



Financing K-12 Education in Michigan: Background and Current Proposal

Presentation to:
Education on Education Forum

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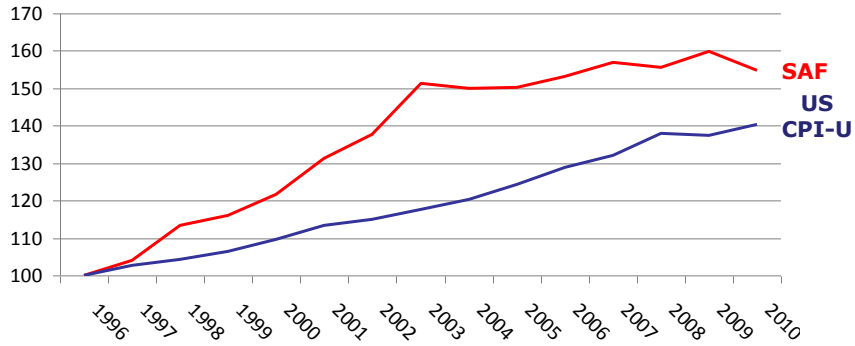


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- Promotes sound policy for state and local governments through factual research
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Growth Exceeds Inflation: FY96 to FY01 Slower Than Inflation: FY01 to FY10

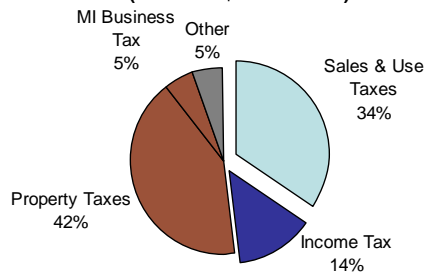


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Economically Sensitive Taxes Dominate *Consumption and Income Taxes Make Up 48%*

State and Local Education Operating Taxes by Source
(FY2009 - \$14.0 billion*)



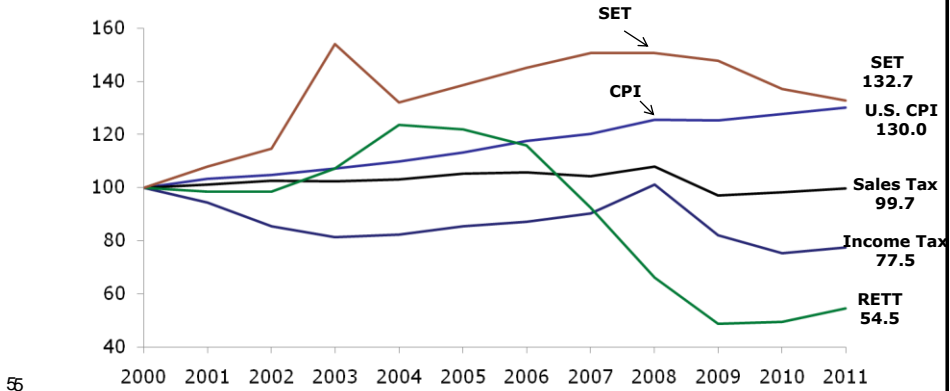
* Note: Michigan Dept. of Treasury; Michigan Dept. of Education; CRC

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Major SAF Revenue Sources Fail to Keep Pace with Inflation Since 00

Total Taxes Indexed - FY 2000 = 100



Note: 2010 and 2011 totals are the May 2010 Consensus estimates.



Great Recession's Effects Severe

Steep Revenue Declines and Slow Recovery

	annual growth rates			
	FY2009	FY2010	FY2011	FY2012
Sales	-10.1%	1.4%	2.9%	2.9%
Income	-19.0%	-5.5%	3.8%	0.4%
Use	-19.2%	9.3%	3.6%	4.3%
State Education	-1.9%	-5.4%	-3.7%	-1.3%
Real Estate Transfer	-26.2%	-3.0%	2.8%	8.8%
School Aid Fund	-5.1%	-1.0%	1.5%	2.0%
General Fund	-21.3%	-7.9%	6.5%	0.9%

