

Recommendations to Better Support Michigan's Education System

Revenues, Reforms and Restructuring

A Framework for Education Investment and Reform

Driven by our economic crisis, Michigan's leaders are struggling to make fundamental choices about the direction of the state.

At the center of these choices are decisions that must be made about the kind of education system Michigan needs to provide economic opportunity for our residents and their children, and to build a stronger Michigan for tomorrow.

The State Board of Education, as directed by Article VIII, Section 3 the Michigan Constitution, shall provide:

"Leadership and general supervision over all public education, including adult education and instructional programs in state institutions, except as to institutions of higher education granting baccalaureate degrees, is vested in a state board of education. It shall serve as the general planning and coordinating body for all public education, including higher education, and shall advise the legislature as to the financial requirements in connection therewith."

In carrying out this mandate, and to inform the necessary public debate and discussion about the direction of the state's education system and overall economic welfare, the Board, following a series of public meetings and fact-gathering sessions, provides the following guidance concerning the needed education system that can deliver effective educational outcomes, create economic opportunity for Michigan children and citizens, and help our state's economy.

The Case for Education

Everything the State Board of Education heard from economists, policy analysts, and stakeholders suggests consensus that:

- Education is the most reliable path to state economic prosperity;
- Education is the way to provide equal economic opportunity;
- Our current budget priorities and fiscal crisis are crippling Michigan's commitment to education and long-term economic prospects

There is broad agreement that the top priority for Michigan is growing the state's economy. No other issue is even close. Increasingly it is clear that, by far, the most reliable path to prosperity for each of us, our children and grandchildren, and the state is education attainment.

In the Twentieth Century many of us enjoyed a high standard of living with only a high school diploma. No more! Nationally, median earnings for those with high school diplomas is \$28,000 compared to \$48,000 for those with a four-year degree or more. At every level, those with more education attainment earn more.

The Bureau of Labor Statistics calculates that over the course of a career those with a four-year degree will on average earn a million dollars more than those with a high school diploma. With an advanced degree the advantage grows to more than two million dollars.

The same story is true for states. By far, the best predictor of a state's per capita income is the proportion of adults with a four-year degree. Of the top ten states in college attainment, nine are in the top twelve in per capita income.

Michigan's biggest economic challenge is that we are thirty fourth in four-year degree attainment. As long as that is the case it is highly likely that we will be one of the poorest states in the nation. As the economy becomes increasingly knowledge-based, Michigan has fallen from eighteenth in per capita income in 2000 to thirty seventh in 2008. To reverse the trend – of falling farther and farther behind the nation – nothing matters more than increasing the human capital – the education and skills broadly defined – of the people of Michigan.

To do that requires Michigan to make lifelong learning the centerpiece of the state's economic growth strategy. The delivery of high quality teaching and learning is not just another budget item, but rather, the public investment that matters most to our future economic success.

The State Board of Education believes that this is the time for state policy makers, on a bi-partisan basis, to establish a base level of services and structure for education that the state will provide to learners of all ages even in these difficult budget times; and a revenue system that will allow public investments for teaching and learning to grow with the Michigan economy. To do less delays Michigan's return to the high prosperity it enjoyed for the last century.

Guiding Principles for Financing and Restructuring Michigan Education

The following are principles to guide reform of the education financing system for Michigan.

Principles to Guide Michigan's Education System Restructuring

Equitable: The education program should be the same across the state (it should not matter where you go to school -- big or small; rich or poor). Resources appropriate to deliver comparable quality education for all students need be provided.

Predictable and Durable: Funding for education needs budget decisions made in a timely, predictable manner allowing all education systems (K-12, colleges, universities) to make high quality decisions, with revenue sources that keep pace with the Michigan economy.

Holistic: If Michigan citizens are to succeed and our economy improve, Michigan's education system needs to include support of a continuum of learning: early childhood education; K-12 education, and higher education.

Shared Sacrifice: Given Michigan's long-term financial challenges, need to cut costs, and focus resources where they are needed to support learning, there must be shared sacrifice in operating education and all of state government more efficiently.

21st Century: Need to bring education service delivery into the 21st Century – in its structure, organization, expectations, schedule, and modes of operation.

Balanced Approach: A combination of reforms, cuts, and impactful investments are needed to restructure Michigan's system for effectiveness. The problems cannot be solved by cuts, or more money alone. The State Board of Education recognizes we have to have reform, do more with less, and do it differently.

A 'Clean Sheet': Starting with the Education System Michigan Needs for the State and its Citizens to Compete

At the heart of the State Board of Education's approach and recommendations is a description of the education system Michigan needs to put in place, if our citizens are to realize economic opportunity, and our state is to thrive economically.

