

CHAPTER THREE—FEBRUARY, 1933

The Iowa Tax Situation

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IOWA'S INCREASED TAX BURDEN

Since the present business depression began in 1929 the tax bill of the Iowa farmer has become heavier each year. It is true that this increase in burden has been caused by a shrinkage in the farmer's income rather than by actually increasing tax bills. The added difficulty of paying taxes, however, has been as real as though the income had remained the same and the annual taxes had increased to far above the 1929 levies. Why have taxes not fallen along with prices of crops the farmer sells? How did they get to be so high in the first place? How far and how quickly can they be reduced? These questions are discussed by thousands of farmers and others in Iowa every day.

Since the founding of the state the total tax bill has grown at a rate greater than its population and in recent years at a rate greater than its wealth. The principal reason for this has been that from year to year new functions, new services have been assigned to the various governmental agencies. Each of these has involved a new outlay of public funds. These new services have rather generally been demanded by the citizens and have promoted the public welfare by providing better roads, better schools, the safeguarding of the public health and care of unfortunates.

Persons interested in the reduction of taxes frequently point to the year to year increase in public expenditures as evidence of lavish spending. This is often highly misleading. Suppose we take, for example, the expenses for the primary road system of Iowa. The first expenditures were made in 1919, according to the report of the State Highway Commission, and amounted to \$741,000. In 1931 approximately \$28,000,000 was spent for construction of primary roads, \$3,362,000 for maintenance, \$3,753,000 for interest on bonds and \$1,600,000 for redemption of bonds. In considering this increase of approximately \$35,000,000 it should be remembered that most of the construction expense is of the nature of a new capital investment. It should

also be remembered that before the development of the primary road system there was undoubtedly an even greater toll, per unit of traffic, paid to mud roads in the form of lost time, greater power expense and greater depreciation on vehicles.

Three Different Ways of Reducing Taxes

There appear to be three principal ways in which the public expenditures might be reduced. The first of these would be by discontinuing, or reducing, some of the services of government now performed. Suggestions for savings by this method should indicate specific services to discontinue, and should evaluate the services lost as well as the taxes saved. Such proposals should also consider the probable cost of reestablishing the same services, if that should be desired, after the emergency has passed. In some cases it might cost much more to reestablish a project than is saved by its temporary suspension.

The curtailing of road building or of the erection of new public buildings comes under the heading of reduction of services. In this case, however, the reduction takes place in future rather than present services. Pronounced reduction in the personnel of public offices also generally implies some reduction in services performed by these offices.

A second possible means of reducing public expenditures is by lowering salaries of public officials in accordance with the decline in the cost of living. There is a decided lag between wages and the prices of commodities. It would be desirable for wages to be adjusted more promptly than in the past, but this should be done when prices rise as well as when they fall.

A third way is by the elimination of waste and inefficiency. Some of this may come from the dropping of inefficient employees, but it is likely that even more might come from a reorganization of governmental machinery so that each necessary service may be performed at a minimum cost.

Under this same heading may be included the elimination of unnecessary duplication of effort. Economy can also be promoted by adjusting budgets promptly during periods of rapidly falling prices such as the present, when some services can be performed for less money than was required a year or two ago.

Likewise during periods of low interest rates, it may be possible to refund some bond issues, thereby reducing the interest payments on them.

It should be remembered that reduction of expenditures is not quite the same as reduction of taxes. To some extent it might be possible to reduce taxes by finding new sources of income other than from taxes. Some public services might be charged for directly, as by the selling of public documents, instead of distributing them gratis, by increasing tuition paid by out-of-district high school students, increasing tuition in the state colleges, obtaining endowments for such institutions, etc.

Government Organization Lags Behind the Times

The instrumentalities of government have a tendency to change more slowly than the demands that are made upon them. This is inevitably true. The legislature meets only once in two years and conditions may change materially in the interim. Also it takes a certain amount of time to secure the adoption of any measure providing for a new service or discontinuing a service that is no longer needed. Consequently an occasional thorough-going and businesslike reorganization of governmental agencies should accomplish a worthwhile saving.

Of course, there is no lack of interest in governmental economy. But it must be admitted that some items of public expenditure have received more attention than their importance merits, while others of greater magnitude are seldom mentioned at all. It is instructive to consider the great amount of attention given to the county appropriations to the County Improvement Associations or farm bureaus, which amounted in the aggregate to about \$345,000 in 1931, and the very small attention given to the various public debts of the state, on which interest in the same year amounted to over \$10,000,000 and for which the total costs including payments on principal come to about \$20,000,000. This latter expense will be discussed later.

Comprehensive Figures on Expenditures Difficult to Obtain

It is a startling fact that there is no place where the total expenditures of the various administrative units of Iowa can be

ascertained.* Even further than this, it is not possible to get together such information for any particular year because there is no common fiscal year for the different administrations. The fiscal year for the state runs from July 1 to June 30, that for the county from Jan. 1 to Dec. 31. The Highway Commission, which is under state jurisdiction, has a fiscal year from Dec. 1 to Nov. 30; the public school system, which is most closely related to the county governments, uses the year July 1 to June 30; and the fiscal year of cities and towns runs from April 1 to March 31. It must be recognized that there are advantages in the present fiscal years to the schools and to the Highway Commission. Nevertheless, a common fiscal year is highly desirable and would certainly make it much easier to study the public expenditures of the state as a whole.

To this difficulty is added that of cumbersome and ambiguous accounting systems. It was not always possible to reconcile the sources and dispositions of funds. For instance, the treasurers of different counties placed some items in different accounts, either because they interpreted the account headings differently or because they were not sufficiently acquainted with the accounting system. Generally, if the county treasurer was in doubt, the item went into a catchall called "Miscellaneous."

An example of the difficulty encountered in getting complete and accurate data occurs with the share of gasoline tax collections which is remitted by the state to the county for use on secondary roads. According to the records of the state \$11,727,559 gasoline tax was collected during the fiscal year July 1, 1930, to June 30, 1931. Of this sum \$4,114,000 was remitted to

*Data concerning the receipts and expenditures of the state departments were obtained from the office of the Auditor of State. A considerable part of the data in table III had already been tabulated by Mrs. E. Mae Sweany, statistician for the State Board of Assessment and Review. Data concerning the Primary Road System were obtained from the Annual Report of the State Highway Commission. Figures concerning county receipts and expenditures were obtained from the Office of the Auditor of State, except the figures on roads which came from the Highway Commission Report.

Information on the finances of the public school system of the state came from the report of the State Department of Public Instruction. The totals of outstanding indebtedness came from the Auditor of State. The detailed information on school and county bonds was obtained by a survey of 10 counties. This involved an examination of the records of bonds issued in the county auditors' offices and interviews with school superintendents and secretaries. Data on primary road bonds were furnished by the Highway Commission.

In compiling the information in this bulletin, valuable assistance was given by Fred Porter, acting auditor of state, and R. C. Williams, in charge of research for the State Department of Public Instruction, as well as by a large number of other state, county and school officials.

the counties. The counties' fiscal year, however, ran from Jan. 1 to Dec. 31, 1931, and for this period county treasurers reported that they had received from the state gas tax \$3,819,000. Evidently some county treasurers had entered the gas tax in the "Miscellaneous" or some other account because, for the calendar year 1931, county engineers in their reports to the State Highway Commission reported that they had received from the county treasurers gasoline taxes amounting to \$4,505,000. At the same time the "Motor Vehicle Fuel Fund Apportionment Certificates," in the records of the State Highway Commission, show that the counties' share of gasoline tax for the calendar year 1931 amounted to \$4,490,000, and agreed with the \$4,114,000 figure given above for the period July 1930, to June, 1931.

With conflicting figures from different sources and with fiscal years which do not correspond, it is, of course, impossible to make a strictly accurate summary for all administrative units combined. At times it was necessary to exercise considerable judgment in selecting figures which seemed most reasonable and most consistent with those from other sources. And at times it was necessary to adjust figures which were obviously erroneous.

RECEIPTS OF PRINCIPAL ADMINISTRATIVE UNITS

It is commonly believed that the general property tax is almost the sole source of income to the various Iowa units of administration. It is true that the general property tax is the principal source of public revenue and that it has been yielding around \$100,000,000 per year. But other sources of income have been more important in the aggregate than is commonly realized.

