

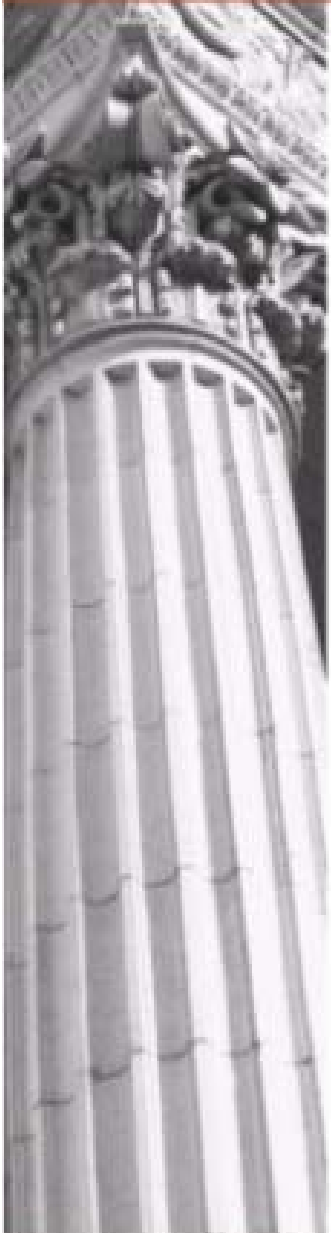


Education in Michigan: Finance and Reform

Michigan Association of School
Administrators, Region 2

Jill N. Roof, Research Associate
December 18, 2009

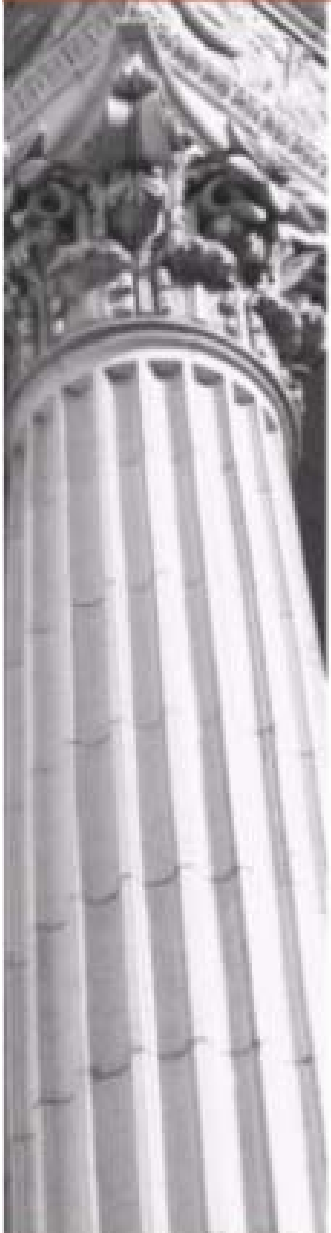
www.crcmich.org / jroof@crcmich.org





Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Nonpartisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals

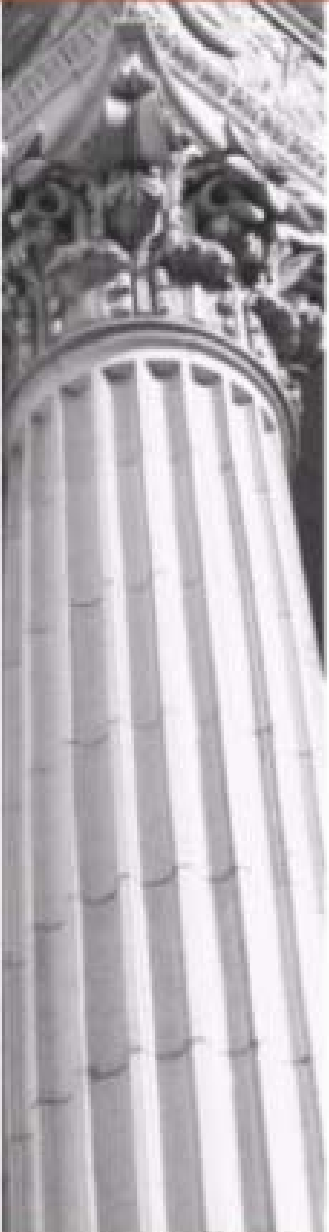


Overview of CRC Education Project



CRC Education Project

- Education Governance
- K-12 Revenues and School Finance
- Fiscal Realities and Spending Reforms
- PSAs and Non-Traditional Schools
- School District Service Provision and Reorganization
- Analysis of Educational Reforms





Education Governance

- Governance Structures
- Interstate Comparisons
- Implications of Current System
 - Complex political environment
 - School funding issues
 - Competition
- Education Governance Reforms
 - Independent versus dependent districts
 - State/city takeovers
 - Site-based management
 - P20 systems



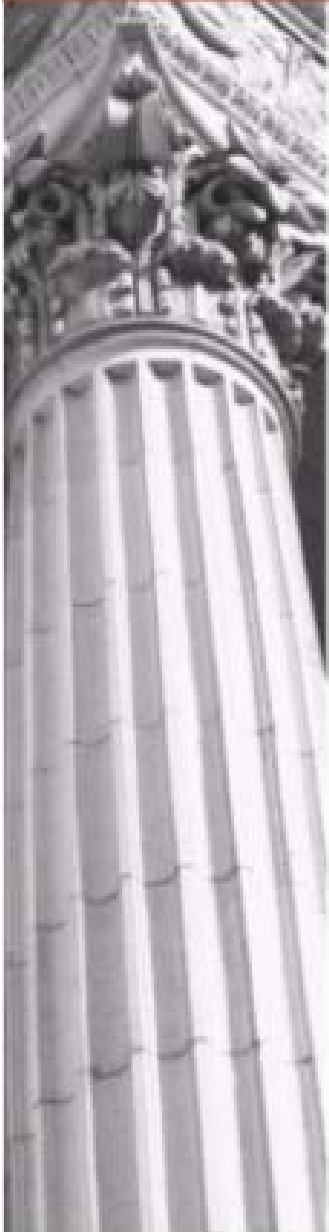
K-12 Revenues and School Finance

- Pre-Proposal A Funding Structure
- Proposal A and School Revenues
- Foundation Allowance Formula
- Categorical Grants
- State and Districts' Budgeting Processes and Timelines
- Interstate Comparisons of Funding Structures
- Analysis of School Finance Reforms
 - Changes to tax structure
 - Changes to current revenues
 - Changes to foundation system
 - School district equity



Fiscal Realities and Spending Reforms

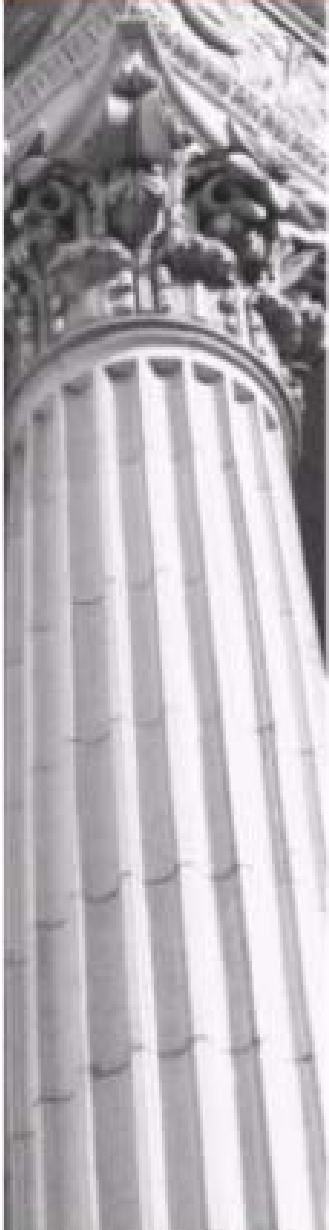
- Cost Pressures
- Capital Expenditures
- Measures of Districts' Fiscal Health
 - Indicators of fiscal stress
 - Deficit districts
- Interstate Comparison of Education Spending
- Analysis of Spending Reforms/Cost Reductions





Public School Academies and Non-Traditional Schools

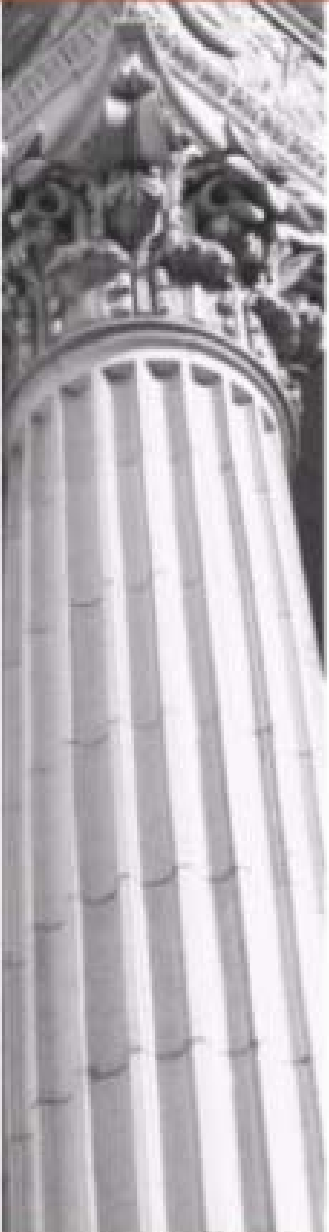
- Analysis of PSAs
 - Academic achievement and success
 - Accountability
 - Role as models for traditional schools
 - Relationship between PSAs and traditional districts
- Public Money for Private Schools: Vouchers and tax credits
- Impact of Choice on All Students and Schools





School District Consolidation and Reorganization

- Optimal Size
- Economies of Scale and Other Benefits
- Role of the State and ISDs
- Barriers to Reorganization





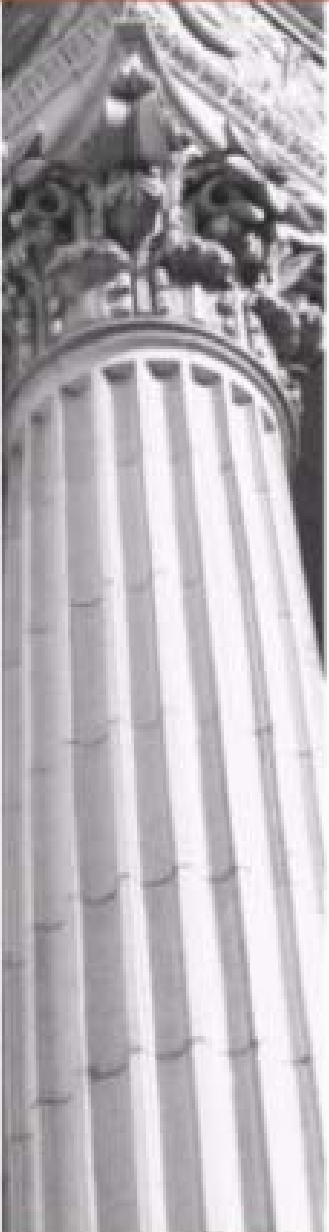
School District Service Provision

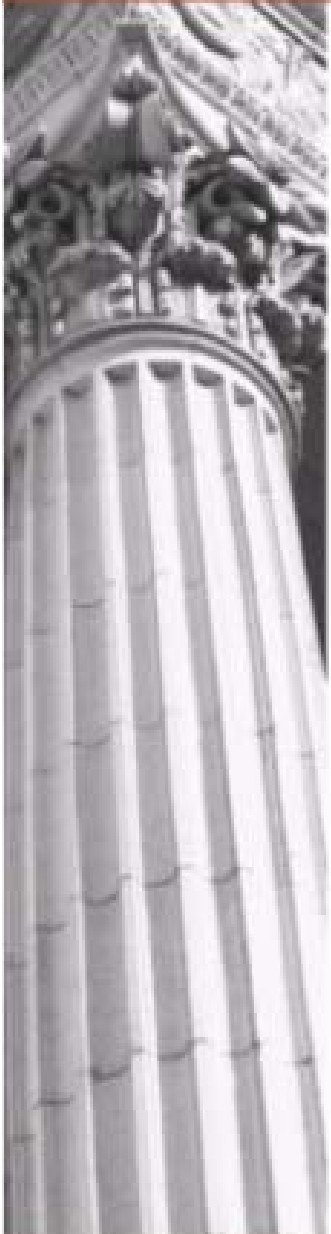
- Survey of Local Districts
- Identify School District Collaboration
 - District to district
 - District to local government
 - District to PSA
 - District to private school
 - District to private company: Privatization
- Role of ISDs
- Barriers to Cooperation and Privatization