The approach recommended here is to define what an effective education system needs to look like in order to conform to the principles above. The education "base" should be defined as a level of services to be provided to learners of all ages. The focus needs to be on providing high quality teaching and learning, not a funding level. Identifying the base level of required education services is the first step. The second step is determining what changes are needed in terms of revenue, cost-savings/reforms, and the structure of the system, in order to deliver it.

The State Board of Education believes that the basic elements of an effective Michigan education system should be:

- Universal access to quality early childhood programming for all four year old children and universal high quality kindergarten.
- Support for a level of K-12 services (class-sizes, qualified teachers, etc.) comparable to those in place for the 2008-2009 school year.
- Comparable learning infrastructure (physical and virtual) for all students.
- Support to allow all citizens to achieve a level of post-secondary education at a new minimum threshold¹.
- Support for higher education institutions at least comparable to peer states, given higher education's role in economic growth and education opportunity.

The State Board of Education also believes that support for this system must be coupled with commitment to reforms that maximize every dollar invested in education. Funding must come with clear expectations that:

- Every school and district is expected to help all students:
 - o Make yearly progress.
 - o Graduate without needing remediation at the post-secondary level.
 - o Have sufficient learning time on task to master expected competencies, and accommodate different timeframes for learning among different students, (e.g. some may need more than traditional four years of high school).
 - o Organize instruction and learning supports in manner that ensures success for *all* students, including those with special needs, consistent with State Board of Education's policy direction: *Universal Education: Vision and Principles*.
- Every child has opportunity for dual enrollment, early college credit and/or career/technical courses.

¹ As defined by Lt. Governor's Commission on Higher Education and Economic Growth, consistent with two (2) years of postsecondary education or technical training.

- In return for increased operational and financial aid support, and reduced remediation costs, higher education institutions need to restrain tuition, participate in statewide student data system, better align and accept transfer credits, and participate in dual enrollment.
- A system that provides for education funding with sufficient flexibility to support innovation at the school and district level, i.e. providing flexible resources for use in providing for: infrastructure, professional development, delivery on the state's Universal Design for Learning policy, differentiated instruction, professional learning communities—and other needs.

Table A. Summarizes the basic elements of this education system, and the reforms and new expectations that must accompany the continuum of education services recommended.

Table A. Key Elements of Comprehensive Michigan Education System
Funding should support a <i>continuum of early childhood, K-12, and higher education</i>: • Universal preschool for all four year olds. • Mandated (preferably all-day) kindergarten for all children. • K-12 State Aid to restore funding level prior to FY 10 State Aid cut, without stimulus money. • Post-secondary education financial support for all citizens to reach a new minimum threshold (as defined by Lt. Governors Commission on Higher Education and Economic Growth [2004], consistent with two years of postsecondary education or technical training). • Higher Education operational support for Michigan's universities and community colleges at a level consistent with peer states. Michigan's PreK-Higher Education funding structure should be reformed so that: • Every school and district is expected to help students make yearly progress, and graduate all students without need of additional remediation. Schools and districts are held accountable for annual and ultimate student outcomes through transparent reporting of student achievement, and outcome data (e.g. assessment, graduation rates, and remediation-needs of graduates). • An equitable base amount of financial support is available to all schools – the State Board of Education recommends a school-based “foundation grant”², coupled with a per pupil “innovation” grant to be flexibly used for

²Grant to be adjusted, perhaps every five years based on actual pupil enrollment history (to provide time to plan for and accommodate enrollment changes)

any and all education requirements, and to include virtual and physical infrastructure³.

- Synch up state school and budget cycles; guarantee no pro-ration of funds during school year.
- All schools provide sufficient time on task, and flexible but sufficient instructional time during the year to ensure content and skill mastery. Michigan students are challenged today by new rigorous content expectations, and similarly high learning expectations are being pursued by states and countries around the world—many of whom are dedicating *more* time to students learning—not less. The State Board of Education strongly encourages districts to desist from translating the 180-day, hour of instruction equivalent (1,098), into effectively less learning time by tacking “minutes” onto fewer school days. If anything, the generous support called for here should support districts in providing more learning time, and we strongly recommend, that to compete in the 21 Century, schools continue to innovate and explore innovations such as year round schooling, and alternative calendars that increase learning time, and improve learning retention.
- Every child should have an opportunity for a post-secondary education (dual enrollment, early college, technical school, or other career opportunity). The current system of financial disincentives for dual enrollment, early college credit and career technical course must be eliminated.
- In return for increased operation and financial aid support, and lowered remediation costs, higher education institutions must participate in PreK-Higher Education student data system, restrain tuition, improve acceptance of transfer credits from other institutions, including community colleges, and dual enrollment course credits for credits taken during high school.
- Take full advantage of local education choice options: many public school districts face financial losses under per-pupil funding if charter schools siphon-off students. It is noted that a largely un-realized “tool” in local public school districts toolbox is to charter more of their own schools, thereby keeping both students and dollar flows supporting their school district’s educational program.

