

Refinement of the Enhancement Millage (Section 380.705 of the School Code)

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Objective: Make the enhancement millage a more effective vehicle for increasing investment in preK-12 education by enhancing choice while continuing to hold true to equity principles.

Proposal: Allow local school districts to pass an enhancement millage of no more than 3 mills with the constraint that no school would receive net revenue per student exceeding the amount consistent with average property wealth in the intermediate school district (ISD).

Specific Provisions of Implementation:

1. **Adoption:** A district could levy an enhancement millage upon its recommendation by a majority of the Board of Education and its passage by a majority of voters.
2. **Disposition of Revenue:** The revenue generated by the adopting districts within an ISD would be pooled. With some exceptions, every public school (including charters) serving students residing in an adopting district would receive a proportion of the funds equal to its proportion of FTE students residing in the pooled districts and enrolled in a public school – and adjusted for relative enhancement millage tax rates. The exception is that a district would never experience a drop in its per pupil funding because a less wealthy district subsequently joined the pool.
3. **Equity Adjustment:** The State would monitor the revenue from the enhancement millage in each district. It would identify those districts, if any, whose revenue per student from the enhancement millage exceeds the amount that would be received if every district in the ISD passed an enhancement millage equal to that of the district. The State would reduce its state aid per student to the district/academy by the amount the revenues from the enhancement millage exceeded this equitable amount.
4. **Use of Savings to the State School Aid Fund (SAF):** As noted in 3), the demands on the SAF might be lessened by adoption of this proposal. The State would first use savings to enable all districts in the state adopting an enhancement millage to attain in so far as possible the amount that would be received if every district in the ISD had passed a millage equal to that of the district. The State would give priority to supplementing the revenue dedicated to students residing in districts with the largest gaps between district and ISD-average revenue. If savings remain after enabling all adopting districts to reach their equitable level, these savings to the SAF would be available for any use authorized for the SAF.

Primary Consequences:

1. Modifies the enhancement millage so it becomes a more viable policy option for enabling greater investments in education because a district can pass it and because all public school students in the district benefit. The current enhancement millage requires a vote at the ISD level and excludes all students in charter schools and excludes those students in the adopting district who choose other school districts.
2. Retains the commitment to equity, that is, every district within an ISD that passes an enhancement millage of the same rate receives the same revenue per student – without regard to differences in property wealth per student.
3. May decrease demands on the SAF and will never draw upon current SAF funds.

Please see the next section for the necessary changes in the law.

DRAFT CHANGES TO THE REVISED SCHOOL CODE (EXCERPT)
Act 451 of 1976

Author's Note: I am not an expert on drafting legislation. I apologize in advance for errors of structure, format, and imprecision. I welcome comments and suggestions on the substance and presentation.

Format: Black ink represents text in the current law that is retained. Text in ~~red ink with a strikethrough~~ is deleted. Text in green is new.

380.705 ~~Regional~~ **District** enhancement property tax levied by ~~intermediate~~ **local** school district; ~~resolution submitting question to voters~~; election; calculation and payment of revenue; term and renewal of tax; presentment of tax to electors as separate question; **calculation and payment of enhancement levy**; **calculation of equity adjustment and reduction of state aid**; use of savings to the School Aid Fund.

Sec. 705. (1) Beginning in ~~1997~~ **2013**, and in each year after ~~1997~~ **2013**, a ~~regional~~ **district** enhancement property tax may be levied by an ~~intermediate~~ **local** school district at a rate not to exceed 3 mills to enhance other state and local funding for local **public** school ~~district~~ operations if approved by a majority of the ~~intermediate-local~~ **district** school electors voting on the question.

(2) ~~If a resolution requesting that the question of a regional enhancement property tax be submitted to the voters is adopted within a 180-day period and transmitted to the intermediate school board by 1 or more boards of its constituent school districts representing a majority of the combined membership of the constituent school districts as of the most recent pupil membership count day and if those resolutions all contain an identical specified number of mills to be levied under this section and an identical specified number of years for which the tax shall be levied, the question of levying a regional enhancement property tax by the intermediate school district shall be placed on the ballot by the intermediate school district at the next regular school election held in each of the constituent districts. If the question is to be submitted to the intermediate school electors of an intermediate school district having a population of more than 1,400,000, the intermediate school board shall call a special election to be held at the next state primary or general election. If the resolution requirement is met more than 180 days before the next regular school district elections, and if requested in the resolutions, the intermediate school board shall submit the question of levying a regional enhancement property tax within the intermediate school district on the ballot at a special election called by the intermediate school board for that purpose not earlier than 90 days after the resolution requirements are met. The proposition of levying a district enhancement property tax shall be submitted to the school electors of the school district at a regular or special school election.~~

