



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING



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GOVERNOR

THOMAS D. WATKINS, JR.
SUPERINTENDENT OF
PUBLIC INSTRUCTION

September 8, 2004

MEMORANDUM

TO: State Board of Education

FROM: Thomas D. Watkins, Jr., Chairman

SUBJECT: Presentation on "School Funding. Past, Present, and Future" Part I - Infrastructure

The School Equity Caucus has been interested and involved with K-12 public school infrastructure funding reform for many years, and has requested an opportunity to present its recent report titled "School Funding: Past, Present, and Future" to the State Board of Education. A copy of the report is attached.

Representatives from the School Equity Caucus including Dr. Richard Wilson will be present at the September 14, 2004, Board meeting for a brief presentation and to respond to questions from members of the Board. No action is anticipated at this meeting.

As you are aware, Citizens Research Council and Michigan State University Education Policy Center will be releasing a major study on the needs of school infrastructure later this year. Further, the Board will also receive the report it requested on this subject from Doug Roberts, Interim Director, Institute for Public Policy and Social Research, Michigan State University; and David Olmstead, attorney and former Detroit School Board member, by late 2004 or early 2005.

The goal of all these reports is to define the problems and identify solutions. We have great inequities in school infrastructure in this state that need to be addressed if we are to provide all of our children with the education they need and deserve to thrive in the 21st Century knowledge economy.

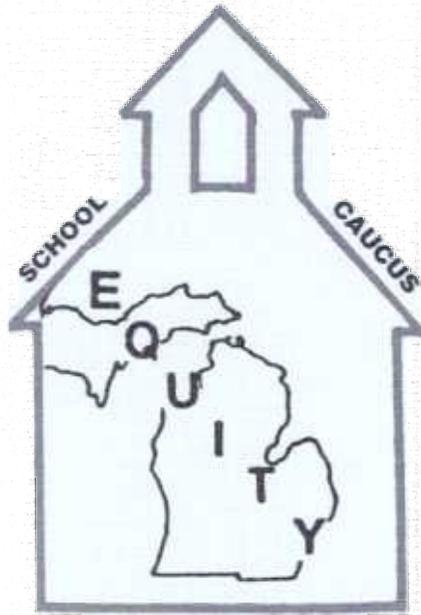
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School Funding: Past, Present, and Future

Part I – Infrastructure



School Equity Caucus

Richard Wilson, Ed.D. and Gary Jackson, Ed.D.

May 2004

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Introduction

Members within the School Equity Caucus have been interested and involved with K-12 public school infrastructure funding reform for twenty-five years. The School Equity Caucus has had the topic as one of its main goals since 1987. Therefore many of the studies and legislative attempts at reform have had Caucus involvement.

As signs and developments in our state point to the possibility that school infrastructure funding reform is again on the horizon, we felt that the history of developments in this area could be useful as guideposts to the reform. Therefore, we are presenting our understanding of chronology of events, both legal and legislative, leading up to the present, providing information on the building conditions that require significant action in the near future, and our recommendations for the funding approach to deal with this serious situation.

Any careful analysis of the infrastructure problem demands knowledge and understanding of the operational funding system for public K-12 education and its development. Thus, segments of this study will include operational funding aspects as well.

This paper has as part of its title, "Part I – Infrastructure" because it is the Caucus' intent to do a Part II later this year on suggested revisions to the Foundation system of state aid to public schools.

The State's Constitutional Responsibility For Funding Its K-12 Public Schools

The Constitution of the United States of America in Amendment X places the responsibility for education with the States and the people since it did not delegate the power to the federal government.

“The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or the people.”

Since education is a reserved power of the States and the people, the State of Michigan defined its constitutional responsibility in Article I and Article VIII.

Article I Declaration of Rights, Section I

“All political power is inherent in the people. Government is instituted for their equal benefit, security and protection.” (Underlining added)

Article VIII Education, Section I

“Religion, morality and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged.” (Underlining added)

Free public elementary and secondary schools; discrimination, Section 2

“The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law.” (Underlining added)

“Every school district shall provide for the education of its pupils without discrimination as to religion, creed, race, color, sex, or national origin.” (Underlining added)

As noted above the Michigan Constitution clearly states the principle of equality and directs the legislature to maintain and support our public schools.

Michigan Court Rulings That Had An Effect On The Public School Finance Issue

1. Milliken v Green I (Governor I) 389 Mich. (1972)

The Michigan Supreme Court ruled the then system of funding Michigan K-12 schools was in violation of the Michigan Constitution. [Art. 8 Sec. 2]

2. Milliken v Green II (Governor II) 390 Mich. 389 (1973)

The Michigan Supreme Court entered an order stating that the case was dismissed and that the opinion in Milliken v Green I and the request of the Governor for certification of questions were vacated "for the reason that the Court concludes that the request was improvidently granted." There was no merit determination whatsoever.

3. Lintz v Alpena School District 119 Mich. App. 32,36,37 (1982)

Ruled public education a fundamental right.

4. East Jackson Public Schools, et al v State of Michigan, et al 133 Mich. App. 132 (1984)

Dismissed the suit and ruled in an "obiter dicta" the plaintiffs (school districts, Boards, and Board members) have no standing because school districts have no power to attack their "creator".

5. Hamtramck School District, et al v Attorney General of the State of Michigan, Treasurer of the State of Michigan, and the State of Michigan. Docket No.130580 Mich. App. (1992)

The plaintiffs (numerous school districts, their Boards of Education and named students) sought from the court a Declaratory Judgment that school districts have standing to bring an action to challenge the constitutionality of the system for funding public education. The Appeals Court affirmed the Trial Court's denial of summary judgment sought by the plaintiffs.

6. Durant v State of Michigan, 456 Mich. App. 175 (1997)

The Supreme Court directed the State to satisfy the financial claims of the litigating school districts due to the under-funding of their Special Education operations over a several year period. The State responded in the amending of the State School Aid Act – Public Act 142 of 1997. Two provisions were: Issuing an over \$313M revenue bond to payout the litigating districts over a fifteen-year period and creating an annual appropriation to payout a similar obligation to the non-litigating districts.

Docket No. 104458-104492

Ballot Proposals And Significant Legislation Involving School Funding Prior To Proposal A (1994)

1. School District Equalization Act 1973

The state enacted a law creating a new school funding approach commonly referred as the Bursley Formula. The approach used a power equalized formula tied to a district's state equalized value and pupil count. Loss or gain of a district's total state equalization value would determine the state's contribution to a district's per pupil aid.

Within the School District Equalization Act (1973) there was a Section 27. Section 27 provided an equalization system for the yield of debt mills for capital purposes. **For a period between 1974-75 until 1980, the state did provide some assistance to districts who bonded for debt for Infrastructure purposes.**

2. Educational Quality In The 21st Century, September 1987

Commonly called the Harden Commission Study. It looked at all major aspects of educational activities and developed recommended changes to the then current approaches. School funding recommendations: Continue power equalizing, the first 18 mills would be charter, retirement and transportation categoricals folded into general membership formula, fiscal disparity between districts significantly reduced over time, increase in sales tax, guarantee of 95% for mills at 23 mills, and other provisions.

3. November 7, 1989 Two funding change proposals were offered as state constitutional amendments. Both had affect on school funding, Amendment 1 increased sales tax and use tax from 4% to 4.5%. \$300M in additional tax revenue would be provided for schools in first year (3/4 of year). In the second year and thereafter the estimated \$400M would go to the schools. \$285M in revised aid formula and \$115M through specific categorical aid. Increased Sales tax and Use tax would be increased from 4% to 6%. Statewide property tax 14 mills on business property and 9 mills on non-business property. School operating tax on property reduced to local foundation millage rate set for each district based on a millage necessary to allow each district to equal its 1989-90 revenue per pupil from state and local revenue plus an additional \$250 to \$350 per pupil. Up to 4 mills additional could be voted by the people. Both proposals were defeated by the voters.

4. November 4, 1992 Proposal A would have capped annual assessment growth at 5%. Proposal C would cut school operating mills 10% the first year and 5% for each of the next four years (30% total) and capped assessment growth at 3%. Both proposals were defeated by the voters.

5. June 2, 1993 Proposal A would cut property taxes. Caps assessments at 5%. Raises sales tax by 2% to 6%. Provides constitutional guarantee of \$4800 per pupil. Indexed by law to future revenue growth of state. 3% revenue increase for school districts in 1993 at whatever millage is required up to 27 mills. Other districts will be given more of an increase up to 10% if they received less than \$4800 in 1992. The proposal was defeated by the voters.

