



# School Aid: Proposal A

Bethany Wicksall, Deputy Director

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# Proposal A of 1994

Proposal A was a constitutional amendment initiated by the Legislature, along with several statutory changes, with several primary goals:

- Reduce local school operating property taxes.
- Increase the state share of support for schools.
- Guarantee a minimum per pupil funding level.
- Provide for more equity in school district per pupil revenues.

# Tax Structure

# Proposal A: School Revenues

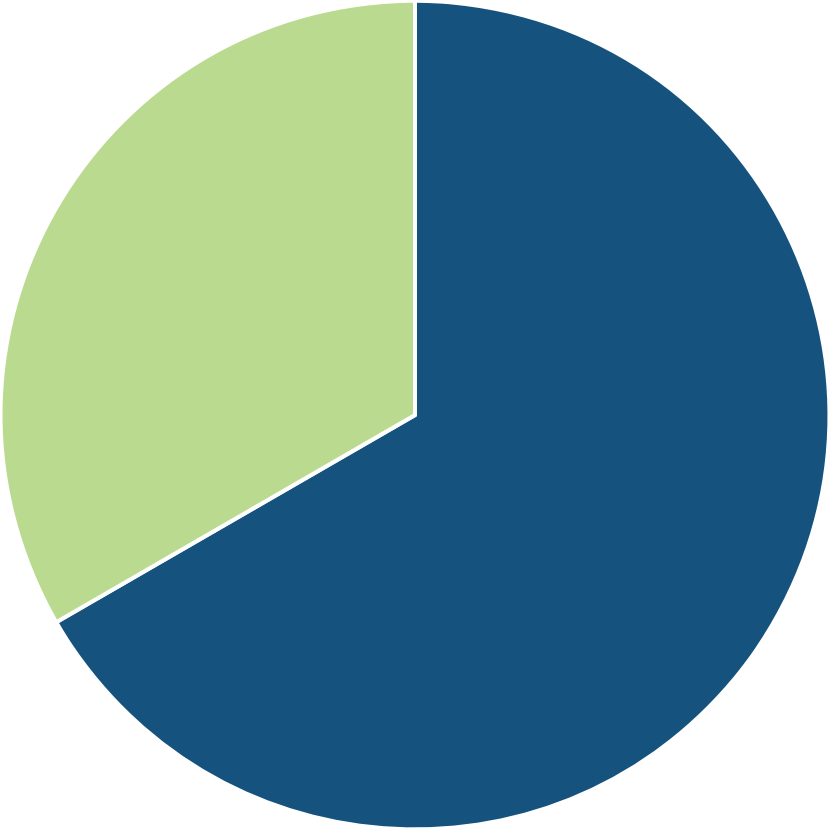
Proposal A included the following key revenue changes:

- Limited local school operating taxes to 18 mills on the taxable value of nonhomestead property
  - State Equalized Value (SEV) is  $\frac{1}{2}$  the market value, but taxable value (TV) is the SEV at time of purchase with annual growth capped at the either the rate of inflation or 5%, whichever is less. TV resets to SEV when property is sold.
  - Nonhomestead property includes all property other than primary residences and noncommercial agricultural property.
- Created a statewide property tax, the State Education Tax (SET): 6 mills on all real and personal property.
- Increased the state sales and use taxes from 4% to 6% and dedicated the entire increase to the SAF.
- Created a real estate transfer tax of 0.75% times the sale price of real estate.
- Allowed districts to levy up to 3 additional enhancement mills for first 3 years with voter approval. Extended later to provide for up to 3 mills on an ISD-wide basis, with revenue distributed on an equal per pupil basis to each constituent district. (Currently 4 ISDs levy enhancement mills and Wayne RESA just approved a new one.)
- Required that any statutory increase in local school operating taxes be approved by a  $\frac{3}{4}$  super majority of the House and Senate.

# Proposal A: Change in Tax Structure

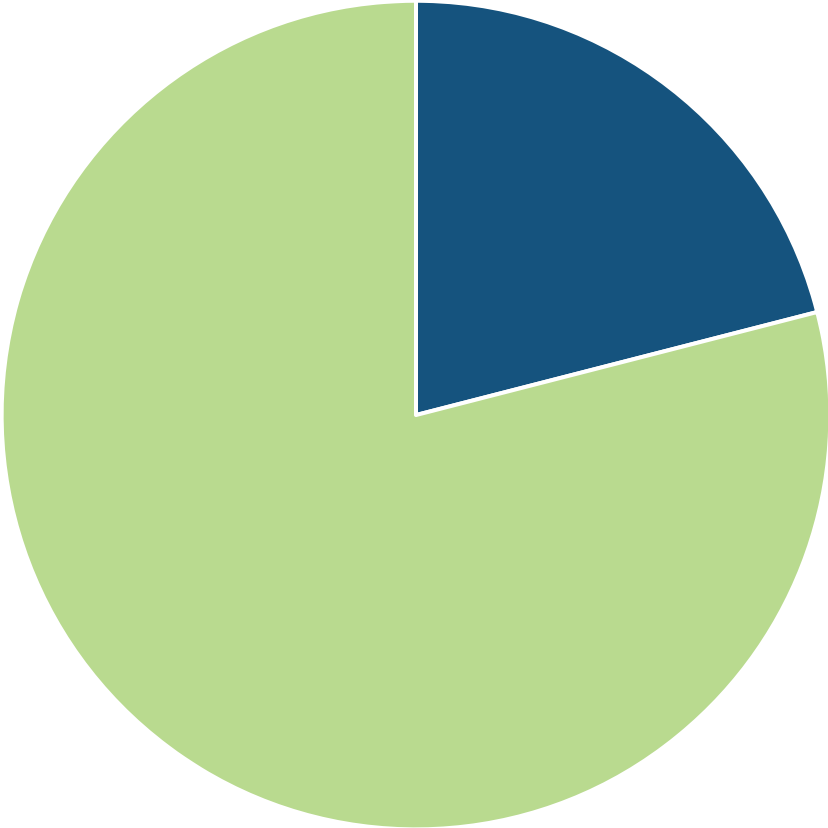
School operating revenues shifted from 2/3 Local, 1/3 State to 1/5 Local, 4/5 State.

Pre-Prop A (1993-94)



■ Local ■ State

Post-Prop A (1994-95)

