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GRAPEVINE

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

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Excerpt from the CONSTITUTION OF CALIFORNIA
(Section 15 of Article XIII,
added to the Constitution in 1933):

"Out of the revenues from state taxes for which provision is made in this article, together with all other state revenues, there shall first be set apart the moneys to be applied by the state to the support of the public school system and the State University."

ALASKA. Appropriations of state tax funds for operating expenses of higher education in Alaska for the fiscal year 1961-62 were \$3,023,000, representing a gain of 43% over the comparable sum for fiscal year 1959-60, two years ago.

The total includes \$115,000 as the University's contribution to the operating expenses of a small number of 2-year community colleges which are small institutions operated by the University in cooperation with certain local public school districts.

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ALABAMA. The 1959 legislature authorized a \$100 million state bond issue to finance public school buildings to be constructed with the aid of some local funds on a matching basis. As of October 1, 1961 it was reported that 210 projects costing over \$23 million had been completed. Another 186 projects were under way, to cost \$38½ million.

Every one of the 67 counties in Alabama has at least one building under construction. Other projects are in the stage of advertising for bids, while some are yet in the final planning stages.

Other southern states are also moving forward. The Kentucky superintendent of public instruction reports that nearly \$38 million in construction contracts were awarded in 1960-61; and a Mississippi legislative study committee concludes that Mississippi will need to spend \$123 million for over 7,000 additional classrooms by 1970.

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COLORADO. Appropriations of state tax funds for operating expenses of higher education for fiscal year 1961-62 are reported as in Table 76.

Table 76. State tax-fund appropriations for operating expenses of higher education in Colorado for fiscal year 1961-62, in thousands of dollars.

Institutions	Sums appropriated
(1)	(2)
U of Colorado	
Boulder and Extension	\$7,907
School of Medicine	1,652
Colo Genl Hosp	2,851
Colo Psychopath Hosp	1,108
School of Nursing	394
Dental students elsewhere	90
Subtotal	\$14,082
Colorado State U	
Academic and Campus	4,023
Ag Experiment Sta	880
Ag Extension Serv	685
Subtotal	\$ 5,588
Colorado State College	2,302
Colorado School of Mines	1,719
Western State College	1,107
Adams State College	960
Fort Lewis A & M Coll	341
Total	26,099

The total represents an increase of 12% over the preceding fiscal year, and a gain of about 32% over fiscal year 1959-60, two years ago.

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SKETCH OF 1961 STATE
REVENUE LEGISLATION

To summarize, the developments of the legislative year 1961 may be placed in 3 main groups: (1) In the field of personal and corporate income taxes, West Virginia became the first commonwealth to adopt a new state income tax since 1937, and became the thirty-fourth state to have an income tax in some form.

(2) Texas, after having held out for years along with Nebraska and New Jersey as the only 3 states having neither an income tax nor a general sales tax, capitulated at last and enacted a 2% general sales tax. Thirty-six states now have general sales and use taxes.

(3) There were widespread waves of increases in the rates of the special sales taxes on gasoline, cigarettes and tobacco, and alcoholic beverages.

The foregoing are only the high points. Some states revised their income tax rates upward. Others raised the rate and extended the coverage of their general sales taxes, as we shall now see as we look at each type of tax in a little more detail.

State Income Taxes

West Virginia's new income tax act simply requires payment of 6% of the amount paid under the federal income tax laws, and provides for withholding. Thus it is a graduated tax, but simple to administer.

Alaska raised the tax rate on personal net incomes from 14% of the federal income tax payment to 16% thereof, retroactive to January 1, 1961. Delaware increased the personal income tax rates somewhat in the upper brackets.

New Mexico increased the state income tax by 50% and required withholding by employers. Oklahoma also initiated income tax withholding.

Minnesota stepped up the primary income tax rate on individuals by 5%, boosted corporate income taxes, and started a system of withholding.

Massachusetts approved, in the second successive legislative session as required by the constitution, a proposed constitutional amendment explicitly to permit a graduated income tax. A flat-rate income tax is now in effect. The issue will be on the ballot for popular decision in 1962.

New Jersey adopted a special tax on the incomes of interstate commuters who reside in New Jersey and work in other states, or who live in another state and work in New Jersey. A companion act authorizes the New Jersey authorities to negotiate and enter into agreements in such matters, with a view toward reciprocal arrangements to prevent or minimize inequitable double taxation of commuters. This is an important matter where state lines bisect large metropolitan areas, as in the case of the line between New York and New Jersey.

General Sales Taxes

The new 2% limited general sales tax enacted in Texas is called "limited" because it exempts food, prescribed medicines, items of outer clothing costing less than \$10, and sales to non-profit organizations. Nevertheless it will produce about \$160 million a year. Thirty-six states now have general sales and "use" taxes.

