



CRC's Education Study Executive Summary

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Citizens Research Council of Michigan
Michigan School Business Officials
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Citizens Research Council

- 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 of Michigan foundations, businesses, and individuals
- *www.crcmich.org*



Why Initiate and Education Study?

- A successful democracy relies on educated citizens
- Reeducating workers and preparing students for the global economy is crucial to state's success
- Education is vital to state and local budgets
- Public education is a program that many residents benefit from both directly and indirectly



What Were the Challenges Facing K-12?

- In 2010, Michigan faced a number of challenges with the provision of K-12:
 - State revenues were falling
 - Local revenues were stagnating
 - K-12 service providers faced escalating costs pressures which were projected to outpace revenue growth
 - The end of ARRA funding was going to produce a budgetary cliff
 - School district organization and service provision structures were being reviewed with goals of reducing costs and increasing efficiencies



Education Project Funders

CRC's education study is funded in part by:

- The W. K. Kellogg Foundation
- The Frey Foundation
- The PNC Foundation
- ArivnMeritor
- The Richard C. and Barbara C. Van Dusen Family Fund
- A consortium of education groups including: the Tri-County Alliance for Public Education, Michigan Association of School Boards, Metropolitan Detroit Bureau of School Studies, Inc., Michigan Association of School Administrators, Michigan School Business Officials, Middle Cities Education Association, Michigan Association of Intermediate School Administrators, Michigan PTSA, Michigan Association of Secondary School Principals, and the Michigan Elementary and Middle School Principals Association.



Completed Research

- ***Public Education Governance in Michigan*** – January 2010
- ***State and Local Revenues for Public Education in Michigan*** – September 2010
- ***Nontraditional K-12 Schools in Michigan*** – September 2010
- ***Early Childhood Education*** – February 2011
- ***Reform of School District Governance and Management*** – May 2011
- ***Distribution of State Aid to Michigan Schools*** – August 2011
- ***Pre and Post Employment Teacher Training*** – January 2012
- ***Teacher Performance Management Systems*** – March 2012
- ***Teacher Tenure and Collective Bargaining*** – Forthcoming

Other research: K-12 Service Provision (in progress); *Financing Special Education* (published in March; independent from the original education study)



School Finance – Selected Highlights



Two Major Things Going On *Both Related to Changes in the Economy*

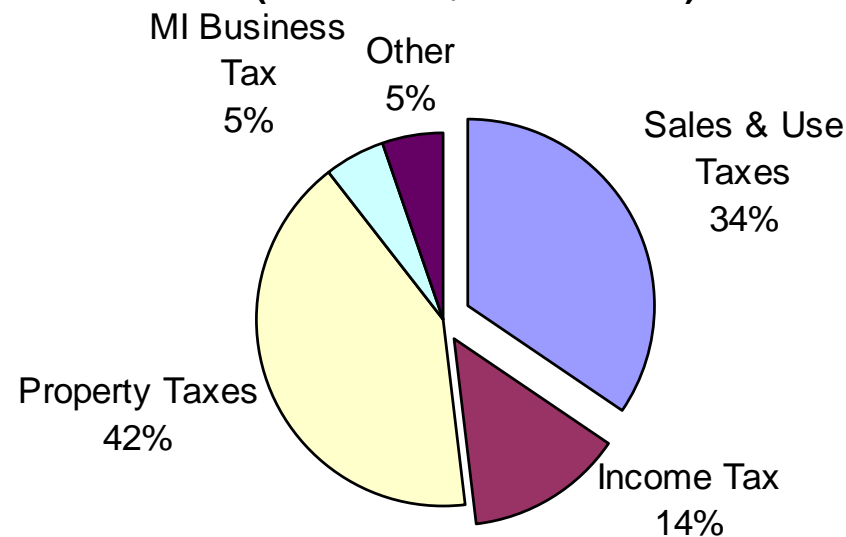
- Short-Term: Recent revenue performance clear product of Great Recession
 - Volatility of system demonstrated
 - Result in “re-setting” state revenue levels
 - Some stability provided by property tax and mix of taxes
- Longer-Term: Connection between economy and state revenues weakening
 - Evident in performance of major state taxes
- Third Factor: Over-lapping tax limitations related to property tax (Headlee and Proposal A)
 - Will constrain property tax growth (state and local) during rising property values – placing greater importance on state revenue growth in recovery



