SCHOOL FINANCE REFORM IN MICHIGAN

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SCHOOL FINANCE REFORM IN MICHIGAN

I. Introduction

One of the most discussed public policy issues of the last two decades has been elementary-secondary school finance reform. School finance reform has two major focuses: one relating to providing equal education opportunity, which usually results in an effort to reduce the per pupil expenditure disparity between school districts; and the second to reduce reliance on the property tax as the principal revenue source to support elementary and secondary education. A more recent concern relating to educational quality and accountability has become part of the debate.

The catalyst for the most recent discussion was a September 1987 report prepared by the Michigan School Finance Commission entitled Educational Quality in the 21st Century. The commission was composed of 42 members, appointed by the State Board of Education in February 1987, representing business, industry, agriculture, labor, government, and education. The commission made recommendations concerning the quality of education, revenue sources, and revenue distribution to local school districts.

The principal issue considered by the Legislature in 1988 was school finance reform. Legislative discussion related to Senate Joint Resolution K (SJR K) a joint resolution proposing an amendment to the state Constitution. A variety of versions were passed in both houses of the Legislature and a conference committee met for several months to work out an agreement acceptable to the several parties interested in the issue. The Senate, alone, considered 21 versions of (SJR K). In December, the Legislature adjourned without reaching agreement and the issue remains for the 1989 Legislature.

The technical aspects of school finance reform are not difficult to resolve. There are known methods or formulas to equalize the existing per pupil revenue disparity between school districts. This can be accomplished with the existing membership formula through modifications that would not change the basic character of the formula. A more extreme approach would be to move to a near full state funding mechanism. On the revenue side, there are a number of taxes that could be levied in lieu of a local property tax. Such taxes could be levied at either the state or local level in order to be compatible with the per pupil membership distribution formula.

The problems that have prevented meaningful school finance reform are political in nature. They are not partisan political in the sense of Republican versus Democrat, but rather involve other segments of the state, especially the many elements of the education community. Although the elected political leadership receives much of the criticism for failed attempts at school finance reform, these officials are unable to reach a consensus because there is no consensus within the education and business communities, nor is there agreement among the other broad communities interested in this issue. This paper reviews several factors that have made K-12 school finance reform difficult to achieve.

II. History

A. The Thomas Report

Serious school finance reform began with the publishing of a comprehensive school finance study in 1968 entitled School Finance and Educational Opportunity in Michigan. The report was prepared under the direction of J. Alan Thomas, Director, Midwest Administration Center, University of Chicago. This analysis was not a narrow study of school finance alternatives, but rather reviewed the total educational scene including the teaching force, school buildings, revenues, expenditures, and the role of non-public schools. The report provided the framework for a comprehensive discussion of Michigan public and non-public education including school finance reform.

For the next several years, the Thomas Report stimulated and served as a resource document for practically all proposals for school finance reform. Another event also made an important contribution to the growing pressure for reform. In 1965, the Legislature passed Public Act 379, which authorized public employees to bargain collectively. Teacher organizations began negotiating for improved salaries and benefits, and a large number of strikes took place over the next several years. Although the strikes were illegal, public officials and the public generally acquiesced in them.

During the eight-year period 1964-65 to 1971-72, the average Michigan teacher's salary increased 73%. This increase, combined with a 15% rise in pupil membership, resulted in a 140% increase in total local school district operating expenditures. A substantial portion of this increase fell on the local property tax.

In response to the public interest in school reform, the Governor in 1969 appointed a six-member Commission on Educational Reform, which held public hearings throughout the state to receive public testimony and collect facts relating to education issues. Using the Commission's report, in October 1969 the Governor made educational recommendations to the Legislature. The Governor recommended a constitutional amendment be submitted to the voters that would move from primary reliance on the property tax to state levied non-property taxes. The Legislature did not move to place the Governor's proposal before the voters, although a few of the Governor's minor statutory recommendations were enacted into law.

Another group that was galvanized into action by the Thomas Report was comprised of professors of school administration from the state's public universities. They developed a comprehensive proposal based on one of the funding alternatives described in the Thomas Report. It was a classroom unit plan that proposed to provide funding on a programmatic basis by funding classroom units. Different programs, for example elementary classrooms, secondary classrooms and special education classrooms, would be funded at different levels based on the educational requirements of the various programs. The proposal was known as the *Equal Quality Plan,* but it lost favor when it became obvious that it could be implemented only under a full state funding system.

