Michigan League for Human Services

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Proposal A, School Aid, and the Structural Deficit

This year marks the 10th anniversary of the passage of school finance reform, known as Proposal A. Proposal A effectively shifted the funding for schools from local funds and local control to state funds and state control, attempted to reduce the disparity in per pupil funding, and reduced property taxes. Prior to Proposal A, school funding was comprised of 63 percent local funds and 37 percent state funds. Following implementation of the provisions of Proposal A, school funding is now comprised of 21 percent local funding and 79 percent state/federal funding. As a result, funding for the State's K–12 education system is much more closely linked to the overall fiscal health of the state. Thus, while the initial goals of school finance reform may have been partially met, there are significant challenges facing both school districts across the state and state policy makers as Michigan's structural deficit remains unresolved.

The Goals of School Finance Reform

To reduce the disparity among districts in per pupil funding, beginning in FY1995 a minimum funding level of $4,200 was established, as well as a benchmark basic foundation allowance of $5,000. The basic foundation allowance was used to determine the amount of per-pupil increase for each district. Districts at or above the basic foundation allowance received only the per-pupil increase, while those districts below the basic foundation allowance received up to twice the increase, depending on how far below the basic foundation allowance the district was.

In FY2000, the gap between the minimum and the basic foundation allowances was closed when they became the same value, $5,700. Since that time, all districts have received the same dollar value of per-pupil increase in their foundation allowances. This does not imply that all foundation allowances are the same, nor does it imply that the gap in per pupil spending has been eliminated. In the last nine years, the gap has been reduced by about $1,000 per pupil. In FY1995, the minimum foundation allowance was $4,200; the highest (excluding island schools) was $10,454. The basic allowance for FY2004 (prior to any reductions) was $6,700, while the highest (excluding island schools) was to be $11,954 *(K-12: A Moving Target, Senate Fiscal Agency, July/August 2002).* It is worth noting that 70 percent of students are in districts with foundation allowances of less than $7,200; nearly 40 percent of students are in districts with foundation allowances of $6,700 – the current level of the foundation allowance.

The goal to reduce property taxes has been achieved. Property taxes have been reduced for owner-occupied properties from about 34 mills to 6 mills, and from about 34 mills to 24 mills

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(18 mills at the local level and 6 mills for the state property tax) for most other property. In addition, Proposal A capped the annual growth rate on the taxable value of property at the inflation rate, or 5 percent, whichever is less. The impact on homeowners has been a reduction of property taxes of about $2,000 per year (*Michigan School Finance Under Proposal A –State Control, Local Consequences, Arsen and Plank, November 2003*).

The Initial Options for School Finance Reform

In March 1994, Michigan voters were given the choice of funding schools through what is commonly called Proposal A, or the alternative (which would take effect if voters rejected Proposal A), known as the Statutory Plan. The status quo was not an option; the Legislature had taken action to change school financing, and the means had to be determined. The key motivators for change at this time were the desire to reform school financing and reduce local property taxes. The major difference between the two options was the replacement of local property taxes with a sales tax increase or an income tax increase. Proposal A, which won overwhelming voter approval:

- increased the sales and use tax from 4.0 percent to 6.0 percent
- reduced income tax from 4.6 percent to 4.4 percent
- increased the cigarette tax from $.25/pack to $.75/pack
- created a 16 percent tax on other tobacco products
- created a real estate transfer tax of .75 percent
- created a state education tax of 6 mills for homestead and non-homestead property
- established a limit of 18 mills for local operating funds from non-homestead property (a reduction from a statewide average of 34 mills)
- placed an annual cap on property (taxable) value increases
- permitted local enhancement millages of up to 3 mills for 3 years

The Statutory Plan, which would have been implemented had Proposal A been rejected by voters, included:

- an increase in the income tax from 4.6 percent to 6.0 percent
- an increase in the single business tax from 2.35 percent to 2.75 percent
- retention of the sales and use tax at 4 percent
- an increase in the cigarette tax from $.25/pack to $.40/pack
- the creation of a 16 percent tax on other tobacco products
- the creation of a real estate transfer tax of 1.0 percent
- an increase in the personal exemption from $2,100 to $3,000
- the creation of a state education tax on non-homestead property of 12 mills
- the establishment of a local enhancement millage of up to 3 mills, without time limit

The School Aid Fund

The School Aid Fund finances operations (primarily through state allocations for the foundation allowance) and certain categorical programs (a portion of Special Education programs, At-Risk programs, Adult Education programs and other programs) for the state s 554 public schools, 184 public school academies, and 57 intermediate school districts. In addition to revenues from the School Aid Fund, schools receive an estimated $3.4 billion in local property tax revenues from local millages that also fund a portion of the foundation allowance. When state and local revenues are combined, total funding for schools in FY2005 is estimated to be nearly $16 billion. Spending from the School Aid Fund is overwhelmingly for foundation allowances, with more than 85 percent projected to be spent for that purpose in FY2005. The second largest category of spending is Special Education.

