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Michigan Economic Outlook and CRC Education Study Update

Michigan School Business Officials
Financial Strategies Conference

Jeffrey Guilfoyle, President
Craig Thiel, Director of State Affairs
Citizens Research Council of Michigan
January 19, 2011

www.crcmich.org
jguilfoyle@crcmich.org
cthiel@crcmich.org



Citizens Research Council

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
- *www.crcmich.org*



Is There Any Improvement in Michigan's Economy?

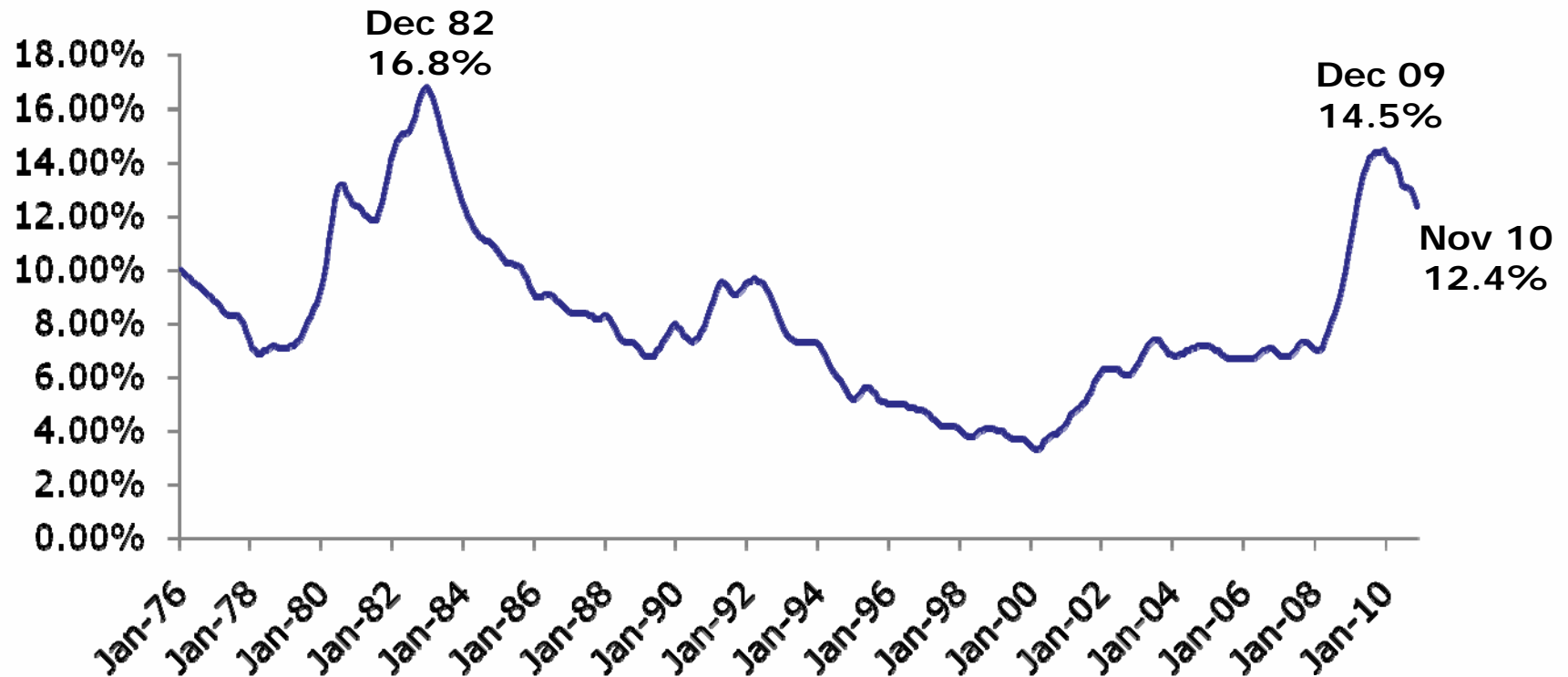


The Last Decade Has Been an Economic Disaster for Michigan

	Growth 2000 to 2009		Michigan
	<u>U.S.</u>	<u>Michigan</u>	<u>Rank</u>
Population	8.8%	0.1%	51
Real Per Capita GDP*	9.7%	-3.8%	51
Employment	-0.7%	-17.1%	51
Real Per Capita Income	3.6%	-7.1%	51



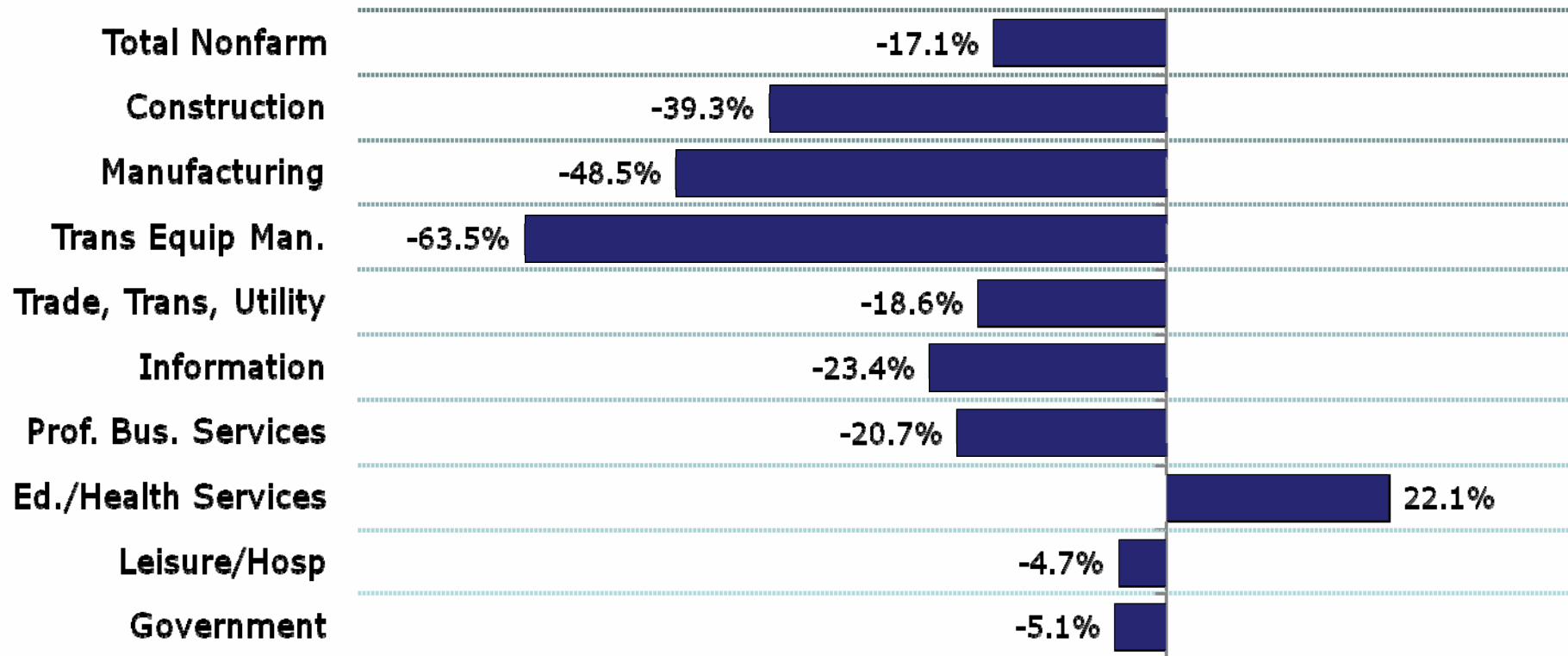
Michigan's Unemployment Rate Appears to Have Peaked





Almost Every Sector in Michigan Lost Jobs Between 2000 and 2009

2000 to 2009





Private Sector Has Been Stable for a Year But Government Employment Still Falling

Payroll Employment (000)

