



Michigan School Finance and Organization

State Board of Education

March 11, 2014



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



Recent CRC Publications

- CRC series of K-12 education-related research
 - Governance (January '10)
 - State and Local Revenues (September '10)
 - Nontraditional Schools (October '10)
 - Early Childhood Education (February '11)
 - Reform of Governance and Management (May '11)
 - Distribution of State Aid (August '11)
 - Teacher Training (January '12)
 - Teacher Performance and Management (March '12)
 - Teacher Tenure and Collective Bargaining (July '12)
- Other research: special education finances; fiscally distressed school districts; state budget monitoring

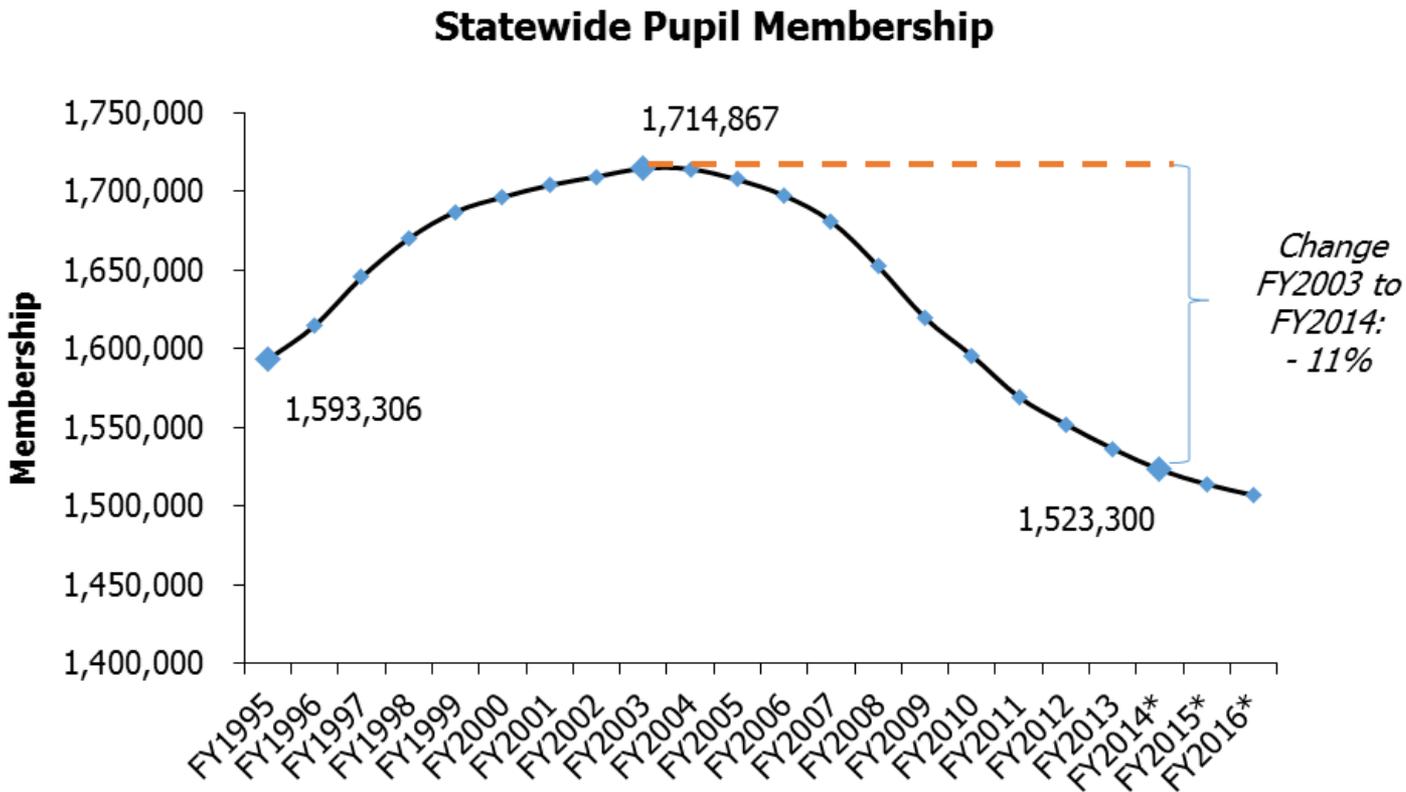


Challenge: Declining Enrollment



Since 2003: Era of Declining Enrollment

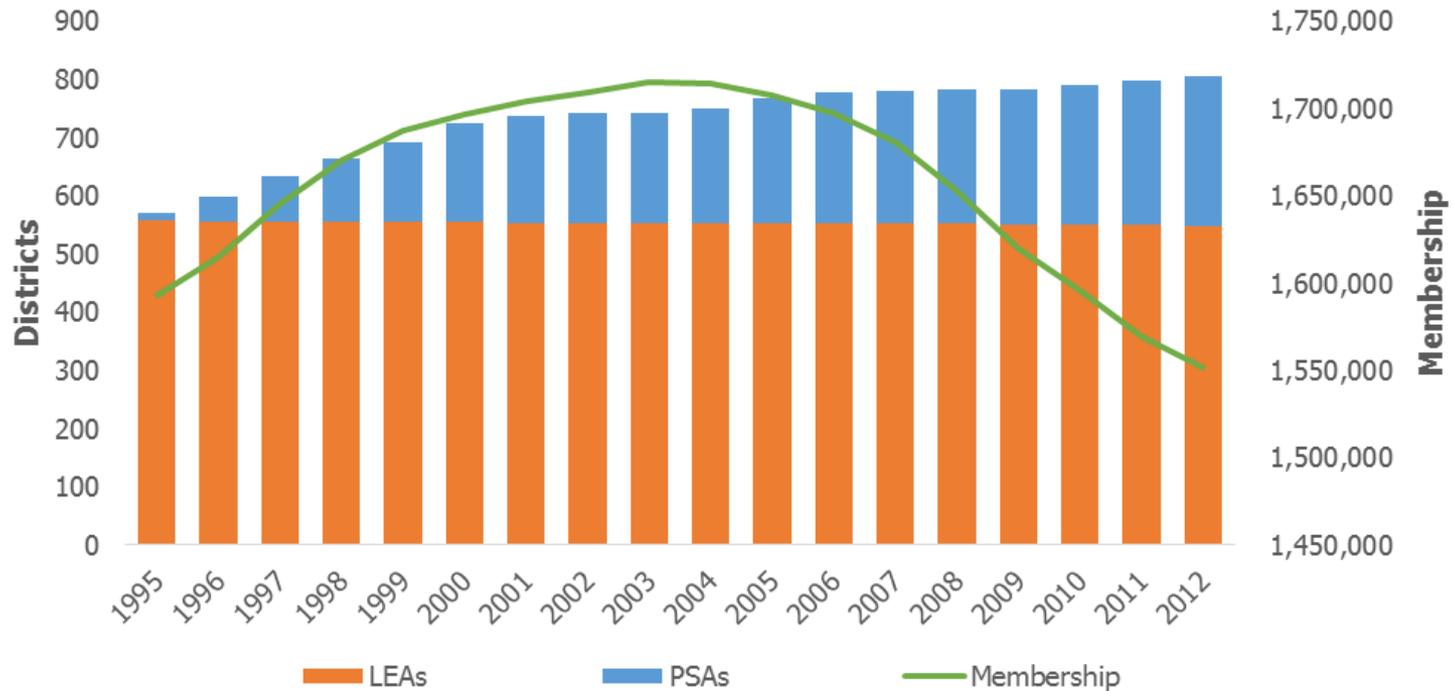
Trend Expected to Continue



* FY2014 through FY2016 based on January 2014 consensus estimates

Number of Districts Growing Despite Declining Enrollment