Composition of the School Aid Fund -- Pre and Post Proposal A

As indicated above, prior to the passage of Proposal A, the School Aid Fund was nearly two-thirds locally funded with less than one-third coming from state funds. The major source of the local revenue was property taxes, with 34 mill averages for homestead and non-homestead taxes. The state contributions came from:

- earmarked sales tax (60 percent of the 4 percent tax),
- earmarked cigarette tax (8 percent of the $.25/pack tax),
- all of the 4 percent liquor excise tax, and
- all of the net lottery proceeds.

With full implementation of the Proposal A provisions, the shift away from property taxes to fund schools was dramatic. The replacement funding included a state imposed 6 mill tax on all property (the "State Education Property Tax"), the elimination of the local homestead property tax, and the reduction of the non-homestead property tax from an average of 34 mills to an overall maximum of 24 mills (18 mills locally/ 6 mills by the state).

Tax increases, to replace the local property tax revenue, included:

- Sales and use tax increases of 2 cents effective 5/1/94, with all of the increase earmarked for the School Aid Fund,
- Implementation of a .75 percent real estate transfer tax 1/1/95, with all revenue going to the School Aid Fund,
- Implementation of a 16 percent tax on the wholesale price of non-cigarette tobacco products 5/1/94, with 94 percent of the revenue to the School Aid Fund,
- Dedication of a percentage (14.4 percent of the 4.4 percent income tax) of the gross income tax collections to the School Aid Fund effective 10/1/94.

It is important to note that the earmarked portion of the income tax is based on *gross* collections before refunds and credits, so that changes in tax credits do not reduce School Aid Fund revenue. Tax exemptions or deductions (or other changes that reduce collections) do impact School Aid Fund revenues. Proposal A also guaranteed schools that they would never receive less revenue from state/local sources than they received in FY1995.

Post-Proposal A Changes

Since full implementation of the provisions of Proposal A, numerous changes have occurred to maintain or increase revenue for the School Aid Fund. The first change came in FY1997, when the earmarked percentage of gross income tax collections was increased from 14.4 percent to 23 percent of the 4.4 percent income tax rate. When the scheduled phased-in reduction of the income tax rate (from 4.4 percent to 3.9 percent) was initiated in January 2000, the earmarked percentage was increased to 23.8 percent to protect the Fund from base revenue losses. The earmarked percentage has been increased for each one-tenth percentage reduction in the income tax rate. When the reduction is fully phased-in, in tax year 2005, the earmarked percentage will be nearly 26 percent. The result of this "hold harmless" policy is that the General Fund, while only receiving a portion of the income tax revenue, will experience nearly 100 percent of the impact of the income tax rate reduction.

The next post-Proposal A tax change came in FY1999 with implementation of the Casino Wagering Tax. The state's share, 45 percent of the 18 percent tax, was earmarked for the School Aid Fund. In August 2002, both the Cigarette Tax and the tax on other tobacco products were increased. The Cigarette Tax was increased to $1.25/pack, with 64.2 percent of the tax dedicated to the School Aid Fund. The tax on other tobacco products was increased from 16 percent to 20 percent, with 75.6 percent of the revenue dedicated to the School Aid Fund. The Cigarette Tax was next increased to $2.00/pack July 1, 2004, however, the full amount of that increase is dedicated to the Medicaid Program through the Medicaid Trust Fund, rather than to the School Aid Fund. The tax on other tobacco products was also increased, from 20% to 32% of the wholesale price, effective July 1, 2004, but the *full* amount of that tax is no longer earmarked to the School Aid Fund. From July 1, 2004 to September 30, 2005 all of the revenue is earmarked to the Medicaid Trust Fund. Beginning October 1, 2005, the distribution will be 75% to the Medicaid Trust Fund and 25% to the General Fund. In August 2004, the Casino Wagering Tax was increased from 18 to 24 percent; none of the increase is designated for the School Aid Fund. One–third of the increase is allocated to the City of Detroit, the remainder, except for 1/12, which is dedicated to the Michigan Agricultural Development Fund, is allocated to the General Fund.