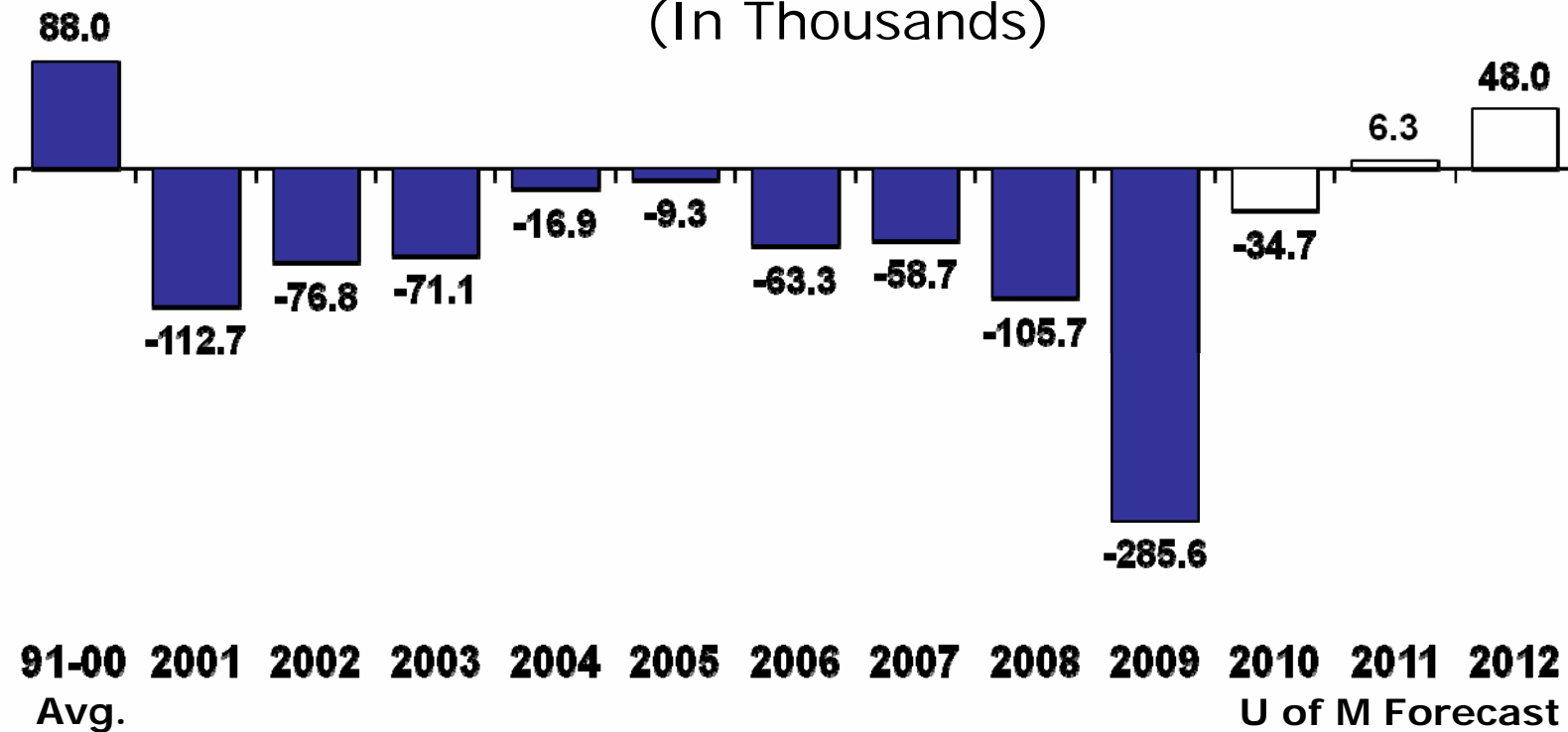
	<u>Nov 2000</u>	<u>Nov 2009</u>	<u>Change</u>	<u>Percent</u>
Total	4,676	3,851	-825	-17.6%
Private	4,020	3,237	-783	-19.5%
Government	683	643	-40	-5.9%
Local Govt Educ	287	243	-44	-15.4%

	<u>Nov 2009</u>	<u>Nov 2010</u>	<u>Change</u>	<u>Percent</u>
Total	3,851	3,832	-19	-0.5%
Private	3,237	3,238	1	0.0%
Government	643	623	-20	-3.0%
Local Govt Educ	243	232	-11	-4.6%



U of M Forecast – Move from Decline to Slow Growth

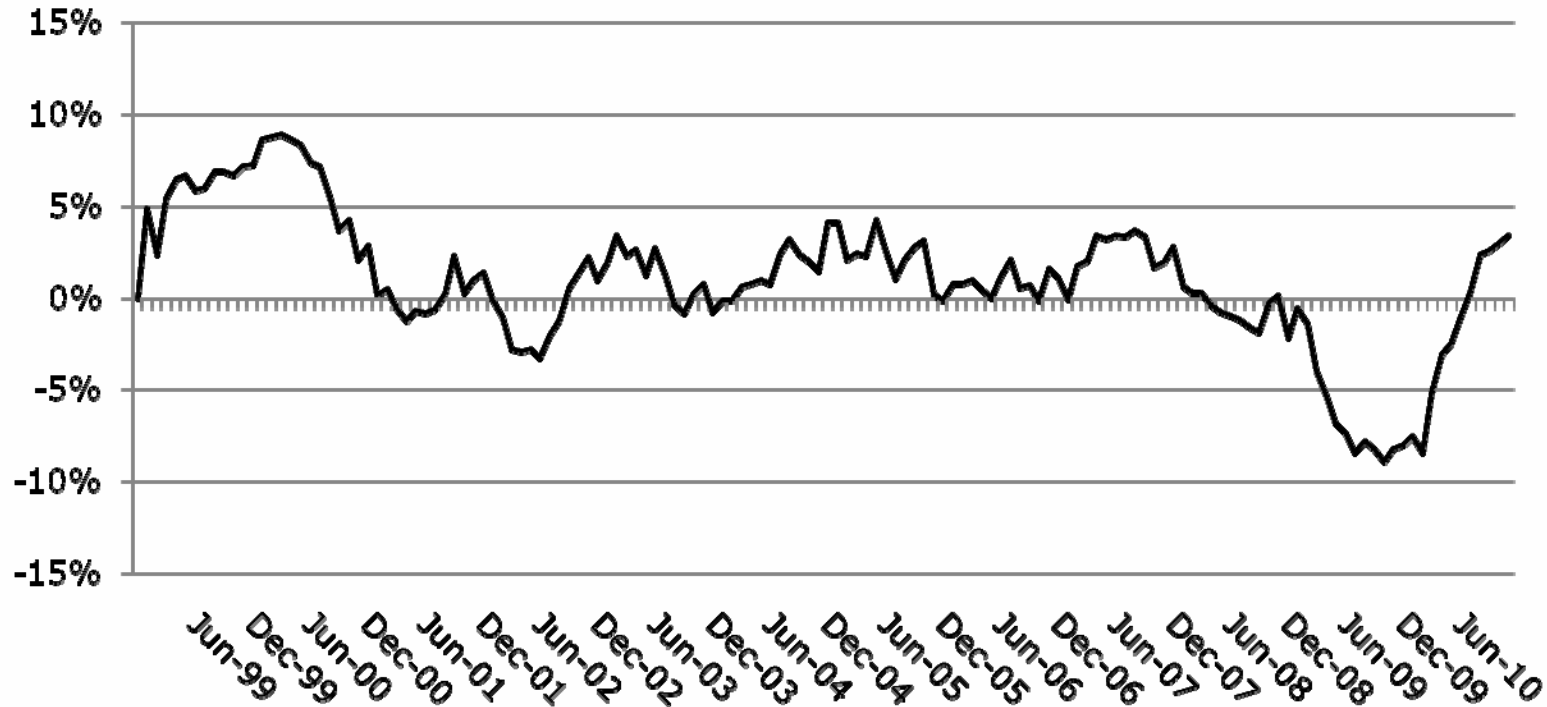
Michigan Wage and Salary Employment Y-O-Y Change
(In Thousands)





