

At its April 13, 2010 meeting, the State Board of Education endorsed "Principles to Guide Michigan's Education System Restructuring," and supported the direction of a report titled "Recommendations to Better Support Michigan's Education System - Revenues, Reforms and Restructuring." You are invited to review and comment on the report as the Board continues to refine the specific recommendations. Comments will be accepted until Tuesday, May 11, 2010, when the Board will consider adoption of the recommendations.

Send your Comments to this e-mail: sbe-reform@michigan.gov

Recommendations to Better Support Michigan's Education System

Revenues, Reforms and Restructuring

A Framework for Education Investment and Reform

The State Board of Education (SBE), following a series of public meetings and fact-gathering sessions, provides the following guidance concerning the needed education system that can deliver effective educational outcomes, create economic opportunity for Michigan children and citizens, and help our state's economy.

The Case for Education

Everything the SBE heard from economists, policy analysts, and stakeholders suggests consensus that:

- Education is the most reliable path to state economic prosperity;
- Education is the way to provide equal economic opportunity; and
- Our current budget priorities and fiscal crisis are weakening Michigan's commitment to education and long-term economic prospects.

There is broad agreement that the top priority for Michigan is growing the state's economy. Nothing else is close. It is clear that, by far, the most reliable path to prosperity for each of us, our children and grandchildren, and the state is education attainment.

In the Twentieth Century many of us enjoyed a high standard of living with only a high school degree. No more! Nationally, the median earning for those with high school diplomas is \$28,000 compared to \$48,000 for those with a four-year degree or more. At every level, those with more education attainment earn more.

The Bureau of Labor Statistics calculates that over the course of a career those with a four-year degree will on average earn a million dollars more than those with a high school diploma. With an advanced degree the advantage grows to more than two million dollars.

The same story is true for states. By far, the best predictor of a state's per capita income is the proportion of adults with a four-year degree. Of the top ten states in college attainment, nine are in the top twelve in per capita income.

Michigan's biggest economic challenge is that we are thirty fourth in four-year degree attainment. As long as that is the case, it is highly likely that Michigan will be one of the poorest states in the nation. As the economy becomes increasingly knowledge-based, Michigan has fallen from eighteenth in per capita income in 2000 to thirty seventh in 2008. To reverse the trend – of falling farther and farther behind the nation – nothing matters more than increasing the human capital – the education and skills broadly defined – of the people of Michigan.

To do that requires Michigan to make lifelong learning the centerpiece of the state's economic growth strategy. The delivery of high quality teaching and learning is not just another budget item, but rather the public investment that matters most to our future economic success.

The members of State Board of Education believe that this is the time for state policy makers on a bi-partisan basis to establish a base level of services that the state will provide to learners of all ages even in these difficult budget times, and a revenue system that will allow public investments for teaching and learning to grow with the Michigan economy. To do less delays the chance that Michigan will return to the high prosperity it enjoyed in the last century.

Guiding Principles for Financing and Restructuring Michigan Education

The following are principles to guide reform of the education financing system for Michigan.

Principles to Guide Michigan's Education System Restructuring
<p>Equitable: The education program should be the same across the state (it should not matter where you go to school [big or small; rich or poor]). Resources appropriate to deliver comparable quality education for all students need be provided.</p> <p>Predictable and Durable: Funding for the whole education system needs to be predictable and sustainable, and, at a minimum keep up with the Michigan economy.</p> <p>Holistic: Michigan's education system needs to include support of a continuum of learning: early childhood education; K-12 education, and higher education if Michigan citizens are to succeed, and our economy improve.</p> <p>Shared Sacrifice: Given Michigan's long-term financial challenges, need to cut costs, and focus resources where they are needed to support learning, there must be shared sacrifice in operating education more efficiently.</p> <p>21st Century: Need to bring education service delivery into the 21st Century – in its structure, organization, expectations, schedule, and mode of operations.</p> <p>Balanced Approach: A combination of reforms, cuts, and targeted investment are needed to restructure Michigan's system for effectiveness. The problems cannot be solved by cuts, nor more money alone. The State Board of Education recognizes we have to have reform, do more with less, and do it differently.</p>

A 'Clean Sheet': Starting with the Education System Michigan Needs for the State and its Citizens to Compete

At the heart of the State Board of Education's approach and recommendations is a description of the education system Michigan needs to put in place, if our citizens are to realize economic opportunity, and the state is to thrive economically.