North Carolina removed the exemption of food from its general sales tax act, which alone is expected to produce an additional \$25 million a year. Removal of the exemptions of certain other items will bring in another \$2½ million.

Connecticut and Illinois raised their general sales tax rates to 3½ cents on the dollar from their former 3-cent rate. Illinois also extended the coverage of the sales tax, and expects to get \$125 million a year from the 1961 changes in the sales and use tax system. A new tax of 3% of gross rental receipts from persons who lodge less than 30 consecutive days is levied on operators of hotels and motels. The

service occupation tax is also brought from 3% to 3½%, to make it uniform with the sales tax. This change alone will bring in about \$4 million a year in additional revenue.

Illinois also created a State Revenue Study Commission to draft recommendations for revision of the state revenue structure. It is considered likely that this will produce vigorous advocacy of a new state income tax. Reverting to the general sales tax, we must note that counties and municipalities in Illinois have authority to levy sales taxes of one-half of one per cent; and this, added to the new state tax rate of 3½%, makes the total sales rate 4% in most of the state.

Washington made permanent the 4% sales tax rate which otherwise would have expired. West Virginia temporarily raised the rate to 4%, primarily to finance an enlarged unemployment relief program. Ohio at last eliminated the "sales tax stamps" (an unmitigated nuisance to millions of persons) as a device for the enforcement of the sales tax act, and now merely requires periodic reports from vendors.

Maryland changed the cut-off point of the general sales tax from 51-cent purchases to 25-cent purchases. Missouri re-enacted a sales and use tax in somewhat different language from that of the act of 1959 which had included a "compensating use tax" which proved to be unconstitutional in the opinion of the state supreme court. New Mexico repealed the sales tax exemptions applying to state and local governmental agencies and nonprofit organizations.

Special Sales Taxes:

Gasoline; Cigarettes and Tobacco;

Alcoholic Beverages

Taxes on the sale of motor fuels are levied in 50 states. Rates now vary from 5 cents per gallon on gasoline to 8 cents, except in Hawaii, where the combined state and county rates are above 8 cents, and range as high as 11 cents in one county.

Several states raised the rates in 1961. Alaska boosted this tax to 8 cent a gallon from the former 7 cents. Washington moved it up from 6½ cents to 7½ cents. Pennsylvania went from 5 cent to 7 cents; and Missouri from 3 cents to 5 cents, thus leaving no state with a rate less than 5 cents. Iowa made the 6-cent rate permanent (replacing the 4-cent permanent rate plus 2-cent temporary addition).

Cigarette and tobacco taxes have long been in the revenue systems of 47 states. The 3 "hold-outs" have been North Carolina (where tobacco is a giant industry), Oregon, and Colorado. In 1961 Colorado deserted this trio, but only in a minuscule manner, by enacting a 1-cent tax per pack on cigarettes.

In 47 other states the rate per pack of cigarettes ranges from 2 cents to 8 cents. In 1961 more than a dozen states raised their rates, only a few of which are noted here.

New Mexico went up from 5 cents to 8 cents a pack. Louisiana, Montana, and Texas already had the 8-cent rate, which is the top as yet. West Virginia went from 5 cents to 6½ cents. New Jersey and Washington went from 6 to 7 cents; Minnesota from 5½ to 7; Oklahoma from 5 to 7; and Nevada from 3 to 7.

Maine changed the cigarette tax rate from 5 cents a pack to 6 cents. Maryland enacted a uniform 6-cent rate to replace the former situation in which there was a state rate of 3 cents plus rates varying from 1 cent to 3 cents levied by local governmental units.

Every state gets revenue from alcoholic beverages, usually in the form of separate special sales taxes on the 3 main types;--distilled spirits, wines, and malt beverages. Seventeen states operate a monopoly on sales of alcoholic drinks, and 8 of these impose taxes in addition to the profits which accrue to the states from sales.

(Continued on page 261).

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Only a few of the 1961 changes are noted here. Connecticut doubled the tax on liquor and beer. Missouri went up 50%. Washington raised the tax on liquors sold at state stores. North Carolina raised the rate on retail liquor sales to 12% of the sale price from the former 10%. Nevada stepped up the rates on sales of spirits, beer, and wine. Alaska raised the excises on wines and beer.

Other Tax Matters:

Property Taxes

Half a century ago more than half of the total of all state revenues came from property taxes; but now less than 3½% of state revenues come from that source. Only one state (Nebraska) gets as much as about 30% of its state income from taxes on property. Five states levy no property taxes at all for state purposes. (You will recall that Nebraska has neither an income tax nor a sales tax).

Property taxes continue to be a major source of revenue for the local subdivisions, including local public school districts, in nearly all states.

