Public Sector Reports

PUBLIC POLICY ADVISOR

Proposal A: Last Chance for School Finance Reform?

By Robert Kleine, Vice President and Senior Economist

On June 2 voters again will be given a chance to change the method the state uses to fund elementary and secondary education, reduce school operating millages, and set limits on increases in property assessments. This paper outlines the advantages and disadvantages of passing Proposal A and analyzes the key issues involved.

KEY PROVISIONS OF PROPOSAL A

Proposal A contains a number of important provisions. Most would be written into the state constitution. However, certain provisions, such as categorical appropriations to local school districts, contained in the annual school aid bill, would continue to be statutory. Where applicable, this distinction is pointed out in the discussion below.

- The state constitution would be amended to guarantee that all K–12 districts that levy 18 mills for school operating purposes would receive $4,800 per pupil from the state. For districts currently receiving less, this *foundation grant*, or guaranteed amount, would be phased in over several years, with no district receiving more than a 10 percent increase in one year. The foundation grant would be indexed to the previous year's growth in state school aid revenue and local property taxes (up to 18 mills); for example, the FY 1994–95 guarantee would be based on the increase in 1993–94 sales tax and lottery revenues and 1993 property taxes (18 mills only). In the 1993–94 school aid bill just passed by the legislature and awaiting the governor's signature, the grant covers all costs of education except (1) special education (including transportation), (2) adult education, (3) early childhood education, (4) 50 percent of the annual increase in teacher retirement, and (5) several other small categoricals. The specifics of the grant could be changed each year by the legislature.

- Local school boards would be constitutionally allowed to levy up to 18 mills, and local voters could approve up to an additional 9 mills. No district would be allowed to levy more than 27 mills for operating purposes. (Millages for the operation of libraries would not be subject to the limit.) The state would provide equalized funding for all mills above 18 at a minimum of $100 per pupil per mill. The school aid bill just passed for FY 1993–94 would equalize the first two mills at $150 per pupil, with a cost limit of $50 million.

  All districts levying the maximum 27 mills would be guaranteed a 3 percent increase in revenue in FY 1993–94, and districts could levy as many mills as required, up to the 27 maximum, to generate the 3 percent revenue increase in the first year. Any additional mills would require a vote of the people. The intent is that the millage reduction would not apply to property receiving a tax abatement under Public Act 198, although this could be changed by statute.

- The state sales and use tax rates would be increased from 4 percent to 6 percent, effective July 17, 1993, and the revenue from the two cent per dollar increase constitutionally dedicated to the state School Aid Fund.

- Lottery money would be constitutionally earmarked for the School Aid Fund.

- Property assessment increases on individual parcels would be limited constitutionally to the

Public Sector Consultants, Inc.
Knapp's Centre • 300 S. Washington Sq. • Suite 401
Lansing, MI 48933-2134 • (517) 484-4954

rate of inflation or 5 percent, whichever is lower. Assessment increases for 1993 would be rolled back to no more than 3 percent (the 1992 rate of inflation).

- The current constitutional limit on total mills levied would be reduced from 50 mills to 40.

Advantages of Passing the Proposal

1. Funding would be increased for districts spending less than the state average, and future increases would be limited for districts spending more, thereby reducing the disparities among districts. (District revenues currently range from $2,700 to $9,400 per pupil.)

2. The overall tax system would be improved by reducing reliance on the property tax, which, relative to other states, is overutilized, and increasing the sales tax, which is relatively underutilized.

3. School districts would be under less pressure to raise millage rates, and many of those now up against the current constitutional limit[1] would receive some breathing room; that is, their mills levied would be reduced to 18, they would receive the foundation grant from the state, and they could add several mills (up to the 27-mill ceiling), with voter approval.

4. Taxpayers would receive relief from rising assessments: Individual parcel assessments could not increase more than 5 percent annually.

5. In 1993 taxpayers would benefit because the property tax cut would apply to the whole year, while the sales tax increase would be in effect less than six months.

6. A portion of the sales tax, an estimated 3–5 percent, would be borne by out-of-state taxpayers who buy goods in Michigan.

7. The business climate would be improved in two ways: by reducing the property tax on business in exchange for the higher sales tax (which falls less heavily on capital than does the property tax) and by reducing the overall business tax burden.

Disadvantages of Passing the Proposal

1. Under the proposal more relief would be realized by high-income than low-income taxpayers (see discussion below).

2. Because the sales tax is not deductible for federal tax purposes but the property tax is, Proposal A's passage would result in Michiganians paying an estimated $300 million to $325 million more in federal income taxes. (Some wags say it would be Michigan's contribution to reducing the federal budget deficit.)

3. The foundation grant would be the same for all districts, regardless of regional cost differences. It may be that the $4,800 grant is too low for urban districts but too generous for rural districts.

4. The limit on assessments would create inequities based on length of property ownership. Because property would be reassessed at market value only at the time of sale, owners of similar homes would pay a different amount of taxes for the same level of public services. As shown in Exhibit 1, the difference can become substantial after several years.

