



# **School Finance in Michigan**

Detroit Regional Chamber of Commerce

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# **Short History Lesson: Proposal A**

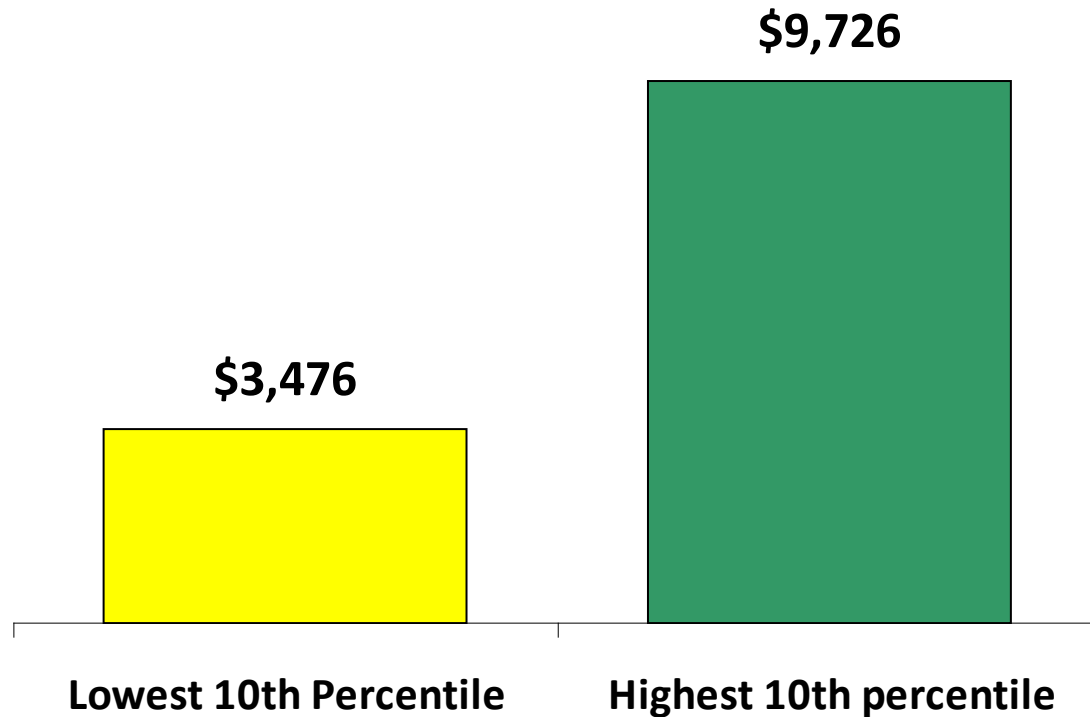


## School Finances Before Proposal A

- 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
  - School property taxes were rising faster than inflation and income resulting in pressure to reform
  - Wealthier districts greatly outspent poorer districts, often with lower tax rates
- “District power equalization” used to distribute state aid, but wealthiest 1/3 of districts received no aid
- Kalkaska schools close in March of 1993



# Wealthy Districts Outspent Poor Districts Nearly 3 to 1 in FY1994





## **Objectives of Reform**

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

- Reduce, but not eliminate, disparities in per-pupil funding
- Reduce, but not eliminate, reliance on property tax to fund schools
- Centralize school funding at state level (i.e., replace local property tax with state taxes)
- Limit property tax 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 29%/71% to 67%/33%
  - 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

