



How Has the Structure of School Funding Changed in Michigan

League of Women Voters of Dearborn / Dearborn Heights

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Short History Lesson

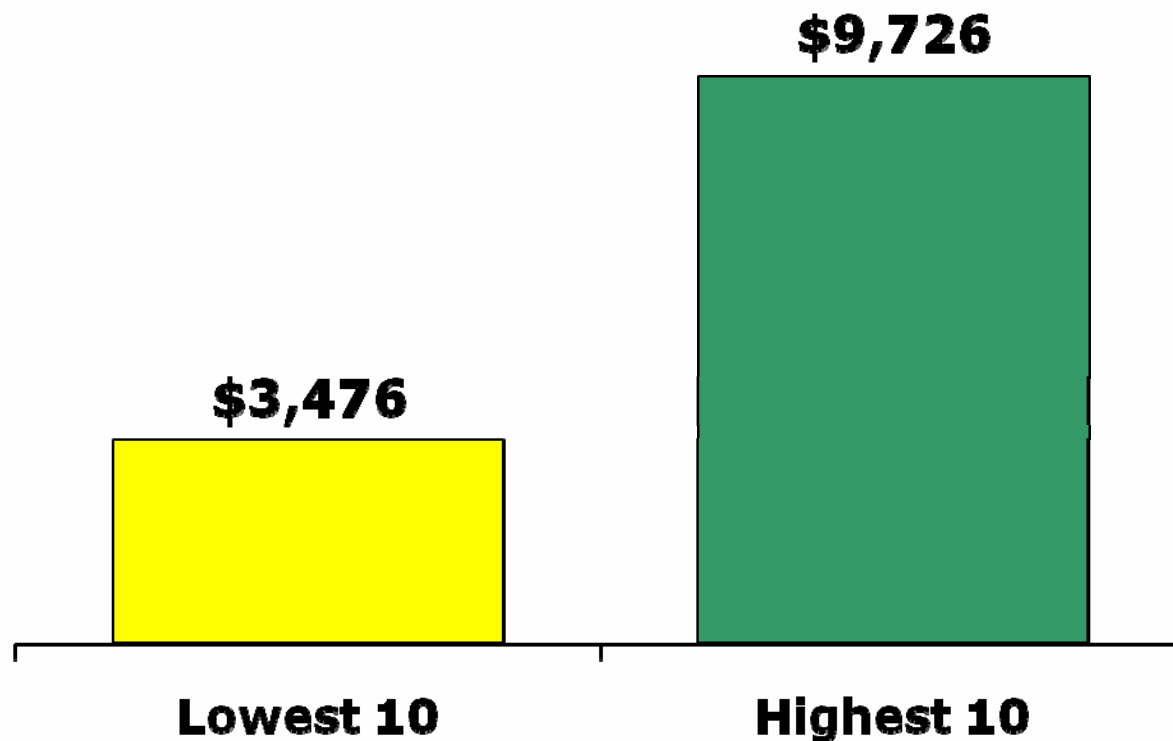


School Finances Before Proposal A

- We had a local finance system
- 2/3 percent of state/local 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



How and Why School Finances Have Changed



Finances Do Not Operate in Vacuum

Factors Influencing School Funding

- Michigan's economic performance
- Demographic shifts
- Constitutional tax limitations
- State tax policy changes
- State budget decisions
- Legacy costs



