Making Michigan a Top 10 Education State: Addressing School Funding Challenges

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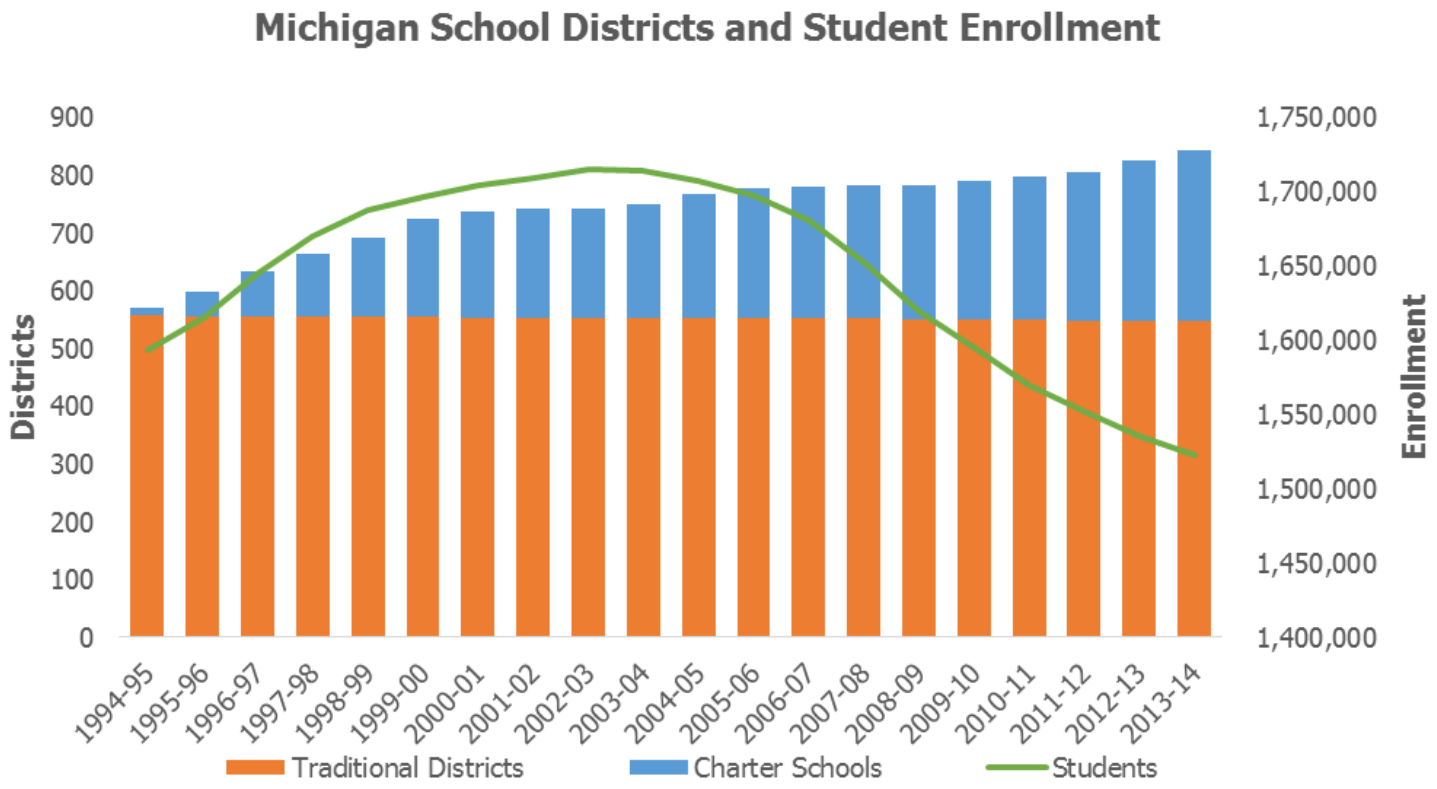
About The Citizens Research Council

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

Number of Districts Increase Despite Declining Enrollment



Source: Michigan Department of Education
Note: Excludes Intermediate School Districts (56 in 2012)

