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No. 826

November 26, 1969

SUMMARY ANALYSIS GOVERNOR'S EDUCATIONAL REFORM PROPOSALS

This Council Comment is a summary of a detailed Analysis of the Governor's Educational Reform Proposals (Memorandum No. 213, November, 1969). Copies of the memorandum are available upon request.

The governor has submitted to the legislature a series of proposals for educational reform. The purpose is to provide for increased state responsibility for elementary-secondary education and for a more uniform distribution of educational services throughout the state. The governor's program would be implemented over a three-year period by the following major measures:

- Reorganization of the educational structure at the state, intermediate, and local school district levels.
- State determination of basic operating expenditure requirements for elementary-secondary public education at all levels.
- State responsibility for raising the revenues required to support the operating costs of elementary-secondary public education.
- 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.
- State aid to non-public schools.

Reorganization of the Educational Structure

The governor calls for a top-to-bottom reorganization of the elementary-secondary public education administrative structure to make it more responsive to the governor and to the legislature.

Changes at the State Level. The governor has proposed a constitutional amendment which would abolish the present eight-member elected state board of education, which board now appoints the state superintendent of public instruction. The amendment provides for the appointment by the governor with the advice and consent of the senate of a state director of education. If approved, Michigan would be the only state with a state director of education appointed by the governor and also without a board of education.

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Changes at the Intermediate Level. The governor's package proposes the establishment of from ten to 15 state regional school districts with greatly expanded functions in place of the present 60 intermediate districts. The boundaries of the proposed regions would be established by March 1, 1970, by an education region development commission. The regions would be administrative units of the state department of education. Each region would be headed by a director appointed by the state superintendent subject to civil service and with the approval of the regional board. A regional board would represent the local school districts in each region and would advise the regional director on policy matters.

Regional school district areas of responsibility include: (1) the provision of basic educational programs such as vocational-technical education and special education; (2) the provision of educational services such as educational media, in-service training, coordination of adult education programs and of vocational education programs offered by community colleges, curriculum and capital planning consulting services, etc.; (3) the provision of "business" services such as transportation and data processing and in smaller districts accounting, purchasing, etc.; and, (4) serving as an administrative agent of the state department in reviewing local school district budget requests, administering the disbursement of state funds to local school districts and providing for uniform accounting and auditing at the local level.

The educational regions are designed to assure more uniform distribution of certain basic educational services, to achieve economies of scale, to improve services rendered by local school districts, and to provide a key administrative link between the state and the local school districts.

Changes at the Local Level. Local school districts would be reorganized so that each district in the state would offer a K-12 program and have at least 2,000 students (except that no district need be larger than a county). At present there are 644 local school districts in Michigan and only 261 of these are offering a K-12 program to more than 2,000 students. It is estimated by the governor that about 300 of the present districts would be eliminated leaving about 350 reorganized districts.

The State Committee for Reorganization of School Districts would establish guidelines for reorganization. While the initiative for developing reorganization plans would rest with the local districts, the state committee would have the authority to reject proposed local plans and would enact plans for districts which will not adopt their own. It is proposed that the reorganization task be completed by July 1, 1973.

The local school district reorganization proposal is the strongest in Michigan's history although it is not a mandatory enactment of a state plan. The reduced number of school districts would be more capable of providing an effective program in a more efficient manner and would facilitate the proposed budget system for state financing of elementary-secondary public education.

The governor's program also calls for the establishment of a public non-profit corporation to develop neighborhood education centers to provide educational opportunities to high school dropouts.

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. Local school districts would continue to have both expenditure and revenue-raising responsibility for capital outlay and debt service.

Basic Operating Budget. The local school district would prepare its basic operating budget requests based on state guidelines. The guidelines 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 percentage allowance for overhead costs. The apparent intent of the governor's proposals is to provide for the uniform allocation of operating funds among the local school districts with variations permitted only under specified circumstances.

Enrichment Program Budget. In addition to the basic operating budget requests, local school districts could also prepare enrichment program budget requests for such items as programs for broader curriculum, for underachievement, for gifted children, for research and for technological innovation. 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 pupil for each mill levied by a local district.

Regional Budgets. Activities of the education regions would be financed by the state. The regional basic education budget, 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. Each region will also prepare a regional education service budget in accordance with state directives for regional business and consulting services to local districts. In addition, each region may submit special program requests for experimental or innovative programs.

The Budget Review and Appropriation Process. The proposal provides for administrative review and recommendations on budget requests by the regional directors, the state superintendent, the state budget director and the governor. The governor would submit appropriation recommendations for each district to the legislature as part of his annual budget. The legislature would then enact appropriations for each local school district and for each region.

Operating Expenditures-Total Costs. The total cost of state financing of public elementary-secondary education cannot be estimated until the specific state guidelines that will be used in compiling budget requests have been established. It appears likely that when the state assumes full financing responsibility in 1972-73 the total cost will exceed substantially the almost \$1.7 billion spent in 1968-69.

A more uniform distribution of educational services throughout the state can be accomplished either by a massive redistribution of present resources among local school districts or by raising the total level of support. If present resources are simply redistributed so that all school districts receive the present statewide average level of support, roughly half the pupils in the state would have more money spent for their education and half would have less. If the total level of support is raised above the present level, it will require an additional \$212 million for each increase of \$100 per pupil in average current operating expenditures. To raise all districts to the level of the highest district in per pupil expenditure in 1968-69 would require a total increase of over \$925 million excluding retirement costs.