Income Tax Withholding Growth Suggests Wages Are Growing Again

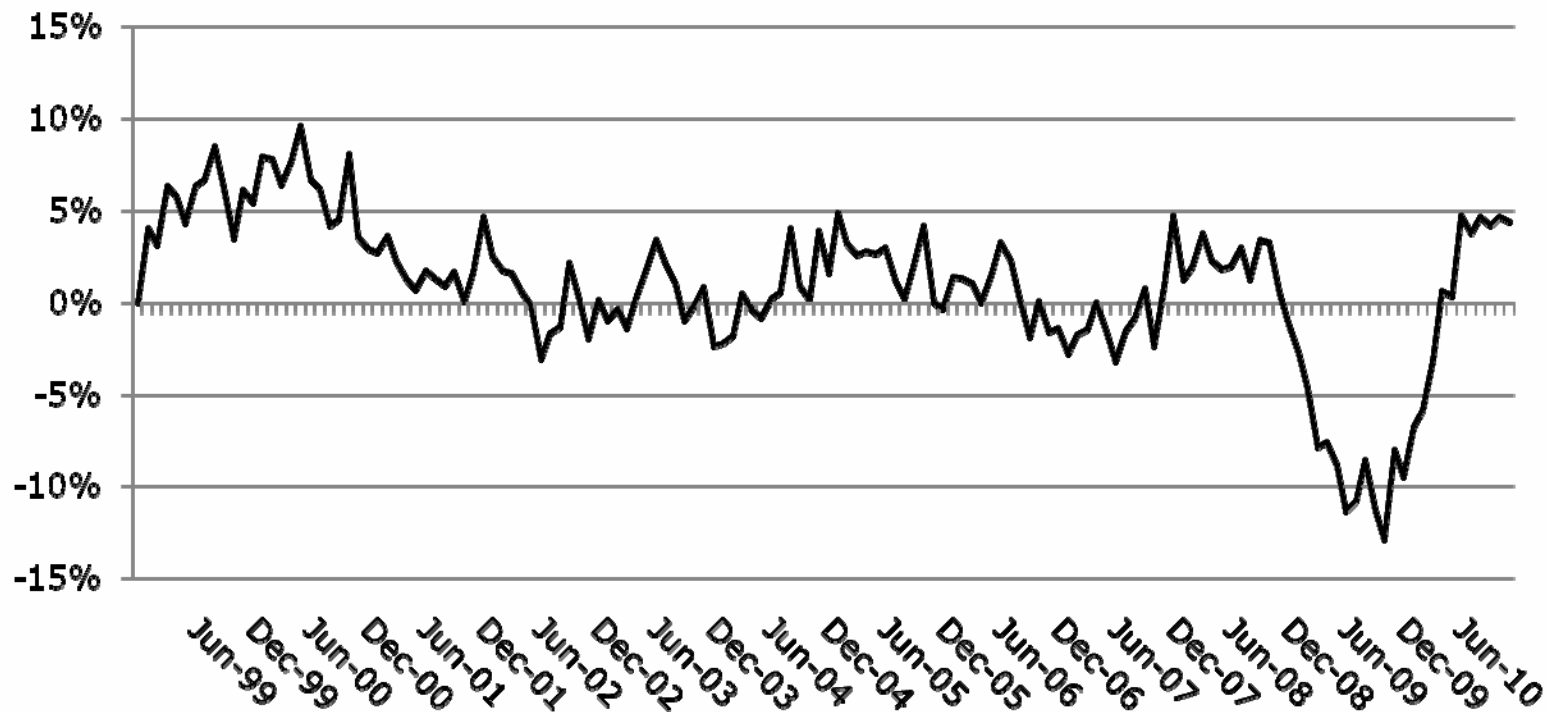
(Y-O-Y % Change 6 Month Average)





Sales Tax Growth Suggests Improvement in Confidence and Disposable Income (and Increase in Gas Prices)

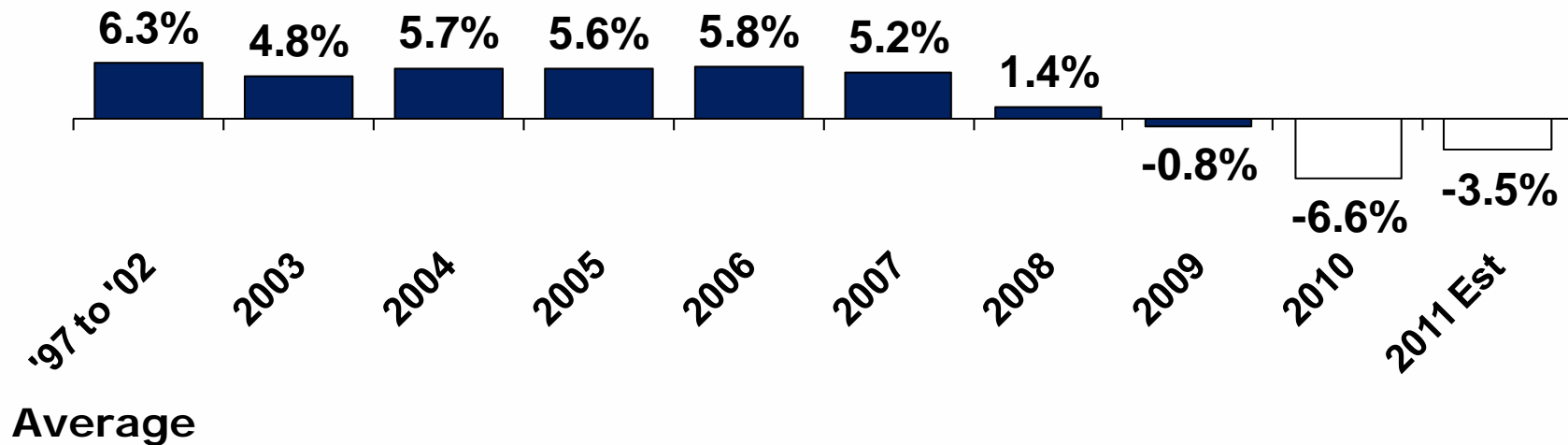
(Y-O-Y % Change 6 Month Average)





Housing Market Recovery Not Expected Soon

% Change in Total Taxable Value





So What's the Bottom Line for Michigan's Economy?

- After 10 years of shrinking, Michigan's economy is starting to grow again
- Some improvement in the economy can be seen in tax revenues but property tax revenues illustrate that not all sectors are recovering
- Job growth will be in the private sector – public sector job declines are going to continue and they could be severe at the local level
- A growing economy is a huge improvement over a shrinking one, but there is no quick recovery from a 17% employment decline



CRC's Education Study



CRC's Education Project

CRC's education study is funded in part by:

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



Summary of Work Done to Date

- As of Dec. 2010, three reports completed (report, summary, webinar, presentation)
 - Governance (January)
 - Revenues (September)
 - Nontraditional Schools (October)
- Two surveys (Spring/Summer 2010)
 - Catalog of service provision (LEAs and ISDs)
 - Surveys developed, distributed, and received



CRC Survey of LEAs and ISDs

- Similar to survey conducted five years ago for general purpose units of government (see: CRC website, Memo 1079 and Report 354)
- Goal: identify cooperative arrangements in place, service areas where increased collaboration makes sense, and service areas where barriers to cooperation exist
- First of its kind -- original data
- Does not include service costs (unit costs)



Survey Instruments and Responses

- Two main questions:
 - What services provided?
 - Who provides service?
- Identified 140 services and functions at LEA level and 219 services and functions at ISD level
 - Covering instructional, non-instructional, and special education
- 158 LEA responses (29%) and 44 ISD responses (77%)
- www.crcmich.org/surveys/



What's Next for CRC?