B. Statutory Remedy

In 1970, an effort was made to adopt a statutory remedy to the school finance issue. It was known as the Spencer-Ryan plan for the Democratic Speaker of the House, William Ryan, and Republican Representative Roy Spencer. Public Act 100 of 1970 contained a two-year membership formula. The 1970-71 formula was a conventional deductible millage formula, but the 1971-72 formula was a power equalizing or equal yield formula, which guarantees a local school district an equal return in combined state and local funds for each mill levied. The first 10 mills levied were reimbursed on a deductible millage basis, but the next 10 mills were equalized on the basis of a $30 per mill per pupil guarantee in combined state and local funds.

This provision was combined with a proposal for state reimbursement of a portion of teacher salaries in non-public schools effective with the 1970-71 fiscal year. In the November 1970 general election, the Michigan electorate adopted an amendment to Section 2 of Article VIII of the Michigan Constitution prohibiting state aid to non-public schools.

Many observers believed that the new membership formula and state aid for nonpublic schools was a package, and that when the constitutional amendment was adopted the coalition fell apart. The new public school membership formula did require additional state resources. In any event, the Spencer-Ryan plan was repealed in the summer of 1971 and replaced with a traditional deductible millage formula.

The Governor and Legislature were encouraged to take action by a December 1972 Michigan Supreme Court decision. The case, **Milliken v Green**, was the culmination of litigation initiated by the Governor and the Attorney General challenging the existing school finance system. The challenge was based on the state Constitution's equal protection clause and the constitutional provision outlining the state's responsibility for education. On December 29, 1972, two days before two members left the bench, the Court ruled by a 4-3 vote that the existing school finance system violated constitutional provisions. With two new members on the Court, it accepted a motion to reconsider its original opinion.

Through the adoption of Public Act 101 of 1973, the state adopted a new membership formula based on the power equalizing concept. The 1973-74 formula equalized the first 22 mills levied for school operations. In subsequent years, the millage levy was raised and ultimately the cap was eliminated and all school operating millage was equalized. In 1974-75, the equalization of debt millage was added, although this provision subsequently was repealed. The equalization of intermediate school district special education and vocational education millages was added in 1975-76. Although the equal yield formula has been "tinkered" with over the years, it remains as the membership formula in the 1988-89 fiscal year. The Supreme Court took cognizance of the adoption of the equal yield formula and vacated its 1972 decision in the latter part of 1973.

C. Efforts at Constitutional Reform

Beginning with the general election in November 1972 and ending with a special election in May 1981, there were five constitutional ballot issues, voted on by the electorate, that either were pure school finance proposals or major tax proposals with school finance implications. All five were defeated by the voters. In addition, there were a number of tax limitation proposals that had implications for all local units of government and the state.

1972 Proposal. The first school finance effort was Proposal C on the November 7, 1972, ballot. The proposal was placed on the ballot by initiative petition sponsored by the Governor and the Michigan Education Association. The major purpose of the proposal was to require the state to assume primary responsibility for the financing of elementary-secondary public education in Michigan and to reduce reliance on the local property tax for school financing purposes. The proposal would have limited school operating taxes to a maximum of 10.5 mills including six mills for enrichment and 4.5 mills for special programs. This limit compared with a 1971 statewide average rate of 26 mills for school operations. The proposal left to the Legislature what tax or taxes to impose at the state level to replace lost property tax revenues and a formula to distribute funds to local school districts 'to assure equal and quality educational opportunity for all students.' A total of 3,139,828 votes were cast on the issue with 1,815,126 voting no (58%) and 1,324,702 voting yes (42%).

1978 Proposal. In 1978, an initiative petition to amend the education and finance articles of the Constitution to establish an education voucher system was presented to the voters as Proposal H. The proposal included the following elements:

* Required the Legislature to provide for the issuance of an education voucher for every child in attendance at public and nonpublic elementary and secondary schools.

* Prohibited the levying of ad valorem property taxes for elementary and secondary school operations after January 1, 1979.

* Required the Legislature to establish a program of general state taxation to support the voucher system.

By 1979, approximately $2 billion was raised through the property tax for support of K-12 education. This amount would have been replaced through an increase in existing state taxes, the adoption of new taxes, or a combination of the two approaches. The proposal was defeated with 2,075,583 (74%) no votes and 718,440 (26%) yes votes, for a total of 2,794,023 individuals voting on the issue.

