

ANALYSIS OF THE GOVERNOR'S EDUCATIONAL REFORM PROPOSALS

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ANALYSIS OF THE GOVERNOR'S EDUCATIONAL REFORM PROPOSALS

The governor has submitted to the legislature a series of proposals for educational reform. Included are two joint resolutions proposing constitutional amendments and ten bills proposing statutory changes. The governor's proposals would provide for increased state responsibility for elementary-secondary education in order to promote a uniform distribution of educational services throughout the state. This shift of responsibility to the state would be accomplished over a three-year period by the following major measures:

- Reorganization of the educational structure at the state level, at the intermediate (regional) level, and at the local school district level.
- State determination of basic operating expenditure requirements for elementary-secondary public education at all levels, including the local school districts.
- State responsibility for raising the revenues required to support the operating costs of elementary-secondary public education in the state.
- Establishment of a statewide system for assessing and evaluating educational achievement.
- Enactment of a formula for state aid to local school districts for 1970-71 that contains some elements designed to begin the transition to full state support of public elementary-secondary operating costs.
- State aid to non-public schools.

I. REORGANIZATION OF THE EDUCATIONAL STRUCTURE

The proposals call for a top-to-bottom reorganization of elementary-secondary education in Michigan. The current conglomerate structure would be consolidated into a greatly reduced number of administrative units that would be more directly responsive to the governor and to the legislature.

Changes at the State Level

The current eight-member elected state board of education would be abolished under a proposed amendment to Article VIII, Sections 3 and 7 of the state constitution. This would put Michigan with Illinois and Wisconsin as the only states without either an elected or appointed state board. In place of the board, the amendment would provide for a director of education appointed by the governor with the advice and consent of the senate. Michigan would become the only state with a state superintendent appointed by the governor and no board of education.

Prior to the adoption of the 1963 constitution, Michigan was one of a large number of states (currently 21) which elected its superintendent. In addition, the four-member board of education (one member of which was the superintendent) was also elected. Under the new constitution, the board was expanded in size to eight members and given the responsibility for appointing the superintendent.

In recent months the state board and its appointed superintendent have become the focus of well-publicized controversy over a number of issues largely relating to the relative roles of the board and the superintendent. Many observers, including some members of the state board, concluded that the basis of the problems lay in partisan election of the members and a dilemma of constitutional responsibility without authority.

The response of the governor was to propose elimination of the board and concentration of both the responsibility and the authority in the governor and the legislature.

A large body of opinion exists favoring the retention of a board. Aside from retaining the elected board as it now stands, the most widely suggested alternative to the governor's proposal is that a bipartisan board and a superintendent be appointed by the governor. This, it is argued, would accomplish the goal of combining authority and responsibility in the governor while at the same time providing a forum in which educational policies could be debated and refined. Another alternative that has been proposed is a return to the elected superintendent as under the 1908 constitution.

Changes at the Intermediate Level

The governor's package proposes establishment of 10 to 15 education regions which would supplant the present 60 intermediate districts. Michigan is one of a large number of states with a tri-level system of educational administration. Between the state and local levels there is inserted a group of 60 intermediate districts which developed from the old county school districts. A similar district may be found in most states outside of the South.

A nationwide movement toward augmenting the role of the intermediate district has been underway in the past few years as a result of a general dissatisfaction with county offices of education. The county units are survivors of an era in which there were a great many more local units than there are today. The county superintendent was typically an inspector of rural schools. With urbanization, consolidation of local districts, and more highly developed state and local administrations, such a function became redundant and the intermediate or county level was transformed into a relatively powerless data-gathering unit.

The idea has persisted, however, that an intermediate level ought to be maintained in order to handle those functions which are too specific for state administration but which can be handled efficiently only by the largest local districts. These functions ordinarily include data processing, transportation, and special and vocational education,

The boundaries of the regions proposed by the governor would be determined by an education region development commission by March 1, 1970. Each region would be served by one or more state colleges or universities, or community colleges. In addition, regional lines would conform with county lines except that each school district would be in no more than one region. This is to facilitate coordination with state regional planning districts.

Each region would be an administrative unit of the department of education and headed by a director appointed by the superintendent of public instruction. The director would be a member of the state civil service. Each local school district would be represented by one member on its regional board. Each member of the board would have one vote plus one additional vote for each 3,000 pupils or fraction thereof in the district he represents. The

principal responsibilities of the board would be to approve or reject the appointment of the regional director and to advise the director in policy formation.

Basically, the regional districts would have three general functions: First, they would operate those services which can be provided at optimum efficiency only when very large numbers of pupils are involved. These include special and vocational-technical education programs, transportation, data processing, educational media programs and, for smaller districts, accounting, purchasing, facilities planning, and payroll. Second, they would operate programs designed to improve services rendered by local units. These would involve in-service training for the staffs of local districts, coordination of adult education programs, coordination of vocational education programs offered by community colleges, and consultation and evaluation in the areas of curriculum and capital planning. They would also evaluate the teachers being graduated from the colleges and universities and consult with these institutions relative to improving their teacher training programs. Third, they would have a major role in the formulation of budgets for local districts. This is described in greater detail elsewhere in this paper, but basically the regions would review local budgets, administer the disbursement of state aid funds to local districts, and provide for uniform accounting and auditing at the local level.

The extent to which local control of educational policies would be diluted by these changes rests almost entirely on the third function of the regions--budget formulation. The role of the regions in local budgeting and accounting is bound up with the governor's plan for state financing of education and the drastically reduced reliance on local sources of income. For a further discussion of this problem, see Sections II and III in this paper and Citizens Research Council Background Paper No. 14.

The provision for regional boards must be regarded as a compromise of the role of the region as an administrative arm of the state department of education. These boards, although without substantial powers, would provide a mechanism for local districts to participate in the making or modification of state decisions and to make known their objections to state actions. It would tend to soften the impact of full state financing of education. In order to increase their powers, an alternative has been suggested in which the regional boards would be elected by the voters of the regions and would appoint the regional director. This would substantially nullify the concept of the region proposed by the governor.

Changes at the Local Level

(See also Citizens Research Council Background Paper No. 11 for a general discussion.)

The governor's proposals for local school district reorganization represent perhaps the smallest change over present procedures of any of the proposals involved in the program.

The bill on local reorganization would reinstitute the State Committee for Reorganization of School Districts which participated in the reorganization of 263 school districts between 1964 and 1968. The committee would have six criteria in developing guidelines for local reorganization plans:

1. Reorganized districts should offer a full kindergarten through twelfth grade (K-

12) program,

2. Each district should have a minimum of 2,000 pupils (with some flexibility in this number based on population projections and transportation conditions).
3. No district need be larger than a county. 4. Districts should be organized so that school buildings are located in the most efficient arrangement possible.
4. Racial segregation may not be promoted, and racial integration should be encouraged where possible.
5. Guidelines of the old state reorganization committee should be followed as much as possible.

A change is made from previous reorganization statutes regarding state aid. Under current law, the usual provision is that newly formed districts shall not receive less state aid than the aggregate amount that the constituent districts would have received if there had been no reorganization. The proposed treatment is much less specific, stating only that "implementation of a reorganization plan shall not cause a district or districts reorganized thereunder to be treated adversely as respects state aid." This could be subject to varying interpretations.

The procedure to be used in actually reorganizing the districts is fairly complicated principally because it is a hybrid form of mandatory and semi-permissive legislation. (See Background Paper No. 11) While the actual plans are drawn up at the local level, the state committee sets the framework for these plans and has the authority to reject proposed local plans and to enact plans for districts which will not adopt their own.

The state committee would identify "eligible" districts; that is, those with fewer than 2,000 pupils, those with less than a K-12 program, and non-operating districts. As of September 30, 1969, there were 644 local school districts in Michigan. Of this number, 383 enrolled fewer than 2,000 pupils, 108 operated less than a K-12 program, and nine were non-operating (closed). Since no non-K-12 district had 2,000 or more pupils, the number of eligible districts as defined in the governor's program was 383 at the beginning of the current school year. Thus, only 261 of the 644 districts are offering a K-12 program to 2,000 or more pupils.

