



Possibilities of farm tax reduction through county consolidation in Montana
by Stanley W Voelker

A THESIS Submitted to the Graduate Committee in partial fulfillment of the requirements for the Degree of Master of Science in Agricultural Economics at Montana State College
Montana State University
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Abstract:

County government has been aptly termed the "dark continent of American government." It may be an exaggeration to say that most citizens know more about what takes place in Washington than what goes on in their local courthouse, yet voters and taxpayers are prone to argue at length about congressional activities, foreign policy, tariffs, and other matters of national concern and are frequently quite unaware of even the more important features of local government.

This emphasis upon federal government and lack of interest in local affairs is indicated by the fact that newspapers--which necessarily print the type of material demanded by the reading public---devote such a large proportion of their front pages to Congress, to the Supreme Court, and to the President and his advisors that only a few column inches and no headlines are available for county and state activities. There are many excellent treatises on national government but comparatively little material is available for students of municipal affairs. Those who would write on local government soon find themselves sailing uncharted seas.

While national politics are undoubtedly more exciting to follow, the fact remains that the average farmer or homo-owner has a far greater financial investment in local government than in federal and state governments combined, because of the heavy reliance placed upon the general property tax by the smaller units. This has been forcibly emphasized by the current depression, with the result that there has been an awakening among thinking people to the realization that an alert and interested electorate is a prime essential to efficient operation of municipal government and the maintenance of democratic ideals.

The purpose of this study is the analysis of the proposed local government reform of county consolidation from the standpoint of tax reduction. This will make it necessary to devise measures of county office efficiency for aid in determining which counties, if any, should be abandoned. Specific proposals for county mergers will be analyzed on the basis of these measures to show the most probable savings in governmental costs and effects on the tax levies in the counties affected. Because of the present concern in Montana regarding economic planning as a means of speeding up recovery and rectifying past mistakes, this study may be of some interest and possible value to the leaders and agencies in whose hands the future of Montana lies.

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PART I: INTRODUCTION

Purpose of Study

County government has been aptly termed the "dark continent of American government." It may be an exaggeration to say that most citizens know more about what takes place in Washington than what goes on in their local courthouse, yet voters and taxpayers are prone to argue at length about congressional activities, foreign policy, tariffs, and other matters of national concern and are frequently quite unaware of even the more important features of local government.

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Source of Data

The basic data used in this study are the unit costs of each of the more important county offices, computed by the department of Agricultural Economics, Montana Experiment Station, in its study of county government, the results of which have been published in bulletin form. (10) The materials used in these computations were secured originally from the annual reports of each county clerk and recorder, supplemented by specific information obtained through a questionnaire filled in by each county officer.

The present study attempts no original contribution to the unit cost method of determining county office efficiency as developed by the

Station, but rather illustrates the possible use of these measures in forecasting administrative costs of proposed county consolidation.

The Farm Tax Burden

General property taxes.---General property taxes account for over 80 per cent of the tax revenue and nearly 60 per cent of the total revenue of all Montana governments, both state and local. County governments rely much more on property taxes than does the state, over 90 per cent of the county tax revenue and nearly 80 per cent of the total revenue coming from this source.* Montana is primarily an agricultural state. Revenue from income and inheritance taxation is limited because there are so few large incomes and estates. Any great dependence on the taxation of mines on a net proceeds basis would be extremely precarious because of spasmodic mineral production, particularly in times of business depression. Thus it is inevitable that Montana governments will always rely heavily on the general property tax. This does not mean that other possible sources of revenue have been exhausted, but that alternative taxes will probably never entirely replace the general property tax, regressive and burdensome though this type of tax may be.

Increase in property taxes.---The total receipts from property taxes of all Montana governments amounted to \$14,100,000 in 1913. By 1930 this had increased to \$27,626,000, or almost double the pre-war figure.

*Compiled from the 1933 Annual Report of the Clerk and Recorder of each county, 1934 Biennial Reports of the State Board of Equalization, the State Auditor, the State Examiner, and the State Superintendent of Public Instruction.

In 1932 only \$23,301,000 in property taxes were collected although \$26,354,000 were levied.* According to the Bureau of Agricultural Economics of the United States Department of Agriculture, Montana farm taxes increased during this twenty-year period from \$.08 to \$.12 per acre, an increase of 60 per cent, and from \$.41 to \$1.54 per \$100 of assessed (full and true) valuation, an increase of 276 per cent. (13)

This increase in the tax burden is partially explained by the fact that Montana is a comparatively new state. During the period of heaviest settlement, 1909 to 1919, the settlers and homesteaders were investing what little capital was available in the development of their farm and ranch enterprises, with the result that the construction of roads, bridges, schools, and county buildings had to be financed by the issuance of local government bonds. In this way the date of payment for these necessary services was postponed until the 1920's and 1930's. In other words, the state as a whole at the present time is just completing payment of the heavy first cost of organizing governments. The net indebtedness of all Montana governments decreased about one-fourth between 1923 and 1934 (see table I). The major portion of the present debt (about \$49,000,000 in 1934) is predicated upon the general property tax, and the retirement of bonds in the future should be reflected in lower levies.

