

For some, Senate Bill 1 was a bold and courageous move that held hope not only of breaking the twenty year legislative impasse on school finance reform, but also of providing a once-in-a-lifetime opportunity to reform public education. For others, it was a totally irresponsible act, the most stupid thing the Legislature had done in twenty years.

# THE DARK (OR THE LIGHT) SIDE OF THE MOON? Michigan's Elimination of the Local Property Tax

by C. Philip Kearney

In late July of this year, in lightning-like fashion, the Michigan Legislature eliminated entirely the local property tax as a source of operating revenue for the public schools. The public school establishment awakened on the morning of July 22, 1993 to find, as a result of the Legislature's adoption of Senate Bill 1, fully two-thirds of its operating revenues wiped out and no immediate prospects for how that revenue was to be replaced. The Legislature not only had thrown out the local property tax as a source of school funding, it had done so without making any provision whatsoever for replacing the \$6.5 billion lost as a consequence of its action. Michigan literally had departed from the fold, becoming the only state in the nation other than Hawaii that apparently would not be looking to the local property tax as a major source of school operating revenues. The Michigan Legislature, by any measure, had taken a giant step into the unknown.

For some, it was a bold and courageous move that held hope not only of breaking the twenty year legislative impasse on school finance reform but also of providing a "once-in-a-lifetime" opportunity to reform public education. As Governor John Engler noted at the time of Legislature's action, citizens will soon see "stunning improvements" in public education as a

consequence of this daring stroke—a journey, if you will, to the light side of the moon. For others, it was a totally irresponsible act, the "most stupid thing the Legislature had done in twenty years."<sup>1</sup> As one long-time political observer from another state put it, "The Michigan Legislature has attained heights of irresponsibility hitherto attained only by the supreme court of the state of Texas."<sup>2</sup> For him, and others, it was a journey to the dark side of the moon.

How did Michigan come to this? Where will it lead? Will Michigan end up with a system that is fully state-funded, that depends not at all on the local property tax as a revenue source? Will the Governor be successful in his bid to turn to the sales tax as the major source of replacement funds? Or will he and the Senate Republicans compromise with a bipartisan House and look to an increase in the state income tax, and a restoration of the local property tax (at a much reduced rate), should the sales tax fail to receive voter approval?<sup>3</sup> Will Michigan citizens actually see "stunning improvements" in public education? Will the Governor be successful in establishing schools of choice and charter public schools as the centerpiece of his reform program? Or will the educational establishment, and particularly the powerful teachers' union, the Michigan Education Association (MEA), be successful in thwarting that effort? Will citizens see, in the long run, little substantive restructuring and change in public education in Michigan? Or will they witness a new, different, more effective and more efficient system of public schooling?

We turn first to the initial question raised, namely, how did Michigan come to this? What led up to the fateful July decision? To fully understand how this came about, we need first to comment on the fiscal situation that faced the state in mid-1993, and then retrospectively to examine the history of past legislative actions and inactions—and the consequences for Michigan taxpayers and pupils. Equally important is a review of the spate of reform efforts that followed the 1990 gubernatorial elections and the ascent of John Engler to the Governor's Office, and which eventually culminated in mid-July 1993 in the passage of Senate Bill 1.

## The Fiscal Situation

Two major fiscal problems continue to plague the State of Michigan. The first is that Michigan is no longer a relatively wealthy state, yet public spending has continued at relatively high levels. This, in turn, has resulted in state government operating with a permanent budget deficit on the order of ten percent of normal state spending.<sup>4</sup> The second problem, which flows from the first, is that Michigan citizens in mid-1993 were faced with a higher than average tax burden compounded in turn by a substantial imbalance among the three major sources of tax revenues. The property tax was over utilized, the sales tax was under utilized, and individual and corporate income taxes were substantially higher on a per capita basis than the U.S. average.

## The State's Failure to Fund Public K-12 Education

The major reason for the heavy reliance on the property tax has been the state's failure to assume its share of the responsibility for funding public K-12 education. There is today a strong feeling in Michigan, initially articulated some years ago in the formation of a coalition of educational organizations under the banner of "Equal Partners," that state government at the least ought to match dollar for dollar local school property tax revenues in the aggregate. In 1992, this feeling was given voice in the "50/50 Plus the Lottery" slogan that was the driving force behind a statutory initiative petition campaign aimed at property tax reduction and school finance reform.<sup>5</sup> The "50/50 Plus the Lottery" supporters contended that the state's K-12 funding responsibility was to provide annually state revenue equal to

---

Philip Kearney is a professor at the University of Michigan and former president of the American Education Finance Association.

50 percent of local revenue, plus additional revenue equal to the net proceeds of the state lottery. This contention rested on three premises.

First, twenty-five years ago in 1966–67, the local-state ratio was 50/50.<sup>6</sup> Since that time the state's share had declined to its present level of some 30 percent. Second, 50/50 is the local-state ratio across the nation, i.e., on the average state governments are matching local sources in covering the costs of public K–12 education.<sup>7</sup> This 50/50 ratio is the consequence of a long-term trend across the United States that has seen state governments increasingly assume a larger share of the costs. Michigan is an anomaly in this respect, running counter to the trend. In only four states—Nebraska, New Hampshire, Oregon, and South Dakota—does the state contribute a smaller share.<sup>8</sup> Third, in the early 1970's, when the Michigan legislature adopted the state lottery, the promise was made to the citizens of Michigan that the net proceeds of the lottery would go to improve and enhance public K–12 education, to supplement the state dollars that already were going to the schools. While the net proceeds of the lottery by statute do go to the schools, these dollars do not represent a supplement to state school aid. Rather they supplant state dollars previously provided. In effect, the legislature has been involved in a "shell game;" to the degree that lottery proceeds were funnelled into the school aid fund, a like amount of state general-fund/general-purpose dollars was pulled out of the fund.