5. By FY 1994–95 the new school finance system put in place by enactment of Proposal A could be underfunded by as much as $500 million. This is because it is the legislature's intent to fund the first year (FY 1993–94) with a $365 million carryover from sales tax collections in FY 1992–93, $100 million from the Public School Employees Retirement System health reserve, and $33 million in other one-time revenues. In addition, the cost of funding the proposal likely would increase more than revenue because a number of districts with per pupil revenues below the state guarantee would receive a 10 percent increase in FY 1994–95. Underfunding could require cuts in other areas of the FY 1994–95 budget (and thereafter), result in reductions in categorical grants to schools, or necessitate additional revenues.

[1]The state constitution currently limits the number of mills that may be levied for certain purposes, including those levied by school districts for operations, to no more than 50 mills. In some districts, millage levies are at or approaching this limit.

EXHIBIT 1

Effect of Assessment Cap in Proposal A, 1992–2000

Year	Home Assessment: 3% Cap	Home Assessment: No Cap	Taxes Paid: 3% Cap	Taxes Paid: No Cap
1992	$100,000	$100,000	$3,000	$3,000
1993	103,000	106,000	3,090	3,180
1994	106,090	112,360	3,183	3,371
1995	109,273	119,102	3,278	3,573
1996	112,551	126,248	3,377	3,787
1997	115,927	133,823	3,478	4,015
1998	119,405	141,852	3,582	4,256
1999	122,987	150,363	3,690	4,511
2000	126,677	159,385	3,800	4,782

SOURCE: Public Sector Consultants, Inc.
NOTE: Assumes 3 percent annual increase if proposal passes, 6 percent if it fails.

6. All local governments that levy property taxes (not just school districts) would be affected by the assessment limit. However, most local governments probably could continue to provide a reasonable level of public services, albeit with some belt tightening, if inflation stays under 5 percent. However, if inflation exceeds 5 percent for any extended period, as it did in the 1970s and early 1980s, the limit could become intolerable for many local governments.

7. Renters and many senior citizens would pay higher taxes than they do now (see discussion below).

8. For the first few years the proposal is in effect, businesses that own property would receive a significant tax reduction, while individuals would pay slightly higher taxes. This is because business pays only an estimated 25 percent of the sales tax, but would receive 35–40 percent of the property tax reduction. Eventually, however, tax savings to homeowners could surpass that of businesses because of the assessment limit: Historically, residential assessments have increased faster than industrial and commercial assessments (excluding new property).

9. The legislature can change the fiscal effect on school districts annually by redefining in the school aid appropriation act what expenditures are covered by the foundation grant. The legislature also could increase the 27-mill limit by redefining school operating millages.

FISCAL EFFECTS

Under the proposal the average millage rate for school operating purposes is expected to be reduced by 12.7 mills, from 34.6 to 21.9. (The average millage rate would be higher than 18 mills, because a number of districts would have to levy higher rates to guarantee a 3 percent increase in revenues in FY 1993–94). This represents a 37 percent reduction in taxes for school operations and a 22 percent reduction in total property taxes. The estimated fiscal effects for 1993 through 1996 are presented in Exhibit 2. These estimates were prepared by the Michigan Department of Treasury and the House Taxation Committee; we have reviewed carefully the numbers and believe they are accurate. (We also revised the 1994–97 numbers to reflect the expected elimination of a proposed assessment freeze for 1994.) In 1993 taxpayers would save a little over $700 million because the property tax cut would be for a full year, while the sales tax increase would be in effect for only 5½ months. In 1994, the first full year of implementation, there would be a small tax increase, but there would be tax savings in future years due to the assessment cap and the expectation that property taxes will increase slightly faster than sales tax collections.

As mentioned above, the proposal initially would result in (1) a net tax increase for individuals

EXHIBIT 2

Fiscal Effects of Proposal A, 1993–96
(calendar year, $ millions)

	1993	1994	1995	1996
Assessment cap	–$220	–$335	–$475	–$577
Reduced millage	–2,024	–2,157	–2,270	–2,387
Gross property tax cut	–2,244	–2,492	–2,745	–3,964
Homestead credit reduction	393	425	450	475
Net property tax cut	–1,851	–2,067	–2,295	–2,489
Sales tax increase	826	1,800	1,881	1,966
Lost federal deductibility	320	308	342	370
Net tax change	–705	41	–72	–153

SOURCES: Michigan Department of Treasury, House Taxation Committee, Senate Fiscal Agency, and Public Sector Consultants, Inc.

as a group and (2) a tax reduction for business. It is estimated that in 1994 taxes on individuals would increase about $240 million, while taxes on business would decline about $200 million. Because of the assessment cap, however, which would be more beneficial to individuals than to business, the tax increase for individuals would decline each year thereafter, and by the late1990s individuals should receive a tax reduction.