Michigan School Districts and Pupil Membership



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

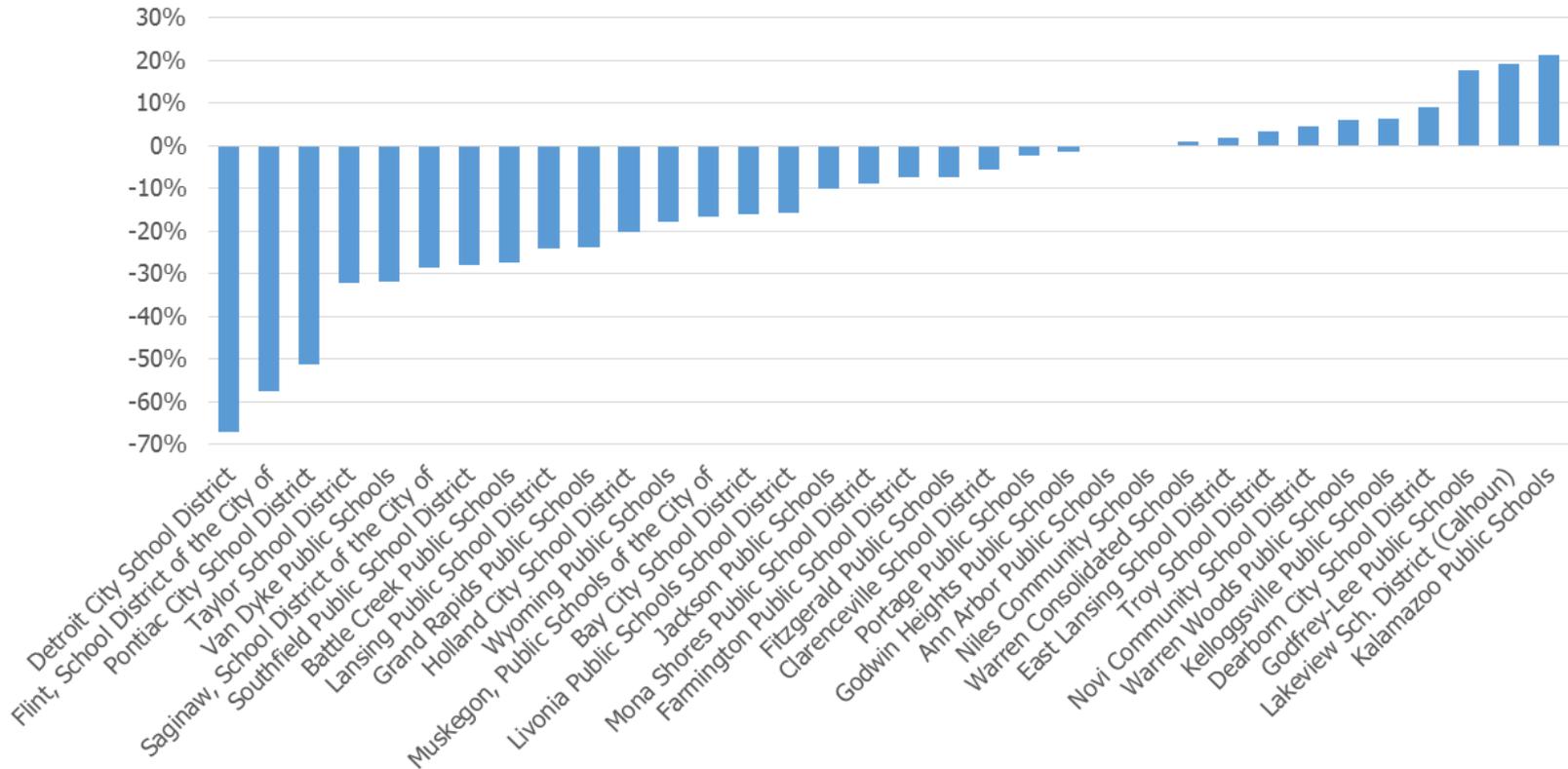


Declining Enrollment . . . Not Just an Urban Issue

Enrollment Change from Fall 2003 to Fall 2012	District Locale			
	City	Suburb	Town	Rural
Gain	10	50	10	55
Loss				
greater than 50%	3	0	1	6
25% to 50%	5	14	5	61
10% to 25%	8	25	44	114
0 to 10%	8	46	23	57
Districts with Loss	24	85	73	238
Total # of Districts	34	135	83	293
Total Pupil Loss / % Loss	133,520 -32%	24,756 -4%	23,244 -12%	38,271 -12%

