

# Results of Statewide Survey on Budget Reductions to Michigan Schools

## Summary

In November 2003, the Michigan School Business Officials, in cooperation with a host of other education associations, conducted a survey to investigate the impact of the state's budget crisis on schools. The survey covered actions taken by school districts over the past year of financial downturn, asked what schools expect to do if recently announced budget cuts of \$200 per pupil occur, and their plans for the 2004-05 school year if the state's budget problems continue. Based on survey results, schools across Michigan have initiated and will continue to implement significant cutbacks in programs that affect students, employees and communities until something is done to stabilize revenues and address the structural deficit that currently exists in the state's budget.

Although the Governor and Legislature are working on ways to soften the impact of the recently announced revenue shortfalls for 2003-04, MSBO's survey clearly demonstrates the ongoing problems with Michigan's school finance system. For the 2003-04 school year, the state froze schools' per-pupil funding for a second year in a row at \$6,700 per pupil; however, with the state announcing that revenues for funding schools are now \$350 million less than expected, schools were told to prepare to lose \$200 per pupil. The potential cuts come in the middle of the fiscal year for schools, increasing the impact and severity of the cuts and complicating solutions.

Based on the input of school business managers from 339 school districts serving more than 900,000 of Michigan's 1.7 million public school students, the MSBO survey shows that kids in Michigan classrooms stand to lose if something isn't done to address the budget crisis. There are other impacts as well, Michigan public schools often serve as one of the major employers in communities across the state and the impact of growing unemployment rosters coupled with delayed construction projects and decreased sales of computers and other school supplies could add to the burdens to businesses struggling in the face of Michigan's economic slowdown.

Even if the cuts are ultimately less than \$200 per pupil this year, the survey reveals that school districts across Michigan will still need to make deep cuts to programs that have a direct impact on kids in the classroom unless measures are taken to deal with the state's structural deficit.

Based on the survey, schools are approaching recent budget problems in a variety of ways. Most schools, 58%, have already laid off some employees

because of financial issues. If the funding holds even for next year and pending cuts are not replaced, 91% of school districts indicate they will layoff staff and/or not replace employees who leave. Many schools reported using “rainy day” funds to get through last year and the anticipated cuts for the current year.

Schools report doing as much as possible to avoid directly impacting students such as putting off needed repairs to buildings, not replacing aging buses, laying off non-instructional staff, eliminating funds for professional development to name a few. However, the “easy” cuts (if there is such a thing) have been made. The trend over the period covered by the survey is that with each reduction in funds from the state comes more and more impact directly on students.

For 2004-05, if funding to schools remains unchanged, schools expect to make more cuts that will have direct impact on students: 82% of districts expect to increase class size, 74% will reduce or eliminate specific educational programs, 70% will delay or reduce the purchase of textbooks, 51% will increase student fees for non-curricular activities, 46% will reduce transportation and 29% will reduce their school calendar. The budget crisis is coming to the classroom.

## Survey Results

School business managers reported the following steps that have either been taken, or are planned for dealing with the declining budgets. *(Figures below are based on 339 responses to the survey but are converted to reflect the impact on all 524 K-12 school districts in the state.)*

From January 2003 through November 2003 in response to revenue reductions made BEFORE recent announcements of potential additional cuts in funding, school districts took the following actions:

- 303(58%) laid off employees
- 366 (70%) did not fill open positions
- 188 (36%) eliminated existing educational programs or services
- 288 (55%) had larger class sizes
- 147 (28%) froze salaries and benefits for some employees
- 277(53%) reduced or eliminated field trips
- 115 (22%) reduced transportation services
- 246 (47%) deferred maintenance on existing facilities

If a reduction of \$200 per pupil is implemented this school year, school districts expect to take the following additional actions:

- 57 (11%) will reduce the length of their school year
- 303 (58%) will layoff employees or not replace those who quit
- 246 (42%) will put off renovations and/or maintenance to facilities totaling approximately \$40 million

- 256 (49%) will delay or reduce the purchase of textbooks
- 105 (20%) will reduce transportation affecting around 19,000 students
- 188 (36%) will cut educational programs special reading programs, honors classes, remedial programs, and extra-curricular activities
- 105 (20%) will increase student fees for non-curricular activities

If anticipated cuts from 2003-04 are not replaced, but there are no further cuts for 2004-05, districts report they expect to take the following actions in the 2004-05 school year:

- 477 (91%) will institute layoffs or not replace employees who quit
- 430 (82%) will increase class size
- 241 (46%) will reduce transportation services to students
- 267 (51%) will increase student fees for non-curricular activities
- 366 (70%) will delay or reduce the purchase of textbooks
- 388 (74%) will reduce educational programs
- 455 (87%) will reduce spending on supplies and services

A list of representative comments made by respondents to the survey is attached below to provide a more personal view of how cuts are affecting schools.

Although we are hopeful that the Governor and Legislature will find ways to soften the impact of recently announced revenue shortfalls for 2003-04, the survey clearly shows the ongoing effects of problems with Michigan's school finance system. Even if the cuts are ultimately less than \$200 per pupil this year, this survey reflects what will ultimately happen unless measures are taken to deal with the state's structural deficit.