³School infrastructure was left out of Proposal A, is wildly inconsistent among school districts, and proposed by 2004 SBE-sponsored Doug Roberts-David Olmstead study to equate to approximately 10% of the cost of educating a child.

Paying for the Education System Michigan Needs – Recommendations for Comprehensive – Long-term Reform

The current debate about the budget is characterized by an either/or choice. Some advocate for spending cuts and regulatory relief, others for tax increases. We may need to do all three.

To put in place the education services we need, we must save money and find efficiencies, free schools to innovate, reallocate resources within and outside of education, and be willing, if necessary, to raise new resources.

This must be done at a large enough scale so that we preserve a base level of quality services for students, and that allow Michigan to make essential and effective investments in key areas such as early childhood and higher education that pay long-term dividends, for both individuals and our state⁴.

The proposed state system also demands that we make the most effective and efficient delivery of education services; maximizing the impact of every dollar invested. To achieve this needed level of investment, a combination of cost-saving reforms, and changes to the way revenues are raised are required. Only after cost-savings reforms are implemented and the revenue base modified to be aligned to Michigan's economy and its movement—should more revenues, be sought.

If we were to implement the full and needed vision of Pre-K, K-12, and Higher Education investment and reform to carry Michigan forward it would demand a reallocation of \$3 billion in cuts, reforms, or new revenues.

Table B. summarizes the costs for the core elements of a winning Michigan education system.

To get there the State Board of Education strongly endorses a balanced approach. To provide the resources to get to the base education level we recommend, we encourage a combination of spending reductions that do not undermine the provision of services to students, tax changes, and structural reform.

In practical terms we first lay out the cost-saving measures, and structural reforms to the delivery of education essential to both make Michigan education delivery more efficient, and demonstrate commitment to Michigan taxpayers that we are serious about reform.

We then lay out the recommended changes to the revenue mix to both link education revenues more firmly to the movement of the Michigan economy, and to provide guidance (per our Constitutional mandate) as to where, should additional revenues be necessary to fund the overall education system, these revenues could be obtained.

⁴ For example, economists agree a conservative estimate is \$1 spent on high-quality pre-school returns \$3 in higher earnings, home ownership rates, lower crime, and social service rates; (Bartik, Economic Development Effects of Early Childhood Programs, UpJohn Institute, 2008); other studies show returns as high as \$1-\$8.

Given the concerns on both sides that either “cuts will be made, and needed revenues never found,” or “taxes will be raised, but no meaningful cost-cutting or reforms occur” –it is important that elements of any needed comprehensive fix be advanced together, i.e. cuts/reforms to be made, and linked, if necessary, to needed revenue fixes.

Table C. describes specific recommendations of where and how Michigan should save money, and repurpose resources.

Table D. describes recommended changes to revenue base to link it more firmly to the economy, and describes recommended ways to raise additional revenues to provide the education system we need, if necessary.

The State Board of Education appreciates the challenges, particularly in an election year with continued partisan positioning among many elected officials and candidates, of coming to consensus around meaningful, comprehensive reform.

The State Board of Education notes that its Constitutional mandate is to make recommendations regarding the education system and the funding requirements needed to deliver it in Michigan. It is the responsibility of the Legislature and Governor to forge agreement on the combination of cuts, reforms and revenues necessary to deliver this system.

Largely because of the inability, or unwillingness, of the Legislature and Governor to cross partisan lines and agree on a meaningful, balanced approach to fund education—that delivers on the education system needed in Michigan -- does the State Board feel compelled to make and model bi-partisan recommendations on how to get the job done.

The State Board of Education encourages immediate steps to stabilize education support, make needed reforms, find cost-savings, and rearrange education as a budget priority, for the FY 11 budget. Our recommendation is consistent with the balanced approach for the long-term, and our October 26th 2009, State Board of Education resolution, e.g. that we promote together cost-savings -- including consolidated services, and reforms to reimagine education, while asking the Governor and Legislature to find the revenues necessary to support K-12 education without further cuts in foundation grant. The Legislature needs to approve a budget so school districts can adopt budgets by July 1 as required by law.