- In 2011, new reports on topics:
 - Distribution of school revenues
 - Early childhood education
 - Governance reform models
- Analyses of district service provision (using survey results)
 - Opportunities and obstacles for service collaboration/consolidation



Education Finances in Michigan Since Proposal A

Michigan School Business Officials
January 2011

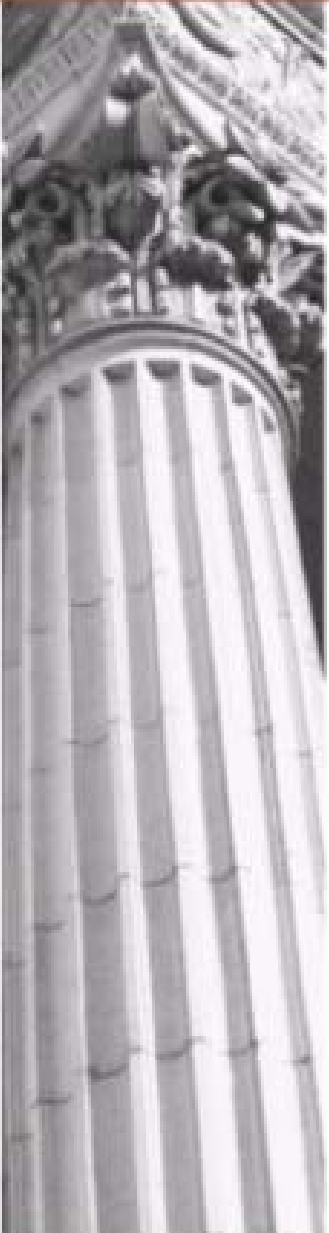
Full reports and other materials can be found at
www.crcmich.org





What Can We Say About the Finance System?

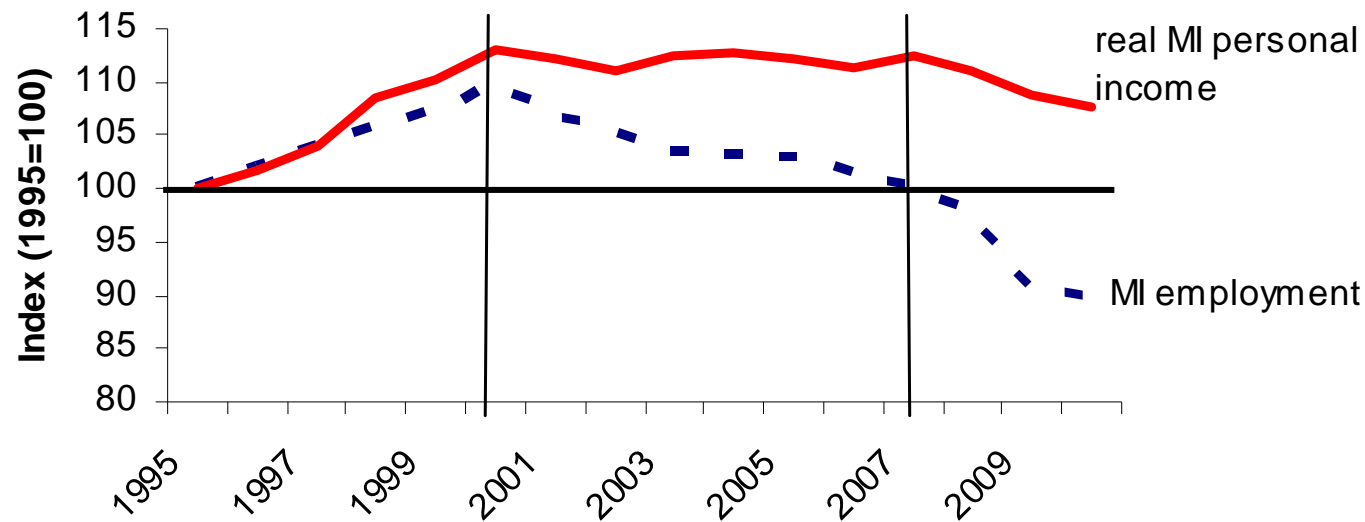
- Extremely centralized system - 85% of total operating revenue controlled by state
- Under the foundation program, “local” property taxes effectively are state taxes
- Performance of state taxes is key to overall resource level and much more volatile
 - “local” property taxes provide stability
- No “safety valve” at local level to respond to declining state taxes
- Does not reflect local variation in costs
- Long-term problem: mismatch between tax structure and economy





Three Distinct Periods of Economic Activity Since Proposal A

Michigan Employment and Real Income Growth



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



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

Annualized Growth Rates: FY1997 to FY2009

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

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

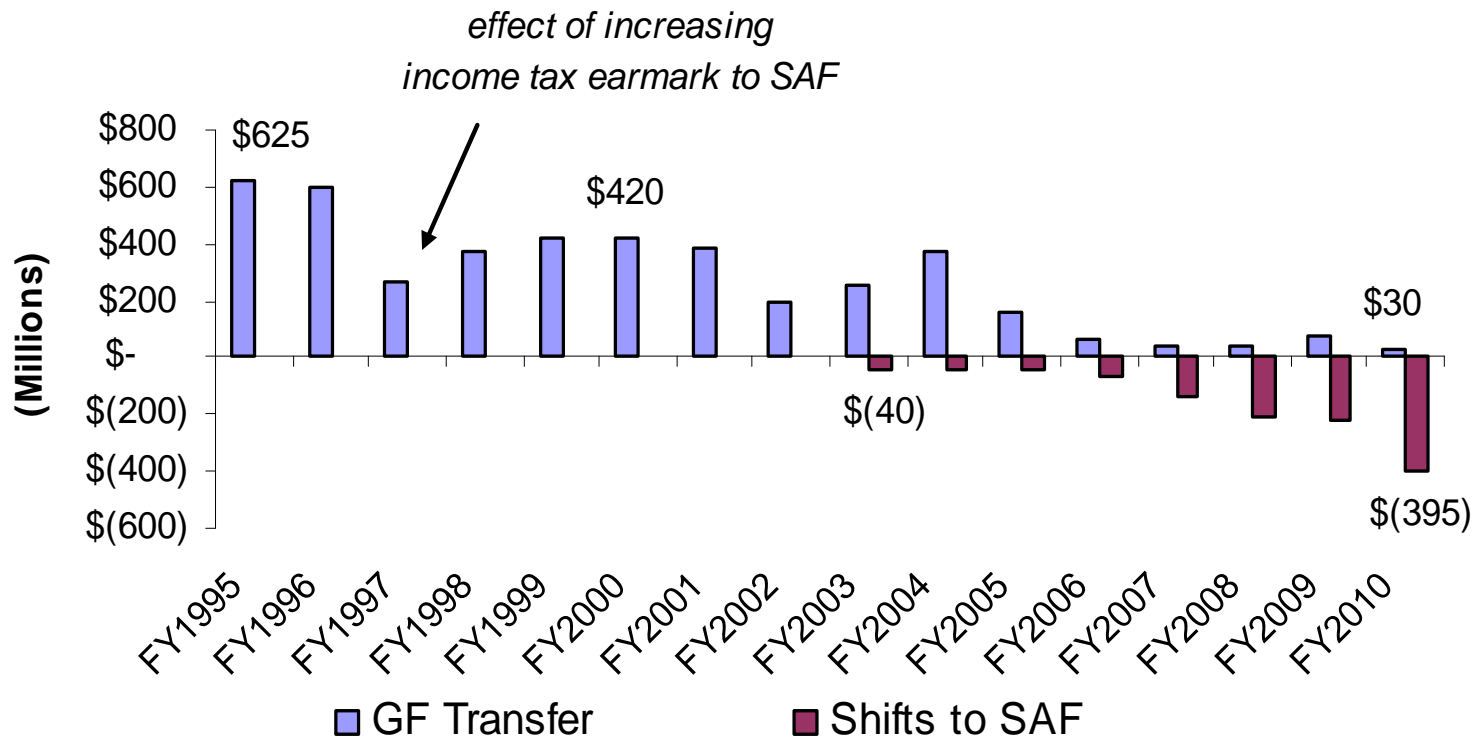
* Note: GF transfer increased from \$35 million to \$78 million



