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TOTAL FINANCIAL SUPPORT FOR K-12 EDUCATION (1974-1988)

State financial support for elementary-secondary education continues to be a major public policy issue in Michigan. In a special election on November 7, 1989, the electorate rejected two proposals to amend the Michigan Constitution that would have modified the existing school finance system.

Most of the recent discussion on the issue of school finance reform focused on state financial support for K-12 education, including the amount of general fund monies annually appropriated to the school aid fund. Central to this discussion was the decline in the level of general fund support to education. Unfortunately, little attention has been devoted to the total operating revenue base of local school districts. This **Council Comments** reviews the total revenue position of Michigan school districts during the 15-year period 1973-74 to 1987-88. It should be noted that the choice of 1973-74 as the base year in this analysis was made because 1973-74 was the first year of the equal-yield membership formula.

Related to the school finance reform issue is a concern with the quality of K12 education. This concern is shared by educators, public officials, the business community, parents, and the general public. Many persons believe the effectiveness of public schools, measured by such indicators as dropout rate, test scores, lack of a core curriculum and an unstable learning environment, has declined. Some of these observers also believe there is a direct relationship between the quality of education and the level of financial support. While this is an important issue and is receiving public review, it is outside the scope of this report.

15-YEAR FINANCIAL HISTORY OF K-12 EDUCATION

Pupil Membership and Expenditure per Pupil One of the better known facts relating to school finance is the decline in the total state pupil membership that began in the 1972-73 school year. **Table 1** reveals the extent of the membership decline, and the annual increase in the state average current operating expenditure per pupil.

During the 15-year study period, pupil membership declined by 502,122 students, a decline of over 23%. At the same time, the state average per pupil current operating expenditure increased by \$2,653 from \$932 to \$3,585, an increase of 285%. There are two factors that contribute to the increase in per pupil current operating expenditures. The first is the presence of operating costs that exist regardless of the number of pupils. The second factor relates to the impacts of inflation experienced during the study period, which will be analyzed in a later section of this paper.

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Table 1
Pupil Membership and Current Operating
Expenditure Per Pupil

<u>Year</u>	<u>Pupil Membership</u>	<u>Current Operating Expenditure Per Pupil</u>
1973-74	2,159,966	\$ 932
1974-75	2,139,720	1,052
1975-76	2,127,917	1,303
1976-77	2,081,936	1,409
1977-78	2,023,944	1,589
1978-79	1,965,685	1,781
1979-80	1,910,385	2,003
1980-81	1,859,934	2,215
1981-82	1,792,331	2,406
1982-83	1,742,831	2,519
1983-84	1,712,103	2,695
1984-85	1,678,458	2,919
1985-86	1,666,281	3,168
1986-87	1,657,423	3,366
1987-88	1,657,844	3,585

Source: Department of Education annual Bulletin 1011.

Local School District Revenues Total local district revenues increased substantially from 1973-74 to 1987-88 (see **Table 2**). The increase in nominal dollars was \$3.7 billion, from \$2.3 billion to \$6 billion, an increase of 161%. There are a number of conclusions that can be drawn concerning the total revenue system from the data including the following:

- Revenues have exhibited a consistent growth pattern, usually increasing between **\$200** to \$300 million annually (except in 1982-83 when the increase was \$53 million).
- Federal source revenues have not played a prominent role, providing a maximum of 6.2% of total revenue in 1980-81, and contributing less than **4%** in 1987-88.
- There have been significant increases each year in local revenues, while there was a three-year period (1981-83) when state support dropped each year.
- There has been a general trend to greater reliance on local revenue and less on state support.

Table 2
Local School District Operating Revenue by Source
(in millions)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<u>Year</u>	<u>Percent Local*</u>	<u>Local</u>	<u>Percent State</u>	<u>State</u>	<u>Percent Federal</u>	<u>Federal</u>	<u>Other**</u>	<u>Total</u>
1973-74	\$1,274	54.4	\$ 946	40.4	\$116	5.0	\$5	\$2,341
1974-75	1,427	55.5	991	38.6	146	5.7	6	2,570
1975-76	1,585	57.0	1,028	37.0	162	5.8	5	2,780
1976-77	1,614	54.5	1,193	40.3	149	5.0	7	2,983
1977-78	1,805	54.8	1,290	39.2	192	5.8	6	3,293
1978-79	1,993	55.9	1,349	37.9	216	6.0	8	3,584
1979-80	2,273	58.8	1,378	35.5	227	5.8	4	3,882
1980-81	2,634	64.2	1,208	29.5	254	6.2	4	4,100
1981-82	2,997	88.3	1,173	26.8	211	4.8	4	4,385
1982-83	3,150	71.0	1,095	24.7	188	4.2	5	4,438
1983-84	3,228	88.4	1,285	27.3	195	4.2	4	4,713
1984-85	3,383	68.7	1,470	29.0	215	4.2	5	5,073
1985-88	3,509	64.9	1,664	30.8	230	4.2	5	5,408
1986-87	3,876	84.1	1,821	31.7	234	4.1	5	5,738
1987-88	3,889	64.4	1,900	31.6	236	3.9	6	6,011

*Local revenue primarily is derived from property taxes.

**Intermediate school district revenue, and gifts and bequests.

Source: Consolidated Annual School District Financial Report (Form B) for 1973-74, 1974-75 and 1978-78, and Bulletin 1011 for other years.

