Adequacy, Equity and Capital Spending in Michigan Schools

The Unfinished Business of Proposal A

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The Education Policy Center
at Michigan State University

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David Arsen
Professor of Educational Administration
College of Education
Michigan State University

Tom Clay
Director of State Affairs
Citizens Research Council of Michigan

Thomas Davis
Thomas Devaney
Rachel Fulcher-Dawson
Graduate Research Associates
The Education Policy Center
Michigan State University

David N. Plank
Professor and Co-Director
The Education Policy Center
Michigan State University

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EXECUTIVE SUMMARY

UNFINISHED BUSINESS

Despite a long tradition of local control, Michigan now has a state education system. Since the approval of Proposal A in 1994, decisions about how much to spend on educating students have been made in Lansing. One critical element of Michigan's public school system remains an exclusively local responsibility, however. The revenues for school construction and other capital spending come almost entirely from local property taxes, which must be approved by local voters.

The value of taxable property varies dramatically across school districts. In 29 of Michigan's wealthiest districts the per pupil value of taxable property is more than $500,000. In 75 districts, in contrast, the per pupil value of taxable property is less than $100,000. In six districts including Detroit the per pupil value of taxable property is less than $50,000. The residents of school districts where the value of taxable property is low must pay very high rates of property tax to raise relatively small amounts of capital. Citizens in wealthier school districts can raise far more capital while paying significantly lower property tax rates. As a result, students in many poor school districts must cope with aging or inadequate educational facilities.

Capital spending is the unfinished business of Proposal A. Leaving responsibility for capital spending at the local level perpetuates wide variation in the quality of educational facilities provided for students in Michigan's public school system. Ensuring that all Michigan children are able to attend schools that meet minimum standards of adequacy and equity will require a larger state role in financing capital expenditure. This is especially true in the poorest school districts, which can no longer provide adequate school facilities for local children without state support.

CAPITAL STOCK

The current value of capital stock in Michigan's public school system is approximately $32.6 billion. This number includes the value of all school buildings and related infrastructure, including athletic facilities. This amounts to approximately $20,000 for every pupil enrolled in Michigan's public school system.

Capital assets are not evenly distributed across Michigan school districts, however. In Michigan's central city school districts the average value of capital assets per pupil is approximately $15,000. In contrast, the value of capital assets per pupil in high-income suburbs is two-thirds higher, at approximately $25,000. The value of capital assets per pupil in Michigan's other suburban and rural districts falls roughly midway between the state's central cities and high-income suburbs.

UNMET NEED

The value of unmet capital need in Michigan's public school system is approximately $8.7 billion. This amounts to about $5,000 for every pupil enrolled in Michigan's public schools, or approximately 25 percent of the current value of the capital stock in the system. The average need in the poorest districts is more than twice as large as the average need in the richest districts, but there is unmet need for capital spending in all categories of school districts, from the poorest to the richest.

The per pupil need for capital spending is greatest in Michigan's fifteen urban school districts. Approximately one-third of the total need for capital spending is found in these districts. Nearly 25 percent of the total need in Michigan is found in five low-income central city school districts: Battle Creek, Detroit, Flint, Muskegon, and Saginaw. Substantial unmet need is also found in middle-income suburbs and in low-income rural districts, but in both of these cases the number of districts involved is many times larger. In the case of the middle-income suburbs the number of students involved is substantially larger as well.

TAX EFFORT

The unmet need for capital spending would be even greater in Michigan's poorest school districts if the residents of these districts were not already taxing themselves at rates nearly three times as high as rates in Michigan's richest districts. The average millage rate in the poorest 20 percent of school districts is nearly three times higher than the average rate in the richest 20 percent of districts. Tax effort is especially high in central cities. Leaving the responsibility for financing unmet need at the local level would require citizens in Michigan's poorest school districts to pay property tax rates four times higher than those paid by citizens in Michigan's wealthiest districts in order to provide adequate facilities for local students.

FISCAL AND POLICY IMPLICATIONS

There are several policy alternatives that the State might adopt to increase adequacy and equity in the way school construction is financed in Michigan. The range of policy options extends from minor modifications of current policies to a complete assumption by the State of responsibility for financing school facilities. A comprehensive state response to the problem of school facilities funding will almost certainly represent a blend of multiple approaches.

The main alternatives discussed in the report include:

- Modifying the School Bond Loan Fund

The SBLF now allows school districts to take advantage of the state's high bond rating to lower the cost of new bonds, and to extend the repayment period on bonds approved by local voters. The SBLF could be modified to further extend the repayment period, or enhanced to provide additional support by forgiving SBLF interest payments, subsidizing the revenue yield of locally-levied mills, or providing direct grants to local school districts for capital projects.

- Direct State Financing of Selected Projects

The State could issue bonds to raise the amounts necessary to finance the construction of adequate educational facilities in targeted school districts. Criteria for participation might include a combination of existing facility conditions, compliance with state standards for school construction, local tax effort, and the ability of a district to finance capital spending needs locally.

- Facility Financing Grants

The State could provide per pupil foundation grants to support capital spending, in addition to the foundation allowance provided for operations. Facility financing grants could be provided on either an equalizing or a non-equalizing basis, to both traditional school districts and public school academies.

- District Power Equalization

A power equalization program would subsidize the per pupil yield of each mill on the local property tax at a minimum guaranteed level. Under a power equalization program, districts with taxable value per pupil below the minimum guarantee would receive a state subsidy to make up the difference between the guaranteed yield and the district's actual yield per mill of tax. The subsidy would be calculated as the millage rate times the difference between the taxable value per student guarantee and the actual taxable value per student times the number of pupils.

- State Assumption of All Facility Financing

The State could pay off the existing debt of local school districts and issue state bonds to finance future projects. Full state assumption of the responsibility for financing facilities would be the most direct and effective way to complete the unfinished business of Proposal A.

No matter which alternative is chosen, increasing the State’s role in facilities financing will require additional resources. On the very conservative assumption that capital investments have a useful life of 30 years, financing bonds at 5 percent interest to satisfy all of Michigan’s unmet capital need would cost the state’s taxpayers approximately $540 million per year. This would add less than 5 percent to the amount that taxpayers now spend annually to support the operation of Michigan’s public school system. By rearranging existing debt and using statewide revenue sources, significant improvements in the equity and adequacy of Michigan’s facilities financing policies can be accomplished with relatively small changes in the overall level of taxes.