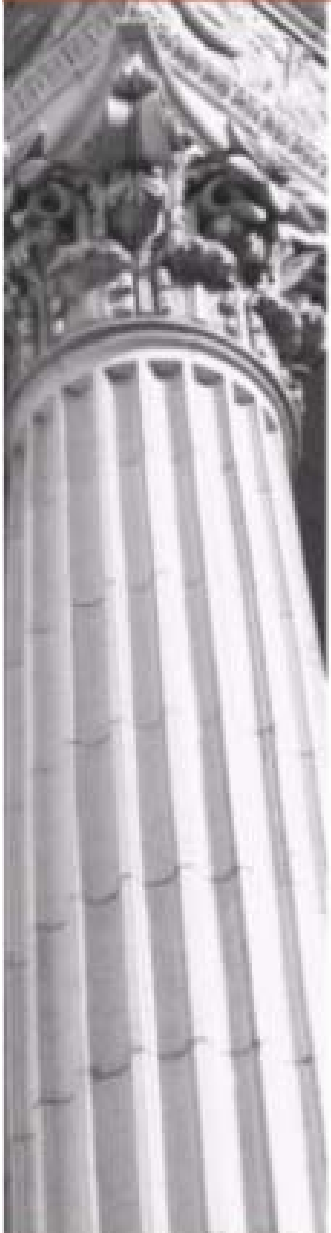
Analysis of Educational Reforms

- Identify Effective Schools and Programs
- Analyze Changes to Educational System
- International Comparisons
- Alternate Delivery Methods
- Pre-Kindergarten through Grade 14 or 16
- Better Use of Technology





Economic Update: U.S. and Michigan

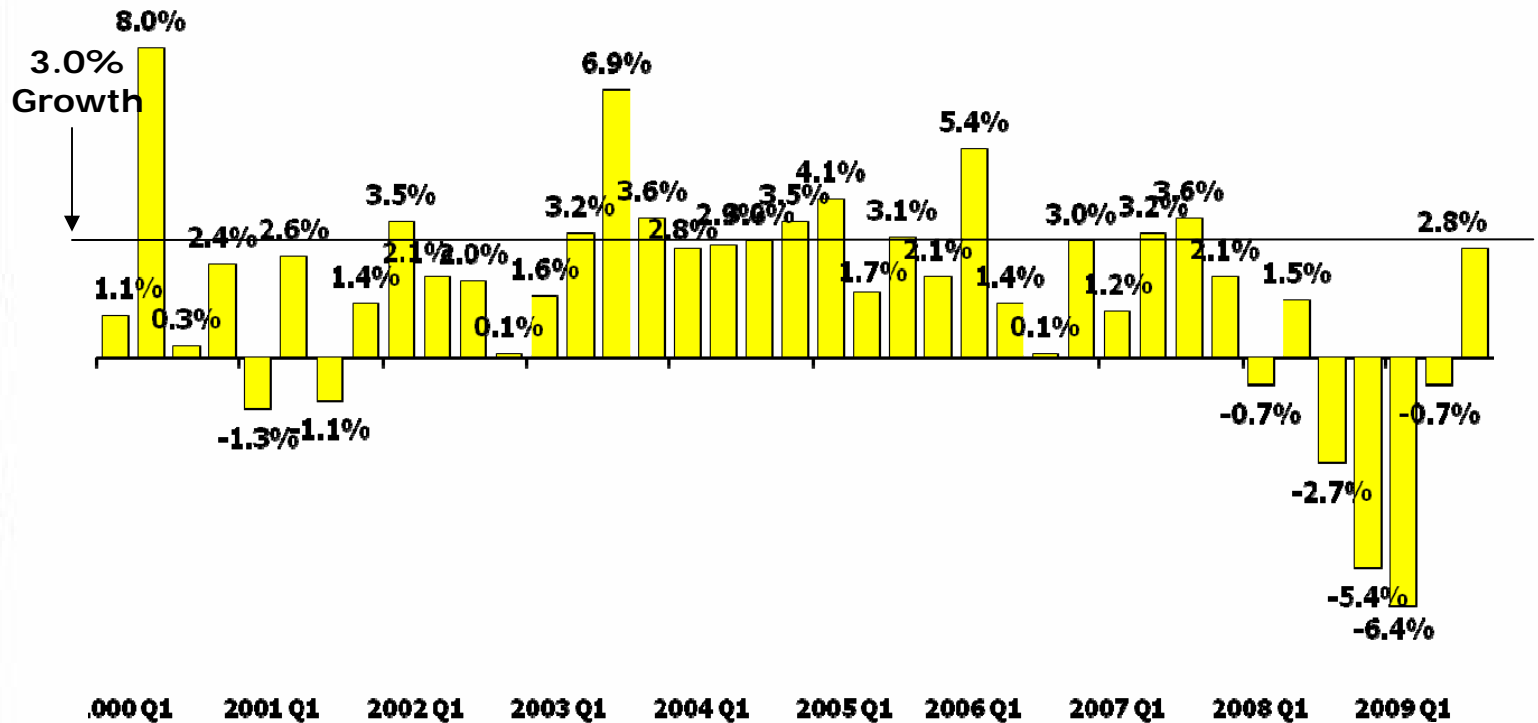


National Recession May Be Ending...



GDP Increased in 3rd Quarter

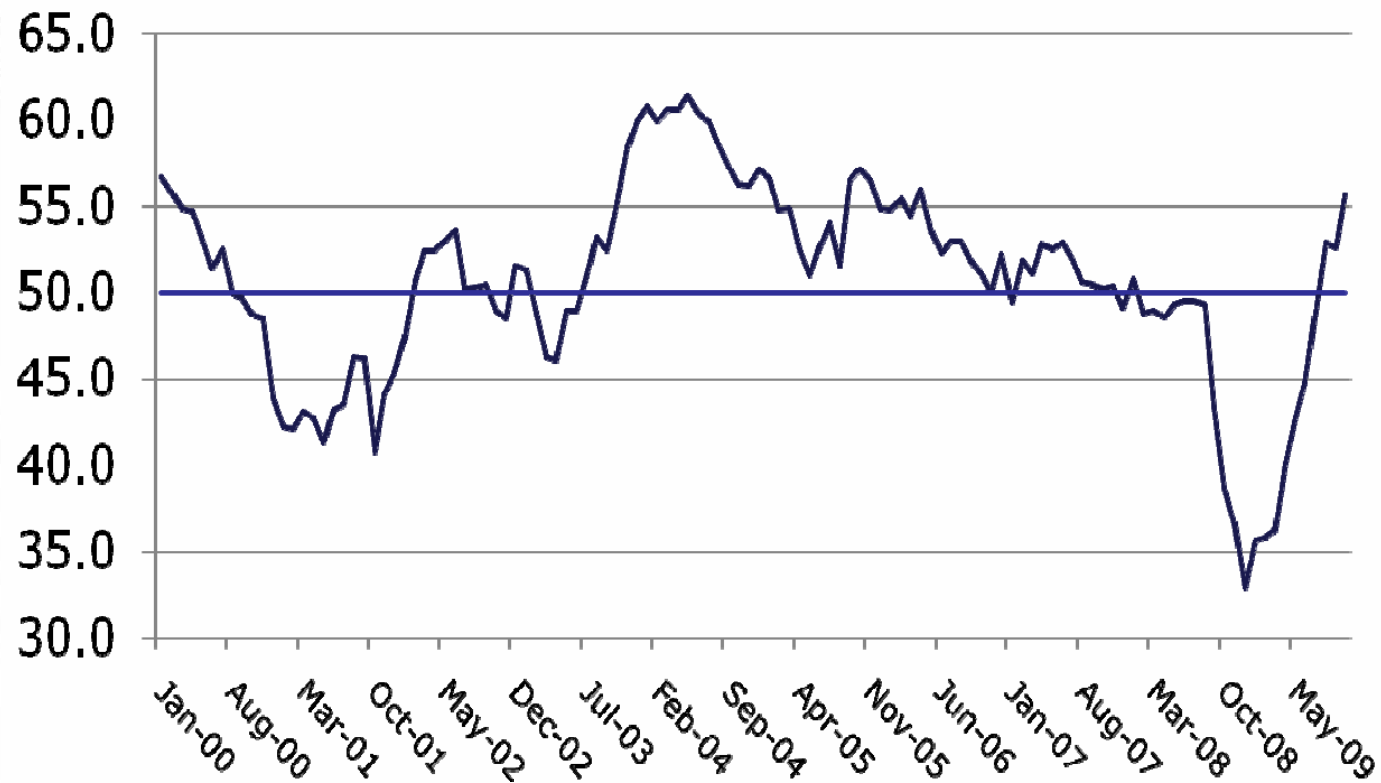
Real GDP Growth



Figures are annualized percent change from preceding quarter in 2000 chained dollars.
Source: Bureau of Economic Analysis 11/24/09.



ISM Manufacturing Index Shows Sector Growing Again

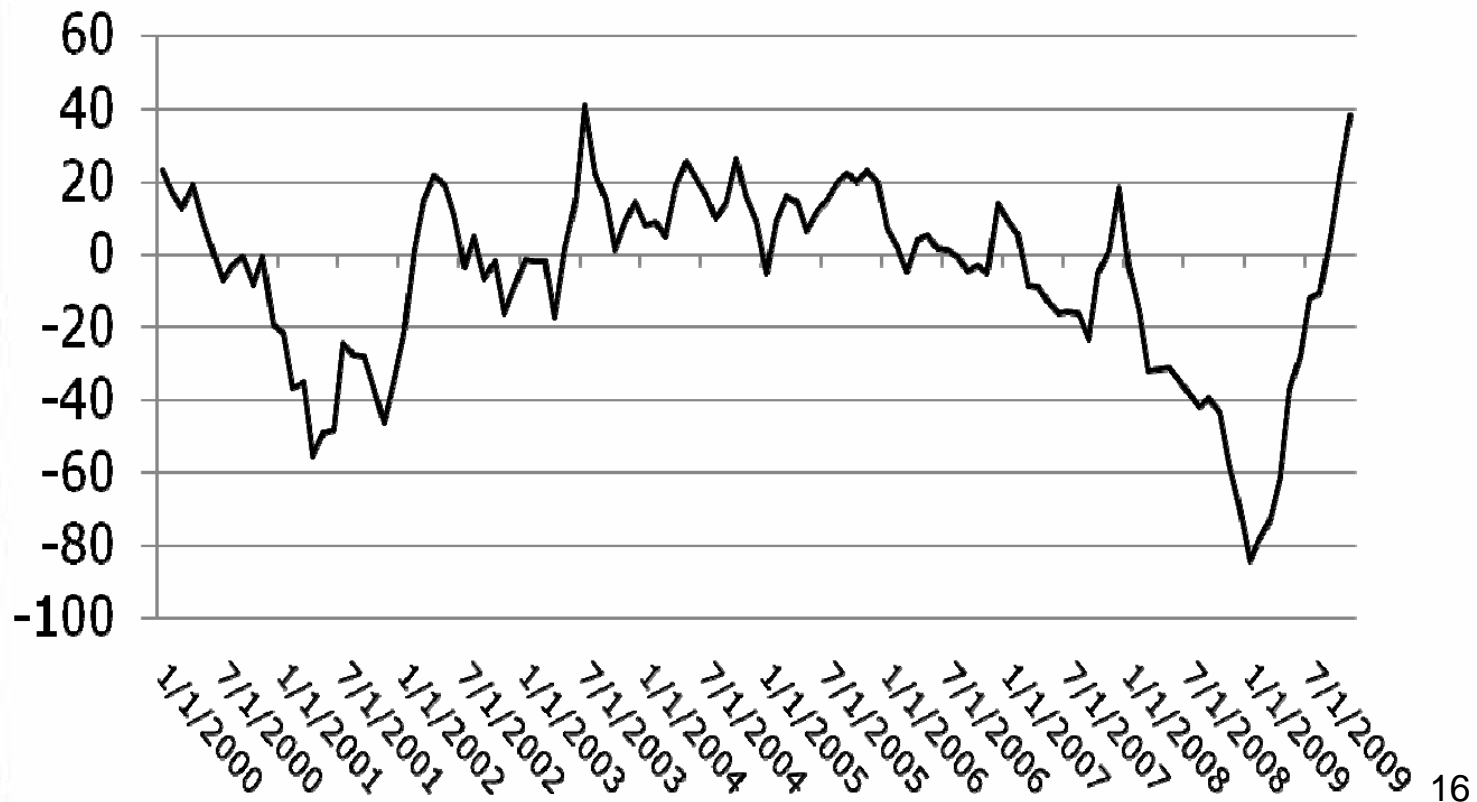


Figures are annualized percent change from preceding quarter in 2000 chained dollars.
Source: Bureau of Economic Analysis 11/24/09.



