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Louisville: Intergovernmental Reforms for Fiscal Progress

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LOUISVILLE:

Intergovernmental Reforms for Fiscal Progress

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Louisville finds it difficult to finance its public services because of severe state restrictions imposed on its revenue raising power—and because its citizens rebel at having their taxes raised. This has adversely affected the city's school system (although reforms have recently been initiated). This study documents the difficulties in overcoming local government fragmentation and in planning for area-wide public services. Normal difficulties in these fields are compounded in the Louisville metropolitan area, because it straddles two states. But interstate cooperation—and the cooperation and consolidation of local governments—have speeded progress in planning and providing for area-wide services.

Without the substantial intergovernmental reforms which have taken place in the last five years in the Louisville Standard Metropolitan Statistical Area (SMSA), the fiscal position of that metropolitan area would be most critical. Among these reforms are (a) state action which has made the property tax a more viable source of local revenue; (b) elimination of disparities between city and county governments in their ability to finance services, which has resulted in a redistribution of functional responsibility among these local units; (c) broader use of a local occupational license tax; (d) some governmental consolidation and other movements toward area-wide financing and administration; (e) use of special financing arrangements to meet the immediate problems of extending adequate networks of sanitary sewers into the county; and (f) new machinery to insure a greater amount of interstate (Indiana and Kentucky) cooperation among local governments in the metropolitan area.

Distribution of Population and Local Government

Louisville is the central city of a two-state, tri-county SMSA of approximately 750,000 inhabitants. Table 1 shows the high concentration of this population in Jefferson County together with the relative distribution and growth rates of the population for the three counties and the City of Louisville. The table indicates that, while there was no significant change among counties in relative size over the decade, a significant redistribution of population did occur within Jefferson County.

The structure of local government within the metropolitan area is highly fragmented (see Table 2). The SMSA contains 129 local governments of which 105 have property taxing power, while 60 of 69 local governments in Jefferson County have the power to tax property. Including the City of Louisville, Jefferson County is overlapped by 49 municipalities, of which only eleven have populations in excess of a thousand.

Table 1 **Distribution of Population Within Louisville SMSA**

	1966	1960	Per Cent Increase 1960-1966
Jefferson County, Kentucky	83.6%	84.2%	9.5%
(Louisville Central City)	(48.8)	(53.9)	(−0.1)
Floyd County, Indiana	7.0	7.1	9.2
Clark County, Indiana	9.3	8.7	18.8
TOTAL SMSA			9.4%

SOURCE: U.S. Bureau of the Census, *Census of Population 1960* (Washington, D.C.: U.S. Government Printing Office); and Louisville Chamber of Commerce.

Table 2 **Distribution of Local Government Within Louisville SMSA**

	Jefferson County (Ky.)	Clark County (Ind.)	Floyd County (Ind.)	Total
All types, total	69	42	18	129
(With property taxing)	(60)	(34)	(11)	(105)
Municipal	49	5	3	57
(With population less than 1000)	(38)	(1)	(2)	(41)
County	1	1	1	3
Township	0	12	5	17
School districts	3	14	1	18
Special districts	16	10	8	34
(With property taxing power)	(7)	(2)	(1)	(10)

SOURCE: U.S. Bureau of the Census, *Local Government in Metropolitan Areas: Census of Governments: 1962,* Vol. V (Washington, D.C.: U.S. Government Printing Office, 1965).

Table 3 **Central City-Suburb Disparities**

	Louisville (Central City)	Jefferson County (Outside Central City)	Jefferson County (Total)
GENERAL POPULATION CHARACTERISTICS:			
Population (1966)	390,100	278,000	668,100
Population growth rate (1960-1966)	−0.1%	26.3%	n.a.
Mean income level (1960)	$6128	n.a.	$6831
Median school years completed (1966)	9.3	n.a.	9.9
Median value of owner occupied dwelling units (1960)	$10,400	n.a.	$11,800
POVERTY INDICATORS:			
Total welfare recipients (1965)	18,817	1,922	20,739
AFDC families (1965)	3,287	225	3,512
AFDC children (1965)	10,109	717	10,826
Per capita arrests (1966)	0.033	0.017	n.a.
Per capita juvenile arrests (1966)	0.017	0.005	n.a.
PER CAPITA CURRENT EXPENDITURES (1965):			
Police	$12.65	$6.41	$10.05
Fire	10.46	n.a.	6.09
Health	7.92	9.58	8.71
Streets	4.74	4.45	4.62
Sanitation	5.68	6.17	5.88

Central City-Suburb Disparities

Louisville affords an excellent example of the stereotype central city-suburb[1] relationship (see Table 3). The core city is suffering population stagnation while the suburbs are growing rapidly. Income levels and housing values are substantially lower in the central city. These data also show wide central city-suburb disparities in the level of poverty (as measured by welfare case loads) and in the incidence of crime.

