified period preceding their study. As these fiscal facts were being accumulated, it was decided to feed

them into data processing machines. Here, they were mechanically organized for analysis, comparison, and projection by the staff and committee members.

It is interesting to note at this point a change in philosophy that resulted from this study. Originally, the Finance Committee aimed at finding logical sources of revenue for local government and at developing recommended patterns for spending these funds. It was assumed that when this formula was developed, the structures of local government would be designed to carry it out most effectively. It soon became evident that the people must decide first what they want from government and how they want it done before the source of funds and the method of spending them is provided.

The Finance Committee agreed that the ad valorem tax on property was exceeding the growth of the valuations on which it was levied and that a broad-based substitute should be made available as a partial replacement for this tax. It recognized the impact of programs imposed upon local government from above and the resulting fiscal problems. These intergovernmental problems were assigned to a new committee for study. Even as this report is being written, this latter group continues its work.

This brief review of three years' work indicates the extent of the Commission's concern to carrry out the law under which it existed. Its study of the "structure and powers of local government units" and "their relationships to each other" was built on a foundation of factual information and included broad public participation in the deliberations of the committees. Each Commissioner was appointed because he or she could lend judgment based on experience, as well as individual identity with a geographical area, an economic group, a political philosophy, or a background in public service itself. They became spokesmen for their communities or groups; by taking the problems under consideration to their communities and groups and bringing back the feelings of those they represented, the Commission became a true forum for public opinion.

The Commission worked under a set of rules developed and adopted by its members. As each committee completed a segment of its study, a report was written covering the facts, the findings based on those facts, and the course of action indicated. These proposals were directed to the General Assembly, the local governments, or the citizens at large. Each report was then reviewed by the one hundred members and discussed at a session of the full Commission. With the right of amendment and dissent, these proposals were accepted or rejected. Their disposition, in many instances, is now spread upon the statutes of Colorado or embodied in an administrative change in some local government.

The local affairs study was a unique approach to one of the most pressing problems in government today. Its initiation by legislation showed state recognition that something had to be done. The study was established under the executive branch of state government. At the outset it was decided that the study should not be aimed at giving the state government new power or responsibility. As the study progressed, however, some problem areas seemed to indicate greater state responsibility and participation in the local areas as an alternative. History will show which course the people will choose to follow.

The Commission found itself cast in the role of coordinator between various local governments. With no attempt to interpret the law, the study of the statutes uncovered some powers that were not being used by various local governments or which were used differently throughout the state. This information has resulted in more uniformity and, in some instances, in clarifying legislation.

One of the difficulties confronted early in the project was suspicion of the motives behind the study. If the state government wasn't seeking new powers, what reason did the Commission have for looking at individual local governments and seeking to uncover problems that weren't statewide in their effect? The Commissioners themselves soon overcame these suspicions in most instances. Their objective approach and unprejudiced solutions to the problems presented indicated their sincerity.

With a two party political system involved in state government, while municipal elections are conducted on a non partisan basis, there was always the concern that "politics" might become involved. A few critics felt that one or the other party might try to gain some advantage from the results of the study. Both party organizations cooperated fully with the work of the Commission in any phase where they were asked for help. The conduct of the meetings was such that party philosophy was a secondary factor to the overall objective. Each individual Commissioner freely indicated what he thought, and if these ideas were predicated on a particular political approach, then this was expressed. Without exception, however, every recommendation of the Commission has had broad support from members of both parties.

This report cannot show all of the results of the study. It cannot indicate new public awareness with problems of government. The very nature of the Commission membership, as already indicated, made the public an immediate ingredient. The news media followed the Commission's progress and reported fully on its deliberations. Local groups were formed in some areas to report on problems. The memoranda from the staff, the data compilations and charts, the interim reports, and the proposed bills for the General Assembly were circulated throughout Colorado and the nation. A series of press releases, an information

pamphlet, and a film strip added a more simplified approach to these materials. Finally, many local government officials began to look at their own units with the help of cooperative citizens; using in many instances comparative data developed by the Commission, these officials and citizens are making their own community studies.

The General Assembly was most responsive in its acceptance of the study results. In some instances, the recommendations were not followed; others were modified; and a third group were accepted almost without change. The General Assembly, however, gave each proposition a thorough appraisal. The standing committees of the House and Senate which deal with the bills concerning local government were busy committees. They held public hearings and long work sessions. When the Commission-recommended legislation moved out of these committees to the floor of either house, the bills often engendered heated debate and always serious consideration. Each individual legislator became much more aware of the problems of his own area and the related problems of other communities. Rural representatives gained a new insight into urban problems, while urban members found fresh awareness of problems from the less populated areas. Many provincially fostered prejudices completely vanished. In essence, the study and deliberation of the one hundred Commissioners was supplemented by an equal concern and thought by the one hundred members of the General Assembly.

The research, data, and statistics developed by the Commission staff, together with the thorough analysis of the statutes and constitution, stand as a landmark in governmental studies. This staff under a highly competent director, included a fiscal analyst, an attorney, an office manager, a statistician, stenographer, and intermittent assistants.* Each staff member was assigned to one of the three major committees, in addition to his general responsibilities. The committee chairmen and members directed the staff into areas of research and reviewed progress at regular intervals.

All policy decisions and recommendations were made by the Commission membership based upon the facts and figures developed. The proposals were not written by the staff and then accepted or rejected by the Commission. Instead, they were hammered out in open meetings and drafted into final form after each point had been covered, discussed, and approved. Each member of the Commission could become as well versed in the subject matter of the research as was the staff member who presented it.

This report tells of the past in local government and inventories the present. New laws are on the books as a direct or indirect result of this study.** The Commission decided early in its life to strengthen those existing governments serving rural and urban communities which were comprehensive governments. The new annexation law recommended by the Commission gives municipalities a method of extending their services and boundaries, while statutory limitation on the formation of illogical municipalities clears legal roadblocks from the path of planned growth. The patchwork quilt pattern of single-purpose district governments has been directed towards systematic development by special district control legislation making the boards of county commissioners the coordinating and approving authority over district formation. The auditing of public accounts is now mandatory for all local governments, and uniform methods of keeping these accounts are being outlined as directed by another Commission recommended law. County governments have taken on new powers and have new tools available to carry out those powers.

In their final form, the recommendations of the Commission establish a renewed faith in the ability of the individual Colorado citizen to determine his own government on the local level and to participate in that government. Several outside factors have had an influence on this attitude. Judicial decisions, the press of urbanization, demands for education, the changing economy of the state, and a more affluent citizen with time to participate are but a few of these factors.

Several legal experts assisted the Commission and staff in drafting legislative and constitutional proposals. Of special note are the contributions made by John C. Banks, Regional Attorney, U. S. Department of Agriculture; Robert S. Wham, Shoemaker and Wham, Attorneys; Professor Howard Klemme, University of Colorado Law School; James G. Willson, Jr., Tallmadge, Tallmadge, Willson, and Lamm, Attorneys; C. Edward Palmer, Dawson, Nagel, Sherman and Howard, Attorneys; and James C. Wilson, Jr., State Legislative Reference Office.

**The following legislation was proposed by the Commission and adopted by the General Assembly in 1965:*

- *House Bill 1056—Special District Control Act*
- *House Bill 1057—Speed Regulation on County Roads*
- *House Bill 1059—Repeal of Authorization for Police Protection Districts*
- *House Bill 1060—Local Government Audit Law*
- *House Bill 1061—Local Government Uniform Accounting Law*
- *House Bill 1284—Continuance of County Services to New Municipalities*
- *House Bill 1288—Police Courts in Statutory Municipalities*
- *House Bill 1289—Capital Improvement Fund Authorization for Statutory Municipalities*
- *Senate Bill 121—Relating to the Provision of Municipal Water Service to Unincorporated Areas*
- *Senate Bill 122—Municipal Annexation Act of 1965*

Legislation proposed by the Commission in 1965, but not adopted, included:

- *House Bill 1058—County Authority to Regulate Road Excavations*
- *House Bill 1273—Countywide Local Option Sales Tax*
- *House Bill 1321—Prevention of Illogical Municipal Incorporations*

Two measures were proposed by the Commission in 1966: House Bill 1032, regulating municipal incorporations, was adopted in amended form; and Senate Bill 18, creating the Division of Local Government, the major provisions of which were added to Senate Bill 23, which was adopted.

The Commission feels that modern, flexible, and efficient government in the cities and counties of Colorado must be patterned along lines that are tailor-made for each area. The logical pattern makers are the people themselves. This is the objective of the home rule provisions that the Commission-recommends.

Even while governments are being structured to meet special situations, they have to lend themselves to cooperation with their neighbors. Lateral and vertical agreements between governments can result in broad application of modern methods, with substantial savings through sharing of services and equipment. All of the Commission proposals are aimed at providing the legal tools to let local governments solve their problems on a local basis.

Much lies ahead in the work started by the Commission. Some of the ideas propounded have not found general acceptance; some have found active opposition. Many areas of important research had to be bypassed for lack of time. The climate of reform has, however, been established. To those who take up the work, this report is dedicated and directed.

Representative JOHN G. MACKIE
Vice Chairman
June 11, 1966

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I

COUNTY GOVERNMENT

Origin and Development

A county may be defined simply as "the largest territorial division for local government within a state."

County government has had a long and interesting history. When American colonies first became settled, England was divided into "shires," which in turn, were subdivided into parishes, hundreds, manors, and boroughs. This system was transplanted to the colonies, but in time the term "shire" was replaced by its synonym "county." The county was first instituted in Virginia and soon became the primary unit of local government and administration in the south. The Middle Atlantic states introduced both townships and counties. The New England states utilized towns and counties, but the latter were relegated to a subordinate position of responsibility.

This general pattern of counties, towns, and townships was repeated as the nation grew westward. In the western states, counties assumed major importance as subdivisions of state government for the administration of state programs.

At the present time, counties exist in all states, except Rhode Island, Louisiana, Alaska, Hawaii, and Connecticut. Rhode Island has not established county units because of its small geographic size. Louisiana has a county system, but refers to these units as "parishes." Alaska divided its territory into somewhat larger local units referred to as boroughs. Hawaii, consisting of a group of islands, does not use county units at all. Connecticut abolished its eight counties in 1960, but towns have always been more important local units.

The number of counties in each state varies from three in Delaware to 254 in Texas, with an average of over sixty. Each state has established criteria for determining the number and size of counties. The largest in size is San Bernadino in California (20,131 square miles), the smallest are four in Virginia, with one square mile each. Los Angeles County is the largest in population with 6.3 million, while Hinsdale County (Colorado) is one of the smallest, if not the smallest, with 200 people. Historically, once a county is created, it has seldom been abolished or merged with another county. The number of county governments in the United States decreased only three in the 1930's; only one county was eliminated in the 1940's; and only two counties were eliminated in the 1950's. In Colorado, some early counties were dissolved, but the total number of county units increased after statehood in 1876.

Historical Development of Colorado Counties[1]

There are presently sixty-three counties in Colorado; however, there has not always been this many. The historical development of Colorado counties is an interesting study in the juggling of boundaries by territorial and state legislatures. Many of the early counties are no longer in existence, and some still in existence were subdivided into other counties during Colorado's early history. The creation and growth of county governments in this state can best be summarized chronologically.

Territorial Colorado. Prior to 1861, what is now Colorado was composed of portions of Kansas, Nebraska, New Mexico, and Utah territories. In 1861, Kansas was admitted to the Union, and Colorado Territory was carved out of Kansas and the other three territories. Colorado's first territorial assembly met in 1861 and established seventeen counties: Arapahoe, Boulder, Clear Creek, Costilla, Conejos, Douglas, El Paso, Fremont, Gilpin, Huerfano, Jefferson, Lake, Larimer, Park, Pueblo, Summit, and Weld. Figure A shows the counties and county boundaries in existence in 1861.

Eight more counties were created in the fifteen years prior to statehood. In 1866, the territorial legislature created Saguache County out of the northern part of Costilla County. At the same time, Las Animas County was established from the southern portion of Huerfano County. Bent County was created in Eastern Colorado by an act of the Territorial Assembly in 1870. Then in 1874, five other new counties were established: Elbert, Grand, Hinsdale, La Plata, and Rio Grande.

Early Statehood. Figure B shows the counties and county boundaries as they existed upon Colorado's entry into the United States of America.

By 1876, there were twenty-five counties. Following the creation of San Juan County in 1876, thirty-seven new counties were added by subsequent General Assemblies, as follows: 1877, Custer, Gunnison, Routt;

FIGURE A
COUNTY BOUNDARIES
First Territorial Assembly, 1861
(17 counties)

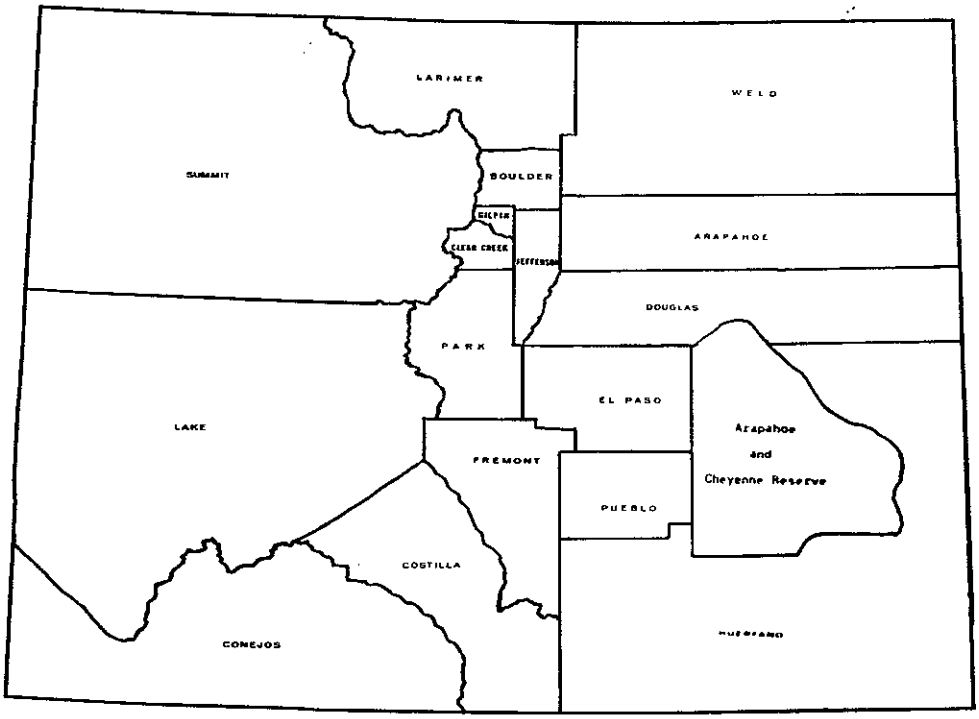
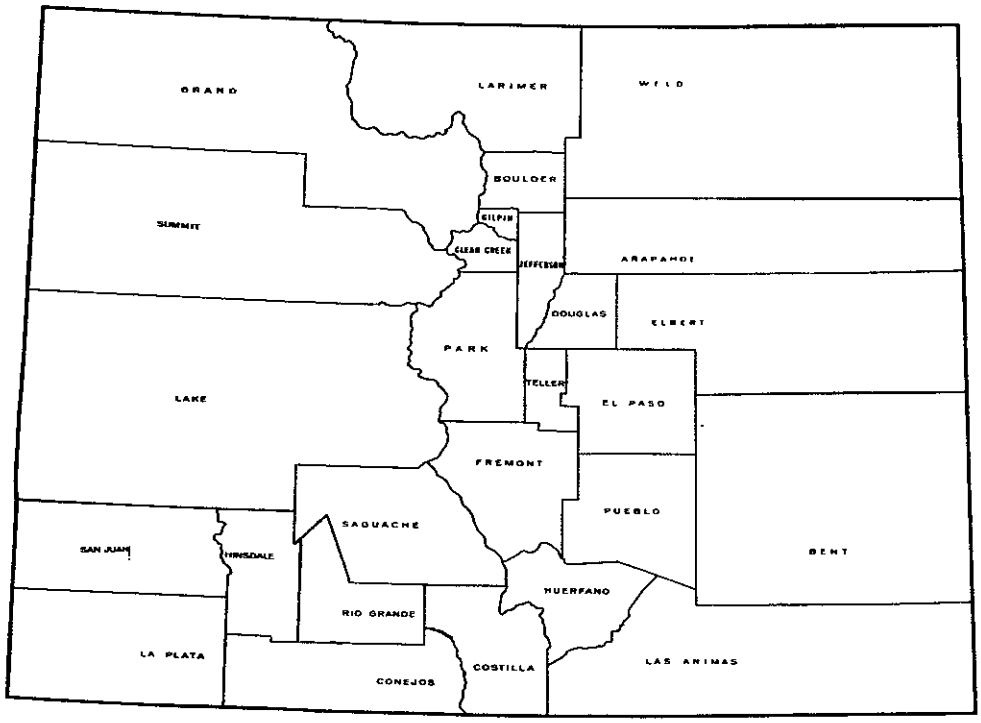


FIGURE B
COUNTY BOUNDARIES
Eleventh Territorial Assembly, 1876
(25 counties)



1879, Chaffee; 1881, Dolores, Pitkin; 1883, Delta, Eagle, Garfield, Mesa, Montrose, Ouray, San Miguel; 1885, Archuleta; 1887, Logan, Washington; 1889, Baca, Cheyenne, Kiowa, Kit Carson, Lincoln, Montezuma, Morgan, Otero, Phillips, Prowers, Rio Blanco, Sedgwick, Yuma; 1893, Mineral; 1899, Teller; 1902, Adams, Denver; 1909, Jackson; 1911, Crowley, Moffat; 1913, Alamosa.

As the dates indicate, many of Colorado's counties were created in the 1880's during the fabulous growth of the state's mining industry and the development of the mountainous areas of the state—presumably, so that no person would have more than one day's ride by horseback to a county seat. The City and County of Denver was carved out of Arapahoe County by the passage of Article XX of the Colorado Constitution in 1902. Adams County also was created from the northern portion of Arapahoe County by the General Assembly in 1901, but the actual establishment of Adams County was contingent upon the creation of the City and County of Denver and the passage of Article XX. Adams and Denver counties were formally established on December 1, 1902 by proclamation of the Governor that the amendment (Article XX) had passed. At that time, there were fifty-nine counties in Colorado as shown in Figure C.

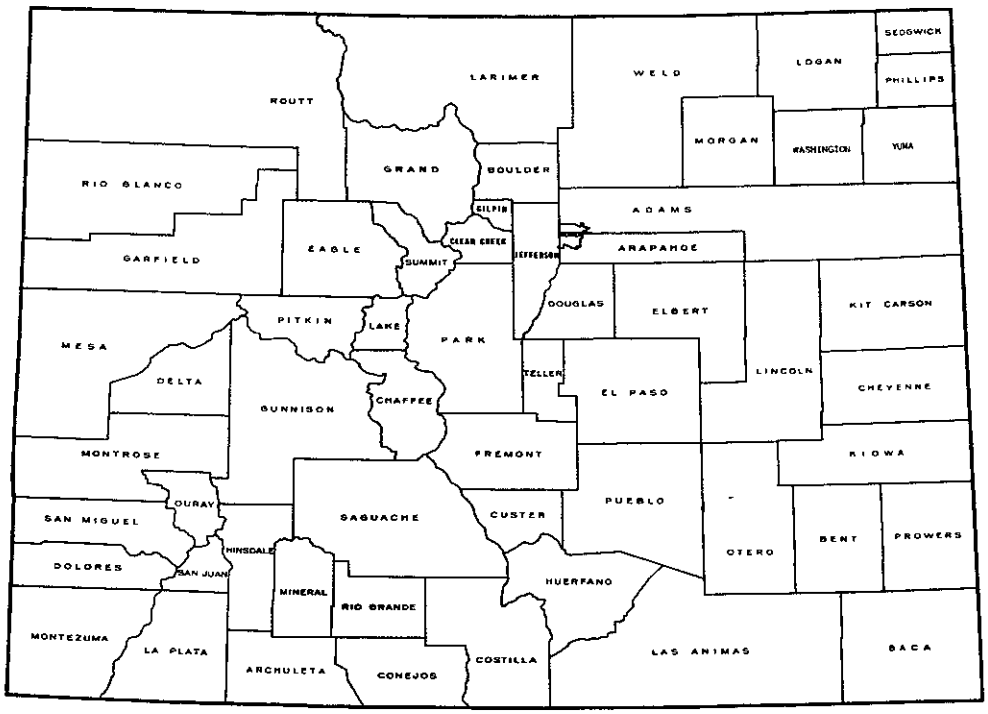
Alamosa County was established in 1913, and no new counties have been added since that date. Figure D illustrates county boundaries substantially as they exist at the present time. It should be noted that the county boundaries in Figure D are not precisely correct, inasmuch as annexations to the City and County of Denver have altered them to some extent since the date of the map.

Population

Colorado's counties range in population from 527,000 (City and County of Denver) to 200 (Hinsdale County) as follows:*

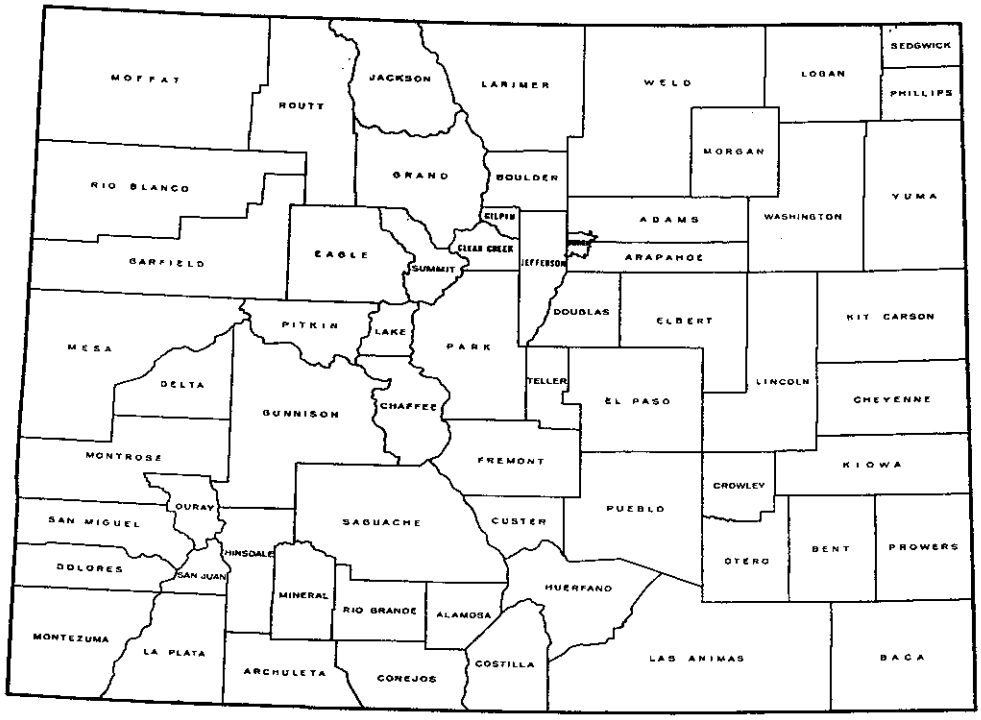
Population	No. of Counties
over 100,000	6
50,000-100,000	4
10,000-25,000	13
5,000-10,000	15
2,500-5,000	14
1,000-2,500	7
less than 1,000	4

FIGURE C
COUNTY BOUNDARIES, 1902
(59 counties)



January 1, 1965 estimates of the State Planning Division.

FIGURE D
PRESENT COUNTY BOUNDARIES, 1963
(63 counties)



What Is A County?

Traditionally, a county is considered to be a local subdivision of state government for the administration of state programs. This concept, as applied to county government in Colorado, has been described by John C. Banks, an authority on local government law in Colorado, in the following terms:

> Counties are not municipal corporations, but are quasi corporations. They are mere subdivisions of the state for general governmental purposes. The distinction between municipal corporations and counties is that a municipal corporation is created by its request, and under our constitution by the act of the citizens resident within the territorial limits thereof, for their local advantage and convenience; whereas, counties are created by the legislature for the purpose of exercising a part of the political power of the state.
>
> A county is merely a subdivision of the state for the purposes of state government. It is nothing more than an agency of the state in the general administration of the state policy. Its powers are soley governmental. It does not, like a municipal corporation, possess a complete local government of its own, executive, legislative and judicial. It is clothed with certain executive powers but these are only such as are specially granted to it by the state.
>
> A county is created by the legislature without reference to the will of its inhabitants. It has no power of local government or independent authority of any kind whatever. Its officers, although elected by its people, are virtually officers of the state, and are charged with the administration and execution of the laws of the state. It is merely a subdivision of the state for the purposes of state government.[2]

This traditional concept of county government has changed somewhat over the years; it is now considered by many to be a separate unit of local government. This view on the legal status of counties has been summarized by Dr. Conrad McBride, professor of political science, University of Colorado, as follows: "The county in a legal sense is a subdivision of the state. But in addition to being a legal entity, it is a going concern and historically, in Colorado, it is older than state government itself. The county has a dual nature: In certain ways it acts as part of the state government performing functions on behalf of the state; but it is also a unit of local government . . ."[3]

Colorado statutes declare a county to be a "body corporate and politic." Although a county is not incorporated as such, there can be no doubt that it is a legal entity and an integral part of the state's local government system.

Relationship to Other Governments

Although originally designed primarly to serve rural areas, county boundaries include both incorporated and unincorporated areas. Present county government in Colorado is charged with the responsibility of performing functions and serving all areas of the county, both urban and rural. Other local units of government, such as municipalities, special districts, and school districts, operate within county boundaries and property located within a county is subject to taxation by one or more governmental units, in addition to the county. The county has particularly close relationships with several state agencies which have authority to prescribe rules, regulations, and standards for the performance of many county functions.

Constitutional Basis

Counties, like other units of local government, have their legal basis established in the state constitution. However, counties are the only local governmental units in the state which have their organization and structure provided specifically in the constitution. Article XIV of the Colorado Constitution establishes the organization and officers of county government. Although there are references to counties throughout the constitution, there is no provision which actuall defines how counties are to be created. Article XIV, Section 1, provides that: "The several counties of the territory of Colorado as they now exist, are hereby declared to be counties of the state." Apparently this provision has never been interpreted by the Colorado Supreme Court, and it is not clear whether the existence of the original twenty-six counties at the time of Colorado statehood is constitutionally guaranteed or whether their status can be altered by legislative enactment. The constitution does not enumerate by name any county (except the City and County of Denver and Arapahoe County, which is referred to as a quasi municipal corporation), nor does it define county boundaries.

The Colorado Supreme Court has held that the legislature may create new counties out of the territory of counties already in existence,[4] and all of the counties added since 1876, except the City and County of Denver, have been established by the General Assembly. There are a few constitutional references to the duties of certain county officers, but, in general, the functions and powers of county government are not enumerated in the constitution, leaving them for determination by the General Assembly.

Miscellaneous Constitutional Provisions. Article XIV contains several interesting sections concerning counties. Section 2 provides that the General Assembly shall have no power to remove the county seat of a county without the approval of a majority of the voting electors in the county; this proposition may not be submitted more than once every four years, and a resident must have resided in the county for six months in order to vote on this question. Section 3 of Article XIV provides that no part of any county shall be stricken off and added to an adjoining county without approval of a majority of the electors in the county from which territory is to be taken. The stricken portion must pay its portion of liabilities and debts existing in the old county.

Structure and Organization of County Government

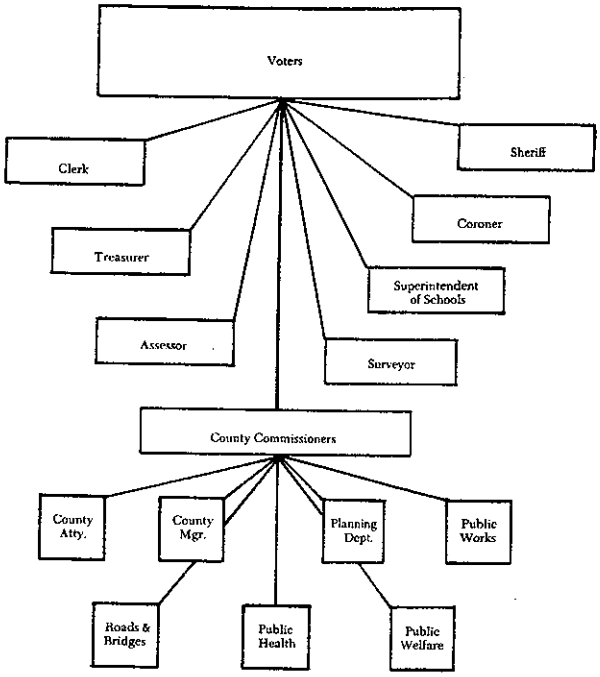
The organization and structure of county government is also established by Article XIV of the Colorado Constitution. In general, the basic organizational pattern of county government is the same throughout the sixty-three counties of the state, except for the City and County of Denver, which has its organization established by city charter, pursuant to Article XX of the constitution. Because counties are primarly an administrative branch of local government, they have no court system of their own, nor do they possess any inherent legislative powers, other than those delegated by the General Assembly. Figure E shows the organization and structure of county government.

Board of County Comissioners[5]

The board of county commissioners constitutes the chief administrative and policy-making body for the conduct of county activities, except where other provision is expressly made. The board is composed of three members who are elected for four-year terms, two of whom are elected at the general election in presidential election years and the other elected at the next general election. The constitution makes it permissible for counties of more than 70,000 population to have five commissioners, but no county of this size has exercised this prerogative.

Commissioners represent districts, but are elected at large. Vacancies on the board of county commis-

FIGURE E
COUNTY GOVERNMENT ORGANIZATIONS IN COLORADO



sioners are filled by gubernatorial appointment, but vacancies in other county elected offices are filled through appointment by the board. Commissioners may not be removed by recall any time after being in office six months and may not be subject to more than one recall election during each term of office. The law requires that a candidate for the board must have resided in the county for at least one year preceding the date of the election. Upon election, a commissioner must post a bond ranging from $5,000 to $25,000, depending on the size of the county, and he is also required to take the standard oath of office for both federal and state constitutions.

State law prescribes certain times when the board of commissioners must meet, depending on the size of the county. The board of county commissioners sits as the board of equalization in processing property assessments.[6*]

Other County Constitutional Officers[16]

In addition to the commissioners, there are eight others considered to be constutional county officers.[7] With the exception of one, all of these officers must be residents of the county for one year prior to election, are elected for four-year terms, and must take the standard oath of office. A brief description of the qualifications and duties of each office follows:

Other powers and functions of the board of county commissioners are described in greater detail in subsequent sections of this chapter.

County Clerk.[8] The constitution requires the county clerk to be the recorder of deeds and clerk of the board of county commissioners. By law and practice, the county clerk is actually the primary administrative officer in most counties. In order to be eligible for this office, a candidate must be a qualified elector of the state and have resided in the county for one year preceding his election. Upon election, he must execute a bond with two or more sureties in an amount of not less than $5,000, as approved by the county commissioners. The clerk must appoint a deputy to act in his absence or disability.

The office of the clerk is directly responsible for administering a number of state laws. He is the authorized agent of the State Department of Revenue and is charged with the responsibility of carrying out many state laws relating to certification of automobile titles, drivers' licenses, motor vehicle registrations, and licensing under the ton mile tax. He collects a multitude of license fees and charges due the state.

The clerk in all counties, except Denver, is the chief election officer of the county and has administrative responsibility for all primary, general, and special elections held in the county, including such duties as registering voters, publishing notice of elections, appointing election judges, and printing and distributing ballots. In addition, the clerk issues marriage licenses, maintains various records and books for the board of county commissioners, and performs other duties such as furnishing deed abstracts upon request.

County Treasurer.[9] The county treasurer is responsible primarily for the receipt, custody, and disbursement of county funds. He is the public trustee except in first and second class counties. The treasurer performs tax collecting duties for the state and other local governmental units, as well as counties; for example, the constitution requires the county treasurer to collect and disburse school funds belonging to school districts in the county. He mails out notices and collects the property taxes for all local units in the county and then refunds the receipts due each unit, after deducting a statutory collection fee. Various fines from criminal violations also are collected by the treasurer and forwarded to the state treasury. The treasurer performs many duties in connection with the sale of property for delinquent taxes and must issue treasurer's deeds to purchasers at tax sales.

County Assessor.[10] The basic duty of the county assessor is to value real and certain types of personal property for ad valorem taxation. The assessor must execute a bond in the amount of $6,000, approved by the commissioners, and also another bond to the State of Colorado, as approved by the state director of revenue. If required by the county commissioners, the assessor can divide the county into assessment districts

and appoint a deputy for each district. The assessor's office also has miscellaneous responsibilities, such as the collection of agricultural statistics, and local duties in connection with the state hail insurance program.

County Sheriff.[11] A bond is required in an amount of $5,000 to $20,000, as required by the commissioners. The sheriff is the chief police official in each county and is charged with keeping the peace and enforcing all state laws. Specifically, he is charged with enforcing state gambling, liquor, and fish and game laws. He must pursue persons suspected of committing crimes in his jurisdiction, attend sessions of the courts of the county, and is required to serve and execute all processes, subpoenas, writs, and orders directed to him by the court. The state also has vested the sheriff with a number of responsibilities in connection with the sales of land and personal property for the satisfaction of debts or tax liens. He is the keeper of the county jail and must maintain and feed the prisoners entrusted to his care. In addition, he must witness executions at the state penitentiary of persons convicted of crimes in his county and act as fire warden in case of prairie or forest fires in the county.

County Coroner.[12] The coroner is elected for a four-year term and must execute a bond in an amount of $250 to $5,000, with sureties approved by the commissioners. The principal duty of the coroner is to investigate causes of death where the reasons are unknown. A coroner's inquiry must be held in any case involving violent death to determine the cause of death and whether a crime was committed. The coroner is required by law to act as sheriff when there is no sheriff; when the sheriff is disqualified for being partial, prejudiced, or an interested party; or until a new sheriff is appointed. Like the sheriff, he is empowered to seize gambling devices and exercise other police powers. His miscellaneous duties include conducting an inquest in any fatal mine accident and issuing death certificates for persons who die in motor vehicle accidents within the county.

County Superintendent of Schools.[13] To hold this office, a person must: 1) have a teaching certificate during the period of his election; 2) have taught in Colorado public schools for at least eight months; and 3) post a bond of at least $2,000. The primary responsibilities of the superintendent are to complete reports for the State Board of Education and to keep various types of registers, records, and maps required by the state. The superintendent of schools also performs various functions in connection with elections for the formation of county high schools and carries out ministerial duties under the School District Organization Act of 1957.

An amendment to the constitution adopted in the 1964 general election made this office mandatory unless abolished and the term of office four years instead of two. This amendment also makes it possible for any county to abolish this office upon majority approval after submission of the question at a general election. Legislation to implement this amendment was adopted in the 1965 session.

County Surveyor.[14] The county surveyor must post a $1,000 bond. His statutory duties are few. He executes surveys to settle boundary disputes when directed to do so by a court or other interested parties. He has authority to survey for the location of markers and monuments and for the approach and width of toll roads. In addition, the surveyor has responsibilities in connection with the construction and inspection of reservoirs.

County Attorney.[15] The constitution provides that the county attorney may be elected or appointed; however, state law requires that he be appointed, making the county attorney the only appointive officer of the county. In order to be eligible, he must be at least twenty-five years old and admitted to practice in Colorado. Besides advising other county officers on all legal matters, he has the statutory duty to represent the county in mental competency and commitment proceedings.

Other County Offices[16]

The county commissioners have authority to appoint to a number of other boards and positions, most of which relate to particular county functions such as road construction, welfare, health, planning, etc. The commissioners of a county may appoint a county manager to carry out administrative duties assigned to him by the board; only a few metropolitan counties have established this position or its counterpart (county administrator). In addition, county commissioners have authority to fill a vacancy in the office of county judge until the next election. Statutes also provide authority for the appointment of a public defender and the manager of the county fair grounds, with corollary authority to set the compensation for these positions. Various other minor positions may also be established, but do not warrant description here.

County Classifications—Salaries

The constitution (Article XIV, Section 15) requires the General Assembly to classify counties on the basis of population for the purpose of setting the compensation of county officers. Pursuant to this authority, the General Assembly has established six basic classifications of counties, with subclassifications, as follows:[17]

Class	Counties
I	Denver
II	Adams, Arapahoe, El Paso, Jefferson, Pueblo
IIA	Boulder, Weld
IIB	Larimer, Mesa
IIC	Otero
IID	Fremont, Las Animas, Logan, Morgan
IIE	La Plata, Montrose
IIF	Delta, Garfield, Montezuma, Prowers, Rio Grande
III	Alamosa
IIIA	Chaffee, Conejos, Huerfano, Yuma
IIIB	Baca, Bent, Kit Carson, Lake, Moffat, Routt, Washington
IIIC	Douglas, Eagle, Gunnison, Lincoln, Rio Blanco
IV	Phillips, Saguache, Sedgwick
IVA	Costilla, Crowley, Elbert, Grand, San Miguel
IVB	Archuleta, Cheyenne, Clear Creek, Kiowa, Pitkin, Teller
IVC	Dolores, Park, Summit
V	Custer, Jackson, Ouray
VI	Gilpin, San Juan
VIA	Hinsdale, Mineral

The annual salaries of county commissioners range from $6,500 in Class II counties to $720 in Class VIA counties.* The annual salaries of the county clerk, treasurer, assessor, and sheriff range from $7,500 in Class II counties to $2,760 in Class VIA counties.

Other Classifications

Counties are also classified by statute for at least three other purposes, each law providing a somewhat different grouping of counties:

1) **Compensation of County Clerks and Assistants.** These statutes merely classify counties in groups, but do not set statutory salary limits.[18]
2) **Fees of County Officials.** Counties are divided into five classes for the purpose of setting some of the fees which are assessed by county officials, for example, the property tax collection fee charged by the county treasurer.[19]
3) **Qualifications of County Judges.** Counties are divided into four classes for the purpose of setting qualifications for the office of county judge.[20]

Powers and Limitations

General Powers

As the primary policy-making agency of county government, the board of county commissioners has been delegated considerable authority. In addition to specific powers, the board of commissioners has the general statutory power to:[21]

1) make such orders concerning county property as it deems proper;
2) examine and settle all receipts and expenses of the county and to settle all accounts or claims against the county;
3) keep in repair, build, and insure county buildings and, if there are no county buildings, to provide suitable quarters for county purposes;
4) levy and apportion taxes and incur debt for the construction or repair of public buildings, roads, and bridges when so authorized by a vote of the people;
5) manage the business and property of the county in all cases except when management is otherwise specifically delegated by statute;
6) establish and alter precinct boundaries;
7) establish voting places in each precinct as may be required by law;
8) grant business licenses and perform such other related duties as may be required by law;
9) acquire land, contract for, and maintain airports and landing strips and lease or determine rental charges for such facilities;
10) provide for county dumping grounds;
11) enter into contracts with municipalities for joint use and occupation of buildings;
12) negotiate with boards of county commissioners of other counties and with the State Board of Agriculture of Colorado State University for agricultural extension services to be financed on a pro rata share by the counties receiving such services; and
13) adopt a resolution creating the office of county manager, administrative assistant, budget officer or, any office as may in their judgment be required for the efficient management of the county. (The board has the power to make the appointment, and fix the compensation from the county general fund of all officers so created, and the persons appointed serve at the commissioner's pleasure.)

Other Powers

Although it is generally true that boards of county commissioners have only those powers conferred upon them by the state, the courts have held that they possess such implied powers as are necessary to carry out their assigned functions.[22] In most cases, specific powers delegated to the county commissioners relate to

Denver does not have a separate board of county commissioners as such, and the salaries of its officials are prescribed by charter and ordinance.

some function, program, or service which the county is required to perform. For example, the county commissioners have legal authority to condemn property for road acquisitions[23] and to issue various types of licenses, as permitted by state law. The biggest non-fiscal limitation on county government would appear to be the absence of any inherent police power, i.e., the power to establish criminal violations to protect public health, welfare, and safety. As subdivisions of the state for the performance of governmental functions only, counties are immune from any tort liability resulting from negligence in the performance of these functions.[24]

Fiscal Powers and Limitations

The county is vested by constitution and statutes with a number of powers to finance the operations of county government. It also is subject to certain limitations on its power to tax, issue bonds, and incur indebtedness.

Sources of Revenue

The only source of revenue available to counties, aside from various kinds of fees and federal and state grants-in-aid is the ad valorem tax. It produces revenue for almost all of the different funds which finance county activities.

Budget and Finance Procedure[25]

All counties, except Denver, are subject to the provisions of the Local Government Budget Law. The budget must contain expenditures for the previous fiscal year, estimated expenditures for the current and ensuing fiscal years, and a classification of expenditures for each fund. The budget must be published, and it must be considered at a public hearing prior to approval and adoption by the board of county commissioners.

The county fiscal year starts January 1, and the budget for the next fiscal year may be adopted at any time during the last quarter of the current fiscal year. In estimating anticipated revenues, unexpended surpluses from the previous year must be considered. Property tax levies in the new fiscal year must not produce revenue in excess of five percent more than the previous year, except for debt retirement. If more than a five percent increase is needed, the commissioners must obtain approval for the increase from either the State Tax Commission or the qualified voters of the county. Except for unforeseen emergencies, expenditures other than those appropriated may not be made.

The county commissioners must publish a monthly statement of the claims and expendiutres of the county. In addition, state law requires publication of a semi-annual financial statement showing all collections, disbursements, transfers, and delinquent taxes during the period. The board of county commissioners must also provide for an annual audit, itemizing information about the status of county finances and comparing expenditures with the budget.

Indebtedness

Article XI, Section 6 of the constitution limits the amount of indebtedness which counties may contract. Counties with less than $5 million of assessed valuation may not incur debt in excess of six dollars for each $1,000 of valuation; counties with more than $5 million of assessed valuation may not exceed three dollars for each $1,000 of valuation. These limitations may be exceeded by popular vote, but total county indebtedness still may not exceed twice the above amounts.*

Bonds and Securities[26]

The county is empowered by the constitution and state laws to issue general obligation bonds for constructing roads and bridges, public buildings, and airports. These bonds may not be outstanding for more than twenty years and are limited to a maximum interest rate of ten percent. They may be sold by the board of county commissioners, but such sales must be for cash and at a discount rate of not more than fifteen percent of par value. The commissioners must levy a tax sufficient to meet principal and interest payments on the bonds. In order to issue bonds, the question must be submitted to and approved by the qualified voters of the county. The board of county commissioners may issue refunding bonds for general obligation bonds without an election, if interest rates on such bonds do not exceed five percent. Commissioners have additional powers to issue anticipation warrants for public works—not subject to constitutional debt limits—in accordance with specific statutory requirements. Warrants in excess of $5,000 may be refunded by the issuance of bonds, if petitioned by fifty taxpaying electors of the county.

Contracts[27]

Only the county commissioners are permitted to contract for county supplies and services. State supplies are preferred in all contracts, but contracts for supplies must be issued on a bid basis.

**This provision (as is true of many old constitutional and statutory provisions), is extremely vague and is subject to a number of different interpretations.*

General Fund

The county commissioners are authorized to set mill levies for the general fund in accordance with a schedule based on the assessed valuation of the county; the schedule runs from a maximum levy of 12.0 mills for counties with less than one million dollars of assesse dvaluation to a maximum of 5.0 mills for counties with assessed valuation in excess of $100,000,000.[28] Appropriations may be made from the general fund for all ordinary county purposes including: 1) administrative offices; 2) libraries; 3) agricultural extension services; 4) county fairs; 5) fire protection; 6) health; 7) airports; 8) rodent control; 9) water conservation; and 10) weed control.[29]

Judicial System. The county's share of operating district and county courts is also financed from the general fund. The board of county commissioners, however, have no direct control over court budgets, as is the case with other general fund functions.* The Colorado Supreme Court has held that necessary and reasonable judicial expenses must be paid by the county commissioners.[30]

Other Funds

There are a number of other funds which are either required or which may be established at the discretion of the commissioners to finance county operations:

Public Welfare Fund. Each county must establish a county welfare fund to finance its share of various welfare activities. The welfare mill levy must be set by the commissioners according to a statutory schedule based on per capita assessed valuations; the schedule varies from a maximum of six mills for counties with less than $800 per capita assessed valuation to a maximum of two and one-half mills for counties with over $2,600 per capita assessed valuation.[31]

Road and Bridge Fund.[32] Costs for the construction of county roads may be paid from the general fund, road fund, or emergency fund as the commissioners may decide. A separate road and bridge fund must be established in each county, consisting of the county's share of the state highway users' tax, federal highway monies, and additional levies made by the commissioners, as may be needed.

Public Works Fund. The board of county commissioners may levy up to three mills for public works; no vote is required but a public hearing must be held.[33] Building programs requiring more than a three mill levy must be approved by the county electorate, and such additional levy would be subject to the constitutional debt limitations.

Public School Fund. In order to qualify for participation in the state minimum equalization program, each county must provide $200 for each actual classroom unit to which the school districts in the county are entitled under state law.[34]

Miscellaneous Funds. The county commissioners also are authorized to set up a variety of other funds. They may establish a bond redemption fund to pay off the principal and interest of county bonds.[35] Commissioners are authorized to create an agricultural fund and make an agricultural levy.[36] A county hospital fund may be established in counties of 3,000 population or more if petitioned for by 500 property owners of the county; a mill levy of up to one mill may be made for operation and maintenance of the hospital.[37]

**Judicial system finances and intergovernmental relationships are discussed in Chapter VII.*

Programs and Services

The primary purpose of the operational and fiscal powers briefly described in the preceding section is to enable the county to administer state programs and perform a number of services required by law. There are also various programs and services conducted by county government, other than those handled by the constitutional officers of the county.

Roads and Bridges*

One of the primary functions of county government since its inception has been to construct roads and bridges. The county's responsibility in this field is governed to a large extent by the 1953 State Highway Act, which established a formal system of county primary and secondary roads.[38] The board of county commissioners selects the county primary system on the basis of those roads which in their judgment are the most important. The commissioners must advertise and then hold a public hearing on this determination; subsequently, a map designating primary and secondary roads must be completed and filed with the State Highway Department. The county commissioners have responsibility for construction and maintenance of the county road systems, but are required to employ road supervisors and may divide the county into road districts. They set the amount of money which may be spent in road districts, but the amount expended in any district may not be less than fifty percent of the tax collected in the district. In carrying out its responsibilities for construction of county roads, the boards of county commissioners are vested with the authority to let contracts (on a sealed bid basis) and may condemn private property when necessary.

Welfare*

Welfare constitutes a major county program with many component programs. State law requires each county to establish a welfare department on its own or in cooperation with other counties.[39] The board of county commissioners serves as the county board of welfare. If two or more counties form a district welfare department, the welfare board may consist of one or more commissioners from the participating counties. The county welfare department is charged with the administration of all forms of public assistance in the county, including aid to dependent children, home relief, aid to the blind, the tuberculosis program, care and treatment of handicapped children, and such other welfare activities as may be required or delegated to it by the state department of public welfare. The county department also investigates and approves all applications for admission to and discharge from county institutions.

**Road construction and maintenance and public welfare are covered in more detail in Chapter VII.*

The federal and state governments regulate the administration of these programs and reimburse the county for most of the costs involved. In addition, the federal and state governments provide eighty percent of county welfare administrative costs. County welfare departments also assist in the administration of the old age pension and medical care programs.

Health and Sanitation

Counties may establish a health department by resolution approved by the county commissioners, or two or more counties may combine to form a district health department.[40] A board of health consisting of five members for five-year terms may be appointed by the county commissioners. District health department boards consist of seven members appointed by a committee consisting of one county commisioner from each county. County health departments have the authority to: 1) administer and enforce the state health laws, including rules, regulations, and standards promulgated by the State Department of Public Health; 2) control epidemics and communicable diseases and enforce quarantine and close public gatherings when necessary for the protection of the public health; 3) abate nuisances to protect public health; 4) establish and maintain laboratories for the investigations necessary to preserve public health; 5) purchase and distribute to licensed physicians and veterinarians such vaccines and serums as may be necessary to combat epidemics and diseases; 6) carry out general health programs deemed necessary or desirable for the protection of public health and disease control; 7) collect and compile statistical information relating to marriages, divorces, annulments, births, and deaths and require persons to submit such information; and 8) conduct sanitary and health investigations, as may be necessary.[41] If the county has a hospital, the commissioners may appoint a hospital board consisting of seven trustees.

Agriculture and Soil Conservation[42]

The county commissioners have considerable statutory authority to conduct various agricultural and soil conservation programs. Commissioners are vested with extensive power to promote agricultural research, including powers to purchase land for experimental research and to enter into cooperative agreements with other governmental agencies and institutions. The county also may engage in programs to control and eradicate rodents, weeds, and pests. A bee inspector may be appointed by the commissioners, in accordance with qualifications set by the State Department of Agriculture, if petitioned by a majority of beekeepers in the county.

Under a 1954 soil conservation act, the county has power to undertake certain soil conservation programs when it is determined that soil blowing from particular property is injurious to adjacent lands or public health.[43] The law provides a procedure by which the commissioners may issue an order to the landowner directing the type, nature, and date of soil treatments which should be undertaken; if the property owner does not comply with the order, the State Department of Agriculture may direct the county commissioners to perform the necessary work and to assess the costs against the property treated.

Planning and Zoning

Counties have had authority to perform planning and zoning functions since the passage of a 1939 statute. Pursuant to this legislation, the commissioners are authorized to provide for county zoning, but such zoning may include only the unincorporated areas of the county.[44] To carry out planning and zoning activities, the commissioners are authorized to appoint a planning commission composed of five members with four-year terms; compensation is set by the commissioners. The commissioners themselves may act as the planning commission in counties of less than 15,000 population. The planning commission may develop building regulations subject to approval by the commissioners and may appoint a building inspector to enforce them.[45] If a zoning ordinance is enacted, the commissioners must appoint a board of adjustment to hear appeals under the ordinance; the board of adjustment may be composed of three to five members, not more than half of whom are on the planning commission.[46] Regional planning may be undertaken with the cooperation of adjacent counties or cities.[47]

Licensing

The county commissioners perform a variety of licensing functions on behalf of the county, many of them quite important and time consuming.

Liquor and 3.2 Beer Licenses. Under the State Liquor Code of 1935, the board of county commissioners is designated as the local licensing authority for unincorporated areas of the county.[48] In considering and granting such licenses, the board is required to consider the needs of the neighborhood and the desires of the inhabitants. A hearing is required for each application; the license, if approved, is subject to a fee ranging from $200 to $1,000, depending on the type of license, eighty-five percent of which is refunded to the state for deposit in the Old Age Pension Fund. Commissioners are also charged with the responsibility of approving 3.2 malt beverage licenses in the unincorporated areas of the county.[49] Pursuant to amendatory legislation passed in 1963, county commissioners may establish rules and regulations governing the operation of 3.2 beer establishments and issue conditional licenses.

Mercantile Licenses. The commissioners may grant licenses for merchants to conduct retail activities in the county.[50] The license fee may vary from $5 to $100, as set by the commissioners. The license may be issued by the clerk when the county commissioners are not in session, providing the license is approved by the commissioners at their next meeting.

Transient Dealers. Under a very old law, peddlers doing business in the county must obtain a transient dealer's license issued by the county clerk.[51] License fees are based upon the peddler's mode of conveyance—$15 on foot, $25 for a tricycle or bicycle, $100 for automobile, etc. Actually, commissioners have no part in the licensing process or the enforcement of this law.

Dance Hall Licenses. No person may operate a dance hall without first obtaining a license from the county commissioners. Commissioners have discretion to approve such a license upon payment of a $25 application fee.[52]

Other Licenses. Certain other licenses may be issued by the board of county commissioners. For example, each board may require dogs over six months of age to be licensed ($2 for males and spayed females and $3 for unspayed females.)[53]

Special Districts[54]

Counties have no part in the management or operation of various special districts organized in Colorado. However, the county commissioners do have some responsibility in the process of forming certain types of districts, in addition to levying the taxes set by the district board for the operation of the district. The county commissioners have various duties to perform in connection with the organization or the elections for the formation of disposal districts, domestic waterworks districts, cemetery districts, and irrigation districts.

The Special District Control Act, adopted in 1965, requires county commissioners to review and approve a service plan for each new special district providing municipal-type services. Such approval is a prerequisite for incorporation of a special district by the district court.

Revenues and Expenditures

County government in Colorado is a multimillion dollar operation. In 1964, county government (excluding the City and County of Denver), collected and spent more than $80 million. The total cost of county government (excluding Denver) increased almost forty-six percent between 1958 and 1964. The rate of increase was much more pronounced in the five counties over 100,000 population—demonstrating the effect of large scale urban growth.

On a per capita basis, county government revenues and expenditures have risen at a much lower rate, slightly less than twenty-four percent between 1958 and 1964, per capita analysis shows a startling contrast in the cost of operating county government among counties of different population sizes. In 1964, per capita operating expenditures were less than $40 in counties over 100,000 population, over $105 in counties between 2,500 and 5,000 population, and over $183 in counties with less than 2,500 population.

The legal basis for county revenues and expeditures has already been discussed. The following sections describe briefly where counties get their funds, how much, and the purposes for which they are spent.

Revenue

County government, excluding Denver, collected $83.1 million in revenue in 1964. The property tax accounted for almost forty-seven percent of the total and state aid for slightly more than thirty-seven percent. Almost ten percent came from charges for current services. All other revenues, including court fees and fines, accounted for six percent.

The revenue collected in 1964 represented a 45.6 percent increase over 1958. Figure F shows the amount of revenue by major sources collected by counties (except Denver) in 1958 and 1964.

Per Capita. Per capita figures provide a much more meaningful way of comparing counties of different sizes than do total dollar amounts. Per capita revenues increased 23.9 percent between 1958 and 1964 (from $34.07 to $42.22). Table 1 shows per capita revenues in 1964 by major source for counties grouped according to population.

FIGURE F
TOTAL COUNTY REVENUE BY SOURCE
COLORADO 1958-1964

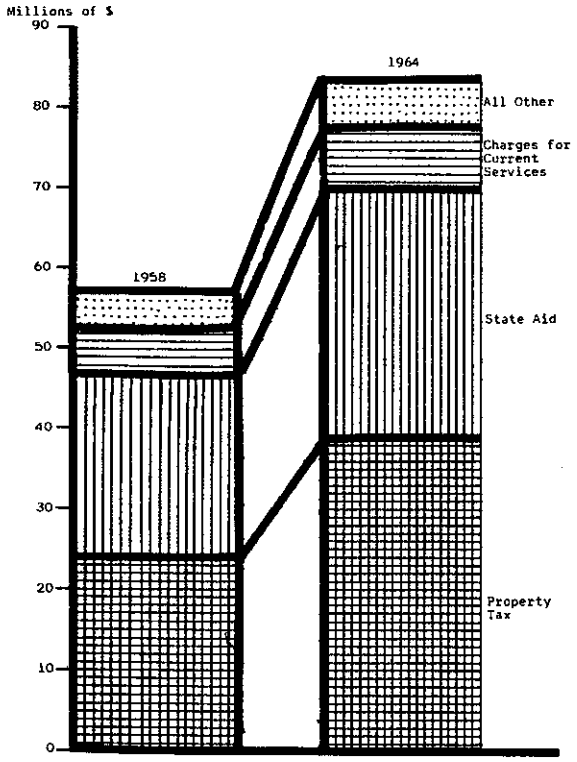


TABLE 1
PER CAPITA REVENUES, 1964
Counties Grouped by Population

Counties	Property Tax		State Aid[a]		Charges[b]		All Other[c]		Total
	$	%[d]	$	%[d]	$	%[d]	$	%[d]	
Over 100,000	$21.46	52.6%	$12.51	30.0%	$ 4.37	10.8%	$ 2.56	6.6%	$ 40.90
50,000 - 100,000	24.83	47.9	21.56	39.8	3.77	7.0	3.01	5.3	53.17
10,000 - 25,000	28.97	42.3	29.73	43.4	5.92	8.8	4.00	5.5	68.67
5,000 - 10,000	41.55	39.4	47.81	40.5	14.27	12.2	6.21	7.9	109.84
2,500 - 5,000	49.48	42.4	52.35	43.2	6.65	10.1	8.92	4.3	117.40
Under 2,500	83.00	40.1	81.38	45.1	15.80	8.2	12.96	6.6	193.14
All Counties	$19.71	46.7%	$15.77	37.3%	$ 4.13	9.8%	$ 2.61	6.2%	$ 42.22

[a]primarily highway users' funds and public welfare (which includes federal funds)
[b]primarily clerk's, assessor's, and treasurer's fees
[c]court fines and fees, interest, rentals, sales of assets
[d]percent of total per capita revenue

As can be seen from Table 1, per capita revenue tends to increase as county population decreases. This is true for all major revenue sources, except charges for current services, which are substantially greater in counties between 5,000 and 10,000, than in those between 2,500 and 5,000.

Property Tax. Property taxes provided almost forty-seven percent of all county revenue in 1964. Revenue from this source increased at a higher rate from 1958 to 1964 (62.3 percent) than did total county revenue. The largest counties depend much more on the property tax than do the others. Counties over 100,000 population received 52.6 percent from this source, and counties between 50,000 and 100,000 received 47.9 percent. As shown in Table 1, counties in the other groups received forty-two percent or less from this source.

State Aid. The second most important source of county revenue is state aid, which is composed primarily of highway users' funds and welfare funds.* State aid is a much more important source of revenue in the small counties; for example, counties over 100,000 population received only thirty percent from this source in 1964, while those with less than 2,500 population received 45.1 percent. State aid increased at a lesser rate than all county revenues between 1958 and 1964—37.3 percent.

Charges and Other Revenues. Included in this category are court fines and fees, fees of the county clerk and other county offices licenses, permits, rents, sale of assets, interest, etc. Sixteen percent of all county revenues came from these sources in 1964. There is no apparent relationship between county size and the degree of dependence on these revenue sources, although per capita revenue tends to increase as county size decreases.

Expenditures

County government, excluding Denver, spent almost $81.3 million in 1964. Public welfare and highways accounted for the greatest proportion of county expenditures, 27.5 percent and 26.9 percent respectively. General administration and capital outlay accounted for 11.2 percent each. Five percent of the total was spent for justice, primarily district and county courts, and 4.8 percent for public safety (sheriff's office and civil defense). All other county expenditures comprised 13.4 percent of the total.

For the purposes of this analysis federal and state welfare funds have been combined, because they are distributed by the State Department of Public Welfare.

Total county government expenditures increased 45.6 percent between 1958 and 1964. During the same period, public welfare expenditures increased almost sixty-seven percent. Justice and public safety expenditures, although only a small portion of the total, rose more than eighty percent. County highway expenditures increased only slightly more than twenty-five percent. The rate of increase for capital outlay was also less than the over-all rate of increase, while general administration costs rose at a slightly higher rate.

Figure G shows the amount of expenditures by major function for all counties, except Denver, in 1958 and 1964.

Per Capita. Per capita expenditures for all counties except Denver, increased 23.6 percent between 1958 and 1964 (from $33.41 to $41.31). Table 2 shows per capita expenditures in 1964 by major function for counties grouped according to population.

FIGURE G
TOTAL COUNTY EXPENDITURES BY FUNCTION
COLORADO, 1958-1964

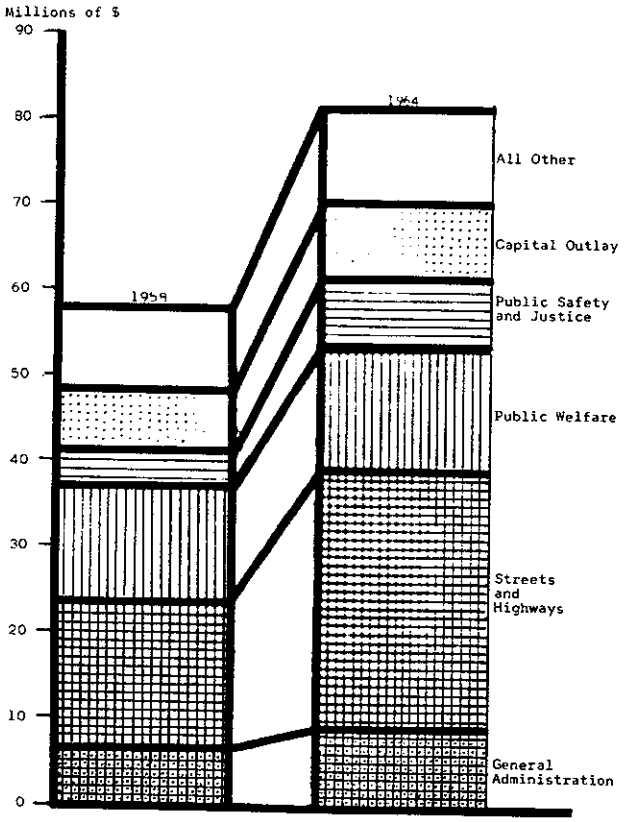


TABLE 2
PER CAPITA EXPENDITURES, 1964
COUNTIES GROUPED BY POPULATION

Expenditures	All Counties		Counties by Population Class: Over 100,000		50,000-100,000		10,000-25,000		5,000-10,000		2,500-5,000		Under 2,500	
General Admin.[b]	$ 4.63	11.2%[a]	$ 4.34	11.1%[a]	$ 5.32	9.2%[a]	$ 7.64	11.1%[a]	$12.92	11.6%[a]	$15.76	14.2%[a]	$33.11	16.4%[a]
Highways[c]	11.09	26.9	6.75	17.7	12.64	22.2	21.73	31.5	42.88	40.9	45.11	38.1	72.81	42.7
Public Safety[d]	2.00	4.8	3.13	7.6	1.70	2.9	2.42	3.4	3.40	3.4	4.14	3.4	6.31	3.1
Public Welfare	11.38	27.5	12.80	31.6	19.57	34.7	19.98	30.2	17.19	15.3	17.47	15.2	15.10	7.5
Justice[e]	2.08	5.0	2.74	7.0	2.36	4.2	2.98	4.4	3.17	3.0	4.60	3.7	7.65	3.9
Capital Outlay	4.60	11.2	4.59	12.1	7.28	14.5	4.93	7.7	9.32	8.3	12.63	10.4	24.23	13.3
All Other[f]	5.53	13.4	4.70	12.9	6.13	12.3	7.57	11.7	15.56	17.5	13.85	15.0	24.35	13.1
Total	$41.31		$39.05		$55.60		$67.25		$105.43		$113.56		$183.56	

[a]Percent of total expenditures
[b]Includes commissioner, county clerk, assessor, treasurer, county attorney, personnel administration, elections, etc.
[c]Highway and bridge maintenance and construction, including administration and road equipment.
[d]Indludes sheriff's office, coroner, county jail, civil defense.
[e]Includes district and county court, probation, district attorney's office.
[f]Includes public health, planning and zoning, county airports, extension service, county hospitals.

As can be seen from Table 2, the per capita cost of county government tends to increase substantially as county size decreases. The most marked increases occur between counties of 10,000-25,000 population and those of 5,000-10,000 population, and between counties of 2,500-5,000 population and those with less than 2,500 population. These per capita cost differences raise some major questions concerning the operational efficiency of smaller counties because of their size, especially those with less than 2,500 population.*

General Administration. General administration per capita expenditures, were much higher in smaller counties in 1964 than in those over 10,000 population. These expenditures also account for a larger proportion of total costs in these counties than in the large ones. In part, this can be explained by the fact that smaller counties are required by the constitution to have as many elected officials as the larger ones. While the statutes provide for salary differentials according to population, the differences in salary levels are not as marked as the differences in population.

Highways. Per capita expenditures for road and bridge maintenance and construction were almost eleven times greater in counties of less than 2,500 population than they were in counties with more than 100,000. Table 2 shows that there is a direct inverse relationship between county population and both per capita highway expenditures and the proportion of total expenditures for this purpose.

Public Safety. Per capita expenditures in 1964 were greater in counties over 100,000 than in those in the next two population groups, emphasizing the greater degree of law enforcement required in the largest counties, which have substantial unincorporated urbanized fringes located around major municipalities. Counties with less than 10,000 population, however, had higher per capita costs for public safety than the largest counties, although these expenditures account for less of the total.

Public Welfare. The pattern of public welfare per capita expenditures is somewhat different from other county functions. While the largest counties have the lowest per capita costs, those in the next two largest population groups had the highest. Welfare costs account for more than thirty percent of total county expenditures in the three largest population groups but fifteen percent or less in the three smallest, indicating the concentration of welfare caseloads in more populous areas.

Justice. Per capita expenditures in 1964 for maintaining district and county courts and the district attorney's office were highest in the smaller counties, but constituted a greater portion of total expenditures in the larger ones.

Capital Outlay and All Other Expenditures. With one exception (counties between 50,000 and 100,000 population), capital outlay per capita costs in 1964 increased as county size decreased. There appears to be no relationship, however, between county size and the proportion of total expenditures spent for this purpose.

All other expenditures include, but are not limited to, public health, planning and zoning, county airports, county hospitals, and extension service. While the greatest total expenditures for these functions were made by the larger counties, per capita costs tended to increase as county size decreased.

In this connection, it should be noted that forty of Colorado's sixty-two counties (excluding Denver) have less than 10,000 population: fifteen are in the 5,000-10,000 group; fourteen are in the 2,500-5,000 group; and eleven have less than 2,500 population.

County Government Problems

In Colorado, as in other states, county government was created primarily to meet the needs of a rural society and to serve as an adjunct of state government in administering certain programs. County government, basically unchanged in structure and organization since statehood, cannot deal adequately with conditions and problems caused by urban growth. It is also not legally possible to reduce or consolidate the number of county officers in smaller counties to provide more efficient and less costly county government. Low salaries, the absence of merit systems, inadequate fringe benefits, and an antiquated government structure have made it difficult to attract and retain qualified personnel in key positions.

County government powers in a number of instances are not sufficiently broad to meet the demands placed upon it. In other instances, county powers are adequate but are insufficiently exercised. Most counties are in financial difficulty because of having to rely excessively on the property tax, not only to finance functions which should be a local responsibility, but also to finance the counties' share of programs assigned to them by the state. Statutory limits on the amount of property tax which may be levied have compounded this difficulty.

Structure and Organization

Unlike municipalities which may adopt home rule or which have a certain amount of statutory flexibility, counties are unable to change basic administrative structure and organization because of constitutional requirements.

The commission form of government does not lend itself to centralized administrative responsibility and coordination, especially with many functions being the responsibility of other elected officials.

This structure reduces the administrative effectiveness of the board of county commissioners, and effectiveness is further reduced by the lack of any clear-cut division between administrative and legislative authority and responsibilities. Although service on the board may make almost full-time demands on commissioners in the largest counties, the position is still considered to be a part-time one (as it is in smaller and rural counties) as evidenced by lower statutory salaries than those set for other elected officials: clerk, assessor, and treasurer.

While the appointment of a full-time county administrative officer has been authorized by law since 1961, only two counties have done so. Even if administrative officers are appointed, their authority cannot encompass vitally important functions performed by elected officers, such as assessment and tax collection.

It is not only the large counties that suffer from the rigidity of county administrative structure. Smaller counties could have more efficient and less costly government if administered by a few full-time officials rather than the number presently required by the constitution.

The great variation in population, geography, and other factors among Colorado's counties requires flexibility not now possible in the structure of county government. Very closely related to the need for flexibility is the question of self-determination. The present legal framework of county government does not encourage or even permit county voters to exercise local initiative and imagination toward reform which could achieve a more responsive, efficient, and democratic form of government.

County Powers

Any evaluation of the adequacy of county powers and authority must take into account the county's dual role as an agent of the state and as a local government unit. With respect to the former, counties have little control over welfare programs and personnel and no longer have control over district and court budgets and personnel; at the same time, counties have to help finance these functions through property tax levies, increasing county fiscal difficulties.

It is not likely in either instance that county powers can or will be expanded. The welfare program is financed almost ninety percent at the state and federal levels and is subject to federal and state control at least to the same extent. The independence of the judiciary from budgetary control by the county commissioners was determined by the Colorado Supreme Court, and, as a matter of constitutional interpretation, cannot be modified by the General Assembly. One possible solution to this situation is to transfer the entire fiscal and administrative responsibility for both of these functions to the state level, and this possibility is currently under study.

Urban Services. Far more important from the standpoint of the county's role as a local unit is the authority or lack thereof to deal with problems of local concern, especially in urbanized areas.

Counties have no power to provide municipal-type services in unincorporated areas and tax only those people who receive such services. This absence of authority has been one of the factors in the rise in the number of special service districts and has hampered county control of subdivision development in unincorporated areas. The Special District Control Act passed in 1965 gave county commissioners some control over district formation, but did nothing concerning the direct provision of services by counties.

At the present time demands on counties for municipal-type services in unincorporated areas are either unmet or if provided (e.g., paved streets and increased police protection by the sheriff), the financial burden falls on all county taxpayers, including those residing within municipalities and already paying for these services on the municipal level.

Excavation Control and Licensing. Counties have no power to control excavations. Many growing counties incur thousands of dollars of annual expense in repairing county roads which have been torn or cut by private or other public agencies to lay utility lines. County authority to license and regulate commercial establishments in unincorporated areas is minimal, impeding regulation and limiting the potential of a possible source of revenue other than the property tax. Counties also have no authority to exercise police powers through the passage of ordinances or resolutions protecting the public health, welfare, and safety.

Exercise of Present Power. On the other hand, counties have planning and zoning powers and the authority to enact and enforce building codes. Counties also have the power to set speed limits on county highways and require the regulation and leashing of dogs in urbanized unincorporated areas. In a number of instances, however, counties have either not exercised their authority in these areas, or such exercise has been minimal.

Of special benefit to smaller counties is the authority to form welfare and public health districts or to combine for road maintenance and construction purposes, thereby gaining the possible advantages of larger administrative units without the more drastic and unpopular step of county consolidation. There has been resistance to the formation of welfare districts, although such formation is gaining impetus in some areas through the efforts of the state welfare department. Counties in two areas of the state (northeast and San Juan Basin) have joined in district health units, but apparently there is little interest in similar units in other less populated areas.

No counties have combined for road maintenance and construction. In fact, a majority of counties still operate their road programs on a commissioner district basis rather than as a county unit, even to the extent that they may have three sets of equipment, three garages, and three road materials batch plants.

The need for expansion of county taxing powers to include revenue sources other than the property tax depends to a large extent on what the role, organization, and structure of counties should be in the future and whether certain functions which are primarily of state concern are transferred entirely to the state.

County Home Rule

Definition of Home Rule

Constitutional permission for counties to adopt home rule charters is generally considered as a basic and major step in modernizing county government. Although only fourteen states provide constitutionally for county home rule, this approach has received renewed national interest and support in recent years. The term "county home rule" is subject to a variety of definitions. In general, county home rule has taken two forms: 1) administrative or structural home rule, which permits counties to exercise local self-determination over government organization and structure; and 2) functional home rule, which, in addition to government organization, permits counties to exercise local self-determination over at least some county powers and functions.

Administrative Home Rule. Some states make available, either through constitutional or statutory authorization, alternate forms of government which a county may adopt, thus permitting the exercise of local self-determination as to which of several prescribed options is most desirable for a particular county. Other jurisdictions permit a county to develop and adopt a charter which establishes a form of government particularly tailored to its needs. Home rule charters may be derived from direct constitutional authority or specific legislative enactment. If the authority is derived directly from the constitution, then it can be argued that local home rule, although more rigid, is also more secure from legislative interference or control, assuming this is desirable. This is the form permitted by most of the states providing constitutionally for county home rule.

Functional Home Rule. Functional home rule can be described as local authority to define and determine the functions to be performed and the powers to be exercised by the county. Complete functional home rule has not been provided nor recommended in any state, since all counties are required to perform state functions on the local level in a manner prescribed by the state legislature.

A few states, however, have permitted counties to exercise home rule authority in deciding the scope of their functions and powers, in addition to exercising some choice on the form and structure of their government. Such functional authority may include the power to perform urban services on a special taxing district basis; the taxing district requirement is included in order to protect municipal residents from paying the costs of urban services in unincorporated areas.

This type of home rule authority may be granted either by the constitution or through legislation enacted pursuant to broad constitutional authorization. Functional authority may be provided generally or by specific enumeration of the functions, services, and powers which a home rule county may undertake.

Only one state (Oregon) permits counties to have full local control over functions and powers of local or county concern, although New York grants a great deal of authority in this respect.*

County Home Rule Attempts in Colorado

There have been three unsuccessful attempts in Colorado to amend the constitution to provide for county home rule.

1958 Proposal. In 1958, a constitutional amendment was proposed which would have permitted alternative forms of county government upon approval of county voters. This amendment would have allowed counties to adopt a "home rule" charter, but counties could exercise only those powers authorized by the General Assembly. A "local taxing district" provision was included which would have given counties the authority to create and operate special districts for local improvements. The amendment lost in the general election 241,636 to 158,666.

1960 Proposal. Another constitutional amendment was placed on the ballot in 1960. This amendment would have repealed section 15 of Article XIV and would have amended sections 8 and 12 of the same article. Basically, the measure would have permitted all counties with a population of 75,000 or more, upon voter approval, to modify county organizational structure including: 1) extending elective terms of office to four years; 2) basing salaries of county officials on factors other than population; 3) paying county officials' salaries from sources other than fees; and 4) permitting either the appointment or election of county attorneys. This amendment was defeated 328,241 to 231,025.

1962 Proposal. In 1962, the third county government amendment was placed on the ballot. The proposal would have: 1) permitted the change of county and precinct officials' salaries at any time; 2) authorized the payment of salaries rather than compensation by fees for certain officials; 3) permitted establishing county salary schedules on factors other than population; 4) enabled the General Assembly to establish terms of office longer than two years; and 5) allowed any county to change or abolish any county office with the approval of the electorate. This amendment received much attention prior to the 1962 general election and was recommended by the Legislative Council's interim committee on county salaries in 1961. The amendment was barely defeated 208,867 to 207,442.

Commission Recommendations

The Governor's Local Affairs Study Commission recommendations concerning county government fall in two categories: 1) those which provide more immediate but piecemeal help to counties and which can be accomplished by legislation; and 2) those which would provide fundamental and long-range solutions, most of which require constitutional revision. In addition, there are several matters which are recommended for further study, because time limitations precluded the Commission from giving them more cursory examination.

In the first category are recommendations for the extension of county powers to include regulation of county road excavations, including the licensing and bonding of excavators; speed limit control on county roads; and control over the formation of special districts. The last two measures were enacted in the 1965 session of the General Assembly, but the first was not adopted. A potential source of great help to counties, as well as other local units of government, is the creation of a division of local government as part of the executive branch of state government. This agency was recommended by the Commission and established by the General Assembly in 1966.**[55]

The major emphasis of the Commission's study and the resultant findings and recommendations, however, has been directed toward fundamental and long-range solutions of county government problems and apply primarily to government structure and organization, ability to deal with problems of urbanization, stimulation of local participation in county government, alleviation of county fiscal burdens, and revision and recodification of statutes pertaining to county government.

See Chapter VII for a more comprehensive description of county home rule in other states.

***This agency and the type of assistance to local government it is designed to provide is covered more fully in Chapter VI.*

Local Government Home Rule Amendment

The Commission's major recommendations concerning changes in county government structure and organization and increasing counties' ability to meet the challenge of urbanization are embodied in a comprehensive revision of the constitutional provisions concerning county and municipal government known as the "Local Government Home Rule Amendment."*

This amendment provides two forms of home rule for counties which may be adopted on a permissive basis. The first, known as "urban county" would apply in any area with a population of 100,000 and an average population density of 100 people per square mile. Designed to meet the needs of heavily populated areas, it is explained in detail in Chapter V: Metropolitan Problems. The second (identified as non urban county home rule to differentiate it from "urban county") may be adopted in any county, except the City and County of Denver, and is explained below.

Non Urban County Home Rule. This portion of the proposed amendment would become Section 8 of Article XX of the constitution and provides that any county (except those adopting the urban county form of government) may adopt a home rule charter establishing the organization and structure of its government. The procedures for adopting a home rule charter would be specified by statute, but at least five percent of the qualified electors of the county would have to initiate a home rule petition.

It would also be possible for one or more adjacent counties to join in the formation of one home rule county, provided that both the petition to form a home rule county and the charter are approved by a majority of those voting in each of the counties concerned.

The charter would be required to provide for a county board of supervisors of at least three and no more than nine members and also for an elected or appointed chief executive. In addition, the charter would provide for other elected and appointed officials, their duties, responsibilities, and compensation.

Non urban home rule counties would continue to derive their authority and powers by statute, including, but not limited to, the provision of services and improvements in unincorporated areas. Nothing would preclude a county from adopting this form of home rule and then becoming an urban county, or a portion thereof, at a later date, if it meets the eligibility requirements.

Objectives. This proposal for county home rule would accomplish several things with respect to county government problems:

1) It would make it possible for any county upon the initiation of its citizens to provide the county government structure best suited to its particular needs, while at the same time it would require a separation of legislative and executive functions and assure that there would be a chief executive, whether elected or appointed. (Figure H shows one way in which a home rule county might be organized.)
2) Adoption of a home rule charter would make it possible for any county on its own prerogative to reduce the number of elected officials (other than members of the board), eliminate them entirely, combine positions, and carry out any other inventive and imaginative changes in government organization that are acceptable to the electorate. Counties adopting a charter would be able to set their own salaries for county officials and would no longer be dependent on the General Assembly, which is required to consider only population as a factor in setting these salaries.
3) It would make it possible for counties to consolidate easily, if they wished to do so, without requiring consolidation on a mandatory basis. The wishes of each participating county would be given equal weight both in the consolidation phase and in charter approval, so that no large county could impose its will on a smaller one, either in forcing consolidation or in dictating the structure and organization of the consolidated county government.

County Service Area Authority. The Local Government Home Rule Amendment would also remove several potential constitutional impediments to the creation by statute of special service areas or districts under county operation to provide services in unincorporated areas now served by specail districts. It would do this by removing several constitutional limitations now placed on counties, including: 1) the requirement of uniform taxation throughout a county; 2) limitation on amount and purposes of county bonded indebtedness; and 3) limitation on the pledging of county credit.

County Powers

There are several reasons why the Commission's recommendations on county home rule in the Local Government Home Rule Amendment do not include "functional" home rule, as previously defined.

The major problem is inadequacy of county government structure and organization in meeting present and future needs. Expanded functional authority or legislative powers, similar to those which might be granted under home rule, can be delegated by statute to county government or county officers without additional constitutional revision, and the General Assembly would be more inclined to broaden county powers in this way if government reorganization takes

*See Appendix A, for complete text of the proposed amendment.

place. Further, the county has traditionally been a subdivision of the state for the performance of state functions, so that any delegation of power would have to be provided in such a way that counties would still be required to conform with state standards in the administration of state programs. Legislative delegation is much more susceptible to modification in this respect, if needed, than would be a broad grant of constitutional power.

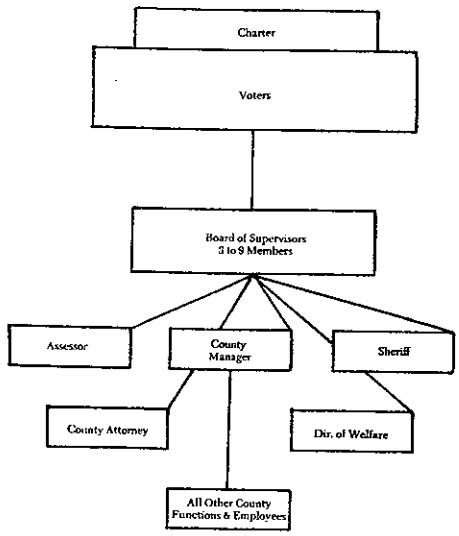
The Commission is of the opinion that logical urban growth in non metropolitan areas can be achieved best by municipal annexation and service to areas that are municipal in nature. The constitutional extension of broad functional home rule authority to non urban counties could cause conflicts if county governments are authorized to perform urban functions and exercise municipal powers, without the General Assembly serving as a mediator between county and municipal interests. In such a situation, municipal annexation might prove unattractive, and municipal growth could be impaired.

In this connection, it should be pointed out that the form of non urban county home rule contained in the Local Government Home Rule Amendment is designed to fit in with the amendment's provisions for urban county home rule and municipal home rule. To avoid conflict and provided the maximum of flexibility to meet changing situations without further constitutional revision, the General Assembly is required to balance the interests of the state and its various home rule and statutory local units, and this can best be done under the form of county home rule set forth in the amendment.

Urban Services in Unincorporated Areas. While the Commission believes that urban services can best be provided by municipal governments, it recognizes that not all unincorporated areas can be so served. This void has been filled by the creation of special service districts, and other than planning and zoning authority, counties have little control over urban development in unincorporated areas. A transitional step toward broadening county authority in this respect was taken with the adoption of the Special District Control Act recommended by the Commission.

The Commission recommends that the next step should be the adoption of legislation authorizing counties to establish subdistricts under the supervision of the county governing body to perform those municipal-type services in unincorporated areas now provided by special districts.[56] Existing special districts could be transferred in an orderly way to county control and gradually phased out. Centralized control in county hands (if county and municipal interests are properly balanced) should promote orderly development and make transition to municipal status easier when possible through incorporation or annexation.

FIGURE H
POSSIBLE HOME RULE COUNTY GOVERNMENT ORGANIZATION UNDER PROPOSED LOCAL GOVERNMENT HOME RULE AMENDMENT



This recommendation is in keeping with the Commission's basic philosophy that, aside from school districts, counties and municipalities should be the basic local government units in Colorado.

As previously indicated, certain provisions of the local government home rule amendment would make it easier to enact legislation to create county service areas or districts. With adoption of the amendment there would no longer be any question that counties could levy taxes on a district basis, so that those receiving a service would pay for it rather than all residents of the county. The authority of a county to incur bonded indebtedness on behalf of a special taxing district would also be clarified, as would county authority to pledge its full faith and credit behind such bond issues to obtain more favorable discount and interest rates.

Even without the Local Government Home Rule Amendment, however, it is possible to develop legislation to accomplish the objectives of the county service area recommendation, although somewhat limited and more cumbersome. To overcome legal obstacles on debt purposes and tax uniformity, it appears that special taxing districts would still have to separate corporate entities, but the board of county commissioners could be designated by law as the board of directors of each district so created, and control and coordination could be provided in this way.

Structural Change. The changes in county government structure made possible under the permissive home rule authority provided in the Local Government Home Rule Amendment would make it possible for counties to exercise their present range of powers in a more effective way, as well as encourage the ex-

pansion of county authority by the General Assembly in response to local needs. The adoption of home rule may be a slow process, however, as evidenced by the small number of counties with home rule charters in other states where home rule is possible. If local people do not take the initiative in this respect, a further examination may be necessary of possible organizational changes which may be provided by law to assist counties in carrying out their responsibilities.

Fiscal Problems

Considerable study has been made of all aspects of county finance, and further study is continuing to determine whether county fiscal burdens may be eased best by either greater state assumption of the costs of state programs, such as welfare and courts, in which counties participate or by assumption of complete responsilibity at the state level. Should counties be relieved of some or all of this burden, it may not be necessary to raise mill levy limits or provide counties with other sources of revenue. Otherwise consideration should be given to both these alternatives, including the imposition of a state-collected locally-distributed tax. Possible constitutional obstacles to this latter approach are also eliminated by the Local Government Home Rule Amendment.

Subjects for Further Study

Several subjects are recommended for further study, so that specific proposals may be developed. Some of these concern county administrative and personnel practices and include: 1) the use of data processing equipment, perhaps on a multicounty basis; 2) centralized purchasing, both within and among county governments; and 3) development of merit systems for county employees.

Officials of many local governments have expressed concern over the possible loss to local governments of their traditional immunity from tort liability. This problem is also sufficiently important to warrant extensive study, directed toward legislation which would achieve a balance between the protective interests of the public taxpayer and the compensatory interests of the private victim of governmental negligence.

The need for and desirability of county consolidation is also recommended for further study. Transfer of functions such as welfare and judicial administration entirely to the state, should this occur, and cooperative arrangements among counties on other functions have to be considered in relation to this study. Another important factor is the provision of the Local Government Home Rule Amendment which permits counties to join together in forming a home rule county.

Statutory Revision and Recodification

Last but not least among the Commission's proposals is the recommendation that the laws pertaining to county government be revised and recodified. The laws relating to county government are scattered throughout the eight volumes of the Colorado statutes. Because many of these provisions are antiquated—dating back to the nineteenth centry—interpretation and summarization are difficult. To a large extent, the laws relating to county government do not present an accurate reflection of present county operations, developed over many years by custom and practice.

In completing its work, the Commission has prepared a detailed outline of what is required in the revision and recodification of county laws, including alternative methods of carrying out this important task.

REFERENCES

[1]Much of the information on the history of Colorado counties is taken from *A Special Study on County Boundaries,* University of Denver in cooperation with Colorado State Archives and Research Service, Denver, 1961.

[2]John C. Banks, *Colorado Law of Cities and Counties,* (Denver: Sage Books, 1959) p. 16.

[3]Conrad McBride, *How Your Jefferson County Government Operates,* November, 1957, p. 1.

[4]Frost v. Pfeiffer, 26 Colo. 338 (1899).

[5]The following constitutional and statutory citations refer to the board of county commissioners:
a. COLORADO CONSTITUTION, Article XIV, Section 6; Saguache v. Tough, 45 Colo. 395 (1909).
b. COLO. CONST., Article XIV, Section 10.
c. COLORADO REVISED STATUTES 1963, Section 35-2-5.
d. CRS 1963, 35-3-1,3,9,11,12.

[6]CRS 1963, 137-7-1.

[7]People ex rel Tax Commission v. Pitcher, 56 Colo. 345 (1914).

[8]The following constitutional and statutory citations refer to the county clerk:
a. COLO. CONST., Art. XIV, Sec. 8,10.
b. CRS 1963, 13-2-10.
c. CRS 1963, 35-4-1 and 3.
d. CRS 1963, 90-1-4.

[9]The following constitutional and statutory citations refer to the county treasurer:
a. COLO. CONST., Art. IX, Sec. 4.
b. CRS 1963, 13-4-35.
c. CRS 1963, 35-7-10.
d. CRS 1963, 54-1-10.
e. CRS 1963, 137-9-3.

[10]The following statutory citations refer to the duties of the county assessor:
a. CRS 1963, 35-8-2.
b. CRS 1963, 99-1-5.
c. CRS 1963, 137-2-1.

[11]The following statutory citations refer to the county sheriff:
a. CRS 1963, 35-5-1 and 12.
b. CRS 1963, 37-6-9.
c. CRS 1963, 37-9-13.
d. CRS 1963, 39-11-5.
e. CRS 1963, 40-10-12.
f. CRS 1963, 77-6-1.
g. CRS 1963, 77-7-1.
h. CRS 1963, 105-7-2 through 4.
i. CRS 1963, 118-9-1 through 16.

[12]The following statutory citations refer to the county coroner:
a. CRS 1963, 13-4-25.
b. CRS 1963, 35-6-1,5, and 6.
c. CRS 1963, 92-10-31.

[13]The following statutory citations refer to the county superintendent of schools:
a. CRS 1963, 35-10-1.
b. CRS 1963, Chapter 123, Art. 2 and 25.
c. SESSION LAWS OF COLORADO 1965, Chapter 114.

[14]The following statutory citations refer to the county surveyor:
a. CRS 1963, 35-9-1.
b. CRS 1963, 120-9-2.
c. CRS 1963, 136-1-7.
d. CRS 1963, 147-5-15 through 19.

[15]The following statutory citations refer to the county attorney:
a. CRS 1963, 36-1-18.
b. CRS 1963, 43-2-1 and 2.
c. CRS 1963, 71-1-19.

[16]The following statutory citations refer to other county officers:
a. CRS 1963, 36-1-7.
b. CRS 1963, 37-5-13.
c. CRS 1963, 54-1-11.

[17]CRS 1963, 56-2-8.
[18]CRS 1963, 56-3-1 through 7.
[19]CRS 1963, 56-4-1.
[20]CRS 1963 (as amended) 37-14-1.
[21]CRS 1963, 36-1-7.
[22]Liggett v. Board of County Commissioners, 6 Colo. 269 (1895).
[23]CRS 1963, Chapter 50.
[24]Liber v. Flor, 143 Colo. 205 (1960).

[25]The following statutory citations refer to county budget and fiscal procedures:
a. CRS 1963, 36-2-1,7,11.
b. CRS 1963, Chapter 88.
c. SESSION LAWS OF COLORADO 1965, Chapter 217.

[26]The following constitutional and statutory citations refer to county indebtedness:
a. COLO. CONST., Art. 11, Sec. 6.
b. CRS 1963, 36-6-1,2, and 5.
c. CRS 1963, 36-7-2.
d. CRS 1963, Chapter 36, Art. 10.

[27]The following statutory citations refer to county contracts:
CRS 1963, 36-1-10,12, and 19.

[28]CRS 1963, 36-3-1.
[29]CRS 1963, 36-2-5 and 6.
[30]Smith v. Miller, 384 P 2d 738 (1963).
[31]CRS 1963, 119-3-6.
[32]CRS 1963, 120-1-2 and 9.
[33]CRS 1963, 36-3-2.
[34]CRS 1963, Chapter 123, Art. 25.
[35]CRS 1963, 36-4-3.
[36]CRS 1963, 6-6-4.
[37]CRS 1963, 66-7-1.
[38]CRS 1963, Chapter 120, Art. 13.
[39]CRS 1963, Chapter 119, Art. 1.
[40]CRS 1963, 66-2-1.
[41]CRS 1963, 66-2-6.

[42]The following statutory citations refer to county responsibilities concerning agriculture:
a. CRS 1963, Chapter 6, Art. 6.
b. CRS 1963, 6-7-5.
c. CRS 1963, 6-9-2.
d. CRS 1963, 6-10-4.
e. CRS 1963, 7-7-2.

[43]CRS 1963, Chapter 128, Art. 2 and 3.
[44]CRS 1963, Chapter 106, Art. 2.
[45]CRS 1963, 36-15-1 and 106-2-13.
[46]CRS 1963, 100-2-16.
[47]CRS 1963, 106-2-4.
[48]CRS 1963, Chapter 75, Art. 2.
[49]CRS 1963, Chapter 75, Art. 1.
[50]CRS 1963, Chapter 85, Art. 2.
[51]*Ibid.*
[52]CRS 1963, 36-17-1.
[53]CRS 1963, Chapter 36, Art. 12.

[54]The following statutory citations refer to county responsibility in the formation of certain special districts:
a. CRS 1963, 36-16-1 through 7.
b. CRS 1963, Chapter 89, Art. 1.
c. CRS 1963, Chapter 89, Art. 11.
d. CRS 1963, Chapter 150, Art. 1.

[55]SESSION LAWS OF COLORADO 1966, Chapter 35.
[56]*Local Government Structure and Operations*, Government Report No. 1, An Interim Report of the Governor's Local Affairs Study Commission, December, 1964, Denver, pp. 47-48.

II

MUNICIPAL GOVERNMENT

Historical Development of Colorado Municipalities

More than seventy percent of Colorado's residents live in incorporated cities and towns, of which there are 248. Nine of these 248 municipalities were incorporated before Colorado became a state; the oldest of these is Denver, incorporated in 1861.

Between the achievement of statehood in 1876 and 1900, Colorado experienced its greatest period of municipal incorporation, when 100 of the cities and towns now in existence were formed. Many of these are now among Colorado's largest and most thriving municipalities, such as Colorado Springs, Durango, Grand Junction, Fort Collins, Greeley, Longmont, Loveland, and Pueblo. A few which were incorporated as a result of the mining boom are now little more than ghost towns, although some have enjoyed a revival with the expansion of tourism.

Considerable municipal incorporation also took place during the first two decades of the twentieth century. Fifty-six cities and towns were formed between 1900-1910., and forty-two were created between 1910 and 1920. Since 1920, relatively few municipalities have been formed: thirteen between 1920 and 1930, seven during the depression years of the 1930's, seven during the 1940's, and thirteen between 1950 and 1960. The last municipality to be incorporated was Broomfield in 1961; however, there were a number of unsuccessful incorporation attempts after 1960, most of them in the Denver metropolitan area.

It is interesting that Colorado's great population growth after World War II has not been accompanied by large-scale municipal incorporations, although four of the cities formed since 1950, including the two largest ones (Commerce City and Thornton), are in the Denver metropolitan area. Generally, the bulk of Colorado's population incerase has been in existing municipalities and in unincorporated suburbs, although a number of these unincorporated areas have been annexed, wholly or in part, by existing municipalities.

Colorado's municipalities range in population from 527,000 (Denver) to several with less than 100 people as follows:*

Population	No. of Municipalities
Over 100,000	1
50,000-100,000	4
25,000-50,000	4
10,000-25,000	11
5,000-10,000	13
2,500-5,000	45
500-1,000	54
100-500	87
Less than 100	16

What Is a Municipality?

As a general rule, a municipality is a creature of the state and has no inherent powers except those delegated by the state. State law outlines the form and procedure for the incorporation of cities and towns, as well as the powers which such units may exercise. The courts have traditionally construed narrowly the powers delegated to municipal corporations. The significance of this practice is that while a state constitutionally may exercise any power not forbidden to it, a city must have specific authorization for the exercise of any power. This doctrine has become known as Dillon's Rule and has been expressed as follows:

> It is a general and undisputed proposition of law that a municipal corporation possesses and can exercise the following powers, and no others: First, those granted in express words; second, those necessarily or fairly implied in, or incident to the powers expressly granted; third, those essential to the accomplishment of the declared objects and purposes of the corporation, . . . Any fair, reasonable, substantial doubt concerning the existence of power is resolved by the courts against the corporation and the power is denied.[1]

The legal basis for this rule is that the legislature intended to grant only those powers which it expressly granted or which are necessarily or incidentally implied. It is precisely this setting which gave rise to the home rule movement. Cities sought freedom from con-

**January, 1965 estimates, State Planning Division.*

trol and restraint by the state legislature over their own governmental organization and over the matters of their own local concern.

Definitions and Origin of Home Rule

Home rule in its broadest context means simply "self-government." It is an outgrowth of a desire for independence and self-determination.[2] It means local control and local decision-making over the organization and the operation of government activities at the local level. In the United States, the doctrine has been traditionally applied to municipal government, although it has also been used to a limited extent in connection with county government.

The desire for local independence and control has been present since the rise of the nation-state. On the local level, home rule for municipalities has been practiced for many years. In England, it has been traced back prior to the Magna Charta. The principle of self-government is alleged to have been inherent in the Great Charter for the City of London.

In America, the first application of municipal home rule occurred in the Missouri Constitution in 1875. The concept soon spread to other states, and, by 1900, had been adopted in California, Washington, and Minnesota. Colorado was one of the early states (1902) to authorize home rule for its municipal corporations. Municipal home rule has now been adopted to a greater or lesser extent in more than thirty states.[3]

Colorado Municipalities: Structure and Organization

In general, Colorado municipalities fall in two broad categories: 1) general law or statutory municipalities, over which the legislature retains direct authority and which have their organization, powers, and operating procedures specifically provided by statute; and 2) home rule cities, which have been granted a large measure of local autonomy and self-government by the state constitution. In addition, three municipalities—Central City, Georgetown, and Blackhawk—continue to operate under charters granted by the territorial legislature prior to Colorado's statehood in 1876. These specially-chartered municipalities are recognized in the state constitution; their charters are subject to legislative approval and review and may be changed only by the General Assembly. The legal status of territorially-chartered cities, and the degree of control which may be exercised over them by the General Assembly, is not entirely clear and is subject to litigation from time to time.

The constitution authorizes the General Assembly to establish by general law the classification and organization of cities and towns. Article XIV, Section 14, provides that the number of classes shall not exceed four and that the powers of each class are to be defined by general law, so that all municipal corporations of the same class possess the same powers and restrictions. Pursuant to this authority the General Assembly has established three classes of municipal corporations which are based on population, as follows:[4]

First class cities—Those with a population exceeding 70,000.

Second class cities—Those with a population greater than 2,000.

Towns—Those with a population of less than 2,000.

First Class Cities

At the present time, there are only three cities—Denver, Pueblo, and Colorado Springs—which qualify as cities of the first class; however, these three communities operate under local home rule charters and are not subject to the general statutes relating to cities of the first class.

Existing statutes governing cities of the first class make it virtually impossible for a city to operate under this classification. First class cities are limited to a single organizational form—the so-called "weak mayor-council" plan, under which the voters must elect a mayor, a council, a city attorney, a city treasurer, a city clerk, a city auditor, and a city engineer. The voters of the community have no voice in determining the scope of authority of any of these officers, as their duties and powers are set by state law. The city council must be elected on a ward system, and the terms of office are limited to two years.

The statutory provisions regarding salary are very specific and somewhat unrealistic; for example, the mayor's annual salary may not be less than $1,800, and the police chief's salary is limited to a maximum of $125 per month. Like all general law municipalities, the powers and limitations of first class cities are set forth by statute,[5] and these cities can exercise only such powers as are expressly conferred by statute.[6]

Rather than revise these archaic laws, the practice has been for the General Assembly to raise the qualifying population limits, so that no large city not adopting home rule would have to operate under them. Consequently, all non home rule cities operate under the more modern second class city statutes.

Second Class Cities

There are twenty-four municipalities which operate as second class cities; another twenty-seven fall in this category but have adopted home rule. Among these twenty-four second class cities are five that no longer have 2,000 population, but continue to operate in this category. There are also a few municipalities which continue to operate as towns, even though their population exceeded 2,000 in the 1960 census.

Second class cities may be organized under either of two basic statutory plans: weak mayor-council, or council-manager.

Mayor-Council Plan. Seventeen cities operate under this weak mayor-council plan. The mayor is elected and has only limited powers over official appointments, the budget, and administrative organization. He is the ceremonial chief of the city and is responsible for preserving law and order in the community. The mayor also presides at council meetings, although he votes only in case of ties and in certain other specific situations. The mayor in second class cities has veto power over municipal ordinances, but the council may override this veto by a two-thirds majority. The office of city clerk is an elective one and has a term of two years.[7] Figure I shows the organization of second class mayor-council cities.

It should be noted that a few cities operating under second class city laws have established by ordinance the position of chief administrative officer or the approximate equivalent to a full-time city manager. The legal authority for this position is questionable, and, in most cases, the responsibilities of the council and the administrator are not clearly defined.

FIGURE I
GOVERNMENT ORGANIZATION,
2ND CLASS MAYOR-COUNCIL CITY

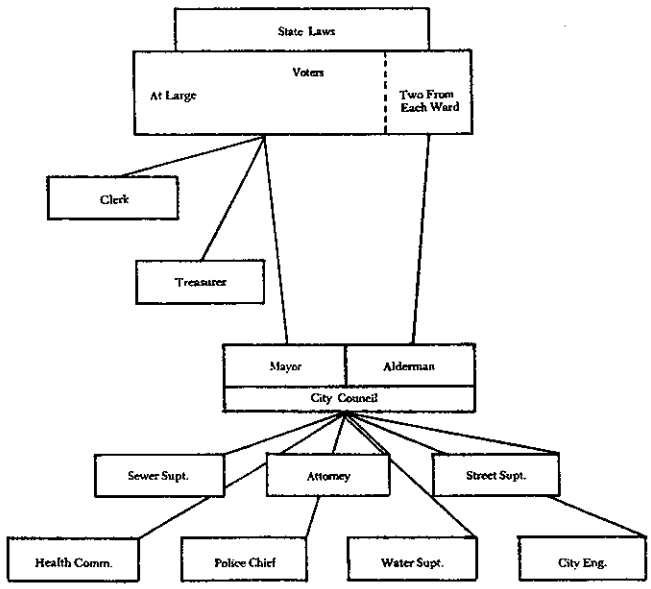
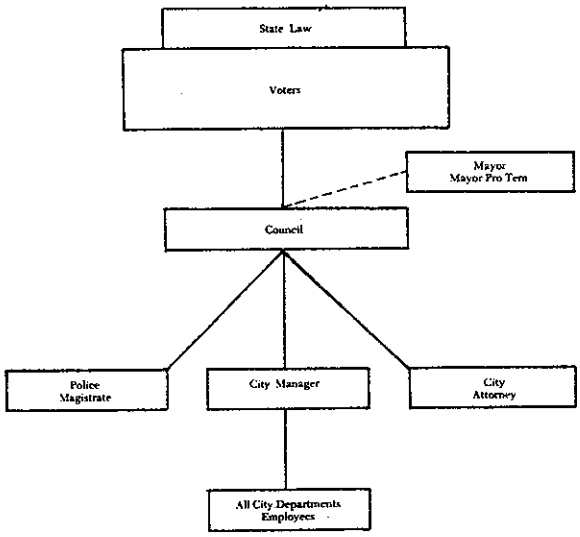


FIGURE J
GOVERNMENT ORGANIZATION,
2ND CLASS COUNCIL-MANAGER CITY



Council-Manager Plan. Since the passage of the council-manager statute in 1945, a number of second class cities have elected to organize under this plan. At the present time, seven cities—Brighton, Florence, Glenwood Springs, Golden, La Junta, Thornton, and Trinidad—are so organized. Most second class cities which have adopted home rule provide for a professional manager or administrator in their charters.

The council-manager plan must be initiated by a petition signed by electors equal in number to fifteen percent of the votes cast for all candidates for mayor at the last preceding city election. The council must then order the question submitted to the voters at a special or regular election within sixty days after the passage of the ordinance. If approved by a majority of those voting, the city proceeds to reorganize at the next regular election in accordance with the form outlined by statute.

The corporate and policy authority of the city remains in the council, which consists of two persons elected from each ward in the city and one elected at large. A mayor and mayor pro tem are selected from the council. The mayor presides at council meetings and votes as a member of the council. The administration of the city government is vested in a manager, and the council is prohibited from interfering with the manager's appointment or removal of subordinate employees or in his administration of municipal programs. Salaries are set by ordinance. The manager sits with the council, but has no right to vote or participate in the discussion.[8] Figure J shows the organization of second class council-manager cities.

Both mayor-council and council-manager cities operate under the same general laws relating to second class cities.

Towns

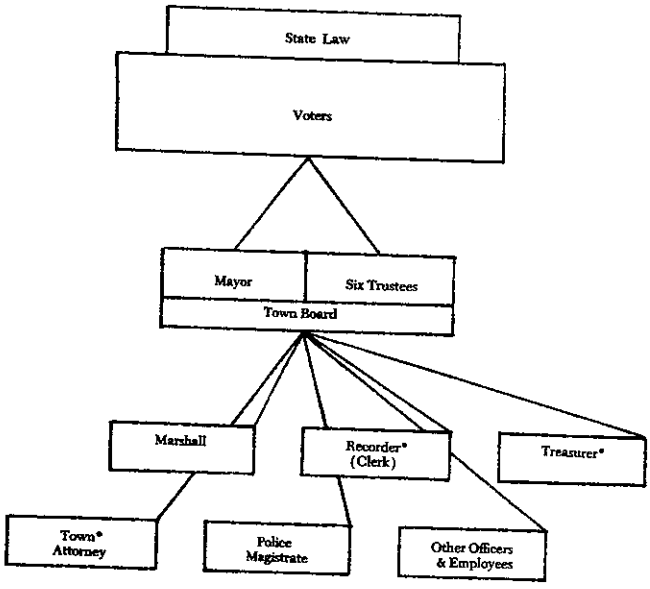
Excluding the three territorially-chartered municipalities, there are approximately 190 incorporated towns in Colorado, although a few of these are relatively inactive. Towns are obliged to accept the single controversial form permitted by state statute. They must have a board of trustees, consisting of a mayor and six trustees. The mayor serves as presiding officer and votes only in case of tie. The board serves in both legislative and executive capacities. The terms of office for trustees are constitutionally limited to two years.[9] Town organization is shown in Figure K.

Since the statutory provisions regarding towns are very general and somewhat ambiguous, the Attorney General held in 1942 that one individual can hold the offices of both clerk and treasurer. Some towns have combined these offices under one person to whom the town board has assigned duties corresponding to those of a town manager. Other town officers, such as the police magistrate, are appointed by the board. It has been noted that "the very ambiguity of the statutes has given towns a certain amount of discretion in organizational matters."[10]

Changes in Classification

A town may change its status to that of a second class city by following the procedure set forth by statute. The law provides that the governor, state auditor, and secretary of state, or any two of them, must certify the change after the filing of a census of enumeration showing that the town has more than 2,000 inhabitants, together with a resolution of the town board. After a statement of the change has been issued by the governor and published, the town proceeds to reorganize at its next regular election. The same procedure is available to second class cities which wish to become first class cities, although it has seldom, if ever, been used.

FIGURE K
GOVERNMENT ORGANIZATION OF TOWNS



**May be elected, if so provided by ordinance.*

Home Rule

Since the passage of Article XX of the state constitution in 1902, Colorado cities having populations in excess of 2,000 have been able to adopt a large measure of home rule authority. At the same time that this amendment created the City and County of Denver with home rule authority, it provided procedures for other cities to adopt local charters. A home rule charter provides for governmental organization and becomes the basic law for all matters of "local and municipal concern."[11] Typical home rule city organization is shown in Figure L.

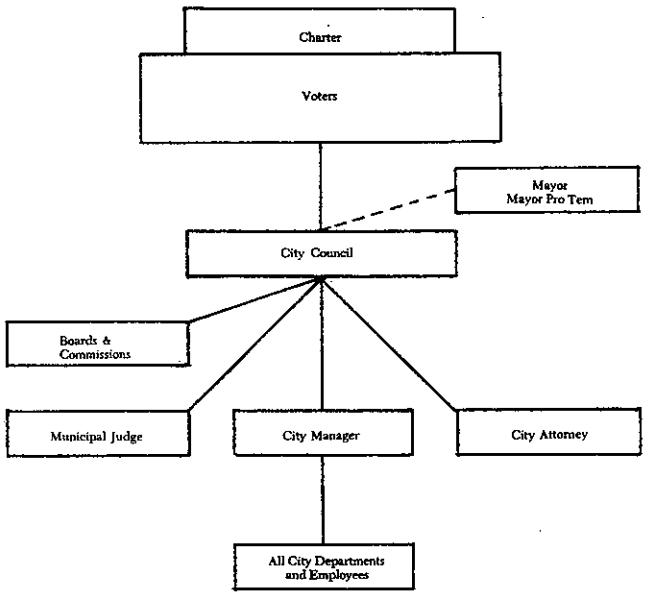
Home Rule Cities. Over the years, an increasing number of cities have adopted home rule charters pursuant to Article XX. There are now thirty municipalities which have become home rule, most of them having done so within the last ten years. Following is a current list of home rule cities in Colorado:

Alamosa	Cortez	Englewood	Lafayette	Montrose
Arvada	Craig	Ft. Collins	Lamar	Pueblo
Aurora	Delta	Fort Morgan	Littleton	Rifle
Boulder	Denver	Grand Jct.	Longmont	Sterling
Canon City	Durango	Greeley	Manitou Spgs.	Westminster
Colo. Spgs.	Edgewater	Gunnison	Monte Vista	Wray

Procedure for Adoption. The procedure for adopting home rule is specifically set forth in Section 6, Article XX. A city must have a population of more than 2,000, according to the last official census, in order to qualify. Formal action must be initiated by a petition signed by at least five percent of the total number of votes cast for governor at the preceding election. The petition is then filed with the municipal governing body, which must submit the question to a vote at the next general election, or at a special election if the petition is signed by ten percent of the votes cast in the preceding election for governor.

Three separate elections are required before a charter can be adopted. The elections are held in accordance with the Municipal Election Law. In the first election, voters determine whether a charter convention should be held. If approved, a second election is held to elect twenty-one charter convention members. To be eligible as a convention delegate, one must have been a taxpaying elector in the community for the last five years. After the convention is elected, it has sixty days to complete a charter. When the charter is completed, it must be published and submitted for ap-

FIGURE L
TYPICAL HOME RULE CITY GOVERNMENT ORGANIZATION



proval by the electorate at a third election. If the charter is rejected, a new charter convention must be elected and the procedure repeated until a charter is adopted. After a charter has been approved, it must be published and filed with the secretary of state.

Organization. Home rule cities may establish by charter an organization suitable to their individual needs. Twenty-two cities have provided for council-manager plans; others have elected to choose variations of the mayor-council or commission form of government. The number of councilmen, the method of election (by ward or at large), their terms of office, and the structure of city government are generally described in the charter.

Powers. The constitution provides that "the statutes of the state of Colorado, so far as applicable, shall continue to apply to such cities and towns, except insofar as superseded by the charters of such cities and towns or by ordinance passed pursuant to such charters."[12] The extent of authority granted to home rule cities is a subject of continuing litigation. Several decisions including the famous Merris case have made it clear that home rule cities have no power over matters of "exclusive statewide concern."[13]

Article XX enumerates the following specific areas over which home rule cities have the power to legislate upon, provide, regulate, conduct, and control:

1) creation and terms of municipal officers, agencies, and employment;
2) establishment of police courts, and the definition and regulation of their jurisdiction, powers, and duties;
3) creation of municipal courts, and the definition and regulation of their jurisdiction;
4) all matters pertaining to municipal elections;
5) issuance, refunding, and liquidation of all kinds of municipal obligations;
6) consolidation and management of park or water districts;
7) assessment of property for municipal taxation and the levy of special assessments; and
8) imposition, enforcement, and collection of fines and penalties.

Incorporation

General incorporation statutes provide for the following procedures:[14]

1) A petition by not less than seventy-five landowner electors is filed in the county court. If the territory to be incorporated is in a county of 25,000 inhabitants or less, forty electors may qualify for petition. The area to be incorporated may not be less than forty acres, except that legislation adopted in 1966 prohibits the incorporation of any municipality within one mile of an existing city or town unless it contains at least 320 acres.[15] This legislation also requires the court to determine that any proposed incorporation contains at least 100 registered voters per square mile before ordering an incorporation election.[16]
2) The court appoints five commissioners to call an election, appoint judges, and publicize the election.
3) The election returns are filed with the court.
4) The classification of the municipality is determined.
5) Officers are elected and papers certified to complete the incorporation.
6) Any public property dedicated to the municipality is described and platted.

An act adopted by the General Assembly in 1965 aids in the transition of an area from unincorporated to incorporated status by providing that the county must continue to perform all duties and carry out all responbilities and to apply all zoning, subdivision, and other regulations within the limits of a newly incorporated municipality for ninety days after the first election of municipal officers or until superseded by municipal ordinance, whichever is sooner.[17]

Consolidation

Consolidation of two or more municipalities is permitted under state law, provided that the municipalities are contiguous. The statutory procedure requires that the governing bodies of the municipalities appoint three commissioners to negotiate the terms of the consolidation. The final terms must be approved by the board of trustees or council of each of the municipalities and then submitted to a vote of the electorate in both municipalities, where the issue is "For Consolidation" or "Against Consolidation." If consolidation is approved by the voters of both municipalities, then a special election must be held to elect the officers of the new municipality. The legal status of the consolidated municipality automatically becomes the same as that of the largest of the unconsolidated municipalities. The consolidation law has not been amended since its pasage in 1885 and has not been used in recent years.[18]

Reorganization

Specially-chartered cities (this classification appears to apply only to territorially-chartered cities) may elect to abandon their charters and become subject to the general law. Action must be initiated by a petition signed by a number of petitioners equal to one-eighth of the whole number of votes cast at the last preceding election for city or town officers. The governing body must then call a special election, and a proclamation to this effect must be published. The question at the election is "for municipal organization under the general law" and "against municipal organization under the general law." If reorganization is approved, the council must call another special election to elect officers. The reorganized municipality becomes subject to the same liabilities, powers, and limitations as the class that such incorporation would have under the general law.[19]

Dissolution, Abandonment & Disconnection

Whenever one-fourth of the legal voters of any city or town in the state petition the county court for discontinuance of the incorporation, the court must order the petition published and declare an election. If approved by a majority of those voting, the municipality is dissolved, and provision is made to pay all outstanding indebtedness.[20]

Towns which have failed to hold municipal elections, levy taxes, or maintain municipal government for a period of twenty years may be abandoned upon a petition filed in county court, to which all property owners in the incorporated area must be made parties. After publication, notice, and a hearing, the court may decree the municipality abandoned and make disposition of municipal property.[21]

One law relating to dissolution of municipalities has not been altered in this century, and probably has never been used. Its application appears limited to general law cities that wish to dissolve and annex to an adjoining municipality existing under a special charter. This procedure is instituted by a petition signed by twenty percent of the taxpaying electors of the general law municipality and filed in the district court. An election is then held and if annexation is approved, the city is dissolved and its property transferred to the annexing city.[22]

In addition, the property owners of territory at the edge of a municipality may petition for disconnection from the city, if twenty or more acres of their property is contiguous to the border.[23]

Annexation

In 1965, the General Assembly enacted the first major overhaul of the municipal annexation laws in twenty years.[24] The new law, referred to as the "Municipal Annexation Act of 1965" liberalizes annexation procedures and gives municipalities unilateral annexation authority with respect to enclaves and peninsulas. An enclave is an unincorporated area entirely surrounded by a municipality, and a peninsula is unincorporated area whose boundaries are two-thirds contiguous with a municipality.

In brief the new annexation act:

1) sets forth certain criteria to determine whether an area is eligible for annexation;

2) sets forth certain limitations which must be observed in annexation proceedings;

3) permits municipalities to annex enclaves by ordinance one year after the effective date of the act when the area has been surrounded for at least three years;

4) permits municipalities, after certain procedures are followed, to annex by resolution, one year after the effective date of the act, unincorporated areas having two-thirds boundary contiguity fo rat least three years;

5) provides for two other annexation procedures:
   a) a petition to initiate annexation proceedings by owners of more than fifty percent of the territory to be annexed, and
   b) by a petition for an annexation election filed by ten percent of the resident landowners in the area to be annexed; (Even if a petition for annexation is filed, a counter petition for annexation election takes precedence under certain conditions.)

6) provides an election procedure to determine to which of two or more competing municipalities an area will be annexed;

7) gives annexation proceedings priority over proceedings for municipal incorporations and special district formations, except for municipal incorporation proceedings involving a population of 10,000 or more;

8) limits annexations which change school district boundaries (Denver), except for enclaves with 500 population or less and annexations for which the petition has been signed by 100 percent of the property owners; in all other annexations, no more than five percent of the assessed value of any school district may be annexed in any one year, and a certain ratio must be maintained between number of pupils and assessed value in each annexation; and

9) permits municipalities to require an agreement to annex when eligible as a condition of any contract to provide municipal services outside of corporate boundaries.

Fiscal Powers and Limitations

The legal authority to impose taxes and incur debt differs somewhat between statutory municipalities and home rule cities. The constitution provides that the General Assembly may not impose taxes for the purposes of any city or other local government unit, but may instead vest local governing bodies with the power to assess and collect taxes.[25] Pursuant to this authority, the General Assembly has authorized statutory cities and towns to levy property and other kinds of taxes. Statutory municipalities are also authorized by law to issue bonds and incur debt subject to certain constitutional limitations.

Article XX, Section 6 of the constitution gives home rule cities the specific authority to impose property taxes. In addition, this section grants wide general local powers and provides that state law applies to home rule cities, except where superseded by charter or ordinance. The fiscal powers of home rule cities have been subject to judicial interpretation from time to time, and these interpretations have helped define the scope of home rule cities' fiscal authority. For example, the Colorado Supreme Court, in a recent case, upheld the right of home rule cities to levy sales taxes and also declared that home rule cities are not subject to the limitations on municipal debt found elsewhere in the constitution (as are statutory cities).[26] In a 1959 case, the supreme court held that home rule cities may not levy an income tax.[27]

Sources of Revenue

Property Tax. The property tax continues to be a major source of revenue for Colorado cities and towns. The statutes not only give municipalities general property tax authority,[28] but also authorize certain property tax levies for specific purposes, such as maintenance and improvement of parks (1.5 mill maximum),[29] airports (no maximum),[30] construction of public buildings and additions thereto (two mills maximum unless approved by the electorate),[31] and waterworks (no maximum).[32]

Municipalities may also impose special assessments on a particular area or group of property owners for improvements, such as sidewalks, curbs, gutters, streets, and sewers.

Non Property Tax Revenues. Although only home rule cities may presently levy a sales tax,* and no municipality may levy an income tax,[34] there are a number of other non property tax revenue sources which may be used by both home rule cities and statutory municipalities. The most important of these revenue sources are:

Franchise Taxes	annual tax on private utilities awarded gas, electric, or water franchises[35]
Utility Charges	surpluses from charges for municipally-owned public utilities are often used to finance general municipal operations[36]
Fines and Fees	fines for municipal ordinance violations, building inspection, and other fees
Sales and Charges	trash collection, park facilities, airports, etc.
Occupational Taxes	either levied on all businesses or limited to certain types as a regulatory measure[37]
Cigarette Taxes	per pack tax on the sale of cigarettes.

Budget and Financial Procedures

All municipalities, except home rule and territorially-chartered cities, are subject to the provisions of the Local Government Budget Law in the same way as counties.** There are other statutes which concern

Legislation has been proposed to authorize statutory municipalities to levy a sales tax.

***See Chapter I for asummary of these provisions.*

municipal budget and fiscal procedures which augment the Local Government Budget Law, including the requirement that municipalities with less than 10,000 population must publish a financial statement within twenty days after a regular or special meeting of the governing body.[38] This statement must show all payments made and contracts awarded.

Indebtedness

There are two major limitations on a statutory municipality's ability to create a debt: a fixed debt limit and the required approval of the voters. Statutory cities and towns are authorized by law to issue bonds for several specific purposes: constructing public buildings, purchasing and improving parks, constructing sanitary and storm sewers, purchasing water rights and constructing water systems, purchasing or constructing gas or electric plants and distribution systems, constructing bridges, and supplying a temporary deficiency in the revenue for defraying current expenses.[39]

Statutory cities and towns are also authorized to issue bonds for funding any legal floating indebtedness,[40] for refunding any bonded indebtedness,[41] and for paying any special assessment bonds or obligations which has or may be issued.[42]

The total amount of debt in any one municipality is limited both by the state constitution and by statute to three percent of total assessed valuation.[43] Debts incurred in supplying water are specifically excluded. In addition the constitution limits the amount of annual levy for bond and interest payments to twelve mills and requires that such indebtedness be retired in no less than ten years and in no more than fifteen years.[44] The Colorado Supreme Court has held that the twelve mill limitation is only a limit on the amount of indebtedness that may be contracted and not upon the power of taxation.[45] All bond issue proposals, except those for supplying water, must be submitted to the voters for approval.[46]

Home rule cities are subject to the limitations imposed by their charters on the amount of debt that may be incurred, the purposes of such debt, and the time in which it must be retired.

Types of Bonds. Colorado municipalities may issue both general obligation bonds and revenue bonds. General obligation bonds are secured by a special tax levy established by an ordinance which can not be repealed until the bonds are paid. Bonds issued by statutory cities must be retired in no less than ten years and in no longer than fifteen years, except for bonds issued for supplying water, which must be paid in thirty years.[47]

Revenue bonds are not secured by general tax revenues, but by the earnings of the project they are used to finance, such as a water or sewer system, electric or gas utilities, and airports.

Revenues and Expenditures

Colorado municipalities over 1,000 population, excluding the City and County of Denver, collected $42.5 million in revenue in 1964 and spent $40.2 million. Denver's revenue collection totaled $71.2 million, and it spent almost $66.9 million. Denver's revenues increased almost forty-six percent between 1958 and 1964, and its expenditures rose forty-four percent. For all other municipalities* the rate of increase during the same period was 70.3 percent for revenues and 78.1 percent for expenditures, with the cities over 10,000 population experiencing the greatest rise. These are also the municipalities which have had the greatest rate of population growth.

As was true of counties, municipal expenditures and revenues have risen at a much lower rate on a per capita basis than in actual dollars, between thirty and thirty-three percent for municipalities other than Denver and slightly less than thirty percent in Denver.

**All figures for municipalities other than Denver do not include towns with populations of less than 1,000.*

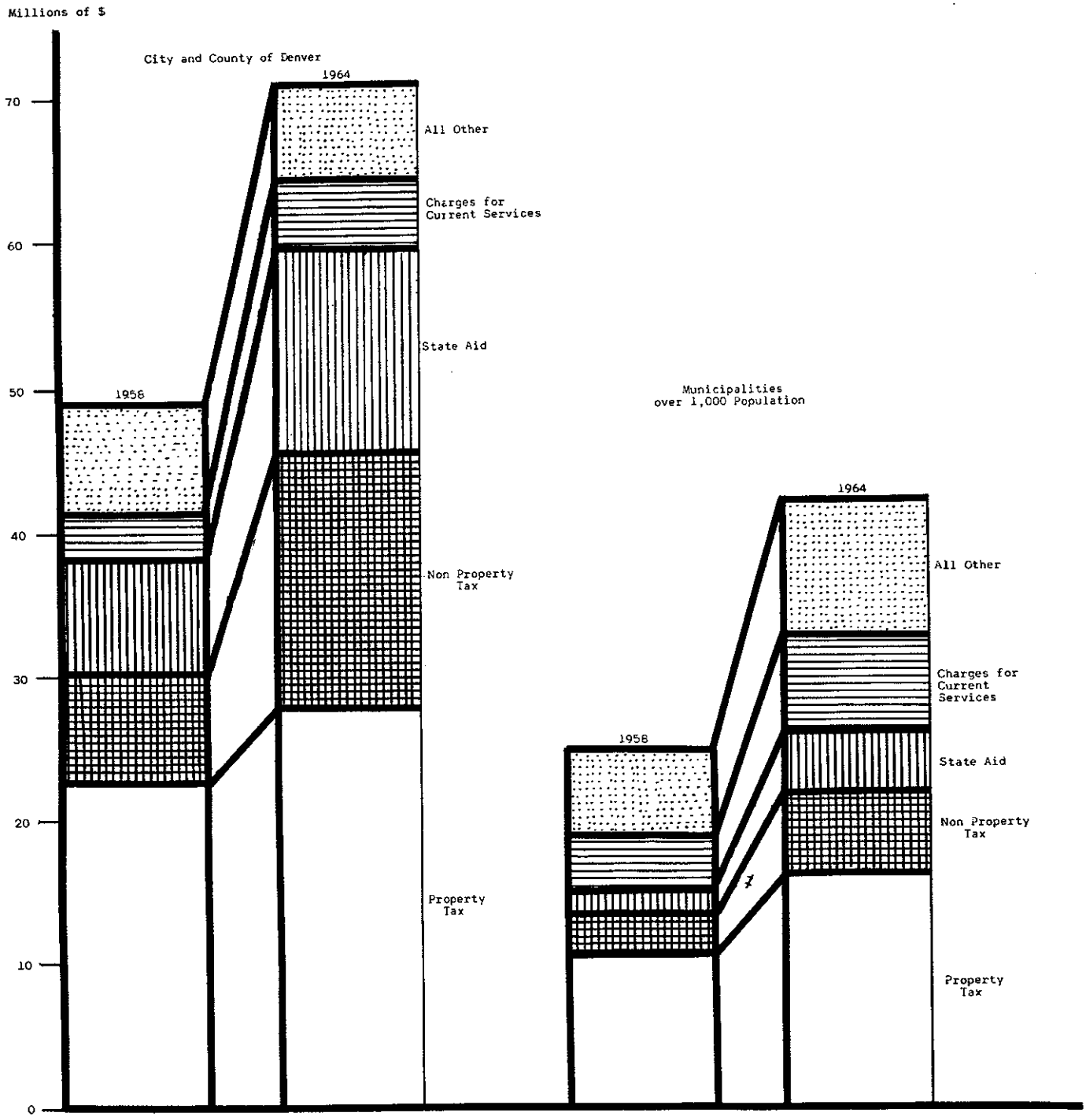
Following is a brief description of where municipalities get their funds, how much, and the purposes for which they are spent.

Revenue

The property tax provides a greater proportion of municipal revenues than any other source, but its relative importance declined between 1958, when it accounted for 45.6 percent of all municipal revenue (including Denver), and 1964, when it comprised 38.7 percent of the total. Other important sources of revenue include non property taxes (cigarette, franchise, sales), state aid, charges for services, and utility transfers. Figure M shows the amount of revenue collected by major courses in 1958 and 1964. Denver is shown separately from other municipalities over 1,000 population. Because it is both a city and a county, its revenue and expenditure pattern is not comparable to any other local government unit in Colorado.

FIGURE M

TOTAL REVENUE BY SOURCE FOR CITY AND COUNTY OF DENVER AND FOR ALL OTHER MUNICIPALITIES OVER 1,000 POPULATION COLORADO 1958-1964



Per Capita. The difference between Denver and other municipalities can be seen in Table 3 which shows per capita revenues by major source in 1964 for municipalities over 1,000 population; municipalities are grouped in this table by population size. Denver's total per capita revenue in 1964 was $135.12, as compared with $57.43 for Colorado's next largest cities, the four with populations between 50,000 and 100,000. Denver's much higher per capita revenue total is in part because of its size, but it also is a consequence of the additional functions for which Denver is responsible as a county.

Table 3 shows that total per capita revenue generally tends to decrease as municipal population decreases, which is just the opposite of the relationship of county per capita revenue and county population. The two exceptions to this general tendency are Group IV (5,000-10,000 population) and Group V (2,500-5,000 population). The total per capita revenue for each of these groups, however, is less than in the two largest groups.

Property Taxes. There appears to be no relationship between population size and either the proportion of municipal revenue derived from the property tax or the per capita amount received from this revenue source. The degree of reliance on the property tax, rather, appears to depend on such factors as 1) whether a sales tax is levied (available only to home rule cities); 2) the extent to which general operations are financed from utility transfers (an especially important source in cities and towns owning electric or gas utilities); 3) the extent to which services are financed on a charge basis, such as sewage collection and parks and recreation fees; and 4) the importance of occupational licenses, fines, and parking meter collections.

None of these factors is necessarily related to size; larger municipalities usually employ a greater variety of revenue sources, although many small cities and towns levy a cigarette tax or may own electric or gas utilities. Only two groups of municipalities relied on property taxes for more than forty percent of their total revenues in 1964; those in the smallest population group and those between 25,000 and 50,000 population.

State Aid. State aid has less impact on total revenues for municipalities than it has for counties. The primary source of state aid is the municipal share of highway users' funds; municipalities also receive state contributions to the firemen and police pension funds. Again, there appears to be little relationship between population size and either the per capita amount of state aid received or the proportion of total revenue received from this source.

Denver receives much more state aid than other municipalities because of welfare grants-in-aid, a function for which Denver, as a county, is responsible.

Non Property Tax Revenue. Denver receives slightly more than twenty-five percent of its revenue from franchise, cigarette, and sales taxes, with the latter being the most important source, yielding $11.17 per capita from a two percent tax, excluding food and drugs, in 1964.

In other municipalities, per capita revenue from these sources tend to decrease as population decreases, and large municipalities depend more on this source than smaller ones.

TABLE 3
PER CAPITA REVENUES, 1964
MUNICIPALITIES OVER 1,000 POPULATION
BY POPULATION GROUP

Municipality	Property Tax		State Aid[a]		Non Property Tax Revenue[b]		Charges[c]		Utility Transfers[d]		All Other[e]		Total
Denver	$52.51	38.9%[f]	$25.84	19.1%[f]	$34.27	25.4%[f]	$ 9.75	7.2%[f]	$	.....%[f]	$12.75	9.4%[f]	$135.12
I Over 50,000	21.05	36.7	5.62	9.8	8.80	15.3	7.91	13.8	3.16	5.5	10.89	18.9	57.43
II 25,000-50,000	22.45	41.1	4.46	8.1	8.45	15.5	10.64	19.5	1.81	3.3	6.85	12.5	54.66
III 10,000-25,000	17.60	36.9	4.61	9.7	5.72	12.0	8.35	17.5	5.35	11.2	6.07	12.7	47.70
IV 5,000-10,000	17.56	35.8	5.05	10.3	7.44	15.2	9.58	19.5	3.63	7.4	5.76	11.8	49.02
V 2,500-5,000	20.18	37.6	5.32	9.9	5.42	10.1	9.15	17.1	4.67	8.7	8.90	16.6	53.64
VI 1,000-2,500	20.23	43.5	4.75	10.2	3.61	7.8	5.08	10.9	6.36	13.7	6.48	13.9	46.51
All Municipalities over 1,000 pop. except Denver	$20.35	38.3%	$ 5.00	9.4%	$ 7.43	14.0%	$ 8.75	16.5%	$3.58	6.7%	$ 7.97	15.1%	$ 53.08

[a]highway users' funds, firemen's pension, policemen's pension, civil defense
[b]franchises, cigarette taxes, sales taxes (home rule cities only)
[c]airport, park and recreation, library, sewage collection, trash and garbage collection, etc.
[d]surplus revenues from water, electric, or gas utilities
[e]license and permits, parking meter collection, fines, interest, rentals, etc.
[f]percent of total per capita revenue

Charges for Current Services. Denver received a much smaller proportion of revenue from charges than did other municipalities in 1964, primarily because: 1) it had no sewage disposal fee at that time, and its airport revenues are not included because of being earmarked to retire the bonded indebtedness for expansion of Stapleton International Airport; 2) greater reliance on sales taxes than most other municipalities; and 3) the greater proportion of total revenue received from state aid because of also being a county.

All other groups of municipalities, except the very largest and the very smallest, received more than seventeen percent of total revenue from charges in 1964, while those in Group VI received only 10.9 percent from this source. The average for all municipalities, except Denver, was 16.5 percent, making this the second most important source of revenue for municipalities over 1,000 population in 1964.

Utility Transfers. Denver received no revenue from untility transfers as it does not own either its gas or electric utilities, and water revenues in excess of operational costs are used to retire water sytem indebtedness. There was a wide variation in per capita revenues and degree of dependence on this source among the other population groups.

All Other. This category includes licenses, parking meter collections, fines, interest, rentals, sales of assets, and miscellaneous revenues not otherwise classified. Denver received less than ten percent of total revenue from these sources in 1964, as contrasted with 15.1 percent in all other municipalities, although its per capita revenue ($12.75) in this category was the highest. As indicated in Table 3, the amount of per capita revenues from, or the reliance on, these sources depends on factors other than population.

Expenditures

Denver expenditures totaled almost $66.9 million in 1964, and all other municipalities over 1,000 population expended slightly more than $40 million. While Denver's total expenditures increased forty-four percent between 1958 and 1964, those of other municipalities over 1,000 population rose slightly more than 78.1 percent. The municipalities experiencing the greatest increases were those in Group II (25,000-50,000 population), 97.3 percent; Group III (10,000-25,000 population), 83.1 percent; and Group I (over 50,000 population), 76.8 percent.

Public safety (27.2 percent), street maintenance and construction (18.3 percent), capital outlay (12.7 percent), and general administration (12.7 percent), accounted for the greatest proportion of total expenditures in municipalities other than Denver. In Denver, public safety (20.9 percent), health and hospitals (15.4 percent), and all other expenditures, including welfare (34.4 percent), accounted for the greatest proportion of the total.

Figure N shows the total amount of expenditures by major functions in 1958 and 1964, both for Denver and all other municipalities over 1,000 population.

Per Capita. Denver's per capita expenditures in 1964 were more than twice as great as municipalities in any other group, reflecting both Denver's larger size and its responsibilities as a county. Denver's per capita expenditures increased 29.8 percent between 1958 and

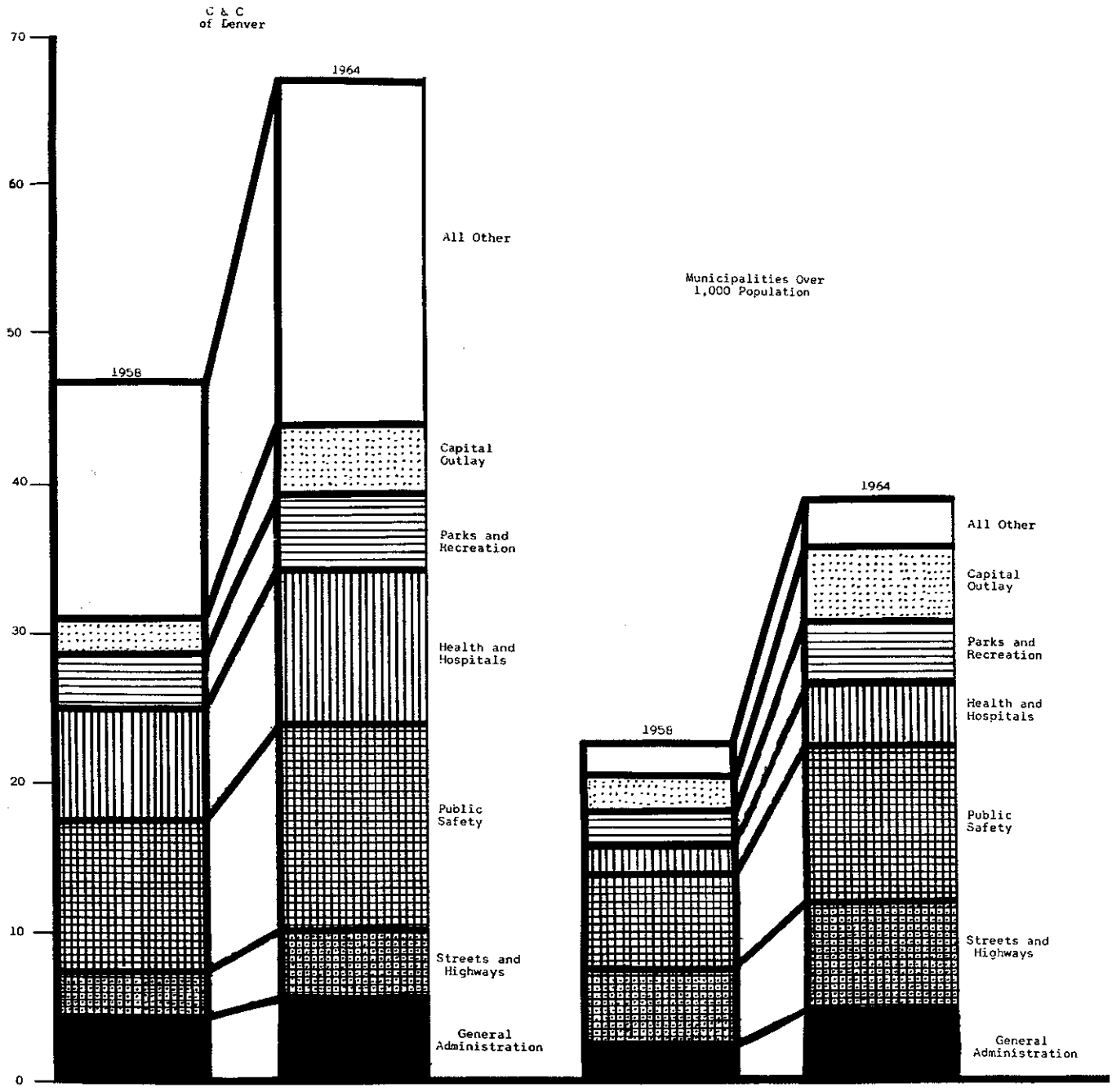
TABLE 4
PER CAPITA EXPENDITURES, 1964
MUNICIPALITIES OVER 1,000 POPULATION
BY POPULATION GROUP

Municipality	Gen. Admin.[a]		Streets[b]		Public Safety[c]		Parks & Rec.[d]		Health[e]		Capital Outlay		Other[f]		Total
Denver	$10.55	8.3%[g]	$ 8.33	6.6%[g]	$26.46	20.9%[g]	$9.61	7.6%[g]	$19.50	15.4%[g]	$8.68	6.8%[g]	$43.73	34.4%[g]	$126.86
I Over 50,000	4.12	7.7	7.49	13.9	17.82	33.2	6.59	12.3	2.98	5.5	8.25	15.4	6.44	12.0	53.69
II 25,000-50,000	6.65	13.7	8.98	18.6	12.60	26.1	5.34	11.1	6.42	13.3	4.83	10.0	3.48	7.2	48.30
III 10,000-25,000	6.13	13.2	9.24	19.9	11.14	23.9	4.83	10.4	5.05	10.8	6.76	14.5	3.41	7.3	46.56
IV 5,000-10,000	5.96	13.2	10.55	23.4	10.74	23.8	4.64	10.3	6.45	14.3	3.92	8.7	2.91	6.3	45.17
V 2,500-5,000	7.91	15.6	10.02	19.8	9.50	18.8	3.57	7.1	7.96	15.7	7.24	14.3	4.41	8.7	50.61
VI 1,000-2,500	7.78	18.9	10.65	25.8	9.19	22.3	2.99	7.2	3.40	8.2	4.44	10.8	2.82	6.8	41.27
All Municipalities over 1,000 pop. except Denver	$ 5.85	12.0%	8 8.94	18.3%	$13.32	27.2%	$5.27	10.8%	$ 4.96	10.2%	$6.22	12.7%	$ 4.32	8.8%	$ 48.88

[a]includes mayor, council, city manager, engineer, electrician, city attorney, personnel admin., etc.
[b]includes construction and maintenance, street lighting, traffic engineering
[c]includes fire and police protection, city jail, building inspection, civil defense
[d]also includes libraries and museums
[e]includes public health, where applicable; hospitals, where applicable; street cleaning, trash and garbage collection and disposal, sewage disposal, cemeteries
[f]includes airports, housing and urban renewal, planning and zoning, municipal court and all other, plus welfare and county functions not otherwise classified in Denver
[g]percent of total per capita expenditures

FIGURE N

TOTAL EXPENDITURES BY FUNCTION FOR THE CITY AND COUNTY OF DENVER AND FOR ALL OTHER MUNICIPALITIES OVER 1,000 POPULATION COLORADO 1958-1964



1964, while those of all other municipalities over 1,000 population increased 32.8 percent. Table 4 shows 1964 per capita expenditures by major function for Denver and for other municipalities grouped according to size.

General Administration. Aside from Denver, whose expenditures also include some county functions, per capita expenditures for general administration tend to increase as municipal population size decreases. The biggest difference in this respect in 1964 was between cities in Group I, where general administration per capita costs were only $4.12, constituting 7.7 percent of all expenditures, and municipalities in all other groups—ranging from $5.96 to $7.91 per capita and from 13.2 percent to 18.9 percent of total expenditures.

Streets. Street maintenance and construction, including traffic engineering and street lighting, accounted for the second largest proportion of expenditures in 1964 in all municipalities over 1,000 population, except Denver. In municipalities under 5,000 population, this function required a higher proportion of total expenditures than any other. Per capita expenditures for this purpose also tend to increase as municipal population decreases. This relationship generally applies as well to the proportion of total expenditures for this function.

Public Safety. Public safety (primarily police and fire protection), was by far the most expensive municipal function in 1964, except in Denver and in the smallest cities and towns. Per capita expenditures and the importance of this function in the total expenditure picture tend to decrease as population size decreases, illustrating the greater law enforcement and fire protection needs of larger communities.

Parks and Recreation. Parks and recreation per capita expenditures tend to be higher in the larger municipalities, including Denver. Municipalities under 5,000 population spent over one dollar per capita less for this function than those in the next population group. For all cities over 5,000 population, except Denver, parks and recreation expenditures accounted for at least ten percent of the total in 1964, but were only slightly more than seven percent in those with less than 5,000 population.

Health. Health expenditures include public health in Denver and those few cities participating in joint city-county health departments and street cleaning, trash and garbage collection and disposal, sewage treatment and disposal, and cemeteries. These functions accounted for 15.4 percent of total expenditures in Denver, and 10.2 percent of the total in all other municipalities. There appears to be little relationship between population size and per capita expenditures for these functions.

Capital Outlay and Other Expenditures. In 1964, per capita expenditures for capital outlay were highest in Denver and in municipalities over 50,000 population. As far as the municipalities in other population groups, however, there was no relationship between population and per capita expenditures.

All other expenditures covering a multitude of functions, as explained in Table 4, varied greatly among all groups of municipalities without relationship to size.

Municipal Government Problems

Urban Growth

Since World War II, many of Colorado's municipalities, particularly the larger ones and those located in areas experiencing the greatest population increase, have been greatly concerned with problems arising from urban growth and development. These problems have been two-fold, but are closely interrelated: 1) expansion, planning, and initiation of services and facilities and the broadening of the municipal tax base to meet the increased demand of growing population within corporate limits; and 2) large scale development of urban fringes outside corporate boundaries.

Table 5 shows the rate of population growth between 1950 and 1965 for twenty-eight cities and towns. While many of these are located either in the Denver metropolitan area or elsewhere along the Eastern Slope of the Rockies, others were selected so that each area of the state would be represented. Also shown is the rate of population growth for counties in which these municipalities are located.

It is interesting to note that a number of municipalities outside of the state's metropolitan areas grew in population at a much greater rate than the counties in which they are located. Three of these cities grew significantly in population, while the counties in which they are located suffered decreases. These examples illustrate the increasing urbanization taking place in Colorado, even in areas still considered predominantly rural and experiencing an over-all decline in population.

A county population increase rate greater than that of its municipalities is indicative of urban fringe area growth, but such growth and resultant problems have developed around most of the cities listed in Table 5.

Fringe Areas. Long-range planning for municipal services and facilities and how they are to be financed can be done most effectively in connection with the development of a logical and orderly municipal growth program, including the potential extension of municipal boundaries to include urban fringe areas. Prior to

1965, there were several impediments to the development of orderly growth programs by municipalities with highly developed and populated unincorporated fringes. Several of these impediments were lessened, although not eliminated, by legislation adopted in the 1965 and 1966 sessions of the General Assembly.

Demand for Urban Services. Municipal objectives of logical and orderly growth and development do not necessarily conflict with the needs and desires of urban fringe residents and commercial enterprises, but in many instances conflict has resulted. Residents in densely populated unincorporated fringe areas usually want urban services which have been traditionally provided by municipalities, such as water, sewer, parks and creation, and police and fire protection. County government has not been legally or structurally able to provide these services. Consequently, residents of fringe areas have four ways in which they may obtain urban services: 1) incorporation; 2) formation of special districts; 3) annexation to an adjacent municipality; and 4) purchase of services from an adjacent municipality.

Incorporation. Incorporation is seldom financially or politically feasible and can rarely guarantee adequate municipal services within a reasonable period of time. Moreover, the community spirit necessary for incorporation is seldom present in a new development, and the reluctance to form a city or town is often even greater when the development is adjacent to an existing municipality. In recent years municipal incorporation has seldom been used to meet the urban growth problem in Colorado, except in large housing developments somewhat remote from other municipalities, such as Broomfield.

TABLE 5
POPULATION GROWTH 1950-1965,
SELECTED COLORADO MUNICIPALITIES AND COUNTIES

Municipality and County	Pop. 1950[a]	Pop. 1965[b]	Pct. of Increase	County Population Pct. of Increase 1950-1965	
Alamosa (Alamosa)	5,354	6,600	23.3%	−5.0%	
Arvada (Adams-Jefferson)	2,359	36,000	1426.0	281.5[c]	219.6[d]
Aurora (Adams-Arapahoe)	11,421	66,000	477.9	281.5[c]	163.8[d]
Boulder (Boulder)	19,999	50,250	151.3	88.4	
Brush (Morgan)	2,431	4,000	64.5	17.8	
Canon City (Fremont)	6,345	10,450	64.7	14.9	
Cherry Hills Village (Arapahoe)	750	2,750	266.7	163.8	
Colorado Springs (El Paso)	45,472	90,000	97.9	134.8	
Cortez (Montezuma)	2,680	7,000	161.2	41.1	
Denver (Denver)	415,786	527,000	26.7	26.7	
Durango (La Plata)	7,459	11,200	50.2	34.4	
Englewood (Arapahoe)	16,869	36,700	75.6	163.8	
Fort Collins (Larimer)	14,937	31,000	75.4	49.2	
Fort Morgan (Morgan)	5,315	8,100	52.4	17.8	
Glenwood Springs (Garfield)	2,412	4,100	70.0	8.4	
Golden (Jefferson)	5,238	8,470	61.7	219.6	
Grand Junction (Mesa)	14,504	22,400	54.4	39.6	
Greeley (Weld)	20,354	32,500	59.7	17.0	
La Junta (Otero)	7,712	8,900	15.4	−1.7	
Lamar (Prowers)	6,829	8,000	17.1	−8.3	
Littleton (Arapahoe)	3,378	19,000	462.5	163.8	
Longmont (Boulder)	8,099	14,000	72.9	88.4	
Loveland (Larimer)	6,773	13,500	99.3	49.2	
Manitou Springs (El Paso)	2,580	5,000	93.8	134.8	
Pueblo (Pueblo)	63,685	97,000	52.3	41.4	
Rangely (Rio Blanco)	808	1,850	129.0	15.5	
Sterling (Logan)	7,534	11,500	52.6	20.4	
Westminster (Adams)	1,686	17,500	937.9	281.5	

[a]1950 Census
[b]January 1, 1965 estimates, State Planning Division
[c]Adams
[d]Arapahoe
[e]Jefferson

One of the major reasons why incorporation has been unpopular is the prior existence of one or more special districts providing services, such as water or sewer, which ordinarily would be provided by a municipality. Unless a new municipality completely encompassed these districts, and the districts agreed to dissolve, the districts would continue to operate and be financed by the new municipal taxpayers in addition to financing the new city—adding appreciably to the tax burden of property owners.

Another problem has been the transition from unincorporated to municipal status. In the past, during the period while a municipality is being organized, the county withdrew its services, such as road maintenance and police protection, which the new city is not yet able to supply. Legislation adopted in 1965 helps correct this situation by requiring that counties continue to provide services during this period.

Even though recent efforts have not been very successful, incorporation is often tried as a defensive measure against annexation by an adjacent municipality. Often these proposed defensive incorporations would establish municipalities with little population, inadequate tax base, and illogical boundaries. The formation of such a municipality not only obstructs the growth of the adjacent city, but also does its residents a disservice because of inability to provide expected municipal services at a reasonable cost.

Until the current year, Colorado had no laws to control or prevent the formation of illogical or defensive municipal corporations, although such legislation had been adopted in other states. Municipal control legislation in other states has taken three forms:

1) State Reviewing Authority: In Minnesota, proposed new cities within a specified radius of existing ones must petition the state boundaries commission for approval. The commission holds a hearing to determine whether broad statutory criteria are met, before approving or disapproving holding an incorporation election.

2) Judicial Review: Some states require the courts to review and approve new incorporations; in some cases, there are statutory standards to be used by the courts. These standards may either set forth non discretionary requirements, such as minimum population, assessed valuation, and land area, or they may establish broad general criteria to assist the court in its determination.

3) Local Review: In Arizona, a buffer zone for existing municipalities has been established by statute consisting of three miles for those under 5,000 population and six miles for those over 5,000. New incorporations within these zones may not be formed without the approval of the existing municipality unless within 120 days it refuses to annex the area to be incorporated.

The first steps toward controlling new municipal incorporations in Colorado were taken in the Municipal Annexation Act of 1965. This measure gives annexation proceedings priority over municipal incorporation proceedings involving populations of less than 10,000. It also authorizes municipalities to require an agreement to annex when eligible as a condition of any contract to supply municipal services outside corporate boundaries. Such agreements are an effective future barrier against defensive incorporation attempts.

In 1966, legislation was adopted requiring that any new incorporation within one mile of an existing municipality must have an area of at least one-half square mile and at least 100 registered voters per square mile. This legislation was watered down considerably from original proposals, and while its passage appears to have blocked one proposed incorporation, some critics feels that more restrictive legislation will be necessary.

Special Districts. The formation of special districts to provide municipal services in unincorporated areas has been used extensively in Colorado, as evidenced by the fact that the number of districts has almost doubled in the past ten years. Until 1965, there was no control over the formation of special districts. Special districts were easy to form and are subject to very liberal taxing and indebtedness restrictions.

The obstructive effect of special districts on municipal incorporation attempts has already been commented upon. They have tended to have the same effect on proposed annexations principally for two reasons:

1) differences between municipal and special district facilities and services, such as engineering standards, type and size of pipe, etc. which make it difficult, if not impossible, to merge and integrate special district facilities and equipment with municipal systems; and

2) the usual continuance of district operation and taxpayer responsibility after an area is annexed.

A major step toward avoiding future difficulties arising from the illogical formation of special districts was taken with the passage of the Special Districts Control Act of 1965. In addition to giving county commissioners authority to approve new special district formations, subject to meeting certain criteria, this act provides that any municipality within three miles of a proposed district shall be an "interested party" and may be heard at the formation hearing.

If there is satisfactory evidence that the facility and service standards of a proposed district are incompatible with the facility and service standards of adjacent municipalities and special districts, the county com-

missioners may disapprove the service plan, which is tantamount to disapproving the district formation.

The provisions of water and sewer service to urban fringe areas by municipalities on condition of annexation when eligible should also reduce the future need for formation of districts for these purposes.

The problem of continued special district operation in annexed areas was dealt with in part by other legislation adopted in 1965.[48] This act provides procedures and conditions for the exclusion of territory from special districts, other than those providing water and sanitation, when such territory has been annexed to a municipality. The excluded territory, however, would continue to remain liable for its share of any outstanding district bonded indebtedness. The major municipal services affected by this legislation are fire protection and parks and recreation. Water and sanitation districts, however, are the ones most usually found operating in urban fringe areas. These districts are usually the ones with the greatest outstanding indebtedness and the highest operating and debt retirement property tax levies, so that the major portion of the problem is yet to be dealt with by legislative action.

Annexation. Although annexation is an effective method of meeting urban growth problems and providing municipal services to heavily populated fringe areas, its use was hampered during the twenty years prior to the passage of the Municipal Annexation Act of 1965 by restrictive annexation laws. These restrictions, as well as negative annexation policies by some municipalities, were partially responsible for the growth of special districts as a way to meet urban service needs in unincorporated areas.

The new act makes annexations easier, gives municipalities the authority to annex unilaterally totally surrounded areas and areas bounded two-thirds by a municipality, and requires municipalities to accept some annexations. This act did not become effective until January 1, 1966, so that there has been insufficient experience under its provisions as yet to determine its impact on urban growth problems and to ascertain what changes, if any, are needed.

Purchase of Service. As previously indicated, residents of some fringe areas can obtain certain services, particularly water and sewer, from adjacent municipalities. Charges for these services are usually higher than they are for municipal residents, and annexation when eligible may be required as a condition to their provision. These contractual services meet only a portion of the needs of fringe area residents, who must still use one of the three other alternatives (incorporation, special district formation, or annexation) to provide other services.

Summary. While it appears that some of the problems related to urban growth and development have been partially solved by legislation adopted in the past two years, they still remain matters of pressing concern, which are likely to become more complex as population growth increases, especially if a large share of this growth is concentrated in unincorporated areas in the future as it has in the past. Of special concern are regional problems resulting from population growth over an area too large to be met adequately by existing units without fragmentation, duplication of effort, or wide diversity of service standards and financing.*

Home Rule

Several significant procedural and substantive municipal home rule problems either have developed or have become more apparent in recent years. In part, these problems have arisen from judicial interpretations of Article XX of the Colorado Constitution, especially the provisions delineating matters of local concern and related powers. In part, they are a consequence of population growth and accompanying urbanization, technological development, and shifting economic and social patterns, all of which require continuing reexamination of powers and responsibilities of the state and its local governments and of intergovernmental relations.

Procedural Problems. There are four major procedural problems relating to the adoption of home rule charters under the present provisions of Article XX. The first is the minimum population requirement of 2,000, which denies home rule status to smaller municipalities interested in attaining a greater degree of self-government.

The second problem arises from the election procedures to be followed in adopting home rule. Article XX requires three separate elections, which makes the adoption of home rule cumbersome and expensive. Third, Article XX limits the home rule charter convention to only sixty days in which to complete the charter draft. This time limitation is too short to permit the necessary deliberation and legal thoroughness which should be given to a municipal charter. The fourth problem is caused by the requirement in Article XX that charter convention delegates must have been taxpayers for at least five years; this provision has been construed to mean that a municipality must be in existence at least five years before it can adopt home rule.

Other minor problems concern the cumbersome publication requirements in Article XX and the size of the charter convention (twenty-one members), which has been criticized as being too unwieldy a group. The constitutional provision of home rule adoption procedures constitute at least as much of a problem as the

*These problems are foremost in the state's metropolitan areas and are discussed in Chapter V.

procedures themselves, because it is impossible to modify them easily from time to time as experience and changing conditions warrant.

Substantive Problems. The language of Article XX attempts to delineate an area of "exclusive local and municipal concern" which is not subject to the control of or interference by the General Assembly. Yet, it also attempts to protect the sovereign power of the General Assembly in the area of "statewide concern." For the past sixty years the courts have engaged in a continuing struggle to define and protect the sovereign power of home rule municipalities without jeopardizing or restricting the power of the General Assembly to regulate matters of statewide import. A number of these decisions have tended to promote considerable confusion and uncertainty on the part of municipal authorities as to the meaning and extent of municipal home rule.*

Generally, the judicial interpretations of Article XX have tended to give superior status to the state's authority when it conflicts with local home rule regulations. Because such decisions interpret constitutional delineations of power, they may not, as a general rule, be modified by the General Assembly through additional grants of authority to home rule municipalities. In one instance, however, it can be concluded that the Colorado Supreme Court has upheld the supremacy of the General Assembly to decide, at least in some matters, when matters of statewide concern may be subject to concurrent local regulation.[49] Generally, the definition of "matters of local concern" encompass a changing grey area, still beyond the power of the General Assembly to regulate. Consequently, even though state-local relationships under Article XX are constantly undergoing change, the final allocation of jurisdiction is being made by the courts rather than the General Assembly.

The major difficulties with municipal home rule in Colorado stem from the attempt constitutionally to delineate matters of exclusive local and municipal concern. Such delineation, of necessity, is subject to judicial interpretation from time to time. These interpretations, because they involve constitutional questions, are not generally susceptible to legislative modification, even on those matters determined to be of statewide concern, so constitutional amendment is required. Because judicial decisions usually do not go beyond the scope of the matter in the case before the court, a series of constitutional amendments would appear to be required if modification of judicial interpretations is desired. Since constitutional amendment is a lengthy and costly process and therefore seldom attempted, judicial interpretation has tended to make the relationship rigid between the state and its home rule municipalities and, in some instances, to circumscribe the ability of home rule cities to join in formal arrangements with other governmental entities to solve area-wide or regional problems.[50] The lack of flexibility in state-municipal relationships and authority is a major handicap in meeting needs brought about by changing conditions in a rapidly urbanizing society.

Alternate Approaches to Home Rule. There are two basic approaches to municipal home rule, one of which is presently provided in Article XX. The other is the approach developed by the National League of Cities.** It vests broad powers in home rule municipalities, but provides for legislative supremacy in the area of state-local relationships. It protects the right of municipalities to adopt local home rule charters, and such home rule municipalities are given all governmental powers, except as may be expressly denied them by general class legislation enacted by the General Assembly, or otherwise denied or restricted by local charter. Charter provisions regarding internal administration and organization are made superior to statute.

There are several advantages to this form of municipal home rule:

1) It provides a balanced allocation of powers, reserving complete local authority over local governmental organization, with which the state has no justifiable interest, and preserving legislative supremacy with respect to other governmental powers exercised by the state and its local government creations.

2) Because home rule cities are granted all governmental powers, except those expressly prohibited them by the General Assembly, they may be vested with greater home rule authority than a constitutional grant of all powers of "local and municipal concern."

3) The system is flexible, because the General Assembly would be placed in the position of arbitrating between state and local concern rather than the courts, whose decisions usually cannot be modified by legislative action.

The possible disadvantages might be summarized as follows:

1) Subjecting municipal home rule powers to control by the General Assembly might result in legislative interference in local affairs and the gradual erosion of the home rule concept.

2) This concept represents a substantially different approach to municipal home rule from that which has been established and followed in Colorado for over sixty years.

*These are discussed in greater detail in Chapter VII.

**Formerly known as the American Municipal Association.

3) A substantial revision in the provisions of Article XX could result in increased uncertainty for home rule jurisdictions and might cause a new round of judicial interpretations.

While these are the two basic approaches to municipal home rule, several variations have been advanced by other authorities, including the imposition of significant limitations on the plenary power vested in home rule jurisdictions; these limitiations prevent home rule municipalities from enacting regulations on general private law and civil relationships and also preclude local definition and provision for the punishment of felonies.

Other constructive suggestions have been offered by various legal authors. For example, Professor Terrance Sandalow, University of Minnesota, suggests that there is a serious weakness in the National League of Cities and National Municipal League model provisions, in that no provision is made for annexation and extraterritorial powers to be exercised by home rule municipalities.[51] Professor Sandalow persuasively urges that home rule should not grant blanket authority for the local exercise of these powers, but rather, such power should be governed by the conditions and procedures established by statutory enactment.

Professor Richard B. Dyson, University of Kansas, also makes a case for the proposition that home rule cities should have no authority to dissolve, enlarge, or contract municipal boundaries without express statutory delegation by the state's legislative body.[52] In addition, he suggests constitutional phraseology which would provide that local regulation shall be deemed to conflict with state legislation only when, by every reasonable construction, to obey or carry out one would either be to disobey the other or tend to defeat the purpose of the other.

Statutory Municipalities

Two major problems affecting statutory municipalities relate to constitutional provisions limiting the terms of elected officials and the amount and terms of debt which may be assumed.

Two-Year Term Limitation. Under the provisions of Article XIV, Section 12 of the Colorado Constitution, elected officials of general law cities and towns are limited to two-year terms of office. This provision makes possible a complete turnover of elected officials at a single election, thereby constituting an unnecessary impediment to the continuity of local government operations by leaving local governing bodies without sufficient experience to conduct their affairs in a proper manner. The two-year election requirement tends to discourage qualified and experienced candidates from running for municipal office.

Debt Limits. Article XI, Section 8, of the constitution limits the outstanding general debt of any municipality* to three percent of assessed valuations, prohibits the imposition of a debt redemption levy in excess of twelve mills, and requires that bonds must be retired in no less than ten nor more than fifteen years.

Although debt incurred from the construction of water facilities and debt to be redeemed by revenue are not limited by this article, many municipalities have found it extremely difficult to provide capital facilities through general obligation bonds because of these constitutional limitations. Consequently, many cities and towns have created special districts to pay for improvements which could have been financed more reasonably by municipal general obligation bonds. Resultant higher financial and administrative costs have placed an undue burden on local taxpayers which might have been avoided. The twelve mill levy limit has the effect on towns under 1,000 population of virtually prohibiting the use of general debt to finance community improvements.

Sales Tax. Although the authority of home rule municipalities to levy a sales tax has been upheld by the Colorado Supreme Court, statutory cities and towns are unable to do so without express legislative authorization. Statutory municipalities have requested this authority, so that they may be able to broaden their tax base and reduce dependence on the property tax as a revenue source. Closely related to this grant of authority is consideration of whether local government sales taxation should be made more uniform through the imposition of a state-collected locally-distributed tax.

Statutory Revision and Recodification. The enumeration of municipal powers in Chapter 139, Colorado Revised Statutes 1963, need review and consolidation, particularly the classification of municipal corporations. Of particular importance is the revision or elimination of the statutes relating to first class cities. Many of the other provisions of Chapter 139 are ambiguous, duplicatory, antiquated, or all three.

*Construed by the Colorado Supreme Court to apply only to statutory cities and towns.

Commission Recommendations

Urban Growth

The Governor's Local Affairs Study Commission's recommendations to alleviate urban growth problems are based on the premise that logical urban growth (except for certain problems peculiar to metropolitan areas) can be achieved best by municipal annexation and extension of services to areas that are municipal in nature. Most of these recommendations have already been enacted into law: 1) Municipal Annexation Act of 1965, including authorization for municipalities to require annexation when eligible as a condition of providing services outside corporate limits; 2) Special District Control Act; and 3) requiring counties to continue to provide service to newly incorporated areas for a minimum time after incorporation to assist in orderly transition.

As previously indicated, there has not yet been sufficient experience under the new annexation act to evaluate its effect on urban growth problems or for unforeseen legal and procedural problems to develop. After enough time has elapsed for proper evaluation of the act, the Commission suggests that consideration be given to the need for stronger annexation legislation, vesting more extensive unilateral authority in municipalities; such authority may be needed as long as the state's population growth continues to concentrate in and around municipalities.

The Special District Control Act is a transitional step toward curbing and eventually eliminating this form of local government in Colorado and should be followed by legislation authorizing counties to establish service areas or special taxing districts to provide urban services in unincorporated areas which cannot be reasonably served by or annexed to a municipality.

The Commission also recommends much more comprehensive and restrictive legislation to control illogical and defensive incorporations than was adopted in the 1966 session. Under the Commission's recommended legislation:

1) No municipality with less than 10,000 population could be incorporated if more than fifty percent of the total area to be included within its corporate boundaries is within one mile of the boundaries of any existing municipality.

2) No incorporation election for any other proposed municipality could be held until the district court determined that the petition for incorporation was in substantial compliance with several incorporation criteria:

   a) that the proposed area to be incorporated is urban in character and has a community of interest (business, social, economic);

   b) that the territory is in need of municipal services and that the proposed municipality is capable of providing them;

   c) that the municipal services needed could not be provided better by annexation to an adjacent municipality or through service arrangements with existing local governmental units;

   d) that the area to be included is not excessive in size in relation to its population;

   e) that the tax base of the proposed municipality is sufficient to finance municipal services on a reasonable basis; and

   f) that the relative impact of an additional municipality shall not be adverse upon the overall governmental pattern in the area.

The legislation adopted in the 1966 session represents a step toward preventing illogical and defensive incorporations, but the Commission still recommends the stronger controls outlined above.

Local Government Home Rule Amendment

Several Commission recommendations relating to municipal government are contained in the Local Government Home Rule Amendment, including municipal home rule, two-year term limits for elected officials in statutory municipalities, municipal debt limits, intergovernmental cooperation, and state-collected, locally-distributed taxes.

Municipal Home Rule. This portion of the amendment would become Section 4 of Article XX of the constitution. Under the provisions of this section, the opportunity to adopt home rule would be extended to all municipalities. The detailed procedures for becoming a home rule municipality and adopting a home rule charter would be provided by statute subject to two constitutional requirements: 1) that at least five percent of the qualified electors of the municipality would have to initiate a home rule petition; and 2) that a home rule charter must be approved by a majority of qualified electors voting thereon. This section also makes it possible for new municipalities to adopt home rule at the time of incorporation.

These provisions are designed to solve the procedural problems previously discussed. Municipal home rule substantive problems are handled by changing the definition of municipal home rule to guarantee to home rule cities all powers of government and taxation except as expressly limited or denied by specific legislative enactment. Any limitation or denial of powers, however, would have to apply to no less than one class of municipalities consisting of at least three home rule cities.

This section provides further that annexation or extraterritorial authority shall not be exercised except as provided by law, and home rule cities would be prohibited from defining and punishing felonies or enacting charter provisions or ordinances governing or regulating relationships between private persons, associations, or corporations.

This new definition of municipal home rule is similar to the one proposed by the National League of Cities, but has been modified to clarify annexation and extraterritorial authority and to prohibit home rule cities from legislating on matters that are clearly of statewide concern, such as felonies and private law relationships. Protection is given to individual municipalities by the requirement that any limitation or denial of powers must apply to at least one municipal class consisting of at least three cities.

By using this method of granting home rule powers, the courts would be replaced by the General Assembly as the referee on matters of state and local concern. This change should provide the necessary flexibility to adjust state and local relationships as changing conditions warrant, and it would also eliminate legal barriers in coordinating state-local jurisdiction in a variety of matters, such as traffic violations.

Two-Year Term Limitation. The present two-year limitation on elected officials in statutory cities and towns would be removed by a simple amendment to Article XIV, Section 12, of the constitution. This amendment would make it possible to set the term of office by statute. In this connection, the Commission recommends that officials of statutory cities and towns be elected for four-year overlapping terms.

Municipal Debt Limits. Article XI, Section 8 of the constitution would be amended to eliminate the three percent of asssessed valuation limitation on bonded indebtedness, the twelve mill levy limit for debt retirement, and the ten to fifteen year time limitation on debt retirement. It would then be possible to impose more reasonable limitations by law and to change these from time to time as conditions may warrant.

Other Provisions Applicable to Municipalities. Other provisions of the Local Government Home Rule Amendment would eliminate several constitutional impediments to the proper functioning of local government and intergovernmental relations. These provisions would make it possible:

1) for state-levied and collected and locally-distributed taxes to be handled on a direct basis;
2) for home rule jurisdictions to cooperate and contract with each other, either directly or through the authorization by statute of a separate government entity as an instrument to be used through voluntary participation by cooperating or contracting political subdivisions; and
3) for home rule cities to levy an income tax, unless expressly denied by the General Assembly.

Statutory Revision and Recodification

As was the case with county government laws, the Commission recommends that the statutes pertaining to municipalities be revised and recodified, with special emphasis given to Chapter 139, Colorado Revised Statutes 1963. In completing its work, the Commission has prepared a detailed outline of what is required in the revision and recodification of municipal laws, including alternative methods of carrying out this important task.

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[2]William H. Cape, *Toward Home Rule in South Dakota* (Vermillion: Governmental Research Bureau, University of South Dakota) p. 5.
[3]Kentucky Legislative Research Commission, *Municipal Government—Home Rule; State Assistance* (Frankfort: Research Publication, No. 53, 1957).
[4]COLORADO REVISED STATUTES 1963, 139-2-1 and 2.
[5]CRS 1963, 139-3-1 through 16.
[6]City of Durango v. Reinsburg, 16 Colo. 327, 26 P. 280 (1891).
[7]CRS 1963, 139-4-1 through 7.
[8]CRS 1963, 139-5-1 through 22.
[9]COLORADO CONSTITUTION, Article XIV, Section 12, and CRS 1963, 139-7-1 through 6.
[10]Colorado League of Women Voters, *Cooperation or Confusion* (Denver: April, 1960).
[11]COLORADO CONSTITUTION, Art. 20, Sec. 6.
[12]*Ibid.*
[13]Canon City v. Merris, 137 Colo. 169, 323 P. 2nd 620 (1958).
[14]CRS 1963, 139-1-1 through 9.
[15]SESSION LAWS OF COLORADO, 1966, Chapter 27, Section 1.
[16]*Ibid.*
[17]SESSION LAWS OF COLORADO, 1965, Chapter 304.
[18]CRS 1963, 139-9-1 through 14.
[19]CRS 1963, 139-7-1 through 10.
[20]CRS 1963,139-18-1 through 7.
[21]CRS 1963, 139-19-1 through 6.
[22]CRS 1963, 139-9-1 through 13.
[23]CRS 1963, 139-12-1 through 5.
[24]SESSION LAWS OF COLORADO, 1965, Chapter 306.
[25]COLO. CONST., Article X, Section 7.
[26]Berman v. City and County of Denver (1965).
[27]Sweet v. City and County of Denver 138 Colo. 41 (1957).
[28]CRS 1963, 139-32-1 (5), 139-37-1.
[29]CRS 1963, 139-88-15.
[30]CRS 1963, 139-55-5.
[31]SESSION LAWS OF COLORADO, 1965, Chapter 307.
[32]CRS 1963, 139-51-13.
[33]CRS 1963, 139-78-3 (7), (8), (9), also 139-32-1 (15), and 139-53-3.
[34]Sweet v. City and County of Denver, *op. cit.*
[35]CRS 1963, 139-32-1 (36).
[36]CRS 1963, 139-32-1 (37).
[37]CRS 1963, 139-78-3 (2).
[38]CRS 1963, 139-38-4.
[39]CRS 1963, 139-32-1 (7).

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[40]CRS 1963, 139-43-1.

[41]CRS 1963, 139-44-1.

[42]CRS 1963, 139-45-1.

[43]COLO. CONST., Art. XI, Sec. 8.

[44]*Ibid.*

[45]Banks, *op. cit.*, p. 200.

[46]COLO. CONST., Art. XI, Sec. 8, and CRS 1963, 139-32-1 (7).

[47]CRS 1963, 139-32-1 (7).

[48]SESSION LAWS OF COLORADO, 1965, Chapter 223.

[49]Wolverton v. City and County of Denver, 146 Colo. 247, 361 P 2d 982 (1961).
This is the last of the so-called Merris cases interpreting matters of state and local concern which began with Canon City v. Merris, *op. cit.* Other important cases interpreting the meaning of home rule include: State of Colorado v. City and County of Denver, 106 P 2d 317 (1940); Sweet v. City and County of Denver, *op. cit.;* Metropolitan Capital Improvement District v. Board of County Commissioners of Adams County (1962) 149 Colo. 284, 369 P 2d 67 (1962); and Berman v. City and County of Denver *op. cit.*

[50]Metropolitan Capital Improvement District, *op. cit.*

[51]Terrance Sandalow, "The Limits of Municipal Power Under Home Rule; A Role for the Courts," *University of Minnesota Law Review*, Volume F, No. 4, March 1964, pp. 643-721.

[52]Richard B. Dyson, "Ridding Home Rule of the Local Affairs Problem," *The University of Kansas Law Review*, Volume 12, No. 3, March 1964, pp. 362-388.

III

SPECIAL DISTRICT GOVERNMENT

Origin and Development

Special districts are quasi municipal corporations which are organized for the purpose of performing one or more governmental functions or services. They are, like all other local governmental units, creatures of the state and derive their powers from state law. They may exercise only those powers expressly delegated to them by the General Assembly, or those which can be reasonably inferred from such laws.[1]

The legal status of special district government under the Colorado Constitution is somewhat unclear and difficult to define. It is possible, however, that special districts of all types and kinds could be considered to form the fourth class of municipal corporation, permitted by Article XIV, Section 14, of the state constitution. (The other three classes are cities of the first class, cities of the second class, and towns.)

It is important to distinguish between the two basic types of special districts—special service districts and local improvement districts. Special service districts are independent legal entities which may be organized in either incorporated or unincorporated areas and are governed by a board of directors. The term "local improvement districts" usually applies to districts within municipal limits, usually created and operated under the supervision of the municipal governing body. They are used to provide a special benefit type of service or facility (curbs, gutters, storm sewers, etc.) to a part of the community only.

Origin in Colorado

Special districts were first organized in this state for agricultural and resource purposes. The General Assembly authorized the creation of certain types of irrigation and drainage districts even before the turn of the century. Special districts for domestic water supply also were authorized early in the state's development. The vast majority of special district laws were enacted during the late 1940's and the 1950's, apparently to provide municipal-type services for urban development in unincorporated areas. Most of the increase in the number of special service districts during this period occurred in the Denver metropolitan area, although many special districts were created in other growing urban areas within the state.

Number of Special Districts

The exact number of special service districts in Colorado at the present time is not known. Estimates vary considerably according to source. The 1962 *Census of Governments** places the total number at 566, which may include some local improvement districts. The 1964 annual report of the Colorado Tax Commission shows 592, excluding districts listed more than once because of operation in more than one county. This total is also not accurate, because it includes a number of local improvement districts and excludes special districts not levying a property tax. It is likely that there are between 575 and 625 special districts in Colorado at the present time. The number of districts has almost doubled in the past ten years.

Special Service District Laws

There are a variety of laws under which special districts may be organized. Sixteen major acts permit the formation of special service districts. Each of these laws is described briefly below:

Domestic Waterworks Act of 1913. This is a somewhat obsolete and seldom used law authorizing the formation of waterworks districts, primarily for rural areas. These districts are created by the county commissioners and have taxing and borrowing authority to finance the construction of water facilities.[2]

Metropolitan Districts Act of 1947. This act authorizes the formation of different types and combinations of special service districts, including the following: 1) water, 2) sanitation,3) fire protection, 4) safety protection (traffic and safety control), 5) mosquito control, 6) street improvement, and 7) television relay. Many of the types of districts authorized by the act have never been organized. The act is frequently used to form water, sanitation, and fire protection districts in urbanized areas. Legal counsel who write opinions for leading bonding firms are reluctant to approve bonds for district combinations, other than water, sanitation, and fire protection.[3]**

*Published by Bureau of Census, United States Department of Commerce.

**The authority for metropolitan districts to provide police protection was repealed by the General Assembly in 1965.

1939-1949 Water and Sanitation Districts Act. Most of the water and sanitation districts now in existence were created under this law. Either water, sanitation, or consolidated water and sanitation districts may be organized under this act. The law has been well tested in the courts, and bonds that are issued are usually approved by the bonding attorneys. Districts are organized by petition of the taxpaying electors and by decree of the district court, after an election has been held.[4]

Fire Protection District Act of 1949. Most fire protection districts in the state are organized under this law. Districts are formed by the district court after petition by fifty taxpaying electors, a public hearing, and an election.[5]

1953 Disposal Districts Act. This is a seldom used law, and no bonds have been issued for this type of service district in recent years. A disposal district is created by the county commissioners and apparently has limited powers. The enabling act is a very brief one and is not clear in defining the powers of such districts.[6]

Metropolitan Recreation District Act. A number of recreation districts have been organized under this law, many of them in the Denver metropolitan area. Bonds have been approved and issued in some cases. These districts may be organized without an election, unless a counter petition is submitted to the district court.[7]

Metropolitan Water District Act of 1955. This is another act which apparently has seldom been used. It authorizes two or more municipalities to join together to form a district to provide water for domestic, industrial, and irrigation purposes. The governing board of the district is composed of representatives from the participating municipalities. Like most service districts, this district is empowered to levy taxes, fix rates, borrow money, and issue bonds.[8]

Hospital District Act of 1960. A few hospital districts have been organized under this law since its passage. The district is organized by decree of the district court, after petition by the taxpaying electors. A hospital district may levy up to two mills to retire bonds or finance operations.[9]

Metropolitan Sewage Disposal District Act of 1960. Essentially, this is an intergovernmental cooperative district. The only one formed is in the Denver metropolitan area, although similar districts could be created elsewhere. Participation of municipalities and other special districts is by approval of the governing bodies of these units. The district operates primarily through contracts with other local units, although it may levy three-quarters of a mill for a period of five years to pay costs.[10]

Recreation District Act of 1947. It does not appear that this act has been used. Under its provisions, counties may establish recreation districts after holding a hearing to determine "public sentiment." The county commissioners appoint five taxpaying residents of the district to serve as the district board. The county commissioners may also levy a maximum of one mill on the property in the district, unless the whole county is included, in which case the district is financed from the county general fund, and no special levy may be made.[11]

Regional Library District. A regional library district may be formed by two or more governmental units. The participating governing bodies appoint a committee of their members to select the district board of directors. A regional library board is required to serve, and be supported by, all unincorporated areas and municipalities not operating their own libraries within the district. Whenever the board of county commissioners decide that only a part of a county which is not already served by a public library shall join in establishing a district, the board may levy a tax on that part of the county so included in the district.[12]

The Moffat Tunnel District. This district is unique and was created by special legislative enactment in 1922. It comprises several counties in the western part of the state. The district is organized to provide a transportation and water tunnel through the Continental Divide. The board of directors is empowered to levy taxes and fix charges to retire indebtedness and to meet operating costs.[13]

Soil Conservation District Act. These districts are established by order of the State Soil Conservation Board on petition and after a referendum in the area concerned. The governing body is a five-member board of supervisors, three elected and two appointed by the State Soil Conservation Board. The districts are authorized to levy a tax based on benefits with the prior approval of the voters and may accept grants and borrow money from the federal or state governments. Few soil conservation districts have been formed in recent years.[14]

Cemetery District Act. On petition of property owners in each area concerned, these districts are established by the board of county commissioners, which also appoints a board of directors to govern the district. This board is empowered to determine the amount of taxes to be levied. A few cemetery districts exist in various parts of the state.[15]

Drainage District Act. Drainage districts are created by order of the board of county commissioners on petition and after an election in the proposed district; no election is necessary if the land concerned is unoccupied. The districts are governed by elected boards

of directors, who may levy benefit assessments and issue bonds after approval of the electors.[16]

Water Conservation District Act. Conservancy districts are established to prevent floods, regulate and divert stream channels, and build reservoirs and dams. They are formed by order of the district court on petition by the landowners or a governing body of a public corporation. The district board is empowered to levy taxes, make special assessments, and issue bonds. There are several conservancy districts in Colorado organized by special legislative enactment, including the Colorado River Conservancy District, Southwestern Water Conservation District, the Caddoa Reservoir, and the Arkansas Basin Conservancy District.[17]

Mine Drainage District Act. These seldom used districts are established by the district court on petition of mine owners and after a hearing; they are governed by a board of supervisors elected by the mine owners. The board may levy taxes upon all mining claims in the district, may fix levies, and incur bonded indebtedness.[18]

Metropolitan Stadium District. This unique district was created by special legislation in 1966. The district is organized to provide a sports stadium and related facilities in the Denver metropolitan area. The district directors must hold an election on a bond issue within a year of the effective date of the act. If the bond issue is defeated, the district is automatically dissolved.[19]

Other Districts. There are other district laws but the districts formed under them may be classified as local improvement-type districts. Some of these districts have characteristics of both special purpose and improvement districts. An example is the Domestic Waterworks District Act of 1905 for cities over 10,000 population.[20] This district may be organized only by the governing body of a city of more than 10,000 population, but the district operations are conducted by an independent board of directors appointed by the municipal governing body. Like many acts in this category, the Domestic Waterworks Law is infrequently employed, and little attention is paid to its content.

Analysis of Selected Service District Laws

The enabling acts of some of the more common and important service districts are analyzed in Tables 6 through 9. These tables describe the method of creation, organization, powers and fiscal authority of each of the special service districts enumerated in Chapter 89, Colorado Revised Statutes 1963, as amended. Each of these tables is summarized below.

Method of Creation

All of the special districts analyzed in Table 6 are formed by one of three authorities: 1) the district court, 2) the county commissioners, or 3) the municipal governing body. In most cases, organization is initiated by petition of the taxpaying electors. Elections must be held automatically in five districts and may be required upon counter petition in fire protection districts. Other laws make no provision for election. Where elections are held, "taxpaying electors" are eligible to vote. A 1965 act prohibits any new organizational election for at least twelve months after the defeat of a proposal to create a district.[21]

District Organization

As shown in Table 7, special district boards consist of either three or five members, or else are determined by the number of member units, as provided in the Metropolitan Sewage District Act. Terms of office vary from two to six years. Other district officers may be appointed by the board in all districts, except the treasurer of a water district organized under the Domestic Waterworks Act of 1913, must be the county treasurer. Compensation of board members vary greatly in the various laws—most of them range from a maximum of $60 to $300 per year. Legislation was passed in 1963 which increased the maximum salaries of water and sanitation board members to $600 per year or $25 each meeting.

District Powers

All special districts included in Table 8 have contract rights. All laws, except the 1953 Disposal District Act, authorize districts to borrow, issue bonds, acquire property, and tax. All districts have eminent domain power, except waterworks districts and hospital districts. Five district laws permit district boards to fix rates and to hold rights-of-way for construction purposes. Only the so-called "metropolitan districts" appear to have general police and zoning powers. Three types of districts may join other districts, and four other district laws permit joinder with a municipality.

District Financial Authority

The county is the assessing and collecting agency for all special districts, as shown in Table 9. Some laws provide a mill levy limit, ranging from .75 mills for the Metropolitan Sewage District to six mills for

fire protection districts organized under the 1949 act. All special districts organized under Chapter 89, Colorado Revised Statutes 1963, are now required to complete and file an audit with the State Auditor. Most special districts may issue bonds. An election vote on bond issues is required in most, but not all cases. Generally, the maximum limit on bonds is twenty years, with an interest limit of six percent.

Special District Control Act

In 1965, the General Assembly adopted the "Special District Control Act."[22] In general this legislation gives boards of county commisioners authority to review and approve a service plan for each new special district providing municipal-type services, thus placing some control over special district formation and operation, as well as over urban development in unincorporated areas.

The petitioners to form a new special district are required to file a service plan with the commissioners in the county or counties where the proposed district is to be located. The service plan must include such information as: how and what services are to be provided, a map of the district, operational and capital facility costs, and financing.

Before taking final action, the board of county commissioners must hold a hearing after due notice to all interested parties, including all municipalities within a radius of three miles of the proposed district boundaries and the residents and landowners in the proposed district. The bill sets forth the broad criteria to be followed in evaluating the service plan, all of which are related to logical growth and development. An approved service plan is a prerequisite for incorporation of a special district by the district court. Enforcement and appeal procedures are also set forth in the bill.

TABLE 6
PROCEDURES FOR CREATING SPECIAL PURPOSE DISTRICTS IN COLORADO

Type of District	Creating Agency	Initiative	Election	Voter Qualifications	Statement of Result	Inclusion and Exclu. of Territory	CRS
Domestic Waterworks District–1913	County Commissioners	Petition by 50% of landowners	Yes	Taxpaying elector or landowner	Publication, Judges, Votes Cast, Directors	Board Decision	89-1
Metrolopitan Districts–1947	District Court	Petition by 100 taxpaying electors	Yes	Taxpaying Elector or on Last Registry List	Decree from District Court	By Petition and Board Decision	89-3
Water & Sanitation District–1939-49	District Court	Petition by 10% of taxpaying electors	Yes	Taxpaying Electors or on Last Registry List	Decree from District Court	By Petition and Board Decision	89-5
Fire Protection District–1949	District Court	Petition by 50 taxpaying electors or 75% of taxpaying electors whichever is smaller	Upon Counter Petition by Fifty Electors	Taxpaying Electors	Decree from District Court	By Petition and Board Decision	89-6
Disposal District –1953	County Commissioners	County Resolution	No	.....	County Commissioners' Resolution	Business Choice and by Petition	89-11
Metropolitan Recreation District	District Court	Petition by 15% of taxpaying electors	Yes	Taxpaying Electors	Decree from District Court	Business and Farm Choice and Petition to Court	89-12
Metropolitan Water District	Councils of Member Municipalities	City Ordinance	No	.....	Declaration by Secretary of State	City Ordinance	89-13
Hospital District	District Court	Petition by 15% of registered voters	Yes	Taxpaying Electors	Decree from District Court	.....	89-14
Metropolitan Sewage Disposal District	City Councils of Member Municipalities	City Ordinance	No	.....	Declaration by Secretary of State	City Ordinance	89-15

TABLE 7
SPECIAL PURPOSE DISTRICT ORGANIZATION IN COLORADO

Type of District	Number of Directors	How Chosen	Term of Office	Meetings	Organization Secretary	Organization Treasurer	Compensation of Board Members	CRS Citation
Domestic Waterworks —1913	3	Election	6 years, 1 every 2 yrs.	Quarterly	Appointed	County Treasurer	$2.50 each meeting	89-1
Metropolitan District —1947	5	Election	6 years, 1 every 2 yrs.	Discretion of Board	Appointed by Board	Appointed by Board	$60 per year	89-3
Water and Sanitation —1939-49	5	Election	6 years, 1 every 2 yrs.	Discretion of Board	Appointed by Board	Appointed by Board	$25 each meeting $600 per year maximum	89-5
Fire Protection District —1949	5	Election	6 years, 1 every 2 yrs.	Discretion of Board	Appointed by Board	Appointed by Board	$25 each meeting $300.00 per yr. maximum	89-6
Disposal District—1953	County Commissioners	ex officio	.....	.....	.....	.....	.....	89-11
Metropolitan Recreation	5	Election	4 years	Discretion of Board	Appointed by Board	Appointed by Board	$60 per year	89-12
Metropolitan Water	*	Appointment by Member Cities & Counties	2 years	Discretion of Board	Appointed by Board	Appointed by Board	Discretion of Board	89-13
Hospital District	5	Appointment by District Court	6 years	Discretion of Board	Appointed by Board	Appointed by Board	.....	89-14
Metropolitan Sewage Disposal	*	Appointment by Member Units	2 years	Discretion of Board	Appointed by Board	Appointed by Board	$60 per year	89-15

*Determined by the number of member units.

Other Recent Legislation

Exclusion of Special District Territory. Other legislation adopted in 1965 provides procedures and conditions for the exclusion of territory from special districts, other than those providing water and sanitation, when such territory has been annexed to any municipality.[23] This measure permits the governing body of the annexing municipality, the governing body of the special district, or fifty percent of the taxpaying electors of the territory so annexed to petition the court for such exclusion. Certain conditions must be met before the court may order the exclusion of territory, which becomes effective on the January 1 following the court's order. Excluded territory would continue to remain liable for its proportionate share of the district's outstanding bonded indebtedness.

List of Districts. The Colorado Tax Commission is required by a 1965 act to compile, maintain, and publish a list of all special districts organized under Chapter 89, CRS 1963.[24] Such list must include the date of each district's formation and a description of its boundaries. No organization or dissolution of any district shall be effective until notice of such action and a description of the boundaries affected are filed both with the Colorado Tax Commission and with the clerk of the county in which the action was taken.