It is also worth noting that in FY2003, the State Education Tax (the 6 mill levy on all property) was changed permanently to a summer levy, and the rate was reduced to 5 mills for that year only.

Tables

Table 1 details the major revenue sources of the School Aid Fund from state fiscal year 1993, prior to school finance reform, to the present. Table 2 depicts the revenues generated from the various sources for the period FY1993 – FY2003, with projections for FY2004 and FY2005. It is apparent that, while some revenue sources continue to grow, the income tax revenues, one of the largest components of the fund, are actually declining.

Table 1
Historical Overview of Major Revenue Sources for the School Aid Fund

	Pre-Proposal A	**Proposal A**	**Post Proposal A**				
Revenue Source	**Prior to 1994**	**May 1, 1994**	**FY 1995**	**FY 1996**	**FY 1997**	**FY 1998**	**FY 1999**
Sales Tax	60% of proceeds from 4% rate (2.4 cents)	60% of 4% rate + all of 2% increase (4.4 cents)	4.4 cents of the 6% rate	4.4 cents of the 6% rate	4.4 cents of the 6% rate	4.4 cents of the 6% rate	4.4 cents of the 6% rate
Use Tax	NA	All of 2% increase	All of 1994 2% increase	All of 1994 2% increase	All of 1994 2% increase	All of 1994 2% increase	All of 1994 2% increase
Income Tax[1]	NA	NA	10/1/94 14.4% of gross collections from 4.4% tax rate	14.4% of gross collections from 4.4% tax rate	10/1/96 23% of gross collections from 4.4% tax rate	23% of gross collections from 4.4% tax rate	23% of gross collections from 4.4% tax rate
Real Estate Transfer Tax	NA	All of .75% tax effective 1/1/95	All of .75% tax effective 1/1/95	All of .75% tax	All of .75% tax	All of .75% tax	All of .75% tax
Cigarette Tax (per pack)	8% of $.25/ pack tax	63.4% of $.75/pack tax	63.4% of $.75/pack tax	63.4% of $.75/pack tax	63.4% of $.75/pack tax	63.4% of $.75/pack tax	63.4% of $.75/pack tax
Other Tobacco Products	NA	94% of the 16% tax on wholesale price	94% of the 16% tax on wholesale price	94% of the 16% tax on wholesale price	94% of the 16% tax on wholesale price	94% of the 16% tax on wholesale price	94% of the 16% tax on wholesale price
Liquor Excise Tax	All of 4% tax	All of 4% tax	All of 4% tax	All of 4% tax	All of 4% tax	All of 4% tax	All of 4% tax
Lottery Proceeds	Net revenue	Net revenue	Net revenue	Net revenue	Net revenue	Net revenue	Net revenue
Casino Wagering Tax (implemented FY99)	NA	NA	NA	NA	NA	NA	45% of the 18% tax
State Tax on all Property	NA	6 mills, effective July 1994	6 mills	6 mills	6 mills	6 mills	6 mills
Industrial/Commercial Facility Tax	Basis – State Equalized Value	Basis – State Equalized Value	Basis – Taxable Value	Basis – Taxable Value	Basis – Taxable Value	Basis – Taxable Value	Basis – Taxable Value
Local Homestead Property Tax	34 mills (average)	0 mills	0 mills	0 mills	0 mills	0 mills	0 mills
Local Non-Homestead Property Tax	34 mills (average)	18 mills	18 mills	18 mills	18 mills	18 mills	18 mills

[1] Most income tax rate changes were effective on January 1, of the respective tax year, providing a slightly higher rate for the fiscal year.