Table III shows that when we add together the revenue from the property tax, tax on moneys and credits, auto license fees, gasoline tax, inheritance tax, cigarette tax, insurance tax, federal aid to roads and schools, income from fines, fees, sales, tuition, etc., the entire revenue of the various administrations of the state amounted in 1931 to approximately \$145,000,000. The percentages coming from different sources are shown in fig. 1.

The farmer is most interested in the property tax. The amount of this tax levied for 1931 was approximately \$97,000,000, which is about two-thirds of the total of the public revenues

shown in table III. This is the tax that is causing the greatest distress. Since farm earnings are so greatly reduced, the farm property holder is now paying out a disproportionately large share of his income for taxes.

The tax on motor fuel was the second largest source of public revenue. This yielded in 1931-32 about \$11,760,000. Auto license fees were of almost equal importance and yielded \$11,660,000. The tax on moneys and credits brought in \$3,230,000. Next in importance came several more specialized taxes: the

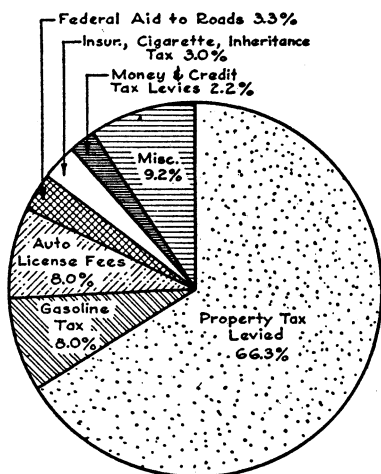


Fig. 1. Percentage of public funds coming from different sources, all administrative units combined.

insurance tax, cigarette tax, inheritance tax and poll tax. These brought in all together about \$4,000,000. The state received nearly \$5,000,000 from federal aid to primary roads and there were many miscellaneous sources of income which yielded in the aggregate nearly \$10,000,000. Thus sources of revenue other than the property tax were highly important and yielded, as we have just seen, over \$40,000,000.

Table III shows that out of this \$145,000,000 about \$43,000,000 goes to agencies under

the administration of the state. This includes expenditures on the primary road system, which is under the state's jurisdiction. The counties received out of the total about \$41,000,000 including funds for use on the secondary road system. The public school system of the state received approximately \$46,000,000. Slightly over \$14,000,000 went to municipalities.

If we combine the county and the state road systems, we find that they received in 1931 approximately \$42,000,000 in addition to funds raised by the sale of bond issues. The educational system, if it be taken to include both the public schools and the institutions of higher education, received roughly \$55,000,000.

The \$14,323,000 shown in table III as going to support cities and towns does not represent the entire revenue of these ad-

TABLE III. APPROXIMATE RECEIPTS OF IOWA ADMINISTRATIVE UNITS

Source of income	Total	To State Yr. to June 30, 1932	To counties (a) Yr. to Dec. 31, 1931	To schools Yr. to June 30, 1932	To municipalities Yr. to March 31, 1932
Property tax levied (b)	\$ 97,015,488	\$ 8,321,920 (c)	\$30,680,530	{ \$44,330,391 (b) }	\$13,682,647
Moneys and credits levied (b)	3,231,855	730,265 (c)	620,914	{ 43,374,911 (b) }	640,249
Auto licenses (d)	11,657,148			{ 1,240,843 (b) }	
To primary road fund					
To other funds					
Gasoline tax (f)	11,727,559	{ 10,544,083 (e) }	{ 346,678 (d) }		
		756,387 (e)	372,993 (b)		
		{ 7,645,811 (b) }	{ 4,114,000 (d) }		
		7,613,559 (d)	4,490,000 (b)		
Federal aid to primary roads (d)	4,814,340	4,814,340			
Insurance tax (d)	1,653,119	1,653,119			
From counties for care of patients, etc. (d) ..	[1,745,072]	[1,745,072]			
From institutions under Board of Con- trol (d)	1,135,204	1,135,204			
Cigarette tax (d)	1,207,138	1,207,138			
Inheritance tax (d)	812,555	812,555			
Equipment car tax (d)	47,073	47,073			
Federal aid for agricultural vocational schools (d)	170,701			170,701	
State aid to schools (d)	[416,008]			[416,008]	
Motor vehicle carrier tax (d)	\$ 312,372	\$ 114,021	{ \$ 164,261 (b) }		
			{ 198,251 (d) }		
Other trust funds (g)	443,936	443,936			
Poll tax (b)	418,685		418,685		
Care of county patients (b)	390,407		390,407		
Fees collected, fines, sales, etc.	2,652,650	1,359,580 (d)	1,293,070 (b)		
From institutions under Board of Edu- cation (j)	3,500,000	3,500,000			
Semi-annual apportionment (k)	1,301,357			\$ 1,301,357	
Miscellaneous	4,600,648		2,797,500	1,517,812	
Total of above items	\$144,979,217 (l)	\$43,063,180	\$41,228,360	\$ 46,364,781	\$14,322,896 (m)

(a) Sinking fund, domestic animal fund, drainage tax, sale of school books omitted. It was necessary to combine in this column figures from several different sources. It, therefore, probably contains a small margin of error. Items in parentheses are not included in the total of the column in which they occur.

(b) Year beginning January 1, 1931.

(c) Amount levied. The State actually drew \$10,268,130 from State taxes, thereby reducing its balance on hand.

(d) Year beginning July 1, 1931.

(e) Amounts collected year beginning July 1, 1931. The State actually drew \$12,500,000, thereby reducing its balance.

(f) Collections for year beginning July 1, 1931, from "Motor Vehicle Fund Apportionment Certificate."

(g) Tax from property and moneys and credits for year July 1, 1931, omitting \$771,823 motor vehicle suspense fund.

(h) Tax from property and moneys and credits for year July 1, 1931, to June 30, 1932.

(i) This figure approximate, for year beginning July 1, 1931. Includes appropriations by Federal Government to State College at Ames, tuitions and fees collected, private gifts, gross income from hospitals, dormitories and dining services, sales of products and income from revolving funds.

(k) Fines, interest on school fund, plus 1 mill county school tax.

(l) This is the sum of the four totals given to the right for receipts by State, counties, schools and municipalities. It should be remembered that this figure does not represent the receipts of administrative units for any single year, since the fiscal years of State, county, school district and municipality do not coincide.

(m) Does not represent the entire income of Iowa municipalities. Figures on net returns from sale of electric current, water rates, etc. not available.

ministrative units. Many of them also have incomes from other sources. One of the more common sources of such income is electric current, water, etc., sold by municipal plants. In some cases rates for these services are set higher than is necessary to support the municipally owned utilities, and part of the income is diverted to the general purposes of the city governments. This is, in effect, a tax on these utilities. It is not possible to tell what it amounts to for the combined cities of the state.

If these figures be expressed per capita, we find that the total income of the various administrative units which we have been discussing amounted to approximately \$59 for each man, woman and child in 1931. Of this amount approximately \$22 was spent for educational purposes and \$17 for roads in addition to city appropriations for streets.

It should be remembered that the figures just given to show the total receipts of the various administrative units of the state refer to the gross receipts and not merely the receipts from taxes. Anyone interested in seeing what becomes of taxes which he pays in his particular taxing district should consult the information on tax levies on the back of his tax receipt. Examples of two such tax distributions are given in the last section of this chapter. Also the Agricultural Extension Service has recently worked out and tabulated such information from more than 1,500 farms.

EXPENDITURES OF THE STATE GOVERNMENT

Out of the total income of approximately \$145,000,000 the state government, or agencies under its administration, spent in the year ending June 30, 1932, \$46,701,944. In considering the figure, however, we should have in mind the functions performed by state agencies.

Table IV shows that \$4,747,517 was spent by about 30 agencies listed by the Auditor of State under the general heading State Departments. About half of this amount was spent by five departments, the State Department of Public Instruction, the Executive Council, State Department of Agriculture, District Court and State Fair Board. The expenditures under the Departments of Agriculture and Public Instruction included about \$775,000 for tuberculosis eradication, state aid to consoli-

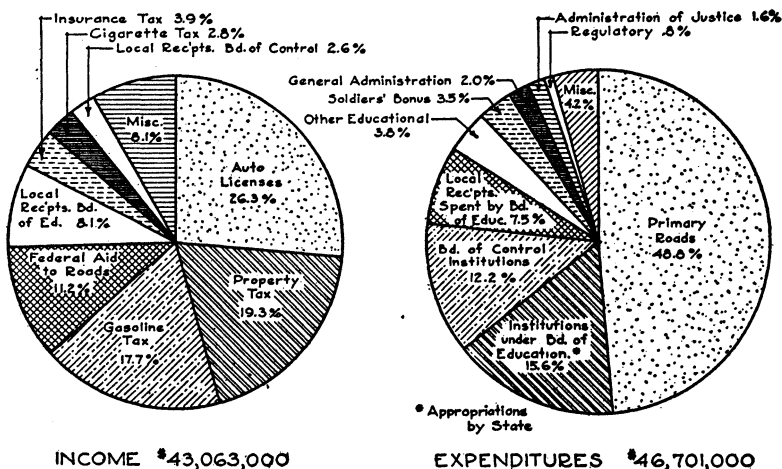


Fig. 2. Relative importance of various sources of income and of principal expenditures of agencies under state jurisdiction.

dated schools, etc. The relative importance of the various sources of income and of the principal expenditures is shown in fig. 2.