*There is no doubt that the high percentage of delinquency during the past five years has been responsible for a great deal of the tax burden on property that did not go delinquent.

Table I - NET DEBT OF ALL MONTANA TAXING UNITS, 1923 AND 1934

Taxing unit	June 30, 1923	June 30, 1934	1934 in per cent of 1923
State of Montana	\$ 7,430,846	\$ 9,607,437	129.3
Counties	27,708,651	12,350,364	44.6
School districts	11,625,169	8,047,972	69.2
Drainage & irrigation districts	1,392,707	5,381,463	386.4
Cities and towns	17,604,328	13,646,465	77.5
Total - all units	65,761,701	49,033,701	74.6

Source: Sixth Biennial Report of the Montana State Board of Equalization, Helena, June 30, 1934, pp. 109 to 117.

However, the increase in levies to retire outstanding debt obligations is not the only, or even the most important, reason for the enormous increase in the property tax burden. The increase in the number and quality of services offered go hand in hand with the growing tax burden. For example, the trend in number of pupils in school, the quality of the teaching offered, and the mileage of surfaced roads to be maintained closely parallel the trend in the amount of the tax levies. The cost of relief and charitable institutions has reached proportions unheard of before the World War. There are numerous costly services, now considered necessary adjuncts of state and local governments, which were almost unknown in the state in 1914.

Importance of property taxes to counties.---Not only do the county governments rely most heavily upon the general property tax for their support, as previously noted, but also the county levies make up the lion's share of the property taxes. In 1934 over half (56 per cent) of all property taxes levied in this state went to the counties. Very few farms are within the boundaries of incorporated cities and towns, and hence, for all practical purposes, the average distribution of farm property taxes to the various taxing units is about as follows: state, 11 per cent; county government, 66 per cent; school districts, 20 per cent, and other special districts, 3 per cent (see table II). With practically two-thirds of the total farm property taxes levied going to the counties, it is quite significant that the majority of the proposals advocated for alleviating the farm tax burden in this state should deal with county government reforms.

Table II - GENERAL PROPERTY TAXES LEVIED IN MONTANA,
1934, BY TAX LEVYING AUTHORITIES

Tax levying authority	Amount	In per cent of total levies	In per cent of total except cities & towns & village taxes
State <u>a/</u>	\$ 2,452,322	9.76	11.38
Counties <u>b/</u>	14,115,041	56.14	65.53
School districts	4,383,756	17.44	20.35
Special districts <u>c/</u>	589,302	2.34	2.74
Total except cities & towns & villages	21,540,421	85.68	100.00
Cities and towns	3,587,334	14.27	
Villages (fire districts)	13,314	.05	
Grand total	25,141,069	100.00	

a/ Includes \$59,527 of special levies on livestock.

b/ Includes the county-wide general school and high school levies.

c/ Includes all special districts except fire districts, which is the usual type of village government organization.

Source: Sixth Biennial Report of the Montana State Board of Equalization,
Helena, June 30, 1934, p. 81.

Evidence of the farm tax burden.---There were approximately \$18,000,000 in delinquent property taxes outstanding and unpaid on July 1, 1933. In addition to this, counties held real estate taken by tax deed which represented a total of about \$8,500,000 in unpaid taxes. The magnitude of these figures is brought out by the fact that they are larger by \$1,500,000 than the total tax levies of all governmental units for that year. Of the \$25,000,000 of taxes levied for the year 1932-33, \$5,705,000 (23 per cent) were unpaid on July 1. Of this delinquency, \$3,377,000, or nearly 60 per cent, were delinquent taxes and special assessments charged against farm real estate, despite the fact that this type of property makes up only 34 per cent of the total taxable valuation of the state.* By the end of 1933 more than 21,000,000 acres of agricultural land (over 40 per cent of the total in the state) were delinquent one or more years in tax payments, of which about one-fourth were subject to tax deed.

To many students of government these alarming figures portend a breakdown of the property tax system. Delinquency such as Montana has just experienced is indeed a serious threat to the financial stability of local governments. Quite obviously, agriculture, the so-called bulwark of our democracy, is cracking under the tax load imposed upon it.