(3) Not later than 10 days after receipt by the ~~intermediate school district~~ **local** tax collecting unit(s) of the revenue from the ~~regional~~ **district** enhancement property tax of all local education agencies within the same intermediate school district, the local tax collecting unit(s) ~~the intermediate school district~~ shall calculate and pay to each local education agency and public school academy enrolling at least 1.0 FTE student residing in the district(s) levying the enhancement property tax ~~of its constituent school districts~~ an amount of the revenue calculated according to the following ~~by dividing the total amount of the revenue by the combined~~

~~membership of the constituent school districts within the intermediate district, as of the most recent pupil membership count day, and multiplying that quotient by the constituent school district's membership, as of the most recent pupil membership count day for which a final department audited pupil count is available.~~

(a) The local education agency of residence of students and the school of enrollment shall be determined by the most recent annual data file maintained by the Michigan Department of Education.

(b) The funding per FTE student of students residing in a local education agency shall not decline in the current year due solely to another local education agency adopting for the first time a new or increased local district enhancement property tax in the current year. This provision does not protect these students from decreases due to other causes, for example, a decline in taxable property per resident student. The funds available to fulfill the following provisions are the residual after this provision is satisfied.

(c) The "FTE student count" in each intermediate school district is defined as the sum of all students i) residing in local education agencies that have adopted a district enhancement property tax and ii) enrolling in a public school; less the quantity of these FTE students enrolled in a local education agency or public school academy that contains less than 1.0 FTE from this group of students.

(d) For purposes of only Section 705 the FTE student enrollment allocated by the Michigan Department of Education to the intermediate school district shall be included in the FTE enrollment of the local educational agency in which the students reside.

(e) The funding per FTE student for students in the FTE student count residing in different local education agencies shall be proportional to the district enhancement property tax rate of the different local educational agencies.

(f) The total revenue from the district enhancement property tax shall be distributed among the local education agencies and public school academies enrolling at least 1.0 FTE student from the "FTE student count" defined in part (c).

(4) ~~Regional~~ District enhancement property tax under this section may be levied for a term not to exceed 20 years, as specified in the ballot question, and may be renewed for the same term with the approval of a majority of the ~~intermediate~~ local school district electors voting on the question.

(5) The question of levying a ~~regional~~ district enhancement property tax under this section shall be presented to the ~~intermediate~~ local school district electors as a separate question.

(6) A local educational agency that levies a district enhancement property tax shall charge an "enhancement fee" to enrolled students residing in other local educational agencies. The enhancement fee is calculated as follows.

(a) The enhancement fee is zero if the entering student resides in a local educational agency that levies a district enhancement property tax at a rate no less than the rate of the local education agency where the student is enrolled.

(b) For others subject to the enhancement fee the fee per FTE student is calculated as (i) the revenue per resident FTE student from the district enhancement millage received by the local education agency in which the student is enrolled, (ii) plus the revenue per resident FTE student from the district enhancement millage received by the local education agency in which the student resides, (iii) minus the equity adjustment (defined below) per resident FTE student in the local education agency in which the student is enrolled, and (iv) minus the equity adjustment (defined below) per resident FTE student in the local education agency in which the student

resides.

(7) The Michigan Department of Education shall calculate an “equity adjustment” for each local education agency levying a district enhancement millage and reduce state aid payments based on the following.

(a) “Equitable revenue” is calculated for each local education agency levying a district enhancement millage as the revenue per resident student the local education agency would receive if all local education agencies in the intermediate school district containing the local education agency levied a district enhancement millage at the same tax rate as that of the local education agency whose equitable revenue is being calculated. This result for “equitable revenue” shall apply to all students residing within the local education agency.

(b) The equity adjustment is zero for the resident students of all local education agencies whose revenue per resident FTE student from the district enhancement property tax is no greater than equitable revenue. The State shall not reduce state aid payments associated with these students for reasons based on levying of a district enhancement property tax.

(c) The equity adjustment per FTE student for other students residing in a local educational agency with a district enhancement property tax shall equal the revenue per resident FTE student from the district enhancement property tax minus equitable revenue.

(d) The State shall reduce the state aid for each FTE student in a local education agency or public school academy by the amount of the equity adjustment per FTE student.

(8) The savings to the School Aid Fund as a result of equity adjustments shall be used as follows.

(a) The first use of available funds shall be to fund students residing in local educational agencies that are levying a district enhancement property tax and whose funding per FTE student is less than equitable revenue. These shall be called “eligible students.” The available funds shall be distributed among eligible students in a manner that minimizes the maximum dollar difference between the funding level from the enhancement property tax, taking into account all sources, and equitable revenue for the eligible student with the greatest difference after available funds are allocated. The use of funds for this purpose will continue until all available funds are exhausted or until all eligible students have funding from the enhancement property tax, taking into account all sources, equal to equitable revenue.