A Good Sign: Temporary Help Employment is Growing

U.S. Temporary Help Employment Change Month to Month (3 month average in thousands)





But...



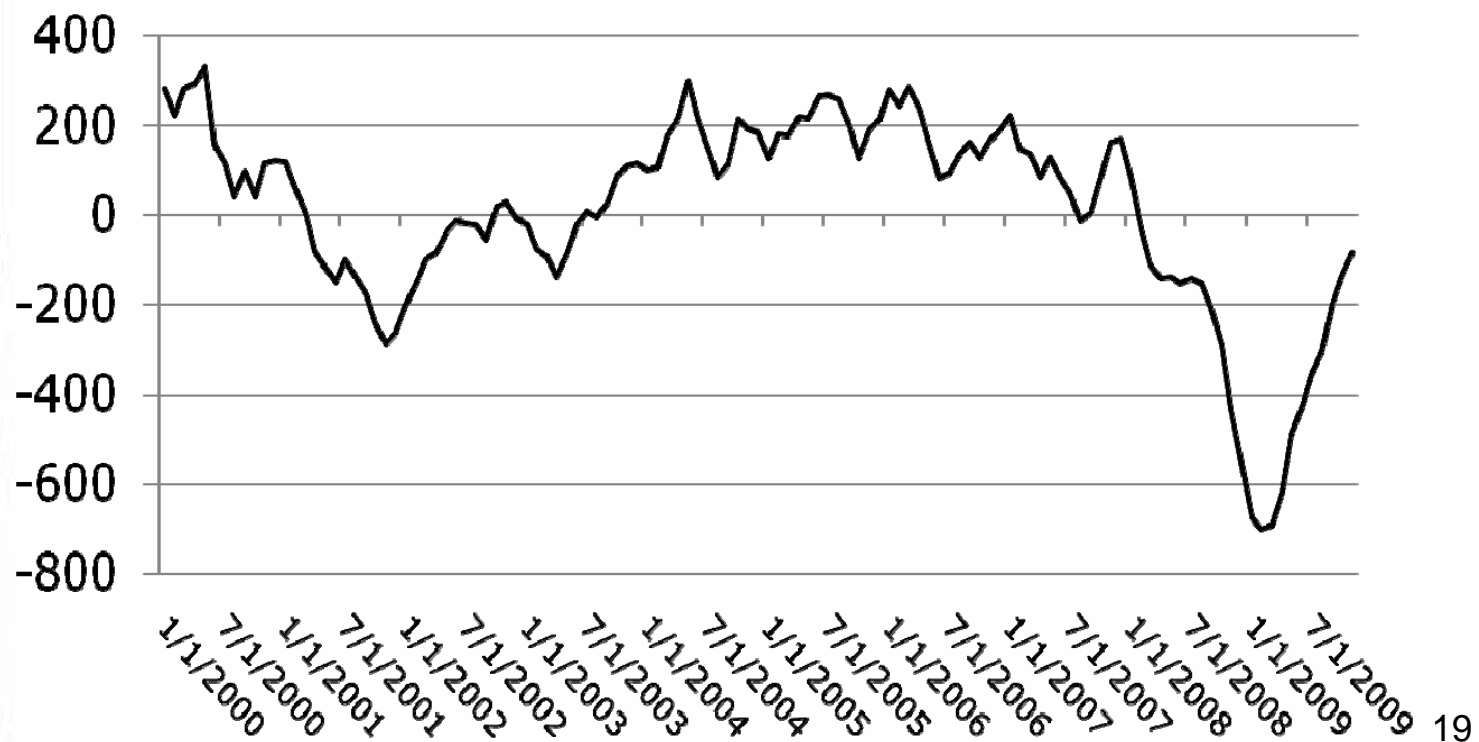
Things Still Feel Bad

- Economic Activity Still Depressed
 - GDP was \$513 billion (3.8%) smaller in 2009Q2 than in 2008Q2 (chained \$, annual rate)
 - GDP was \$88 billion bigger in 2009Q3 than in 2009Q2 but still 3.2% below 2008Q2
- U.S. Has Lost Over 7 Million Jobs and Employment Still Falling
- Unemployment Rate Very High and Climbing
- People Feel Poorer
 - Home prices are down
 - Stock market is down
 - Access to credit diminished
 - Uncertainty over employment situation



Employment Declines Were Massive But Are Abating

U.S. Employment Change
Month to Month (3 month average in thousands)

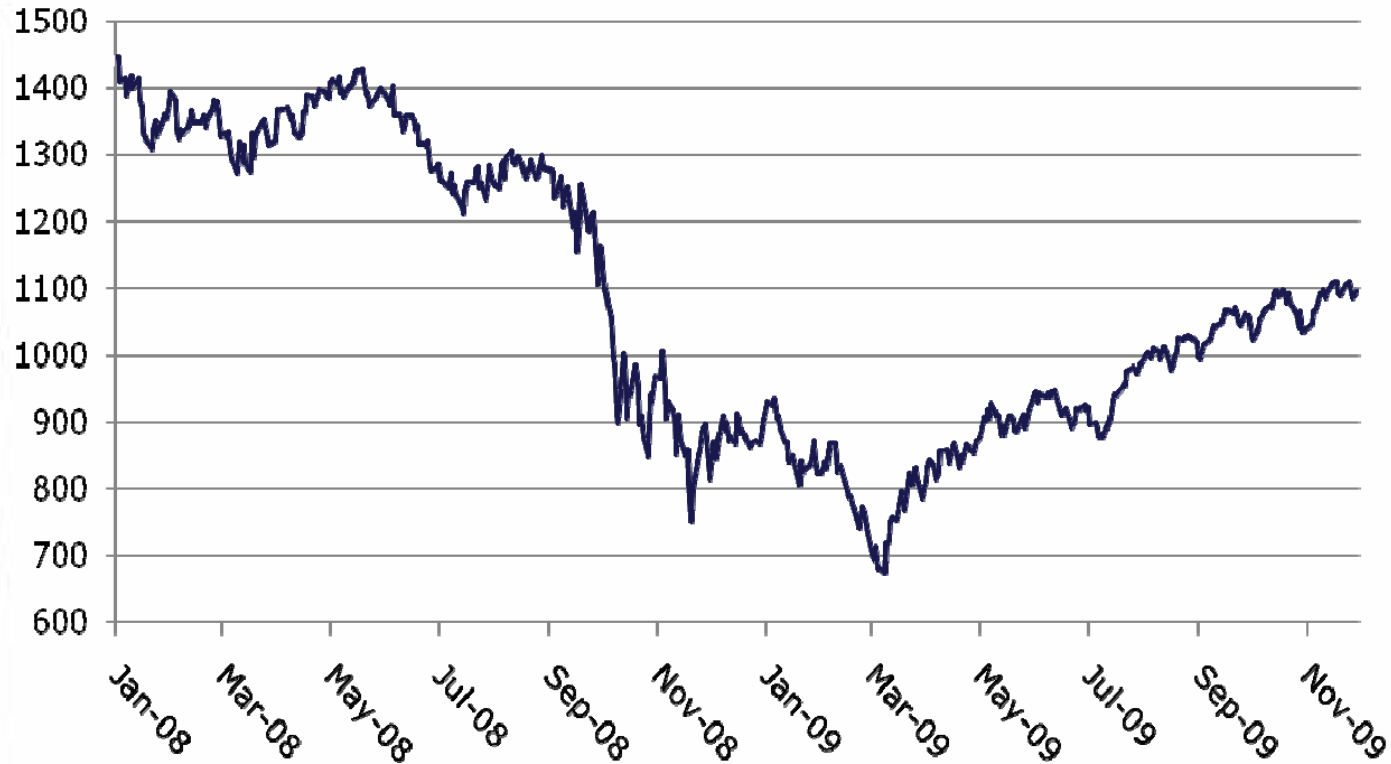


Source: Bureau of Labor Statistics and CRC calculations.



S&P 500 Up Almost 50% From March Low

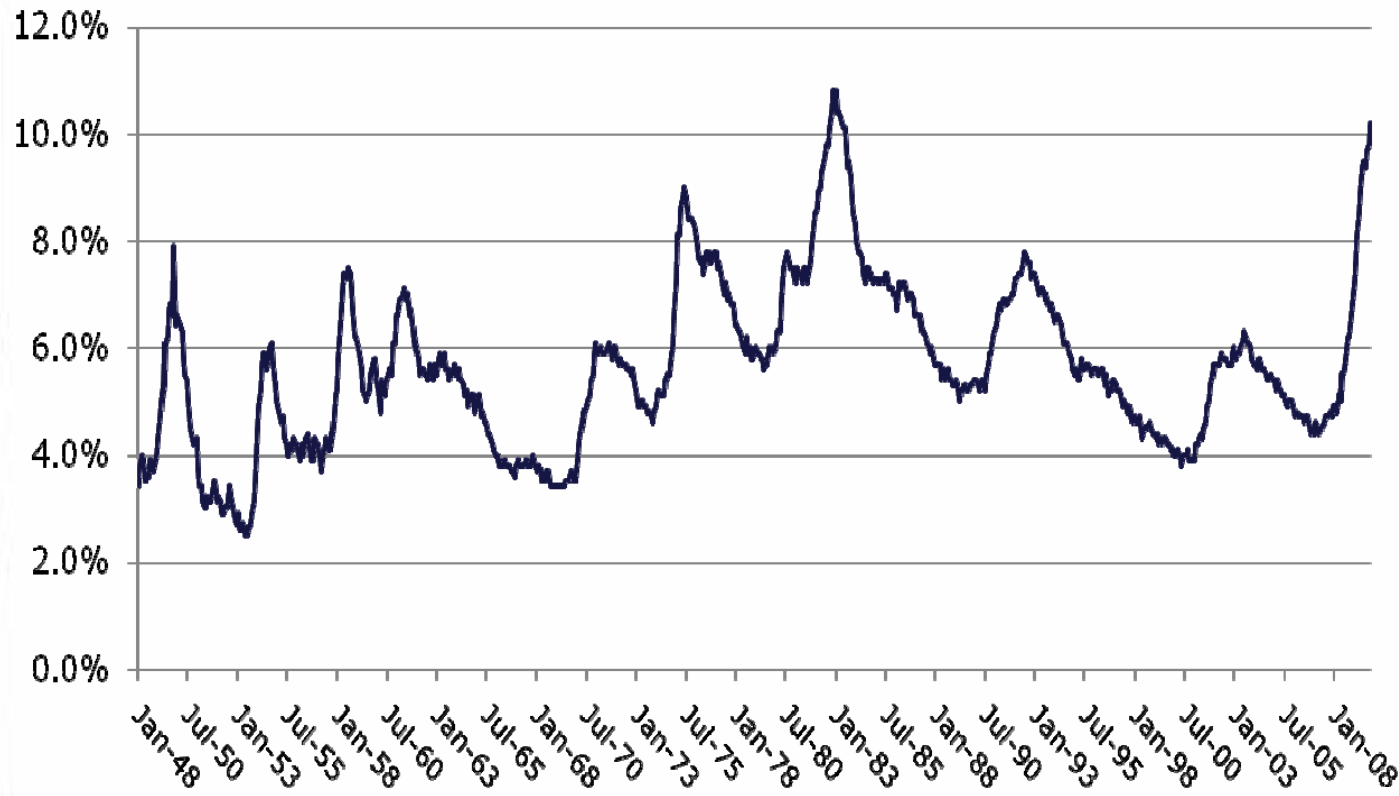
But Still Down 25% from 2007





Unemployment Rate is Very High By Historical Standards

U.S. Unemployment Rate



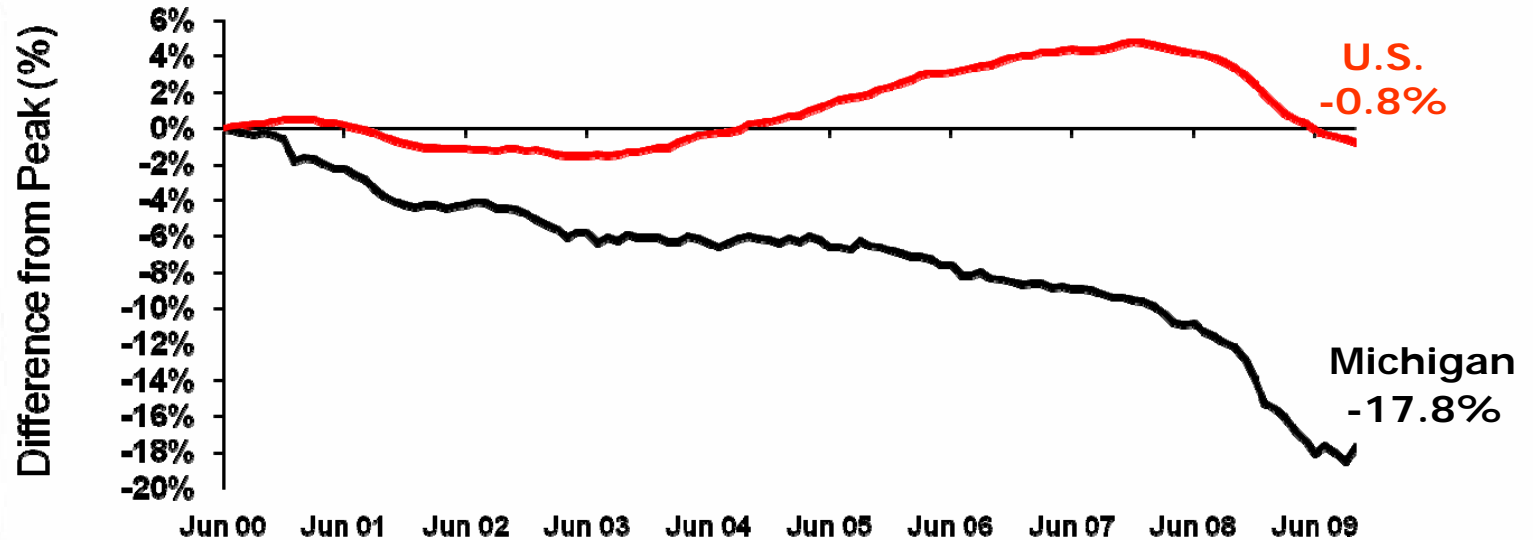


What is Going on in Michigan?

