AN INFORMATION REPORT

TAX AND EXPENDITURE LIMITS ON LOCAL GOVERNMENTS

Center for Urban Policy
and the Environment
Indiana University

Advisory Commission
on Intergovernmental Relations
March 1995 M-194

MEMBERS
ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Private Citizens
Mary Ellen Joyce, Arlington, Virginia
Richard P. Nathan, Albany, New York
William F. Winter, *Chairman*, Jackson, Mississippi

Members of the U.S. Senate
Byron L. Dorgan, North Dakota
Bob Graham, Florida
Dirk Kempthorne, Idaho

Members of the U.S. House of Representatives
James P. Moran, Virginia
Donald M. Payne, New Jersey
Steven H. Schiff, New Mexico

Officers of the Executive Branch, U.S. Government
Carol M. Browner, Administrator, Environmental Protection Agency
Marcia L. Hale, Assistant to the President and Director of Intergovernmental Affairs
Richard W. Riley, Secretary of Education

Governors
Arne H. Carlson, Minnesota
Howard Dean, Vermont
Michael O. Leavitt, Utah
Robert J. Miller, Nevada

Mayors
Victor H. Ashe, Knoxville, Tennessee
Robert M. Isaac, Colorado Springs, Colorado
Edward G. Rendell, Philadelphia, Pennsylvania
Bruce Todd, Austin, Texas

Members of State Legislatures
Paul Bud Burke, President, Kansas Senate
Art Hamilton, Minority Leader, Arizona House of Representatives
Samuel B. Nunez, Jr., President, Louisiana Senate

Elected County Officials
Gloria Molina, Los Angeles County, California, Board of Supervisors
John H. Stroger, Cook County, Illinois, Commission
Vacancy

AN INFORMATION REPORT

TAX AND EXPENDITURE LIMITS ON LOCAL GOVERNMENTS

Center for Urban Policy
and the Environment
Indiana University

Advisory Commission
on Intergovernmental Relations
March 1995 M-194

U.S. Advisory Commission on Intergovernmental Relations
800 K Street, NW, Suite 450 South Building
Washington, DC 20575
Phone: (202) 653-5540
Fax: (202) 653-5429

EXECUTIVE SUMMARY

States have imposed a variety of statutory and constitutional limitations on local fiscal autonomy. This report focuses on general tax and expenditure limitations applied to counties, municipalities, and school districts. These types of limitations exist in **46** states and are designed ostensibly to (1) control and reduce property taxes, **(2)** control the growth of government and public spending, and (3) improve fiscal accountability.

This report presents the results of an extensive study of local tax and expenditure limitations (TELs) imposed by states. The study emphasizes limitation design, amount of allowable growth, affected local governments, circumvention mechanisms, length of implementation, and significant alterations.

TYPES OF LIMITATIONS

There are six basic types of limitations.

- **Overall property tax rate limits** apply to all local governments.
- **Specific property tax rate limits,** the most widely used limit, apply to specific types of local governments or specific functions (which were not considered in this report).
- **Property tax levy limits** (revenue limitations) are the second most common TEL.
- **Limits on general revenue or expenditure increases** are the least common form of TEL and are among the newest.
- **Limits on assessment increases** restrict the growth in assessments and are also among the newest forms.
- **Full disclosure (truth-in-taxation) requirements** make taxpayers aware of levy increase proposals and give them an opportunity to participate in public hearings.

These limitations vary in the extent to which they restrict local government taxing or spending. Most include some procedure for circumventing the limitation if it becomes necessary to do so.

EFFECTS OF TAX AND EXPENDITURE LIMITATIONS

Studies have shown that tax and expenditure limitations have had no effect on the size of government, but have had considerable impact on its composition. Limits have been reported to:

(1) Reduce reliance on traditional local government revenue sources and on tax sources for local own-source revenue, and

(2) Increase local reliance on state aid and the general level of state expenditure and revenue responsibility, particularly for education and highways.

TELs have led to greater use of fees and revenue sources other than the local property tax (e.g., income taxes, business property taxes, and sales taxes).

Some researchers have found that limitations may be leading to the creation of a more centralized public sector that is possibly less responsive to local preferences, more reliant at the local level on nontax sources of revenue, and a bit less accommodating to the needs of dependent populations. These effects appear to be increasing over time.

Increased reliance on user fees and other narrow revenue sources, for example, may make the state and local revenue system more regressive. **A** movement toward state aid and away from local funding of public schools may affect the equity of public school funding but may at the same time reduce local control and the efficiency of resource allocation.

Property tax revenue loss is sometimes offset by increased reliance on other revenue sources. This is often an intended effect of some limitations. **A** local jurisdiction's ability to compensate for property tax losses improves with the level of diversity of its economic base and the range of alternative fiscal instruments available to it.

TELS ARE HERE TO STAY

It is likely that use of TELS will continue. TELs should be carefully designed. For instance, allowable growth must **be** tied to appropriate indicators that accommodate changes in demand, the environment, and the economy. Even more important, the decision-making process should be augmented with information that reveals probable secondary outcomes associated with the imposition **of** TELs.

ACKNOWLEDGMENTS

The Advisory Commission on Intergovernmental Relations is pleased to publish this report with the generous cooperation of the authors, Daniel R. Mullins and Kimberley A. Cox, and the Center for Urban Policy and the Environment, Indiana University.

The report is based on a survey of the status of state tax and expenditure limits on local governments conducted by the Center, in the School of Public and Environmental Affairs. Through research and technical assistance, the Center works with state and local governments and their associations, community organizations and leaders, and business and civic organizations to identify issues, analyze options, and develop their capacity to respond to challenges.

Among others, the Center would like to thank, especially, Alfred Tat-Kei Ho and Michael L. Bevers for their research assistance, and numerous state, local, and professional association officials for their willingness to assist in verifying and adding to our understanding.

The Commission appreciates the opportunity to publish this up-to-date survey of the status of fiscal limits. The design, implementation, and effects of these limits are important issues in the intergovernmental fiscal system.

ACIR would like to thank Joan Casey, of the Commission staff, and Clint Page for editing the report, and Stephanie Richardson for preparing the report for publication.

Mark S. Rosentraub, Director
Center for Urban Policy and the Environment

William E. Davis 111
Executive Director, ACIR

Philip M. Dearborn, Director
Government Finance Research, ACIR

TABLE OF CONTENTS

TRODUCTION

States have imposed a variety of statutory and constitutional limitations on local fiscal autonomy. These limitations, which exist in **46** states, have:

- Resulted in more use of fees and miscellaneous revenues and less use of broad-based tax sources;
- Shifted power and responsibility to the state through increased reliance on state revenue sources and state assumption of service responsibilities; and
- Shifted responsibility for local government functions through the creation of special districts.[1]

The limitations have been designed ostensibly to (1) control and reduce property taxes, **(2)** control the growth of government and public spending, and **(3)** improve fiscal accountability.[2]

This report presents the results of an extensive study of local tax and expenditure limitations (TELs) imposed by states. The study emphasizes design, amount of allowable growth, affected local governments, circumvention mechanisms, length of implementation, and significant alterations.

TAX AND EXPENDITURE LIMITATIONS IN CONTEXT

Many explanations have been offered for **the** most recent wave of tax and expenditure limitationsthe so-called "tax revolt." Most of these explanations suggest that government had become too large to suit the voters, and that the intended effect was a scaling back of government. However, support for limitations occurs relatively independently of the public's desire for government services. In fact, many surveys in states with TELs suggest that citizens were satisfied with the level of public services and often desired more, but simply wanted to avoid paying for them.[3]

The local property tax was the initial tax limitation target. This tax is highly visible and has historically raised the ire of taxpayers.[4] The earliest efforts to limit property taxes took place in the 1880s—a period associated with the emergence of local home rule—and they have continued, augmented by limitations on state and local general revenues and expenditures.

Tax and expenditure limitations impose potentially formidable budgetary constraints. However, with continued demands for public services, these constraints will often cause distortions in the structure of state and local revenue and expenditure systems and in the distribution of relative levels of responsibility for providing government services.

Currently, states impose one or more limitations on the ability of local governments to raise revenue and spend money (see Box on next page). The most common categories of limits are those on:

- Overall property **tax** rates;
- Specific property tax rates;
- Property tax levies;
- General revenue or expenditure increases;

TYPES OF LIMITS

Overall Property Tax Rate Limit

- Sets a ceiling that cannot be exceeded without a popular vote.
- Applies to the aggregate tax rate of all local governments.
- Is potentially binding if coupled with a limit on assessment increases; otherwise, it can be easily circumvented by altering assessment practices.

Specific Property Tax Rate Limit

- Is the most common form of TEL.
- Sets a ceiling that cannot be exceeded without a popular vote.
- Applies to specific types of local jurisdictions (e.g., school districts or counties) or narrowly defined service areas.
- Is potentially binding if coupled with a limit on assessment increases; otherwise it can be circumvented by altering assessment practices or through interfund transfers for specific services.

Property Tax Levy Limit

- Constrains total revenue that can be raised from the property tax, independent of the rate.
- Is often enacted as an allowable annual percentage increase in the levy.
- Is potentially binding because of the fixed nature of the revenue ceiling, but can be limited through diversification of revenue sources (which is its underlying intent).

General Revenue or General Expenditure Increase

- Caps total revenue that can be collected and attempts to constrain spending.
- Is often indexed to the rate of inflation.
- Is potentially binding because of the fixed nature of the revenue or expenditure ceiling.

Assessment Increase

- Controls ability of local governments to raise revenue by reassessment of property or through natural or administrative escalation of property values.
- Is potentially binding if coupled with an overall or specific property tax rate limit; otherwise it is easily avoided through an increase in property tax rates.

Full Disclosure/Truth-in-Taxation

- Requires public discussion and specific legislative vote before enactment of tax rate or levy increases.
- Is nonbinding because a formal vote (generally a simple majority) of the local legislative body can increase the tax rate or levy.

Source: Phil G. Joyce and Daniel R. Mullins, "The Changing Fiscal Structure of the State and Local Public Sector: The Impact of Tax and Expenditure Limitations," Public *Administration* Review 51 (May/June 1991): 240-253.

* Assessment increases; and
* Full disclosure (truth-in-taxation) requirements.

While none of the limits are necessarily binding with respect to the overall revenues or expenditures of local governments, some are more effective than others.[5] Limits on annual increases in property tax levies, annual revenue (total or for specific types of local governments), and expenditure increases are potentially the most binding because they impose a fixed ceiling. At the other extreme, full disclosure is a minimal constraint that requires only a public hearing and a simple majority vote by the legislative body to override and raise a property tax levy (even if there is no tax rate increase).

Overall limits on the combined property tax rate levied by all local jurisdictions (e.g., county, municipality, and school district) and limits on the property tax rates of specific local governments are potentially significant and binding if they are combined with a limit on assessment increases. Otherwise, rate limitations may be circumvented by changing assessment practices. Likewise, limits on assessment increases are not binding without rate limits.

There is considerable variation in the use of limitations (see Table 1, page 5):

* **36** states have a combination of limits (Arizona, California, Colorado, and New Mexico have the most restrictive combinations).
* **12** states limit overall property tax rates.
* **30** states limit specific local governments' tax rates (**24** limit counties; **27** limit municipalities; and **23** limit school districts).
* **27** states limit local tax levies (**24** limit counties; **24** limit municipalities; and **15** limit school districts).
* *6* states limit the growth in assessments.
* **2** states limit general revenue growth (one limits counties, municipalities, and school districts, and one limits only schools).
* **8** states limit expenditure growth (**4** limit only schools, and **4** limit counties and municipalities).
* **22** states (at least) have some form of full disclosure requirement (**4** have no other limitations).
* **4** states (Connecticut, Maine, New Hampshire, and Vermont) do not have limits.

There are various mechanisms to suspend limits, ranging from simple local legislative votes to authorization by state tax commissions and state legislatures to popular referendums. Limits also are applied to varying tax bases.

Most of the limits exempt long-term debt service costs. The exemption may offer an incentive to reclassify expenditures and shift the revenue structure to include a higher reliance on debt financing.

FOCUS OF THE REPORT

This report focuses on limits imposed on counties, municipalities, and school districts. Each type of jurisdiction is considered separately because, with the general exception of assessment limits and full disclosure provisions, fiscal constraints are not applied uniformly. Limits on special districts and specific functions were not considered. Limits on local sales tax rates are not specifically included, but they may be in overall revenue limits.

Previous examinations of TELs have tended to neglect school districts.[6] This appears to be a significant omission, given that school districts accounted for **37** percent of total local expenditures in **1991**.[7] Limitations on school districts, counties, and municipalities are often enacted together.

Allowable Growth

The most significant structural feature of revenue, expenditure, and assessment limitations is the amount of allowable growth. Growth may be restricted to a specific percentage increase. Nevada, for example, limits county and municipal annual property tax revenue increases to a flat *6* percent. The restrictiveness of percentage limits is determined by general economic conditions. In periods of significant price inflation, real revenue or expenditure growth may be seriously constrained. Some limits tie allowable growth to changes in inflation and/or population. In many cases, growth is allowed to keep pace with inflation to ensure sufficient resources to maintain provision of goods and services (e.g., Illinois). Allowable growth associated with population change is intended to accommodate additional demands on government as a result of absolute increases in population, but not those associated with real income increases or the effects of changes in population characteristics.

With expenditure pressures generally unabated and increasing, if growth provisions are too stringent, governments may experience increasing fiscal strain, regardless of the absolute capacity of their potential resource base. Yet if growth factors are relatively relaxed, the limitation will have little effect.

Overriding Limits

Revenue and expenditure limitations often are constructed so that only property taxes are constrained, leaving other broad- and narrow-based taxes as alternatives. In these instances, local governments may turn to supplemental revenue sources. In a fiscal environment that threatens to reduce government revenue and spending, evading limits is a logical strategy to sidestep (probable) reductions in programs, service provision, salaries, etc. Sometimes, such limitations are intended to shift reliance to other types of revenues.

It also is common to include one or more circumvention mechanisms, usually in the form of voter overrides and exemptions. Voters may authorize an "excessive" overall increase or an increase for a specified purpose. Overrides typically require a simple majority, although several states require a supermajority.

The most common limitation exemptions include special levies (e.g., for roads, recreation, mental health centers); debt service (typically general obligation bonds); court judgments; and pension liabilities. Less frequent are exemptions for home rule or charter local governments, appeals to a state board, and excessive increases decided by the vote of a jurisdiction's governing body.

METHODOLOGY

The tables in this report present comparative information on limitations in effect for each state, including the original effective date of the provision. Amendments that significantly altered the limitation's structure have been noted when appropriate dates could be determined. This information is essential for an accurate assessment of a limit's impact, as the effects are expected to grow over time.

A decade ago, Steven Gold called the information available on tax and expenditure limitations "piecemeal, scattered and of inconsistent quality."* That information remains inconsistent and often contradictory. The data for this study were gathered through extensive legal research (see Appendix **A** for legal citations), follow-up surveys of state and local officials, and telephone conversations.

