

Michigan School Finance and Organization

Michigan State Board of Education
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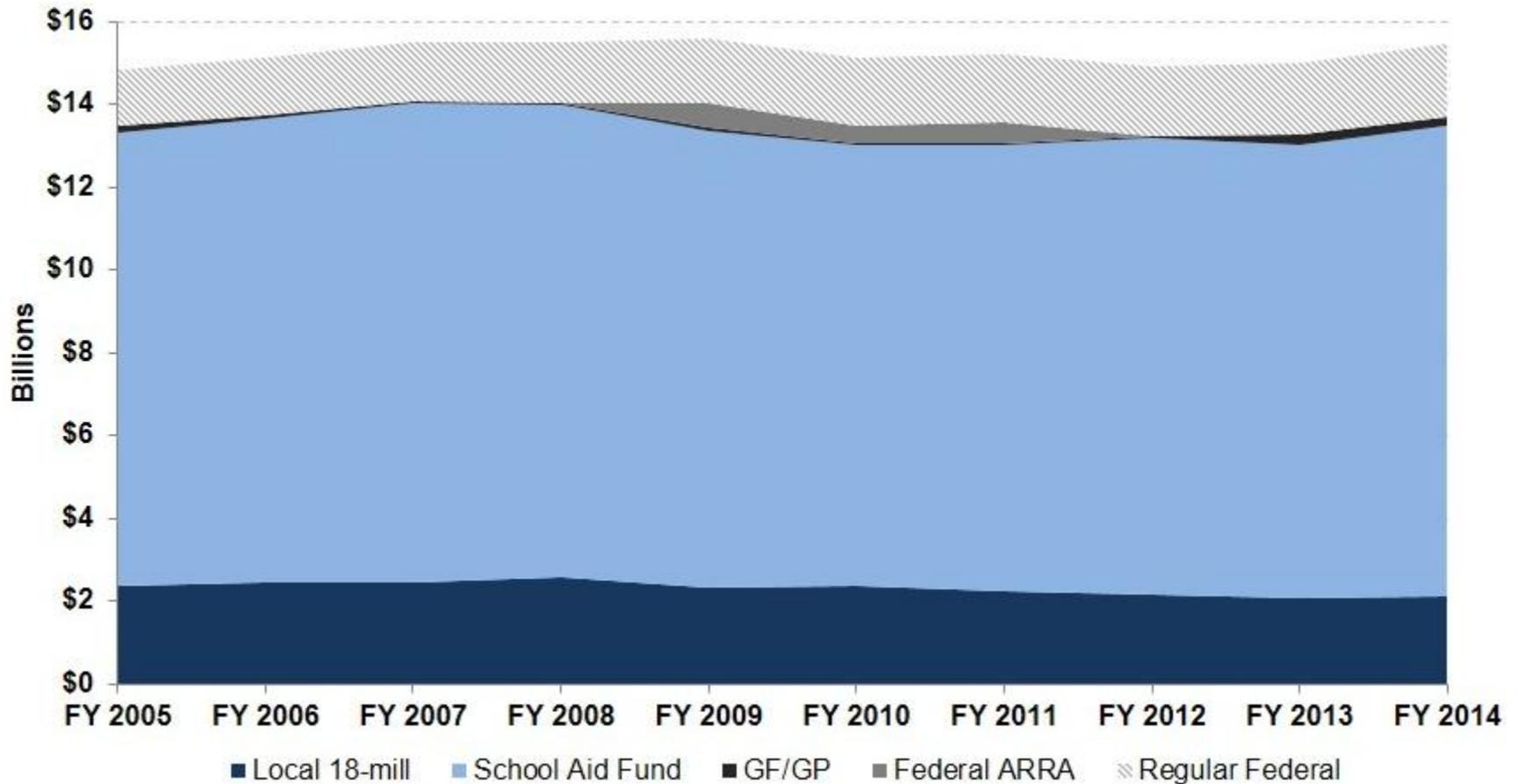
School Finance Principles

- Equity
- Efficiency
- Adequacy
- Choice

School Aid Funding

Local 18-mill Levy and State Appropriations

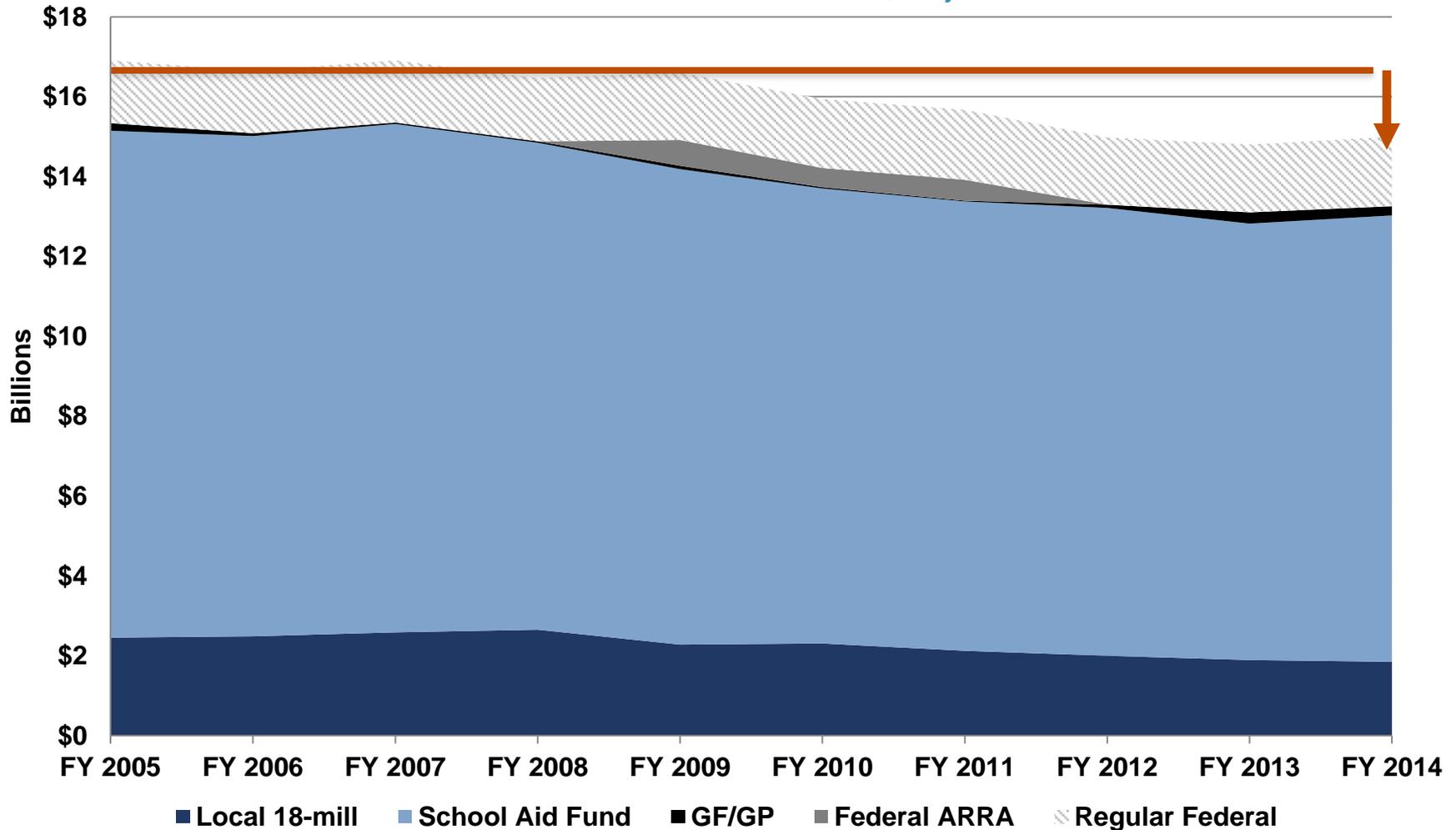
Excluding federal funds dedicated for specific purposes, total FY 2013-14 funding for schools is at the same level as FY 2005-06 (not adjusted for inflation)



