

Public Education Funding in Michigan

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Citizens Research Council of Michigan

www.crcmich.org

About Citizens Research Council of Michigan

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

Eric Lupher, President



- 32 years at the Citizens Research Council of Michigan
- Generalist
 - Taxation
 - Constitutional Issues
 - Intergovernmental Finance
- Local government
 - Finance
 - Organization
 - Charter Issues
 - Consolidation

Presentation Outline

- School Funding Basics
- Funding School Operations
- Michigan Comparisons
- Current Issues
- Questions and Discussion

Public School Funding Basics

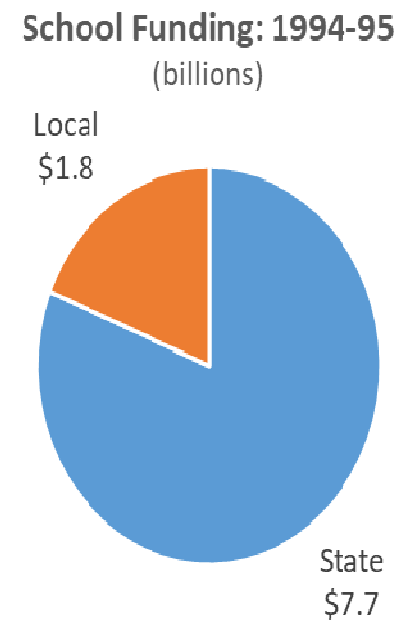
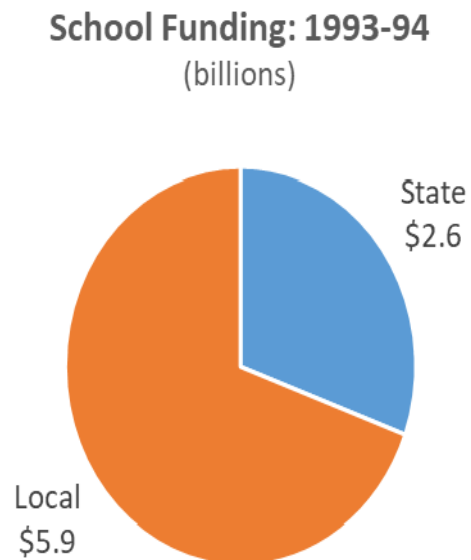
Michigan's School Funding System

Put in place in 1994 by vote of people

- March 1994 constitutional amendment – Proposal A
 - Vote also triggered a number of statutory changes
- Key objectives of school finance reform
 - Substantially reduce property tax burden in Michigan (local school operating property taxes)
 - Increase role of state taxes to finance public education
 - Create the foundation allowance (per-pupil grant) as primary mechanism to distribute state funding
 - Establish a per-pupil funding floor for each school district
 - Reduce the per-pupil funding disparities across

Highly Centralized Funding System

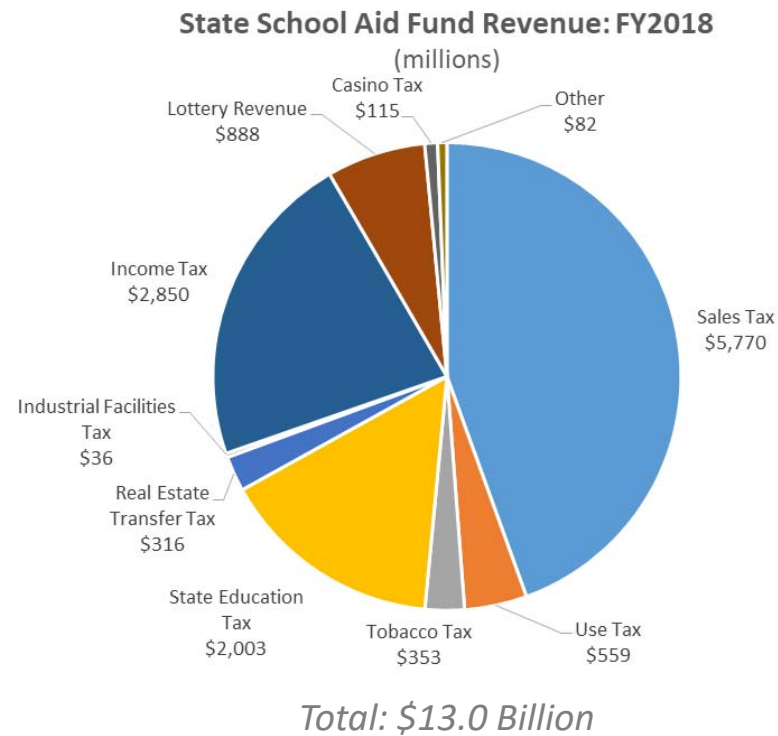
Local property taxes play a much smaller role



Proposal A Inverted the Local/State Funding Relationship

State School Aid Fund

Where the state money comes from

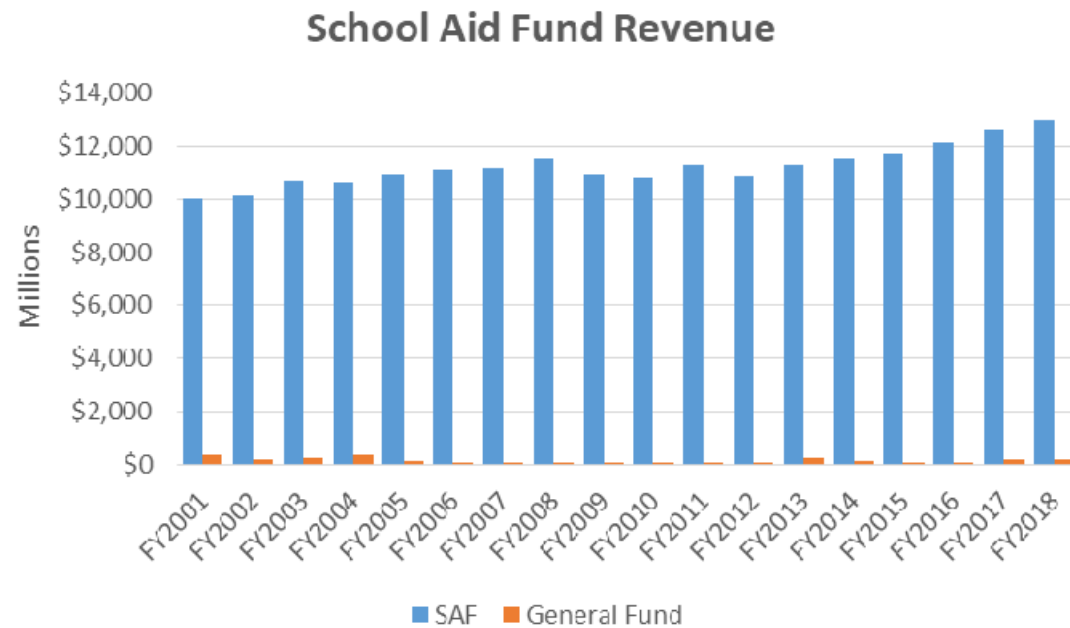


Notes:

- 75% of Sales Tax constitutionally dedicated
- 33% of Use Tax constitutionally dedicated

School Aid Fund Revenue History

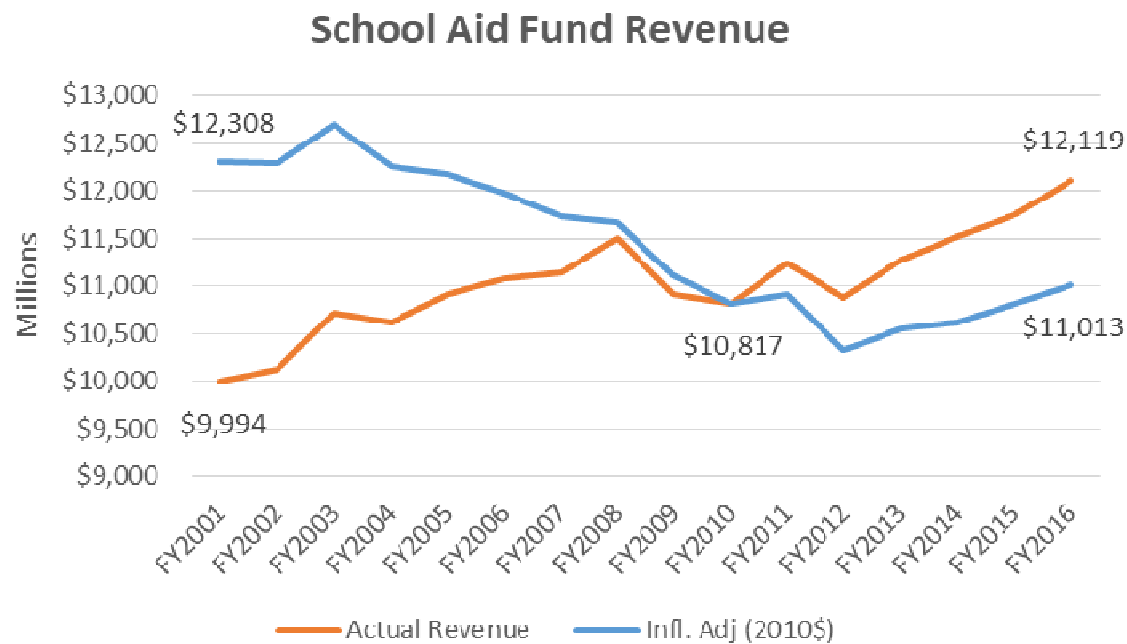
Average annual growth of 3% since FY2012



General Fund (\$214 Million in FY2018) Supplements School Aid Fund

SAF Revenue Growth and Inflation

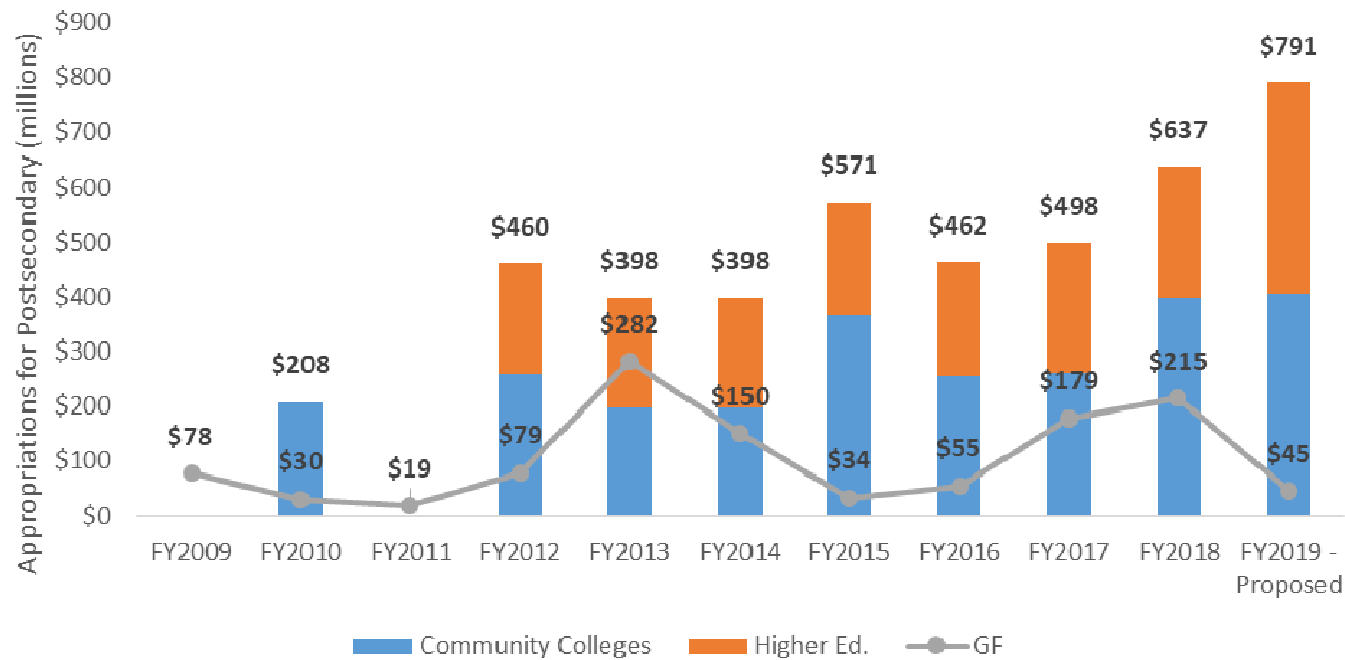
Since FY2010, revenue growth has outpaced inflation