Table 1
Tax and Expenditure Limitations on Local Governments
Original Dates of Enactment

	Overall Property Tax Rate Limit	Specific Property Tax Rate Limit	Property Tax Revenue Limit	Assessment Increase Limit	General Revenue Limit	General Expenditure Limit	Full Disclosure
Alabama							
County	1972	1875					
Municipality	1972	1875					
School District	1972	1916					
Alaska							
County							
Municipality		1972	1972				
School District							
Arizona							
County	1980		1913	1980		1921	
Municipality	1980		1913	1980		1921	
School District	1980			1980		1974	
Arkansas							
County		1883	1981				
Municipality		1883	1981				
School District			1981				
California							
County	1978			1978		1979	
Municipality	1978			1978		1979	
School District	1978			1978	1972	1979	
Colorado							
County		1992	1913		1992	1992	1983
Municipality		1992	1913		1992	1992	1983
School District		1992	1992		1992	1973	1992
Connecticut - none							
Delaware							
County			1972				1976
Municipality							
School District							
Florida							
County		1968		1995			1974
Municipality		1968		1995			1974
School District		1855		1995			1974

	Overall Property Tax Rate Limit	Specific Property Tax Rate Limit	Property Tax Revenue Limit	Assessment Increase Limit	General Revenue Limit	General Expenditure Limit	Full Disclosure
Georgia							
County							1991
Municipality							1991
School District		1945					1991
Hawaii							
County							1977
Municipality							
School District							
Idaho							
County	1978	1913					1991
Municipality	1978	1967					1991
School District	1978	1963					1991
Illinois							
County		1939	1991*				1981
Municipality		1961	1991				1981
School District		1961	1991				1981
Indiana							
County			1973				
Municipality			1973				
School District			1973				
Iowa							
County		N/A		1978			1983
Municipality		1972		1978			
School District		1989		1978		1971	
Kansas							
County			1970				
Municipality			1970				
School District						1973	
Kentucky							
County		1908	1979				1979
Municipality		1908	1979				1979
School District		1946	1979				1979
Louisiana							
county		1974	1978				
Municipality		1974	1978				
School District		1974	1978				

	Overall Property Tax Rate Limit	Specific Property Tax Rate Limit	Property Tax Revenue Limit	Assessment Increase Limit	General Revenue Limit	General Expenditure Limit	Full Disclosure
Maine: none							
Maryland							
County				1957			1977
Municipality				1957			1977
School District				1957			
Massachusetts							
County							
Municipality		1980	1980				
School District							
Michigan							
County	1933		1978				1982
Municipality		1949	1978				1982
School District	1933		1978				1982
Minnesota							
County							1988
Municipality							1988
School District						1971	1988
Mississippi							
County			1980				
Municipality			1980				
School District			1983				
Missouri							
County		1875	1980				
Municipality		1875	1980				
School District		1875	1980				
Montana							
County		1931	1987				1974
Municipality		N/A	1987				1974
School District		1971					1974
Nebraska							
County		1903	1990				1990
Municipality		I957	1990				1990
School District		1921				1991	
Nevada							
County	1936		1983				1985
Municipality	1936	1929	1983				1985
School District	1936	1956					1985

	Overall Property Tax Rate Limit	Specific Property Tax Rate Limit	Property Tax Revenue Limit	Assessment Increase Limit	General Revenue Limit	General Expenditure Limit	Full Disclosure
New Hampshire - none							
New Jersey							
County			1980				
Municipality						1976	
School District						1976	
New Mexico							
County	1914	1973	1979	1979			
Municipality	1914	1973	1979	1979			
School District	1914	1973	1979	1979			
New York							
County		1894		1981**			
Municipality		1894		1986***			
School District		1894					
North Carolina							
County		1973					
Municipality		1973					
School District							
North Dakota							
County		1929	1981				
Municipality		1929	1981				
School District		1929					
Ohio							
County	1929		1976				
Municipality	1929		1976				
School District	1929		1976				
Oklahoma							
County	1933						
Municipality	1933						
School District	1933						
Oregon							
County	1991		1916				
Municipality	1991		1916				
School District	1991	1991	1916				
Pennsylvania							
County		1959	c.1940				
Municipality		1959					
School District		1959					

	Overall Property Tax Rate Limit	Specific Property Tax Rate Limit	Property Tax Revenue Limit	Assessment Increase Limit	General Revenue Limit	General Expenditure Limit	Full Disclosure
Rhode Island							
County							
Municipality			1985				1979
School District							
South Carolina							
County							1975
Municipality							1975
School District							1975
South Dakota							
County		1915					
Municipality		1915					
School District		1915					
Tennessee							
County							1979
Municipality							1979
School District							
Texas							
County		1876	1982				1982
Municipality		1876	1982				1982
School District		1883	1982				1982
Utah							
County		1898					1986
Municipality		1929					1986
School District		1929					1986
Vermont - none							
Virginia							
County							1976
Municipality							1976
School District							
Washington							
County	1944	1973	1971				1990
Municipality	1944	1973	1971				1990
School District	1944		1979				1990
West Virginia							
County	1939	1939	1990				
Municipality	1939	1939	1990				
School District	1939	1939	1990				

	Overall Property Tax Rate Limit	Specific Property Tax Rate Limit	Property Tax Revenue Limit	Assessment Increase Limit	General Revenue Limit	General Expenditure Limit	Full Disclosure
Wisconsin							
County		**1994**					
Municipality							
School District					**1994**		
Wyoming							
County		**1890**					
Municipality		**1890**					
School District		**1911**					

Notes:

* Applies to non-home rule taxing units located in counties contiguous to Cook County.

** Nassau County only.

*** New York City only.

PROPERTY TAX RATE LIMITS: OVERALL AND SPECIFIC

GENERAL

Rate limits are the predominant form of state restrictions on local property taxes. Local governments in 33 states are affected by overall and/or specific tax rate limits.

HISTORICAL TREND

The specific rate limits in use in nine states were enacted from the 1870s through the 1890s. Rate limits (in combination with debt limits) originated as a reaction against the local government practice of financing private enterprise, particularly railroad expansion, for private benefit.[9] Public demand for accountability in government spending also has acted as a catalyst for rate limits since the 1800s.

Between 1914 and 1939, seven states adopted overall rate limits, and ten states adopted a specific rate limit for at least one type of local government. In 1932, negative reaction to increasing tax levies in Michigan led to a voter-initiated amendment to the state Constitution that created the state's initial limit.

The latest wave of limits started in the 1970s. Overall limits were enacted in Alabama (1972), California and Idaho (1978), and Arizona (1980). Two statutory provisions strengthened existing constitutional amendments (Nevada and Washington). Although the popularity of rate limitations waned in the 1980s, there has been an increase in activity in the 1990s:

- A 1991 voter initiative enacted Oregon's overall property tax rate limit.
- A 1992 constitutional amendment in Colorado limits a district's tax rate to that of the prior year, unless a majority of the electorate approves an increase.
- Minnesota repealed the specific rate limit on municipalities effective fiscal year 1992-93.
- Effective 1993-94, Wisconsin's counties are limited to the FY 1992-93 tax rate.

STRUCTURE

Overall Rate Limits

A rate limit's restrictiveness depends on the maximum limit, definition of the taxable base, voter overrides, exemptions, and whether assessment increases also are limited.

Maximum authorized rates range from 0.5 percent (Class I property in Kentucky) to 3.64 percent (Nevada). A 1.0 percent aggregate limit is imposed on all property classes in five states, on Class III (residential) property in Alabama, and on Class II (residential) property in West Virginia.

The effects of the rate limit vary greatly by state because real property valuations are based on measures as diverse as acquisition cost, market value, cash value (adjusting for depreciation), and true cash value. Assessment ratios also vary from 30 percent to 100 percent.[10] For example, a 1 percent rate is applied to assessed value that is one-third of market value in Ohio and full cash value in Arizona.

Oregon's limit is applied to real market value, with a 100 percent assessment ratio. If property values and rates were held equal between Ohio and Oregon, Ohio's fractional base would make its limit three times more restrictive.

Most states exclude debt service, but a few states include it in rate limits. One example is Nevada, which also has the highest absolute rate of **3.64** percent with an allowable increase of up to 5 percent if directed by law. West Virginia includes county and municipal debt service but not that of school districts.

In California, exclusions for debt service on bonds issued after July 1, **1978,** require a two-thirds majority vote of the public. In Washington, the limit may be exceeded to pay debt service on bonds if approved by a three-fifths majority vote of the electorate.

Voter-approved additional levies are a common override mechanism (Arizona, New Mexico, Ohio, Oklahoma, Washington, and West Virginia). Oklahoma voters may approve an emergency 5 mill limit for school districts, a 10 mill local support levy, and others. Exclusions that allow special purpose levies outside of the limit also are common. Arizona excludes special districts from the limit, and Washington excludes debt service, voter-approved increases, payments on contracts, port and public utility districts, conservation futures, emergency medical service levy, and others.

Specific Rate Limits

Specific rate limits have features similar to overall rate limits. Voter-approved increases and special purpose levies are common features, and almost all specific limits exclude debt service. There also are some exceptions:

- Nevada's 30 mill limitation on municipalities includes debt service, and there are no approved increases.
- Texas excludes county debt service for specified projects (e.g., dams and roads). All municipal debt service is included, with no special levies or approved increases.
- Kentucky counties and municipalities must have a two-thirds majority popular vote to approve debt that exceeds total revenue in a given year.
- New York does not allow special purpose levies for counties, municipalities, or school districts, and includes debt service on short-term debt for non-capital purposes. New York is unique in applying its rate limits against the average full value of taxable real estate for the preceding five years. This guards against an unusually large tax bill in the event of a dramatic increase in valuation.
- Illinois and North Dakota determine a local government's maximum rate by population. Pennsylvania and West Virginia set maximum rates by class of property, and Missouri and Utah use total assessed valuation.
- School districts in Iowa, Montana, and Nevada are subject to mandatory rather than maximum rates. A school district in Iowa that wants State School Foundation Program funds must levy **5.4** mills for its general fund.

OVERALL PROPERTY TAX RATE LIMITS - SUMMARY PROFILE

Twelve states have overall property tax rate limitations, **9** of them in the West or South. No northeastern states apply these overall limits. These limitations are relatively old, with **8** (66%) enacted prior to **1978.** Eleven states limit rates across multiple classifications of property (sometimes at different rates); one applies only to residential property. Debt service is excluded from the limit in 9 states (75%), special purpose and excess levies are allowed in ***6*** states (50%), and home rule jurisdictions are exempted in 2 states. Six states also have general override provisions through popular referenda (one state requires a supermajority).

Occurrence	Classification	Exclusions	Override Provisions
Prior to **1978: 8** **1978** or After: **4**	Multiple Classifications: 11 Residential Only: 1	Debt Service: **9** Special Purpose & Excess Levies: ***6*** Home Rule Exemption: 2 Special Purpose Districts: 1	Popular Referenda: Simple Majority: ***5*** Supermajority: 1 Legislative: Additional Levies: 1 Temporary: **2**

SPECIFIC PROPERTY TAX RATE LIMITS - SUMMARY PROFILE

Specific property tax rate limitations are imposed by **30** states, and **88%** of them were adopted before **1978.** At least **9** states had some form of specific limitation before **1900,** and 20 had them by **1950.** In the Midwest, **83%** of states impose specific rate limitations, followed by 76% for the West, 56% for the South, and only 33% for the Northeast. Over the last two decades, these limitations were applied most frequently to municipalities **(29** states or **91%).** Counties were limited in 26 states and school districts in 24, while 21 states (66%) applied limitations to all three simultaneously. Exclusions and override provisions are common. Full or partial debt service exclusions exist in at least 22 states **(69%).** Special levies in excess of the rate limits are permitted in **19** states (e.g., salaries and pensions, fire services, capital outlays, and highways). Home rule communities are exempt in three states. In some states, rate limits apply only to general services, operations, or particular funds. General overrides are permitted **by** popular referenda in 21 states, with a supermajority required in at least three.

Occurrence	Scope	Exclusions	Override Provisions
Prior to **1978: 28** 1978 or after: 4	Units Applied to: Counties: 24 Municipalities: 28 School: **24** States Limiting All: **21**	Debt Service: 22 Special Levies/ Classifications : **19** Home Rule: **3**	Popular Referenda: Simple Majority: **18** Supermajority: **3** Legislative: 1

Table 2
Overall Property Tax Rate Limits

State	Effective Year	Rate	Description (as amended)
Alabama	**1972**	1.0% to 2.0%	Initial constitutional amendment limited taxes payable to 1.5% of fair and reasonable market value.
	(am 1978)		**1978** amendment separated limits by class of property: Class I, limited to 2%; Class II, **1.5%**; Class III (includes residential housing), 1.0%; Class IV, **1.25%.**
Arizona	**1980**	1.0%	Maximum taxes collected from residential property limited to 1% of full cash value. Exclusions include taxes levied **(1)** to pay debt service, **(2)** for special purpose districts, and **(3)** excess following an election.
California	**1978**	**1.0%**	Maximum rate limited to **1%** of full cash value, excluding existing debt.
	(am **1986)**		**1986** amendment excluded bonds issued after July 1, **1978,** limit if approved by 2/3 vote of electorate.
Idaho	**1978**	1.0%	Maximum rate limited to **1%** of market value for assessment purposes. Exclusions include debt service and special assessments.
Michigan	**1933**	1.5% **1.8%** **5.0%**	Aggregate limit for operating purposes applies to unchartered counties, unchartered townships, and school districts. Levy within **1.5%** limitation distributed **to** taxing units through an allocation board. Voters may increase limit to 1.8%, at which time tax allocation is fixed. Limit may be increased up to **5%** for a period not to exceed **20** years, with a majority vote. Debt service excluded.
Nevada	1936		**1936** constitutional amendment limited total tax levy for all public purposes including debt service to **5%** of assessed valuation.
	1979	**3.64%**	**1979** statute strengthened limit by reducing maximum ad valorem levy to 3.64%. State Board of Examiners may adjust the rate upward (to the maximum **5%)** or downward if directed by law.
New Mexico	1914	2.0%	Maximum rate of 2% applied to real and personal property. Debt service and approved special levies excluded. Additional levy may be authorized by majority of voters.
Ohio	**1929** **(am1934)** **1953**	1.0%	1934 constitutional amendment reduced maximum limit from **1.5%** to **1%.** Limit applies to each dollar of tax valuation, approximately **1/3** of market value. Voter-authorized

State	Effective Year	Rate	Description (as amended)
Ohio *(continued)*			debt service and charter cities with higher limits excluded. Additional levy may be authorized by majority of voters. 1953 statutory provision limited the rate to "10 mills on each dollar of tax valuation."
Oklahoma	1933	1.5%	Maximum rate limited to 1.5%, with minimum of 5 mills for school districts. Additional levies may be applied without voter approval: counties may levy 4 mills for schools; school districts may levy 15 mills with Board of Education authorization. Additional levies may be applied with voter approval: emergency 5 mills for school districts; a 10% mill local support levy; and others. Debt service is excluded.
Oregon	1991	varies	Limit created through a voter initiative, Measure 5. Aggregate rate on taxing districts is divided into two categories: (1) to fund public schools and (2) to fund other government operations. Limits: FY 1991-92 - 2.5% (1.5% for schools); FY 1992-93 - 2.25% (1.25% for schools); FY 1993-94 - 2% (1% for schools); for FY 1994-95 - 1.75% (0.75% for schools); FY 1995-96 - 1.5% (0.5% for schools). Debt service excluded.
Washington	1944 (am1972)	1.0%	Original 4% rate limit applied to assessed value (50% of true and fair value).
	1973	1.0%	1972 amendment reduced limit to 1% of true and fair value. Port and public utility districts are excluded. Limit may be exceeded (1) on a 3/5 vote of the electorate; (2) to pay debt service on g.o. bonds that received 3/5 majority vote; and (3) to meet court-ordered contractual obligations. Additional statutory limit provides that aggregate rate may not exceed 0.95% as applied to assessed value. State levies 0.36% for school purposes; 0.59% apportioned among remaining districts. Excluded from limit: excess levies referred to above, port and public utility districts, conservation futures, emergency medical service levy, and others.
West Virginia	1939	0.5% to 2.0%	Separate limits for each class of property: Class I, 0.5%; Class II (includes residential housing), 1%; Class III, 1.5%; Class IV, 2%. Debt service for school districts excluded. Limits may be increased by 50% for up to three years for counties and municipalities, and by 100% for up to five years for school districts.