Spillover Effects

General Fund Budget Challenges Affect School Resources

General Fund Transfers and Cost Shifts - School Aid Fund



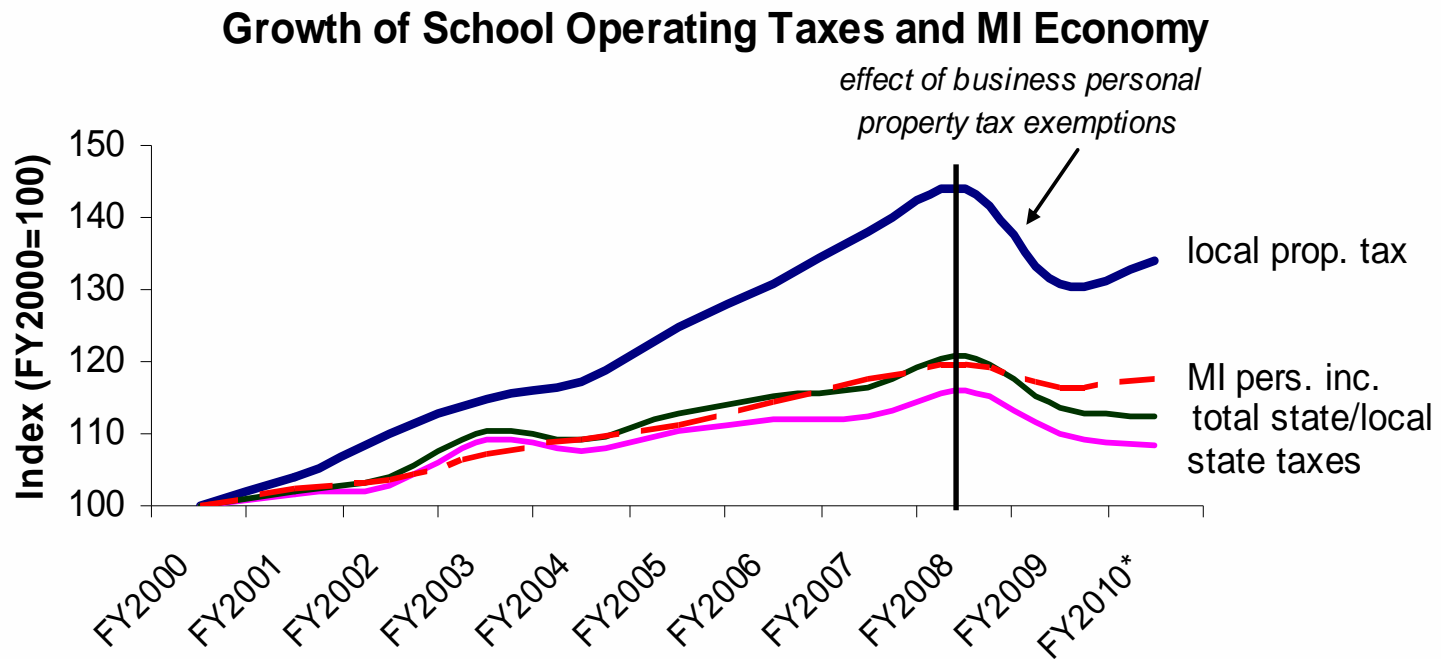
* FY2010 includes \$208 million for community college operations

Source: Michigan Department of Education; House Fiscal Agency



State Taxes Do Not Track Economy

Long-Term Problem Related to Structure of Taxes



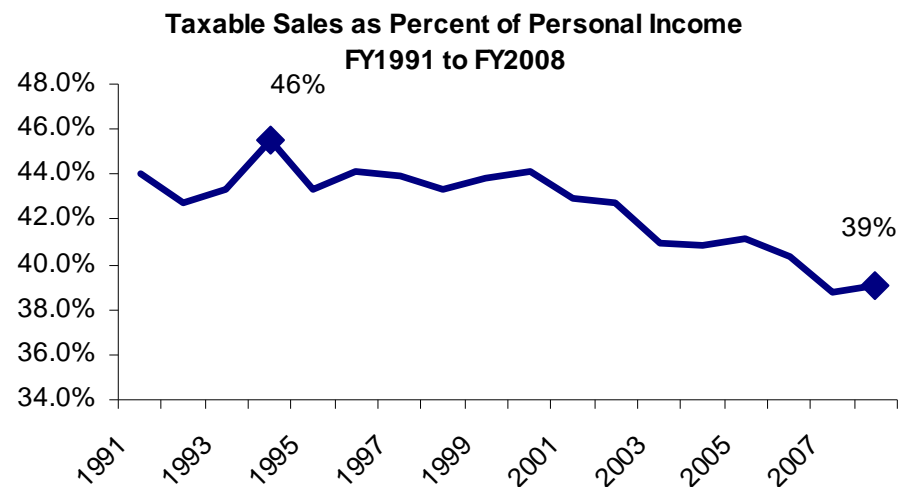
Source: US Dept. of Commerce; Mich. Dept. of Education; Mich. Dept. of Treasury

*FY2010 based on May 2010 Consensus Revenue Estimates



What are the Long-Term Problems?

- **Sales Tax** – largest single source of funding for schools
 - Primarily on goods and few services
 - Services growing section of economy (healthcare) thus sales tax share of economy shrinking



Source: State of Michigan; US Dept of Commerce

Equivalent to \$1 billion in SAF revenue



What are the Long-Term Problems?

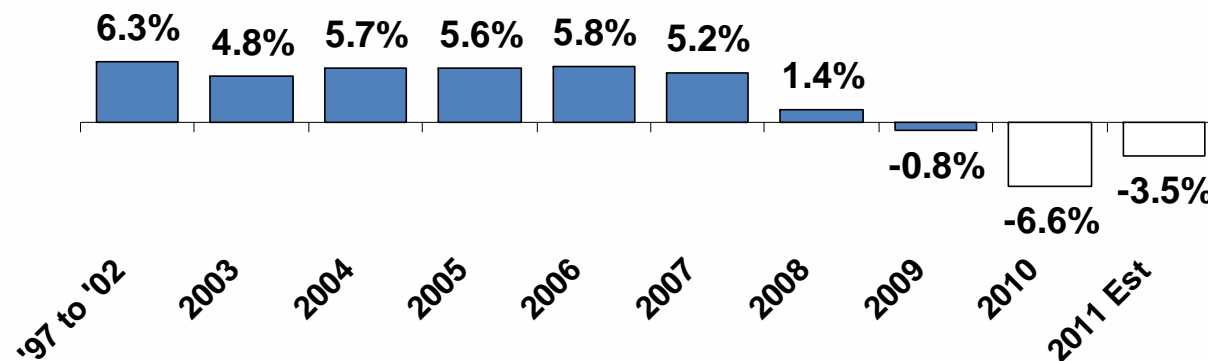
- **Income Tax** – structural, tax policy, and demographic issues
 - Structural: flat rate tax, less progressive than graduated rate structure, income growth at top
 - Tax Policy: schools protected from recent and future rate reductions (however did not benefit from increases)
 - Tax Policy/Demographic: “senior preferences”
 - very generous treatment of retirement income
 - property tax credit (GF impact only)



What are the Long-Term Problems?

- **Property Taxes** – previously stable revenue source will decline with near-term erosion of taxable values
 - During recovery growth will be constrained by current tax limitations (capped at inflation if values escalate faster)
 - SET is second largest state source with income tax decline

% Change in Total Taxable Value



Source: State Tax Commission and May 2010 Consensus Conference.