Adjusted for Inflation, SAF Revenue Down 11% Compared to FY2001

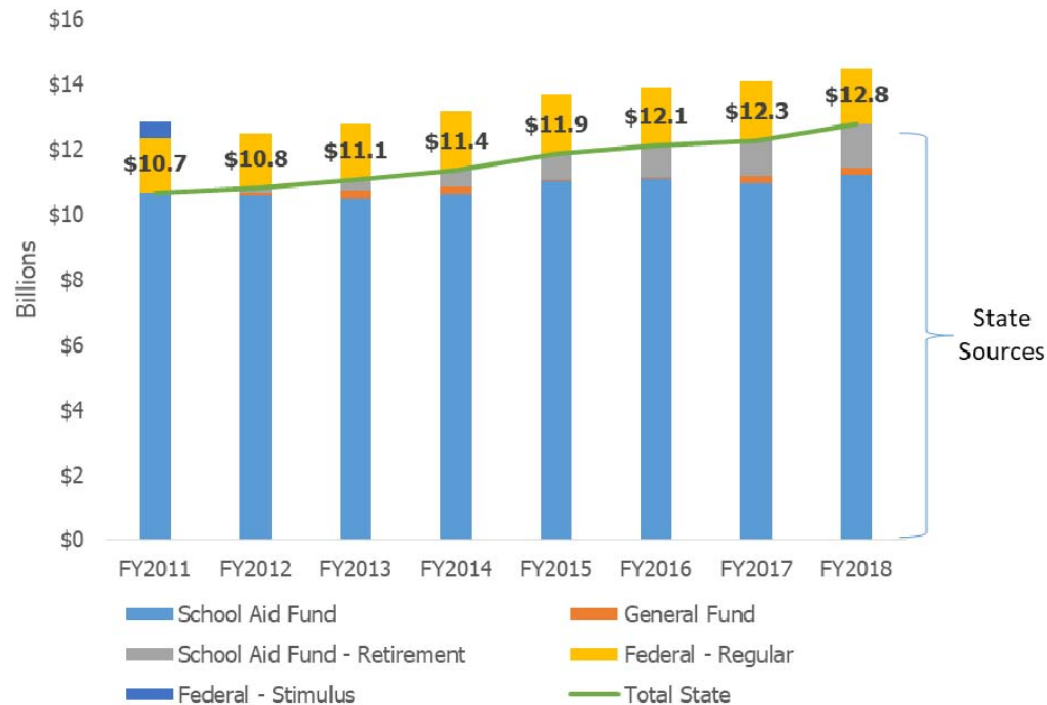
GF/SAF Appropriation Interplay

SAF Appropriations for Postsecondary and
GF Appropriations for K-12



State Funding Up \$2.1B

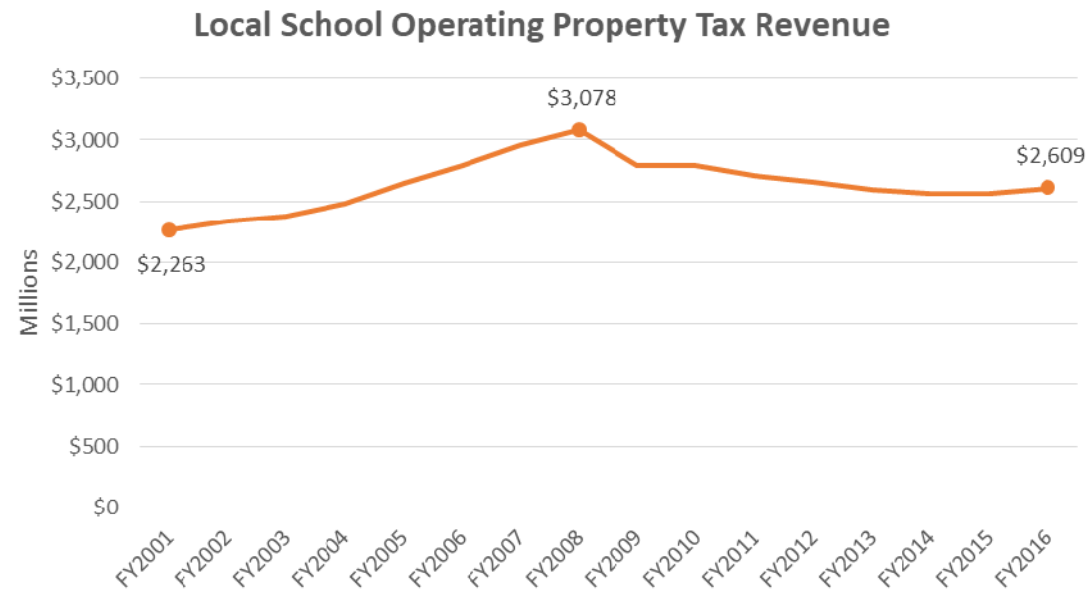
But, two-thirds of the increase is for retirement



Source: Senate Fiscal Agency and House Fiscal Agency reports

Local School Operating Property Taxes

Districts expected to levy 18-mill tax on nonhomestead property



Local Revenue Down \$400 Million Since FY2008

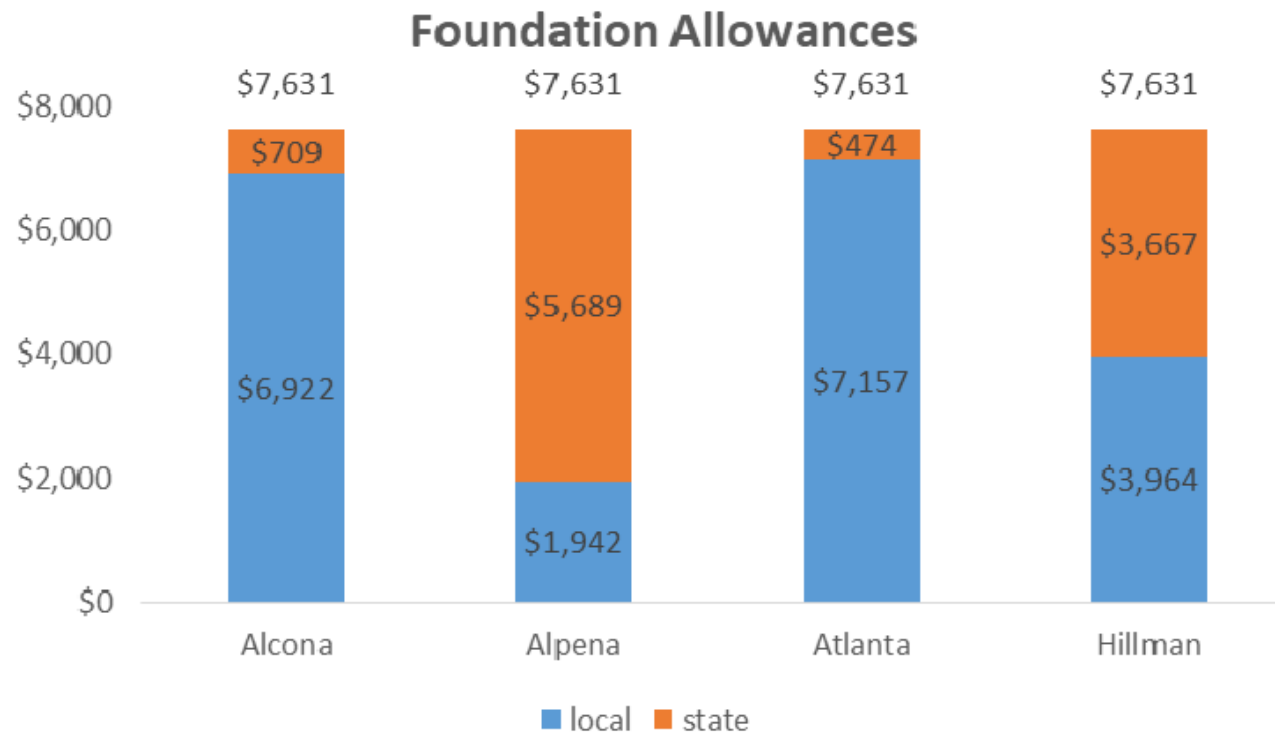
Financing School District Operations

Foundation Allowance

Michigan's primary mechanism to fund schools

- Per-pupil foundation allowance created under Proposal A
 - District-specific amount
 - 1994-95 amount based on state and local funds received in previous year
 - Portable – “money follows the student”
- Financed by combination of local school operating property tax (18 mills) and State School Aid Fund
- Effectively, three “benchmark” amounts
 - Minimum, basic, and maximum
- Annual adjustments to districts' foundation allowances made in state budget

