

Michigan's Experience With School Finance Reform



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Michigan's Experience

- Where we started
- What we did
- How we did it
- What we learned
- What we would do differently

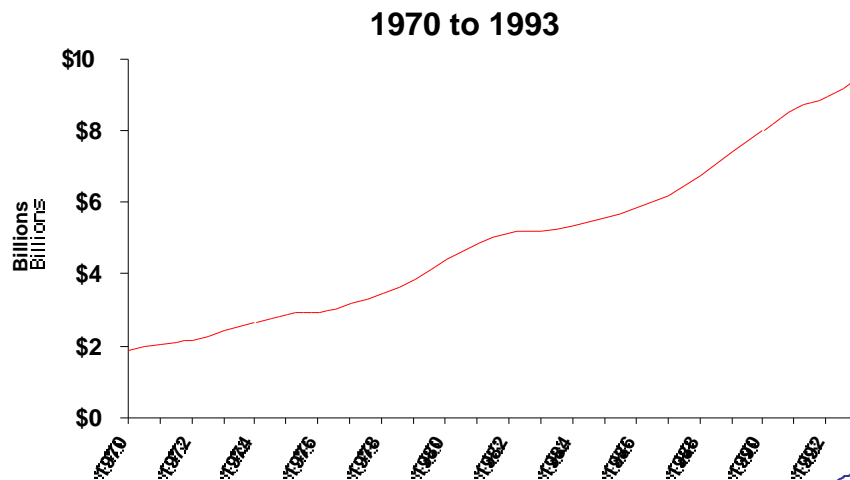


Where We Started - Michigan 1993

- Michigan property taxes 30% above national average
- Property value assessments outpace inflation
- Higher millages used to cover high K-12 education costs and increasing teacher salaries
- Funding inequities between school districts
- Property tax relief first priority of Governor Engler



Michigan Property Tax Levies Increasing

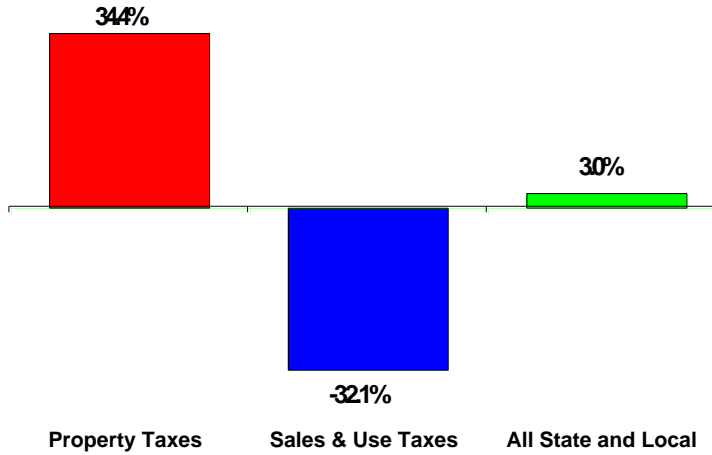


Source: State Tax Commission, Michigan Department of Treasury.



Michigan Tax Structure Compared to National Average FY 1993

Taxes as a Percent of State Personal Income



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



Property Tax Reform Votes

Date of Vote	Percent Yes Vote	Percent No Votes
November 1972	42	58
November 1980	26	74
May 1981	28	72
November 1989	24	76
June 1993	46	54
March 1994	69	31

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.



What We Did- March 1994 Voter Choices

- **“Yes” 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 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



How We Did It

- One year property tax freeze followed by two-year increase
- No status quo option
- Net tax cut
- Large property tax cut for homesteads
- More money for schools
- Cut other state spending



What We Learned

Revenue Estimating Difficulties

- How nonmarginal changes affect behavior
- Changes made in mid-year
- No experience with some new taxes
- Interaction between taxes (Homestead Credit)
- Local governments collect for state (SET)



