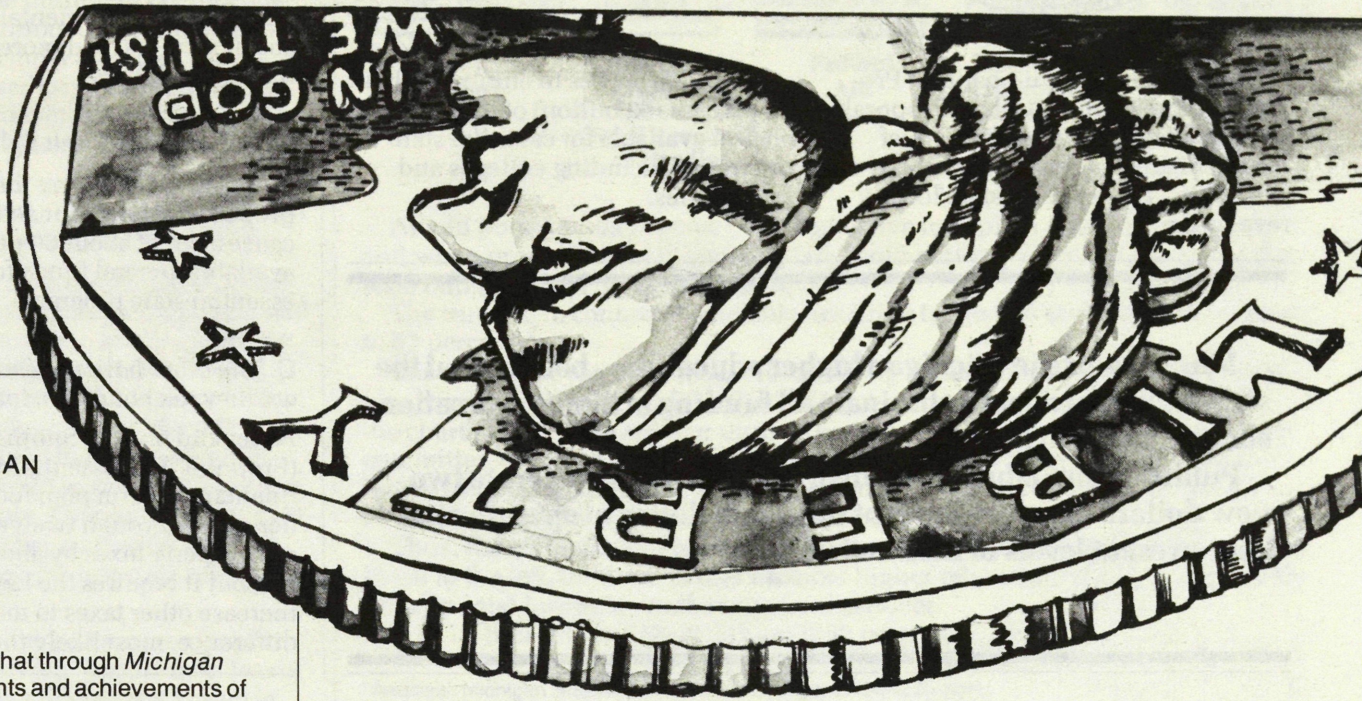


SPECIAL REPORT

Tax Reform Plans and Michigan Higher Education

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Dear Alumni and Friends,

As president of The University of Michigan, I am pleased that through *Michigan Today* we are able to keep you apprised of many of the events and achievements of our university community. You are very much a part of this community, and it is with your help that we strive to maintain and enhance our place among the truly distinguished universities in this country.

Over the years, we have shared with you examples of our strength, vitality, and vision. We also have shared our problems and concerns. Today it is my responsibility, as president, to bring before you a matter of concern to all leadership in Michigan higher education. As most of you are aware, a tax cut initiative will be on the ballot in this state.

The Tisch Tax Cut Amendment, now designated Proposal 'D', would cut local property taxes by approximately 50 percent, and compel the state to reimburse local governments for their losses.

The effect on state services—such as higher education, mental health, social services, and corrections—would be chilling. For members of the university community—students, faculty and staff, parents, all who support us and believe in us as alumni and friends—it would be traumatic.