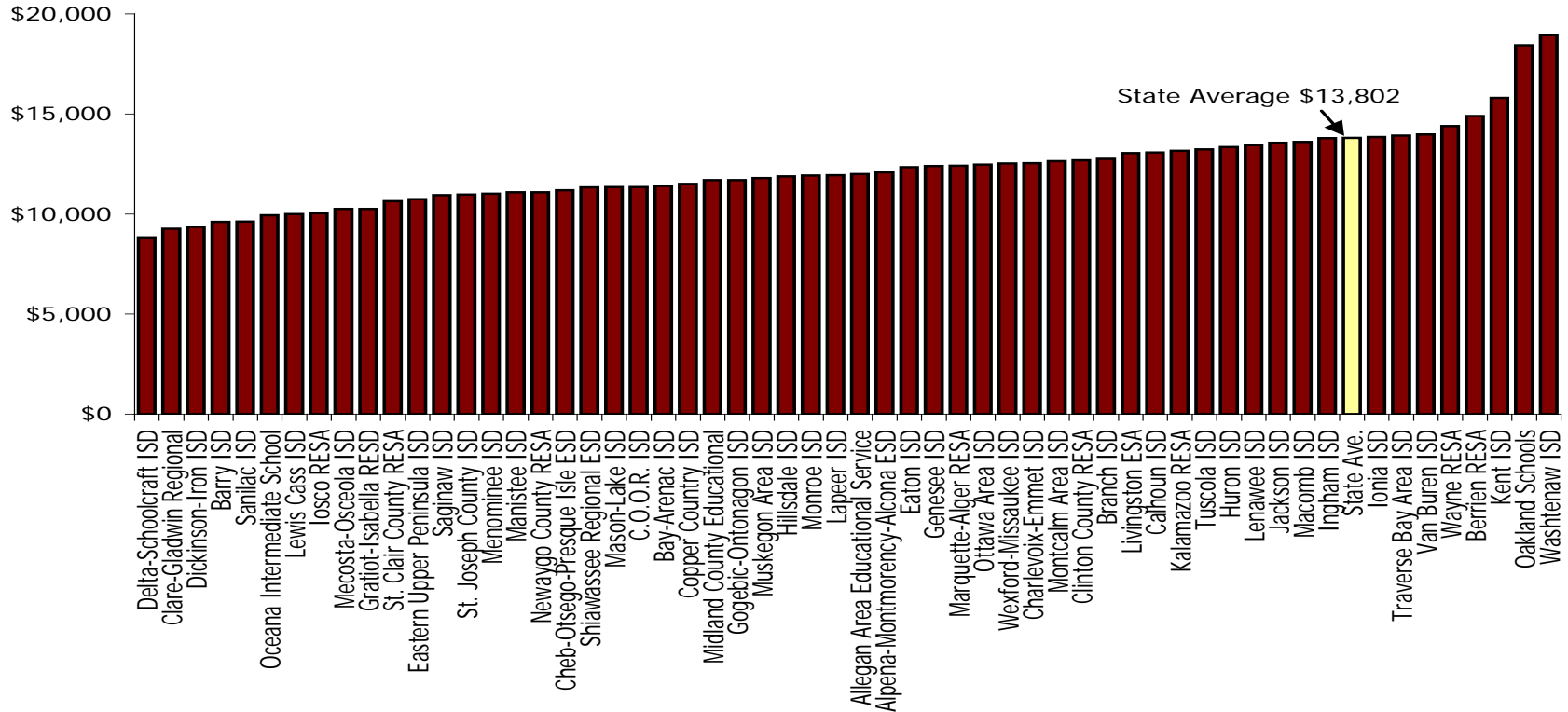




# Special Ed Per-Pupil Spending Variation

## *Difference Twice as Much*

Per-Pupil Spending by ISD in FY2010



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



# Recent Trends in Michigan School Finances



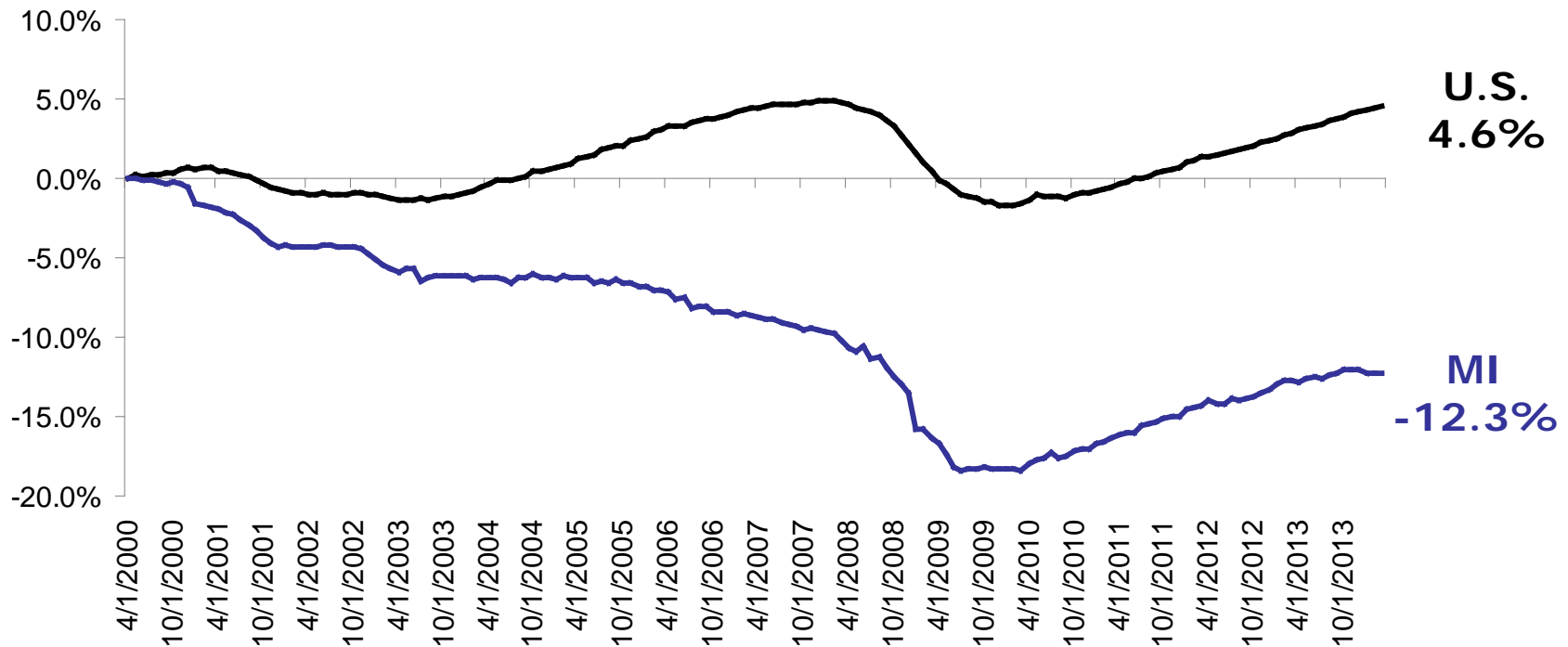
# The Last Decade Was an Economic Disaster for Michigan

	Growth 2000 to 2010		Michigan Rank
	<u>U.S.</u>	<u>Michigan</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



# Michigan Employment Growth Since 2000 Trails U.S. By a Wide Margin

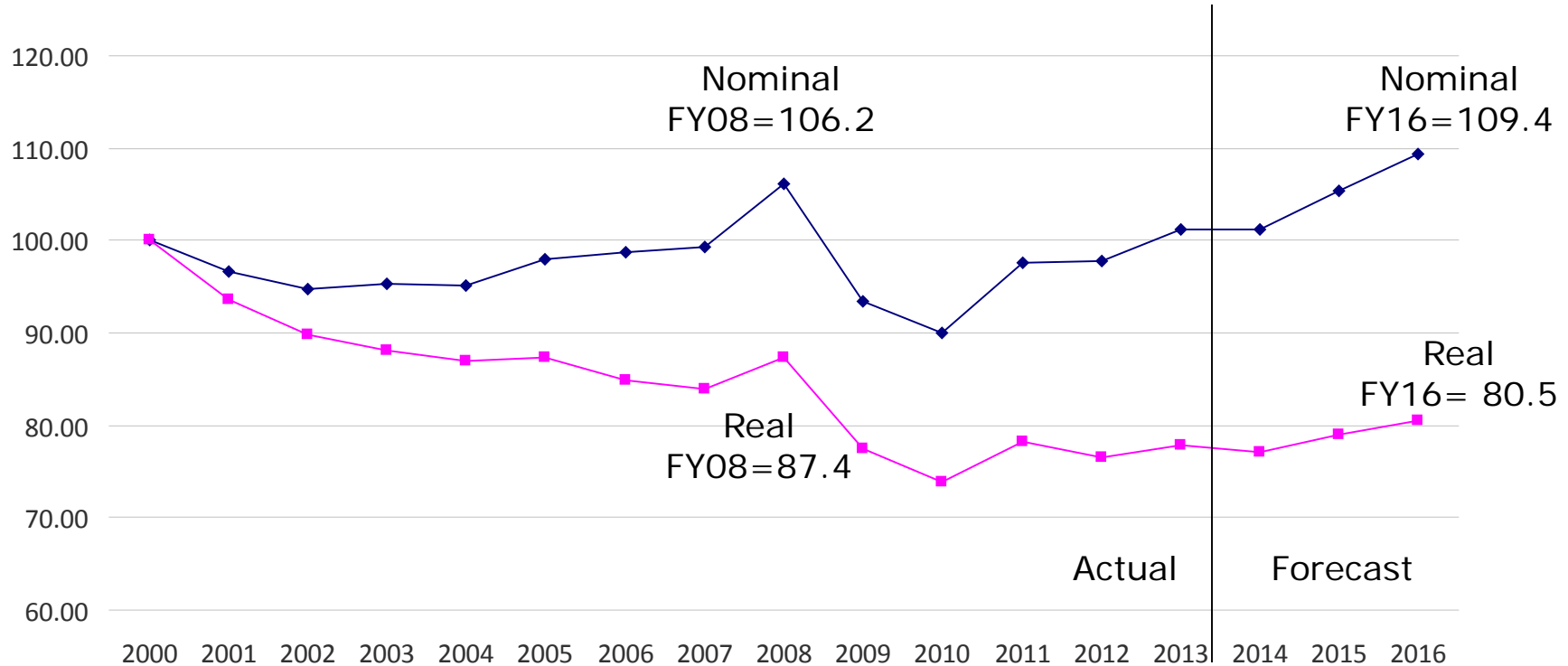
## Cumulative Change in Employment Since April 2000