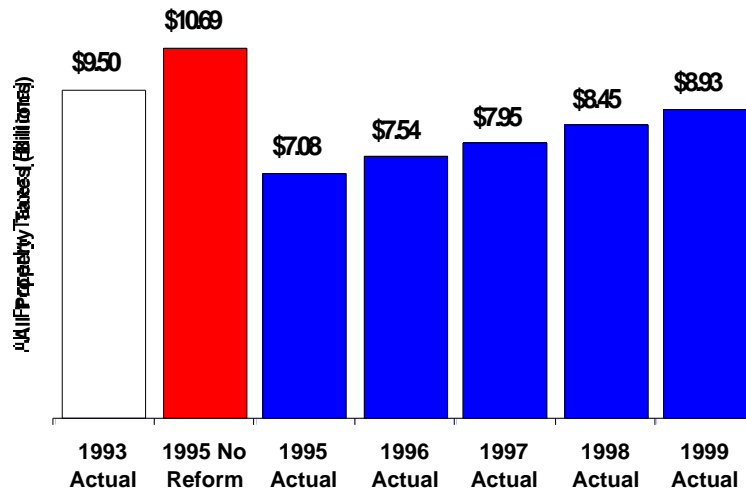
Revenue Impact of School Finance Reform

Tax Change FY 93 to FY 95	Jan 94 Estimated	Actual
Net Property Tax Cut	-\$3,454.0	-\$3,459.0
Replacement Revenues		
Sales Tax Increase	\$1,884.0	\$1,940.0
Income Tax Cut	-\$255.0	-\$262.0
Cigarette Tax Increase	\$343.0	\$391.0
Real Estate Transfer Tax	\$424.0	\$91.0
Property Tax Credit Reduction	<u>\$654.0</u>	<u>\$628.0</u>
Net Tax Cut	-\$404.0	-\$671.0

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.



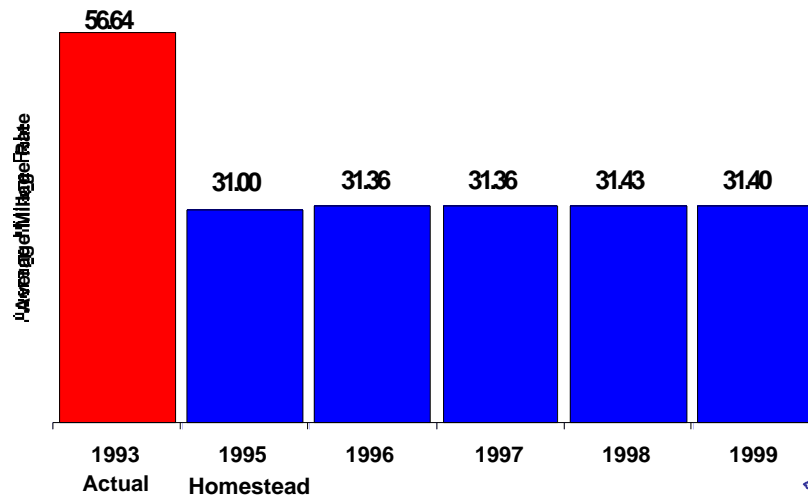
Michigan Property Taxes Cut \$3.6 Billion



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



Millage Rates Cut 45% for Homeowners

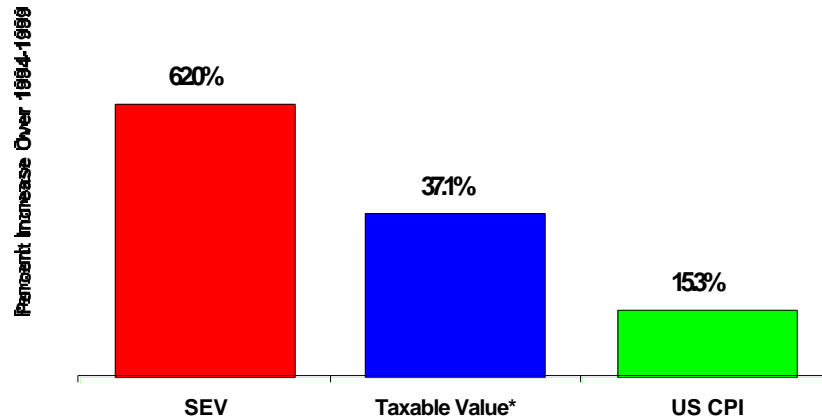


Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



Cap on Taxable Property Value Limits Growth in Assessments

1994-2000



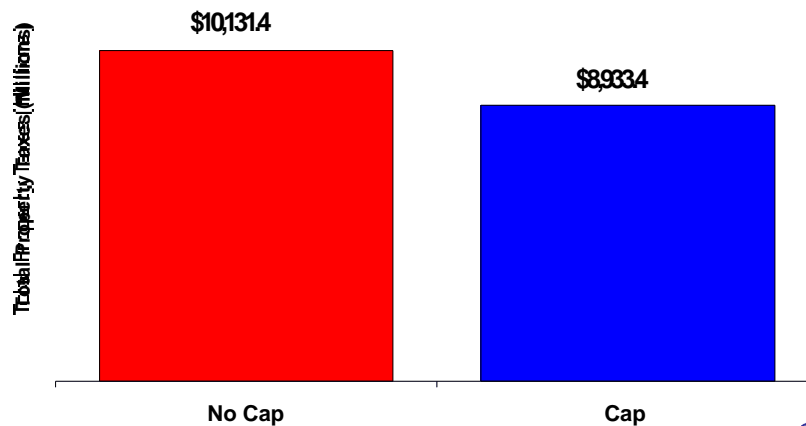
*Includes value of new construction.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