The committee would also identify "designated" districts which would form the cores of the reorganized districts. An eligible district would then develop a reorganization plan with one or more designated districts, as shown in Exhibit I.

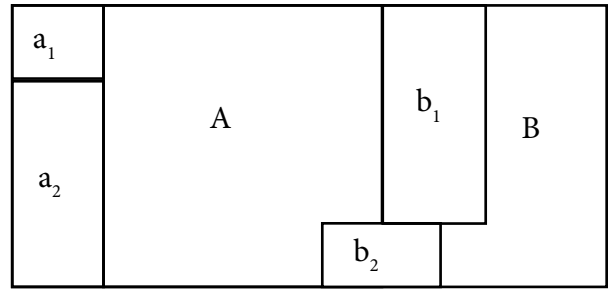
If, however, a designated district failed to cooperate in developing a plan, the remaining districts might proceed to develop a plan involving its territory. If the plan were approved by the state committee, it would take effect despite the objections of the non-cooperating district. If the boards of cooperating districts could not agree on a plan, the state committee would formulate one for them.

Until July 1, 1971, the state committee would act only on a submitted plan. The committee could approve the plan, in which case it would take effect automatically on July 1 of the succeeding calendar year. If the plan were rejected, the local districts would be required to develop a new one.

EXHIBIT I

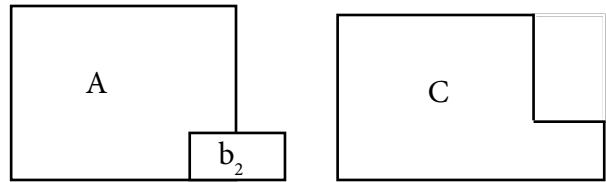
PROPOSED REORGANIZATION PROCEDURES

The state committee would identify “eligible” districts; that is, those with fewer than 2,000 students (as in all districts except A), those with less than a K-12 program (a2 and b2), and non-operating districts (a1). The committee would also identify “designated” districts (A and B) which would form the cores of the reorganized districts. (In this case A is a designated district with respect to a1, a2, b1, and b2. B is an eligible district and is also a designated district with respect to b1 and b2.)

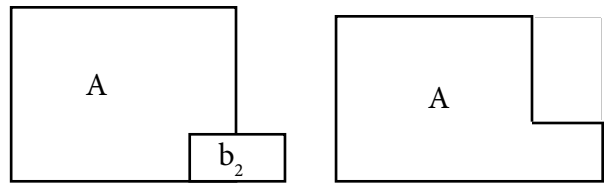


An eligible district would then develop a reorganization plan with one or more designated districts which would either:

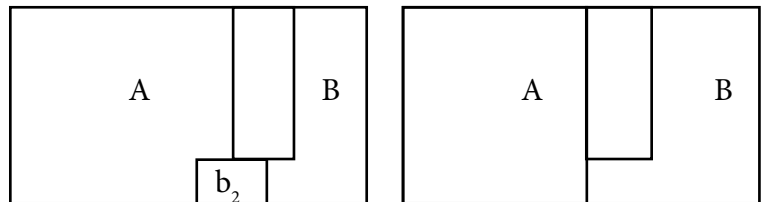
1) Result in formation of a new district as under present consolidation. (In this case, A and b2 have consolidated to form a new district, C, which would have a new board appointed by the superintendent of public instruction).



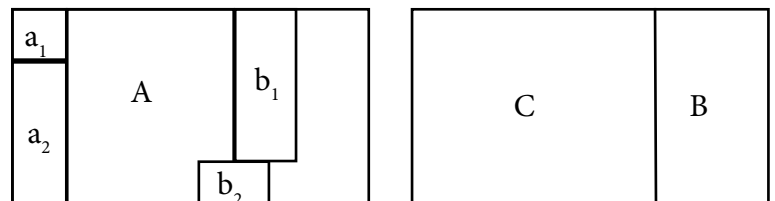
2) Result in the merger of the territory of the eligible district with one of its designated districts as under present annexation. (In this case, A and b2 have merged, with A being the surviving district. A’s board will be expanded to represent residents in b2.)



3) Result in the division of the territory of the eligible district among two or more designated districts (In this case b2 has been divided between A and B, thereby losing its identity altogether).



4) Result in a combination of mergers of territory so that either a new district is formed or one of the districts is designated as the surviving district. (In this case, A has consolidated with a1 and a2 and received part of the divided district, b2, to form a new district, C. B has merged with b1 and received part of b2 with B as the surviving district.)



After July 1, 1971, the committee would establish reorganization plans for those eligible districts not yet reorganized. A procedure for hearings is provided, after which the committee might revise the plans. The final plans adopted by the committee would take effect no later than July 1, 1973.

There is no question that this would be the strongest local reorganization legislation in Michigan's history, although it is not mandatory enactment of a state plan. There is, nevertheless, some doubt whether the minimum size recommended (2,000) for each district is large enough to permit efficient operation,

It is estimated that 300 school districts would be eliminated by this legislation, leaving approximately 350 reorganized local school districts. This must be treated as only an estimate, however, because the procedures are sufficiently flexible to cause a wide variation from this figure.

It appears that the primary responsibility for initiating local reorganization plans rests on the eligible districts, although there is some confusion on the point. Inasmuch as many of these districts have high per pupil property valuations together with low tax rates, resistance to the development of plans on the part of these districts may be reasonably anticipated. This stumbling block would be removed if the proposed statewide property tax is adopted by the legislature and the voters, but failing this, the state committee might find that it would be reorganizing several recalcitrant eligible districts.

The usual justification for enlarging the size and reducing the number of school districts is that an effective program can be offered more efficiently in reasonably large districts. In the context of the governor's plan there is a further necessity to reduce the number of districts in order to facilitate the state review of local budgets contemplated by another part of the package.

While this particular bill would not remove any powers of local districts, the consolidation process has sometimes been criticized on the ground that the control by local people of their neighborhood schools is diluted. This very likely is true. On the other hand, the question of the value of strong local control over small, inefficient districts is a serious one especially in view of the fact that such control in many of these districts is made possible only by heavy subsidization from taxpayers in other districts in the form of state aid.

Neighborhood Education Centers

In addition to the major structural changes outlined above, the governor has proposed that an agency of the executive office develop neighborhood education centers, the main purpose of which would be to provide high school drop-outs with suitable educational and vocational training opportunities. The governor has recommended that the legislature appropriate \$100,000 for the current fiscal year to establish a public, non-profit corporation to carry out the program.

Exhibit II summarizes the functions of the state, the regions, and the local school districts as proposed in the governor's education reform program.

EXHIBIT II

SUMMARY OF PROPOSED FUNCTIONS OF STATE DEPARTMENT OF EDUCATION, REGIONS, AND LOCAL SCHOOL DISTRICTS

Administrative Level	Functions
State Department	<ul style="list-style-type: none">--Supervise all elementary-secondary and community college educational programs.--Plan and coordinate all public education, including state colleges and universities.--Develop academic program objectives to be achieved by local and regional districts.--Develop operational performance standards and measures for local and regional districts.--Develop and execute educational achievement assessment program.--Develop budget policy for financing local school districts.--Determine program needs and priorities for local districts.--Review local and regional budgets.--Generate uniform management information data.--Execute federal programs.
Regions	<ul style="list-style-type: none">--Provide special and vocational-technical education.--Provide transportation, data processing, and educational media programs.--Provide accounting, purchasing, facilities planning, and payroll services to small local districts.--Provide in-service staff training for local units.--Consult and evaluate in areas of curriculum and capital planning.--Coordinate adult education programs and vocational education programs offered by community colleges.--Consult with state colleges and universities relative to improving teacher-training programs.--Review local budgets.--Administer disbursement of state aid funds to local districts.--Provide for uniform accounting and auditing at local level.

