



CITIZENS RESEARCH COUNCIL OF MICHIGAN

School Finance in Michigan

Adult Learning Institute

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October 21, 2014



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- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
- www.crcmich.org



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Short History Lesson: Proposal A

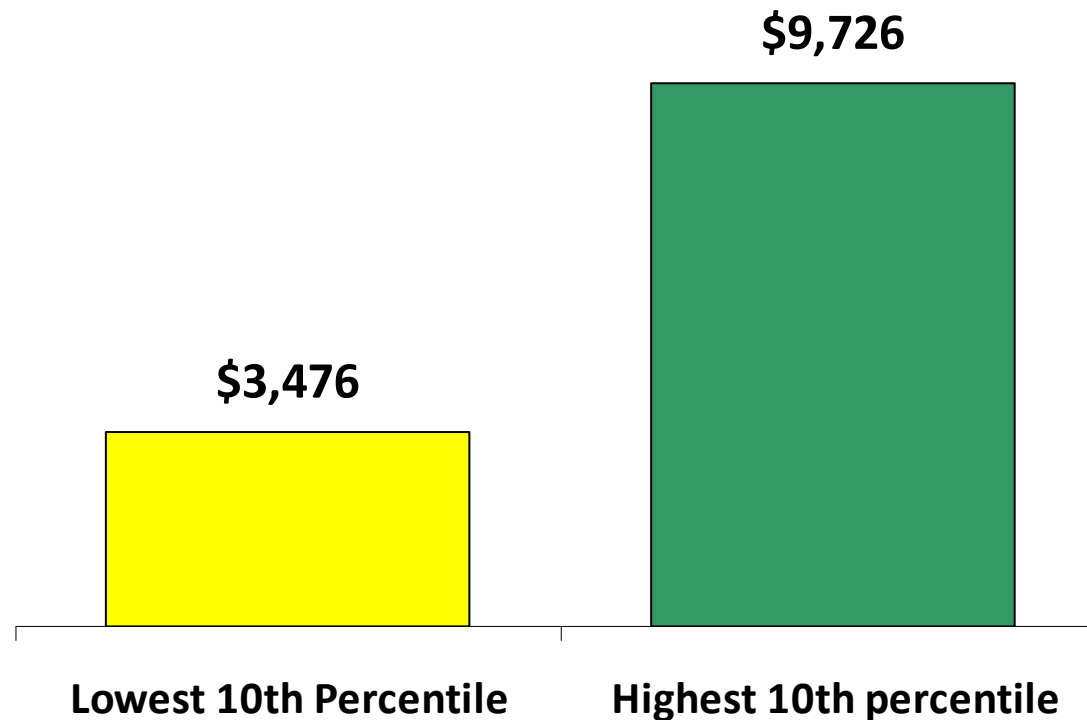


School Finances Before Proposal A

- Schools were financed locally,
- More than two-thirds of operating revenue raised from local property tax
- Local voters chose spending level through property tax elections
- State played minor role through property tax “equalization” formula
- State aid not sufficient enough to fully “equalize” spending across all districts



Wealthy Districts Outspent Poor Districts Nearly 3 to 1 in FY1994





Problems with Finance System

Previous efforts to reform school finance and property tax had little success

Problem: School property taxes were rising faster than inflation and income resulting in pressure to reform

Problem: Wealthier districts greatly outspent poorer districts, often with lower tax rates

Problem: Property tax role in funding schools



Objectives of Reform

- Reduce, but not eliminate, disparities in per-pupil funding
- Reduce, but not eliminate, reliance on property tax to fund schools (i.e., rate reduction)
- Centralize school funding at state level (i.e., replace local property tax with state taxes)
- Limit property tax growth at parcel level (i.e., cap on taxable value growth)

Solution:

Blow up system and start anew with Proposal A



Proposal A School Finance Reforms

What did we end up with?

- State-run K-12 financing system
 - State/local mix - from 30%/70% to 70%/30%
 - Adopt per-pupil “foundation grant” - Lansing sets annual per-pupil spending
- Immediate reduction in reliance on property tax
 - From 34 mills to 6 mills (homeowners)
- Immediate reduction in per-pupil revenue disparities and new structures to further reduce disparities
- Cap on individual parcel taxable value growth – limit to lesser of 5% or inflation



What Proposal A Did Not Address

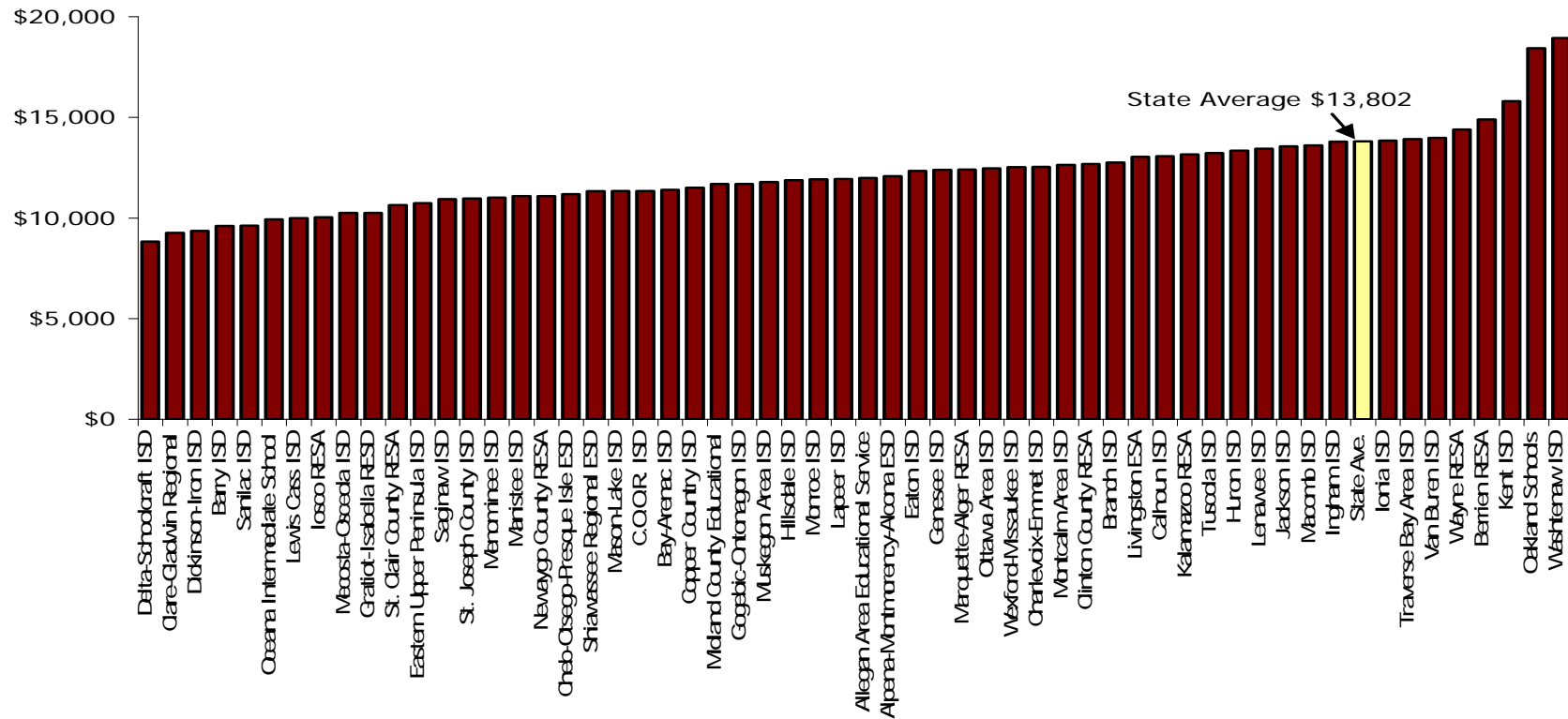
- Special Education: Per-pupil spending has risen significantly, as have spending disparities across intermediate school districts
- District capital costs: Still funded locally even after Proposal A and considerable variation (unmet need)