- 8-Year “Single State Recession”: Michigan economy has shown no improvement since 2001
- Employment Peaked in June 2000
 - Unabated job losses since peak
 - Losses concentrated in manufacturing (autos)
- Payrolls for October 2009: 263,000 below year ago levels
- Job Losses Accelerated by National Recession
- Michigan Becoming a “Poorer” State: Michigan Personal Income losing ground relative to US



Michigan Employment Never Recovered in Last US Expansion

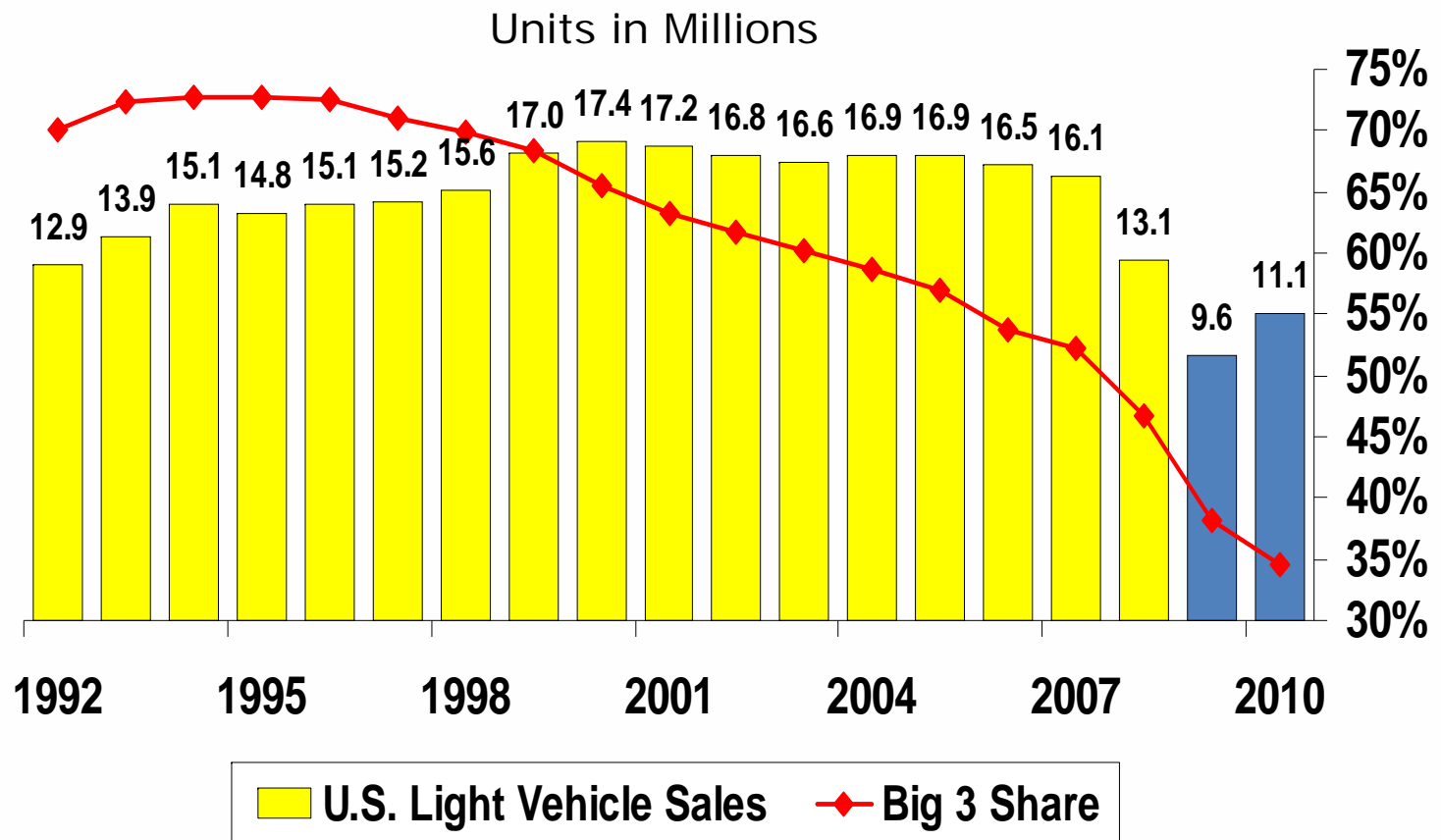


Note: Peak is calculated from Michigan's June 2000 Peak. Data through August 2009.

Source: Bureau of Labor Statistics



Big 3 Losing Market Share

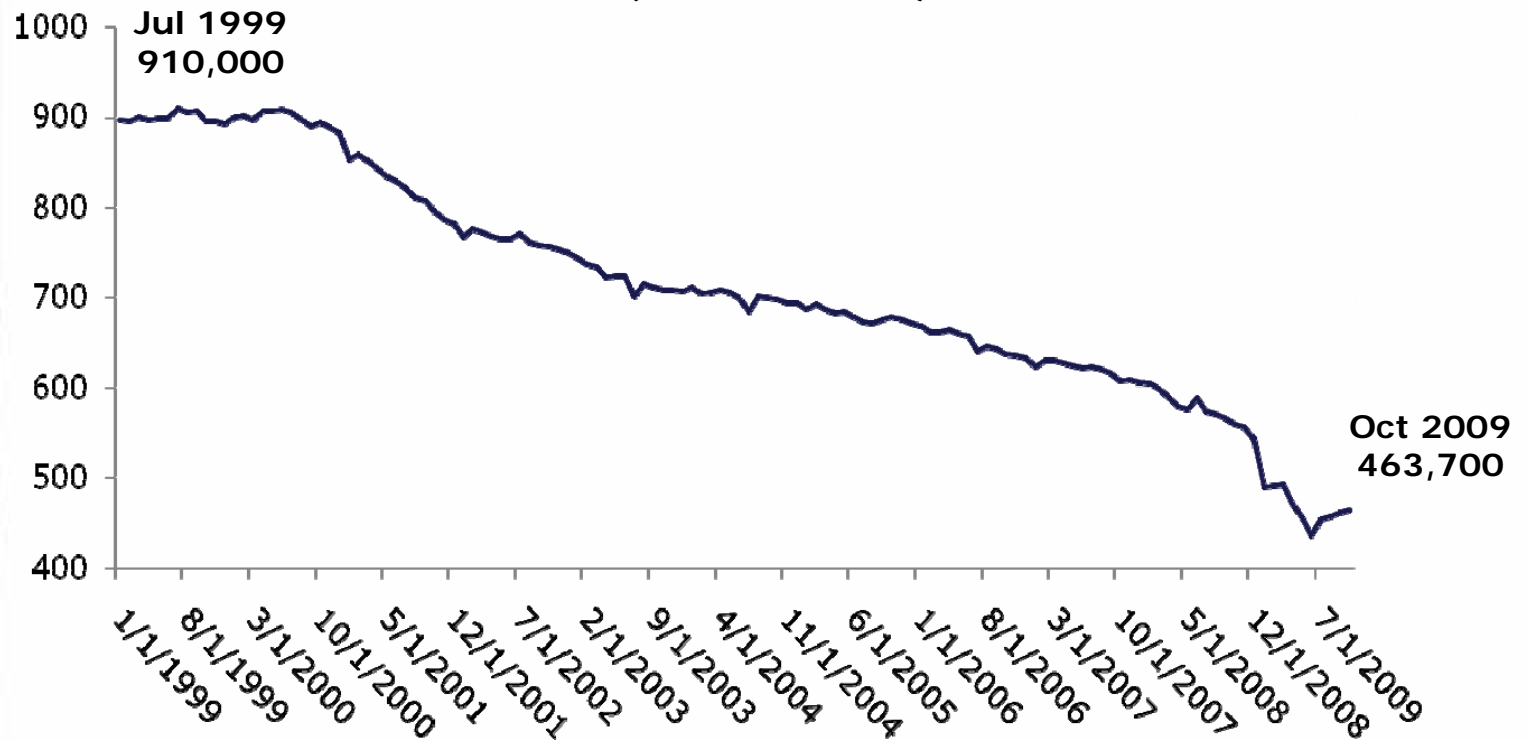


Source: Automotive News, vehicle sales and share; 2009 & 2010 are the May 09 Consensus estimates.



Michigan Has Lost Half of Its Manufacturing Jobs

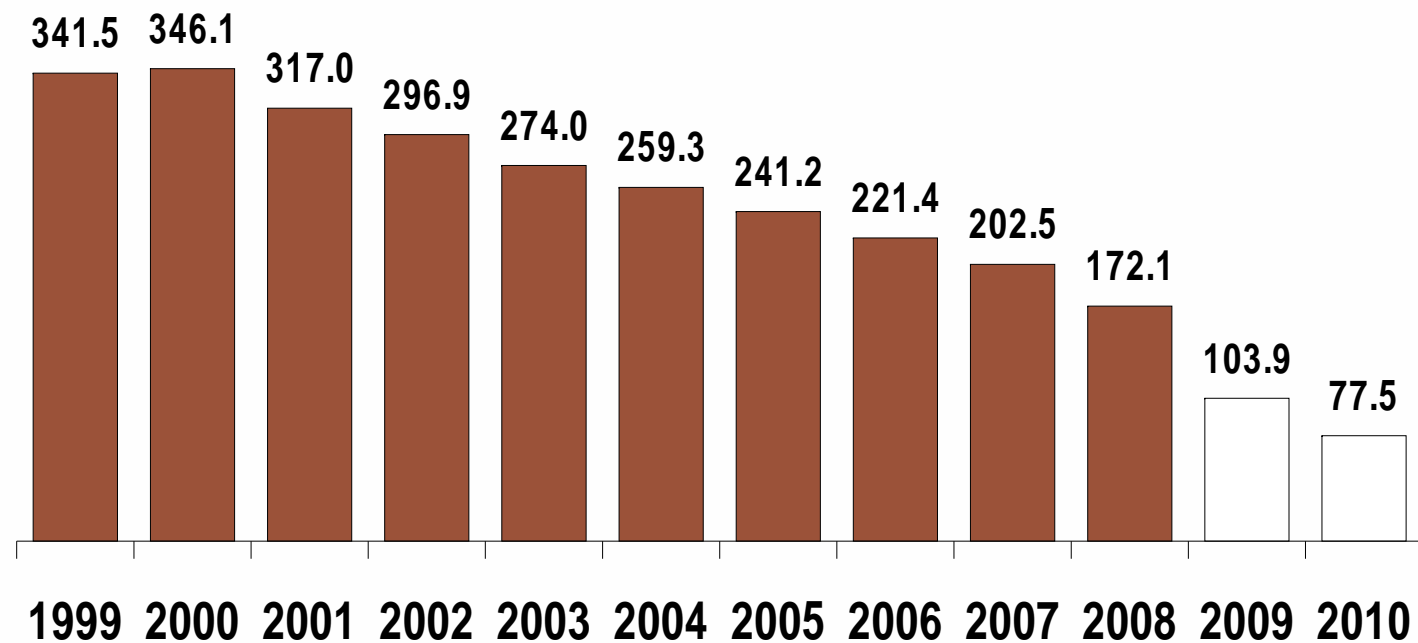
Michigan Manufacturing Employment
(thousands)