Finally, the fiscal data included in Table 3 indicate that per capita expenditures in the central city for certain func-

[1] Suburbs are defined here to include only that area outside the Louisville central city in Jefferson County, Kentucky. Where data are available, the Clark and Floyd County, Indiana areas are also considered.

tions (Police, Streets, Fire) are higher than in the outlying area. This results at least partially from two factors: (a) the drain on city services created by nonresident commuting into the central city to place of employment, to shopping facilities, to the University of Louisville, etc.; and (b) the higher incidence of poverty in the central city which requires a high per resident cost to provide acceptable levels of certain types of public services.[2]

Disparities Within the Central City

In addition to central city-suburb differences, there are broad disparities in the level of economic well-being within the Louisville central city area. Louisville's Model City program is designed to reduce these disparities through redevelopment of the worst slum area of the city. This area (which contains 39 per cent of the city population) contains 95 per cent of all central city nonwhites. One-third of its 40,000 families have incomes below $3,000; over half the housing units are sub-standard; the infant death rate is one-third higher than for the city as a whole; the unemployment rate is 50 per cent higher; and the percentage of persons receiving welfare is double the city-wide rate. The data in Table 4 show these disparities in more detail.

The original Model City proposal was a five-year plan designed to remake approximately one-fourth of the central city. But this was reduced by approximately three-fourths by the Department of Housing and Urban Development. Louisville's proposal called for the development and improvement of educational, vocational, health, recreational, cultural, and social services in the Model City area. Great emphasis was placed on developing multipurpose educational, health, and community centers. However, Louisville was not one of the 63 cities chosen in the first round of the Model Cities program.

[2] A third possibility is that these statistical data are distorted by either interlocal differences in the degree of public and private provision of services, e.g., garbage collection, or by inaccurate measurement. It is especially difficult to estimate the level of public spending by the 50 small municipalities located in Jefferson County.

In addition, there are six Urban Renewal Projects presently in execution and two in the planning phase—involving both clearance and rehabilitation and covering about one-fifth of the area. The area presently contains 4,990 units of low-rent public housing while 305 additional units for the elderly are now being constructed.

Table 4 **Disparities Within the Louisville Central City: 1965**

	City Total	Model Neighborhood Total	Model Neighborhood Total as a Per Cent of City Total
Substandard housing units	35,900	27,590	76.9%
Per cent of persons 25 and over with less than 8 years of education	24.2	33.2	—
Infant deaths as a per cent of births per year	2.5	3.2	—
Per cent of males 14 and over who are unemployed	6.4	9.3	—
Per cent of persons under 21 receiving AFDC payments	6.9	12.4	—
Number of juvenile arrests	6,665	4,250	63.8
Nonwhite population	78,327	73,982	94.5
Number of families with incomes less than $3,000	21,717	13,545	62.4

SOURCE: University of Louisville Urban Studies Center.

State Actions to Relieve Fiscal Pressures on Local Government

The state government in Kentucky has provided a partial solution to the fiscal problems of the Louisville metropolitan area through action taken at a special session of the state legislature in September 1965. The special session was called to consider two major problems: (1) The State Court of

Appeals had ordered one year earlier that all property in the state be assessed at 100 per cent of fair market value, instead of the existing median state ratio of 27 per cent (34 to 38 per cent in Jefferson County). (2) The Jefferson County school systems were facing a serious financial crisis after local residents had twice defeated proposals to raise additional revenues for the education function.

Property Tax

The Kentucky statutes limit the property tax rate of all school districts and cities to $1.50 per $100 of assessed valuation, and the rate of county governments to $.50 per $100 of assessed valuation. Since property was assessed at approximately one-third of full value prior to the court decision, effective property tax rates of local governments in the Louisville SMSA varied roughly between $.50 and $.17 and there existed no upward flexibility in these rates.

The court ordered local assessors to inflate assessed valuation by the reciprocal of the existing assessment ratio (e.g., 2.63 is the reciprocal of a 38 per cent assessment ratio). At the same time, local governments were ordered to reduce property tax rates by the same multiple, so that the property tax yield would be the same before and after the 100 per cent ruling. Local units would then have the option of raising the rate, provided that the estimated yield from the property tax would not increase by more than 10 per cent. Both the Louisville City and Jefferson County school districts, and the Louisville city government exercised this option in 1966, while the Jefferson County government did not choose to increase rates. The same 10 per cent maximum yield increment is in effect for 1967. What action the local units will be allowed to take on property tax rates after 1967 has not been decided at this writing.

The effects of this court decision on local finances in the Louisville area may be seen from the data in Tables 5 and 6 which indicate the actual increments in assessed value and tax rates.