The state Department of Management and Budget informs us that passage of the Tisch plan would remove some \$2 billion from the state's general fund, which has no surplus. This is over 60 percent of the total revenues needed to finance all public agencies and services, including higher education.

Without significant increases in tuition, higher education in our state, as we know it today, could not survive that blow. Nor, I doubt, could any other of the agencies and "essential services" that rely on state appropriations for most of their financial support.

The University of Michigan now receives nearly six of every ten operating "general fund" dollars from the state. A loss to us of up to 60 percent of our income for faculty salaries, scholarships, and plant maintenance would surely force tuition to double, if not triple, for in-state students. Out-of-state tuition also would be affected. This potential burden on students and their families, including many of you who read this, I find offensive and is why I am alerting you to this situation.

My fellow presidents of public and independent colleges and universities throughout the state also have begun to inform their constituents of the serious implications of Proposal 'D' for their institutions.



The achievements of this distinguished university are the result of an enduring and unique collaboration between our faculty, students, parents, alumni, friends, and all the tax-paying citizens of the State of Michigan.

My predecessors in this office have believed strongly in the importance of that partnership, and I have pledged myself to see this vital collaboration continue. I am confident that the most fruitful years for The University of Michigan lie before us.

I look forward to sharing them with you.

Sincerely,

Harold T. Shapiro

Ballot Proposals: Tisch II, Smith-Bullard, and the Legislative-Coalition Proposal

This November 4, voters in Michigan will have the opportunity to vote on three plans which will affect their future property tax bills. Two shift the burden away from property taxes to other revenue sources. The third severely cuts property tax revenue but provides no compensatory state income.

These ballot questions would alter the Michigan Constitution. Approval by the voters of the wrong plan might permanently cripple higher education in Michigan. *College tuition may double or even triple.* This report describes other possible effects of voter approval of the plans.

"Our analysis leads to the unavoidable conclusion that the Tisch proposal, if adopted, would be devastating for all of Michigan's colleges and universities."

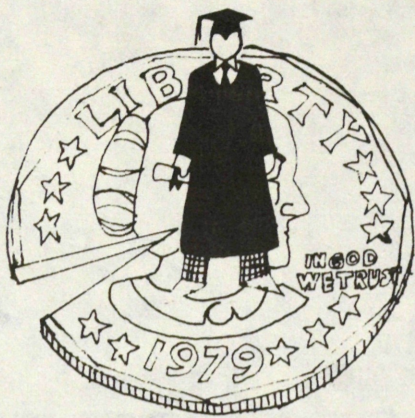
...from a joint statement issued by the Presidents' Council of State Colleges and Universities and the Association of Independent Colleges and Universities of Michigan.

In June 1980, organizations representing all of Michigan's colleges and universities communicated the above conclusion to the Governor and members of the Michigan Legislature. The statement was prepared after analyses by higher education officials revealed that the Tisch II initiative petition, if adopted at the November 1980 general election, would:

- Result in anywhere from a 50 percent reduction to total elimination of state support for public and private higher education.
- Require tuition rates at public institutions to be "doubled or tripled," while at the same time reducing or eliminating student financial aid programs at the state level.
- Invoke the "very real possibility" that a number of colleges and universities would be forced to close.
- Severely limit the ability of the Michigan economy to rebound with strength and vitality.

This publication is a reprint of a supplement to *Michigan Today*, published for the alumni and friends of the University of Michigan. Content of the supplement is designed to inform concerned citizens of the potential impact upon The University of Michigan and all higher education of three proposals on the November ballot: Proposals A, C, and D.

Property Tax Reform and Higher Education



Both the Legislative-Coalition Proposal and the Smith-Bullard Proposal offer substantial property tax relief for Michigan residents, but without a substantial reduction in state/local revenues.

Tisch II proposes to eliminate about 62 percent (\$2 billion) of the state budget available for essential state programs, including colleges and universities.

Many leaders in Michigan higher education...believe that the state legislature could eliminate all funding of higher education should Proposal D pass...

Public higher education, then, would need to generate two new dollars for every current non-state dollar to operate at or near present levels of instruction.