3 in 4 Auto Jobs Lost by 2010

Michigan Transportation Equipment Employment
(In Thousands)

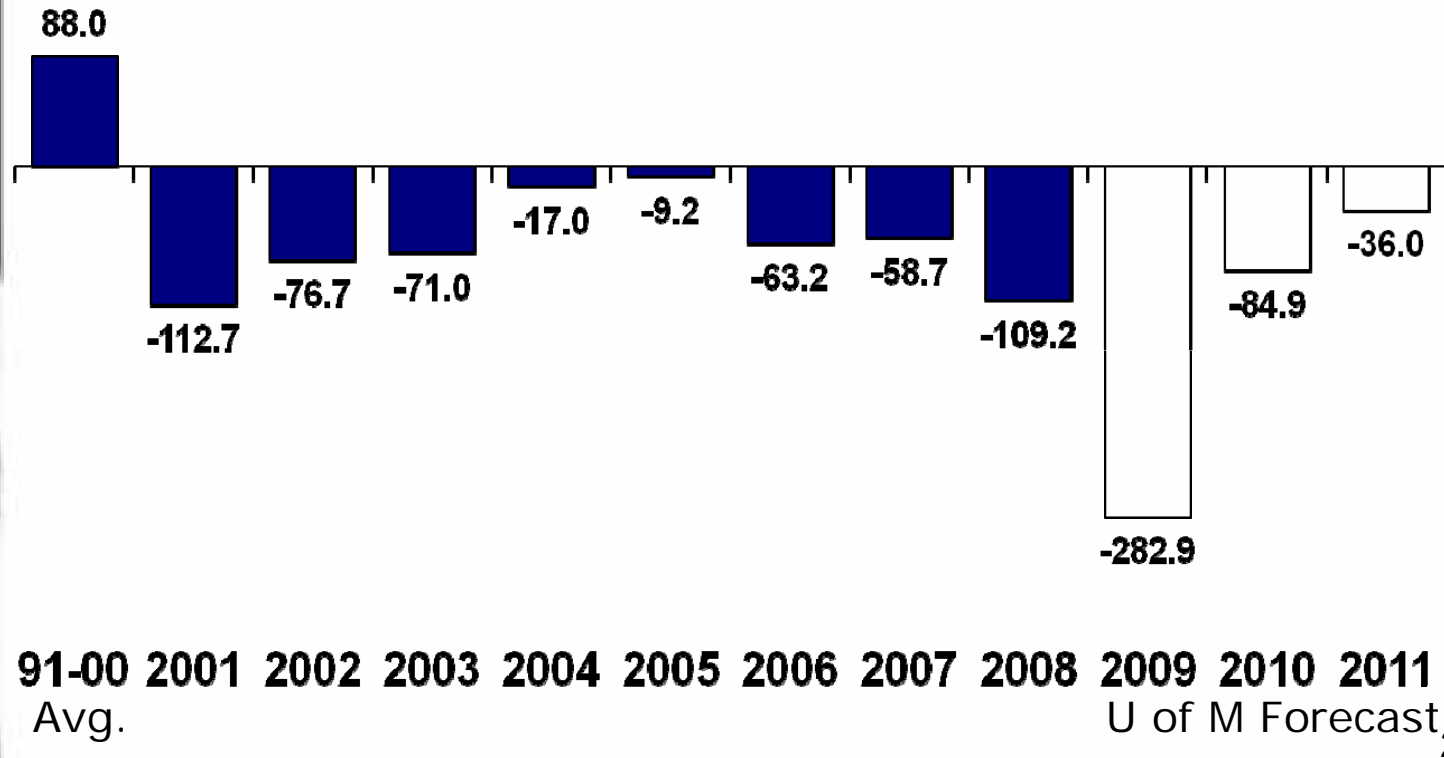


Source: Bureau of Labor Statistics. 2009-2010 estimates are the average of the 3 agency forecasts for ²⁶ the May 2009 Consensus Conference.



U of M Forecast – No Job Growth for Michigan

Michigan Wage and Salary Employment Y-O-Y Change
(In Thousands)





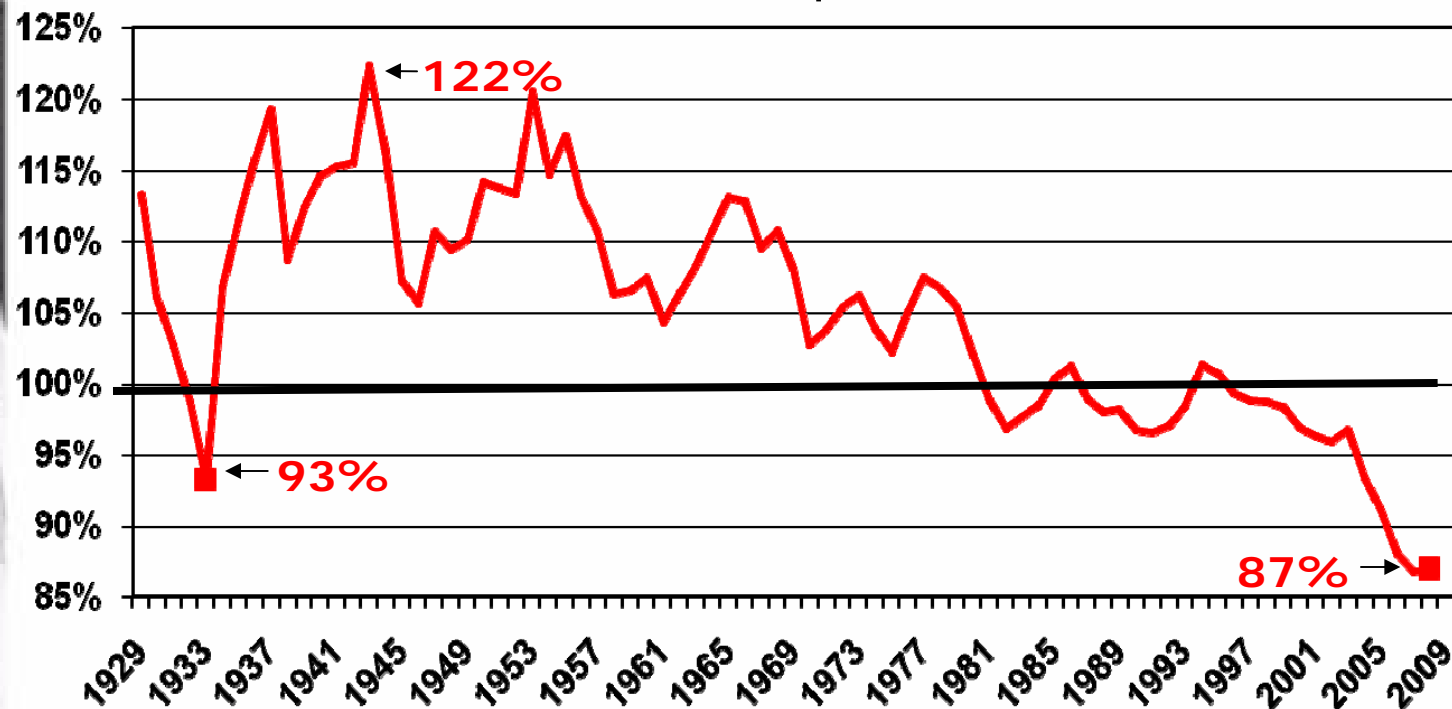
Unemployment is Very High

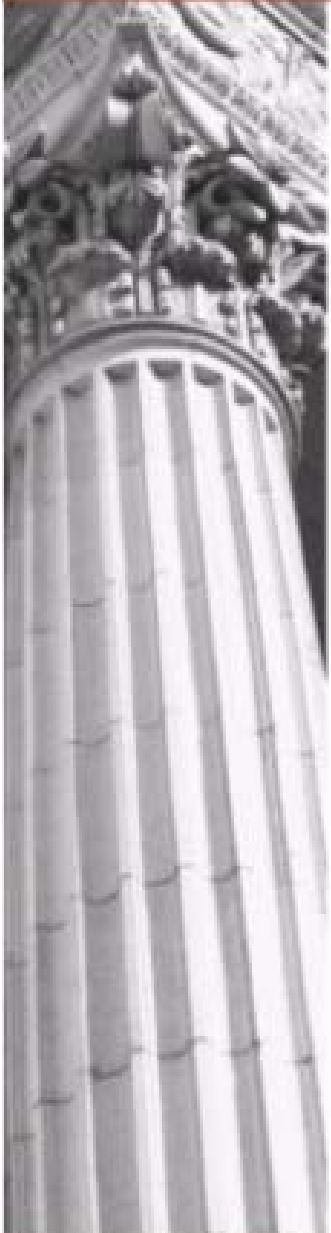
<u>Location</u>	<u>Unemployment Rate</u>
U.S.	10.0%
Michigan	15.1%
Detroit MSA	17.3%
City of Detroit	27.9%
Lansing MSA	11.0%
Grand Rapids MSA	11.9%



Michigan Personal Income Falling Relative to U.S.

Michigan per Capita Income as a Percent of U.S. Per Capita Income





State Revenues and School Finance



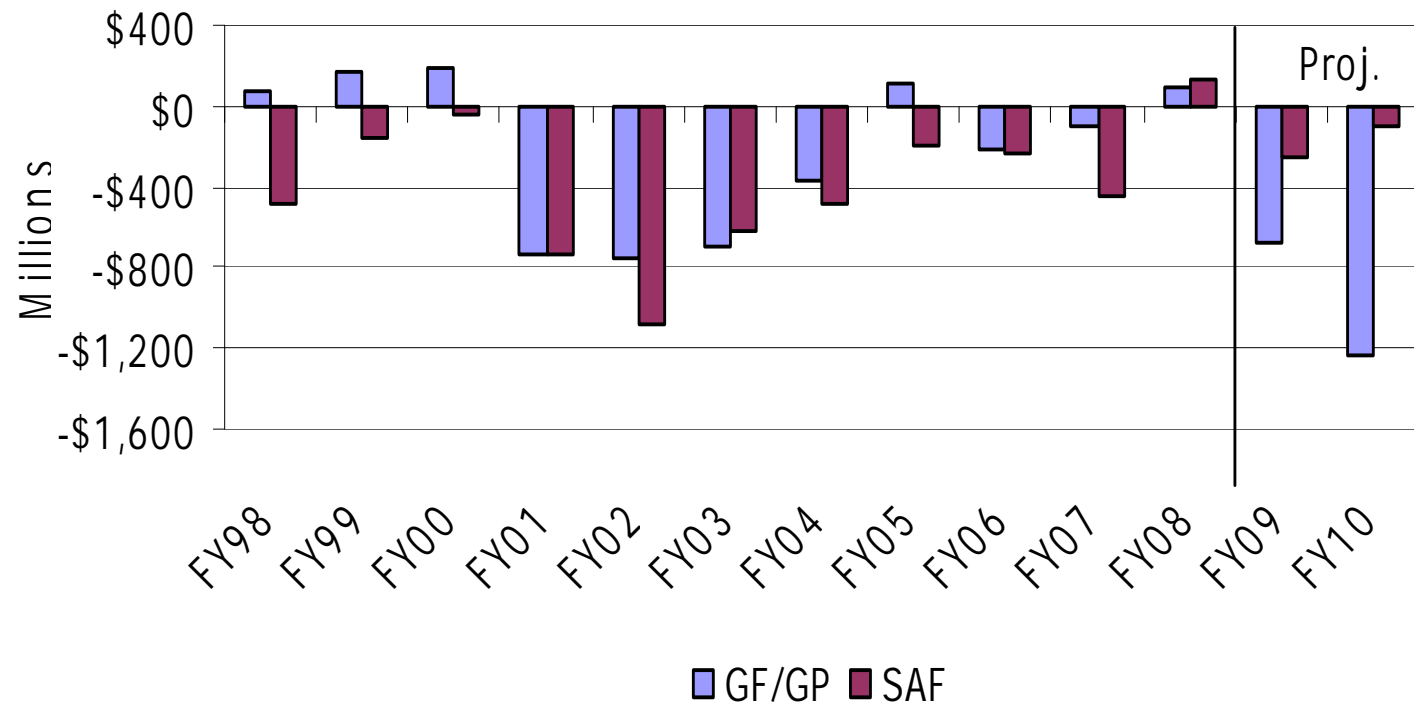
The Michigan Budget Story Has Not Changed . . .

