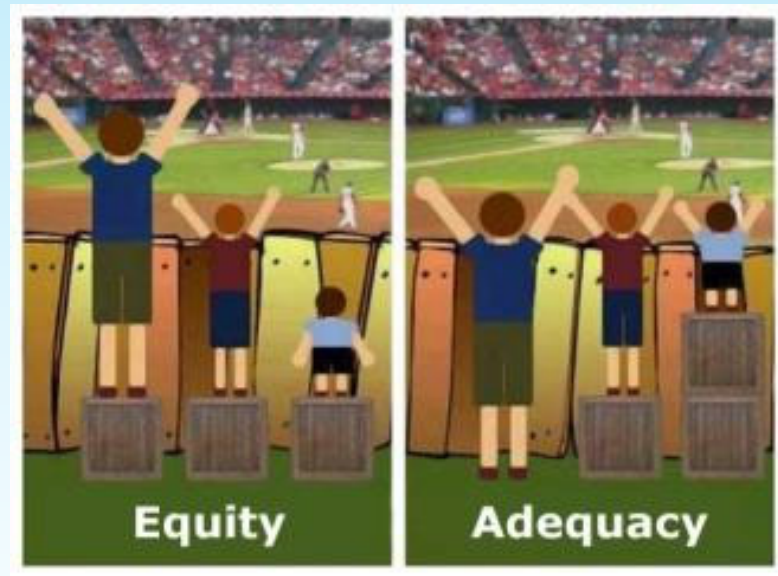
The background is a light blue sky with a few falling orange and yellow leaves. On the left, there is a red brick barn with a yellow bell on its roof. A yellow school bus is driving on a winding black road with yellow dashed lines. The road is surrounded by green hills and several trees with orange and yellow foliage. In the bottom right corner, there are three large orange pumpkins with green stems.

# Proposal A & Closing the Funding Gap

Sharon Raschke, Dexter Community Schools  
Maria Gisting, Baker Tilly Financial Advisors





## Prior to Proposal A

- Local millage elections determined the amount of revenue a school district received
- Resulted in large variances in school operating millage rates as well as per pupil funding between districts
- Created issues with both equity and adequate
- Districts were either “in formula” or “out of formula”.









# Prior to Proposal A

- The highest funded school district was Bloomfield Hills funding its educational system at \$10,300 per pupil
  - The lowest funded school district was Onaway, funding its educational system at \$3,200 per pupil
  - Legislators sought to remedy this disparity with the implementation of Proposal A
  - Also, over time, Michigan had become one of the highest property tax states in the country
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# Proposal A Implementation

- Proposal A was enacted not with a goal of school finance reform, but rather as a property tax reform initiative
  - During the summer of 1993, the Michigan Legislature repealed all local school district operating millages in the state
  - Legislators scrambled to figure out ways to replace local revenue lost to the repeal of local millages
  - This action shifted funding from local communities to the state level
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# Proposal A Implementation

- Beginning with the 1994-95 school year, any new state funding allocation would have to address the disparity in funding without rolling back high spending districts
  - Legislative compromise was enacted that used the 1993-94 school year, the last year in the era of operating millages, as the benchmark year
  - A local district's 1993-94 state and local operating revenue became the basis for determining its 1994-95 per pupil foundation allowance
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# Proposal A Implementation

- Tax liability on a property is calculated by multiplying the tax rate by the taxable value (TV) of a property. The state equalized value (SEV) is half of the fair market value and is considered the TV when Proposal A was implemented
  - Constitutionally limits the increase in TV from one year to the next to 5% or the rate of inflation, whichever is smaller
  - Where properties have increased in value beyond the rate of inflation, the actual TV may be less than half of its SEV
  - Once a property is sold, its TV was uncapped and re-entered in the tax rolls at its SEV which becomes the new TV. This is commonly referred to as “pop up”.
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# What is a Mill?