Special Ed Per-Pupil Spending Variation

Difference Twice as Much

Per-Pupil Spending by ISD in FY2010



Source: MDE, Report SE-4096; Center for Educational Performance Information; CRC calculations.



Capital Needs Across all Districts

Need over twice as great in poorest school districts

Distribution of Capital Need Across Michigan

Quintile	Ave. Property Wealth/Pupil	Capital Need/Pupil	% of Statewide Need
1	\$ 69,172	\$ 8,172	34
2	\$ 121,088	\$ 5,587	15
3	\$ 150,540	\$ 4,979	19
4	\$ 204,317	\$ 4,166	19
5	\$ 308,284	\$ 3,677	14

Source: *Adequacy, Equity, and Capital Spending in Michigan Schools: The Unfinished Business of Proposal A*



School Finances Today: Trends and Challenges



Quick Quiz: School Funding

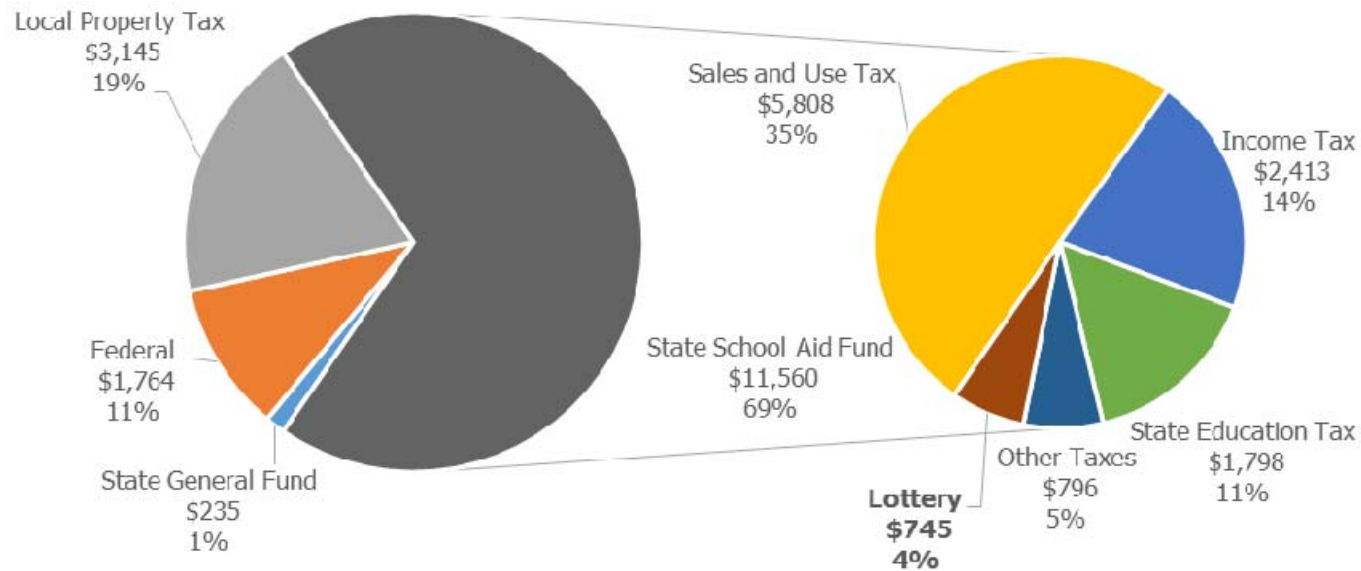
Question: What role does the lottery play in funding public schools?

- A. 50 percent
- B. 25 percent
- C. 10 percent
- D. Less than 5 percent



Answer: D – less than 5 percent

2014 Operating Funding for Public Schools (millions)



Total: \$16.5 Billion

Source: Senate Fiscal Agency reports



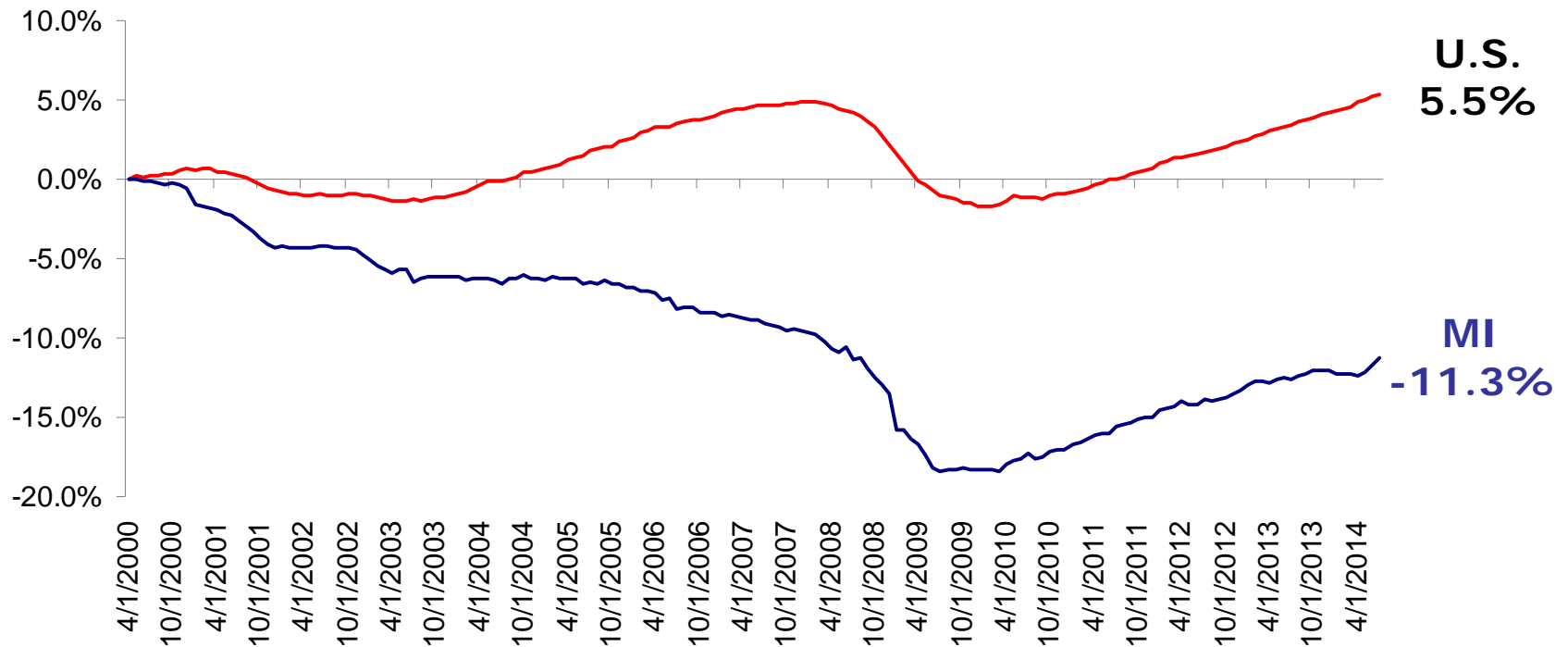
The Last Decade Was an Economic Disaster for Michigan

