Michigan School Finance and Organization

State Board of Education

March 11, 2014
About The Citizens Research Council

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions of Michigan foundations, businesses, and individuals

www.crcmich.org
Recent CRC Publications

- CRC series of K-12 education-related research
  - Governance (January ‘10)
  - State and Local Revenues (September ‘10)
  - Nontraditional Schools (October ‘10)
  - Early Childhood Education (February ‘11)
  - Reform of Governance and Management (May ‘11)
  - Distribution of State Aid (August ‘11)
  - Teacher Training (January ‘12)
  - Teacher Performance and Management (March ‘12)
  - Teacher Tenure and Collective Bargaining (July ‘12)
- Other research: special education finances; fiscally distressed school districts; state budget monitoring
Challenge: Declining Enrollment
Since 2003: Era of Declining Enrollment

Trend Expected to Continue

Statewide Pupil Membership

* FY2014 through FY2016 based on January 2014 consensus estimates
Number of Districts Growing Despite Declining Enrollment

Michigan School Districts and Pupil Membership

Source: Michigan Department of Education
Note: Excludes Intermediate School Districts (56 in 2012)
Declining Enrollment . . . Not Just an Urban Issue

<table>
<thead>
<tr>
<th>Enrollment Change from Fall 2003 to Fall 2012</th>
<th>City</th>
<th>Suburb</th>
<th>Town</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain</td>
<td>10</td>
<td>50</td>
<td>10</td>
<td>55</td>
</tr>
<tr>
<td>Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>greater than 50%</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>25% to 50%</td>
<td>5</td>
<td>14</td>
<td>5</td>
<td>61</td>
</tr>
<tr>
<td>10% to 25%</td>
<td>8</td>
<td>25</td>
<td>44</td>
<td>114</td>
</tr>
<tr>
<td>0 to 10%</td>
<td>8</td>
<td>46</td>
<td>23</td>
<td>57</td>
</tr>
<tr>
<td>Districts with Loss</td>
<td>24</td>
<td>85</td>
<td>73</td>
<td>238</td>
</tr>
<tr>
<td>Total # of Districts</td>
<td>34</td>
<td>135</td>
<td>83</td>
<td>293</td>
</tr>
<tr>
<td>Total Pupil Loss / % Loss</td>
<td>133,520</td>
<td>24,756</td>
<td>23,244</td>
<td>38,271</td>
</tr>
<tr>
<td></td>
<td>-32%</td>
<td>-4%</td>
<td>-12%</td>
<td>-12%</td>
</tr>
</tbody>
</table>
Some Large Urban Districts Experience Massive Enrollment Loss
Effects of Declining Enrollment

Two Narratives

• State-level effects
  • Fewer students in the system allows the per-pupil foundation grant to increase, even if there are no new dollars in the system

• District-level effects
  • Per-pupil foundation grant might increase, **BUT**
  • Effects of grant increase are offset by the loss of students – result in fewer resources overall
  • Challenges of “managing down” when majority of costs are relatively fixed in near term
Challenge Facing Districts

• Difference between “average” and “marginal” cost
  • A district’s “average” cost (represented by the foundation grant) does not fully decline in short-run with enrollment loss
  • When a district loses a student, the revenue decline exceeds the reduction in cost (many costs remain with district)
• In the short run, many districts, especially small and average size, face few variable costs
  • Whether enrollment increases/decreases – little increase in costs
  • As a result, there is a financial incentive to compete for students
Challenge: Financing Special Education
Statewide Spending Picture

Growth Exceeds Inflation and Total K-12 Spending

Total K-12: $9,633 $9,503
Special Ed: $14,397 $12,327
$0
$2,000
$4,000
$6,000
$8,000
$10,000
$12,000
$14,000
$16,000

Per-Pupil Spending

Source: CRC Report 378, Financing Special Education: Analyses and Challenges
Per-Pupil Spending Variation

Difference Twice as Much

Per-Pupil Spending by ISD in FY2010

State Average $13,802

Source: MDE, Report SE-4096; Center for Educational Performance Information; CRC calculations.
Per-Pupil Spending Gap Widening

Proposal A Did Not Address

- Since 2007, per-pupil spending gap increased
  - Ratio (high to low) increased from below 2.0 to 2.2
  - Little effort by state to reduce disparities
- Contrasts with experience in general education funding (foundation allowance)
  - Over same period, ratio fell from 1.74 to 1.7
  - State policies aimed directly at reducing spending disparities (since Proposal A)
Property Tax Contributes to Differences