It is widely known that in the past the assessment of real property for taxation has been rather lackadaisical in many states, often actually being based on widely varying percentages of real market value, even in states where the state constitution stipulates that assessments must be at full 100% of actual sale value.

Happenings in this area are now in progress in Massachusetts. The constitution and statutes require assessments to be at full actual cash value, but these provisions have long been honored chiefly in the breach, as is also the case in many other states. The matter was brought to an issue in Massachusetts when the city of Springfield recently officially established a local scale ranging from 50% to 85% of full cash value for different classes of property.

When this was challenged in the courts, eventually the Supreme Judicial Court of Massachusetts declared it unconstitutional and invalid, and held that assessments must be at full 100% of cash value, as provided in the constitution. It is not now known precisely what sequels will result, but there are indications that a study of the situation may be ordered by the legislature early in the 1962 session, with recommendations for action to be submitted before the end of the session.

The story of Massachusetts is reminiscent of a somewhat similar situation in New Jersey which was precipitated by New Jersey court decisions of 1957 and 1960, whose sequels will probably eventually bring about more equitable assessment practices (GRAPEVINE, pages 123 and 124). The matter is important in New Jersey because that state has an extremely narrow tax base (no general sales tax; no income tax except for commuters crossing the state line), and the state grants, in general, only small subsidies to the local subdivisions, thus leaving them to depend largely on property taxes for their operating revenues.

The Sketch is Incomplete

Manifestly the foregoing paragraphs deal with a complex and intricate subject in only an elementary and oversimplified manner. Readers will please understand that no pretense is made of treating the broad picture in full technical detail, which would require a book-length volume.

A brief and simple broad-scale survey, though necessarily sketchy and less than complete, has a certain usefulness. It serves, for example, to demonstrate that efforts are going on constantly to improve American state revenue systems.

ILLINOIS. GRAPEVINE is now able to extend and rectify the preliminary report of appropriations of state tax funds for operating expenses of higher education for biennium 1961-63, which was first set forth on GRAPEVINE page 229. The preliminary report was substantially correct but somewhat short of the actual total because some smaller items could not be reported at that time. The revised report appears in Table 77.

Table 77. State tax-fund appropriations for operating expenses of higher education in Illinois for biennium 1961-63, in thousands of dollars.

Institutions (1)	Sums appropriated (2)
U of Illinois	\$129,873
Southern Illinois U	40,456
State U's (T C Bd)--	
Northern Illinois U	14,630
Illinois St Normal U	14,227
Eastern Illinois U	8,297
Western Illinois U	7,891
T C Board office	210
Chicago Teachers College	5,186
Scholarship Commission	4,971
University Civil Service	181
University Retirement Syst	15
Board of Higher Education	150
Total	226,087

The total appears to represent a gain of somewhat more than 22½% over the preceding biennium.

In accord with our usual reporting of state aid to junior colleges separately, Table 77 does not include the sum of \$6,500,000 appropriated for that purpose for the biennium. The half of this sum attributable to the fiscal year 1961-62 has already been reported in Table 74, GRAPEVINE page 254.

TEXAS. The University of Houston, which had its origin some 34 years ago as Houston Junior College, but subsequently became a university largely supported from private sources, will become a state-supported institution beginning in 1963 under the terms of an act of the 1961 legislature. This will bring the number

of state universities and colleges in Texas up to 20.

It is stipulated that no state money will be expended to finance graduate courses. It is estimated that the state contribution for the first biennium will be over \$11 million.

WISCONSIN. GRAPEVINE is now able to report the allocations of state tax funds for operating expenses to the nine state colleges for fiscal year 1961-62. This information was not available at the time of the August report of legislative appropriations (GRAPEVINE page 224, Table 53). Table 78 revises and extends Table 53.

Table 78. Appropriations of state tax funds for operating expenses of higher education in Wisconsin for fiscal year 1961-62 (including allocations to the nine state colleges), in thousands of dollars.

Institutions (1)	Sums appropriated (2)
U of Wisconsin	\$28,258
U Hospitals	2,164
Oshkosh State Coll	1,387
Whitewater State Coll	1,266
Eau Claire State Coll	1,253
La Crosse State Coll	1,248
Platteville State Coll	1,219
Stout State College	1,189
Stevens Point St Coll	1,142
River Falls State Coll	1,023
Superior State Coll	1,001
Centralized activities	229
Total	41,379

The budget request on which the above total of appropriations to the state colleges (excluding the University of Wisconsin) was based, estimated an enrollment increase of 1,562 students at the 9 colleges. Actually the increase in September 1961 was 3,000 students. Accordingly an additional appropriation of \$652,000 for operating expenses of the 9 state colleges has been asked for.