Combination of Funding



Mechanisms Used to Adjust Foundation

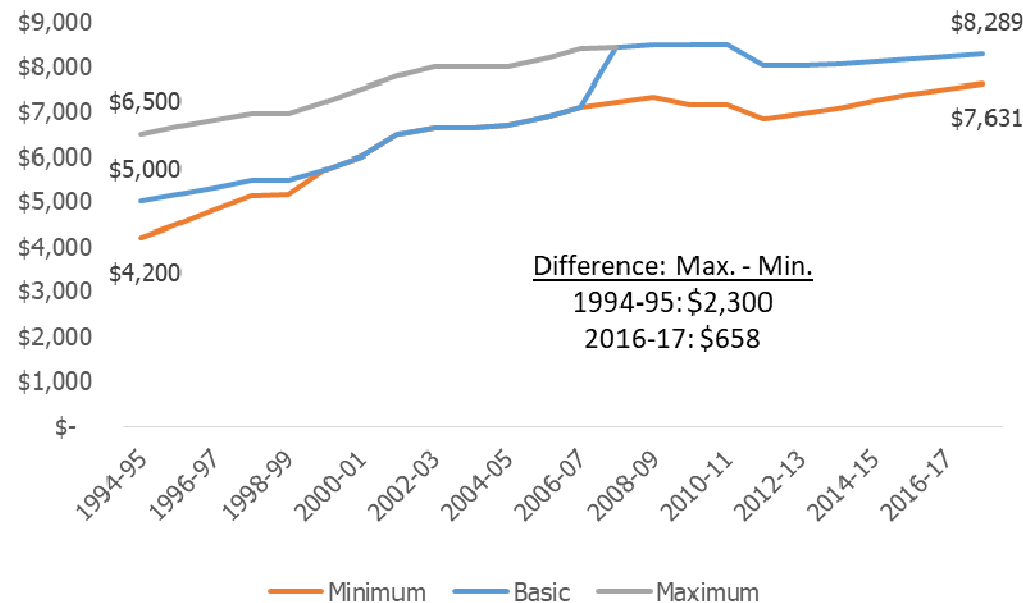
Closing the funding gap

- Key objective of Proposal A was to reduce funding disparities
- In years when increases provided, “2X” most common method
 - Provides base increase to each district, then more to those districts below the target amount
 - Some districts receive up to two times the base increase
- Next most common method involves equal increases/decreases
- And, in some years, “equity” payments to lowest foundations

History of Foundation Adjustments

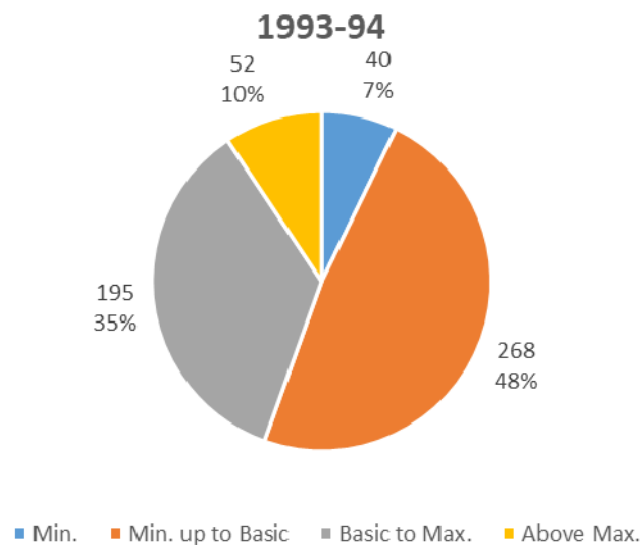
Reducing the gap between minimum and maximum

Min., Basic, and Max. Foundation Grants

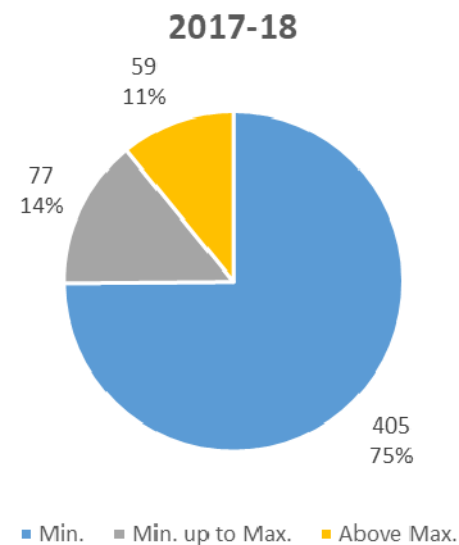


School Districts by Foundation Amount

Greater parity in per-pupil funding



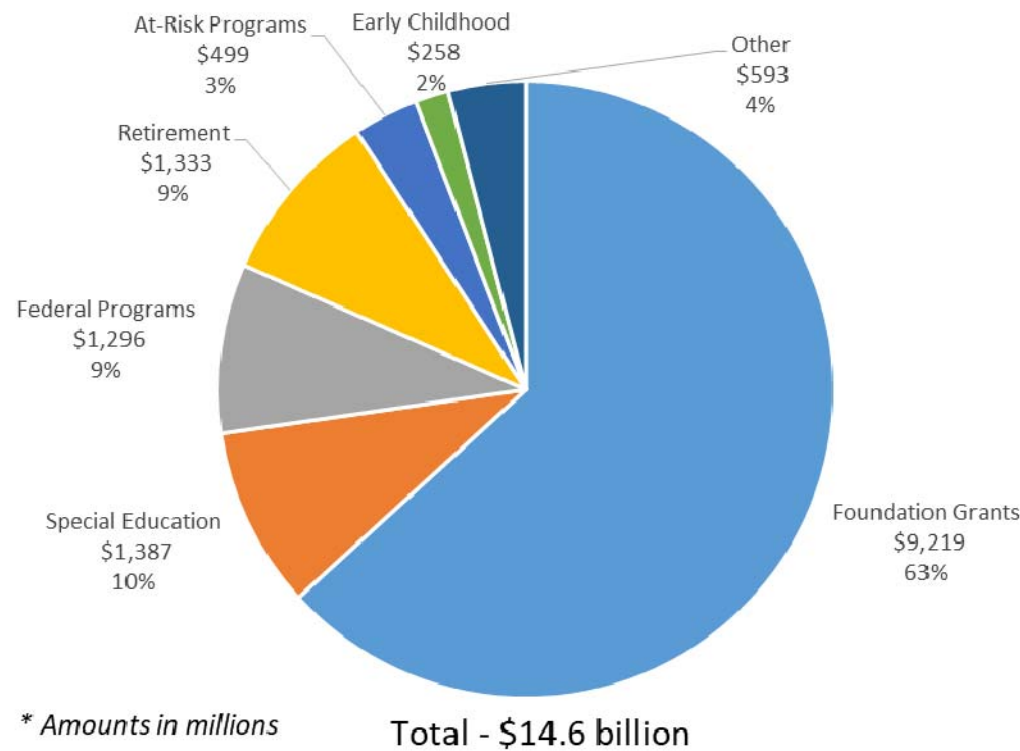
Min. = \$4,200
Basic = \$5,000
Max. = \$6,500