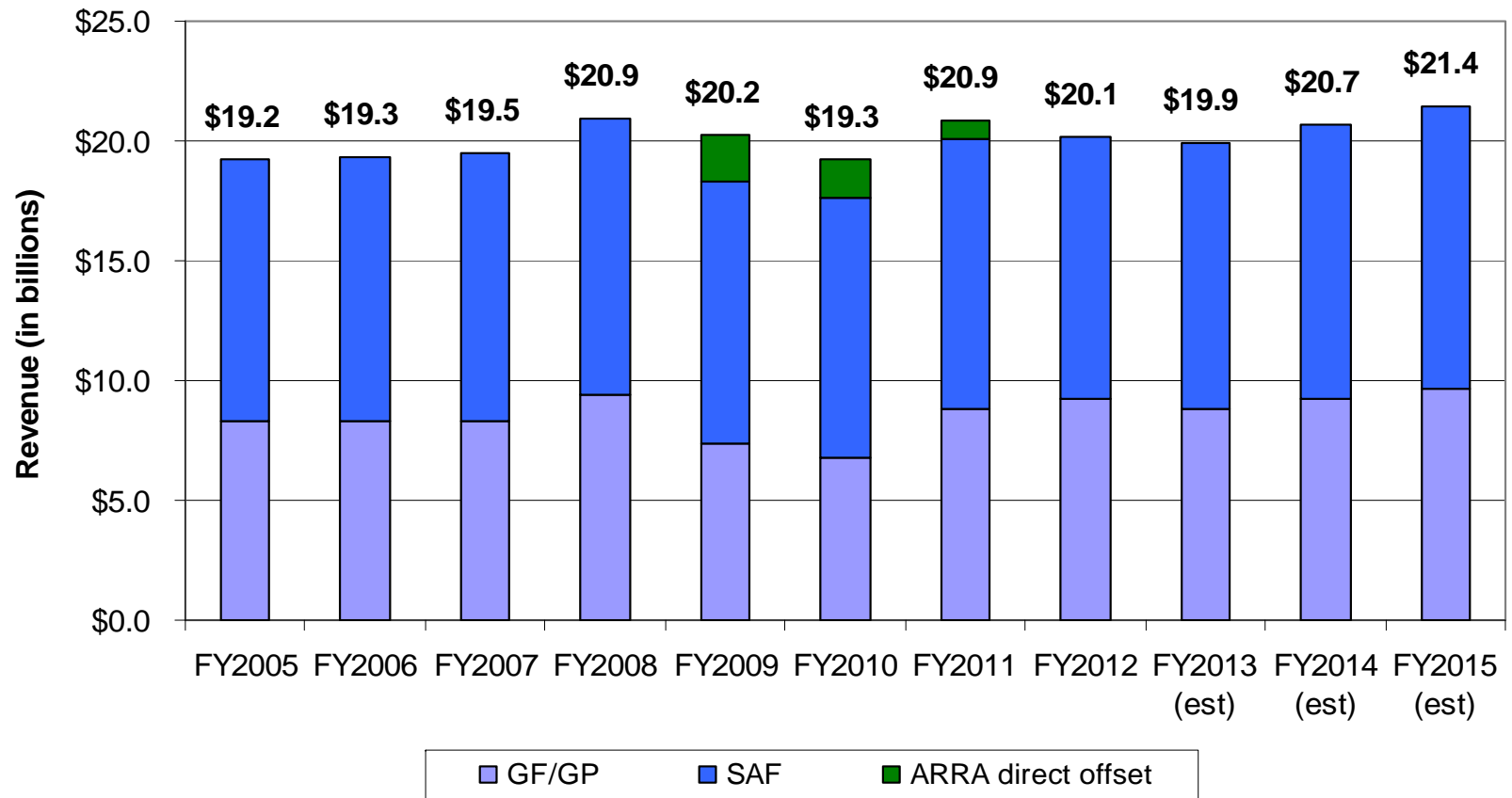
The Last Decade Was an Economic Disaster for Michigan