# Nominal Revenues Nearing FY08 Level But Real Revenues Still Down

Combined GF/SAF Revenues (2000 = 100)

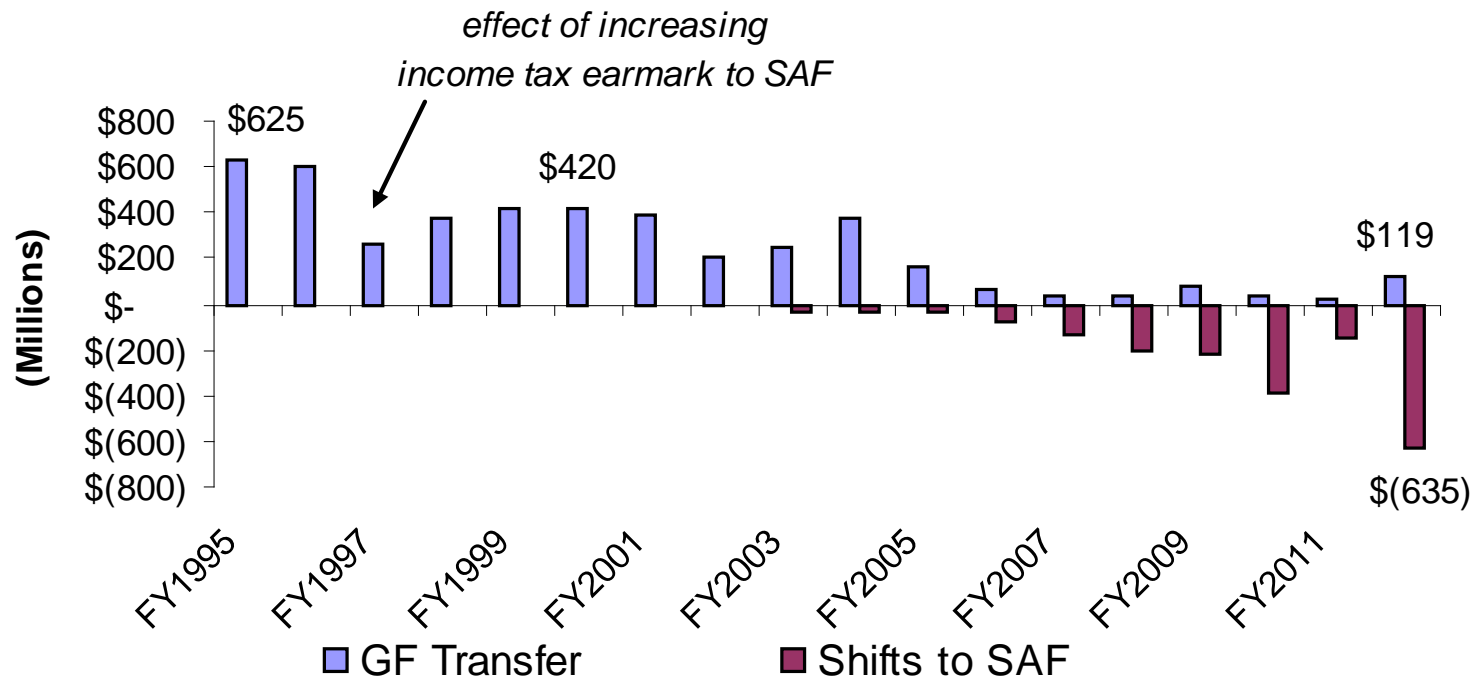




# GF Budget Problems Spill Over

## *Decisions Reduce GF for Schools*

**General Fund Transfers and Cost Shifts - School Aid Fund**



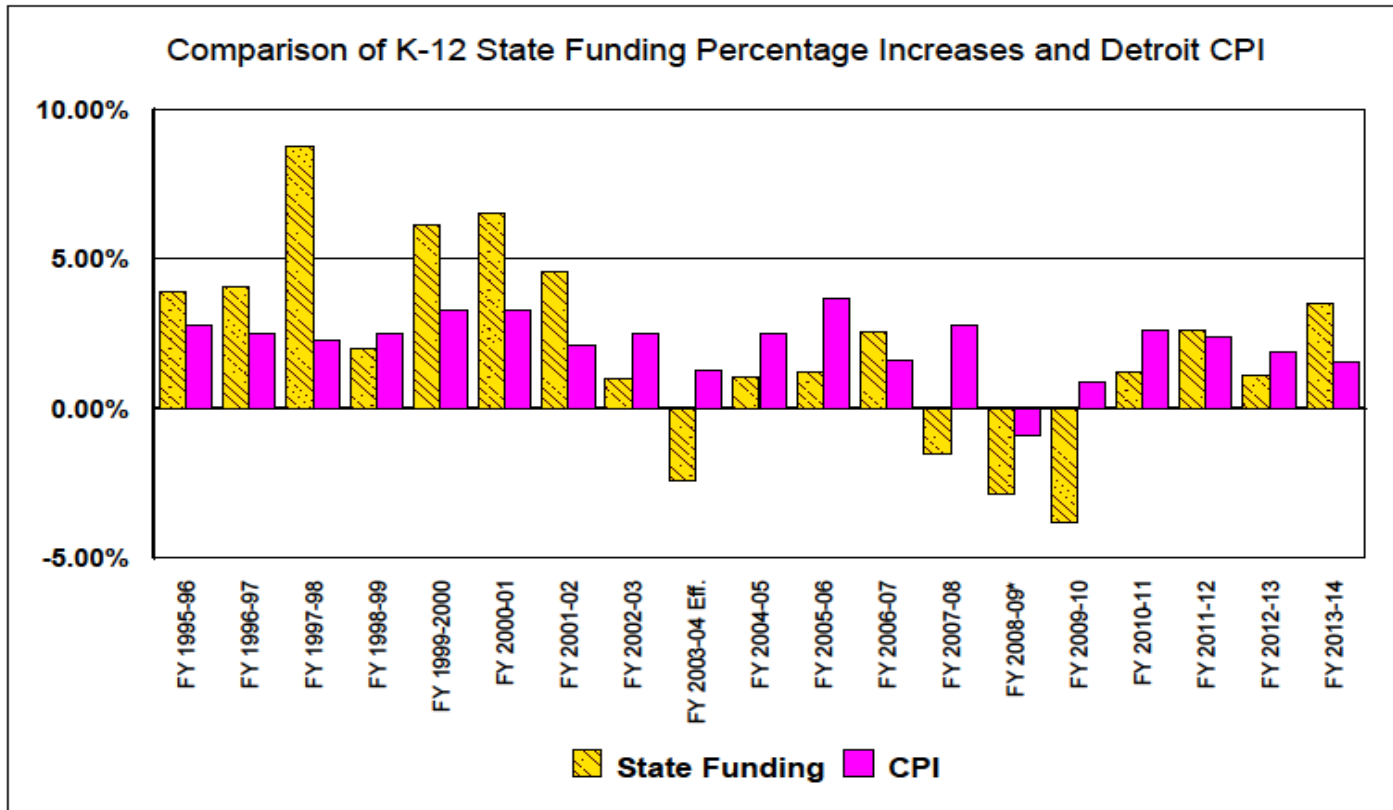
Source: Michigan Department of Education; House Fiscal Agency



