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DEPARTMENT OF EDUCATION
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<u>M E M O R A N D U M</u>

TO: State Board of Education

FROM: John C. Austin, President, State Board of Education

SUBJECT: Discussion Regarding Policy Background on School Finance Issues

The State Board of Education will discuss the attached Michigan Education Organization and Finance Research Brief at its meeting on October 8, 2013.

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Michigan Education Organization and Finance Research Brief

Update, October, 2013

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Purpose Statement

This brief will focus on the organization and financing of K-12 education in Michigan. The first in a series, it attempts to assemble and summarize the major issues related to financing K-12 schools in the State of Michigan, to aid the state Board of Education as it develops recommendations for school organization and finance in the state. The purpose of the recommendations is to further the SBE mission: *All students graduate ready for careers, college, and community*. Subsequent reports will identify education finance best practices from other states and locations as well as research-based solutions to specific issues to support policy changes. Any policy recommendations will be made bearing in mind that the state education system is in service to the student, and that every student deserves access to a quality education.

Background

This paper considers a range of concerns currently facing education finance in the state of Michigan in an effort to aid policymakers in identifying potential policy changes that would improve education in the state. This brief is based on an extensive review of existing research and analysis concerning K-12 education from the following groups: Citizens Research Council, the Center for Michigan, UpJohn Institute, the Mackinac Center, Education Trust, the Oxford Foundation, University-based researchers, Parents for Michigan Schools, Michigan School Business Officials, the Great Lakes Center as well as information from the Michigan Department of Education and the House Fiscal Agency. The brief first examines the constraints on state funding and recent declines in revenues targeted for education. It then moves to the district level to examine the implications on the ground for state policy decisions. Finally, it examines how state funding choices affect equity and reform efforts.

Context

K-12 education in Michigan is at a crossroads. Almost twenty years after Proposal A ushered in substantial changes to how education is financed, Michigan schools are struggling financially. A record number of districts have financial troubles, and Michigan students are losing ground academically. The centralized funding model, developed through Proposal A, while successful in closing school finance equity gaps and providing funding during prosperous economic times, has been strained during more than ten years of economic downturn that included the national Great Recession of 2008-09. State tax and budget policies have aggravated the school finance crisis by reducing tax rates and diminishing state investment in education writ large. The current education climate in Michigan is characterized by the following:

- Stagnant state population growth, and declining student enrollments in most schools and districts.
- Significant expansion in new school options including charter schools, cyber-schools, and expanded school choice regimes.
- Many school districts experiencing financial hardship, and a record number of school districts (55) operating with deficits in fiscal year 2013.
- Declines in state education funding of more than 5% in nominal dollars, and over 12% in real dollars over a ten year period.
- An increasing contribution rate for the MPSERS school pension plan which will require additional attention.

These trends are occurring in the context of (and perhaps are contributing to) low levels of proficiency on state MEAP tests, and a failure to keep pace with other states on the NAEP exam, indicating an unacceptably low academic performance of Michigan's students. The Michigan K-12 school finance system and the overall framework for organizing education and funding schools thus requires an overhaul. This report will summarize the facts of the Michigan school finance case by identifying major trends in school funding, analyzing the issues that inform these trends, in order to identify priorities for reforms related to school finance. The report organizes state education finance issues into the following categories: Structural issues at the state and local school and district level, Equity issues, and other Reforms/Accountability and School

Quality issues that impact school finance. All of these issues are interrelated. Laws and policies that affect the education finance system have differing impacts at the state and local level, requiring that structural issues be presented from both perspectives.

I. State level structural issues

Almost twenty years of experience with Proposal A has illuminated the law's strengths and weaknesses to state education experts. Unique to education finance in Michigan is the centralized nature of the post Proposal A system, where the state provides over 60% of education funds to districts directly, and "state controlled revenues (directly or indirectly) comprise over 85% of the total operating funding for local schools (CRC, 2010, p. viii)." A second unique feature is that state funding is allocated on a *per pupil* basis, so school funds follow the student. This streamlines the process of funding all schools, and particularly charter schools, but creates challenges to districts and schools that experience declining enrollment. Together, these features of the Proposal A financing system have contributed to structural challenges for the state.

Population and Enrollment Trends

Statewide enrollments have been decreasing since 2003, declined around 7% through FY2011 (CRC, 2011) with a current total decline of approximately 10% (HFA). State population forecasts suggest the school age population will stabilize over the next few years and then experience very minimal growth of less than 0.1% through 2020 (Michigan Center for Geographic Information, 2013). The House Fiscal Agency estimates that smaller kindergarten cohorts will replace larger graduating cohorts for several more years, and the statewide K-12 enrollment will continue to decline. This could present an opportunity in that statewide stability or declines in pupil enrollments will cause education funding challenges to ease.