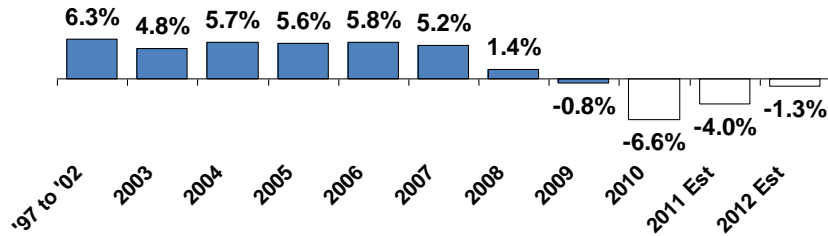
FY2011 SAF down \$680 million from FY2008

Note: FY2009 and FY2010 actual; FY2011 and FY2012 projected rates from Jan 2011



After Stable Annual Growth, Property Tax Revenues Decline

% Change in Total Taxable Value

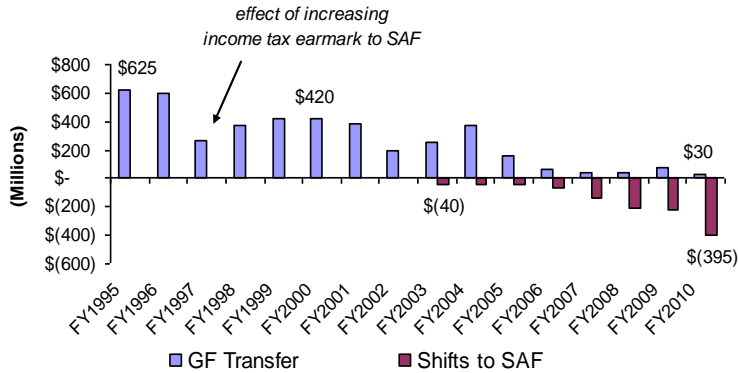


Source: State Tax Commission and Michigan Department of Treasury Estimates.



GF Budget Problems Spill Over *Support for Schools Slashed*

General Fund Transfers and Cost Shifts - School Aid Fund

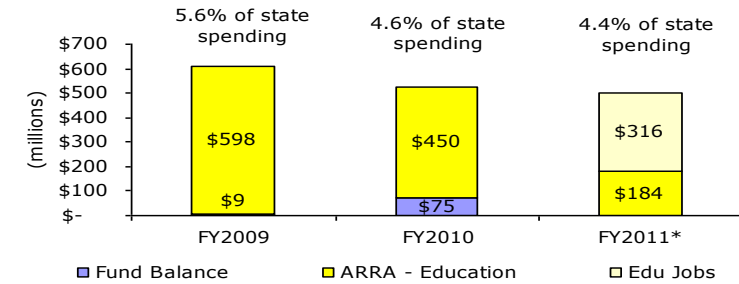


* FY2010 includes \$208 million for community college operations
Source: Michigan Department of Education; House Fiscal Agency



Major Cuts Avoided Thus Far *Non-Recurring Resources Used to Maintain Spending*

Non-Recurring Resources Used for SAF Budget



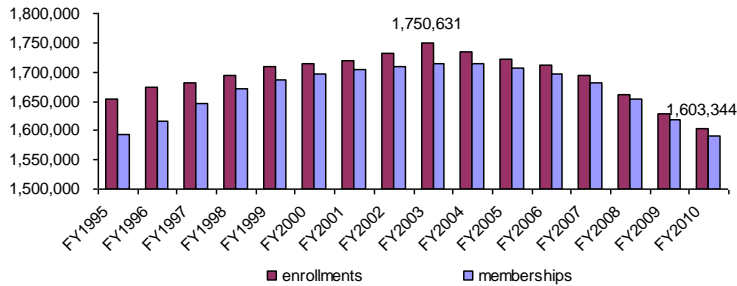
Fund Balance = \$247 million at 10/1/08. State spending excludes federal.

* Based on enacted budget as of 7/10 and projected Edu Jobs funding.



