



SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

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Dear Colleagues:

What do we do with all this money? That continues to be the question in Lansing as we move into the development season for the 2022-23 budget, while both Governor Whitmer and the legislature are also proposing significant adjustments to the current year budget through supplementals.

As is usually the case with large (and somewhat unexpected) windfalls of funding, governments are faced with a decision on how to address the situation. Do we spend more and add significant new programming? Do we cut taxes while spending down our balance at more “normal” rates over time? The search for the right balance to these questions can be tricky, and is made even more political when in an election year (as we are this time around).

Earlier this month Governor Whitmer unveiled her spending plan for the 2022-23 school year, along with her supplemental budget recommendation for 2021-22. For a detailed look at the contents of those proposals, please refer to the Information Alert distributed on February 10 (and again attached with this newsletter). The House and Senate are now each at work on their own complete budgets for next year with those expected to be released in the next few weeks.

What has been released are various proposals for cutting taxes, and that’s where we begin this month’s newsletter...

1. Tax Cut Proposals Abound

Voters appreciate having more money in their own pocket, making tax cuts very popular during election cycles. And with large balances currently available in both the state’s General Fund (GF/GP) and School Aid Fund (SAF), there is considerable pressure and momentum to enact some sort of revenue reduction.

Governor Whitmer’s budget proposal called for the gradual elimination of the state’s pension tax, as well as an expansion of the earned income tax credit (EITC). Under her plan, the EITC would increase from 6% to 20% of the federal credit, providing an estimated tax reduction averaging at least \$300 for up to 750,000 families across the state. Increasing the EITC would cost an estimated \$262 million in 2022-23.

The governor's plan for eliminating the retirement tax would increase the portion of income exempt each year from 2022 through 2025, while at the same gradually lowering the age at which individuals would qualify for the exemption. By 2025, all retirement income would be exempt. The cost to the state budget would increase from an estimated \$13 million in the current year to approximately \$495 million in 2025.

Not to be outdone, earlier this month the State Senate passed its own tax cut plan in the form of **SB 768** (sponsored by Sen. Nesbitt). This bill would do the following:

- Provide an income tax deduction beginning in the 2022 tax year for individuals aged 67 and older. This deduction would apply to all types of income up to \$30,000 for a single filer and up to \$60,000 for those filing jointly.
- Reduce both individual and corporate income taxes to 3.9% from their current levels. (The individual rate is currently 4.25%, while the corporate rate is 6.0%).
- Provide an additional dependent tax credit of \$500 per dependent (beyond current levels).

The Senate Fiscal Agency estimates that such a cut would reduce revenue by more than \$1.7 billion in the current fiscal year, with even more significant reductions moving forward (estimated at more than \$2.4 billion in FY 2022-23, and increasing from there).

Following suit, this week House Republicans put forward their own tax cut (**HB 5838**, sponsored by Rep. Hall) with yet a different twist on the same themes. Their plan would cut the state's 2022 income tax rate to 3.9% (from the current 4.25%) and also provides an increased exemption for individuals above the age of 62 who are living on a retirement income. (A chart providing more details of the retirement tax part of the plan is available by [clicking here](#).)

The House Fiscal Agency estimates the cost of this plan to be just over \$380 million in the current fiscal year, with a cost of nearly \$2.4 billion in 2022-23. The bill has been sent to the House floor, and is expected to be voted on in the near future.

It is important to note that under the state's tax structure the General Fund (GF/GP) would bear the larger share of these revenue reductions, but the SAF would still be impacted. And as has been demonstrated over the last several years, when the GF/GP is under pressure, the SAF can be made to pick up the burden.

The current fund balances for both the GF/GP and SAF are certainly very large and a tax cut in an election year would be a very popular political move. But with so much of state government – including education – being significantly underfunded for years, and given the fact that such large-scale cuts are likely not sustainable over time, the wisdom of these plans as currently proposed is called into question.

Regardless, it seems likely that there will be some sort of tax cut worked out as we move ahead. We will update you throughout the process.

2. COVID-19 Bill Signed Into Law

HB 5523 (sponsored by Rep. Calley) has now been signed into law by Governor Whitmer as P.A. 9. Under this legislation \$1.2 billion in supplemental spending is appropriated toward a variety of healthcare and COVID-19 needs, \$395.3 million of which comes from federal ARP funding. Within this bill is \$150.8 million for COVID-19 tests for school districts.

3. Pet Food Exemption?

The House Committee on Tax Policy heard testimony earlier this month on **HB's 5683 & 5684** (sponsored by Reps. Hornberger and Brann, respectively) that would eliminate sales tax on pet food. The bill is estimated to reduce state revenues by about \$100 million annually, of which more than \$70 million would come from the School Aid Fund. At present, the legislation remains in committee.

4. Legislation Round-Up

Among other pieces of legislation begin tracked at present are the following:

- **HB 5666** (sponsored by Rep. Calley) passed the House earlier this month and has now moved to the Senate where it has been referred to the Appropriations Committee. This bill would assist school districts participating in the School Bond Loan Revolving Fund (SLRF) by removing the current interest rate floor of 3% for those districts borrowing through the fund. Because interest rates are currently well below that level, districts have been paying more to the state for the program than would otherwise be necessary.
- **HB 4981** (sponsored by Rep. Hauck) continues to remain stuck on the House floor, thanks in large part to the opposition raised by school districts across the state. This bill would bring lottery sales commissions into state law, rather than having them be set by the State Lottery Commission as is now the case. The bill would also provide significantly increased commissions to lottery retailers, and all told could siphon an estimated \$125 million from the School Aid Fund (SAF) in the current year alone.
- **HB 5686** (sponsored by Rep. Hornberger) was passed by the House earlier this month and has been sent to the Senate, where it has been referred to the Committee on Education and Career Readiness. This bill would require that any changes to the Pupil Accounting Manual be sent first to the Chairs of the House and Senate Education Committees prior to adoption.

The following bills previously discussed have not moved in the last month:

- **HB 5522** (sponsored by Rep. Mueller) appropriates approximately \$368.5 million toward law enforcement and public safety (nearly \$156 million of which comes from federal ARP funds). Included in the bill is \$50 million in funding for School Resource Officers. The bill passed the House in early December and remains in the Senate Appropriations Committee.
- **SB 565** (sponsored by Sen. Bumstead) allocates \$3.34 billion focused on water infrastructure across the state including water quality, dam safety, wastewater, and wetlands. The bill also includes \$85 million for schools to install filtered drinking water stations (a 30% match would be required on the part of the local district; this allocation is also connected to SB's 184/185 that mandates a number of water quality requirements for schools). SB 565 passed the Senate in December and is now in the House Appropriations Committee, while SB's 184/185 remain on the Senate floor.

In closing this update, the former Social Studies teacher in me can't help but to mention the crisis unfolding in Ukraine. While we have certainly experienced our own significant disruptions to "normal" life over the past two years, how fortunate we are by comparison to those who are fleeing across borders or sheltering underground while missiles strike. Among those are millions of children whose lives will never be the same.

Our thoughts and prayers are with the people of Ukraine – may this conflict be brought to a speedy and peaceful end, and may we as educators help promote understanding and productive resolution to conflict within our own spheres of influence.

As always, please be in touch with questions or concerns.



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