Individual school districts, however, may experience significant changes in enrollment that will create challenges for district budgets. CRC (2011) reports that from FY2004 to FY2009, an increasing number of traditional public school districts experienced declining enrollments, with almost 75% experiencing declining enrollments in FY2009. Thirty-six percent of charters experienced declining enrollment in FY2009. More recent data from MDE shows that from FY2010 to FY2011, 70% of traditional public schools experienced declining enrollment, while about 37% of charters did. If the state continues to aggressively expand choice options, traditional public schools will continue to experience competition for students and likely see their enrollments decline.

Because funding follows the student in Michigan, enrollment declines create financial struggles for traditional public school districts that lose students. CRC (2010) points out that because enrollment losses tend to be spread across grades and schools, it is difficult for a school district to make staffing adjustments or quickly cut expenses in response to fewer students. Efforts to address this problem include a funding formula that tempers the decline of a district's budget because of lost enrollment as a way to prevent fiscal emergencies and school districts with operating deficits. This was done in FY2007 when the state introduced a new categorical grant for declining districts, but the state never fully funded the appropriation and the catergorical was eliminated in FY2012. Reinstatement and full funding of $250 M would alleviate some of the financial pressure districts feel due to declining enrollment. Alternative approaches to address the issue include changing the state pupil count methodology to include pupil counts from previous years.

Decline in the School Aid Fund Tax Revenues and State Education Support

School Aid Fund trends

State financial support for public education in Michigan is provided by the School Aid Fund, financed primarily through the 6% sales tax, state income tax, a state education tax of 6-mills from property taxes and several other smaller taxes including a real-estate transfer tax, tobacco and liquor taxes, and lottery profits. The sales tax, income tax, and state education property tax, which together provide over 80% of school aid fund revenues, vary with the economic cycle leaving school funding vulnerable during an economic downturn. In Figure 1, the decline in the School Aid Fund, in real dollars is evident. The recent lengthy recession in Michigan has strained the School Aid Fund as well as the state's ability to provide consistent funding for education.

In addition, recent changes to both School Aid Fund revenues and School Aid budget appropriations will further challenge the fund's ability to provide revenues for education, as more programs now depend on the fund for revenue. Those changes include (Norton, 2013):

- Elimination of the Michigan Business Tax, where over $700 M was earmarked for the school aid fund. This revenue was not replaced.
- Diversion of School Aid Fund dollars to higher education. Currently $400 M per year.
- Using revenue from the School Aid Fund to pay unfunded liabilities for MPSERS.

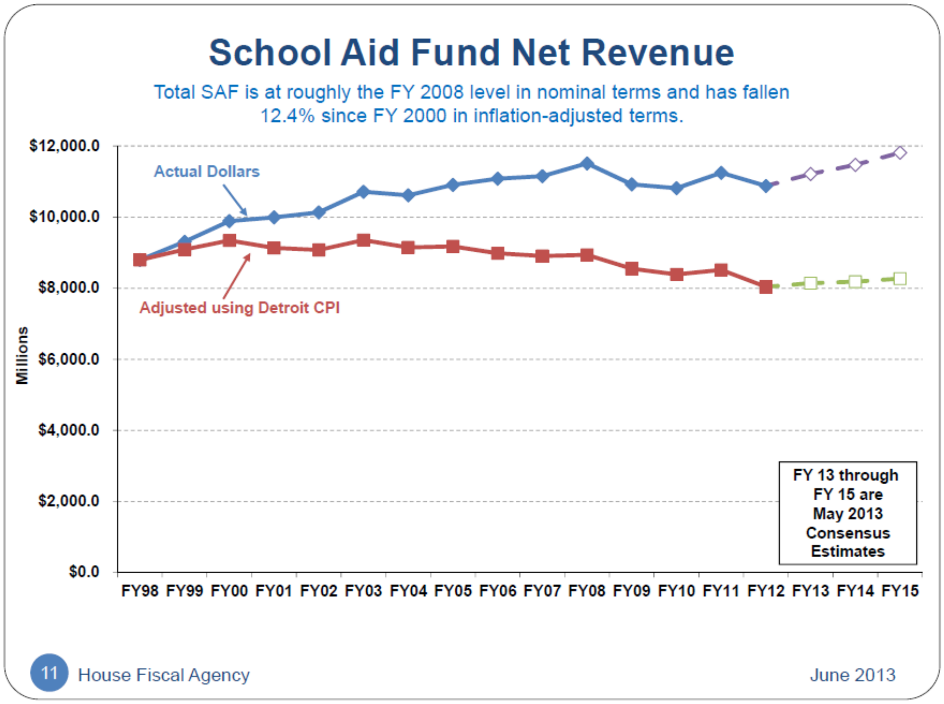

Figure 1. School Aid Fund Net Revenue, House Fiscal Agency, June 2013

- Earmarking $65 M in FY2014 for preschool expansion.

The current structure of the School Aid Fund, coupled with new demands on its revenues may not provide for any growth in school funding over the next several years.

State Foundation Allowance trends

All school district state support is based on the foundation allowance, but each school district receives a unique foundation allowance based on their historic funding levels and other factors. Since foundation allowances typically fall between the minimum and state maximum targets on the graph, they are a good starting place in evaluating current and past state support for education.