Local Districts

- Provide general administration of local programs.
- Provide academic program, counselling, and disciplinary action.
- Provide adult education and continuing education services.
- Provide for capital outlay programs.
- Determine priorities for local academic program and prepare budget requests within state guidelines for submission to regional districts.
- Allocate resources within appropriations provided by the state.
- Negotiate collective bargaining agreements with employees.
- Hire employees.
- Develop local option enrichment programs.
- .Make school services and facilities available to the community.

II. STATE RESPONSIBILITY FOR DETERMINING OPERATING EXPENDITURE REQUIREMENTS

The governor's proposals provide for state determination of basic operating expenditure requirements for public elementary-secondary education. While the reorganized local school districts and the proposed new state regions would have primary responsibility for the delivery of educational services, the state would assume basic responsibility for appropriating funds for public elementary-secondary school operating costs.

In essence, the governor's proposed legislation provides a process for state determination of the authorized operating expenditures of each local school district and each regional school district. The state legislature would appropriate funds to each local school district for professional-related costs, for overhead costs and for enrichment programs. Within its given expenditure authorizations for each category, each local district would continue to have discretion in making budgetary determinations as to priorities, allocations among various activities, etc. In addition, local school districts would have authority to levy up to three mills at local discretion for state-approved enrichment programs. Local school districts would continue to have both expenditure and revenue-raising responsibility for capital outlay and debt service. The legislature would appropriate funds to each region for each regional program including capital outlay funds.

The Local School District Basic Education Budget for Operations

The proposed budgeting process legislation provides for extensive state control over the preparation of operating budget requests by local school districts. The state superintendent of public instruction would establish budgetary guidelines applicable to all local school districts and regions, prescribe budgetary standards and issue specific budget directives. The state superintendent would establish standards for the local districts to use in estimating both enrollments in education programs and the number of professional personnel (by category of professional and educational experience) likely to be employed by the district. The state superintendent would issue specific budgetary directives for the local districts to use in determining both professional-related allowances and overhead allowances.

Professional-Related Allowances. The state directives for calculating "professional-related allowances" would specify: (1) the number of professional personnel allowed per 1,000 students; (2) the base (average) salary per professional employee; and, (3) a schedule to permit variations from the base salary allowance to reflect the experience and education of the professional personnel "likely to be employed" by the district. Each of these three basic directives are to be refined by further directives providing: (1) for additional professional personnel per 1,000 pupils based on the percentage and degree of underachieving pupils; (2) a factor which would vary the base (average) salary amount by education region, thereby permitting regional salary differentials; and, (3) a factor that would limit the amount by which the total salary allowance of any district (including the variations for experience and education) could exceed the total base salary allowance, thereby limiting the proportion of professionals with advanced degrees and experience that could be employed by any district.

In addition, the state superintendent would determine the amounts needed to fund retirement obligations in each district and to fund other professional related costs on a state-wide average basis.

The local school district would apply these state budget directives to the estimates of enrollments and number of professional employees it developed pursuant to state standards to determine the aggregate professional-related allowance to be included in its budget requests.

Overhead Allowances. The state superintendent would also prescribe an overhead allowance as a fraction (percentage) of aggregate professional-related allowances. The aggregate overhead allowance would provide the funds needed to cover administrative costs, maintenance costs, textbooks and supplies, utilities, and other related costs. The overhead allowance factor could vary among the regions depending upon the services provided by the individual regional school districts that reduce local school district overhead costs.

While the present method of reporting local school district expenditures does not coincide exactly with the “professional-related” and “overhead” allowances provided for in the governor’s program, the figures presently available indicate the problem of establishing a uniform overhead allowance as a percent of professional-related allowances. For example, in 1967-68 Detroit spent \$505 per pupil for instruction and \$140 per pupil for such overhead expenses as administration, attendance and health, plant operation and maintenance, and fixed charges. Thus, these overhead expenses were equivalent to 28 percent of instructional expense. The ten school districts in cities of 50,000 to 100,000 population also spent an average of \$505 per pupil for instruction, but they spent an average of \$176 per pupil for the same categories of overhead expense, which is equivalent to only 35 percent of instructional expense. And, of course, there were even greater variations among those ten districts. The limited data now available suggest that an overhead allowance that is uniform statewide or by region will necessitate significant changes in present levels of overhead expenditures by local school districts.

Summary. The local school district would prepare its basic operating budget requests based on its enrollment and professional employees projections utilizing the state directives described above to determine its professional-related allowances and overhead allowances. The apparent intent of the governor’s proposal is to provide for the uniform allocation of operating funds among the local school districts with variations permitted only under specified circumstances. The proposal would provide for a statewide uniform professional employee-pupil ratio (except for underachieving pupils), a uniform allowance for professional salaries (except for variations for experience and education, and possibly, for regional differences), and a uniform allowance for overhead costs (expressed as a percent of professional-related costs).

The governor’s proposal of a classroom unit approach (professional-pupil ratio) and separate appropriations for professional-related allowances, for overhead allowances and for enrichment programs is intended to insure that state appropriations are used to purchase additional educational services as well as providing higher salary levels for professional employees. The classroom unit approach as it was proposed in the Thomas Report and in the Equal Quality Plan of the Michigan Association of Professors of Educational Administration was designed to provide a given number of professional positions in relation to enrollment, and to provide a salary allowance for each authorized position actually filled. Under these plans districts could not receive salary allowances for unfilled positions. Thus, the classroom unit approach would provide a salary allowance only for the authorized professional positions actually filled. Within this total salary allowance and ~ number of filled positions, the local school districts and professional employee ~ unions would establish a salary schedule by collective bargaining.

The governor's plan as submitted to the legislature provides for state payment of professional salary allowances to local districts for all positions authorized under the professional-pupil ratio including unfilled positions. The governor's bill states that "where it (the local district) does not intend to hire professionals to the extent allowed under the applicable professional-pupil ratio it shall use the base salary level to compute the allowance for each professional it is allowed but does not intend to employ." This would permit the local school districts to hire fewer professional employees than authorized by the state in order to provide higher salaries than provided for by the state. For all practical purposes this provision would eliminate the primary advantage of a classroom unit approach and the state would be as well served by the more traditional per pupil allowance.

Local School District Enrichment Program Budget

In addition to the basic operating budget requests prepared by the local school districts in accordance with state directives, local school districts could also prepare enrichment program budget requests for submission to the state. The "enrichment" budget would include requests for such items as programs for broader curriculum, for underachievement, for gifted children, for research and for technological innovation. Under the proposed budget process bill the local district would prepare enrichment program requests describing each program including its duration, costs, the number of children affected, the priority assigned to each program and "the extent of local financial participation."

It is apparently contemplated in the budget process bill that these enrichment program requests by local districts would be funded by the state because the bill provides for legislative appropriations for "each district program enrichment request." However, the budget process bill also requires the local district to describe in its request for each program "the extent of local school district financial participation." Such "local school district financial participation" could be derived only from the three mill local option property tax for enrichment proposed in a separate bill in the governor's program.

A separate bill in the governor's program would authorize local school districts to levy up to three mills to fund enrichment programs and would provide a state guaranteed yield of \$30 per child for each mill levied by a local district. The local tax levy and the state aid guaranteed would be earmarked for enrichment programs and would be spent only for programs approved by the state superintendent of public instruction.

It is not entirely clear whether the enrichment program provisions of the proposed "budget process bill" and of the separate authorizing three mill local option tax for enrichment programs are interrelated or separate. However, it appears that the intent is that enrichment programs could be funded by the state, by the local units, or jointly by both.

Regional Budgets

The activities of the education regions would be financed entirely by the state. Under the budget process bill the state superintendent is also charged with the responsibility for developing specific directives for the regions to use in preparing their budget request. The regional basic education budget, which is to be prepared by each region in accordance with state directives, will provide funds for special education and vocational education programs and will include all operating, capital outlay and debt service costs involved in

those programs. The bill provides that “the directives shall assure a uniform level of support for children involved in regional educational programs.”

