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# GRAPEVINE

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YEAR

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## TIMELY DATA CIRCULATED WHILE CURRENT

Reports on state tax legislation; state appropriations for universities, colleges, and junior colleges; legislation affecting education beyond the high school.

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PATRICK M. CALLAN, Director of the California Postsecondary Education Commission, issued to that Commission a memorandum regarding the reduction in state expenditures ordered by the newly-inaugurated Governor Deukmejian . . . . . 1869-1870

GRAPEVINE LOOKS FORWARD to receipt of the earliest of the annual series of reports of appropriations of state tax funds for operation of higher education, which will be coming in from April through September, for the 25th consecutive year.

\* \* \* \* \*

## TWENTY-ONE STATES RAISED TAXES IN 1982

### FOR NEARLY \$3 BILLION OF NEW REVENUE

During calendar 1982, twenty-one legislatures enacted state tax increases totaling \$2.93 billion. Eight other states enacted marginal decreases, reducing the net nationwide gain to \$2.88 billion. Somewhat larger gain was reported for the preceding calendar year (1981), so that the aggregate gains for the two years were \$6.7 billion.

These facts appear in a recent publication of the Tax Foundation, Incorporated, which notes that "four-fifths of the 1982 increase lies in the broadly based general sales and personal income taxes."\*/

#### Biggest Jumps in a Few States

Florida expects the largest gain of new revenue (\$762 million annually), from a rise in the general sales tax from 4% to 5%, which became effective May 1, 1982.

Ohio will gain \$544 million yearly, largely from personal income tax surcharges of 25% for 1982 and 12½% for 1983. Enactments of late 1981 brought gains of \$1.3 billion a year.

Wisconsin raised about \$400 million by changing the sales tax from 4% to 5% and raising corporate income taxes and cigarette taxes.

Other states contemplating gains of new revenues in the range of \$100 million to \$350 million annually are Michigan, Minnesota, Washington, Virginia, and Oregon.

#### Sales Taxes Are Big Producers

Higher general sales taxes, enacted in six states of the North, are expected to bring in over \$1.3 billion annually.

#### State Income Taxes Also Good Source

Personal income tax boosts in Michigan, Minnesota, Ohio, and Oregon will bring in approximately another \$1 billion of new annual revenues.

Three other states--Nebraska, Rhode Island, and Vermont, also raised their personal income tax rates, but with no expectation of added revenue. Their rates are levied as a percentage of the payer's federal income tax liability; and the sole purpose of the change was to offset losses resulting from the 1981 federal tax cuts.

Corporate income tax rates were also raised in Indiana, Iowa, and Nebraska, but only to offset losses of revenue caused by the operation of the federal Economic Recovery Tax Act of 1981 (ERTA). Actual added revenues aggregating about \$86 million a year will come from boosts of corporate income taxes in Ohio, Minnesota, and Wisconsin.

#### Excises on Cigarettes, Gasoline, and Alcoholic Beverages

Cigarette taxes were put up in nine states: Michigan, Missouri, Nebraska, New Jersey, Oregon, Rhode Island, Utah, Washington, and Wisconsin, for about \$228 million. Arizona, Idaho, and Maryland boosted gasoline taxes by some \$76 million. New annual proceeds of about \$60 million a year will come from higher alcoholic beverage taxes enacted in 1982 in Alabama, Kentucky, Utah, Virginia, and Washington.

\*/ "State Tax Actions in 1982." Tax Foundation's Tax Review, Vol. XLIII, No. 7 (Nov.-Dec. 1982). 1875 Connecticut Ave., Washington, D. C. 20009.

RICHARD A. SNELLING  
GOVERNOR

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December 16, 1982

Mr. M. M. Chambers  
Department of Educational Administration  
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Illinois State University  
Normal, Illinois 61761

Dear Mr. Chambers:

I am familiar with your many studies on comparative support for higher education and appreciate your recent article entitled "Uses and Abuses of Interstate Comparisons," which appeared in the "Grapevine."

There really is a great need for a study which does enable public officials and other concerned parties to evaluate relative support for higher education.

Given the difficulties posed by differing accounting treatments within the states, I am believing that a large number of states would return data to you placed in a standard format to facilitate your tabulating results on a basis more comparable than that which flows from attempts to organize published data.

I will tell you my "vested interest" up front! Vermont is a heavily-taxed, rural state with low per capita income. We have an unusual hybrid system in higher education. First, we have a state university which was "private" until 1957 when it first became an instrumentality of the state. It is now a public-private institution with a mixed board. It competes for undergraduate students with Ivy League colleges and offers an expensive undergraduate education. The accounting system does not really separate the costs of undergraduate from those of graduate education. The university's programs include an expensive school of medicine.