Some Large Urban Districts Experience Massive Enrollment Loss

Enrollment Change in City School Districts: 2003 to 2012



Effects of Declining Enrollment

Two Narratives

- State-level effects
 - Fewer students in the system allows the per-pupil foundation grant to increase, even if there are no new dollars in the system
- District-level effects
 - Per-pupil foundation grant might increase, **BUT**
 - Effects of grant increase are offset by the loss of students – result in fewer resources overall
 - Challenges of “managing down” when majority of costs are relatively fixed in near term

Challenge Facing Districts

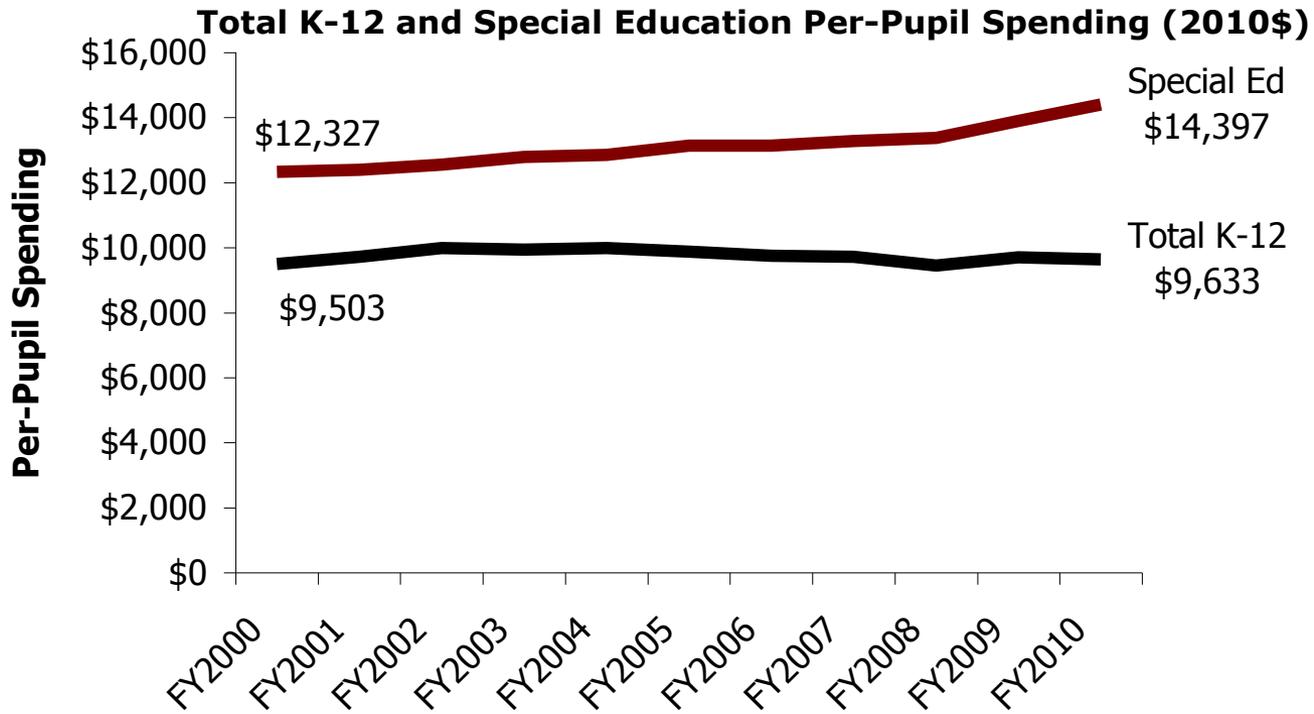
- Difference between “average” and “marginal” cost
 - A district’s “average” cost (represented by the foundation grant) does not fully decline in short-run with enrollment loss
 - When a district loses a student, the revenue decline exceeds the reduction in cost (many costs remain with district)
- In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



