FEDERAL AND STATE FISCAL POLICY: IMPACTS ON AD VALOREM TAXES

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Abstract.—Forest land plays a critical role in the ad valorem tax structure of many rural southern counties. Mississippi counties most highly dependent on forest land as a source of revenue to fund local government are identified and contrasted to counties that do not share these characteristics.

School district funding is used to indicate the contributions made by federal, state, and local sources in support of local services. Sources of revenue for school districts across the state during 1985 and 1990 are compared to indicate whether changes in federal fiscal policy have resulted in changes in federal and state spending at the local level. Additionally, the implications of these policy changes as they relate to and the role of forest land in the ad valorem tax system are also explored.

Keywords: Ad Valorem Taxation, Federal Fiscal Policy

Introduction

Federal fiscal policy has been transformed considerably during the past decade. The beginning of this transformation can be traced to the election of Ronald Reagan as President in 1980. Reagan continually emphasized reducing the size of the federal government and providing states more control. Ronald Reagan made the following comments at a White House meeting of state legislators and county executives on February 9, 1986:

"You, the state legislators, you who are in county and local government are the representatives that are closest to the people. You are the first to see which programs work and which don't, and you know what is best for the states, for your communities, and that means what's best for the people. I've long believed that state and local governments have a better chance to be efficient and responsive than does the federal bureaucracy... My goal is to transfer as many programs as are appropriate back to you, along with the tax resources to pay for them (Public Paper 1986)."

The Reagan Administration clearly felt that the federal government had overstepped its responsibilities and assumed several

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state and local government responsibilities. This "New Federalism" envisioned a federal establishment that had not been seen since the years prior to the Eisenhower Administration. A federal government was being developed that would be concerned with a more limited scope of activities, aimed primarily at providing for national defense and free commerce. State and local governments would increasingly be responsible for administering social programs, and more dramatically, for generating the revenues needed to support these programs. The era of social well being handed down from the federal government to the state and local governments would end. The Reagan Administration chose to assign local taxpayers the authority to decide which national programs they would support, to what extent they would support them, and how these programs would be implemented.

Federal fiscal policy is critically important to both state and local governments because a large proportion of their funding comes from federal funds. Ad valorem tax revenues are also used to support a multitude of services offered by local governments, the most important being public education. Forest lands play a critical role in the ad valorem tax structure of many rural counties across the Southeast. Increased demands on ad valorem systems to generate additional revenue create direct demands on forest lands through increased rates of taxation.

**Federal Fiscal Policy**

Reagan opted for a narrower scope of national government for a number of reasons (Vitesses 1986). First, he was elected on a platform of increased defense spending and decreased domestic spending. Second, the rapidly increasing federal deficit made the actions toward the reduction of federal spending an absolute necessity. Third, the Administration argued that state and local governments could do a better job than the federal government of allocating funds because they were closer to the programs. Fourth, they felt that it was illogical for the federal government to collect funds and then redistribute them to the states in the form of funding for programs or grants. The Administration contended that such a system lent itself to inefficiency because states would rally around the best funded programs. If excess revenues were left to be collected by state and local governments, these revenues would be used more efficiently.

Reagan's policies were not effective in reducing the federal deficit or overall federal spending (Economic Report 1989) The deficit reached a record high of $221.2 billion in 1986. Expenditures increased from $590.9 billion in 1980 to $1,151.8 billion in 1990, an annualized increase of approximately 7 percent (Figure 1). Outlays for national defense increased at an annualized rate of 8.3 percent during this same period while total outlays for grants to state and local governments increased at only 4.1 percent (OMB 1992)(Figure 2).
Forest Land in the Ad Valorem Tax System

The relationship between changes in federal fiscal policy and the role of forest land in the local ad valorem tax system cannot be discussed without first examining the importance of forest land to such systems. This discussion presents an overview of the importance of forest land to the Mississippi ad valorem tax system.

Counties are first categorized by the contribution of forest land value to the ad valorem tax base in each county. These categories are then characterized by size and distribution of assessed value, population, average income per capita, average wage per job, and average millage rate. Understanding such characteristics is important to the overall discussion because the implications of generating additional revenues from local sources depend largely on the wealth available for taxation.

