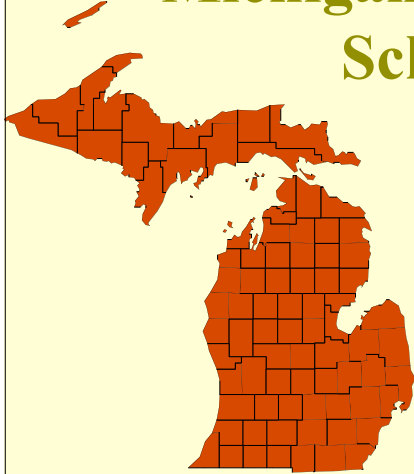


# Michigan's Experience With School Reform



Federation of Tax Administrators  
2006 Revenue Estimation and  
Tax Research Conference  
September 2006

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## 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

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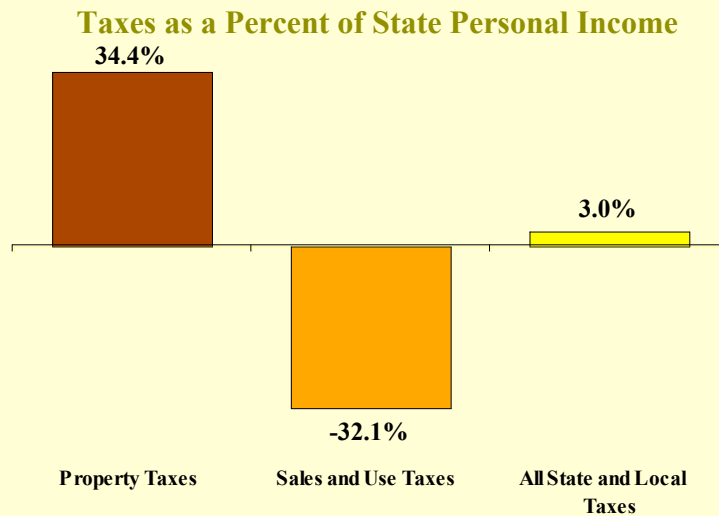
## What Caused Proposal A?

- 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

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## Michigan Tax Structure Compared To National Average FY 1993



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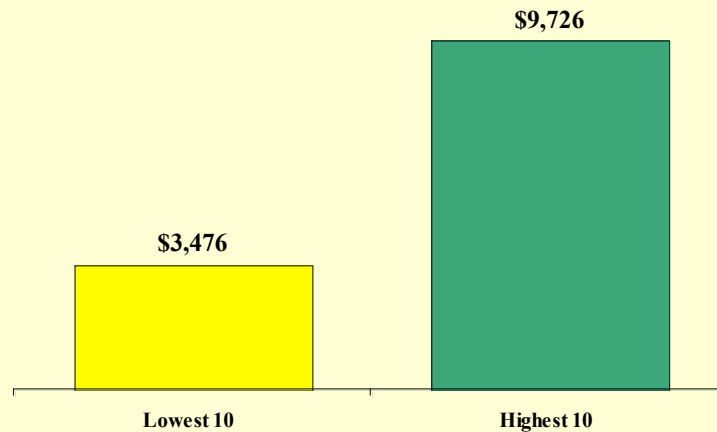
## School Spending Before Reform

- 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

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## Rich Schools Out Spent Poor Schools More Than 3 to 1 In 1993-1994



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## 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

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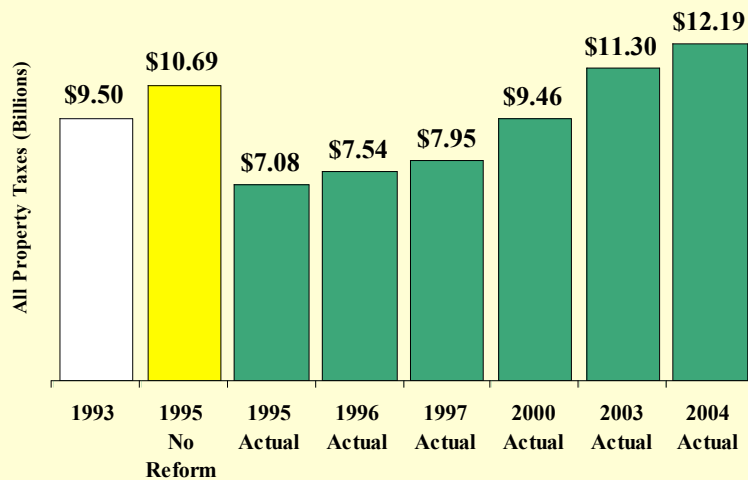
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## Property Tax Reduction