6. July 20-21, 1993 Senate and House eliminated school property taxes. August 19, 1993 this became law.

7. December 23-24, 1993 Legislature approved SJR S for a constitutional ballot proposal (Proposal A).

8. March 15, 1994 Proposal A Highlights

- a. Sales Tax increased from 4% to 6%.
- b. Income Tax dropped from 4.6% to 4.4%.
- c. 6 mill state tax for education for operations on residential property. 18 mills additional property tax for commercial property (24 mill total).
- d. Assessment increases capped at 5% or rate of inflation, whichever is less.
- e. Variety of other tax increases, including cigarette tax increase from 25 cents per pack to 75 cents. New School aid foundation system established (eliminated the Bursley Formula approach):

- (1) Base at \$5000 per pupil within five years.
- (2) Below \$4200 per pupil districts raised to that level.
- (3) Catch-up system established to reach the rising \$5000 base on a sliding scale.
- (4) Districts above top foundation of \$6500 would be allowed to levy additional millage to maintain their current spending level.
- (5) Now districts would be responsible for employee Social Security, retirement costs for their employees, as well as several categoricals, would be rolled into the Foundation allotment.
- (6) Several other changes in finances and requirements.
- (7) Charter schools could now be established.

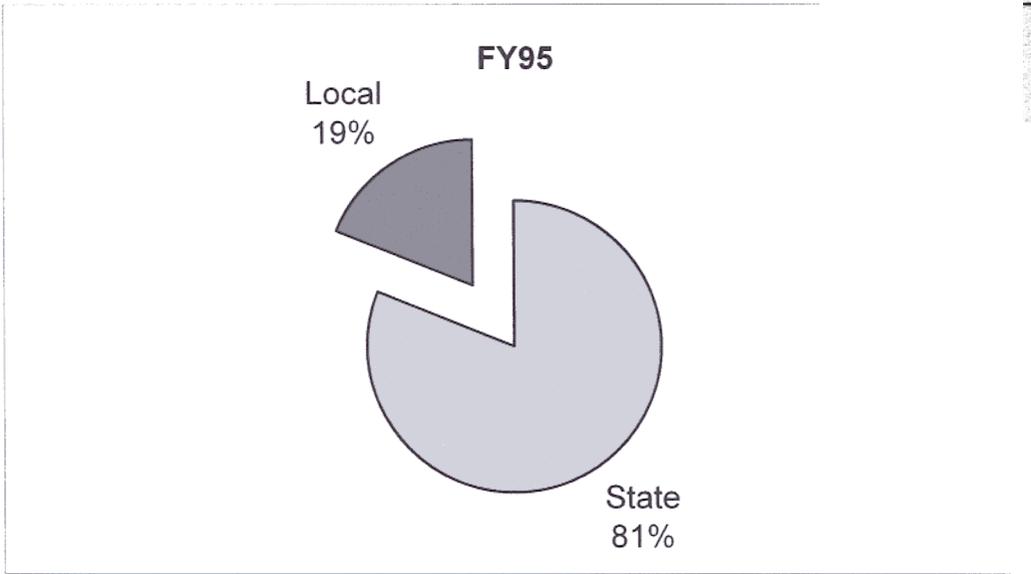
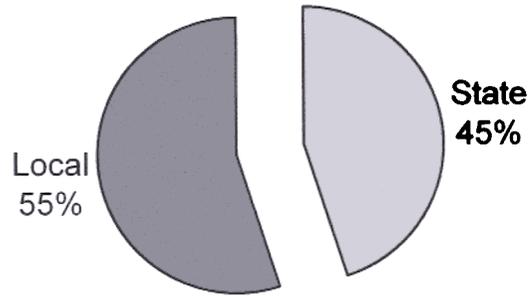
Note: Provision existed that if this ballot proposal failed then an alternate approach would be placed into law passed by the legislature referred to as the Statutory Plan. The main difference would be raising Income Tax to 6%, 12 mills property tax on homesteads with 24 mills on non-homestead property, Single Business tax raised from 2.35% to 2.75%, and Cigarette Tax raised from 25 cents to 75 cents per pack.

Proposal A passed by a 70%-30% margin. Therefore the Statutory Plan was discarded and our State Constitution was amended at Article 9, Sections 3, 5, 8, 10, 11, and 36.

Note: See change in percentage of state funding in school financing due to passage of Proposal A. (Enclosure 1)

9. Passage of Public Act 289 of 1995 amended the School Code (effective July 1, 1996) that granted General Powers to school districts. 380.11a (later amended with additional powers).

(Enclosure 1)
Local/State Funding Mix
Statewide Totals



Includes effect of Homestead Credits

State Aid To Districts For Operational Purposes

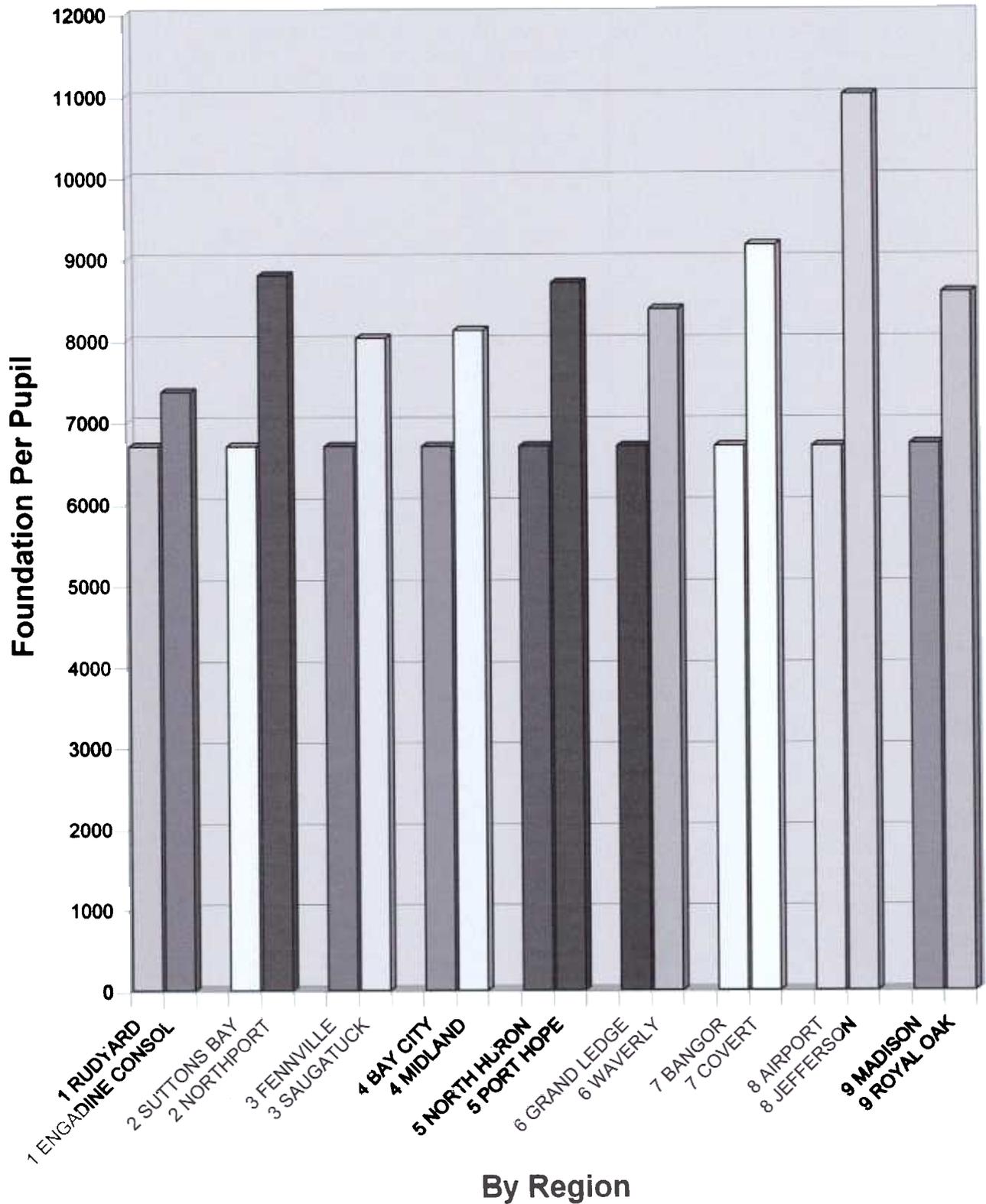
The State distributes School Aid based on the formula in the Foundation system and certain earmarked categorical aid. This system has a permanent Foundation disparity factor of up to \$1300 per pupil based on the amount the district received under the discarded Bursley Formula.

An examination of the funding disparities between districts and the resulting substantial educational programming, staffing, and facilities disparities between districts are not defensible and, therefore, a modification to the Foundation system to provide equity and adequacy should occur as soon as such a system can be developed and funded. (See Enclosures 2a + b and 3a + b) Note: The Caucus is not seeking equal dollars in funding. What is being sought is that the State provide its financial aid in a manner that treats every student on an equal basis sufficient to provide an equal educational opportunity.