Audits and Accounting. Special districts are also subject to the provisions of the Local Government Audit Law and the Local Government Uniform Accounting Law. Both of these laws were enacted in 1965. The audit law is much more comprehensive than the one it replaced and spells out in detail the requirements and procedures for local government audits, the duties of the state auditor, and penalties and violations.[25] The uniform accounting law is designed to strengthen local government reporting procedures and to provide uniform local government fiscal data for management and fiscal analysis and other uses.[26]

TABLE 8

SPECIAL PURPOSE DISTRICT POWERS IN COLORADO*

Type of District	Contract Rights	To Fix Rates and Charges	Right of Way for Construction Purposes	Borrow	Issue Bonds	Adopt By-Laws	Acquire Property	Eminent Domain	Taxing Powers	Establish Police Force	Provide for Health, Safety, Morals	Establish Master Plan	Zoning	Join other Districts	Join a Municipality	Maintain Sinking Fund	Include Unincorporated Areas	Accept U. S. Money	CRS Citations
Domestic Waterworks—1913	Yes	Yes	Yes	Yes	Yes	Yes	Yes	.....	Yes	.....	.....	.....	.....	.....	.....	.....	.....	.....	89-1
Metropolitan District—1947	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	.....	.....	.....	.....	89-3
Water and Sanitation—1939-49	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	.....	.....	.....	.....	Yes	Yes	.....	.....	.....	89-5
Fire Protection —1949	Yes	.....	.....	Yes	Yes	Yes	Yes	Yes	Yes	.....	.....	.....	.....	Yes	Yes	.....	.....	.....	89-6
Disposal District—1953	Yes	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	89-11
Metropolitan Recreation	Yes	.....	.....	Yes	Yes	Yes	Yes	Yes	Yes	.....	.....	.....	.....	.....	.....	.....	.....	.....	89-12
Metropolitan Water	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	.....	.....	.....	.....	.....	Yes	Yes	Yes	.....	89-13
Hospital District	Yes	.....	.....	Yes	Yes	Yes	Yes	.....	Yes	.....	.....	.....	.....	.....	.....	.....	.....	.....	89-14
Metropolitan Sewage Disposal	Yes	Yes	Yes	Yes	Yes	.....	Yes	Yes	Yes	.....	.....	Yes	.....	.....	Yes	Yes	.....	Yes	89-15

**These are powers specifically mentioned in the statutes, and do not necessarily constitue an exclusive listing.*

Special District Problems

Much has been written and said about the so-called "special district problem." It is actually composed of a series of interrelated problems which pose complex and difficult challenges to sound local government in Colorado. Authoritative observers of American government have long regarded special service districts as obstacles to logical governmental development. Their concern has increased correspondingly with the remarkable growth rate which single-purpose special districts have undergone in recent years, both in Colorado and throughout the nation. One noted writer has voiced his alarm at this phenomenon by referring to special districts as "the dark continent of American politics."[27]

Rate of Growth

Perhaps the most significant cause of the concern over special district governments has been the alarming growth rate of these units. Colorado is now reputed to be fourth among all the states in the rate of growth of special districts. For the most part, this rate of growth can be attributed to the formation of districts to provide such urban services as water, sanitation, fire protection, and parks and recreation. Irrigation districts, water conservancy districts, soil conservation districts, and other rural resource districts have increased little in number since World War II.

Ease of Formation

The increase in the number of special districts is attributable in part to the ease in which such units could be formed prior to the passage of the Special District Control Act in 1965. As indicated in preceding tables and comments, special districts may be created to perform at least sixteen different functions under a variety of existing laws. Some urban service districts, such as water and sanitation districts, may be organized under two or even three different statutory provisions. Some single-purpose districts may be organized by as few as three petitioners, who may even be members of the same family.[28] In one instance, a whole city was involuntarily included within the boundaries of a weed control district, notwithstanding the fact that city residents received little or no benefits and were forced to finance most of the costs.[29] Often landowners do not know that their land or homes are included within a district until receipt of their annual tax levies.

Lack of Public Responsiveness

Once formed, special service districts operate with very few operational restraints. Some districts have varying legal limitations on their authority to levy taxes or to issue bonds; many others have no such limits prescribed by statute. Generally, district directors appear to have considerable discretion and authority in levying taxes, making charges, and prescribing regulations related to the functions and services which the district is authorized to perform. The terms of office of district directors range from two to six years. There is evidence to indicate that only a small percent of the eligible voters actually exercise their voting franchise in many district elections. In some districts, elections may not be held at all.

Often people residing within a special district do not know who the district officials and employees are, so that it is very difficult to receive satisfaction on service complaints.

TABLE 9
SPECIAL PURPOSE DISTRICT FINANCIAL REGULATIONS IN COLORADO

Type of District	Tax Assessing & Collecting Agency	Mill Levy Limit	Audit	Popular Vote on Bond Issues	Limit on Term of Bonds	Bond Interest Limit	Tax Levying Body	CRS Citation
Domestic Waterworks—1913	County	.....	Yes	Yes	20 years	6%	County Commissioners	89-1
Metropolitan District—1947	County	.....	Yes	$5,000 or Over	3-20 years	6%	District Board	89-3
Water and Sanitation—1939-49	County	.....	Yes	$5,000 or Over	3-20 years	6%	District Board	89-5
Fire Protection—1949	County	6 mills	Yes	.....	.....	....	District Board	89-6
Disposal District—1953	County	.....	Yes	.....	.....	....	County Commissioners	89-11
Metropolitan Recreation	County	4 mills	Yes	$15,000 or more	3-20 years	6%	District Board	89-12
Metropolitan Water	County	6 mills	Yes	Yes	.....	....	District Board	89-13
Hospital District	County	2 mills	Yes	Yes	3-20 years	6%	County Commissioners	89-14
Metropolitan Sewage Disposal	County	¾ mill 5-yr limit	Yes	Yes	40 years	6%	District Board	89-15

Source: *Metro-Denver: Mile High Government*, Bureau of Governmental Research and Service, University of Colorado, Boulder (1963) (Tables have been revised and updated by Commission staff).

Responsibility of Other Local Units

Often, the formation of special districts is the only way in which urban services can be provided. Officials in some municipalities have discouraged annexation attempts or have refused to annex urban fringe areas. Some municipalities have also refused to provide municipal services outside their boundaries, thereby leaving fringe area residents no alternative but to form one or more special districts. Municipalities have occasionally been forced to form a special district to finance the construction of capital facilities which could not be built otherwise because of the constitutional limitations on bonded debt incurred by statutory municipalities. Other municipalities have become part of special districts providing water, sanitation, fire protection, or parks and recreation because of reluctance or fiscal inability to undertake such service or services solely as a municipal responsibility.

In some instances, counties have contributed to the growth of special districts by refusing or failing to adopt comprehensive county zoning and building codes which could help prevent or curb helter-skelter, leapfrog residential and commercial development. Such development, especially isolated subdivisions not located near any municipality, has led to the formation of special districts to obtain urban services.

Fragmentation of Local Government Pattern

Except for metropolitan districts organized under the 1947 law, which can combine to perform as many as eight different functions, special districts are generally authorized to perform only one or two functions and services. They are not designed nor equipped to provide a full complement of municipal services. Consequently, the creation of one special-purpose district in a densely populated area frequently encourages the creation of still another district to perform still another municipal function. This leads to what is commonly referred to as the "proliferation" of special districts, or the overlapping of one district on top of another. Such proliferation serves to discourage logical municipal annexations and municipal incorporations, which would otherwise tend to prevent the formation of additional single-purpose governmental units. The result is that special districts fragment and fractionalize the local government pattern and contribute to urban fringe area problems.

Commission Recommendations

The Governor's Local Affairs Study Commission has recommended a two-step approach to the solution of the problems related to special district governments:

First, controls should be placed on the formation of special districts to prevent the creation of illogical and unnecessary special districts. In this category are proposed districts: 1) which are located in areas that can be served adequately by adjacent municipalities or special districts either through annexation or by contract; 2) which do not have sufficient tax base or financial ability to operate the district and discharge indebtedness on a reasonable basis; and 3) which would not have adequate service standards and facilities, or whose standards and facilities would be incompatible with those of adjacent municipalities and special districts.

Second, the need for special districts to provide municipal-type services should be elminated by establishing service areas or special taxing districts directly under county government to provide these services in areas which cannot be served by municipal incorporation, annexation to an adjacent municipality, or by contracting with an adjacent municipality. After county service areas or special taxing districts are created, existing districts should be transferred to county control.

First Step

The first step was carried out when the Commission-recommended Special District Control Act was adopted in the 1965 legislative session. This law went into effect on August 1, 1965, and since that time very few special districts have been formed; those that have were required to meet the criteria set forth in the act.

Second Step

As explained in Chapter I, the second step would be easier to accomplish if the Local Government Home Rule Amendment were adopted. Further, special districts providing water, sanitation, and parks and recreation would automatically be eliminated in areas adopting the urban county form of government authorized in the amendment. Even without the constitutional changes contained in the proposed amendment, it is possible to provide for county service districts by law. It would appear necessary, however, to incorporate these service districts as separate entities, with the board of county commissioners serving as the board of directors for each one. The resulting centralized control should not only make operations more efficient but could assist in the orderly transition of these areas to municipal status when possible through annexation or incorporation.

In connection with county service area legislation, consideration should be given to broadening the special district territory exclusion law adopted in 1965. This legislation does not make it possible to sever territory from water and sanitation districts when it is annexed to a municipality. It also contains no provisions for excluding territory from special districts when it is incorporated as a municipality. Broadening the scope of this legislation would also make transition to municipal status easier to accomplish, thus promoting orderly growth and development, but care must be taken not to jeopardize the bondholders nor to leave residents in the remaining portion of the district with inadequate services or an undue financial burden.

Statutory Revision and Recodification

Some sixteen different laws in addition to the Special District Control Act, provide for the formation, powers, and functions of special districts. Most of these are contained in Chapter 89, Colorado Revised Statutes 1963, but others are scattered throughout the other volumes of the statutes. Many of the provisions of these acts are vague and contradictory and have led to much litigation. The Commission recommends that these laws be revised and recodified into a single special district law. This revision could take place in conjunction with the development of county service area legislation, so that existing districts, prior to transfer to county authority, and those districts (rural resource types) which may not be placed under county control would be covered by the revised general special district law. In completing its work, the Commission has also prepared a detailed outline of what is required in the revision and recodification of special district laws.

REFERENCES

[1]Aurora v. Kraus, 99 Colo. 12, 49 P 2d. 79 (1958).
[2]COLORADO REVISED STATUTES 1963, Chapter 89, Article 1.
[3]CRS 1963, Chapt. 89, Art. 3.
[4]CRS 1963, Chapt. 89, Art. 5.
[5]CRS 1963, Chapt. 89, Art. 6.
[6]CRS 1963, Chapt. 89, Art. 11.
[7]CRS 1963, Chapt. 89, Art. 12.
[8]CRS 1963, Chapt. 89, Art. 13.
[9]CRS 1963, Chapt. 89, Art. 14.
[10]CRS 1963, Chapt. 89, Art. 15.
[11]CRS 1963, Chapt. 114, Art. 2.
[12]CRS 1963, 84-1-10, 11, and 12.
[13]CRS 1963, Chapt. 93, Art. 1.
[14]CRS 1963, Chapt. 128, Art. 1.
[15]CRS 1963, 36-16-1 through 7.
[16]CRS 1963, 47-4-1 through 18.
[17]CRS 1963, Chapt. 150, Art. 5.
[18]CRS 1963, 92-28-1 through 26.
[19]SESSION LAWS OF COLORADO 1966, Chapter 36.
[20]CRS 1963, Chapt. 89, Art. 1.
[21]SESSION LAWS OF COLORADO 1965, Chapter 224.
[22]*Ibid.*, Chapter 225.
[23]*Ibid.*, Chapter 223.
[24]*Ibid.*, Chapter 220, 292.
[25]*Ibid.*, Chapter 217.
[26]*Ibid.*, Chapter 216.
[27]John C. Bollens, *Special District Governments in the United States*, (Berkeley and Los Angeles: University of California Press, 1961).
[28]Metro-Denver: *Mile-High Government*, (Boulder: Bureau of Governmental Research and Service, University of Colorado, 1963).
[29]Minutes, Regional Hearing, Alamosa, State-Wide Committee, Govenor's Local Affairs Study Commission, April 24, 1964.

IV

METROPOLITAN PROBLEMS

Metropolitan Area Growth

During the first seventy years of Colorado's statehood, there was little need to be overly concerned with the problems resulting from large concentrations of population in urban areas. This was especially true since the local government needs and problems of the state's only metropolitan area had presumably been solved with the adoption of Article XX of the Colorado Constitution in 1902. This article established Denver as a home rule city and county with boundaries extensive enough to provide for anticipated future growth. Most of the larger cities also took advantage of the constitutional municipal home rule provisions, and the others usually were able to operate satisfactorily under general law. With the exception of Denver, county problems were generally rural in nature, as there were no large urbanized unincorporated areas. Consequently, there was little pressure for major changes in county government.

Since the Second World War, Colorado's population growth rate has been among the highest in the nation, and the state now has four metropolitan areas and several rapidly growing population centers. In absolute numbers, Colorado's metropolitan and urban population is small when compared with population concentrations in other parts of the country. Nevertheless, the problems are similar, even though they have not yet assumed the magnitude found in other places.

Defining Metropolitan Areas

Metropolitan areas may be defined in a number of different ways, depending on the purposes for which the definition is made and criteria used. For example, the Bureau of the Census defines a standard metropolitan statistical area as follows:

> County or group of contiguous counties which contains at least one city of 50,000 inhabitants or more or "twin cities" with a combined population of at least 50,000. In addition to the county or counties containing such a city or cities, contiguous counties are included in an SMSA, [Standard Metropolitan Statistical Area] if, according to certain criteria, they are essentially metropolitan in character and are socially and economically integrated with the central city.

Generally, the criteria used to define metropolitan areas fall in three major categories: 1) those dealing with economic and social relationships; 2) those dealing with physical and geographical characteristics, both natural and man-made; and 3) political subdivisions and public and semi-public organizations, the areas of which have pertinence in the delineation of a region.[1]

A partial listing of economic and social relationships would include communications (newspaper location and circulation, radio and television station coverage, telephone system), commuting area to central city, finance and trade, land use, manufacturing, population location and density, and retail areas. Geographical and physical characteristics include watersheds, topographical features such as rivers and other natural barriers, location of principal highways, and public transportation routes.[2] The boundaries of existing political subdivisions, no matter how artifically or irrationally contrived, have had a strong influence on metropolitan area definitions, and in most places, the final boundaries of a metropolitan area will run along those of some governmental unit.[3]

When a metropolitan area is being defined for the purpose of providing governmental services, additional criteria should be considered. These criteria were enumerated in a recent research report as follows:

1. The governmental jurisdiction responsible for providing any service should be large enough to enable the benefits from that service to be consumed within the jurisdiction.
2. The unit of government should be large enough to permit realization of the economics of scale.
3. The unit of government carrying on a function should have a geographic area of jurisdiction adequate for effective performance.
4. The unit of government carrying on a function should have the legal and administrative ability to perform the services assigned to it.
5. Every unit of government should be responsible for a sufficient number of functions so that it provides a forum for resolution of conflicting interests, with signifi-

cant responsibility for balancing governmental needs and resources.

6. The performance of functions by a unit of government should remain controllable by and accessible to its residents.
7. Functions should be assigned to that level of government which maximizes the conditions and opportunities for active citizen participation and still permits adequate performance.[4]

Colorado Metropolitan Areas

While the Bureau of the Census includes Boulder County within the Denver Standard Metropolitan Statistical Area for the purposes of data collection and compilation, it has been considered as a separate entity in this study and the resultant recommendations. When Boulder County is considered separately, the state has four metropolitan areas, of which the Denver metropolitan area has the largest population and the greatest number of local government units, including all or part of four counties. The other three metropolitan areas involve only a single county, except that the Colorado Springs metropolitan area includes a very small portion of Teller County west of Colorado Springs along U.S. 24. Table 10 shows the population, area, number of governmental units and other selected data for the state's four metropolitan areas.

TABLE 10

POPULATION, AREA, GOVERNMENTAL UNITS, AND OTHER SELECTED DATA, COLORADO METROPOLITAN AREAS, 1965

	Denver	Colo. Springs	Pueblo	Boulder
Est. Population[a]	990,000	175,000[g]	127,500[g]	91,000[g]
Core City Population[a]	527,000	90,000	97,000	50,250
Square Miles[b]	900[f]	1,250	1,275	750[g]
No. of Counties	4	2[e]	1	1
No. of Major Cities[c]	9	0	0	1
No. of Other Municipalities	11	6	2	8
No. of Special Districts[d]	150	25	15	20
No. of School Districts	18	12[h]	3	2
No. of Judicial Districts	4	1	1	1
Major Unincorp. Urban Areas	Yes	Yes	Yes	Yes

[a]January 1, 1965 estimates—State Planning Division

[b]Excludes outlying rural areas within metro area county boundaries, unless otherwise noted

[c]Over 10,000 population or county seat, in addition to core city

[d]Estimated number of districts providing urban services, such as water, sanitation, parks and recreation, and fire protection

[e]Includes a small portion of Teller County immediately west of Colorado Springs (Woodland Park area) along and near U.S. 24

[f]From 700-1,000 square miles depending on definition

[g]Entire county

[h]Operating districts

Metropolitan Area Problems

Multiplicity of Local Governments

The Denver metropolitan area encompasses between 700 and 1,000 square miles, depending on how it is defined, and has a population of more than one million. The people living and working in this area are served by and are subject to a large number and variety of local governmental units. Included among these governmental units are: one city and county, three counties (and possibly parts of two others), twenty-one municipalities, approximately 150 special districts (providing such major municipal services as water, sanitation, recreation, and fire protection), all or part of four judicial districts, and some eighteen school districts. In addition, there are at least six private water companies supplying domestic water in portions of the Denver metropolitan area, and many private contractors provide trash and refuse collection and disposal. There are also several large and highly populated urbanized unincorporated areas.

This multiplicity of governments is the source of several of the major problems facing the Denver metropolitan area. Many areawide service and regulatory needs are beyond the ability of existing units to meet, acting individually, because they transcend local governmental boundaries.

Perhaps one of the most important consequences of the existence of a large number of local governmental units is the resulting fragmentation of attitudes toward and concern over areawide problems. This fragmentation coupled with undue emphasis on local identity has served as a barrier to areawide cooperation and coordination in meeting areawide needs.

Special Districts. Of special concern is the large number of single-purpose special districts. The large number of these districts in the Denver metropolitan area (and in other urban areas as well) is the result of: 1) urban growth in unincorporated areas, which became accelerated after the Second World War; and 2) formation of a number of small municipalities lacking the resources to provide a full range of municipal services. It is relatively easy to form a special district to provide municipal-type services, and often such districts have been incorporated by subdividers, contractors, or the first residents in an area.

The creation of these districts and the resultant outstanding indebtedness have acted as a barrier to municipal incorporation or annexation in some parts of the Denver metropolitan area, as has been true in other parts of the state. Another barrier to annexation has been the type of facilities constructed in some dis-

tricts, which are often incompatible with those in adjacent municipalities.

Because special districts are usually limited to the provision of one or two services, a suburban resident in an unincorporated area may find himself living in several of these districts and still not receive all of the municipal services he requires. It is possible for his property to be located within four separate districts, each supplying a single municipal-type service (water, sanitation, parks, and fire protection). He may also reside in a hospital district. His property may be taxed by each of these districts for operating expenses, debt retirement, or both. These tax levies are in addition to his county and school district property taxes. He may also be subject to water and sanitation service charges.

Many special districts have been formed to provide a means of obtaining services from other governmental entities. More than fifty districts purchase water from the Denver Water Board, four purchase water from Englewood, two from Littleton, one from Golden, and one from Arvada. Of the some fifty special districts presently providing sanitation services, twenty-one have contracts with Denver for sewage treatment, eight contract with metro sewer, eight contract with Englewood, seven contract with Littleton, four have interdistrict contracts, and one contracts with Thornton.

County Government. County government in its present form is not designed to deal adequately with urban problems, nor does it have sufficient powers to do so. Municipal residents and officials have opposed county efforts to provide municipal-type services to unincorporated areas on the grounds that it imposes an extra financial burden upon them. They object to supporting such functions as street maintenance and traffic control within their municipality and also having to contribute financially to their provision in urbanized unincorporated areas.

Intergovernmental Cooperation. There have been several approaches to intergovernmental cooperation in the Denver metropolitan area, but these have been only partially successful. The Inter-County Regional Planning Commission has undertaken and completed a number of regional studies and has also established a number of intergovernmental committees composed of local officials to deal with specific areawide problems. Its efforts have gone a long way in fostering regional cooperation, but the implementation of its recommendations depends on the voluntary cooperation of participating units—often a slow and unrewarding process. Other groups and organizations have also been concerned with areawide problems, such as the Urban Mayors' Association and District # 1 of the Colorado Municipal League.

Only a portion of the governmental units in the area presently participates in the metropolitan sewer district, although the number is steadily increasing. An effort was also made at meeting local government financial needs on an areawide basis through the creation of the Metropolitan Capital Improvements District, but this approach was declared unconstitutional by the Colorado Supreme Court.[5]

Core City-Suburban Relationships

There are a number of conflicts between the core city (Denver) and the surrounding suburban area, one of which in particular has had statewide ramifications.

Annexation. Because Denver is both a city and county, Denver annexations change county boundaries. In addition, Article XX, Section 7 of the Colorado Constitution requires that the City and County of Denver shall consist of only one school district. Consequently, Denver annexations reduce the land area and tax base, not only of the surrounding county affected, but of the school district or districts as well. School district officials have resisted Denver annexations for this reason and because it makes adequate planning for future educational needs difficult, if not impossible, in some instances. Residents of annexed areas often would prefer to remain in the same school districts, and some have opposed annexation for this reason. Denver school officials also have difficulty in planning and often have to provide for newly annexed areas by resorting to long distance bussing or split sessions until adequate facilities can be provided. Annexations may also result in a short-term financial burden to the city, depending on the degree of development and assessed value of the areas annexed. The city has the obligation of extending services to these areas, even if they are unable immediately to bear their fair share of the cost of providing them.

Annexation has been resisted in some areas by the defensive incorporation of municipalities; resulting in the formation of municipalities with inadequate tax base, population, or area to provide necessary municipal services.

The changes in county and school district boundaries resulting from Denver annexations caused resistance to the adoption of modern annexation legislation, considered necessary for orderly urban growth and development by municipal officials and city residents throughout the state. Two modern annexation statutes were subject to gubernatorial veto for this reason.*

**Annexation legislation was vetoed in 1961 and 1963. The Annexation Act adopted in 1965 tries to meet the Denver-suburb problem by limiting annexation which changes school boundaries, except for enclaves with 500 population or less and annexations for which the petition has been signed by 100 percent of the property owners; in all other annexations, no more than five percent of the assessed value of any school district may be annexed in any one year, and a certain ratio must be maintained between number of pupils and assessed value in each annexation.*

Core City Services. The city has continued its annexation policy because of its concern over orderly growth and development in the absence of any areawide authority and because of its facilities and services used by suburban dwellers without reimbursement, such as mountain parks, museums, and arterial streets. As the suburbs have grown and higher income groups have moved out of the city, Denver has assumed an increasingly larger proportion of the area's welfare burden, considered by many to be a metropolitan problem regardless of caseload location.*

Areawide Service and Regulatory Needs

There are several reasons why some governmental services, needs and problems, as well as certain kinds of governmental regulation and control, transcend local government boundaries in metropolitan and highly urbanized areas:

1) **Population Concentration and Location.** The changing patterns of population concentration and location in metropolitan areas tend to ignore existing local government boundaries, especially if such boundaries are fixed. Even municipal boundaries, which may be changed by annexation, generally do not expand rapidly or sufficiently enough to accommodate peripheral population shifts and growth. There is a tendency, found in virtually all metropolitan areas, for population growth continually to take place beyond the fringes of older concentrations and organized governmental units. Usually, this outward shift in population is confined to middle and high income groups, leaving the core city and other communities located near it with a high proportion of low income groups and a resulting disproportionate share of the area's social problems along with a declining or less rapidly growing tax base. Uncontrolled residential development and sprawl coupled with restrictions on the location of industrial and commercial enterprises outside of the core city have led to the creation of "bedroom" communities lacking adequate tax bases to provide needed services.
2) **Areawide Effect or Use.** There are several local government functions and responsibilities which have areawide effect or use or which cannot be carried out adequately by individual local units. Included among these are: air pollution, water pollution, other public health programs, storm drainage, transportation (primary thoroughfares and mass transit), water supply and distribution, large parks and recreational facilities, and libraries and other cultural facilities. Failure to deal with these functions and responsibilities on an areawide basis can result in ineffective control, badly planned and mislocated development, and overlapping and duplication, especially when viewed from the standpoint of overall metropolitan area needs.
3) **Equal Financial Effort and Broad Base of Support.** Areawide financial support for functions and responsibilities which transcend local government unit boundaries is necessary to assure a uniform level of service or performance throughout the area by: a) providing as broad and adequate revenue base as possible; and b) equalizing financial support throughout the area to the greatest extent possible, thereby avoiding the placement of an undue fiscal burden on any local government unit or units.
4) **"Economies of Scale" and Efficiency of Operation.** There are several functions which benefit from "economies of scale" and, therefore, should be provided areawide for economic efficiency, aside from other considerations. These include, but are not limited to, sewage collection, treatment, and disposal; water supply and distribution; refuse disposal; jail and detention facilities; and library facilities and services (larger general and specialized collections and services).
5) **Reduction in Unfair Competitive Advantages.** Tax burden differences between municipalities and unincorporated areas can result in industrial and commercial growth beyond municipal boundaries. The core city may levy a sales tax to cover increased costs resulting from the suburban migration of high and medium income groups. If other local units in the area do not levy a sales tax, or levy one in a lesser amount, commercial enterprise and growth in the core city may be hampered. These are examples of unfair competitive advantages between local government units and portions of a metropolitan area which can lead to the growth and development of some parts of the area to the detriment of others and to the area as a whole. These unfair advantages can be alleviated, at least in part, by providing and financing certain functions and services on an areawide basis.
6) **Adequate Planning for Future Growth and Development.** Each metropolitan area is in competition with every other metropolitan area in attracting industrial and commercial enterprises. The organization and provision of governmental services based on a sound and equitable tax base and comprehensive planning to make a desirable place to live and work play major roles in this competition.

**The welfare experience in the Denver area parallels that in many other metropolitan areas throughout the country, where the welfare burden and low income population have increased disproportionately in the core city.*

General Approaches to Metropolitan Problems

There are several ways to approach solutions to metropolitan area problems. One way is to attack specific problems individually, an approach which usually does not involve basic governmental reorganization and which, depending on constitutional limitations, may be accomplished through legislation. Examples of past and continuing efforts in attacking problems separately as they occur, include legislation concerning special district organization and functions, improvement in annexation laws, increased county powers, and areawide special authorities, such as metropolitan sewer districts.

The solution of metropolitan problems on an expedient, piecemeal basis is generally considered easier to accomplish than an over-all approach involving basic changes in government structure. Such expedient measures deal with immediate, more easily definable problems and generally do not infringe appreciably on authority and structure of existing local governmental units, leaving local loyalties and identification undisturbed. On the other hand, because of the interrelationship of metropolitan area problems, attempted solutions on a piecemeal, individual basis can easily result in additional and more complex problems. Such solutions are more often therapeutic than preventive, and the therapy may be directed at symptoms rather than basic causes. Further, the problems tend to outrun the acceptance or the application of the proposed solutions.

Comprehensive Approach

An alternative is to attempt a comprehensive solution of metropolitan area problems through the reorganization of local government structure and a shift in responsibility for at least some functions and services. This approach is not alien to Colorado. Article XX of the Colorado Constitution, adopted in 1902, and as later amended, created the City and County of Denver and provided for municipal home rule. This government reorganization in the state's only metropolitan area at that time provided a framework which met the area's needs until the population explosion and exodus to the suburbs which followed the Second World War. The city-county consolidation and municipal home rule concepts embodied in Article XX received national acclaim as progressive forward steps in local government, and they have served as models for other jurisdictions.

Metropolitan Plans

Over-all metropolitan reorganization can be approached in several ways. It can be limited to one area or made applicable to any area which meets certain criteria. It can be made mandatory (for example, the mandatory creation of the City and County of Denver in Article XX) for one metropolitan area and permissive in others, mandatory for all, or permissive for all. Whether mandatory or permissive, it can require a complete reorganization upon adoption, or it may be gradual in its application, while providing sufficient flexibility to become more comprehensive in the future as needs require and the area's residents determine. Reorganization may involve the shift of existing functions and services among existing units, the consolidation or elimination of units, or any combination thereof.

The different metropolitan plans considered in the Commission study cover a broad spectrum, ranging from those which would result in varying degrees of substantial local government consolidation and reorganization to others which would effect little, if any, change in local government structure. Some of these were designed for the Denver metropolitan area, others have been proposed or put into effect in other jurisdictions. These plans may be placed in six general categories according to the degree of change involved: complete consolidation, partial consolidation, metropolitan counties, metropolitan service districts, local government councils, and voluntary cooperation.

Complete Consolidation. Under complete consolidation plans, all local governments in a metropolitan area would be merged into one unit which would perform all local government functions, including those traditionally provided by county governments. (Judicial districts and school districts may retain separate identities and administration, but usually their boundaries would be coterminus with the areawide consolidated government.) Two proposals were examined which provide for complete consolidation.

Simpson Plan. The Simpson Plan, originally known as the Colorado Plan, was first proposed in 1957. Under this proposal and its later modifications, the boundaries of the City and County of Denver would be extended to encompass the major portion of the Denver metropolitan area, and the governmental units within these enlarged boundaries would be merged with the city and county. Consolidated cities and counties would also be established for the Colorado Springs and Pueblo metropolitan areas. Other areas would be permitted to adopt the consolidated city-county government form if they have a population of 30,000 or more and contain at least one municipality. The boundaries of the proposed consolidated cities and counties would include urbanized areas around the core cities which depend on the core city for their existence and to which the core city could logically extend services.

The form of government would be the same as that of the present City and County of Denver. Each city and county would constitute a separate judicial district, but school district boundaries (even in the City and County of Denver) would not be changed by the creation of a city and county, nor would they be changed by subsequent city and county annexations. Under this proposal, municipal home rule powers would be clarified, especially with respect to taxation, and home rule would be made available to all municipalities with more than 1,000 population. Home rule cities and city-county units would have unilaterial annexation powers, except that home rule cities having a population of more than 5,000 could not be annexed by a city-county unit.

Nashville - Davidson County.[6] The city of Nashville and Davidson County have been replaced by a single "Metropolitan Government for Nashville and Davidson County." The new combined government has a forty-one member council, thirty-five elected from single-member districts and six elected at large.

A metropolitan court was created to embrace the former city and county courts. City and county fiscal functions were consolidated into an integrated department of metropolitan finance. The metropolitan police department exercises all law enforcement responsibility, the county sheriff and constables retaining custody of the metropolitan workhouse and jail.

Two service districts have been established. One, a general service district is countywide and provides numerous services, including: assessment, health, welfare, hospitals, streets and roads, schools, libraries, parks and recreation, refuse disposal, urban redevelopment, planning, and building regulation. All taxpayers in the county finance these services. In addition, an urban service district was also created to provide additional services for the more urbanized areas. This district may be expanded as needed. This two-district device was designed to establish two taxation levels—one for urban areas and one for rural areas.

Executive authority is vested in a metropolitan county mayor elected at large for a four-year term, but limited to three successive terms in office. He has the authority to appoint department heads and most of the members of boards and commissions. Board and commission appointments are subject to council confirmation, in several instances by a two-thirds majority.

Partial Consolidation. This classification covers plans which would provide for the consolidation of some local government units in a metropolitan area, with the possible elimination of others. The remaining local governments might be changed in structure, functions, and responsibilities. Partial consolidation may also include a federated metropolitan area government, with the remaining local government units represented on the governing body. Two proposals for partial consolidation of local governments in the Denver metropolitan area were presented for study. Another approach, used in two Canadian metropolitan areas also may be included in this category.

Borough Plan. Under this proposal developed by Senator Joe Shoemaker, the urban areas of Adams, Arapahoe, and Jefferson counties would be joined with Denver to form one large city. This city would include the present suburban county seats of Golden, Brighton, and Littleton. Broomfield in Boulder County would be excluded, as would the northern portion (north of Parker) of Douglas County, although originally it was included.

The county of Denver would be abolished, and the new city of Denver would be divided into three boroughs (counties) which would continue to be known as Adams, Arapahoe, and Jefferson. The new three-borough metropolitan city government would be run by a mayor elected at large and a city council (or commission) of fifteen members, six elected at large and three elected from each of the boroughs. The three from each borough would have dual roles, city councilmen and borough or county commsissioners.

The boroughs would be responsible for welfare, health, public hospitals, licensing, public dumps, gravel roads, and tax collection. All other services and functions would be performed by the new metropolitan area government, such as water, sanitation, air pollution control, streets, engineering, police and fire protection, parks and recreation, planning, and property assessment.

There would be only one judicial district, whose boundaries would be coterminus with that of the metropolitan city, but school district boundaries would be unaffected.

Municipalities and special districts within the boundaries of the proposed new city of Denver would be phased out gradually and their assets and liabilities assumed by the city. Branch offices of the new government would be operated in several present municipalities: Brighton, Westminster, Commerce City, Aurora, Littleton, Englewood, Arvada, and Golden.

Sandquist Plan. This proposal was advanced in 1957 as an alternative to the Simpson Plan by Earl Sandquist, then city manager of Aurora. Under this plan, the suburban counties would be eliminated, and the boundaries of the City and County of Denver would be extended to cover the metropolitan area. Municipalities would continue to exist within the city and county and would perform local services and functions. All unincorporated territory would be required to annex to an existing municipality or to incorporate in order to receive local services. All services and functions, except those strictly local in nature (not defined) would be provided by the city and county, which would also be responsible for all traditional county

functions. A distinction would be made between the urban and rural portions of the city and county as to level of services and tax rates.

The proposed city and county would be governed by a metropolitan mayor elected at large and a council of twelve to fifteen members, nine of whom would be elected by district. Municipalities within the city and county could contract with it to provide services.

Metro Toronto and Metro Winnipeg. The metropolitan federation plans in effect in the Toronto and Winnipeg areas are somewhat related to the partial consolidation proposals. In both instances, a federated areawide government has been established and given the responsibility for several areawide functions. Local units in the area (municipalities and townships) are prohibited from performing these functions, and their assets and liabilities related to these functions were transferred to the new metropolitan government.

Metro Toronto was created in 1954, and is composed of Toronto and twleve suburban municipalities. Initially, it had areawide responsibility for water supply, sewage treatment and disposal, public housing, education, arterial highways, mass transit, metropolitan parks, certain welfare services, and areawide planning. Property assessment and police protection have been transferred to the metropolitan council, and it is now proposed that waste disposal, public welfare, and libraries become metro responsibilities.[8] A twenty-five member metropolitan council is the governing body, consisting of twelve Toronto councilmen and officials, the council chairman from each of the twelve suburban municipalities, and a chairman appointed annually by the metropolitan council. Metro Winnipeg is similar in organization and responsibilities.[9]

Metropolitan Counties. One county with a modern municipal-type government structure would be created in the metropolitan area with broad powers to perform areawide urban services and functions. The plans proposed for the Denver metropolitan area provide for the consolidation of all or the urban portions of suburban counties, and Denver would become a city rather than a city and county.

Johnson Plan. Under this proposal developed by former governor, Ed Johnson, a new county of Metro would be formed out of the City and County of Denver and urban portions of Adams, Arapahoe, and Jefferson counties. The new county would be square in shape and encompass 576 square miles. The county's governing authority would be placed in a board of county commissioners to be composed of at least seven members to be elected by districts. County employees would be placed under a merit system, and a county manager would be employed.

Metro County would have broad powers with respect to highways and streets, water, sanitation, drainage, zoning and planning, air and water pollution, recreation, health, welfare, and other functions and services.

Municipalities and special districts in existence at the time the county is created would operate as before and continue to perform all urban services and functions, except those relinquished to Metro County. In other words, the county would perform only those services relinquished to it by the municipalities, and each municipality could decide for itself what functions it wished to perform and which ones it wished to relinquish to the county. Municipalities would also be authorized to contract with the county for the performance of services and functions. This plan would establish a metropolitan county government and local government organization similar to that in effect in Los Angeles County.

Byrne Plan. Judge Edward Byrne proposed the creation of a home rule metropolitan county which would include all of Jefferson County, except the southwest portion; all of Adams and Arapahoe counties, except territory east of a line formed by extending the west boundary of Douglas County north to the Adams County-Weld County line; and the northern portion of Douglas County down to, and including Castle Rock.

The proposed Metro County would be governed by a "strong" mayor and a fifteen-member council. The mayor, five councilmen, and a controller would be elected at large. Ten council members would be elected by district. The mayor would appoint a cabinet, which would include the heads of such departments as public works, parks and recreation, budget, welfare, health and hospitals, jails and detention, and revenue. Under the public works department would be such functions as highways and bridges, traffic engineering, street lighting, and sewer and sanitation. General services and purchasing would be under the budget director, and air pollution would be a function of the department of health and hospitals. The revenue department would be charged with the responsibility of tax assessment and would collect taxes for other governmental units. The proposed county would have the authority to levy income taxes.

Municipalities within the proposed county would continue in existence with very limited functions. Special districts would ultimately be absorbed by the county government.

Miami - Dade County. [10] The Miami - Dade County Metro Board is composed of eight members, selected by district and elected at large for non-staggered four-year terms. The board selects its own chairman and vice chairman and serves as a policy-making and legislative body, with ordinance-making power. It appoints the county manager, county attorney, judges, and the clerk of the metro court. It also serves as the port authority and appoints the port

authority director. The county manager has the power to appoint and remove all administrative officers and employees of the county, subject to charter provisions and civil service rules.

This metropolitan county government has jurisdiction over all countywide functions, except state courts and schools. These include: planning, roads and traffic control, public transportation, sewer and utilities, zoning, fire and police (training, records, and communications), hospitals, health and welfare, ports (sea and air), parks, libraries and museums, building codes, and urban renewal.

The metro board is authorized by charter to take over a function from a municipality if it fails to meet minimum service standards set by the county. The municipalities retain self-determination in local matters not ceded to the county under the charter. Any municipality may request the county to take over a function upon approval of two-thirds of its governing body. The county also has some limited powers in the establishment of new municipalities and changes in boundaries of existing ones.

Metropolitan Multiservice District or Corporation. Although there are a number of variations to this approach, generally, they provide for the creation of an areawide multiservice district or corporation which would have broad powers to perform urban services and functions. Such areawide districts would take over functions performed by local government units. Under some proposals, the areawide district would be required to perform some functions, and others could be added by a vote of the electorate. Under most plans, single-purpose special districts providing services to be assumed by the areawide district would be eliminated. Two multiservice district proposals for the Denver metropolitan area were examined, as were three other plans proposed or in effect elsewhere.

Metropolitan Services District. A metropolitan services district for the Denver metropolitan area was proposed by Dr. Franklyn Newmark. The area to be encompassed would include Denver and the contiguous urban portions of Adams, Arapahoe, and Jefferson counties. Boulder and Douglas counties would be excluded. Territory might be added to the district by voluntary merger of adjacent districts, condemnation of adjacent districts, or by extending service to areas not included in any district.

The areawide services to be provided by the proposed metropolitan services district include: air pollution control, insect control, fire protection, master planning, libraries, parks, sanitation, storm drainage, trash and garbage disposal, traffic engineering, and water. Counties and municipalities would continue to provide public health, police protection, recreation, roads and streets, street lights, welfare, and zoning.

The metropolitan service district would be financed through service charges and property and sales taxes. In this connection, the establishment of uniform assessment practices and the adoption of necessary enabling provisions to make the imposition of a sales tax possible were recommended.

All special districts within the area encompassed by the metropolitan service district would surrender their functions to the areawide district, which would be given the power of condemnation, and no new district could be formed. New areawide services could be provided only upon approval of the district's taxpaying electors. The district would be governed by an elected board of directors consisting of one representative from, and elected by, each municipality. Persons in unincorporated areas would be represented by a director elected from each county. Each director would cast a vote proportional to the number of people he represented and would serve full time. The directors would employ professional, technical, and other personnel.

Metropolitan Municipal Service Corporation. A single metropolitan service corporation composed of Denver and the urban portions of Adams, Arapahoe, and Jefferson counties was recommended by Congressman Roy McVicker. Under this proposal, the metropolitan service corporation would be assigned one or two areawide functions initially, with others to be added as determined by the residents within the boundaries of the corporation's service area. The municipal service corporation would also be authorized to provide services on less than an areawide basis and to control municipal annexations. Existing local government units would be retained, but special districts would be phased out. The functions to be provided by the corporation would be financed by service charges.

Seattle - King County. The municipality of Metropolitan Seattle was established in 1958 under a 1957 statute enabling municipalities to act jointly to meet problems and perform services not provided adequately by existing local governments. It presently provides sewage disposal and water pollution control in an area entirely within King County. The statute also permits local communities to add several functions to the metro district, including planning, transportation, water, parks, and garbage disposal.

The district is governed by a council of sixteen members, consisting of fourteen elected officials from participating municipalities, one King County commissioner, and an additional person (not an elected official) chosen by the other fifteen to act as chairman. The district has no direct taxing powers. It may accept federal grants, borrow from other local governments, and issue revenue bonds for capital improvements. Revenue to finance operations, maintenance, and debt service comes from service charges imposed on a per household basis. The district may also obtain supple-

mental income from participating municipalities and King County. Such income payments are based on the participating unit's proportionate share of the total assessed value of the district within its boundaries.

St. Louis - St. Louis County The "Greater St. Louis City-County District" proposal was voted upon and defeated in 1959. It was designed to serve St. Louis and St. Louis County, which are non overlapping jurisdictions. It provided for direct election of the fifteen-member board of supervisors. The district was to assume areawide responsibility for seven functions: 1) establishment and control of a metropolitan road system; 2) regulation of mass transit facilities; 3) promotion of economic development; 4) preparation of an areawide comprehensive master plan; 5) central control of police training and communication functions; 6) civil defense; and 7) sanitation and land drainage. In assuming the responsibility for sanitation and drainage, the proposed district was to absorb the Metropolitan St. Louis Sewer District, which had been created by a special election in 1954.

Purely local aspects of these functions were to continue to be a responsibility of the existing municipalities and St. Louis County, and new functions could not be added either by vote of local governing bodies or by the electorate.

California Proposal In 1960, the Governor's Commission on Metropolitan Area Problems (California) recommended enabling legislation which would permit the establishment of a multipurpose district by the majority vote of the electorate within a metropolitan area. The district would be governed by a council selected by (and from the membership of) the governing bodies of the participating counties and municipalities. Such districts would be required to provide metropolitan planning and one or more other functions. After establishment of a district, additional functions could be undertaken by a majority vote of the electorate, and separate metro districts in the area would be forbidden. Legislation was considered in 1961, but was not adopted.

Local Government Councils. Local government councils usually are voluntary associations of elected public officials from most or all of the governments of a metropolitan area, formed to seek a better understanding among the governments and officials in the area, to develop a consensus regarding metropolitan needs, and to promote coordinated action in solving problems. Intergovernmental agreements for joint conduct of activities in research and planning and deliberations on issues of areawide concern are fostered by such councils.

Although the councils vary as to method of establishment and membership, they usually have these characteristics: 1) They cut across or embrace several local jurisdictions, and sometimes do not stop at state lines. 2) They are composed of the chief elected officials of the local governments in a metropolitan area and sometimes have representation from the state government. 3) They have no operating functions. Rather, they are forums for discussion, research, and recommendation only. Recommendations are made to the constituent governments, or to state legislatures. 4) They are multipurpose, concerning themselves with many areawide problems. 5) They may employ full-time staffs.

The eight oldest and most active councils now in existence are: Supervisors Inter-County Committee (Detroit area); Metropolitan Regional Council (New York, New Jersey, Connicticut); Association of Bay Area Government's (ABAG) (San Francisco area); Mid-Willamette Valley Intergovernmental Cooperation Council (Salem, Oregon area); Regional Conference of Elected Officials (Philadelphia area); the Puget Sound Governmental Conference (Seattle-Tacoma area); and the Baltimore Metropolitan Area Council. Councils were recently formed in the Ithaca, New York, and Des Moines, Iowa, areas.

Informal Cooperation. Existing intergovernment organziations and ad hoc arrangements would be utilized to foster cooperation on an areawide or more localized basis when it is in the interest of the participants to do so. This approach can be effective when dealing with problems concerning only a portion of a metropolitan area, such as street numbering systems in adjacent municipalities or the sharing of facilities between municipal and county courts. It has limited application to areawide problems other than to provide a forum for discussion.

Choosing The Basic Approach

General Criteria

In selecting the basic approach to be followed in meeting local government needs and problems in the Denver metropolitan area, the following criteria were used:

1) relationships and balance between the core city and suburban areas;
2) need for areawide services and functions;
3) proper balance between consolidation or merger and preservation of local identity;
4) financial resources and equality of tax burden;
5) simplification of local government structure, including reduction in number of existing units and limitation on new units; and
6) future growth and development, not only in the Denver metropolitan area, but throughout the entire region from Fort Collins-Greeley to Pueblo, and in other parts of the state as well.

The general concepts of partial consolidation, a metropolitan multiservice district, a metropolitan or urban county, and various combinations of these general concepts were considered in light of these criteria.*

Partial Consolidation

There are several advantages to partial consolidation: The number of local government units in the Denver metropolitan area would be drastically reduced, local government structure would be substantially simplified, and a mechanism would be created for the areawide provision of services and functions and the areawide application of revenue sources. The application of this concept, however, appears limited to the Denver metropolitan area and, therefore, would not provide a general means of meeting emerging metropolitan needs in other parts of the state. Further, the drastic elimination of local government units and the substantial alteration in the functions of those units make it likely that partial consolidation would be as acceptable as proposals for the complete consolidation of all metropolitan area governmental units.

Metropolitan Multiservice District

The creation of an areawide multiservice district to meet metropolitan needs has considerable merit. The major advantages of this approach are:

1) It would cause the least disruption to the existing local government pattern.
2) The enabling constitutional provision possibly could be relatively simple and short, with detailed implementation left to the General Assembly.
3) Boundaries would not have to be determined precisely either by the constitution or the statutes. Service areas could be quite flexible and easily changed.
4) The multiservice district concept could be applied in other areas.
5) It could provide a gradual means of developing areawide cooperation and identification of interest.

On the other hand, there are a number of major difficulties and problems related to the multipurpose service district approach, such as the following:

1) **Quid Pro Quo Between Core City and Suburbs.** This problem does not appear susceptible of solution if the district initially were to provide only one or two services (such as water and sewer). To create a proper balance between Denver and the suburbs in this respect, it would be necessary to include services and functions on an areawide basis which are not usually provided by metropolitan districts (at least those in operation elsewhere), such as welfare and arterial roads and streets.

2) **Addition of Services and Functions at a Later Date.** The point of view has been expressed that a multiservice district should start with only one or two services, with others to be added from time to time upon vote of the electorate. It does not appear too likely that suburban voters would approve adding a service or a function which would benefit the core city primarily while increasing suburban costs. This is an important consideration in determining the services and functions to be provided initially, because the suburban population is growing at a much more rapid rate than the core city's and, in the aggregate, will be larger than the core city's in the not too distant future.

3) **Ordinance Making and Enforcement Authority.** Special districts in Colorado have not had ordinance-making or enforcement authority (although there is some hint of these powers under certain circumstances in the Metropolitan Districts Act of 1947). This could be a serious problem, depending on the services to be provided by a multipurpose district. If these were lim-

*Complete consolidation was not considered, because of suburban opposition to the expansion of the City and County of Denver to encompass the entire metropolitan area. Creation of local government councils was not considered sufficient to meet the problems of Denver and other metropolitan areas, and the Inter-County Regional Planning Commission's functions in many respects are similar to those of a local government council.

ited to services for which charges are usually made and for which the district would normally be expected to set standards, such as water and sewer, there might be no problem. If other functions were included, such as air and water pollution control, then legislative and enforcement authority become matters of serious concern. The alternative to giving the district such authority would be to leave it with participating units. The latter approach would have the virtue of not complicating and compounding present jurisdictional problems, but would leave several questions unanswered: How could the district require compliance from local units, and should it be able to do so? How effective would such an arrangement be? How could local units be penalized if they did not comply?

4) **Equality of Tax Base and Areawide Taxing or Revenue Authority.** Counties are authorized to assess property and collect property taxes for other jurisdictions as well as the county itself. Even if the district is given the power to levy a property tax, it is unlikely that the assessing function would be transferred. Consequently, even if the district has an areawide levy, it would be applied to property which might be assessed at different levels. The revenue and tax levying relationship between a multipurpose district and other local units also raises several questions. Should the district have taxing authority presently denied to other local units or a significant portion of them (such as income and sales taxes)? If given such authority, should it be exclusive among local units in the area served by the district (allow no other local unit to levy sales tax, for example), or should it be in addition to that of local units? Should the district levy taxes or make charges directly against individuals, or should such assessments be made against participating units?

5) **Planning and Coordination.** It would be difficult for a multiservice district to provide areawide planning and coordination, except for those functions and services to be performed by it, even if it replaced the Inter-County Regional Planning Commission in the Denver metropolitan area (or regional planning commissions in other areas). It is unlikely that existing local units would be willing to give a multiservice district the implementing authority which the Inter-County Regional Planning Commission and other regional planning commissions presently lack.

6) **Annexation.** Unless the district were given specific authority to control annexations, this approach would not provide any solution to this problem in the Denver area,* in and of itself. It is unlikely that Denver would accept a multiservice district having control over annexations, especially if the functions to be provided by the district require Denver facilities, personnel, and equipment to be successful. It could be accompanied, however, by a proposal to amend Article XX. In this connection, three alternatives are possible:

a) elimination of the requirement that territory annexed to Denver shall become part of the Denver school district;

b) provide that Denver annexations must be approved by the governing body of the county affected; or

c) provide that territory annexed to Denver shall not alter either school district or county boundaries.

The first alternative is generally acceptable to suburban school districts, but has been objected to by county officials because suburban counties would still be subject to tax base loss. The second alternative has been strongly opposed by the City and County of Denver, because the effect would be to freeze Denver's boundaries while residential, industrial, and commercial growth continues in the surrounding areas. The third alternative would result in an administrative nightmare in that Denver would be both a city and county and a city, and its county and municipal jurisdiction would no longer be coterminus.

7) **Multiplicity of Local Governments.** The creation of a multiservice district would add another local government layer to an already confusing and complicated pattern. Depending on the functions to be performed by the district, other areawide entities could be expected to multiply on a formal or informal basis to deal with particular problems (e.g., metropolitan stadium), nor would the special district problem be solved, particularly in unincorporated newly urbanized areas which would require services not provided by the areawide district. It would appear that the continued formation of special service districts under such circumstances would be a necessity, unless these areas were forced to annex or incorporate.

Because of these problems, a multiservice district limited to one or two functions or services would not meet the area's needs. If functions, services, and authority were added to the extent necessary, the re-

This problem may have been alleviated, at least in part, by the Municipal Annexation Act of 1965.

sult would no longer be a multiservice district as it is generally known, but an areawide formal governmental unit. Such a formal areawide government should not be superimposed upon the existing pattern of counties, municipalities, and districts, but rather, the existing pattern should be altered to meet areawide needs.

Urban or Metropolitan County

The metropolitan or urban county offers an approach to areawide problems and needs which would result in less drastic local government alteration and merger than would occur under partial consolidation. This approach also has the advantage of using a traditional formal structure to serve as a basis for adaptation to urban conditions and needs, which is not true of a metropolitan multiservice district. Such adaptation is necessary, because the traditional form of county government is not able to cope with urban problems. In addition, a reduction in the number of counties with urban functions in the Denver metropolitan area, is desirable to develop an adequate areawide governmental framework. Metropolitan problems would be further complicated if Denver and the tri-counties all had home rule authority with the structure and powers to perform urban functions.

The following table shows present traditional county services and functions and how they might serve as a basis for areawide urban services and functions:

Present County Functions	Possible Urban Adaptation
1) Welfare	Consolidate services and equalize burden.
2) Property Assessment and Property Tax Collection	Basis for areawide property assessment and tax, could continue to collect for other local units; basis for other possible taxes.
3) County Roads and Bridges	All roads, streets, and bridges (or primary thoroughfares); construction, maintenance, traffic engineering, possible sweeping, lighting, and snow removal.
4) County Airports	Air terminal facilities and existing county airports, possible future feeder airports.
5) Erection of Public Buildings	County buildings, including sub-offices, convention and cultural facilities.
6) Law Enforcement (Sheriff)	Enforcement of county ordinances, law enforcement in unincorporated areas, basis for later provision of areawide police protection services, if desirable.
7) Jail and Detention Facilities	Jail and detention facilities could be consolidated on areawide basis, municipalities could use areawide facilities.
8) Public Health (Also hospitals in counties with countywide hospital districts)	Areawide provision of all public health services, including air and water pollution, inspections, etc., could also include public hospitals.
9) Planning and zoning (unincorporated areas)	Continue in unincorporated areas, eventual countywide planning, if desired, municipal zoning could remain under local control in accord with overall plan.
10) Building Code (unincorporated areas)	Continue in unincorporated areas, possible minimum standards which could be augmented by municipalities.
11) Libraries	Basis for integration of areawide library services and facilities.

In addition, an urban or metropolitan county provides the structure for the areawide performance of other functions which traditionally have been provided locally by municipalities and special service districts. Among these are water supply and distribution, sanitation collection, treatment, and disposal; parks and recreation, storm drainage, and trash and refuse disposal.

Municipalities could be barred from performing services for which an urban county would have areawide responsibility, and special districts providing these services could be eliminated with the urban county acquiring the districts' assets and liabilities. Municipalities would continue to exist within urban counties, and new ones could still be formed. Under this arrangement, municipalities would still have the responsibility for local functions and services, such as business licensing and regulation, franchises, police and fire protection, trash collection, local parks, playgrounds, and recreation programs.

Application of the urban county concept would result in a basic two-level government structure in metropolitan areas, with each level having specific responsibilities to avoid overlapping and costly duplication.

New Concept. The urban county approach as outlined above represents a new local government concept in Colorado. It combines several features of all three general metropolitan reorganization concepts considered. Some governmental units (special districts) would be consolidated with the county, and the functions of others (municipalties) would be altered. These changes changes are similar to provisions of the proposals for partial consolidation. The provision of certain municipal-type functions by one unit on an areawide basis incorporates the major feature of the multiservice district proposals. The basic governmental framework is drawn from the several metropolitan and urban county plans.

Commission Recommendations

Reasons for Adoption

The Governor's Local Affairs Study Commission adopted the urban county concept because a more limited approach will not solves the problems of a multiplicity of governments, fragmentation of tax base and interest, and core city annexations in the Denver area, nor will it provide a broad range of areawide services and functions. Neither will a more limited approach meet needs resulting from anticipated future regional growth in the area from Fort Collins and Greeley on the north to Pueblo on the south, and possible urban growth elsewhere in the state. An approach involving even greater consolidation would not be easily applicable elsewhere and would go too far in destroying local identity.

Specifically, the urban county appears to be the best approach of those considered to meet the criteria used in selecting the basic approach.

1) **Relationships and Balance Between Core City and Suburbs.** While core city services and facilities would serve as a basis for several areawide functions needed by the suburbs, the core city would also receive financial relief for some functions and facilities which now have areawide application or use but which are presently supported by the core city. In addition, the present annexation barrier and related problems in the Denver area would be removed.

2) **Need for Areawide Services and Functions.** The urban county provides an adequate organizational framework to provide and finance areawide services and functions.

3) **Balance Between Consolidation and Local Identity.** While counties would be merged and special districts generally consolidated with the county, municipalities would remain and would still perform necessary functions and exercise police powers, although not as extensively as at present.

4) **Financial Resources and Equality of Tax Burden.** The urban county provides an entity for the assessment of property and the levying of taxes and service charges throughout the area.

5) **Simplification of Local Government Structure.** The number of governmental units would be reduced and special districts would be virtually eliminated. Areawide functions would be centered in one government unit, eliminating the need for independent and quasi-independent boards and commissions for specific areawide functions.

6) **Future Growth and Development.** Urban needs could be met on an areawide basis throughout the populous eastern slope region by a series of approximately five urban counties, ultimately stretching from Fort Collins on the north to Pueblo on the south. The urban county concept could also be applied in other areas of the state as needed. It would also be easier for a smaller number of units to cooperate on the solutions to problems that transcend even urban county boundaries, such as water pollution, which affects a whole drainage basin.

Application of Urban County Concept

Permissive Adoption. Much study and consideration was given to the application of the urban county concept both in the Denver metropolitan area and in other parts of the state. The decision was made that the urban county form of government should be made available on a permissive basis throughout the state to those areas which meet certain minimum criteria. This would leave the decision to adopt this new local government concept to the residents of each area affected, rather than having it imposed by constitutional mandate.

Other Local Government Units. Existing school districts and judicial district boundaries would not be affected or altered by the formation of an urban county. These governmental subdivisions could still be altered or consolidated under applicable statutory and constitutional provisions in the same way as if an urban county had not been formed. Special districts providing services other than those to be assumed by an urban county would continue to exist and new ones could be formed subject to the appropriate statutory provisions.

Form of Government and Officials. The urban county form of government should be similar to that of large municipalities because of the similarity in services and functions. The urban county board of supervisors or council should be the county legislative body and should be the same size as or slightly larger than the typical city council. An urban county could have an elected or appointed chief executive. Each urban county should also determine for itself the number, duties, and compensation of other officials, boards, and commisions as well as the election or appointment of such officials, boards, and commissions.

Urban County Services. An urban county should perform all traditional county functions such as property assessment, public welfare, public health, tax collection, etc. In addition, an urban county should per-

form municipal-type services which have areawide application, such as water, sanitation, and parks and recreation. Initially, these services should be limited to five or six of the most important, but it should also be possible to add services if the residents of an urban county so desire.

Local Government Home Rule Amendment

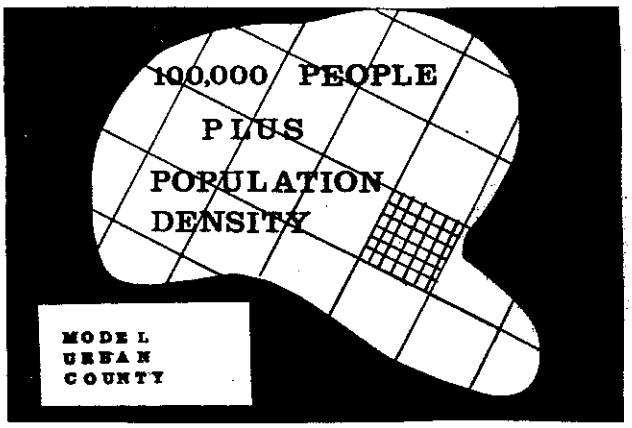
Three sections of the Local Government Home Rule Amendment provide for the creation, organization, and authority of urban counties. These sections would become Sections 5, 6, and 7 of Article XX. The urban county represents an adaptation of a traditional form of local government—the county—to meet the needs for areawide services in heavily populated areas, while at the same time retaining local (municipal) control over other services and local identity.

In other words, the urban county approach would provide two levels of local government in metropolitan areas, the county and municipalities, each level with clearly defined powers and responsibilities. Most special districts would be eliminated, as explained below, and school districts and judicial districts would not be affected.

Formation Standards. It should be clearly understood that adoption of the urban county form of government is permissive and not mandatory. It must be initiated by residents of an area in much the same way that a municipal home rule petition is initiated. The following standards must be met, however, in the formation of an urban county:

1) The area to be included within an urban county must have a population of at least 100,000 and an aggregate population density of at least 100 persons per square mile. (See Figure O.)
2) No municipality may be divided by an urban county's boundaries. A municipality must be entirely within or outside of an urban county.

FIGURE O
URBAN COUNTY FORMATION STANDARDS



3) Urban counties may be formed out of all or parts of one or more counties, provided that all the area included must be adjoining compact territory, containing no enclaves.
4) An urban county may include all or part of one or more judicial districts, and the creation of any urban county would not affect or alter the boundaries of existing school or judicial districts.
5) Any urban county formed in the Denver metropolitan area would have to include the City and County of Denver and territory containing at least 100,000 people from each of the three surrounding counties.

Each county or portion thereof, included within an urban county, would be represented on the urban county charter convention in relation to its proportion of the urban county population. Failure to approve a charter within two years of an urban county's formation would cause it to be dissolved.

Legislative Districts. An urban county would be subject to the same legislative subdistricting provisions as all other counties, but if there were no such constitutional provisions, an urban county would still have to be divided into representative and senatorial districts by the General Assembly.

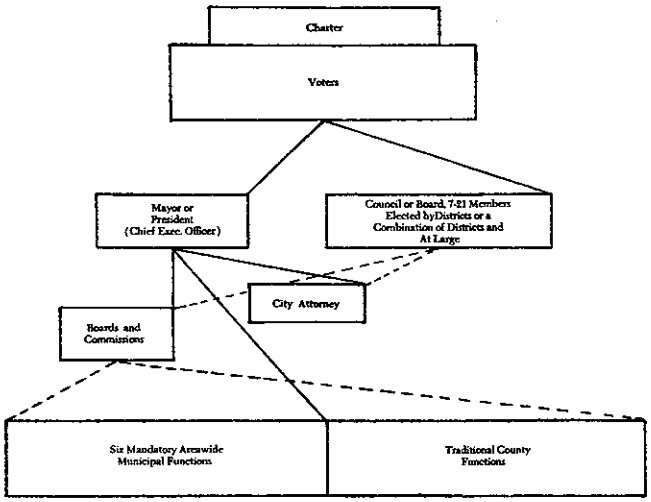
Form of Government. Urban counties would be required to have a municipal-type government, with a council or board of supervisors of at least seven and no more than twenty-one members as provided by charter. Urban counties would also be required to have an appointed or an elected chief executive. All other officials, boards, etc., and their salaries would be provided by charter and ordinance. An example of urban county government organization is shown in Figure P.

Urban County Functions. In addition to all traditional county functions, an urban county would be vested with the sole and exclusive authority for performing the following municipal-type functions throughout the county in both incorporated and unincorporated areas:

1) domestic water supply and distribution;
2) sanitary and storm sewer collection, treatment, and disposal;
3) airports and air transport facilities;
4) trash and refuse disposal (but not collection);
5) library facilities; and
6) park and recreation facilities and services (except that municipalities could own, maintain, and operate local parks and recreation programs).

In addition, an urban county would have the sole and exclusive responsibility to provide such additional functions and services throughout the county as may

FIGURE P
POSSIBLE URBAN COUNTY GOVERNMENT ORGANIZATION UNDER PROPOSED LOCAL GOVERNMENT HOME RULE AMENDMENT



be authorized for all urban counties by the General Assembly and expressly provided in the urban county charter. In other words, before an urban county could perform an additional areawide function, it would have to be authorized by the General Assembly and approved, either as an amendment to an urban county charter, or by inclusion in the charter initially.

This provision provides flexibility to meet changing conditions and needs without further constitutional amendment, while at the same time providing safeguards by assuring that decisions on additional areawide services are made by the residents of an urban county.

All other municipal functions would continue to be performed by the cities and towns within an urban county.

An urban county would assume all of the assets, rights, and liabilities connected with the services it is required to perform. The procedures for transfer, adjustment, and orderly transition between an urban county and the municipalities within its boundaries would be provided in the urban county charter.

Home Rule Powers. It is important to note the major difference in home rule powers given urban counties and municipalities. Urban county home rule powers of government and taxation would be confined to those functions of a municipal nature which it is required to perform throughout the county. These powers would also be subject to express denial or limitation by the General Assembly. As indicated previously, home rule municipalities would have all powers of government and taxation not expressly limited or denied by the General Assembly. Limitation was placed on urban county powers to preserve the existence of municipalities within urban counties, while at the same time providing for the home rule authority of each.

In a further attempt to avoid jurisdictional conflicts between an urban county and the municipalities within its boundaries, the amendment expressly provides that a home rule municipality within an urban county shall not perform any function or service for which the urban county has the sole and exclusive authority (except local parks and recreation programs).

Implementing Legislation

The outline below lists the basic legislation necessary to implement the Local Government Home Rule Amendment. This outline covers other portions of the amendment as well as the provisions relating to urban counties. Considerable preliminary work on this legislation has been completed by the Commission.

Urban Counties.

1) Procedures for urban county formation, charter delegate election, charter convention, charter election, subsequent elections, and conventions, etc.
2) Provision for the transfer and transition of territory not to be included within urban county boundaries
3) Provision for the transfer or adjustment of assets, rights, and liabilities between urban counties and other counties to or from which territory has been transferred
4) Provision for financial adjustment and service arrangements between urban counties and special districts divided by urban county boundaries
5) Urban county annexations; standards, limitations, procedures, relationship to municipal annexation statutes
6) Urban county extraterritorial powers
7) Restrictions on urban county powers
8) Modifications in traditional county functions as they might apply in urban counties, such as planning, zoning, building codes, jail facilities, and roads and bridges
9) Authorization for additional urban county areawide services and functions, if any
10) Definition of municipal (local) park and recreation programs
11) Charter amendment and revision procedures

Home Rule Municipalities.

1) Procedures for becoming a home rule municipality, charter delegate election, charter conventions, charter election, subsequent elections, and conventions, etc.

2) Restrictions on the powers of home rule municipalities
3) Municipal extraterritorial authority
4) Charter amendment and revision procedures

Non Urban Home Rules Counties.

1) Procedures for becoming a non urban home rule county, charter delegate election, charter convention, charter election, subsequent elections, and conventions, etc.

Elected Officials in Statutory Municipalities.

1) Provision for length of terms
2) Provision for overlapping terms

Municipal Debt Limits.

1) Debt limit as proportion of assessed valuation
2) Annual levy limit, if any, to retire indebtedness
3) Time limits, if any, on terms of indebtedness.

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[3]*Ibid.*

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V

INTERGOVERNMENTAL RELATIONS

Introduction

The term "intergovernmental relations" has many meanings and encompasses a broad range of governmental activities. It cover relationships between different levels of government, such as federal-state, state-local, and federal-local. It also applies to relationships among comparable governmental units, such as interstate compacts or cooperative or contractual arrangements in which several local governmental units may participate. Grants-in-aid and other financial assistance programs constitute a very important aspect of intergovernmental relations. These have been the subject of much study since World War II, because of the fiscal and administrative impact of federal aid programs on state and local governments and of state aid programs on counties, municipalities, and school districts.

This chapter and the next are concerned primarily with intergovernmental fiscal relations, including the financial impact of federal aid programs in Colorado and the fiscal and administrative implications of state-local relationships in three important functions: public welfare, judicial administration, and highway and street construction and maintenance. Two other important facets of intergovernmental relations are also covered in this chapter: the state's over-all role and responsibilities (non fiscal) to local governments and contractual and cooperative arrangements among local governments.

Federal Grants-In-Aid in Colorado

Historical Development of Federal Grants

During the first 125 years of the nation's existence, almost all federal grants to the states were for educational purposes, most of them in the form of land grants. The reservation of land for educational purposes was a common practice in the thirteen colonies, and the Northwest Ordinance of 1785 set aside one section of every township for the "maintenance of public schools within the said townships."

Beginning with Indiana's statehood in 1819, large areas of the public domain were reserved by the United States Congress for public education. In the last territories to achieve statehood, four of every thirty-six sections of public land in each township were set aside for elementary and secondary education. Nor was higher education ignored. In 1787, the continental congress gave each state two townships for university purposes. The Morrill Act of 1862 established land grants for colleges of agriculture and the mechanic arts, with the proviso that these colleges must also offer instruction in military science.

Federal grants to states prior to 1900 also included: 1) distribution to the states in 1836 of the federal treasury surplus; 2) aid for state and territorial homes for disabled soldiers and sailors, introduced in 1888; 3) distribution of funds and earmarking of land grants to states for specific canal and road projects, such as the Cumberland Road, which helped to open Ohio, Indiana, and Illinois; 4) land grants to railroads which aided states, territories, and municipalities indirectly by requiring the connection of certain cities and regions; 5) annual grants of books and apparatus for the education of the blind, beginning in 1879; and 6) annual recurring money grants to states starting in 1887 for agricultural experiment stations.

Start of the Modern Federal Grant Era. Generally, these early forms of federal assistance did not impose conditions or standards for performance. With the passage of the Weeks Act in 1911 providing grants for forest fire prevention, and the Federal Aid Road Act of 1916 for the construction of rural post roads, uncontrolled federal assistance was discontinued. Federal grants since that time have generally required conformance to the standards established by the supervisory agency and submission to federal inspections and program controls. In addition, state financial participation has usually been required.

Other federal aid programs inaugurated or expanded prior to the depression included: maternal and child health aid, vocational rehabilitation, vocational education, venereal disease control, marine schools aid, and agricultural extension work.

Depression Impact. The depression had a tremendous impact on federal grants and assistance. From $2.8 million in 1900, grants increased to more than $2 billion in 1935, when emergency federal aid for highways,

relief, and public works programs reached its peak. Though the amount declined in the following years, it still totaled $758 million in 1945.

More significantly, it was during the depression that many of the programs were conceived which have become a permanent part of federal grants-in-aid. Included among these are: the several categorical public welfare programs, public health, maternal and child health, assistance for public works, school lunch program, and grants for state employment service operation. These programs generally were inaugurated in the latter part of the 1930's and were the outgrowth of the emergency programs designed to assist states and local governments in meeting relief and unemployment needs from 1933 to 1935.

Postwar Period. Immediate postwar developments in federal grants were largely an extension of prewar trends, although many new programs were inaugurated and others extended. Highway, airport, hospital, and public health center construction were all the subject of legislation and increased appropriations immediately after World War II. Public health, mental health, and public welfare grants were also expanded, and new programs were incorporated. All of these programs and the ones which followed during the next few years set the basis for the wide variety of present federal grants-in-aid and assistance programs.

Legal Authority for Federal Grants-in-Aid

Constitutional Basis. The legal justification for federal grants-in-aid rests on Article 1, Section 8 (1) of the United States Constitution, which states:

> (1) To levy and collect taxes, duties, imposts and excises; to pay the debts and provide for the common defense and *general welfare of the United States;* but all duties, imposts and excises shall be uniform throughout the United States. (emphasis supplied)

Under the "general welfare" clause, the national government has entered a number of fields, despite the fact that most programs receiving grants-in-aid are not specifically enumerated among national government powers.

Challenges and Disagreement The legal basis for federal grants-in-aid has been subject to a number of challenges throughout the years. As early as 1854, President Franklin Pierce vetoed a grant of ten million acres of public land to the states for the care and treatment of the indigent insane. His veto message to the Senate specified four reasons for his disapproval of the measure:

1) If the national government accepted responsibility for the indigent insane, the way would be clear for national assumption of responsibility for every other citizen suffering from some infirmity, an area long within the traditional and legal responsibility of local units of government.
2) The United States Constitution permits the federal government to exercise only enumerated powers, reserving to the states all other governmental powers not expressly denied to them (Amendment X, United States Constitution). Care of the indigent insane is not such an enumerated power.
3) The "general welfare" clause of the United States Constitution is not a substantive grant of authority, but is a limitation on the power to tax. If it were otherwise, the careful delineation of federal powers would be meaningless.
4) There is no substantial difference between a direct appropriation of money and a grant of land for specific purposes, such as the care of the indigent insane. Congress lacks authority to appropriate monies for the support of general state government.

In recent years, opponents of federal grants-in-aid have contended that not only does Congress lack authority to provide for the many programs undertaken, but that the basic federalism established by the United States Constitution is threatened by national interference with state government though grants-in-aid.

The major arguments against the legality of federal grants-in-aid were submitted in one of the landmark supreme court cases on this subject. In 1936, the United States Supreme Court upheld the constitutionality of unemployment compensation grants-in-aid provided for by the Social Security Act of 1935.[1]

In this case, the supreme court also disposed of arguments concerning the right of congress to tax a privilege created by state law, the uniformity of the employment tax, and the legitimacy of such a tax. Turning to national-state relations and the application of the general welfare clause, the supreme court, in summary, stated:

The employment tax does not constitute coercion of states, nor does it destroy or impair the autonomy of states in violation of the Tenth Amendment or in contravention of the restrictions implicit in the federal form of national-state government. In a crisis so extreme (unemployment), the use of national funds to relieve the needs of the unemployed and their dependents has as its purpose the promotion of the general welfare. Failure of the states to enact unemployment legislation through fear of economic disadvantage laid a disproportionate burden at the doorstep of the national government.

Intervention of the national government, was conditioned on the need to protect the resources of the national government on one hand, and on the other, to place all the states on an equal footing from an eco-

nomic standpoint. The federal legislation constitutes an attempt to provide a framework within which all public agencies responsible for relief might work.

The administrative conditions established by the unemployment compensation provisions are so far-reaching as to require the surrender of some state powers which are a part of their traditional quasi-sovereign existence. Equity would demand that the unemployed seeking relief under state law should receive similar kinds of treatment in all states. Each state may provide for unemployment compensation plans which differ considerably from those of other states. A state adopting an unemployment compensation plan is seeking and obtaining a credit of millions of dollars in favor of her citizens from the national treasury. There is no prohibition under our federal system against a state assenting to conditions which will assure a fair and just requital for benefits received.

Several similar test cases were filed, and the United States Supreme Court handed down decisions similar to that rendered in the Steward Machine Case and for the same reasons.[2] Since that time there has been no serious challenge of the legal validity of federal grants and assistance programs.

Federal Aid and Colorado Law

Colorado statutes governing state and local government acceptance of federal aid vary considerably in content and detail. Many of these statutes are extremely flexible, so that revision is not required by the frequent amendment of federal law and the continuous revision of regulations by federal supervisory agencies. Many of these statutes contain very general provisions, for example, the State Board of Health shall exercise the following powers:

> (8) To accept and, through the division of administration, to use, disburse and administer all federal aid or other property, services, and moneys allotted to the state department of public health for state and local public works or public health functions, . . .[3]

Such general provisions make it possible in many instances for the state to accept and participate in new or expanded federal programs without requiring additional statutory authorization.

The laws relating to federal aid programs administered under state control are, of necessity, more detailed than those in which the state merely acts as a disbursing agent or which provide direct authorization to local units to participate in federal grants. In this category are those applying to various welfare programs and those requiring the state to establish specific boards or other administrative mechanisms in order to be eligible for federal grants, such as the creation of the state advisory hospital council in connection with the distribution of Hill-Burton funds for hospital and health center construction.

Statutory provisions for state participation in federal aid programs cover the following broad fields: agriculture, welfare (including hospital construction and air and water pollution), mental health, highways, mental retardation, academic education, vocational education, rehabilitation, planning, and airports.

In addition, there are a number of statutes authorizing local governments to participate directly in federal grants. Counties are authorized to accept grants for airports, planning, and housing for agricultural workers. Municipalities are authorized to participate in the following federal aid programs: urban renewal, water pollution control, sewer system construction, planning, public housing, and airports. In some instances the statutes provide for joint city-county participation, for example, planning and airport construction. There are also a number of statutes authorizing special districts to participate in federal aid programs. Included are metropolitan districts, water and sanitation districts, fire protection districts, recreation districts, hospital districts, water districts, metropolitan sewage disposal districts, conservancy districts, soil conservation districts, irrigation districts, and the Moffat Tunnel District.

Federal Aid Received in Colorado

Total Federal Aid. Federal aid received by Colorado for all purposes (not including grants to local governments) increased from $38.9 million in fiscal year 1950 to $139.2 million in fiscal year 1965, an increase of 258 percent. In 1965, federal aid accounted for 31.6 percent of all state revenues. For the eleven year period, 1955 through 1965, the proportion of total state revenue received from federal funds varied from a low of 22.6 percent in 1956 to a high of 33.5 percent in 1958 and averaged almost thirty percent throughout the period.

The greatest increase in federal aid occurred between 1956 and 1958; Colorado received $49.6 million in fiscal year 1956, $63 million in 1957, and $91.7 million in 1958. Since that time, there has been a gradual increase, except in 1960, when Colorado received $1.1 million less than in 1959. Table 11 shows the amount of federal aid received by Colorado and total state revenues for the years 1950 and 1955 through 1965. These amounts are shown both in actual dollars and in constant dollars (based on the Consumer Price Index).

Four major functions (involving a large number of smaller programs) account for eighty-five percent of the federal funds received by the state. These major functions, the amount of federal funds received for each in fiscal year 1965, and the proportion each is of the total federal funds received are shown below:

Function or Purpose	Amount Received	% of Total
Highways	$59.8 million	43.0%
Old Age Assistance	23.5 "	16.9
All Other Welfare	20.3 "	14.6
Employment Security (including unemployment compensation)	18.5 "	13.3

Other federal programs from which Colorado received more than a million dollars in 1965 include: mineral leasing, $3.4 million; Hill-Burton (hospital and health center construction), $1.2 million; school lunch program, $1.9 million; National Defense Education programs, $1.7 million; vocational rehabilitation, $1.7 million; Manpower Training and Development programs, $1.0 million; and programs under the Vocational Education Act of 1963, $1.1 million.*

Per Capita Federal Aid. The relationship between per capita federal aid received in Colorado and per capita total state revenues is shown in Figure Q. Per capita federal aid received by the state increased 128.1 percent from 1955 to 1965 (from $30.98 to $70.67). During the same period, per capita total state revenue increased only 79.5 percent, from $124.24 to $222.97. Per capita federal aid was less than $40 through 1957, but increased to almost $55 in 1958 and remained between $55 and $57 through 1962. In 1963, per capita federal aid exceeded $60 for the first time ($61.79) and increased to more than $70 in 1965.

TABLE 11

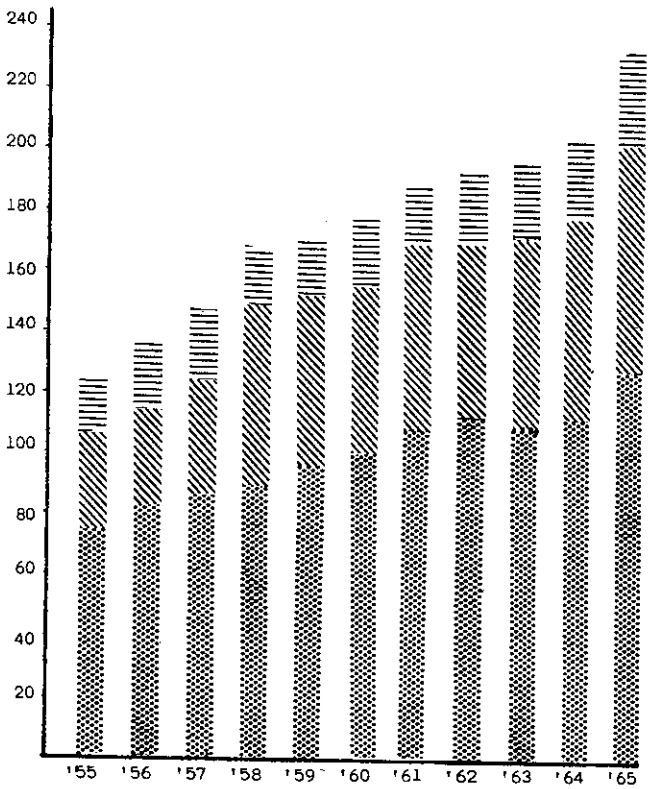
FEDERAL GRANTS-IN-AID AND TOTAL STATE REVENUE IN ACTUAL AND CONSTANT DOLLARS FEDERAL AID AS A PROPORTION OF TOTAL STATE REVENUE, PERCENT OF ANNUAL CHANGE IN FEDERAL AID
Colorado, 1950 and 1955-65

Year	Federal Aid In Millions of $	Total State Revenue Millions of $	% Federal Aid of Total Revenues	Consumer Price Index (1957-59 = 100)	Federal Aid In Constant $ (Millions)	Total State Revenue Constant $ (Millions)	Annual % of Change In Fed. Aid (Constant $)
1965	$139.2	$439.1	31.5%	109.0	$127.7	$402.8	+8.7
1964	127.0	402.4	31.6	108.1	117.5	372.2	+3.8
1963	120.8	378.6	31.9	106.7	113.2	354.8	+12.2
1962	106.3	364.7	29.1	105.4	100.9	346.0	+1.2
1961	103.9	344.3	30.2	104.2	99.7	330.4	+6.3
1960	96.7	309.8	31.2	103.1	93.8	300.5	−2.7
1959	97.8	302.3	32.4	101.5	96.4	297.8	+5.8
1958	91.7	274.1	33.5	100.7	91.1	272.2	+41.7
1957	63.0	236.2	26.7	98.0	64.3	241.0	+22.7
1956	49.6	219.6	22.6	94.7	52.4	231.9	+2.3
1955	47.8	191.3	25.0	93.3	51.2	205.0	.....
1950	38.9	137.4	28.3	83.8	46.4	164.0	.....

**A list of all federal aid programs in which the state and its local units are participating or may participate is presented in Appendix B. These programs are classified and identified in three ways: 1) according to major purpose; 2) according to degree of state control or coordination; and 3) type of financial assistance provided. Appendix C shows the annual amount of federal aid received in Colorado by federal programs for fiscal year 1955 through fiscal year 1965.*

FIGURE Q

ANNUAL PER CAPITA STATE REVENUE BY SOURCE, COLORADO, 1955-1965



LEGEND:

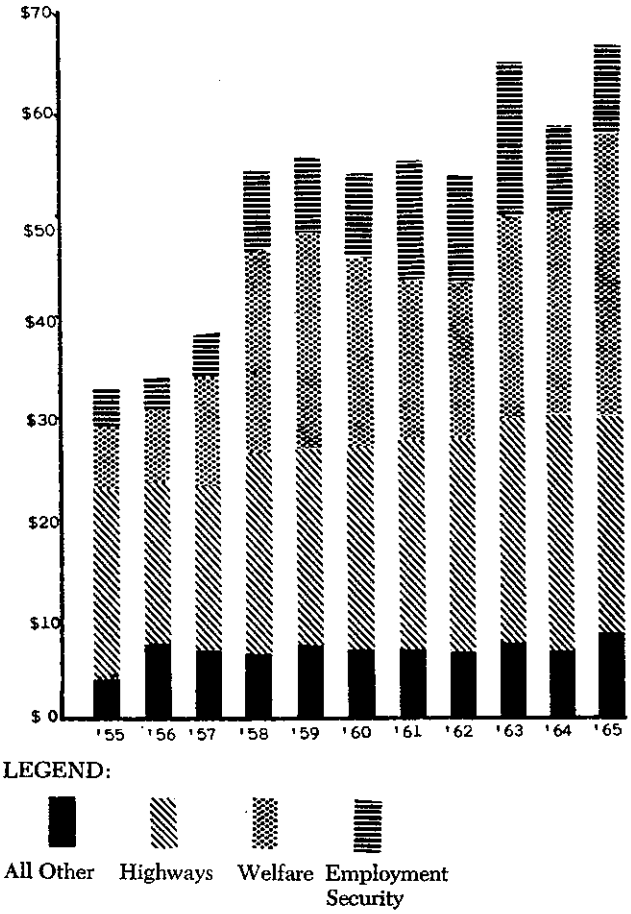
State Taxes (Property, Sales and Use, Motor Fuel and Excise, Income, Inheritance, Franchises, and Others)

Federal Aid

All Other (use of Money and Property, Service Charges and Sales, Licenses and Permits)

To show federal aid receipts more meaningfully, Figure R presents per capita federal grant-in-aid revenues in constant dollars. This figure makes more clear the areas in which actual changes have occurred, especially highways and employment security. The almost unchanging band showing per capita receipts for welfare purposes is particularly interesting. There was a gradual increase in payments for all welfare programs through 1964, but from 1964 to 1965 there was a decrease in the amount received for Aid to Dependent Children and Old Age Assistance. More of the elderly are now qualified to receive greater payments from Social Security and other pension programs which either disqualify them for Old Age Assistance or reduce their Old Age Assistance payments. The absolute, as well as constant, dollar increase in Aid to Dependent Children and employment security receipts since 1963 indicates a decrease in need for such benefit payments. This phenomenon reflects not only the improved employment situation in Colorado, but also an increase in some other federal aid programs, e.g., Manpower Training and Development and Economic Opportunity programs.

FIGURE R
PER CAPITA FEDERAL GRANTS-IN-AID FOR SELECTED FUNCTIONS IN CONSTANT 1957-1958 DOLLARS, COLORADO, 1955-1965



Over-All State Responsibilities to Local Government

State Concern

In recent years, Colorado and other states experiencing rapid growth and urbanization have focused ever-increasing attention on local government, its needs and problems. In some of these states, Colorado included, this attention has been concentrated primarily on legislation and constitutional changes, revenue needs affected by state policy, and on problems of statewide concern (such as water pollution and assessment levels and practices) which also involve local governments.

In other states, however, attention has also been directed to the provision of technical assistance and consultation for local units in meeting particular problems and in improving their government organization and services. As a consequence, a number of states have created state-level local government agencies or have given new responsibilities to an existing agency. These agencies have a variety of titles and perform a variety of functions, foremost among which is usually the provision of professional help on request to local government units. Table 12 shows selected examples of local government agencies and their functions in other states.

Present State-Local Relationships in Colorado

At present, several Colorado agencies and institutions are either directly involved to some degree with local governments or else have programs which affect local units. A few state agencies perform or are responsible for the same functions as local units and may exercise some degree of supervision over local units as far as these functions are concerned. In this group are the state departments of health, education, welfare and highways. Examples of the relationship between local units and state agencies, other than these four, are shown in Table 13.

TABLE 12
LOCAL GOVERNMENT AGENCIES AND FUNCTIONS IN SELECTED STATES

States and Agency	Functions
MINNESOTA	
Minnesota Municipal Commission	Holds hearings and makes determinations on petitions for municipal incorporations, annexations, and consolidations; governed by statutory guides in making decisions, including investigation of the following: population trends, assessed values, land development, and need for governmental services
NEW JERSEY	
Division of Local Government, Department of the Treasury	Examination of local government budgets and audits, with compliance enforcement powers; control over local government debt, including refunding and approval of debt beyond legal limits; publication of reports, guides, and statistical data for local governments; makes local government studies, and provides consultation and assistance to local units on request
NEW YORK	
Office for Local Government	Assists governor in coordinating the activities and services of all state departments and agencies having relationships with local units; provides advice and assistance to local units upon request; makes both specific and general studies of all aspects of local affairs; serves as a clearing house for local government information; encourages and assists cooperative local efforts directed toward the solution of common problems, particularly in metropolitan and rapidly growing areas (The State Board of Equalization and Assessment, the Municipal Training Council, and the Division of Fire Safety have recently been placed under the Office for Local Government.)
PENNSYLVANIA	
Bureau of Municipal Affairs	Makes local government studies, including taxation, local government organization, intergovernmental cooperation, and legislation affecting local units; prepares manuals and handbooks for local government officials; answers inquiries from and provides advice and consultation for local officials; edits and files budget and financial reports and uses them to compile and publish fiscal data reports; provides planning assistance to local units, primarily on the layout and design of parks, playgrounds, and recreation areas; determines if proposed local government bond issues and proceedings comply with legal requirements
TENNESSEE	
Municipal Technical Advisory Service, Division of University Extension, University of Tennessee	Provides assistance and consultation to local units in the following general areas: management and administration, finance and accounting, engineering and public works, fringe area problems, municipal law, public relations, and ordinance codification; publishes directories, handbooks, statistical compilations, and analyses of state laws and constitutional amendments

TABLE 13
A SUMMARY OF STATE-LOCAL RELATIONSHIPS
SELECTED STATE AGENCIES, COLORADO, 1966

Agency	Relationship to Local Government
Attorney General	May provide legal advice and opinions upon request of political subdivision attorneys (Such opinions and advice are not official, and all requests may not be answered.)
Division of Commerce and Development	1) State economic research and information center for the use of local government agencies, among others 2) Coordination and assistance to local planning agencies 3) Acceptance and administration of federal grants-in-aid for planning in municipalities of less than 50,000 population (701 funds)
Colorado Tax Commission	1) Maintains file of county, municipal (non home rule), and special district budgets 2) Maintains file of special district incorporation dates, maps of boundary descriptions, and any annual boundary changes 3) Determines assessed value of public utilities and allocates same among counties 4) Reviews assessment methods in each county and methods used by county boards of equalization 5) Prepares and publishes assessment guides and manuals 6) Holds annual school for county assessors 7) Reviews and certifies county abstracts of assessment and makes recommendations on same to state board of equalization 8) Reviews and approves certain local government mill levy increases 9) Reviews and approves tax abatements and refunds 10) Reviews and grants tax exemption applications
State Auditor	1) Formulates, prescribes, and publishes uniform classifications of accounts for the several levels of local government 2) Publishes annual compendium of local government fiscal information 3) Maintains file of local government audits and examines same to determine compliance with statutory requirements and violations thereof
Secretary of State	Issuance of liquor and malt beverage licenses
University of Colorado	1) Institutes and conferences for local government officials, may be held in conjunction with state associations of local government units or officials, may involve bureau of government research and service, bureau of continuing education, law school, and other departments 2) Research and technical assistance from bureau of government research and service
Colorado Highway Patrol	Operation of State Law Enforcement Training Academy, which provides training programs for local law enforcement personnel
Department of Institutions	Coordination and planning for community mental health and retardation programs and allocation of state and federal funds for these programs (Community non profit corporations primarily involved, but municipalities, counties, and school districts may participate on fiscal or service basis.)
Highway Safety Council	Works with local government officials in developing highway safety programs and in holding conferences related to the same
Department of Revenue	1) Sales tax collection for municipalities 2) Motor Vehicle License program 3) Driver licensing program

State Local Government Agency

A number of reasons have been cited for the creation of a permanent state agency for local government in Colorado. Among the most important are:

1) There should be an agency at the state level from which local governments can request professional and technical assistance and consultation not otherwise available. This agency should also serve as a clearinghouse on local government information and federal and state programs affecting local government and provide liaison among the several state agencies concerned with local government.

2) Continuing increased emphasis on local government at the state level makes it desirable to have a specialized agency which can be a source of information and advise the Governor and the General Assembly on local government and urban needs and problems.

3) The research program initiated by the Governor's Local Affairs Study Commission should be continued and expanded to cover other matters, and this research should be performed on an on-going basis.

4) There should be an agency at the state level which can serve as a counterpart to the new federal cabinet-level urban affairs department. This is especially important if the state is to carry out its responsibilities to local government and not abdicate them to the federal level.

Opposition to a state local government agency has been voiced by some local officials who feel it might infringe on local authority and become another vehicle for the exercise of control over local units at the state level. Concern has also been expressed that such an agency might interfere with private engineers, planners, and other consultants who provide services for local units on a fee basis. Another argument against creating a state agency for local government is that it would be a needless expense, because it would duplicate services and functions already performed.

Possible Functions and Responsibilities. The variety of functions which a state local government agency might perform may be classified under four headings: research, services, supervision, and policy-making. These functions may be summarized as follows:

Research. Research activities fall into two broad categories: 1) research originated at the state level which may have any or all of the following purposes: a) examination of local government structure and intergovernmental relationships; b) research on specific problems which involve local government, wholly or in part; and c) research to inform the General Assembly and the Governor and to assist them in making policy decisions, allocate funds, or propose legislation; and 2) research at the request of specific local government units, officials, or a group of citizens to solve a specific problem. Such research is usually less comprehensive in scope than that described above.

Services. There is a wide range of services which could be provided for local governments. Of prime importance are technical assistance and consultation, some examples of which are:

Fiscal Matters	— budgeting, accounting, financial reporting, revenue forecasting, debt management, capital improvement programs
Personnel	— job classifications, recruitment, salary schedules, qualification standards, fringe benefits (health insurance, retirement, paid vacation and sick leave policies)
Administration	— purchasing, data processing, record management, administrative organization, program analysis, insurance needs
Legal	— charter drafting, ordinance recodification, statutory analysis
Planning	— technical consultation on planning and public works projects
Training Programs	— sponsoring and participation in institutes and training programs for local government officials and employees
Other	— intergovernmental cooperation and contractual arrangements

Supervision. In this category are local governmental activities over which the state exercises some control, as well as state-imposed requirements concerning such matters as fiscal reporting, budget procedures, and annual audits. Not included are direct functional relationships, such as public health, public welfare, and education.

Policy-Making. Only one jurisdiction (Minnesota) has a state-local government agency which excises policy-making authority. In that state (as indicated in Table 12), the Minnesota Municipal Commission is authorized to approve or disapprove proposed municipal incorporations, consolidations, and annexations.

Organization and Structure. There are several ways in which a state local government agency might be organized, including:

1) a staff agency closely related with or located in the office of the governor;
2) a separate department; or

3) a bureau or division of an existing department or a state university.

Some of the advantages and disadvantages to each of these alternatives have been summarized in a recent study:

> In many respects the staff agency arrangement providing close association with the office of governor would appear to be the most desirable plan. Since the agency would presumably have no control functions, it does not need to be in the line structure of the executive branch. Close association with the governor's office would emphasize the agency's potential advantages as a source of information, research and policy advice in local affairs.
>
> If the new agency were established as a separate department unto itself it would be given a status commensurate with the importance of its service and a position where it would also have a close relationship with the chief executive. But such an arrangement might incur more political resistance than the gubernatorial staff agency concept. Also it would be something of an organizational misfit among the other functionally oriented departments of the state government.
>
> Establishment of the new agency as a bureau or division within an existing department has the advantage of probably being more easily accomplished, and in this position the agency might be able to perform useful services that are not now being performed in most states. However, location within an existing department, presumably a department of finance, might tend to bury the agency in the state organizational structure and make it too remote from the governor to provide effective policy guidance with respect to urban problems.[4]

New Division of Local Government

The Division of Local Government was created by the General Assembly in 1966.[5] This new agency goes into effect on July 1, 1966 and has an appropriation of $50,000 for its first year of operation. The legislation creating the Division of Local Government follows closely the recommendations made by the State-Wide Committee of the Governor's Local Affairs Study Commission, concerning the functions which the new agency is to perform.

Under this legislation, the new agency shall:

1) assist the Governor in coordinating the activities and services of those state departments and agencies having relationships with local units;
2) advise the Governor and the General Assembly on local government problems;
3) serve as a clearinghouse on information relating to local government problems and on state and federal services and other assistance to local governments;
4) refer local governments to appropriate state and federal agencies for advice, assistance, and available services in connection with specific problems;
5) perform research on intergovernmental relations and local government structure, powers, finance, services, management, and functions;
6) encourage and assist on request cooperative efforts among local government officials toward the solution of common problems;
7) encourage and cooperate in training institutions, conferences, and programs for local government officials, and employees; and
8) publish an annual compendium of local government fiscal data and other statistical and research reports of interest to local government, the General Assembly, and the general public.

Local Government Cooperation

Colorado law provides a number of ways for local governments to contract or cooperate with each other in providing services or solving common problems.

General Contracting Authority

Under a comprehensive law enacted in 1949, every local governmental unit has authority to enter into an agreement with any other local unit for the performance of any function or service it is authorized by law to provide.[6] This law provides for general contracting authority and does not specify procedures for the execution of contracts or for contract continuity after election of a new governing body.

In 1963, the General Assembly passed additional legislation on cooperative agreements between local units of government.[7] Although this act does not provide specifically for intergovernmental contracts, it authorizes certain types of emergency assistance from one local unit to another when time is not sufficient to enter into a more formal arrangement. It authorizes emergency fire and police assistance from one local unit to another when requested by the fire chief or police chief of the unit needing assistance. It provides that men and equipment from an assigning unit may

be sent in answer to a call for help from a requesting unit of local government and that the men and equipment sent shall be under the supervision and direction of the fire or police chief of the requesting unit. Legal liabilities are also delineated in the statute; the assigning unit assumes responsibility for all workmen's compensation and retirement obligations, while the requesting unit is responsible for any tort liabilities.

Specific Cooperation Authority

Sanitation Facilities. Municipal corporations are authorized by general law to cooperate or contract with state and federal agencies and other local public bodies for the joint construction and financing of sewage facilities and the maintenance and operation thereof. This law provides broad authority for municipal governing bodies to contract with other local governments and industrial enterprises for the construction, operation, and maintenance of sewer facilities, either inside or outside municipal limits.[8] Municipalities and special districts may form a metropolitan sewer district to provide sewage collection, treatment, and disposal on an areawide basis.[9]

Recreation. Cities, towns, special districts, and school districts are authorized to cooperate with one another in the acquisition, construction, and maintenance of park and recreation facilities.[10] Under another section of the statutes, any two or more incorporated towns which are contiguous or adjacent may unite in acquiring, establishing, and maintaining parks, boulevards, avenues, and roads for their common benefit, if it is mutually agreed upon by ordinance.[11]

Health and Hospitals. Two or more adjacent counties may form a district health department. Of particular interest is the fact that municipalities over 25,000 population are authorized by this act to maintain their own health departments, but are not required to do so. A municipality over 25,000 population may, however, merge its health department with the county, with the composition of the health board to be determined by agreement between the two parties.[12]

Libraries. A regional library district may be established by the legislative bodies of two or more local governmental units. The district is supported by and serves all unincorporated areas and municipal corporations within the territorial limits of the governmental units involved. Trustees of the district are appointed by members of the governing bodies of the units participating, and special tax levies are authorized by the law. This act also permits a municipality which already has its own library to participate in the library district and still retain title to its library property, continue its board of trustees, and levy its own taxes. Further cooperation is permitted by the provision that local governments not wishing to form a regional library district may contract with an existing public library for services.[13]

Planning. Planning cooperation between local units is made possible by a number of statutory provisions relating to county planning. Local units, consisting of at least one county and one or more municipalities, may establish a regional planning commission. The governing bodies of the participating units may by agreement determine the composition and selection of the planning commission and also the proportion of expenses to be borne by each participating unit. The primary responsibility of such a planning commission is the formation of a master plan for the county or counties involved; however, the portion of the plan relating to municipalities is not deemed to be official unless adopted by the municipality. The commission is authorized to draw up a zoning code and review such development and land use matters as are subsequently referred to it by the participating units.[14]

Airports. Two or more municipalities may form an airport authority for the purpose of acquiring and improving airports and related facilities.[15]

Water. Two or more municipalities may join together to form a metropolitan water district to provide water for domestic, industrial, and irrigation purposes.[16]

Roads and Streets. Boards of county commissioners by mutual agreement may form road districts consisting of more than one county.[17] Cities and towns may contract with the board of county commissioners for the construction and maintenance of city streets,[18] and counties may contract with each other for highway construction and maintenance, even though a multicounty road district is not formed.

Other. Counties may form a joint public welfare district upon approval of the state department of welfare.[19] They may also establish joint juvenile detention facilities and establish multicounty probation services.[20] Under a law enacted in 1966, counties may join to establish an employee retirement program.[21]

Extent of Cooperation

Contracts and other cooperative arrangements among local governments have not been as extensive as might be assumed from the amount of legal authority available, although there are many examples of such cooperation.

Only one metropolitan sewer district has been formed (Denver metropolitan area), and a number of eligible local units are not participating. A number of special districts in the Denver metropolitan area and elsewhere do contract with municipalities and with other districts for water and for sewage treatment.

No metropolitan water district has been formed, however.

Some use has been made of the authority for cooperative park and recreation programs, and two intergovernment library districts have been established, the most recent being in Arapahoe County. Fort Collins and Loveland are in the process of forming an airport authority, but these are the only municipalities known to have taken advantage of this 1965 act.

There are at least three city-county health departments (in addition to Denver), and three multicounty public health districts (northeast Colorado, San Juan Basin, and Adams-Arapahoe counties). A few regional planning commissions have been established, primarily in highly urbanized or metropolitan areas; the most prominent is the Inter-County Regional Planning Commission comprising Denver, Adams, Arapahoe, Jefferson, and Douglas counties.

No multicounty road districts are known to exist, but municipalities in several counties have worked out agreements with the board of county commisioners on street construction and maintenance, including Adams, Arapahoe, Mesa, and Rio Blanco counties.

A few welfare districts are in the process of being formed under impetus provided by the State Department of Welfare, but there has also been considerable opposition to merging counties for this function. There are a few multicounty probation departments, but no joint juvenile detention facilities have been established, although there has been considerable discussion about doing so among Adams, Arapahoe, and Jefferson counties.

Reasons for Lack of Cooperative Arrangements. There are several reasons why intergovernmental cooperation has not been as extensive as it might be. First, there is reluctance on the part of some local government officials to participate in joint programs, although this reluctance is diminishing as problems increase beyond the ability of single units to solve adequately. Second, many local government officials are unaware of the statutory authorization for intergovernmental cooperation and contracts, at least as far as some functions are concerned.

Third, some of the statutes authorizing contracts and other forms of cooperative arrangements are not clear and specific, causing some reluctance to make use of these provisions. These statutes should be carefully checked, revised, and added to as needed in any general revision and recodification of local government laws. Fourth, there still remains a question as to the extent to which home rule cities may enter into intergovernmental contracts in light of the Colorado Supreme Court's decision in the Metropolitan Capital Improvements District case.[22]

Despite present legal problems, intergovernmental cooperation and contracts appear to be devices which will be used more and more to solve local government problems as the state's population growth and urbanization continues and problems and needs expand beyond the ability and jurisdiction of local units.

REFERENCES

[1]Steward Machine Company v. Davis, 301 U.S. 548 (1936).
[2]a) U.S. v. Sullivan (Ca.), 68 S. Ct. 331, 332 U.S. 689 (1947).
b) Fernandez v. Weiner (La.), 66 S. Ct. 178, 326 U.S. 340, 327 U.S. 814 (66 S. Ct. 525) Rehearing denied (1945).
c) Rosenhan v. U.S. (Utah), 131 F 2nd 932 (1942).
d) U.S. v. Gallagher (D.C. Cal.), 97 F Supp. 1014 (1951).
e) U.S. v. Miller (D.C. Ky.), 17 F Supp. 65 (1936).
f) U.S. v. McClure (D.C. Tenn.), 15 F Supp. 931 (1936).
[3]COLORADO REVISED STATUTES 1963, Section 66-1-8 (8).
[4]John G. Grumm, *A State Agency for Local Affairs?* (Berkeley: Bureau of Public Administration, University of California, 1961), pp. 46 and 47.
[5]SESSION LAWS OF COLORADO 1966, Chapter 35.
[6]CRS 1963, Chapt. 88, Art. 2.
[7]CRS 1963, 99-2-5 through 11.
[8]CRS 1963, 139-32-1 (24).
[9]CRS 1963, Chapt. 89, Art. 15.
[10]CRS 1963, Chapt. 114, Art. 1.
[11]CRS 1963, 139-87-4.
[12]CRS 1963, Chapt. 66, Art. 2.
[13]CRS 1963, Chapt. 84, Art. 1.
[14]CRS 1963, 106-2-4.
[15]SESSION LAWS OF COLORADO 1965, Chapter 50.
[16]CRS 1963, Chapt. 89, Art. 14.
[17]CRS 1963, 120-13-4.
[18]CRS 1963, 120-13-44.
[19]CRS 1963, 119-1-9.
[20]CRS 1963, 22-8-8 and 22-14-2.
[21]SESSION LAWS OF COLORADO 1966, Chapter 40.
[22]Metropolitan Capital Improvement District v. Board of County Commisioners of Adams County, 149 Colo. 284, 369 P 2d 67 (1962).

VI

SELECTED INTERGOVERNMENTAL PROGRAMS

Introduction

Three governmental functions—public welfare, judicial administration, and roads and streets—involve both the state and local governments and require large annual expenditures. How these programs might best be operated and financed is a matter of major concern for state and local officials, although the problems connected with each are slightly different.

The major question concerning public welfare is whether this program should become an exclusive state responsibility. Ninety percent of welfare costs are financed by federal and state funds, and federal and state laws and regulations leave little authority at the county level.

The same question applies to judicial administration, but in a slightly different way. Approximately fifty-five percent of state court system costs are borne at the county level, but counties can exercise budgetary control only if they can prove that the courts have been arbitrary and capricious in their requests for funds. Otherwise, such budgetary control has been judicially construed to be an interference with the separation of powers doctrine and the coordinate and equal status of the executive, legislative, and judicial branches of government.

The problems connected with road and street construction and maintenance center on the amount of state aid which should be allocated to county and municipal governments, the basis for and objectives of this aid, and the extent to which local effort should be required.

Public Welfare

More than $100 million is spent annually in Colorado for public welfare, exceeded only by education and highways. Three levels of government have fiscal and administrative responsibility for public welfare—federal, state, and county; however, counties pay only a very small portion of the costs and exercise limited administrative authority.

Welfare Department Organization

State Public Welfare Department. The state welfare department is established under the provisions of Article 1, Chapter 119, CRS 1963. This article provides that the state department shall be responsible for the administration or supervision of all public welfare activities in the state.

Since welfare programs at present, generally, are state supervised and county administered, the major responsibilities of the state department are:

1) to supervise all forms of public assistance and medical care;
2) to act as an agent of the federal government for all federally-aided programs; and
3) to administer state and federal funds for the various programs.

State Board of Welfare—Executive Director. The state board of public welfare consists of nine members appointed by the governor to serve for three-year overlapping terms. The members serve without compensation, except for necessary travel expenses. The board adopts all policies, rules, and regulations for the government of the state department. The executive director (who is under civil service, as are all department employees) is responsible for the operation and administration of the department, subject to the authority of the state board, which also must approve the department's proposed budget.

Administrative Structure. The state department is composed of several divisions: administrative management, personnel, children and youth, adult aids and services, and medical services. In addition, the executive assistant to the director is responsible for several administrative functions, and legal counsel and advice is provided by the legal services section.

The state department of welfare has a staff of 155 during the current fiscal year, which will be increased to 169 in fiscal year 1967.

County Departments of Public Welfare

Each county is required to have a department of public welfare by 119-1-9 CRS 1963. Any two or more counties, however, may form a district department of welfare upon the approval of the state welfare department. The county departments are responsible for administration of the various welfare programs under statutory requirements and the rules and regulations of the state welfare department. In particular, county departments determine the eligibility of recipients and their need for assistance, both as to kind and amount.

The county welfare board consists of the board of county commissioners, except that if a district department is created, one or more of the county commissioners from each of the counties involved may serve on the board. The board selects the county director of welfare, but must do so in accordance with the merit system established for county welfare employees by the state department as required by 119-1-12, CRS 1963. While the board determines the salaries and salary ranges to be paid the director and other county welfare employees, these are selected from schedules established by the state department under the merit system.

The county departments are employing an average of 1,283 persons during the current fiscal year, almost 100 more than during the previous year. The seventeen largest counties, which have 82.5 percent of the total welfare caseload, employ 82.4 percent of the total county welfare personnel. The number of county welfare employees will increase in fiscal year 1967 and following years, both because of increased caseloads and because of certain federal requirements concerning worker-caseload ratios.

Welfare Programs and Method of Finance

The several public welfare programs may be divided into four categories according to how they are financed:

1) programs financed exclusively from federal and state funds;
2) programs financed from a combination of federal, state, and county funds;
3) programs financed only from state and county funds; and
4) programs financed entirely from county funds.

Three programs are in the first category: old age pensions (OAP), old age pension medical care (OAP Med), and medical aid to the aged (MAA). The second group comprises aid to the blind (AB), aid to dependent children (ADC), and aid to the needy disabled (AND). Two programs are financed only from state and county funds: child welfare services and tuberculosis assistance, and one program (general assistance) is financed entirely at the county level.

The basis for financial participation by the federal, state, and county governments in the various welfare programs and in state and county welfare administration is shown in Table 14. This table also shows the changes in federal participation which took place as of January 1, 1966, as a result of the amendments to the social security act adopted in 1965.

Recent Trends in Welfare Expenditures and Finance

Total Welfare Expenditures. In fiscal year (FY) 1963, $97 million was expended for welfare purposes in Colorado. Total expenditures increased to $100.6 million in FY 1965 and are expected to reach almost $111 million in FY 1967, fourteen percent more than in FY 1963.

During the same period, the increase in federal funds expended for welfare purposes is estimated at 23.8 percent; state funds, 3.2 percent; and county funds, 18 percent. In FY 1963, federal funds financed 46.4 percent of the total welfare program; state funds, 43.0 percent; and county funds, 10.6 percent. In FY 1967, federal funds are expected to finance slightly more than fifty percent of total welfare costs; state funds, almost thirty-nine percent; and county funds, almost eleven percent. Table 15 shows the proportion of expenditures for welfare purposes by program from federal, state, and county funds for fiscal years 1965 through 1967.

Caseloads and Per Case Costs. There are several reasons for recent and anticipated welfare expenditure increases. Increased caseloads have been an important factor, especially in the ADC and child welfare programs. The average monthly ADC caseload in FY 1963 was 9,314 and is expected to be 13,488 in FY 1967, an increase of almost 45 percent; a similar increase is expected in the number of children receiving benefits (an average of 28,561 per month in FY 1963 and an estimated average of 41,390 per month in FY 1967).

The child welfare caseload is expected to be almost fifty-five percent higher in FY 1967 than in FY 1963, with an average monthly caseload estimated at 7,170 as compared with 5,191 in FY 1963. An even higher rate of increase is expected in child welfare cases requiring foster and institutional care payments. An average of 1,762 children per month required such payments in FY 1963, with a monthly average of 2,728 expected in FY 1967.

AND caseload will be eleven percent, and the case-

TABLE 14
BASIS OF PARTICIPATION IN WELFARE EXPENDITURES BY THE FEDERAL, STATE AND COUNTY GOVERNMENTS, COLORADO, 1966

PROGRAMS	FEDERAL* before January 1, 1966	FEDERAL* after January 1, 1966	COUNTY	STATE
OLD AGE PENSION Money Payments	$29 of first $35 plus 50% of balance up to $70 for Class A Pension only Burials are excluded	$31 of first $37 plus 50% of balance up to $75 for Class A Pension only Burials are excluded	NO Participation	Balance of expenditures & cost of burials in full
OLD AGE PENSION Medical Care	50% of first $15 of medical vendor payments for Class A Pension only	Same as before	NO Participation	Balance of expenditures
MEDICAL ASSISTANCE FOR THE AGED	50% of all expenditures except Personal Needs for nursing home recipient and burials	Same as before	NO Participation	Balance of expenditures
AID TO THE NEEDY DISABLED	$29 of first $35 plus 50% of balance up to $70 of both money and medical vendor payments together Burials are excluded	$31 of first $37 plus 50% of balance up to $75 of both money and medical vendor payments together Burials are excluded	20% of total expenditures excluding Personal Needs for nursing home patients	Balance of expenditures
AID TO THE BLIND	Same as for AND except Federal Government does not participate in treatment expenditures Burials are excluded	Same for AND except Federal Government does not participate in treatment expenditures Burials are excluded	20% of total expenditures and treatment costs	Balance of expenditures
AID TO DEPENDENT CHILDREN	$14 of the first $17 plus 50% of balance up to $30 per person of both money and medical vendor payments together	$15 of the first $18 plus 50% of balance up to $32 per person of both money and medical vendor payments together	20% of total expenditures	Balance of expenditures
TUBERCULOSIS ASSISTANCE	NO Federal Participation in any part of the program	Same as before	50% of reimbursable expenditures plus 100% of non-reimbursable expenditures[1]	Balance of reimbursable expenditures only
CHILD WELFARE	NO Federal Participation (except Children's Bureau monies received for administration)	Same as before	Same as for Tuberculosis Assistance[1]	Balance of reimbursable expenditures
GENERAL ASSISTANCE	NO Federal Participation in any part of the program	Same as before	Paid entirely from County funds	NO State Participation
COUNTY ADMINISTRATION	Approximately 41% of total expenditures	Same as before	19% of total Approximately	Balance of expenditures
STATE ADMINISTRATION	Approximately 44% of total expenditures	Same as before	NO Participation	Balance of expenditures

**Federal participation is based on the monthly average payment for the entire State in each categorical program where applicable.*
[1]20 percent of reimbursable expenditures as of January 1, 1967. Source: Colorado State Department of Public Welfare.

During the same period, the estimated increase in loads in other programs are either relatively stable or declining.

A major factor in the rise in welfare expenditures has been the continuing increase in medical and hospitalization costs. This increase, as might be expected, is felt mostly in those programs in which the major emphasis is on medical care, but it is reflected throughout all of the programs where medical care is a component. Increased benefits and cost of living adjustments have also had a bearing on welfare expenditure increases.

Administrative costs have increased on both the state and county levels, as more employees have been needed to keep pace with increased caseloads and new and expanded programs. Salaries have risen because of merit and longevity increases (normal increments) and reclassification of some positions.

Expenditures of County Funds for Welfare

Per Capita Expenditures. Per capita expenditures of county funds for welfare increased 19.58 percent (from $4.80 to $5.74) between 1960 and 1965. During this period, forty-seven counties had increased per capita expenditures, and sixteen experienced a reduction. The largest increases occurred in ADC (41.86 percent), child welfare (88.57 percent), and administration (15.25 percent). AND and general assistance per capita expenditures remained stable.

Two programs account for more than sixty-five percent of all county expenditures for welfare: general assistance and ADC. General assistance per capita expenditures amounted to $1.91, accounting for almost forty percent of the total in 1960. In 1965, general assistance per capita expenditures amounted to $1.92, or slightly more than one-third of the total. In 1960,

ADC per capita expenditures of $1.29 were almost twenty-seven percent of the total. In 1965, ADC per capita expenditures had increased to $1.83 and were almost thirty-two percent of the total.

Even though there was a large rise in per capita expenditures for child welfare purposes from 1960 to 1965, child welfare continues to require a relatively minor proportion of county funds spent for welfare purposes (7.3 percent in 1960 and 11.5 percent in 1965).

Huerfano County had the largest per capita expenditure of county funds for welfare purposes in 1965, $12.20. Two other counties had per capita expenditure of county funds for welfare purposes in Animas, $10.07. The following counties were between $7 and $10 per capita: Conejo, $9.43; Weld $9.41; Saguache, $9.01; Clear Creek, $8.84; Pueblo, $8.65; Routt, $8.05; Costilla, $7.87; and Denver, $7.68. An additional eight counties had per capita expenditures between $6 and $8.

This is a marked contrast to 1960, when only one county, Gilpin ($10.90) had per capita welfare expenditures from county funds in excess of $10. In that year only eleven counties (including Gilpin) had per capita expenditures in excess of $6. Other counties with large per capita expenditures in 1960, included Saguache, $9.42; Las Animas, $9.37; Weld, $8.04; Huerfano, $7.75; and Clear Creek, $7.36.

Per capita expenditures by county for selected welfare programs and functions for 1960, 1963, and 1965 are shown in Table 16.

Administration Costs. Administrative per capita expenditures accounted for virtually the same proportion of total per capita expenditures in 1960 and 1965 (twelve percent and 12.3 percent respectively). Administrative per capita costs are substantially higher in the smaller counties, ranging from $.56 per capita in 1965 in counties over 50,000 population to $1.61 per capita in those with less than 2,500 population. Administrative costs also account for a much larger proportion of total welfare expenditures from county funds in the smaller counties (slightly more than ten percent in counties over 50,000 population, but almost thirty-one percent in those with less than 2,500 population). Table 17 shows the relationship between county population and per capita administrative expenditures and between county population and the proportion administrative costs are of total welfare per capita expenditures.

General Assistance. As indicated above, general assistance expenditures account for a greater portion of welfare expenditures from county funds than any other program. In FY 1965, counties spent $3.8 million for this purpose. The largest amount of general assistance funds are spent for medical care and hos-

TABLE 15
PROPORTION OF WELFARE EXPENDITURES, FEDERAL, STATE, AND COUNTY, FY 1965-1967

PROGRAMS	FY 1964-1965 Percent of Expenditures			FY 1965-1966 (Est.) Percent of Expenditures			FY 1966-1967 (Est.)[a] Percent of Expenditures		
	Federal	State	County	Federal	State	County	Federal	State	County
Aid to the Blind	47.27%	32.72%	20.01%	47.35%	32.66%	19.99%	46.44%	33.61%	19.95%
Aid to Dependent Children	58.01	22.15	19.84	57.31	22.79	19.90	56.96	23.68	19.36
Aid to Needy Disabled	68.84	12.37	18.79	61.21	18.97	19.83	61.50	18.72	19.78
Child Welfare Services	.....	45.38	54.62	.....	46.02	53.98	.....	61.27	25.73
T B Assistance	.....	50.00	50.00	.....	49.93	50.07	.....	64.51	35.49
Distressed Counties	.....	100.00	.....	.....	100.00	.....	.....	100.00	.....
ADC Protective Payments	.....	80.00	20.00	.....	80.00	20.00	.....	.....	.....
Home Nursing	.....	100.00	.....	.....	.....	.....	.....	.....	.....
Emergency Fund	.....	.....	.....	.....	100.00	.....	.....	100.00	.....
Medical Aid to Aged	49.24	50.76	.....	48.63	51.37	.....	48.55	51.45	.....
Total Appropriated Funds	52.71	30.79	16.50	50.99	32.85	16.16	50.43	34.78	14.79
Old Age Pension	51.37	48.63	.....	54.00	46.00	.....	55.52	44.48	.....
Old Age Pension Medical	44.97	55.03	.....	41.44	58.56	.....	49.30	50.70	.....
Total Cash Funds	50.36	49.64	.....	51.74	48.26	.....	54.60	45.40	.....
General Assistance	.....	.....	100.00	.....	.....	100.00	.....	.....	100.00
Total Welfare Programs	49.20	40.06	10.74	49.66	39.67	10.67	51.00	38.90	10.00
Administration									
State	46.99	53.01	.....	44.13	55.87	.....	44.39	55.61	.....
County	41.43	39.70	18.87	40.96	39.70	19.34	41.00	40.00	19.00
Total Administration	42.40	42.02	15.58	41.51	42.49	16.00	41.55	42.54	15.91
Grand Total	48.60	40.23	11.17	48.90	39.93	11.17	50.25	38.82	10.93

[a]Adjusted according to actual state appropriation for FY 1966-67 as provided in H. B. 1049 (1966)
Source: Colorado State Department of Public Welfare

TABLE 16
PER CAPITA EXPENDITURES BY COUNTY FOR SELECTED WELFARE PROGRAMS AND FUNCTIONS, COUNTY FUNDS ONLY, 1960, 1963, AND 1965[a]

County	TOTAL[b] Per Capita Exp. 1960	1963	1965	Pct. of Change 60-65	A.D.C. Per Capita Exp. 1960	1963	1965	A.N.D. Per Capita Exp. 1960	1963	1965	CHILD WELFARE Per Capita Exp. 1960	1963	1965	GENERAL ASSISTANCE Per Capita Exp. 1960	1963	1965	ADMINISTRATION Per Capita Exp. 1960	1963	1965
Adams	$ 1.92	$ 2.49	$ 3.44	79.16%	$ .69	$ 1.05	$ 1.51	$ .21	$ .23	$ .27	$ .20	$ .12	$ .31	$ .58	$ .75	$ 1.03	$ .21	$ .29	$ .29
Alamosa	4.09	3.74	4.14	1.22	1.01	1.41	1.43	.58	.34	.21	.38	.39	.67	1.48	1.06	1.04	.47	.52	.57
Arapahoe	2.43	2.37	2.34	(3.71)	.52	.55	.66	.24	.20	.23	.20	.28	.37	.94	.81	.67	.50	.53	.35
Archuleta	5.64	7.31	6.48	14.89	2.02	2.96	3.08	.61	.65	.71	.80	1.08	.42	1.24	1.36	1.01	.93	1.15	1.17
Baca	1.72	2.44	2.88	67.44	.40	.49	.41	.27	.31	.26	.08	.25	.28	.41	.75	1.33	.46	.52	.55
Bent	3.61	5.00	4.59	27.14	1.23	1.79	2.23	.35	.41	.49	.43	.89	1.17	.95	1.02	1.71	.64	.81	.94
Boulder	3.25	4.17	4.68	44.00	.74	.73	.88	.37	.37	.37	.26	.69	.66	2.50	1.87	2.19	.34	.49	.54
Chaffee	3.39	3.98	3.20	(5.61)	.82	1.66	1.36	.69	.65	.60	.25	.48	.36	.89	.49	.19	.44	.50	.52
Cheyenne	4.82	8.74	5.80	20.33	.38	.68	.65	.28	.31	.33	.04	.12	.41	3.48	6.87	3.19	.64	.76	.80
Clear Creek	7.36	8.66	8.84	20.10	1.39	2.12	2.34	.35	.37	.41	.24	.52	.64	4.52	4.31	3.96	.73	.80	.89
Conejos	6.05	7.92	9.43	55.86	3.10	3.70	4.05	.99	.92	.86	.13	.61	.96	1.20	1.63	2.42	.63	.85	1.13
Costilla	6.56	8.24	7.87	19.96	2.92	3.39	3.11	.76	.93	.88	-	.02	.03	1.51	1.94	2.11	1.21	1.35	1.72
Crowley	4.51	5.48	5.45	20.84	1.43	1.84	1.43	.41	.53	.49	-	.05	.83	1.61	1.63	1.58	.68	.73	1.06
Custer	3.03	4.46	4.00	32.01	.41	.60	.77	.49	.61	.57	.16	.77	.55	.38	.79	.57	1.35	1.50	1.45
Delta	5.88	6.28	6.53	11.05	1.67	1.79	1.94	.81	.80	.83	.31	.34	.59	2.32	2.31	2.23	.69	.82	.81
Denver	6.16	6.90	7.68	24.67	1.89	2.51	3.03	.79	.77	.84	.31	.42	.55	2.11	2.03	2.05	.88	.98	1.01
Dolores	2.67	3.40	4.21	57.67	.47	.40	.69	.49	.33	.24	.09	.09	.86	.61	1.54	1.31	.81	1.04	1.05
Douglas	2.96	2.51	2.05	(30.75)	.27	.53	.64	.55	.43	.24	.04	.06	.02	1.53	1.02	.69	.45	.43	.38
Eagle	5.26	5.71	4.15	(21.11)	1.08	1.20	1.01	.31	.47	.49	.18	.12	.27	2.96	3.18	1.67	.65	.73	.71
Elbert	3.23	3.54	4.01	.25	.58	.33	.83	.33	.44	.57	-	1.40	.01	1.76	.71	1.91	.56	.65	.63
El Paso	4.00	5.91	5.78	44.50	.65	1.01	1.20	.24	.28	.26	.32	.74	1.00	2.36	3.20	2.80	.32	.54	.42
Fremont	3.30	3.94	3.65	10.60	1.01	1.29	1.40	.42	.45	.42	.24	.11	.18	.93	1.13	.69	.66	.89	.88
Garfield	4.36	3.65	3.65	(16.29)	.87	.85	.61	.59	.47	.57	.55	.58	.50	1.54	.99	1.12	.67	.66	.80
Gilpin	10.90	13.54	10.24	(6.06)	.24	1.34	.56	.77	.67	.45	6.84	5.52	4.98	.95	3.69	1.62	2.10	2.32	2.63
Grand	2.20	2.25	1.82	(17.28)	.34	.27	.30	.17	.30	.20	.65	.49	.16	.62	.76	.60	.37	.39	.56
Gunnison	2.00	2.94	1.87	(6.50)	.48	1.01	.50	.21	.32	.14	.27	.14	.36	.74	1.09	.58	.29	.36	.27
Hinsdale	2.75	3.65	6.20	125.45	-	-	-	.67	.75	.76	-	-	.41	-	-	1.95	2.08	2.90	3.08
Huerfano	7.75	12.57	12.20	54.83	1.49	4.63	4.18	.50	.98	.99	-	.13	.07	3.80	4.93	5.46	1.64	1.77	1.86
Jackson	5.46	7.13	6.53	19.60	1.07	1.29	1.17	.45	.61	.34	.15	1.11	2.50	3.23	3.42	1.80	.56	.70	.72
Jefferson	1.45	1.75	2.01	38.62	.28	.36	.48	.14	.15	.15	.32	.36	.42	.46	.60	.70	.23	.24	.24
Kiowa	4.51	7.72	5.44	18.00	.37	.60	.57	.51	.24	.11	.22	.90	.20	2.66	5.00	3.59	.79	.91	.91
Kit Carson	2.79	3.63	3.22	15.41	.35	.21	.23	.34	.22	.26	.89	1.35	.93	.68	1.00	1.04	.49	.62	.72
Lake	2.43	2.53	3.07	26.34	.25	.43	.42	.13	.05	.09	.28	.36	.63	1.17	1.06	1.42	.58	.45	.44
La Plata	4.15	3.99	4.29	3.37	.78	.81	.73	.31	.25	.29	.51	.70	.87	1.67	1.23	1.50	.65	.77	.79
Larimer	5.93	5.86	6.21	4.72	1.62	1.84	1.68	.73	.71	.67	.62	.80	.99	2.20	1.66	2.04	.63	.73	.78
Las Animas	9.37	10.58	10.07	7.47	3.63	3.93	3.44	1.35	1.63	1.48	.45	1.05	1.30	2.44	2.23	2.39	1.18	1.47	1.42
Lincoln	4.69	4.79	4.04	(13.86)	.68	.89	.84	.56	.72	.56	.05	.16	.25	2.87	2.44	1.61	.50	.56	.76
Logan	4.10	3.66	4.02	(1.95)	.65	.79	.72	.38	.40	.34	.48	.61	1.16	2.06	1.19	1.16	.41	.49	.53
Mesa	4.34	5.42	5.43	25.12	1.05	1.49	1.58	.42	.61	.61	.31	.43	.89	1.93	2.22	1.69	.55	.60	.56
Mineral	3.42	5.74	5.53	61.70	.41	.28	-	-	.01	.46	-	.43	.30	.94	2.44	1.77	2.07	2.37	2.34
Moffat	3.15	3.92	4.89	55.24	.68	.71	.90	.16	.12	.24	.36	.71	.90	1.49	1.65	2.13	.40	.45	.59
Montezuma	5.31	6.25	5.92	11.49	1.53	2.32	2.44	.47	.54	.61	.34	.63	.56	2.30	1.75	1.56	.48	.63	.72
Montrose	6.79	6.89	6.71	(1.18)	1.59	2.12	1.72	1.31	.53	.56	.23	.23	.73	2.91	3.37	2.63	.51	.59	.62
Morgan	5.49	6.08	5.42	(1.28)	1.84	2.18	1.83	1.13	1.02	.75	.23	.89	.99	1.72	1.21	.99	.55	.76	.82
Otero	6.02	6.45	6.23	3.49	2.41	2.43	2.48	.80	.67	.62	.31	1.03	.70	1.19	1.04	1.12	.70	.96	1.01
Ouray	2.93	2.36	2.97	1.37	.30	.12	.42	.49	.34	.45	-	-	.09	.59	.24	.38	.84	.87	.85
Park	4.52	5.87	5.18	14.60	.41	.60	.37	.20	.19	.06	-	.78	.66	2.92	3.17	2.37	.99	1.11	1.22
Phillips	2.74	4.27	4.91	79.20	.79	.84	.67	.40	.30	.44	.15	.45	1.53	.66	1.69	1.32	.69	.88	.89
Pitkin	2.96	1.35	1.28	(56.76)	.07	.02	.01	.27	.24	.27	-	.07	.18	2.03	.50	.36	.49	.43	.38
Prowers	3.44	4.50	5.07	47.38	.85	1.60	1.97	.49	.46	.25	.37	.28	.33	.96	1.39	1.67	.56	.65	.75
Pueblo	5.99	7.87	8.65	44.41	1.78	2.15	2.36	.57	.61	.69	.43	.72	1.01	2.54	3.48	3.82	.44	.58	.61
Rio Blanco	1.99	3.14	2.90	45.73	.27	.59	.36	.07	.23	.15	-	.15	.52	1.26	1.76	1.48	.39	.41	.39
Rio Grande	5.41	7.31	6.16	13.86	2.59	3.05	2.76	.43	.49	.54	.05	.54	.86	1.56	1.93	1.00	.56	.87	.89
Routt	5.94	6.34	8.05	35.52	1.58	1.47	1.74	.52	.58	.52	.63	.87	1.47	2.42	2.21	3.30	.79	1.19	1.02
Saguache	9.42	10.64	9.01	(4.35)	3.64	5.22	4.14	.57	.56	.64	.61	1.44	1.39	3.58	2.23	1.43	.87	1.07	1.41
San Juan	2.04	5.22	3.44	68.63	.14	1.22	.79	.23	.44	.14	-	-	.08	.54	1.43	1.16	1.07	1.36	1.27
San Miguel	1.60	1.52	2.34	46.25	.51	.41	.62	.24	.03	.01	-	.04	.16	.43	.53	1.01	.36	.47	.51
Sedgwick	5.28	3.82	3.02	(42.80)	.99	.72	.56	. 4	. 0	.51	.58	.66	.62	2.64	1.36	.67	.45	.50	.59
Summit	3.97	2.86	2.64	(33.50)	.38	.25	.11	.25	.15	.62	-	.11	.17	2.66	1.63	1.86	.66	.72	.88
Teller	4.64	6.44	5.78	24.57	.65	1.27	1.86	.44	.36	.56	.30	.09	.03	2.22	3.62	1.71	.82	.96	1.22
Washington	4.21	4.33	4.84	14.96	.77	.40	.39	.50	.52	.57	.14	.59	.40	2.10	2.00	2.67	.69	.81	.76
Weld	8.04	8.49	9.41	17.04	1.62	2.53	2.64	.66	.71	.69	1.09	1.03	1.18	4.04	3.32	4.13	.49	.74	.76
Yuma	4.76	5.43	5.64	18.49	.65	.58	.41	.85	.65	.62	.27	.94	1.26	2.31	2.37	2.54	.74	.86	.71
State	$ 4.60	$ 5.38	$ 5.74	19.58%	$ 1.29	$ 1.63	$ 1.83	$ .53	$ $.52	$ .53	$ .35	$ .51	$ .66	$ 1.91	$ 1.90	$ 1.92	$ .59	$ .68	$ .68
Percent of Increase: 1960-1965				19.58%			41.86%			--			88.51%			.05%			15.25%

a. Calendar 1960, fiscal 63 and 65; Source: Colorado Department of Welfare Reports and other statistical material; population: 1960 census, 1963 and 1965 estimates by State Planning Division

b. All welfare expenditures from county funds.

TABLE 17

PER CAPITA EXPENDITURES FOR WELFARE ADMINISTRATION, COUNTY FUNDS ONLY, COUNTIES GROUPED BY POPULATION CLASS 1965

Size of Counties	Administration Average Per Capita	Prop. Admin. of Total Per Capita Costs
Over 50,000 pop.	$ .56	10.1%
10,000 - 50,000	.79	12.5
5,000 - 10,000	.76	15.4
2,500 - 5,000	.85	18.4
Under 2,500	1.61	30.8

pitalization, more than sixty-eight percent in FY 1965 as follows: hospitalization, 26.3 percent; medical drugs, 25.8 percent; and county hospitals, 16.1 percent. In kind assistance (groceries, rents, clothing, etc.) accounted for 16.7 percent; cash, 12.1 percent, and county home operation and maintenance, burials, and commodity distribution, 3.1 percent.

County Mill Levies

County funds for welfare purposes come from the property tax, which is also the primary source of financial support for all other county functions. The amount of tax that can be levied by a county for welfare purposes is determined by its per capita assessed value as provided in 119-3-6, CRS 1963, as follows:

Per Capita Assessed Value	Mill Levy Limit
$ 800 or less	6.0 mills
800 - 1,000	5.5
1,000 - 1,200	5.0
1,200 - 1,400	4.5
1,400 - 1,600	4.0
1,600 - 2,000	3.5
2,000 - 2,600	3.0
2,600 or more	2.5

Per capita assessed value is determined each year by dividing a county's current assessed value by the State Planning Division's most recent population estimate for that county. Welfare levy limits may be exceeded for good cause upon approval of the Colorado Tax Commission. Levy limits and 1965 and 1966 welfare levies are shown for each county in Table 18.

Currently fourteen counties are levying in excess of their statutory limits, and an additional five counties are at their limit. Thirty counties had an increase in welfare levies from 1965 to 1966, and only eleven had a mill levy reduction. Generally, those counties with the largest welfare levies (including those above their statutory levy limit) are the ones with the highest per capita expenditures for welfare from county funds.

TABLE 18

COUNTY WELFARE FUND LEVIES AND LEVY LIMITS

County	Welfare Levy Limit[a]	1965 Mill Levy	1966 Mill Levy
Adams	3.50	2.20	2.90
Alamosa	3.50	2.35	2.40
Arapahoe	3.50	1.24	1.74
Archuleta	3.00	3.00	3.00
Baca	2.50	.85	.91
Bent	3.00	2.55	3.00
Boulder	3.00	2.20	2.40
Chaffee	3.50	2.00	2.00
Cheyenne	2.50	1.00	1.00
Clear Creek	2.50	4.00	4.00
Conejos	4.50	5.00	5.00
Costilla	4.00	5.00	5.38
Crowley	3.50	2.00	3.00
Custer	2.50	2.00	1.50
Delta	4.50	5.50	5.85
Denver	3.00	3.60	4.39
Dolores	3.00	2.00	1.00
Douglas	2.50	.55	.55
Eagle	2.50	2.50	1.00
Elbert	2.50	.55	1.00
El Paso	4.00	3.40	4.00
Fremont	4.00	2.50	2.50
Garfield	2.50	1.00	1.40
Gilpin	2.50	3.40	3.40
Grand	2.50	.70	.70
Gunnison	3.00	1.00	1.00
Hinsdale	2.50	.50	2.00
Huerfano	4.00	6.00	6.00
Jackson	2.50	1.50	1.00
Jefferson	3.50	1.12	1.10
Kiowa	2.50	1.30	1.50
Kit Carson	2.50	1.00	1.25
Lake	2.50	.22	.97
La Plata	3.00	2.00	2.25
Larimer	3.50	3.00	3.00
Las Animas	4.00	6.00	6.00
Lincoln	2.50	1.30	1.30
Logan	2.50	1.45	1.60
Mesa	3.50	2.84	3.46
Mineral	2.50	1.00	1.00
Moffat	2.50	1.70	1.70
Montezuma	4.00	4.10	3.90
Montrose	3.50	4.20	3.50
Morgan	3.00	2.00	3.00
Otero	3.50	3.34	4.25
Ouray	2.50	1.00	1.00
Park	2.50	1.00	1.40
Phillips	2.50	.85	1.55
Pitkin	2.50	.20	.38
Prowers	3.00	2.77	2.73
Pueblo	4.00	5.50	6.60
Rio Blanco	2.50	.26	.26
Rio Grande	3.00	3.50	3.50
Routt	2.50	2.10	3.00
Saguache	3.00	3.50	3.50
San Juan	2.50	2.50	2.00
San Miguel	2.50	.75	.75
Sedgwick	2.50	.50	.25
Summit	2.50	.40	.43
Teller	3.00	2.80	2.50
Washington	2.50	.60	1.00
Weld	3.00	4.65	4.60
Yuma	2.50	1.90	1.90

a. Welfare levy limits are determined according to per capita assessed value as provided in 119-3-6, C.R.S. 1963. 1965 assessed value and county population estimates as of January 1, 1965 by the State Planning Division were used in determining per capita assessed value for each county.

Implications of New Federal Legislation

Several 1965 amendments to the Social Security Act have major implications for welfare administration and finance in Colorado. Also having an important bearing on welfare administration and finance are federal regulations concerning caseworker-caseload ratios and caseload-supervisor ratios which were promulgated pursuant to the 1962 Social Security Act amendments.

1965 Social Security Act Amendments. The 1965 amendments increased the amount of federal aid to adult recipients of Aid to Needy Disabled, Aid to Blind, and Old Age Pension (Class A) programs. Effective January 1, 1966, federal aid was increased from $46.50 to $50.00 per month for each adult recipient in these three programs receiving a grant of at least $75 per month. Federal aid also is increased proportionately for those receiving grants of less than $75 per month. An increase in federal aid of $1.50 per month for each ADC recipient was also effective January 1, 1966.

Maintenance and Expenditure Level. In order for a state to receive this increased reimbursement, state and local governments must maintain at least the level of expenditures in effect prior to the changes in the federal aid formulae. Each state has a choice in determining the benchmark to be used to govern the level of state and local expenditures which must be maintained to be eligible for increased aid.

A state may chose the quarterly average expenditures from state and local funds for either FY 1964 or FY 1965. If it makes this choice, then future quarterly expenditures from state and local funds can not be less than the quarterly average selected. Instead of the quarterly average, a state may chose the actual expenditures in each quarter in either FY 1964 or FY 1965 as a benchmark. If this method is chosen, then future quarterly expenditures from state and local funds can not be less than the actual expenditures from the comparable quarter in the fiscal year selected as a benchmark. No official decision has yet been made as to which fiscal year and which basis (quarterly average or actual expenditures) Colorado will use.

Title XIX, Social Security Act. Any savings of state and local funds resulting from the new medical care program will have to be used for other welfare purposes, because of the requirement concerning the level of state and local expenditures to be maintained. It is contemplated that the savings on the state level will be used to provide improved and uniform medical benefits for all of the federally-aided programs: AB, ADC, AND. In fact, Title XIX of the Social Security Act, as amended in 1965 encourages that this be done and provides federal matching funds for this purpose.

The intent of Title XIX has been stated as follows:

> The underlying objective of the State financing provision in Title XIX is to assist States, where necessary, in securing a broader base of financial support of the new medical assistance program, facilitate maintenance of standards for both administration and program services throughout the State, and avoid placing excessive reliance for program improvement on the varying, and sometimes limited, tax resources of local governments.[1]

To assure that improved medical services will apply uniformly in all areas of a state, as well as in all programs, Title XIX provides further that as of July 1, 1970, there must be only state funds used to meet all of the non federal share of the costs, unless the state plan provides for distribution of federal or state funds on an equalization or some other basis which will assure that lack of funds from local sources will not result in lowering the amount, duration, scope, or quality of care and services under the plan.[2]

In other words, either a state must provide all of the funds for the enlarged medical assistance program, or it must allocate federal and state funds to the counties in such a way that the program will be uniform, regardless of the amount of county funds available.

1962 Social Security Act Amendments

In order to obtain increased federal participation under the 1962 Social Security Act amendments, federal regulations require welfare departments to decrease caseworker workloads to a maximum of sixty cases or an equivalent proportion of time. These regulations also require a caseworker-supervisor ratio of no more than five to one. These ratios must be achieved by July 1, 1967, or the increased federal welfare administration aid of seventy-five percent for the proportion of service cases in the federal-aid categories will be reduced to fifty percent.

During the current fiscal year, it would require a county welfare department staff of 1,424 to meet these standards as contrasted with the average of 1,283 that can be employed under the present appropriation. The required total in FY 1966 is estimated at 1,477 because of increased caseloads.

The increased staff needed to meet federal standards will require additional expenditures of state and local funds, because currently forty percent of the cost of county administration is financed by the state and nineteen percent by the counties. Staffing pattern and caseload ratio requirements also raise several questions concerning welfare organization and administration which will be discussed in connection with the counties' role in welfare administration and finance.

The Counties' Role in Welfare Administration and Finance: Major Problems and Policy Questions

County governments in Colorado provide only ten to eleven percent of the total cost of welfare programs and administration. While counties are responsible for welfare administration on the local level, this responsibility is limited and must be exercised in conformity with federal and state regulations and procedures. Even though the boards of county commissioners (in their capacity as public welfare boards) hire welfare personnel, personnel qualifications, service, and salary

schedules are governed by the state welfare merit system.

Property Tax Burden. Local county financial support is provided entirely from the property tax. The welfare levy is separate from the county general fund levy, so that its increase does not affect general fund levy limits or the level of county services financed from this fund. Nevertheless, the welfare levy adds to the property tax burden which is already excessive, or considered so, in many portions of the state.

In this connection, it should be noted that those counties with the highest welfare levies (most of which are in excess of their statutory limits) are generally those with declining or depressed economic conditions, and it is these economic conditions which cause increased welfare needs. Increasing the property tax levy to meet a need resulting from declining economic conditions tends to impede or postpone economic improvement by aggravating an already bad situation. High property tax levies discourage industrial and commercial growth, which would reduce the need for welfare assistance and also broaden the property tax base.

While the state provides some additional assistance to economically distressed counties, the annual appropriation is only $150,000, which provides only a small amount of relief when applied on a statewide basis.

New Federal and State Aid Changes. New federal and state aid formulae and programs will shift the welfare financial burden even more to these two sources. In addition to increased federal aid, the state (as previously indicated) will finance eighty percent of both the child welfare and the tuberculosis assistance programs instead of the current fifty percent, beginning January 1, 1967. The requirement concerning non federal support for medical assistance programs to take effect July 1, 1970, will either eliminate the county financial burden for these programs or reduce the need for increased county expenditures for this purpose in depressed areas.

Administration and Personnel. Even though the counties will be relieved of a portion of their financial obligations for welfare by these changes, greater county administration expenditures can be expected, unless the state assumes a larger share of the increased cost required to meet federal caseworker and supervisor standards.

The per capita cost of welfare administration paid from county funds is already high in counties with less than 50,000 population and is extremely high in counties with less than 2,500 population. While welfare administration expenditures are only ten percent of the total in counties over 50,000 population, it ranges from 12.5 percent to almost thirty-one percent in the other fifty-three.

The problem is not just limited to administrative costs, it also involves the employment and effective use of professional staff. Caseloads in many small counties do not justify a full-time welfare director, even without additional professional staff. It would seem that these cases might be supervised and serviced more efficiently on a multicounty basis where the caseload would be sufficient to have several professional specialists (such as a trained child welfare worker) serving under one supervisor or director, with centralized clerical functions. Such a change would appear to be a minimum requirement, if the new federal standards are to be met in the most efficient and least costly way.

Welfare Districts. The state welfare department has embarked upon a program to encourage county welfare departments to combine on a district basis as permitted by 119-19 CRS 1963. As presently projected, these districts would follow judicial district boundaries except in the northeast corner of the state where two welfare districts would comprise the six counties in the 13th judicial district.

This program carried to its completion would result in the creation of twenty-three welfare districts. Six of the ten largest counties would operate as single county districts: Adams, Boulder, Denver, Mesa, Pueblo, and Weld.

The other four counties over 50,000 population would have smaller counties attached for welfare purposes as follows:

Arapahoe:	Douglas and Elbert
El Paso:	Cheyenne, Kit Carson, and Lincoln
Jefferson:	Clear Creek and Gilpin
Larimer:	Jackson

The division of the state into welfare districts would not save any money, nor would it necessarily reduce the welfare property tax burden, although there might be some slight shifts in mill levies among counties in some districts. It is designed to provide more efficient administration and utilization of professional personnel, and it would reduce the number of local administrative entities from sixty-three to twenty-three.

This proposal has already met with opposition in some parts of the state, particularly in the northeast and southeast, where the county commissioners want to maintain their welfare program authority on a county basis. Opposition has also been generated by those who feel that the state should take over complete responsibility for welfare and relieve counties of this obligation.

Major Policy Questions

The major policy questions concerning the counties' role in welfare administration and finance revolve around whether this function should be assumed entirely by the state, either immediately or on a gradual basis to be completed in 1970 to coincide with the Title XIX provisions on local support for medical assistance programs.

Pro. Arguments in support of the state assuming complete responsibility for welfare may be summarized as follows:

Counties in reality have little control over the welfare program and contribute only a small proportion of welfare expenditures. The extent of control and financial contribution will diminish in the future, even if the state doesn't assume complete responsibility. As this happens, there is even less justification than at present for counties to be involved in welfare administration and finance.

State assumption of complete responsibility would reduce the property tax burden, which would be of special benefit to economically distressed counties. It would also simplify welfare administration and eliminate county-state friction over salary levels, personnel requirements etc. By assuming greater financial support on a gradual basis, the state could take over the program without a large amount of additional funds required in any one fiscal year. Increased federal aid will also help offset the state's fiscal burden.

Con. The arguments against eliminating the counties' welfare role may be summarized as follows:

It is important to have at least some degree of local control in the welfare program, especially in determining recipient eligibility. County welfare boards are closer to the scene, understand local situations, and are better able to make these decisions than a state agency. In particular, general assistance should not be administered on a uniform basis throughout the state, because of vast differences in local conditions and needs. Consolidation of county welfare departments on a district basis would provide more efficient administration and service, while retaining some degree of local control. Increased state aid could be made available to assist economically distressed counties to a greater extent than at present, without turning this function entirely over to the state.

If the decision is made to retain at least some degree of county control and participation in the program, the following questions should be considered:

1) Should county welfare departments be consolidated on a district basis? If so, should 119-1-9 CRS 1963 be amended to make such consolidation mandatory rather than permissive? How should district welfare boards be constituted and what authority and responsibility should they have?
2) Should there be an increase in state aid to relieve local welfare financial burden? If so, to what extent and on what basis (e.g. to all counties or just to economically distressed counties, for all programs and administration or certain programs)?

Judicial Administration

Cost and Method of Finance

The major portion of the operational cost of Colorado's court system is financed by the property tax at the county level.* Total gross judicial system costs for calendar year 1965 were approximately $9.6 million. Almost eighteen percent of this amount, or $1.7 million was financed from the state's general fund. State general fund appropriations cover the following: 1) the entire cost of the supreme court and the judicial administrator's office; 2) all of the salaries and travel expenses of the state's sixty-nine district judges and the state's share of retirement coverage; 3) $1,200 per year of the salary of each of the state's twenty-two district attorneys; and 4) up to $2,400 per year of the salary of each full-time juvenile probation officer who meets certain statutory qualifications.

Approximately $2.5 million of the total cost, or twenty-six percent is derived from fines and fees. The balance, or fifty-five percent of the total, was financed from the general fund in each county. The property tax is the only tax source of county general fund revenue, and the legal general fund levy limit varies among counties from five to 11.5 mills, depending on county assessed valuation.

Most states finance their court systems in the same manner as does Colorado, although the state share of the cost and the method of allocation varies considerably. Preliminary study indicates that the court system is financed entirely at the state level only in Alaska and Hawaii.

Reasons for Concern

There are two major reasons for the present concern over judicial system costs and the ways in which these costs are met: 1) a 1963 Colorado Supreme Court opinion concerning judicial expenses and the salaries of judicial employees; and 2) the reorganization of the Colorado court system resulting from the approval of a new judicial article in the Colorado Constitution by voters in the 1962 general election and im-

*This total includes district attorneys' offices, probation departments, and jury commissions, in addition to the supreme court, district and county courts, and the Denver probate, juvenile, and superior courts. It is difficult to arrive at a more exact total because counties operate on a calendar-year basis and the state on a July to June fiscal year.

plementing legislation thereto adopted by the General Assembly in 1964.

Smith v. Miller.[9] In this case, the supreme court held that necessary and reasonable judicial expenses must be paid by the county commissioners unless the amount of these expenses is so unreasonable as to indicate affirmatively artibrary and capricious action on the part of the court. The supreme court also held that the district court has the power to set employees' salaries, which salaries must be approved by the county commissioners, again unless there is a clear indication of arbitrary and capricious action on the part of the court and that salaries are unreasonable and unjustified. The supreme court stated further that the county commissioners have the burden of establishing proof of arbitrary and capricious action in the incurring of judicial expense and in setting judicial salaries. As an underlying basis for its decision the supreme court said that courts have inherent power to carry on their functions, so that they may operate independently in accord with the doctrine of separation of powers and the coordinate and equal status of the executive, legislative, and judicial branches of government.

Court Reorganization. The court system reorganization which took effect in January, 1965 included an increase in the number of district judges (from forty-one to sixty-nine) and an accompanying increase in the number of judicial employees, office equipment, supplies, etc. These increases were necessary primarily because of the transfer to the district court of jurisdiction formerly exercised by the county court, such as probate and juvenile. In part, the expansion of the district court was required because of the increase in the amount of judicial business in the state's rapidly-growing population centers. A new county court was established to replace the justice of the peace system. This new minor court is a court of record and requires adequate facilities and staff to carry out its functions properly. Because of caseload and geographic problems, a number of counties have one or more additional full-time or part-time county judges.

Court Budget Increases

The combination of the Smith v. Miller decision and the inauguration of the new court system led to substantially higher court budgets being requested for the 1965 calendar year, resulting in increases of from ten to twenty percent in the amount of county general fund property tax revenue which was required for judicial purposes.

Because of the increase in court budgets, the county commissioners in a number of counties had to exercise tight budget control over the other functions financed from the general fund to avoid exceeding the statutory general fund mill levy limit. As a result, commissioners and other officials in these counties, especially the rapidly-growing ones, state that other necessary county functions have had to be curtailed because they no longer have any control over court budgets.

County General Fund Mill Levy Limits. Twenty-three counties are presently at the maximum general fund mill levy limit, and fifteen are levying in excess of this limit. The remaining twenty-five counties have a general fund mill levy below the maximum. Three types of counties appear to be having the most difficulty with general fund levy limits: 1) the largest counties, which are experiencing the greatest population growth (seven of the ten largest, including Denver, are at or above the levy limit); 2) the smallest counties in population, such as Gilpin, Park, Ouray, Teller, and Dolores; 3) counties suffering from economic decline, such as Las Animas, Huerfano, and Costilla.

Alternate Financing Methods

Several alternatives to the present method of financing courts have been suggested:

1) increase county general fund levy limits;
2) establish a separate county judicial levy;
3) establish separate levies for other county general functions, such as public health;
4) additional state support; and
5) assumption by the state of the entire cost of court system operation.

An increase in county general fund levy limits would make it possible for counties at or above the levy limit to increase appropriations for other general fund functions. The county commissioners favor the creation of a separate judicial fund levy rather than an increase in the county general fund levy limit. Since they have no control over judicial budgets, they would prefer to have a separate levy, so that taxpayers will be aware of judicial costs and not blame the commissioners for general fund increases caused by judicial expenditures. A bill was introduced in the 1965 legislative session to create a separate judicial fund; this measure passed the House in the closing days of the session, but was not considered by the Senate.

In a number of states, the state pays a greater share of court system costs than in Colorado. Salaries for judges of lower courts and of other judicial employees may be paid wholly or in part by the state. Such a proposal was considered, but rejected, by the Legislative Council's Administration of Justice Committee.

Assumption of all judicial system costs by the state has been advocated for several reasons. It is argued that the state should have the entire financial respon-

sibility for the support of the state court system, especially since the county commissioners no longer have any control over judicial budgets. Concern over the property tax burden has also led to the recommendation that the state assume financial responsibility for the court system. Two bills (S.B. 313 and H.B. 1490) providing for state support of the court system were introduced in the 1965 session. Neither of these measures (similar in content) were adopted. The many unanswered questions raised by these bills led to a legislative request that a study be made of the factors involved in state assumption of the entire fiscal responsibility for the court system.*

A State-Financed Judicial System

If the state were to finance all judicial system operating costs under present staffing patterns, salary levels, and administrative practices, it could require a maximum net annual appropriation of $6.2 million.** This total is based on the assumption that all fines and fees presently retained by counties would go to the state and that the additional motor vehicle fines received under this transfer would go to the state highway fund. If the additional motor vehicle fines were to go to the general fund, the approximate net cost increase to the state would be $5.7 million for a full twelve months.

These cost estimates include $300,000 to place court and district attorney personnel under P.E.R.A. and the new state health insurance program. (This amount would be necessary only if judicial system personnel were to become state employees, and is an estimate of the net increase required over the amount presently expanded on employer contributions for group insurance and retirement.)

In summary, the additional annual cost to the state of assuming full judicial system fiscal responsibility at present staffing and salary levels could range from $5.4 million to $6.2 million.

If the state were to assume fiscal responsibility for courts only, the total amount required under the above assumptions would be from $4.1 million to $4.9 million. It would require from $3 million to $3.8 million to finance district courts alone (including the Denver juvenile, probate, and superior courts and the Denver and El Paso County juvenile detention halls).

State assumption of the entire cost of the court system involves much more than a transfer of the fiscal burden from the counties, although this shift in burden may be the primary concern of many of those advocating this change. Likewise, a study of the factors involved in the state assuming full financial support encompasses much more than a precise determination of actual costs, reallocation of fines and fees, and required statutory changes.

Judicial System Control

If the state is to undertake full support of the court system, it can be argued that it has a corresponding two-fold responsibility: 1) that the level of judicial services is adequate throughout the state; and 2) that the best possible use is made of the funds expended in light of the needs of the system as a whole and the money available to finance it.

Full state financial support implies some degree of state control over court system operations, including such matters as:

1) court administration—records, clerical procedures, accounting, and equipment;
2) judicial personnel – qualifications, recruitment and retention, salary schedules, and fringe benefits;
3) probation services—staffing patterns and levels of service;
4) counsel for indigent defendants—amount of fees, public defenders, etc.; and
5) court facilities—determination of need, construction, and maintenance.

Without some degree of control, the state in effect would be signing a blank check, because it would be underwriting the expenses of a judicial system whose needs and adequacy of service would be determined at the district and county levels where there would no longer be any fiscal responsibility. The same problem exists in any contemplated increase in partial state support of the judicial system. It is for this reason that the Legislative Council Administration of Justice Committee rejected recommendations to have the state underwrite a portion of the salaries of court clerks and some other judicial employees. The committee felt that additional state funds should not be expended unless the state had the authority to set personnel standards and dtermine staffing needs.†

The major questions concerning state control over the judicial system may be stated as follows:

1) Who should have the responsibility and authority?
2) To what extent and in what ways should control be exercised?

**The preliminary work on this study was carried on as a cooperative effort of the Governor's Local Affairs Study Commission and the Joint Budget Committee. It is being completed by the Judicial Administrator's office at legislative request.*

***According to the preliminary study findings.*

†It should be noted that state oid to juvenile probation follows this principle. Even though the state does not decide the number of officers needed, nor have any responsibility for their selection, aid is given only to augment the salaries of those probation officers who meet statutory qualifications.

3) What is the proper balance between state control and local judicial authority to avoid infringement on the independence of the judiciary and to allow for circumstances peculiar to a particular area or judicial district?

In other words, the possibility of state control raises the same issues discussed in Smith v. Miller, when the question at hand was the extent, if any, that control over court budgets and salaries could be exercised by the county commissioners.

Colorado Supreme Court. It would appear that the way to resolve these issues is to place state responsibility for court system operation and budget control in the supreme court to be exercised by it through the judicial administrator. Any other choice would conflict with the equal and independent status of the executive, legislative, and judicial branches. The supreme court's authority with respect to the court system as a whole is set forth in Article VI, Section 21 of the Colorado Constitution, which states in part:

> The supreme court shall make and promulgate rules governing the administration of all courts and shall make and promulgate rules governing practice and procedure in civil and criminal cases . . . .

Article 11 of Chapter 37, Colorado Revised Statutes of 1963, created the office of judicial administrator and established judicial departments, each of which is presided over by a justice of the supreme court, for the supervision of all courts of record in the state. The authority and responsibilities of the departmental justices and the judicial administrator are also set forth.

Under the supreme court's authority, a judicial budgeting process could be developed comparable to the executive department budgeting process, with the end product—a budget for the judicial system as a whole—submitted to the Joint Budget Committee for its consideration and recommendations to the General Assembly. There are a number of obstacles to overcome in developing this budgeting process in a meaningful way, and the consideration of these obstacles involves the questions of the extent of state control and the ways in which it should be exercised.

Personnel and Administration. As might be expected, there is very little uniformity throughout the state's judicial system as to the number and salaries of judicial employees, their duties, hours of work, and fringe benefits. There is also a great variance in the types of records used, clerical and accounting procedures, the quality of probation services, the fee schedules for court appointed attorneys, and in court facilities.

There are a number of reasons for the variations in personnel and administration practices and policies. Such variations are to be expected in the absence of any central control or uniform standards. Some of these differences stem from county commissioners' policies during the period prior to the Smith v. Miller case, when commissioners in a number of counties exercised varying degrees of control over court budgets, number of judicial employees, salary levels, and court facility and equipment needs.*

Patronage has played no small part in the selection of judicial employees and in the determination of their number. While this practice is understandable when judges are elected on a partisan political basis, it adds to the difficulty of developing uniform personnel standards, and it has made it almost impossible to consolidate district and county court clerical functions, even when it would be less costly and more efficient to do so.

Because of the existing variations in personnel and court administration practices and policies and the state's responsibility for supervision and operation of the court system if it is going to finance it, it appears necessary that at least the basic ingredients of a statewide personnel and administrative program be developed, so that it can be put in operation at the same time the state undertakes complete financial responsibility. Failure to do so would in effect be giving state sanction to existing personnel and administrative policies (whether good or bad), making subsequent change and greater exercise of control at the state level more difficult.

Counsel for Indigent Defendants. At the present time, with the exception of the 2nd (Denver), 17th (Adams County), and the 22nd (Montezuma and Dolores counties) judicial districts, counsel for indigent defendants are appointed by the judges. (In the 2nd, 17th, and 22th judicial districts, public defenders have been appointed under permissive legislation adopted in 1963.)

There is a wide variance among judicial districts as to the amount of fees paid to court-appointed attorneys. If the state assumes full financial responsibility for the court system, some kind of uniform policy for the payment of fees seems necessary, even if variations are allowed. Further, it would appear that serious consideration should be given to the establishment of the public defender system on a statewide basis, if the state is going to have the responsibility for financing and operating the judicial system.

**For example, efforts of the judicial administrator to improve the court record forms in some counties have been stymied by long-term purchasing contracts entered into by the county commissioners.*

Probation Services. At the present time, both adult and juvenile probation officers are appointed by the court. With one exception, there are no full-time qualified probation officers outside of the most heavily populated judicial districts. As previously indicated, the state pays a portion of the salaries of qualified juvenile probation officers, but makes no financial contribution to adult probation staffs.

If the state assumed the full cost of probation services, its responsibility for this function would be similar to its responsibility for the operation of the juvenile and adult parole programs. Consequently, some decisions are required concerning the relationship between probation and parole services and the extent to which the former require improvement.

Marriage Counseling. Marriage counselors are employed, even on a part-time basis, only in a very few judicial districts in heavily-populated areas. If the state has the full fiscal responsibility for the court system, some policy determination is required concerning the use of this auxiliary court service.

County Court. Under the new county court act adopted in 1964, the county court in each county determines where and if the court will sit elsewhere than the county seat (with the exception of those counties, where the statutes provide specifically where associate and assistant county judges shall hold court).

Since the holding of court in locations other than the county seat may require additional personnel, especially in multiple-judge counties, aswell as the provision of court facilities, a policy decision is required on whether the supreme court (through the judicial administrator) should make or review this determination. If the supreme court is to exercise this authority, should it have the corresponding responsibility to determine the number of county judges needed (both full and part time)? If it should, and makes recommendations accordingly to the General Assembly, what should be the relationship between these recommendations and proposed legislation to add or delete judges introduced at the request of attorneys or other groups in particular areas? In other words, these questions relate to the extent of authority to be exercised by the supreme court over the judicial system.

Court Facilities

The provision and maintenance of court facilities is a matter of importance equal to those concerning court system operation and finances. None of the recommendations to transfer court system fiscal responsibility to the state have dealt adequately with court facilities. If court facilities are to be continued as a local responsibility, what controls, if any, could be imposed at the state level? For example, how could the state effectively make any decisions concerning the construction of additional facilities or the remodeling of existing ones? Yet, the relationship between proper court administration and court facilities is obvious. It is difficult to see how the responsibility for court system operation and court facilities could be divided.

If the state assumes the responsibility for court facilities, should it be required to pay a rental fee to counties in addition to underwriting the costs of new facilities? This approach would undoubtedly find favor among county officials, but may not have much appeal at the state level. It raises all sorts of questions concerning the establishment of an equitable and acceptable rental schedule and opens a new area of possible dispute and controversy between the courts and county officials.

One possible solution would be for the state to assume control of existing facilities without any expenditure of funds involved, except for maintenance. All new facilities would be constructed at state expense. Even under this approach, several problems are presented: Who pays the cost of facilities under construction at the time the state assumes responsibility for the court system? Does or should the state have any responsibility for the construction of county facilities necessitated by the expansion of court facilities within existing buildings, thereby displacing county offices?

The whole problem of court facility fiscal responsibility and control requires very careful study, resulting in decisions prior to state assumption of the full fiscal burden for court operations.

Concluding Comments

The problems, questions, and policy decisions involved in state assumption of complete responsibility for the judicial system are many and complex, but not insoluble. It requires, however, extensive study and thoughtful consideration to resolve these matters satisfactorily. Their satisfactory resolution could result in further strides being made in the improvement in judicial administration which began with the recent court system reorganization.

If the decision is made for the state to assume control of the court system, Colorado will be the first state with elected judges to do so. The other states which have complete state financed and controlled systems have appointed judges. For this reason, Colorado's problems are somewhat different from those experienced in these states, although their experience should provide a valuable guide.

to be in the all-weather gravel, oil, and concrete surface classifications; however, slightly more than twenty-two percent of the present primary system consists of dirt or primitive roads. While this is much less than the proportion of the secondary system in these classifications (63.2 percent), it raises the question of whether all county primary system mileage is properly designated.

This designation raises no problem at present under the highway users' fund distribution formula, because each mile of county road is treated alike for distribution purposes. It could create a problem, however, under any distribution formula keyed to county primary system mileage.

County Road Fund Revenue

State and Local Sources. County highway revenues from all sources totaled $26.9 million in 1964, 20.2 percent more than in 1960. Almost sixty percent of county highway revenues came from state sources in 1964, including highway users' fund distribution, specific ownership "A" tax, motor vehicle penalty assessments, gasoline tax refunds, and State Highway Department maintenance payments. During the five-year period, 1960 through 1964, the proportion of total highway revenue from state sources remained fairly stable, varying from a high of 62.8 percent in 1960 to 59.8 percent in 1964.

Eighteen counties received more than seventy-five percent of their highway revenue from state sources in 1964. With the exception of Montrose and Alamosa, these counties have less than 10,000 population, thirteen having less than 5,000 population. Eight counties received less than fifty percent of their total highway revenue from state sources in 1964. The proportion of county highway revenues from state and local sources from 1960 through 1964 is shown in Table 19.

Although 36.1 percent of all county highway revenues came from local sources (primarily from property taxes) in 1964, eight counties received less than ten percent. Seven counties, all of them among the twelve largest, depended on local sources for more than fifty percent of total highway revenue in 1964.

Road and Bridge Fund Levies. All counties, except two (Moffat and San Miguel) levy a property tax for road and bridge construction and maintenance. In 1966, these levies ranged from a low of .50 mills in Ouray County to a high of 10.70 mills in Elbert County. Between 1960 and 1966, fourteen counties reduced their road and bridge fund mill levy, and seven counties had no change.

Of the forty-one counties with mill levy increases, between 1960 and 1966, ten had increases of .50 mills or less; twelve counties had increases between .51 and 1.00 mill; nine had increases of between 1.01 and 2.00 mills; and ten had increases of more than 2.00 mills. Mesa is the only county with more than 50,000 population to have a mill levy reduction between 1960 and 1966. Ten of the fourteen counties with mill levy reductions during this period depend on state sources for sixty percent or more of their highway revenue: Cheyenne, Custer, Dolores, Gilpin, Mesa, Moffat, Montezuma, Montrose, Park, and Washington.

Six of the seven counties which had no mill levy change between 1960 and 1966 also depend on state sources for sixty percent or more of their highway revenue: Archuleta, Costilla, Gunnison, Huerfano, San Juan, and San Miguel.

County Road Expenditures

County highway expenditures totaled $26.05 million in 1964, 14.2 percent more than in 1960. Slightly more than seventy-nine percent was spent for construction and maintenance, including rights-of-way acquisition; fourteen percent was spent for new equipment; four percent for administration; and the remaining three percent covered county treasurers' property tax collection fees and miscellaneous expenditures.

Per Mile Expenditure Analysis

No meaningful interpretation of per mile expenditures can be made without reference to other aspects of county road department administration and finance. Table 20 shows the relationships among county population, road and bridge fund mill levies, proportion of revenue from state and local sources, proportion of road system classified as primitive and dirt, and selected per mile expenditures. The counties are divided in this table into five population groups: I) 50,000 or more; II) 10,000-25,000; III) 5,000-10,000; IV, 2,500-5,000; and V) less than 2,500.

General Patterns and Relationships. There is considerable variation among counties within each group in each category. Nevertheless, when population group averages are compared as shown in Table 21, several general patterns and relationships emerge which may be summarized as follows:

1) Counties over 50,000 population depend much more on local revenue sources and much less on state revenue sources than any of the other population groups. Counties in this group also have the smallest proportion of their road systems classified as primitive or dirt; therefore, as might be expected, this group has the highest total per mile expenditures and the higher per mile expenditures for construction and maintenance, administration, and equipment. Even though this group depends much more on local revenue sources than any other, its average mill levy is the lowest among the five groups.

Based on recent highway users' fund revenue collection experience and projected increases in gasoline tax revenue and vehicle registrations, the total net amount for highway users' fund apportionment is estimated at $57.1 million in calendar 1965 and $59.3 million in calendar 1966. Using these estimates, counties received approximately $14.85 million and municipalities, $5.14 million in calendar year 1965. In the current calendar year, counties will receive an estimated $15.42 million and municipalities, an estimated $5.34 million.

Municipal-County Controversy

Municipalities have long disagreed with the highway users' fund allotment of nine percent to cities and towns, and the Colorado Municipal League for many years has passed resolutions at its annual conference endorsing a larger municipal share. The resolution adopted in 1965 did not recommend a specific change in the present formula, but called for an additional one cent motor fuel tax to be divided equally among the state, counties, and municipalities.*

The municipalities have also expressed their interest (as shown through League resolutions) in obtaining some kind of sharing arrangement with counties having road and bridge funds which are financed in part from a property tax levy in both incorporated and unincorporated areas.

The counties have contended that they need additional revenues to meet their road needs and have opposed any change in highway users' fund allocations which would reduce their share. Except in a few isolated instances, there has been no sharing of county road and bridge funds with municipalities, and the legal authority of counties to do so has been questioned. At least at one Governor's Forum held in 1965, the county commissioners from a populous county complained that the present formula for allocating the counties' share within the twenty-six percent allocation favors rural counties at the expense of urban ones, which have more vehicular traffic, demand for better roads, and, hence, higher per mile costs.

County Highway Finance

County Road Mileage. County road mileage in 1964 (the last year for which figures are available) totaled 65,474. Between 1960 and 1964, county road mileage increased only 1.8 percent (1,168 miles). Thirty-eight counties had increases in county road mileage during this period, although some increases were very minor. Seven counties had no change in road mileage, and seventeen had a mileage reduction.

There are several reasons why a county might have reduced mileage: 1) county road mileage which is added to the state system; 2) annexations or incorporations which add mileage to the municipal system; and 3) abandonment of county road mileage. The first appears to be the most significant, except in highly urbanized areas where annexations are an important factor.

Eight counties had 2,000 miles or more on their road systems in 1964, with Weld having the most, 4,440. With the exception of Moffat County, these are all eastern plains counties with large rural areas and a predominant agricultural economy. Nine counties had fewer than 300 miles on their road systems in 1964, all of these are located in the most mountainous portions of the state.

Surface Classification. Almost seventeen percent of the total county road mileage is classified as "primitive with no maintenance." Even though road mileage in this category does not receive even minimum maintenance, it is included in determining each county's allocation from the highway users' fund. In fact, the difficulty factor is also applied to this mileage as it is to all other county road mileage.

More than eighteen percent of the county road system is classified as "dirt with scraping and little or no maintenance." Consequently, thirty-five percent of the county road system has little or no maintenance (primitive plus dirt). Fifteen counties have at least fifty percent of their road systems in the primitive and dirt classifications, and only seven counties have less than twenty percent of their road systems in these classifications.

Slightly more than sixteen percent of the county road system is classified as dirt roads which are graded, aligned, drained, and scraped. A large portion of the county road system (41.4 percent) is classified as "all weather gravel," and only seven percent is classified as oil treated, oil process, or concrete.

Thirteen counties have more than ten percent of their road systems classified as oil treated, oil process, or concrete, with Jefferson (41.8 percent) having the largest proportion so classified. Most of these counties have large populations and are located on the eastern slope; however, three western slope counties (Mesa, Delta, Rio Blanco) and one from the San Luis Valley (Rio Grande) are included.

Primary and Secondary Systems. In 1964, almost thirty-two percent of the total county road system mileage was classified as primary, with the remainder designated as secondary. Presumably, the roads classified as primary should be those which are major county thoroughfares, as distinguished from farm-to-market roads. If this is true, then virtually all of the primary system in each county might reasonably be expected

It should be noted that this resolution was approved prior to adoption of the temporary one cent gas tax increase by the General Assembly for disaster relief in the second 1965 special session.

to be in the all-weather gravel, oil, and concrete surface classifications; however, slightly more than twenty-two percent of the present primary system consists of dirt or primitive roads. While this is much less than the proportion of the secondary system in these classifications (63.2 percent), it raises the question of whether all county primary system mileage is properly designated.

This designation raises no problem at present under the highway users' fund distribution formula, because each mile of county road is treated alike for distribution purposes. It could create a problem, however, under any distribution formula keyed to county primary system mileage.

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Eighteen counties received more than seventy-five percent of their highway revenue from state sources in 1964. With the exception of Montrose and Alamosa, these counties have less than 10,000 population, thirteen having less than 5,000 population. Eight counties received less than fifty percent of their total highway revenue from state sources in 1964. The proportion of county highway revenues from state and local sources from 1960 through 1964 is shown in Table 19.

Although 36.1 percent of all county highway revenues came from local sources (primarily from property taxes) in 1964, eight counties received less than ten percent. Seven counties, all of them among the twelve largest, depended on local sources for more than fifty percent of total highway revenue in 1964.

Road and Bridge Fund Levies. All counties, except two (Moffat and San Miguel) levy a property tax for road and bridge construction and maintenance. In 1966, these levies ranged from a low of .50 mills in Ouray County to a high of 10.70 mills in Elbert County. Between 1960 and 1966, fourteen counties reduced their road and bridge fund mill levy, and seven counties had no change.

Of the forty-one counties with mill levy increases, between 1960 and 1966, ten had increases of .50 mills or less; twelve counties had increases between .51 and 1.00 mill; nine had increases of between 1.01 and 2.00 mills; and ten had increases of more than 2.00 mills. Mesa is the only county with more than 50,000 population to have a mill levy reduction between 1960 and 1966. Ten of the fourteen counties with mill levy reductions during this period depend on state sources for sixty percent or more of their highway revenue: Cheyenne, Custer, Dolores, Gilpin, Mesa, Moffat, Montezuma, Montrose, Park, and Washington.

Six of the seven counties which had no mill levy change between 1960 and 1966 also depend on state sources for sixty percent or more of their highway revenue: Archuleta, Costilla, Gunnison, Huerfano, San Juan, and San Miguel.

County Road Expenditures

County highway expenditures totaled $26.05 million in 1964, 14.2 percent more than in 1960. Slightly more than seventy-nine percent was spent for construction and maintenance, including rights-of-way acquisition; fourteen percent was spent for new equipment; four percent for administration; and the remaining three percent covered county treasurers' property tax collection fees and miscellaneous expenditures.

Per Mile Expenditure Analysis

No meaningful interpretation of per mile expenditures can be made without reference to other aspects of county road department administration and finance. Table 20 shows the relationships among county population, road and bridge fund mill levies, proportion of revenue from state and local sources, proportion of road system classified as primitive and dirt, and selected per mile expenditures. The counties are divided in this table into five population groups: I) 50,000 or more; II) 10,000-25,000; III) 5,000-10,000; IV, 2,500-5,000; and V) less than 2,500.

General Patterns and Relationships. There is considerable variation among counties within each group in each category. Nevertheless, when population group averages are compared as shown in Table 21, several general patterns and relationships emerge which may be summarized as follows:

1) Counties over 50,000 population depend much more on local revenue sources and much less on state revenue sources than any of the other population groups. Counties in this group also have the smallest proportion of their road systems classified as primitive or dirt; therefore, as might be expected, this group has the highest total per mile expenditures and the higher per mile expenditures for construction and maintenance, administration, and equipment. Even though this group depends much more on local revenue sources than any other, its average mill levy is the lowest among the five groups.

TABLE 20

ROAD AND BRIDGE MILL LEVIES, REVENUE SOURCES, PERCENT OF PRIMITIVE AND DIRT ROADS, AND SELECTED PER MILE EXPENDITURES, COUNTIES RANKED ACCORDING TO POPULATION COLORADO, 1960-1966

County	Population[a]	Road & Bridge Mill Levy 1966	Amt. Change Mill Levy 1960-1966	Pct. Revenue, State Sources 1964	Pct. Revenue, Local Sources 1964	Pct. of Prim. and Dirt Roads 1966	Total Exp. Per Mile 1960 -1964 Avr.		Const. & Maint. Expenditures Per Mile[b] 1960-1964 Avr.	Admin. Expend. Per Mile 1960-1964 Avr.		Equip. Expend. Per Mile[b] 1960-1964 Avr.
50,000 pop. or more												
Jefferson	178,000	2.70	(.80)	51.5 %	48.4 %	14.8 %	$1,493[c]	$1,511[b]	$1,166	$68[c]	$69[b]	$130
El Paso	175,000	5.50	2.20	45.9	54.1	15.0	688	757	597	29	32	121
Adams	153,500	3.00	1.50	42.3	57.6	27.9	715	847	671	23	27	112
Arapahoe	137,500	1.702	.22	40.8	55.3	14.6	1,178	1,271	976	50	54	144
Pueblo	127,500	1.50	.50	63.0	37.0	41.8	397	489	402	24	29	56
Boulder	91,000	3.55	.20	31.4	68.3	20.5	1,162	1,246	974	79	85	157
Weld	79,000	2.50	.50	66.1	33.8	32.7	307	378	294	11	13	63
Larimer	65,000	3.50	.80	48.0	51.2	29.1	681	760	620	19	21	118
Mesa	54,400	1.50	(.18)	65.0	24.7	31.0	614	643	525	22	23	71
10,000-25,000												
Otero	24,850	4.46	(.18)	45.1	53.8	25.4	417	521	455	9	11	47
Morgan	21,300	4.40	1.65	48.0	51.5	32.2	355	463	369	12	16	54
Fremont	21,100	2.00	1.00	74.1	20.8	53.1	391	437	352	19	21	58
Logan	20,700	2.55	(.90)	73.6	26.1	27.2	239	305	226	10	12	54
La Plata	20,000	5.00	(.75)	51.6	44.9	30.7	611	699	519	28	32	90
Las Animas	19,600	3.00	.54	74.9	24.0	40.3	227	271	246	3	4	5
Montrose	19,400	1.00	(1.00)	80.2	11.4	43.9	373	402	305	13	14	66
Delta	15,825	4.35	.32	65.6	29.8	26.4	491	527	402	23	26	76
Montezuma	14,100	2.00	(1.00)	70.3	12.3	36.0	385	459	351	14	17	83
Prowers	13,600	4.00	3.00	70.8	28.6	30.7	185	214	157	7	8	46
Garfield	12,600	4.50	1.00	57.6	30.4	36.1	544	571	466	10	10	85
Rio Grande	11,900	7.00	3.20	52.6	46.5	19.0	565	637	520	14	15	70
Alamosa	10,800	3.00	1.00	77.3	22.5	18.5	305	342	262	26	29	47
5,000-10,000												
Yuma	9,000	3.50	1.50	72.2	27.5	24.2	152	184	130	8	9	37
Conejos	8,750	1.50	.50	87.1	11.9	33.6	297	377	286	18	23	39
Chaffee	8,500	2.50	.50	77.8	21.5	56.6	400	542	386	20	27	118
Huerfano	8,000	3.00	-	67.2	32.6	49.6	297	366	280	9	11	72
Lake	7,600	3.93	1.27	37.4	36.7	57.3	823	1,078	824	46	60	90
Moffat	7,600	-	(.25)	73.1	17.1	60.5	288	370	286	14	18	50
Bent	7,500	2.00	1.00	78.5	17.9	38.6	161	218	171	3	4	42
Kit Carson	7,225	6.50	1.50	64.6	35.3	28.0	165	217	174	1	1	36
Washington	6,700	2.35	(1.15)	62.3	37.4	42.4	178	275	207	4	6	58
Gunnison	6,500	5.30	-	63.8	27.8	55.5	445	591	465	25	33	85
Baca	6,425	4.00	.35	71.4	28.0	35.3	153	212	156	5	7	42
Routt	6,250	2.40	.50	70.0	17.7	37.4	374	409	334	5	7	68
Douglas	5,900	7.50	1.00	54.4	45.2	19.0	540	593	486	9	9	87
Rio Blanco	5,450	4.25	1.00	38.4	40.7	45.3	808	655	645	56	58	109
Lincoln	5,300	7.50	2.30	59.1	40.8	23.7	179	224	167	11	14	41
2,500-5,000												
Eagle	4,950	3.50	2.00	75.5	19.7	50.7	422	479	359	15	18	100
Saguache	4,650	5.00	4.00	76.1	20.3	40.4	340	393	237	8	9	71
Phillips	4,500	2.30	.80	74.6	25.4	28.0	135	180	136	11	15	31
Sedgwick	4,250	4.00	-	56.0	43.9	24.8	228	298	249	13	17	30
Costilla	4,150	1.00	-	95.6	4.4	49.9	273	345	272	26	33	19
Crowley	3,950	2.00	1.00	78.6	21.0	23.8	143	177	148	3	4	40
Grand	3,700	2.00	2.00	94.4	4.9	52.5	337	395	270	15	17	87
Elbert	3,675	10.70	.70	53.3	46.7	26.0	272	317	243	3	3	50
Pitkin	3,150	5.50	2.50	53.1	38.6	49.9	606	670	499	50	55	91
Clear Creek	3,000	8.00	2.00	54.6	43.5	55.1	606	637	471	30	31	114
Cheyenne	2,800	3.50	(.50)	69.4	30.5	35.4	152	231	166	1	2	58
San Miguel	2,800	-	-	85.5	4.4	54.5	335	426	283	16	21	76
Archuleta	2,750	1.00	-	77.6	9.0	39.0	448	523	377	17	21	119
Teller	2,650	7.85	4.00	70.9	28.9	44.2	385	426	353	7	7	52
2,500 or less												
Kiowa	2,400	6.00	2.25	69.3	30.5	34.6	148	206	154	5	6	40
Dolores	2,150	1.00	(1.00)	77.0	5.1	40.7	374	494	361	6	10	79
Summit	2,000	5.00	2.50	65.6	26.7	64.3	505	559	369	43	47	113
Jackson	1,775	2.00	1.00	67.2	10.0	52.6	391	501	365	17	21	96
Ouray	1,750	.50	.50	95.5	1.5	48.3	325	385	252	-	-[d]	110
Park	1,750	7.00	(2.00)	75.6	23.6	57.0	343	548	418	3	4	108
Custer	1,350	1.00	(1.00)	93.9	5.8	32.8	276	353	221	12	15	107
San Juan	875	2.00	-	79.8	11.9	62.9	483	616	382	47	49	178
Gilpin	800	3.00	(3.00)	69.6	30.0	50.0	414	476	292	-	-[d]	85
Mineral	475	6.50	1.14	62.7	29.9	74.5	519	779	494	33	49	194
Hinsdale	200	4.00	2.00	83.8	7.8	30.2	501	521	334	28	30	95

a. Estimates as of January 1, 1965, State Planning Division.
b. Primitive mileage excluded.
c. Primitive mileage included.
d. Not reported.

TABLE 19

PERCENT OF COUNTY ROAD REVENUES FROM STATE AND LOCAL SOURCES, BY COUNTY, COLORADO, 1959-1963[c]

County	---1960---		---1961---		---1962---		---1963---		---1964---	
	% From State Sources[a]	% From Local Sources[b]	% From State Sources[a]	% From Local Sources[b]	% From State Sources[a]	% From Local Sources[b]	% From State Sources[a]	% From Local Sources[b]	% From State Sources[a]	% From Local Sources[b]
Adams	59.7	40.3	62.3	58.2	54.3	45.7	41.8	58.1	42.3	57.6
Alamosa	78.5	21.5	75.0	24.6	73.5	26.2	76.1	23.6	77.3	22.5
Arapahoe	38.7	58.4	39.4	53.8	46.8	53.1	31.5	48.5	40.8	55.3
Archuleta	86.1	8.8	66.2	72.2	76.4	10.5	63.5	5.1	77.6	9.0
Baca	76.1	22.1	71.1	27.0	70.8	27.6	70.8	27.7	71.4	28.0
Bent	82.0	12.2	82.8	13.3	81.8	13.4	74.7	20.5	78.5	17.9
Boulder	36.8	62.8	36.8	62.9	33.0	60.1	31.3	68.4	31.4	68.3
Chaffee	77.6	21.0	65.3	33.4	74.1	24.9	71.5	27.3	77.8	21.5
Cheyenne	66.4	33.5	70.1	29.8	70.7	29.2	70.4	28.2	69.4	30.5
Clear Creek	62.2	31.6	73.0	23.5	64.3	32.8	59.8	37.5	54.6	43.5
Conejos	88.9	7.3	89.4	8.8	88.6	8.5	85.1	10.3	87.1	11.9
Costilla	NA	NA	95.4	4.5	91.7	3.3	95.3	4.7	95.6	4.4
Crowley	88.4	11.0	90.7	9.3	83.3	16.6	74.0	25.8	78.6	21.0
Custer	87.3	6.6	89.8	9.7	92.5	7.1	91.7	7.8	93.9	5.8
Delta	64.7	29.9	68.0	36.6	62.9	31.5	61.8	32.2	65.6	29.8
Dolores	66.6	19.8	79.8	61.2	81.3	4.2	77.1	6.6	77.0	5.1
Douglas	58.7	40.5	54.9	44.5	56.2	42.5	52.3	47.1	54.4	45.2
Eagle	78.1	14.1	70.0	14.0	76.2	16.4	72.4	21.5	75.5	19.7
Elbert	54.8	45.2	53.9	46.1	52.9	47.1	53.1	46.9	53.3	46.7
El Paso	44.6	55.2	49.2	50.7	48.7	51.3	47.5	52.4	45.9	54.1
Fremont	84.6	15.0	81.4	18.2	79.5	20.3	75.3	24.4	74.1	20.8
Garfield	60.6	24.3	60.9	26.2	60.6	25.9	57.2	30.2	57.6	30.4
Gilpin	69.1	30.0	70.1	28.5	71.9	27.7	70.2	29.1	69.6	30.0
Grand	88.9	1.6	96.9	.7	96.5	2.1	94.2	50.2	94.4	4.9
Gunnison	63.3	22.9	44.0	48.1	58.7	29.6	66.9	26.7	63.8	27.8
Hinsdale	70.5	5.7	66.3	10.6	80.6	11.4	86.5	3.6	83.8	7.8
Huerfano	79.0	19.1	81.3	17.6	80.7	18.7	80.6	18.5	67.2	32.6
Jackson	66.6	9.8	74.8	11.1	70.4	13.5	66.7	20.2	67.2	10.0
Jefferson	52.7	47.3	46.4	53.5	62.9	37.0	49.7	50.2	51.5	48.4
Kiowa	66.0	33.6	69.0	30.6	70.3	29.4	70.2	29.4	69.3	30.5
Kit Carson	71.1	28.9	66.9	33.1	66.6	33.3	64.2	35.8	64.6	35.3
Lake	45.4	54.6	43.9	56.1	41.8	55.3	30.5	55.9	37.4	36.7
La Plata	43.7	50.1	47.8	47.9	47.5	49.1	47.1	48.7	51.6	44.9
Larimer	61.2	36.6	59.4	39.6	56.4	42.6	48.6	50.3	48.0	51.2
Las Animas	77.3	17.9	78.7	18.0	78.3	17.5	81.3	16.9	74.9	24.0
Lincoln	65.5	34.5	65.0	35.0	61.7	38.3	61.6	38.4	59.1	40.8
Logan	56.1	43.7	57.9	42.0	66.0	33.7	66.2	33.7	73.6	26.1
Mesa	67.2	22.4	62.0	28.2	59.2	30.9	55.7	32.5	65.0	24.7
Mineral	74.6	19.3	46.1	20.7	66.6	25.6	62.1	27.0	62.7	29.9
Moffat	65.6	38.6	70.8	1.9	74.0	2.6	75.2	19.6	73.1	17.1
Montezuma	71.3	17.8	69.4	18.9	70.4	19.1	65.4	18.5	70.3	12.3
Montrose	75.1	16.2	74.2	19.5	74.2	16.9	75.1	16.1	80.2	11.4
Morgan	54.2	44.8	52.1	47.1	47.6	51.8	40.7	58.8	48.0	51.5
Otero	46.7	51.3	49.1	49.3	42.0	56.8	43.4	55.9	45.1	53.8
Ouray	90.3	1.1	89.3	2.6	95.8	.4	96.1	1.5	95.5	1.5
Park	76.6	21.8	73.9	24.8	78.1	20.6	77.9	20.9	75.6	23.6
Phillips	79.2	20.7	78.4	21.6	73.9	26.1	73.9	26.1	74.6	25.4
Pitkin	59.9	24.2	60.6	25.2	59.8	28.2	51.2	37.7	53.1	38.6
Prowers	84.5	14.9	84.2	15.2	69.0	30.5	68.4	30.9	70.8	28.6
Pueblo	60.3	39.5	54.6	44.8	55.5	44.4	56.9	43.1	63.0	37.0
Rio Blanco	31.2	49.0	32.8	44.3	31.8	48.6	38.9	38.4	38.4	40.7
Rio Grande	64.2	28.9	55.7	42.3	51.3	47.6	54.3	40.9	52.6	46.5
Routt	73.0	13.9	74.1	14.6	70.0	19.0	71.1	14.8	70.0	17.7
Saguache	94.6	5.2	71.9	19.6	73.9	23.7	73.5	17.6	76.1	20.3
San Juan	64.5	19.5	76.5	13.2	75.2	18.6	80.8	9.8	79.8	11.9
San Miguel	87.7	.5	85.5	.02	88.7	.04	85.6	1.3	85.5	4.4
Sedgwick	54.4	45.6	56.2	43.8	51.8	48.2	49.1	42.9	56.0	43.9
Summit	72.9	27.1	69.2	18.8	71.2	23.1	54.4	32.1	65.6	26.7
Teller	81.0	18.3	74.1	25.3	76.9	22.9	65.9	33.6	70.9	28.9
Washington	69.3	30.6	62.7	37.3	54.1	45.8	57.2	42.5	62.3	37.4
Weld	70.3	29.5	61.1	38.8	56.6	43.3	58.4	41.6	66.1	33.8
Yuma	82.9	16.7	69.7	30.0	69.7	30.3	69.9	29.8	72.2	27.5
State Total	62.8	32.7	60.8	34.7	61.0	35.0	57.6	37.3	59.8	36.1

a. Does not include federal sources, such as Mineral Leasing Act, Forest Service, Land Materials Act, and Taylor Grazing Act; also does not include receipts from municipalities for operations performed by the county (10 counties).

b. Includes Highway Users' Tax, Specific Ownership "a" Tax, Motor Vehicle Penalties, Gasoline Tax Refunds, Receipts from State Highway Department and other state revenues.

c. Includes property tax, transfers from other funds and other local receipts.