Some Questions and Answers

Q. What is the Tisch II Plan?

A. A tax reform plan which will be on the November 4 election ballot as Proposal D. It would cut property tax assessments to one-half what they were in 1978, limit new home and farm assessments to 2 percent per year, and require a 60 percent vote of the people for any new tax increase. The state would reimburse local units for a portion of the \$2.7 billion in lost revenues.

Q. Isn't that good?

A. It sounds good, but... Tisch II would cut state support for colleges and universities, state police and state prisons, mental health, social services, and more—by about \$2 billion dollars.

Q. Isn't that just "belt tightening"?

A. Because of the way the Tisch II proposal is drafted, it actually would cause a cut of about 60 percent in available general funds for these essential state programs.

Q. The other ballot questions... are they tax cut plans, too?

A. Yes and no. The Smith-Bullard plan (Proposal A) is essentially a school financing reform plan for grades kindergarten through twelve. It would cut property taxes by about \$2 billion, too, but it requires the Legislature to increase other taxes to make up the difference, most likely the income

tax and a statewide property tax on business.

Q. What about the Legislative-Coalition Proposal?

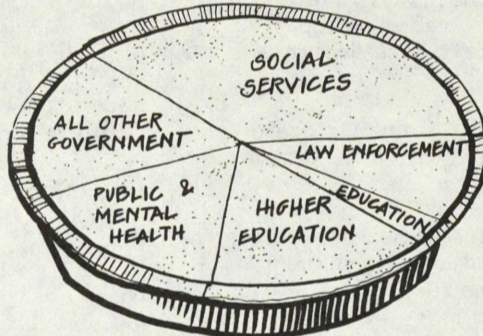
A. The Legislative-Coalition proposal (Proposal C) was developed by Gov. William Milliken, the Legislature, and a group of people representing public, private, educational, and civic groups. It will provide, in 1981, significant but reasonable property tax relief through a \$7,100 exemption in the assessment for each homestead. The tax savings will be offset for the most part by a 1.5 percent increase in the sale and use tax.

Q. Isn't that just a tax shift?

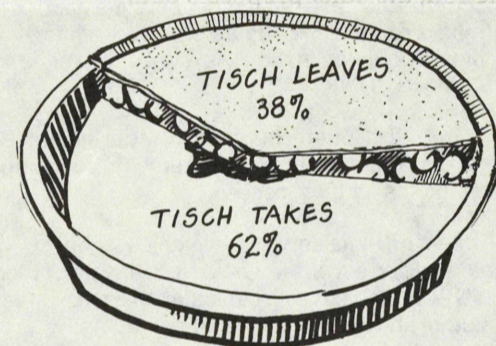
A. Even with an increase in the sales tax, Proposal C provides an overall tax reduction of about \$200 million. In addition, the Proposal requires a phase-out in the sales tax on utilities, and annual increases in the \$7,100 property tax exemption and the \$1,500 personal income tax exemption.

The Smith-Bullard Proposal would set limits on total local homestead residential and owner-operated farm property tax rates at 24.5 mills, and limits K-12 school enrichment taxes to 7 voted mills. About \$2 billion in tax revenues would be shifted, through a state-wide tax of no more than 30.5 mills on industrial development and commercial property, and an increase in the state income tax rate. The State Department of Management and Budget estimates the increase at "approximately 1.9 percent."

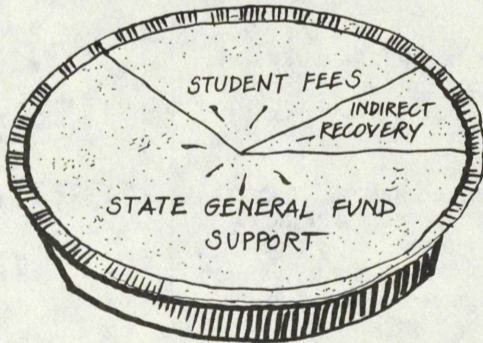
Tuition Could Double, Even Triple, If the Tisch Proposal Passes