1980 Proposals. At the general election in November 1980, there were two proposals that directly affected school finance: Proposal A (the Smith-Bullard Proposal) and Proposal C (the Coalition Tax Plan). Proposal A was developed by Republican Representative Roy Smith and Democratic Representative Perry Bullard, both from Washtenaw County, and reached the ballot through an initiative petition. Proposal C was developed by the Governor, legislative leaders and a number of private organizations, and placed on the ballot by the Legislature.

The Smith-Bullard Proposal was a traditional school finance proposal that would have equalized per pupil revenues and reduced reliance on the property tax. The plan called for a five-year phase-in period to achieve a system of equal dollars per pupil for all school districts for general education. Local school district property tax levies for operations would be limited to a maximum of seven extra-voted mills. The estimated increased cost to the state was $4-$5 billion and the net increased system cost was estimated to be $1-$2 billion. One of the tax options available to the state was a statewide property tax of not more than 30.5 mills on property other than homesteads of the residential class and family-owned and operated farms of residents of this state of the agricultural class.' There were a number of other provisions that supplemented the twin objectives of eliminating expenditure disparities and reducing reliance on the property tax. The proposal was rejected decisively by the voters, 2,769,497 (79%) against and 746,027 (21%) in favor of the proposal.

Proposal C dealt only with the reliance on the property tax to fund local units of government including school districts. The major provision was a $7,100 state equalized valuation (SEV) exemption on homesteads. Other features included an increase in tax reductions for renters, additional property tax reductions for some senior citizens, indexing the personal income tax exemption, and phasing out the sales and use taxes on home heating and energy by January 1, 1985. The revenue loss would have been offset by a 1.5 percentage point increase in both sales and use taxes to 5.5%. The additional sales and use taxes revenue and revenue from the state income tax would have been used to replace the revenue lost as a result of the tax reductions. The vote total was 3,477,694, of which 2,583,253 (74%) were in opposition and 894,441 (26%) were in support of the proposal.

1981 Proposal. Public officials concluded after the 1980 general election that one of the reasons Proposal C failed was its inclusion on a long ballot which contained several proposed constitutional amendments. In the spring of 1981, the Governor and the Legislature reached agreement on a tax plan and decided to call a special election in May 1981 for the sole purpose of considering a tax shift proposal identified as Proposal A. The primary aims of the proposal were to reduce property taxes on homesteads and city income taxes on individuals, and to pay for these tax reductions with increased state sales taxes, net reductions in state income tax credits, and state budget reductions. The sales and use taxes would have been increased 1.5 percentage points to 5.5%. The proposal would have limited each local taxing unit to 6% growth in property tax revenues for operating purposes in each of seven classes (agricultural, commercial, developmental, industrial, residential, timber cutover, and personal). The plan called for local units to be reimbursed by the state with a net loss of $150 million to local units and a $150 million reduction in state revenues. Thus, taxpayers would realize a net savings of $300 million. The voters were no more enamored with Proposal A than they were with earlier proposals. The total vote was 2,012,229, of which 1,451,305 (72%) were against and 560,924 (28%) were in support of the proposal.

III. Factors Inhibiting School Finance Reform

There are a number of factors which taken individually make elementary-secondary school finance reform difficult to achieve. Over the last two decades, a combination of some or all of these factors has made it impossible to assemble a coalition that would support a viable reform package. Not all of the factors have existed over the full 20 years, but enough have been in effect at any one time to frustrate reform efforts. It may be that there is a fundamental political incompatibility between reducing reliance on the property tax and reducing per pupil disparity between school districts. Following is a discussion of several factors that have frustrated efforts to achieve school finance reform.

A. Cost of Equalization

Usually, the initial reaction to the per pupil disparity issue is to propose that all pupils in the state be funded at the same level. The more sophisticated person will recognize that there is a cost differential in delivering educational services, and will recognize that some allowance should be made for these differences. Two of the most obvious are students with special needs (e.g. special education pupils) and the varying costs of inputs throughout the state (principally staff salaries). One of the many reasons for salary differences between school districts was given by a member of the 1987 School Finance Commission who, when referring to the Grand Traverse Bay area, said, "part of the pay is a view of the bay.'

There is quick agreement that for per pupil equalization to occur, "leveling up" to the high expenditure districts is necessary. Use of an average expenditure figure would cause a reduction in the amount expended on 50% of the students in the state. Funding at the average has been an unacceptable proposal for a variety of reasons. Parents in the high expenditure districts are unwilling to see the education program for their children reduced, and the education community will not tolerate the staff and budget reductions necessary to balance a school budget based on reduced revenues.