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



Recent History of Major Revenue Funds

Revenues Just Getting Back to FY11 Levels

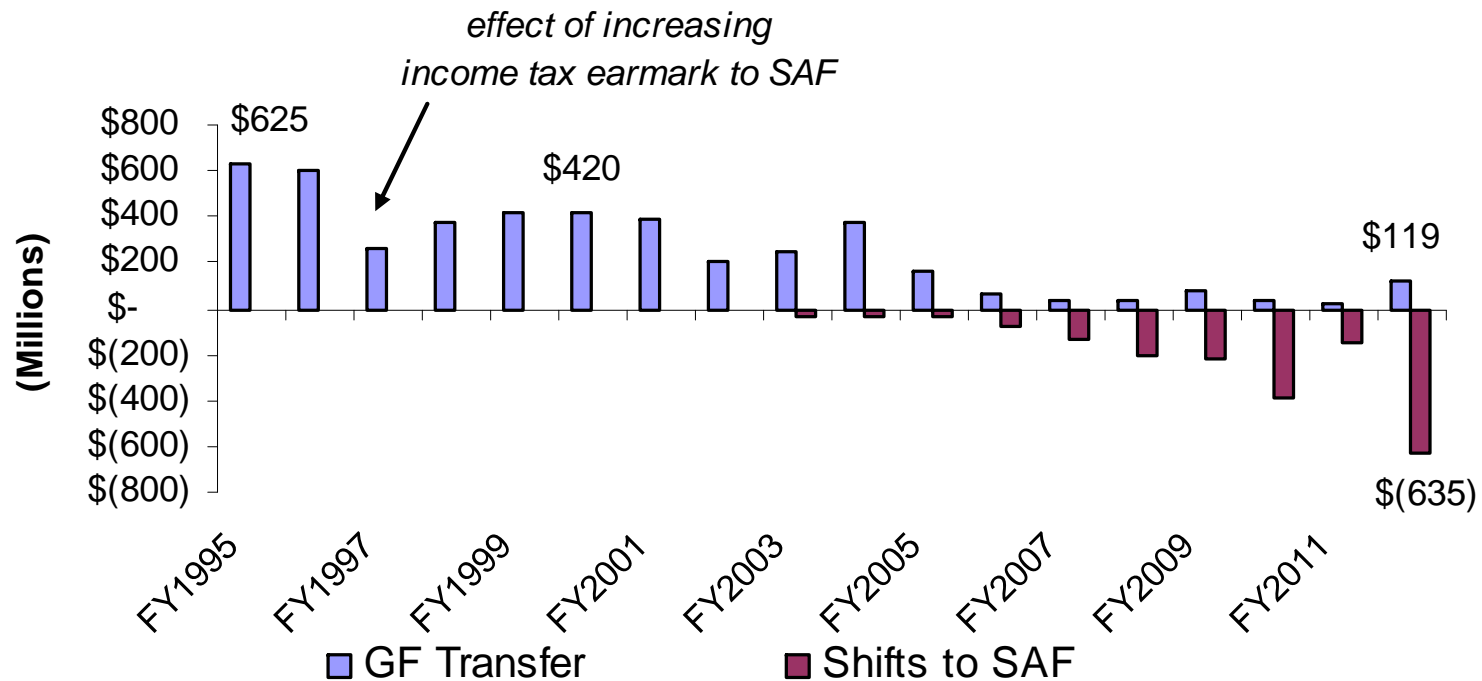




GF Budget Problems Spill Over

Decisions Reduce GF for Schools

General Fund Transfers and Cost Shifts - School Aid Fund