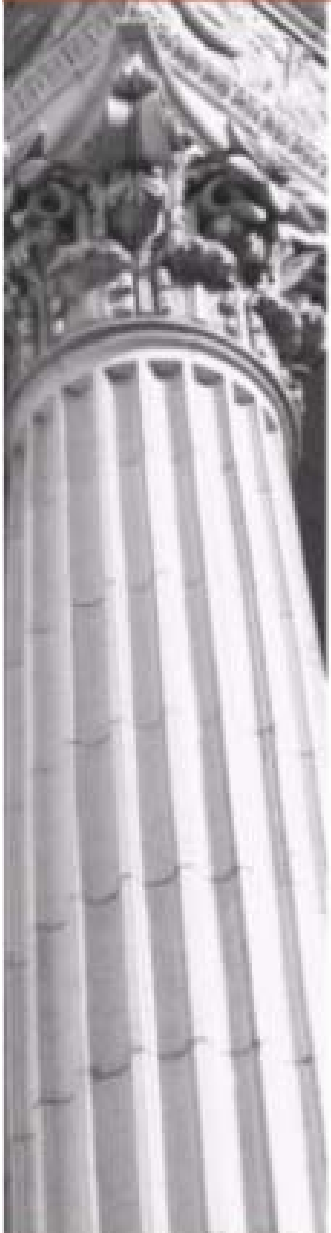
What Have We Learned?

- Finance system responded largely how it should have – nobody envisioned the Michigan’s “lost decade”
- General Fund problems affect school funding
- Great Recession result in re-set of school operating revenues at lower level – short-term problem
- Budgetary responses:
 - First, use of reserves and non-recurring sources
 - Second, expenditure reductions and program eliminations
- Prospectively, growing mismatch between the state’s economy and major school taxes



Distribution of State and Local Revenues

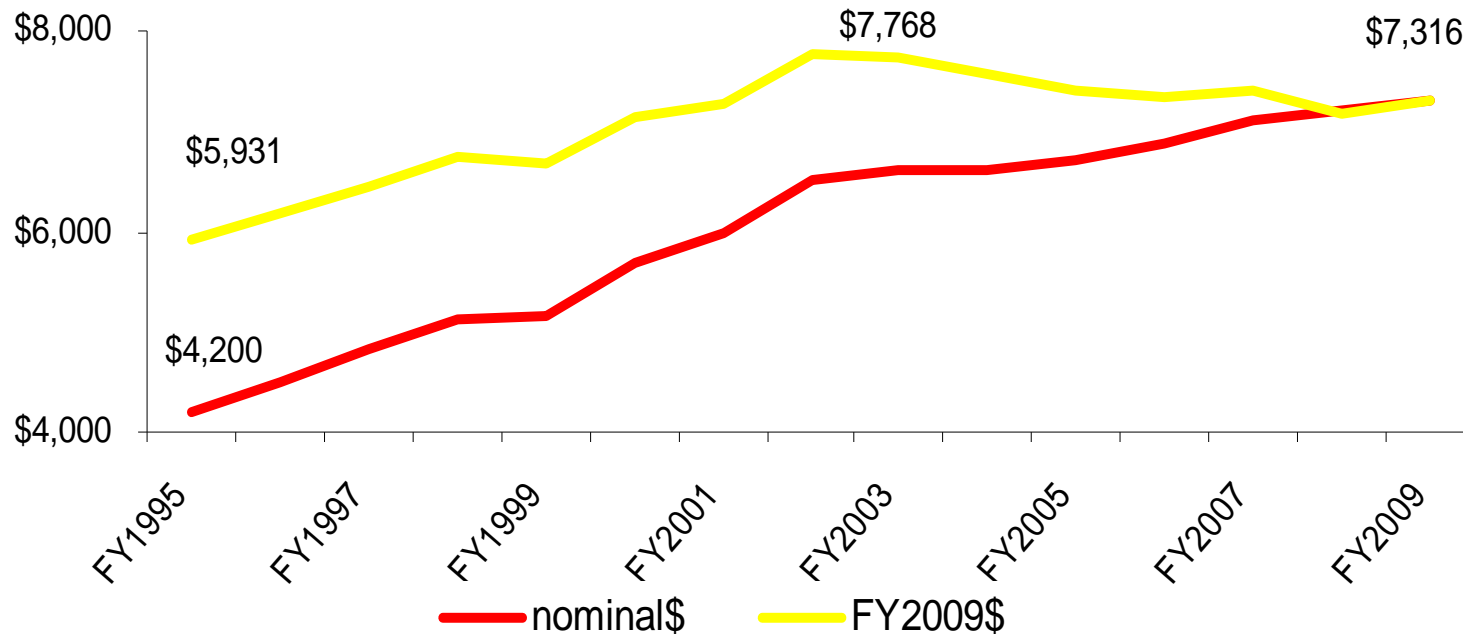
- Statewide, per-pupil revenue growth tracked overall revenue growth
- Goal of Prop. A: to reduce gap between high- and low-spending districts **NOT** eliminate gap
 - Considerable success at narrowing gap
- At the district level, per-pupil revenue growth largely tied to where district was prior to Prop. A (FY1994 spending)
- Foundation does not take into account district characteristics
 - Household income, race, urban/rural





For Those at the Bottom Before A *Growth Exceeded Inflation*

Minimum Per-Pupil Foundation Grant:
FY1995 to FY2009

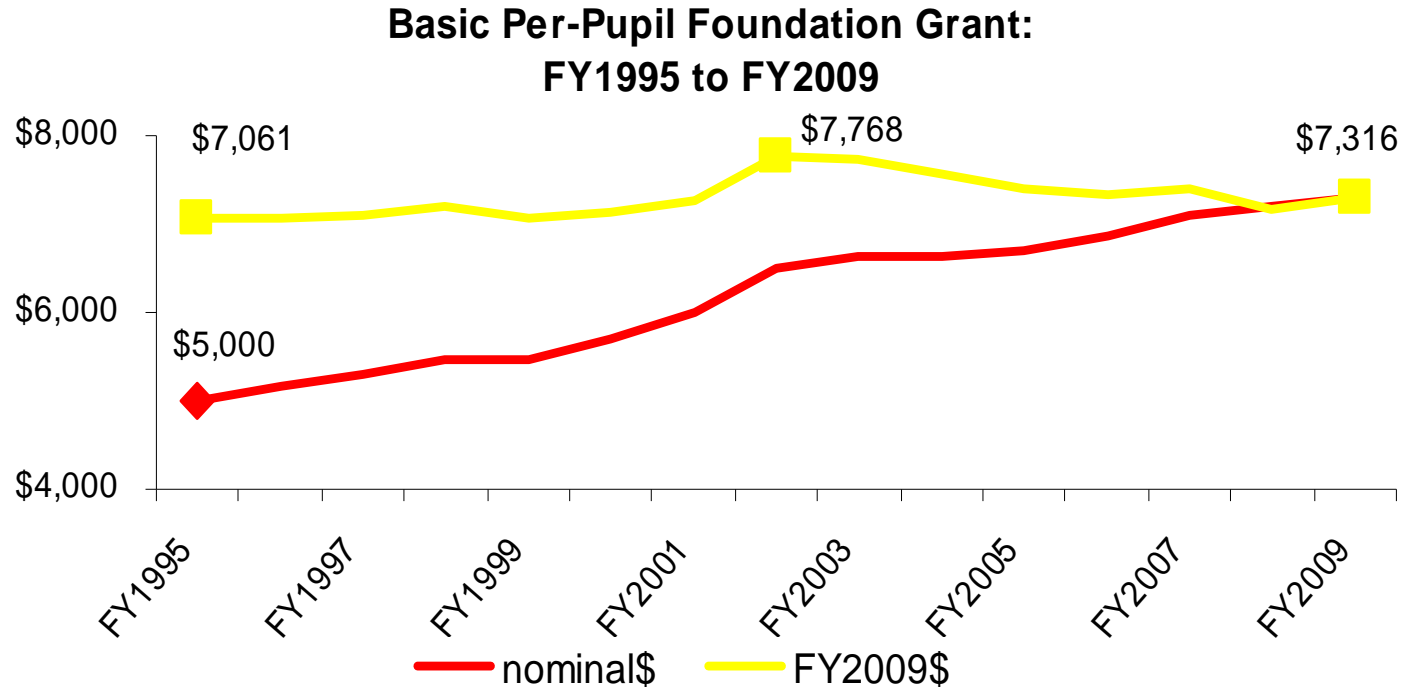


* Min. grant adjusted using U.S. Consumer Price Index (state fiscal year basis).