School Aid Funding

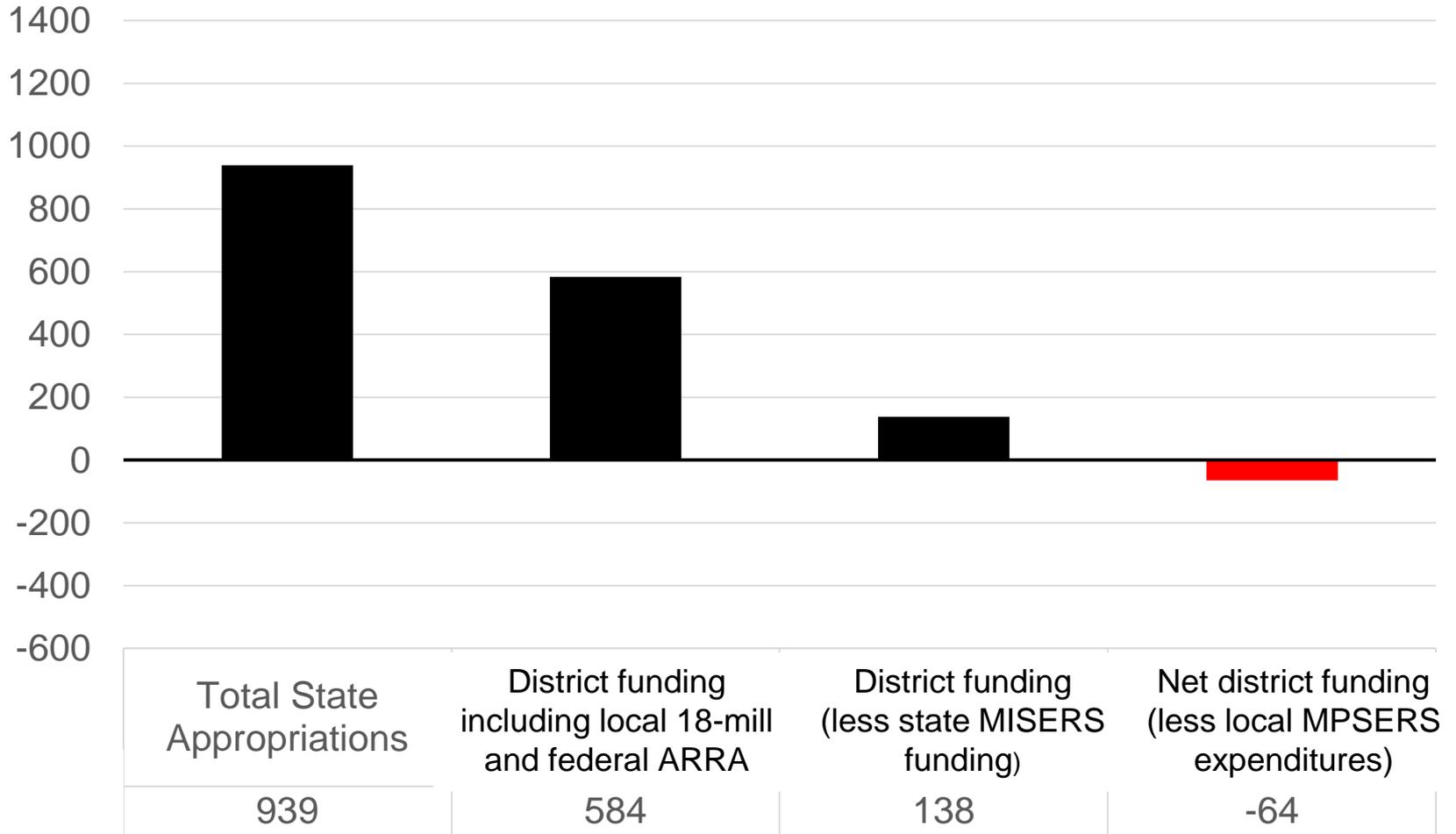
Local 18-mill Levy and State Appropriations

Excluding federal funds dedicated for specific purposes, total FY 2013-14 funding for school is \$1.9 billion lower than FY 2005-06, adjusted for inflation.



