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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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Some educators cringe at the searching brightness of the white lights of public attention, interest, and concern. Others see it as the most dramatic opportunity in all educational history.

___ Chancellor Herman B Wells, Indiana University.

Statement of ownership and circulation of GRAPEVINE is on Page 568 (reverse hereof).

NOTES ON STATE REVENUE LEGISLATION IN 1965 AND 1966 TO DATE

GRAPEVINE has observed earlier that state tax reform moves glacially in the middle 1960's, and has attributed this in part to the increasing productivity of existing taxes which parallels the long-continued upward trend of business.

Again and again many states have found themselves with generous surpluses of revenue at the end of a fiscal period, at the beginning of which the estimates predicted either a deficit or a narrow squeak. This tends in a way to let some of the steam out of movements for tax improvement.

Only a small handful of states have actually accomplished really significant large-scale tax innovations within the past two years. One commentator, wiping his spectacles after a detailed examination of the "big legislative year" 1965, has referred to the "flood of tax activity" in which he says 33 of 47 states either adopted new taxes or increased existing sources.

In most of the 33 states, however, the changes were relatively minor. For example, in the wake of the widely-publicized discussion of cigarette-smoking and health, state cigarette taxes

took a terrible beating, with one-cent or two-cent upward revisions in as many as 23 states. Oregon enacted its first cigarette tax, leaving only North Carolina, the base of the cigarette industry, without such a tax.

Colorado, having adopted its first statewide cigarette tax only a few years ago, currently has the peculiarly eccentric situation in which there is a uniform state tax and also many local taxes, at varying rates, levied by local subdivisions, on cigarettes. This is vexing to the Colorado Association of Tobacco Distributors.

At best the cigarette tax is a minor source of state revenue. In 1965 only nine states increased their gasoline taxes, and only six states raised their levies on alcoholic beverages.

The bulk of state revenues are produced by the so-called "broad-based" taxes-- general sales taxes and state income taxes-- in that order. In this realm there appear to have been recent "break-throughs" in fewer than half a dozen states.

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General Sales Taxes

In 1965 New York State and Idaho enacted new state sales taxes. Cities in New York had had local sales taxes for some time; but the adoption of the state sales tax was an important step, putting New York among the growing group of states (now about 25) that have both state income taxes and state sales taxes. This not only tends to insure adequate revenues, but also to achieve a closer approximation of equity in the tax system, since the inequities inherent in each of the two types balance and countervail each other to a considerable extent.

The year 1966, thus far, has brought important new state sales taxes in three states: Massachusetts, New Jersey, and Virginia.

The Massachusetts measure is a 3% limited general sales tax which became effective April 1, 1966. By its own terms it expires December 31, 1967.

The state AFL-CIO executive committee sought to have it subjected to referendum at the election of November 1966. The legislature has indeed authorized an "opinion referendum" while stoutly maintaining that the result cannot be binding on the legislature, because under the state constitution necessary revenue acts are not subject to testing at the polls. If this matter were to be litigated, the state supreme court, it is believed, would probably sustain the view of the legislature.

Breakthroughs in Virginia and New Jersey

Virginia enacted a 2% state sales tax, effective September 1, 1966, and to become a 3% tax in July 1968.

The same act also authorized cities and counties to levy 1% local sales taxes.

New Jersey enacted a 3% general sales tax which will produce about \$182 million within one year and nearly \$200 million of new revenue each year thereafter. Its effective date is July 1, 1966.

Governor Hughes preferred to raise the same or a larger amount of revenue by means of a graduated income tax, and an income tax measure was passed in the lower house early in the 1966 session, only to be defeated by a margin of one vote in the state senate.

The governor, sensing that the legislature was in a mood to enact a state sales tax, and keenly recognizing the necessity of providing some "broad-based" revenue measure, then repeated his arguments for additional revenues and with some reluctance but with no lack of enthusiasm advocated the sales tax measure, which by that time was being ardently pushed by the State Chamber of Commerce.

This measure, though not what the governor and most of the Democratic legislators originally wanted, will be a large revenue producer and will go far to restore the state's self-respect with regard to the financing of vitally necessary public services.

This takes New Jersey out of the increasingly unenviable and diminishing company of two or three states which have thus far operated without any broad-based modern-type state tax.