- A mill is 1/1000 of a dollar. Property taxes are computed by taking the taxable value of a property and dividing by 1,000 and then multiplying by the amount of millage levied



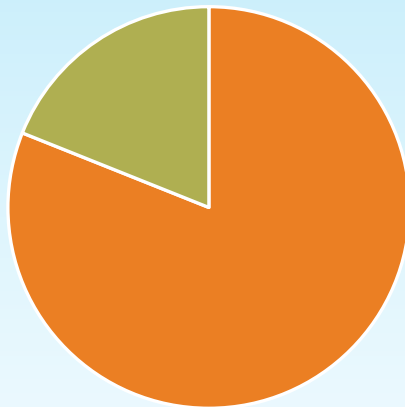
Taxable Value of a \$300,000 house is approximately half:



**$\$150,000 / 1,000 = 150 \times 6.0000 \text{ mills} = \$900 \text{ property taxes}$**

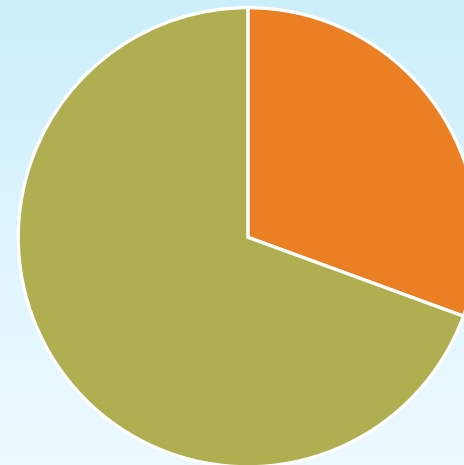
# Shift from Local to State Control

Before Proposal A



Local State

After Proposal A







Local State

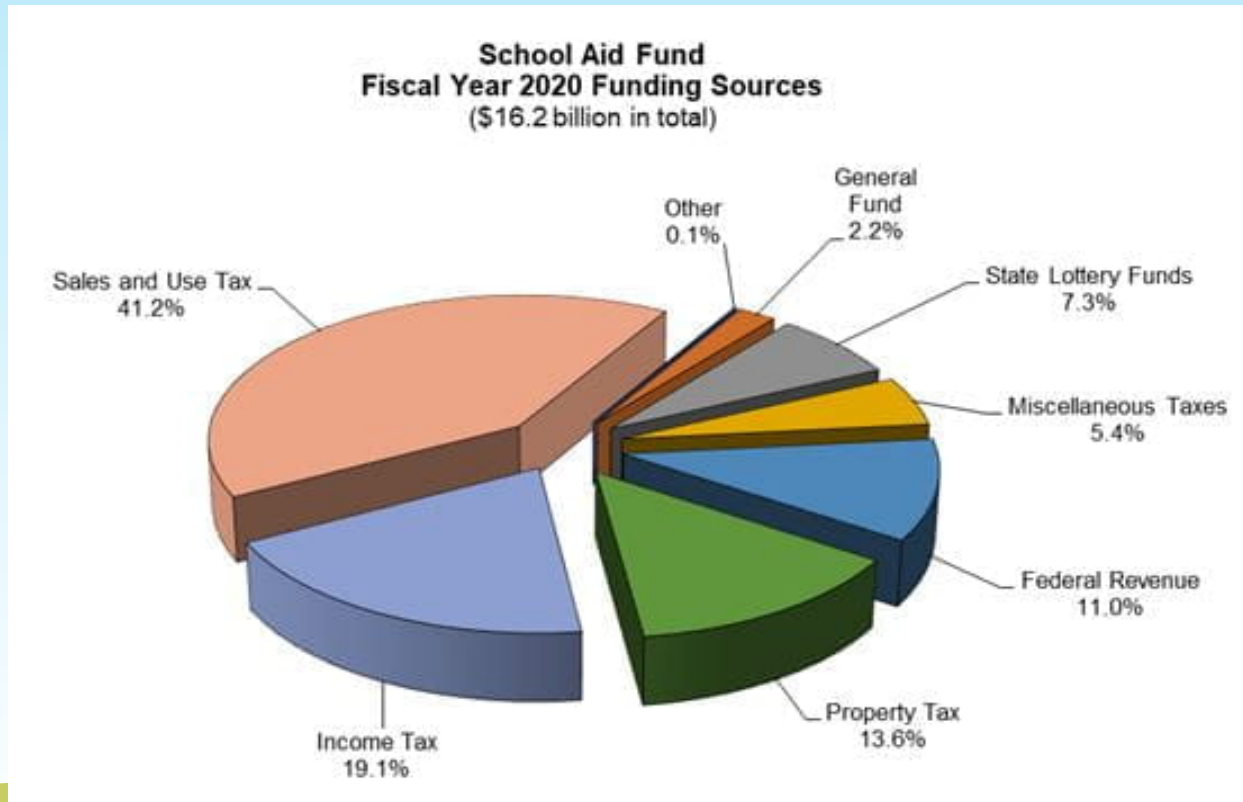




## New Mix of Revenue to Fund Schools

- Sales tax increased from 4% to 6% with the entire 2% increase earmarked for school funding
  - 18 mills of non-homestead (Non-PRE) property taxes required approval by voters
  - 6 mills of state education tax (SET) was enacted on all properties
  - Enacting or Increasing Casino Gaming Tax, State lottery, Cigarette Tax, Liquor Tax, Real Estate Transfer Tax, and other miscellaneous taxes
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# School Aid Funding Sources





