



CITIZENS RESEARCH COUNCIL OF MICHIGAN

State Revenues, Transparency, and School Funding

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Tri County Alliance
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Citizens Research Council

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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
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The State of the Economy



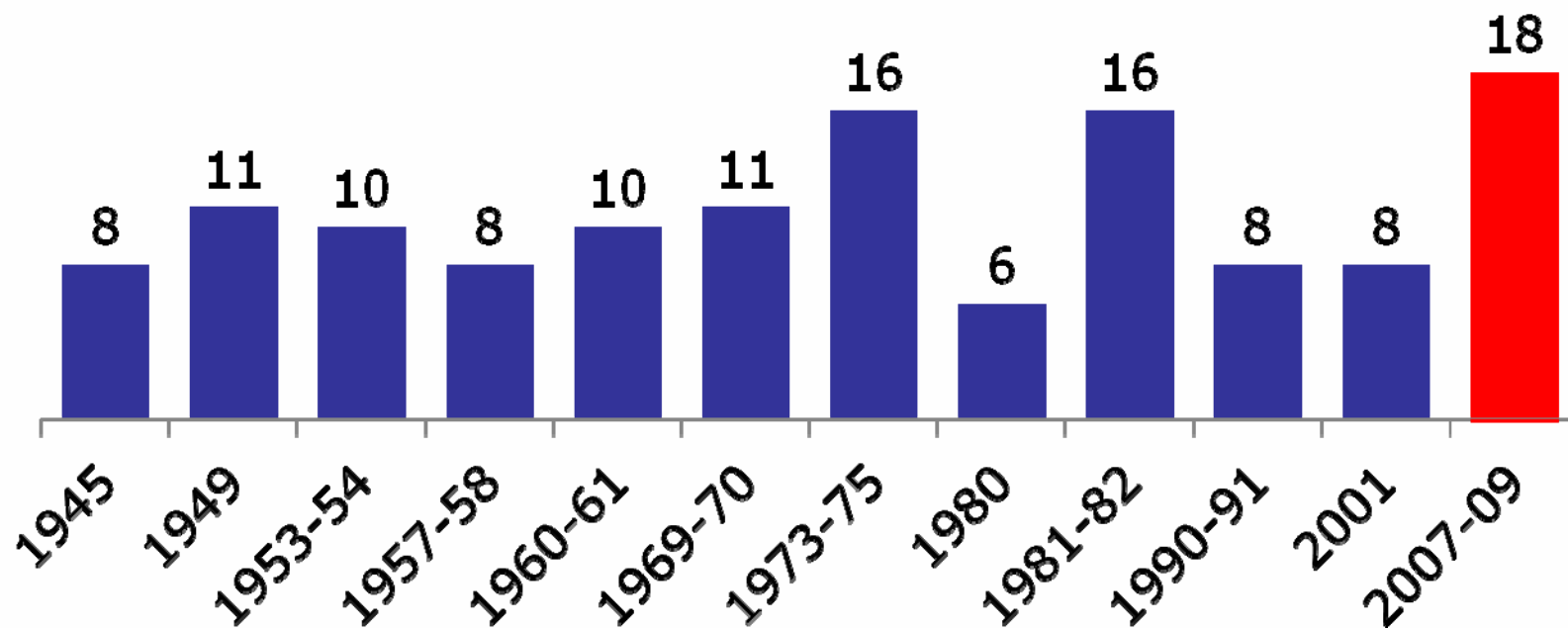
Recession is Over – For Now...

- National recession ran from December 07 to June 09
- National recession lasted 18 months, longest post-war recession
- Output has been growing since 2009Q3
- Recovery appears to have stalled – currently little to no growth and risk of double dip is high
- Risks to outlook abound: Europe debt crisis, U.S. fiscal policy uncertainty; consumer sentiment