Table 3
Specific Property Tax Rate Limitations

State	Effective Year	Description/Millage Limit (as amended)
Alabama		
Counties	1875	Limited to 5 mills for county general purposes; up to 2.5 mills for debt service; 2.5 mills for debt prior to **1875;** 1 mill for schools; additional 30 mills for schools if approved by voters (effective **1916);** constitutional amendments have authorized additional taxes for special purposes.
Municipalities	**I875**	Limited to 5 mills, except for Mobile **(7.5** mills); amendments have authorized additional special purpose taxes.
School Districts	**1916**	If voters approve, may raise special district tax for school purposes.
Alaska		
Municipalities	1972	Municipalities are the only type of local government; rate limit may be considered either overall or specific. Limited to 30 mills, excluding debt service. Second class cities, by referendum, may levy up to **15** mills. No approved increases.
Arkansas		
Counties	**1883**	Limited to **5** mills for general purposes with additional 5 mills for debt incurred prior to **1883.** Amendments authorized additional taxes for special purposes (e.g., effective 1983, an additional 3 mills for county roads).
Municipalities	**1883**	Limited to 5 mills for general purposes; additional mills for debt service. Specific purpose levies authorized (e.g., 2 mills for pensions).
School Districts (no ***general limit)***		No specific limit for general purposes; tax rate requires voter approval. Effective **1989,** 2 mill limit for capital outlays. Effective 1977, 10 mill limit for community college districts.
Colorado		
Counties, Municipalities and School Districts	1992	Constitutional amendment ("TABOR") constrains specific rates: district mill rate may decrease from prior year but may not increase without voter approval. Cap is prior year's rate. Limit suspended when revenue is less than payments on debt service, judgments, and pensions.

State	Effective Year	Description/Millage Limit (as amended)
Florida		
Counties	1968	Limited to 10 mills, excludes debt service; additional 10 mills may be levied if county provides a municipal service; referendum vote may authorize additional levy up to two years.
Municipalities	1968	Limited to 10 mills, excludes debt service; referendum vote may authorize additional levy up to two years.
School Districts	1855	Originally, district could levy up to 3 mills with voter approval.
	(am 1922)	1922—limit raised to 10 mills.
	(am 1968)	1968 revision provided 10-mill rate, excluding debt, with voter-approved increase up to two years.
	1973	Effective 1973, a district wishing to receive state funds must levy additional millage, exclusive of above, at a rate necessary to provide "local effort." Additional non-voted levy of 1.6 mills or 25% of "local effort," whichever is less; an additional 2 mills for certain purposes.
Georgia		
Counties	late **1800s** **(repealed** 1981)	Limited counties to 5 mills, including debt; additional *2.5* mills with voter approval.
School Districts	1945	Limited to 20 mills for "support and maintenance of education," excludes debt service; increase possible with voter approval.
Idaho		
Counties	1913	Limited to 13 mills or rate sufficient to raise $250,000, whichever is greater, excludes debt service; many special purpose levies.
Municipalities	1967	Limited to **45** mills, excludes debt service; special purpose levies authorized (e.g., 6 mills for recreation and culture).
School Districts	1963	Limited to 20 mills, excludes debt service; additional special purpose levies; voter-approved supplemental levy up to two years.
Illinois		
Counties	1939 (at least)	Limit based on population and applicable to non-home rule counties: **2.5** mills for counties with populations between 80,000 and 3 million; 2.7 mills for populations between 15,000 and 80,000; 3.7 mills for population less than 15,000; 3.9 and 3.5 mills in even and odd years for popula-

State	Effective Year	Description/Millage Limit (as amended)
Illinois *(continued)*		tions greater than 3 million. Excludes debt service. Limit may be increased by voter referendum. Special purpose levies exist.
Municipalities	1961	Limit for "corporate" purposes and applicable to non-home rule municipalities. Municipalities with less than 500,000 population may levy up to 2.5 mills or the rate limit in effect on July 1, 1967, whichever is greater. Excludes debt service and authorized special purpose levies. Limit may be increased up to 4.375 mills with voter approval.
School Districts	1961	Limit applies to districts with less than 500,000 population, based on grade level. Excludes debt service and authorized special purpose levies. Limits for "education": 9.2 mills for districts that operate grades 1-8, which may increase to 35 mills by referendum; 9.2 mills for grades 9-12, which may increase to 35 mills; 18.4 mills for grades 1-12, which may increase to 40 mills. Limits for operations and maintenance: 2.5 mills for grades 1-8, which may increase to 5.5 mills by referendum; 2.5 mills for grades 9-12, which may increase to 5.5 mills; and 5 mills for grades 1-12, which may increase to 7.5 mills.
Iowa		
Counties	orig. date unknown	Originally, many limits for various funds, including 81-cent limit on general fund.
	(am 1983)	1983 reform consolidated funds into larger general fund with limit of $3.50/$1000 a.v. for general services and $3.95 for rural services. Excludes debt service. A 27-cent emergency levy available.
Municipalities	1972 (am 1974)	1974 change from 30 mills to 8.1 mills ($8.10/$1000 a.v.). Excludes debt service and authorized special purpose levies. Additional 27-cent emergency levy available.
School Districts	1989	District wishing to participate in State School Foundation Program must levy 5.4 mills for the general fund (4.4 mills for reorganized districts).
		Effective 1977, any political subdivision may appeal to the State Board for suspension if property values decline or there is low growth in the base.
Kansas		
Counties, Municipalities and School Districts	1933 (suspended 1989)	1933 statute detailed levies authorized for counties, cities, and schools, and set total levy (rate) limit for each type of taxing unit. Rate limit for county current general fund ranged from 4.25 to 6.5 mills depending on total assessed value. All historical fund mill levy rates suspended in 1989.

State	Effective Year	Description/Millage Limit (as amended)
Kentucky		
Counties	1908	Limited to **5** mills for purposes other than schools. Rate cannot be exceeded with voter approval. Requires ***213*** majority vote to approve any debt in any year which exceeds the income and revenue provided for that year.
Municipalities	1908 (am mid-1980s)	Cities with population of 15,000 or more limited to **15** mills; population between 10,000 and 15,000 limited to 10 mills; populations less than 10,000 limited to 7.5 mills, for other than school purposes. Limits may not be exceeded. **A** *2/3* majority vote required **to** approve debt. In the mid-1980s, cities were provided with opportunity to impose a special property tax outside current limits, with voter approval.
School Districts	1946	Limited to 15 mills, excluding debt service.
Louisiana		
Counties	1974	Limited to 4 mills (7 mills in Orleans Parish, ***5*** mills in Jackson Parish). Excludes debt service. Rates may be increased by majority vote. Approved increases allowed for special purposes.
Municipalities	1974	Limited to 7 mills, or 10 mills if maintains own public schools. Excludes debt service. Rates may be increased by majority vote. Approved increases for special purposes. Limit does not apply to New Orleans.
School Districts	1974	Limited to ***5*** mills (13 mills for Orleans school board). Excludes debt service. Additional special purpose levies permitted with majority vote.
Massachusetts		
Municipalities	1980 (am 1991)	Total taxes assessed on real and personal property may not exceed ***2.5%*** (25 mills) of full and fair cash value. If total taxes exceed limit, municipality must annually decrease taxes assessed by at least 15% to level of ***2.5%.*** With a 2/3 vote, local authority may seek voter approval to assess taxes in excess of amount allowed.
Michigan		
Municipalities	1949	City charter rates limited to 20 mills. Home rule cities limited to 20 mills. Electors may approve additional millage for specific purposes. Excludes debt service.

State	Effective Year	Description/Millage Limit (as amended)
Minnesota		
Municipalities	repealed 1989 (effective 1992-93)	Percentage of Taxable Value Limitation, for general fund, limited charter cities to 0.32237% of taxable market value unless greater amount authorized by charter, and limited statutory cities to 0.28207%. City total general fund levy restricted by the least of (1) the $54 per capita levy limit or (2) the taxable value limit.
Missouri		
Counties	1875	Counties with total assessed value of $300 million or more limited to 3.5 mills; other counties limited to 5 mills. Excludes debt service. Limit may be exceeded for up to four years with 2/3 majority vote. Effective 1978, counties provided with additional levy for roads and bridges up to 5 mills; voter approval necessary if rate will exceed 3.5 mills.
Municipalities	1875	Limited to 10 mills. Excludes debt service. Limit may be exceeded up to four years with 2/3 majority vote.
School Districts	1875	Districts formed of cities and towns limited to 12.5 mills; all others limited to 6.5 mills. Excludes debt service. Limit may be increased with voter approval.
Montana		
Counties	1931 (am 1987)	For general fund, lst, 2nd and 3rd class counties limited to 25 mills; 4th-7th class counties limited to 27 mills. Excludes debt service. Specified purpose levies allowed. In 1987 an all-purpose levy of 55 mills was authorized as option. Some voter-approved increases allowed.
Municipalities	orig. date unknown (am 1965)	1965, all-purpose levy of 65 mills authorized in lieu of multiple levies. Limit on general fund 24 mills, excluding debt service. Some specified purposes and voter-approved increases.
School Districts	1971	State Equalization Program requires each county to levy annual basic tax of 33 mills for elementary schools and 22 mills for high schools. School district may adopt general fund budget in excess of the foundation program, up to 9 additional mills for elementary schools and 6 mills for high schools.
Nebraska		
Counties	I903	Original statutory limit 15 mills, amended many times, limits various purposes. For general purposes, counties with

State	Effective Year	Description/Millage Limit (as amended)
Nebraska *(continued)*		populations greater/less than 9,000 limited to 3.5 mills/4.2 mills.
	1920	1920 constitutional amendment limited counties to aggregate of 5 mills, excluding existing debt, unless authorized to increase by majority vote. (Constitutional limit applies to actual value; statutory limit applies to 35% of actual assessed value.)
Municipalities	1957	All-purpose levy of 1st class cities limited to 8.75 mills, 2nd class cities limited to 10.5 mills. Excludes debt service, payment of judgments, fire and police pensions for 1st class cities. If assessed value declines, voters may approve increase for up to five years.
School Districts	1921	Limits 1st class districts to 4.2 mill. Excludes debt service. Voter-approved increase ***(55%)*** is available. Voters may approve special levy.
Nevada		
Municipalities	1929	Limited to 30 mills for all purposes. Includes debt service. No approved increases.
School Districts	1956	Mandatory tax levy of 7.5 mills. Additional levies authorized for debt service.
New Mexico		
Counties	1973 (am1987)	Limited to maximum of 11.85 mills. Excludes debt service. Additional levies for special purposes may be authorized by majority vote of electors.
Municipalities	1973 (am1987)	Limited to 7.65 mills. Excludes debt service. Additional levies may be authorized by majority vote.
School Districts	1973 (am1987)	Limited to 0.5 mills. Excludes debt service. Additional levies may be authorized by majority vote.
		1987 amendment changed amounts of rates.
New York		
Counties	1894	Original limits passed in 1894 amended many times. Actual limits the same since 1953. Limits apply against average full value of taxable real estate for the preceding five years. Excludes debt service except short-term debt for non-capital purposes. No special purpose levies.
		Counties limited to 15 mills, which may be increased to 20 mills by a 2/3 vote of legislative body or majority vote of body followed by mandatory referendum.

State	Effective Year	Description/Millage Limit (as amended)
New York *(continued)*		
Municipalities	1894	Cities and villages limited to 20 mills (New York City, 25 mills).
School Districts	1894	Districts of cities with populations less than 125,000 limited to 12.5 mills, which may be increased to 20 mills by majority vote.
North Carolina		
Counties	1973	Counties may levy taxes for one or more of 37 purposes, each with legislatively approved rate limits, up to combined maximum rate of 15 mills. Voters may approve increase in the combined rate or specific rates. Each county may levy taxes without restriction for certain purposes (e.g., debt service, schools).
Municipalities	1973	Limited to 15 mills. Excludes debt service. Voters may approve increase.
North Dakota		
Counties	1929	Currently limited to 23 mills (original limit was 8 mills) for general or special purposes. Excludes debt service.
Municipalities	1929	Limited to 38 mills or 40 mills if city has population over 5,000 - an additional 0.05 mills may be levied per 1,000 persons over 5,000, up to 40 mills. Excludes debt service. A majority vote may increase additional 10 mills.
School Districts	1929	Aggregate amount levied shall not exceed the dollar amount for prior year plus 18%, up to a general fund levy of 180 mills. Excludes debt service. District with population of 4,000 or more may authorize any number of mills by majority vote, or the limit may be removed.
Oregon		
School Districts	1991	Specific rates are component of overall rate limit imposed by Measure 5. Maximum rates applied to real market value to fund the public school system: 15 mills, FY 1991-92; 12.5 mills, FY 1992-93; 10 mills, FY 1993-94; 7.5 mills, FY 1994-95; 5 mills, FY 1995-96. Excludes debt service.
Pennsylvania		
Counties	1959	Limits based on class of county: 2nd class, 25 mills; 2ndA class, 30 mills; 3rd-8th class, 25 mills with an additional 5 mills available by court appeal. Excludes debt service. Home rule counties exempt.

State	Effective Year	Description/Millage Limit (as amended)
Pennsylvania ***(continued)***		
Municipalities	1959	3rd class cities limited to 25 mills with additional 5 mills available with court approval. Excludes debt service. Home rule cities and cities of 1st, 2nd, and 2ndA class exempt, including Philadelphia, Pittsburgh, and Scranton. Other state laws authorize additional taxing power for financially distressed municipalities.
School Districts	1959	Districts of the 2nd, 3rd, and 4th class limited to 25 mills. Special-purpose levies authorized (e.g., debt service and salaries). No longer any limits on 1st class districts.
South Dakota		
Counties	1915	Limit 12 mills for general purposes. Excludes debt service and authorized special levies (e.g., county buildings, fire protection). 3/4 majority vote may authorize up to additional 6 mills.
Municipalities	1915	Limited to 27 mills for all purposes. Excludes debt service. 3/4 majority vote may increase limits by 6 mills.
School Districts	1915	Limited to 14.4 mills for the general fund on agricultural property. Limited to 24 mills on non-agricultural property. Special levies for capital outlay, liabilities, pensions, and special education. 314 majority vote may increase limits.
Texas		
Counties	1876	Limit 8 mills for general levy with an additional 3 mills for roads and flood control. Special road levy of 1.5 mills may be authorized if approved by majority of voters. Debt service excluded for certain projects/purposes.
Municipalities	1876	Home rule cities limited to 25 mills; general law cities limited to 15 mills, including debt service. No provisions for special levies or increases. (An amendment between 1967 and 1976 increased the limit from 8 mills.)
School Districts	1883	1883 constitutional amendment provided for the formation of school districts to assess and collect additional taxes when state fund proved insufficient. Districts originally limited to 2 mills and required voter approval for any school tax. Current limit is 15 mills, subject to voter approval.
Utah		
Counties	1898 (am 1961)	Original limit 5 mills for county purposes. Limits now for counties with total taxable value of more or less than $100

State	Effective Year	Description/Millage Limit (as amended)
Utah ***(continued)***		million are 16 or 18 mills, respectively, excluding debt service. Certain special purpose levies exist.
Municipalities	1929	Limit 35 mills, including charter cities. Debt service and specifically authorized levies are excluded.
School ***Districts***	1929 (am1988)	Original limit 12 mills. Effective 1988, basic levy rate set by legislature and adjusted from time to time. Districts may also levy local rates; may not exceed specified ceilings for operations and maintenance, capital outlay, and debt service. District may levy additional tax rate that yields 10% of total Basic Program dollar amount.
Washington ***Counties***	1973	Specific limits within constraints of overall statutory limit of 9.5 mills. Counties limited to 1.8 mills for current expenses and 2.25 mills for county roads. County may increase levy to 2.475 mills if total for county and roads does not exceed 4.05 mills. Excludes debt service.
Municipalities	1973	Limited to 3.375 mills, excluding debt service, and within constraints of overall limit.
West Virginia ***Counties***	1939	Limits depend on class of property: Class I counties, 1.43 mills; Class II, 2.86 mills; Class III and IV, 5.72 mills. Includes debt service.
Municipalities	1939	Class I municipalities limited to 1.25 mills; Class II, 2.5 mills; and Class IV, 5 mills. Includes debt service.
School ***Districts***	1939	Class I districts limited to 2.295 mills; Class II, 4.59 mills; Class III and IV, 9.18 mills for current expenses and special funds. Excludes debt service.
		(Limits may be increased by 50% for counties and municipalities up to three years; and for school districts by 100% up to five years.)
Wisconsin ***Counties***	1993-94	Recent legislation established limits on counties. Operating tax rate limited to no more than rate in FY 1992-93. Excludes debt service. Certain overrides exist with majority vote on popular referenda. Increases occur through changes in equalized value.