In addition, each region will prepare a regional education service budget in accordance with state directives to operate such regional services as transportation, data processing, business services, central purchasing, educational media, educational consulting and planning. The amount of state funds appropriated to fund the regional educational services budgets may vary among the regions depending on the degree and extent of services provided by the region. The overhead allowances provided to local school districts within a region would be adjusted to reflect the services provided at the regional level.

In addition, each region may submit special program requests for experimental or innovative programs, indicating its priorities if more than one program is submitted.

In 1968-69 local school districts reported expenditures of \$36.9 million for special education, \$40.2 million for vocational education and about \$49 million for transportation. Regional administration of these three programs above would involve expenditures of well over \$100 million and would make the regions a significant administrative unit.

The Budget Review Process

The budget process bill provides that the basic education budgets of the various local school districts shall be submitted to the directors of their respective regions for review. The local districts may propose adjustments to the state directives and submit supporting data. The regional director will examine the districts’ basic education budgets to determine the reasonableness of their enrollment and professional employee projections and their adherence to the state superintendent’s directives.

The regional director is required to make specific findings and recommendations on each local district budget and may make adjustments to achieve conformity with state standards and directives. The regional director may recommend to the state superintendent adjustments to the state standards and directives.

The local district program enrichment requests must also be submitted to the regional director for review. He is required to make recommendations to the state superintendent concerning the requests including the level of funding and the order of priority of each request within the region.

The local school districts’ operating budget requests and program enrichment requests and the regional basic education and educational service budgets and special program requests are to be submitted to the state superintendent for his review. The state superintendent may modify these local and regional requests under certain prescribed circumstances and he must establish a statewide order or priority for the district enrichment program requests and for the regional special program requests. If the superintendent modifies his directives for either local school district or regional budget requests, such modified directives must be applied uniformly to all local districts or to all regions respectively.

The state superintendent then submits his recommendations to the governor and state budget director for all district basic education budgets and enrichment program requests

and for all regional basic education, educational services and special program requests. The superintendent must include in his recommendations all the directives issued and all the supporting detail.

The governor then reviews the recommendations of the state superintendent, the directives and supporting data and may make changes under prescribed circumstances, but any changes in directives shall be applied uniformly to all budgets. The governor can alter, modify or eliminate the level of funding for district enrichment program and regional special program requests, but he cannot change the order of priority without consultation with the superintendent.

The Appropriation Process

The governor's recommendations would be submitted to the legislature as part of his overall budget recommendations. The budget process bill provides that the legislature may alter or amend the budgetary directives by concurrent resolution, but shall apply such amended directives uniformly to all districts or regions. The legislature may not alter the order of priority of recommended enrichment program or special program requests, but may alter, modify or eliminate the level of funding thereof.

The legislature shall then make separate appropriations to each local school district for professional-related costs, for overhead costs, and for each program enrichment request and to each region for each program and for each special program request.

Budget Timetable

The governor's message proposes that the budgeting process legislation be in full operation in March, 1971, in order to make state appropriations effective in fiscal 1972-73. The timetable for the budgeting process is as follows:

March 1, 1971	--state superintendent issue budget directives for fiscal 1972-73.
June 1, 1971	--local school district submit budget requests to regions.
July 1, 1971	--regional budget requests submitted to state superintendent.
August 1, 1971	--state superintendent submits recommendations on regional budget requests to governor and budget director.
September 1, 1971	--regional director shall submit recommendations on local school district budgets to state superintendent.
October 15, 1971	--state superintendent submits recommendations on local budget requests to governor and budget director.
January 26, 1972	--governor submits his recommendations to the legislature as part of his overall budget.

April 1, 1972 --legislature shall complete action on education budgets.

July 1, 1972 --legislative appropriations in effect for fiscal 1972-73.

The budgeting process outlined in the bill requires 13 months to complete (March, 1971 to April, 1972) and, considering the time required by the superintendent to prepare the directives prior to March 1, the total elapsed time would involve almost 18 months (from about January 1, 1971 to July 1, 1972) when the appropriation would take effect.

Operating Expenditures--Total Costs

As submitted to the legislature, the governor's program does not contain any estimate of the total costs of state financing of public elementary-secondary education. In fiscal 1968-69, the latest year for which information is available, the state department of education reports that total current operating expenditures of local school districts were \$1,391.7 million. In addition, the state directly appropriated \$143.3 million to school employees' retirement funds. Thus, in 1968-69 total state-local expenditures for school current operating costs (including pensions) were about \$1,535 million. In 1968-69 intermediate districts spent \$7.4 million.

The total Lost to the state of assuming full operating costs of public elementary-secondary education beginning in 1972-73 as proposed in the governor's program will be determined by the numerical values to be assigned to the various factors in the budget process (professional-pupil ratio, salary allowance, overhead costs, enrichment program appropriations, etc.). Projections of costs cannot be made prior to determination of these factors. The total costs in 1972-73 will be influenced greatly, however, by two elements: (1) decisions as to the level of support; and, (2) the rising costs of elementary-secondary education.

Level of Support. While the level of support of the local school district basic operating budgets will be determined by the numerical values to be assigned in future years to the various state guidelines, standards and directives provided for in the budget process bill, the nature of the problem of determining the uniform level of support proposed by the governor can be illustrated from 1968-69 current expenditure data of local school districts. In 1968-69 the local school districts spent about \$1,392 million for current operations (excluding retirement). With an enrollment of 2,123,000 pupils this represented a statewide average expenditure of \$655 per pupil. However, the current expenditures of the individual school districts varied widely. In the 525 K-12 districts current operating expenditures in 1968-69 ranged from a low of \$369 to a high of \$1,143 per pupil.

The table following shows the distribution of 1968-69 per pupil operating expenditures among the 525 K-12 districts.

Per Pupil Current Operating Expenditures in 1968-69 in K-12 Districts

<u>Per Pupil Expenditure</u>	<u>Number of Districts</u>	<u>Number of Pupils</u>	<u>Percent of Pupils</u>
Less than \$500	50	102,017	4.9%
500 – 599	286	576,094	27.4
600 – 699	123	910,808	43.4
700 – 799	45	359,484	17.1
800 – 899	13	80,362	3.8
900 – 999	6	43,769	2.1
1,000 and More	2	28,140	1.3
Total	525	2,100,674	100.0%

Source: Preliminary figures from State Department of Education.

If the uniform level of state support of local school district operating budgets had been pegged at the statewide average of \$655 this would have involved a massive redistribution of current expenditures among the districts. Of the 525 K-12 districts, 111 districts enrolling 50.9 percent of the pupils in the state were spending more than \$655 per pupil and 414 districts enrolling 49.1 percent of the pupils were spending less. A uniform level of support of \$655 per pupil would have had the effect of reducing expenditures in the districts that were above average in per pupil expenditure and increasing expenditures in districts that were below the statewide average. At the extremes of the per pupil expenditure distribution this would have meant cuts of almost \$245 or more per pupil in the eight districts spending over \$900 per pupil and increases of \$155 or more in the 50 districts spending less than \$500 per pupil.

If simply redistributing among local school districts the present total amount of current operating expenditures (\$1.4 billion) to achieve a uniform level of support is not the objective, then it is apparent that the level of support will have to be increased. This can be accomplished either through increasing the total amount of expenditure or through the three mill local option tax proposed in the governor's program.

An increase in the total amount of expenditure would provide an increase in the per pupil expenditure above the \$655 level and would reduce the number of districts in which per pupil expenditure would be cut by using a uniform statewide figure. If the level of support were increased to \$755 per pupil (an increase of \$100 over the 1968-69 average) this would increase total current costs by \$212 million (excluding retirement). A \$755 current expenditure per pupil in 1968-69 would mean that about 84.5 percent of the children enrolled in public schools would have had additional money spent for their education and 15.5 percent would have had less.