Economically Sensitive Taxes

Consumption and Income Taxes Make Up 48%
MBT Repealed Effective 1/1/12

**State and Local Education Operating Taxes by Source
(FY2009 - \$14.0 billion*)**

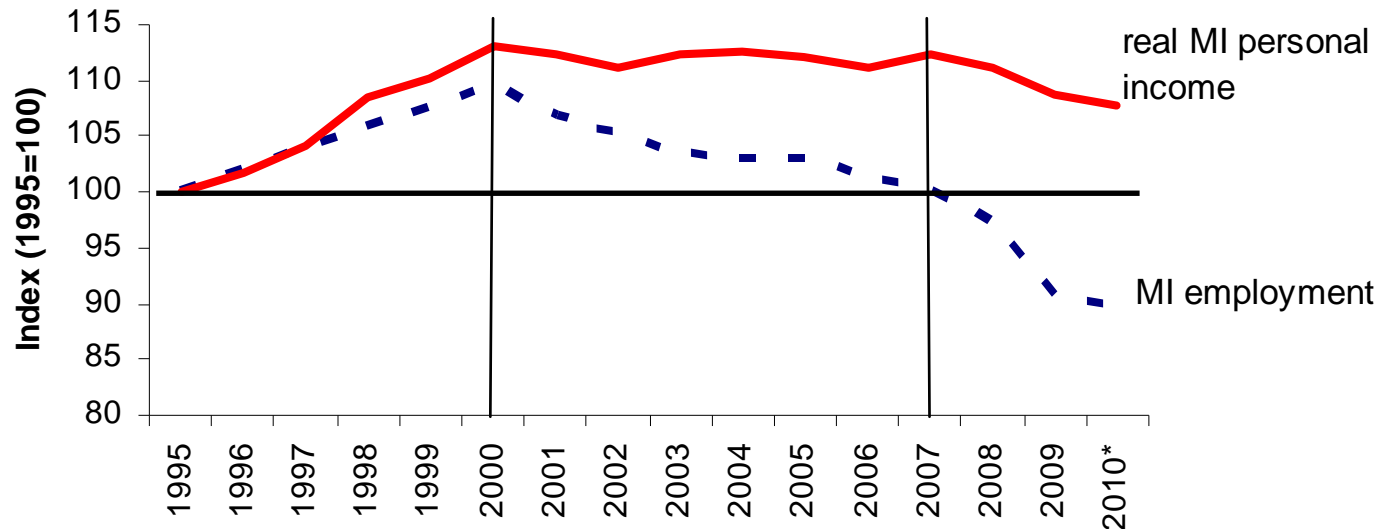


* Note: Michigan Dept. of Treasury; Michigan Dept. of Education; CRC



Three Distinct Periods of Economic Growth Since Proposal A

Michigan Employment and Real Personal Income Growth



Source: US Dept. of Commerce; US Dept. of Labor
*2010 based on May 2010 Consensus Revenue Estimates



“It was the best of times, it was the worst of times . . .” *State Revenue Performance Since Prop. A*

Annualized Growth Rates: FY1997 to FY2009

	FY1997 to <u>FY2000</u>	FY2001 to <u>FY2008</u>	FY2008 to <u>FY2009</u>
REVENUES			
State Taxes	6.2%	2.0%	-8.6%
Lottery Transfer	1.7%	3.4%	-2.2%
General Fund Transfer	4.6%	-31.6%	123.5%*
Total State-Source School Aid Fund	5.9%	1.5%	-7.8%
Michigan Personal Income	5.6%	2.2%	-3.0%
U.S. CPI	2.2%	2.8%	-0.3%

Source: Michigan Department of Education; U.S. Dept. of Commerce; U.S. Dept. of Labor; May 2010 Consensus Revenue Estimates adjusted for personal property tax exemptions