(b) The second use of available funds shall be to deposit them in the School Aid Fund without restriction as to their use.

Note on Context

Please see the next section for a discussion of how these changes in Section 380.705 would further the objectives of the Governor as he formed the Working Group.

Relationship to the Governor's Working Group on the Education Finance Act of 2013

Successful reform of the School Aid Act based on parent and student choice will depend on inclusion of five critical components.

1. Choices must be available to citizens.
2. Citizens must have the right to choose.
3. Citizens must have access to the information that enables informed choices.
4. Citizens must bear the financial consequences of their choices.
5. Lower-income households must receive assistance sufficient to ensure schools are responsive to their preferences.

This portion of the analysis describes how the proposed revision to the enhancement millage contributes to, or complements, each component.

1. Choices Must Be Available To Citizens

Governor Snyder, in the conclusion of his special message on education reform, appropriately emphasized the need for local communities to be innovative and active in creating excellent educational opportunities for their children and young people.

Our schools and communities need to show kids that they matter, that we see them as individual human beings, and that we commit ourselves to knowing and developing what is right about each and every student. ...

This is the invisible issue in American education: we have local control of schools, but we don't feel local ownership of what happens in them. ...

Current law severely constrains local communities. It causes the reality and perception of the loss of local ownership cited by Governor Snyder. It divides citizens along charter and traditional public schools rather than unites them in a common cause of excellent education.

Related Policy Recommendation A: The enhancement millage should be available to local districts rather than restricted to Intermediate Schools Districts, a.k.a. Regional Educational Service Agencies, ("ISD" hereafter). This change would restore much of the local ownership and accountability that has eroded badly since the adoption of Proposal A. The change should be done in a manner that preserves the equity goals embodied in Proposal A as explained in section 5.

Related Policy Recommendation B: The revenues from an enhancement millage should be shared with students from the district enrolled in charter schools. Under current law the revenues are restricted to students in traditional public schools even as citizens attracted to charter schools must pay the tax. The latter group of citizens feels unconnected to the

local initiative to improve local education, at best, and more likely feels estranged and exploited – and many members of the group oppose the millage.

2. Citizens Must Have the Right To Choose

In his introduction to a “Performance-Based System of Schools” in his message on education reform Governor Snyder emphasized the importance of citizens having the right to choose.

There must be greater choice for students and parents and greater responsibility and accountability at the individual school level for student growth.

The work group drafting the Finance Act of 2013 will decide whether government employees or citizens should have the primary role in assessing performance and imposing financial consequences. Many influential people favor formulas described in general terms by elected officials and subsequently written in detail by civil servants responsible for regulations. These formulas typically focus on “student growth,” a.k.a. “value-added,” and make state appropriations dependent on these measures. The work group will make a serious mistake if it loses confidence in citizens in favor of civil servants.

The correct framework for resource allocation is to have the decisions of citizens dictate where the money flows rather than have government-created formulas of student growth dictate flows.

Related Policy Recommendation C: Citizens, and especially parents and students, should have the dominant role in assessing the performance of schools and districts and imposing financial consequences. Government laws and regulations should facilitate the rights of citizens to choose and not supplant the rights of citizens to choose.

Education is an extremely complex endeavor with scores of desired outcomes. The desired outcomes include improved individual behavior, social skills, and cognitive abilities. Desired growth in cognitive skills ranges over a spectrum including, for example, visual and performing arts, mathematics, humanities, physical sciences, social sciences, reading and writing in English, proficiency in languages other than English, career and technical education, literature studies, health and physical education, and a wide variety of extra-curricular activities. Students and their parents have diverse abilities, talents, interests, and learning styles – further compounding the difficulties of prescribing the right education for each and every child.

The people best positioned to make the right choices in this complex environment are parents and students. They know best the characteristics of the student. They are capable of considering every one of the outcomes above and many more that were not mentioned.

Current measures of student growth are too narrow and too subject to random variation to be reliable foundations for assessments of performance and for allocations of resources. The experts on the Michigan Council for Educator Effectiveness presented an excellent overview of the state of this work and the challenges in their Interim Report (especially pages 7-11) as of April 2012. They noted, "... much work has been done on [student growth] and much work remains to be completed before any recommendations can be made." (page 7) For those preferring the scholarly literature, the recent article "Value-Added Models to Evaluate Teachers: A Cry for Help," in Chance, a journal of the American Statistical Association (Howard Wainer, Vol. 24, No. 1, 2011), describes the primary challenges and concludes.

Value-added models represent the beginning of an attempt to help us find, and thence reward, the most gifted teachers. But, despite substantial efforts, these models are still not ready for full-scale implementation.