### The Consequences For Taxpayers

Michigan's heavy reliance on the local property tax as the major source of K–12 funding has driven school property tax rates sky-high in many districts, while in other districts taxpayers enjoy relatively low rates. In the latter case, the literal explosion of assessed residential property values that began in the late 1980's and carried through the 1990's is the major contributor to the relatively low rates yet high yields. At the extremes, in the 1992–93 fiscal year the Bridgman school district was levying only 8 mills for operations and generating \$6,351 per pupil, while the Wayne–Westland district levied 47 mills and generated \$4,879 per pupil—a disparity or range of some 39 mills and \$1,472 per pupil. Even if one excludes the extremes, taking the districts at the 5th and 95th percentiles, the range in levied mills still is large—from 22 mills to 42 mills.<sup>9</sup> And the disparities over time have been increasing rather than decreasing. In 1976–77, the range was 31.2 mills—the highest district was levying 39.6 mills and the lowest 8.4 mills. By 1988–89, the range had increased to 41.8 mills—the highest district was levying 48.2 mills, the lowest 6.4 mills. When we discount the extremes and look only at the restricted range, the differences don't appear quite as excessive as an examination of Table 1 will reveal. In 1976–77, the restricted range was 13.7 mills. The district at the 95th percentile was levying 35.7 mills; the district at the 5th percentile, 22.0 mills. However, in the next three years the spread increased to 16 mills but then, through the remainder of the period, tended to level off bouncing back and forth between 15 and 16 mills.

Thus, we might conclude that the restricted range has tended to stabilize over the last nine years of the period. However, we temper this finding with the finding that, over the full thirteen year period, the range has increased by almost two mills. In terms of horizontal equity as measured by the restricted range, sizable differences in operational millage rates do exist and over the full period these differences have increased by almost two mills—or some 13 percent.

Some will argue, and rightly so, that the Michigan school aid formula was not designed to produce identical operational millage rates. On the contrary, it leaves the choice of millage rates to the voters in local school districts. In theory, those who choose to levy higher millages, should realize higher revenue levels. Thus, we might well expect to see differences in millage rates. Still one might ask two questions. First, should we be willing to accept a restricted range as great as 15 mills (or some 41 mills if we use the range)? Second, do higher millages in fact result in higher revenues per pupil? The first question depends on one's values or preferences for what should be or not be.

To answer the second question, we need to bring into play, in addition to *levied mills*, *local + state membership aid* as a second variable or equity object.<sup>10</sup> Since we were interested in the nature of the relationship between the two, we chose to use the *correlation coefficient* as the equity measure. However, in contrast to examining equity for pupils (which we address below), we were not interested in this instance in finding no relationship or a diminishing relationship over time between the two variables. Rather, we wanted to know if there was a positive relationship, i.e., for the state as whole, as *levied mills* increase does *local + state membership aid* also increase? Thus, we were looking for relatively high correlations as well as an increase in the correlation coefficients over time.

In examining the data in Table 2, we find that in 1976–77 the correlation coefficient was quite high, 0.77, indicating a strong positive relationship between *levied mills* and *local + state aid membership per pupil*. Very definitely, as a district levied higher millages higher revenues per pupil were a result. Across the state, 59 percent of the differences among districts in *local + state aid per pupil* was accounted for by the differences in *levied mills*.<sup>11</sup> One might conclude that the power equalizing formula was working reasonably well, i.e., the more mills a district levied, the more revenue per pupil it was able to generate.

However, in the following year the correlation coefficient decreased and, after a slight bounce back in 1978–79, it generally decreased quite rapidly over the next ten years. It reached its low point of 0.05 in the final year of the period, 1988–89. Less than 1 percent of the differences in *local + state membership aid per pupil* were accounted for by differences among districts in *levied mills*.<sup>12</sup> Put another way, in 1988–89 factors other than *levied mills* accounted for 99 percent of the differences in *local + state membership aid per pupil*. Assuming that higher millages should be accompanied by higher revenues, equity for taxpayers has been seriously eroded in Michigan over the past several years. Higher millage districts in general have not en-

Table 1. Levied Mills—Restricted Range

Year	76–77	77–78	78–79	79–80	80–81	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89
Restricted Range	13.70	14.00	13.99	16.02	15.81	15.86	15.00	15.26	15.90	15.37	15.01	15.77	15.45
5th Percentile	22.00	22.65	22.77	22.34	22.56	23.54	24.10	24.50	24.75	25.53	26.00	26.13	26.55
95th Percentile	35.70	36.65	36.76	38.35	38.38	39.40	39.10	39.76	40.65	40.90	41.01	41.90	42.00

Table 2. Levied Mills—Correlation Coefficient (with Local plus State Aid Membership Per Pupil)

76–77	77–78	78–79	79–80	80–81	81–82	82–83	83–84	84–85	85–86	86–87	87–88	88–89
.768	.661	.700	.620	.490	.0347	.0243	.276	.290	.249	.234	.179	.0532

**Table 3. Local plus State Membership Aid Per Pupil Correlation Coefficient (with SEVpp)**

76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
.577	.570	.567	.588	.611	.707	.738	.708	.665	.683	.689	.727	.790

**Table 4. Current Operating Expenditures Per Pupil Correlation Coefficient (with SEVpp)**

76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
.402	.320	.291	.308	.348	.442	.534	.521	.529	.491	.484	.550	.619

joyed higher revenues per pupil as a result of their greater tax efforts. And the situation has continued to deteriorate.