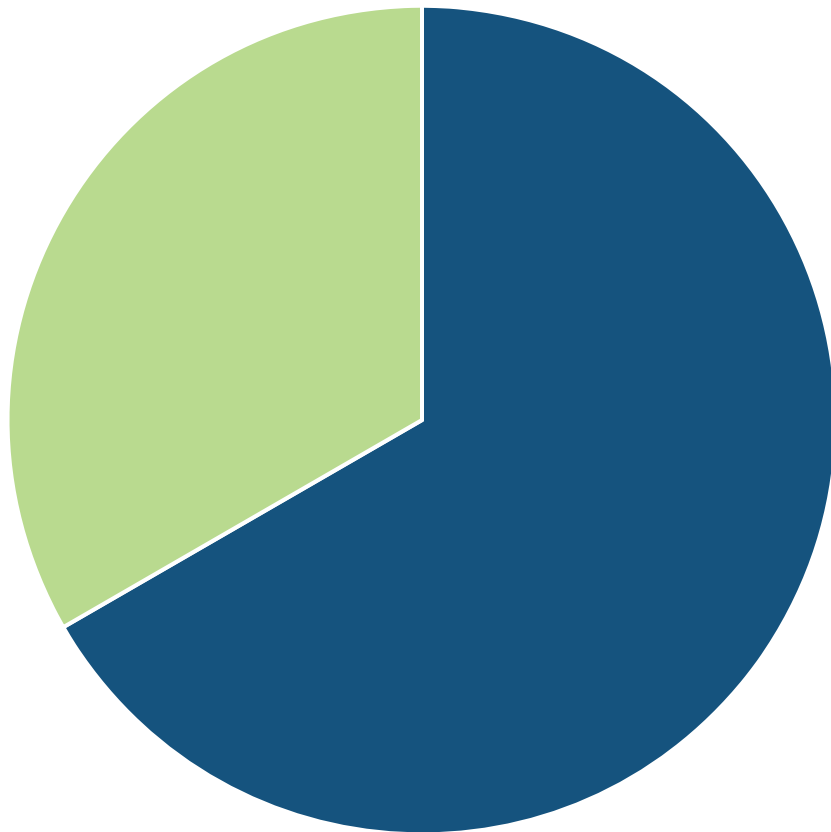


■ Local ■ State

# Proposal A: Change in Tax Structure

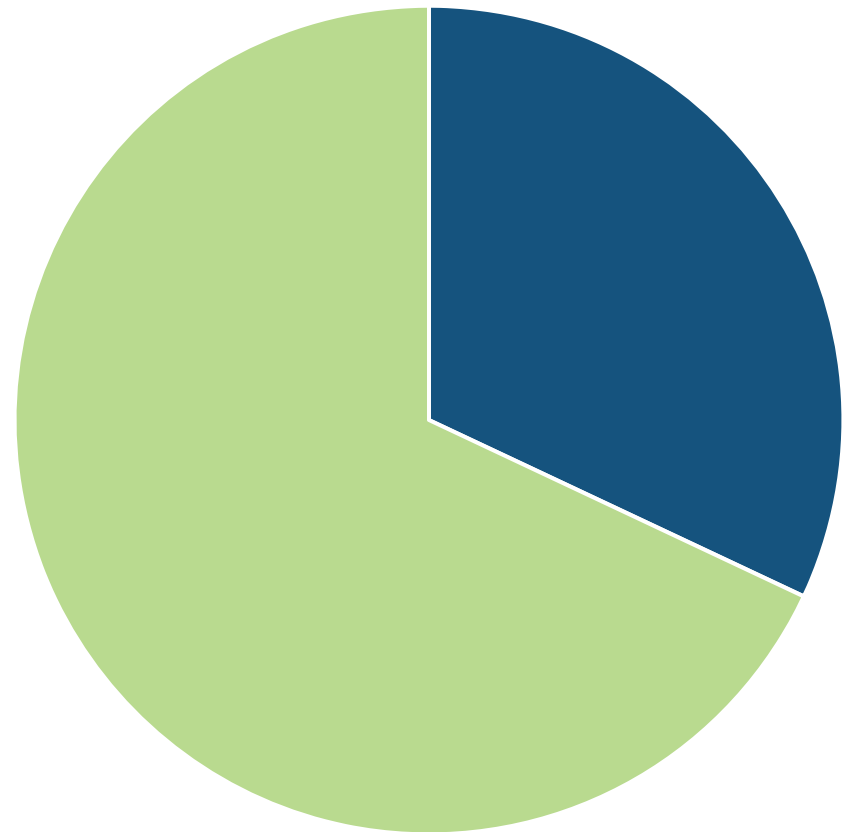
School operating revenues shifted from 2/3 property taxes, 1/3 other to 1/3 property taxes (both state and local), 2/3 other.

Pre-Prop A (1993-94)



■ Property Tax ■ Other

Post-Prop A (1994-95)



■ Property Tax ■ Other

# School Aid Fund Revenues

# School Aid Fund (SAF) Revenue

- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked, or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires SAF to be used exclusively for schools, higher education, and school employee retirement benefits.
- SAF will receive approximately \$12.5 billion in revenue (estimated) for FY 2016-17.
- Primary sources of SAF revenue are shown on next slide.

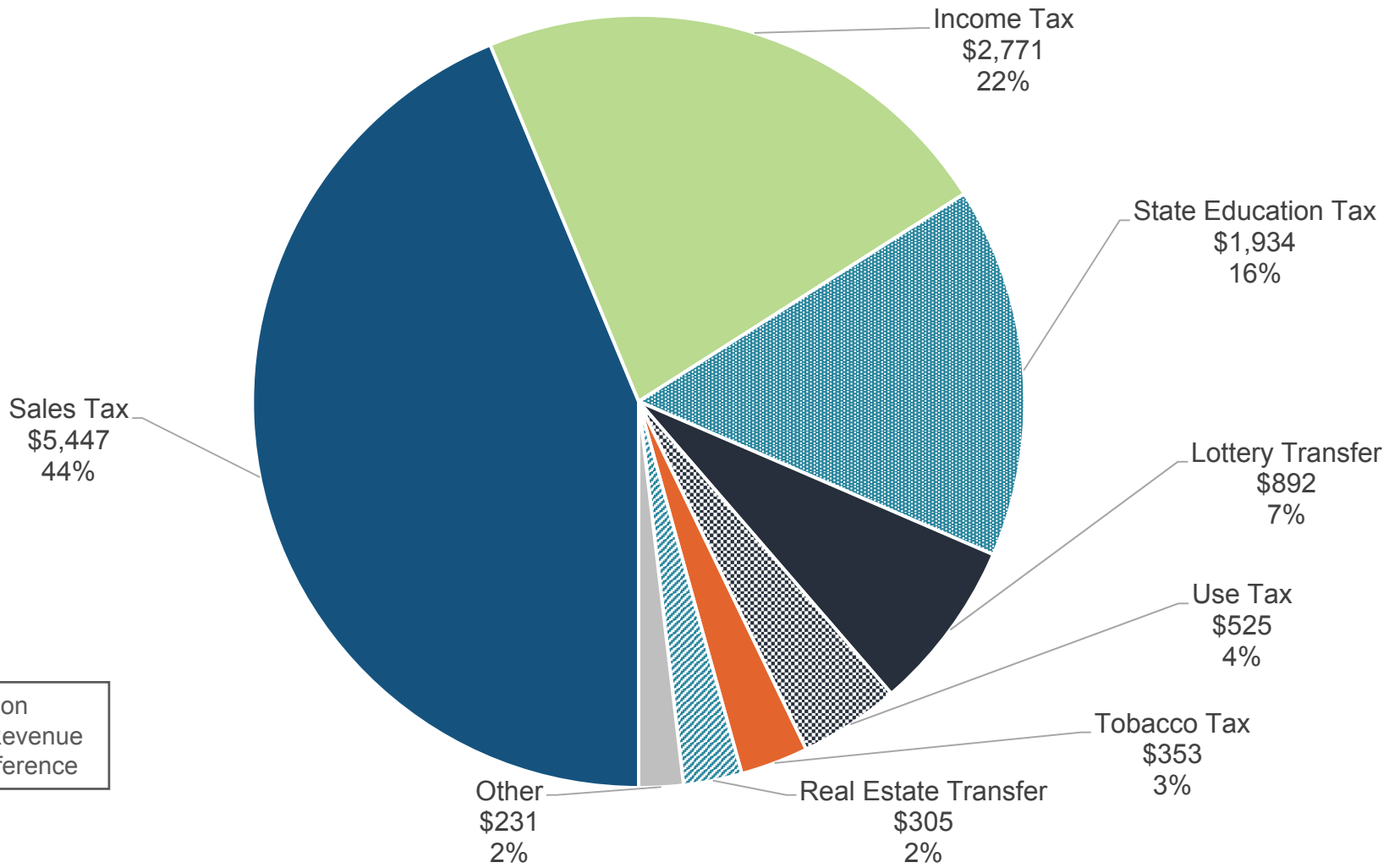


# SAF Revenue Sources

- Sales Tax – SAF receives 60% of the first 4 cents plus 100% of the 2 cents added by Proposal A for a total of about 72.7% of total sales tax revenues.
- Income Tax – SAF receives 23.8% of gross income tax revenue.
- State Education Tax – 6 mills levied on all real and personal property except partially exempt commercial personal property, exempt manufacturing personal property and property subject to the small parcel exemption. All revenues dedicated to SAF.
- Lottery Revenue – SAF receives all net revenue from lottery sales (after prize payouts, vendor fees, and administration).
- Use Tax – SAF receives one-third of the use tax revenue collected at the 6% rate.
- Tobacco Tax – SAF receives approximately 41.5% of cigarette tax proceeds.
- Real Estate Transfer Tax – SAF receives 100% of 0.75% times the sale price of real estate.
- Casino Wagering Tax – SAF receives 100% of all casino wagering tax revenue.
- Liquor Excise Tax – 4% of the retail price.
- Other Taxes – Includes industrial and commercial facilities taxes and commercial forest tax.

# SAF Revenue Sources

Sales Tax is the largest revenue source, contributing nearly half of the **\$12.5 billion** in total estimated SAF revenue for FY 2016-17.