# 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%
<b>K-12</b>	<b>\$11,221</b>	<b>\$11,244</b>	<b>0.2%</b>
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%

# K-12 Funding Growth Lags Inflation

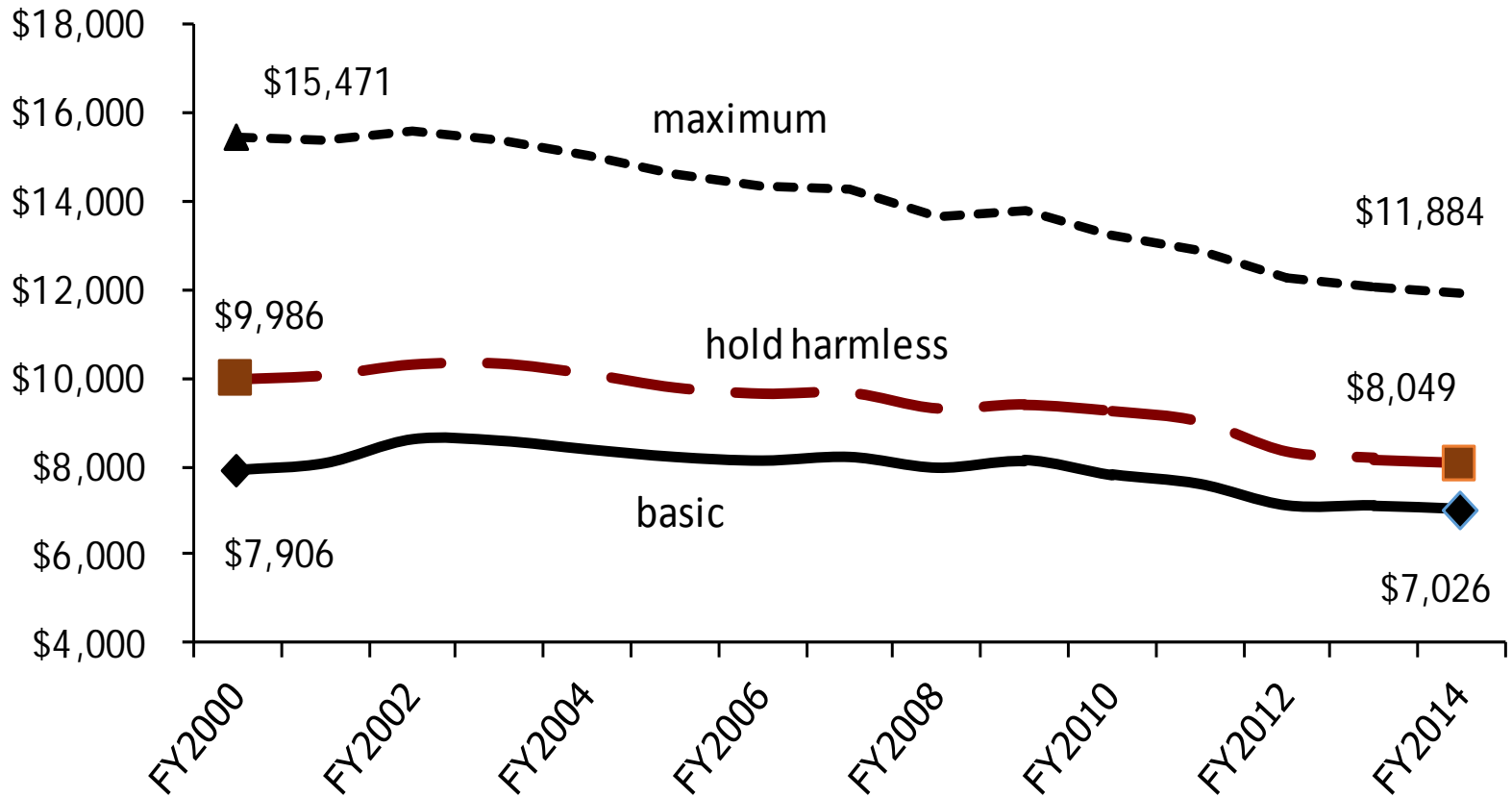


\*In FY 08-09, \$341 million of State funding was added to offset lower local tax revenues from changes in the MI Business Tax; without this, State funding declined 5.8 percent.