Not surprisingly, Figure 2 shows a substantive decline in real dollars in state foundation allowances (MDE). The graph depicts a 14-16% decline in state foundation allowances, demonstrating that school districts in Michigan have had to cope with diminishing resources. Additional federal revenues from the American Recovery and Reinvestment Act (ARRA) for FY2009 through FY2011 mitigated declines for these years. By FY2012, however, all ARRA funds had been spent and state policy decisions including the elimination of the Michigan Business Tax and diversion of School Aid Fund revenues to higher education created a steep funding decline for FY2012. Even considering the level of school foundation funding in nominal dollars reveals a 5-6% decline from its peak in FY2009. School districts have very real financial woes.

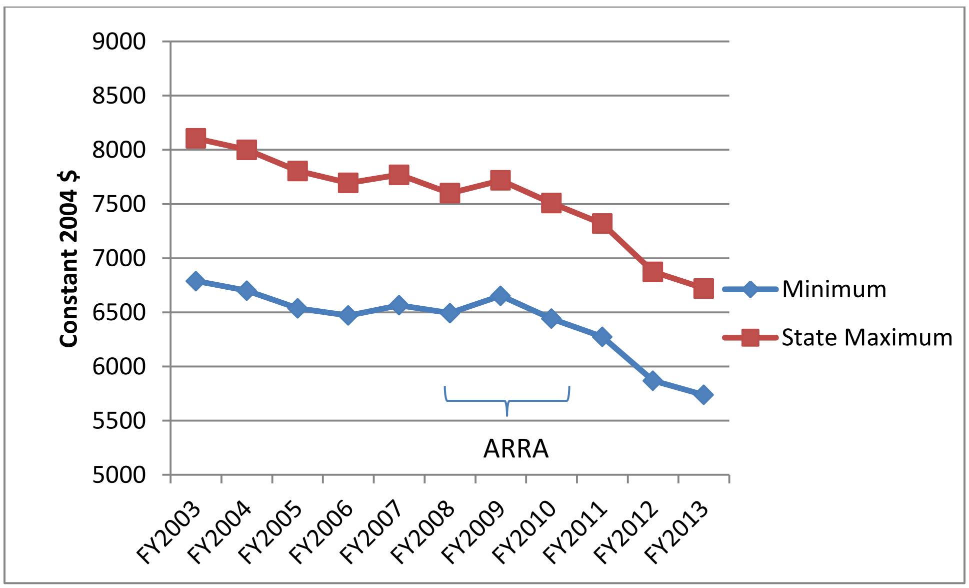

Figure 2. Michigan's Minimum and State Maximum student foundation allowance, adjusted to constant 2004 dollars using the Detroit CPI.

Foundation allowances are only part of the revenue school districts receive from the state, and do not include other significant categoricals like special education. Examining state gross appropriations for education in Figure 3 gives a more complete picture of state funding for education. Again, the graph shows that education spending has declined in real terms, this time by around 13%.

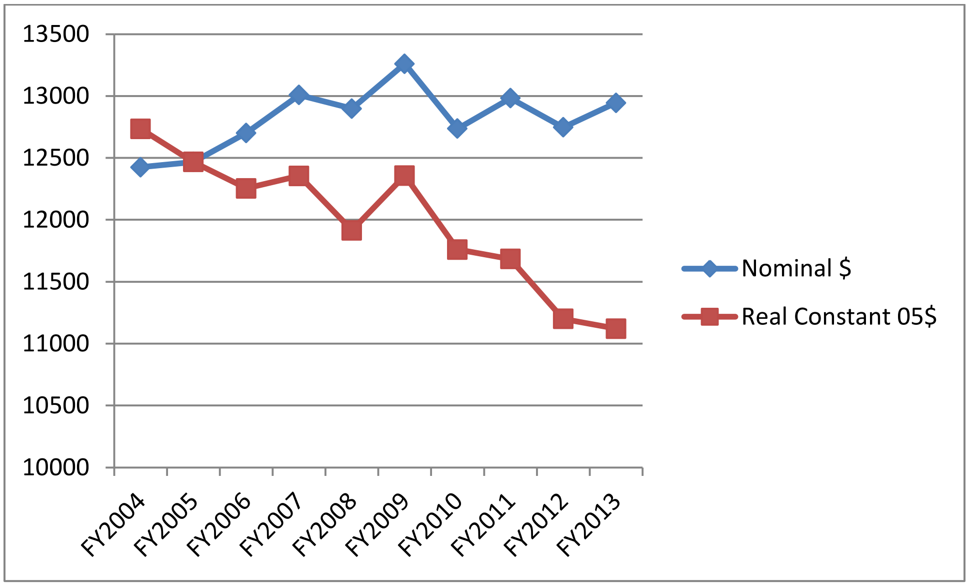

Figure 3. State School Aid Gross Appropriations in millions of dollars

Experts disagree on the degree of education funding decline, and the view described above is moderate. Researchers adjusting for inflation with a different CPI have documented a decline as high as 25% in school revenues (Arsen, 2013; Addonizio, 2012), while other groups insist that funding has remained "remarkably stable" and that underfunding is a "myth" (Van Beek, 2010). Since revenues have declined, even in nominal dollars, and school districts are experiencing financial hardship in record numbers, questioning tax effort and the level of revenues available for schools is reasonable.