Min. = \$7,631
Max. = \$8,289

State School Aid Budget Program Allocation

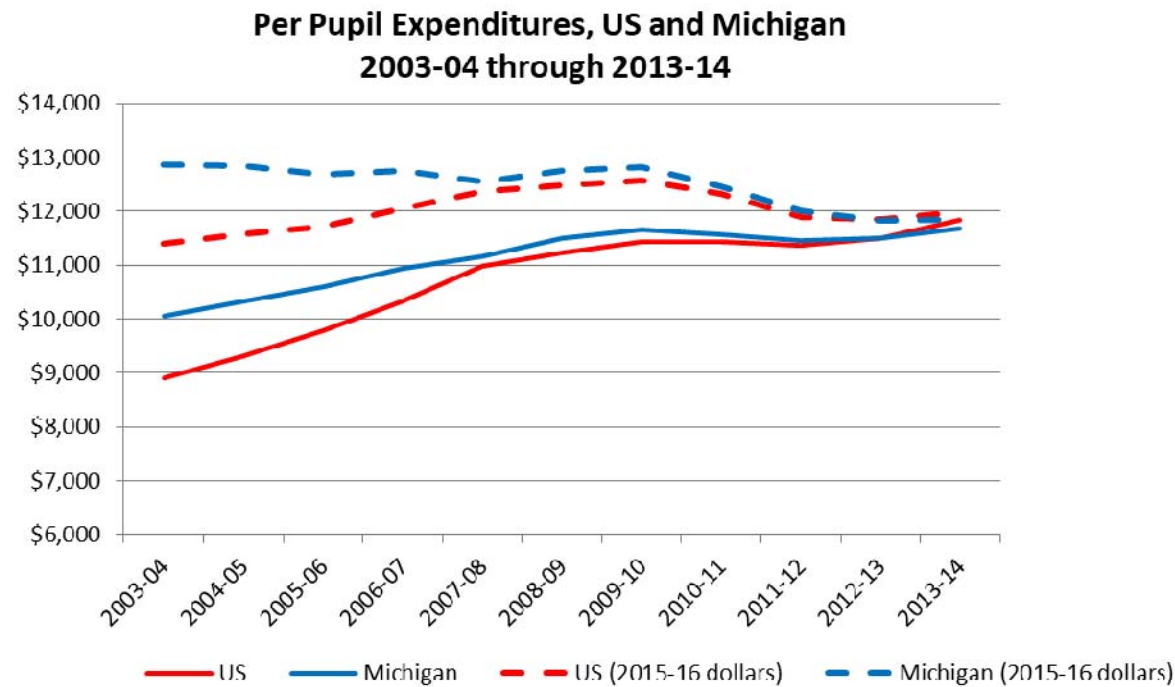
Two-thirds of total supports general operations