Source: Senate Fiscal Agency; US Bureau of Labor Statistics



Basic Grant Kept Pace with Inflation



* Basic grant adjusted using U.S. Consumer Price Index (state fiscal year basis).

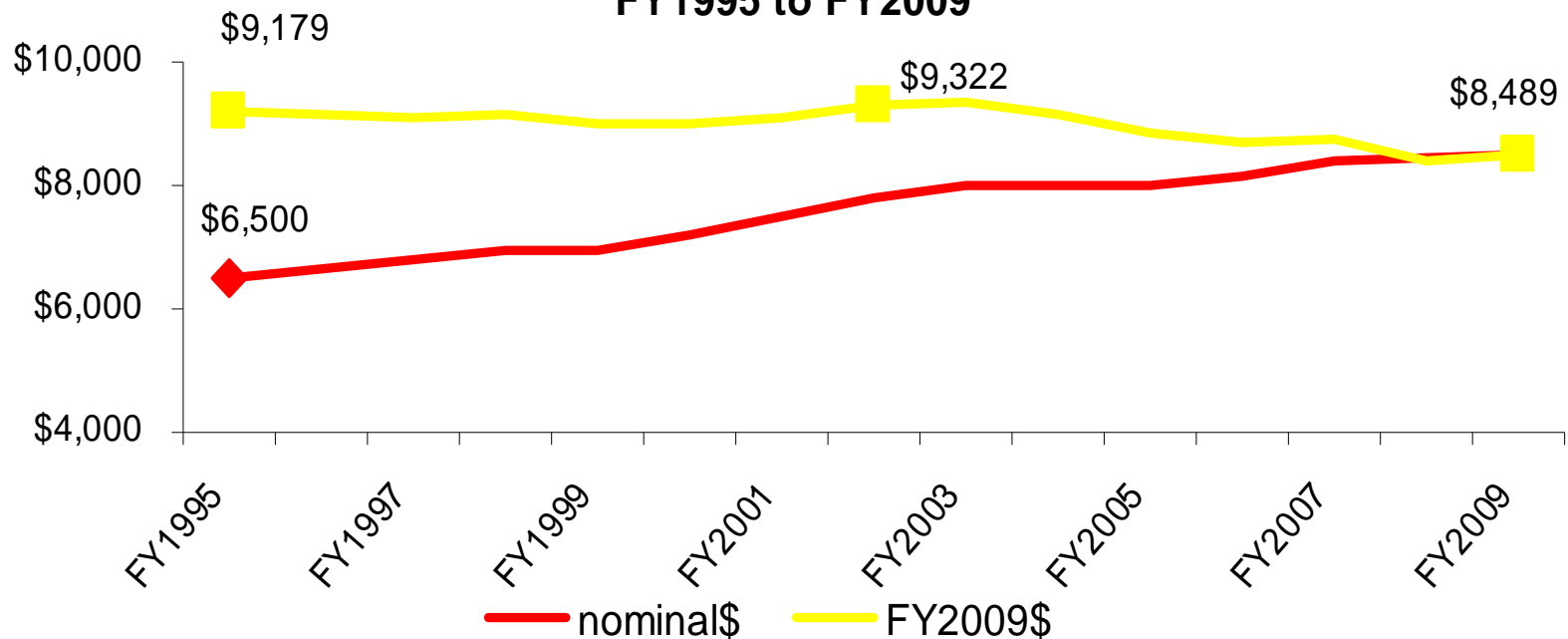
Source: Senate Fiscal Agency; US Bureau of Labor Statistics



For Those at the Top Before A

Inflation-Adjusted Grant Declined

**"Hold Harmless" Per-Pupil Foundation Grant:
FY1995 to FY2009**



* Grant adjusted using U.S. Consumer Price Index (state fiscal year basis).

Source: Senate Fiscal Agency; US Bureau of Labor Statistics



Growth Also Depends on Period of Interest

Minimal Real Growth Since FY2000

Average Foundation Allowances of K-12 Students by FY1994 Quintile* FY1994, FY2000, and FY2009 (in 2009\$)						
Quintile**	FY1994	FY2000	FY2009	Change FY1994 - FY2000	Change FY2000 - FY2009	Change FY1994 – FY2009
1	\$6,065	\$7,135	\$7,322	\$1,070	\$187	\$1,257
2	\$6,760	\$7,152	\$7,325	\$391	\$173	\$564
3	\$7,452	\$7,570	\$7,498	\$119	(\$73)	\$46
4	\$7,964	\$7,997	\$7,816	\$33	(\$181)	(\$147)
5	\$10,319	\$9,981	\$9,255	(\$338)	(\$726)	(\$1,064)
Diff. = Q5 - Q1	\$4,254	\$2,846	\$1,933			

* Foundation allowances include the supplemental allocation provided to eligible districts under Section 20j of the School Aid Act.

** Quintiles based on FY2009 enrollments and each includes 302,600 students (5th quintile excludes two districts – Bois Blanc and Grant Twp – with small enrollments and high per-pupil revenues in FY1994).

Source: Senate Fiscal Agency; U.S. Bureau of Labor Statistics, Consumer Price Index (state fiscal year basis); CRC calculations.



Poorer Districts Did Relatively Better

*Poorest Districts Did **Not** Benefit Most*

Average Foundation Allowance of Districts by Median Household Income: FY1994 and FY2009 (FY2009\$)				
Quintile	FY1994	FY2009	\$ Change	% Change
1	\$6,989	\$7,677	\$688	9.8%
2	\$6,526	\$7,413	\$887	13.6%
3	\$7,064	\$7,590	\$526	7.4%
4	\$7,363	\$7,667	\$304	4.1%
5	\$7,964	\$7,944	(\$20)	-0.3%
Diff. = Q5 - Q1	\$975	\$267		

Source: Senate Fiscal Agency; National Center of Educational Statistics; U.S. Bureau of Labor Statistics, Consumer Price Index (state fiscal year basis); CRC calculations.



Urban Districts Lost Ground

**Average Foundation Allowance of Districts by Percent of African-American Students:
FY1994 and FY2009 (FY2009\$)**

Percent African American	Number of Districts	FY1994	FY2009	\$ Change	% Change
0% to 1%	377	\$6,982	\$7,597	\$615	8.8%
1% to 5%	110	\$7,693	\$7,854	\$161	2.0%
5% to 33%	39	\$7,423	\$7,722	\$299	4.0%
> 33%	25	\$8,434	\$8,172	\$(262)	-3.1%

Source: Center for Educational Performance and Information; Senate Fiscal Agency; U.S. Bureau of Labor Statistics, Consumer Price Index (state fiscal year basis); CRC calculations.