The cost of 'leveling up' to the amount spent by high expenditure districts is expensive (see **Table 1).**

Table I

Estimated 1989-90 Cost of Equalizing Basic Education Revenue[1]
at the 80th and 90th Revenue Percentile
(cost in millions)

Percentile	Additional cost	Pupils Equalized	Pupils Above Equalized Level	Revenue Per Pupil Equalized
80	$ 395	1,331,991	310,957	$3,619
90	1,797	1,481,364	161,584	4,473

Source: Senate Fiscal Agency, unpublished data.

[1] Basic education revenue is defined as local property tax revenue plus state aid received through the basic membership equalization formula.

As **Table I** shows, the costs are high. Using 1986-87 data, which is the most recent year available, the 90th percentile cost of $1.8 billion is 32% of the $5.6 billion current operating expenditure for all Michigan school districts. Even if this level were funded, it would leave 161,584 students in districts expending more than the equalized level.

The actual cost would be substantially greater than the figures shown in **Table 1,** because **Table I** reflects only the cost of 'leveling up" those districts below the 80th and 90th percentiles. The situation is such that it would be necessary to provide increased revenues for all districts, not just those significantly below the proposed equalization level. Using the 80th percentile level as an example, if the Flint community were to support a major school finance system change,, the Flint Community Schools would have to receive more than a $5 per pupil increase to raise them from their current per pupil revenue of $3,614 to $3,619. Assuming Flint was guaranteed a per pupil increase of $350, the additional cost would be $11 million. In order to garner the necessary political support, some minimum per pupil increase would have to be provided for all districts. Whatever the agreed-upon per pupil increase, it would add a large additional cost to the figures in **Table 1.**

The problem is exacerbated if the per pupil revenue issue is combined with less reliance on the property tax for school operations. The current property tax revenue for schools is $3.9 billion and, when combined with additional revenue needs, results in a potential major increase in state taxes. The 1986-87 annual state treasurer's report indicated the 4.6% personal income tax raised $3.1 billion, the 2.35% single business tax raised $1.5 billion, and the 4% sales tax raised $2.3 billion. If it became necessary to raise up to $3 billion from these tax sources in order to reduce local property taxes and increase equalization funding, it would necessitate substantial rate increases in one or more of the three existing major taxes.

Actually, equalization at any percentile level, whether it be the 80th, 90th or 100th, is irrational because it is not based on any objective assessment of educational need. **A** number of local school officials in the state have indicated that their school districts could provide a quality education program if they had the same per pupil revenue as an out-of-formula district. An out-of-formula district is one that raises more revenue per pupil through the local property tax than is guaranteed through the state aid membership formula. Expenditures by out-of-formula school districts have become the standard for measuring educational quality. This is a standard that essentially is driven by SEV growth in high-valuation districts. The issue is further complicated by the disproportionate growth of the property tax base. Based on Senate Fiscal Agency data, the average SEV per pupil ratio between out-of-formula and in-formula school districts increased from 2.26 in 1980-81 to 2.66 in 1987-88 (see **Table 2).** While there was a 126% variance between the average per pupil SEV for the two groups in 1980-81, the variance had increased to 166% in 1987-88.

Table 2

Average SEV Per Pupil
In-Formula vs Out-of-Formula Districts

Year	Average SEV Per Pupil In-Formula	Average SEV Per Pupil Out-of-Formula	Out/In Ratio
1980-81	$35,821	$ 81,106	2.26
1981-82	39,511	90,439	2.29
1982-83	41,844	96,736	2.31
1983-84	42,666	101,319	2.38
1984-85	44,564	108,325	2.43
1985-86	45,885	117,843	2.57
1986-87	47,720	123,361	2.59
1987-88	49,183	130,926	2.66

Source: Senate Fiscal Agency, unpublished data.

Even when allowance is made for the SEV per pupil guaranteed by the state in the membership formula, the ratio has grown from 1.4 to 1.53 over the same time period. This increase in the ratio has occurred during a period of large increases in state aid during the last five years because of a strong economy. The gap between the two groups continues to grow.

There are two final observations concerning the per pupil revenue standard. If the per pupil revenue disparity issue is dealt with but nothing is done to relieve local reliance on the property tax, disproportionate growth in the property base will occur and create another per pupil disparity scenario. Relying on a standard primarily driven by the property tax base of a few high valuation districts does not engender support from the business community, because there is no direct correlation between high expenditure and educational performance.