	<u>Growth 2000 to 2010</u> <u>U.S.</u>	<u>Growth 2000 to 2010</u> <u>Michigan</u>	<u>Michigan</u> <u>Rank</u>
Population	9.6%	-0.8%	51
Real Per Capita GDP	5.0%	-10.4%	51
Employment	-1.5%	-17.4%	51
Real Per Capita Income*	4.9%	-5.6%	50



Going Back to 2000 Michigan Trails U.S. By a Wide Margin

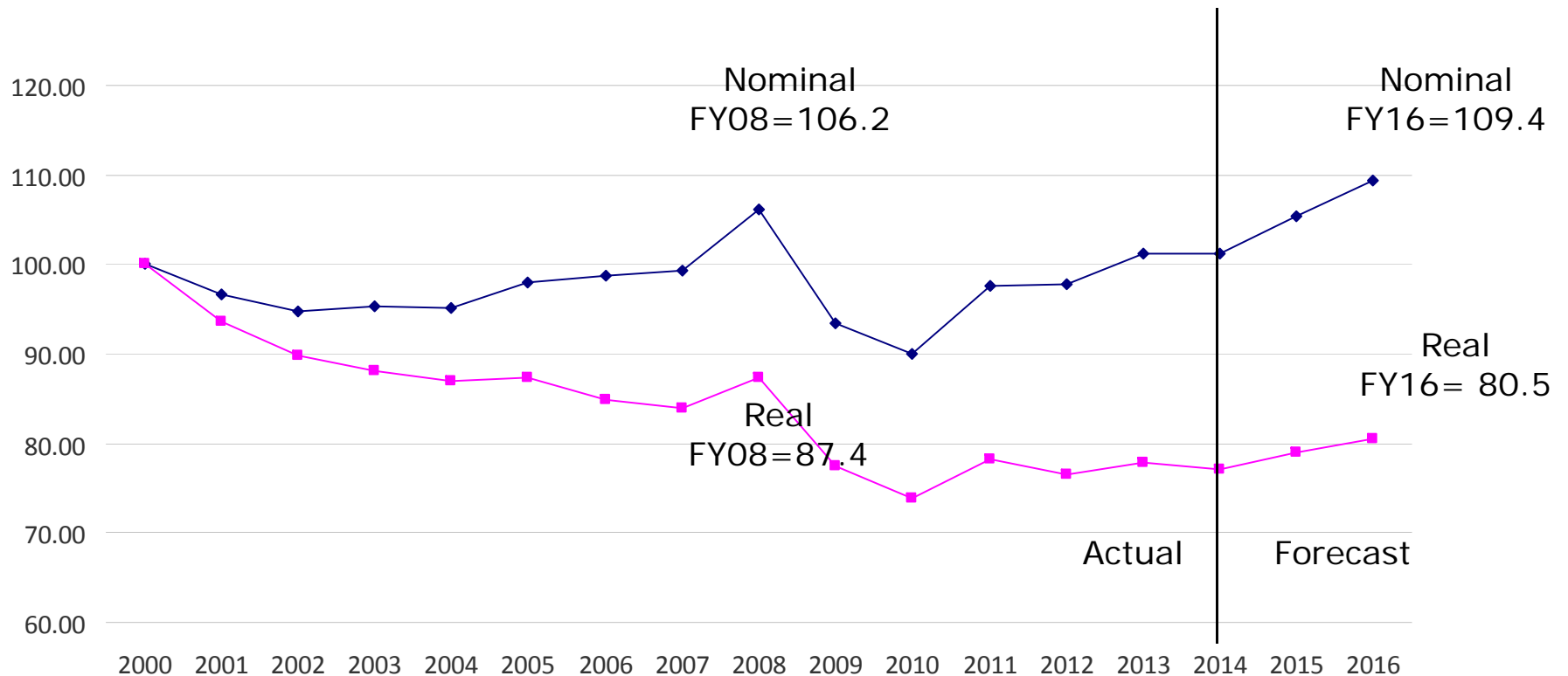
Cumulative Change in Employment Since April 2000





Nominal Revenues Nearing FY08 Level But Real Revenues Still Down

Combined GF/SAF Revenues (2000 = 100)