Although there has been significant growth in nominal dollars, the shift to greater reliance on the local property tax has resulted in an exacerbation of the per pupil disparity problem. This occurs primarily because property base growth is not uniform throughout the state. The property tax base of high-valuation districts often grows faster than the state equalized valuation (SEV) guaranteed in the state-aid membership formula. This situation in combination with declining pupil membership has resulted in a serious per pupil disparity problem (for a discussion of this issue see **Report No. 293**).

Expenditure and Revenue Measures Adjusted for Inflation It is difficult to reach conclusions concerning the financing of any activity over time unless the effects of cost-of-living change are considered. **Table 3** presents data on two elements (current operating expenditure per pupil and total current revenue), adjusted to reflect 1988 dollars.

Table 3

**Local School District Current Operating Expenditure
Per Pupil and Total Current Operating Revenue (1988 dollars)**

<u>Year</u>	<u>Current Operating Expenditure Per Pupil-</u>	<u>Total Current Revenue*</u> <u>Amount</u>	<u>Annual Change</u>
1973-74	\$2,158	\$5,420	\$ -
1974-75	2,215	5,411	(9)
1975-76	2,589	5,522	111
1976-77	2,642	5,557	35
1977-78	2,789	5,780	223
1978-79	2,839	5,683	(97)
1979-80	2,780	5,388	(295)
1980-81	2,748	5,086	(302)
1981-82	2,823	5,145	59
1982-83	2,823	4,973	(172)
1983-84	2,918	5,104	131
1984-85	3,153	5,480	376
1985-86	3,335	5,694	214
1986-87	3,501	5,947	253
1987-88	3,585	6,011	64

*In millions.

Source: United States Department of Labor Consumer Price Index for Detroit; Tables 1 and 2; CRC calculations.

The current operating expenditure per pupil increased \$1,427 in real dollars, or 66% over the 15-year period. As a result of the continued membership decline, real dollars per pupil have shown a steady growth over the 15-year period. There were only two years, 1979-80 and 1980-81, when there was a decline from the previous year.

Total current revenue, adjusted for inflation, increased by \$591 million, or 11%, between 1973-74 and 1987-88. Although the percentage increase is not as large as the per pupil increase it still is a significant increase considering the membership decline. There were three years with large decreases in real dollars of between \$172 million and \$302 million. These decreases occurred during one four-year period between 1980 and 1983. Notably, the real dollar increase for the last five years is approximately one billion dollars. This is a result of low inflation, large increases in state school aid, and continued growth in the property tax base.

It is somewhat ironical that the greatest call for school finance reform has occurred over the last three years, during a period of significant growth in real operating income for local school districts. Based on the data in Table 3, one would expect that there would have been a greater outcry for school finance reform six to nine years ago.

CONCLUSIONS

From the above analysis, one might question the wisdom of placing the funding of K-12 education in the forefront of public policy debate. Both the per pupil expenditure and total operating revenue show significant increases when adjusted for inflation. However, individual school districts continue to experience financial problems. Council Report No. 293 reported that tax base growth is not proportional among school districts in the state. For example, in one ten-year period, 1978-79 to 1987-88, the state average SEV per pupil increased 102%, while three districts in Oakland County had increases in excess of 200%. The data suggests that state decisionmakers should turn their attention to alternative means to distribute current revenue rather than trying to further increase public funding for school operations beyond the level of inflation.

Historically, the distribution issue has been a difficult one for state level policymakers. However, it may be necessary that this issue be faced as more school districts near the 50-mill constitutional property tax millage limit, which limits their ability to seek voter approval for additional property tax operating millage increases. In 1988-89, there were four school districts in which aggregate operating millage levied on parcels of property by a school district, unchartered county, and unchartered township exceeded the 50-mill limit. In addition, there were 65 other school districts where the aggregate millage exceeded 45 mills (for a comprehensive discussion of property tax limits see **Report No. 295**).

If discussion at the state level were to shift emphasis from increasing school operating revenues in excess of the inflation level to a more efficient use of existing resources, two major public policy issues should be considered. The first is school district organization and the second is sharing excess property tax revenue of high-valuation districts with low-valuation districts.

A serious look at school organization is warranted based on a review of existing data. As pointed out above, pupil membership declined by over 500,000 pupils between 1973-74 and 1987-88. During this same period, the number of K12 school districts declined by only seven districts, from 531 to 524. According to a recent report of the Economic Alliance for Michigan, more than half of Michigan's K-12 school districts have fewer than 2,000 pupils. Fewer school districts would be more cost efficient, reduce the disparity in the property tax base, and provide an opportunity for a more comprehensive educational program especially at the secondary level.

There is no reasonable programmatic or financial need for per pupil revenue to grow at a percentage rate far in excess of the growth in the consumer price index. This occurs in high-valuation districts when the property tax base experiences high growth, and little or

[6]

no adjustment is made in the tax rate. There are a number of districts where this occurs each year. For example, there are three high-valuation districts where SEV per pupil increased between 15.6% and 17.5% in 1988-89. After adjusting for small millage reductions, the per pupil revenue increased from 11.5% to 13.3% in the three districts. The consumer price index in Detroit increased 5.3% between school fiscal years 1988 and 1989.

Consideration should be given to depositing excess property tax revenue in the school aid fund for redistribution through the per pupil membership formula to low-valuation districts. For each operating mill levied, high-valuation districts could be allowed to retain a fixed amount of revenue growth per pupil, perhaps the annual cost of living increase plus a bonus of one or two percent. This or a similar approach would result in a more efficient use of revenues for public education. Financial resources available for public education now appear adequate in the aggregate.