Table 5

Effects of 100 Per Cent Assessment on Assessed Valuations in Jefferson County (in dollars)

	Louisville (Central City)	Jefferson County (Outside Central City)	Jefferson County (Total)
Total assessed valuation			
1966	1,595,525,750	1,528,207,600	3,123,733,350
1965	535,002,240	504,262,059	1,039,264,299
1964	529,518,760	472,563,000	1,002,081,760
Per capita assessed value			
1966	4,090	5,497	4,669
1965	1,373	1,849	1,569
1964	1,361	1,807	1,540
Average annual rate of increase in total assessed valuation			
1957-1965	0.021	0.055	0.042
1965-1966	1.980	2.030	2.005

Table 6

Effect of 100 Per Cent Assessment on Actual Property Tax Rates in Jefferson County

	Actual Rate 1965 per $100	Actual Rate 1966 per $100
City of Louisville	$1.50	$0.501
City school district	$1.50	$0.547
Jefferson County	$0.50	$0.171
County school district	$1.50	$0.570

Occupational Tax

A second purpose of the special legislative session of 1965 was to consider the problem of financing education in the Louisville Metropolitan Area. The result of the session was that the legislature authorized school districts to impose an occupational license fee, not to exceed one-half of 1 per cent of (a) salaries, wages, commissions, and other compensations earned by persons within the county; and (b) the net profits of all businesses, trades, occupations, and professions, for activities conducted within the county. The revenues are to be shared by the two school districts in proportion to the number of pupils in average daily attendance.

This license tax (at a rate of 1.25 per cent) has been levied by the Louisville city government since 1949 and by the Jefferson County government since 1961 and accounts for over one-fourth of all general revenues of both the city and the county. In all cases the revenue collection is administered by a Sinking Fund Commission.

Workers employed within the city are not subject to the county tax and in cases where income is earned in both the city and county the tax is prorated between the units. Employees whose residence is not in Jefferson County are exempted from the levy for the education function.

Financing Education in Louisville-Jefferson County

The educational system of the area is administered primarily by an independent city school district and an independent county school district whose boundaries are not coterminous with the incorporated city limits. There is a third, relatively small independent school district, operating in the municipality of Anchorage which is located in Jefferson County. Enrollment in parochial schools in both the central city and in Jefferson County outside the central city is considerable; in 1966 approximately 33 per cent of enrollment in the central city was in parochial schools while the corresponding figure for Jefferson County outside the central city was about 21 per cent.

As suggested above, the problems of financing education had reached a critical level by 1965. The consequences of local voter resistance to alternative solutions was a gradual worsening of the quality of education offered students in both the city and county school systems.

Quality of the Program

In 1952 the City of Louisville school district was spending $279 per pupil, $23 above the national average—but in 1964, it spent $298 per pupil, $69 below the national average. The expenditures of the Jefferson County school system were $63 per pupil below the national average in 1964.

The acuteness of the problem in the city system evolved primarily from a level of current funds insufficient either to carry out an adequate program of services or to pay competitive teachers' salaries. The extent of the financial difficulties was such that in 1956 the city system eliminated kindergartens, reduced visiting teacher services, cut the city-wide remedial reading staff to one specialist, limited building maintenance and curtailed the allotment of school supplies. Among the first results of the diminished quality of services were an increase in dropouts and a doubling of first grade failures after the abandonment of city kindergartens.

While the problem of the city schools was deficient current revenues, the county schools were plagued by insufficient funds for necessary expansions of the physical plant. In 1963, 5,800 county students were on double sessions. The number grew to 19,000 in 1964 and at that time was projected to grow to about 49,000 or 60 per cent of the total county enrollment by 1970. Consequently, the county elementary schools were not accredited in 1965 and the high schools faced the loss of accreditation because of overcrowding and inadequate library facilities.

School District Financing

The Kentucky statutes limit the property tax rate of all school districts to $1.50 per $100 of assessed valuation. In 1965, this had the effect of limiting the school districts to approximately $.50 per $100 of full valuation of property within the taxing jurisdiction. Both the city and county districts were at the $1.50 rate limit, making an increase in property tax revenues possible only with the consent of the voters by general referendum. In 1952 each system was voted a special building tax of \$.50 per \$100 of assessed valuation, to be used exclusively for the financing of capital improvements. This building tax will terminate in 1972.

Aid to the school districts under the state minimum foundation program has represented an increasing proportion of school district receipts, presently constituting approximately 40 per cent of all revenues for the two systems combined. In the period 1956-1966, the ratio of state to local support of each of the Louisville and Jefferson County school systems more than doubled.

Alternative Solutions

Twice between 1962 and 1965, the city and county school boards went to the voters with proposals to increase revenues, and on each occasion the proposals were defeated.