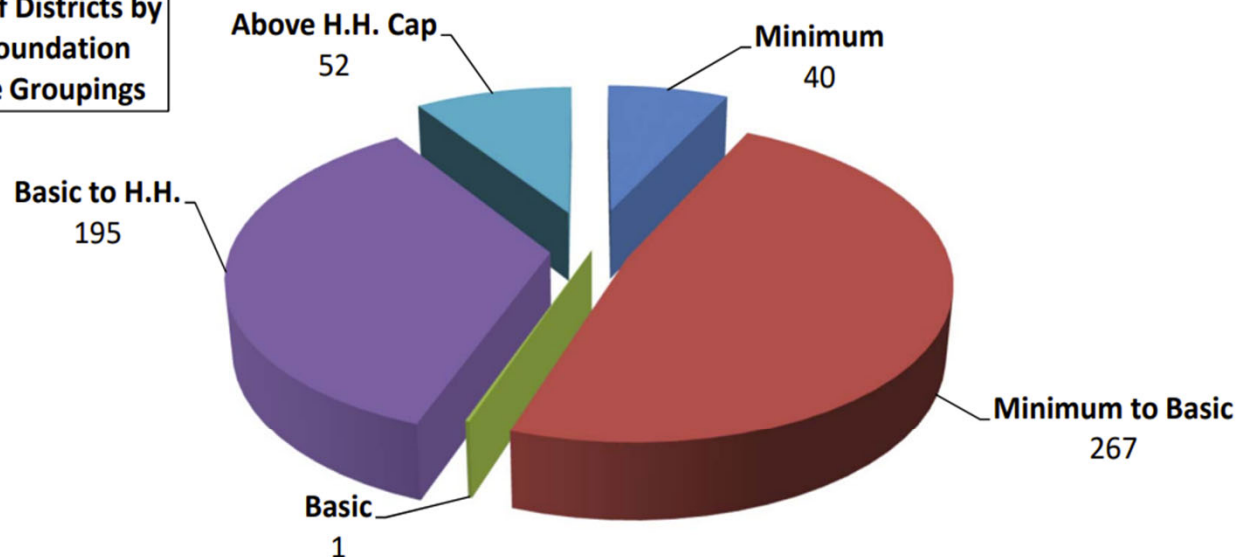
# Five Tiers of Funding



- Minimum – Districts funded under \$4,200 per student were automatically brought up to the minimum funding level.
  - Minimum to Basic - Back then, it was determined that an adequate education was \$5,000 per pupil so a target or “effective minimum” or “basic” funding level of \$5,000 per pupil was desired. The minimum funding level reached the effective minimum basic funding level in the 1999-2000 school year.
  - In 2007, a new target of \$8,433 was established. In 2018, Michigan commissioned an adequacy study that determined the minimum cost to educate a child was \$9,590.
  - Basic – Districts funded under \$5,000 per student
  - Basic to Hold Harmless Cap – Districts between \$4,200 per student and \$6,500 per student were allowed to stay in the mid range
  - Above Hold Harmless Cap – 51 districts over the maximum of \$6,500 per pupil were allowed to ask their residents to approve an operating millage on residential property to retain the funding levels prior to Proposal A
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# Five Tiers of Funding

