Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 4657 (as passed by the Senate)
Sponsor: Representative Glenn Oxender
House Committee: Tax Policy
Senate Committee: Education

Date Completed: 10-2-95

RATIONALE

Voter approval of Proposal A on March 15, 1994, put in place a new school financing system for the State. As part of this new finance plan, various tax revenues are statutorily or constitutionally dedicated to the School Aid Fund, but not all of the money needed to fund schools comes from these dedicated sources. Consequently, the Legislature annually must make an appropriation from the General Fund to the School Aid Fund. In formulating the school finance reform offered in Proposal A, a goal for some people apparently was to guarantee State funding for public elementary and secondary schools. It has been proposed that additional income tax revenues be dedicated to the School Aid Fund so that General Fund support would not be needed.

CONTENT

The bill would amend the Income Tax Act to increase from 14.4% to 23% the amount of gross collections before refunds from the income tax that is deposited in the State School Aid Fund. The increase would take effect after September 30, 1996.

MCL 206. 51

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The State School Aid Fund currently is made up of earmarked revenues, a grant from the General Fund, one-time revenue items, and a carry-over surplus. Although a large portion of the funding for schools is made up of dedicated revenues, the School Aid Fund still depends on a substantial contribution from the General Fund. By increasing from 14.4% to 23% the amount of income tax revenues dedicated to the School Aid Fund, the bill would lock in additional State tax revenues for school funding. This would greatly reduce the need for General Fund revenues for school funding.

Response: The bill would guarantee that schools received a higher percentage of State income tax revenues, but would not ensure that actual funding amounts would be maintained. If the State's economy were to experience a recession, for example, the amount of income tax revenues could decrease. In this case, the School Aid Fund still would receive 23% of the revenues, but the total amount of funds would be smaller. Thus, the contribution to the School Aid Fund would be less. Conversely, as the economy improved, tax revenues would increase and the actual amount of funds for schools would increase. The bill would protect a certain portion of tax revenues for schools, but schools still would be affected by changes in the State's economy.

Opposing Argument

With the implementation of the State's new school financing system, most of the new tax collections began May 1, 1994, even though the revenues were not needed until the State's 1995 fiscal year. As a result, the School Aid Fund had a surplus at the end of the 1994 and 1995 fiscal years. It is estimated that the surplus resulting from the early tax collection will be exhausted by the 1997 fiscal year. The bill would increase to 23% the percentage of State income tax revenue dedicated to the School Aid Fund. Using the 1995 and 1996 State fiscal years as a base, it is estimated that the 23% dedication would be sufficient to replace all but $42 million of the General Fund contribution but none of the one-time revenue items and the carry-over surplus that are built into the 1996 School Aid budget.

Response: An increase in the percentage of State income tax revenue dedicated to schools would earmark funds sufficient to replace the amount of one-time revenues used in FY 1995-96 and reduce the General Fund contribution to the School Aid Fund by approximately $212.7 million. This would help in making State support more secure by dedicating more revenues to the School Aid Fund and reducing its reliance on the General Fund.

Legislative Analyst: L. Arasim

FISCAL IMPACT

This bill would have a fiscal impact on both the School Aid Fund and the General Fund beginning in FY 1996-97. While revenue and spending estimates for FY 1996-97 have not yet been made, to help illustrate the fiscal impact this bill would have, this analysis uses data for FY 1995-96.

Under current law, in FY 1995-96 the School Aid Fund (SAF) will receive earmarked revenue from several taxes, including an estimated $916.2 million from the earmarking of 14.4% of gross income tax collections. In addition to the earmarked tax revenue, the SAF also will receive other revenue totalling $923.6 million, which consists of the GF/GP grant of $589.1 million and $334.5 million in one-time revenue items that will not be available in FY 1996-97. Increasing the amount of gross income tax collections earmarked to the SAF from 14.4% to 23% would transfer an additional $547.2 million from GF/GP revenue to the SAF. This additional income tax revenue would be large enough to replace the one-time revenue items and all but $376.4 million of the GF/GP grant (or all but $42 million of the GF/GP grant). The net impact on the GF/GP and SAF budgets is not known at this time, but ultimately would depend on any subsequent changes made in the GF/GP grant to the SAF. If the GF/GP grant were reduced by $547.2 million, an amount equal to the proposed increase in income tax earmarking, then there would be no direct impact on the GF/GP or SAF budget.

IMPACT of H.B. 4657
on
FY 1995-96 SCHOOL AID FUND BUDGET
(millions)

General Fund Grant to SAF	$ 589.1
One-Time Items NOT Available FY 1997:	
Carry-Forward Balance from FY 1995	283.5
Excess Lottery Revenue Transfer	25.0
Health & Safety Fund Transfer	26.0
Subtotal-One-time Items	334.5
Total GF Grant and One-Time Items.	**$ 923.6**
Increase Income Tax Earmarking from 14.4% to 23.0%	$ 547.2
Difference	$ 376.4

Fiscal Analyst: J. Wortley
E. Pratt
J. Carrasco

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