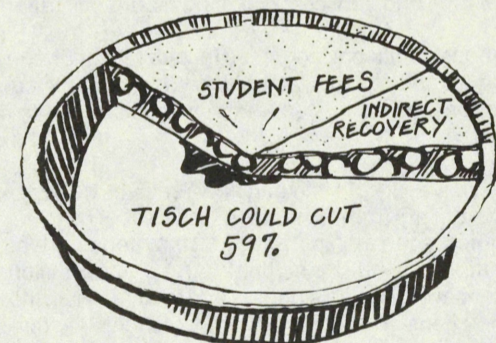
(Fig. 1) State general fund supported services



(Fig. 2) Essential services after Tisch II passage



(Fig. 3) U-M Ann Arbor campus general fund



(Fig. 4) Ann Arbor general fund in "worst" Tisch case

President Shapiro is in agreement with presidents of all other state colleges and universities that the passage of the Tisch Amendment would result in the doubling, if not tripling, of in-state tuition.

A tripled tuition could be the result of the scenario depicted above. Figure 1 shows the essential state services, funded through Michigan general fund revenue, including higher education's appropriations. Higher education will receive about \$850 million in fiscal 1981, out of an estimated \$3.28 billion.*

Passage of the Tisch Amendment, now on the ballot as Proposal D, would compel the state to return 62 percent* of the revenue (Figure 2) to local units, beginning October 30, 1981. The state legislature would be forced to prioritize the remaining 38 percent among all 25 services and departments—including higher education, corrections, mental health, and social services.

To exemplify the severity of the cut, the total savings from the following cuts would not quite add up to the \$2.01 billion return: half state welfare expenditures; half mental health expenditures; all higher education expenditures; 25 percent of all others.

The U-M Ann Arbor general fund (Figure 3) supports nearly all faculty salaries, student scholarships, and costs of academic support, student services, and physical plant maintenance and utilities. This past year, the state funded about \$130 million. The remainder came from student tuition and fees and indirect cost recovery.

Many leaders in Michigan higher education, including President Shapiro, believe that the state legislature might be forced to eliminate all funding of higher education, should Proposal D pass. If so, the Ann Arbor campus would lose 59 percent of its general fund revenue (Figure 4). In percentages, the situation would be even more severe across the state: the total state college and university system receives 67 percent of its general fund from the state.

Public higher education, then, would need to generate two new dollars for every current non-state dollar, to operate at or near present levels of instruction.

The major source would be expected to be tuition.

*Analysis: Michigan Department of Management and Budget, July 1980.

About Property Tax Reform

Q. Does all Tisch II property tax reduction stay in Michigan?

A. No. Proposal D gives only a little more than half of its tax relief to Michigan residents. The rest is returned to other property owners, including nonresident individuals and corporations owning resorts, vacant acreage, and agricultural lands in Michigan.

Q. How much will the Legislative-Coalition Proposal save individual property owners?

A. The \$7,100 exemption will save the average homeowner about \$350 in 1981, increasing in future years. Unlike Tisch II, this Proposal preserves the full value of existing income tax credits for senior citizens and others who have low incomes compared to their property tax. This increases the average relief to about \$425 per residential unit—almost three-fourths as much relief as Tisch II, but without a 62 percent cut in essential services.

Q. How much will the Smith-Bullard Proposal save individual property owners?

A. Proposal A would cut overall property taxes by about 50 percent statewide. Individual property tax adjustments would depend on the present operating millage rate in each community, which averages 49 mills statewide, versus the maximum 24.5 mill allocation under Proposal A.

Q. What about people who don't own property?

A. Tisch II provides direct rent relief only to senior citizens and lower income renters. Through enabling legislation, the other proposals both guarantee an automatic \$140 income tax credit added to existing credits. The \$140 renter relief will be increased each year according to increases in the GNP price index.

Q. What if the State actually reaps a tax revenue windfall?

A. That's impossible under the Legislative-Coalition Proposal. All money collected from the increase in the sales tax will be placed in a separate fund, which constitutionally can be used only to pay for providing property tax, income tax, and utility

tax breaks for Michigan residents. Under Smith-Bullard, as the tax shift would be in ratio to the property tax loss, there would be no additional state revenue.