STATE-LOCAL TAX SYSTEM

An important attribute of a state-local tax system is balance, which is important because overreliance on one particular revenue source is likely to exaggerate its inherent weaknesses. Overusing a tax also can put a state at a competitive disadvantage with other states. For example, a high sales tax rate relative to surrounding states can hurt tourism, cause problems for retailers near the border, and place a heavy burden on the poor. A diversified revenue system is one way to assure that tax rates remain moderate. Michigan clearly relies too much on the property tax and too little on the sales tax. In 30 states the tax system is more balanced than in Michigan (See *U.S. State-Local Tax Systems: How Do They Rate?*, 1992, Public Sector Consultants, Inc.).

In FY 1990–91, property taxes in Michigan were 4.9 percent of personal income, 35.9 percent above the national average, and ninth highest among all states (see Exhibit 3). Property taxes in Michigan are the highest in the Great Lakes region and 57.9 percent higher than in Ohio, which has the lowest property taxes in the region. It must be kept in mind, however, that these numbers do not reflect the Michigan homestead property tax credit, the most generous in the nation. The homestead credit program annually rebates more than $800 million to homeowners and renters, which amounts to 15–16 percent of total residential and agricultural property taxes levied in the state. There are no data available comparing states on their actual tax burden (levy minus rebate), but if there were, Michigan's rank likely would improve, although the state still would be among the 20 highest. It also should be noted that in the past few years the property tax burden in Michigan has fallen relative to other states, although there was an increase in FY 1990–91. (See Exhibit 4).

The Michigan sales tax burden is well below the national average. In FY 1990–91, sales taxes in Michigan were 2.7 percent of personal income, one-third below the national average of 4 percent and 45th among the 46 states (including Washington, D.C.) that levy a general sales tax (see Exhibit 5). Michigan is 20.4 percent below Ohio, the next lowest state in the Great Lakes region. Also, as shown in Exhibit 6, the sales tax burden in Michigan has been declining in recent years.

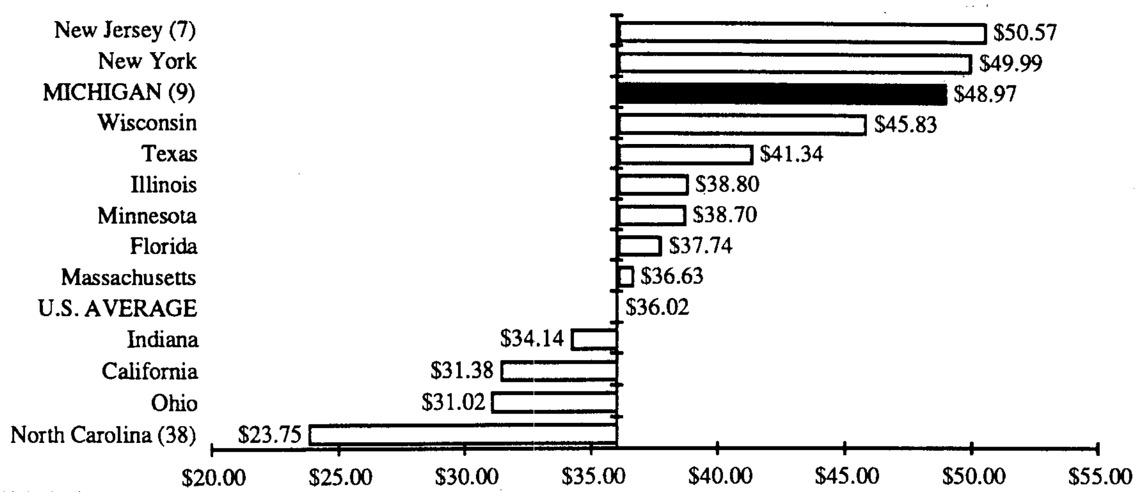
As shown in Exhibit 7, even under the provisions of Proposal A, the Michigan sales tax still would be below the combined state and local sales tax in most other industrial states. In the Great Lakes region only Wisconsin and Indiana would have lower rates.

STATE FUNDING GUARANTEE

To illustrate how the state funding guarantee would work, we examine three districts in Ingham

EXHIBIT 3

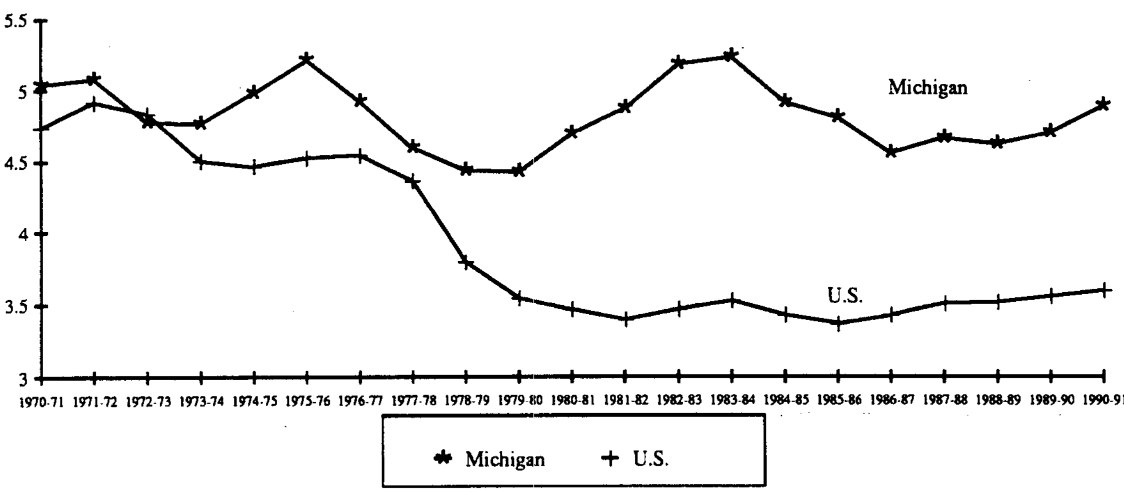
State-Local Property Tax per $1,000 Personal Income