If the state were to raise the uniform level of support to the highest amount spent per pupil by any district in 1968-69 (\$1,143), so that no district had less money to spend per child, the total amount of current expenditure in 1968-69 would have had to be increased by \$1,036 million (excluding retirement), from the \$1.4 billion actual to over \$2.4 billion. In addition, for each \$100 million increase in current operating costs pension and social security costs could be expected to increase by about \$9 million.

The governor's program would permit local units to supplement the state-financed basic operating budget by means of a local option three mill property tax for enrichment programs. The state would provide state aid to guarantee a yield of \$30 per pupil for each mill levied up to a total yield of \$90 per pupil. While these funds would be earmarked for state-approved enrichment programs, they would allow local school districts to increase their spending above the uniform statewide level. If the uniform state level were pegged, for example, at the \$655 per pupil figure, the three mill option would permit an additional \$90 per pupil expenditure or a total of \$745 per pupil. In 1968-69 only 49 K-12 districts enrolling 19.5 percent of total school enrollment spent more than \$745 per pupil, so the three mill local option would mitigate somewhat the impact of the governor's program on districts now spending more per pupil than the state average. As discussed in Section III of this report, the three mill option would involve a potential cost to the state of over \$90 million to guarantee the yield of \$30 per pupil for each mill levied and a potential cost to local taxpayers of \$105 million in local property taxes.

In assuming state support of local school district operating costs, the state will be faced with difficult decisions as to the level of support to be provided. These decisions will involve the number of districts and children that will have more money available and those that will have less as well as the total cost to the state.

Rising Costs. Local school district operating and pension costs have been increasing rapidly. Expenditures have more than doubled since 1962-63 rising from \$731 million to \$1,535 million in 1968-69 (excludes intermediate school district expenditures). This is an average annual increase of 13.3 percent since 1962-63 and in the past four years the average annual increase has been 15.7 percent.

While there has been an increase in enrollment during this period from 1,794,045 in 1962-63 to 2,122,939 in 1968-69, the 110 percent increase in expenditures has far out-stripped the 18 percent rise in enrollments. On a per pupil basis operating expenditures (including retirement) have increased from \$407 in 1962-63 to \$723 in 1968-69. This \$316 per pupil increase in expenditure is an overall increase of 78 percent.

If total current operating expenditures for schools continue to rise for the next several years, by 1972-73 when the state proposes to assume full operating costs, the total cost will exceed substantially the present cost. If total operating expenditures (current and retirement) increase at an average annual rate of 15 percent (which is below the average of the past four years) total operating expenditures in 1972-73 would reach the \$2.7 billion level compared to \$1.54 billion in 1968-69, an increase of over \$1.1 billion.

Thus, the shift to full state financing of public elementary-secondary school operating costs will involve a very sizeable increase in state costs if either the level of expenditures is raised in the process of achieving statewide uniformity or if costs continue to rise in the next several years as they have in the past.

III. STATE RESPONSIBILITY FOR FINANCING ELEMENTARY- SECONDARY PUBLIC EDUCATION

The governor's educational reform program contemplates that the state would assume the responsibility for raising the revenues required to finance nearly all operating costs of elementary-secondary public education in Michigan. The governor has proposed that the state finance from state revenues 100 percent of the costs of the basic operating budgets of local school districts and 100 percent of the costs of the education regions including both operating and capital costs. In addition the state would assume some of the costs of local school district enrichment programs. The only financing responsibility of local school districts would be for capital outlay and debt service and for part of the cost of local school district enrichment programs.

Since the costs of the governor's proposed program are not known at this time the governor has not submitted a comprehensive plan for raising the state revenues that would be required to fund the financial obligations that would be assumed by the state under his educational reform program. He has, however, proposed several specific revenue measures that would finance at least part of the state's obligations:

- a proposed amendment to the constitutional provisions on the property tax which would: (1) authorize a state-levied property tax earmarked for school operating purposes; (2) permit the legislature to authorize by law the levy of additional property taxes by school districts; (3) prohibit the levy of school operating taxes except as provided in (1) and (2); and, (4) reduce the present 15 and alternate 18 mill limitations to seven and 10 mills respectively.
- repeal the present property tax credit provision of the state income tax law.
- increase the state cigarette tax from the present 7¢ per pack to 12¢ per pack.

The foregoing specific revenue proposals recommended by the governor would not provide the state revenues required to meet its proposed obligations for financing public elementary-secondary education and a substantial additional amount of the state revenue would be required. The governor's educational reform message to the legislature states: "Assuming passage of the amendment (the proposed constitutional amendment on the property tax), there would have to be substantial new revenue from the income tax, or a combination of revenue sources."

The Governor's Property Tax Proposals

The governor's program includes a proposed constitutional amendment on the property tax which would substitute a state-levied statewide property tax for school operating purposes for the present allocated and extra voted millage for school operations levied by local school districts and by intermediate school districts. The proposed amendment would authorize the legislature to levy by law a state property tax at a rate not to exceed 16 mills (\$16.00 per \$1,000 state equalized valuation) for the first year. For subsequent years the

state property tax levy for school operations would be limited to producing the same proportion of total state expenditures for school operating purposes as it produced in the first year. Thus, the constitutional limit on the state property tax levy would be an escalating limit, increasing in direct proportion to the increase in total state expenditures for school operating purposes over the level in the first year. For example, if total state expenditures for school operations in the second year increased by ten percent, then the total amount of state property taxes that would be levied could also increase by ten percent.

Using the previous example, if the SEV remained constant, the rate could be increased by ten percent (from 16 to 17.6 mills). If the SEV increased ten percent, then the rate could not increase above 16 mills. The limitation is on the total amount of the property tax levy in relation to the increase in total state expenditures for school operations. The initial 16 mills and the escalating limit for subsequent years would be maximum limits, imposing a ceiling on the total amount of state property taxes that could be levied. The legislature could levy a lower state property tax than authorized.

In 1968-69 property taxes for school operating purposes of \$761 million were levied on a 1968 state equalized valuation of \$32 billion.¹ The statewide average school operating tax rate was 23.75 mills (\$23.75 per \$1,000 SEV). While comparable data for 1969-70 are not available, preliminary tabulations by the state department of education suggest that the school operating tax levy will be about \$100 million higher. With a \$35 billion state equalized valuation for 1969-70, the estimated average tax rate for school operating purposes will be about 24.5 mills.

The constitutional amendment on the property tax proposed by the governor would be submitted to the voters in the November, 1970, general election and, if approved, the governor proposes that the state levy a statewide property tax in fiscal 1971-72 for school operating purposes. Therefore, the amount of property tax relief it would provide (and the amount of replacement revenue the state will have to raise from other sources) is not known at this point in time.

If the governor's proposed 16 mill state levy for school operating purposes had been in effect in 1968-69 it would have resulted in about a 7.75 mill reduction in the average school operating tax rate and about a \$250 million reduction in the tax levy for school operating purposes. If the 16 mill state rate were in effect in 1969-70 it would reduce the average rate for school operating purposes by about 8.5 mills and the levy by about \$300 million. By 1971-72, when the proposed statewide 16 mill levy will take effect, it can be estimated that the total state equalized value will be about \$40 billion (up \$5 billion over 1969-70), that the average tax rate for school operations will be 27 mills or more and that the total tax levy for school operating purposes will be at least \$1.1 billion. Thus, in 1971-72 when

1 The \$761 million levy for school operations as reported by the state tax commission includes about \$20 million levied for community colleges and intermediate school districts.

the governor's proposed 16 mill property tax would take effect, the reduction in school operating taxes can be estimated at 11 mills or more (dropping from 27 mills to 16 mills). This would mean a reduction of about \$440 million in property tax revenues and a need for an equivalent amount of replacement revenues from other state tax sources.