Growth in Grant Important, but Enrollment Changes More So

- Since FY2003- "Era of Declining Enrollments"
- Majority of districts and students affected
- More than one-half of districts below level they were at when Prop. A took effect
- Affects total foundation revenue, more so than growth in grant itself
 - Challenge of "managing down"
- Causes: loss of population (birth rates and migration), demographics, competition
- State response has been ineffective

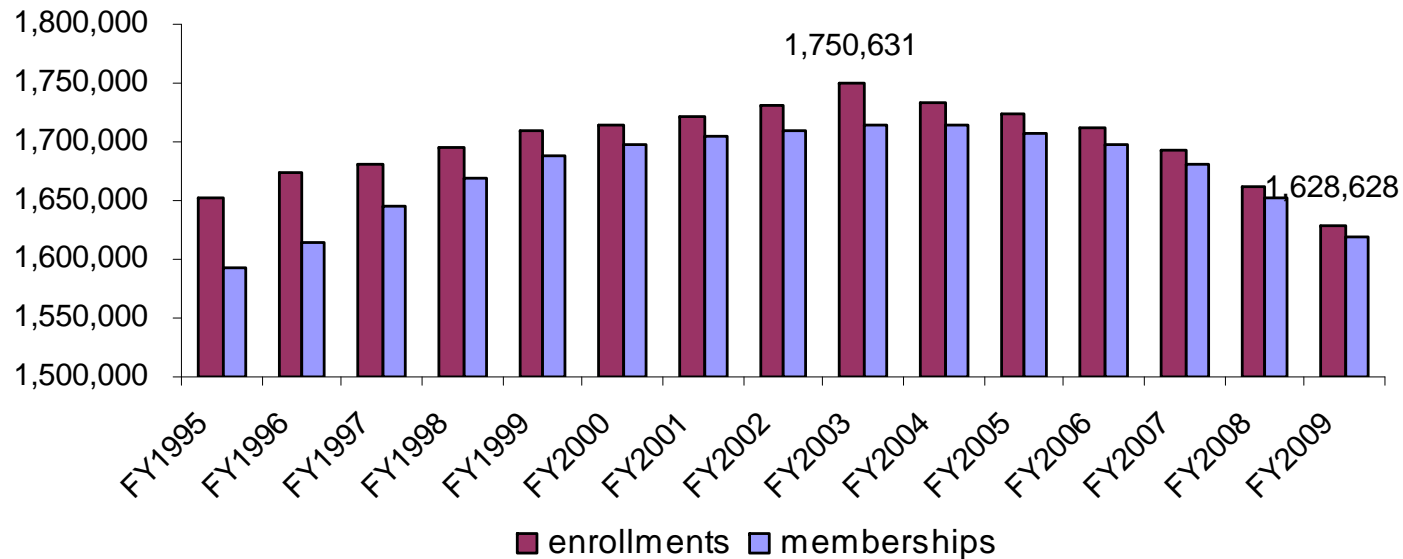




Two Periods of Enrollment Change

Rising Enrollments Temper Per-Pupil Revenue Growth

Statewide Enrollments and Foundation Pupil Memberships



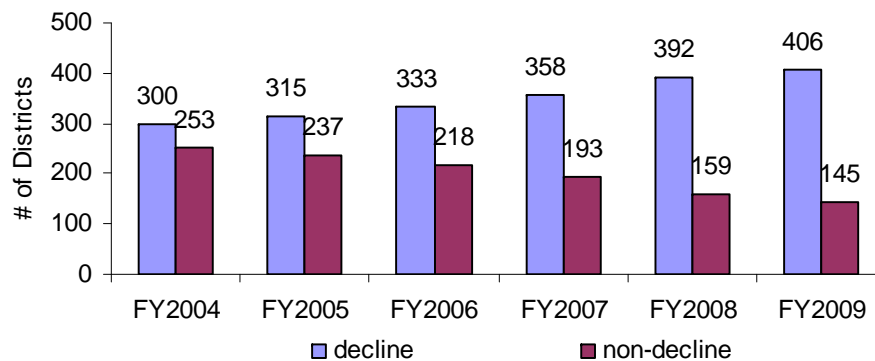
source: Michigan Department of Education, Bulletin 1014 and Financial Status Reports



Two Very Different Experiences

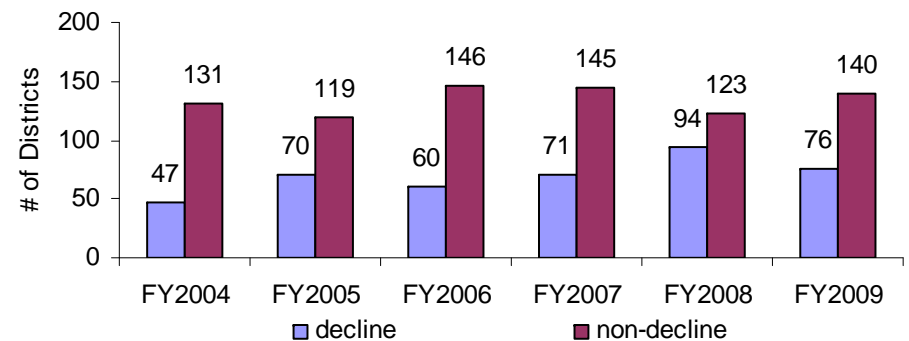
3 of 4 Traditional Districts See Loss in FY2009

**Traditional Public Districts Enrollment Changes:
FY2004 to FY2009**



source: Center for Educational Performance and Information

**Charter Schools Enrollment Changes:
FY2004 to FY2009**



source: Center for Educational Performance and Information



Severity of Problem Ranges

Almost One-Half Students in Declining Status

Enrollment Changes in Traditional Public School Districts: FY1995 to FY2009				
Enrollment Change	Number of Districts	% of Districts	Total Enrollment	% of Students
Decline >33%	50	9.1	141,553	9.4
Decline 10% to 33%	186	33.8	339,183	22.4
Decline 0.1% to 10%	98	17.8	245,087	16.2
Subtotal	334	60.7	725,823	48.0
Increase 0% to 10%	87	15.8	283,431	18.7
Increase 10% to 33%	83	15.1	293,493	19.4
Increase > 33%	47	8.5	210,857	13.9
Subtotal	217	39.3	787,781	52.0

Source: Center for Educational Performance and Information



Total Foundation Funding Changes

50% of Districts Received Less Foundation Funding in FY2009

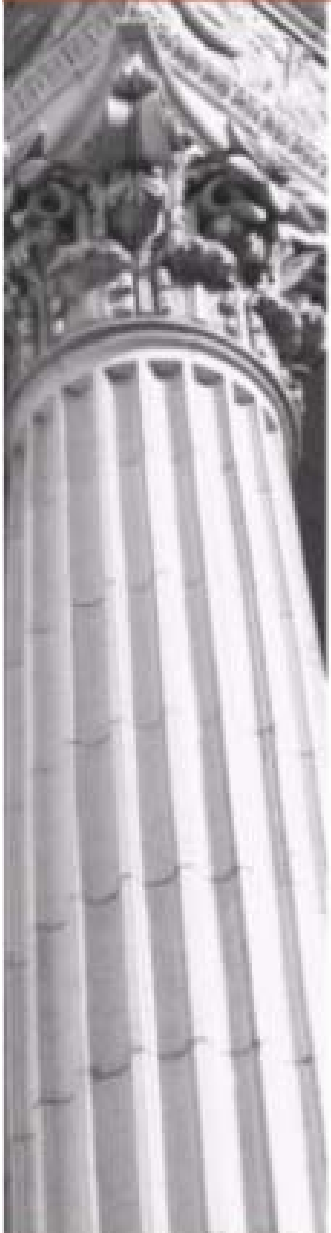
Changes in Enrollment, Per-Pupil Grant, and Total Revenue by District Type: FY1995 to FY2009						
	Enrollment		Real Per-Pupil Grant (FY2009\$)		Total Foundation Revenue (FY2009\$)	
	Decline	Non- Decline	Decline	Non- Decline	Decline	Non- Decline
City	18	8	19	7	18	8
Suburban	47	102	93	56	56	93
Rural	269	107	80	296	199	177
Total	334	217	192	359	273	278

Source: Center for Educational Performance and Information; Senate Fiscal Agency; U.S. Bureau of Labor Statistics, Consumer Price Index (state fiscal year basis); CRC calculations.



Conclusion

- Overall, system responded how expected
- No “safety value” to revenue decline (General Fund or local revenues)
- Significant per-pupil funding equalization has occurred
- Should goal be perfect per-pupil equity
 - If so, very costly and smaller increases to those at the top
 - What do we get for add'l equity gains
- Declining enrollment is major concern and will continue





Thank You

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