**COMPARISON OF SOME CONTIGUOUS SCHOOL DISTRICTS
OF FOUNDATION ALLOWANCE PER PUPIL BY REGION**

REGION	DCODE	DISTRICT NAME	FOUND/PER PUPIL(03-04)
1	17110	RUDYARD AREA SCHOOLS	\$ 6,700.00
1	49055	ENGADINE CONSOLIDATED SCHOOLS	\$ 7,369.00
2	45050	SUTTONS BAY PUBLIC SCHOOL DISTRICT	\$ 6,700.00
2	45040	NORTHPORT PUBLIC SCHOOL DISTRICT	\$ 8,799.00
3	03050	FENVILLE PUBLIC SCHOOLS	\$ 6,700.00
3	03080	SAUGATUCK PUBLIC SCHOOLS	\$ 8,031.00
4	09010	BAY CITY SCHOOL DISTRICT	\$ 6,700.00
4	56010	MIDLAND PUBLIC SCHOOLS	\$ 8,122.00
5	32080	NORTH HURON SCHOOL DISTRICT	\$ 6,700.00
5	32130	PORT HOPE COMMUNITY SCHOOLS	\$ 8,706.00
6	23060	GRAND LEDGE PUBLIC SCHOOLS	\$ 6,700.00
6	33215	WAVERLY SCHOOLS	\$ 8,384.00
7	80020	BANGOR PUBLIC SCHOOLS	\$ 6,700.00
7	80040	COVERT PUBLIC SCHOOLS	\$ 9,165.00
8	58020	AIRPORT COMMUNITY SCHOOL DISTRICT	\$ 6,700.00
8	58080	JEFFERSON SCHOOLS-MONROE CO.	\$ 11,011.00
9	63140	MADISON PUBLIC SCHOOLS	\$ 6,728.00
9	63040	ROYAL OAK SCHOOL DISTRICT	\$ 8,589.00

(Enclosure 2b)
Comparison Of Some Contiguous School Districts
Of Foundation Allowance Per Pupil By Region

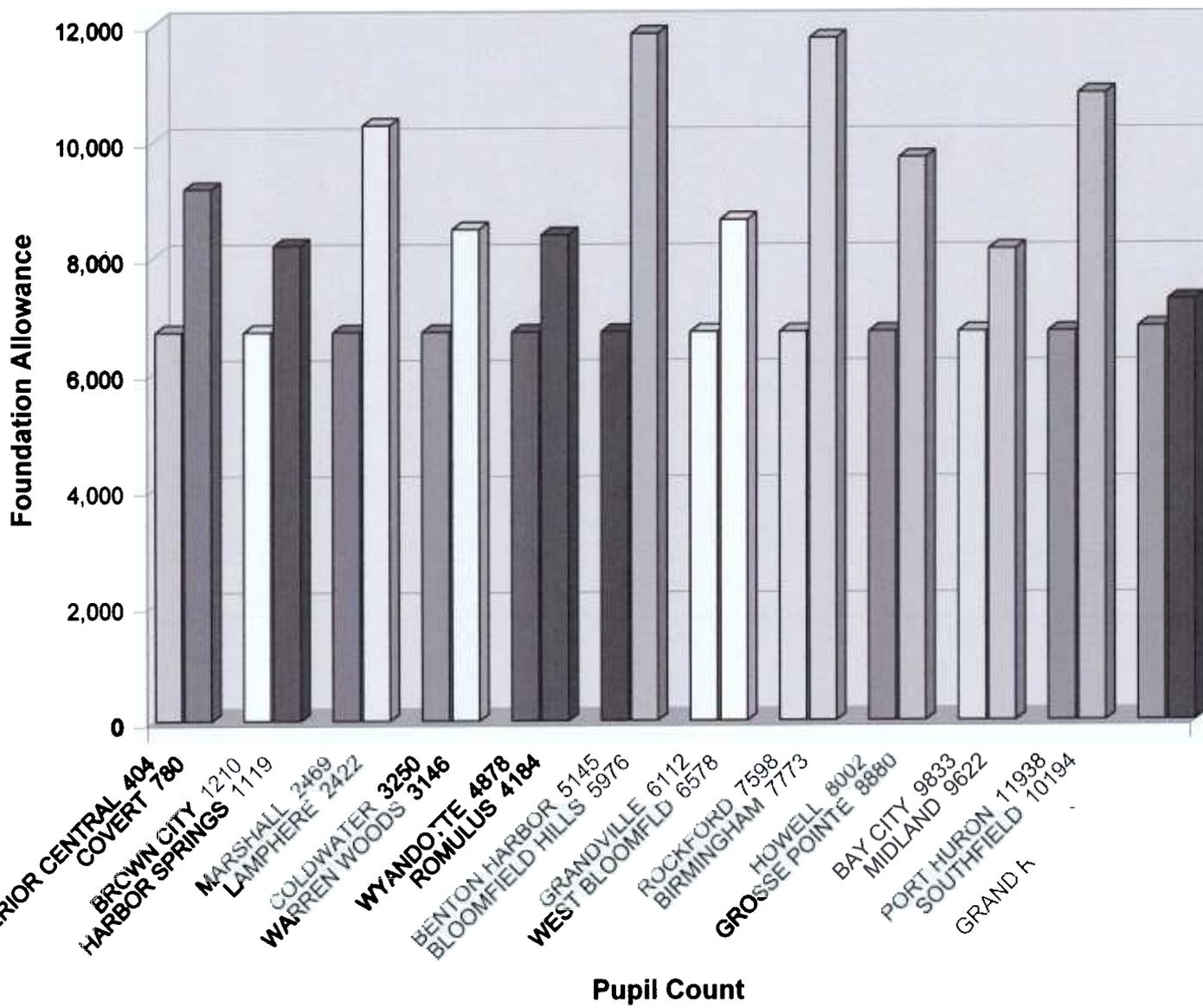


**COMPARISON OF FOUNDATION ALLOWANCE
OF SOME DISTRICTS OF SIMILAR PUPIL COUNT**

<u>DCODE</u>	<u>DISTRICT NAME</u>	<u>COUNT</u>	<u>FOUNDATION</u>
02080	SUPERIOR CENTRAL SCHOOL DISTRICT	404	\$6,700.00
80040	COVERT PUBLIC SCHOOLS	780.4	\$9,165.00
76060	BROWN CITY COMMUNITY SCHOOL DISTRICT	1209.66	\$6,700.00
24020	HARBOR SPRINGS SCHOOL DISTRICT	1119.35	\$8,188.00
13110	MARSHALL PUBLIC SCHOOLS	2468.53	\$6,700.00
63280	LAMPHERE PUBLIC SCHOOLS	2421.54	\$10,260.00
12010	COLDWATER COMM SCHOOLS	3249.74	\$6,700.00
50240	WARREN WOODS PUBLIC SCHOOLS	3145.77	\$8,469.00
82170	WYANDOTTE CITY SCHOOL DISTRICT	4877.71	\$6,700.00
82130	ROMULUS COMMUNITY SCHOOLS	4184.25	\$8,373.00
11010	BENTON HARBOR AREA SCHOOLS	5145.33	\$6,700.00
63080	BLOOMFIELD HILLS SCHOOL DISTRICT	5976.47	\$11,835.00
41130	GRANDVILLE PUBLIC SCHOOLS	6111.91	\$6,700.00
63160	WEST BLOOMFIELD SCHOOL DISTRICT	6578.46	\$8,627.00
41210	ROCKFORD PUBLIC SCHOOLS	7597.83	\$6,700.00
63010	BIRMINGHAM CITY SCHOOL DISTRICT	7773.06	\$11,755.00
47070	HOWELL PUBLIC SCHOOLS	8002.06	\$6,700.00
82055	GROSSE POINTE PUBLIC SCHOOLS	8879.57	\$9,695.00
09010	BAY CITY SCHOOL DISTRICT	9833.4	\$6,700.00
56010	MIDLAND PUBLIC SCHOOLS	9621.59	\$8,122.00
74010	PORT HURON AREA SCHOOL DISTRICT	11937.53	\$6,700.00
63060	SOUTHFIELD PUBLIC SCHOOL DISTRICT	10194.14	\$10,802.00
41010	GRAND RAPIDS CITY SCHOOL DISTRICT	24142.82	\$6,782.00
50210	UTICA COMMUNITY SCHOOLS	28532.49	\$7,239.00

Note: Dollar amounts above the top of the Foundation result from local "Hold Harmless" millage that is not an option for lower level Foundation districts.