### The Consequences for Pupils

The consequences of state government's failure to assume its share of the responsibility for funding K-12 public education also has led to a substantial loss in equity for Michigan pupils over the past thirteen years.<sup>13</sup> The level of resources available to pupils is becoming increasingly dependent on the relative tax wealth of the local district in which they happen to live and attend school. An examination of the data in Table 3 provides ample evidence to support this statement.

In conducting an equity analysis, one is interested among other things in determining whether "suspect" factors such as tax wealth, gender, or race have an undue influence on the distribution of an equity object. The "suspect" factor in the present case is *state equalized valuation per pupil* and the equity object is again *local + state membership aid per pupil*. Thus, we wanted to raise two questions: Was the relative tax wealth (*state equalized valuation per pupil*) of a district related to how many dollars—in a combination of local and state membership aid per pupil—the district had available? If so, was the situation getting better or worse over time?

What did we find? Over the thirteen-year period, there indeed was a strong positive relationship between *state equalized valuation per pupil* and *local + state membership aid*, as can be seen from an examination of the data in Table 3. The correlation coefficients are quite high, ranging from .58 to .79, indicating both a positive and a relatively strong relationship. The relative tax wealth of a district does determine to a considerable extent how many dollars per pupil will be available. And the general trend over time has been an increase in the correlation coefficients. Equity for pupils has worsened over the thirteen year period.

This is particularly troublesome since one of the avowed policy goals of the Michigan program is to guarantee an equal dollar yield for an equal tax effort. The basic concept undergirding Michigan's so-called Equal Yield Plan, adopted in 1973, is that—irrespective of a school district's taxable wealth—the state will guarantee the district the same basic revenue per pupil as any other district levying the same tax rate. In effect, if the policy goal were being attained, there should be no relationship, i.e., a near zero correlation, between property tax wealth and basic revenues per pupil. Not only did we find a relationship, but its strength generally has been increasing over the thirteen-year period—producing a clear pattern of decreasing equity for pupils. The major policy goal embedded in Michigan's Equal Yield Plan has not been achieved; what's more, it was further from attainment in 1988-89 than it was in 1976-77. A "suspect" factor, local tax wealth, has exhibited a strong and increasing influence on the per pupil revenues available to local districts.

We asked, what is the case when we look at a second equity object, *current operating expenditures per pupil*? Do we find the same or a different picture? The bad news, seen from an examination of the data in Table 4, is that we found generally the same picture. There was a positive and strong relationship between tax wealth per pupil and operating expenditure per pupil, particularly in the final year of the period where the correlation coefficient reaches 0.62. And the trend is generally upward, i.e., away from equity. The wealthier the district, in terms of its tax base, the higher the per pupil expenditure level.

But there also appears to be some good news. *Current operating expenditure per pupil* includes almost all the expenditures of a local district—expenditures from local + state membership aid revenues, state special and categorical revenues, and federal categorical revenues. Because districts with high needs tend also to be districts with relatively low per pupil tax bases, the inclusion of these added dollars—mostly marked for high needs districts—might be expected to result in appreciably lower correlation coefficients. And we did find this. The correlation coefficients are from 0.17 to 0.28 points lower than those found in the case of *local + state membership aid*. In this sense then, we might say that the inclusion into the mix of state and federal categorical aid provides evidence of attention to vertical equity, i.e., to special needs. Districts with high concentrations of pupils with special needs appeared to be receiving additional dollars to meet these needs. Whether the additional dollars were adequate to fully meet these needs remains an unanswered question. Still, lest we forget, these districts, with their low per pupil property tax bases and generally higher millage rates, started out on an uneven playing field and a playing field that is getting increasingly uneven over time.

The unevenness of the playing field is readily apparent when one invokes the principle of horizontal equity and examines the spread among school districts in available revenues (and other resources) per pupil. In Table 5 we present such information, choosing again *local + state membership aid per pupil* as our revenue variable and selecting the restricted range as our measure of spread or dispersion. The restricted range, as opposed to the range, ignores the upper and lower tails of the distribution, thus eliminating extreme "outliers" that may unduly influence the range. It tells us the size of the difference between the district at the 95th percentile and the district at the 5th percentile. Since the restricted range is a measure highly susceptible to inflation, we price-adjusted the dollar figures using 1988-89 as the base year. Thus all dollar figures are held constant and expressed in terms of 1988-89 dollars.

In this case, the choice of equity object—*local + state membership aid*—is an important one. There are some who would argue that one of Michigan's policy goals, through its state aid formula, should be to reduce disparities among school districts in per pupil revenues available. If the state aid

**Table 5. Local plus State Membership Aid Per Pupil—Restricted Range**

Year	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
Restricted Range	1248	1407	1449	1670	1744	2027	2099	2154	2182	2075	2263	2449	2641
5th Percentile	2060	2167	2258	2214	2196	2197	2173	2288	2348	2425	2522	2548	2642
95th Percentile	3308	3575	3707	3884	3939	4225	4272	4442	4530	4501	4785	4998	5283

formula was working as these persons would envision, we would expect to find the restricted range decreasing over the thirteen year period—particularly in terms of constant dollars. We didn't find this. Instead we found a consistent increase in the restricted range over the thirteen year period and, correspondingly, a consistent trend away from horizontal equity. The restricted range more than doubled in constant 1988–89 dollars. At the start of the period, the restricted range was \$1,248; at the end of the period, it had risen to \$2,641.<sup>14</sup> There is twice as much horizontal inequity in 1988–89 as there was in 1976–77.