Recalling that the graduated income tax measure failed by only one vote in the senate in 1966, one may hazard that the day may soon come when New Jersey will have the first essentials of a modern state revenue system-- consisting of a general sales tax and a graduated state income tax.

Before concluding the sketch of general sales taxes, one must add that a recent report names 16 states in which increases, small or large, in existing sales taxes, have been enacted in 1965 and 1966. Some of these measures involved raising of rates; others a broadening of the coverage of the general sales tax.

State Income Taxes Move Slowly

In both Maryland and Michigan, more or less elaborate tax improvement proposals in 1965 and 1966 came to naught. Both included state income taxes.

Maryland has a 3% flat rate income tax. The comprehensive proposal, defeated in 1966, would have supplanted this with a graduated tax at rates from 3% to 6%. Evidently anticipating that the proposed program will be revived in future sessions, the legislature of 1966 enacted a stop-gap measure authorizing the counties and Baltimore City to levy local income taxes up to 1%, for the ensuing year only.

Michigan's new constitution (effective January 1, 1964) prohibits any state income tax other than a flat rate tax. This is the result of what appears to have been an unwise compromise with an arch-reactionary element in the constitutional convention, urging prohibition of any type of state income tax.

In fact, Michigan has no income tax at all, though such a measure has been advocated by every governor for nearly twenty years, and was recommended by a bi-partisan state tax study committee of legislators in 1958. The old story was repeated in the fall of 1965, when Governor Romney proposed a comprehensive tax-improvement program, including a 3% tax on personal incomes, which was brushed aside by the legislature. Here again there may be some expectation that the program will be proposed again in future sessions.

In 1965 Nebraska made an attempt to struggle out of the category of "no broad-based tax" by enacting a state income tax; but the act is not scheduled to become effective until 1967, and meantime it must run the gauntlet of a popular referendum in the general election of November 1966, in which its chances may seem to be precarious.

Practically the only cheerful element in the income-tax scene is the report that seven states have made some increases in the rates of existing taxes on individual incomes.

State income taxes seem to be understood and appreciated widely enough so that they will probably retain their position as the second largest producer of state revenues, and as the appropriate complement to the general sales tax--the two together forming the sound core of a good state tax system.

Property Tax Tangles

With rare exceptions, the proceeds of property taxes are no longer used for the support of public higher education, or indeed for other state purposes. The property tax is the main reliance of the local taxing subdivisions (counties, cities, townships, and other local districts, chiefly school districts); but it has long since become inadequate for the full support of even the local public services, so that the states must habitually make substantial grants-in-aid to the local subdivisions out of state-collected taxes other than the property tax.

Property taxes are nevertheless an important element in the total three-level (local-state-federal) taxation system, even though their role has been greatly diminished relatively.

Efforts in various states to attain more equitable assessment of taxable property proceed generally slowly and with great difficulty. In the summer of 1965 the Kentucky Court of Appeals decided that after January 1, 1966 property must be assessed at 100% of its true sale value, as the state constitution stipulates. In 1965 the average of assessments in Kentucky was thought to be about 27% of true value, which is not far from the nationwide average among the fifty states.

Some four years ago in New Jersey protracted controversy and litigation led to the enactment of statute permitting each county to set its own ratio of true value to assessed value for the

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assessment of real property by municipalities. For the next three consecutive years successive sessions of the legislature postponed the effective date of this act. Finally it went into effect in 1965. It also provides that personal property in business inventory shall be assessed at one-quarter of the real estate ratio, and that industrial machinery and equipment shall be assessed at 65% of depreciated book value.

Municipalities in New Jersey are said to be generally unhappy about the whole act, and sought unsuccessfully to have it repealed in 1965. The governor has an Advisory Committee on Local Property Taxation, charged with studying the subject further. No one is able to predict the outcome.

Complete modernization of property taxes in all the states will involve many complexities, and apparently will require decades of progress covering so many years that for practical purposes it may be regarded as a permanent and continuous process.

This is also true, in a sense, of all tax improvement-- it is a never-ending process; but the best hope for timely advances in the present era of swift economic and demographic changes is in the state-collected nonproperty taxes which now support a large part of all state functions plus a considerable fraction of local public services as well.

Prospect for 1967

State legislatures in 47 states will have regular sessions in 1967. In several states tax study commissions are at work preparing recommendations.

