

Hanover-Horton School District

Operating Millage Frequently Asked Questions

How does this fit into the overall school funding structure? Michigan schools are funded under a structure created when Michigan's voters approved Proposal A in 1994. Under the plan, Michigan schools are funded with a total of 24 mills levied for education purposes. This is made up of a state wide millage rate of 6 mills levied on all property plus 18 mills levied on non-homestead property (primary homes/residences are exempt) when approved by local voters.

How are schools funded? In 1994, a statewide ballot question was considered, called Proposal A. Michigan voters approved it, and school funding in Michigan changed dramatically. After Proposal A, the structure of funding local schools through local homeowners' property taxes shifted to equalize school funding across the state. A statewide education tax of 6 mills on all property was established. Other sources like state sales and income tax, lottery revenue, tobacco and use taxes contribute to school funding. Additionally, local school operating millages were capped at 18 mills.

School district operating funds then were calculated on a per-pupil amount, called the foundation allowance. This enabled the lowest funded schools in the state to receive a basic level of funding, which helped narrow the funding gap between school districts.

I thought schools no longer received funding through property taxes, so why is the school district proposing a millage renewal? Funding for school districts changed significantly in 1993/1994 when Proposal A was passed by the Michigan voters. Under Proposal A, the State pays the majority of the cost, but, to receive full funding, Hanover-Horton School District must levy 18 mills locally on non-homestead property (commercial property, businesses, rental property, and second homes) in the school district.

What does "Non Homestead" mean? The operating millage is levied on properties that do not qualify for the homestead exemption. Non-homestead property includes industrial, commercial property, rental property, and some agricultural real estate and 'second homes.' The operating millage does not impact a family's primary residence, most agricultural property, certain forestry property, and certain industrial and commercial personal property. A non-homestead millage refers to the rate at which non-homestead properties are taxed.

Is this a new tax? The first proposal is a renewal of the existing millage passed in 2015 that voters approved for 18.5912 mills. By law, the district was not able to levy more than 18 mills despite the higher millage rate being approved. Due to the Headlee Amendment over the years, the rate was reduced to its current 17.2144 mills. The second proposal would enable the district to levy the full 18 mills on qualified properties in order to receive the full funding from the State of Michigan. For the 2024 tax cycle, the second proposal would increase non-homestead property taxes by .7856 mills.

How much will this cost my business? The renewal proposal would have no effect on your current taxes. For a business with a taxable value of property established at \$200,000 the tax cost would be \$3,442.88 ($\$200,000 \div 1,000 \times 17.2144$ mills), the same rate levied in 2023. The second proposal would result in an additional tax of \$156.12 ($\$200,000 \div 1,000 \times .7856$ mills). Again, homestead property (primary homes) are exempt from the operating millage.

Will my residential school taxes increase? No. This tax is on non-homestead property tax and does not apply to your primary place of residence. Homestead property is exempt from the operating millage.

What if the millage is voted down? The revenue generated from the 17.2144 mills totals over \$1.5 million annually, or about 12% of the school district's budget. The district's total operating budget is \$19.7 million. If this millage does not pass, the State will not replace the funding and the school district would be forced to reduce or cut programs to offset the loss.

Can the district use bond money or sinking fund money to cover the loss? Although the district receives revenue from the bond funds and sinking funds, these funds are restricted by law to specific uses, which does not include general operating expenditures.

Where can I read the ballot language? Please visit our web page, www.hanoverhorton.org, for additional ballot language information.

What is the Headlee Amendment and how does it affect me? The Headlee Amendment of 1978 changed the Michigan Constitution. At that time, real estate was increasing in value faster than the rate of inflation. So when taxing entities (cities, townships, state, etc.) calculated property taxes based on property value, they would collect more than the increase in inflation. The Headlee Amendment automatically “rolls back” the millage rate to equal the rate of inflation in order to keep taxes from increasing more than inflation. Once a roll back occurs, the only way to increase the rate back to its original amount is through a ballot proposal; without voter approval, a roll back is permanent. The state does not take into account any roll backs when calculating school funding - they assume every district is collecting its full 18-mills. A school district that levies less than 18 mills, as is the current situation with Hanover-Horton, does not receive full funding from the state.

What happens if the millage does not get voter approval? Failure to authorize the operating millage renewal proposal would impact the district beginning with the 2025-2026 school year. If the millage were to expire, the district would annually lose out on over \$1.5 million in revenue or about \$1,500 per student. The State of Michigan will not replace the lost funding due to voters’ non-approval. The second proposal passing would result in an additional \$66,418 beginning with the 2024-2025 school year. Our operating millage accounts for just over 12% of our annual operating budget.

What is a non-homestead operating millage and why do voters need to approve it? When voters in Michigan passed Proposal A in March 1994, it exempted all real and personal property taxes for school operating purposes, eliminating approximately 64% of total K-12 school funding.

Under the new funding model, Michigan schools are funded with a total of 24 mills on non-homestead properties, made up of a statewide millage rate of 6 mills on all property and 18 mills on non-homestead property, when approved by local voters.

The reduction in property taxes and increase in state revenues for schools changed the funding to an 80% to 20% split between state and local funding sources, respectively.

As a result, school districts must periodically seek voter approval for these millages to collect millions in state funding. Districts also have the ability to ask for increases to the maximum mills it can authorize to ensure it collects its entire 18 mills if there have been or continue to be changes in local property values.

Who is taxed on these millages? The millage does not apply to primary residences - homestead property is exempt from the millage. The millage only affects non-homestead property, like vacation homes and rental property, as well as industrial, commercial and non-qualified agricultural property.

Why are some districts authorizing more than 18 mills on the ballot if that’s the maximum school districts can levy?

A “Headlee rollback” can occur each year when a school district’s tax base grows by a rate greater than the rate of inflation. The Headlee amendment caps property tax increases at 5% or the rate of inflation, whichever is less. Since the rate of growth of property values sometimes exceeds the rate of inflation, the actual millage rate is decreased (“rolled back”) when this occurs.

To receive full per-student funding from the state, schools must levy 18 mills on non-homestead property, so operating millages are often approved with a cushion referred to as a “Headlee override” to ensure that is possible in future years. The additional millage is only levied in the event that a Headlee rollback occurs, and only to allow the school district to levy the 18 mills needed to receive full funding from the State of Michigan.