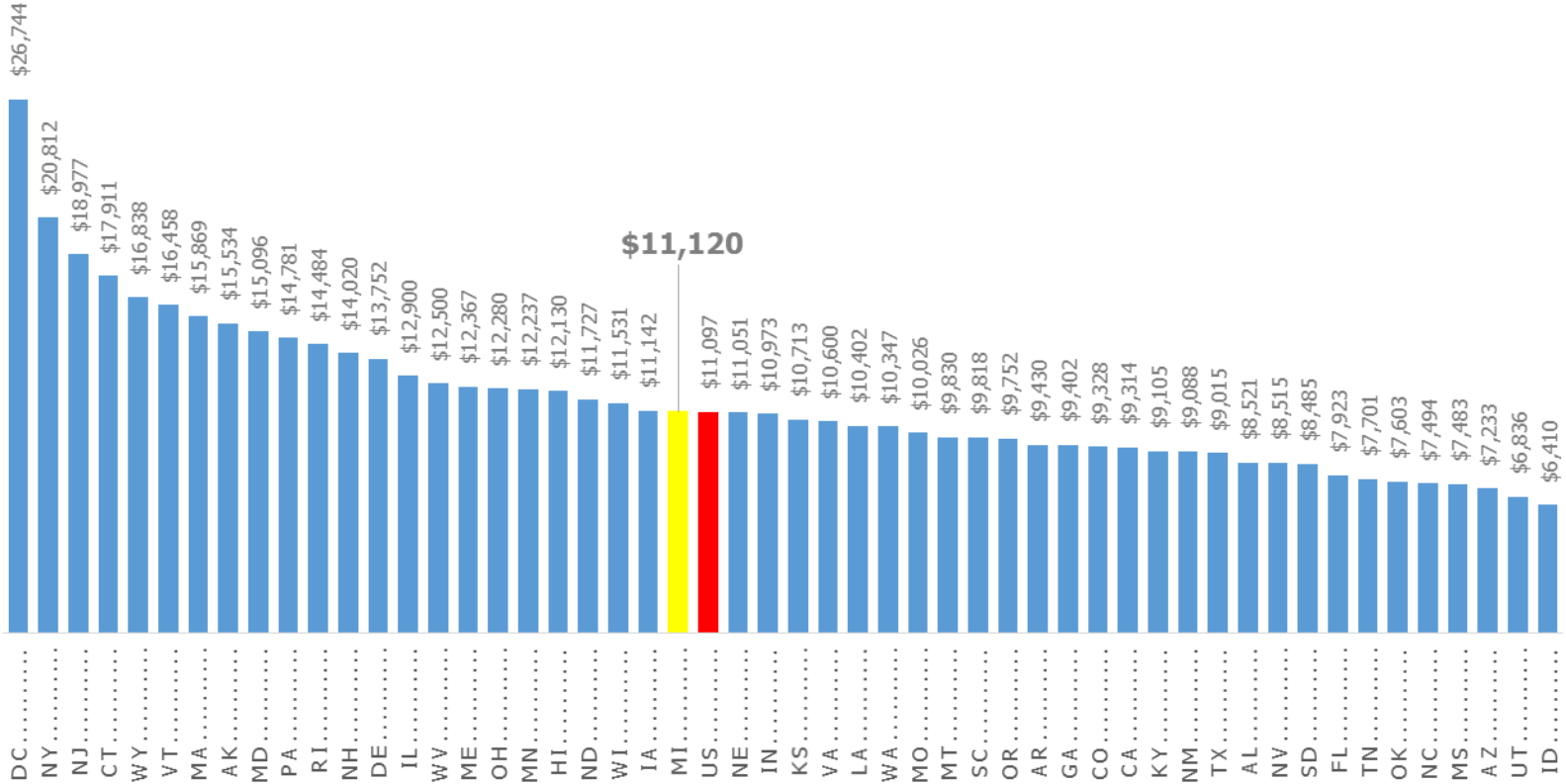
# Real Value of Foundation Deteriorates

*Reductions in Per-Pupil \$ Disparity*



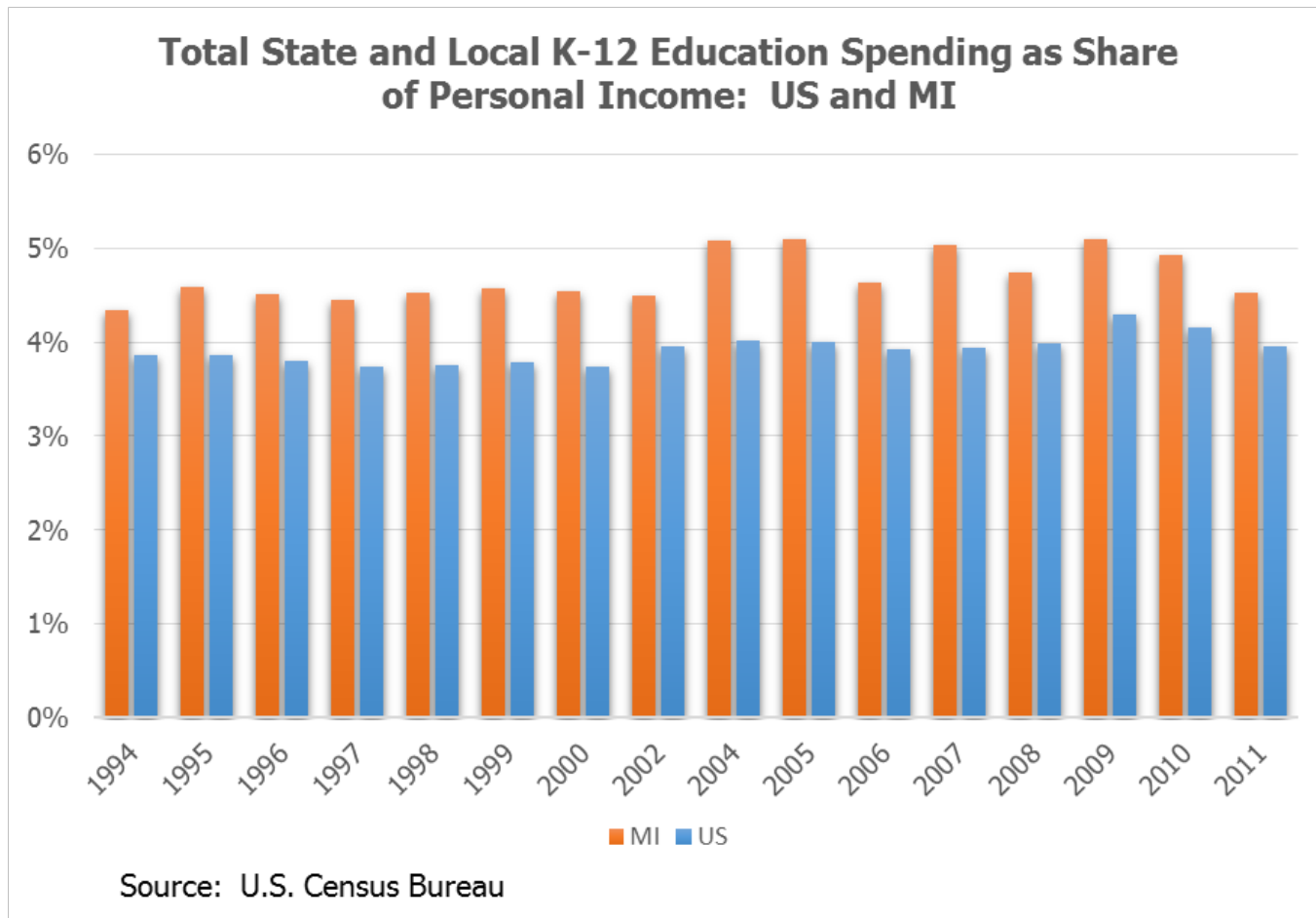
# Michigan at the US Average

TOTAL STATE AND LOCAL PER-PUPIL REVENUE: FY2012



Source: U.S. Census Bureau

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