(Enclosure 3b)
Comparison Of Foundation Allowance
Of Some Districts Of Similar Pupil Count



Comparison Of Districts' Taxable Value Per Pupil To Foundation Allowance

When you rank the State Foundation aid into categories with a \$200 per pupil range from the base in 2004 of \$6700 to the top for the Hold Harmless districts of \$11,835, we find a steady progression of higher state aid going to the districts with higher taxable value per pupil. Additionally each Hold Harmless district is allowed to levy local millage to maintain its accustomed dollar per pupil level—an option not open to the Foundation districts, except with ISD wide approval. Due to their high yield per mill the millage levy amount for Hold Harmless districts is comparatively small.

Thus the State sends more money on a per pupil basis to districts that have a higher taxable value per pupil.

(Enclosure 4)

Foundation Range	TV/PP Average	Foundation PP FY 03-04 Average
\$6700	\$142,193	\$6,700
\$6701-6899	\$198,687	\$6,789
\$6900-7099	\$202,721	\$7,003
*\$7100-7299	\$191,358	\$7,189
\$7300-7499	\$200,107	\$7,382
\$7500-7699	\$257,382	\$7,655
\$7700-8000	\$270,353	\$7,827
Hold Harmless	\$373,265	\$9,014

(Districts of 100 FTE's or more)

*Includes Detroit, Flint and Lansing

Note: It is more informative to use Taxable Value Per Pupil rather than the district's total Taxable Value because the higher the student population, the more buildings over which the total Taxable Value yield must be spread. Thus one district might have a Taxable Value yield significantly higher than another district, yet the first district could have a need for more school buildings to service its student population.

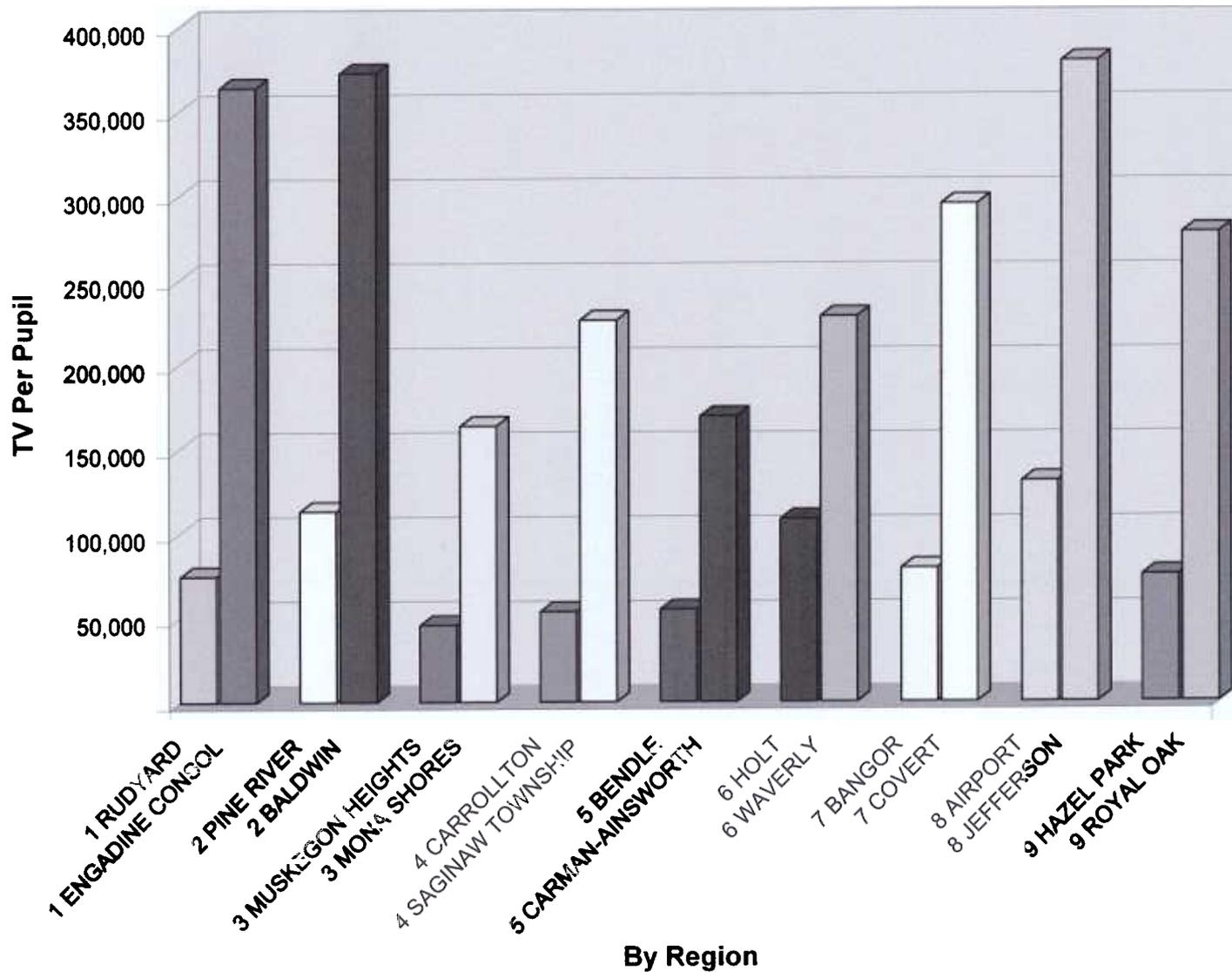
Further we compared the Taxable Value Per Pupil for some contiguous districts in the nine geographic areas of the State. (See Enclosures 5a + b) One can see it is not possible for the lower taxable yield per pupil districts to provide comparable buildings, facilities, technology, and major maintenance programs through bonding with such disparity in the yield of a debt mill.

(Enclosure 5a)
COMPARISON OF SOME CONTIGUOUS SCHOOL DISTRICTS
TAXABLE VALUE PER PUPIL BY REGION

REGION	DIST CODE	DISTRICT NAME	TAXABLE VALUE	PUPIL COUNT	TAXABLE VALUE PER PUPIL
1	17110	RUDYARD AREA SCHOOLS	\$ 84,930,372.00	1136.78	\$ 74,711.35
1	49055	ENGADINE CONSOLIDATED SCHOOLS	\$ 109,996,287.00	302.2	\$ 363,985.07
2	67055	PINE RIVER AREA SCHOOLS	\$ 155,110,820.00	1371.05	\$ 113,132.87
2	43040	BALDWIN COMMUNITY SCHOOLS	\$ 278,869,411.00	748.32	\$ 372,660.64
3	61020	MUSKEGON HEIGHTS SCHOOL DISTRICT	\$ 105,288,534.00	2298.66	\$ 45,804.31
3	61060	MONA SHORES SCHOOL DISTRICT	\$ 692,631,459.00	4235.55	\$ 163,528.10
4	73030	CARROLLTON SCHOOL DISTRICT	\$ 80,143,741.00	1497.93	\$ 53,502.99
4	73040	SAGINAW TOWNSHIP COMMUNITY SCHOOLS.	\$ 1,102,664,213.00	4877.7	\$ 226,062.33
5	25060	BENDLE PUBLIC SCHOOLS	\$ 85,260,290.00	1555.47	\$ 54,813.20
5	25080	CARMAN-AINSWORTH SCHOOLS	\$ 886,588,019.00	5242.78	\$ 169,106.47
6	33070	HOLT PUBLIC SCHOOLS	\$ 591,129,486.00	5461.58	\$ 108,234.15
6	33215	WAVERLY SCHOOLS	\$ 773,673,573.00	3390.42	\$ 228,194.02
7	80020	BANGOR PUBLIC SCHOOLS	\$ 119,252,632.00	1506.9	\$ 79,137.72
7	80040	COVERT PUBLIC SCHOOLS	\$ 230,063,247.00	780.4	\$ 294,801.70
8	58020	AIRPORT COMMUNITY SCHOOL DISTRICT	\$ 441,184,189.00	3376.97	\$ 130,644.98
8	58080	JEFFERSON SCHOOLS-MONROE CO.	\$ 1,006,909,579.00	2654.6	\$ 379,307.46
9	63130	HAZEL PARK CITY SCHOOL DISTRICT	\$ 357,448,327.00	4768.11	\$ 74,966.46
9	63040	ROYAL OAK SCHOOL DISTRICT	\$ 1,845,893,277.00	6652.46	\$ 277,475.29

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(Enclosure 5b)
Comparison Of Some Contiguous School Districts
Taxable Value Per Pupil By Region



Capital Funding For Local Public Schools

2003-04 National Infrastructure Data (US Dept. of Ed. and Ed. Commission of States)

A. Tracks Condition Of All School Facilities

27 states do track conditions – **Michigan does not**

B. State Provides Grants/Debt Service For Capital Outlay Or Construction

40 States Provide Assistance – **Michigan does not**

C. State Funding Dedicated To Capital Outlay Or Construction

37 States Have Dedicated Funding – **Michigan Does not**

The State of Michigan essentially does not assist with grants to local school districts in its funding of building projects. This is left to the local district to seek bonding approval from its citizens to fund new construction and major renovations, which authorizes the district to levy millage to repay the bonds.

