



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Current Education Budget Situation

Michigan State Board of Education

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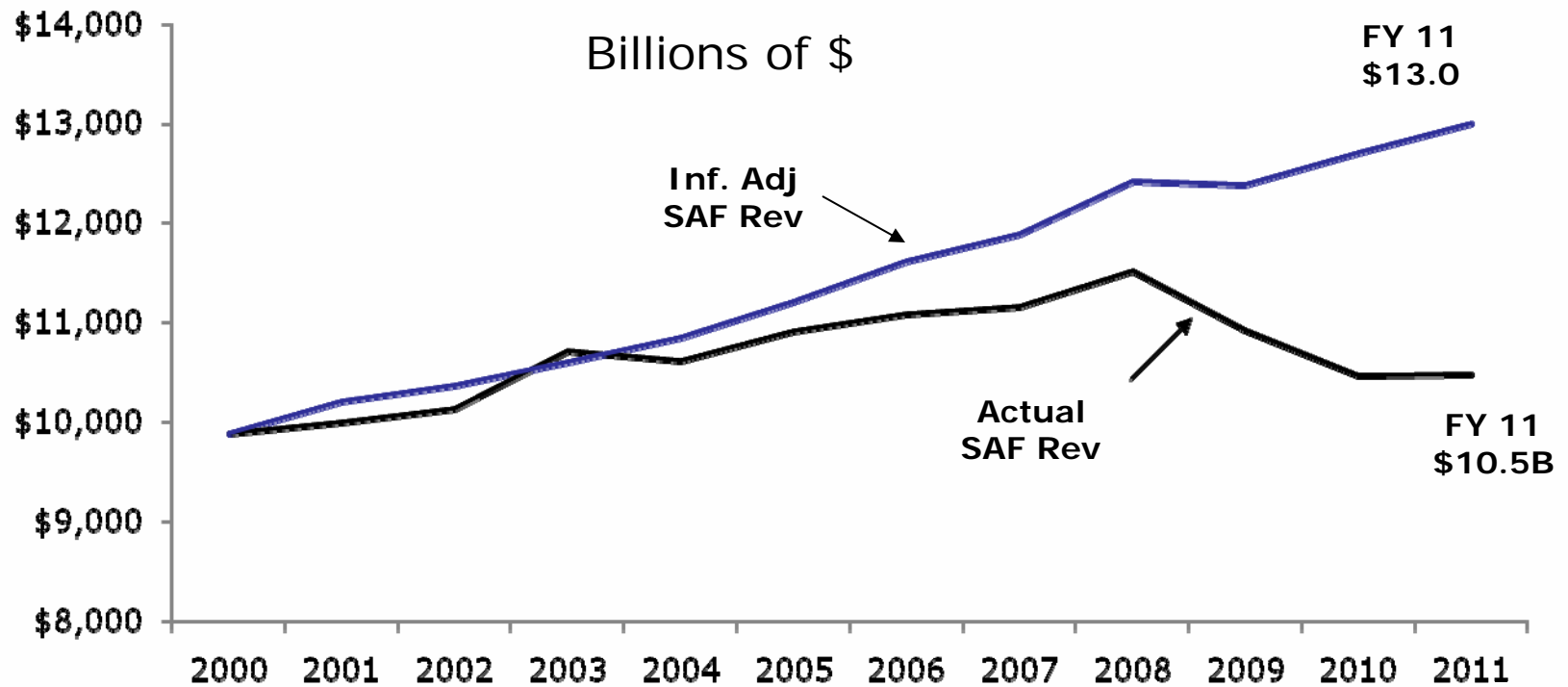


