

# Legislative Analysis



## EXEMPT RESIDENTIAL PROPERTY FROM EXTRA "HOLD HARMLESS" SCHOOL MILLAGE

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**House Bill 4125 as introduced**  
**Sponsor: Rep. Paul Condino**  
**Committee: Education**

### First Analysis (12-7-05)

**BRIEF SUMMARY:** The bill would permit a school board, in cases where additional hold harmless mills are required (above the initial 18 mills of hold harmless mills), to exempt each principal residence and all qualified agricultural property from some or all of those mills.

**FISCAL IMPACT:** The bill could reduce the revenue available to two school districts—Southfield and River Rouge. The cost to the Southfield district is an estimated \$2 million, and to the River Rouge school district, an estimated \$63,000. For more fiscal information, see below.

### **THE APPARENT PROBLEM:**

Under the State's school finance system put in place by voter approval of Proposal A in March 1994, 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 (a total of 24 mills). This supports a distribution system under which, generally, school districts get foundation grants of from \$6,875 to \$8,175 per pupil.

The 1994 school finance plan permitted high-spending districts to maintain their level of financial support for schools, despite the plan's intent to narrow the spending gap between districts over time. Specifically, voters in high-spending districts could approve supplemental or "hold harmless" mills sufficient to maintain their current spending levels. The first 18 hold harmless mills can be levied only on homesteads, while any additional such mills have to be levied on both homestead and non-homestead property. [Additionally, until 1996, up to three enhancement mills could be levied on all property with voter approval. However, in later years, enhancement millage had to be approved on an intermediate school district-wide basis.]

Under this plan, school districts with a low percentage of homestead property must levy more supplemental mills against the value of that property than did districts having a lot of higher value homestead property, in order to get a similar revenue yield. One school district, Southfield, has a low percentage of homestead property—39 percent versus 61 percent non-homestead (much of it rental and commercial)—compared to its neighboring school districts of Birmingham and Bloomfield Hills. As a result, Southfield levies 19.6 hold harmless mills of property tax, while its neighbors levy 9.4 mills and 8.4 mills respectively. Consequently, the current annual hold harmless tax liability on a \$200,000 home is greater in Southfield than in either Birmingham or Bloomfield Hills—\$1,963 in Southfield versus \$944 and \$840, respectively.

According to committee testimony, only Southfield and River Rouge levy more than 18 supplemental mills in order to maintain their per pupil expenditures. As mentioned earlier, Southfield levies 19.6 supplemental mills—that is to say, 19.6 supplemental mills on homestead property and 1.6 supplemental mills on non-homestead property. River Rouge levies about the same.

Some have argued that when the supplemental levy is higher than 18 mills, homesteads should be allowed to be exempt from any mills above 18 mills, in order to provide tax relief to property owners.

***THE CONTENT OF THE BILL:***

Under the state's school financing system owner-occupied principal residences and qualified agricultural property pay a 6-mill state education tax, and owners of other kinds of property (rental, commercial, and industrial) pay an 18-mill local property tax in addition to the 6-mill state education tax. Certain higher spending school districts are permitted to levy supplemental "hold harmless" mills sufficient to support per-pupil spending levels (based on their spending per pupil when the system took effect with the 1994 approval of Proposal A).

The first 18 mills of hold harmless mills are to be levied only on principal residences and qualified agricultural property. If additional hold harmless mills are needed, they are levied against all kinds of property. The intent of House Bill 4125 is to permit a school board, in cases where additional hold harmless mills are required (above the initial 18 mills of hold harmless mills), to exempt each principal residence and all qualified agricultural property from some or all of those mills. It would amend Section 1211 of the Revised School Code.

***FISCAL INFORMATION:***

There are currently two school districts, Southfield and River Rouge, which levy additional mills above the first 18 hold harmless mills. The table below shows the amount of local revenue each district would lose if their school boards chose to exempt principal residences and all qualified agricultural property from all of those additional mills.

School District	Total Homestead Taxable Value	Hold Harmless Millage Rate Above 18 Homestead Mills	Total Estimated Local Revenue Loss	Estimated Local Revenue Loss Per Pupil
Southfield	\$1,266,506,942	1.6345	\$2,070,106	\$206
River Rouge	\$38,163,038	1.6651	\$63,545	\$29

***ARGUMENTS:***

***For:***

Proponents of this bill argue that the homeowners in school districts should not be punished with higher tax bills than their neighbors because the district has a low proportion of

homestead property subject to tax. For example, the homeowner of a \$200,000 home in Southfield pays annual school hold harmless property taxes of \$1,963, while neighbors in nearby Birmingham and Bloomfield Hills with a comparably valued home pay \$944 and \$840, respectively. This occurs because only 39 percent of Southfield's property is homestead property, while the percentage of homestead property in Birmingham and Bloomfield Hills is 78 percent and 83 percent, respectively. Because the first 18 supplemental mills are levied only on homestead property, Southfield (and River Rouge) homeowners must pay a higher tax rate, or millage, in order to yield the tax revenue they desire to support their schools. This bill would allow--but not require—local officials in those two communities to provide some tax relief to the city's homeowners, so the property taxes paid on comparably valued homes throughout the region would be more similar. In that way, city officials can ensure that prospective homeowners do not abandon Southfield for lower cost communities nearby.

***Against:***

Opponents of this bill argue that while property tax relief is popular, the burden of the tax cut is carried by the school district. In the case of Southfield, the total estimated local revenue loss would exceed \$2 million, or an estimated \$206 less funding per pupil. The schools in Southfield would need to find other revenue to make-up such a significant shortfall, or cut-back on their spending. It seems unlikely a community could attract new homeowners, if its schools were under-funded when compared to the schools in neighboring school districts.

***POSITIONS:***

The Department of Treasury supports the bill. (11-9-05)

The Southfield Area Chamber of Commerce supports the bill. (11-9-05)

The Michigan Education Association is neutral on the bill. (11-9-05)

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