



**House
Legislative
Analysis
Section**

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DEDICATE REVENUES TO SCHOOLS

**House Bill 4657 as introduced
First Analysis (5-2-95)**

**Sponsor: Rep. Glenn Oxender
Committee: Tax Policy**

THE APPARENT PROBLEM:

The passage of Proposal A on March 15, 1994, put in place a new school financing system for the state. The old school aid formula was eliminated, and a new distribution scheme was put in its place. School districts now receive a basic foundation allowance that in the initial year ranged from \$4,200 per pupil to \$6,500 per pupil, depending upon their combined state and local revenue the year before. (Additional amounts must be raised through local supplemental taxes.) The basic foundation allowance is to be adjusted each year based on changes in revenues and pupil counts. The lowest spending districts get the largest increases in the basic grant. The new finance plan also dedicated revenues constitutionally or statutorily to the school aid fund from various sources. However, not all the monies necessary to fund the schools come from dedicated sources; contributions are required from the state's general fund. According to information from the House Fiscal Agency, schools will receive \$713.4 million from the general fund in fiscal year 1995 and estimates are that \$624.1 million in general fund revenues will be needed in fiscal year 1996. In years beyond that, even greater contributions will be necessary because the school aid fund will no longer generate the short-term surpluses that resulted under Proposal A (because, generally speaking, the new tax collection system began on May 1 but the distribution system did not begin until the beginning of the next fiscal year). Some people believe that one of the promises of Proposal A was guaranteed state funding for public elementary and secondary schools, and legislation has been introduced that would dedicate additional revenue to the schools so that general fund support would likely not be needed.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act so that the percentage of gross collections before refunds from the income tax that are dedicated to the state school aid fund would be increased from 14.4

percent to 29 percent after September 30, 1996 (that is, beginning with the 1996-97 fiscal year).

MCL 206.51

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates that the school aid fund would increase from about \$943.5 million to \$1,900 million in fiscal year 1996-97. This is based on the assumption that baseline income tax revenues will grow at about 5 percent. (4-21-95)

ARGUMENTS:

For:

This bill would lock in additional state tax revenue for the school aid fund. It fulfills what many believe to be a basic promise of Proposal A, which created the state's new school finance system: a stable source of dedicated revenues for public elementary and secondary education. Although a large portion of the revenue for schools is currently dedicated, the schools still depend on a substantial contribution from the general fund. Increasing the percent of income tax collections dedicated to schools from 14.4 percent to 29 percent should send to the school aid fund about the same amount in additional revenues that would otherwise be needed in future years from the general fund. This provides additional protection for school funding and takes the schools out of the competition for general fund revenues. Some believe this approach was intended to be one of the key elements of Proposal A when that legislation was negotiated. The additional dedicated revenue is not a mandate to spend more. If the dedication generates more revenue in a given year than is needed, monies can be carried over in the school aid fund for future years.

Against:

This is not a good idea for a number of reasons. For one thing, constitutional provisions are already

House Bill 4657 (5-2-95)

sufficient to guarantee funding for schools in future years. Beyond that, the governor has made a strong commitment to the funding of schools. Further, it is not the proper time to discuss what percentage of income tax revenues would be proper to earmark for the 1997 fiscal year. The legislature has yet to pass a fiscal year 1996 bill. Any number put into statute at this point would be artificial. It would be easy to make a mistake, which then would have to be changed (and might be difficult to change). If the larger percentage of dedicated income tax revenue proved insufficient in future years, it could prove difficult at that point to get the necessary extra dollars from the general fund. It would make more sense to allow the state more experience with the new school financing system. Moreover, earmarking so much revenue would limit the flexibility of the governor and legislature.

POSITIONS:

Among those indicating support for the bill to the House Tax Policy Committee were the Michigan Association of School Boards, the Michigan Association of School Administrators, the School Equity Caucus, and the Middle Cities Education Association. (4-27-95)

The Department of Management and Budget is opposed to the bill. (5-26-95)