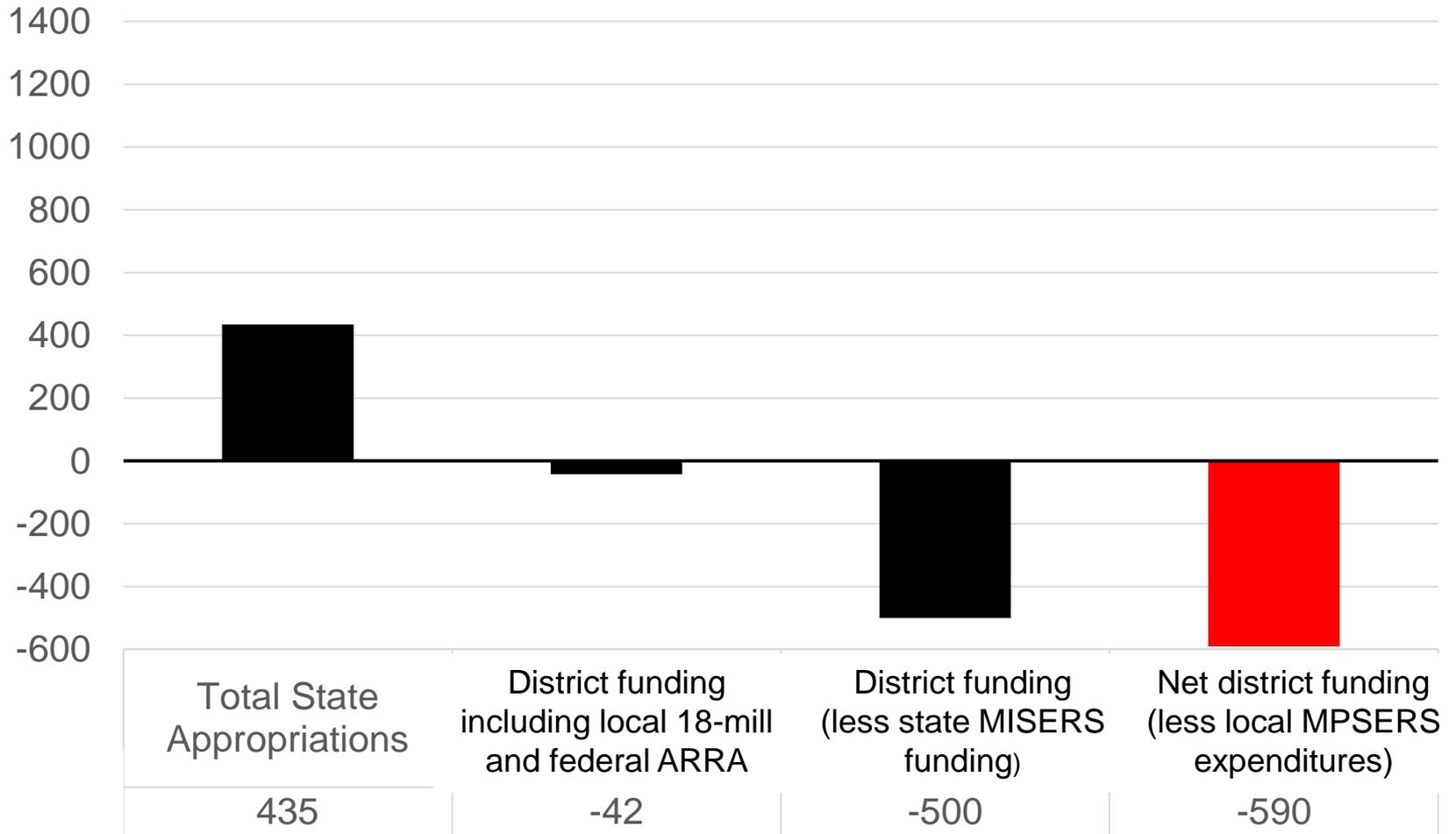
Nominal 4-Year Per Pupil K-12 Funding Change

(FY 2015 Executive Budget as Endpoint)



Source: House Fiscal Agency.

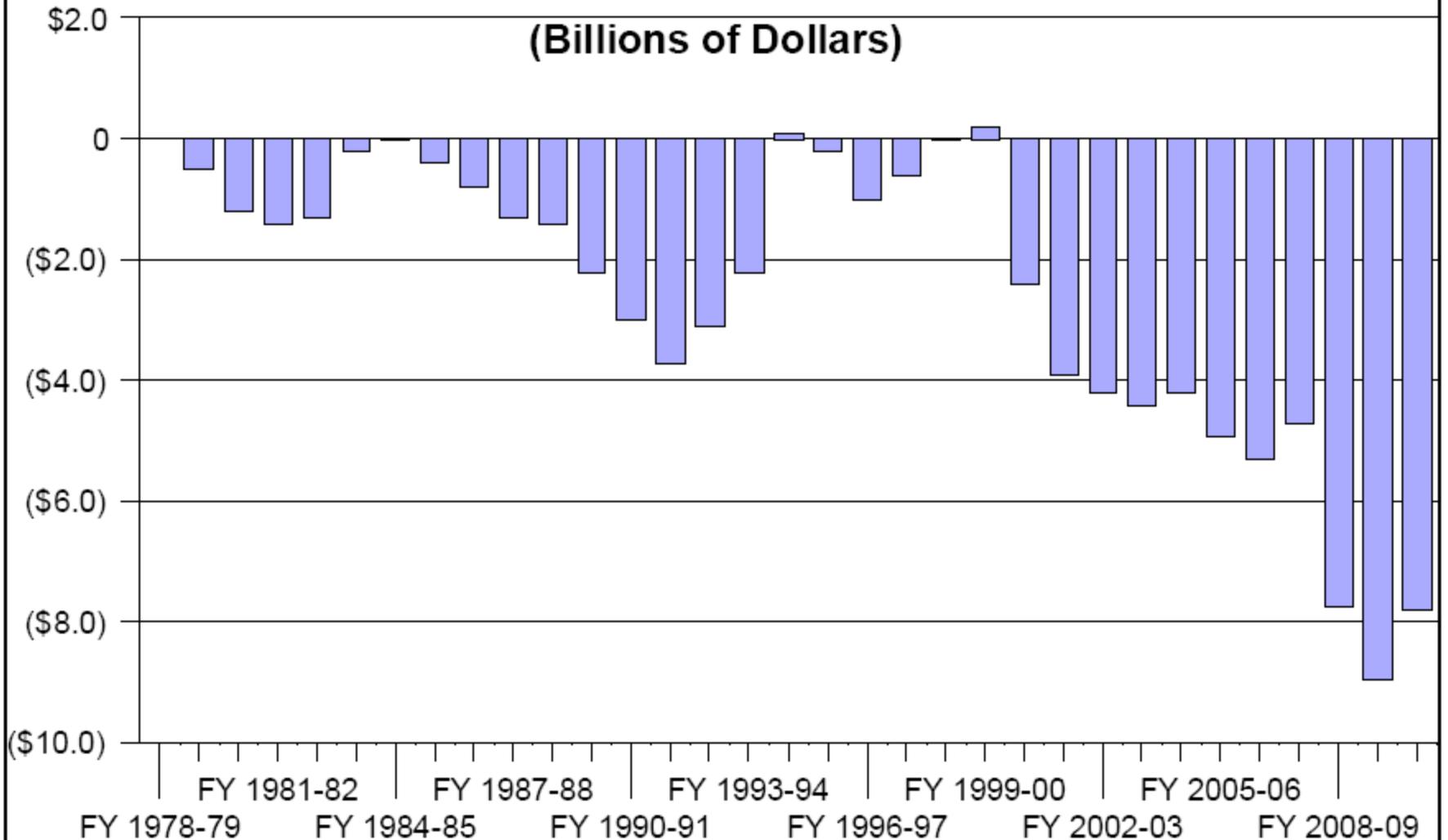
Inflation-adjusted 4-Year Per Pupil K-12 Funding Change (FY 2015 Executive Budget as Endpoint)