Special Education Property Tax Revenue in 2010

<table>
<thead>
<tr>
<th>ISD</th>
<th>Tax Revenue</th>
<th>Special Education Pupils</th>
<th>Per-Pupil Revenue</th>
<th>Tax Rate (mills)</th>
<th>Taxable Value Per Pupil*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Five Highest Per-Pupil Amounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Washtenaw</td>
<td>$57,942,247</td>
<td>6,791</td>
<td>$8,532</td>
<td>3.8761</td>
<td>$317,920</td>
</tr>
<tr>
<td>Ottawa</td>
<td>49,805,239</td>
<td>6,078</td>
<td>8,194</td>
<td>4.3750</td>
<td>241,658</td>
</tr>
<tr>
<td>Huron</td>
<td>5,495,463</td>
<td>766</td>
<td>7,174</td>
<td>3.2886</td>
<td>350,579</td>
</tr>
<tr>
<td>Charlevoix-Emmet</td>
<td>10,032,765</td>
<td>1,399</td>
<td>7,171</td>
<td>1.8313</td>
<td>544,485</td>
</tr>
<tr>
<td>Oakland</td>
<td>157,503,945</td>
<td>23,751</td>
<td>6,631</td>
<td>2.5456</td>
<td>314,186</td>
</tr>
<tr>
<td><strong>Five Lowest Per-Pupil Amounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanilac</td>
<td>$1,079,084</td>
<td>997</td>
<td>$1,082</td>
<td>0.7298</td>
<td>$202,044</td>
</tr>
<tr>
<td>Lapeer</td>
<td>2,219,587</td>
<td>1,795</td>
<td>1,237</td>
<td>0.8310</td>
<td>190,289</td>
</tr>
<tr>
<td>Iosco</td>
<td>1,025,456</td>
<td>791</td>
<td>1,296</td>
<td>0.6371</td>
<td>355,467</td>
</tr>
<tr>
<td>Eastern UP</td>
<td>1,645,724</td>
<td>1,245</td>
<td>1,322</td>
<td>0.7727</td>
<td>277,182</td>
</tr>
<tr>
<td>Midland</td>
<td>3,177,171</td>
<td>2,228</td>
<td>1,426</td>
<td>0.9797</td>
<td>243,621</td>
</tr>
<tr>
<td><strong>State Average</strong></td>
<td></td>
<td></td>
<td>$4,354</td>
<td>2.5621</td>
<td>$223,778</td>
</tr>
</tbody>
</table>

* Includes general and special education students.

Source: MDE; Department of Treasury; CRC calculations
## Strength of Property Tax Growth Wanes

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Average Rate (mills)</th>
<th>Tax Yield ($millions)</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Dollars per Pupil</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2.3978</td>
<td>$531.3</td>
<td></td>
<td></td>
<td>$2,346</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>2.5137</td>
<td>862.4</td>
<td></td>
<td></td>
<td>2,135</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>2.5059</td>
<td>964.3</td>
<td>$55.3</td>
<td>6.1%</td>
<td>3,873</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>2.5418</td>
<td>1,026.2</td>
<td>61.9</td>
<td>6.4%</td>
<td>4,205</td>
<td>$332</td>
</tr>
<tr>
<td>2009</td>
<td>2.5409</td>
<td>1,037.8</td>
<td>11.6</td>
<td>1.1%</td>
<td>4,320</td>
<td>115</td>
</tr>
<tr>
<td>2010</td>
<td>2.5621</td>
<td>1,026.7</td>
<td>(11.1)</td>
<td>(1.1%)</td>
<td>4,354</td>
<td>34</td>
</tr>
<tr>
<td>2011*</td>
<td>2.5551</td>
<td>956.0</td>
<td>(70.7)</td>
<td>(7.0%)</td>
<td>4,217</td>
<td>(142)</td>
</tr>
</tbody>
</table>

* preliminary

Source: MDE; Department of Treasury; CRC calculations

### 3% Decline Expected in 2011
General Fund Contributions

Funder of Last Resort

- Districts (local and ISD) must make up difference between mandated costs and dedicated revenues
- Local districts contribute through ISD property tax and allocations from their general funds
- General fund contributions from local districts
  - 19% of total $3.4 billion in 2010
- Tradeoff: raise ISD tax (if possible) or more GF $  
  - Mandated special education costs place additional burdens on general education budgets
Challenge:
Fiscally Distressed Districts
# Fiscal Distress Growing