After the state departments we come to a group of institutions supported out of state funds. Among these the State University received from state funds \$2,450,000 and the State College at Ames \$2,433,029. The State Teachers College at Cedar Falls spent \$868,500. Schools for the deaf and blind required \$415,212. The General Hospital at Iowa City spent \$1,019,000 for care of indigent patients and the Psychopathic Hospital received \$108,000. In addition to these sums the institutions under the Board of Education spent approximately \$3,500,000 of receipts from tuition, gifts, sales, receipts from dormitories and dining services and appropriations from the Federal Government.

It is also necessary to maintain certain penal institutions and hospitals for the insane, feeble-minded, tubercular, etc. The penal institutions under the State Board of Control cost \$2,290,052. The state hospitals for insane, etc., cost \$2,351,465, and other institutions under the Board of Control spent \$1,032,679.

There are also expended under the jurisdiction of the state certain so-called "Trust Funds." These "Trust Funds" are revenues such as the gasoline tax, auto license fees, fishing and

TABLE IV. STATE EXPENDITURES—YEAR ENDING JUNE 30, 1932
DATA FROM OFFICE OF AUDITOR OF STATE

EXPENDITURES FROM GENERAL STATE FUND:			
<i>State Departments, etc.</i>			
<i>General Administration</i>			
Auditor of State.....	\$ 158,855		
Board of Assessment and Review.....	83,228		
Budget Director	22,938		
Executive Council	465,989		
Secretary of State, etc.	61,001		
Treasurer of State, etc.	109,544		
Governor	17,666	\$ 919,221	
<i>Administration of Justice</i>			
Attorney General	115,100		
Supreme Court, Clerk and Reporter	119,017		
District Court	373,998		
Boards of Control and Parole	133,297	\$ 741,412	
<i>Regulatory</i>			
Department of Health	147,569		
Industrial Commission	59,503		
Insurance Department	107,702		
Railroad Commission, etc.	81,966	\$ 396,740	
<i>Education</i>			
Board of Education	68,623		
Department of Agriculture (a)	441,961		
Department of Public Instruction (b)	739,979		
State Fair Board	327,500		
State Library	54,281		
Historical Department and Historical Society	82,791		
Vocational Education and Rehabilitation	53,809	\$ 1,768,944	
<i>Miscellaneous</i>			
National Guard	194,876		
Camp Dodge	204,811		
Printing Board	153,234		
State Parks and Roads	147,808		
Miscellaneous	220,471	\$ 921,200	
Total State Departments		\$ 4,747,517	
<i>State Educational Institutions</i>			
State University of Iowa	2,450,000		
For Indigent Patients, University Hospital	1,018,812		
Psychopathic Hospital	108,000		
Soldiers' Tuition	5,246		
Iowa State College	2,433,029		
State Teachers' College	868,500		
School for Deaf and Blind	415,212	\$ 7,298,799 (c)	
<i>Institutions Under Board of Control</i>			
Penal Institutions	2,290,052		
State Hospitals	2,351,465		
Other Institutions	1,032,679	\$ 5,674,196	
<i>Soldiers' Bonus</i>		\$ 1,638,388	
EXPENDED FROM "TRUST" FUNDS:			
Primary Roads	\$22,573,001		
Highway Commission	224,280	\$22,797,281	
Motor Carrier Trucks	61,257		
Motor Carrier Administration	39,686		
Motor Vehicle Administration	410,565	\$ 511,508	
Banking Department		98,610	
Fish and Game Department		303,729	
Miscellaneous		131,916	
Total from "Trust" Funds		\$23,843,044	
EXPENDED FROM LOCAL RECEIPTS OF INSTITUTIONS			
UNDER BOARD OF EDUCATION (c)		3,500,000	
Grand Total State Expenditures		\$46,701,944	

(a) The Department of Agriculture is partly regulatory. This figure also includes State's share of tuberculosis eradication expense and subventions to various agricultural societies amounting in all to \$289,900.

(b) Including aid to normal training, consolidated schools, standard rural schools, mining camp schools amounting to \$484,950.

(c) This figure, approximate. Includes appropriation by Federal Government to State College at Ames, tuitions and fees collected, private gifts, gross income from hospitals, dormitories and dining rooms, sales of products and income from revolving funds.

hunting license fees, etc., which are required to be spent for certain specific purposes. The largest of the Trust Fund expenditures is for the support of the primary road system. Including the expenditure of federal aid funds, this amounted to \$22,573,001 plus \$224,280 for administration. These expenditures by the Highway Commission include a large amount of new construction as well as the maintenance of the primary roads already built. In addition to the amounts spent by the Highway Commission out of the gasoline tax and auto license fees, other shares of these taxes are remitted to counties for maintenance or construction of county roads.

The figures just given for the primary road system comprise the current expenditures for the year Jan. 1 to Dec. 1, 1931. The fiscal year of the Highway Commission runs from Dec. 1 to Nov. 30. During the latter period for 1930-31 the Highway Commission reports the expenditure of \$28,143,206 for construction, \$3,361,930 for maintenance, \$3,753,355 for interest and \$1,592,500 for redemption of bonds. Approximately \$11,000,000 of this, however, was raised by the sale of bonds and did not come out of current revenue. Also during the year December, 1930, to November, 1931, federal aid amounted to \$6,631,533.

To summarize the state expenditures in round numbers, it may be said that about \$23,000,000 from current revenue was spent by the state in the year ending June 30, 1932, for the primary road system including administration by the State Highway Commission. Six million dollars plus local receipts was spent for the support of state institutions of higher education. Five and a half millions was spent for penal institutions and state hospitals under the Board of Control and one million for indigent patients at the hospital at Iowa City. Five million dollars was spent for the state departments and one and one-half millions for the soldiers' bonus.

It should not be inferred, however, that the sums just mentioned provide the entire support for all the state institutions.

In the case of state hospitals there are also county expenditures for the care of patients which amounted to \$1,800,000. Included in this latter figure are payments by patients or their families, of which about \$390,000 was collected by the counties. Other sums were collected by the institutions themselves. In the case of the state educational institutions there are also the receipts which have been mentioned from tuition fees, federal appropriations and from the sale of produce.

EXPENDITURES OF COUNTY GOVERNMENTS

As shown in table V, the total of the expenditures under county governments, exclusive of schools, amounted in the year 1931 to about \$41,327,000. The relative importance of the different expenditures is shown in fig. 3. The largest element of county expenditure is for the construction and maintenance of roads. This, according to the reports of the county engineers, amounted to \$20,237,000, of which \$8,600,000 was for construction and \$11,637,000 was for maintenance. Of course, during such periods as the present a large part of the construction program can be deferred. This has, in fact, been done in most counties during 1932 and 1933.

TABLE V. SUMMARY OF COUNTY EXPENSES, JAN. 1, 1931-DEC. 31, 1931

(Figures derived from County Auditors' reports to Auditor of State, except where otherwise noted)		
County offices		\$ 6,319,759
Court expenses		1,400,412
County homes	\$ 1,208,710	
Poor outside county homes	3,858,263	4,456,973
Support of insane in state hospitals.....	1,307,018	
Other institutions	494,479	1,801,497
Farm aid associations (farm bureaus)		345,160
Bounties paid	157,865	
Printing and stationery	542,768	
Courthouse expense	613,419	
Soldiers' relief	306,228	
Supplies	317,108	
Miscellaneous	2,003,120	3,940,508
Interest on bonds and certificates (a)	1,283,776	
Reduction in county bonds and warrants (b)	1,432,375	2,716,151
County road construction (c)	8,599,675	
County road maintenance (c)	11,637,050	20,236,725
Total		\$41,327,185

(a) Excluding Primary Road bonds, as summarized in County Treasurers' reports to Auditor of State.