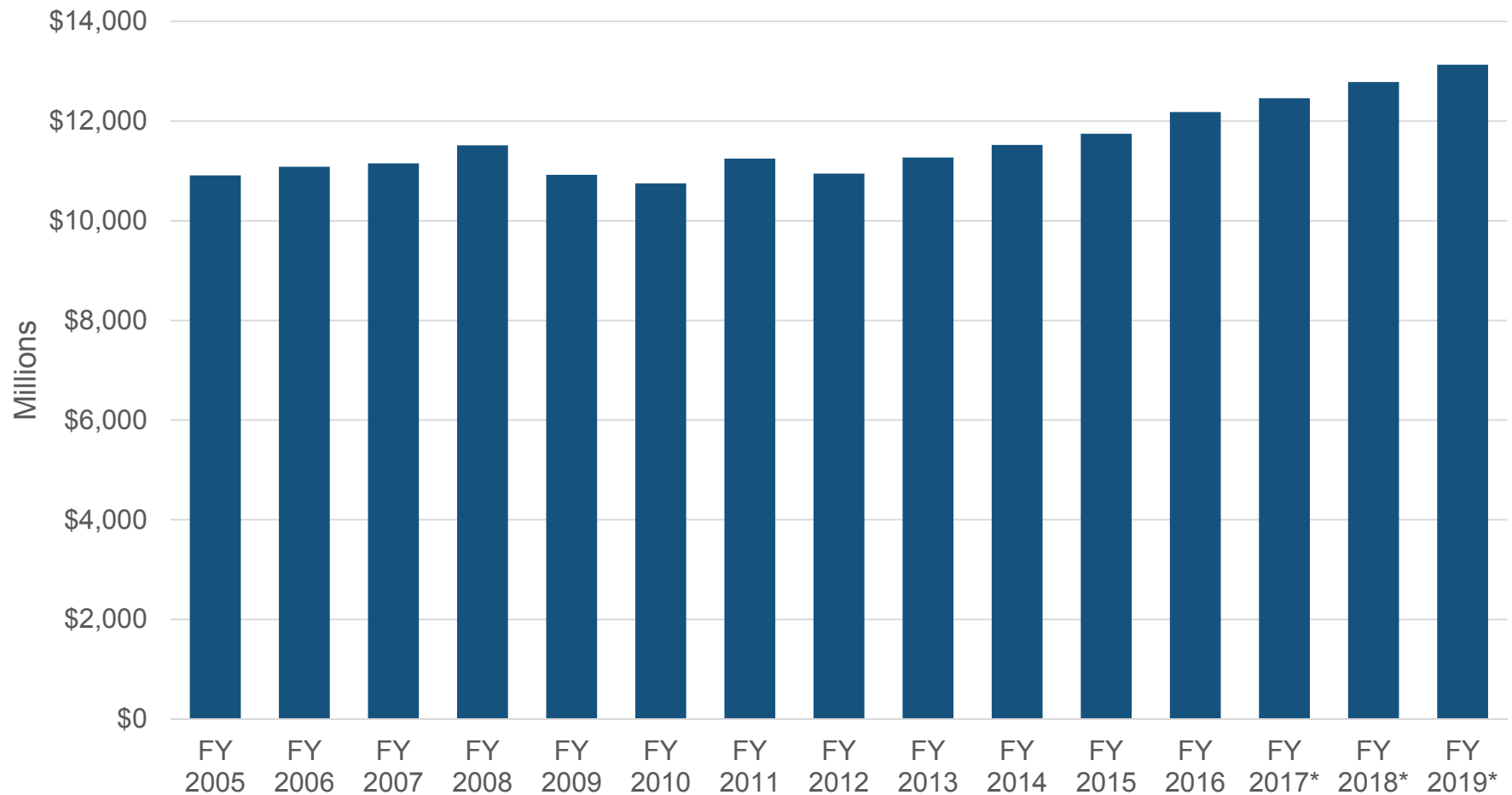


\*Figures based on January 2017 Revenue Estimating Conference

Millions

# SAF Revenue History

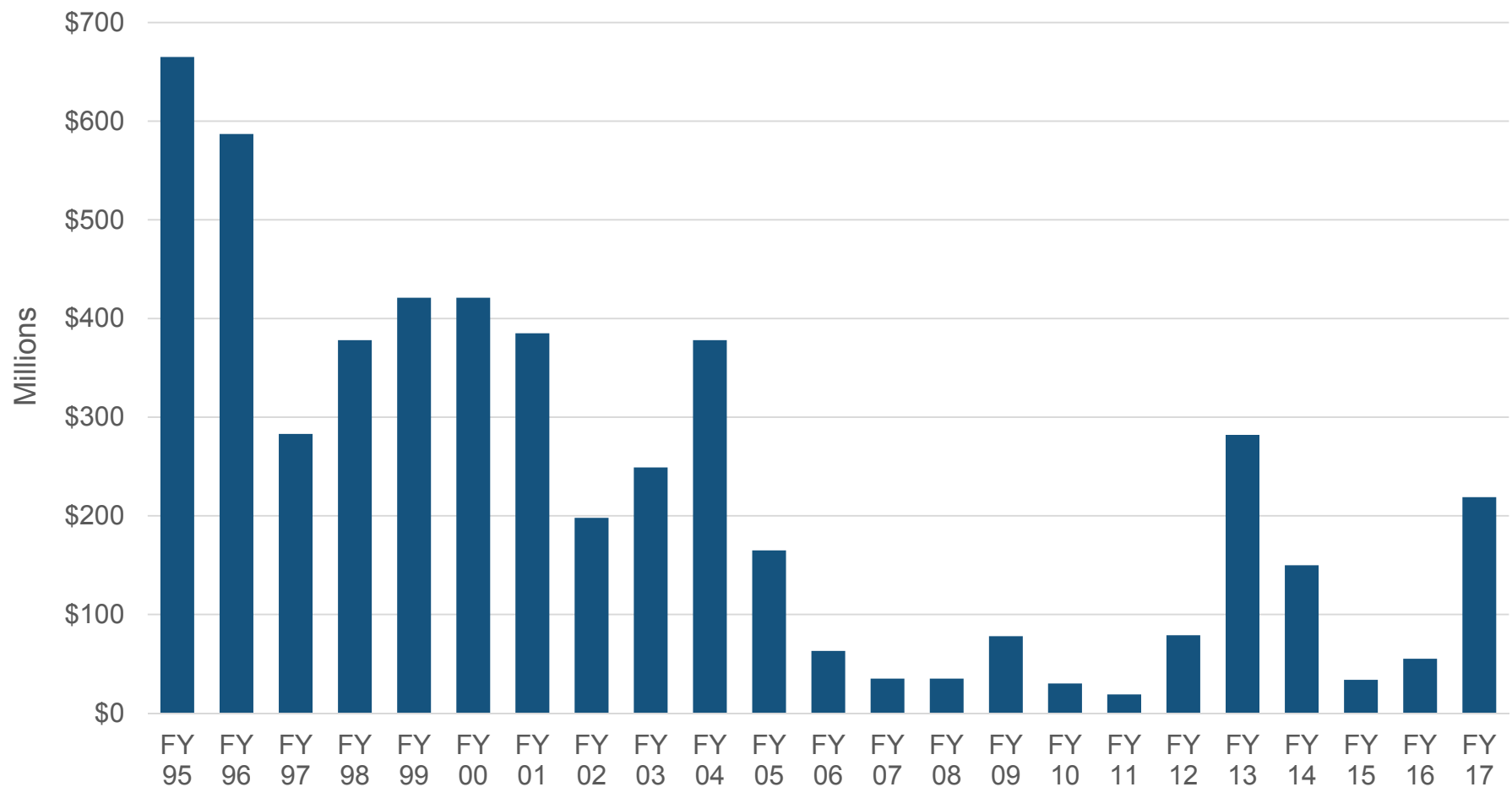
Annual SAF revenues are estimated to grow by **2.8%** to a total of **\$12.5 billion** in FY 2016-17.