The brains of caring parents and students are the correct tools for making the complex assessments of the schools and districts that best serve the interests of a particular student. The work group would be making a grievous mistake to prefer a crude formula covering a minuscule proportion of desired educational outcomes over the capacity of a human brain in a caring individual.

3. Citizens Must Have Access To the Information That Enables Informed Choices

Governor Snyder emphasized the importance of information in his reform message.

These reforms are designed to move us from school systems to a system of schools. Parents deserve more data and information on every school, with genuine data and benchmarks to identify schools with effective instruction and sustained student achievement.

Related Policy Recommendation D: The State should make available to the public a broad variety of measures of programs and outcomes of schools and school districts. Citizens can, and will, consider this information as well as other information as they make their assessments of schools and districts and choose among available options.

While the information on student growth is not sufficient for the State to mandate where resources should flow, as described in detail in Section 2, the information is useful to citizens.

4. Citizens Must Bear the Financial Consequences of Their Choices

Institutions built on the premise of individual choice must incorporate mechanisms to ensure citizens reap the benefits and bear the costs of their decisions. If this is not true,

many citizens will choose to enjoy benefits they do not pay for, that is, become “free riders,” and the policies give rise to inefficiencies and inequities rather than desirable results.

Related Policy Recommendation E: Households choosing education in a school that has a higher revenue per student from the enhancement millage than does the traditional district in which they reside should pay the increment in enhancement revenue per student.

The adoption of policy recommendation A, that is, enabling enhancement millages in local districts, would produce desirable variation in schools and districts. Parents and students would have a wider spectrum of choices. For example, residents of a district may choose to levy an enhancement millage to enable smaller class sizes while residents of another district may choose not to levy such a millage and thus have larger class sizes than the former.

The adoption of policy recommendation C, that is, parents and students have the option of choosing enrollment in another district, would enable parents and students to “vote with their feet” as to which district they prefer. As noted earlier, this is the preferred mechanism in a dynamic, responsive system of schools – in contrast to a “command and control” mandate from public officials in Lansing.

The potential problem that must be avoided through appropriate legislation is residents of districts choosing lower spending on education and lower tax rates having the opportunity to send their children to the higher spending and higher tax rate district at no cost. This would create an incentive for people to live in low-tax districts and send their children to higher tax districts; in other words, people would have an incentive to “free ride” off of the willingness of others to support excellent schools. The solution is straightforward and is stated in policy recommendation E.

5. People With Fewer Resources Must Receive Financial Assistance To Ensure Their Desires Are Reflected At an Equitable Level

Public education should be an investment that enables all children, regardless of socioeconomic class, to fulfill their potential in productive work and as public citizens. All of us have an interest in living in a state where, for example, other citizens are employed in productive work and are informed and responsible when they cast their votes for individuals and on ballot initiatives.

Related Policy Recommendation F: Students residing in districts passing the enhancement millage should receive increased funding based on the shared wealth of the ISD rather than the wealth of the district. The inequities associated with individual district operating levies were a primary factor leading to Proposal A. The progress towards equity should not be reversed by enhancement millages. The revenue generated by the adopting districts within an ISD should be pooled and distributed as an equal amount per student, including charter school students residing in the districts. If these revenues exceed the specified maximum,

in order to maintain equity the State should reduce its payment per student by the amount the revenues from the enhancement millage exceed the equitable amount.

This change in the enabling law would retain the commitment to equity in current law. Every district within an ISD that passes an enhancement millage of the same tax rate would receive the same revenue per student – without regard to differences in property wealth per student. The outcome of passage is identical to that in current law. The difference is that districts would have the choice of passing an enhancement millage, which is a choice their local citizens do not now have.

The adjustment in the state payment per student is analogous to the adjustment the State makes in response to the 18-mill tax on nonhomestead property. The State currently monitors what districts receive from the 18-mill tax on a per student basis and deducts this amount from the foundation allowance. Districts with more wealth per student than other districts have a larger deduction.

Note on the Details of Implementation

Please see the following section for examples that illustrate in detail the workings of the proposed refinement of the enhancement millage.

Illustrative Examples of the Detailed Implementation of the Proposed Refinement of the Enhancement Millage

Introduction

The following examples are set in the context of the districts within the Washtenaw Intermediate School District (WISD). The total value of taxable property in tax year 2011 within the WISD was \$13,894 million. The number of students living in WISD and enrolled anywhere in a public K-12 school in 2011-12 totaled about 46,700 FTE students. A one-mill enhancement millage adopted by all districts would generate total revenue of \$13.894 million, which would equal \$298 per FTE.

The following examples illustrate the implementation of the proposed refinement of the enhancement millage. The examples assume the conditions of tax year 2011 and academic year 2011-12 apply when the enhancement millages are adopted.