* Note: GF transfer increased from \$35 million to \$78 million



Long-Term Problems With Taxes Used to Support K-12

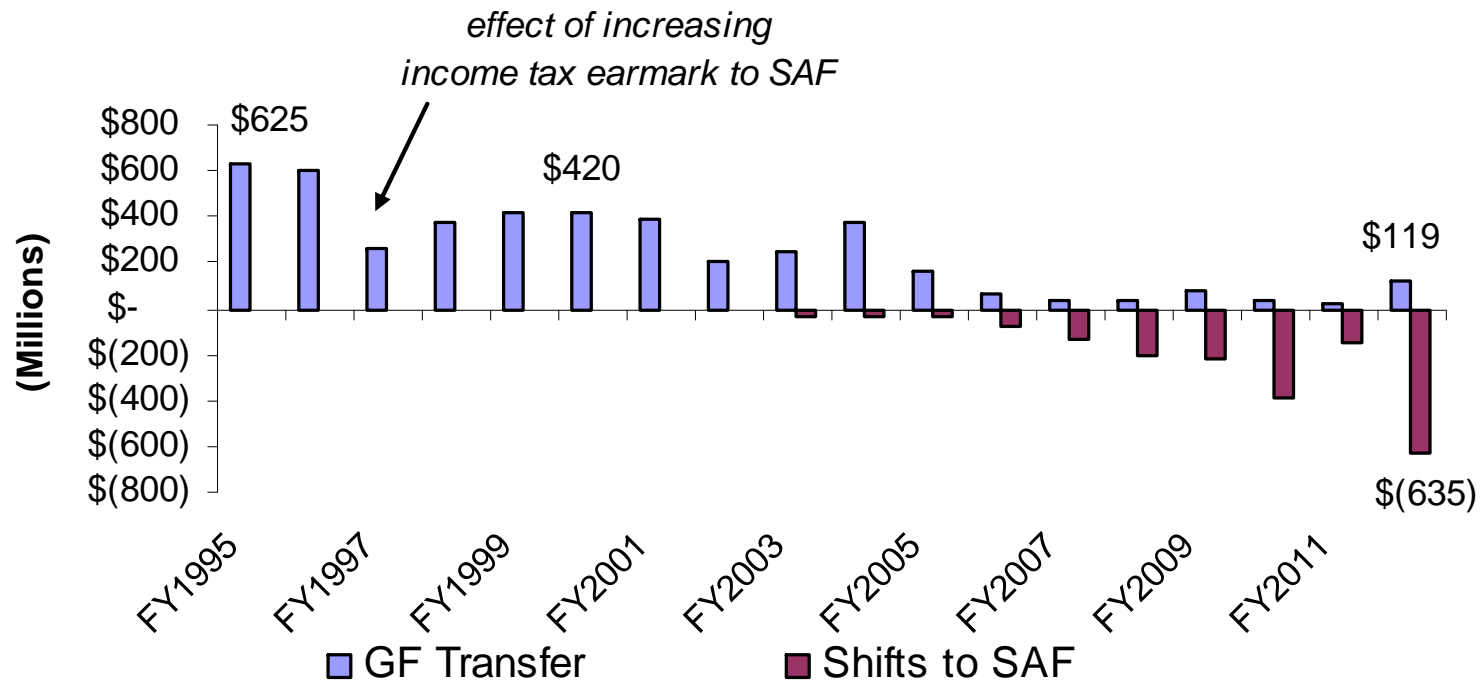
- **Sales/Use** – Sales tax based shrinking as a percent of the economy
- **Income Tax** – flat rate more stable than progressive but grows slower; exempt pension incomes were a long-term growth problem, but greatly mitigated with recent changes
- **Property tax** – historically very stable but has been falling; constitutional issues will restrain recovery and growth
- **MBT** – earmarked portion of revenues used to replace some school personal property tax revenues; MBT was repealed and these revenues were not replaced (this occurred after our paper was published)



State Budget Problems Spill Over

Support for Schools Reduced

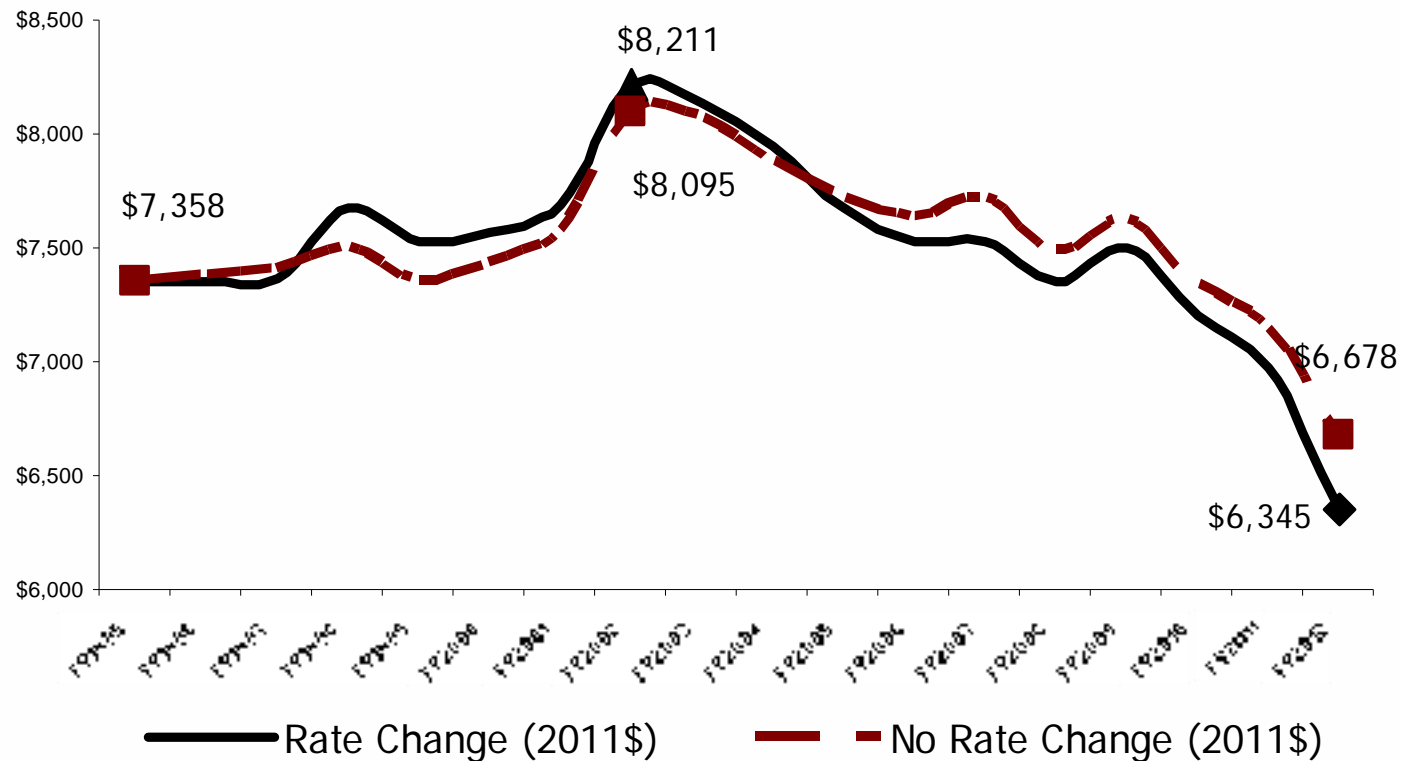
General Fund Transfers and Cost Shifts - School Aid Fund



