

SCHOOL FINANCE REFORM

Introduction

K-12 school finance reform continues to be one of the major state public policy issues. In February 1987 the Michigan State Board of Education appointed a 42-member Michigan School Finance Commission to make recommendations concerning this issue. The Commission adopted a series of recommendations in September 1987. The Commission represented a broad range of citizens from across the state and included representatives from industry, agriculture, labor, education, state government, and local officials.

During the last 15 years, school finance reform has focused on two primary concerns. One concern relates to the per pupil expenditure disparity between districts and the second to the high reliance on property tax to fund education. Using basic revenue data for 1986-87, per pupil revenue varied from \$6,300 for the Jefferson Schools in Monroe County to \$1,700 for the Negaunee Public Schools in the Upper Peninsula. The 1986-87 average school operating millage was 32.5 mills. One indication of Michigan's reliance on the property tax is 1984 data that indicated Michigan's rank is sixth on a measure of state and local property taxes as a percent of per capita personal income. The five states with a greater reliance than Michigan are rural low population states. In Michigan, 70 percent of all property tax revenues are expended for school purposes.

At the first meeting of the School Finance Commission, a third area of attention was added to the two traditional concerns. This concern related to the quality and effectiveness of the public schools. Thus, a great deal of attention was devoted to the need for state standards to ensure that all students have access to a core curriculum. It also was concluded that each local district must develop and implement a plan to evaluate the results of the educational program operated by the district.

The Commission established three substantive subcommittees, one for each of the three areas identified for study. The committees were educational standards, revenue for education, and revenue allocation to school districts. Following is a summary of the major recommendations adopted by the Commission.

Educational Standards

1. The state should define a core curriculum for the K-12 system indicating specific courses that will be required for every student.

2. The state should establish performance standards or the public schools and a system for measuring performance.
3. The state would have authority to declare educational bankruptcy in a district that fails to meet established standards.
4. Local school districts must develop a school improvement plan for review and approval by the State Board of Education.
5. Parents would have the opportunity to choose a school of choice within the district for their children.

Revenue for Education

1. The Legislature should establish a \$200 million Educational Trust Fund. These monies would be targeted for improving the quality of education.
2. A constitutional amendment featuring the following provisions:
 - a. An increase of two cents in the sales and use tax,
 - b. A flat 23-mill levy statewide on all commercial and industrial property,
 - c. A maximum 18-mill school operating levy to be levied by a local school board without a vote of the people,
 - d. The 18-mill levy could be increased up to 25 mills with a vote of the people,
 - e. The current 50-mill constitutional limit would be reduced to 38 mills, and,
 - f. Residential energy payments would be exempt from the sales tax.

Revenue Allocation to School Districts

1. The current power equalizing membership formula should be retained.
2. The additional state revenues from the sales tax and the statewide 23-mill property tax on industrial and commercial property should be used to raise the per pupil revenue guarantee.
3. High millage in-formula school districts that levy 18 mills should be held harmless at 95 percent of the previous year's gross allowance.

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- 4 Out-of-formula school districts that levy 23 mills should be held harmless at 95 percent of the previous year's per pupil local property tax revenue.
5. In the first year, school districts should be limited to an increase of 15 percent per pupil at 18 mills.

Summary

The recommendations deal with the issues identified by the Commission. A system for establishing, monitoring, and enforcing state standards is recommended. Property tax reductions totaling an estimated \$880 million are included in the recommendations. This recommendation is based on the proposed new constitutional limits recommended. It also assumes that schools will levy enough millage, up to the 25-mill limit, to provide a 15 percent per pupil increase. Thus, the \$880 million reduction estimate may be understated.

The per pupil disparity issue is addressed through the increased state funds distributed by the membership formula. The additional funds at the state level are derived from the sales tax increase (\$1.380 billion less \$270 million for exempting residential energy from the sales tax) and the statewide' commercial and industrial property tax (\$871 million). This allows the state to raise the per pupil per mill guarantee from \$80 to \$123. If this formula were operational for the 1987-88 school year, it is estimated that 88.3 percent of the pupils would be in districts with per pupil revenue between \$3,000 and \$3,999.
