

BUREAU NOTES:

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The Sales Tax Amendment

A proposed constitutional amendment (No. 2) is to be voted upon at the election November 5 providing that one cent of the sales tax should be distributed to localities; half cent to cities, villages, and townships, half cent to schools. The Bureau believes the proposal is unsound in principle, is inimical to the best interests of good government in the state, and could readily be contrary to the best interests of Detroit.

The proposal provides that one-half cent of the sales tax shall be returned to school districts, apportioned on the basis of school census, and one-half cent returned to cities, villages, and townships, apportioned on the basis of population. A rider provides that additional apportionments shall be continued to schools on the same pro rata basis as at present.

The measure derived its original sponsorship and major support as a drive by the cities to secure a larger share of state receipts. To this the provision was added for a return to schools, presumably to widen the basis of appeal and support.

Arguments on which the proposal rest are relatively simple: The state is flush; has experienced a phenomenal growth in receipts. Local units face heavy demands, are hard pressed. A number of cities are handicapped in raising added money through application of the 15-mill tax limit. Cities have been unsuccessful in other attempts to press their demands on the legislature. The amendment would force a sharing of the state's lush revenues.

Against this, the Bureau believes the problem is not this simple, is not this readily disposed, and may not have the expected result.

As a Matter of Principle

Insofar as the Bureau is concerned, at the top of the list stands the fact that whatever the merits claimed for it the proposal violates the fundamental and sound principle that responsibility for raising money should accompany the spending of it. That principle is bedrock in responsible government. This proposal violates it; a violation for which expediency can be no excuse. The state may be flush; cities may be hard pressed, but those facts do not constitute warrant for violating a fundamental principle of responsible, sound government.

Secondly, the Bureau believes that measures of this type, even if meritorious in other respects, should not be frozen into the constitution. The argument is that drastic situations require drastic action. The trouble is that the action so taken is based on conditions

as they now exist, and while even drastic situations are sure to change, a constitutional amendment is drastically permanent, impervious to change.

Third, the proposal seriously hamstrings a new state administration before giving it a chance to show what it can do. The fact is undeniable that the state has experienced a tremendous growth in revenues. The Tax Study Commission found that its revenues could be cut. At the same time, the fact also stands that the state has legitimate needs, particularly among its institutions. Cutting through the problem with this sort of broad axe is not likely to be a wise or balanced solution.

Fourth, it should particularly be noted that a bonus proposal is to be voted upon at the same time as this proposal. If both were approved, the state would face a large additional expense while it lost a third of its sales tax revenue. There already is discussion of increased taxes to meet this problem. Increase in the sales tax, a state property tax, a payroll tax are being mentioned.

Cities vs. the State

And

The Taxpayers' Interest

Much of the argument in favor of the proposal has created the impression that the state would do nothing but hog its new found wealth for itself, that it was doing nothing for local units. Accompanying this general thought, much of the argument has reflected the thought that the amendment could be adopted without serious effect on state finances, that the state has means to do just about all that it now does, and this too.

Which, again, is not quite the whole story. It seems to the Bureau that adoption of the amendment ***must*** seriously affect state finances and that, if adopted, the most likely result will be increase in taxes. If that is the case, ***the amendment then becomes an indirect means to raise taxes for local purposes.***

In part at least the feeling that it will not be too serious has been based on the surplus funds the state has accumulated in recent years. In part it is a carry-over from prior years when the drive was solely that of the cities. Both are inappropriate bases.

Sizable accumulated surplus (as the state has) is not a proper offset to ***continuing*** annual diversions, as this amendment will provide. And, the cities' plea has now been doubled by including the provision for schools. The diversion proposed by this amendment is two to three times the amount talked about last year. Forty to fifty million dollars a year, ***in addition to present allocations***, cannot be continued without causing serious dislocation and readjustment in state finances.

If the amendment is adopted, the net over-all effect will be to leave to the disposition of the legislature no more than one-fourth of sales tax revenues. The direct allocations

under this amendment will take one-third; the rider provision will earmark another 42% for schools. New taxes almost certainly will result.

On the other hand, the state has not been completely niggardly in its treatment of local units.

Under last year's proposal when the cities sought to receive one-half cent of the sales tax, they expected to receive \$16,000,000. In lieu of that, the legislature passed additional liquor taxes and revised the distribution of other taxes to localities. The new money thus given cities amounted to \$16,000,000 or more a year. Now the cities are again seeking one-half cent of the sales tax.

At the same time cities might bear in mind that while the funds would be distributed across the board, to urban and rural areas alike, replacement revenues would be likely to come largely from the city areas.

Many would claim that the state has not been niggardly with the schools. As things now stand, the school lobby has been the most successful in the state. School "aid" distributed by the state has grown from 22 million in 1933, prior to the sales tax, to 50 million three years ago and close to 64 million last year. In 1941, "basic grants" to schools were \$41,000,000. This year they are \$60,000,000. a 50% increase is not penuriousness, whether or not school districts think it is as much as they should have. This proposal would require a **mandatory** distribution of upwards of \$100 million. Before that is done there would seem to be good reason to re-examine the whole system of school aid—its basis and results.

There is no doubt that the state has experienced greatly increased revenues. The fact equally is true that substantial increases have been made in payment to local governments. In fact, the forgotten question might seem to be where the taxpayer comes out and whether either side is much concerned with his interest. The question might well be asked whether it isn't a case of both sides fighting over the spoils, with the taxpayer (as usual) getting plucked.

