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GRAPEVINE

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A newsletter on state tax legislation; state appropriations for universities, colleges, and junior colleges; legislation affecting education at any level. There is no charge for GRAPEVINE, but recipients are asked to send timely newsnotes regarding pertinent events in their respective states.

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MASSACHUSETTS. Due to the difficulty of estimating the effects of somewhat complex salary increase legislation, and other reasons, Massachusetts is the fiftieth state to be reported in GRAPEVINE in 1964.

State tax-fund appropriations for operating expenses of higher education in Massachusetts, for fiscal year 1964-65:

Table 3. State tax-fund appropriations for operating expenses of higher education in Massachusetts, for fiscal year 1964-65, in thousands of dollars.

Institutions (1)	Sums appropriated* (2)
Massachusetts**	$16,171
State colleges	
Boston	1,178
Bridgewater	853
Fitchburg	913
Framingham	696
Lowell	514
North Adams	364
Salem	973
Westfield	536
Worcester	746
Massachusetts College of Art	367
Subtotal - $7,140	
Bradford Durfee Coll. of Tech.	484
New Bedford Insti. of Tech.	512
Lowell Technological Inst.	1,992
Southeastern Mass Tech Inst.	259
Maritime Academy	370
Subtotal - $3,617	
(Continued from preceding column)	
Community Colleges	
Massachusetts Bay	309
Northern Essex	173
Cape Cod	155
Berkshire	191
Quinsigamond	239
Greenfield	160
Holyoke	148
Mount Wachusett	72
South Shore ***	20
North Shore ***	20
Subtotal - $1,487	28,415

* The sums are reported as the total state appropriations for operating expenses, less the amounts returned to the General Fund as tuition and student fees.

** The University of Massachusetts has a new medical school in the planning and developmental stages; and a University branch campus, at first on a small scale, in or in the vicinity of Boston, has been authorized, and an appropriation of $200,000 made.

@ Southeastern Massachusetts Technological Institute is a new state institution in developmental stages.

*** The South Shore and North Shore Community Colleges are in planning phases.

NOTE: A considerable amount of the statewide increase is due to legislation providing for two salary increases of 10% each, beginning in September 1963 and February 1964, for academic and non-academic employees of all the institutions.

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STATE REVENUE SYSTEMS THIS YEAR AND NEXT

Not only is 1964 an "off-year" in which only some 20 state legislatures had regular sessions; progress in the revamping of state tax laws was also decelerated by other factors.

In many states booming business caused receipts from various state taxes to exceed the estimates made by fiscal agencies, and produced surpluses where deficits had existed before.

Under these circumstances it is not always easy to maintain interest in tax reform in the direction of greater productiveness, obvious though it may be that this is and will be inexorably required by the current and future expansion of the public functions to provide an increasing population with better services in education, health, recreation, conservation, transportation, and social welfare.

There is a temptation, however, for candidates for governorships and seats in state legislatures to ignore the necessities of the ensuing decade and pledge "no new taxes" or even advocate downward revisions.

Prosperity Inhibits State Tax Reforms

Michigan, for example, had growing deficits in the early 'Sixties, and received much untoward nationwide notice because of its fiscal troubles; but although the reactionary leadership of the legislature adamantly rejected tax reforms urged by Governor George Romney, the state's deficit of $86 million in mid-1962 was reduced to $23 million within a year, and there was a surplus of some $60 million in the treasury by mid-1964.

Meantime state expenditures were increased somewhat, but the surplus came into existence because of the boom in Michigan's business activity, in

Wisconsin had a deficit of $27 million at the beginning of 1963, and a surplus of $29 million June 30, 1964. Governor Reynolds is reported to have said late tax payments made after July 1 were sufficient to bring the surplus up to $35 to $40 million. There is danger that a boom time can become a "fool's paradise" if care is not taken to increase the revenues to maintain and improve the necessarily augmented state services.

Another instance, which one may hope is not altogether typical, is that of Maryland. The 1964 legislature enacted and the governor signed a law raising the 3% personal income tax rate to 4%, in the expectation of producing about $42 million of additional annual revenue. The act is to go into effect January 1, 1965. Recent reports indicate that the governor has called for an official statement of estimated revenues not later than November 1 of this year, and that he believes the estimate will show such increases in tax receipts this year as to "justify" either repeal of the act or reduction of the impending increase in the personal income tax rate.