The approach recommended here is to define what an effective education system needs to look like in order to conform to the principles above. The education "base" should be defined as a level of services to be provided to learners of all ages. The focus needs to be on providing high quality teaching and learning, not a funding level. Identifying the base level of required education services is the first step. The second step is determining what changes are needed in terms of revenue, cost-savings/reforms, and the structure of the system, in order to deliver it.

The SBE believes that the basic elements of an effective Michigan education system should be:

- Universal access to quality early childhood programming for all four year old children and universal high quality kindergarten.
- Support for a level of K-12 services (class-sizes, qualified teachers, etc.) comparable to those in place for the 2008-2009 school year.
- Comparable learning infrastructure (physical and virtual) for all students.
- Support to allow all citizens to achieve a level of post-secondary education at a new minimum threshold¹.
- Support for higher education institutions at least comparable to peer states, given higher education's role in economic growth and education opportunity.

The SBE also believes that support for this system must be coupled with commitment to reforms that maximize every dollar invested in education. Funding must come with clear expectations that:

- Every school and district is expected to help students:
 - Make yearly progress without needing remediation.
 - Graduate without needing remediation.
- Every child has opportunity for dual enrollment, early college credit and/or career technical courses.
- In return for increased operational and financial aid support, and reduced remediation costs, higher education institutions need to restrain tuition, participate in the statewide student data system, better align and accept transfer credits, and participate in dual enrollment.

¹As defined by Lt. Governor's Commission on Higher Education and Economic Growth (Cherry Commission), consistent with two (2) years of postsecondary education or technical training.

Table A. Summarizes the basic elements of this education system, and the reforms and new expectations that must accompany the continuum of education services recommended.

Table A. Key Elements of Comprehensive Michigan Education System

Funding should support a *continuum of early childhood, K-12, and higher education*:

- Universal preschool for all four year olds.
- Mandated (preferably all-day) kindergarten for all children.
- K-12 State Aid to restore funding level prior to FY 10 State Aid cut, without stimulus money.
- Post-secondary education financial support for all citizens to reach a new minimum threshold (as defined by Cherry Commission, consistent with 2 years of postsecondary education or technical training).
- Higher Education operational support for Michigan's universities and community colleges at a level consistent with peer states.

Michigan's PreK-Higher Education funding structure should be reformed so that:

- Every school and district is expected to help students make yearly progress without needing remediation, and graduate all students without need of remediation. Schools and districts are held accountable for annual and ultimate student outcomes, including costs of remediation incurred by post-secondary institutions if secondary school graduates are not prepared.
- An equitable base amount of financial support is available to all schools – the SBE recommends a school-based "foundation grant" ², coupled with a per pupil "innovation" grant to be flexibly used for any and all education requirements, including virtual and physical infrastructure³.
- All schools provide an enhanced minimum threshold of school year learning time.
- Synch up state school and budget cycles; guarantee no pro-ration of funds during school year.

²(Grant to be adjusted, perhaps every five years based on actual pupil enrollment history (to provide time to plan for and accommodate enrollment changes)

³School infrastructure was left out of Proposal A, is wildly inconsistent among school districts, and proposed by 2004 SBE-sponsored Doug Roberts-David Olmstead study to equate to approximately 10% of the cost of educating a child

- Every child should have an opportunity for a postsecondary education (dual enrollment, early college, technical school, or other career opportunity) and the current system of financial disincentives for dual enrollment, early college credit and career technical course must be eliminated.
- In return for increased operation and financial aid support, and lowered remediation costs, higher education institutions must participate in the PreK-Higher Education student data system; restrain tuition, improve acceptance of transfer credits from other institutions, including community colleges, and dual enrollment course credits for credits taken during high school.

Paying for the Education System Michigan Needs – Recommendations for Comprehensive – Long-term Reform

The current debate about the budget is characterized by an either/or choice. Some advocate for spending cuts and regulatory relief, others for tax increases. The reality is more complex.

To put in place the education services we need, we must save money and find efficiencies, free from unnecessary regulation, reallocate resources within and outside of education, and be willing, if necessary, to raise new resources.

And at a large enough scale so that we preserve a base level of quality services for students, and that allow Michigan to make essential and effective investments in key areas such as early childhood and higher education that pay long-term dividends, for both individuals and our state⁴.