School Bond Loan Fund

The State does have a program that will provide some loan assistance to districts that qualify entitled the School Bond Loan Fund. In order to receive the assistance a district must submit to the State its building plans and its plan to finance the project through bonding. The State will approve entrance into the School Bond Loan Fund program only if the State has no major problem with the building plan and is convinced that the financial plan can retire the bonded indebtedness and related interest costs within the prescribed number of years.

If a district is to enter the program, the district must levy between 7 and 13 debt mills, depending on what is deemed necessary to complete the retirement of the bonds and interest. The State then provides a loan of the supplemental principal to be paid back in the last years of the bond redemption schedule along with the interest charged by the State annually for use of the loaned principal amount. Thus a district entering the School Bond Loan Fund is faced with the responsibility of having to repay the principal and interest on the bonds sold for the project as well as repaying to the State the principal amount borrowed from the State and the annual accrued interest on that principal.

Three problems have resulted from using the School Bond Loan Fund as the only assistance approach:

A. Some districts that have a low taxable yield per mill and entered the Fund earlier are in what we call “a death spiral.” This is due to the fact that the accumulated total debt from the two principals incurred and the two sets of interest incurred exceeds the ability of the district to pay back those debts from the debt mills levied. In some cases

after the 30-year bond period with the district making debt payments, the district will owe more than it originally borrowed. Examples:

School Code	School District	SBLFund Balance 6/30/02	SBL Fund Balance 6/30/03	Loan Growth 6/30/02 to 6/30/03	Millage Dollars Raised	Taxable Value	TV Per Pupil	Debt Mills	Yrs In Prgm
		16,846,743	18,493,175	1,646,432	958,180	106,464,488	83,786	9.0	38
		6,823,633	8,291,050	1,461,417	878,554	125,507,754	62,022	7.0	8

Now the State will not allow such a district to bond to proceed with such a project.

B. Because the State requires the district to levy between 7 and 13 debt mills to enter the program, many districts with low taxable yield per debt mill cannot levy enough mills to cover the overall debt that would be needed or those districts would not be able to receive citizen approval to levy such a high number of debt mills. Examples:

DCode	DName	TAXABLE VALUE	TV/PUPIL	FTE Count
	Highland Park	\$127,021,858		
	Beecher Community	\$ 83,304,847		
	Hamtramck	\$181,768,906		

C. Some districts that have a low taxable yield per debt mill have already incurred major debt and are already levying a high debt mill rate to meet bond retirement requirements. Therefore they have virtually exhausted their debt bonding potential. They are not able to deal with current or future needs for their district. Examples:

DCode	DName	TAXABLE VALUE	FTE Count	Debt Mills
50070	Clintondale	\$331,879,611		
31010	Hancock	\$ 83,246,405		
19010	DeWitt	\$355,441,160		

Due to these three situations, many districts cannot address their serious structural needs and, therefore, just have to watch their buildings deteriorate significantly without a mechanism to address those serious needs.

Therefore, it is our view that another mechanism would be needed to deal with the serious K-12 infrastructure problem.

Infrastructure Conditions Of K-12 Public School Buildings

The School Equity Caucus conducted a statewide survey in 1997 of building conditions. Superintendents evaluated the condition of each of their district's buildings. We received evaluations from 257 Michigan school districts covering 1,482 buildings, of which 1,147 were school buildings. The buildings had an age ranging from 1 year to 100+ years, with an average age of 40 years. The scale ranged from 1 to 5, with 1 being a low need of repair and 5 being a high need of repair.

(Enclosure 6)

The compilation of superintendents' perceptions of the condition of their school buildings from the 1997 study are:

	<u>Total 4 + 5</u>	<u>Total 5</u>
1 Roofs	261 Buildings	143 Buildings
2 Heat/Air Exchange	305 Buildings	163 Buildings
3 A.D.A. Requirements	328 Buildings	192 Buildings
4 Electrical	320 Buildings	157 Buildings
5 Structural	159 Buildings	82 Buildings
6 Windows/Doors	295 Buildings	182 Buildings
7 Technology	483 Buildings	378 Buildings
8 Special Facilities	296 Buildings	178 Buildings
9 Need Major Renovtn	238 Buildings	157 Buildings
10 Need Addition	261 Buildings	200 Buildings
11 Need New Building	106 Buildings	93 Buildings

- In 1998 the School Equity Caucus sought and received numerous anecdotal comments on serious building conditions from superintendents.

Attempt To Remedy School Infrastructure Conditions (1999-2000)

- In 1999 the Senate Appropriation Subcommittee on K-12 School Aid conducted 5 statewide hearings at which approximately 50 superintendents presented stark testimony of the serious needs.
- An attempt was made to remedy infrastructure needs in 2000.
- In 2000 tie-barred legislation failed after the governor's veto of one of the two pieces of starter legislation that had passed both Houses.
- The \$102M that was placed in the budget when it passed the legislature in 2000 was used for other purposes in 2001 when budget reductions in education were deemed necessary.

We observed with interest that during recent years the State spent hundreds of millions of dollars to renovate the State Capitol, build a new House of Representatives building, and build a new Judiciary building. Further the State provided grants (up to 80% of costs) for college and university buildings costing hundreds of millions of dollars.

Recent Research On Some Factors Affecting Student Learning

While safety, health, and so forth for children and youth are extremely important, the effect of infrastructure conditions is important as well. The infrastructure effect on learning is now an established fact. This is especially true with students who enter the K-12 school level with substantial learning difficulties.

In examining several recent research studies on student learning, we found that the learning difficulties are related to a combination of environmental factors, resources, learning environment, and infrastructure environment.

- A. Michigan Education Policy Center at Michigan State University stated that of the 216 schools in Michigan failing to meet yearly progress standards 85% were in urban areas, with almost half in Detroit. The study showed schools on this list tend to be among the poorest in Michigan with three-quarters of students eligible for free or reduced price lunches. Further it found the students at those “poorly” achieving schools are predominantly non-white (90% of them are minorities). By contrast in schools meeting yearly progress goals only 25% of the students are non-white. (2003)
- B. Education Trust – a Washington based research group found in 22 of 49 states studied that 25% of districts educating the greatest number of poor students receive less state and local money per student than the 25% of districts educating the fewest poor students.
- Further the study found in the 28 states studied that districts enrolling the highest proportions of minority students receive fewer state and local education dollars per student than districts enrolling the lowest percentages of minority students. (2004)
- C. Fordham University’s National Center for Schools and Communities – researchers found a correlation between the distribution of some resources by the New York City education department to schools and the behavior of students at those schools. (2004)
- D. A study by Eric Turkheimer, psychologist, University of Virginia – Charlottesville and Irving Gottesman, psychologist, University of Minnesota Medical School, found that genetic makeup explains most of the difference in IQ for children in wealthier families and that environment, not genes, makes a bigger difference for minority children in low-income homes. (2004)

Earlier Relevant Studies:

- E. School Equity Caucus studies in 1997 and 1998 revealed large numbers of school buildings around the state in very serious structural condition. Many of these buildings are in communities that serve large numbers of minority students.

- F. In 1999 testimony before a Senate Appropriation Subcommittee in statewide hearings conducted in five locations around the state revealed that over 50 school superintendents stated they had buildings that were unhealthy, unsafe, and inadequate for quality instruction. Many of these buildings were located in communities that were poor and/or had significant minority student populations.
- G. Research studies in the past five years from Syracuse, New York; Virginia; Alberta, Canada; North Dakota; and the Carnegie Foundation all link student achievement and behavior to the physical building condition. Student achievement lags in dilapidated school buildings – those with no science labs, inadequate ventilation, and faulty heating systems.

Findings From Our Study On Funding Issues

1. The introduction of the Foundation system in 1994-95 and subsequent years did provide substantial financial assistance to those districts that were below the base Foundation that was initially established and through a “catch-up” factor in subsequent years.

2. The School Bond Loan program does assist a modest number of districts to be able to fund a capital project. However the majority of districts that need assistance in new construction or major renovation find that the provisions of the School Bond Loan program do not meet their essential capital funding needs due to the financial aspects of the program.

3. The well-endowed districts that have a high taxable value per pupil from their levied mills can fund capital projects with a small amount of additional mills and, therefore, have a greater chance of their citizens’ voting to support such a project. These same districts, because of the low number of mills needed to fund the structural project, can add components to purchase buses, add technology, and so forth. Low yield districts face mountainous difficulties in passing bond issues for capital building and more difficulty adding components to the basic structural issue in order to purchase buses or add technology.