- Dual Structural Deficits
 - Public K-12 education
 - General Fund-financed programs
- Structural Deficit Causes: Both spending and revenue components
- We Will **Not** Grow Out of It
- Significant Spending Cuts and/or Tax Increases Required
- Problem Exacerbated by Cyclical Deficits Caused by National Recession



Persistent Structural Deficits

GF/GP and SAF Operating Deficits



Source: Senate Fiscal Agency



May Revenue Revisions

	FY 2009			FY 2010		
	Jan Cons.	May Cons	Change	Jan Cons.	May Cons	Change
GF-GP	\$8,306.1	\$7,435.3	(\$870.8)	\$7,934.5	\$6,949.7	(\$984.8)
SAF	\$11,368.7	\$10,943.7	(\$425.0)	\$11,295.8	\$10,563.0	(\$732.8)
Total	\$19,674.8	\$18,379.0	(\$1,295.8)	\$19,230.3	\$17,512.7	(\$1,717.6)
Growth						
GF-GP	-11.3%	-20.6%		-4.5%	-6.5%	
SAF	-1.3%	-4.9%		-0.6%	-3.5%	
Total	-5.7%	-11.9%		-2.3%	-2.8%	



Administration and Senate Have Been Using Different SAF Revenue Estimates

	<u>SFA Estimate</u>	<u>Treasury Estimate</u>	<u>Difference</u>	<u>Notes</u>
Revenue				
Beginning Balance	\$201.5	\$95.3	(\$106.2)	Difference in 09 Est.
May Consensus Est.	\$10,563.0	\$10,563.0	\$0.0	
Reductions to FY 10 CREC	\$0.0	(\$128.7)	(\$128.7)	Difference in 10 Est.
Assumed Rev. Increase	\$100.0	\$0.0	(\$100.0)	Sen. Rep. Tax Plan
GF/GP Grant	\$30.2	\$30.2	\$0.0	
Federal Aid	\$1,601.8	\$1,601.8	\$0.0	
ARRA Money Used	\$450.0	\$450.0	\$0.0	
Total Estimated Revenue	\$12,946.5	\$12,611.6	(\$334.9)	
Expenditures				
Enrolled Appropriations	\$12,877.5	\$12,877.5	\$0.0	
Governor's Vetoes	(\$54.0)	(\$54.0)	\$0.0	
Total Appropriations	\$12,823.5	\$12,823.5	\$0.0	
Ending Balance	\$123.0	(\$211.9)	(\$334.9)	



Senate Republican Plan Adds \$100 Million to FY2010 SAF

	FY 2010 <u>SAF Revenue</u>	FY 2011 <u>SAF Revenue</u>
Tax Amnesty	\$10.5	\$0.0
Business Tax Enforcement	\$3.2	\$3.2
Lottery Revenue Increase	\$15.0	\$15.3
Increase MBT Earmark	<u>\$71.3</u>	<u>\$0.0</u>
Total	\$100.0	\$18.5



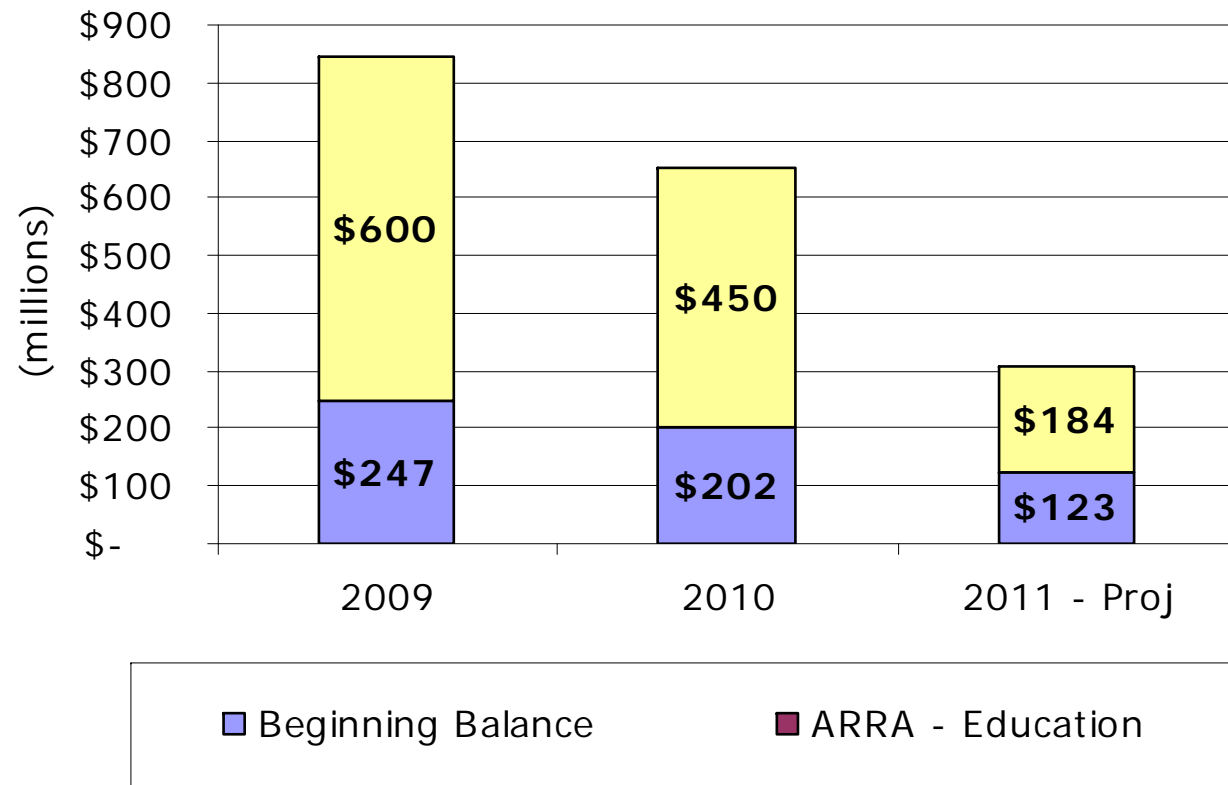
Budget Balancing Measures

- FY2010 SAF Revenues Projected to be \$1.0 Billion Below FY2008
- Enacted FY2010 Cuts:
 - \$165 per pupil (\$263M)
 - ISD reduction (\$16M)
 - 20j veto (\$52M)
 - Other Cuts (\$35M)
- Stimulus Money in Budget:
 - FY2009 \$600M
 - FY2010 \$450M
 - FY2011 \$184M



Heavy Reliance on One-Timers But Declining

SAF Budget: Non-Recurring Resources Used





SAF is Balanced in FY2011 with 3% Growth and Senate Assumptions

	<u>FY 2010 Estimate</u>	<u>FY 2011 Estimate</u>
Beginning Balance	\$201.5	\$123.0
Estimated SAF Baseline Revenue	\$10,563.0	\$10,882.7
Proposed SAF Revenue Increases	\$100.0	\$0.0
ARRA	\$450.0	\$184.1
GF-GP Grant to Schools	\$30.2	\$30.2
Federal Aid	<u>\$1,601.8</u>	<u>\$1,601.8</u>
Total Estimated Revenue	\$12,946.5	\$12,821.8
Expenditures	<u>\$12,823.5</u>	<u>\$12,810.1</u>
Enacted Approp and CSB		
Estimated Year End Balance	\$123.0	\$11.7



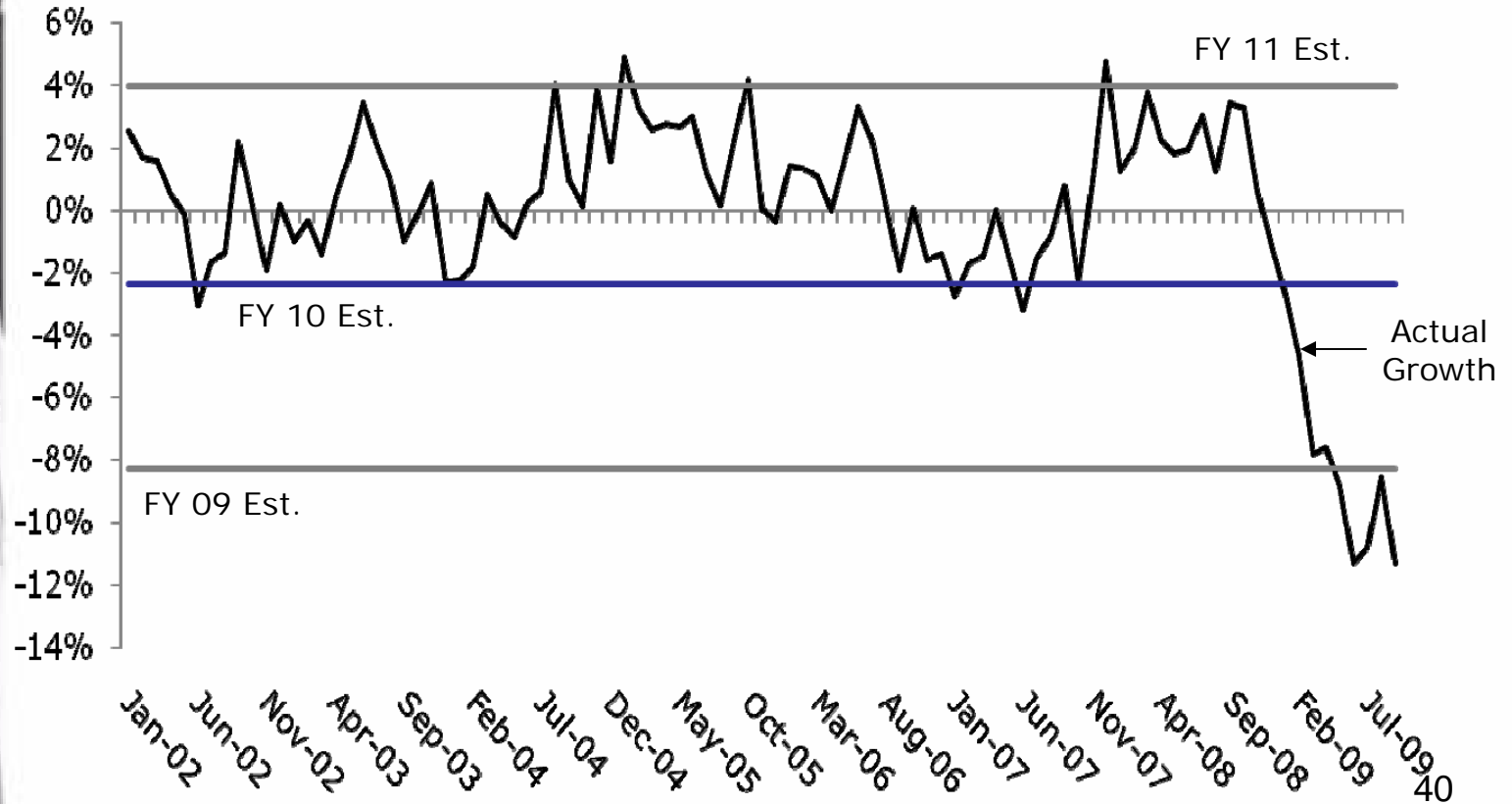
But...

- The Senate numbers assume \$100 million in FY2010 revenues that have not yet been enacted.
- U of M is predicting SAF revenues will be down 0.4% in FY2011 compared to the 3% growth state policy makers have been using. The difference between the estimates is almost \$500 million.



Sales Tax Collections Have Been Awful

Year over Year Growth Rate (6 month average)



Source: CRC Calculations.