Table 1 *(continued)*
Historical Overview of Major Revenue Sources for the School Aid Fund

	Post Proposal A					
Revenue Source	**FY 2000**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**
Sales Tax	4.4 cents of the 6% rate	4.4 cents of the 6% rate	4.4 cents of the 6% rate	4.4 cents of the 6% rate	4.4 cents of the 6% rate	4.4 cents of the 6% rate
Use Tax	All of 1994 2% increase	All of 1994 2% increase	All of 1994 2% increase	All of 1994 2% increase	All of 1994 2% increase	All of 1994 2% increase
Income Tax [1]	23.8% of gross collections from 4.25% tax	24.1% of gross collections from 4.2% tax	24.5% of gross collections from 4.13% tax	25.1% of gross collections from 4.03% tax	25.8% of gross collections from 3.98% tax	25.8% of gross collections from 3.9% tax
Real Estate Transfer Tax	All of .75% tax	All of .75% tax	All of .75% tax	All of .75% tax	All of .75% tax	All of .75% tax
Cigarette Tax (per pack)	63.4% of $.75/pack tax	63.4% of $.75/pack tax	54.2% of $1.25/pack 8/1/02	54.2% of $1.25/pack	54.2% of $1.25/pack	Overall % with changes in earmarking 40.5%
Other Tobacco Products	94% of the 16% tax on wholesale price	94% of the 16% tax on wholesale price	75.6% of the 20% tax on wholesale price effective 8/1/02	75.6% of the 20% tax on wholesale price effective 8/1/02	75.6% of the 20% tax on wholesale price effective 8/1/02	Earmarking changed to 0% with tax increase effective 7/1/04
Liquor Excise Tax	All of 4% tax	All of 4% tax	All of 4% tax	All of 4% tax	All of 4% tax	All of 4% tax
Lottery Proceeds	Net revenue	Net revenue	Net revenue	Net revenue	Net revenue	Net revenue
Casino Wagering Tax (implemented FY99)	45% of the 18% tax	45% of the 18% tax	45% of the 18% tax	45% of the 18% tax	45% of the 18% tax	33.75% of 24% tax
State Tax on all Property	6 mills	6 mills	6 mills	5 mills*	6 mills	6 mills
Industrial/Commercial Facility Tax	Basis – Taxable Value	Basis – Taxable Value	Basis – Taxable Value	Basis – Taxable Value	Basis – Taxable Value	Basis – Taxable Value
Local Homestead Property Tax	0 mills	0 mills	0 mills	0 mills	0 mills	0 mills
Local Non-Homestead Property Tax	18 mills	18 mills	18 mills	18 mills	18 mills	18 mills

[1] Most income tax rate changes were effective on January 1 of the respective tax year, providing a slightly higher rate for the fiscal year. The tax rate change in 2004 is not effective until July 1, 2004.

* Note: In FY 2003 the State Education Tax was changed to a summer levy, and the rate was reduced to 5 mills for that year only.

Table 2
School Aid Fund: Amount of Revenues by Source
(in millions)

Revenue Source	Pre-Proposal A	Proposal A	Post Proposal A			
	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Sales Tax	$1,743.4	$2,529.6	$3,564.6	$3,778.8	$3,933.5	$4,094.2
Use Tax	NA	$132.0	$318.9	$341.6	$362.0	$386.4
Income Tax [1]	NA	NA	$882.5	$918.2	$1,582.9	$1,699.4
Real Estate Transfer Tax	NA	NA	$91.1	$161.2	$192.8	$227.9
Cigarette Tax	$19.5	$163.1	$397.2	$371.4	$350.5	$363.0
Other Tobacco Products	Included above	Included above	Included above	Included above	Included above	Included above
Liquor Excise Tax	$21.9	$21.8	$21.9	$22.6	$22.4	$23.9
Lottery Proceeds	$427.6	$510.7	$547.8	$548.3	$587.7	$616.1
Casino Wagering Tax	NA	NA	NA	NA	NA	NA
State Tax on all Property	NA	$446.9	$1,064.5	$1,111.1	$1,156.1	$1,256.9
Industrial/Commercial Facility Tax	$52.1	$86.8	$106.6	$121.8	$117.0	$115.3
Local Homestead Property Tax	34 mills (average)	$0	$0	$0	$0	$0
Local Non-Homestead Property Tax	34 mills (average)	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level
Other Tax Revenues	$3.2	$13.2	$7.3	$18.1	$14.9	$13.4
TOTALS	**$2,267.7**	**$3,904.1**	**$7,002.4**	**$7,393.1**	**$8,319.8**	**$8,796.5**

[1] Most income tax rate changes were effective on January 1 of the respective tax year, providing a slightly higher rate for the fiscal year.