In November 1963, the city school board proposed a two-fold program to meet the revenue deficiency. First, the special building tax would have been reduced from \$.50 to \$.25 per \$100 of assessed valuation, but the termination date of the program would be extended from 1972 to 1997. This measure was proposed to enable the school board to continue its program of financing capital improvements through revenue bonds. Second, the board proposed the authorization of a new tax for general school purposes at a rate of \$.64 per \$100 of assessed valuation. In total the two measures would have resulted in a net rate increase of \$.39. The referendum was defeated 2 to 1 in the city, just as a similar proposal by the county had been defeated 3 to 1 only seven months earlier.

Again in 1964 the school boards offered the voters a solution to the fiscal problem. This revenue program would have given both the city and county school districts authority to levy an occupational tax with a rate up to 3 per cent. Further, it provided for a property tax increase of \$.32 per \$100 of assessed valuation. This plan would have increased revenues by \$3.7 million in the county and \$4.2 million in the city, but again the referendum was defeated. A public opinion survey revealed general discontent with the quality of the fiscal management of the school districts. It revealed, further, a strong feeling that the existence of two school districts spawned inefficiency through duplication of functions, and that consolidation should therefore be considered.

Three other possible solutions to the Louisville school fiscal crisis, involving local resources, were suggested. The first proposal was for a 1 per cent county-wide occupational license to be used exclusively for the education function. (This would be in addition to the existing 1.25 per cent countywide occupational license, none of the funds of which is currently used for school purposes.) This proposal would produce an additional $14 million per year to be distributed between the school districts on the basis of distribution of students—not on the basis of contribution from each district. A second proposal would require a legislative act to permit the school boards to increase the property tax rate above the present statutory limit of $1.50. Still within the purview of local resources, the revenue problem could be alleviated by a legislative act permitting the county, by referendum of the voters, to impose a sales tax not to exceed 1 per cent. This tax would be collected by the state (which presently has a 3 per cent sales tax) and returned to the school districts on the basis of average daily attendance. School districts using this method of financing would continue to be limited to the present property tax rate ceiling of $1.50.

Of these three possibilities for increasing school tax receipts from local sources, the alternative involving an increment in the property tax rate above the legal limit appeared to be the least feasible (without constitutional revision) because of strong public sentiment against any adjustment in the property tax rate. The sales tax alternative is less satisfactory than the occupational tax because (a) it would produce less revenue, (b) it would be more difficult to administer, and (c) it would be strongly opposed by labor. The primary criticism of the occupational tax was the questionable legality of this method of raising additional revenues for education and the legal problems of devising a method of distributing proceeds between the two districts.

County officials suggested yet another method of coping with the fiscal problem of the county schools. The plan called for Jefferson County to pay $700,000 a year in rent to the school system for use of school buildings and playgrounds in the county recreation program. The school board would then spend the $700,000 to underwrite 25 year bonds for construction of new schools and additions to existing buildings, thereby eliminating double sessions within two years. The county government proposed to raise the money through an across-the-board cut in the county's next annual budget. This plan has many serious drawbacks: (1) Community action would be required to provide funds for equipment and increased operating expenses. (2) The plan does not provide for the salary raises which would be needed to attract new teachers to the system. (3) The bond issue would have to be approved by the state Department of Education. (4) A buyer for the bonds, at some reasonable interest rate, would have to be procured.

It was proposed that the state government could aid in alleviating the school finance problem either by sharing an existing state tax, or by legislative actions which would enable local governments to solve the crisis. The state could authorize an increment of 1 per cent in the existing 3 per cent state sales tax. If the receipts from this surtax were distributed among the school districts in the state on the same basis as present state aids to education, the combined revenues to the two school districts would total about $6.5 million as compared with $14 million from the proposed 1 per cent occupational tax. An alternative to the state-wide rate increase is a bill sanctioning the application of the present sales tax to services now exempted—thus diverting a portion of the revenue to school use.

State Action

As described above, the special session of 1965 resulted in a 100 per cent assessment of property with a compensating reduction in rates, and the authorization of a county-wide occupational tax for education purposes. This state action is a first step in the long-run solution to the problems of financing education in the Louisville SMSA.

Though property tax rates were ordered reduced to compensate for the full value assessment, local governments were permitted to readjust rates so that revenues could be increased by 10 per cent. Local governments may also elect to take a 10 per cent increment in revenues during the second year, but no decision has been made as to the long-run restrictions on rate increments.[3]

The school boards were authorized to impose a county-wide occupational tax not to exceed one-half of 1 per cent, and to divide the proceeds of this tax on the basis of average daily attendance. This source of revenue for the education function was given to school systems in any Kentucky county having more than 300,000 residents.[4]

Financing Sewage Disposal in Louisville-Jefferson County

Inadequate sewage disposal—both the servicing of existing residential development and the extension of the city system into undeveloped sections—has been a growing problem in Jefferson County for years. Many areas were originally developed with septic tanks which have experienced notable failure, while other municipalities within the county but outside the Metropolitan Sewer District are finding problems not satisfactorily solved even though they provide treatment plants or distribution systems. These limited facilities have in some cases been rapidly outgrown, uncoordinated, and poorly maintained and operated. Sewage from malfunctioning septic tanks and small treatment plants has, in some instances, discharged into ditches and gutters of built-up areas, creating hazards to the health of the community and odor that becomes a public nuisance. An ultimate result is devaluation of property in these areas. In addition to these adverse effects on public health and quality of

[3] These 10 per cent revenue increments are over and above the "natural" increase in the property tax base.