Cap Trims \$1.2 Billion From Property Taxes

1999*



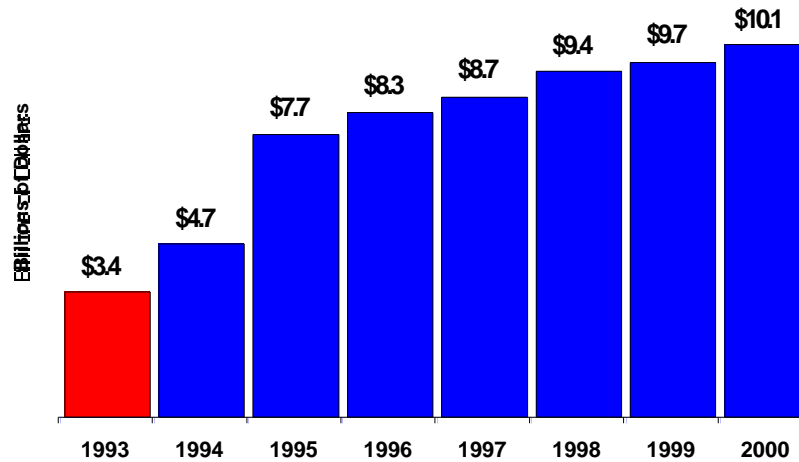
*Assumes same average millage rate used.