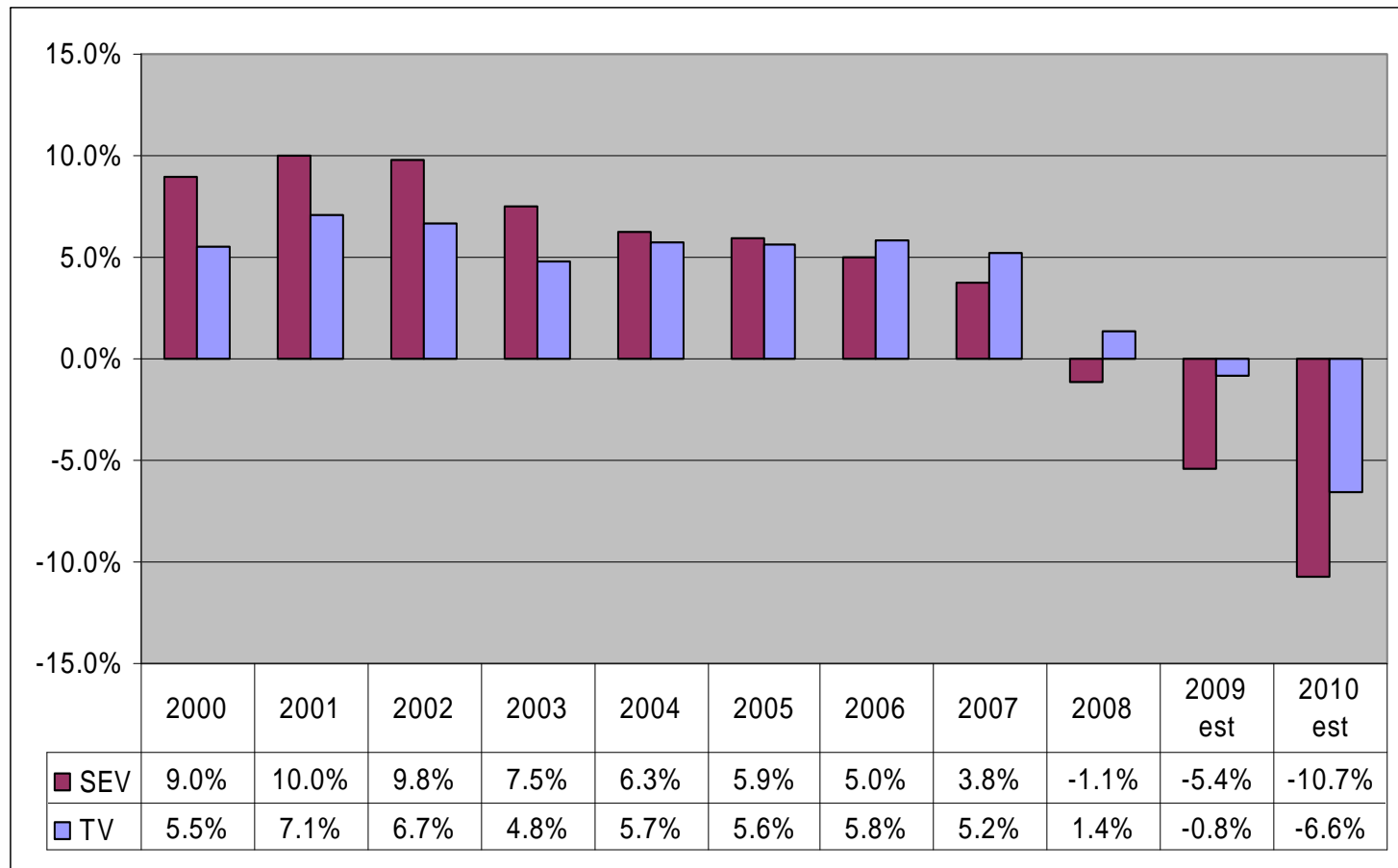


Sales Tax Example

- 40 Percent of State SAF Revenues
- Down 8 to 12 Percent from Year Ago
- FY2010 Assumes Substantial Improvement in Sales Tax Growth Rate (-2.0 Percent)
 - No drag from falling gasoline prices in FY2010
 - Year-over-year comparisons are much more favorable
- FY2011 Estimate (4.0 Percent) Not Likely Without Economic Rebound in Michigan
- FY2010 and FY2011 Recovery Assumptions for other Taxes are Similar



Property Values: State Equalized Value and Taxable Value



Source: State Tax Commission, Michigan Department of Treasury, House Fiscal Agency



What Does This Mean?

- 2007: TV up 5.2%; property values up only 3.8%
- 2008: TV up 1.4%; property values down 1.1%
- 2009: TV declined 0.8%; property values estimated to decline 5.4%
- 2010: TV estimated to decline 6.6%; property values estimated to decline 10.7%
- Local Governments Facing Revenue Challenges





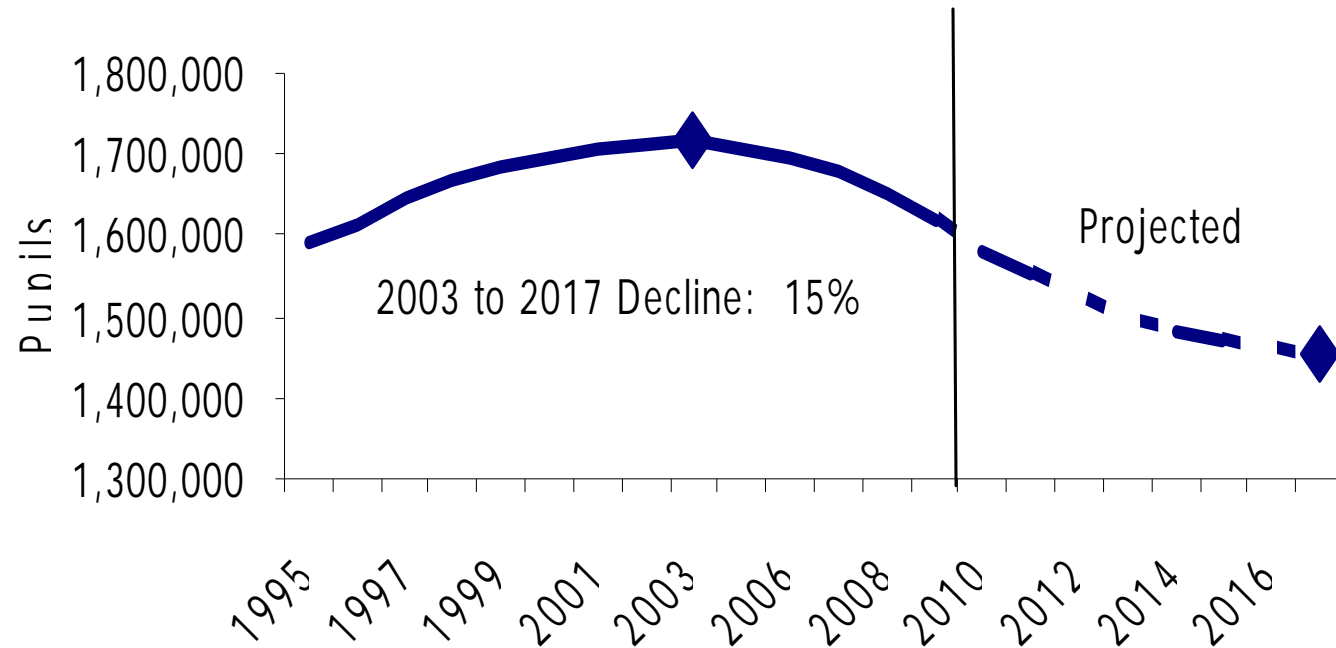
Per Pupil Support for K-12

- Minimum Grant: Increased \$616 (9%) from FY2003 to FY2009
- Maximum Grant: Increased \$489 (4%) from FY2003 to FY2009
- State Support Flat: Less than 1% increase
- Declining Enrollment Responsible
 - FY2003-FY2009: 98,000 fewer students (-5.7%)
 - FY2008-FY2009: 36,000 students
 - Translates into about \$717 million in state aid
- No New State Money Added to Grant



Declining Enrollments Continue

Pupil Count

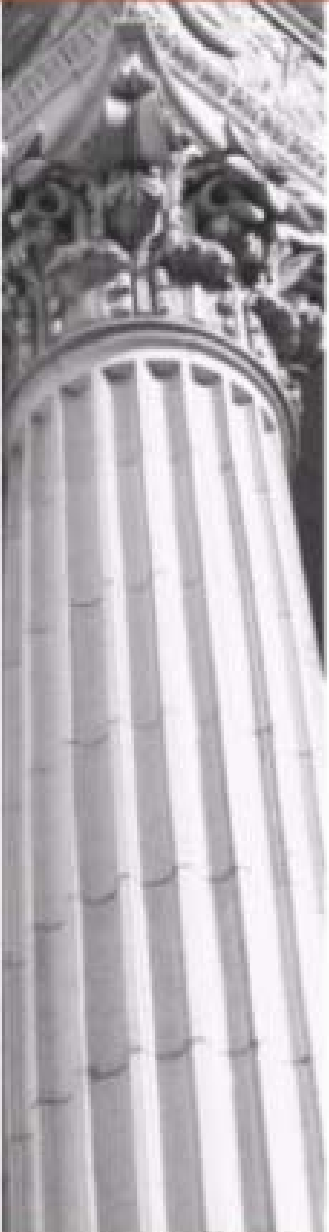


Projections: Michigan Fiscal Future



School Aid Structural Deficit

- Spending Pressures Outpace Revenue Growth
 - Retirement contributions—rapid growth
 - Employee health insurance—rapid growth
 - General pay raises
 - Other—fuel, utilities, supplies
- Revenues Growing Slowly





Reasons for Sluggish Revenue Growth

- Increasing Senior Citizen Population: Retirement income not taxed and spend less on goods
- Consumption Taxes Goods Oriented: Economic growth is in service sector
- Slow or No Growth Revenues (e.g., Tobacco, Gambling, Alcohol): Drag down overall growth rate
- Flat Rate Income Tax
- Earned Income Tax Credit (GF impact only)
- Phase-Out of Income Tax Increase (GF impact only)

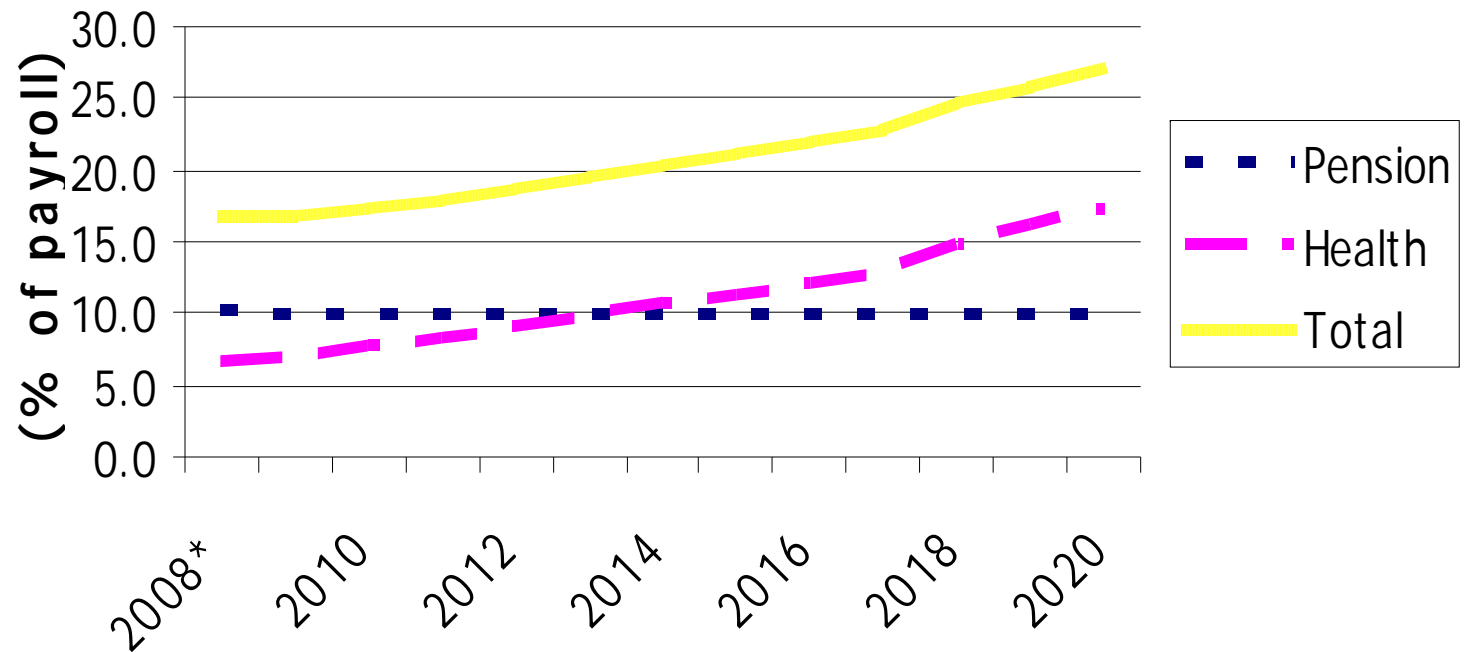


Retirement Funding

- Pension is Advance Funded by Districts
- Retiree Health Care is Cash Funded by Districts
- Rate for FY2009 is 16.54% of Payrolls
- Contribution Rate Composed of Two Parts:
 - Regular pension benefit (9.73%)
 - Health care benefits (6.81%)
- Both Parts Will Continue to Increase in the Future
 - Pension because of market in 2008
 - Health because of increase in retirees and cost of health care