Q. Will the federal government reap a tax revenue windfall?

A. Under Tisch II, the federal government would gain substantial additional tax revenues. Billions of dollars in deductions on the federal income tax return would be lost. Michigan already receives less federal money than it pays in. The State Department of Management and Budget estimates a direct outflow to the Federal Government of \$600 million in tax revenue, and \$200 million lost in federal matching grants. Under the other proposals, increased payments under the sales tax or income tax remain deductible on the federal return.

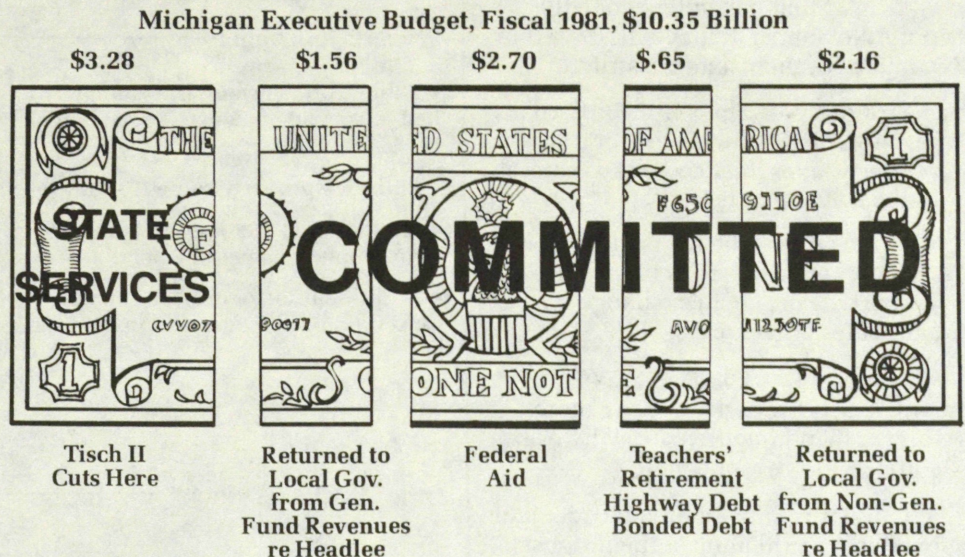
Q. What about preserving quality and opportunity in higher education?

A. If tuition is forced to triple under Tisch II, many Michigan residents will no longer be able to afford a college education. Michigan tuition rates already are among the highest in the nation. Ironically, some Tisch II supporters contend that tuition could not be increased without a 60 percent statewide vote. This could effectively preclude higher education from compensation for lost state revenues.

Q. Why do representatives of higher education believe that the total loss of state revenue is a realistic scenario under Proposal D?

A. If Proposal D should pass, the Legislature would be forced to work with only 38 percent of its projected "normal" revenue for state services. In prioritizing need, funding for the department of social services, corrections, state police, and mental health—as examples—could all be considered more "essential" than higher education. In sharing the burden equally, public higher education would lose 62 percent of its state revenue. However, in light of prioritizations, total loss of income is a realistic scenario for higher education—including The University of Michigan.

What Would Proposal D Slash? Not 14%...Not 20%...But 62% of the Revenues for State Services



An old political adage goes, "You don't have to explain what you don't say," and when proponents of Proposal D talk about cutting "only" 20 percent of the state budget, much is not being said.

The true cut, in context of available resources to fund all state services, is closer to 62 percent.*

The confusion can stem from the following omission of fact: That more than two-thirds of the budget of the State of Michigan is inviolable. As seen in the chart above, there are four units of revenue totalling over \$7 billion that are committed by either federal restrictions or state constitutional requirements. Included in these monies is the 41.6 percent of state tax revenue that, per the Headlee amendment of 1978, must be returned to local units.

Thus, the \$2 billion cut to the state budget would have an impact only on the block to the left, the portion that finances higher education, state police, corrections, mental health, and other essential services.

A \$2 billion cut from \$3.28 billion is 62 percent.

*Analysis: Michigan State Department of Management and Budget.

A Possible "Catch 22"

If Proposal D should pass, the university must raise tuition to compensate for lost state income. Correct? Possibly not. Should "tuition" be interpreted as a "tax", the amendment could effectively stop the university from raising tuition without voter approval. Tuition decisions are historically the purview of the Board of Regents.