The foregoing figures on the millage presently levied for school operations are, of course, statewide average figures. At the present time, each of 644 local school districts is levying its own property tax for school operating purposes. The school operating property tax rates in these 644 districts vary greatly, from a low of four mills to over 40 mills. Thus, the substitution of a state property tax for school operating purposes at a 16 mill rate will result in a property tax decrease in most local school districts, but an increase in some districts (at least in relation to the rate for 1969-70). As compared to the 1969-70 authorized operating millages of these 644 local school districts, a 16 mill state levy would increase the school operating tax rate in 162 districts (about one-quarter of the total) and decrease the school operating tax rates in 475 districts (three-quarters of the total) and in the seven districts now authorized to levy 16 mills there would be no change. It should be noted that the 162 districts which now levy less than 16 mills have only 7.3 percent of the total public school enrollment in the state, while the 482 districts now levying 16 mills or more have 92.7 percent of the total enrollment.

The school operating millages authorized for 1969-70 in the 644 districts are as follows:

<u>Operating Millage</u>	<u>No. of Districts</u>	<u>% of Districts</u>
30 and over	31	4.8%
25 - 29.99	73	11.3
20 - 24.99	190	29.5
16 - 19.99	188	29.2
16 and over (sub-total)	(482)	(74.8)
10 - 15.99	143	22.2
5 - 9.99	18	2.8
Under 5	1	.2
Less than 16 (sub-total)	(162)*	(25.2)
TOTAL	644	100.0%

* There are 40 districts enrolling 36,000 pupils that levy less than the 12 mills provided for in the amendment as passed by the senate.

Additional Local School District Property Taxes

The constitutional amendment as proposed by the governor provides that the state property tax shall be in lieu of all other property taxes levied for school operating purposes, "except such additional taxes as school districts may be authorized to levy upon such

conditions and at such rates as shall be provided by law.” Thus, the proposed amendment exempts schools from the present constitutional tax limitations and subjects them instead to statutory limitations.

The governor has submitted as part of his program a “local school district millage equalization act” that would authorize local school districts with the approval of the voters to levy up to three mills for “enrichment programs.” The not-to-exceed three mill local levy could be used only for enrichment programs “for broadening the educational opportunities offered to pupils of the local school district beyond the regular education budget.” The act specifically prohibits using such funds for increasing salary levels of employees or for recreational purposes. The enrichment funds could be used by the local districts only for specific purposes and programs and these must be approved by the state superintendent.

Under this proposed legislation the state would provide state aid to local districts levying local taxes for enrichment purposes. In any district in which each mill levied for enrichment purposes yielded less than \$30 per pupil (districts with a per pupil SEV of less than \$30,000), the state would make up the difference between the actual yield per mill and \$30. Thus, in a district with \$10,000 SEV per pupil, each mill would provide \$10 per pupil and the state would provide \$20 per pupil for each mill levied. Local school districts would be assured of a total revenue of \$30 per pupil for each mill levied up to a total of \$90 for three mills. School districts with an SEV of more than \$30,000 per pupil would retain the full yield of their local tax levy, but would not receive additional state aid. Thus, a district with an SEV per pupil of \$40,000 and a three mill enrichment levy would have local revenue of \$120 per pupil for enrichment programs and would not receive supplemental state aid. These funds can be expended only for enrichment programs approved by the state superintendent even if no state aid is involved.

Based on 1969-70 figures, the proposed legislation would authorize potential total expenditures for enrichment purposes of up to \$196.5 million if each district levied three mills for enrichment and if the state appropriated sufficient funds to guarantee \$30 per pupil per mill. A three mill local levy in all local districts would produce \$105 million (in 1969-70) and the state guarantee of \$90 per pupil if three mills were levied by all districts would require a state aid appropriation of \$91.5 million. In 1969-70 there are 594 school districts (out of 644) that have a per-pupil SEV of less than \$30,000 and would be eligible for the state guarantee of \$30 per pupil per mill. These 594 districts have a 1969-70 total SEV of \$32.4 billion and an enrollment of 2,093,489. If they levied the full three mills for enrichment they would be eligible for \$91.5 million in state aid. The 50 districts with per pupil SEV of \$30,000 or more enroll 68,468 pupils and have an SEV of \$2.7 billion. If they all levied the full three mills they would receive an average of about \$118 per pupil from the tax levy and would not receive state aid.

The proposed up to three mill local option property tax for enrichment purposes would be in addition to the 16 mill state property tax. The additional three mills could be levied for the first time in fiscal 1971-72, the same year in which the state property tax levy for school operating purposes would be levied.

Reducing the 15 Mill Limit

In substituting a state property tax for local school district property taxes for school operating purposes, the governor's proposed constitutional amendment on the property tax also provides for reducing the present constitutional millage limitations.

At present, there is a constitutional limitation of 15 mills or an alternate 18 mill limit on the total amount of property taxes that can be levied by schools, counties, and townships. This limit can be exceeded only by vote of the people. The 15 mills is allocated annually in each county among the school districts, the townships and the county government by the tax allocation board except in those counties (currently 16) that have voted to use fixed allocations under the alternate 18 mill limit. These units of government can exceed these limitations by vote of the people--"extra-voted millage"--up to an overall 50 mill limit. These limitations do not apply to taxes levied for debt service.

The proposed constitutional amendment to the property tax would reduce the present 15 mill limit to seven mills, the alternate 18 mill limit to 10 mills, and the overall 50 mill limit would be reduced to 25 mills. School districts would no longer be included within these limitations and the new seven and 10 mill limits and the overall 25 mill limit would apply only to counties and townships.

This proposed reduction from a 15 mill to a seven mill limit for counties and townships would affect adversely some of these units. In the 67 counties that have annually allocated millage for 1969-70, 22 counties have allocations that exceed the proposed seven mill limit for the county and for some or all of the townships within the county. The following counties have annually allocated millage for 1969-70 for county and township purposes that exceeds seven mills:

<u>Combined County & Township Allocated Millage</u>	<u>County</u>	<u>Number of Counties</u>
Over 10 mills	Gogebic	1
9.00 - 9.99	Baraga, Keweenaw	2
8.00 - 8.99	Alger, Crawford, Houghton, Lake, Menominee, Presque Isle, Schoolcraft and Wayne	
7.01 - 7.99	Chippewa, Dickinson, Gladwin, Iron, Kalkaska, Leelanau, Mackinac, Manistee, Marquette, Oceana, and Ottawa	8
Total over 7.01 mills		22

The other 45 counties using annually allocated millage have combined county-township allocations that are less than the proposed seven mill limit and in these counties the taxing powers of the county and township governments would be increased. None of the 16 counties that now uses fixed allocations under the alternate 18 mill limit has combined county-township allocations that exceed the proposed 10 mill alternate limit.

The 22 counties that have total county-township allocations in excess of the proposed seven mill limit would be faced with reducing their allocated millages for county and/ or township purposes or they could utilize the alternate 10 mill fixed millage allocation procedure. Only one county (Gogebic) now has annually allocated millage for county and township purposes that exceeds the proposed 10 mill fixed limit.

Proposed Repeal of the Property Tax Credit

The governor has proposed that the present credit against state income tax liability for property taxes paid be eliminated. At present both property owners and homestead renters subtract from their state income tax liability a credit for property taxes. The credit is on a sliding scale ranging from 20 percent for the first \$100 of property taxes to four percent for over \$10,000 in property taxes paid. For renters of homesteads it is assumed that 17 percent of gross rent is for property taxes and credits are allowed under the same schedule.

The property tax credit in 1968-69 cost the state about \$113 million and in 1969-70 will cost an estimated \$121 million. The governor has proposed that the credit continue to be allowed on 1969 tax returns filed in 1970, but it would be discontinued for taxable years beginning on or after January 1, 1970. The repeal of the credit would provide an estimated \$116 million increase in state revenues in fiscal 1970-71. The governor's bill proposing elimination of the property tax credit earmarks the increased state revenues resulting therefrom to the school aid fund. It is not stated whether in future years the earmarked amount would continue at the amount claimed on 1969 returns or whether the amount will be based on estimates.²

Proposed Increase in the Cigarette Tax

The governor has also proposed an increase in the state cigarette tax from the present 7¢ per pack to 12¢ per pack effective January 1, 1970. The estimated \$45 million annual proceeds of the additional 5¢ cigarette tax would be earmarked for the school aid fund (2¢ of the present tax is now earmarked for the school aid fund).