TABLE 21

COUNTY ROAD REVENUE SOURCES, PERCENT OF PRIMITIVE AND DIRT ROADS, SELECTED PER MILE EXPENDITURES, AND MILL LEVIES, AVERAGES BY COUNTY POPULATION GROUPS

	Group I (Over 50,000)	Group II (10,000-25,000)	Group III (5,000-10,000)	Group IV (2,500-5,000)	Group V (Under 2,500)
Percent of Revenue: State Sources	50.4%	64.7%	65.2%	72.5%	76.4%
Percent of Revenue: Local Sources	47.5	31.0	29.2	24.4	16.6
Percent of Primitive & Dirt Roads	25.3%	32.3%	40.5%	41.0%	49.4%
Total Expenditures Per Mile[a]	$878	$450	$421	$393	$494
Construction & Maintenance Expenditures Per Mile[a]	692	356	333	290	331
Administration Expenditures Per Mile[a]	39	17	19	18	26
Equipment Expenditures Per Mile[a]	105	56	65	67	109
Road and Bridge Mill Levy	2.83	3.64	3.75	4.03	3.45

[a]Primitive mileage excluded.

2) The degree of dependence on state and local revenue sources appears to be a function of population size; state source dependence increases and local source dependence decreases as county population decreases.
3) The proportion of county road systems classified as primitive and dirt is also a function of population size, being much higher in the three smallest population groups, especially Group V (under 2,500).
4) With the exception of Group V, per mile expenditures decreases as county population decrease, although there is little difference among groups II, III, and IV in average expenditures per mile for administration and equipment.
5) Group V (under 2,500 population) has higher average expenditures per mile than any other group, except Group I (over 50,000 population). Even though average per mile construction and maintenance costs are lower for this group than any other except Group IV (2,500-5,000 population), its average per mile administrative expenditures are second only to Group I. Furthermore, the average per mile equipment costs are higher for this group than any other, even though almost fifty percent of its road systems are classified as dirt or primitive.

These general patterns and relationships indicate that perhaps small counties are receiving a greater share of the counties' highway users' fund allocation than can be justified on the basis of types of roads constructed and maintained and amount of travel (assuming vehicle miles traveled have some relationship to population). Further, this allocation reduces substantially the need for local highway program support in these counties.

It can be argued that most small counties, because of low assessed valuations, are not as able as the large ones to support the county highway program locally without increasing the property tax burden substantially. The question remains, however, as to the main objective of distributing state highway users' funds to local units. Is such distribution to provide property tax relief or to provide funds to assist in the construction and maintenance of major county thoroughfares, as determined by use and need studies?

The unusually high per mile costs of the road program in the smallest counties (when compared with the other groups) raises the question of whether it actually costs more to construct and maintain roads in very small counties because they are too small to be efficient units for road program operation. If this is the case, perhaps the consolidation of road functions on a district basis might be one way to reduce costs. Such consolidation is presently permitted by statute, but no counties have taken advantage of this provision.[4]

Road System Organization and Administration. Many counties, including the small ones, do not operate their road programs as county units. The non county-unit counties operate their programs on a county commissioner district basis to the extent that some have three road supervisors, three garages, separate equipment, and (in at least one instance) three road material batch plants.

Extensive study would be required to measure with any degree of preciseness the effect that road program organization has on administrative, equipment, construction, and maintenance costs. The wide range in per mile costs, such as administration and equipment, among counties within each population group may be

explained, at least in part, by road program organizational differences.

Proportion of Expenditures. Construction and maintenance costs account for an average of seventy-nine percent of total per mile expenditures in Group I, II, and III counties, seventy-four percent in Group IV counties, and sixty-seven percent in Group V counties. Administrative costs range from 3.8 percent of the total in Group II counties to 5.2 percent in Group V counties. Equipment expenditures constitute twenty-two percent of total costs in Group V counties, but only twelve percent in Group I, although the per mile averages are very similar. The proportion of total expenditures from construction and maintenance, administration, and equipment is shown by county population group in Table 22.

TABLE 22

PROPORTION OF TOTAL COUNTY HIGHWAY EXPENDITURES FROM SELECTED FUNCTIONS COLORADO, 1960-1964 AVERAGE

	Construction & Maintenance 1960-64 Average	Administration Expenditures 1960-64 Average	Equipment Expenditures 1960-64 Average
Group I (over 50,000)	78.8%	4.5%	11.9%
Group II (10,000-25,000)	79.1	3.8	12.4
Group III (5,000-10,000)	79.0	4.5	15.4
Group IV (2,500-5,000)	73.7	4.6	17.0
Group V (Under 2,500)	67.0	2.5	22.1

Relationship Between County Construction and Maintenance Expenditures and Highway Users' Fund Distribution

The relationship between each county's construction and maintenance expenditures and the amount it receives from the highway users' fund provides a guideline for assessing the equity of the formula used for distributing the counties' twenty-six percent allocation. To determine this relationship, the proportion of total county construction and maintenance expenditures made by each county for the five-year period, 1960 through 1964, was compared with the proportion of the total county highway users' fund distribution received during the same period.

This comparison is shown in Table 23, with the relationship between the two (construction and maintenance expenditures and highway users' fund distribution) expressed by the index number shown in the last column. An index of 100 would mean that a county received the same proportion of highway users' funds as its proportion of construction and maintenance expenditures. An index of less than 100 means that a county's proportion of total construction and maintenance expenditures was *more* than its proportion of the highway users' fund distribution. An index of more than 100 indicates that a county's proportion of construction and maintenance expenditures was *less* than its proportion of the highway users' fund distribution.

Nineteen counties had indices of less than 100, with Boulder (52.1) and Arapahoe (59.1 being the lowest. All nine of the counties with more than 50,000 population fell in this category, as did five with populations between 10,000 and 25,000, two with populations between 5,000 and 10,000, and three with populations between 2,500 and 5,000.

The remaining thirty-three counties had indices of more than 100, with eight with indices of more than 150, which means that these eight counties received proportionately 1.5 times as much from the highway users' fund as their construction and maintenance expenditures. The largest of these eight counties has a population of 8,750 and the remaining seven have populations of less than 5,000.

The use of this analysis of the relationship between construction and maintenance expenditures and highway users' fund allocation to show possible inequities in the distribution formula is valid to the extent that:

1) highway construction and maintenance are considered to be the major purposes for which highway users' funds should be distributed; and
2) construction and maintenance expenditures made by each county between 1960 and 1964 bear a close relationship to actual needs during this period.

Financing Municipal Streets

Municipal Street Mileage. There were 5,485 miles of municipal streets in 1964 credited for allocation of the municipal share of the highway users' fund. This total represents an increase of almost thirteen percent from 1960. Denver had 1,487 miles of the total or 27.1 percent. Seven other municipalities had more than 100 miles of streets: Colorado Springs, 372; Pueblo, 297; Aurora, 175; Boulder, 142; Arvada, 139; Englewood, 113; and Greeley, 109. Almost seventy percent of the municipal street system in 1964 was classified as oil treated, oil process, or concrete. Twenty-two percent was classified as all-weather gravel; graded, aligned and drained dirt accounted for two percent; dirt, with little or no maintenance, 5.4 percent; and primitive (no maintenance) .6 percent.

Registration Factor. Municipalities are grouped in Table 24 according to registration factor. This is the factor that is applied to motor vehicle registrations in each municipality in determining its share of the highway users' fund. The factors are applied as follows:[5]

TABLE 23

RELATIONSHIP BETWEEN PROPORTION OF CONSTRUCTION AND MAINTENANCE EXPENDITURES AND PROPORTION OF HIGHWAY USERS' FUND COUNTY ALLOCATION COLORADO, 1960-1964

County	Pop.[a]	Pct. of All County Exp. Const. and Maint. 1960-1964[b]	Pct. of County Allocation From Highway Users' Fund 1960-1964	Index of Relationship[c]
50,000 Pop. or More				
Jefferson	178,000	7.80 %	6.28 %	80.5
El Paso	175,000	5.59	3.82	68.2
Adams	153,500	4.85	3.99	82.3
Arapahoe	137,500	3.41	2.01	59.1
Pueblo	127,500	2.40	2.07	86.2
Boulder	91,000	3.38	1.76	52.1
Weld	79,000	5.72	5.54	96.9
Larimer	65,000	3.98	2.94	73.9
Mesa	54,400	3.73	3.69	99.1
10,000-25,000				
Otero	24,850	1.72	1.05	61.0
Morgan	21,300	2.17	1.65	76.4
Fremont	21,100	1.19	1.55	130.5
Logan	20,700	2.06	2.28	110.3
La Plata	20,000	1.93	1.66	86.2
Las Animas	14,600	2.29	2.61	113.9
Montrose	19,400	1.96	2.76	141.1
Delta	15,825	1.58	1.75	110.4
Montezuma	14,100	1.47	1.75	118.9
Prowers	13,600	.94	1.23	131.1
Garfield	12,600	2.16	2.06	95.4
Rio Grande	11,900	1.33	1.12	84.1
Alamosa	10,800	.69	.85	123.9
5,000-10,000				
Yuma	9,000	1.44	1.94	135.1
Conejos	8,750	.78	1.19	152.1
Chaffee	8,500	.66	.98	149.5
Huerfano	8,000	.85	1.16	135.9
Lake	7,600	.77	.49	64.0
Moffat	7,600	2.59	3.58	138.4
Bent	7,500	.75	1.08	143.7
Kit Carson	7,225	1.81	1.92	106.5
Washington	6,700	2.24	2.52	112.4
Gunnison	6,500	1.40	1.57	112.1
Baca	6,425	1.47	1.94	131.6
Routt	6,250	1.53	1.93	126.1
Douglas	5,900	1.19	.92	77.2
Rio Blanco	5,450	2.36	1.56	67.0
Lincoln	5,300	1.37	1.43	104.1
2,500-5,000				
Eagle	4,950	.83	1.06	128.3
Saguache	4,650	1.07	1.81	169.1
Phillips	4,500	.61	.86	140.0
Sedgwick	4,250	.78	.67	85.6
Costilla	4,150	.56	.87	154.8
Crowley	3,950	.38	.53	140.9
Grand	3,700	.88	1.50	170.0
Elbert	3,675	1.38	1.26	91.4
Pitkin	3,150	.52	.53	101.5
Clear Creek	3,000	.48	.46	94.5
Cheyenne	2,800	.90	1.13	125.3
San Miguel	2,800	.76	1.16	153.0
Archuleta	2,750	.60	.75	126.5
Teller	2,650	.64	.81	127.5
2,500 or Less				
Kiowa	2,400	.82	1.02	124.2
Dolores	2,150	.80	1.08	135.5
Summit	2,000	.44	.52	118.8
Jackson	1,775	.95	1.04	109.6
Ouray	1,750	.21	.37	170.5
Park	1,750	1.43	1.80	126.5
Custer	1,350	.33	.68	208.1
San Juan	875	.18	.24	129.2
Gilpin	800	.25	.39	158.4
Mineral	475	.25	.30	119.7
Hinsdale	200	.40	.48	121.5

a. January 1, 1965 estimate, State Planning Division.
b. Includes rights of way acquisition costs.
c. This index shows the relationship between the proportion of the county highway users' fund allocation which a county received and the proportion of all county construction and maintenance expenditures made by the same county. An index of 100 would mean that the proportion of highway users' funds received by a county and its proportion of construction and maintenance expenditures were the same; an index of less than 100 means that a county's proportion of construction and maintenance expenditures was larger than its proportion of the highway users' fund allocation; an index of more than 100 means that a county's proportion of construction maintenance expenditures was smaller than its proportion of the highway users' fund allocation.

Registrations	Factor
1 - 500	1.0
501 - 1,250	1.1
1,251 - 2,500	1.2
2,501 - 5,000	1.3
5,001 - 12,500	1.4
12,501 - 25,000	1.5
25,001 - 50,000	1.6
50,001 - 85,000	1.7
85,001 - 130,000	1.8
130,001 - 185,000	1.9
185,001 and over	2.0

As can be seen from the above table, application of the registration factor weights this component of the highway users' fund distribution formula in favor of the larger cities. Denver is the only city to receive a factor of 2.0, and there are none in the 1.7 through 1.9 categories. There are only three which receive a factor of 1.6, and six which receive a factor of 1.5.

Colorado's ten largest cities account for almost fifty-five percent of the total street mileage in the state. The 212 smallest municipalities of the state's 249 account for almost twenty-seven percent of the total street mileage.

TABLE 24

MILES OF STREET FOR SELECTED COLORADO MUNICIPALITIES GROUPED ACCORDING TO REGISTRATION FACTOR, 1964

Municipalities		Miles of Street	Percent of Total
2.0			
Denver		1,487.43	
	Total	1,487.43	27.1%
1.6			
Aurora		175.13	
Colorado Springs		371.88	
Pueblo		297.18	
	Total	814.19	14.9%
1.5			
Arvada		139.52	
Boulder		142.36	
Englewood		112.83	
Fort Collins		99.08	
Grand Junction		85.84	
Greeley		109.12	
	Total	688.75	12.6%
1.4			
Commerce City		69.44	
Durango		41.01	
Fort Morgan		31.05	
Golden		40.62	
Littleton		78.62	
Longmont		67.07	
Loveland		59.20	
Sterling		39.63	
Thornton		41.54	
Westminster		55.14	
	Total	523.32	9.5%
1.3			
Alamosa		29.53	
Brighton		30.66	
Broomfield		20.01	
Brush		18.96	
Canon City		46.42	
Cortez		41.35	
Craig		17.75	
Edgewater		12.25	
Glenwood Springs		17.44	
Gunnison		27.11	
La Junta		36.25	
Lamar		47.65	
Leadville		21.06	
Montrose		33.56	
Rocky Ford		23.95	
Salida		27.05	
Trinidad		54.21	
	Total	505.21	9.2%
1.2			
	Total	318.06	5.8%
1.1			
	Total	457.93	8.3%
1.0			
	Total	690.09	12.6%

TABLE 25

COLORADO MUNICIPAL STREET REVENUES BY MAJOR SOURCE, 1960 THROUGH 1964

Year	State Sources[a] Amount (in 1,000's)	Pct.	City Source[b] Amount (in 1,000's)	Pct.	Other[c] Amount (in 1,000's)	Pct.	Total Revenue (in 1,000's)
1960	$4,504	28.9%	$ 8,681	55.8%	$2,380	15.3%	$15,565
1961	5,241	30.7	9,203	54.0	2,604	15.3	17,048
1962	5,806	33.4	9,047	52.0	2,544	14.6	17,397
1963	5,160	26.9	d	....	d	....	19,155
1964	6,293	29.6	12,337	58.1	2,604	12.3	21,234
Average—1960-1964	.....	29.9%	.....	55.1%[e]	.....	14.2%[e]	

[a]Highway users' fund, special $1.50 registration fee, motor fuel tax refunds, and State Highway Department maintenance payment.
[b]Property tax, special assessments, general fund appropriations, parking meter and permit fees, sales, fines, etc.
[c]Specific Onwership "B" and miscellaneous revenues not otherwise classified.
[d]Not available as sucl. because of change in reporting format.
[e]1963 not included.
[c]Specific Ownership "B" and miscellaneous revenues not otherwise classified.
[d]Not available as such because of change in reporting format.
[e]1963 not included.

Municipal Street Revenue

Municipal street revenue from all sources totaled $21.23 million in 1964, 36.4 percent more than in 1960. State sources provided 29.6 percent of municipal street revenue in 1964 and just slightly less than thirty percent during the five-year period, 1960 through 1964. Municipal sources supplied slightly more than fifty-eight percent of total street revenue in 1964 and fifty-five percent of the total from 1960 through 1964. Other revenues accounted for 12.3 percent of the total in 1964 and 14.2 percent during the five-year period. Table 25 shows total municipal street revenues by major source from 1960 through 1964.

Municipal Street Expenditures

Municipal street expenditures totaled $20.4 million in 1964, 31.4 percent more than in 1960. Of this total, maintenance accounted for 61.4 percent; construction, 22.4 percent; new equipment, 2.9 percent; administration, 2.6 percent; and rights-of-way acquisition and other expenditures, 11.0 percent.

During the five-year period, 1960 through 1964, maintenance accounted for 63.7 percent of total expenditures; new construction, 22 percent; new equipment, 4.6 percent; administration, 3.2 percent; and rights-of-way acquisition and other expenditures 6.5 percent. Table 26 shows municipal street expenditures by major function for 1960, 1962, and 1964.

Construction and Maintenance: Per Mile Expenditures. As indicated above, construction and maintenance together accounted for almost eighty-six percent of municipal street expenditures between 1960 and 1964. The average construction and maintenance per mile cost for all municipalities during this period was $2,944.

Six of the ten largest cities in the state exceeded the average cost per mile for all cities during this period. Colorado Springs had the highest per mile costs among the six: $5,022, followed by Englewood, $4,962; Denver, $4,540; Grand Junction, $3,956; Fort Collins, $3,228; and Pueblo, $3,206.

Ten other cities with a registration factor of 1.3 or more also exceeded the five-year over-all municipal per mile average cost for construction and maintenance: Craig, $5,022; Alamosa, $4,063; Sterling, $3,819; Golden, $3,792; Glenwood Springs, $3,655; Edgewater, $3,580; Montrose, $3,562; Fort Morgan, $3,504; Durango, 3,413; and Littleton, $3,154.

Relationship Between Municipal Construction and Maintenance Expenditures and Highway Users' Fund Distribution

The relationship between municipal construction and maintenance expenditures and highway users' fund distribution was examined much in the same way as was done with counties. Because of the number of municipalities involved, this analysis was limited to 1964, so the results may not be as conclusive as if a five-year period were used (as with counties). The proportion of total municipal and construction expenditures in 1964 made by each municipal registration factor group was compared with the proportion of the total municipal highway users' fund received.

This comparison is shown in Table 27, with the relationship between the two (construction and main-

TABLE 26

COLORADO MUNICIPAL STREET EXPENDITURES BY MAJOR FUNCTION, 1960, 1962, AND 1964

	1960		1962		1964		Average 1960-1964		Pct. of Change 1960-64
	Amount (in $1,000)	Pct.	Amount (in 1,000)	Pct.	Amount (in $1,000)	Pct.	Amount (in $1,000)	Pct.	
Administration	$ 487	3.1%	$ 557	3.2%	$ 534	2.6%	$ 568	3.2%	9.7%
Maintenance	9,758	62.7	11,624	67.2	12,540	61.4	11,355	63.7	28.5
Equipment	794	5.1	850	4.9	584	2.9	823	4.6	(26.4)
New Construction	3,561	22.9	3,379	19.5	4,525	22.1	3,916	22.0	27.1
Rights-of-Way Acquisition	53	.5	31	.2	177	.9	87	.5	205.1
Other	893	5.7	869	5.0	2,077	10.1	1,073	6.0	232.5
Total	$15,551		$17,310		$20,437		$17,822		31.4

tenance expenditures and highway users' fund distribution) expressed by the index number shown in the last column. An index of 100 means that a municipal group's proportion of total construction and maintenance expenditures was *more* than its proportion of the highway users' fund distribution. An index of more than 100 indicates that a municipal group's proportion of construction and maintenance expenditures was *less* than its proportion of the highway users' fund distribution.

The groups with registration factors of 1.3 or more all had indices of less than 100. The groups with registration factors of 1.0 through 1.2 all had indices of more than 100, with group 1.0 having an index of 227.1, which means that its share of the highway users' fund was 2.27 times as great as its share of construction and maintenance expenditures.

Implications of Analysis. Even though this analysis was limited only to one year, it indicates that there is a general inequity in favor of small municipalities in the distribution of the municipal share of the highway users' fund. As was true with counties, however, this analysis has validity only to the extent that:

1) street construction and maintenance are considered to be the major purposes for which highway users' funds should be distributed;
2) construction and maintenance expenditures made by each municipality bear a close relationship to needs.

TABLE 27

RELATIONSHIP BETWEEN PROPORTION OF CONSTRUCTION AND MAINTENANCE EXPENDITURES AND PROPORTION OF HIGHWAY USERS' FUND ALLOCATION, MUNICIPALITIES GROUPED ACCORDING TO REGISTRATION FACTOR, COLORADO, 1964

Registration Factor	No. of Municipalities	Pct. of all Municipal Exp. Const. and Maint.[a]	Pct. of Municipal Allocation from Highway Users' Fund	Index of Relationship[b]
1	142	1.93%	4.39%	227.1
1.1	51	3.55	4.65	131.1
1.2	19	3.39	3.79	111.6
1.3	17	7.57	7.06	93.2
1.4	10	9.79	9.66	98.7
1.5	6	13.85	13.81	99.7
1.6	3	17.30	16.32	94.4
2.0	1	42.62	40.32	94.6

[a]Includes right-of-way acquisition costs, median expenditures used for each group.

[b]This index shows the relationship between the proportion of the municipal highway users' fund allocation which each group of municipalities received and the proportion of all municipal construction and maintenance expenditures made by it. An index of 100 would mean that the proportion of highway users' funds received by a group of municipalities and its proportion of construction and maintenance expenditures were the same; an index of less than 100 means that a municipal group's proportion of construction and maintenance expenditures was larger than its proportion of the highway users' fund allocation; an index of more than 100 means a municipal group's proportion of construction and maintenance expenditures was smaller than its proportion of the highway users' fund allocation.

County-Municipal Relationships

Highway Users' Fund Distribution. As indicated in the first part of this report, municipal officials have long expressed their dissatisfaction with the amount of the highway users' fund municipal allotment; the increase to nine percent in 1959 was considered only a step in the right direction. County officials have resisted attempts to decrease the county share from its present twenty-six percent. Since the state's share of the highway users' fund is likely to remain at sixty-five percent, because of federal requirements for state matching funds, any increase in the municipal share would require a decrease in the counties' share, and vice-versa.

Although the municipal street system has less than ten percent as many miles as the county road system, its per mile cost is more than seven times as great, and its per mile construction and maintenance costs are more than eight times as much. This cost differential is explained, at least in part, by the large proportion of the county system which receives little or no maintenance.

Total county highway revenues increased 20.2 percent between 1960 and 1964, as compared with 36.4 percent for municipalities. During the same period, county road system mileage increased only 1.8 percent, as compared with 12.9 percent for the municipal system, and county total road expenditures increased 14.2 percent, as compared with 31.4 percent for municipalities.

Counties received almost sixty percent of their road revenues from state sources from 1960 through 1964, as compared with almost thirty percent for municipalities. Slightly more than thirty-five percent of total county revenues came from local sources during this period (forty percent of which came from municipal property owners), while municipalities depended on local support for slightly more than fifty-five percent of total street revenues.

These and other selected comparisons between counties and municipalities are shown in Table 28.

TABLE 28

COUNTY AND MUNICIPAL COMPARISONS, SELECTED HIGHWAY AND STREET FINANCE FACTORS, COLORADO, 1960-1964

	Counties		Municipalities	
	1964	1960-64 Average	1964	1960-64 Average
Mileage				
Total System	65,474	65,006	5,485	5,172
Pct. Increase (1960-64)	1.8%	.....	12.9%	.....
Revenue				
Total Revenue	$26.8M	$24.1M	$21.2M	$19.3M
Pct. Increase (1960-64)	20.2%	.....	36.4%	.....
Pct. from State Sources	59.8%	59.5%	29.6%	29.9%
Pct. from Local Sources	36.1%	35.2%	58.1%	55.1%
Expenditures				
Total Expenditures	$26.1M	$24.2M	$20.4M	$17.8M
Pct. Increase (1960-64)	14.2%	.....	31.4%	.....
Total Exp. Per Mile	$477[a]	$456[a]	$3,725	$3,445
Const. & Maint. Per Mile	$373[a]	$353[a]	$3,111	$2,944
Pct. of Total	78.2%	77.4%	83.5%	85.7%
Admin. Per Mile	$18[a]	$17[a]	$97	$106
Pct. of Total	3.8%	3.7%	2.6%	3.2%
Equip. Per Mile	$67[a]	$67[a]	$106	$159
Pct. of Total	14.0%	14.7%	2.9%	4.6%

M = millions
[a]Primitive mileage excluded

County Road and Bridge Fund

The conflict between municipalities and counties is not limited to the highway users' fund, although the portion each should receive is a source of substantial disagreement. It also extends to that portion of county road and bridge funds financed from local sources, because this burden falls alike on property owners in both incorporated and unincorporated areas. Municipal officials claim that municipal property owners are in effect subject to double taxation because they must pay for both municipal streets and county roads, including those which are used primarily or entirely by rural residents.

The road and bridge fund levy must be uniform throughout the county to comply with the provisions of Article X, Section 3 of the Colorado Constitution which states in part: "All taxes shall be uniform upon each of the various classes of real and personal property located within the territorial limits of the authority levying the tax, . . ."

Counties have no authority to establish special service areas or districts for road improvements or maintenance. Special districts may be created to provide street improvements in unincorporated areas, but only one such district (Jefferson County) has been created.[6]

Proportion of County Highway Revenue Paid by Municipal Property Owners. From 1959 through 1965, municipal property owners provided between 35.8 percent and 43.3 percent of county road and bridge fund property tax revenue.

In 1965, municipal property owners in five counties provided over fifty percent of county road and bridge fund property tax revenue: Boulder, 69.2; Arapahoe, 65.2; Pueblo, 58.5; El Paso, 55.9; and Larimer, 55.7 percent. In an additional six counties, municipal property owners provided over forty percent: Alamosa, 48.3; Fremont, 48.0; Montezuma, 47.4; Otero, 46.5; Adams, 42.3; and Mesa, 41.5 percent.

In eight counties, municipal property owners payed less than ten percent of the county road and bridge fund property tax revenue in 1965: Costilla, 3.0; Rio Blanco, 5.5; Park, 5.6; Washington, 6.1; Elbert, 6.1; Cheyenne, 9.8; and Douglas, 9.8 percent.

County officials take the opposite view concerning municipal property owner support of the county road and bridge fund. They feel that county thoroughfares are a countywide responsibility which falls upon city and county dweller alike. Further, they point out that the construction and maintenance of good county roads facilitates travel to shopping centers, which adds to municipal economic well-being.

Sharing of County Road and Bridge Revenues with Municipalities. Some municipal officials have advocated that counties share road and bridge fund revenues with municipalities as one possible solution to what they consider to be present inequities. The legal basis for counties to do this has been questioned, and counties have opposed recent efforts to enact permissive and clarifying legislation. Very few counties have shared road funds, either in cash or in work performed, with municipalities.

Long-Range Highway Needs Study

The 1965 long-range highway needs study is much more limited in scope than the 1949 study. The 1949 study covered construction and maintenance needs, as well as highway finance, and developed recommendations on the basis for and amount of highway users' funds to be allocated to the state, counties, and municipalities. The current study is limited to the determination of construction and improvement needs, including the county and municipal systems, between 1965 and 1985.

This study was made in conjunction with the U.S. Bureau of Public Roads, and similar information has or is being developed in each of the other forty-nine states and other jurisdictions receiving federal grants-in-aid for highway purposes.

1985 Construction Needs. Table 29 shows the construction needs and estimated costs for county roads and municipal streets as determined by the current long-range needs study.

In 1964, the county and municipal systems together accounted for 70,959 miles, 92.3 percent of which was on the county system. The needs study calls for a combined mileage on the two systems of 82,656 by 1985, an increase of 16.5 percent. By 1985, the county system would account for slightly less than ninety percent of the combined total.

As can be seen in Table 29, the municipal system should have the greatest proportion of mileage increase of the two systems by 1985, 51.18 percent, with the municipal secondary system to increase slightly more proportionately than the municipal primary system.

The county system as a whole should have an increase in mileage of 13.57 percent by 1985. Most of this increase would be in the county secondary system, 6,556 miles, or 14.86 percent more than in 1964. The county primary system (as redefined) would have an increase of slightly less than eleven percent.

The estimated cost of the needed additions to the county system by 1985 is slightly more than one billion dollars. The estimated cost for municipal system additions is almost $647 million.

TABLE 29

CONSTRUCTION NEEDS AND ESTIMATED COSTS, COUNTY ROADS AND MUNICIPAL STREETS, TO BE COMPLETED BY 1985[a]

	1964	1985	Pct. of Increase	Estimated Cost of Increase
County Roads				
Primary	21,347	23,691[b]	10.93%	$ 701,166,000
Secondary	44,127	50,682	14.86	306,817,000
Total Mil.	65,474	74,683	13.57%	$1,007,983,000
Municipal Streets				
Primary	1,588	2,394[b]	50.76%	$ 336,472,000
Secondary	3,897	5,898	51.35	310,167,000
Total Mil.	5,485	8,292	51.18%	$ 646,639,000

[a]Abstracted from Colorado State Highway Department Needs Study tables; these figures should not be considered final as they may be subject to further revision.

[b]Primary systems redefined to include only arterial and collector roads and streets, and to exclude unimproved mileage.

Estimated Vehicle Miles of Travel. In conjunction with the needs study, the research and statistics division of the State Highway Department has developed estimates of vehicle miles of travel for the state, county, and municipal systems. These estimates are derived from the highway and street vehicle county studies made by the highway department on a continuing basis. Table 30 shows the estimated proportion of total vehicle miles for each of the three systems in 1964 and 1985.

TABLE 30

ESTIMATED PROPORTION OF VEHICLE MILES OF TRAVEL FOR THE STATE, COUNTY, AND MUNICIPAL SYSTEMS, 1964 AND 1985

System	Proportion of Vehicle Miles of Travel 1964	1985
State	64.8%	70.7%
County	12.8	10.0
Municipal	22.4	19.3

Source: Colorado State Highway Department

The state system is expected to become even more important by 1985, as far as vehicle miles of travel is concerned. The county system's proportion of total vehicle miles in 1985 is expected to be only seventy-eight percent as much as it was in 1964. The municipal system's proportion of total vehicle miles is expected to decline fourteen percent between 1964 and 1985. The municipal system's estimated proportion of total vehicle miles traveled on the three systems was 1.75 times that of the county system's in 1964, and is expected to be 1.93 times that of the county system in 1985.

Needs Study Implications. The current needs study does not provide any ready-made solutions to the problems of local government highway finance, nor does it provide any ready-made revised formula for the allocation of highway users' funds to counties and municipalities. It does add an important factor (long-range construction needs) which must be considered in determining what changes, if any, should be made in the allocation of highway users' funds to local units. Further, it indicates the continuing need for the state's share of the highway users' fund to remain at least at the present level, because almost sixty-two percent of the estimated costs of construction needed by 1985 are for the interstate, federal-aid primary, federal-aid secondary, and state highway systems. It also shows the expected relative importance of the state, county, and municipal systems in serving vehicle traffic needs in 1985.

Commission Study Findings

The major result of the Commission study is a more precise identification of local government highway finance problems and inequities, particularly with reference to the distribution of highway users' funds to counties and municipalities. These study findings on problems and inequities should be used only as general guidelines in considering what changes, if any, should be made in the distribution of highway users' funds to counties and cities. This limited use is suggested, because the necessary tools of analysis were not available (for example, benchmark cost standards on construction and maintenance) to determine:

1) whether per mile expenditures for the various road and street functions were similiar to what these expenditures should have been, too high, or too low;
2) whether expenditures made during the five-year period covered by the study were an accurate reflection of highway or street needs of the local units making them; and
3) whether the proportion of local support for highways and streets was an accurate reflection of each local unit's ability to provide such support.

Within these limitations, the study found the following problems and inequities:

Counties.

1) highway users' funds distributed for road mileage (primitive) which receives no maintenance and to which the maintenance difficulty factor is applied in the same way as to other mileage;
2) highway users' funds distributed for road mileage (dirt) which receives very little mainteance on the same basis as other mileage, including application of difficulty factor;
3) highway users' funds distributed disproportionately to less populous counties at the expense of the most populous counties and without apparent adequate consideration in the formula of need as indicated by population, vehicle registration, vehicles miles of travel, and the expense of maintaining the types of road surfaces needed for extensive use;
4) lack of uniformity in the amount and proportion of local financial effort, especially between the least and most populous counties; and
5) apparent out-of-line per mile expenditures in the least populous counties in comparison with those in other population groups.

Municipalities.

1) highway users' funds distributed for primitive and dirt mileage on the same basis as other mileage.*
2) highway users' funds distributed disproportionately to less populous municipalities at the expense of the more populous ones and without apparent adequate consideration in the formula of need as indicated by population, vehicle registration, vehicle miles of travel, and the expense of maintaining the types of road surfaces needed for extensive use; and
3) lack of uniformity in the amount and proportion of local financial effort.

County - Municipal Relationships. If per mile expenditure costs are an accurate reflection both of need and of what these costs should be, it would appear that municipalities as a whole have received an insufficient share of the highway users' fund distribution to local units. Municipal local fiscal support is considerably greater than county local fiscal support, and municipal property owners also provide forty percent of the local support for county roads.

This is a less serious problem than with counties, because there is proportionately much less mileage in these categories and because mileage is a much less important factor in the municipal allocation formula than it is in the county formula.

Major Policy Questions

Past efforts to change the highway users' fund distribution formulae to local units have been designed so that no local unit would receive less money, without any determination as to whether the amount previously allocated was both equitable and consistent with the purposes for which state aid is granted.

Present recommendations to change the method of distribution or to augment it are in the same vein. It has been proposed that the gasoline tax be raised from $.06 to $.07 per gallon on a permanent basis; the additional revenue from this increase has been incorporated in the various suggested alternatives to the present highway users' fund formulae in such a way that nobody would lose except those paying the tax.

The continuance or possible increase of the temporary registration fee is one way to augment state aid from the highway users' fund without disturbing the present formulae. The people paying this registration fee, however, are also the ones who are already paying the major portion of local support for highways and streets. There is presently no way to assure that this money would actually be used to expand road and street programs instead of being used to provide property tax relief. Further, no determination has been made as to the proper relationship, if any, of a special registration fee to other aspects of highway finance.

A substantial revenue increase, such as would result from a one cent per gallon increase in the gasoline tax (estimated $8.32 million in 1967), could provide additional financial assistance where it is needed without any present recipient having to suffer a loss. But such a revenue increase without a formal reexamination and reevaluation of purpose and effect of state aid would compound any existing misallocation of funds and merely postpone the time when such a review is made.

Basic Philosophy. The determination of equity is a key factor in deciding the share of highway users' funds to be distributed to counties and municipalities. This determination also extends to formulae to be used for allocating each municipality's and county's share within these distributions. The question of equity, however, can not be separated from the determination of the major purposes and objectives to be achieved by distributing a portion of highway users' funds to local units. For example, are highway users' funds to be distributed on the basis of current and future construction and maintenance needs? To what extent should local effort be required? Should state support be given for roads other than arterials and major thoroughfares? Should highway users' funds be distributed to equalize or reduce property tax burdens for road and street purposes?

It would appear that none of these problems and related questions can be resolved on a piece-meal basis and provide a long-range solution which satisfies both counties and municipalities and achieves the most efficient use of state funds.

A shift of one percent in highway users' fund allocations between counties and municipalities would result in approximately $600,000 more being available to the benefiting local units, but with an accompanying loss to the others. Whether such a loss or a greater one can be justified again depends on the basic purposes for which funds are to be distributed, and any shift should be accompanied by a reexamination of the distribution formula within each allocation.

General Guidelines

Several general guidelines to be followed in developing a new formula for the distribution of highway users' funds to counties and municipalities have been recommended by the Intergovernmental Relations Committee of the Commission:

1) Benchmark standards should be established both for use in the formula and as a tool of analysis in reviewing the results of previous distributions. Such benchmarks would relate to the costs of constructing and maintaining a mile of road in each of the several county road and municipal street surface classification.
2) Emphasis should be placed on county and municipal primary systems, and these systems should be redefined to include only arterial and collector roads and streets.
3) Greater emphasis should be placed on motor vehicle registrations in the formulae for both counties and municipalities.
4) Counties should be encouraged to adopt county unit systems for road and bridge administration and operation. The smaller counties should be encouraged, whenever feasible, to join together for road and bridge construction and maintenance, or at least some functions, such as equipment pooling to reduce costs.

REFERENCES

[1]*State Letter No. 845*, U.S. Department of Health, Education, and Welfare, August 20, 1965.
[2]SOCIAL SECURITY ACT of 1935, AS AMENDED, Section 1902 (a) (2).
[3]Smith v. Miller, 384 P 2d 738 (1963).
[4]COLORADO REVISED STATUTES 1963, 120-13-11 (4).
[5]CRS 1963,120-12-8 (2).
[6]CRS 1963, Chapter 89, Article 3.

VII

MUNICIPAL AND COUNTY HOME RULE

Theory and Development of Home Rule

Definition

Home rule in its broadest context may be defined simply as "self government," meaning local control and local decision-making over the organization and operation of governmental activities at the local level. Traditionally, this broad definition of home rule has been applied in the United States primarily to municipal government; some thirty-seven states provide for municipal home rule constitutionally, by statute, or both. Home rule, usually in a more limited form, has been provided constitutionally for county government in fourteen states. A number of other states provide a measure of county home rule authority by law.

Federal System. To understand the meaning and role of home rule in its modern day context, it is necessary to examine the relationship between local governments and the national and state governments in our federal system.

The United States Constitution sets forth certain powers which are specifically and exclusively granted to the federal government; however, all powers which are not expressly delegated to the national government are reserved to the states. Nowhere in the federal constitution are there any specific powers reserved for local government units, counties, cities, districts, etc. On the contrary, local government has its legal origins in those powers which are reserved by the constitution to the states. Each state constitution contains provisions relating to the establishment of local government. Colorado is no exception, and its constitution contains several such provisions. Counties, cities, towns, school districts, special service districts, and other forms of local government are given legal status by the state constitution. Certain powers and limitations on the organization and operation of local governments are also usually contained in the state constitution, although these are generally described in greater detail by state law. Such laws must be enacted pursuant to the constitution but, within this limitation, organizational forms, procedures, and powers of local government are left to the discretion of the legislature to provide. Home rule can be considered an extension of federalism to the local level, so that counties and municipalities have greater freedom from state control.[1]

Municipal and County Status. As a general rule, a municipality is a creature of the state and has no inherent powers except those delegated by the state. State law outlines the form and procedure for the incorporation of cities and towns, as well as the powers which such units may exercise. The courts have traditionally construed narrowly the powers delegated to municipal corporations. The significance of this practice is that while a state constitutionally may exercise any power not forbidden to it, a city must have specific authorization for the exercise of any power.

The legal basis for this doctrine is that the legislature intended to grant only those powers which it expressly granted or which are necessarily or incidentally implied. It is precisely this setting which gave rise to the home rule movement. Cities sought freedom from control and restraint by the state legislature over their own governmental organization and over the matters of their own local concern.

Traditionally, a county has been considered to be a local subdivision of the state government for the administration of state programs. This traditional concept of county government has changed somewhat over the years, it is now considered by many to be a separate unit of local government, although with a dual nature; in certain ways it acts as part of the state government performing functions on its behalf, but it is also a unit of local government.[2]

Forms of County Home Rule. It is because of the dual nature of county government that fewer states provide for county home rule than have for municipal home rule. It is also for this reason that the scope of county home rule is usually much more limited than that of municipal home rule. In general, county home rule has taken two forms: 1) administrative home rule, which permits counties to exercise local self-determination over government organization and structure; and 2) functional home rule, which in addition to government organization, permits counties to exercise local self-determination over at least some county powers or functions.

Forms of Municipal Home Rule. Municipal home rule in most states encompasses both government organization and powers. This is more likely to be the case in those states, such as Colorado, where municipal home rule is provided constitutionally rather than by statute. The amount of power which may be exercised by a home rule city varies from state to state, as do the eligibility requirements for home rule status; some states, Colorado included, prohibit municipalities of less than a certain population from adopting home rule charters.

Origin and Early History of Home Rule in the United States

The origin of municipal home rule in this country preceded county home rule by thirty-six years. Municipal home rule was first provided in the Missouri Constitution in 1875. The concept soon spread to other states and by 1900 had been adopted in California, Washington, and Minnesota. Colorado was one of the first states to authorize home rule for its municipal corporations. Article XX of the Colorado Constitution was approved in the general election of 1902. In addition to authorizing municipal home rule, it created the City and County of Denver as a home rule entity.

The first constitutional provision for county home home (other than a consolidated city and county) was adopted in California in 1911. Maryland adopted a constitutional county home rule provision in 1913, and Minnesota in 1918. Most of the remaining states providing constitutionally for county home rule did not do so until after 1930.

County Home Rule

In general, there are two types of county home rule—administrative and functional—which may be described as follows:

Administrative Home Rule

Some states make available, either through constitutional or statutory authorization, alternate forms of government which a county may adopt, thus permitting the exercise of local self-determination as to which of several prescribed options is most desirable for a particular county. Other jurisdictions permit a county to develop and adopt a charter which establishes a form of government particularly tailored to its needs. Such charters may be adopted pursuant either to constitutional authority or direct legislative enactment. In some states, the constitution may direct the legislature to provide for county home rule. In others, the legislature may provide for adoption of a county home rule charter under its general powers concerning local government without a specific constitutional mandate. Administrative home rule is the form permitted in most states providing for county home rule.

Functional Home Rule

Functional home rule permits counties to exercise self-determination over at least some powers and functions in addition to government organization. Complete functional home rule has not been provided nor recommended in any state, since all counties are required to perform state functions on the local level as prescribed by the state legislature. A few states, however, have permitted counties to determine the scope of some functions and powers which are matters of local concern. Such functional authority may include the power to perform urban services on a special taxing district basis; the taxing district requirement is incuuded to protect municipal residents from paying the costs of urban services in unincorporated areas.

Functional home rule authority may be granted either constitutionally or through legislation enacted pursuant to broad constitutional authorization. It may be provided generally or by specific enumeration of the function, services, and powers which a home rule county may undertake. Only one state (Oregon) permits counties to have full control over functions and powers of local or county concern, although New York grants counties a great deal of authority in this respect.

County Home Rule in Other States

While there are now fourteen states which provide some sort of constitutional county home rule, the concept was slow to take hold. County home rule has not been extensively used in the states where it is possible to do so. At the present time, approximately thirty counties throughout the country have adopted some form of home rule.

County home rule has usually been adopted in highly urbanized counties, and some states limit constitutional home rule permission to counties of a certain size; e.g., Missouri, 85,000 population or more; and Texas, 69,000 population or more. At least twenty-three of the counties throughout the country adopting home rule are part of a standard metropolitan area as defined by the Bureau of the Census.*

In two states (Minnesota and Pennsylvania), the legislature has never implemented constitutional coun-

Over 50,000 population in the central city or cities.

ty home rule provisions. Wisconsin's constitutional provision has been limited by judicial interpretation to apply only to Milwaukee County.[3] The Florida constitutional provision applies only to one county—Dade County. While Tennessee adopted a general county home rule amendment in 1953, including permission for municipal-county consolidation, only one home rule county has been formed.

No home rule counties have been formed in either Ohio or Texas. The lack of adoption in Ohio can be attributed to: 1) the requirement that the voters in each municipality within the county must approve a charter by concurrent majorities before it can be adopted; and 2) the fact that Ohio statutes provide for several forms of county government which may be selected without adopting home rule. No county has been able to meet the requirements set forth in the Texas constitution, even though some have been interested. Only three counties in Maryland and one in Missouri (all highly urbanized) have adopted home rule charters.

The states where county home rule has been adopted to the greatest extent are California, Oregon, and New York.

California. Eleven counties have adopted home rule charters in California. Only two of these eleven counties have less than 100,000 population, the smallest having 25,305 in the 1960 census. California's form of county home rule is basically administrative, although the constitutional county home rule provision was amended to permit contractual service arrangements between counties and the municipalities within their boundaries. The broad range of functions which California counties may perform and the wide array of powers which they may exercise are authorized by statute and apply to both home rule and non home rule counties. California law also permits optional forms of government for non home rule counties.

Oregon. Oregon adopted its constitutional home rule provisions in 1958. Three counties have adopted charters, charters have been rejected in a few counties, and others still have charter committees at work. Of the three counties adopting charters, two are over 100,000 population and the other has a population of 13,000. Oregon provides functional as well as administrative county home rule. Its constitution states that a county home rule charter may provide for the exercise of county authority over matters of local concern, including the provision of local services and improvements to be paid for only by those who receive benefits, unless otherwise provided by law or charter.

The two largest counties adopting home rule charters have been slow to exercise new powers and provide new services. The third home rule county charter has been aimed primarily at administrative organization.[4] The question of county powers and functions was a point of issue between municipal and county representatives in drafting the Multnomah County charter, which has not yet been adopted.[5] Multnomah County is the state's most populous and includes the city of Portland. Oregon law for many years has given counties authority to create county service districts for some functions in lieu of special districts.

New York. New York adopted constitutional amendments providing for county home rule in 1959 and 1963. Prior to 1959, the New York Constitution permitted the legislature to enact special charters for counties, and three counties obtained such charters. Five counties have adopted charters under the new constitutional authorization and the legislation implementing it, and at least one other county is in the process of drawing up a charter. All of these charter counties are highly urbanized and include most of the major poulation centers of the state outside of New York City.

Under the recently enacted home rule amendment, counties (as well as other local units) are granted a broad range of powers covering government organization and administration, functions, and intergovernmental relations. Some of these powers, however, depend on legislative authorization or regulation. For example, the legislature has the authority to restrict the adoption of local laws on certain matters and has the express duty to restrict the power of taxation, assessment, and the incurring of debt, so as to prevent abuses. The amendment reserves certain matters as legislative prerogatives because of state concern, but also requires the legislature to enact and amend laws granting local government powers in addition to those granted in the constitution. (A power so granted may be repealed, diminished, or suspended only upon approval of the governor and passage at two successive legislative sessions.)

Legislative Home Rule. Permissive legislative enactments providing a measure of home rule authority have been adopted in a number of states. Indiana permits counties maintaining fewer than 1,000 polls to consolidate the offices of clerk, recorder, and auditor. Since 1927, North Carolina has allowed counties to use either a county commission form or a county manager form of government. Montana has the only completely rural county in the United States utilizing a county manager system; Petroleum County has functioned under this general legislation since the early 1920's. The city of Butte and Silverbow County have tried unsuccessfully twice to consolidate under Montana's general laws. Consolidation of Ormsby County and Carson City was authorized by the Nevada legislature in the early 1950's. Many other states have also permitted considerable experimentation with county governments by statute.

County Home Rule Attempts in Colorado

There have been three unsuccessful attempts in Colorado to amend the constitution to provide for county home rule.

1958 Proposal. In 1958, a constitutional amendment was proposed which would have permitted alternative forms of county government upon approval of county voters. This amendment would have allowed counties to adopt a "home rule" charter, but counties could exercise only those powers authorized by the General Assembly. A "local taxing district" provision was included which would have given counties the authority to create and operate special districts for local improvements. The amendment lost in the general election 241,636 to 158,666.

1960 Proposal. Another constitutional amendment was placed on the ballot in 1960. This amendment would have repealed section 15 of Article XIV and would have amended sections 8 and 12 of the same article. Basically, the measure would have permitted all counties with population of 75,000 or more, upon voter approval, to modify county organizational structure including: 1) extending elective terms of office to four years; 2) basing salaries of county officials on factors other than population; 3) paying county officials' salaries from sources other than fees; and 4) permitting either the appointment of election of county attorneys. This amendment was defeated 328,241 to 231,025.

1962 Proposal. In 1962, the third county government amendment was placed on the ballot. The proposal would have: 1) permitted the change of county and precinct officials' salaries at any time; 2) authorized the payment of salaries rather than compensation by fees for certain officials; 3) permitted the establishment of county salary schedules on factors other than population; 4) enabled the General Assembly to establish terms of office longer than two years; and 5) allowed any county to change or abolish any county office with the approval of the electorate. This amendment received much attention prior to the 1962 general election and was recommended by the Legislative Council's Interim Committee on County Salaries in 1961. The amendment was barely defeated 208,867 to 207,442.

Municipal Home Rule

Types of Municipal Home Rule

Several states, including Colorado, have adopted broad constitutional provisions which guarantee constitutionally certain home rule powers to municipalities. Other states, such as Arkansas and Kentucky, have granted a measure of self-determination and local control by legislative enactment. In Alaska and some other jurisdictions, constitutional and legislative provision of home rule have been combined, and the legislature has delegated home rule authority to municipalities pursuant to express constitutional authorization.

Home rule is rarely made available to all municipal units of government. Colorado, for example, limits home rule to cities with 2,000 population or more. In general, home rule may be extended to municipalities in one of three ways. Permissive home rule may be granted by the state legislature, usually by approving a special charter. Mandatory home rule occurs when municipalities automatically acquire home rule powers pursuant to constitutional or statutory requirements. Self-executing home rule takes place when eligible municipalities may adopt local charters in accordance with procedures and guidelines outlined either constitutionally or by statute without further legislative action required.

There are two model constitutional provisions which illustrate the two basic ways in which powers are granted to home rule municipalities.

National Municipal League. The National Municipal League model municipal home rule provisions are contained in the fourth edition of the Model State Constitution published in 1948. These provisions set forth the powers of home rule municipalities in broad general terms, with specific enumeration of certain powers, but without restricting the general grant of municipal self-governing authority. The power of the legislature to enact laws of statewide concern is expressly preserved.

This approach to the grant of municipal home rule powers reserves an area which is exclusively local and municipal and not subject to legislative control. The advantage to this approach (similar to Article XX of the Colorado Constitution) is that it protects municipal home rule from interference by the state legislature. Its weakness lies in the fact that a burden is placed upon the court to decide what is of local concern and what is of statewide concern; consequently, municipalities run the risk of unfavorable judicial decisions which could erode the home rule concept. In the event of such judicial decisions, municipalities may be severely hampered because their only remedy may be constitutional amendment.

National League of Cities.* The second model provision was drafted by the National League of Cities in 1953. It vests broad powers in home rule municipalities, but provides for legislative supremacy in the area of state-local relationships. It protects the right of municipalities to adopt local home rule charters and sets forth in broad terms the conditions with which municipalities must comply, such as elective officers, charter procedures, etc. Home rule cities are given all governmental powers except as may be expressly denied by general class legislation enacted by the state legislature, or otherwise restricted or denied by the constitution or local charter.

The strength of this approach to municipal home rule is that no powers are granted which are above legislative control, should it be affirmatively asserted; if it is not asserted, then home rule cities are granted plenary power over all aspects of municipal government by the constitution. It, thereby, avoids the uncertainty of judicial interpretation on matters of state versus matters of local concern. It provides flexibility in state-local relationships because changes can be made by legislative action, rather than requiring constitutional amendment. Its weakness lies in the fact that, with certain exceptions, home rule municipalities may be subject to legislative control in matters generally considered to be of exclusive local concern.

Constructive suggestions relating to these two basic approaches have been offered by various legal authors. For example, Professor Terrance Sandalow, University of Minnesota, suggests that there is a serious weakness in the National League of Cities and National Municipal League model provisions, in that no provision is made for annexation and extraterritorial powers to be exercised by home rule municipalities.[6] Professor Sandalow persuasively urges that home rule should not grant blanket authority for the local exercise of these powers, but rather, such power should be governed by the conditions and procedures established by statutory enactment.

Professor Richard B. Dyson, University of Kansas, also makes a case for the proposition that home rule cities should have no authority to dissolve, enlarge or contract municipal boundaries without express statutory delegation by the state's legislative body.[7] In addition, he suggests constitutional phraseology which would provide that local regulation shall be deemed to conflict with state legislation only when, by every reasonable construction, to obey or carry out one would either be to disobey the other or tend to defeat the purpose of the other. Further, Dyson and other authorities suggest that home rule municipalities be expressly prohibited from enacting regulations on general private law and civil relationships and from defining and providing for the punishment of felonies.

Formerly known as the American Municipal Association.

Summary of Major Approaches. The following comments by an authority on home rule analyze the strength and weaknesses of the two basic approaches to municipal home rule, and make a strong case for the National League of Cities approach:

> Traditionally, local governing bodies were considered mere creatures of the state; legislatures gave municipalities life by the passage of general or special legislation and it was assumed that the local agencies held only those powers specifically enumerated by legislation. Translated into judicial idiom, this position was sanctioned by the famous Dillon rule—an interpretation sanctioned by the U. S. Supreme Court.
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> . . . reformers attempted to carve out governmental powers for municipalities. They reasoned that if these powers could attain constitutional status, the home rule battle would be won. The creation of a domain followed two basic patterns. On the one hand. . . . the constitutional amendment described municipal powers in general terms: municipalities should have exclusive control over "local matters," and the state could enter the field only if it legislated on a matter of "general" concern. Given supposedly co-equal spheres of authority, the courts became the arbiter in any disputes between state and city. Drawing a line between state and local matters, essentially a critical policy decision, became the function of the courts. . . . The courts did not relish this role [of judicial home rule], and they generally accepted legislative judgment as conclusive evidence that a particular subject was of general concern. Hence, the legislature could and did cut into the realm of municipal powers.
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> To counteract the tendency of the courts to construe local powers narrowly, municipal reformers turned to another formula for the allocation of powers. It enumerated powers to be wielded by municipalities. Along with the enumerated powers, the constitutional amendment contained a clause specifying that they were not to be construed as the limits of local authority.
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> Legally, the enumerated powers amendment has had little more success than the general powers clause. In the grey area beyond the enumerated powers, the courts must again operate as arbiters between local and state powers. Moreover, despite specific language to the contrary, courts have tended to restrict municipal authority to subjects specifically enumerated.
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> The use of enumerated powers may be seriously questioned from the perspective of general public policy. It automatically lengthens state constitutions already hardly noted

for brevity and conciseness. Of greater importance, the enumeration of powers rigidifies a governmental relationship which has been mobile in the past and may be expected to fluctuate in the future. Under these circumstances, the advisability of sealing a set of municipal governmental powers in the relatively inflexible confines of a constitutional straight jacket may be suspect. This is an especially pertinent question when related to the expanding metropolitan character of urban areas . . . a rigorous constitutional delineation of municipal powers might serve as yet another inhibiting force against metropolitan cooperation. . . . The growth of county control over functions traditionally considered municipal in nature also casts doubt on the validity of an approach which rigidly guarantees municipal authority over a wide range of activity.

In light of the general failure to create a set of municipal powers by constitutional fiat, home rule should be approached from a different assumption. That is, the state constitution should recognize the primacy of legislature if the latter wishes to legislate on matters which affect municipalities; viewed practically, courts have generally reached this conclusion despite constitutional provisions to the contrary. Hence, the assumption merely brings the state's basic charter into conformity with prevalent judicial interpretation and eliminates the legal fiction of a separate domain of municipal powers within the state. It would also relieve the court from engaging in the onerous task of differentiating local and state matters. This policy question would be placed firmly in the hands of the legislature . . . The principle of legislative supremacy in the event of conflicts between state and local authority would be acknowledged. At the same time the municipality, by express constitutional dictum, would be allowed to exercise any powers not denied it by laws applicable to all cities or to appropriate classes of cities. On subjects where the legislature has passed general laws, the municipality should be allowed to exceed minimal state requirements so long as its action is consistent with the spirit of state law.

. . . In the sensitive area of intergovernmental relations it is not expected that any constitutional formula will provide a panacea for the present and future problems involved in the relationship. The use of the principles of legislative home rule in the constitution, however, should tend to counteract several of the most vexing aspects of the classical home rule pattern.

Yet, it must be remembered the most critical requisites for effective utilization of home rule authority are the corollary and the willingness of municipal officials to wield home rule powers. Regardless of the . . . constitutional provisions, a meddlesome legislature can easily interfere with local matters at every turn. If municipal officials refuse to exercise their rightful powers, there can be little hope for municipal home rule in any guise.[8]

Municipal Home Rule in Colorado

Events Leading to Adoption of Home Rule. Home rule in Colorado has had a very interesting historical development. Most of this history centers around the political turmoil faced by the city of Denver in the late 1800's and early 1900's.

In 1861, when Colorado became a territory, the territorial legislature passed an act incorporating the city of Denver under a special charter. This charter stayed in existence until home rule was adopted in 1902. During the intervening years, the city was regarded as a subject of special legislation, separate from municipalities organized under general laws. Denver's city charter was amended or revised in nearly every legislative session before and after statehood. The climax came in 1889, when the General Assembly amended the charter to provide for a board of public works, with absolute power over public improvements, whose members were appointed by the governor.

In 1891, the charter was again amended to provide for a fire and police board, also appointed by the governor. This board had complete control over fire and police services and was empowered to issue saloon licenses. These acts were upheld by the supreme court as a matter of "legislative discretion." Public discontent led to the election of a non partisan mayor in 1895, who was reelected in 1897, but defeated in 1899, apparently because of alleged ballot stuffing and other election abuses.

During this period, efforts to consolidate the city's five school districts so as to equalize taxation and centralize administration were frustrated by judicial declarations that this was contrary to Denver's city charter.

Dissatisfaction also resulted from the alleged corruption in the granting of utility franchises. In 1898, the then mayor called a charter convention to correct some of these abuses, but special interests managed to disrupt this effort and nothing constructive was accomplished. A bill designed to remedy the situation was introduced in the General Assembly, but met with no success.

In 1901, an active "home rule" movement was started, and newly elected legislators from Denver proposed a new Article XX to the state constitution which would create the City and County of Denver. This plan, consolidated part of Arapahoe County, Denver, and six contiguous communities in the area into a single body politic know as the "City and

County of Denver." The proposed amendment received public support from leading newspapers and many community organizations; utility corporations and other interests opposed the move. After a bitter struggle, the amendment was referred by the General Assembly to a vote of the people. In November, 1902, Article XX became part of the state constitution by a majority of more than two to one. The consolidation was implemented, but the difficulties were not over.

Legal Battles After Passage. In 1903, the Colorado Supreme Court denied the contention of opponents that the amendment established "an unrepublican form of government" and sustained its constitutionality. After the defeat of one proposed charter, municipal electors approved a second and quite comprehensive charter in 1904.

In People v. Johnson, decided in 1905, the Colorado Supreme Court (increased from three to seven members by a constitutional amendment adopted in 1904) held that "unless the City and County of Denver had two sets of officers—one for the city and one for the county—it would have an unrepublican form of government in violation of the constitution of the United States."[9] A vigorous dissent was filed by Justice Steele who wrote the majority opinion in the 1903 case. Since the charter of the City and County provided for only one set of officers, which the court found to be unconstitutional, the whole purpose and design of Article XX was jeopardized.

A change in judicial attitude took place in 1911, largely due to changes on the court itself, and in People v. Cassidy, the Johnson case was discarded, and the provision in Article XX permitting one set of city and county officers was sustained.[10] This widely proclaimed victory was followed, however, by a series of other cases which again showed a very restrictive judicial attitude toward home rule. One such case held the selection of judges to be a matter of statewide concern, on which the people of Denver had no right to legislate; years later this decision was also discredited by the courts.

Although the original amendment appeared to make it clear that Denver was freed from Dillon's rule and that the city had supreme authority in the area of local and municipal concern, some uncertainty still prevailed in 1912. But in that year, an amendment was added to Article XX designed to erase all doubt about this freedom for Denver and other home rule cities. The first portion of this amendment states:

> The people of each city or town of this state having a population of two thousand inhabitants as determined by the last preceding census . . . are hereby vested with, and they shall always have, power to make, amend, add to or replace the character of said city or town, which shall be its organic law and extend to all its local and municipal matters. Such charter and the ordinances made pursuant thereto in such matters shall supersede within the territorial limits and other jurisdiction of said city or town any law of the state in conflict therewith.[11]

Specific powers were granted by this same amendment. No amendments were made to Article XX until 1956 when Article XXV transferred jurisdiction of utility regulations in home rule cities to the state. Numerous judicial interpretations of Article XX have been rendered which contribute to the historical development of municipal home rule in Colorado. But the basic principle and strength of home rule was definitely established by 1913.

Summary of Article XX. Several sections of Article XX relate exclusively to the City and County of Denver. Section 1 provides that a body politic known as the City and County of Denver shall own and possess all property previously owned by Arapahoe County, Denver city, and the other municipal corporations involved in the consolidation. It is empowered to assume all rights and liabilities, including outstanding bonds and debts, and to convey, lease, purchase or otherwise manage all local utilities and transportation systems. Also granted is the power to issue such bonds as may be necessary if approved by the local electorate, and as prescribed by charter.

Section 1 also provides for annexations by the City and County of Denver:

> The general annexation and consolidation statutes of the state shall apply to the city and county of Denver to the same extent and in the same manner that they would apply to the city of Denver if it were not merged, as in this amendment provided into the city and county of Denver. Any contiguous town, city or territory hereinafter annexed to or consolidated with the city and county of Denver, under any of the laws of this state, in whatsoever county the same may be at the time, shall be detached per se from such other county and become a municipal and territorial part of the city and county of Denver, together with all property thereunto belonging.

Section 2 relates to the officers of the City and County of Denver. It provides the number of officers, method of appointment or election, jurisdiction, term of office, duties, and qualifications shall be as provided by local charter. Salaries of officers must be provided by charter and for officers within the classified service by ordinance pursuant to charter. This portion of Article XX also prohibits any elective officer from receiving an increase of compensation during his term of office.

The transfer of government in the City and County of Denver is provided for in Section 3 of Article XX. Certain designated officers existing prior to the pas-

sage of the amendment are made ex officio officers during the transfer and pending the approval of a charter. Also included in this section is the following provision relating to civil service: ". . . and every charter shall provide that the department of fire and police and the department of public utilities and works shall be paid under such civil service regulations as in said charter shall be provided."

Section 4 specifies the procedure to be followed by Denver and other municipalities in adopting a home rule charter: First, an election must be held on the question of whether the municipality wishes to achieve home rule status. If the electorate gives its approval, a second election must be called to elect twenty-one taxpayers who have been qualified taxpayers within municipal limits for a period of at least five years; this group shall constitute a charter convention for the purpose of drafting a charter and has sixty days to complete its work. When the proposed charter is completed, the constitution requires that it be published by the clerk of the city three times at weekly intervals. If the charter, by a majority of the electors voting thereon, is approved, it must be filed with the Secretary of State, and it then becomes the official charter of the city. If the charter is rejected, another special election must be held within thirty days to select another charter convention. The second charter convention has sixty days to complete the drafting of another charter. Another election must then be held on the second charter. This process is repeated until a charter is adopted.

The time and place of the convention and the compensation, if any, must be provided by ordinance. All expenses of the charter convention are required to be paid by the municipality by order of the city council. Section 4 also requires that the Denver charter make provision for the continuance, amendment, and repeal of ordinances (also apparently applicable to other cities), and the Denver City Council is authorized to fix the rate of taxation annually. This section also provides that no franchise shall be approved except by a vote of the qualified electors.

Section 5 sets forth charter revision and amendment procedures. Charter amendments or a request for a new charter convention may be initiated by a petition signed by not less than five percent of the qualified electors in the municipality voting at the last gubernatorial election; the council must submit the issue at a special election not less than thirty nor more than sixty days from the filing of the petition.

The proposed amendments or proposed new charter must be published three times, a week apart, in an official newspaper within the municipality. If approved by the voters, the amendment or charter must be published again and filed with the Secretary of State, at which time it shall become effective. If a new charter is approved, it must provide for initiative and referendum procedures. A new charter may not diminish the tax rate for state purposes or interfere with the collection of state taxes. Also guaranteed is the power of the city council to refer any ordinance to the voters at a special election within thirty days after the passage of the ordinance.

Section 6 expressly grants home rule authority to other cities and towns. A municipality must have a population of 2,000, as determined by the last official census, in order to qualify for home rule. If a municipality so qualifies, it has authority to adopt its own charter, which shall be its organic law and extend to all local and municipal matters. Such charter and the ordinances governing matters of local and municipal concern, made pursuant to it shall supersede conflicting state laws. Powers granted by this section include the power "to legislate upon, provide, regulate, conduct and control" the following:

1) municipal officers and agencies;
2) police courts and magistrates;
3) municipal courts and magistrates;
4) municipal elections;
5) municipal bonds and elections;
6) municipal park and water districts;
7) assessment and collection of municipal taxes; and
8) enforcement and collection of fines for violations of municipal regulations.

Included in Section 6 is a very broad statement to the effect that the intention of Article XX is to grant to home rule cities the full right of self government in local and municipal matters, and the enumeration of the specific powers listed above are not to be construed as a limitation of the power of cities to exercise full home rule rights.

Section 7 provides that the City and County of Denver shall alone always constitute one school district to be known as District No. 1. The district is to be governed by a board of education elected in such manner as provided by the general laws of the state. Except as provided by this section of the amendment, the district is to be governed by the general school laws of the state. Upon annexation of any contiguous territory which includes other school districts or parts of school districts, the same are to be merged, all property to be owned by District No. 1 and all bonds and obligations to be paid by District No. 1; provided, however, that the indebtedness of such annexed district shall be paid by the district by a special tax to be fixed by the board of education. In the case of partially included districts, the tax is to be equitably apportioned among the several parts thereof.

Section 8 covers possible constitutional conflicts by providing: "Anything in the constitution of this state in conflict or inconsistent with the provisions of this amendment is hereby declared to be inapplicable to the matters and things by this amendment covered and provided for."

Municipal Home Rule Problems in Colorado

Several significant procedural and substantive municipal home rule problems either have developed or have become more apparent in recent years. In part, these problems have arisen from judicial interpretations of Article XX of the constitution, especially the provisions delineating matters of local concern and related powers. In part, they are a consequence of population growth and accompanying urbanization, technological development, and shifting economic and social patterns, all of which require continuing reexamination of powers and responsibilities of the state and its local governments and of intergovernmental relations.

Procedural Problems

There are four major procedural problems relating to the adoption of home rule charters under the present provisions of Article XX. The first is the minimum population requirement of 2,000, which denies home rule status to smaller municipalities interested in attaining a greater degree of self government.

The second problem arises from the election procedures to be followed in adopting home rule. Article XX requires three separate elections, which makes the adoption of home rule cumbersome and expensive. Third, Article XX limits the home rule charter convention to only sixty days in which to complete the charter draft. This time limitation is too short to permit the necessary deliberation and legal thoroughness which should be given to a municipal charter. The fourth problem is caused by the requirement in Article XX that charter convention delegates must have been taxpayers for at least five years; this provision has been construed to mean that a municipality must be in existence at least five years before it can adopt home rule.

Other minor problems concern the cumbersome publication requirements in Article XX and the size of the charter convention (twenty-one members), which has been criticized as being too unweildy a group. The constitutional provision of home rule adoption procedures constitute at least as much of a problem as the procedures themselves, because it is impossible to modify them easily from time to time as experience and changing conditions warrant.

Substantive Problems

The language of Article XX attempts to delineate an area of "exclusive local and municipal concern" which is not subject to the control of or interference by the General Assembly. Yet, it also attempts to protect the sovereign power of the General Assembly in the area of "statewide concern." For the past sixty years the courts have engaged in a continuing struggle to define and protect the sovereign power of home rule municipalities without jeopardizing or restricting the power of the General Assembly to regulate matters of statewide import. A number of these decisions have tended to promote considerable confusion and uncertainty on the part of municipal authorities as to the meaning and extent of home rule.

The judicial interpretations of Article XX have tended to give superior status to the state's authority when it conflicts with local home rule regulations. Because such decisions interpret constitutional delineations of power, they may not, as a general rule, be modified by the General Assembly through additional grants of authority to home rule municipalities. In one instance, however, it can be concluded that the Colorado Supreme Court has upheld the supremacy of the General Assembly to decide, at least in some instances, when matters of statewide concern may be subject to concurrent local regulation.[12] Generally, the definition of "matters of local concern" encompasses a changing grey area, still beyond the power of the General Assembly to regulate. Consequently, even though state-local relationships under Article XX are constantly undergoing change, the final allocation of jurisdiction is being made by the courts rather than the General Assembly.

Matters of Statewide Concern (The Merris Cases). Many decisions rendered by the supreme court over the years have limited the exercise of municipal home rule powers on the basis that the power exercised constituted regulation in the area of statewide concern rather than local and municipal concern. The most recent and controversial litigation in this area was the famous Merris case and those related decisions which followed Merris.

Prior to the Merris decision, the peace and order of home rule municipalities in Colorado were maintained by local ordinances which often included jail sentences as penalties for violations, as well as fines. Violations were prosecuted in municipal courts as civil cases without the constitutional protections afforded to criminal defendants, such as a jury trial. Many of these municipal ordinances regulated matters which were already made criminal by statute; it was generally thought that Article XX extended to home rule cities extensive rights of self government, which included the regulation of matters concurrently with the state. Both of these practices by home rule cities were drastically affected by the Merris decision.[13]

In the Canon City v. Merris case (1958), the supreme court affirmed the judgment of the Fremont County Court in dismissing the prosecution's complaint for violation of a Canon City ordinance on driving while intoxicated. The decision was based on two separate grounds: 1) violations of municipal ordinances which have a counterpart state criminal

statute punishing the same conduct must conform to the constitutional requirements for criminal procedure; and 2) since the ordinance in question was one of "exclusive statewide concern" and consequently one on which home rule cities have no power to regulate, it was invalid—the power of home rule cities to regulate is limited to local or municipal matters only.

The first portion of the decision was generally lauded, as attorneys and laymen alike could see the logic of affording due process protections to a defendant who could be imprisoned for a violation of an ordinance. However, the second portion of the decision—that relating to municipal jurisdiction—caused considerable consternation to municipal officials who were placed in the confusing position of determining which of their municipal ordinances, other than those related to drunken driving, were invalid because they constituted matters of "exclusive statewide concern." Since the real meaning of this term would have to await clarification on a case by case basis municipalities continued to prosecute other ordinance violations, although trial by jury and other criminal protections were provided.

In 1959, municipal officials, through their statewide association, introduced legislation which provided that, if the subject matter of a municipal ordinance is of both municipal and statewide concern, the existence of state legislation thereon should not preempt the field, unless the state expressly declares that only the state has such power. This bill was passed by the General Assembly, but referred to the supreme court by the governor prior to his signature. The court held, with very little explanation, that this legislation was an unlawful delegation of legislative power and therefore unconstitutional.[14] It was apparent that the court pursued its line of reasoning in the Merris case and decided that the area of statewide concern and the area of local concern are "mutually exclusive" under Article XX and may not be delineated by legislative declaration.

After the failure of legislative efforts to resolve the municipal jurisdiction dilemma, the supreme court decided several cases which reflected a significant departure in court philosophy from that expressed in the Merris case. In Davis v. City and County of Denver, decided in 1959, the court indicated that it would not permit such a highly inflexible system to be applied, by stating: "This kind of 'straight jacket' rule is inappropriate to the changing society in which we live and [the Merris case] should not be construed as so holding."[15] This decision, however, held driver licensing violations to be matters of exclusive statewide concern.

In Retallack v. City of Colorado Springs, the court went even further by affirming the conviction of a violator of a municipal ordinance against reckless driving, notwithstanding the existence of a state statute prohibiting the same offense.[16] It was indicated here that, since the significance of the Merris case was that criminal procedures should be made available to ordinance violators, there is no harm in leaving local law intact, particularly since state sovereignty would not be undermined.

Three months later in the case of Gazotti v. City and County of Denver, the supreme court retreated from the Retallack holding and declared invalid a Denver ordinance which prohibited and punished larceny as an offense. The majority opinion in the case said that larceny was a matter of statewide con-'cern; separate concurring opinions explained that larceny was traditionally a common law offense and should be included in those offenses which are exclusively within the legislative power of the state. Even more disturbing was some language in this opinion suggesting that a municipal ordinance may be invalid because the penalty differs from the penalty provision of a state statute punishing the same offense.[17]

The last judicial word in the parade of Merris cases came in Wolverton v. City and County of Denver, decided in 1961.[18] This decision held that a municipal ordinance prohibiting gambling was valid in spite of a state statute prohibiting the same offense. The court came to grips with the problem of those subjects which have both statewide and municipal implications by concluding: "If an ordinance and a statute which do not conflict can coexist, it would follow that a city, acting with the express consent of the state, can legislate on a subject within the legitimate sphere of both its interest and that of the state."[19]

Following these post-Merris cases, the General Assembly in 1961 again enacted legislation which expressly delegated to municipal and local authorities the power to enact additional traffic regulations covering all matters of traffic control, except driving under the influence of alcohol or drugs, the registration of vehicles and driver licensing, and the obligation of persons involved in traffic accidents.[20] Superficially at least, this legislation, together with the post-Merris court decisions, have settled the jurisdiction of home rule municipalities over local traffic control. Municipal jurisdiction over offenses other than those relating to traffic regulation which would appear to have aspects of both statewide and local concern has not been completely resolved. As a practical matter, however, many offenses formerly tried in municipal courts are now prosecuted in state courts as violations of state law.

This explanation of the cases stemming from Canon City v. Merris reflects the dilemma that constantly confronts the courts in interpreting home rule powers and limitations under Article XX. Which matters are of statewide concern, which are of local concern, and which have aspects of both? The dilemma is one of preserving municipal authority over matters which have local application without destroying the sovereign power of the General Assembly to act in resolving the ever-increasing number of problems which have import to the entire state.

The problems and confusion reflected in the Merris cases could pose monumental difficulties for the future legal development and application of municipal home rule in Colorado. Questions of statewide versus local concern can be resolved only by the courts within the guides set by the legal language presently contained in Article XX. By the most recent Merris cases, the court has indicated that it will weigh carefully state and local interests and probably will be reluctant to define subject areas as being either of exclusive statewide concern or of exclusive local and municipal concern.

The Doctrine of Constitutional Preemption—(The Sweet Case). This problem is closely related to statewide versus local concern. The doctrine of constitutional preemption stands as another major obstacle to the exercise of municipal home rule powers. Although more limited in scope than the judicial determination of statewide concern, this doctrine has already been applied to limit the taxing sources available to home rule municipalities and to circumscribe the financial powers of their governing bodies. Potentially, it could be extended further by judicial construction.

The most important application of this doctrine was in City and County of Denver v. Sweet, decided in 1957.[21] The question presented was whether a Colorado home rule city had the legal authority to enact a city income tax. The supreme court answered the question in the negative. It denied Denver's contention that Article XX vested home rule cities with exclusive authority over matters of local concern and that this authority included the power to levy any kind of tax. While ostensibly affirming the authority of home rule cities over financial matters of local concern, the court held that this power had been restricted by the passage of a 1937 amendment to Article X, Section 17 of the Colorado Constitution which empowered the General Assembly to levy an income tax for the support of the state and its political subdivisions. The court reasoned that since this amendment was subsequent to the passage of Article XX, the field of income taxation had been "constitutionally preempted" to the state and that home rule municipalities had no authority in a taxing field which the court concluded had been "exclusively" vested in the state by Article X, Section 17.

One recognized authority in the field of local law criticized the decision and implications of the Sweet case, suggesting that no "exclusive jurisdiction" or "preemption" was intended by Article X, Section 17—that the state was merely adopting a constitutional provision which would enable it to enact a graduated income tax law to meet its financial needs.[22] He concludes that a court should be extremely reluctant to find that a state statute, let alone a constitutional provision, has preempted a tax field for the state in the absence of specific language clearly indicating an intent to preempt.

Another recognized author in municipal law and taxation has this to say on the subject:

> The occupation of the field doctrine should be discarded. If the matter is a general one in a home-rule state, or any kind elsewhere, the legislature can prevent further municipal regulations by simply indicating its wish. In the absence of such specific indication of the legislative intent the judiciary would be well advised to avoid invalidating municipal ordinances upon inquiries into the legislative psyche. The doctrine may provide a too handy prop for invalidating municipal rules with which jurists are unsympathetic. One cannot help but notice how avidly courts invalidate municipal regulations in one 'field' and to forecast whether one has been 'occupied,' the doctrine is unserviceable to the bar.[23]

It should be noted, however, that the supreme court has sustained the authority of a home rule city to enact and levy a local cigarette tax.[24] Such a tax was held not to be preempted by Article XXIV relating to excise taxes and old age pensions.

Regardless of the merit or lack of merit in the judicial use of constitutional preemption, the doctrine holds possible danger to municipal home rule in Colorado.

Home Rule—A Limitation (MCID). Legislation was passed in 1961 authorizing the formation of a Metropolitan Capital Improvement District to provide the financial basis for cooperative efforts in the construction of capital improvements in the Denver metropolitan area. Accordingly, leaders of several communities in the Denver area met and drafted an implementing proposal designed to establish a broad-function improvement district throughout the four-county area to be financed by an areaswide sales tax. The proposal was defeated in the three suburban counties, but approved by a sufficient majority in Denver to secure its passage. The legality of this legislation was contested, and on February 12, 1962, the supreme court found the MCID enabling act unconstitutional in the case of Metropolitan Capital Improvement District v. Adams County.[25] Significantly, the basis for the decision was that Article XX had already vested home rule cities with the exclusive power to do those things proposed to be accomplished by the district; accordingly, the General Assembly had no power to delegate the same authority to a special district. In other words, MCID invaded municipal home rule, contrary to Article XX. In this connection, the court said:

> . . . We assert that no multiple county district embracing numerous home rule cities, can be empowered by action of the General

> Assembly to function in such cities in matters of local and municipal concern, so long as Article XX remains a part of the constitution of Colorado. Any who seek to persuade this court to emasculate this constitutional provision by judicial fiat are doomed to disappointment.[26]

Although the MCID decision might be said to be a judicial ratification of the home rule concept, it also indicated that Article XX could be interpreted as a bar to or restriction on cooperative efforts between home rule cities for the mutual benefit of all.

Summary. While the decisions in the Sweet and MCID cases pose significant problems for municipal home rule, the major difficulties stem from the attempt constitutionally to delineate matters of exclusive local and municipal concern. Such delineation, of necessity, is subject to judicial interpretation from time to time. These interpretations, because they involve constitutional questions, are not generally susceptible to legislative modification, even on those matters determined to be of statewide concern, so constitutional amendment is required. Because judicial decisions usually do not go beyond the scope of the matter in the case before the court, a series of constitutional amendments would appear to be required if modification of judicial interpretations is desired. Since constitutional amendment is a lengthy and costly process, the result is to rigidify the relationship between the state and its home rule municipalities and, in some instances, to circumscribe the ability of home rule cities to join in formal arrangements with other governmental entites to solve areawide or regional problems. The lack of flexibility in state-municipal relationships and authority is a major handicap in meeting needs brought about by changing conditions in a rapidly urbanizing society.

Expansion of Home Rule in Colorado: Commision Recommentions

All of the Commission's recommendations for constitutional change, including those relating to home rule, were included in one amendment in recognition of the interrelationship of local government problems and to avoid piecemeal approaches which might solve a particular problem without regard to other consequences. The proposed Local Government Home Rule Amendment would accomplish the first comprehensive overhaul of constitutional provisions applying to local government since the adoption of Article XX in 1902. It would replace all of Article XX except the first three sections, which apply only to the City and County of Denver. The amendment's four major objectives all involve the expansion of home rule, both in scope and application, and are as follows:

1) to make necessary changes in municipal home rule to correct procedural and substantive problems;
2) to provide a permissive local government structure to meet present and future urban needs in existing and emerging metropolitan areas;
3) to provide a way to streamline and modernize county government while preserving local control and initiative; and
4) to eliminate a number of constitutional impediments to the proper functioning of local government, including state-local relations and intergovernmental cooperation.

Municipal Home Rule

The portion of the amendment providing for municipal home rule would become Section 4 of Article XX. Under the provisions of this section, the opportunity to adopt home rule would be extended to all municipalities. The detailed procedures for becoming a home rule municipality and adopting a home rule charter would be provided by statute subject to two constitutional requirements: that at least five percent of the qualified electors of the municipality would have to initiate a home rule petition; and 2) that a home rule charter must be approved by a majority of qualified electors voting thereon. This section also makes it possible for new municipalities to adopt home rule at the time of incorporation.

The present inflexibility in charter adoption procedures, requiring three elections, twenty-one charter delegates, and limiting charter conventions to sixty days, is also eliminated. Under the proposed amendment, the detailed procedures for becoming a home rule city and adopting a charter would be provided by statute, making modifications possible without further constitutional amendment.

Substantive Problems. Municipal home rule substantive problems are handled by changing the definition of municipal home rule to guarantee to home rule cities all powers of government and taxation except as expressly limited or denied by specific legislative enactment. Any limitation or denial of powers, however, would have to apply to no less than one class of municipalities consisting of at least three home rule cities.

This section provides further that annexation or extraterritorial authority shall not be exercised except as provided by law, and home rule cities would be prohibited from defining and punishing felonies or enacting charter provisions or ordinances governing

or regulating relationships between private persons, associations, or corporations.

This new definition of municipal home rule is similar to the one proposed by the National League of Cities, but has been modified to clarify annexation and extraterritorial authority and to prohibit home rule cities from legislating on matters that are clearly of statewide concern, such as felonies and private law relationships. Protection is given to individual municipalities by the requirement that any limitation or denial of powers must apply to at least one municipal class consisting of at least three cities.

By using this method of granting home rule powers, the courts would be replaced by the General Assembly as the referee on matters of state and local concern. This change should provide the necessary flexibility to adjust state and local relationships as changing conditions warrant, and it would also eliminate legal barriers in coordinating state-local jurisdiction in a variety of matters.

Urban Counties

The urban county form of government is recommended by the Commission to meet metropolitan area needs and problems.* The provision applying to urban counties would become Sections 5, 6, and 7 of Article XX. It is important to note the major difference in home rule powers given urban counties and municipalities. Urban county home rule functional powers would be limited to those services of a municipal nature which an urban county would be required to perform throughout the county. These powers would also be subject to express denial or limitation by the General Assembly. As indicated previously, home rule municipalities would have *all* powers of government and taxation not expressly limited or denied by the General Assembly. Additional restrictions are placed on the scope of urban county home rule powers to preserve the existence of municipalities within urban counties, while at the same time providing for the home rule authority of each.

In a further attempt to avoid jurisdictional conflicts between an urban county and the municipalities within its boundaries, the amendment expressly provides that a home rule municipality within an urban county shall not perform any function or service for which the urban county has the sole and exclusive authority.

An urban county charter would also prescribe the organization of the urban county government subject to certain requirements specified in the amendment. Urban counties would be required to have a municipal-type government with a council or board of directors of at least seven and no more than twenty-one members as provided by charter. Council members would have to be elected either entirely by district or by a combination of district and at large. The amendment also specifies that an urban county shall have an elected or appointed chief executive. These are the only limitations imposed on the authority of an urban county to determine its own form of government.

Described at length in Chapter V.

Non Urban County Home Rule

Permissive authority is provided in the amendment for any county (other than the City and County of Denver and those adopting the urban county form of government) to adopt a home rule charter establishing the organization and structure of its government. These provisions would become Section 8 of Article XX.

The procedures for adopting a home rule charter would be specified by statute, but at least five percent of the qualified electors of the county would have to initiate a home rule petition.

It would also be possible for one or more adjacent counties to join in the formation of one home rule county, provided that both the petition to form a home rule county and the charter are approved by a majority of those voting in each of the counties concerned.

The charter would be required to provide for a county board of supervisors of at least three and no more than nine members and also for an elected or appointed chief executive. In addition the charter would provide for other elected and appointed officials, their duties, responsibilities, and compensation.

Non urban home rule counties would continue to derive their authority and powers by statute, including, but not limited to, the provisions of services and improvements in unincorporated areas. Nothing would preclude a county from adopting this form of home rule and then becoming an urban county, or a portion thereof, at a later date, if it meets the eligibility requirements.

This proposal for county home rule would accomplish several things with respect to county government problems:

1) It would make it possible for any county upon the initiation of its citizens to provide the county government structure best suited to its particular needs, while at the same time it would require a separation of legislative and executive functions and assure that there would be a chief executive, whether elected or appointed.
2) Adoption of a home rule charter would make it possible for any county on its own prerogative to reduce the number of elected officials (other than members of the board), eliminate them entirely, combine positions, and carry out any other inventive and imaginative changes in government organization that are acceptable

to the electorate. Counties adopting a charter would be able to set their own salaries for county officials and would no longer be dependent on the General Aseembly, which is required to consider only population as a factor in setting these salaries.

3) It would make it possible for counties to consolidate easily, if they wished to do so, without requiring consolidation on a mandatory basis. The wishes of each participating county would be given equal weight both in the consolidation phase and in charter approval, so that no large county would impose its will on a smaller one, either in forcing consolidation or in dictating the structure and organization of the consolidated county government.

Elimination of Obstacles

Other provisions of the amendment would eliminate several constitutional roadblocks to the proper functioning of local government and home rule. The amendment would make it possible:

1) for home rule cities and urban counties to levy an income tax, unless expressly denied or limited by the General Assembly;
2) for state-levied and collected and locally-distributed taxes to be handled on a direct basis; and
3) for home rule jurisdictions to cooperate and contract with each other, either directly or through the authorization by statute of a separate government entity as an instrument to be used through voluntary participation by cooperating or contracting political subdivisions.

This portion of the proposed amendment also removes the constitutional impediments to the creation, by statute, of county service districts which would provide services in unincorporated areas now serviced by special districts. It would do this by modifying several constitutional limitations now placed on counties, including the requirement of uniform taxation throughout the county.

Summary

The Local Government Home Rule Amendment would make municipal home rule available to all municipalities. It would also change the definition of home rule to avoid the substantive problems which have developed over the years from judicial delineation of matters of statewide and local concern. It permits the creation of a form of government to meet metropolitan area problems (urban county) with home rule powers carefully specified to avoid conflicts and infringements with home rule municipalities within an urban county. It extends to all counties the authority to adopt a charter prescribing the structure and form of county government.

The General Assembly would be the arbiter or balance-wheel among the various kinds and levels of home rule jurisdictions. It would do this, on the one hand, by limiting or denying powers to home rule cities and urban counties as required by state concern or to avoid jurisdictional conflicts and, on the other, by granting powers to non urban home rule counties. Constitutional obstacles to the effective functioning of the General Assembly in this role would be eliminated, as would bars to intergovernmental cooperation among home rule entities.

Other Recommendations Concerning Home Rule

Two other proposals providing for local government home rule were introduced and considered in the 1966 session of the General Assembly. One of these applied only to counties and the other to both municipalities and counties.

S.C.R. 3 (1966)

Senate Concurrent Resolution No. 3, introduced by Senator Scott, would have added a new article to the Colorado Constitution to provide for county home rule. Under this proposed constitutional amendment, counties would be permitted to adopt charters providing both administrative and functional home rule. This amendment provided in part:

> (2) A county home rule charter may provide for the performance of any function and the exercise of any power of county-wide concern . . .
>
> (3) A county home rule charter shall provide for the organization of the county government, including all county officers, except judicial officers, and the number, method of selection, qualifications, compensation, tenure, and responsibilities of such county officers.
>
> (4) The charter shall provide for the performance of any function and the exercise of any power required by the general assembly and authorized directly by charter pursuant to the provisions of this section.

This proposed amendment appears to be modeled after the Oregon constitutional provisions for county home rule, with the exception of subsection (4) above, which applies to state-county functional relationships.

Advantages. The advantage to this proposal is that it would extend broad home rule powers to counties, as to government organization, powers to be

exercised, and functions to be performed. This amendment appears to free home rule counties from legislative interference, not only on matters of county concern, but as to functions which the county performs as an arm of the state. Counties would also be free to adopt whatever form of government they choose. For example, a county could adopt a charter providing for the same number of elected officers and government organization as it presently has and still assume authority by charter over matters of countrywide concern.

Disadvantages. Some of S.C.R. 3's advantages might also be considered disadvantages from another point of view. The problems resulting from the necessity of judicial delineation of matters of state and local concern have been discussed at length. There is no reason to assume that the same sorts of problems would not develop as the courts are called upon to determine questions of state versus countywide concern. While this has not happened in Oregon as yet, its history of judicial interpretations of municipal home rule has been quite different from Colorado's, although its municipal home rule provisions are similar.

Not only would the supreme court be required to determine questions concerning matters of countywide concern, but it could easily be placed in the position of arbitrating disputes between counties and municipalities, because of conflicts arising from countywide versus local or municipal concern. This proposal has many inherent possibilities of county-municipal conflict and competition which could adversely affect orderly urban growth and development.

It is not entirely clear what is meant by the language of subsection (4). On the one hand, this subsection seems to require that the county charter shall provide for the performance of any function or the exercise of any power required by the General Assembly, thereby recognizing the county's role as an agent of the state. This subsection goes on to state, however, that not only must the function or power be required by the General Assembly, but that it must also be authorized in the county charter. This latter language implies that if a county did not authorize a state required function in its charter, it would not be obligated to perform it. Consequently, this section could also be subject to endless litigation, and, depending on judicial interpretation, could place the state in the peculiar position of having a county charter take precedence over state law on a matter of statewide concern. Previous decisions concerning municipal home rule, however, indicate that state sovereignty would probably be upheld.

The wisdom of granting broad functional home rule authority to counties without any assurance that the form of county government would be changed is questionable. The Commission's study concluded that the major county problem is a governmental structure which is inadequate to meet present and future circumstances. Consequently, the Commission recommended that county government structure be changed, so that additional powers may be exercised more efficiently.

This proposal would also make it possible for the Denver metropolitan area to comprise four home rule counties with broad powers. In the view of many, this would make the attainment of any over-all solution to Denver metropolitan area problems and needs virtually impossible.

S.C.R. 10 (1966)

Senate Concurrent Resolution No. 10, introduced by Senator Armstrong, would have repealed and reenacted Article XIV of the Colorado Constitution to provide for county home rule and would have repealed and reenacted sections 4, 5, 6, and 8 of Article XX to change the definition and application of municipal home rule.

County Home Rule. Under S.C.R. 10, counties would be granted the authority to adopt home rule charters. The procedures for charter adoption would be provided by statute, but a petition to adopt home rule would have to be initiated by not less than five percent of the qualified electors of the county. This amendment provides that:

> (2) A home rule county shall be empowered to perform all functions and to exercise all powers of government and taxation in matters of county concern, as defined by law by the general assembly, unless such function or power shall be specifically prohibited to counties by law enacted after the effective date of this article, as amended, and not otherwise prohibited or limited by charter or this constitution.

The General Assembly is given the express authority to provide, specify, and define the functions, powers of government, and powers of taxation which are of county concern and shall also have the power to prohibit the performance of any function or the exercise of any power by counties; such prohibition would have to apply to all home rule counties.

Municipal Home Rule. The sections of S.C.R. 10 providing for municipal home rule are similar to those providing for county home rule. All municipalities would have the authority to adopt a home rule charter establishing the organization, structure, and functions of municipal government. A home rule municipality would be empowered to perform all functions and to exercise all powers of government and taxation in matters of municipal concern, as defined by law, unless expressly prohibited by charter or the constitution, or prohibited by the General Assembly; such

prohibition by the General Assembly would have to apply to all home rule cities.

In many ways the language of S.C.R. 10 applying to county and municipal home rule is similar to that referring to municipal home rule contained in the Local Government Home Rule Amendment recommended by the Commission, but there are some very important differences. S.C.R. 10 requires that county and municipal powers of government and taxation must be defined by the General Assembly. The General Assembly is not required to make such definition, however, but is merely empowered to do so. Further, S.C.R. 10 states that home rule counties and municipalities may not exercise any power prohibited by the constitution, but there is no section referring to the relationship of other constitutional sections to the provisions of S.C.R. 10. Consequently, it is not clear whether other sections of the constitution apply or are superseded.

Advantages. S.C.R. 10 eliminates the problems resulting from judicial delineation of matters of state and local concern by placing the General Assembly in the role of arbiter rather than the courts. It does this by giving home rule counties and municipalities all powers of government and taxation as defined, and except as prohibited by the General Assembly. This approach makes it possible, as well, for the General Assembly to avoid, or at least limit, county-municipal conflicts. It extends home rule to all counties and municipalities on the same basis, and provides that the procedures for adopting home rule shall be specified by statute, thereby assuring flexibility, because they can be changed as conditions warrant without further constitutional amendment.

Disadvantages. The major disadvantages of S.C.R. 10 stem from its language, rather than its seeming intent. Rather than granting all powers of government and taxation, except as expressly denied by the General Assembly, it requires that the General Assembly first define these powers. The General Assembly is not required, but merely authorized, to define these powers. Consequently, there is no constitutional guarantee of home rule powers, because if the General Assembly does not make such definition, the language of S.C.R. 10 implies that there would be no powers to exercise.

The result as far as county home rule is concerned is to place counties in the same position as does the Local Government Home Rule Amendment. In other words, home rule counties can not exercise any powers unless authorized by the General Assembly. This may or may not be a disadvantage, depending on one's view of county home rule, but it is different from the seeming intent of S.C.R. 10.

The result as far as municipal home rule is concerned is far more drastic. Despite substantive and procedural problems, Colorado municipalities have had a constitutional guarantee of home rule powers for more than sixty years. Under S.C.R. 10 this guarantee would be eliminated, because the General Assembly would first have to define powers before they could be exercised. Thus, constitutional municipal home rule would be changed to legislative municipal home rule.

It also appears that the language of S.C.R. 10 limits the authority of counties to provide services in unincorporated areas, because it does not modify or even refer to those sections of the constitution referring to uniformity of taxation, county indebtedness, and the pledging of county credit, but states that counties can exercise all powers defined and not prohibited by the General Assembly or not prohibited by the constitution. The absence of any referral to these other sections of the constitution when construed with the constitutional prohibition on the exercise of powers referred to above implies that these sections would continue to inhibit the ability of counties to establish service areas or special taxing districts.

S.C.R. 10, while it extends home rule authority to all municipalities, does not contain any express authority for cities to adopt home rule upon incorporation. The absence of such authority makes it doubtful that a municipality could incorporate and adopt home rule at the same time, thereby avoiding the difficulties and expense of a series of separate elections to attain home rule status.

The problems raised in connection with S.C.R. 3, concerning county government organization and structure and the possibility of four home rule counties with broad powers in the Denver metropolitan area, also apply to S.C.R. 10, but to a lesser extent, because S.C.R. 10 makes it possible for the General Assembly to exercise some control through the definition and prohibition of county home rule powers.

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[24]State of Colorado v. City and County of Denver, 106 P 2d 317 (1940).

[25]Metropolitan Capital Improvement District v. Board of County Commissioners of Adams County, 149 Colo. 284, 369 P 2d 67 (1962).

[26]*Ibid.*

APPENDIX A

House Concurrent Resolution No. 1005 (1966)

SUBMITTING TO THE QUALIFED ELECTORS OF THE STATE OF COLORADO AMENDMENTS TO ARTICLES XX, XI, AND XIV OF THE CONSTITUTION OF THE STATE OF COLORADO, CONCERNING LOCAL GOVERNMENT INCLUDING COUNTIES AND MUNICIPAL AND QUASI - MUNICIPAL CORPORATIONS, AND PROVIDING FOR MUNICIPAL HOME RULE, URBAN COUNTIES, NONURBAN COUNTY HOME RULE, TERMS OF OFFICE OF MUNICIPAL AND OTHER LOCAL OFFICIALS, AND LIMITATIONS ON DEBT CONTRACTED BY MUNICIPAL AND QUASI-MUNICIPAL CORPORATIONS.

SECTION 1. At the next general election for members of the general assembly, there shall be submitted to the qualified electors of the state of Colorado, for their approval or rejection, the following amendments to the constitution of the state of Colorado, to wit:

Sections 4, 5, 6, 7, and 8 of article XX of the constitution of the state of Colorado are hereby REPEALED AND RE-ENACTED, WITH AMENDMENTS, and said article XX is further amended BY THE ADDITION OF A NEW SECTION 9, to read:

Section 4. (1) All municipal corporations are hereby vested with and reserved the power to adopt home rule. Each home rule municipality established pursuant to the provisions of this section shall adopt a home rule charter establishing a government consistent with the terms of this article.

(2) The procedures governing the adoption of a home rule charter shall be prescribed by the general assembly; provided, that action to initiate home rule shall be by petition, signed by not less than five per cent of the qualified voters of the municipality seeking home rule authority; and provided further, that no home rule charter shall become effective until approved by a majority of the qualified electors voting thereon at a special election called for that purpose.

(3) (a) A petition for municipal incorporation may provide for the adoption of home rule; provided, that:

(b) Such petition is signed by not less than five per cent of the qualified voters residing within the area to be incorporated;

(c) The procedures governing the adoption of a home rule charter shall be as prescribed in subsection (2) of this section; and

(d) Such municipality shall not exist, operate, and function until a home rule charter is adopted.

(4) Municipal home rule charter provisions establishing the organization and structure of government shall be superior to and take precedence over the statutory authority of the general assembly, except for the requirement that the municipal legislative body shall be subject to popular election, and the general assembly shall have authority to establish procedures for judicial review.

(5) Municipal home rule charters may provide the procedures for amending, revising, or re-enacting the charter, which procedure shall be superior to the statutory authority of the general assembly; provided, that initiative and referendum powers reserved to the people by article V of this constitution shall be reserved to the qualified voters of a municipality relative to the amendment, revision, or re-enactment of a municipal home rule charter and the initiative or referendum of any legislative measure enacted pursuant to charter and consistent with this article.

(6) (a) A home rule municipality shall be empowered to perform all functions and to exercise all powers of government and taxation not expressly denied or limited by specific legislative enactment, and not otherwise prohibited or limited by charter or this constitution. Such powers of government and taxation shall include but not be limited to the power to levy and collect taxes of every kind and nature, to condemn property for public purposes, to incur indebtedness, and to define and provide for the punishment of violations of its charter and ordinances.

(b) A home rule municipality shall have no power to adopt charter provisions or enact ordinances which have as their primary purpose the regulation of, or the provision of procedures governing, the status of or relationships between private persons, associations, or corporations.

(c) A home rule municipality shall have no power to define and provide for the punishment of felonies.

(d) A home rule municipality shall have no power to annex territory or change boundaries, except under such conditions and procedures as may be authorized by the general assembly for no less than one class of municipal corporations consisting of at least three municipalities.

(e) A home rule municipality shall have no extraterritorial police or taxing powers, except under such conditions and procedures as may be authorized by the general assembly for no less than one class of municipal corporations consisting of at least three municipalities.

(7)No statutory limitation or restriction shall be placed upon municipal home rule authority or nothing

shall be required of any home rule municipality unless such limitations, restrictions, or requirements are made applicable to no less than one class of municipal corporations consisting of at least three municipalities.

(8) All municipal home rule charters, including the charter of the city and county of Denver, adopted prior to the passage of sections 4 through 9 of this article are expressly recognized as valid and shall remain in full force and effect insofar as applicable and consistent with this section, sections 1, 2, and 3, of this article notwithstanding.

(9) A home rule municipality within an urban county established pursuant to this article shall not perform any function or service for which the responsibility is vested solely and exclusively in the government of said urban county pursuant to section 7 (3) (b) of this article.

Section 5. (1) (a) Authority is hereby established for the creation of urban counties which shall be political subdivisions of the state. The following general criteria are established for the formation of urban counties pursuant to the provisions of this article:

(b) The area to be included within the boundaries of a proposed urban county shall have a population of at least one hundred thousand persons, as determined by the last federal decennial census or the last official annual population estimate of the state as defined by statute;

(c) The area to be included within the boundaries of a proposed urban county shall have an aggregate population density of at least one hundred persons per square mile of territory included;

(d) The area to be included within the boundaries of a proposed urban county shall include all of the territory within an existing municipal corporation, so that such municipal corporation is either wholly within or wholly without the urban county boundaries;

(e) Any proposed urban county in the area encompassing Adams, Arapahoe, Jefferson, and Denver counties shall include territory from each of these counties, provided that the territory included from each shall meet the standards set forth in subsections (1) (b), (c), and (d) of this section; this provision shall not apply to any proposed urban county to be formed outside of such area only to the extent that such urban county may include any municipality partially within Adams, Arapahoe, or Jefferson counties.

(f) Such other criteria, qualifications, or standards as may be established by the general assembly consistent with this article.

(2) Nothing in this constitution shall prevent the formation of an urban county within all or parts of any county or counties; provided, that all territory included within an urban county shall be adjoining compact territory containing no enclaves.

(3) An urban county may include all or part of one or more judicial districts, and the creation of an urban county shall not affect or alter the boundaries of existing judicial districts. Neither shall the creation of an urban county affect or alter the boundaries of any existing school district or municipal corporation; provided, that nothing herein shall be construed to prevent the generaly assembly from providing by statute for the formation, consolidation, and dissolution of such political subdivisions in accordance with other applicable constitutional provisions.

(4) (a) Any provision of this constitution establishing representative and senatorial districts for the general assembly shall also apply to urban counties, provided an urban county shall be divided by law into representative and senatorial districts for the general assembly.

(b) At the first session of the general assembly following the adoption of an urban county charter, such urban county shall be divided into representative and senatorial districts as provided in subsection (4) (a) of this section, and the general assembly shall make any other adjustments in senatorial and representative districts which may be required by changes in county boundaries.

Section 6. (1) Urban counties may be established which meet criteria set forth in section 5 of this article.

(2) (a) The procedure for the establishment of an urban county and the procedure governing the adoption of an urban county charter shall be established by the general assembly; provided, that the following limitations shall apply:

(b) Action to create an urban county shall be initiated by a petition signed by not less than five per cent of the qualified electors, within the county or counties from which territory is to be included in the boundaries of the proposed urban county.

(c) The petition to create an urban county shall define the boundaries of the proposed urban county and, if necessary, shall make provision for the disposition or transition of territory to other contiguous county or counties, in accordance with such procedures and conditions as shall be established by statute; provided, that such disposition may be changed by the general assembly. The procedures for the division or adjustment of assets, rights, and liabilities between an urban county and any contiguous county or counties which has territory transferred to or from an urban county shall be established by statute.

(d) The question of whether an urban county shall be formed shall be voted upon at a special election called for that purpose by the qualified electors of all counties from which territory is to be included within the boundaries of the proposed urban county, pursuant to such election procedures as shall be provided by statute.

(e) Concurrent with an election on the question of forming an urban county, the qualified electors of the territory included within the boundaries of the proposed urban county shall elect in accordance with statutory procedures not less than fifteen charter delegates to a charter convention. Each county with territory included within the boundaries of a proposed urban county shall be represented by a proportion of the total number of charter delegates equal to the proportion that the population of such territory is of the total population of the proposed urban county.

(f) After the formation of an urban county, a proposed charter shall be prepared and submitted to and voted upon by the qualified electors of the urban county at a special election called for that purpose pursuant to procedures provided by statute. Upon the approval of the proposed charter by a majority of the qualified electors voting thereon, the urban county government shall be established by charter. The charter shall prescribe the schedule for the transition and assumption of the performance of the functions set forth in section 7 (3) (b) of this article and shall also provide for the transfer or adjustment of assets, rights, and liabilities between the urban county and affected local units within its boundaries. In the event that the proposed charter is disapproved, a new charter shall be prepared and submitted to the qualified electors of the urban county in accordance with statutory procedures, and these procedures shall be repeated as many times as necessary to accomplish the approval of an urban county charter; except that if a charter is not adopted within two years after the formation of an urban county, the urban county shall be dissolved and the territory included therein shall revert to its status prior to the formation of such county. Any charter convention for the preparation of a subsequent charter shall not have less than fifteen members.

(g) An urban county charter may provide the procedures for amending, revising, or re-enacting the charter, which procedure shall be superior to the statutory authority of the general assembly; provided, that initiative and referendum powers reserved to the people by article V of this constitution shall be reserved to the qualified voters of an urban county relative to the amendment, revision, or re-enactment of an urban county charter and the initiative or referendum of any legislative measure enacted pursuant to charter and consistent with this constitution.

Section 7. (1) An urban county established pursuant to the provisions of this article shall adopt a home rule charter which shall provide for a government consistent with the provisions of this article.

(2) The urban county charter shall make provision for either an elective or appointive chief executive with such administrative and executive responsibilities and authority as may be provided by charter. The charter shall provide for a county board of supervisors or council consisting of not less than seven nor more than twenty-one members, who may be elected either entirely from districts of as equal population as may be, or both from such districts and at large as prescribed by charter. The board of supervisors or council shall be the responsible legislative body for the urban county and shall have full power to enact and enforce ordinances, resolutions, and other measures in accordance with the provisions of this section. The county court shall constitute the proper court of jurisdiction for all violations of ordinances or legislative measures enacted by an urban county board of supervisors or council. Except as otherwise provided in this section, charter provisions establishing the organization and structure of the urban county government shall be superior to and take precedence over the statutory authority of the general assembly; provided, that the general assembly shall have authority to establish procedures for judicial review.

(3) (a) An urban county shall have the responsibility for the performance, administration, and supervision of any function, duty, or responsibility which by statute may be delegated to or required of county governments.

(b) An urban county shall have sole and exclusive responsibility for the performance of the following functions and services throughout the incorporated and unincorporated portions of the urban county: (i) Domestic water supply and distribution; (ii) sanitary and storm sewer collection, treatment, and disposal; (iii) airports and air transport facilities; (iv) trash and refuse disposal; (v) library facilities and services; and (vi) park and recreation facilities and services, except that municipalities may own, operate, and maintain local parks and recreation programs as may be provided by statute. An urban county shall have sole and exclusive responsibility to provide such additional functions and services throughout the incorporated and unincorporated portions of the urban county as may be authorized by the general assembly for all urban counties and expressly assumed by the urban county charter.

(4) (a) An urban county shall assume, own, possess, and control assets, rights, and liabilities related to the functions and services defiined in subsection (3) (a) and (b) of this section, and counties, municipalities, and the local improvement districts therein, and quasi-municipal corporations wholly within an urban county shall be divested of such assets, rights, and liabilities in the manner prescribed by urban county charter.

(b) Existing quasi-municipal corporations located partially within an urban county and providing functions and services defined in subsection (3) (b) of this section, shall no longer exist as independent governmental units only as to those portions located

within the boundaries of the urban county. All assets, rights, and liabilities previously vested in such quasi-municipal corporations and located within an urban county shall be transferred to, assumed, owned, and possessed by the urban county; provided, that service arrangements made between the remaining portions of such quasi-municipal corporations and the urban county, and financial adjustments for the assets and liabilities assumed by the urban county shall be made between the urban county and the remaining portions of such quasi-municipal corporations under conditions and standards established by statute consistent with this article.

(5) The urban county charter or ordinances enacted pursuant thereto shall designate the responsible officers who shall perform the functions, duties, and responsibilities enumerated in this section and shall make provision for their compensation. Such officers shall carry out their duties and responsibilities in the manner prescribed by charter or ordinance enacted pursuant thereto, except that officers charged with performing county functions, duties, and responsibilities under subsection (3) (a) of this section shall be required to perform their functions, duties, and responsibilities as prescribed by statute.

(6) (a) Except as limited by charter or this constitution, an urban county shall have all powers of government and taxation reasonably related to or connected with the functions described in subsection (3) (b) of this section which are not otherwise expressly denied or limited by the general assembly through specific legislative enactment applicable to all urban counties. Such powers of government and taxation shall include but not be limited to the power to levy and collect taxes of every kind and nature, to condemn property for public purposes, to incur indebtedness, and to define and provide for the punishment of violations of its charter and ordinances.

(b) An urban county shall have no power to adopt charter provisions or enact ordinances which have as their primary purpose the regulation of, or the provision of procedures governing, the status of or relationship between private persons, associations, or corporations.

(c) An urban county shall have no power to define and provide for the punishment of felonies.

(d) An urban county shall have no power to annex territory or change boundaries, except under such conditions and procedures as may be authorized by the general assembly, provided that any such annexation shall be subject to the approval of a majority of the qualified electors voting thereon in the county in which the territory to be annexed is located.

(e) An urban county shall have no extraterritorial police or taxing powers, except under such conditions and procedures as may be authorized by the general assembly.

Section 8. (1) The qualified electors of any county of this state are hereby vested with and reserved the general power of home rule and self-determination and shall be permitted to adopt a nonurban county home rule charter establishing the organization and structure of the county government.

(2) The general assembly shall provide by statute procedures governing the adoption of a nonurban county home rule charter; provided, that home rule shall be initiated by petition, signed by not less than five per cent of the qualified electors of the county. No home rule charter shall become effective until approved by a majority of the qualified electors of the county voting thereon at a special election called for that purpose.

(3) (a) Two or more adjacent counties may form a single nonurban home rule county, according to procedures prescribed by statute; provided, that:

(b) The petition for home rule shall be initiated by not less than five per cent of the qualified electors of each such adjacent county;

(c) The formation of a single nonurban home rule county shall be approved by a majority of the qualified electors of each such adjacent county voting thereon at a special election called for that purpose.

(d) The home rule charter shall be approved by a majority of the qualified electors of each such adjacent county voting thereon at a special election called for that purpose.

(4) A nonurban county home rule charter shall provide for a county board of supervisors consisting of not less than three nor more than nine members, who may be elected from districts of as equal population as may be, or at large, or a combination of both as prescribed by charter. The board of county supervisors shall be the chief supervisory body and shall be responsible for coordinating all functions, duties, and responsibilities of the county. The charter shall provide for either an elective or appointive chief executive with such administrative responsibilities and authority as may be provided by charter. Such a county charter shall make no provision affecting the number, selection, tenure, compensation, powers, or duties of elected judicial officers.

(5) A nonurban county home rule charter shall provide for establishing the organization and structure of the county government which shall be superior to and take precedence over the statutory authority of the general assembly.

(6) Nonurban county home rule charters may provide the procedures for amending, revising, or reenacting the charter, which procedure shall be superior to the statutory authority of the general assembly; provided, that initiative and referendum powers reserved to the people by article V of this constitution shall be reserved to the qualified voters of a nonurban home rule county relative to the amendment, revision,

or re-enactment of a nonurban county home rule charter and the initiative or refrendum of any legislative measure enacted pursuant to charter and consistent with this article.

(7) The county board of supervisors and other county officers established by charter shall perform only such functions and exercise only such powers as may be provided by statute, including, but not limited to, services and improvements in the unincorporated portions of the county.

(8) Nothing herein shall preclude the formation of an urban county pursuant to this article in all or portions of any nonurban home rule county or counties established in accordance with this section.

Section 9. (1) It is the intent of sections 4 through 9 of this article that the provisions of this article be construed liberally and, unless otherwise prohibited in this article or other provisions of this constitution, authority is reserved in the general assembly to enact legislation to encourage and facilitate the formation of urban counties, and to enact legislation to encourage and facilitate the adoption of home rule by counties and municipalities throughout the state.

(2) (a) The provisions of sections 4 through 9 of this article, the legislation enacted pursuant thereto, and the charters adopted pursuant to both such constitutional and statutory provisions shall have the following relationship to other constitutional provisions:

(b) Sections 1, 2, 3, and 4 of this article shall apply to and govern the city and county of Denver so long as it shall exist as a city and a county. Effective upon the passage and approval of any urban county charter which shall include within the territorial limits thereof the city and county of Denver, sections 1, 2, and 3 of this article shall be repealed; provided, that nothing contained herein shall affect the continued existence of the city of Denver under the provisions and limitations of section 4 of this article.

(c) The provisions of sections 3, 4, and 5 of article XIV shall not apply insofar as the general assembly is authorized by this article: (i) To provide procedures for the transition of territory from one county to another county in connection with the establishment of an urban county; and (ii) to enact annexation procedures for the expansion of urban county boundaries when adjacent territory meets such urbanization standards as may be provided by statute.

(d) The provisions of section 2 of article XIV shall not apply insofar as an urban county charter may designate the urban county seat.

(e) The provisions of section 6 of article XI, relating to county indebtedness, shall not apply to an urban county, nor shall it apply in any county to the establishment and operation of special taxing districts as provided by statute.

(f) The provisions of section 1 of article XI, relating to the pledging of public credit, shall not apply insofar as an urban county may pledge the credit of the county with respect to the discharge of any indebtedness assumed by or bonds issued on behalf of services or facilities transferred to the urban county by other local units of government pursuant to sections 6 and 7 of this article, nor shall it preclude any county from pledging the credit of the county with respect to the discharge of any indebtedness assumed by or bonds issued in behalf of special taxing districts established as provided by statute.

(g) The provisions of section 10 of article VI, relating to judicial districts, shall not apply insofar as the boundaries of an urban county may include all or parts of two or more judicial districts, and the district court may sit in locations other than the county seat as provided by statute.

(h) The provisions of section 16 of article VI shall not apply insofar as an urban county may provide by charter for the method of selection of county judges, and the county court of the city and county of Denver shall cease to exist as provided by charter of any urban county which includes within the territorial limits thereof the city and county of Denver.

(i) The provisions of sections 1, 14, and 15 of article VI shall not apply to any urban county which includes within the territorial limits thereof the city and county of Denver, insofar as the juvenile court of the city and county of Denver shall become the juvenile court of the second judicial district and the probate court of the city and county of Denver shall become the probate court of the second judicial district.

(j) The provisions of sections 6, 7, 8, 9, 10, and 12 of article XIV shall not apply to an urban county or to a county which adopts a home rule charter pursuant to section 8 of this article, nor shall section 15 of said article XIV apply, insofar as it provides for the compensation of county officers.

(k) The provisions of section 13 of article XIV shall not apply as a limitation on the general assembly's authority to establish classes of home rule municipalities for the purposes set forth in section 4 of this article.

(l) The provisions of section 38 of article V shall not apply insofar as the general assembly shall, as prescribed in this article, provide for the distribution or adjustment of assets, rights, and liabilities between urban counties and territory transferred to other counties and between urban counties and quasi-municipal corporations divided by urban county boundaries.

(m) The provisions of section 3 of article X shall not apply insofar as: (i) Urban counties may establish special taxing districts as provided by statute, and may also establish urban and rural zones by charter for services provided pursuant to section 7 (3) (b) of this article; (ii) home rule counties organized under section 8 of this article may establish special taxing

districts as provided by statute; and (iii) all other counties may establish special taxing districts as provided by statute.

(n) The provisions of section 7 of article X and section 2 of article XXIV shall not apply as a limitation on the authority of the general assembly to provide for state-levied and collected taxes to be distributed to local governments.

(o) The provisions of section 17 of article X shall not apply as a limitation upon the power of urban counties and home rule municipalities to exercise all taxing authority, subject to such limitations as may be provided by statute.

(p) The provisions of section 35 of article V shall apply to urban county functions and improvements in the same manner and to the same extent as it applies to municipal functions and improvements.

(q) The provisions of section 14 of article XII shall apply to urban counties in the same manner and to the same extent as it applies to other political subdivisions of the state.

(r) The provision of article XXV shall apply to urban counties in the same manner and to the same extent as it applies to home rule cities and towns.

(3) (a) Nothing in this article or constitution shall be construed to prohibit the state or any of its political subdivisions from cooperating or contracting with one another for the performance of any function or service lawfully authorized to each of the cooperating or contracting units, including the sharing of costs, the imposition of taxes, or the incurring of debt; provided, that the imposition of a tax or the incurring of a debt shall be subject to the approval of a majority of the qualified electors in each of the cooperating or contracting units.

(b) Nor shall anything in this article or constitution be construed to prohibit the authorization by statute of a separate governmental entity as an instrument to be used through voluntary participation by cooperating or contracting political subdivisions.

(c) Nothing in this article or constitution shall be construed to prohibit any political subdivision of the state from contracting with private persons, associations, or corporations for the provision of any legally authorized function or service outside its boundaries.

The foregoing amendments to article XX of the constitution shall take effect on July 1, 1968.

Section 8 of article XI of the constitution of the state of Colorado is hereby REPEALED AND RE-ENACTED, WITH AMENDMENTS, to read:

Section 8. No municipal or quasi-municipal corporation shall contract any debt by loan in any form, except by adoption of a legislative measure which shall be irrepealable, until the indebtedness therein provided for shall have been fully paid or discharged, specifying the purposes to which the funds to be raised shall be applied and levy of a tax sufficient to pay the interest and principal of such debt. No such debt shall be created unless the question of incurring the same be submitted to the qualified electors of the municipal or quasi-municipal corporation who shall in the year next preceding have paid a property tax therein, and approved by a majority of those voting on such question. Nothing in this constitution shall prevent the general assembly from establishing by general statute limitations on the authority of any municipal or quasi-municipal corporation to incur indebtedness.

The foregoing amendment to section 8 of article XI of the constitution shall take effect on January 1, 1967.

Section 12 of article XIV of the constitution of the state of Colorado is hereby amended to read:

Section 12. The general assembly shall provide for the election or appointment of such other county, township, precinct, and municipal officers as public convenience may require, and their terms of office shall be as prescribed by law. ~~Not to exceed two years.~~

The foregoing amendment to section 12 of article XIV of the constitution shall take effect on January 1, 1967.

SECTION 2. Each elector voting at said election and desirous of voting for or against said amendment shall cast his vote as provided by law either "Yes" or "No" on the proposition: "Amendments to articles XX, XI, and XIV of the constitution of the state of Colorado, concerning local government including counties and municipal and quasi-municipal corporations, and providing for municipal home rule, urban counties, nonurban county home rule, terms of office of municipal quasi-municipal corporations."

SECTION 3. The votes cast for the adoption or rejection of said amendment shall be canvassed and the result determined in the manner provided by law for the canvassing of votes for representatives in Congress, and if a majority of the electors voting on the question shall have voted "Yes", the said amendment shall become a part of the state constitution.

APPENDIX B

FEDERAL GRANT-IN-AID AND OTHER ASSISTANCE PROGRAMS

Federal Program	State-Operated	State-Controlled	State-Coordinated	Federal-Local	Comments
AGRICULTURE					
Plant and Animal Disease and Pest Control	X				State Matching Required
Agricultural Experiment Station	X				State Matching of Grant over $90,000 yearly
Forestry Research	X				State Matching Required
Agricultural Extension			X		State Matching Required
Rural Renewal				X	Loan Program
SCS Watershed Protection				X	Loan Program
Agric. Statistical Reporting	X				Grant Program (non-matching)
Commodity Distribution		X			Grant Program (non-matching)
School Lunch			X	X	State Matching Required
School Milk			X	X	Grant Program (non-matching)
Food Stamp Program		X			State matching required for administration
Forest Cooperation	X				State Matching Required
Forest Revenue Sharing		X			Grant Program (non-matching)
Agric. Marketing Research		X			Private Producers Match Funds
EDUCATION					
Vocational Education		X			State Matching Required, except for ARA classified localities
A & M Colleges	X				Federal Grant (non-matching)
Higher Education Facilities	X			X	State and Local Matching Required; also a loan program
National Defense Education Act					Loan Program available also to private institutions
College Student Loans	X			X	Grant Program available also to private institutions
Graduate Fellowships		X			State Matching Required
Secondary Science & Languages		X			State Matching Required
Guidance & Counseling	X			X	Grant Program, available to private institutions
Educational Research			X		Grant Program, available to private institutions
Education Television	X			X	Grant Program, available to private institutions
Advanced Study Institutes (NDEA)	X			X	Grant Program, available to private institutions
Mentally Retarded Education	X			X	Grant Program, available to private institutions
Educational Statistics	X				Grant Program (non-matching)
Federally Affected Schools				X	Grant Program (non-matching)
Films for the Deaf			X		Grant Program (non-matching)
Library Construction		X			State Matching Required
NSF Science Teaching	X			X	Collegiate institutions eligible for grants
Desegregatoin of Public Education	X			X	Grant Program (non-matching) and technical assistance
Elementary and Secondary Education Act of 1965					
Aid for low-income areas				X	Grants (non-matching) to improve education quality
School Library Resources	X				Grant Program (non-matching)
Supplementary Centers			X	X	Grant Program (non-matching)
Educational Research	X			X	State Education department and higher education institutions eligible for grant program (non-matching)
Aid to State Departments	X				Grant Program (non-matching)
Higher Education Act of 1965					
Community Service & Continuing Education	X				State Matching Required
College Library Assistance				X	Local Institutional Matching Required
Strengthening Developing Institutions				X	Local Institutional Matching Required
Student Assistance	X			X	Local Institutional Matching Required; States designate the agency to operate the student loan program
Teacher Programs				X	National Teacher Corpsmen assigned to requesting school districts, supplemented with fellowships for graduate training
Improvement of Undergrad. Inst.				X	Local Institutional MatchingRequired
HEALTH					
General Health	X				Collegiate institutions eligible for grants
Chronically Ill and Aged		X			Grant Program (non-matching)
Heart Disease Control	X	X			State Matching Required
Cancer, Heart Disease and Stroke Control		X			State Matching Required, except for demonstration projects

FEDERAL GRANT-IN-AID AND OTHER ASSISTANCE PROGRAMS (Cont.)

Federal Program	State-Operated	State-Controlled	State-Coordinated	Federal-Local	Comments
HUMAN RESOURCES (Cont.)					
Low-Income Housing Demonstration Program				X	Non-matching Grants for low-income families and handicapped persons
Housing and Urban Development					
Private Rent Payments				X	Local Matching Required
Rehabilitation of homes in Urban Renewal Areas				X	Local Matching Required
Community Water and Sewer Facilities				X	Local Matching Required
Neighborhood Facilities				X	Local Matching Required
Advance Community Acquisition and Development of Land				X	Loan Program, supplemented by Matching Grants
TRANSPORTATION					
Highway Construction and Maintenance	X				State Matching Required
Interstate Highways	X				State Matching Required
Outdoor Advertising Control	X				State Matching Required
Elimination of RR Crossing Hazards	X				State Matching Required
Highway Planning and Research	X				State Matching Required
Urban Mass Transportation	X			X	Loans or grants for research and development and grants (non-matching) for relocation available
Urban Transportation Planning	X				State Matching Required
Emergency Highway Repair	X				State Matching Required
Forest and Public Lands Roads			X	X	Grant Program (non-matching)
Highway Landscaping and Preservation of Natural Beauty	X				State Matching Required
MISCELLANEOUS					
Civil Defense			X		Grant Program (non-matching)
Airport Construction				X	Local Matching Required
Public Power License Sharing	X				Grant Program (non-matching)
Veterans' Homes					
Facility Construction	X				State Matching Required
State Home Grants	X				Grant Program (non-matching)
Nursing Home Care				X	Grant Program (non-matching)
Civil Rights Disagreements				X	Technical Assistance only
Surplus Property Donations		X			Grant Program (non-matching)
U. S. History Collection				X	States, local agencies, and nonprofit institutions are eligible to receive non-matched grants
Small Busines Development Loans	X				Loans to state development companies must be matched with commercial loans
Small Business Research	X				State agencies and state institutions of higher education eligible
Technical Services (Business)	X				State-designated agency eligible for non-matching grant
Law Enforcement Assistance	X			X	State and local public and private (non-profit) bodies eligible for non-matching grant
Arts-Humanities Foundation	X			X	Public or nonprofit private agencies eligible to apply for matching grants
Sidewalk Repair Reimbursement				X	Grant Program (non-matching) for repairs adjacent to federal buildings

STATE AUDITED FEDERAL GRANTS-IN-AID

	Fiscal Years										
	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955
Urban Planning	$ 86,685	$ 73,505	$ 88,859	$ 85,065	$ 26,511	$ 15,331	$ 28,286	$ 3,000	$ 17,842	$	$ .....
Civil Defense											
Trust	126,826	124,209	288,857	141,786	142,384	98,329	103,111	122,297	56,926	73,251	.....
Administration	143,657	140,145	158,301	41,977	42,895	.....	37,819	.....	71,293	24,400	14,937
Highways	59,792,143	43,322,236	38,176,952	31,719,640	30,638,093	34,048,611	37,584,755	34,286,161	18,177,262	11,070,840	9,071,358
Forest Reserve	211,612	236,981	194,999	277,913	391,965	427,766	331,432	261,252	316,535	296,073	282,985
Mineral Leasing	3,383,740	3,477,004	3,235,380	3,283,001	3,298,421	3,685,778	3,746,893	4,491,643	4,257,312	3,261,311	3,139,341
Flood Control Lands Act	10,584	10,987	11,044	11,939	7,611	9,957	12,674	12,261	18,447	23,005	20,863
Taylor Grazing	27,898	24,826	21,011	21,247	26,791	23,975	22,566	19,920	20,981	18,754	19,712
Federal Power Act	439	507	543	494	552	510	524	547	616	658	554
Federal Lands Materials Act	6,673	8,893	11,281	9,191	28,123	11,509	8,935	9,133	8,066	6,648	.....
Accelerated Public Works											
Game & Fish Federal Aid	39,086	28,121	.....	.....	.....	.....	.....	.....	.....	.....	.....
Pittman-Robertson											
Game & Fish Federal Aid	267,745	439,397	479,251	287,766	279,992	392,501	302,838	338,989	630,098	271,900	328,753
Dingell-Johnson											
Game & Fish Federal Aid	93,867	147,284	116,846	12,421	3,076	28,259	277,328	151,526	29,108	66,054	97,870
Hope-Flannigan											
Agricultural Marketing	14,114	20,487	7,200	24,215	10,254	12,139	8,000	657	4,763	6,126	28,866
Soil Conservation	209,595	326,025	534,247	337,332	275,178	148,488	.....	.....	.....	.....	.....
Employment Security											
Administration	4,754,657	4,680,908	3,771,477	4,149,834	3,491,604	3,035,287	3,110,586	2,512,812	2,310,060	1,713,780	1,486,003
Unemployment Comp.	13,765,000	14,160,000	24,130,000	16,875,000	19,420,000	12,460,000	10,725,000	11,010,000	4,760,000	2,850,000	3,380,000
Local Mental Health											
Program Planning	44,655	47,823	2,390	.....	.....	.....	.....	.....	.....	.....	.....
Clinic	66,722	66,544	47,330	.....	.....	.....	.....	.....	.....	.....	.....
Fort Morgan Mental											
Health Clinic											
Demonstration Program	57,612	12,726	41,997	.....	.....	.....	.....	.....	.....	.....	.....
Record System	68,770	72,856	20,849	.....	.....	.....	.....	.....	.....	.....	.....
Federal Aid—Public Health											
Service PHS Grants	884,716	891,695	563,806	578,792	434,729	516,110	1,436,237	892,118	781,828	578,937	258,753
Children's Bureau Grant for											
Public Welfare Admin.	957,000	1,166,275	686,642	727,824	568,725	570,124	506,093	493,783	439,111	349,054	287,928
Hill-Burton Hospital											
Construction Aid	1,283,532	3,226,359	2,790,098	1,660,350	1,383,977	1,174,015	1,436,376	.....	552,479	43,258	704,183
Health Education & Welfare											
Aid for Welfare Admin.	2,976,796	3,415,412	2,614,443	2,434,468	2,156,462	2,039,158	1,306,446	1,688,169	1,292,918	1,311,237	1,234,413
Aid to Blind	116,576	156,877	126,430	134,325	147,087	146,079	158,525	148,794	128,026	122,649	118,839
Aid to Dependent Children	8,495,922	10,513,228	8,331,476	8,138,753	7,503,689	6,823,520	6,646,456	5,870,342	4,291,896	4,241,672	4,167,524
Aid to Needy Disabled	3,403,579	3,613,800	2,895,637	2,876,423	2,855,106	2,836,279	2,656,165	2,384,579	1,948,639	1,889,843	1,771,884
Old Age Assistance	23,486,767	31,561,621	27,060,750	28,032,925	25,881,322	24,333,207	23,762,360	23,022,456	19,411,402	19,814,941	19,358,463
Old Age Assist. (Medical)	4,274,806	.....	.....	.....	1,339,824	.....	351,253	867,600	.....	.....	.....
Child Welfare (Day Care)	38,625	38,448	10,000	133,764	178,158	147,671	146,822	114,971	90,950	76,193	80,300
Library Services Act	304,092	85,138	85,259	85,259	88,459	88,084	74,826	68,592	40,000	.....	.....
Civil Defense Adult Educ.	38,945	15,629	41,668	7,500	.....	.....	.....	.....	.....	.....	.....
Graduate Fellowship Program	63,000	12,600	12,200	11,800	17,068	8,132	.....	.....	.....	.....	.....
School Lunch Program	1,901,445	1,900,879	1,673,696	1,554,744	1,499,315	1,371,009	1,298,358	1,164,499	1,135,586	866,152	824,855
State Sducation Conference	.....	.....	.....	.....	.....	.....	15,000	.....	.....	.....	5,698

STATE AUDITED FEDERAL GRANTS-IN-AID (Continued)

	Fiscal Years										
	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955
Ira J. Taylor Grant	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	22,581
National Defense Education											
Def. Educ. Science)		337,166)									
Def. Educ. Guidance)	1,673,244	153,192)	259,141	270,196	709,111	1,089,413	87,575	.....	.....	.....	.....
Def. Educ. Statistics)		58,383)									
Vocational Education											
Smith-Hughes	66,744	66,744	66,744	66,745	63,158	63,328	63,385	63,385	79,231	47,539	63,385
George-Barden	418,226	237,583	519,504	426,487	388,898	350,990	308,037	277,142	261,011	220,836	201,213
Rehabilitation	1,652,578	1,497,032	1,489,551	934,395	827,090	612,993	318,710	284,012	198,538	221,274	156,358
Manpower Training and Development											
Ridge State Home	.....	18,155)									
Federal MPID Act	1,024,187	488,474)	136,267		.....	.....	.....	.....	.....	.....	.....
Area Redevelopment Act	103	2,505	17,793	.....	.....	.....	.....	.....	.....	.....	.....
Pub. Health Serv. Training	.....	.....	.....	119,383	.....	.....	.....	.....	.....	.....	.....
Veterans Education & Training Committee	.....	.....	.....	1,061	20,717	22,703	25,762	31,635	34,783	36,694	37,926
Vocational Education	.....	.....	.....	212	2,504	8,318	11,919	9,396	14,148	17,005	98,322
Migrant Projects	46,645	.....	.....	3,350	6,200	11,800	194,708	.....	.....	.....	.....
Soldier & Sailors Home (Monte Vista Golden Age Center)	74,175	74,335	66,916	63,814	50,337	32,408	35,609	29,318	25,079	17,005	14,447
Industries for Blind	.....	.....	.....	.....	.....	46,953	50,000	58,738	65,326	37,959	37,426
White House Conf. on Aging	.....	.....	.....	.....	.....	15,000	.....	.....	.....	.....	.....
State Vocational Education	.....	.....	.....	.....	.....	.....	.....	6,422	.....	.....	.....
Emergency Hay Program	.....	.....	.....	.....	.....	.....	.....	.....	1,500,000	.....	500,000
Disaster Relief Trust	.....	.....	.....	.....	.....	.....	.....	.....	72,535	18,635	.....
Internal Improvement	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5,544
Economic Opportunity	530,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Emergency Planning	15,813	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Commission Higher Education Facility	21,539	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Colorado State Hospital	150,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Home & Training—Grand Jct.	127,875	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Home & Training—Ridge	48,602	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mental Retardation Program Plan	28,270	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Demonstration Plan	40,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Pub. Welfare Work Exp.	341,502	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Neighborhood Youth Corps	455,479	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Dept. Educ. Newer Media	21,110	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
College Work Study Program	25,292	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Vocational Educ. Act of 1963	1,063,215				.....	.....	.....	.....	.....	.....	.....
Refunds — 5501	111	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
TOTAL	$139,176,648	$126,952,395	$120,766,184	$106,306,360	$103,905,384	$96,704,738	$97,753,521	$91,666,148	$63,042,494	$49,593,250	$47,820,936

SOURCE: Files of Division of Accounts and Control State of Colorado, 1955-1965

COLORADO TAX PROFILE STUDY

1982

Reuben A. Zubrow
University of Colorado
Department of Economics
Boulder, Colorado

and

Dean C. Coddington
Browne, Bortz & Coddington
Denver, Colorado

with the assistance of

John M. Gunyou and Penny E. Mohr
Browne, Bortz & Coddington
Denver, Colorado

Prepared for

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State Capitol Building
Denver, Colorado

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We also wish to acknowledge the contributions of the many other individuals and organizations who participated in the preparation of the study. We are grateful for the cooperation of the various state agencies which provided current tax information -- particularly the Colorado Department of Revenue, the Department of Local Affairs, the Division of Accounts and Control and the Division of Property Taxation. We are especially indebted to Stanley B. Schwartz and Thomas A. Dunn of the Research Division, Department of Revenue, for their helpful assistance. Additionally, we wish to thank Susan Velsir and Julie Edwards for preparing the manuscript for publication.

In the 1973 CTPS report, we stated that the principal objective of the study was

> "to develop a comprehensive tax profile of the State of Colorado which can be used by interested citizens, legislators and public administrators as the basis for assessing the distribution effects of the present tax structure, as well as of new tax proposals."

We trust the present study will continue to serve this objective for the State of Colorado.

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INTRODUCTION

This report, the fifth in the "tax profile" series originally commissioned by the Colorado Legislature in 1972, examines the size, structure and distribution of the state and local tax burden levied on Colorado households and businesses in fiscal year 1982.

The decade covered by these studies may be characterized as a period during which the Colorado economy experienced an unprecedented growth in income. The U.S. Department of Commerce data show that the total personal income of Colorado residents increased during the decade at an average annual rate of 13.1 percent, as compared with a national rate of 10.8 percent. On this basis, Colorado's rate of economic growth was exceeded by only six other states--Alaska, Arizona, Florida, Nevada, Texas and Wyoming.

During this decade the state tax system was also significantly revised. In the late 1970's and early 1980's, large tax cuts were enacted in the state's two major sources of general fund revenues--the state general sales tax and the state income tax. Food was removed from the sales tax base, income tax credits were granted both "across-the-board" and for a variety of special purposes, and full indexation of the individual income tax was introduced to compensate for inflationary "tax creep." The net budgetary impact of these tax reduction measures was that general fund revenues in fiscal year 1982 were about 20 to 25 percent lower than they would have been in the absence of the tax cuts and the state was confronted with large potential deficits and a continuing fiscal crisis.

It is equally important to recognize that the changes enacted in the state tax structure also have had a variety of distributional effects--an impact on the relative tax burdens borne by low-income, middle-income and high-income households. As in previous "tax profile" studies, this report is primarily concerned with the distribution of state and local taxes among five major income categories of resident taxpayers which in 1982 comprised 1.3 million Colorado households.

In brief, this Colorado Tax Profile Study for fiscal year 1982 attempts to answer the following basic questions:

- How important is each of the major state and local taxes?
- How does the state tax burden compare with the local burden?
- How has the overall Colorado state-local tax structure changed during the past decade?
- How much of the state and local tax is directly levied on resident households? How much on the business community?
- Measured against income, what are the relative tax burdens of the poor, the middle class and high income groups?
- And finally, what changes have occurred in the patterns of tax distribution over the past decade?

SECTION I. THE COLORADO STATE-LOCAL TAX BURDEN

The combined state-local tax burden incurred by Colorado resident taxpayers in fiscal year 1982 reached an all-time high of $3.2 billion, or 21 percent more than in fiscal year 1980, the year on which the previous "tax-profile" study was based. Thus, despite the major tax reduction measures enacted in recent years, state and local revenues have continued to increase as a result of the marked rise in the nominal income and consumption expenditures of Colorado resident households.

Tax Burden Trends

Whether measured in terms of the net collections reported by government agencies or on a liability basis adjusted to cover only Colorado resident taxpayers,[1] the growth in state and local taxes during the 1972-1982 decade closely paralleled the growth in Colorado's personal income and adjusted gross income. For example, the latter rose at an average annual rate of 12 percent for the decade, whereas the total state-local tax burden increased at a rate of 11 percent during this same period. In contrast, the comparable total federal individual income tax paid by Colorado resident taxpayers increased at an average annual rate of 15 percent.

As a result of the above differences in growth rates, the 1982 total federal income tax liability of Colorado resident households was more than one-fifth larger than their combined state-local tax liability for that fiscal year. In contrast, a decade earlier the reverse relationship prevailed--the combined state-local tax liability actually exceeded the federal income tax by almost one-fifth. Table I summarizes state and local tax liabilities of Colorado resident taxpayers for fiscal years 1972, 1980 and 1982.

On the adjusted liability basis, state taxes rose from $525.7 million in fiscal year 1972 to $1,468.7 million in fiscal year 1982, or at an average rate of increase of 10.8 percent per annum. Similarly, the total local tax burden increased from $596.0 million to $1,720.0 million, or at an annual rate of 11.2 percent over the same period. Of

TABLE I. SUMMARY OF STATE AND LOCAL TAX LIABILITIES, FISCAL YEARS 1972, 1980 AND 1982

	Fiscal Year			Average Annual Rate of Increase 1972-1982
	1972	1980	1982	
	(Money amounts in millions of dollars)			
State Taxes				
Sales and Use	$ 176.9	$ 495.2	$ 584.4	12.7%
Individual Income	156.2	437.6	483.1	11.9
Highway User	109.1	158.2	184.1	5.4
Corporate Income	33.3	99.7	75.6	8.5
Cigarette and Liquor	25.4	38.1	40.3	4.8
All Other[a]	24.8	72.0	101.2	15.1
Total State Taxes	$ 525.7	$1,300.8	$1,468.7	10.8%
Local Taxes				
Property	$ 492.0	$ 961.7	$1,201.9	9.3%
Sales and Use	68.3	277.5	394.3	19.1
Specific Ownership Tax	10.8	24.5	31.0	11.1
Cigarette Taxes	2.9	16.1	16.9	19.2
All Other[b]	22.0	56.6	75.9	13.2
Total Local Taxes	$ 596.0	$1,336.4	$1,720.0	11.2%
Total State-Local Taxes	$1,121.7	$2,637.2	$3,188.7	11.0%
Addendum				
Federal Individual Income Tax	$ 944.0	$2,712.4	$3,850.9	15.1%

[a] Includes insurance, severance and regulatory business taxes.

[b] Includes franchise, occupation and other regulatory business taxes.

course, the increases were not uniform among the "big three" revenue sources--sales, income and property taxes. The general sales tax showed the largest annual rates of increase for the decade on both the state and local levels--12.7 percent and 19.1 percent, respectively; while the smallest were the 8.5 percent annual rate for the state corporate income tax and the 9.3 percent rate for the local property tax.

Recent Trends

It is also important to note that there were marked differences between the growth rates of the 1970's compared with those of the early 1980's. Table II shows the average annual rates of change for the periods between fiscal years 1972-80 and fiscal years 1980-82. First, it should be noted that the average annual rates of inflation for the two periods remained practically unchanged, while both measures of Colorado income show a marked improvement in the early 1980's over the 1970's. The decline in rates of growth in state-local revenues cannot be attributed primarily to a decline in the rate of income growth but rather it mainly reflects statutory changes in the state-local tax structure.

For example, on the state level the individual income tax liability of resident households during the 1970's rose at an average annual rate of 13.7 percent, but for the early 1980's the average rate dropped to 5.0 percent--significantly less than the almost 14 percent annual rate of increase in the state's personal income for the same period. Parenthetically, it is generally recognized that because of its progressive rate structure, the state's individual income tax has a built-in "income elasticity" coefficient greater than one, i.e., if the statutory base and rate structure of the income tax are not changed, every one percent increase in personal or adjusted gross income should yield an increase in tax revenues in excess of one percent.

Similarly, with regard to the state's most important source of revenues--the general sales tax--the average annual rate of increase dropped from 13.7 percent for the 1970's to 8.7 percent for the early 1980's. This was primarily due to the removal of household food and utilities from the sales tax base. And the most dramatic change occurred in the case of the state's corporate income tax--a 14.7 percent

TABLE II. RATES OF CHANGE IN PRICES, INCOME AND TAXES BETWEEN FISCAL YEARS 1972, 1980 AND 1982

	Average Annual Rates of Increase for Periods:	
	1972-1980	1980-1982
Prices:		
BLS Consumer Price Index	8.8%	8.3%
GNP Implicit Price Deflator	7.5	7.7
Income:		
Colorado Adjusted Gross Income	12.1	13.7
Colorado Total Personal Income	12.9	13.8
Taxes:		
State Individual Income Tax	13.7	5.0
State Sales and Use Tax	13.7	8.7
State Corporate Income Tax	14.7	-11.5
Local Property Tax	8.7	11.8
Local Sales and Use	19.2	19.2
Total State Taxes	12.0	6.2
Total Local Taxes	10.6	13.5
Combined State-Local Taxes	11.3	10.0
Federal Individual Income Tax[a]	14.1	19.1

[a]Colorado residents' federal tax liability.

average annual rate of increase for the eight year period of the 1970's was followed by an 11.5 percent annual rate of decrease for the two years from 1980 to 1982.

On the local level, the continued expansion of the general sales tax increased at the unprecedented average annual rate of 19.2 percent during both periods, i.e., for 1972-80 and 1980-82. But it is noteworthy that the local property tax had an average annual growth rate of 11.8 percent for the early 1980's, compared to an 8.7 percent growth rate for most of the 1970's.

Overall, the state's fiscal bind in large part is due to the fact that the 12 percent growth rate in state taxes for the 1970's was cut in half to a 6.2 percent rate in the early 1980's. This occurred despite the fact that personal income of Colorado resident taxpayers rose at an annual rate of about 14 percent during these same two years. On the other hand, the "tax savings" affected at the state level were partly absorbed by Colorado's local taxing jurisdictions, as evidenced by the fact that the overall local tax burden increased at a significantly higher annual rate during the latter period--13.5 percent during the past two years, in contrast to a rate of 10.6 percent for the 1970's.

SECTION II. THE COLORADO STATE-LOCAL TAX STRUCTURE

Total net collections for all of Colorado's state and local taxing jurisdictions in fiscal year 1982 amounted to $3,369.3 million. State taxes on a collection basis were $1,612.5 million or slightly less than 48 percent of the total.[2] Local property taxes amounted to $1,217.4 million or 36 percent, and all other local taxes totaled $539.4 million or 16 percent.

Tax Liability Adjustments

When measured on the CTPS adjusted basis, which more closely corresponds to the actual tax liability borne by Colorado resident households, the total combined state-local tax burden amounted to $3,188.7 million, or five percent less than the collections reported by all government jurisdictions. The net difference of $180.6 million between these two measures represents adjustments for non-resident tax collections; the excess of net cash flow over tax liabilities for the given fiscal year; nonallocable and nontax revenues such as penalties, interest earned and audit deficiencies; and vendors discounts on retail sales and excise taxes. The dollar amounts of these adjustments were as follows:[3]

	Millions Of Dollars
Exclusion of:	
Non-resident tax collections	$ 83.7
Excess of tax collections over liabilities	84.8
Nonallocable and nontax revenues and credits	46.4
Inclusion of:	
Vendor discounts on tax collections	-34.3
Total Adjustments	$180.6

Relative Importance of Major Taxes

The relative importance of each of the major tax categories on this adjusted basis of the net tax burdens for Colorado resident house-

holds for fiscal years 1972, 1980 and 1982 is shown in Table III and the accompanying Charts I, II and III.

On the state level, the general sales and use tax continues to be quantitatively most important, increasing steadily from less than 34 percent of the total state tax burden in 1972 to almost 40 percent in fiscal year 1982. In contrast, the share represented by the state individual income tax has remained relatively stable--about 30 percent of the total state tax burden in 1972; 34 percent in 1980 and 33 percent in 1982. Together these two "broad-based" taxes accounted for almost two-thirds of the state tax burden at the beginning of the period and for almost three-fourths by the end of the decade. Correspondingly, the shares represented by the corporate income, highway user and other consumer excise taxes (cigarette and liquor) were all significantly smaller. Overall they declined from 32 percent in fiscal 1972 to 20 percent in fiscal 1982.

On the local level, the property tax continues to be the major single tax liability, but its relative importance declined significantly during the decade. In 1972, property taxes represented more than 82 percent of the total local tax burden imposed on Colorado resident taxpayers; by 1982 it accounted for less than 70 percent. Conversely, the relative share represented by the local sales and use tax during this same decade almost doubled--expanding from less than 12 percent in fiscal year 1972 to almost 23 percent in fiscal 1982.

Property Tax. Overall, the local property tax amounted to $1,261.9 million, net of $15.5 million of state old age property tax credits, in fiscal year 1982. As such, it continued to be the largest single revenue source in the state-local tax structure, but its relative importance steadily declined during the 1970's. The property tax accounted for 44 percent of the combined state-local tax liability in 1972, whereas the respective ratios were 36 and 38 percent in 1980 and 1982.

Sales and Use Tax. The state-local general sales and use tax ranked next in importance. In fiscal 1982 it amounted to $978.7 million. Despite the fact that household food and utilities were excluded from the base, the state sales tax for fiscal 1982 was still substantially larger than in 1972 or 1980, whether measured in relative or

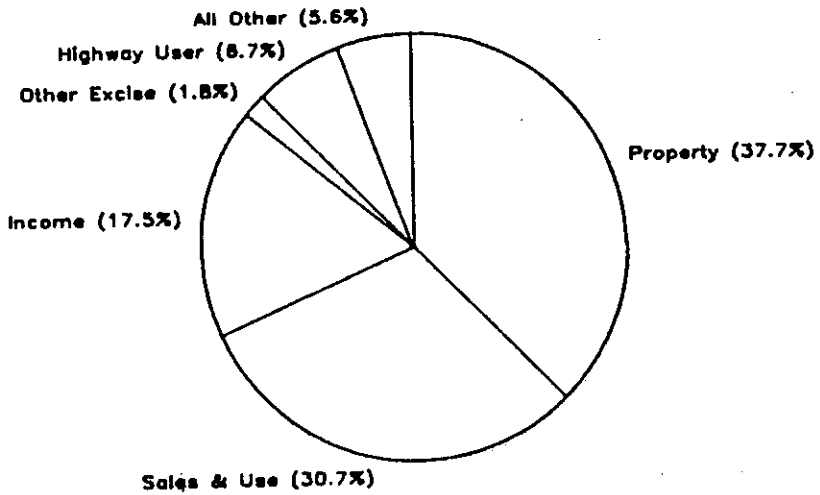
TABLE III. CHANGING STRUCTURE OF STATE AND LOCAL TAXES BETWEEN FISCAL YEARS 1972, 1980 AND 1982

	Percent Distribution		
	1972	1980	1982
State Taxes			
Sales and Use	33.7%	38.1%	39.8%
Individual Income	29.7	33.6	32.9
Highway User	20.8	12.2	12.5
Corporate Income	6.3	7.7	5.2
Cigarette and Liquor	4.8	2.9	2.7
All Other	4.7	5.5	6.9
Total State Taxes	100.0%	100.0%	100.0%
Local Taxes			
Property	82.5%	72.0%	69.9%
Sales and Use	11.5	20.8	22.9
Specific Ownership	1.8	1.8	1.8
Cigarette and Liquor	.5	1.2	1.0
All Other	3.7	4.2	4.4
Total Local Taxes	100.0%	100.0%	100.0%
Total State-Local Taxes			
Property	43.9%	36.4%	37.7%
Sales and Use	21.8	29.3	30.7
Individual Income	13.9	16.6	15.1
Highway User[a]	10.7	6.9	6.7
Corporate Income	3.0	3.8	2.4
Cigarette and Liquor	2.5	2.1	1.8
All Other	4.2	4.9	5.6
Total State-Local	100.0%	100.0%	100.0%

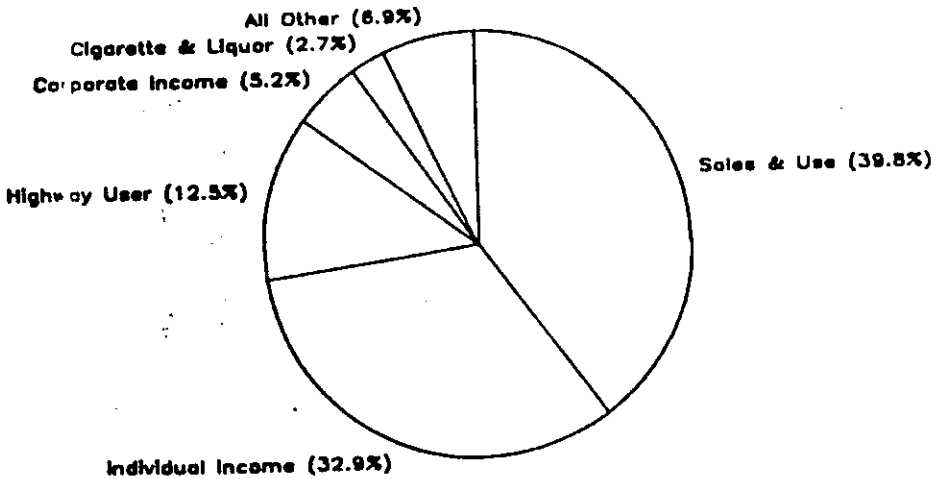
[a]Includes specific ownership tax.

CHART I. THE COLORADO TAX STRUCTURE,
FISCAL YEAR 1982

Combined State and Local Tax Structure



State Tax Structure



Local Tax Structure

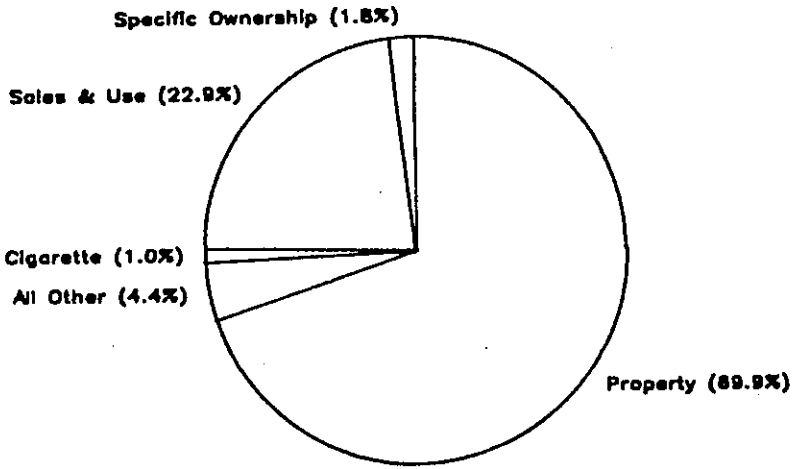


CHART II. THE CHANGING COMBINED STATE-LOCAL TAX STRUCTURE, FISCAL YEARS 1972, 1980 AND 1982

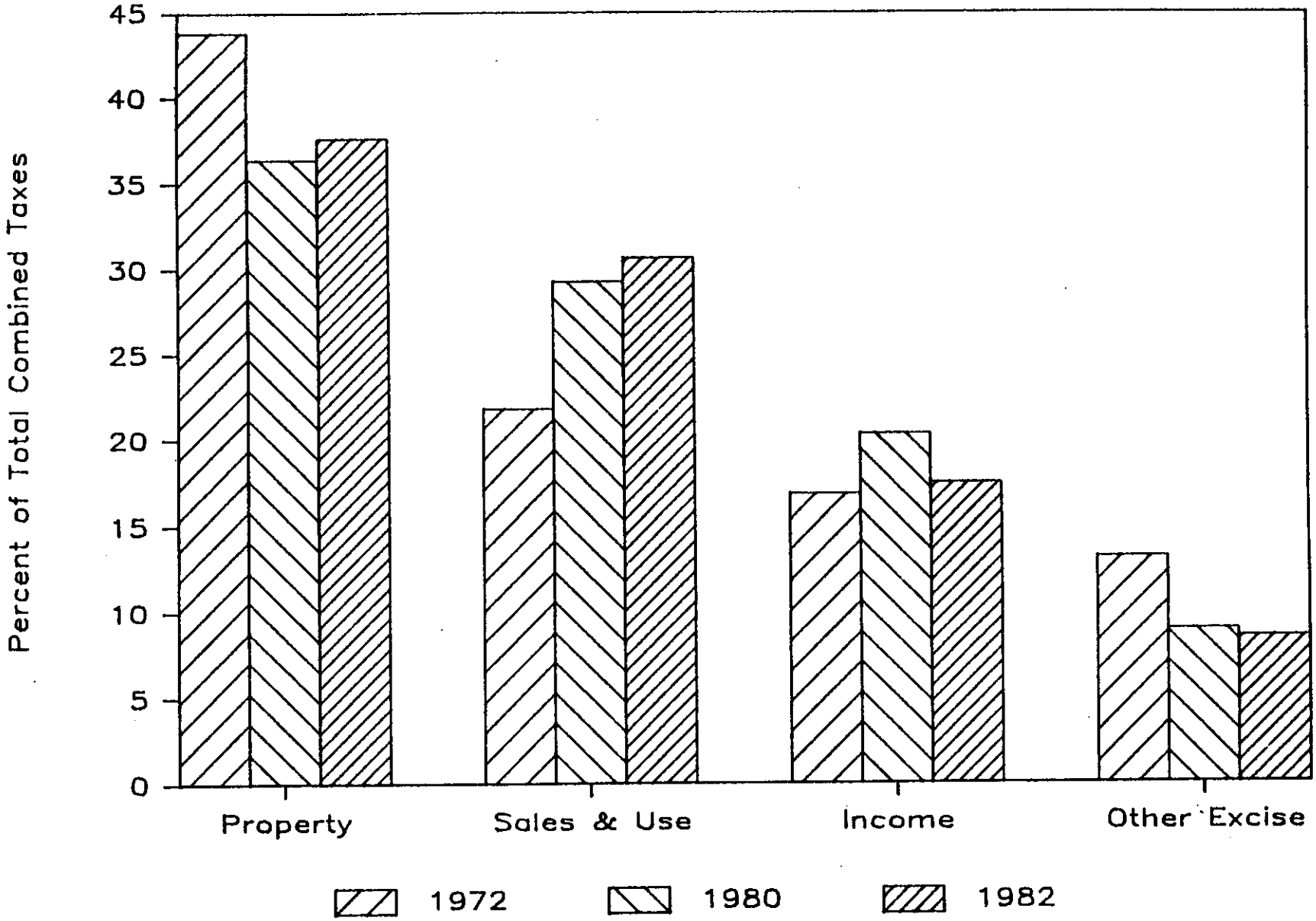
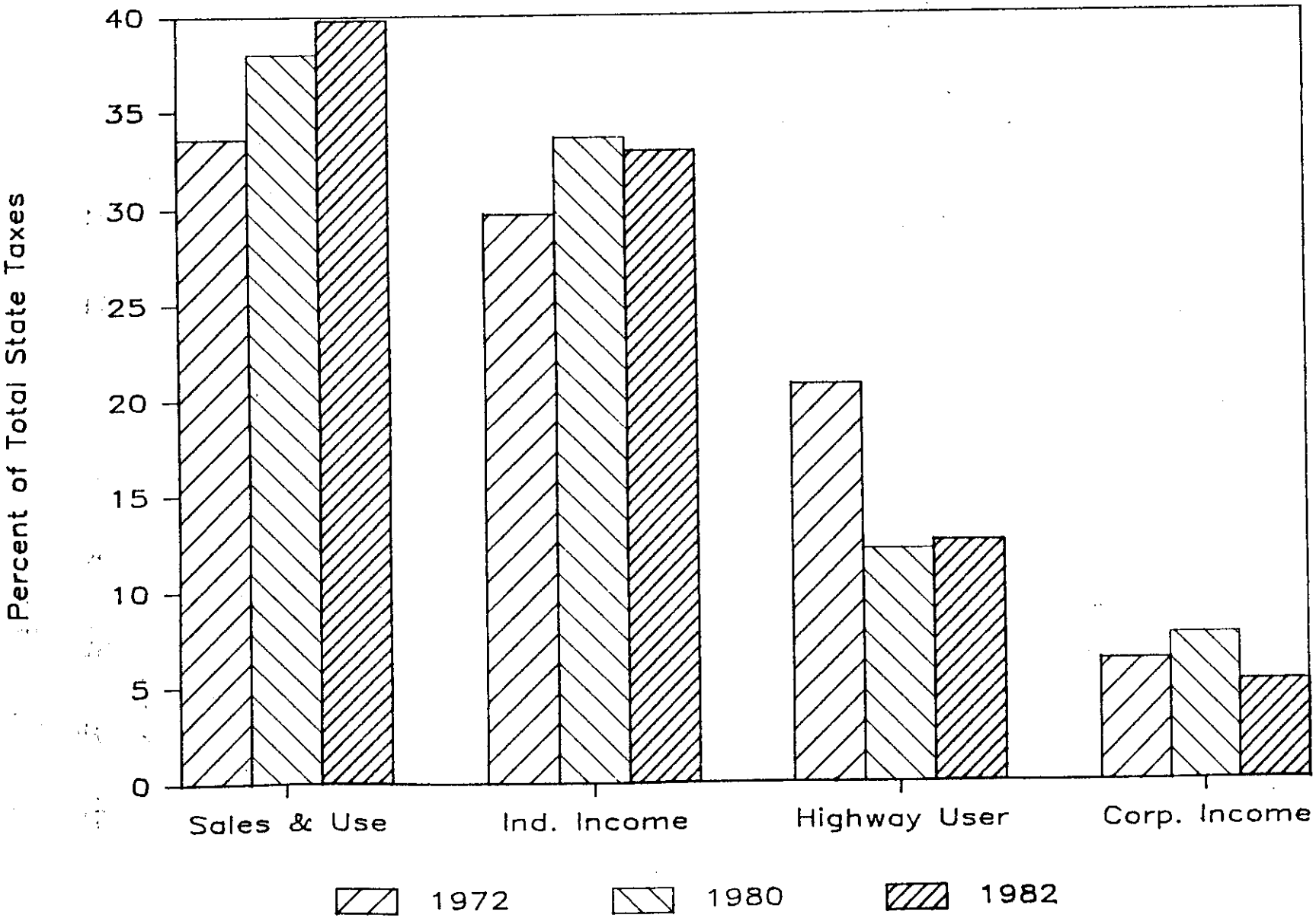


CHART III. THE CHANGING STATE TAX STRUCTURE
FISCAL YEARS 1972, 1980 AND 1982



absolute terms. As a percentage of the total state-local resident tax liability, the general sales and use tax in fiscal 1982 accounted for almost 31 percent, while the comparable ratios for 1972 and 1980 were 22 percent and 29 percent, respectively.

Income Tax. The state income tax ranked third among the "big three" tax sources which combined accounted for 83 percent of the total state-local tax burden. In fiscal year 1982 income taxes amounted to $558.7 million on a liability basis, of which the corporate income tax represented $75.6 million and the resident individual income tax accounted for $483.1 million.

The non-resident portion of the income tax continued to be comparatively small--only $4.8 million or less than one percent of the total. As a share of the total state-local tax burden, the income tax on resident households accounted for 15 percent in fiscal 1982 or only one percentage point more than in 1972 and actually two percentage points less than in fiscal 1980. Correspondingly, as a share of the state tax burden, it increased from 30 to 34 percent in the 1970's and then dropped to 33 percent in fiscal 1982.

A similar, but more marked pattern occurs in the case of the corporate income tax. Its share in the overall state-local tax picture has been relatively insignificant throughout the period, never accounting for as much as four percent of the total. In fiscal 1972 it amounted to 3.0 percent, rose to 3.8 percent in 1980 and then fell to 2.4 percent in 1982--the low point for the decade. The comparable percentages for the corporate income tax as a share of the total state tax burden were 6.3 percent for fiscal 1972, then up to 7.7 percent in fiscal 1980, and finally down to 5.2 percent for fiscal 1982.

Highway User Tax. The highway user tax category includes state motor fuel and ton-mile taxes, as well as motor vehicle and operators license fees and the specific ownership tax levied by local government. These levies in fiscal 1982 amounted to $215.1 million, or less than seven percent of the total state-local tax burden. At the state level, highway user taxes accounted for less than 13 percent in fiscal 1982, compared with 12 and 21 percent of the total state tax burdens in 1980 and 1972, respectively. The dramatic decrease in the relative importance of these levies for the decade in large part reflects the motoring public's response to the energy crises of the 1970's.

Consumer Excise Taxes. Cigarette and alcoholic beverage taxes continue to be quantitatively least important in the state-local tax structure. On the combined basis they amounted to $57.2 million, and as a relative share of the total these excises have steadily declined since the early 1970's--from 2.5 percent in 1972 to 1.8 percent in 1982. As a percentage of the total state burden they have dropped from slightly less than five percent to slightly more than two and a half percent during the decade.

All Other taxes. This category represents all business taxes, licenses and fees, other than the corporate income tax and the allocated portions of the general sales, property and highway user taxes paid by business firms. It includes oil and gas production taxes, other severance taxes, the employers' share of the Denver occupation tax, insurance, franchise and utility taxes, and miscellaneous regulatory fees. In fiscal 1982, these combined taxes amounted to $177.1 million, or almost six percent of the total state-local tax bill. As a group, they have steadily increased during this decade--from 4.2 percent in fiscal 1972 to 5.6 percent in fiscal 1982. On the state level these other business taxes as a category appear to have been relatively more important, increasing from 4.7 percent in 1972 to 6.9 percent in fiscal 1982.

SECTION III. THE DIRECT AND INDIRECT TAX ALLOCATION

A distinction is often made between tax "impact" and "incidence"--the former is where the tax is legally imposed, the latter where it finally comes to rest. Theoretically, the incidence of all taxes are on individuals. However, it is useful to initially classify taxes into the two general categories: household (or direct) taxes and business (or indirect) taxes. The allocation of taxes between households requires specific tax shifting assumptions with regard to their final incidence.

Tax Shifting Assumptions

As in previous Colorado Tax Profile studies, household taxes are defined as those directly levied or shifted to individuals comprising the household unit and generally are based on the earning of income, the purchase of consumer goods and services, or the ownership of particular forms of wealth (e.g., real estate). In this sense, direct taxes include individual income, retail sales, consumer excise and residential property taxes. The householder cannot shift such direct taxes to others through the pricing system.

In contrast, it is assumed that business taxes are either shifted forward to individuals as consumers or borne by the owners of resources since such taxes represent business costs which ultimately are reflected in market prices, reduced dividends or undistributed corporate earnings. The corporate income tax, highway user and sales taxes paid by business firms on their purchases, severance taxes and all other franchise and regulatory business taxes fall into the indirect category.[4]

It should also be noted that in deriving the resident tax burden for a particular state, it is not possible to empirically determine the amount of business taxes exported or imported by firms engaged in interstate commerce. As in the 1980 study, it is assumed that the export of Colorado business taxes has been approximately balanced by the import of taxes from jurisdictions outside Colorado.[5]

Taxes on Households and Business

Based on the above assumptions, the allocation of Colorado state and local taxes between those levied on resident households and those on businesses for fiscal year 1982 is shown in Table IV and Chart IV. On the adjusted liability basis, direct household taxes amounted to $1,879 million, accounting for almost three-fifths of the total Colorado tax burden. Correspondingly, the indirect portion levied on business was $1,310 million, or two-fifths of the total. The major direct and indirect taxes for fiscal year 1982 and their quantitative importance follows:

- The residential property tax ranked first and amounted to $633 million, or 34 percent of the total direct tax burden borne by Colorado resident households. This was higher than the 31 percent for fiscal 1980, but still markedly below the 39 percent ratio for fiscal 1972.

- The non-residential property tax amounted to $569 million or 43 percent of total business taxes. As such, it was lower than the 45 percent estimated for 1980 and significantly below the 53 percent for 1972.

- The sales and use tax on households was the second largest tax directly levied on resident households. It amounted to $582 million, of which three-fifths represented the state sales tax and two-fifths the local levy. The combined state-local sales tax accounted for 31 percent of the total direct tax burden--the same ratio as in 1980, but significantly larger than the 22 percent for fiscal 1972.

- The sales and use tax on business was also the second largest of the indirect taxes on business. It amounted to almost $397 million, or 30 percent of the total indirect taxes. In fiscal 1980 it represented 27 percent, and in fiscal 1972 only 22 percent of the total business taxes.

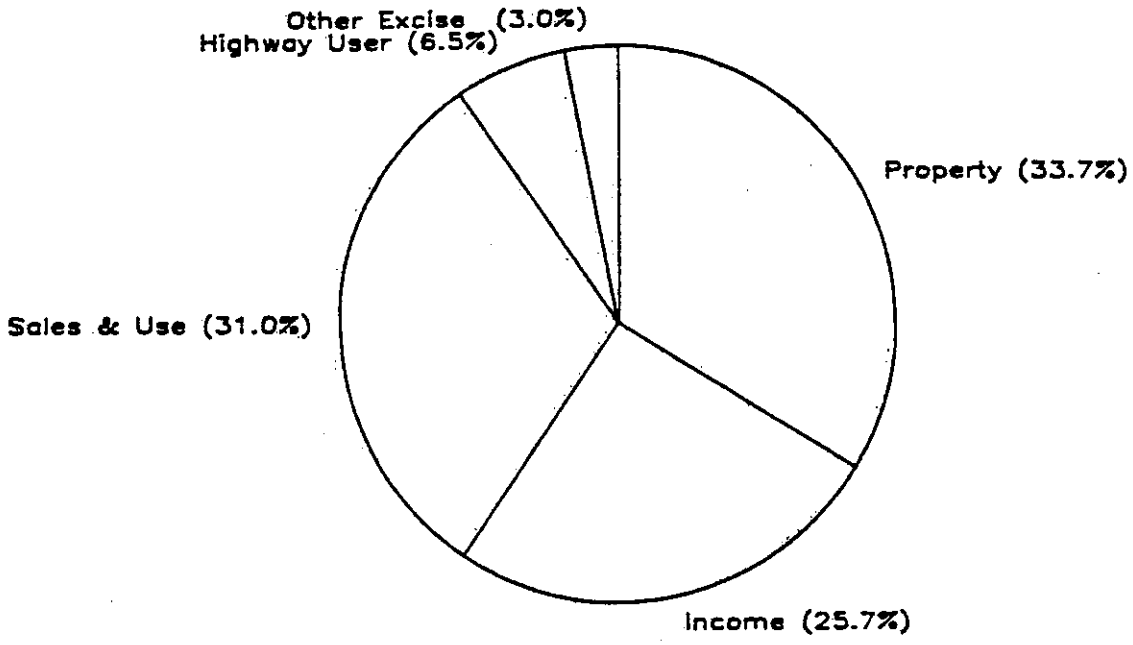
TABLE IV. SUMMARY OF MAJOR TAXES ON COLORADO RESIDENT HOUSEHOLDS AND BUSINESS, FISCAL YEAR 1982

	Total Taxes	State Taxes	Local Taxes
	(Money amounts in thousands)		
Taxes on Households (Direct)			
Residential Property	$ 633.4	--	$ 633.4
Sales and Use	582.2	$ 348.4	233.8
Individual Income	483.1	483.1	--
Highway User[a]	122.9	101.2	21.7
Cigarette and Liquor	57.2	40.3	16.9
Total Direct Taxes	$1,878.8	$ 973.0	$ 905.8
Taxes on Business (Indirect)			
Non-Residential Property	$ 568.5	--	$ 568.5
Sales and Use	396.5	$ 236.0	160.5
Corporate Income	75.6	75.6	--
Highway User[a]	92.2	82.9	9.3
Other Business Taxes[b]	177.1	101.2	75.9
Total Indirect Taxes	$1,309.9	$ 495.7	$ 814.2
Total Resident Taxes	$3,188.7	$1,468.7	$1,720.0

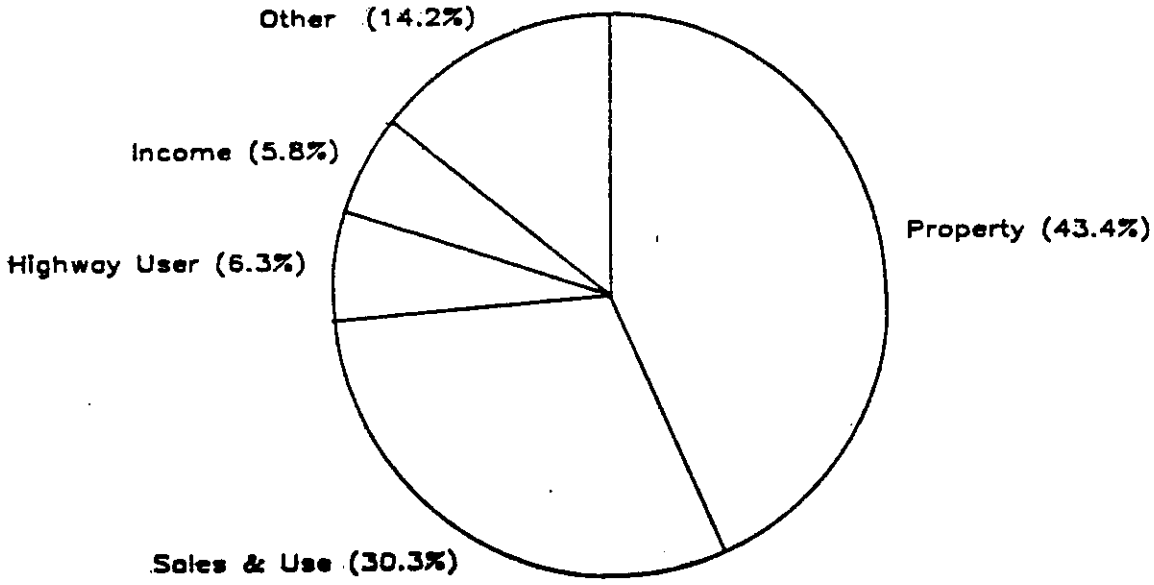
[a]Includes share of specific ownership tax.

[b]Includes insurance, severance, occupation, corporate franchise and miscellaneous regulatory taxes.

CHART IV. DISTRIBUTION OF HOUSEHOLD AND BUSINESS TAXES, FISCAL YEAR 1982



Household Taxes



Business Taxes

- The individual income tax ranked third in the household category and amounted to $483 million. Its share of the direct tax burden was slightly less than 26 percent--two percentage points below the 1980 ratio, but two points above 1972.

- The corporate income tax amounted to $76 million and accounted for less than 6 percent of the combined state-local tax bill imposed on business. This was markedly smaller than the 9 percent share for fiscal 1980 and 8 percent share for fiscal 1972.

It is evident that the "big three"--property, sales and income taxes--continue to account for the overwhelming share of the taxes imposed on both of these taxpayer categories. Combined, they represented 90 percent of the direct tax burden imposed on resident households, and almost 80 percent of the total indirect taxes levied on business in fiscal year 1982.

State Taxes

At the state level, taxes amounting to $973 million, or two-thirds of the total state burden, were classified as direct household taxes. Of this amount, the individual income tax (inclusive of surtax) represented 50 percent, while retail sales and highway user taxes accounted for 36 and 10 percent, respectively. Because of energy conservation, highway user taxes were significantly below the 1972 ratio of 20 percent. The other state excise taxes levied directly on resident households were $40 million, or four percent of the total.

State taxes on business were estimated to be $496 million, or one-third of the adjusted state total. Quantitatively, the most important state tax levied on business was the allocated portion of the sales and use tax --it accounted for 48 percent of the total. Business highway user taxes and the corporate income tax ranked next, representing 17 and 15 percent, respectively. All other state business taxes, such as insurance, corporate franchise, severance and other regulatory taxes, accounted for 20 percent of the total.

Local Taxes

On the local level, direct household taxes were estimated to be $906 million, or 53 percent of the total, while the indirect business portion was estimated to be $814 million. The allocation of total local taxes between households and business essentially reflects the classification of the property tax into residential and non-residential categories. It was estimated that the actual and imputed property taxes on owner-occupied and renter-occupied residences together amounted to $633 million or 70 percent of the total local taxes levied directly on resident households. And in the case of the non-residential property tax, it amounted to $569 million, which also worked out to be 70 percent of the total local tax levied on the business community.

SECTION IV. A PROFILE OF COLORADO TAXES BY MAJOR INCOME CLASSES

The distribution of Colorado state and local tax liabilities of resident households, classified by major income categories, is presented in Tables V through IX. Data on the number of resident taxpayers, household income and state individual income tax liabilities were analyzed in detail in a companion study prepared by the Colorado Department of Revenue.[6]

Income Concepts

This sub-section describes basic concepts and adjustments required for the derivation of the income measures used in the analysis of tax burdens. Because Colorado does not have a "split-income" provision for married taxpayers, approximately one-third of all individual income tax returns filed were "married-separate" returns. For the purposes of this study, the "married-separate" returns of husband and wife were merged and treated as a single return in order to obtain a more accurate picture of the distribution of resident household income and taxes.[7]

Adjusted Gross Income. On the corrected basis, the adjusted gross income reported by resident households on state tax returns filed in fiscal 1982 amounted to $23,919 million. It represented 71.9 percent of the corresponding 1981 Colorado state personal income of $33,256 million estimated by the U.S. Department of Commerce.[8] The difference between these two income measures of $9.3 billion mainly are due to conceptual differences between the economic and statutory definitions of income. The latter excludes various forms of tax-exempt money income and nontaxable transfer income, such as payments for public welfare, social security, unemployment compensation and portions of private pension and retirement income. On the other hand, the economic concept of household income (the Department of Commerce personal income measure) includes, in addition to the above money transfer payments, sundry forms of imputed income, such as the estimated rental value of owner-occupied residences, imputed interest and employer contributions to pension funds.

Adjusted Broad Income. In order to obtain an alternative income measure which more closely corresponds to the conventional concept of income, an adjusted broad income measure was developed for the original 1972 Colorado Tax Profile Study. This measure is narrower than the personal income concept in that it excludes all forms of imputed income, but broader than adjusted gross income since it includes an estimate of the nontaxable money transfer payments, as well as other forms of tax-exempt income not reported on tax returns.[9]

On an overall basis, total adjusted broad income for Colorado resident taxpayers was estimated to be $28,611 million, or 20 percent larger than the corresponding adjusted gross income for fiscal year 1982. The difference between these two income measures in fiscal year 1972 was slightly more than 13 percent. The more rapid rate of growth in the adjusted broad income relative to the increase in adjusted gross income reported on tax returns is primarily due to the steady rise in Colorado personal transfer income.

Also it should be noted that the total amount of transfer payments included in the 1982 adjusted broad income measure was approximately three times larger than the amount included to represent tax-exempt forms of non-transfer money income. Thus the largest relative adjustments required to place the resident households on a broad income basis were made for those in the lowest income categories since they were the major recipients of nontaxable money transfer income. Conversely, adjustments for excluded non-transfer money income were largest for taxpayers in the upper income strata since they were the principal beneficiaries of the preferential tax treatment accorded capital gains, interest and dividend income.

In the remainder of this report, the comparative tax burdens of Colorado resident households are presented in terms of both adjusted gross and adjusted broad income. It is evident, however, that the latter is the more appropriate and meaningful basis for evaluating the distributional effects of the Colorado state and local tax structure.

Distribution of Households and Income

Almost one and a third million Colorado resident households filed state income tax returns in fiscal year 1982. Of these, four out

of every five were taxable returns, i.e., they had a positive net normal income tax liability. The income measures and overall tax analysis for this study are based on all resident returns, taxable and nontaxable. Households filing nontaxable returns, of course, were also subject to sales, excise and property taxes and were recipients of transfer and other forms of money income excluded from adjusted gross income. But first it is important to note that because of the marked rise in both the nominal and real incomes of Colorado households since 1972, the distribution of number of households by adjusted gross income categories has shifted significantly upwards during the past decade as shown below:

CTPS Fiscal Year	Percentage Distribution of Households by Reported Adjusted Gross Income: Below $15,000	$15,000 to $25,000	$25,000 and Over	Total
1972	84.1	12.3	3.6	100.0
1980	61.2	20.5	18.3	100.0
1982	55.2	19.3	25.5	100.0

Distribution of Taxes

Table V presents the total dollar amounts of state and local taxes on a resident liability basis, as well as the number of households and the total dollar amounts of household income in terms of both adjusted gross and broad income, for each of the five major income classes. The relative tax burden comparisons -- the "current tax profiles" -- are developed on the basis of these data for fiscal year 1982.

TABLE V. DISTRIBUTION OF COLORADO RESIDENT TAXPAYERS, HOUSEHOLD INCOME AND MAJOR STATE AND LOCAL TAXES, FISCAL YEAR 1982

	Major Income Classes[a]					
	Under $5,000	$5,000 to $15,000	$15,000 to $25,000	$25,000 to $50,000	$50,000 and Over	Total
	(Money amounts in thousands of dollars)					
Number of Resident Households	335,428	397,714	256,802	281,475	57,618	1,329,037
Household Income:						
Adjusted Gross Income	$ 703,568	$3,839,217	$5,062,814	$9,621,198	$4,692,543	$ 23,919,340
Adjusted Broad Income	1,617,432	5,093,873	5,810,592	10,713,204	5,376,247	28,611,348
Direct Taxes on Households:						
State Taxes						
Individual Income	4,395	52,128	94,742	208,270	123,574	483,109
Sales and Use	28,984	74,968	82,633	120,465	41,316	348,366
Highway User	8,758	26,405	26,395	29,533	10,155	101,246
Alcoholic Beverage	2,233	5,661	5,995	6,265	2,142	22,246
Cigarette	2,691	5,435	4,548	4,016	1,385	18,075
Total	47,061	164,547	214,313	368,549	178,572	973,042
Local Taxes						
Residential Property	76,498	147,099	127,566	206,791	75,463	633,417
Sales and Use	19,453	50,314	55,458	80,849	27,729	233,803
Specific Ownership	1,877	5,661	5,659	6,332	2,177	21,706
Cigarette	2,519	5,087	4,257	3,759	1,296	16,918
Total	100,347	208,161	192,940	297,731	106,665	905,844
Total Direct Taxes	147,408	372,708	407,253	666,280	285,237	1,878,866
Indirect Taxes on Households:						
State Business Taxes	46,535	105,485	110,691	169,377	63,569	495,657
Local Business Taxes	81,338	179,042	185,881	273,977	93,958	814,196
Total Indirect Taxes	127,873	284,527	296,572	443,354	157,527	1,309,853
Total State and Local Taxes:						
State Taxes (Direct & Indirect)	93,596	270,032	325,004	537,926	242,141	1,468,699
Local Taxes (Direct & Indirect)	181,685	387,203	378,821	571,708	200,623	200,623
Total State-Local Taxes	$ 275,281	$ 657,235	$ 703,825	$1,109,634	$ 442,764	$ 3,188,739
Addendum:						
Federal Individual Income Tax	$ 17,716	$ 343,103	$ 653,736	$1,526,066	$1,310,247	$ 3,850,868

[a]Based on adjusted gross income

The percentage distributions of the direct state and local tax burden among Colorado's relatively low, middle and high income taxpayers are summarized in the following tabulation:

	Percent Distribution of Direct Taxes for Households with Adjusted Gross Incomes:		
	Below $15,000	$15,000 to $25,000	$25,000 and Over
State Taxes:			
Individual Income	26.7	44.2	60.6
Sales and Use	49.1	38.6	29.6
Consumer Excises	24.2	17.2	9.8
Total	100.0	100.0	100.0
Local Taxes:			
Residential Property	72.5	66.1	69.8
Sales and Use	22.6	28.8	26.8
Consumer Excises	4.9	5.1	3.4
Total	100.0	100.0	100.0

The largest single state tax levied on the two lowest income classes (under $15,000), which together comprised more than one-half of Colorado's resident households, continued to be the state's retail sales tax, which amounted to $104.0 million. When combined with the excise taxes on motor fuels, alcoholic beverages and cigarettes, consumer expenditure taxes on the state level for these relatively low income taxpayers accounted for more than three-fourths of their total direct state tax burden in fiscal year 1982. For the one-fifth of the households comprising the middle income group ($15,000 to $25,000), consumption expenditure taxes on the state level amounted to $119.6 million and accounted for more than one-half of their direct state tax burden. In contrast, for the two highest income strata ($25,000 or more), representing the top quartile of households, the state personal income tax was quantitatively the largest. It amounted to $331.8 million and accounted for more than three-fifths of their total direct state tax burden; while their consumer expenditure taxes, particularly the excises, were relatively small.

On the local level, as expected, the residential property tax of $633.4 million accounted for two-thirds or more of the direct local tax burden for all income categories.

Tax Equity

Table VI shows the percentage distributions of the Colorado resident taxpayers, adjusted gross and broad income, and each of the major state and local taxes, classified by the five household income categories, based on data presented in Table V. A comparison of the tax distribution with the distribution of household income provides an approximate measure of the degree of tax equity in the state. The taxpayers comprising the two top income groups, with adjusted gross incomes of $25,000 or more, represented the top quartile of households but accounted for three-fifths of total income; while the poorest households, those in the lowest quartile (incomes of $5,000 or less), accounted for only three percent of the adjusted gross income and less than six percent of the broad income.

State Taxes. With regard to the allocation of the overall state tax burden (combined direct and indirect taxes), it appears that for all major income classes, the respective shares of the state tax generally parallel the distribution of adjusted broad income, as shown by the following tabulation:

Income Classes	Percent Distribution		
	Adjusted Broad Income	Direct State Taxes	Total State Taxes
Under $5,000	5.7	4.8	6.4
$5,000 to $15,00	17.8	16.9	18.4
$15,000 to $25,000	20.3	22.0	22.1
$25,000 to $50,000	37.4	37.9	36.6
$50,000 and over	18.8	18.4	16.5
Total	100.0	100.0	100.0

The share of the direct state tax burden borne by the poorer households (reported incomes of less than $15,000) was slightly lower than their respective income share, but their share of the total state tax was slightly higher. Correspondingly, for households in the two upper income strata (top quartile) the direct state tax share was practically the same as their income share, and their total state tax share was only slightly lower. On this adjusted broad income basis, the direct state tax structure proved to be slightly progressive, while the total state tax structure worked out to be slightly regressive in fiscal

	Major Income Classes:[a]					
	Under $5,000	$5,000 to $15,000	$15,000 to $25,000	$25,000 to $50,000	$50,000 and Over	Total
Number of Resident Households	25.3	29.9	19.3	21.2	4.3	100.0
Household Income:						
Adjusted Gross Income	2.9	16.1	21.2	40.2	19.6	100.0
Adjusted Broad Income	5.7	17.8	20.3	37.4	18.8	100.0
Direct Taxes on Households:						
State Taxes						
Individual Income	.9	10.8	19.6	43.1	25.6	100.0
Sales and Use	8.3	21.5	23.7	34.6	11.9	100.0
Highway User	8.6	26.1	26.1	29.2	10.0	100.0
Alcoholic Beverage	10.0	25.2	27.0	28.2	9.6	100.0
Cigarette	14.9	30.1	25.1	22.2	7.7	100.0
Total	4.8	16.9	22.0	37.9	18.4	100.0
Local Taxes						
Residential Property	12.1	23.2	20.1	32.7	11.9	100.0
Sales and Use	8.3	21.5	23.7	34.6	11.9	100.0
Specific Ownership	8.6	26.1	26.1	29.2	10.0	100.0
Cigarette	14.9	30.1	25.1	22.2	7.7	100.0
Total	11.1	23.0	21.3	32.8	11.8	100.0
Total Direct Taxes	7.8	19.8	21.6	35.6	15.2	100.0
Indirect Taxes on Households:						
State Business Taxes	9.4	21.3	22.3	34.2	12.8	100.0
Local Business Taxes	10.0	22.0	22.8	33.7	11.5	100.0
Total Indirect Taxes	9.8	21.7	22.6	33.9	12.0	100.0
Total State and Local Taxes:						
State Taxes (Direct & Indirect)	6.4	18.4	22.1	36.6	16.5	100.0
Local Taxes (Direct & Indirect)	10.6	22.5	22.0	33.2	11.7	100.0
Total State-Local Taxes	8.6	20.6	22.1	34.8	13.9	100.0
Addendum:						
Federal Individual Income Tax	.5	8.9	17.0	39.6	34.0	100.0

[a]Based on adjusted gross income.

year 1982. Previous CTPS reports show a similar pattern of proportionality. It appears that despite the marked shift of taxpayers into higher income brackets, increased consumption expenditures, and the statutory tax reductions enacted during the past five years, the overall state tax structure has not become significantly more progressive or regressive.