At issue then, is the ability of the state of Michigan to generate adequate revenues to support education.   Are the current sources of revenue for the School Aid Fund enough, or should the state consider ways to raise additional revenues for schools? A related question is whether Michigan citizens are satisfied with education services provided by the state under current revenues, or if they would support an increase in the state's efforts towards delivering a high quality education to all students.

Susbstantial Increases in MPSERS Contributions[1]

The Michigan Public School Employees' Retirement System (MPSERS) provides pension benefits for over 400,000 members employed by public schools, district libraries, community colleges, and several public universities. Over the past ten years, the financial health of the MPSERS system has been increasingly compromised due to significant investment losses during the Great Recession, early retirement incentives, and declining payroll. The unfunded actuarial accrued liability (UAAL) of the system has increased substantially, requiring a higher contribution rate from employers to return the system to financial health. The legislature has addressed problems with the MPSERS system in 2007, 2010, and 2012 by changing the nature of pension benefits for retirees and changing contribution rates, including an employer contribution cap in 2012. The 2012 legislation capped the local employer contribution for the UAAL at 20.96%, leaving the state responsible for any difference between the cap and the annual required contributions. Even with the cap, the employer required contribution rate has increased from 13% in FY2004 to 24.46% in FY2012, placing a huge burden on school districts. According to the House Fiscal Agency report, state contributions to MPSERS may consume all of the projected growth in the school aid fund for several years, leaving school funding essentially flat for the foreseeable future. This means that the State of Michigan is making a tremendous financial commitment to the system, and requiring the same of all traditional public school districts.

The House Fiscal Agency report also suggests the required state MPSERS contributions could increase beyond what is forecast if the school payroll fails to meet the projected growth rate of 3.5%. Continued expansion of school choice through charter schools, cyber schools, and the EAA shifts school employees away from the MPSERS system, as does privatization of any school services. The result is UAAL costs spread over a smaller base, and with school district contributions capped, the state will pick up a larger part of the tab. In this way, choice expansion and privatization further undermine the fiscal stability of the MPSERS system and burden the state.

[1] Research and analysis from CRC, 2013; Segal, 2012; and House Fiscal Agency, 2013

Proposed solutions include reallocating UAAL costs according to school district current operating expenditure instead of payroll. This would prevent districts from "stranding" employees in the system when privatizing services. Another possible solution is to require charter and cyber school personnel to participate in the MPSERS system. Other states (Ohio, Illinois, Minnesota (Segal, 2012)) require that all certified teachers participate in the pension system. Other solutions might include additional changes to the retirement system.

Taxable Value Cap and the Headlee Amendment

Proposal A changes were enacted in response to a crushing property tax burden in some areas of the state. After Proposal A, property tax growth was limited to the lesser of 5% or the rate of inflation each year. Property tax rates adjust to 50% of the value of a home upon its sale, creating inequities among taxpayers, and a large tax increase or "pop-up" tax for homeowners who decide to move. Homeowners who have lived in their home for a longer period of time often pay lower taxes than homeowners who have recently purchased the home. In addition, the Headlee Amendment requires that property tax rates be "rolled back" when the growth in assessed value exceeds inflation. Combined, these property tax restrictions limit the growth in property tax revenues dedicated to schools.

There are two issues raised with these property tax limits. First, the horizontal equity principle "equal treatment of equals" suggests that property owners should pay comparable property taxes on comparable properties. The decline in property values that accompanied the national recession has mitigated the unfairness and pushed this issue to the backburner.

The second issue is that as property values recover from the recession, caps on the growth of taxable value combined with the Headlee Amendment tax limitations will slow recovery in the tax base (CRC, 2012). Thus, the state is collecting a smaller amount of property tax revenue to support schools than is justified by the actual property wealth in the state. Historical caps on property taxes may no longer be needed in Michigan and removing the caps would improve tax equity while generating additional revenue for the State School Aid Fund.