The effect of not dealing with local reliance on the property tax is illustrated by comparing the property base growth of three fast growing districts in Oakland County with the state average growth over a 10-year period (1978-79 to 1987-88). The combination of tax base growth in excess of the state average and declining pupil enrollment results in SEV per pupil growth in the three districts that is far in excess of the state average (see **Table 3**).

Table 3

State Equalized Valuation Comparison

State and Select School Districts

	1978-79		1987-88		Percent Change	
	SEV[1]	SEV Pupil	SEV[1]	SEV Pupil	SEV	SEV Pupil
State	$64,863.9	$32,998	$111,037.6	$66,733	71.2	102.2
Birmingham	767.7	69,391	1,589.8	209,509	107.1	201.9
Bloomfield Hills	555.8	68,580	1,329.6	227,595	139.2	231.9
Farmington	608.8	45,880	1,684.7	164,430	176.7	258.4

Source: Department of Education 1978-79 Bulletin 1013, and 1987-88 unpublished data; State Tax Commission 1987 Ad Valorem Property Tax Levy Report.

[1] In millions.

Districts with growth in SEV per pupil in excess of the state average have the effect of increasing the per pupil revenue disparity between school districts. Based on the 1978-79 membership formula, an in-formula school district levying 30 mills for operations was guaranteed a SEV per pupil of $49,133. Thus, each mill levied produced per pupil revenue of $49.13 in combined state and local funds. In 1987-88, the guarantee increased to $86,766 for a 30-mill district, or $86.77 per pupil revenue for each mill levied. This is an increase of 76.6%, which is far below the SEV per pupil growth experienced by the three Oakland County districts. If by some miracle the revenue disparity between districts were eliminated but nothing were done to change local school district reliance on the local property tax, disparity again will be a problem in a few years as property growth in some areas exceeds the growth in other parts of the state.

In summary, per pupil equalization is a difficult problem to resolve because of the cost, but it becomes even more of a problem when less reliance on the property tax results in substantial increases in state taxes. The irrational basis for the per pupil revenue standard further complicates the issue.

B. Local Control

Local control is an elusive concept that is difficult to document. It generally is agreed that Michigan is a strong local control state. The concept simply means that Michigan citizens desire maximum decision-making control at the local government level, including school districts, with minimum interference from state government.

In the education area, local school officials are schizophrenic when it comes to the allocation of state school aid. Their desire for local control results in school officials advocating state school aid without any state restrictions. In 1984, most school officials opposed the addition of small per pupil financial incentives to the state membership formula for districts that complied with a broadly defined high school curricula and met maximum classroom size at the early elementary school level. The school reform movement was strong enough at that time to override the local concern.

At the same time, there are powerful local education groups with specific interests that support state aid earmarked for their programs. Special education and transportation groups are two examples. These groups do not appear to trust local boards of education to allocate an adequate amount of state funds to their program interests. Thus, they support state categorical appropriations that earmark state aid to specific activities.

One indication of local control is the resistance to school district consolidation. Many educators believe that Michigan has too many K-12 school districts. In 1986-87, there were 525 K-12 districts in the state which is one less than the 526 K-12 districts in 1967-68. During this same period the public school membership dropped by 422,259 pupils, from 2,079,704 to 1,657,445, for a 20.3% decline. The preliminary membership figures for 198889 indicate there are 10 school districts in Wayne County, the state's most populous county, with memberships of less than 2,500 students.

Fewer school districts would allow for economies of scale and more comprehensive educational programs, especially at the secondary level. The latter objective becomes increasingly important as Michigan moves from an economy relying on unskilled labor to one requiring technical skills in a variety of areas. The Governor made this point in his 1989 State of the State Message when he said, "the smokestack industries which made our state an economic giant have had to make the transition to a high-tech world. Our schools must do the same." Yet, because of local control, there is little reorganization movement which would facilitate the changes identified by the Governor and others.

School district reorganization that resulted in a substantial reduction in the number of school districts could be a significant step in the direction of equalizing the property tax base of school districts. Many states, Maryland and Florida for example, operate with county-wide school districts. Such a change in Michigan would significantly reduce the per pupil revenue disparity that now exists.