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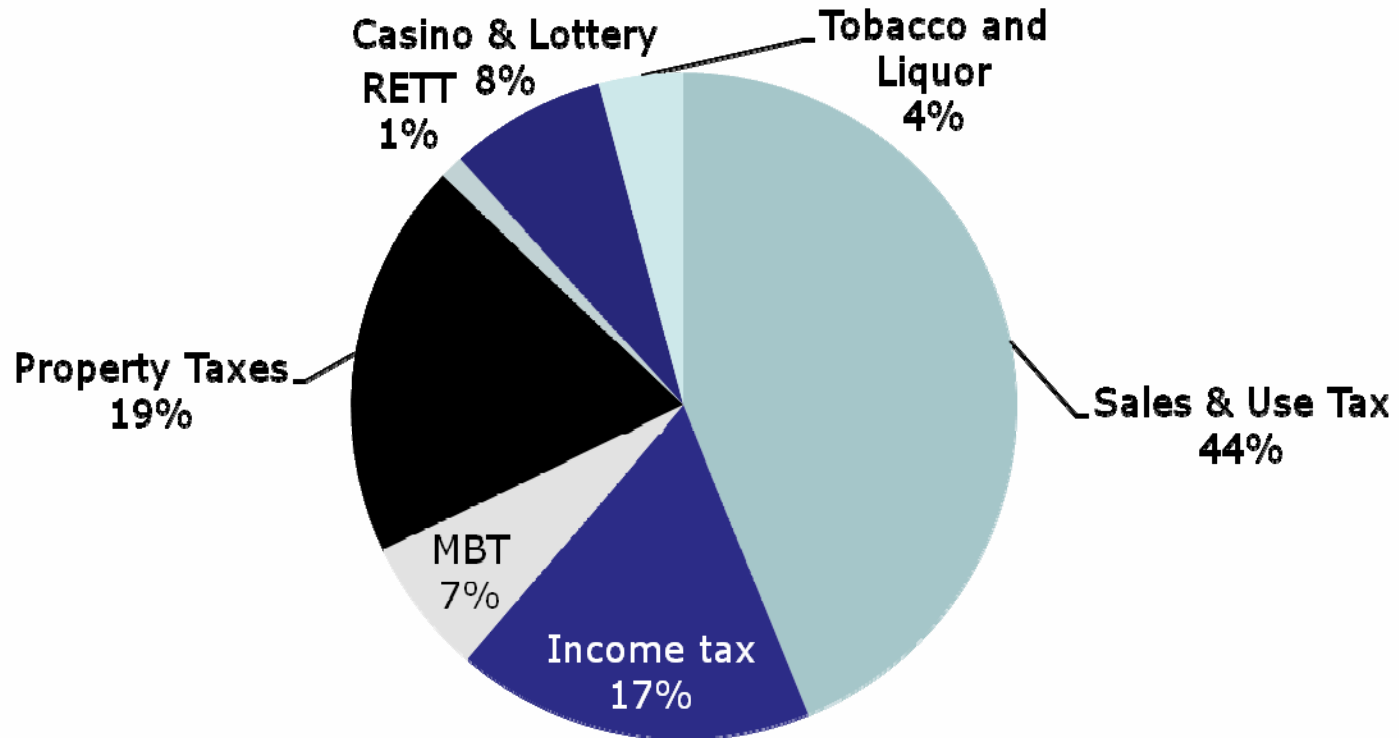


SAF Revenues Trail Inflation By \$2.5 Billion Since 2000





Sources of State School Aid Revenue (Totals \$10.9B in FY 2009)





Performance of Major School Aid Fund Revenue Sources

- **Sales Tax** – Had been trailing inflation, dropped double digits in FY 2009 and now below FY 2000 level
- **Income Tax** – Was protected from rate cuts earlier in decade, but did not benefit from increases later in decade. Down double digits in FY 2009 and now below FY 2000 level
- **MBT** – Added to the SAF in FY 2008, mostly replaced other SAF taxes, but roughly \$250 million of new revenue; growth going forward based on inflation, not growth in MBT
- **SET** – Up 47% this decade, but will fall sharply going forward



Performance of Major School Aid Fund Revenue Sources

- **Real Estate Transfer** – Peaked at over \$300 million per year in FY 2004 and FY 2005, but only \$125 million in FY 2009
- **Other** – Addition of 3 Detroit Casinos, expansion of lottery games, and 2002 tobacco increases boosted SAF revenues, but not a source of significant growth going forward
- **FY 2011** – Consensus forecast is for 0.2% growth; could see faster growth if economy turns but it will be years before the old level is regained



FY 2010 Budget Balancing Measures

- Ongoing FY 2010 SAF revenues projected to be \$1.0 billion below FY 2008
- Enacted FY 10 Cuts:
 - \$165 per pupil (\$263M)
 - ISD reduction (\$16M)
 - 20j veto (\$52M)
 - Other Cuts (\$35M)
- Proposed proration \$127 per pupil (\$212M) was rescinded
- Stimulus money in budget:
 - FY 09 \$600M
 - FY 10 \$450M
 - FY 11 \$184M (remainder of funds)