Financial Consequences of Increased Choice, Charters, Cyber, and New School Creation in a Foundation Grant Context

Michigan has experienced tremendous growth in charter schools. The House Fiscal Agency reports 277 charter schools in operation in FY2013, with over 8.5% of Michigan K-12 students attending charter schools. Michigan ranks fourth in the nation in the percent of students attending a charter school (NCES Charter School Fast Facts). Michigan's largest charter school operator, National Heritage Academies currently operates 47 schools in the state and educates over 30,000 students. There are, however, costs to the state of operating and expanding charter schools. Many costs are hidden and not well understood, but could be substantial:

- The state pays per pupil costs for additional students who elect charter schools over private schools (estimated at 42,000 students at a cost of $154 M from 1996 - 2006) (Izraeli & Murphy, 2012).
- The state pays per pupil costs for cyber students who were previously homeschooled (Gaither, 2009).
- Opening individual charter schools is the opposite of consolidation, and scale economies present in large districts are lost. Excessive administration costs in charter schools is one example of these inefficiencies (Arsen & Ni, 2013).
- Opening additional charter schools expands the capacity of the education system, creating unneeded school buildings at a capital cost. This cost is born ultimately by taxpayers. (Bifulco & Reback, 2011)
- Michigan's foundation grant model does not discriminate between different costs of educational programs. Elementary schools are less expensive per pupil to operate than comprehensive high schools, and cyber programs may be less expensive than bricks and mortar schools, although the cost of cyber schools is currently unknown. Nevertheless, they receive the same per pupil allowance. 72% of Michigan charter school students are elementary (K-5) school students (CREDO, 2013). If elementary school students are cheaper to educate, because Michigan has only one per pupil foundation allowance, charters educating elementary students are being *overpaid.*

- Charter schools educate fewer special education students (9% compared to 12% in Traditional public feeder schools) (CREDO, 2013), who are also more expensive to educate.
- Charter schools may opt to participate in MPSERS, but typically provide their employees with a defined contribution retirement plan (401K) with much lower employer costs. Expansion of school choice shifts education employees away from MPSERS, which will, as discussed earlier, add to the state's financial responsibility for the pension fund's UAAL.
- Current Michigan Charter School law requires charter school operators to abide by Michigan's statutory curricular requirements. Charters may apply for waivers from some rules and regulations or may choose not to offer optional services, such as operating school libraries. Over 40% of Michigan charter schools did not have a library, and over 50% did not have dedicated science laboratories, music rooms, or gymnasiums (Charter School Facilities Initiaitve, 2013).
- Profits generated by charter operators represent taxpayer's public education funds that are not spent on education. Some states, such as New York have banned for-profit charter operators.

There are financial consequences from the expansion of charter schools which impact the state and existing traditional public schools. The current funding system encourages for-profit charter schools to focus on students with high financial margins, leaving traditional public schools with the task of educating the neediest children. As students depart the traditional public school, the district revenues decrease faster than their costs. Ni (2009) describes this as a cycle of "enrollment loss, revenue decline, program cuts, lower educational quality and further enrollment loss… (p. 580)". Charter school expansion is having significant repercussions on both the finances and populations of the traditional public schools. Consistently better academic results and performance from charter schools might justify these additional costs, but the academic achievement results of charter schools in Michigan are certainly mixed. CREDO (2013) found that the typical charter school student gained about two months of learning over their counterpart in the traditional public school. The learning gain was largest in the Detroit city charter schools (about 3 months), where students were compared to students attending a Detroit

Public School system under emergency financial management. To put the learning gain in perspective, "about 80% of [Michigan] charters perform below the 50th percentile of achievement (p. 35, CREDO, 2013)." The Education Trust – Midwest (2013) characterizes Michigan charter and cyber schools as "Choice without Quality" in their most recent annual report.

Given the significant impacts on traditional schools, charter school expansion without strong quality control and careful state oversight warrants renewed attention. Charter schools were deliberately freed from many of the regulations that govern traditional public schools, in order to promote innovation and creativity. The hope was that charter school innovations could be utilized in traditional classrooms. The large advantage that charter schools currently hold in labor costs was probably not anticipated, but policymakers should consider how this advantage incentivizes expansion of poor quality charter schools and further damages traditional public schools that struggle to compete. Other concerns regarding choice include questions such as "Do all students have equal access to choice options?"

<u>The State Funding Model does not support Capital/Infrastructure/Technology</u>

Discussed under Equity Issues.

<u>The State Funding Model Creates a Financial Disincentive for High School Post-secondary Learning</u>

Current dual enrollment rules require that a student's home school district pay tuition for any post-secondary coursework. School districts struggling financially thus have a disincentive to encourage their students to pursue college coursework. The dual enrollment program is not large, approximately 5% of Michigan's 11^{th} and 12^{th} graders participated in dual enrollment programs in FY2011. College degree attainment outcomes are better for students who pursue college coursework in high school, particularly for students from poor backgrounds (An, 2013). Strong evidence of the benefits of early college credit-taking for both at-risk and high-achieving students, and policy interest in facilitating individual student pacing, suggest these financial disincentives should be removed.

II. District Level Structural Issues

Realities of Funding Trends and Evidence of Financial Hardship

The decline in state funding for education and the concerns over the future of the School Aid Fund discussed above have hamstrung local districts forced to abide by the school budget handed down from Lansing. Most school districts have been forced to cut programs and allow class sizes to grow. There is evidence that Michigan school districts are in increasingly difficult financial situations. Figure 3 shows that statewide, district fund balances have been declining since FY2002, and have declined over 30% since FY2004. School districts have drawn down their fund balances to minimize cuts to educational programs.