State Spending From State Resources Down in Most Categories

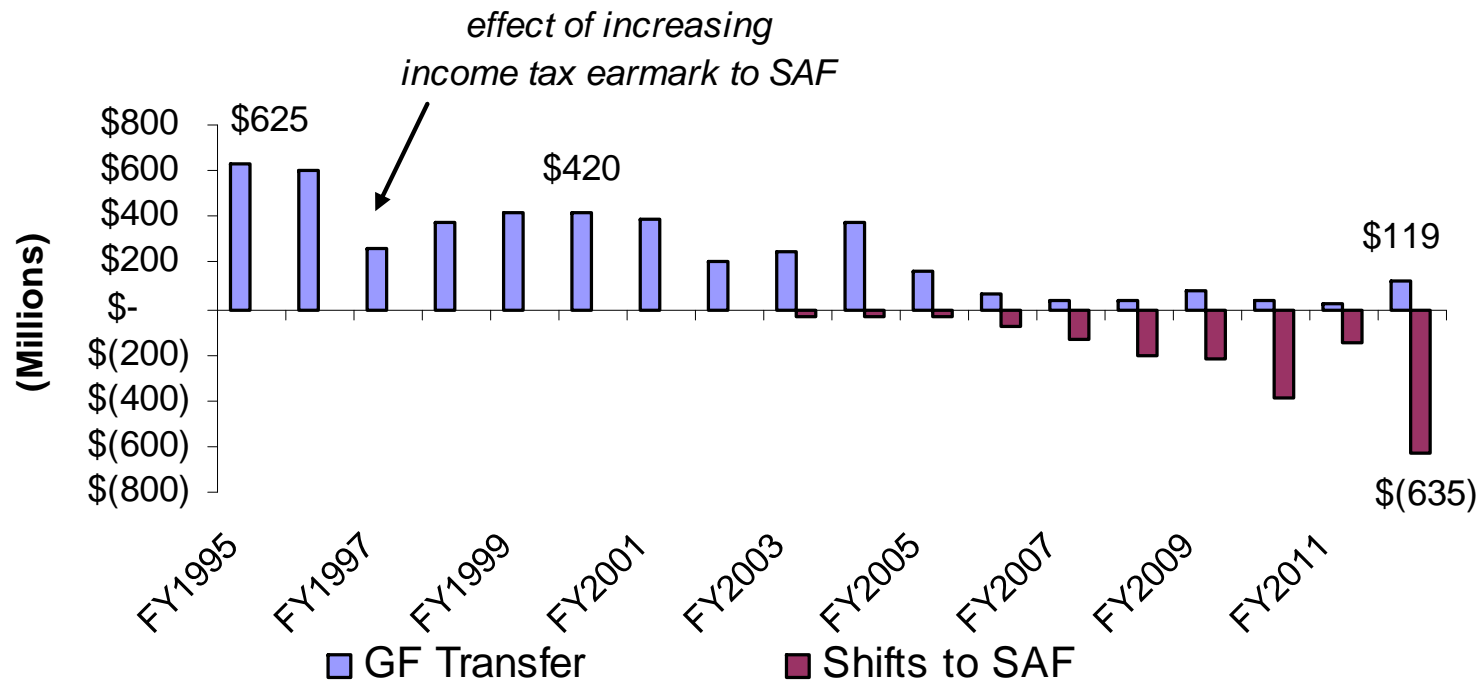
	FY 2002 <u>(millions\$)</u>	FY 2013 <u>(millions\$)</u>	Nominal % <u>Change</u>
Medicaid/DCH	\$3,066	\$4,976	62.3%
Corrections	\$1,653	\$2,009	21.5%
Human Services	\$1,230	\$1,117	-9.2%
K-12	\$11,221	\$11,244	0.2%
Community College	\$320	\$294	-8.2%
Universities/Fin Aid	\$1,941	\$1,302	-32.9%
Revenue Sharing	\$1,517	\$1,084	-28.6%
All Other	<u>\$5,139</u>	<u>\$5,787</u>	<u>12.6%</u>
Total	\$26,087	\$27,812	6.6%
U.S. CPI - U	178.9	232.7	30.1%



General Fund Problems Spill Over

Decisions reduce funding for schools

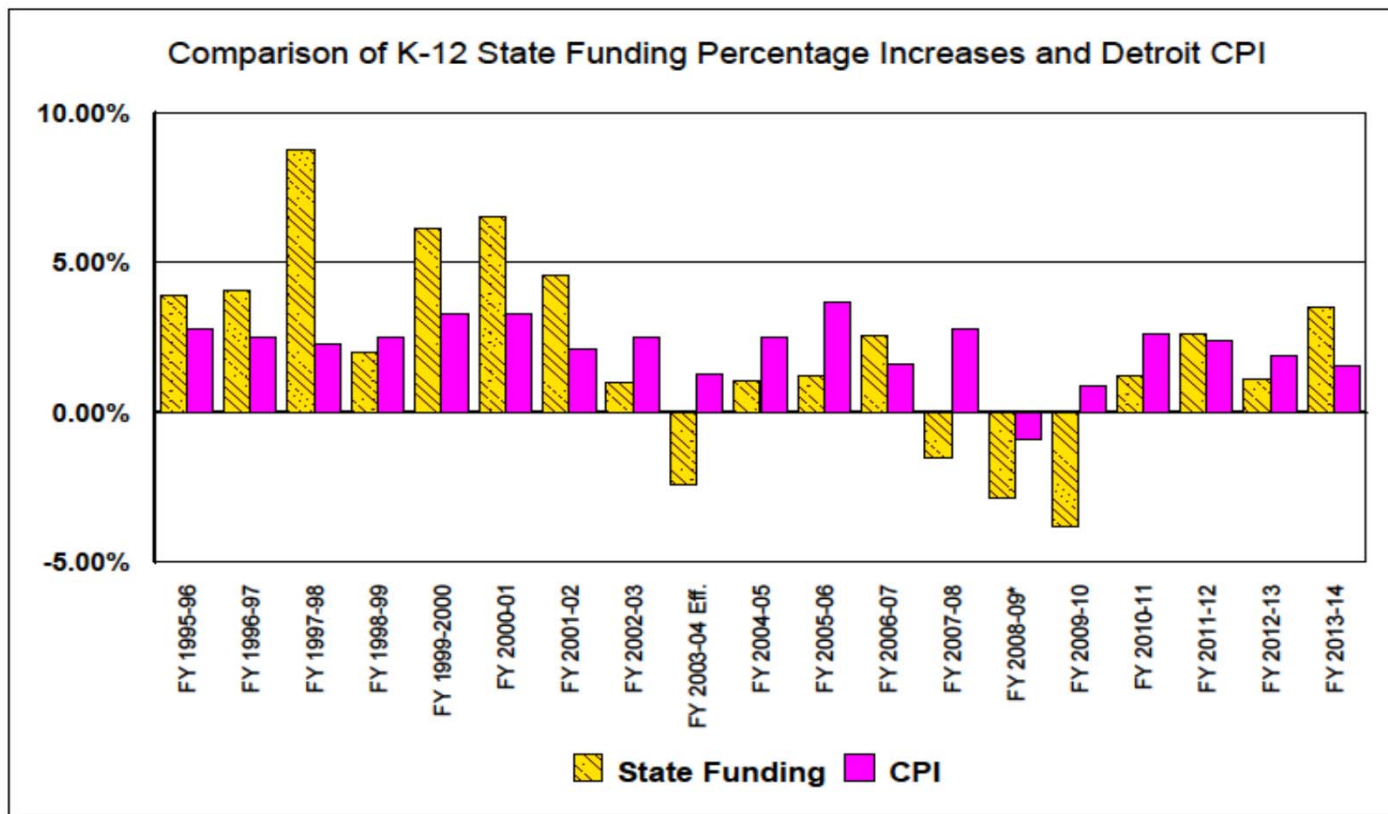
General Fund Transfers and Cost Shifts - School Aid Fund