The definition of "tax" in Proposal D includes any "fee, levy," or "user charge."

Some Proposal D supporters contend that tuition is a "user charge" and could not be increased without 60 percent approval in a statewide vote at a general election. The next scheduled general election after this November is November 1982.

Should Proposal D pass, and universities not be free to raise tuition, as offered by State Budget Director Gerald Miller, "if that happens... you'll effectively shut down the institution(s)."

Doubled or Tripled Tuition

vs.

Average Worker's Earnings

Resident undergraduate tuition in 1980-81 is up 13 percent to \$1,536 for two terms.

That is for the upper division. Lower division is \$1,364. Graduate school is \$2,108.

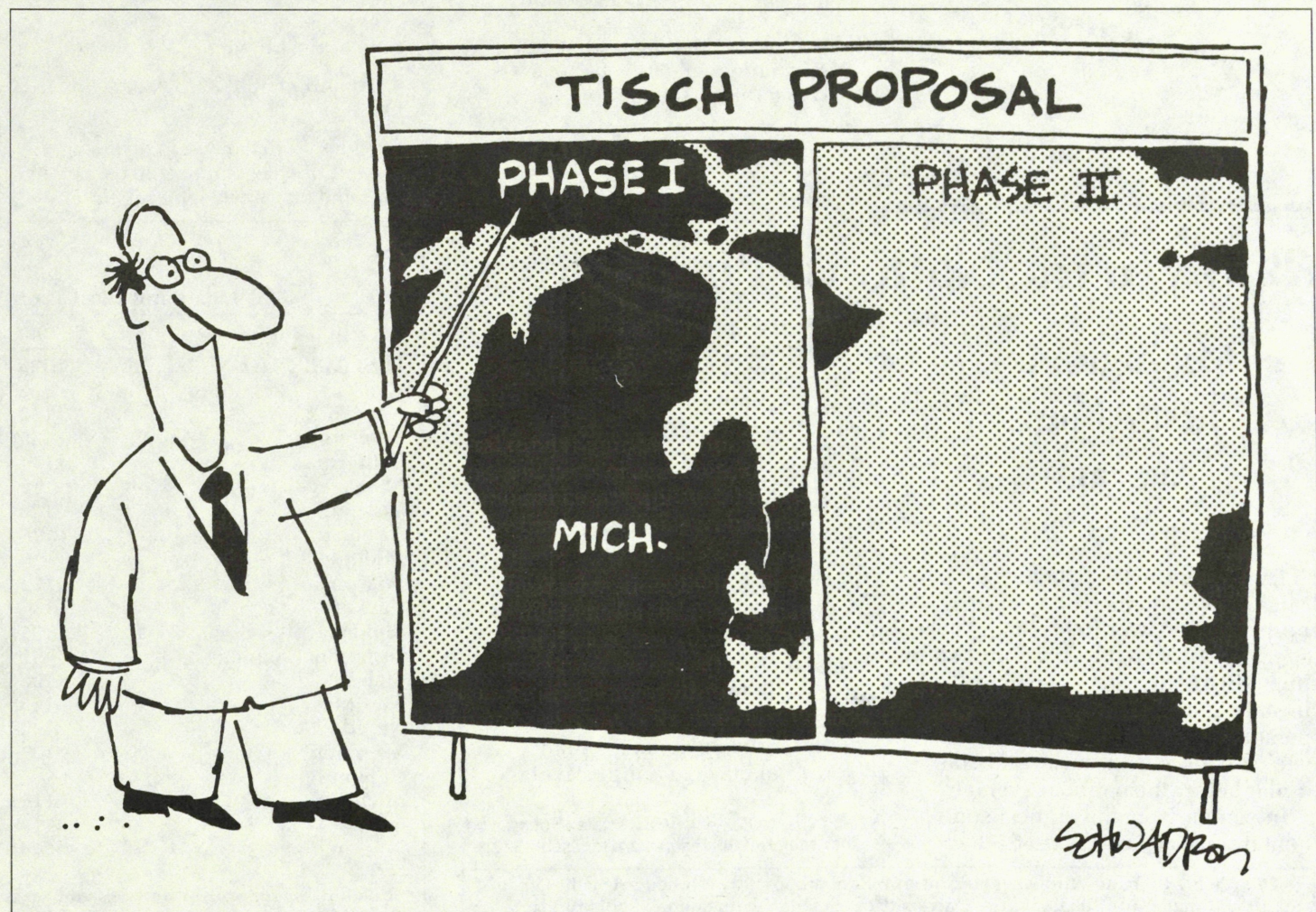
If U-M would have to double tuition next year, the upper division figure would be \$3,172. Triple would be \$4,608.

