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November 12, 2014

**M E M O R A N D U M**

**TO:** State Board of Education

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

**SUBJECT:** Discussion on Michigan School Organization and Finance

The State Board of Education will discuss the attached document, Recommendations for Change to Michigan School Organization and Finance, at its meeting on November 18, 2014.

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# **Recommendations for Change to Michigan School Organization and Finance**

**Draft November 18, 2014**

Pursuant to our Constitutional mandate to provide policy leadership and recommendations to the Governor and Legislature regarding the financial requirements of Michigan education, in January of 2014 the State Board began a process to drive understanding of Michigan School Finance and Organization issues and needs, identify priorities, and make recommendations for change.

Over the intervening months the State Board of Education has heard detailed analysis of the issues and recommendations for change from the public, dozens of stakeholders, researchers and education policy analysts from across the spectrum. This analysis offered a variety of perspectives about challenges and problems with Michigan's current education finance model, as well as provided insights into potential solutions, including the approaches used by successful state systems elsewhere.

To inform ourselves and the public discussion of these important issues, we first bring forward a summary of the major issues that demand attention, if we are to improve educational achievement in Michigan. Setting this context is an important pre-condition to advancing recommendations for improvement.

## **The Context Demanding Change**

### ***Improving Michigan's Flagging Educational Performance***

There is broad agreement that the system of organizing and financing education in Michigan is in need of fundamental change. Once an education leader, Michigan is now in the bottom tier of states in academic achievement, and other states are racing past us in improving student performance.

While Michigan's total K-12 funding of \$12,644 per pupil is the 22nd highest in the US, (8<sup>th</sup> if adjusted for per capita income), our rank on the *Nation's Report Card* NAEP math and English scores hover around 38<sup>th</sup>. Michigan now ranks in the bottom five states for learning progress in fourth grade reading and math over the last decade; has seen all groups of students, white, African-American, Latino, low and high income – fall in the comparative ranks of student achievement; and is one of only 6 states that posted negative student growth in some subjects.<sup>1</sup>

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<sup>1</sup> Education Trust Midwest: *Stalled to Soaring*, April 3, 2014

## ***Education Funding Trends***

The debate about the level of investment in Michigan public education, and the appropriate level of investment to support learning, is contentious. Some states that spend relatively more are doing better, like Massachusetts; while it is also true that some states that spend less are seeing faster learning gains, like Florida. Some facts may be agreed upon:

- In real inflation-adjusted dollars Michigan is spending 9% less in state dollars on public education than in 2008.<sup>2</sup>
- The overall “level of effort” – state and local revenues spent on K-12 education as a percentage of Michigan’s personal income – has dropped from 4.1% to 3.4% over the past ten years<sup>3</sup>.
- State funding is up in nominal dollars \$1 billion from four years ago, but, in the words of the respected non-partisan Citizens Research Council (CRC): “the increase is almost exclusively earmarked to satisfy school employee retirement costs”, and, “MPSERS costs, on the aggregate, have grown significantly over the five year period, and the share of the foundation allowance available for other typical classroom expenses has increased very modestly, but has not kept up with general inflation.”<sup>4</sup>

## ***Declining Enrollments Interacting with Choice Policy, Charter/Cyber School Expansion Policy***

With funding flowing largely through the per pupil foundation grant, the financial condition of schools, and performance of Michigan’s school children is affected directly by enrollment changes.

- Michigan has seen overall declining enrollments from a high of 1,714,867 students in 2003, to a current 1,523,300, a decline of 11% over ten years.<sup>5</sup>
- This has been coupled with an increase in the numbers of schools. Michigan has gone from 560 to nearly 800 school districts over the past 20 years.<sup>6</sup>

Statewide declining enrollments combined with choice and charter policy have seen significant swings in enrollment, and hence the financing available for particular schools. For most this movement has been down.

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<sup>2</sup> Center on Budget and Policy Priorities, *Most States Funding Schools Less Than Before Recession*, May 20 2014

<sup>3</sup> Michigan School Organization and Finance, Presentation to the State Board of Education, Phil Kearney and Mike Addonizio, February 11, 2014

<sup>4</sup> CRC Memorandum: *Making Sense of K-12 Funding*, October 2014

<sup>5</sup> Citizen Research Council presentation to State Board of Education, Michigan School Organization and Finance, March 11, 2014

<sup>6</sup> Citizen Research Council presentation to State Board of Education, Michigan School Organization and Finance, March 11, 2014

- According to the CRC 420 of Michigan’s charters and traditional public school districts have seen declining enrollments over the last ten years, versus 125 with increases.
- Over the most recent five years, 70% of all districts saw some amount of enrollment decline and over one-quarter of all districts had declines of 10% or more<sup>7</sup>.