Statewide, forest land contributed almost five percent to the overall local tax base in 1987 (Figure 3). However, the importance of forest land to the local tax base varied considerably among individual counties in the state. In Greene County, forest land contributed 31.6 percent to the tax base in 1987 (Figure 4). In contrast, forest land represented only 0.8 percent of the total tax base in Hinds County in that same year (Figure 5).


Fig. 2. Outlays for national defense and funds to state and local government. Source: Budget of the U. S. Govt., 1992.

Fig. 3. Distribution of assessed value among the different property classes in the state of Mississippi in 1987.

Fig. 4. Distribution of assessed value among the different property classes in Greene County in 1987.
Greene and Kemper Counties are representative of counties highly dependent on forest land as a source of local revenue. Greene County, on average, produced more pine pulpwood annually than any other county in the state during the 1980's. Kemper County ranked fourth in the mean annual production of pine sawtimber during this same period (Weaver et al. 1991). Total taxable value in these two counties averaged less than $25 million. In contrast, Hinds County had a tax base in excess of $1 billion, over 45 times that of Greene or Kemper Counties.

Forest land contributed less than five percent to total assessed value in 29 counties statewide (Figure 6). This represents 35 percent of all counties. Approximately 27 percent of all counties, or 22 counties statewide, had contributions from forest land between five and 10 percent. Forest land contributed between 10 and 15 percent to total assessed value in 18 counties, or approximately 22 percent all counties. Counties with contributions to total assessed value between 15 and 20 percent represented a total of nine counties across the state, or 11 percent of all counties. Forest land value comprised more than 20 percent of the total tax base in Greene (31.6 percent), Kemper (26.9 percent), Jefferson (27.6 percent) and Wilkinson (24.7 percent) Counties.

![Fig. 5. Distribution of assessed value among the different property classes in Hinds County in 1987.](image)

![Fig. 6. Distribution of counties by percent contribution of forest land to total assessed value in the county.](image)

To more fully characterize counties that had extremely large or extremely small contributions from forest land to the total assessed value in these counties, 1987 demographic information was examined (Wells 1989). An inverse relationship existed between population and contribution of forest land to total assessed value (Figure 7). Population trends closely paralleled those of total assessed value. That is, counties with large populations were characterized by large total assessed values. The average population of the 4 counties in which forest land accounted for more than 20 percent of their tax base was less than 20 percent of the average population of counties that derived less than 5 percent of their tax base from forest land. Forest land was a large contributor to the tax base in counties with low population densities. The population of Greene County in 1987 totaled only 9,837. This population figure was over two-thirds lower than the average Mississippi county population of 32,506. The population of Hinds County was 264,410 in 1987. Harrison and Hinds Counties were
the two most densely populated counties in the state, and had the largest local tax bases of all Mississippi counties. All counties in Mississippi with a population greater than 50,000 persons had less than a five percent contribution from forest land to the tax base.

Average income was less in counties that derived a larger percentage of their local tax base from forest land (Figure 8). Average income was more than 30 percent higher in counties that derived less than five percent of their total assessed value from forest land than in those counties most highly reliant on forest land as a tax base. Average wage per job showed similar trends as those for average income (Figure 9). Millage rates were highest in counties most dependent on forest land as a tax base, indicating a higher rate of taxation in counties with smaller tax bases (Figure 10).

Mississippi's 16.8 million acres of forest land accounted for 56 percent of all land area in the state in 1987. Forest land covered more than 60 percent of the land area in 38 counties. In 7 Mississippi counties, forest land covered more than 80 percent of the land area (Donner and Hines 1987). However, no geographic pattern existed when counties were disaggregated by percent
contribution of forest land to the tax base, with the exception of the Mississippi Delta Region. County population and total assessed value were more important than total land area in forest land in determining the percent contribution of forest land to the local tax base.

**School District Revenues**

Mississippi's public education system has long been a leading user of funds generated at the local level through the ad valorem tax system and as well as funds provided by the state and federal government (Annual Report 1991). For most Mississippi counties, education is the single largest user of ad valorem tax revenues (Holland 1987). In Greene County an estimated 43 percent of all revenues generated through the ad valorem tax system in 1990 were used to fund public education (Figure 11).