The proposed state system also demands that we make the most effective and efficient delivery of education services; maximizing the impact of every dollar invested. To achieve this needed level of investment, a combination of cost-saving reforms, and changes to the way revenues are raised is required.

If we were to implement the full and needed vision of Pre-K, K-12, and Higher Education investment and reform to carry Michigan forward it would demand a reallocation of \$3 billion dollars in cuts, reforms, and/or new revenues.

Table B. summarizes the price tags for the core elements of a winning Michigan education system.

⁴ For example, economists agree \$1 spent in high-quality pre-school returns \$3 dollars in higher earnings, home ownership rates, lower crime, and social service rates; Bartik, Economic Development Effects of Early Childhood Programs, UpJohn Institute, 2008

To get there the State Board of Education strongly endorses a balanced approach. To provide the resources to get to the base education level we recommend, we encourage a combination of spending reductions that do not undermine the provision of services to students, tax changes, and regulatory reform.

Tables C. and D. describe specific recommendations of where and how we can save money, repurpose resources, or raise additional revenues to provide the education system we need.

These are revenue-side changes and reforms, and cost-savings and efficiency measures, that the SBE recommends be part of a comprehensive long-term education budget priority and reform effort.

Recommended Process for Advancing Comprehensive Reform

The State Board of Education appreciates the challenges, particularly in an election year with continued partisan posturing among many elected officials and candidates, of coming to convergence around meaningful, comprehensive reform.

The SBE encourages immediate short-term steps to stabilize education support, make needed reforms, find cost-savings, and rearrange education as a budget priority, for the FY 11 budget. ***Our short-term recommendations are summarized in Attachment A.***

To further the process of realizing comprehensive reform and the longer-term changes recommended here, the SBE recommends a bi-partisan task force, akin to the Cherry Commission, be convened with key stakeholders and charged to further forge agreement, over the balance of 2010, on the comprehensive package of reforms, revenues and restructuring. Such an effort can encourage a bi-partisan set of recommendations that is available to the next Governor and Legislature.

We recommend that State Superintendent Flanagan convene and facilitate such an effort.

Table B. Key Elements of Michigan Education System	Annual Cost to Deliver
<p>Funding should support a <i>continuum of early childhood, K-12, and higher education</i>.</p> <ul style="list-style-type: none"> • Universal preschool for all four year olds • Kindergarten for all children (preferably full-day, but not mandated) • K-12 State Aid to keep funding level prior to FY 10 state aid cut and projected FY 11 cuts • K-12 State Aid to incorporate 10% virtual and real infrastructure (not included in Proposal A-per Olmstead-Roberts recommendation) • Post-secondary education financial support for all citizens to reach a new minimum threshold (as defined by Cherry Commission, consistent with 2 years of postsecondary education or technical training) • Higher Education operational support for Michigan’s universities and community colleges to be competitive: 50/50 tuition/state appropriations, which places us back to ‘02 level of support for higher education system and competitive with national averages for state support; 	<p>State currently spends approximately \$132 million for Pre-K. Estimated \$150-300 million more for universal (dependent on target for participation)⁵</p> <p>State currently spends approximately \$875 million annually on kindergarten. At an estimated \$10 - \$20 million more, kindergarten could be mandated⁶</p> <p>\$850 million - \$1 billion more⁷</p> <p>\$960 million (estimated as 10% of cost of educating a child for infrastructure)</p> <p>\$140 million for “Promise-style” award for K-12 graduates⁸</p> <p>\$200 million for adults subscribing to No Worker Left Behind – two years of Community College</p> <p>\$950 million⁹</p>

⁵ Estimate is based on Michigan census data, and targets range from: “all eligible for current Great Start and Head Start” to “80% of all 4 year olds” as high-end target

Cost-savings and Other Reforms for Efficiency and Effectiveness

It is recommended that a major source of the revenue needed for Michigan’s education system come from cost-saving reforms and efficiencies. **Table C.** identifies recommendations for these reforms—and their contribution to savings.