State	Effective Year	Description/Millage Limit (as amended)
Wyoming		
Counties	1890	Limit 12 mills for general purposes. Excludes debt service. Additional 6 mills for school purposes.
Municipalities	1890	Limit 8 mills for all purposes. Excludes debt service.
School Districts	1911	Limit 25 mills. Excludes debt service. Additional 3 mills may be levied with voter approval; another 3 mills for capital outlay may be levied with approval of voters and school board.

LIMITS ON PROPERTY TAX REVENUE INCREASES

GENERAL

Property tax revenue (levy) limits specify the maximum annual increases in revenue. Some states impose restrictions on allowable increases only after property is revalued. A revenue limit imposed after a statewide or countywide reassessment is referred to as a revenue rollback limit (unless reassessments occur annually). Rollbacks require that tax rates be adjusted to prevent an increase in revenue, but some states specify an allowable growth percentage. Growth from new construction generally is excluded from the allowable increase (see Table 4, page 31).

These limits exist in 27 states. Ten states impose the revenue limit following reassessment, seven of them in the less restrictive form of assessment rollback provisions. All states except Indiana and Mississippi "couple" the revenue limit with another form of TEL. These two states impose miscellaneous rate limits on certain functions, but they are the only states that have no additional general limitations.

HISTORICAL TREND

Property tax revenue limits are the second most popular form of TEL. They affect local governments in 26 states. These limits are, however, a relatively recent phenomenon. Only three states imposed such limits before 1970. In 1913, limits on increases by counties and municipalities were imposed in Arizona (10 percent) and Colorado (5 percent); and Oregon imposed a levy limit on taxing districts in 1916. Eight states enacted these limits in the 1970s.

During the 1980s, 11 states initiated a levy limit. Kansas suspended an annual limit and replaced it with a rollback limit in 1989; and Utah's limit was repealed in 1986.

So far in the 1990s:

- Colorado passed a constitutional amendment in 1992 that complements an earlier statutory limit.
- Idaho repealed its 5 percent limit in 1992.
- Illinois enacted an "extension" limit for districts in the metropolitan Chicago area in 1991.
- West Virginia passed a 10 percent levy limit in 1990.
- Nebraska passed a 1990 budget limitation that precludes counties and municipalities from increasing property tax receipts by more than 5 percent without voter approval.

STRUCTURE

The restrictive nature of a property tax revenue limit is determined by the percentage of allowable annual growth, voter overrides, and exemptions.

Growth Rates

Allowable growth is expressed differently among the states, and the amount differs dramatically, from 2 percent in Arizona to 15 percent in Delaware. Arkansas limits levies to a 10 percent increase following reassessment;

and Massachusetts and Rhode Island limit municipal levies to annual increases of 2.5 percent and ***5.5*** percent.

Following reassessment, Kansas taxing units must certify a rate that will not produce revenue greater than that levied in the previous year. Units in Louisiana must adjust rates to produce the same revenue as in the previous year unless overridden by a two-thirds vote of the local legislative body.

Allowable growth also may be expressed as a shifting percentage that is determined by changes in inflation, population, and/or property values. This may provide local jurisdictions with some flexibility to respond to changing circumstances. For example:

- The Colorado constitution limits annual increases to the rate of inflationary change plus annual local growth. Local growth for a non-school district is defined as a net percentage change in actual value of all real property in a district from construction of taxable real property improvements, minus destruction of similar improvements, and additions to, minus deletions from, taxable real property. For a school district, it means percentage change in student enrollment (Art. X § 20(2)(g)).
- Illinois limits the increase in property tax "extensions" to 5 percent or the percentage increase in the national consumer price index, whichever is less.
- In Michigan and Missouri (up to a maximum of 5 percent), rollback rates allow revenue to grow at the rate of inflation.
- Indiana levy limits are determined by the average growth in assessed value during the previous three years (see Box, page 29).

Overrides

At least 15 states provide for voter overrides of levy limits. Overrides are valid for different lengths of time in different states. For example:

- Illinois voters may override limits for one levy year.
- Michigan district voters may approve a revenue increase above the allowable inflationary increase annually.
- Oregon has a more sophisticated system by which voters may approve a one-year additional levy to balance the budget and a multi-year levy for general or special purposes. A fixed dollar amount increase may be levied uniformly for five to ten years, and supplemental rate increases may be approved for up to three years. Through a "safety net" levy, school districts may exceed their revenue limits without voter approval in an amount equal to the amount levied for operating purposes in the prior year. Voter-approved additional levies also are authorized.
- Massachusetts overrides require a two-thirds majority vote.

Exemptions

Allowable exemptions are another mechanism that may reduce the effect of a limitation. Examples of common exemptions include the following:

- New construction, improvements, and annexations;
- Debt service;
- Certain expenditures of home rule jurisdictions (Colorado and Illinois);
- Amounts for emergency situations (New Jersey and Rhode Island);

MODIFYING INDIANA'S LIMITS

Limitations to provide property tax relief were introduced in Indiana in 1974 through the "Great Bowen Tax Act." To encourage use of other local revenue sources, the tax reform provided for **an** optional I percent county adjusted gross income **tax:**

- Counties and civil units that adopted the income tax would have an absolute ceiling on property tax revenue equal to the amount from the 1973 property tax levy.
- Jurisdictions that did not adopt the income tax were limited to the 1973 property tax rate, thus limiting revenue growth to increases in assessed value.
- School district general fund levies were limited to 1973 levels of revenue, with annual adjustments **as** permitted by law (e.g., to reflect increases in student population).

Civil unit limitations were liberalized in 1977, but the levy limits remain restrictive:

- The distinction between counties that did and did not adopt the income tax was eliminated.
- Following a 1979 statewide reassessment, property tax levies were allowed to increase only by **5** percent in 1978 and 8 percent in 1979, and the 1980 levies were frozen at the 1979 level.
- School district levies remained frozen at the 1973 levels (as adjusted).'

Current provisions limit civil units to an increase in property tax revenue equal to their "assessed value growth quotient" (AVGQ). The quotient is based on the average annual growth in assessed value over the previous three budget years, excluding reassessment years. The minimum allowable AVGQ is 5 percent, and maximum growth is limited to 10 percent. The maximum permissible levy is based on the previous year's maximum, multiplied by the AVGQ.[2] Each year, the maximum levies of about 90 percent of local governments increase at **5** percent; that is, their three-year average assessed value increase was less than 5 percent.3

School district limits also were revised, made less restrictive, and incorporated into the state funding formula. As of 1993, school districts may increase their general fund normal/base levy by the average increase in assessed value over the last two years (excluding reassessment years), with adjustments for enrollment, reductions in federal impact assistance, new facilities appeals, and referenda!

There also are uniform statewide adjustments to the maximum allowable local base levy prior to the adjustment for the rate of assessed value growth. For 1993, the maximum allowable levy was increased by \$0.08 per \$100 of assessed value. Revenues necessary to operate a new school facility or revenues derived from a successful local referendum are added to the allowable increase, establishing a revised base levy. This levy is then adjusted by the rate of growth in assessed value.[5]

1 David J. Bennett and Stephanie E. Stullich, ***Financing*** Local ***Government in Indiana*** (Fort Wayne: Indiana Taxpayers Research Association, **1992).**

2 Indiana Legislative Service Agency, ***Indiana Handbook of Taxes, Revenues, and Appropriations*** (Indianapolis, **1993).**

3 Larry DeBoer, ***The Taxation of Property in Indiana*** (West Lafayette: Purdue University, Center for Tax Policy Studies, **1992).**

4 Capital projects and special education funds are subject to functional rate limits. Transportation and debt service are not subject **to** limits.

5 Indiana Fiscal Policy Institute, *A* ***Guide to Indiana School Finance,* 1992-93** Edition (Indianapolis, **1992).**

- Expenditures mandated by state or federal law (Mississippi, New Jersey); and
- Offsets to the loss of nonproperty tax revenue (Rhode Island).

Kansas' 1970 levy limit allowed approximately 60 exemptions, including some city levies for general and special improvements paid for in cash (in lieu of bond issues), and for an amount necessary to offset losses from a city's elimination of the tax on intangible personal property." In 1977, the state Attorney General ruled that counties and municipalities were authorized to modify the limit. The limit was not considered binding because the many exemptions and their different applications rendered the limit meaningless and violated the Uniformity Clause.

PROPERTY TAX LEVY LIMITS - SUMMARY PROFILE

The tax levy limit is the second most popular form. It is used by 28 states,] with 17 states (61 %) enacting it after 1978. Its popularity is greatest in the West (10 states, 77 %), followed by the Midwest (8 states, 67%). These limits are less common in the Northeast (4 states, 44%), and the South (6 states, 38 %). The limits are imposed on counties and municipalities in 23 states, and on school districts in 14 states (they are also applied to counties and municipalities in these states).

These are potentially one of the most constraining forms of limits. In 7 states, their effect is limited to a reassessment rollback provision with characteristics similar to full-disclosure requirements. Because their intent is to constrain rather than to eliminate growth, levy limits use specified formulas or mechanisms for determining the allowable level of annual growth in revenues. At least 15 states peg growth to a fixed maximum rate of change. Four states include an adjustment for price inflation (one limits the increase to the lesser of inflation or a fixed percentage), 3 states limit growth to the growth in the tax base, and 2 states impose a fixed dollar amount.

There are exclusions through which additional revenue may be generated outside of the levy cap. Debt service is the most common exclusion (12 states), followed by growth generated by annexations, improvements, or new construction (9 states). Less widespread exclusions are for capital improvements, contractual obligations, emergencies, transportation, mandates, voter-approved levies, and home rule jurisdictions. General override provisions tend toward majority (12 states)* or supermajority (2 states) approval in a popular referendum. Two states rely on appeals to a state board or commission, or court approval.

'Idaho's 1979 limitation was repealed in 1992 and Utah's 1969 limitation was repealed in 1986.

*Indiana's popular referendum override applies only to school districts, and Mississippi requires a supermajority for school districts and a simple majority for counties and municipalities.

Occurrence	Scope	Growth Provisions	Exclusions	Override Provisions
Prior to 1978: 11 1978 or after: 17	Units Applied to: Counties: 23 Municipalities: 23 School: 14 States Limiting All:, 14	Fixed Percent: 15 Base Growth: 3 Inflation: 4 Fixed $ Amount: 2 Limited to Reassessment Rollback: 7	Debt Service: 12 Annexation, Improvements & Construction: 9 Capital Improvements: 2 Contracts: 2 Emergencies: 2 Mandates: 1 Home Rule: 1	Popular Referenda: Simple Majority: 12 Supermajority: 2 State Board: 1 Court Appeal: 1

Table **4**
Limitations on Property Tax Revenue (Levy) **Increases**

State	Effective Year	Description (as amended)
Alaska ***Municipalities***	1972	May not levy taxes that will result in revenues exceeding $1,500 a year per resident; or no more than ***225%*** of average per capita assessed full and true value of property in the state multiplied by the number of residents of the taxing municipality. Limit applies to levy for operating expenses.
Arizona ***Counties and Municipalities***	1913 (am 1980)	Original limit of 10% increase replaced and strengthened in 1980. Counties, cities, charter cities, towns, and community college districts cannot levy taxes in excess of 2% over maximum allowable amount in prior year. Limit increased each year to maximum permissible whether or not taxing unit levied maximum amount. Limit may be exceeded by popular vote.
Arkansas ***Counties, Municipalities and School Districts***	1981	Rollback provision. When countywide reassessment results in 10% or more increase in property value, rates are adjusted so no taxing unit receives an amount more than 10% greater than the previous year's revenue.
Colorado ***Counties and Municipalities***	1913	Annual property tax revenue levy limited to ***5.5%*** increase. (Original limit ***5%;*** 7% in 1976; reduced to ***5.5%*** in 1987.) Excluded from limit: increased valuation due to annexation, improvements, and new construction. Limit does not apply to revenue for long-term capital expenditures, debt service, and voter-approved contractual obligations. Taxing district may submit proposal to exceed limit to electorate; requires majority vote. Home rule municipalities exempt.
Counties, Municipalities and School Districts	1992	Constitutional amendment ("TABOR") limits maximum annual percentage increase in property tax revenue. Maximum change equals "TABOR Index," inflation in prior year (CPI for Boulder/Denver area) plus annual local growth, adjusted for: (1) property tax revenue changes approved by voters after 1992 and (2) certain reductions. Statutory limit in effect; whichever is most restrictive takes effect.

State	Effective Year	Description (as amended)
Delaware ***Counties***	1972	Rollback provision. After county reassessment, tax rate levied may not yield revenues greater than 15% in excess of taxes imposed for prior fiscal year.
Idaho ***Counties, Municipalities and School Districts***	1979 (repealed 1992)	Limited increase to **5%** based on greatest amount of ad valorem taxes in three preceding years. Approval for excessive levy requires 2/3 majority vote. Full disclosure provision that replaced levy limit is significantly weaker.
Illinois ***Counties, Municipalities and School Districts*** ***(Non-home rule taxing districts located entirely in counties contiguous to Cook County or if majority of equalized assessed value is in contiguous counties.)***	1991	Limits increase in property tax "extensions" to 5% or percentage increase in CPI, whichever is less. (Extension = amount of tax bill sent to taxpayers.) Limit amount based on highest aggregate extension in any of last three years. Any increase above limit must be approved by voter referendum and will be in effect for one levy year only. Excludes debt service, and new and annexed property.
Indiana ***Counties, Municipalities and School Districts***	I973	Originally, counties (and civil units) that adopted local income tax had property tax levy frozen at 1973 level. Non-adopting counties limited to the 1973 rate (levies limited to growth in assessed value). School district levies frozen at the 1973 level.
	(am 1977)	1977 revision provided that all counties (and civil units) could increase property tax levy by **5%** in 1978, 8% in 1979, and 0% in 1980.
	(am 1980)	1980 revision limits growth of revenue for civil units to average increase in assessed value over previous three years, excluding reassessment years. Minimum **5%** and maximum 10% increases enforced. Excludes debt service and cumulative funds. For school districts, growth limited to average increase in assessed value over previous **two** years. Certain adjustments provided. Additional state supplement may be periodically authorized. Excludes debt service and transportation funds. Capital project and special education funds subject to rate limit. All taxing units may appeal to State Board of Tax Commissioners to exceed limit. School corporations may exceed limit via voter referendum.