The proportionality achieved in the distribution of the overall state tax burden reflects a balancing of the state's major taxes, since similar distributions do not hold for any of the specific taxes. The state individual income tax continues to be highly progressive. Households in the two lowest income categories (incomes under $15,000) accounted for 24 percent of the broad income but only 12 percent of the income tax liability. At the other end of the income spectrum, taxpayers in the two top categories (incomes of $25,000 or more) accounted for 56 percent of the broad income but almost 69 percent of the total state income tax liability. Stated more generally, the top one-fourth of Colorado's resident households accounted for more than one-half of the income (regardless of which income measure is used) but almost three-fourths of the total state income tax.

Conversely, the distribution patterns of all other state taxes proved to be essentially regressive -- that is, the tax share relative to income was greatest for the lowest income group and smallest for those with the highest incomes. For example, the lowest income group's share of direct consumer expenditure taxes (retail sales and excises) was approximately one and a half times as large as its share of adjusted broad income; whereas for the highest stratum it was only three-fifths as large as its income share. And a similar relationship holds for the indirect state business taxes. In short, the magnitude and progressivity of the Colorado state income tax offsets the regressivity of all the other state taxes, resulting in a state tax structure which is essentially proportional.

Local Taxes. With regard to the allocation of the local tax burden, the data indicate that all of the major local taxes (direct and indirect) worked out to be highly regressive. For households in the two lowest income strata, their share of the residential property tax, expenditure taxes and indirect business taxes in every instance was sig-

nificantly larger than their share of adjusted broad income; while for taxpayers in the highest income strata, the tax shares were below their respective income shares. This overall regressivity of the local tax structure must be attributed primarily to the magnitude and regressivity of the local property and sales tax.

Average Household Income and Taxes

The average income and taxes of Colorado households for fiscal year 1982, classified by the five major income categories, are presented in Table VII. Resident taxpayers had an average income of $21,528 (on a broad income basis) and an average combined state-local tax burden of $2,399. This was almost one-fifth less than the average federal income tax of $2,897 paid by Colorado residents that year. Total state taxes (direct and indirect) averaged $1,105 per resident household and as such were 15 percent less than the average local tax burden of $1,294.

When the taxes are expressed as averages for each of the major income categories, the average dollar of tax per resident household increased directly, but not proportionately, with the rise in income. The average total state tax (combined direct and indirect) ranged from $279 for taxpayers in the lowest quartile (incomes less than $5,000) to $2,300 for those at the other end of the scale (incomes of $25,000 or over). On the other hand, the average local tax burden was significantly higher than the state burden for the poor, and lower for the top quartile -- ranging from $542 for taxpayers in the bottom group to $2,278 for the highest.

TABLE VII. AVERAGE INCOME AND TAXES FOR COLORADO RESIDENT TAXPAYERS, CLASSIFIED BY MAJOR INCOME CATEGORIES, FISCAL YEAR 1982

	Major Income Classes:[a]					
	Under $5,000	$5,000 to $15,000	$15,000 to $25,000	$25,000 to $50,000	$50,000 and Over	Total
Taxpayers Income:						
Adjusted Gross Income	$2,098	$ 9,653	$19,715	$34,181	$81,442	$17,998
Adjusted Broad Income	4,822	12,808	22,627	38,061	93,308	21,528
Direct Taxes on Households:						
State Taxes						
Individual Income	13	131	369	740	2,145	363
Sales and Use	86	189	322	428	717	262
Highway User	26	66	103	105	176	76
Alcoholic Beverage	7	14	23	22	37	17
Cigarette	8	14	18	14	24	14
Total	140	414	835	1,309	3,099	732
Local Taxes						
Residential Property	229	371	496	735	1,309	477
Sales and Use	58	126	216	287	481	176
Specific Ownership	6	14	22	23	38	16
Cigarette	7	13	17	13	23	13
Total	300	524	751	1,058	1,851	682
Total Direct Taxes	440	938	1,586	2,367	4,950	1,414
Indirect Taxes on Households:						
State Business Taxes	139	265	431	602	1,103	373
Local Business Taxes	242	450	724	973	1,631	612
Total Indirect Taxes	381	715	1,155	1,575	2,734	985
Total State and Local Taxes:						
State Taxes (Direct & Indirect)	279	679	1,266	1,911	4,203	1,105
Local Taxes (Direct & Indirect)	542	974	1,475	2,031	3,482	1,294
Total State-Local Taxes	$ 821	$ 1,653	$ 2,741	$ 3,942	$ 7,685	$ 2,399
Addendum:						
Federal Individual Income Taxes	$ 53	$ 863	$ 2,546	$ 5,422	$22,740	$ 2,897

[a]Based on adjusted gross income

The variance in these relationships can be readily compared by expressing the average taxes of households in the lowest quartile as percentages of those in the top quartile as shown below:

	Average Income and Taxes for Households with AGI		
	Lowest Quartile (Under $5,000)	Highest Quartile ($25,000 and Over)	Lowest Quartile as Percent of Highest
Adjusted Broad Income	$4,822	$47,448	10.2
State Taxes:			
Individual Income	13	979	1.3
Sales Tax on Households	86	477	18.0
Excise Taxes on Households	41	157	26.1
Direct State Taxes	140	1,613	8.7
Business Taxes	139	687	20.2
Total State Taxes	$ 219	$ 2,300	12.1
Local Taxes:			
Residential Property	229	833	27.5
Sales Tax on Households	58	320	18.1
Excise Taxes on Households	13	40	32.5
Direct Local Taxes	300	1,193	25.1
Business Taxes	242	1,085	22.3
Total Local Taxes	542	2,278	23.8
Total State and Local Taxes	$ 821	$ 4,578	17.9

State Taxes. The average broad income of households in the lowest income category was slightly more than 10 percent of the average income of households in the highest quartile. The marked progressivity of the state income tax is revealed when the income tax ratio is compared with the broad income ratio. For example, the average state income tax for all households in the "under $5,000" class was only 1.3 percent of the average income tax for taxpayers in the highest quartile.[10] In contrast, the comparative tax ratios of all the other direct state taxes were generally twice as large as the income ratio.

However, the regressivity of the state sales and excise taxes was offset by the progressivity of the income tax so that the overall direct state tax structure remained slightly progressive--the average tax ratio was only 8.7 percent compared to the income ratio of 10.2

percent. On the other hand, the total state tax structure (direct and indirect) proved to be slightly regressive with an average state tax ratio of 12.1 percent.

Local Taxes. The greater regressivity of the local tax structure also is revealed by these data. The average local tax for households in the lowest quartile was almost 24 percent of the average paid by those in the top quartile. Moreover, when state and local tax liabilities are combined, the overall Colorado tax structure for fiscal year 1982 worked out to be clearly regressive--the average combined tax ratio of the poor to the rich was 17.9 percent compared to the corresponding broad income ratio of 10.2 percent.

SECTION V. A PROFILE OF EFFECTIVE TAX RATES AND BURDENS

A more conventional and simpler method of comparing relative tax burdens is to express the absolute dollar amount of tax liability as a percentage of household income before taxes. Since all taxes ultimately are paid out of available income, such a measure of the tax burden actually represents an "effective tax rate" on household income. However, the degree of regressivity or progressivity of the tax structure as a whole or of any particular tax is dependent upon the income concept used. For purposes of this study, the relative state and local tax burdens are expressed as percentages of both adjusted gross income and adjusted broad income.

Effective Tax Rates Based on Adjusted Gross Income

The relative burdens or effective tax rates for fiscal year 1982, based on adjusted gross income, are shown in Table VIII. On this adjusted gross income basis, the combined state-local tax burden on the poor was four times as heavy as that on the upper income group -- a 39.1 percent effective tax rate for households reporting incomes of less than $5,000 compared with an 9.4 percent rate for those with incomes of $50,000 or more.

This overall regressivity, however, must be mainly attributed to the local tax portion for which the relative burden on the lowest income group was actually six times larger than that on the highest -- 25.8 percent compared with 4.3 percent. All taxes on the local level, when based on adjusted gross income, show a high degree of regressivity and in the case of the residential property tax, the effective rates ranged from 10.9 percent for the lowest income group to 1.6 percent for the highest.

The state tax structure as a whole was only about one-half as regressive as the local tax structure, since the regressivity of the consumer expenditure and business taxes was partially offset by the progressivity of the state's individual income tax. With regard to the state income tax, the effective rate for households in the under $5,000

TABLE VIII. RELATIVE BURDEN OF MAJOR TAXES ON COLORADO RESIDENT TAXPAYERS, TAXES EXPRESSED AS PERCENT OF ADJUSTED GROSS INCOME, FISCAL YEAR 1982

	Major Income Classes:[a]					
	Under $5,000	$5,000 to $15,000	$15,000 to $25,000	$25,000 to $50,000	$50,000 and Over	Total
Direct Taxes on Households:						
State Taxes						
Individual Income	.62	1.36	1.87	2.16	2.63	2.02
Sales and Use	4.12	1.95	1.63	1.25	.88	1.46
Highway User	1.25	.69	.52	.31	.22	.42
Alcoholic Beverage	.32	.15	.12	.07	.05	.09
Cigarette	.38	.14	.09	.04	.03	.08
Total	6.69	4.29	4.23	3.83	3.81	4.07
Local Taxes						
Residential Property	10.87	3.83	2.52	2.15	1.61	2.65
Sales and Use	2.76	1.31	1.10	.84	.59	.98
Specific Ownership	.27	.15	.11	.06	.04	.09
Cigarette	.36	.13	.08	.04	.03	.07
Total	14.26	5.42	3.81	3.09	2.27	3.79
Total Direct Taxes	20.95	9.71	8.04	6.92	6.08	7.86
Indirect Taxes on Households:						
State Business Taxes	6.61	2.75	2.19	1.76	1.35	2.07
Local Business Taxes	11.56	4.66	3.67	2.85	2.00	3.40
Total Indirect Taxes	18.17	7.41	5.86	4.61	3.35	5.47
Total State and Local Taxes:						
State Taxes (Direct & Indirect)	13.30	7.04	6.42	5.59	5.16	6.14
Local Taxes (Direct & Indirect)	25.82	10.08	7.48	5.94	4.27	7.19
Total State-Local Taxes	39.12	17.12	13.90	11.53	9.43	13.33
Addendum:						
Federal Individual Income Taxes	2.52	8.94	12.91	15.86	27.92	16.10

[a] Based on adjusted gross income.

category was less than one percent, or slightly less than one-fourth the rate for taxpayers with incomes of $25,000 or more. For the overall state tax structure, the effective tax rates based on adjusted gross income ranged from 13.3 percent for the lowest stratum to 5.2 percent for the highest.

But, as already noted, the above disparities in the relative tax burdens between the low and high income categories are misleading because the adjusted gross income measure on which they are based understates the money income of households in the lowest income stratum, and therefore overstates their tax burden relative to that of other taxpayers.

Effective Tax Rates Based on Adjusted Broad Income

When the effective tax rates are expressed more appropriately in terms of adjusted broad income, the relative tax burdens and the measured regressivity of both the state and local tax structures are significantly reduced, as shown by the data in Table IX.

On this broad income basis, the measured regressivity -- the ratio of the effective rate for the lowest income class (under $5,000) to that of the highest ($50,000 and over) -- in all instances is reduced to less than one-half of that calculated in terms of adjusted gross income. For example, on broad income the relative burden of local taxes (direct and indirect) varied from 11.2 percent for the lowest income group to 3.7 percent for the highest, whereas when the adjusted gross income measure was used, the local burden on the poor was more than six times greater than that on the highest income group.

The regressivity of the state tax structure also was significantly smaller when measured against adjusted broad income. The effective state tax rate for households in the lowest income category was reduced from 13.3 percent to 5.8 percent and as such, was less than a third (rather than one and a half times) larger than the effective rate for those in the top income stratum.

Moreover, as already noted when the tax liabilities are compared against broad income, the total direct state tax structure--individual income and consumer expenditure taxes--actually proved to be progressive. The effective burden of the direct state taxes was 2.9

TABLE IX. RELATIVE BURDEN OF MAJOR TAXES ON COLORADO RESIDENT TAXPAYERS, TAXES EXPRESSED AS PERCENT OF ADJUSTED BROAD INCOME, FISCAL YEAR 1982

	Major Income Classes:[a]					
	Under $5,000	$5,000 to $15,000	$15,000 to $25,000	$25,000 to $50,000	$50,000 and Over	Total
Direct Taxes on Households:						
State Taxes						
Individual Income	.27	1.02	1.63	1.94	2.30	1.69
Sales and Use	1.79	1.47	1.42	1.12	.77	1.22
Highway User	.54	.52	.46	.28	.19	.35
Alcoholic Beverage	.14	.11	.10	.06	.04	.08
Cigarette	.17	.11	.08	.04	.02	.06
Total	2.91	3.23	3.69	3.44	3.32	3.40
Local Taxes						
Residential Property	4.73	2.89	2.20	1.93	1.40	2.21
Sales and Use	1.20	.99	.95	.75	.52	.82
Specific Ownership	.12	.11	.10	.06	.04	.08
Cigarette	.15	.10	.07	.04	.02	.06
Total	6.20	4.09	3.32	2.78	1.98	3.17
Total Direct Taxes	9.11	7.32	7.01	6.22	5.30	6.57
Indirect Taxes on Households:						
State Business Taxes	2.88	2.07	1.90	1.58	1.18	1.73
Local Business Taxes	5.03	3.51	3.20	2.56	1.75	2.85
Total Indirect Taxes	7.91	5.58	5.10	4.14	2.93	4.58
Total State and Local Taxes:						
State Taxes (Direct & Indirect)	5.79	5.30	5.59	5.02	4.50	5.13
Local Taxes (Direct & Indirect)	11.23	7.60	6.52	5.34	3.73	6.02
Total State-Local Taxes	17.02	12.90	12.11	10.36	8.23	11.15
Addendum:						
Federal Individual Income Taxes	1.10	6.74	11.25	14.24	24.37	13.46

[a] Based on adjusted gross income.

percent for households in the "under $5,000" income category compared to a burden of 3.3 percent for those in the "$50,000 and over" category.

With regard to the individual income tax, the average effective rates of tax for the income classes successively increased from a low of less than 0.3 percent for taxpayers in the lowest income stratum to a high of 2.3 percent for those in the highest stratum. In other words, the relative state income tax burden of the rich was about eight times as large as that levied on households with reported adjusted gross incomes under $5,000.

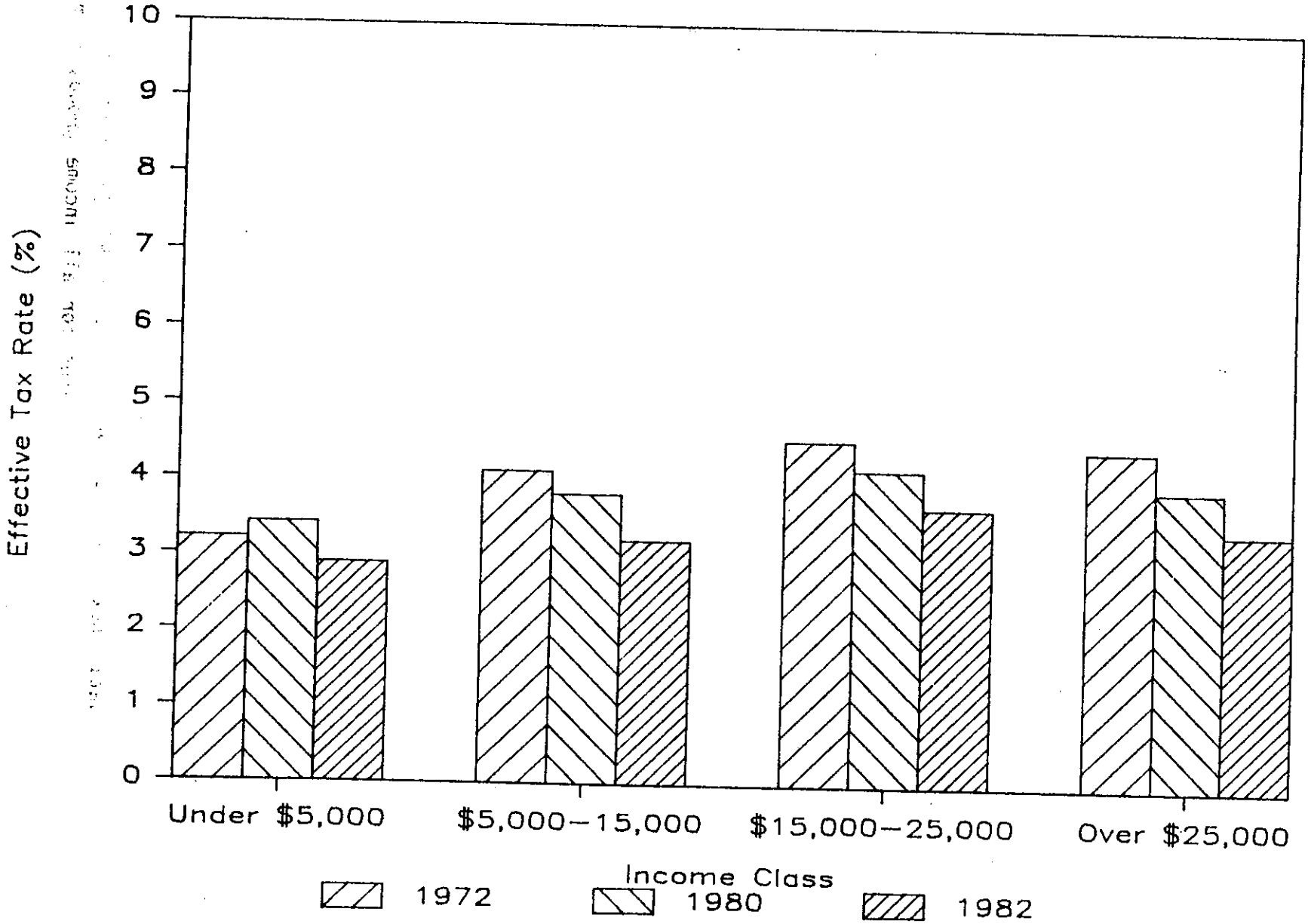
In order to make the analysis consistent with previous reports, the effective tax rate on broad income for all taxpayers with reported incomes of $25,000 or more are compared with the other income strata. On this basis, the effective tax rates on broad income for fiscal years 1972, 1980 and 1982 are shown in the following tabulation and Charts V and VI:

Effective Tax Rates on Broad Income for Direct State and Local Taxes Fiscal Years 1972, 1980 and 1981

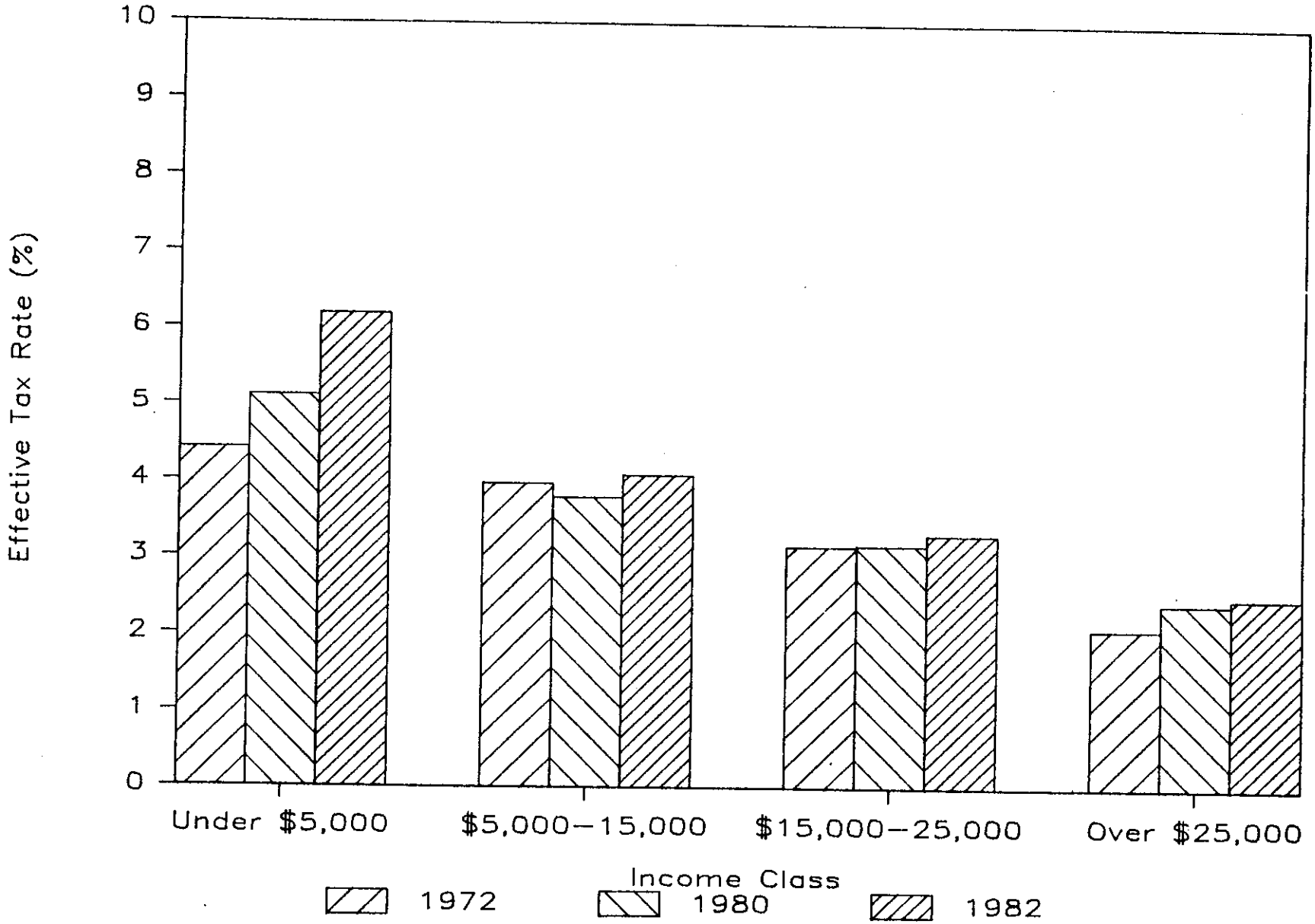
Income Class	State Direct Tax	Local Direct Tax	Total Direct Tax
Under $5,000			
1972	3.23	4.43	7.66
1980	3.43	5.13	8.56
1982	2.91	6.20	9.11
$5,000 to $15,000			
1972	4.13	3.98	8.11
1980	3.83	3.80	7.63
1982	3.23	4.09	7.32
$15,000 to $25,000			
1972	4.56	3.17	7.73
1980	4.18	3.18	7.36
1982	3.69	3.32	7.01
$25,000 and over			
1972	4.46	2.10	6.56
1980	3.95	2.44	6.41
1982	3.40	2.51	5.91

The data show the significant drop which has occurred in effective tax rates for direct state taxes for all income groups from

CHART V. COMPARISON OF EFFECTIVE TAX RATES FOR DIRECT STATE TAXES, FISCAL YEARS 1972, 1980 AND 1982*



* Based upon Adjusted Broad Income



* Based upon Adjusted Broad Income

1972 through 1982. In contrast, the effective rates on the local level, especially for low income households, have increased dramatically over this time period.

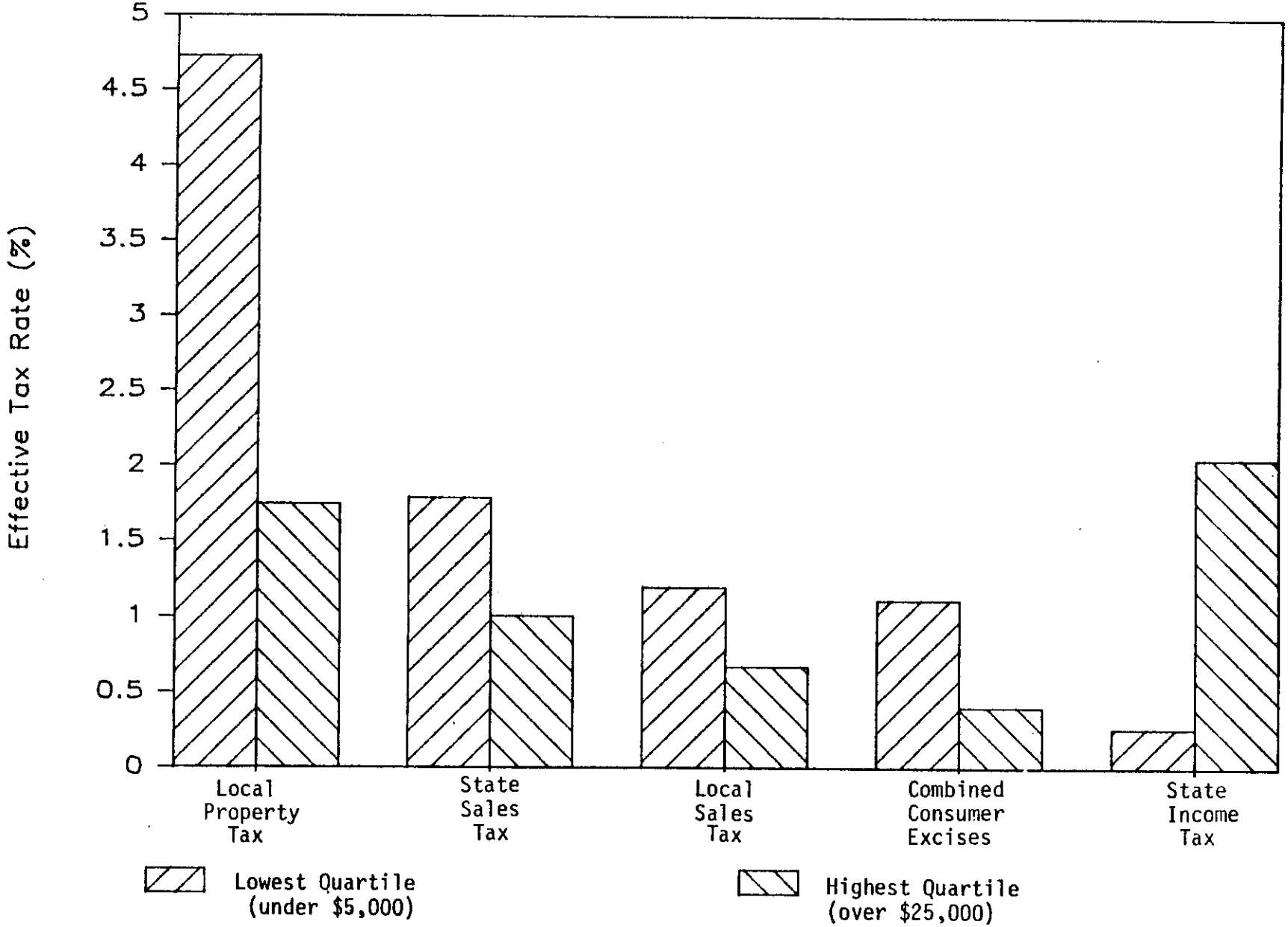
The marked growth in Colorado income during recent years, as noted, has shifted a large number of Colorado households into higher income classes. By fiscal year 1982 one-fourth of all households were in the "$25,000 and over" category, and about one-fourth remained in the "under $5,000" category. On the basis of this classification the 1982 effective tax rates for each of the major tax categories for the lowest and highest quartiles are compared as shown below and in Chart VII:

	Effective Tax Rates Expressed as Percentages of Adjusted Broad Income		
	Lowest Quartile (Under $5,000)	Highest Quartile ($25,000 and over)	Lowest Quartile as Percent of Highest
State Taxes:			
Individual Income	.27	2.06	.13
Sales Tax on Households	1.79	1.01	1.77
Excise Taxes on Households	.85	.33	2.58
Direct State Taxes	2.91	3.40	.86
Business Taxes	2.88	1.45	1.99
Total State Taxes	5.79	4.85	1.19
Local Taxes:			
Residential Property	4.73	1.75	2.70
Sales Tax on Households	1.20	.68	1.76
Excise Taxes on Households	.27	.08	3.50
Direct Local Taxes	6.20	2.51	2.47
Business Taxes	5.03	2.29	2.20
Total Local Taxes	11.23	4.80	2.34
Total State-Local Taxes	17.02	9.65	1.76

CTPS Progressivity Index

The following analysis has been based on an approximate measure of the regressivity or progressivity of each tax determined by expressing the relative tax burden (effective tax rate) of the lowest income stratum as a ratio to that of the highest. This "broad income"

THE LOWEST AND HIGHEST QUARTILES, FISCAL YEAR 1982*



* Based upon Adjusted Broad Income

index of progressivity/regressivity was first developed for the 1972 Colorado Tax Profile Study. If the ratio or index number is equal to 1.0, the tax should be considered proportional; if less than 1.0, the tax is progressive; and if more than 1.0, regressive.

As noted, in order to make the analysis consistent with previous reports, the index measure for fiscal year 1982, in terms of adjusted broad income, is based on the effective rates of the lowest income group (under $5,000) compared with those of the two highest strata combined, i.e., with the effective rate for all taxpayers with reported adjusted income of $25,000 or more. On this basis, the index values for each of Colorado's major state and local taxes, for the fiscal years 1972, 1980 and 1982 are summarized below:

	CTPS Progressivity Index Based on Broad Income -- Tax Burden Ratios of Lowest to Highest Income Class		
	1972	1980	1982
State Taxes:			
Individual Income	.16	.16	.13
Sales Tax on Households	1.85	2.04	1.77
Excise Taxes on Households	2.21	2.47	2.58
Direct State Taxes	.72	.87	.86
Business Taxes	1.33	1.85	1.99
Total State Taxes	.90	1.16	1.19
Local Taxes:			
Residential Property	2.13	2.06	2.70
Sales Tax on Households	2.00	2.03	1.76
Excise Taxes on Households	2.52	3.11	3.50
Direct Local Taxes	2.11	2.09	2.47
Business Taxes	1.93	2.05	2.20
Total Local Taxes	2.02	2.17	2.34
Total State-Local Taxes	1.35	1.61	1.76

The data clearly show that the Colorado state-local tax system has become more regressive during the decade since fiscal year 1972. On the broad income basis, the CTPS progressivity index number for the combined state-local structure rose from 1.35 in 1972 to 1.76 in fiscal year 1982. This means that in the latter year the combined state-local relative tax burden for households comprising the lowest quartile

(incomes under $5,000) was approximately three-fourths larger than that imposed on households in the top quartile (incomes of $25,000 or more). A decade earlier the relative burden on the poor was only about one-third heavier than that on the rich. This increased regressivity of the overall Colorado tax structure must be attributed primarily to the local tax structure. In 1972 the relative local tax burden of the lowest income stratum was twice that of the highest, by 1982 it had become almost two and a third times larger.

On the state level, the CTPS index for the total state tax burden continued to increase but at a significantly smaller rate in recent years--from 1.16 in fiscal 1980 to 1.19 in fiscal 1982. However, it appears that overall the state tax structure has remained essentially proportional during this decade. The progressivity of the direct state tax component has largely offset the regressivity of the indirect business tax component. For example, although the regressivity of state consumer excise taxes--highway user, cigarette and alcoholic beverages--has increased since 1980, the CTPS index numbers for both the state retail sales and individual income tax have decreased. In short, the state sales tax has become less regressive and the state income tax more progressive over the past two years.

It is also important to note that the state income tax continues to be the only significant progressive tax in the entire battery of state-local taxes levied in Colorado. Over the decade, the CTPS income tax index number has remained remarkably stable and with regard to this aspect, the income tax has shown the least variation of any of the major state-local taxes since 1972 when these studies were first initiated. The CTPS income tax index was .16 in both fiscal years 1972 and 1980, and dropped to .13 in fiscal year 1982. In other words, the increased progressivity of the state income tax for the latter year means that the relative income tax burden for households in the lowest income stratum (under $5,000) was only about one-eighth that of the relative burdens imposed on taxpayers in the top income category ($25,000 and over), whereas in the prior years the relative burden of the poor was about one-sixth that of the rich. This increased progressivity of the state income tax must primarily be attributed to the indexation of the base and rate provisions, optional itemization and a variety of other income tax revision measures introduced since 1978.[11]

In summary, it appears that despite the significant state income tax reductions enacted in recent years, the legislated progressivity of the state income tax has actually been improved and continues to offset to a large degree the regressivity of consumer expenditure taxes and other levies comprising the Colorado state tax structure.

Text Footnotes

1. See Appendix A, Table A-1 for a summary of officially reported state and local net tax collections for fiscal years 1972-1982 and Table A-2 for a summary of these taxes for the same years adjusted to a CTPS resident tax liability basis for purposes of this study.

2. See Appendix A, Table A-1. Net state tax collections are exclusive of state inheritance and gift taxes, hunting and fishing licenses, and pari-mutuel betting taxes which totaled $45.8 million in fiscal year 1982.

3. Reconciliation of reported net tax collections with adjusted tax liabilities of resident taxpayers on the state level is shown in Appendix A, Table A-3, and on the local level in Table A-4.

4. See Appendix A for the methodology and assumptions used for the allocations of specific taxes between households and businesses.

5. A similar offsetting assumption is not required for the direct taxation of non-residents. As indicated, an estimate of the Colorado taxes paid by non-residents (e.g., tourists in Colorado) has been excluded from the adjusted totals of state and local taxes. Similarly, taxes paid elsewhere by Colorado residents as out-of-state tourists are not considered part of the Colorado tax burden since they are not imposed by Colorado jurisdictions.

6. A companion study to this report presents a detailed analysis of the state individual income tax. See Colorado Department of Revenue, Colorado Statistics of Income, Individual Income Tax Returns Filed in Fiscal Year 1982, Colorado Legislative Council, Research Publication No. 279 (April 1983), Denver, Colorado.

7. For purposes of this study, all non-resident tax returns were excluded. They represented two percent of the returns filed and one percent of the reported income and tax liability.

8. U.S. Department of Commerce, Survey of Current Business, August 1982, p. 52.

9. See Appendix B for a description and derivation of the "adjusted broad income" measure.

10. The relatively small average income tax for households in the lowest quartile is partly due to the fact that three out of every five tax returns in this income category were nontaxable returns.

11. See Analysis of the Colorado Income Tax: Inflation, Indexation, and Credits, Colorado Legislative Council, Research Publication No. 260, (January 1981), Denver, Colorado, pp. 13-22.

Appendices

APPENDIX A

METHODOLOGY USED FOR ADJUSTMENT AND APPORTIONMENT OF STATE AND LOCAL TAXES BETWEEN HOUSEHOLDS AND BUSINESS

The state and local tax liabilities of Colorado resident taxpayers for fiscal year 1980 used as the basis for the present study were developed from original data obtained from a variety of sources. The state and federal individual income tax data for Colorado households were derived from a stratified random sample of 23,320 state tax returns. A description of the sampling methodology and statistical reliability of the income tax data are provided in Appendix B of the 1982 Colorado Statistics of Income report on individual income tax returns filed in fiscal year 1982. State and local revenue data on a collection basis were obtained from the Colorado State Department of Revenue, the Division of Accounts and Control, the Division of Property Taxation, the Department of Local Affairs, and the City of Denver Finance Office. These data are summarized and presented in Table A-1. In order to put the data on a resident liability basis, the reported collections were adjusted for nonallocable and nontax revenues, taxes paid by non-resident taxpayers, and vendor discounts on tax collections. The income tax data also were adjusted for the cash flow difference between collections and liabilities. A summary of the state and local taxes as adjusted for this study is presented in Table A-2.

Adjustment and Classification of State Taxes

The adjustments made in state taxes and the allocation of the adjusted taxes between those levied on households (direct taxes) and those levied on business (indirect taxes) are presented in Table A-3.

The base figures for "Reported Net Tax Collections" are exclusive of nonallocable state inheritance and gift taxes, hunting and fishing license fees and pari-mutuel betting taxes. All other nonallocable and/or nontax revenues were treated as adjustments to the reported net collections. These items represented sales tax assessments, penalties

and interest, audit deficiencies, and sales and motor vehicle taxes collected by the Revenue Department for local jurisdictions. These adjustments amounted to $23.0 million in fiscal 1982.

Income tax collections for any given year in an expanding economy will exceed the actual income tax liability incurred on the previous year's income because of tax withholding and declaration of estimated taxes. In fiscal year 1982 the reported net income tax collections were signficantly larger than liabilities. There also was an excess cash flow from the severance tax. Combined, these adjustments amounted to $84.8 million or five percent of the reported state collections.

The estimates of non-resident taxes by major source were as follows:

	Dollar Amounts in Millions		
Non-Resident Taxes	1977	1980	1982
Individual income taxes	$ 2.1	$ 3.8	$ 4.8
Retail sales taxes	19.9	26.9	32.4
Motor fuel taxes	10.6	11.4	15.7
Cigarette taxes	1.5	1.5	1.9
Alcoholic beverage taxes	2.4	2.6	3.1
Total	$36.5	$46.2	$57.9

The non-resident individual income tax was derived from the CTPS income tax analysis. The non-resident sales tax estimate was based on information provided by the Travel Marketing Section of the Colorado Division of Commerce and Development and the Colorado Visitors Bureau. The ratio of non-resident sales tax collections to total sales tax collections directly allocated to households was used as the basis for estimating non-resident excise taxes on motor fuel, cigarettes and alcoholic beverages.

The final adjustment for purposes of resident tax burden analysis was the addition of vendor discounts on sales, motor fuel and cigarette taxes retained by merchants as compensation for their costs of tax collection. This component of the tax burden is not included in either the gross or net taxes reported by the Department of Revenue. Vendor discounts on state tax collections for fiscal 1982 were as follows:

Vendor Discounts on Resident Taxpayers	Dollar Amounts in Millions 1977	1980	1982
Retail sales taxes	$10.4	$15.9	$18.0
Motor fuel taxes	2.4	2.7	3.2
Cigarette taxes	.7	.7	.7
Total	$13.5	$19.3	$21.9

On the basis of all of the above adjustments, the estimated state total tax liability averaged 91 percent of the reported net tax collections.

Table A-3 also shows the apportionment of the adjusted state taxes between resident households and business. For the purposes of this study, the individual income tax and excises on cigarettes and alcoholic beverages were treated as direct levies on Colorado resident households. The corporate income tax, insurance, severance and all other franchise and regulatory business taxes were classified as indirect or business taxes since such taxes ultimately are borne by individuals in the form of increased market prices or decreased dividends or undistributed corporate earnings. The remaining major state taxes -- the sales and use tax and the highway user taxes -- were apportioned between these two broad tax categories on the basis of information provided by the Research and Statistics Section of the Colorado Department of Revenue. The apportionment of state sales and highway user taxes between households and business firms for fiscal year 1982 are shown in Table A-5.

Adjustment and Classification of Local Taxes

Tax collections of local governments were treated in a manner similar to that described above for adjusting and allocating state taxes. Colorado local governments generally operate on a calendar year basis and the most recent data available on a uniform statewide basis were for calendar year 1981 which overlaps fiscal year 1982 by six months. A summary of the adjustments made to these levies and their apportionment between households and business are shown in Table A-4.

The specific adjustments made in local taxes for the CTPS study were as follows: the exclusion of the employee share of the Denver city occupation tax since these levies could not be allocated by

income classes; the exclusion of estimated non-resident sales and cigarette taxes based on the method used for computing non-resident state taxes; the reduction of the residential property tax by the old age property tax credits for the year; and the addition of vendor discounts on local sales and cigarette taxes.

The adjusted local tax totals also were apportioned between households and business firms. Cigarette taxes were classified as direct levies; all utility, franchise and regulatory taxes as indirect. The specific ownership tax was alloctated on the basis of motor vehicle licenses. Also, the two major sources of local tax revenues -- property and sales taxes -- were separately apportioned between households and business. The local sales tax was apportioned on the basis of the ratios described above for allocating the state sales and tax. The allocation of the residential portion of the property tax by income class is shown in Table A-6. The allocation assumed that property taxes on renter-occupied housing units were shifted forward and that such average taxes generally were smaller than those on owner-occupied units of families of comparable income and household size. The 1982 Colorado Statistics of Income report on individual income tax returns filed in fiscal year 1982 provided the basic data on household real estate tax deductions taken on itemized returns classified by adjusted gross income. The ratio of taxpayers reporting such deductions to the total number of taxpayers in each income stratum varied directly and significantly with the level of income.

TABLE A-1. SUMMARY OF STATE AND LOCAL TAXES AS REPORTED BY STATE AGENCIES,[a] FISCAL YEARS 1972-1982

	Fiscal Years				
	1972	1977	1980	1981	1982
	(Money amounts in millions of dollars)				
State Taxes					
Income Taxes[b]	$ 210.0	$ 436.0	$ 600.5	$ 543.1	$ 641.0
Sales and Use Taxes	187.8	342.9	509.4	528.6	612.9
Highway User Taxes	114.6	145.4	167.0	165.0	196.6
Insurance Tax	16.2	27.8	39.9	40.9	46.7
Cigarette Taxes	14.4	17.7	17.9	19.4	19.2
Alcohol Beverage Taxes	13.4	19.9	23.6	24.1	25.3
Severance Taxes	.6	2.2	23.9	32.6	49.2
Other Business Taxes	11.4	17.3	16.0	19.6	21.6
Total State Taxes	$ 568.4	$1,009.2	$1,398.2	$1,373.2	$1,612.5
Local Taxes					
Property Taxes	$ 492.0	$ 791.1	$ 977.4	$1,120.6	$1,217.4
Sales and Use Taxes	72.0	170.4	285.0	326.3	406.7
Cigarette Taxes	3.0	15.6	16.9	17.7	18.0
Specific Ownership Tax	10.8	16.2	24.5	27.0	31.0
Denver Occupation Tax	9.2	11.5	13.0	13.2	14.1
Other Business Taxes	17.9	29.4	50.9	58.8	69.6
Total Local Taxes	$ 604.9	$1,034.2	$1,367.7	$1,563.6	$1,756.8
Total State and Local Taxes					
Property Taxes	$ 492.0	$ 791.1	$ 977.4	$1,120.6	$1,217.4
Sales and Use Taxes	259.8	513.3	794.4	854.9	1,019.6
Income Taxes[b]	210.0	436.0	600.5	543.1	641.0
Highway User Taxes[c]	125.4	161.6	191.5	192.0	227.6
Other Business Taxes[d]	55.3	88.2	143.7	165.0	201.2
Other Excise Taxes[e]	30.8	53.2	58.4	61.2	62.5
Total State and Local Taxes	$1,173.3	$2,043.4	$2,765.9	$2,936.8	$3,369.3

As reported by the Colorado Department of Revenue, the Division of Accounts and Control, the Division of Property Taxation and the Department of Local Affairs.

Includes surtax and corporate income tax.

Includes local specific ownership tax.

Includes insurance, severance, corporate franchise, occupation, miscellaneous regulatory business taxes.

Cigarette and alcoholic beverage taxes.

TABLE A-2. SUMMARY OF COLORADO STATE AND LOCAL TAXES AS ADJUSTED FOR COLORADO TAX PROFILE STUDY, FISCAL YEARS 1972-1982

	Fiscal Years				
	1972	1977	1980	1981	1982
	(Money amounts in millions of dollars)				
State Taxes					
Income Taxes[a]	$ 189.5	$ 390.0	$ 537.3	$ 523.0	$ 558.7
Sales and Use Taxes	176.9	333.1	495.2	504.5	584.4
Highway User Taxes	109.1	137.3	158.2	156.8	184.1
Insurance Tax	16.2	27.8	39.9	40.9	46.7
Cigarette Taxes	13.6	16.8	17.1	18.2	18.1
Alcohol Beverage Taxes	11.8	17.5	21.0	21.0	22.2
Severance Taxes	.6	2.2	21.2	27.7	41.9
Other Business Taxes	8.0	13.8	10.9	11.3	12.7
Total State Taxes	$ 525.7	$ 938.6	$1,300.8	$1,303.4	$1,468.7
Local Taxes					
Property Taxes	$ 492.0	$ 782.2	$ 961.7	$1,102.6	$1,201.9
Sales and Use Taxes	68.3	165.1	277.5	315.6	394.3
Cigarette Taxes	2.9	14.8	16.1	16.6	16.9
Specific Ownership Tax	10.8	16.2	24.5	27.0	31.0
Denver Occupation Tax	4.1	5.1	5.8	5.8	6.2
Other Business Taxes	17.9	29.4	50.8	58.8	69.6
Total Local Taxes	$ 596.0	$1,012.8	$1,336.4	$1,526.4	$1,720.0
Total State and Local Taxes					
Property Taxes	$ 492.0	$ 782.2	$ 961.7	$1,102.6	$1,201.9
Sales and Use Taxes	245.2	498.2	772.7	820.1	978.7
Income Taxes[a]	189.5	390.0	537.3	523.0	558.7
Highway User Taxes[b]	119.9	153.5	182.7	183.8	215.1
Other Business Taxes[c]	46.8	78.4	128.6	144.5	177.1
Other Excise Taxes[d]	28.3	49.1	54.2	55.8	57.2
Total State and Local Taxes	$1,121.7	$1,951.4	$2,637.2	$2,829.8	$3,188.7

[a] Includes surtax and corporate income tax.

[b] Includes local specific ownership tax.

[c] Includes insurance, severance, corporate franchise, occupation, miscellaneous regulatory business taxes.

[d] Cigarette and alcoholic beverage taxes.

TABLE A-3. SUMMARY OF COLORADO STATE TAXES ALLOCATED BETWEEN HOUSEHOLDS AND BUSINESS, FISCAL YEARS 1972-1982

	Fiscal Years				
	1972	1977	1980	1981	1982
	(Money amounts in millions of dollars)				
Reported Net Tax Collections	$568.4	$1,009.2	$1,398.2	$1,373.2	$1,612.5
Adjustments					
Non-tax Revenues	-5.6	-7.6	-8.2	-17.2	-23.0
Excess of tax collections over tax liabilities	-19.5	-40.0	-62.3	-20.7	-84.8
Non-resident tax collections	-27.2	-36.5	-46.2	-50.4	-57.9
Vendor's discounts on sales and excise taxes	+9.6	+13.5	+19.3	+18.5	+21.9
Total Adjustments	-42.7	-70.6	-97.4	-69.8	-143.8
Total State Taxes	$525.7	$ 938.6	$1,300.8	$1,303.4	$1,468.7
Taxes on Resident Households					
Individual Income[a]	$156.2	$ 332.5	$ 437.6	$ 424.0	$ 483.1
Sales and use	104.3	218.7	304.8	300.7	348.4
Highway User[b]	68.7	78.5	87.8	85.0	101.2
Cigarette	13.6	16.8	17.1	18.2	18.1
Alcohol Beverage	11.7	17.5	21.0	21.0	22.2
Total Household Taxes	$354.5	$ 664.1	$ 868.3	$ 848.9	$ 973.0
Taxes on Business					
Corporate Income[c]	$ 33.3	$ 57.5	$ 99.7	$ 99.0	$ 75.6
Sales and Use	72.6	114.4	190.4	203.8	236.0
Highway User[d]	40.5	58.8	70.4	71.8	82.8
Insurance	16.2	27.8	39.9	40.9	46.7
Severance	.6	2.2	21.2	27.7	41.9
Other Business Taxes[e]	8.0	13.8	10.9	11.3	12.7
Total Business Taxes	$171.2	$ 274.5	$ 432.5	$ 454.5	$ 495.7

[a] Includes surtax.

[b] Includes allocated portion of fuel taxes, motor vehicle licenses and operator's fees, and safety inspections and other motor vehicle fees.

[c] Includes fiduciaries.

[d] In addition to allocated portion of highway user taxes listed above, includes special fuel and gross ton mile taxes.

[e] Includes franchise and all other regulatory business taxes.

TABLE A-4. SUMMARY OF COLORADO LOCAL TAXES ALLOCATED BETWEEN HOUSEHOLDS AND BUSINESS, FISCAL YEARS 1972-1982

	Fiscal Years				
	1972	1977	1980	1981	1982
	(Money amounts in millions of dollars)				
Reported Net Tax Collections	$604.9	$1,034.2	$1,367.7	$1,563.7	$1,756.8
Adjustments					
Nonallocable taxes[a]	-5.1	-6.4	-7.3	-7.4	-7.9
Non-resident Taxes	-6.0	-11.4	-17.1	-22.4	-25.8
Old age property tax credit	--	-8.9	-15.7	-17.9	-15.4
Vendor's discounts on sales and excise taxes	+2.2	+5.3	+8.8	+10.5	+12.4
Total Adjustments	-8.9	-21.4	-31.3	-37.2	-36.8
Total Local Taxes	$596.0	$1,012.8	$1,336.4	$1,526.4	$1,720.0
Taxes on Resident Households					
Residential Property	$254.2	$ 382.0	$ 479.8	$ 589.4	$ 633.4
Sales and Use	42.2	110.7	176.2	187.5	233.8
Cigarette	2.9	14.8	16.1	16.6	16.9
Specific Ownership Tax	7.6	11.3	17.2	18.9	21.7
Total Household Taxes	$306.9	$ 518.9	$ 689.3	$ 812.4	$ 905.8
Taxes on Business					
Non-Residential Property	$237.8	$ 400.2	$ 481.9	$ 513.2	$ 568.5
Sales and Use	26.1	54.4	101.3	128.1	160.5
Other Business Taxes[b]	25.2	39.3	63.9	72.7	85.2
Total Business Taxes	$289.1	$ 493.9	$ 647.1	$ 714.0	$ 814.2

[a]Represents employee's share of Denver Occupation Tax.

[b]Includes business shares of Specific Ownership Tax and Denver Occupation Tax.

TABLE A-5. APPORTIONMENT OF COLORADO STATE SALES AND HIGHWAY USER TAXES BETWEEN HOUSEHOLDS AND BUSINESS, FISCAL YEAR 1982

	Ratio of Households to Business	Dollar Amounts (Thousands)		
		Total	Households	Business
A. Sales and Use Taxes:				
Food and apparel	100/0	$ 45,444	$ 45,444	--
Personal services and miscellaneous retail trade	95/5	105,724	100,437	5,287
General mdse., furniture, applicances, autos, auto parts and accessories, hotels and lodgings	90/10	138,791	124,913	13,878
Eating and drinking places	80/20	54,070	43,256	10,814
Hotels and lodging	60/40	13,743	8,246	5,497
Finance, insurance and real estate, NCE	50/50	3,815	1,908	1,907
Electric, gas, communications, transportation, utilities	25/75	32,811	8,203	24,608
Bldg. materials, hardware and farm equipment	15/85	36,627	5,494	31,133
Agr., mining, construction, manuf., whsle. trade	0/100	94,647	--	94,647
Net Sales Tax		$525,672	$337,901	$187,771
Less: Non-resident tax	100/0	-32,400	-32,400	--
Plus: Net use tax	43/57	73,127	31,737	41,390
Vendor's Discounts (Res)	62/38	17,962	11,128	6,834
Total Resident Sales and Use Tax	60/40	$584,361	$348,366	$235,995
B. Highway User Taxes				
Motor fuel taxes	75/25	$122,049	$ 91,537	$ 30,512
Motor vehicle operators licenses and other fees	70/30	33,431	23,402	10,029
Special fuel and ton-mile taxes	0/100	41,076	--	41,076
Reported Highway User Taxes		$196,556	$114,939	$ 81,617
Less: Non-resident motor fuel taxes	100/0	-15,731	-15,731	--
Plus: Vendor's discounts on motor fuel	72/28[a]	2,837	2,038	799
Vendor's discounts on special fuel	0/100	432	--	432
Total Resident Highway User Taxes	55/45	$184,094	$101,246	$ 82,848

[a] Inclusive of non-residents, the ratio was 75/25.

TABLE A-6. DERIVATION OF COLORADO RESIDENTIAL PROPERTY TAXES, FISCAL YEAR 1982

	Adjusted Gross Income Classes					
	Under $5,000	$5,000 to $15,000	$15,000 to $25,000	$25,000 to $50,000	$50,000 and Over	Total
Number of Resident Returns:						
With real estate tax deductions on itemized returns	13,075	79,711	127,457	235,106	53,616	508,965
All other households	332,353	318,003	129,345	46,369	4,002	820,072
Total number of households	335,428	397,714	256,508	281,475	57,618	1,329,037
Percent of total with real estate tax deductions on itemized returns	3.9%	20.0%	49.6%	83.5%	93.1%	38.3%
Average Property Taxes:						
Average property tax on returns with real estate tax deductions	$ 642	$ 552	$ 578	$ 745	$ 1,282	--
Average property tax imputed to all other households	$ 249	$ 313	$ 388	$ 552	$ 1,140	--
Total Property Taxes (in Thousands):						
Households with itemized deductions	$ 8,388	$ 43,968	$ 73,699	$175,263	$68,747	$ 370,065
All other households	80,266	99,560	50,186	25,596	4,562	260,170
Total Tax Unadjusted	$88,654	$143,528	$123,885	$200,859	$73,309	$ 630,235
Percent Distribution of Total Tax	14.07%	22.77%	19.66%	31.87%	11.63%	100.0%
Distribution of CTPS Property Tax	$91,294	$147,745	$127,566	$206,791	$75,463	$ 648,859
Less: Old Age Property Tax Credit	-14,796	-646	--	--	--	-15,442
Net Property Tax	$76,498	$147,099	$127,566	$206,791	$75,463	$ 633,417

APPENDIX B

DERIVATION OF HOUSEHOLD INCOME AND ALLOCATION OF TAXES BY MAJOR INCOME CLASSES

The extent to which a "tax profile" corresponds to the actual burden of state and local taxes borne by the poor, the middle class and the rich depends not only on how accurately the income and tax data are measured, but on the validity of the income concept and the reasonableness of the tax allocators developed for the analysis. This appendix describes both the income measure and tax allocations used for this study.

Income Measures for Tax Burden Analysis

It is generally recognized that the adjusted gross income reported on tax returns is not an adequate measure of income for tax burden analysis because of differences between the economic and statutory definitions of income. The latter excludes various forms of money income which are considered to be primarily transfer payments, such as public and private welfare payments, social security payments, veterans beneftis, and unemployment compensation. In contrast, the economic concept of income (e.g., the personal income measure in the national income accounts), in addition to transfer payments, includes sundry forms of imputed income, such as imputed rent on owner-occupied residences and interest on insurance and savings. The magnitude of the difference between these measures for Colorado is indicated by the fact that for fiscal 1982 the total adjusted gross income reported on state income tax returns represented only 72 percent of the total personal income for Colorado as estimated by the U.S. Department of Commerce.1

Intermediate measures of money income also have been based on sample surveys conducted by government agencies. Such money income measures are generally in accord with the popular concept of income since they exclude imputed income but include nontaxable money transfers as well as tax exempt interest, dividends and capital gains.

In order to obtain an alternative measure which would more closely correspond to the conventional concept of income and provide a broader base than the adjusted gross income reported on Colorado income tax returns, an adjusted broad income measure was developed. A recent study by the Bureau of the Census provides a detailed analysis of household money income for all families and unrelated individuals in the United States for 1981.[2] In this report the sources of income were classified by Census money income levels. After converting the money income into corresponding adjusted gross income classes, the Census allocation of transfer income was applied to the total money transfers received by Colorado households in 1981, as estimated by the U.S. Department of Commerce.[3]

In addition to the above money transfer income adjustment, the CTPS adjusted broad income measure includes an estimate of the tax exempt capital gains, dividends, interest and other money income statutorily excluded from adjusted gross income. An estimate of such income for Colorado was derived from the "tax expenditure" data presented in the U.S. Treasury, Special Budget Analysis, Fiscal Year 1981.[4] Non-transfer money income excluded from adjusted gross income, in turn, was allocated among the income strata on the basis of the distribution of family property income reported by the Bureau of the Census and excluded capital gains income reported by the Internal Revenue Service.[5]

A summary of the final adjustments made to the CTPS 1982 adjusted gross income in order to derive the corresponding adjusted broad income used as the alternative base is shown in the following table:

TABLE B-1. DERIVATION OF ADJUSTED BROAD INCOME FOR THE COLORADO TAX PROFILE STUDY, FISCAL YEAR 1980

Income Classes	A Average Adjusted Gross Income	B Ratio of Excluded Tax Exempt Income[a]	C Ratio of Excluded Transfer Income	D Income Expansion Factor (1+B+C)	E Average Broad Income (AxD)
Under $5,000	$ 2,098	.0331	1.2658	2.2989	$ 4,822
$5,000 to $15,000	9,653	.0367	.2901	1.3268	12,808
$15,000 to $25,000	19,715	.0358	.1119	1.1477	22,627
$25,000 to $50,000	34,181	.0433	.0702	1.1135	38,061
$50,000 and over	81,442	.0986	.0471	1.1457	93,308
Totals[b]	$17,998	.0512	.1450	1.1962	$21,528

[a]Capital gains, dividends and interest on public debt.

[b]Weighted totals and ratios based on total dollar amounts.

The Consumer Expenditure Profile

In order to allocate Colorado state and local expenditure taxes on retail sales, cigarettes, liquor and gasoline as well as business taxes shifted forward to consumers, it was necessary to develop an appropriate consumer expenditure profile of Colorado household expenditures, classified by household income level. The most comprehensive data on consumer spending by American households are provided by the U.S. Bureau of Labor Statistics' consumer expenditure surveys for 1972 and 1973.[6] The household expenditure and income data contained in these reports were used as the basis for allocating the sales, excise and indirect business taxes among households after the income measures were made comparable and the expenditure outlays were updated for price inflation. In accord with the definitions of taxable commodities and services under Colorado's present statutes, the estimated average household expenditures were classified into taxable and nontaxable categories. These average data were then used to derive the total expenditures for each major category of spending, classified by income level, in order to obtain the current patterns of consumption expenditures of Colorado households.

The specific 1982 consumer expenditure-income ratios developed for the CTPS analysis are summarized below:

TABLE B-2. RATIOS OF CONSUMER EXPENDITURES TO ADJUSTED GROSS AND BROAD INCOMES USED IN THE COLORADO TAX PROFILE STUDY, FISCAL YEAR 1982

	Colorado Consumer Expenditures as Ratios of:			
	Adjusted Gross Income		Adjusted Broad Income	
Income Classes	Taxable Expenditures	Total Expenditures	Taxable Expenditures	Total Expenditures
Under $5,000	1.424	3.403	.619	1.480
$5,000 to $15,000	.675	1.372	.509	1.034
$15,000 to $25,000	.564	1.080	.492	.941
$25,000 to $50,000	.433	.838	.389	.752
$50,000 and over	.305	.589	.266	.514
Total	.504	1.002	.421	.837

Tax Allocators Used for Burden Analysis

The allocations of individual state and local taxes by income class were made on the following basis:

- Individual income tax -- allocation obtained directly from the CTPS independent analysis of a stratified, random sample of 1981 Colorado individual income tax returns filed in fiscal year 1982 and prepared by the Department of Revenue for the companion report, Colorado Statistics of Income, 1982. A description of the sample and its statistical reliability is presented in Appendix B of that report.

- Sales and use taxes -- the direct portions of state and local sales taxes were allocated on the basis of ratios of taxable consumer expenditures to adjusted gross income developed from U.S. Bureau of Labor Statistics, 1973 Survey of Consumer Expenditures updated for inflation. The indirect portions of these taxes were allocated by total consumer expenditure ratios since such taxes represent business costs assumed to have been shifted forward to consumers.

- Excise taxes -- the cigarette, alcoholic beverage, specific ownership and the direct portions of highway user taxes also were allocated on the basis of updated Survey of Consumer Expenditure data. Ratios of consumer expenditures for these particular items to adjusted gross income were developed and applied to the CTPS tax data. The indirect portion of the highway user taxes was allocated on the basis of total consumer expenditure ratios.

- Property taxes -- the allocations of residential property taxes by income classes were based on the CTPS individual income tax analysis which provided detailed data on the number and amount of real estate tax deductions reported on itemized returns. Non-residential property taxes were allocated on the same basis as other business taxes, i.e., the ratios of total consumer expenditures to adjusted gross income.

- Corporate income tax -- one-half of this tax was assumed to be shifted forward to consumers and allocated on the same basis as the other indirect taxes described above. The remainder was assumed to be borne by equity stockholders and allocated on the basis of the distribution of family property income reported by the Bureau of the Census.

- Other business taxes -- this category includes all taxes levied on business firms other than the corporate income tax. As in the case of all other business costs, these business taxes were assumed to be indirectly borne by households and accordingly were allocated on the basis of the ratios of total consumption expenditures to income.

APPENDIX B - Footnotes:

1. U.S. Department of Commerce, Survey of Current Business, August 1980.

2. U.S. Bureau of the Census, Money Income of Households, Families, and Persons in the United States: 1981, Consumer Population Reports, Series P-60, No. 137, Washington, D.C. Unpublished data on the components of money income received by unrelated individuals in 1981 were provided by the Census Bureau.

3. U.S. Department of Commerce, Survey of Current Business, August 1982.

4. U.S. Treasury, Special Analysis: Budget of the U.S. Government, Fiscal Year 1981, Washington, D.C.

5. Internal Revenue Service, Statistics of Income--1980 Individual Income Tax Returns, Washington, D.C., 1982.

6. U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey: Diary Survey, July 1972-June 1973, Bulletin 1959, Washington, D.C., 1977; and Consumer Expenditure Survey Series: Interview Survey, 1972-73, Report 455-4, Washington, D.C, 1977.

MEMORANDUM NO. 2

July 26, 1983

TO: Committee on Fiscal Policy

FROM: Legislative Council Staff

SUBJECT: Old Age Pension Fund

This memorandum provides background information and data on the Old Age Pension Fund (OAPF). Two associated funds, the Old Age Pension Stabilization Fund and the Old Age Pension Health and Medical Care Fund, are also described, but the focus of the memo is on the OAPF. The constitutional and statutory provisions which are cited have been appended.

OLD AGE PENSION FUND

Constitutional and Statutory Provisions

In November 1936, the voters approved Article XXIV of the Colorado Constitution. This article created the Old Age Pension Fund and set forth some basic guidelines concerning the fund. The 1936 constitutional provisions were amended by a vote of the people in 1956.

In addition to the constitutional provisions mentioned above, the Colorado statutes contain provisions regarding the OAPF. The relevant sections are 26-2-111 (2) and 26-2-112 through 117, C.R.S. 1973.

Sources of Revenues

Section 2, Article XXIV of the Colorado Constitution provides that the following monies must be allocated to the OAPF:

-- 85 percent of all sales, use and excise taxes;
-- 85 percent of retail license fees;
-- 85 percent of liquor taxes and license fees connected therewith;
-- any federal grants for old age assistance; and
-- all estate taxes and incorporation fees.

Any monies left in the OAPF after paying awards are transferred to the Old Age Pension Stabilization Fund. The stabilization fund is required to be maintained at $5 million. Monies in the stabilization fund are used solely to stabilize payments of old age pension awards.

After satisfying the OAPF and stabilization fund requirements, the remaining funds are transferred to the Old Age Pension Health and Medical Care Fund. Monies in this fund, up to $10 million annually, are used to provide health and medical care to persons who qualify for old age pensions (except those in tuberculosis or mental institutions). The remaining monies flow into the general fund.

The sequence described above may be best illustrated by the following diagram.

$ → OAPF → Stabilization Fund → Health and Medical Fund → General Fund

Eligibility Requirements

In order to receive OAPF benefits, a person must meet certain requirements. The person:

-- must be a citizen of the United States;
-- must be a resident of Colorado;
-- must be 60 years of age or older;
-- must have insufficient income, property or other resources as determined by the Department of Social Services;
-- must not, while receiving benefits or within five years of applying for such benefits, make a voluntary assignment or transfer of property for the purpose of rendering himself eligible; and
-- must not be an inmate of a penal institution (section 26-2-111).

It should be noted that if a person's total income exceeds the total maximum award, he is not eligible for assistance.

Types and Amounts of Awards

There are five types of benefits funded by the OAPF: basic minimum award, home care, adult foster care, winter utilities and funeral/burial. The home care and funeral/burial awards should be self-explanatory. The adult foster care award is to help defray room, board and other costs at certified facilities. The basic minimum award is a monthly benefit for eligible persons. Finally, the monthly winter utility award is to help eligible persons pay utility expenses and is only distributed from December through April.

The actual and projected maximum awards allowed for each of these benefits from FY 1981 through FY 1985 are enumerated below. When reviewing this table several items should be noted:

-- Except for funeral/burial expenses, these awards are all paid on a monthly basis.

-- The basic minimum award is set by the constitution (Section 6, Article XXIV) and statute (section 26-2-114) at $100, but it is allowed to be adjusted upwards by the Department of Social Services twice a year.

-- Adult foster care and home care awards may also be adjusted. Winter utility awards are statutorily set at $32 per month and funeral and burial awards have a maximum statutory limit of $500 and $200 respectively.

-- A person may receive a combination of these rewards.

-- Except for winter utility awards, the amount actually received by any one person depends on a number of factors including the person's resources and earned and unearned income. Awards are reduced by income according to a formula. Winter utility awards of $32 per person are reduced to $16 for a married couple if both are qualified to receive an old age pension.

MAXIMUM OAPF AWARDS
FY 1981 THROUGH FY 1985

Award	FY 1981 Actual	FY 1982 Actual	FY 1983 Actual
Basic Minimum	$293 (7-80) 307 (12-80)	$326 (7-81) 337 (12-81)	$341 (7-82) 352 (12-82)
Home Care	260	278	$295
Adult Foster Care	140	150	159
Winter Utilities	32	32	32
Funeral/Burial	500 (f) 200 (b)	500 (f) 200 (b)	500 (f) 200 (b)

Award	FY 1984 Projected	FY 1985 Projected
Basic Minimum	$364 (7-83) 374 (1-84)	$382 (7-84) 391 (1-85)
Home Care	310	325
Adult Foster Care	167	175
Winter Utilities	32	32
Funeral/Burial	500 (f) 200 (b)	500 (f) 200 (b)

Actual and Projected Expenditures

The table below provides a breakdown of the actual OAPF expenditures during fiscal years 1981 and 1982 as well as the projected expenditures for fiscal years 1983 through 1985. To get a full picture of monies distributed for old age pensioners, one must add to the OAPF total the $10 million in state funds which are annually allocated through the Old Age Pension Health and Medical Care Fund and any monies which are placed in the stabilization fund to maintain it at the $5 million level.

OLD AGE PENSION FUND
ACTUAL AND PROJECTED EXPENDITURES
FY 1981 THROUGH FY 1985

Award	FY 1981 Actual	FY 1982 Actual	FY 1983 Projected
Basic Award	$21,930,797	$24,294,080	$23,978,876
Home Care	1,522,619	2,591,241	4,430,340
Adult Foster Care	42,558	77,494	118,889
Funeral/Burial	147,335	142,360	155,000
Winter Utilities	3,329,250	3,402,336	3,370,624
Total	$26,972,559	$30,508,511	$32,053,729

Award	FY 1984 Projected	FY 1985 Projected
Basic Award	$26,165,568	$28,458,912
Home Care	6,353,650	8,506,710
Adult Foster Care	168,461	225,234
Funeral/Burial	155,000	155,000
Winter Utilities	3,566,700	3,716,700
Total	$36,409,379	$41,062,566

Number of Recipients

The average number of recipients of OAPF benefits for actual FY 1981 through projected FY 1985 are provided below on a monthly basis. Data is not available on the number of those receiving funeral/burial awards.

AVERAGE MONTHLY NUMBER OF OAPF RECIPIENTS
FY 1981 THROUGH FY 1985

Award	FY 1981 Actual	FY 1982 Actual	FY 1983 Projected
Basic Minimum	23,129	24,214	23,778
Home Care	561	985	1,689
Adult Foster Care	39	68	84
Winter Utilities	22,912	23,395	23,034

Award	FY 1984 Projected	FY 1985 Projected
Basic Minimum	24,778	25,778
Home Care	2,277	2,899
Adult Foster Care	119	149
Winter Utilities	23,778	24,778

COLORADO CONSTITUTION

OLD AGE PENSION

Article XXIV

Section 1. Fund created. A fund to be known as the old age pension fund is hereby created and established in the treasury of the state of Colorado.

Added November 3, 1936; as amended November 6, 1956. (See Laws 1937, p. 881; Laws 1957, p. 554.)

Section 2. Moneys allocated to fund. There is hereby set aside, allocated and allotted to the old age pension fund sums and money as follows:

(a) Beginning January 1, 1957, eighty-five percent of all net revenue accrued or accruing, received or receivable from any and all excise taxes now or hereafter levied upon sales at retail, or any other purchase transaction; together with eighty-five percent of the net revenue derived from any excise taxes now or hereafter levied upon the storage, use, or consumption of any commodity or product; together with eighty-five percent of all license fees imposed by the provisions of sections 138-6-1 to 138-6-42, both inclusive, of Colorado Revised Statutes 1953, and amendments thereto; provided, however, that no part of the revenue derived from excise taxes now or hereafter levied, for highway purposes, upon gasoline or other motor fuel, shall be made a part of said old age pension fund.

(b) Beginning January 1, 1957, eighty-five percent of all net revenue accrued or accruing, received or receivable from taxes of whatever kind upon all malt, vinous, or spirituous liquor, both intoxicating and non-intoxicating, and license fees connected therewith.

(c) All unexpended money in any fund of the state of Colorado, or political subdivision thereof, as of January 1, 1957, which prior to said date has been allocated to the payment of an old age pension.

(d) All grants in aid from the federal government for old age assistance.

(e) All inheritance taxes and incorporation fees appropriated under 101-2-2 to 101-2-4, both inclusive, Colorado Revised Statutes 1953, for old age pensions.

(f) Such other money as may be allocated to said fund by the general assembly.

Added November 3, 1936; as amended November 6, 1956. (See Laws 1937, p. 881; Laws 1957, p. 554.)

Section 3. Persons entitled to receive pensions. From and after January 1, 1957, every citizen of the United States who has been a resident of the state of Colorado for such period as the general assembly may determine, who has attained the age of sixty years or more, and who qualifies under the laws of Colorado to receive a pension, shall be entitled to receive the same; provided, however, that no person otherwise qualified shall be denied a pension by reason of the fact that he is the owner of real estate occupied by him as a residence; nor for the reason that relatives may be financially able to contribute to his support and maintenance; nor shall any person be denied a pension for the reason that he owns personal property which by law is exempt from execution or attachment; nor shall any person be required, in order to receive a pension, to repay, or promise to

repay, the state of Colorado any money paid to him as an old age pension.

Added November 3, 1936; as amended November 6, 1956. (See Laws 1937, p. 882; Laws 1957, p. 555.)

Section 4. The state board of public welfare to administer fund. The state board of public welfare, or such other agency as may be authorized by law to administer old age pensions, shall cause all moneys deposited in the old age pension fund to be paid out as directed by this article and as required by statutory provisions not inconsistent with the provisions hereof, after defraying the expense of administering the said fund.

Added November 3, 1936; as amended November 6, 1956. (See Laws 1937, p. 883; Laws 1957, p. 555.)

Section 5. Revenues for old age pension fund continued. The excise tax on sales at retail, together with all license fees levied by the provisions of sections 138-6-1 to 138-6-42, both inclusive, Colorado Revised Statutes 1953, and amendments thereto, are hereby continued in full force and effect beyond the date on which said taxes and license fees would otherwise expire, and shall continue until repealed or amended; provided, however, that no law providing revenue for the old age pension fund shall be repealed, nor shall any such law be amended so as to reduce the revenue provided for the old age pension fund, except in the event that at the time of such repeal or amendment, revenue is provided for the old age pension fund in an amount at least equal to that provided by the measure amended or repealed during the calendar year immediately preceding the proposed amendment or repeal.

Added November 3, 1936; as amended November 6, 1956. (See Laws 1937, p. 883; Laws 1957, p. 555.)

Section 6. Basic minimum award. (a) Beginning on the effective date of this article, every person entitled to and receiving an old age pension from the state of Colorado under any former law or constitutional provision shall be entitled to receive the basic minimum award hereinafter provided for, without being required to make a new application therefor, and such basic minimum award shall be paid each month thereafter, so long as he remains qualified, to each person receiving an old age pension at the time of the adoption of this article, and such basic minimum award shall likewise be paid to each person who hereafter becomes qualified to receive an old age pension; subject, however, to the provisions of this article relating to net income from other sources.

(b) From and after the effective date of this article, the basic minimum award payable to those persons qualified to receive an old age pension shall be one hundred dollars monthly, provided, however, that the amount of net income, from whatever source, that any person qualified to receive a pension may have shall be deducted from the amount of the pension award unless otherwise provided by law.

(c) The state board of public welfare, or such other agency as may be authorized by law to administer old age pensions, shall have the power to adjust the basic minimum award above one hundred dollars per month if, in its discretion, living costs have changed sufficiently to justify that action.

Added November 3, 1936; as amended November 6, 1956. (See Laws

1937, p. 884; Laws 1957, p. 556.)

Section 7. Stabilization fund and health and medical care fund. (a) All the moneys deposited in the old age pension fund shall be first available for payment of basic minimum awards to qualified recipients, and no part of said fund shall be transferred to any other fund until such basic minimum awards shall have been paid.

(b) Any moneys remaining in the old age pension fund after full payment of such basic minimum awards shall be transferred to a fund to be known as the stabilization fund, which fund shall be maintained at the amount of five million dollars, and restored to that amount after any disbursements therefrom. The state board of public welfare, or such other agency as may be authorized by law to administer old age pensions, shall use the moneys in such fund only to stabilize payments of basic minimum awards.

(c) Any moneys remaining in the old age pension fund, after full payment of basic minimum awards and after establishment and maintenance of the stabilization fund in the amount of five million dollars, shall be transferred to a health and medical care fund. The state board of public welfare, or such other agency as may be authorized by law to administer old age pensions, shall establish and promulgate rules and regulations for administration of a program to provide health and medical care to persons who qualify to receive old age pensions and who are not patients in an institution for tuberculosis or mental disease; the costs of such program, not to exceed ten million dollars in any fiscal year, shall be defrayed from such health and medical care fund; provided, however, all moneys available, accrued or accruing, received or receivable, in said health and medical care fund, in excess of ten million dollars in any fiscal year shall be transferred to the general fund of the state to be used pursuant to law.

Added November 6, 1956. (See Laws 1957, p. 556.)

Section 8. Fund to remain inviolate. All moneys deposited in the old age pension fund shall remain inviolate for the purpose for which created, and no part thereof shall be transferred to any other fund, or used or appropriated for any other purpose, except as provided for in this article.

Added November 3, 1936; as amended November 6, 1956. (See Laws 1937, p. 884; Laws 1957, p. 557.)

Section 9. Effective date. This article shall be in force and effect from and after January 1, 1957.

Added November 6, 1956. (See Laws 1957, p. 557.)

COLORADO STATUTES

OLD AGE PENSION

26-2-111. Eligibility for public assistance. (2) Old age pension. (a) Public assistance in the form of the old age pension shall be granted to any person who meets the requirements of subsection (1) of this section and any one of the following requirements:

(I) He has attained the age of sixty years or more;

(II) REPEALED.

(III) He is an inmate of an institution, not penal in character, maintained by the state or by a municipality therein or county thereof, and he meets the requirements of subparagraph (I) of this paragraph (a). The period of confinement as a patient in such institution shall be considered as residence in the state of Colorado.

(b) No person otherwise qualified shall be denied the old age pension by reason of the fact that relatives may be financially able to contribute to his support and maintenance, but income and property of the spouse of an applicant or recipient of the old age pension shall be considered in determining eligibility pursuant to rules and regulations of the state department, which rules and regulations shall be based upon and relate to the need of the applicant or recipient.

26-2-112. Old age pensions for inmates of public institutions. (1) Except as otherwise provided in this section, the application procedure, the investigation of applications, the procedure for granting of pensions, and all other provisions of this article relating to the administration of old age pensions shall apply to the class of old age pensions provided in section 26-2-111 (2) (a) (III).

(2) Where an inmate of an institution, not penal in character, maintained by the state or by a municipality therein or county thereof, meets the requirements for the class of old age pensions provided in section 26-2-111 (2) (a) (III) and has been committed to said public institution by order of the district or probate court, the superintendent or chief administrative officer of such institution shall make application for such pension for and in behalf of said inmate in the same manner as provided in section 26-2-106.

(3) (a) (I) Assistance payments under the old age pension granted to an inmate of the Colorado state hospital at Pueblo, Colorado, or the state home and training school at Ridge, Pueblo, or Grand Junction, Colorado, shall be paid to the chief financial officer of the institution within which the inmate is confined. Such chief financial officer shall receive and disburse such pension funds as trustee for such inmate and shall account for the same to the state controller in the manner now prescribed by law for the handling and accounting of trust or quasi-trust funds.

(II) Such chief financial officer shall be required to furnish, at the state's expense, a surety bond in such amount as the department of institutions shall from time to time deem sufficient in the premises to protect such funds.

(III) It is the duty of such chief financial officer to pay monthly from the assistance payments under the old age pension, as prior claim therefrom, all lawful claims of said public institution for the care, support, maintenance, education, and treatment of said inmate in accordance with article 12 of title 27, C.R.S. 1973.

(b) Where assistance payments under the old age pension are granted to an inmate of an institution maintained by any county or municipality, such payments shall be paid to such conservator or guardian as the district or probate court of such county may appoint, and under and amendable to the statutes applicable to conservators and guardians when so appointed.

26-2-113. Funds for old age pensions. (1) The state old age pension fund and the moneys allocated thereto pursuant to the provisions of article XXIV of the state constitution shall include amounts received from the incorporation fees and inheritance taxes imposed pursuant to subsection (2) of this section.

(2) (a) In addition to all other fees, charges, and impositions now fixed by law, there shall be assessed and collected, by the governmental department, person, or party in charge under whose jurisdiction the present collection is now required by law, the following fees, charges, sums, and impositions, which fees, charges, sums, and impositions shall be set aside, allocated, and allotted to the old age pension fund:

(I) Ten percent additional amount of the fees which are due and paid to the secretary of state upon incorporation of any corporation or association for profit; and

(II) Ten percent additional upon the amount of any tax payable under the provisions of the inheritance tax laws of this state.

(b) In computing the amount of the additional tax or fee as provided in paragraph (a) of this subsection (2), the nearest multiple to five cents shall be taken in all cases.

(3) Any and all of such funds collected by any state official or state department pursuant to subsection (2) of this section shall be paid over by such official or department to the state treasurer, who on the first day of each month shall divide and pay the same into each of the county old age pension accounts of the county social services funds in this state on the pro rata basis which the population of the respective county has to the population of the entire state according to the last official United States census.

26-2-114. Amount of assistance payments - old age pension. (1) The basic minimum award payable to those persons qualified to receive an old age pension shall be one hundred dollars monthly; but the state board may adjust the said basic minimum award above one hundred dollars if, in its discretion, living costs have changed sufficiently to justify such adjustment.

(2) (a) The state board, with the consent of the general assembly, may provide, from funds available pursuant to article XXIV of the state constitution, for special needs in the form of adult foster care or home care for persons eligible to receive old age pensions. For purposes of this paragraph (a), "adult foster care" means the care and services defined in section 26-1-111 (2) (j), and "home care" means care provided to an eligible recipient in his own home pursuant to rules of the state department when the recipient

requires personal care that he is no longer able to provide for himself. Need for home care shall be certified by the recipient's attending physician. Home care provided pursuant to state department rules includes, but is not limited to, supervision of self-administered medications, exercise, assistance in personal hygiene and activities of daily living, and preparation of meals. This paragraph (a) shall take effect July 1, 1979.

(a.5) Effective July 1, 1979, the state board shall provide, from funds available pursuant to article XXIV of the state constitution, to each person qualified to receive an old age pension, the sum of thirty-two dollars each month for the months of December, January, February, March, and April to provide for the increased expense of providing heat and fuel as special needs during said winter months; except that a husband and wife residing together both of whom are qualified to receive an old age pension shall not receive between them more than thirty-two dollars for each of the aforementioned months.

(b) (I) The amount of net income from whatever source, either in cash or in kind, which any person qualified for an old age pension may receive shall be deducted from the amount of monthly pension which such person would otherwise receive. The rules and regulations of the state department may require an applicant or recipient who may be eligible for benefits under another federal or state program or who may have a right to receive or recover other income or resources to take reasonable steps to apply for, otherwise pursue, and accept such benefits, income, or resources.

(II) In computing said net income, the county department shall not consider the ownership of real estate occupied as a residence by the recipient as income. In addition, in computing said net income, the county department shall not consider as income funds received by or on behalf of the recipient from the federal government for rent supplementation or relocation payments or income earned by the recipient up to the maximum extent allowed by Title I, section 2, of the social security act.

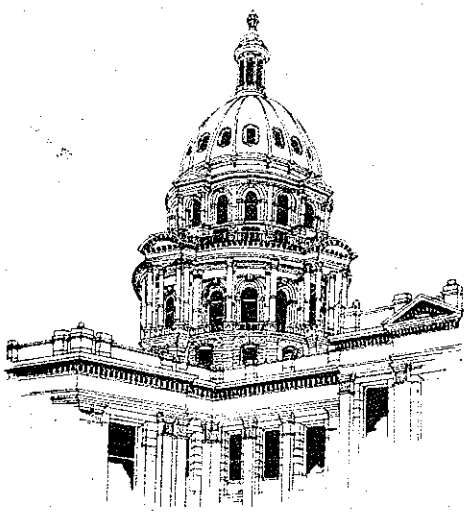
(III) Whenever the United States congress shall provide by law for a retroactive increase in monthly benefits under the old age, survivors, and disability provisions of the social security act, or for a retroactive increase in monthly benefits under the railroad retirement act, and the amount of such retroactive increase in monthly benefits shall be subsequently paid to an old age pension recipient in a lump sum, then the amount of such lump sum payment shall not be considered as income and shall not be deducted from the amount of monthly pension otherwise payable to such recipient for the month in which such lump sum payment is received.

(IV) Any special payment by the federal government in the form of a one-time-only credit against or refund of federal income taxes shall not be considered as income for purposes of this title unless required by federal law.

26-2-115. State old age pension fund - priority. All moneys deposited in the state old age pension fund shall be first available for payment of basic minimum awards to qualified old age pension recipients, and no part of said fund shall be transferred to any other fund until such basic minimum awards shall have been paid.

26-2-116. Old age pension stabilization fund. Any moneys remaining in the old age pension fund after full payment of basic minimum awards to qualified old age pension recipients shall be transferred to a fund to be known as the old age pension stabilization fund, which fund shall be maintained at the amount of five million dollars and restored to that amount after any disbursements therefrom. The state board shall use the moneys in such fund only to stabilize payments of old age pension basic minimum awards.

26-2-117. Old age pension health and medical care fund. Any moneys remaining in the state old age pension fund after full payment of basic minimum awards to qualified old age pension recipients and after establishment and maintenance of the old age pension stabilization fund in the amount of five million dollars shall be transferred to a fund to be known as the old age pension health and medical care fund, which is hereby created. The state department shall establish and promulgate rules and regulations for administration of a program to provide health and medical care to persons who qualify to receive old age pensions and who are not patients in an institution for tuberculosis or mental diseases. The costs of such program, not to exceed ten million dollars in any fiscal year, shall be defrayed from such health and medical care fund, but all moneys available, accrued or accruing, received or receivable, in said health and medical care fund in excess of ten million dollars in any fiscal year shall be transferred to the general fund of the state to be used pursuant to law.



COLORADO

LEGISLATIVE COUNCIL

Committee on

Tax Policy

Legislative Council
Research Publication No. 343

December, 1989

COLORADO LEGISLATIVE COUNCIL
RECOMMENDATIONS FOR 1990

COMMITTEE ON TAX POLICY

Legislative Council
Report to the
Colorado General Assembly

Research Publication No. 343
December, 1989

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LEGISLATIVE COUNCIL
ROOM 029 STATE CAPITOL
DENVER, COLORADO 80203-1784
(303) 866-3521

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Rep. Paul Schauer
Rep. Carol Taylor-Little
Rep. Ruth Wright

November 28, 1989

To Members of the Fifty-seventh Colorado General Assembly:

Submitted herewith is the final report of the Committee on Tax Policy. The committee was appointed by the Legislative Council pursuant to House Joint Resolution No. 1030, 1989 session.

At its meeting on November 9, the Legislative Council reviewed this report. A motion to forward the report and recommended bills of the Committee on Tax Policy to the Fifty-seventh General Assembly was also approved.

Respectfully submitted,

/s/ Representative Chris Paulson
Chairman, Colorado Legislative Council

CP/bj

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LEGISLATIVE COUNCIL

COMMITTEE ON PROPERTY TAX

Members of the Committee

Sen. Ted Strickland, Chairman
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Legislative Council Staff

Deb Godshall
Principal Analyst II

Nancy McCallin
Chief Economist

Gary Oman
Senior Economist

Office of Legislative Legal Services

Alice Ackerman
Assistant Director

Sharon Eubanks
Staff Attorney

Mark Van Ness
Staff Attorney

Summary Of Recommendations

The interim Committee on Tax Policy was directed to study the tax base of the state and local governments and the relationship of taxes to the long-term economic growth of the state and its communities. (House Joint Resolution 1030). The interim Committee on Tax Policy recommends a concurrent resolution and four bills.

Senate Concurrent Resolution A -- Constitutional Amendment -- Property Taxation

Senate Concurrent Resolution A submits to the voters of Colorado a proposed amendment to the state constitution. The amendment specifies the value for assessment of residential property to be 50 percent of market value. The value for assessment of all other property is 100 percent of market value.

This proposal also amends the state constitution to give the power of initiative to the citizens of counties, school districts, and special districts. The resolution limits the power of the initiative to changes in the property tax mill levy. No more than 15 percent of the registered voters, the actual percentage to be specified by statute, may be required to initiate a ballot proposal to either increase or decrease mill levies of counties, school districts, and special districts.

Bill 1 -- Sales and Use Taxes -- Out-of-State Retailers

Bill 1 provides for the collection of sales or use taxes imposed by the state on personal property purchased by Colorado residents from out-of-state retailers. The bill requires out-of-state retailers to collect local sales or use tax on these purchases. The authority to enforce collection is contingent upon federal enabling legislation.

Bill 2 -- Study of State and Local Taxes

Bill 2 authorizes a comprehensive study of state and local taxes. An advisory committee of ten members appointed by the President of the Senate and Speaker of the House of Representatives directs the study. The research director of the Legislative Council administers the contract for the performance of the study, which is to be delivered to the General Assembly by January 1, 1992.

Bill 3 -- Certification of County Assessors

Bill 3 requires assessors to be certified by the Board of Assessor Certification within two years of taking office. The bill creates the Board of Assessor Certification in the Department of Local Affairs. Members of the board will be compensated at the standard rate for boards and commissions.

The program is cash funded by fees paid by assessors seeking certification. (The bill also has an appropriations clause.) Assessor certification requires 55 hours of training and the successul completion of an examination. The bill establishes additional requirements for optional certification of assessors as residential appraisers or general appraisers.

Bill 4 -- Property Taxes

Bill 4 contains several changes to Colorado property tax laws. Changes are made in the schedule for protests and appeals. The bill clarifies when a property owner should use the abatement procedure rather than the appeals procedure. Assessors must give written explanation for an increase in actual value in an intervening year of more than 75 percent from the previous year. The price of new or used mobile homes must be provided when an application for certificate of title is made. The use of discount factors in valuing vacant land is extended up to 30 years from ten years under current law.

Summary Of Committee Activity

Committee Charge

House Joint Resolution 1030 charged the interim Committee on Tax Policy with studying the tax base of the state and local governments and the relationship of taxes to the long-term economic growth of the state and its communities. HJR 1030 directed the study to include, but not be limited to, the following:

- examination of the changing tax burdens on individuals and businesses imposed by the major state and local taxes;
- consideration of the changing burdens on the state and local governments in financing the provision of public services to the residents of Colorado;
- analysis of the optimum combination of broad-based state taxes and other state and local taxes in the financing of state and local government activities;
- identification of future trends which will create financial impacts on state and local governments within the next ten years and the ability of the tax base of state and local governments to respond to these trends; and
- examination of the rates, bases, credits, and exemptions of each major state and local tax.

Committee Activities and Findings

The committee met eight times and heard from state and local officials, administrators, and interested persons knowledgeable about state and local taxes and expenditures. The first six meetings were fact-finding hearings and the last two meetings concerned recommended legislation. The committee found the following issues to be relevant to the examination of the tax policy of the state.

Property Taxes

Consideration was given to assessment rates on residential and nonresidential properties and the use of the initiative to limit or increase property taxes at the local level. The committee evaluated two potential problem areas, the taxation of personal property and the taxation of vacant land. The need for the certification of assessors was also addressed.

Assessment rates. The committee reviewed the constitutional requirements for the assessment of residential and nonresidential property. Article X, section 3 of the Colorado Constitution requires that residential real property be assessed at a rate that ensures that the percentage of residential to total assessed value remains the same as it was in the year

preceding a reappraisal. This provision, added to the constitution in 1982, is commonly referred to as the "Gallagher Amendment." The effect of the provision is to require residential real property to total approximately 45 percent of total assessed property in the state. In 1982, the residential assessment rate was set at 21 percent of market value, while the assessment rate for all other properties, except oil and gas production, was set at 29 percent. Oil and gas properties are assessed at 87.5 percent of the value of annual production.

Since 1982, the rate at which residential property is assessed has steadily dropped in order to maintain its 45 percent share of total assessed value. The residential assessment rate was reduced to 18 percent in 1987 and to 16 percent in 1988 and was 15 percent for 1989. While the residential assessment rate has dropped, the assessment rate for other types of property has remained at 29 percent of actual value.

The decline in the residential assessment rate has resulted in an assessment rate on nonresidential properties nearly twice as high as on residential properties. Further declines in the residential assessment rate would place residential assessments below 50 percent of nonresidential assessments, a situation that could prove unhealthy for the continued economic development of the state because of the adverse impact of high assessments on small businesses and newly established enterprises.

The committee considered assessing all property at 100 percent of market value with a homestead exemption of 50 percent of market value up to a maximum of $50,000. For other types of residential property, such as rental property, another type of exemption tied to income tax credits was discussed. These changes would require an amendment to the state constitution.

The committee reviewed the income approach to determining the value of apartments. Testimony suggested that the income approach would improve the accuracy of valuing apartments, but the use of the income approach in valuing rental property would also require a constitutional change.

The committee recommends a concurrent resolution that recognizes a two-to-one ratio between the assessment rates of nonresidential and residential property. Establishing a fixed assessment rate for residential and nonresidential properties at 50 and 100 percent respectively will reduce some of the uncertainty in property taxes. As noted below, the concurrent resolution also provides for the use of the initiative in setting local government property tax mill levies.

The initiative power in property taxation. Testimony was provided on the 1988 initiative to limit state and local revenues and the expected initiative in 1990. Committee concerns were expressed that a statewide limitation on property tax revenues could be inappropriate if the problem was confined to certain districts or counties within the state. The committee recommends the power of the initiative be extended to residents of all local governments. Because residents of municipalities already have this right, the committee's proposal brings this right to residents of counties, school districts, and special districts. The initiative to change property tax mill levies is included in Senate Concurrent Resolution A.

Valuation of vacant land. Another topic addressed was the assessment of vacant land. Vacant land falls into several different categories, and administrative practices should take this into account.

After testimony regarding assessor practices in valuing platted vacant land, the committee voted to extend the time that assessors may use. Current law allows the use of present worth factors (discount factors) in valuing vacant land below 80 percent of buildout. However, section 39-1-103, C.R.S., states that the "time period shall not generally exceed ten years." Since market absorption rates can easily exceed ten years, the committee voted to recommend a 30 year maximum horizon.

Taxation of personal property. Personal property tax collections are a problem for county administrators and businesses because a large percentage of the tax bills are for small amounts of money. County treasurers, assessors, and business interests suggested that the first $200 of taxes due on personal property be exempt from taxation. This exemption would reduce administrative costs and, to a lesser degree, compliance costs. Personal property is approximately eight percent of total taxable property in the state.

The committee asked the Office of Legislative Legal Services for clarification on the constitutionality of a partial exemption on personal property taxes. Legislative Legal Services staff said that the courts have ruled that exemptions must be explicitly granted in the constitution. Thus, an exemption for personal property having a value of less than a specified amount probably would require an amendment to the state constitution.

Certification of assessors. In order to improve the professionalism of county assessors, the committee recommends that a certification program be required of assessors to be administered by a board in the Department of Local Affairs. At the time of the committee deliberations, a similar bill which applied to real estate appraisers was being considered in the Sunrise/Sunset Committee.

The bill does not require a candidate for the office of assessor to have a background in assessment or appraisal. However, the assessor must have taken course work and passed an examination on these topics within two years of taking office.

Trends in State and Local Taxes

The committee reviewed the level of Colorado state and local taxes in comparison with other states and the trends in General Fund revenues by tax category.

Colorado taxes compared with other states. Compared with other states, Colorado ranks low in the amount of state taxes collected and high in the amount of local taxes collected. In fiscal year 1987, the latest year for which statistics are available, Colorado ranked 41st among the states in state government tax collections per capita and 7th in local government tax collections per capita.

Rankings of state government tax collections per $1,000 of personal income show Colorado to be 47th. In contrast, Colorado placed 6th in local government tax collections

per $1,000 of personal income. In the overall rankings considering state and local taxes together, Colorado ranked 34th.†

The advisability of greater state government funding of programs now financed by local governments was also discussed. Several members said that increases in state support should be tied to reductions in local government reliance on property taxes. A greater state role in K-12 education and social services was reviewed. The committee recognized that local government discretion in tax and spending decisions is also an important consideration.

General Fund revenues. Colorado is increasingly reliant on individual income taxes to fund the General Fund. In fiscal year 1975-76, individual income taxes accounted for 38.8 percent of General Fund revenues. In fiscal year 1988-89, this proportion had increased to 52.7 percent of General Fund revenues. During the same period, revenues from excise taxes fell as a percent of General Fund revenues. In fiscal year 1975-76, excise taxes were 42.6 percent of General Fund revenues. In fiscal year 1988-89, excise taxes comprised 33.6 percent of General Fund revenues.

Gross General Fund Receipts by Tax Sources (in percent)

Fiscal Year	Excise Tax	Individual Income Taxes	Corporate Income Taxes	Other Receipts	Total
1976	42.6%	38.8%	8.0%	10.6%	100.0%
1977	43.7	38.8	8.4	9.2	100.0
1978	44.0	39.1	7.9	9.0	100.0
1979	44.3	36.8	8.4	10.5	100.0
1980	44.4	34.4	8.7	12.6	100.0
1981	45.9	36.4	6.4	11.2	100.0
1982	44.9	40.9	5.9	8.3	100.0
1983	44.6	45.1	4.3	6.1	100.0
1984	46.6	42.5	5.0	5.9	100.0
1985	41.9	46.7	4.0	7.4	100.0
1986	39.6	47.2	6.0	7.2	100.0
1987	37.2	49.7	6.3	6.8	100.0
1988	35.6	52.3	4.9	7.1	100.0
1989	33.6	52.7	6.7	6.9	100.0

Source: Controller's Annual Reports; Accounts and Control.

†Colorado Public Expenditure Council, How Colorado Compares, 1989 Edition.

Sales and Use Taxes

The need for a uniform sales and use tax base for the state and local governments within the state was evaluated. The committee also discussed taxing catalogue sales made to Colorado residents.

Sales and use tax base. Counties and municipalities have a sales tax base similar to the state, with exceptions in the taxation of food, residential utilities, and machine tools. A minority of counties and municipalities relying on sales tax revenues exempt the same items as the state.

Business and local government representatives testified on the advisability of a uniform sales tax base. Businesses favor a uniform base because the costs of compliance will be lower. Local governments oppose a uniform base because the large number of exemptions granted by the state has reduced the base on which the tax is collected.

A draft bill that would have broadened the state sales tax base by repealing most exemptions to sales and use taxes was considered but not recommended. The fiscal impact of ending the exemption on food sales, with restoration of an income tax credit for low-income families, was estimated to be $58.8 million. The estimated fiscal impact of repealing most other sales tax exemptions was $129.6 million. Extending the sales tax to cable television services, long-distance telephone calls, computer software, and recreational admissions would increase sales tax revenues an estimated $41.5 million. The bill was split into two bills so that the exemption on food for home consumption could be considered separately. Both bills later failed in committee.

Catalogue sales. Although sales taxes are due on out-of-state mail order purchases by Colorado residents, the collection of these taxes is rare because the state cannot require out-of-state retailers to collect sales and use taxes. The Supreme Court held in National Bellas Hess vs. the Illinois Department of Revenue that states could not compel out-of-state retailers to collect these taxes.

This decision would be overturned in a bill currently before Congress. The bill would allow states to require out-of-state firms to collect sales tax on purchases made to residents of their state. The committee recommends Bill 1 to allow the Department of Revenue to collect these taxes should Congress enact the enabling legislation. Should Bill 1 become law, Colorado would become one of approximately ten states to require the collection of sales taxes on catalogue sales.

Tax Policy Committee Advisory Committee

An advisory committee was formed to assist the committee in its charge to study state and local government tax issues. Members of the Tax Policy Committee nominated people to serve on the advisory committee and members of the committee were appointed by Senator Strickland from the list of nominees.

The advisory committee met eight times and discussed a wide range of tax policy issues. In October, the advisory committee voted to recommend a concurrent resolution and a bill to the Tax Policy Committee. The recommendations and background report of the advisory committee are appended to this report.

Other Topics Considered by the Tax Policy Committee

The Joint Rules of the Senate and House limited the number of bills to be recommended by the committee to four. The committee initially voted to recommend two bills, summarized below, before selecting the four recommended bills described in this report. The two bills that could not be recommended will be carried by individual members of the committee.

Limitation on state spending. The committee reviewed the current seven percent limit on state appropriations and voted to replace the fixed-percent limitation to a limitation tied to growth in Colorado personal income. The seven percent restriction on General Fund appropriations growth is found in section 24-75-201.1, C.R.S. This bill is not committee recommendation, however.

Truth in taxation. The committee reviewed the procedures for increasing property tax revenues by more than 5.5 percent by statutory municipalities and county governments under section 29-1-303, C.R.S. These procedures, called "truth in taxation," are scheduled for repeal January 1, 1990. After testimony from the Colorado Municipal League, Colorado Counties, Inc., and the Division of Local Government, the committee voted that the truth-in-taxation statutes should be continued. This bill is not committee recommendation, however.

COMMITTEE RECOMMENDATIONS

The following concurrent resolution and four bills are recommended for action in the 1990 session of the Colorado General Assembly.

Senate Concurrent Resolution A– Concerning the Power of the Initiative with Respect to Increases or Decreases in General Fund Mill Levies and Providing for the Valuation for Assessment of Residential and Nonresidential Land

Senate Concurrent Resolution A submits an amendment to the Colorado Constitution to the voters. If approved, the amendment will change current law in two areas.

Initiatives on Property Tax Mill Levies

Articles V and IX of the Colorado Constitution are amended to give the power of the initiative to the citizens of counties, school districts, and special districts. The initiative power is limited to changes in the property tax mill levy. Provisions for exercising the initiative power are to be specified by statute. No more than 15 percent of the registered voters will be required to propose a change in the mill levy.

The amendment also provides that if voters of a school district vote to decrease the mill levy, the state has no responsibility to make up the **decrease** in revenues. If the voters of a school district vote to **increase** the mill levy, the state has no responsibility to increase appropriations in order to equalize expenditures among school districts.

Property Tax Assessment Rates

Article X of the Colorado Constitution is amended to change the assessment rates of residential and nonresidential property. Residential property is to be assessed at 50 percent of actual value and all other types of property are to be assessed at 100 percent of actual value. Currently, real residential property tax are assessed at 15 percent of actual value and all other property is assessed at 29 percent of actual value. Oil and gas property is currently assessed at 87.5 percent of the value of its annual production.

Under the current law, the assessment rate on real residential property varies from year to year. Each reapprisal year the residential assessment rate must be set so that the assessed value of residential property is a fixed percentage of the total assessed value of all types of property. The proposed amendment ends this requirement. Residential property is assessed at a lower rate than other property, providing an exemption for homesteads and rental property.

Bill 1– Concerning the Collection of Sales and Use Taxes on Purchases by Colorado Residents from Out-of-State Retailers

Catalogue sales to Colorado residents by out-of-state firms are subject to sales and use taxes. However, the state cannot compel out-of-state retailers to collect these taxes. The U.S. Supreme Court, in a 1967 decision, National Bellas Hess v. Illinois Department of Revenue, 87 S.Ct. 1389, held that states could not require out-of-state mail order companies to collect sales and use taxes if the company had a limited presence in that state. Because out-of-state mail order companies do not collect sales taxes in these states, the mail order companies may have a competitive advantage compared to companies located within the state.

The strong growth of the mail order industry, coupled with innovations in telemarketing and cable television sales, means that increasing amounts of sales are not subject to Colorado sales taxes. Led by the National Conference of State Legislatures and the National Governors' Association, many states have moved to close the Bellas Hess loophole.

Bill 1 allows state and local governments to collect taxes due on catalogue sales, contingent upon federal enabling legislation. Several states have recently enacted legislation to enhance the tax compliance of out-of-state vendors including Arkansas, California, Florida, Louisiana, Nebraska, North Dakota, Ohio, Oklahoma, South Carolina, and South Dakota. A bill by Representative Jack Brooks of Texas (House Resolution 2230) authorizing states to require mail order companies to collect sales and use taxes will probably be debated in Congress in 1990.

Bill 1 has been drafted to use federal guidelines for in-lieu tax payments if the federal legislation allows this type of payment. The bill has a sunset provision that repeals the authority to require the collection of sales and use taxes on catalogue sales 24 months after the effective date of the federal legislation. If Bill 1 and federal legislation are enacted, the estimated increase in Colorado sales tax receipts is $22.8 million.

Bill 2– Concerning a Study of State and Local Taxes

Bill 2 authorizes a comprehensive review of state and local taxes, open to bid by public and private researchers. An advisory committee of ten members is appointed by the President of the Senate and Speaker of the House of Representatives. The research director of the Legislative Council administers the contract. The last comprehensive overview of state and local taxes in Colorado was the 1959 McNichols Study, named after then-Governor Stephen McNichols. According to the National Conference of State Legislatures, most states have conducted a tax study during the past ten years.

The advisory committee recommended the comprehensive review of state and local taxes. The advisory committee believes that a study of trends in state and local taxes will show an erosion of the tax base. The Tax Policy Committee voted to fund a comprehensive analysis with the following goals:

- to study the relationship of state and local taxes to long-term economic growth;
- to evaluate the tax burdens on individuals and businesses and how these burdens have changed over time;
- to examine the changing burdens on the state and local governments in providing government services;
- to analyze and recommend the best combination of broad-based and equitable taxes needed by the state and local governments of the state;
- to identify trends that will affect state and local government finances in the next ten years;
- to examine rates, bases, credits, and exemptions of state and local taxes; and
- to examine potential revenue and expenditure limitations for state and local governments.

The bill has a blank appropriations clause. The cost of the study could be between $350,000 and $500,000. The range of costs of recent studies in other states has been between $350,000 and $1,500,000. The study must be completed and delivered to the General Assembly by January 1, 1992.

Bill 3– Concerning the Certification of Assessors

Bill 3 creates the Board of Assessor Certification in the Department of Local Affairs and requires the certification of county assessors. Assessors do not need certification to run for office but must obtain certification from the Board of Assessor Certification within two years of taking office. The intent of the proposed legislation is to improve the professionalism of county assessors. Although many assessors are well trained and participate in professional organizations such as the International Association of Assessing Officers, this bill would set a minimum standard for all assessors.

The bill requires 55 hours of training, and assessors must pass an examination in order to receive certification. Additional requirements for optional certification of assessors as residential appraisers or general appraisers are established. The certification program is cash funded by fees paid by assessors seeking certification. Members of the board will be compensated at the standard rate for boards and commissions of $50.00 per day, plus expenses.

Bill 4– Concerning Property Taxes

Bill 4 combines several committee concerns relating to property taxes under a broad title.

Sales data on manufactured homes. Under current law, the sales price of real property must be reported when the conveyance document is filed for recording. Bill 4 extends this

requirement to manufactured homes. The price of a new or used manufactured home must be provided when an application for a certificate of title is made.

Vacant land. The use of discount factors in valuing vacant land is extended to 30 years from 10 years under current law. The vacant land must be within an approved plat. Discounting may be used until 80 percent of the lots are sold. Although up to 30 years can be used, the period should reflect the expected market absorption rate.

Notices of valuation. Assessors must give written explanation for an increase in actual value in years between reassessment years of more than 75 percent from the previous year. Notices of Valuation (NOVs) must be mailed by May 1 of each year rather that May 15 under current law.

Schedule changes. Several sections of the bill change the schedule for protests and appeals of the assessed value of real property.

Activity	Existing Deadline	New Deadline
Mailing of NOVs	May 15	May 1
Notice of Appeal to Assessor		
by Mail	June 10	May 27
in Person	June 15	June 1
Assessors' Last Day to Hear Appeals	June 15	Last working day in June
Notice of Appeal to County Board of Equalization	July 10	Third Monday in July
Audit of Assessments	August 15	September 15
Review of Abstracts by State Board of Equalization	September 5	September 20

Court appeals. Appeals made under current law to the District Court are changed to the Court of Appeals. The appeal procedure is specified by Colorado Appellate Rules and section 24-4-106(9), C.R.S.

Abatements. The bill clarifies the procedures for abatements and abatement appeals. Abatements are allowed when taxes have been levied illegally or erroneously, as defined in the bill.

Extract From the Advisory Committee Report

An advisory committee to the interim Committee on Tax Policy was formed to assist the interim committee in its charge to study the tax base of the state and local governments and the relationship of taxes to the long-term economic growth of the state and its communities. The paragraphs which follow summarize the two recommendations to the interim Committee on Tax Policy.

Recommendation 1

The Tax Policy Advisory Committee voted to recommend that the interim Committee on Tax Policy adopt a concurrent resolution which would submit to the registered electors of the State of Colorado an amendment to section 1 of Article V, section 2 of Article IX, and section 3 of Article X of the constitution of the State of Colorado.

Background

The 1982 amendment to the Colorado Constitution, commonly referred to as the "Gallagher Amendment," establishes an assessed valuation relationship of 45 percent for property classified as residential and 55 percent for all other classes of property. At the time the amendment was approved by the voters, assessed valuation was set at 21 percent of actual value for residential property and 29 percent of actual value for nonresidential classes of property. The exceptions to these rates are oil and gas properties, which are assessed at 87.5 percent of the prior year's production.

Since 1982, the rate at which residential property is assessed has steadily dropped in order to maintain the overall relationship required by the constitutional amendment. The residential assessment rate was reduced to 18 percent in 1987, 16 percent in 1988, and was further reduced to 15 percent for 1989. Many people believe that this reduction has resulted in a shift of an ever increasing property tax burden to nonresidential classes of property. Certain exemptions and assessed valuation reductions have been granted to some nonresidential properties during the past seven years. However, the market value of existing nonresidential properties has fallen at a rate proportionately faster than the market value decline of existing residential properties.

The consensus of the Tax Policy Advisory Committee is that this trend will likely continue, further reducing the residential assessment rate in order to be in compliance with the Gallagher amendment. While the Gallagher amendment has had the effect which was originally intended, continued increased reliance on nonresidential properties is unhealthy for the economic well-being of the state. Therefore, a constitutional amendment which freezes the relationship of assessed valuations for residential properties at one-half the nonresidential rate is in the best interest of both the residential and business communities.

The Tax Policy Advisory Committee is also of the opinion that the citizens of the state at any level of local government should be given additional authority to adjust local mill levies in either direction in order to fund desired levels of local services. Currently, the electorate may vote to increase property taxes, but may not vote to decrease property taxes. This would be accomplished through the initiative and election process.

Recommendation 2

The Tax Policy Advisory Committee recommends that the interim Committee on Tax Policy adopt the bill entitled CONCERNING A STUDY OF STATE AND LOCAL TAXES.

Background

The last comprehensive analysis of financing government in Colorado was submitted to former Governor Steve McNichols by the Governor's Tax Study Group in 1959. Since that time, a number of tax profile studies have been conducted under the direction of Legislative Council with a primary emphasis on the individual income tax.

An independent analysis of the Colorado tax structure which goes beyond the scope of recent tax studies is necessary in order to plan for the financing of state and local governments into the twenty-first century. Over the past 30 years, individual legislative actions, while well intended at the time, have eroded the tax base and complicated the process of financing all units of government within the state. For this reason, a fresh look at where the state is, and where the state is going, is necessary to carry out sound fiscal policy in the future.

According to Steve Gold, National Conference of State Legislatures, most states have conducted a tax study during the past ten years. The cost of these tax studies varied greatly, depending on the content and depth of the study. The table below identifies selected states which have conducted recent tax studies and related statistical research.

State	Cost	Study Group	Duration
Arizona	$600,000	Economics Professors	14 months
Minnesota	$625,000	In-house/Academic	18 months
Nebraska	$381,371	Syracuse University	12 months
Nevada	$450,000	Price Waterhouse	18 months
New Jersey	$1,500,000	Select Committee	24 months
Texas	$350,000	Tax Equity Committee	18 months
Utah	N/A	In-House/Consulting	N/A
Washington	$450,000	Peat Marwick	12 months

APPENDIX

LEGISLATIVE COUNCIL

Tax Policy Advisory Committee

Members of the Committee

Senator Ted Strickland, Chairman
Max Arnold, Max Arnold & Associates
Ray Baker, Apartment Owners
Vern Bickel, Colorado Union of Taxpayers
Ken Bueche, Colorado Municipal League
Eldon Cooper, AFL CIO
Phil Fox, Colorado Association of School Executives
Dodie Gale, Special District Association
Representative Paul Schauer
Bob Kirscht, Colorado Counties, Inc.
Dean Kittle, Colorado Farm Bureau
Lyle Kyle, Colorado Public Expenditures Council
Frank Miles, Citizen
Bernard Neff, Citizen
Robert Robinson, Colorado Senior Lobby
Ron Smith, National Federation of Independent Businesses
Stan Sours, US West

Legislative Council Staff

Lon Engelking
Principal Fiscal Analyst

Jon Moe
Senior Fiscal Analyst

Harry Zeid
Senior Fiscal Analyst

Scott Nachtrieb
Senior Fiscal Analyst

Will Meyer
Fiscal Analyst B

Interim Committee on Tax Policy

SENATE CONCURRENT RESOLUTION

SUBMITTING TO THE REGISTERED ELECTORS OF THE STATE OF COLORADO AN AMENDMENT TO SECTION 1 OF ARTICLE V, SECTION 2 OF ARTICLE IX, AND SECTION 3 OF ARTICLE X OF THE CONSTITUTION OF THE STATE OF COLORADO, RESERVING TO THE REGISTERED ELECTORS OF EVERY COUNTY, SCHOOL DISTRICT, AND SPECIAL DISTRICT THE INITIATIVE POWER WITH RESPECT TO INCREASES OR DECREASES IN GENERAL FUND MILL LEVIES, MODIFYING THE STATE'S OBLIGATION TO PROVIDE A THOROUGH AND UNIFORM SYSTEM OF FREE PUBLIC EDUCATION UNDER CERTAIN CIRCUMSTANCES, AND PROVIDING THAT THE VALUATION FOR ASSESSMENT OF RESIDENTIAL PROPERTY SHALL BE FIFTY PERCENT OF ACTUAL VALUE AND THAT THE VALUATION FOR ASSESSMENT FOR ALL OTHER PROPERTY SHALL BE ONE HUNDRED PERCENT OF ACTUAL VALUE.

Resolution Summary

(Note: This summary applies to this resolution as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Amends section 1 of article V of the state constitution to reserve the initiative power to the registered electors of

every county, school district, and special district with respect to an increase or decrease in the general fund mill levy. Allows the general assembly to establish by law the manner for exercising such initiative power. Sets the percentage of registered electors required to propose an initiated measure at fifteen percent. Requires the election on any initiated measure to be held on general election day in even-numbered years or on the second Tuesday in November in odd-numbered years. Amends section 2 of article IX of the state constitution to provide that the state has no responsibility to increase state appropriations to equalize expenditures in school districts where the registered electors have approved an initiated mill levy increase or to supplant lost property tax revenues in school districts where the registered electors have approved an initiated mill levy decrease.

Amends section 3 of article X of the state constitution to set the valuation for assessment for residential property at fifty percent of actual value and to set the valuation for assessment for all other property at one hundred percent of actual value. Eliminates procedures for adjustment of the valuation for assessment for residential property based on the percentage of the aggregate statewide valuation for assessment which is attributable to residential real property.

Be It Resolved by the Senate of the Fifty-seventh General Assembly of the State of Colorado, the House of Representatives concurring herein:

SECTION 1. At the next general election for members of the general assembly, there shall be submitted to the registered electors of the state of Colorado, for their approval or rejection, the following amendment to the constitution of the state of Colorado, to wit:

Section 1 (9) of article V of the constitution of the state of Colorado is amended to read:

Section 1. General assembly - initiative and referendum. (9) (a) The initiative and referendum powers reserved to the people by this section are hereby further reserved to the

registered electors of every city, town, and municipality as to all local, special, and municipal legislation of every character in or for their respective municipalities. The manner of exercising said powers shall be prescribed by general laws; except that cities, towns, and municipalities may provide for the manner of exercising the initiative and referendum powers as to their municipal legislation. Not more than ten percent of the registered electors may be required to order the referendum nor more than fifteen per cent to propose any measure by the initiative in any city, town, or municipality.

(b) THE INITIATIVE POWER RESERVED TO THE PEOPLE BY THIS SECTION IS HEREBY FURTHER RESERVED TO THE REGISTERED ELECTORS OF EVERY COUNTY, SCHOOL DISTRICT, AND SPECIAL DISTRICT AS TO THE INCREASE OR DECREASE IN THE GENERAL FUND MILL LEVY. FOR ANY FUTURE BUDGET YEAR, THE REGISTERED ELECTORS MAY PROPOSE AN INCREASE OR DECREASE IN THE GENERAL FUND MILL LEVY FROM THE MILL LEVY FOR THE CURRENT BUDGET YEAR. THE MANNER OF EXERCISING SAID POWER SHALL BE PRESCRIBED BY THE GENERAL ASSEMBLY BY GENERAL LAWS. NOT MORE THAN FIFTEEN PERCENT OF THE REGISTERED ELECTORS MAY BE REQUIRED TO PROPOSE AN INCREASE OR DECREASE IN THE GENERAL FUND MILL LEVY IN ANY COUNTY, SCHOOL DISTRICT, OR SPECIAL DISTRICT. ANY ELECTION HELD ON AN INITIATED MEASURE PURSUANT TO THIS PARAGRAPH (b) SHALL BE HELD AT THE GENERAL ELECTION IN EVEN-NUMBERED YEARS OR AT A SPECIAL ELECTION HELD ON THE FIRST TUESDAY AFTER THE FIRST MONDAY IN NOVEMBER IN ODD-NUMBERED YEARS.

Section 2 of article IX of the constitution of the state of Colorado is amended to read:

Section 2. Establishment and maintenance of public schools. (1) The general assembly shall, as soon as practicable, provide for the establishment and maintenance of a thorough and uniform system of free public schools throughout the state, wherein all residents of the state, between the ages of six and twenty-one years, may be educated gratuitously. One or more public schools shall be maintained in each school district within the state, at least three months in each year; any school district failing to have such school shall not be entitled to receive any portion of the school fund for that year.

(2) (a) THE REQUIREMENT OF SUBSECTION (1) OF THIS SECTION FOR THE ESTABLISHMENT AND MAINTENANCE OF A THOROUGH AND UNIFORM SYSTEM OF FREE PUBLIC SCHOOLS THROUGHOUT THE STATE IN REGARD TO GENERAL FUND MILL LEVIES OF A SCHOOL DISTRICT SHALL BE SUBJECT TO THE DECISION OF THE REGISTERED ELECTORS IN ANY SCHOOL DISTRICT TO INCREASE OR DECREASE ITS GENERAL FUND MILL LEVY IN AN ELECTION HELD PURSUANT TO SECTION 1 (9) (b) OF ARTICLE V OF THE STATE CONSTITUTION.

(b) IF THE REGISTERED ELECTORS OF A SCHOOL DISTRICT VOTE IN AN ELECTION HELD PURSUANT TO SECTION 1 (9) (b) OF ARTICLE V OF THE STATE CONSTITUTION TO INCREASE THE GENERAL FUND MILL LEVY, NEITHER THE STATE NOR THE GENERAL ASSEMBLY SHALL BE REQUIRED TO INCREASE STATE APPROPRIATIONS TO MATCH SUCH INCREASE IN THE GENERAL FUND MILL LEVY IN WHOLE OR IN PART OR

TO EQUALIZE EXPENDITURES OF OTHER SCHOOL DISTRICTS IN RELATION TO THE SCHOOL DISTRICT WHICH VOTED TO INCREASE ITS GENERAL FUND MILL LEVY. IF THE REGISTERED ELECTORS OF A SCHOOL DISTRICT VOTE TO DECREASE THE GENERAL FUND MILL LEVY, NEITHER THE STATE NOR THE GENERAL ASSEMBLY SHALL BE REQUIRED TO INCREASE STATE APPROPRIATIONS TO SUPPLANT THE LOST PROPERTY TAX REVENUES WITH STATE REVENUES.

Section 3 (1) (b) of article X of the constitution of the state of Colorado is amended to read:

Section 3. Uniform taxation - exemptions. (1) (b) Residential real property, which shall include all residential dwelling units and the land, as defined by law, on which such units are located, and mobile home parks, but shall not include hotels and motels, shall be valued for assessment at ~~twenty-one~~ FIFTY percent of its actual value. ~~For the property tax year commencing January 1, 1985, the general assembly shall determine the percentage of the aggregate statewide valuation for assessment which is attributable to residential real property. For each subsequent year, the general assembly shall again determine the percentage of the aggregate statewide valuation for assessment which is attributable to each class of taxable property, after adding in the increased valuation for assessment attributable to new construction and to increased volume of mineral and oil and gas production. For each year in which there is a change in the level of value used in determining actual value, the general assembly shall adjust the ratio of valuation for~~

~~assessment for residential real property which is set forth in this paragraph (b) as is necessary to insure that the percentage of the aggregate statewide valuation for assessment which is attributable to residential real property shall remain the same as it was in the year immediately preceding the year in which such change occurs. Such adjusted ratio shall be the ratio of valuation for assessment for residential real property for those years for which such new level of value is used.~~ All other taxable property shall be valued for assessment at ~~twenty-nine~~ ONE HUNDRED percent of its actual value. ~~However,~~ The valuation for assessment for producing mines, as defined by law, and lands or leaseholds producing oil or gas, as defined by law, shall be ~~a portion of~~ the actual annual or actual average annual production therefrom, based upon the value of the unprocessed material, according to procedures prescribed by law for different types of minerals. Nonproducing unpatented mining claims, which are possessory interests in real property by virtue of leases from the United States of America, shall be exempt from property taxation.

SECTION 2. Each elector voting at said election and desirous of voting for or against said amendment shall cast his vote as provided by law either "Yes" or "No" on the proposition: "An amendment to section 1 of article V, section 2 of article IX, and section 3 of article X of the constitution of the state of Colorado, reserving to the registered electors of every county, school district, and special district the initiative power with respect to

increases or decreases in general fund mill levies, modifying the state's obligation to provide a thorough and uniform system of free public education under certain circumstances, and providing that the valuation for assessment of residential property shall be fifty percent of actual value and that the valuation for assessment for all other property shall be one hundred percent of actual value."

SECTION 3. The votes cast for the adoption or rejection of said amendment shall be canvassed and the result determined in the manner provided by law for the canvassing of votes for representatives in Congress, and if a majority of the electors voting on the question shall have voted "Yes", the said amendment shall become a part of the state constitution.

Interim Committee on Tax Policy

A BILL FOR AN ACT

CONCERNING THE COLLECTION OF SALES AND USE TAXES ON PURCHASES OF TANGIBLE PERSONAL PROPERTY BY PERSONS IN COLORADO FROM OUT-OF-STATE RETAILERS.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Provides for the collection of sales or use taxes imposed by the state or a political subdivision thereof on sales of tangible personal property purchased by and delivered to a person in Colorado from an out-of-state retailer. Provides that provisions relating to the collection and remittance of sales and use taxes by retailers are applicable to out-of-state retailers collecting sales or use taxes. Provides a mechanism for the collection of the local sales or use tax and for the distribution of the moneys collected.

Makes these collection procedures contingent on passage of federal legislation authorizing states to require collection of sales or use taxes by out-of-state retailers.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. Article 26 of title 39, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW PART to read:

PART 3

SALES AND USE TAX -

COLLECTION OF TAX BY OUT-OF-STATE RETAILERS

39-26-301. Legislative declaration. The general assembly hereby declares that the purpose of this part 3 is to implement federal legislation authorizing states to require out-of-state retailers to collect the sales or use tax imposed on the sale of tangible personal property by such retailers to persons in this state.

39-26-302. Definitions. For purposes of this part 3, unless the context otherwise requires:

(1) "Local sales or use tax" means a sales or use tax imposed by a political subdivision of the state.

(2) "Out-of-state retailer" means a retailer subject to the provisions of this part 3 as determined by the executive director of the department of revenue.

(3) "Sales or use tax" means the state sales or use tax and the local sales or use tax.

(4) "State sales or use tax" means the sales or use tax imposed by the state pursuant to parts 1 and 2 of this article.

39-26-303. Out-of-state retailer - collection of sales or use tax. (1) An out-of-state retailer subject to the provisions of this part 3 shall file an application for a license pursuant to section 39-26-103 and shall collect and remit the state sales or use tax and the local sales or use tax imposed on sales of tangible personal property by such

retailer.

(2) (a) Except as otherwise provided in paragraph (b) of this subsection (2), the sales or use tax required to be collected by such out-of-state retailer pursuant to the provisions of subsection (1) of this section shall be collected and remitted to the state in the manner provided in part 1 of this article for the collection and remittance of sales taxes collected by retailers, and all such out-of-state retailers shall be subject to the provisions of part 1 of this article which apply to retailers collecting sales taxes except for those provisions determined by the executive director of the department of revenue by rule and regulation to be inapplicable to out-of-state retailers collecting the sales or use tax pursuant to the provisions of subsection (1) of this section.

(b) The provisions of sections 39-26-105 and 39-26-109 relating to the time periods for reporting and remitting sales taxes shall not be applicable to out-of-state retailers collecting and remitting the sales or use tax pursuant to the provisions of subsection (1) of this section, and the time periods for reporting and remitting the sales or use tax shall be established by the executive director of the department of revenue by rule and regulation.

39-26-304. Out-of-state retailer - collection of set fee in lieu of actual local sales or use tax - distribution of local sales or use taxes collected. (1) Except as otherwise provided in subsection (2) of this section, an out-of-state

retailer required to collect a local sales or use tax shall collect such local sales or use tax at the actual local sales or use tax rate, and the moneys collected shall be distributed to the affected political subdivision in accordance with procedures adopted by the executive director of the department of revenue by rule and regulation.

(2) (a) In lieu of collecting the local sales or use tax at the actual local sales or use tax rate, the out-of-state retailer may elect to collect an in-lieu fee at the in-lieu rate established in accordance with paragraph (b) of this subsection (2). Such out-of-state retailer shall notify the executive director of the department of revenue whether he intends to collect the in-lieu fee, and once such election has been made the out-of-state retailer shall use such method for the collection of the local sales or use tax on all sales of tangible personal property made to persons in this state.

(b) The executive director of the department of revenue shall establish the in-lieu rate in accordance with a formula based upon federal legislation and adopted by such executive director by rule and regulation.

(c) The in-lieu fees remitted to the department of revenue pursuant to the provisions of paragraph (a) of this subsection (2) shall be distributed to political subdivisions in accordance with a formula based upon federal legislation and adopted by the executive director by rule and regulation and within the time period established by such executive director by rule and regulation.

39-26-305. Applicability. (1) The provisions of this part 3 shall be applicable following the passage of federal legislation authorizing states to require out-of-state retailers to collect sales or use taxes in connection with sales of tangible personal property.

(2) The provisions of section 39-26-304 (2) relating to the collection of an in-lieu fee shall not be applicable unless the federal legislation includes a provision authorizing such fee in lieu of collection of the local sales or use tax at the actual local sales or use tax rate.

39-26-306. Repeal of part. This part 3 is repealed, effective on the December 31 following the end of the twenty-four month period beginning on the effective date of the federal legislation authorizing states to require out-of-state retailers to collect sales or use taxes in connection with sales of tangible personal property.

SECTION 2. 29-2-106 (3) (a), Colorado Revised Statutes, 1986 Repl. Vol., is amended to read:

29-2-106. Collection, administration, enforcement. (3) (a) The executive director of the department of revenue shall, at no charge, except as provided in paragraph (b) of this subsection (3), administer, collect, and distribute any sales tax imposed in conformity with this article. The executive director shall make monthly distributions of sales tax collections to the appropriate official in each county and in each incorporated city or town in the amount determined under the distribution formula established in accordance with

this article. Except as provided in ~~section~~ SECTIONS 39-26-208 AND 39-26-304, C.R.S., any use tax imposed pursuant to section 29-2-109 shall be collected, administered, and enforced by the city, town, or county as provided by ordinance or resolution.

SECTION 3. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

Interim Committee on Tax Policy

A BILL FOR AN ACT

CONCERNING A STUDY OF STATE AND LOCAL TAXES, AND, IN CONNECTION THEREWITH, MAKING AN APPROPRIATION.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Creates a state and local tax advisory committee. Provides for appointment of one-half of the members of the advisory committee by the president of the senate and one-half by the speaker of the house of representatives. Sets forth the duties of said advisory committee. Requires that the director of research of the legislative council, with the advice of the advisory committee, contract for a comprehensive study of state and local taxes. Specifies objectives of said study. Provides that the study shall be completed and the final report submitted to the general assembly by January 1, 1992. Sunsets the advisory committee on July 1, 1992. Makes an appropriation.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. Article 21 of title 39, 1982 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW SECTION to read:

39-21-115.5. State and local tax policy advisory committee created - comprehensive study of state and local taxes. (1) (a) There is hereby created a state and local tax

advisory committee. Said advisory committee shall consist of ten members, to be appointed as follows: Five of the members of the advisory committee shall be appointed by the president of the senate; and five of the members shall be appointed by the speaker of the house of representatives. Members of said advisory committee shall include, but shall not be limited to, individuals with knowledge or experience in finance, economics, or public tax policy. No member of said advisory committee shall be an elected official.

(b) The advisory committee shall make recommendations to the director of research of the legislative council in regard to the contracting for and the conducting of the comprehensive study of state and local taxes specified in subsection (2) of this section.

(c) Members of the advisory committee shall receive no compensation for their services but shall be reimbursed for actual and necessary expenses incurred in the performance of their duties.

(2) The director of research of the legislative council shall, with the advice and recommendations of the advisory committee, contract to conduct a comprehensive study of state and local taxes and to prepare a report to the general assembly concerning findings, conclusions, and recommendations.

(3) The state and local tax study shall be completed and the final report to the general assembly shall be submitted on or before January 1, 1992.

(4) The objectives of the study of state and local taxes shall include, but shall not be limited to, the following:

(a) To study the relationship of state and local taxes to the long-term economic growth and prosperity of the state, its communities, and its citizens;

(b) To evaluate the burdens on individuals and businesses resulting from taxes imposed by the state and by local governments and to determine how these burdens have changed over time;

(c) To examine the changing burdens on the state and local governments in financing the provision of public services to the residents of Colorado;

(d) To analyze and make recommendations concerning the optimum combination of broad-based state and other state and local taxes to adequately finance future needs for state and local government services and equitably distribute the burdens on taxpayers;

(e) To identify future trends which will create financial impacts on the state and local governments within the next ten years and to evaluate the ability of the tax base of the state and local governments to respond to these trends;

(f) To examine the rates, bases, credits, and exemptions of each state and local tax; and

(g) To examine potential revenue and expenditure limitations for state and local governments, including, but not limited to, the indexing of the maximum annual increase in state expenditures to indicators of growth.

(5) (a) This section is repealed, effective July 1, 1992.

(b) Prior to said repeal, the committee appointed pursuant to this section shall be reviewed as provided in section 2-3-1203, C.R.S.

SECTION 2. 2-3-1203 (3) (e), Colorado Revised Statutes, 1980 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW SUBPARAGRAPH to read:

2-3-1203. Sunset review of advisory committees. (3) (e) (XI) The state and local tax advisory committee, appointed pursuant to section 39-21-115.5, C.R.S.

SECTION 3. Appropriation. In addition to any other appropriation, there is hereby appropriated, out of any moneys in the general fund not otherwise appropriated, to the legislative department, for allocation to the legislative council, for the fiscal year beginning July 1, 1990, the sum of _____ dollars ($), or so much thereof as may be necessary, for the implementation of this act.

SECTION 4. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

Interim Committee on Tax Policy

A BILL FOR AN ACT

CONCERNING THE CERTIFICATION OF COUNTY ASSESSORS.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Effective January 1, 1991, requires assessors to be certified by the board of assessor certification within two years of taking office and to maintain such certification while holding office. Allows assessors to receive additional certification.

Creates the board of assessor certification in the department of local affairs. Specifies the qualifications of members of the board and provides for the appointment of such members. Creates the board of assessor certification cash fund in the state treasury for moneys collected from fees for certifying assessors and specifies that moneys in such fund shall be appropriated for the administration of the article. Provides for the issuance of assessors' certificates and the renewal of thereof.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. 24-1-125, Colorado Revised Statutes, 1988 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW SUBSECTION to read:

24-1-125. Department of local affairs - creation.

(7) The board of assessor certification created by article

2.5 of title 39, C.R.S., shall constitute a part of the department of local affairs and shall exercise its powers and perform its duties and functions under the department as if it were transferred to said department by a type 1 transfer.

SECTION 2. Part 8 of article 10 of title 30, Colorado Revised Statutes, 1986 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW SECTION to read:

30-10-801.5. Additional qualifications - certification. (1) On and after January 1, 1991, in addition to any qualifications specified in section 30-10-801, any assessor shall become certified by the board of assessor certification pursuant to the provisions of section 39-2.5-105 (1), C.R.S., within two years from the date on which such assessor was sworn into office and shall maintain said certification while holding office. Any costs and expenses incurred by any assessor in obtaining and maintaining said certification shall be deemed reasonable and necessary expenses of the assessor incurred in the performance of his duties and shall be allowed by the board of county commissioners and paid out of the county treasury.

(2) On and after January 1, 1991, upon becoming certified pursuant to the provisions of section 39-2.5-105 (1), C.R.S., any assessor may become certified as a residential appraiser or as a general appraiser, or both, by the board of assessor certification pursuant to the provisions of section 39-2.5-105 (2) or (3), C.R.S.

SECTION 3. Title 39, Colorado Revised Statutes, 1982

Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW ARTICLE to read:

ARTICLE 2.5

Board of Assessor Certification

39-2.5-101. Definition. As used in this article, unless the context otherwise requires:

(1) "Board" means the board of assessor certification created in section 39-2.5-102.

39-2.5-102. Board of assessor certification - creation - compensation - immunity. (1) There is hereby created in the department of local affairs the board of assessor certification. Said board shall be comprised of five members appointed by the governor with the consent of the senate. Of such members, three shall be real estate appraisers, one shall be a county assessor currently holding office, and one shall be a member of the public at large. Of the members of the board appointed for terms beginning July 1, 1990, two of the appraiser members and the public member shall be appointed for terms of three years, and the county assessor member and the remaining appraiser member shall be appointed for terms of one year. Members of the board appointed after July 1, 1990, shall hold office for terms of three years each. In the event of a vacancy by death, resignation, removal, or otherwise, the governor shall appoint a member to fill the unexpired term. The governor shall have the authority to remove any member for misconduct, neglect of duty, or incompetence.

(2) The board shall exercise its powers and perform its

duties and functions under the department of local affairs as if it were transferred to said department by a type 1 transfer as such transfer is defined in the "Administrative Organization Act of 1968", article 1 of title 24, C.R.S.

(3) Each member of the board of assessor certification shall receive the same compensation and reimbursement for expenses as those provided for members of boards and commissions in the division of registrations pursuant to section 24-34-102 (13), C.R.S. Payment for all such per diem compensation and expenses shall be made out of annual appropriations from the board of assessor certification cash fund created in section 39-2.5-104.

(4) Members of the board shall be immune from suit in any civil action based upon any disciplinary proceedings or other official acts they perform in good faith pursuant to this article.

(5) A majority of the board shall constitute a quorum for the transaction of all business, and actions of the board shall require a vote of a majority of such members present in favor of the action taken.

39-2.5-103. Powers and duties of the board. (1) In addition to all other powers and duties imposed upon it by law, the board has the following powers and duties:

(a) To promulgate and amend, as necessary, rules and regulations pursuant to article 4 of title 24, C.R.S., for the implementation and administration of this article;

(b) To charge application, examination, and renewal fees

in the amounts authorized pursuant to section 39-2.5-104 to all assessors for certification, examination, and renewal pursuant to the provisions of this article. No fees received from assessors seeking certification, examination, or renewal shall be refunded.

(c) (I) To keep all records of proceedings and activities of the board conducted under authority of this article, which records shall be open to public inspection at such time and in such manner as may be prescribed by rules and regulations formulated by the board.

(II) The board shall not be required to maintain or preserve certification history records of any assessor certified under the provisions of this article for any period of time longer than seven years.

(d) To issue, deny, or refuse to renew a certificate pursuant to the provisions of this article;

(e) Except as otherwise provided in section 39-2.5-105 (4), to develop or purchase any examination required for the administration of this article, to offer each such examination at least twice a year or, if demand warrants, at more frequent intervals, and to establish a passing score for each examination which reflects a minimum level of competency.

39-2.5-104. Board of assessor certification cash fund - creation - use of funds - fee adjustments. (1) All fees collected pursuant to the provisions of this article shall be transmitted to the state treasurer, who shall credit the same to the board of assessor certification cash fund, which fund

is hereby created. All interest derived from the deposit and investment of moneys in the fund shall be credited to the fund. All moneys in the fund shall be subject to appropriation by the general assembly for the direct and indirect costs of the activities of the board pursuant to this article.

(2) (a) The board shall propose, as part of its annual budget request, an adjustment in the amount of each fee which it is authorized by law to collect. The budget request and the adjusted fees, when such fees are combined with other revenue credited to the board of assessor certification cash fund, shall reflect direct and indirect costs.

(b) Based upon the appropriation made and subject to the approval of the property tax administrator, the board shall adjust its fees so that the revenue generated from said fees, when combined with other revenue credited to the board of assessor certification cash fund, approximates the direct and indirect costs of the board. Such fees shall remain in effect for the fiscal year for which the budget request applies.

(c) For fiscal years beginning on or after July 1, 1990, any unexpended and unencumbered moneys remaining in the fund at the end of the prior fiscal year shall be included in the appropriation to the board for the next fiscal year, and the fees of the board, when adjusted for said next fiscal year, shall be adjusted so that such amount is not raised from fees collected by the board. If a supplemental appropriation is made from the fund to the board for its activities, the fees

of the board, when adjusted for the fiscal year next following that in which the supplemental appropriation was made, shall be adjusted by an amount which is sufficient to compensate for such supplemental appropriation.

(d) Moneys appropriated to the board in the annual general appropriation act shall be designated as cash funds and shall not exceed the amount anticipated to be credited to the fund.

39-2.5-105. Qualifications for assessor certification. (1) Any assessor applying for certification shall apply in such form and manner as prescribed by the board. Applicants shall have had at least fifty-five hours of education and training in appraisal practice, as approved by the board, and shall pass an examination developed or purchased by the board, except as otherwise provided in subsection (4) of this section for the initial examination pursuant to this section.

(2) Any assessor applying for certification as a residential appraiser shall have met the qualifications of subsection (1) of this section and shall apply in such form and manner as prescribed by the board. Applicants shall have had at least forty hours of appraisal education and training or a college degree in a related field as approved by the board, shall have at least two years of appraisal experience, and shall pass an examination developed or purchased by the board, except as otherwise provided in subsection (4) of this section for the initial examination pursuant to this section.

(3) Any assessor applying for certification as a general

appraiser shall have met the qualifications of subsection (1) of this section and shall apply in such form and manner as prescribed by the board. Applicants shall have had at least one hundred fifty hours of appraisal education and training or a college degree in a related field as approved by the board, shall have at least two years of appraisal experience, and shall pass an examination developed or purchased by the board, except as otherwise provided in subsection (4) of this section for the initial examination pursuant to this section.

(4) The initial assessor appointee to the board shall not participate in the development of the initial examinations given pursuant to this section. Any other person who participates in the development of an examination pursuant to this section shall be prohibited from taking such examination for a period of two years from the date the examination is first given.

39-2.5-106. Expiration of certification - renewal. Any certificate issued by the board shall expire on January 1 of the third year following issuance if not timely renewed by the assessor; except that the initial certificate issued to any assessor shall expire January 1 of the year following issuance and shall be renewed as provided in this section. Upon compliance with this section and any applicable rules and regulations of the board regarding renewal, including the payment of a renewal fee plus a late payment penalty fee in the amounts authorized pursuant to section 39-2.5-104, the expired certificate shall be reinstated. No certificate which

has been expired for a period of time greater than two years shall be reinstated, and such person shall be required to make new application for certification.

39-2.5-107. Denial of certificate - renewal. (1) The board is empowered to determine whether an applicant for certification possesses the qualifications required by this article.

(2) If the board determines that an applicant does not possess the applicable qualifications required by this article, or such applicant has violated any provisions of this article or the rules and regulations promulgated by the board, the board may deny the applicant a certificate or deny the reinstatement of a certificate pursuant to section 39-2.5-106, and, in such instance, the board shall provide such applicant with a statement in writing setting forth the basis of the board's determination that the applicant does not possess the qualifications required by this article. Such applicant may request a hearing on such determination as provided in section 24-4-104 (9), C.R.S.

SECTION 4. Appropriation. In addition to any other appropriation, there is hereby appropriated, out of any moneys in the board of assessor certification cash fund not otherwise appropriated, to the department of local affairs for allocation to the board of assessor certification, for the fiscal year beginning July 1, 1990, the sum of _____ dollars ($) and ___ FTE, or so much thereof as may be necessary, for the implementation of section 3 of this act.

SECTION 5. Effective date. This act shall take effect July 1, 1990.

SECTION 6. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

Interim Committee on Tax Policy

A BILL FOR AN ACT

CONCERNING PROPERTY TAXES.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Requires an application for certificate of title for a manufactured home to specify the new or resale price of such manufactured home, wherever is applicable, paid by such applicant. In the valuation of vacant land, changes the maximum time period for anticipated market absorption rates from 10 years to 30 years. Changes the date by which notices of valuation for real property are required to be mailed. Modifies the dates by which taxpayers must give notice of protest by mail and in person to assessors. Requires the assessor to give a taxpayer an explanation of the reasons why the actual value of property in an intervening year has increased by more than seventy-five percent from the previous year.

Changes the date by which assessors shall file public notice concerning the commencement of hearings of tax protests. Modifies the date by which assessors shall conclude such hearings. Changes the date by which assessors must report the valuation for assessment of real property and the protests of such valuations to county boards of equalization. Modifies the date by which taxpayers are required to file petitions for hearing regarding real property with county boards of equalization.

Defines certain terms for purposes of abatement or refund of property taxes. Allows taxpayers to appeal abatement and refund decisions. Specifies procedures for such appeals. Makes amendments to certain statutory provisions to conform to current law.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. 38-29-107, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

38-29-107. Applications for certificates of title. In any case under the provisions of this article wherein a person who desires or who is entitled to a certificate of title to a manufactured home is required to make formal application to the director therefor, such applicant shall make application upon a form provided by the director in which appears a description of the manufactured home, including the manufacturer and model thereof, the manufacturer's number, the date on which said manufactured home was first sold by the dealer or manufacturer thereof to the initial user thereof, and a description of any other distinguishing mark, number, or symbol placed on said home by the manufacturer thereof for identification purposes, as may by rule be required by the director. Such application shall also show the applicant's source of title, THE NEW OR RESALE PRICE OF SAID MANUFACTURED HOME, WHICHEVER IS APPLICABLE, PAID BY SUCH APPLICANT, and shall include a description of all known mortgages and liens upon said manufactured home, each including the name of the legal holder thereof, the amount originally secured, the amount outstanding on the obligation secured at the time such application is made, the name of the county or city and county and state in which such mortgage or lien instrument is recorded or filed, and proof of the fact that no property

Interim Committee on Tax Policy

A BILL FOR AN ACT

CONCERNING PROPERTY TAXES.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Requires an application for certificate of title for a manufactured home to specify the new or resale price of such manufactured home, wherever is applicable, paid by such applicant. In the valuation of vacant land, changes the maximum time period for anticipated market absorption rates from 10 years to 30 years. Changes the date by which notices of valuation for real property are required to be mailed. Modifies the dates by which taxpayers must give notice of protest by mail and in person to assessors. Requires the assessor to give a taxpayer an explanation of the reasons why the actual value of property in an intervening year has increased by more than seventy-five percent from the previous year.

Changes the date by which assessors shall file public notice concerning the commencement of hearings of tax protests. Modifies the date by which assessors shall conclude such hearings. Changes the date by which assessors must report the valuation for assessment of real property and the protests of such valuations to county boards of equalization. Modifies the date by which taxpayers are required to file petitions for hearing regarding real property with county boards of equalization.

Defines certain terms for purposes of abatement or refund of property taxes. Allows taxpayers to appeal abatement and refund decisions. Specifies procedures for such appeals. Makes amendments to certain statutory provisions to conform to current law.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. 38-29-107, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

38-29-107. Applications for certificates of title. In any case under the provisions of this article wherein a person who desires or who is entitled to a certificate of title to a manufactured home is required to make formal application to the director therefor, such applicant shall make application upon a form provided by the director in which appears a description of the manufactured home, including the manufacturer and model thereof, the manufacturer's number, the date on which said manufactured home was first sold by the dealer or manufacturer thereof to the initial user thereof, and a description of any other distinguishing mark, number, or symbol placed on said home by the manufacturer thereof for identification purposes, as may by rule be required by the director. Such application shall also show the applicant's source of title, THE NEW OR RESALE PRICE OF SAID MANUFACTURED HOME, WHICHEVER IS APPLICABLE, PAID BY SUCH APPLICANT, and shall include a description of all known mortgages and liens upon said manufactured home, each including the name of the legal holder thereof, the amount originally secured, the amount outstanding on the obligation secured at the time such application is made, the name of the county or city and county and state in which such mortgage or lien instrument is recorded or filed, and proof of the fact that no property

taxes for previous years are due on such manufactured home. Such proof shall be a certificate of taxes issued by the county treasurer of the county in which the manufactured home is located. Such application shall be affirmed by a statement signed by the applicant and shall contain or be accompanied by a written declaration that it is made under the penalties of perjury in the second degree, as defined in section 18-8-503, C.R.S.

SECTION 2. 39-1-103 (8) (a) (I) and (14) (b), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-1-103. Actual value determined - when. (8) (a) (I) Use of the market approach shall require a representative body of sales sufficient to set a pattern, and appraisals shall reflect due consideration of the degree of comparability of sales, including the extent of similarities and dissimilarities among properties which are compared for assessment purposes. In order to obtain a reasonable sample and to reduce sudden price changes or fluctuations, all sales shall be included in the sample which reasonably reflect a true or typical sales price during the ~~twenty-four--months preceding--the--date--of-taking-the-sample~~ PERIOD SPECIFIED IN SECTION 39-1-104 (10.1), (10.2), OR (10.3), WHICHEVER IS APPLICABLE. Sales of personal property exempt pursuant to the provisions of sections 39-3-102, 39-3-103, and 39-3-119 to 39-3-122 shall not be included in any such sample.

(14) (b) The assessing officers shall give appropriate

consideration to the cost approach, market approach, and income approach to appraisal as required by the provisions of section 3 of article X of the state constitution in determining the actual value of vacant land. When using the market approach to appraisal in determining the actual value of vacant land, assessing officers shall take into account, but need not limit their consideration to, the following factors: The anticipated market absorption rate, the size and location of such land, the cost of development, any amenities, any site improvements, access, and use. When using anticipated market absorption rates, the assessing officers shall use appropriate discount factors in determining the present worth of vacant land until eighty percent of the lots within an approved plat have been sold and shall include all vacant land in the approved plat. The use of present worth shall reflect the anticipated market absorption rate for the lots within such plat, but such time period shall not generally exceed ~~ten~~ THIRTY years.

SECTION 3. 39-1-104 (16) (a), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-1-104. Valuation for assessment. (16) (a) During each property tax year, beginning with the property tax year which commences January 1, 1983, the director of research of the legislative council shall contract with a private person for a valuation for assessment study to be conducted as set forth in this subsection (16). The study shall be conducted in all counties of the state to determine whether or not the

assessor of each county has, in fact, used all manuals, formulas, and other directives required by law to arrive at the valuation for assessment of each and every class of real and personal property in the county. The person conducting the study shall sample each class of property in a statistically valid manner, and the aggregate of such sampling shall equal at least one percent of all properties in each county of the state. The sampling shall show that the various areas, ages of buildings, economic conditions, and uses of properties have been sampled. Such study shall be completed, and a final report of the findings and conclusions thereof shall be submitted to the general assembly and the state board of equalization by ~~August 15~~ SEPTEMBER 15 of the year in which the study is conducted.

SECTION 4. The introductory portion to 39-1-104.2 (7) (a), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-1-104.2. Legislative declaration - adjustment of residential rate - role of state board of equalization. (7) (a) Commencing January 1, 1989, for each year in which there is a change in the level of value used in determining actual value, the state board of equalization shall review, prior to September ~~5~~ 20 of such year, the abstracts of assessment submitted by the county assessors pursuant to section 39-2-115. Utilizing such abstracts, the state board of equalization shall ascertain:

SECTION 5. 39-2-117 (6), Colorado Revised Statutes, 1982

Repl. Vol., as amended, is amended to read:

39-2-117. Applications for exemption - review - annual reports - procedures. (6) If the decision of the board is against the petitioner, the petitioner may ~~within-thirty--days after-such-decision,-petition-the-district-court-of-the-county wherein--the-property-is-located~~ PETITION THE COURT OF APPEALS for judicial review thereof ~~pursuant--to~~ ACCORDING TO THE COLORADO APPELLATE RULES AND THE PROVISIONS OF section 24-4-106 (9), C.R.S. If the decision of the board is against the respondent, the respondent, upon the recommendation of the board that it is a matter of statewide concern, ~~and-within thirty-days-after-such-decision,~~ may petition the ~~district court--of-the-county-in-which-the-property-is-located~~ COURT OF APPEALS for judicial review ~~pursuant--to~~ ACCORDING TO THE COLORADO APPELLATE RULES AND THE PROVISIONS OF section 24-4-106 (9), C.R.S.

SECTION 6. 39-4-109, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-4-109. Judicial review. (1) Any petitioner or any other public utility, assessor, or board of county commissioners adversely affected or the administrator may appeal any decision of the board of assessment appeals denying a petition in whole or in part to the ~~district--court--of--the judicial-district-in-which-the-property-in-question-is-located or--to--the--district--court--in-the-city-and-county-of-Denver~~ COURT OF APPEALS. No new or additional evidence may be introduced in the ~~district~~ court OF APPEALS unless such other

public utility, assessor, or board of county commissioners adversely affected has had no opportunity to present such evidence at the hearing before the board of assessment appeals; otherwise, the cause shall be heard on the record of the board of assessment appeals, which shall be certified by it to the court in which the appeal was taken. Whenever any new or additional evidence is introduced, the court, in its discretion, may remand the case to the board of assessment appeals for rehearing.

(2) An appeal may be taken to the ~~district court at any time within thirty days~~ COURT OF APPEALS ACCORDING TO THE COLORADO APPELLATE RULES AND THE PROVISIONS OF SECTION 24-4-106 (9), C.R.S., after the decision of the board of assessment appeals is issued, but, if the appeal is taken by the public utility actually owning the property involved in the petition to the board of assessment appeals, such public utility shall pay the full amount of all taxes levied upon the valuation for assessment of its property and plant to the treasurer of the county in which the same is located prior to taking its appeal.

(3) If, upon appeal to the ~~district court~~ COURT OF APPEALS, the petitioner is sustained, in whole or in part, then, upon presentation to the treasurer to whom the taxes were paid of a certified copy of the order modifying the valuation for assessment of its property and plant, the treasurer shall forthwith make the appropriate refund of taxes, together with ~~interest thereon at the rate of six~~

~~percent-per-annum-from-the--date--of--payment--thereof~~ REFUND INTEREST AT THE SAME RATE AS PENALTY INTEREST AS SPECIFIED IN SECTION 39-10-104 (3) (a) AND (5) (a), and the petitioner shall also be entitled to a refund of costs incurred in the hearing before the board of assessment appeals and in the appeal to the court or such portion thereof as the court may decree; but, if judgment is for the board of assessment appeals, then the board of assessment appeals shall receive its costs from the appellant. SUCH REFUND INTEREST SHALL ONLY ACCRUE FROM THE DATE ON WHICH PAYMENT OF TAXES WAS RECEIVED BY THE TREASURER.

SECTION 7. 39-5-121 (1), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-5-121. Notice of adjusted valuation. (1) No later than May ~~15~~ 1 in each year, the assessor shall mail to each person whose land or improvements have been valued at an amount different than the same were valued in the previous year a notice setting forth the amount of such adjustment in valuation. The notice shall state the actual value of such land or improvements in the previous year, the actual value in the current year, and the amount of such adjustment in actual value. The notice shall not state the valuation for assessment of such land or improvements. Based upon the classification of such taxable property, the notice shall also set forth either the ratio of valuation for assessment to be applied to said actual value of all taxable real property other than residential real property prior to the calculation

of property taxes for the current year or the projected ratio of valuation for assessment to be applied to said actual value of residential real property prior to the calculation of property taxes for the current year and that any change or adjustment of the projected ratio of valuation for assessment for residential real property shall not constitute grounds for the protest or abatement of taxes. With the approval of the board of county commissioners, the assessor may include in the notice an estimate of the taxes which shall be owed for the current property tax year. If such estimate is included, the notice shall clearly state that the tax amount is merely an estimate based upon the best available information. The notice shall state, in bold-faced type, that the taxpayer has the right to protest such adjustment in valuation but not the estimate of taxes if such an estimate is included in the notice, the classification of the property which determines the assessment percentage to be applied, and the dates and places at which the assessor will hear such protest. Such notice shall also set forth the following: THAT, to preserve his right to protest, the taxpayer must notify the assessor either by mail or in person of his objection and protest; that, if notice is made by mail, such notice must be postmarked no later than ~~June 10~~ MAY 27 and that, if notice is made in person, such notice must be made no later than June ~~15~~ 1; and that, after such date, the taxpayer's right to object and protest the adjustment in valuation is lost. The notice shall also state, in general terms, the administrative or

legal remedies available to the taxpayer. The notice shall be mailed together with a form which, if completed by the taxpayer, allows the taxpayer to explain the basis for his valuation of the property. Such form may be completed by the taxpayer to initiate an appeal of the assessor's valuation. However, in accordance with section 39-5-122 (2), completion of this form shall not constitute the exclusive means of appealing the assessor's valuation. FOR THE YEARS WHICH INTERVENE BETWEEN CHANGES IN THE LEVEL OF VALUE, IF THE DIFFERENCE BETWEEN THE ACTUAL VALUE OF SUCH LAND OR IMPROVEMENTS IN THE PREVIOUS YEAR AND THE ACTUAL VALUE OF SUCH LAND OR IMPROVEMENTS IN THE INTERVENING YEAR AS SET FORTH IN SUCH NOTICE CONSTITUTES AN INCREASE IN ACTUAL VALUE OF MORE THAN SEVENTY-FIVE PERCENT, THE ASSESSOR SHALL MAIL TOGETHER WITH THE NOTICE AN EXPLANATION OF THE REASONS FOR SUCH INCREASE IN ACTUAL VALUE.

SECTION 8. 39-5-122 (1), (2), and (4), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-5-122. Taxpayer's remedies to correct errors. (1) On or before May ~~15~~ 1 of each year, the assessor shall give public notice in at least one issue of a newspaper published in his county that, beginning on the first working day after notices of adjusted valuation are mailed to taxpayers and until THE LAST WORKING DAY IN June, ~~15~~, he will sit to hear all objections and protests concerning valuations of taxable real property determined by him for the current year; that, for a taxpayer's objection and protest to be

heard, notice must be given to the assessor; and that such notice, if given by mail, must be by ~~June 10~~ MAY 27 or, if given in person, must be by June ~~15~~ 1. The notice shall also state that objections and protests concerning valuations of taxable personal property determined by him for the current year will be heard commencing June 15; that, for a taxpayer's objection and protest to be heard, notice must be given to the assessor; and that such notice, if given by mail, must be by June 30 or, if given in person, must be by July 5. If there is no such newspaper, then such notice shall be conspicuously posted in the offices of the assessor, the treasurer, and the county clerk and recorder and in at least two other public places in the county seat. The assessor shall send news releases containing such notice to radio stations, television stations, and newspapers of general circulation in the county.

(2) If any person is of the opinion that his property has been valued too high, or has been twice valued, or is exempt by law from taxation or that property has been erroneously assessed to him, he may appear before the assessor and object, he may complete the form mailed with his notice of valuation pursuant to section 39-5-121 (1) or (1.5), or he may file a written letter of objection and protest by mail with the assessor's office before the last day specified in the notice, stating in general terms the reason for the objection and protest. Any change or adjustment of any ratio of valuation for assessment for residential real property pursuant to the provisions of section 39-1-104.2 shall not

constitute grounds for such objection. If the form initiating an appeal or the written letter of objection and protest is filed by mail, it shall be presumed that it was received as of the day it was postmarked. If the form initiating an appeal or the written letter of objection and protest is hand-delivered, the date it was received by the assessor shall be stamped on the form or letter. As stated in the public notice given by the assessor pursuant to subsection (1) of this section, if the taxpayer notifies the assessor of his objection and protest to the adjustment in valuation by mail, such notification shall be postmarked by ~~June 10~~ MAY 27 in the case of real property and June 30 in the case of personal property. If the taxpayer notifies the assessor in person, such notice shall be given by June ~~15~~ 1 in the case of real property and July 5 in the case of personal property. All such forms and letters received from protestors shall be presumed to be on time unless the assessor can present evidence to show otherwise. The county shall not prescribe the written form of objection and protest to be used. The protestor shall have the opportunity on the days specified in the public notice to present his objection by mail or protest in person and be heard, whether or not there has been a change in valuation of such property from the previous year and whether or not any change is the result of a determination by the assessor for the current year or by the state board of equalization for the previous year. If the assessor finds any valuation to be erroneous or otherwise improper, he shall

correct such error, but, if he declines to change any valuation which he has determined, he shall state his reasons in writing on the form described in section 39-8-106, shall insert the information otherwise required by the form, and shall, on or before the last regular working day of the assessor in June in the case of real property and July 5 in the case of personal property, mail two copies of such completed form to the person presenting the objection and protest so denied.

(4) The assessor shall continue his hearings from day to day until all objections and protests have been heard, but all such hearings shall be concluded by THE LAST REGULAR WORKING DAY OF THE ASSESSOR IN June ~~15~~ in the case of real property and July 5 in the case of personal property.

SECTION 9. 39-5-132 (2) (a) (I) (D) and (3), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-5-132. Assessment and taxation of new construction. (2) (a) (I) (D) In order to promote the most efficient administration of this section, each county or municipality shall ensure that any office or agency that received information relative to the state of completion of new taxable buildings shall promptly transmit such information to the county assessor. After January 1, 1987, the property tax administrator shall transmit to the assessor in ~~July~~ AUGUST of each year both the assessed value of any newly constructed buildings owned by public utility companies and their state of

completion on July 1 as well as their value on the previous January 1.

(3) By ~~September--15~~ OCTOBER 10 of each year, the assessor shall notify the board of county commissioners of the amount of the growth valuation for assessment of the county for that tax year, the percentage that such growth valuation for assessment bears to the total valuation for assessment of the county for such tax year, the portion of such growth valuation for assessment which is attributable to newly constructed taxable buildings within the boundaries of each taxing authority in the county, and the percentage that such portion bears to the total valuation for assessment of each taxing authority in which such newly constructed taxable buildings are located.

SECTION 10. 39-8-105 (1), Colorado Revised Statutes, 1982 Repl. Vol., is amended to read:

39-8-105. Reports of assessor. (1) At ~~the--first~~ A meeting of the county board of equalization ON THE SECOND MONDAY IN JULY, the assessor shall report the valuation for assessment of all taxable real property in the county. He shall submit a list of all persons who have appeared before him to present objections or protests concerning real property and his action in each case.

SECTION 11. 39-8-106 (1) (a), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-8-106. Petitions for appeal. (1) (a) A statement informing such person of his right to appeal, the time and

place at which the county board of equalization will hear appeals from determinations of the assessor, and that, by mailing or delivering one copy of the form to the county board of equalization which is received or postmarked on or before THE THIRD MONDAY IN July ~~10~~ of that year for real property and July 15 of that year for personal property, such person will be deemed to have filed his petition for hearing with the county board of equalization. The date the form is received by the county board of equalization shall be stamped on the form. All such forms shall be presumed to be on time unless the county board of equalization can present evidence to show otherwise.

SECTION 12. 39-8-108 (2), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-8-108. Decision - review - opportunity to submit case to arbitration. (2) If the petitioner has appealed to the board of assessment appeals and the decision of the board of assessment appeals is against the petitioner, he may ~~within thirty-days-after-such-decision,~~ petition the court of appeals for judicial review ACCORDING TO THE COLORADO APPELLATE RULES AND THE PROVISIONS OF SECTION 24-4-106 (9), C.R.S. If the decision of the board is against the respondent, the respondent, upon the recommendation of the board that it either is a matter of statewide concern or has resulted in a significant decrease in the total valuation for assessment of the respondent county, may ~~within--thirty--days-after-such decision,~~ petition the court of appeals for judicial review

ACCORDING TO THE COLORADO APPELLATE RULES AND THE PROVISIONS OF SECTION 24-4-106 (9), C.R.S. In addition, on and after June 7, 1989, if the decision of the board is against the respondent, the respondent may petition the court of appeals for judicial review of alleged procedural errors or errors of law within thirty days of such decision when the respondent alleges procedural errors or errors of law by the board of assessment appeals. If the board does not recommend its decision to be a matter of statewide concern or to have resulted in a significant decrease in the total valuation for assessment of the respondent county, the respondent may petition the court of appeals for judicial review of such questions within thirty days of such decision.

SECTION 13. 39-10-114 (1) (a), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is REPEALED AND REENACTED, WITH AMENDMENTS, to read:

39-10-114. Abatement, cancellation of taxes. (1) (a) (I) If taxes have been levied erroneously or illegally, whether due to erroneous valuation for assessment, irregularity in levying, or clerical error, the treasurer or the owner of the property shall report the amount thereof to the board of county commissioners, which, after a hearing held pursuant to section 39-1-113, shall proceed to abate such taxes in the manner provided by law. If such taxes have been collected by the treasurer, the board of county commissioners, after the hearing, shall authorize refund of the same in the manner provided by law. However, in no case shall an

abatement or refund of taxes be made unless the petition for abatement or refund is filed within one year of the date upon which the taxes were due or within one year of the issuance of a final order or judgment in an appeal filed pursuant to section 39-8-108, whichever is later.

(II) The change or adjustment of any ratio of valuation for assessment for residential real property pursuant to the provisions of section 39-1-104.2 shall not constitute grounds for abatement of taxes as provided in subparagraph (I) of this paragraph (a).

(III) The assessor shall certify the proportional amount of the total amount of abatements and refunds granted pursuant to the provisions of this section to the appropriate taxing entities at the same time that the certification of valuation for assessment is made pursuant to the provisions of section 39-5-128. Any taxing entity may adjust the amount of its tax levy authorized pursuant to the provisions of section 29-1-301, C.R.S., by an additional amount which does not exceed the proportional share of the total amount of abatements and refunds made pursuant to the provisions of this section. After calculating the amount of property tax revenues necessary to satisfy the requirements of the "Public School Finance Act of 1988", article 53 of title 22, C.R.S., any school district shall add an amount equal to the proportional share of the total amount of abatements and refunds granted pursuant to the provisions of this section prior to the setting of the mill levy for such school

district. Any additional amount added pursuant to the provisions of this subparagraph (III) shall not be included in the total amount of revenue levied in said year for the purposes of computing the limit for the succeeding year pursuant to the provisions of section 29-1-301, C.R.S. Where a final determination is made granting an abatement or refund pursuant to the provisions of this section after the certification of tax levies in any given year, the abatement or refund granted shall be payable upon payment of property taxes for the property tax year immediately following said final determination. For the purposes of this subparagraph (III), a taxing entity's proportional share of the total amount of abatements and refunds granted shall be based upon the amount of tax levied by a taxing entity on such real property in proportion to the total amount of tax levied on such real property by such taxing entities.

(IV) For purposes of this paragraph (a):

(A) "Clerical error" means a mistake or fact made by the county assessor which is apparent on the face of the records or any clerical error made by a taxpayer in completing any declaration schedules pursuant to the provisions of article 5, 6, or 7 of this title. "Clerical error" does not include misclassification of property.

(B) "Erroneous or illegal" means any valuation or tax that is wholly or partially illegal; however, the term does not include any excessive valuations or overvaluations.

(C) "Irregularity in levying" means an incorrect amount

of mills levied or a property being incorrectly included within the territorial limits of an authority levying the tax.

SECTION 14. Article 10 of title 39, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW SECTION to read:

39-10-114.5. Decision - review - judicial review. (1) If the board of county commissioners, pursuant to section 39-10-114 (1), or the property tax administrator, pursuant to section 39-2-116, denies the petition for refund or abatement of taxes in whole or in part, the petitioner may appeal to the board of assessment appeals pursuant to the provisions of section 39-2-125 within thirty days of the entry of any such decision.

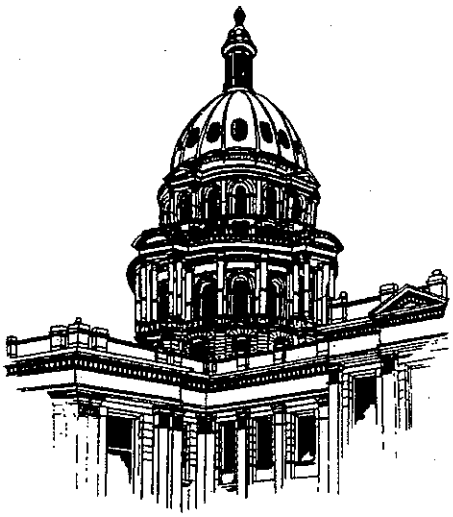
(2) If the petitioner has appealed to the board of assessment appeals and the decision of the board of assessment appeals is against the petitioner, he may petition the court of appeals for judicial review according to the Colorado appellate rules and the provisions of section 24-4-106 (9), C.R.S. If the decision of the board is against the respondent, the respondent, upon the recommendation of the board that it either is a matter of statewide concern or has resulted in a significant decrease in the total valuation for assessment of the county wherein the property is located, may petition the court of appeals for judicial review according to the Colorado appellate rules and the provisions of section 24-4-106 (9), C.R.S. In addition, if the decision of the board is against the respondent, the respondent may petition

the court of appeals for judicial review of alleged procedural errors or errors of law when the respondent alleges procedural errors or errors of law by the board of assessment appeals. If the board does not recommend its decision to be a matter of statewide concern or to have resulted in a significant decrease in the total valuation for assessment of the county in which the property is located, the respondent may petition the court of appeals for judicial review of such questions.

SECTION 15. Repeal. 39-1-103 (8) (e), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is repealed.

SECTION 16. Effective date - applicability. This act shall take effect upon passage; except that section 1 shall take effect July 1, 1990, and sections 7, 10, and 11 shall take effect January 1, 1991. Section 39-1-103 (14) (b), as contained in section 2 of this act, shall apply to property tax years commencing on and after January 1, 1991.

SECTION 17. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.



Committee on

Tax Policy

Report to the

COLORADO

LEGISLATIVE COUNCIL

Colorado Legislative Council
Research Publication No. 390
December 1993

RECOMMENDATIONS FOR 1994

COMMITTEE ON TAX POLICY

Report to the
Colorado General Assembly

Research Publication No. 390
December 1993

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(303) 866-3521 FAX: 866-3855 TDD: 866-3472

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December 30, 1993

To Members of the Fifty-ninth Colorado General Assembly:

Submitted herewith is the report of the 1993 Interim Committee on Tax Policy. House Bill 93-1246 directed the Executive Committee of the Legislative Council to, in the absence of the adoption of a study resolution during the regular session, determine the interim studies and provide for the conduct of such studies. The Interim Committee Study Resolution adopted by the Executive Committee of the Legislative Council on May 25, 1993, created the Interim Committee on Tax Policy. In accordance with the resolution, the committee reported its recommendations to the Executive Committee of the Legislative Council on December 17, 1993.

Respectfully submitted,

Representative Paul D. Schauer
Chair, Colorado Legislative Council

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Tax Policy Committee

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Representative Doug Friednash
Representative Daphne Greenwood
Representative Bill Martin
Representative R.D. "Bud" Moellenberg
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Amy Zook
Sr. Fiscal Analyst II

Scott Nachtrieb
Sr. Fiscal Analyst

Lon Engelking
Principal Fiscal Analyst

Office of Legislative Legal Services

Sharon Eubanks
Administrative Senior Attorney

Dorothy Dodick
Staff Attorney

EXECUTIVE SUMMARY

Committee Charge

The Interim Committee on Tax Policy was charged with studying the tax policies of Colorado state and local governments and make recommendations which ensure the fair application of tax laws to all Colorado state taxpayers.

Committee Activities

The committee held seven meetings at the State Capitol and six meetings around the state. During meetings held outside the Capitol, testimony concentrated primarily on the interaction of the Gallagher and the TABOR amendments to the Colorado State Constitution, and the resulting impact on local communities.

Committee Recommendations

The Interim Committee on Tax Policy recommended four bills for consideration by the Legislative Council. On December 17, 1993, the Executive Committee of Legislative Council approved the four bills summarized below.

Bill 1 — Optional County Personal Property Tax Deferrals. Bill 1 allows each county the option of granting property tax deferrals to taxpayers who otherwise receive tax bills for personal property for less than $25. The deferral is payable when the total accumulated tax exceeds the lesser of the value of the property or $75, or when the property is sold, whichever comes first.

Bill 2 — Tax Policy Committee. Bill 2 creates a Tax Policy Committee consisting of thirteen members: five members appointed each from the House of Representatives and the Senate, and three members appointed by the Governor. The committee is to review and make recommendations regarding state and local government tax policy. The bill also creates an advisory committee of nine members with expertise and knowledge in state and local taxes. Both committees sunset July 1, 2000.

Bill 3 — Definition of "Hotels and Motels" for Property Tax Purposes. Bill 3 specifies that establishments which constitute hotels and motels include any residential condominium units, residential time share estates, and other residential real property which operate as part of an establishment primarily engaged in providing lodging or actually renting on an overnight or weekly basis for more than 30 calendar days per year.

Bill 4 — Concerning Property Taxes. Bill 4 eliminates the "unusual condition" provision for revaluing real property during the "intervening year" of an assessment cycle when property value change is greater than 10 percent of actual value. It raises the income eligibility requirements for elderly and disabled property tax grants, and reclassifies one acre of farm land underlying or adjacent to a farm residence from agriculture to residential property.

Bill 4 also allows taxpayers 12 months, rather than 30 days, to protest and appeal their valuations of real and personal property. Overvaluation is eliminated as grounds for an abatement or refund of taxes. In addition, the bill reduces the filing time period for an abatement or refund petition.

Advisory Committee

The Interim Committee on Tax Policy was assisted by a nine-member citizen advisory committee. The committee held six meetings and discussed state and local tax policy issues. The advisory committee presented its observations and master list of possible solutions to the Interim Committee on Tax Policy on October 18, 1993.

COMMITTEE REPORT

Committee Charge

The Interim Committee on Tax Policy was created on May 25, 1993, by the Executive Committee of the Legislative Council with the adoption of the Interim Committee Study Resolution. The study resolution stated that the charge and the membership of the Interim Committee on Tax Policy was to be developed later. On June 14, 1993, the executive committee adopted the resolution establishing the Interim Committee on Tax Policy and its respective charge. The study resolution provided the committee consist of fourteen members: five senators appointed by the President of the Senate; six representatives appointed by the Speaker of the House; one member of the executive branch of state government; one representative of county governments; and one county assessor. Later amendments to the resolution allowed for the appointment of an additional member from the House of Representatives and the Senate. The resolution directed the committee to undertake a study of the tax policies of Colorado state and local governments which were to include:

- the appropriate valuation for assessment ratio for each class of taxable real and personal property;
- exemptions from taxation of various classes of real and personal property, including recommendations regarding the implementation of a homestead exemption;
- changes in tax policy generally; and
- any other changes which would ensure the fair application of tax laws to all taxpayers in the State of Colorado.

Legislative Council required a committee report and presentation of recommended legislation on or before January 1, 1994. The resolution also allowed for the interim committee to appoint a citizens advisory group consisting of nine members with expertise and knowledge of state and local taxes. The advisory committee was charged with studying tax policy issues and making recommendations to the interim committee. Appended to this report are the advisory committee recommendations.

Committee Activities

The committee held seven meetings at the State Capitol Building and conducted six meetings outside the Capitol in the cities of Durango, Grand Junction, Colorado Springs, Pueblo, Fort Collins, and Greeley. Meetings outside the Capitol allowed committee members to receive testimony from citizens and local officials regarding

perceived problems with the state's current tax structure. Testimony at the committee meetings focused on providing background information on the state's overall tax structure. Attention primarily focused on the application of property taxes; however, there were also presentations regarding sales tax, income tax, and tax increment financing.

Property Tax

The committee devoted portions of its meetings to reviewing the history and evolution of property taxes in Colorado and attempts made over the years to equalize the property tax burden. Primarily, the committee focused its attention on understanding the combined impact of the "Gallagher Amendment" (Article X, Section 3, Colorado Constitution) and the "TABOR Amendment" (Article X, Section 20, Colorado Constitution). The Gallagher Amendment was a constitutional amendment enacted by the voters in 1982. The amendment requires that for each year in which the level of value changes, the General Assembly must adjust the residential assessment rate. The adjustment must ensure that the proportion of statewide total valuation of residential property, in relation to all other taxable property in Colorado, remains essentially the same as in the prior year (approximately 45 percent).

During the November election of 1992, the electorate passed a constitutional amendment referred to as "Amendment 1" or the "Taxpayer's Bill of Rights" (TABOR). TABOR limits taxing, spending, and revenue-raising by state and local governments. In terms of taxing, TABOR requires prior voter approval for "any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain."

Since 1982, the residential assessment rate, as enacted by the General Assembly, has declined from 21 percent to 12.86 percent in 1993. To compensate for the decline, and to hold revenues constant, counties have tended to raise mill levies. However, discussions with the Tax Policy Committee revealed that the effect of the TABOR Amendment is taxing entities cannot increase mill levies without voter approval. Local officials expressed concern that although home values have increased, the continued lowering of the residential assessment rate, along with TABOR limitations, will reduce revenue to local governments. Testimony from the Tax Policy Advisory Committee reiterated that the TABOR Amendment, combined with the Gallagher Amendment, is particularly difficult for small communities as their tax base is almost exclusively composed of residential property.

The impacts of the Gallagher and TABOR amendments on school finance were also addressed by the committee. Information submitted to the committee indicated that the lowering of the residential assessment rate from 14.34 percent in 1991 to 12.86 percent in 1993 will result in a $50.1 million funding decrease for schools from property tax revenue.

Other property tax matters examined by the committee are described below.

Homestead Exemption. One alternative was the implementation of a homestead exemption, particularly in the mountain resort areas. Statements made to the committee indicated that property values were increasing because non-residents were buying residential properties at very high prices. In Aspen, for instance, approximately 70 percent of the county residential properties are owned by non-residents. As a result, the valuation for the local residents has increased dramatically, and some residents find it difficult to pay the associated increased taxes. One suggestion was to give local residents a homestead exemption for their primary residence.

Annual Assessment. Smaller communities expressed concerns about the anticipated increased costs from the change from biennial to annual assessments. The change is to occur in 1997.

Agricultural Designation. The agricultural land designation applies to both the burdens on taxpayers when agricultural land is reclassified to vacant land and the tax break afforded individuals whose land is classified as agricultural when, in fact, the designation should be vacant land or residential. Testimony tended to indicate that there was no consistency among the counties in the application of the agricultural assessment.

Simplifying Property Tax Process. Options were presented for simplifying the property tax process: 1) multiply both the current non-residential rates of 29 percent and the residential rate of 12.86 percent by a factor of 3.45. This would readily identify that non-residential property is taxed at 100 percent of its value, while residential property is taxed at 44.34 percent of its value; 2) divide the current mill levy in each county by a factor of 3.45; 3) accept the 40 percent ratio for residential property versus non-residential property. However, from this point forward apply a fixed ratio to both for any increases or decreases in assessments; and 4) freeze the current 100 percent non-residential property assessment and 44 percent residential property assessment and abandon the Gallagher Amendment.

Property Tax Appeals Process. The property valuation appeals process was examined to determine the fairness to the taxpayer and the local governments. Changes discussed with the committee were:

- require that a petitioner, agent, or attorney submit information supporting the appealed value to the assessor and to the county board of equalization. Failure to present information at the assessor and county board of equalization levels would prohibit a petitioner from appealing beyond the local level;
- if a county board of equalization, county board of commissioners, or property tax administrator and a petitioner reach a stipulated value, then the written stipulation is submitted to the county treasurer. This written stipulation would have the same force and effect as the filing of an order of the Board of Assessment Appeals;

- require a $25 filing fee on all abatement petitions filed with the Board of Assessment Appeals. *Pro se* taxpayers, representing themselves, are exempt from a filing fee; and
- require that to be eligible for an abatement on overvaluation, taxpayers must have pursued their administrative remedies set forth in Section 39-5-122, C.R.S.

Tax Policy Proposals. The committee discussed the merits of various tax policy proposals. In discussing the contents of any tax proposal recommended by the committee, it decided that the common themes of any proposal be: 1) simplicity; 2) fairness; and 3) stability. The assorted proposals considered by the committee consisted of a combination of changes to property tax, income tax, and sales tax, with the bottom line goal being revenue neutral. The various proposals and their projected economic impacts are available from Legislative Council staff.

Sales Tax

When discussing sales tax issues, the committee focused primarily on three areas: 1) implementing a tax on services; 2) instituting a state-collected, locally-shared sales tax revenue system; and 3) eliminating all state sales tax exemptions. The committee received an overview and history of the state's sales tax structure from the Department of Revenue. The department noted that a state sales tax was first imposed as an emergency measure in 1935 at a rate of 2 percent. The tax became a permanent part of the tax base by a constitutional amendment in 1936 that required the revenue first fund the Old Age Pension Fund and that any remaining funds be transferred to the state's General Fund. The tax rate remained at 2 percent until 1965 when the rate increased to 3 percent. Since that time, the only rate change has been a temporary 15-month increase of one-half percent to provide relief for a state budget deficit. In 1935, there were only five sales tax exemptions, but the state now has over 50 specific exemptions.

With regard to the administration of the sales tax statewide, 242 governmental entities collected $1.8 billion in sales tax revenue in 1991. The Department of Revenue processes and collects sales tax revenue for 156 cities, 39 counties, and three special districts. Forty-three home rule cities administer their own tax and are not subject to the statutory requirements of the state sales tax. Home rule cities collect 68 percent of all local government sales taxes and 36 percent of all sales taxes collected in the state.

The Department of Revenue submitted a report to the committee entitled "An Examination of Colorado's Current Sales Tax System". The committee discussed the concepts in the report concerning a statewide uniform rate system and distribution, as well as taxes on services.

Income Tax

The committee's work in the area of state income taxes focused on gaining an overall perspective of the history of the state income tax and its revenue raising potential. As a source of revenue to the state, the committee was informed that the General Fund has become more reliant upon the income tax. The state's income tax is progressive but becomes less progressive at the higher income levels. As an historical perspective, a state income tax was first implemented in 1937 with a range of one percent on the first $1,000 of income to six percent on incomes over $10,000. Since that time, the tax rate changed five times to the current flat tax rate of five percent. Information presented to the committee from the Governor's Office of State Planning and Budgeting noted that from 1978 to 1990, taxes kept pace with personal income, but did not exceed personal income.

Tax Increment Financing

The committee discussed the merits and fiscal impacts of tax increment financing (TIF). As authorized in Colorado's statutes, TIF involves the creation of a special fund comprised of certain revenue increases in ad valorem property taxes, municipal sales taxes, or both, generated within an area of urban redevelopment. Tax revenue increases, which are due to development of the area, are pledged to pay debt service on the bonds issued to finance the redevelopment. In theory, the urban area needs a means to stimulate private development. In addressing a sales tax TIF versus a property tax TIF, it was stated that property taxes are much more stable as they are not as dependent on the economy. On another note, the Colorado Supreme Court has considered the issue of tax increment financing and has ruled it is not an indebtedness to the public entity. Rather, TIF is a form of revenue bond financing.

Individuals speaking on behalf of TIF indicated that the funding mechanism provided a development tool for communities to accomplish three basic goals: 1) to meet civic objectives of communities; 2) to provide incentives to bring new jobs to a community; and 3) to balance the disproportionate share of property tax burden carried by one taxpayer versus another. Tax increment financing has been a part of the nation's urban development strategy since the federal Model Cities programs of the 1960s. Historically, TIF projects were designed to save or rejuvenate downtowns. Testimony indicated that the financing mechanism is the cornerstone of public-private partnerships whereby the community seeks to make a strategic investment that serves a genuine civic purpose but which needs private sector investment of a magnitude far greater than the community can afford.

Those raising concerns about TIF pointed out that the state is not a player in the negotiations, yet the state "backfills" school finance. Consequently, the state must provide additional funding for schools for property tax dollars diverted to tax increment financing to pay off urban renewal bonds. Further, testimony reflected a belief that counties should be full partners in urban renewal infrastructure projects and funding

decisions. County representatives stated that they are not fully apprised about TIF agreements and are left out of the decision-making process. They also noted that with the passage of TABOR, counties do not have the ability to replace the funds diverted to the tax increment financing without voter approval.

Committee Recommendations

Bill 1 authorizes the board of county commissioners in each county to create a program that grants a tax deferral to personal property taxpayers who owe less than $25 in personal property tax in a year. A resolution adopted by the county commissioners begins the program, effective the year immediately following the year in which the resolution is adopted. Thirty days after adopting the resolution, the county commissioners must notify the county treasurer. The county treasurer is to receive a certificate of deferral with the name of the taxpayer granted the deferral, the amount of the tax deferral, the year of the grant deferral, and the taxing entities levying a property tax on the property. Copies of the deferral certificate are to be sent to the commissioners and the taxpayer. The county commission can repeal the program upon the adoption of another resolution.

Taxes will be paid when the personal property is sold, when the total amount of personal property tax deferral exceeds $75, or when the total deferral exceeds the market value of the personal property, minus the total amount of any liens filed against the property. County assessors determine the market value of the personal property. The bill does not allow for interest, charges or penalties for the deferrals granted.

If the tax deferral exceeds the limits allowed, the county treasurer is to notify the taxpayer of the amount of deferred taxes due for the most recent property tax year. The county treasurer may use any method for collecting such deferred taxes as the law authorizes. The bill requires county treasurers to distribute the deferred taxes to authorized entities in the year the tax is paid as though no deferrals were granted.

Bill 2 creates the Tax Policy Committee and authorizes the committee to review any phase of state and local tax policy. Specifically, the committee is to:

- review the valuation for assessment ratio for each class of taxable real property to determine its appropriateness;
- examine the advisability of creating a homestead exemption for property taxation;
- review any tax exemption;
- examine the difficulties in the current operations of state and local tax systems and make recommendations to reduce or eliminate the problems;

- ensure an equitable state and local tax burden;
- recommend legislation concerning state and local tax policy;
- create subcommittees and appoint members that are not on the Tax Policy Committee to subcommittees; and
- appoint a tax policy advisory committee and review the advisory committee's recommendations.

The Tax Policy Committee would consist of thirteen members: three appointed by the Governor; five members of the Senate; and five members of the House of Representatives. Of the House and Senate appointees, no more than three are to be from the same political party. The advisory committee is to consist of nine members elected by majority vote of the Tax Policy Committee. The sunset date of the committee is July 1, 2000, unless the General Assembly extends the date.

Bill 3, concerning the definition of hotel and motel property tax purposes, modifies the tax procedures for "condo-hotels." The bill includes properties currently assessed as residential properties under the definition of hotels and motels for property tax purposes. These properties include residential condominium units, residential time share estates, and other residential real property if the property is under common ownership or control and the primary activity is to provide lodging. Lodging provided could be by the day, week, or month. The expanded definition applies to those properties rented for more than 30 days per year.

The bill requires property owners to keep a record of rentals of the property for each tax year and submit the rental records to the county assessor no later than February 1 of the following year. If the owner fails to provide the records, the property receives a hotel or motel property classification for the property tax year. "Common ownership" means that all the real property owned by the same owner or an affiliate of the owner that is under common control with the owner. "Control" means that the separate owners of the real property are required to make the property available for rent for a portion of a year and must use an exclusive agent.

Bill 4, concerning property taxes, makes several changes to the property tax system. The bill allows county assessors to adjust the level of value for taxable real property with data from the last day of the five-year period prior to the July 1 preceding the assessment period. The bill also eliminates the requirement that county assessors revalue property in the intervening year if the value of property changes by more than 10 percent.

The bill eliminates the annual reappraisal requirement beginning in 1997. Time frames in which taxpayers may protest and appeal valuations of taxable property changes from the current 30 days to one full year after the mailing of notices of valuation. Postmarks for written protests for real property are accepted no later than April 27, and protests made in person must be made by May 1 of the year immediately

following the year the notice was mailed. Deadlines for protesting personal property appeals are June 10 for written protests and June 15 for protests made in person for the year immediately following the year of the notice mailing. All hearings on protests are to conclude within 20 days of the protest filing or by June 1 of the year following the year of the protest filing. The bill requires assessors to submit a written decision concerning the complaint within 30 days after receiving the complaint or by July 20 in the year following the year the notice of valuation was given.

An overvaluation of property no longer is grounds for filing for abatements or refunds. The bill reduces the time frame for applying for such an abatement for real and personal property taxes to one year after January 1 of the year following the year in which the taxes were levied.

The bill also changes the classification of a one acre parcel of land underlying and adjacent to any residential improvements and land underlying certain farm and ranch improvements from the agriculture classification to the residential classification. Taxpayers who purchase agricultural land for more than twice the market value bear the burden of proof if the land is still to be considered as agricultural land.