School operating costs more than doubled between 1962-63 and 1968-69, rising at an average annual rate of 14.7 percent (almost 18 percent annually in the past four years). If costs continue to increase by 15 percent a year, by 1972-73 the total cost would be about \$2.9 billion, compared to \$1.7 billion in 1968-69.

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 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 determinable at this time, a comprehensive plan for raising the required state revenues has not been submitted. The governor has proposed several specific revenue measures but these would not provide the state revenues required to meet the proposed state obligation for financing public elementary-secondary education and a substantial additional amount of state revenue would be required.

A State Property Tax. The governor's program includes a proposed constitutional amendment that 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 and 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 operation purposes as it produced in the first year.

If the constitutional amendment on the property tax is adopted by the legislature and approved by the voters, the governor proposes that the state levy a statewide property tax in fiscal 1971-72 for school operating purposes. 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 levy for school operating purposes will be at least \$1.1 billion. Thus, in 1971-72 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 the need for an equivalent amount of replacement revenues from other state tax sources. (On November 13, the senate passed the constitutional amendment with a 12 mill limit on the state property tax.)

Additional Local School District Property Taxes. The proposed constitutional amendment 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. (On November 13, the senate passed the amendment with a three mill constitutional limit on local school district operating taxes.)

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." 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.

A three mill local levy in all local districts would produce \$105 million (in 1969-70) and the state guarantee of \$90 per pupil would require a state aid appropriation of \$91.5 million. This would provide a total of \$196.5 million for "enrichment programs."

Reducing the 15 Mill Limit. The governor's proposed constitutional amendment on the property tax would reduce the present 15 mill limit to 7 mills, the alternate 18 mill limit to 10 mills, and the overall 50 mill limit to 25 mills. School districts would no longer be included within these limitations. They would apply to counties and townships.

At present there are 22 counties that have total county-township allocations in excess of the proposed seven mill limit. These units would be faced with reducing their allocated millage for county and/or township purposes or they could utilize the alternate 10 mill fixed millage allocation procedure. (Senate action November 13 fixed the limits at eight and 11 mills.)

The Financing Program for 1970-71. The governor has recommended a total state school aid appropriation for 1970-71 of \$1,027.9 million, an increase of \$181 million over 1969-70. Of this total increase, \$126 million is added to present state aid programs and \$55 million is proposed for two new state aid programs--\$30 million to reduce pupil-teacher ratios in school districts with ratios in excess of 26 to 1; and, \$25 million to reimburse eligible non-public schools for part of the salary cost of lay teachers teaching secular subjects.

To finance his 1970-71 recommended school aid appropriation, the governor has proposed that the present credit against state income tax liability for property taxes paid be discontinued for taxable years beginning or after January 1, 1970. The credit would be allowed on 1969 returns filed in 1970. The repeal of the credit would increase state revenues in fiscal 1970-71 by an estimated \$116 million.

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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 5¢ cigarette tax increase would be earmarked for the school aid fund.

State Financing-Summary. The governor's revenue proposals as submitted to the legislature would provide increased state revenues of \$161 million in 1970-71. 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. Thus, in 1971-72 about \$440 million in replacement revenue would be required.

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 and through the \$30 per mill guarantee. As previously noted these costs cannot be determined at this time.

However, the nature of the problems of providing a uniform level of support to all school districts in the state and of meeting rising costs, suggests 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.

Educational Assessment and Remedial Assistance Program

A statewide testing and remedial assistance program and also an assessment program in vocational education is proposed by the governor. 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. 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 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.

Teacher Incentive Pay

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 in four local school districts for "increasing and rewarding excellence in teaching and for increasing teacher productivity." The state board is to recommend a statewide incentive pay program by December 31, 1974.

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Council Comments No. 826, November 26, 1969

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Since publication of Council Comments 826 the state department of education has released more complete data on 1968-69 operating expenditures of local school districts. The following should be substituted for the section "Operating Expenditures-Total Costs" which appears on the bottom of page 3 and the top of page 4 in Council Comments No. 826.

Operating Expenditures-Total Costs. The total cost of state financing of public elementary-secondary education cannot be estimated until the specific state guidelines that will be used in compiling budget requests have been established. It appears likely that when the state assumes full financing responsibility in 1972-73 the total cost will exceed substantially the almost \$1.54 billion spent in 1968-69.

A more uniform distribution of educational services throughout the state can be accomplished either by a massive redistribution of present resources among local school districts or by raising the total level of support. If present resources are simply redistributed so that all school districts receive the present statewide average level of support, roughly half the pupils in the state would have more money spent for their education and half would have less. If the total level of support is raised above the present level, it will require an additional \$212 million for each increase of \$100 per pupil in average current operating expenditures. To raise all districts to the level of the highest district in per pupil expenditure in 1968-69 would require a total increase of over \$1.0 billion excluding retirement costs.

School operating costs more than doubled between 1962-63 and 1968-69, rising at an average annual rate of 13.3 percent (15.7 percent annually in the past four years). If costs continue to increase by 15 percent a year, by 1972-73 the total cost would be about \$2.7 billion, compared to \$1.54 billion in 1968-69.

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