- 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 9

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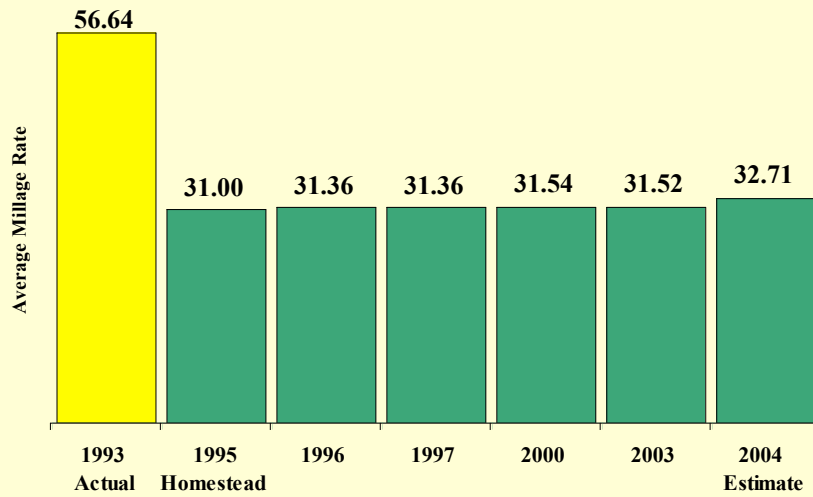
## Michigan Property Taxes Cut \$3.6 Billion



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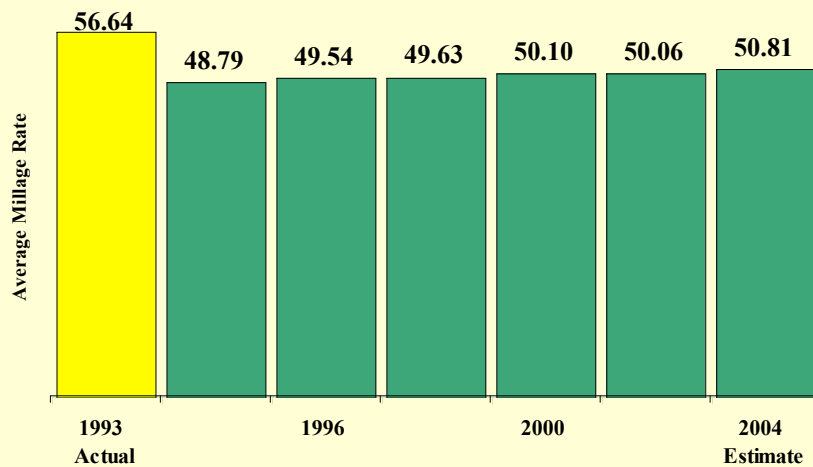
## Homeowners Millage Rates Cut 45%



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## Non-Homestead Millage Rates Cut 14%

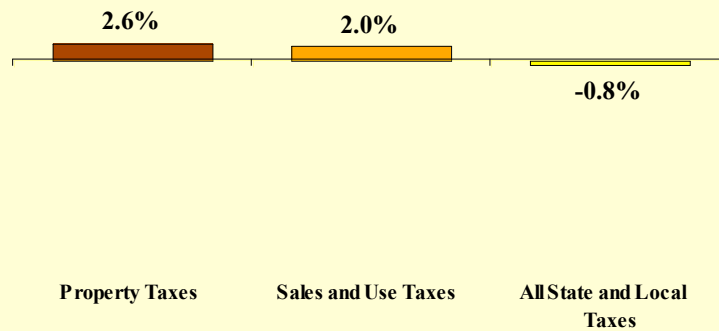


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## Michigan Tax Structure Compared To National Average FY 2002