SOURCE: Calculated by Public Sector Consultants, Inc., from U.S. Department of Commerce, "Government Finances, FY 1990–91" (Washington, D.C.: Government Printing Office.

EXHIBIT 4

State-Local Property Tax as a Percentage of Personal Income FY 1970–71 through FY 1990–91



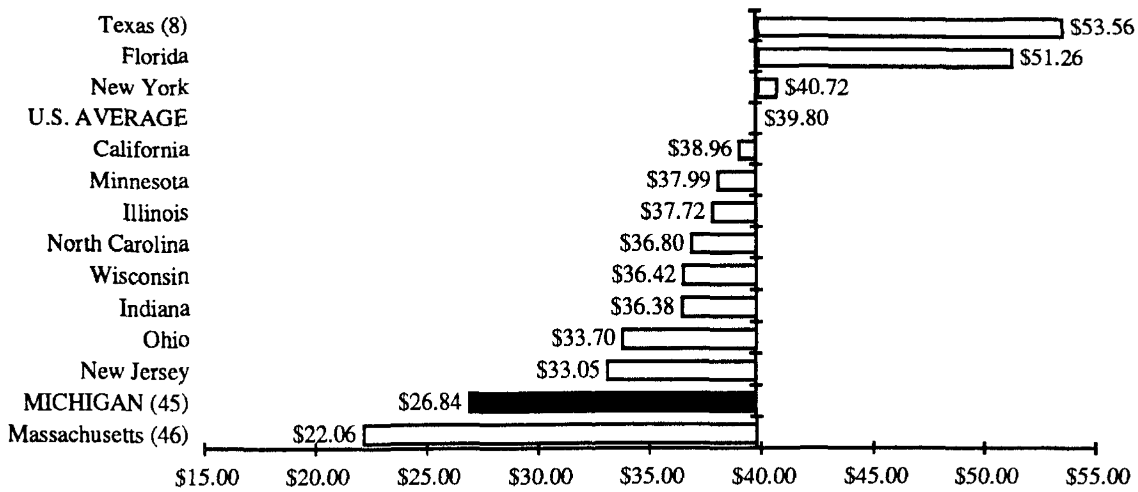
SOURCE: U.S. Department of Commerce, Bureau of the Census, "Governmental Finances," Selected Years, Washington, D.C.

County, each affected differently. (For simplicity, these examples assume equalization of $100 per mill, rather than $150 for the first 2 mills as appropriated by the legislature in the 1993–94 school aid bill.)

- In FY 1992–93 the Lansing school district received $5,164 per pupil in revenue. To achieve a 3 percent increase under Proposal A in year one, the district would have to raise this amount to $5,318: The state would guarantee $4,800 per pupil at 18 mills, and the district would need to levy an additional 5.18 mills, which the state would equalize at $100 per pupil per mill. The calculation is as follows: $4,800

EXHIBIT 5

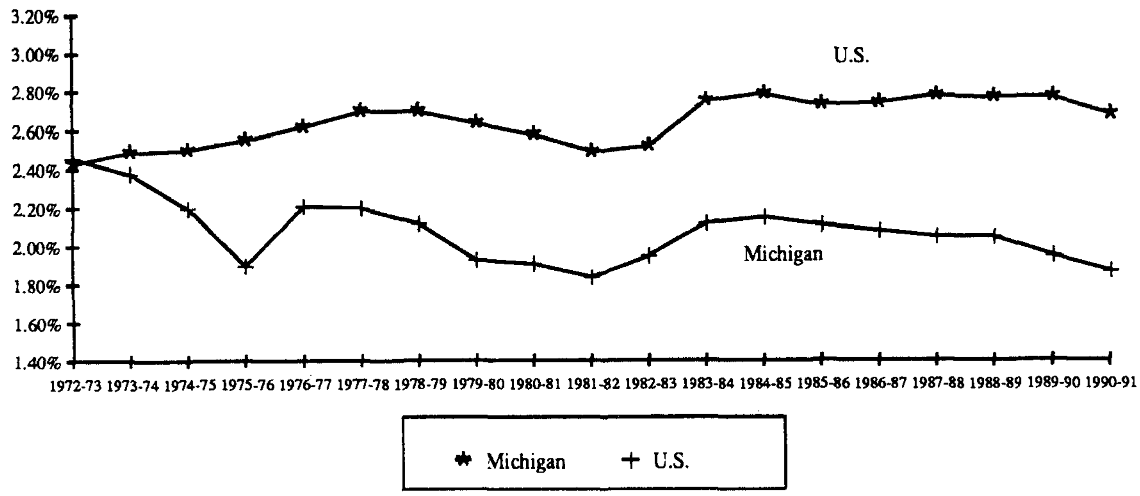
State-Local Sales Tax per $1,000 Personal Income



SOURCE: Calculated by Public Sector Consultants, Inc., from U.S. Department of Commerce, "Government Finances, FY 1990–91" (Washington, D.C.: Government Printing Office.