There may be a variety of reasons for the strength of local control. Such reasons may range from a sincere belief on the part of parents that they received a good education in the local schools, to a desire by local school administrators and school board members to retain prestigious positions in the community, and finally to a concern by local business men and women that they will lose business if contracts are awarded by some distant school board. Some persons contend that the existence of high school sports teams frustrates reorganization efforts.

Another facet of local control is that many local voters want to be able to vote on school tax issues. In this manner, they can control the local school district education program. They can decide if the transportation system will be continued and if an extra hour is to be added to the high school schedule. If the state assumes a large share of total funding, these decisions are moved to Lansing.

Local control does exist and it does frustrate efforts at school finance reform. There is a suspicion of change fueled by a belief that more state funds means more state control. Thus, there was little support for the two constitutional proposals that would have resulted in a near full state funding system. This is true even though these proposals would have dealt with the twin 'evils' of per pupil expenditure disparity and high reliance on the property tax.

The desire for local control is fueled by a variety of reasons. The result is a solid coalition of educators, community leaders and parents who oppose actions that could lead to comprehensive school finance reform. The emotional belief by many in local control makes meaningful reform difficult.

C. Out-of-Formula School Districts

The clear beneficiaries of the current school finance system are the out-of formula school districts. With lower tax rates than in-formula districts, they have more revenue per pupil to expend. An extreme 1988-89 example is the Bridgman school district that generates per pupil revenue of $4,267 with an operating levy of 6.4 mills. An in-formula district would have to levy 50.4 mills to generate the same revenue per pupil. The Birmingham school district raises $6,954 per pupil with an operating levy of 28.3 mills. An in-formula district with the same levy would generate $2,549 per pupil in combined state and local funds. out-of-formula districts clearly have a vested interest in the present system. They support any movement that levels up, but they vigorously oppose any proposal that involves tax base sharing. Out-of-formula districts are a formidable group and represent a significant number of Michigan school districts (see **Table 4).**

Table 4

Select Data on Out-of-Formula School Districts

Year	Number of Out-of-Formula Districts	Percent of Pupils Out-of-Formula Districts	Number of Pupils Out-of-Formula Districts
1978-79	110	11.3	222,000
1979-80	122	13.4	256,000
1980-81	150	18.8	350,000
1981-82	172	22.8	409,000
1982-83	199	26.1	455,000
1983-84	188	24.7	423,000
1984-85	181	23.8	400,000
1985-86	168	22.3	372,000
1986-87	165	21.9	363,000
1987-88	165	21.8	361,000

Source: Unpublished data, Department of Education and Senate Fiscal Agency.

There has been tremendous growth in the number of out-of-formula pupils and the percent these pupils represent of total statewide membership. The percent and number of out-of-formula pupils reached a peak in 1982-83 before state revenues were increased through a combination of a temporary increase in the state income tax and a vigorous economic recovery. In the five-year period 1983-84 through 1987-88, state aid including retirement increased over one billion dollars. Yet the reduction in the number and percent of out-of formula pupils has not returned to the 1978-79 level.

The clout of out-of-formula districts is demonstrated by the history of a small recapture provision in the state school aid act. Effective with the 1980-81 fiscal year, the Legislature added a $15.5 million recapture provision to the state aid act. It provided for the reduction of categorical aid to high-valuation districts. The funds so reduced were available for allocation in the membership equalization formula. This effort was a small attempt to reduce the per pupil revenue disparity between in- and out-of formula districts. The 1980-81 fiscal year was the first of several years of absolute state aid reductions, and the recapture was an effort at mitigating this reduction for in-formula districts.

The recapture makes eminent sense if the objective is to move to per pupil revenue equalization. A solid argument can be developed to increase the amount of recapture. The recapture figure reached a peak of,.$26 million in 1983-84, but in 1986-87 was reduced to $21 million. In 1988-89, the figure was reduced to $20.2 million, even though the revenue gap between in- and out-of formula districts continues to widen. The reduction was effected as a result of the effective lobbying of high-valuation districts.

The political clout of out-of-formula districts is not a recent phenomenon. For example, early in the 1971 legislative session, the Legislature passed Public Act 6 which repealed a provision in the state aid act that limited the revenue growth of school districts. This provision had been added in 1970 to be effective in 1971-72 and had a sliding scale of revenue growth from 5% for high per pupil revenue districts to 20% for low per pupil revenue districts. The provision was aimed at reducing per pupil revenue disparity. Although there were not as many out-of-formula districts at that time, these districts launched a furious campaign for repeal. Voters in these districts were not going to accept limits on their opportunity to raise revenue for the education of their children.