In this discussion, the changes in funding sources for school districts across the state are used to indicate the effects of changes in federal fiscal policy at the local level. Special emphasis is given to the implications of these changes on the role of forest land in the ad valorem tax systems of those counties. School districts are categorized by the percent contribution of forest land to the local tax base of the county in which they are located. Percentage of support from local, state, and federal sources are compared for 1985 and 1990.

State funds accounted for the largest average share of revenues provided to school districts in both 1985 and 1990 (Figure 12) (Annual Reports, 1986 and 1991). Average state support for a given school district was 65.7 percent in 1985 and 56.6 percent in 1990. The average share of local support accounted for 22.0 percent of revenues in 1985 and 26.8 percent in 1990. The average share of federal funding accounted for 12.3 percent of revenues in 1985 and 16.6 in 1990.

![Fig. 11. Percentage of the millage rate used for education in Greene County in the 1989-90 tax year.](image1)

![Fig. 12. Average share of school district support. (Source: Finance Reports, Miss. Dept. Education)](image2)

Revenues generated through the ad valorem tax structure across the state accounted for 64 percent of all locally generated funds used to finance public education in 1990. The same proportion was contributed in 1985 (Annual Reports, 1986 and 1991).

The number of school districts in the state decreased from 169 to 167 from 1985 to 1990. To aid in this analysis, school
districts were categorized according to the importance of forest land to the ad valorem tax base of the counties in which the schools were located in 1987. Five categories were used: counties which relied on forest land for less than 5 percent of the ad valorem tax base (Category I), 5 to 9.9 percent (Category II), 10-14.9 percent (Category III), 15.0 to 19.9 percent (Category IV), and more than 20 percent (Category V).

A total of 78 of the 167 Mississippi school districts in 1990 were located in counties that relied on forest land for less than five percent of their ad valorem tax base in 1987. Only four districts, or less than three percent, were situated in counties that were highly dependent on forest land as a source of revenue (Figure 13). Counties with large populations tended to have multiple school districts, but each of the four counties most highly dependent on forest land as a tax base had only a single school district serving the entire county.

Forest land has an important role in funding school districts in some counties. For example, the assessed value of forest land in Greene County in 1990 was $8.5 million dollars, accounting for over 31 percent of the total assessed value of 27.4 million dollars in that county (Service Bulletin 1990). Mills levied in support of education in 1990 were 41.65, making the contribution of forest land to public education roughly $354,000 (Annual Report 1991). This contribution, when spread over the estimated 337.5 thousand acres of privately owned forest land in Greene County (Donner and Hines 1987), was more than $1.05 per acre per year for forest land. Although substantial, the contribution of forest land actually accounted for only about five percent of school district revenues in Greene County in 1990. (Annual Report 1991).

During the 1985 tax year, average local contributions to school districts were greatest in those counties least dependent on forest land, those of Category I (Figure 14). Local revenue sources provided almost 25 percent of the cost of total school district support in that year. Those counties most highly dependent on forest land to support their local tax base, those of Category V, contributed the least to school district revenues with less than 19 percent. The average contribution of local funds across all 169 public school districts in 1985 was 22.1 percent.

The largest percentage of support for school districts came from state funding. State support ranged from an average of less than 64 percent in the districts of Category I to almost 70 percent in Category II. Average support across all districts was approximately 66 percent.

Federal support provided the remaining funds. The percentage of federal support was greatest in the school districts of Category V, those school districts located in counties most highly dependent on forest land as a source of revenue for the ad valorem tax structure. Federal contributions across all districts averaged 12.4 percent.

Average local contributions to school districts increased across all five categories in tax year 1990 (Figure 15). As in 1985, the school districts of Category V received the lowest percentage of support with 27.01 percent. Average local support was highest in the school districts of Category I.
Ad valorem tax revenues accounted for 64 percent of all revenues generated at the local level to fund public schools. Revenue receipts indicate that the Mississippi ad valorem tax system generated $166 million to fund public schools during the 1985 tax year. In tax year 1990, this figure had increased to $304.1 million, an annualized increase of 12.9 percent.