According to the CRC, these trends have contributed to an increase in student-teacher ratios in two-thirds of districts<sup>8</sup>, and in the extreme cases, contributed to the declining quality and enrollment ‘death spiral’ that has brought over 50 school districts into deficit.

Given these trends, what is the overall fiscal condition of most schools today? Again, here’s the CRC’s assessment:

*“While the amount of per-pupil funding is up, districts are paying higher retirement bills. This leaves fewer resources for other school expenses. Also, total funding at the district level is greatly influenced by the number of students enrolled. Because declining enrollment is a pervasive issue across the state, the vast majority of traditional public school districts must manage the fiscal effects of having less non-retirement funding to operate.”<sup>9</sup>*

### ***Need to Spend “Smarter”***

Michigan’s poor performance is not fully explained by the overall investment or dollars available for public education in particular public schools—whether charter or traditional -- but how that money is spent. States that are improving in educational performance are doing so by more strategically investing in high yield approaches that support improved outcomes, including teacher quality improvements, extra support for poor and at-risk students<sup>10</sup>, structured school turnaround efforts, and enhanced early childhood education<sup>11</sup>, where Michigan *has* made headway; (albeit with resources formerly dedicated to K-12 schools).

Michigan has made many of the same significant reforms as higher performing and faster improving states: from more rigorous learning standards, to new teacher quality and evaluation expectations, to demanding accountability provisions. What

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<sup>7</sup> CRC Memorandum: *Making Sense of K-12 Funding*, October 2014

<sup>8</sup> Citizen Research Council presentation to State Board of Education, Michigan School Organization and Finance, March 11, 2014

<sup>9</sup> *Ibid.* p.8

<sup>10</sup> In “Equity is the Key to Better School Funding”, Education Week, March 28,, 2014, a Boston Consulting Group study finds: “By far the most statistically robust finding in our analysis was the role of increased funding equity in student outcomes. Equity should require that every student receives sufficient resources to have the same chance to succeed, rather than that every child gets the same level of funding.”

<sup>11</sup> *Stalled to Soaring, Michigan’s Path to Educational Recovery*, The Education Trust Midwest, 2014

Michigan *has not done* that other more successful states have done, is combine these reforms with the investment and capacity-building necessary to implement them effectively<sup>12</sup>.

### ***Holes and Flaws in Proposal A and New Problems with Michigan School Finance System***

Finally, the State Board's year-long examination of challenges to our Michigan education system also revealed a number of other significant features driving both financial and performance challenges in our schools:

- Holes and flaws in Proposal A that provide no state support for school buildings and technology<sup>13</sup>; and have led to differential tax treatment of similar local properties that affect revenues available for education.
- A strategy built into Proposal A – the regional 3 mill levy opportunity – envisioned to support local communities who chose to invest more in their schools, that has not worked in practice.
- Funding and pupil accounting system that serves to discourage, not encourage, participation in dual enrollment, and early college programs that are wildly effective at improving learning outcomes for both at-risk and high-achieving students.<sup>14</sup>
- Mushrooming costs of the retirement system: the total unfunded accrued liability for MPSEs increased from \$12 billion in 2009 to \$25 billion; and to cope total MPSEs specific funding has increased five-fold from \$155 million in 2012 to \$883 million today<sup>15</sup>.
- Significant and growing disparities in special education funding and services between districts. The per pupil spending for special education students are now \$14,397, versus \$9,633 for all K-12 students, and the costs difference has grown significantly since Proposal A<sup>16</sup>; and spending differences between ISDs are now very different.

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<sup>12</sup> Bridge Magazine, Smartest Kids: *What Michigan Schools Can Learn from Leading States*, October 14, 2014

<sup>13</sup> Michigan School Organization and Finance, Presentation to the State Board of Education, Phil Kearney and Mike Addonizio, February 11, 2014

<sup>14</sup> Community College Research Center; *What We Know About Dual Enrollment, 2012, and Early College Continued Success, Early College Impact Study*, AIR, 2014

<sup>15</sup> CRC Memorandum: *Making Sense of K-12 Funding*, October 2014

<sup>16</sup> Citizen Research Council presentation to State Board of Education, Michigan School Organization and Finance, March 11, 2014