### Taxes as a Percent of State Personal Income



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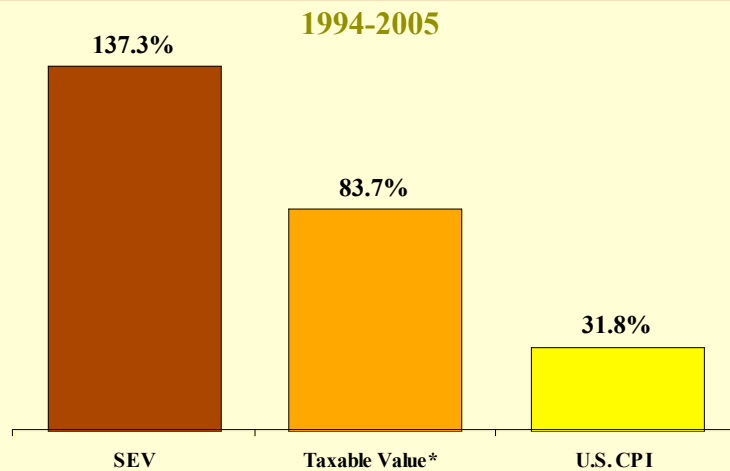
## Taxable Value Cap

- 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

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## Cap On Taxable Property Value Limits Growth In Assessments



\*Includes value of new construction.

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## School Spending Reforms

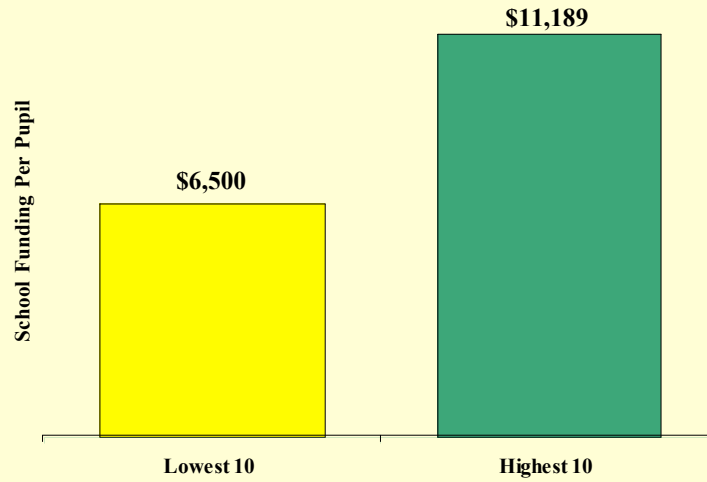
- State now primarily responsible for school finance
- Per pupil foundation amounts set by State
- Raised bottom spending
- Capped top spending
- Individual districts cannot go to voters for more operating funds
- Capital finance still done locally
- Competition for students

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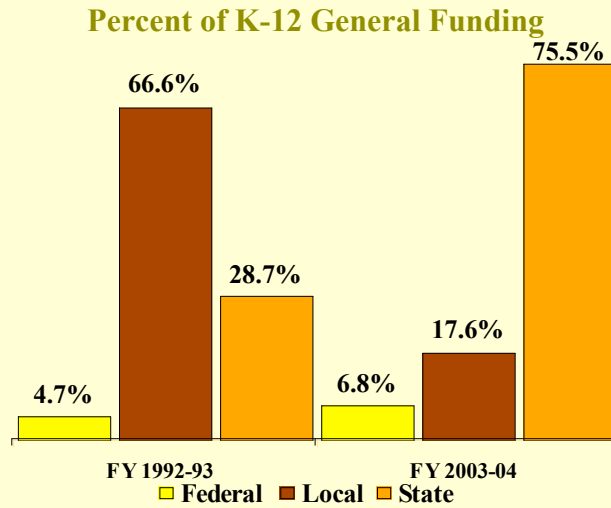
## Proposal A Narrows Gap In Funding Less Than 2 to 1 In 2001-2002



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## State Now Primary Source of Funds



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## 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

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## 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

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