Source: House Fiscal Agency. Price deflator: CPI-Detroit.

State Revenue and the Constitutional Revenue Limit

\$ Amount Under or Over Limit



Source: Michigan's Office of the State Budget; January 2010 consensus revenue estimates for FY 2008-09 through FY 2010-11.

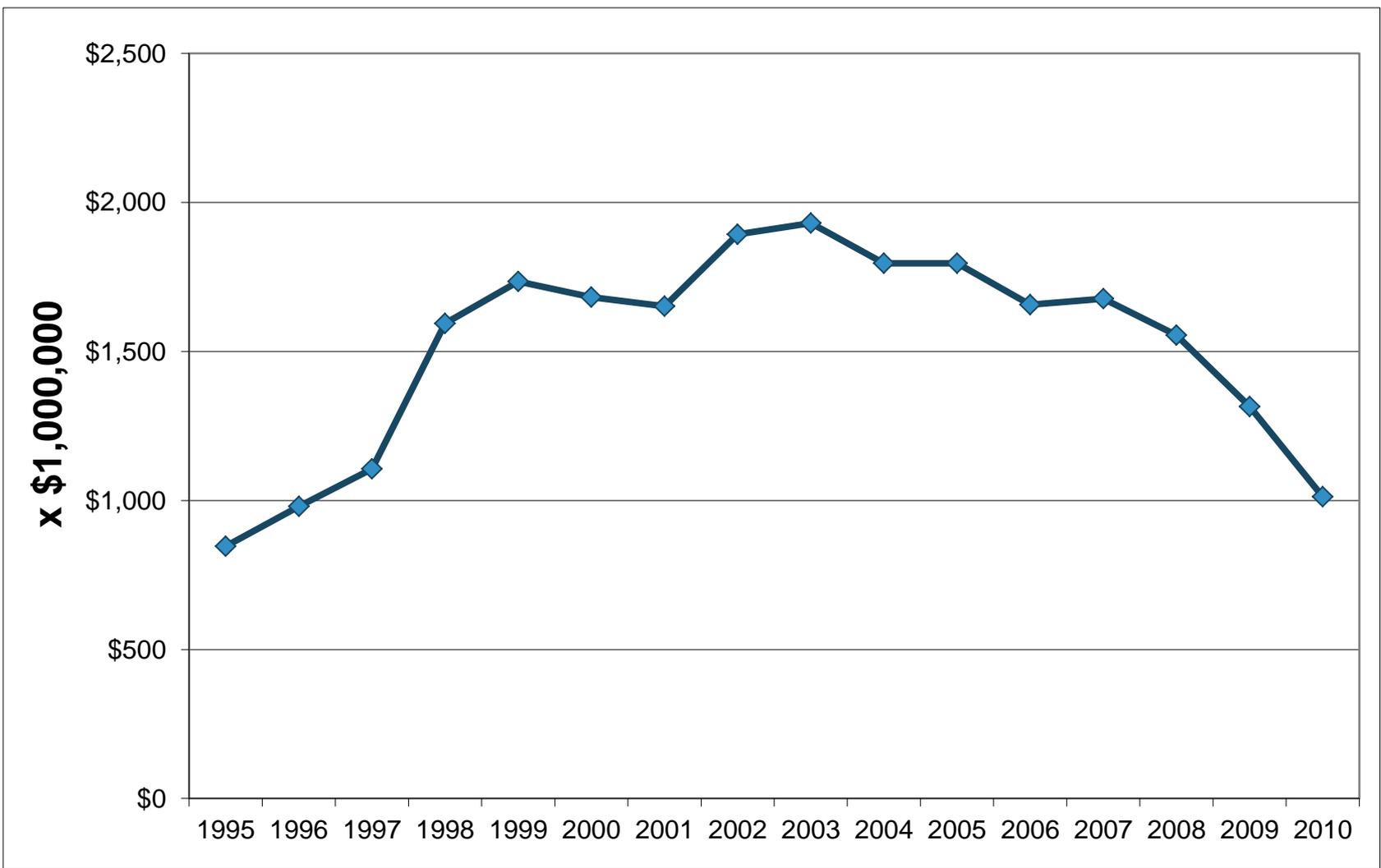
“School districts in the State of Michigan have faced unprecedented fiscal stress over the past few years stemming from direct funding cuts, enrollment declines and limited revenue and expenditure flexibility.”