\* FYs 2017, 2018 and 2019 figures from January 2017 Revenue Estimating Conference

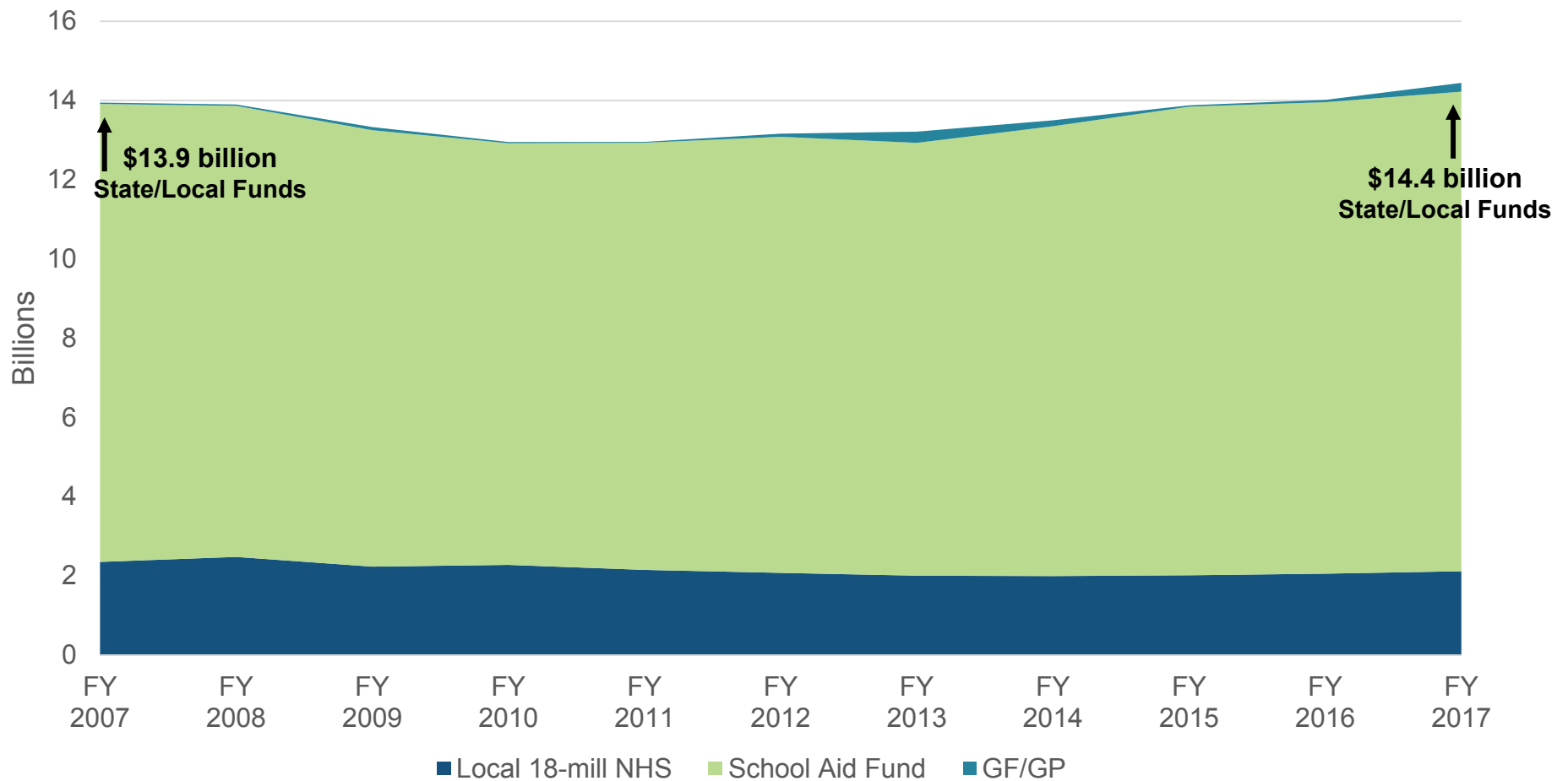
# GF/GP as a Fund Source in the School Aid Budget

The School Aid budget has **\$218.9 million** GF/GP appropriated in FY 2016-17. Of that total \$42.0 million is reimbursement to the School Aid Fund for the 2014 personal property tax (PPT) reform.



# School Aid Funding: State and Local

Combined, FY 2016-17 state appropriations and estimated local general operations property tax funding for schools are 3.6% higher than the previous FY 2006-07 peak (not adjusted for inflation). Recent increases have included significant funding for retirement costs.



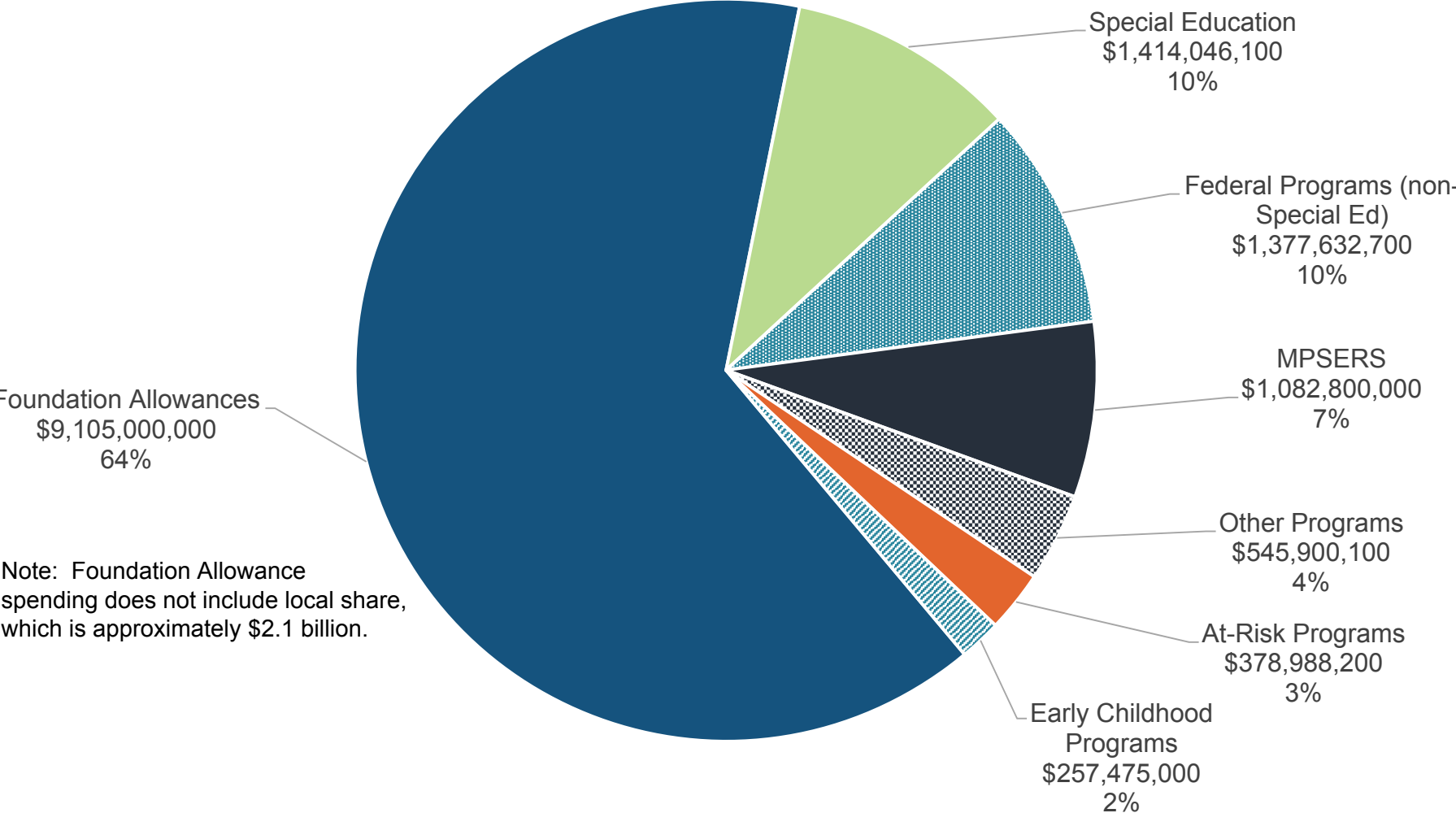
# School Finance

# Proposal A: School Funding Mechanism

- Prior to Proposal A, and since FY 1972-73, the state used an equal yield, or guaranteed tax base formula, in which the state guaranteed a district received a minimum amount per pupil for each mill levied.
- Initially, the equal yield formula provided for some equity compared to previous mechanisms. Over time, however, inequity grew and by FY 1993-94 the districts at the top were spending 3 times as much as those at the bottom.
- Proposal A created a per pupil foundation allowance, which is a combination of state and local funds, to guarantee an minimum expenditure per pupil.
- Legislation provided for a mechanism to raise per pupil funding for districts at the bottom faster than for those at the top to create equity by bringing the bottom up rather than the top down.

# FY 2016-17 Gross Appropriations

About two-thirds of the \$14.2 billion School Aid budget supports per pupil foundation allowances used for school district general operations.



Note: Foundation Allowance spending does not include local share, which is approximately \$2.1 billion.



# Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations was created as part of Proposal A.
- Districts receive a foundation allowance (per-pupil funding amount) initially determined in 1994-95, based on what the district collected from both state and local funds on a per-pupil basis in the prior year.
- Initial 1994-95 levels:
  - Minimum level of funding established: \$4,200
  - Basic level determined: \$5,000
  - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500
- In FY 2016-17, the foundation allowance varies for K-12 districts from a low of \$7,511 per pupil to a high of \$12,064.
- Districts that had per pupil expenditures higher than the State Guaranteed Maximum prior to FY 1994-95, were allowed to levy additional, hold harmless mills, with voter approval, to maintain their per pupil expenditures. However, their per pupil funding annual growth was capped at the rate of inflation.

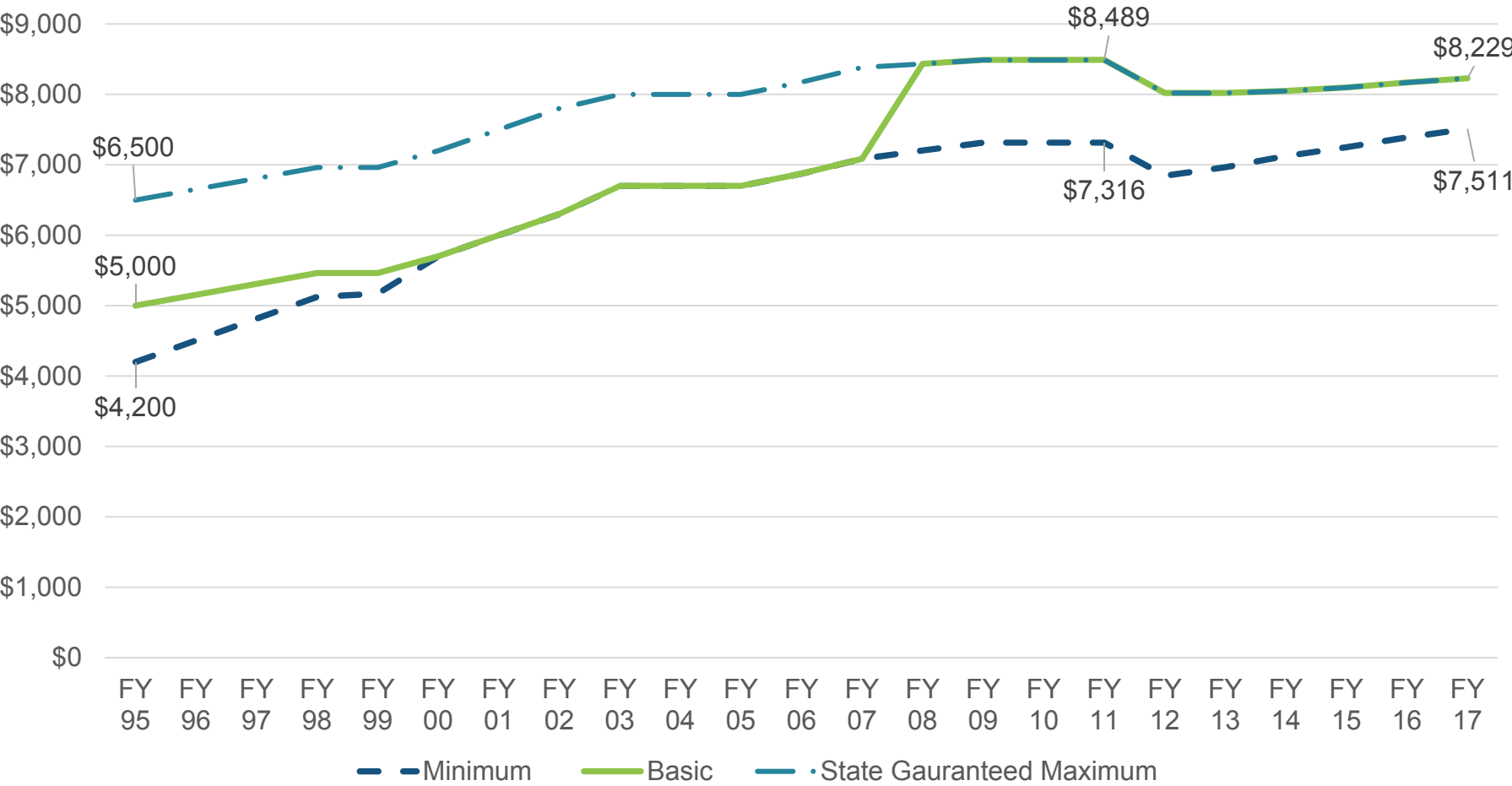
# “Basic” Foundation Allowance

- The “Basic” foundation allowance was a minimum goal established in 1994 as part of the Proposal A reforms, and it is set by the Legislature each year as a target per-pupil funding level.
- In FY 1999-2000, all school districts in Michigan reached the Basic foundation allowance, after which point all districts received the same annual increases except for two years in which additional “equity” payments were made to those at the Minimum to decrease the funding gap between those at the top and bottom.
- In FY 2007-08, the legislature re-set the Basic foundation allowance to equal the State Guaranteed Maximum foundation and reinstated the 2x formula under which districts at the bottom receive twice the increase as those at the Basic or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.
- In FY 2016-17, the legislature used the 2x formula increasing the Basic foundation by \$60 and increasing the minimum foundation by \$120.

# Foundation Allowance History

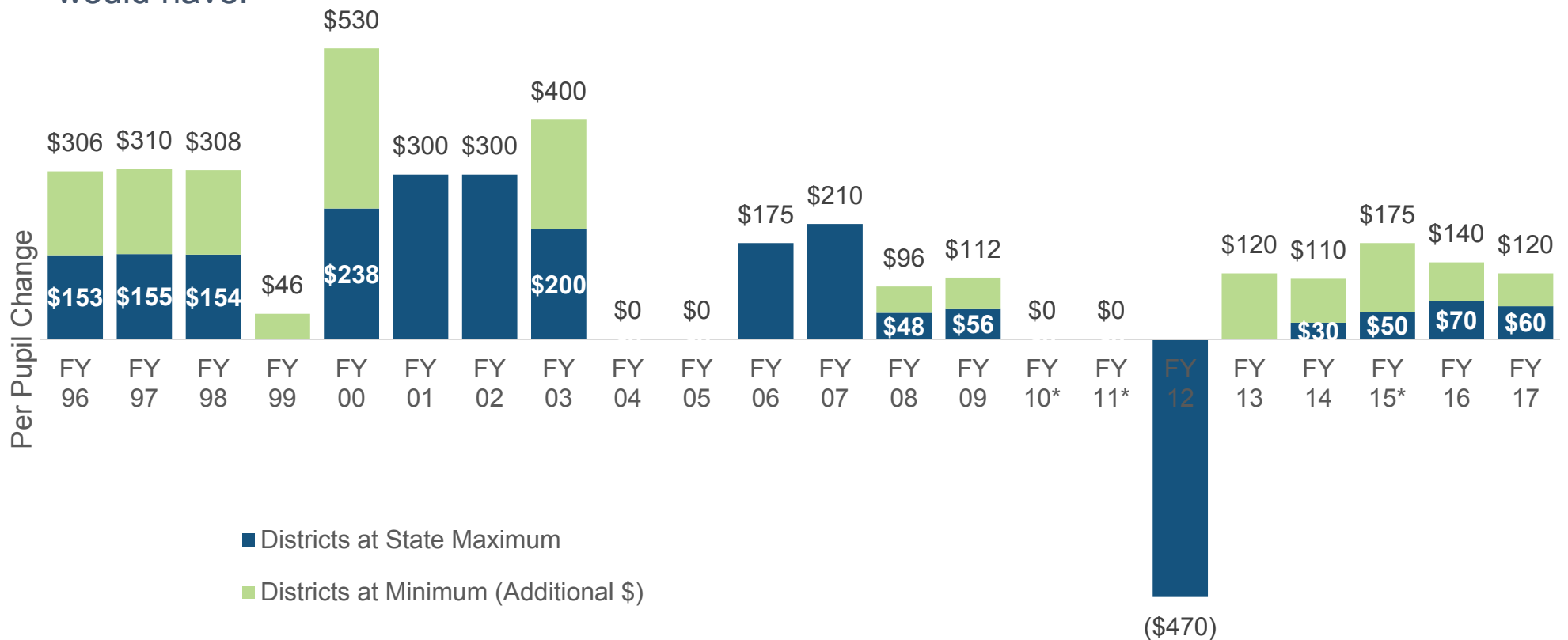
## Growth Since Proposal A

The FY 2016-17 foundation allowance for schools at the Minimum level is \$195 above the previous FY 2010-11 peak. For schools at the State Maximum level, it remains \$260 below the FY 2010-11 peak. The “equity gap” between the two is down to \$718 per pupil.