[4] Fayette County (Lexington) is the second largest in the state, having less than 200,000 residents.

service, there are considerable disparities in the cost of services, as the rate assessed in suburban areas is usually higher than that in the central city. Finally, the topographic features of certain parts of the county have resulted in a county board of health prohibition of the use of septic tanks in these areas. Therefore, inadequate disposal facilities may have had a dampening effect on the rate of suburban expansion into undeveloped areas around the city of Louisville.

However, in the past two years the Louisville Metropolitan Sewer District (MSD) has taken steps to remedy these problems. The MSD now maintains and operates 37 of the smaller treatment plants in the county. This has substantially raised the quality of service in these suburban areas and has reduced the wide service level variations among suburban units. Disposal facilities have been extended into certain of the county areas where the prohibition of septic tanks had stymied urban expansion. In addition, a consolidation of water districts in Jefferson County has resulted in a reduction of water and sewer rates outside the central city, though county rates still exceed those in the central city.

Extending the Existing System

The maintenance, operation, and extension of sewer facilities are the responsibility of the Louisville and Jefferson County Metropolitan Sewer District. Approximately 90 per cent of operating revenues of the MSD are derived from metered service charges of the Louisville Water Company.

The effectiveness of the MSD has been limited by restrictions placed on its powers in areas beyond the Louisville city limits. Prior to 1964 legislation, the Metropolitan Sewer District was limited to contracting for sewer extensions into unincorporated areas of the county. In order to make feasible an extension (which would be financed by special assessments), full financial participation by the property owners was needed. Thus, a minority in a given area could effectively block an attempt to extend the city sewer system.

A 1964 bill, drafted by legislators of both parties, authorizes the MSD to set up construction subdistricts and build sewers within the confines of those areas. The extensions are to be financed by revenue bonds tied to user rentals and charges in the subdistrict. The bill provides for alternative methods of financing: (a) sewer assessments based on either area or assessed valuation, and (b) payment to the sewer district by the subdivider who in turn passes the cost on to home buyers. Placing the initiative and the burden of the cost on the benefited parties removes the objections of central city residents who have reacted against suggestions of area-wide financing of extensions of the existing system into the county.

Since 1965, 23 construction subdistricts have been created in Jefferson County to finance the extension of sewage disposal facilities. These subdistricts have been utilized generally in the construction of sewer trunks while the subdividers have constructed the laterals.

While the construction subdistrict is created to facilitate financing of sewer laterals and trunks, the 1964 bill also provides another method for financing the extension of more costly trunk sewers into various watersheds, and the construction of needed treatment plants. It enables the creation of sanitation tax districts with the authority to levy a property tax to finance this more costly phase of the program.

A recent study of county needs estimates a cost of approximately $280 million to sewer the county adequately, with over half of this amount needed for the construction of costly trunks and new treatment plants. This need offers a test of the effectiveness of the 1964 legislation in providing a method of financing the county-wide program. While the issuance of revenue bonds tied to user-charges in the construction subdistricts appears to be an adequate method of financing the construction of laterals and some trunks, the use of the sanitation tax district is likely to be an ineffective way of financing the more costly trunks and treatment plants, primarily because of voter opposition. Conceivably, a home could lie within the taxing jurisdiction of both a construction subdistrict and a sanitation tax district and thus would be subject to the charges of both.

An alternative to the tax district method is the issuance of a general obligation bond by the county. The feasibility of this alternative is limited by two factors: (1) A county general obligation bond requires approval of two-thirds of the voters. The strong objections of city voters to paying for county sewers suggests that passage would be improbable. (2) General obligation debt of Kentucky counties is limited to 2 per cent of total assessed valuation, or in the case of Jefferson County, approximately $24 million.[5] Thus, county debt would seemingly provide an inadequate source of financing a project of this magnitude.

Future Planning

While the ultimate aim of the Metropolitan Sewer District is a county-wide, fiscally integrated system, the immediate objective is the extension of sanitary sewers in the county. In accordance with these goals, these general policy objectives have been established: (a) that all existing sewer systems outside Louisville be acquired by the Metropolitan Sewer District, (b) that sewers be extended into the county in accordance with a long-range land use and development plan, and (c) that advance planning should begin for financing two large treatment plants.