All fifty states impose state cigarette taxes at rates ranging from 2¢ to 16¢ per pack. The median state cigarette tax rate is 10¢ per pack. A total of 19 states now impose cigarette taxes of 12¢ or more per pack. The seven neighboring states have the following tax rates: 14¢--New Jersey and Wisconsin; 13¢--Pennsylvania; 12¢--Illinois and New York; 10¢ Ohio; and 7¢--Indiana.

Since the proposed increase would take effect January 1, 1970, it would produce an estimated \$18 million in revenue during the current fiscal year which ends June 30, 1970, and \$45 million on a full-year basis in fiscal 1970-71.³

2 The senate has approved repeal of the property tax credit for calendar 1970 returns. Under the senate bill permanent repeal and permanent earmarking of \$116 million annually to the school aid fund is contingent upon voter approval of the constitutional amendment on property taxes.

3 The senate has not acted on the cigarette tax increase but has enacted a series of sales and use tax amendments which would add \$35 million annually to state revenues.

Timetable for Implementation of Revenue Proposals

The governor's proposed timetable for the revenue changes required to shift to state support of public elementary-secondary education is as follows:

- January 1, 1970 --increase state cigarette tax by 5¢ per pack.
 --repeal property tax credit (effective when 1970 returns are filed in 1971).
- November 10, 1970 --submit constitutional amendment on property tax to the voters.
- July 1, 1971 --eliminate local school district operating taxes, except,
 --local option three mill tax for enrichment could be levied.
- December 1, 1971 --levy statewide property tax for school operations of not to exceed 16 mills.

It will be noted from the above timetable that the elimination of local school district operating taxes, and the levy of the statewide property tax and three mill local option tax would occur during the fiscal year beginning July 1, 1971, which is fiscal 1971-72. The governor's budget process bill provides for state appropriations for local school district budgets beginning in fiscal 1972-73. It is not clear how local school districts would be financed in fiscal 1971-72. However, since the constitutional amendment as proposed by the governor would permit the legislature to authorize by law the levying of property taxes by local school districts, the legislature could provide for either local or state (or a combination) financing for fiscal 1971-72.

State Financing-Summary

The governor's revenue proposals as submitted to the legislature would provide increased state revenues of \$18 million in the current fiscal year (1969-70) from a part-year collection of the cigarette tax. For 1970-71 the full-year collection of the cigarette tax (\$45 million) and the repeal of the property tax credit (\$116 million) would provide increased state revenues of \$161 million. However, for 1970-71 the governor has also proposed increased state aid for elementary-secondary education of \$181 million.

The governor estimates that \$25 million of this proposed increase in state aid can be financed from growth in the earmarked revenues of the school aid fund, but that a \$156 million increase in the general fund supplement to the school aid fund will also be required. In effect, the proposed \$161 million increase in revenues for 1970-71 would finance the proposed increase in state aid for 1970-71.

If the proposed 16 mill statewide property tax were levied in 1971-72 this would provide additional state revenues of about \$640 million (assuming a \$40 billion SEV). However, local school district operating tax levies would be eliminated, which would involve a revenue

decrease of about \$1,080 million (assuming a 27 mill rate and \$40 billion SEV). Thus, in 1971-72 about \$440 million in replacement revenue would be required. This replacement revenue could come from either local school operating property taxes that would be authorized by law or from increased state non-property taxes or from a combination of the two depending on whether the state intends to assume full-state financing in 1971-72 or wait until 1972-73 as provided in the budget process bill.

In 1972-73 it is contemplated that the state will assume full financing of the basic operating budgets of local school districts, all regional costs, and provide state funds for enrichment through direct state appropriation or through the \$30 per mill guarantee. As previously noted these costs cannot be determined at this time.

However, the nature of the problems involved in providing a uniform level of support to all school districts in the state and in meeting rising costs, which were described in Section II of this report, suggest that in 1972-73 the state will require substantial amounts of new state revenues in addition to the replacement revenues for the property tax in order to provide state financing of elementary-secondary education.

IV. EDUCATIONAL ASSESSMENT AND REMEDIAL ASSISTANCE PROGRAM

A testing and remedial assistance program and also an assessment program in vocational education is proposed by the governor. A state wide student testing program in reading and mathematics would be established to enable the state to identify students who have the greatest educational need for remedial education. Based on information from the testing program, state funds are to be made available to schools for programs designed to raise the level of competence in these basic skills. The proposed testing program will cover more grade levels than the current testing program of pupil achievement in basic skills authorized by the legislature in August of this year.⁴

The state department of education also would be authorized to establish a demonstration program in vocational education and counseling in an effort to develop recommendations for a statewide assessment program appropriate for evaluation of vocational education programs.

Use of the Testing Information

The testing program would call for the testing of the level of competence in the basic skills in reading and mathematics of all public school students in grades 1, 2, 4, 7, and 10. Information derived from the testing program would be used for the following three purposes:

1. "Provide the state with the information needed to allocate state funds and professional services in a manner best calculated to equalize educational opportunities for students to achieve competence"
2. Provide information to each school "to assist in its efforts to improve the achievement of students in reading and mathematics" and, through a remedial assistance program, encourage the introduction of new programs and changes in existing programs that "are likely to improve the quality of education"
3. "Provide the general public periodically with readily interpretable information concerning the progress of the state system of education as a whole toward improvement of education in such basic skills."

The state department of education would be authorized to "establish meaningful standards in the basic skills for students" in order to assess competencies. The department is also directed to "collect other relevant information about students, their schools and their communities" which recognizes that these factors influence the student's level of achievement.

The program would provide for the release of the individual student's test scores to local school authorities to enable to them to develop programs designed to raise the level of competence of students identified as having "extraordinary need." Under a state-funded

⁴ The 1970-71 state aid bill passed by the senate provides for distributing \$22.5 million in special aid to elementary schools based on the results of the reading and computational skills tests that will be given to fourth grade students under the present program

remedial assistance program, school authorities are to provide for: a) the diagnosis of each student's performance difficulties and his placement in an instructional program best suited to his individual needs; and, b) the selection, adoption and installation of instructional systems that take account of individual student needs.

The governor's program provides several alternative methods of funding remedial assistance programs. The budget process bill provides for including in the basic education budget of local school districts additional professional personnel per 1,000 students, based on the percentage of underachieving pupils within the district. The budget process bill also provides for local school district budget requests for enrichment programs for underachieving pupils. Local districts would also be authorized to levy a local option three-mill property tax for enrichment programs. Finally, the assessment and remedial assistance bill provides that the state department of education will make available funds to schools to introduce new programs or improve existing programs to raise competencies in basic skills of students identified by the testing program.

V. STATE AID TO LOCAL SCHOOL DISTRICTS FOR 1970-71

As part of his overall education reform program the governor has submitted to the legislature proposals for state aid to local school districts for 1970-71. This state aid proposal does not provide for state assumption of the basic responsibility for financing public elementary-secondary education in Michigan in 1970-71 (which would occur in 1971-72 or 1972-73 under the governor's plan), but does contain some provisions designed to facilitate the transition to basic state financing responsibility.

The governor has recommended a total state school appropriation for 1970-71 of \$1,027.9 million which is an increase of about \$181 million over the \$847 million appropriated for the current fiscal year, 1969-70⁵. The major increases proposed by the governor are as follows:

	<u>Millions</u>
--basic membership grants increased	\$70
--a new program to reduce pupil-teacher ratios	\$30
--special program grants increased by	\$9
--new program for state aid to non-public schools	\$25
--retirement funds increased	\$47

Basic Membership Grants

The governor has proposed basic membership grants for 1970-71 of \$664 million, an increase of \$70 million over the 1969-70 appropriation. A gross allowance of \$535 per pupil less deductible millage of 14 mills is proposed to replace the two-part formula used in 1969-70⁶. The new formula proposed for 1970-71 will provide a state average net membership allowance of about \$300 per pupil, which is \$26 higher than the \$274 per pupil average in 1969-70.