How would tripled tuition compare to earnings?

This year, the U.S. Department of Labor estimates that the annual income needed to support a family of four on an intermediate budget is \$22,600 (based upon a 10 percent inflation factor from the last statistic of \$20,517).

The average U.S. factory worker will earn \$17,911 next year.

The tripled tuition would be more than 25 percent of the factory worker's earnings...and 22 percent of the average income for a decent standard of living.



All Proposals Are Independent Of Each Other

When Michigan voters go to the polls November 4, they will have four choices for their state tax structure:

Proposal A—The Smith-Bullard tax revision plan, which calls for a cut in property taxes financed by an increase in the state income tax.

Proposal C—The Legislative-Coalition tax shift plan, which provides property tax relief in exchange for a state sales tax increase.

Proposal D—The Tisch Tax Plan, which cuts property taxes by more than half and requires the state to absorb the lost revenue.

The status quo—which will remain in effect should none of the proposals receive a majority vote.

All proposals will be voted upon independently. In other words, passage or failure of each proposal depends upon the majority of votes cast for that proposal only.

This means that you, the voter, need to vote on all three proposals to express yourself. You need to vote *against* a given proposal to defeat it—not just for another proposal.

The three plans have many conflicting provisions. If more than one plan were to pass, according to Deputy State Budget Director Douglas B. Roberts, the Michigan Supreme Court would rule on conflicting provisions, letting the plan with the highest vote count prevail where details differ.

**Passage or failure of
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only.**

Highlights of the Property Tax Reform Proposals

| "D" Tisch II | "C" Legislative-Coalition | "A" Smith-Bullard Plan |
|--|---|--|
| Property Tax Relief | | |
| <ul style="list-style-type: none"> ● Reduce property tax assessment by half—from 50 percent to 25 percent of true cash value ● Roll back property values to 1978 levels ● Limit annual increases in home and farm property values to 2 percent ● Additional Tax or millage exemptions for certain low income persons and senior citizens | <ul style="list-style-type: none"> ● Exempt the first \$7,100 of a homestead's assessed value (\$14,200 true cash value) from property taxes levied for local government operation (not including debt levies) ● Continue and guarantee the full value of state income tax benefits for property tax relief ● Enable larger millage reductions under Headlee ● Additional special relief for renters (\$140 per unit) | <p>The Smith-Bullard initiative does not lend itself to comparison on an item-for-item basis with the two other tax reform proposals. Its essential features, however, are as follows:</p> <ul style="list-style-type: none"> ● Limits K-12 school taxes to 7 voted mills for each school district, resulting in about \$2 billion in property tax reduction statewide. ● Allocates additional, fixed millages for the operation of other local government units, with overall residential property taxes not to exceed 24.5 mills. ● Requires the state to assume the financing of K-12 schools, and attain by 1986-87 equal per pupil funding at the level of the highest funded school district. ● Permits the levy of a statewide tax on business property, not to exceed 30.5 mills, to supplement increases in the income tax and other taxes as a source of revenues for K-12 school aid. |
| Other Tax Relief | | |
| \$ None | <ul style="list-style-type: none"> ● Annual increase in the \$1,500 personal exemption under state income tax ● Remove sales tax on residential heat, light, and other utility services | |
| Total \$ Property Tax Relief (Statewide) | | |
| \$2,506 million from reducing assessments to 25 percent | \$750 million from SEV exemption | \$2.025 billion from SEV exemption |
| \$278 million from additional relief for seniors and low income persons | \$390 million from preserving state income tax benefits | \$105 million from aid to renters |
| \$100 million from existing income tax benefits | \$105 million from \$140 aid to renters | \$390 million from preserving state income tax benefits |
| \$2.864 billion TOTAL* | \$1.245 billion TOTAL | \$183 million for senior retirees |
| *(However, approximately \$1 billion will be paid to the Federal Government in additional income taxes.) | | |
| Total \$ Property Tax Relief (Homeowners and Renters) | | |
| \$1.756 billion | \$1.245 billion | \$2.313 billion |
| Total \$ Property Tax Relief, Nonresidents and Businesses | | |
| \$1.128 billion | \$ None | \$ None |
| Average Property Tax Relief per Residential Unit | | |
| \$595 | | 50%-plus reduction |
| Net Replacement Revenues for State/Local Services | | |
| None | \$767 million from 1.5 percent increase in sales and use tax | \$2.313 billion |
| Net \$ Loss to State/Local Services | | |
| \$591 million to local government \$1,853 million to state government \$2,444 million TOTAL | <ul style="list-style-type: none"> ● No net loss in first year ● \$64 million in 1982, \$242 million in 1985 ● Net losses in later years to be shared proportionately (approx. 20 percent by state and 80 percent by local units) | <ul style="list-style-type: none"> ● No net loss first year ● Shift in funding sources for K-12 from property tax to state taxes with maintenance of local control |