It is said he intends to call a special session late this year for that purpose. Meantime Baltimore City and County, and other urban areas in the state, drastically in need of revenue and seemingly unable to obtain it from state sources, are demanding that the legislature authorize them to levy local nonproperty taxes. The governor has said he does not oppose this.

Cities Clamor for Local Nonproperty Taxes

The push for local nonproperty taxes in urban areas is, in fact, found in several states. New York City has a 4% sales tax (5% on restaurant meals) while the state of New York has none. Several cities in Michigan have local

Denver has struggled for years to get authority to levy local nonproperty taxes.

There are many annoyances and inefficiencies inseparable from the administration of sales or income taxes in small geographic areas. It is much better to have these taxes levied and administered statewide, with appropriate parts of the proceeds returned to the local subdivisions as grants-in-aid for essential public services.

Knowledgeable and thoughtful persons recognize that the current chaos and uproar is in part due to the widespread malapportionment of representation in state legislatures, in which urban populations are heavily underrepresented. This is a failure of government to keep abreast of social and economic change.

Los Angeles City Council adopted a new 2-cent local cigarette tax, effective August 1, 1964, and expected to bring in over $4 million annually. The same city also enacted a new local 4% hotel and motel room tax estimated to bring in nearly $2 million additional yearly.

In Buffalo the Erie County Board of Supervisors increased the 1% county sales tax to 3%, effective July 1, 1964. This will produce about $36 million in annual revenue, part of which will go to school districts and part to cities, towns, and villages within the county.

New York City has a gross business and financial receipts tax which normally produces about $180 million a year. Governor Rockefeller signed into law an act which will give the city a windfall of about $45 million for fiscal year 1964-65 by requiring that five quarters of the tax be paid within the one fiscal year.

The Assessment Jungle

The ubiquitous squabble about equitable assessment of real property for taxation simmers in many places. The California State Board of Equalization reported that this year the counties assessed it at widely varying percentages of actual market value, with a statewide average of only 22%, as compared with last year's 23%.

In New Jersey, where a court decision of 1960 held that property must be assessed on 100% of true value, as the law had long specified, the legislature of 1960 postponed the implementation of the decision by hastily enacting a statute directing each county to establish a uniform real estate assessment ratio for its municipalities, between 20% and 100% of true value. Thereafter the actual enforcement of this law was postponed by successive legislatures until 1964, when the legislature refused further to postpone or repeal it; and it is now scheduled to go into effect January 1, 1965. It also provides that business machinery and equipment shall be assessed at the same ratio as real property, but that inventories of goods held for sale shall be at one-fourth that ratio, and that raw materials, supplies and small tools shall be exempt.

In Colorado, after many years of ignoring a provision that real property must be assessed at 100% of market value, in 1962 a new constitutional amendment authorized the legislature to set a percentage of full value at which property should be assessed. In 1964 the legislature passed an act providing that this shall be 30% throughout the state, and allowing 3 years in which to adjust upward or downward to that level.

Scattered Statewide Actions

Mississippi raised the 3% statewide sales tax to 3½%, and boosted the state 8¢ cigarette tax to 9¢. The effect of these measures, taken together, will be $12 to $15 million of new revenue annually.

Georgia stands to get about $30 million of additional annual revenue from a package of tax measures which raised the 4% state tax on corporation income to 5%; added 3 cents a pack to the state cigarette tax; set a maximum of $108 for the compensation any merchant can receive for collecting the state sales tax; added 50¢ a gallon to the state liquor tax; and increased the tax of 4¢ per 12-ounce can of beer to 4½ cents.

Kansas boosted the 4¢ tax on cigarettes to 6¢, and the $1.20 -a-gallon liquor tax to $1.50.

Colorado enacted its first tax on cigarettes, at 3¢-a-pack. This is expected to produce about $5½ million a year. Another new $5½ million will come from an act simplifying and reconstructing Colorado's state income tax.

Rock-bound New Hampshire's present constitution does not permit a graduated tax of any kind, nor any classification of property for purposes of differential taxation. The recent constitutional convention proposed an amendment which would allow the legislature to classify taxable property, and levy graduated income and inheritance taxes, and selective sales taxes. This will be taken to the people in a referendum, probably in November 1964. If adopted, it will make possible the modernization of New Hampshire's antiquated and inadequate tax structure.

At present New Hampshire has no general sales tax and no income tax on salaries and wages. There is an income tax on interest and dividends ("unearned income") which produced only about one and three-quarters million dollars in 1963, in contrast with the $16 million which the adjacent small state of Vermont derived from state income taxes during the same year.