Michigan Comparisons

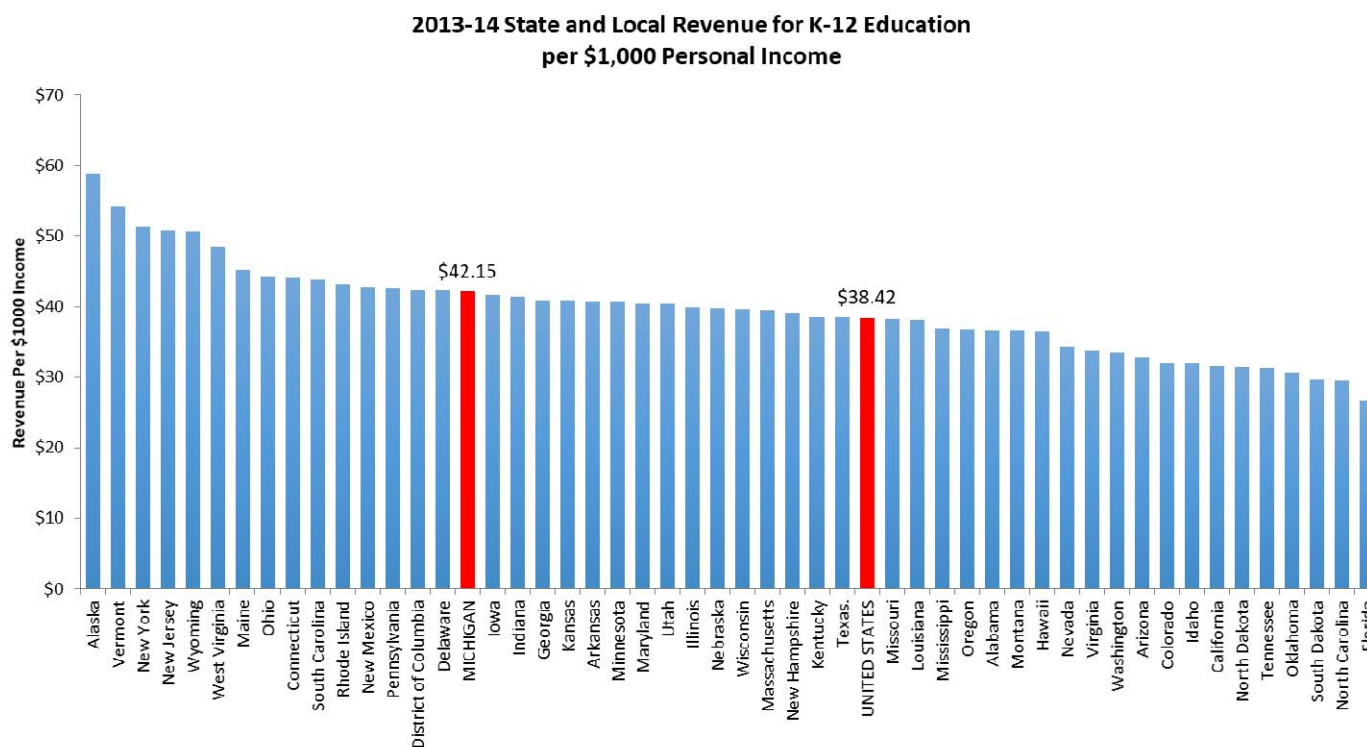
Michigan Compared to U.S.: Spending

Michigan now below U.S. average in per-pupil spending



Michigan Compared to U.S.: Revenue

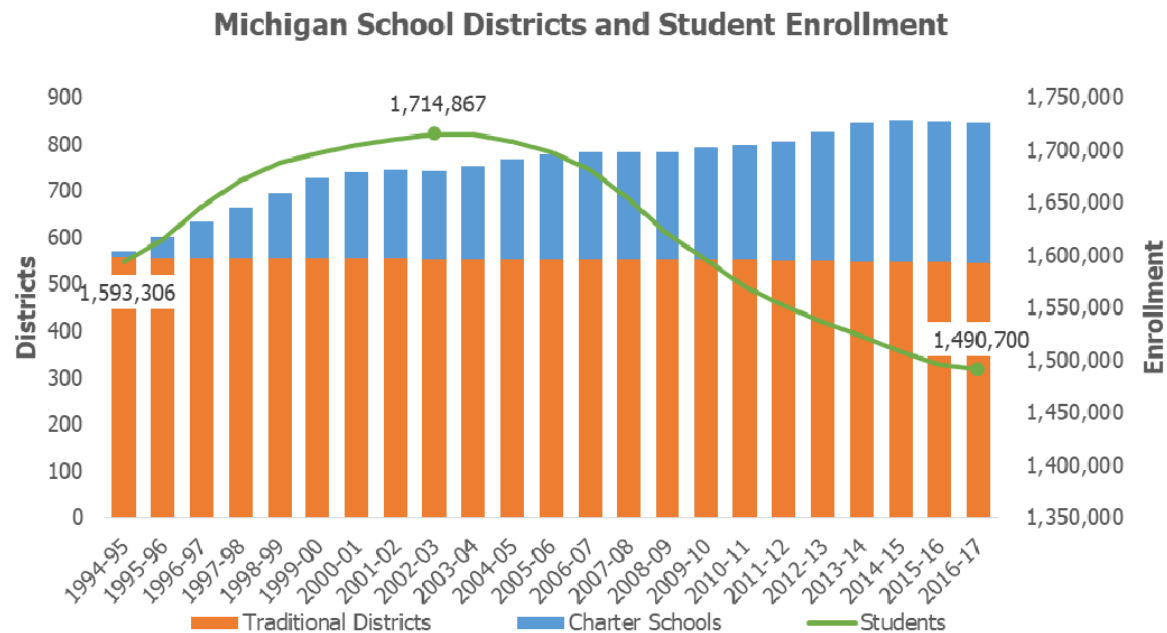
Despite lower spending, more public resources devoted to education