Ratings downgrades in a quarter of MI school districts, 2009-2012

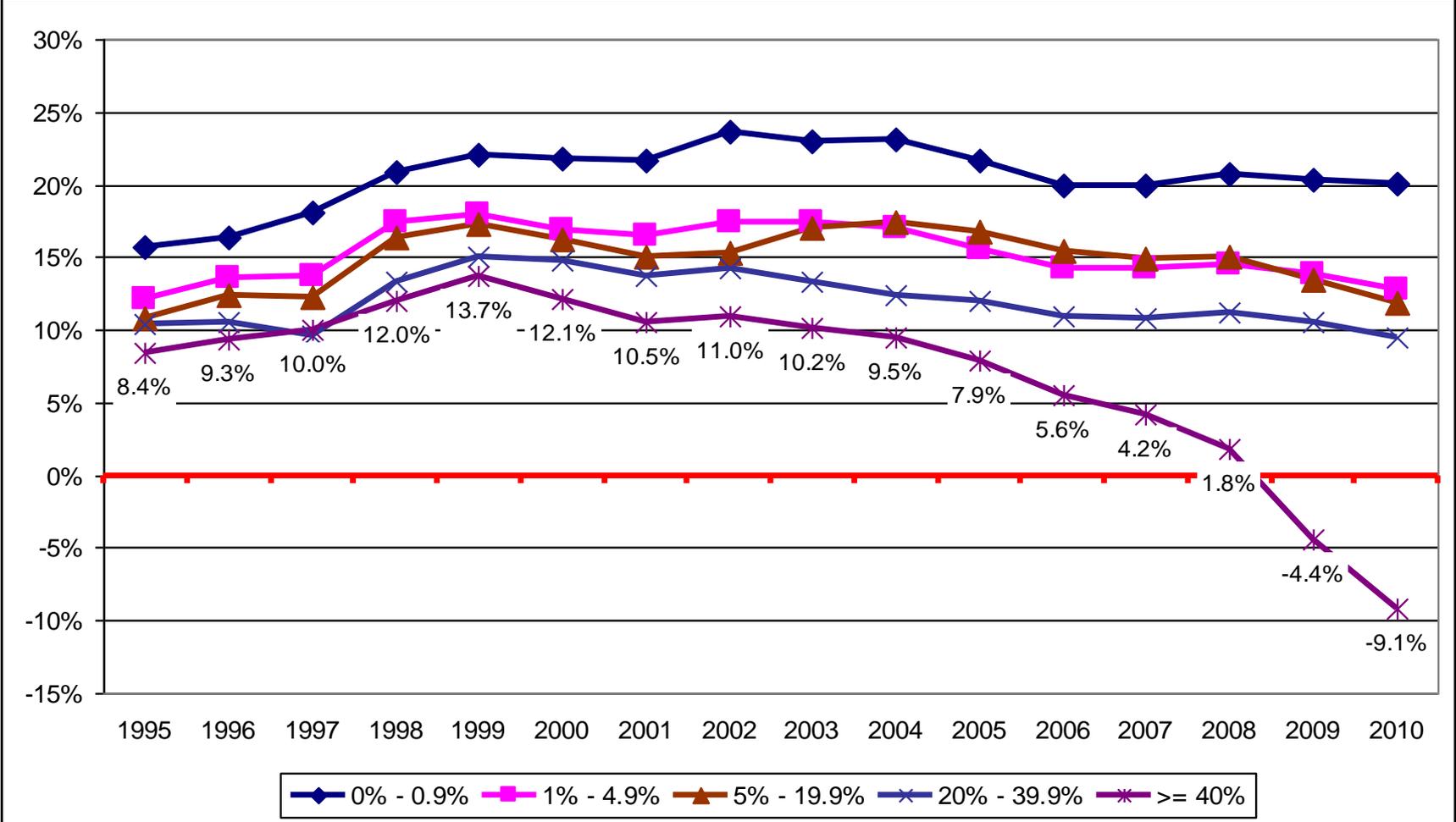
- 3 times the rate for school districts nationwide
- multi-notch downgrades 6 times the rate for districts nationwide

“The outlook for the Michigan school district sector remains negative going forward. Additional downgrades are likely to occur in the near term.”

Aggregate Fund Balance for Michigan School Districts, 1995-2010



District Fund Balance as Percent of General Fund Revenues, by District Racial Composition



Proposal A Funding Increases Generated Significant Achievement Growth

Money Mattered

- Leslie Papke (2008). The effects of changes in Michigan's school finance system. *Public Finance Review* 36(4), 456-474.
- Joydeep Roy (2011). Impact of school finance reform on resource equalization and academic performance: Evidence from Michigan. *Education Finance and Policy* 6, 137-167.

