Michigan’s Experience With School Reform

School Finance Reform In Michigan

- Proposal A of 1994 dramatically changed K-12 School Finance in Michigan
- Proposal A changed how revenue is raised and how it is spent
- Property taxes reduced and sales tax increased
- State now sets level of spending and is responsible for raising revenue
Michigan Property Taxes

• Property assessed at 50 percent of true cash value
• 1 mill equals $1 tax per $1,000 of taxable value
• Property taxes provide most funding for cities, villages, townships, and counties
  – 96 percent of county taxes
  – 75 percent of municipal taxes
• Michigan does not allow local sales tax, limited local income tax in some cities
• Pre-reform property tax provides most funding for K-12 Schools

What Caused Proposal A?

• Property taxes growing faster than inflation
• Wealthier districts could spend much more with similar tax rates:
  – Onaway Schools: $3,404 per pupil, 22.66 mills
  – Bloomfield Hills Schools: $10,295 per pupil, 24.41 mills
• Property taxes 30% above national average
• 12 failed property tax reform ballot proposals between 1972 and 1993
• 44% of all local millage elections defeated in 1993
• Kalkaska Schools close March 24, 1993
Michigan Tax Structure Compared To National Average FY 1993

<table>
<thead>
<tr>
<th></th>
<th>Taxes as a Percent of State Personal Income</th>
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<tbody>
<tr>
<td>Property Taxes</td>
<td>34.4%</td>
</tr>
<tr>
<td>Sales and Use Taxes</td>
<td>-32.1%</td>
</tr>
<tr>
<td>All State and Local</td>
<td>3.0%</td>
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</tbody>
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School Spending Before Reform

- State uses district power equalization, but richest one-third of districts get no aid from state
- Rich districts greatly outspend poor districts, often with lower tax rates
- 80 percent of K-12 revenue raised locally through property tax
- Local voters choose spending level through property tax elections
Rich Schools Out Spent Poor Schools More Than 3 to 1 In 1993-1994

Proposal A Tax Choice

• “Yes” Vote (Passed with 2/3 of vote)
  – Raise the Sales Tax 4% to 6%
  – Cut the Income Tax 4.6% to 4.4%
  – Raise the Cigarette Tax 25 to 75 cents per pack
  – 6-mill state-wide Property Tax
  – New Real Estate Transfer Tax

• “No” Vote
  – Raise the Income Tax to 6%
  – Raise the Cigarette Tax to 40 cents per pack
  – 12-mill Property Tax
**Property Tax Reduction**

- In 1993 school operating millages averaged 33.91 mills ($1,696 on a $100k house)
- After Prop A operating millage for owner occupied reduced to 6 mills ($300 on a $100k house)
- Business property/second home pays additional 18 mills for a total of 24 mills ($1,200 on a $100k house)
- 3/4 of legislature needs to approve an increase in maximum allowable millage for operations

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**Michigan Property Taxes Cut**

$3.6 Billion

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<tbody>
<tr>
<td>1993</td>
<td>$9.50</td>
<td>$7.08</td>
<td>$7.54</td>
<td>$7.95</td>
<td>$9.46</td>
<td>$11.30</td>
<td>$12.19</td>
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Economic and Revenue Forecasting Division, Michigan Department of Treasury
### Homeowners Millage Rates Cut 45%

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</thead>
<tbody>
<tr>
<td>Average Millage Rate</td>
<td>56.64</td>
<td>31.00</td>
<td>31.36</td>
<td>31.36</td>
<td>31.54</td>
<td>31.52</td>
<td>32.71</td>
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### Non-Homestead Millage Rates Cut 14%

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>1996</th>
<th>2000</th>
<th>2003</th>
<th>2004 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Millage Rate</td>
<td>56.64</td>
<td>48.79</td>
<td>49.54</td>
<td>49.63</td>
<td>50.10</td>
</tr>
</tbody>
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Economic and Revenue Forecasting Division, Michigan Department of Treasury
Michigan Tax Structure Compared To National Average FY 2002

Taxes as a Percent of State Personal Income

Property Taxes: 2.6%
Sales and Use Taxes: 2.0%
All State and Local Taxes: -0.8%

Taxable Value Cap

- Prior to Proposal A, tax growth limited to inflation at unit wide level; after Proposal A, limited to inflation for individual houses
- Taxable value increases limited to the lesser of 5% or the rate of inflation
- Inflation limit has averaged 2.5 percent since 1995
- Taxable value goes back to 50% of true cash value when property is sold
- Taxes pop-up for new homeowners but are capped going forward
Cap On Taxable Property Value Limits Growth In Assessments

*Includes value of new construction.

School Spending Reforms

- State now primarily responsible for school finance
- Per pupil foundation amounts set by State
- Raised bottom spending
- Capped top spending
- Individual districts cannot go to voters for more operating funds
- Capital finance still done locally
- Competition for students
Proposal A Narrows Gap In Funding Less Than 2 to 1 In 2001-2002

<table>
<thead>
<tr>
<th>School Funding Per Pupil</th>
<th>Lowest 10</th>
<th>Highest 10</th>
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<tbody>
<tr>
<td>$6,500</td>
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<td>$11,189</td>
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State Now Primary Source of Funds

<table>
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<tr>
<th>Percent of K-12 General Funding</th>
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<tr>
<td>FY 1992-93</td>
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<tr>
<td>Federal</td>
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<tr>
<td>4.7%</td>
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<tr>
<td>66.6%</td>
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<tr>
<td>28.7%</td>
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<tr>
<td>FY 2003-04</td>
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<tr>
<td>Federal</td>
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<tr>
<td>6.8%</td>
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<tr>
<td>17.6%</td>
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<td>75.5%</td>
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Economic and Revenue Forecasting Division, Michigan Department of Treasury
Key Issues

• Managing declining enrollment school districts
  – 1993-1994 Detroit enrollment 158,303 pupils
  – 2004-2005 Detroit enrollment 141,406 pupils
  – Represents over $100 million in lost School Aid

• Capital finance issues
  – Inequity persists among facilities
  – Competition for pupils based on infrastructure

• Managing small increases in foundation allowance with no option for local increases

Key Issues

• Capping high spending districts
  – Should equality be the goal or should it be adequacy?
  – End of local control over level of expenditure

• Taxable value cap issues
  – Inequities between taxpayers
  – Issues for seniors looking to downsize
  – Finance issues for landlocked municipalities

• Remaining gap between per pupil funding among districts