The first of these objectives has been accomplished during the past two years in the sense that the MSD has assumed, by contractual arrangement, the operation and maintenance of 37 county sewer systems. The potential for achieving the second of these objectives is greatly enhanced by the creation of 23 construction subdistricts during the past two years. However, there remains the problem of finding a method for financing the costly capital improvements necessary to sewer the county properly and simultaneously to construct an adequate drainage system.

[5] How the full valuation of property will affect debt limits has not yet been determined.

Shift of Functions Between City and County

Prior to 1960, the City of Louisville had been saddled with responsibility for a number of what might ordinarily be county government functions. The basic reason for this division of financial responsibility was the limited fiscal abilities of the county. The primary source of revenue was the property tax, the rates of which are limited by the state constitution to $.50 per $100 of assessed valuation — a ceiling which was reached by the county government more than a decade ago.

Though receipts from the property tax did increase substantially over the decade because of a rapid increase in population outside the central city, there remained a need for additional funds. Consequently, in 1959 the county enacted a 1.25 per cent business and occupational license tax to be administered along with that of the city by the Sinking Fund Commission. Workers employed within the city are not subject to the county tax and, in cases where income is earned in both the city and county, the tax is prorated between the units. Table 7 shows the relative importance of the occupational license tax as a source of revenue in both the city and the county.

As a result of the increased revenues of the county government from the occupational license, there occurred a shift in the degree to which the city and county shared in the financing of certain functions. The county immediately assumed major responsibility for the local welfare function, and the county appropriation to the University of Louisville rose from $40,000 in 1961 to $570,400 by 1963. Similarly, the county appropriation for the City-County Board of Health and Public Libraries increased by a significant amount.

Table 7 **Occupational License and Property Tax Revenues of Louisville City Government and Jefferson County Government: 1966**[a]

	Louisville City	Jefferson County
Occupational License Tax Collections:		
Total	$13,809,959	$6,482,260
Per capita	35.40	23.32[b]
Per cent of total revenue	.21[c]	.33[c]
Property Tax Collections:		
Total	9,209,342	5,596,500
Per capita	23.61	8.36
Per cent of total revenue	.39	.37

[a] Fiscal year.

[b] Per capita occupational license collections for county government are on a basis of population in Jefferson County but outside the Central City. For county government property taxes, the per capita base is the entire population of the county.

[c] The occupational license is administered and collected by the City of Louisville Sinking Fund and not all collections in a given year are transferred to the city and county general funds. Therefore, occupational license *revenues* as a per cent of total general revenues is lower than would be a comparable statistic computed on a basis of occupational license *collections*.

Consolidation and Merger

As noted in Table 2, the Louisville Standard Metropolitan Statistical Area is fragmented politically by 129 local governments (67 of which are located in Jefferson County). A comparison of Census of Governments statistics indicates a growth in this fragmentation over the 1957-1962 period.[6] These data reveal that Jefferson County was overlapped by 48 local governments in 1957, which means a net increase of 21 local units over the five-year period. Most of this increment was due to the creation of 15 incorporated municipalities (nine of which had 1957 populations of less than a thousand) outside the central city in Jefferson County.

In the very recent past, certain movements have been made toward consolidation and merger with respect to the

[6] U.S. Bureau of the Census, *Local Government in Standard Metropolitan Areas: 1957 Census of Governments,* Vol. I, No. 2 (Washington, D.C.: U.S. Government Printing Office, 1957) and U.S. Bureau of the Census, *Local Government in Metropolitan Areas: Census of Governments: 1962,* Vol. V (Washington, D.C.: U.S. Government Printing Office, 1965).

education and water supply in Jefferson County.

Up to 1965, the Louisville Water Company furnished a relatively high quality and low cost service to residents of the central city and some suburbs, while a number of small distributor systems in the suburbs furnished a generally lower quality service at higher rates. However, in the past two years, the Louisville Water Company has purchased the distributor systems in the county. Though this consolidation has probably resulted in a reduction of variations in the quality of services and in a reduction of water rates in the county, the rates remain lower inside than outside the central city area.

In addition to the fiscal problems which have plagued the school systems in Jefferson County, there are wide disparities in output and fiscal capacity between the city and county school systems. It has been suggested that reorganization of the county school system might partially correct these imbalances.[7]

Most of the disparities in question grow out of a difference in income level between the central city and the balance of the county. Income level and the value of housing units are lower in the central city and general levels of extreme poverty are higher (per capita welfare recipients outside the central city amount to 0.007 while the corresponding figure inside the central city is 0.048). In addition, the per cent of nonwhite population in the central city is approximately seven times that of the suburban areas.