The Distribution of Revenues Among Local School Districts

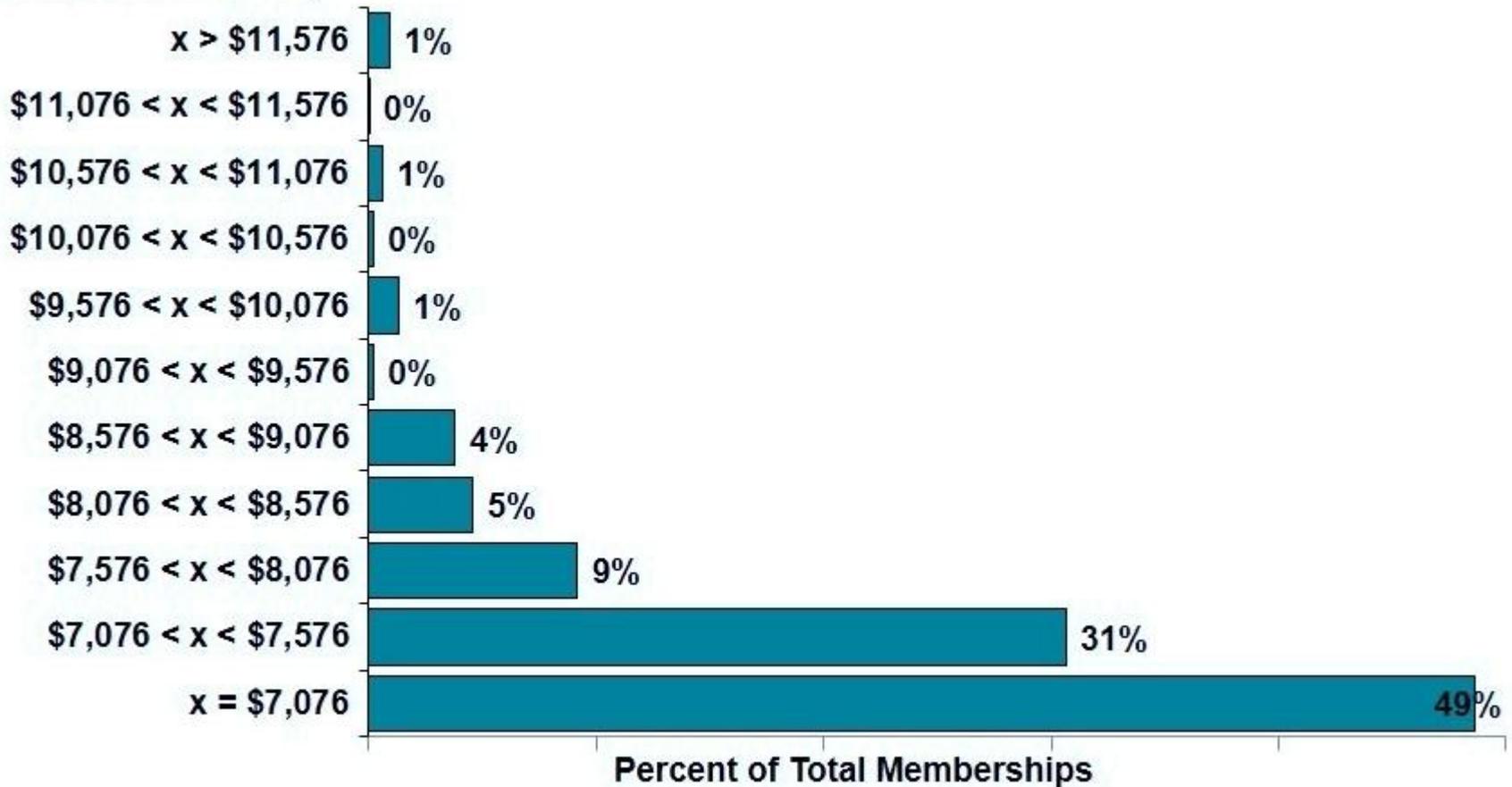
- Proposal A narrowed the revenue gap across districts
- Largest *per-pupil* funding gains in rural districts
- *Total* funding growth greatest in high-income suburbs
- Fails to adjust for differential local costs, which is essential for funding adequacy

Equity Among Districts

FY 2013-14 Pupil Distribution

80% of pupils are concentrated in districts with a foundation allowance at or within \$500 of the minimum foundation \$7,076

x = Foundation Per Pupil



Change in Enrollment and Total Foundation Revenue by School District Type, 2002-2011

Community type	% Enrollment change	% Change per-pupil foundation grant	% Change total foundation revenue
Central city	-42.1	6.4	-38.5
Low-income suburb	-19.4	6.0	-14.6
Mid-income suburb	-4.3	6.3	1.7
High-income suburb	3.0	4.1	7.2
Rural	-14.1	6.6	-8.4

Funding Adequacy: Mismatch between State Funding and Local Costs

- State aid should reflect variations in local costs over which districts have no control
- Michigan is out of step with national trend to account for local cost differentials in state funding
- Simply providing more revenue to lowest-funded districts will not ensure adequacy

Mismatch between State Funding and Local Costs

- High-cost students
 - State funding does not adequately reflect the actual costs of educating special needs and • at risk• children
- Secondary vs. elementary education
 - Secondary costs more than elementary.

Mismatch between State Funding and Local Costs

- Regional cost of living differences
 - Unlike many states, not compensated in Michigan's school funding
- Declining enrollment districts
 - Revenues fall more rapidly than costs, requiring cuts in programs available to students left behind
- Multiple disadvantages
 - The share of high-cost students is rising fastest in declining-enrollment districts, many of which are in high-cost urban areas

School Capital Facilities in Michigan

- Funded entirely by local property taxes
- Michigan is one of 12 states that provides no state aid for school facilities
- Capital spending growth mainly in suburbs
- Inadequate facilities in many districts
- Unequal opportunities for students
- Unequal burdens for taxpayers

Why School Facilities Matter

- Student achievement
- Preparation for high-tech jobs
- Student health & attendance
- Teacher turnover
- After-school learning, recreation, arts, and community engagement
- Increases demand for local real estate

Distribution of Capital Stock and Millage Rates by District Taxable Value per Pupil

Taxable Value Per Pupil Quintile	Taxable Value Per Pupil	Capital Stock Per Pupil	Average Debt Mills
1 (low)	\$72,770	\$12,815	\$8.1032
2	129,297	15,950	4.9666
3	160,518	16,133	4.5245
4	219,721	18,722	4.6628
5 (high)	331,920	21,022	3.0538

School Choice Policies

- Michigan's charter school and inter-district choice participation rates among nation's highest
- In 2011, cap on charter schools removed; multiple schools also permitted under a single charter
- In 2012, limits on cyber charter schools increased
- Participation concentrated in urban areas