# **Current Issues in K-12 Finances**

## Factors Affecting K-12 Finances

### *Structural Issues*

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

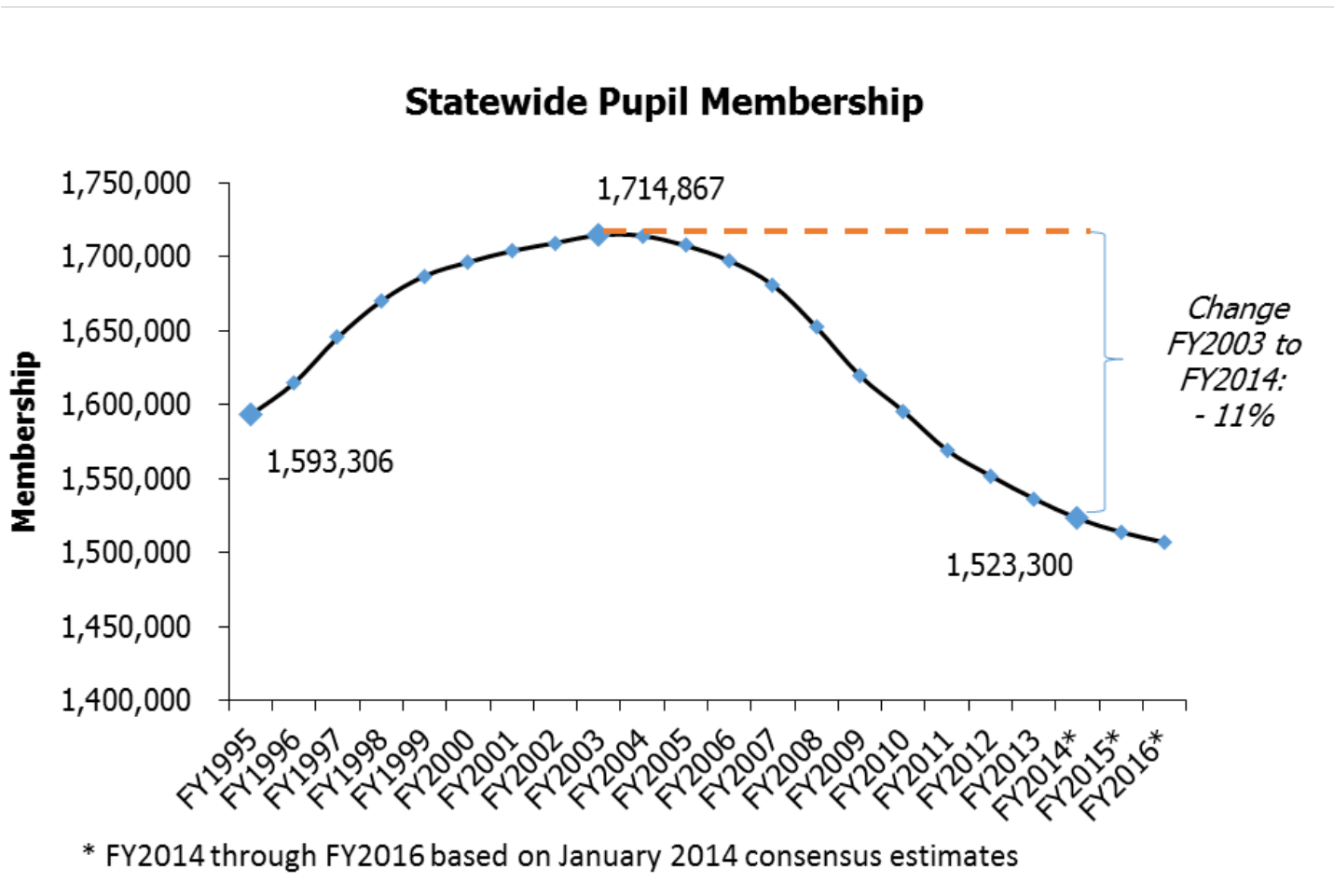
### *Policy Decisions*

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



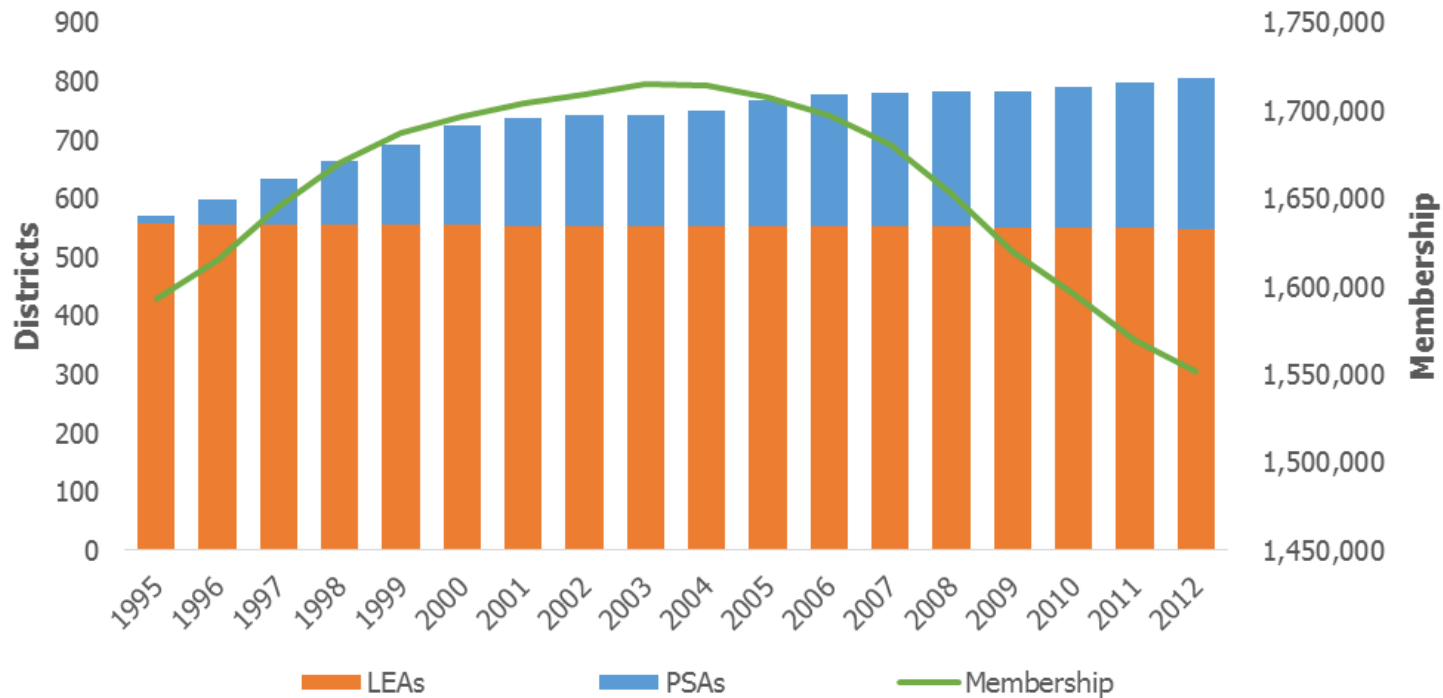
# Since 2003: Era of Declining Enrollment