The range of yield (for districts of significant size) is \$37,436 taxable value per pupil to \$1,116,929 taxable value per pupil or a range of nearly **3000%** greater ability to fund the project. This situation of a wide gap of taxable yield per mill makes it exceptionally difficult for the low yield districts to deal with aged and aging buildings and to replace decrepit, unsafe, and unhealthy school buildings.

4. This significant difference of taxable value per pupil can be found in many districts around the State with comparable student size and even among districts that are adjacent to one another. Thus it impacts substantially on the ability to have comparable facilities and indirectly on the ability to have comparable programming and staffing due to wide differences in taxable yield per mill and in state Foundation support.

5. The State of Michigan sends a significantly higher Foundation amount of State financial assistance to students in well-funded suburban districts and significantly less financial assistance to districts that are less well-funded and to districts that have more serious socio-economic conditions.

6. Due to the proration cuts in school funding by the state in the past two years, the first of which had a larger negative impact on the poor districts, the use of operational funding to assist in building repairs has been virtually halted.

Conclusion From Findings

The State of Michigan should begin to fully accept its responsibilities relating to school buildings throughout the State and begin a system that will enable all types of districts (relative to district resources) to be able to address realistically their construction and major renovation needs. Further, it should establish an earmarked source of revenue to fund a growing appropriation to deal with this most serious problem.

Recommendations For The State To Begin To Deal With The K-12 Infrastructure Problem

In examining several ways for the State to provide the assistance necessary for districts to remedy the serious infrastructure situation in numerous school buildings, we found fundamental flaws in the majority of mechanisms that we examined, including reforming the current School Bond Loan program. We did find two frameworks that can provide the needed fiscal assistance to nearly all and would provide the needed incentive to local districts to meet their partnership obligation for local debt mills to remedy the needs.

The two ways are:

A. Approach 1

For the state to equalize the taxable yield of a debt mill for the infrastructure project(s) to the statewide per pupil average plus a range higher to include those districts that might be just over the average but still have a real need for state assistance. This could be up to 10% above the average for equalization. Thus any school district that was below the statewide average per pupil yield, plus 10% above would qualify for state assistance.

A proportional cap per district on the amount of dollar assistance that a district could draw upon would be necessary in the earlier years of the assistance program. Additionally in the early years there would need to be a portion of the fund reserved to provide a priority use of the fund to assist the districts in the lower debt mill yield categories and those that have the most desperate need.

Finally there should be a requirement for some local level of participation to access the state assistance. Based on projects for poorer districts, a figure of 2 to 3 new mills would be an acceptable bottom levy figure.

Of course an application and qualification system would need to be developed by the State.

B. Funding For Approach 1

This approach would be funded by a statewide revenue bond of at least 1-2 billion dollars for the beginning years. This resulting fund would then provide the funds to meet the equalized yield for the number of mills locally levied. The 30-year debt bonds would be sold locally. The State would pay for the annual debt service on the State revenue bond.

C. Approach 2

The State would provide assistance to the local district based on the taxable yield per pupil per debt mill based on a quintile system:

1. Lowest (20%) taxable value per pupil – 100% interest free
2. Next lowest (21-40%) taxable value per pupil – 75% interest free
3. Next lowest (41-60%) taxable value per pupil – 50% interest free
4. Next lowest (61-80%) taxable value per pupil – 25% interest free
5. Highest (81-100%) taxable value per pupil – 10% interest free

Any district that has 50% or more of their pupils that meet income eligibility criteria for free and reduced lunch would qualify for the next lower quintile level.

Of course an application and qualification system would need to be developed by the state.

D. Funding For Approach 2

This approach would be funded by a statewide revenue bond approved by the citizens of at least 1-2 billion dollars for the early years. This bond would be serviced annually by the state. The fund would provide the annual quintile interest costs to the local district to cover the interest cost on the 30-year bonds sold locally. A district would need to levy at least 2 to 3 new mills to qualify.

Revenue Sources For School Aid And Effects Of Tax Cuts

Current funding (operational) for our schools comes from a variety of earmarked sources including General Fund/General Purpose. (Enclosures 7a + b and 8a + b) Any of the major categories could be used to create the Infrastructure Fund. However since the state is in need of additional revenue to cover overall budget shortfalls from years of tax cutting and the recession, the School Aid Fund and General Fund/General Purpose probably are not the best sources for additional funding while the effects of the recession linger and while we are still feeling the effects of years of tax cutting. The State could look at its overall revenue sources for the dollars for an Infrastructure Fund. (Enclosures 9a + b) This has been made more difficult because of the numerous tax cuts referred above. (Enclosure 10) Thus the current State fiscal condition appears to make that approach questionable as well. Therefore either of the State revenue bond approaches appears to be the better route to take.

(Enclosure 7a)

MICHIGAN SCHOOL AID FUND REVENUE BY SOURCE		FY 2003-04	% OF TOTAL	FY 2004-05	% OF TOTAL
	SALES TAX	\$4,824.7	40.5%	\$5,029.2	40.8%
	INCOME TAX EARMARKING	1,899.6	16.0%	1,985.9	16.1%
	STATE 6-MILL EDUCATION TAX	1,745.2	14.7%	1,858.2	15.1%
	FEDERAL FUNDS	1,316.7	11.1%	1,314.4	10.7%
	LOTTERY TRANSFER	635.0	5.3%	635.0	5.2%
	TOBACCO TAXES	479.7	4.0%	472.8	3.8%
	USE TAX	419.1	3.5%	433.8	3.5%
	REAL ESTATE TRANSFER TAX	274.7	2.3%	273.0	2.2%
	SPECIFIC TAXES	180.6	1.5%	181.7	1.5%
	CASINOS	94.5	0.8%	97.3	0.8%
	LIQUOR EXCISE TAX	<u>31.3</u>	0.3%	<u>31.6</u>	0.3%
	TOTAL	\$11,901.1		\$12,312.9	

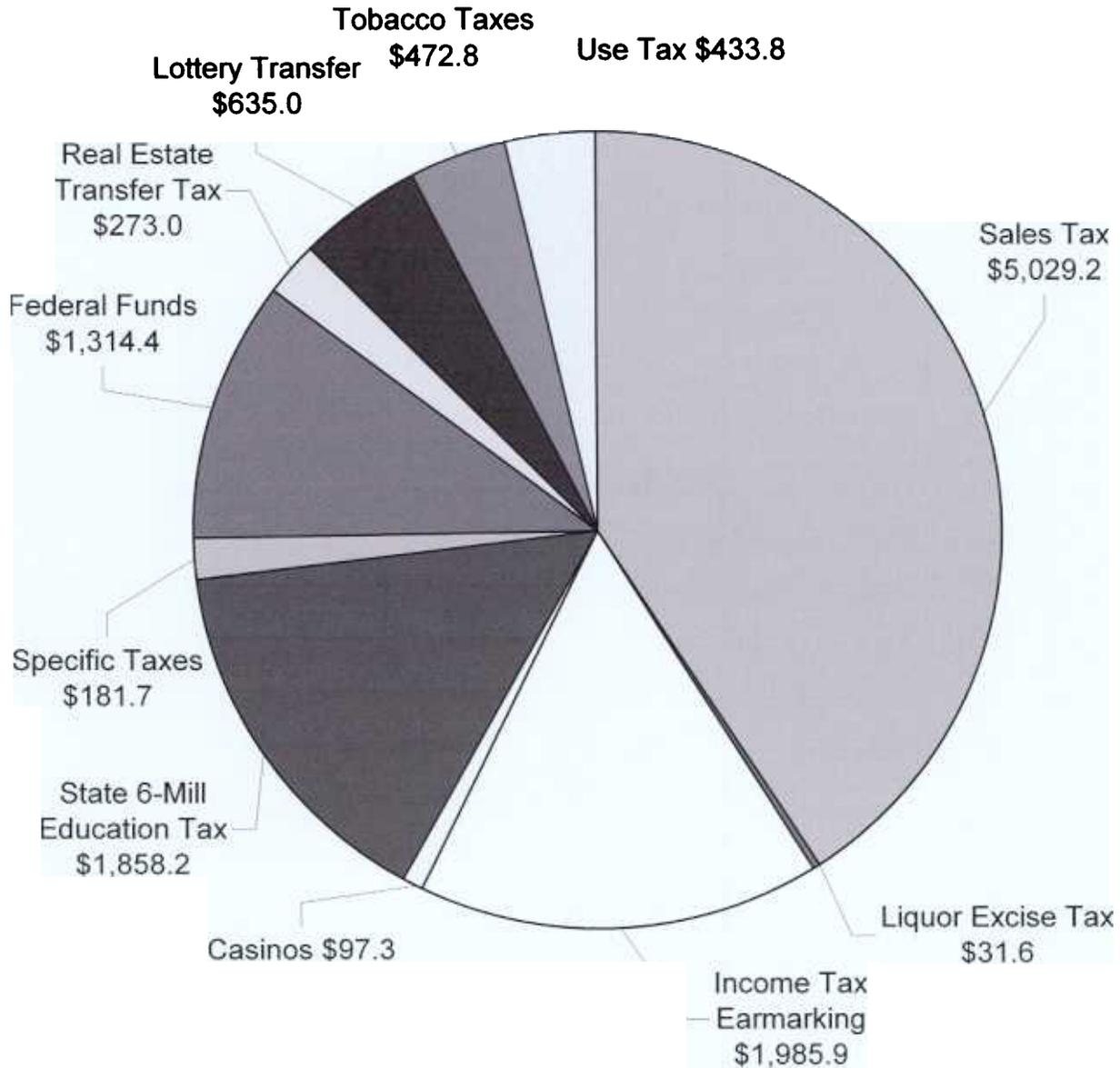
(Millions
Of
Dollars)