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Editor's Note: The article referred to in the first paragraph of this letter appeared in GRAPEVINE, No. 294, pages 1848-1852 (December 1982). It was contributed by Paul E. Lingenfelter, Deputy Director for Fiscal Affairs, Illinois Board of Higher Education, Springfield, IL.

On the other hand, Governor Deukmejian's order differs from the reduction imposed by Governor Brown in important ways:

- (1) The 1981 cuts were announced in October so that the institutions had nine months to absorb them, not the six months available now.
- (2) The State's deficit for 1982-83 is projected at \$1.5 billion, or 21 times the savings generated by the Governor's order. The earlier reduction appeared to solve the State's problem in 1981.

It appears that the Executive Order is largely symbolic in coping with the State's fiscal crisis as a whole, but its effect on the institutions of higher education and their students will be far from symbolic. Further, it is not clear whether additional cuts will be imposed, or by how much, or when. Such uncertainties pose a considerable dilemma for the educational institutions and their students in planning budgets and programs for the rest of the year and for 1983-84.

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Illinois State University, Normal, IL 61761

**GRAPEVINE**

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**CALIFORNIA POSTSECONDARY EDUCATION COMMISSION**20 TWELFTH STREET  
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January 5, 1983

OFFICE OF THE DIRECTOR  
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## MEMORANDUM

TO: California Postsecondary Education Commission

FROM: Patrick M. Callan, Director

SUBJECT: Two Percent Reduction in State Operations

California's four-year public colleges and universities will be affected more than any other part of State or local government by the 2 percent across-the-board cut announced by Governor Deukmejian on January 3. While the University of California and the California State University account for less than 10 percent of the State's total General Fund expenditures, this 10 percent constitutes almost half of State Operations and over 60 percent (or \$42 million) of the savings (\$70 million) expected to be generated by the Executive Order.

This is the second straight year that our four-year colleges and universities, and their students, have had to bear a disproportionate share of the burden for eliminating the State's current-year deficit. Governor Deukmejian's order has much in common with the 2 percent reduction imposed in 1981 by Governor Brown:

- (1) It is based primarily on administrative considerations, rather than reflecting State priorities. The budgets of State Operations and higher education are easier to cut under current law than is "local assistance" which consists of payments to cities, counties, schools, community colleges, and individuals.
- (2) It will inevitably result in mid-year student fee increases, coming on top of unprecedented increases already in place for 1982-83. Currently, University students pay \$1,200 a year in fees, 55 percent more than they paid in 1980, while full-time students at the State University pay \$450 per year, double what they paid in 1980.
- (3) Even as it assures increases in student fees, the order reduces the budget of the Student Aid Commission by \$1.7 million, making California unique in raising fees and cutting student aid at the same time.
- (4) The cut is applied across the board, with the same percentage reduction to a billion dollar budget, such as that of the University of California, as to the \$3 million budget of the California Maritime Academy.
- (5) Because this action was taken without consultation with leaders in higher education or students, it is not clear that the consequences of these cuts on colleges and universities and on students were fully understood.

Mr. M. M. Chambers  
December 16, 1982

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This small state (population under 500,000) also operates a state college system on four campuses. Here, too, roughly half the students are from out of state.

Vermont operates a student assistance program which your numbers would indicate as one of the most expensive state-sponsored scholarship programs in the country - and the benefits are fully portable to Vermont students attending institutions in other states.

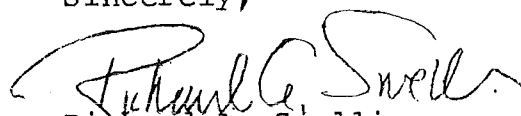
Vermont sells its bonds to assist both the university and the state colleges in meeting capital requirements. Full faith in credit general obligation bonds for the benefit of the university or state colleges do not, I believe, show in any of your studies as a higher education expense.

Vermont does not "take in" any revenues from the university or state college system and all of the state appropriations are from "own source." I am convinced that the national studies attempting to describe state effort in support of higher education portray a very inaccurate picture of Vermont, and other states, with one or more similar characteristics of funding and accounting. Studies which divide total state appropriations by full-time equivalent students appear to produce very low numbers for any state whose public institutions have large FTE's, large percentages of which are out of state students!

A state where the proportion of total educational expense attributable to graduate programs is a high percentage of higher education activity will certainly appear to be receiving a smaller percentage of total costs from the state.

I would like to encourage you to design a system for measuring effort which would "standardize" some of these relevant points and would like to offer Vermont's help in any project of this kind you may undertake.

Sincerely,

  
Richard A. Snelling  
Governor