Challenge: Financing Special Education

Statewide Spending Picture

Growth Exceeds Inflation and Total K-12 Spending

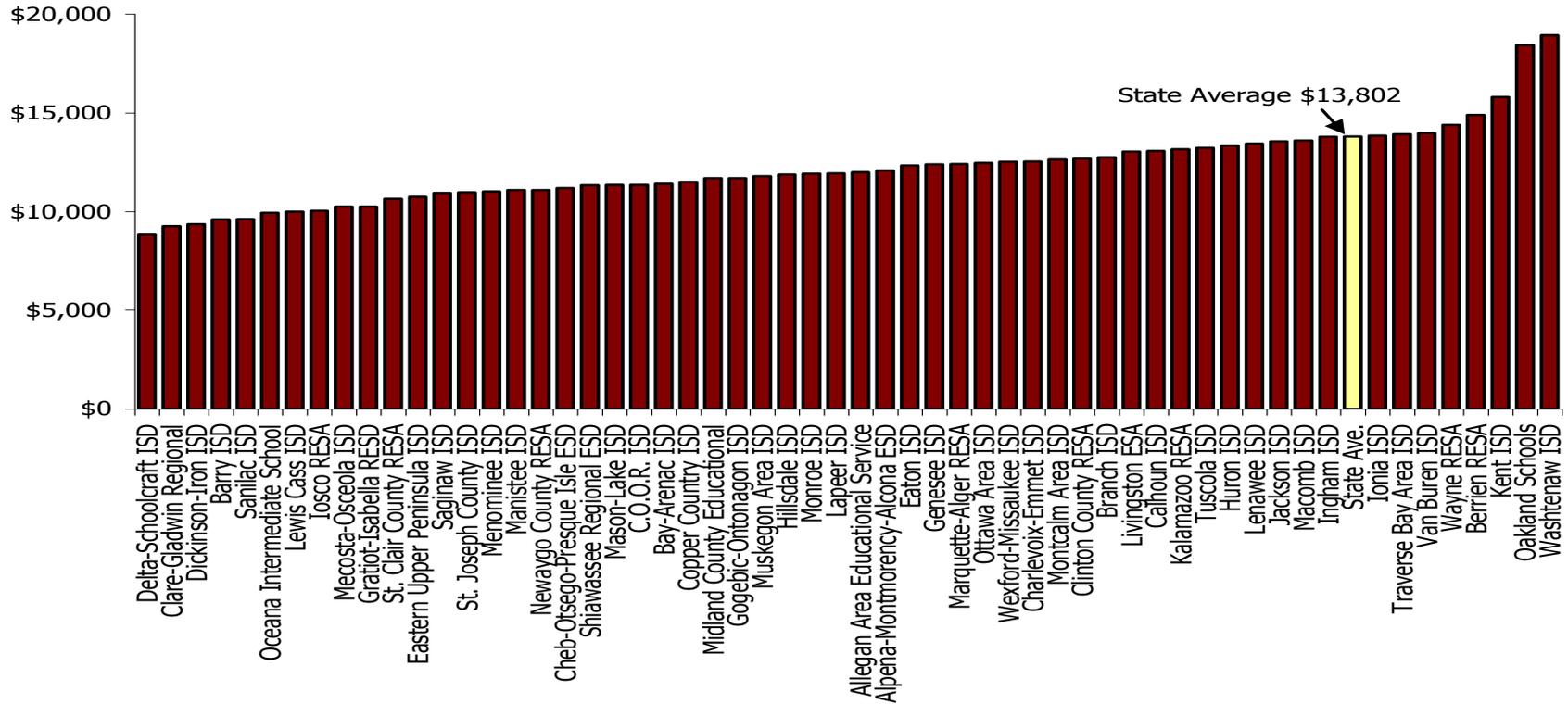


Source: CRC Report 378, *Financing Special Education: Analyses and Challenges*

Per-Pupil Spending Variation

Difference Twice as Much

Per-Pupil Spending by ISD in FY2010



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 experience in general education funding (foundation allowance)
 - Over same period, ratio fell from 1.74 to 1.7
 - State policies aimed directly at reducing spending disparities (since Proposal A)