2009 Recession Set Post War Record

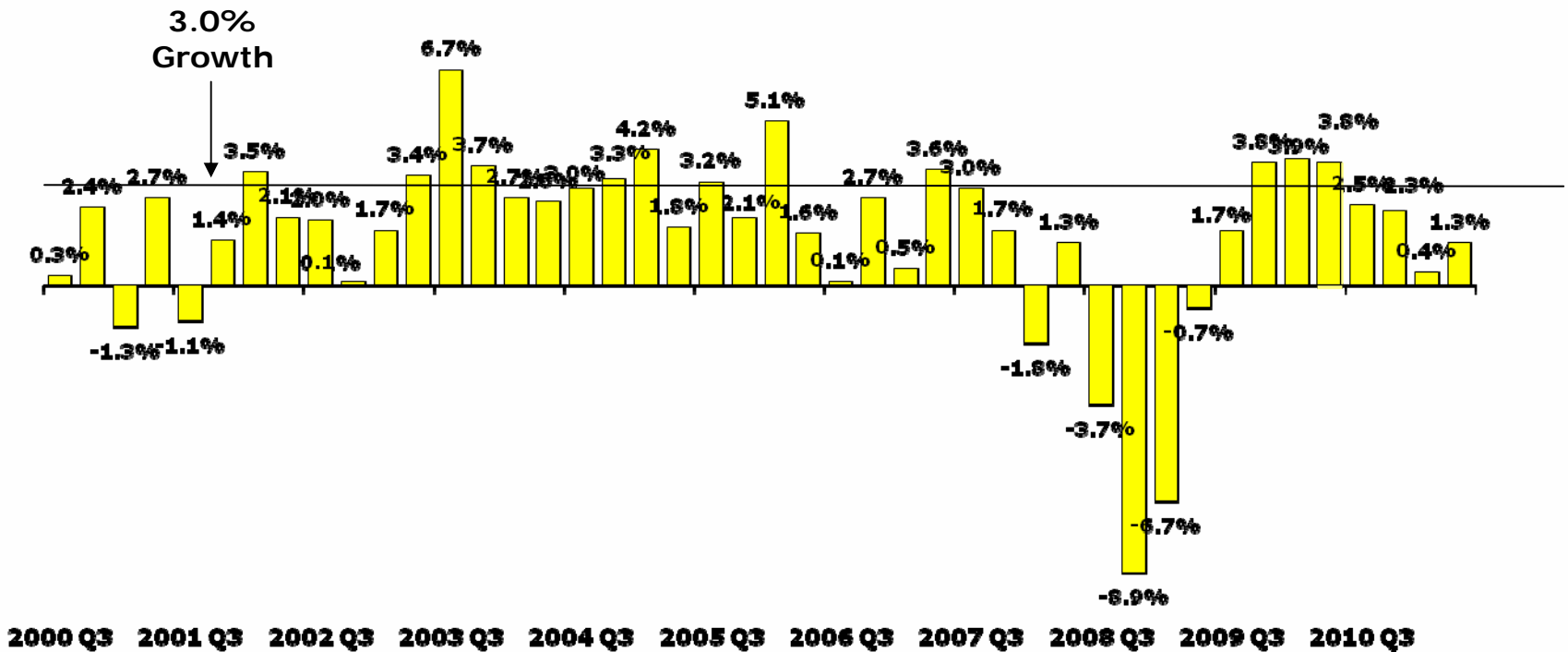
Recession Length in Months





GDP Has Grown for 8 Straight Quarters But Current Growth Barely Above Zero

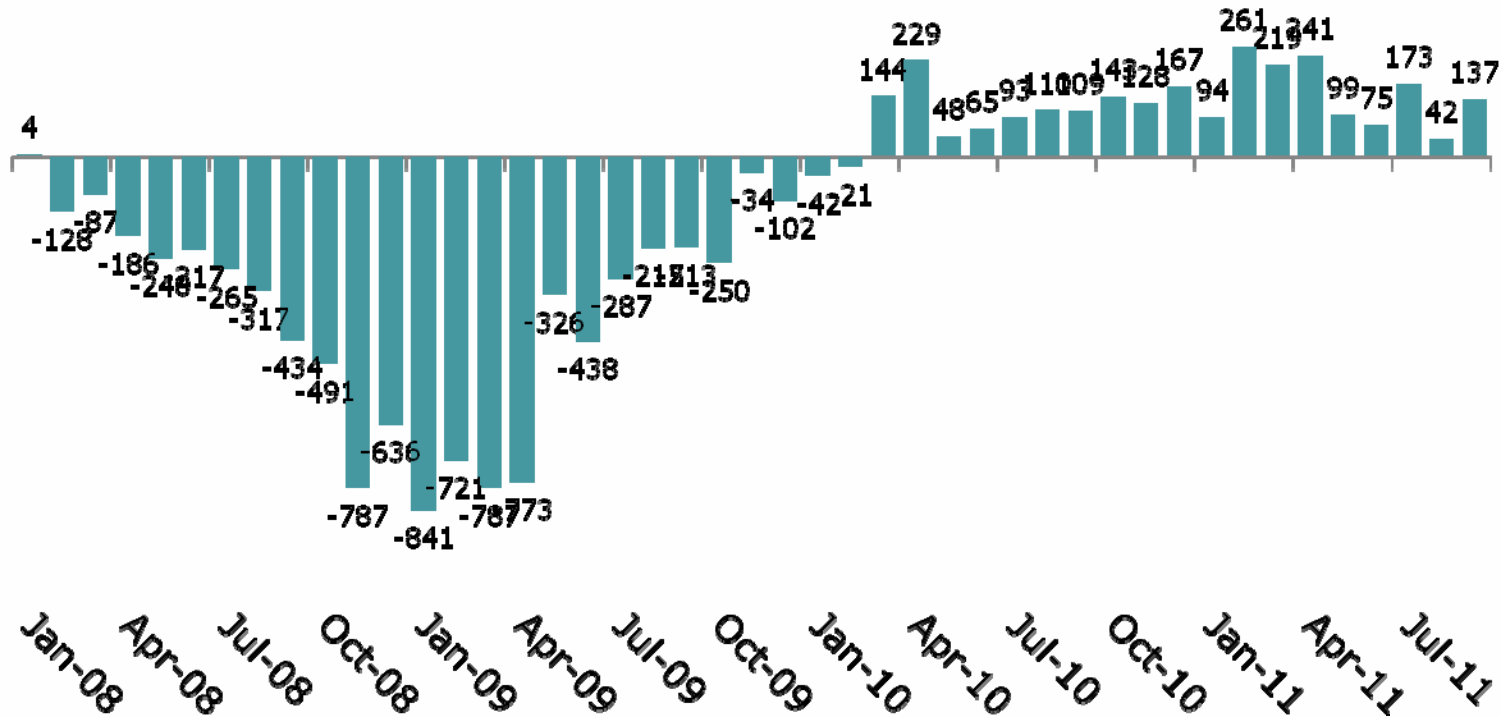
Real GDP Growth





Employment Growth Has Been Disappointing

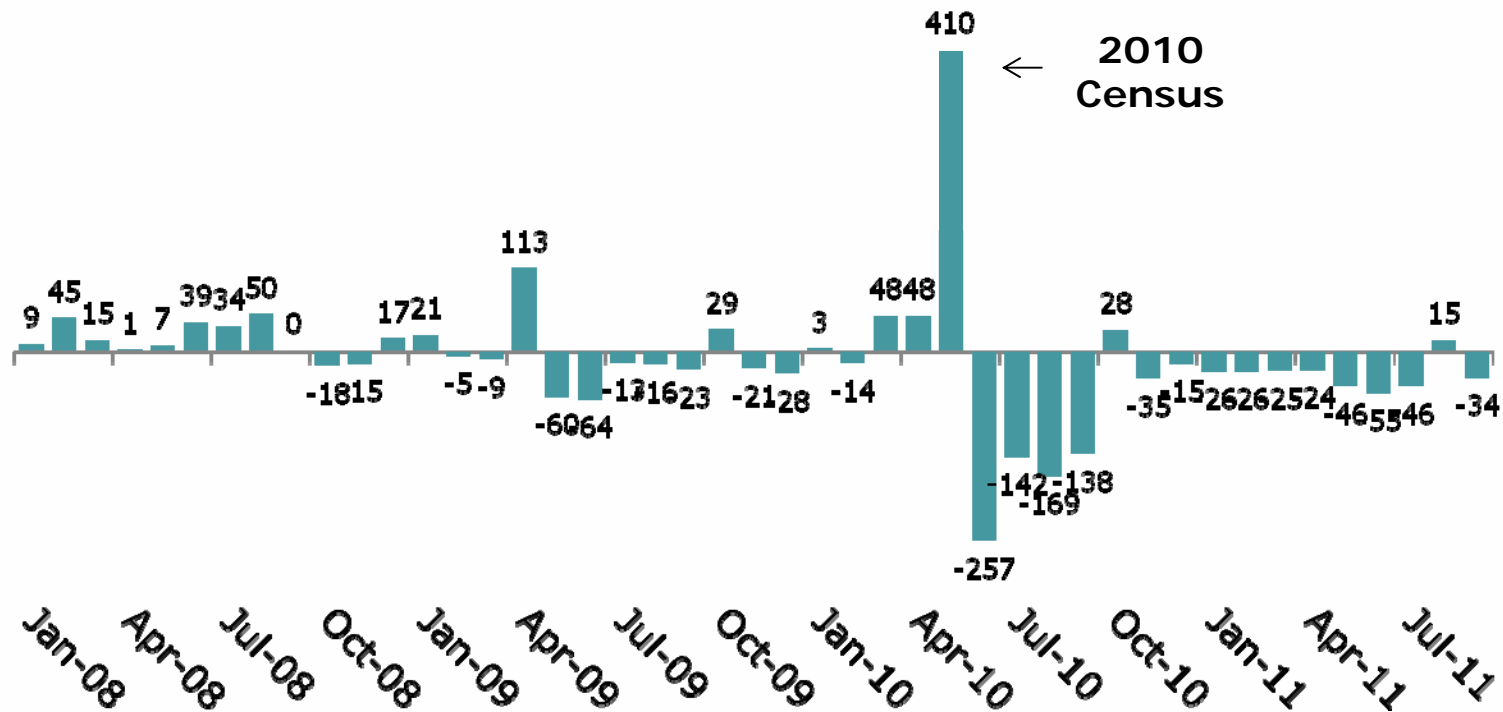
Monthly Change in U.S. Private Employment (thousands)





Public Employment is Declining

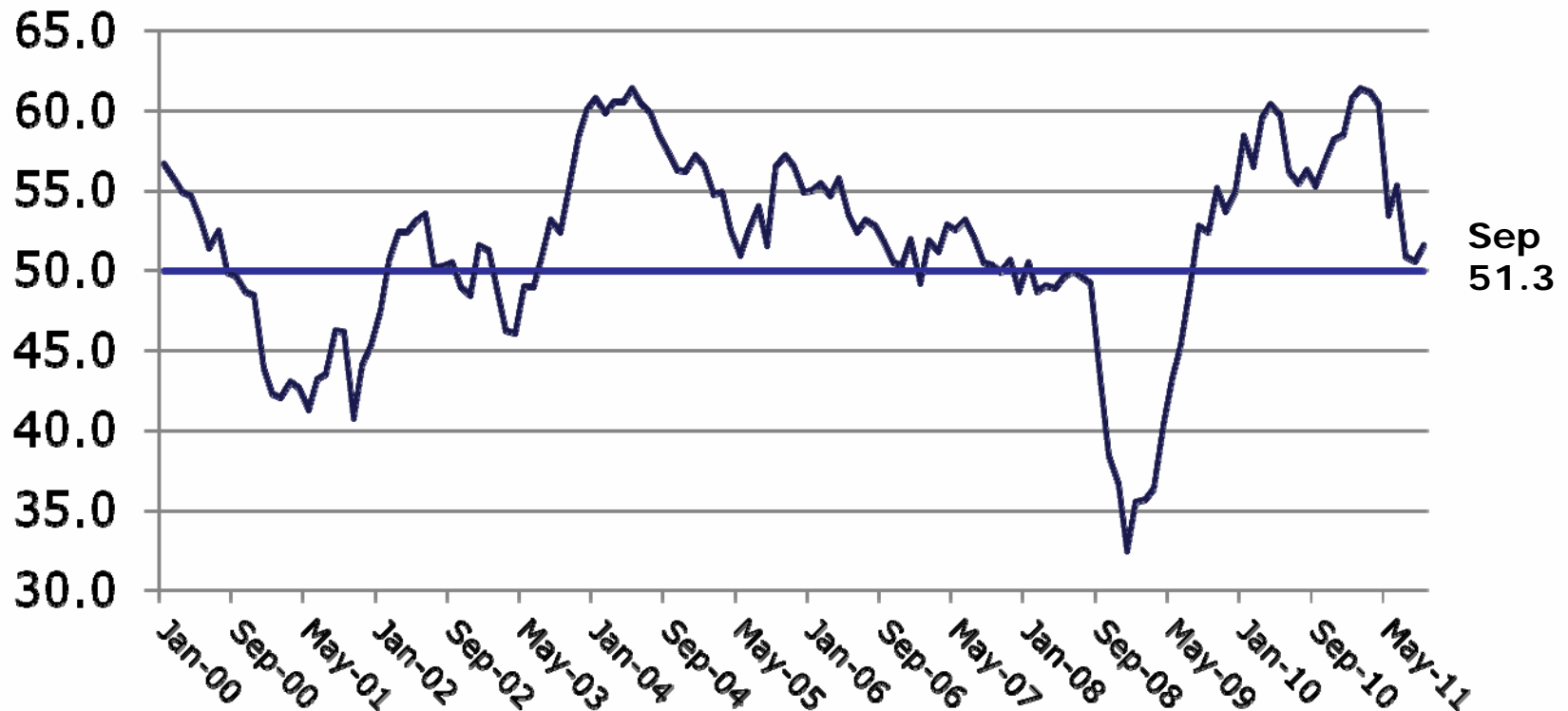
Monthly Change in Government Employment (thousands)





