House Legislative Analysis Section
Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

SHARE TAX BASE GROWTH

Senate Bill 113 (Substitute H-2)
First Analysis (6-26-91)

Sponsor: Sen. John J.H. Schwarz, M.D.
Senate Committee: Appropriations
House Committee: Taxation

THE APPARENT PROBLEM:

Because Michigan's system of funding schools relies heavily on the local property tax, there are significant disparities in the amount spent on schooling for children among the state's school districts. Some districts, tax specialists say, spend $8,500 per pupil each year while others spend $2,500. Even less dramatic examples, where one district spends $5,000 per year and a neighboring district $3,000 per year, are very discouraging. Despite a school aid system that acts to diminish differences in spending per pupil, the amount of money each child has spent on his or her public schooling depends on the property wealth of the school district in which he or she lives. This state of affairs has been the subject of criticism and of attempted reform for over 20 years. Critics say it is repugnant to base the quality of a child's schooling (to the extent dollars translate into educational opportunities) on the wealth of the district he or she lives in or even on the willingness of the citizenry to raise the necessary money. Recently, there has been renewed emphasis on the concept of "tax base sharing," a means of redistributing tax dollars whereby better off school districts in a region share some portion of their tax base with school districts that are less well off. The recent proposals have focused on sharing some portion of the growth in the industrial and commercial portion of a school district's tax base. This would allow so-called out-of-formula school districts to maintain their current tax base, which more drastic tax shift plans would not, while sharing part of their future tax base gains with less fortunate school districts.

THE CONTENT OF THE BILL:

The bill would amend the School Code to require, beginning with the 1991-92 school fiscal year, that an out-of-formula school district deliver an amount equal to 50 percent of its commercial and industrial growth in state equalized valuation (SEV) times its school operating millage to the most populous intermediate school district in its region. (The bill would create two regions, one in which the largest district is the Oakland Intermediate School District, and the other in which the largest district is the Wayne Intermediate School District.) The revenue would be distributed by the appropriate intermediate school district on a per pupil basis among the in-formula school districts in the region. The bill would specify that an out-of-formula school district's "categorical recapture" would be reduced by $1 for each $2 the district had paid out in tax base sharing revenue.

The bill contains four exceptions for out-of-formula school districts. (1) If a district is levying 40 or more school operating mills when a payment is due, the amount the district must pay would be either 50 percent of commercial and industrial SEV growth or 25 percent of the district's total SEV growth, whichever is less. This is said to assist districts with high tax effort and with large amounts of commercial and industrial property. (2) No payment would be due that would result in a school district's resources being diminished to a per pupil amount less than the gross membership allowance. (3) A district with zero recapture and with a school operating millage 20 percent or more above the average for in-formula districts would share only 25 percent of the growth in their commercial and industrial tax base. This is said to assist districts with high tax efforts and less property and income wealth. (4) Primary school districts (that is, K-8 districts) would be exempt from tax-base sharing.

The bill would also require that new regions be drawn or the two regions consolidated into one if the amount of aid per pupil to be distributed in a region varied by more than 10 percent from the state average of the aid per pupil. If the legislature did not draw new regional boundaries by July 1, there would be one district and out-of-formula districts would make payments to the Oakland Intermediate School District.

Under the bill, the term "commercial and industrial SEV growth" would refer to the difference in SEV in the fiscal year in which the calculation was made and the commercial and industrial SEV for the 1990-91 school fiscal year.

The two regions would be divided as follows. Region One would include the following counties: Alcona, Alger, Alpena, Antrim, Arenac, Baraga, Bay, Calhoun, Charlevoix, Cheboygan, Chippewa, Clare, Clinton, Crawford, Delta, Dickinson, Eaton, Emmet, Genesee, Gladwin, Gogebic, Gratiot, Houghton, Huron, Ionia, Iosco, Iron, Isabella, Kalkaska, Keweenaw, Lake, Lapeer, Luce, Mackinac, Macomb, Marquette, Mecosta, Menominee, Missaukee, Montcalm, Montmorency, Newaygo, Oakland, Ogemaw, Ontonagon, Osceola, Roscommon, St. Clair, Sanilac, Schoolcraft, Tuscola, and Wexford.

Region Two would include the following counties: Allegan, Barry, Benzie, Berrien, Branch, Cass, Grand Traverse, Hillsdale, Ingham, Jackson, Kalamazoo, Kent, Leelenau, Lenawee, Livingston, Manistee, Mason, Midland, Monroe, Muskegon, Oceana, Ottawa, Saginaw, St. Joseph, Shiawassee, Van Buren, Washtenaw, and Wayne.

The bill, which says it should be cited as the Keith-DeGrow Educational Equity Act, also contains a statement that "the legislature finds that this amendatory act will further the maintenance and support of the system of free public elementary and secondary schools as defined by law pursuant to section 2 of Article VIII of the state constitution of 1963."

MCL 380.1211 et al.

HOUSE COMMITTEE ACTION:

The House Taxation Committee adopted a substitute that essentially incorporated the provisions of House Bill 4267 (Substitute H-2 as amended on the House floor) into Senate Bill 113. The principal differences of the substitute from the Senate-passed version of tax-base sharing include the use of two regions (and, under certain circumstances, one) rather than three; a phase-out of categorical recapture rather than its elimination in 1992-93; allowing in-formula districts to retain their growth rather than pay into an intermediate district and then get their contribution back; and protections for only slightly out-of-formula districts by guaranteeing that no district could end up with less than its gross allowance per pupil due to tax base sharing.

FISCAL IMPLICATIONS:

According to a memorandum from the staff to the House Taxation Committee, $27 million would be shared among in-formula school districts in the first year and shared revenues will continue to grow by about $25-30 million each year. As the memorandum points out, this means more than $250 million will be available annually for sharing in ten years' time. (6-19-91)

ARGUMENTS:

For:

It is outrageous that some school districts can spend more than $8,000 per pupil while others spend only $2,500. It is unfair to make the educational opportunities available to a child depend on the value of property in the school district where he or she lives. This bill would take a step towards remedying this situation. It would not take any of the revenue currently available to an out-of-formula school district, but would capture for distribution to in-formula districts one-half of the growth in its commercial and industrial tax base. (At the same time, it would reduce the amount of categorical aid to be recaptured from an out-of-formula school district by $1 for every $2 of revenue shared.) This is a mild redistributive approach since it merely slows the growth in spending in the districts with the most resources rather than reducing their spending through, for example, a statewide property tax system. Nevertheless, something must be done to begin to correct the unfair disparities in educational opportunities of Michigan children.

Against:

This bill establishes the bad precedent of saying to taxpayers in local school districts that their locally raised tax dollars are not theirs but belong to the legislature to redistribute as it sees fit. It does this in the name of a principle of equality that it nevertheless does next to nothing to fulfill. The amount to be taken from the so-called wealthy districts will have precious little impact spread among the in-formula school districts. Further, there is always the likelihood that in the end the general fund dollars going to school aid will be correspondingly reduced, leaving nobody better off and reducing the effectiveness of some of the better funded schools in the state. There is danger in this precedent in that in future years the growth in residential property could be captured; then later perhaps not just the growth in a school district's tax base but the base itself could be subject to a taking by the state. If the state is seriously interested in improving the educational opportunities of schoolchildren, it ought to consider ways of spending more on schools that need the money without damaging "lighthouse" school districts.

POSITIONS:

There are no positions at present.