State	Effective Year	Description (as amended)
Kansas		
Counties and Municipalities	1970 (suspended 1989)	Original limit prohibited rates that would produce amount in excess of aggregate amount levied in prior year. Limit could be exceeded by voter referendum or appeal to State Board.
		1977—State Attorney General stated that counties and municipalities could modify limit because it was not applied uniformly due to the many exemptions and, therefore, was not binding.
	1989	1989—rollback provision enacted in conjunction with statewide reappraisal—no taxing unit shall certify tax levy (rate) on aggregate tangible property that will produce amount in excess of prior year. Excludes new construction and property improvements, increases in personal property valuations, annexation, debt, judgments, social security and employee benefits, and juvenile detention.
Kentucky		
Counties, Municipalities and School Districts	1979	Rollback provision. After annual reassessment, tax rate must be adjusted to limit growth in revenue to **4%** over prior year. Excludes growth from new property. If revenue increases more than **4%,** voters may petition for referendum to reconsider rate.
Louisiana		
Counties, Municipalities and School Districts	1978	Rollback provision. After statewide reassessment, revenues shall not exceed amount collected in prior year. Each taxing unit must adjust rates. Rates remain in effect unless increase up to prior year's maximum rate is approved by 2/3 of governing body. Excludes debt service.
Massachusetts		
Municipalities	1980	Limits annual property tax revenue increases to 2.5% over prior year. Excludes growth from annexation, new construction, and improvements. Specified increase over limit may be authorized by 2/3 vote at general election.
	(am 1983)	1983 amendment provided that voters may exclude existing or new debt service with majority vote.

State	Effective Year	Description (as amended)
Michigan ***Counties, Municipalities and School Districts***	**1978**	Rollback provision. Following reassessment, if tax base increases, maximum authorized rate must be lowered to produce revenue equal to prior year, after accounting for inflation through CPI. Excludes growth from new construction and improvements. Revenue increase equal to increase in inflation rate permitted. Revenue may increase above inflation rate if voters approve override and restore maximum authorized rate. Excludes debt service.
Mississippi ***Counties and Municipalities***	**1980**	Political subdivisions limited to **10** percent increase over the greatest amount of ad valorem taxes collected by the subdivision in any of the preceding **3** years. Increases due to new construction and additions to the tax rolls are excluded. Prior to July 1, **1994,** overrides were possible by (1) majority electoral approval for a limit of five years (with the approved excess excluded from calculating future year's base) and (2) by authorization of county board of supervisors, if aggregate receipts from all levies of subdivisions in the county do not exceed **100** percent of the levy in any one of the preceding 3 fiscal years. After July **1**, override is limited to popular referenda. Exclusions exist for: school district tax levies, g.o. debt principal and interest, first year of new state mandated programs, county cooperative service districts, some fire protection, fire and police disability, reappraisal costs, junior college debt repayment, public libraries, and parking facility tax districts. County bridge and road construction is similarly limited through separate legislation as are maximum increases for mandatory levies "required by law" to be assess by counties and municipalities.
School Districts	**1983** (am **1990)**	School district levy increases prior to June 30, **1994,** were limited to **5** percent above the highest aggregate levy in any one of the previous three fiscal years. Override available through **3/5** majority electoral approval. Exclusions exist for: new construction, additions to tax rolls, g.o. school debt and first year of new state mandated programs. July 1, **1994,** through June **30, 1996,** limit increases to 6%; after June 30, **1996,** limit increases to **7%.** (County and municipal levy caps apply for mandatory components of school tax effort.)

State	Effective Year	Description (as amended)
Missouri *Counties, Municipalities and School Districts*	1980	Rollback provision. Following reassessment, if assessed value increases by more than increase in general price level from previous year, tax rates must be reduced to produce same revenue as prior year. Excludes growth from new construction and improvements. Inflationary growth factor cannot exceed CPI or 5%, whichever is lower. Excludes debt service. Voter referendum may authorize excess levy.
Montana *Counties and Municipalities*	1987	Amount of taxes levied may not exceed dollar amount levied in 1986 in each taxing unit. For tax years after 1989, property must be taxed at 1986 cap or the product of the taxable value and mills levied, whichever is less. New construction and improvements/deletions taxed at 1986 level. Excludes debt service.
Nebraska *Counties and Municipalities*	1990	Budgeted property tax receipts may not exceed prior year by more than 5%, unless increase is approved by majority of the voters. Excludes debt service. (Increases that reflect CPI or up to 5% may be authorized by governing board.)
Nevada *Counties and Municipalities*	1983 (am 1987)	Revenue growth limited to a 6% increase. Excludes debt service. Excludes growth from new construction, improvements, etc. (Limit originally 4.5%, increased 1987.)
New Jersey *Counties*	I980	Tax levies may not increase by more than 5% over prior year, with following exceptions: increases in value from new construction and improvements, emergency appropriations, debt service, expenditures mandated by state or federal law, contracts, and capital expenditures funded outside county tax levy.
New Mexico *Counties, Municipalities and School Districts*	1979	Tax levies may not increase by more than 5% over prior year. Excludes debt service.

State	Effective Year	Description (as amended)
North Dakota ***Counties and Municipalities***	1981	Allowable percentage increase originally limited to 7% in 1981, 4% in 1983, 3% in 1985, 5% in 1988; as of 1991, 4% over the highest of the three previous years. Adjustments for property added or removed from roll since the base year.
Ohio ***Counties, Municipalities and School Districts***	1976	Subject to levy limitation are voter-approved millage increases above overall inside millage of 10 mills (1%). Any voted millage capped so revenue produced does not increase above that for first year. Excludes new growth. Limit may be exceeded by voter referendum, up to a specified period of time.
Oregon ***Counties, Municipalities and School Districts***	1916 (as amended)	No taxing unit shall raise more revenue than its tax base, which is: (1) the amount obtained by adding 6% to the total amount levied in any one of the last three years or (2) an amount approved as new tax base by majority of the legal voters. After voter-approved amount is fully levied, tax base can grow 6% a year. Excludes debt service. If tax base not sufficient, voters may approve additional levy authority: special levy to balance the budget for one fiscal year; serial levy for general or special purposes, stated as total dollar amount either to be levied uniformly for a 5 or 10-year period or per $1,000 a.v. and levied up to 3 years. School districts may levy "safety net levy" without voter approval. This amount is outside tax base and must equal prior year.
Pennsylvania ***Counties*** ***(Limited application to Municipalities and School Districts)***	Circa 1940	Rollback provision. Following county reassessment or change in established predetermined ratio, political subdivisions in counties of 2ndA and 3rd class must reduce rate so amount levied does not exceed 110% of prior year. Excludes growth from new construction and improvements. Same restrictions apply in counties of the 4th-8th class, with percentage not to exceed 105% (school districts limited to 10%). Limit may be exceeded with court approval.

State	Effective Year	Description (as amended)
Rhode Island ***Municipalities***	1985	Municipality may not levy amount more than **5.5%** over prior year. May exceed **5.5%** if municipality forecasts loss in total property tax revenue, an emergency situation, and debt service higher than 5.5%. Excess levy requires majority vote of electorate.
Texas ***Counties, Municipalities and School Districts***	1982	Rollback provision. Following reassessment, taxing unit must calculate rolled back rate to provide same amount of revenue as prior year for operating and maintenance, plus 8% "buffer" and sufficient funds to pay current debt. If unit adopts higher rate, voters can petition for election to roll back increase to 8%. Limit not automatically enforced; requires voter referendum in opposition. School district limitation applies to following year's rate. Some school districts permitted to set rates greater than the rollback rate.
Utah ***Counties, Municipalities and School Districts***	1969 (repealed 1986)	Tax levy for any taxing unit originally limited to 106% of prior year's revenue for operation and maintenance. Limit replaced with weaker full disclosure provision.
Washington ***Counties, Municipalities and School Districts***	1971	Originally limited counties and municipalities to 106% of amount levied in highest of 3 past years, plus additional amount that considered growth from new construction, improvements, etc.
	(am 1979)	1979 amendment included school districts. Excess levy authorized by a majority vote of electorate.
West Virginia ***Counties, Municipalities and School Districts***	1990	After reassessment, tax rates must be reduced to avoid increase greater than 1% over previous year. Excludes growth from new construction, etc. Governing body may increase rate with full disclosure provisions (no hearing = automatic rollback). Tax rate may not cause revenue to exceed prior year by more than 10%.

LIMITS ON ASSESSMENT INCREASES

GENERAL

Limits on assessment increases are intended to restrict local government's ability to "automatically" garner increased revenues from rising property values and/or windfalls from reassessments. The limit is generally expressed as an allowable annual percentage increase in assessed value. Six states impose limits on assessment increases (Arizona, California, Iowa, Maryland, New Mexico, and New York). An assessment limitation will go into effect in Florida in 1995 (see Table *5)*.

HISTORICAL TREND

All of the assessment limitations were enacted in 1978 or later except Maryland's ***6*** percent limit, implemented in 1957. Most assessment limits were enacted at a time of rapid appreciation of property values. In 1980, Iowa made its limit more restrictive by reducing the allowed percentage increase from 6 percent to **4** percent. In 1991, Maryland removed its limit on statewide assessment increases and gave discretion over limits to counties and municipalities (school districts are unaffected).

STRUCTURE

Allowable percentage increases range from up to 10 percent (Arizona, Maryland) to 2 percent (California). The increases in several states depend on other variables, as well. For example:

- In California, property assessments may increase with inflation **(as** represented by the CPI) up to **2** percent a year. If inflation is less than **2** percent, the assessment increase is equivalent to that percentage.
- The Florida limit will apply to the lower of a **3** percent increase over the prior year's assessment or the percentage increase in the CPI.
- Maryland local jurisdictions may reduce the state-authorized limit of 10 percent to as low as zero.
- New York assessment increases for Class I residential property in New York City and Nassau County are limited to ***6*** percent in any one year or 20 percent over a five-year period.

Four states (Arizona, California, Maryland, New York) apply the assessment limit individually to pieces of property. This is potentially much more restrictive than an aggregate limitation. Aggregate limitations allow slow growth or declines in the value of some parcels to be offset by larger increases in others, resulting in a larger assessment increase. Florida's limitation, effective in 1995, also will contain the provision. Iowa has opted for a statewide assessment limit applied separately to each class of property to maintain distribution factors.[12]

Depending on their structure, assessment limitations can create equity problems. For instance, California provides that when a piece of property is sold, the assessed value increases to market value. This acquisition value tax system creates a disparity between market value and assessed value that results in property tax payments determined by length of home ownership. The system was challenged under the Equal Protection Clause of the United States Constitution, and in June 1992 the U.S. Supreme Court upheld the assessment features in *Nordlinger* v. ***Hahn*** (112 S.Ct. 2326, 1992).

OTHER

In an effort to limit tax base growth, assessment limitations tend to focus on allowable percentage increases. Other features, such as assessment ratios, may be used to counter property tax growth. For example, Colorado requires voter approval for assessment ratio increases for a property class.

Assessing practices also can have an impact on growth. Michigan's "Truth in Assessment" provision, effective 1982, provides that if state equalized value is greater than assessed value, the maximum authorized millage rate must be rolled back so that the levy on the equalized value does not exceed the product of assessed value and the maximum rate. The purpose is to prevent cities and townships from benefiting by increased tax levies that are a result of the equalization process. A reduced maximum rate applies if the assessing jurisdiction does not assess at the required 50 percent of true cash value.[13]

PROPERTY ASSESSMENT LIMITS - SUMMARY PROFILE

Seven states limit property tax assessments.[1] Six of the limits were enacted after 1971 and are still in effect. Three of the states are in the West. Four states apply the limit to individual parcels; 2 states apply it to growth in the aggregate property base; and 2 states limit only the increase in assessments for residential property. Five states limit allowable growth to a fixed percentage of the base; one state uses the lower of a fixed percentage increment or CPI. The average allowable increase is 5.3%. Common exclusions are increases due to improvements and new construction. Two states allow full reassessment at the time of sale or change in ownership (unless change is among immediate family members).[2] One state has an override by popular referendum.

[1] Maryland's 1957 limits on assessment increases repealed in 1991.

[2] New York's limit applies only to taxing units with a million or more population.

Occurrence	Base	Growth Provisions	Exclusions	Override Provisions
Prior to 1978: 1 **1978** or after: 6	Individual Parcel: **4** Aggregate: 2 Residential Only: 2	Fixed Percent: ***5*** Range: 2% - 10% Average: 5.86% Fixed percent or CPI: 1	Reassessment on Sale: 2 Improvements/New Construction: 6	Popular Referenda: Simple majority: 1

Table 5
Limitations on Assessment Increases

State	Effective Year	**Description/Rate** (as amended)
Arizona	1980	Assessment increases limited to property value of prior year plus the greater of (1) 10% of value or (2) 25% of difference between current-year full cash value and prior-year limited value. Assessment limit applied on individual parcels. Limit may be exceeded by voter approval. Assessment may increase through improvements or changes in use.
California	1978	After Proposition 13, assessed value of all property rolled back to 1975-76 value—full cash value base may increase with inflation (CPI) up to 2% a year. On sale of property or when new construction completed, assessment increases to market value. Limit imposed individually.
Florida	1995	1992 initiative constitutional amendment limited assessments on homestead property to the lower of (1) 3% of prior-year assessment or (2) the percent increase in CPI. Following change in ownership, property assessed at "just value." Limit applied individually. Assessments may increase through improvements.
Iowa	1978 (am 1980)	Original statewide assessment increases limited to 6%; reduced to 4% in 1980. Limit applied separately to classes of property (residential, agricultural, and commercial). Excludes new construction.
Maryland	1957 (am 1991)	Original statewide assessment increase limited to 6%. Effective 1991, limit on assessable base removed; all market value assessments at 40% with no general limit. Assessed value increases on individual owner-occupied residences limited. State, county, and municipal property tax subjected to this limit. State portion capped at 10% increase. Counties and municipalities set limit from zero to 10%. If they fail to do so, cap defaults to 10%. School districts not affected.

State	Effective Year	Description/Rate (as amended)
New Mexico	**1979**	Increases limited to **5%.** "Yield control formula" limits property tax revenue from yearly reappraisals. Assessment may not result in revenue greater than derived from formula, typically **5%.** Exempts new construction and improvements.
New York	**1981** **1986**	Limit applies only to taxing units with population of 1 million or more—Nassau County **(1981)** and New York City (1**986).** Increases for Class I property (1, 2, or 3-family residential housing) limited to **6%** in one year or 20% over **5** years. Increases for Class II property (all other residential) limited to **8%** in one year or 30% over **5** years. Separate allowable increases for Class III and IV property. Limit on individual pieces of property. Exempts improvements

LIMITS ON GENERAL REVENUES AND EXPENDITURES

GENERAL

Limitations on annual increases in general revenues and general expenditures are more comprehensive and restrictive than other limits, and they are used least. General revenues refers to property tax revenue plus one or more other local revenue sources, excluding federal intergovernmental aid. The limitations generally are expressed as allowable percentage increases (see Table *6* and Table 7). All of the state general limits were enacted after 1970 except Arizona's (1921).

STRUCTURE

Revenue Limits

Minnesota and Nevada restricted allowable general revenue increases for counties and municipalities, and both recently repealed their limits. Minnesota's overall revenue limit, effective in 1971 and repealed in 1992, included state aid and property tax receipts. Allowable percentage increases fluctuated. Nevada's revenue limit, effective in 1984 and repealed in 1989, applied to sales and property tax receipts. Allowable increases were a function of growth in assessed value and inflation.

In contrast, Colorado's 1992 limit does not define an allowable increase but constrains revenues by requiring voter approval of any new tax or increase in an existing tax. Furthermore, revenue growth is limited by a district's spending limit. Revenues in excess **of** the spending limit must be refunded unless voters approve the excess.