Manufacturing Had Been a Bright Spot But Now Barely Expanding

Institute For Supply Management Index MFR Index





S&P 500 Up 67% From March 09 Low But Down 17% From April 2011





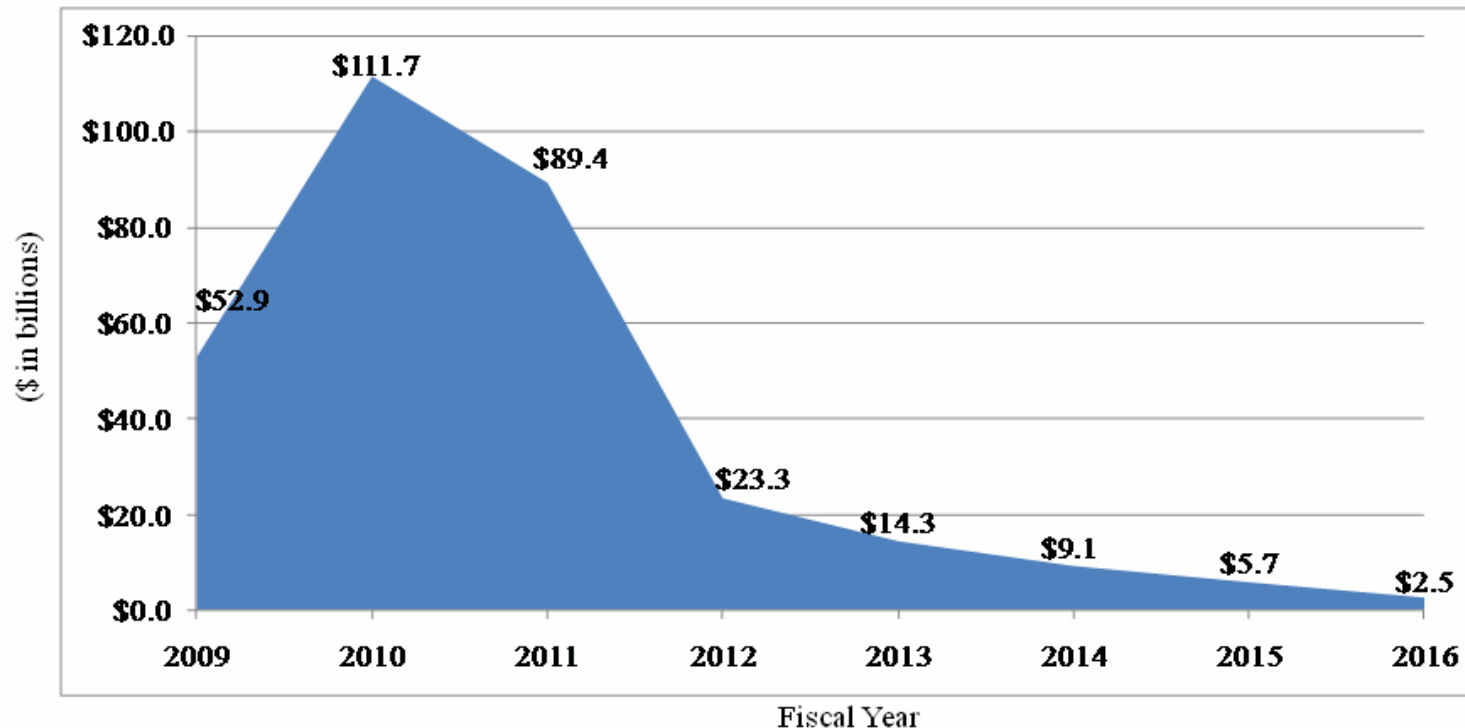
Gas Prices Contributed to Slowdown But Are Starting to Fall





End of ARRA and Other Stimulus Drags on Recovery

Temporary Federal Aid to States



- 12 Source: Government Accounting Office as presented by NASBO in *Preliminary Summary of NGA/NASBO Spring 2011 Fiscal Survey of the States*.
<http://www.nasbo.org/LinkClick.aspx?fileticket=IW3fw0p2k0A%3D&tabid=38>



What About Michigan?