Challenge Facing Districts

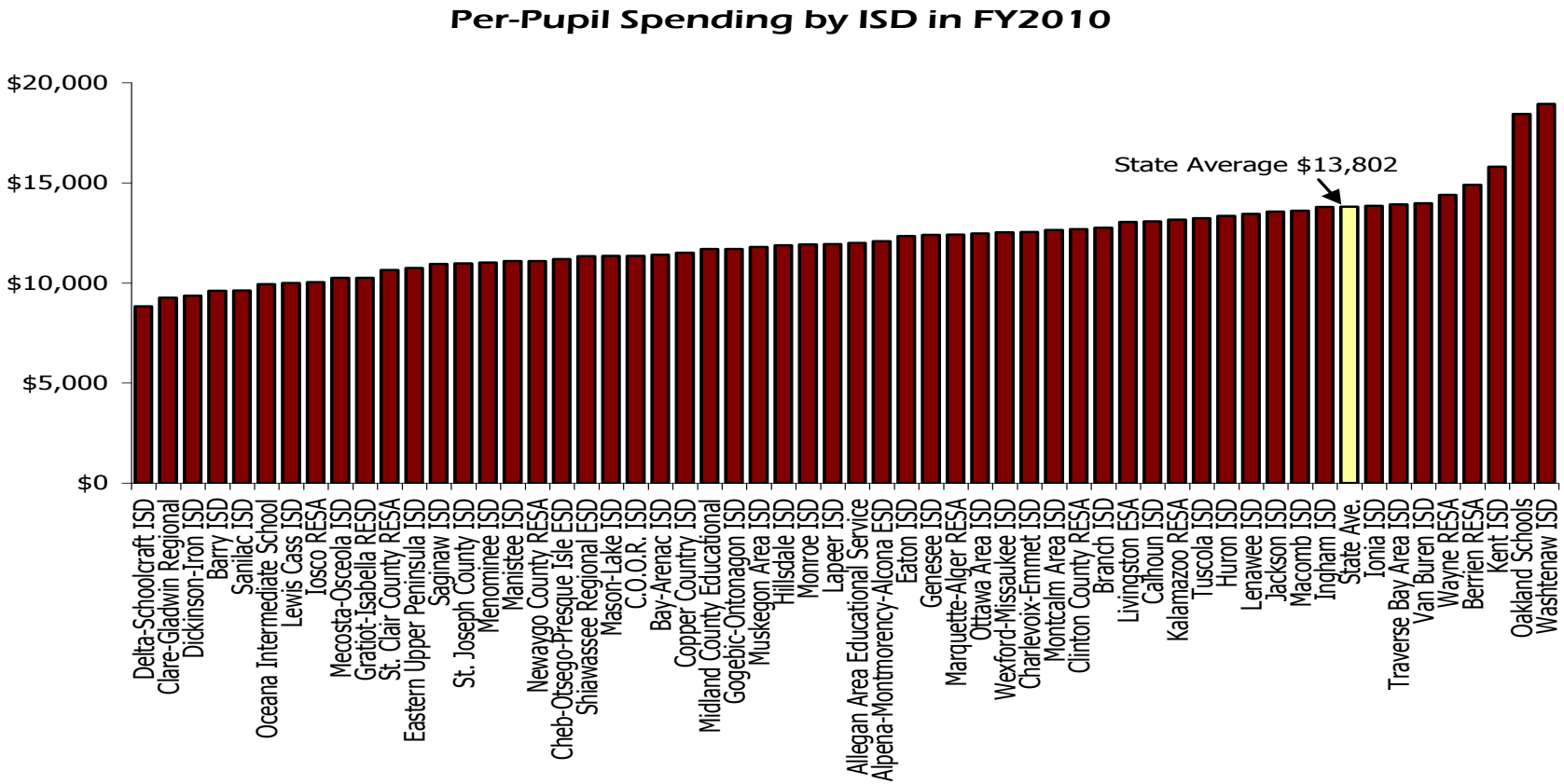
- Difference between "average" and "marginal" cost
  - A district's "average" cost (represented by the foundation grant) does not fully decline in short-run with enrollment loss
  - When a district loses a student, the revenue decline exceeds the reduction in cost (many costs remain with district)
- In the short run, many districts, especially small- and average-sized, face few variable costs
  - Whether enrollment increases/decreases – little increase in costs
  - As a result, there is a financial incentive to compete for students

Recognize that Declining Enrollment is a Serious Problem

1. For those districts hardest hit, **establish policy and early warning strategies** to head off "death spiral"
2. **Restore state strategies** designed to ease immediate negative effects of declining enrollment
3. **Reexamine the structure** of the per-pupil foundation grant
   - Recognize that there are "school-based" costs
   - Differentiate grant to take into account student/school characteristics

Special Ed. Per-Pupil Spending Variation

Difference Twice as Much



Source: MDE, Report SE-4096; Center for Educational Performance Information; CRC calculations.

Per-Pupil Spending Gap Widening

Proposal A Did Not Address

- Since 2007, per-pupil spending gap increased
  - Ratio (high to low) increased from below 2.0 to 2.2
  - Little effort by state to reduce disparities
- Contrasts with per-pupil foundation allowance
  - Over same period, ratio fell from 1.74 to 1.7
  - State policies aimed directly at reducing spending disparities (since Proposal A)

Address Special Education Challenges

1. **Reduce reliance** on local property tax as primary funding source
2. To reduce widening per-pupil funding disparities, **greater centralization in funding decisions** would be required (similar to Proposal A)
3. Equalizing per-pupil funding would require significant amount of **additional state resources** (with minimum tax effort requirement), as "raising the bottom" would be only acceptable method

Financing School Infrastructure

The Unfinished Business of Proposal A

- Significant per-pupil inequities exist in the financing of school construction and capital spending
- The division is along economic lines
  - Poorer communities (urban districts) – avg. capital stock equal to $15,000 per pupil
  - Wealthier communities (high-income suburban districts) – avg. of $25,000 per pupil
- Responsibility for capital spending remains at the local level
  - For wealthy districts – raise considerable revenue with little tax effort
  - For poor districts – raise very little revenue with very high tax rates

Address Capital Financing Disparities

1. Capital funding should be guided by principles of **adequacy and equity**, similar to Proposal A
2. Reduce **reliance** on local property tax as primary funding source
3. **Greater centralization in funding responsibility** means that state will have to play larger role
4. **Range of state options** available – state grants to full state assumption of school facility financing

CRC publications are available at:

www.crcmich.org

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