We also strongly recommend all stakeholders come together and find agreement around the framework for long-term education improvement outlined in this report—and the specific recommendations for education service delivery, structural reform and changes to revenues and expenditures here named.

All recommendations should become part of the debate. Conversations and discourse on each recommendation is essential to changing the way we endeavor to educate all individuals in Michigan.

To further the process of realizing comprehensive reform and the balanced, comprehensive changes recommended here, the State Board of Education will with the Superintendent of Public Instruction, promote public education, media and stakeholder dialogue around the report and its recommendations—and collaborate with key stakeholders to further agreement on a comprehensive package of reforms, revenues and restructuring. Such an effort can encourage a bi-partisan set of recommendations be available to this and future-Governors and Legislatures.

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Table B. Key Elements of Michigan Education System	Annual Cost to Deliver
Funding should support a <i>continuum of early childhood, K-12, and higher education</i>. • Universal preschool for all four year olds. • Kindergarten for all children (preferably full-day, but not mandated). • K-12 State Aid to keep funding level prior to FY 10 state aid cut and projected FY 11 cuts. • K-12 State Aid sufficient to provide 180 days (or more) equivalent of learning time. • K-12 State Aid to incorporate 10% virtual and real infrastructure (not included in Proposal A-per Olmstead-Roberts recommendation). • Post-secondary education financial support for all citizens to reach a new minimum threshold (as defined by Lt. Governor's Commission on Higher Education and Economic Growth, consistent with two years of post-secondary education or technical training). • Higher Education operational support for Michigan's universities and community colleges to be competitive: 50/50 tuition/state appropriations, which places Michigan back to '02 level of support for higher education system and competitive with national averages for state support.	State currently spends approximately \$132 Million for Pre-K. Estimated \$150 - \$300 Million more for universal (dependent on target for participation)⁵ State currently spends approximately \$875 Million annually on Kindergarten. At an estimated \$10 - \$20 Million more, Kindergarten could be mandated for all kids⁶ \$850 Million - \$1 Billion more⁷ Sufficient with revenue level identified in this report \$960 Million (estimated at 10% of cost of educating a child for infrastructure) \$140 Million for "Promise-style" award for K-12 graduates⁸ \$200 Million for adults subscribing to No Worker Left Behind – two years of community college \$950 Million⁹

⁵ Estimate is based on Michigan census data, and targets range from: "all eligible for current Great Start and Head Start" to "80% of all 4 year olds" as high-end target

Cost-Savings and Other Reforms for Efficiency and Effectiveness

It is recommended that the first step in providing the revenue needed for Michigan's education system is to implement cost-saving reforms and efficiencies.

Table C. identifies recommendations for these reforms—and their contribution to savings.

Table C. Recommended Education Reforms that Generate Savings	Projected Annual Savings
Prescribe through legislation or create strong incentives to LEAs and ISDs for consolidation and/or competitive bidding of goods and non-instructional services, and/or shared administrative services — so all non-instructional services are delivered at an efficient level (ISD, county-wide, statewide) ¹⁰ ; or,	\$150 - \$300 Million ¹¹
“Darken the Dotted Line with ISDs more—continue to strengthen and redefine roles of ISDs and relationship to implementing State Board/MDE priorities, avoid duplication, and continue to align to State Board of Education/Michigan Department of Education initiatives. Could shift costs from local districts to ISDs requiring a 5% savings for non-instructional services; or,	\$300 Million (duplicated savings for consolidation of non-instructional services) ¹²
If progress is not made on options above, initiate a Base-closing style (BRAC-style) Commission established by Legislature to make binding decisions on school consolidations that can create significant cost savings.	Same savings as ISD consolidation of services proposals above

⁶ Estimate based on state spending and headcount data available at the Center for Education Performance and Information (CEPI), Michigan Department of Education, combined with Michigan census information in estimating the number of 5 year olds in the state; Obtained March 2010

⁷ Estimate based on historical consensus revenue estimating conference data and conversations with House Fiscal Agency

⁸ Estimate based on state funding for Promise Grant prior to being eliminated. “Background Briefing, Higher Education,” House Fiscal Agency, January 2010

⁹ Estimate based on calculation from data of university operations (1977-2009), provided by House Fiscal Agency

¹⁰ Require competitive bidding for contracted services including opportunity for public employers to bid

¹¹ Estimate based on state spending data available at the Center for Education Performance and Information (CEPI), Michigan Department of Education, March 2010

¹² “Driving More Money into the Classroom: U.S. State Government Guide,” Deloitte Development LLC, 2010