Current Issues

Student Enrollment

Era of declining student enrollment since 2002-03

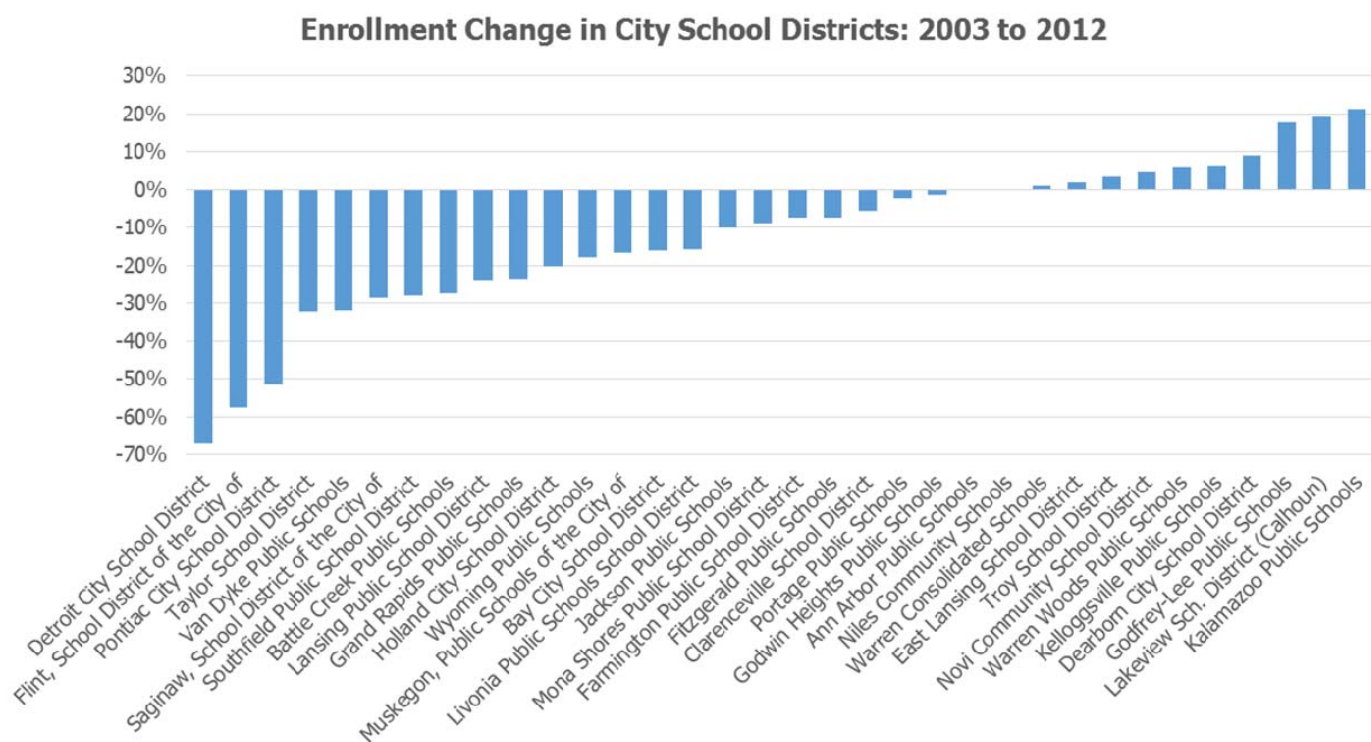


Source: Michigan Department of Education

Note: Excludes Intermediate School Districts (56); 2016-17 projected

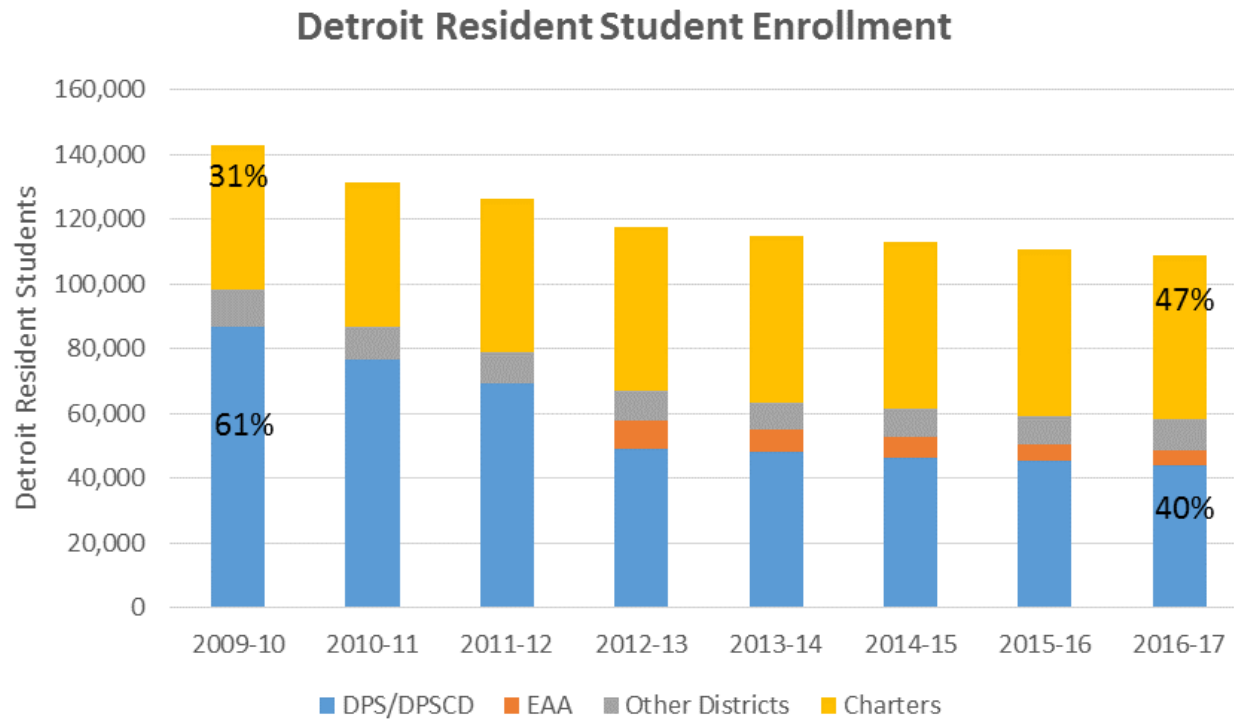
Districts Across State Affected

Massive enrollment losses in urban districts



Detroit Example

Effects of declining enrollment combined with school choice



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
 - Mix of fixed and variable costs in K-12 education setting

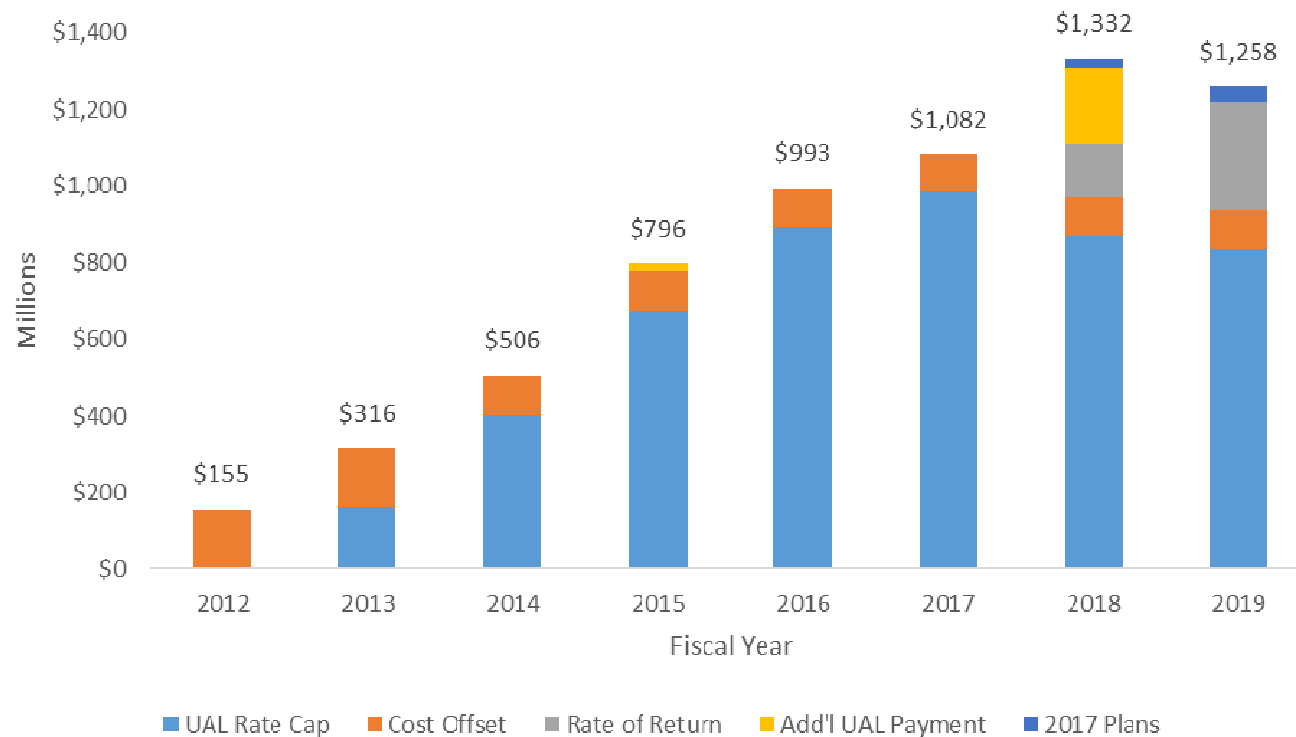
Retirement Cost Growth

Crowds out other spending

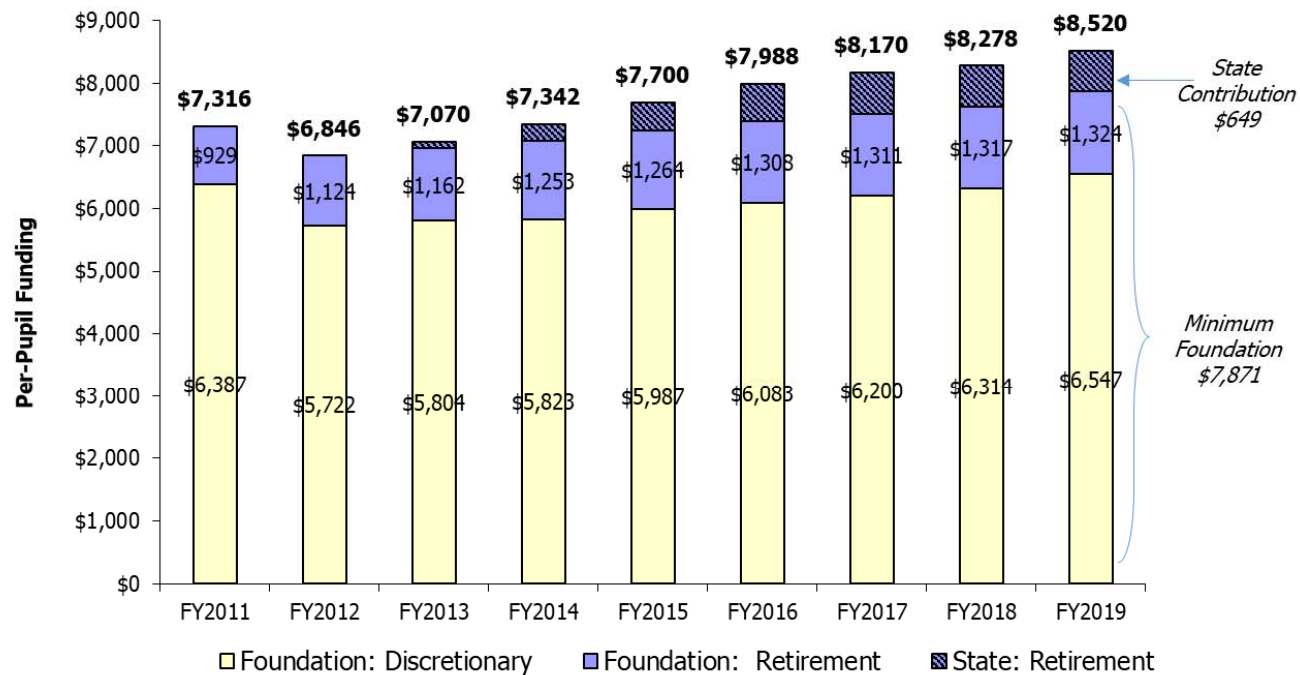
- Primarily a problem for traditional public schools, most charters not members of system
- Funding for legacy costs – “catch up” funding
- Increases in state funding have been eroded by growing retirement contributions
 - Employer costs have stabilized because of various system reforms
 - State picking up portion of the cost (\$1.3B in FY2018) – these funds unavailable for other purposes
- Crowds out other school spending
- Results in flat per-pupil classroom funding