Status of Montana Counties

Politically.---From the political point of view, counties in Montana are subdivisions of the state set up under the State Constitution

*Compiled from 1933 Annual Report of the County Clerk and Recorder of each county to the State Examiner and the 1934 Biennial Report of the Montana State Board of Equalization.

and legislative enactments for the assessment and collection of all taxes (except income and corporation license taxes) for all governmental units both state and local, the administration of justice, the conduct of elections, the maintenance of peace and order, the recording of legal documents, and handling income in trust for other governmental units. In addition to the administration of those functions of the state, counties can perform purely local functions and services such as the construction and maintenance of roads, bridges, and other public works, supervision and administration of schools, promotion of public health and sanitation, care of the indigent sick and aged, and conduct of local projects such as county extension work, fairs, and eradication of pests.

Thus the county has three political natures. First, it is a political entity in itself with its own, though incomplete, government. Second, it functions as a unit of the state, and as such its officials are subject to a certain amount of supervision and control by state officials. Last, it exercises certain supervisory powers over other local governmental units, particularly school and improvement districts. There is no sharp division between these three functions of the county. The same office personnel performs the three sets of duties, using the same equipment, assessment lists, tax rolls, and accounting procedure.

Montana counties are not chartered; that is, they do not have home rule. In this respect they differ from incorporated cities and towns, which are empowered by charter to pass their own laws and ordinances. Using this as a criterion, counties may be said to have an incomplete or imperfect government. The county has no inherent right to exist, for its

existence is dependent upon the general and special laws of the legislature and its government is largely a matter of mechanical routine prescribed by the state.

Legally.---The Montana Political Code defines counties as "bodies corporate." Rocca, in discussing the legal nature of the county, points out that while the county is a creature of the state---i. e., is a "public corporation"---it does not have full corporate powers and hence should be termed a "quasi-corporation" to distinguish it from "municipal corporations" such as cities, towns, and boroughs. (11) This distinction is made on the basis of property rights, for in the final analysis county property really belongs to the state and can be taken over by it under certain conditions. However, counties can buy, sell, lease, and dispose of all kinds of property within certain limitations. They can enter into contracts, hire and discharge employees, and sue or be sued in the courts. So for all practical purposes the term "body corporate" characterizes the legal nature of the county.

Socially.---Counties are not natural social groups in the strict sense of the word. County boundaries do not coincide with those of neighborhoods or communities. A trade area may involve several counties or only part of one. In a few cases an unbridged river or mountain divide acts as a county boundary, but these instances are only exceptions to the general rule that counties are the creatures of the surveyor's chain. Even though counties are not natural social groups, there is a definite sense of group interest among their inhabitants. This "community of interest" is the result of two things, the most obvious of which is the

fact that each county is a separate governmental unit for the election of local officials, representation in the State Legislative Assembly, administration of schools, and levying of local taxes. True, these governmental functions are along purely arbitrary boundaries and perhaps would be as strong a cohesive force in the formation of a county-wide "we-group" feeling if there were only 20 counties instead of 56 as at present.

Nevertheless, the continued practice of controlling certain functions of government within definite geographical boundaries without fear of outside influence, artificial and arbitrary though these boundaries be, creates a feeling of vested right that would be difficult to overcome.

The second and perhaps more underlying cause of group feeling within any one county comes about through the ruralists' fear of political dominance by urban groups. Only 18 of the 56 counties in Montana have cities large enough to be classed as "urban", and in the rural counties surrounding these cities there is an antagonism toward the urban county. Most of this feeling is a carryover from the bitter debate occasioned fifteen or twenty years ago when these rural counties split off from the large, parent county surrounding an urban community. This feeling may be considered as a defense mechanism that has grown up to justify secession. It must be remembered that Montana is a newly settled state; as time goes on and the growing feeling of town-country relationship increases with the maturity of the state, this antagonism toward the city, now felt by some of the rural communities, will tend to break down, as Hoffer (6) and Kolb and Polson (7) point out is already the case in the older-settled Middle West.

To summarize, it may be said that the county is: (1) politically weak, existing only as a subdivision of the state, with no inherent right to its own government; (2) legally a corporation without full corporate powers or the organization, management, and control typical of a private corporation; and (3) socially somewhat unstable because it is founded on arbitrary boundaries and held together by antagonisms that are bound to break down as time goes on. Just as the state is losing ground politically and socially to the federal government, so is the county gradually becoming of less importance as a political subdivision of the state.

PART II: PROBLEMS ACCOMPANYING COUNTY CONSOLIDATION

Formation of Counties

Constitutional basis of counties.---The Montana State Constitution provides that the counties of the territory of Montana "shall be the counties of the state until otherwise established or changed by law."* Accordingly, the Legislative Assembly is empowered to determine the rules by which new counties are organized. The only limitation on the legislature's power is that it cannot remove the county seat of any county except by general law and then only with the permission of the majority of electors voting at a general election. The Constitution provides for the election and terms of the following county officials: county commissioners, clerk and recorder, sheriff, treasurer, superintendent of

