



**House
Legislative
Analysis
Section**

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DEDICATE REVENUES TO SCHOOLS

**House Bill 4657 as enrolled
Public Act 194 of 1995
Second Analysis (2-2-96)**

**Sponsor: Rep. Glenn Oxender
House Committee: Tax Policy
Senate Committee: Education**

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. Tax specialists point out that even greater general fund contributions will be needed after the first few years under the new system because the school aid fund will no longer generate the short-term surpluses that resulted under Proposal A. (These resulted 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 23 percent after September 30, 1996 (that is, beginning with the 1996-97 fiscal year).

MCL 206.51

FISCAL IMPLICATIONS:

The Senate Fiscal Agency estimates that increasing the percentage of earmarked income tax collections from 14.4 percent to 23 percent (using 1995-96 data) would transfer an additional \$547.3 million to the school aid fund from the general fund. In 1995-96, says the SFA, the school aid fund will receive earmarked revenue from a number of sources, including \$916.2 million from the income tax. In addition to earmarked revenues, the school aid fund will receive other revenue totalling \$923.6 million, which includes \$334.5 million from one-time revenue sources (not available in future years) and \$589.1 million from the general fund. The increase in income tax earmarking will replace the one-time revenues and all but \$376.4 million of the income tax revenues. (SFA analysis dated 10-2-95)

ARGUMENTS:

For:

This bill would lock in additional state tax revenue for the school aid fund. It works toward fulfilling 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 23 percent would greatly reduce reliance on the general fund and would provide additional protection for school funding.

Response:

The version of this bill that passed the House would have dedicated 29 percent of income tax collections to the schools on the grounds that that amount would eliminate the need for general fund allocations for schools and remove schools from the annual competition for general fund dollars. This, advocates said, would truly fulfill the promise of Proposal A by guaranteeing school funding.

House Bill 4657 (2-2-96)

Against:

This bill is not a good idea for a number of reasons. For one thing, constitutional provisions are already sufficient to guarantee funding for schools in future years. Beyond that, the governor has made a strong commitment to the funding of schools. Further, any number put into statute at this point is artificial. It might have to be changed (and yet prove difficult to change) in a few years. It would make more sense to allow the state more experience with the new school financing system before engaging in this kind of tinkering. Moreover, earmarking so much revenue would limit the flexibility of the governor and legislature. Many public policy specialists believe earmarking revenues is not a sound policy in general.

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.