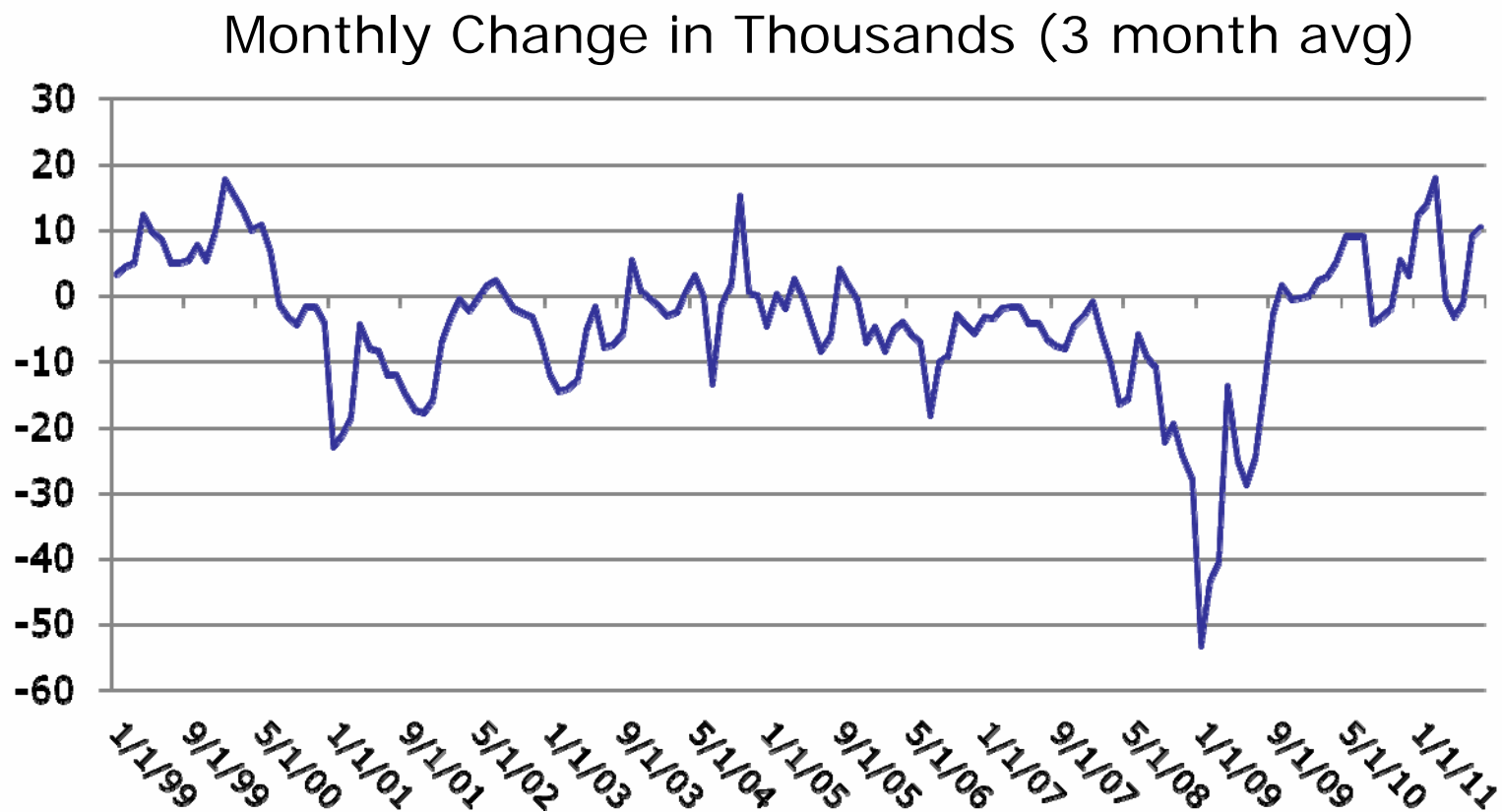


The Last Decade Was an Economic Disaster for Michigan

| | Growth 2000 to 2010 | | Michigan Rank |
|---------------------------|---------------------|----------|------------------|
| | U.S. | Michigan | |
| Population | 9.5% | -0.2% | 51 |
| Real Per Capita GDP* | 6.7% | -6.4% | 50 |
| Employment | -1.5% | -17.4% | 51 |
| Real Per Capita Income* * | 5.7% | -4.4% | 50 |



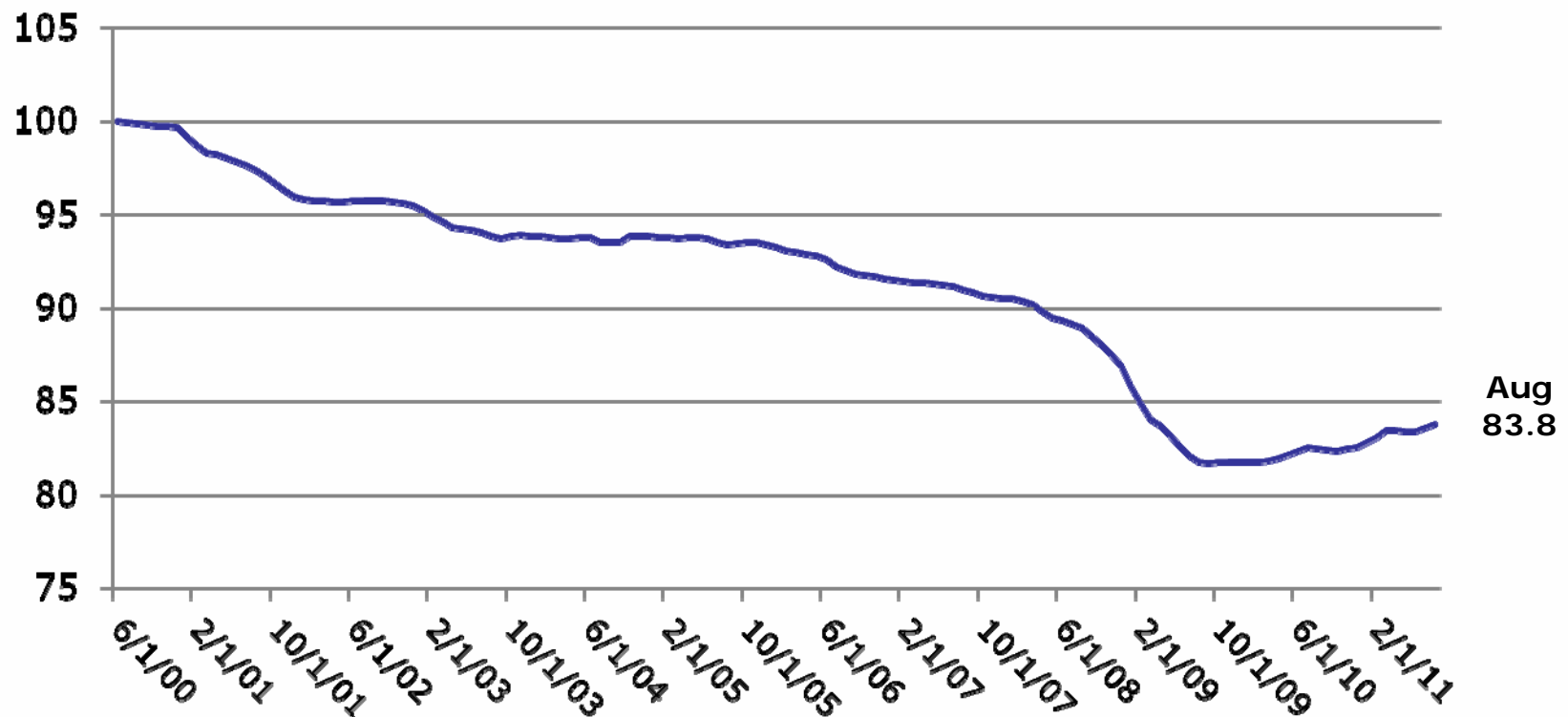
But Michigan Employment Has Recently Shown Modest Growth





Overall Employment Remains 16% Below June 2000 Peak

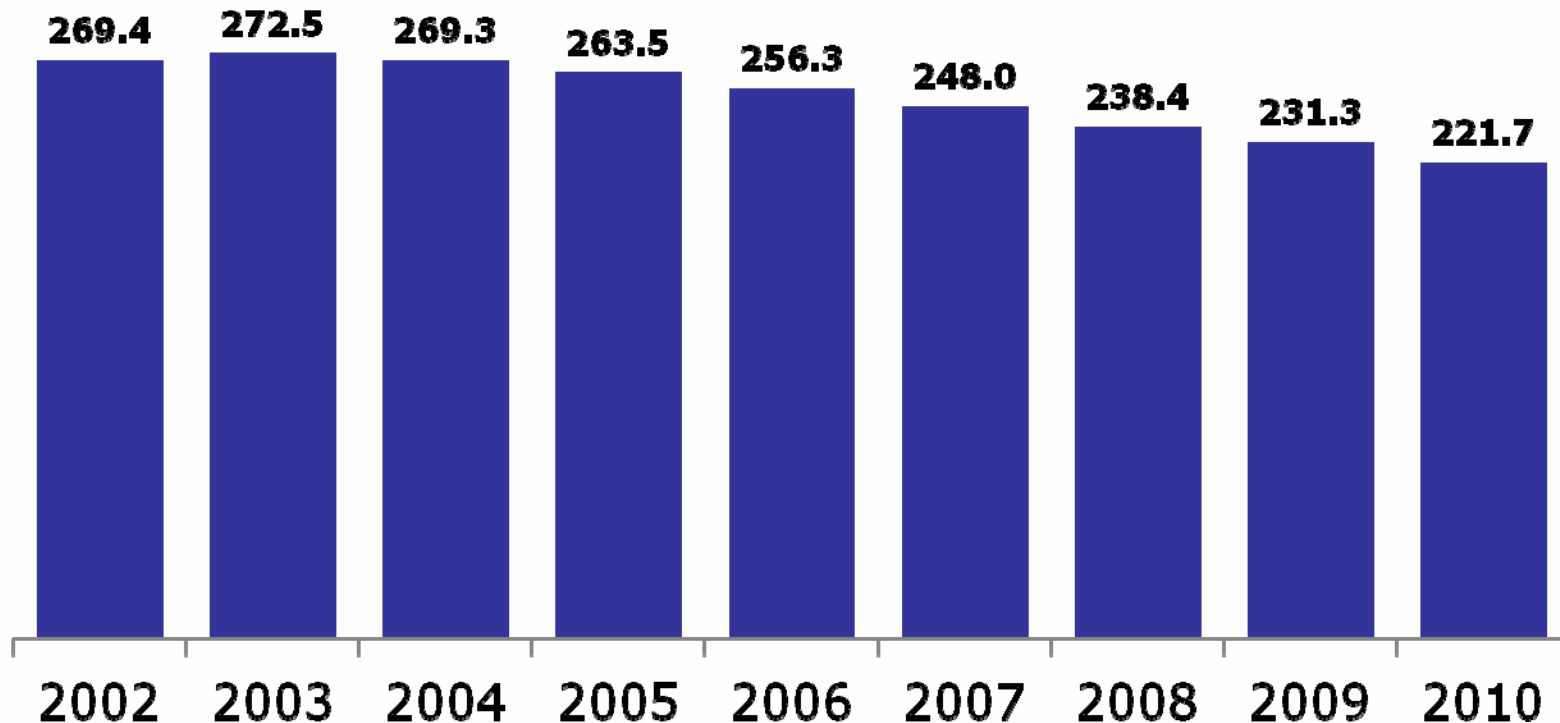
Michigan Employment – June of 2000 indexed to 100