(b) Excluding Primary Road bonds—data from office of Auditor of State.

(c) From engineers' reports as summarized in State Highway Commission's Report for 1931.

It is, however, pertinent to the business situation that the reduction in the amount of road construction has, to some degree, added to the number of unemployed.

After roads the largest items of county expense were for the support of the county offices, support of the poor, interest and retirement of bonds, support of patients in state hospitals, court expenses, upkeep of courthouses, and printing and stationery, in the order named. These seven items amounted to just under \$18,000,000. The eighth largest item was the appropriation to Farm Aid Associations (or farm bureaus), which amounted to \$345,160.

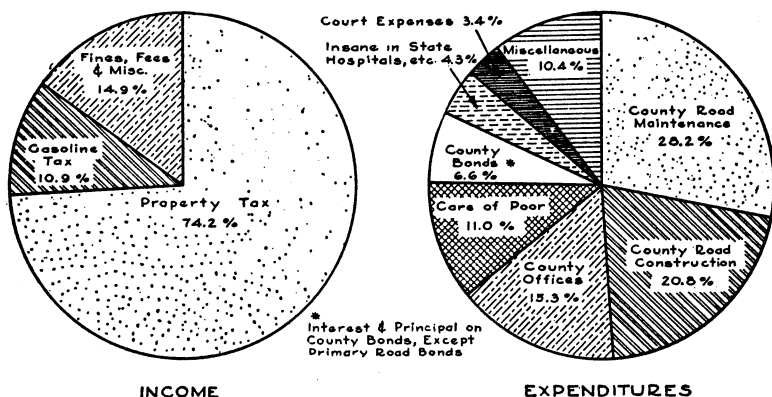


Fig. 3. Relative importance of the different expenditures and sources of income of county governments.

TABLE VI. EXPENSES OF COUNTY OFFICES
(From Reports of County Auditors to the Auditor of State)

Office	Salary	Deputies and other help	Mileage expenses; Care of prisoners	Misc. expense	Total expense
County supervisors..	\$ 405,906	\$.....	\$ 225,734	\$ 11,877	\$ 643,517
Sheriffs	193,774	307,113	478,719	16,944	996,550
Auditors	207,419	325,298	.....	15,842	548,559
Treasurers	207,897	455,919	.....	121,386	785,202
Recorders	180,899	144,554	.....	6,881	332,334
Clerks of district courts	205,042	227,278	.....	7,428	439,748
Attorneys	152,641	150,187	.....	60,295	363,123
County engineers	723,531	.....	.....	97,714	821,245
Supt. of schools	204,161	105,568	.....	68,403	378,132
Coroners	23,724	.....	.....	.....	23,724
Assessors	688,046	.....	.....	138,704	826,750
Misc. officers	160,875	.....	.....	.....	160,875
Total	\$3,353,915	\$1,715,917	\$ 704,453	\$ 545,474	\$6,319,759

Table VI shows the expenses of the various county offices. These amounted in the aggregate to \$6,630,000. The largest outlay was in the office of the sheriff, which includes care of prisoners. The next largest expenses were for the offices of assessors, county engineer, county treasurer, and county supervisors. But it should be remembered that the amounts of outlay do not necessarily indicate either the amount of service performed or the opportunity for economizing.

Possible County Economies—Consolidation of Counties

There is a growing belief that a large opportunity exists for saving by the reorganization of county offices or consolidation of counties. Reorganization in the counties as they now stand would have its chief effect on expenses for county offices. One suggestion that has been made at various times is that all or essentially all of the county records be kept in a single office and that some of the county officers or deputies be eliminated. In this case it would seem that the greatest economy might be accomplished by elimination of some of the elective officers.

It would be well to apply some of the principles followed in other lines of business in selecting the personnel of public offices. Most of the work of the county offices is of a routine type. It might be suggested as an ideal that the persons who are to perform such duties be selected from groups specially trained for the type of work in question, that they be selected by competitive examinations, and that they hold office as long as they perform their duties honestly and efficiently.

Undoubtedly a large saving could be made by the reorganization of offices in the present counties. But the maximum saving can hardly be made without the consolidation of counties into a smaller number of perhaps 25 or 30 larger units. This should permit a greater saving on the county offices than reorganization within the present counties. It should also permit savings in expenses for county homes, in courthouse expense and purchase of supplies.

Of course it is not possible to tell in advance exactly what saving is possible by county reorganization or consolidation. But some idea may be obtained by a study of the variation in particular costs in counties of different sizes. Tables VII and

VIII bear on this question. Table VII shows the variation in costs of operation of county offices as between three groups, each of which contains seven counties. The small counties had an average population of approximately 13,000. The large counties averaged about 40,000. The cost of the county offices in the large counties was 67 cents per capita less than in the small ones. This is about 24 percent less than in the small counties.

Expenses for the support of the poor were about the same per capita in large and small counties, except that the larger and richer counties sometimes seemed to be more liberal in providing this care. The consolidation of the county homes of three or four counties into one, however, would almost certainly achieve some economy not indicated by these figures, since the ordinary county home is too small for economical operation.

Table VIII shows the variation in costs of conducting the county offices as between three groups arranged with regard to the number of square miles per county. The expenses for these

TABLE VII. VARIATION IN COSTS OF COUNTY OFFICES—1931
COUNTIES WITH SMALL AND LARGE POPULATIONS

	Average costs per capita		
	7 small counties	7 med. size counties	7 large counties
Population, average per county.....	12,888	16,649	39,830
<i>County Offices:</i>			
Boards of supervisors	\$.32	\$.40	\$.28
County sheriffs .....	.40	.34	.37
County auditors .....	.25	.27	.20
County treasurers .....	.33	.33	.31
County recorders .....	.19	.17	.12
County attorneys .....	.17	.13	.15
Clerks of district courts .....	.24	.19	.16
Supt. of schools .....	.25	.23	.15
County engineers .....	.24	.18	.13
Farm Aid Associations (Farm Bureau).....	.23	.18	.11
Courthouse expenses .....	.23	.22	.20
Total capita expenses for above county offices	\$ 2.85	\$ 2.64	\$ 2.18
<i>Other Selected County Expenses:</i>			
County homes .....	.38	.54	.38
Poor outside county homes.....	1.38	1.36	1.58
Misc. court expenses .....	.44	.35	.51
Assessors .....	.32	.27	.30

The seven small counties are: Worth, Ida, Emmet, Winnebago, Humboldt, Wayne and Grundy.

The seven medium sized counties are: Hancock, Palo Alto, Pocahontas, Bremer, Guthrie, Butler and Buena Vista.

The seven large counties are Washington, Crawford, Kossuth, Fayette, Story, Pottawattamie and Linn.

TABLE VIII. VARIATION IN COSTS OF COUNTY OFFICES—1931
COUNTIES WITH SMALL AND LARGE AREAS

	Average cost per square mile		
	6 small counties	7 med. size counties	6 large counties
Average number square miles.....	414	548	693
<i>County Offices:</i>			
Boards of supervisors	\$ 10.44	\$10.76	\$11.35
County sheriffs	12.08	12.03	10.92
County auditors	8.53	7.47	7.28
County treasurers	10.16	10.02	9.90
County recorders	6.30	5.12	4.44
County attorneys	6.11	4.11	4.03
Clerks of district courts	7.71	5.97	4.99
Supt. of schools	8.04	6.85	6.21
County engineers	16.98	13.20	12.33
Farm bureau	8.01	5.28	4.83
Courthouse expense	6.72	7.33	6.89
Total expense for county offices per square mile	\$101.08	\$88.14	\$83.17

The six small counties are: Emmet, Winnebago, Worth, Ida, Humboldt and Bremer.

The seven medium sized counties are: Grundy, Wayne, Washington, Palo Alto, Story, Hancock and Buena Vista.

The six large counties are: Pocahontas, Butler, Guthrie, Crawford, Fayette and Kossuth.

offices declined from \$101 to \$83 per square mile as the average area increased from 414 to 693 square miles per county, a decline of around 17 percent.