Source: Office of Revenue and Tax Analysis Michigan Department of Treasury



State School Spending - \$7 Billion Growth

1993 to 2001

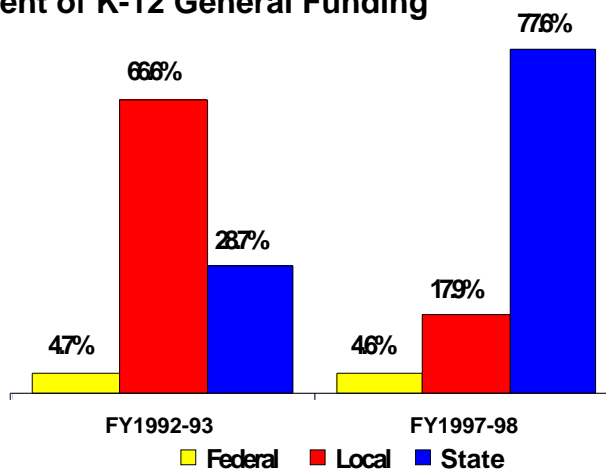


Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



More State Support for Education

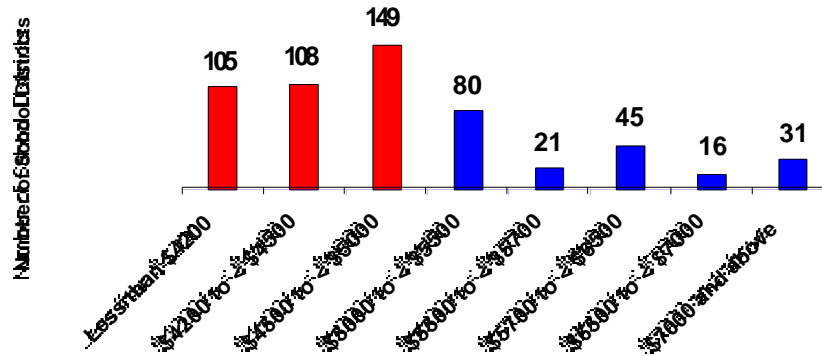
Percent of K-12 General Funding



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



Before School Finance Reform 463 Districts Below \$5,700 Per Pupil

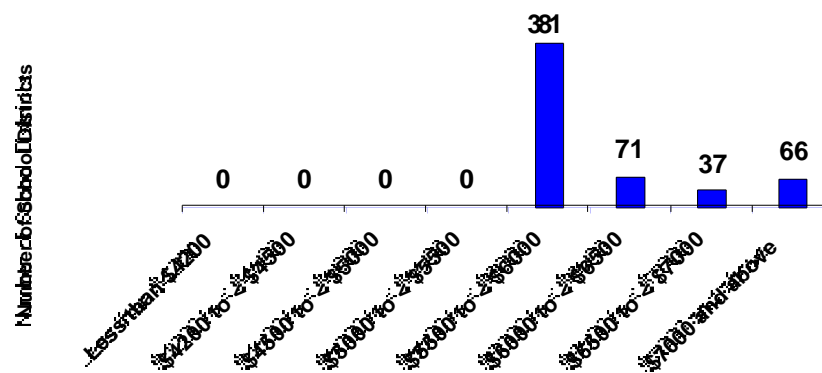


Base Revenue Per Pupil FY 1994

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



After School Finance Reform No Districts Below \$5,700 Per Pupil

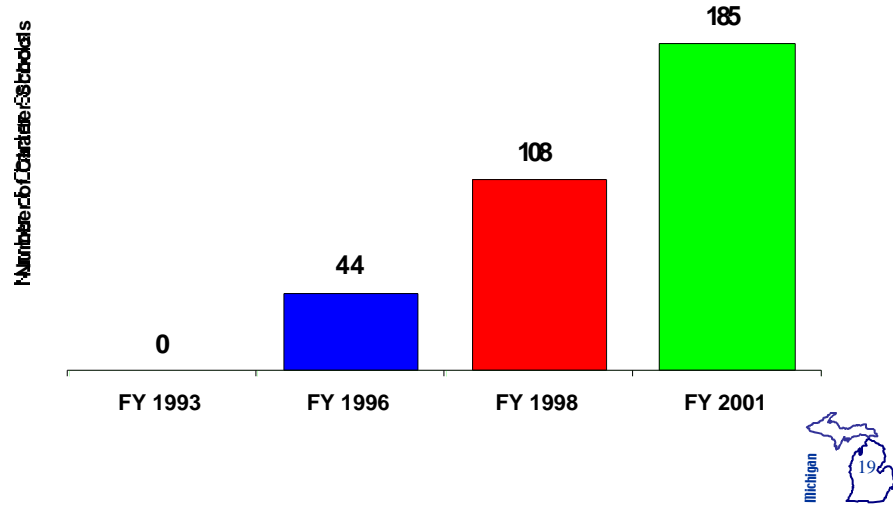


Foundation Allowance Per Pupil FY 2000

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



185 Michigan Charter Schools



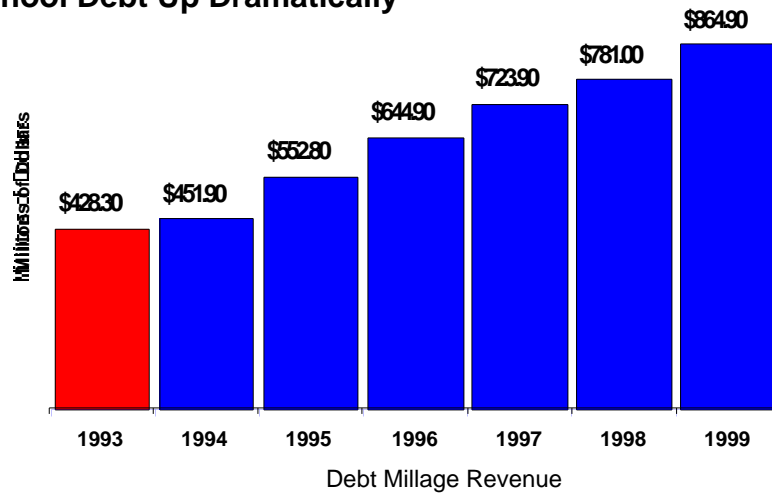
Michigan in 2001

- Michigan property taxes below national average
- Property value assessments capped at inflation
- Sales, income, and tobacco taxes replace property tax
- School funding more equal
- Property taxes cut over \$6.5 billion