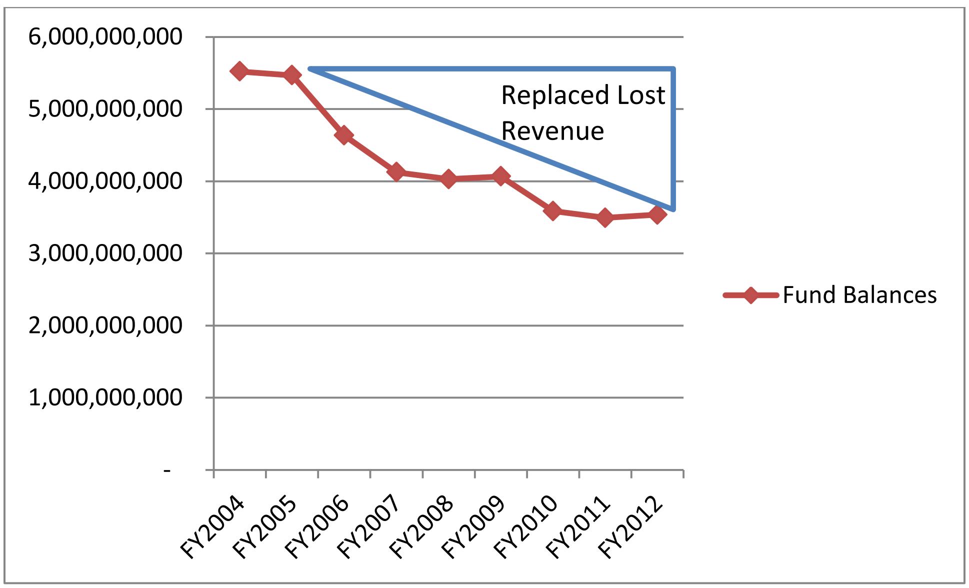

Figure 3. Statewide School Fund Balances by Fiscal year in 2004 dollars, adjusted using the Detroit CPI (MDE CEPI Statewide Fund Balance Summary)

In addition to this trend, a record number of districts (55) ended the FY2013 school year with an operating budget deficit. This number has been increasing (See Figure 4): in FY2011, 48 public schools ended the year in deficit, in FY2012 the number was 49. In contrast, in FY2003, only 10 districts ended the school year with an operating deficit.

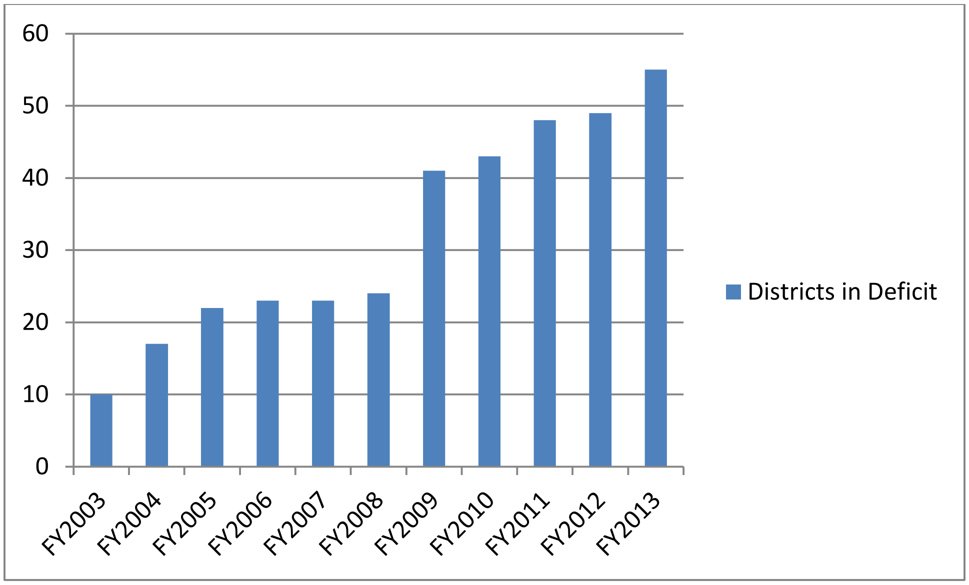

Figure 4. Number of School Districts Ending the year with an Operating deficit (MDE)

<u>**District Revenue Instability from Three Sources**</u>

School districts are unable to raise revenues and must adjust their budgets to incoming state revenue. The combined effect of three pressures on revenues, declining foundation allowances, declining enrollment, and increased pension funding obligations have created crisis conditions in many Michigan school districts. It is the combination of these factors, the "perfect storm," that has pushed so many districts into deficit.