5 On November 13 the senate passed a 1970-71 school aid bill which provided for a total appropriation of \$1,008.6 million, which is \$19 million less than the governor's proposal.

6 As passed by the senate the school aid bill continues the present two-part formula:

	<u>SEV Per Pupil</u>	<u>Gross Allowance</u>	<u>Deductible Millage</u>
A	\$12,864 or more	\$408.00	9
B	Less than \$12,864	\$549.50	20

The senate-approved general membership formula will cost \$578 million in 1970-71.

In addition, the senate has approved a new program which would guarantee each district levying 12 mills or more a yield of \$30 per pupil per mill for the first three mills levied in excess of 12 mills up to a maximum of \$90 per pupil. This would operate in the same manner as the three mill local option levy proposed by the governor which is described in Section III of this report. The estimated cost to the state of this provision in 1970-71 is \$86 million.

The governor's proposed formula would provide higher than average increases in aid to districts with valuations per pupil ranging from about \$7,000 to \$20,000. Districts with less than \$7,000 valuation per pupil would receive increases of less than \$26 per pupil (\$15 at the \$5,000 SEV per pupil level). Districts with relatively high state equalized valuations (over \$25,000 per pupil) would not receive increased state membership aid in 1970-71 and some would receive less aid than in 1969-70.

The governor's proposed program for 1970-71 continues the presently authorized \$13 million appropriation for additional membership aid to districts with high property tax rates for non-school purposes.⁷

Program to Reduce Pupil-Teacher Ratios

The governor has proposed for 1970-71 a new \$30 million state aid program to reduce pupil-teacher ratios.⁸ This program is designed as a first step in the transition to the proposed classroom unit basis of financing when the state assumes full financial responsibility.

The proposed \$30 million to reduce pupil-teacher ratios would be used to fund the salary costs of an estimated 3,500 additional classroom teachers in those school districts which have pupil-teacher ratios in excess of 26 to 1 in 1969-70, offer a K-12 program and levy at least 20 mills for operating in 1970-71. The \$30 million will be allocated to those districts qualifying that have the highest ratios.

7 The senate approved the \$13 million for high tax districts.

8 The senate eliminated this program.

Special Program Grants

The governor's proposed 1970-71 state aid program provides for \$95.9 million for special program grants, an increase of \$9.0 million over the 1969-70 appropriation. The amount by program is shown below:⁹

	<u>1969-70</u>	<u>1970-71</u>	<u>Increase</u>
Special Education	\$41,250,000	\$46,250,000	+\$5,000,000
Transportation	26,000,000	29,000,000	+3,000,000
Environmental Disadvantaged* +1,250,000	8,750,000		10,000,000
Remedial Reading	5,435,000	6,000,000	+ 565,000
Intermediate Districts	4,100,000	4,500,000	+ 400,000
Tuition	150,000	150,000	- 0 -
Family Helper	75,000	- 0 -	75,000
Attached Districts	1,138,000	- 0 -	-1,138,000
Total Special Programs	\$86,898,000	\$95,900,000 ¹⁰	+\$9,002,000

* SB 1082 and HB 3882 provide \$15.0 million for environmental disadvantaged for 1970-71. The correct figure is apparently \$10.0 million.

In addition the governor has proposed a special program grant of \$25 million for state aid to non-public schools which is discussed in Section VI of this report.¹¹

Retirement Funds

The governor has proposed an appropriation of \$200 million to the school employee retirement systems for 1970-71, which is an increase of \$47 million over the current appropriation.¹² The \$200 million total appropriation provides \$165 million to fund current service costs and the employers' share of social security costs for school employees, which is \$19 million higher than the current appropriation. The governor has proposed a \$35 million appropriation to enable the two school employee retirement systems to make payments to retirees for pre-con services.

9 The senate made the following changes in the governor's proposed special program grants: the environmental disadvantaged (\$10.0 million) and remedial reading (\$6.0 million) programs were eliminated; special education was increased to \$50 million (\$3.75 million over the governor's proposal); about \$500,000 was added for attached districts; and, a new program was added to provide aid to elementary schools in which the levels of reading and computational achievement in the fourth grade are two grade levels or more below state levels as determined by state department of education achievement tests. This program would provide an additional \$150 per pupil enrolled in such low achieving elementary schools and the estimated cost in 1970-71 is \$22.5 million.

10 The senate appropriated a total of \$106.65 million for special education programs.

11 This was approved by the senate.

12 The senate appropriated \$200 million.

State Aid for 1970-71-Summary

The total \$1,028 million state aid (including aid to non-public schools) proposed for 1970-71 is a 21 percent increase over the \$847 million appropriated for 1969-70. The governor's message to the legislature estimates that the earmarked revenues of the school aid fund (from sales and excise taxes) will yield an additional \$25 million in 1970-71 (up from \$416 million in 1969-70 to \$441 million in 1970-71). Since the total recommended increase is \$181 million, the governor's proposal would require a \$156 million increase in the general fund contribution to the school aid fund (up from \$431 million in 1969-70 to \$587 million in 1970-71). The governor's proposed increase in the cigarette tax and repeal of the property tax credit would provide about \$161 million in increased general fund revenues in 1970-71 (see Section III of this paper).

VI. STATE AID TO NON-PUBLIC SCHOOLS

The governor's 1970-71 state aid proposals include a recommended appropriation of about \$25 million for state aid to non-public schools.¹³ The governor proposes that the state reimburse eligible non-public schools for part of the salary cost of lay teachers who are teaching secular subjects.

"Eligible units" would include those non-public schools which comply with all educational standards required by law. A lay teacher would have to have a valid state certificate or permit and could not be a member of a religious order or wear a distinctive habit. Secular subjects would include those courses normally taught in the public schools including such subjects as language skills, mathematics, science, social studies, etc. Specifically excluded are courses of instruction in religious or denominational tenets, doctrine or worship.

The governor's proposed program for aid to non-public schools provides that in 1970-71 and 1971-72 the state pay 50 percent of the salaries of lay teachers in secular subjects and that in fiscal 1972-73 and thereafter the state pay 75 percent of such salaries. However, the governor's proposal limits the total state appropriation for non-public schools to two percent of the total state-local expenditures for public elementary-secondary education in the preceding year. In 1968-69, the latest year for which information is available, total state-local expenditures for elementary-secondary education (including operating, pension, capital outlay and debt) were almost \$2.0 billion. The two percent limit applied to this amount would have provided a ceiling on aid to non-public schools of almost \$40 million. Since the proposed limit is set at two percent of public school expenditures, the dollar amount of aid to non-public schools could increase as public school expenditures increase.

The governor is proposing an "open-ended" appropriation for state aid to non-public schools--"a sum necessary to fulfill the requirements" set forth in the proposed law--subject only to the two percent ceiling. The governor's message to the legislature estimates a 1970-71 cost of \$25.0 million to pay 50 percent of the salary cost of an estimated 5,800 certified lay teachers of secular subjects in accredited non-public schools.

VII. OTHER PROPOSALS

The governor's educational reform program also provides for a \$50,000 appropriation to the state department of education to plan a teacher incentive pay demonstration program for "increasing and rewarding excellence in teaching and for increasing teacher productivity." The state board of education is to develop a demonstration program in four local school districts in 1971-72 and 1972-73. The state board will evaluate the demonstration programs and recommend a statewide incentive pay program by December 31, 1974. The proposal provides for an advisory committee of 11 members, at least five of whom shall be classroom teachers.

13 The senate approved this program with minor amendments and with the provision that an advisory opinion be sought from the supreme-court regarding constitutionality.