What We Learned

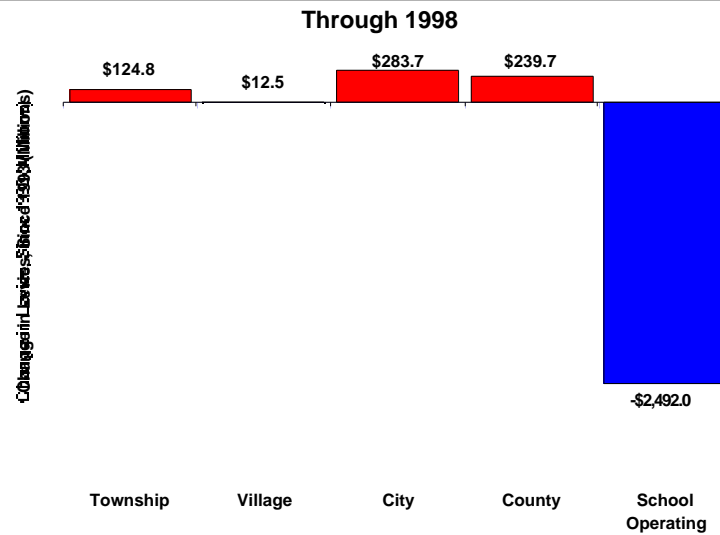
School Debt Up Dramatically



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



School Operating Property Tax Cuts Overshadow Other Increases



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury



Michigan Education Reform

- More state support for education
- More equal funding per pupil - \$6,000 minimum foundation
- State at Constitutional Revenue Limit
- School report card and longer school year
- Charter schools and teacher certification
- Teacher strikes outlawed



What Would We Do Differently

- Stamp cigarettes
- Better system for homestead exemptions



Michigan Tax Law Changes

1991-2001

- 198 new laws enacted
- All major taxes changed
- Base and rate changes
- Overall impact \$4.8 billion out of \$20 billion GF and SAF Budget



Net Impact of All Michigan Tax Law Changes

1991-2001
(Millions)

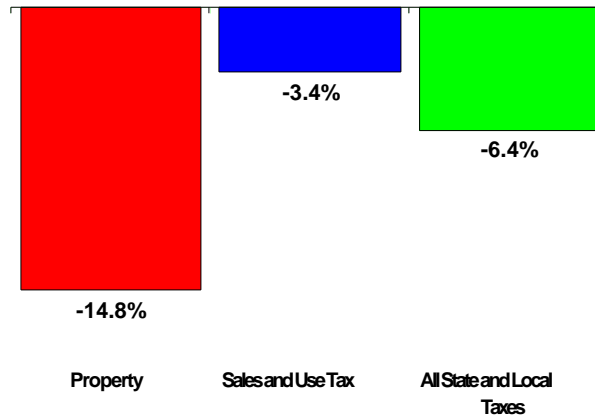
Tax	FY 1996	FY 2001
Income	-\$448.0	-\$1,283.0
Property	-\$2,947.0	-\$5,388.0
Sales and Use	\$2,055.0	\$2,462.0
Single Business	-\$266.0	-\$87.0
Other	\$220.0	\$54.0
Gas Tax	\$0.0	\$199.0
Total	-\$1,386.0	-\$4,826.0

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.



Michigan Tax Structure Compared to National Average FY 1995

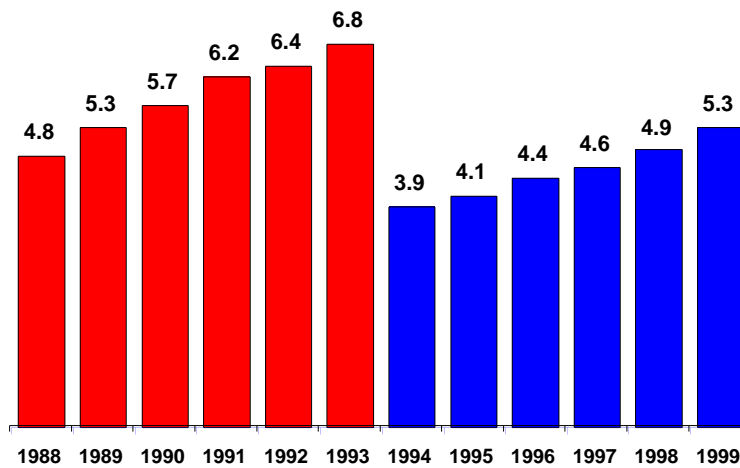
Taxes as a Percent of Personal Income



Source: Advisory Commission on Intergovernmental Relations, Michigan Department of Treasury



Michigan School Property Taxes*



Source: Michigan State Tax Commission



Recent Developments in School Finance

- In 2001, an Arkansas Court finds current school funding unconstitutional
- Former Governor and President Bill Clinton touts Michigan's school finance reform as model for Arkansas



Summary

- Michigan cut taxes
- Michigan increased and equalized school funding
- Michigan tax structure more like national average
- Cigarette stamping provided \$100 million by reducing smuggling
- Michigan a model for other states' school funding