However, under a power equalizing formula one might expect to see this, i.e., districts are "free" (providing they have voter approval) to levy higher millages and thus realize higher revenues per pupil. Consequently, one could argue that increases in the restricted range, rather than providing evidence of decreasing equity, are simply providing evidence that local voter choice is at work. However, this argument only holds if one finds a strong positive correlation (and probably large and consistent values in the simple slope and simple elasticity) between mills levied and available revenues per pupil. As we noted above, we didn't. The power equalizing formula wasn't working; the inequities, by whatever equity principle and measure, were continually increasing. Thus, in Michigan, in mid-1993, the state of the state in equity terms, both for taxpayers and pupils, was quite dire.

### Past Attempts to Reform the System

Michigan policy makers, educators, and other citizens are not impervious to the fiscal and educational inequities that abound in the K–12 system for both pupils and taxpayers. It is a problem that has been addressed continually over the past several years. In the late 1960's, the legislature commissioned a comprehensive study, the so-called "Thomas Report," which identified several alternatives for reforming the Michigan school finance program, including a "radical proposal" to levy a state-wide property tax and distribute the proceeds equally among the school districts of the state.<sup>15</sup> Following on the heels of the Thomas Report, in 1969 Governor William Milliken appointed a Commission on Educational Reform which led in turn to a gubernatorial proposal for a state-wide property tax to generate the revenues needed to support the public schools. The Governor also proposed the so-called "Equal Quality Plan," based on classroom units, as the method for allocating the revenues that would be raised through the statewide property tax.<sup>16</sup> The State Board of Education entered the picture by advancing its

own separate recommendations. However, in spite of these many efforts, there were no major changes made in the way state aid for schools was raised and allocated.

In 1972, Governor Milliken supported a proposal, developed by the Michigan Education Association, to place on the November ballot a constitutional amendment calling for a 26 mill limit on the property tax to replace the existing 50 mill limit, the retention of 6 mills for "educational enrichment" at the local level, and an increase in the income tax to finance the basic operating expenses of the schools.<sup>17</sup> This proposal, if enacted would have moved the state to virtual full-state funding of education. However, the proposed amendment was defeated by the voters—the first in a long line of defeats of school finance reform ballot issues.

Governor Milliken, however, did not place all of his eggs in the constitutional amendment basket. Following the lead provided by the 1971 *Serrano* decision in California, the Governor joined with the Attorney-General to file suit against the State Treasurer seeking a declaratory judgment that Michigan's deductible millage was unconstitutional in that it denied the equal protection of the law as guaranteed by Article I of the Michigan Constitution. The Michigan Supreme Court, on December 29, 1972, in a 4–3 decision held that the Michigan system violated the equal protection clause of the Michigan Constitution.<sup>18</sup> Two days later, on January 1, 1973, Justices Black and Adams replaced Justices Coleman and Levin and a re-hearing of the case was granted by the court. Twelve months later, on December 14, 1973, the Michigan Supreme Court dismissed the lawsuit brought by the Governor and the Attorney-General and vacated its decision.<sup>19</sup> A later attempt in the early 1980's to seek judicial remedy, advanced by a group of low valuation districts, also was unsuccessful.<sup>20</sup>

However, during this same period, the Michigan legislature was acting to reform the school finance program by adopting the Gilbert E. Bursley School District Equalization Act of 1973. The Bursley Act reformed the system of membership aid, moving Michigan from a foundation grant system to a power equalizing or guaranteed tax base program.<sup>21</sup> Governor Milliken, on signing the bill, stated: "This Act will virtually eliminate property tax based on wealth as a factor in school finance among districts."<sup>22</sup> Unfortunately, it didn't. And the equity situation, as we noted above, has continued to deteriorate.

But it was not for want of trying. Over the period from 1972 to 1989, Michigan voters were presented with nine opportunities either to change statutorily or constitutionally the

**Figure 1. Proposed Amendments to the 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	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 taxes	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

SOURCE: *Michigan in Brief: 1992–93 Issues Handbook*, Public Sector Consultants, Inc., Lansing, 1992.

means of financing schools and to reduce property taxes. As can be seen from an examination of Figure 1, all of these measures were rather soundly defeated.

Thus, as the decade of the 1990's began, the financing of Michigan's public schools continued to be a troublesome problem. And it was a problem no closer to resolution than it was some twenty years before, or even ten years before when a major state newspaper set forth its dimensions:

... statewide school financing remains a major piece of unfinished business for Michigan. The inequities are unconscionable and getting worse. The formula year by year becomes obviously vulnerable to judicial challenge. As the problem worsens, the State's capacity to avoid action on it—even in times when new initiatives seem unthinkable—will be sorely tested. We hope a way can yet be found to reopen the debate and start a process that would lead to justice in school finance.<sup>23</sup>

As the decade of the 1990's opened, following the defeat by wide margins of the two reform proposals that appeared on the November 1989 ballot (see Figure 1), school finance reform still remained "a major piece of unfinished business." As we noted above, the defeats of these two proposals brought to nine the number of times reformers had tried—and failed—to reform the state's system of school finance through the constitutional and statutory amendment route.