Last, the bill raises the qualifying eligibility requirements for the old age income tax credit by the rate of inflation for elderly and disabled persons. The adjustment would increase the 1980 rate by inflation factors to the present. Single taxpayers qualify for the full credit with incomes at or below $8,600 and $15,000 for married taxpayers. The credit decreases by 20 percent for incomes in excess of the income limits. Taxpayers will not receive any credit with incomes in excess of $12,900 for single taxpayers and $19,300 for married taxpayers. Future increases in the qualifying income levels would change based on changes in the Denver-Boulder Consumer Price Index. The amount of the credit in future years would remain at $500.

MATERIALS AVAILABLE

The materials listed below are available upon request from the Legislative Council staff.

1) Summaries of the 1993 interim Tax Policy Committee meetings held on July 21, August 2, September 1, September 13, September 22, September 27, October 18, November 3, November 4, November 18, and December 8.

2) *1992 Colorado State and Local Finance Study,* Office of State Planning and Budget, Office of the Governor.

3) *Current State Tax Trends in the United States*, National Conference of State Legislators, February, 1992.

4) *State and Local Tax Levels: Fiscal Year 1991,* National Conference of State Legislators, July 21, 1993.

5) *Taxpayer Report: Restructuring Government in Colorado*, Colorado Public Expenditure Council, February 22, 1993.

6) *Taxpayer Report: State Government Tax and Spending Comparisons for 1991*, Colorado Public Expenditure Council, December 30, 1992.

7) *Colorado as a Percent of National Per Capita Income and Per Capita State and Local Taxes, 1960-1991*, Colorado Public Expenditure Council, August, 1993.

8) *1992 Annual Report*, Colorado Department of Revenue.

9) *Overview and History of Colorado Individual Income Tax*, August 2, 1993, Department of Revenue.

10) *Overview and History of Sales Tax Structure in Colorado*, August 2, 1993, Department of Revenue.

11) *Overview and History of Specific Ownership Tax in Colorado*, August 2, 1993, Department of Revenue.

12) *Tax Increment Financing in Colorado*, Rothgerber, Appel, Powers, and Johnson, August 5, 1993.

13) *Five-Year Projection of Revenues and Expenditures*, Joint Budget Committee, October 15, 1993.

14) *Homestead Exemption*, October 27, 1993, Tom Isaac, Pitkin County Assessor.

15) *Committee Report on Potential Legislative Changes*, Property Valuation Appeals Process Advisory Committee, October 1, 1993.

16) *Survey Information on Mandated Costs*, November 18, 1993, Colorado Counties, Inc.

17) *Agriculture Assessment Recommendations*, November 18, 1993, Peter King, Colorado Counties, Inc.

18) *Questions Regarding Article X, Section 20 of the Colorado Constitution,* Office of Legislative Legal Services memorandum, September 10, 1993,

19) *Constitutional Questions Raised at the Ft. Collins Meeting*, Office of Legislative Legal Services memorandum, October 18, 1993.

20) *Enactment of a Corporate Alternative Minimum Tax*, Office of Legislative Legal Services memorandum, October 18, 1993.

21) *Procedural Questions Regarding the Presentation to the Voters of Proposed Changes to the State and Local Tax System*, Office of Legislative Legal Services memorandum, October 18, 1993.

22) *Tax Policy Advisory Committee Report*, Legislative Council staff, October 14, 1993.

23) *Highlights: Revenue and Economic Forecast*, Colorado Legislative Council staff, June 1993.

24) *Property Tax Overview*, Legislative Council staff memorandum, August 2, 1993.

25) *Effects of "Gallagher Amendment" on School Finance*, Legislative Council staff memorandum, August 17, 1993.

26) *Tax Policy Proposal #1 Revenue Impact*, Legislative Council staff memorandum, November 3, 1993.

27) *Tax Policy Proposal #2A Revenue Impact*, Legislative Council staff memorandum, November 17, 1993.

28) *Tax Policy Proposal #3 Revenue Impact*, Legislative Council staff memorandum, November 3, 1993.

29) *Tax Policy Proposal #4 Revenue Impact*, Legislative Council staff memorandum, November 3, 1993.

30) *Comparison of Property Tax Proposals 2A and 4*, Legislative Council staff memorandum, November 17, 1993.

31) *Impact of Applying the Provisions of Property Tax Proposal 2A to 1988 Property Tax Valuations*, Legislative Council staff memorandum, December 8, 1993.

32) *Old Age Credit -- Adjusted for Inflation*, Legislative Council staff memorandum, November 9, 1993.

33) *Colorado Property Tax Deferral and Grant Program*, Legislative Council staff memorandum, October 15, 1993.

34) *Impact of a Full Market Value Property Tax Assessment System with a Homestead Exemption for Owner-Occupied Residences*, Legislative Council staff memorandum, November 3, 1993.

35) *Estimated Impacts on Statewide Assessed Valuation and School District Property Taxes for Insurance Reserve and Capital Reserve from Statutory Changes and Court Rulings Since Adoption of the "Gallagher Amendment" in 1982*, Legislative Council staff memorandum, March 11, 1993.

36) *Estimated Impacts of a K-12 Levy versus a Return to the Method of Calculating School District Levies Prior to the Passage of Amendment No. 1*, Legislative Council staff memorandum, November 10, 1993.

37) *Preliminary Data -- Fees Collected by State Departments*, Legislative Council staff memorandum, October 14, 1993.

38) *Cash Funds and the Colorado State Budget*, Legislative Council staff memorandum, August 2, 1993.

39) *Tax Increment Financing*, Legislative Council staff memorandum, October 15, 1993.

40) *Federal Alternative Minimum Tax*, Legislative Council staff memorandum, October 14, 1993.

41) *Social Services Costs at the County Level*, Legislative Council staff memorandum, November 9, 1993.

42) *Tax Assessment on Services*, Legislative Council staff memorandum, November 11, 1993.

43) *Election Issues on the November 2nd Ballot with TABOR Amendment Implications*, Legislative Council staff memorandum, October 15, 1993.

44) *Revenue Impacts from changes in Various Tax Laws*, Legislative Council staff memorandum, October 27, 1993.

45) *Preliminary Fiscal Analysis of Proposed Interim Committee Bill Creating the Tax Policy Committee*, Legislative Council staff memorandum, December 1, 1993.

46) *Estimated Fiscal Impact of Adjusting the Old Age Credit for Inflation*, Legislative Council staff memorandum, December 7, 1993.

47) *Revenue Impacts of Imposing a 5 Percent Sales Tax on 900 Prefix Services and Products*, Legislative Council staff memorandum, December 1, 1993.

48) *Three Bill Proposals Presented to the Tax Policy Committee*, Legislative Council staff memorandum, December 2, 1993.

49) *Impact of an Additional Homestead Exemption for the Elderly and Disabled*, Legislative Council staff memorandum, November 29, 1993.

50) *Proposal 2A - Combined Effect on Property and Income Taxes*, Legislative Council staff memorandum, December 2, 1993.

Tax Policy
Advisory Committee

Members of the Committee

Ms. Fran Raudenbush, Chair
Dr. Doris Drury
Mr. John Hamlin
Mr. Rich Levengood
Mr. Andy Wyatt
Dr. Jim Alm
Mr. Neil Goff
Mr. James Jacobs
Ms. Melanie Maley

Legislative Council Staff

Harry Zeid
Sr. Fiscal Analyst II

Will Meyer
Sr. Fiscal Analyst

TAX POLICY ADVISORY COMMITTEE REPORT

Committee Charge

The nine-member Tax Policy Advisory Committee was established by the Tax Policy Committee to study tax policy issues and make recommendations to the Interim Committee on Tax Policy. The appointments were approved by the Tax Policy Committee at its meeting on July 21, 1993.

The mission of the Tax Policy Advisory Committee was to critically review the State of Colorado's approach to raising revenue and expending funds. Based upon its review, the advisory committee would provide alternatives to the committee to improve the state's ability to raise revenue fairly and to expend the revenues equitably. The mission statement included short-term and long-term components.

A. **Short-Term Statement of Mission.** The Tax Policy Advisory Committee will define the state's fiscal problems and provide specific alternative solutions to those problems, including adjusting state and local revenue and expenditures. Particular attention will be paid to increased efficiencies in government.

B. **Long-Term Statement of Mission.** The Tax Policy Advisory Committee will provide specific alternatives to the interim committee regarding how the state's approach to raising revenue and expending state funds, and its interrelationship with local governments should be evaluated and revised to meet the long-term economic and social goals of the State of Colorado.

The advisory committee adopted a two-track approach to the analysis of the state's current policies relating to state and local government tax and expenditure issues. First, the advisory committee reviewed and discussed the current fiscal conditions of the state and identified potential fiscal problems. Second, the committee reviewed the fiscal relationship between the state and units of local government and identified long term issues and possible solutions.

Committee Activities

The advisory committee held a total of six meetings from August through October, 1993, drawing upon staff research, expert testimony, and internal discussions designed to address the specific provisions in its charge.

Committee Recommendations

The advisory committee presented its observations and list of possible alternatives to the interim committee on October 18, 1993 (see Appendix A). The advisory committee report expressed the viewpoint that the primary fiscal problem facing the state today is a result of the combined effects of the 1982 Gallagher Amendment and the 1992 TABOR Amendment. These two constitutional amendments have impacted the stability, certainty, sufficiency, and equity of the property tax as the major source of local government revenue. Additionally, the committee recognized that school funding will be competing with escalating fixed cost statutory requirements at the state level to fund Medicaid, social services programs, and prison overcrowding.

The advisory committee report questioned whether the present structure of government in Colorado is capable of responding to the long-term service obligations required by the public. It is possible that certain functions of government should be centralized for greater equity and efficiency, while other functions should be decentralized for greater local government accountability.

The advisory committee report also provides an overview of certain issues and identifies possible alternatives which might improve the workings of each level of local government. Specifically, discussions are provided regarding school districts, counties, municipalities, and special districts. Additionally, structural issues associated with property, sales, and income taxes are discussed within the body of the report.

As a long-term alternative, the advisory committee identified the need to either establish a local government policy council or to create a statutory tax policy review committee. The committee would study, review, and recommend legislative changes to the General Assembly.

MATERIALS AVAILABLE

The materials listed below are available upon request from the Legislative Council staff.

1) Summaries of the 1993 Tax Policy Advisory Committee meetings held on August 2, August 18, September 2, September 20, October 7, and October 13.

2) Biographical sketch of the members of the Advisory Committee on Tax Policy.

3) *Checklist of State Taxes*, Legislative Council staff memorandum, October 1993.

4) *Goals of the Tax Policy Committee*, Legislative Council staff memorandum, November 2, 1993.

5) *Investigation into Cooperative Efforts Between Various Levels of Local governments in Order to Solve Certain Fiscal Problems*, Legislative Council staff memorandum, September 1, 1993,

6) *Principles of a High-Quality State Revenue System*, Lincoln Institute of Land Policy and the National Conference of State Legislatures,

7) *Financing Government in Colorado*, Table of Contents and Objectives of Study, General Summary and Conclusions, chapter of the 1959 Tax Study.

8) *Revenue Impacts of the 1993 Deficit Reduction Bill*, Legislative Council staff memorandum, August 25, 1993.

APPENDIX A

TAX POLICY ADVISORY COMMITTEE MISSION STATEMENT

I. **PREAMBLE** Colorado must recognize the interrelationship of the state and local governments in both revenue needs and service obligations. The recognized standards of a sound tax system must be followed, including; (1) productivity; (2) equity in the distribution of tax burdens; (3) a recognition of the rights and problems of taxpayers; (4) adaptability of the tax program to the immediate and long-range needs of the economy as a whole and (5) the use of taxes that do not unduly interfere with rational economic decisions. Colorado needs to avoid competition between state and local governments for tax bases. Colorado should recognize the inequities between and among levels of government. The state and units of local government need to work together efficiently and effectively. Units of local governments also need to work together efficiently and effectively.

II. **STATEMENT OF MISSION** The mission of the Tax Policy Advisory Committee ("TPAC") is to critically review the State of Colorado's approach to raising revenue and expending funds. Based upon its review the advisory committee would provide alternatives to the Interim Committee on Tax Policy to improve the state's ability to fairly raise revenue and administer the equitable expenditure of those revenues. This mission statement is comprised of the following short-term and long-term components.

A. **Short-Term Statement of Mission.** The TPAC will define the state's fiscal problems and provide specific alternative solutions to those problems. Alternative solutions include adjusting revenues and adjusting or modifying state and local expenditures. Particular attention will be paid to increased efficiencies in government.

B. **Long-Term Statement of Mission.** The TPAC will provide specific alternatives to the Interim Committee regarding how the state's approach to raising revenues and expending state funds and its interrelationship with local governments should be evaluated and revised to meet the long-term economic and social goals of the State of Colorado.

III. **APPROACHING THE MISSION** The TPAC has adopted a two-track approach to the analysis of the State of Colorado's current policies relating to state and local government tax and expenditure issues.

A. **Review and Discuss Current Fiscal Conditions.** First, the TPAC will review and discuss the current fiscal conditions of the state. The Gallagher Amendment and the Tabor Amendments, their impacts, and issues related to school finance and local government finance will be discussed. The TPAC will identify potential fiscal problems and the timing of those problems. Economic efficiencies and responsiveness to current demands will be identified.

B. **Review Relationship Between State and Local Governments.** Secondly, the TPAC will review the fiscal relationship between the state and local units of government. Long term issues and possible solutions will be identified.

SO WHAT'S THE PROBLEM?

OVERVIEW

One of the primary principles of a high-quality revenue system is that the system should produce revenue in a reliable manner. In order to maintain a reliable source of revenue, a tax system must have **stability, certainty, sufficiency, and equity**.

Diversification of revenue sources over broad bases allows a revenue system to be more stable during periods of economic uncertainty. The six major sources of state and local taxes are the sales tax, personal income tax, property tax, excise taxes, business taxes, and user fees. The ability to collect revenues varies greatly between and among urban and rural jurisdictions of the state.

In Colorado, state services are funded primarily from sales tax, individual income tax, and user fees. Most counties and many special districts rely on the property tax as their primary source of revenue. Many municipalities rely heavily on the sales tax. Revenues for school districts are about evenly split between the property tax and intergovernmental transfers from the state.

Timing is a critical issue. As long as the economy remains strong in most parts of the state, potential funding problems may be delayed, but they will not be eliminated. The harder potential funding problems are to identify, the harder they will be to remedy.

THE PROBLEM

The combined effects of the 1982 Gallagher Amendment and the 1992 TABOR Amendment have impacted the stability, certainty, sufficiency, and equity of the property tax as the major source of local government revenue. The spiraling down of the residential assessment rate, combined with the inability of local governments to adjust the mill levies upward without a vote of the people to compensate for this fact will result in a reduction of property tax revenues for many local governments in the future. The services which are provided by local governments will most likely be adversely impacted.

The revenues of school districts, and any other unit of local government which is dependent upon property taxes for its revenue base will be specifically impacted. School districts will receive less revenue from the property tax due to the spiraling down of the residential assessment rate. The stability and sufficiency of the property tax as a revenue source will be jeopardized for all units of local government which rely on this revenue source, however, school districts face an additional uncertainty regarding state equalization funding. The spending limits placed on the state by the TABOR Amendment will limit the amount of state moneys available to fund all state services. **School funding will be competing with escalating fixed cost statutory requirements to fund Medicaid, social services programs, and prison overcrowding.** The state does not have the revenue necessary to fully fund all of these services. In addition, due to statutory spending limitations, the General Assembly will need to prioritize the funding of these and all other services.

THE STRUCTURE OF COLORADO STATE AND LOCAL GOVERNMENT

QUESTION

Is the present **STRUCTURE** of government in Colorado capable of responding to the long-term service obligations required by the public? If the answer is "NO", then the solutions are to either change the structure of government, and/or to modify the service obligations to fit the current government structure.

OVERVIEW

Colorado has created a complex system of state and local government over the past century. While the number of counties has remained fixed since 1913, many additional cities and towns have been created. School districts were consolidated during the 1950's, however, the number of special districts has risen dramatically over the past three decades. At the end of 1992, Colorado had: 1 state government; 63 counties; 266 municipalities; 176 school districts; and 1,467 special and other districts, for a total of 1,973 governmental units.

Since the early 1970's, Colorado has developed a financial system that could be described as one of "fiscal decentralization". Local governments receive more tax revenue than does the state. Each unit of government is dependent upon a major source of revenue, and resists encroachment by another public entity into their revenue source.

While this system may well serve the needs of the most populous areas of the state, factors like Federal mandates such as Medicaid and social services programs, plus court orders on school equalization and prison overcrowding, have placed even greater demands upon limited state government resources.

In a growing economy, increased revenues may adequately meet these demands. However, in a period of recession, combined with restrictions imposed by the 1992 TABOR Amendment, the state will be unable to meet these demands, and will be forced to cut services unless the voters approve tax increases. Faced with this scenario, is it possible to provide for a functional realignment of government services? That is, should some functions of government be centralized at the state level for greater equity and efficiencies, and other functions be decentralized to the local level for greater accountability? Could functional appropriateness supersede existing political boundaries?

THE STRUCTURE OF COLORADO STATE AND LOCAL GOVERNMENT (continued)

POSSIBLE SOLUTION ALTERNATIVES

I. Authorize the state to absorb various governmental functions. Functions to be considered for absorption would include social services programs and complete funding of K-12 education. The need for enhanced state revenue sources in order to provide these services would go along with absorption of a function;

II. Expand county and municipal authority to create districts under the control of the existing governmental structure, thus reducing the proliferation of special districts. One result of this action would be to bring accountability for these functions under the direct control of county government;

III. Consolidate governmental units, including counties, cities, school districts, and special districts;

IV. Use the Regional Service Authority power to provide specified services, as provided for in statute. This would include the provision of services for items such as water, drainage, waste water treatment, transportation, and solid waste on a regional basis. The use of regional service authorities could result in a reduction in the number of special districts.

SCHOOL DISTRICTS

OVERVIEW

I. The residential assessment rate is projected to continue to decline, as a result of the Gallagher Amendment. This will occur because residential values will increase and residential construction will continue to outpace non-residential construction.

II. Under the TABOR Amendment, property mill levies are no longer allowed to automatically increase to compensate for a reduction in assessed valuations due to changes in the residential assessment rate.

III. The majority of the state's school districts will face property tax revenue shortfalls as a result of the combination of these two factors.

IV. School district revenue shortfalls will come at a time when the combination of spending limitations at the state level and fixed cost expenditure requirements in other areas of state government will limit the amount of funds available for state equalization to fund public education.

POSSIBLE SOLUTION ALTERNATIVES

I. At the school district level:
   1. Reduce expenditures by reducing services;
   2. Seek voter approval for property tax increases to fund operating expenditures;
   3. Increase student fees or impose new student fees;
   4. Adopt developer impact fees on new residences or businesses;
   5. Utilize innovative funding and operational mechanisms, such as cooperative governmental revenue and operational agreements;
   6. Reduce administrative expenditures through possible school district consolidation and program efficiencies.

II. At the state level:
   1. Fund state equalization of schools at CURRENT aggregate spending levels, resulting in decreased funding on a per pupil basis as the number of students increases;
   2. Increase state taxes in order to continue the current per pupil state equalization funding levels or to increase the funding levels;
   3. "Fully fund" state equalization of schools, thereby reducing funding for other state programs;
   4. Impose a statewide property tax to provide additional funding for schools;
   5. Fund public education exclusively at the state level, and expand the concept of schools of choice.

COUNTIES

OVERVIEW

I. The primary sources of county revenues are property taxes, user fees, intergovernmental transfers, and in some cases, sales taxes. In unincorporated parts of certain urban counties, population growth is creating a situation which requires the need for additional government services.

II. The state is divided into four distinct geographic regions - the Front Range; the Western Slope; the Eastern Plains; and the Mountain Region. Each region of the state is faced with very different economic and political realities. Some counties are impacted by urban and suburban growth problems, while other counties are confronted with rapid growth of recreational development. Still other counties are faced with declining economies and declining assessed valuations. As a consequence, large disparities exist with respect to the abilities of counties throughout the state to produce locally generated revenues to meet the service needs of their constituents.

POSSIBLE SOLUTION ALTERNATIVES

I. Reduce specific services;

II. Encourage and reward increased efficiencies in county government;

III. Request voter approval for increases in the property tax mill levy;

IV. Impose additional county taxes, with voter approval;

V. Increase existing user fees or implement new user fees;

VI. Return certain mandated programs to the state;

VII. Implement intergovernmental agreements to provide for certain local services;

VIII. Create special districts under the control of the boards of county commissioners for the provision of the services which are not of county-wide concern;

IX. Provide for financial incentives to encourage certain governmental efficiencies, and for trade-offs of certain types of government services between local governments;

X. Implement a method of regional revenue sharing.

MUNICIPALITIES

OVERVIEW

I. Certain urban municipalities have the ability to raise significant amounts of revenue from the sales tax. As a result, some urban municipalities will be faced with the question of whether to refund excess revenues or to ask the voters for approval to keep and spend the excess moneys collected.

II. Revenue sources for many rural municipalities are limited to property taxes, intergovernmental revenues, and user fees. Without an adequate retail base, sales tax revenues are not a significant revenue source. The revenue sources which are available to these communities may not be adequate to fully fund required municipal services.

III. Large fiscal disparities exist among the state's governmental units. As sales tax receipts have become the most significant revenue source for many municipalities, those differences become most acute at the sales tax base level. Municipalities with large retail sales bases will be better able to provide various services than those without the retail sales base.

IV. The fiscal externalities of one type of government impact other levels of government. For example, growth immediately outside of municipal boundaries may affect the service requirements of the municipality. In addition, the effects of urban renewal authorities and tax increment financing will affect the revenue and expenditure requirements of other levels of government.

POSSIBLE SOLUTION ALTERNATIVES

I. Expand the use of intergovernmental agreements among governmental units;

II. Encourage and reward increased efficiencies in municipal government;

III. Create a "revenue sharing" system between the state and municipalities;

IV. Extend a municipality's "sphere of influence" beyond its political boundaries into unincorporated areas in order to capture additional revenue, provided there are intergovernmental agreements regarding land use;

V. Provide for financial incentives to encourage certain governmental efficiencies, and for trade-offs of certain types of government services between local governments;

VI. Since the fiscal externalities of one type of government impact other levels of government, provide for better intergovernmental cooperation and coordination of county comprehensive plans to control growth in unincorporated areas which are adjacent to municipal boundaries. In addition, increase the level of cooperation regarding the implementation of tax increment financing plans.

SPECIAL DISTRICTS

OVERVIEW

I. The primary revenue source for many special districts is the property tax. Examples include fire protection districts, library districts, and cemetery districts, and some metropolitan districts.

II. In addition to the use of the property tax as a revenue source, some special districts have the ability to raise revenues through the imposition of user fees. Examples include water and sanitation districts, park and recreation districts, and metropolitan districts.

POSSIBLE SOLUTION ALTERNATIVES

I. Reduce or eliminate specific services;

II. Request voter approval for increases in the property tax mill levy;

III. Increase existing user fees, or implement new user fees;

IV. Consolidate special districts;

V. Create additional special districts;

VI. Grant counties and municipalities the power to create "limited purpose" special districts which would be subject to periodic sunset review.

PRIMARY REVENUE SOURCES

The six major sources of Colorado state and local revenues are the sales tax, the personal income tax, the property tax, excise taxes, business taxes, and user fees. State government receives a majority of its revenue from **income taxes**, while local governments receive the bulk of their revenues from **property taxes**. State and local governments each receive the same amount of revenues from **sales taxes**.

The structural issues associated with each of these major tax groups, as well as possible solution alternatives are identified in this analysis.

PROPERTY TAX

OVERVIEW

I. There has been an increase in assessed valuation in most urban areas of the state. The historic rate of growth in the market value of the residential class of property has outpaced the rate of growth in other classes of property. As a result, an increasing amount of the property tax burden has traditionally been shifted to non-residential property owners through mill levy increases.

II. Property tax revenues for many local governments in rural Colorado are impacted by stagnant or declining residential property values, in addition to the local impact from the statewide decline in the residential assessment rate. Growth attributable to the limited amount of new construction in many communities will result in significant declines in actual property tax revenues.

III. In the past, reductions in the residential assessment rate have triggered higher mill levies in order to maintain the same amount of property tax revenues. Under the TABOR Amendment, any reduction in the residential assessment rate will result in actual reductions in local government revenues. This impact will be the greatest among school districts because the majority of property tax revenues are attributed to schools.

IV. Legislation enacted by the General Assembly over the years have granted specific exemptions from property tax, diminishing the property tax base.

V. Court decisions have resulted in the reclassification of certain types of property. This has resulted in a lowering of assessed valuation, and a corresponding reduction in the property tax base.

PROPERTY TAX (continued)

POSSIBLE SOLUTION ALTERNATIVES

I. Repeal the Gallagher Amendment, and replace it with a tier classification system based on fair market value;

II. Repeal the Gallagher Amendment, and replace it with a full market value (100 percent valuation) assessment system. This approach could include a homestead exemption for residences which are owner occupied by full-time Colorado residents;

III. Refer a constitutional amendment to allow mill levies to "float" in order to raise the same amount of property tax revenue;

IV. Repeal the imposition of property tax on business personal property;

V. Make changes in the types of property which constitute residential property (condo-hotels, land under agricultural residences, income or revenue requirements for property to be classified as agricultural, primary residences vs. second homes, owner occupied property vs. renter occupied property, etc.);

VI. Consider a homestead exemption or circuit breaker for owner-occupied residences and possibly for renter-occupied residences;

VII. Re-examine the current agricultural capitalization rate;

VIII. Re-examine the statutes regarding the exemption status of certain religious, charitable, and non-profit corporations, including the use of certain properties for income generating purposes;

IX. Increase reporting compliance to assure that new construction is properly added to the tax roles;

X. Provide the General Assembly with the ability to authorize new or increased real estate transfer taxes at the local government level.

SALES TAX

OVERVIEW

I. In many parts of the state, a geographic disparity exists between where people live and where they make the majority of their retail purchases.

II. Urban areas of the state receive sales tax revenues from purchases made by area residents, businesses, tourists, and rural residents. Urban areas are generally considered to be net sales tax importers.

III. The state has provided sales tax exemptions for many specific types of goods. Most of these exemptions were granted based on sound economic policy at the time.

IV. Personal consumption patterns of residents have changed considerably over the years, and a greater proportion of consumption has shifted to the purchase of services.

V. The complexity of the current administrative system is an enormous administrative burden on many businesses.

POSSIBLE SOLUTION ALTERNATIVES

I. Review exemptions currently in statute in light of current economic conditions in order to re-evaluate whether they should be continued;

II. Consider the imposition of sates tax on certain personal services and some business services;

III. Increase the state sales tax rate;

IV. Consider imposing a state collected-locally shared sales tax;

V. Increase enforcement of sales tax audit procedures which could increase sales tax revenues through increased compliance and reporting of taxable sales by certain businesses;

VI. Streamline the administration of state and local sales tax collection procedures;

VII. Reduce the vendor's discount from the current rate of 3.33 percent.

INCOME TAX

OVERVIEW

I. The Colorado individual income tax is progressive. Although the state imposes a flat tax rate of five percent, the progressive nature of the federal income tax system is taken into account in determining Colorado net taxable income. Therefore, families and individuals with high net taxable income pay a greater proportion of their income in state income tax than families with low net taxable income.

II. The corporate income tax generates a relatively small amount of revenue for the state.

III. Federal income tax law statutes affecting individuals and corporations were changed as part of the Omnibus Budget Reconciliation Act of 1993. While some of these changes will affect certain individual and corporate taxpayers, the overall impact on state income tax revenues in the short term is projected to be relatively small.

POSSIBLE SOLUTION ALTERNATIVES

I. Create a minimum business tax on all corporations, regardless of the level of income;

II. Consider a return to a graduated individual income tax rate, which would increase the progressivity of the individual income tax;

III. Increase the corporate income tax rate;

IV. Consider the elimination of certain Colorado modifications to federal income, such as the exclusion of certain pension income;

V. Increase enforcement of corporate and individual income tax audit procedures. This could increase income tax revenues through increased compliance and reporting of income by certain businesses;

VI. Broaden the regulation of "withholding at the source" for payments made to non-residents.

BILL 1

A BILL FOR AN ACT

CONCERNING AUTHORIZATION FOR COUNTIES TO DEFER PERSONAL PROPERTY TAXES WHICH DO NOT ANNUALLY EXCEED A SPECIFIED DOLLAR AMOUNT.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Interim Committee on Tax Policy. Authorizes boards of county commissioners to grant property tax deferrals to taxpayers who would otherwise receive tax bills for personal property taxes for less than $25. Establishes limits upon the aggregate amount of personal property taxes which can be deferred. Specifies procedures to establish and discontinue such personal property tax deferrals. Requires the issuance of certificates of personal property tax deferrals. Specifies that deferred personal property taxes constitute a lien against the personal property and provides that deferred personal property taxes become payable upon the occurrence of certain events. Specifies methods by which county treasurers can collect and shall apportion deferred personal property taxes.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. Title 39, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW ARTICLE to read:

ARTICLE 3.6

Optional County Personal Property Tax Deferrals

39-3.6-101. Optional county personal property tax deferrals - creation - discontinuance. (1) BEGINNING WITH PROPERTY TAXES LEVIED IN 1993 FOR COLLECTION IN 1994 AND CONTINUING FOR PROPERTY TAX LEVIES AND COLLECTIONS THEREAFTER, THE BOARD OF COUNTY COMMISSIONERS OF A COUNTY, BY ADOPTION OF A RESOLUTION, MAY GRANT A PROPERTY TAX DEFERRAL TO ANY TAXPAYER WHO WOULD OTHERWISE RECEIVE A TAX STATEMENT FOR PERSONAL PROPERTY TAXES TOTALING LESS THAN TWENTY-FIVE DOLLARS; EXCEPT THAT THE AMOUNT OF SUCH DEFERRAL SHALL NOT EXCEED THE CURRENT MARKET VALUE OF THE PERSONAL PROPERTY, AS DETERMINED BY THE COUNTY ASSESSOR IN WHICH SUCH PERSONAL PROPERTY IS LOCATED, MINUS THE TOTAL AMOUNT OF LIENS FILED AGAINST SUCH PERSONAL PROPERTY AS OF THE DATE SUCH PERSONAL PROPERTY TAX DEFERRAL IS GRANTED. SUCH DEFERRAL SHALL BE WITHOUT PENALTY OR INTEREST. SUCH PERSONAL PROPERTY TAX DEFERRALS MAY BE DISCONTINUED ONLY UPON THE ADOPTION OF A RESOLUTION BY THE BOARD OF COUNTY COMMISSIONERS AND SHALL TAKE EFFECT FOR THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE RESOLUTION IS ADOPTED.

(2) (a) WITHIN THIRTY DAYS FOLLOWING THE ADOPTION OF A RESOLUTION TO ESTABLISH OR DISCONTINUE PERSONAL PROPERTY TAX

DEFERRALS, THE BOARD OF COUNTY COMMISSIONERS SHALL NOTIFY THE COUNTY TREASURER OF THE ESTABLISHMENT OR DISCONTINUANCE OF PERSONAL PROPERTY TAX DEFERRALS. UPON RECEIVING NOTIFICATION OF THE ESTABLISHMENT OF PERSONAL PROPERTY TAX DEFERRALS AND UPON THE CALCULATION OF ANY TAX STATEMENT FOR PERSONAL PROPERTY TAXES TOTALLING LESS THAN TWENTY-FIVE DOLLARS, THE COUNTY TREASURER SHALL ISSUE A CERTIFICATE OF DEFERRAL INCLUDING ALL OF THE GOVERNMENTAL AUTHORITIES WHICH HAVE LEVIED PROPERTY TAXES UPON THE PERSONAL PROPERTY, THE NAME OF THE TAXPAYER GRANTED THE DEFERRAL, THE AMOUNT OF PERSONAL PROPERTY TAX DEFERRED, AND THE YEAR IN WHICH THE DEFERRAL IS GRANTED.

(b) THE CERTIFICATE ISSUED PURSUANT TO PARAGRAPH (a) OF THIS SUBSECTION (2) SHALL BE RECORDED WITH THE COUNTY CLERK AND RECORDER OF THE COUNTY IN WHICH THE PERSONAL PROPERTY IS LOCATED AND THEREAFTER SENT TO THE BOARD OF COUNTY COMMISSIONERS. ONE COPY OF THE CERTIFICATE SHALL BE SENT TO THE TAXPAYER TO WHOM THE PERSONAL PROPERTY TAX DEFERRAL HAS BEEN GRANTED, AND ONE COPY SHALL BE RETAINED IN THE OFFICE OF THE COUNTY TREASURER.

(c) A LIEN FOR DEFERRED PERSONAL PROPERTY TAXES SHALL ATTACH ON THE DATE THE CERTIFICATE OF DEFERRAL IS ISSUED, SHALL HAVE PRIORITY OVER ALL LIENS EXCEPT GENERAL TAX LIENS, AND SHALL NOT BE FORECLOSED EXCEPT UPON THE OCCURRENCE OF AN EVENT SPECIFIED IN SECTION 39-3.6-102.

39-3.6-102. Payment of deferred personal property taxes. (1) PERSONAL PROPERTY DEFERRALS GRANTED PURSUANT TO THE PROVISIONS OF THIS SECTION SHALL BECOME PAYABLE WHEN:

(a) THE AGGREGATE AMOUNT OF PERSONAL PROPERTY TAXES OF A TAXPAYER DEFERRED PURSUANT TO THIS SECTION AND THE TOTAL AMOUNT OF PROPERTY TAXES LEVIED UPON THE PERSONAL PROPERTY OF THE TAXPAYER FOR THE MOST RECENT PROPERTY TAX YEAR EXCEEDS SEVENTY-FIVE DOLLARS; OR

(b) THE AGGREGATE AMOUNT OF PERSONAL PROPERTY TAXES OF A TAXPAYER DEFERRED PURSUANT TO THIS SECTION AND THE TOTAL AMOUNT OF PROPERTY TAXES LEVIED UPON THE PERSONAL PROPERTY OF THE TAXPAYER FOR THE MOST RECENT PROPERTY TAX YEAR EXCEEDS THE CURRENT MARKET VALUE OF THE PERSONAL PROPERTY, AS DETERMINED BY THE COUNTY ASSESSOR IN WHICH SUCH PERSONAL PROPERTY IS LOCATED, MINUS THE TOTAL AMOUNT OF LIENS FILED AGAINST SUCH PERSONAL PROPERTY; OR

(c) THE PERSONAL PROPERTY ON WHICH TAXES WERE DEFERRED IS SOLD.

(2) UPON THE OCCURRENCE OF PARAGRAPH (a) OR (b) OF SUBSECTION (1) OF THIS SECTION, THE COUNTY TREASURER SHALL INCLUDE IN THE TAXPAYER'S TAX STATEMENT THE AGGREGATE AMOUNT OF

DEFERRED PERSONAL PROPERTY TAXES WITH THE TOTAL AMOUNT OF PROPERTY TAXES LEVIED UPON PERSONAL PROPERTY OF THE TAXPAYER FOR THE MOST RECENT PROPERTY TAX YEAR.

(3) THE COUNTY TREASURER SHALL UTILIZE ANY METHOD OF COLLECTING DEFERRED PERSONAL PROPERTY TAXES AS AUTHORIZED BY LAW FOR THE COLLECTION OF PROPERTY TAXES.

(4) UPON COLLECTION, DEFERRED PERSONAL PROPERTY TAXES SHALL BE APPORTIONED, CREDITED, AND DISTRIBUTED TO THE AUTHORITIES WHICH LEVIED PROPERTY TAX UPON SUCH PERSONAL PROPERTY IN THE SAME MANNER AS IF SUCH PERSONAL PROPERTY TAXES HAD NOT BEEN DEFERRED.

SECTION 2. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

BILL 2

A BILL FOR AN ACT

CONCERNING A REVIEW OF THE TAX POLICIES OF GOVERNMENTS IN COLORADO, AND, IN CONNECTION THEREWITH, CREATING THE TAX POLICY COMMITTEE AND THE TAX POLICY ADVISORY COMMITTEE.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Interim Committee on Tax Policy. Creates the tax policy committee. Provides for reimbursement of the members of the tax policy committee. Sets forth the powers and duties of the tax policy committee. Authorizes the tax policy committee to review any phase of state or local tax policy, to recommend legislation affecting state or local tax policy, and to create subcommittees as necessary whose members shall serve without compensation.

Creates the tax policy advisory committee and requires members of the advisory committee to have expertise and knowledge of state and local taxes. Requires the tax policy advisory committee to study state and local tax policy and make recommendations to the tax policy committee. Provides that members of the tax policy advisory committee shall serve without compensation.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. Article 3 of title 2, Colorado Revised Statutes, 1980 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW PART to read:

PART 15

TAX POLICY COMMITTEE

2-3-1501. Legislative declaration. (1) THE GENERAL ASSEMBLY HEREBY FINDS, DETERMINES, AND DECLARES THAT:

(a) THE GENERAL ASSEMBLY IS CONSTITUTIONALLY OBLIGATED TO PROVIDE FOR AN ANNUAL TAX SUFFICIENT TO DEFRAY THE EXPENSES OF STATE GOVERNMENT AND IS AUTHORIZED TO VEST COUNTIES, CITIES, TOWNS, OR OTHER MUNICIPAL CORPORATIONS WITH THE POWER TO ASSESS AND COLLECT TAXES;

(b) THE STATE CONSTITUTION REQUIRES THAT THE GENERAL ASSEMBLY ASSURE JUST AND EQUALIZED VALUATIONS FOR ASSESSMENT OF NONEXEMPT REAL AND PERSONAL PROPERTY;

(c) THE POWER OF THE GENERAL ASSEMBLY TO ADJUST THE AMOUNT OF TAXES LEVIED AND EXPENDED AND TO MODIFY TAX POLICY TO ASSURE THE FAIR ALLOCATION OF THE TAX BURDEN AMONG THE VARIOUS CLASSES OF TAXPAYERS HAS BEEN RESTRICTED THROUGH THE ADOPTION OF SECTION 20 OF ARTICLE X OF THE STATE CONSTITUTION;

(d) THE TAX POLICY OF THE STATE HAS NOT BEEN COMPREHENSIVELY STUDIED SINCE 1958; AND

(e) A COMPREHENSIVE, ONGOING REVIEW OF THE STATE'S REVENUE SYSTEM WILL AID THE GENERAL ASSEMBLY IN CARRYING OUT ITS OBLIGATION TO ASSURE THE EQUITABLE DISTRIBUTION OF STATE AND LOCAL

TAX BURDENS AMONG COLORADO TAXPAYERS.

(2) THE GENERAL ASSEMBLY FURTHER FINDS, DETERMINES, AND DECLARES THAT A REVIEW OF THE STATE'S REVENUE SYSTEM INVOLVES COMPLEX ECONOMIC CONSIDERATIONS AND THAT THE APPOINTMENT OF A COMMITTEE TO FOCUS ON THE REVIEW, WITH THE AID OF AN EXPERT ADVISORY COMMITTEE, IS THE MOST EFFICIENT AND EFFECTIVE METHOD OF OVERSIGHT OF THE STATE'S TAX POLICY.

2-3-1502. Tax policy committee - created - vacancies. (1) THERE IS HEREBY CREATED A TAX POLICY COMMITTEE CONSISTING OF THIRTEEN MEMBERS AS FOLLOWS:

(a) THREE MEMBERS SHALL BE APPOINTED BY THE GOVERNOR, WITH CONSENT OF THE SENATE, FROM SUCH LOCAL GOVERNMENT AND BUSINESS GROUPS AS TO ADEQUATELY REPRESENT THE ENTIRE STATE, NO MORE THAN TWO OF WHOM SHALL BE FROM THE SAME POLITICAL PARTY;

(b) FIVE MEMBERS OF THE SENATE SHALL BE APPOINTED BY THE PRESIDENT OF THE SENATE, NO MORE THAN THREE OF WHOM SHALL BE FROM THE SAME POLITICAL PARTY;

(c) FIVE MEMBERS OF THE HOUSE OF REPRESENTATIVES SHALL BE APPOINTED BY THE SPEAKER OF THE HOUSE OF REPRESENTATIVES, NO MORE THAN THREE OF WHOM SHALL BE FROM THE SAME POLITICAL PARTY.

(2) EACH MEMBER SHALL SERVE FOR A TERM OF TWO YEARS; EXCEPT THAT, SIX OF THE MEMBERS FIRST APPOINTED SHALL SERVE FOR ONE-YEAR TERMS, OF WHICH TWO SHALL BE APPOINTED BY THE GOVERNOR, TWO SHALL BE APPOINTED BY THE PRESIDENT OF THE SENATE, AND TWO SHALL BE APPOINTED BY THE SPEAKER OF THE HOUSE. VACANCIES SHALL BE FILLED FOR THE REMAINDER OF THE UNEXPIRED TERM BY THE APPROPRIATE APPOINTING AUTHORITY.

(3) MEMBERS OF THE TAX POLICY COMMITTEE SHALL BE REIMBURSED AS PROVIDED FOR MEMBERS OF THE GENERAL ASSEMBLY IN SECTION 2-2-307 (3).

(4) THE TAX POLICY COMMITTEE SHALL MEET AT LEAST ONCE EACH YEAR.

2-3-1503. Powers and duties of the tax policy committee. (1) THE TAX POLICY COMMITTEE SHALL HAVE THE FOLLOWING POWERS AND DUTIES:

(a) TO COMPREHENSIVELY STUDY THE TAX POLICY OF THE STATE AND LOCAL GOVERNMENTS IN COLORADO;

(b) TO APPOINT MEMBERS OF THE TAX POLICY ADVISORY COMMITTEE CREATED IN SECTION 2-3-1504;

(c) TO REVIEW RECOMMENDATIONS OF THE TAX POLICY ADVISORY COMMITTEE CREATED IN SECTION 2-3-1504;

(d) TO REVIEW THE VALUATION FOR ASSESSMENT RATIO FOR EACH CLASS OF TAXABLE REAL AND PERSONAL PROPERTY TO DETERMINE ITS APPROPRIATENESS;

(e) TO REVIEW EXEMPTIONS FROM TAXATION;

(f) TO REVIEW THE ADVISABILITY OF IMPLEMENTING A METHOD OF PROPERTY TAXATION WHICH INCLUDES A HOMESTEAD EXEMPTION;

(g) TO REVIEW ANY DIFFICULTIES ARISING FROM THE STATE AND LOCAL TAX SYSTEMS CURRENTLY IN OPERATION AND TO RECOMMEND CHANGES TO REDUCE OR ELIMINATE THOSE DIFFICULTIES;

(h) TO REVIEW ANY OTHER ASPECT OF STATE AND LOCAL TAX POLICY FOR THE PURPOSE OF DETERMINING WHETHER CHANGES IN POLICY OR TAX LAWS WOULD AID IN ENSURING THE EQUITABLE DISTRIBUTION OF STATE AND LOCAL TAX BURDENS AMONG COLORADO TAXPAYERS;

(i) TO REVIEW ANY PHASE OF STATE OR LOCAL TAX POLICY;

(j) TO RECOMMEND LEGISLATION AFFECTING STATE OR LOCAL TAX LAWS OR POLICY; AND

(k) TO CREATE SUBCOMMITTEES AS NECESSARY IN ORDER TO AID IN THE REVIEW OF THE TAX POLICY OF THE STATE. SUBCOMMITTEES MAY INCLUDE INDIVIDUALS NOT SERVING ON THE TAX POLICY COMMITTEE OR TAX POLICY ADVISORY COMMITTEE, INCLUDING, BUT NOT LIMITED TO, TAXPAYERS, SPECIAL DISTRICT REPRESENTATIVES, SCHOOL DISTRICT REPRESENTATIVES, LOCAL GOVERNMENT REPRESENTATIVES, AND BUSINESS REPRESENTATIVES. SUBCOMMITTEE MEMBERS SHALL SERVE WITHOUT COMPENSATION.

(2) LEGISLATION RECOMMENDED BY THE COMMITTEE SHALL BE TREATED AS LEGISLATION RECOMMENDED BY A STATUTORY LEGISLATIVE COMMITTEE FOR PURPOSES OF ANY INTRODUCTION DEADLINES OR BILL LIMITATIONS IMPOSED BY THE JOINT RULES OF THE GENERAL ASSEMBLY.

(3) ALL PERSONNEL OF THE DEPARTMENT OF REVENUE SHALL COOPERATE WITH THE TAX POLICY COMMITTEE AND WITH ANY PERSON ASSISTING THE COMMITTEE IN CARRYING OUT THE DUTIES OF THE COMMITTEE PURSUANT TO THIS SECTION.

2-3-1504. Tax policy advisory committee - repeal. (1) THERE IS HEREBY CREATED A TAX POLICY ADVISORY COMMITTEE CONSISTING OF NINE MEMBERS TO BE APPOINTED BY THE TAX POLICY COMMITTEE. APPOINTMENTS SHALL BE BY MAJORITY VOTE OF THE MEMBERS OF THE TAX POLICY COMMITTEE. MEMBERS SHALL HAVE EXPERTISE AND KNOWLEDGE OF STATE AND LOCAL TAXES. EACH MEMBER SHALL BE APPOINTED FOR A TERM OF TWO YEARS; EXCEPT THAT, OF THE MEMBERS FIRST APPOINTED, FOUR SHALL SERVE A ONE-YEAR TERM. MEMBERS SHALL SERVE WITHOUT COMPENSATION. THE TAX POLICY ADVISORY COMMITTEE SHALL STUDY STATE AND LOCAL TAX POLICY AND MAKE RECOMMENDATIONS TO THE TAX POLICY COMMITTEE AS DIRECTED.

(2) (a) THIS SECTION IS REPEALED, EFFECTIVE JULY 1, 2000.

(b) PRIOR TO SAID REPEAL, THE TAX POLICY ADVISORY COMMITTEE SHALL BE REVIEWED AS PROVIDED FOR IN SECTION 2-3-1203, C.R.S.

2-3-1505. Repeal of part. THIS PART 15 IS REPEALED, EFFECTIVE

JULY 1, 2000.

SECTION 2. 2-3-1203 (3), Colorado Revised Statutes, 1980 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW PARAGRAPH to read:

2-3-1203. Sunset review of advisory committees. (3) The following dates are the dates for which the statutory authorization for the designated advisory committees is scheduled for repeal:

(m) JULY 1, 2000: THE TAX POLICY ADVISORY COMMITTEE APPOINTED PURSUANT TO SECTION 2-3-1504.

SECTION 3. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

BILL 3

A BILL FOR AN ACT

CONCERNING THE DEFINITION OF "HOTELS AND MOTELS" FOR PROPERTY TAX PURPOSES.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Interim Committee on Tax Policy. Specifies that establishments which constitute hotels and motels include any residential condominium units, residential time share estates, and other residential real property operated as part of an establishment primarily engaged in providing lodging or actually rented on an overnight or weekly basis for more than a specified number of days each year.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. 39-1-102 (5.5), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-1-102. Definitions. (5.5) (a) "Hotels and motels" means establishments which are primarily engaged in providing lodging, camping, or personal care or health care facilities and which are predominantly used on an overnight or weekly basis. "HOTELS AND MOTELS" INCLUDES, BUT IS NOT LIMITED TO, RESIDENTIAL CONDOMINIUM UNITS AND RESIDENTIAL TIME SHARE ESTATES CREATED PURSUANT TO ARTICLE 33 OF TITLE 38, C.R.S., AND ANY OTHER RESIDENTIAL REAL PROPERTY IF THE REAL PROPERTY IS:

(I) UNDER COMMON OWNERSHIP OR CONTROL AND OPERATED AS PART OF AN ESTABLISHMENT PRIMARILY ENGAGED IN PROVIDING LODGING; OR

(II) ACTUALLY RENTED ON AN OVERNIGHT OR WEEKLY BASIS FOR MORE THAN THIRTY CALENDAR DAYS PER YEAR, AS EVIDENCED BY THE PROPERTY RENTAL RECORDS FOR THE PREVIOUS CALENDAR YEAR.

(b) FOR THE PURPOSE OF DETERMINING WHETHER PROPERTY SHALL BE CLASSIFIED AS HOTEL OR MOTEL PROPERTY, THE OWNER OF THE PROPERTY SHALL KEEP A RECORD OF RENTALS OF THE PROPERTY FOR EACH PROPERTY TAX YEAR AND SHALL FILE THE PROPERTY RENTAL RECORDS WITH THE ASSESSOR OF THE COUNTY IN WHICH THE PROPERTY IS LOCATED NO LATER THAN FEBRUARY 1 OF THE FOLLOWING YEAR. IF THE OWNER FAILS TO FILE RENTAL RECORDS ON OR BEFORE FEBRUARY 1 OF ANY YEAR THE PROPERTY SHALL BE CLASSIFIED AS HOTEL OR MOTEL PROPERTY FOR THE PROPERTY TAX YEAR FOR WHICH THE RECORDS WERE TO BE KEPT.

(c) FOR PURPOSES OF THIS SUBSECTION (5.5), UNLESS THE CONTEXT OTHERWISE REQUIRES:

(I) "COMMON OWNERSHIP" MEANS THAT SUBSTANTIALLY ALL OF THE REAL PROPERTY IS OWNED BY THE SAME OWNER OR AN AFFILIATE OF

THE OWNER THAT CONTROLS, IS CONTROLLED BY, OR IS UNDER COMMON CONTROL WITH THE OWNER.

(II) "CONTROL" MEANS THAT, AS A CONDITION OF OWNERSHIP, THE SEPARATE OWNERS OF THE REAL PROPERTY ARE REQUIRED TO MAKE THE PROPERTY AVAILABLE FOR RENTAL FOR A PORTION OF ANY YEAR AND TO USE AN EXCLUSIVE RENTAL AGENT.

(III) "ESTABLISHMENT" MEANS A BUSINESS, FIRM, CLUB, INSTITUTION, RESIDENCE, HOMEOWNERS' ASSOCIATION, CONDOMINIUM ASSOCIATION, MANAGEMENT COMPANY, OR ANY OTHER INDIVIDUAL OR ENTITY THAT ACTS AS AN AGENT FOR THE OWNER OF THE REAL PROPERTY IN RENTING THE PROPERTY.

SECTION 2. Effective date - applicability. This act shall take effect upon passage and shall apply to taxable years commencing on or after January 1, 1995.

SECTION 3. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

BILL 4

A BILL FOR AN ACT

101 CONCERNING PROPERTY TAXES.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Interim Committee on Tax Policy. For property tax purposes, changes the definition of "agricultural land" to exclude: 1) A one-acre parcel of land underlying and adjacent to any residential improvement located on the land; and 2) Land underlying certain farm and ranch improvements. Creates a rebuttable presumption that property classified as agricultural land which is sold for more than twice the market value of comparable agricultural land is no longer agricultural land for property tax purposes. Modifies the definition of "residential land" to include a one-acre parcel of land underlying and adjacent to any residential improvement located on agricultural land. (Section 1)

For purposes of property taxation, specifies that the level of value be adjusted to the last day of the 5-year period immediately prior to July 1 immediately preceding the assessment date instead of adjusted to the last day of the data-gathering period. (Section 3)

Eliminates, as an unusual condition for which assessors are to revalue real property during the intervening year of the reassessment cycle, any occurrence, condition, factor, act, or change which results in the actual value of the property being less than or greater than the correct level of value by more than 10%. (Section 4) Repeals the annual property tax reappraisals which were to commence in 1997. (Sections 2, 5, 10, and 17)

Changes the time frame in which taxpayers must protest and appeal valuations of real and personal property to allow for protests and appeals to be made within a one-year period following the May 1 deadline for mailing of notices of adjusted valuations and following the July 1 deadline for issuing notices of adjusted valuations for property of public utilities. (Sections 6 through 9 and 11 through 13)

Eliminates the overvaluation of property as grounds for an abatement or refund of property taxes. Reduces the time period in which a petition for abatement or refund must be filed. (Section 14)

Raises the income eligibility requirements to qualify for grants for elderly and disabled persons based upon property taxes paid on residential property, specific ownership taxes paid on trailer coaches, and other equivalent payments. Increases the income levels used to compute the maximum allowable amount of grant to be awarded. (Section 15) Provides that such income eligibility requirements and income levels be adjusted annually in accordance with changes in the consumer price index for the Denver-Boulder metropolitan statistical area. (Section 16)

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. 39-1-102 (1.6) (a) and (14.4), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended, and the said 39-1-102 (1.6) is further amended BY THE ADDITION OF A NEW PARAGRAPH, to read:

39-1-102. Definitions. (1.6) (a) "Agricultural land" means either of the following:

(I) A parcel of land, whether located in an incorporated or unincorporated area and regardless of the uses for which such land is zoned, which was used the previous two years and presently is used as a farm or ranch, as defined in subsections (3.5) and (13.5) of this section, and the gross income resulting from such use equals or exceeds one-third of the total gross income resulting from all uses of the property during any given property tax year, or which is in the process of being restored through conservation practices. Such land must have been classified or eligible for

classification as "agricultural land", consistent with this subsection (1.6), during the ten years preceding the year of assessment. Such land must continue to have actual agricultural use. "Agricultural land" under this subparagraph (I) ~~includes~~ DOES NOT INCLUDE A ONE-ACRE PARCEL OF land underlying AND ADJACENT TO any residential improvement located on such agricultural land. ~~and also includes the land underlying other improvements if such improvements are an integral part of the farm or ranch and if such other improvements and the land area dedicated to such other improvements are typically used as an ancillary part of the operation.~~ The use of a portion of such land for hunting, fishing, or other wildlife purposes, for monetary profit or otherwise, shall not affect the classification of agricultural land.

(II) A parcel of land which consists of at least forty acres; which is forest land; which is used to produce tangible wood products that originate from the productivity of such land for the primary purpose of obtaining a monetary profit; which is subject to a forest management plan; and which is not a farm or ranch, as defined in subsections (3.5) and (13.5) of this section. "Agricultural land" under this subparagraph (II) ~~includes~~ DOES NOT INCLUDE A ONE-ACRE PARCEL OF land underlying AND ADJACENT TO any residential improvement located on such agricultural land.

(c) IT SHALL BE PRESUMED THAT PROPERTY CLASSIFIED AS AGRICULTURAL LAND WHICH IS SOLD FOR MORE THAN TWICE THE MARKET VALUE OF COMPARABLE AGRICULTURAL LAND IS NO LONGER AGRICULTURAL LAND. THIS PRESUMPTION MAY BE REBUTTED BY EVIDENCE SUFFICIENT TO SHOW THE LAND MEETS THE DEFINITION OF "AGRICULTURAL LAND" SET FORTH IN THIS SUBSECTION (1.6).

(14.4) "Residential land" means a parcel or contiguous parcels of land under common ownership upon which residential improvements are located and which is used as a unit in conjunction with the residential improvements located thereon. The term includes parcels of land in a residential subdivision, the exclusive use of which land is established by the ownership of such residential improvements. THE TERM ALSO INCLUDES A ONE-ACRE PARCEL OF LAND UNDERLYING AND ADJACENT TO ANY RESIDENTIAL IMPROVEMENT LOCATED ON AGRICULTURAL LAND. The term does not include any portion of the land which is used for any purpose which would cause the land to be otherwise classified. ~~The term also does not include land underlying a residential improvement located on agricultural land.~~

SECTION 2. 39-1-103 (8) (a) (I), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-1-103. Actual value determined - when. (8) In any case in which sales prices of comparable properties within any class or subclass are utilized when considering the market approach to appraisal in the determination of actual value of any taxable property, the following limitations and conditions shall apply:

(a) (I) Use of the market approach shall require a representative body of sales sufficient to set a pattern, and appraisals shall reflect due consideration of the degree of comparability of sales, including the extent of similarities and dissimilarities among properties which are compared for assessment purposes. In order to obtain a reasonable sample and to reduce sudden price changes or fluctuations, all sales shall be included in the sample which reasonably reflect a true or typical sales price during the period specified in section 39-1-104 (10.2). ~~or (10.3), whichever is applicable.~~ Sales of personal property exempt pursuant to the provisions of sections 39-3-102, 39-3-103, and 39-3-119 to 39-3-122 shall not be included in any such sample.

SECTION 3. 39-1-104 (10.2) (d), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-1-104. Valuation for assessment. (10.2) (d) For the purposes of this article and article 9 of this title, "level of value" means the actual value of taxable real property as ascertained by the applicable factors enumerated in section 39-1-103 (5) for the one-and-one-half-year period immediately prior to July 1 immediately preceding the assessment date for which the administrator is required by this article to publish manuals and associated data; except that, if comparable valuation data is not available from such one-and-one-half-year period to adequately determine such actual value for a class of property, "level of value" means the actual value of taxable real property as ascertained by said applicable factors for the five-year period immediately prior to July 1 immediately preceding the assessment date. Said level of value shall be adjusted to the final day of the ~~data gathering period~~ FIVE-YEAR PERIOD IMMEDIATELY PRIOR TO JULY 1 IMMEDIATELY PRECEDING THE ASSESSMENT DATE.

SECTION 4. 39-1-104 (11) (b) (I), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-1-104. Valuation for assessment. (11) (b) (I) The provisions of subsection (10.2) of this section are not intended to prevent the assessor from taking into account, in determining actual value for the years which intervene between changes in the level of value, any unusual conditions in or related to any real property which would result in an increase or decrease in actual value. If any real property has not been assessed at its correct level of value, the assessor shall revalue such property for the intervening year so that the actual value of such property will be its correct level of value; however, the assessor shall not revalue such property above or below its correct level of value except as necessary to reflect the increase or decrease in actual value attributable to an unusual condition. For the purposes of this paragraph (b), and except as otherwise provided in this paragraph (b), an unusual condition which could result in an increase or decrease in actual value is limited to the installation of an on-site improvement, the ending of the economic life of an improvement with only salvage value remaining, the

addition to or remodeling of a structure, a change of use of the land, the creation of a condominium ownership of real property as recognized in the "Condominium Ownership Act", article 33 of title 38, C.R.S., any new regulations restricting or increasing the use of the land, or a combination thereof, the installation and operation of surface equipment relating to oil and gas wells on agricultural land, any detrimental acts of nature, and any damage due to accident, vandalism, fire, or explosion. ~~On and after January 1, 1989, any other occurrence, condition, factor, act, or change which results in the actual value of the property as of June 30 of the preceding year being less than or greater than the correct level of value by more than ten percent of the correct level of value shall also be an unusual condition for purposes of this paragraph (b).~~ When taking into account such unusual conditions which would increase or decrease the actual value of a property, the assessor must relate such changes to the level of value as if the conditions had existed at that time.

SECTION 5. 39-4-102 (3) (b), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-4-102. Valuation of public utilities. (3) (b) For property tax years commencing on or after January 1, 1987, there shall be applied to the actual value of each public utility an equalization factor to adjust the actual value for the current year of assessment as determined by the administrator pursuant to subsections (1) and (2) of this section to the public utility's level of value in the appropriate year which is prescribed in section 39-1-104 (10.2) ~~or (10.3), whichever is applicable,~~ and which is used to determine the actual value of properties which are subject to said applicable subsection.

SECTION 6. 39-4-108 (1), (2), (4), and (5), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-4-108. Complaint - hearing - decision. (1) Any public utility, being of the opinion that the actual value of its property and plant as determined by the administrator is illegal, erroneous, or not uniform with the actual value of like property similarly situated, as determined by the administrator, may, no later than July ~~15~~ 1 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF VALUATION WAS GIVEN, file a petition or complaint with the administrator, setting forth such illegality, error, or lack of uniformity.

(2) Any assessor or board of county commissioners, being of the opinion that the actual value of the property and plant of any public utility as determined by the administrator is illegal, erroneous, or not uniform with the actual value of like property similarly situated, as determined by the administrator, or that the amount of valuation for assessment of any public utility has not been correctly apportioned among the counties entitled thereto, may, no later than July ~~15~~ 1 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF VALUATION WAS GIVEN, file a petition or complaint with the administrator setting forth such illegality, error, lack of

uniformity, or incorrect apportionment.

(4) The administrator shall HEAR, on the first working day after notices of valuation are mailed, and on succeeding days if necessary, ~~hear~~ all such petitions and complaints. In case there are several petitions or complaints filed involving like questions, the same may be consolidated for the purpose of hearing and determination. The administrator shall hear all evidence presented and listen to arguments touching upon the matters ~~concerning~~ FOR which the petition or complaint was filed. ~~He~~ THE ADMINISTRATOR shall have power to subpoena and compel the attendance of witnesses and to require the production of any books or records deemed necessary to arrive at a proper determination of the matter. Upon good cause, any hearing may be adjourned from time to time, but in no event beyond FOURTEEN DAYS AFTER THE DATE UPON WHICH THE PETITION OR COMPLAINT WAS FILED OR July ~~27~~ 15 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF VALUATION AT ISSUE WAS GIVEN, WHICHEVER OCCURS FIRST. Hearings conducted under this section shall be informal, and a verbatim record need not be made, as required under section 24-4-105 (13), C.R.S.

(5) The administrator shall render his decision upon any petition or complaint, in writing, no later than ~~August 1~~ THIRTY DAYS AFTER THE DATE UPON WHICH THE PETITION OR COMPLAINT WAS FILED OR JULY 20 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR FOR WHICH THE NOTICE OF VALUATION AT ISSUE WAS GIVEN, WHICHEVER OCCURS FIRST, and shall transmit a copy ~~thereof~~ to all parties affected.

SECTION 7. 39-5-121 (1) and (1.5), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-5-121. Notice of adjusted valuation. (1) (a) No later than May 1 in each year, the assessor shall mail to each person whose land or improvements have been valued at an amount different than the same were valued in the previous year a notice setting forth the amount of such adjustment in valuation. The notice shall state the actual value of such land or improvements in the previous year, the actual value in the current year, and the amount of such adjustment in actual value. The notice shall not state the valuation for assessment of such land or improvements. Based upon the classification of such taxable property, the notice shall also set forth either the ratio of valuation for assessment to be applied to said actual value of all taxable real property other than residential real property prior to the calculation of property taxes for the current year or the projected ratio of valuation for assessment to be applied to said actual value of residential real property prior to the calculation of property taxes for the current year and that any change or adjustment of the projected ratio of valuation for assessment for residential real property shall not constitute grounds for the protest or abatement of taxes.

(b) With the approval of the board of county commissioners, the

assessor may include in the notice an estimate of the taxes which shall be owed for the current property tax year. If such estimate is included, the notice shall clearly state that the tax amount is merely an estimate based upon the best available information.

(c) The notice shall state, in bold-faced type, that the taxpayer has the right to protest such adjustment in valuation but not the estimate of taxes if such an estimate is included in the notice, the classification of the property which determines the assessment percentage to be applied, and the dates and places at which the assessor will hear such protest. Such notice shall also set forth the following:

(I) That, to preserve ~~his~~ THE TAXPAYER'S right to protest, the taxpayer must notify the assessor either by mail or in person of ~~his~~ THE objection and protest;

(II) That, if notice is made by mail, such notice must be postmarked no later than ~~May~~ APRIL 27 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE WAS MAILED; ~~and~~

(III) That, if notice is made in person, such notice must be made no later than ~~June 1~~ MAY 1 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE WAS MAILED; and

(IV) That, after ~~such~~ THE APPLICABLE date, the taxpayer's right to object and protest the adjustment in valuation is lost.

(d) (I) The notice shall be mailed together with a form which, if completed by the taxpayer, allows the taxpayer to explain the basis for his valuation of the property. Such form may be completed by the taxpayer to initiate an appeal of the assessor's valuation. However, in accordance with section 39-5-122 (2), completion of this form shall not constitute the exclusive means of appealing the assessor's valuation.

(II) For the years which intervene between changes in the level of value AND if the difference between the actual value of such land or improvements in the previous year and the actual value of such land or improvements in the intervening year as set forth in such notice constitutes an increase in actual value of more than seventy-five percent, the assessor shall mail together with the notice an explanation of the reasons for such increase in actual value.

(1.5) (a) No later than June 15 in each year, the assessor shall mail to each person whose taxable personal property has been valued at an amount different than that returned by him in his personal property schedule a notice setting forth the amount of such adjustment in valuation. The notice shall state the actual value of such personal property in the previous year, the actual value in the current year, and the amount of such adjustment in actual value. The notice shall not state the valuation for assessment of such personal property. The notice shall also set forth the ratio of valuation for assessment to be applied to said actual value prior to the calculation of property taxes for the current year.

(b) With the approval of the board of county commissioners, the assessor may include in the notice an estimate of the taxes which shall be owed for the current property tax year. If such an estimate is included, the notice shall clearly state that the tax amount is merely an estimate based upon the best available information.

(c) The notice shall state, in bold-faced type, that the taxpayer has the right to protest such adjustment in valuation but not the estimate of taxes if such an estimate is included in the notice and the dates and places at which the assessor will hear such protest. Such notice shall also set forth the following:

(I) THAT, to preserve ~~his~~ THE TAXPAYER'S right to protest, the taxpayer must notify the assessor either by mail or in person of ~~his~~ THE objection and protest;

(II) That, if notice is made by mail, such notice must be postmarked no later than June ~~30~~ 10 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE WAS MAILED; ~~and~~

(III) That, if notice is made in person, such notice must be made no later than ~~July 5~~ JUNE 15 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE WAS MAILED; and

(IV) That, after ~~such~~ THE APPLICABLE date, the taxpayer's right to object and protest the adjustment in valuation is lost.

(d) The notice shall be mailed together with a form which, if completed by the taxpayer, allows the taxpayer to explain the basis for his valuation of the property. Such form may be completed by the taxpayer to initiate an appeal of the assessor's valuation. However, in accordance with section 39-5-122 (2), completion of this form shall not constitute the exclusive means of appealing the assessor's valuation.

SECTION 8. 39-5-122 (1), (2), and (4), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-5-122. Taxpayer's remedies to correct errors. (1) (a) On or before May 1 of each year, the assessor shall give public notice in at least one issue of a newspaper published in his county that:

(I) Beginning on the first working day after notices of adjusted valuation are mailed to taxpayers and until June 1 OF THE FOLLOWING YEAR, ~~he~~ THE ASSESSOR will sit to hear all objections and protests concerning valuations of taxable real property determined by ~~him~~ THE ASSESSOR for the current year; ~~that,~~

(II) For a taxpayer's objection and protest to be heard, notice must be given to the assessor; ~~and that~~

(III) Such notice, if given by mail, must be ~~by May~~ POSTMARKED NO LATER THAN APRIL 27 OF THE YEAR IMMEDIATELY FOLLOWING THE CURRENT YEAR; or

(IV) SUCH NOTICE, if given in person, must be GIVEN by ~~June~~ MAY 1 OF THE YEAR IMMEDIATELY FOLLOWING THE CURRENT YEAR.

(b) The notice shall also state:

(I) That objections and protests concerning valuations of taxable personal property determined by ~~him~~ THE ASSESSOR for the current year will be heard commencing June 15;

(II) That, for a taxpayer's objection and protest to be heard, notice must be given to the assessor; and

(III) That such notice, if given by mail, must be ~~by~~ POSTMARKED NO LATER THAN June ~~30~~ 10 OF THE YEAR IMMEDIATELY FOLLOWING THE CURRENT YEAR; or

(IV) THAT SUCH NOTICE, if given in person, must be GIVEN by ~~July 5~~ JUNE 15 OF THE YEAR IMMEDIATELY FOLLOWING THE CURRENT YEAR.

(c) If there is no such newspaper, then such notice shall be conspicuously posted in the offices of the assessor, the treasurer, ~~and~~ the county clerk and recorder, and in at least two other public places in the county seat.

(d) The assessor shall send news releases containing such notice to radio stations, television stations, and newspapers of general circulation in the county.

(2) (a) If any person is of the opinion that ~~his~~ property has been valued too high, or has been twice valued, or is exempt by law from taxation or that property has been erroneously assessed ~~to him, he~~ THE PERSON may: Appear before the assessor and object; ~~he may~~ complete the form mailed with ~~his~~ THE notice of valuation pursuant to section 39-5-121 (1) or (1.5); or ~~he may~~ file a written letter of objection and protest by mail with the assessor's office before the last day specified in the notice, stating in general terms the reason for the objection and protest. Reasons for the objection and protest may include, but shall not be limited to, the installation and operation of surface equipment relating to oil and gas wells on agricultural land. Any change or adjustment of any ratio of valuation for assessment for residential real property pursuant to the provisions of section 39-1-104.2 shall not constitute grounds for such objection.

(b) If the form initiating an appeal or the written letter of objection and protest is filed by mail, it shall be presumed that it was received as of the day it was postmarked. If the form initiating an appeal or the written letter of objection and protest is hand-delivered, the date it was received by the assessor shall be stamped on the form or letter.

(c) (I) As stated in the public notice given by the assessor pursuant to subsection (1) of this section, if the taxpayer notifies the assessor of ~~his~~ THE objection and protest to the adjustment in valuation by mail, such notification shall be postmarked by ~~May~~ APRIL 27 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF ADJUSTED VALUATION WAS MAILED in the case of real property and June ~~30~~ 10 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF

ADJUSTED VALUATION WAS MAILED in the case of personal property. If the taxpayer notifies the assessor in person, such notice shall be given by ~~June~~ MAY 1 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF ADJUSTED VALUATION WAS MAILED in the case of real property and ~~July 5~~ JUNE 15 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF ADJUSTED VALUATION WAS MAILED in the case of personal property.

(II) All such forms and letters received from protesters shall be presumed to be on time unless the assessor can present evidence to show otherwise. The county shall not prescribe the written form of objection and protest to be used.

(d) The protester shall have the opportunity on the days specified in the public notice to present ~~his~~ THE objection by mail or protest in person and be heard, whether or not there has been a change in valuation of such property from the previous year and whether or not any change is the result of a determination by the assessor for the current year or by the state board of equalization for the previous year.

(e) If the assessor finds any valuation to be erroneous or otherwise improper, ~~he~~ THE ASSESSOR shall correct such error, but, if ~~he~~ THE ASSESSOR declines to change any valuation which ~~he~~ THE ASSESSOR has determined, ~~he~~ THE ASSESSOR shall state ~~his~~ THE ASSESSOR'S reasons in writing on the form described in section 39-8-106, shall insert the information otherwise required by the form, and shall, NO LATER THAN THIRTY DAYS AFTER THE DATE UPON WHICH THE PETITION OR COMPLAINT WAS FILED OR on or before the last regular working day of the assessor in June OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF ADJUSTED VALUATION WAS MAILED, WHICHEVER OCCURS FIRST, in the case of real property and NO LATER THAN THIRTY DAYS AFTER THE DATE UPON WHICH THE PETITION OR COMPLAINT WAS FILED OR July 10 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF ADJUSTED VALUATION WAS MAILED, WHICHEVER OCCURS FIRST, in the case of personal property, mail two copies of such completed form to the person presenting the objection and protest so denied.

(4) The assessor shall continue ~~his~~ hearings from day to day until all objections and protests have been heard, but all such hearings shall be concluded:

(a) NO LATER THAN TWENTY DAYS AFTER THE DATE UPON WHICH THE PETITION OR COMPLAINT WAS FILED OR by June 1 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF ADJUSTED VALUATION WAS MAILED, WHICHEVER OCCURS FIRST, in the case of real property; and

(b) NO LATER THAN TWENTY DAYS AFTER THE DATE UPON WHICH THE PETITION OR COMPLAINT WAS FILED OR BY July 5 OF THE YEAR IMMEDIATELY FOLLOWING THE YEAR IN WHICH THE NOTICE OF ADJUSTED

VALUATION WAS MAILED, WHICHEVER OCCURS FIRST, in the case of personal property.

SECTION 9. 39-5-123 (1), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-5-123. Abstract of assessment. (1) (a) ~~Upon conclusion of hearings by the county board of equalization, as provided in article 8 of this title,~~ The assessor shall complete the assessment roll of all taxable property within ~~his~~ THE ASSESSOR'S county, and, no later than August 25 in each year, ~~he~~ THE ASSESSOR shall prepare ~~therefrom~~ three copies of the abstract of assessment and in person, and not by deputy, shall subscribe ~~his~~ THE ASSESSOR'S name, under oath, to the following statement, which shall be a part of such abstract: "I, ..., the assessor of ..... county, Colorado, do solemnly swear that in the assessment roll of such county I have listed and valued all taxable property located therein and that such property has been assessed for the current year in the manner prescribed by law and that the foregoing abstract of assessment is a true and correct compilation of each schedule.

....."

(b) Upon completion by the assessor of the abstract of assessment, the chairman of the board of county commissioners shall examine such abstract and shall sign the following statement, which shall be a part of such abstract: "I, ..., chairman of the ..... county board of county commissioners, certify that ~~the county board of equalization has concluded its hearings, pursuant to the provisions of article 8 of this title, that~~ I have examined the abstract of assessment, and that all valuation changes ordered AS OF ....., 19.., by the county board of equalization have been incorporated therein.

....."

SECTION 10. 39-5-203 (1), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-5-203. Mobile homes - determination of value. (1) For the property tax year beginning January 1, 1983, and for each property tax year thereafter, the actual value of a mobile home shall be determined by the assessor in accordance with the provisions of sections 39-1-103 (5) and 39-1-104 ~~(10.3)~~ (10.2) for the determination of the actual value of real property.

SECTION 11. 39-8-105, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-8-105. Reports of assessor. (1) At a meeting of the county board of equalization on the second Monday in July, the assessor shall report the valuation for assessment of all taxable real property in the county ~~He shall~~ AND submit a list of all persons who have appeared before ~~him~~ THE ASSESSOR AS OF JULY 1 to present objections or protests concerning real property and his action in each case.

(2) At a meeting of the board on July 15, the assessor shall report the valuation of all taxable personal property in the county and shall note any valuations for assessment of portable or movable equipment which have been apportioned pursuant to the provisions of section 39-5-113. ~~He~~ THE ASSESSOR shall submit a list of all persons in the county who have failed to return any schedules and shall report ~~his~~ THE ASSESSOR'S action in each case. ~~He~~ THE ASSESSOR shall also submit a list of persons who have appeared before ~~him~~ THE ASSESSOR AS OF JULY 10 to present objections or protests and ~~his~~ THE ASSESSOR'S action in each case.

(3) AT A MEETING OF THE BOARD ON THE SECOND MONDAY OF EVERY MONTH OTHER THAN JULY, THE ASSESSOR SHALL SUBMIT A LIST OF ALL PERSONS IN THE COUNTY WHO HAVE APPEARED BEFORE THE ASSESSOR AS OF THE FIRST DAY OF THE MONTH TO PRESENT OBJECTIONS OR PROTESTS AND THE ACTION OF THE ASSESSOR IN EACH CASE.

SECTION 12. 39-8-106 (1) (a), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-8-106. Petitions for appeal. (1) The board shall receive and hear petitions from all persons whose objections or protests have been refused or denied by the assessor. Such petitions shall be in a form, approved by the property tax administrator pursuant to section 39-2-109 (1) (d), the contents of which shall include the following:

(a) A statement informing such person of ~~his~~ THE right to appeal, the time and place at which the county board of equalization will hear appeals from determinations of the assessor, and that, by mailing or delivering one copy of the form to the county board of equalization which is received or postmarked NO LATER THAN THIRTY DAYS AFTER THE ASSESSOR'S DECISION HAS BEEN RENDERED OR on or before July 15 of ~~that~~ THE year IMMEDIATELY FOLLOWING THE PROPERTY TAX YEAR FOR WHICH THE DECISION WAS RENDERED, WHICHEVER OCCURS FIRST, for real property and NO LATER THAN THIRTY DAYS AFTER THE ASSESSOR'S DECISION WAS RENDERED OR ON OR BEFORE July 20 of ~~that~~ THE year IMMEDIATELY FOLLOWING THE PROPERTY TAX YEAR FOR WHICH THE DECISION WAS RENDERED, WHICHEVER OCCURS FIRST, for personal property, such person will be deemed to have filed ~~his~~ THE petition for hearing with the county board of equalization. The date the form is received by the county board of equalization shall be stamped on the form. All such forms shall be presumed to be on time unless the county board of equalization can present evidence to show otherwise.

SECTION 13. 39-8-107 (2), Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended to read:

39-8-107. Hearings on appeal. (2) The board shall continue its hearings from time to time until all petitions have been heard, but all such hearings shall be concluded and decisions rendered thereon NO LATER THAN THIRTY DAYS AFTER THE PETITION WAS FILED WITH THE BOARD OR by the

close of business on August 5 of ~~that~~ THE year IMMEDIATELY FOLLOWING THE PROPERTY TAX YEAR FOR WHICH THE NOTICE OF ADJUSTED VALUATION WAS MAILED, WHICHEVER OCCURS FIRST. Any decision shall be mailed to the petitioner within five business days of the date on which such decision is rendered.

SECTION 14. 39-10-114 (1) (a) (I) (A), (1) (a) (I) (D), and (1) (a) (I) (E), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-10-114. Abatement, cancellation of taxes. (1) (a) (I) (A) Except as otherwise provided in ~~sub-subparagraphs (D) and~~ SUB-SUBPARAGRAPH (E) of this subparagraph (I), if taxes have been levied erroneously or illegally, whether due to erroneous valuation for assessment, irregularity in levying, OR clerical error, ~~or overvaluation,~~ the treasurer shall report the amount ~~thereof~~ to the board of county commissioners, which shall proceed to abate such taxes in the manner provided by law. If such taxes have been collected by the treasurer, the board of county commissioners shall authorize refund of the same in the manner provided by law. Except as provided in sub-subparagraph (E) of this subparagraph (I), in no case shall an abatement or refund of taxes be made unless a petition for abatement or refund is filed within ~~two years~~ ONE YEAR after January 1 of the year following the year in which the taxes were levied. For purposes of this sub-subparagraph (A), "clerical error" shall include, but shall not be limited to, any clerical error made by a taxpayer in completing personal property schedules pursuant to the provisions of article 5 of this title.

(D) ~~Except as provided in sub-subparagraph (E) of this subparagraph (I), an abatement or refund of taxes based upon the grounds of overvaluation of property shall be made only for taxes levied on and after January 1, 1988. With regard to petitions filed prior to June 5, 1991, an abatement or refund may be made pursuant to this section if, on June 5, 1991, such petition is pending or upon which a final administrative order or court judgment has been issued on the grounds that overvaluation of property was not grounds for an abatement or refund of taxes. With regard to petitions which have been denied on such grounds, petitions for abatement or refund of taxes may be refiled pursuant to this sub-subparagraph (D) on or before December 31, 1991. No abatement or refund of taxes levied on and after January 1, 1990, shall be made based upon the ground of overvaluation of property if an objection or protest to such valuation has been made and a notice of determination has been mailed to the taxpayer pursuant to section 39-5-122.~~

(E) Notwithstanding the periods of limitation for filing a petition for and determining the amount of an abatement or refund of taxes provided in ~~sub-subparagraphs~~ SUB-SUBPARAGRAPH (A) ~~and (D)~~ of this subparagraph (I), when an audit of prior years' taxes for the period described in section 39-10-101 (2) (b) discloses that taxes are due and owing on mines and on oil

and gas leaseholds, such taxes shall be subtracted from any overpayment of such taxes determined to be due pursuant to this subparagraph (I) for any years during such period and prior to computing delinquent interest.

SECTION 15. 39-31-101 (2) (a), (2) (b), and (3) (b), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are amended to read:

39-31-101. Real property tax assistance - eligibility - applicability. (2) Such grant shall be the amount of the general property taxes actually paid on the residence or the amount of taxes actually paid on a mobile home, plus any tax-equivalent payments computed pursuant to subsection (4) of this section, with respect to the rent of a trailer space during the year for which such grant is claimed, or the amount of the specific ownership tax actually paid on a trailer coach, or the amount of the tax-equivalent payments, computed pursuant to subsection (4) of this section, actually made during the year for which such grant is claimed, but in no event may it exceed:

(a) In the case of an individual, five hundred dollars reduced by twenty percent of the amount by which ~~his~~ THE INDIVIDUAL'S income exceeds ~~five thousand~~ EIGHT THOUSAND SIX HUNDRED dollars;

(b) In the case of a husband and wife, five hundred dollars reduced by twenty percent of their income over ~~eight thousand seven hundred~~ FIFTEEN THOUSAND dollars.

(3) Such grant shall be allowed to such persons as described in subsection (1) of this section who meet the following requirements:

(b) Have income from all sources for the taxable year of less than ~~seven thousand five hundred~~ TWELVE THOUSAND NINE HUNDRED dollars if single or, in the case of a husband and wife, less than ~~eleven thousand two hundred~~ NINETEEN THOUSAND THREE HUNDRED dollars including, but not limited to, for this purpose, alimony, support money, cash public assistance and relief, pension or annuity benefits, federal social security benefits, veterans' benefits (except those specific veterans' benefits that are service-connected disability compensation payments), nontaxable interest, workers' compensation, and unemployment compensation benefits but not including outright gifts. "Service-connected disability compensation payments" means those payments made for permanent disability, which disability shall be limited to loss of or loss of use of both lower extremities so as to preclude locomotion without the aid of braces, crutches, canes, or a wheelchair; loss of use of both hands; blindness in both eyes, including such blindness with only light perception; or loss of one lower extremity together with residuals or organic disease or injury which so affects the functions of balance or propulsion as to preclude locomotion without the use of a wheelchair.

SECTION 16. Article 31 of title 39, Colorado Revised Statutes, 1982 Repl. Vol., as amended, is amended BY THE ADDITION OF A NEW SECTION to read:

39-31-105. Annual review of income eligibility levels. IN EACH TAXABLE YEAR COMMENCING ON OR AFTER JANUARY 1, 1995, THE INCOME LEVELS SET FORTH IN SECTION 39-31-101 SHALL BE REVIEWED BY THE DEPARTMENT OF REVENUE AND ADJUSTED IN ACCORDANCE WITH THE ANNUAL PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX FOR THE DENVER-BOULDER METROPOLITAN STATISTICAL AREA.

SECTION 17. Repeal. 39-1-104 (10.2) (c) and (10.3), Colorado Revised Statutes, 1982 Repl. Vol., as amended, are repealed.

SECTION 18. Effective date - applicability. This act shall take effect upon passage and sections 1, 3, 15, and 16 of this act shall apply to property tax years commencing on and after January 1, 1995, and sections 4, 6 through 9, and 11 through 14 of this act shall apply to property tax years commencing on and after January 1, 1994.

SECTION 19. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

An Examination of Colorado's Current Sales Tax System

Colorado Department of Revenue
Office of Tax Analysis
November 4, 1993

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DR 4010 (12/92)

STATE OF COLORADO

DEPARTMENT OF REVENUE
State Capitol Annex
1375 Sherman Street, Room 404
Denver, Colorado 80261
(303) 866-3091
FAX (303) 866-2400

Roy Romer
Governor

Renny Fagan
Executive Director

November 2, 1993

Governor Roy Romer
136 State Capitol
Denver, CO 80203

Dear Governor Romer:

Accompanying this letter is a Department of Revenue study of Colorado's state and local sales tax system.

Scope of the Study. Early in 1993, you sought information regarding (a) the effects of local sales tax rates upon local retail shopping center outlet location decisions and (b) the definitional blurring of the distinction between goods and services for some purchased items, such as information. You did not request policy recommendations for further action.

In the past the Department has conducted studies of many components of Colorado's tax system. We took your inquiry and expanded upon it. The study now includes a detailed description of the sales tax system and an overview of current administrative practices and costs. More significantly, we constructed a model which demonstrates various methods of establishing a uniform base of taxed items, applying a uniform rate and redistributing collected dollars to maintain local governments with the same revenues as they collect under the present system.

We took this extra step of constructing a model of a state collected - locally shared sales tax system because vendors who collect the sales tax often cite the complexity of Colorado's system. The issue of uniformity versus the autonomy of home rule cities has been hotly contested for years. We felt that a statistical model may provide useful information to those debating this issue.

Similarly, we additionally constructed a model that would add certain types of services to the sales tax base. Since the economy tends to include an increasing proportion of services, we again felt that a model which helps to examine the effects upon tax rate and regressivity would be helpful to those who choose to consider the issue.

Recommendations. Both of these models have significant policy implications. A primary goal of a state collected-locally shared sales tax model is to achieve administrative simplicity, for both vendors and governmental entities. However, achieving this goal through establishing a uniform base and rate while maintaining the same revenues for local jurisdictions is impractical at this time. The local base and rate are tailored to the needs of a local community such as economic characteristics, financial needs, population growth and bond payment obligations, which uniformity would significantly disrupt. In Colorado's decentralized government, most local citizens probably feel that their local sales tax dollars should remain in their community. To maintain the same amount of dollars as under the current system, a uniform system would take dollars from one community and send them to another. A uniform system is adverse to the constitutional powers of home rule cities. For these reasons, we recommend that you do not support adoption of a uniform base-rate model.

At the same time, we believe that other means are available to achieve greater simplicity of administration. We recommend that the Department of Revenue work with the Colorado Association of Commerce and Industry, the National Federation of Independent Business, local associations of the tax officers of Colorado corporations, the Colorado Municipal League, Colorado Counties, Inc., the Office of Regulatory Reform in the Department of Regulatory Agencies and any other interested parties, in order to further achieve simplicity and uniformity in the following areas: application for sales tax licenses, forms for remitting sales tax, common definitions of taxable items in more than one jurisdiction's base, joint audits, and procedures for protests concerning assessments. Most importantly, this group should evaluate the viability of central collection and administration of the sales tax system, without changing current bases or rates.

With regard to expanding the base to include certain kinds of services, using the experience of other states, our model makes certain assumptions about which types of services could be added to the base. Certain industries who provide these services would probably reach different conclusions. Adding services without establishing a credit system for low income persons does not reduce the regressivity of the sales tax. Finally, while adding some services to the base would allow for a reduction in rate while maintaining the same revenues, the burden of payment shifts to different consumer groups, a shift which may not reduce regressivity. For these reasons, we recommend further study of this issue and public comment. Therefore, we recommend that you do not support adoption of the model presented at this time.

Renny Fagan
Executive Director
COLORADO DEPARTMENT OF REVENUE

Executive Summary

This paper examines the adequacy, efficiency, tax equity, and simplicity of Colorado's sales tax system. Because various interested parties have debated alternatives to the current complex system, this study constructs and presents the results of various collection/distribution methods. Lastly, this document will study a hypothetical expansion of the sales tax base and its impact on tax equity and other revenue goals.

CHAPTER 1

Chapter 1 presents a brief history of state and local sales taxes in Colorado and the evolution of these taxes to their present form. Along with the history of sales taxes in Colorado, the chapter covers the composition of the state sales tax base.

During the Great Depression era, Colorado adopted a state sales tax in 1935 along with many other states. Originally instituted as an emergency measure, the tax was extended permanently in 1937. The initial sales tax rate of 2 percent was increased to its current level of 3 percent in 1965. Although the Legislature increased the rate to 3.5 percent in 1983 for a period of 15 months, the sales tax has remained at the 1965 level despite several legislative and ballot initiatives to increase the rate. Since 1978, 35 states have increased their sales tax rates; in 1991, fifteen expanded their sales tax bases. Colorado is among the few states that have not increased the rate or scope of their sales taxes over the last 15 years.

The City and County of Denver enacted a local sales tax in 1948 with Pueblo following in 1955. Another 39 jurisdictions adopted a sales tax in the 1960s. One hundred twenty-one jurisdictions, nearly half of the current number of taxing jurisdictions, enacted sales taxes in the 1970s and another seventy-three did so in the 1980s. In the 1990s, nine jurisdictions adopting sales tax ordinances. The overall growth in the number of local jurisdictions establishing sales taxes in Colorado mirrors a national trend. In 1976, 4,893 jurisdictions levied sales taxes; by 1991, there were 6,438 taxing authorities.

The decentralized nature of government in Colorado and the ability of local governments in the state to collect their own sales tax revenues, causes a great divergence between the state's ranking with regards to the state sales tax burden and the state's ranking regarding state *and* local

government sales tax burdens. Colorado ranks 43rd among 45 states in state sales tax collections per capita and per $1,000 of personal income; however, the state ranks 14th and 25th, respectively, in state and local sales tax collections per capita and per $1,000 of personal income.

Sales and use tax revenues increased at an average annual rate of 5.25% between 1981 and 1993. They comprise an increasingly smaller portion of state revenues than in previous years. Sales and use tax receipts contributed 29 percent of the revenues in the General Fund in 1993; in its peak year, 1984, sales and use tax receipts made up nearly 43 percent of General Fund revenues.

Partially responsible for the diminishing role of the state sales tax are the specific exemptions to the sales tax that have been granted over time. Over 50 specific exemptions to the sales tax exist, 27 of which were adopted during the 1970s and 1980s. The total estimated value of statutory exemptions for FY 1993 was nearly $350 million.

Clearly absent from the state's sales tax base are the sales to Colorado residents from out-of-state mail order firms and home television shopping networks. It is estimated that the state was unable to collect $26.5 million from this class of sales in 1992. A 1967 U.S. Supreme Court decision held that states and localities could not require mail order firms, without a presence in their taxing domains, to collect sales taxes upon the sale of taxable goods to residents of those jurisdictions. The decision does not nullify the sales tax liability of consumers, but indicates instead that state and local governments must find another means of collecting sales tax liabilities on behalf of individual consumers rather than requiring mail order firms to act as state and local government collecting agents. Without the facilitation of mail order firms in collecting sales tax liabilities, state and local governments face an administratively untenable task in tracking and collecting the sales tax liabilities of individual consumers, leaving most revenues uncollected.

In an effort to collect a portion of such revenues, some states have combined their efforts, through regional agreements, to promote compliance with sales/use tax laws. Some of their efforts include the promotion of voluntary compliance among mail order firms, auditing direct marketers, and sharing the information they obtain from those auditing efforts relating to the purchases of consumers. This information allows state and local governments to directly pursue the sales tax liabilities of individual consumers.

A 1992 U.S. Supreme Court decision upheld the Commerce Clause provisions of the 1967 decision, but also clearly stated that the issue was strictly a Commerce Clause issue rather than a due process issue. This new development enables Congress to legislate provisions that would enable states to impose taxes on this particular type of interstate commerce. Colorado has adopted a law to require sales tax collections from out-of-state mail order retailers upon the passage of such legislation. However, the tax increase limitations set forth by Amendment One may preclude the state from receiving the increased amount of revenues unless the issue is submitted to a vote of the people, should Congress act upon this matter.

CHAPTER 2

In Colorado's current sales tax system, a total of 241 different entities received $1,778 million in sales and use tax revenues in FY 1990-91. For the most part duality exists in the collection of these revenues. The state collects approximately 64 percent of total state and local sales and use tax revenues while home rule cities collect and administer the remaining 36 percent. In terms of local sales and use tax revenues, the state collected $292 million in revenue for statutory cities, counties and special districts in FY 1990-91; home rule cities, accounting for 68 percent of total local revenues, collected $634 million that year.

In performing their role as collection agents for the various taxing entities, retailers receive remuneration for the expenses they incur in collecting and remitting sales taxes. This reimbursement is commonly referred to as a "vendor discount". In FY 1990-91 an estimated $49 million in vendor discounts were allowed by state and local taxing jurisdictions on total collections of $1,727 million. For the state, special districts and most of the counties, vendors may retain 3.33 percent of total sales taxes collected. For statutory cities, the comparable percentage is 2.63 percent. Home rule cities have the lowest vendor discount at 2 percent. Statewide, the vendor discount averages 2.82 percent.

Based on a review of characteristics of other states, Colorado is unique in its method of administering sales tax. Of the thirty-two states that permit enactment of local sales and use tax, state administration of these taxes occurs in all but six states. In twenty-four states, local taxing jurisdictions are required to adopt the state's sales tax base. Of the 46 states, inclusive of the District of Columbia, that levy a state sales tax, twenty-seven states allow the vendor to retain a collection fee. Colorado has the highest flat rate vendor discount in the nation at 3.33 percent while Wisconsin and Texas have the lowest at 0.5 percent. In eleven of the 26 states where the state collects local sales taxes, a state administration fee is charged for collecting the tax. Rates range from 0.82 percent of collections in California to a tiered rate structure in Alabama. In Colorado the state may only recover costs for collecting taxes on behalf of certain special districts and may not do so for its collection efforts for counties and statutory cities.

The chapter examines whether the state should charge local taxing jurisdictions for the collection of sales tax. The state's service of collecting local sales tax is examined in terms of the theory of "public goods." It is noted that the current centralized provision of these services for statutory cities, counties and special districts results in gains for local taxing jurisdictions since they can avoid the cost of replicating the resource requirements devoted to administration and collection of the tax. Additionally, the provision of these services by a centralized authority creates spillover benefits (in the form of cost savings) for the entire class of taxpayers affected stemming from unified reporting and remittance of sales tax collections for several different taxing jurisdictions. The alternatives to centralized administration and collection of taxes for local jurisdictions is either a replication of the state's resource effort in collecting these taxes or contracting with a private entity for the provision of these services. Both of these alternatives result in higher costs of collection for the taxing entity than they are now paying. Under both

of these alternatives to centralized collection, the spillover benefits to taxpayers stemming from unified reporting and remittance of sales tax collections is effectively nullified. There appears to be good rationale for the state to offer subsidized collection services to statutory cities and counties.

CHAPTER 3

Colorado's localities, over time, have come to rely increasingly on revenues derived from local sales taxation. Unlike many other states, Colorado does not restrict the base of taxation, does not restrict the rate of taxation imposed, and does not employ an equalization scheme to minimize disparities of local tax effort. The actual yield of the tax on a locality-by-locality basis varies a great deal in Colorado. This is due to an interplay of the volume of retail sales that is taxable and the tax rate imposed.

Three data bases that summarize the tax base for each kind of jurisdiction -- county, home rule city, and statutory city -- were created using information from the Division of Local Government and Department of Revenue files. A tax base also was computed for those localities that receive their revenues on the basis of a county formula. The tax base of all localities was re-defined to create a uniform sales tax base (specifically, one that matched the state sales tax base). A uniform tax rate (one that would produce approximately the same total revenue) was derived in addition to individual local tax rates. These latter tax rates in some cases resulted in rates that were potentially at variance with the state's statutory maximum sales tax rate. Several localities lost a significant portion, even the majority, of their tax bases from the exemption of grocery store food purchases. Thus, many of the individual tax rates computed were severely impractical.

Both the reasons for, and the effectiveness of, the interjurisdictional divergence of tax policies are reviewed, yet the findings are inconclusive with regards to Colorado localities; the vast majority of studies have been conducted on the interstate level. Most analysts believe tax policy rivalry to be a no gain proposition, but there are dissenting voices.

The data bases were also used to examine the effects of other distribution systems (other than point-of-sale) and whether these systems would produce a revenue distribution under a uniform base/uniform tax rate system that would be similar to the status quo. None of the systems resulted in a satisfactory outcome. It would be possible to redistribute revenues received under a uniform system so that each locality would be held reasonably "revenue harmless" from such a system. However, such redistribution would require shuffling dollars from one community to another.

CHAPTER 4

A current topical issue in tax literature is base broadening as it relates to sales taxes. Base broadening is a fiscal tool that states are using, or at least are discussing, to fulfill many different purposes: to halt the erosion of sales tax revenues as consumers shift their spending from goods to services; to create more equitable tax structures for taxpayers -- for households, base

broadening can be used to lessen regressivity -- for businesses, it can be used to reduce the distortional effects of taxing goods only; and/or to stabilize the yield of sales tax revenues. The sales tax is one of the least disliked of the taxes levied by governments, and for many states, the service sector provides a source of previously untaxed revenues.

Without changes to the sales tax statutes, Colorado sales tax revenues will reflect a diminishing consumer preference towards taxable goods. The proportion of taxable consumer expenditures is shrinking in comparison to non-taxable consumer expenditures. In 1965, 40.5 percent of total consumer expenditures were attributable to services. The proportion of income spent by consumers on services by 1990 was 54.4 percent. Consumption of services in the year 2005 is projected to be 64 percent of consumer dollars. A comparison of Colorado tax revenues to personal income over the last 20 years confirms the same trend. Since the 1970s taxable sales as a percentage of personal income has trended downwards with the exception of the boom period in Colorado between the late 1970s and early 1980s in which taxable sales as a percentage of personal income actually increased. During the early '70s taxable sales were roughly 55 percent of personal income; by the '90s taxable sales had decreased to 46% of personal income. Holding population and inflation constant, there is a divergence between state expenditures per capita and sales tax revenues per capita. Since 1980, real per capita sales tax revenues have decreased 14% while real public expenditures per capita increased approximately 35% over the same period.

Consumer choices play a large role in the revenue yield of the sales tax as witnessed by the revenue response of the sales tax to the diminishing role that goods play in consumer budgets. Sales tax revenues also respond to economic cycles. Consumers are sensitive to economic cycles: typically, they react to recessions by paring their spending on taxable items (especially durable goods), and react to periods of growth by boosting their spending on taxable goods. This pattern of behavior by consumers generates a volatile stream of sales tax revenues. Colorado's sales tax provides nearly thirty percent of the revenues that flow into the General Fund. It is the second largest source of tax revenues to the state. Due to its prominence in funding state services, it is prudent to examine the impact of the reduction in per capita sales tax revenues and the volatility of the tax on planning and budgeting state services, and examine possible alternatives. Base broadening is one alternative that has the potential to address some of these issues.

Studies in current tax literature indicate that broadening the sales tax base may help stabilize sales tax revenues, diminish the competitive advantage that service providers may have over retailers, and/or moderate the regressivity of the sales tax. A sales tax base that includes not only goods but also services conforms to the notion that the sales tax is a tax on consumption.

A larger base would also allow the state to assess a lower sales tax rate. Consumers and businesses sometimes make buying and pricing decisions based on the amount of sales tax that is charged or is not charged (as is the case for the purchase of services) on an item. If a tax causes consumers or businesses to behave in a manner different from what they would normally choose to do without the tax, the tax is distorting the decisions of consumers and businesses. However, the lower the tax rate and the broader the tax base, the lower the chances of the tax

impacting a buying or pricing decision. Broadening the sales tax base would level the playing field for retailers and service providers and would allow the state to decrease the tax rate which would in turn diminish the distortional effects of the sales tax on decisionmaking by consumers and businesses.

One means of broadening the base would be to repeal all or a portion of the 50 sales tax exemptions that the state allows. A majority of these exemptions to the sales tax result in a relatively insignificant difference of revenues to the state. Over half resulted in a reduction of $1 million or less in sales tax collections. The exemptions that yield the greatest sales tax relief are those for food for off-premises consumption; gasoline and special fuel; fuel for residential heat and light; prescription drug sales; sales to governmental units; purchases of machinery or machine tools used in manufacturing processes; sales to charitable organizations; and cigarette and tobacco products sales. The total estimated value of these eight exemptions is roughly $320 million.

Another method states can use to broaden their sales tax bases is to include services in their sales tax bases. A 1991 Federation of Tax Administrators (FTA) study of the taxation of services among the 50 states plus Washington D.C., ranked Colorado 47th in the number of services that are included in its sales tax base. Of a possible 160 services listed in the study, Colorado taxes 12. Hawaii and New Mexico had the most comprehensive sales tax bases: both include 154 services in their sales tax bases. Among Colorado and its neighboring states, Colorado ranked the lowest in the number of services included in its base: Kansas ranked 13th; Wyoming, 16th; Arizona, 17th; Utah, 21st; Nebraska, 23rd; and Oklahoma, 28th. Oklahoma, the lowest ranked Colorado neighbor taxed at least 32 services in comparison to the 12 services that are included in the Colorado sales tax base.

A model of the revenue impact of broadening the sales tax base was constructed for this chapter. The current sales tax base was combined with other combinations of currently non-taxable consumer expenditures and the resulting sales tax revenues were derived. Given these various alternatives, the sales tax rate could be reduced from 3 percent to as low as 2.15 percent, depending upon the magnitude of the additional base. Expanding the current base by incorporating all consumer services plus current exemptions from the base would allow the state to reduce the tax rate to 2.15 percent while remaining revenue neutral. However, this is the most regressive of the alternatives. The least regressive alternative was the combination of the current sales tax base with a tax on consumer services, a repeal of the food and energy exemptions, and a credit for sales tax expenditures on food for home consumption and utilities by low income families. Under this model, a tax rate of 2.35 percent would be required to maintain the current level of sales tax revenues.

Base broadening could be an alternative for states that want to revamp their sales tax structures. However, Florida serves as an example of the problems a state may encounter in incorporating services and previous exemptions into a sales tax base, and in garnering the support of taxpayers to enable the ratification of such policy. Despite its efforts to involve various sectors of the community in drafting the legislation, Florida faced an entrenched and effective opposition

(which is likely to exist in most large communities) that was successful in defeating the new policy. Although the Florida legislature successfully passed a fairly comprehensive sales tax on services and former exemptions, the newly enacted legislation was repealed within six months of implementation.

Including a service component into the sales tax base of localities, under a uniform base and rate system, would allow sales tax rates to decrease while maintaining overall revenue neutrality. The rates would decrease as follows: counties could levy a tax rate of 0.69% rather than 1.11%; home rule cities could decrease their rates to 2.14% from 3.20%; and the uniform rate for statutory cities could be decreased to 2.28% rather than 3.44%. This system of sales taxation would require the redistribution of revenues in order to maintain the revenue stream that localities currently experience. As seen in the third chapter, a uniform rate, uniform base system based on point of sale leaves rural areas, that chiefly depend on the revenues derived from the sales tax on food for home consumption, with less revenues than they would normally receive. The addition of a services component to the base of localities would further exacerbate the distributional disparities between localities. Whereas urban areas and towns with heavy tourism would most likely benefit from the inclusion of services into the sales tax base, rural areas would be at a disadvantage without a redistribution of revenues since services are more abundant in the urban and high tourism areas.

I The History and Evolution of State and Local Sales Taxes in Colorado and a Review of the Statutory Tax Base and Exemptions to the Base

In 1935 Colorado joined other states during the Great Depression era in passing sales tax laws. The legislature acted after an estimated 2,500 people attended a meeting on the state capitol lawn. The state sales tax was instituted as an emergency measure but soon extended permanently in 1937. The state tax rate was initially set at 2 percent and increased in 1965 to 3 percent where it stands today. During a state revenue shortfall in 1983, the rate was briefly increased for 15 months to 3.5 percent. In November 1992, the state's voters defeated a proposal to increase the state's tax rate to 4 percent. Many tax exemptions have been enacted over the years with few additional taxable items added.

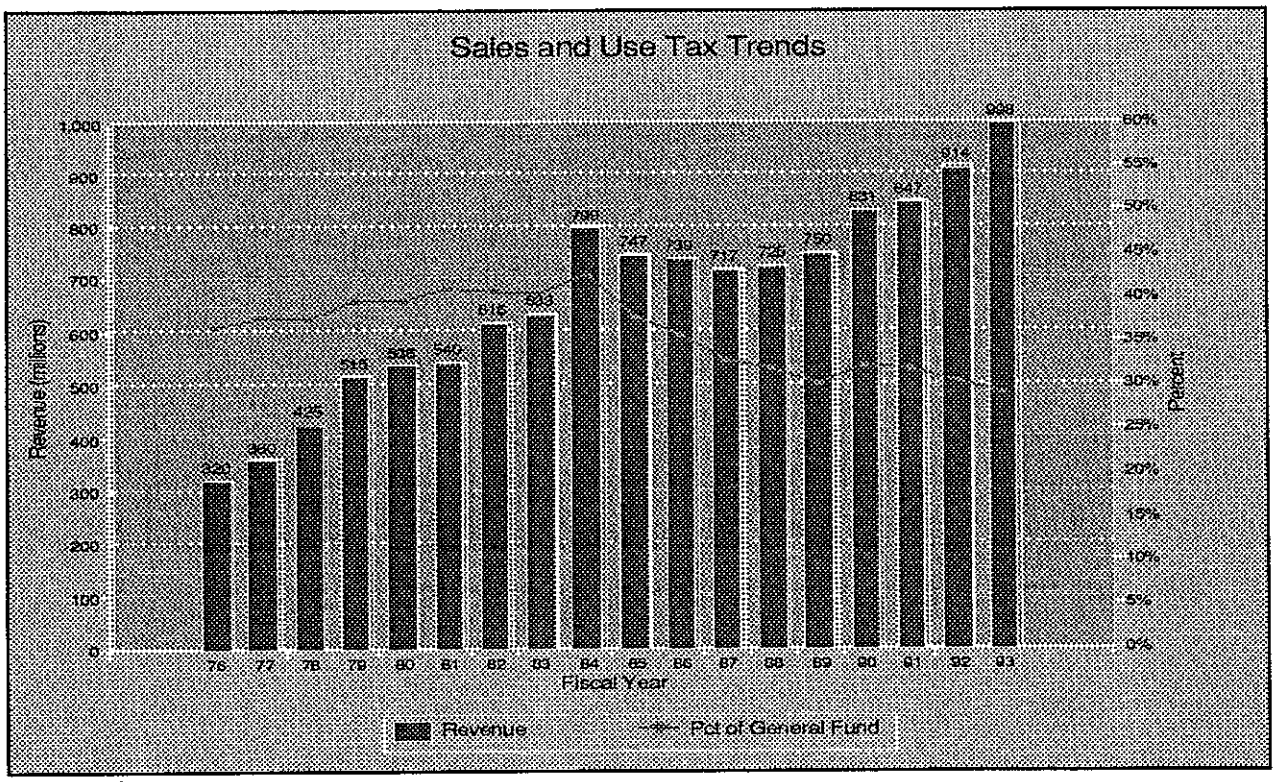

Figure 1.

Figure 1 shows the historical trend of sales and use tax collections since fiscal year 1976. The apparent flatness of growth in 1980 and 1981 is due to the removal of food and home heating fuels during that time. The spike in 1984 is due to the aforementioned tax rate increase. Sales

and use tax revenue increased at a 5.25% average annual rate during the 1981-1993 period. The remainder of the general fund has grown at a 10.0% rate (all general fund revenues grew at an 8.32% annual rate). Therefore, the relative importance of the state sales and use tax as a funding mechanism has declined. In 1976, sales and use tax accounted for 36.6 percent of gross general fund and has declined to 29.0 percent in 1993 after reaching a peak of 42.6 percent in 1984. For comparison purposes, Colorado population and inflation (using the Denver-Boulder CPI) increased at an average annual rate of 5.80%.

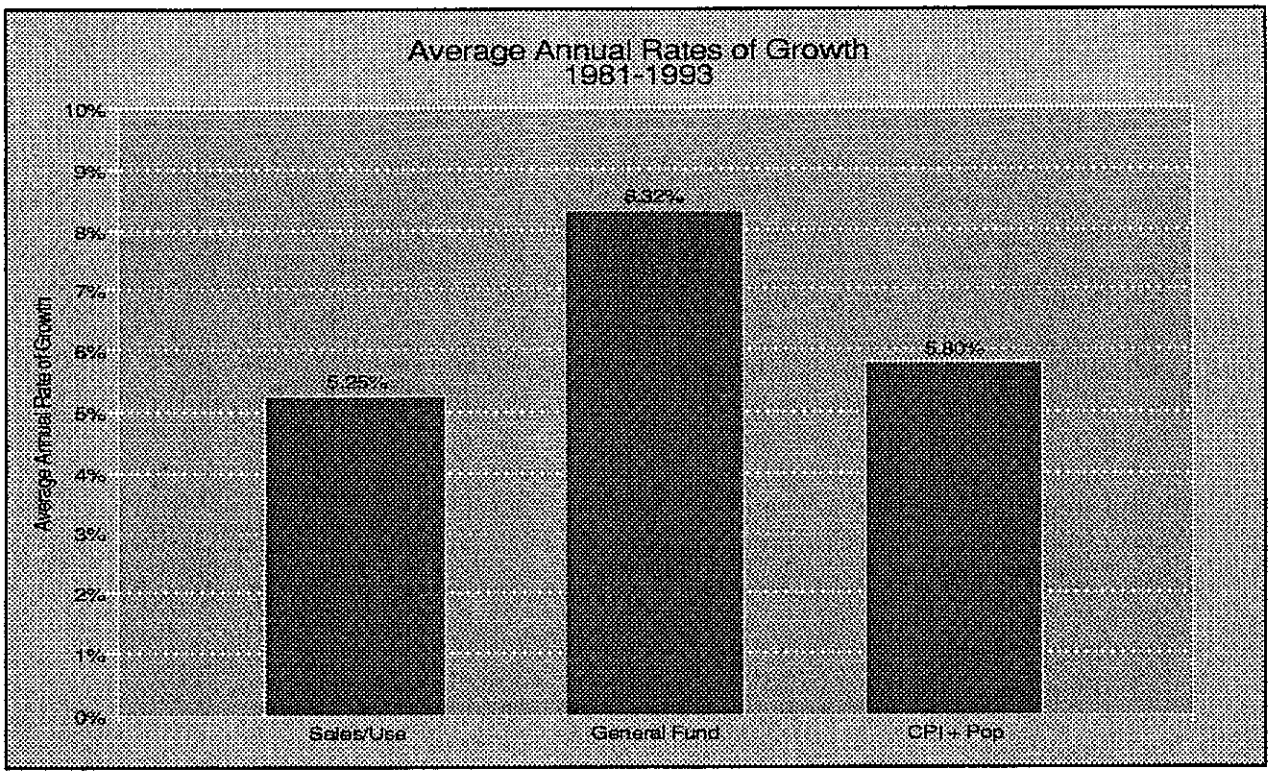

Figure 2.

Colorado lists six broad categories of taxable goods in its statutes and then lists the exemptions to the broad list. A tax is levied against (1) the purchase price paid or charged for all sales and purchases of tangible personal property, (2) against the net value of exchanged property, (3) upon telephone and telegraph services, (4) for commercial consumption of gas and electric services, (5) upon the amount paid for food or beverages served or furnished by restaurants, cafes, and similar places of business, and (6) the amount charged for the rental of lodging.

Specific exemptions to the Colorado sales tax have gradually been added over time. The greatest portion of these exemptions were added in the 1970s and 1980s when 27 exemptions were placed into Colorado law. There are currently 50 specific exemptions. (It should be noted that two other sales tax exemptions exist only in enterprise zones.) Table 1 lists these exemptions in order of their enactment.

Colorado Sales Tax Exemptions

	Date Enacted	FY 1993 Revenue Impact (millions)
Tangible property becoming an ingredient or component part of the product or service manufactured	1935	$1.1
Gasoline and special fuel	1935	58.1
Energy used for industrial, manufacturing, and similar purposes	1937	5.1
Sales to charitable organizations	1937	16.2
Sales to governmental units	1937	21.0
Printers ink and newsprint	1943	4.1
Sales of livestock for breeding	1943	< 0.1
Newspapers	1943	2.7
Sales and purchases of neat cattle, sheep, lambs, poultry, swine and goats	1943	0.0 *
Sales of feed for livestock; seeds and orchard trees	1943	0.0 *
Farm auction close-out sales	1945	NA
Cigarettes	1959	14.4
Lodging for permanent residents	1959	NA
Sales of straw for livestock bedding	1961	< .1
Sales to residents of a bordering state with twenty miles of the state border if the bordering state does not have a sales tax	1963	0.0
Sales of prescription drugs	1965	21.7
Sales to public schools	1969	NA
Sales of live fish for stocking	1970	< 0.1
New and used commercial trucks and trailers purchased in Colorado for use outside Colorado or in interstate commerce	1976	1.0
Certain sales of assets in business formation or dissolution	1977	2.8
Property brought into the state for testing, modification, or inspection if the use is outside of the state and the testing period is no longer than 90 days	1977	0.2
Sales of construction materials to a common carrier by rail	1977	0.0
Leases of personal property for three years or less if tax is paid upon original acquisition	1977	0.0
Special fuel for farm vehicles	1977	1.2
Sales of insulin (Included with prescription drugs)	1977	0.0 **
Sales of motor vehicles by nonresidents purchased for use by nonresidents outside Colorado	1977	0.1
Value of meals furnished to employees of food service establishments free or at reduced rates and considered part of their incomes	1978	0.1

* Without specific exemptions, these goods would yield very little in tax revenues: a considerable amount would be shipped out of state, used as a component in the production of food or would be sold at wholesale. If these goods could be taxed under these conditions, their value would be $59.6 million and $16.1 million respectively.

** Included in the estimate of the value of the exemption for prescription drugs.

Table 1.

Colorado Sales Tax Exemptions, (continued)

	Date Enacted	FY 1993 Revenue Impact (millions)	
Property transferred by a supplier to out of state vendors for use in selling products at wholesale by the supplier	1978	0.2	
Sales of any article, containers or bags to a retailer or vendor of food if provided to the consumer without a separate charge	1978	0.2	
Sales of construction and building materials for use by contractors on public works projects used by tax-exempt organizations	1979	NA	
Sales of straw for poultry bedding	1979	< 0.1	
Purchases of machinery or machine tools used in manufacturing process	1979	18.4	
Sales of glucose for treatment of insulin reactions and insulin measuring and injecting devices	1979	0.0	**
Sales of fuel for residential heat, light, and power	1979	29.5	
Forty-eight percent of purchase price of factory built housing	1979	0.1	
Sales of food for off-premises consumption (net of food stamps)	1979	139.8	
Certain medical supplies and equipment; eyeglasses, contacts, and hearing aids; therapeutic devices, appliances or related accessories	1980	4.3	
Property for use in food manufacturing when such property becomes part of the product or is left unfit for further use	1982	0.3	
Refractory materials and carbon electrodes used in manufacturing iron and steel, and inorganic chemicals used in processing uranium-vanadium ores	1982	0.2	
Nuclear fuel when deemed a wholesale sale	1982	0.0	
Sales of aircraft used or purchased for use in interstate commerce by commercial airlines	1984	0.0	
Newspaper advertising supplements	1985	1.3	
Sales of personal property through vending machines of 15 cents or less	1986	0.0	
Food purchased with federal food stamps or funds from the supplemental food program for women, infants, and children	1987	0.0	
Sales of precious metal bullion and coins	1990	0.2	
Direct mail advertising materials distributed by persons engaged solely and exclusively in providing cooperative direct mail advertising	1990	< 0.1	
Sales of aircraft component parts	1991	0.4	
Sale of railroad capital equipment	1992	0.7	
Sale of materials used in the printing process	1992	0.2	
TOTAL VALUE OF EXEMPTIONS		**$345.6**	

Table 1.

LOCAL SALES TAXES

Local government sales taxes started in 1948 when the City and County of Denver imposed a tax. In 1955 Pueblo became the second city to levy a sales tax. The next city waited until the 1960s to impose a sales tax. Table 2 shows the imposition of sales taxes by decade.

Imposition of Local Sales Taxes by Decade

Decade	Number of Jurisdictions
1940s	1
1950s	1
1960s	39
1970s	121
1980s	73
1990s	9
Total	244

Table 2.

The first cities to impose sales taxes were home rule cities or those not operating under state statutory authority. In 1967, the state legislature recognized "that the imposition of sales taxes . . . affects the flow the commerce within this state" and granted the power to statutory cities and counties to adopt a sales tax by ordinance and vote of the people. Currently, there are 199 cities and towns, 39 counties, and 6 special districts imposing a sales tax in Colorado.

The nationwide growth of the number of local jurisdictions imposing a sales tax is similar to the Colorado experience. Nationally, 4,893 jurisdictions imposed sales taxes in 1976. This figure increased to 6,438 in 1991, a growth rate of 32 percent.

From the late '60s on, municipalities in the majority of the states that have sanctioned municipal sales taxes since the '60s (17 of 22) have seen the share of locally produced revenue from municipal sales tax rise (from less than 7% to over 11% by 1985, on average). By 1990, municipal sales tax contributions to total locally-produced revenues had risen to 22%. Similarly, in 1990, sales tax represented 25% of Colorado local revenues.

Since 1978, 35 states have increased the state sales tax rate. Only one state lowered its rate during this period. Colorado has the same rate as it did in 1978 but did increase the rate briefly in 1983 and 1984. Fifteen states increased their tax base in 1991.

RANKING AND EQUITY

When examining the state sales tax alone, Colorado ranks low (1990 rankings) relative to the rest of the states with a 43rd ranking (of 45 states) using either tax per $1,000 of personal income or tax per capita measures. Combining state and local sales taxes leads to higher rankings: 14th using a per capita measure and 25th using a tax per $1,000 of personal income measure.

A tax is considered regressive when the tax as a percentage of income decreases as income increases. Research for 1989 shows that the sales tax is regressive. Table 3 shows the effective sales tax rate for state and local taxes.

Effective Tax Rates

	Family Money Income							
	Under $5,000	$5,000 to $10,000	$10,000 to $15,000	$15,000 to $20,000	$20,000 to $30,000	$30,000 to $40,000	$40,000 to $50,000	$50,000 and over	Total
State	2.9	1.4	1.4	1.2	1.1	1.0	0.9	0.7	1.0
Local	3.0	1.5	1.5	1.2	1.1	1.1	1.0	0.7	1.0

Source: Colorado State and Local Finance Study, 1992.

Table 3.

EFFICIENCY

A sound tax system is one which exhibits as little unintended interference with economic decision making whether on the part of the production, labor, or consumer sectors. It would minimize the cost of compliance with the tax laws. To some extent, tax policy decisions will alter economic decisions by favoring or not favoring certain industries. For instance, a tax on machinery or other factor inputs to a manufacturing process increases the cost of the input and hence the final product. Colorado, as well as many other states, recognize this and have repealed the sales tax on such inputs.

Varying local tax rates might affect consumer purchasing decisions on big ticket items such as furniture or apparel purchases. The existence of "tax islands" or areas of low sales tax rates may funnel such consumer spending to those areas.

MAIL ORDER SALES

State and local governments have been unable to require collection of their sales taxes by out-of-state mail order firms and home television shopping networks. The 1967 U.S. Supreme Court decision in *National Bellas Hess* held that out-of-state mail order houses could not be required to collect state and local sales and use taxes for states in which their only business presence consists of distributing catalogs and other advertising materials. Even though the out-of-state vendor cannot be required to collect the tax, the tax is still a liability to the individual customer. Under state use tax law, the individual customer is liable to report the tax. However, it is difficult to collect the tax from individual customers.

Based on estimates formulated by the Advisory Commission on Intergovernmental Relations, if Colorado could have collected sales tax on interstate mail order sales in 1992, the amount would have approximated $26.5 million. Mail order firms argue that tax collection would impose an undue burden. A de minimus exemption has been proposed to protect smaller firms from the burden. Estimates of revenue with a $5 million and $10 million exemption are $19 million and $17.5 million, respectively. The exclusion of firms with less than $5 million or $10 million in sales would exempt 93 percent and 97 percent of the firms, respectively, from compliance.

Some states have pressed the issue of collecting taxes on out-of-state mail order sales. In May 1992, the U.S. Supreme Court upheld the Commerce Clause portion of its decision in *National Bellas Hess*. The Court, in *Quill vs. North Dakota*, continued to hold that a mail order company must have substantial nexus to not violate the Commerce Clause. However, for the first time, a two prong nexus requirement was established. Under due process, a state has personal jurisdiction and clearly may tax an interstate business with only minimum contacts with the state. However, by stating clearly that the issue is strictly one with Commerce Clause implications rather than due process, the Court removed the barrier which prevents Congress from intervening in matters of due process. Congress is then free to allow states to burden interstate commerce to the extent it deems appropriate. With the passage of legislation in 1990, Colorado has positioned itself to require collection of taxes from mail order retailers. If and when passage of federal legislation authorizing states to require out-of-state retailers to collect sales or use taxes, Colorado has statutory authority in place. However, Amendment 1 issues may cloud the state's ability to collect these taxes.

State litigation since the *Quill* decision is focused on two areas. One is to determine on a case by case basis the strength of "substantial" nexus. The second is to test state statutes which create a collection obligation through "affiliate" nexus by virtue of the physical or substantial presence of an affiliated corporation. Either method has generated mixed results.

States have tried to ensure that the public is aware of its use tax obligations. One way has been to develop procedures to make it easier for consumers to comply such as including a line on the income tax form or designing a simplified use tax form. Some states have entered into a regional agreement and information sharing arrangement to promote use tax compliance by encouraging retailers to voluntarily register and collect and by auditing direct marketers and then sharing

information on purchases by consumers so that the tax can be pursued directly from the consumer. Customs declarations are also being used to identify potentially taxable purchases.

II Taxing Authorities, Collection and Distribution Mechanics

TYPES OF TAXING AUTHORITIES

As Table 1 indicates, in FY 1990-91 Colorado had 241 different governmental entities that levied a general sales and use tax. In total these taxing entities collected $1,778 million. State sales and use taxes account for just over 47 percent of total taxes levied while home rule cities comprise 36 percent of the total. The remaining 17 percent of taxes levied is divided between statutory cities and counties, and special districts (transportation and cultural facilities).

Types of Taxing Authorities, FY 1990-91

Taxing Authorities	Sales & Use Number of Authorities	Tax Revenues ($000)	Percent of Total
State of Colorado	1	$844,222	47.4%
Regional Transportation District	1	97,645	5.5
Cultural Facilities District	1	16.439	0.9
Counties	39	91,562	5.2
Statutory cities	156	93,911	5.3
Home Rule cities	43	634,200	35.7
Total	241	$1,777,979	100.0%

Table 1.

Not included in Table 1 are two special districts that levy a tax for the provision of local improvements, one non-metro area county that levies a 0.5 percent tax for the development and operation of transit services, and the Baseball Stadium District which began levying a 0.1 percent tax in the Metro Denver area for construction of a stadium in FY 1991-92. Additionally, a 0.2 percent tax levied on selected items to provide funds for the promotion of tourism terminated by statute on June 30, 1993. In FY 1990-91, levies collected for the aforementioned local improvement districts, the county transit tax and the tourism promotion tax amounted to approximately $11.7 million.

COLLECTING ENTITIES

As Tables 2 and 3 indicate, the Colorado Department of Revenue is responsible for administering and collecting the state sales and use tax, sales taxes for statutory cities and counties and sales and use taxes for special districts. With few exceptions (as noted below) all of the local taxes are redistributed within one month after collection to the respective taxing authorities on a point of sale basis. While rates differ among taxing entities, all are required to

Types of Collection Authorities, FY 1990-91

State of Colorado collections for:	Sales & Use Tax Revenues ($000)	Percent of Total
State sales and use tax	$844,222	47.5%
Statutory cities, counties, & special districts collection of sales taxes	292,124	16.4
Home rule cities collections of sales and use taxes	634,200	35.7
Statutory cities and counties use tax	7,433	0.4
Total	$1,777,979	100.0%

Table 2.

conform to the state's sales tax base with three exceptions. The state currently exempts sales of food for home consumption, sales of machinery and machine tools and the sale of residential gas and electricity. Taxing entities may elect to include or exclude these items in their sales tax base.

Types of Collecting Authorities for Local Taxes, FY 1990-91

	Sales & Use Tax Revenues ($000)	Percent of Total
State of Colorado collections of sales tax for statutory cities, counties & sales and use tax for special districts	$ 292,124	31.3%
Home rule cities collections of sales and use tax	634,200	67.9
Statutory cities and counties collection of use tax	7,433	0.8
Total	$933,757	100.0%

Table 3.

The majority of statutory cities and counties have opted to include these items in their tax base. Counties and statutory cities may also enact use taxes but their collection and administration is

left to the jurisdiction enacting the tax. Use taxes are those taxes levied on the purchase of a product bought outside of a taxing jurisdiction but used in the taxing jurisdiction. The function of a use tax can be illustrated by a scenario that shows the sales/use tax liability on the purchase of furniture bought outside of a taxpayer's local sales tax jurisdiction and delivered to their home. If a person who lives in Castle Rock buys a sofa in unincorporated Jefferson county and has it delivered to Castle Rock, the sofa is subject to Castle Rock use taxes rather than Jefferson county sales taxes. The use tax is in lieu of the sales tax that the town of Castle Rock would have received had the sofa been purchased there. Predominantly, use taxes that have been enacted are levied on motor vehicles and building materials.

As Table 1 indicated there are also 43 home rule cities that collect and administer their own sales and use taxes. For the most part these cities have elected to adopt a broader sales tax base than the state by limiting exemptions. In FY 1990-91 these 43 taxing entities accounted for just under 68 percent of all local sales and use taxes collected in the state.

SALES TAX DISTRIBUTION METHODS

As noted above, the majority of local sales taxes collected by the Department are redistributed to respective taxing jurisdictions based on point of sale. While this is true for statutory cities and special districts, several counties also redistribute part of their sales tax revenues to cities. The

County Sales Tax Distribution Methods, FY 1990-91

Distribution Method	Number of Counties	Sales Tax Revenues ($000)
Point of collection	4	$8,067
Modified point of collection -- point of collection & formula	6	7,122
Formula-based	7	6,201
Motor vehicle registrations	2	931
Population	1	402
Total	20	$22,723

Table 4.

rationale for county sharing of sales tax revenues can be traced to the statutory limitation on the combined state and local sales tax rate for statutory cities and counties. In general, the combined rate of sales tax is limited to 7 percent except that the limitation does not preclude a county from levying a sales tax rate of up to 1 percent. Given the state sales tax rate of 3 percent, this statutory limit puts a cap on the combined statutory city and county rate of either 4 or 5 percent. Thus, a county seeking to increase its sales tax rate could effectively foreclose future rate increases by many of the statutory cities within the county. As a method to compensate cities for the resulting rate limitation, some counties have agreed to share sales tax proceeds with cities.

In reviewing the rate structures of counties that share revenues with the statutory cities, it was found that the county-imposed sales tax made the statutory rate limitation binding for 60 percent of the statutory cities that received county distributions. Moreover, an additional 20 percent of these statutory cities were within 1 percentage point of the limitation.

In fiscal year 1990-91 the state collected approximately $107 million in sales tax for the 39 counties which levy a tax. Twenty of these counties in turn distributed $22.7 million in sales tax revenues to 56 cities. Table 4 summarizes the principal methods used by counties to redistribute county sales tax revenues to cities.

As Table 5 indicates, cities receiving revenue distributions from counties fall into four categories: those with no city sales tax, those which impose a sales tax at the same rate as the county, those which tax sales at a lower rate than the county and those which tax sales at a higher rate than the county.

Tax and Revenue Characteristics of Cities Receiving County Sales Tax Distributions, FY 1990-91

Tax Characteristics	Number of Cities	County Tax Revenues Distributed ($000)	Percent of Total
No city sales tax	11	$2,054	9.0%
City sales tax the same rate as the county	18	11,512	50.7
City sales tax at a lower rate than the county	6	5,679	25.0
City sales tax at a higher rate than the county	21	3,478	15.3
Total	56	$22,723	100.0%

Table 5.

Cities that tax sales at higher rates than the county receive seventy percent less county distributed revenue than cities which tax at the same rate as the county. The latter receive over 50 percent of total sales tax revenues distributed by counties. Cities with no sales tax receive the smallest distribution of revenues from counties (9 percent). Cities that tax at higher rates than the county are generally in counties that use formulas for distributing revenues which heavily emphasize counties' revenue needs.

Many of the cities that receive county sales tax distributions are small jurisdictions located in non-urban areas. Moreover, the localities receiving county revenues include both statutory and home rule cities. For cities that impose their own sales tax, some conform their base to that of the county, while others have adopted a different tax base. Given the lack of uniformity in bases

and rates among jurisdictions, it would appear that each county (and cities within that county) has adopted sales tax policies that are tailored to their local economies and revenue needs.

VENDOR REIMBURSEMENT FOR TAX COLLECTION

For most taxable transactions the statutory (legal) incidence of sales tax falls on vendors of the tangible personal property being taxed. In large part, vendors shift the tax forward by explicitly adding it to the price of the product. At the state level approximately 100,000 vendors collect and remit sales tax on a monthly, quarterly, yearly or seasonal basis. Many businesses, and indeed most large businesses, are involved with several different taxing jurisdictions. For each branch or division, and often for different transactions, businesses must ascertain which taxing jurisdictions are involved, what items are exempt in these jurisdictions, what reporting requirements are involved and what rates of tax to apply. For performing their role as collecting agents of tax jurisdictions vendors may retain a percent of the tax collected as reimbursement for their expense in collecting and remitting sales tax. This reimbursement is commonly referred to as a "vendor discount" or "service fee". The rationale for the vendor's discount stems from an explicit recognition by taxing jurisdictions that businesses, in their role as collecting agents, should be compensated for the administrative costs they incur in collecting, accounting, reporting and remitting sales tax on purchases. At the state level vendors may retain 3.33 percent of state sales taxes collected. Vendor discounts for local taxing authorities vary from 0 to 5 percent. Table 6 summarizes significant features of sales tax collections, tax rates and vendor discounts by type of taxing authority.

Sales Tax Collections, Rates and Vendor Discounts By Types of Taxing Authorities--FY 1990-91

Taxing Authorities	Gross Sales Tax Revenues ($000)*	Average Tax Rate %	Vendor Discounts ($000)	Average Vendor Discount Rate %
State of Colorado	$852,262	3.00%	$28,408	3.33%
Regional Transportation District	93,421	.60	3,114	3.33
Cultural Facilities District	15,471	.10	516	3.33
Counties	110,856	.99	3,357	3.03
Statutory cities	72,449	3.02	1,908	2.63
Home rule cities	627,905	3.11	12,338	1.97
Total	$1,772,364		$49,641	2.80%
of which:				
Local taxing jurisdictions	$920,101		$21,232	2.31%

* Does not include retailer use tax

Table 6

As Table 6 indicates, taxing authorities allowed approximately $50 million in total vendor discounts in FY 1990-91 as compensation for vendors collecting $1,772 million in gross sales tax revenues. Statewide the average vendor discount rate was 2.80 percent of all sales taxes collected. The state, special districts, and most of the counties allow a 3.33 percent vendor discount rate. The vendor discount rate for statutory cities averaged 2.63 percent while the comparable average for home rule cities was the lowest in the state at approximately 2 percent. For local taxing jurisdictions, the vendor discount allowance amounted to $21.2 million and averaged 2.31 percent. The table also lists the average tax rate for each taxing authority. For the 39 counties that have enacted a sales tax, sales tax rates average about 1 percent. Statutory cities have an average sales tax rate of 3.02 percent, and home rule cities have the highest average sales tax rate in the state at 3.11 percent.

SALES TAX ADMINISTRATION IN OTHER STATES

Up to this point the study has focused on aspects of sales and use tax collections that are unique to Colorado. It is instructive to compare these findings to general characteristics of other states in their administration of these taxes. Issues such as state versus local administration, tax base definitions, vendor discounts and fees for the administration and collection of taxes are all germane to this inquiry. Is Colorado unique in its way of doing business or does it generally conform to the practices of other states in their administration of sales taxes?

A survey of information from the Commerce Clearing House's "Multistate Tax Guide" (1992), the Final Report of the Texas Select Committee on Tax Equity ("Rethinking Texas Taxes") and other information compiled by the Department provided the basis for comparison. Including the District of Columbia, there are forty-six states that have enacted a state sales tax. Thirty-two states permit enactment of local sales and use taxes. While twelve states are similar to Colorado in allowing the option for either state or local administration of local sales tax, state-only administration of local sales taxes is predominant. Only six states--Alabama, Alaska, Arizona, Arkansas, Colorado and Louisiana--have a mixture of state and local administration of sales taxes. Twenty states formally require state administration of all state and local sales taxes. Moreover, for states where local sales taxes are levied, 24 states require taxing jurisdictions to adopt the state's tax base. Six states have varied tax bases at the local level, and two states--Alabama and Colorado--require localities to use the state-defined tax base if the state collects their local sales taxes.

In 1987 the Texas State Legislature created a 13 member panel charged with the task of reviewing the state and local tax system in detail and the available options for changing the system, and reporting its findings to the Governor and the Legislature. With respect to the issue of state versus local administration of sales taxes, the Select Committee chose centralized over local administration of sales taxes based on the experience of 15 states that permitted local sales taxes. Ultimately, Texas chose to require state administration over local sales taxes because it was widely perceived that local administration was inefficient and an unnecessary burden on taxpayers. Concerning the latter, issues of differing tax bases and duplicative tax reporting and filing requirements appeared to be preeminent considerations of policy-makers.

Of the 46 states levying a state sales tax, 27 including Colorado, allow vendors to retain a fee for collecting and remitting sales taxes. States allowing vendor discounts fall broadly into four categories in terms of the amount of discount they allow: those that allow a flat percentage of taxes collected to be retained by vendors (14 states), those that allow a flat percentage retention up to a maximum dollar amount (5 states), those that taper the rates of retention (6 states) and those that taper the rate of retention up to a maximum dollar amount (2 states). For states that taper the vendor discount, rates of retention are inverse to the amount of taxes collected; higher rates of retention are permitted for lower amounts of taxes collected (principally designed to insure that smaller vendors are adequately compensated) and lower rates of retention are permitted on greater amounts of taxes collected.

Among the states allowing vendors a flat rate allowance, Colorado ranks the highest at 3.33 percent followed by Oklahoma at 2.25 percent. Wisconsin and Texas have the lowest flat rate allowance at one-half of one percent. For states with tapered rates, Alabama has the highest percentage retention allowance on low levels of collections and the widest spread in tapered rates (5 percent retention allowed on the first $200 of taxes collected down to a 2 percent allowance on tax collections in excess of $200). For the seven states that place a maximum on dollars retained by vendors (both flat and tapered percentages), the rates of retention are effectively phased out as vendors collect greater amounts of sales tax.

STATE CHARGE FOR COLLECTION

In eleven of the twenty-six states where state governments collect local sales taxes, the state charges an administration fee for collecting the tax. A sampling of rates range from 0.82 percent of collections in California to a tiered rate structure of 5 percent up to $10,000 in collections followed by 3 percent thereafter in Alabama. In Colorado, state statutes require the Department of Revenue to recover its costs of administering sales and use taxes only for special districts. No cost recovery is permitted for the Department's expense in administering of sales taxes for statutory cities and counties. However, counties may retain a vendor's discount of 3.33 percent of state sales tax they collect on vehicle registrations.

This discussion leads to the question of whether the state should charge local taxing jurisdictions for the collection of sales tax. Just as in the private sector, the provision of collection services requires the utilization of resources. In the private sector this service is normally provided if the fees for collection adequately compensate a firm for the cost of the resources engaged in furnishing the service; i.e., charges are sufficient to cover all of the contracting firm's costs inclusive of at least a normal profit. In paying for these services, the contracting entity for the service has exclusive right to, and is the sole recipient of, the benefits of the service being provided; i.e., there are no "free riders" who share in the benefits.

Two unique attributes of some of the services provided by the public sector are that they are not readily offered by the private sector, and that the benefits from the provision of the services do not solely accrue to one group but are broadly available to all. A service meeting both of these criterion is termed a "pure public good." The first of these attributes is given the moniker

"market failure"--the market system gives no incentive (in terms of a price) for a firm to provide the service. For the latter (termed "externalities") the provision of the service confers spillover benefits to other individuals rather than just the entity for whom the service is being provided, and these individuals cannot be excluded from receiving benefits. A good or service meeting both of these criteria requires government intervention if it is to be offered.

How does the provision of collection services for local sales taxes match up to these criterion for public goods? Apart from issues of taxpayer confidentiality, the provision of these services appears to have both public and private sector attributes. The private sector does have incentive to offer these services and the market establishes a price for their provision. Thus, private sector alternatives for the service are available. Additionally, each jurisdiction or entity contracting with the private sector for the provision of these services can effectively exclude all other jurisdictions from consuming the benefits of the services being provided.

Under the current system, a taxing jurisdiction that opts for state collection of its local sales taxes receives benefits in the form of cost avoidance. Specifically, the local taxing jurisdiction does not need to replicate the resource requirements of administration and collection. Hence, funds which are made available as a result of cost avoidance are available for use in other local administrative areas, or alternatively, may be channeled back to taxpayers through lower rates of taxation.

For the private sector, the provision of these services by a centralized collection authority, such as the state, would create benefits for the entire class of taxpayers affected. Specifically, efficiencies through unified reporting and remittance of sales tax collections for several different tax jurisdictions would result in cost savings for businesses subject to the tax. Thus, centralization results in spillover benefits to businesses for which no charge is levied.

Moreover, taxpayer benefits would be greatest for larger firms faced with collecting taxes for statutory and home rule jurisdictions. These firms would avoid the cost and complexity of ascertaining on a transaction by transaction basis which taxing jurisdictions are involved, what items are exempt, what reporting requirements are relevant and what rates of tax to apply is present.

In terms of the taxpaying public, the provision of centralized collection with or without a charge to affected jurisdictions has minimal impact on the taxes paid by individual taxpayers. If the service is provided by the state at zero cost, individuals will contribute to the cost of collection through state sales and income taxes. If the service is provided by the state, but only at a fee that covers the state's cost of collection, the state's need for revenues from state sources is correspondingly less. However, individual localities would need to cover these fees with either higher taxes and/or reduced services. Thus, individual taxpayers are faced with either explicitly or implicitly covering the cost of state collection.

This same conclusion, however, does not follow for special districts' sales taxes. Since special districts encompass limited geographic areas, the provision of collection services at a zero fee

would result in non-district taxpayers subsidizing the cost of collecting district taxes. Taxpayers within the special district would pay either a reduced rate of district tax and/or receive greater district service.

Since the state currently offers these services at a subsidized price (zero) to affected jurisdictions, benefits accrue to local taxing entities. Each local jurisdiction's alternatives to centralized provision of these services is either a replication of the state's resource effort in collecting these taxes or contracting with a private entity for the provision of these services. Both of these alternatives result in higher costs of collection for the taxing entity than they now incur -- either in the form of resource costs or by paying a price for the service that recovers the full cost of collection inclusive of a normal profit. Under both of the alternatives to state collection, however, the spillover benefits to taxpayers stemming from unified reporting and remittance of sales tax collections for several different taxing jurisdictions are effectively nullified. Based on the above discussion, it appears that there is good rationale for the state to offer sales tax collection services to statutory cities and counties at a subsidized price.

III

Alternative Methods for the Collection and Administration of Sales Taxes Among Counties and Municipalities in Colorado

GUIDELINES FOR EXAMINING THE STRUCTURE OF A TAX

A 1974 study by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) highlighted the structural aspects of a model state and local tax system. In general, this tax system is one which abates the reliance on property taxes and also ensures a coordinated system of local non-property taxes. The ACIR outlined a tax policy states could adopt to move toward this system. The study recommended that:

> States should provide a uniform local tax base that conforms to the state's tax base;
>
> States should collect and administer local sales taxes and specify permissible ranges for local tax rates;
>
> Local sales taxes should be based on the point of sale and local use taxes should be prohibited;
>
> Equalization formulas should be adopted to avoid fiscal disparities between taxing jurisdictions.

One might consider the ACIR's recommendations as a blueprint for an efficient tax system--one that minimizes collection and compliance costs in addition to dislocations among taxing entities. These recommendations can be used to examine Colorado's system of imposing and collecting sales and use tax.

RATIONALE FOR AND STRUCTURE OF THE LOCAL SALES TAX

This section of the report examines the characteristics of the existing structure of local sales tax. Once establishing this benchmark, alternative methods of administration (e.g., modification of the tax base) will be examined in latter sections for comparison. Local governments, in general, use non-property taxes for four major reasons. The sales tax provides localities with diversification and increased flexibility in the tax base. Sales tax revenue may allow for passive (indirect) property tax relief. Sales taxation broadens the incidence of the locality's taxation to include non-resident beneficiaries of government services. Sales taxation, further, is based on, to some extent, the taxpayer's ability to pay rather than being mostly a wealth tax as the property tax is thought to be.

While sales taxes provide a locality with some diversification of revenue source, its actual yield will depend upon the structure of the tax base, the tax rate imposed, and the level of retail activity in the area. Thus, revenue yields can vary greatly among localities. Below in Table 1 are shown the FY 1991 local sales tax base, revenues, and tax rates for some representative Colorado localities, as well as the same information for all counties, statutory cities and home rule cities. Please see Appendix 1 for additional information on the representative localities.

COLORADO LOCAL SALES AND USE TAX: MODIFYING THE TAX BASE TO THE STATE BASE

To simplify the data base itself and any comparisons among local sales taxes, all Colorado localities were placed into one of three classes: county, home rule city, or statutory city. Sales tax revenues for each jurisdiction were obtained from the 1990 and 1991 Local Government Financial Compendium, published by the Colorado Local Government Division. From this information, an implicit tax base was created -- even for localities that receive a formula distribution from their county. Department of Revenue sales tax records by locality and by SIC code of vendor were used to estimate the current (1991) taxable portion of food for off-premise consumption and residential utility purchases that would have been excluded from a locality's tax base had it been required to use the state-defined tax base. A sample of 1990 claimants of the machinery/machine tool sales and use tax exemption was used to estimate the size by locality of the state-defined reduction to the sales tax base. In addition to information for all counties, home rule cities and statutory cities, data are also presented for a representative group of localities. This format is used in Tables 1, 2 and subsequent tabular presentations. The localities were chosen to represent the diversity of Colorado taxing jurisdictions with respect to economic base, population size, geographic location, tourism characteristics and urban/rural nature.

The methodology for locality classification inherently understates the existing revenue base of the county grouping and overstates the existing revenue base of the statutory city grouping. However, if one considers the direct revenue needs of localities as opposed to the direct revenue needs plus county reallocated revenues to cities, there is no under- or overstatement.

There are several observations that can be made regarding Table 1. Although a net tax rate (tax rate net of any vendor's discount allowed) of about 1% was typical for Colorado counties and a net tax rate of around 3% typical for cities, there was a great deal of variation -- even without considering the influence of a locally-defined tax base. For all counties (Denver being considered a city for the purposes of this study), the range of net tax rates varied from 0.24% to 3.97%. For all statutory cities, the range was 0.97% to 4.00% and, for all home rule cities, from 1.90% to 4.00%. The importance of sales tax revenue to the locality varied as well. Sales tax revenue was only 10% of Jefferson County's total locally-derived revenues, but was 23% of Summit County's. Similarly, among cities, sales tax revenue was 17% of Limon's total local revenue, but was 60% of Commerce City's.

Revenue Neutral Local Tax Rates Necessary for Conformity with the State Sales Tax Base

Locality	Net Tax Rate	FY 1991 Revenue ($000)	Locally-Defined Tax Base ($000)	State-Defined Tax Base ($000)	State/Local Tax Base Percent	Tax Rate Necessary To Yield FY 1991 Revs
COUNTIES:						
Delta	1.93%	$1,625	$84,197	$54,537	64.8%	2.98%
El Paso	0.97	24,296	2,504,691	2,504,691	100.0	0.97
Jefferson	0.48	16,498	3,437,083	2,482,818	72.3	0.66
Routt	0.97	2,086	215,052	215,052	100.0	0.97
Summit	2.42	2,742	113,306	63,416	56.0	4.32
All Counties	0.96%	$91,562	$9,577,418	$8,244,674	86.0%	1.11%
HOME RULE CITIES:						
Commerce City	3.43%	$7,942	$231,545	$226,721	98.0%	3.50%
Denver	3.74	197,724	5,286,738	5,231,731	99.0	3.78
Durango	1.93	4,473	231,762	220,582	95.2	2.03
Pueblo	3.38	20,378	602,885	591,136	98.1	3.45
Vail	4.00	11,569	289,225	286,097	98.9	4.04
All Home Rule Cities	3.05%	$634,200	$20,770,443	$19,837,219	95.5%	3.20%
STATUTORY CITIES:						
Broomfield	3.50%	$5,255	$150,143	$114,123	76.0%	4.60%
Brush	2.90	758	26,121	14 ,186	54.3	5.34
Carbondale	2.90	868	29,931	22,230	74.3	3.90
Ft Morgan	2.90	2,047	70,586	66,276	93.9	3.09
Grand Lake	3.87	343	8,850	7,793	88.1	4.40
Limon	1.93	507	26,269	24,557	93.5	2.07
Loveland	2.90	8,392	289,379	250,455	86.6	3.35
Ouray	2.90	336	11,586	10,704	92.4	3.14
Platteville	1.93	100	5,181	4,317	83.3	2.32
Rocky Ford	2.91	575	19,759	17,563	88.9	3.27
Woodland Park	2.90	1,072	36,966	27,092	73.3	3.96
Yuma	1.93	504	26,088	25,914	96.6	2.00
All Statutory Cities	3.01%	$93,658	$3,107,809	$2,725,806	87.7%	3.44%

Table 1.

One possible reason for the existing divergence of local sales taxes and rates in Colorado may be the relative prominence of tourism as a major industry in many localities. Where the local tourism economy is strong, a sales tax emphasis for local finance not only takes some pressure off property taxation, but also allows those non-residents of the locality (and non-residents of the state) to help pay for government services in the areas they visit.

The institution of a uniform, state-defined sales tax base would have dramatically different effects -- depending upon the nature of and consumption patterns of individuals within the localities.

During the '80s, public finance analysts estimated the exemption of food consumed at home from state sales taxes reduced the yield of the average state tax by about 20%. In Colorado localities, the reduction is perhaps even more dramatic -- particularly outside of the Front Range area. (A list of the localities that exempted grocery food purchases from sales taxation are presented in Appendix 2.) In general, the more rural, less populated localities would find their tax bases eroded the most; in general, their sales tax bases are more dependent on grocery sales than are more urbanized localities. Delta County, for instance, would have lost one-third of its sales tax base, while Brush would have lost almost one-half of its taxable base. El Paso County, because it defines its current tax base in an identical fashion to that of the state definition, would have retained the same size base; most home rule cities (which tend to be the largest Colorado cities) would, on average, have lost less than 5% of their tax bases. Increasing the local tax rate to compensate for the change in revenue (and assuming no tax elasticity effect) would place many in the position of nearly or actually violating the statutory 7% limitation. In general, Amendment One would require local elections in order for localities to implement the state defined tax base, even for those with the "fiscal capacity" to increase the tax rate.

Table 2 shows the FY 1991 local sales tax burdens on a per capita basis, i.e., treating all revenues as though they were paid only by each of the locality's residents. Because the local governments tax at different rates, a "normalized sales tax" column adjusts sales tax paid to the average tax rate for each locality's group for the purpose of comparison. The wide variations between localities does not, however, support the conclusion that those that are substantially higher than average are necessarily "exporting" their taxes to non-residents. Certainly, it seems logical that some amount of tax exporting is occurring; inherent differences in types and volume of retail activity as well as differently defined tax bases will also help account for the wide differences between localities.

Sales tax studies (generally, at the state level) have found sales taxes to be more responsive to general economic growth and fluctuations than are property taxes. These income elasticity and revenue reliability issues will be more thoroughly examined in a subsequent section. Further, many public finance analysts believe that in areas where consumers can easily travel to purchase goods in jurisdictions with different tax rates, sellers in the higher tax jurisdiction may be led to partially absorb the difference in taxes in the form of reduced prices. This process may lead to changes in the degree of regressivity in the tax's burden. This mobility factor is also one reason that retailers often locate in the low taxing jurisdictions and to advertise that fact; they believe the tax rate differentials will allow them to "borrow some other jurisdiction's tax base".

INTERJURISDICTIONAL TAX POLICIES: "WARFARE" OR "COEXISTENCE"?

Public finance researchers and practitioners are divided on the question of whether competition between localities (or more generally, between states) is adverse to or beneficial to the health of their economies. Some believe that competition forces governmental authorities to produce a mix of services desired by the community, maximizes consumer-resident choice, minimizes bureaucratic "overgrowth", and generally enforces discipline.[1] Others strongly believe the

NOMINAL AND NORMALIZED PER CAPITA SALES TAX REVENUES FOR COUNTIES AND MUNICIPALITIES

Locality	FY 1991 Revenue ($000)	Locally-Defined Tax Base ($000)	FY 1991 Population ($000)	Nominal Sales Tax Per Capita	Normalized Sales Tax Per Capita /4
COUNTIES:					
Delta /1	$1,625	$84,197	21.8	$74.54	$37.08
El Paso /3	24,296	2,504,691	399.8	60.77	60.14
Jefferson /1	16,498	3,437,083	448.6	36.78	73.56
Routt /3	2,086	215,052	14.2	146.90	124.01
Summit /1	2,742	113,306	13.3	206.17	37.81
All Counties	$91,562	$9,577,418	1,497.0	$61.18	$61.18
HOME RULE CITIES:					
Commerce City /2	$7,942	$231,545	16.8	$472.74	$420.37
Denver /2	197,724	5,286,738	481.5	410.64	334.88
Durango /1	4,473	231,762	12.7	352.20	697.33
Pueblo /2	20,378	602,885	101.0	201.76	182.06
Vail /1	11,569	289,225	3.7	3,126.76	2,386.63
All Home Rule Cities	$634,200	$20,770,443	2,051.0	$309.22	$309.22
STATUTORY CITIES:					
Broomfield /1	$5,255	$150,143	25.0	$210.20	$180.77
Brush /1	758	26,121	4.3	176.16	182.84
Carbondale /1	868	29,931	3.2	271.25	281.54
Ft Morgan /1	2,047	70,586	9.5	215.47	223.65
Grand Lake /1	343	8,850	0.3	1,147.67	887.96
Limon /1	507	26,269	1.9	266.84	416.16
Loveland /1	8,392	289,379	38.4	218.54	226.83
Ouray /1	336	11,586	0.7	480.00	498.21
Platteville /1	100	5,181	1.5	66.67	103.97
Rocky Ford /1	575	19,759	4.1	140.24	145.06
Woodland Park /1	1,072	36,966	4.9	218.78	227.07
Yuma /1	504	26,088	2.7	186.48	290.83
All Statutory Cities	$93,658	$3,107,809	373.0	$251.09	$251.09

/1 No state-defined exemptions
/2 Home consumption food only exempt
/3 Tax base identical to state
/4 Tax burden computed at average tax rate for grouping

Table 2.

harmful effects are likely to be dramatic: inadequate spending, a reliance on taxes not based on ability-to-pay, and wastage of financial resources used to temporarily (or expensively) "lure" industrial location. The major practical questions cluster around the issues of who "gets robbed: Peter or Paul?"[2], whether governments are paying "too much" per job created, and whether

existing community businesses and individuals are treated fairly in the process of this competition.

The vast majority of studies that have been performed over the years have examined state to state rivalry; few have explored competition between localities in one state, although the principles should be the same. The Colorado localities that appear to be "competitively motivated" seem primarily to be engaged in what is called "active rivalry" (rather than implicit rivalry). That is, localities are expending money and energy to attract jobs, high income citizens and their expenditures, and/or tourists rather than working to discourage certain businesses and activities from residing in their area. Although there are several different dimensions of competition (e.g., both the level and quality of public services, infrastructure provision, capital subsidies, etc.), the remainder of this section concentrates on "tax competition". With regard to tax competition, there are at least four distinct sorts: competition in the form of special tax exemptions/abatements, competition using the level of specific taxes, competition with regard to overall tax levels, and competition in attempting to "export taxes" to other localities. This last could also be thought of as "importing revenues" without incurring the need to provide any or many services to those visiting taxpayers who consume resident services elsewhere.

One reason advanced for the greater awareness of interstate and interlocality competition by researchers, practitioners, and the general populace is that some areas are in well-publicized "races" to convince various kinds of businesses to locate in their jurisdiction. Most studies have indicated that taxation is a criteria that the CEO will consider, but that one particular tax, such as the sales tax (whether at the state or local level) is fairly irrelevant and that the business tends to evaluate taxation in terms of a total tax environment. Historically, studies placed the criterion of total taxation on a low level in terms of the decisionmaking process for business location/relocation. Some research indicates taxation may be more important than previously thought; most, however, still reaffirm the fact that the more comprehensive analytical studies cannot find a strong link between state and local tax variables and employment growth, capital investment per worker and other proxy variables. Frequently found is that various types of local spending, such as education and infrastructure, tend to be positively related to various economic growth variables, including population in-migration and retention of the property tax base. Most find individual households were more likely to move to communities with lower taxes, higher spending, and higher school quality -- all other variables held constant. Many of the most recent studies tend to indicate that state location of population has more to do with inherent differences between the states; they find the pattern of state fiscal behavior has changed in the 1980s but that the economic and demographic responses to these differences has been "quite inelastic" (i.e., small in magnitude)[3]. Several researchers imply or state outwardly that "these inducements (referring to special bonding and tax gimmicks) ... have little or no effect on location and expansion decisions to business" except at the margin, when two locations are otherwise equally attractive.[4]

In terms of tax-by-tax competition, the matter that most concerns us here, most information has been gathered by examining bordering localities in different states where the "driver" of the taxation differences was the state level excise tax or state level sales tax. Most have found the

only significant sensitivity to the differences was in big ticket purchases, such as furniture, and in apparel sales. There has been no appreciable research on sales tax differentials within one state. Those that have been performed tend to be plagued with technical weaknesses and often produce conflicting information.[5] Most analysts theorize that the effect is a "zero sum" game -- sales that would have occurred in one locality merely occur in another. For a locality with a relatively small tax and employment base, however, it is relatively easy to theorize that the locality does not approach the problem in such a neutral fashion.

The abolition of federal deductibility of local (and state) sales tax paid has eliminated one possible mechanism that allowed a portion of one's sales tax liability to be "exported to the other guy". However, it is still possible for localities (and states) to "spatially export"[6] sales tax, by passing it on to non-resident taxpayers -- either in the form of higher prices or by inducing movement of taxpayers. Most researchers have found that the average state can only modestly export its sales taxes; the exception are states with large tourism industries. Again most studies focus on state tax exporting and have found that the adoption of special taxes (e.g., tourism taxes) or inherent differences between states (differences in the presence of severance/mineral taxes) may increase a state's ability to export a portion of its tax load. Economic development "incentives" such as enterprise zones, training subsidies, property tax abatements, loan guarantees, have long been employed on a state, and often, local basis. Netzer, for one, believes the modern version of "economic development" began from the agriculture industry's distress in the 1920s and later "smokestack chasing" (1936) in Mississippi and that there was no illusion as to who was paying ... the federal taxpayer at large. He further advances the case that such "economic development incentives" may seriously damage industry efficiency and resource allocation. He also indicates that no study has or can overcome one major obstacle in "proving" the incentives' effectiveness -- that is, how to separate the incentive's effect from the other variables that affect locational decisions.[7] We suspect many of the same problems of assessment would plague any study of sales tax competition between localities which may be confounded by the existence of some of these other "economic development incentives" as well as other non-tax variables. Some researchers have found that multi-locality metro "neighbors" will tend to mimick property tax burdens of their immediate neighbors, but do not tend to do so for sales taxes in any important fashion.[8] Overall, the consensus of current research indicates that localities (and states) do compete using various forms of tax incentives, but the "real" effects of doing so are so interrelated and multifaceted that they have eluded specification and isolation using the rigor of econometric techniques.

THE EFFECTS OF A SINGLE BASE AND SINGLE RATE ON COLORADO LOCALITIES

As noted earlier wide variations exist between localities in terms of tax rates and bases. Localities that are adjacent to large population and/or high retail sales activity find a local sales tax a reasonably lucrative revenue source, while rural areas often experience low revenues on a per capita basis. In general, a uniformly-defined local sales tax, in a systematic way, could worsen the difference between the have and have-not jurisdictions, particularly when using point-of-sale as the method of distribution. Further, the level of the local sales tax may limit any

increase in the rate of state sales taxation. Thus the state may be hard pressed to increase state revenues for the purpose of financing locally consumed services or for equalizing revenues among localities.

Table 3 illustrates the problems associated with introducing a simplified local sales tax system. A single base, single rate sales tax creates vastly different "degrees of winning and losing". The single tax rate used in the analysis is that rate that will collect total revenues equal to the sum of the county, home rule city, or statutory city revenues as when each defined its base and chose its rate. The base definition is the same as that of the state: grocery food purchased for home consumption, residential utility purchases, and machinery/machine tool purchases are exempt from local as well as state tax. Localities can gain, lose, or roughly break even (relative to collecting revenues under their previous rate and base) under this regime; primarily, this phenomenon depends on relative differences in the tax rates and the extent to which the locality was dependent upon taxing food. Among counties, for instance, Jefferson County is a large "gainer", primarily because the indicated uniform tax rate is roughly double the previous rate. Under a uniform base and rate, Delta County is a large revenue "loser"; its tax base has been reduced as has the tax rate applied to it. Nearly one-half of Delta's revenue would have "disappeared" under the uniform system. For all of the home rule cities shown, with the exception of Durango, the adoption of a uniform rate and state defined tax base results in a revenue loss. The City and County of Denver experiences the greatest loss at $30.3 million.

It is possible, however, (with a built-in lag of distribution) that a state-collected, uniformly taxed base with a uniform average tax rate could collect roughly the same amount of local revenues which could thus be distributed so as to hold localities reasonably revenue neutral. That is, localities collecting more revenue than under the previous tax regime could provide excess revenues (via a transfer mechanism) to localities faced with a revenue shortfall. This could, however, create significant issues for localities that have pledged increasing amounts of local sales tax to paying off interest and principal of general obligation bonds, often approved by local voters. Additionally fast-growing localities would be chronically behind in collecting the appropriate amount of revenue.

The reallocation of revenues is clearly feasible from an administrative standpoint. Currently, the Department distributes roughly $300 million in sales tax revenues to localities and special districts; the total redistribution that would be required in the case of "holding all localities harmless" for revenues under a uniform base and tax rate would be roughly $160 million.

Despite the fact that such a system could be technically feasible, it may be politically troublesome. An equity criticism that could be advanced by high population communities is that they would be subsidizing rural, low population areas by this transfer; it is also true, however, that a uniform tax base with no redistribution would penalize the rural, the tourist-populated, and non-Front Range communities to a greater extent than the largely populated areas. As we have seen, the small population areas' effective sale tax rates would have to rise, in general, to a greater extent than in the communities of the Front Range to produce equivalent revenues in the absence of a redistribution scheme.

Change in Sales Tax Revenues: Locally Defined vs. State Defined Sales Tax Bases

Locality	(a) Net Tax Rate	(b) FY 91 Revenue ($000)	(c) Locally-Defined Tax Base ($000)	(d) Required Uniform Tax Rate /1	(e) State-Defined Tax Base ($000)	(f) FY 91 Revs fm State Base Pt of Purchase ($000) /2	(g) Change from Original (f)-(b)
COUNTIES:							
Delta	1.93%	$1,625	$84,197	1.11%	$54,537	$605	$(1,020)
El Paso	0.97	24,296	2,504,691	.	2,504,691	27,802	3,506
Jefferson	0.48	16,498	3,437,083	.	2,482,818	27,559	11,061
Routt	0.97	2,086	215,052	.	215,052	2,387	301
Summit	2.42	2,742	113,306	.	63,416	704	(2,038)
All Counties	0.96%	$91,562	$9,577,418	1.11%	$8,244,674	$91,516	$(46)
HOME RULE CITIES:							
Commerce City	3.43%	$7,942	$231,545	3.20%	$226,721	$7,255	$(687)
Denver	3.74	197,724	5,286,738	.	5,231,731	167,415	(30,309)
Durango	1.93	4,473	231,762	.	220,582	7,059	2,586
Pueblo	3.38	20,378	602,885	.	591,136	18,916	(1,462)
Vail	4.00	11,569	289,225	.	286,097	9,155	(2,414)
All Home Rule Cities	3.05%	$634,200	$20,770,443	3.20%	$19,837,219	$634,791	$591
STATUTORY CITIES:							
Broomfield	3.50%	$5,255	$150,143	3.44%	$114,123	$3,926	$(1,329)
Brush	2.90	758	26,121	.	14,186	488	(270)
Carbondale	2.90	868	29,931	.	22,230	765	(103)
Ft Morgan	2.90	2,047	70,586	.	66,276	2,280	213
Grand Lake	3.87	343	8,850	.	7,793	268	(75)
Limon	1.93	507	26,269	.	24,557	845	338
Loveland	2.90	8,392	289,379	.	250,455	86,116	224
Ouray	2.90	336	11,586	.	10,704	368	32
Platteville	1.93	100	5,181	.	4,317	149	49
Rocky Ford	2.91	575	19,759	.	17,563	604	29
Woodland Park	2.90	1,072	36,966	.	27,092	932	(140)
Yuma	1.93	504	26,088	.	25,914	891	387
All Statutory Cities	3.01%	$93,658	$3,107,809	3.44%	$2,725,806	$93,768	$110

/1 Uniform net tax rate by type of locality required to raise pool of revenue equivalent to FY91 actual

/2 Using uniform net tax rate and state-defined tax base, amount of revenue locality would produce .

Table 3.

ALTERNATIVE DISTRIBUTION SYSTEMS FOR A UNIFORM BASE, AND UNIFORM TAX RATE SYSTEM

The distribution system for the vast majority of local Colorado taxes is on a "point of collection" basis. Clearly, all cities can collect their sales tax on point of sale and retain it. If localities were to institute a state-defined, state-administered local sales tax with uniformity in both tax base and tax rate, it could be possible to distribute the local sales tax revenues using another criterion than point of sale. This revenue allocation outcome might be simpler, fairer, or cheaper to administer than using a lagged point of sale basis. Tables 4 and 5 show the distributions that would occur if any of the following criteria were used to allocate the revenues: population, registered vehicles, or overall retail sales.

Tables 4 and 5 also illustrate the general problem of using another distribution system than point-of-sale. For instance, Delta County's revenue receipts would be improved over a uniform base, uniform rate system (without any additional redistribution) by using a vehicle-based system for distributing revenues. Jefferson County would gain under all of the alternative distribution mechanisms, the higher overall rate of taxation under the uniform system being the predominant factor. Denver, however, loses revenues under any of the alternative systems, and loses the most under a vehicle-based criterion. Vail, in all distribution systems loses revenue relative to the uniform system with point-of-sale distribution.

With respect to counties overall, the next best system to point-of-sale distribution under a uniform base, uniform rate system would be retail sales. Absolute deviations were calculated to indicate the system that would necessitate the least amount of revenue required to be re-distributed. In the case of counties, using retail sales would necessitate an additional $500,000 in revenue re-distributions over point-of-sale redistribution. In the case of statutory cities, a retail sales distribution system would lessen the required redistribution by some $9 million. For home rule cities, the point-of-sale distribution system would lessen the redistribution requirements by about $60 million. In short, our analysis of alternative distribution systems for sales tax revenues confirms the ACIR findings -- namely, that point-of-sale distribution is the most efficient and straightforward method of local sales tax distribution.

The major problem with revamping the system of local sales taxation in Colorado involves the belief that the local sales tax base, in particular, should conform to that of the state. As we have seen, if the tax base is made uniform, several specific localities would be faced with significant shortfalls in revenue, primarily because they tax food purchases for home consumption. We have seen that several (to maintain revenue neutrality) would be required to raise their tax rates to onerous levels often in excess of the statutory maximum. A uniform rate, that in theory, would raise the same total revenues by type of locality, has been illustrated. The tradeoff associated with the uniform rate is between tax simplification versus a lag in redistribution of revenue. The administrative portion of the tax system would be made more complicated, but the taxpayer would realize savings through simplification of reporting and remitting sales taxes.

Sales Tax Bases of Counties and Municipalities and Alternative Bases of Distribution

Locality	FY 1991 Tax Revenues ($000)	State-Revenue Tax Base ($000)	Revenues fm State Base, Point of Purchase /1 ($000)	Population (000)	Number of Vehicles (000)	Locality Retail Sales ($000)
COUNTIES:						
Delta	$1,625	$54,537	$605	21.8	34.1	$179,800
El Paso	24,296	2,504,691	27,802	399.8	372.9	4,216,600
Jefferson	16,498	2,482,818	27,559	448.6	463.5	5,516,700
Routt	2,086	215,052	2,387	14.2	22.8	302,100
Summit	2,742	63,416	704	13.3	21.7	515,200
All Counties	$91,562	$8,244,674	$91,516	1,455.2	1,661.3	$17,460,300
HOME RULE CITIES:						
Commerce City	$7,942	$226,721	$7,255	16.8	13.5	$756,919
Denver	197,724	5,231,731	167,415	481.5	294.0	9,289,608
Durango	4,473	220,582	7,059	12.7	8.8	338,086
Pueblo	20,378	591,136	18,916	101.0	77.1	1,200,003
Vail	11,569	286,097	9,155	3.7	5.6	310,383
All Home Rule Cities	$634,200	$19,837,219	$634,791	2,050.7	1,454.0	$33,954,199
STATUTORY CITIES:						
Broomfield	$5,255	$114,123	$3,926	25.0	19.2	$233,008
Brush	758	14,186	488	4.3	3.5	43,495
Carbondale	868	22,230	765	3.2	2.6	41,281
Ft Morgan	2,047	66,276	2,280	9.5	7.8	144,335
Grand Lake	343	7,793	268	0.3	0.4	11,281
Limon	507	24,557	845	1.9	1.6	54,715
Loveland	8,392	250,455	8,616	38.4	30.4	465,769
Ouray	336	10,704	368	0.7	0.9	12,743
Platteville	100	4,317	149	1.5	1.7	7,438
Rocky Ford	575	17,563	604	4.1	3.1	27,115
Woodland Park	1,072	27,092	932	4.9	4.1	52,110
Yuma	504	25,914	891	2.7	2.5	55,415
All Statutory Cities	$93,658	$2,725,806	$93,768	373.0	309.0	$4,956,180

/1 No compensating redistribution of excess revenues.

Table 4.

Resulting Sales Tax Revenues of Counties and Municipalities Using Alternative Methods of Distribution

Locality	FY 1991 Revenues Locality-Defined Base ($000s)	FY 1991 Revenues State Base, Pt of Purchase /1 ($000s)	Alternative Methods of Revenue Distribution: Revenue Distribution Using Population	Revenue Distribution Using Reg'd Vehicles	Revenue Distribution Using Retail Sales
COUNTIES:					
Delta	$1,625	$605	$1,372	$1,878	$942
El Paso	24,296	27,802	25,143	20,542	22,101
Jefferson	16,498	27,559	28,212	25,533	28,915
Routt	2,086	2,387	893	1,256	1,583
Summit	2,742	704	836	1,195	2,700
All Counties	$91,562	$91,516	$91,516	$91,516	$91,516
HOME RULE CITIES:					
Commerce City	$7,942	$7,255	$5,200	$5,894	$14,151
Denver	197,724	167,415	149,048	128,355	173,674
Durango	4,473	7,059	3,931	3,842	6,321
Pueblo	20,378	18,916	31,264	33,661	22,435
Vail	11,569	9,155	1,145	2,445	5,803
All Home Rule Cities	$634,200	$634,791	$634,791	$634,791	$634,791
STATUTORY CITIES:					
Broomfield	$5,255	$3,926	$6,279	$5,821	$4,228
Brush	758	488	1,080	1,061	825
Carbondale	868	765	804	788	783
Ft Morgan	2,047	2,280	2,386	2,365	2,736
Grand Lake	343	268	75	121	214
Limon	507	845	477	485	1,037
Loveland	8,392	8,616	9,644	9,216	8,830
Ouray	336	368	176	273	242
Platteville	100	149	377	515	141
Rocky Ford	575	604	1,030	940	514
Woodland Park	1,072	932	1,231	1,243	988
Yuma	504	891	678	758	1,051
All Statutory Cities	$93,658	$93,768	$93,768	$93,768	$93,768

/1 No compensating redistribution of excess revenues.

Table 5.

END NOTES

1. Edgar Browning and Jaqueline Browning, Public Finance and the Price System, MacMillan Publishing, New York, 1983, p. 24.

2. Advisory Commission on Intergovernmental Relations (ACIR), Interjurisdictional Tax and Policy Competition: Good or Bad for the Federal System?, page 2.

3. Ronald Fisher and John Navin, "State-Local Fiscal Behavior: Analysis of Interjurisdictional Differences 1962-1987", Public Finance Quarterly, October 1992, page 447.

4. Margaret Dewar quoted by Timothy Ferguson, "Locales Still Shopping for a Corporate Catch", Wall Street Journal, page A13.

5. Wallace E. Oates and Robert M. Schwab, "The Allocative and Distributive Implications of Local Fiscal Competition," in D. Kenyon and J. Kincaid (eds.), Competition Among States and Local Governments: Efficiency and Equity in American Federalism, The Urban Institute Press, Washington D.C., 1992, p. 139.

6. ACIR, page 36.

7. Dick Netzer, "An Evaluation of Interjuridictional Competition Through Economic Development Incentives", in Kenyon and Kincaid, pp. 223-231.

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IV Expansion of the Sales Tax Base and the Consequential Equity Implications

EXEMPTIONS

When the sales tax was first enacted in 1935, there were only 5 specific exemptions to the sales tax: wholesale sales; sales of commodities or services already subject to an excise tax amounting to more than 12.5 percent of the sale price; goods purchased by the U.S. government, the State of Colorado, its institutions and its political subdivisions; sales to charitable organizations; and sales of goods that are an ingredient or a component part of a final product. Currently, there are nearly 50 specific statutory exemptions to the sales tax. The rationale for the adoption of the various exemptions can be grouped into the following categories: avoidance of pyramiding/double taxation; avoidance of increasing the burden of essential expenditures; facilitation in the ease of administration; avoidance of the taxation of goods already subject to excise taxes, support of a fair and competitive marketplace, encouragement of economic development, avoidance of the taxation of other governmental and quasi-governmental (charitable) organizations, and compliance with reciprocal sales tax agreements with other states.

The estimated value of the majority of exemptions is relatively insignificant when compared to collected sales tax revenues. Table 1 in the first chapter shows that over half of the exemptions were valued at $1 million or less had they been subject to sales taxation. The exemptions with the greatest estimated value are the exemptions for food for off-premises consumption, gasoline and special fuel, fuel for residential heat and light, prescription drug sales, sales to governmental units, purchases of machinery or machine tools used in manufacturing processes, sales to charitable organizations, and cigarette and tobacco products sales. The total estimated value of these eight exemptions is roughly $320 million.

Pyramiding, also referred to as cascading, occurs when a tax is imposed on a product more than once. The mechanism that enables pyramiding of a tax burden on the final consumption of goods is the taxation of goods without regard for the final disposition of the good -- whether the buyer is the final consumer or if the buyer is an intermediary that incorporates the good as a direct component in a product that will be sold to a consumer and taxed. For instance, if a manufacturer purchases and pays a sales tax on an electronic circuitboard and incorporates it into a stereo amplifier, and a consumer pays a sales tax on the stereo amplifier which has incorporated into its final cost the value of the circuitboard, then the circuitboard, in effect, will have been taxed twice. Such a sales tax structure can distort the allocation of resources in an economy. Without tax policy that prevents tax pyramiding, the state could inadvertently encourage businesses to vertically integrate to avoid the additional tax costs of production. To eliminate

Classification of Exemptions

Avoidance of Pyramiding
- Sales/purchase of livestock
- Feed for livestock; seeds and orchard trees
- Energy used for industrial and/or manufacturing purposes
- Property for use in food manufacturing
- Container/bags used by retailers or vendors of food if provided to customers without charge
- Refractory materials & carbon electrodes used in manufacturing iron and steel, and inorganic chemicals used in processing uranium-vanadium ores
- Tangible property that becomes an ingredient or component part of the finished product
- Sales of livestock for breeding
- Sales of live fish for stocking
- Sales of straw for poultry/livestock bedding
- Printers ink and newsprint

Interstate Agreements
- Commercial trucks and trailers purchased in Colo for use outside Colo or in interstate commerce
- Motor vehicles purchased by nonresidents to be used outside of Colorado
- Property transferred by a supplier to out-of-state vendors for use in selling products at wholesale by the supplier
- Property brought into the state for testing, modification or inspection if the use is outside of the state and the testing period is no longer than 90 days

Regressivity
- Prescription drugs
- Glucose for insulin treatment
- Corrective medical supplies
- Fuel for residential heat, light, and power
- Food for off-premises consumption
- Food purchased w/federal food stamps or funds fm the supplemental food program for women, infants, and children

Equity Among Competitors
- Lodging for permanent residents
- 48% of purchase price of factory-built housing
- Sales of precious metal bullion and coins
- Direct mail advertising mtls distributed by persons engaged solely in providing cooperative direct mail advertising
- Newspaper advertising supplements

Interstate Agreements, cont'd
- Sales to residents of a bordering state w/in twenty miles of the state border if the bordering state does not have a sales tax
- Sales of aircraft used or purchased for use in interstate commerce by commercial airlines

Existing Excise Tax
- Gasoline and special fuels
- Cigarettes
- Special fuels for farm vehicles

Ease of Administration
- Sales of 15 cents or less through vending machines
- Leases of personal property for 3 years or less if tax is paid upon original acquisition
- Value of meals furnished to employees of food service establishments free or at reduced rates and considered part of their incomes

Economic Development
- Purchases of machinery or machine tools used in manufacturing
- Sales of aircraft component parts
- Machinery and machine tools used in mining operations located in enterprize zones
- Purchases of locomotives, freight cars, railroad work equipment, or other railroad rolling stock, and component parts of such equipment.

Governmental/Charitable Organizations
- Sales to charitable organizations
- Sales to governmental units
- Sales to public schools
- Sales of construction and building materials for use by contractors on public works projects used by tax-exempt organizations

Miscellaneous
- Farm auction close-out sales
- Sales of construction materials to a common carrier by rail
- Newspapers

Table 1.

pyramiding from a general sales tax, either the value of the component parts that have already been taxed must be subtracted from the taxable value of the final product (similar to a value added tax) or the component parts must be exempted from a sales tax. Most states exempt from sales taxation, the purchase of tangible goods by businesses that are incorporated into the final product. Some states require that the good be a component of the final product in order to qualify for exemption, while other states require only that the good be directly used in the production of another product.[1]

Twenty-six states exempt food for home consumption and utilities from their sales tax bases. Eight states provide a credit rather than an exemption for food.[2] Public finance theorists advise against exempting utility services and food for home consumption from sales taxation because of the loss of stability in, and the loss of a large share of, the sales tax base. Stability is added to the base when the sales of food for home consumption is in a tax base because food purchases are not as susceptible to economic cycles as are other more discretionary items. In fiscal year 1981, the first full fiscal year after the exemptions were enacted, state sales tax revenues went down by an estimated $97 million (although food sales tax credits would have decreased that amount to approximately $68 million). In a 1991 study, Richard Dye and Therese McGuire estimated that the inclusion of food in a sales tax base could increase a narrow base of taxable goods by up to 38 percent. Similarly, including utilities in the base could increase the base by 13.2 percent. This study also determined that the inclusion of food and/or utilities would stabilize the variability in the yield of a sales tax.[3] It is estimated that including food in the base would increase Colorado's taxable base by approximately 15%. The expected increase in the base is, of course, dependent upon what McGuire and Dye call a state's taxable core of goods and services. The divergence between the expected average increase in the base when food is added and Colorado's expected increase may be due to the exceptional amount of tourism that occurs in the state. Tourists and business travelers spend a significant amount of their travel dollars on goods, hotel and lodging expenses, rental cars, and dining out. It would be reasonable to assume that Colorado's core taxable base is proportionally larger than that of many other states. Therefore, it would be plausible to conclude that the incorporation of food into Colorado's sales tax base would increase the base, but not to the same degree as is estimated for other states. Nonetheless, due to the essential nature of both the consumption of food at home and the consumption of utilities, Dye and McGuire's assertion that the addition of food and/or utilities to a state's taxable base would add to the stability of the base, is valid.

Some public finance theorists argue that food should be taxed. Even without a specific exemption, families that purchase food with food stamps would not be subject to sales taxes on their purchases of food. Upper class income households buy luxury items, classified as food, that can not be classified as necessities. In nominal terms, families with greater incomes spend more money on groceries than families in lower income groups; therefore, a food exemption benefits families in upper income classes greater than it benefits families in the lowest income groups. Proponents of these exemptions would argue that expenditures on food and utilities should not be taxed for the following reasons: 1) household expenditures on these items are essential and cannot be avoided; 2) expenditures on food and utilities consume a significant portion of the income of low income households; 3) the sales tax is already a regressive tax -- taxing essential items that deplete the disposable incomes of low income households will make the tax even more regressive. A possible compromise between the two would be a graduated sales tax credit that is phased out at a particular income level, distributed via the administration of income taxes or the old age property and heating credits. These credits could be granted to families in the lower income classes for the sales taxes they paid on their purchases of food and utilities. The awards could be formula-driven based on income and family/household sizes. The credit would mitigate the concerns regarding the regressivity of the sales tax and would allow the state to tax a large

base of consumer expenditures. Amendment One would require Colorado voters to decide whether they agree with and would adopt these tax policy arguments for taxing food.

The Legislature enacted five of the exemptions to encourage a fair and competitive marketplace. In most cases the businesses that receive these exemptions are in direct competition with easily substitutable services that are not included in the sales tax base. For instance, vendors of metal bullion and coins made their case for exemption based on the grounds that the commodities they sell are more akin to investment instruments which are non-taxable, rather than jewelry which is taxable. Some businesses must differentiate between their customers to apply an exemption. For instance, lodging establishments must distinguish between the provision of transient lodging and long-term/residential lodging. The exemption for lodging expenses can only be applied to "permanent" residents because their expenses for housing are more like rent or mortgage payments which are not taxable than they are to transient lodging which is taxable. These types of exemptions eliminate tax incentives or disincentives that consumers would otherwise face in choosing to purchase particular taxable versus non-taxable goods and services.

The exemption for sales of manufacturing machinery and machine tools can be categorized among the exemptions with the greatest estimated value. Offering sales tax exemptions to large businesses or industries for the purpose of economic development is a contentious issue. Those who support exemptions for the purpose of economic development believe that a state must be competitive in attracting businesses to the area and that the means of achieving this goal is to offer businesses tax advantages to establish their presence in the state. Ultimately, proponents of economic development exemptions would argue the loss in sales tax revenues is gained through the direct and multiplier effects of bringing new jobs to the area. The opposition would argue that it's not tax incentives that bring businesses to Colorado but the quality of life, education, and infrastructure that ultimately attract businesses. The enactment of the machinery and machine tools exemption has an estimated value of $18 million annually.

The exemption of sales to the federal government is mandated by the Constitution of the United States. However, the rationale for exempting local government entities and non-profit charitable organizations is not required but is a matter of policy based on the premise that the state is compensated for the exemption with the money these organizations spend on services that the state government would otherwise have to provide.[4] Exemptions to charitable organizations are not as contentious as some of the other exemptions, especially because charitable organizations are perceived by the general public as efficient providers of services whose operational funds are hard-earned donations. Because much of the work is accomplished by the efforts of volunteers they are assumed to be managed by providers who are motivated strictly by their concern for others. However, John Mikesell, in his article on the taxation of nonprofit organizations, expresses skepticism about this preconceived notion of non-profits and contends that non-profit organizations include a spectrum of organizations that do not fit the traditional mold. He categorizes the non-profit realm into two types of organizations: the older philanthropic organizations who receive little money from sales -- most of it from endowments, grants, and/or gifts; and the commercial nonprofits which scarcely existed in the early 1900s but who now make up nearly two-thirds of the current non-profit sector. Mikesell regards the nonprofit sector as a

potential threat to fair competition in the marketplace due to the exemption that charitable organizations receive. The commercial non-profits make most of their money from the sales of goods or services. This industry is expected to grow in size and economic importance due to the following three factors according to Gomes and Owens: 1) states are permissive in their regulation of non-profits; 2) non-profits are concentrated in service-oriented economies; and 3) the tax advantages they receive.[5]

Besides pyramiding exemptions, another type of exemption is typically legislated to avoid the double taxation of goods. Most of these exemptions are based upon multi-state tax agreements that are drafted to resolve tax collection disputes among states. For instance, these agreements address issues such as if a good is purchased in one state but put to use in another state, which state has the right to tax the good? Current exemptions comply with the work done by the Advisory Council on Intergovernmental Relations (ACIR), the Uniformity Committee of the Multistate Tax Commission, and the Federation of Tax Administrators (FTA).[6] The purpose of these agreements is to avoid the double taxation of goods across state borders based on a general agreement among states that taxes for goods should be remitted only to the state of final use (although in terms of the taxation of services, consensus has not yet been reached -- this topic will be discussed in greater detail below). Under Amendment One, voters would have to determine which of the foregoing tax policy and economic development theories they wish to adopt before any of the above discussed exemptions could be eliminated.

ADEQUACY OF THE CURRENT SALES TAX

Without a steady growth in population and real income, the current tax on retail sales in Colorado cannot continue to be a consistent, stable source of revenues for the state given the historical and predicted trends in consumer expenditure patterns. A study by the Federation of Tax Administrators (FTA) on the taxation of services determined that in 1965 40.5 percent of total consumer expenditures were attributable to services. By 1990, 54.4 percent of the dollars spent by consumers were paid to service establishments. Consumption of services in the year 2005 is projected to be 64 percent of consumer dollars.[7] An examination of Colorado taxable sales as a percentage of personal income over the last 20 years confirms the same trend. (see Figure 1). Since the 1970s taxable sales as a percentage of personal income has trended downwards with the exception of the boom period in Colorado between the late 1970s and early 1980s in which taxable sales as a percentage of personal income actually increased. During the early 70s taxable sales were roughly 55 percent of personal income -- by the 90s taxable sales had decreased to 46% of personal income. Assuming that the percentage of household expenditures on tangible goods decreases in the future as predicted, tax revenues will continue to grow, in nominal terms, at least through the year 2005 if total personal income in the state continues to grow at a healthy pace (above 3%). However, the rate of growth of the state's sales tax revenues will fall behind the combined growth in population and personal income. If the state requires, at the very least, the maintainance of its revenue base, another source of revenues will need to supplement the revenue stream to the state or the sales tax rate will need to be increased. An additional factor in the decline of taxable sales as a percentage of personal income is the Supreme Court based exemption of mail order catalog sales from the state tax base.

ACIR estimated the fiscal year 1992 revenue potential for untaxed interstate mail order sales in Colorado was approximately $26 million. The mail order industry continues to grow, according to ACIR, at a rate, considered conservative by the organization, of 6% per year. Without the ability to tax these sales as this industry expands, taxable sales, as a percentage of personal income, will continue to shrink especially if we assume that these sales, at least to some extent, are displacing sales to Colorado-based businesses.

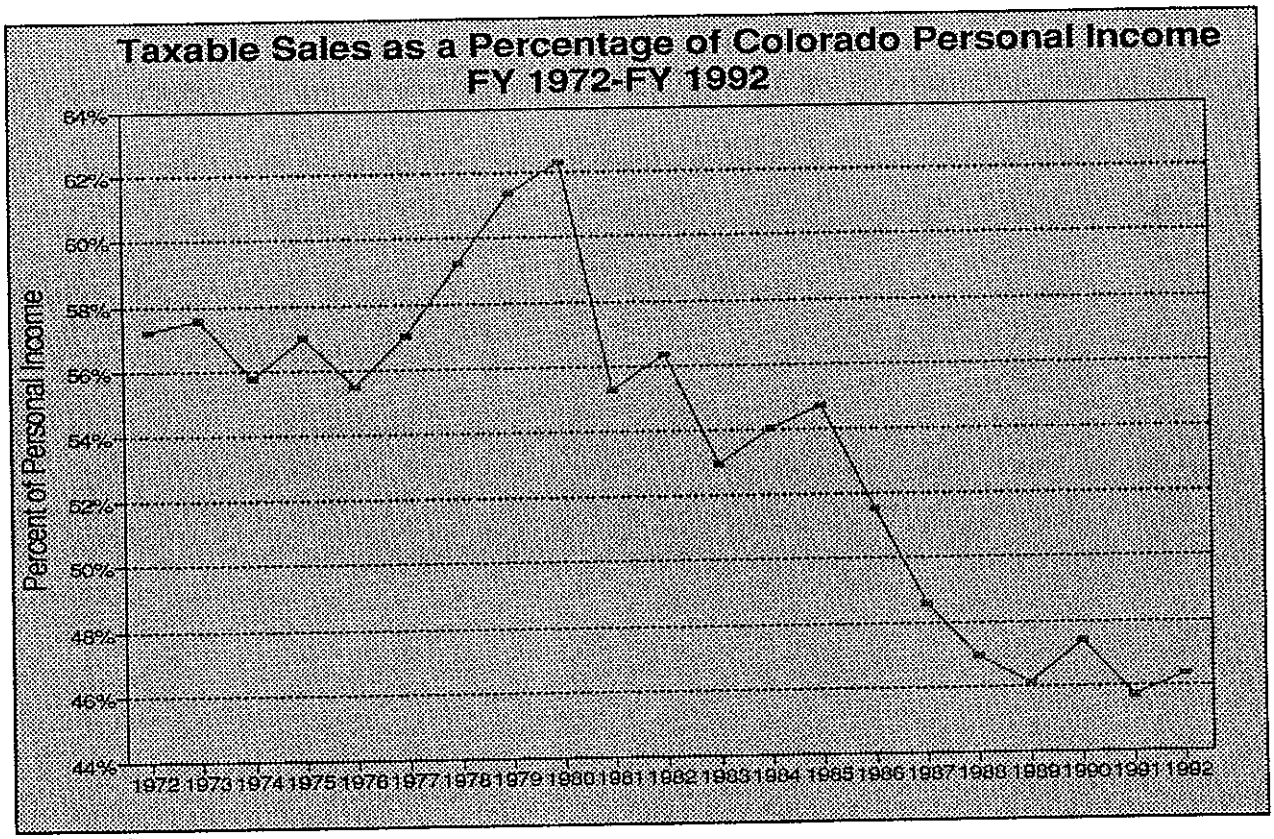

Figure 1.