Table 2 (continued)							
Post Proposal A							
Revenue Source	**FY 1999**	**FY 2000**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004 Projected**	**FY 2005 Projected**
Sales Tax	$4,301.5	$4,577.2	$4,631.4	$4,695.3	$4,681.4	$4,736.7	$4,955.8
Use Tax	$427.5	$452.9	$444.5	$435.7	$410.2	$424.1	$442.8
Income Tax [1]	$1,848.1	$1,968.4	$1,955.3	$1,860.3	$1,847.8	$1,905.6	$1,996.5
Real Estate Transfer Tax	$261.7	$257.1	$252.9	$253.1	$275.5	$279.7	$293.0
Cigarette Tax	$394.4	$387.7	$383.1	$386.1	$471.4	$464.6	$476.5
Other Tobacco Products	Included above	Included above	Included above	$17.5	$17.7	$16.0	$0
Liquor Excise Tax	$25.4	$27.2	$28.4	$29.1	$30.6	$31.3	$31.6
Lottery Proceeds	$621.1	$618.5	$587.0	$613.5	$586.0	$641.0	$637.0
Casino Wagering Tax	$6.0	$53.1	$75.4	$91.9	$90.9	$98.5	$99.3
State Tax on all Property	$1,273.5	$1,381.4	$1,489.6	$1,583.7	$2,127.5	$1,745.2	$1,859.7
Industrial/Commercial Facility Tax	$136.5	$152.5	$131.3	$152.3	$161.2	$156.0	$157.0
Local Homestead Property Tax	$0	$0	$0	$0	$0	$0	$0
Local Non-Homestead Property Tax	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level	18 mills; funds remain at local level
Other Tax Revenues	$14.2	$13.4	$15.2	$15.3	$14.6	$14.8	$14.8
TOTALS	**$9,309.9**	**$9,889.4**	**$9,994.1**	**$10,133.8**	**$10,714.8**	**$10,513.5**	**$10,964.0**

Impact on the State's General Fund

While Proposal A includes no General Fund requirement, in each fiscal year since Proposal A's implementation, there has been a significant General Fund appropriation to the School Aid Fund. The following table details both the General Fund contributions to the School Aid Fund and the Budget Stabilization Fund transfers.

[1] Most income tax rate changes were effective on January 1 of the respective tax year, providing a slightly higher rate for the fiscal year. The tax rate change in 2004 is not effective until July 1, 2004.

Table 3
General Fund and Budget Stabilization Fund Transfers to the School Aid Fund FY 1995 – FY 2005
(in millions)

Post Proposal A

Revenue Source	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
General Fund	$667.9	$596.4	$277.9	$376.0	$419.6
Budget Stabilization	$0	$0	$0	$212.0	$72.6
TOTAL	**$667.9**	**$596.4**	**$277.9**	**$588.0**	**$492.2**

Revenue Source	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Projected	FY 2005 Projected
General Fund	$420.1	$385.2	$198.1	$380.1	$377.7	$165.2
Budget Stabilization	$32.0	$32.0	$382.0	$32.0	$0	$0
TOTAL	**$452.1**	**$417.2**	**$580.1**	**$412.1**	**$377.7**	**$165.2**

The General Fund subsidies have, in most years, permitted an increase in the foundation allowance. However, that has not been the case for the last couple of years, in spite of continued general fund subsidies, and schools have yet to receive the full $6,700 foundation allowance first included in the FY2003 appropriation. In both FY2003 and early in FY2004, a $74 per pupil reduction was implemented when revenues were projected to be insufficient to cover projected expenditures. In June 2004, the Legislature approved a $50 million general fund transfer to avoid an additional reduction of $28 per student at the end of the 2003 – 2004 school year. The FY2005 Executive Budget continued the $6,700 foundation allowance, and also included the smallest general fund recommendation ($151 million) since Proposal A was implemented. The Legislature concurred with maintaining the basic foundation allowance of $6,700, but increased the General Fund subsidy by $14.2 million, bringing the total to $165.2 million. With the General Fund structural deficit unresolved, it will become more and more difficult to divert general funds to the School Aid Fund. The League's preliminary estimate of the structural deficit for FY 2006 is $800 million.

What Does this Mean for Schools?

It is somewhat difficult to assess whether school financing has gained stability under Proposal A. Prior to implementation of Proposal A, schools operated primarily on local property tax revenues, which were driven by both the growth of the State Equalized Value (SEV) of property and the approved local millages. Funding could be volatile when millages had to be approved. Funding could also vary greatly among districts based on the value of property within the district and millage level approved by the voters.