# Per Pupil Foundation Allowances Increases/Decreases

The 2x formula has been used in about one-third of the years since Proposal A. In other years, either all districts received the same increase (or decrease), or equity payments were used to bring the districts at the Minimum up even more quickly than the 2x formula would have.

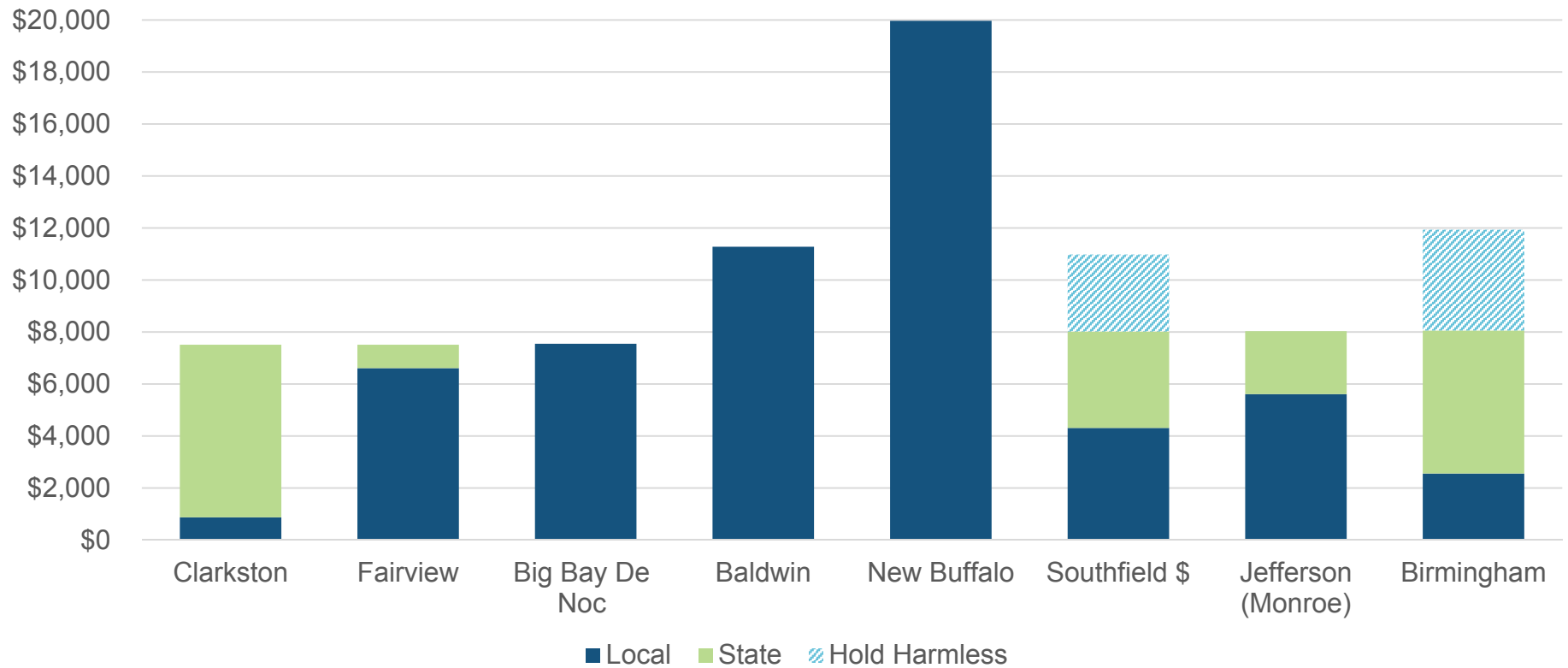


# Foundation Allowance

## State/Local Funding Mix

- Each district levies 18 mills on nonhomestead property.
- State calculates local revenue from the 18 mills on a per-pupil basis.
- State deducts per-pupil local revenue from the lesser of the district's foundation allowance or state guaranteed maximum per pupil amount.
- Districts above the state guaranteed maximum (hold harmless districts) are allowed by law to levy additional local mills with voter approval to achieve their statutory foundation allowance.

# State/Local Funding Mix



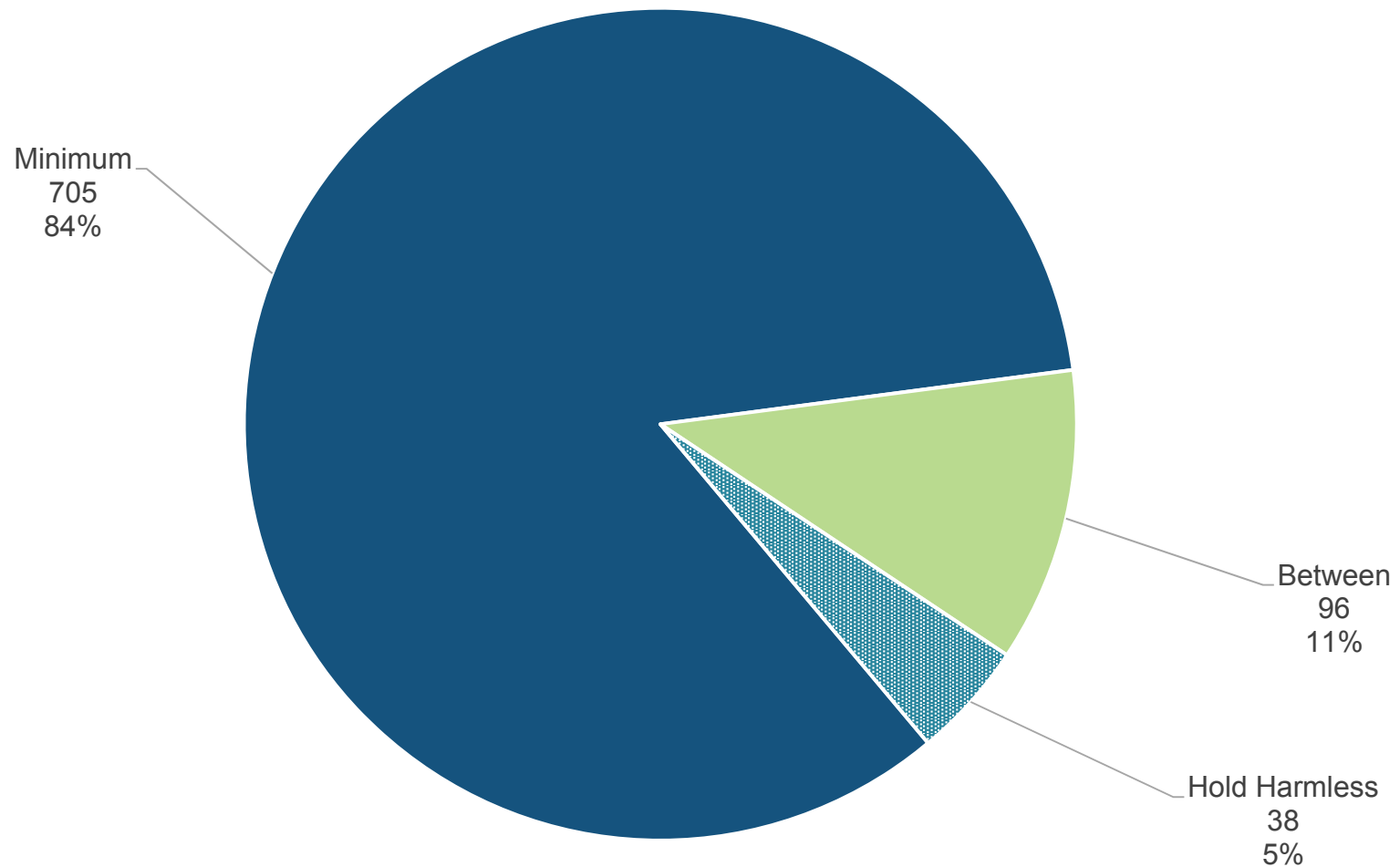
District	Foundation	Local	State	HH	NHS Mills	HH Mills
Clarkston	\$7,511	\$876	\$6,635	\$0	18.0	0.0
Fairview	\$7,511	\$6,611	\$900	\$0	18.0	0.0
Big Bay	\$7,511	\$7,548	\$0	\$0	18.0	0.0
Baldwin	\$7,511	\$11,283	\$0	\$0	18.0	0.0
New Buffalo	\$10,014	\$19,971	\$0	\$0	17.7	0.0
Southfield	\$10,982	\$4,310	\$3,713	\$2,959	18.0	17.0
Jefferson	\$11,192	\$5,611	\$2420	\$0	18.0	0.0
Birmingham	\$11,936	\$2,562	\$5,496	\$3,878	18.0	8.7

# Equity Among Districts

- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost \$6,900 or 3:1.
- In FY 2016-17, the difference between the highest and lowest K-12 district is \$4,553, is approximately 3:2.
- In FY 2016-17, excluding the 37 hold harmless districts whose revenue per pupil exceeds the Basic foundation allowance, the difference between the top and the bottom has been reduced to \$718, down from a gap of \$2,300 when Proposal A was first implemented.