It is not possible to tell how much further these expenses would be reduced if the counties were increased, for instance, to four times their present size. This would require a county approximately 48 miles in each direction instead of 24 miles as at present, and with a population in the neighborhood of 75,000. It is not likely that the expense per capita would continue to decline at as rapid a rate, but some further saving might well be expected.*

On the other hand, in some directions expenses would be increased rather than diminished by the consolidation of counties. Thus in a larger county it would be necessary to maintain only

*The State Constitution provides that "no law changing the boundary lines of any county shall have effect until, upon being submitted to the people of the counties affected by the change at a general election, it shall be approved by a majority of the votes in each county for and against it." Thus it would be necessary for the people in any county to vote on the question whether that county should become a part of a new and larger county unit. Apparently, it would not be necessary for each and every county in such new unit to approve such a plan before the consolidation of any of the counties concerned. That is, a pair of counties could consolidate and later this pair could be joined by a third, as long as these were all within the boundaries of the new county unit defined by the legislature.

one courthouse but in many cases witnesses would have to travel farther to court than in the smaller county.

There is a third alternative in the reorganization of county expenditures, as a compromise between reorganizaion within the present counties on the one hand and county consolidation on the other. It would be possible to reorganize most of the county offices within the framework of the present counties. At the same time such institutions as the county homes and possibly district courts could be combined for groups of counties in order to obtain the maximum of economy with these institutions.

Variation Within the County

There is a wide variation in the tax levies within the county. One reason is that the rate of assessment differs more or less with each township or town assessor. A second is that, as between two districts requiring the same total sums to support schools, roads, etc., the one may have lower property valuation from poorer soil or for other reasons. A third reason is that the public services performed vary widely. One taxing district may have a one-room schoolhouse while an adjacent one has a fully equipped consolidated school, giving a better quality of service but also with the necessity of providing transportation for pupils. Naturally, towns have higher tax rates than rural districts, because of a greater number of services performed and often because of a lower property valuation in proportion to the income of the people and to the public expenditures.

Taxes are collected on the basis of a millage levy. This is based upon the taxable valuation of property. The Iowa law prescribes that this shall be one-fourth of the actual or sales value. The millage levy is determined by finding the ratio between the total amount of money levied for a specified item and the taxable value of the property upon which the levy is made.

As an example of the prevailing variation, the levies in the rural districts of one county ranged from 60.4 mills to 152.8 mills. In the cities and towns in the same county the variation was from 76.8 to 173.9 mills. In all these districts the levy for state purposes was 9 mills. In the towns the levy for county purposes was 28.8 mills. In the rural districts the county levy was 42.6 mills because of higher levies for roads. Thus the total

state and county levy in towns was 37.8 mills, and in the rural districts 51.6 mills. All of the other variations were in the levies for local purposes.

The variation in local levies in towns was from 39 mills to 136.2 mills. In the rural districts the one with the lowest levy raised only 8.8 mills for local purposes while that with the highest raised 101.2 mills for local purposes.

The distribution of the tax dollar will also vary from one district to another in the same county. Nine mills were for state purposes in all districts of this particular county. But because of variations in the total, the percentage represented by this 9 mills varied from 5.9 to 14.9 percent in the rural districts, and from 5.2 to 11.7 percent in the towns. Likewise the county levy varied from 27.9 to 70.6 percent of the total in the rural districts and from 16.5 to 37.5 percent in the towns. To complete the picture, the local levies varied from 14.5 to 66.2 percent in the rural and from 50.3 to 78.3 percent in the town districts.

When one considers these figures it is easy to see why widely differing distributions of the tax dollar are frequently quoted. Before quoting such figures at all, one should state to just what kind of districts the figures refer. An illustration of the difference in distribution between two farms in the same county is given in the last section of this chapter.

The Reduction of County Levies

During recent months several counties have taken more or less drastic steps to reduce their tax levies. The first sweeping move in this direction was accomplished by means of the Elliott Bill which required a reduction in all levies of 5 percent. This started a state-wide movement towards tax reduction even though it was not possible to put its provisions into effect in every county.

The next step was in the paring down of county budgets and the reduction of levies by supervisors in a large number of counties. One favorite method was by ignoring the provisions of the law which require mandatory levies for the maintenance and construction of roads. In some cases it may be possible to discontinue some of these levies permanently without seriously injuring the county road systems. In many cases, however,

this relief is likely to prove temporary. Neglect of present maintenance may be followed by heavier future requirements.

Webster County is one of those which has accomplished the largest tax reduction, at least for the present. It is interesting to observe how this was done. Table IX shows that tax levies for county purposes were reduced from \$437,627 for 1931 to \$281,758 for 1932. First, there was a reduction of 26 percent in the levy for general county expenses, and a reduction of 34 percent in the levy for court expense. The poor fund, state and county insane, and soldiers' relief levies were left at nearly the same figures as in 1931. The county school levy of one mill was dropped. School expenses were being reduced anyhow, and this obtained part of the credit for the county. The levy for bovine tuberculosis was omitted since there was some balance in the fund and requirements were not expected to be large. The levy for the bond fund was cut in half. This was possible because of funds on hand. But since interest on bonds must be paid, the reduction is temporary.

The largest reduction was accomplished by neglecting two of the four mandatory road levies. The road levies made amounted to 7½ mills as against 17 in the preceding year. This permits practically no road construction during the present year and reduces the funds available for maintenance to approximately one-half. It may be remarked, however, that Webster County has already gravelled a rather high percentage of its secondary roads.

TABLE IX. TAX LEVIES, WEBSTER COUNTY, 1931 AND 1932
(Data from office of County Auditor, Webster County)

	1931	1932
General county	\$ 90,496	\$ 67,283
Court expense	22,624	14,951
Poor fund	45,248	44,856
State insane	15,083	14,951
County insane	22,624	22,428
County school	15,083	
Soldiers' relief	15,083	14,951
Bovine tuberculosis eradication	3,771	
Bond fund	30,160	14,951
Road construction or maintenance (2½ mills)	37,707	37,380
Road construction (2 mills, except Fort Dodge)	20,219	
Road maintenance (5 mills, except Fort Dodge)	50,546	50,007
Road maintenance (7½ mills, except cities and towns)....	68,983	
Total	\$437,627	\$281,758

Undoubtedly, reduction in most of the items mentioned is possible and desirable. It is possible, however, to reduce expenditures for some purposes too much for the people's present or future welfare. A radical reduction may be worse than none at all. Just what reduction is most desirable will differ from county to county and should be given serious thought before it is put into effect.

EXPENDITURES FOR THE PUBLIC SCHOOL SYSTEM

As indicated on an earlier page, the expenditures for the public school system required about \$16,265,000 in 1931-32. The principal items of expense are shown in table X, and their relative importance is illustrated in fig. 4. The largest is for salaries of teachers. This amounted to \$28,611,208 for over 26,000 teachers, principals and superintendents. The next largest item is for fuel, janitor service, etc., and amounted to \$5,403,659. Interest on school bonds was \$2,546,875, and \$2,761,146 was paid on bonds. The bonded debt, however, did not decrease by this amount because refunding bonds were issued to the extent of \$351,026 and \$518,515 new bonds were sold. After these items came apparatus and repairs, transportation for pupils, and payments for schoolhouses and sites, each amounting to over \$1,000,000.

TABLE X. SCHOOL EXPENDITURES, STATE AS A WHOLE

<i>Expenditures from General Fund: (a)</i>	
Paid teachers	\$28,611,208
Secretary	289,992
Library books	132,201
Textbooks and supplies (net)	283,628
Fuel, rent, janitor, etc.	5,403,659
Records, apparatus, repairs and insurance	1,374,042
Transportation	1,911,577
For other purposes	2,294,459
Total from general fund	\$40,300,766
<i>Current Expenditures from Schoolhouse Fund:</i>	
For schoolhouses and sites (b)	\$ 564,382
Paid on school bonds (c)	2,410,121
Interest on school bonds	2,546,875
Interest on registered warrants	7,319
For other purposes	435,040
Total from schoolhouse fund	5,963,737
Total	\$46,264,503

(a) Does not include tuition paid other schools, nor transfers from general to schoolhouse fund. In the case of disbursements for textbooks, the net purchase is given. That is, the disbursements minus the sale of books.

(b) Total paid for schoolhouses and sites was \$1,082,897, but \$518,515 of this was covered by bonds sold and did not come out of current revenue.

(c) Total payments on bonds of \$2,761,146, less refunding bonds of \$351,025.