### More Recent Attempts to Reform the System

#### *Proposals A and C*

In the 1990 Michigan gubernatorial campaign, Republican candidate John Engler narrowly defeated two-time incumbent Democratic governor James Blanchard. One of the main planks in John Engler's campaign platform was the promise of a hefty cut in property taxes if elected. Once elected, he did move quickly to set in motion an initiative petition drive to place on the November 1992 ballot a proposed constitutional amendment aimed at providing an across-the-board cut in local property taxes, accompanied by a cap on future increases in the assessed valuation of property. Known as the Republican leadership's (or more properly the Governor's) "Cut and Cap" program, Proposal C would have slashed school property taxes by 30 percent over a five year period and capped future assessment growth on all property at the lesser of 3 percent or the annual inflation rate. The state would reimburse the schools, dollar for dollar, for lost property tax revenues. The generation of the reimbursement revenues, some \$2 billion over the five-year period, was linked neither to a tax shift nor to an increased tax rate, but rather to expected annual growth in state general-fund/general-purpose revenues.<sup>24</sup>

Not to be outdone, in what became essentially a political game rather than a public policy venture, the Democratic leadership in the House proposed an alternative property tax package and launched their own initiative petition drive. The Democratic proposal would have provided school property tax relief, with reimbursement for lost revenues to come from eliminating a capital gains deduction currently enjoyed by business. In what one legislator termed "a blatant political move,"<sup>25</sup> the Democratic proposal was ruled off the ballot by the Board of State Canvassers for lack of sufficient valid signatures. Still, the legislature, through its own action, did move to place on the November 1992 ballot a proposed constitutional amendment that would provide not a tax cut but rather an assessment cap. Known as Proposal A, the amendment would have limited annual assessment increases on homestead property to the lesser of 5 percent or the annual inflation rate. Both Proposal A and Proposal C were soundly defeated by large margins. This brought the score for voter approval of property tax and school finance reform proposals to 0–11, a pretty lousy batting average in any league.

### The Olmstead/Kearney Plan

Concurrently, and for the prior three years dating back to the end of Governor Blanchard's administration, a grass-roots effort had been underway that came to be known as the Olmstead/Kearney or O/K Plan. Initially aimed at amending the Michigan Constitution, the plan subsequently was set forth in statutory language during the summer and fall of 1992. On January 12, 1993, an initiative petition drive was launched. The drive was aimed at securing some 200,000 plus signatures by mid-summer of 1993 with subsequent presentation of the statutory initiative petition to the legislature in early Fall 1993. Under Michigan law, the legislature would have 40 session days to respond. Its response would be limited to one of two actions: adoption without amendment, or rejection. If rejected, the statutory initiative automatically would go on the November 1994 ballot for a vote of the people.

The O/K initiative, in brief, called for (1) the state to assume responsibility for at least 50 percent of the costs of public K–12 education, (2) property tax relief through a roll back of tax rates for school operations to 30 mills, (3) new money for pupils in low valuation "in-formula" districts, (4) holding harmless high valuation "out-of-formula" districts, and (5) phasing in the plan over six years without linking it directly to a voter approved tax shift or tax increase.

### Senate Bill 146

Following the November 1992 defeat of Proposals A and C, and as the O/K initiative petition drive was being launched, Governor Engler had introduced into the State Senate a property tax relief proposal, Senate Bill 146, for good reason labeled "Son of C" by some and "C Minus" by others. Senate Bill 146 was an attempt to accomplish through legislative action what the Governor had failed to accomplish through the ballot, namely, deliver on his 1990 campaign promise of a hefty cut in property taxes if elected. The bill provided for property tax relief through the device of rolling assessment ratios back from their current level of 50 percent of market value to 40 percent over a period of three years. The bill also provided for reimbursing school districts for lost tax revenues; again expected annual growth in general-fund/general-purpose revenues was seen as the source of the dollars needed for reimbursement. The Republican Senate did pass the bill and sent it to the House which, following unanticipated upsets in the November election, had moved from a Democratic majority to a 50/50 Democratic/Republican split.

### The Bipartisan Legislative Team Proposal

During the months prior to and following the November 1992 elections, a bipartisan team of House legislators had been at work fashioning what eventually came to be known as the Bipartisan Legislative Team Proposal. Unlike the Governor's proposal, it linked property tax reform with school finance reform, rather than dealing only with the former. Property tax relief was to take the form of a roll back of tax rates for school operations to 17 mills and subsequently to 16 mills in 1995 on residential and agricultural property. The schools were to be reimbursed for lost revenues through an increase in the state personal income tax from 4.6 percent to 6.0 percent. A basic per pupil grant was to be set at \$4,850 in FY 1993–94.

The BLT plan, as it came to be known, temporarily derailed the House's consideration of Senate Bill 146. Political pundits were predicting a return to gridlock. Even if the House was able to report out and pass the BLT plan, it seemed a sure bet that the Republican Senate would reject it, particularly with its provision for an increase in the personal income tax. And for certain, even if it somehow passed the Senate, the Governor would veto any proposal that included an increase in the income tax. A "mid-air collision" was imminent and the predicted return to legislative gridlock on the property tax and school finance issue seemed a reasonably sure bet.