# FY 2016-17 District Foundation Allowances

The majority of districts have a foundation allowance at the minimum foundation.

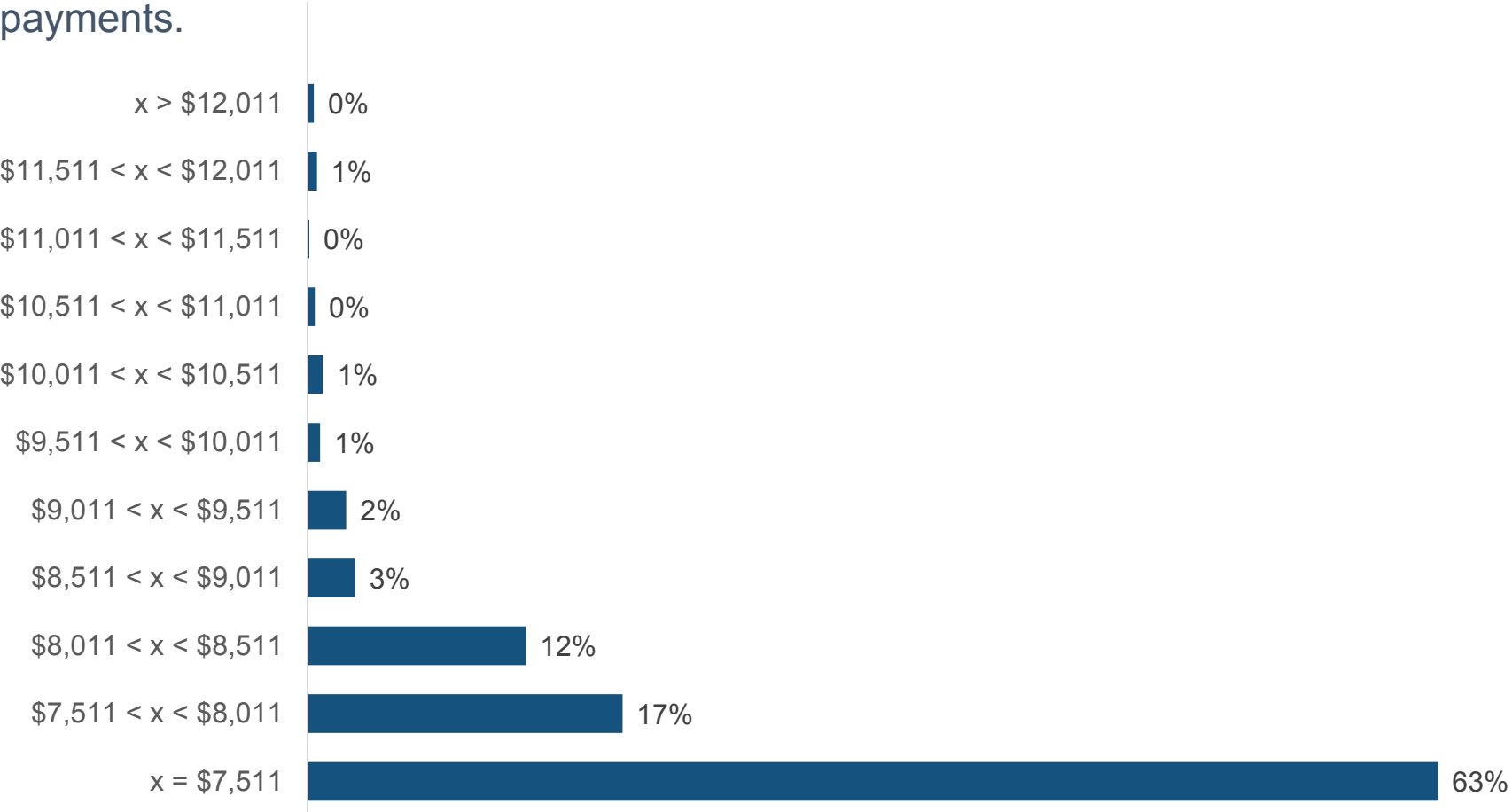




# Equity Among Districts

## FY 2016-17 Pupil Distribution

In FY 2016-17, 63% of pupils were concentrated in districts with a foundation allowance at the minimum foundation \$7,511. As the minimum increases relative to the Basic, that share continues to grow, thereby increasing the cost of future equity payments.



# Other Funding Issues

# Special Education Funding

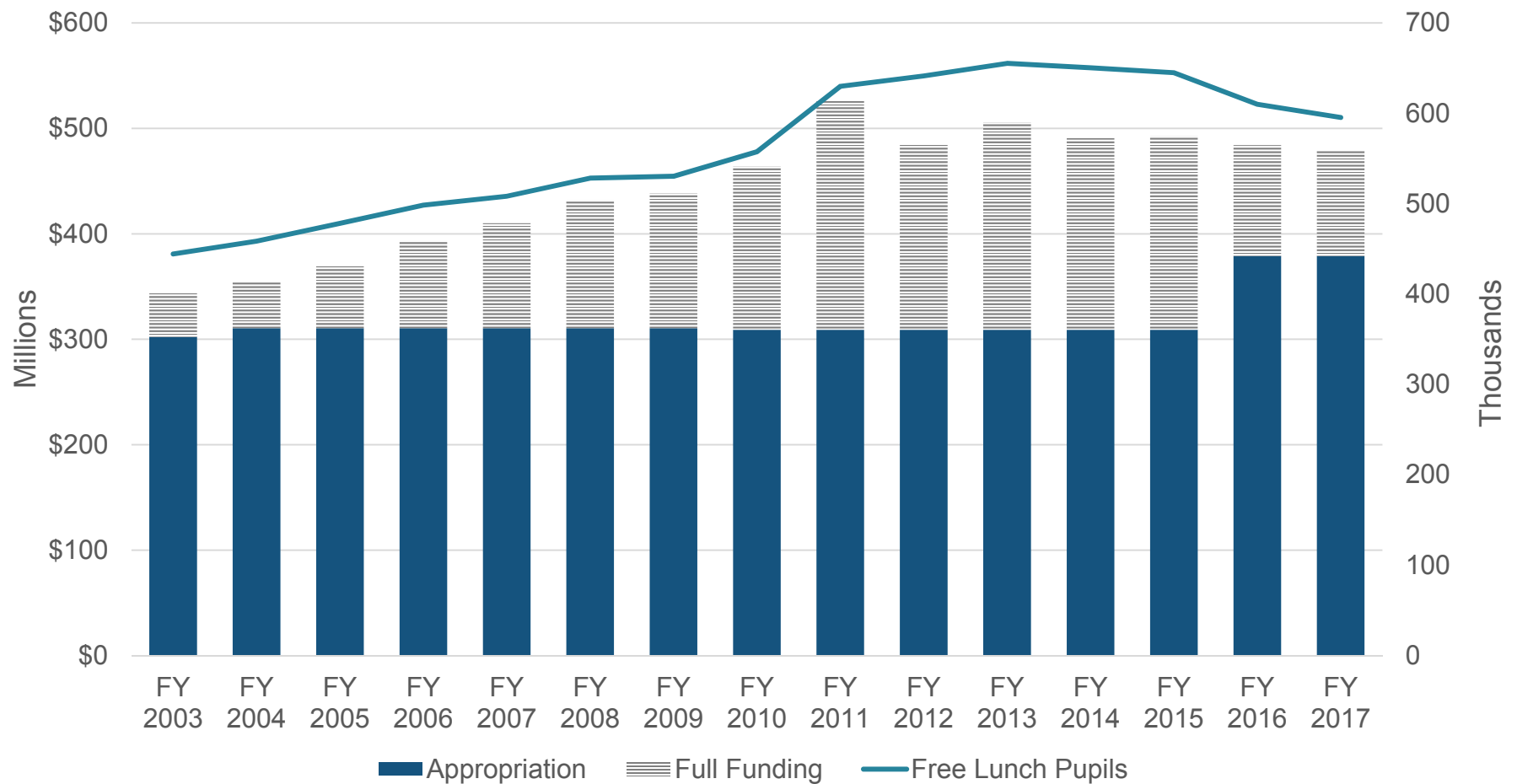
- Proposal A did not equalize funding for special education pupils, so available revenue varies based on the number of mills levied and taxable values.
- Local special education millages, levied by each ISD, will generate an estimated additional \$960.2 million in FY 2016-17.
- The number of special education mills varied by ISD from a low of 0.6 mills to a high of 6.3 mills.
- School Aid appropriation in FY 2016-17
  - \$973.0 million state dollars
  - \$441.0 million federal dollars
- The state reimburses school districts for the required state share of costs of educating special education students.
- Required reimbursement rates determined by the Michigan Supreme Court in *Durant v. State of Michigan* in 1997:
  - 28.6138% of Total Special Education Costs
  - 70.4165% of Total Special Education Transportation Costs