The capacity of the sales tax to provide consistent revenues to the state can be determined by examining real sales tax revenues per capita over time. By controlling for the increase in population and inflation, the underlying pattern of growth in sales tax revenues can be discerned (see Figure 2). During the 1970s and early 1980s, sales tax revenues per capita increased at a rapid pace. Real personal income grew at an average annual rate of between 4 and 6 percent and population increased at an annual rate of 2.2%. Since the peak in 1980, real per capita sales tax revenues have decreased and have hovered at roughly $184. This represents a decrease in real revenues per capita of nearly 14%. Real state expenditures per capita, however have increased approximately 35% over the same period. Annual rates of growth of real sales tax revenues per capita since the boom period in Colorado have been predominantly negative. On the other hand, real state spending during the same period showed negative growth only once. In fiscal year 1980 when real sales tax collections per capita peaked, the state collected $218 per capita in real sales tax revenues and spent $775 per capita; in fiscal year 1991, real sales tax revenues per

capita had decreased to $182 while real per capita expenditures increased to $1,084. (A combination of increased revenues from income taxes, current charges, and earnings on investments, and the diversion of trust fund revenues to the general fund have allowed expenditures to continue to grow.) The growth, or in this case the decrease, in per capita sales tax revenues does not mirror the spending patterns of the state.

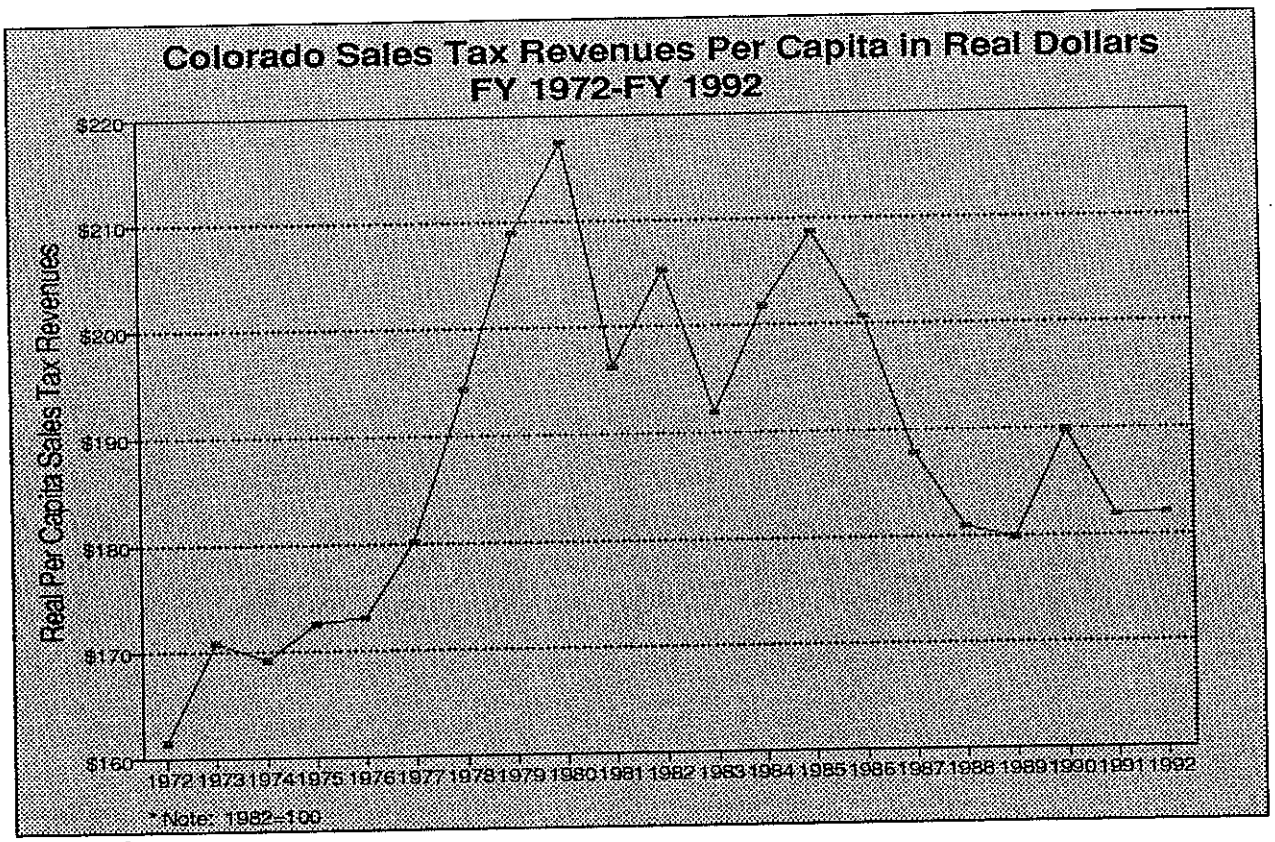

Figure 2.

In terms of variability, the adequacy of the sales tax as a source of revenues depends on the proportion of revenues that the sales tax provides to the overall state budget and the flexibility the state has in managing the fluctuations in revenues over time. Colorado's sales tax provides nearly one third of the revenues that flow into the General Fund. It contributes the second largest amount of tax revenues to the General Fund. The individual income tax, which provides over 50 percent of the revenues to the General Fund, is the single largest revenue generator for the state. Between the '70s and '90s the sales tax has had a diminishing role in funding the General Fund as the income tax has become the primary source of funding. A highly variable sales tax structure can be a problem for those states whose sales tax revenues play a dominant role in funding budgets if they do not have a mechanism for smoothing the revenue variability over economic cycles. Given that Colorado's sales tax plays a major role as a General Fund revenue source and the limited flexibility that the state has in managing its revenue resources, according to public finance theory, Colorado should either have a sales tax structure that yields a more consistent amount of revenues year-to-year or it must have an overall tax structure that

counterbalances the variability of the sales tax. Otherwise, the variability of the current sales tax structure in Colorado could contribute to budgetary difficulties.

The variability in sales tax revenues over time is derived from its dependence upon the consumption patterns of residents, businesses, and tourists. The consumption of goods by these groups is subject to, and is essentially limited by, the income that is available for them to spend (in this chapter, only the consumption patterns of households and tourists will be examined) which correlates with business cycles. A comparison of the short term rates of growth of personal income and sales tax revenues shows that the rates of growth of sales tax revenues mirror and are an amplification of the rates of growth of personal income. As the short term rates of growth of personal income increase, as is characteristic of economic recoveries, those of sales tax revenues also increase but at a greater rate. Correspondingly, declines in the short term rates of growth in personal income are matched by even greater declines in the rates of growth of sales tax revenues. This pattern indicates that consumers are sensitive to changes in personal income and adjust their levels of purchases of taxable goods based on changes in income. They react to decreases by paring their spending on taxable items (especially durable goods), and react to increases by boosting their spending on taxable goods. This pattern of behavior by consumers generates a volatile stream of sales tax revenues. The flow of sales tax receipts ebb and flow with the business cycle and therefore may run counter to the funding needs of the state. During a recession, the rate of growth of personal income declines and, consequently, the rate of growth of sales tax receipts declines. At the same time, unless the government changes or reduces its service delivery, a stable flow of revenues is needed to provide for the increased demand for support services (unemployment, job services, public welfare, etc.).

The relationship between the rate of growth in sales tax revenues to the rate of growth in personal income is the income elasticity of the sales tax. A high degree of income elasticity indicates that an incremental increase in available income will yield a proportionally larger increase in sales tax revenues. Likewise a low income elasticity means an incremental increase in income will yield a very low increase in sales tax revenues.

According to William Fox, a sales tax will be stable "if its short-run nominal income elasticity is countercyclical so that revenue growth fluctuates less than income growth."[8] In other words, elasticity must rise during recessions and fall during recoveries for the sales tax to be a stable source of revenues. The comparison of the rates of growth of revenues to personal income shows that the current sales tax responds contrary to Fox's stable sales tax paradigm. Historical data shows that the elasticity of the state sales tax rises during recoveries and falls during recessions. Given that the sales tax base consists almost entirely of tangible goods, the pattern is not surprising. Of the income that households receive, a certain portion will be allocated to consumption and the rest will go to savings. For each additional dollar that is received by a household, a portion will be allocated for consumption; this is known as the marginal propensity to consume (MPC). Likewise, the increment to household savings given an additional dollar of income is known as the marginal propensity to save (MPS). Typically during an economic downswing, consumers shift their spending out of durable goods (such as cars, furniture, and

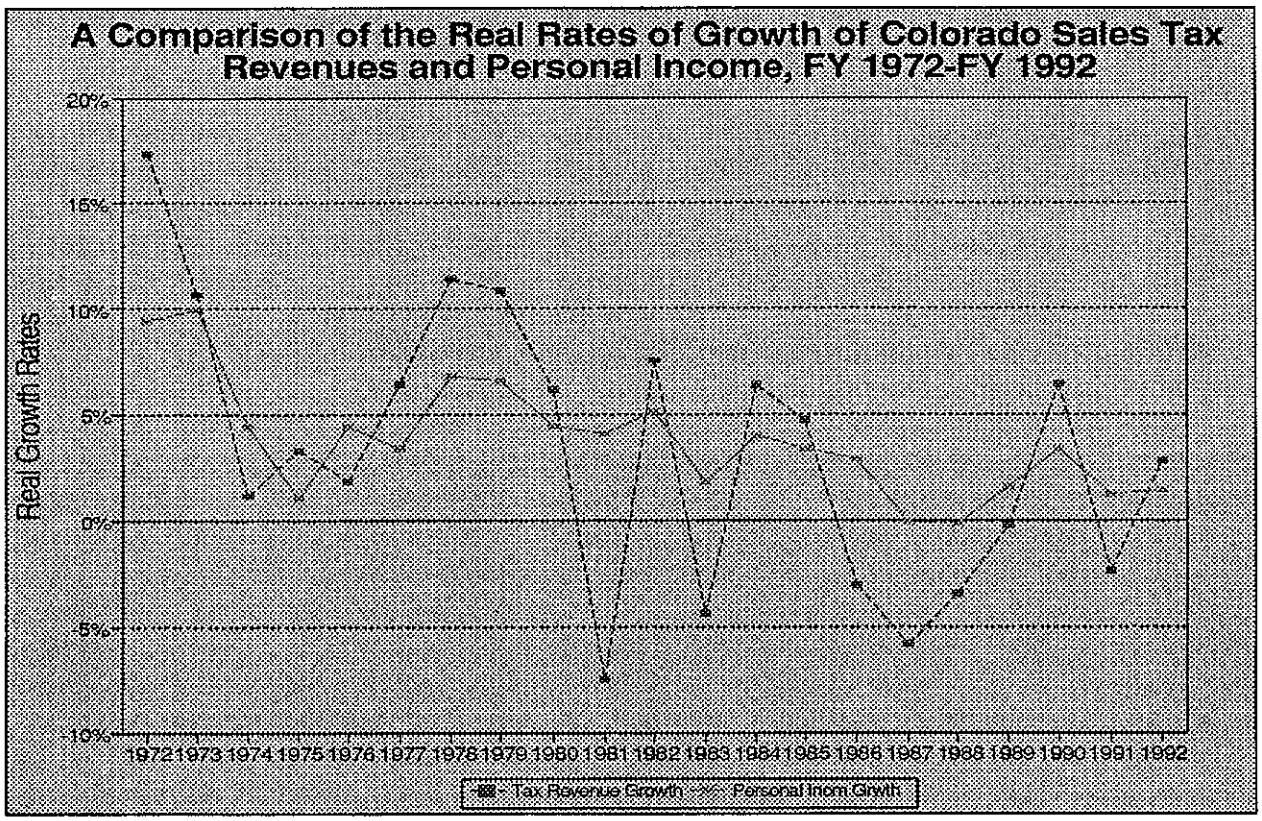

Figure 3.

appliances); given that a household's MPC and MPS must total 1, and that MPS tends to be stable, the MPC for other types of consumption must increase. For instance, during a recession a family may opt to repair a washing machine rather than buy a new one. (Another factor that is not taken into consideration under this theory is that some families decrease their debt load during recessions -- such behavior is not factored into either MPC or MPS). Most services are not taxed by the state; Fox and Campbell hypothesize that the sales tax could be made more stable if these goods were taxed. They contend that the variability of sales tax revenues is exacerbated by the selection of consumer expenditures that define the sales tax base and that the taxation of services would at least partially offset the decrease in MPC for durable goods during recessions and vice versa.

According to public finance theorists, the inclusion of services into the sales tax base could help stabilize the sales tax as a source of revenues; it may also clarify other issues and alleviate some problems associated with a base consisting primarily of tangible goods. A sales tax base that includes not only goods but also services conforms to the notion that the sales tax is a tax on consumption. Adopting such a policy would promote both horizontal and vertical equity in sales tax collections. A comparison of two families with different consumption patterns will illustrate the divergence (if the sales tax is perceived as a tax on consumption) of the current sales tax from a tax that conforms with the prototypical horizontally and vertically equitable tax structure. If family A, spends $500 on tickets to the theatre, the sales tax liability for that family is $0 --

no portion of their entertainment dollars must be earmarked for sales taxes. On the other hand, if family B spends $500 on entertainment by renting videos, the sales tax liability for that family is $15, 3% of their entertainment dollars. Each family consumes $500 worth of entertainment annually yet each bear different tax burdens. A horizontally equitable consumption tax would ensure that families that spend the same amount of money would pay the same amount of tax. Even if family A spends $1,000 on theatre tickets, their tax liability would continue to be $0. This does not conform with the model of vertical equity. A tax that displays vertical equity would impose a greater tax liability the greater the consumption by households. John Due and Loretta Fairchild wrote "The objective of a sales tax is to distribute costs of governmental services in relation to consumer spending, [and] ... acquisition of services by households constitutes consumption expenditures in the same fashion as the purchase of commodities."[9] Currently, sales tax policy in Colorado assesses taxes only on the consumption of tangible goods (there are a few exceptions such as lodging). According to tax theorists, for Colorado sales tax to be a true consumption tax, the base should include services.

Broadening the sales tax base can potentially diminish the competitive advantage that service providers have over retailers. Administering a policy that taxes only durable goods can distort the decisions of consumers. For instance, a consumer may decide to repair a VCR rather than purchase one if the tax levied on the VCR increases the price sufficient enough to make it more expensive to purchase than to repair. If a consumer chooses to repair her VCR rather than purchase a new one (repair services are not taxed) to avoid the tax, the tax has given a competitive advantage to the repair establishment. Without the tax, the consumer may have been more inclined to purchase a new VCR; this artificial incentive to purchase one good or service over another due to the imposition of a tax is called a tax distortion. Colorado's current sales tax policy may place retailers of tangible goods at a competitive disadvantage to purveyors of non-taxable, price-competitive, close substitutes. A larger base also would allow the state to assess a lower tax rate. Tax distortions such as the one described above and the one described previously (a tax incentive for firms to vertically integrate) increase more than proportionately with the increase in a tax rate. Therefore, taxing services and thereby increasing the tax base, would allow the state to decrease the tax rate which would diminish tax distortions caused by the imposition of the sales tax.

Under public finance theory, broadening the sales tax base to include services can be used as a fiscal tool to moderate the regressivity of the sales tax. The state sales tax in Colorado is a regressive tax. A 1989 study found that families in the lowest income quintile paid roughly 2.45 times more of their income on sales taxes than families in the highest income quintile. The sales tax could be made more progressive by selectively targeting those types of services used by the more affluent households such as boat docking, RV rentals, fur storage, or skiing instruction. However, restricting the base to a limited spectrum of services can mitigate the other possible benefits that would ensue from significantly broadening the base. With a narrow services tax base, the chances of significantly lowering the sales tax rate would be reduced. Without the ability to lower the sales tax rate, not only would there be less of a chance of diminishing the distortion effects of the tax but because of the specific attention to the incidence of the tax, such

exemptions could, to an even greater extent than currently realized, unintentionally encourage the purchase of untaxed versus taxed items.

TAXATION OF SERVICES

In the 1991 FTA study of state-level taxation of services, Colorado ranked 47 out of the 50 states and Washington D.C. in the number of services that are included in its sales tax base. Colorado taxes 12 out of a possible 160 services listed in the study. The two states with the most comprehensive sales tax base were Hawaii and New Mexico, both of which include 154 services in their comprehensive sales tax bases. Colorado's neighbors ranked considerably higher in the number of services included in their bases: Kansas ranked 13th; Wyoming, 16th; Arizona, 17th; Utah, 21st; Nebraska, 23rd; and Oklahoma, 28th. Oklahoma, the lowest ranked Colorado neighbor, taxed at least 32 services in comparison to the 12 services that are included in the Colorado sales tax base.

In another study, presented at a FTA Revenue Estimating and Tax Research Conference by Robert Strauss, Colorado was ranked 37th for the number of items included in its household consumption tax base among 45 states and the District of Columbia. This study focused solely on households and ranked states according to the ratio of the number of items in a state's tax base to the tax base of the state with the narrowest base (Maryland was shown to have the narrowest sales tax base). A total of 529 consumer expenditures were examined in defining the sales tax bases of the various states.

Although expansion of the sales tax base is recommended by tax theorists, most still caution against tax-pyramiding through the avoidance of taxing business services. Instead, most concentrate on expanding the base through the inclusion of personal services into the tax base. Some of the outstanding service exclusions (primarily non-statutory exclusions) from the Colorado sales tax base are listed in Table 2.

PROBLEMS WITH THE TAXATION OF BUSINESS SERVICES

Similar to the use tax issues concerning tangible goods, the state will have to take a position on the taxation of services involved in multistate transactions. Specifically, does liability occur upon the performance or upon the consumption of a service and if one or the other occurs out-of-state, would Colorado have the right or the ability to tax that transaction? For states that base their taxation of services on the performance rather than the consumption of services, the state may want to rely on its past decisions regarding the taxation of component parts involved in multi-state manufacturing. If a service is performed in another state, which state has the right to tax the product? For instance, if a personnel consulting firm provides a mailing list to another firm, and that mailing list required the expertise of several people around the country, where should the tax liability for the performance of the service be assessed and which states have the right to tax the service? If the tax structure is based instead upon the consumption of a service, the state is faced with similar problems. Unlike tangible goods, a particular service may be delivered to many locations. If a service is delivered to multiple locations within the state, the state must

Services Taxed by Ten or More States

Landscaping services
Typesetting service: platemaking for the print trade
Automotive storage
Marina services
Electricity for residential and industrial use
Water for residential and industrial use
Natural gas for residential and industrial use
Other fuel for residential use
Diaper services
Garment services (altering & repair)
Laundry and dry cleaning services (non-coin operated)
Shoe repair
Swimming pool cleaning & maintenance
Tuxedo rental
Commercial linen supply
Photocopying services
Custom software programming
Automotive washing and waxing
Automotive services (including paint and lube, excl repairs (listed separately))
Parking lots and garages
Automotive rustproofing & undercoating
Amusement park admission & rides
Billiard parlors
Bowling alleys
Cable TV services
Circuses and fairs--admission and games
Coin operated video games
Admission to school and college sports events
Membership fees in private clubs
Admission to cultural events
Pinball and other mechanical amusements
Admission to professional sports events
Custom fabrication labor
Repair labor, generally
Labor charges, aircraft repair
Labor charges, repairs to intrastate vehicles
Labor charges, repairs to motor vehicles
Labor charges, radio/TV repairs; other electronic equip
Labor charges, repairs to other tangible property
Service contracts sold at the time of sale of tangible personal property
Installation charges-other than seller of goods
Custom processing (on customer's property)
Taxidermy

Source: Federation of Tax Administrators. Research Report No. 137. "Sales Taxation of Services: Who Taxes What?" April 1991.

Table 2.

be able to determine the liability and legal incidence of the tax. Apportioning the tax liability seems to be an appropriate way to deal with the multi-state consumption of a service but what if benefits cannot be apportioned among the consumers? Using the personnel consulting example, if the firm recommends organizational restructuring of a multistate business firm, how should the value of the service be apportioned? Whether a state bases its structure of taxation on the performance or the consumption of services, it must face the issues concerning the feasibility of apportioning and collecting the liability as well as competition with other states for the right to tax the service when the service is performed or distributed in multiple states. Goods are tangible, concrete, and substantial. Services are intangible, and sometimes exist only as they are rendered. Due to the mobility of service providers, tracking such businesses for auditing purposes could be problematic.

Another conceivable problem in the taxation of business services, although not unique to the taxation of business services, is the potential to "cascade" taxes through to the final product and artificially stimulate the vertical integration of businesses. Some would argue that business

services are similar to direct component parts used in the manufacturing process which are exempt from taxation. Both are inputs used to generate final products; therefore, they would contend, that taxing business services should be akin to taxing component parts. However, this argument is similar to those faced by tax administrators regarding the exemption of only certain goods used in the manufacturing process. The exemption of goods used in the manufacturing process is based on the component parts rule -- only those goods that are component parts of the final product are exempt from sales taxation. Similarly certain business services would qualify as direct components of the final delivery of services whereas others may be more general to the organization and therefore would not qualify for an exemption. For instance, an example of a business service that might qualify as a "component part" is personal credit checking services performed for mortgage brokers who are performing closing services for a client. The credit check is a component part in the closing services rendered to a client. Relocation services used to move an employee to another business location, however, would not be considered a component in the process of delivering financial services to a client much as office equipment, which is integral to the operation of an office, would not be considered a component part of a manufactured good. Using the component parts rule as a guideline, one would conclude that both would be taxable. To maintain consistency with current statutes, business services not directly used in the final delivery of a service, like goods purchased by manufacturers but not used as a component part of the finished product, should be taxed.

Florida's experiences in implementing (and subsequently repealing) a sales tax on a broad base of services provides a model of the types of issues that need to be addressed when attempting to adopt a sales tax on services. Florida ventured into the domain of taxing services in 1986 when the legislature passed a bill that repealed several sales tax exemptions, one of which included the exemption of professional, insurance, or personal service transactions. By April 1987 the legislature passed a full services tax package that was to generate approximately $761 million in its first year and $1.2 billion in its second.[10] The bill went into effect on July 1, 1987 and was subsequently repealed by December 1987. When the bill was introduced there was little opposition to the tax. It was presented as a series of sunset provisions that ended the exemption of over 100 exceptions to the Florida sales tax base. The bill was sold as a means to close the various loopholes that existed in the sales tax. The legislation that followed, which essentially defined the structure of the services tax, activated the special interests in opposition of the new tax. Five groups in particular, the NBC television network, Johnson and Johnson (the nation's 21st largest advertiser), the Florida Bar, the Florida Association of Broadcasters, and a coalition of advertising and other groups (STOP) were especially vocal in their opposition to the tax and are perceived as largely responsible for the repeal of the tax.

James Francis of the Florida Department of Revenue, identified five factors that led to the repeal of the services tax: 1) the legislative process; 2) the scope of the tax; 3) pyramiding; 4) a misunderstanding of the use tax on services; and 5) the failure on the behalf of the tax supporters to resolve and ride out the dissent. The main criticism Francis had of the legislative process, although he qualifies it as a shortcoming of only "marginal importance" in the whole scheme of events, was that the time between passage of the law and the implementation of the bill was too short. Although Francis points out that "the final implementing legislation was preceded by more

study and critical evaluation than any other tax bill in Florida's history," he felt that there was not enough time to inform and educate the "rank-and-file" taxpayers who don't normally follow the legislative process. The legal, administrative, and revenue implications of the tax were examined by two independent groups who discussed their findings with the legislature. Revenue department staff met with each affected service industry group and attempted to tailor the legislation to work around their particular problems or unique situations.[11] However, the amount of effort spent working with various interest groups to shore up their support was not enough to quell the dissent of the opposition. Francis says that the process may have been, in actuality, too easy for the proponents of the tax in the initial stages. Because they were able to garner the initial support of the governor and the legislature, proponents relaxed their efforts in selling the legislation to the public and therefore failed to convince the "rank and file" taxpayers of the need for this legislation.

The second element that Francis mentions as a factor in the repeal of the tax is the limited scope of the final enacting legislation. Proponents of the tax found it hard to justify the taxation of services on the basis of 1) equalizing the playing field for manufactured goods versus services and 2) lessening the regressivity of the tax by including professional services in the base, if only a small portion of the service base was subject to taxation. With the repeal of the exemptions, up to $85 billion in previously untaxed transactions was available for the legislature to tax. However, only 33.4 percent of the previously untaxed transactions made it into the new services tax base.

The third factor that Francis attributes to the demise of the tax is that the provisions to prevent pyramiding were too narrow. In Florida, a business service would be exempted only if the service was purchased by a business on behalf of a third party. A business service was not exempt if the purchaser consumed the business service, even if it was necessary in providing the final service to a customer. Businesses were concerned that this policy allowed extensive pyramiding to occur in the service sector and policymakers were concerned about the effective application of the rules of the resale principle. Without straightforward statutory criteria for determining the difference between exempt and non-exempt services, the expectations for the proper application of the tax were minimal.

The fourth factor Francis mentions is the criticism and misunderstanding of Florida's policy on the imposition of use taxes on services. Florida assesses liability on all in-state consumption of services regardless of point of sale or point of performance. Likewise, Florida exempts out-of-state consumption of services, even if the service is performed in the state. This type of policy required businesses to identify those service purchases that were subject to apportionment. Although the policy was criticized on the grounds that the administration of the tax would be costly, no alternatives that would maintain a fair playing field for multistate businesses (especially those whose state of domicile was Florida) were proposed.

The fifth and final factor that Francis identifies in the demise of the tax is the failure of a strong coalition to support the new tax. Proponents were caught off guard by the opposition; they did not sell the tax plan to the electorate since the governor and the legislature supported the tax, at

least in its initial stages. The media, with their access to the airwaves and expertise in the shaping of public opinion, voiced their opposition to the tax easily and effectively. The effort that Florida devoted to the detailed study and implemention of its sales tax on services and its positive and negative experiences in introducing the tax, serve as both a model and an example by which other states can learn.

THE IMPACT OF ADDING SERVICES TO THE TAX BASE ON EQUITY

Frequently it is assumed that adding services to a sales tax base will reduce the regressivity of a tax; however, the service components that are incorporated into the base may or may not serve to diminish the regressivity of the sales tax. A model of the tax burdens of various households by income classes was constructed to demonstrate the distribution of a sales tax burden across income classes when various components constitute the tax base. The model constructed for this study is based upon detailed national consumption patterns which are used as a proxy for Colorado consumption.

The Lorenz curve is used in this model to measure the equity of the distribution of the alternative sales tax burdens. This measure is expressed as a ratio of the proportion of income paid by families in the lowest income groups on sales tax to that proportion of income paid by families in the highest income group. A ratio or index number equal to 1.0 indicates that the tax being measured is proportional; therefore, each group would pay the same proportion of their income on the tax. If the ratio is less than 1.0, the tax is progressive, meaning families in the highest income group pay a larger share of their income on sales taxes than those in the lowest income groups. A ratio greater than 1.0 indicates that the tax is regressive; the tax would constitute a larger share of the income of families in the lowest income groups than that of families in the highest income group.

The model shows that a sales tax levied on a broad spectrum of consumer services, is actually more regressive than the current sales tax on goods. The Lorenz measure shows that families in the lowest income group would pay 2.9 times more of their incomes on the services tax than families in the highest income groups. This compares with the Lorenz measure for the current sales tax on goods which indicates that families in the lowest income groups pay 2.4 times more of their incomes on the current sales tax than families in the highest income group. Although families in the lowest income class nominally spend less on services than they do on goods, they pay a greater percentage of their incomes on services than families in the highest income class. The greatest service-related expenditures of lower income households are utility bills and maintenance and repair services for homes and vehicles (excluding fees for professional/medical services).

Because the inclusion/exclusion of elements in the sales tax base affects the overall regressivity of the sales tax, several options were examined and are presented for purposes of comparison. Table 3 shows various sales tax bases and their resulting Lorenz Curve measures of regressivity as well as the sales tax revenues that each would generate at various tax rates. The variations include 1) repealing the exemptions currently incorporated in the state sales tax statutes and

Alternative Sales Tax Bases and the Resulting Tax Burdens on Households Fiscal Year 1993

	Under $15,000	$15,000 to $29,999	$30,000 to $49,999	$50,000 and over	Total	Lorenz Curve Measure	Sales tax Revenues
Number of Families	411,606	422,510	360,996	387,441	1,582,553		
Sales tax burden as a pct of income (If sales tax rate held @ 3%)							
Goods only, current base	1.6%	1.0%	0.9%	0.7%	0.8%	2.4	$945,231
Current exemptions + services	1.4	0.8	0.6	0.4	0.6	3.4	$379,581
Services only	0.6	0.3	0.2	0.2	0.3	2.9	$174,308
Services-utilities	0.4	0.2	0.2	0.1	0.2	2.4	$129,502
Services-food/util credits*	0.1	0.7	0.5	0.3	0.4	0.4	$275,966
Goods & services-food/util credits*	1.7%	1.6%	1.4%	1.0%	1.2%	1.8	$1,221,196
Tax burden of various combinations of goods and services--rates adjusted for revenue neutrality							
Gds+current exmptns+svcs(@ 2.15%)	2.1%	1.3%	1.1%	0.8%	1.0%	2.8	$949,452
Gds+services (@ 2.55%)	1.8	1.1	1.0	0.7	0.9	2.6	$951,611
Gds+services-utilities (@ 2.65%)	1.7	1.0	0.9	0.7	0.9	2.4	$949,351
Gds+svcs+food-crdts* (@ 2.35%)	1.4%	1.3%	1.1%	0.8%	1.0%	1.8	$956,607

* Under this scenario families with incomes less than $15,000 would receive full credit for the sales taxes they paid on their food and utility expenditures.

Table 3.

adding a broad range of services to the base (for a detailed listing of the services included in the model, see Appendix 3); 2) taxing a broad range of consumer services; 3) taxing services with the exception of utilities; 4) taxing services and food, granting a credit for sales taxes on food and utilities for families with incomes under $15,000.[12]

Under these different scenarios, the least regressive and second largest yielding alternative was the combination of a broad sales tax on services and a repeal of the food exemption. To mitigate the regressivity of the tax, a credit for taxed food and utility expenditures would be offered to low income families. Implementation of this alternative to broaden the sales tax base would lessen the regressivity of the sales tax; families in the lowest income class would pay less than one percent more of their incomes on sales taxes for services and food than families in the highest income group. Overall, the sales tax would continue to be a regressive tax; however, the regressivity of the sales tax, as a whole, would be reduced to the extent that families in the lowest income class who currently pay 2.4 times more of their incomes on sales taxes than families in the highest income class, would pay 1.8 times more of their incomes towards sales taxes instead.

The option that would generate the greatest additional revenues is the most regressive of the four. Broadening the base to include services while repealing the current sales tax exemptions would increase the base by nearly 39%. In addition to a multitude of services, this alternative would

entail taxing food, prescription drugs, and prosthetic devices -- items that are commonly perceived as necessities or expenditures that cannot be avoided. Adding food for home consumption into the sales tax base by itself would increase the base by 14.8%. Among the previously exempted items that would be added to the tax base, the tax on prescription drugs would be the most regressive. On average, families in the lowest income group pay 9.5 times more of their incomes on prescription drugs than families in the upper income class. They pay 4.5 times more of their income on medical supplies and 3.9 times more of their income for food at home. Though the regressivity of a sales tax on food is significant, it is somewhat mitigated by the federally mandated sales tax exemption of food purchased with food stamps. The model estimates that nearly 24% of the food purchased by families in the lowest income group is paid for with food stamps, therefore partially relieving these families from the regressivity of a potential sales tax on food. Adding only services to the sales tax base would increase the overall regressivity of the sales tax somewhat, but exempting utilities from taxation would maintain the current degree of regressivity in the sales tax. Families in the lowest income group, at present, pay 2.4 times more of their incomes on sales taxes than do families in the highest income group.

By broadening the sales tax base, the state could, given the above scenarios, reduce the tax rate from 3 percent to as low as 2.15 percent and maintain revenue neutrality. The reduction in the rate would of course be dependent upon the magnitude of the increase in the base. Increasing the base to include all consumer services plus the current exemptions from the base is the largest increase in the size of the base presented. This increase would allow the state to reduce the tax rate to 2.15 percent and maintain the same level of revenues it receives from the current sales tax structure. Of the options presented, the smallest increase in the base, and subsequently the smallest reduction in the sales tax rate, would result from the alternative that included services but exempted utilities. A tax rate of 2.65 percent would be required to maintain the current level of revenues. For the least regressive alternative, a tax rate of 2.35 percent would be required to maintain the current sales tax revenue stream. Under this alternative, the base would be expanded to include services, food, and utilities while credits would be offered for food and utility expenditures by low income families. In reducing the sales tax rate by expanding the base under any of the scenarios, some of the distortional effects of the tax would be eliminated.

ADDING A SERVICES COMPONENT TO THE LOCAL TAX BASE

Chapter 3 demonstrated the effects of instituting a uniform tax base on localities' tax revenues. For illustrative purposes, food purchased for off-premises consumption, residential utilities purchases, and machinery/machine tool purchases were removed from all local tax bases. Three uniform tax rates that would probably yield revenues equivalent, in total, to those which localities had received when the tax base was set locally were derived. In order to maintain current revenue levels, it was hypothesized that the state would have to redistribute revenues to the localities based on some formula.

As discussed, the taxation of various services would increase the size of the tax base and enable a reduction of the rate. A larger tax base could allow a smaller tax rate to be imposed in an overall sense. The three data bases: counties, home rule cities, and statutory cities, were

Adjusted Sales Tax Rates and Revenues of Localities With an Expanded Sales Tax Base

Locality	(a) FY 1991 Revenues ($000)	(b) Locally-Defined Tax Base ($000)	(c) State-Defined Tax Base (Services Inc.) ($000)	(d) New Required Uniform Tax Rate /1	(e) FY 1991 Revenues State Base ($000) /2	(f) Change from Original (a-e) ($000)
COUNTIES:						
Delta	$1,625	$84,197	$105,061	0.69%	$725	$(900)
El Paso	24,296	2,504,691	3,689,556	.	25,458	1,162
Jefferson	16,498	3,437,083	4,033,011	.	27,828	11,330
Routt	2,086	215,052	299,942	.	2,070	16
Summit	2,742	113,306	208,187	.	1,436	(1,306)
All Counties	$91,562	$9,577,418	$13,292,614	0.69%	$91,719	$157
HOMERULE CITIES:						
Commerce City	$7,942	$231,545	$439,415	2.14%	$9,403	$1,461
Denver	197,724	5,286,738	7,842,111	.	167,821	(29,903)
Durango	4,473	231,762	315,584	.	6,754	1,150
Pueblo	20,378	602,885	926,337	.	19,866	(511)
Vail	11,569	289,225	373,315	.	7,989	(3,592)
All Homerule Cities	$634,200	$20,770,443	$29,570,433	2.14%	$632,807	$(1,393)
STATUTORY CITIES:						
Broomfield	$5,255	$150,143	$176,788	2.28%	$4,031	$(1,224)
Brush	758	26,121	26,408	.	602	(156)
Carbondale	868	29,931	33,830	.	771	(97)
Ft Morgan	2,047	70,586	106,834	.	2,436	389
Grand Lake	343	8,850	10,963	.	250	(93)
Limon	507	26,269	39,932	.	910	403
Loveland	8,392	289,379	381,336	.	8,694	302
Ouray	336	11,586	14,285	.	326	(10)
Platteville	100	5,181	6,407	.	146	46
Rocky Ford	575	19,759	25,182	.	574	(1)
Woodland Park	1,072	36,966	41,735	.	952	(120)
Yuma	504	26,088	40,766	.	929	425
All Statutory Cities	$93,658	$3,107,809	$4,115,683	2.28%	$93,838	$(179)

/1 Uniform net tax rate by type of locality required to raise pool of revenue equivalent to FY91 actual.
/2 Using uniform net tax rate and state-defined tax base, amount of revenue locality would produce.

Table 4.

modified to include a portion of services in the tax base. Because little information exists on the nature and composition of services' consumption on a finer level than that of the state, estimates were used. In CY 1991, the value of all consumed services were approximately $12 billion (relative to an estimate of roughly $24 billion in net taxable retail sales) on a statewide basis. The definition of services to be added to the tax base is "all services minus professional services" which eliminates $6 billion in services from inclusion in the tax base. Using a locality's reported tax base, the services component was estimated at roughly 24% of the reported tax base. This was then added into the existing uniform tax base and a new "breakeven" overall tax rate

computed. An area's actual services consumption component could greatly differ from its estimate. With the inclusion of the services component into the tax base, the uniform tax rates accordingly decline. Counties would require a uniform rate of 0.69%; home rule cities would require 2.14% and statutory cities would require a tax rate of 2.28%. These rates would produce revenue roughly equal to the amount in total that the locality type produced in FY 1991. The amounts produced locality by locality, however, often greatly diverge from what the locality actually produced itself in FY 1991. Table 4 shows the effects of adding a portion of services to our prototypical localities' tax bases.

The uniform tax rate primarily is the reason for the reduction of revenues from the amounts collected by each locality. The most dramatic cases of revenue reductions in Table 4 (such as the situation for most of the statutory cities) is primarily caused by the relatively low uniform tax rate. Denver, for instance, finds its tax base larger by more than $1 billion, but the lower tax rate (Denver's tax rate was 3.74% in FY 1991) causes revenues to be about 15% lower than what was actually collected in FY 1991. Delta and Summit counties lose roughly 1/2 of their revenues under the hypothesized scheme. The inclusion of a portion of services into the uniform tax base would not hold localities harmless and such a change in the tax base would necessitate redistribution.

Sales tax policy, especially with regards to base broadening, is a hot topic in the current tax literature and among organizations and professionals that monitor state tax policies. States have adopted base broadening policies as a fiscal tool to halt the gradual erosion of their sales tax revenues as consumers shift their spending out of goods and into services; and to create more equitable structures for both the taxpayer, in terms of regressivity, and for businesses, in terms of reducing the distortional effects of taxing only one type of consumption. Others are trying to alleviate the volatility of the yield of sales tax revenues because the volatility of a goods based tax structure often runs countercyclical to the spending needs of governments. The sales tax is one of the least disliked of the taxes levied by governments, and for many states, the service sector is a source of tax revenues.

ENDNOTES

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4. John L. Mikesell. "Sales Taxation of Nonprofit Organizations: Purchases and Sales." in Fox, p. 122.

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10. James Francis, "The Florida Sales Tax on Services: What Really Went Wrong?", in Steven D. Gold (ed.), The Unfinished Agenda for State Tax Reform, National Conference of State Legislatures, Washington D.C., 1988, p. 130.

11. Francis. p. 131.

12. The food and utility credit estimates are based on the assumption of 100% participation and a $35 per exemption credit for food and a $31 per household credit for utilities. These credits are based on average expenditures for the applicable items and the resulting burden of sales taxes that would ensue for lower income households.

APPENDIX 1
Characteristics of Prototype Localities

Locality	Population (000s)	Location	Retail Sales (000s)	CY91 Local Sales Tax % of Local Revenues	(000s) CY 91 Year-end Current Liabilities	(000s) CY 91 Inter-Governmental Revenues
COUNTIES:						
Delta	21.8	W Central	179,785	17.0%	1,116.6	5,458
El Paso	399.8	S Central	4,216,594	20.5%	5,946.4	47,579
Jefferson	448.6	FR Central	5,516,652	9.6%	23,792.8	39,009
Routt	14.2	NW	302,065	17.8%	1,930.2	3,522
Summit	13.3	N Mountain	515,216	23.1%	3,446.9	1,710
HOMERULE CITIES:						
Commerce City	16.8	FR Central	756,919	59.5%	1,642.9	1,803
Denver	481.5	FR Central	9,289,608	31.8%	484,867.0	142,284
Durango	12.7	SW	338,086	58.3%	1,387.8	1,055
Pueblo	100.9	S Central	1,200,003	51.0%	15,022.7	6,336
Vail	3.7	C Mountain	310,383	52.1%	4,571.8	897
STATUTORY CITIES:						
Broomfield	25.1	FR Central	233,008	42.4%	5,822.9	1,364
Brush	4.3	NE Plains	43,495	36.1%	262.3	231
Carbondale	3.1	W Central	41,281	45.6%	407.6	145
Ft Morgan	9.5	NE Plains	144,335	44.3%	474.9	688
Grand Lake	0.3	N Mountain	11,281	30.0%	122.1	614
Limon	1.9	E Plains	54,715	16.6%	797.2	1,336
Loveland	38.4	N Central	465,769	36.7%	7,936.7	3,081
Ouray	0.7	SW	12,743	26.6%	189.7	88
Platteville	1.5	FR Central	7,438	18.6%	35.9	123
Rocky Ford	4.1	SE Plains	27,115	38.0%	304.2	311
Woodland Park	4.9	S Mountain	52,110	42.9%	1,353.1	273
Yuma	2.7	NE Plains	55,415	28.8%	521.1	186

Source: 1991 Local Government Financial Compendium

APPENDIX 2
LOCALITIES EXEMPTING FOOD FOR HOME CONSUMPTION FROM SALES TAX

Statutory Cities:	Home Rule Cities:	Counties:	Statutory Cities Receiving County Distribution:
Burlington	Aurora	Custer	Avon*
Collbran	Colorado Springs	Eagle	Basalt**
Columbine Valley	Commerce City	El Paso	Eagle**
DeBeque	Denver	Fremont	Gypsum
Erie	Englewood	Garfield	Minturn**
Firestone	Glendale	Mesa	Redcliff**
Fountain	Grand Junction	Otero	Vail*
Frederick	Greenwood Village	Pueblo	Grand Junction
Fruita	Larkspur	Routt	Fruita
Gypsum	Pueblo	San Miguel	Palisade
Hot Sulphur Springs	Teller	Collbran	
Hudson	DeBeque		
Keenesburg			
Manzanola			
Mead			
Monument			
Palisade			
Palmer Lake			
Ridgway			
Victor			

* As a homerule city taxing authority, did not exempt food
** As a statutory city taxing authority, did not exempt food

APPENDIX 3
LISTING OF SERVICES INCLUDED IN THE SERVICES CATEGORY IN THE LORENZ CURVE ANALYSIS

Home maintenance/repair services
Property management/security
Parking
Natural gas
Electricity
Fuel oil & other fuels
Water & other public svcs
Babysitting services
Care for elderly, invalids, handicapped
Daycare expenses, preschools, nurseries
Housekeeping services
Gardening,lawn care services
Water softening services
Laundry/dry-cleaning services
Coin-op laundry/drycleaning
Other home services
Termite/pest control
Moving, storage, freight express
Appliance repair
Reupholstering, furniture repair
Repair/rental of tools and/or household equipment
Appliance/furniture rental
Repair of household goods
Shoe repair
Apparel altering/repair
Clothing rental
Watch & jewelry repair
Clothing storage
Auto maintenance & repairs
Parking, towing, auto service clubs
Club membership dues, fees
Social, recreational, civic organization membership
Fees for participant sports
Out-of-town participant sports
Movies, performing arts
Movie, other admission (out-of-town trips)
Sporting events
Sporting events, (out-of-town trips)
Fees for recreation lessons
Other entertainment services (out-of-town trips)
Repair of tvs/radios
Cable services
Docking and landing fees
Electronic video games/pinball machines
Personal care services for men and women

Note: These categories of service-related expenditures correspond with the U.S. Bureau of Labor Statistics Consumer Expenditure Survey classification of expenditures.

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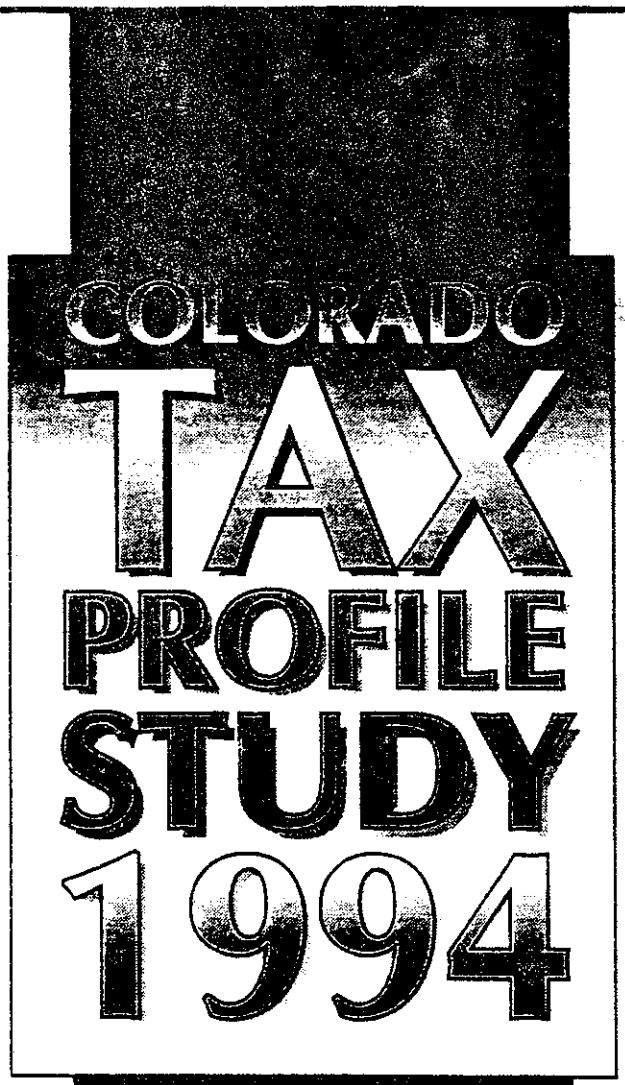


COLORADO
TAX PROFILE STUDY 1994

Contributors:
The Center for Business and Economic Forecasting
Bill Kendall
Will Robb

Department of Revenue
Janet Archibeque

EXECUTIVE SUMMARY

This is the eighth in a series of Colorado Tax Profile Studies (CTPS) to assess the burden of state and local taxes on Colorado households. In particular, the study examines the tax burden on households at different income levels for Fiscal Year 1994.

THE ECONOMIC SETTING

The Colorado economy in 1994 was markedly stronger than in recent CTPS studies. Between 1989 and 1994, Colorado experienced an increase of 264,000 jobs and 371,000 in additional population. Personal income grew by 40 percent between 1989 and 1994 and fueled almost a 50 percent increase in retail sales over the period. A stronger economy resulted in the movement of households into higher income classes. In 1989, approximately eight percent of Colorado households received Adjusted Family Money Income (see definitition in appendix) of less than $5,000. By 1994, this percentage had dropped to 6.3 percent. In contrast in 1989, just under 16.5 percent of Colorado households received over $50,000 in Adjusted Family Money Income. By 1994, this group accounted for 26.0 percent of Colorado households.

CHANGES IN TAX LAWS

A number of tax law changes enacted between 1989 and 1994 affected state and local tax collections. In an attempt to address needed highway improvements, the Colorado Legislature in 1989 passed House Bill 1012 which increased the gasoline excise tax rate from 18 to 22 cents per gallon. The bill also added a levy to vehicle registration fees based on the age of a vehicle, and increased the cost of a driver's license.

Two new sales taxes were imposed in the metro Denver area. The Scientific and Cultural Facilities District in January 1989, and the Metropolitan Major League Baseball Stadium District in August 1991 each had a 0.1 percent levy on retail sales. In addition, several jurisdictions also raised their sales tax rate.

The Taxpayer Bill of Rights (TABOR) amendment limiting tax and expenditure increases for state and local governments became effective December 31, 1992 and affected local goverment budgets and taxes for calendar year 1993.

Several important changes affected the Colorado income tax. In tax year 1992, the tax base was broadened by adding back the federal deduction for state income tax to Colorado taxable income. Additionally, the corporate income tax rate on taxable income in excess of $50,000 was reduced from 5.5 percent in 1989 to 5 percent in 1993. At the federal level, legislation was enacted that broadened the tax base by phasing out itemized deductions and personal exemptions for higher incomes. This legislation also indexed personal exemption and standard deduction amounts to inflation, and required households who claim children over one year of age as dependents on their income tax to list the social security numbers of the children on their tax returns.

CHANGES IN TAX COLLECTIONS

Changes in Colorado's economic climate and tax laws resulted in higher tax collections. After experiencing an economic recession in 1985 and 1986 marked by a net out-migration of individuals from the state, the state economy started to recover. By 1989 the recovery was well underway. Population growth rose to pre-recessionary levels by 1991, and in 1993 reached a fifteen-year peak. Between 1978 and 1994 population grew at an average annual rate of 1.8 percent, personal income by 8.3 percent and state and local tax collections at an average annual rate of 7.5 percent. Between 1989 and 1994, the growth in state tax collections was led by gains in sales and income tax receipts. Rapid population growth and lower interest rates stimulated home building and mortgage refinancing which in turn boosted consumer spending. Per capita collections from sales by home furnishing retailers increased more than 10 percent between 1992 and 1994 while collections from building supply retailers grew by more than 20 percent in 1993 and 1994.

Between 1989 and 1994, rising incomes shifted taxpayers into higher income classes. Income from sources other than wages showed very strong gains. Income from rents and royalties increased at a robust annual rate of 69 percent on a per capita basis. Per capita pension income increased 7.7 percent annually. Part of the growth in income taxes can be attributed to the Federal Tax Reform Act of 1986 which broadened the tax base.

Between 1978 and 1994, property taxes accounted for a declining share of local taxes and total state and local taxes. In 1978 property taxes accounted for 71 percent of local taxes and almost 40 percent of total state and local taxes. By 1994 these shares were reduced to 60 percent and 30 percent, respectively.

While property taxes declined as a share of local taxes, sales taxes accounted for a larger share of the total, rising from 18 percent of all local taxes in 1978 to

over 30 percent in 1994. At the state level, the contribution of the state individual income tax to the revenue base increased from 32 percent of all state taxes in 1978 to 44.5 percent in 1994. The increase in income tax collections was caused largely by the increase in income associated with a greater population, healthy gains in personal income and by state and federal changes in tax laws.

OVERALL STATE AND LOCAL TAX BURDEN

The total state tax burden on residents in 1994 was estimated at $3.7 billion, of which $2.7 billion was paid directly by residents and $1 billion consisted of taxes levied on businesses that are ultimately borne by residents. Since businesses are intermediaries between suppliers of the factors of production (labor and capital) and consumers who purchase final products or services, it is the consumer and the supplier of resources who bear the burden of taxes levied on businesses in the form of higher prices, lower wages or reduced dividends.

Total taxes paid by residents to all local governments was approximately $3.6 billion. Residents paid $1.9 billion in local direct taxes and another $1.7 billion in indirect taxes shifted to them. An additional $586 million in state and local taxes ($277 million direct and $309 million indirect) was paid by nonresidents.

The largest single source of revenue among state and local governments is the property tax which accounted for one-third of total taxes. Sales and use taxes, both state and local, make up 28 percent of the total tax burden while income tax comprises 24 percent of the total.

PROFILE OF TAX BURDEN BY INCOME CLASS

This section examines the distribution of the state and local tax burden on Colorado residents by Adjusted Family Money Income (AFMI). Adjusted Family Money Income classes examined range from households that receive under $5,000 in AFMI to households that receive over $70,000 in AFMI.

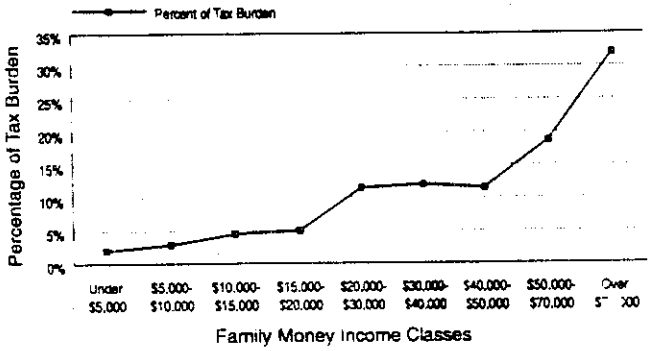
DISTRIBUTION OF INCOME

Data on the distribution of income by AFMI classes show that incomes are not proportionately distributed but tend to be concentrated in higher income groups. Households receiving $5,000 to $10,000 in AFMI represent just under 10 percent of all households examined and account for just under 2 percent of all AFMI. In contrast, households receiving $70,000 and over in AFMI represent 13 percent of all households examined and account for 37 percent of all AFMI.

DISTRIBUTION OF TAX BURDEN

As depicted in Chart 1, data on state and local taxes paid by households in different AFMI classes show that the bulk of taxes are paid by households in middle and upper income groups. The three highest income groups with AFMI of $40,000 to $50,000, $50,000 to $70,000 and AFMI of $70,000 and over paid 62 percent of the $7.4 billion total tax burden on Colorado resident households. In comparison, the three lowest income groups with AFMI of $10,000 to 15,000, $5,000 to $10,000 and AFMI of under $5,000 paid less than $700 million in total taxes. For higher income groups, the individual income tax is the largest single tax paid. Sales and use tax make up the bulk of the tax burden for lower income households.

CHART 1: COMPARISON OF TAXES PAID BY COLORADO HOUSEHOLDS BY ADJUSTED FAMILY MONEY INCOME CLASSES

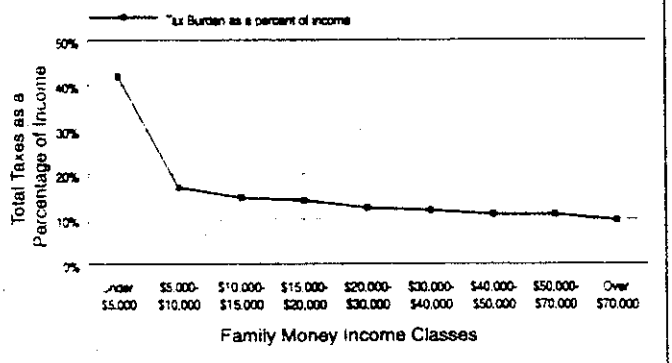


THE EQUITY OF COLORADO'S TAX SYSTE

Comparing total tax burden as a percent of Adjuste Family Money Income across income classes gives notion of the equity of Colorado's tax system; it show whether the tax system is progressive, proportiona or regressive. A progressive tax system is based o ability to pay and places a larger proportionate ta burden on higher income taxpayers than on thos with smaller incomes. In contrast, a regressive ta structure is one where taxes paid as a percentage c income declines as income increases—lower incom taxpayers pay a larger share of their income in taxe than their higher income counterparts.

As Chart 2 depicts, Colorado's overall tax system regressive. Total taxes paid as a percentage of Ad Family Money declines as income increase Households with incomes of $5,000 to $9,999 pai

CHART 2: COMPARISON OF TOTAL TAXES ON HOUSEHOLDS AS A PERCENTAGE OF INCOME BY ADJUSTED FAMILY MONEY INCOME CLASS



17.9 percent of their income in taxes. For the top adjusted household income class, $70,000 and over, households paid 10.1 percent of their income in taxes.

Comparisons with previous studies suggest that Colorado's state and local tax burden may have shifted slightly in the direction of higher income taxpayers. Comparing 1989 to 1994 data, for example, show that total taxes as a percent of AFMI dropped from 20.5 percent in 1989 to 17.9 percent in 1994 for households with incomes of $5,000 to $10,000. At the same time, total taxes as a percent of AFMI rose from 10.3 percent in 1989 to 10.6 percent in 1994 for households with incomes above $50,000. In fact over the five years, the tax burden has fallen for all households between $5,000 and $50,000 in AFMI (with the exception of a slight increase for the $20,000 to $30,000 class) and rose for those earning more than $50,000 in AFMI.

The overall structure of Colorado's tax system is to a large extent determined by three taxes: individual income, sales and use, and real property taxes. These taxes account for 87 percent of direct taxes paid by residents. The data show that while the individual income tax is progressive, sales and use and property taxes are regressive reflecting consumption patterns of households. While spending on goods in the sales tax base rises as income increases, it accounts for a lesser share of income since higher income households channel money into saving. Similarly, the value of a household's residence falls as a proportion of income as income increases.

Comparing the percentage of taxes paid to the percentage of income earned by AFMI class gives an indication of the overall structure of the tax system. The 1994 data show that households in each income class earning less than $40,000 in AFMI pay a higher percentage of total state and local taxes than the percentage of income that they earn. Each AFMI class earning more than $40,000 pays a lower percentage of taxes than their percentage of income. Households with incomes in excess of $70,000 in AFMI receive 37 percent of total Adjusted Family Money Income and paid 44 percent of total individual income taxes. All households with incomes under $50,000 in AFMI pay a larger share of sales and use taxes than their share of Adjusted Family Money Income. Among the different taxes, the largest share of the tax burden borne by the highest income class is the income tax.

Local taxes, as a whole, are much more regressive than state taxes. The lowest income group that accounts for 0.5 percent of Adjusted Family Money Income pays 1.3 percent of direct state taxes, yet pays 2.7 percent of direct local taxes. On the other hand, the $70,000 and over AFMI class accounts for 37.4 percent of total AFMI, pays 37.1 percent of direct state taxes, and 29 percent of direct local taxes. The progressivity of the state individual income tax is responsible for the greater progressivity of the state tax burden.

Examining the ratio of the percentage distribution of taxes paid to the percentage distribution of income received presents additional information on the structure of the tax system. For local taxes the data show that the under $5,000 AFMI class pays almost five times as large a share of local taxes as its share of income. The $50,000 to $70,000 AFMI class paid and received an equivalent proportion of taxes and income, respectively; the percentage share of taxes paid to the percentage share of income received is close to one. For state direct taxes, the share of taxes paid are roughly equivalent to the share of income received for all AFMI classes above $5,000. However, the ratio share of local taxes to incomes drops steadily with rising income. Direct state taxes are proportional to mildly progressive while direct local taxes are regressive.

The total tax burden as a share of income, measured by total taxes as a percent of AFMI, gradually declines as income rises. Total direct state taxes account for a relatively stable share of Adjusted Family Money Income as income rises. The percent of AFMI spent on direct local taxes declines with rising income. For example, for the $5,000 to $10,000 Adjusted Family

Money Income class, direct state and direct local taxes are 4.2 percent and 5.8 percent, respectively. For the $50,000 to $70,000 AFMI class, direct state taxes account for 4.2 percent of income while direct local taxes account for 3.1 percent of AFMI. As noted earlier, both the residential property tax and sales and use tax account for a smaller share of income as income increases.

An examination of the ratio of different taxes as a share of income for the under $10,000 AFMI class to the same taxes as a share of income for the over $70,000 AFMI class reveals further insight on the structure of individual taxes. A ratio of greater than one would indicate a regressive tax; the tax accounts for a greater share of income for the lower income group than the higher income class. The individual income tax is found to be quite progressive while cigarette and tobacco products taxes are the most regressive of the state and local taxes. Sales, property and occupation taxes are regressive.

INTRODUCTION

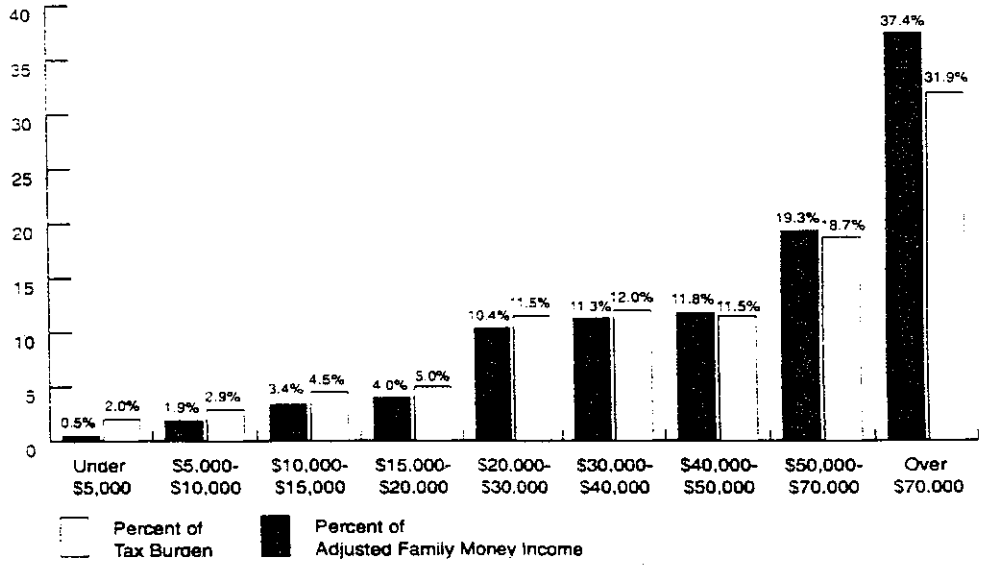
This is the eighth in the series of Colorado Tax Profile Studies (CTPS), first published in 1972. The CTPS model was developed to assess the burden of state and local taxes on Colorado households. In particular, the study examines the tax burden on households at different income levels. The analysis is a static one; it looks at the tax burden on households based on their reported income and economic situation. The study does not attempt to examine how Colorado's state and local tax structure affects households' economic situation. Nor does it attempt to assess the impacts of taxes on work incentives, economic growth, or stimulus to particular industries in the state.

The analysis and data presented in this study are, in most respects, comparable to those used in the last study covering 1988 taxes.[1] Minor changes have been made as noted. Differences with earlier CTPS studies are greater. The studies prior to 1989 were based on a different income concept. Nonetheless, the several studies provide some basis for examining changes in Colorado's state and local tax burden over time and these changes will be examined here.

In general, the findings of this study are similar to those of studies performed in earlier years. One particular finding shows that lower income households experience higher effective tax burdens relative to their income than do households in higher income classes. These results are shown in Chart 3 below. Persons or households in the lowest income group (Adjusted Family Money Income under $5,000) received 0.5 percent of income but paid 2 percent of taxes. On the other hand, those with Adjusted Family Money Income (AFMI) above $70,000 received over 37 percent of income but paid 31.9 percent of taxes. This finding should be tempered by the fact that a large number of the households in the lower income groups are young persons or retired persons whose spending patterns are affected by anticipated future incomes or higher past incomes. A comparison with the results of the 1989 CTPS suggests that higher income households now pay a slightly larger share of state and local taxes.

On Chart 3 the dark bars represent each group's percent share of Colorado Adjusted Family Money Income and the light bars represent each group's percent share of tax burden. It should be noted that for the income groups between $30,000 and $70,000 of annual income the two bars are close to even. For the income groups below $30,000 the light bar representing tax burden is larger. Only for the highest income group is the share of income markedly higher than the share of taxes paid.

CHART 3: COMPARISON OF INCOME RECEIVED BY COLORADO FAMILIES AND THE TAXES THEY PAID



[1] For the 1989 CTPS, individual income tax was reported for the 1988 tax year (essentially calendar 1988), while other state taxes were reported for the 1989 fiscal year ended June 30, 1989. Local taxes were based on data for the 1988 calendar year. In this study, income taxes are based on the 1993 tax year, other state taxes on the fiscal year ended June 30, 1994, and local taxes on the 1993 calendar year.

CHAPTER 1
STATE AND LOCAL TAX STRUCTURE OVER TIME

In this chapter, the changes in Colorado's state and local tax structure and collections will be examined. The chapter will review changes in tax laws affecting state and local taxes as well as economic factors impacting tax collections.

Changes in Colorado Economy

The Colorado economy in 1994, the year covered by this study, was markedly stronger than in recent CTPS studies. In fiscal year 1989, the year covered by the last study, the state economy was beginning to emerge from the regional recession of the middle and late 1980s. By 1994, the recovery was well underway and the state economy was into the boom of the early and middle 1990s. Between 1989 and 1994, Colorado employers added 264,000 jobs, the largest five-year job gain since 1981. By contrast, the 1985 to 1989 period saw only 64,000 new jobs. By 1990, more people were moving into Colorado than moving out. This reversed the trend of the previous several years. The five years ending in 1994 showed a Colorado population gain of 371,000 compared to 71,000 in the previous four years. Personal income also grew faster as shown in Table 1 below. With a higher level of personal income, a larger population, and increased confidence in the strong economy, spending increased dramatically.

TABLE 1: Colorado Economic Indicators
Calendar Years 1985 to 1994

	Change 1985-89	Change 1989-94
Jobs (000)	64	264
Population (000)	71	371
Personal Income	23%	40%
Retail Stores Sales	7%	47%

The changed economic climate affected the tax burdens reported in this study. With fast income and population growth, tax receipts also increased. In particular, sales and income tax revenues increased. Property values also increased, but the impact on property taxes was moderated by legislation affecting assessments and levies and by increased state contributions to schools. A stronger economy also resulted in the movement of households into higher income classes. In 1989, 7.7 percent of Colorado households received less than $5,000 in income. In 1994, only 6.3 percent of Colorado households received less than $5,000 in Adjusted Family Money Income.

Changes in Tax Laws

A number of tax law changes were enacted between 1989 and 1994 which affected state and local tax collections. The more important of these are outlined below:

In 1989 an extraordinary session of the state legislature raised highway user taxes. Motor vehicle registration fees were approximately doubled July 1, 1989. The fee changed from one based on weight to one based on both weight and age of the vehicle. The gasoline excise tax was raised from 18 cents per gallon to 22 cents per gallon on July 1, 1989. The driver's license fee was also increased from $6.50 for a four-year license to $15 for a five-year license. The additional fees were dedicated to highway improvements.

The authority for counties to levy a lodging tax was extended. Several counties imposed a lodging tax between 1989 and 1994.

Two new sales taxes were imposed in Metro Denver. The Scientific and Cultural Facilities District sales tax of 0.1 percent was enacted, effective January 1, 1989 and the Metropolitan Major League Baseball Stadium District sales tax of 0.1 percent went into effect in August 1991.

Several small changes were made in business taxes or fees. The Colorado Wine Act imposed a 1 cent per liter tax on wine effective July 1, 1990. An underground storage tank fee was imposed on fuel shipments effective July 1, 1989. An emergency medical services registration fee was levied on intrastate and Colorado-based IRP vehicles. A $2.00 surcharge on automobile air conditioning was enacted July 1, 1993.

Two important changes affected the Colorado income tax. The individual income tax base was changed. In tax year 1992, the federal deduction for state income tax was added to Colorado taxable income. The corporate income tax rate on taxable income over $50,000 was reduced from 5.5 percent in 1989 to 5 percent in 1993. Two changes in the Federal income tax, enacted in 1991 and in 1993, affected Colorado income taxes, as Federal taxable income is the basis

for the Colorado individual income tax. The 1991 act reduced, and in some cases phased out, itemized deductions and personal exemptions for higher income taxpayers and indexed to inflation personal exemptions and the standard deduction for households. Additionally, households were required to list the social security numbers of each child over 1 year old to claim them as dependents. The 1993 legislation, which raised rates on higher incomes, caused some high income taxpayers to report income in calendar year 1992 rather than 1993. This reduced 1993 Federal taxable income and, therefore, Colorado income tax for these taxpayers. A U.S. Supreme Court case and subsequent action by the state eliminated an exclusion of the first $2,000 of military retirement pensions from Colorado taxable income for persons under 55.

The Taxpayer Bill of Rights (TABOR) amendment, limiting tax and expenditure increases for both state and local governments became effective December 31, 1992. The amendment applied to local government budgets and taxes for the 1993 calendar year. Changes in the public school finance act affected property tax levies for school districts.

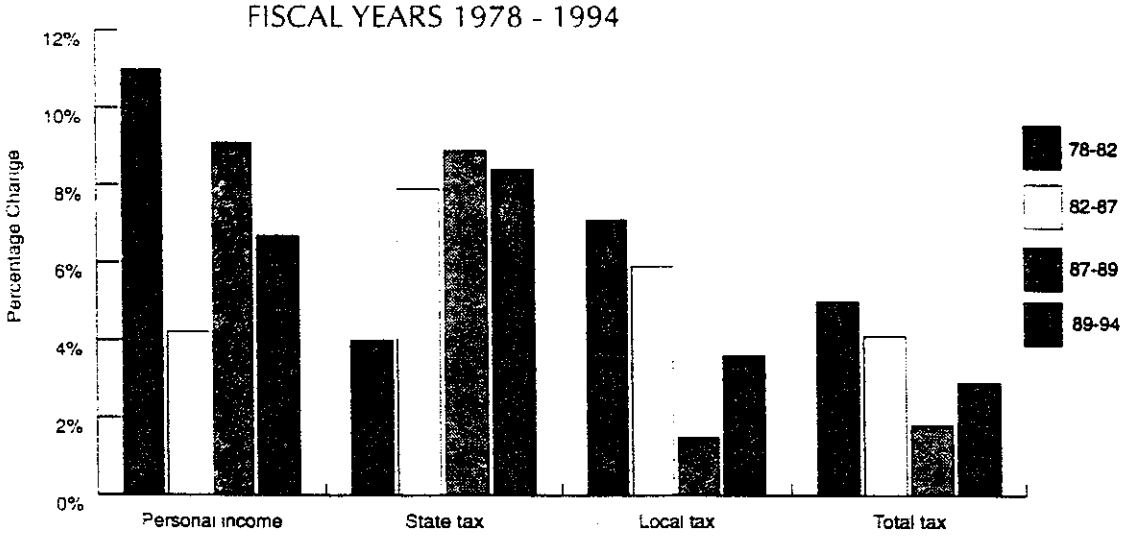
Changes in Tax Collections

Chart 4 and Table 2 track the changes in tax collections from 1978 to 1994. The earlier years' figures are those reported in previous Colorado Tax Profile studies. Table 2 shows reported collections while Chart 4 illustrates changes in per capita income and taxes, which reflect changes in the state's economy, and in state and local tax collections.

Chart 4 shows that the 1978 to 1982 period experienced the fastest gain in per capita personal income as a result of a strong Colorado economy and a high rate of inflation. State taxes grew relatively slowly during this period as large state budget surpluses permitted sizable tax reductions. However, local taxes grew rapidly during this period, with total local government collections rising from $1.1 billion in 1978 to $1.8 billion in 1982. Local sales tax led the growth, with per capita collections increasing at an average annual rate of 15.6 percent. A part of this increase can be explained by increased spending; per capita retail sales increased 10.7 percent per year. In addition, 36 more tax jurisdictions were added during these four years and many municipalities and counties raised their sales tax rates. In 1978, four municipalities levied a 4 percent tax rate; by 1982 this number had risen to 14. Similarly the number of municipalities taxing sales at 3 percent increased from 16 to 34. Over these four years, the number of counties with sales tax rates greater than 1 percent increased from 3 to 12.

The period between 1982 and 1987 saw the largest increase in total per capita state and local taxes of any period examined here, although the rate of increase in personal income waned. Total state and local collections in 1987 amounted to $5.3 billion, up from $3.3 billion in 1982. This period was one of dramatic economic and demographic changes in Colorado. Through 1984, the state experienced the expansive effects of a construction and resources

CHART 4: CHANGES IN COLORADO PER CAPITA INCOME AND TAXES
FISCAL YEARS 1978 - 1994



boom. However, 1985 and 1986 was a period of economic recession, leading to net out-migration of individuals lasting through 1990, although the economy began to show signs of recovery in 1987.

Between 1982 and 1987 income tax collections doubled with per capita collections rising 12.1 percent annually. Continued strength in income tax collections despite slower income growth was due, in part, to strategic choices of individuals in the face of changes in Federal taxes. The Federal Income Tax Reform Act of 1986, which first affected the 1987 tax year, put into place important changes in tax law. The most significant change in this act for Colorado taxpayers was the elimination of the 60 percent capital gains deduction, making most capital gains fully taxable at the same rate as ordinary income. This encouraged taxpayers to realize capital gains in the 1986 tax year (covered by the 1987 Tax Profile Study). Capital gains are not included in personal income. Another factor raising income tax payments during this period was the movement of taxpayers into higher tax brackets. Income tax data show that between tax years 1982 and 1986 the number of returns filed reporting Colorado Adjusted Gross Income (CAGI) over $35,000 increased by 11 percent per year and the taxes paid by this these taxpayers increased 18 percent per year.

Taxes at the local level also rose, propelled by continued proliferation of local government taxing jurisdictions and rising assessed valuation of property. Local governments added 36 new taxing jurisdictions during this period and several raised their sales tax rates. The number of jurisdictions with tax rates over 3 percent increased from 14 to 28 over the five-year period. Between 1982 and 1987 the per capita assessed value of all property in the state rose 14.7 percent per year resulting in a lower but parallel increase in property tax collections.

By 1987, the state economy had begun to show the first signs of recovery. Due to the very slow rate of

TABLE 2: Summary of Resident State and Local Tax Collections Over Time
Fiscal Years 1978, 1982, 1987, 1989 and 1994 (Dollars in Millions)

	1978 Taxes	1982 Taxes	1987 Taxes	1989 Taxes	1994 Taxes
STATE TAXES	Collected	Collected	Collected	Collected	Collected
Sales and Use	$387.5	$584.4	$612.6	$673.4	$983.8
Individual Income	380.9	468.2	930.0	1,135.6	1,661.6
Highway User	141.8	184.1	376.4	358.1	484.1
Corporate Income	87.7	89.5	118.8	163.5	139.2
Cigarette and Liquor	64.2	57.2	78.6	78.4	83.2
All Other	133.7	179.4	313.2	334.7	385.7
TOTAL State Taxes	**$1,195.9**	**$1,562.8**	**$2,429.7**	**$2,743.7**	**$3,737.7**
LOCAL TAXES					
Property	$808.1	$1,202.0	$1,930.2	$2,016.9	$2,256.3
Sales and Use	199.3	394.3	666.2	690.7	1,059.6
Specific Ownership	80.9	103.7	157.6	162.6	187.6
All Other	44.3	75.8	140.0	132.4	152.2
TOTAL Local Taxes	**$1,132.6**	**$1,775.8**	**$2,894.0**	**$3,002.7**	**$3,655.7**
COMBINED STATE AND LOCAL TAXES					
Property	$889.0	$1,305.7	$2,087.8	$2,179.5	$2,256.3
Sales and Use	586.8	978.7	1,278.8	1,364.1	2,043.4
Individual Income	380.9	468.2	930.0	1,135.6	1,661.6
Highway User	141.8	184.1	376.4	358.1	484.1
Corporate Income	87.7	89.5	118.8	163.5	139.2
Cigarette and Liquor	64.2	57.2	78.6	78.4	83.2
All Other	178.0	255.2	453.2	467.1	725.5
TOTAL State-Local	**$2,328.5**	**$3,338.5**	**$5,323.7**	**$5,746.3**	**$7,393.4**

per capita income growth during the 1985 to 1986 recessionary period, growth in per capita income between 1987 and 1989 seemed large in comparison. But tax collections increased only modestly as legislative action curbed the growth in property tax collections, and consumer spending slowed as Colorado residents exercised caution in making new expenditures.

By 1989, the state's economic recovery was well underway. Population growth recovered to pre-recessionary levels by 1991 and, in 1993, reached a fifteen-year peak. Although it appears that per capita income growth slowed somewhat during the 1989 to 1994 period, the growth over this period reflected a stronger economy in comparison to the growth over the 1987 to 1989 period. Per capita income growth from 1989 to 1994 reflected growth from a higher level of income. Between 1989 and 1994, state tax collections grew at a slightly faster rate than personal income, led by gains in sales tax receipts. Rapid population growth and lower interest rates stimulated home building and refinancing of mortgages which, in turn, stimulated consumer spending. State per capita sales tax increased 8.8 percent annually over this period. Per capita collections from sales by home furnishing retailers increased more than 10 percent per year between 1992 and 1994, and collections from building materials retailers grew more than 20 percent in 1993 and 1994. Consumers also increased spending in other areas. Per capita taxes from the automotive category increased more than 8 percent in 1991, 1993 and 1994 and taxes from general merchandise stores grew more than 9 percent per year between 1992 and 1994.

Rising incomes shifted taxpayers into higher income classes. In 1989, 15.4 percent of households were in the over $50,000 CAGI class. By 1994, the share of households in this group had risen to 21.3 percent. Income from sources other than wages showed very strong gains. Per capita pension income increased 7.7 percent annually; Schedule C (Proprietors Income) increased 9.1 percent per year on a per capita basis; and Schedule E (Rental and Royalty Income) increased by a robust annual rate of 69 percent on a per capita basis. Part of the growth in income tax collections over this period can be attributed to the Federal Income Tax Reform Act of 1986 which broadened the taxable income base and Colorado legislation which adopted Federal Taxable Income as the base for determining Colorado income tax liability.

Table 3 shows changes in the distribution of state taxes, local taxes, and the combined state and local tax burden among the different tax sources. The most striking change is the reduced role of property taxes, even though they still are the largest single source of revenues and account for 60 percent of local taxes. Property taxes accounted for 71 percent of all local taxes in 1978 and almost 40 percent of all state and local taxes. By 1989 property taxes had fallen to 67 percent of local taxes and 38 percent of all Colorado taxes. Over the next four years, the prominence of property taxes as a source of revenue diminished. Property taxes, as a share of local taxes in 1994, fell to 60 percent of local taxes and 30 percent of all taxes. While property taxes diminished, local sales taxes accounted for a larger share of the total, rising from 18 percent of all local taxes in 1978 to over 30 percent in 1994. On the other hand, sales taxes dropped as a share of total state revenues between 1978 and 1989, but increased again by 1994. Much of the drop after 1978 was accounted for by changes in the tax base in 1979 when food for off-premises consumption, residential heating and lighting expenses, and machinery and machine tools used in manufacturing were removed from the sales tax base. The state sales tax rate and base have not changed significantly since the 1979 changes. Thereafter, fluctuations in the proportion of state sales tax collections reflect changes in other taxes as well as changing spending patterns over the business cycle. The contribution of the state individual income tax to the revenue base also increased, rising from 32 percent of all state taxes in 1978 to 44.5 percent in 1994. The increase in income tax collections was caused largely by the increase in income from a larger population and by state and federal changes in tax laws in which the income tax base was broadened. Highway user taxes, as a share of all taxes paid, rose only slightly. The share of corporate income taxes fell, reflecting reductions in corporate income tax rates.

TABLE 3: Changing Structure of Resident State and Local Taxes Paid
Fiscal years 1978, 1982, 1987, 1989, and 1994

	Percent Share of 1978 Taxes	Percent Share of 1982 Taxes	Percent Share of 1987 Taxes	Percent Share of 1989 Taxes	Percent Share of 1994 Taxes
STATE TAXES					
Sales and Use	32.4%	37.4%	25.2%	24.5%	26.3%
Individual Income	31.9%	30.0%	38.3%	41.4%	44.5%
Highway User	11.9%	11.8%	15.5%	13.1%	13.0%
Corporate Income	7.3%	5.7%	4.9%	6.0%	3.7%
Cigarette and Liquor	5.4%	3.7%	3.2%	2.9%	2.2%
All Other	11.2%	11.5%	12.9%	12.2%	10.3%
TOTAL State Taxes	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
LOCAL TAXES					
Property	71.3%	67.7%	66.7%	67.2%	61.7%
Sales and Use	17.6%	22.2%	23.0%	23.0%	29.0%
Specific Ownership	7.1%	5.8%	5.4%	5.4%	5.1%
All Other	3.9%	4.3%	4.8%	4.4%	4.2%
TOTAL Local Taxes	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
COMBINED STATE-LOCAL TAXES					
Property	38.2%	39.1%	39.2%	37.9%	30.5%
Sales and Use	25.2%	29.3%	24.0%	23.7%	27.6%
Individual Income	16.4%	14.0%	17.5%	19.8%	22.5%
Highway User	6.1%	5.5%	7.1%	6.2%	6.5%
Corporate Income	3.8%	2.7%	2.2%	2.8%	1.9%
Cigarette and Liquor	2.8%	1.7%	1.5%	1.4%	1.1%
All Other	7.6%	7.6%	8.5%	8.1%	9.8%
TOTAL State-Local	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

CHAPTER II

THE OVERALL STATE-LOCAL TAX BURDEN

The focus of this study is the tax burden upon Colorado citizens. In this chapter, estimates of the total amount of this burden will be examined. The allocation of the burden between direct taxes, those which are paid by individuals, and indirect taxes, those initially levied upon businesses but ultimately borne by consumers, workers, or business owners will also be analyzed. In the next chapter, the allocation of the direct and indirect tax burden among households with different income levels will be addressed.

Taxes and the Tax Burden

Taxes, for purposes of this study, are funds collected by Colorado's state or local governments from individuals or businesses. Charges by government entities for services, such as tuition at state colleges or universities or charges to riders of local transit systems, are excluded. However, licenses and fees for activities such as those for drivers licenses or liquor licenses are included.

Taxes are levied on individuals and businesses. Taxes are paid directly to governments or, in the case of sales taxes or income tax withholding, to sellers or employers who in turn remit the taxes they have collected to the government. The purpose of taxation is to provide government with the resources needed to provide public goods and services. These are resources which would otherwise be available to private citizens, including resources used by businesses to meet customer needs. The burden of taxation falls on those whose resources are reduced because of the tax. This is called the "incidence" of taxation. Since businesses are intermediaries between suppliers of the factors of production such as labor and capital and consumers who purchase final products or services, it is the consumers and the suppliers of resources who bear the burden of taxes levied on businesses, or upon whom the incidence falls. To determine the incidence of taxes levied on businesses, it is necessary to make some assumptions based on economic theory to describe how businesses shift their taxes, either forward to consumers, by raising prices, or backward to workers or suppliers of capital, by reducing wages or profits and dividends.

In this study, the following assumptions are made concerning the shifting of business taxes. These are consistent with accepted public finance theory. Taxes on land, capital goods or materials used by the businesses are shifted to the consumer. Fees paid by business for the privilege of operating such as liquor licenses, are also shifted to the consumer. Taxes on labor, such as unemployment insurance tax, are borne by the worker. Finally, the tax on corporate income is partly shifted to consumers and partly to the stockholders of the corporation.

State Tax Collections, Taxes Paid and Tax Burden

State and local governments receive funds from a number of sources including transfers from the Federal government, charges for services, and taxes. This study focuses upon the tax burden, or that portion of the government revenue which results in a direct or indirect tax upon Colorado residents. This and the following sections explain the derivation of estimates of the tax burden.

State and local governments receive revenues from numerous sources in addition to taxes. The State of Colorado Comprehensive Annual Financial Report for the year ended June 30, 1994 shows that the state received $6.9 billion in revenues.[2] Of this amount, more than $2.5 billion are not attributable to tax collections and are excluded from this study. Among such exclusions are Federal grants and contracts, interest, and charges for goods and services. The remaining $4.4 billion includes taxes, licenses, permits and fines. For this study, some taxes were not included. For example, gaming taxes and pari-mutuel taxes are considered levies on voluntary activities and therefore were excluded. Estate taxes were also excluded on the grounds that they were not borne by living individuals. As a result of the above adjustments, approximately $4.0 billion dollars were received by the state government from all other taxes.[3]

Further adjustments were necessary to arrive at taxes actually paid. The individual income tax was adjusted to reflect the tax liability of full year residents for the 1993 reporting period rather than taxes actually

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[2] Total state government revenue figures will vary depending upon definitions used and source of data. The 1993 ***U.S. Bureau of Census Annual Survey of Government Finances*** reports total state general revenues of $7.8 billion for the year ending June 30, 1993.

[3] This is the amount reported as taxes collected in Table A-1 in the appendix to this study.

collected in calendar year 1993. Individual income taxes are paid through the year in the form of withholding or estimated payments with a final payment or refund when the return is filed. The burden of the individual income tax, for purposes of this study, is the liability reported for the 1993 tax year.[4] Approximately $38 million paid by buyers in state taxes were not remitted to the state but kept by retailers to compensate the vendor for costs of collection. These amounts are known as vendor discounts and are shown in Tables A-1 and A-2. The remainder, just under $4 billion, was paid by individuals and businesses to state government. It is estimated that almost $156 million of this total was paid directly by nonresident individuals. This consisted of sales taxes, highway user taxes, and alcohol and tobacco taxes paid by visitors.

Businesses paid more than $1.1 billion in taxes to the state. Taxes on businesses are ultimately borne by individuals. Approximately $91 million in state business taxes were estimated to have been shifted to individuals living outside the state of Colorado. The total state tax burden on residents for the period covered by this study is estimated at $3.7 billion of which $2.7 billion was paid directly by residents and the remainder consisted of taxes levied on businesses.

Local Tax Collections, Taxes Paid and Tax Burden

Total general revenues for all local governments in Colorado for calendar year 1993 were almost $9 billion.[5] Of this amount $2.5 billion were intergovernmental transfers from the state or federal government and another $2.5 billion were charges for such items as government owned utilities or earnings from interest or sales of property. Total local taxes collected for the 1993 calendar year are estimated at just under $4 billion.[6] This figure includes taxes paid to counties, municipalities, school districts, and special districts. Special districts, as the term is used here, includes local improvement and service districts which levy property taxes as well as such entities as the Regional Transportation District, which levy sales taxes. After adjusting for vendors discounts and property tax credits the total taxes paid to all local governments is approximately $4 billion. Of this amount, $122 million was paid directly by nonresidents. Local taxes paid by businesses amounted to just under $2 billion of which almost $218 million[7] was shifted to nonresidents. Residents directly paid $1.9 billion in local direct taxes. Total resident local taxes amounted to $3.7 billion with the total state and local resident tax burden amounting to just under $7.4 billion.

Distribution of Tax Burden, Direct and Indirect Taxes

In this section the distribution of the tax burden between direct and indirect taxes and between residents and nonresidents is examined. The total state and local tax burden on residents is estimated to be $7.4 billion. Another $586 million is paid, directly or indirectly, by nonresidents. Chart 5 shows the distribution of the $8.0 billion in tax collections by the type of taxpayer upon whom the tax is levied. Resident individuals directly paid $4.6 billion and nonresident individuals paid $277 million. These direct taxes included the state individual income tax, individuals' share of state and local sales taxes, excise taxes, and residential property tax. The remaining $3.1 billion were levied on businesses.

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[4] These are full year resident returns reporting income received during the 1993 calendar year.

[5] Local governments in Colorado report revenues on a calendar year basis while the state government reports on a fiscal year basis with the year ending June 30. Thus the tax burden described in this study covers two overlapping but different 12-month periods. Local government collections were derived from the 1993 Local Government Financial Compendium (county and municipal taxes except property taxes), the 1992 Report of the Colorado Division of Property Taxation (property taxes going to all levels of local government), and the 1994 Annual Report of the Colorado Department of Revenue (sales taxes collected for special districts).

[6] This is amount reported as taxes collected in Table A-1 in the appendix to this study.

[7] The largest contributor to indirect local taxes shifted to non-residents was the non-residential property tax.

Chart 5 shows the impact of Colorado taxes. The largest tax burden falls directly on residents. Non-residents paid four percent of taxes directly while the remaining 38 percent of the tax impact was paid by businesses.

CHART 5: DISTRIBUTION OF STATE AND LOCAL TAXES PAID

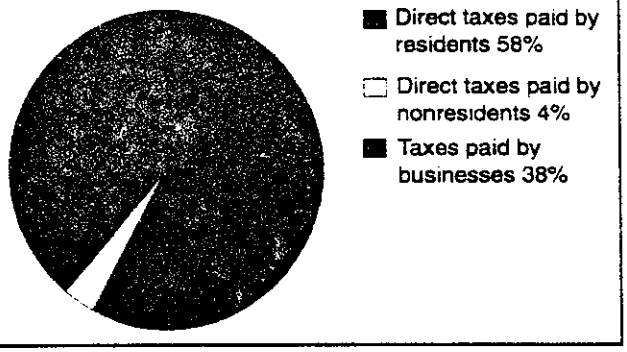
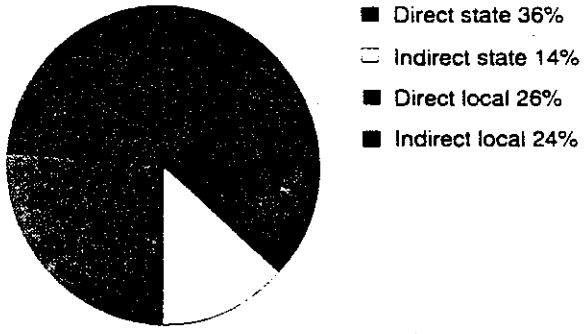


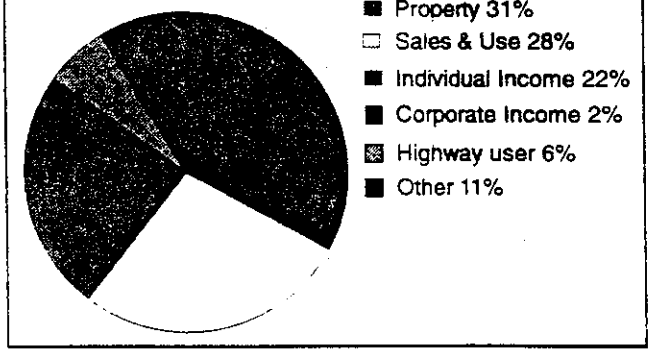
Chart 6 shows the distribution of the $7.4 billion of direct and indirect taxes paid by residents. Local taxes were divided almost evenly between direct and indirect taxation while over 70 percent of state taxes were directly levied on residents. The higher proportion of direct taxes in state government is accounted for by heavy reliance on the individual income tax. Local governments depend more on sales and property taxes, a significant proportion of which are levied on businesses.

CHART 6: TAX BURDEN BY TYPE AND LEVEL OF GOVERNMENT



State government in Colorado is heavily reliant on the individual income tax for revenues while local governments are more dependent on sales and property taxes. Chart 7 shows the distribution of the $7.4 billion 1994 tax burden by type of tax. The largest single source of revenue among state and local governments is the property tax which accounted for roughly one-third of total taxes. Property taxes include levies by county treasurers on real and personal property along with the specific ownership tax on automobiles. The property tax contributes to Colorado's relatively high amount of local taxation. Compared to other states, Colorado collects a relatively low amount of state tax revenues, but a relatively high amount of local tax revenues. Sales and use taxes, both state and local, make up 28 percent of the total tax burden while individual income taxes comprise 22 percent of the total. Highway user taxes, including excise taxes on fuels and drivers license and auto registration fees were 6 percent of the total. State corporate income taxes in 1994 were less than $150 million or 2 percent of the tax burden on Coloradans. Other taxes, which included a variety of taxes and fees on businesses made up 11 percent of the total.

CHART 7: RESIDENT TAX BURDEN BY TYPE OF TAX
FISCAL YEAR 1994



The next set of tables and charts shows the breakdown of the tax burden in greater detail. Table 4, and Charts 8, 9 and 10 show the distribution of Colorado's state and local tax burden between direct taxes on households and indirect taxes. In addition Table 4 also shows the indirect taxes on nonresidents. Individual income taxes make up the largest share of direct taxes on households, amounting to 36 percent of all direct taxes paid. Sales and property taxes are the two other large items in this group. Among indirect taxes, property and sales taxes are the largest sources of revenues.

TABLE 4: Distribution of State and Local Taxes Between Businesses and Households
Fiscal Year 1994 (Dollars in Millions)

	Total Resident Taxes	Percent of Sub-group Total	State Taxes	Percent of State Taxes	Local Taxes	Percent of Local Taxes	Percent Resident Total
DIRECT TAXES ON HOUSEHOLDS							
Property (Residential & Specific Ownership)	$1,224.3	26.4%	—	—	$1,224.3	63.7%	16.5%
Sales and Use	$1,299.8	28.0%	$625.8	23.0%	$674.0	35.1%	17.6%
Individual Income	$1,661.6	35.8%	$1,661.6	61.2%	—	—	22.5%
Highway User	$345.0	7.4%	$345.0	12.7%	—	—	4.7%
Other Business Taxes (Occupation Tax)	$23.5	0.5%	—	—	$23.5	1.2%	0.3%
Cigarette and Liquor	$83.2	1.8%	$83.2	3.1%	—	—	1.1%
Total Direct Taxes	**$4,637.4**	**100.0%**	**$2,715.6**	**100.0%**	**$1,921.8**	**100.0%**	**62.7%**
INDIRECT TAXES ON HOUSEHOLDS							
Non-Residential Property	$1,162.8	42.2%	—	—	$1,162.8	67.1%	15.7%
Specific Ownership	$56.8	2.1%	—	—	$56.8	3.3%	0.8%
Sales and Use	$743.7	27.0%	$358.1	35.0%	$385.6	22.2%	10.0%
Corporate Income	$139.2	5.0%	$139.2	13.6%	—	—	1.9%
Highway User	$139.2	5.0%	$139.2	13.6%	—	—	1.9%
Other Business Taxes	$514.3	18.7%	$385.7	37.7%	$128.6	7.4%	7.0%
Total Indirect Taxes	**$2,756.0**	**100.0%**	**$1,022.1**	**100.0%**	**$1,733.9**	**100.0%**	**37.3%**
Total Resident Taxes	**$7,393.4**		**$3,737.7**		**$3,655.7**		**100.0%**
INDIRECT TAXES ON NON-RESIDENTS							
Non-Residential Property	$140.9	45.6%	—	—	$140.9	64.6%	
Specific Ownership	$7.9	2.6%	—	—	$8.0	3.6%	
Sales and Use	$104.1	33.7%	$50.1	55.2%	$54.0	24.8%	
Corporate Income	$9.1	2.9%	$9.1	10.0%	—	—	
Highway User	$19.5	6.3%	$19.5	21.5%	—	—	
Other Business Taxes	$27.3	8.8%	$12.0	13.2%	$15.3	7.0%	
TOTAL INDIRECT TAXES	**$308.8**	**100.0%**	**$90.6**	**100.0%**	**$218.1**	**100.0%**	

Chart 8 shows the distribution of the state and local tax burden between direct and indirect taxes for different categories of taxation. The property tax burden is distributed almost evenly between direct and indirect taxes. This means that property taxes levied on households and business are almost the same. About two-thirds of sales and use taxes as well as highway user taxes are initially levied on households. More than 90 percent of the impact of income taxes is on households.

Chart 8 shows only direct cigarette and liquor taxes because there are no indirect cigarette and liquor taxes. Charts 9 and 10 show the composition of the direct and indirect tax burden. At 36 percent, income tax makes up the largest share of direct taxes while property taxes dominate the indirect tax burden making 44 percent of the total. Property es an sales and use taxes are also significant contributor to the direct tax burden. Sales and use taxes paid b businesses make up a significant share of the indirec tax burden.

Property tax is clearly the largest tax on businesses a 44 percent, although sales and use is also a larg category. Chart 10 also shows that payroll and othe miscellaneous taxes account for 19 percent of indirec taxes on residents. Individually all of thes miscellaneous taxes are small, but collectively thes small business taxes account for a significant po of the indirect tax burden.

CHART 8: RESIDENT DIRECT AND INDIRECT STATE AND LOCAL TAX BURDEN
FISCAL YEAR 1994

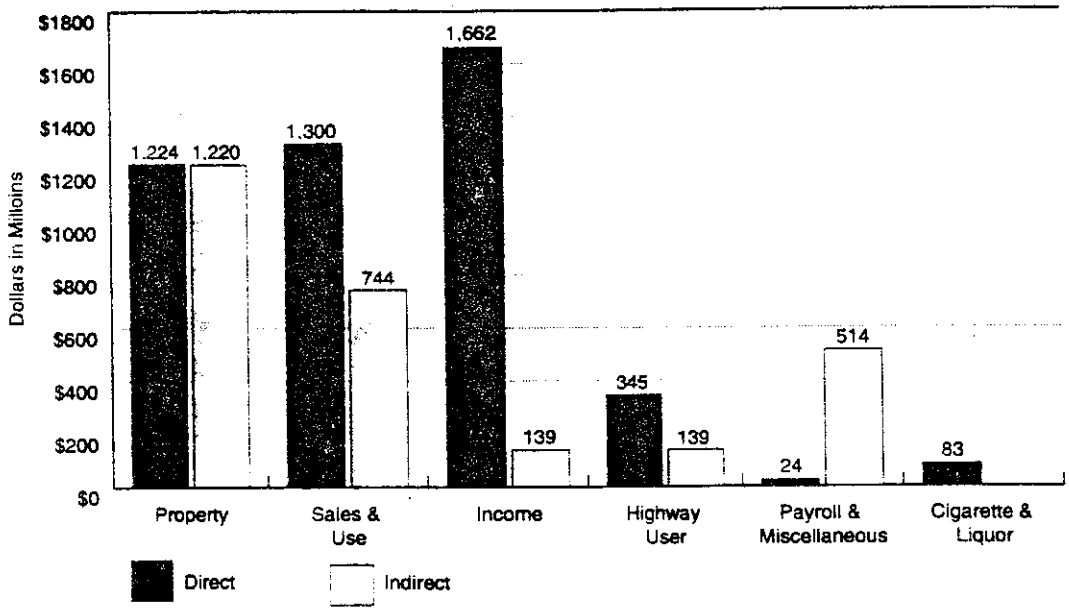


CHART 9: COMPOSITION OF DIRECT TAXES ON RESIDENTS
FISCAL YEAR 1994

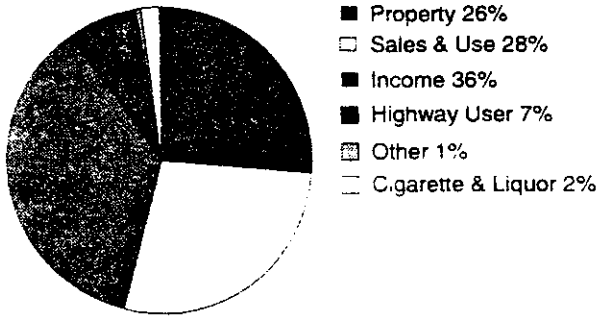
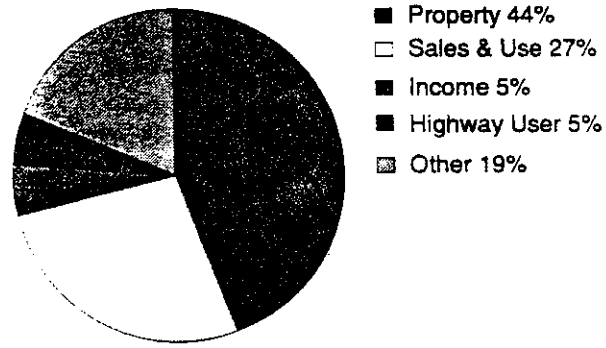


CHART 10: COMPOSITION OF INDIRECT TAXES ON RESIDENTS
FISCAL YEAR 1994



CHAPTER III

PROFILE OF TAX BURDEN BY INCOME CLASS

This chapter covers the distribution of the state and local tax burden on Colorado residents by income. It examines the amount of taxes paid by each income class. Income classes range from households that receive under $5,000 of annual income to households that receive over $70,000 of annual income. The income concept this chapter is based on is Adjusted Family Money Income. This income concept is broadly based. It includes income earned from wages and profits of businesses, persons, and farmers along with earnings from savings or investments such as dividends, rent or interest. Capital gains from the sales of assets are also included. Transfer payments (such as public assistance with the exception of in-kind services such as public housing), pension and retirement income, and alimony are also included in Adjusted Family Money Income.[8]

The earning, spending and tax paying unit analyzed in this study is the household, which consists of all persons who occupy a house, an apartment or other housing unit. Households include families along with groups of one or more unrelated individuals.[9]

Distribution of Income

Chart 11 shows the cumulative distribution of incomes and households in Colorado. The points on the curved line show the share of households (the horizontal axis) receiving a given share of income (the vertical axis). For example, 16 percent of the households with lowest incomes received 2.4 percent of all income. The straight line connecting the corners of the chart represents an equal distribution of income. If the two lines coincided, then 40 percent of the households would have received 40 percent of the income. The further apart the two lines, the greater the inequality of income. The chart shows that 13 percent of the households in the highest income group receive 37 percent of the income. In other words, higher income households receive a larger proportionate share of income than lower income households. However, it should be kept in mind that these figures tend to overstate the extent of income inequality, as the lower income groups contain a disproportionate share of one and two-person households. The 1990 Census of Population shows that in Colorado 57 percent of households in the under $5,000 income group were not families (therefore, they were mostly one or two person households). In contrast, a mere 13 percent of households in the $50,000 to $75,000 income group were not families.

CHART 11: DISTRIBUTION OF COLORADO HOUSEHOLDS AND INCOME
FISCAL YEAR 1994

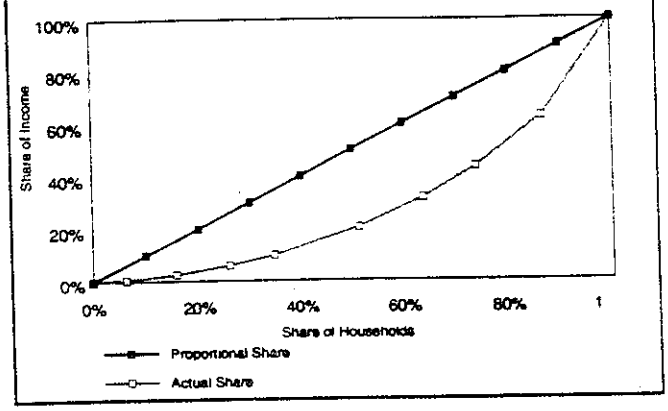


Table 5 shows the distribution of income among Colorado households, presenting in greater detail the information depicted in Chart 11. The second line in Table 5 shows the percent of households in Colorado in each income class while the bottom line shows the percent of total Colorado Adjusted Family Money Income received by households in this group. For example, the income group with incomes over $40,000 but under $50,000, contains 10.1 percent of the households and 11.8 percent of income. The $20,000 to $29,000 income class contains the largest number of households of any of the income classes. The 264,000 households that make up the $20,000 to $29,000 income class earn 10.4 percent of Colorado income and have an average income of

[8] This measure differs from adjusted gross income reported on income tax returns, in that it includes nontaxable sources such as retirement income and public assistance. (Adjusted gross income was used to measure income in CTPS studies prior to 1989.) It differs from the adjusted broad income concept used in tax profile studies prior to 1989 by including child support payments. Adjusted family income is described in more detail in the appendix to this report.

[9] The household concept is described in greater detail in the appendix to this report.

TABLE 5: Distribution of Families and Aggregate Income Among Income Classes
Fiscal Year 1994 (Dollars in Thousands)

	LESS THAN $5,000	$5,000 TO $9,999	$10,000 TO $14,999	$15,000 TO $19,999	$20,000 TO $29,999	$30,000 TO $39,999	$40,000 TO $49,999	$50,000 TO $69,999	$70,000 AND OVER	TOTAL
NUMBER OF FAMILIES	99,568	150,733	163,233	140,384	264,147	200,347	161,232	201,660	211,637	1,592,940
PERCENT OF FAMILIES IN COLORADO	6.3%	9.5%	10.2%	8.8%	16.6%	12.6%	10.1%	12.7%	13.3%	100%
ADJUSTED FAMILY MONEY INCOME	$343,878	$1,201,652	$2,131,652	$2,491,588	$6,521,921	$7,075,784	$7,384,629	$12,062,399	$23,415,393	$62,628,896
PERCENT OF COLORADO FAMILY INCOME	0.5%	1.9%	3.4%	4.0%	10.4%	11.3%	11.8%	19.3%	37.4%	100%

$24,690. The under $5,000 income class contains the fewest number of households at 99,588 and comprises a mere 0.5 percent of Colorado Adjusted Family Money Income. The highest income class, $70,000 and over, earns an average of $110,639 and accounts for 37.4 percent of all Colorado Adjusted Family Money Income.

Distribution of Tax Burden

While Table 5 and Chart 11 show the different income classes and the income they received, Table 6 shows the amount of taxes paid by households in the different income classes. Table 6 is the most detailed table in the 1994 Colorado Tax Profile Study. It shows each of the major taxes and is divided into state and local taxes as well as direct and indirect taxes. The far right column represents the total tax burden on Colorado residents for each tax, while the bottom row shows the total taxes paid by households in each income class.

The bulk of taxes are paid by households in the middle and upper income groups. The three highest income groups combined, with incomes over $40,000, pay $4.6 billion of the $7.4 billion total tax burden on Colorado resident households. The three lowest income groups, with incomes below $15,000 pay less than $700 million. As will be discussed below, the higher income groups receive even a larger share of income. Among the higher income groups, the individual income tax is the largest single tax paid. Sales and use taxes make up the bulk of the tax burden for households in the lower income groups.

Indirect taxes make up a larger share of the tax burden for households in the lower income groups. Total indirect taxes account for 43 percent of the total tax burden on households with incomes below $15,000. For households in the top three Adjusted Money Income Classes, total indirect taxes account for 35 percent of the total burden. For households with incomes over $70,000, the direct tax burden is almost twice the indirect tax burden. This is because indirect taxes are, for the most part, borne in proportion to consumption which increases at a slower rate as income increases.

The Equity of Colorado's Tax System

The concept of tax equity refers to the distribution of the tax burden among different groups of taxpayers. Society's tax equity decisions reflect values regarding who should pay for government services. For example, should government services be paid for by those who use the service in question? Should government be financed based on ability to pay? In the following sections the distribution of tax burden among taxpayers with different incomes, or vertical equity, will be examined. Discussions of vertical equity relate tax burden to ability to pay. Progressivity refers to the extent to which tax burdens are shifted toward higher incomes.[10] A proportional tax burden is one in which taxpayers with different income levels pay the same share of income in taxes. In a progressive tax system, higher income taxpayers pay a larger share of their income while in a regressive one, the share of income paid in taxes declines with increasing income.

[10] See "Important Terms and Distinctions" in the appendix to this report.

TABLE 6: Distribution of Major State and Local Taxes by Adjusted Family Money Income Classes

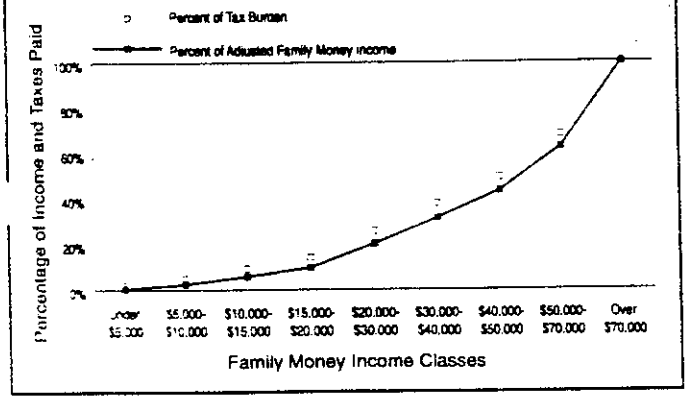
Fiscal Year 1994 (Dollars in Thousands)

	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 to $49,999	$50,000 to $69,999	$70,000 and over	Total
Number of Families	99,568	150,733	163,233	140,384	264,147	200,347	161,232	201,660	211,637	1,592,941
Adjusted Family Money Income	$343,878	$1,201,652	$2,131,652	$2,491,588	$6,521 [illegible]1	$7,075,784	$7,384,629	$12,062,399	$23,415,393	$62,628,896
DIRECT TAXES ON HOUSEHOLDS										
STATE TAXES										
Individual Income	$2,557	$10,070	$32,871	$54,299	$151,709	$178,820	$171,656	$321,744	$737,924	$1,661,649
Sales and Use	19,617	22,482	31,605	32,920	72,523	79,561	75,245	112,467	179,357	625,777
Highway User										
Gas, MTBE, Gasohol	8,267	10,915	16,858	17,677	44,938	37,376	34,874	46,954	60,563	8,422
Licenses and Registrations	1,484	2,100	3,675	4,354	9,892	9,123	7,590	11,895	16,418	66,531
Alcoholic Beverage (excise)	970	916	1,194	1,228	2,903	2,758	3,182	4,382	6,995	24,528
Cigarette and Tobacco	2,505	4,118	4,837	4,562	11,341	8,665	7,070	8,317	7,294	58,709
Total Direct State Taxes	$35,400	$50,601	$91,039	$115,040	$293,306	$316,303	$299,618	$505,760	$1,008,552	$2,715,617
LOCAL TAXES										
Residential Property	$26,821	$40,026	$56,642	$64,456	$116,478	$121,120	$125,847	$217,709	$324,377	$1,093,476
Sales and Use	21,128	24,214	34,039	35,456	78,109	85,689	81,041	121,130	193,172	673,977
Specific Ownership	3,002	4,065	5,436	[illegible]	14,500	19,610	15,143	24,406	36,680	130,821
Occupation	198	876	1,433	[illegible]	3,592	3,450	3,153	4,350	4,972	23,534
Total Direct Local Taxes	$51,148	$69,181	$97,550	$109,400	$212,679	$229,869	$225,183	$367,595	$559,202	$1,921,809
Total Direct Taxes on Households	$86,548	$119,783	$188,590	$224,441	$505,984	$546,172	$524,801	$873,355	$1,567,753	$4,6[illegible]6
INDIRECT TAXES ON HOUSEHOLDS										
STATE TAXES										
Corporate Income	$1,620	$2,786	$5,086	$5,245	$14,210	$15,071	$14,237	$31,107	$49,824	$139,184
Sales and Use	8,906	14,102	19,712	19,964	45,367	43,888	42,636	63,060	100,421	358,056
Highway User	3,461	5,480	7,660	7,759	17,631	17,056	16,570	24,507	39,026	139,149
Unemployment Insurance	878	3,893	10,218	10,899	29,099	31,637	29,515	40,610	47,731	204,480
Other Business Taxes	4,272	5,858	10,127	10,316	24,610	23,316	21,832	32,318	48,567	181,218
Total Indirect State Taxes	$19,137	$32,119	$52,803	$54,183	$130,918	$130,968	$124,790	$191,602	$285,569	$1,022,088
LOCAL TAXES										
Non-Residential Property	$25,050	$40,130	$58,597	$59,546	$140,132	$138,344	$133,550	$218,643	$348,782	$1,162,775
Vacant Land	4	470	3,162	3,400	12,544	14,918	13,642	41,296	66,365	155,801
Other	25,046	39,660	55,435	56,146	127,588	123,426	119,908	177,347	282,417	1,006,974
Sales and Use	9,592	15,188	21,230	21,502	48,862	47,268	45,921	67,918	108,156	385,635
Occupation (Employer Share)	162	717	1,173	1,236	2,939	2,823	2,579	3,559	4,068	19,256
Other Business Taxes	2,721	4,308	6,022	6,[illegible]9	13,860	13,407	13,025	19,265	30,678	109,385
Specific Ownership	1,413	238	3,128	3,168	7,199	6,964	6,766	10,006	15,935	56,816
Total Indirect Local Taxes	$38,938	$62,581	$90,150	$91,551	$212,991	$208,807	$201,840	$319,390	$507,[illegible]	$1,733,868
Total Indirect Taxes on Households	$58,075	$94,700	$142,953	$145,734	$343,909	$339,775	$326,631	$510,993	$793,188	$2,755,956
TOTAL TAXES ON HOUSEHOLDS	**$144,623**	**$214,483**	**$331,542**	**$370,174**	**$849,893**	**$885,946**	**$851,432**	**$1,384,348**	**$2,360,9[illegible]**	**$7,393,381**

Chart 12 measures the progressivity of Colorado's state and local tax system. The solid line shows the cumulative percentage of income received by taxpayers with Adjusted Family Money Incomes represented on the horizontal axis. For example, households with Adjusted Family Money Incomes below $30,000 received a little more than 20 percent of income. The dotted line is a similar measure of cumulative share of taxes. Households with incomes below $30,000 paid more than 25 percent of taxes. If the tax burden were exactly proportional, then the two lines would coincide. If the tax burden is below and to the right of the income line, taxes are progressive. If, as is the case in Chart 12, the tax line is above and to the left of the income line then the overall tax burden is somewhat regressive. In other words, lower income taxpayers, on average, pay a somewhat higher share of their income in state and local taxes than do higher income taxpayers.

CHART 12: CUMULATIVE PERCENT OF INCOME AND TAXES PAID BY RESIDENTS

Fiscal Year 1994



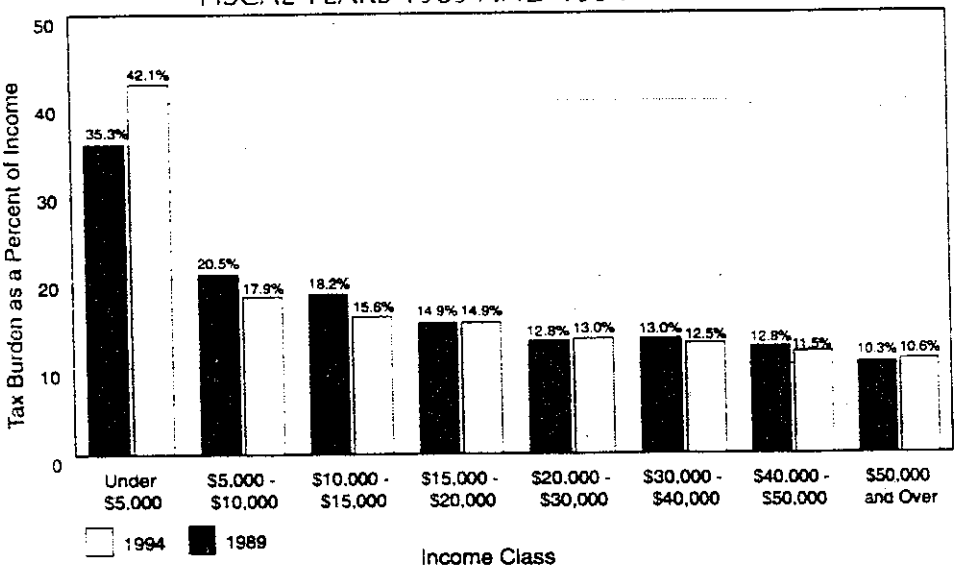
Comparisons with the previous CTPS suggest that Colorado's state and local tax burden may have shifted slightly in the direction of higher income taxpayers. Chart 13 shows the total tax burden, direct and indirect, as a percentage of AFMI for different income groups in 1989 and in 1994. The 1994 study shows a higher tax burden for the lowest income group. However, the tax burden has fallen for all income groups between $5,000 and $50,000 with the exception of a slight increase for the $20,000 to $30,000 group. Taxes as a share of income rose slightly for those earning more than $50,000 per year.

The increased tax burden as a percent of income for the under $5,000 group is misleading. A small change in either taxes paid or Adjusted Family Money Income causes a seemingly large change in taxes paid as a percentage of income. Also it is important to keep in mind that this income group includes retired people who pay a large amount of taxes relative to their income because their incomes are small and their expenditures and the value of their property are relatively high.

The vertical equity of Colorado's tax system is, to a great extent, determined by three taxes: the individual income tax, the sales and use tax, and the property tax. These three taxes accounted for 55 percent of the total tax burden and 87 percent of direct taxes.

CHART 13: TOTAL TAX BURDEN AS A PERCENT OF INCOME

FISCAL YEARS 1989 AND 1994



The individual income tax is progressive while the sales and use and the property tax are somewhat regressive. The regressivity of sales and property taxes reflects family consumption patterns. While spending on goods in the sales tax base rises as incomes increase, it does so more slowly than income. The value of a family's residence, similarly falls in proportion to income. Changes in the progressivity of Colorado's state and local tax system result from shifts among these three tax sources. For example, if state policymakers chose to finance property tax relief with funds raised through the individual income tax, the overall tax burden would shift toward higher income households.

Table 7 shows the percentage of the total tax burden paid by residents in each income class. Comparing the percentage of taxes paid to the percentage of income earned shows that households in each income class earning less than $40,000 pay a higher percentage of total state and local taxes tha[illegible]e percentage of income that they earn. Each income class earning more than $40,000 pays a lower percentage of the total taxes than their percentage of income. Among the largest tax sources (individual income, sales and use, and property), the largest share is paid by the highest income group. Households in the $50,000 to $70,000 income group pay 19.4 percent of individual income taxes, which is 0.1 percent higher than their share of income while households in the over $70,000 group who receive 37 percent of total Adjusted Family Money Income pay 44 percent of individual income tax. With the

TABLE 7: Proportion of State and Local Taxes Paid by Residents by Adjusted Family Money Income Classes
Fiscal Year 1994

	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 to $49,999	$50,000 to $69,999	$70,000 and over	Total
Number of Families	6.3%	9.5%	10.2%	8.8%	16.6%	12.6%	10.1%	12.7%	13.3%	100.0%
Family Income	0.5%	1.9%	3.4%	4.0%	10.4%	11.3%	11.8%	19.3%	37.4%	1[illegible]
DIRECT TAXES ON HOUSEHOLDS										
State Taxes										
Individual Income	0.2%	0.6%	2.0%	3.3%	9.1%	10.8%	10.3%	19.4%	44.4%	100.0%
Sales and Use	3.1%	3.6%	5.1%	5.3%	11.6%	12.7%	12.0%	18.0%	28.7%	100.0%
Highway User	2.8%	3.8%	6.0%	6.4%	13.9%	13.5%	12.3%	17.1%	22.3%	100.0%
Alcoholic Beverages	4.0%	3.7%	4.9%	5.0%	11.8%	11.2%	13.0%	17.9%	28.5%	100.0%
Cigarette and Tobacco	4.3%	7.0%	8.2%	7.6%	19.3%	14.8%	12.0%	14.2%	12.4%	100.0%
TOTAL Direct State Taxes	1.3%	1.9%	3.4%	4.2%	10.8%	11.6%	11.0%	18.6%	37.1%	100.0%
Local Taxes										
Residential Property	2.5%	3.7%	5.2%	5.9%	10.7%	11.1%	11.5%	19.9%	29.7%	100.0%
Sales and Use	3.1%	3.6%	5.1%	5.3%	11.6%	12.7%	12.0%	18.0%	28.7%	100.0%
Specific Ownership	2.3%	3.1%	4.2%	6.1%	11.1%	15.0%	11.6%	18.7%	28.0%	100.0%
Occupation	0.8%	3.7%	6.1%	6.4%	13.3%	14.7%	13.4%	18.5%	21.1%	100.0%
TOTAL Direct Local Taxes	2.7%	3.6%	5.1%	5.7%	11.1%	12.0%	11.7%	19.1%	29.1%	100.0%
TOTAL DIRECT TAXES	**1.9%**	**2.6%**	**4.1%**	**4.8%**	**10.9%**	**11.8%**	**11.3%**	**18.8%**	**33.8%**	**100.0%**
Indirect Taxes										
State Indirect Taxes	1.9%	3.1%	5.2%	5.3%	12.8%	12.8%	12.2%	18.7%	27.9%	100.0%
Local Indirect Taxes	2.2%	3.6%	5.2%	5.3%	12.3%	12.0%	11.6%	18.4%	29.3%	100.0%
TOTAL INDIRECT TAXES	**2.1%**	**3.4%**	**5.2%**	**5.3%**	**12.5%**	**12.3%**	**11.9%**	**18.5%**	**28.8%**	**100.0%**
TOTAL TAXES ON HOUSEHOLDS	**2.0%**	**2.9%**	**4.5%**	**5.0%**	**11.5%**	**12.0%**	**11.5%**	**18.7%**	**31.9%**	**100.0%**

exception of income taxes, households in the lower income groups pay a greater share of taxes than their share of income. All households with incomes under $50,000 pay a larger share of sales and use taxes than their share of income. Households with incomes under $30,000 account for a greater share of residential property taxes than of income.

Table 7 is useful for examining the share of taxes that Colorado income classes of different levels are paying as well as the progressivity or regressivity of these taxes. Local taxes, as a whole, are much more regressive than state taxes. The lowest income group accounts for 0.5 percent of AFMI and pays 1.3 percent of direct state taxes, but pays more than twice as large a proportion of direct local taxes, 2.7 percent. On the other hand, the $70,000 and over group pays 37.1 percent of direct state taxes, or nearly the same as their share of income, compared to 29 percent of direct local taxes. The progressivity of the state individual income tax, 44 percent of which is paid by the $70,000 and over income class, makes state taxes as a whole more progressive than local taxes.

Table 8 presents the distribution of income and direct taxes in greater detail. It compares the percentage of income in each class with that of total direct taxes paid. The last three columns show the ratios of the percent of taxes paid to percent of income for state, local and combined direct taxes. For example, the column labeled "Local Taxes to Income" shows that the under $5,000 income class pays almost five times as large a share of local direct taxes as its share of income. On the other hand, the $70,000 and over income class pays a smaller percentage of taxes than its share of income. For state direct taxes, the share of taxes are roughly equivalent to the share of income for all income groups over $5,000. However, the ratio share of direct local taxes to income drops steadily with rising income. In other words, direct state taxes are proportional to mildly progressive for households receiving more than $5,000 in income, while direct local taxes are regressive throughout the income range. It is also worth noting that for the households in the middle income classes, with incomes between $20,000 to $70,000, the ratio of the percent of combined state and local taxes to the percent of income is close to one. This suggests that the direct tax burden is roughly proportional in the middle income range.

Table 8: Comparison of Income Distribution Among Households
Fiscal Year 1994

	Distribution of Income and Taxes Among Households				Ratio of Pct Distribution of Taxes to Pct Distribution of Income		
Income Classes	Adjusted Family Income	Direct State Taxes	Direct Local Taxes	Total Direct Taxes	State Taxes to Income	Local Taxes to Income	Combined Taxes to Income
Under $5,000	0.55%	1.30%	2.66%	1.87%	2.37	4.85	3.40
$5,000 to $9,999	1.92%	1.86%	3.60%	2.58%	0.97	1.88	1.35
$10,000 to $14,999	3.40%	3.35%	5.08%	4.07%	0.98	1.49	1.19
$15,000 to $19,999	3.98%	4.24%	5.69%	4.84%	1.06	1.43	1.22
$20,000 to $29,999	10.41%	10.80%	11.07%	10.91%	1.04	1.06	1.05
$30,000 to $39,999	11.30%	11.65%	11.96%	11.78%	1.03	1.06	1.04
$40,000 to $49,999	11.79%	11.03%	11.72%	11.32%	0.94	0.99	0.96
$50,000 to $69,999	19.26%	18.62%	19.13%	18.83%	0.97	0.99	0.98
Over $70,000	37.39%	37.14%	29.10%	33.81%	0.99	0.78	0.90
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**			

Another meaningful perspective on how the burden of Colorado taxes affects households can be obtained by looking at the average amount of tax each household pays. Table 9 shows average income and average taxes paid by income class. The average Colorado household received almost $40,000 in income in 1993 and paid almost $3,000 in direct state and local taxes. More than 87 percent of this amount was accounted for by the three largest taxes—individual income, sales, and property taxes. For the average household, more than one-third of the total direct tax burden was paid in individual income tax

TABLE 9: Average State and Local Taxes Paid by Households
Fiscal Year 1994

	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 to $49,999	$50,000 to $69,999	$70,000 and over	Total
Average Adjusted Family Income	$3,454	$7,972	$13,059	$17,748	$24,690	$35,318	$45,801	$59,816	$110,639	$39,317
DIRECT TAXES ON HOUSEHOLDS										
State Taxes										
Individual Income	$26	$67	$201	$387	$574	$893	$1,065	$1,595	$3,487	$1,043
Sales and Use	$197	$149	$194	$235	$275	$397	$467	$558	$847	$393
Highway User										
Gas, MTBE, Gasohol	$83	$72	$103	$126	$170	$187	$216	$233	$286	$175
Licenses and Registrations	$15	$14	$23	$31	$37	$46	$47	$59	$78	$42
Alcoholic Beverages	$10	$6	$7	$9	$11	$14	$20	$22	$33	$15
Cigarette and Tobacco	$25	$27	$30	$32	$43	$43	$44	$41	$34	$37
TOTAL Direct State Taxes	**$356**	**$336**	**$558**	**$819**	**$1,110**	**$1,579**	**$1,858**	**$2,508**	**$4,765**	**$1,705**
Local Taxes										
Residential Property	$269	$266	$347	$459	$441	$605	$781	$1,080	$1,533	$686
Sales and Use	$212	$161	$209	$253	$296	$428	$503	$601	$913	$423
Specific Ownership	$30	$27	$33	$57	$55	$98	$94	$121	$173	$82
Occupation	$2	$6	$9	$11	$14	$17	$20	$22	$23	$15
TOTAL Direct Local Taxes	**$514**	**$459**	**$598**	**$779**	**$805**	**$1,147**	**$1,397**	**$1,823**	**$2,642**	**$1,206**
TOTAL DIRECT TAXES	**$869**	**$795**	**$1,155**	**$1,599**	**$1,916**	**$2,726**	**$3,255**	**$4,331**	**$7,408**	**$2,911**
Indirect Taxes										
State Indirect Taxes	$192	$213	$323	$386	$496	$654	$774	$950	$1,349	$642
Local Indirect Taxes	$391	$415	$552	$652	$806	$1,042	$1,252	$1,584	$2,399	$1,088
TOTAL INDIRECT TAXES	**$583**	**$628**	**$876**	**$1,038**	**$1,302**	**$1,696**	**$2,026**	**$2,534**	**$3,748**	**$1,730**
TOTAL TAXES ON HOUSEHOLDS	**$1,453**	**$1,423**	**$2,031**	**$2,637**	**$3,218**	**$4,422**	**$5,281**	**$6,856**	**$11,156**	

and over $800 was paid in direct sales tax to state and local governments. Nearly $700 was paid in residential property taxes. The average household paid approximately $1,700 in indirect taxes in the form of higher prices or lower wages or dividends. The composition of average taxes paid varied by income. For households in the over $70,000 group, the largest tax burden was the individual income tax which amounted to almost $3,500. Combined state and local sales and use taxes accounted for $1,760 while the residential property tax paid was $1,533. For households in the middle income groups, nearly equal amounts were paid in each of the three largest taxes. Households making $30,000 to $40,000 paid almost $900 in income taxes, $825 in sales and use taxes and $605 in residential property taxes. For households in the lower income groups, the individual income tax was relatively small. Households earning $5,000 to $10,000 paid only $67 in income tax, but over $300 in sales and use taxes and a little less than that in property taxes.

Table 10 measures the progressivity of various stat and local taxes by comparing average taxes paid b the approximately 250,000 households with income below $10,000, with that paid by 211,000 household with incomes over $70,000. The right column in th table shows the ratio of average taxes in the lowes income group to that in the highest income group For example, average income in the lowest group 6 percent of that in the highest group. A tax proportional if the amount paid by the lowest incom group is approximately 6 percent of the highes income group. If the number in the column is greate than 6 percent, then the tax is regressive while a figur less than 6 percent indicates a progressive tax. B this measure, the individual income tax is quit progressive while state direct taxes, as a whole, ar approximately proportional. Residential property taxe and sales and use tax are somewhat regressive Indirect taxes, assumed to be shifted to household through consumption, are also somewhat regressive Excise taxes, especially the cigarette and tobacc are highly regressive.

TABLE 10: Average Income and Taxes Paid by Residents in the Lowest and Highest Income Classes
Fiscal Year 1994

	Income Classes		Lowest Income Class as a Percent of the Highest Class
	Under $10,000	Over $70,000	
Number of Families	250,301	211,637	118%
Average Adjusted Family Money Income	$6,175	$110,639	6%
DIRECT TAXES ON HOUSEHOLDS			
State Taxes			
Individual Income	$50	$3,487	1%
Sales and Use	$168	$847	20%
Highway User			
Gas, MTBE, Gasohol	$77	$286	27%
Licenses and Registrations	$14	$78	18%
Alcoholic Beverages	$8	$33	23%
Cigarette and Tobacco	$26	$34	77%
TOTAL DIRECT STATE TAXES	**$344**	**$4,765**	**7%**
Local Taxes			
Residential Property	$267	$1,533	17%
Sales and Use	$181	$913	20%
Specific Ownership	$28	$173	16%
Occupation	$4	$23	18%
TOTAL Direct Local Taxes	**$481**	**$2,642**	**18%**
TOTAL DIRECT TAXES	**$824**	**$7,408**	**11%**
Indirect Taxes			
State Indirect Taxes	$205	$1,349	15%
Local Indirect Taxes	$406	$2,399	17%
TOTAL INDIRECT TAXES	**$610**	**$3,748**	**16%**
TOTAL TAXES ON HOUSEHOLDS	**$1,435**	**$11,156**	**13%**

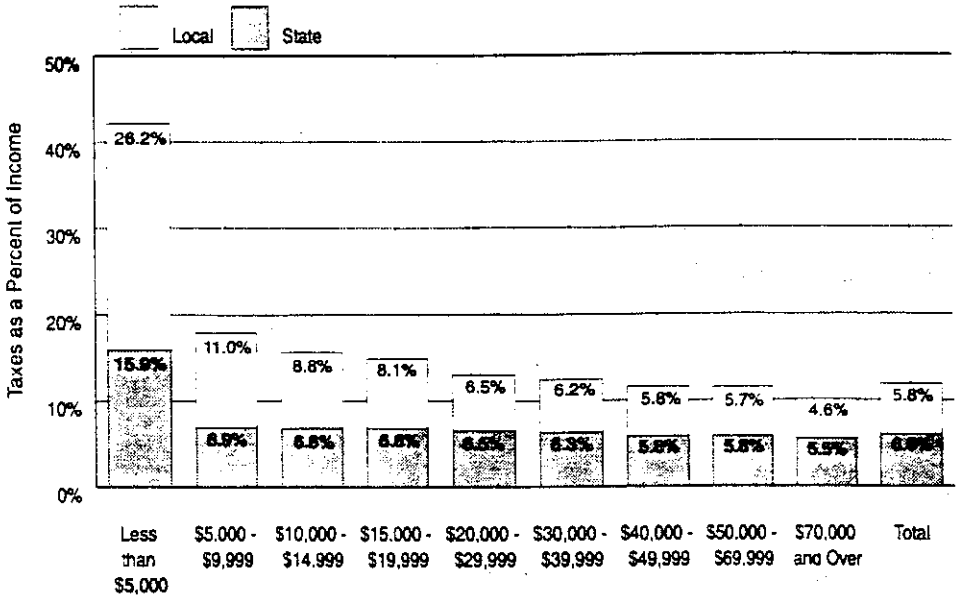
The final two tables in this section show taxes as a percentage of income by income class. Table 11 and Chart 14 show state and local taxes as a percentage of Adjusted Family Money Income.

Table 11 shows that the total tax burden as a share of income is greatest for the lowest income class, in part reflecting that some households in this group have temporarily low incomes in that year. For households with income above $5,000, the total tax burden as a share of income gradually declines. Total direct state taxes account for a relatively stable share of income as income rises, as the progressive state individual income tax offsets the effects of the more regressive sales and excise taxes. The percentage of income spent on direct local taxes declines with rising income. Both the residential property tax and the sales and use taxes account for a smaller share of taxes as income increases. Indirect taxes, both state and local, are somewhat regressive. This finding reflects the assumption that the bulk of these taxes are shifted to consumers in proportion to their spending. Spending as a share of income falls with rising incomes, especially on taxable items.

Table 12 is similar to Table 10, comparing taxes as a share of income for the lowest income group with that in the highest. The right hand column is a measure of the progressivity of the various taxes, showing the ratio of the tax as a share of income for the lowest income group, under $10,000, to that in the highest, over $70,000. A ratio of one would indicate a

CHART 14: EFFECTIVE STATE AND LOCAL TAX RATES

FISCAL YEAR 1994



proportional tax. A ratio greater than one is a regressive tax, while a ratio less than one indicates a progressive tax. The individual income tax is quite progressive while the cigarette and tobacco taxes are the most regressive of the state and local taxes. Sales, excise property, and occupation taxes are also regressive.

TABLE 11: State and Local Taxes as a Percentage of Adjusted Family Money Income by Income Classes

Fiscal Year 1994

Family Income	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 to $49,999	$50,000 to $69,999	$70,000 and over	Total
DIRECT TAXES ON HOUSEHOLDS										
State Taxes										
Individual Income	0.74%	0.84%	1.54%	2.18%	2.33%	2.53%	2.32%	2.67%	3.15%	2.65%
Sales and Use	5.70%	1.87%	1.48%	1.32%	1.11%	1.12%	1.02%	0.93%	0.77%	1.00%
HUTF	2.84%	1.08%	0.96%	0.88%	0.84%	0.66%	0.58%	0.49%	0.33%	0.55%
Alcoholic Beverages	0.28%	0.08%	0.06%	0.05%	0.04%	0.04%	0.04%	0.04%	0.03%	0.04%
Cigarette and Tobacco	0.73%	0.34%	0.23%	0.18%	0.17%	0.12%	0.10%	0.07%	0.03%	0.09%
TOTAL Direct State Taxes	**10.29%**	**4.21%**	**4.27%**	**4.62%**	**4.50%**	**4.47%**	**4.06%**	**4.19%**	**4.31%**	**4.34%**
Local Taxes										
Residential Property	7.80%	3.33%	2.66%	2.59%	1.79%	1.71%	1.70%	1.80%	1.39%	1.75%
Sales and Use	6.14%	2.02%	1.60%	1.42%	1.20%	1.21%	1.10%	1.00%	0.82%	1.08%
Specific Ownership	0.87%	0.34%	0.26%	0.32%	0.22%	0.28%	0.21%	0.20%	0.16%	0.21%
Occupation	0.06%	0.07%	0.07%	0.06%	0.06%	0.05%	0.04%	0.04%	0.02%	0.04%
TOTAL Direct Local Taxes	**14.87%**	**5.76%**	**4.58%**	**4.39%**	**3.26%**	**3.25%**	**3.05%**	**3.05%**	**2.39%**	**3.07%**
TOTAL DIRECT TAXES	**25.17%**	**9.97%**	**8.85%**	**9.01%**	**7.76%**	**7.72%**	**7.11%**	**7.24%**	**6.70%**	**7.40%**
INDIRECT TAXES										
State Indirect Taxes	5.57%	2.67%	2.48%	2.17%	2.01%	1.85%	1.69%	1.59%	1.22%	1.63%
Local Indirect Taxes	11.32%	5.21%	4.23%	3.67%	3.27%	2.95%	2.73%	2.65%	2.17%	2.77%
TOTAL INDIRECT TAXES	**16.89%**	**7.88%**	**6.71%**	**5.85%**	**5.27%**	**4.80%**	**4.42%**	**4.24%**	**3.39%**	**4.40%**
TOTAL TAXES ON HOUSEHOLDS	**42.06%**	**17.85%**	**15.55%**	**14.86%**	**13.03%**	**12.52%**	**11.53%**	**11.48%**	**10.08%**	**11.8[illegible]%**

TABLE 12: Taxes Paid by Residents in the Lowest and Highest Income Classes as a Percent of Income
Fiscal Year 1994

	Income Classes Under $10,000	Over $70,000	Ratio of Lowest Income Group to Highest Group
DIRECT TAXES ON HOUSEHOLDS			
State Taxes			
Individual Income	0.82%	3.15%	0.26
Sales and Use	2.72%	0.77%	3.56
Highway User			
Gas, MTBE, Gasohol	1.24%	0.26%	4.80
Licenses and Registrations	0.23%	0.07%	3.31
Alcoholic Beverages	0.12%	0.03%	4.09
Cigarette and Tobacco	0.43%	0.03%	13.76
TOTAL Direct State Taxes	**5.56%**	**4.31%**	**1.29**
Local Taxes			
Residential Property	4.33%	1.39%	3.12
Sales and Use	2.93%	0.82%	3.56
Specific Ownership	0.46%	0.16%	2.92
Occupation	0.07%	0.02%	3.27
TOTAL Direct Local Taxes	**7.79%**	**2.39%**	**3.26**
TOTAL DIRECT TAXES	**13.35%**	**6.70%**	**1.99**
INDIRECT TAXES			
State Indirect Taxes	3.32%	1.22%	2.72
Local Indirect Taxes	6.57%	2.17%	3.03
TOTAL INDIRECT TAXES	**9.88%**	**3.39%**	**2.92**
TOTAL TAXES ON HOUSEHOLDS	**23.24%**	**10.08%**	**2.30**

APPENDIX

The appendix to this study contains four sections. In the first, important terms and distinctions used in the body of the study are outlined in greater detail. The second describes in detail the data sources and assumptions used to estimate taxes and tax burdens for the different state and local taxes covered in the study. The third section traces the estimates from tax collections reported by various government entities to the tax burden figures used in the study. The final section of the appendix contains a bibliography of reference materials and data sources used in this study.

SECTION 1

Important Terms and Distinctions

The 1994 Colorado Tax Profile Study uses some of the basic concepts of public finance to describe the relationships between taxes paid by individuals, businesses and non-residents. In order to understand the tables and text of the Tax Profile Study it is important to be familiar with these terms and what they mean. For this reason, we have included a short list of the important terms, along with their definitions, used in the Tax Profile Study. These are the terms:

IMPACT: The impact of a tax describes who pays the tax. When an individual pays sales tax, the impact of the tax falls on that individual. When a business pays for unemployment insurance, the impact of the tax is on that business.

INCIDENCE: The incidence of a tax is the ultimate effect of the tax. Ultimately all taxes fall on individuals. When an individual pays sales tax, the incidence of the tax falls on that individual. In this case the impact of the tax and the incidence of the tax fall on the same person. When a business pays unemployment insurance tax, the impact of the tax is on the business, but the incidence of the tax is shifted to individuals, either in the form of lower wages, higher prices or lower profits for the individuals who own the business. This would be an *indirect* tax.

DIRECT TAX: A direct tax is a tax paid by households and individuals directly. Using the above terminology, a direct tax is a tax for which the *impact* and the *incidence* are the same. Examples of direct taxes include: income tax, sales tax paid by consumers, and residential property tax.

INDIRECT TAX: An indirect tax is a tax paid by businesses but shifted to individuals in the form of higher prices, lower wages or lower profits for business owners. Using the above terminology an indirect tax is a tax for which the *impact* falls on business but the *incidence* is really on individuals. A good example of an indirect tax is the corporate income tax. A portion of the corporate income tax is shifted to consumers in the form of higher prices and a portion is shifted to stockholders in the form of lower dividend income. Other indirect taxes include the sales tax paid by businesses, the highway user taxes paid by business and non-residential property taxes.

TAX COLLECTIONS: Tax collections are the revenues collected by state and local governments from taxes. Tax collections show cash that the state received as payment for taxes. Tax collections will not show taxes still owed or vendor discounts.

TAXES PAID: Taxes paid are the total taxes paid including the allowance for the vendor discount. Taxes paid makes no distinction between households and businesses.

TAX BURDEN: The tax burden on Colorado residents is the sum of all taxes paid minus the taxes paid by non-residents (both direct and indirect). It includes both direct taxes on individuals and indirect taxes shifted to Colorado residents. The Tax Profile Study is aimed primarily at studying the tax burden for Colorado residents and how it affects different income classes.

The other important set of distinctions applies to Tables A-1 and A-2 (on pages 31 and 32) which reconcile the difference between taxes collected by the state and the tax burden on residents. Tax collections are the dollars collected by the state. Tax collections are then adjusted for the vendor discount, a fee paid to vendors as compensation for collecting a tax, to find total taxes paid. Total taxes paid is the total tax burden on individuals. However, the Colorado Tax Profile Study focuses on taxes paid by Colorado residents. Thus taxes paid by non-residents are excluded from total taxes paid, and the result is the tax burden on Colorado residents.

SECTION 2

Methodology and Data Sources for Taxes

Estimates of Adjusted Family Money Income

HOUSEHOLD: A household for the purpose of this study consists of all persons who occupy a house, an apartment, or other housing unit that, for taxation purposes, act as a group entity. Therefore, persons living together in the same house or apartment bu

earning their own income and paying their own taxes would not be considered a single household. Related individuals are counted as households. Unrelated individuals living together are each counted as a household. The count of households excludes persons living in group quarters, such as rooming houses, military barracks, and institutions (mental hospitals, rest homes, correctional institutions, etc.).

ADJUSTED FAMILY MONEY INCOME (AFMI), the income concept used in this study is a broadly based one which includes the following components:

- Wage and salary income
- Self employment income
- Farm and non-farm proprietors' income
- Social security and other pension or retirement income
- Supplemental security income
- Public assistance and welfare payments
- Food stamps
- Interest income
- Dividend, rent, royalty and trust income
- Unemployment and workers' compensation
- Payments to veterans
- Alimony
- Child support payments
- Capital gains

The estimates of income by income class are based on the consolidated federal and state income tax data base for the 1993 tax year and the Bureau of Labor Statistics Current Population Survey 1993 (CPS). The income tax data base does not include all sources of income included in AFMI. Specifically, income tax filers are not required to report veteran's payments, public assistance, supplemental security, workers compensation, or child support income that they have received. In the absence of this information, the database understates the amount of income received by some households. For instance, summing all of the income components on the consolidated database may show that a household receives $10,000 in income. However, if this household receives $5,000 in supplemental security payments and an additional $15,000 in child support payments, the database would understate the household's income by $20,000. The income components missing from the consolidated database are, however, included in the income measure used in this study, Adjusted Family Money Income.

To reduce the potential for understating the amount of income received by households, the consolidated data were adjusted using the CPS. The CPS data were converted to taxable money income classes and average amounts of the missing income elements were derived for each taxable money income class. The proportion of households receiving these other types of income were also derived using the CPS data and were used to apportion the average amounts of the income to the consolidated database. Adding the missing income elements to the consolidated database enables the data to be divided into Adjusted Family Money Income classes.

Estimates of Tax Receipts

The estimates of total tax payments were obtained from various state agencies. Corporate income, sales and use, cigarette, tobacco, alcohol, highway user, and severance taxes were obtained from the Department of Revenue's 1994 Annual Report. All these figures represented cash collections for the 1993-94 fiscal year. The estimate of individual income tax was based on tax liability for the 1993 tax year and was obtained from the Office of Tax Analysis. Figures for insurance premiums tax and unemployment insurance tax were obtained from the Comprehensive Annual Financial Report of the State Controller for 1993-94. Other business taxes were from the Fiscal Year 1993-94 Fiscal Year Spending Detail Report issued by the State Controller's Office.

Most local tax estimates were reported in the 1993 Local Government Financial Compendium. All property taxes were obtained from the Annual Report of the Division of Property Taxation. (This report shows taxes levied on 1992 assessed values but payable in 1993.) Sales taxes for special improvement districts were reported by the Department of Revenue in its Annual Report.

Direct Taxes

INDIVIDUAL INCOME: The individual income tax burden by income class was estimated using a consolidated federal and state income tax database for tax year 1993. This consolidated database reports the amount of state income taxes paid by full-year Colorado residents for the 1993 income tax year. The database includes those returns for income tax year 1993 filed through April 1995 but does not take into account amended returns or short checks.

The amount of income taxes paid by full-year Colorado residents for income tax year 1993 as reported by the database will be different than the amount shown on the Department's annual report. The annual report shows the amount of net cash

collections for individual income taxes received by the department during fiscal year 1994 (during which most returns for 1993 are filed). These collections include estimated payments and withholdings (of which almost half are for the following income tax year), adjustments due to amended filings, late payments as well as the balance of cash payments for income tax year 1993, payments for previous years and pre-payments for income tax year 1994. Additionally, it does not include the amount of 1993 income taxes paid by late filers.

STATE SALES AND USE: Direct taxes were calculated using data from the Bureau of Labor Statistics' Consumer Expenditure Survey (CES) and the Current Population Survey (CPS) income data to determine expenditures by income class. Adjustments have been made to the 1993 Consumer Expenditure Survey to make the sales tax results more consistent with previous years.

It was found that certain categories in the Consumer Expenditure Survey were largely underestimated. The following categories were adjusted upward: vehicles, apparel, food away from home, and entertainment expenditures. The method for determining the magnitude of adjustments was as follows: The year-to-year increase in consumer expenditures according to the survey were compared to the increase in retail sales according to the Center for Business and Economic Forecasting. The consumer expenditures were then increased until the percent change between the 1988 survey and the 1993 survey matched the change in retail sales. For example, the CES data showed a two percent increase in vehicle purchases between 1988 and 1993 while the retail sales data for vehicle purchases showed a 35 percent increase. The expenditures on the 1993 survey were increased to show a 35 percent increase over 1988.

Once expenditures were adjusted, income by group was multiplied by the percentage of income spent on sales taxable items. Expenditures by group were then multiplied by the state tax rate of three percent. Non-resident spending on sales and use items was derived using data from the Longwoods International Study "Denver Travel Year 1993," and by extrapolating to the state level using data from the Colorado Tourism Board.

HIGHWAY USER: The gasoline, MTBE, and gasohol portion of the highway user tax was spread across income classes using expenditures on motor fuels from the Consumer Expenditure Survey. Businesses registered 13.8 percent of all vehicles in Colorado therefore, 13.8 percent of the gas tax was attributed to businesses. The remaining $311 million was the amount of direct gas taxes on residents and on residents. Using the Consumer Expenditure Survey and an average gasoline price of $1.173 per gallon resident consumption would be 1,265.4 million gallons costing $1,484.3 million. The resulting gasoline excise tax paid would be $278.4 million. The remainder, $32 million, would be paid by non residents.

Motor vehicle registration and license fees were distributed proportionately to businesses and individuals: 13.8 percent to businesses and 86.2 percent to individuals. Non-residents were assumed to have paid no license or registration fees. Special fuels were reserved for business and will be discussed as an indirect tax.

ALCOHOLIC BEVERAGES: The excise tax on alcohol was distributed based on expenditures on alcohol from the Consumer Expenditure Survey. Both alcoholic beverages consumed at home and alcoholic beverages consumed away from home were included in the calculation. Non-resident expenditures on alcohol were calculated using the Longwoods study. Expenditures on alcohol by non-residents in Denver amounted to 1.7 percent of total non-resident expenditures in Denver. For reasonablity, the figure was adjusted downward to one percent to measure non-resident expenditures in Colorado.

CIGARETTE AND TOBACCO: The excise tax on tobacco was distributed based on expenditures on tobacco products from the Consumer Expenditure Survey. Non-resident expenditures were calculated by multiplying the amount of time spent in Colorado by the number of non-residents by annual average per capita packs of cigarettes per year times the price of cigarettes. (Data were obtained from "The Tax Burden on Tobacco".)

RESIDENTIAL PROPERTY: The total tax liability for residential property tax was calculated by multiplying the total property tax by a ratio of residential assessed valuation over total assessed valuation. Residential property tax was distributed using the following methodology. In the first step, census data were used to calculate the value of owner-occupied property by income class. Secondly, the Consumer Expenditure Survey was used to determine expenditures on by income class. The third phase incorporated the "Twenty-Second Annual Report (1992) by the Divisi

of Property Taxation" to form a rough calculation of the distribution of value between owner-occupied and renter-occupied property. Single-family homes were assumed to be owner-occupied while multi-family homes were assumed to be rented. Of the total value of single-family and multi-family homes, 82 percent was apportioned to single-family and 18 percent was apportioned to multi-family homes. These percentages were used to represent owner-occupied and renter-occupied homes. Eighty-two percent of the property tax was distributed among owners using the census data. Eighteen percent of the property tax was distributed among renters using the consumer expenditure data. The two different groups were then added together to form residential property tax by income class. Non-residents were assumed to pay no residential property tax. The old age property tax credit of approximately $12 million was allocated among income groups using income data submitted by applicants for this credit. Property taxes were reduced by the amount of credits claimed in the lowest three income classes.

LOCAL SALES AND USE: Direct local sales and use taxes were calculated using data from the Consumer Expenditure Survey to determine expenditures by income class and multiplying by an average local tax rate of 3.23 percent. (See State Sales and Use section for adjustments to the CES.) The average local tax rate was calculated by using the ratio of state tax collections to local tax collections. The calculation was as follows: local rate/local collections = state rate/state collections. Non-resident spending on sales and use items was derived using data from the Longwoods International Study "Denver Travel Year 1993," and extrapolating to the state level using the data from the Colorado Tourism Board.

SPECIFIC OWNERSHIP: The specific ownership tax was spread across income classes by new and used vehicle purchases by income class from the Consumer Expenditure Survey.

OCCUPATION: The occupation tax was allocated to households based on information from the Bureau of Census publication, "Money Income of Households, Families, and Persons in the U.S." and the Colorado Department of Labor and Employment publication, "Colorado Employment and Wages, Annual Averages." The Census publication reports the average number of wage earners per household by income class. This information was used to determine the number of wage earners per household by income class. Because a substantial portion of the occupation taxes are collected by the city and county of Denver, only that portion of the state's workforce in Denver were considered to be subject to the tax. The Labor and Employment publication, which reports the proportion of the state's labor force working in the city and county of Denver, was used to determine the number of workers in each household working in the city and county of Denver. Each household was classified into a designated income class and the amount of occupation taxes paid by households was aggregated to determine the burden by income class.

Indirect Taxes

CORPORATE INCOME: Corporate income is divided into two parts. Half of the tax is allocated based on expenditures and half is allocated based on dividend income. Both parts are treated as indirect business taxes. The portion allocated by expenditures is distributed based on general expenditures according to the Consumer Expenditure Survey. An amount is therefore allocated to non-residents. The second portion is distributed by dividend income earned by each income class. None of this portion is allocated to non-residents. Although it is likely that a portion of stock in Colorado companies is owned by non-residents, there is no feasible way to account for it.

STATE INDIRECT SALES AND USE: State sales tax collections were split into direct and indirect burdens. The indirect burden was calculated by subtracting the direct taxes, described above, from the total. The remainder is indirect tax. The indirect tax was distributed among income classes by general expenditures according to the Consumer Expenditure Survey.

HIGHWAY USER: A portion (13.8 percent) of the gas tax, and a portion (13.8 percent) of the license and registration fees and all of the special fuels tax collections were included in the indirect portion of the highway user tax. The indirect tax was then spread among income classes by general expenditures according to the Consumer Expenditure Survey.

UNEMPLOYMENT INSURANCE: To determine the unemployment insurance (UI) tax burden on households by income class, both the number of workers per household and the wage income of households had to be determined. The number of workers per household was calculated in the same way that it was calculated for the occupation tax. Wage income information was determined using the

Bureau of Labor Statistics' Current Population Survey. Only the first $10,000 of a person's wage income is subject to UI taxation; therefore, if a household has two wage earners, it was assumed that $20,000 of a household's wage income was subject to UI taxation. The unemployment insurance tax burden was apportioned based on the percentage of total UI taxable income that was earned by each household. Households were classified into income classes and unemployment taxes paid by households were aggregated to determine the unemployment insurance tax burden on households by income class.

STATE OTHER BUSINESS TAXES: This category includes aviation fuel, severance, insurance premium taxes and other regulatory taxes and fees from the "Controller's Report." The aviation fuel tax is distributed by expenditures on out-of-town trips from the Consumer Expenditure Survey. The severance tax is distributed by general expenditures. The insurance premium tax is distributed based on expenditures by income class on insurance. The miscellaneous taxes from the "Controller's Reports" are distributed based on general expenditures from the Consumer Expenditure Survey.

LOCAL OTHER BUSINESS TAXES: Franchise fees make up a large portion of local other business taxes in addition to some miscellaneous small items. Local business taxes are spread among income classes by general expenditures from the Consumer Expenditure Survey.

Vendor Discounts

STATE VENDOR DISCOUNT: The state vendor discount for sales tax was obtained through the Department of Revenue Annual Report 1994. It was added to total collections to measure the total tax paid by residents.

The vendor discount for the following taxes were also obtained through the Department of Revenue Annual Report:

CIGARETTE AND TOBACCO
GASOLINE AND MTBE
GASOHOL
SPECIAL FUELS

LOCAL SALES [illegible]SE VENDOR DISCOUNT: The local vendor discount is a weighted average of all of the vendor discounts for the major municipalities in the state using sales tax collections to assign weights. Statewide it is about 2.8 percent. Data came from the Local Sales Tax Clearing House Report, and the Colorado Department of Revenue Annual Report.

SPECIAL DISTRICT VENDOR DISCOUNT: The vendor discount for special districts is the same as the state vendor discount, 3 1/3 percent.

Non-Resident Collections

Non-resident collections have two components Domestic non-resident spending and foreign non resident spending. Domestic non-resident spending was obtained from the "Colorado Tourism Fact Sheet of the Colorado Tourism Board. Foreign non-resident spending was estimated by multiplying foreign tourism expenditures in the U.S. by Colorado's tourism market share of 1.9 percent and adding expenditures by foreign students. Domestic non-resident spending totaled approximately $6 billion, while foreign non resident spending totaled approximately $1 billion. The study by Longwoods International was used to calculate spending in each category: general merchandise spending for sales taxes; alcohol, cigarette and tobacco spending for excise taxes and rental spending for highway user taxes.

SECTION 3

Detail on Tax Collections, Taxes Paid and Tax Burden

Tables A-1 and A-2 trace the development of the estimates of tax burden used in this study. Table A-1 shows taxes collected by source and taxes paid. Table A-2 shows direct and indirect taxes paid by residents and nonresidents.

TABLE A-1: Tax Collections Compared to Tax Revenues
Fiscal Year 1994 (Dollars in Thousands)

TAX	Taxes Collected	Vendors Discount	Total Taxes Paid	Non-Resident Taxes Paid (Direct and Indirect)	Resident Taxes Paid (Direct and Indirect)
State Taxes					
Individual Income	$1,661,649		$1,661,649		$1,661,649
Corporate Income	$148,286		$148,286	$9,102	$139,184
Sales and Use	$1,112,659	$34,234	$1,146,893	$163,060	$983,833
Highway User					
Gas, MTBE, Gasohol	$410,400	$2,304	$412,704	$45,140	$367,564
Licenses and Registrations	$123,537		$123,537	$6,998	$116,539
Alcoholic Beverage (excise)	$28,269		$28,269	$3,741	$24,528
Cigarette and Tobacco	$63,009	$2,117	$65,126	$6,417	$58,709
Unemployment	$204,479		$204,479		$204,479
Other Business Taxes	$193,186		$193,186	$11,968	$181,218
TOTAL State Taxes	**$3,945,474**	**$38,655**	**$3,984,129**	**$246,425**	**$3,737,704**
Local Taxes					
Property Taxes	$2,397,164		$2,397,164	$140,913	$2,256,251
Sales and Use	$1,208,063	$27,169	$1,235,232	$175,619	$1,059,613
Specific Ownership	$195,588		$195,588	$7,951	$187,637
Occupation	$42,790		$42,790		$42,790
Other Business Taxes	$124,692		$124,692	$15,307	$109,385
TOTAL Local Taxes	**$3,968,297**	**$27,169**	**$3,995,466**	**$339,790**	**$3,655,676**
TOTAL STATE AND LOCAL TAXES	**$7,913,771**	**$65,824**	**$7,979,595**	**$586,215**	**$7,393,381**

TABLE A-2: Taxes Paid by Households and Businesses
Fiscal Year 1994 (Dollars in Thousands)

TAX	TOTAL TAXES PAID: Taxes Including Non-resident Collections	TOTAL TAXES PAID: Direct Taxes	TOTAL TAXES PAID: Indirect Taxes	TAXES PAID BY NON-RESIDENTS: Direct Taxes Paid by Non-residents	TAXES PAID BY NON-RESIDENTS: Indirect Taxes Paid by Non-residents	TAXES PAID BY RESIDENTS: Direct Taxes Paid by Residents	TAXES PAID BY RESIDENTS: Indirect Taxes Paid by Residents	TAXES PAID BY RESIDENTS: Total Resident Taxes Paid
State Taxes								
Individual Income	$1,661,649	$1,661,649				$1,661,649		$1,661,649
Corporate Income	148,286		$148,286		$9,102		$139,184	139,184
Sales and Use	1,146,893	738,732	408,161	$112,954	50,105	625,777	358,056	983,833
Highway User								
Gas, MTBE, Gasohol	412,704	311,088	101,616	32,666	12,474	278,422	89,142	367,564
Licenses and Registrations	123,537	66,531	57,006		6,998	66,531	50,008	116,539
Alcoholic Beverage	28,269	28,269		3,741		24,528		24,528
Cigarette and Tobacco	65,126	65,126		6,417		58,709		58,709
Unemployment Insurance	204,480		204,480				204,480	204,480
Other	193,186		193,186		11,968		181,218	181,218
TOTAL State Taxes	**$3,984,130**	**$2,871,395**	**$1,112,735**	**$155,778**	**$90,647**	**$2,715,617**	**$1,022,088**	**$3,737,705**
Local Taxes								
Residential Property	$1,093,476	$1,093,476				$1,093,476		$1,093,476
Non-residential Property	1,303,688		$1,303,688		$140,913		$1,162,775	1,162,775
Sales and Use	1,235,232	795,632	439,600	$121,655	53,965	673,977	385,635	1,059,613
Specific Ownership	195,588	130,821	64,767		7,951	130,821	56,816	187,637
Occupation	42,790	23,534	19,256			23,534	19,256	42,790
Other	124,692		124,692		15,307		109,385	109,385
TOTAL Local Taxes	**$3,995,466**	**$2,043,463**	**$1,952,003**	**$121,655**	**$218,135**	**$1,921,809**	**$1,733,868**	**$3,655,676**
TOTAL STATE AND LOCAL TAXES	**$7,979,596**	**$4,914,858**	**$3,064,738**	**$277,432**	**$308,783**	**$4,637,426**	**$2,755,956**	**$7,393,381**

SECTION 4
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State Tax Structure

Presented by

Sources of State Tax Revenues
Nancy McCallin, Chief Economist, Legislative Council Staff

Overview of Primary State Taxes
Tom Dunn, Economist, Legislative Council Staff

General Fund Revenue Forecast and Overview
Nancy McCallin, Chief Economist, Legislative Council Staff

General Fund Appropriations Limit and the Effect of Budgetary Pressures and Federal Initiatives
Kenneth Conahan, Staff Director, Joint Budget Committee Staff
Dan Chapman, Principal Analyst, Legislative Council Staff

Cash Fund Revenues
Henry Sobanet, Economist, Legislative Council Staff

Article X, Section 20 of the Colorado Constitution
Chip Taylor, Staff Attorney, Office of Legislative Legal Services

Constitutional Spending Limit
Nancy McCallin, Chief Economist, Legislative Council Staff

Tax Policy Issues in Other States
Bob Corcoran, Senior Manager of Multistate Tax Consulting Group, Price Waterhouse

STATE TAX STRUCTURE

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Source of State Tax Revenues

- Coloradans pay nearly 30 percent of their income in federal, state, and local income taxes.

- Two-thirds of the taxes are paid to the federal government, primarily in the form of individual income and Social Security taxes.

- General Fund revenues comprise more than half of state revenues.

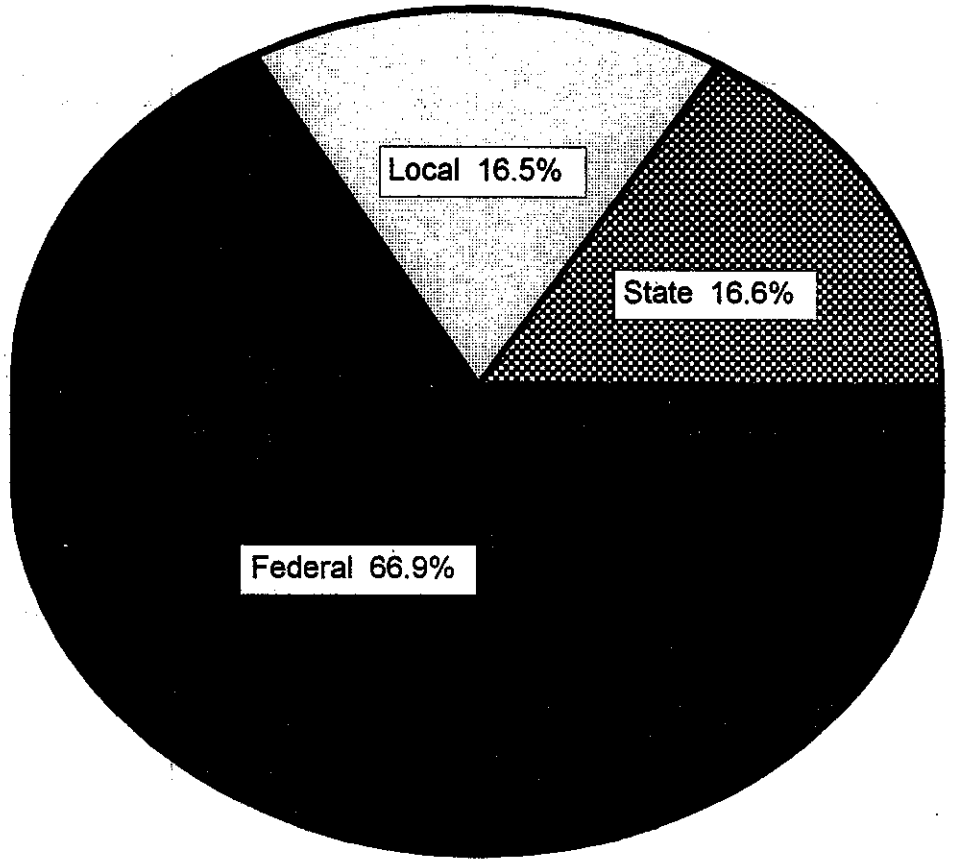
- The state has become more reliant on income taxes and more dependent upon sales taxes in the last twenty years.

- Colorado's tax burden compares favorably with other states, ranking lowest among the contiguous states, and third lowest in the nation as a whole. The low ranking is the result of relatively low sales taxation. The state's individual income tax rank is high compared with the contiguous states.

Graph 1

Where do our taxes go?

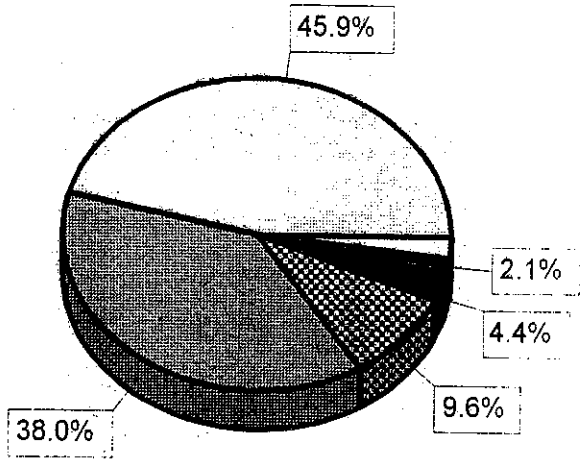
Ttl. Taxes Paid FY 1992 = $21.2 Billion



Prepared by Legislative Council Staff, October 1995.

Graph 2

Composition of Federal Revenues Paid by Coloradans, Fiscal Year 1992



Total = $14,184.7 Million

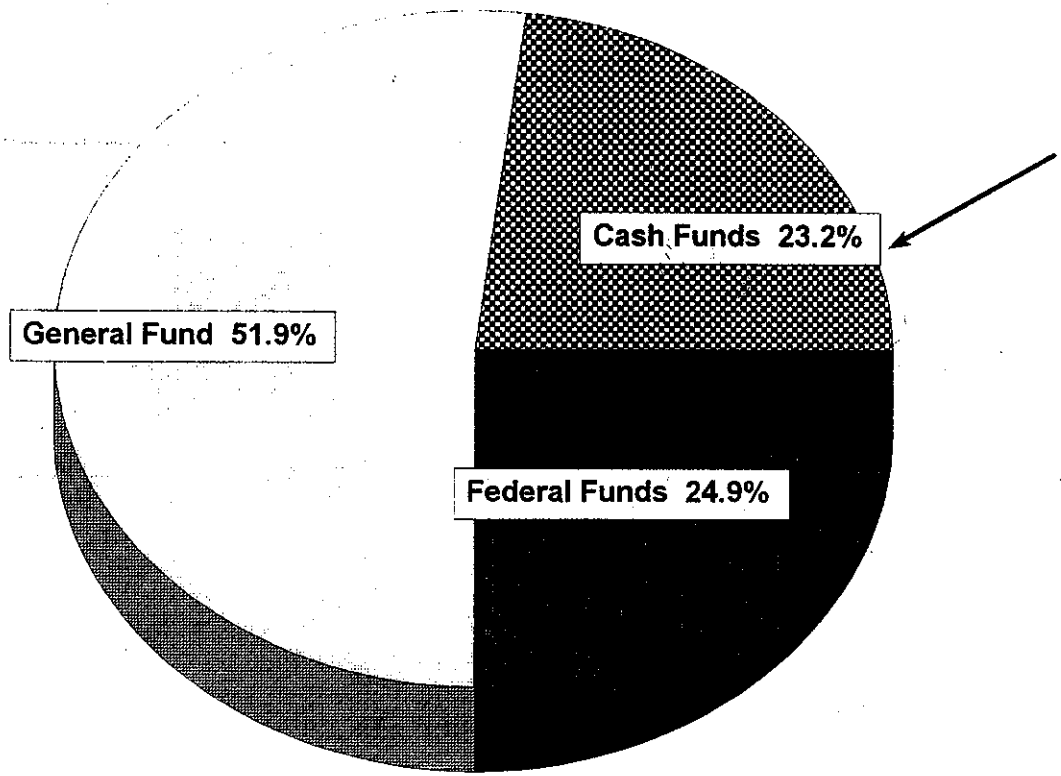
Individual Income
Social Security
Corporate Income
Excise Taxes *
Other **

* Includes alcohol & tobacco taxes.
** Estate and highway taxes.

Prepared by Legislative Council Staff, October 1995.

Graph 3

Colorado State Budget
Revenue Sources by Fund Type, FY 1995-96



Cash Fund Components:

Transportation	7.5%
Higher Education	6.9%
Unemployment Insurance	2.7%
Wildlife	0.8%
All Other	5.3%

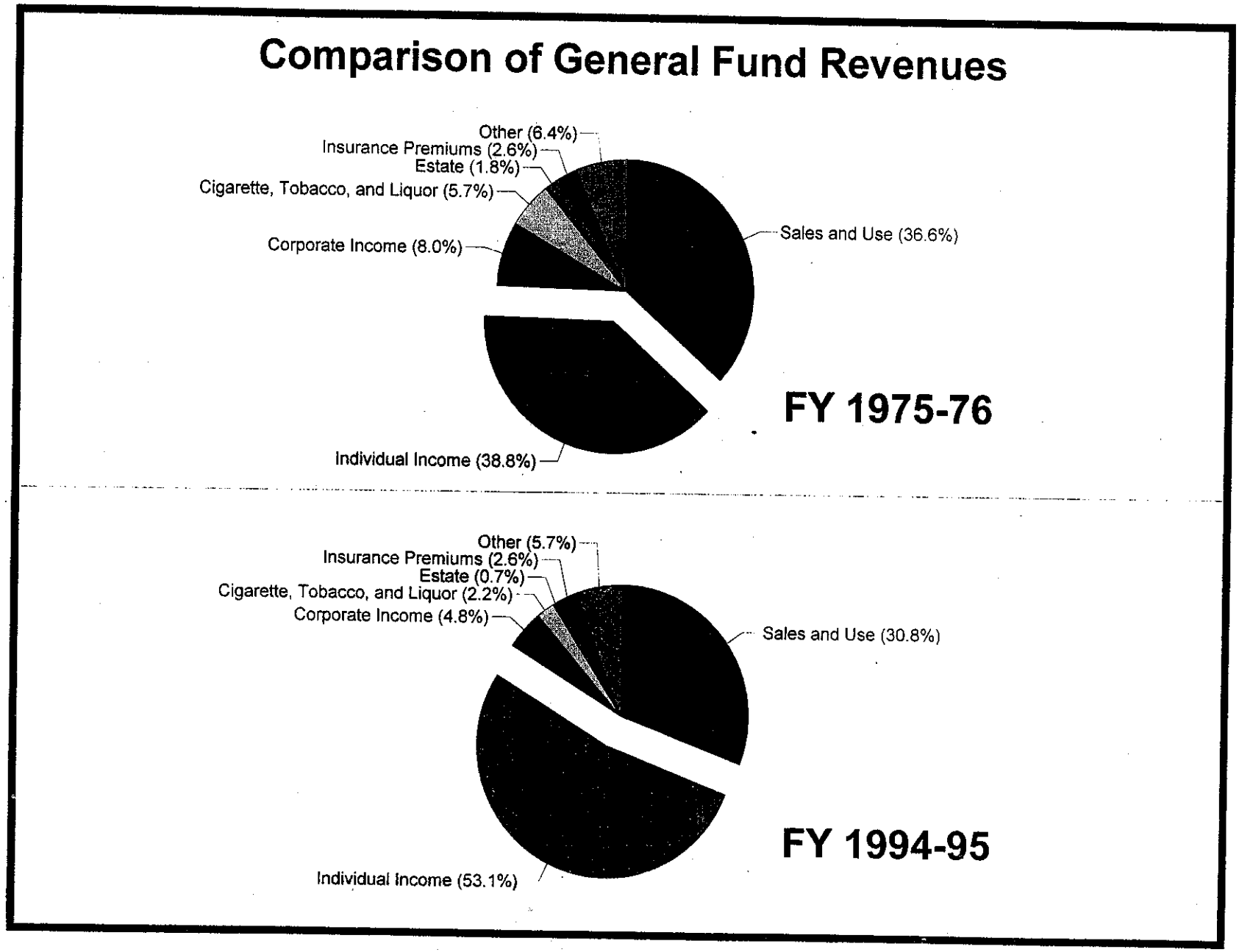
Estimated Fiscal Year 1995-96 Revenues: $7,945.5

Note: These proportions reflect the September 1995 revenue forecast, the final proportions may differ slightly. This figure will not equal appropriations because it excludes some revenues not subject to Article X, Section 20 of the Constitution and because some appropriations come from reserves.

Source: Joint Budget Committee and Legislative Council Staff.

Prepared by Legislative Council Staff. October 1995.

Graph 4

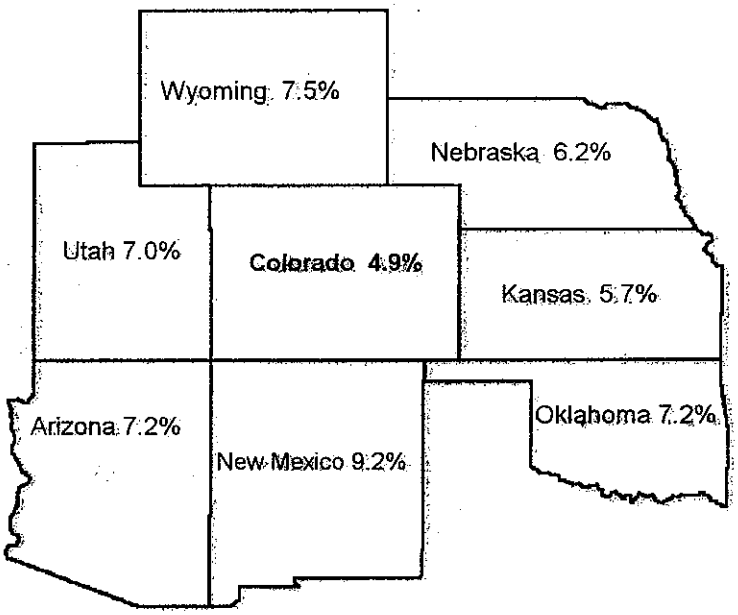


Prepared by Legislative Council Staff, October 1995.

Graph 5

Total State Revenues as a Percentage of Personal Income, FY 1992

U.S. Average = 6.4%

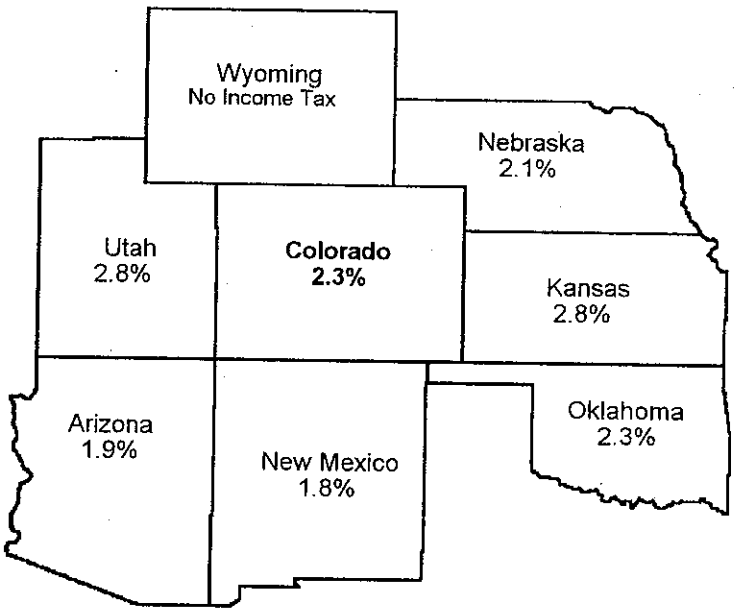


Prepared by Legislative Council Staff, October 1995.

Graph 6

State Individual Income Tax Revenues as a Percentage of Personal Income, FY 1992

U.S. Average = 2.0%

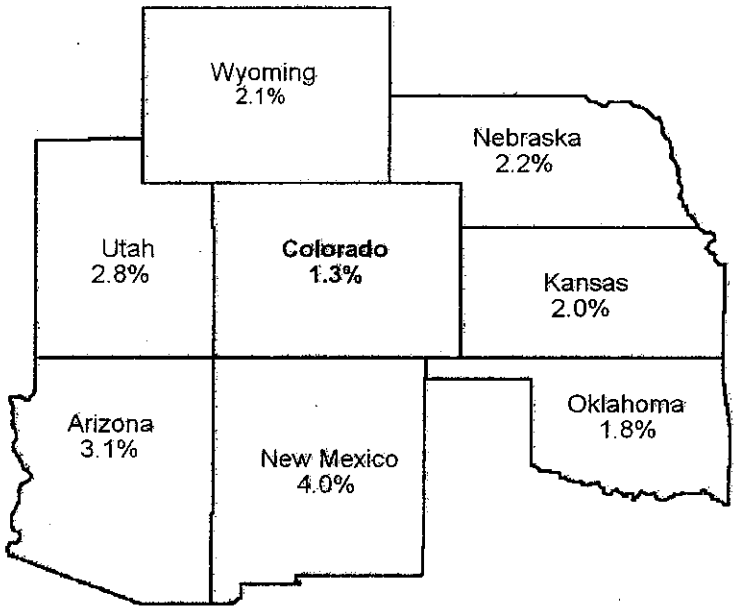


Prepared by Legislative Council Staff, October 1995.

Graph 7

State Sales Tax Revenues as a Percentage of Personal Income, FY 1992

U.S. Average = 2.1%



Prepared by Legislative Council Staff, October 1995.

Overview of the Primary State Taxes

The Individual Income Tax

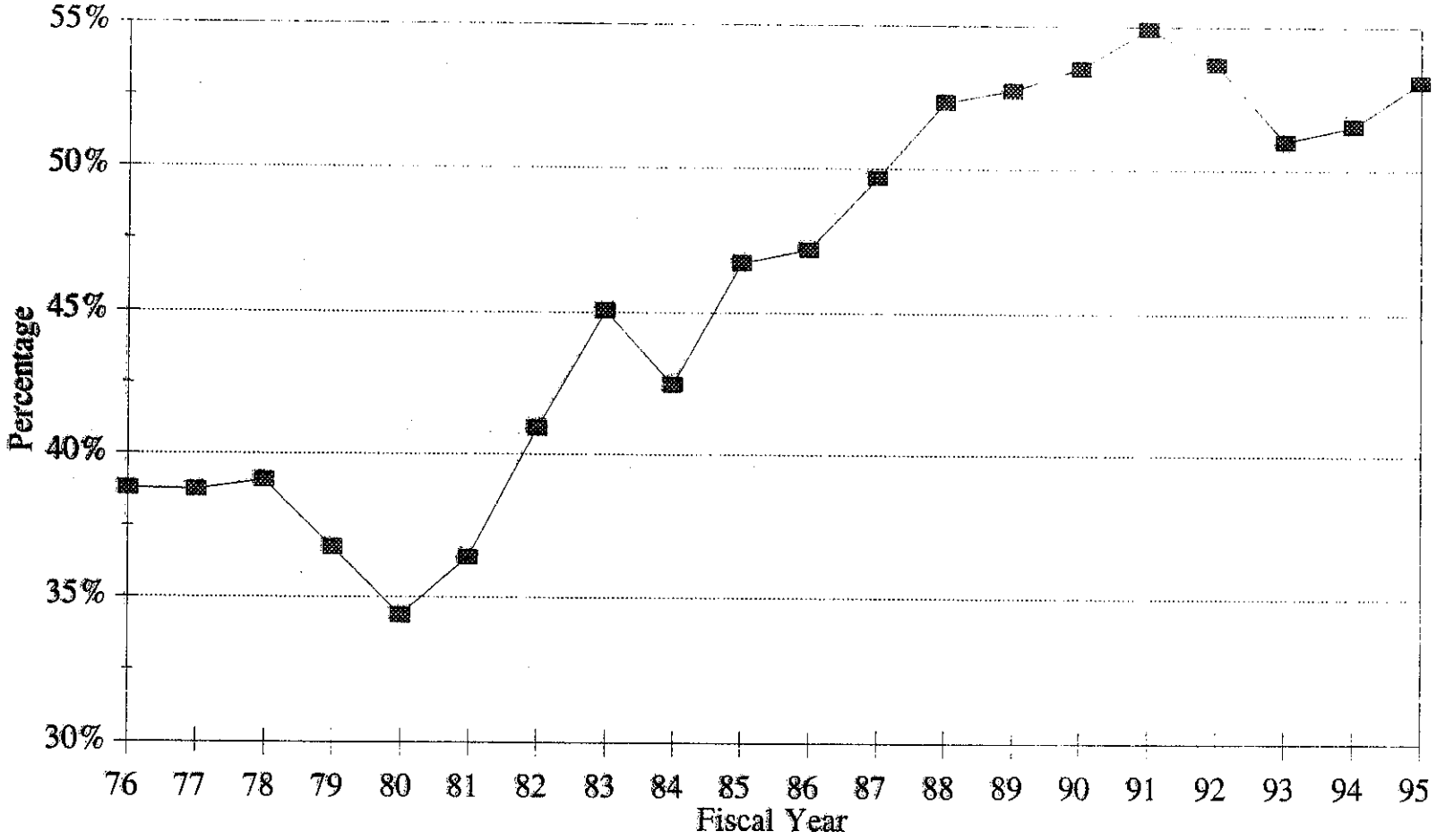
- Background
- Share of General Fund revenues
- Revenue trends
- Derivation of Colorado income tax
- Revenue adequacy
- Equity
- Efficiency
- Simplicity
- Stability

The State Sales Tax

- Background
- Revenue trends
- The tax base
- Exemptions
- Services taxation
- Responsiveness, adequacy, and stability
- Equity
- Efficiency
- Simplicity
- Federal pre-emption

Other State Taxes

Graph 1. Individual Income Taxes as % of Gross General Fund Revenue



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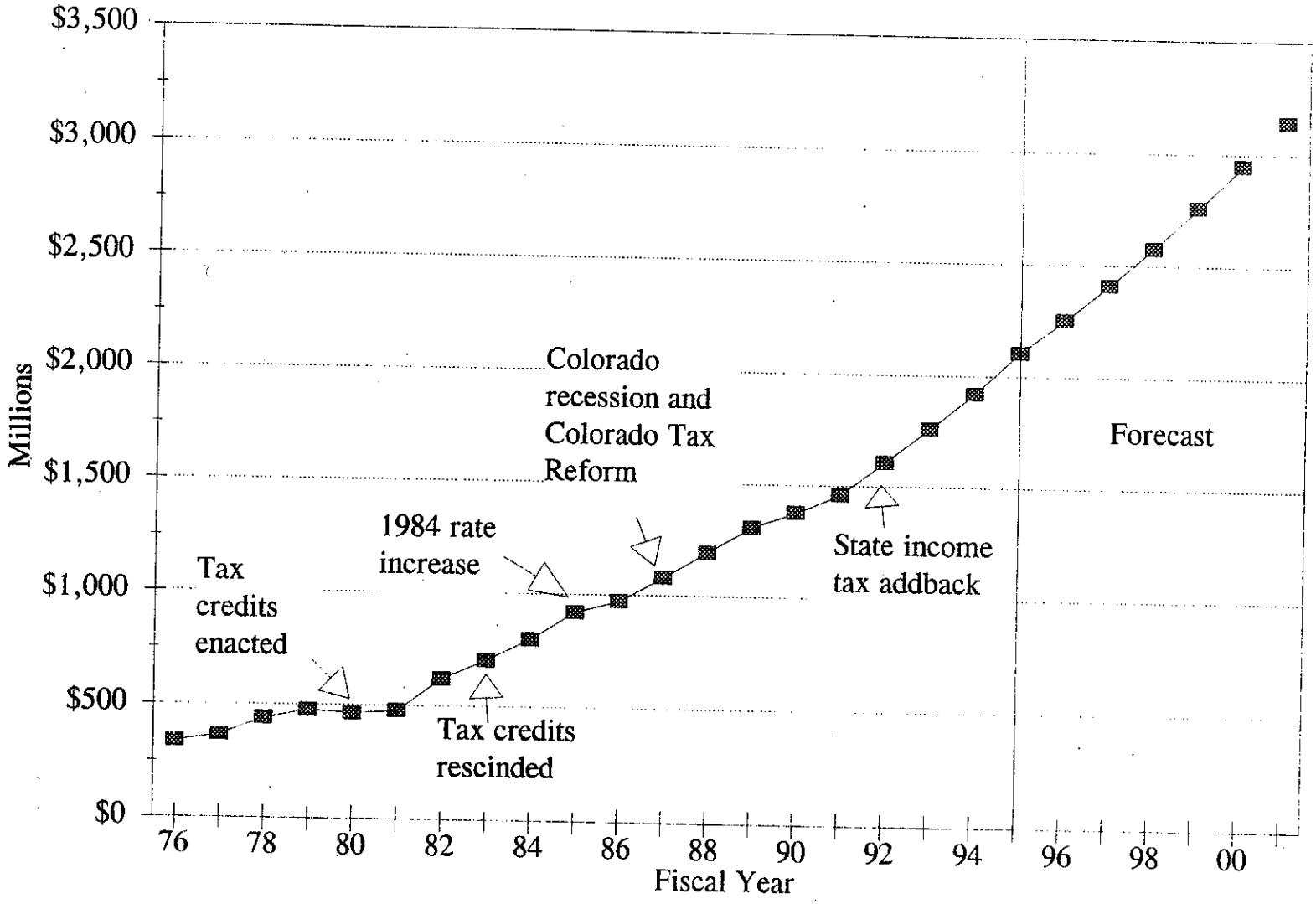
Graph 2. Individual Income Tax
Fiscal Years 1975-76 through 2000-01



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Derivation of Individual Income Tax

COLORADO:

Sources of income:
Wages, interest, dividends, business income, capital gains, etc.

Less: Federal adjustments

Less: Standard deduction or itemized deductions

Less: Personal exemptions

Equals: Federal taxable income

Plus: Colorado modifications

Equals: Colorado taxable income

Times: Colorado tax rate of 5%

Equals: Colorado gross tax

Less: Colorado credits

Equals: Colorado net tax

FEDERAL:

Sources of income:
Wages, interest, dividends, business income, capital gains, etc.