There is a discernible growth of public recognition that if the states are to retain and regain some of the dignity and responsibility and self-control and self-reliance they are intended to have in the federal system,

they must speedily expand and improve their public services (particularly education and especially higher education), and that this requires frequent revamping of their state revenue systems in keeping with the times.

A state approaching the threshold of the twenty-first century cannot get along well with a nineteenth-century tax structure; and this fact has become so obvious that there is a noticeable decrease in the number of governors and legislators who campaign for election on a promise of "no new taxes."

When such a candidate is elected, this throws a blanket soaked in cold water over the heads of the state's leaders in higher education and other essential public services, and almost guarantees that the state will stumble and fall behind in the nationwide pageant of progress during the next one or two bienniums.

An increasing number of governors are proposing bold new programs for the expansion and improvement of public higher education, and proposing ways and means of finding state revenues to support the necessarily unprecedented public investment in plant and operating funds.

Public higher education is now rocked on the crest of the huge wave of boys and girls born during the great baby-boom beginning 18 to 20 years ago.

At the same time higher education is near the summit of another crest of a different kind. We are in the process of discarding the eighteenth-century idea that higher education is a special privilege for a restricted few of the wealthy and socially favored and "genteel."

We have gone far toward universal adoption of the idea that opportunity for higher education is not properly viewed as a special privilege for anyone at all, but as a common civil right appertaining to all young persons whose mental and moral qualities are as high as those of the great average group which includes a majority of all citizens.

HAWAII. Appropriations of state tax funds for operating expenses of higher education, fiscal year 1966-67:

Table 81. State tax-fund appropriations for operating expenses of higher education in Hawaii, fiscal year 1966-67, in thousands of dollars.

Institutions (1)	Sums appropriated (2)
U of Hawaii	\$28,259*
Less income from student fees and other non-tax sources	4,464
Net total	23,795
WICHE (thru Governor's Office)	73
Total	23,868**

* Includes the community colleges, and the educational television network. Does not include the East-West Center which is supported wholly from federal funds, estimated at approximately \$6 million.

** This total is slightly understated because certain staff fringe benefits are appropriated to a central agency of the state for disbursement through the University.

The total for fiscal year 1966-67 appears to be a gain of 90% over the comparable figure for fiscal year 1964-65, two years earlier.

The 6-year gain since fiscal year 1960-61 seems to be 310%. Probably no other state has made as rapid gains over the same periods. Hawaii merits congratulations for brilliant progress during the first years of statehood.

The two-year public colleges in Hawaii, now in early stages of development, are branches of the University of Hawaii. Though supported and controlled by the University, and not based on local taxing subdivisions, they are called "community colleges". Here, as in some other states (e.g. Kentucky, Massachusetts) the popular name "community college", which once meant a college based on a local taxing district, seems to have been broadened to include public two-year colleges supported and controlled by the

state university or by the state.

MISSOURI. Appropriations of state tax funds for operating expenses of higher education, fiscal year 1966-67:

Table 82. State tax-fund appropriations for operating expenses of higher education in Missouri, fiscal year 1966-67, in thousands of dollars.

Institutions (1)	Sums appropriated (2)
U of Missouri (Incl Med Ctr, Ag Exp, Ag Exten, and Campuses at Columbia, Rolla, Kan- sas City, and St. Louis)	\$47,884
Lincoln University	1,826
Subtotal, univs -	\$49,710
State colleges --	
Central Mo State Coll	6,515
Southeast Mo State Coll	4,094
Southwest Mo State Coll	3,971
Northeast Mo State Coll	3,359
Northwest Mo State Coll	2,585
Subtotal, st colls -	\$20,524
Planning for 2 new state colls	222
State aid to junior colls	4,362
Total	74,817

The total for fiscal year 1966-67 is a gain of 59½% over the comparable sum for fiscal year 1964-65, two years ago.

The six-year gain since fiscal year 1960-61 is about 192%.

These substantial gains are due in part, but by no means wholly, to the rapid recent and current development of campuses of the University of Missouri in Kansas City and St. Louis-- two large urban communities which were for many decades without public university facilities.

The picture is also brightened by the upbuilding of the 3-campus public junior college by the Community College District of St. Louis and St. Louis County. The years since 1960 have brought enormous expansion and improvement in the total picture of facilities for public higher education in Missouri.