*Trend Expected to Continue*



# Number of Districts Growing Despite Declining Enrollment

Michigan School Districts and Pupil Membership

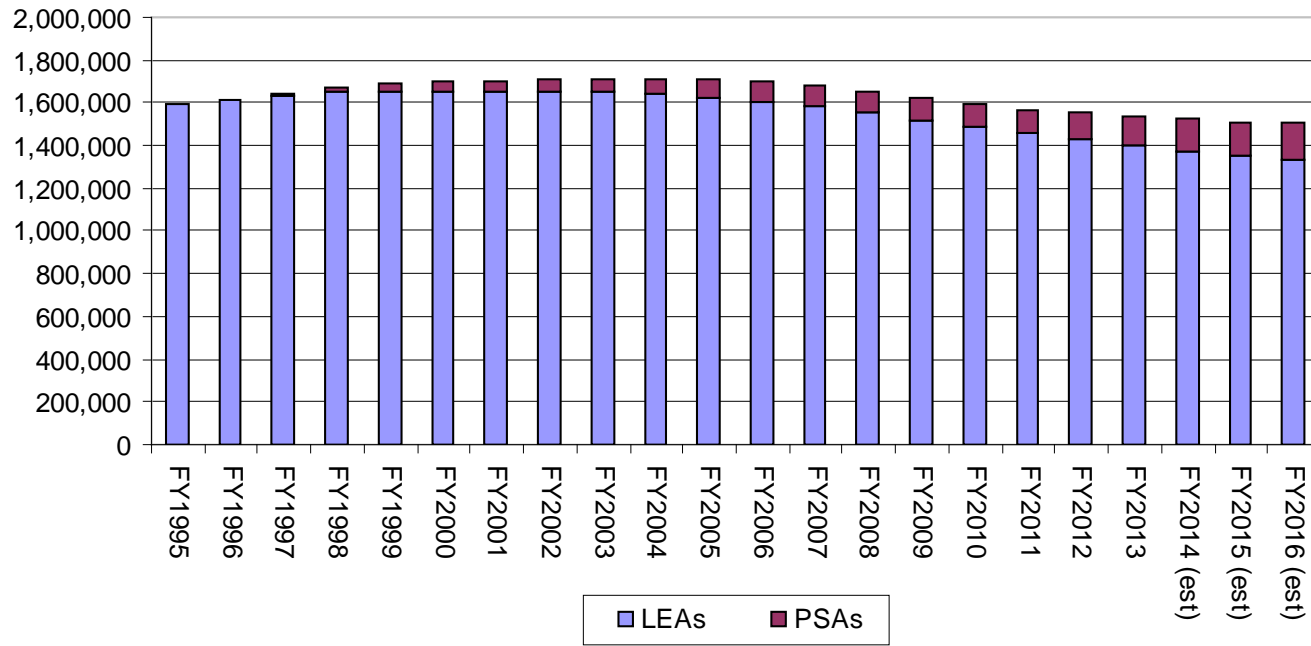


Source: Michigan Department of Education  
 Note: Excludes Intermediate School Districts (56 in 2012)