First, as discussed earlier, the failure of state foundation allowances to keep pace with inflation has forced districts to make cuts. Second, declining enrollment in a district means less state funding, since the foundation allowance follows the student. A district experiencing a 5% decline in enrollment will see their state funding decline by the same amount, independent of the changes in foundation allowance made by the state. Finally, school labor costs have continued to climb, primarily due to two factors: increasing healthcare costs and increasing pension fund obligations. The MPSERS contribution has risen from 13% of payroll in FY2004 to 24.5% of payroll in FY2012, an 11.5% percentage point increase. Since over 80% of a school budget, on average, is comprised of salaries and benefits (Ellerson, 2011), the change in the MPSERS contribution has increased district expenses by almost 10% over the period. Only traditional public schools and charter schools that participate in MPSERS will have experienced this additional cost.

Combining all three factors, many Michigan school districts have seen their budgets shrink by 25-30% over the period. In particular, urban districts have faced intense competition from charter schools and schools of choice, and endured annual enrollment declines that have forced districts like Lansing Public Schools to eliminate teacher planning periods, and music, art and physical education classes at their elementary schools. Such budget cuts ensure the continued departure of students from these schools, a "death spiral", so to speak.

Different costs for different students vs. one size fits all funding

Traditional public schools provide comprehensive programs for students in grades K-12, but the programs differ in cost, depending on the student's age and needs. Many states use factors or weights to adjust funding, based on the costs associated with different student needs (Education Law Center, 2013). With one size fits all foundation allowance funding in Michigan, districts are overpaid for the cheaper programs and underpaid for more expensive programs. Foundation allowances could be adjusted for school level (elementary, middle, high), grade level, or student need.

Schools of Choice

The Schools of Choice program (Addonizio & Kearney, 2012; Arsen & Davis, 2006) was ostensibly created to offer parents and students additional options for schooling. The program creates competition among districts and another source of enrollment decline. Districts are winners if they attract additional students who bring with them the state foundation allowance, but losers if their students depart. The House Fiscal Agency reports that there are as many students "choicing" into neighboring traditional public schools as electing to attend charter schools, creating a significant additional source of enrollment decline. The program encourages property wealthy districts that can afford capital projects to expand their schools to attract additional students and thus increase state revenue. Poorer districts with subpar facilities have a difficult time competing, and the state as a whole ends up with unused school capacity. This excess capacity is expensive to build and inefficient.

Potential savings from consolidation of services at ISD

A recent proposal from the State Superintendent identifies some school services that if consolidated at the ISD, may yield significant savings. The Superintendent suggests a framework, where feasible, of local school districts purchasing certain services from the ISD at cost, arguing that harnessing general economies of scale through consolidation of administrative functions and responsibilities would help mitigate budget problems that result from declining enrollment. Research on school district consolidation (Howley, Johnson, & Petrie, 2011; Arsen, 2011; Duncombe & Yinger, 2010; Coulson, 2007) finds mixed evidence of financial cost savings through consolidation and recommends cautious evaluation of consolidation proposals. In general, only consolidation of very small districts is known to result in significant cost savings. More recent research (DeLuca, forthcoming) on ISD service consolidation finds robust savings from consolidation of business services, but uncertain savings from consolidation of curriculum development, operations and maintenance, transportation, human resources, or technology. In addition, district consolidation could require up front investments that increase per pupil costs in the short run with a subsequent gradual decrease over a number of years. The state legislature has appropriated $15 million in the past two years to help local districts defray some of the costs they have encountered in consolidation efforts. Many school districts and ISDs have already consolidated services and DeLuca (forthcoming) reports that often the motivation is improved service quality, greater expertise and lower costs. While there is the potential for savings from the consolidation of some services, such a change would require careful planning, with the goal of realizing savings that could be used to increase instructional spending. Guaranteeing school districts a share in the savings might encourage their support of such a significant change.

III. Equity Issues

The State Funding Model does not support Capital/Infrastructure/Technology

The State of Michigan is one of twelve states that offer no state aid to school districts for the construction of capital facilities. School capital projects are instead financed by local property taxes, so that a district's property wealth determines their ability to finance school facilities (Arsen & Davis, 2006). Because of this, there are large differentials in the quality of school buildings and infrastructure across the state, creating another layer of inequities among districts.

In fact, Michigan was ranked 39th and 40th in measures of equality of capital outlay by Duncombe & Yinger (2009). The only form of state support for capital projects is the School Bond Loan Program, which will likely reach its cap in the summer of 2014. In contrast, most states provide more support for capital projects, most often through matching grants that supplement district funds.

Lack of state support for capital projects is a State issue, a district issue, and an equity issue. Besides causing school facilities in poor districts to be substantially lower in quality than those in wealthier districts, which is unfair to students, the policy creates inequities among taxpayers. Taxpayers in poor areas are paying substantially higher tax rates than their suburban counterparts, and yet are unable to raise adequate revenue to match suburban school infrastructure (Arsen & Davis, 2006). State support of school capital projects in areas with low property wealth would improve student and taxpayer equity.

Are schools serving needy/at-risk students receiving enough extra support?