MI Local Govt Education Employment Down 18% Since 2003

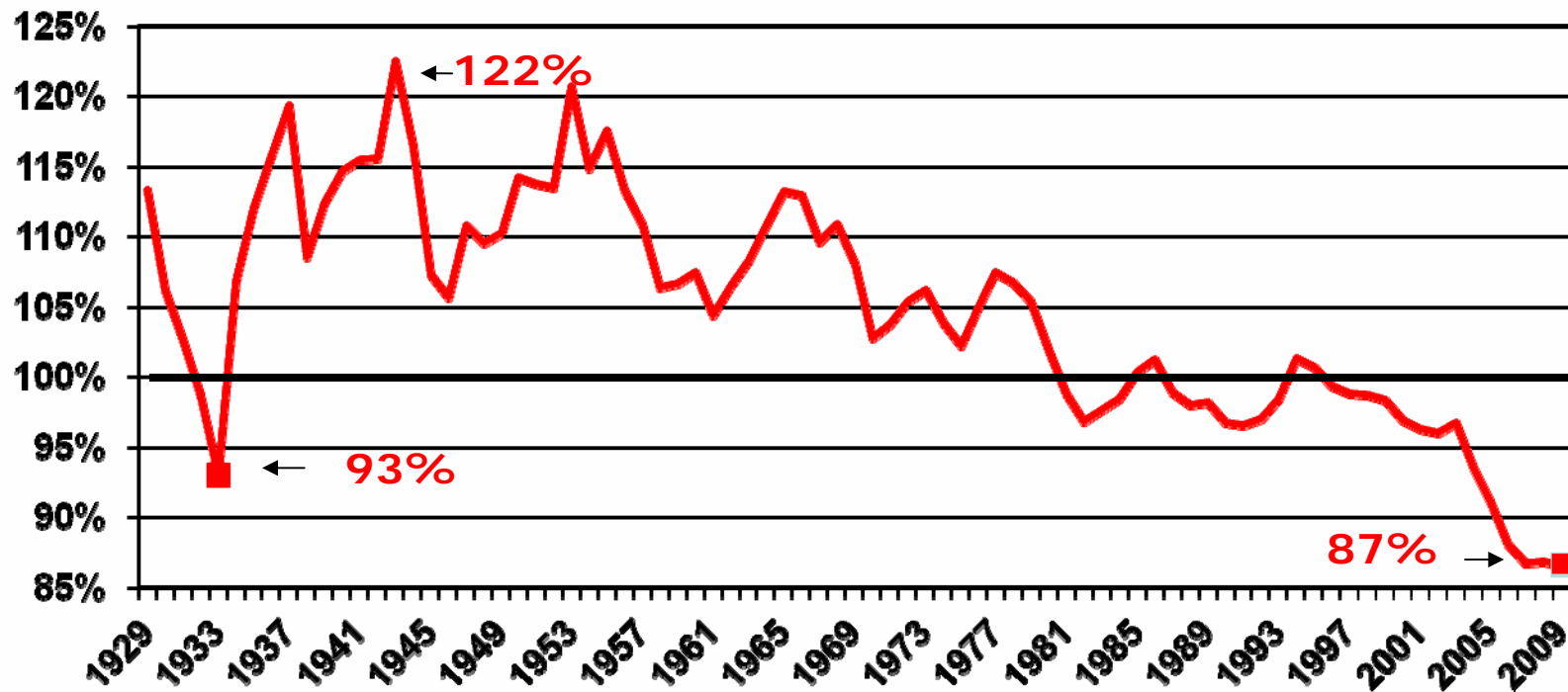
Pupils Down 7% 2003 to 2010





Michigan Has Become Poorer Relative to Other States

Michigan per Capita Income as a Percent of U.S. Per Capita Income Rank has fallen from 20th in 2001 to 37th in 2010





Economic Outlook

- U.S. recovery has been slow and uneven and appears to have lost steam – recession risk is high
- High commodity prices, low housing starts, declines in government spending, and the Japanese earthquake have all weighed on growth but right now European debt crisis is biggest threat
- **Level** of Michigan economic activity below U.S. but recent **growth rate** has been better than U.S.
- If U.S. hits a recession, Michigan will be affected



Michigan School Budget



FY 2012 School Aid Budget

- FY 2011 projected year-end surplus in May was \$645M
- FY 2012 SAF resources reduced by the following:
 - End of federal stimulus: -\$500M
 - Tax code reforms: -\$690M
 - Fund Universities and Higher Ed: -\$400
- FY 2012 Appropriation:
 - Per pupil reduction \$170 + \$300: -\$452M
 - One time “best practice” award \$100pp: +\$154M
 - One time MPERS offset ~\$100pp: +\$155M
- FY 2012 Projected year-end balance: \$0.2M



Best Practice Requirements

Meet 4 of 5 for \$100 Per Pupil

- Maximum allowable employer contribution for employee health benefits is 90% (Note: Hard cap will be in place for next year)
- District is policyholder for health benefits
- District enters into or has a plan with MDE to consolidate services to reduce operating costs
- Competitive bid for non instructional service that costs more than \$50k
- School provides dashboard