Number of Districts by  
1994-95 Foundation  
Allowance Groupings



**Minimum** - \$4,200

**Minimum to Basic** - \$4,200 to \$5,000





**Basic** - \$5,000

**Basic to H.H.** - \$5,000 to \$6,500

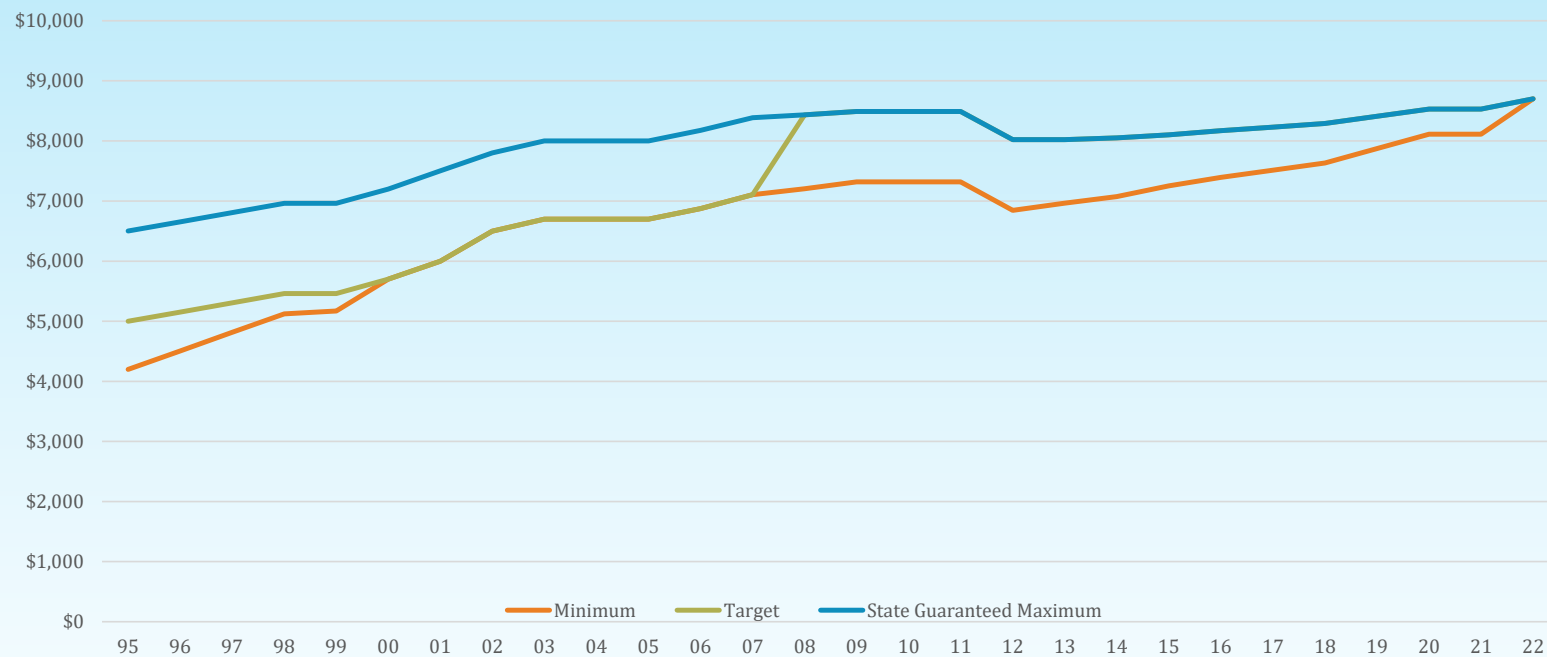
**Above H.H. Cap** - Above \$6,500



## Going Forward





- The basic foundation allowance is recalculated annually according to indexes of revenue and membership growth.
  - Until 2001 the minimum allowance increased by twice the amount of increase in the basic allowance.
  - Over time, the formula known as the 2x formula brought the minimum funding levels closer to the state maximum levels, and an increased number of districts and pupils are picked up by the minimum funding level.
  - As the bottom increased and the gap narrowed, fewer and fewer students are funded at disparate levels.
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# Foundation Allowance History









## Return on Investment

- Does money matter?
  - Will we see increased student achievement with increased funding?
  - The state took over control of schools when they took control of funding.
  - Local control is almost non-existent.
  - Plan based on reality.
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# Conclusion

- Proposal A reduced local property taxes and has continued to hold down the growth of property taxes for school operations.
  - Proposal A has finally eliminated the gap between the highest funded and lowest funded school districts except for a small number of districts that levy homestead millage.
  - There is much talk about revising this almost 30-year-old legislation; however, no significant changes to the original funding policy have been effectuated since its original passage.
  - Public schools have demonstrated the ability to balance limited financial resources and growing educational requirements well over time.
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Questions?






## Our Contact Information



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