The Case of a Relatively Wealthy District In the Lead: Series 1 of the Examples

Ex. 1.1: Assume the residents of the Ann Arbor School District (“Ann Arbor”) alone pass a one mill enhancement millage. Ann Arbor had taxable value of \$7,408 million in tax year 2011 so a one mill tax would generate \$7.408 million per year. The number of students living in the Ann Arbor district who are enrolled in a public school was 17,815 so the new levy would generate \$416 per student.

The equity adjustment of the proposed refinement of the enhancement millage dictates the State monitors the revenues from the enhancement millage to assess the need for an equity adjustment. The State would note that if all ten districts passed a one mill levy, the resulting revenue per student would be \$298 per year. The State would deduct \$118 per FTE student with an Ann Arbor district residence from his or her state aid payment, for a total deduction of \$2.102 million.

The Ann Arbor Public Schools (AAPS) would experience the following flows. AAPS would receive revenue directly from the enhancement millage of \$6.859 million (\$416 per FTE times 16,488 FTE; the FTE includes those AAPS students receiving services from WISD). An enhancement fee of \$298 per FTE student on the 291 students attending AAPS and not residing within AAPS boundaries would yield \$87,000. State aid would decrease by \$1.946 million due to the equity adjustment (16,488 FTE times \$118 per FTE). Summarizing, AAPS revenue from the enhancement millage and the associated enhancement fee would increase by \$6.946 million and state aid would decrease by \$1.946 million for a net increase of \$5.000 million.

The students living in the Ann Arbor district and not enrolled in AAPS and enrolled in a public school would also receive an enhancement millage allocation of \$416 per FTE that would travel with them to the schools they attend. The state aid to these schools would

decline by \$118 for each student due to the equity adjustment. The following schools would receive these funds.

Category/Location of School	Student FTE	Financial Flows (\$1,000)		
		Enh Millage	State Aid	Net Change
Traditional Public Districts				
In WISD	206	+ 86	- 24	+ 61
Not in WISD	25	+ 10	- 3	+ 7
Charter Schools				
Within AAPS boundary	663	+ 276	- 78	+ 198
Within WISD but not AAPS	397	+ 165	- 47	+ 118
Outside of WISD	36	+ 15	- 4	+ 11
Totals	1,327	+ 552	- 157	+ 395

Rounding may cause totals to differ slightly from the sum of the detail.

As mentioned above, the Michigan School Aid Fund (SAF) would realize savings of \$2.102 million. If no other district had passed an enhancement millage and was short of funds, the funds would be available for the usual purposes of the SAF. On average, funding per student from the SAF would increase by \$1.37 for all students in the state because Ann Arbor voters approved the millage (assumes 1.537 million students, that is, the number estimated for FY 2013).

Policy Consequence 1: Students in public schools who live in districts that pass an enhancement millage and that have property wealth per student exceeding the average would receive added funding subject to a state equity adjustment. The adjustment would offset the above-average increment in revenue per student. The above-average portion would be a saving to the SAF and would increase the support of education elsewhere.

Ex. 1.2: Assume Ann Arbor passes a one mill levy as described above in Ex 1.1. Now add the assumption that the consolidation of Ypsilanti and Willow Run Districts has occurred and that voters in the new district (“Ypsilanti/Willow Run”) pass a one mill levy. We might reasonably surmise the voters are influenced by the knowledge the students living in Ypsilanti/Willow Run and attending a public school anywhere will realize increased funding based on the shared tax base of WISD while their property tax base per student is below the WISD average. The following describes the flows of funds.

Ypsilanti/Willow Run had taxable value of \$1,185 million so a one mill tax would generate \$1.185 million per year. Ypsilanti/Willow Run was the residence of 7,364 students who attended public schools so the new levy would generate \$161 per student per year.

However, the “disposition of revenue” provision of the new enhancement millage dictates Ann Arbor and Ypsilanti pool their enhancement millage revenues and receive an equal

amount per public school FTE student residing in either district. Ann Arbor and Ypsilanti/Willow Run jointly produce enhancement revenues of \$8.592 million. Their total student count is 25,179. Each student in a public school would bring \$341 from the enhancement millage with him or her.

As described in detail in Ex 1.1, the State would recognize it would need to implement an equity adjustment. The State would deduct \$43 per student from the state aid payment associated with students receiving enhancement millage funding (\$341 minus \$298).