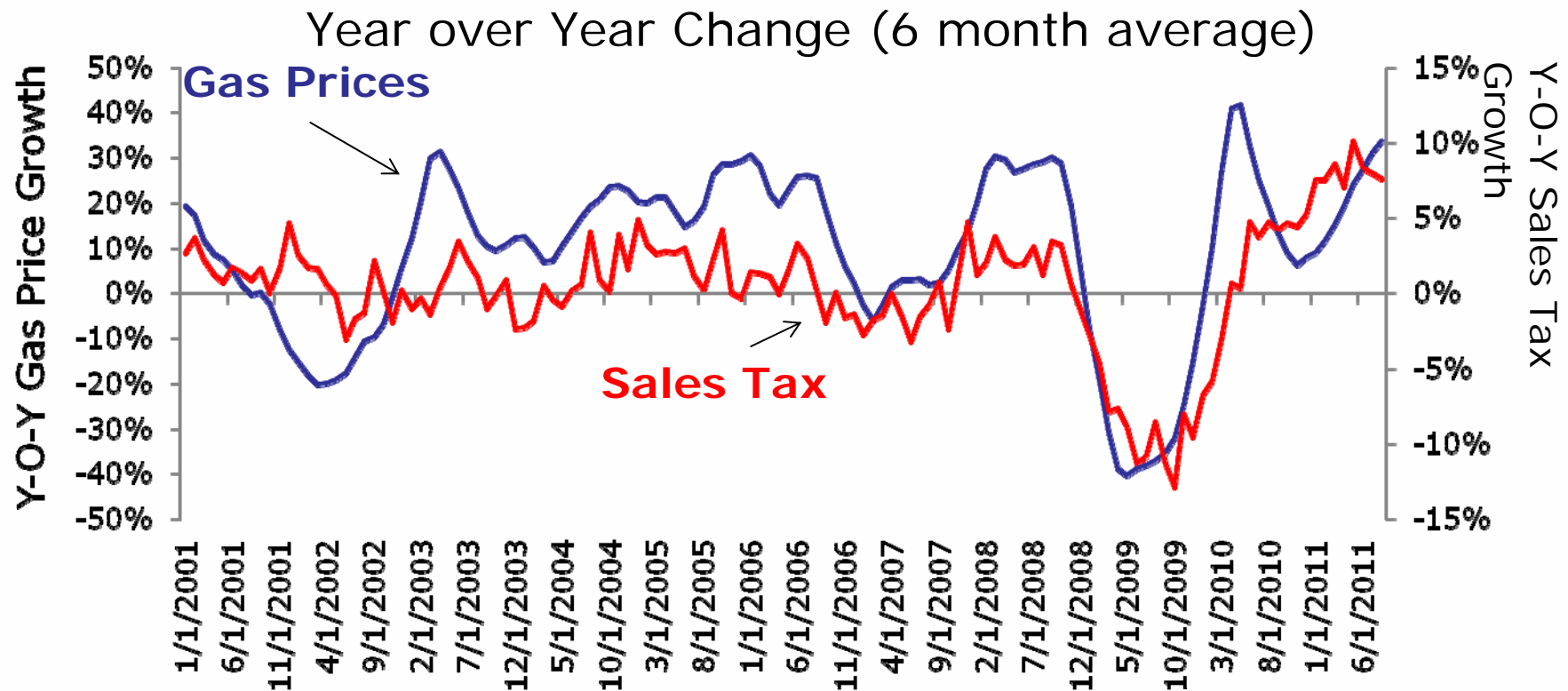
School Dashboards

For 3 most recent school years where data are available:

- Graduation and dropout rates
- Average class sizes in grades K to 3
- College readiness as measured by MI Merit exam
- Elementary and middle school MEAP
- Teacher, principal, and superintendent salary information
- General Fund Balance
- Number of instructional days provided
- For more on dashboards see CRC's paper: *Local Government Performance Dashboards and Citizens*



Gas Price Changes Help Drive Sales Tax Changes





Prospects for FY 2013

- Based on May Consensus revenue estimates, the two \$100 per pupil FY 2012 awards are not sustainable for FY 2013
- Through August, SFA has SAF \$170M above target for FY 2011; HFA has SAF \$100M above target
- However, slowing national economy and recession risk create significant risk for the FY 2013 outlook
- In addition, falling gasoline prices may start to drag on sales tax in FY 2012



Distribution of State Aid Paper



Great Recession's Effects Severe

Steep Declines and Slow Recovery

| | <u>annual growth rates</u> | | | |
|-------------------------------|----------------------------|--------------|--------------|-------------|
| | FY2008 | FY2009 | FY2010 | FY2011 |
| Sales | 3.4% | -10.1% | 1.4% | 5.2% |
| Income | 12.2% | -19.0% | -5.5% | 12.5% |
| Use | -0.3% | -19.2% | 9.3% | -5.5% |
| State Education | -0.1% | -1.9% | -5.4% | -4.1% |
| Real Estate Transfer | -28.5% | -26.2% | -3.0% | 2.8% |
| School Aid Fund | 3.2% | -5.1% | -1.0% | 2.7% |
| Basic Foundation Grant | 1.4% | 1.6% | -2.1% | 0.0% |

FY2011 SAF down \$680 million from FY2008

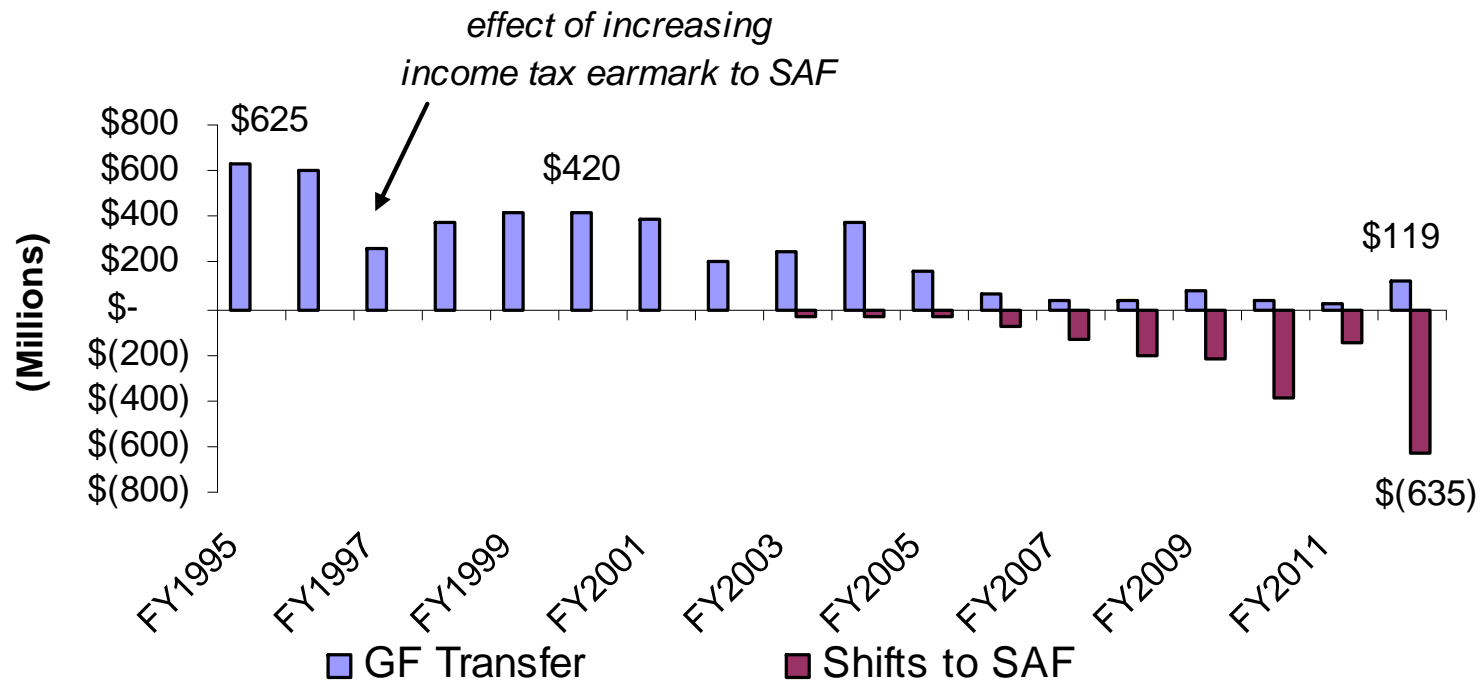
Note: FY2011 projected rates from Consensus Revenue Estimating Conference