Two Periods of Enrollment Change *Since FY2003 "Era of Declining Enrollments"*

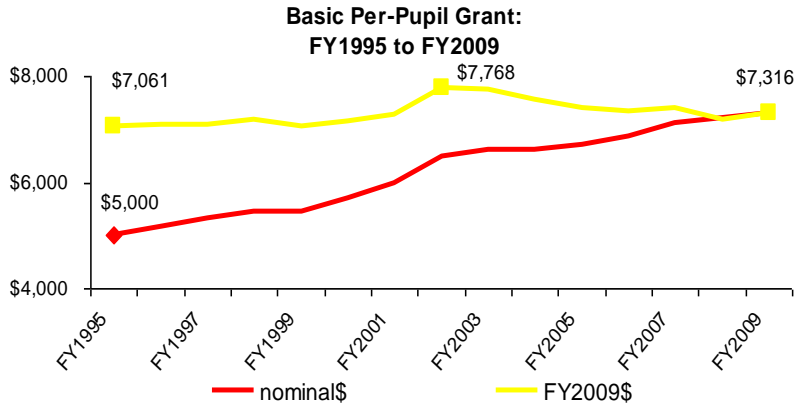
Statewide Enrollments and Foundation Pupil Memberships



source: Michigan Department of Education, Bulletin 1014 and Financial Status Reports



Since FY1995 Basic Grant Tracks Inflation, But Since FY2002 Grant Trails Inflation



* Basic grant adjusted using U.S. Consumer Price Index (state fiscal year basis).
Source: Senate Fiscal Agency; US Bureau of Labor Statistics



FY2011 Surplus Result of One-Time \$

School Aid Fund Balance Sheet (millions)

Projected Revenues		FY2011
Beg. Balance		\$ 255.9
On-Going Revenues		\$ 10,979.1
Other Revenue		
General Fund Grant	\$	18.6
Federal Stimulus Funds (ARRA)	\$	184.3
Federal Edu-Jobs Funding	\$	316.3
On-Going Federal Aid	\$	1,677.8
Other	\$	29.6
Total Revenue	\$	13,461.6
Projected Spending		
Appropriations	\$	12,954.2
Est. Year-End Balance	\$	507.4
Per-Pupil Amount	\$	321



Proposed Cuts Result of a Number of Things

- Exhaustion of one-time federal funding
- Proposed tax reforms
 - Eliminate MBT and replace with 6% CIT (\$750M loss)
 - Changes to Individual Income Tax (\$153M gain)
 - Increases in General Fund grant (\$349M gain)
- General Fund structural budget deficit of \$1.4B
 - Higher education funding shifts – replace GF with SAF
 - Community colleges (\$196M loss)
 - Universities (\$700M loss)

Total SAF Revenue Loss: \$1.1 Billion



K-12 Education Per-Pupil Cuts

No Federal \$ and After Funding Shifts

- Expiration of one-time federal funds: \$170 per pupil (\$267M)
- Foundation reduction: \$300 per pupil (\$453M)
 - Total foundation grant reduction: 6.4%
- Eliminate/reduce various categorical grants (\$86M)

	FY2011	FY2012	Change
Min. Grant	\$ 7,316	\$ 6,846	\$ (470)
Basic Grant	\$ 8,489	\$ 8,019	\$ (470)
Max. Grant	\$ 8,489	\$ 8,019	\$ (470)



Increased Retirement Spending Adds to Challenges Facing Schools

- Required employer retirement contribution increase because of poor investment performance
- Will add to fiscal challenge facing schools
- Rate increase: 20.7% of payroll to 24.5% of payroll
 - Equivalent to \$245 per-pupil spending
- Combined with revenue reduction, amounts to \$715 per pupil or 10%

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An Option to Address State Funding Cuts

- Senate Bill 7: require 80/20 health care insurance cost-sharing
- All levels of public employees (including schools)
- Employer costs for providing benefit will be shifted to employees
- Savings will vary across school districts
- New State of Michigan employees currently contribute 20% toward health care

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Conclusion

- Since FY2000, state tax revenues trailed inflation
- On-going state tax revenues significantly affected by economic recession - FY2011 below FY2008
- Federal funding used to avoid full impact of revenue declines in FY2009 through FY2011
- General Fund budget problem of \$1.4B solved, in part, by use of School Aid Fund resources
- Overall, \$805M in total K-12 education cuts (combination of per-pupil cuts plus categorical grant cuts) proposed
- School Aid Fund budget structurally balanced for FY2012 and FY2013