Table C. Recommended Education Reforms that Generate Savings	Projected Annual Savings
<p>Prescribe through legislation or create strong incentives to LEAs and ISDs for consolidation of services and/or shared administrative services—so all non-instruction services are shared at an efficient level (ISD, county-wide, statewide); or,</p> <p>“Darken the Dotted Line” with ISDs more—strengthen, redefine roles of ISDs. Could shift costs from local districts to ISD’s requiring a 5% savings for non-instructional services; or,</p> <p>Base-closing style (BRAC-style) Commission established by Legislature to make binding decisions on school consolidations that can create significant cost savings.</p>	<p>\$150 - \$300 million¹⁰</p> <p>\$300 million (duplicated savings for consolidation of non-instructional services)¹¹</p> <p>Same savings as ISD consolidation of services proposals above;</p>
<p>Education personnel move from defined benefit to defined contribution pension systems—(could be done in context of all public employees for consistency; for all new hires—various options)</p>	<p>+\$250 million cost in year one with breakeven in year 14, and estimated \$200 million in annual savings in year 21¹²</p>

⁶ Estimate based on state spending and headcount data available at the Center for Education Performance and Information (CEPI), Michigan Department of Education, combined with Michigan Census information in estimating the number of 5-year olds in the state; obtained March 2010

⁷ Estimate based on historical consensus revenue estimating conference data and conversations with House Fiscal Agency;

⁸ Estimate based on state funding for Promise Grant prior to being eliminated. “Background Briefing, Higher Education,” House Fiscal Agency, January 2010

⁹ Estimate based on calculation from data of university operations (1977-2009), provided by House Fiscal Agency;

¹⁰ Estimate based on state spending data available at the Center for Education Performance and Information (CEPI), Michigan Department of Education, March 2010

¹¹ “Driving More Money into the Classroom: U.S. State Government Guide,” Deloitte Development LLC, 2010

¹² “Converting MPSERS from a Defined benefit to a Defined Contribution System,” House Fiscal Agency, February 2010

Table C. Recommended education reforms that generate savings	Projected Annual Savings
"No Remediation" per-student funding. Proposed K-12 performance spending plans require all districts to ensure each student master a years worth of learning each year, and exit K-12 with required competencies—not needing remediation. Bill back the secondary institution that did not prepare the student to perform in post-secondary institution. Diploma issuing entity pays for remedial courses.	\$25 - \$50 million
Modify health care system to a statewide health care system for employees (recognizing local bargaining rights and local control issues)	\$500 million ¹³
Savings to local districts and taxpayers from move to state-based infrastructure support	Growing to \$1 billion over time
Savings for taxpayers in reduced tuition costs of higher education support	\$700 million
Eliminate "double dipping" of retirees who come back to a district on contract while drawing a pension. Limitation of three (3) years on contract before they must be permanent; districts pay a premium (15% of compensation) to Michigan Public School Employee Retirement Service for contracted employees	\$2 - \$10 million
Establish a ceiling for fund equities, and/or guarantee state payment schedules so large fund balances are not needed	\$25 - \$50 million

¹³ HB 5345, known as the "Dillon Health Care Reform Plan," outlines an estimated savings of between \$700 - \$900 Million annually. The paper "Review and Analysis of Speaker Dillon's Proposal for a Mandatory State Government-Run Public Employee Health Insurance Plan" prepared by PPA on behalf of Citizens for Accountability in Reform estimates the savings would be minimal. The estimate here cuts the difference;

Revenue Side changes

Table D. lists recommended options to make education support more predictable and better linked to the movement of the economy, and to raise additional revenue if needed to fund the overall system.

Table D. Sources of additional revenue and to make revenue more predictable	Estimate of Annual Revenue gain
Modernize the sales tax system—extending sales tax to services, while lowering the rate of the sales tax. This is the principle means to make revenues more predictable and better connected to the movement of today's economy	Net of reducing rate (from 6% to 5.5%) and extending to services) Yr 1 - \$730 Million Yr 2 - \$910 Million Yr 3 - \$940 Million Yr 4 - \$990 Million ¹⁴
Implement a graduated income tax—taxing wealthier citizens at higher rates	\$500 Million to \$1 Billion Annually depending on Rate
Allow local units to increase millages if a share of revenues was used to underwrite general fund or statewide education needs	\$10 - \$100 million
Tax private pensions (not social security). Michigan is one of very few states that does not.	\$200 Million - \$500 Million Annually depending on Rate
Eliminate the business tax surcharge—all agree it has got to be replaced—represents revenue loss. Reduced 50% in yr 1 and remainder in yr 2.	Yr 1 - \$170 Million Yr 2 - \$455 Million Yr 3 - \$570 Million Yr 4 - \$580 Million ¹⁵
Reduce targeted tax credits and tax loopholes that do not support Michigan's economy	\$200 - \$400 million (picking least productive using estimates of economic development impact) ¹⁶