EXHIBIT 6

State-Local Sales Tax as a Percentage of Personal Income
FY 1972–73 through FY 1990–91

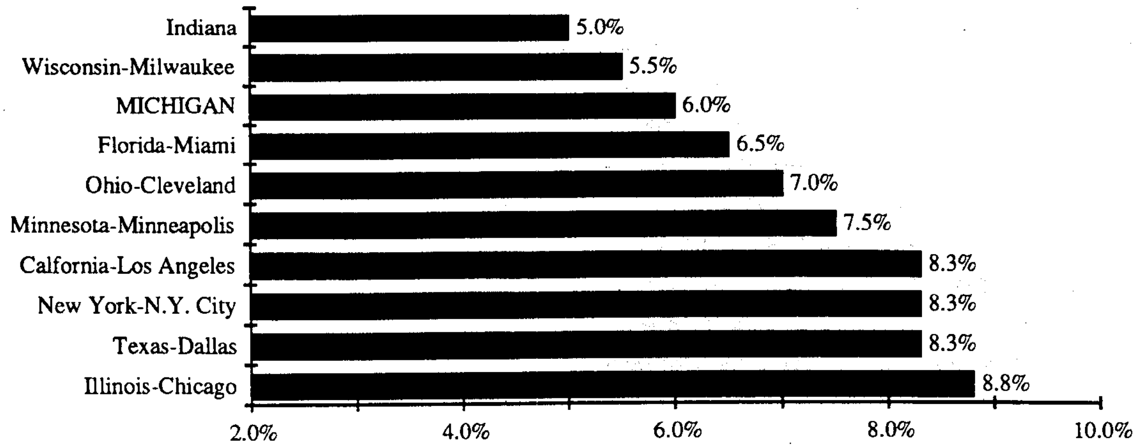


SOURCE: U.S. Department of Commerce, Bureau of the Census, "Governmental Finances," Selected Years, Washington, D.C.

+ $518 ($100 x 5.18 mills) = $5,318. The total millage rate of 23.18 mills would be well below the current rate of 41.78 mills. In year two the guarantee would increase at the same rate as school aid revenue (state and local). If revenue increased 4 percent, the guarantee would increase to $4,992 per pupil, and the Lansing school district would receive $4,992 + $518, or

EXHIBIT 7

Michigan Sales Tax Compared to Other Industrial and Great Lakes States (state and local rate)



SOURCE: ACIR, *Significant Features of Fiscal Federalism*, 1992.

$5,510 per pupil, a 3.6 percent increase. If additional revenue were needed, the district could ask the voters to increase the millage rate, up to the ceiling of 27 mills.

- The Fowlerville school district currently levies 34.2 mills and receives $4,256 per pupil in revenue. Under Proposal A, Fowlerville's millage rate would drop to 18 mills, and the district would receive a 10 percent increase in revenue, the one-year limit, to $4,681 per pupil. In year two the district would receive the state guarantee of $4,992, a 6.6 percent increase. In future years the district's revenue would increase at the same rate as state school aid revenue unless the district votes to raise millage rates.

- The Waverly school district currently is *out-of-formula* (that is, it raises more locally than the amount allocated in the school aid formula and therefore receives no per pupil funding from the state). Waverly levies 36.75 mills and generates $6,661 per pupil in revenue. In year one under Proposal A this district would be guaranteed a 3 percent increase to $6,860 per pupil if it levied the maximum 27 mills. The district has a state equalized evaluation (SEV) of about $181,000 per pupil, therefore 27 mills generates $4,887, which would require a state grant of $1,973 per pupil. In year two the district would receive the amount raised locally plus the supplemental payment of $1,973. If the district's SEV per pupil were to increase 4 percent to $188,240, the district would receive $5,082 + $1,973, for total revenue of $7,055, a 2.6 percent increase. If district revenue were to increase faster than the increase in the state guarantee, the supplemental state payment would be reduced. An out-of-formula district could outgrow the state supplemental payment, but it would necessitate a significant increase in new property, because current property assessments would be limited to a per parcel increase of 5 percent or the rate of inflation, whichever is greater.

The distribution of revenue increases for school districts by county is shown in Exhibit 8. Nearly one-half of the districts—most located in less populated areas—would receive a 10 percent increase (the maximum possible). Slightly more than one-third of the districts—many of which are located in the state's most populous counties—would receive only a 3 percent increase.