Source: Michigan Department of Education; House Fiscal Agency

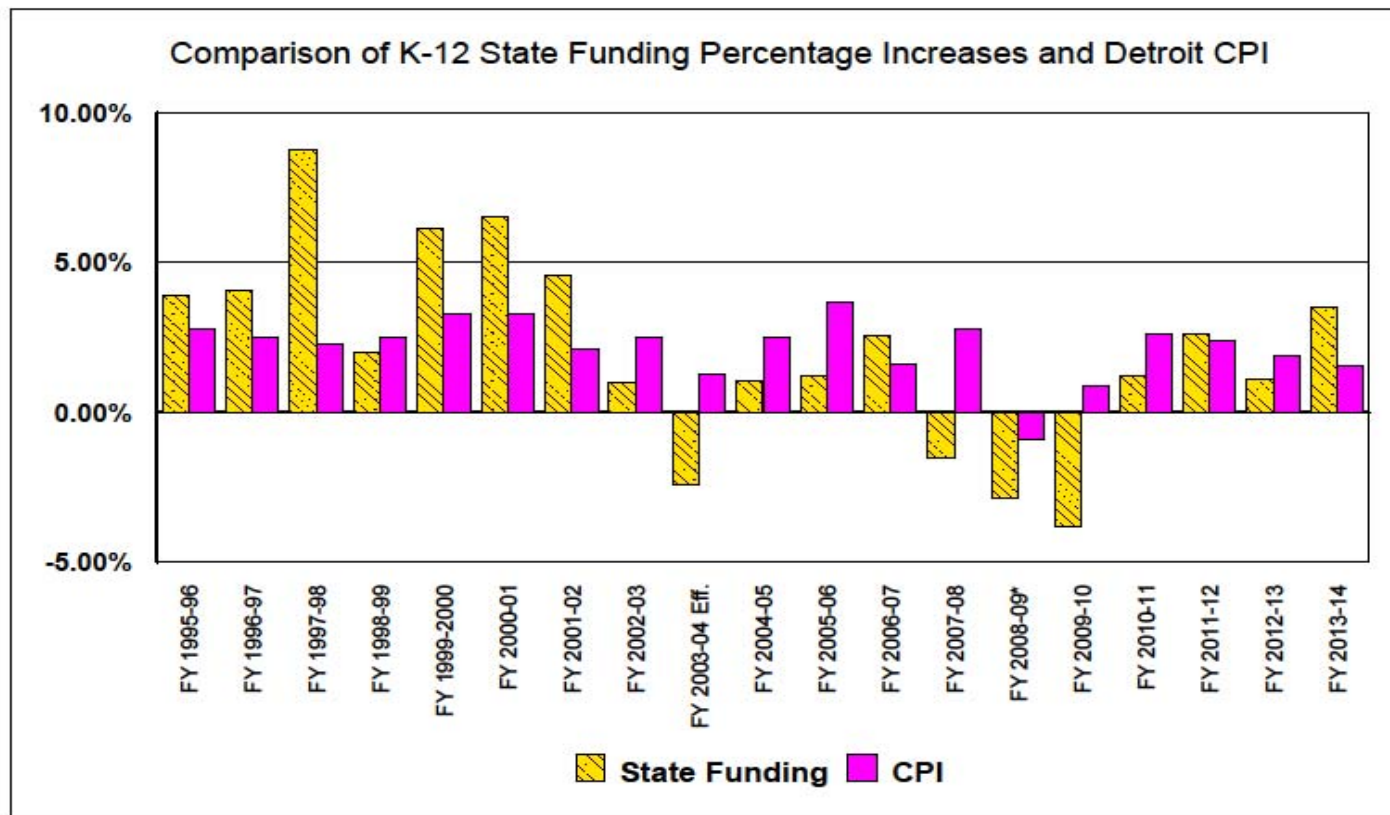


State Spending From State Resources Down in Most Categories

	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%
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%