As in 1985, funds provided by the state provided the bulk of public education funds. Average state support during the 1990 tax year was lowest in the school districts of Category I at 55.1 percent and highest in the school districts of Category II at 60.1 percent. State support averaged 57.0 percent across all districts in the state.

In tax year 1990, federal funds were most important to the school districts of Category V, those districts located in counties most highly dependent on forest land for generating ad valorem tax revenues. Average federal contribution across all districts was 16.8 percent.

Average local support increased in all categories between 1985 and 1990 (Figure 16). Across all school districts in the state this increase in local support averaged 4.9 percent.

Funds from state sources decreased in all categories. This decrease averaged 8.9 percent across all school districts in the
state. The smallest decrease occurred in the Category V districts, with a 7.1 percent decrease. Only 6 out of the 127 school districts across the state realized an increase in the proportion of funds provided by the state.

Federal support for school districts increased for all categories. These increases ranged from 1.9 percent in the Category IV districts to 4.4 percent in the Category I districts, on average, an increase in the federal share of funds of 4.41 percent occurred across all districts.

Conclusion

Several conclusions are evident concerning the contribution of forest land to the local tax base of counties across the state and concerning characteristics of these counties. First, no specific geographic pattern existed when counties were disaggregated by percent contribution of forest land to the tax base, with the exception of the Mississippi Delta Region.

Second, an inverse relationship existed between county population and the contribution of forest land to the local tax base. This can be attributed to the positive relationship between population and total assessed value. The amount of assessed value from property other than forest land increased proportionally with population as more residential and business property were present in heavily populated counties. Thus, the relative value of forest land to the tax base decreased as total assessed value in the county increased. Additionally, relatively low contributions from forest land to the tax base existed in counties with populations in excess of 50,000. Conversely, the contribution of forest land was very significant in those counties characterized by low population and low overall value present in the county.

Average millage rates were higher in counties that were most reliant on forest land for their tax base. Moreover, average income and average wage per job were lower in counties that derived a large proportion of their tax base from forest land. Thus, millage rates had to be relatively large to support government services in counties with small tax bases.

Several implications of changes in federal fiscal policy were also noted in this discussion. First, during both 1985 and 1990, the majority of school district revenues came from state sources. Revenues generated at the local level were second in importance, followed by federal revenues.

The average share of state support decreased during this period, while the average share of direct federal and local support increased. When school districts were categorized by the contribution of forest land to the local tax base of the county in which they were located, there was little evidence to suggest differences in trends among the categories.

Less than three percent of all school districts in the state were located in counties that obtained more than 20 percent of ad valorem tax revenues from forest land. The largest number of school districts were located in counties where forest land accounted for less than five percent of the tax base.

Forest land was most important to those counties which had little other property available for taxation. Such counties were largely rural and sparsely populated. Average rates of taxation
were higher in these counties, while average income per capita and average wage per job were lower. These counties typically had a single school district, a characteristic attributable to low overall population density. Trends in support of these school districts differed very little from trends in other counties across the state during the period examined. The share of state support decreased slightly during the period, while the share of federal and local support increased.

Although the federal share of school district support increased during the period, the decreasing percentage of state support observed during the period could be an indirect result of decreased federal funding for other programs. For example, in the area of agriculture, nominal outlays for grants to state and local governments decreased from 2.4 to 1.3 billion dollars from 1985 to 1990 (OMB 1992). Similar decreases occurred in the areas of natural resources, transportation, and community and regional development. Such decreased flows of federal funding into the state would require state funds to increasingly be used in support of programs other than education. As indicated earlier, decreased state funding to local government is often a direct result of state fiscal crisis brought about by changing federal fiscal policy. Such trends would also be in line with Reagan's ideas about the "New Federalism", where the federal government plays a lessor role in the domestic programs of state and local governments.

Implications for forest land are greatest in those rural counties where forest land represents a large proportion of the taxable value in the county. If state and local governments continue to increasingly rely on ad valorem tax revenues to provide essential local services, then forest landowners can expect continued escalation of ad valorem taxes. During the period examined, these rural counties had the highest rates of ad valorem taxation in the state. In such counties where taxable value is low, no ad valorem tax system can satisfy the revenue needs of counties and communities. The only option for such counties is to decrease local services, including education, or seek alternative funding sources.

**Literature Cited**