EFFECT ON INDIVIDUAL TAXPAYERS

According to most polls of taxpayers, the sales tax is the least unpopular tax, mainly because it is

EXHIBIT 8

Estimated Percentage Change in Revenues for School Districts, by County

County	3%	3.1–6%	6.1–9.9%	10%	County	3%	3.1–6%	6.1–9.9%	10%
Alcona			1		Lake	1			
Alger	2			2	Lapeer		1	1	3
Allegan	2			7	Leelanau	4			
Alpena				1	Lenawee	3	1	3	5
Antrim	6				Livingston	2	1		2
Arenac		1		2	Luce				1
Baraga	1			2	Mackinac	4	1		1
Barry			1	2	Macomb	19	2		
Bay	1		1	2	Manistee	1			3
Benzie	1			1	Marquette	3			5
Berrien	4		2	10	Mason			1	3
Branch				3	Mecosta				3
Calhoun	2	3	2	4	Menominee				4
Cass				4	Midland	2	2		
Charlevoix	3		1	1	Missaukee				3
Cheboygan	2			2	Monroe	2	1	1	5
Chippewa	2		1	3	Montcalm			1	6
Clare				3	Montmorency				2
Clinton	6				Muskegon	4	2	2	4
Crawford				1	Newaygo			1	6
Delta	1		1	4	Oakland	26	1	1	
Dickinson			1	3	Oceana	1			4
Eaton	2	1	1	4	Ogemaw				1
Emmet	2			2	Ontonagon	1			3
Genesee	10	2	4	5	Osceola				4
Gladwin				2	Oscoda			1	1
Gogebic	2			4	Otsego	1		1	2
Grand Traverse		1		2	Ottawa	5			4
Gratiot			4	2	Presque Isle				3
Hillsdale		1	1	6	Roscommon	1			1
Houghton				9	Saginaw	4		5	4
Huron	7			8	Sanilac				7
Ingham	9	3		1	Schoolcraft				1
Ionia	1			9	Shiawassee		2	3	3
Iosco				4	St. Clair	3	1	1	2
Iron			1	1	St. Joseph			1	8
Isabella	1		1	1	Tuscola			1	8
Jackson	1	1	2	8	Van Buren	1			11
Kalamazoo	5	1	1	2	Washtenaw	10			
Kalkaska				3	Wayne	31	2	1	
Kent	9	3	2	4	Wexford				3
Keweenaw				1	TOTAL	211	34	53	262

SOURCE: Public Sector Consultants, Inc., from data provided by Senate Fiscal Agency.

paid in small amounts, and many taxpayers regard it as almost voluntary. However, the tax is *regressive*, i.e., it takes a larger percentage of low incomes. (The current exemption of food and drugs reduces its regressivity, however.) As shown in Exhibit 9, a 2 percent sales tax takes about 1.3 percent of the income of a household earning $10,000 annually but only 0.6 percent of the income of a household earning $80,000 annually. Unfortunately, such regressivity would be compounded by the fact that Proposal A's reduction in property taxes would benefit high-income taxpayers more than low-income taxpayers (see Exhibit 10). One reason for this is that many low-income taxpayers are

EXHIBIT 9

Estimated Effect of 2 Percent Sales Tax, by Income Class

	$0–5,000	$5,000–9,999	$10,000–14,999	$15,000–19,999	$20,000–29,000	$30,000–39,999	$40,000–49,999	$50,000 and over
Average income before taxes	$2,233	$7,589	$12,430	$17,301	$24,816	$34,402	$44,548	$79,902
Taxable consumption[a]	6,383[b]	5,684	8,297	9,328	11,517	15,316	17,804	25,350
Two percent sales tax applied to taxable consumption	128	114	166	187	230	306	358	507
Sales tax as percentage of income	5.7%	1.5%	1.3%	1.1%	0.9%	0.9%	0.8%	0.6%

SOURCE: United States Department of Labor, *Consumer Expenditures in 1991* (Washington, D.C.: December 1992)

[a]Excludes food, shelter, and other nontaxable items.
[b]Consumption exceeds income because of unreported income and financing of consumption out of savings and debt.

EXHIBIT 10

Net Tax Burden at Selected Income Levels, 1994[a]

	Income Level				
	$15,000[b]	$30,000[c]	$50,000[d]	$100,000[e]	$200,000[f]
Gross property tax cut	$0	–$810	–$1,134	–$1,700	–$3,400
Assessment limit cut[g]	0	–195	–260	–390	–780
Change in state tax credit	0	603	836	0	0
Change in federal tax liability	0	60	84	648	1,295
Net property tax cut	0	–342	–474	–1,442	–2,885
Sales tax increase	138	225	316	490	790
Net tax change	138	–117	–158	–952	–2,095

SOURCE: Public Sector Consultants, Inc.

[a] Assumes total millage rate of 70 mills, school millage rate of 40 mills, and 2 mills enrichment, resulting in 20-mill reduction.
[b] Renter; assumes no reduction in rent.
[c] Assumes home valued at $75,000 in 1992.
[d] Assumes home valued at $100,000 in 1992.
[e] Assumes home valued at $150,000 in 1992.
[f] Assumes home valued at $300,000 in 1992.
[g] Assumes 3 percent limit in 1993 and freeze in 1994, compared with 8 percent increase in 1993 and 5 percent increase in 1994 if Proposal A does not pass. Calculation does not reflect Headlee rollbacks that may be required if Proposal A fails.

renters, and this group would receive no direct tax relief, although rents could be reduced or increases slowed to reflect the lower property taxes paid by landlords.