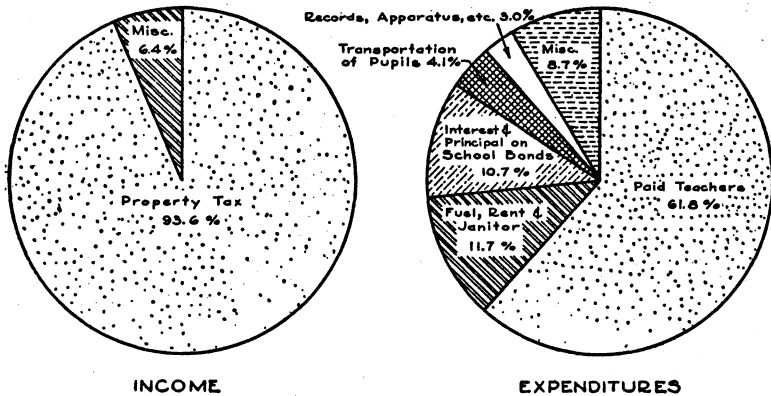


Fig. 4. Relative importance of the different items of expense for the public school system.

The school expenditures are responsible for the largest part of the variation in the total tax bills of different districts. Table XI gives a good idea of the wide spread in the school levies in 10 counties in which a special study was made. In the 62 towns for which data were obtained the most common levies for the general school fund were from 50 to 80 mills. In the 65 consolidated school districts the typical levy was between 40 and 60

TABLE XI. VARIATION IN GENERAL PROPERTY LEVIES FOR SCHOOLS—TEN COUNTIES (a)

	General school fund			Schoolhouse fund		
	City and town	Consolidated districts	Rural, Independent and school townships	City and town	Consolidated districts	Rural, Independent and school townships
No. districts.....	62	65	467	62	65	467
<i>Mills per dollar</i>						
0				15	6	412
1- 10	1		22	12	24	42
11- 20	1		135	24	31	11
21- 30	4	3	192	8	4	2
31- 40	4	8	87	2		
41- 50	2	26	23	1		
51- 60	11	25	4			
61- 70	11	3	2			
71- 80	12		1			
81- 90	9					
91-100	2					
101-110	2					
111-120	2					
121-130	1					

(a) The counties were Buena Vista, Fayette, Grundy, Guthrie, Linn, Pottawattamie, Story, Warren, Washington and Worth.

mills, and in the rural independent and school townships it was from 20 to 30. The levies for the schoolhouse fund were most often between 5 and 20 mills, both in towns and in the consolidated districts. Out of 467 rural independents and school townships only 55 had levies for schoolhouse funds since the investment involved in the one-room schoolhouses is too small to involve a long period of financing. In these districts the most common schoolhouse levies were from 5 to 10 mills.

Because the expenses for schools amount to nearly 30 percent of the total public expenditures of the state, it is well worth while to give careful attention to any means of economizing these funds as long as such methods do not affect adversely the quality of the education. Iowa has taken pride in its school system and each specific measure for the reduction in school taxes should be considered in the light of its effect on education.*

Most of the more obvious means of school economy have already been put into effect by the school boards. The first of these to be adopted widely has been the reduction of the salaries of teachers. This has accomplished some relief, particularly in rural districts. Often the larger reductions have worked more hardship to teachers and pupils than relief to the taxpayers since a 10-dollar per month pay cut to a rural teacher means on an average a 6-dollar per year tax reduction per farm. The rural districts have generally adopted more drastic salary cuts than the town schools. If this policy is continued it will be to the disadvantage of the country children since it has the effect of driving the more capable teachers to the towns. The country child is already under a serious educational disadvantage and drastic reductions in the salaries of teachers are not calculated to improve this condition.

School authorities recommend that a larger proportion of the school expenses should be borne by a uniform state tax to replace part of the local tax. This would be an important step towards equal educational opportunities at equal cost for the different types of districts.

*"Our nation faces the acute responsibility of providing a right of way for the American child. In spite of our economic, social and governmental difficulties, our future citizens must be built up now. We may delay other problems but we cannot delay the day-to-day care and instruction of our children."—From speech of President Hoover in opening the Citizens' Conference on the Crisis in Education.

However, there are, in many districts, opportunities of reducing school expenditures without adverse effects. One of these is by closing the schools with only a small number of pupils (probably those with less than 10) and making arrangements for the needed educational facilities in adjacent districts. A second is for closing the high schools having a small attendance, perhaps those with fewer than 50 pupils. The closing of small schools often runs contrary to community pride, but the economy may be considerable. There are, for instance, cases in which small towns within 1 or 2 miles of each other maintain complete, independent school systems. Cooperation, in such cases, at least to the extent of a joint high school, would result in a material saving. It would seem that the concept of the community might profitably be enlarged, or that inter-community cooperation might well be made a matter of pride.

There are also in some schools some courses which may be regarded as non-essential during the emergency and there are some extra-curricular activities which might be discontinued temporarily.

In a good many of the consolidated and town schools a worthwhile opportunity to reorganize the bonded indebtedness is likely to develop in the near future. This will be taken up at greater length in the next section.

Each school presents something of a problem in itself and relatively few suggestions can be made of a blanket type. School superintendents and members of school boards who are interested in keeping their expenses to a minimum (as all should be) should check over their finances carefully. Valuable suggestions and advice may be obtained from the State Department of Public Instruction, which has prepared a check list of financial economies for a local school district.

THE PUBLIC INDEBTEDNESS OF IOWA

In the many recent discussions of public expenditure in this state very little has been said concerning the public debt. In fact, the interest on the various public bond issues comprises one of the largest of the public outlays. Table XII shows that the interest payments for the most recent year for which figures are available amounted to about \$10,500,000. In addition to this there are the payments on principal to be considered. These

TABLE XII. INDEBTEDNESS OF IOWA ADMINISTRATIVE UNITS
Data from Office of Auditor of State (Compiled by Mrs. E. Mae Sweany)

	1932	1931	Change in year	Interest paid
County bonds, Jan. 1				
General county bonds....	\$ 15,955,388	\$ 18,172,834	—\$ 2,217,446	} \$1,283,776
Bridge bonds	33,109,417	33,033,999	+ 75,418	
Courthouse bonds	1,275,000	1,483,000	— 208,000	
County road bonds.....	4,412,625	3,747,600	+ 665,025	
Total county bonds....	24,752,430	26,437,433	— 1,685,003	} 3,753,355
County warrants	1,711,900	1,459,275	+ 252,628	
Primary road bonds, Dec. 1	96,445,500	85,117,500	+ 11,328,000	
Primary road certificates, Dec. 1	448,059	571,304	— 123,245	
Primary road district fund warrants	108,531	169,718	— 61,187	(a) 238,000
Secondary road district fund warrants	2,643	2,919	— 276	
Drainage bonds, Jan. 1....	5,165,893	6,585,271	— 1,419,378	
Drainage warrants	1,104,802	1,301,986	— 197,184	
City and town indebt- edness, April 1	48,091,654	50,832,311	— 2,740,657	(a) 2,165,000
School bonds, June 30.....	54,231,098	57,236,455	— 3,005,357	2,546,875
School warrants	1,289,445	807,604	+ 481,841	(a) 7,319
State soldiers' bonus.....	11,000,000	12,100,000	— 1,100,000	538,388
Total	\$244,351,958	\$242,621,776	+\$ 1,730,182	\$10,532,713

(a) Approximate.

bring the total payments on public debts to around \$20,000,000.

The largest element of the Iowa public debt, as shown in table XII, is comprised of \$96,000,000 of primary road bonds. School bonds amount to \$54,000,000, the indebtedness of cities and towns is \$48,000,000, and county bonds are nearly \$25,000,000. In addition to these there are smaller issues of state bonds for the soldiers' bonus, drainage district bonds, etc.

The Primary Road Bonds

The primary road bonds are worth studying both because of their large amount and also because they have been handled in the most businesslike fashion of any of the elements of debt mentioned. The large and relatively constant income from the gasoline tax and auto license fees, and strongly centralized control by the Highway Commission greatly facilitate an effective financial policy.