## STAR

At this point, Governor Engler stepped in once again. But this time he fooled everyone. Whether out of a desire to finally resolve the issue that had plagued the state for some twenty-five years or out of the realization that his 1994 reelection was contingent on delivering on his campaign promise, the Governor jettisoned his support for Senate Bill 146 and offered, what was for him, a radical substitute. He asked the legislature to place on the ballot at a special election on June 2, 1993 a constitutional amendment that would provide both property tax relief and school finance reform. In a marathon round of what one journalist termed "... a week of hard-nosed negotiations between lawmakers and Governor John Engler,"<sup>26</sup> both houses of the legislature garnered the two-thirds votes necessary to put the proposal on the ballot. By a strong bipartisan vote, the House passed the measure 74-22 at 2:30 a.m. after a seventeen hour marathon session. The Senate followed the later the same day with a 31-4 vote giving final approval to the ballot measure, which came to be touted as the "School Taxpayer Agenda Reform" or STAR for short.

STAR, if it had been adopted by the voters, would have (a) rolled back school property tax rates to 18 mills and establish that rate by charter, (b) provided for the district levying the full 18 mills a \$4,800 per pupil foundation grant indexed to revenue growth, (c) included in the \$4,800 per pupil foundation grant all existing state retirement and categorical payments to districts, (d) provided a local option of an additional 9 mills equalized at \$100 per pupil per mill, and (e) raised the sales tax from its current rate of 4 percent to 6 percent to cover the costs of the program.

Coming from a Governor who was virtually fixated on providing only property tax relief, and that only by way of across-the-board rollbacks of assessment ratios, Proposal A truly was a radical departure. What remained to be seen was whether the electors of Michigan would go against their past 0-11 record and vote themselves a 2 percent increase in the sales tax, even in the face of some substantial property tax relief. Needless to say, on July 3, Proposal A went down to defeat—55 to 45 percent margin. Michigan's batting average was now 0 for 12. Concerns now turned to what would happen next. Would the Governor come back again with his plan to reduce assessment ratios? Would the supporters of the O/K initiative petition be able to step into the breach and become successful where so many others have failed? Or would some other action follow?

## Senate Bill 1

There was little question in anyone's mind but that Governor Engler, and the Republican dominated Senate, were absolutely committed to seeing a property tax reduction enacted into law during the Governor's first term. They had been thwarted by the voter's rejection of Proposal C in November of 1992; they were thwarted once again by the voter's rejection of Proposal A. But not yet ready to give in, they came back again in mid-July 1993 with a plan to provide property tax relief by reducing assessment ratios. It was at this point that Democrat State Senator Debbie Stabenow stepped to center stage and challenged the Governor and her Republican colleagues. If the Governor and his supporters were so intent on providing property tax relief, why not go all the way and eliminate entirely the local property tax as a source of funding for school operations! And, to give substance to her challenge, she introduced Senate Bill 1 to do just that. Whether it was a bold stroke by Senator Stabenow to break the twenty year logjam on school finance reform (as she later argued), or a somewhat foolhardy action aimed at forcing the Governor and her Republican colleagues to moderate their proposal (as others argued), the results were startling. The Governor and the Senate Republicans leaped to the challenge (some say called Stabenow's bluff)

and in a quick 29-5 vote late on July 20 adopted Senate Bill 1. The next day, the House, on a 69-35 vote, quickly followed suit. In one fell swoop, the legislature had eliminated entirely local property taxes for school operations—some \$6.8 billion. The Governor was ecstatic and, with great fanfare, signed Senate Bill 1 into law on August 19 noting that the citizens of Michigan not only would now see the largest property tax cut in the state's history, but also could look forward to "stunning improvements" in public schooling.

As we noted at the beginning of this piece, for some Senate Bill 1 was seen as a bold and courageous move that held hope not only of breaking the twenty year legislative impasse on school finance reform but also of providing a "once-in-a-lifetime" opportunity to reform public education. For others, it was a totally irresponsible act, the "most stupid thing the Legislature had done in twenty years." In their view, Senator Stabenow had gotten into a poker game with the Governor, a master poker player who called her bluff and came up with the winning hand. Irrespective of which view is more accurate, the enactment of Senate Bill 1 put the Governor back in the driver's seat. He was to have first crack at providing answers to the three key issues facing the legislature, namely, how to replace the lost revenues, how to allocate those funds to schools, and how to bring about quality reforms.

There were a good many, including the Governor, who argued that Michigan now had an unequalled opportunity to redesign the public school system, not only in terms of how it was funded but also how it was governed and organized. They envisioned sweeping reforms that would make the system more accountable and ensure a world-class education for all Michigan youngsters. Others were not as sanguine, noting that time was short, perhaps too short. Senate Bill 1's major impact would be first felt in the summer of 1993 when summer property tax collections would no longer provide any operating money for the schools. If replacement funds were not put in place prior to that time, chaos likely would ensue. It would be difficult enough for the Legislature to address the funding issue in so short a time, much less undertake comprehensive reform of the entire system.

Nevertheless, the Michigan Legislature—or at least a majority in both houses—said it could be done, and with the adoption of Senate Bill 1 set for themselves a deadline of December 31 to accomplish both quality reform and funding reform. What happened in the remaining months of 1993 will provide ample grist for policy analysts for some time to come. The policy agendas continue to be multiple, the policy makers and those who would influence policy makers represent a broad spectrum of interests and, to further compound the situation, the outcomes promise to have a significant impact on the upcoming 1994 gubernatorial elections. To plumb fully these goings on is far beyond the purview of this paper; indeed, it is much too early even to draw a complete picture of post-Senate Bill 1 happenings.<sup>27</sup> Still, one can outline, in broad strokes, what has happened in the five months since the passage of Senate Bill 1.