State Appropriations to Teacher Retirement

Total contribution up to \$1.3B in FY2019



Legacy Costs – Employer and State Share

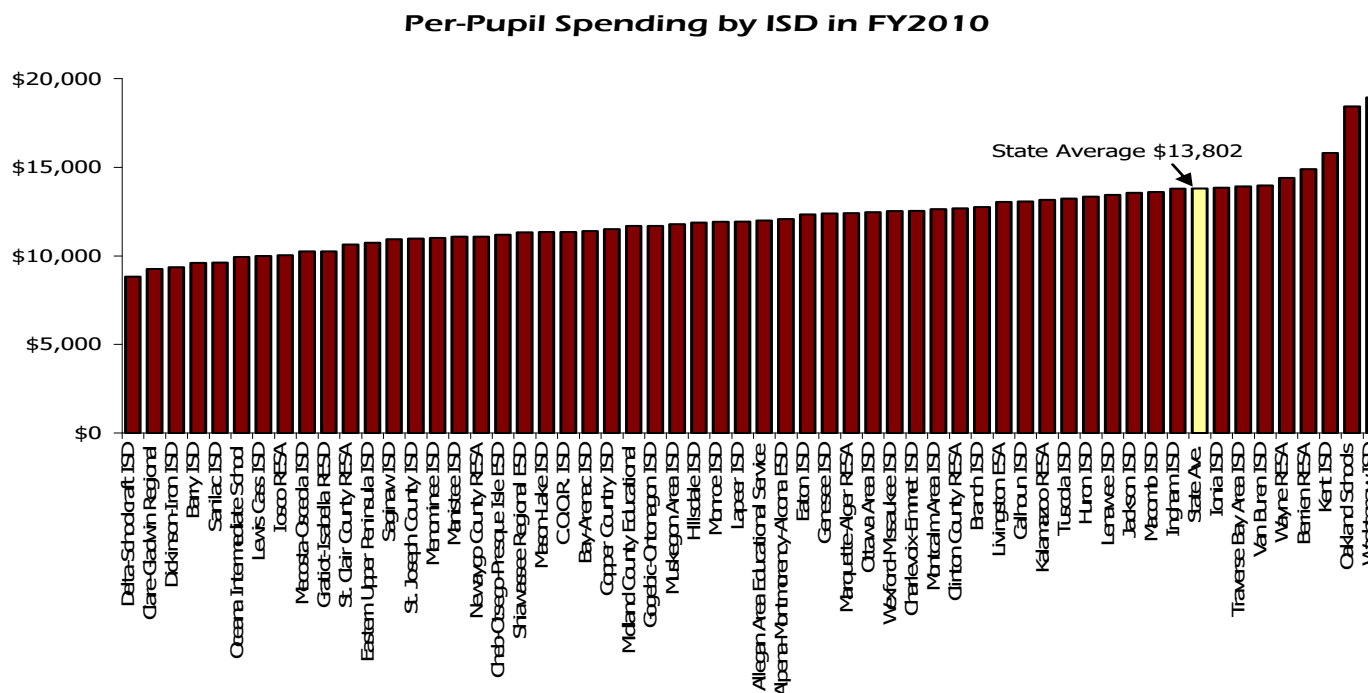


Notes: Includes retiree health payments funded on a cash basis in FY2011 and FY2012.

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

Special Ed. Per-Pupil Spending Variation

Difference between highest- and lowest-spending districts over 200%



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

Special Education Spending Gap Widening

Proposal A did not address special education spending disparities

- Since 2007, per-pupil spending gap increased
 - Ratio (high to low) increased from below 2.0 to 2.2
 - Little effort by state to reduce disparities
 - Special education costs not fully reimbursed, districts must use General Fund resources to finance costs (encroachment)
- Contrasts with per-pupil foundation allowance
 - Over same period, ratio fell from 1.74 to 1.70
 - State funding targeted at reducing spending disparities

Financing School Infrastructure

The unfinished business of Proposal A

- Significant per-pupil inequities exist in the financing of school construction and capital spending
- The division is along economic lines
 - Poorer communities (urban districts) – avg. capital stock equal to \$15,000 per pupil
 - Wealthier communities (high-income suburban districts) – avg. of \$25,000 per pupil
- Responsibility for capital spending remains at the local level
 - For wealthy districts – raise considerable revenue with little tax effort
 - For poor districts – raise very little revenue with very high tax rates
- State plays virtually no direct financial role

What Does it Cost to Educate a Student?

Efforts to answer question is underway

- What is a school funding “adequacy study”?
 - Resources needed to meet expected outcomes (usually set by the state)
 - Origins linked to standards-based reforms at state and federal level
 - Study goals: To determine 1) base cost (statewide) of educating a student, and 2) adjustments related to local cost variations (e.g., factors outside control of local schools)
 - Studies conducted in more than 35 states (some multiple studies)
- Michigan’s current school finance system not based on results from an adequacy study

Key Questions to Answer in Adequacy Study

- What constitutes “adequate” education?
 - Meet minimal performance on state tests?
 - Prepare students for success in college/career?
 - Prepare students to be good citizens?
- What does it **cost** to provide an adequate education?
- Multiple methodologies used, including:
 - Professional judgement
 - Evidence-based
 - Successful schools
 - Costing out (econometric model)

Michigan Education Finance Study

- Required by state law passed in 2014
- Completed in Summer 2016 by national firm APA
- Used notably successful school methodology (54 districts)
- Main findings:
 - \$8,667 per pupil base cost
 - 30% additional weight for each “at-risk” student
 - 40% additional weight for each English language learner student
 - Current system is moderately inequitable and suggests improvements
 - Unable to determine added cost for special education student

School Finance Research Collaborative

- Two national firms selected in April 2017 to conduct a new adequacy study using multiple methodologies
- The research team used the Professional Judgment and Evidence-Based methods (also Michigan Education Finance Study results)
- Main findings, released in January 2018:
 - \$9,590 per pupil base cost
 - 35% additional weight for poverty
 - 35%/50%/70% additional weight for each English language learner
 - 70%/115% additional weight for special education student
 - Base costs/weights funded same - charter or traditional

Questions

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