The result of this imbalance is reflected in the output of the local school systems. In 1966, approximately 77 per cent of 9th graders were going on to complete high school in the county school system, while only 64.2 per cent were completing the 12th grade in the central city system; 51 per cent of the 1966 graduates of the county system entered college while only 35 per cent graduating from city schools did so; less than 1 per cent of 1965 graduates from county high schools are estimated to be unemployed while

[7] See *Preliminary Evaluation Report on Louisville and Jefferson County Public Schools*, University of Louisville Urban Studies Center, April 1967.

the estimate for central city graduates is over 9 per cent.[8] It would appear that these disparities have been accentuated rather than reduced by the state and local fisc. It may be seen that *both* per student revenues from local sources and per student state aids are higher outside the central city (see Table 8). However, these data also show that Louisville central city residents exert less fiscal effort than do residents outside the central city.

A merger of the school system would provide a method of reducing at least the fiscal disparities. Other opportunities for correcting the over-all imbalances are being presented to the community in the form of the Charter Committee for Reorganization via an "umbrella" system.[9] Under this arrangement, the consolidated district would be segmented into a small number of pie-shaped units with each wedge having its apex in the central city and extending into the county. A result of administrative units of this type could be a sharp reduction in racial and class imbalance in school enrollments within the SMSA, i.e., a given pie-shaped unit would include both the poor in the central city and the relatively affluent in the suburbs.

Table 8 **Public School Finances: Selected Statistics for 1966**

	Louisville City School District	Jefferson County School District
Average daily attendance	45,774	65,843
Per student assessed value	$12,430	$12,668
Effective tax rate	.542	.724
Per student state revenue	$154	$161
Per student local revenue	$209	$262

SOURCE: *Public School Financial Analysis,* Bureau of Administration and Finance, Kentucky Department of Education, October 1966.

[8] *Holding Power and Graduates,* Division of Research, State Department of Education, Frankfort, Kentucky, March 1967.

[9] *Preliminary Evaluation Report on Louisville and Jefferson County Public Schools, op. cit.,* p. 4.

Cooperation Among Local Governments

Because of the fragmented nature of local government in Jefferson County, Kentucky, and because the Louisville Standard Metropolitan Statistical Area lies partially in two Indiana counties (Clark and Floyd), the need for cooperation among local governments in the solution of urban problems is especially complex. However, much progress has been made since early 1965 in the cooperation among states and local governments in area-wide planning, and in the area-wide provision of certain public services.

Interstate Cooperation Among Local Governments

Even though the Kentucky and Indiana portions of the Louisville SMSA are physically separated by the Ohio River, the interaction is substantial and has important implications for the provision of public services. It is estimated that approximately 9 per cent of Jefferson County employees commute from the Indiana counties, while approximately 8 per cent of Clark County and 7 per cent of Floyd County employees reside in Jefferson County.[10] In addition to net in-commuting to place of employment, it is probable that there is a net inflow to the Kentucky side of the SMSA for other purposes—shopping, entertainment, commuting to the University of Louisville, etc.

These interactions suggest immediately that a major role to be played in the interstate cooperation of local governments is that of developing and coordinating an adequate transportation network. Highway departments of the two states have long had an agreement on the division of responsibility for the maintenance of the bridges over the Ohio River. A comprehensive metropolitan area transportation study is now underway, which has been jointly undertaken by local governments in the SMSA and the highway departments of the two states.

[10] Charles Garrison: *Intercounty Commuting in Kentucky,* Bureau of Business Research, University of Kentucky, Lexington, 1961.

For public functions other than transportation, the interaction between the states has proceeded on an informal basis in such areas as law enforcement and fire fighting. Recently a more formal organization has been established to promote cooperation among local governments in the metropolitan area. The Falls of the Ohio Metropolitan Council of Governments is a newly established organization having a broad mandate for study, planning, and action. Its organization is partially an outgrowth of a new federal requirement of comprehensive regional planning on a metropolitan level as a prerequisite for continued and expanded grants to local communities. In this regard the function of the council is to serve in an advisory and coordinating capacity in evaluating and defining the planning need of an area, establishing policies in regard to the planning program, and designing a continuing planning program.

Cooperation Among Local Governments in the Jefferson County Area

The City of Louisville and Jefferson County governments jointly finance a number of agencies providing area-wide services. Among these are the Youth Commission, the Public Libraries, an Air Pollution Control District, and a Department of Traffic Engineering. In almost all cases, the city government contribution is substantially larger. Sanitary sewage services are now provided on an area-wide basis; the Metropolitan Sewer District has assumed the maintenance and operation of 37 small treatment plants and distribution systems in the county. Ninety per cent of the MSD's operating revenues comes from user-charges.

Finally, new enabling legislation enacted by the 1966 Kentucky General Assembly will facilitate local planning programs and the coordination of joint local government long-range planning efforts. Basically, the act makes the establishment of regional and county-wide planning programs more feasible, defines the minimum requirements of a comprehensive plan, and sets forth administrative and enforcement procedures and penalties.

Conclusions

The general conclusion to be drawn from the Louisville experience is that the solution to the local fiscal problem will require the resources of all levels of government. Moreover, the role of the state government is not only to supplement local revenues, but also to take whatever action is necessary to improve and coordinate the abilities of local governments to finance public services.