Move all newly hired public employees including education employees from defined benefit to defined contribution pension system while grandfathering in current employees (modeled after the state employee program).	Estimated \$200 - \$250 Million in annual savings, realized in varying years, depending on formula 21 ¹³
Integration of special education and general education administrative functions and silos. Saves time and money on integrating school improvement plans, special education plans, avoids duplication of curriculum and school improvement administrators, consistent with Universal Education Vision and Principles.	\$40-60 million ¹⁴
Reduced higher education remediation costs. Proposed K-12 spending plan expects all districts to ensure each student masters a years worth of learning each year, and exit K-12 with required competencies—not needing remediation.	\$25 - \$50 Million
Realize savings through reforms to health care and health care benefit structures for education employees consistent with direction of reforms for all public employees. New health care systems can be encouraged and supported by state legislation setting targets, or providing incentives for savings, while respecting local bargaining rights and local control issues in realizing savings.	\$200 - \$700 Million ¹⁵
Savings to local districts and taxpayers from proposed move to state-based infrastructure support financing system.	Growing to \$1 Billion over time
Savings for taxpayers in reduced tuition costs of higher education support.	\$700 Million
Eliminate “double dipping” of retirees who come back to a district on contract while receiving a pension.	\$2 - \$10 Million
Establish a ceiling (recommend 15%) for fund equities, coupled with appropriate guarantees of state payment schedules so large fund balances are not needed.	\$25 - \$50 Million
Maximize the capture of Internet Sales Tax – Michigan join national effort to effectively capture internet sales taxes.	\$25 - \$100 Million

¹³ “Converting MPSERS from a Defined Benefit to a Defined Contribution System,” House Fiscal Agency, February 2010; Senate Fiscal Agency analysis of Senate Bills 1226-1227

¹⁴ Estimate from saving 2 Administrator FTE's in @ half (300) Michigan school districts and ISDs

¹⁵ A number of approaches are under consideration, including from Michigan's teachers unions, and estimates of cost savings from changes to the treatment of health care and health care benefits range widely, but there clearly are savings in the hundreds of millions of dollars depending on the exact proposal (Doug Drake, Public Policy Associates)

Revenue Side Changes

Table D. lists recommended options to make education support more predictable, better linked to the movement of the economy, and to find additional revenue sources if needed.

Table D. Making Revenue More Predictable, Tracking the Economy, and Additional Revenue Sources if Needed	Estimate of Annual Revenue Gain
Modernize the sales tax system – extending sales tax to services, while lowering the rate of the sales tax. This is the principle means to make revenues more predictable and better connected to the movement of today's economy.	Net of reducing rate (from 6% to 5.5%) and extending to services. Year 1 - \$730 Million Year 2 - \$910 Million Year 3 - \$940 Million Year 4 - \$990 Million ¹⁶
Eliminate the business tax surcharge – all agree it has got to be replaced – represents revenue loss. Reduced 50% in year one and remainder in year two.	Year 1 – (\$170 Million) Year 2 – (\$455 Million) Year 3 – (\$570 Million) Year 4 – (\$580 Million) ¹⁷
Allow local units to increase millages if a share of revenues was used to underwrite general fund or statewide education needs.	\$10 - \$100 Million
Tax private pensions (not social security). Michigan is one of very few states that do not.	\$200 Million - \$500 Million annually depending on rate
Reduce targeted tax credits and tax loopholes that do not support Michigan's economy.	\$200 - \$400 Million (picking least productive using estimates of economic development impact) ¹⁸
Implement a graduated income tax - taxing wealthier citizens at higher rates, while reducing income tax rates for most citizens.	\$500 Million to \$1 Billion annually depending on rate and the ability to maintain the current number of tax payers.

¹⁶ "Review and Analysis of FY 2010-11 Executive Recommendation," Pg 8, House Fiscal Agency, March 2010;

¹⁷ "Review and Analysis of FY 2010-11 Executive Recommendation," Pg 8, House Fiscal Agency, March 2010;

¹⁸ State has over \$35 Billion in tax expenditures, which represent exemptions in the current tax code across business, property, consumption and income tax groups ("Appendix on Tax Credits, Deductions, and Exemptions," Treasury, FY 2010). Anderson Economic Group identified the Michigan Economic Growth Authority Act (\$140 Million), the Renaissance Zone Act (\$140 Million), and the Film Industry Incentives (\$150 Million) as ineffective business tax incentives. "Effectiveness of Michigan's Key Business Tax Incentives," Anderson Economic Group, March 2010