Property Tax Contributes to Differences

Special Education Property Tax Revenue in 2010

ISD	Tax Revenue	Special Education Pupils	Per-Pupil Revenue	Tax Rate (mills)	Taxable Value Per Pupil*
Five Highest Per-Pupil Amounts					
Washtenaw	\$57,942,247	6,791	\$8,532	3.8761	\$317,920
Ottawa	49,805,239	6,078	8,194	4.3750	241,658
Huron	5,495,463	766	7,174	3.2886	350,579
Charlevoix-Emmet	10,032,765	1,399	7,171	1.8313	544,485
Oakland	157,503,945	23,751	6,631	2.5456	314,186
Five Lowest Per-Pupil Amounts					
Sanilac	\$1,079,084	997	\$1,082	0.7298	\$202,044
Lapeer	2,219,587	1,795	1,237	0.8310	190,289
Iosco	1,025,456	791	1,296	0.6371	355,467
Eastern UP	1,645,724	1,245	1,322	0.7727	277,182
Midland	3,177,171	2,228	1,426	0.9797	243,621
State Average			\$4,354	2.5621	\$223,778

* Includes general and special education students.

Source: MDE; Department of Treasury; CRC calculations



Strength of Property Tax Growth Wanes

ISD Special Education Property Tax for Selected Years

Tax Year	Average Rate (mills)	Tax Yield (\$millions)	Dollar Change	Percent Change	Dollars per Pupil	Dollar Change
2001	2.3978	\$531.3			\$2,346	
2005	2.5137	862.4			2,135	
2007	2.5059	964.3	\$55.3	6.1%	3,873	
2008	2.5418	1,026.2	61.9	6.4%	4,205	\$332
2009	2.5409	1,037.8	11.6	1.1%	4,320	115
2010	2.5621	1,026.7	(11.1)	(1.1%)	4,354	34
2011*	2.5551	956.0	(70.7)	(7.0%)	4,217	(142)

* preliminary

Source: MDE; Department of Treasury; CRC calculations

3% Decline Expected in 2011

General Fund Contributions

Funder of Last Resort

- Districts (local and ISD) must make up difference between mandated costs and dedicated revenues
- Local districts contribute through ISD property tax and allocations from their general funds
- General fund contributions from local districts
 - 19% of total \$3.4 billion in 2010
- Tradeoff: raise ISD tax (if possible) or more GF \$
 - Mandated special education costs place additional burdens on general education budgets



