ABSTRACT: More and more tax limitation initiatives seem to be put forth for voters approval and several have passed which have implications for higher education. While those passed differ from each other substantially, a case study on the effects of Proposition 13, the first to pass in U.S., on California higher education has been instructive. Community colleges had to temporarily reduce some of their programs, primarily in adult and non-credit education, which have since been restored on a fee basis. Additionally, the control for community colleges has been shifted to the state. The four-year colleges and universities have also been indirectly affected as reflected by substantial increase in student fees when the state surplus was exhausted. Finally, despite seemingly devastating effects, most states which have been affected have learned to cope with decreasing or stabilized financial support.

Introduction

In June of 1978, the first of many tax limitation initiatives was overwhelmingly approved by California voters. Many other tax limitation initiatives followed; some passed and others were defeated. Nevertheless, these initiatives continue to rear their heads. What implications do these limitations have for higher education in the states which already have them and for others which may be facing similar sentiments from their voters? Is it a vote against various publicly funded programs affected by these initiatives? Or is it simply an expression that the tax burden is too heavy? Are there preventive measures which higher educational institutions can take to minimize and avoid being affected by the passing of tax limitation initiatives or legislations?

Needless to say, there are no easy, simple answers to the questions posed. A review of literature on the issue since the passage of Proposition 13 in California reveals many opinions but little “hard facts” on the actual impact. In part, each initiative that has been passed is sufficiently different from others that general conclusions are difficult to draw. In part, not all of the effects are immediately obvious. Finally, there are so many other social and economic factors which impinge on higher education, clouding the relationship between the initiatives and their effects on higher education.
In light of the complexity, a case study approach is used to gain some insight into tax limitations and their impact on higher education. The case chosen is California, since the passage of Proposition 13 in 1978 was the first in recent times. The study focuses on three types of impact: reactions by higher educational institutions which immediately followed the passage of Proposition 13; more permanent effects on higher educational institutions directly affected by the tax limitation; and rippling or secondary effects on higher education. Finally, what lessons, if any, can be learned from the case will be considered.

The Case

California has always enjoyed being at the forefront of many movements and ideas. Proposition 13 is one which was not welcome by anyone in the public sector, but very much embraced by anyone who owns any type of property including the middle class homeowners. With the State Treasury holding an extraordinarily large surplus (estimated at $5 billion) and a spiraling rise of real property value, Howard Jarvis and Paul Gann authored Proposition 13 and generated broad public support. It is a property tax relief measure for homeowners as well as for business and industry. The Proposition, though initiated and passed in 1978, called for assessing property tax based on 1975-76 assessed value and limiting assessment increases to 2 percent per year rather than according to market value. Once a property is sold, however, the assessed value may be raised to the market value at the time of sale and then returned to an assessment increase of 2 percent per year. Further, the Proposition stipulated that no change can be made on this formula without either a two-thirds vote by the public or by both houses of the state legislators.

The Proposition provided immediate relief to persons and organizations who owned properties on the eve of the passage in June 1978. It continues to be a great relief to persons and organizations who have not sold their properties since June 1978. It, however, has had less effect on those who have purchased properties since June 1978.

The state administration interpreted the overwhelming approval of Proposition 13 as a public expression against "high taxes." Further, acknowledging the rapid inflation which the nation was experiencing, the State, in 1979, passed a provision for indexing state income tax, preventing movement to a higher tax bracket due merely to an income increase related to inflation.