Source: Michigan Department of Education; House Fiscal Agency



K-12 Funding Growth Lags Inflation

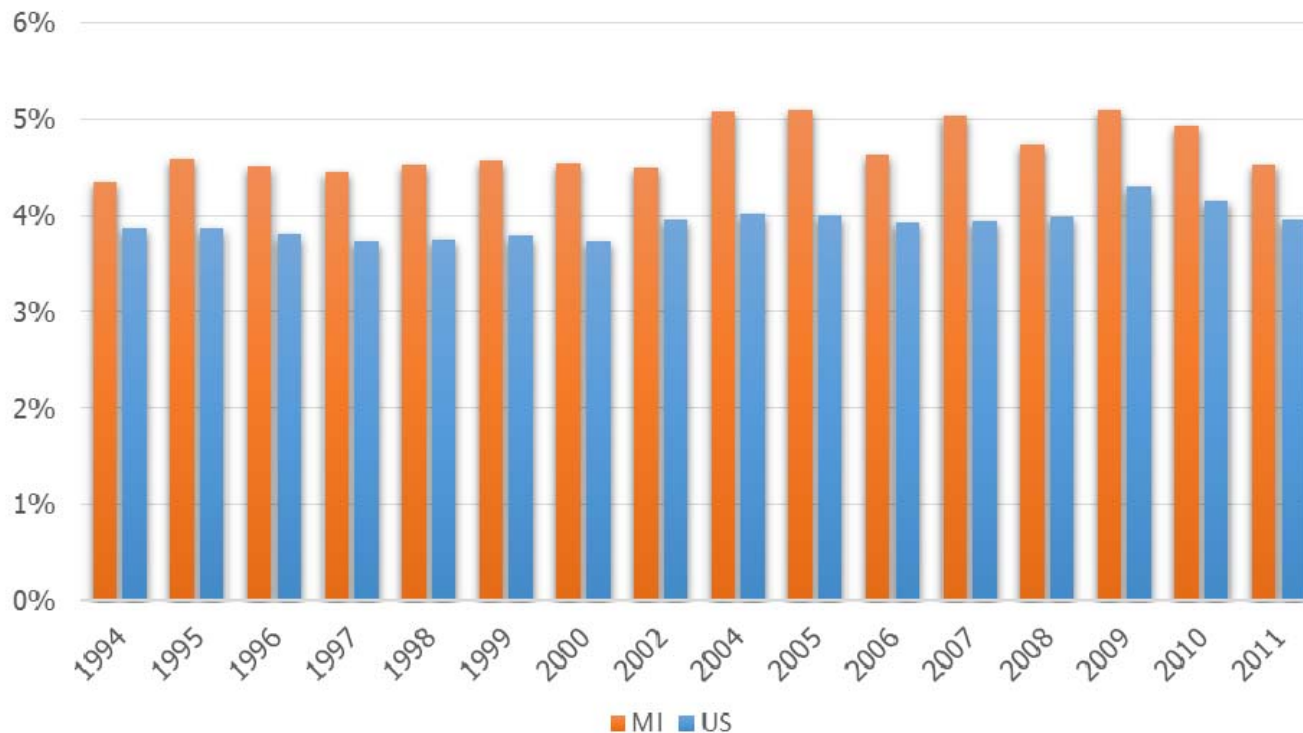


*In FY 08-09, \$341 million of State funding was added to offset lower local tax revenues from changes in the MI Business Tax; without this, State funding declined 5.8 percent.



Michigan Contributes More of its Income to K-12 Education than the US Average

Total State and Local K-12 Education Spending as Share of Personal Income: US and MI

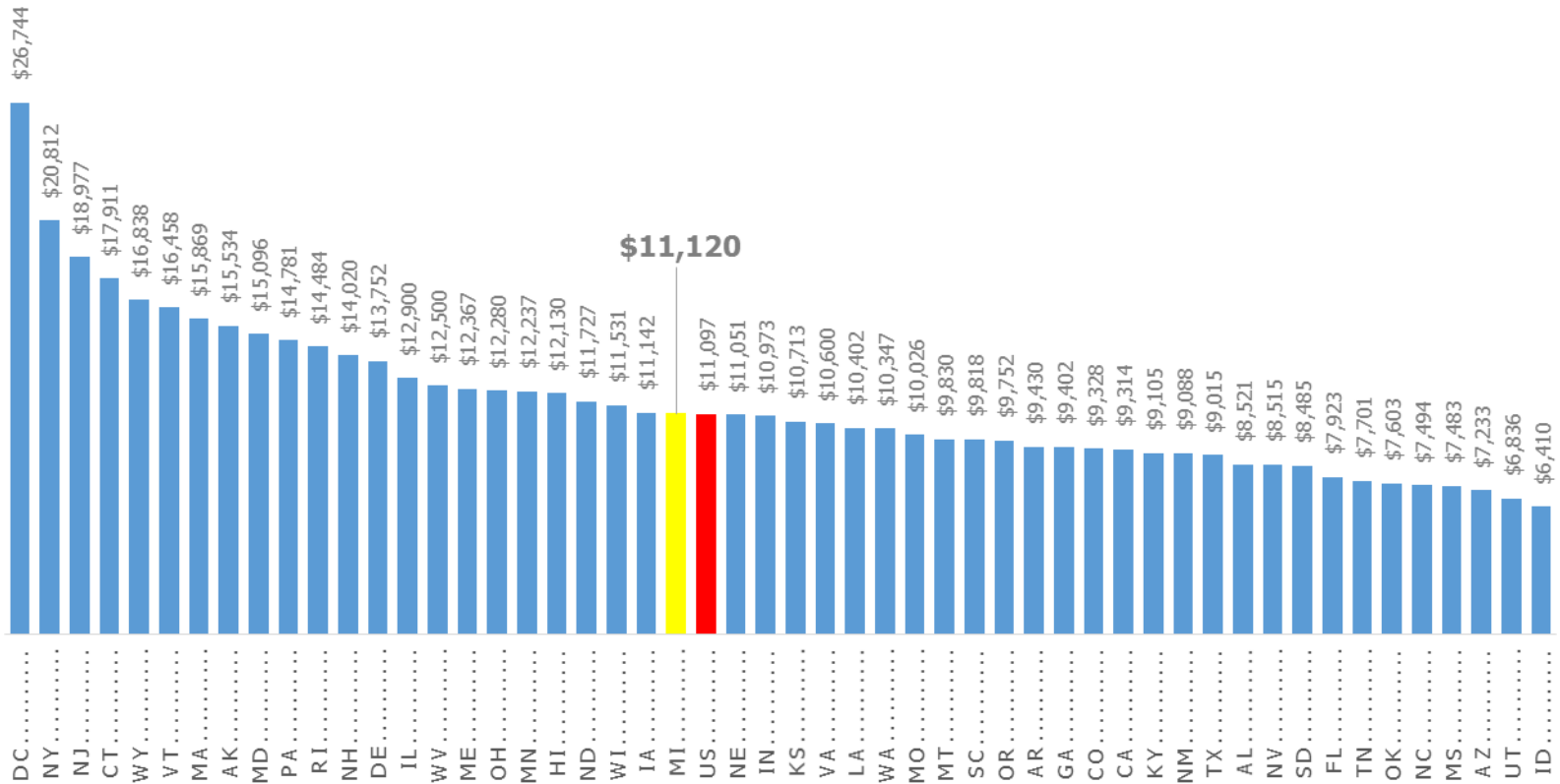


Source: U.S. Census Bureau



Michigan at the US Average

TOTAL STATE AND LOCAL PER-PUPIL REVENUE: FY2012



Source: U.S. Census Bureau



Current Challenges



Factors Affecting K-12 Finances

Structural Issues

- Changing demographics
- Improving recovery from Great Recession
- Growing legacy costs