Part of the influence high-valuation districts have relates to the business and residential composition of these communities. In some instances, a business taxpayer is the principal taxpayer in the community. The business is interested in the community for a variety of reasons including the quality of life available to its employees. A good school system is part of this concern, and the business leaders may not be supportive of a school finance system that threatens their quality school system. Individuals have these same concerns. Business, governmental and other influential citizens may reside in the same community, partly because of a quality school system. They, too, will be suspicious of any proposal that they believe threatens the continued quality of the school system their children attend.

The bottom line is that any proposal for school finance reform must take into consideration the concerns of the out-of-formula districts. Doing so complicates the efforts to reduce per pupil disparity and to reduce the reliance on the property tax. On this latter point, witness the number of proposals in 1988 that held local school districts harmless when property taxes were reduced. When this was done, the per pupil disparity issue remained a major problem because there were limited funds left to reduce per pupil disparity.

D. Property Tax Stability

There are a number of education officials who oppose abandoning the property tax because of its stability as a revenue source for K-12 education. These officials point to the reduction in state support beginning in 1980-81 and continuing for the next two years because of the economic downturn experienced by the state. The downturn necessitated lower school aid appropriations, and a number of executive order reductions issued by the Governor and approved by the two legislative appropriation committees.

Based on the annual financial reports submitted by local school districts and summarized by the Department of Education, state aid to local school districts dropped from $1.378 billion in 1979-80 to a low of $1.095 billion in 1982-83. This $283 million reduction was a decline in excess of 20%. It was not until the 1984-85 fiscal year that state funds exceeded the 1979-80 state support level, when state funds reached $1.470 billion.

During the same four-year period, property tax revenue for schools increased from $2.1 billion in 1979-80 to $3 billion in 1982-83, an increase of 40.2%. The property tax revenue growth was the result of an increase in the average operating millage from 29.4 mills in 1979-80 to an average operating millage of 30.6 mills in 1982-83, and an explosion in the state's SEV. During this same four-year period, SEV increased 35% from $72.5 billion to $98.1 billion. Thus, while state revenues were declining, local property tax revenue continued to increase. It was the stability of the property tax that prevented a calamity far worse than the one experienced by local school districts. The situation was further exacerbated by double digit inflation during calendar years 1979, 1980 and 1981.

The 1979 to 1983 experience is vivid in the minds of many local school officials. Some of them are uncomfortable about replacing local property tax revenue with state taxes that are more sensitive to changes in the economic climate than is the property tax. Many educational officials will support more state aid for education, but are not interested in supporting a major shift from the property tax to volatile state revenues.

on the other side of this issue are many members of the business community and officials of other local units of government. These groups support a reduction in the reliance on the property tax to support education, although their motivation may be different. For many businesses, the property tax is an onerous tax and they prefer another tax in its place. Representatives of other local units of government are conscious of the general citizen discontent with high property taxes. They, also, are aware that 70% of all property tax revenue is expended on education including community colleges. Shifting the financing of education to a tax other than the property tax would reduce the criticism of the property tax and potentially make property tax increases for other local units of government more palatable to the taxpayer.

Neither group primarily is interested in generating more revenue for education. The business community may oppose additional funds or tie support to some version of educational accountability. other local units of government will neither support nor oppose more money for education. These views are in basic conflict with those of the education community which is to generate more revenue for education.

E. Other Factors

There are other factors inhibiting school finance reform that may not be significant by themselves but add to the difficulty of meaningful reform. one is the de facto unavailability of the state personal income tax to support any increase in K-12 funding or shift from the property tax. Legally, the 4.6% personal income tax rate can be increased, but legislators are unwilling to consider it as a result of the recall of two state senators after the temporary income tax increase in 1983. This leaves the sales tax as the only major state revenue source that falls directly on individuals. Many persons object to the regressive nature of the tax and the fact that it is not deductible for those persons itemizing their federal income tax return.

Another factor is the growth of the educational lobbying corps. The large broad-based statewide educational organizations have been represented in Lansing f or years, as have many of the large local and intermediate school districts. In more recent years, smaller districts have been represented, often in a consortium. Districts with a specific single binding interest have organized. Out-of-formula districts are an example. Organizations with specific program interests, such as adult education, are also represented. The interests of these groups often must be accommodated when school finance reform is discussed. The more interests there are to accommodate, the more difficult it is to forge a solution.