Source: Michigan Department of Education; House Fiscal Agency



Effect of Retirement System Contribution Rate Changes on Basic Grant



Since FY2005 contribution rate grew faster than grant



Demographic Factors

Since FY2003 "Era of Declining Enrollments"

Statewide Enrollments and Foundation Pupil Memberships





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%



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



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



Charter Schools– Selected Highlights



Arguments for Charter Schools

- School choice
- The need to attract students ensures quality
- Competition will improve traditional schools
- Increase access to quality education
- Free from bureaucratic rules, greater autonomy; Site based management
- Accountability measured by academic results
- Can be closed by authorizer if performance is unacceptable
- Parents may prefer for a variety of reasons (specialized program, safety, longer schedule, etc.)



Arguments against Charter Schools

- Reduce funding for traditional schools
- Focus should be on improving schools for all students
- Reforms and models can be implemented in TPSs
- PSAs skim students who are cheaper or easier to educate
- Teachers generally are not protected by union contracts
- Lack public oversight (PSA boards are not elected)
- Authorizers are not quick enough to terminate contracts where warranted
- For-profit management companies benefit



Arguments against Charter Schools

- Academic achievement is not universally better than in traditional schools
- A 2009 CREDO analysis found that
 - 17% of charter schools provide superior education
 - 46% have results that are the same as the local public schools
 - 37% have results that are significantly worse than the local public schools



Early Childhood – Selected Highlights



The Moral Argument

- Some disadvantaged children enter kindergarten so far behind their peers that they never catch up.
- The achievement gap between Black and White 4th graders in Michigan is among the largest in the nation.
- Specific statistics on poverty and a summary of research on cognitive development provided in paper



The Financial Argument

- Several demonstration programs demonstrated remarkable life long effects
- Some studies have found benefits of investment up to \$17.10 for every dollar invested
- Study prepared for ECIC (early childhood advocacy group) found that \$1.15 billion was saved in 2009 as a result of earlier investment in early childhood including reduced costs to K-12, higher tax revenue and reduced government spending and reduced social costs to public



Arguments against state-funded preschool for the disadvantaged...

- High quality programs are expensive, and hard to scale up
- It takes money away from K-12
- Intervention does not eliminate problems
- Long term effects are insufficient, hard to measure, imputed from other programs, etc.
- Head Start (i.e. federal dollars) addresses the really needy
- Child care is the parents' responsibility



Other Research – Selected Highlights



Teachers

- Teachers matter: above average teachers add significant economic value while below average teachers have the opposite effect
- The vast majority of teachers being trained at Michigan universities leave the state
- Increased recognition of the importance of teacher evaluation systems, but there are still open questions on how to best do this



Governance

- The K-12 education governance structure is complex with numerous actors including the federal government, governor and legislature, state board, local board, school administrators, ISDs, PSAs, unions, etc. all having a role
- Reform models include:
 - Dependent districts
 - Diverse Provider model
 - Private manager
 - Decentralized decision making
 - Integrated school district
- None is a panacea, and success will depend in part on leadership, accountability, and execution



Final Thoughts

- All research papers are available free of charge at www.crcmich.org
- Recorded webinars are available for the charter school, early childhood, and two school finance papers
- Researchers are available to answer questions and potentially give presentations



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