Michigan provides categorical support for at-risk students at a statutory level of 11.5% of the district's foundation allowance per eligible student. Research on the appropriate level of support for at-risk students is inconclusive, but many states use pupil weights, often of around 20% (Picus & Odden, 2008, Duncombe & Yinger, 2005). Duncombe & Yinger (2005) estimate that the true weights for a pupil from a poor family should be much higher, over 100%. Achievement levels among the disadvantaged suggest that higher levels of support may be necessary (Lenhoff et al, 2013). While Michigan law provides support of 11.5%, the amount of money appropriated for at-risk students has remained at $309 M since FY2009, failing to keep pace with the growing number of eligible students. Districts actually received support of $470 per at-risk student in FY2013, an amount less than 7% of the average foundation allowance (MDE). The continued erosion of at-risk funding in Michigan can be expected to increase achievement gaps and further damage the quality of education received by students of lower socio-economic status.

Should foundation allowance gaps be reduced? Should caps on high-spending districts be eliminated?

Proposal A resulted in significant gains in per pupil revenue equalization across the state, but large differences still exist. The FY2014 budget continues to include equity payments in an effort to close foundation allowance gaps. The budget includes modest equity payments through the 2x Equity Formula, with additional equity payments for districts with foundation allowances below $7076. Continued foundation allowance equalization is expensive, however, and it is unclear what achievement gains would result. It is currently estimated that equalizing 75% of the student population would increase state education expenditures by $350 million dollars (HFA).

At the same time, historically high spending, or "hold-harmless" school districts are tired of continued austerity with respect to education revenue. These communities could easily raise the property tax revenue to pay for additional education spending. Current law allows enhancement millages at the ISD level, but not at the district level. This ISD regional enhancement option has only been used three times since the adoption of Proposal A and is an ineffective means for education enhancement. One solution would be to allow enhancement millages at the district level. While this would increase inequities among Michigan students, it would allow for Tiebout sorting, where voters select the community they live in based on the level of services provided in the community. People who value education could choose to live in school districts that spend more, where property tax rates are higher. A portion of enhancement millages could be directed back to low property wealth districts through the state. This would ease the frustration of many families in hold-harmless districts that have helplessly watched favored education programs cut and class sizes increased, as their district tried to live within the state provided budget.

IV. Reforms/Accountability/School Quality Policies and Issues

Common core curriculum – resources for implementation

The common core state standards, adopted by 45 states, are the curriculum standards by which the future achievement of Michigan students will be judged. While some Michigan lawmakers no longer support the adoption of the common core, it remains a national movement and Michigan students who pursue post-secondary education will need to be competent in the common core. Educators in other states have struggled with implementation, and Michigan will need to dedicate education resources towards implementation in order to be successful.

Teacher and Administrator Evaluation Systems

A high quality teacher evaluation system will aid schools and teachers in improving their effectiveness. The Center for Michigan (2013) found strong public support for better teacher preparation, and strong support for educators. Respondents also favored more accountability including the removal of poor performers among teachers. These public concerns could be addressed by a strong teacher evaluation system, but financial resources will be necessary to implement and maintain such a system.

EAA – what should happen to failing schools?

Creation of the Educational Achievement Authority (EAA) to take over failing schools is still in the experimental stage. During its first year of operation, the EAA struggled financially, due in part to a delay in securing Title I funds from the Federal government. The EAA plans to operate 12 schools in FY2014 with a budget of $92 M. The EAA will also receive support from several area foundations to supplement public funding. The central policy questions are: 1) Does the state want to manage a separate school district for failing schools? 2) Does this approach improve education outcomes? 3) What is the financial and political cost of such an approach?

Preschool Expansion

The FY2014 budget includes $65 M of additional spending requested by the governor to expand early childhood education in Michigan. Research on the long term benefits of early childhood education is conclusive (Barnett, 1985; Belfield et al, 2006; Barnett & Masse, 2005; Heckman, 2006), finding lifelong benefits for participants and significant economic benefits for society. Investment in this area should pay dividends.

Conclusion

This brief summarizes many financial issues facing education in Michigan and highlights the financial pressures schools in the state are facing. Many believe the Michigan education system is reaching a crisis point. Finding additional revenues for education, and using them strategically could ease the financial stress experienced by many school districts in Michigan and would likely improve educational achievement. As the Michigan economy recovers, moderate growth of the School Aid Fund is predicted, but this growth will be consumed by the additional funds needed by the pension system. The state has also expanded the programs funded by the school aid fund so that traditional public schools in particular will continue to struggle financially for the foreseeable future.

In order to strengthen educational achievement in the state, it appears necessary to implement a series of reforms in the way education is delivered, current resources are deployed, and to secure additional resources for schools. According to Ed-Trust (Lenhoff, et al, 2013), Michigan ranked at or near the bottom on most measures of the National Assessment of Educational Progress (NAEP), and also ranked near the bottom on improvement over time. Michigan citizens and policy-makers need to consider whether to support the current level of investment in education, given that a reputation for poor quality public education can be expected to disrupt economic growth.

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