



# OFFICE OF THE STATE BUDGET FEBRUARY 2002

## State School Aid Act Early State Education Tax Collections to Support Increase to \$6700 Per Pupil

### Summary

By moving all of the existing December 2003 state education tax collections forward to July 2003, additional one-time revenue will be received in the state's fiscal year 2003 budget, providing enough revenue to support a \$200 per pupil increase to the \$6700 per pupil foundation allowance originally envisioned for 2002-2003. To compensate taxpayers for the inconvenience of paying their tax bills earlier than planned, the state education tax millage rate is reduced for 2003 only from 6 mills to 5 mills for all taxpayers. In addition, \$4.6 million is made available to local treasurers to institute this change. The net increased revenue available to boost the foundation allowance in 2002-2003 by \$200 per pupil to \$6700 is \$489.1 million. Of this amount, an estimated \$146 million will be carried forward into fiscal year 2004 to continue to support the \$6700 per pupil funding level.

### Background

Currently, local taxing units levy the 6-mill State Education Tax (SET) that is earmarked to the School Aid Fund in July or December, or partially in both. Below is a chart summarizing the results of a Treasury survey of local units regarding when they levy the SET and the percentage of state taxable value those units represent.

<b>July SET Collections (Mills)</b>	<b>December SET Collections (Mills)</b>	<b>Share of State Taxable Value</b>	<b>Local Taxing Units Number</b>	<b>Local Taxing Units Percentage</b>
0	6	26.3%	914	59.9%
partial	partial	49.7%	383	25.1%
6	0	24.1%	230	15.1%
<b>Totals (rounded)</b>		100.0%	1527	100.0%

(over)

**Proposal**

1. Begin collecting all of the SET on summer tax bills, starting with the July 2003 collection. This has the effect of moving all of the December 2003 SET tax collections (state fiscal year 2003-2004) to the state fiscal year 2002-2003. This change creates one-time revenue in fiscal year 2002-2003 of an estimated net \$489.1 million.
2. Provide a one-time, one-mill reduction in SET for 2003 only to all taxpayers for the inconvenience of changing the payment schedule. This is estimated to save taxpayers an estimated \$266 million.

Some 700,000 Michigan households pay at least a portion of their SET in December, using an escrow account. In 2004, some of these households may see a one-time adjustment in their monthly escrow payments. As an example, on a home valued at \$105,000, the one-year increase will be between zero and \$10 per month.

3. Provide a one-time payment to all local taxing units at a rate of 1% of the revenue lost due to the one mill tax cut and an additional payment to local units that do not currently issue any July tax bills on a per capita basis. Cost is estimated to be \$4.6 million.

**Revenue Summary**

	<b><u>FY 2003</u></b> <b><u>(In millions)</u></b>
Revenue Generated by Moving December 2003 SET Collections to July 2003	\$759.7
One-time One Mill Reduction for All Taxpayers	(266.0)
Payments to Local Units of Government for Implementation	<u>(4.6)</u>
Available to Increase Foundation Allowance to \$6700 Per Pupil	\$489.1