Expenditure Limits

Limits on general expenditures have been used more widely than limits on general revenues, with most of them on school districts. Four states impose the limit exclusively on school districts and four restrict school districts in addition to counties and/or municipalities. In New Jersey and Arizona, school district spending limits have unique provisions and structures. These limits usually are part of state education funding systems, and generally were enacted for one or more of the following reasons:

- Reduce the local tax burden;
- Constrain growth of per-pupil spending in fiscally advantaged districts; and
- Equalize the spending between school districts.[14]

Growth in general expenditures may be restricted by limiting total budget amounts, appropriations for expenditures, or actual spending. California limits growth in "annual appropriations" and New Jersey limits "final appropriations," while Arizona limits the total amount of proposed county and municipal expenditures. On the other hand, Kansas restricts school district actual spending on a per-pupil basis.

Overrides

Override provisions mitigate the restrictive effect of spending limits by providing a mechanism through which to reflect local interests and preferences. Excess expenditures may be approved by voter referendum in Arizona, California (for up to four years), Iowa, Kansas, Minnesota, and New Jersey. School boards have override mechanisms less frequently. Kansas school boards may appeal to the state Board of Tax Appeals to override the per pupil spending limit. Iowa school boards may authorize an "additional instructional support levy" for up to five years.

Growth Rates

An important structural feature of each limit is the allowable increase. None of the eight states with spending limits link allowable growth solely to a fixed rate. Rather, expenditure limits also attempt to maintain a base level adjusted for changes in inflation and population. In some cases, these provisions were amendments to the original limit. For example:

- Arizona's limit on counties and municipalities was changed from a flat 10 percent increase to one that reflects the GNP price deflator and population growth. The limit on school districts was restructured from a 7 percent increase to an amount determined by inflation and changes in student enrollment.
- Colorado's growth index incorporates inflation and annual local growth.
- In New Jersey, a 1991 amendment strengthened the limit on municipalities from a flat 5 percent increase to the lesser of 5 percent over the previous year's total appropriations or the percentage change in inflation.
- A 1990 California amendment established less restrictive adjustments to determine the allowable growth in appropriations.

California's constitutional spending limit (Art. XIIIB) is an example of how the determination of the allowable increase can jeopardize fiscal solvency and service delivery. In 1979, the limitation received 74 percent of the statewide vote and passed in every county. Taxpayers appreciated the more comprehensive spending limit, which restricts both state and local appropriations of "proceeds of taxes," rather than Proposition 13's singular focus on the property tax.[15]

California's expenditure growth was limited to the previous year's appropriations adjusted for changes in cost-of-living and population. Initially, high inflation increased the spending limit while the economic recession caused reductions in total tax revenues. As a result, the limit had little impact until 1986-87, when inflationary growth diminished, tax revenues increased, and appropriations continued to grow. The state exceeded its spending limit, forcing a $1.1 billion refund to taxpayers. Additionally, 55 cities were at or within 10 percent of their limits, and six counties were within 5 percent of their limits.[16] Thus, the allowable growth proved to be insensitive to environmental change.

In 1990, therefore, California growth adjustments were modified to be linked more closely to the rate of economic growth. Currently, cost-of-living is measured by changes in state per capita personal income rather than changes in the CPI. Local governments, excluding school districts, have the option to use the percentage change in local assessed value from growth in non-residential property as a measure. Other liberalizing changes excluded expenditures for all qualified capital outlay projects and those resulting from increases in the gasoline tax.

GENERAL REVENUE LIMITS - SUMMARY PROFILE

General revenue limits, including all tax proceeds and in one instance state aid, are among the most constraining of local limitations. They are a recent phenomenon and have not been widely applied—4 states instituted them (2 each in the West and Midwest), but 2 states recently repealed them. These limits more often have been applied to counties and municipalities (only one state recently applied them to school districts as well). Allowable growth provisions include (1) restriction on any new tax or rate increase without voter approval, (2) specifying allowable growth as a fixed percentage (or a fixed dollar amount per pupil), and (3) limiting growth to growth in the tax base or rate of price inflation. Exclusions have included special assessments and special levies, debt service, and court judgments. Two states provide for an override through popular referendum.

Occurrence	Scope	Growth Provisions	Exclusions	Override Provisions
Prior to 1978: 1 1978 or after: 3	Units Applied to: Counties: 3 Municipalities: 3 School: 2 States Limiting All: 1	Fixed Percent/$: 2 Base Growth: 1 Inflation/CPI: 2 No New Tax or Rate Increase: 1	Debt Service: 1 Special Assessments: 1 Court Judgments: 1	Popular Referendum: Simple Majority: 2

GENERAL EXPENDITURE LIMITS - SUMMARY PROFILE

General expenditure limits are used in 8 states. Six of these were enacted before 1978. The Midwest leads with 4 states, followed by 3 states in the West, and one in the Northeast. This limit has been directed toward school districts in all 8 states, followed by municipalities in 4 states and counties in 3 states. Three states limit all types of local government. Provisions for expenditure growth depend on a combination of factors, including allowable growth equal to a specified fixed percentage over the previous year's base (3 states) sometimes combined in a formula with price inflation (3 states), or based on growth in the property base (2 states), income (2 states), or number of pupils (3 states) adjusted for an education index. Exemptions include debt service, state and federal mandates, emergency expenditures, special education programs, special district expenditures, and contracts. Six states permit overrides through popular referendum; one allows the local legislative body to do so through a simple majority vote and another vests a state board of tax appeals with the authority.

Occurrence	Scope	Growth Provisions	Exclusions	Override Provisions
Prior to 1978: 6 1978 or after: 2	Units Applied to: Counties: 3 Municipalities: 4 School: 8 States Limiting All: 3	Fixed Percent: 3 Inflation/CPI: 3 Base Growth: 2 Income: 2 Pupils: 3	Debt Service: 2 Mandates: 2 Emergencies: 2 Special Districts: 2 Special Education: 2 Contracts: 2	Popular Referendum: Simple Majority: 6 Legislative: Simple Majority: 1 State Board: 1

Table 6
Limitations on General Revenue Increases

State	Effective Year	Description (as amended)
Colorado		
Counties, Municipalities and School Districts	1992	Constitutional amendment requires voter approval for new tax or tax rate increase. If revenue sources not excluded from fiscal year spending exceed spending limit for that fiscal year, excess must be refunded in following fiscal year, unless voters approve a revenue change as an offset.
Minnesota		
Counties and Municipalities	1971 (repealed 1992-93)	1971- 1979—general revenue limit restricted increases to 6% (including revenues from state aid and property taxes). 1980, limit increased to 8%. 1989, limit lowered to 4%; 3% thereafter. Exempted special assessments and numerous special property tax levies (e.g., debt service and payment of judgments). Limit applied to all counties, cities with population of 2,500 or more, towns with population of 5,000 or more, and all municipalities that received taconite municipal aid.
Nevada		
Counties and Municipalities	1984 (repealed 1989)	Revenue limit applied to general revenue received from city-county relief tax (sales tax) and property tax. Allowable increases determined by growth in assessed value and 80% of CPI of preceding year.
Wisconsin		
School Districts	1993-94	School revenue limited on per pupil basis: FY 92/93 to FY 93/94 increase cannot exceed greater of 3.2% (rate of inflation) or $190 per pupil. FY 94/95 increase limited to 2.3% or $194 per pupil, whichever is greater. Voter overrides are provided. Revenue defined as general state aid plus property tax levy.

Table 7
Limitations on General Expenditure Increases

State	Effective Year	Description (as amended)
Arizona		
Counties and Municipalities	1921 (am 1980)	Originally prevented budget that exceeded by more than 10% total amount proposed for expenditures in prior year. 1980—growth in expenditures limited to reflect change in GNP price deflator and population growth. Specific expenditure in excess of limit may be approved by 2/3 vote of governing body and majority popular vote. Limit may be adjusted to incorporate transferred costs of providing government functions.
School Districts	1974 (am 1981)	198I—7% expenditure limit on general maintenance and operating budget replaced. Legislature determines aggregate expenditure limit for each district by adjusting base limit to reflect changes in student population and GNP price deflator. Excess expenditures may be approved by majority popular vote.
California		
Counties, Municipalities and School District	1979 (am 1990)	Original limit was amount appropriated in prior year adjusted by lesser of (1) change in state per capita personal income or (2) change in U.S. CPI and change in population. Current, less restrictive adjustments: (1) cost of living factor (growth in state per capita personal income) or (2) percentage growth in total assessed value due to non-residential new construction. Limit applies to all tax revenues—sales, income, property—and "technically" any fees collected in excess of cost of service. Excludes "emergencies," debt service, mandates, and certain special districts. Revenue received in excess of amount appropriated must be refunded within two years. Limit may be exceeded with voter approval up to four years.
Colorado		
School Districts	1973	School Finance Act originally allowed increase between 7% and 12% and covered revenues from property tax and state equalization. Several changes occurred. Current limit controlled by 1992 constitutional amendment (TABOR).
Counties, Municipalities and School Districts	1992	Maximum annual percentage change in each district's fiscal year spending equals the TABOR index (inflation in prior year plus annual local growth) adjusted for voter-approved revenue changes and certain reductions. Fiscal year spending means all district expenditures and reserve increases.

State	Effective Year	Description (as amended)
Iowa ***School Districts***	1971	Per pupil expenditure control on school district budget (general fund). Provision to determine annual allowable growth includes state foundation formula (district cost per pupil), miscellaneous component, and unspent balance. Additional support levy may be authorized by school board for up to five years and by voters for up to ten years. Voter referendum may override entire limit.
Kansas ***School Districts***	1973	Limit applied to school district general fund. Allowable percentage of growth of per pupil expenditures has had many changes. The limit may be overridden by voter referendum or by appeal to the State Board of Tax Appeals.
Minnesota ***School Districts***	1971	School district spending restricted by maximum levy rate determined by state. Rate revised many times. General education tax rate may be exceeded by voter referendum.
Nebraska ***School Districts***	1991	School districts limited to 4% allowable growth rate for general fund expenditures, except for special education. Annual rates established by legislature based on projections of state revenue, cost of living, and education indices.
New Jersey ***Municipalities***	1976 (am1991)	Prohibits increase from final appropriations of whole budget by more than 5% over prior year, except emergency appropriations, debt service, state or federal mandated expenditures, and contracts. Exempts municipalities with less than 10 mill general purpose levy. Limit may be exceeded by referendum. 1991—limit strengthened, limiting increase to the lesser of 5% or the change in CPI.
School Districts	1976 (am1990)	Original limit allowed spending to increase up to 75% of annual percentage change of statewide assessed value for previous three years. 1990—more restrictive "Maximum Permissible Net Budget" replaced 1976 limit; new limit determined by PNB = PCI * PR * PBY. PCI - average annual percentage increase in per capita income; PR - ratio of district local levy budget of prebudget year to maximum foundation budget for budget year; PBY - net budget for prebudget year.

FULL DISCLOSURE/TRUTH-IN-TAXATION

General

Full disclosure is the least restrictive form of local limit. When adopting tax rates, local governments must comply with provisions that have two principal purposes:

(1) To increase taxpayer awareness of rate proposals and provide an opportunity for taxpayer participation; and

(2) To direct responsibility for property tax increases toward the appropriate local governments.

Essentially, a governing body is required to advertise in a local newspaper information pertaining to proposed tax rates along with an established/rollback rate. The rollback rate yields the same amount of revenue as the previous year, excluding new growth. It is intended to draw attention to the relationship between the tax levy, assessment, and tax rate. The announcement must include the time and place of one or more public hearings, and the legislature is required to take specific action (vote) to exceed the rollback rate and, thus, increase revenue received from the existing base.

Historical Trend

Twenty-two states impose "truth-in-taxation" provisions. Hawaii, South Carolina, Tennessee, and Virginia impose only these provisions, with no other limitations. This form of limitation originated in the 1970s as a reaction to rapidly increasing property valuation. Ten states implemented the provision during the 1970s and eight additional states imposed the limit in the 1980s. The most recent additions include Georgia (1991), Idaho (1991), Nebraska (1990), and West Virginia (1990).

Colorado's 1992 constitutional amendment strengthened an earlier provision while redefining the capacity and scope of truth-in-taxation by making many decisions subject to popular vote and linking it to many more restrictive measures. Included in these is a requirement for voters to approve:

- Any new tax or tax rate increase;
- Any mill levy above that for the prior year;
- Valuation for assessment ratio increase for a property class;
- Extension of an expiring tax; or
- A tax policy change directly causing a net tax revenue gain to any district.

Information sent to the voters must include spending for the current year and the past four years, estimates of the dollar amount of each tax increase, district spending without the increase, and other financial information.17

Structure

There are three primary forms of disclosure:

(1) **Annual Assessment.** Establishment of an annual property tax rate that when applied to the prior year's tax roll will produce revenue equal to the prior year's levy. In three states (Michigan, Virginia, West Virginia), tax rates must be rolled back to prevent an auto-

matic increase in revenue due solely to increases in the assessed value of the existing base. This rate can be exceeded only by vote of the local governing board after a public notification and hearing.[18]

(2) Periodic Reassessment. Truth-in-taxation rollbacks, by which some states (Delaware, Florida, Kentucky, Texas) calculate a "rollback rate" following reassessment to offset inflationary increases. The rollback and proposed rates must be published prior to the public hearing.

(3) Informational. Provision of information on the proposed tax rates and subsequent budget (Iowa, Nevada, Montana, Minnesota).

Full disclosure provisions do not prevent tax revenues from increasing as long as local governments comply with advertising and hearing requirements, with the exception of recall petitions in Kentucky and Texas and the linkage between full disclosure and more restrictive limits in Colorado.

In Kentucky, if a local governing body approves a rate that increases revenue more than 4 percent over the previous year, the excessive portion of the rate is subject to a recall vote if voters petition for a referendum. In Texas, if local governments adopt a rate that produces an increase in revenue greater than 8 percent over the previous year, voters may petition for an election to roll back the increase to 8 percent.

Florida and Minnesota require that property tax notices be mailed to the homes of registered voters rather than published or distributed in a newspaper, This enhances taxpayer awareness and increases the effectiveness of the provision.

Illinois is unique in that it does not focus specifically on the tax rate but allows a revenue increase of 5 percent before full disclosure provisions must be fulfilled. Similarly, Virginia and West Virginia rollback rates allow for a 1 percent increase.

Although full disclosure is considered to be the least restrictive of tax and expenditure limitations, the informational characteristics have proven to be popular. In fact, two states (Idaho and Utah) enacted full disclosure provisions to replace revenue limits that were repealed in 1991 and 1986.

FULL DISCLOSURE LIMITS - SUMMARY PROFILE

Full disclosure, the third most popular local limit, is relatively recent and is the least restrictive. A simple majority legislative vote may override the rollback (albeit at an open public hearing). This restriction requires only that the local legislative body or board be willing publicly to designate a revenue increase as a tax increase. In two cases, this provision is applied only in instances of general reassessments.

Requirements for full disclosure have been enacted in 22 states, with 68% after 1978. This form of limitation is used most often in the South (10 states, 63%), followed by the West (6 states, 46%), and the Midwest (5 states, 42%). This limit is used by only one state in the Northeast. It is applied to counties in 21 states, municipalities in 19 states, and school districts in 14 states. States that limit school districts also apply the provision to counties and cities. Exclusions include debt service; property base enhancements through new construction, improvements, or annexations; and allowable fixed percentage increases outside the necessity for disclosure requirements.