School Aid Fund Budget 2009 and 2010

	<u>FY 2009 Estimate</u>	<u>FY 2010 Estimate</u>
Revenues		
Beginning Balance	\$247.1	\$229.1
May Consensus Estimate	\$10,943.7	\$10,563.0
Jan Revenue Revisions	(\$21.5)	(\$104.9)
Misc. Revenue Adjustments	\$23.2	\$0.0
ARRA K-12 Approp	\$597.5	\$450.0
GF-GP Grant to Schools	\$76.5	\$30.2
Federal Aid	\$1,503.6	\$1,601.8
Total Estimated Revenue	\$13,370.1	\$12,769.2
Expenditures		
Initial Appropriations	\$13,378.9	\$12,823.5
Formula Funding Adjustments	(\$119.1)	(\$108.0)
Expenditure Adjustments	(\$65.0)	NA
Lapses	(\$53.8)	NA
Total Projected Expenditures	\$13,141.0	\$12,715.5
Estimated Year End Balance	\$229.1	\$53.7



School Aid Fund Budget FY 2011 Shortfall

	<u>FY 2011 Estimate</u>
Revenues	
Beginning Balance	\$53.7
January Consensus Estimate	\$10,480.5
Remaining ARRA	\$184.1
GF-GP Grant to Schools	\$30.2
Federal Aid	<u>\$1,602.0</u>
Total Estimated Revenue	\$12,350.5
Expenditures	
FY 2009-10 Current Service Baseline	<u>\$12,773.5</u>
Total Projected Expenditures	\$12,773.5
Estimated Year End Balance	(\$423.0)
Student Count	1,580,100
Approx. Shortfall per pupil	(\$268)



Shortfall Estimates for FY 2011 Vary

	<u>January Consensus</u>	<u>January RSQE</u>	<u>January Admin</u>	<u>January SFA</u>	<u>January HFA</u>
FY 2011 SAF	\$10,480.5	\$10,531.0	\$10,607.0	\$10,381.0	\$10,530.0
Diff From Cons.	NA	\$50.5	\$126.5	(\$99.5)	\$49.5
Per Pupil Shortfall	(\$268)	(\$236)	(\$188)	(\$331)	(\$236)



Will It Get Better?

Short Run

- Districts have not yet fully incorporated FY 2010 cuts
- FY 2011 shortfall is greater than what was cut in FY 2010

Longer Run

- CRC 2008 study (pre-recession) found that SAF revenues would grow approximately 3.0% per year while spending pressures grew 4.7%
- Projected statewide enrollment decline of 1.5% per year will be a blessing and a curse for school districts;

Bottom Line: SAF problem does not self correct



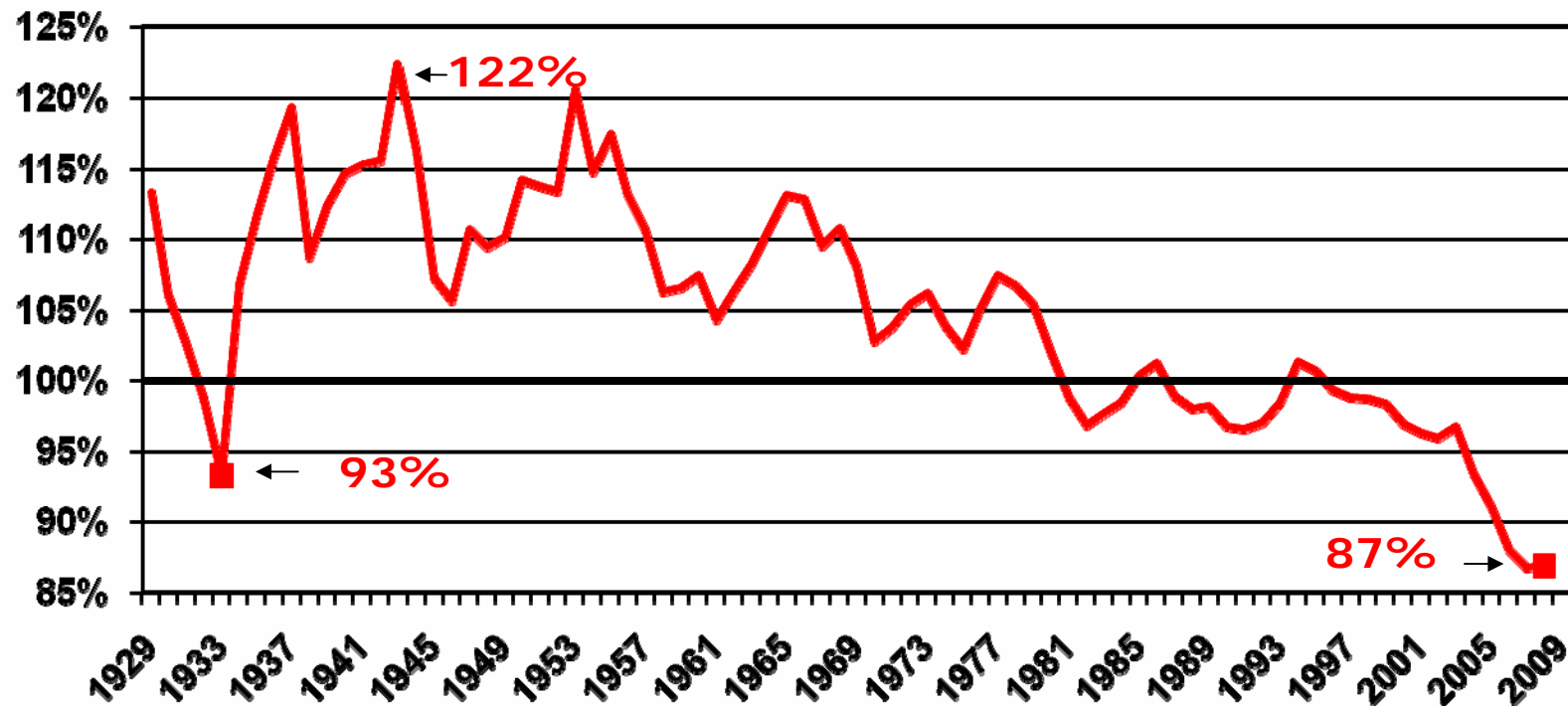
How Does Higher Education Look?