The total of state taxes <u>per capita</u> in New Hampshire (about $75) is lower than that of any other state except Nebraska. In New Jersey, long noted for minimum state taxation, the total <u>per capita</u> is only slightly higher; but if we look at it in other small states about the size of N...

achieves a reconstruction of its state revenue system, it is in the tiny minority of states (Nebraska, New Jersey) which have thus far rejected both a general sales tax and any state income tax of any substantial consequence. (New Jersey has an income tax arrangement reciprocal with New York, under which residents of the one state who work in the other are taxed in one state only, and the states exchange the revenue; and a small tax on corporation net incomes which has statewide application).

<u>A Big Year in 1965</u>

Immediately after having observed the largest annual gain in student enrollments ever experienced, the 47 regular legislative sessions of 1965 will almost certainly provide for great gains in tax support of higher education.

A typical example of the public sentiment regarding this is afforded by a recent public statement by members of an interim legislative committee in Indiana to the effect that it is assumed to be the public policy of the state that every high school graduate shall have available facilities for suitable education beyond high school as far as his ability enables him to benefit from it; and the committee will recommend that this policy be declared and implemented.

In both of the nation's most populous states, large advances are due. In California, Governor Brown, Assembly Speaker Jesse M. Unruh, and the president <u>pro tem</u> of the state senate have agreed that there is no alternative to enlarged tax revenue to meet the needs of a growing state.

New York made great gains in the early years of Governor Rockefeller's administration, then leveled off and dawdled along with a recalcitrant legislature. Now expert observers say at least $400 ...

proposed and debated for years but not yet adopted, may produce some important breakthroughs in Virginia, New Jersey, and Oregon, to name only some of the states where success seems to be near.

In Texas, the lieutenant governor and other state officials are recommending a higher rate for the 2% retail sales tax; but the state labor organizations (AFL-CIO) oppose this and demand a corporation net income tax and a personal income tax. It may be hoped that this will not lead to an impasse such that neither measure can be adopted, as has occasionally happened for a time in some other states.

The case of state income taxes versus sales taxes is not a black-and-white, "either or" matter at all. The two types are complementary. They balance each other nicely, each tending to mitigate some of the inequitable features of the other. Together, they constitute the core of a good modern state tax system. About half of the 50 states have both in effect. In these late decades of the twentieth century, probably every state needs both.

Progress may come in the form of new tax legislation in the big and prosperous state of Illinois, traditionally generous in support of public higher education.

Pennsylvania and Ohio, both at times rather parsimonious with higher education, may not be quite so promising. Governor Scranton of Pennsylvania held the 1964-65 appropriations for higher education almost level with those of the preceding fiscal year; and he has recently been reported as saying no tax reforms are necessary, and pointing with pride to a state surplus of $30 million. Shucks, Governor, that's chicken-feed!

In Ohio, the governor, firmly pledged to "no new taxes", has another two years in his 4-year term. This is going to create a serious problem for the state unless by some form of ingenuity it can be obviated.

In several other states there are favorable portents indicating that, by and large, the 50 states will continue to perform well their parts in the education. In every state there is substantial understanding that education creates economic growth and opportunity; that a high school graduate without further education is literally and increasingly handicapped; that the scale of tax support 5 years and 10 years ago was minuscule compared with what it must be now and in the future.

<u>WEST VIRGINIA</u>. A curious and interesting feature of the financing of public higher education in this state is a tax of approximately one cent per bottle on sales of soft drinks, with the proceeds earmarked for the Medical Center at West Virginia University.

This has been in effect for several years, and the proceeds, varying somewhat from year to year, have had a general tendency to rise. The sum for fiscal year 1963-64 is reported to have been $3,890,000, and is used for operating expenses.

In earlier years, over a considerable period, the proceeds were used to finance the physical facilities of the Medical Center, at a total outlay of over $30 million.

Although many political scientists are inclined to look askance at "earmarked" taxes, on the ground that the legislature should always have power to appropriate all the state's revenues, yet the practice has some currency in practically all the states, especially for highway purposes; and from one viewpoint it is a direct expression of what a majority of the people want most.

Veterans able to remember several decades past will recall that there was a time when the state universities and land-grant colleges in many states were beneficiaries of earmarked taxes on property, thus deriving large parts of their income from a fixed fraction of the proceeds from all taxable property in the state, commonly called a "millage tax". This practice has declined, if not altogether disappeared; but the idea of an earmarked tax should not be dropped entirely from the repertoire of students of state revenue