The following would be the financial flows to the Ann Arbor and Ypsilanti/Willow Run districts and to the SAF. AAPS would receive \$5.622 million directly from the revenues of the enhancement millage (16,488 students times \$341). The district would receive \$51,000 from the enhancement millage carried with the 150 FTE students who come from Ypsilanti/Willow Run; these students would be exempt from the enhancement fee because the residents of their district are also paying the enhancement millage levy. AAPS would receive \$42,000 in enhancement fees from those 141 FTE students entering the district from districts that do not levy the enhancement millage (141 FTE times \$298 per FTE). The State would reduce the state aid payment to AAPS by \$715,000 as an equity adjustment (16,638 FTE students times \$43 per FTE). Summarizing, AAPS would experience increased revenues of \$5.715 million and decreased state aid of \$0.715 million for a net increase of \$5.000 million.

Ypsilanti/Willow Run would receive \$1.642 million directly from the revenues of the enhancement millage (4,816 FTE times \$341 per FTE). The district would receive \$28,000 from the enhancement millage carried with the 81 FTE students who come from AAPS and who would be exempt from the enhancement fee. Ypsilanti/Willow Run would receive \$146,000 in enhancement fees from those 490 students entering the district from districts that do not levy the enhancement millage (490 FTE times \$298 per FTE). The State would reduce the state aid payment to Ypsilanti/Willow Run by \$211,000 as an equity adjustment (4,897 FTE students times \$43 per FTE). Summarizing, the district would experience increased revenues of \$1.816 million and decreased state aid of \$0.211 million for a net increase of \$1.605 million.

The students living in the Ann Arbor and Ypsilanti/Willow Run districts and not enrolled in either district and enrolled in a public school would also receive an enhancement millage allocation of \$341 per FTE that would travel with them to the schools they attend. The state aid to these schools would decline by \$43 for each student due to the equity adjustment. The following schools would receive these funds.

Category/Location of School	Student FTE	Financial Flows (\$1,000)		
		Enh Millage	State Aid	Net Change
Traditional Public Districts				
In WISD	498	+ 170	- 21	+ 148
Not in WISD	242	+ 83	- 10	+ 72
Charter Schools				
Within AAPS boundary	1,330	+ 454	- 57	+ 396
Within WR/Ypsi boundary	1,021	+ 348	- 44	+ 304
In WISD & not AAPS/WR/Yp	301	+ 103	- 13	+ 90
Outside of WISD	250	+ 85	- 11	+ 75
Totals	3,642	+ 1,242	- 157	+ 1,085

Rounding may cause totals to differ slightly from the sum of the detail.

The Michigan School Aid Fund (SAF) would realize savings of \$1.083 million (25,179 FTE times \$43 per FTE). If no other district had passed an enhancement millage and was short of funds, the funds would be available for the usual purposes of the SAF. On average, funding per student from the SAF would increase by \$0.70 for all students in the state because Ann Arbor and Ypsilanti/Willow Run voters approved the millage (assumes 1.537 million students, that is, the number estimated for FY 2013).

Policy Consequence 2: Students residing in the Ann Arbor and Ypsilanti/Willow Run districts would receive exactly the same increment in funding per student as a result of approving the same increment in taxes despite markedly different tax bases per student in the two districts. The refinement of the enhancement millage facilitates both local control and equity.

Ex. 1.3: Districts could propose and pass any levy within the 3 mill limit. Districts would typically pass levies that would not be equal to the levy of other districts within the same ISD or RESA. This example illustrates the case of different levies.

Once again we assume Ann Arbor passes a one mill levy. In this example we assume Ypsilanti/Willow Run passes a 1.5 mill levy. Ypsilanti/Willow Run would generate \$1.777 million in additional tax revenue per year that would equate to \$241 per resident FTE student choosing a public school.

Total revenue from the enhancement millages would be \$9.185 million. The disposition of revenue provision dictates Ypsilanti/Willow Run receives an amount per student 1.5 times that of Ann Arbor and that the pooled revenue is distributed without regard to its origin. After a little algebra, we know students residing in Ann Arbor and in a public school would receive \$318 per student and those in Ypsilanti/Willow Run would receive \$477 per student.

The State would check for the need for an equity adjustment. It would find the equitable amount for a 1.0 mill levy is \$298 per student and for a 1.5 mill levy is \$447 per student. The State would deduct \$20 per student from the state aid payment tied to students residing in Ann Arbor and \$30 per student from those in Ypsilanti/Willow Run; the ratio is 1.5 as it should be.

From this point forward the calculations are strictly analogous to those in example 1.2. They will not be described in detail. The results will be displayed in tables.

The following table displays the financial flows for the AAPS and Ypsilanti/Willow Run districts in thousands of dollars.