- Compared to FY 2000: community college budget at roughly the same level; state higher education budget roughly 9% lower;
- Community College budget flat from FY 2009 to FY 2010
- Universities down 0.4% from FY 2009 to FY 2010
- \$68 million of ARRA in FY 2010 university budget (4.4%)
- Financial Aid cut \$140 million (-62%) including:
 - Competitive scholarships \$17.9 million (-50%)
 - Tuition grants \$25 million (-44%)
 - Michigan Promise grant \$80 million (-100%)
- May be protected somewhat from cuts in FY 2011 due to use of ARRA funds
- Restoration of any funds unlikely as GF shortfall is \$1.2 billion for FY 2011



Michigan Personal Income Falling Relative to U.S.

Michigan per Capita Income as a Percent of U.S. Per Capita Income Rank has fallen from 20th in 2001 to 37th in 2008





CRC's Education Study

- Comprehensive Look at K-12 education provision in Michigan including
 - Governance
 - School Finance
 - Fiscal Realities and Spending Reforms
 - Public School Academies
 - School District Organization and Service Provision
 - Analysis of Education Reforms
- Pieces will be published as they are completed; first paper on governance will be released soon



Education Governance

- Examine current structure including the roles of the federal government, state board and superintendent, Michigan Dept. of Ed, ISDs, local school boards, et.
- Discuss issues relating to centralized authority vs. local control
- Interstate comparisons in governance and organization
- Implications of current system
- Various models of education governance (separate paper)



K-12 Revenues and School Finance

- Pre-Proposal A Funding Structure
- Proposal A and School Revenues
- Foundation Allowance Formula
- Categorical Grants
- State and Districts' Budgeting Processes and Timelines
- Interstate Comparisons of Funding Structures
- Changes to tax Structure
 - Predictability and volatility of revenues
- Equity in school funding



Fiscal Realities and Spending Reforms

- Cost Pressures
- Capital Expenditures
- Measures of Districts' Fiscal Health
 - Indicators of fiscal stress
 - Deficit districts
- Interstate Comparison of Education Spending
- Analysis of Spending Reforms/Cost Reductions



Public School Academies (PSAs) and School Choice

- Analysis of PSAs
 - Academic achievement and success
 - Accountability (both for students in PSAs and for PSAs)
 - Role as models for traditional schools
 - Relationship between PSAs and traditional districts
- Schools of Choice
- Public Money for Private Schools: Vouchers and tax credits
- Impact of Choice on All Students and Schools



School District Service Provision

- Survey of Local Districts
- Identify School District Cooperation, Collaboration, and Privatization
- Role of ISDs
- Barriers to Cooperation and Privatization



Analysis of Educational Reforms

- Identify Effective Schools and Programs
- Analyze Changes to Educational System
- International Comparisons
- Alternate Delivery Methods
- Pre-Kindergarten through Grade 14 or 16
- Better Use of Technology
- Collaboration with U of M Public Policy Class



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