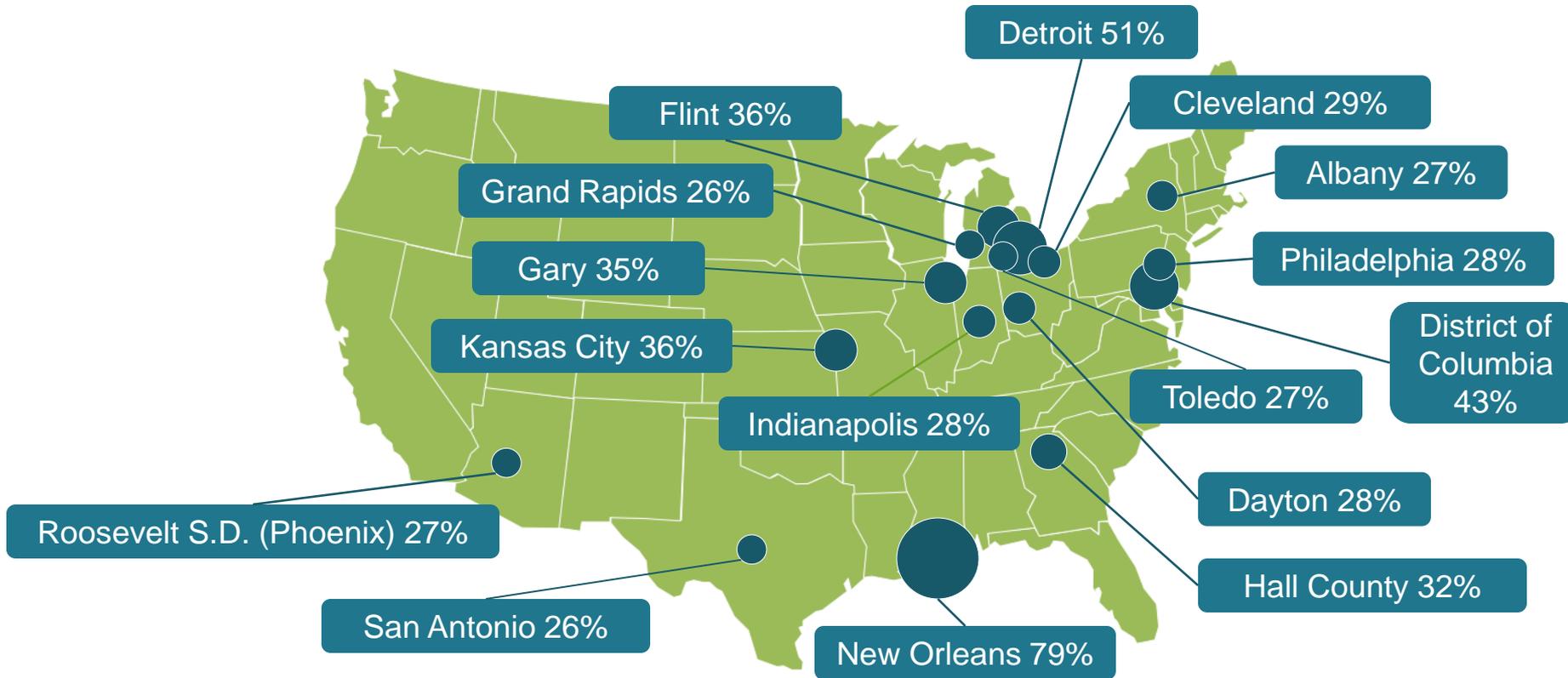
Need Principles to Guide Use of Public Funds for Innovative Schooling Options

- Charter schools, cyber schools and other educational innovations can serve as sources of experimentation and innovation and provide quality education alternatives.
- These schools have a legitimate claim on taxpayer funds to the extent that they further the overall purposes of the state education system.

Principle: This means these options must be accessible to all students and held to the same high standards of academic, fiscal and other accountability as traditional public schools.

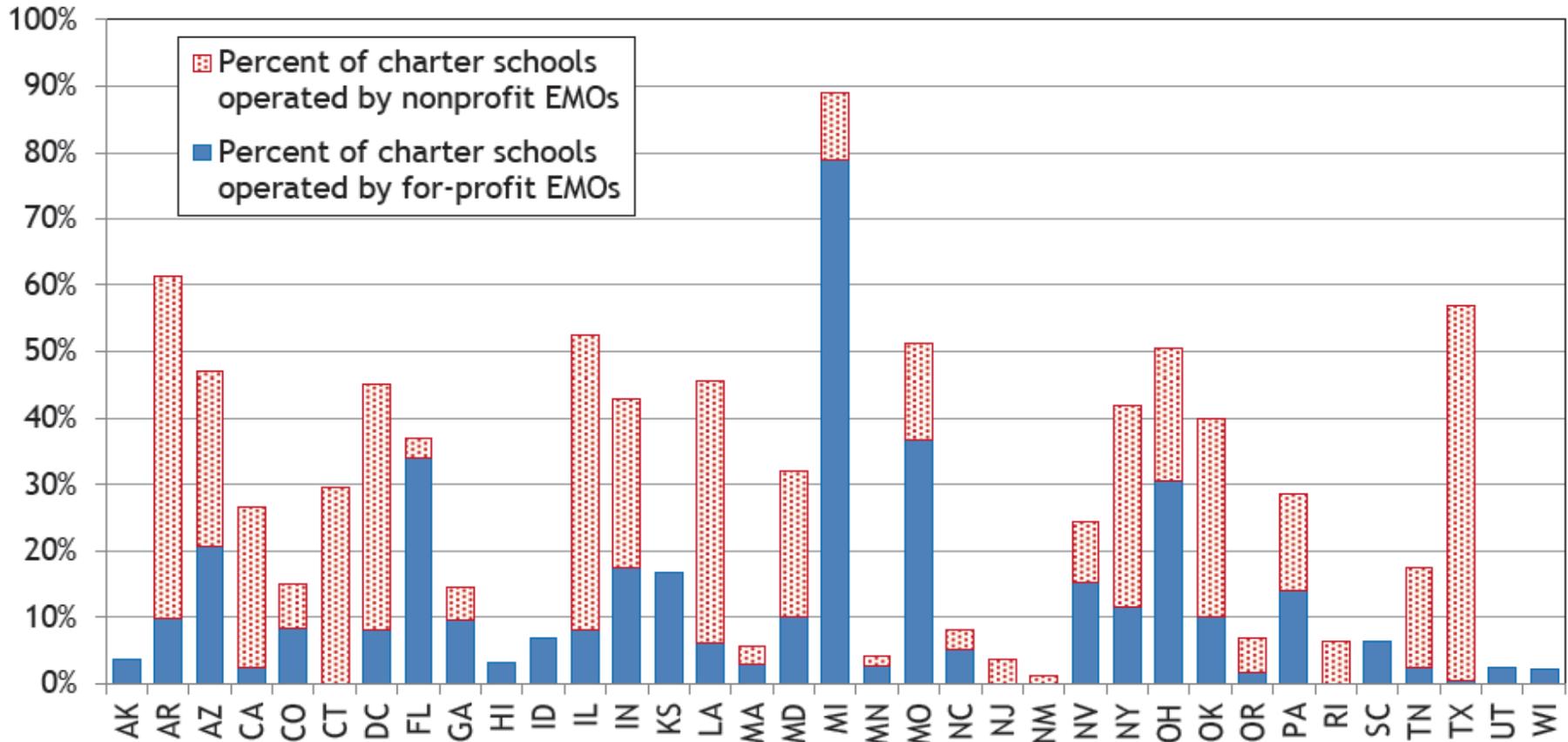
Top Charter School Markets

Districts with Largest Charter Market Shares



National Alliance for Public Charter Schools, *A Growing Movement: America's Largest Charter School Communities* (8th Edition)