	Ann Arbor	Ypsi/WR
Direct revenues from the enhancement millage	+ 5,243	+ 2,297
Enhancement millage & tuition attached to students from:		
Ann Arbor (millage credit \$318; tuition \$149 - 10 = 139)		+ 37
Ypsilanti/Willow Run (millage credit \$477)	+ 72	
Enhancement fees from other entering students	+ 42	+ 219
Reduction of state aid due to equity adjustment on:		
Students residing in Ann Arbor (\$20 per FTE)	- 330	- 2
Students residing in Ypsilanti/Willow Run (\$30 per FTE)	- 4	- 144
Totals	+ 5,023	+ 2,407

AAPS would have a slight increase relative to example 1.2 due to the larger enhancement millage carried in by those students entering from Ypsilanti/Willow Run. Ypsilanti/Willow Run's financial benefit would be 50 percent greater because the voters approved a 50 percent increase in the enhancement millage rate.

The following table shows the financial flows associated with students residing in the Ann Arbor or Ypsilanti/Willow Run districts and attending public schools outside of these two districts. The information for Ann Arbor and Ypsilanti/Willow Run is presented separately for students from the two districts because each set of students now carries a different allocation of revenue from the enhancement millage.

Category/Location of School	Student FTE	Financial Flows (\$1,000)		
		Enh Millage	State Aid	Net Change
Traditional Public Districts				
In WISD: total	498	+ 218	- 14	+ 204
Students from Ann Arbor	125	+ 40	- 3	+ 37
Students from Ypsi/WR	373	+ 178	- 11	+ 167
Not in WISD: total	242	+ 112	- 6	+ 104
Students from Ann Arbor	25	+ 8	0	+ 7
Students from Ypsi/WR	217	+ 104	- 6	+ 97
Charter Schools				
Within AAPS boundary: total	1,330	+ 529	- 33	+ 496
Students from Ann Arbor	663	+ 211	- 13	+ 198
Students from Ypsi/WR	667	+ 318	- 20	+ 298
Within WR/Ypsi boundary: total	1,021	+ 452	- 28	+ 424
Students from Ann Arbor	218	+ 69	- 4	+ 65
Students from Ypsi/WR	803	+ 383	- 24	+ 359
In WISD & not AAPS/WR/Yp: total	301	+ 115	- 8	+ 107
Students from Ann Arbor	179	+ 57	- 4	+ 53
Students from Ypsi/WR	122	+ 58	- 4	+ 54
Outside of WISD: total	250	+ 113	- 7	+ 107
Students from Ann Arbor	36	+ 11	- 1	+ 11
Students from Ypsi/WR	214	+ 102	- 6	+ 96
Totals				
Totals	3,642	+ 1,539	- 97	+ 1,442
Students from Ann Arbor	1,245	+ 396	- 25	+ 371
Students from Ypsi/WR	2,397	+ 1,143	- 72	+ 1,071

Rounding may cause totals to differ slightly from the sum of the detail.

As we know, the increase in the funding tied to students who reside in Ypsilanti/Willow Run would follow them to the schools they attend. The size of the increase in each category can be determined by comparing the above table to the analogous table in example 1.2.

The School Aid Fund would realize savings of \$577,000. The savings are less than in example 1.2 because a larger portion of the revenues generated with AAPS are used to fund students in Ypsilanti/Willow Run when they adopt a larger levy.

Policy Consequence 3: Students residing in Ypsilanti/Willow Run and attending a public school would receive 50% more per student than those residing in Ann Arbor and attending a public school because the citizens within Ypsilanti/Willow Run would be taxing themselves 50% more for education than were the citizens within Ann Arbor. And this result would hold true despite the fact that Ypsilanti/Willow Run has significantly lower wealth per student than does Ann Arbor. The equity provisions would neutralize the deleterious effects of differential wealth while

leaving intact local flexibility to reflect differential preferences about spending for K-12 education.

The Case of a Relatively Less Wealthy District in the Lead: Series 2 of the Examples

Ex. 2.1: Assume the Whitmore Lake Public Schools District (“Whitmore Lake”) alone passes a one mill enhancement millage. Whitmore Lake had taxable value of \$329.7 million and a resident FTE student count of 1,161. A one mill tax would generate \$329,700 or \$284 per student per year.

The State would find no need for an equity adjustment because \$284 per student is less than the ISD average of \$298 per student generated by a one mill levy. The equity provision would dictate students residing in Whitmore Lake and attending a public school should bring with them \$298 per student per year if the funds were available. The funds would not be available within the WISD because, by assumption, no other district passed the enhancement millage. Students residing in Whitmore Lake would then look to the State for savings to the SAF because of the passage of an enhancement millage that led to an equity adjustment (see Provision 4 of the Proposal on page 1). In this example we assume no funds would be available from the State.

Because in this example no funds are available within WISD or from the State to supplement the locally generated funds, students residing in Whitmore Lake and attending a public school would bring with them enhancement funding of \$284 per student. The State SAF would not realize any savings.

The procedure governing the distribution of funds is illustrated well in prior examples. This detail will not be presented for this example.