State Budget Problems Spill Over

Support for Schools Reduced

General Fund Transfers and Cost Shifts - School Aid Fund



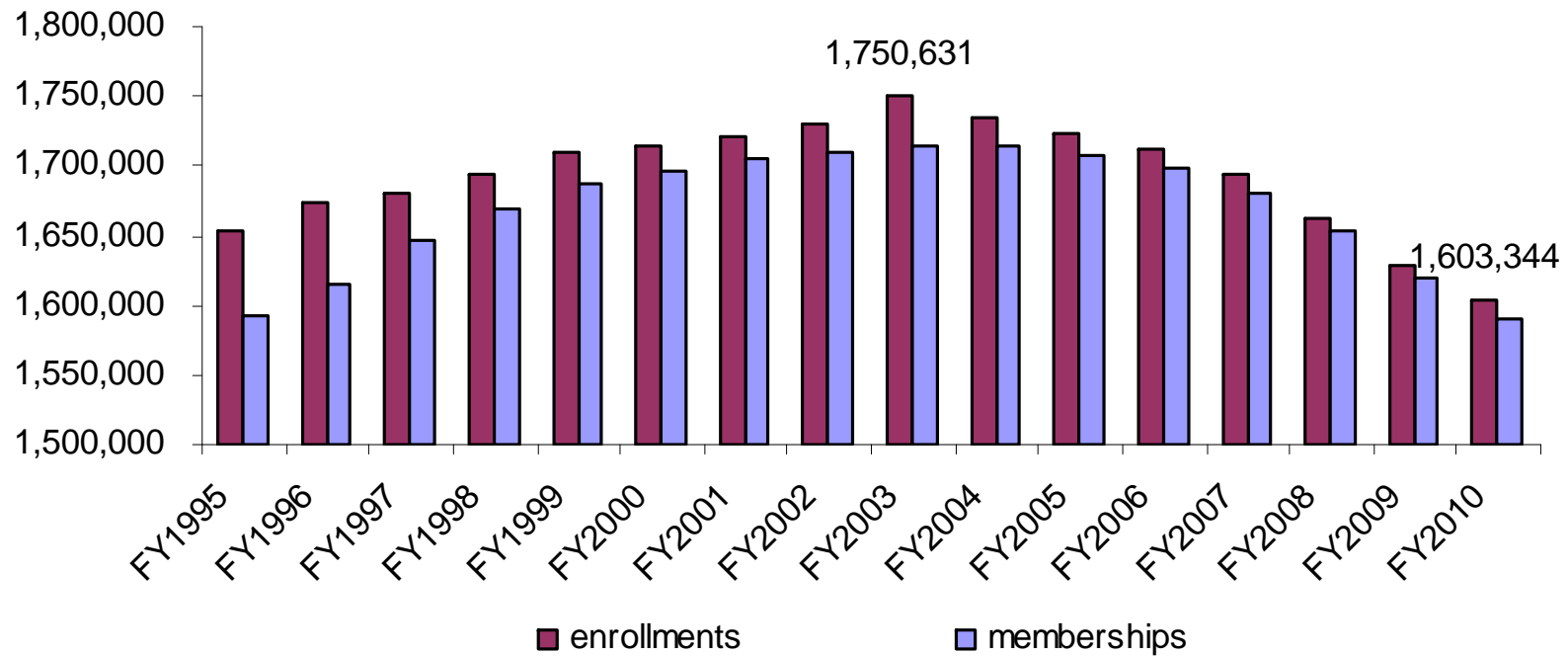
Source: Michigan Department of Education; House Fiscal Agency



Demographic Factors

Since FY2003 "Era of Declining Enrollments"

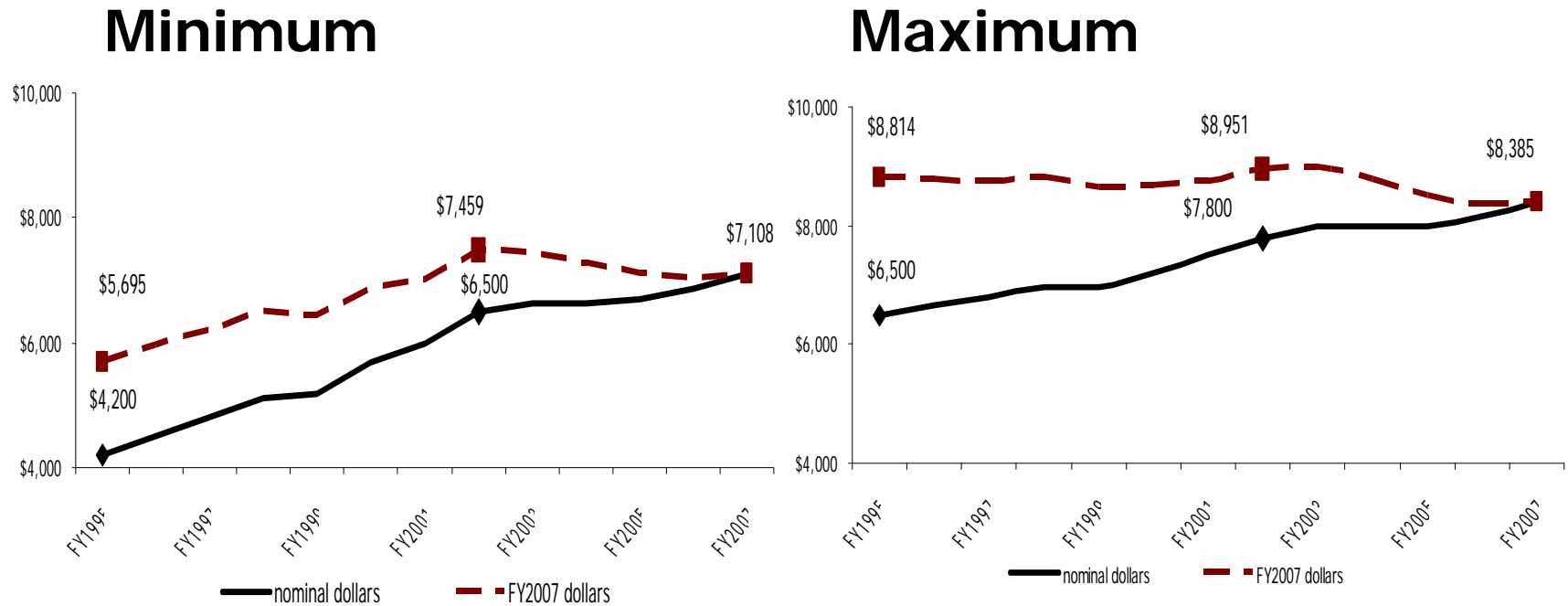
Statewide Enrollments and Foundation Pupil Memberships