An Unsound Distribution Formula

Among the most serious objections is that the distribution to be made under the proposal (like most "distributions") bears absolutely no relation to need but is simply a straight handout across the board. To approve this amendment is, in the Bureau's opinion, to foster waste and extravagance.

The fact can be granted that **some** localities are hard pressed but that merely highlights the undeniable fact that all localities are NOT **equally** hard pressed, do NOT, equally, need aid, and that some localities need NO aid. All of which this amendment simply ignores.

Aside from Detroit, much of the drive for a return of funds has arisen from the 15-mill cities. Those cities **chose**, voluntarily, to put themselves under the limit and are free to remove the restriction at any time by the same method by which it was imposed. To

distribute funds on a straight per capita basis ignores the fact that other communities are doing much more to help themselves. If there were to be any distribution, at least it should be on some basis which recognized the degree of effort which the locality put forth to help itself.

At the other end stands the fact that many localities now levy little or NO tax—but would still receive their pro rata share under this amendment. A recent tabulation shows that 221 out of 1265 townships levy *no* local property tax. State aid now meets their needs. They still would get more by this proposal. Out of all townships, over half now levy from nothing to no more than one mill! School district tax burden presents an equally variable picture. On top of which this amendment would make a further blanket distribution.

A technical feature of this proposal is that by our interpretation residents in villages would get double benefit—once in the village and once in the township. For example, considering it on an individual per capital basis, a resident in Grosse Pointe Park would get two dollars (one for the village and one for the township) to every dollar received by a resident of Grosse Pointe City (or Detroit). The smallest units of government which need the aid the least will therefore get the most.

As a Matter of Hard Practical Fact

In the Bureau's appraisal of the proposal its best justification is that of simple, blunt expediency; it will get some money for Detroit (and other local treasuries). As a matter of hard, cold fact, however, the Bureau doubts even that.

Arguments concerning the amendment have stressed the great gain it will be to Detroit in bringing new revenues into the local treasuries. Detroit will, of course, receive a distribution under the amendment. As far as the measure itself is concerned, it will force the specified funds—one-half cent to cities and one-half cent to schools—to be distributed. And, through a rider the amendment can be said to seek the protection and continuation of funds now distributed to schools.

All of that, however, is far from the complete story. Corollary considerations are involved which can be fully as far reaching in final net result as the readily visible funds.

The temper of state legislators is agreed to be generally hostile to the amendment. If it is adopted, retaliatory action can be expected, and ways for retaliatory action are readily available! In spite of the amendment, the legislature still will have the last say.

Will the City Benefit? In the first place, from sales tax receipts of \$120,000,000, the cities share will be \$20,000,000 (proportionately more from any higher amount). The last legislature authorized direct grants to cities from special revenues totaling over \$20 million. It will be a simple act to retract that action, leaving cities with little or no gain.

The fate of Wayne University. In other ways it is even more dubious whether Detroit, and Detroit schools in particular, would benefit. The proposal for the state to assume Wayne U. has received careful consideration and made great progress toward state assumption. Prospects are excellent that favorable action will be taken under present conditions. But it can also be accepted as a foregone conclusion that it will NOT be done if the amendment is adopted.

Detroit school would receive five to six million by the amendment. The cost of Wayne U. can be accepted as equaling that if any beginning is to be made on its building program.

Will Schools Gain? On that basis alone there is little gain for schools, but that is not the whole story. Two further facts make adoption of the amendment a decidedly bad deal. One is the future development of Wayne U.—which the Bureau believes can only be realized to the full if it is a state institution.

The second consideration is that while the amendment attempts to guarantee continuation of present school funds from the state, it does so only in total, ***not in the amount any one locality receives***. The bases for distribution can be radically altered at the legislature's will.

All things considered, on a purely practical, expedient basis, it is decidedly dubious whether the amendment will, in fact, produce greater returns than now received, whether Detroit will gain, whether the result might very readily be a net loss.

Alternative Solutions

The claim may be made that none of this bears on the question whether the state has too much revenue and whether the cities (***some*** cities!) have dire needs. The Bureau believes that the amendment has no proper relation to those problems, and that to the extent they exist there are proper means to solve them.

If the state has excess revenues, the proper step is to cut its taxes. If cities have justifiable needs, the proper step is to raise, or to authorize the raising of, taxes. The two problems are distinct and little is gained by intermingling them.

As a matter of fact, alternative solutions are available. The Bureau repeatedly has urged that one road to a solution was through transfer of functions. The case is excellently illustrated in Detroit. Detroit operates a university which the Bureau believes should be a state function. Forty per cent of the patient-days at Receiving Hospital are mental cases—a state function. Any or all of the following might—in fact, more properly—be county or state functions: zoo, Belle Isle and River Rouge parks, all parks, art museum, library, health, house of corrections, Maybury sanatorium, Herman Kiefer hospital, Eloise, courts.

The second alternative, and also a thoroughly sound one, was recommended by the State Tax Study Commission: reduce the state sales tax, permit those localities desiring to do so to levy the amount reduced by the state, collections still to be made by the state. Waste would not be encouraged; those localities not feeling the need for the added revenue would benefit by the reduced tax. To the argument that tax differentials would be created between cities the answer is simple: why should differences in tax cost be concealed?

Finally, (and this applies equally to the distributions now being made) if distributions were to be made, they should at least be based on formulae which measure degree of local need and local effort to meet the need, rather than encourage waste by blanket distribution across the board, regardless of need or effort.