Taxes in the National Perspective

Michigan Is Just About Average

How does the tax structure in Michigan compare to the national norm? The answer is: just about average. According to the Tax Foundation, Inc., Michigan residents pay \$127 in state and local taxes per \$1,000 of personal income. This places Michigan 19th among all states, and one dollar below the national average.*

In comparison, the highest continental state is New York at \$172.

(Alaskans pay \$175.) Other states usually recognized for the excellence of their public higher education systems include: California, 4th, \$158; Wisconsin and Minnesota, tied for 8th, \$142; Pennsylvania, 25th, \$123. In the "Big 10" states, Michigan is third, behind Wisconsin and Minnesota; Illinois is 29th, \$118; Indiana, 47th, \$103; Iowa, 32nd, \$116; Ohio, tied with Missouri for 50th, \$99.

Michigan's state and local taxes have risen 15 percent more than personal income since 1968. The national average is 19 percent. In only three states has growth been below the decade's rise in income—Idaho, North Dakota, and South Dakota.

*Source: *Monthly Tax Features*, Tax Foundation Inc., March 1980. Figures are for fiscal 1978.

All State and Local Taxes* per \$1,000 of Personal Income

| State (top 20) | 1968 | 1978 | % Increase | 1978 Rank |
|----------------------|--------------|--------------|------------|-----------|
| U.S. AVERAGE | \$108 | \$128 | 19 | |
| Alaska | 91 | 175 | 92 | 1 |
| New York | 132 | 172 | 30 | 2 |
| Wyoming | 135 | 172 | 30 | 3 |
| California | 134 | 159 | 18 | 4 |
| Massachusetts | 112 | 158 | 18 | 5 |
| Vermont | 125 | 145 | 16 | 6 |
| Arizona | 125 | 143 | 14 | 7 |
| Minnesota | 110 | 127 | 15 | 8 |
| Wisconsin | 123 | 142 | 15 | 8 |
| Hawaii | 136 | 140 | 3 | 10 |
| Montana | 121 | 138 | 14 | 11 |
| District of Columbia | 91 | 136 | 49 | 12 |
| Maine | 105 | 133 | 27 | 13 |
| New Mexico | 115 | 133 | 16 | 13 |
| Nevada | 122 | 131 | 7 | 15 |
| Maryland | 107 | 130 | 21 | 16 |
| Oregon | 105 | 128 | 22 | 17 |
| Michigan | 110 | 127 | 15 | 19 |
| Utah | 117 | 127 | 9 | 19 |
| Washington | 115 | 127 | 10 | 19 |

*Excludes unemployment compensation taxes.

Source: Bureau of the Census, U.S. Department of Commerce, and Tax Foundation computation.

This Michigan Today supplement on the tax reform proposals was produced by the Office of State and Community Relations, The University of Michigan, with non-tax-dollar funds.