DEFINITIONS AND OTHER NOTES

SALES TAX	School Aid Fund receives 73.3% of gross sales tax revenue. Tax rate is currently 6%.
INCOME TAX EARMARKING	School Aid Fund receives 23% of gross income tax revenue with adjustments for rate changes.
STATE 6-MILL EDUCATION	Levied on all property; 100% dedicated to the School Aid Fund (SAF).
LOTTERY TRANSFER	School Aid Fund receives the net revenue from lottery sales.
TOBACCO TAXES	School Aid Fund receives 54.2% of cigarette tax revenue and 75.6% of other tobacco tax revenue.
USE TAX	School Aid Fund receives 33.3% of gross use tax revenue. Tax rate is currently 6%.
REAL ESTATE TRANSFER	School Aid Fund receives 100% of the real estate transfer tax. Tax rate is 0.75% of the sale price of real estate.
SPECIFIC TAXES	Includes industrial and commercial facilities tax and commercial forest tax.
CASINOS	School Aid Fund receives 8.1% of the gross gaming revenue.

**(Enclosure 7b)
State Of Michigan
School Aid Fund Revenue
By Source
FY 2004-05**

**Total Resources: \$12,312.9 Million
(Chart dollars in millions)**



(Enclosure 8a)

GENERAL FUND/ GENERAL PURPOSE REVENUE BY SOURCE		FY 2003-04	% OF TOTAL	FY 2004-05	% OF TOTAL
	INCOME TAX	\$3,918.8	49.9%	\$3,994.1	51.1%
	SINGLE BUSINESS TAX	1,878.7	23.9%	1,962.5	25.1%
	SALES AND USE TAXES	952.6	12.1%	987.2	12.6%
	OTHER SOURCES	421.4	5.4%	372.4	4.8%
	TOBACCO TAXES	286.2	3.6%	128.0	1.6%
	INSURANCE COMPANY TAX	247.0	3.1%	261.0	3.3%
	LIQUOR, BEER, AND WINE TAXES	82.8	1.1%	83.6	1.1%
	INHERITANCE/ESTATE TAX	<u>70.0</u>	0.9%	<u>34.0</u>	0.4%
	TOTAL	\$7,857.5		\$7,822.8	

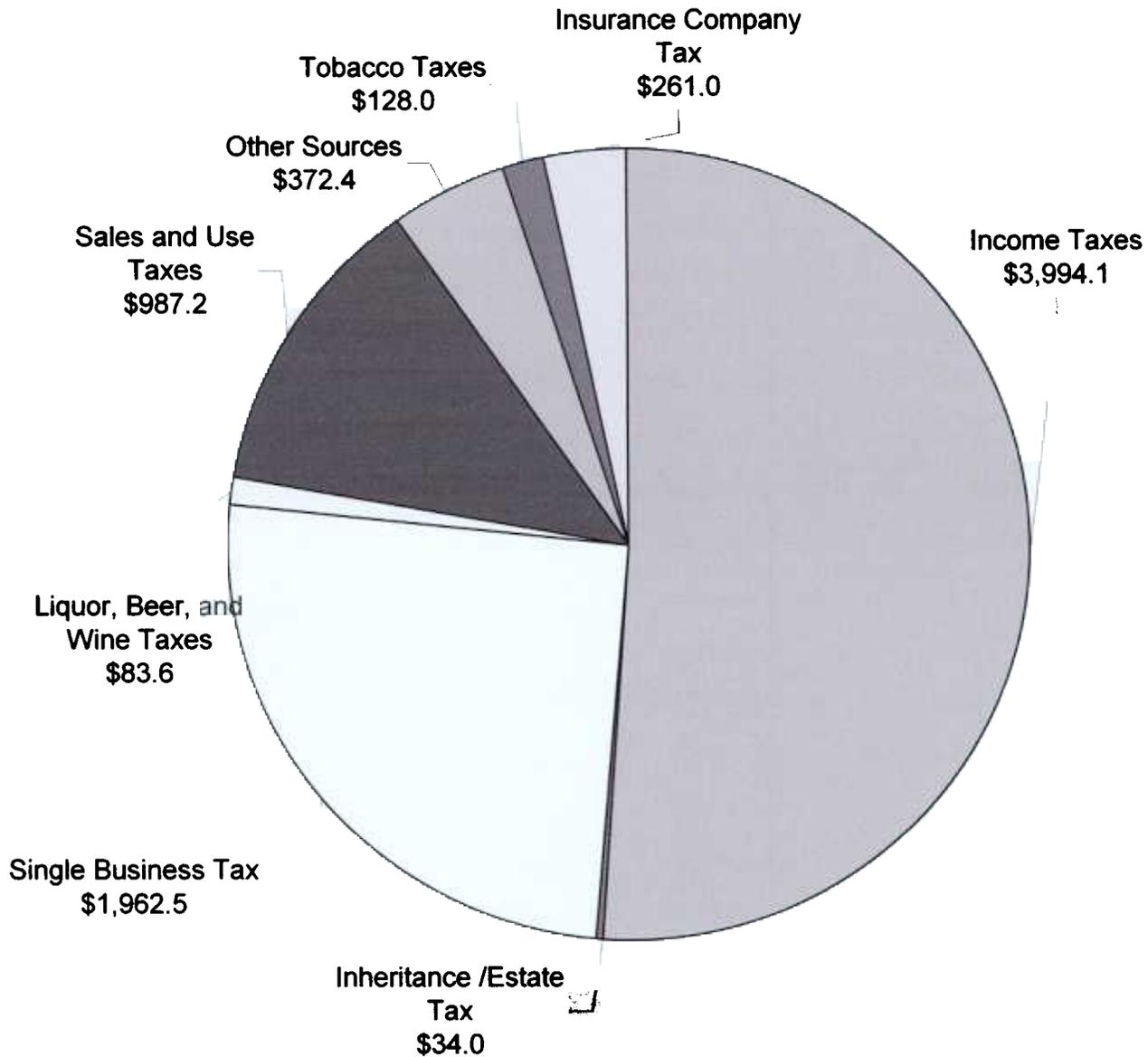
(Millions
Of
Dollars)

DEFINITIONS AND OTHER NOTES

INCOME TAXES	General Fund/General Purpose receives income tax revenue not allocated to the School Aid Fund. The tax rate is currently 4.0%. Effective July 1, 2004, the rate will be reduced by 0.1%, to 3.9%.
SINGLE BUSINESS TAX	General Fund/General Purpose receives 100% of single business tax revenue. At the end of FY 2001-02, the BSF balance fell below \$250 million, which paused the SBT 0.1% reduction. In calendar years 2003 and 2004, the rate is 1.9% of adjusted tax base for most firms.
SALES TAX	General Fund/General Purpose receives sales tax revenue not allocated to local units of government for revenue sharing, the School Aid Fund, the Comprehensive Transportation Fund, or public health programs. Tax rate is currently 6%.
USE TAX	A specific excise tax on the use, storage, or consumption of tangible personal property not subject to the sales tax. Tax rate is currently 6%; GF/GP receives 66.7% of total and School Aid Fund receives 33.3% of total.
OTHER SOURCES	Includes taxes on gas and oil severance, utility property, corporate income, and horse race wagering; certain penalty and interest payments; federal funds; and balance sheet adjustments; does not include the beginning balance.