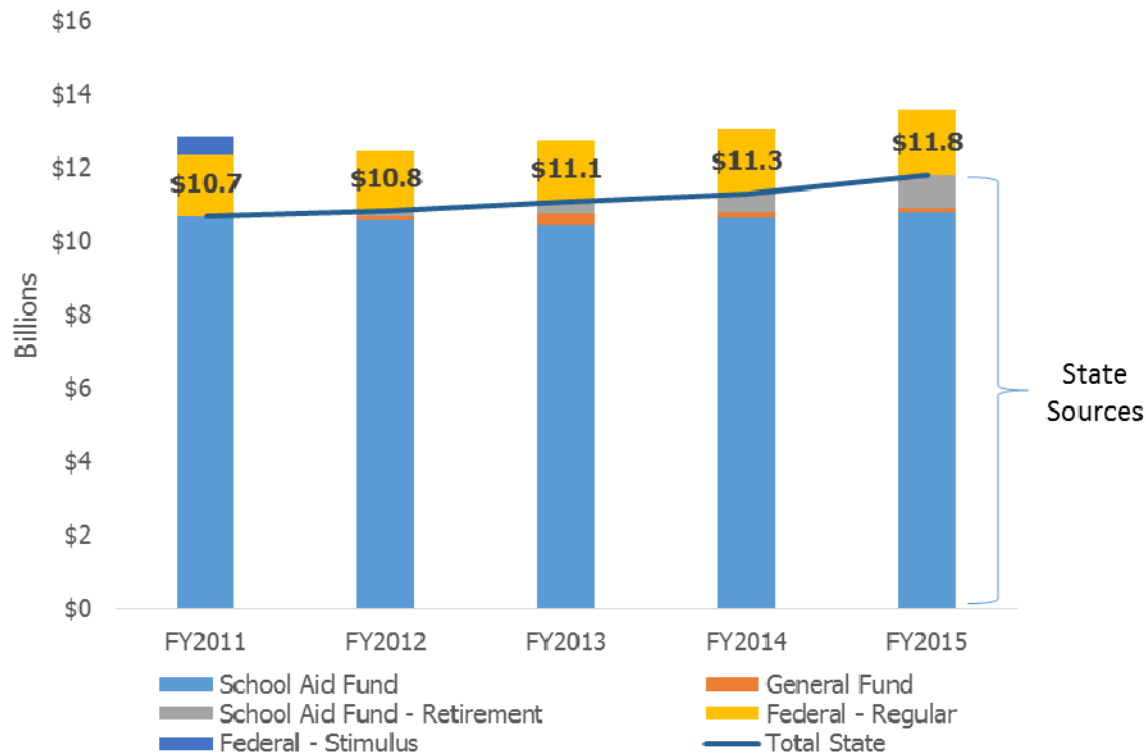
Policy Decisions

- Growth in number of educational providers
 - Increase in number of charters
 - New cyber and online options
- State tax policy decisions
- State budget decisions
- Dealing with fiscal distress