In general, the primary road bonds are scheduled for retirement in equal installments for each individual issue over a period

TABLE XIII. PRIMARY ROAD BONDS
Scheduled Maturities and Interest Payments
(Data from State Highway Commission)

Year	Amount maturing	Interest requirement	Total requirement
1933	\$ 2,822,500	\$ 4,351,961	\$ 7,174,461
1934	4,036,500	4,257,490	8,293,990
1935	6,583,500	4,069,007	10,652,507
1936	8,891,500	3,762,465	12,653,965
1937	9,551,000	3,350,003	12,901,003
1938	9,906,000	2,916,675	12,822,675
1939	9,550,000	2,460,121	12,010,121
1940	8,875,000	2,024,455	10,899,455
1941	8,713,000	1,617,589	10,330,589
1942	8,425,000	1,220,075	9,645,075
1943	7,337,000	843,136	8,180,136
1944	6,364,000	507,491	6,871,491
1945	3,909,000	212,931	4,121,931
1946	990,000	41,760	1,031,760
1947	109,000	2,903	111,903
Total	\$96,063,000	\$31,638,062	\$127,701,062

of 10 years. The heaviest payments for the system as a whole were scheduled to occur just after the scheduled completion of the construction program. The resulting maturities and interest payments for the primary road system as a whole are shown in table XIII. It will be observed that the total scheduled requirements rise to nearly \$13,000,000 in 1937 and 1938, thereafter decline to \$4,000,000 in 1945, and end with \$112,000 in 1947. The primary road bonds are all callable, according to law, five years after they have been issued. This feature will permit the Highway Commission to take advantage of any pronounced decline in the interest rate on long time securities, and is likely to result in a considerable saving before these bonds are all retired.

County Bonds

Table XII shows that there were outstanding on Jan. 1, 1932, \$24,752,430 of county bonds other than primary road bonds. This was \$1,685,000 less than a year previously, the general county bonds having been reduced \$2,217,000 and county road bonds having increased \$665,000.

Table XIV shows the scheduled maturities of county bonds in the 10 counties in which the special study was made.* These bonds represent about one-eighth of the total for the state. The bonds now outstandings are scheduled to be retired in the next

15 years, except for a few thousand dollars of serial bonds and term bonds which will need to be refunded.† The latter amount to something over \$2,500,000. For the state as a whole, about \$900,000 of county bonds are now callable, and about \$200,000 will become callable within the next four years. The counties which have these bonds outstanding will probably be able to refund them at some saving in interest within the next few years. County treasurers should be on the alert for opportunities to make such savings.

It is shown in table XVIII (page 51) that there are nearly \$7,000,000 of county bonds carrying interest rates in excess of 5 percent. Five millions carry a rate of 6 percent. These were mostly issued about 1920 and neglect of the issuing authorities to attach an optional or callable feature will keep some counties paying this rate, which is excessive for public funds, for 20 years after issuance of the bonds. Boards of supervisors should con-

TABLE XIV. SCHEDULED MATURITIES OF COUNTY BONDS IN TEN COUNTIES

Year	Ten counties		Term bonds for whole state (a)
	Serial bonds	Term bonds	
1933	\$ 336,500	\$ 25,000	\$ 110,000
1934	312,500	.....	20,000
1935	316,500	24,000	64,000
1936	296,000	.....	249,000
1937	276,500	.....	79,000
1938	271,500	.....	81,000
1939	272,000	28,000	28,000
1940	242,000	.....	308,000
1941	239,540	94,000	849,850
1942	147,000	24,000	398,500
1943	82,000	250,000	318,500
1944	88,000	82,000	192,000
1945	79,000	.....	.....
1946	68,000	.....	.....
1947	5,000	.....	.....
1948	5,000	.....	.....
1949	5,000	.....	.....
1950	9,000	.....	.....
Total	\$3,051,040	\$ 527,000	\$2,697,850

(a) From Moody's Manual of Governments.

*These counties were Buena Vista, Fayette, Grundy, Linn, Pottawattamie, Story, Warren, Washington and Worth.

†Term bonds are those issues of which all bonds run for the same period of time and all mature on the same date, for example \$20,000 may be issued May 1, 1925, all to mature on May 1, 1945. Serials mature, not all at the same time, but at intervals, in accordance with some schedule which will retire the whole issue, a few bonds at a time. For instance, a \$20,000 issue put out in 1925 may be scheduled to mature \$1,000 per year from 1926 to 1945.

sider the future interests of their respective counties as well as the immediate demands.

School Bonds

Slightly over half of the \$54,000,000 of school bonds outstanding are on town and city schools, and most of the rest on consolidated schools. The bonded indebtedness of rural independent schools is relatively trifling. Table XV shows that the interest payments on school bonds for the whole state in 1931 amounted to approximately \$2,500,000 and payments on principal to \$2,400,000.

TABLE XV. SCHOOL BONDS, PAYMENTS ON INTEREST AND PRINCIPAL
July 1, 1931—June 30, 1932

	Interest payments	Payments on principal	No. districts studied		No. districts in state (1929-30)
			Total No.	No. with schoolhouse fund levies	
<i>Ten Counties</i>					
Cities and towns....	\$ 211,208	\$ 173,074	62	47	652
Consolidated districts	138,699	152,506	65	59	402
Rural independent and school town- ships	4,726	12,734	467	55	3,817
Total	354,633	338,314			
Total state	\$2,546,875	\$2,410,121 ¹			

¹Total bonds retired minus refunding issues.

Table XV shows that the combined debt service, including interests and payments on principal, for 59 consolidated schools averaged \$4,936 per school. For 45 towns, omitting Cedar Rapids and Council Bluffs, it averaged \$5,227. In each case the average debt service is approximately equal to the salaries of five teachers in the elementary grades.

There was a strong sentiment in favor of consolidation about the beginning of the war. A little later the war-time and post-war inflation encouraged further consolidations. Out of 402 consolidated districts 150 were formed in the years 1914 to 1916, and 128 were formed in 1919 and 1920.*

There has also been a tendency to put up new buildings during periods of business activity when the voters felt favorably dis-

*Data derived from a bulletin by H. E. Stone of the State Department of Public Instruction, 1926.

posed towards public improvements. It is interesting to note that in the 10 counties in which the special study was made, the largest numbers of bonds were issued in 1916, 1919, 1923, 1926, and 1930. These were all years of active business or of business recovery except 1930, which was a year just following a period of business activity.

Unfortunately, the primary concern of some of the school boards seemed to be to postpone the heavier payments as long as possible rather than to adopt a plan for prompt payment with a minimum ultimate burden. In one case which will serve as an example, a consolidated schoolhouse was erected in 1920 and was paid for by the issuance of \$90,000 of bonds. Payments on this principal were scheduled to begin in 1936, 16 years later, at the rate of \$5,000 per year and to continue at this rate until 1945, when the remaining \$45,000 was scheduled to be paid, or more likely refunded. In this case and in a number of others like it, the attitude seemed to be to let the future school boards do the worrying.

The law at present requires that a schedule of payments be adopted which will retire an issue of bonds in not more than 20 years. This law is evaded in a large number of cases. The most common means of evasion is to make the final installment so large that it will be necessary to refund it. Table XVI shows that about one-fourth of the school bond issues studied were of this type. Another fourth of the school bonds are the still outstanding term bonds. These are issues which fall due at a single date instead of being distributed over a period of years.

There are two generally desirable forms of schedules for the retirement of bond issues. One of these is by means of equal annual payments which will completely extinguish the debt. As the years pass, the annual interest payments become smaller because of the retirement of bonds. Consequently, the total annual payments decline by the reduction in interest. Table XVI shows that \$1,294,000 of the \$7,480,000 of bonds examined were of this type.

A more popular type provides that annual payments on principal shall increase approximately as fast as the interest payments decline. The bonds of this type in table XVI amount to \$1,905,000. Where the school board was intent on postponing

payments as long as possible, it was often arranged that principal payments should be small at first and should increase at a rate faster than interest payments declined. Out of the \$7,480,000 in table XVI \$508,000 were of this type, and an added \$456,000 had rapidly increasing annual payments and large terminal payments as well.

TABLE XVI. TYPES OF SCHOOL BONDS IN TEN SELECTED COUNTIES

	Bonds outstanding \$1,975,703
Term bonds	
Serial bonds with annual payments extinguishing the issue:	
Equal annual payments	1,294,050
Payments increase as interest declines	1,904,800
Payments increase faster than interest declines	508,000
Serial bonds with a large final payment:	
Equal annual payments	574,100
Payments increase as interest declines	768,000
Payments increase faster than interest declines	456,000
Total	\$7,480,653

How long may we expect the present load of debt to run and will it become lighter or heavier from year to year? Table XVII shows that the payments on serial bonds in the 10 counties are scheduled to increase somewhat for the next three years and thereafter to decline gradually until they are all retired about 1950. The number of issues of term bonds studied was too small to give any definite trend. But it is clear that they will be maturing from time to time until 1946. Of course, some of these issues will be paid off, at least in part. Others will have to be refunded for a further period.