Challenge: Fiscally Distressed Districts



Fiscal Distress Growing

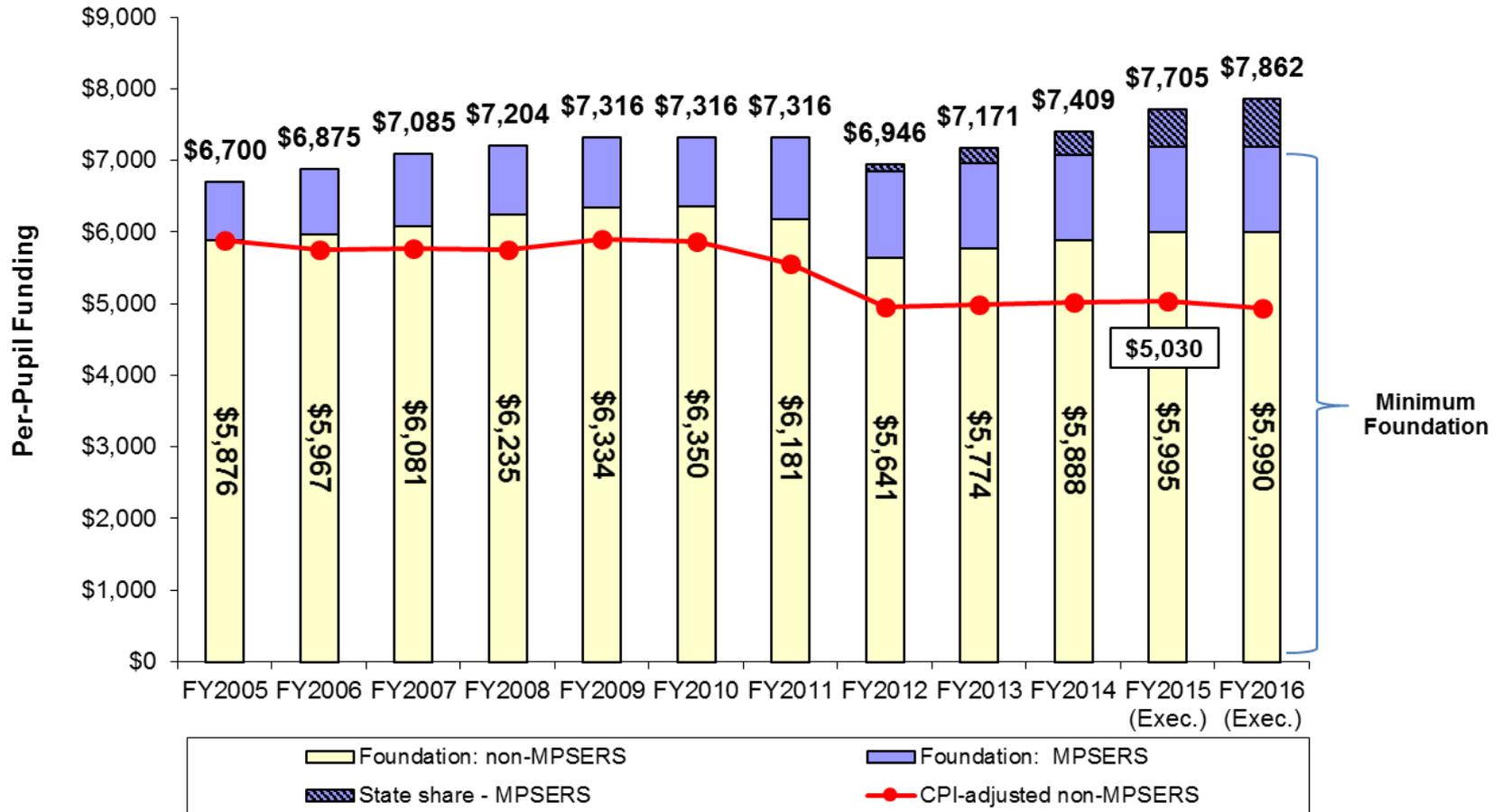
Record Number of Deficit Districts in '12

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Statewide Average	10.81%	9.34%	7.19%	8.42%	8.96%	8.37%
Fund Balance as % of Revenue						
0% to 5%	57	63	73	44	50	78
5% to 10%	106	108	99	101	117	127
10% to 15%	114	119	131	127	136	106
Above 15%	<u>249</u>	<u>231</u>	<u>211</u>	<u>237</u>	<u>201</u>	<u>186</u>
Districts	526	521	514	509	502	497*
Deficit (Negative)	21	29	36	41	47	42

Source: Michigan School Business Officials; Michigan Department of Education (deficit districts).
 Note: Traditional public school districts only (excludes ISDs and PSAs). Not all districts reporting for 2012-13.

Effects of MPSERS Costs on Foundation Grant

Estimated Impact on Minimum Grant



Range of State Responses

- For majority of districts in distress, current DEP process functions well
- However, for those hardest hit, state lacks consistent policy and responses have varied:
 - “Charterized” districts (Muskegon Heights and Highland Park)
 - Dissolution used for two districts (Buena Vista and Inkster)
 - PA 436 used for Detroit (emergency manager) and Pontiac (consent agreement)

Consequences of Current Approach

- Interruption of student learning – sometimes abruptly and at mid-year
- Some state responses “socialize” deficit elimination solutions through the provision of additional funds
- Under dissolution scenario (new option), the learning environment that students are assigned to may not be any better than the dissolved district
- Diminished accountability for state taxes used to finance K-12 education



Recommendations



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. **Reconsider state messaging** – consolidation vs. expansion of educational providers
4. **Reexamine the structure** of the per-pupil foundation grant
 - Recognize that there are “school-based” costs
 - Differentiate foundation grant to take into account student/school characteristics



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



New State Policy for Fiscally Distressed Districts

1. Move away from current ad hoc approach and establish a **clear, transparent, and consistent policy** based on early intervention
2. Acknowledge that some districts would need **additional resources** (financial and technical) to address their financial challenges - these dollars should come earlier, but with “strings attached” to avoid recurring problems
3. There must be an **educational component**, not merely a financial solution



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