## The Aftermath of Senate Bill 1

Moving rapidly to capitalize on the opportunity presented by Senate Bill 1, Governor John Engler delivered a Special Message to a Joint Session of the Legislature on October 5, 1993. In the special message, he set forth a general framework centered on four principles: empowering children, empowering families, empowering teachers and empowering tax payers. This was followed almost immediately by the release of a detailed three-part plan for (1) replacing the revenue lost by the elimination of the local property tax, (2) creating a new mechanism for allocating funds to the schools, and (3) setting in place the policies and actions seen as necessary to achieving meaningful education reform.<sup>28</sup> The plan, entitled *Our Kids Deserve Better:*

*New Schools for a New Century: Governor John Engler's Plan to Reform Michigan Schools*,<sup>29</sup> ran some 50 pages and laid out a fairly extensive and seemingly comprehensive set of proposals. The release of the plan was followed quickly by introduction in the Senate and the House of an equally extensive package of legislative bills.

The centerpiece, as far as the quality issue is concerned, was a proposal to establish charter public schools and interdistrict choice. The Governor and the Republican Senate viewed the introduction of a market-driven mechanism into public education as the *sine qua non* of any meaningful reform—a view immediately supported by many in the business community. The linch-pin of the Governor's funding proposal was a two percent increase in the state sales tax, an increase that could not be effected statutorily but would have to be approved by a vote of the people. John Engler and the Senate Republicans were staunchly opposed to any increase in the state income tax or any reimposition of the local property tax.

Counter proposals were slow in coming and, with one exception, seemed to have little immediate impact. Democratic State Senator Debbie Stabenow, an announced candidate for the democratic nomination for Governor, issued a much less extensive quality plan, and later a funding proposal that proposed "splitting the difference" between a one percent sales tax hike and a one percent income tax increase. Democratic State Senator Lana Pollack, an announced candidate for U.S. Senator Don Riegle's vacated seat, rejected the sales tax increase approach and turned to a statutory solution, an increase in the state income tax and a reimposition of the local property tax levied in part on a regional basis. The House Democrats issued a report that set forth a number of principles that should guide reform efforts, but no definitive program. It was left to a bipartisan team of legislators in the House to fashion and put forth a two-option funding plan that appears to offer a promising counter to the Governor's one-option sales tax proposal.

### What Will The Future Bring?

As the end of the calendar year approaches and the self-imposed deadline set by Governor Engler and the Michigan legislature draws ever nearer, it appears that things may be coming together. We say *may* advisedly; negotiations continue at a heated pace—both on the quality side and the funding side. Indeed, the two sets of issues are inextricably entwined; concessions on quality become conditions for movement on funding and vice-versa.

The Governor has prevailed in his efforts to see the adoption of charter public school legislation, albeit in somewhat modified form from his original proposal. Yet, the legislature is still balking on inter-district choice, with Republicans and Democrats lining up on opposite sides of the question. The ever-powerful MEA, thwarted on the charter school issue, is still driving a hard bargain on other elements in the so-called quality package including its version of a state-mandated core curriculum.<sup>30</sup> The business community continues to push hard for increased accountability measures. The religious right fights hard to exclude the teaching of "beliefs, attitudes, behavior, and values" from the curriculum.

But, not surprisingly, the major struggle centers on funding. The Governor and the Senate Republicans, having put all of their eggs in the sales tax basket, are balking at any increase in the state income tax or any reimposition of a local property tax. Democratic State Senator Debbie Stabenow's proposal to "split the difference," i.e. an increase of one percent on the sales tax, still floats out there somewhere. A third proposal, State Senator Lana Pollack's bid to reject the sales tax in favor of upping the income tax and reimposing a limited local property tax, also still waits in the wings. But the center of attention has become the House Bipartisan Plan. This plan

gives the voters the choice of raising the sales tax but, unlike the Governor's plan, provides a "safety net" if the voters turn down the sales tax increase. Under the Bipartisan Plan, passage of the sales tax, coupled with a statewide tax on commercial and industrial property plus other adjustments, would provide the dollars needed to fund the schools. Failure of the sales tax initiative, in effect, would trigger statutory increases in the income tax and the small business tax, plus reimposition of a local property tax albeit at a much reduced rate.

The question now becomes whether Governor Engler and the Senate Republicans will be willing to accept his middle ground and join with the House in resolving the revenue issue. Both sides are not that far apart on the allocation question, opting for a foundation-like per pupil grant and a substantial decategorization of state school aid. There appears to be some hope that a compromise reform package can be agreed upon by the December 31 deadline. At least, the editorial writers of one of the state's major newspapers think so:

For all the roadblocks thrown up by narrow ideologues and self-interested school lobbies, there appears the tantalizing potential for compromise among both legislative houses and Gov. Engler that genuinely would make Michigan's public schools, and the way we pay for them, a lot better. Keep at it. Nail it down.<sup>31</sup>

Will they be able to nail it down? Will the quality of public education improve? Will Michigan schools be funded adequately? Will the consequences lead to increased equity for pupils and for taxpayers? Will Michigan's pupils and taxpayers stand in the light or the dark of the moon? Stay tuned.

