



**House
Legislative
Analysis
Section**

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REQUIRED ORDER OF MILLAGE

House Bill 5946 as enrolled
Public Act 344 of 1994
Second Analysis (1-12-95)

Sponsor: Rep. Frank M. Fitzgerald
House Committee: Taxation
Senate Committee: None

THE APPARENT PROBLEM:

Under the state's new school finance system, put in place by voter approval of Proposal A last March, most homeowners pay a 6-mill state education property tax and owners of other kinds of property pay an 18-mill local property tax in addition to the 6-mill state tax -- for a total of 24 mills. This supports a distribution system under which, generally, school districts get foundation grants of from \$4,200 to \$6,500 per pupil. The plan permits voter approval in higher spending districts of supplemental or "hold harmless" mills sufficient to maintain current spending levels. The first 18 hold harmless mills are to be levied only on homesteads; any additional such mills needed can be levied on both homestead and non-homestead property. Additionally, for 1994-1996, up to 3 "enhancement" mills can be levied on all property with voter approval. (In later years, enhancement millage must be approved on an intermediate school district-wide basis.)

Some people argue that under this financing system, higher spending districts are only supposed to levy enhancement mills after they have levied their full allotment of hold harmless mills. From this point of view, according to tax specialists and press accounts, one school district, Romulus, has violated the intent of Proposal A. In Romulus, hold harmless mills on homesteads were approved. Then, voter approval of 3 enhancement mills on all property was sought, allegedly with the promise that if voters approved the enhancement millage, the hold harmless millage would be reduced by 5 mills. In other words, voter approval of a 3-mill property tax increase resulted in a 2-mill decrease for homestead property -- and, of course, a 3-mill increase for commercial and industrial property! (A reported justification for this approach is that the new school finance system penalizes higher spending communities that have a high proportion of commercial property because they must spread hold

harmless mills across a small homestead property tax base, resulting in high homestead millages.)

Representatives of business interests, in particular, are concerned that if this strategy is permitted, commercial property will bear a greater property tax burden than was understood to be allowed when the agreements underlying the new school finance system were struck. They say other school districts are contemplating imitating this approach and urge that legislation be approved to prevent that.

THE CONTENT OF THE BILL:

The bill would amend the School Code to specify that a school district could not levy any enhancement millage approved by voters after September 30, 1994, unless the district was levying the maximum number of supplemental (or hold harmless) mills it was certified to levy for as long as the enhancement millage was in effect. (There would be an exception made for certain districts: those treated differently under the school finance system due to their small size or because their spending levels exceed the \$6,500 per pupil limit by a minuscule amount.)

MCL 380.1211c

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bill would specify that from now on no school district could levy enhancement millage until it had levied all of the hold harmless millage it was permitted to levy. This will prevent any recurrence

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of the situation in Romulus, where voter approval of enhancement millage (on all property) was accompanied by a reduction in hold harmless millage (on homestead property only). The bill would not address the Romulus situation, in large part because some people consider it unwise for the legislature to undo the results of a local election and override the preference of local voters. While nothing in the law technically prevented the school district from engaging in this strategy, it violates the intent of Proposal A and breaks faith with the business interests that supported it. It upsets the intended balance in property taxes between homestead and non-homestead property. Reportedly, other districts are interested in this approach; the legislature should prohibit it.

Response:

Is it fair to allow one district to use this creative and innovative approach to property taxation and prohibit it for others in similar circumstances? If the legislature wants to prohibit this, wouldn't it be better to invalidate the Romulus enhancement millage election as contrary to the legislative intent of Proposal A? If this approach is so clearly wrong, doesn't this legislation send the message that initial wrongdoers are to be rewarded for their creativity, while others similarly situated will be punished?

Against:

Some people have expressed the view that the circumstances the bill would address are not so obviously a violation of the intent of Proposal A. Levying hold harmless millage is an option provided to high spending school districts. Enhancement millage is an option for all school districts. It is not clear to everyone that the two options were tied together in any particular way. Some of the participants in the effort to overhaul the old school finance system had in mind discouraging districts from spending far more than the basic foundation allowance (which is limited to about \$6,500) so as to encourage equality and efficiency in school spending. Not levying all of the permitted hold harmless millage is consistent with that goal. It should be noted, as well, that when enhancement millages are allowed only ISD-wide, beginning in 1997, there will no requirement that districts first levy all of the permitted hold harmless millage. The two are clearly not connected under those circumstances.

Response:

Many people do view what happened in Romulus as contrary to the intent of Proposal A and would consider permitting its repetition a breaking of

agreements that underlie the new school finance plan. They would argue that explanations made in public forums regarding how the new school financing system would work assumed all hold harmless mills would have to be levied (where permitted) before enhancement mills could be levied. If this is not addressed for the years in which local school districts can seek voter approval for enhancement millages, the result could be an atmosphere in which it will be difficult for some school districts to get approval for enhancement millages due to heavy opposition from a distrustful business sector.