Since implementation of Proposal A, volatility in funding comes from the revenue sources relied upon to finance the School Aid Fund, including income taxes and sales taxes. Both taxes have declined during the economic downturn and subsequent jobless recovery, which has resulted both in per pupil reductions to schools, and significant general fund subsidies. In addition, with the change from operating funding to *per pupil* funding, those districts with declining enrollments can experience particularly difficult times when costs cannot be reduced as quickly as the revenue loss occurs.

Tax policy changes have also added to the volatility. In his report, *A Review and Analysis of Michigan Tax Policies Impacting K-12 Finances*, Doug Drake identified nearly $2 billion in tax revenues that would have been available to the School Aid Fund for the period 1994 –2002 absent tax policy changes. The School Aid Fund revenue losses, while a consequence of tax policy changes, may not have been anticipated or identified when the tax policy legislation was passed.

In FY2003, while the annual School Aid Fund (SAF) appropriation included a foundation allowance of $6,700, a $200 increase from FY2002, that level of support was not provided to schools, as revenues proved inadequate. A pro-ration reduction of $127 million was implemented. The FY2004 SAF appropriation reflected no increase in the foundation allowance, but the $6,700 payment remained illusive, as a $131 million pro-ration reduction was implemented during the fiscal year, again due to insufficient projected revenues. The FY2005 SAF appropriation continues the $6,700 foundation allowance. However, future revenue estimating conferences could again identify projected shortfalls that could result in pro-ration reductions unless other solutions are identified.

Despite consistent substantial subsidies from the General Fund, with lower than projected growth in other revenue sources, school aid funding is considered inadequate by school administrators to fund the educational programs, services, maintenance needs, and extra activities that parents expect, as well as the health and retirement costs for current and retired employees.

Perils Ahead

The foundation allowance has been unchanged in the budget process for the last three years, and that amount ($6,700) has yet to be fully paid. While that was the amount assumed in the FY2005 Executive Budget, the May 2004 Consensus Revenue Estimating Conference participants agreed on a projected FY2005 shortfall of $19.6 million. The Governor, to avoid a FY2005 foundation allowance pro-ration reduction, proposed a FY2005 Executive Budget revision recommendation to increase the General Fund contribution to the School Aid Fund by $19.2 million. The next Revenue Estimating Conference is scheduled for January 2005. If revenues are again projected to be inadequate, a pro-ration reduction or other reduction measures will be required, additional revenues will have to be identified to cover the shortfall, or a general fund transfer will have to be approved. How long schools can maintain programs and buildings with not only a flat foundation allowance, but also reductions in each of the last two years, is a major concern.

Compounding these pressures, the retirement rate, included in the FY2005 Executive Budget and approved by the Legislature, is 1.4 percent less than the rate established by the retirement board. The difference will be covered by the pension system through the one-time use of funds from a retirement reserve account. This 1.4 percent amounts to over $138 million. It is not clear whether this amount will be added to the retirement rate increase for FY2006, which will simply delay additional expenditure pressures for one more year.

As mentioned above, significant tax policy changes have been approved during the last 10 years, many of which had significant impact on the School Aid Fund. It will be critical for any future tax reduction proposals to be well understood from both the perspective of overall revenue impact and the direct or indirect impact on the School Aid Fund.

Finally, at the local level, with caps on property value increases until the property changes ownership (thereby suppressing the taxable value increases), and the sluggish property turnover, districts may be faced with both limited revenue growth and declining enrollments as senior citizens maintain their homes rather than selling to young families. It will be critical for local school districts to engage in thoughtful, realistic long-range planning, recognizing both the potential for future enrollments and revenues to shape their programs and priorities.

In the face of inadequate School Aid Fund revenues to fund even the basic foundation allowance, Michigan is at a critical juncture with regard to the state's education system, and policy makers must determine the path for the future. While education is the stated priority of many voters and policy makers, it is not at all certain that sufficient revenues will be available to avoid a third year of pro-ration reductions. Poorer districts and those with a high percentage of special education students may find it increasingly difficult to meet mandated levels of achievement with constrained or reduced operating resources. If Michigan is to maintain a K-12 education system that can prepare children for the 21st century, fiscal policy changes are needed now that will provide an adequate, stable and fair revenue base for K-12 education now and in the future.

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