Occurrence	Scope	Exclusions
Prior to 1978: 7 1978 or after: 15	Units Applied to: Counties: 21 Municipalities: 19 School: 14 States Limiting All: 14 Limited to General Reassessment: 2	Debt Service: 2 New Construction/Additions: 2 Annexation: 1 Increases within a Specified Percent: 4

Table 8
Full Disclosure/Truth-In-Taxation Provisions

State	Effective Year	Description (as amended)
Colorado		
Counties and Municipalities	1983	Requires (1) newspaper publications of intent to exceed tax limitations and (2) public hearings.
Counties, Municipalities and School Districts	1992	Constitutional amendment requires voter approval in advance for any new tax or increase in existing tax. Districts must mail notice of ballot issue election to all registered voters 15-25 days prior to election.
Delaware		
Counties	(approx) 1976	Rollback provision is component of full disclosure requirements. Following total county reassessment, rolled back tax rate shall be computed that provides revenue equal to prior year. Difference between rolled back rate and proposed rate is advertised in newspaper prior to meeting to consider proposed rate.
Florida		
Counties, Municipalities and School Districts	1974 (am 1980)	Full disclosure includes rollback provision. Following reassessment, a rolled back tax rate shall be computed that provides revenue equal to prior year. Excludes new construction, additions, deletions, and annexation. Rolled back rate and proposed millage rate included in property tax notice, which is advertised in newspaper and (effective 1980) mailed to each taxpayer prior to public hearings.
Georgia		
Counties, Municipalities and School Districts	1991	No millage rate may be levied for fiscal year until governing authority of district adopts resolution that specifies rate. Resolution must be adopted at advertised public meeting. Authority must advertise intent and announce public hearing if it proposes to establish rate in excess of rollback rate (rate that produces revenue levied in prior year minus value added by revaluation, new construction, etc.).

State	Effective Year	Description (as amended)
Hawaii ***Counties***	1977	Each county is provided with certified tax rate that produces same amount of revenue as current year when applied to forthcoming year's aggregate value. County may increase or decrease the certified rate if there is an advertisement regarding intent, followed by public hearing. After the hearing, the county shall readvertise and reconvene to adopt adjusted rate.
Idaho ***Counties, Municipalities and School Districts***	1991	This provision replaced levy limit. No taxing authority may request ad valorem levy that exceeds prior year by more than 105 percent; or cause tax rate to increase above prior year without (1) advertising intent and holding public hearing, (2) adopting a resolution, and (3) getting Tax Commission certification. Excludes debt service, overrides and supplemental levies, and annexations.
Illinois ***Counties, Municipalities and School Districts***	**1981**	Requires all taxing units (except home rule) that wish to increase property tax revenue in excess of **5%** over prior year, to provide notice and public hearing. Excludes debt service.
Iowa ***Counties***	**1983**	Advertised notice and public hearing required regarding county budget, which includes estimate of amount to be raised by property taxes. Board cannot adopt a tax in excess of the estimate published unless approved by voters. Original estimate at discretion of board.
Kentucky ***Counties, Municipalities and School Districts***	1979	Full disclosure includes rollback provision. After annual reassessment, taxing authorities that propose to levy rate in excess of "compensating tax rate" must publish notice and hold hearing. Portion of tax rate that produces revenue from real property, exclusive of new property, over **4%** of prior year is subject to recall vote or reconsideration if voters petition for a referendum. Rollback provision allows 4% increase in property tax revenue.

State	Effective Year	Description (as amended)
Maryland *Counties and Municipalities*	1977	Taxing authority may not set rate that will exceed constant yield tax rate unless advertised in paper with notice of public hearing or announcement mailed to each taxpayer (not necessary if the rate is being increased due to reduced assessed value).
Michigan *Counties, Municipalities and School Districts*	1982	Requires that all jurisdictions that levied more than 1 mill in the prior year annually roll back tax rates for operating purposes to offset increase in values of existing property. Legislative body may reverse rollback and increase levy provided vote is preceded by public advertisement and hearing.
Minnesota *Counties, Municipalities and School Districts*	1988	Notice of proposed property taxes shall be mailed to each taxpayer and advertised in newspaper with notice of public meeting. At hearing, taxing authorities may amend proposals and adopt final budget and tax levy. Once adopted, levy may not be increased without voter approval. Authority may appeal to Commission of Revenue.
Montana *Counties, Municipalities and School Districts*	1974	No local authority may budget increased amount of property tax revenue unless it adopts a resolution; authority first must advertise and hold hearing.
Nebraska *Counties and Municipalities*	1990	Provision prohibits adoption of budget in which property tax receipts exceed prior-year budget. Exceptions include debt service, accessibility barriers, and growth from new construction. Governing body may approve increase that reflects change in CPI by simple majority vote, and increase up to 5% by 3/4 majority vote. Increase above 5% requires majority popular vote. All votes require advertisement and public hearing.
Nevada *Counties, Municipalities and School Districts*	1985	Informational news notice and public hearing on proposed tax rates and tentative budgets required.

State	Effective Year	Description (as amended)
Rhode Island ***Municipalities***	1979	Each municipality provides a public hearing and property tax disclosure proceedings; proposed and adjusted current property tax rate shall be published in newspaper. No property tax levy in excess of that amount of current fiscal year shall be adopted before public hearing.
South Carolina ***Counties, Municipalities and School Districts***	1975	Following reassessment and equalization, tax levy may not exceed prior year by more than 1%. Excludes new growth. Rate may be increased to generate additional revenue in excess of limit for increased and/or additional services. 1988—Tax Commission required to review collections from reassessment years to ensure compliance.
Tennessee ***Counties and Municipalities***	1979	Governing board may not approve tax rate in excess of certified rate until board approves resolution or ordinance after advertising intent and after public hearing.
Texas ***Counties, Municipalities and School Districts***	1982	Revenue rollback is component of full disclosure provisions. Following reappraisal, each taxing unit must publish effective and rollback rates. Voters can petition for an election to roll back to 8% any rate that produces revenue increase greater than 8%. To increase taxes above rollback rate or by more than 3% above effective rate, unit must publish notice announcing hearing. Another hearing is provided for adoption of rate. For school districts, tax limit applies to following year's rate.
Utah ***Counties, Municipalities and School Districts***	1986	District that proposes rate in excess of "certified tax rate" (yields same amount of revenue as prior year) must advertise and hold hearing prior to levying rate. This limit replaced repealed levy limit.

State	Effective Year	Description (as amended)
Virginia ***Counties and Municipalities***	1976	Revenue rollback is a component of full disclosure provision. Following annual assessment or general reassessment that results in increase of 1% or more in tax levied jurisdiction shall reduce rate so as not to exceed 101% of prior year, unless, after advertisement and hearing, it believes it necessary to increase rate above rollback. Excludes new construction, improvements, and special levies.
West Virginia ***Counties, Municipalities and School Districts***	1990	Revenue rollback is component of full disclosure provision. Following annual or triennial appraisal/valuation that results in an increase of 1% or more of revenue rate shall be reduced so as not to exceed 101% of prior year. Governing body may increase rate above rollback rate if it advertises and holds public hearing. Excludes new construction and improvements.

OTHER RESEARCH ON TAX AND EXPENDITURE LIMITATIONS

Research on tax and expenditure limitations has included:

(1) Studies of the reasons for voter support;

(2) Descriptions of specific limitations or cross-sectional summaries of their characteristics and projected effects; and

(3) Studies of impacts on state and local finance, including analyses of their impact on the size of the public sector, and, to a lesser degree, their distributional impact.

WHY VOTERS SUPPORT TAX LIMITATIONS

Some findings suggest that the electorate wanted lower taxes and more efficiency in government, but not cutbacks in public services. In essence, voters were attempting to lower the price of the existing service package.[19] Others have found that voters support TELs according to their self-interest—those whose tax burdens would likely be most clearly affected supported the limitations.[20]

INSTITUTIONAL DESCRIPTIONS

Research on overall public spending, the structure of state and local government finance, and local fiscal conditions has found:

- A projected worsening of fiscal conditions for 43 U.S. cities with binding hypothetical tax limitations;[21]
- Minimal benefits from attempts to limit local public expenditures in the face of potentially significant costs;[22]
- An expected change in intergovernmental revenue and expenditure structures;[23] and
- Low potential for TELs to limit tax burdens and state spending.[24]

IMPACT ON STATE AND LOCAL FINANCE

Studies of the actual impact of TELs focus on tax burdens, the broader impact on single jurisdictions, the impacts on the level of government expenditure in multiple jurisdictions, and the effect on the revenue and expenditure structure of the state and local sector.

Tax Burdens

This research has explored aggregate burden (i.e., are people paying less in taxes after the limitation?) and the distribution of the burden (have the changes had an impact on equity of the tax system?).

An early investigation of Proposition 13 found that it offered the largest tax reductions to low- and high-income residents. Compared to an equal-sized cut in sales, income, or residential property taxes alone, Proposition 13 benefits more households with incomes below $25,000, although it also dramatically increases horizontal inequities.[25]

Tax incidence analyses for selected cities in California, New Jersey, and Kansas found a lower tax burden for California and New Jersey cities, and tax systems in all three states moving in the direction of greater progressivity. Tax relief was provided to those with the lowest income. There was a movement toward income taxes and business property taxes, and away from residential property taxes. User fees and charges (generally regressive) also are receiving increasing attention as revenue sources.[26]

Single Jurisdiction Studies

A second set of studies reviews the impact of TELs in specific states. These concentrate on three large states with well-known and binding limitations: California, New Jersey, and Massachusetts.

Studies focusing on California found early impacts of Proposition 13 to include a reduction in property tax rates coupled with increases in state intergovernmental aid, user fees, and charges.[27] Infusions of state aid allowed local governments to avoid service reductions. But expectations over the long run included further increases in user charges, more state assumption of school finance, and an altering of relationships among local governments, some of which will be consolidated.[28]

Later research investigated the impact of TELs in creating uniform service levels between jurisdictions and the ramifications of reducing service package choice. Tax burdens were found to decline while service variation appeared to be maintained, suggesting continued choice (although the range may have been modified).[29]

California municipalities kept total real per capita revenues and expenditures constant between 1978 and 1985, and those hit hardest by outside constraints (in the form of federal and state aid policies) have raised own-source revenues the most.[30]

New Jersey limits expenditures rather than tax collections. A comparison of predicted expenditure levels without the limitation to actual spending with the limitation found only a small negative effect on the level of municipal expenditures.[31] School districts have relied on state aid to replace losses in local revenue. This has had a negative impact on the ability of this aid to serve as a fiscal equalizer between districts, prompting the conclusion that the limitation has had regressive distributional effects.[32]

Case studies of the effect of Massachusetts' Proposition 2 1/2 (a limitation on local assessments and the property tax rate) on selected cities and eight towns found that they did not have to make devastating budget cuts, although many did face reductions. Property revaluation lessened the impact for some municipalities, as did a large infusion of state aid. Some local governments also instituted spending freezes, deferred capital expenditures, and increased non-property tax revenue.[33]

Cross-Sectional Studies

A limited number of studies evaluated cross-sectionally the impact of TELs on the finances of state and local government. One evaluation of the impact of a hypothetical limitation tying appropriation increases to inflation and population increases (similar to Proposition 4 in California) found that only Connecticut had lower per capita expenditure than it would have had with such a limitation.[34]

The same type of analysis is used to evaluate the impact of tying growth in spending to per capita income growth. In 35 states, expenditures grew more rapidly than income. Other studies suggest that, overall, TELs have made very little difference in state spending and fiscal policies.[35]

A recent set of studies assessed the overall impact of TELs on the revenue and expenditure structure of the **48** contiguous states from 1965 through 1990. There was no effect on the absolute size of the public sector, but the composition has changed significantly. Shifts in structure have included:

- Less reliance on traditional local revenue sources for the state and local public sector;
- Less reliance on tax sources for local own-source revenue;
- More local reliance on state aid; and
- **An** increase in the general level of state expenditure and revenue responsibility, particularly for education and highways.

Overall, the result appears to be a more centralized public sector, possibly less responsive to local preferences, more reliant at the local level on nontax sources of revenue, and a bit less accommodating to the needs of dependent populations. In addition, these effects appear to be increasing over time.[36]

Much of this research took place relatively early in the states' experience with the effects of the "tax revolt." These effects have likely been altered and magnified over time. Questions remain about the effects of TELs on the structure of the state and local public sector. Previous studies suggest that TELs result in attempts to tap alternative sources of revenue and to look to intergovernmental resources. However, the implications of such pressures have not been assessed adequately.

Questions that might be addressed more fully include:

- What changes have there been in the distribution of revenues away from broad-based taxes toward more narrowly defined sources?
- Has there been a shift in responsibility for expenditure functions? For example, have local governments in states with binding limitations on property tax revenues turned to state government for increased funding for education?
- What have been the overall equity and efficiency effects?
- What have been the effects on local autonomy?
- Has there been a shift toward single-purpose jurisdictions and what are the implications for governance?

Increased reliance on user fees and other narrow revenue sources may make the state and local revenue system more regressive. **A** movement toward state aid and away from local funding of public schools may have implications for equity (e.g., greater progressivity) and efficiency (e.g., reduced congruence with local preferences).

NOTES

[1] James N. Danziger, "California's Proposition 13 and the Fiscal Limitations Movement in the United States," ***Political Studies*** 28 (1980): 599-612; and Philip G. Joyce and Daniel R. Mullins, "The Changing Fiscal Structure of the State and Local Public Sector: The Impact of Tax and Expenditure Limitations," ***Public Administration Review*** 51 (May/June 1991): 240-253.

[2] Advisory Commission on Intergovernmental Relations (ACIR), ***State Limitations on Local Taxes and Expenditures*** (Washington, DC, 1977); and James Danziger and Peter Smith Ring, "Fiscal Limitations: A Selective Review of Recent Research," ***Public Administration Review*** 43 (January/February 1982): 47-55.

[3] H.E. Brazer, "On Tax Limitations," in Norman Walzer and David Chicoine, eds., ***Financing State and Local Government in the 1980s*** (Cambridge, Massachusetts: Oelgeschlager, Gunn, and Hain, 1981).

[4] In a survey conducted annually by the Advisory Commission on Intergovernmental Relations, the property tax consistently ranks among the worst, or least fair, of major federal, state, and local taxes. It holds this distinction jointly with the federal income tax. During the 1970s, the property tax generally was considered worse than the income tax, followed by a period from 1979 to 1988 when the income tax held this distinction. The property tax was worst again in 1989 and 1991 (see ACIR, ***Changing Public Attitudes on Governments and Taxes).***

[5] See Steven D. Gold and Martha Fabricius, How ***States Limit City and County Property Taxes and Spending*** (Denver: National Conference of State Legislatures, 1989); ACIR, ***Significant Features of Fiscal Federalism,*** 1992, Table 7; and Joyce and Mullins, "The Changing Fiscal Structure of the State and Local Public Sector."

[6] Gold and Fabricius, ***How States Limit City and County Property Taxes and Spending.***

[7] U.S. Department of Commerce, Bureau of the Census, ***Government Finances: 1990-91*** (Washington, DC, 1994), Table 29.

[8] Steven D. Gold, "Results of Local Spending and Revenue Limitations: A Survey," ***Perspectives on Local Public Finance and Public Policy*** 1 (1983): 109-147.

[9] ACIR, ***State Limitations*** on ***Local Taxes and Expenditures;*** and Dennis R. Judd, ***The Politics of American Cities: Private Power and Public Policy,*** 3rd ed. (Glenview, Illinois: Scott, Foresman and Company, 1988).

[10] National Property Tax Manual (Vertex Inc., 1991).

[11] Gold, "Results of Local Spending and Revenue Limitations."