Policy Consequence 4: A district with below average property wealth per student acting in isolation of passage by other districts within its ISD or RESA would once again have the opportunity to levy a local operating millage and to experience no reduction in its state aid payment. As shown in Ex. 1.1, a district with above average property wealth per student would not have this option because of the equity adjustment, that is, the district’s state aid would be reduced.

Ex. 2.2: Assume as in Ex. 2.1 Whitmore Lake approves a one mill enhancement millage. Also assume that one year later Ann Arbor passes a one mill enhancement millage.

In the second year Ann Arbor and Whitmore Lake would jointly produce tax revenues of \$7.737 million per year. Both would receive additional revenue equal to \$408 per resident FTE student (\$7.737 million divided by a combined student enrollment of 18,976).

Implementing its monitoring for equity, the State would note an equitable amount would be \$298 per student. Public schools serving students residing in Ann Arbor and Whitmore

Lake would see a reduction in their state aid payment of \$110 per student as well as revenue of \$408 per student from the enhancement millage. The SAF would realize savings of \$2.087 million.

Students residing in Ann Arbor, and the schools serving them, would experience the same financial conditions as in examples 1.1 and 1.2. The equity adjustment sets a ceiling on net revenue.

Students residing in Whitmore Lake, and the schools serving them, would experience an increase of revenue of \$15 per student due to Ann Arbor passing the millage.

The procedure governing the distribution of funds is illustrated well in prior examples. This detail will not be presented for this example.

Policy Consequence 5: Residents of a district with below average property wealth per student and with an enhancement millage yielding less than the maximum equitable dollars per student would have an incentive to encourage and support an above average property wealth district to pass an enhancement millage. If the above average property wealth district were to pass an enhancement millage, this would create a pool of funds that the below average wealth district could draw upon.

Ex. 2.3: Assume as in Ex. 2.1 Whitmore Lake approves a one mill enhancement millage. Also assume in the following year Ypsilanti/Willow run passes a one mill enhancement millage.

Whitmore Lake and Ypsilanti/Willow Run would jointly produce tax revenues of \$1.514 million per year. The two districts have a total of 8,525 resident FTE students attending public schools. Ignoring the exception clause in provision 2 for a moment, an equitable allocation of the revenue would be \$178 per student for both districts. Note that \$178 is lower than the \$284 per student Whitmore Lake received in its first year of utilizing the enhancement millage (see Ex. 2.1).

The reason for the exception in provision 2) on page 1 is now clear. It removes the incentive for residents of wealthier districts to oppose enhancement millages in less wealthy districts that would lower revenue per student in the absence of the exception. Such an incentive would be harmful to the spirit of cooperation and sharing of districts within ISDs.

Taking the exception into account, Whitmore Lake's revenue from the enhancement millage would remain at \$284 per student when Ypsilanti/Willow run adopts an enhancement millage.

Ypsilanti/Willow Run would experience results identical to those the residents would experience if the district adopted the enhancement millage in isolation. Resident students

would carry with them a \$161 per student enhancement millage revenue to the public schools they attend.

The SAF would not realize any savings because no equity adjustment would be needed.

Policy Consequence 6: The exception clause in provision 2 removes the incentive for destructive inter-district behavior. An early adopting district might enjoy an increase because of a subsequent adoption by another district (see Whitmore Lake in Ex. 2.2 relative to Ex. 2.1) but would never experience a decrease for this reason.

Ex. 2.4: This example illustrates the application of the proposed refinement of the enhancement millage when districts pass unequal levies and the available funds are not sufficient to fully implement the equity provision. This example parallels Ex. 1.3 that dealt with the case when sufficient funds are available to fully implement the equity provision.

Assume Whitmore Lake passes a 1.0 mill levy and Ypsilanti/Willow Run passes a 1.5 mill levy in the same election.

Total revenue from the enhancement millages would be \$2.107 million. The disposition of revenue provision dictates Ypsilanti/Willow Run receives an amount per student 1.5 times that of Whitmore Lake and that the pooled revenue is distributed without regard to its origin. After a little algebra, we know students residing in Whitmore Lake would receive \$173 per FTE student and students residing in Ypsilanti/Willow Run would receive \$259 per student.

The State would check for the need for an equity adjustment. It would find the equitable amount for a 1.0 mill levy is \$298 per student and for a 1.5 mill levy is \$447 per student. There would not be a need for an equity adjustment. Saying the same thing in different words, neither district would experience a reduction in its state aid payment. The SAF would not realize any savings.

The procedure governing the distribution of funds is illustrated well in prior examples. This detail will not be presented for this example.

Policy Consequence 7: The modified enhancement millage would accommodate differing local millage rates in a straightforward manner in the case of insufficient funds to trigger an equity adjustment as well as in the case of total revenue being sufficiently large to trigger an equity adjustment.