State Funding for Public Schools Up \$1B

Most of the increase is for retirement costs

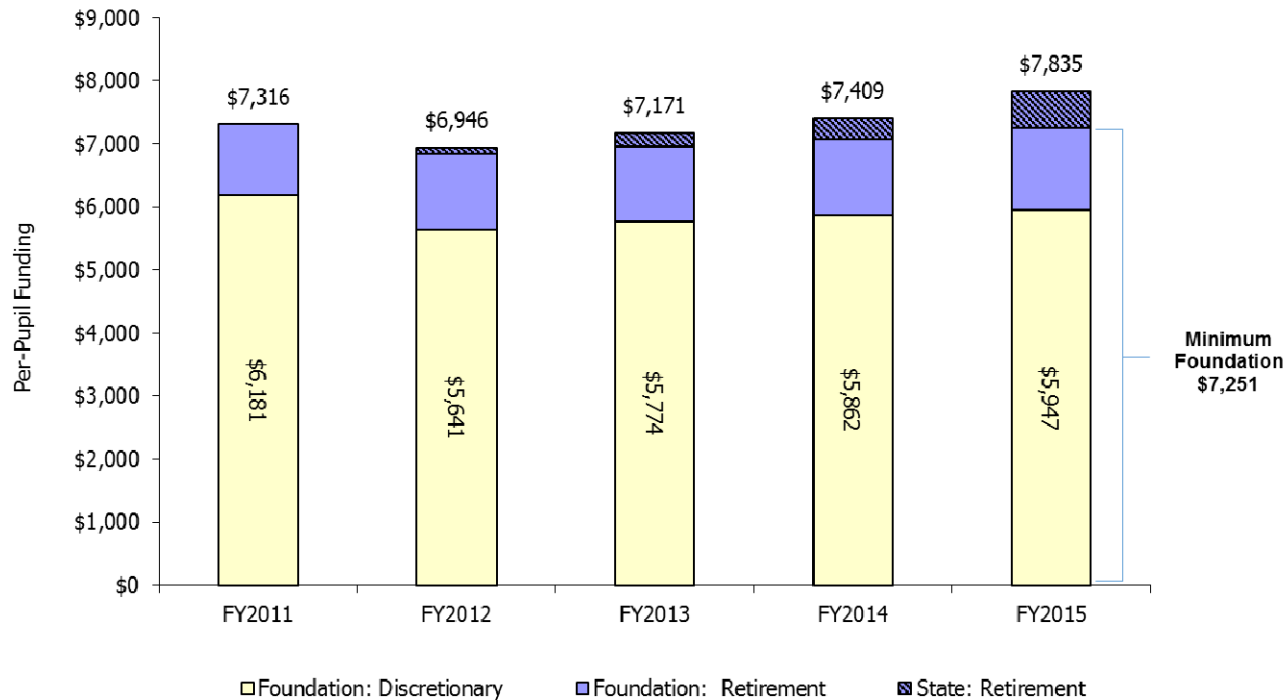


Source: Senate Fiscal Agency and House Fiscal Agency reports



MPSERS Costs and the Foundation Grant

Estimated impact on districts receiving minimum grant

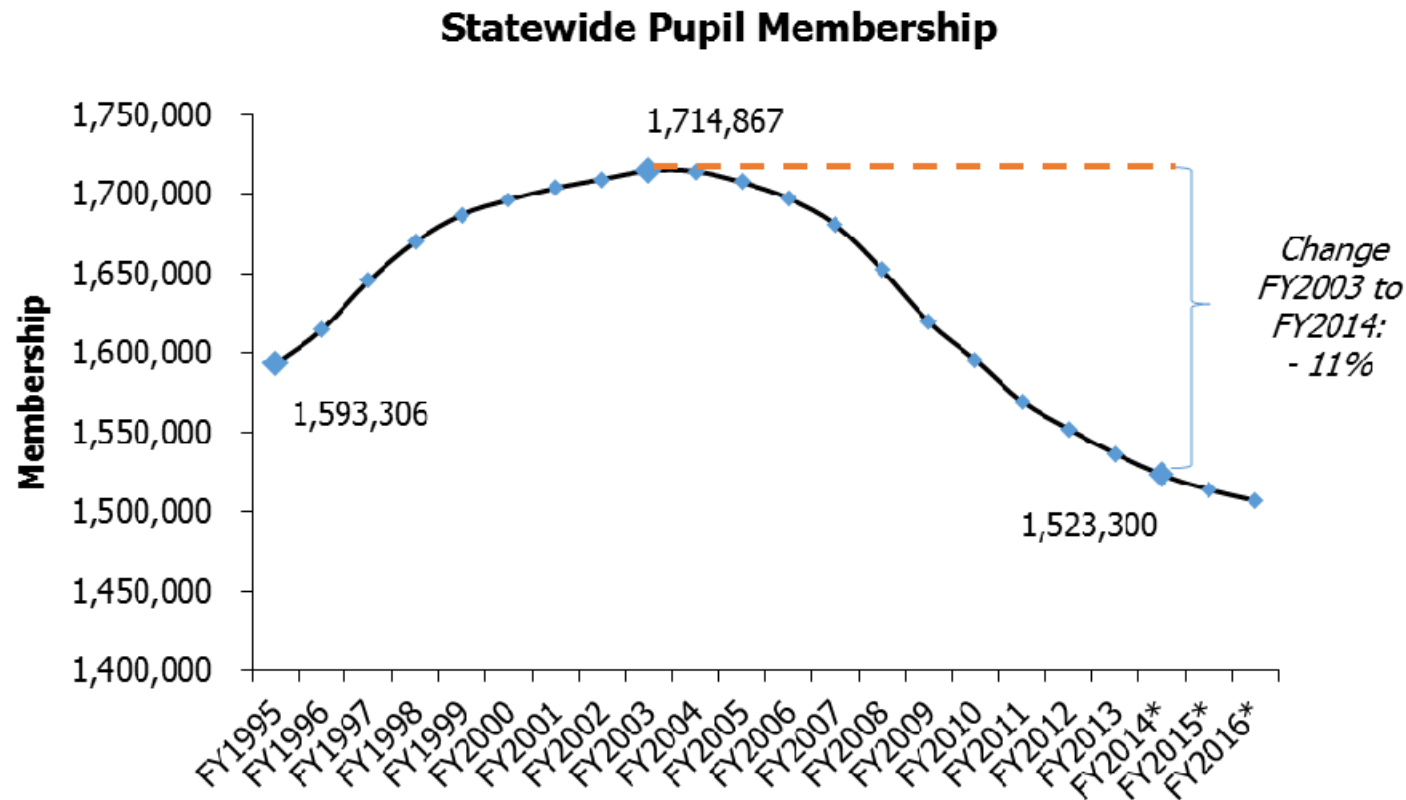


Source: Senate Fiscal Agency and House Fiscal Agency Reports; Office of Retirement Services



Since 2003: Era of Declining Enrollment

Trend expected to continue

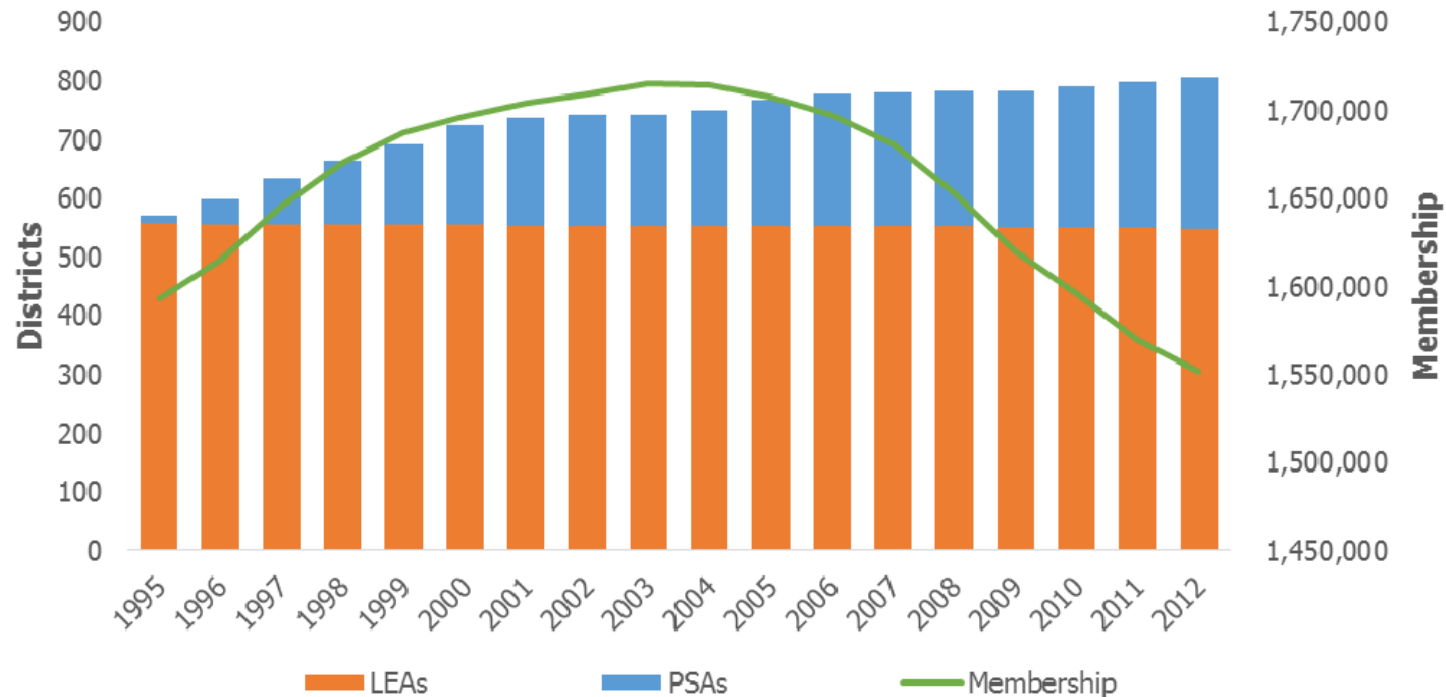


* FY2014 through FY2016 based on January 2014 consensus estimates



Number of Districts Growing Despite Declining Enrollment

Michigan School Districts and Pupil Membership



Source: Michigan Department of Education
Note: Excludes Intermediate School Districts (56 in 2012)