Growth of Foundation Grants

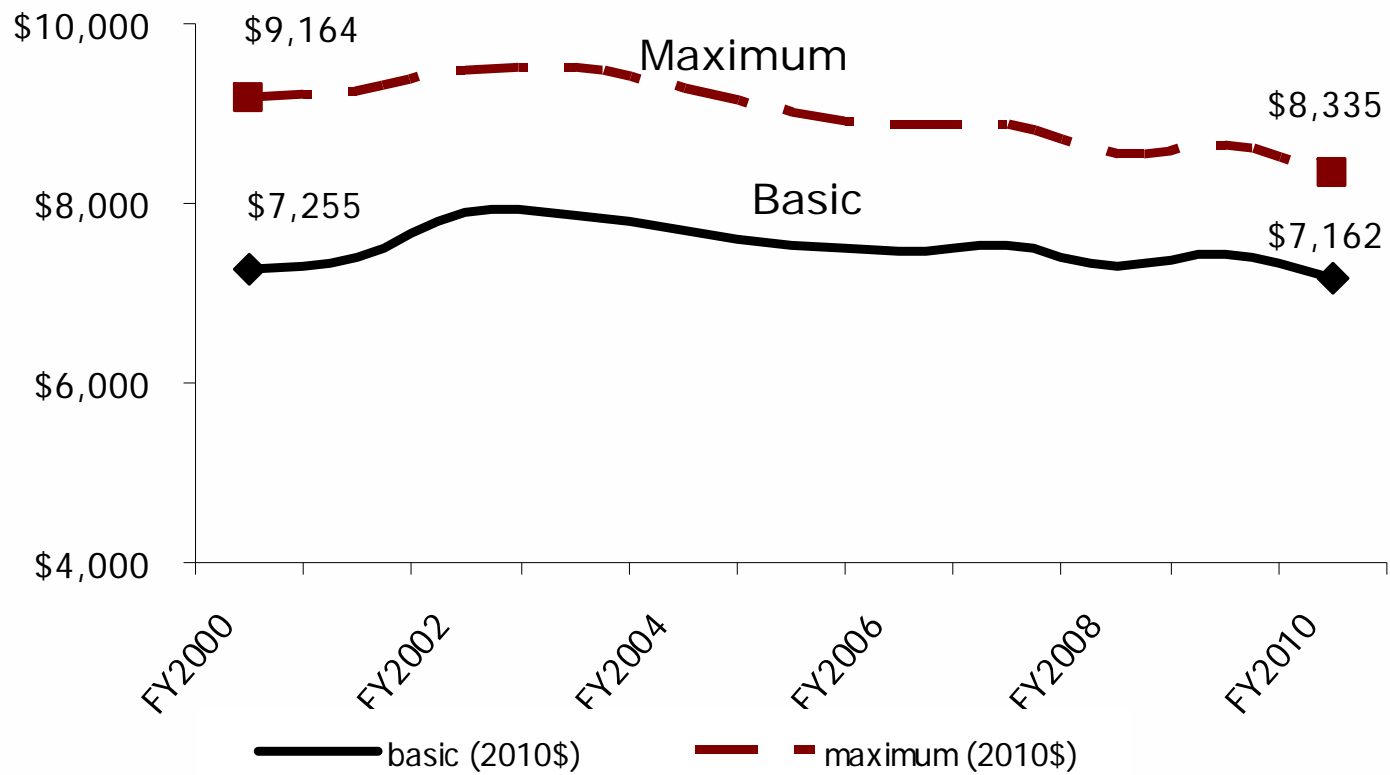
A Look at the Two Extremes



*Min. sees nominal and real growth; max. **no** real growth*



Real Values of Foundation Grants Deteriorate Over the Past Decade





Degree of Enrollment Change Varies

Not Limited to Central City Schools

Enrollment Changes in Traditional Public School Districts: FY1995 to FY2009

| <u>Enrollment Change</u> | <u>Number of Districts</u> | <u>Percent of Districts</u> | <u>Total Enrollment</u> | <u>Percent of Students</u> |
|--------------------------|----------------------------|-----------------------------|-------------------------|----------------------------|
| Decline >33% | 50 | 9.1 | 141,553 | 9.4 |
| Decline 10% to 33% | 186 | 33.8 | 339,183 | 22.4 |
| Decline 0.1% to 10% | <u>98</u> | <u>17.8</u> | <u>245,087</u> | 16.2 |
| Subtotal | 334 | 60.7 | 725,823 | 48.0 |
| Increase 0% to 10% | 87 | 15.8 | 283,431 | 18.7 |
| Increase 10% to 33% | 83 | 15.1 | 293,493 | 19.4 |
| Increase > 33% | <u>47</u> | <u>8.5</u> | <u>210,857</u> | 13.9 |
| Subtotal | 217 | 39.3 | 787,781 | 52.0 |

1/3 of districts had losses of 10% or more



Responses to Declining Enrollments

- Changes to the **blended membership** count
 - Place more emphasis on prior year count
 - Smooth enrollment losses in declining districts, but does not allow growing districts to realize the full benefit of year-over-year increases
 - FY2012 change from 75/25 (current/prior) blend to 90/10 blend
- Provide **categorical funding**
 - Significant proration reduces the effectiveness
 - Funding eliminated in FY2012



Changes in Total Foundation Revenue

Enrollment Losses Negate Foundation Grant Growth

Changes in Enrollment, Foundation Grant, and Total Foundation Revenue by District Type:
FY1995 to FY2009 (FY2009 Dollars)

| | Enrollment | | Real Foundation Grant | | Total Foundation Revenue | |
|----------|------------|------|-----------------------|------|--------------------------|------|
| | Decline | Gain | Decline | Gain | Decline | Gain |
| City | 18 | 8 | 19 | 7 | 18 | 8 |
| Suburban | 47 | 102 | 93 | 56 | 56 | 93 |
| Rural | 269 | 107 | 80 | 296 | 199 | 177 |
| Total | 334 | 217 | 192 | 359 | 273 | 278 |

50% experienced inflation-adjusted revenue decline



Some Larger Districts Experienced the Worst of Both Worlds

Changes in Enrollment, Foundation Grant, and Total Revenue in Urban Districts:
FY1995 to FY2009

| | Percentage of Statewide Enrollment | District Enrollment Change | Real Foundation Change | Total Foundation Revenue Change |
|---------------|--|----------------------------------|------------------------------|--|
| Flint | 0.9% | -44.8% | -1.6% | -45.7% |
| Benton Harbor | 0.2% | -43.8% | 12.4% | -36.8% |
| Pontiac | 0.5% | -42.6% | -1.5% | -43.5% |
| Detroit | 6.2% | -40.3% | -2.9% | -42.0% |
| Grand Rapids | 1.2% | -28.0% | 1.2% | -27.1% |
| Lansing | 1.0% | -27.3% | -1.0% | -28.0% |
| Saginaw | 0.6% | -27.0% | -2.3% | -28.7% |
| Muskegon | 0.3% | -23.8% | 1.3% | -22.8% |
| Battle Creek | 0.4% | -22.6% | -1.7% | -23.9% |
| Jackson | 0.4% | -18.4% | -0.7% | -18.9% |
| Highland Park | 0.2% | -13.9% | -4.3% | -17.6% |
| Bay City | 0.6% | -13.0% | 16.8% | 1.7% |



Reducing Funding Disparities

A Key Objective of Reforms

- Clear and major policy focus following Proposal A
 - Greatest gains achieved early on
 - Use of 2X formula to “raise the bottom”
- Series of years when districts received no increase or uniform increase
- Recently, some gains achieved through funding cuts for high revenue districts (Sec. 20j)
- Result in different foundation growth rates



Greater Equalization Has Resulted in Different Growth Rates

Inflation-Adjusted Average Foundation Grants by Student Group

| Quintile | FY1994 | FY2000 | FY2009 | Change FY1994 - FY2000 | Change FY2000 - FY2009 | Change FY1994 - FY2009 |
|-----------------|----------|---------|---------|------------------------------|------------------------------|------------------------------|
| 1 - low | \$6,065 | \$7,135 | \$7,322 | \$1,070 | \$187 | \$1,257 |
| 2 | \$6,760 | \$7,152 | \$7,325 | \$391 | \$173 | \$564 |
| 3 | \$7,452 | \$7,570 | \$7,498 | \$119 | (\$73) | \$46 |
| 4 | \$7,964 | \$7,997 | \$7,816 | \$33 | (\$181) | (\$147) |
| 5 - high | \$10,319 | \$9,981 | \$9,255 | (\$338) | (\$726) | (\$1,064) |
| Diff. = Q5 - Q1 | \$4,254 | \$2,846 | \$1,933 | | | |

60% of students experienced a decline in the value of grant



Revenue Growth and District Wealth

- In general, poorer districts experienced greater revenue growth than wealthier districts
- However, the poorest districts did not receive the greatest increases under Proposal A
 - Some of the poorest districts had higher per-pupil revenue pre-Proposal A
 - Middle-income districts had below-ave. revenue because of lower tax effort and state aid



Addressing Wealth Disparities

State Categorical Funding

| | <u>"At-Risk"</u> <u>Appropriation</u> <u>(millions)</u> | <u>Eligible</u> <u>"Free Lunch"</u> <u>Students</u> | <u>Number of</u> <u>Districts</u> | <u>Percent of</u> <u>Statutory</u> <u>Maximum</u> | <u>Per-Pupil</u> <u>Proration</u> |
|--------|---|---|--------------------------------------|---|--------------------------------------|
| FY2003 | \$ 302.2 | 458,997 | 675 | 90.6% | \$ 73 |
| FY2004 | \$ 314.2 | 479,275 | 684 | 87.1% | \$ 99 |
| FY2005 | \$ 310.4 | 498,390 | 701 | 83.1% | \$130 |
| FY2006 | \$ 310.5 | 510,273 | 707 | 77.7% | \$176 |
| FY2007 | \$ 310.5 | 508,562 | 714 | 74.9% | \$206 |
| FY2008 | \$ 310.5 | 528,898 | 715 | 70.9% | \$242 |
| FY2009 | \$ 309.0 | 531,842 | 719 | 69.8% | \$254 |
| FY2010 | \$ 309.0 | 555,832 | 741 | 64.9% | \$321 |

Declining \$ + Growing Demand = Significant Proration



Towards Further Funding Equalization

- Should this be the policy going forward?
- What is involved with this?
 - Method and how to proceed?
 - What level?
 - Timeframe and how soon?
 - Fiscal constraints?
 - Relationship between funding equalization and student academic achievement



Equalization and Student Performance

Michigan's Experiment

- Research conducted by MSU economics professor Leslie Papke, Ph.D.
- Largest improvements scores in those districts with greatest funding increases
 - 10% real increase yielded improvement in pass rates 2%
 - Occurred during early years of Proposal A, when equalization gains greatest
 - Fairly significant funding increase needed to achieve modest gains
- Since early 2000s, inflation-adjusted declines in foundation grants
- Do not know if the relationship works in the reverse with recent funding cuts



Questions and Discussion



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