MPSERS Projected Rates

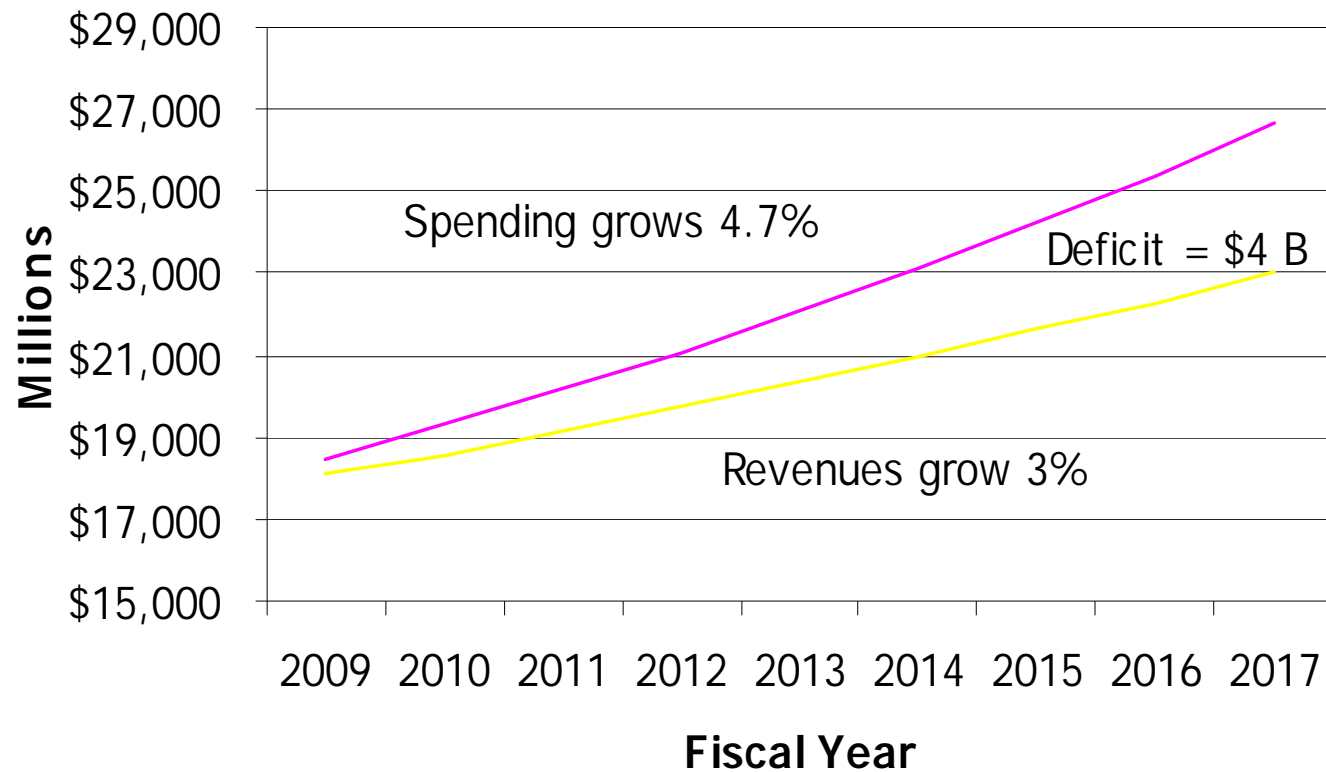


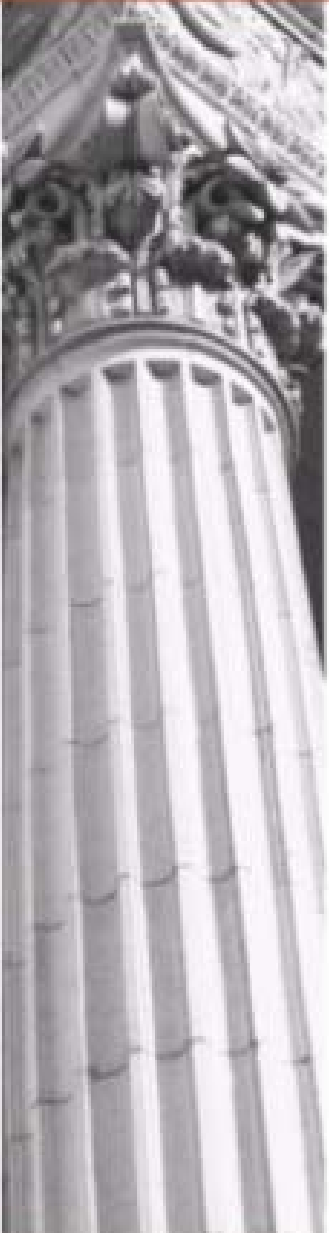
* Actual Rates

Fiscal year



School Aid Structural Deficit Projections, FY2009 – FY2017

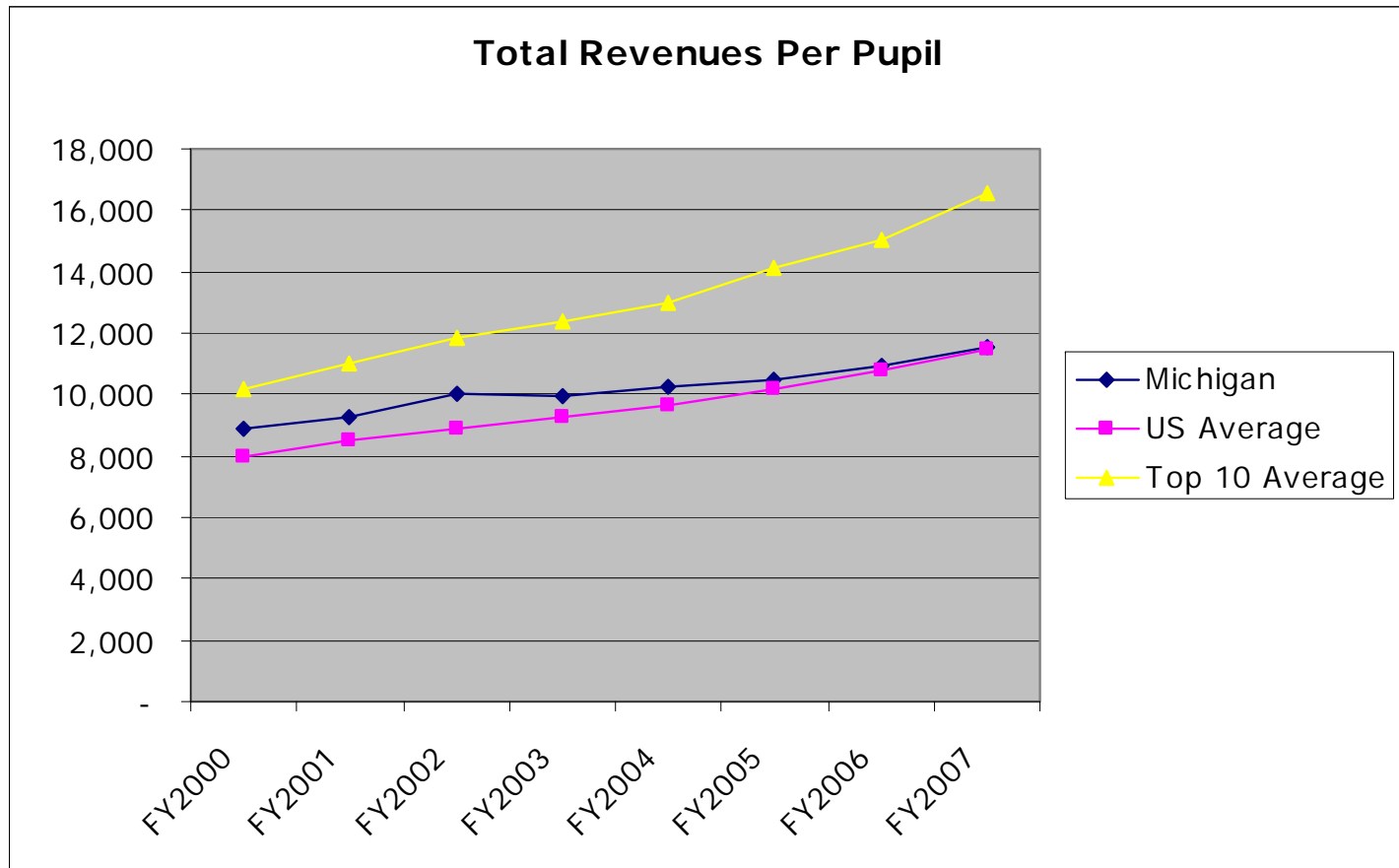




Interstate Comparison



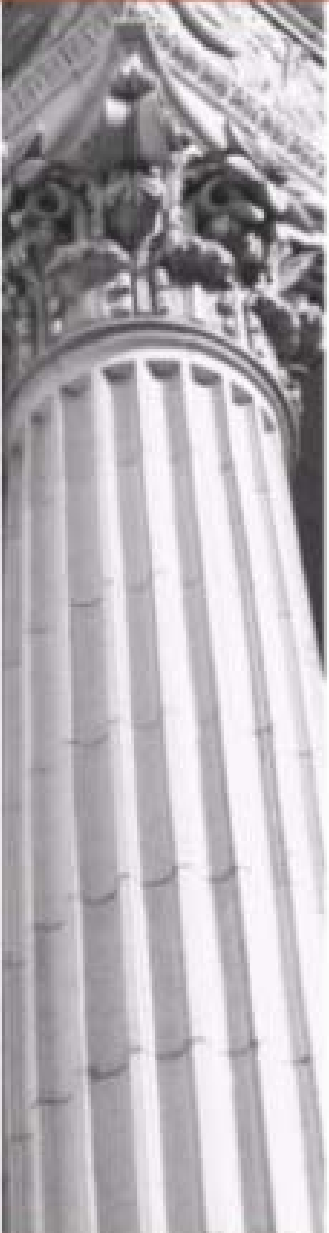
Total K-12 Revenues Per Pupil



Source: US Census Bureau



Conclusion





Policy Options

Achieving Long-Term Structural Balance

- Increase Revenue Growth
- Reduce Rate of Spending Pressure Growth
- Bend the Two Curves so They Meet





Tax Scenario

- Expand Sales and Use Taxes
 - Exempt business-to-business
 - Reduce rate to 3.6% (neutral)
 - Adds about 0.8% to growth rate
- Graduated Income Tax
 - Revenue-neutral starting point
 - Nearly doubles growth rate
- Combined Effects
 - Adds 0.8% to School Aid Fund growth
 - Adds 1.5% to General Fund growth
 - Still work to do: Spending solutions



Spending Scenario

- Employee and Retiree Health Care
 - Hold health care cost increases to 5% per year
 - Reduces General Fund annual spending pressure growth by 1.6%
 - Reduces School Aid annual spending pressure growth by 1.1%

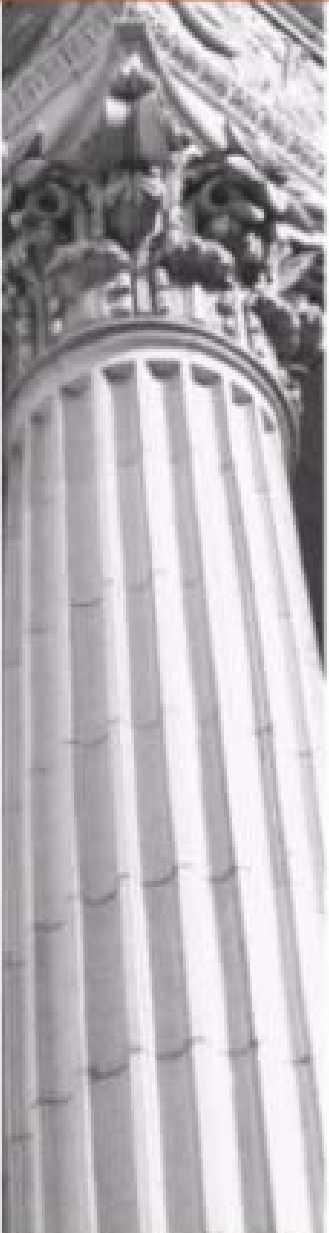


What About Tax Reform?

- Tax Reform Can Have Many Different Objectives
- Potential Goals of Tax Reform Include:
 - Make tax growth more closely match economic growth
 - Increase progressivity
 - Make tax structure more conducive to encouraging economic growth
 - Increase (or decrease) amount of tax revenue collected



Questions?





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