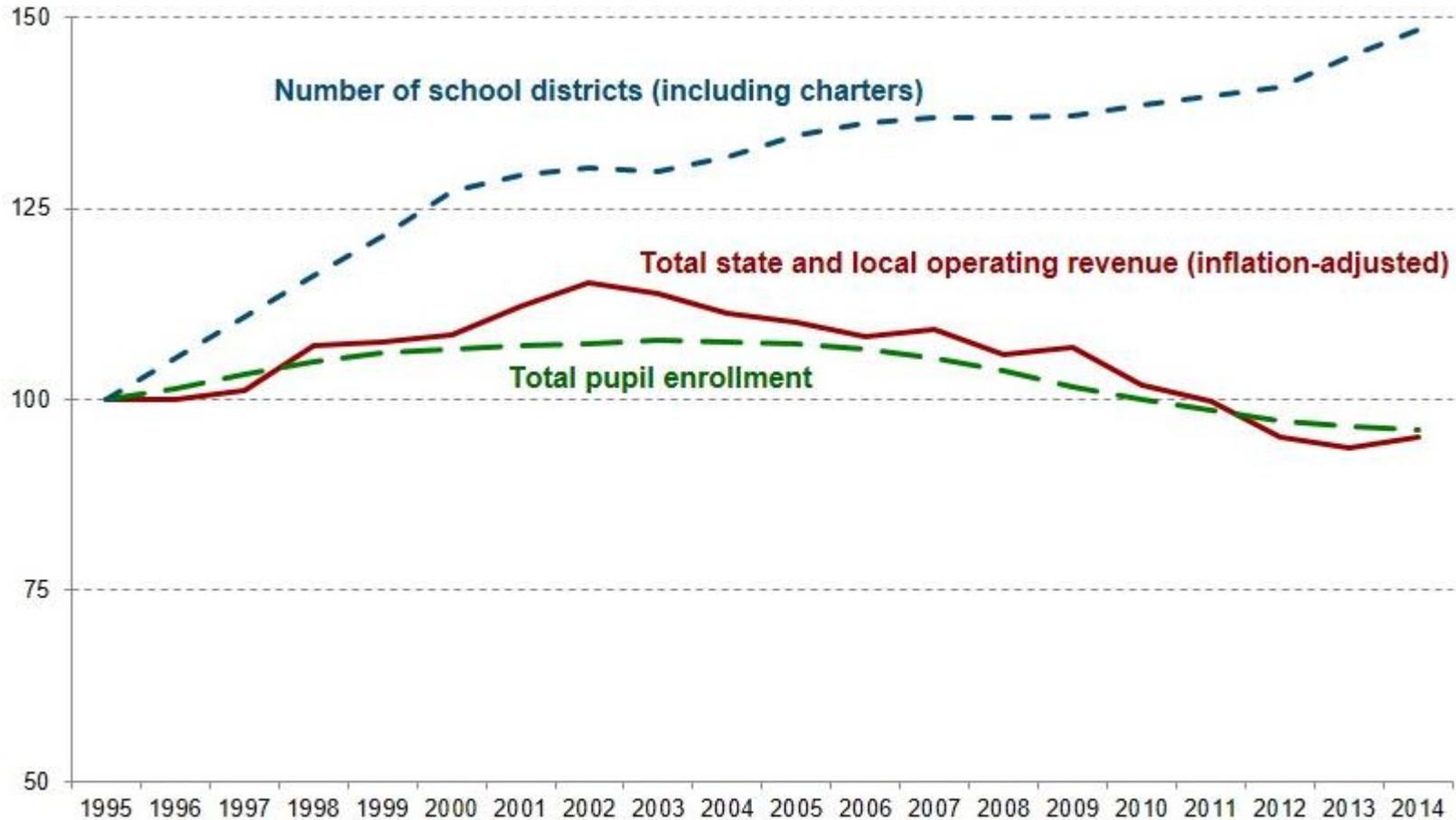
Share of Charter Schools Operated by Education Management Organizations



[Miron & Gulosino \(2013\) Profiles of For-Profit and Nonprofit Education Management Organizations: Fourteenth Edition – 2011-2012](#)

K-12 Enrollment, Operating Revenue, Number of Districts

Indexed to 100 for FYI 1995



Balancing Choice and Efficiency

- Unanticipated negative impact on performance in Michigan districts with heavy charter penetration
- Highly turbulent educational settings
- Inefficiencies in human and physical capital resource use
- These systemic effects are not typical of other states

David Arsen and Yongmei Ni (2012). Effects of charter school competition on school district resource allocation. *Education Administration Quarterly*, 48(1), 3-38

“In light of this competitive environment, significant enrollment losses can be difficult for a school district to manage, potentially creating a vicious cycle of revenue declines...”

“As students leave a district, revenues typically fall because of Michigan’s per-pupil funding structure. This may drive the district to cut expenses in response by reducing teaching staff and programming to balance the budget.

“Such cuts, however, could exert additional pressure on meeting the district’s performance goals, and induce more students to seek alternative schooling, thereby perpetuating the downward cycle.”

Toward a High-Performing Public Education System

- Establish adequate total funding for K-12 education
- Recognize local cost variations state aid allocation
- Target state aid for school facilities in low-property-wealth districts; Facilities plans for selected cities
- Coordinate the supply of durable, high-quality district and charter schools to enhance efficiency
- Establish a system of school audits
- Focus on state initiatives with highest benefit-cost ratios (e.g., early childhood education)