K-12 Funding Growth Lags Inflation

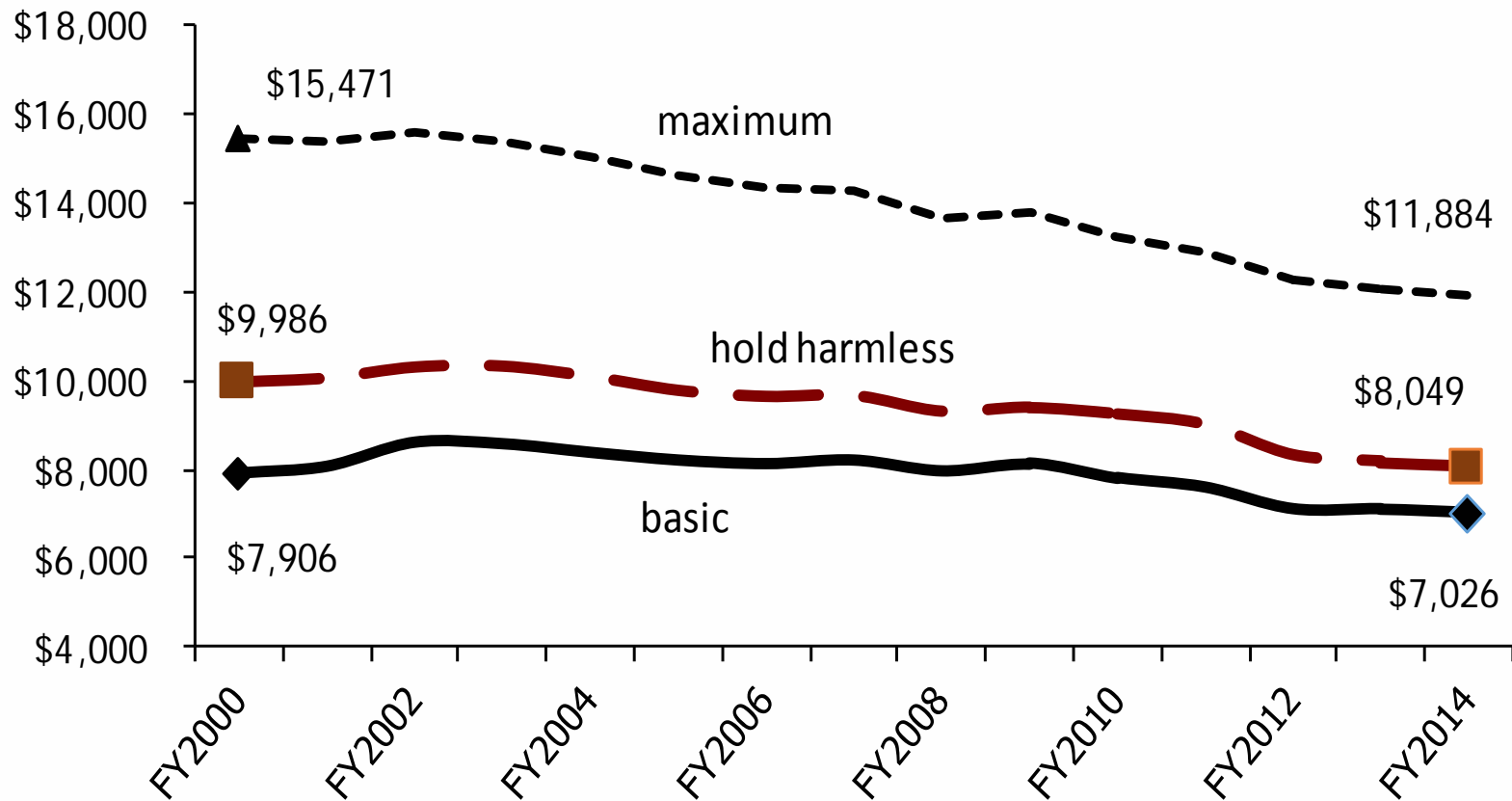


*In FY 08-09, \$341 million of State funding was added to offset lower local tax revenues from changes in the MI Business Tax; without this, State funding declined 5.8 percent.