[12] Gold and Fabricius, ***How States Limit City and County Property Taxes and Spending.***

[13] Citizens Research Council of Michigan, "Truth in Local Property Taxation and Assessment,'' ***Council Comments*** 929 (May 1982).

[14] ACIR, ***State Limitations*** on ***Local Taxes and Expenditures,***

[15] "Proceeds of taxes" include general tax revenues, proceeds from investment of tax revenue, revenues from user fees and charges that exceed the cost of providing the service, and year-end unappropriated fund balances originating from tax sources. For local governments, proceeds also include state subvention revenue. California Tax Foundation, ***Up*** to ***the Limit: Article XIII B Seven Years Later*** (Sacramento, 1987).

[16] California Taxpayer Association, ***Growth within Limits: Reshaping Article XIII B*** (Sacramento, 1988).

[17] Colorado Constitution, Article X, § 20(3)(4).

[18] ACIR, ***State Limitations** on **Local Taxes and Expenditures.***

[19] Research along these lines includes Helen F. Ladd and Julie Boatright Wilson, ***Proposition** 2 **1/2: Explaining the Vote*** (Cambridge: Harvard University, John F. Kennedy School of Government, 1981); "Why Voters Support Tax Limitations: Evidence from Massachusetts' Proposition 2 1/2," ***National Tax Journal*** 35 (1982): 121-147; and "Who Supports Tax Limitations: Evidence from Massachusetts Proposition 2 1/2," ***National Tax Journal*** 36 (1983): 256-279; Paul Courant, Edward Gramlich and Daniel Rubinfeld, "Why Voters Support Tax Limitations: The Michigan Case," ***National Tax Journal*** 38 (1985): 1-20.

[20] Robert M. Stein, Keith E. Hamm, and Patricia K. Freeman, "An Analysis of Support for Tax Limitation Referenda," ***Public Choice*** 40 (1983): 187-194.

[21] John E. Peterson, "Tax and Expenditure Limitations: Projecting Their Impacts on Big City Finances," in Kaufman and Rosen, eds., ***The Tax Revolts: The Case of Proposition 13*** (New York: Harper, 1981).

[22] Ladd, "An Economic Evaluation of State Limitations on Local Taxing and Spending Power," ***National Tax Journal*** 31 (1978): 1-18.

[23] Perry Shapiro and W. Douglas Morgan, "The General Revenue Effects of the California Property Tax Limitation Amendment," ***National Tax Journal*** 31 (1978): 119-128.

[24] Dale Bails, "A Critique of the Effectiveness of Tax-Expenditure Limitations," ***Public Choice*** 38 (1982): 129-138.

[25] Howard Chernick and Andrew Reschovsky, "The Distributional Impact of Proposition 13: A Microsimulation Approach," ***National Tax Journal*** 35 (1982): 149-170.

[26] Dennis DeTray et al., ***Fiscal Restraints and the Burden of State and Local Taxes*** (Santa Monica, California: RAND, 1981).

[27] Roger Kemp, "California's Proposition 13: A One-Year Assessment," ***State and Local Government Review*** 14 (January 1982).

[28] Danziger, "California's Proposition 13 and the Fiscal Limitations Movement in the United States."

[29] Carolyn Sherwood-Call, "Tax Revolt or Tax Reform: The Effect of Local Government Limitation Measures in California," ***Economic Notes*** (San Francisco: Federal Reserve Bank, 1987).

[30] Gary J. Reid, "How Cities in California Have Responded to Fiscal Pressures since Proposition 13," ***Public Budgeting and Finance*** 8 (Spring 1988): 20-37.

[31] David Merriman, "The Distributional Effects of New Jersey's Tax and Expenditure Limitations," ***Land Economics*** 62 (1986): 354-361.

[32] Sharon Bernstein Megdal, "Estimating a Public School Expenditure Model under Binding Spending Limitations," ***Journal of Urban Economics*** 19 (1986): 277-295.

[33] Lawrence E. Susskind and Cynthia Horan, "Proposition 2 1/2: The Response to Tax Restrictions in Massachusetts," in Lawrence E. Susskind, ed., ***Proposition** 2 **1/2*** (Cambridge: Massachusetts Institute of Technology, 1983).

[34] Richard J. Cebula, "Tax-Expenditure Limitation in the U.S.—Two Alternative Evaluations," ***Economic Notes*** (1986): 140-151.

[35] These include Daphne A. Kenyon and Karen Benker, "Fiscal Discipline: Lessons from the State Experience," ***National Tax Journal*** 37 (1984): 437-446; and Marcia Howard, "State Tax and Expenditure Limitations: There Is No Story," ***Public Budgeting and Finance*** 9 (1989): 83-90.

[36] Joyce and Mullins, "The Changing Fiscal Structure of the State and Local Public Sector."

Appendix
Legal Citations

ALABAMA		
Overall	C	Article 11, § 217 (Amendment #325 and 373)
Specific	C	
co		Article 11, § 215
mun		Article 11, § 216
sd		Article 14, § 2
ALASKA		
Specific	S	§ 29.45090
Levy	S	§ 29.45.090
ARIZONA		
Overall	C	Article 9, § 18
Levy	C,S	
co, mun		Article 9, § 19 and § 42-301
Assessment	S	§ 42-201.02
Expenditure	C,S	
co, rnun		Article 9, § 20 and § 41-563
sd		Article 9, § 21 and § 41-563(c)
ARKANSAS		
Specific	C,S	
co		Article 12, § 4 and § 26-25-101
mun		Article 12, § 4 and § 26-25-102
Levy	S	§ 26-26-402
CALIFORNIA		
Overall	C	Article 13A, § 1
Assessment	C	Article 13A, § 2
Expenditure	C	
co, mun, sd		Article 13B, § 1
COLORADO		
Levy	C,S	
co, mun, sd		Article 10, § 20 and § 29-1-301
Expenditure	C	
co, mun, sd		Article 10, § 20(7)(b)
Revenue	C	
co, mun, sd		Article 10, § 20(7)(c)(d),(8)(a)
Disclosure	C,S	Article 10, § 20(3) and §29-1-301,302
DELAWARE		
Levy	S	Chapter 80, Title 9, § 8002
co		
Disclosure	S	Chapter 80, Title 9, § 8002

FLORIDA		
Specific	C,S	
co		Article 7, § 9 and § 200.071
mun		Article 7, § 9 and § 200.081
sd		Article 7, § 9 and § 236.081(4)
Assessment	C	Article 7, § 4
Disclosure	S	§ 200.065 and § 200.069
GEORGIA		
Specific sd	C	Article 8, § 6, P 1
Disclosure	S	§ 48-5-32.1
HAWAII		
Disclosure	S	§ 248-2
IDAHO		
Overall	S	§ 63-923
Specific	S	
co		§ 63-903
mun		§ 50-235
sd		§ 33-802
Levy	S	$63-2220
Disclosure	S	§ 63-2224 to 2226
ILLINOIS		
Specific	S	
co		§ 5-1024
mun		§ 8-3-1
sd		§ 17-2
Levy	S	§ 35 ILCS 245-1.1 to 1.5
Disclosure	S	Truth in Taxation Act
INDIANA		
Levy	S	
co, mun		§ 6-1.1-18.5-2
sd		§ 6-1.1-19-1.5
IOWA		
Specific	S	
co		§ 331.423
mun		§ 384.1
sd		§ 257.3
Assessment	S	§ 441.21
Expenditure sd	S	Chapter 257
Disclosure	S	§§ 331.426,434
KANSAS		
Specific co, mun	S	§§ 79-1945 to 1970
Levy	S	§ 79-5022,5024,5025,5026,5027,5028,5032

KENTUCKY		
Specific	C,S	
co, mun		§ 157 of Constitution
sd		§ 160.475
Levy	S	House Bill 44 (1979)
Disclosure	S	§§ 132.027 and 160.470
LOUISIANA		
Specific	C	
co		Article 6, § 2803
mun		Article 6, § 27
sd		Article 8, § 13
Levy	C	Article 7, § 23
MARYLAND		
Assessment	S	§ 8-103
Disclosure	S	§§ 6-308 and 2-205
MASSACHUSETTS		
Specific	S	Chapter 59, § 21C(1)
mun		
Levy	S	Chapter 59, § 21C(4)
mun		
MICHIGAN		
Overall	C,S	Article 9, § 6 and § 211.201
co, sd		
Specific	S	§§ 211.107(a) and 117.3
mun		
Levy	C	Article 9, § 31
Disclosure	S	§ 211.24(e)
MINNESOTA		
Specific	S	§§ 412.251 and 426.04
mun		
Revenue	S	§§ 275.50 to 275.56
co, mun		
Expenditure	S	§ 124.2131
sd		
Disclosure	S	§ 275.065
MISSISSIPPI		
Levy	S	§ 27-39-320
co, mun	S	§ 27-39-320, 27-39-305, 27-39-321
sd	S	§ 27-39-320, 37-57-105, 37-57-107
MISSOURI		
Specific	C	Article 10, § 11(b)(c)
Levy	C,S	Article 10, § 22 and § 137.073
Disclosure	C	Article 10, § 22
MONTANA		
Specific	S	
co		§ 7-6-2501
mun		§ 7-6-4452
sd		§§ 20-9-331 and 20-9-353

Levy	S	§ 15-10-402
Disclosure	S	§ 15-10-203
NEBRASKA		
Specific	S	
co		§ 77-1063
mun		§ 19-1309
sd		§ 79-432
Levy	S	§§ 17-3437 to 17-3440
Expenditure	S	§ 79-3814
sd		
Disclosure	S	§ 17-3440
NEVADA		
Overall	C,S	Article 10, § 2 and § 361.453
Specific	S	
mun		§ 266.605
sd		§ 387.195
Levy	S	§ 354.59811
Disclosure	S	§ 361.4545
NEW JERSEY		
Levy	S	§ 40A:4-45.4
co		
Expenditure	S	
mun		§§ 40A:4-45.2 and 45.3
sd		§ 18A:7D-28
NEW MEXICO		
Overall	C	Article 8, § 2
Specific	S	§ 7-37-7
Levy	S	§ 7-37-7.1
Assessment	S	§ 7-37-7.1
NEW YORK		
Specific	C	Article 8, § 10
Assessment	C	Article 18, 1805
NORTH CAROLINA		
Specific	C	
co		Article 7, § 153A-149
mun		Article 9, § 160A-209
NORTH DAKOTA		
Specific	S	
co		§ 57-15-06
mun		§ 57-15-08
sd		§ 57-15-14
Levy	S	
co, mun		Session Laws 1991, Ch. 653
sd		§ 57-15-14
OHIO		
Overall	C,S	Article 12, § 2 and § 5705.02
Levy	S	Title 57

OKLAHOMA		
Overall	C	Article 10, § 9(a)
OREGON		
Overall	C	Article 11, § 11(b)
Specific	C	Article 11, § 11(b)
sd		
Levy	C	Article 11, § 11
PENNSYLVANIA		
Specific	S	
co		16 PS§ 1770
mun		53 PS§ 37531
sd		24 PS§ 6-652
Levy	S	
RHODE ISLAND		
Levy	S	§ 44-5-2
Disclosure	S	§ 44-35-5
SOUTH CAROLINA		
Disclosure	S	§ 12-43-280
SOUTH DAKOTA		
Specific	S	
co		§ 10-12-21
mun		§§ 10-12-32 and 33
sd		§ 10-12-30
TENNESSEE		
Disclosure	S	§ 67-5-1702
TEXAS		
Specific	C	
co, mun		Article 8, § 9
sd		Article 7, § 3
Levy	S	§ 26.04
Disclosure	S	$26.06
UTAH		
Specific	S	
co		§ 59-2-908
mun		§ 10-10-57
sd		§ 53A-17a-135
Disclosure	S	§§ 59-2-918 and 919
VIRGINIA		
Disclosure	S	§ 58.1-3321
WASHINGTON		
Overall	C,S	Article 7, § 2 and § 84.52.043
Specific	S	§ 84.52.043
Levy	S	§§ 84.55.010and 84.55.050

WEST VIRGINIA		
Overall	S	§ 11-8-6
Specific	S	
co		§ 11-8-6(b)
mun		§ 11-8-6(d)
sd		§ 11-8-6(c)
Levy	S	§ 11-8-6(e)(f)
Disclosure	S	§ 11-8-6(e)(f)
WISCONSIN		
Specific	S	
co	S	§ 66.77, §67.035, §67.045
Revenue		§§ 121.90, 121.91, 121.92
WYOMING		
Specific	C,S	
co		Article 15, § 5 and § 39-2-402
mun		Article 15, § 6 and § 39-2-402
sd		§ 21-13-102

RECENT ACIR PUBLICATIONS

Federal Mandate Relief for State, Local, and Tribal Governments (A-129, 1995) $15.00

Federally Induced Costs Affecting State and Local Governments (M-193, 1994) $20.00

Local Government Responsibilities in Health Care (M-192, 1994) $10.00

Planning to Govern (M-191, 1994) $10.00

Significant Features of Fiscal Federalism, 1994 Edition
Volume 1 (M-190) $24.95
Volume 2 (M-190-II) $29.00

Taxation of Interstate Mail Order Sales: 1994 Revenue Estimates (SR-18, 1994) $8.00

Child Care: The Need for Federal-State-Local Coordination (A-128, 1994) $10.00

State and Local Travel Taxes/Revenue Diversification Series (M-189, 1994) $8.00

Characteristics of Federal Grants-in-Aid to State and Local Governments:
Grants Funded FY 1993 (M-188, 1994) $10.00

Sourcebook of Documents to Accompany High Performance Public Works
(SR-16S, 1994) $25.00

High Performance Public Works: A New Federal Infrastructure Investment
Strategy for America (SR-16) $10.00

Local Government Autonomy: Needs for State Constitutional, Statutory,
and Judicial Clarification (A-127, 1993) $10.00

RTS 1991: State Revenue Capacity and Effort (M-187, 1993) $20.00

State Laws Governing Local Government Structure and Administration
(M-186, 1993) $10.00

Federal Grant Programs in 1992: Their Numbers, Sizes, and Fragmentation
Indexes in Historical Perspective (SR-14, 1993) $10.00

Federal Regulation of State and Local Governments: The Mixed Record
of the 1980s (A-126, 1993) $15.00

The Role of General Government Elected Officials in Criminal Justice (A-125, 1993) . . .$25.00

Guide to the Criminal Justice System for General Government Elected
Officials (M-184, 1993) $8.00

FOR A COMPLETE LIST OF PUBLICATIONS OR FURTHER INFORMATION CALL ACIR (202) 653-5540. ACIR ACCEPTS VISA, MASTERCARD, AND PURCHASE ORDERS.

ACIR

The U.S. Advisory Commission on Intergovernmental Relations (ACIR) was created by the Congress in 1959 to monitor the operation of the American federal system and to recommend improvements.

ACIR is a permanent, independent, bipartisan commission composed of 26 members—nine representing the Congress and the Administration, four Governors and three State Legislators, four Mayors and three Elected County Officials, and three private citizens.

The President appoints twenty members—the private citizens and federal executive officers directly, and the state and local members from nominations by the National Governors' Association, National Conference of State Legislatures, National League of Cities, U.S. Conference of Mayors, and National Association of Counties. The U.S. Senators are appointed by the President of the Senate, and the Members of the House of Representatives by the Speaker of the House. Each Commission member serves a two-year term and may be reappointed.

As a continuing body, the Commission addresses specific issues and problems the resolution of which would produce improved cooperation among federal, state, and local governments and more effective functioning of the federal system. In addition to examining important functional and policy relationships, the Commission studies critical government finance issues.

One of the long-range efforts of the Commission has been to seek ways to improve federal, state, and local government practices and policies to achieve equitable allocation of resources, increased efficiency and equity, and better coordination and cooperation.