Less: Federal adjustments

Less: Standard deduction or itemized deductions

Less: Personal exemptions

Equals: Federal taxable income

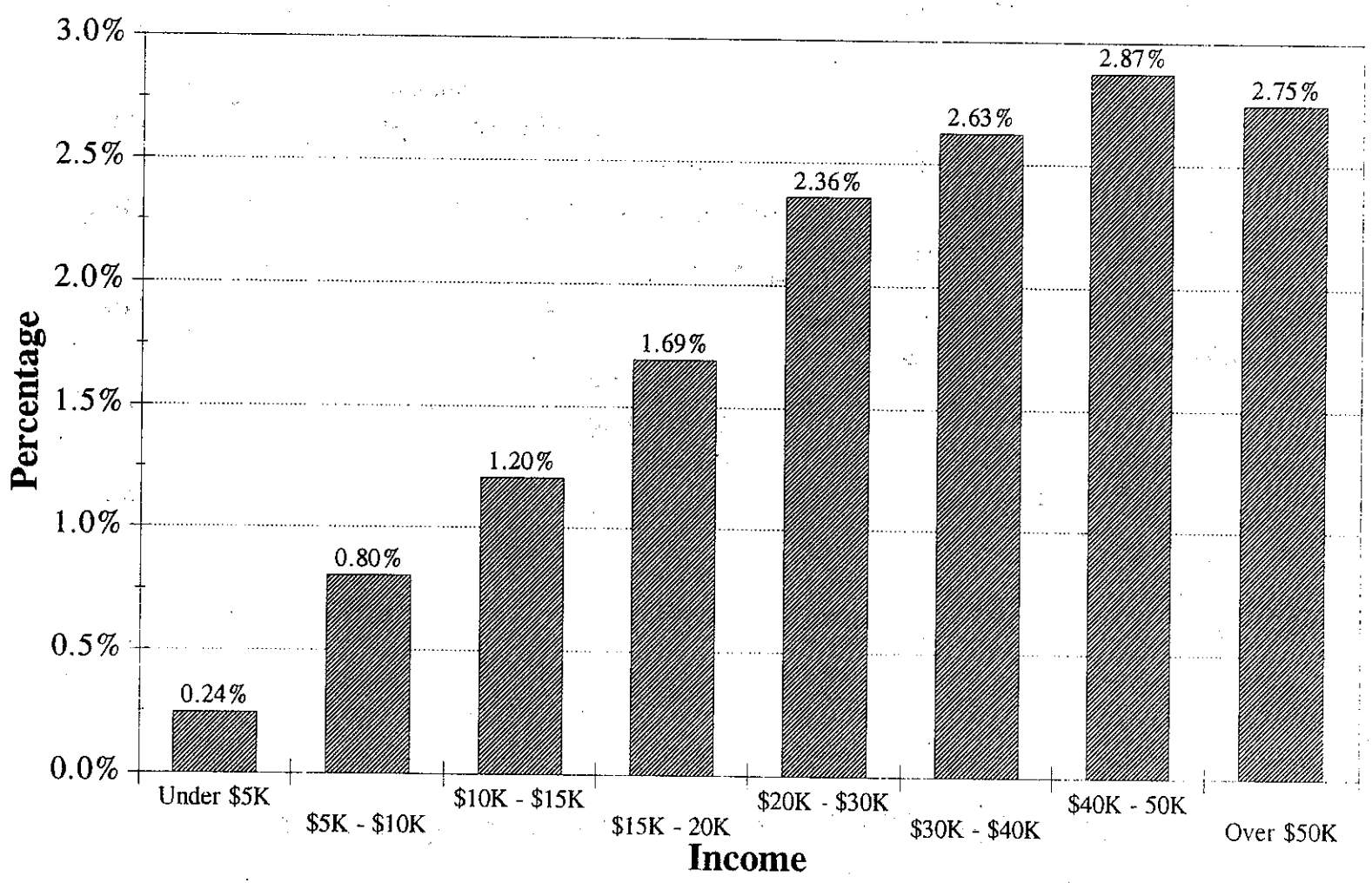
Times: Federal tax rates

Equals: Federal gross tax

Less: Federal credits

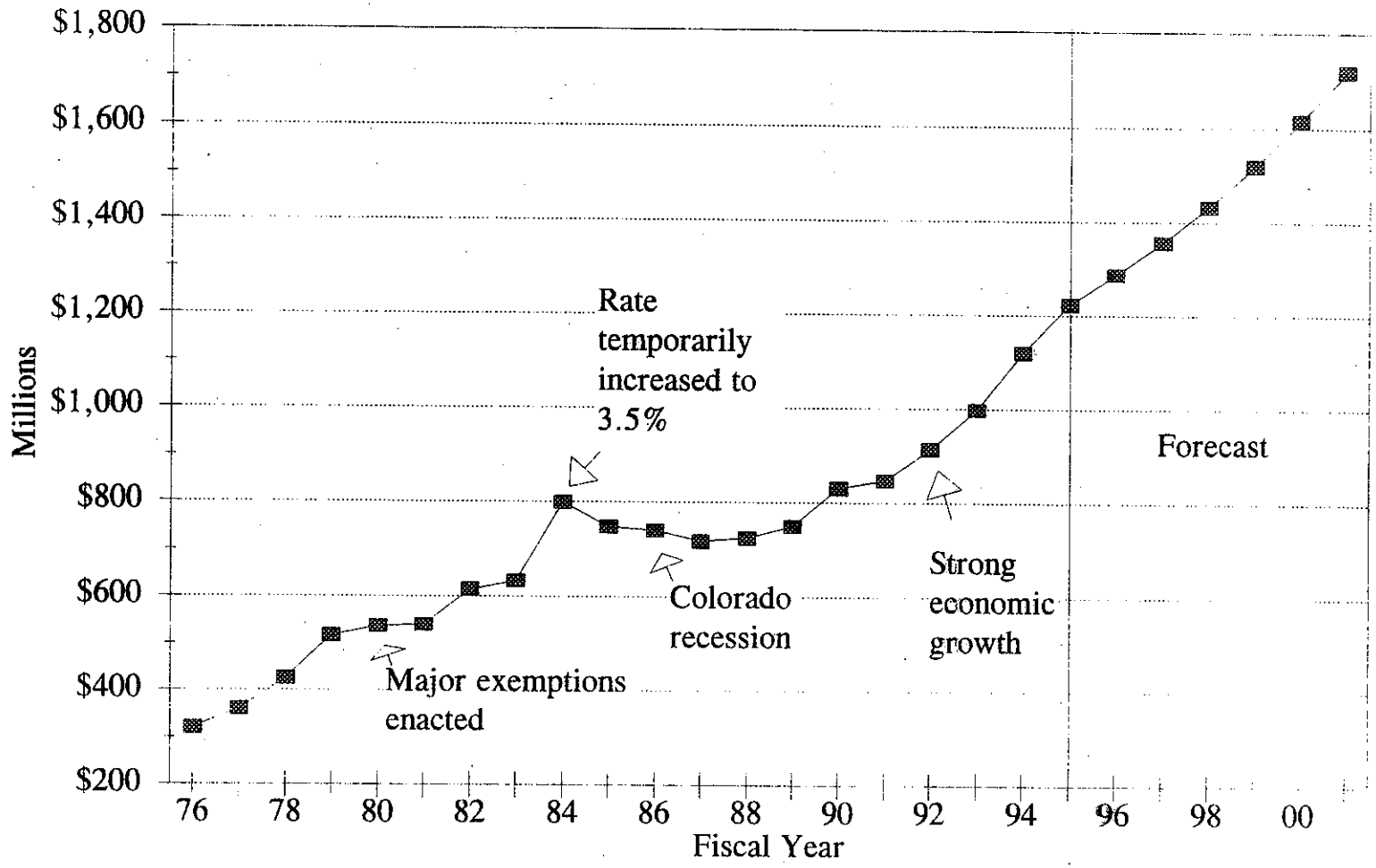
Equals: Federal net tax

Graph 3. Individual Income Taxes as Percentage of Income, 1988



Prepared by Legislative Council Staff, October 1995.

Graph 4. State Sales and Use Tax
Fiscal Years 1975-76 through 2000-01



Prepared by Legislative Council Staff, October 1995.

The State Sales Tax Base

1. Purchases of tangible personal property,

2. Net value of exchanged property,

3. Telephone and telegraph services,

4. Commercial consumption of gas and electric services,

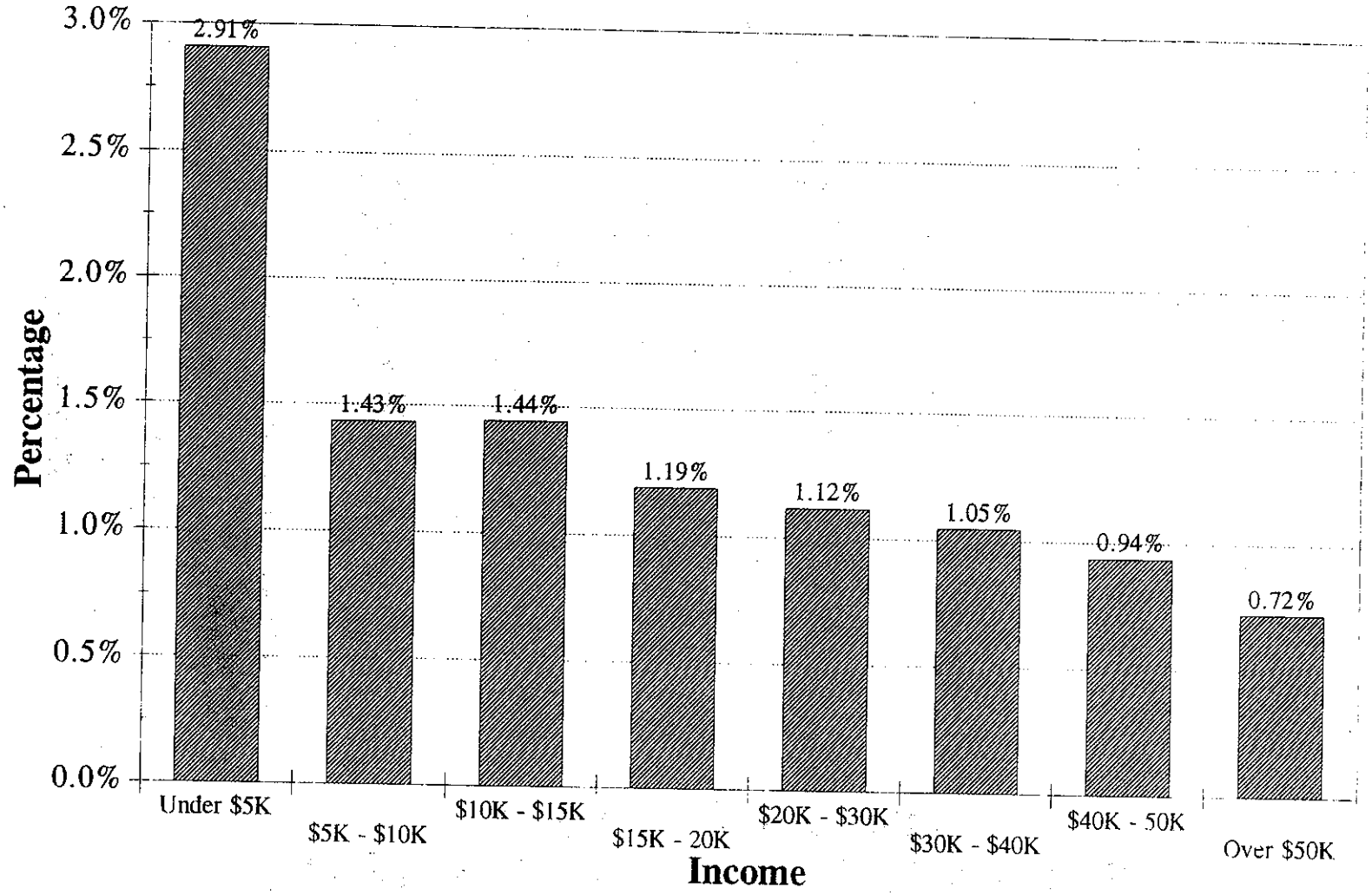
5. Food or beverages served or furnished by restaurants, cafes, and similar places of business, and

6. Rental of lodging.

State Sales Tax Exemptions

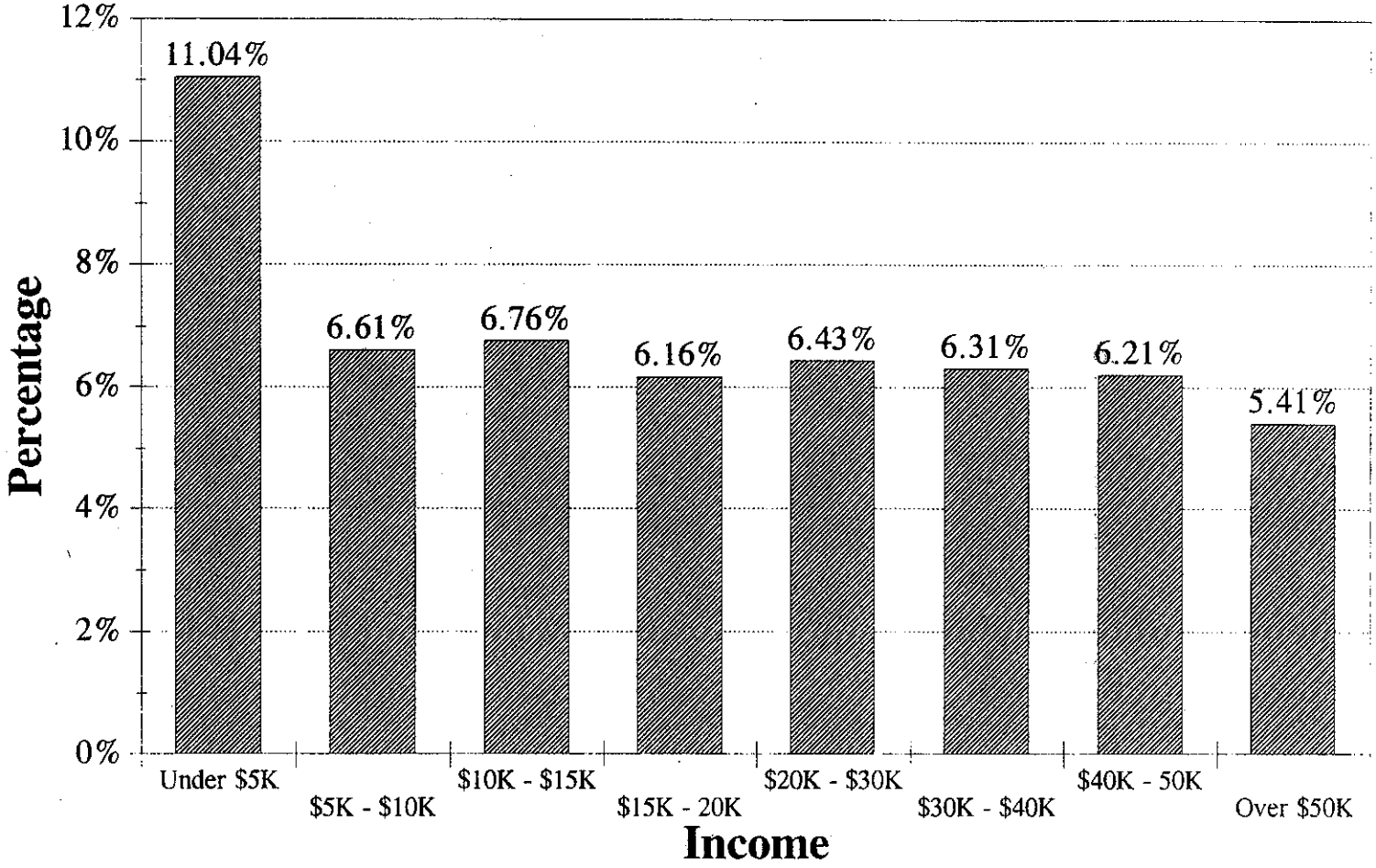
	($ in millions)
Food for off-premises consumption	$158.9
Gasoline and special fuel	$68.7
Fuel for residential heat, light, power	$33.5
Prescription drugs	$24.7
Sales to governmental units	$23.9
Purchases of machinery	$20.9
All other exemptions	$63.0
Total sales tax exemptions	**$393.6**

Graph 5. State Sales Tax as Percentage of Income, FY 1989



Prepared by Legislative Council Staff, October 1995.

Graph 6. State Taxes as Percentage of Income, FY 1989



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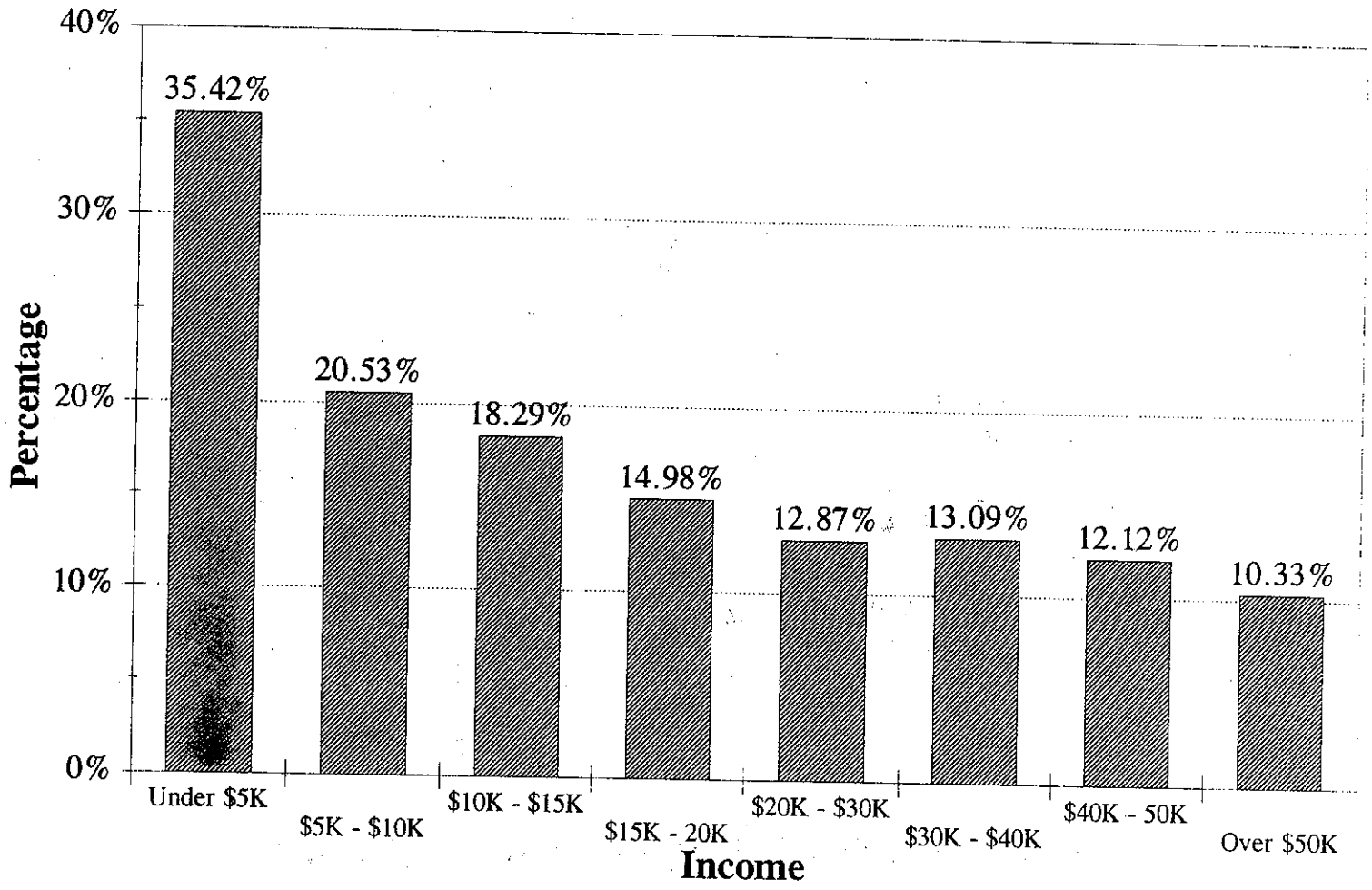
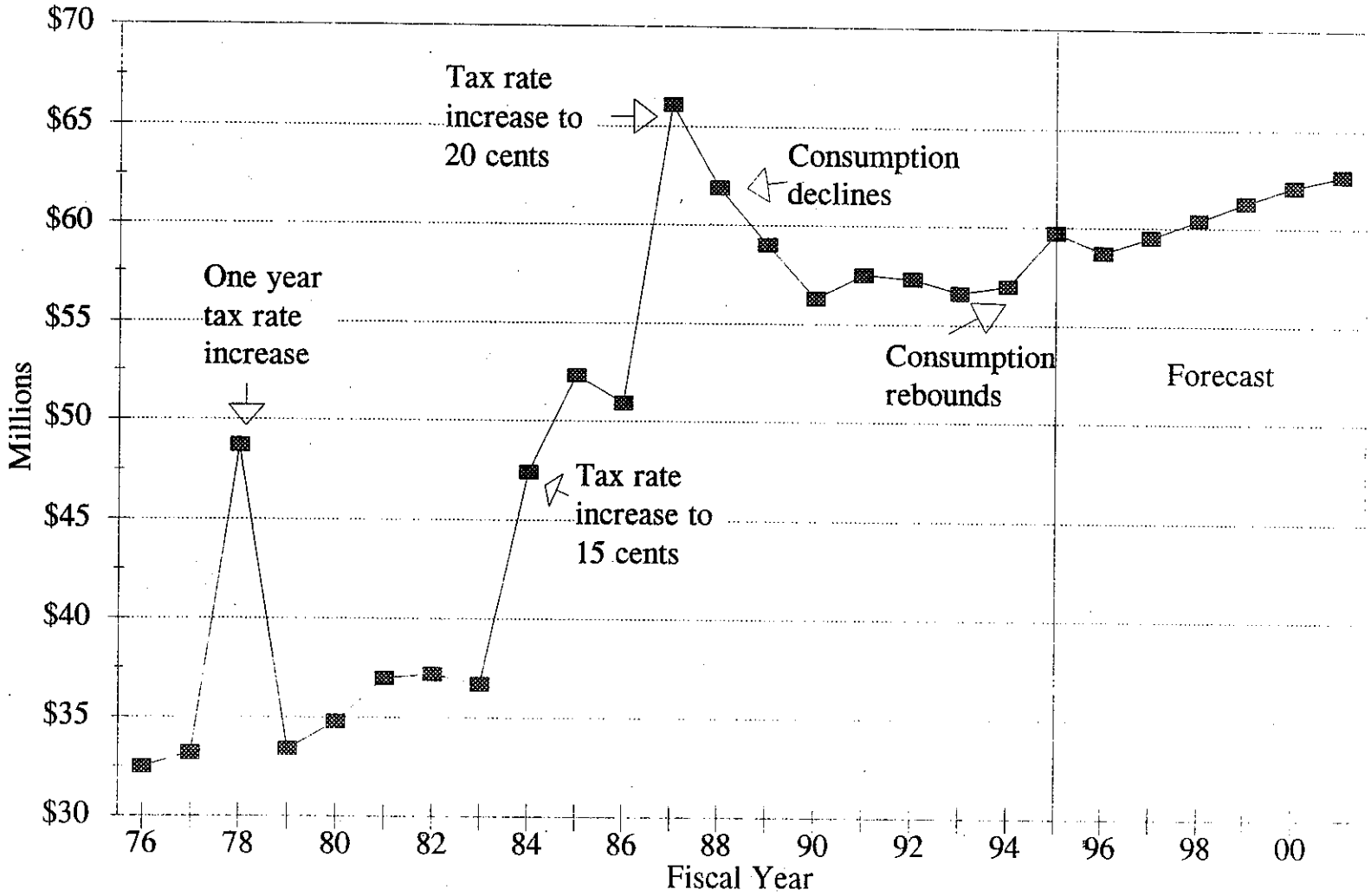
Graph 7. Combined State & Local Taxes as Percentage of Income, FY 1989



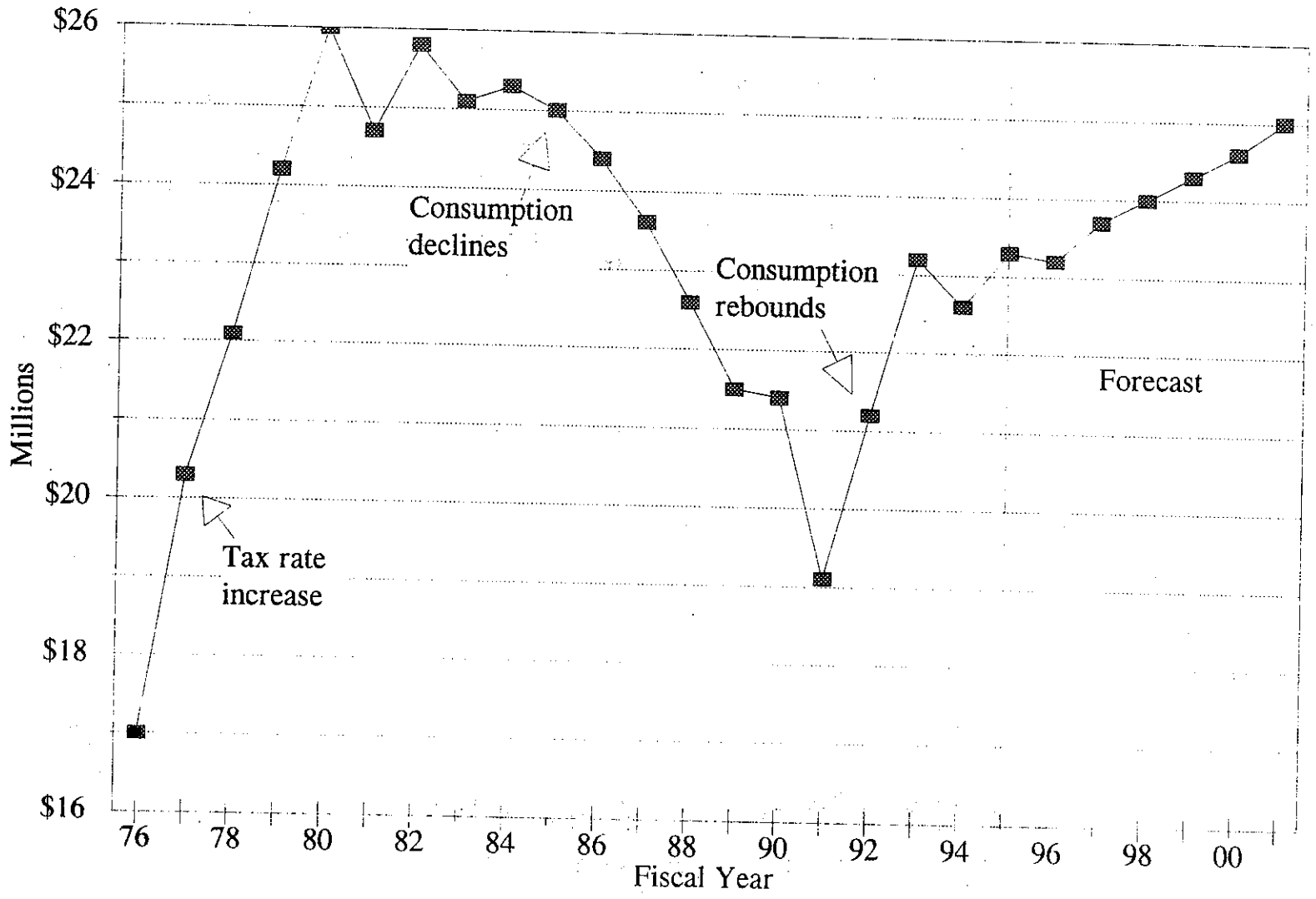
Prepared by Legislative Council Staff, October 1995.

Graph 8. Cigarette Tax Revenues
Fiscal Years 1975-76 through 2000-01



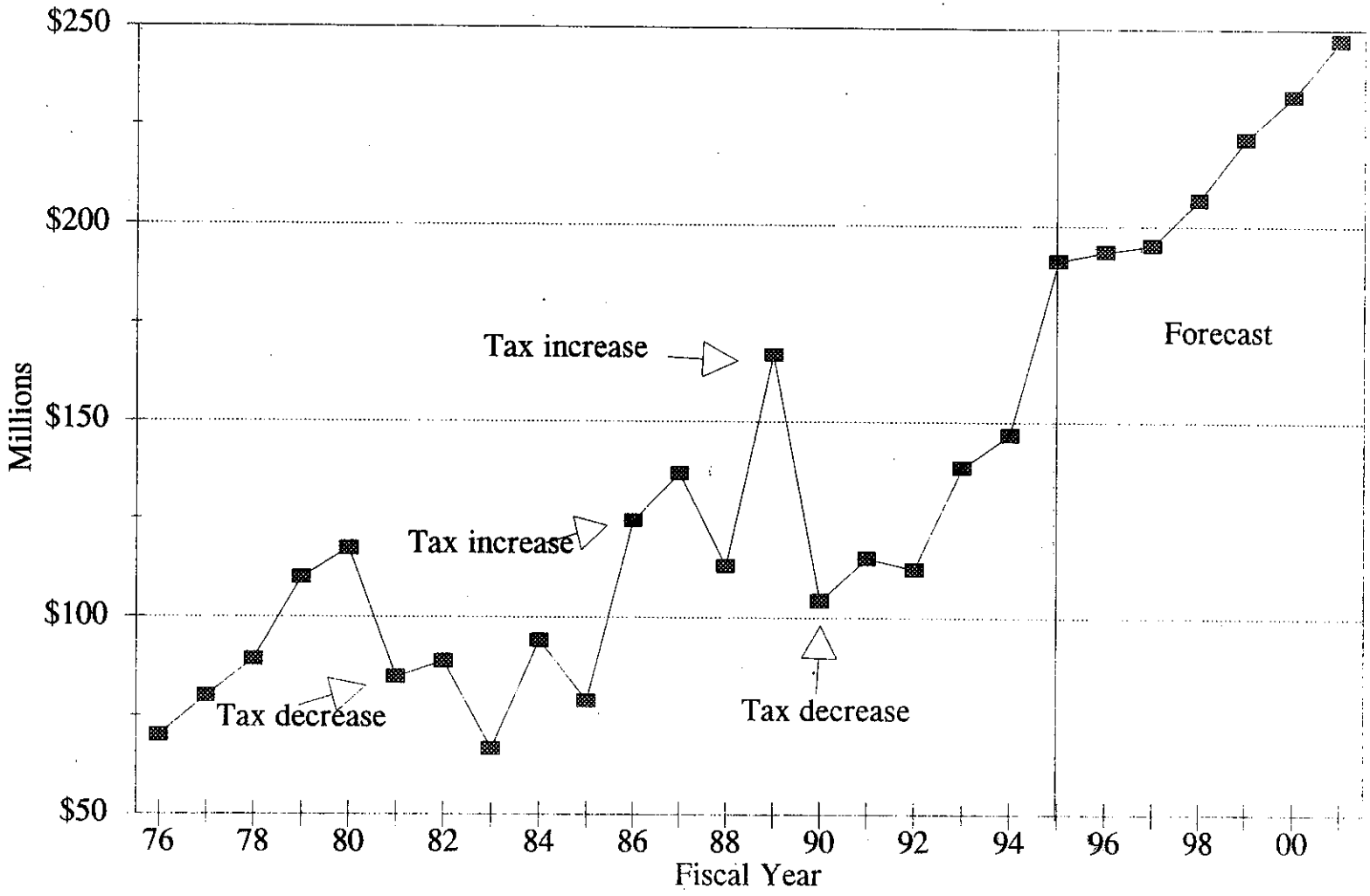
Prepared by Legislative Council Staff, October 1995.

Graph 9. Liquor Tax Revenues
Fiscal Years 1975-76 through 2000-01



Prepared by Legislative Council Staff, October 1995.

Graph 10. Corporate Income Tax
Fiscal Years 1975-76 through 2000-01



Prepared by Legislative Council Staff, October 1995.

General Fund Revenue Forecast and Overview

- The General Fund experienced rapid growth in the last two fiscal years. This growth is expected to slow during the forecast period.

- **Individual income tax receipts** will advance at a more moderate pace because of defense and military layoffs, weakness in the utility and transportation industries, and work force reductions in the residential and public works construction sectors.

- **Corporate tax receipts** will slow, but not decline.

- **Sales tax** growth will slow dramatically because of:

  - slower in-migration
  - the wind-down in public works construction
  - less mortgage refinance activity
  - declining home building
  - slower home value appreciation

- The General Fund is in excellent financial shape, with the year-end reserve expected to exceed $1 billion by fiscal year 2000-01.

- Nonetheless, a $250 million annual reduction of revenues beginning in fiscal year 1996-97, as outlined in the case study, would render a deficit by fiscal year 1997-98. This deficit would persist through the remainder of the decade.

Table 1

Colorado General Fund, Accrual Basis

Revenue Estimates by Tax Category

($ in millions)

Category	Preliminary Close FY 1994-95	% Change Over Prior Year	9/95 Estimate FY 1995-96	% Change Over Prior Year	9/95 Estimate FY 1996-97	% Change Over Prior Year
Sales	$ 1,131.8	9.2 %	$ 1,193.8	5.5 %	$ 1,258.7	5.4 %
Use	91.1	10.4	93.4	2.5	97.0	3.8
Cigarette	59.7	4.7	58.7	-1.7	59.5	1.4
Tobacco Products	5.9	7.6	6.2	5.2	6.1	-1.7
Liquor	23.3	3.2	23.2	-0.5	23.7	2.0
Other Excise	4.1	13.4	4.1	-0.1	4.4	6.8
TOTAL EXCISE	$ 1,315.9	8.9 %	$ 1,379.4	4.8 %	$ 1,449.4	5.1 %
Net Individual Income	$ 2,106.4	9.7 %	$ 2,253.1	7.0 %	$ 2,411.6	7.0 %
Net Corporate Income	191.1	30.2	193.5	1.2	195.0	0.8
TOTAL INCOME	$ 2,297.5	11.2 %	$ 2,446.6	6.5 %	$ 2,606.6	6.5 %
Estate	$ 27.6	-18.4 %	$ 28.9	4.6 %	$ 30.4	5.2 %
Insurance	105.1	3.1	114.3	8.8	119.6	4.6
Pari-Mutuel	8.2	-3.7	8.2	0.0	8.3	1.0
Interest Income	28.6	54.6	34.0	19.0	19.6	-42.4
Court Receipts	20.1	3.3	18.4	-8.5	18.6	1.1
Gaming	17.1 /B	3.3	17.0 /B	-0.7	19.2 /B	12.9
Medicaid (Intergovt. Transfer)	98.7 /C	-52.0	70.0 /C	-29.1	73.1 /C	4.4
Other Income	49.5 /D	14.6	28.4 /D	-42.6	20.4	-28.2
TOTAL OTHER	$ 354.9	-21.3 %	$ 319.2	-10.0 %	$ 309.2	-3.1 %
GROSS GENERAL FUND	**$ 3,968.3**	**6.5 %**	**$ 4,145.3**	**4.5 %**	**$ 4,365.1**	**5.3 %**
REBATES & EXPENDITURES:						
Cigarette Rebate	$ 16.5	2.0 %	$ 16.3	-1.7 %	$ 16.5	1.4 %
Old-Age Pension Fund	48.8	1.7	50.1	2.7	51.3	2.4
Aged Property Tax & Heating Credit	11.7	-2.9	11.5	-1.9	11.3	-1.6
Fire/Police Pensions /A	28.5	-0.7	61.1 /A	114.7	31.4 /A	-48.7
TOTAL REBATES & EXP.	$ 105.5	0.5 %	$ 139.0	31.7 %	$ 110.5	-20.5 %

Totals may not sum due to rounding.
NA: Not Applicable.

/A S.B. 95-228 increased the transfer to the Fire and Police Pension Fund to $26.6 million annually through FY 08-09 and made a one-time additional $25.5 million transfer to the Fund in FY 95-96. Additional transfers to this fund are made for the death and disability account (up to a maximum of $7.5 million) and death and disability insurance payments for volunteer fire fighters. The payment to the Fire and Police Pension Fund for the death and disability account ceases after December 31, 1996.

/B Limited gaming receipts are reported net of revenues that are credited to the Contiguous County Limited Gaming Impact Fund (which also includes monies distributed to counties contiguous to Indian lands on which gaming occurs), assuming the FY 94-95 distribution proportion. It also assumes the current tax rate structure, implemented on October 1, 1994. In addition, the receipts are net of transfers to the state Highway Fund (as enacted by S.B. 94-60) and to the Municipal Limited Gaming Impact Fund (as established by S.B. 94-79).

/C The figures include money from voluntary hospital payments and intergovernmental transfers that are used to leverage Federal Funds, then are reappropriated.

/D FY 94-95 other revenues include $18.04 million of reversions of unspent FY 93-94 Medicaid revenues. Given that this type of reversion has occurred for two consecutive years, we now include an estimated $6.0 million adjustment in FY 1995-96 revenues, then anticipate that such reversions will end.

(Continued)

Table 1 (Continued)
Colorado General Fund, Accrual Basis
Revenue Estimates by Tax Category
($ in millions)

Category	9/95 Estimate FY 1997-98	% Change Over Prior Year	9/95 Estimate FY 1998-99	% Change Over Prior Year	9/95 Estimate FY 1999-00	% Change Over Prior Year	9/95 Estimate FY 2000-01	%Change Over Prior Year
Sales	$ 1,333.6	6.0 %	$ 1,418.0	6.3 %	$ 1,510.5	6.5 %	$ 1,610.0	6.6 %
Use	99.1	2.2	102.0	2.9	105.1	3.0	108.5	3.2
Cigarette	60.4	1.5	61.3	1.5	62.1	1.2	62.7	1.1
Tobacco Products	6.0	-1.7	5.9	-1.9	5.8	-0.5	5.8	-1.0
Liquor	24.0	1.3	24.3	1.3	24.6	1.4	25.0	1.7
Other Excise	4.5	3.2	4.7	2.9	4.8	3.0	5.0	2.9
TOTAL EXCISE	$ 1,527.7	5.4 %	$ 1,616.1	5.8 %	$ 1,712.9	6.0 %	$ 1,817.0	6.1 %
Net Individual Income	$ 2,578.1	6.9 %	$ 2,758.2	7.0 %	$ 2,946.3	6.8 %	$ 3,141.8	6.6 %
Net Corporate Income	206.7	6.0	221.9	7.4	232.9	4.9	247.2	6.2
TOTAL INCOME	$ 2,784.7	6.8 %	$ 2,980.2	7.0 %	$ 3,179.2	6.7 %	$ 3,389.0	6.6 %
Estate	$ 31.6	3.9 %	$ 32.9	4.1 %	$ 34.4	4.6 %	$ 36.1	4.9 %
Insurance	124.5	4.1	129.9	4.4	135.5	4.3	141.4	4.3
Pari-Mutuel	8.5	2.4	8.6	1.2	8.7	1.2	8.8	1.1
Interest Income	23.1	17.9	24.6	6.5	27.2	10.6	29.9	9.9
Court Receipts	19.0	2.2	19.7	3.7	20.0	1.5	20.3	1.5
Gaming	20.3 /B	5.7	21.3 /B	4.9	24.9 /B	16.9	26.2 /B	5.2
Medicaid (Intergovt. Transfer)	76.8 /C	5.1	80.8 /C	5.2	84.6 /C	4.7	88.6 /C	4.7
Other Income	21.2	3.9	21.8	2.8	22.6	3.7	23.1	2.2
TOTAL OTHER	$ 325.0	5.1 %	$ 339.6	4.5 %	$ 357.9	5.4 %	$ 374.3	4.6 %
GROSS GENERAL FUND	**$ 4,637.4**	**6.2 %**	**$ 4,936.0**	**6.4 %**	**$ 5,250.0**	**6.4 %**	**$ 5,580.3**	**6.3 %**
REBATES & EXPENDITURES:								
Cigarette Rebate	$ 16.7	1.5 %	$ 17.0	1.5 %	$ 17.2	1.2 %	$ 17.4	1.1 %
Old-Age Pension Fund	52.4	2.1	53.4	1.9	54.4	1.9	55.5	2.0
Aged Property Tax & Heating Credit	11.1	-1.7	10.9	-2.1	10.6	-2.4	10.4	-2.5
Fire/Police Pensions /A	27.9 /A	-11.0	27.9 /A	0.0	27.9 /A	-0.0	28.3 /A	1.4
TOTAL REBATES & EXP.	$ 108.2	-2.1 %	$ 109.2	0.9 %	$ 110.1	0.9 %	$ 111.6	1.3 %

Totals may not sum due to rounding.
NA: Not Applicable.

/A S.B. 95-228 increased the transfer to the Fire and Police Pension Fund to $26.6 million annually through FY 08-09 and made a one-time additional $25.5 million transfer to the Fund in FY 95-96. Additional transfers to this fund are made for the death and disability account (up to a maximum of $7.5 million) and death and disability insurance payments for volunteer fire fighters. The payment to the Fire and Police Pension Fund for the death and disability account ceases after December 31, 1996.

/B Limited gaming receipts are reported net of revenues that are credited to the Contiguous County Limited Gaming Impact Fund (which also includes monies distributed to counties contiguous to Indian lands on which gaming occurs), assuming the FY 94-95 distribution proportion. It also assumes the current tax rate structure, implemented on October 1, 1994. In addition, the receipts are net of transfers to the state Highway Fund (as enacted by S.B. 94-60) and to the Municipal Limited Gaming Impact Fund (as established by S.B. 94-79).

/C The figures include money from voluntary hospital payments and intergovernmental transfers that are used to leverage Federal Funds, then are reappropriated.

Table 2
General Fund Overview
($ in millions)

	Preliminary Close FY 1994-95	9/95 Estimate FY 1995-96	9/95 Estimate FY 1996-97	9/95 Estimate FY 1997-98	9/95 Estimate FY 1998-99	9/95 Estimate FY 1999-2000	9/95 Estimate FY 2000-01
BEGINNING RESERVE	$ 404.9	$ 486.3	$ 272.7	$ 359.6	$ 431.8	$ 576.1	$ 793.7
GROSS GENERAL FUND	3,968.3	4,145.3	4,365.1	4,637.4	4,936.0	5,250.0	5,580.3
TOTAL FUNDS AVAILABLE	$ 4,373.2	$ 4,631.6	$ 4,637.8	$ 4,997.0	$ 5,367.8	$ 5,826.1	$ 6,374.0
EXPENDITURES:							
General Fund Appropriations	$ 3,536.4 /E	$ 3,859.3 /G	$ 4,090.9	$ 4,336.3	$ 4,596.5	$ 4,872.3	$ 5,164.6
FY 1994-95 Supplementals	90.1	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	105.5 /C	139.0 /C	110.5 /C	108.2 /C	109.2 /C	110.1 /C	111.6 /C
Capital Construction Fund	34.7 /A	25.0 /A	50.0	50.0	50.0	0.0	0.0
Capital Cons. Transfer for Prisons	10.6 /D	27.0 /D	26.8 /D	27.2 /D	NA	NA	NA
Transfer for Highway Construction	NA	75.0 /F	NA	NA	NA	NA	NA
Water Conservation Construction Fund	30.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Controlled Maintenance Trust Fund	19.4 /B	208.6 /B	0.0 /B	43.5 /B	36.1 /B	50.0 /B	50.0 /B
Accounting Adjustments	(16.2)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OBLIGATIONS	$ 3,810.5	$ 4,333.9	$ 4,278.1	$ 4,565.2	$ 4,791.8	$ 5,032.4	$ 5,326.2
ENDING GENERAL FUND STATUTORY RESERVE:							
Year-End Reserve	$ 562.7	$ 297.7	$ 359.6	$ 431.8	$ 576.1	$ 793.7	$ 1,047.8
Statutory Required Reserve	145.1	154.4	163.6	173.5	183.9	194.9	206.6
Actual Reserve Percentage	15.5%	7.7%	8.8%	10.0%	12.5%	16.3%	20.3%
Statutory Required Reserve Percentage	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Transfer from the Reserve to the Capital Const. Fund	75.0 /A	25.0 /A	NA	NA	NA	NA	NA
Transfer to Disaster Emergency Fund: Fire Costs	1.4	NA	NA	NA	NA	NA	NA
REMAINING YEAR-END STATUTORY RESERVE	**$ 486.3**	**$ 272.7**	**$ 359.6**	**$ 431.8**	**$ 576.1**	**$ 793.7**	**$ 1,047.8**
MONIES IN EXCESS OF STATUTORY RESERVE:	**$ 341.2**	**$ 118.3**	**$ 196.0**	**$ 258.4**	**$ 392.2**	**$ 598.8**	**$ 841.2**
ARTICLE X, SECTION 20 CONSTITUTIONAL RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	114.6	179.0	187.8	199.1	209.6	220.7	233.5
Reserved Amount (CMTF Principal in FY 96-97 forward)	108.8 /H	176.9 /H	263.0 /H	306.5 /H	342.6 /H	392.6 /H	442.6 /H
Additional Money Needed for Emergency Reserve	5.8	2.1	NA	NA	NA	NA	NA
Appropriations Growth	208.5 /E	232.8 /G	231.6	245.5	260.2	275.8	292.3
Appropriations Growth Rate	6.10% /E	6.42% /G	6.00%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.
Totals may not sum due to rounding.

/A In FY 94-95, $75 million of the $109.7 million transfer to the Capital Construction Fund comes from the reserve. Meanwhile, in FY 95-96, $25 million of the $50 million transfer comes from the reserve.

/B S.B. 93-7 allows a transfer of 50 percent of the revenues in excess of expenditures and the statutorily required reserve to the Controlled Maintenance Trust Fund (CMTF), up to $50 million, in January of the following fiscal year, beginning in January 1995. H.B. 95-1359 transfers $176 million to the Controlled Maintenance Trust Fund in addition to the 50% excess funds transfer in FY 95-96. Beginning in FY 96-97, the principal of the CMTF may serve to fulfill some portion of the emergency reserve required by the State Constitution and may only be spent for emergency purposes as cited by statute.

/C Rebates and expenditures (including Old-Age Pension Fund expenditures) are appropriated from the General Fund, but are not subject to the provisions of Section 24-75-201.1, C.R.S. (the appropriations limit and the calculation of the reserve).

/D H.B. 95-1352 transferred money to the Capital Construction Fund for the building of prisons through FY 95-96. The bill also states that it is the intent of the General Assembly to transfer the funds noted in FY 96-97 and FY 97-98, but does not specifically direct said transfers be made. Nonetheless, these figures are included in the analysis.

/E Includes $3.4 million in appropriations that were exempt from the statutory appropriations limit. A court order was the primary reason for the exemption.

/F H.B. 95-1174 transfers $75 million to the Capital Construction Fund on July 1, 1995 for the purpose of state highway maintenance and construction.

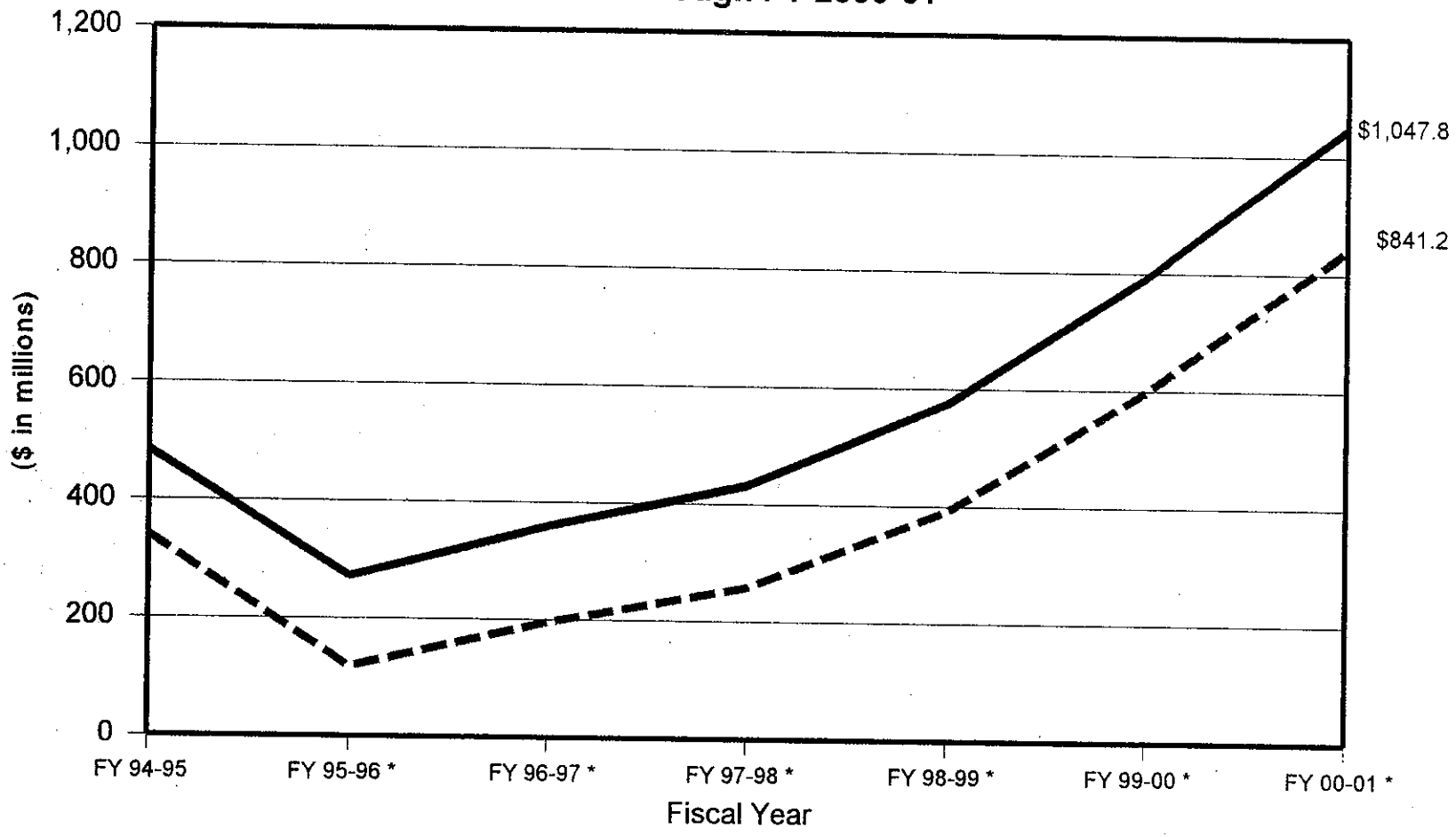
/G Includes $24.4 million in appropriations that are exempt from the statutory appropriations limit because they represent court settlements.

/H In FY 94-95, the General Assembly designated $108.8 million from various funds to satisfy the emergency reserve requirement. This was a sufficient reserve for such purposes at the time of planning. Upon closure of the books, the amount necessary for the reserve increased, but the state had ample funds to meet the requirement. In the Long Bill for FY 95-96 appropriations, the General Assembly designated $176.9 million as the emergency reserve. Based upon the current estimates, the state will need more money for the emergency reserve in FY 95-96 than designated but there are sufficient funds to meet such needs. In addition, the General Assemby directed that a transfer of $176 million be made from the General Fund to the Controlled Maintenance Trust Fund (CMTF) on June 30, 1996. Beginning in FY 96-97, the principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement for Cash and General Funds. Thus, starting in FY 95-96, the principal of the CMTF is reported as the reserved amount. It is assumed that the General Assembly makes the transfers to the CMTF that are allowed, but not specifically directed, by statute.

Graph 1

Year-End General Fund Reserve

FY 1994-95 through FY 2000-01



Prepared by Legislative Council Staff, October 1995.

** Estimates as of September 1995.*

Table 2a
General Fund Overview
Assuming Federal Tax Reform that Costs the State $250 million annually
($ in millions)

	Preliminary Close FY 1994-95	Estimate FY 1995-96	Estimate FY 1996-97	Estimate FY 1997-98	Estimate FY 1998-99	Estimate FY 1999-2000	Estimate FY 2000-01
BEGINNING RESERVE	$ 404.9	$ 486.3	$ 272.7	$ 109.6	$ (42.2)	$ (148.1)	$ (186.7)
GROSS GENERAL FUND	3,968.3	4,145.3	4,115.1	4,369.9	4,649.8	4,943.7	5,252.6
TOTAL FUNDS AVAILABLE	$ 4,373.2	$ 4,631.6	$ 4,387.8	$ 4,479.5	$ 4,607.6	$ 4,795.7	$ 5,065.9
EXPENDITURES:							
General Fund Appropriations	$ 3,536.4 /E	$ 3,859.3 /G	$ 4,090.9	$ 4,336.3	$ 4,596.5	$ 4,872.3	$ 5,164.6
FY 1994-95 Supplementals	90.1	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	105.5 /C	139.0 /C	110.5 /C	108.2 /C	109.2 /C	110.1 /C	111.6 /C
Capital Construction Fund	34.7 /A	25.0 /A	50.0	50.0	50.0	0.0	0.0
Capital Cons. Transfer for Prisons	10.6 /D	27.0 /D	26.8 /D	27.2 /D	NA	NA	NA
Transfer for Highway Construction	NA	75.0 /F	NA	NA	NA	NA	NA
Water Conservation Construction Fund	30.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Controlled Maintenance Trust Fund	19.4 /B	208.6 /B	0.0 /B	0.0 /B	0.0 /B	0.0 /B	0.0 /B
Accounting Adjustments	(16.2)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OBLIGATIONS	$ 3,810.5	$ 4,333.9	$ 4,278.1	$ 4,521.7	$ 4,755.7	$ 4,982.4	$ 5,276.2
ENDING GENERAL FUND STATUTORY RESERVE:							
Year-End Reserve	$ 562.7	$ 297.7	$ 109.6	$ (42.2)	$ (148.1)	$ (186.7)	$ (210.3)
Statutory Required Reserve	145.1	154.4	163.6	173.5	183.9	194.9	206.6
Actual Reserve Percentage	15.5%	7.7%	2.7%	-1.0%	-3.2%	-3.8%	-4.1%
Statutory Required Reserve Percentage	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Transfer from the Reserve to the Capital Const. Fund	75.0 /A	25.0 /A	NA	NA	NA	NA	NA
Transfer to Disaster Emergency Fund: Fire Costs	1.4	NA	NA	NA	NA	NA	NA
REMAINING YEAR-END STATUTORY RESERVE	**$ 486.3**	**$ 272.7**	**$ 109.6**	**$ (42.2)**	**$ (148.1)**	**$ (186.7)**	**$ (210.3)**
MONIES IN EXCESS OF STATUTORY RESERVE:	**$ 341.2**	**$ 118.3**	**$ (54.0)**	**$ (215.6)**	**$ (331.9)**	**$ (381.6)**	**$ (416.9)**
ARTICLE X, SECTION 20 CONSTITUTIONAL RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	114.6	NA	NA	NA	NA	NA	NA
Reserved Amount (CMTF Principal in FY 96-97 forward)	108.8 /H	176.9 /H	263.0 /H	263.0 /H	263.0 /H	263.0 /H	263.0 /H
Additional Money Needed for Emergency Reserve	5.8	NA	NA	NA	NA	NA	NA
Appropriations Growth	208.5 /E	232.8 /G	231.6	245.5	260.2	275.8	292.3
Appropriations Growth Rate	6.10% /E	6.42% /G	6.00%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.
Totals may not sum due to rounding.
Note: These figures are based upon Legislative Council staff's September 1995 revenue forecast, adjusted $250 million lower beginning in fiscal year 1996-97 for federal tax changes.

/A In FY 94-95, $75 million of the $109.7 million transfer to the Capital Construction Fund comes from the reserve. Meanwhile, in FY 95-96, $25 million of the $50 million transfer comes from the reserve.

/B S.B. 93-7 allows a transfer of 50 percent of the revenues in excess of expenditures and the statutorily required reserve to the Controlled Maintenance Trust Fund (CMTF), up to $50 million, in January of the following fiscal year, beginning in January 1995. H.B. 95-1359 transfers $176 million to the Controlled Maintenance Trust Fund in addition to the 50% excess funds transfer in FY 95-96. Beginning in FY 96-97, the principal of the CMTF may serve to fulfill some portion of the emergency reserve required by the State Constitution and may only be spent for emergency purposes as cited by statute

/C Rebates and expenditures (including Old-Age Pension Fund expenditures) are appropriated from the General Fund, but are not subject to the provisions of Section 24-75-201.1, C.R.S. (the appropriations limit and the calculation of the reserve).

/D H.B. 95-1352 transferred money to the Capital Construction Fund for the building of prisons through FY 95-96. The bill also states that it is the intent of the General Assembly to transfer the funds noted in FY 96-97 and FY 97-98, but does not specifically direct said transfers be made. Nonetheless, these figures are included in the analysis.

/E Includes $3.4 million in appropriations that were exempt from the statutory appropriations limit. A court order was the primary reason for the exemption

/F H.B. 95-1174 transfers $75 million to the Capital Construction Fund on July 1, 1995 for the purpose of state highway maintenance and construction.

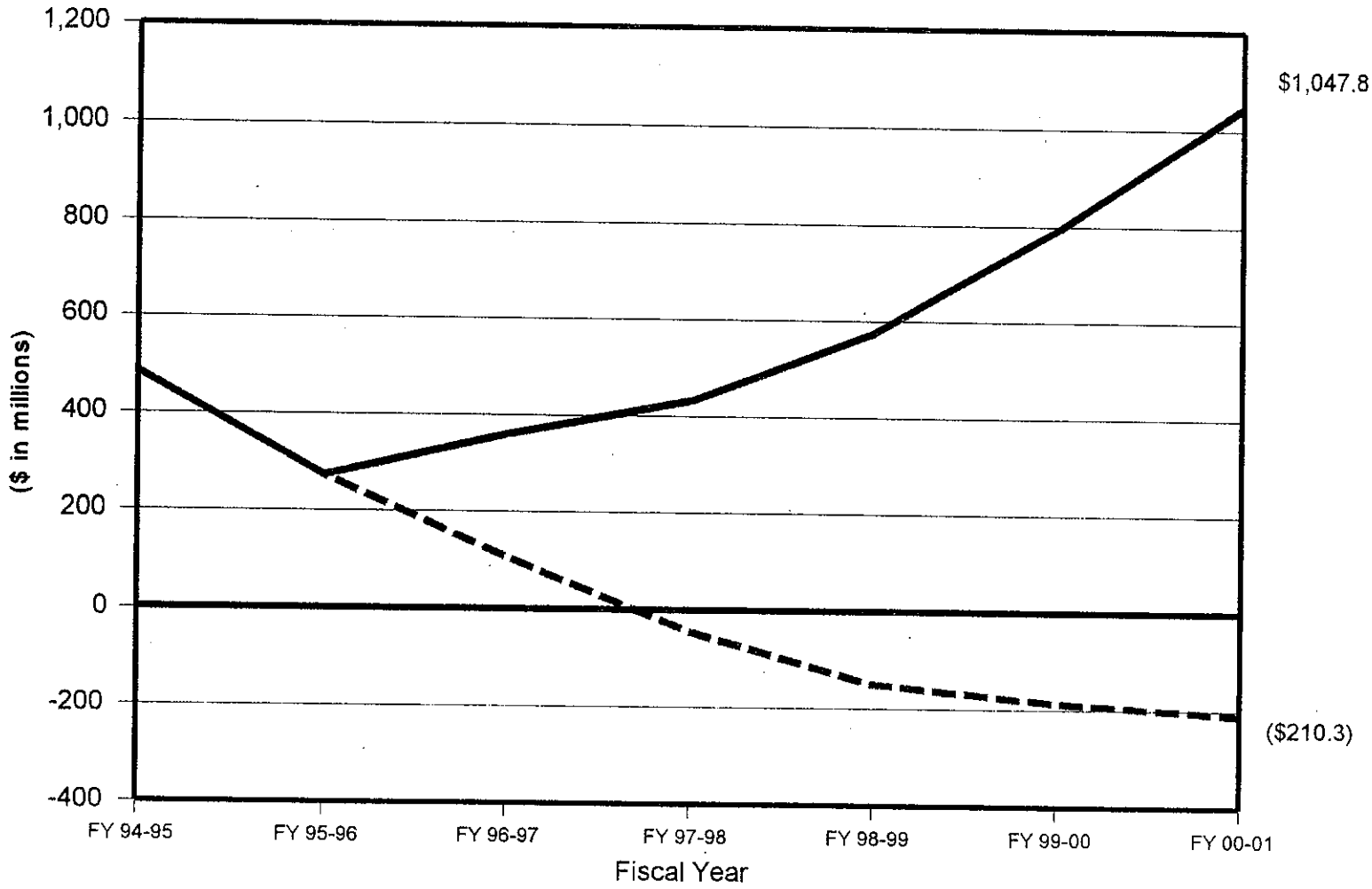
/G Includes $24.4 million in appropriations that are exempt from the statutory appropriations limit because they represent court settlements.

/H In FY 94-95, the General Assembly designated $108.8 million from various funds to satisfy the emergency reserve requirement. This was a sufficient reserve for such purposes at the time of planning. Upon closure of the books, the amount necessary for the reserve increased, but the state had ample funds to meet the requirement. In the Long Bill for FY 95-96 appropriations, the General Assembly designated $176.9 million as the emergency reserve. Based upon the current estimates, the state will need more money for the emergency reserve in FY 95-96 than designated, but there are sufficient funds to meet such needs. In addition, the General Assemby directed that a transfer of $176 million be made from the General Fund to the Controlled Maintenance Trust Fund (CMTF) on June 30, 1996. Beginning in FY 96-97, the principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement for Cash and General Funds. Thus, starting in FY 95-96, the principal of the CMTF is reported as the reserved amount. It is assumed that the General Assembly makes the transfers to the CMTF that are allowed, but not specifically directed, by statute.

Graph 2

Pre- vs. Post-Federal Tax Reform Year-End General Fund Reserves

FY 1994-95 through FY 2000-01



Prepared by Legislative Council Staff, October 1995.

General Fund Appropriations Limit

CHART 1

CALCULATION OF FY 1995-96 STATUTORY APPROPRIATIONS LIMIT:
($ in millions)

$3,626.5	FY 1994-95 General Fund Appropriations
1.06	Allowable General Fund Appropriations Increase
$3,844.1	FY 1995-96 General Fund Appropritions Limit
$3,859.3	FY 1995-96 General Fund Approriations
(24.4)	Less exemptions to the limit
$3,834.9	FY 1995-96 GF Appropriations Subject to Limit
($9.2)	Over (under) FY 1995-96 General Fund Limit

CHART 2

CALCULATION OF FY 1996-97 ALLOWABLE GENERAL FUND APPROPRIATIONS:
($ in millions)

$3,859.3	FY 1995-96 General Fund Appropriations
1.06	Allowable General Fund Appropriations increase
$4,090.9	FY 1996-97 Allowable General Fund Appropriations
$231.6	Allowable General Fund Increase in FY 1996-97

CHART 3

POTENTIAL GENERAL FUND INCREASES IN FY 1996-97:
($ in millions)

$80.7	Medicaid - based on current program
73.2	K-12 - assumes 2% inflation; $19.0 million with no inflation
42.3	Higher Education - assumes 6% increase over FY 1995-96
10.0	Salary Survey - based on historical average
27.1	Corrections - additional facilities coming on line
0.7	Office of Youth Services - based on population
22.8	Child Welfare and Child Care - based on current program
13.0	HUTF off-the-top buyout - second of three years
$269.8	Total potential increases
($38.2)	Remaining for appropriation under the limit

Cash Funds

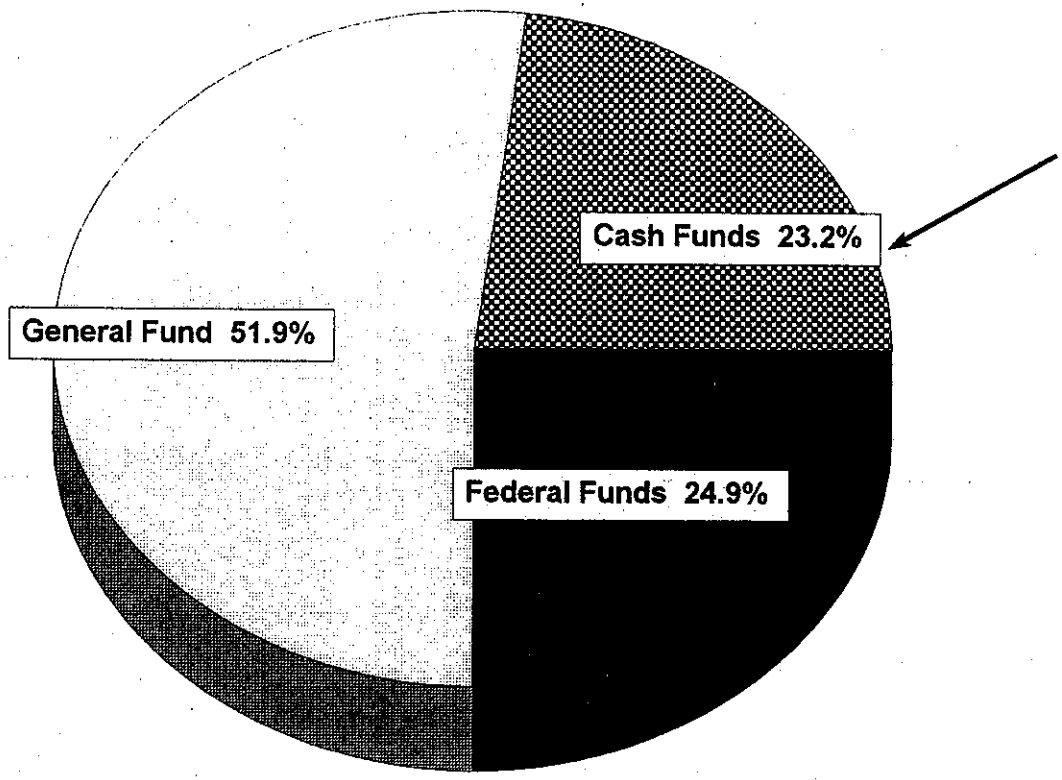
- Cash Fund revenues subject to the constitutional spending limit totalled $1,814.8 million in fiscal year 1994-95.

- 76% of these revenues come from four main categories:

Higher Education	$527.2 million
Transportation-Related Cash Funds	$579.1 million
Unemployment Insurance Trust Fund	$231.9 million
Wildlife Cash Fund	$59.7 million

Graph 1

Colorado State Budget
Revenue Sources by Fund Type, FY 1995-96



Cash Fund Components:

Transportation	7.5%
Higher Education	6.9%
Unemployment Insurance	2.7%
Wildlife	0.8%
All Other	5.3%

Estimated Fiscal Year 1995-96 Revenues: $7,945.5

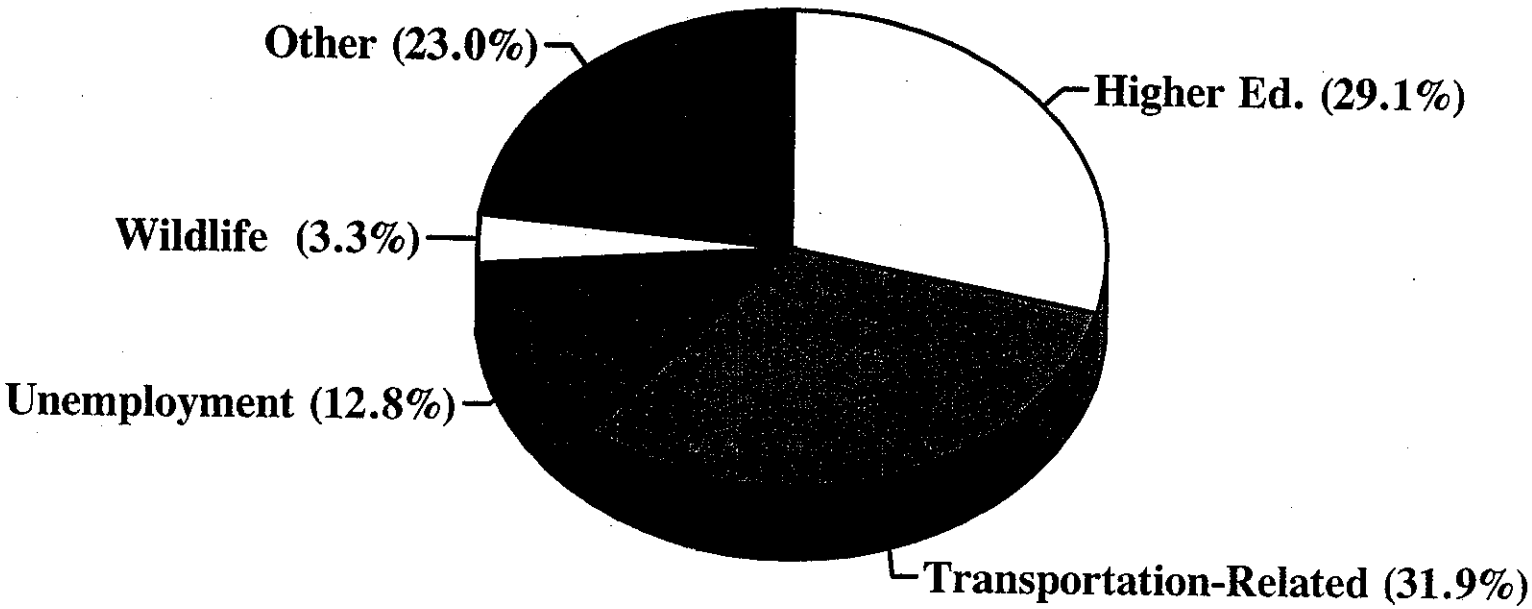
Note: These proportions reflect the September 1995 revenue forecast, the final proportions may differ slightly. This figure will not equal appropriations because it excludes some revenues not subject to Article X, Section 20 of the Constitution and because some appropriations come from reserves.

Source: Joint Budget Committee and Legislative Council Staff.

Prepared by Legislative Council Staff, October 1995.

Graph 2

Cash Fund Revenues By Source
Fiscal Year 1994-95



Total Revenue: $1,814.8 Million

Prepared by Legislative Council Staff, October 1995.

Higher Education

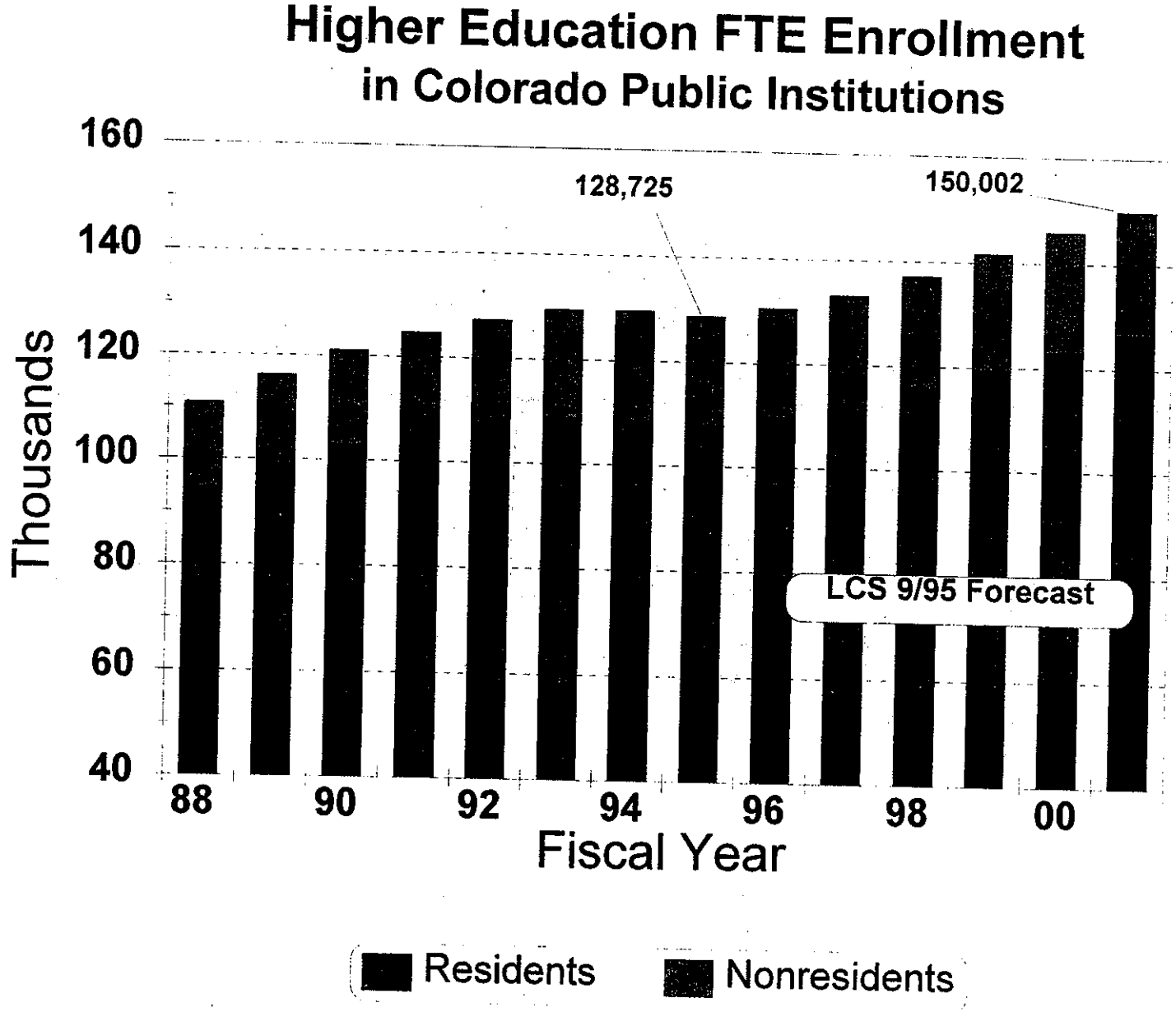
- Tuition revenue accounts for over 81% of higher education cash fund revenue subject to the constitutional spending limit.

- Fiscal year 1994-95 tuition revenue totalled $428.7 million.

- Colorado's higher education system caters to a largely resident student population. In fiscal year 1994-95, resident full-time-equivalent (FTE) students made up 84% of the total FTE enrollment.

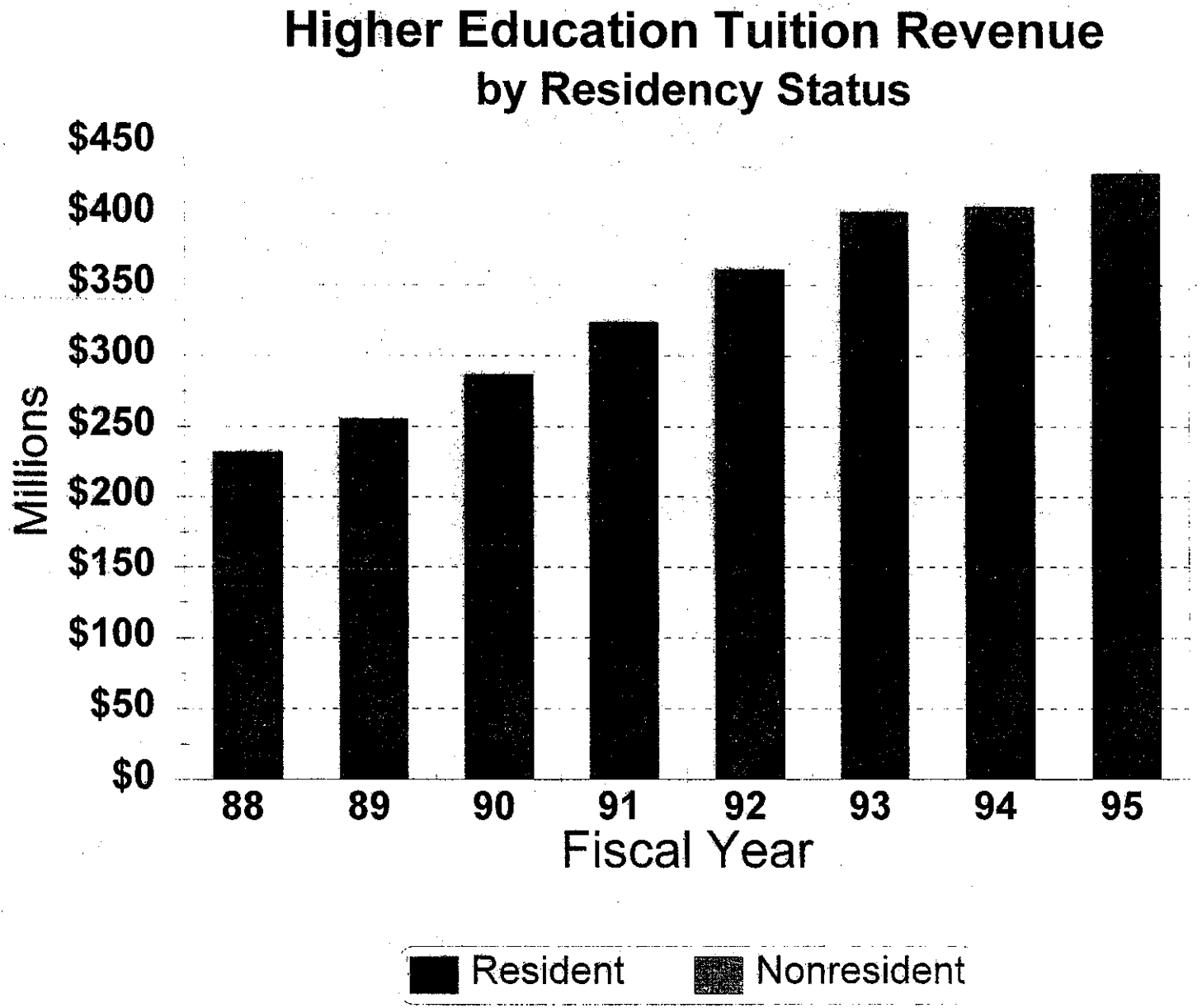
- However, resident students contributed only 54% of tuition revenue because they pay lower tuition rates than nonresident students.

Graph 3



Prepared by Legislative Council Staff, October 1995.

Graph 4



Prepared by Legislative Council Staff, October 1995.

Transportation-Related Cash Funds

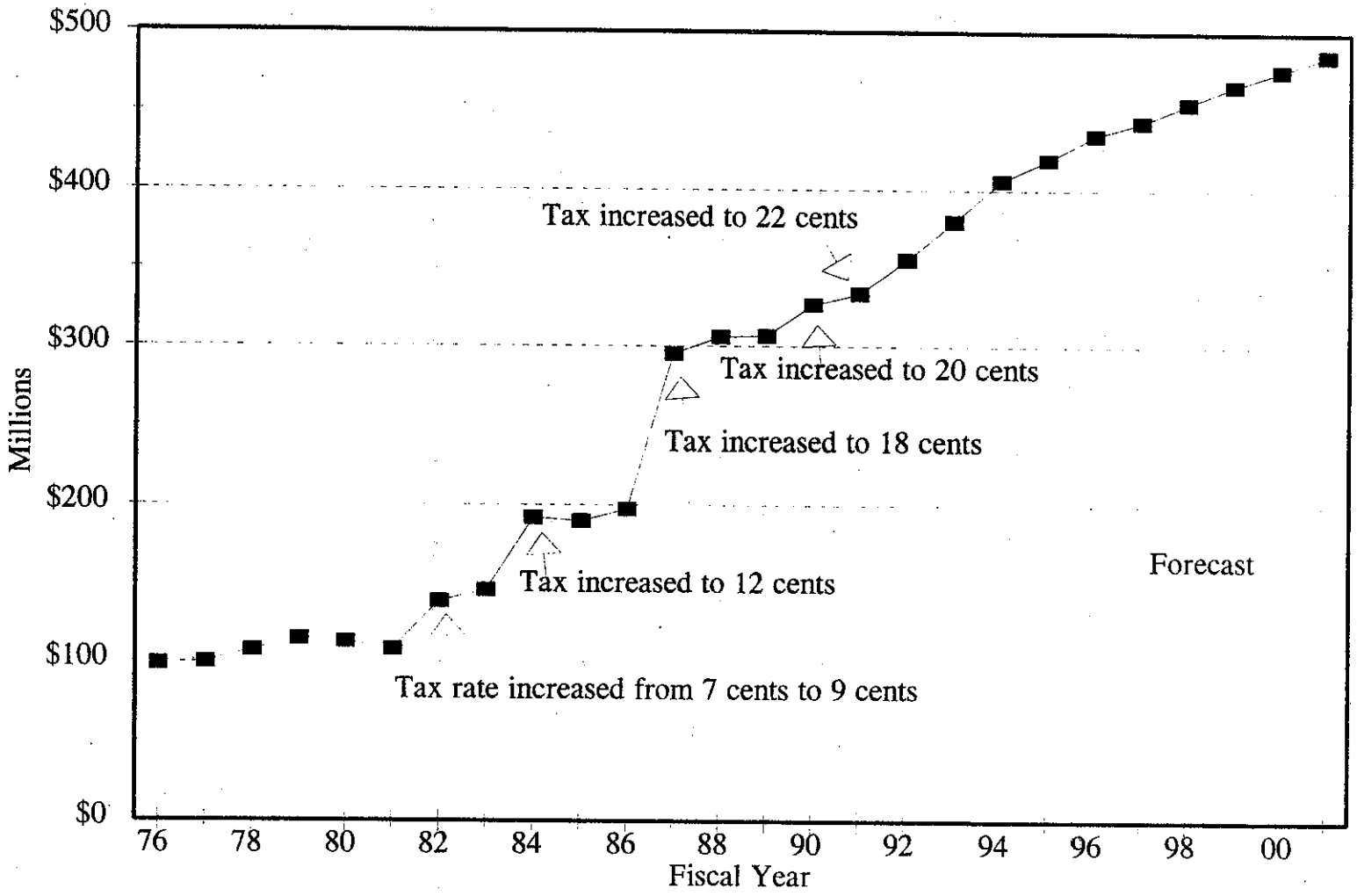
- Five cash funds make up this group. The largest of these is the Highway Users Tax Fund (HUTF).

- In fiscal year 1994-95, total revenue to these funds totaled $579.1 million. Motor and special fuel sales accounted for 73% of this total. Registration receipts comprised 17%.

- The remainder of the revenues in these cash funds come from the sale of drivers' licenses, emissions fees, and interest receipts, among other items.

Graph 5

Motor Fuel Taxes
Fiscal Years 1975-76 through 2000-01



Prepared by Legislative Council Staff, October 1995.

Unemployment Insurance Trust Fund

- Income to the Unemployment Insurance (UI) Trust Fund is mainly comprised of taxes and interest (earned on the UI Trust Fund Balance).

- Employers pay unemployment insurance taxes on the first $10,000 in wages paid to an employee in a given year.

- Tax rates are a function of: 1) the UI Trust Fund balance, and 2) employer's benefit rating.

- The tax rate schedule was reduced in January 1995, because the UI Trust Fund balance reached a threshold specified in statute in June of 1994. This past June, the balance surpassed the $450 million level, which will trigger another tax rate schedule reduction in January 1996.

- Current statute does not provide for further reductions, regardless of the UI Trust Fund's level.

ARTICLE X, SECTION 20 AND STATE TAXES

THE FISCAL YEAR SPENDING LIMIT

- **Fiscal Year Spending** (FYS) - All state revenues whether spent or saved
- **Fiscal Year Spending Limit** = Prior year FYS + Inflation + Change in state population
- **Emergency Reserves** - 3% of FYS

VOTER APPROVAL REQUIREMENTS

- **Tax Increases** - Any new tax, tax rate increase, extension of an expiring tax, or tax policy change directly causing a net tax revenue gain to any district
- **Revenue Changes** - Voters may approve revenues in excess of FYS limit
- **Weakening of other limits**

BALLOT REQUIREMENTS

- **Timing** - Section 20 issues may be submitted in any November
- **Form** - Substantial compliance with the prescribed language for tax increases is required

OTHER PROVISIONS

- Refunds required if the FYS limit is exceeded, may be done in any reasonable method
- New real estate transfer taxes prohibited
- New state real property tax prohibited
- Any income tax rate increase or new definition of taxable income can only apply in future years
- State income tax to remain at a flat rate, with no added tax or surcharge

The Constitutional Spending Limit v.s. Revenues

- The state is expected to remain below its constitutional spending limit through fiscal year 1997-98. Thereafter, revenues are expected to exceed the limits.

- In fiscal years 1998-99 through 2000-01, the General Assembly will need to either rebate revenues, ask the voters to keep excess revenues, and/or adjust fees and policies for Cash Funds in order to comply with the constitutional spending limit.

- The reduction of revenues proposed by the case study will not alleviate the situation. The state will still have revenues in excess of its limits for fiscal years 1998-99 and beyond.

Table 3
Expenditures and Emergency Reserve for Purposes of Article X, Section 20 of the State Constitution

	Preliminary Close FY 1994-95	9/95 Estimate FY 1995-96	9/95 Estimate FY 1996-97	9/95 Estimate FY 1997-98	9/95 Estimate FY 1998-99	9/95 Estimate FY 1999-00	9/95 Estimate FY 2000-01
Article X, Section 20 Expenditures (Revenues):							
General Fund	$ 3,916.4 /C	$ 4121.3 /C	$ 4344.9 /C	$ 4616.1 /C	$ 4913.7 /C	$ 5224.1 /C	$ 5553.1 /C
Cash Funds:							
Highway Users Tax Fund	560.8	576.8	589.7	607.8	626.9	644.9	663.8
Other Transportation-Related Funds	18.3	17.4	18.1	18.8	19.5	20.4	21.2
Higher Education Funds	527.2	550.6	596.5	651.7	714.9	783.3	855.4
Unemployment Insurance	231.9	216.5	209.6	215.5	224.6	233 5	241.3
Wildlife	59.7	60.1	61.1	62.1	62.9	64.1	65.2
Other Cash Funds	416.9	423.9	439.9	464.1	491.8	520.8	550.8
Total Article X, Section 20 Expenditures	$ 5,731.2	$ 5,966.7	$ 6,259.7	$ 6,636.0	$ 7,054.3	$ 7,491.1	$ 7,950.8
LIMIT:							
Growth Rate	6.4%	4.1%	4.9%	6.0%	6.3%	6.2%	6.1%
Allowable Article X, Section 20 Growth Rate	7.1%	7.0%	6.8%	6.1%	5.3%	5.3%	5.8%
Article X, Section 20 Limit	**$ 5,769.4**	**$ 6,132.3**	**$ 6,372.4**	**$ 6,641.6**	**$ 6,987.8**	**$ 7,358.1**	**$ 7,784.9**
Expenditures Above/(Below) Article X, Section 20 Limit	**$ (38.2)**	**$ (165.7)**	**$ (112.7)**	**$ (5.5)**	**$ 66.5**	**$ 132.9**	**$ 165.9**
EMERGENCY RESERVE: /A							
Article X, Section 20 Emergency Reserve	$ 114.6	$ 179.0	$ 187.8	$ 199.1	$ 209.6 /B	$ 220.7 /B	$ 233.5 /B
Reserved Amount (CMTF Principal in FY 96-97 forward)	108.8 /A	176.9 /A	263.0 /A	306.5 /A	342.6 /A	392.6 /A	442.6 /A

Totals may not sum due to rounding

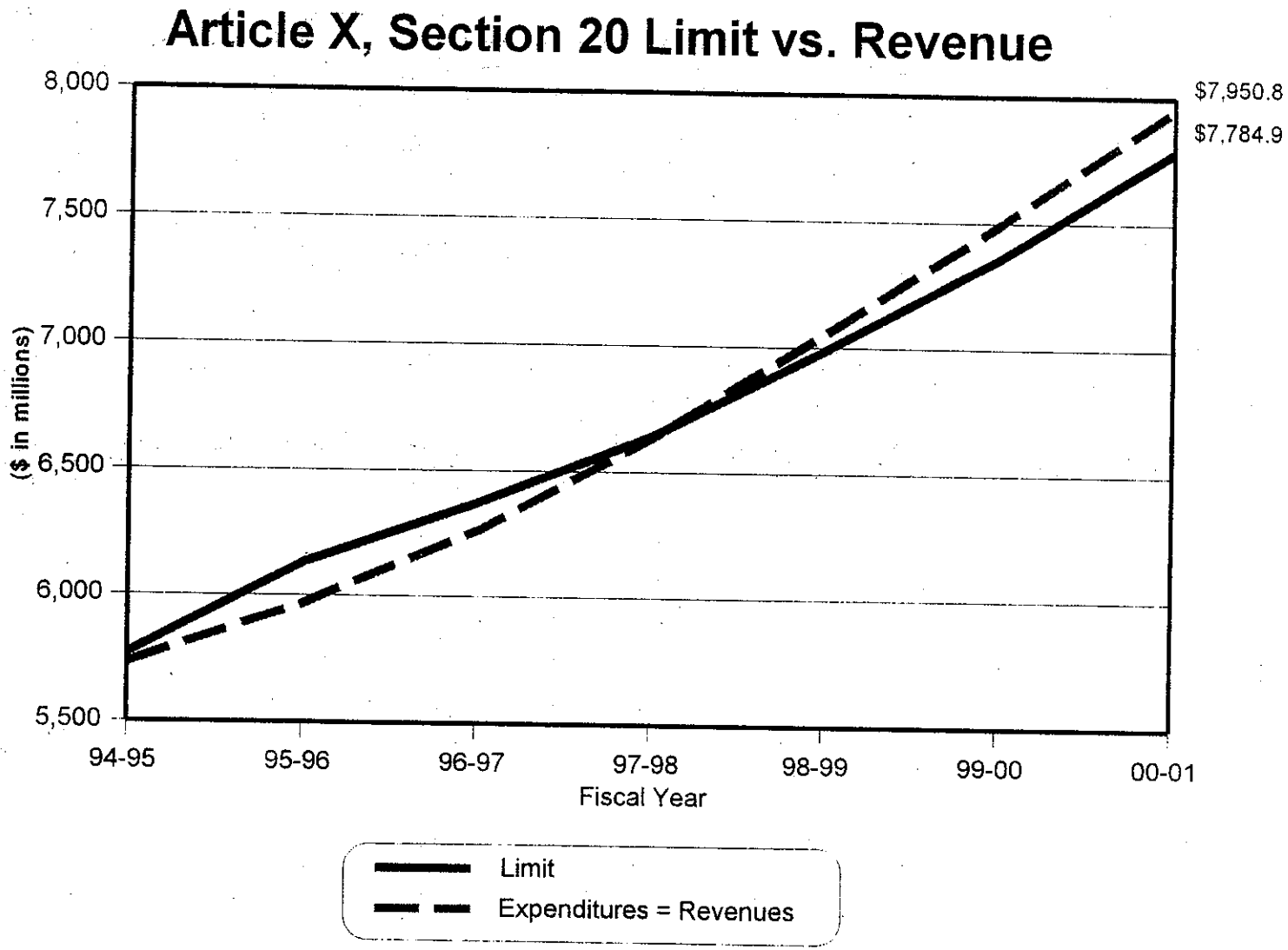
Note: Article X, Section 20 of the State Constitution broadly defines spending such that expenditures are equal to revenues. The statutory 6 percent limit applies to the General Fund appropriations only. Thus, the two concepts are not directly comparable.

/A In FY 94-95, the General Assembly designated $108.8 million from various funds to satisfy the emergency reserve requirement. This was a sufficient reserve for such purposes at the time of planning. Upon closure of the books, the amount necessary for the reserve increased, but the state had ample funds to meet the requirement. In the Long Bill for FY 95-96 appropriations, the General Assembly designated $176.9 million as the emergency reserve. Based upon the current estimates, the state will need more money for the emergency reserve in FY 95-96 than designated, but there are sufficient funds to meet such needs. In addition, the General Assemby directed that a transfer of $176 million be made from the General Fund to the Controlled Maintenance Trust Fund (CMTF) on June 30, 1996. Beginning in FY 96-97, the principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement for Cash and General Funds. Thus, starting in FY 95-96, the principal of the CMTF is reported as the reserved amount. It is assumed that the General Assembly makes the transfers to the CMTF that are allowed, but not specifically directed, by statute.

/B In years where the projected revenues exceed the amount allowed by the Constitution, the reserve is calculated based on the limit, rather than on projected receipts. Given that the state will only spend the maximum allowed by the Constitution, it need only reserve three percent of such amount.

/C These figures differ from the General Fund revenues reported in previous tables because they net out revenues that are already in the Cash Funds to avoid double counting. For instance, the gaming revenues, unexpended prior-year Medicaid expenditures that are booked in "other revenue," and transfers of unclaimed property are netted out.

Graph 1



Prepared by Legislative Council Staff, October 1995.

Table 3a
Expenditures and Emergency Reserve for Purposes of Article X, Section 20 of the State Constitution
Assuming Federal Tax Reform that Costs the State $250 million annually

	Preliminary Close FY 1994-95	Estimate FY 1995-96	Estimate FY 1996-97	Estimate FY 1997-98	Estimate FY 1998-99	Estimate FY 1999-00	Estimate FY 2000-01
Article X, Section 20 Expenditures (Revenues):							
General Fund	$ 3,916.4 /C	$ 4,121.3 /C	$ 4,094.9 /C	$ 4,348.6 /C	$ 4,627.5 /C	$ 4,917.6 /C	$ 5,225.4 /C
Cash Funds:							
Highway Users Tax Fund	560.8	576.8	589.7	607.8	626.9	644.9	663.8
Other Transportation-Related Funds	18.3	17.4	18.1	18.8	19.5	20.4	21.2
Higher Education Funds	527.2	550.6	596.5	651.7	714.9	783.3	855.4
Unemployment Insurance	231.9	216.5	209.6	215.5	224.6	233.5	241.3
Wildlife	59.7	60.1	61.1	62.1	62.9	64.1	65.2
Other Cash Funds	416.9	423.9	439.9	464.1	491.8	520.8	550.8
Total Article X, Section 20 Expenditures	$ 5,731.2	$ 5,966.7	$ 6,009.7	$ 6,368.5	$ 6,768.1	$ 7,184.8	$ 7,623.1
LIMIT							
Growth Rate	6.4%	4.1%	0.7%	6.0%	6.3%	6.2%	6.1%
Allowable Article X, Section 20 Growth Rate	7.1%	7.0%	6.8%	6.1%	5.3%	5.3%	5.8%
Article X, Section 20 Limit	**$ 5,769.4**	**$ 6,132.3**	**$ 6,372.4**	**$ 6,376.3**	**$ 6,706.1**	**$ 7,061.5**	**$ 7,471.1**
Expenditures Above/(Below) Article X, Section 20 Limit	**$ (38.2)**	**$ (165.7)**	**$ (362.7)**	**$ (7.8)**	**$ 62.0**	**$ 123.3**	**$ 152.1**
EMERGENCY RESERVE: /A							
Article X, Section 20 Emergency Reserve	$ 114.6	$ 179.0	$ 180.3	$ 191.1	$ 201.2 /B	$ 211.8 /B	$ 224.1 /B
Reserved Amount (CMTF Principal in FY 96-97 forward)	108.8 /A	NA /A	NA /A	NA /A	NA /A	NA /A	NA /A

Totals may not sum due to rounding.

Note Article X, Section 20 of the State Constitution broadly defines spending such that expenditures are equal to revenues. The statutory 6 percent limit applies to the General Fund appropriations only. Thus, the two concepts are not directly comparable. These figures are based upon Legislative Council staff's September 1995 revenue forecast, adjusted $250 million lower beginning in fiscal year 1996-97 for federal tax changes.

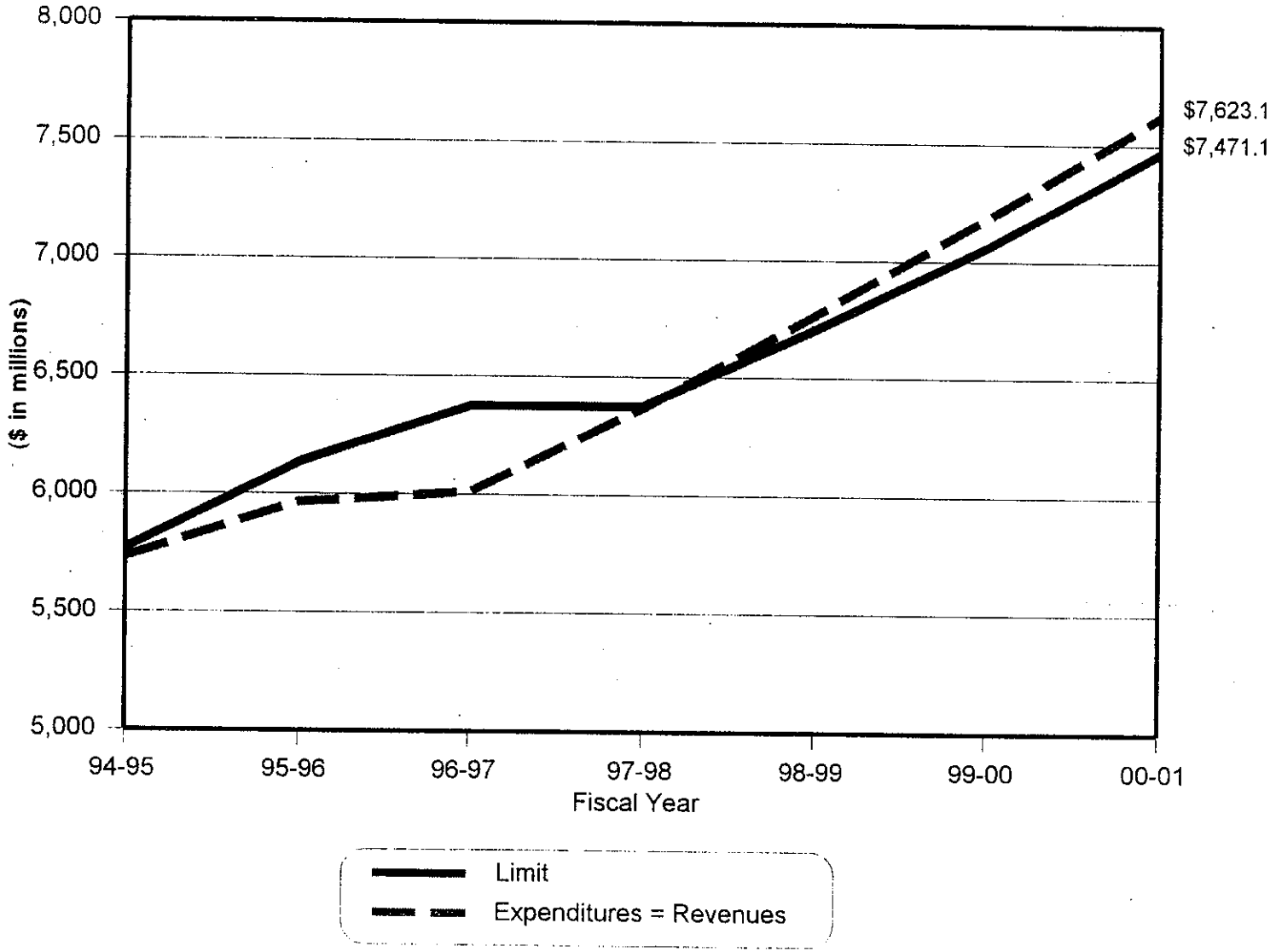
/A In FY 94-95, the General Assembly designated $108.8 million from various funds to satisfy the emergency reserve requirement. This was a sufficient reserve for such purposes at the time of planning. Upon closure of the books, the amount necessary for the reserve increased, but the state had ample funds to meet the requirement. In the Long Bill for FY 95-96 appropriations, the General Assembly designated $176.9 million as the emergency reserve. Based upon the current estimates, the state will need more money for the emergency reserve in FY 95-96 than designated, but there are sufficient funds to meet such needs. In addition, the General Assemby directed that a transfer of $176 million be made from the General Fund to the Controlled Maintenance Trust Fund (CMTF) on June 30, 1996. Beginning in FY 96-97, the principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement for Cash and General Funds. Thus, starting in FY 95-96, the principal of the CMTF is reported as the reserved amount. It is assumed that the General Assembly makes the transfers to the CMTF that are allowed, but not specifically directed, by statute.

/B In years where the projected revenues exceed the amount allowed by the Constitution, the reserve is calculated based on the limit, rather than on projected receipts. Given that the state will only spend the maximum allowed by the Constitution, it need only reserve three percent of such amount.

/C These figures differ from the General Fund revenues reported in previous tables because they net out revenues that are already in the Cash Funds to avoid double counting. For instance, the gaming revenues, unexpended prior-year Medicaid expenditures that are booked in "other revenue," and transfers of unclaimed property are netted out.

Graph 2

Post-Federal Tax Reform Article X, Section 20
Limit vs. Revenues



Prepared by Legislative Council Staff, October 1995.

Local Tax Structure

Presented by

Sources of Revenue for Colorado Local Governments
Deb Godshall, Principal Analyst, Legislative Council Staff

Property Taxes
Mary Huddleston, Property Tax Administrator

Article X, Section 20 and Property Taxation
Sharon Eubanks, Senior Attorney, Office of Legislative Legal Services

Property Tax Relief Programs
Scott Mackey, Program Principal, National Conference of State Legislatures

Sales Taxes
Jim Davis, Director of Taxpayer Services, Department of Revenue

Tax Trends and Capacity
Jim Jacobs, Director of Research, Colorado Public Expenditure Council

LOCAL TAX STRUCTURE

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Sources of Revenue for Colorado Local Governments

- There are a total of 1,994 units of government in Colorado:
  - 1 state government
  - 63 counties
  - 268 municipalities
  - 176 school districts
  - 1,486 special and other districts

- Local governments are the recipients of "own-source" revenue as well as intergovernmental transfers.

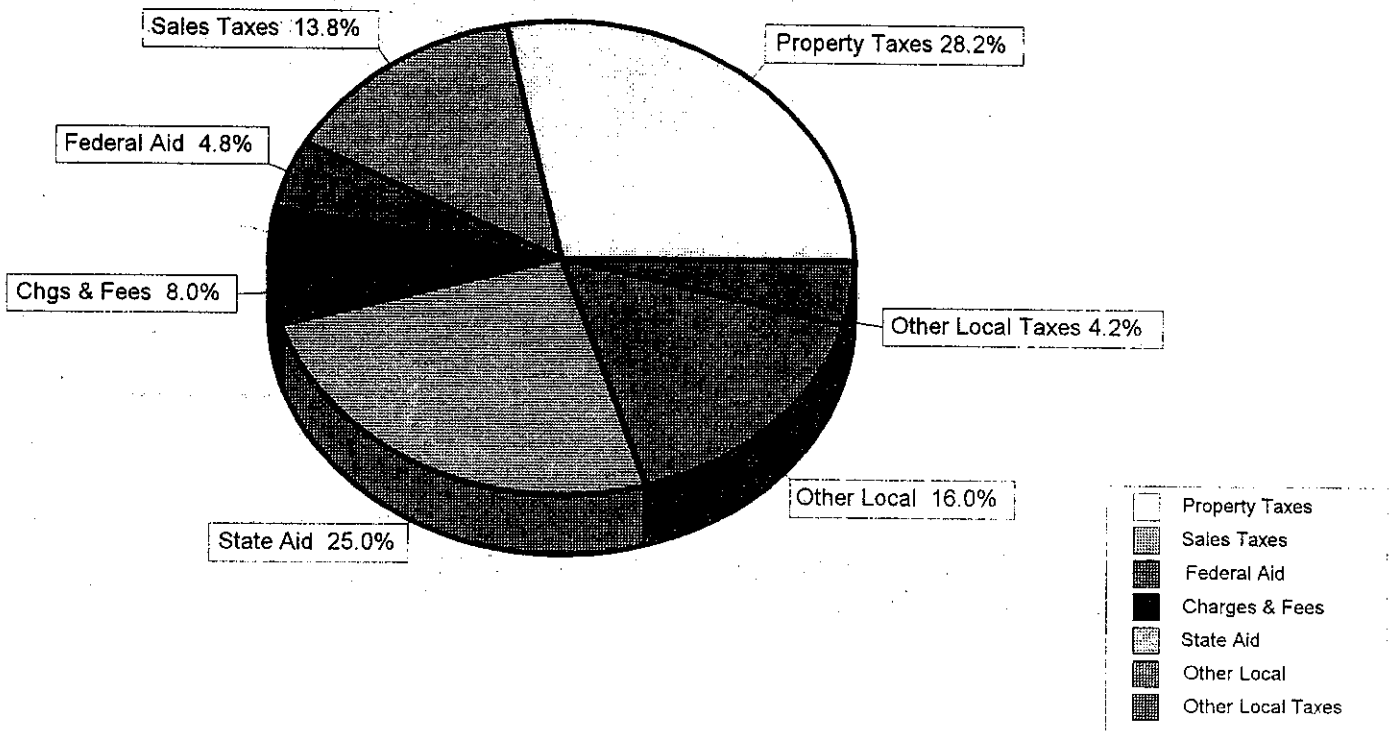
- Taxes are the primary generator of own-source revenues (46.2 percent of total revenues), and property taxes are the single largest contributor with 28.2 percent of total revenues.

- Intergovernmental transfers are payments between governments, and state aid is the single largest intergovernmental transfer and the second largest contributor to local government revenues.

- The importance of sources of revenue differs among the various types of local governments:
  - The property tax is the most important source of revenue for **counties**, with 34.8 percent of total revenues. State aid follows with 30.5 percent of county revenues.
  - Property taxes (11.3 percent) and state aid (10.7 percent) are relatively small components of **municipal** revenues. The sales tax is the primary revenue source for cities, with 43.8 percent of total revenues.
  - As with counties, property taxes are a significant source of revenue for **school districts**, but state aid is equally important. The two sources of revenue provide equal shares of about 79 percent of school district revenue.
  - Taxes and intergovernmental transfers are relatively less important to **special districts**. User fees, charges for services, and other revenues comprise almost 66 percent of total revenues.

Graph 1

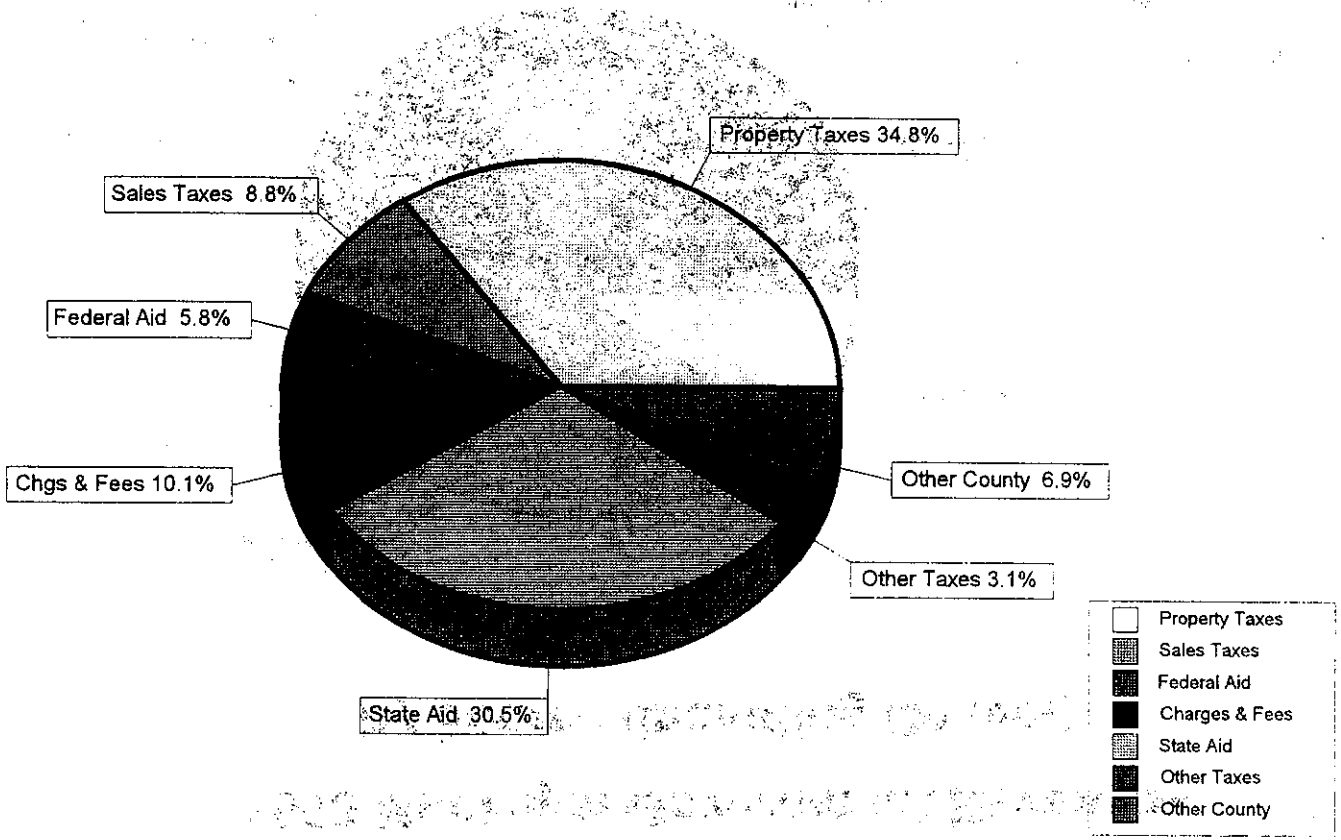
Total Local Government Revenues by Source



Prepared by Legislative Council Staff, October 1995.

Graph 2

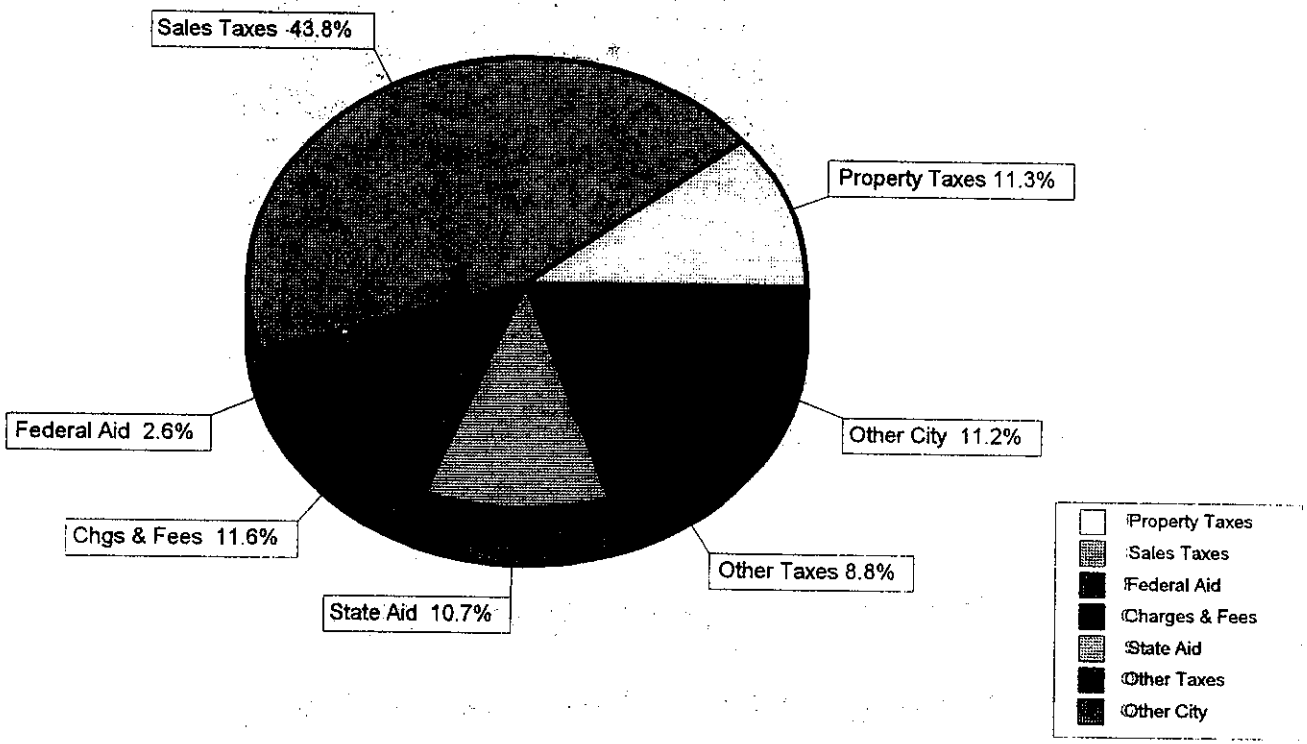
1993 County Government Revenues by Source (excluding Denver)



Source: Colorado Division of Local Government, 1993 Local Government Financial Compendium
Prepared by Legislative Council Staff, October 1995.

Graph 3

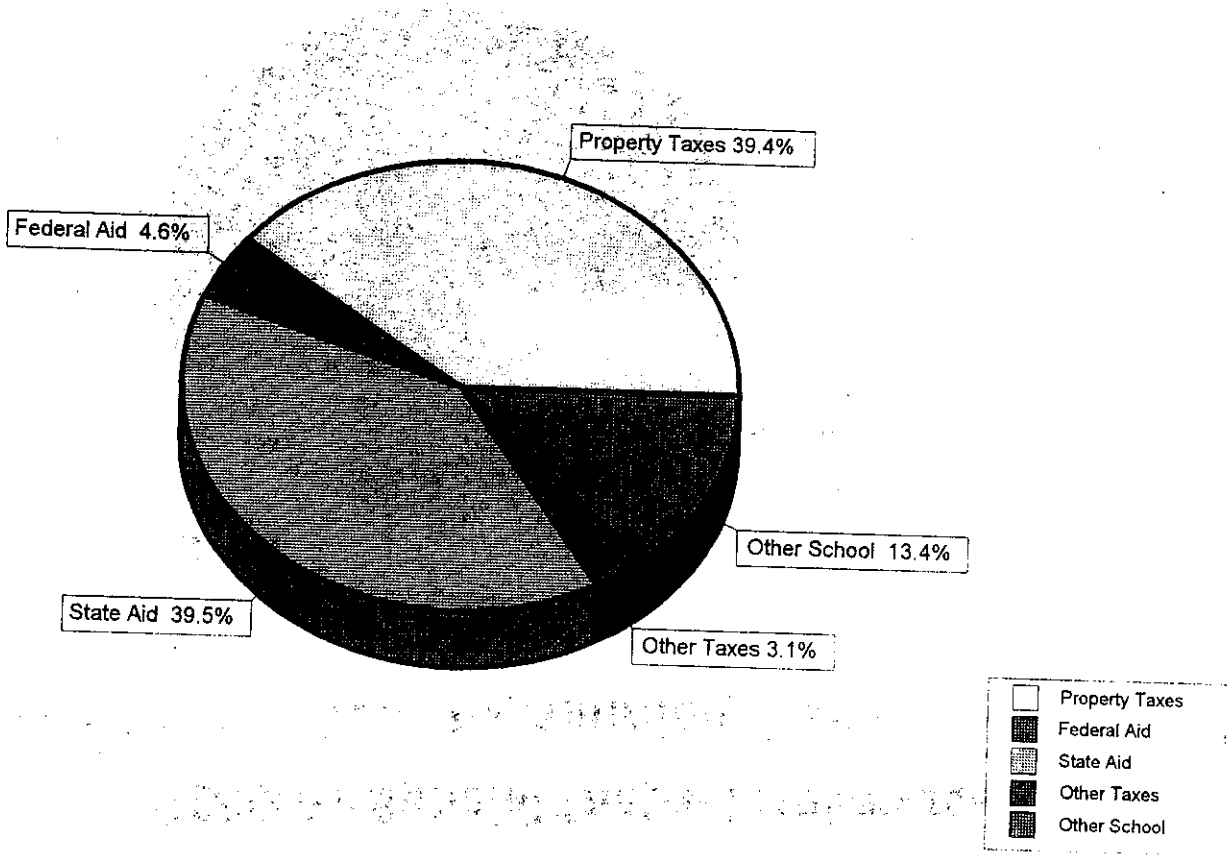
1993 Municipal Government Revenues by Source (including Denver)



Source: Colorado Division of Local Government, 1993 Local Government Financial Compendium
Prepared by Legislative Council Staff, October 1995.

Graph 4

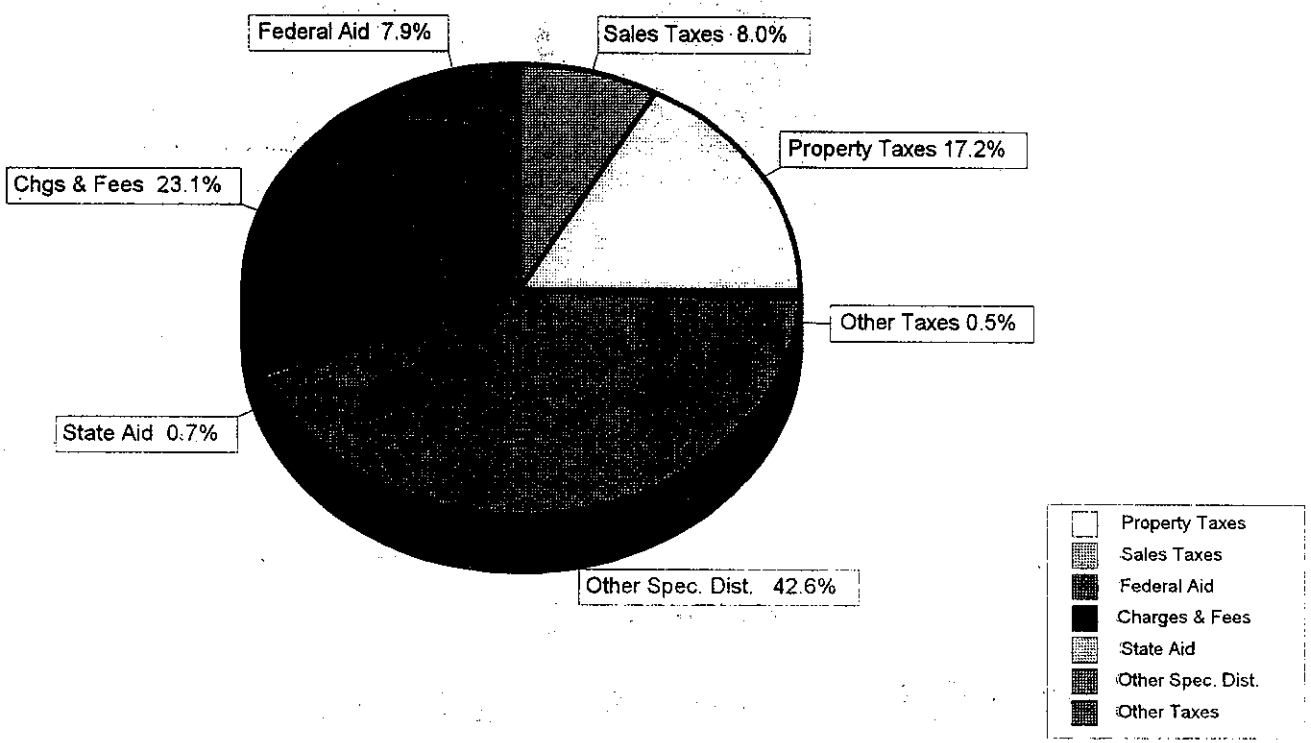
1992-93 School District Revenues by Source



Source: Colorado Department of Education, Revenue and Expenditures 1993
Prepared by Legislative Council Staff, October 1995.

Graph 5

1990-91 Special District Revenues by Source



Source: Bureau of the Census, Government Finance: 1990-91
Prepared by Legislative Council Staff, October 1995.

THREE APPROACHES TO VALUE

Market Approach Definitions:

Colorado Supreme Court:
"The price a property will bring if sold on the open market under ordinary circumstances for cash to a willing buyer from a willing seller, neither being under pressure or obligation to do so."

International Association of Assessing Officers:
"...most probable price expressed in terms of money that a property would bring if exposed for sale in the open market in an arm's-length transaction between a willing seller and a willing buyer, both of whom are knowledgeable concerning all the uses to which the property is adapted and for which it is capable of being used."

Cost Approach Definition:

A value indication derived by estimating the current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value.

Income Approach Definition:

A method of estimating value which converts anticipated net income into an estimate of value. It is based on the premise that an informed purchaser would not pay more for a property than the present worth of its expected future net income.

DATA GATHERING PERIOD

Assessment year: **1995 and 1996**

Level of value: **1994**

Data gathering: **1/1/93 - 6/30/94**
(18 months prior to 7/1/94)

Insufficient sales: **7/1/89 - 6/30/94**
(6-month intervals)

Adjustment date: **6/30/94**

Assessment year: **1997 and 1998**

Level of value: **1996**

Data gathering: **1/1/95 - 6/30/96**
(18 months prior to 7/1/96)

Insufficient sales: **7/1/91 - 6/30/96**
(6-month intervals)

Adjustment date: **6/30/96**

ASSESSMENT METHODS AND ASSESSMENT RATES

Residential

Statutory level of value at 10.36%

Vacant Land

Natural Resources

Commercial

Statutory level of value at 29%

Industrial

Producing Mines

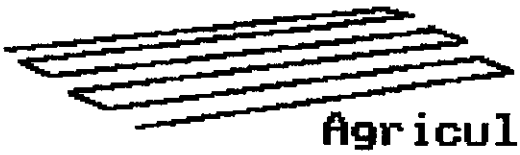
25% of gross proceeds or 100% of net, whichever is greater from the previous calendar years value.

Oil and Gas

87.6% sold/transported from prenise for primaty production; 75% sold/transported from prenise for secondary and tertiary recovery.

State Assessed

Statutory level of value at 29%.



Agricultural

20% of actual value which is based on a 10 year average of the net income and expenses, capitalized at 13%.

Exempt

Assessed at appropriate assessment rate, but not taxed.

OFFICE COPY

PRESORTED
FIRST CLASS MAIL
U.S. POSTAGE PAID

DATE:

Schedule Number	Tax Year	Tax Area Code	Legal Description of Property (May Be Incomplete)
1719-264-05-018	1995	160	LOT 56 BLK 4 SMITH SUB

PROPERTY OWNER

Q. CITIZEN
CITIZEN LANE
ANYTOWN, U.S.A.

Type of Property	Prior Year Actual Value	+ Or − Change	Current Year Actual Value
SINGLE FAMILY RESIDENTIAL LAND	19,655	3,560	23,215
SINGLE FAMILY RESIDENTIAL BUILDING	51,085	18,560	69,645
TOTALS	70,740	22,120	92,860

An assessment percentage will be applied to the actual value of your property before taxes are calculated. The assessment percentage for residences is projected to be 10.36%. Generally, all other property, including vacant land and personal property, is assessed at 29%, 39-1-104(1) and (1.5)(a), C.R.S. A change in the projected residential assessment percentage is NOT grounds for protest or abatement of taxes, 39-5-121(1), C.R.S.

PROTEST HEARINGS WILL BE HELD: FROM MAY 2 THROUGH JUNE 1, 1995. ANYCOUNTY COURTHOUSE, 100 CITIZEN LANE, ANYTOWN, U.S.A. 99999. 8:00 A.M. TO 5:00 P.M. TELEPHONE (999)999-9999.

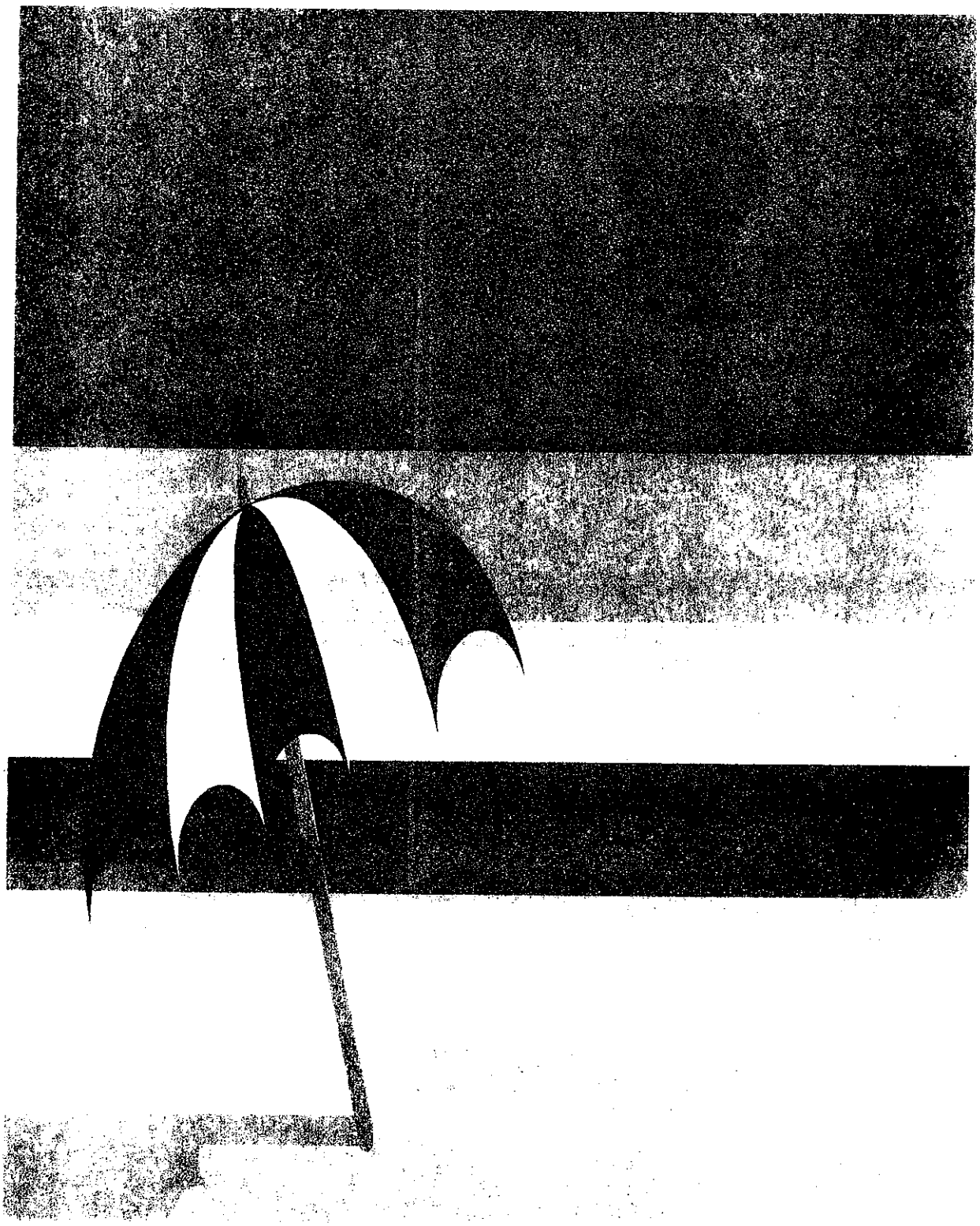
THE APPRAISAL DATA USED TO ESTABLISH REAL PROPERTY VALUE WAS FROM THE 18 MONTH PERIOD ENDING JUNE 30, 199*

* IF DATA IS INSUFFICIENT DURING THIS TIME PERIOD, ASSESSORS MAY USE DATA FROM THE FIVE YEAR PERIOD ENDING JUNE 30, 1994.

15-DPT-AR
NOV-181/185 (66-94)
PR-212/213 (88-92)

THIS IS NOT A TAX BILL

"NOV" TIME



TAX NOTICE

USE THIS NUMBER ON ALL CHECKS AND CORRESPONDENCE

SCHEDULE NUMBER	DATE
1719-264-05-018	01/03/95

PARTIAL DESCRIPTION

LOT 56 BLK 4 SMITH SUB

Q. CITIZEN
CITIZEN LANE
ANYTOWN, U.S.A.

BREAK DOWN BY TAXING UNIT (APPORTIONMENT)

TAXING UNIT	MILL LEVY RATE	TAX AMOUNT
SCHOOL	71.744	690.18
COUNTY	26.779	257.61
FIRE	11.480	110.44
LIBRARY	1.386	13.33
WATER & SAN	1.566	15.06
URBAN DRAIN	.696	6.70
TOT TAX LEVY	113.651	

ASSESSED VALUATION

TOTAL LAND	2,405
TOTAL BUILDINGS	7,215
TOTAL PERSONAL PROPERTY	
TOTAL OTHER	

FIRST HALF	546.66
SECOND HALF	546.66
PENALTY	
INTEREST	
TOTAL TAX DUE	1,093.32

NOTE
YOUR SCHOOL DISTRICT GENERAL FUND LEVY WITHOUT
STATE SUPPORT WOULD HAVE BEEN: 181.250
WITH A TAX OF 1,743.63
ACTUAL VALUES: LAND-23,215 BUILDINGS-69,645

PLEASE READ REVERSE SIDE

PLEASE MAKE CHECKS
PAYABLE TO THE ABOVE
COUNTY TREASURER

SECOND HALF PAYMENT

DUE 15th OF JUNE
FOR PROPER CREDIT THIS STUB MUST BE RETURNED WITH YOUR PAYMENT
☐ PLEASE NOTE ADDRESS CHANGE ON BACK OR FOR RETURN RECEIPT

SCHEDULE NO. 1719-264-05-018
Q. CITIZEN
AMOUNT DUE: 546.66

FIRST HALF PAYMENT

DUE LAST DAY OF FEBRUARY
FOR PROPER CREDIT THIS STUB MUST BE RETURNED WITH YOUR PAYMENT
☐ PLEASE NOTE ADDRESS CHANGE ON BACK OR FOR RETURN RECEIPT

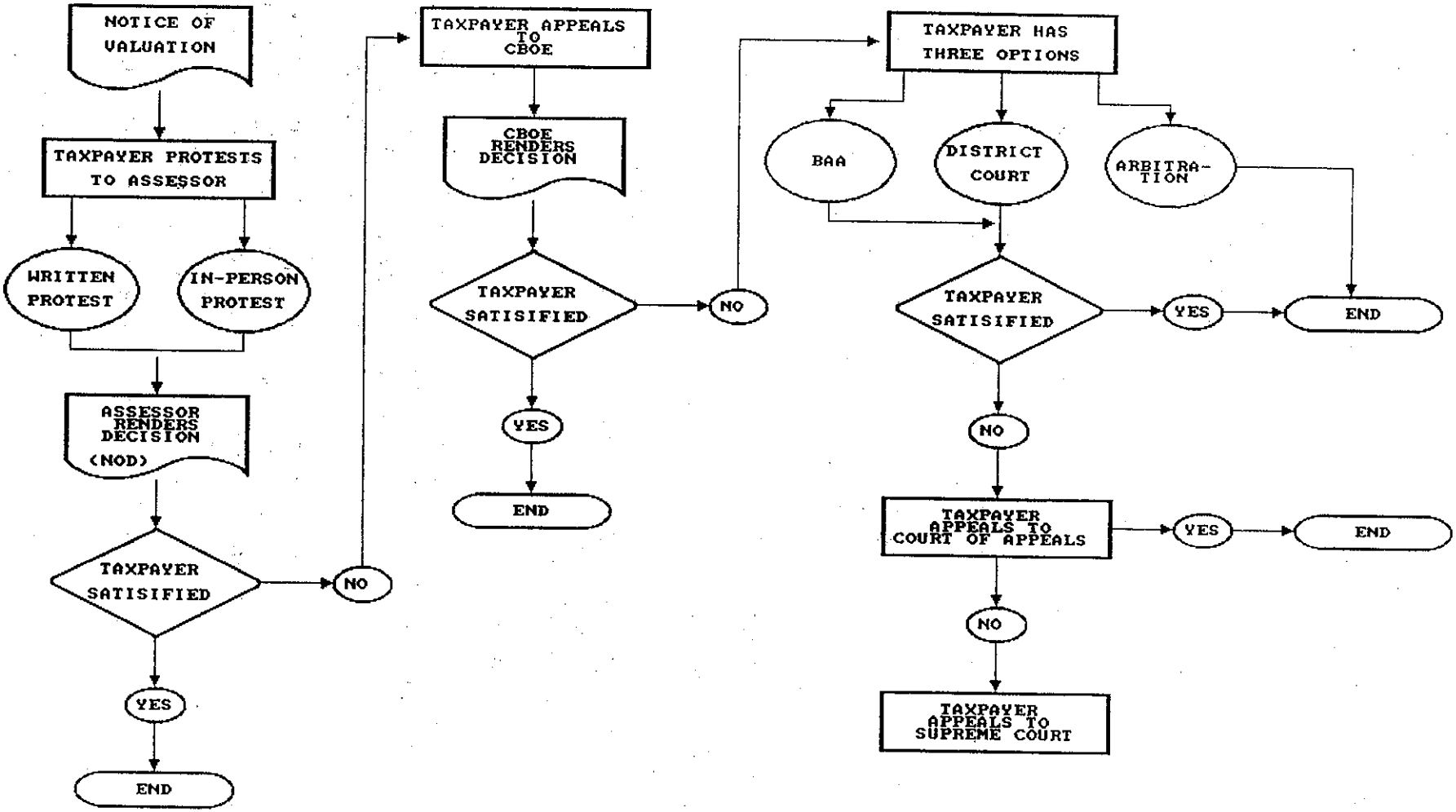
SCHEDULE NO. 1719-264-05-018
Q. CITIZEN
AMOUNT DUE: 546.66

FULL PAYMENT

DUE LAST DAY OF APRIL
FOR PROPER CREDIT THIS STUB MUST BE RETURNED WITH YOUR PAYMENT
☐ PLEASE NOTE ADDRESS CHANGE ON BACK OR FOR RETURN RECEIPT

SCHEDULE NO. 1719-264-05-018
Q. CITIZEN
AMOUNT DUE: 1,093.32

TAXPAYER APPEALS PROCESS



Division of Property Taxation
October, 1995

CERTIFICATION OF VALUES TO TAXING ENTITIES

WHAT IS THE PURPOSE OF CERTIFICATION

The assessed values certified to a taxing entity by the county assessor are utilized to determine the amount of revenue that can be generated from the taxable property within the boundary of the taxing entity. Other information certified by the assessor such as new construction, and destroyed property is utilized to determine the legal revenue and spending increase over the prior year's revenue and spending.

A. Budget functions of taxing entity's governing board

1. Each year, taxing entities are required to develop a budget, 29-1-301, C.R.S.

2. Taxing entities conduct public hearings where the budget is reviewed and finalized, 29-1-108 C.R.S. Once finalized, non-school taxing entities must file a copy of the budget with the Division of Local Government, 29-1-113 C.R.S.

3. Once total projected expenses have been determined, matching revenues must be generated. Most taxing entities derive some or all of the operating revenue from property tax. Taxing entities are restricted both in the revenue they can generate and in the revenue they can spend.

B. Spending and revenue limitations

1. Spending limitations

"The maximum annual percentage change in each local district's fiscal year spending equals inflation in the prior calendar year plus annual local growth, adjusted for revenue changes approved by voters after 1991 and (8)(b) and (9) reductions," Article X, Section 20, (7)(b) Colorado Constitution.

2. Revenue limitations

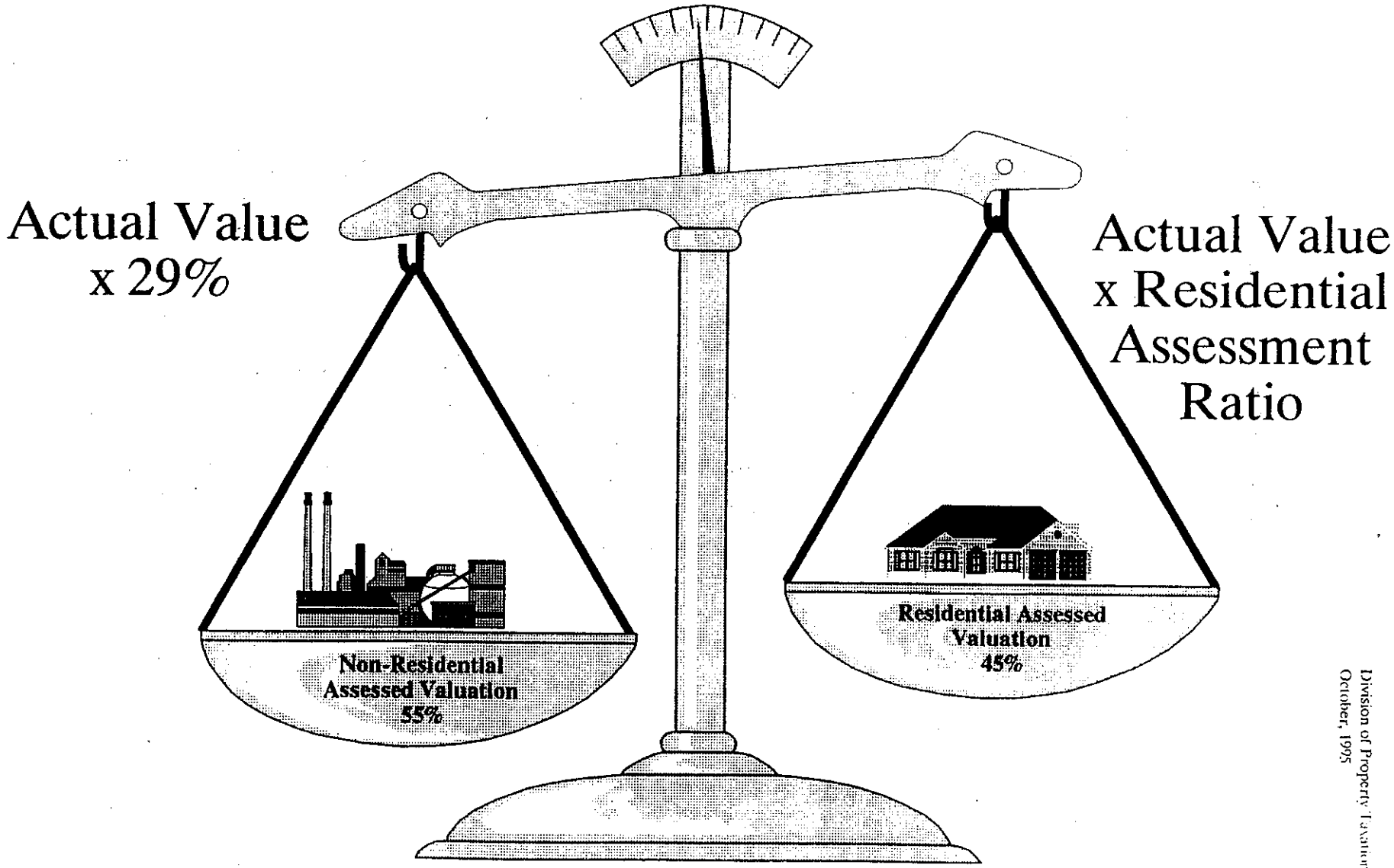
a. "The maximum annual percentage change in each district's property tax revenue equals inflation in the prior calendar year plus annual local growth, adjusted for property tax revenue changes approved by voters after 1991 and (8)(b) and (9) reductions," Article X, Section 20, (7)(c) Colorado Constitution.

b. Taxing entities are also restricted by the 5.5 percent property tax revenue limitation described in 29-1-301, C.R.S. This limitation allows taxing entities to increase revenue by 5.5 percent over the prior year's revenue. There are exceptions to this limitation. New construction, increase in the production of a producing mine, and new oil and gas production are a few of the exceptions.

3. The Attorney General issued an opinion, dated August 27, 1993, stating that the more restrictive of the two limitations prevails.

C. Under the constitution, the mill levy cannot be increased without approval from the majority of the voters at an election, Article X, Section 4, Colorado Constitution. The Colorado Supreme Court ruled in Bolt vs Littleton Public Schools that voter approval is not required to increase mill levies to recoup revenue lost due to abatements and refunds.

GALLAGHER AMENDMENT



Division of Property Taxation
October, 1995

ASSESSMENT RATE HISTORY

Assessment Year	Appraisal Date	Assessment Rate (Res. / Other)	
1980-1982	January 1, 1973 (1971 & 1972 sales)	30%	30%
1983-1986	January 1, 1977 (1975 & 1976 sales)	21%	29%
1987	January 1, 1985* January 1, 1984** (1983 & 1984 sales)	18%	29%
1988	January 1, 1985* January 1, 1984** (1983 & 1984 sales)	16%	29%
1989-1990	June 30, 1988 (1/1/87-6/30/88 sales)	15%	29%
1991-1992	June 30, 1990 (1/1/89-6/30/90 sales)	14.34%	29%
1993-1994	June 30, 1992 (1/1/91-6/30/92 sales)	12.86%	29%
1995-1996	June 30, 1994 (1/1/93-6/30/94)	10.36%	29%

*Level of Value

**Appraisal Date

1995 RESIDENTIAL TARGET PERCENTAGE CALCULATION

ESTIMATED 1993 RESIDENTIAL		X	=	44.74%	
ACTUAL 1993 NON-RESIDENTIAL		15,447,092,250		55.26%	
				100.00%	
ESTIMATED 1993 RESIDENTIAL	X =	12,506,386,306			
ESTIMATED 1993 RESIDENTIAL		12,506,386,306	=	44.74%	
ACTUAL 1993 NON-RESIDENTIAL		15,446,545,910		55.26%	
				100.00%	TOTAL
1993 NET RES NEW CONST		355,307,088			
1994 NET RES NEW CONST		475,767,108			
ESTIMATED 1993 RESIDENTIAL		12,506,386,306			
ADJ 1993 RES ASSESSED		13,337,460,502	=	45.30%	SUM OF RES ASSESSED
ADJ 1993 OTHER ASSESSED		16,105,818,394		54.70%	SUM OF OTHER ASSESSED
ACTUAL 1993 NON-RESIDENTIAL		15,446,545,910		100.00%	TOTAL
1993 NET OTHER NEW CONST		244,638,184			
1994 NET OTHER NEW CONST		253,330,416			
1994 - 1992 NET MINES		(1,417,685)			
1994 - 1992 NET COAL		4,301,805			
1994 - 1992 NET OIL & GAS		153,666,100			
1994 - 1992 NET EARTH & STONE		4,753,664			

Division of Property Taxation
October, 1995

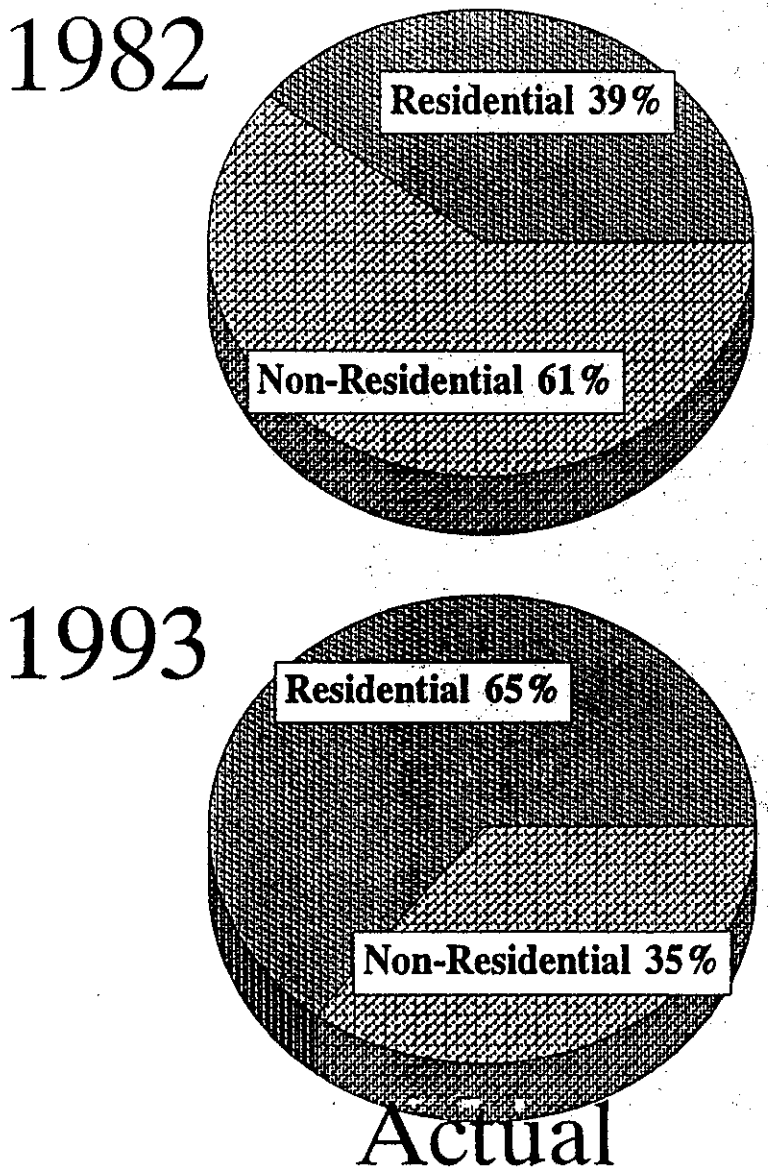
RESIDENTIAL RATE RELATIONSHIPS

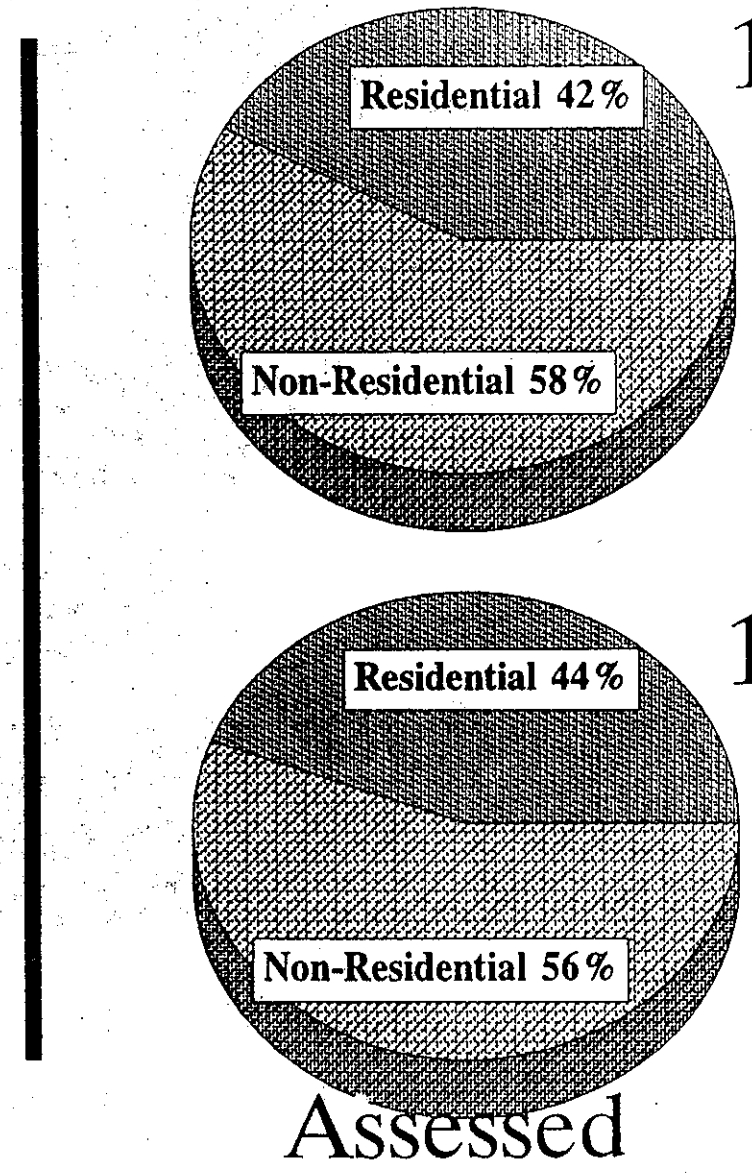
CHANGE IN VALUATION	=	CHANGE IN RESIDENTIAL ASSESSMENT RATE
Residential Values Increase	=	Residential Assessment Rate Decreases
Residential Values Decrease	=	Residential Assessment Rate Increases*
All Other Values Increase	=	Residential Assessment Rate Increases*
All Other Values Decrease	=	Residential Assessment Rate Decreases

Must be approved at a state-wide election.

Comparison of Residential vs Non-Residential

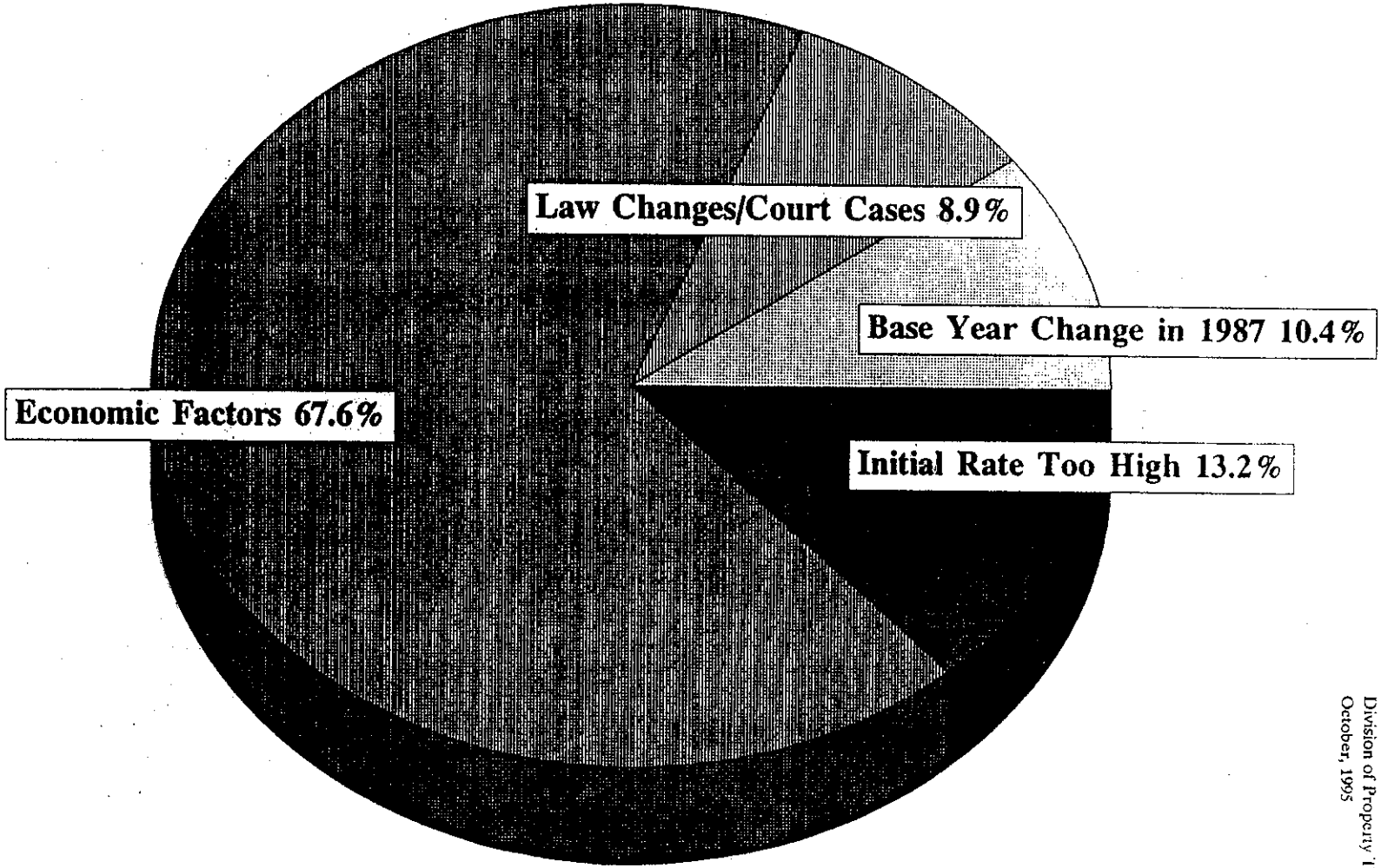
1982 & 1993 Actual and Assessed Values





Division of Property Taxation
October, 1995

DECLINE OF RESIDENTIAL ASSESSMENT RATIO
CONTRIBUTING FACTORS



Division of Property Taxation
October, 1995

1995 RESIDENTIAL ASSESSMENT RATES
CALCULATED FOR EACH COUNTY

COUNTY NAME	RESIDENTIAL	COUNTY TOTAL	PERCENT IN RESIDENTIAL	COUNTY RES. RATE
ADAMS	759,255,858	1,726,703,010	43.97%	11.08%
ALAMOSA	20,897,933	68,847,534	30.35%	19.94%
ARAPAHOE	1,811,531,411	3,245,629,082	55.81%	6.88%
ARCHULETA	34,087,134	88,727,761	38.42%	13.93%
BACA	4,746,561	52,787,649	8.99%	87.97%
BENT	4,348,581	30,290,020	14.36%	51.85%
BOULDER	1,307,840,694	2,463,803,189	53.08%	7.68%
CHAFFEE	44,275,019	96,001,032	46.12%	10.15%
CHEYENNE	3,149,385	93,054,632	3.38%	248.13%
CLEAR CREEK	43,542,929	101,697,644	42.82%	11.61%
CONEJOS	9,612,172	29,120,702	33.01%	17.64%
COSTILLA	4,137,947	72,360,862	5.72%	143.31%
CROWLEY	3,218,111	14,352,404	22.42%	30.07%
CUSTER	11,815,902	38,276,026	30.87%	19.46%
DELTA	47,656,827	97,048,117	49.11%	9.01%
DENVER	1,713,162,047	4,290,496,185	39.93%	13.08%
DOLORES	3,088,294	21,316,091	14.49%	51.30%
DOUGLAS	534,993,519	887,336,532	60.29%	5.72%
EAGLE	465,188,871	872,879,126	53.29%	7.62%
ELBERT	44,093,137	87,649,506	50.31%	8.59%
EL PASO	1,451,215,043	2,754,645,197	52.68%	7.81%
FREMONT	80,565,213	164,585,478	48.95%	9.06%
GARFIELD	127,839,940	324,013,571	39.46%	13.34%
GILPIN	18,467,406	161,339,176	11.45%	67.25%
GRAND	63,147,036	175,701,379	35.94%	15.49%
GUNNISON	74,118,338	206,299,754	35.93%	15.50%
HINSDALE	7,058,790	17,170,386	41.11%	12.45%
HUERFANO	14,886,557	86,145,857	17.28%	41.61%
JACKSON	4,320,177	22,939,626	18.83%	37.46%
JEFFERSON	2,179,068,002	3,639,910,591	59.87%	5.83%
KIOWA	1,688,233	35,272,738	4.79%	172.91%
KIT CARSON	10,886,667	69,099,509	15.76%	46.48%
LAKE	17,593,490	50,766,939	34.66%	16.39%
LA PLATA	167,450,412	744,140,274	22.50%	29.94%
LARIMER	824,386,932	1,621,588,043	50.84%	8.41%
LAS ANIMAS	20,832,179	84,325,459	24.70%	26.49%
LINCOLN	6,540,224	45,772,431	14.29%	52.14%
LOGAN	30,119,115	111,295,884	27.06%	23.43%
MESA	263,675,819	533,650,786	49.41%	8.90%
MINERAL	4,477,242	12,211,392	36.66%	15.02%
MOFFAT	18,224,871	371,691,923	4.90%	168.58%
MONTEZUMA	44,308,726	184,626,832	24.00%	27.53%
MONTROSE	67,541,741	178,314,775	37.88%	14.26%
MORGAN	45,272,867	266,572,415	16.98%	42.49%
OTERO	24,679,800	67,181,736	36.74%	14.97%
OURAY	20,917,445	54,845,834	38.14%	14.10%
PARK	61,487,637	132,576,805	46.38%	10.05%
PHILLIPS	7,006,502	37,695,351	18.59%	38.07%
PITKIN	543,543,130	944,145,443	57.57%	6.41%
PROWERS	15,753,913	68,012,452	23.16%	28.83%
PUEBLO	257,712,584	617,750,995	41.72%	12.14%
RIO BLANCO	12,490,352	273,355,499	4.57%	181.54%
RIO GRANDE	20,538,715	77,916,702	26.36%	24.28%
ROUTT	137,161,094	337,963,708	40.58%	12.73%
SAGUACHE	6,827,675	37,902,682	18.01%	39.56%
SAN JUAN	3,430,757	12,791,914	26.82%	23.72%
SAN MIGUEL	92,975,455	352,949,110	26.34%	24.30%
SEDGWICK	2,990,814	26,317,954	11.36%	67.79%
SUMMIT	262,668,892	552,861,218	47.51%	9.60%
TELLER	68,666,100	187,926,204	36.54%	15.10%
WASHINGTON	5,737,054	67,182,975	8.54%	93.10%
WELD	336,524,810	1,399,963,731	24.04%	27.47%
YUMA	12,791,742	99,848,640	12.81%	59.16%
TOTAL ASSESSED VALUE	14,308,231,819	31,589,646,470	45.29%	10.50%
CHANGE WITH RES AT 10.50%				

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1995 TOTALS WITH RESIDENTIAL ASSESSMENT RATE AT 10.36%

21-Apr-95

COUNTY#	COUNTY NAME	VAC	RES	COM	IND	AGR	NAT	MIN	O&G	STA	TOTAL	% IN RES.
01	ADAMS	69,801,376	748,926,167	554,016,065	162,648,158	20,296,280	3,447,180	0	46,823,390	204,486,309	1,810,444,925	41.37%
02	ALAMOSA	6,358,202	20,613,616	20,976,044	400,829	10,783,180	122,700	0	0	9,306,646	68,563,217	30.07%
03	ARAPAHOE	126,447,060	1,883,208,338	1,136,890,260	39,380,994	8,181,430	776,580	0	3,801,559	189,311,985	3,387,998,206	55.91%
04	ARCHULETA	32,619,924	33,623,378	11,690,255	778,520	2,739,360	185,616	0	587,444	6,039,508	88,264,005	38.09%
05	BACA	217,454	4,681,984	4,249,045	83,420	14,915,420	1,238,440	0	8,681,966	18,655,343	52,723,072	8.88%
06	BENT	276,850	4,289,419	1,874,950	258,350	10,517,510	708,860	0	1,975,352	10,329,566	30,230,857	14.19%
07	BOULDER	158,051,210	1,425,188,807	672,297,927	299,896,821	10,162,372	2,483,000	113,380	11,343,120	89,264,750	2,668,781,187	53.40%
08	CHAFFEE	17,034,443	43,672,656	22,725,403	1,422,330	1,774,370	487,560	0	0	8,281,907	95,398,669	45.78%
09	CHEYENNE	222,343	3,106,536	3,038,260	2,123,960	17,162,241	1,632,660	0	55,609,130	9,916,653	93,011,785	3.34%
10	CLEAR CREEK	12,550,868	42,950,527	11,150,610	55,050	80,470	1,331,270	18,321,990	0	14,864,457	101,105,242	42.48%
11	CONEJOS	5,351,500	9,481,398	2,402,480	1,033,790	7,581,730	58,500	0	0	3,080,530	26,989,928	32.71%
12	COSTILLA	42,838,960	4,081,651	969,080	6,544,750	6,511,071	333,800	8,317,940	0	2,707,314	72,304,566	5.65%
13	CROWLEY	161,160	3,174,328	851,127	47,250	3,898,440	329,730	0	0	5,846,567	14,308,621	22.18%
14	CUSTER	18,007,715	11,655,148	3,093,063	7,700	2,943,710	547,420	0	0	1,860,516	38,115,270	30.58%
15	DELTA	5,273,700	47,008,455	16,130,050	1,436,060	9,706,488	3,497,883	0	6,980	13,340,332	96,399,745	48.76%
16	DENVER	73,875,880	1,730,856,340	1,856,969,070	168,464,469	8,060	0	0	0	480,016,659	4,308,190,478	40.18%
17	DOLORES	1,742,825	3,046,277	2,143,428	720,290	2,801,720	228,200	0	8,399,824	4,191,511	21,274,075	14.32%
18	DOUGLAS	174,613,680	546,562,963	148,708,890	22,808,650	7,050,910	1,325,060	0	0	51,982,098	953,052,270	57.35%
19	EAGLE	128,634,407	458,859,967	226,689,679	14,402,776	3,527,470	773,830	0	0	33,662,093	866,550,222	52.95%
20	ELBERT	11,917,444	43,483,249	4,160,248	1,008,400	13,170,650	1,213,820	0	2,665,100	9,420,706	87,049,818	49.96%
21	EL PASO	175,703,371	1,286,756,157	736,830,871	196,047,540	8,744,520	2,763,660	0	339,060	140,918,679	2,550,104,078	50.46%
22	FREMONT	18,062,840	79,469,121	30,841,008	10,224,910	4,403,910	5,537,980	0	347,220	14,602,397	163,489,386	48.61%
23	GARFIELD	28,589,488	126,100,675	77,319,154	3,290,435	8,421,480	729,777	2,115,630	30,207,114	45,500,573	322,274,306	39.13%
24	GILPIN	33,492,302	18,216,156	100,858,516	81,340	136,570	5,557,530	0	0	2,745,513	161,087,927	11.31%
25	GRAND	35,099,779	62,267,919	27,838,017	28,966,020	3,111,930	143,160	1,446,519	0	15,950,918	174,842,262	35.63%
26	GUNNISON	42,638,484	73,109,956	43,819,892	890,436	4,527,130	30,507,144	261,610	186,570	9,250,150	205,291,372	35.61%
27	HINSDALE	4,745,565	8,962,755	3,711,316	90,658	260,410	273,798	43,310	0	986,540	17,074,351	40.78%
28	HUERFANO	10,899,970	14,684,025	6,329,040	53,310	4,252,430	433,700	0	32,923,060	16,367,790	85,943,325	17.09%
29	JACKSON	2,272,589	4,261,401	2,155,300	2,021,078	6,455,790	288,600	0	2,730,870	2,695,223	22,880,850	18.62%
30	JEFFERSON	161,537,550	2,217,695,048	815,621,212	304,924,240	5,565,220	3,012,110	0	0	164,370,618	3,672,725,996	60.38%
31	KIOWA	43,016	1,665,284	1,005,930	0	14,110,220	1,139,250	0	6,775,587	10,510,503	35,249,770	4.72%
32	KIT CARSON	587,912	10,738,553	10,463,822	877,660	33,893,141	1,057,540	0	1,097,576	10,235,192	68,951,396	15.57%
33	LAKE	2,690,310	17,354,130	6,970,210	10,060,670	213,740	2,126,890	3,487,220	0	7,424,409	50,527,579	34.35%
34	LA PLATA	63,241,770	165,172,245	94,171,869	5,064,081	8,398,490	1,530,480	0	267,364,660	80,997,930	705,941,525	23.40%
35	LARIMER	106,273,832	813,171,131	410,911,260	203,130,480	16,334,720	2,498,790	0	5,322,094	52,730,135	1,610,372,242	50.50%
36	LAS ANIMAS	4,954,689	20,548,757	10,251,390	141,670	13,093,230	8,899,448	0	414,110	25,738,743	84,042,037	24.45%
37	LINCOLN	597,600	6,451,244	7,065,440	93,890	16,261,918	1,604,880	0	2,798,376	10,810,103	45,683,451	14.12%
38	LOGAN	917,078	29,709,344	17,951,080	5,462,640	26,400,803	205,310	0	6,219,360	24,021,500	110,886,113	26.79%
39	MESA	28,290,490	287,600,133	166,170,668	24,694,443	16,871,100	1,346,980	0	10,883,820	61,097,535	596,935,170	48.18%
40	MINERAL	3,147,270	4,416,329	2,286,478	167,180	653,500	288,170	0	0	1,191,552	12,150,479	36.35%
41	MOFFAT	3,496,398	17,976,921	10,526,300	510,930	6,467,270	44,022,027	0	38,551,940	249,892,187	371,443,973	4.84%
42	MONTEZUMA	7,960,925	43,705,904	32,685,613	2,772,377	7,518,310	383,520	0	66,457,490	22,539,871	184,024,010	23.75%
43	MONTROSE	5,960,506	66,622,834	36,239,553	8,507,065	13,954,832	2,381,030	197,090	0	43,552,959	177,395,868	37.56%
44	MORGAN	1,907,280	48,807,607	28,099,922	34,835,028	23,915,349	113,000	0	3,292,551	131,136,418	268,107,154	17.46%
45	OTERO	795,668	24,344,031	14,403,431	1,756,581	12,342,970	187,950	0	0	12,287,880	66,118,521	36.82%
46	OURAY	21,016,848	20,632,862	8,473,416	263,310	1,626,990	376,350	0	0	1,971,475	54,561,251	37.82%
47	PARK	55,127,763	60,651,097	6,088,200	67,960	2,261,501	529,200	242,630	2,740	6,771,174	131,740,265	46.04%
48	PHILLIPS	127,270	6,911,178	8,161,493	122,020	20,369,971	129,199	0	10,035	3,768,861	37,600,027	18.38%
49	PITKIN	144,075,405	536,148,215	240,564,181	436,130	1,266,800	1,025,830	0	45,240	13,188,927	936,750,528	57.23%
50	PROWERS	769,500	15,539,581	11,872,480	2,174,090	24,082,300	935,840	0	2,256,460	10,167,889	67,798,120	22.92%
51	PUEBLO	31,578,890	238,050,829	141,230,389	65,430,307	8,810,240	1,406,490	0	0	103,724,302	590,231,446	40.33%
52	RIO BLANCO	1,680,586	12,320,420	7,485,790	5,410,930	4,807,620	25,058,522	0	183,096,442	33,325,257	273,185,567	4.51%
53	RIO GRANDE	4,547,460	20,259,285	24,936,680	1,916,930	13,192,640	5,071,610	0	0	7,712,667	77,637,272	26.09%
54	ROUTT	42,460,899	135,295,014	65,319,116	1,639,128	6,817,400	22,072,060	0	1,657,324	58,736,687	336,097,628	40.25%
55	SAGUACHE	11,386,180	6,734,785	3,919,238	30,896	9,805,340	815,050	0	11,300	5,107,003	37,809,791	17.81%
56	SAN JUAN	1,717,187	3,384,081	3,282,100	388,278	2,750	2,001,400	0	0	1,969,442	12,745,238	26.55%
57	SAN MIGUEL	212,456,652	91,710,522	34,719,604	554,361	2,632,880	899,140	59,760	1,279,720	7,369,516	351,684,177	26.08%
58	SEDGWICK	64,416	2,950,124	2,023,820	299,681	12,439,105	145,926	0	38,794	8,315,398	26,277,264	11.23%
59	SUMMIT	93,732,690	263,697,407	131,345,410	5,582,330	483,070	858,960	0	0	19,736,290	535,438,157	52.98%
60	TELLER	57,713,360	67,731,896	45,017,180	1,278,650	1,075,190	5,836,990	1,978,013	0	6,360,722	186,992,000	36.22%
61	WASHINGTON	147,146	5,659,001	2,691,882	132,970	32,553,030	1,349,980	0	16,574,804	7,996,110	67,104,923	8.43%
62	WELD	22,436,318	366,468,807	193,012,342	124,867,194	92,603,220	3,190,980	0	406,126,028	136,265,579	1,344,990,468	27.25%
63	YUMA	440,421	12,617,710	9,150,761	143,611	40,795,130	589,030	0	22,359,110	13,578,835	99,674,608	12.66%
TOTAL ASSESSED VALUE CHANG WITH RES AT 10.36%		2,331,584,466	14,401,071,660	8,332,945,284	1,776,825,835	686,047,020	210,007,229	36,585,092	1,267,442,320	2,750,008,926	31,794,617,832	45.29%

We have not succeeded in answering all your problems. The answers we have found only serve to raise a whole set of new questions. In some ways we feel we are as confused as ever, but we believe we are confused on a higher level and about more important things.

ARTICLE X, SECTION 20 AND PROPERTY TAXATION

PROPERTY TAX REVENUE LIMIT

- Annual Percentage Change = Inflation + Local Growth

VOTER APPROVAL REQUIREMENTS

- New Tax
- Mill Levy Higher Than Prior Year's Mill Levy
- Valuation For Assessment Ratio Increase For A Property Class
- Extension Of An Expiring Tax
- Tax Policy Change Directly Causing A Net Tax Revenue Gain To District
- Weakening Of Other Limits On District Revenue, Spending, and Debt

NO EMERGENCY PROPERTY TAXES

ASSESSMENT PROCEDURES

- Residential Property - Market Approach To Appraisal Only
- Annual NOVs And Appeals - No Presumption In Favor Of Valuation
- Actual Value Stated On NOVs And Tax Bills
- Sales By Lendors And Government - Comparable Market Sales

BUSINESS PERSONAL PROPERTY TAXES

- Districts May Enact Cumulative Uniform Exemptions and Credits

DRP 1002 (07/95)
COLORADO DEPARTMENT OF REVENUE
TAXPAYER SERVICE DIVISION
1375 SHERMAN STREET
DENVER CO 80261

Colorado Sales/Use Tax Rates

This publication, which is updated on January 1 and July 1 each year, lists Colorado Sales/Use Tax rates throughout the state. The total tax rate for any jurisdiction must be computed by adding all taxes applicable to that jurisdiction. Requests for new listings should be directed to Taxpayer Service: 534-1208.

State and Regional Sales Taxes

State Sales Tax

The state sales/use tax rate is 3% with exemptions on food for home consumption; machinery and machine tools used in manufacturing; gas, electricity, etc., for home use. A service fee, also known as vendor's fee, of 3 1/3% is allowed. Tax is remitted on Form DR 0100, "Retail Sales Tax Return."

RTD/CD/BD Tax

The RTD/CD/BD Tax total is .8%.

The Regional Transportation District (RTD) levies a sales/use tax of 0.6%, with exemptions on food for home consumption, and gas, electricity, etc., for home use. Service fee: 3 1/3%. The RTD includes the counties of Denver, Boulder, Jefferson, Adams (west of Box Elder Creek), Arapahoe (roughly, one mile east of Gun Club Road and south of Quincy including Arapahoe Park), and Douglas (northeast portion plus Highlands Ranch). Tax is remitted on Form DR 0100 in RTD/CD/BD column.

A sales/use tax of 0.1% applies to all sales that are subject to the RTD tax for the Scientific and Cultural Facilities District (CD). Service fee: 3 1/3%. Tax is remitted on Form DR 0100 in RTD/CD/BD column.

A sales/use tax of 0.1% applies to all sales that are subject to the RTD tax for Baseball Stadium District (BD). Service fee: 3 1/3%. Tax is remitted on Form DR 0100 in RTD/CD/BD column.

County Lodging Tax

The following counties have a tax of 1.9% on lodging services including hotels, motels, condominiums, and camping spaces: Alamosa, Archuleta, Chaffee, Clear Creek, Costilla, Conejos, Delta, Gunnison, Hinsdale, Lake, La Plata (Durango omitted), Logan, Mineral, Moffat, Montezuma (Cortez omitted), Morgan, Rio Blanco, Rio Grande and Saguache. The rate is 0.9% in Bent County, 1.8% in Grand (Winter Park omitted) County and 2% in San Miguel County. Tax is remitted quarterly on Form DR 1485, "County Lodging Tax Return".

Local Improvement District Tax

A sales tax of 0.5% within designated areas of southeast Jefferson and Boulder (Old Town Niwot and Cottonwood Square) Counties. Exemptions include utilities, and telephone and telegraph services. Service fee of 3 1/3% is allowed for southeast Jefferson County. Boulder County does not allow a service fee. Tax is remitted on form DR 0100 in City/SP Dist Column.

Mass Transit District Tax

A sales tax of 0.5% in Pitkin and Summit Counties. Service fee: 3 1/3%. Tax is remitted on Form DR 100 in the RTD/CD/BD column. Exemptions are the same as the county sales tax.

Short-term Rental Tax

Douglas county has a tax of 1% on property rented for thirty days or less (excluding MV). Tax is remitted on Form DR 1480.

Colorado Counties

NO.	NAME	NO.	NAME	NO.	NAME	NO.	NAME	NO.	NAME
1	Denver	14	Fremont	27	Washington	40	Gunnison	53	Grand
2	Pueblo	15	Morgan	28	Routt	41	Lake	54	Park
3	Weld	16	Huerfano	29	Bent	42	Moffat	55	San Juan
4	El Paso	17	Prowers	30	Alamosa	43	Teller	56	Ouray
5	Las Animas	18	Delta	31	Chaffee	44	Eagle	57	Pitkin
6	Larimer	19	Yuma	32	Montezuma	45	Kiowa	58	Dolores
7	Boulder	20	La Plata	33	Lincoln	46	Cheyenne	59	Jackson
8	Mesa	21	Montrose	34	Elbert	47	Douglas	60	Gilpin
9	Otero	22	Baca	35	Saguache	48	Archuleta	61	Summit
10	Arapahoe	23	Rio Grande	36	Crowley	49	Rio Blanco	62	Mineral
11	Jefferson	24	Garfield	37	Phillips	50	San Miguel	63	Hinsdale
12	Adams	25	Conejos	38	Costilla	51	Clear Creek		
13	Logan	26	Kit Carson	39	Sedgwick	52	Custer		

State Collected City and County Sales Taxes

CITIES

CITY	% TAX RATE	EXEMPT[1]	USE TAX[2]	SERVICE FEE %
Akron (27)	1	B-C	Y-Z 1%	3 1/3%
Alma (54)	3		None	3 1/3
Antonito (25)	4		None	3 1/3
Ault (03)	2		Y-Z 2%	0
Basalt (44, 57)	2		None	3 1/3
Bayfield (20)	2		None	3 1/3
Bennett (12)	2		None	3 1/3
Berthoud (06)	2		Y-Z 2%	3 1/3
Black Hawk (60)	4		Y-Z 4%	3 1/3
Blanca (38)	2	B-C	None	3 1/3
Brighton (03, 12)	3.75		Y-Z 3.75%	3 1/3
Broomfield (07,11,12,03)	3.75		Y-Z 3.75%	0
Brush (15)	3		Y-Z 3%	3 1/3
Buena Vista (31)	2		None	3 1/3
Burlington (26)	2	A-B-C	Y-Z 2%	3 1/3
Calhan (04)	2	A-B-C	Y-Z 2%	3 1/3
Carbondale (24)	3		Y-Z 3%	3 1/3
Castle Rock (47)	4		Y-Z 4%	3 1/3
Cedaredge (18)	1.5	C	Y-Z 1.5%	3 1/3
Center (23,35)	2		None	3 1/3
Cheyenne Wells (46)	2	A-B-C	Y-Z 2%	3 1/3
Collbran (08)	2	A-B-C	None	3 1/3
Columbine Valley (10)	3	A-B-C	Y-Z 3%	3 1/3
Craig (42)	2		None	3 1/3
Crawford (18)	2		None	3 1/3
Creede (62)	2		None	3 1/3
Crested Butte (40)	4		Y-Z 4%	3 1/3
Crestone (35)	1		None	0
Cripple Creek (43)	2		None	0
Dacono (03)	3		Y-Z 3%	3 1/3
De Beque (08)	2	A-B-C	None	3 1/3
Del Norte (23)	2		None	3 1/3
Dillon (61)	2		None	0
Dolores (32)	3.5		None	3 1/3
Dove Creek (58)	2	C	Y 1%	3 1/3
Eads (45)	2		Y-Z 2%	3 1/3
Eagle (44)	4		None	3 1/3
Eaton (03)	3		None	3 1/3
Elizabeth (34)	2.5		Y-Z 1.5%	3 1/3
Empire (51)	3		Y-Z 3%	0
Erie (07,03)	3.5	A-B-C	Y-Z 3.5%	3 1/3
Estes Park (06)	4		Y 2%	3 1/3
Evans (03)	3	A	Y-Z 3%	3 1/3
Fairplay (54)	3		None	3 1/3
Federal Heights (12)	3		Y-Z 3%	[4] 3 1/3
Firestone (03)	2	A-B	Y-Z 2%	0
Flagler (26)	2	B-C	None	3 1/3
Florence (14)	2		Y-Z 2%	3 1/3
Fort Lupton (03)	4		Y-Z 4%	3 1/3
Fort Morgan (15)	3		Y-Z 3%	3 1/3
Fountain (04)	3	A-B-C	Y-Z 2%	0
Fowler (09)	2	B-C	None	3 1/3
Fraser (53)	4		Y-Z 4%	0
Frederick (03)	2	A-B-C	Y-Z 2%	3 1/3
Frisco (61)	2		None	3 1/3
Fruita (08)	2	A	Y-Z 2%	3 1/3
Garden City (03)	2		None	3 1/3
Georgetown (51)	3		Y 3%	0
Gilcrest (03)	3		Y-Z 3%	3
Granada (17)	2		Y-Z 2%	3 1/3
Granby (53)	4		Y-Z 4%	3 1/3
Grand Lake (53)	4		Y-Z 4%	3 1/3
Green Mtn Falls (04,43)	2		Y-Z 2%	2
Gunnison (40)[3]	3		Y-Z 3%	5
Gypsum (44)	2	A	None	0
Haxtun (37)	1		Y-Z 1%	3 1/3
Hayden (28)	4		Y 2%	3 1/3
Holly (17)	1		None	3 1/3
Holyoke (37)	1.5		Y-Z 1.5%	3 1/3
Hot Sulphur Spgs (53)	4	A-B-C	None	3 1/3
Hotchkiss (18)	2		None	3 1/3
Hudson (03)	2	A	None	3 1/3
Hugo (33)	2	B	Y-Z 2%	3 1/3
Idaho Springs (51)	3		Y-Z 3%	0
Ignacio (20)	2		None	3 1/3
Johnstown (03)	2		Y-Z 2%	3 1/3
Julesburg (39)	1		Y-Z 1%	3 1/3
Keenesburg (03)	2	A	None	3 1/3
Kersey (03)	3		None	3 1/3
Kiowa (34)	1.5		None	3 1/3
Kit Carson (46)	2		Y-Z 2%	3 1/3
Kremmling (53)	4		None	3 1/3
La Jara (25)	2		None	3 1/3
La Salle (03)	3.5		Y-Z 2%	3 1/3
La Veta (16)	3		None	3 1/3
Las Animas (29)	2		Y-Z 2%	3 1/3
Limon (33)	2		Y-Z 2%	3 1/3
Lochbuie (03)	2		Y-Z 2%	0
Log Lane Village (15)	3		Y-Z 3%	0
Louisville (07)	3.375		Y-Z 3.375%	3 1/3
Loveland (06)	3		Y-Z 3%	[4] 3 1/3
Lyons (07)	3		Y-Z 3%	3 1/3
Manassa (25)	1		None	3 1/3
Mancos (32)	3		None	0
Manitou Spgs (04)[3]	3.5		Y-Z 3.5%	0
Manzanola (09)	2	A-B-C	Y 2%	3 1/3
Marble (40)	2		None	3 1/3
Mead (03)	2	A-B-C	Y-Z 2%	0
Milliken (03)	2.5		Y-Z 2.5%	3 1/3
Minturn (44)	4		None	0
Monte Vista (23)	3		None	3 1/3
Monument (04)	3	A-B-C	Y-Z 2%	3 1/3
Morrison (11)	3		Y-Z 3%	3 1/3
Mountain View (11)	3		Y 3%	3 1/3
Naturita (21)	2		Y-Z 2%	3 1/3
Nederland (07)	3		Y-Z 3%	3 1/3
New Castle (24)	3		Y 2%	3 1/3
Norwood (50)	2	C	None	3 1/3
Nucla (21)	2		Y-Z 2%	3 1/3
Oak Creek (28)	3		None	3 1/3
Olathe (21)	3		Y-Z 1%	3 1/3
Ordway (36)	2		Y-Z 2%	3 1/3
Otis (27)	2		Y-Z 2%	3 1/3
Ouray (56)	3		None	3 1/3
Ovid (39)	1		Y-Z 1%	3 1/3

(Continued next page)

CITY	% TAX RATE	EXEMPT[1]	USE TAX[2]	SERVICE FEE %
Palisade (08)	1	A-B-C	None	3 1/3
Palmer Lake (04)	2	A	Y-Z 2%	3 1/3
Paonia (05)	2		None	3 1/3
Parachute (23)	2.75		Z 3.75%	0
Parker (03)	1		Y-Z 3%	4 3 1/3
Pierce (03)	2	B	Y-Z 2%	3 1/3
Pitkin (40)	3		None	0
Platteville (03)	2		None	3 1/3
Poncha Springs (31)	2		None	3 1/3
Red Cliff (44)	3		None	3 1/3
Rico (58)	2		None	3 1/3
Ridgway (56)	3	A-B-C	None	3 1/3
Rocky Ford (09)	3		Y-Z 3%	3
Romeo (25)	1		None	3 1/3
RTD/CD/BD	.8	A-C	Yes .8%	3 1/3
Saguache (35)	3		None	3 1/3
Salida (31)	2		None	3 1/3
San Luis (38)	2		None	3 1/3
Sawpit (50)	3		Z 3%	0
Sedgwick (39)	1	B-C	None	0
Severance (03)	2	C	Z 2%	3 1/3

CITY	% TAX RATE	EXEMPT[1]	USE TAX[2]	SERVICE FEE %
Sheridan (10)	3.5	A	None	0
Silt (24)	3		Y-Z 3%	3 1/3
Silver Cliff (52)	2		Y-Z 2%	3 1/3
Silver Plume (51)	3		None	0
Simla (34)	2	A-B-C	None	3 1/3
South Fork (23)	3	C	None	3 1/3
Springfield (22)	2		None	3 1/3
Sterling (13)	3		Y-Z 3%	3 1/3
Superior (07)	2		Y-Z 2%	3 1/3
Telluride (50)	4.5		Y-Z 4.5%	3 1/3
Trinidad (05)	4		Y-Z 4%	3 1/3
Victor (43)	3	A-B-C	None	0
Walsenburg (16)	2		Y-Z 2%	3 1/3
Ward (07)	2		None	3 1/3
Wellington (06)	2	C	Y-Z 2%	3 1/3
Westcliffe (52)	2		None	3 1/3
Wiggins (15)	2		None	3 1/3
Windsor (03)	3		None	3 1/3
Wray (19)	1		Y-Z 1%	3 1/3
Yuma (19)	2		Y-Z 2%	3 1/3

COUNTIES

COUNTY	% TAX RATE	EXEMPT[1]	USE TAX[2]	SERVICE FEE %
Adams (12)	.5	A-B-C	None	0
Alamosa (30)	2		None	3 1/3
Archuleta (48)	4		None	3 1/3
Bent (29)	1		Y-Z 1%	0
Boulder (07)	.35	A-B-C	Y-Z.35%	0
Chaffee (31)	2		None	3
Clear Creek (51)	1		None	0
Costilla (38)	1		None	0
Crowley (36)	2		Y-Z 2%	3 1/3
Custer (52)	2	A-B-C	Y-Z 2%	3 1/3
Delta (18)	2		None	3 1/3
Douglas (47)	.17	A-C	Y-Z.17%	3 1/3
Eagle (44)	1	A-B-C	None	3 1/3
El Paso (04)	1	A-B-C	Y-Z 1%	3 1/3
Fremont (14)	1.5	A-C	Y-Z 1.5%	3 1/3
Garfield (24)	.25	A-B-C	None	3 1/3
Grand (53)	1		None	3 1/3
Gunnison (40)	1		None	3 1/3
Hinsdale (63)	4		Y-Z 4%	3 1/3
Huerfano (16)	1		None	3 1/3
Jackson (59)	3		None	3 1/3

COUNTY	% TAX RATE	EXEMPT[1]	USE TAX[2]	SERVICE FEE %
Jefferson (11)	.5		None	3 1/3
Lake (41)	4		None	3 1/3
La Plata (20)	2		None	3 1/3
Lincoln (33)	2		Y-Z 2%	3 1/3
Mesa (08)	2	A-B-C	Y-Z 2%	3 1/3
Mineral (62)	2		None	3 1/3
Moffat (42)	2		None	3 1/3
Montrose (21)	1	A-B-C	Y-Z 1%	3 1/3
Otero (09)	1	A-B-C	Y-Z 1%	3 1/3
Ouray (56)	1		None	3 1/3
Pitkin (57)	3		Y-Z 3%	3 1/3
(except Basalt)	2			
Prowers (17)	1		Y-Z 1%	3 1/3
Pueblo (02)	1	A-B-C	Y 1%	3 1/3
Rio Blanco (49)	2	C	Y-Z 2%	3 1/3
Rio Grande (23)	1		None	3 1/3
Routt County (28)	1	A-B-C	Y-Z 1%	3 1/3
San Juan (55)	4		None	3 1/3
San Miguel (50)	1	A-B-C	Z 1%	3
Sedgwick (39)	1		Y-Z 1%	3 1/3
Summit (61)	2		None	3 1/3
Teller (43)	1	A-B-C	Y 1%	3 1/3

[1] **Sales Tax Exempt:**
A - Food for home consumption; B - Machinery and machine tools (as defined on form DR 1191); C - Gas, electricity, etc., for residential use

[2] **Use Tax covers:** Y - Motor vehicles; Z - Building materials

[3] **Contract cities:** For information regarding exemptions and use tax, contact the city directly.

[4] Cap on service fee per reporting period (Loveland $300, Federal Heights and Parker $200).

☆ Corrections or changes since January 1, 1995. (All state collected cities/counties sales taxes or rate changes may become effective only on January 1 or July 1.)

() County that city is located in (see chart).