# At-Risk Funding

- FY 2016-17 appropriation totals \$379.0 million.
- Supports added services for at-risk pupils.
- The At-Risk formula allocation is equal to 11.5% of a district's foundation allowance for each student eligible for free lunch in the prior year.
- At-Risk appropriations are not fully funded so allocations are prorated on an equal per pupil basis (reduced by \$183 per pupil in FY 2016-17). Full funding would cost an estimated additional \$100.2 million.
- Both Hold Harmless and Out-of-Formula districts (those whose combined state and local revenue per pupil exceeds the Basic foundation allowance of \$8,229) are ineligible for at-risk funding. The cost of making them eligible would be approximately \$43.9 million.

# At-Risk Appropriations

The program is not fully funded due to the growth in the number of eligible pupils and foundation allowances over time without corresponding funding increases. After a decade of being flat, funding for the At-Risk Program grew by \$70 million, or 23%, in FY 2015-16. Full funding would cost another \$100 million.



# Infrastructure Funding

- Proposal A did not address the inequity in a district's ability to generate property tax revenue for school infrastructure.
- Districts are allowed to levy debt mills to bond for land acquisition, new buildings, renovations, and new athletic facilities.
- Debt mills vary by district from a low of 0.0 to a high of 16.0 mills.
- Districts may also levy sinking fund millages of up to 3 mills (prior to the enactment of HB 4388 last fall it was 5 mills) for building renovations, technology infrastructure, and school security upgrades.

# Types of School Districts

# Traditional, Locally Governed School Districts

- Traditional local school districts have defined boundaries and locally elected school boards, and are authorized to levy local taxes.
- In FY 2016-17 there were 539 traditional local districts with 1,337,936 pupils or 89.7% of the statewide public pupil membership.



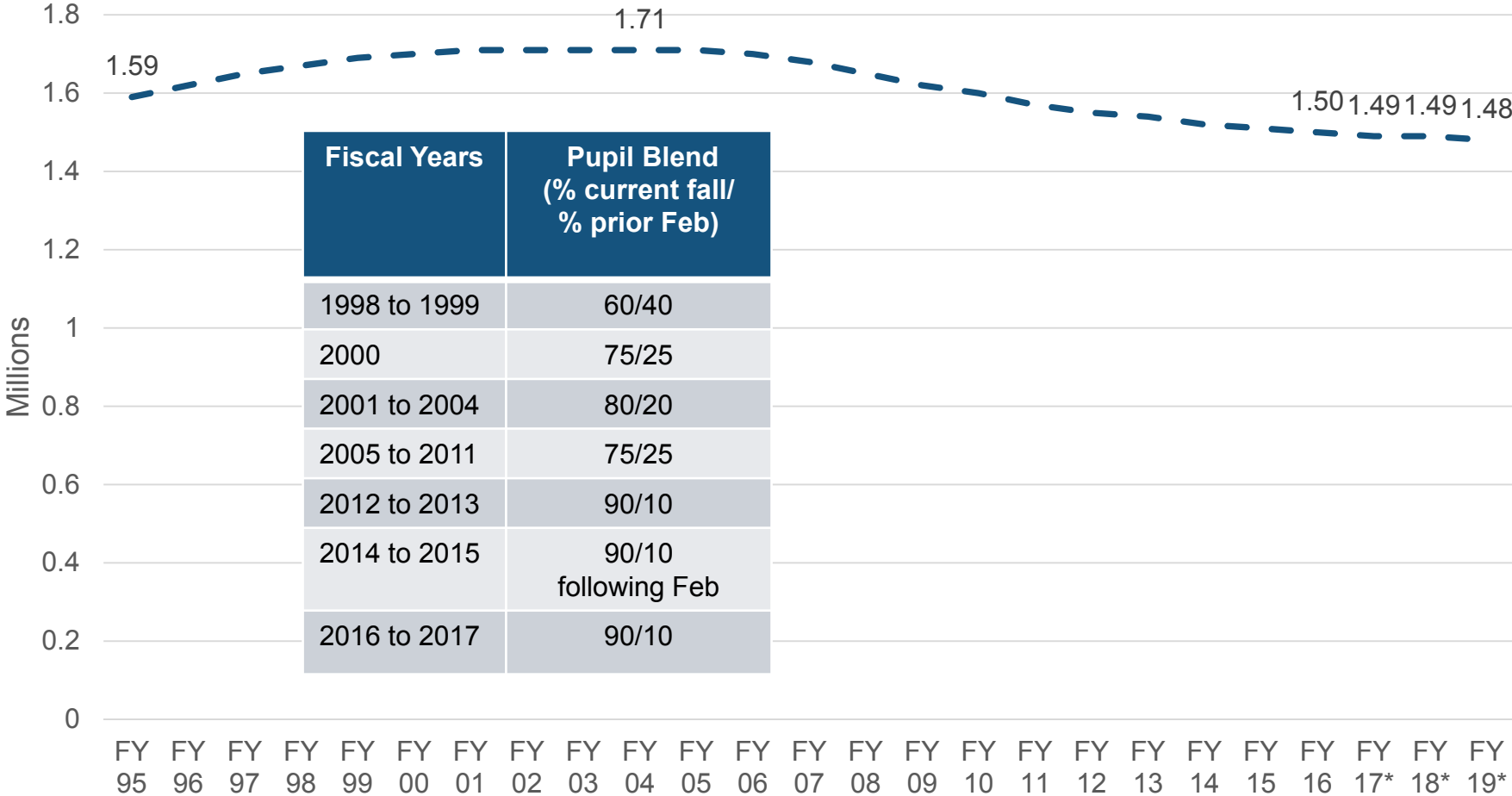
# Public School Academies

- Legislation allowing for the authorization of public school academies (PSAs), or charter schools, was enacted the year after Proposal A was adopted.
- PSAs are independent public schools formed by individuals or groups to provide students and parents a public alternate to traditional school districts.
- PSAs are authorized to operate by public universities, community colleges, intermediate school districts, local school districts.
- In FY 2016-17 there are 300 PSAs with 147,814 pupils in PSAs or 9.9% of statewide pupil membership.
- The statutory PSA foundation allowance is capped at the PSA maximum, which is \$7,511 per pupil for FY 2016-17, equal to the statewide Minimum foundation.
- PSAs cannot levy taxes, and their foundation allowances are fully funded by the state.

# Declining Enrollment

# Declining Enrollment

Under Proposal A and the foundation allowance mechanism, fewer pupils means a loss of revenue to schools. Statewide, pupil memberships are 13% lower than their peak in FY 2002-03 and dropping. Nearly 2/3 of traditional districts experienced declining enrollment from FY 2015-16 to FY 2016-17.



\* FY 17, 18, and 19 figures are from January 2017 consensus estimates

# For more information about the School Aid budget:

## HFA Resources

<http://www.house.mi.gov/hfa/SchoolAid.asp>

Breaking the Logjam – School Finance Reform VIDEO:

[http://www.house.mi.gov/hfa/PDF/SchoolAid/DVD/Breaking\\_the%20\\_Logjam.mp4](http://www.house.mi.gov/hfa/PDF/SchoolAid/DVD/Breaking_the%20_Logjam.mp4)

## Contact Information

Bethany Wicksall, Deputy Director

[bwicksall@house.mi.gov](mailto:bwicksall@house.mi.gov)

(517) 373-8080