Different needs brought about by geography is another problem. The travel distance between Ironwood and southeast Michigan is 600 miles. Detroit is closer to Washington D.C. than it is to Ironwood. Southeast Michigan is one of the largest metropolitan areas in the country, while many counties in the upper peninsula are among the least populous in the Midwest. Geographic distance between various points in the state results in an economic, social and political diversity that is not found in all states. The education needs of urban districts are different, and many believe more complex, than those found in rural areas. Salaries generally are higher in metropolitan areas than in rural areas. This geographic spread is another factor that makes it difficult to develop a community interest among educators throughout the state.

A more recent issue that has proved troublesome to school finance reform is educational accountability. No one objects in principle to educational accountability, but there is disagreement concerning when it should occur. Some local school officials see it as a natural by-product of financial reform,, and contend it will occur when expenditure equalization occurs. Persons outside the educational community want to see an accountability system in place before any new funds are committed to K-12 education.

There is more competition for limited resources at both the state and local levels. At the state level, corrections and social services compete with education for state support. There are a number of local interests that have expressed support for an increase in the sales tax to expand public services.

These are a number of the minor factors making school finance reform difficult. By themselves, they would not be fatal to reform, but in combination with the other factors, they have frustrated efforts to effect a school finance reform system.

IV. Conclusion

School finance reform is a complicated issue. Most people would agree there are two elements involved: a reduction in the reliance on the property tax to finance K-12 education; and a significant lessening in the per pupil expenditure disparity between school districts. More recently there has been a move to add educational accountability as a third side to the school finance reform triangle. There was little progress when reform was a two-sided issue, and the addition of another reform element does nothing but further complicate the issue. This is not to say that accountability is not a legitimate policy issue or that it should not be addressed.

The discussion of the factors inhibiting school finance reform lead to two final observations. one relates to the incompatibility of the twin objectives of property tax relief and reducing the per pupil expenditure disparity, and the second relates to how the several concerns discussed in Part III interrelate and affect one another.

It was suggested by someone who has dealt with school finance reform for a number of years, that mixing property tax relief with reducing the per pupil expenditure disparity is like mixing oil and water. Proponents of property tax relief often are interested in a tax reduction. At best, they will support a tax shift that is revenue neutral. In the middle, there are those who will support some increase in funding for elementary-secondary education but prefer an increase in state funds from existing revenue sources (that is, no tax increase). They might go as far as to support some additional tax increase but not in the amount envisioned by those primarily concerned with per pupil disparity. At the other end of the spectrum are those whose primary goal is to generate more money for education and who recognize that the property tax is about exhausted as a revenue source.

These conflicting objectives do not lend themselves to compromise when serious discussion begins on school finance reform. The two sides have been careful to couch their positions in such a way that they appear to support the twin objectives. This is accomplished more easily by those supporting more money for education, because often they will support property tax relief if more total revenue for education is provided.

School officials have the added problem of sorting out their various attitudes, beliefs and objectives which often are in conflict. Local educators generally support more state aid to close the disparity gap. At the same time, they advocate local control, and become nervous if they believe increased state aid means greater state control. High-valuation school districts may voice greater concern, because they are not going to benefit from the additional state aid. Districts experiencing rapid SEV growth may be less sympathetic to efforts to reduce reliance on the property tax. This behavior is not necessarily restricted to out-of-formula districts. An in-formula district that sees property base growth that would move a district out-of formula may not be supportive of a proposal that reduces reliance on the property tax.

It may appear that support for school finance reform would split along the lines of in-formula and out-of-formula districts, but that is not necessarily true. Other factors such as local control, inability of high-valuation districts to secure voter approval for millage increases, different needs because of geographic distances, and urban versus rural interests cut across the in-formula and out-of-formula categories resulting in different school finance objectives.

Clearly there is no consensus on a solution to the school finance problem. Consideration of this issue in the political arena without some consensus among the interested parties is bound to result in failure. Rather than being criticized for their failure to adopt a constitutional ballot proposal, elected officials should receive sane credit for coming as close as they have to getting a two-thirds majority in the Legislature for two recent proposals (one in the fall of 1988, and the other in the spring of 1989). Any ballot proposal without the active support of state government, local educators, business, and labor will have a difficult time passing muster with the voters. Even with support from these groups, such a ballot proposal may have a difficult time obtaining majority voter approval.