Real Value of Foundation Deteriorates

Reductions in Per-Pupil \$ Disparity





Current Issues in K-12 Finances



Factors Affecting K-12 Finances

Structural Issues

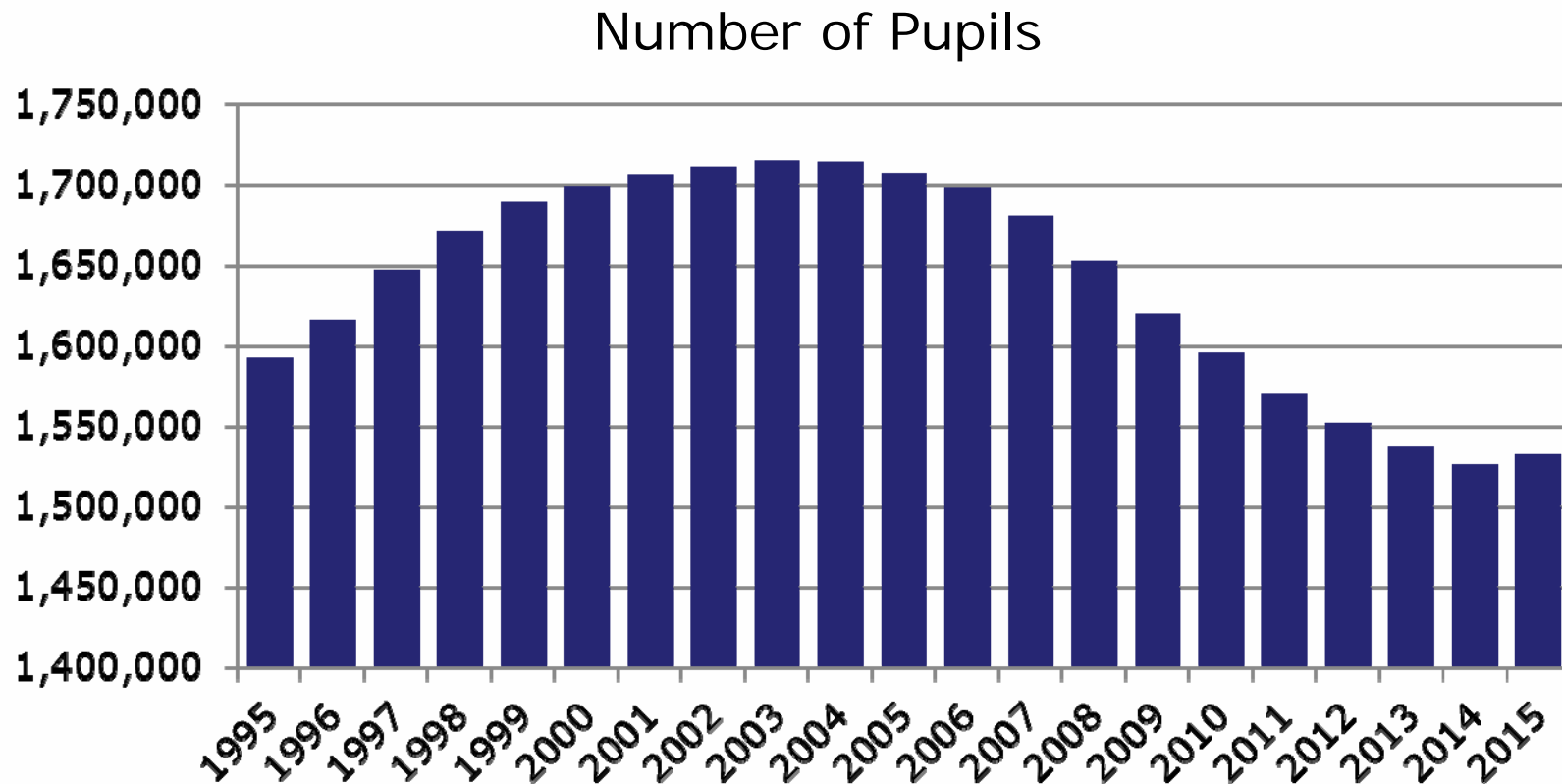
- Changing demographics
- Improving recovery from Great Recession
- Growing legacy costs