Also, low- and middle-income taxpayers currently benefit from the generous state homestead credit, and their relief under this program would diminish as property taxes decline, reducing the net benefit to this group. For example, senior citizens, not limited by the $1,200 maximum credit, now receive a 100 percent credit for all property taxes above 3.5 percent of their income (an even more generous credit is available for seniors earning less than $6,000 annually), and would lose $1 in state credit for each $1 reduction in property taxes. As shown in Exhibit 11, under Proposal A, a senior

EXHIBIT 11

Net Tax Burden for Senior Citizens, 1994

	Income Level			
	$20,000[b]	**$50,000**[c]	**$50,000**[d]	**$100,000**[e]
Gross property tax cut	–$680	–$1,134	–$680	–$1,700
Assessment limit cut[f]	–156	–260	–208	–390
Change in state tax credit	355	375	888	0
Change in federal tax liability	0	0	0	0
Net property tax cut	–481	–1,019	0	–2,090
Sales tax increase	171	316	316	490
Net tax change	–310	–703	316	–1,600

SOURCE: Public Sector Consultants, Inc.

[a] Unless indicated otherwise, assumes total millage rate of 70 mills, school millage rate of 40 mills, and 2 mills enrichment, resulting in 20-mill reduction.
[b] Assumes home valued at $60,000 in 1992.
[c] Assumes home valued at $100,000 in 1992.
[d] Assumes total millage rate of 52 mills and school millage rate of 30 mills, resulting in 12-mill reduction.
[e] Assumes home valued at $150,000 in 1992.
[f] Assumes 3 percent limit in 1993 and freeze in 1994 compared with 8 percent increase in 1993 and 5 percent increase in 1994 if Proposal A does not pass. This calculation does not reflect Headlee rollbacks that may be required if Proposal A fails.

citizen household earning $50,000 and living in a low-tax area (fewer than 50 mills levied) would receive $888 in property tax relief but lose the same amount from the state tax credit, resulting in a net tax increase of $316. If this same taxpayer lived in a high-tax district (70 mills), the result would be a net tax reduction of $703, because this taxpayer is limited by the $1,200 maximum credit and therefore loses less in state tax credits. High-income taxpayers are not eligible for the credit; it phases out at incomes of $73,350 to $83,350.

An additional factor is that because assessments generally increase faster in more affluent areas, taxpayers in such areas are likely to benefit more from an assessment limit such as contained in Proposal A than are taxpayers in central cities.

However, Proposal A's form of tax relief—a millage rate reduction—favors taxpayers in high-millage areas, which generally are the central cities and less-affluent suburbs where there are large concentrations of low-income families (districts in such locales tend to have low SEV per pupil and high millage rates). However, this is not likely to offset the factors mentioned above, and the "bottom line" is that high-income taxpayers will benefit more from the passage of Proposal A than will low- and middle-income taxpayers.

MILLAGE REDUCTIONS

Currently, 497 of the state's 559 school districts levy 27 or more mills. If proposal A passes it is estimated that only 36 districts would levy the maximum 27 mills, while 165 would levy 18–27, and 358 would levy 18 or fewer. As shown in Exhibit 12, 442 districts are expected to reduce their millage by 10 mills or more, and 293 are expected to reduce rates by 15 mills or more. The larger reductions are concentrated in the state's most populous counties.

"HEADLEE" IMPLICATIONS

The so-called Headlee amendments to Article IX of the state constitution will be affected if Proposal A passes.

Section 26 limits state spending to 9.49 percent of personal income. Currently, the state is about $3.5 billion below the limit, but Proposal A would increase state revenue by about $1.4 billion (sales tax less savings on property tax credits); the state would continue to be well below the limit, but this could reduce the state's ability to raise taxes at some point in the future.