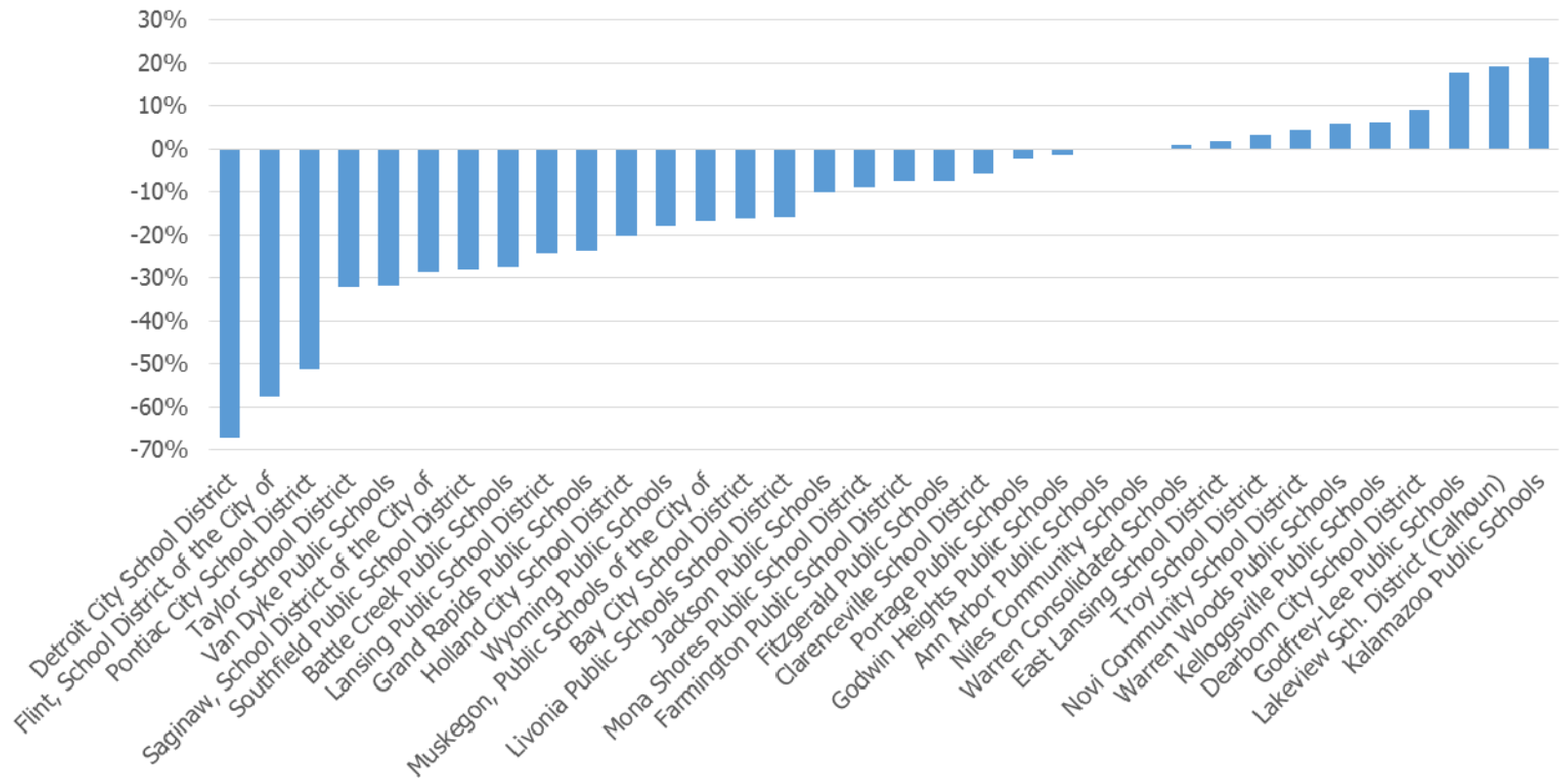
Declining Enrollment . . . Not Just an Urban Issue

Enrollment Change from Fall 2003 to Fall 2012	District Locale			
	City	Suburb	Town	Rural
Gain	10	50	10	55
Loss				
greater than 50%	3	0	1	6
25% to 50%	5	14	5	61
10% to 25%	8	25	44	114
0 to 10%	8	46	23	57
Districts with Loss	24	85	73	238
Total # of Districts	34	135	83	293
Total Pupil Loss / % Loss	133,520 -32%	24,756 -4%	23,244 -12%	38,271 -12%



Some Large Urban Districts Experience Massive Enrollment Loss

Enrollment Change in City School Districts: 2003 to 2012





Effects of Declining Enrollment

Two narratives

- State-level effects
 - Fewer students in the system allows the per-pupil foundation grant to increase, even if there are no new dollars in the system
- District-level effects
 - Per-pupil foundation grant might increase, **BUT**
 - Effects of grant increase are offset by the loss of students – result in fewer resources overall
 - Challenges of “managing down” when majority of costs are relatively fixed in near term



Fiscal Distress Growing

Record number of deficit districts in 2012

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Statewide Average	10.81%	9.34%	7.19%	8.42%	8.96%	8.37%
0% to 5%	57	63	73	44	50	78
5% to 10%	106	108	99	101	117	127
10% to 15%	114	119	131	127	136	106
Above 15%	<u>249</u>	<u>231</u>	<u>211</u>	<u>237</u>	<u>201</u>	<u>186</u>
Districts	526	521	514	509	502	497*
Deficit (Negative)	21	29	36	41	47	42

Source: Michigan School Business Officials; Michigan Department of Education (deficit districts).

Note: Traditional public school districts only (excludes ISDs and PSAs). Not all districts reporting for 2012-13.



Range of State Responses

- For majority of districts in distress, current Deficit Elimination Plan process functions well
- However, for those hardest hit, state lacks consistent policy and responses have varied:
 - “Charterized” districts (Muskegon Heights and Highland Park)
 - Dissolution used for two districts (Buena Vista and Inkster)
 - PA 436 used for Detroit (emergency manager) and Pontiac (consent agreement)
- *State needs “Early Warning” system*



Consequences of Current Approach

- Interruption of student learning – sometimes abruptly and at mid-year
- Some state responses “socialize” deficit elimination solutions through the provision of additional funds
- Under dissolution scenario (new option), the learning environment that students are assigned to may not be any better than the dissolved district
- Diminished accountability for state taxes used to finance K-12 education



Recommendations



Examine Declining Enrollment

1. For those districts hardest hit, **establish policy and early warning strategies** to head off “death spiral”
2. **Restore state strategies** designed to ease immediate negative effects of declining enrollment
3. **Reconsider state messaging** – consolidation vs. expansion of educational providers
4. **Reexamine the structure** of the per-pupil foundation grant
 - Recognize that there are “school-based” costs
 - Differentiate foundation grant to take into account student/school characteristics



Address Special Education Challenges

1. **Reduce reliance** on local property tax as primary funding source
2. To reduce widening per-pupil funding disparities, **greater centralization in funding decisions** would be required (similar to Proposal A)
3. Equalizing per-pupil funding would require significant amount of **additional state resources** (with minimum tax effort requirement), as “raising the bottom” would be only acceptable method



Adopt New Policy for Fiscally Distressed Districts

1. Move away from current ad hoc approach and establish a **clear, transparent, and consistent policy** based on early intervention
2. Acknowledge that some districts would need **additional resources** (financial and technical) to address their financial challenges - these dollars should come earlier, but with “strings attached” to avoid recurring problems
3. There must be an **educational component**, not merely a financial solution



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