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



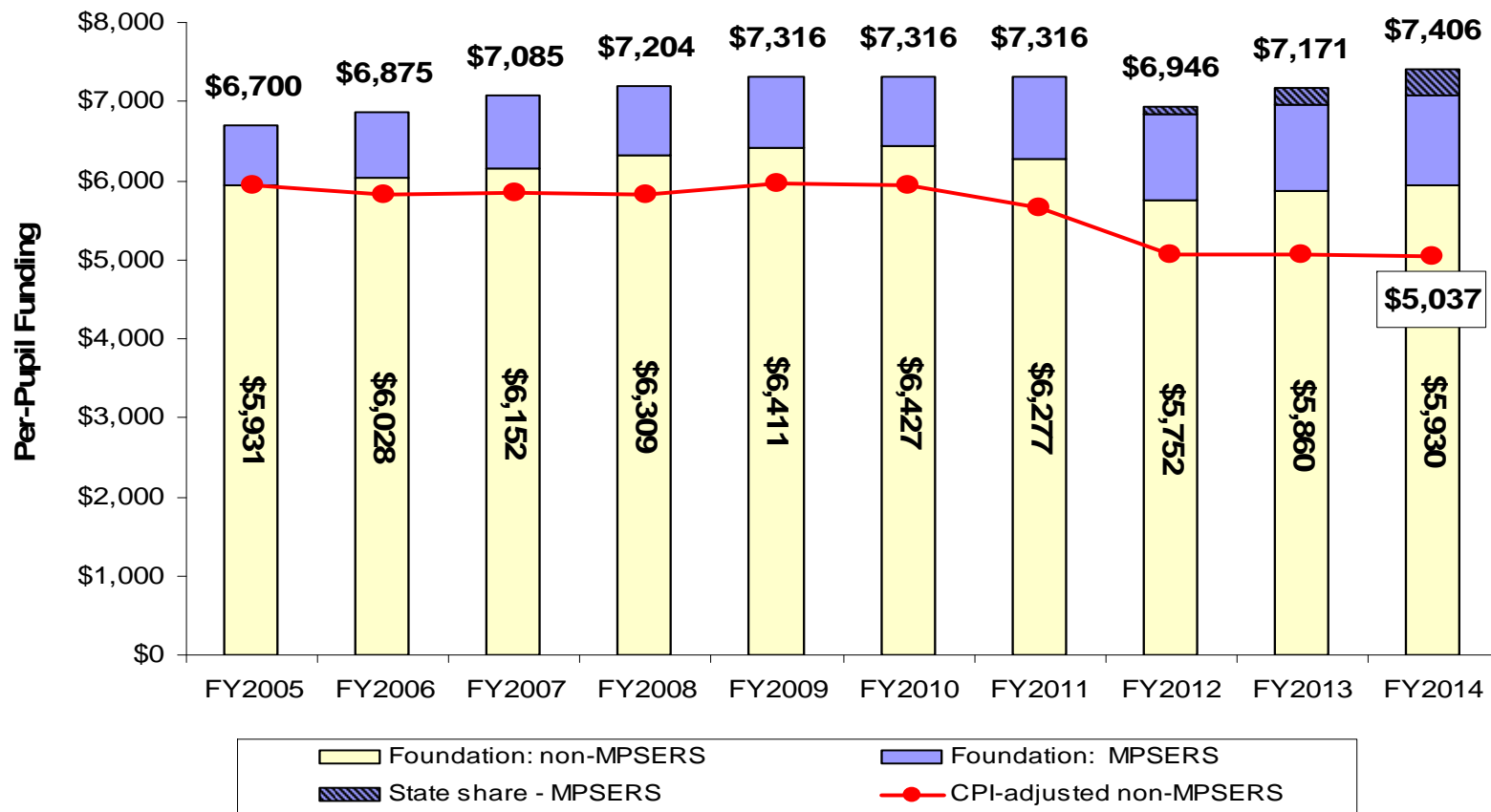
Declining Enrollment Increases Budget Challenges for Individual Districts





MPSERS Costs and the Foundation Grant

Estimated impact on districts receiving minimum grant





Traditional K-12 Districts in Deficit

Number Increasing

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Statewide Average	11.81%	10.81%	9.34%	7.19%	8.42%	N/A
Fund Balance as % of Revenue						
0% to 5%	56	57	63	73	44	50
5% to 10%	120	106	108	99	101	117
10% to 15%	114	114	119	131	127	136
Above 15%	<u>237</u>	<u>249</u>	<u>231</u>	<u>211</u>	<u>237</u>	<u>201</u>
Districts Reporting	527	526	521	514	509	504
Deficit (Negative)	21	21	29	36	41	45*

* Assumes Muskegon Heights School District, Highland Park City Schools and Pontiac City School District are in deficit.



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