EXHIBIT 12

Estimated Changes in School Millage Rates, by County

County	No Change or Increase	Decrease 1–5	5.1–10	10.1–15	15.1–20	20.1+	County	No Change or Increase	Decrease 1–5	5.1–10	10.1–15	15.1–20	20.1+
Alcona		1					Lake			1			
Alger		1	1	2			Lapeer			2	3		
Allegan	1		1	3	4		Leelanau	3		1			
Alpena				1			Lenawee			4	5	3	
Antrim	1	1	1	1	1	1	Livingston				3	2	
Arenac			2	1			Luce				1		
Baraga		2		1			Mackinac	4	1		2		
Barry					3		Macomb		1	2	3	12	3
Bay			1	1	2		Manistee			1	2	1	
Benzie		1	1				Marquette	1		4	2	1	
Berrien	1	1	5	3	6		Mason		1		2	1	
Branch				2	1		Mecosta				2	1	
Calhoun				1	8	2	Menominee				3	1	
Cass				2	2		Midland		1			1	2
Charlevoix	1	1		2	1		Missaukee				3		
Cheboygan	1		1	2			Monroe	1			2		6
Chippewa	1	1	1	1	2		Montcalm				3	4	
Clare				2	1		Montmorency			1	1		
Clinton					1	5	Muskegon				1	8	3
Crawford				1			Newaygo				3	4	
Delta			1	1	4		Oakland	1	4	5	4	12	2
Dickinson				3	1		Oceana			1	3	1	
Eaton				3	4	1	Ogemaw				1		
Emmet	1			2	1		Ontonagon			1	3		
Genesee				2	12	7	Osceola				3	2	
Gladwin				1	1		Oscoda			1	1		
Gogebic	1	1		1	3		Otsego		1		2	1	
Grand Traverse			1	2			Ottawa			1	2	5	1
Gratiot					6		Preque Isle			1	2		
Hillsdale				7	1		Roscommon			1	1		
Houghton			1	5	3		Saginaw			1	1	11	
Huron	4	4	3	3	1		Sanilac				6	1	
Ingham			1	2	6	4	Schoolcraft					1	
Ionia				4	5		Shiawassee				1	6	1
Iosco			2	2			St. Clair	1				4	2
Iron				1	1		St. Joseph				3	7	
Isabella					3		Tuscola				5	4	
Jackson					10	2	Van Buren						
Kalamazoo					7	2	Washtenaw	1				8	1
Kalkaska			2	1			Wayne		3	5	5	16	5
Kent			4	2	11	1	Wexford				2	1	
Keweenaw	1						TOTAL	24	28	56	149	243	50

SOURCE: Public Sector Consultants, Inc., from data provided by Senate Fiscal Agency.

Section 29 requires local units to reduce millage rates if assessments increase faster than the rate of inflation. Because of the proposal's per parcel assessment limit, these rollbacks are likely to be very infrequent in the future. Current law allows millage rates to be rolled back up if assessments increase less than the rate of inflation. Under Proposal A these rollups would not be allowed in 1993 (only). In addition, payments to local districts would be based on millage rates prior to any required millage rollback.

Section 30 requires that 41.6 percent of the state budget be allocated to local governments. Proposal A would increase payments to school districts by about $2 billion annually, increasing the state share to well above 41.6 percent. This would allow the state to reduce other payments, such as revenue sharing, to local governments. This is not likely to happen, but it is a reasonable concern for local governments.

CONCLUSION

Michigan's system of financing public education is broken—it needs fixing. Our property taxes are too high—they should be reduced. The best and most compelling reasons to vote *for* proposal A are that

- every K–12 child would enter school each fall with a guaranteed $4,800 of support for his or her school district;
- every school district would enjoy a financial foundation independent of local voters' adoption of millages, and bankruptcies and forced early ends to school years (as in Kalkaska) would be avoided;
- the wealthiest school districts would be forced to live within reasonable rates of growth in funding; and
- a shift away from taxing property to taxing goods would improve Michigan's overall tax balance.

Proposal A is not perfect. We are unhappy with the failure to adjust for regional cost differences. We would have liked to see provisions included that would encourage school reform, particularly consolidation and performance evaluation. We also believe the proposal may be too generous to high-income taxpayers.

If history is any indication, Proposal A faces an uphill battle. As shown in Exhibit 13, in the last 20 years all but one tax proposal involving property taxes or school finance have been defeated by large margins. Although organized opposition to this proposal likely will be less than to any since 1972, Proposal A supporters will have to overcome voter distrust of government and voter proclivity to defeat far-reaching, complex proposals.

However, Proposal A may be the last best hope for fixing school finance and the state tax imbalance. Individual voters will calculate whether the change is in their best interest. We hope that all will weigh how the change is in our collective best interest. It should not always be a consideration of *what's in it for me*, but *what's in it for all of us*.

We urge a **YES** vote on Proposal A.

EXHIBIT 13

**Proposed Amendments to State Constitution—
School Finance Reform and Property Taxes**

Proposal	Date	Percent For	Percent Against
Limit property taxes and establish state school tax	November 1972	42.2%	57.8%
Abolish property taxes for school operations and establish voucher plan	November 1978	25.7	74.3
Reduce property taxes and allow school income tax with voter approval (Tisch)	November 1978	37.3	62.7
Reduce property tax maximums and increase state aid (Tisch)	November 1980	44.2	55.8
Reduce property tax maximums and increase state aid	November 1980	21.2	78.8
Reduce property taxes and raise sales tax	November 1980	25.7	74.3
Reduce property taxes, increase aid to schools, and raise sales tax	May 1981	27.9	72.1
Reduce property taxes, revise school aid formula, and raise sales tax to 6 percent	November 1989	23.9	76.1
Increase education spending and raise sales tax to 4.5 percent	November 1989	27.7	72.3
Limit assessment increases	November 1992	37.4	62.6
Reduce school property taxes and limit assessments	November 1992	41.0	59.0

SOURCE: State of Michigan, *Michigan Manual*, 1991–92.

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