# Charter Schools Put Additional Pressure on Traditional Districts

## Michigan Pupil Membership since FY1995



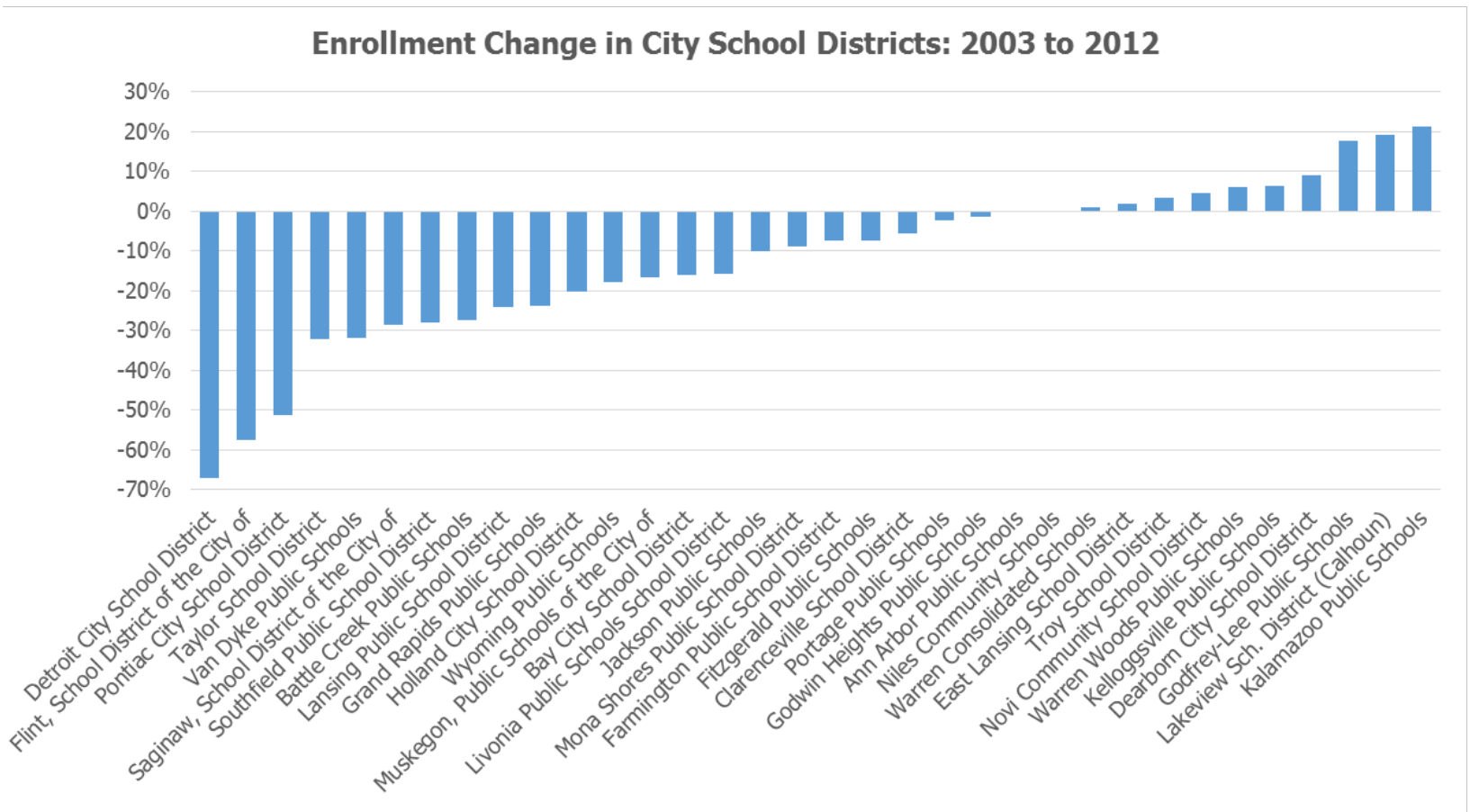




# Declining Enrollment . . . Not Just an Urban Issue

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
<b>Districts with Loss</b>	<b>24</b>	<b>85</b>	<b>73</b>	<b>238</b>
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



# Effects of Declining Enrollment

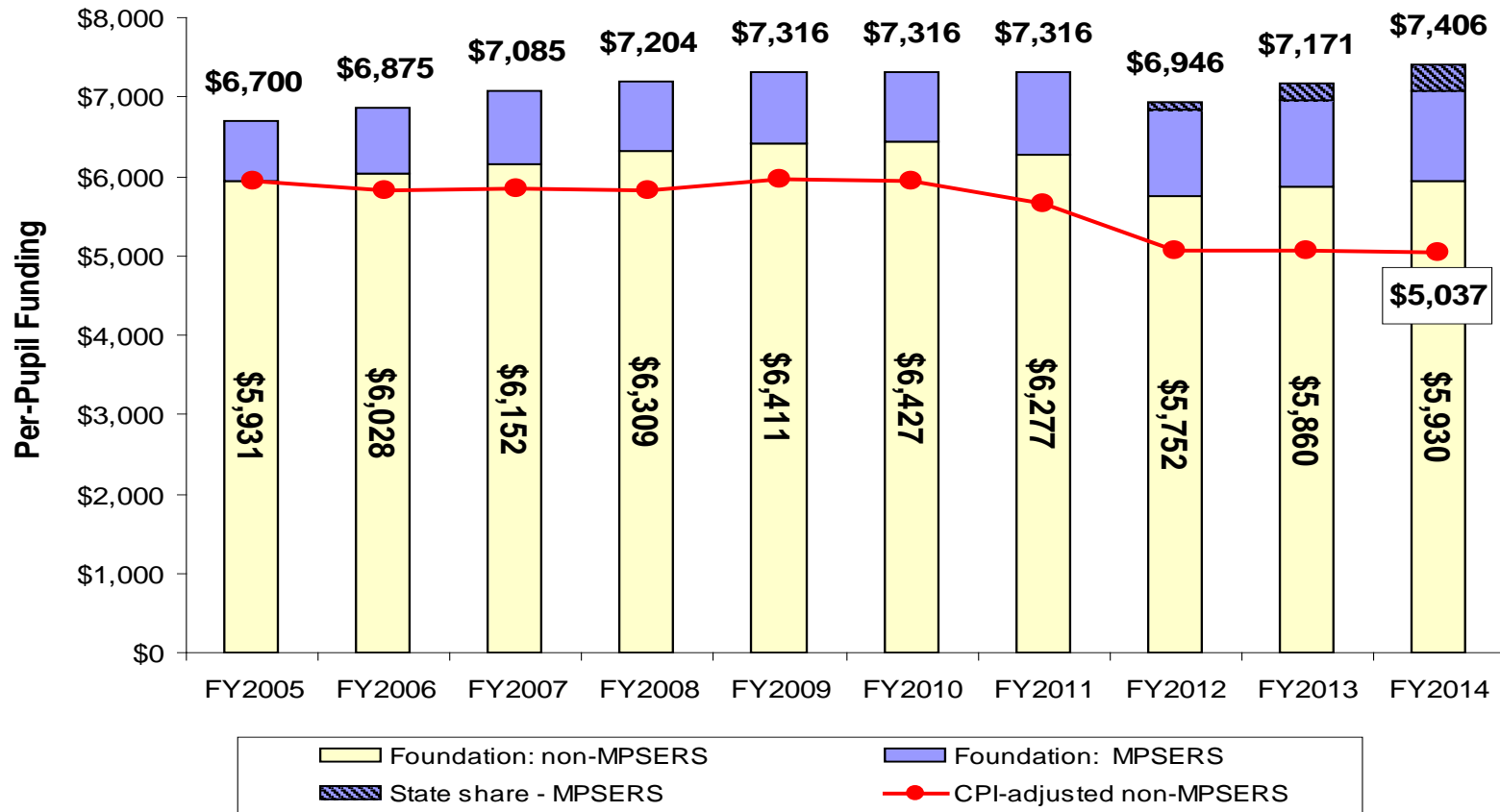
## *Two Narratives*

- 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



# MPSERS Costs and the Foundation Grant

*Estimated impact on districts receiving minimum grant*





# Fiscal Distress Growing

## *Record Number of Deficit Districts in '12*

	<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%
<b>Fund Balance as % of Revenue</b>						
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*
<b>Deficit (Negative)</b>	<b>21</b>	<b>29</b>	<b>36</b>	<b>41</b>	<b>47</b>	<b>42</b>

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)



## 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



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