(Enclosure 8b)
**STATE OF MICHIGAN
GENERAL FUND/GENERAL PURPOSE
REVENUE BY SOURCE
FY 2004-05**

**TOTAL RESOURCES: \$7,822.8 MILLION
(Chart dollars in millions)**



(Enclosure 9a)

**OVERVIEW
OF
STATE
REVENUE
BY SOURCE**

**FY 2003-04
and
FY 2004-05**

**(Millions
Of
Dollars)**

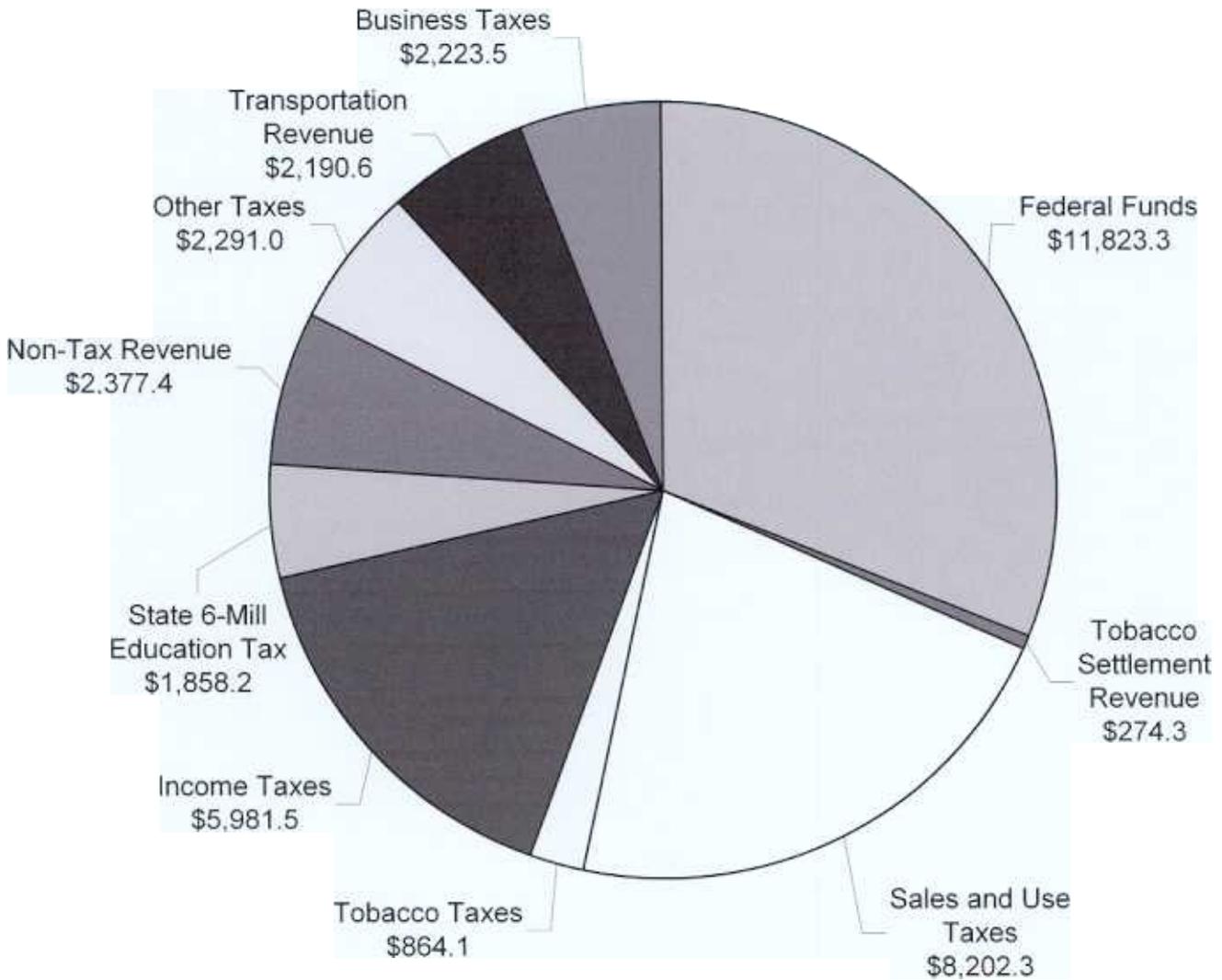
	<u>FY 2003-04</u>	<u>% OF TOTAL</u>	<u>FY 2004-05</u>	<u>% OF TOTAL</u>
FEDERAL FUNDS	\$11,971.8	31.4%	\$11,823.3	31.0%
SALES AND USE TAXES	7,878.2	20.7%	8,202.3	21.5%
INCOME TAXES	5,819.9	15.3%	5,981.5	15.7%
NON-TAX REVENUE	2,705.9	7.1%	2,377.4	6.2%
OTHER TAXES	2,421.4	6.4%	2,291.0	6.0%
TRANSPORTATION REVENUE	2,247.7	5.9%	2,190.6	5.8%
BUSINESS TAXES	2,125.7	5.6%	2,223.5	5.8%
STATE 6-MILL EDUCATION TAX	1,745.2	4.6%	1,858.2	4.9%
TOBACCO TAXES	876.8	2.3%	864.1	2.3%
TOBACCO SETTLEMENT REVENUE	<u>275.6</u>	0.7%	<u>274.3</u>	0.7%
TOTAL	\$38,068.2		\$38,086.2	

DEFINITIONS AND OTHER NOTES

FEDERAL FUNDS	Total federal funds used in the state budget.
SALES AND USE TAXES	Use tax is a specific excise tax on the use, storage, or consumption of tangible personal property not subject to the sales tax. Tax rate is currently 6% for both sales and use taxes.
INCOME TAXES	Includes withholding, annual, and quarterly collections less refunds. Tax rate is currently 4.0%. Effective July 1, 2004, the rate will be reduced by 0.1%, to 3.9%.
NON-TAX REVENUE	Includes revenue from local agencies, state-provided services, licenses, permits not related to transportation, and lottery transfers to the School Aid Fund (SAF).
OTHER TAXES	Includes liquor, beer, wine, gas and oil severance, and estate taxes.
TRANSPORTATION REVENUE	Includes gas, diesel fuel, and aviation fuel taxes; fees; and other transportation revenue. Excludes federal aid and sales tax transportation revenue.
BUSINESS TAXES	Includes single business tax and insurance company tax. At the end of FY 2001-02, the BSF balance fell below \$250 million, which paused the SBT 0.1% reduction. In calendar years 2003 and 2004, the single business tax rate is 1.9% of adjusted tax base for most firms.
STATE 6-MILL EDUCATION TAX	Levied on all property; 100% dedicated to the School Aid Fund (SAF).
TOBACCO TAXES	The cigarette tax is \$1.25 per pack and the tax on other tobacco products is 20%.
TOBACCO SETTLEMENT	Revenue to the state resulting from settlement with the tobacco companies.

(Enclosure 9b)
**STATE OF MICHIGAN
TOTAL
REVENUE BY SOURCE
FY 2004-05**

**TOTAL RESOURCES: \$38,086.2 MILLION
(Chart dollars in millions)**



(Enclosure 10)
Summary Of Projected Impacts On
State And Local K-12 Finances
Changes Enacted Since 1993

	Projected Total Impacts For Fiscal Year 2002	Estimated Cumulative Total: 1994-2002
State Income Tax Policy Changes	\$155,030,411	\$697,886,228
State Sales & Use Tax Policy Changes	\$85,728,078	\$318,467,089
State & Local Property Tax Policy Changes	\$145,392,333	\$616,794,000
Miscellaneous State Tax Policy Changes	\$700,000	\$2,800,000
Economic Development Incentives: Other (Reduced for Renaissance Zone Reimbursements)	\$162,823,117	\$338,320,603
Total Impacts	\$549,673,939	\$1,974,267,920

Informational Display Only Of Other Relevant Policy Impacts

**On-Going Tax Policies In Effect Before Proposal A,
With Continued Impacts On K-12 Finances**

Economic Development Incentives: PA 198*	\$244,145,363	\$1,953,162,904
Tax Increment Financing Plans (TIFAs)*	\$87,035,201	\$696,281,608
Total These Items	\$331,180,564	\$2,649,444,512

**On-Going Tax Policies That Were An Integral Part Of Proposal A,
With Continued Impacts**

Exclusion of Residential Energy Utilities From 2 Cent Sales Tax	\$206,000,000	\$1,474,000,000
Estimated 2002 Impact of Assessment Cap	\$1,250,025,432	\$5,097,603,713
Income tax rate cut from 4.6 to 4.4	\$85,284,000	\$515,458,000
Impact of 1992 Assessment Freeze continued in A	\$167,177,314	\$1,259,156,053
Total These Items	\$1,708,486,746	\$8,346,217,766

*Most cumulative numbers are the sum of annual numbers in the detail appendix tables.

*This represents the total for all 198 certificates in place in 2001 and the cumulative total is simply 8 years times this total.

Final Conclusion

The State of Michigan, in our view, is inconsistent with the constitutional responsibilities of our State to fund its K-12 public schools. It is inconsistent with several recent court rulings, including state Supreme Court rulings, throughout the country. It is inconsistent with the funding assistance provided by forty other states.

The State of Michigan would be more consistent with its constitutional responsibilities and more consistent with its obligation to its citizens, especially our children and youth, if it provided, again, assistance to the schools for their infrastructure needs.

These children and youth represent our future and the future of our State.

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