It is apparent that the fiscal ability of local units was adequate to resolve the serious financial crisis in education. However, state action was required to make the property tax an effective method of financing, and to authorize the use of revenues from an occupational license tax for education. In addition, the pressures on central city government revenues have been relieved substantially in recent years by increased revenues of the county government which resulted from the levy of a 1.25 per cent occupational license tax in the county. Therefore, in the Louisville case it may be concluded that local governments have used neither their own resources nor the property tax to their full potential.

On the other hand, there are major problems which face the Louisville area which, because of the magnitude of needs, may not be resolved entirely with local funds but may require state and federal assistance. The first of these is the transportation problem which is complicated by the fact that the SMSA lies in two states and is physically divided by the Ohio River. A metropolitan area transportation study is now underway to identify long-run needs and to suggest a plan for financing an adequate transportation network. The problem of planning for transportation is becoming particularly acute in the Jefferson County area with the increasing tendency of new firms to locate outside the central city, and for many existing firms to move to suburban or rural areas in the county. Regardless of the nature of the transportation plan much federal assistance will probably be needed.

A second problem facing the Jefferson County area involves developing an adequate sewer and drainage system.

Though special district financing methods have generally proven sufficient in the extension of the city sewer system into the county, the costs of enlarging central city facilities and constructing treatment plants are such that federal assistance will be required.

A third problem is the serious central city-suburb disparities which are largely a result of the decline of the core city. While the outlying areas have generally flourished with rapidly growing population, high and rising income levels, and growing tax bases, the central city has been losing population and is experiencing declining income and high poverty levels. Further, these imbalances may be self-perpetuating. For example, school dropout rates and the per cent of unemployed high school graduates are both higher in the central city than in the outlying areas of Jefferson County. The local fisc is such that per student revenues from local sources are higher in the county than in the central city. Moreover, state policy would appear to be accentuating rather than reducing these imbalances since per student state aids to the county school system are greater than those to the city school system. An additional factor which may work in the direction of creating a substantial fiscal disparity is the decentralization in the location of industry in the SMSA. This pattern of movement of firms results in denying the central city this industrial component of the property tax base, and also the proceeds from the occupational license which are collected at the place of employment rather than at the place of residence.

There would appear to be two factors which may result in reducing these disparities—the Model City proposal and a consolidation plan for the education system. The Model City proposal would reduce disparities by concentrating on redevelopment of the worst slum area in the central city with emphasis on the improvement of educational, vocational, health, recreational, cultural, and social services. Though local cooperation is needed, this program is to be financed primarily with federal money made available through the Department of Housing and Urban Development (HUD).

A second possibility for the long-run reduction in disparities involves consolidation of the local school systems and the formation of a small number of administrative units within the single school system. These smaller units would be wedge-shaped with the point in the central city and extending out into the county. Enrollment at high schools in these wedge-shaped units would then be a mixture of the central city poor and the wealthier from the suburbs. The long-run objective of this plan would be a reduction of racial and class imbalances. An additional result of school district consolidation would be the elimination of differences in the resources available for the central city and county educational function.

Federal-Local Relations

On the question of the future role of the federal government in assisting local units, the Louisville experience suggests that the major problem areas are those for which federal grant programs now exist, such as costs of improving the sewer and drainage system, the urban renewal and Model City programs, and the development of an adequate transportation system. Further, it is not at all apparent that local governments in the area are incapable of financing adequate levels of urban services given the yield of the occupational license, the renewal of the property tax brought about by the full value assessment ruling, and the balancing of the revenue raising potentials of Louisville City government, the Jefferson County government, and the Louisville City and Jefferson County school districts. Thus, there would appear to be little justification for a program of unconditional federal aids.

State-Local Relations

In Kentucky, state grants are made for education, while the state government assumes the major share of highways, public welfare, health, and hospitals.

As was suggested above, state education aids are greater on a per student basis in the county area than in the central city—though a comparison of the output of the two school systems suggests that relative need is greater in the central city. Despite the distribution of these aids, both the Louisville and Jefferson County school districts rank low among the 200 Kentucky school districts in per capita state aids received (187th and 179th respectively). Further, the proportion of state to total education revenues is 38.4 per cent in Louisville and 35.9 per cent in Jefferson County as compared to a state-wide average of 50.6 per cent. Therefore, it would appear that for education, at least, a state allocation decision results in a redistribution of public revenues from Jefferson County toward the lower-income counties.

Given that existing state aid and direct expenditure programs do not coincide with the major problem areas in the Louisville SMSA, there would seem to be little to recommend a program of increased federal aid to be distributed through the state government. Further, experience with the state education grants program suggests that urban areas, such as Louisville, may benefit less under a state distribution of federal money than under a direct federal-local arrangement.