### References

1. A statement ascribed to the long-time (Democrat) chair of the House sub-committee on K-12 appropriations.
2. Bill Hobby, "Texas shadows Michigan's nightmare," *Austin American-Statesman*, August 9, 1993, p. A9.
3. In Michigan, the sales tax rate is set in the Constitution; any increase must be approved by the voters. The income and most other taxes can be raised, or lowered, statutorily.
4. Edward M. Gramlich, "What Should be Done About Michigan's Local Property Taxes," paper prepared for Educators United for O/K, The University of Michigan, Institute for Public Policy Studies, February 1993.
5. "Olmstead/Kearney Proposal for School Finance Reform and Property Tax Relief," *Educators United for O/K*, Wayne, Michigan (undated).
6. In 1966-67, the local share was 46.8%, the state share 47.7%. The federal government contributed the remaining 5.5%. J. A. Thomas, *School Finance and Educational Opportunity in Michigan* (Lansing: Michigan Department of Education, 1968), p. 177.
7. In 1989-90, on average, local sources were responsible for 46.6% of public K-12 revenue, state sources were responsible for 47.2%, and federal sources 6.1%. National Center for Education Statistics, *Digest of Educational Statistics 1992* (Washington, D.C.: Government Printing Office, 1992), p. 151.
8. See, National Center for Education Statistics, 1992, loc.cit.
9. In this and the discussion that follows, we are drawing on previous work that we undertook utilizing the equity framework developed by Berne and Stiefel. See C. Philip Kearney and David M. Anderson, *Equity Trends in Michigan School Finance: 1976-77 through 1988-89* (Ann Arbor: The University of Michigan, School of Education, 1991); and Robert Berne and Leanna Stiefel, *The Measurement of Equity in School Finance* (Baltimore: Johns Hopkins University Press, 1984).

10. *Local revenue plus state membership aid per pupil* includes the dollars generated within the school district, principally from local property taxes, plus the dollars received from the state under the membership formula, divided by the number of pupils.
11. A "rule of thumb" for interpreting the correlation coefficient is to square the coefficient with the resulting product being the percent of change in the dependent variable (*local + state membership aid*) accounted for by the independent variable (*levied mills*). Thus, in 1976-77 squaring the coefficient of 0.77 results in 0.59 or 59 percent.
12. See footnote 12 above.
13. See footnote 10 above.
14. If we had not corrected for inflation, the difference would have been substantially greater.
15. J. Alan Thomas, *op. cit.*
16. Office of Planning Coordination. "A Chronology of Educational Reform in Michigan" (Lansing: Bureau of Policies and Programs, 1970).
17. Gene Caesar, Robert N. McKerr, and James Phelps, "New Equity in Michigan School Finance: The Story of the Bursley Act" (Lansing: The Senate Committee on Education, 1978).
18. *Milliken v Green*, 389 Mich 1, 203 N.w.2d 457 (1972).
19. *Milliken v Green*, 232 N.W.2d 711 (1973).
20. *East Jackson v. State*. Many argue that until the education clause in the Michigan Constitution is strengthened, the chances of success in the courts is negligible. The current education clause provides: "The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law. Every school district shall provide for the education of its pupils without discrimination as to religion, creed, race, color or national origin." (Article VIII, Sec. 2)
21. Caesar, McKerr, and Phelps, *op. cit.*
22. *Ibid.*, p. 9.
23. "School Equity: State Funding is Falling Behind the Needs." *Detroit Free Press*, November 13, 1981, p. 8A.
24. "State Ballot Proposals A and C—Proposed Property Tax Amendments," Council Comments, No. 1012, (Detroit: Citizens Research Council of Michigan, September 1992).
25. Stephen P. Dresch, "Property Tax Assessment Cap: Prescription for Economic Disaster." A White Paper, Lansing: House of Representatives, September 22, 1992.
26. Chris Christoff, "Engler-backed tax plan will face voters," *Detroit Free Press*, April 1, 1993, p.1.
27. I write this in mid-December as the Michigan Legislature approaches its self-imposed deadline of December 31.
28. Shortly after the passage of Senate Bill 1 in mid-July, an in-house task force created by the Governor set work to lay out a detailed plan of action. The point person on the task force was the State Treasurer, Douglas Roberts. Roberts had been appointed State Treasurer by Engler and had behind him a long record of state service, having filled several offices including Director of the Senate Fiscal Agency, Deputy Superintendent of Public Instruction, and Deputy State Budget Director of the Senate Fiscal Agency, Deputy Superintendent of Public Instruction, and Deputy State Treasurer; and Michael Addonizio, Assistant Superintendent for Research and Planning in the Department of Education; and Mark Hilpert, Michigan Tax Tribunal Member. Addonizio had served as Engler's Education Policy Advisor prior to his appointment as Assistant Superintendent.
29. John Engler, *Our Kids Deserve Better: New Schools for a New Century: Governor John Engler's Plan to Reform Michigan Schools* (Lansing: Office of the Governor, October 5, 1993.)
30. For the MEA, a *core-curriculum* appears to include everything that has been and might be taught in the schools, rather than a sharp focus on academic subjects such as reading and writing, science, math, and social studies. The business community, and others, argue for the adoption of an *academic core curriculum* which focuses on these five subject areas.
31. "School Reform: Progress in Lansing Looks Promising." *Detroit Free Press*, December 12, 1993, p.2F.