Home Rule Cities for Which the State does Not Collect Local Sales Tax

City	Current %	Service Fee %	Lic. Fee $
Alamosa (30) P. O. Box 419 425 Fourth Street Alamosa CO 81101 (719) 589-2593	2	2[6]	15.00
Arvada (11, 12) 8101 Ralston Road Arvada CO 80002 (303) 431-3049	3.21	3[w]	0
[2] **Aspen** (57) 130 S. Galena Aspen CO 81611 (970) 920-5029	1.7	3.3[w]	W
[2] **Aurora** (10, 12) 1470 So. Havana Aurora CO 80012 (303) 695-7057	3.75	.5	0
Avon (44) P. O. Box 975 Avon CO 81620 (970) 949-4280	4	0	0
Boulder (07) P. O. Box 791 Boulder CO 80306 (303) 441-3050	2.86 3.01	0	25.00
Breckenridge (61) P. O. Box 168 Breckenridge CO 80424 (970) 453-2251	2	0	W
Canon City (14) P. O. Box 1460 Canon City Co 81215-1460 (719) 269-9011	2	3 1/3[6]	10.00
Central City (60) Box 249 Central City CO 80427 (303) 582-5251	4	3 1/3	10.00
Cherry Hills Village (10) 2450 E. Quincy Cherry Hills Village CO 80110 (303) 789-2541	W	W	0
Colorado Springs (04) P. O. Box 2408 Colo. Spgs CO 80901 (719) 578-6683	2.2	3	15.00
Commerce City (12) P. O. Box 40 Commerce City CO 80037 (303) 289-3628	3.5	2	0
Cortez (32) 210 E. Main Street Cortez CO 81321 (970) 565-8575	3.5	3 1/3	10.00
Delta (18) P. O. Box 19 Delta CO 81416 (970) 874-7566	3	0	W
[2] **Denver** (01) 144 West Colfax Ave. Denver CO 80202 (303) 640-2644	3.5 4[3] 5.5[5]	1	W
Durango (20) 949 2nd Avenue Durango CO 81301 (970) 247-5622	2	3 1/3	2.50
Edgewater (11) 2401 Sheridan Blvd. Edgewater CO 80214 (303) 238-7803	3.5	2	15.00
Englewood (10) 3400 So. Elati Englewood CO 80110 (303) 762-2423	3.5	1.6	0
Fort Collins (06) P. O. Box 580 Fort Collins CO 80522 (970) 221-6780	3 2.25[4]	3[w]	0
Glendale (10) 950 So. Birch Street Glendale CO 80222 (303) 759-1513	3.5	3 1/3[w]	W
Glenwood Springs (24) 806 Cooper Ave. Glenwood Springs CO 81601 (970) 945-2575	3	2	8.00
Golden (11) 911 10th Street Golden CO 80401 (303) 384-8024	3	2.5	20.00
Grand Junction (08) 250 No. 5th Street Grand Junction CO 81501 (303) 244-1520/244-1513	2.75	3 1/3	10.00
Greeley (03) 1000 10th Street Greeley CO 80631 (970) 350-9726	3	0	0
[2] **Greenwood Village** (10) 6060 So. Quebec Street Greenwood Village CO 80111-4591 (303) 773-0252	3	0	10.00
Lafayette (07) 1290 So. Public Rd. Lafayette CO 80026 (303) 665-5588	3.25	2.5	0
La Junta (09) P. O. Box 489 La Junta CO 81050 (719) 384-5991	3	3	0
Lakewood (11) 445 So. Allison Pkwy Lakewood CO 80226-3105 (303) 987-7630	2	1	15.00
Lamar (17) 102 E. Parmenter St. Lamar CO 81052 (719) 336-4376	3	3 1/3	1.00
Larkspur (47) P.O. Box 310 Larkspur CO 80118 (303) 681-2324	4	0	W
Littleton (10) 2255 W. Berry Avenue Littleton CO 80165 (303) 795-3768	3	2.5	0
Longmont (07) Civic Center Complex Longmont CO 80501 (303) 651-8676	2.75	3[w]	10.00
[1] **Montrose** (21) P. O. Box 790 Montrose CO 81402 (970) 240-1400	4	1 1/3	10.00
Mt. Crested Butte (40) P. O. Drawer D Mt. Crested Butte CO 81225 (970) 349-6632	4	3 1/3	0
Northglenn (12, 03) 11701 Community Cntr Dr Northglenn CO 80233 (303) 451-8326	3.5	1	5.00
Pueblo (02) P. O. Box 1427 Pueblo CO 81002 (719) 584-0860	3.5	0	5.00
Rifle (24) P. O. Box 1908 Rifle CO 81650 (970) 625-2121	2.50	0	10.00
[1] **Silverthorne** (61) P. O. Box 1309 Silverthorne CO 80498 (970) 468-2637	2	3 1/3	50.00
Snowmass Village (57) P. O. Box 5010 Snowmass Village CO 81615 (970) 923-3796	1	0	25.00
Steamboat Spgs (28) P. O. Box 775088 Steamboat Spgs CO 80477 (970) 879-2060	4.5	0	0
Thornton (12) 9500 Civic Center Drive Thornton CO 80229 (303) 538-7232	3.5	1.5	0
Vail (44) 75 Frontage Rd West Vail CO 81657 (970) 479-2125	4	0	0
Westminster (11, 12) 4800 W. 92nd Avenue Westminster CO 80030 (303) 430-2400 Ext. 2065	3.25	2.5	0
Wheat Ridge (11) 7500 W. 29th Avenue Wheat Ridge CO 80215-6797 (303) 235-2820	2.5	2[w]	10.00
Winter Park (53) P.O. Box 3327 Winter Park CO 80482 (970) 726-8081	5	0	0
Woodland Park (43) P. O. Box 9045 Woodland Park CO 80866-9045 (719) 687-9246	3	W	50.00

Direct contact with these home rule cities is suggested in order to receive up-to-date information concerning their tax rates, exemptions, license fees and procedures.

[1] Corrections or changes since January 1, 1995 update.
[2] Occupational Privilege Tax.
[3] Sales tax on food & liquor for immediate consumption.
[4] Food for home consumption.
[5] Automobile rentals for less than 30 days.
[6] Cap at a certain amount.
() County that city is located in (see chart).
W Contact the city directly

TAXPAYER SERVICE DIVISION

FYI – For Your Information

Guidelines for Determining When to Collect State-Collected Local Sales Tax

GENERAL INFORMATION

The Colorado Department of Revenue is responsible for collecting and administering local sales taxes for all counties, statutory cities and special districts that impose a sales tax. Sales taxes collected by vendors in such areas are to be reported on the "Combined Retail Sales Tax Return" (DR 0100) and remitted to the Colorado Department of Revenue.

In some cases, home-rule city sales tax is administered and collected locally rather than by the state. The Colorado Department of Revenue has no jurisdiction over sales and use taxes imposed by home-rule cities when the state does not administer its local taxes. Taxes collected for such areas must be remitted directly to the home-rule jurisdiction. **This FYI does not address the local taxes of self-administered home-rule cities. You must contact a home-rule jurisdiction directly to obtain its tax regulations.** For information on local sales tax rates, request "Colorado Sales/Use Tax Rates" (DR 1002). This DOR publication is updated each January and July.

SALES TAXES ON TANGIBLE PERSONAL PROPERTY (EXCEPT MOTOR VEHICLES)

A retailer of tangible personal property with a business presence in a city, county, and/or the Regional Transportation District/Cultural and Scientific Facilities District/Metropolitan Baseball Stadium District (RTD/CD/BD) must collect **all** applicable local sales taxes on transactions consummated within the boundaries of that area.

Deliveries of Goods

Local sales taxes and RTD/CD/BD taxes are **not** collected when the retailer or his agent delivers the tangible personal property, via the retailer's company vehicle, to a destination outside the boundaries of the vendor's local taxing jurisdiction(s) or to a common carrier for delivery outside the boundaries of the vendor's local taxing area(s). Delivery of the tangible personal property into another local taxing area does **not** require the vendor to collect the local sales taxes of the delivery area if the vendor does not have a business presence there. However, sold goods that are turned over to a contractor/subcontractor or other agent who is not primarily a common carrier for delivery outside the local taxing jurisdiction (for example, a carpet store turning over sold carpet to an independent installer who then installs the carpet for the purchaser), does **not** constitute delivery to another taxing area under this rule. The goods are taxable in the local jurisdiction where the contractor/subcontractor picks up the goods.

Colorado Department
of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Sales Tax: (303) 534-1208
Withholding Tax: (303) 534-1208
Income Tax: (303) 534-1209
Severance Tax: (303) 534-1209
Excise Tax: (303) 534-1805

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SALES 62 (07/95)
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Vendors making retail sales which are exempt from local sales tax due to the delivery location bear the burden of proving that delivery took place outside the taxing area. For audit purposes, retailers should maintain invoices showing specifics of such deliveries by common carriers. For deliveries with the retailer's own vehicle, the DOR recommends maintaining delivery invoices signed by the purchaser upon delivery which show date, time, place, and vehicle used.

RTD/CD/BD Use Tax

Because the RTD/CD/BD has a use tax, businesses that are not located in the RTD/CD/BD but make regular shipments into the district or have otherwise established nexus (a sales presence) in the district should collect the RTD/CD/BD tax and remit it on the "Combined Retail Sales Tax Return" (DR 0100). If the RTD/CD/BD tax is not collected by the vendor, the consumer located within the district must pay the tax on the "Consumer Use Tax Return" (DR 0252).

Mobile Vendors

Those retailers who carry their inventory with them and make sales from that inventory directly to customers are classified as mobile vendors, and all local taxes must be collected. If you have not made sales in a particular taxing area previously, list the amount of sales and compute the tax for the city and/or county on a separate sheet of paper and staple it to the front of your sales tax return. Be sure to write your account number and identify the city and/or county on the separate sheet. You will then begin receiving returns for this jurisdiction.

Out-of-State Retailers

Out-of-state retailers who file Colorado retailer use tax returns (DR 0173) are responsible for collecting state sales/use taxes (and RTD/CD/BD taxes, if applicable) but are not required to collect sales taxes for any state-collected city or county, provided the retailer has no place of business in such state-collected city or county. For further information, request FYI Sales 5 "General Sales Tax Information for Out-of-State Businesses" (DRP 1890).

Building Materials

Local sales tax is not due on building materials if the purchaser presents a building permit or other documentation acceptable to the local jurisdiction where the materials are purchased showing that a local use tax has been paid or is required to be paid to another local entity [§29-2-105(2) C.R.S.]. City and county use taxes on building materials are remitted directly to the local jurisdiction, not to the Department of Revenue.

Independent Distributors

These distributors are not required to have a sales tax license if the company itself has a license and remits all applicable sales taxes. The local tax liability is determined by the address of the independent distributor. If you feel you fall into this category, you may contact the Department of Revenue at (303) 534-1208 for more information.

Boats

Vendors of boats, boat motors and boat parts must collect all applicable state and local sales taxes. Boats are not treated as motor vehicles. However, boat trailers which require licensing and registration **are** treated as motor vehicles and are taxed as such (see below).

SALES TAXES ON MOTOR VEHICLES

When the motor vehicle dealer and the purchaser reside in the same local taxing area, the dealer **must** collect all applicable local sales taxes (RTD/CD/BD, other special districts, county and city) in addition to the state sales tax. The state-administered taxes are to be paid to the Department of Revenue on the "Combined Retail Sales Tax Return" (DR 0100).

RTD/CD/BD taxes apply to all purchasers living within the boundaries of this district. In order to facilitate titling procedures, dealers not located in the district should collect the tax from residents of the district and send the tax directly to the motor vehicle department of the purchaser's county of residence along with the title application. RTD/CD/BD taxes are **not** applicable to purchasers buying within the district but **not residing** in the district.

Purchasers buying a motor vehicle outside the limits of the local taxing entity where they reside will be required to pay any locally-imposed use tax when registering the motor vehicle. As with RTD/CD/BD tax, dealers should collect local use taxes and send them directly to the motor vehicle department of the purchaser's county of residence along with the title application.

Motor vehicles must be registered in the local jurisdiction of residence of the purchaser. For a private individual, this means the county and town where he/she is registered to vote. For a business purchaser, this means the business address from which the vehicle is principally operated and maintained. [§1-2-102 and 31-10-201 C.R.S.]

Motor vehicle sales or trades between unlicensed, private individuals **are** subject to sales/use tax. The purchaser must pay the tax on the purchase price when registering and titling the vehicle.

A NOTE ON USE TAX

Use tax must be paid by the purchaser of goods for the purchaser's own use in cases where the seller did not or could not collect sales taxes. [§39-26-202 C.R.S.] This would include, for example, purchases by mail from an out-of-state firm which is not collecting Colorado sales tax. It would also include goods and equipment purchased tax-exempt by a business and used by the business rather than being placed in inventory for re-sale. Merchandise that is purchased tax free for resale but later removed from inventory and used by the business must be reported on line 10 of the "Combined Retail Sales Tax Return" (DR 0100) and all applicable taxes remitted.

Except for certain special districts which levy a sales tax, state-administered local jurisdictions do not have a use tax except that, at local jurisdictions' election, they may impose a use tax on building materials and/or motor vehicles. The RTD/CD/BD (a combined special district which levies a sales/use tax) requires a use tax be paid on all taxable goods in situations where sales tax is not collected.

FURTHER INFORMATION

For more information on related topics, consult the following FYIs:

- Sales 1 "How to Document Sales to Tax-Exempt Organizations" (DRP 1811);
- Sales 4 "Guidelines For Determining the Appropriate Sales Tax Rate For Taxable Food Items" (DRP 1892);
- Sales 6 "Contractors and Retailer - Contractors" (DRP 1874);
- Sales 9 "Sales Tax Licenses" (DRP 1801);
- Sales 55 "Flea Markets" (DRP 1835).

Single FYIs are free from the Taxpayer Service Division. Call the DOR Forms Hotline at (303) 534-1408. Please use the DR or DRP number when ordering publications or tax forms.

For a complete set of FYIs (approximately 125, on sales, income, excise and withholding taxes), you may purchase ***The Complete Book of FYIs*** at low cost from the State Forms Center, Division of Correctional Industries, 4200 Garfield St., Denver, CO 80216. An order form is contained in FYI General 1 (DRP 1810), or call the State Forms Center, (303) 321-4164, for ordering information.

TAXPAYER SERVICE DIVISION

FYI – For Your Information

Guidelines for Determining Sales Tax Rates for Taxable Food Items

The following guidelines should be used to determine whether a food item is exempt from sales tax. Colorado's principal sales tax exemption guideline is based upon what can be purchased with food stamps and WIC vouchers. (WIC is the federal supplemental food program for women, infants and children.) Colorado statute also imposes other criteria, in addition to the food stamp/WIC guidelines.

WHAT CAN BE PURCHASED WITH FOOD STAMPS OR WIC VOUCHERS AND IS TAX EXEMPT?

All food purchased with food stamps or WIC vouchers is exempt from all sales taxes. Food is defined in Department of Agriculture guidelines 7 U.S.C. section 2012 (g). Items eligible for purchase with food stamps include:

1. Foods for human consumption at home.
2. Seeds and plants which produce food for human consumption.

The Department of Agriculture guidelines prohibit the use of food stamps or WIC vouchers for the purchase of the following items. These items are sales taxable:

1. Nonfood items such as pet foods, soaps, paper products and household supplies, grooming items and cosmetics.
2. Alcoholic beverages. (Cooking wine and wine vinegar are exempt.)
3. Tobacco and tobacco products. (Cigarettes are sales tax exempt under §39-26-114 C.R.S.)
4. Food to be eaten in the store, hot foods ready to eat and any food marketed to be heated in the store.
5. Food preservation equipment and items.
6. Vitamins and medicines. (Prescription drugs are exempt under §39-26-14 C.R.S.)

FOR OTHER FOOD PURCHASERS, WHAT IS TAX EXEMPT?

Any food item not purchased with food stamps or WIC vouchers is either taxable or tax exempt according to the guidelines listed in the above section with the following exceptions. The following items, if purchased with food stamps are exempt from the 3 percent state sales tax, but are taxable if purchased with cash:

1. Carbonated water marketed in containers.
2. Chewing gum.
3. Prepared salads and salad bar items.

Colorado Department
of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Sales Tax: (303) 534-1208
Withholding Tax: (303) 534-1208
Income Tax: (303) 534-1209
Severance Tax: (303) 534-1209
Excise Tax: (303) 534-1805

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SALES 4 (03/95)
DRP 1892

4. Cold sandwiches.

5. Deli trays.

Also subject to state sales tax are food or drink purchased from vending machines and food used by a business or commercial entity, such as coffee served to customers or employees.

In addition, all food and drink sold by the following establishments are taxable: restaurants, snack shops, carryout shops, pushcarts and other sellers of food and drink as specified in §39-26-104 (1) (e) C.R.S.

DETERMINING WHETHER LOCAL TAX AND RTD/CD/BD TAX ARE DUE ON FOOD

Cities and counties have the option of taxing food. However, if they exempt food from sales tax they must use the same criteria as the state in determining which items are taxable and which are exempt. This includes home-rule cities that administer their own sales tax. Localities that elect to tax food still must exempt purchases made with food stamps or WIC vouchers.

To find out whether a governmental entity taxes food, retailers should refer to "Colorado Sales/Use Taxes" (DRP 1002), published by the Department of Revenue. This publication, updated every January and July, lists tax rate information for Colorado cities and counties and also indicates which counties and statutory cities have a sales tax exemption for food. The publication can be obtained at any Taxpayer Service Center statewide or by calling (303) 534-1408. You must contact home-rule cities directly to find out if they exempt food from sales tax.

Regional Transportation District (RTD) tax of 0.6 percent, Scientific and Cultural Facilities District (CD) tax of 0.1 percent and Metropolitan Baseball Stadium District (BD) tax of 0.1 percent are due on any food item sold within RTD/CD/BD boundaries that is subject to the state sales tax. (The boundaries of these three special districts are identical and encompass most of the 6-county Denver metropolitan area.) If the item is not subject to state sales tax, no RTD/CD/BD tax is due.

All state sales tax and, if applicable, state-collected local and/or RTD/CD/BD taxes must be reported and remitted with the "Combined Retail Sales Tax Return" (DR 0100).

FURTHER INFORMATION

For more information on related topics, consult the following DOR publications:

- Sales 24 "Special Regulation: Eating and Drinking Establishments" (DRP 1824);
- Sales 59 "Vending Machines" (DRP 1869);
- Sales 62 "Guidelines for Determining When to Collect State-Collected Local Sales Tax" (DRP 1873);
- FYI General 1 "Department of Rev enue Publications" (DRP 1810);
- FYI General 8 "The FYI Program - Index and General Information" (DRP 1897).

Single FYIs are free from the Taxpayer Service Division. They may be obtained at any statewide Taxpayer Service Center; or by writing to the Colorado Department of Revenue, 1375 Sherman St., Denver, CO 80261; or by calling the DOR Forms Hotline at (303) 534-1408. Please use the DR or DRP number when ordering publications or tax forms.

For a complete set of FYIs (approximately 125, on sales, income, excise and withholding taxes), you may purchase ***The Complete Book of FYIs*** at low cost from the State Forms Center, Division of Correctional Industries, 4200 Garfield St., Denver, CO 80216. An order form is contained in FYI General 1, or call the State Forms Center, (303) 321-4164, for ordering information.

JUNE 1995

CITY COUNTY CONNECTIONS

A Quarterly Newsletter for Colorado City and County Governmental Officials

Some sales by charitable organizations now tax exempt

Signed by Gov. Romer, House Bill 1145 becomes effective July 1, 1995. The new law states that charitable organizations holding infrequent fundraising events are not liable to collect state sales, Regional Transportation District, Cultural and Baseball District taxes on those sales. To qualify, the organizations must hold IRS section 501(c)(3) qualification letters and have a Colorado exemption certificate.

If local jurisdictions wish to be consistent with the new state law and grant a similar exemption, they must pass a local ordinance or resolution allowing the special exemption. If not, charitable organizations will continue to be liable for collecting and remitting local tax and must obtain a state sales tax license. Local jurisdictions may refer to the statute §29-2-105 (1)(d) C.R.S. The legislation does not affect home rule cities.

If the charitable organization conducts sales for a total of 12 days or less during a calendar year, the sales are not subject to state sales tax. Proceeds from these events cannot exceed $25,000 in a calendar year. Otherwise, all sales *are* subject to sales tax. For example, if an organization raises $30,000 during its fundraising events, the entire amount is subject to state sales tax.

Funds raised through these events must be retained by the charitable organization and used in the course of the organization's charitable service to qualify for the exemption.

Colorado wins EFT Award

The Rocky Mountain Automated Clearing House Association (RMACHA) has named the State of Colorado as winner of the association's annual Payments System Excellence Award for its work with Electronic Funds Transfer (EFT). The Department of Revenue, the State Treasurer's Office and the Division of Accounts and Control are co-winners of the award.

RMACHA is a non-profit regional trade association for electronic payments in the Rocky Mountain area. Its member corporations and financial institutions are in Colorado, Wyoming and northern New Mexico.

RMACHA cited the state for its many uses of the ACH system and its leadership in implementing programs. DOR is involved with EFT wage withholding and other tax payments; lottery collections from retailers; city and county sales tax distributions; International Fuel Tax Agreement (IFTA) distributions to other states; and gaming tax payments in conjunction with Electronic Data Interchange (EDI), where the tax return is filed electronically.

There's help for Colorado entrepreneurs

If you have customers with questions on how to open a business in Colorado, there is help for you and them. The Department of Revenue has information specifically aimed at those who need a little extra assistance in starting a business.

The four-page publication addresses questions regarding trade name registrations, sales tax license requirements, special event licenses, basic wage withholding information and where to attend free sales tax classes.

To obtain free copies of the publication for your customers, call the Colorado Department of Revenue Forms Line at (303) 534-1408 and request ***For Your Information (FYI) General 14 "Opening A Business In Colorado" (DRP 1921).***

New Publication

A new quarterly publication on motor vehicle sales is available through the Colorado Department of Revenue's Tax Analysis office. The report, entitled ***"Colorado Front Range Motor Vehicle Sales,"*** contains information regarding rate of growth and sales of new and used motor vehicles for six Denver metro area counties. The information also covers Larimer, El Paso, Weld and Pueblo counties.

To be added to the mailing list for a free copy, call **Bennie Catuccio**, Tax Analysis, (303) 866-3089. Or, send your written request to:

Colorado Department of Revenue
Office of Tax Analysis
Attention: **Bennie Catuccio**
1375 Sherman St., Room 422
Denver CO 80261

Reminder . . .

Boat dealers are required to collect state and local sales tax at the time a boat is purchased. Anyone who purchases a boat from an individual who is not a dealer must submit Colorado use tax with a consumer use tax return (Form DR 252) to the Department of Revenue. The tax is computed on the purchase price of the boat. If use tax is not paid, the Department of Parks and Recreation notifies the DOR's Fair Share Unit. The Fair Share section sends written notification to the individual who has registered the boat that tax is due. However, keep in mind that a boat trailer is taxed like any other registered motor vehicle.

City & County Connections is published quarterly and mailed to city and county governmental officials. Questions and comments are welcome and should be sent to: City & County Connections, Colorado Department of Revenue, Room 242, 1375 Sherman St., Denver, CO. 80261.

Executive Editor, Dorothy Delquist
Editor, Terri Livingston

1995 Tax Seminars

The Department of Revenue has set its schedule for 1995 tax seminars. "New and improved" seminars will be offered to contractors and retailer/contractors; hotel/motel/eating and drinking establishments. Business tax and income tax seminars will also be held for tax practitioners. Sessions feature topics never before presented, as well as updates on problem areas. To reserve a place at any of the seminars, complete the registration form below. Cost for each seminar is $45. See the Calendar below for locations. If you have any questions about the seminars, contact **Judy Campbell, (303) 866-2421.**

Contractors Seminar

July 18	Grand Junction

Hotel/Motel & Eating/Drinking Establishments Seminars

July 11	Denver Metro North
July 13	Estes Park
July 21	Denver Metro South
July 25	Colorado Springs
July 28	Frisco

Business Tax Practitioners Seminars

Aug. 4	Denver Metro South
Aug. 10	Denver Metro North
Aug. 16	Denver Metro

Colorado Income Tax Seminars

Aug. 23	Denver Metro South
Aug. 29	Denver Metro North
Sept. 7	Denver Central
Sept. 12	Fort Collins
Sept. 22	Pueblo
Sept. 27	Colorado Springs

Motor Vehicle Notes

■ The "Lease and Rental Exempt" list, comprised of active leasing companies, updated monthly and sent out every six months by the Deparment of Revenue, is now available on Motor Vehicle's Colorado Registration Information System (CRIS) file for easy on-line access. For more information call your Distributed Data Processing (DDP) trainer.

■ Trucking businesses that have an Interstate Commerce Commission (ICC) number can qualify for a state sales tax exemption for long-distance and for hire vehicles. The exemption applies if possession of the vehicle is taken outside of Colorado and the vehicle is involved in continuous ICC activities such as hauling for hire. If possession of the vehicle is taken in Colorado, and a Colorado registration is requested, the sales tax exemption will **not** apply. If delivery of a vehicle is taken in Colorado, and the vehicle is removed within 45 days and registered outside Colorado to be used exclusively outside Colorado or in interstate commerce, the sale is not taxable. Information must be verified to a dealer through an affidavit from the buyer. The exemption applies only to the vehicles, not parts.

■ Under a new law, House Bill 95-1236 (§42-3-103 (4)(c) C.R.S.), effective March 31, 1995, nonresidents employed in Colorado will **not** have to re-register their motor vehicle here if their state extends the same policy to Colorado employees who work in their state. If a state does not follow the same guidelines as Colorado, nonresident workers will still have to re-register their motor vehicles here. According to Colorado Motor Vehicle law, a legal resident is a person who resides in the state for more than 90 days and is employed or owns a business here. Prior to the new law, anyone considered a resident had to re-register a vehicle that was used in the state.

City & County Tax EFT Transmission Due Dates

Electronic Funds Transfer (EFT) of taxes to local governments will occur on **Friday, June 9; Wednesday, July 12;** and **Wednesday, August 9.**

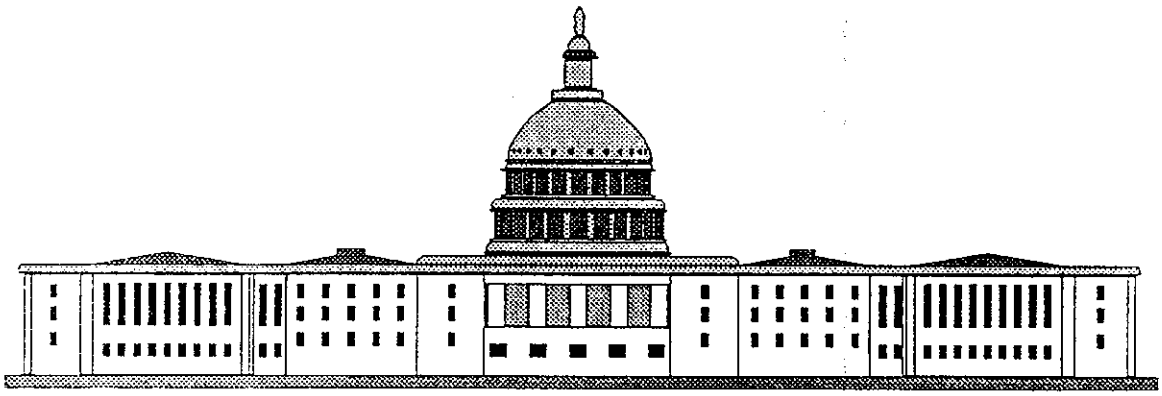
More than 150 local jurisdictions receive tax payments from the state via EFT each month. If your office is currently receiving payments by mail you may want to change to the EFT method for faster payment. Contact **Corky Lopez, (303) 866-4359** for more information.

REGISTRATION FORM 1995 — $45 per seminar (per person)

Name	**Check (if applicable)** ☐ Practitioner ☐ CPE (8 hours)	**1995 Tax Seminars**
Company Name		**Date** / **Location**
Address	**State** / **Zip**	_____ _____
City		_____ _____
Business Phone / **Home Phone**		_____ _____

Make checks payable to: Business Tax Seminar

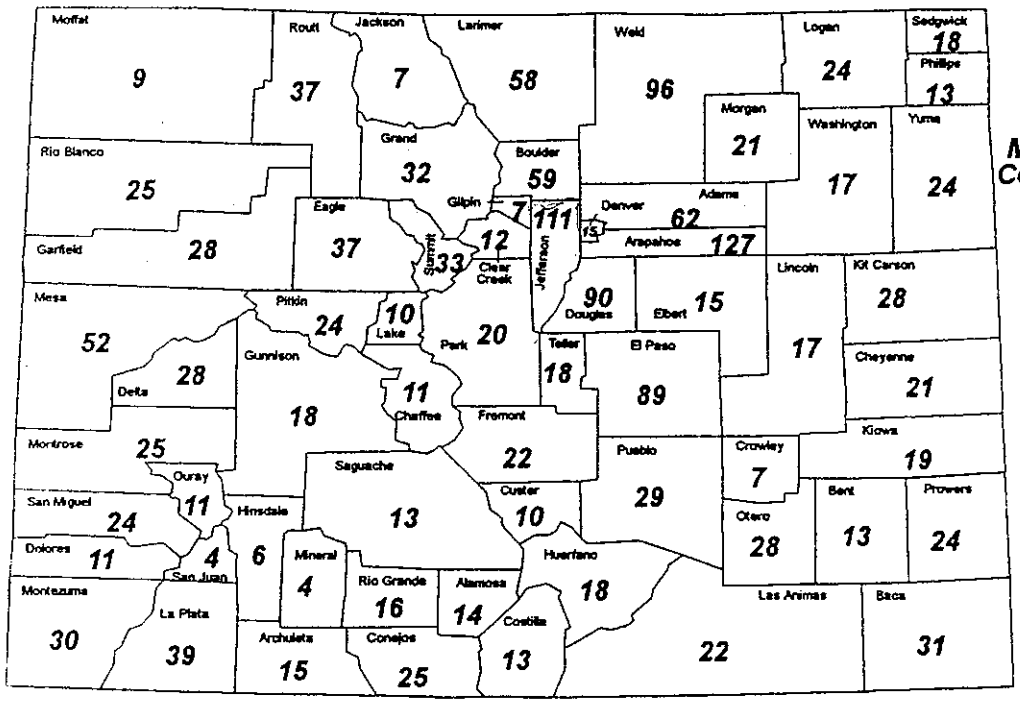
Return form and fee(s) to:
Colorado Dept of Revenue
Attn: Judy Campbell
1375 Sherman St., Rm 242
Denver CO 80261



THE STRUCTURE OF GOVERNMENT IN COLORADO

○	1	State Government
○	63	Counties
○	266	Municipalities (excluding Denver)
○	176	K-12 School Districts
○	1,467	Special and Other Districts
○	1,973	Total Governmental Units

Units of Local Government by County



SOURCE: Colorado Division of Local Government, 12/92

CPEC Chart, 1/93

UNITS OF LOCAL GOVERNMENT, BY COUNTY, DECEMBER 1992

Counties	Home Rule Cities	Cities & Towns	School Districts	Title 32 Special Districts: Metro-politan	Park & Recreation	Fire	Hospital	Sanita-tion	Water	Water & Sanitation	Misc.	Total 32 Dist.
Adams	4	3	7	15	1	2			2	12		32
Alamosa	1	1	2	1						1	1	3
Arapahoe	6	4	7	37	3	2		7	15	23		87
Archuleta		1	1	3		1		1		2		7
Baca		6	5		5		2					7
Bent		1	2			2						2
Boulder	5	5	2	8	1	14		1	5	5		34
Chaffee		3	2			1		1				2
Cheyenne		2	2		1	2	1	2				6
Clear Creek		4	1	1	1			2		1		5
Conejos		5	3			3	1		1			5
Costilla		2	2	1		1				2		4
Crowley		4	1									0
Custer		2	1			1	1			1		3
Delta	1	5	1	2		4	1	1	1			9
Denver			1	4					1		2	7
Dolores		2	1			2						2
Douglas	3		1	62	1	6			1	10		80
Eagle	4	3	1	9	2	2	1	2	2		1	19
Elbert		3	5		1	3				1		5
El Paso	3	5	15	10		12		6	7	7	1	43
Fremont	1	6	3		2	3		1	2			8
Garfield	2	4	3	2	2	4		2				10
Gilpin	1	1	1			1		1				2
Grand	1	5	2	1	2	5		3		7	1	19
Gunnison	3	2	1	3		1		2	1	1		8
Hinsdale		1	1			1						1
Huerfano		2	2			3	1		1	2		7
Jackson		1	1				1					1
Jefferson	6	2	1	28	4	12		9	12	17		82
Kiowa		3	2				1					1
Kit Carson	1	5	5			5		1				6
Lake		1	1				1	2	1	1		5
La Plata	1	2	3	8		5	1	6	1	1		22
Larimer	1	5	3	1	1	6	3	6	6	3		26
Las Animas		6	6		1	1				1	1	4
Lincoln		4	3			1		1				2
Logan	1	5	4			4		1				5
Mesa	2	3	3	6		7	1	5	1	5		25
Mineral		1	1			1						1
Moffat	1	1	1			1						1
Montezuma	1	2	3	1		4	1	1	2			9
Montrose	1	3	2		1	3		2				6
Morgan	1	4	4	1		1	1	1		1		5
Otero	1	5	6			3		1				4
Ouray		2	2			3						3
Park		2	2	1	2	6		1		3	1	14
Phillips	1	2	2				2					2
Pitkin	2		1			2	1	1	2	4		10
Prowers	1	4	4			1		3		1		5
Pueblo	1	2	2	3		2		3	5	1	1	15
Rio Blanco		2	2		2	2	1	1	1			7
Rio Grande	1	2	3			2				3		5
Routt	1	3	3	7		5	1	1	1	5		20
Saguache		5	3			1				1		2
San Juan		1	1	1								1
San Miguel	2	2	2	2		2	1	1				6
Sedgwick		3	2			4						4
Summit	2	4	1	8		5		2	4	2		21
Teller	1	2	2			2	1		4	3		10
Washington		2	5			3		1				4
Weld	2	24	12	1	1	15		9	1	2	2	31
Yuma	2	1	2			1	2	1		1		5
Multi-County	*	*	*	8	8	52	5	5	7	16	5	106
STATE TOTAL	68	198	176	235	42	238	32	97	87	146	16	893

* 13 cross-county municipalities listed in the county with the largest share of the population; School districts are listed by headquarters. Miscellaneous includes Moffat Tunnel, RTD, Urban Drainage, Stadium and Cultural Facilities and ambulance districts.

SOURCE: Colorado Division of Local Government, Colorado Department of Education, December 1992; Compiled by CPEC, 1/93

UNITS OF LOCAL GOVERNMENT, BY COUNTY, DECEMBER 1992

Counties	Non Title 32 Special Districts: Cemetery	Housing	Library	Soil/ Pest	Water Related	Urban Renewal	General Improvement	Misc.	Non Title 32 Districts	GRAND TOTAL GOVERNMENTS
Adams		2	1	2		5	3	2	15	62
Alamosa		1		2	2	1			6	14
Arapahoe		5		3	1	2	8	3	22	127
Archuleta		1	1	1	1			1	5	15
Baca	7	2		3					12	31
Bent	1	1	1	1	3				7	13
Boulder		4		1		2	4	1	12	59
Chaffee		1	2						3	11
Cheyenne	3	2		2	1			2	10	21
Clear Creek							1		1	12
Conejos	5	2		2	2				11	25
Costilla		1		1	2				4	13
Crowley				1					1	7
Custer			1	1				1	3	10
Delta	5	2	1		2	1			11	28
Denver		1				1	3	1	6	15
Dolores	2	1		2					5	11
Douglas	1		1	1				2	5	90
Eagle	3	3	1	1	1				9	37
Elbert				1					1	15
El Paso		4	1	2	3	1	11		22	89
Fremont				1	1			1	3	22
Garfield	1	1		2	1	1	1	1	8	28
Gilpin							1		1	7
Grand		2		1		1			4	32
Gunnison	1	1		1					3	18
Hinsdale	1		1						2	6
Huerfano	1	2	1		1		1		6	18
Jackson				1	2				3	7
Jefferson		3		1		3	8	4	19	111
Kiowa	4	1	1	2				4	12	19
Kit Carson	5	2		2	1				10	28
Lake		1		1					2	10
La Plata	2		2	2	3		1		10	39
Larimer		4	1	2	1	4	10		22	58
Las Animas		2		2	1				5	22
Lincoln	2	3		2					7	17
Logan		1		2	3	1		1	8	24
Mesa	3	1	1	3	8	1		1	18	52
Mineral									0	4
Moffat		1		1	1			1	4	9
Montezuma	8	1	2	2	1				4	30
Montrose	3	1	1	2	1		2	2	12	25
Morgan		2	1	3					6	21
Otero		4		2	3	2			11	28
Ouray	2		1						3	11
Park								1	1	20
Phillips	1	2		1				1	5	13
Pitkin		2	1	1			5	1	10	24
Prowers	2	2		3	1			1	9	24
Pueblo	1	3	1	2	1				8	29
Rio Blanco	2	2	2	3	1	1	1	1	13	25
Rio Grande				2		1		1	4	16
Routt	4		3	1			1		9	37
Saguache		1		1					2	13
San Juan									0	4
San Miguel	1	1	2	3				4	11	24
Sedgwick	3	1		1	3				8	18
Summit		1			1		1	1	4	33
Teller			2						2	18
Washington		1		4					5	17
Weld		11	2	4	1	1	5	2	26	96
Yuma	4	2		3	3		1		13	24
Multi-County	2	5	4	10	46	4		9	80	186
STATE TOTAL	80	100	39	101	103	33	68	50	574	1,972

Housing includes municipal and county housing authorities. Water related included water conservation, drainage, conservancy and irrigation. Urban renewal includes downtown development authorities. General improvement includes county public and local improvement districts and municipal general and special improvement and business improvement districts. Miscellaneous includes junior colleges, law enforcement and airport authorities, emergency telephone service and CU hospital authority.

HOW COLORADO COMPARES: STATE AND LOCAL TAXES
FISCAL YEAR 1991

	COLORADO	COLORADO RANK	UNITED STATES AVERAGE	
State Government Percentage Of State And Local Tax Revenue	48.56%	48th	59.39%	Excludes D.C.
Local Government Percentage Of State And Local Tax Revenue	51.44%	3rd	41.61%	Excludes D.C.
State Government Tax Collections Per Capita	$951.68	45th	$1,234.45	Excludes D.C.
Local Government Tax Collections Per Capita	$1,008.28	6th	$844.19	Excludes D.C.
State Tax Collections Per $1,000 Of Personal Income	$51.52	48th	$66.81	Excludes D.C.
Local Tax Collections Per $1,000 Of Personal Income	$54.59	5th	$45.69	Excludes D.C.
State And Local Tax Collections Per Capita	$1,959.96	22nd	$2,083.28	
State And Local Tax Collections Per $1,000 Of Personal Income	$106.11	33rd	$112.67	
State And Local Property Tax Collections Per Capita	$689.77	19th	$666.20	
State And Local Property Tax Collections Per $1,000 Of Personal Income	$37.34	23rd	$36.03	
State Individual Income Tax Collections Per Capita	$434.20	18th	$466.28	For 43 states
State Individual Income Tax Collections Per $1,000 Of Personal Income	$23.51	22nd	$24.97	For 43 states
State And Local General Sales Tax Collections Per Capita	$513.49	15th	$506.76	Excludes D.C.
State And Local General Sales Tax Collections Per $1,000 Of Income	$27.80	21st	$27.38	Excludes D.C.
State General Sales Tax Collections Per Capita	$251.10	43rd	$420.24	For 45 states
State General Sales Tax Collections Per $1,000 Of Personal Income	$13.54	43rd	$22.73	For 45 states
Local General Sales Tax Collections Per Capita	$263.40	3rd		32 states allow
Local General Sales Tax Collections Per $1,000 Of Personal Income	$14.26	2nd		32 states allow
Remaining State And Local Taxes Per Capita	$322.50	47th	$522.89	Excludes D.C.
Remaining State And Local Taxes Per $1,000 Of Personal Income (Excludes property, state individual income and s/l general sales taxes)	$17.46	50th	$28.44	Excludes D.C.

NOTE: Population estimates for July 1, 1991; personal income for calendar year 1990

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Government Finances: 1990-91* and *State Government Finances: 1991*

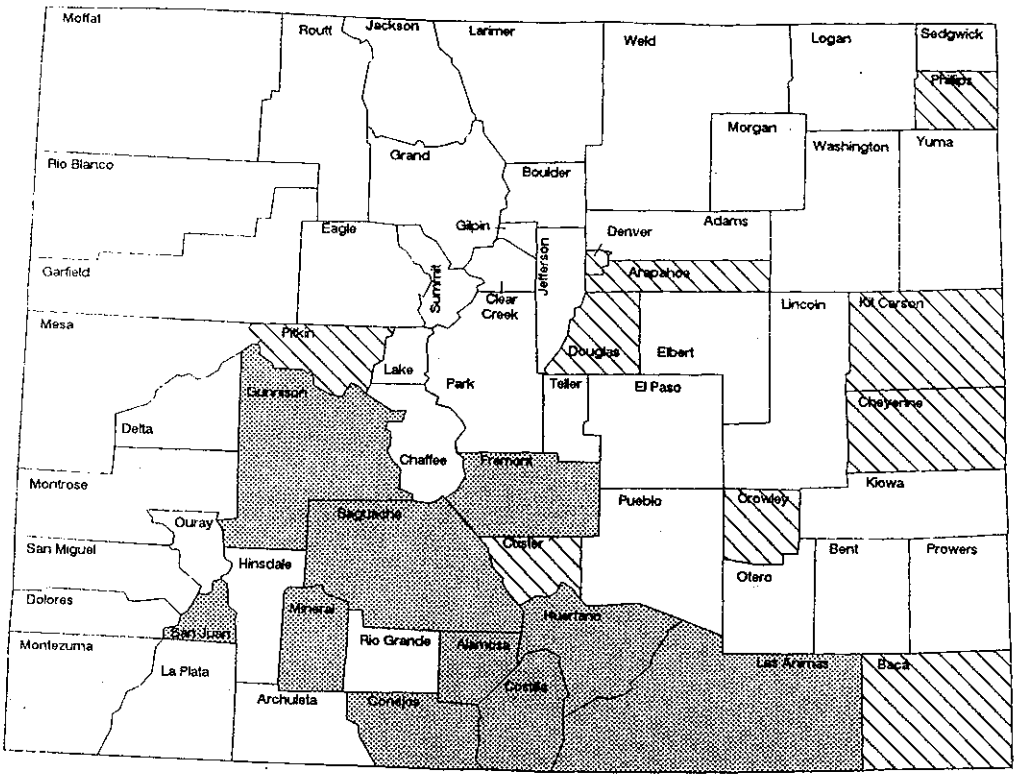
Compiled by Colorado Public Expenditure Council, 3/94

COUNTY PER CAPITA INCOME 1973 - 1993

County	1973	1978	1983	1988	1993	Percentage Change 73-83	83-93	73-93
Adams	$4,499	$7,091	$11,543	$13,851	$17,425	156.6%	51.0%	287.3%
Alamosa	3,408	6,285	9,542	12,583	15,708	180.0%	64.6%	360.9%
Arapahoe	6,541	10,283	16,209	20,337	26,048	147.8%	60.7%	298.2%
Archuleta	3,986	6,893	8,797	11,230	13,966	120.7%	58.8%	250.4%
Baca	6,991	4,721	11,997	16,664	22,824	71.6%	90.2%	226.5%
Bent	4,005	5,454	7,918	11,438	17,835	97.7%	125.2%	345.3%
Boulder	5,112	8,708	14,538	18,332	24,612	184.4%	69.3%	381.5%
Chaffee	4,107	7,206	9,403	11,572	14,890	129.0%	58.4%	262.6%
Cheyenne	6,332	6,784	19,647	20,481	28,210	210.3%	43.6%	345.5%
Clear Creek	4,478	10,206	12,042	15,703	20,409	168.9%	69.5%	355.8%
Conejos	2,221	3,659	5,851	7,591	10,764	163.4%	84.0%	384.6%
Costilla	2,379	4,330	8,614	9,544	14,523	262.1%	68.6%	510.5%
Crowley	6,135	6,584	6,444	9,244	12,513	5.0%	94.2%	104.0%
Custer	6,125	6,907	9,938	13,851	18,215	62.3%	83.3%	197.4%
Delta	4,240	6,059	9,091	10,792	14,960	114.4%	64.6%	252.8%
Denver	6,286	10,152	15,651	19,228	25,408	149.0%	62.3%	304.2%
Dolores	5,207	6,454	10,148	13,541	18,352	94.9%	80.8%	252.4%
Douglas	6,696	10,516	19,306	21,457	27,265	188.3%	41.2%	307.2%
Eagle	4,972	9,260	13,907	17,417	25,800	179.7%	85.5%	418.9%
Elbert	4,592	8,357	13,191	16,278	19,824	187.3%	50.3%	331.7%
El Paso	4,523	7,080	12,167	15,664	18,841	169.0%	54.9%	316.6%
Fremont	3,786	6,328	9,602	11,291	14,068	153.6%	46.5%	271.6%
Garfield	5,086	8,236	12,952	13,707	18,459	154.7%	42.5%	262.9%
Gilpin	3,915	7,555	12,043	14,199	21,583	207.6%	79.2%	451.3%
Grand	4,396	7,795	12,287	14,635	19,220	179.5%	56.4%	337.2%
Gunnison	3,128	5,786	8,811	11,321	15,931	181.7%	80.8%	409.3%
Hinsdale	3,952	4,950	11,579	13,628	19,597	193.0%	69.2%	395.9%
Huerfano	3,336	5,141	8,459	10,002	14,119	153.6%	66.9%	323.2%
Jackson	4,472	7,773	10,595	13,207	17,446	136.9%	64.7%	290.1%
Jefferson	5,848	9,241	15,641	18,339	23,377	167.5%	49.5%	299.7%
Kiowa	5,672	8,009	22,996	22,584	28,030	305.4%	21.9%	394.2%
Kit Carson	7,815	5,932	11,207	16,888	21,807	43.4%	94.6%	179.0%
Lake	4,037	8,368	8,374	10,194	16,660	107.4%	98.9%	312.7%
La Plata	3,875	6,548	10,608	13,538	18,487	173.8%	74.3%	377.1%
Larimer	4,179	7,324	11,565	14,635	19,189	176.7%	65.9%	359.2%
Las Animas	3,496	5,664	8,395	10,541	14,379	140.1%	71.3%	311.3%
Lincoln	5,558	6,575	12,898	14,855	22,957	132.1%	78.0%	313.0%
Logan	5,401	6,920	11,256	14,341	18,930	108.4%	68.2%	250.5%
Mesa	4,522	8,254	11,203	12,948	17,522	147.7%	56.4%	287.5%
Mineral	3,571	8,016	11,773	12,793	18,129	229.7%	54.0%	407.7%
Moffat	5,222	9,544	9,823	13,672	18,066	88.1%	83.9%	246.0%
Montezuma	3,963	6,518	10,124	11,099	15,716	155.5%	55.2%	296.6%
Montrose	3,857	6,081	9,224	12,579	16,521	139.1%	79.1%	328.3%
Morgan	4,872	6,352	9,827	14,068	19,759	101.7%	101.1%	305.6%
Otero	3,878	6,092	9,365	12,027	16,084	141.5%	71.7%	314.7%
Ouray	5,250	7,063	10,912	15,687	17,844	107.8%	63.5%	239.9%
Park	5,165	8,199	12,076	14,899	18,508	133.8%	53.3%	258.3%
Phillips	7,390	6,730	11,589	16,007	20,114	56.8%	73.6%	172.2%
Pitkin	8,041	11,419	20,513	27,105	39,481	155.1%	92.5%	391.0%
Prowers	4,575	6,248	10,585	12,843	17,172	131.4%	62.2%	275.3%
Pueblo	4,334	7,151	9,901	12,358	16,347	128.4%	65.1%	277.2%
Rio Blanco	5,410	9,316	14,995	13,459	16,697	177.2%	11.4%	208.6%
Rio Grande	4,230	6,014	11,178	12,915	17,483	164.3%	56.4%	313.3%
Routt	5,286	10,215	14,496	16,449	23,769	174.2%	64.0%	349.7%
Saguache	2,985	4,460	8,518	10,455	15,011	185.4%	76.2%	402.9%
San Juan	3,627	6,669	13,973	16,381	15,689	285.2%	12.3%	332.6%
San Miguel	3,819	5,175	8,334	13,322	20,502	118.2%	146.0%	436.8%
Sedgwick	5,413	7,020	12,311	14,918	20,573	127.4%	67.1%	280.1%
Summit	5,039	8,963	14,000	17,683	25,753	177.8%	84.0%	411.1%
Teller	4,945	7,592	11,974	15,384	18,814	142.1%	57.1%	280.5%
Washington	5,309	6,870	15,514	17,357	23,073	192.2%	48.7%	334.6%
Weld	4,714	7,252	10,243	12,791	17,145	117.3%	67.4%	263.7%
Yuma	5,802	6,147	12,013	18,458	20,083	107.0%	67.2%	246.1%
State Average	$5,237	$8,375	$13,373	$16,540	$21,498	155.4%	60.8%	310.5%

SOURCE: DLG

PER CAPITA INCOME 1973

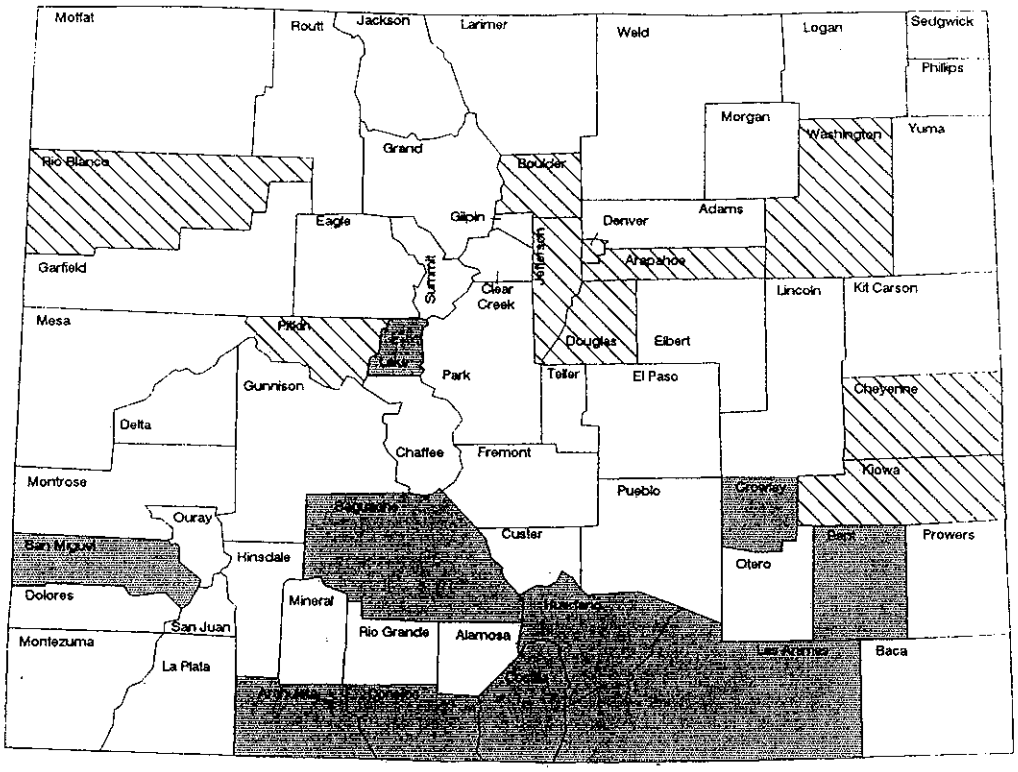


Top Ten

Bottom Ten

CPEC
10/95

PER CAPITA INCOME 1983

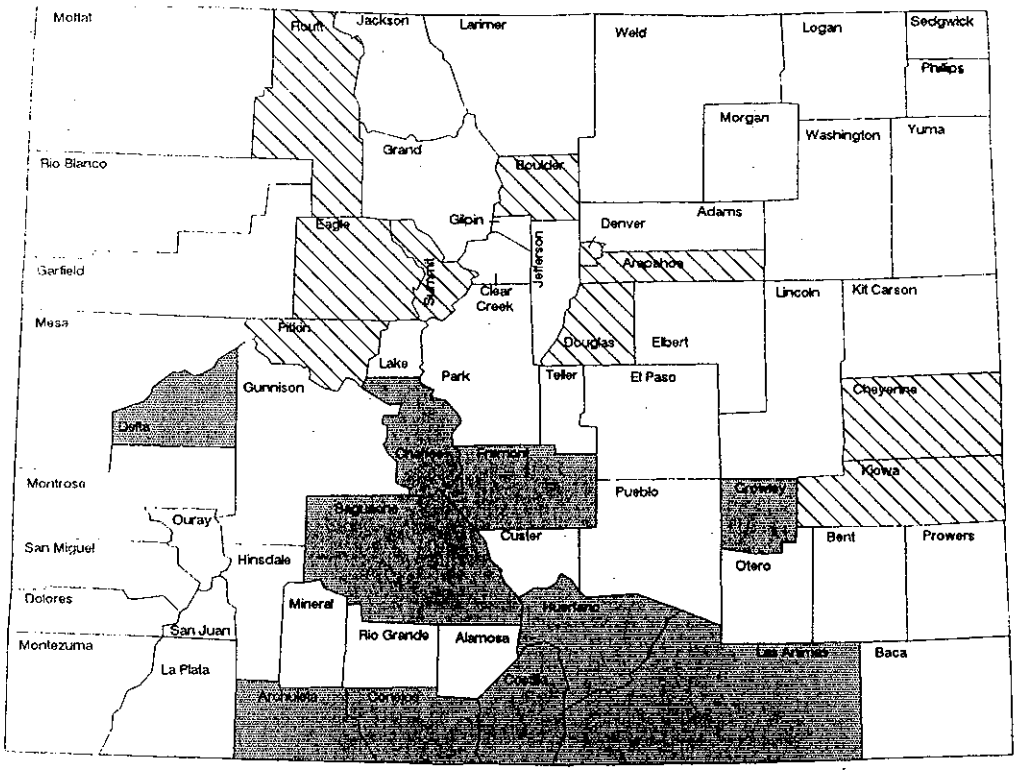


Top Ten

Bottom Ten

CPEC
10/95

PER CAPITA INCOME 1993



Top Ten

Bottom Ten

CPEC
10/95

COUNTY PER CAPITA INCOME 1993

County	1993	Rank
Pitkin	$39,481	1
Cheyenne	28,210	2
Kiowa	28,030	3
Douglas	27,265	4
Arapahoe	26,048	5
Eagle	25,800	6
Summit	25,753	7
Denver	25,408	8
Boulder	24,612	9
Routt	23,769	10
Jefferson	23,377	11
Washington	23,073	12
Lincoln	22,957	13
Baca	22,824	14
Kit Carson	21,807	15
Gilpin	21,583	16
Sedgwick	20,573	17
San Miguel	20,502	18
Clear Creek	20,409	19
Phillips	20,114	20
Yuma	20,083	21
Elbert	19,824	22
Morgan	19,759	23
Hinsdale	19,597	24
Grand	19,220	25
Larimer	19,189	26
Logan	18,930	27
El Paso	18,841	28
Teller	18,814	29
Park	18,508	30
La Plata	18,487	31
Garfield	18,459	32
Dolores	18,352	33
Custer	18,215	34
Mineral	18,129	35
Moffat	18,066	36
Ouray	17,844	37
Bent	17,835	38
Mesa	17,522	39
Rio Grande	17,483	40
Jackson	17,446	41
Adams	17,425	42
Prowers	17,172	43
Weld	17,145	44
Rio Blanco	16,697	45
Lake	16,660	46
Montrose	16,521	47
Pueblo	16,347	48
Otero	16,084	49
Gunnison	15,931	50
Montezuma	15,716	51
Alamosa	15,708	52
San Juan	15,689	53
Saguache	15,011	54
Delta	14,960	55
Chaffee	14,890	56
Costilla	14,523	57
Las Animas	14,379	58
Huerfano	14,119	59
Fremont	14,068	60
Archuleta	13,966	61
Crowley	12,513	62
Conejos	10,764	63
State Average	$21,498	

SOURCE: DLG

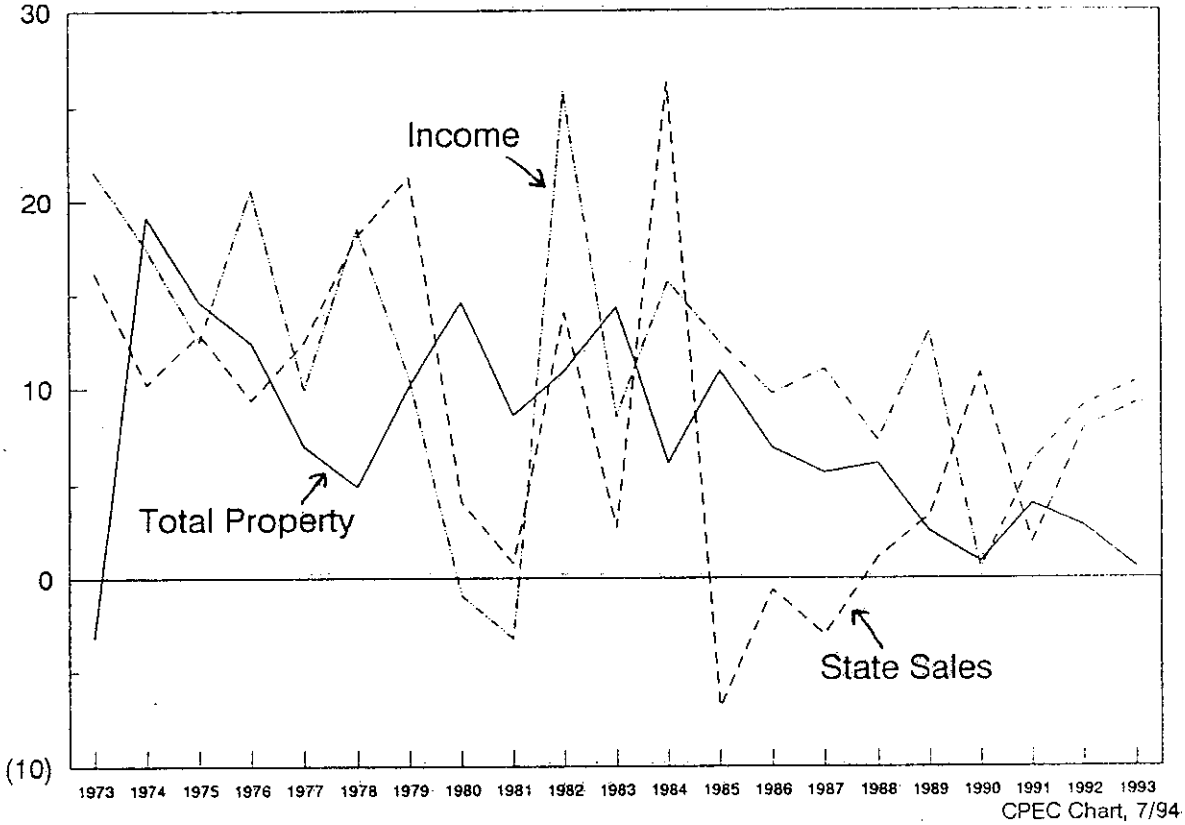
CPEC, 10/95

TWENTY YEAR HISTORY OF SELECTED COLORADO TAX REVENUE

Tax Year/ Fiscal Year	Total Property Tax	Property Tax K-12	Total Income Tax	State Sales/Use Tax
1972	$532,036,700	$367,483,031	$210,700,000	$202,200,000
1973	515,362,672	324,023,216	256,200,000	234,900,000
1974	614,360,142	390,557,003	301,000,000	258,900,000
1975	703,816,591	441,670,866	338,600,000	292,400,000
1976	791,087,101	510,907,860	408,500,000	319,800,000
1977	846,441,115	546,730,335	448,900,000	359,600,000
1978	887,971,012	562,873,448	532,100,000	424,800,000
1979	977,414,768	612,220,384	588,100,000	515,100,000
1980	1,120,597,340	695,390,264	583,000,000	536,000,000
1981	1,217,372,291	745,009,916	564,200,000	540,200,000
1982	1,350,399,581	820,733,602	709,800,000	615,700,000
1983	1,543,208,930	928,892,687	769,800,000	632,500,000
1984	1,638,102,773	979,168,490	890,500,000	798,700,000
1985	1,817,239,004	1,096,144,248	1,000,500,000	743,800,000
1986	1,943,142,032	1,162,127,077	1,097,600,000	739,000,000
1987	2,052,676,763	1,234,841,217	1,218,600,000	716,900,000
1988	2,178,164,996	1,290,764,499	1,307,900,000	724,600,000
1989	2,231,532,285	1,297,412,880	1,478,000,000	749,500,000
1990	2,251,797,175	1,292,802,742	1,484,900,000	830,600,000
1991	2,341,834,706	1,331,418,579	1,577,400,000	846,700,000
1992	2,407,175,164	1,373,621,260	1,720,600,000	913,600,000
1993	2,421,775,987	1,372,244,829	1,898,200,000	998,000,000
PERCENT CHANGE				
73-83	199.4%	186.7%	200.5%	169.3%
83-93	56.9%	47.7%	146.6%	57.8%
73-93	369.9%	323.5%	640.9%	324.9%
73-78	72.3%	73.7%	107.7%	80.8%
78-83	73.8%	65.0%	44.7%	48.9%
83-88	41.1%	39.0%	69.9%	14.6%
88-93	11.2%	6.3%	45.1%	37.7%
AVERAGE ANNUAL PERCENT CHANGE				
Current Dollars				
73-83	11.59%	11.00%	11.63%	10.41%
83-93	4.60%	3.97%	9.44%	4.66%
73-78	11.49%	11.67%	15.73%	12.57%
78-83	11.68%	10.53%	7.66%	8.28%
83-88	7.13%	6.80%	11.18%	2.75%
88-93	2.14%	1.23%	7.73%	6.61%
Constant or Real Dollars				
73-83	*1.68%*	*1.22%*	*1.70%*	*.59%*
83-93	*1.50%*	*.89%*	*6.20%*	*1.56%*
73-78	*2.40%*	*2.56%*	*6.29%*	*3.39%*
78-83	*.93%*	*-.09%*	*-2.70%*	*-1.99%*
83-88	*4.50%*	*4.17%*	*8.45%*	*.23%*
88-93	*-1.41%*	*-2.28%*	*3.99%*	*2.91%*

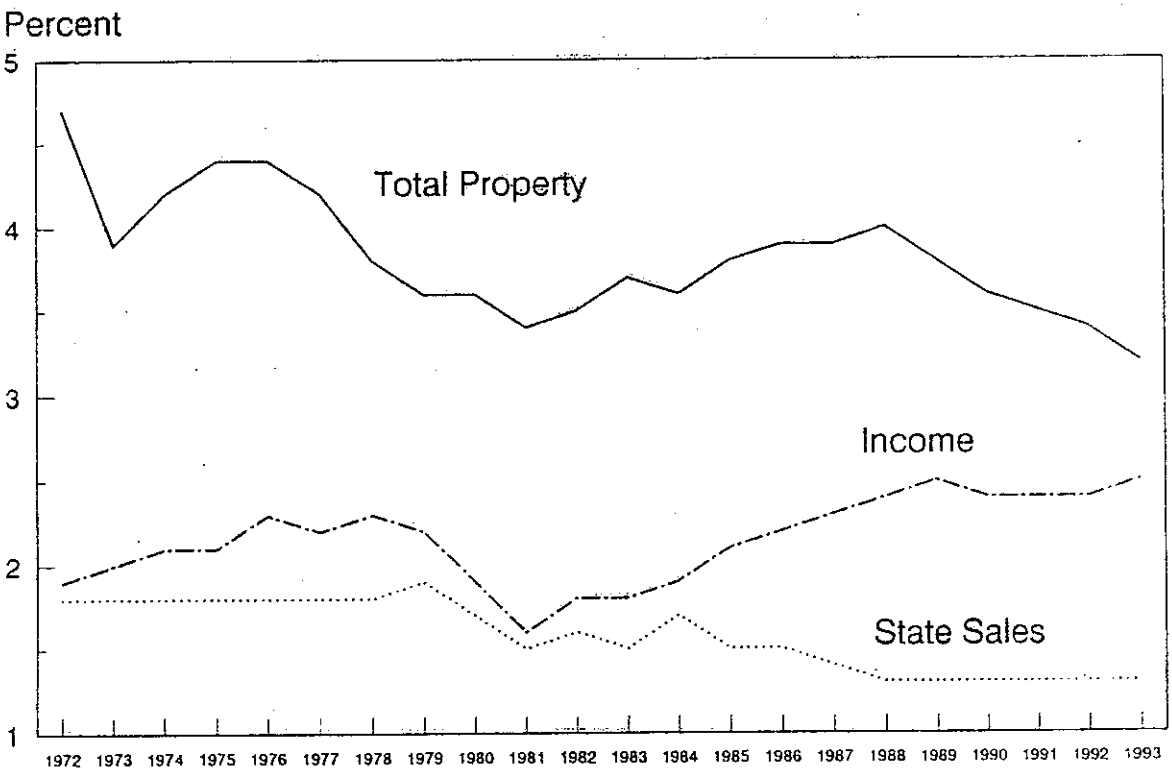
SOURCE: Colorado Division of Property Taxation, Colorado Legislative Council, Colorado Department of Revenue; CPEC, 7/94

ANNUAL PERCENTAGE CHANGE IN TAX REVENUE



CPEC Chart, 7/94

THREE TAXES AS A PERCENT OF INCOME



CPEC Chart, 7/94

PER CAPITA PROPERTY TAX COLLECTIONS
1995 Collection Year

County		
San Miguel	$2,264	1
Rio Blanco	2,226	2
Pitkin	2,076	3
Eagle	2,033	4
Kiowa	1,923	5
Summit	1,906	6
Cheyenne	1,820	7
Moffat	1,789	8
Hinsdale	1,613	9
Grand	1,565	10
Mineral	1,491	11
San Juan	1,475	12
Routt	1,380	13
Costilla	1,333	14
Gilpin	1,305	15
Clear Creek	1,140	16
Huerfano	1,128	17
Archuleta	1,108	18
Yuma	1,053	19
Gunnison	1,043	20
Ouray	1,042	21
Douglas	1,003	22
Washington	986	23
Dolores	981	24
Park	972	25
Baca	925	26
Custer	917	27
Morgan	883	28
Kit Carson	864	29
La Plata	864	30
Jackson	846	31
Boulder	821	32
Sedgwick	818	33
Arapahoe	792	34
Lake	790	35
Phillips	785	36
Lincoln	724	37
Weld	713	38
Denver	705	39
Teller	680	40
Garfield	679	41
Jefferson	675	42
Elbert	664	43
Logan	658	44
Montezuma	639	45
Larimer	616	46
Saguache	612	47
Adams	595	48
Rio Grande	529	49
Montrose	484	50
Prowers	456	51
Bent	451	52
Mesa	448	53
Pueblo	441	54
Las Animas	413	55
Chaffee	408	56
El Paso	403	57
Alamosa	363	58
Conejos	323	59
Delta	313	60
Crowley	309	61
Fremont	292	62
Otero	245	63
STATE TOTAL	$687	

SOURCE: DPT, 1994 Annual Report; DLG

PER CAPITA ASSESSED VALUATION, 1994

County		
Pitkin	$61,146	1
San Miguel	47,861	2
Cheyenne	43,667	3
Rio Blanco	43,347	4
Gilpin	43,055	5
Eagle	29,996	6
Moffat	29,863	7
Summit	29,803	8
Hinsdale	29,076	9
San Juan	22,777	10
Costilla	22,197	11
Mineral	21,363	12
Grand	20,709	13
Kiowa	20,403	14
Routt	18,965	15
Ouray	17,437	16
La Plata	16,888	17
Gunnison	14,919	18
Custer	14,862	19
Dolores	14,498	20
Jackson	13,465	21
Huerfano	13,172	22
Washington	12,984	23
Archuleta	12,449	24
Baca	12,186	25
Park	11,956	26
Clear Creek	11,751	27
Yuma	11,021	28
Teller	10,496	29
Morgan	10,122	30
Sedgwick	10,121	31
Kit Carson	9,641	32
Boulder	9,605	33
Phillips	8,962	34
Douglas	8,937	35
Garfield	8,874	36
Weld	8,665	37
Denver	8,602	38
Montezuma	8,263	39
Lincoln	7,410	40
Saguache	7,297	41
Arapahoe	7,263	42
Jefferson	7,063	43
Larimer	7,000	44
Lake	6,980	45
Rio Grande	6,897	46
Elbert	6,591	47
Logan	6,216	48
Montrose	6,026	49
Chaffee	5,873	50
Adams	5,838	51
Las Animas	5,683	52
Bent	5,464	53
El Paso	5,373	54
Prowers	5,065	55
Mesa	5,055	56
Pueblo	4,850	57
Alamosa	4,725	58
Fremont	4,157	59
Delta	3,829	60
Conejos	3,637	61
Crowley	3,473	62
Otero	3,273	63
TOTAL	$8,141	

SOURCE: DPT, 1994 Annual Report

PER CAPITA ASSESSED VALUATION, RESIDENTIAL AND NON-RESIDENTIAL, 1994

County	TOTAL	Residential	Non-Residential	Residential	Non-Residential
Adams	$5,830	$2,571	$3,259	44.10%	55.90%
Alamosa	4,733	1,496	3,237	31.61%	68.39%
Arapahoe	7,265	4,066	3,199	55.96%	44.04%
Archuleta	12,488	5,049	7,438	40.43%	59.57%
Baca	12,183	1,370	10,812	11.25%	88.75%
Bent	5,464	870	4,594	15.93%	84.07%
Boulder	9,609	5,149	4,459	53.59%	46.41%
Chaffee	5,865	2,790	3,075	47.58%	52.42%
Cheyenne	43,675	1,598	42,076	3.66%	96.34%
Clear Creek	11,751	5,079	6,672	43.22%	56.78%
Conejos	3,638	1,296	2,342	35.62%	64.38%
Costilla	22,217	1,547	20,670	6.96%	93.04%
Crowley	3,473	896	2,577	25.80%	74.20%
Custer	14,862	5,087	9,776	34.23%	65.77%
Delta	3,876	1,931	1,945	49.81%	50.19%
Denver	8,647	3,557	5,090	41.13%	58.87%
Dolores	14,502	1,999	12,504	13.78%	86.22%
Douglas	9,251	5,776	3,475	62.43%	37.57%
Eagle	29,917	17,319	12,598	57.89%	42.11%
El Paso	5,377	2,879	2,498	53.55%	46.45%
Elbert	6,594	3,392	3,202	51.45%	48.55%
Fremont	4,155	2,065	2,090	49.71%	50.29%
Garfield	8,874	3,651	5,223	41.14%	58.86%
Gilpin	43,757	5,901	37,856	13.49%	86.51%
Grand	20,683	8,074	12,609	39.04%	60.96%
Gunnison	14,941	5,687	9,254	38.07%	61.93%
Hinsdale	29,074	12,953	16,122	44.55%	55.45%
Huerfano	13,176	2,402	10,773	18.23%	81.77%
Jackson	13,465	2,881	10,584	21.39%	78.61%
Jefferson	7,064	4,342	2,721	61.48%	38.52%
Kiowa	20,403	1,174	19,229	5.75%	94.25%
Kit Carson	9,653	1,795	7,859	18.59%	81.41%
La Plata	16,761	4,223	12,539	25.19%	74.81%
Lake	7,152	2,403	4,748	33.60%	66.40%
Larimer	7,020	3,698	3,322	52.68%	47.32%
Las Animas	5,683	1,564	4,119	27.52%	72.48%
Lincoln	7,410	1,241	6,169	16.75%	83.25%
Logan	6,216	1,692	4,524	27.21%	72.79%
Mesa	5,059	2,580	2,480	50.99%	49.01%
Mineral	21,363	8,828	12,535	41.33%	58.67%
Moffat	29,920	1,569	28,352	5.24%	94.76%
Montezuma	8,263	1,968	6,295	23.82%	76.18%
Montrose	6,026	2,367	3,659	39.28%	60.72%
Morgan	10,124	1,778	8,346	17.56%	82.44%
Otero	3,275	1,300	1,975	39.70%	60.30%
Ouray	17,398	6,913	10,485	39.73%	60.27%
Park	11,959	5,991	5,967	50.10%	49.90%
Phillips	8,958	1,867	7,092	20.84%	79.16%
Pitkin	61,352	38,901	22,451	63.41%	36.59%
Prowers	5,070	1,244	3,826	24.54%	75.46%
Pueblo	4,913	2,173	2,740	44.24%	55.76%
Rio Blanco	43,396	2,122	41,274	4.89%	95.11%
Rio Grande	6,952	1,990	4,962	28.63%	71.37%
Routt	18,990	7,811	11,179	41.13%	58.87%
Saguache	7,296	1,315	5,981	18.03%	81.97%
San Juan	22,774	6,390	16,384	28.06%	71.94%
San Miguel	47,797	17,894	29,903	37.44%	62.56%
Sedgwick	10,119	1,308	8,812	12.92%	87.08%
Summit	29,832	15,610	14,222	52.33%	47.67%
Teller	10,499	4,119	6,380	39.23%	60.77%
Washington	12,981	1,242	11,740	9.57%	90.43%
Weld	8,667	2,292	6,375	26.44%	73.56%
Yuma	11,021	1,606	9,415	14.57%	85.43%
TOTAL	8,160	3,822	4,339	46.83%	53.17%

SOURCE: DPT, 1994 Annual Report, DLG

RESIDENTIAL SHARE, ASSESSED VALUATION 1994

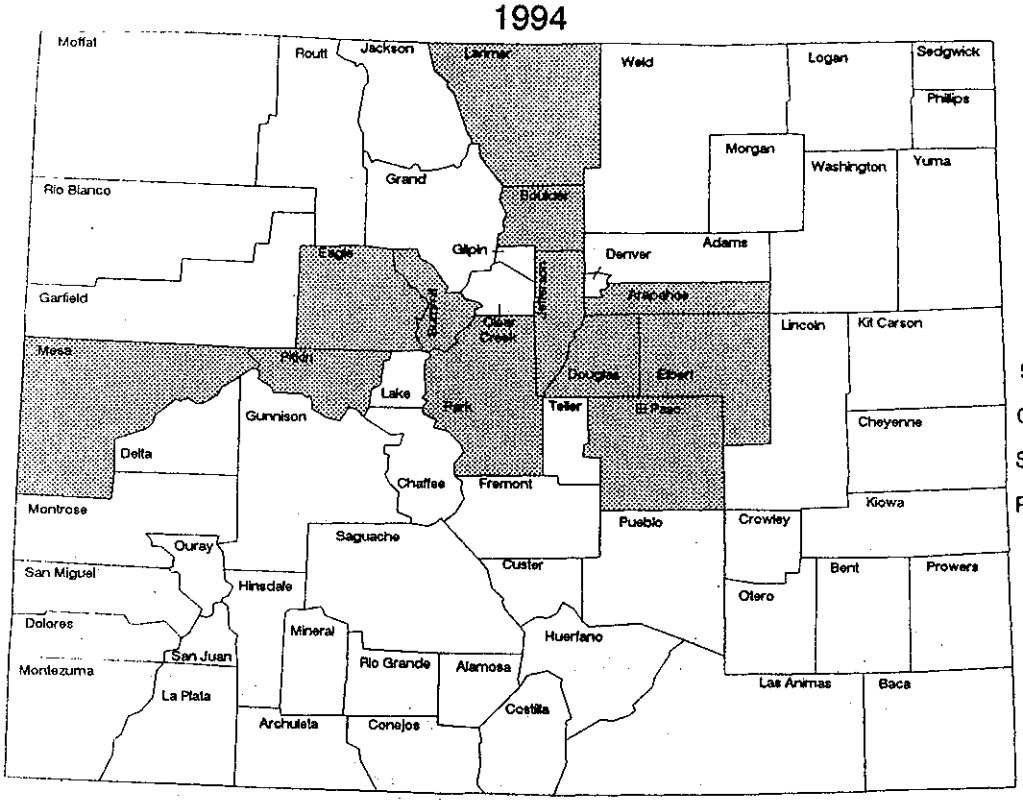
County		Residential	Non-Residential	1994 Population	
Pitkin	1	63.41%	36.59%	14,220	
Douglas	2	62.43%	37.57%	92,482	
Jefferson	3	61.48%	38.52%	480,191	
Eagle	4	57.89%	42.11%	27,288	
Arapahoe	5	55.96%	44.04%	436,624	
Boulder	6	53.59%	46.41%	250,578	
El Paso	7	53.55%	46.45%	450,629	
Larimer	8	52.68%	47.32%	210,044	
Summit	9	52.33%	47.67%	16,229	
Elbert	10	51.45%	48.55%	12,977	
Mesa	11	50.99%	49.01%	102,620	
Park	12	50.10%	49.90%	9,558	
Delta	13	49.81%	50.19%	2,103,440	57.54%
Fremont	14	49.71%	50.29%		of State
Chaffee	15	47.58%	52.42%		
Hinsdale	16	44.55%	55.45%		
Pueblo	17	44.24%	55.76%		
Adams	18	44.10%	55.90%		
Clear Creek	19	43.22%	56.78%		
Mineral	20	41.33%	58.67%		
Garfield	21	41.14%	58.86%		
Denver	22	41.13%	58.87%		
Routt	23	41.13%	58.87%		
Archuleta	24	40.43%	59.57%		
Ouray	25	39.73%	60.27%		
Otero	26	39.70%	60.30%		
Montrose	27	39.28%	60.72%		
Teller	28	39.23%	60.77%		
Grand	29	39.04%	60.96%		
Gunnison	30	38.07%	61.93%		
San Miguel	31	37.44%	62.56%		
Conejos	32	35.62%	64.38%		
Custer	33	34.23%	65.77%		
Lake	34	33.60%	66.40%		
Alamosa	35	31.61%	68.39%		
Rio Grande	36	28.63%	71.37%		
San Juan	37	28.06%	71.94%		
Las Animas	38	27.52%	72.48%		
Logan	39	27.21%	72.79%		
Weld	40	26.44%	73.56%		
Crowley	41	25.80%	74.20%		
La Plata	42	25.19%	74.81%		
Prowers	43	24.54%	75.46%		
Montezuma	44	23.82%	76.18%		
Jackson	45	21.39%	78.61%		
Phillips	46	20.84%	79.16%		
Kit Carson	47	18.59%	81.41%		
Huerfano	48	18.23%	81.77%		
Saguache	49	18.03%	81.97%		
Morgan	50	17.56%	82.44%		
Lincoln	51	16.75%	83.25%		
Bent	52	15.93%	84.07%		
Yuma	53	14.57%	85.43%		
Dolores	54	13.78%	86.22%		
Gilpin	55	13.49%	86.51%		
Sedgwick	56	12.92%	87.08%		
Baca	57	11.25%	88.75%		
Washington	58	9.57%	90.43%		
Costilla	59	6.96%	93.04%		
Kiowa	60	5.75%	94.25%		
Moffat	61	5.24%	94.76%		
Rio Blanco	62	4.89%	95.11%		
Cheyenne	63	3.66%	96.34%		
TOTAL		46.83%	53.17%		

SOURCE: DPT, 1994 Annual Report, DLG

CPEC, 10/95

RESIDENTIAL ASSESSED VALUE GREATER THAN 50% OF COUNTY TOTAL

1994



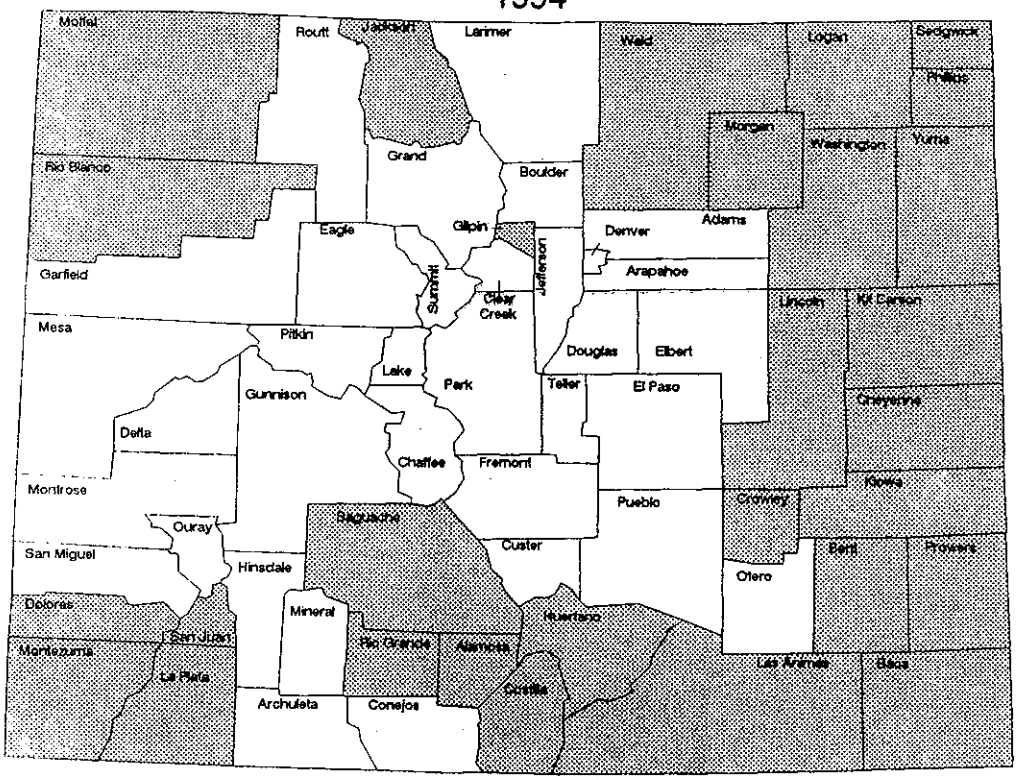
Greater Than 50%

58% OF STATE'S POPULATION

CPEC
10/95

NON-RESIDENTIAL ASSESSED VALUE GREATER THAN 66% OF TOTAL

1994



Greater Than 66%

CPEC
10/95

PERCENTAGE SHARE OF ALL PROPERTY CLASSES, ASSESSED AND ACTUAL VALUE, 1983-1992

ACTUAL VALUE (thousands of dollars)

Tax year	Total	Residential	Non-Residential	Commercial	Industrial	Agri	Natural Resources	Producing Mines	Oil & Gas	Vacant Land	State Assessed
1983	$66,635,882	$36,079,576	$30,556,304	$13,190,841	$4,060,938	$1,577,588	$931,090	$90,507	$1,786,047	$3,237,962	$5,681,331
1984	69,719,105	37,723,171	31,995,935	14,239,997	3,764,166	2,122,597	877,221	85,271	1,682,714	3,286,779	5,937,190
1985	72,958,305	39,654,857	33,303,449	15,387,359	3,916,224	2,152,455	637,793	286,538	1,749,262	3,326,752	5,847,066
1986	75,118,953	41,175,990	33,942,963	16,416,352	3,886,190	1,922,200	605,838	285,753	1,720,634	3,308,686	5,797,310
1987	147,061,216	89,349,172	57,712,044	31,172,431	5,715,628	2,047,000	761,648	509,843	1,400,873	8,840,307	7,264,314
1988	148,181,288	91,034,531	57,146,758	31,184,321	5,640,807	2,089,076	647,883	567,785	1,403,617	8,366,990	7,246,279
1989	141,436,123	88,307,207	53,128,916	27,636,210	5,822,586	2,166,148	671,407	549,128	1,414,285	7,508,721	7,360,431
1990	141,494,986	89,291,207	52,203,780	27,292,028	5,857,769	2,186,759	644,231	541,904	1,465,472	7,023,545	7,192,072
1991	140,967,081	89,864,756	51,102,325	26,086,310	6,298,183	2,284,786	628,562	341,060	1,904,538	6,270,717	7,288,169
1992	143,381,192	92,445,098	50,936,094	25,747,876	5,989,934	2,331,769	620,117	341,060	1,904,538	6,358,614	7,642,186
1983	100.00%	54.14%	45.86%	19.80%	6.09%	2.37%	1.40%	.14%	2.68%	4.86%	8.53%
1984	100.00%	54.11%	45.89%	20.42%	5.40%	3.04%	1.26%	.12%	2.41%	4.71%	8.52%
1985	100.00%	54.35%	45.65%	21.09%	5.37%	2.95%	.87%	.39%	2.40%	4.56%	8.01%
1986	100.00%	54.81%	45.19%	21.85%	5.17%	2.56%	.81%	.38%	2.29%	4.40%	7.72%
1987	100.00%	60.76%	39.24%	21.20%	3.89%	1.39%	.52%	.35%	.95%	6.01%	4.94%
1988	100.00%	61.43%	38.57%	21.04%	3.81%	1.41%	.44%	.38%	.95%	5.65%	4.89%
1989	100.00%	62.44%	37.56%	19.54%	4.12%	1.53%	.47%	.39%	1.00%	5.31%	5.20%
1990	100.00%	63.11%	36.89%	19.29%	4.14%	1.55%	.46%	.38%	1.04%	4.96%	5.08%
1991	100.00%	63.75%	36.25%	18.51%	4.47%	1.62%	.45%	.24%	1.35%	4.45%	5.17%
1992	100.00%	64.48%	35.52%	17.96%	4.18%	1.63%	.43%	.24%	1.33%	4.43%	5.33%

ASSESSED VALUE (thousands of dollars)

Tax year	Total	Residential	Non-Residential	Commercial	Industrial	Agri	Natural Resources	Producing Mines	Oil & Gas	Vacant Land	State Assessed
1983	$17,185,698	$7,576,712	$9,608,986	$3,825,344	$1,177,672	$457,500	$270,016	$42,433	$1,249,426	$939,009	$1,647,586
1984	17,905,089	7,921,866	9,983,223	4,129,599	1,091,608	615,553	254,394	39,978	1,177,140	953,166	1,721,785
1985	18,730,104	8,327,520	10,402,584	4,462,334	1,135,705	624,212	184,960	99,154	1,235,812	964,758	1,695,649
1986	19,216,097	8,646,958	10,569,139	4,760,742	1,126,995	557,438	175,693	96,234	1,211,298	959,519	1,681,220
1987	33,261,141	16,082,851	17,178,290	9,040,005	1,657,532	593,630	220,878	116,706	879,199	2,563,689	2,106,651
1988	31,660,568	14,565,525	17,095,043	9,043,453	1,635,834	605,832	187,886	199,799	894,391	2,426,427	2,101,421
1989	29,138,636	13,246,081	15,892,555	8,014,501	1,688,550	628,183	194,708	161,882	892,677	2,177,529	2,134,525
1990	29,082,007	13,393,681	15,688,326	7,914,688	1,698,753	634,160	186,827	161,376	969,993	2,036,828	2,085,701
1991	28,285,330	12,886,606	15,398,724	7,565,030	1,826,473	662,588	182,283	116,602	1,113,671	1,818,508	2,113,569
1992	28,490,630	13,256,627	15,234,003	7,466,884	1,737,081	676,213	179,834	67,235	1,046,524	1,843,998	2,216,234
1983	100.00%	44.09%	55.91%	22.26%	6.85%	2.66%	1.57%	.25%	7.27%	5.46%	9.59%
1984	100.00%	44.24%	55.76%	23.06%	6.10%	3.44%	1.42%	.22%	6.57%	5.32%	9.62%
1985	100.00%	44.46%	55.54%	23.82%	6.06%	3.33%	.99%	.53%	6.60%	5.15%	9.05%
1986	100.00%	45.00%	55.00%	24.77%	5.86%	2.90%	.91%	.50%	6.30%	4.99%	8.75%
1987	100.00%	48.35%	51.65%	27.18%	4.98%	1.78%	.66%	.35%	2.64%	7.71%	6.33%
1988	100.00%	46.01%	53.99%	28.56%	5.17%	1.91%	.59%	.63%	2.82%	7.66%	6.64%
1989	100.00%	45.46%	54.54%	27.50%	5.79%	2.16%	.67%	.56%	3.06%	7.47%	7.33%
1990	100.00%	46.05%	53.95%	27.22%	5.84%	2.18%	.64%	.55%	3.34%	7.00%	7.17%
1991	100.00%	45.56%	54.44%	26.75%	6.46%	2.34%	.64%	.41%	3.94%	6.43%	7.47%
1992	100.00%	46.53%	53.47%	26.21%	6.10%	2.37%	.63%	.24%	3.67%	6.47%	7.78%

NOTE: Base year for 1983, 1984, 1985 and 1986 at 1977 level; for 1987 and 1988 at 1985 level; for 1989 and 1990 at 1987 level; for 1991 and 1992 at 1990 level. Assessment rate for residential at 21% for 1983, 1984, 1985 and 1986; 18% for 1987; 16% for 1988; 15% for 1989 and 1990; 14.34% for 1991 and 1992; Non-residential at 29% for all years.

SOURCE: Colorado Division of Property Taxation; compiled by CPEC, 3/93

WHO PAYS PROPERTY TAXES? CURRENT LAW AND IF RESIDENTIAL RATE WAS SET AT 21%

CURRENT LAW ASSESSED VALUE PERCENTAGE SHARE

	Total	Residential	Non-Residential
1983	100.00%	44.09%	55.91%
1984	100.00%	44.24%	55.76%
1985	100.00%	44.46%	55.54%
1986	100.00%	45.00%	55.00%
1987	100.00%	48.35%	51.65%
1988	100.00%	46.01%	53.99%
1989	100.00%	45.46%	54.54%
1990	100.00%	46.05%	53.95%
1991	100.00%	45.56%	54.44%
1992	100.00%	46.53%	53.47%

IF RESIDENTIAL RATE AT 21%

	Residential	Non-Residential
1983	44.09%	55.91%
1984	44.24%	55.76%
1985	44.46%	55.54%
1986	45.00%	55.00%
1987	52.21%	47.79%
1988	52.79%	47.21%
1989	53.85%	46.15%
1990	54.45%	45.55%
1991	55.07%	44.93%
1992	56.03%	43.97%

PROPERTY TAX REVENUE

Tax Year	Total	Residential	Non-Residential
1983	$1,543,208,930	$680,359,309	$862,849,621
1984	1,638,102,773	724,756,557	913,346,216
1985	1,817,349,173	808,004,674	1,009,344,499
1986	1,943,142,032	874,385,029	1,068,757,003
1987	2,052,676,762	992,536,411	1,060,140,289
1988	2,178,164,996	1,002,070,358	1,176,094,638
1989	2,231,532,285	1,014,428,314	1,217,103,971
1990	2,251,797,175	1,037,062,299	1,214,734,876
1991	2,341,812,966	1,066,914,228	1,274,898,738
1992	2,407,175,185	1,120,053,279	1,287,121,906

PROPERTY TAX REVENUE IF RESIDENTIAL RATE AT 21%

	Residential	Non-Residential
1983	$680,359,309	$862,849,621
1984	724,756,557	913,346,216
1985	808,004,674	1,009,344,499
1986	874,385,029	1,068,757,003
1987	1,071,600,213	981,076,549
1988	1,149,900,293	1,028,264,703
1989	1,201,689,992	1,029,842,293
1990	1,226,028,821	1,025,768,354
1991	1,289,563,421	1,052,249,545
1992	1,348,774,378	1,058,400,807

DIFFERENCE

1983	0	(0)
1984	0	(0)
1985	0	(0)
1986	0	(0)
1987	$79,063,802	($79,063,740)
1988	147,829,935	(147,829,935)
1989	187,261,677	(187,261,677)
1990	188,966,522	(188,966,522)
1991	222,649,193	(222,649,193)
1992	228,721,099	(228,721,099)

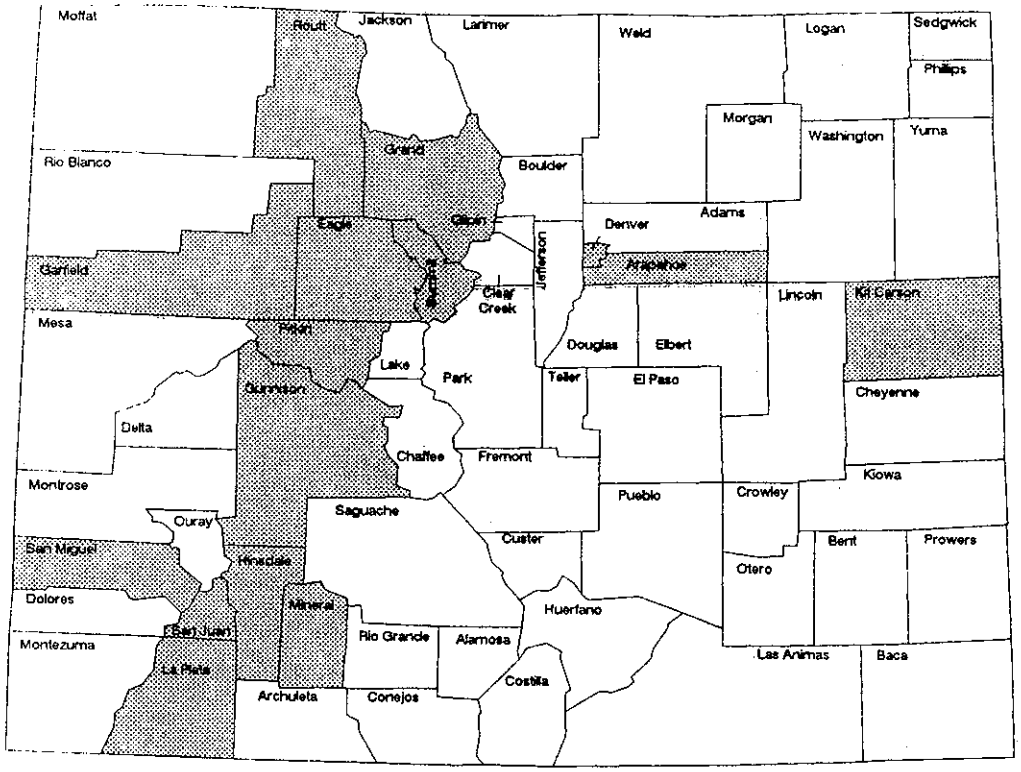
SOURCE: Colorado Division of Property Taxation; computed by CPEC, 8/93

PER CAPITA STATE SALES TAXES, FY 1994

Summit	1	$976
Pitkin	2	943
Eagle	3	704
San Juan	4	679
San Miguel	5	544
Grand	6	459
Routt	7	450
Denver	8	434
Mineral	9	427
Hinsdale	10	406
Gunnison	11	378
Garfield	12	348
Arapahoe	13	329
Kit Carson	14	323
La Plata	15	319
Cheyenne	16	280
Mesa	17	276
Alamosa	18	269
Boulder	19	268
Adams	20	266
Logan	21	266
Larimer	22	262
Montrose	23	252
Montezuma	24	250
Ouray	25	250
Jefferson	26	249
Yuma	27	245
Moffat	28	243
Archuleta	29	241
El Paso	30	236
Chaffee	31	233
Gilpin	32	219
Prowers	33	212
Pueblo	34	211
Custer	35	207
Douglas	36	204
Rio Grande	37	203
Weld	38	199
Sedgwick	39	189
Otero	40	181
Morgan	41	177
Phillips	42	175
Jackson	43	169
Lincoln	44	167
Baca	45	166
Clear Creek	46	155
Delta	47	152
Saguache	48	151
Rio Blanco	49	148
Las Animas	50	141
Teller	51	139
Washington	52	138
Huerfano	53	127
Fremont	54	126
Lake	55	113
Dolores	56	112
Park	57	108
Costilla	58	86
Conejos	59	85
Kiowa	60	73
Bent	61	69
Crowley	62	67
Elbert	63	56
Undistributed		-
STATE AVERAGE		$298
County Average		287

SOURCE: Department of Revenue, DLG

PER CAPITA STATE SALES TAX RECEIPTS, 1994



Greater Than State Average

CPEC
10/95

FY 94 STATE SALES TAXES

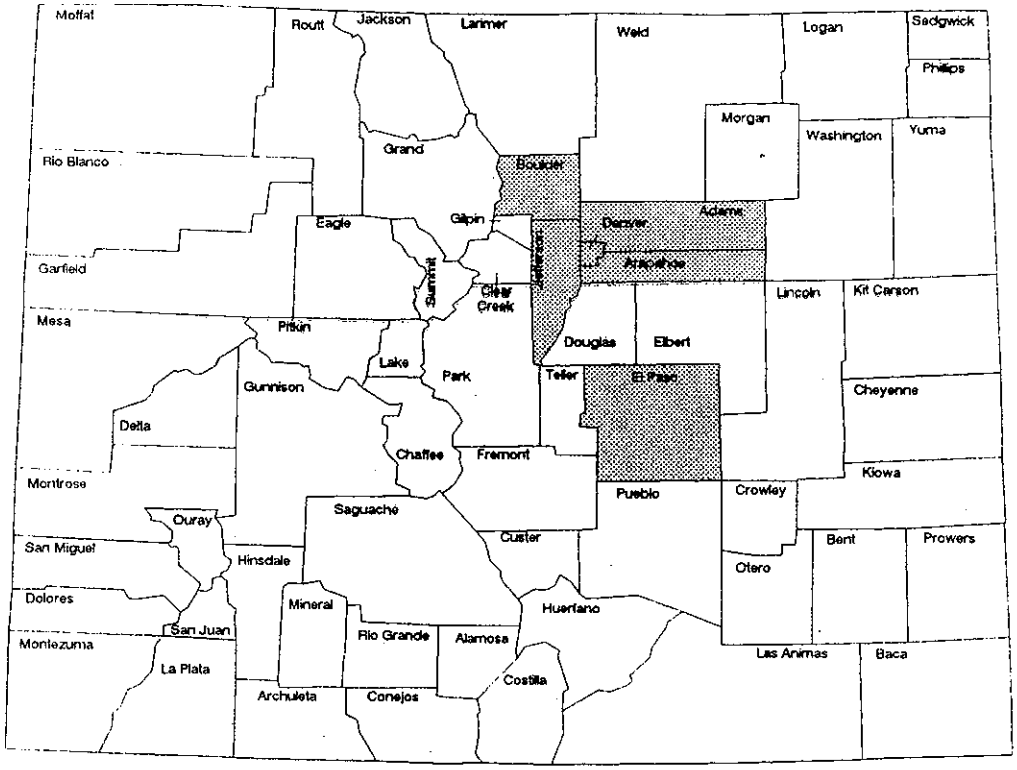
County	Total	Cumulative		
Denver	$213,087,407	$213,087,407	19.6%	1
Arapahoe	143,712,509	356,799,916	32.8%	2
Jefferson	119,391,340	476,191,256	43.7%	3
El Paso	106,327,655	582,518,911	53.5%	4
Adams	76,899,854	659,418,765	60.5%	5
Boulder	67,110,244	726,529,009	66.7%	6
Larimer	55,032,435	781,561,444	71.8%	7
Weld	28,572,140	810,133,584	74.4%	8
Mesa	28,318,350	838,451,934	77.0%	9
Pueblo	26,937,442	865,389,376	79.4%	10
Eagle	19,200,128	884,589,504	81.2%	11
Douglas	18,865,489	903,454,993	82.9%	12
Summit	15,837,123	919,292,116	84.4%	13
Pitkin	13,405,920	932,698,036	85.6%	14
Garfield	11,825,449	944,523,485	86.7%	15
La Plata	11,814,079	956,337,564	87.8%	16
Routt	7,247,645	963,585,209	88.5%	17
Montrose	7,111,377	970,696,586	89.1%	18
Montezuma	5,283,781	975,980,367	89.6%	19
Fremont	4,798,895	980,779,262	90.0%	20
Logan	4,640,196	985,419,458	90.5%	21
Morgan	4,422,634	989,842,092	90.9%	22
Gunnison	4,361,593	994,203,685	91.3%	23
Grand	3,993,506	998,197,191	91.6%	24
Alamosa	3,879,637	1,002,076,828	92.0%	25
Otero	3,765,589	1,005,842,417	92.3%	26
Delta	3,669,768	1,009,512,185	92.7%	27
Chaffee	3,308,099	1,012,820,284	93.0%	28
Moffat	2,881,498	1,015,701,782	93.2%	29
Prowers	2,853,779	1,018,555,561	93.5%	30
San Miguel	2,753,628	1,021,309,189	93.8%	31
Kit Carson	2,330,227	1,023,639,416	94.0%	32
Rio Grande	2,322,026	1,025,961,442	94.2%	33
Yuma	2,255,410	1,028,216,852	94.4%	34
Teller	2,231,869	1,030,448,721	94.6%	35
Las Animas	2,063,215	1,032,511,936	94.8%	36
Archuleta	1,568,995	1,034,080,931	94.9%	37
Clear Creek	1,301,359	1,035,382,290	95.1%	38
Lincoln	1,027,938	1,036,410,228	95.1%	39
Park	1,027,805	1,037,438,033	95.2%	40
Rio Blanco	997,041	1,038,435,074	95.3%	41
Huerfano	828,439	1,039,263,513	95.4%	42
Saguache	775,675	1,040,039,188	95.5%	43
Phillips	774,023	1,040,813,211	95.6%	44
Gilpin	763,473	1,041,576,684	95.6%	45
Lake	737,605	1,042,314,289	95.7%	46
Washington	729,038	1,043,043,327	95.8%	47
Baca	726,915	1,043,770,242	95.8%	48
Elbert	722,433	1,044,492,675	95.9%	49
Ouray	711,768	1,045,204,443	96.0%	50
Cheyenne	655,874	1,045,860,317	96.0%	51
Conejos	643,994	1,046,504,311	96.1%	52
Custer	511,915	1,047,016,226	96.1%	53
Sedgwick	498,834	1,047,515,060	96.2%	54
Bent	377,939	1,047,892,999	96.2%	55
San Juan	372,017	1,048,265,016	96.2%	56
Jackson	292,770	1,048,557,786	96.3%	57
Crowley	283,223	1,048,841,009	96.3%	58
Costilla	280,303	1,049,121,312	96.3%	59
Mineral	260,326	1,049,381,638	96.3%	60
Hinsdale	241,757	1,049,623,395	96.4%	61
Dolores	169,985	1,049,793,380	96.4%	62
Kiowa	128,604	1,049,921,984	96.4%	63
Out of State	39,349,526	1,089,271,510	100.0%	

TOTAL $1,089,271,510

SOURCE: Department of Revenue

CPEC, 10/95

TWO-THIRDS OF STATE SALES TAXES COLLECTED IN SIX COUNTIES, 1994



CPEC
10/95

CAPACITY OF ASSESSED VALUE AND STATE SALES TAXES, 1994

1.00 = State Average

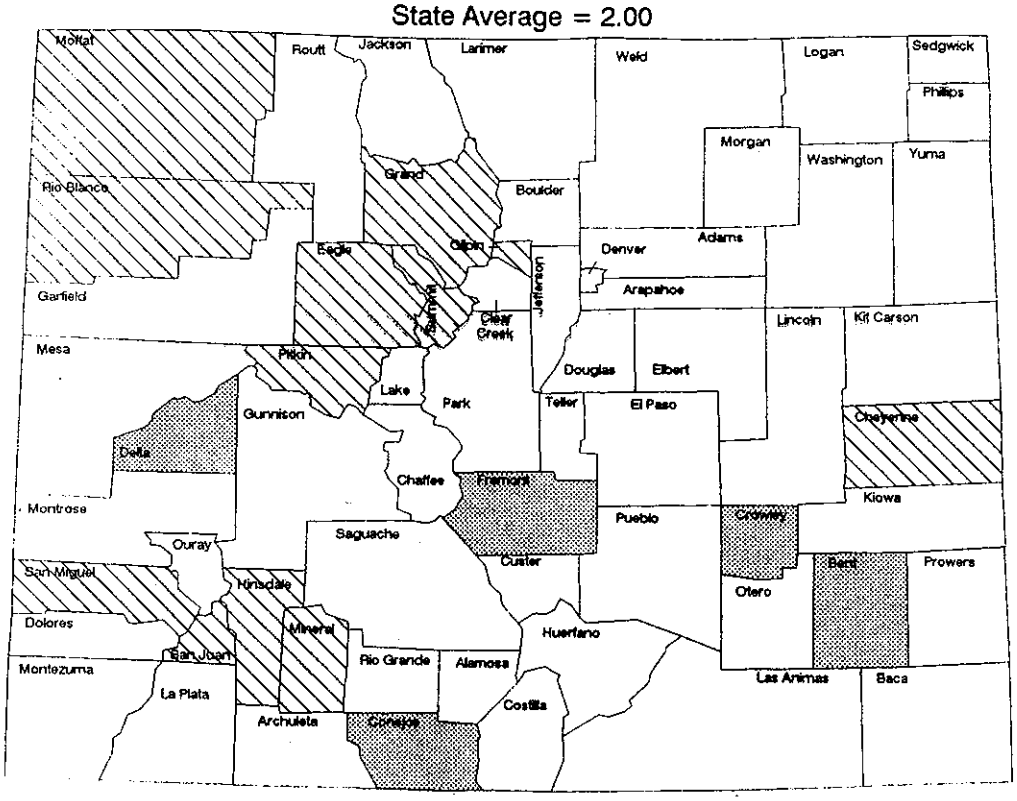
Total 2.00 = State Average

County	Assessed Valuation	State Sales	Total	Rank
Pitkin	7.51	3.16	**10.67**	1
San Miguel	5.88	1.82	**7.70**	2
Summit	3.66	3.28	**6.94**	3
Cheyenne	5.36	.94	**6.30**	4
Eagle	3.68	2.36	**6.05**	5
Gilpin	5.29	.74	**6.02**	6
Rio Blanco	5.32	.50	**5.82**	7
San Juan	2.80	2.28	**5.08**	8
Hinsdale	3.57	1.36	**4.93**	9
Moffat	3.67	.82	**4.48**	10
Grand	2.54	1.54	**4.08**	11
Mineral	2.62	1.43	**4.06**	12
Routt	2.33	1.51	**3.84**	13
La Plata	2.07	1.07	**3.15**	14
Gunnison	1.83	1.27	**3.10**	15
Costilla	2.73	.29	**3.01**	16
Ouray	2.14	.84	**2.98**	17
Kiowa	2.51	.25	**2.75**	18
Custer	1.83	.69	**2.52**	19
Denver	1.06	1.46	**2.51**	20
Archuleta	1.53	.81	**2.34**	21
Kit Carson	1.18	1.08	**2.27**	22
Garfield	1.09	1.17	**2.26**	23
Jackson	1.65	.57	**2.22**	24
Yuma	1.35	.82	**2.18**	25
Dolores	1.78	.38	**2.16**	26
Boulder	1.18	.90	**2.08**	27
Washington	1.59	.46	**2.06**	28
Baca	1.50	.56	**2.05**	29
Huerfano	1.62	.43	**2.04**	30
Arapahoe	.89	1.10	**2.00**	31
Clear Creek	1.44	.52	**1.96**	32
Sedgwick	1.24	.63	**1.88**	33
Montezuma	1.01	.84	**1.85**	34
Morgan	1.24	.59	**1.84**	35
Park	1.47	.36	**1.83**	36
Douglas	1.10	.68	**1.78**	37
Teller	1.29	.47	**1.76**	38
Larimer	.86	.88	**1.74**	39
Weld	1.06	.67	**1.73**	40
Jefferson	.87	.83	**1.70**	41
Phillips	1.10	.59	**1.69**	42
Logan	.76	.89	**1.66**	43
Adams	.72	.89	**1.61**	44
Montrose	.74	.85	**1.59**	45
Mesa	.62	.93	**1.55**	46
Rio Grande	.85	.68	**1.53**	47
Chaffee	.72	.78	**1.50**	48
Alamosa	.58	.90	**1.48**	49
Lincoln	.91	.56	**1.47**	50
El Paso	.66	.79	**1.45**	51
Saguache	.90	.51	**1.40**	52
Prowers	.62	.71	**1.33**	53
Pueblo	.60	.71	**1.31**	54
Lake	.86	.38	**1.24**	55
Las Animas	.70	.47	**1.17**	56
Otero	.40	.61	**1.01**	57
Elbert	.81	.19	**1.00**	58
Delta	.47	.51	**.98**	59
Fremont	.51	.42	**.93**	60
Bent	.67	.23	**.90**	61
Conejos	.45	.28	**.73**	62
Crowley	.43	.22	**.65**	63
TOTAL	1.00	1.00	**2.00**	

SOURCE: Dept. of Revenue, DPT, DLG

PROPERTY AND STATE SALES CAPACITY INDEX, 1994

State Average = 2.00



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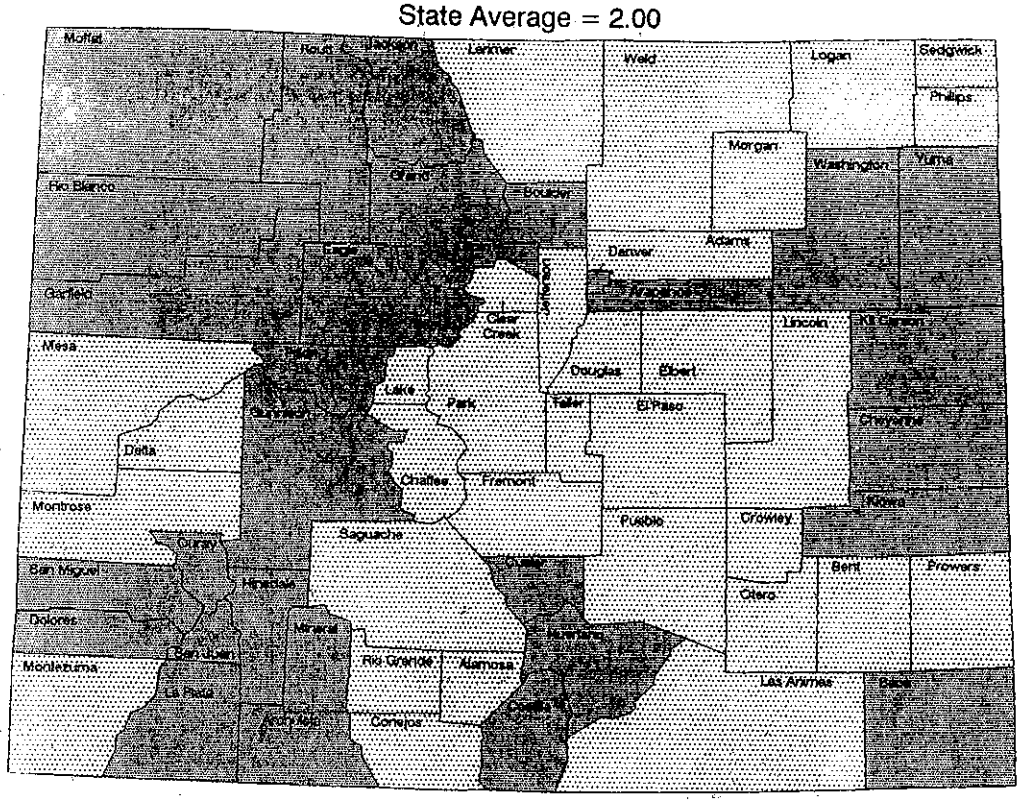
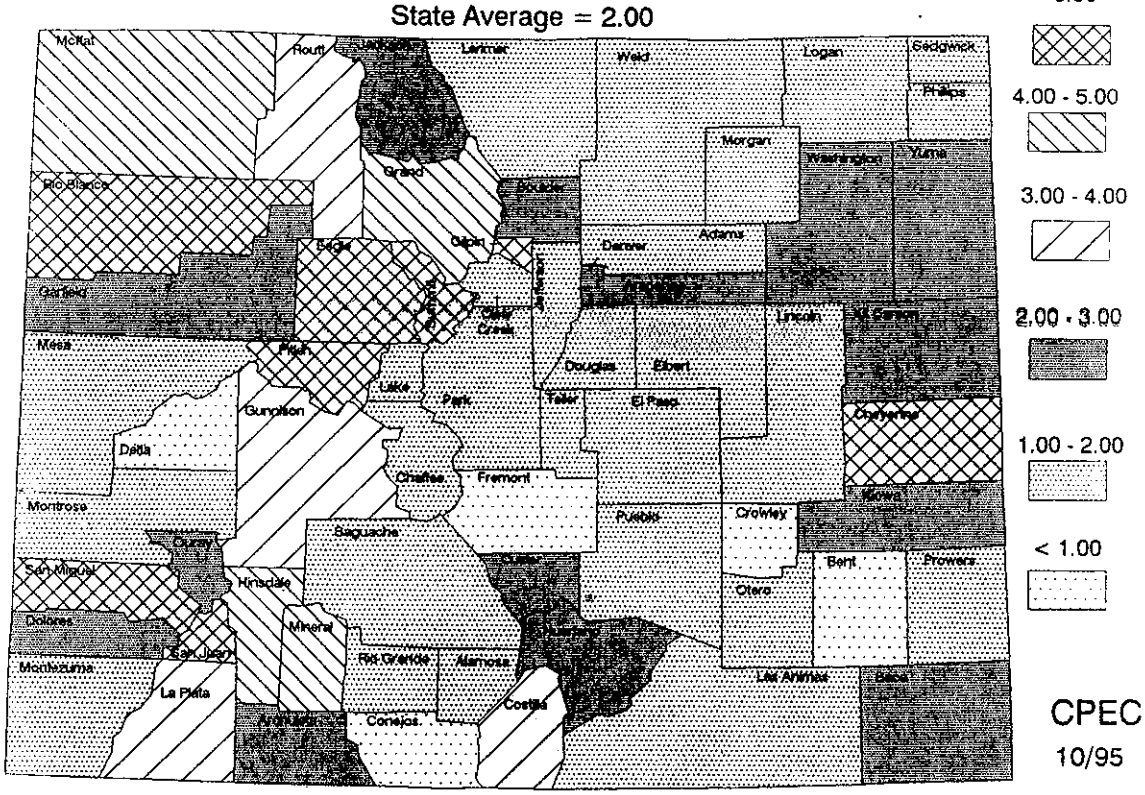
PROPERTY AND STATE SALES CAPACITY INDEX, 1994

State Average = 2.00



PROPERTY AND STATE SALES CAPACITY INDEX, 1994

State Average = 2.00



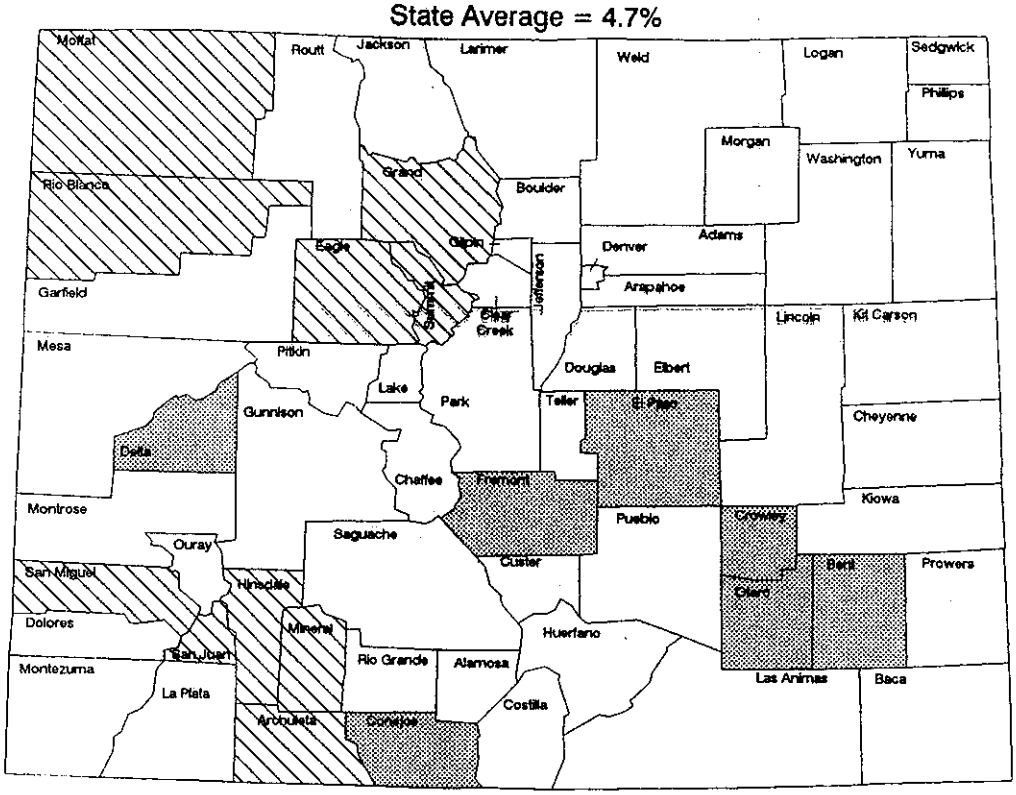
PROPERTY AND STATE SALES TAXES AS A PERCENT OF INCOME, 1994

County	Percent	Index	Rank
Rio Blanco	15.2%	3.23	1
San Miguel	15.1%	3.22	2
San Juan	13.1%	2.79	3
Summit	11.8%	2.52	4
Mineral	11.7%	2.48	5
Moffat	11.4%	2.42	6
Eagle	11.2%	2.38	7
Hinsdale	10.9%	2.33	8
Grand	10.6%	2.26	9
Archuleta	10.2%	2.17	10
Costilla	9.9%	2.10	11
Huerfano	9.6%	2.05	12
Gunnison	9.1%	1.94	13
Pitkin	8.1%	1.73	14
Routt	8.0%	1.69	15
Ouray	7.7%	1.63	16
Gilpin	7.6%	1.61	17
Cheyenne	7.5%	1.59	18
Kiowa	7.3%	1.55	19
Custer	6.8%	1.44	20
La Plata	6.6%	1.41	21
Yuma	6.6%	1.40	22
Park	6.6%	1.40	23
Clear Creek	6.4%	1.37	24
Dolores	6.4%	1.35	25
Montezuma	5.9%	1.26	26
Jackson	5.9%	1.25	27
Lake	5.8%	1.24	28
Garfield	5.8%	1.24	29
Morgan	5.8%	1.24	30
Washington	5.5%	1.17	31
Weld	5.5%	1.16	32
Kit Carson	5.5%	1.16	33
Saguache	5.4%	1.14	34
Lincoln	5.3%	1.12	35
Douglas	5.1%	1.08	36
Phillips	5.0%	1.06	37
Adams	5.0%	1.06	38
Sedgwick	4.9%	1.05	39
Logan	4.9%	1.04	40
Baca	4.8%	1.01	41
Montrose	4.7%	1.01	42
Larimer	4.7%	1.00	43
Teller	4.7%	.99	44
Chaffee	4.6%	.98	45
Boulder	4.5%	.97	46
Denver	4.5%	.95	47
Rio Grande	4.5%	.95	48
Arapahoe	4.3%	.92	49
Mesa	4.2%	.90	50
Alamosa	4.2%	.89	51
Las Animas	4.1%	.88	52
Jefferson	4.1%	.86	53
Pueblo	4.0%	.86	54
Elbert	4.0%	.86	55
Prowers	4.0%	.84	56
Conejos	3.8%	.81	57
El Paso	3.5%	.75	58
Fremont	3.3%	.70	59
Delta	3.3%	.70	60
Bent	3.1%	.66	61
Crowley	3.1%	.66	62
Otero	2.7%	.58	63
TOTAL	4.7%	1.00	

SOURCE: Dept. of Revenue, DPT, DLG. Income for 1993.

PROPERTY AND STATE SALES TAXES AS A % OF INCOME

State Average = 4.7%



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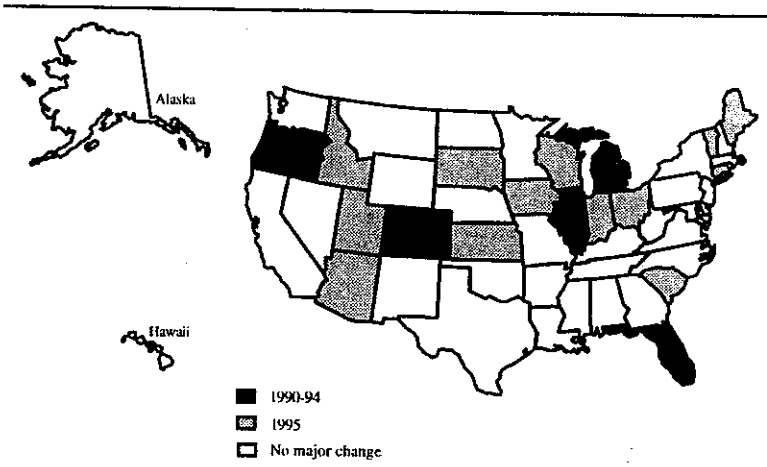
Property Tax Relief Programs

Interim Conference on
State and Local Tax Policy
October 5-6, 1995

Scott Mackey
Fiscal Affairs Program
National Conference of State Legislatures

National Conference of State Legislatures

Property Tax Relief in the 1990s



National Conference of State Legislatures

Property Tax Relief Programs

- Many variations in the states
- Fiscal structure dictates for programs
  - Local option tax alternatives
  - School finance system
  - Degree of Local Service Funding Responsibility
  - Low tax or high tax state

National Conference of State Legislatures

Property Tax Relief Programs

- Direct relief programs
  - Relief provided directly to taxpayer
- Indirect relief programs
  - Relief provided to local governments, reducing property tax burden

National Conference of State Legislatures

Direct Property Tax Relief Programs

- Circuitbreaker programs
- Homestead exemptions and credits
- Tax deferral programs

National Conference of State Legislatures

Circuitbreaker Programs

- Direct state payment to taxpayer, based upon income and property tax burden
- 31 states (most for elderly & disabled only)
- Cost to states ranges from $0.18 per capita to $42 per capita ($154 million in Colorado)

National Conference of State Legislatures

Circuitbreaker Programs

- Pros
  - Relief targeted to low-income households, including renters
  - No local government revenue loss
- Cons
  - General fund cost can be high
  - May increase local spending
  - Relief not provided to middle class

Homestead Exemptions

- Exempt portion of home value from taxation
- Most targeted to elderly and disabled
- Income tested (17 states)
- Non-income tested (22 states)

Homestead Exemptions

- Pros
  - Automatic (taxpayer doesn't need to apply)
  - No state revenue loss
  - Shift burden to non-residential property
- Cons
  - Erode local tax base
  - Non income tested programs provide relief to wealthy and poor alike
  - No relief for renters

Deferral Programs

- Defer tax liability until death or sale of home
- Targeted to low income elderly (16 states)
- No income cap in 5 states

- Private sector: reverse mortgages

Deferral Programs

- Pros
  - Cost effective, tax relief cost recouped
  - Solves problem of elderly losing homes
- Cons
  - Low participation rates

Indirect Property Tax Relief

- Property tax classification
- Earmarking/tax sharing
- Assume local service responsibility
- Structural tax shift/ K-12 finance reform

Property Tax Classification

- Set differential ratios for determining assessed value
- 16 states (Colorado: Gallagher Amendment)
- Used to shift tax burden to non-residential property; utility property generally faces highest rates

National Conference of State Legislatures

Property Tax Classification

- Pros
  - Protects residential property owners
- Cons
  - Confusing to taxpayers
  - Shifts burden to businesses
  - Relief not targeted to need

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Earmarking / Tax Sharing

- 46 states earmark for local governments
- 30 states earmark for education
- Alternative to local option taxation

Earmarking/Tax Sharing

- Pros
  - Distribution can be equalized
  - Interjurisdictional competition minimized
  - Administrative efficiency
- Cons
  - Taxing divorced from spending
  - Reduces local control

Assume Local Funding Responsibility

- Iowa -- 1995 -- assumed mental health costs
- Minnesota & Maryland- early 1990s -- assumed additional court system costs

Structural Tax Shift / School Finance Reform

- Pros
  - Equalize funding (court pressure)
  - Reduce property tax reliance
- Cons
  - State tax sources less stable
  - Sales tax not deductible
  - Local control

Recent State Reforms: Michigan

- Sales tax increased (4% to 6%)
- Cigarette tax up 50 cents
- Repealed local school taxes on residential (mandatory 18 mills on non-residential)
- Imposed statewide property tax (6 mills)
- Capped assessment growth at 5%

Michigan Tax Reform (cont)

	Est. FY 1993-94	Est. FY 1994-95 (after Proposal A)
Local property tax revenue	$ 6,175	$ 2,053
State revenue		
Statewide education property tax	0	1,061
Other state funds	3,644	7,130
Subtotal state revenue	$ 3,644	$ 8,191
Total school revenue*	$ 9,819	$ 10,244

*Excludes federal funds, local revenues levied for capital projects, and transitional payments.
Source: MI Senate Fiscal Agency, 10/94.

Recent Changes: South Carolina

- 1995 Homestead Exemption
  - Voter anger over assessment increases
  - Residential homestead exemption of $100,000 for school taxes only
  - $200 million cost from general fund
  - No new taxes
  - County, municipal spending limited

Recent Changes: Wisconsin

- Capped school district revenue
- Increased state K-12 funding share from 45% to 67% ($900 million)
- Cut state spending by $250 million
- No tax increase

Conclusion

- Many options available
- Most will require new state $
- Public consensus necessary due to voter approval requirement

National Conference of State Legislatures

Tables and Explanatory Materials

Interim Conference on State and Local Tax Policy
Colorado General Assembly

October 5-6, 1995

Scott Mackey
Program Principal
Fiscal Affairs Program
National Conference of State Legislatures

State Actions to Provide Property Tax Relief
1995 Legislative Sessions
(as of July 10, 1995)

Arizona	Appropriated $214 million for property tax relief in 1996, with specifics to be determined later; adopted a $31 million cut in personal property taxes paid by businesses.
Connecticut	Continued 5-year phase out of personal property tax on automobiles.
Georgia	The legislature approved a major income tax credit for property taxes paid, capped at 10% of property tax or at $250, whichever is smaller, on residential property. **Vetoed by Governor.**
Idaho	Adopted governor's proposal to reduce property taxes ($40M) by assuming more local school levy costs. The relief represents an approximate 6% cut in property taxes and will be spread out among all property tax payers. Because homeowners account for 30 percent of the total property taxes paid annually, $12 million of the relief will be allocated to them.
Indiana	Began six-year phase out of automobile excise tax, effective 1/96; first year tax cut of ($25.2) million in FY96 and full impact of ($133.7) million when fully phased-in in FY2001
Iowa	Repealed machinery and equipment property tax on property first assessed after 1/95. Phased out tax on existing equipment as follows: through FY2000, 30% of net acquisition cost (current law); FY2001, 22%; FY 2002, 14%; FY 2003, 6%; FY2004 and thereafter, 0%. State to replace local revenue at estimated cost of $200 million over 10 years. State assumed 50% of mental health costs from counties, reducing county costs by $61 million in FY 1996, $78 million in FY 1997, and $95 million in FY 1998.
Kansas	Approved a phased reduction in personal property tax on automobiles.
Maine	Expanded eligibility for circuitbreaker program
Ohio	Increased the maximum income levels for eligibility for homestead exemption; full year cost of $26 million.
South Carolina	Appropriated $195 million for property tax relief; provision creates a homestead exemption for school taxes that will average $100,000
South Dakota	Governor signed the bill raising cigarette excise taxes by 10 cents per pack and placing a 10% tax on the wholesale purchase of other tobacco products (rev=$5-6M FY96) and to reduce the number of sales tax exemptions (rev=$22.5M) in order to fund property tax relief this session. Property taxes will be frozen at 1995 levels and a fund created to reduce residential and farm property taxes in the state through payments to local units of government (provision included in HB 1352).
Utah	The legislature approved a $90M property tax cut that would raise the homeowner s exemption from 32 to 45 percent and reduce the rate of the statwide property tax to avoid a windfall from rising property values.
Vermont	Increased maximum income and maximum benefit for state circuitbreaker program
Wisconsin	Increased state share of school spending from 54% in FY1995 to 67% in FY1997 by cutting state spending by $200 million and putting another $300 million in revenue growth entirely into state aid; also continued caps on school district spending

Source: NCSL survey, Summer 1995.

Table 4.6
Property Tax Circuitbreaker Programs for Homeowners: 1994

State	Eligible Taxpayers: All Homeowners	Eligible Taxpayers: Elderly Homeowners	Maximum Household Income (single/joint)	Maximum Benefit
Arizona		■	$3,750/$5,500	$502
Arkansas		■	$15,000	$250
California		■	$13,200	*
Colorado		■	$7,500/$11,200	$500
Connecticut		■	$20,700/$25,400	$1,000/$1,250
District of Columbia	■	■	$20,000	$750
Hawaii		■	$20,000	$500
Idaho		■	$16,990	$800
Illinois		■	$14,000	$700
Iowa	■	■	$14,000	$1,000
Kansas	*	■	$17,200	$600
Maine (program 1)*	■	■	$9,500/11,800	$400
Maine (program 2)*	■	■	$25,800	$500
Maryland	■	■	*	
Michigan	■	■	$82,650	$1,200
Minnesota	■	■	$59,999	$400
Missouri		■	$15,000/$17,000	$750
Montana		■	None	$400
Nevada		■	$19,100	$500
New Jersey (program 1)		■	$100,000	$500
New Jersey (program 2)	■	■	$40,000	$90
New Mexico		■	$16,000	$250
New York	■	■	$18,000	$75/$375*
North Dakota		■	$13,000	$2,000
Oklahoma		■	$10,000	$200
Pennsylvania		■	$15,000	$500
Rhode Island		■	$12,500	$200
South Dakota		■	$12,000	*
Utah*		■	$18,400	$475
Vermont	■	■	$45,000	$1,350
West Virginia		■	$5,000	$125
Wisconsin	■	■	$19,154	$1,160

**Notes:*

California—96 percent of tax on first $34,000.

Kansas—All households with dependent children under 18 qualify.

Maine—If a taxpayer qualifies for both programs, the larger benefit applies.

Maryland—Homeowners with net assets of less than $200,000 qualify for the program. The credit may not exceed taxes paid on the first $60,000 assessed valuation.

New York—Elderly homeowners may qualify for the maximum benefit of $375; others receive up to $75.

South Dakota—100 percent of taxes due for paraplegic veterans; tax reduction based upon income for paraplegic non-veterans.

Utah—Each county determines the number of relief programs available to eligible taxpayers.

Source: NCSL survey, summer 1994.

Table 4.7
Property Tax Circuitbreaker Programs for Renters: 1994

State	Eligible Taxpayers: All Renters	Eligible Taxpayers: Elderly Renters	Maximum Household Income (single/joint)	Maximum Benefit	Property Tax Rent Equivalent
Alaska		■	*	*	*
California		■	$13,200	$240	$240
Colorado		■	11,200	500	20%
Connecticut		■	20,700/25,400	700/900	35%
District of Columbia	■	■	20,000	750	15%
Hawaii	■	■	30,000	50/100*	N/A
Illinois		■	14,000	700	20%
Iowa	■	■	14,000	1,000	23%
Kansas	*	■	17,200	600	15%
Maine (program 1)	■	■	9,500/11,800	400	25%
Maine (program 2)	■	■	25,800	500	15%
Maryland	■	■	*	600	15%
Michigan	■	■	82,650	1,200	20%
Minnesota	■	■	34,999	1,000	*
Missouri	■	■	15,000/17,000	750	20%
Montana		■	None	400	15%
Nevada		■	19,100	500	6%
New Jersey (program 1)		■	100,000	500	18%
New Jersey (program 2)	■	■	40,000	30	18%
New Mexico		■	16,000	250	6%
New York	■	■	18,000	75/375*	25%
North Dakota		■	13,000	230	20%
Oregon		■	10,000	2,100	17%
Pennsylvania		■	15,000	500	20%
Rhode Island		■	12,500	200	20%
Utah		■	18,400	475	*
Vermont	■	■	45,000	1,350	20%
Wisconsin	■	■	19,154	1,160	20%*

*Notes:

Alaska—Benefit and income guidelines vary depending upon local mill levy.

Hawaii—The renter credit is $50 per qualified exemption; the credit is doubled for renters age 65 and older.

Kansas—All households with dependent children under 18 qualify.

Maryland—Renters with net assets of less than $200,000 qualify.

Minnesota—Landlords submit estimates of property tax rent equivalent paid by tenants.

New York—The maximum benefit of $375 is for elderly taxpayers; all others qualify for up to $75.

Utah—Property tax rent equivalent ranges from 95 percent for incomes below $5,600 to 25 percent for incomes between $14,801 and $18,400.

Wisconsin—25 percent if heat is included in the rent.

Source: NCSL survey, summer 1994.

Table 4.8
Cost and Benefit Data on State Circuitbreaker Programs

State	Year	Average Benefit	Rank	Per Capita Cost	Rank
Arkansas	CY 93	$ 118	24	$ 1.60	22
California	FY 94	90	27	0.47	25
Colorado	FY 93	344	9	3.78	15
Connecticut	FY 93	459	4	5.74	12
Dist. of Columbia	CY 93	352	7	13.29	6
Idaho	FY 93	350	8	6.83	11
Illinois	FY 94	280	12	9.06	8
Iowa	FY 94	275	14	3.84	14
Kansas	FY 93	195	20	3.66	17
Maine	FY 94	300	10	9.05	9
Maryland	FY 93	526	3	10.23	7
Michigan	FY 92	576	1	98.76	1
Minnesota	FY 94	298	11	32.23	4
Missouri	FY 93	278	13	3.75	16
Montana	FY 92	237	16	4.98	13
Nevada	FY 93	176	22	1.58	23
New Jersey	FY 94	215	18	41.25	3
New Mexico	CY 92	438	6	2.59	18
New York	CY 91	102	25	2.55	19
North Dakota	FY 93	98	26	0.24	26
Pennsylvania	CY 93	262	15	8.29	10
Rhode Island	CY 93	183	21	0.64	24
South Dakota	CY 93	207	19	0.18	27
Tennessee	FY 93	129	23	1.70	21
Utah	FY 93	231	17	2.35	20
Vermont	CY 92	530	2	41.84	2
West Virginia	CY 93	0	28	0.00	28
Wisconsin	FY 93	439	5	20.72	5
U.S. Average		**$ 343**		**$ 13.50**	

Notes: Cost data is not available for Alaska, Arizona and Oklahoma. No qualifying recipients were reported by West Virginia.

Source: NCSL survey, summer 1994.

Table 4.4
State Homestead Credit and Exemption Programs Without Income Eligibility Guidelines: 1994

State	Dollar Value of Exemption for Elderly Homeowners	Dollar Value of Exemption for All Homeowners
Alaska	$150,000	$10,000(L)
Arizona (school)*	35% of tax	35% of tax
California*	$7,000	$7,000
District of Columbia	$30,000	$30,000
Florida	$25,000	$25,000
Hawaii	*	$40,000
Idaho	*	*
Illinois	$16,500	$16,500
Indiana*	4% of tax	4% of tax
Iowa	$4,850	$4,850
Kentucky	$21,800	—
Louisiana (all taxes except municipal)	$75,000	$75,000
Massachusetts	$2,000	—
Minnesota	*	*
Mississippi	Up to $240 tax and $60,000	Up to $240 tax
New Mexico	$6,000	$6,000
Ohio*	12.5% of tax	12.5% of tax
Oklahoma*	$8,333	$8,333
South Carolina	$20,000	—
Texas (school)	$15,000	$5,000
Texas (other local)*	$3,000	$3,000
West Virginia	$33,300	—
Wisconsin (school)	$5,900	$5,900

(L) = Local option program

**Notes:*

Arizona—Maximum tax rebate is $500.

California—The exemption can increase up to $150,000 if household income is less than $24,000.

Hawaii—Age 55 to 59-$60,000; age 60 to 64-$80,000; age 65 to 69-$100,000; age 70 and over-$120,000.

Idaho—Exemption is lesser of $50,000 or 50 percent of value for residential improvements.

Indiana—Local option to increase homestead credit to 8 percent of tax. See table 4.5 for additional exemption. Available to low income elderly and disabled.

Minnesota—Minnesota's homestead exemption program is integrated with its property tax classification system.

Ohio—Additional exemptions for qualifying elderly and disabled homeowners are listed in table 4.5.

Oklahoma—An additional $1,000 assessed value exemption is available for households with incomes below $10,000.

Texas—Additional local option of up to 20 percent assessed value.

Source: NCSL survey, summer 1994.

Table 4.5
State Homestead Credit and Exemption Programs
With Income Eligibility Guidelines: 1994

State	Dollar Value of Exemption for Elderly Homeowners	Dollar Value of Exemption for All Homeowners	Income Cap
Alabama (state)	Full	$40,000	$12,000*
Alabama (local)	$50,000	$20,000	$12,000*
Delaware (non-school)	$5,000 (L)	—	$3,000
District of Columbia	Up to 50% of tax	—	
Georgia (local)	$10,000	$5,000	$10,000
Georgia (school)	$25,000	$5,000	$10,000
Indiana*	$9,000	$6,000	$15,000
Montana	Up to $80,000	Up to $80,000	$16,034
Nebraska*	80% of AV	—	$23,000
New Hampshire	$5,000	—	$6,000*
New Jersey	$250 tax	—	$10,000
New York	Up to 50% AV (L)	—	$16,500
North Carolina	$13,000	—	$11,000
North Dakota	$44,000	—	$13,500
Ohio*	$14,285		$16,500
Tennessee	$15,000	—	$10,000
Utah	50% of tax up to $300 (L)	—	$18,400
Virginia	Up to 100% AV(L)	—	$30,000
Washington (local)*	$34,000	—	$18,000

(L) = Local option program
AV = Assessed value

**Notes:*

Alabama—Income cap applies to full exemption for elderly. Elderly with adjusted gross income less than $7,500 receive full exemption from local taxes.

Indiana—See table 4.4 for homestead credit program available for all homeowners.

Nebraska—Exemption varies with income and is capped at $40,000.

New Hampshire—Elderly homeowners receive $5,000 exemption if income is below $6,000 and asset value is below $35,000.

Ohio—Elderly receive the $14,285 exemption plus the 12.5% homestead credit available to all homeowners (see table 4.4).

Washington (local)—Exemption varies with income; amounts shown are the maximum benefit and the maximum qualifying income level.

Source: NCSL survey, summer 1994.

Table 4.9
Property Tax Deferral Programs for Elderly Homeowners: 1994

State	Income Cap	Amount of Deferral
California	$24,000	All tax due.
Colorado	None	All tax due; market value cannot exceed liens.*
District of Columbia	None	Taxes above 110 percent of prior year liability.
Florida	None	Taxes exceeding 5 percent of income (elderly, 3% of income). Full deferral for incomes below $10,000.
Georgia	$15,000	Taxes on first $125,000 market value.
Illinois	$25,000	All tax due.
Iowa	*	All tax due.
Maine	$32,000	All homestead property taxes due.
Maryland*	None	Local option program. Full deferral for disabled elderly.
Massachusetts	$20,000	Taxes on first 50 percent of applicants' interest in the property.
Michigan	$15,000	Special assessments over $300 are eligible for deferral.
New Hampshire	None	Local option program; defer 85 percent of tax.
North Dakota	$13,000	All special assessments.
Oregon*	$19,500	All special assessments and homestead property tax.
South Dakota	None	All tax due.*
Tennessee	$12,000	Local option program. Taxes on first $60,000 market value. For homes under $50,000 market value, defer all tax above 1979 levels.
Texas	None	All tax due.
Utah	$17,850	Local option program.
Virginia	$30,000 (L)	All tax due.
Washington	$30,000	Tax on first 80% of equity value.
Wisconsin	$20,000	Up to $2,500.
Wyoming	150% of poverty level	50 percent of tax.

(L) = Local option program, 1994.

**Notes:*

Colorado—Additional local option deferred if tax is 130% or greater than prior year liability. Additional local option program to work to pay off tax liability.

Iowa—Must meet federal SSI eligibility guidelines or local option income guidelines.

Maryland—Applicants must meet local income eligibility guidelines and have lived in their home for five years or more.

Oregon—Maximum income for new applicants is $19,500. Once in the program, federal adjusted gross income must be below $24,000. Special assessment deferred limit is $17,500 for new applicants and no income limit once in the program.

South Dakota—Applicants must be age 70 and over and have owned their home for at least 3 years and have lived in the state for at least 5 years to qualify. A lien must be paid, together with 6 percent interest, when home is sold or transferred.

Source: NCSL survey, summer 1994.

Table 3
Earmarking for Local Government, FY 1993

State	Type of Tax	Percent Dedicated	Recipient
New England			
Connecticut	Vehicle registration and other	100.0%	Transportation fund
Maine	Sales	5.1	Cities and towns
	Personal income	5.1	Cities and towns
	Motor fuel	100.0	State and local highways
	Motor vehicle fees & licenses	100.0	State and local highways
Massachusetts	Gas	90.0	State and local highways, mass transit, administration
	Corporate income	40.0	Local aid fund
	Personal income	40.0	Local aid fund
	Sales	40.0	Local aid fund
New Hampshire	Gasoline, road toll, other users of fuel and motor vehicle fees	12.5	Local government
Rhode Island	Sales and gross receipts	(a)	Cites and towns
	Personal income	(a)	Cities and towns
	Motor fuel	58.8	Dept. of transportation for intermodal surface transportation and RI public transit authority
Mid-Atlantic			
Delaware	Insurance	67.0	Volunteer fire companies, police departments, and nonprofit ambulance and rescue
New Jersey		10.0	Municipal aid
	Public utility	52.9	Municipal tax replacement
	Realty transfer	27.5	Municipalities for neighborhood preservation and affordable housing grants
	Insurance premiums	1.2	Counties
		9.5	Municipalities
New York	Petroleum business	8.7	Mass transit operating assistance fund
	Sales and use	24.1	Local government assistance corporation
		3.9	Mass transportation operating assistance fund
	Corporation and utilities	4.1	Mass transportation operating assistance fund
	Corporation franchise surcharge	10.4	Mass transportation operating assistance fund
	Bank tax surcharge	11.3	Mass transportation operating assistance fund
	Insurance tax surcharge	8.9	Mass transportation operating assistance fund

Table 3, continued

State	Type of Tax	Percent Dedicated	Recipient
	Corporation and utilities tax surcharge	7.9 %	Mass transportation operating assistance fund
Pennsylvania	Sales and use	0.4	Public transportation assistance fund
	Liquid fuels	4.2	Liquid fuels tax fund (local roads)
		2.7	Local highway turnback program
	Public utilities realty	28.5	Public transportation assistance fund
	Lease tax; tire fee; and vehicle rental fee	100.0	Public transportation assistance fund
Great Lakes			
Illinois	Personal and corporate income	12.0	Cities and counties
	Sales	3.0	Cities and counties
		4.1	Counties and mass transit
		0.4	Downstate public transportation
		0.2	Metro-east transportation
	Motor fuel	19.2	Cities
		13.7	Counties
		6.2	Townships and road districts
	Inheritance	5.8	Counties
	Riverboat gambling tickets	25.1	Cities and counties
Indiana	Sales	0.8	Mass transit
	Alcoholic beverage	25.0	Cities and towns
	Tobacco	15.4	Cities and towns
	Financial institutions	43.9	Local units
	Fuel	8.8	Local road and street
	Hazardous waste	24.0	Counties
Michigan	Sales	15.0	Local governments
		1.7	Public transportation
	Personal income	9.8	Local governments
	Single business	15.2	Local governments
	Horse wagering	83.1	Cities w/ tracks, purses
Ohio	Sales and use	4.7	Local government fund and local government revenue assistance fund
	Public utility excise	5.0	Local government fund and local government revenue assistance fund
	Horse racing	22.6	Local government
	Personal income	4.7	Local government fund and local government revenue assistance fund
		5.7	Library and local government support fund

Table 3, continued

State	Type of Tax	Percent Dedicated	Recipient
	Corporate franchise	4.9 %	Local government fund and local government revenue assistance fund
	Motor fuel	9.9	Highways-municipal
		8.6	Highways-county
		4.6	Highways-townships
		4.6	Local transportation improvement
	Intangible property	62.6	Local government fund
	Estate	65.1	Local governments
Wisconsin	Real estate transfer	19.9	Counties
Plains			
Iowa	Real estate transfer	17.3	Counties
	Franchise (b)	27.0	Cities
		18.0	Counties
Kansas	Sales and use	3.3	Local government
		2.5	Cities and counties
	Liquor and beer	21.2	City or county of origin
	Motor vehicle rental	100.0	All property tax levying units
	Motor fuel	40.1	City/county highways
	Motor carrier property	100.0	City/county highways
	Severance	3.5	Counties in producing area
Minnesota	Sales and use	30.8	Local government trust fund
	Motor vehicle excise	30.8	Local government trust fund
	Mortgage registry	3.0	County revenue fund
	Deed transfer	3.0	County revenue fund
Missouri	Financial institution	98.0	Home political subdivisions
Nebraska	Motor fuel	13.8	County highways
		13.8	City highways
	Motor vehicle registration	23.3	County roads
		23.3	City roads
	Motor vehicle sales	23.3	County roads
		23.3	City roads
North Dakota	Sales	1.7	Cities
		0.1	Townships
		2.6	Counties
	Oil & gas gross production	39.6	Counties
		34.0	Counties
	Coal severance	22.8	Counties
		21.6	County roads
		13.2	City streets
		5.9	Township roads
	Cigarette and tobacco	9.6	Cities
	Insurance premium	13.4	Local fire departments

Table 3. continued

State	Type of Tax	Percent Dedicated	Recipient
South Dakota	Alcoholic beverage	25.0 %	Municipalities
	Bank franchise	72.2	Political subdivisions
	Credit card operations	5.1	Counties with banks offering or doing credit card business
	License plate fees	96.0	Counties
	Malt beverage	50.0	Local governments (c)
	Malt beverage	24.5	Municipalities
	Liquor	25.0	Municipalities
	Inheritance	9.9	Counties
	Mineral	20.0	Counties
	Mineral severance	48.0	Counties
Southeast			
Alabama	Alcoholic beverage	4.0	Counties
		0.9	Cities
	Motor fuel	42.9	Counties and cities
	Motor vehicle registration	20.2	Counties and cities
	Petroleum inspection	16.0	Counties and cities
	Severance	20.1	Counties and cities
	Corporate franchise	6.6	Counties
	Financial institution excise	50.0	Cities
		25.0	Counties
	Mortgage/deed record	33.0	Counties
Arkansas	Insurance	9.4	Counties
	Pari-mutuel	3.4	Mental retardation/indigent patients
	Severance	34.0	County aid; oil museum fund
	Motor fuel	15.0	County roads
		15.0	Municipal roads
	Motor vehicle registration	14.9	County aid road fund
		14.9	Municipal aid road fund
Florida	Sales and use	8.5	Local governments
	Solid mineral severance	9.5	Counties where mined
	Oil & gas severance	11.8	Counties
	Pari-mutuel	28.3	Counties
	Tobacco	2.6	County revenue sharing
		33.7	Municipal revenue sharing
	Highway fuel	50.0	County highways
		50.0	City highways
	Constitutional gas	100.0	County highways
	Intangibles	32.7	Counties
		0.2	Local school boards
	Documentary stamp	3.0	Local government housing trust fund
	Dept. of revenue	100.0	District school boards
	Motor vehicle	14.6	Small business administration for Counties

Table 3, continued

State	Type of Tax	Percent Dedicated	Recipient
		6.7 %	Revenue sharing for municipalities
		6.7	Fuel tax refund for counties
	Constitutional gas	100.0	Counties
Kentucky	Coal severance	3.0	Local government economic development fund
		12.0	Local government economic assistance fund
	Minerals, natural gas, oil production	49.7	Local government economic assistance fund
	Motor fuels	22.2	Construction, reconstruction, and maintenance of secondary and rural roads
		18.3	Construction, reconstruction and maintenance of county roads and bridges
		7.7	Construction, reconstruction and maintenance of urban roads and streets
Louisiana	Vehicle licenses	12.6	Causeway/Mississippi River Bridge authority
	Severance and royalties	3.5	Parish governments
		3.6	Parish governments
	Insurance	3.8	Local fire departments
	Video poker	25.0	Local governments
	Motor fuel	8.5	Local highways
Mississippi	Sales	15.0	Municipalities
	Insurance premium	5.9	Municipal fire protection
		5.9	County fire protection
	Alcoholic beverage	2.6	Municipalities
	Oil severance	24.1	Counties
	Gas severance	32.8	Counties
	Nuclear plant in lieu	94.0	Cities and counties served by the nuclear plant
	Petroleum	14.1	State aid road fund for counties
		11.5	Counties on gulf coast
	Auto privelege	18.2	Counties
North Carolina	Public utilities	43.6	Cities-state tax sharing
	Beer and wine	26.8	Local—state tax sharing
	Liquor	2.7	County rehabilitation contribution
		4.4	County law enforcement
		3.7	County alcohol education
		34.9	County/city districts
	Property: Intangibles	77.1	Local-state tax sharing
South Carolina	Accommodation	100.0	Local government
	Gasoline county watercraft	100.0	Local government
Tennessee	Sales and gross receipts	4.5	Cities
		1.2	Counties
	Beer	10.4	Cities
		10.4	Counties
	Alcoholic beverage	17.5	Counties

Table 3, continued

State	Type of Tax	Percent Dedicated	Recipient
	Personal income	26.0%	Cities
		9.3	Counties
	Excise	1.9	Cities
		1.0	Counties
	Gasoline	12.3	Cities
		24.6	Counties
	Motor fuel	8.8	Cities
		17.4	Counties
	Special petroleum	15.3	Cities
	products	9.5	Counties
	Severance	70.0	Counties
	Mixed drinks	31.3	Cities
		16.7	Counties
Virginia	Alcoholic beverage	66.8	Local government
West Virginia	Consumer sales tax—additional 5% on sales of beverages (alcoholic) outside of municipalities	100.0	Counties and municipalities
	Coal severance	31.4	Municipalities
		68.6	Counties
	Insurance premium—additional 1%	50.0	Volunteer fire departments
Southwest			
Arizona	Sales	13.7	Counties
		9.0	Cities
	Insurance premiums	4.2	Fire districts
	Personal and corporate income	11.4	Cities
	Motor fuel	21.2	Cities
		14.1	Counties
		2.3	Maricopa County/cities
		1.4	Pima County/cities
		1.3	Rural counties
		0.9	Rural cities
	Motor vehicle license	17.1	Counties
		17.1	Cities
		3.4	County assessors—administration
	Jet fuel excise	15.9	Counties
		10.1	Cities
	Severance	30.4	Counties
		20.1	Cities
	Liquor licenses	25.8	Counties
	Boulder canyon projects	33.3	County special fund
	Salt river project—municipalities	100.0	Urban in-lieu fund
	Rental occupancy	22.2	Counties

Table 3, continued

State	Type of Tax	Percent Dedicated	Recipient
		11.1 %	Cities
New Mexico	Gross receipts	35.9	Counties and municipalities
	Compensating	10.0	Small cities assistance fund
		10.0	Small counties assistance fund
		5.9	Local government road fund
	Gasoline	10.1	Counties and municipalities
		5.6	County government road fund
		5.6	Municipal road fund
		1.4	Municipal arterial fund
	Cigarette	13.2	County and municipal cigarette fund
	Insurance premium	36.7	Local fire districts
		1.7	Volunteer fire pensions
	Ad valorem production	93.4	County treasurers
	Motor vehicle excise	25.0	Local government road fund
		18.9	County road fund
		12.6	Counties and municipalities
		50.0	County road fund
Oklahoma	Alcoholic beverage	29.0	Cities and towns
	Diesel fuel	24.2	County roads
	Gasoline	1.9	Cities and towns
		32.8	County roads
	Motor vehicle collections	2.5	Cities and towns
		5.9	Counties for roads
		0.7	County government
		2.1	County road fund
		2.9	County road improvement fund
	Gas severance	7.3	Counties for roads
	Oil severance	7.4	Counties for roads
Texas	Gasoline, diesel, LPG	--	$7.3 million annual dedication to local highways
	Mixed drinks gross receipts	10.7	Cities
		10.7	Counties
Rocky Mountain			
Colorado	Cigarette	28.1	Local government
	Severance	50.0	State government impact fund
		50.0	Local government impact fund
Idaho	Sales	3.9	Cities
		9.9	Counties
	Alcoholic beverage	14.1	Counties
		21.1	Cities
	Highway user	35.8	Local highways
Montana	Alcoholic beverages	16.9	Local government
	Corporation income	9.6	Local government
	Video gaming	62.7	Local government
	Motor fuel	12.1	Local highways

Table 3, continued

State	Type of Tax	Percent Dedicated	Recipient
	Severance	35.7%	Local government
Wyoming	Sales and use	35.0	Cities, towns and counties
	Severance	9.2	Cities, towns and counties
	Fuel	32.3	Cities, towns and counties
	Cigarette	76.8	Cities, towns and counties
Far West			
Alaska	Public utilities	100.0	Borough/city
	Fuel (Aviation)	59.4	Municipal gov't where collected
	Corporation income	19.8	Municipal assistance
	Fisheries business	51.2	Municipal gov't where collected
California	Sales and use	1.1	Mass transit and transit planning
	Cigarette & tobacco	0.5	Cities
	Vehicle license fee	43.1	County general purpose
		29.4	City general purpose
	Motor fuel	34.0	City streets/county roads
Hawaii	Motor fuel	43.3	Counties
	Transient accommodation	95.0	Counties
Nevada	Sales	23.4	Counties
		14.0	Cities
		6.3	Special districts
	Cigarette	24.2	Cities
		3.2	Counties
	Liquor	12.3	Cities
		1.4	Counties
	Jet fuel	100.0	Counties
		38.2	County, city, town roads
	Annual fee on games (gaming)	95.8	Counties
	Net proceeds of minerals	45.8	Counties and other local governments
Oregon	Tobacco	6.5	Cities
		6.5	Counties
	Alcoholic beverage	31.4	Cities
		9.2	Counties
	Motor fuel	23.9	Counties
		15.3	Cities
	Vehicle registration	12.1	Counties
		7.3	Cities
		21.3	Counties
		13.6	Cities
	Property in-lieu	100.0	Local government
	Amusement device	35.3	Counties
Washington	Alcoholic beverage	6.0	Cities, counties, and drug/alcohol programs
		7.4	Cities and counties
	Motor vehicle excise	1.3	County sales & use tax equalization
		3.9	City sales & use tax equalization
		7.2	Cities for police/fire /public health

Table 3, continued

State	Type of Tax	Percent Dedicated	Recipient
		1.0%	Criminal justice assistance for high crime cities
		1.0	City population distribution for criminal justice
		4.9	County criminal justice
		0.9	High capacity transportation
		22.3	Mass transit
		0.6	Central puget sound public transportation
		0.2	Public transportation systems
	Motor vehicle fuel	10.3	City highways
		23.6	County highways
		13.4	Urban highway grants
	Public utilities district privilege	54.9	Local taxing districts
	Public utilities	2.5	Local public works assistance
	Real estate excise	7.7	Local public works assistance
	Refuse collection	100.0	Local public works assistance
	Sales and use	0.2	Cities
		0.2	Counties
	Travel trailer/camper excise	12.9	Counties
		12.9	Cities based on population

Notes:

a. General revenue sharing of 6.1% combined sales and income tax revenue was delayed until FY 1994.
b. Amount earmarked will not fall below 45.0%, but is capped at $9.8 million.
c. Distributed among levels of local government by some method such as share of property value.

Case Study for the State Tax Structure

Case Study Problem

Assume that Congress enacts certain income tax changes that reduce the state's taxable income base (which is based on federal taxable income with some Colorado modifications) and thus result in $250 million less in Colorado income taxes beginning in fiscal year 1996-97. The revenue loss is expected to increase by seven percent annually. The reduction in the tax base could result from a number of proposals currently under consideration: adopting a liberalized treatment of capital gains income; moving toward a flat tax concept that increases the personal exemption and/or standard deduction; or adopting a liberalized IRA, for example. Although the state is currently projected to have healthy general fund surpluses, the $250 million ongoing revenue reduction would quickly put the state in a difficult position. Table 1 indicates that the state would be unable to meet its statutory reserve requirement in fiscal year 1996-97, then would have revenue shortfalls that would build to $210.3 million by fiscal year 2000-01. By Constitution, the state is not allowed to go into deficit. Meanwhile, as Table 2 shows, Colorado would need to rebate revenues under the provisions of Article X, Section 20 of the Constitution starting in fiscal year 1998-99. What action, via reductions in expenditures and/or increases in revenues, should the General Assembly take to avoid a deficit?

Background

The state individual income tax comprised 53.1 percent of gross General Fund revenues in fiscal year 1994-95. The income tax had the highest growth rate of any revenue source during the past ten years. Increasing demands to fund prison construction and operations, kindergarten-12 education, and, possibly, highway needs fall heavily upon the ability of the state income tax to reliably provide the funds. Meanwhile, a number of federal proposals may shift further cost burdens to the state to provide increased welfare and Medicaid benefits.

The Linkage

The Colorado individual income tax is linked to the federal income tax via its definition of taxable income. The state starts with the federal definition of taxable income and makes some modifications in order to derive its income tax base for both individuals and corporations. Thus, any Congressional changes that alter the definition of federal taxable income also affect Colorado revenues. The advantages of such a link to the federal system are the provision of consistency in the treatment of income and deductions in Colorado and federal tax laws, the simplification of compliance for the state's taxpayers, the increased ability to assure compliance with the tax, and ease of administration of the tax by the Department of Revenue. However, the disadvantage of such a system is that the federal

government frequently tinkers with federal tax law; thus, the predictability and reliability of state income tax revenue is diminished. Simple changes at the federal level may cause significant impacts on state revenues. Therefore, this lessens the state's control over its tax policy.

Past Federal Tax Changes

There have been a number of federal tax law changes that affected state tax revenues in the last fifteen years. The **Economic Recovery Tax Act of 1981** (ERTA) lowered federal income tax rates and thus federal taxes over a four-year period. At that time, Colorado allowed federal taxes as a deduction on the state tax return. The lower federal taxes after passage of ERTA increased taxable income (by reducing the value of its deductibility) and therefore bolstered Colorado income tax receipts. Colorado has not allowed the federal tax as a deduction since 1987; thus, changes in federal tax rates no longer directly affect Colorado income taxes. It should also be noted that federal tax credits have no direct impact on Colorado income taxes. Another portion of ERTA established the deductibility of individual retirement accounts (IRAs) up to $2,000 per individual. Conformity to the federal tax base on deductibility of IRAs alone caused an estimated $25 million annual revenue loss to the General Fund through fiscal year 1985-86.

The **Federal Tax Reform Act of 1986** had a much larger impact on state revenues. The base-broadening provisions of the Act would have created windfall revenues to the state of $300 million annually if no action had been taken to change the state tax code. In response, the General Assembly enacted the Colorado Income Tax Act of 1987. The Act kept approximately $100 to $110 million of the windfall revenues, enacted a single rate of taxation on individual income and phased-in a single rate of taxation on corporate income, and further simplified Colorado income tax laws.

Annual **indexation** of the federal personal exemption and standard deduction values to the national inflation rate, which began in 1988, affects our income tax collections in a number of ways. Indexation lowers the tax base and negatively impacts revenues to a slight degree. In addition, if the national inflation rate is higher than the Colorado inflation rate, the growth rate of inflation-adjusted state individual income revenues will be lower than otherwise would be the case. This is because the base would be reduced via exemptions and deductions at a greater rate than local inflation. In nine of the last 15 years, the Denver-Boulder inflation rate has been below the national rate of price increases.

Since the 1986 Act, federal government income tax changes have affected state revenues to a much smaller degree. Tax policy changes in 1991 primarily dealt with liquor, cigarette, gas, and other excise taxes. However, high income taxpayers had limitations placed

on the values of their itemized deductions and personal exemptions. These limitations increased state income tax receipts. Meanwhile, in 1993, changes in income tax policy primarily revolved around higher tax rates, rather than changes in the base. There were some base changes however — reduction of business-related travel and entertainment deductions and taxation of Social Security benefits for upper income retirees — that altered the taxable income base.

Current Proposals

Congress is currently discussing many income tax code changes that may significantly alter the state's tax base and revenues. For example, provisions of the House version of tax reform would reduce state tax revenues by an estimated $57 million in fiscal year 1999-00 and by $128 million when fully implemented in fiscal year 2004-05. Meanwhile, one of the flat tax proposals currently in Congress has been estimated to reduce the state's income tax revenues by as much as 50 percent. A proposal to repeal the federal income tax and replace it with a national sales tax or a value-added tax would completely remove the state income tax as a source of revenue.

The situation today is different from that of 1987 in two ways:

- In 1987, the General Assembly was faced with federal tax law changes that increased revenues absent any action, whereas current proposals would reduce revenues, perhaps significantly.

- Today, Section X, Article 20 of the State Constitution requires a vote of the people in the event that tax policy is altered to increase revenues. Thus, any action to shore up revenues by the General Assembly would likely need approval by voters.

Article X, Section 20

Under Article X, Section 20 of the State Constitution, state government revenue growth is restricted to the combination of inflation and population growth from the prior year. The September 1995 Legislative Council revenue forecast estimates that state revenues will exceed their limits in fiscal years 1998-99 through 2000-01. This situation is not alleviated by the annual $250 million reduction in revenues. The initial revenue reduction lowers the base from which growth is allowed in the first year. Thereafter, revenue growth will be similar to that which existed prior to the revenue reduction, and thus will still outpace its constitutional limit in fiscal years 1998-99 through 2000-01. Excess revenues will reach $152.1 million by fiscal year 2000-01. The constitutional spending limitation requires that excess revenues be returned to the taxpayers or that the state ask the voters to keep these funds.

Table 1
General Fund Overview
Assuming Federal Tax Reform that Costs the State $250 million annually
($ in millions)

	Preliminary Close FY 1994-95	Estimate FY 1995-96	Estimate FY 1996-97	Estimate FY 1997-98	Estimate FY 1998-99	Estimate FY 1999-2000	Estimate FY 2000-01
BEGINNING RESERVE	$ 404.9	$ 486.3	$ 272.7	$ 109.6	$ (42.2)	$ (148.1)	$ (186.7)
GROSS GENERAL FUND	3,968.3	4,145.3	4,115.1	4,369.9	4,649.8	4,943.7	5,252.6
TOTAL FUNDS AVAILABLE	$ 4,373.2	$ 4,631.6	$ 4,387.8	$ 4,479.5	$ 4,607.6	$ 4,795.7	$ 5,065.9
EXPENDITURES:							
General Fund Appropriations	$ 3,536.4 /E	$ 3,859.3 /G	$ 4,090.9	$ 4,336.3	$ 4,596.5	$ 4,872.3	$ 5,164.6
FY 1994-95 Supplementals	90.1	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	105.5 /C	139.0 /C	110.5 /C	108.2 /C	109.2 /C	110.1 /C	111.6 /C
Capital Construction Fund	34.7 /A	25.0 /A	50.0	50.0	50.0	0.0	0.0
Capital Cons. Transfer for Prisons	10.6 /D	27.0 /D	26.8 /D	27.2 /D	NA	NA	NA
Transfer for Highway Construction	NA	75.0 /F	NA	NA	NA	NA	NA
Water Conservation Construction Fund	30.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Controlled Maintenance Trust Fund	19.4 /B	208.6 /B	0.0 /B	0.0 /B	0.0 /B	0.0 /B	0.0 /B
Accounting Adjustments	(16.2)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OBLIGATIONS	$ 3,810.5	$ 4,333.9	$ 4,278.1	$ 4,521.7	$ 4,755.7	$ 4,982.4	$ 5,276.2
ENDING GENERAL FUND STATUTORY RESERVE:							
Year-End Reserve	$ 562.7	$ 297.7	$ 109.6	$ (42.2)	$ (148.1)	$ (186.7)	$ (210.3)
Statutory Required Reserve	145.1	154.4	163.6	173.5	183.9	194.9	206.6
Actual Reserve Percentage	15.5%	7.7%	2.7%	-1.0%	-3.2%	-3.8%	-4.1%
Statutory Required Reserve Percentage	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Transfer from the Reserve to the Capital Const. Fund	75.0 /A	25.0 /A	NA	NA	NA	NA	NA
Transfer to Disaster Emergency Fund: Fire Costs	1.4	NA	NA	NA	NA	NA	NA
REMAINING YEAR-END STATUTORY RESERVE	**$ 486.3**	**$ 272.7**	**$ 109.6**	**$ (42.2)**	**$ (148.1)**	**$ (186.7)**	**$ (210.3)**
MONIES IN EXCESS OF STATUTORY RESERVE:	**$ 341.2**	**$ 118.3**	**$ (54.0)**	**$ (215.6)**	**$ (331.9)**	**$ (381.6)**	**$ (416.9)**
ARTICLE X, SECTION 20 CONSTITUTIONAL RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	114.6	NA	NA	NA	NA	NA	NA
Reserved Amount (CMTF Principal in FY 96-97 forward)	108.8 /H	176.9 /H	263.0 /H	263.0 /H	263.0 /H	263.0 /H	263.0 /H
Additional Money Needed for Emergency Reserve	5.8	NA	NA	NA	NA	NA	NA
Appropriations Growth	208.5 /E	232.8 /G	231.6	245.5	260.2	275.8	292.3
Appropriations Growth Rate	6.10% /E	6.42% /G	6.00%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.
Totals may not sum due to rounding.
Note: These figures are based upon Legislative Council staff's September 1995 revenue forecast, adjusted $250 million lower beginning in fiscal year 1996-97 for federal tax changes.

/A In FY 94-95, $75 million of the $109.7 million transfer to the Capital Construction Fund comes from the reserve. Meanwhile, in FY 95-96, $25 million of the $50 million transfer comes from the reserve.

/B S.B. 93-7 allows a transfer of 50 percent of the revenues in excess of expenditures and the statutorily required reserve to the Controlled Maintenance Trust Fund (CMTF), up to $50 million, in January of the following fiscal year, beginning in January 1995. H.B. 95-1359 transfers $176 million to the Controlled Maintenance Trust Fund in addition to the 50% excess funds transfer in FY 95-96. Beginning in FY 96-97, the principal of the CMTF may serve to fulfill some portion of the emergency reserve required by the State Constitution and may only be spent for emergency purposes as cited by statute.

/C Rebates and expenditures (including Old-Age Pension Fund expenditures) are appropriated from the General Fund, but are not subject to the provisions of Section 24-75-201.1, C.R.S. (the appropriations limit and the calculation of the reserve).

/D H.B. 95-1352 transferred money to the Capital Construction Fund for the building of prisons through FY 95-96. The bill also states that it is the intent of the General Assembly to transfer the funds noted in FY 96-97 and FY 97-98, but does not specifically direct said transfers be made. Nonetheless, these figures are included in the analysis.

/E Includes $3.4 million in appropriations that were exempt from the statutory appropriations limit. A court order was the primary reason for the exemption.

/F H.B. 95-1174 transfers $75 million to the Capital Construction Fund on July 1, 1995 for the purpose of state highway maintenance and construction.

/G Includes $24.4 million in appropriations that are exempt from the statutory appropriations limit because they represent court settlements.

/H In FY 94-95, the General Assembly designated $108.8 million from various funds to satisfy the emergency reserve requirement. This was a sufficient reserve for such purposes at the time of planning. Upon closure of the books, the amount necessary for the reserve increased, but the state had ample funds to meet the requirement. In the Long Bill for FY 95-96 appropriations, the General Assembly designated $176.9 million as the emergency reserve. Based upon the current estimates, the state will need more money for the emergency reserve in FY 95-96 than designated, but there are sufficient funds to meet such needs. In addition, the General Assembly directed that a transfer of $176 million be made from the General Fund to the Controlled Maintenance Trust Fund (CMTF) on June 30, 1996. Beginning in FY 96-97, the principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement for Cash and General Funds. Thus, starting in FY 95-96, the principal of the CMTF is reported as the reserved amount. It is assumed that the General Assembly makes the transfers to the CMTF that are allowed, but not specifically directed, by statute.

Table 2
Expenditures and Emergency Reserve for Purposes of Article X, Section 20 of the State Constitution
Assuming Federal Tax Reform that Costs the State $250 million annually

	Preliminary Close FY 1994-95	Estimate FY 1995-96	Estimate FY 1996-97	Estimate FY 1997-98	Estimate FY 1998-99	Estimate FY 1999-00	Estimate FY 2000-01
Article X, Section 20 Expenditures (Revenues):							
General Fund	$ 3,916.4 /C	$ 4,121.3 /C	$ 4,094.9 /C	$ 4,348.6 /C	$ 4,627.5 /C	$ 4,917.8 /C	$ 5,225.4 /C
Cash Funds:							
Highway Users Tax Fund	560.8	576.8	589.7	607.8	626.9	644.9	663.8
Other Transportation-Related Funds	18.3	17.4	18.1	18.8	19.5	20.4	21.2
Higher Education Funds	527.2	550.6	596.5	651.7	714.9	783.3	855.4
Unemployment Insurance	231.9	216.5	209.6	215.5	224.6	233.5	241.3
Wildlife	59.7	60.1	61.1	62.1	62.9	64.1	65.2
Other Cash Funds	416.9	423.9	439.9	464.1	491.8	520.8	550.8
Total Article X, Section 20 Expenditures	$ 5,731.2	$ 5,966.7	$ 6,009.7	$ 6,368.5	$ 6,768.1	$ 7,184.8	$ 7,623.1
LIMIT:							
Growth Rate	6.4%	4.1%	0.7%	6.0%	6.3%	6.2%	6.1%
Allowable Article X, Section 20 Growth Rate	7.1%	7.0%	6.8%	6.1%	5.3%	5.3%	5.8%
Article X, Section 20 Limit	**$ 5,769.4**	**$ 6,132.3**	**$ 6,372.4**	**$ 6,376.3**	**$ 6,706.1**	**$ 7,061.5**	**$ 7,471.1**
Expenditures Above/(Below) Article X, Section 20 Limit	**$ (38.2)**	**$ (165.7)**	**$ (362.7)**	**$ (7.8)**	**$ 62.0**	**$ 123.3**	**$ 152.1**
EMERGENCY RESERVE: /A							
Article X, Section 20 Emergency Reserve	$ 114.6	$ 179.0	$ 180.3	$ 191.1	$ 201.2 /B	$ 211.8 /B	$ 224.1 /B
Reserved Amount (CMTF Principal in FY 96-97 forward)	108.8 /A	NA /A	NA /A	NA /A	NA /A	NA /A	NA /A

Totals may not sum due to rounding.

Note: Article X, Section 20 of the State Constitution broadly defines spending such that expenditures are equal to revenues. The statutory 6 percent limit applies to the General Fund appropriations only. Thus, the two concepts are not directly comparable. These figures are based upon Legislative Council staff's September 1995 revenue forecast, adjusted $250 million lower beginning in fiscal year 1996-97 for federal tax changes.

/A In FY 94-95, the General Assembly designated $108.8 million from various funds to satisfy the emergency reserve requirement. This was a sufficient reserve for such purposes at the time of planning. Upon closure of the books, the amount necessary for the reserve increased, but the state had ample funds to meet the requirement. In the Long Bill for FY 95-96 appropriations, the General Assembly designated $176.9 million as the emergency reserve. Based upon the current estimates, the state will need more money for the emergency reserve in FY 95-96 than designated, but there are sufficient funds to meet such needs. In addition, the General Assemby directed that a transfer of $176 million be made from the General Fund to the Controlled Maintenance Trust Fund (CMTF) on June 30, 1996. Beginning in FY 96-97, the principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement for Cash and General Funds. Thus, starting in FY 95-96, the principal of the CMTF is reported as the reserved amount. It is assumed that the General Assembly makes the transfers to the CMTF that are allowed, but not specifically directed, by statute.

/B In years where the projected revenues exceed the amount allowed by the Constitution, the reserve is calculated based on the limit, rather than on projected receipts. Given that the state will only spend the maximum allowed by the Constitution, it need only reserve three percent of such amount.

/C These figures differ from the General Fund revenues reported in previous tables because they net out revenues that are already in the Cash Funds to avoid double counting. For instance, the gaming revenues, unexpended prior-year Medicaid expenditures that are booked in "other revenue," and transfers of unclaimed property are netted out.

Case Study for the Local Tax Structure

Case Study Problem

Property revenues in Roosevelt County have decreased about 1.35 percent since 1991. During the time of the decrease in property taxes, inflation increased 12.9 percent and the county's population grew by one-third. Projections for the future indicate that the assessed value of the county will remain relatively stable, even with the construction of new homes. The county commissioners have maintained a lean budget and spent reserves to compensate for the decrease in revenue, but now believe additional revenues are necessary to maintain services, both those required by the residents of the county and those mandated by the state.

The county commissioners are in a dilemma. While property taxes are the mainstay of the county budget and an election to increase the mill levy would be an option, a survey of the county residents indicated that a mill levy increase would be unpopular. The county would also be competing with a school district that is holding an election for additional mills in one portion of the county. Roosevelt County has the ability to request voter approval for a county sales tax, but, because of the lack of a retail sales base, a high rate (at least 2 percent) would be required to fund outstanding needs. Because of the statutory limit on sales tax rates, Roosevelt County would only be allowed 1.5 percent, however. In addition, the cities and businesses in the county are balking at a county sales tax. The city councils believe the county would be infringing on their revenue source, while both the cities and businesses fear that the rate increase will make purchases in their areas more expensive relative to a neighboring city in the adjoining county.

The county commissioners, believing that only the state can solve this conundrum because of constitutional and statutory provisions, come to you as a member of the General Assembly for relief. What action should the General Assembly take?

Background — Property Taxes

The State Constitution governs both the valuing of property for taxation purposes and the maximum amount of property taxes that can be collected without voter approval. Constitutional provisions related to the former are contained in Article X, Section 3, which includes the so-called Gallagher Amendment, while tax rates are addressed in Article X, Section 20, which was adopted by the electorate in 1992 as Amendment 1. To some extent, Amendment 1 also addresses valuation procedures. Both of these constitutional sections are discussed in the following paragraphs in conjunction with the Roosevelt County situation.

Valuation of Property

Unless specifically exempted by the Constitution, all real and personal property in the state is taxable. The market approach to valuing property is used to determine the *actual* value of residential property; the cost, market, and income approaches, as appropriate, are used to determine the actual value of most other property. Once the value of property is ascertained, an assessment rate is applied to compute the *taxable value* of property. The taxable value is referred to as the assessed value.

Article X, Section 3 of the State Constitution established the initial assessment rate for residential property at 21 percent of its market value. The assessment rate for most other property (excluding oil and gas and producing mines) is 29 percent of value. However, this section of the constitution also contains a provision, frequently referred to as the Gallagher Amendment, which requires the General Assembly to adjust the residential assessment rate, after accounting for new construction and changes in oil and gas production, to maintain the proportionate shares of residential and nonresidential property. As a result of this requirement, the residential assessment rate has been reduced from the previously mentioned 21 percent to 10.36 percent in 1995.

Roosevelt County

The effect of the reduction in the residential assessment rate differs depending upon the circumstances of a taxing jurisdiction. Roosevelt County is experiencing growth in the market value of its residential property tax base. Since 1987, the market value of residential property has almost doubled. While the value of existing homes has certainly increased, the tax base has also grown with new home construction. The expansion of residential development is evidenced by the increase in the county's population over the last seven years. However, although the *market* value of Roosevelt County's residential tax base has almost doubled since 1987, the *taxable* value of homes has increased only one-third because of the decline in the residential assessment rate. In three of the years since 1987, the taxable value of residential property actually decreased.

In conjunction with the construction of new homes in the county, the taxable value of nonresidential property has decreased one-third. New homes in the county are displacing vacant lands which are assessed at the higher, 29 percent rate. Interestingly, in 1987 when the market value of residential and nonresidential property was approximately equal, nonresidential property had almost two times the taxable property as residential property. In 1994, residential property is almost three-quarters of the market value but just over one-half of the taxable property.

The result of the interactions between the residential assessment rate, the growth in residential property, and the decline in nonresidential property has been a decrease in the county's taxable value in five of the years since 1987. The total taxable value is now about 10 percent less than what it was seven years ago. Table 1 illustrates these facts.

Table 1
Historical Perspective of Roosevelt County's Tax Base

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year	Residential Market Value *($ in millions)*	Residential Assessment Rate	Residential Assessed Value *($ in millions)*	Nonresidential Assessed Value *($ in millions)*	Total Assessed Value *($ in millions)*	Percent Change
1987	180.2	18.00%	32.4	62.6	95.0	N/A
1988	194.2	16.00%	31.1	58.0	89.0	-6.30%
1989	204.2	15.00%	30.6	57.1	87.8	-1.43%
1990	215.2	15.00%	32.3	57.5	89.8	2.34%
1991	219.7	14.34%	31.5	55.2	86.7	-3.42%
1992	228.0	14.34%	32.7	51.3	84.0	-3.13%
1993	303.5	12.86%	39.0	42.6	81.6	-2.91%
1994	342.3	12.86%	44.0	41.5	85.6	4.89%
Change						
Actual	162.1	-5.14%	11.6	(21.0)	(9.4)	N/A
Percent	89.94%	-28.56%	35.70%	-33.60%	-9.94%	N/A

The projected trend for the residential assessment rate is a continued decrease: from the current 10.36 percent to 9.82 percent in 1999. Section 20 of Article X of the State Constitution (Amendment 1) requires voter approval for any increase in an assessment rate.

Maximum Property Tax Collections

Article X, Section 20 of the State Constitution includes both a tax rate and revenue limitation on property taxes. This section of the constitution prohibits a mill levy increase without prior voter approval, and it restricts changes in property tax revenue to inflation plus the percentage change in the tax base (actual value). As with the tax rate limitation, a taxing jurisdiction may exceed the revenue limit with voter approval. The net effect of the two provisions is that the lesser property tax amount prevails. In taxing jurisdictions where the prior year's levy would produce less revenue than the property tax revenue limit, the taxing entity would levy the prior year's rate. In a jurisdiction in which the prior year's levy would generate more revenue than allowed under the property tax revenue limit, a taxing entity would be required to reduce its levy. These limitations on property taxes were effective with the 1992 mill levy certifications for property taxes collected in 1993.

Roosevelt County

Since Roosevelt County has experienced relatively stable or declining assessed value since the passage of Amendment 1, the mill levy limitation has been controlling in determining the county's property tax revenues. Table 2 illustrates the impact of maintaining a constant levy in a declining assessed value environment.

Table 2
Assessed Value and Property Tax Collections
in Roosevelt County

Year	Assessed Value *($ in millions)*	County Mill Levy	County Property Taxes	Percent Change
1987	$95.0	25.763	$2,447,794	N/A
1988	89.0	29.572	2,632,766	7.56%
1989	87.8	30.051	2,637,065	0.16%
1990	89.8	29.936	2,688,552	1.95%
1991	86.7	32.305	2,802,103	4.22%
1992	84.0	32.305	2,714,525	-3.13%
1993	81.6	32.305	2,635,571	-2.91%
1994	85.6	32.305	2,764,339	4.89%
	$ change since 1991		($37,764)	
	% change since 1991		-1.35%	

As Table 2 illustrates, Roosevelt County levied its 1991 millage in the three years since enactment of the constitutional amendment. In two of the three years, assessed value declined and so did property taxes. Prior to the adoption of Amendment 1, Roosevelt County had the option of increasing its mill levy to maintain or increase property tax revenues. In 1988 and 1989, the county increased its levy in the face of declining assessed value. In 1994, property taxes increased in conjunction with an increase in the assessed value. However, even with the increase in property taxes in 1994, 1994 collections remained below those of 1991 by 1.35 percent.

Background — Local Sales Tax Limitations

With certain specified exceptions, state law limits the total sales tax rate imposed in any jurisdiction to 7 percent. This 7 percent rate includes the state and any city or county sales tax rates. The percentage limitation cannot preclude a county from having a sales tax of up to 1 percent.

Roosevelt County

Two cities in Roosevelt County impose a sales tax: the City of Franklin imposes 2.5 percent, while Theodore levies a tax of 1.5 percent. The combination of the higher city sales tax rate (2.5 percent in Franklin) and the state rate (3.0 percent) results in a current rate of 5.5 percent in Franklin. Thus, Roosevelt County is limited to a tax of 1.5 percent.

Colorado
Legislative
Council
Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

October 19, 1999

TO: Senator Ron Teck

FROM: Ron Kirk, Research Assistant, (303) 866-4785

SUBJECT: Governor's Local Affairs Study Commission

This memorandum provides information on the 1963 study of local governments. In 1963, House Bill 63-466 directed Governor John A. Love to appoint a 100-member commission to study the organizational and fiscal problems of local governments. Both urban and rural governments were studied along with their relationship to each other. The study was performed by the Governor's Local Affairs Commission and interim reports were provided to the legislature in 1964 and 1965. The final report and recommendations were submitted in June 1966.

Governor's Local Affairs Study Commission

Three main committees made up the 100-member commission. The three committees that made up the commission were the Metropolitan, State-Wide, and Finance committees. Each committee focused on a specific area of study and organized its own approach to its task.

The Metropolitan Committee directed its attention toward the Denver urban community and looked at how well local governments worked together. The committee also evaluated the provision of services by interviewing citizens to find out what they expected from their governments. For the communities that were evaluated, the commission based its recommendations on growth projections and demographic trends.

A State-Wide Committee studied local governments outside the Denver area and solicited input from citizens by holding regional hearings throughout Colorado. Committee members evaluated the structure and operations of local governments. The Final Report of the commission stated that the committees developed proposals for solutions that quickly became law. For example, the Municipal Annexation Act of 1965 gives municipalities with comprehensive governments the ability to extend their boundaries to provide more services to urban and rural communities.

The third committee of the commission was the Finance Committee. The first task of the committee was to review all local government budgets during a specified period preceding the study. Originally, the committee intended to evaluate the most logical sources of revenue for local

governments, but it became evident that citizens must first decide what they need from government before the source of funds and methods of spending could be recommended.

Each of the three committees worked under a set of rules developed and adopted by its members. For example, when a committee completed a portion of its study, a preliminary report would be written on the facts and findings for a specific area of study. This report would also contain a specified course of action found in the committee's recommendations. According to the commission, the study on the structure of local governments was built on a foundation of factual information based on public input.

The final report looked at the organization of municipalities, counties, special districts, and other government structures and how growth impacted the provision of services. On the fiscal side, the Finance Committee gathered data on population, property taxes, tax bases, revenues, expenditures, local highway financing, public welfare, and other tax-related data. Table 1 summarizes the structure of the commission and the different areas of study evaluated by each committee.

Table 1
Structure of Commission and Areas of Study

Committee	Metropolitan	State-Wide	Finance*
Structure	100 members		
Plan	interim reports provided in 1964 and 1965, final report and recommendations submitted in June 1966		
Study	3 years		
Cost	approximately $1.4 million (in 1999 dollars)		
Areas of Study	organizational problems of municipalities and urban growth	structure of local governments; services provided by special districts; home rule cities; intergovernmental relations; powers and limitations of local governments; state responsibility to local governments; and cooperation between state and local governments	population; property taxes; tax bases; revenue and expenditures; local highway financing; public welfare; per capita income and taxes; tax incidence; federal and state aid to schools; taxes paid by citizens to federal, state, and local governments; and federal grants-in-aid

*** Note: The Finance Committee compiled data but did not analyze it nor were any conclusions drawn from the data. It was primarily collected for the commission's use and factual purposes.**

Commission results and legislation. Each of the proposals directed to the General Assembly from the commission was reviewed by all 100 members of the commission. The commission reported that the General Assembly was very responsive to the acceptance of the study results. In 1965, of 13 commission proposals, 10 were adopted by the legislature. In 1966, the legislature adopted both of two proposals recommended by the commission.

According to the commission, as a result of the study, individual legislators became more aware of the problems in their districts and the related problems of other communities. Representatives of rural areas gained a new insight into urban problems. Input from citizens gave local government officials the opportunity to examine their own governments. Some communities benefitted by using commission data to develop their own community studies. Table 2 summarizes the 1965 and 1966 commission proposals and identifies those that were and were not adopted by the General Assembly.

Table 2
1965 and 1966 Commission Proposals

1965 and 1966 Commission Proposals	Adopted	Not Adopted
HB 65-1056, special district control act	x	
HB 65-1057, speed regulation on county roads	x	
HB 65-1059, repeal of authorization for police protection districts	x	
HB 65-1060, local government audit law	x	
HB 65-1061, local government uniform accounting law	x	
HB 65-1284, continuance of county services to new municipalities	x	
HB 65-1288, police courts in statutory municipalities	x	
HB 65-1289, capital improvement fund authorization for statutory municipalities	x	
SB 65-367, provision of municipal water service to unincorporated areas	x	
SB 65-122, municipal annexation act of 1965	x	
HB 65-1058, county authority to regulate road excavations		x
HB 65-1273, countywide local option sales tax		x
HB 65-1321, prevention of illogical municipal incorporations		x
HB 66-1023, regulating municipal incorporations	x	
SB 66-23, creating the division of local government	x	