*Record Number of Deficit Districts in ‘12*

<table>
<thead>
<tr>
<th>Fund Balance as % of Revenue</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statewide Average</td>
<td>10.81%</td>
<td>9.34%</td>
<td>7.19%</td>
<td>8.42%</td>
<td>8.96%</td>
<td>8.37%</td>
</tr>
<tr>
<td>0% to 5%</td>
<td>57</td>
<td>63</td>
<td>73</td>
<td>44</td>
<td>50</td>
<td>78</td>
</tr>
<tr>
<td>5% to 10%</td>
<td>106</td>
<td>108</td>
<td>99</td>
<td>101</td>
<td>117</td>
<td>127</td>
</tr>
<tr>
<td>10% to 15%</td>
<td>114</td>
<td>119</td>
<td>131</td>
<td>127</td>
<td>136</td>
<td>106</td>
</tr>
<tr>
<td>Above 15%</td>
<td>249</td>
<td>231</td>
<td>211</td>
<td>237</td>
<td>201</td>
<td>186</td>
</tr>
<tr>
<td>Districts</td>
<td>526</td>
<td>521</td>
<td>514</td>
<td>509</td>
<td>502</td>
<td>497*</td>
</tr>
<tr>
<td>Deficit (Negative)</td>
<td>21</td>
<td>29</td>
<td>36</td>
<td>41</td>
<td>47</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: Michigan School Business Officials; Michigan Department of Education (deficit districts).

Note: Traditional public school districts only (excludes ISDs and PSAs). Not all districts reporting for 2012-13.
Effects of MPSERS Costs on Foundation Grant

Estimated Impact on Minimum Grant

Per-Pupil Funding

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,700</td>
<td>$6,875</td>
<td>$7,085</td>
<td>$7,204</td>
<td>$7,316</td>
<td>$7,316</td>
<td>$7,316</td>
<td>$6,946</td>
<td>$7,171</td>
<td>$7,409</td>
<td>$7,705</td>
<td>$7,862</td>
</tr>
</tbody>
</table>

Foundation: non-MPSERS

Foundation: MPSERS

State share - MPSERS

CPI-adjusted non-MPSERS

Minimum Foundation: $5,030
Range of State Responses

- For majority of districts in distress, current DEP process functions well
- However, for those hardest hit, state lacks consistent policy and responses have varied:
  - “Charterized” districts (Muskegon Heights and Highland Park)
  - Dissolution used for two districts (Buena Vista and Inkster)
  - PA 436 used for Detroit (emergency manager) and Pontiac (consent agreement)
Consequences of Current Approach

- Interruption of student learning – sometimes abruptly and at mid-year
- Some state responses “socialize” deficit elimination solutions through the provision of additional funds
- Under dissolution scenario (new option), the learning environment that students are assigned to may not be any better than the dissolved district
- Diminished accountability for state taxes used to finance K-12 education
Recommendations
Recognize that Declining Enrollment is a Serious Problem

1. For those districts hardest hit, establish policy and early warning strategies to head off “death spiral”

2. Restore state strategies designed to ease immediate negative effects of declining enrollment

3. Reconsider state messaging – consolidation vs. expansion of educational providers

4. Reexamine the structure of the per-pupil foundation grant
   - Recognize that there are “school-based” costs
   - Differentiate foundation grant to take into account student/school characteristics
Address Special Education Challenges

1. **Reduce reliance** on local property tax as primary funding source
2. To reduce widening per-pupil funding disparities, **greater centralization in funding decisions** would be required (similar to Proposal A)
3. Equalizing per-pupil funding would require significant amount of **additional state resources** (with minimum tax effort requirement), as “raising the bottom” would be only acceptable method
New State Policy for Fiscally Distressed Districts

1. Move away from current ad hoc approach and establish a **clear, transparent, and consistent policy** based on early intervention

2. Acknowledge that some districts would need **additional resources** (financial and technical) to address their financial challenges - these dollars should come earlier, but with “strings attached” to avoid recurring problems

3. There must be an **educational component**, not merely a financial solution
CRC publications are available at:

[www.crcmich.org](http://www.crcmich.org)

Follow Us on Twitter: @crcmich

Become a Fan on Facebook:


Providing Independent, Nonpartisan Public Policy Research Since 1916