The above statement is true for the school systems of the 10 counties as a whole. But each district is a problem in itself. Some are already out of debt. Others are carrying extremely heavy loads, which it will take 20 or more years to get rid of.

Can the Public Debt Burden Be Reduced?

The ultimate reduction in an annual debt service is, of course, accomplished by paying it off. But when the debt concerned is as large as the quarter billion dollars owed by the various governmental units of Iowa, this requires a period of years. The question in the meantime is how rapidly the debts can be

TABLE XVII. SCHEDULED MATURITIES OF SCHOOL BONDS IN TEN COUNTIES

Year	Serial bonds	Term bonds (a)
1933	\$ 297,885	\$ 12,903
1934	313,510	108,000
1935	355,860	242,000
1936	337,260	337,500
1937	324,060	95,600
1938	310,060	103,000
1939	285,060	264,500
1940	291,710	607,000
1941	271,210	15,000
1942	293,310	313,700
1943	234,260	480,100
1944	212,035	227,250
1945	177,910	268,000
1946	106,410	182,900
1947	83,110	.....
1948	70,610	.....
1949	62,110	.....
1950	45,110	.....
1951	110	.....
Total (b)	\$4,071,590	\$ 3,257,453

(a) Term bond maturities plus final installment on serial bonds where the final installment is greatly in excess of earlier payments.

(b) These totals do not quite equal the total school bonds for the 10 counties as given in tables XVI and XVIII, since it was not possible to get the schedule of maturities for every issue.

reduced without current payments requiring excessive sacrifices on the part of the taxpayers. In periods of economic emergency as at present, it is even desirable to refund some obligations in the expectation that smaller social sacrifices will be involved in paying them later. This policy should be followed with considerable caution, however, because it makes the future burden heavier as well as reducing the present one.

A second possible way to lighten the debt burden is by getting the most favorable interest rates possible. Table XVIII shows that $4\frac{1}{2}$ percent is the most common rate of interest on primary road bonds and also on school bonds, while 5 percent is the most common on county bonds. In the case of the county debt, however, there is also a large volume of 6 percent bonds. In the case of the school debt there are about four-fifths as many bonds paying 5 percent as $4\frac{1}{2}$ percent.

To the casual reader these may sound like favorable interest rates. But it should be remembered that these are public and not private debts and that the bonds are tax free. These are, however, similar to rates on debts incurred in the same years in other states.

TABLE XVIII. VARIATION IN INTEREST RATES

Rate	Amounts outstanding			
	Whole State		Ten counties	
	Primary road bond	County bonds (a)	County bonds	School bonds
4%	\$ 5,749,000	\$ 1,449,000	\$ 70,000	\$ 59,000
4¼%	24,724,500	3,721,000	460,000	1,193,500
4½%	32,078,000	3,615,000	1,205,500	2,736,200
4¾%	14,032,000	1,254,000	822,000	1,435,800
5%	19,479,500	7,829,000	521,500	2,056,153
5½% .....	.....	152,000	.....	.....
5¾% .....	.....	1,358,000	.....	.....
6% .....	.....	344,000	.....	.....
6% .....	.....	5,031,000	609,540	.....
Total	\$ 96,063,000	\$ 24,753,000	\$ 3,688,540	\$ 7,480,653

(a) Approximate—figures adjusted from Moody's Manual of Governments.

Iowa has enjoyed a relatively favorable credit rating which has made it rather easy to obtain funds for public uses at reasonable rates of interest. It may not be amiss to remark here that this high credit rating can be maintained only by meeting obligations promptly. A few defaults would be likely to prove highly expensive in future interest rates to the districts concerned and to others as well.

Assuming that the favorable credit rating can be maintained, it will probably prove possible to reduce the present rates on bonds that can be called or refunded. At the end of a business depression such as the present there is generally a period of low interest rates. Little new capital is demanded because existing industrial and other plants are more than sufficient for present needs. At the same time the saving of new capital continues because people are more than ordinarily frugal during and after a serious depression.

It has already been said that relatively few school or county bonds are callable, but that all primary road bonds are of this type. The importance of this feature in the near future may be realized when it is said that, if it proved possible to refund the primary road bonds at 4 percent, this would mean a saving to the state of approximately a half million dollars per year. And if they could be refunded at 3¾ percent it would save another quarter of a million.

Of course it is not possible to change the terms of bonds already issued. But all public officials concerned with the pay-

ments of public debts should familiarize themselves thoroughly with the provisions of bonds of their respective administrative units so that they will be prepared to take advantage of any optional or other similar features.

Now that the primary road bonds have proved salable with an optional feature, it would be highly desirable for this provision of the law to be extended to the other public bonds of Iowa.

It would be very desirable for most counties or school districts to obtain the advice of experienced and competent persons in addition to the representatives of the bond houses before a contract is let for the issuance of bonds. It would be possible for some one of the existing state offices to provide such advice and for the law to require that the issue meet the approval of such an authority before it is sold.

It is possible that lower rates might be obtained on new school bonds if a guarantee fund were created by the state and the issuing districts were required to contribute a small percentage of the sums involved to insure the payment of such issues.

The public debt is an important item in the cost of government, and public officials and taxpayers can well afford to concern themselves over the question when to follow a "pay as you go" policy. When it is decided to borrow, careful attention should be given to the terms under which a debt is incurred.

APPENDIX

Tax Information in the Farmer's Tax Receipt

The farmer's tax receipt merits more study than it is often given. It contains valuable information regarding the burden which the various governmental functions place on real estate and personal property. This burden and the cost of carrying it may be better understood if the farmer will determine for himself the approximate proportion of his total property tax which will be used by each branch of the government, state, county and local, and if he can see the uses which will be made of the funds allotted to each branch.

As an example, we give below a statement drawn from the tax receipts of two farmers living in the same Iowa county but in different taxing districts, on farms of nearly the same size. It will be noted that the share paid to the state government

ranged from 15 percent on farm A to 9 percent on farm B. In the same way the funds going to the county were 48 percent on farm A and only 29 percent on farm B. On farm A there was no payment for schoolhouse while on B this amounted to \$46.

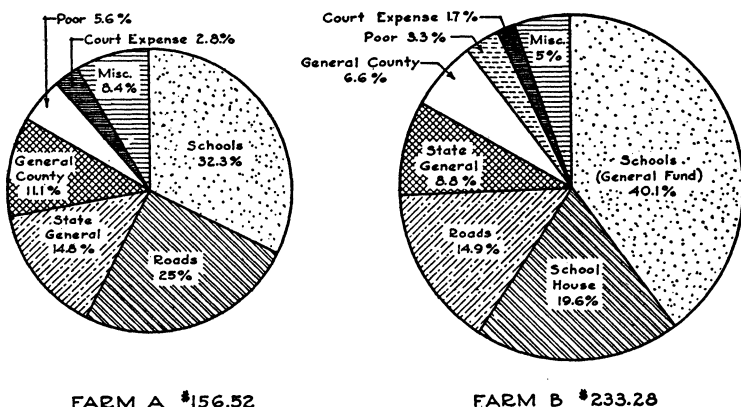


Fig. 5. Farms A and B are almost of equal size and are located in the same county, but in different taxing districts. The percentage of their taxes going for different purposes varies considerably.

	Farm A			Farm B		
	Millage	Total taxes paid	Per-cent	Millage	Total taxes paid	Per-cent
State general	8.0	\$ 23.20	14.82	8.0	\$ 20.53	8.8
Soldiers' bonus	1.0	2.91	1.86	1.0	2.57	1.1
General county	6.0	17.37	11.1	6.0	15.40	6.6
Poor	3.0	8.77	5.6	3.0	7.70	3.3
County and state						
insane	1.0	2.91	1.86	1.0	2.57	1.1
County schools	1.0	2.91	1.86	1.0	2.57	1.1
County bond .....	.....	.....	.....	.....	.....	.....
Soldiers' relief .....	.....	.....	.....	.....	.....	.....
Court expense	1.5	4.38	2.8	1.5	3.96	1.7
County hospital .....	.....	.....	.....	.....	.....	.....
T. B. eradication .....	.....	.....	.....	.....	.....	.....
Roads (Total)	13.5	39.13	25.0	13.5	34.76	14.9
Schoolhouse .....	.....	.....	.....	17.8	45.72	19.6
Schools	17.4	50.56	32.3	36.4	93.54	40.1
Miscellaneous	1.5	4.38	2.8	1.5	3.96	1.7
Total per farm....	53.9	\$156.52	100.0	90.7	\$233.28	100.0