¹⁴ "Review and Analysis of FY 2010-11 Executive Recommendation," Pg 8, House Fiscal Agency, March 2010;

¹⁵ "Review and Analysis of FY 2010-11 Executive Recommendation," Pg 8, House Fiscal Agency, March 2010;

¹⁶ State has over \$35 Billion in tax expenditures, which represent exemptions in the current tax code across business, property, consumption and income tax groups ("Appendix on Tax Credits, Deductions, and Exemptions," Treasury, FY 2010). Anderson Economic Group identified the Michigan Economic Growth Authority Act (\$140 Million), the Renaissance Zone Act (\$140 Million), and the Film Industry Incentives (\$150 Million) as ineffective business tax incentives. "Effectiveness of Michigan's Key Business Tax Incentives," Anderson Economic Group, March 2010

Recommended Short-term Actions for Education Funding Reform

While we pursue this needed comprehensive solution, to start, the following are the State Board of Education's immediate recommendations around the central funding issues in this year's budget:

K-12 Funding

Specifically, the Board recommends that a proposed base level of services for K-12 students be consistent with 2009 pre-stimulus funding, and to accomplish this through spending reductions and tax increases of equal amounts.

It means school administrators and boards finding non-service related savings of one half the difference between 2009 State Aid and what State Aid is projected to be in 2011. The primary ways for improving productivity – delivering the same quality teaching and learning at a lower cost are known. They involve some combination of reducing current or future, employee-related costs: health care, retirement benefits, attrition and new hires; and consolidating and/or finding efficiencies in service delivery. What also is clear is that if we care about delivering quality teaching and learning we need to realize substantial savings now.

But we also need new revenue. Our recommendation is for a net tax increase equal to one half of the difference between 2009 State Aid and what State Aid is projected to be in 2011, and that the revenue increases occur in a way so that we have a long term tax structure to grow with the Michigan economy.

The taxes that most reflect the growth in the economy are the sales and income tax. The SBE has previously endorsed an expansion of the sales tax to services combined with an elimination of the MBT surcharge. This should be at the core of the new tax system. But we also urge the Governor and Legislature to support a comprehensive broadening, and making more progressive, the sales and income taxes.

We as a State Board of Education will work with the Department to reduce regulatory requirements on K-12 school districts. What we care about is student achievement, not how school administrators design their schools. Our job should be setting and holding school administrators accountable for high student achievement, not telling administrators how they have to run their schools. We have heard compelling evidence from some of our best and most innovative educators that with more flexibility they can improve student achievement. We will work to provide that flexibility.

Pre-K Education

In terms of universal high quality programming for four year old children and universal kindergarten we need to make this a priority, rather than one of the first items cut in tough budget times. Our estimate is that the budget increases needed to achieve this is \$150 - \$300 million, depending on the service targets. Once again

to pursue this goal we recommend half of the resources coming from new revenues and half from savings realized by K-12 administrators.

Higher education

Michigan built in the Twentieth Century one of the best public higher education systems on the planet – when it didn't matter so much to achieving prosperity. Now that it matters most, we have spent a decade reducing our support. This is not the way to grow the Michigan economy. We need to reestablish public investments in higher education as a budget priority – rather than the first item on the chopping block. It's an essential ingredient to growing the Michigan economy.

Michigan needs both a high quality higher education system and affordable tuition. We have been going backwards on both fronts for a decade. The SBE recommends that our higher education institutions receive financial support at least comparable to peer states, which are also racing to improve their economic competitiveness.

To reach this benchmark and a 50/50 ratio of state investment relative to tuition costs would restore higher education funding levels to the 2002 level and cost \$950 million dollars—\$700 million of which would come back to the pockets of Michigan students and families in lower tuition costs.

We also view an imperative for Michigan is to fund the Cherry Commission goal of helping all our citizens reach a new, higher level of education attainment, equivalent to two (2) years of technical or postsecondary education. To provide this for graduating students and adults would cost \$350 million dollars.