*Article XVI, Sec. 1

schools, surveyor, assessor, coroner, and public administrator. It is left to the legislature to define the duties, salaries, and regulations governing these county officials and to provide for additional officials when necessary. Rather complete provision is made in the Constitution regarding district judges, county clerks of court, county attorneys, and justices of the peace.*

In Montana there are no serious constitutional handicaps to county government reform. An amendment to the State Constitution was made in 1922 which authorized the legislature to provide any plan or form of government for counties.** To carry out this authorization, the legislature is empowered to abolish any city or town government, to consolidate cities, towns, and counties under one municipality, and to prescribe the number, designation, terms, qualifications, salaries, duties, and method of appointment, election, and removal of all officials of such reorganized local governments. However, the activity of the legislature in these respects is subject to referendum in localities affected, and reform by referendum involves the slow, tedious process of educating the voters to the need for, and the advantages of, the proposed change. When a blanket reform is passed by the legislature, such as the 1931 county manager law, the responsibility for its use is definitely placed upon the electorate, and what is "everybody's business is nobody's business." When the legislature makes specific proposals for some particular county, as it did when

*Article XVI, Sec. 4, 5, and 6, and Article VIII, Sec. 11 to 24.

**Article XVI, Sec. 7.

it initiated the plan for the consolidation of Silver Bow County and the City of Butte into one municipal government, a feeling of resentment and antagonism is sure to result. Merely legalizing a certain reform does not automatically insure its adoption.

Growth in number of counties.---When Montana was admitted as a state in 1889, there were 16 counties. By 1900 this number had increased to 24 and by 1914, just previous to the war period, to 39. By the end of 1920 there were 54, and only two counties have been created since that year. It is significant that of the 40 counties organized during the 47 years since the passage of the Enabling Act, 27 (or 68 per cent) were formed between 1909 and 1920, the period of heaviest settlement in Montana.

During the first few years following the breaking of the sod by the homesteaders, rainfall was sufficient for abundant crops and business was very active in the towns which outfitted the settlers. This productivity and business activity misled the settlers and townspeople into believing that this prosperity was to be permanent. Hence, they attempted to establish the same sort of community pattern with which they had been familiar in the humid regions from whence they had migrated. Under the influence of this general optimistic feeling, new counties were created promiscuously without regard to the potential productivity of the land or its future ability to support governmental services. It is now generally recognized that many of these counties should never have been formed.

Legal restrictions.---This optimism was manifested in the changes in the legal regulations governing the creation of new counties. Prior

to 1911, new counties could be formed only by the slow and difficult process of special legislative enactment. In 1911 the Legislative Assembly provided a more facile procedure. A new county could be created by a favorable vote of 65 per cent of the voters in the area included in the proposed county. The only limitation was that no parent county could be left with less than \$5,000,000 of assessed valuation and no new county could be formed with less than \$4,000,000. Two years later, in 1913, this law was amended by reducing the requirements. In 1919 the law was again amended, this time by raising the requirements a great deal. The large number formed in that year (seven) was due in part to last minute efforts to create more counties before the new law was put into effect. In 1929 the legislature raised the requirements to such a point that it would be practically impossible to create a new county today.

Activity of town groups.---Most of this activity in the formation of new counties, known colloquially as "county busting", was sponsored by local booster clubs in an effort to direct the course of trade. In the eastern two-thirds of the state, towns were laid out primarily as service centers for the surrounding agricultural territory. Except in a few places where coal or oil was discovered, these towns had no hopes of any industrial development. Thus, to insure development for its town, each club concentrated its efforts in attracting the rural population to its stores. Because of the relatively great distances between towns, farmers tended to do all of their business in one town. This usually meant the county seat, because it was thought that farmers would have to

go to the courthouse many times during the year anyway. For this reason every village with 500 or more population longed to become a county seat.

In response to the demand for changes in county boundaries there grew up a class of professional agitators who went from town to town offering their services to organize the movements to fight for new counties. Of these, ^{like} Dan McKay of Vandalia was the most noted and successful. His method was first to convince some local group or club of the advantages of forming a new county. This group would promote an extensive publicity campaign and arrange for public mass meetings at which McKay would be the principal speaker. In this manner local pride and enthusiasm for secession were aroused. Committees were appointed to secure the necessary number of signatures to the petitions and to canvass for votes for the fateful election. Would-be county officials, local politicians, newspapermen, and merchants joined in this work.

There was never a lack of reasons to be advanced for "busting" the county. McKay believed implicitly in the democracy and economy of smaller units, and as a rule he suffered no lack of evidence to support his contentions. In many instances the county-seat town of the original county had forced services, such as roads, schools, or fancy public buildings, quite beyond the tax-paying ability of the surrounding agricultural area to support, even in those prosperous days. This condition would bring forth the promising appeal that the new county would have lower levies. In another case it might be pointed out with equal assurance that the conservative politicians in the county-seat town had denied the people in the proposed county many necessary services, and that the only way of