### How did we get to this point?

A combination of factors over the past several years resulted in the problems we are now having. With the passage of Proposal A, the Michigan Legislature took responsibility for funding the state's schools. At that time the economy was healthy and state revenues were increasing. During those good times, the Legislature reduced taxes to Michigan businesses and citizens. The total impact of cuts enacted by the Legislature and signed by Governor Engler amount to approximately \$550 million a year in reductions in revenues that would have otherwise gone to fund Michigan schools, \$200 million more in cuts than the current shortfall for schools.

There is a looming financial crisis that has been affecting Michigan schools for the past year, and we can see the handwriting on the school-house wall for the future. We need Lansing's help to face both the short and long term issues.

*The Michigan School Business Officials (MSBO) is a voluntary association of school employees involved with the non-curricular operation of schools. MSBO has 1,850 members employed schools in capacities related to managing accounting, finance, payroll, purchasing, transportation, technology, food services and facilities. MSBO also has approximately 550 associate members who represent private-sector businesses which provide products and services to Michigan's school districts.*

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Comments from survey respondents when asked, "...other ways your district may address budget reductions."

"We spent most of our fund equity to get through last year. A \$200 per pupil reduction this year will be devastating."

"We are leaving no stone unturned in efforts to keep all programs for children. We made reductions last year to offset executive order cuts. With such a great percentage of our expenditures in salaries and benefits and the fact we have pared down so many other expenditures, we will soon have to focus on staff reductions which are bound to have an effect on student programming. We have deferred many capital purchases, mostly in the area of technology and replacement of school buses. You can only defer these things for so long."

"Our budgets are 90% people. We really only have toilet paper left to cut."

"We laid off three custodians last Friday, secretaries will be working less hours, our elementary class sizes have increased because we have not replaced four retiring teachers in the last three years. We eliminated one bus run and have begun eliminating lower level sports such as freshman basketball and volleyball."

"Expenses already exceed our revenue for 2005 by \$2 million, it looks like another \$400,000 is coming plus a loss of 60 more students. Kalkaska here we come!"

"We have made NUMEROUS cuts (both staff and non-staff cuts) last spring, planning for this year....I think we will have a balanced budget this year. But with a small fund balance, we have big trouble next year."

"We'll look at everything, cut from all areas...salaries and benefits will eat us alive with cuts in the next 1-3 years...we will be broke."

"The cuts are going to be devastating."

## Background and Facts about Funding Michigan's Schools and State Revenues

For the 2002-03 school year schools received no increase from the State in their Foundation Allowance, the main method of funding. In January 2003 because of revenue shortfalls, the Governor announced cuts of \$127 million, the impact of that cut varied across schools, averaging nearly \$70 per pupil impacting some categorical programs and the Foundation Allowance. Then, in July 2003, an additional \$110 million was cut from categorical programs to help balance the budget, virtually eliminating adult education, career education, and math/science centers, affecting thousands of students.

For 2003-04 the Foundation Allowance was frozen for a second year at \$6,700 per pupil. It now appears the State has a revenue shortfall affecting schools of \$350 million this year or about \$200 per pupil. The potential cuts come in the middle of school fiscal years, increasing the impact and complicating solutions.

Unless the Governor and Legislature address the structural deficit in the State's budget, next year, 2004-05, is likely to also be very difficult based on revenue projections from State agencies and outside economists. According to the Citizens Research Council of Michigan and an MSU study of Michigan's school finance system, there will need to be at least a 4 percent increase in State revenues just in order stay even with current funding levels. That would not allow for any increases and would be the third year in a row of no increase in the Foundation Allowance.

In order to fund schools at the current level, the Legislature will need to appropriate \$300 million from the General Fund in Fiscal Year 2004-05 to supplement general School Aid Fund revenues. With the state facing a \$1 billion structural deficit on a \$9 billion budget, it will be difficult to continue the level of funding provided in the past.

Even assuming the state is able to use General Fund dollars to continue supporting education funding, according to the Citizens Research Council it will take a 4% increase in state revenues for fiscal year 2004-05, in order alleviate the structural deficit and break even with current spending on schools. There would be no dollars available to increase any programs or the Foundation Allowance. Even in this "good case" scenario, Fiscal Year 2004-05 will continue to be a very difficult time for schools unless changes are made.

There are costs beyond the control of schools that will further exacerbate funding problems. The retirement rate for the Michigan Public School Retirement System (MPERS) was held down last year by using one-time revenues from a special retirement reserve. The rate is currently 12.99% of payroll and would have gone to 14.37% if the reserves had not been utilized. Once the reserves are

exhausted, the MSPERS rate must increase to be actuarially sound. Since retirement costs are rising and an additional year will have passed, the rate will probably go beyond the 14.37% of payroll. A typical district is 80% to 90% personnel costs; an increase in the MSPERS rate to 15%, especially in a year with little or no increase in the Foundation Allowance, will have a profound impact on school budgets.

According to a tax study conducted in 2002, since the passage of Proposal A the Michigan legislature cut a variety of taxes for individuals and businesses that have resulted in \$550 million a year less in revenues for school funding. This has moved Michigan from having a relatively high tax burden to the middle of the pack. In 1993 Michigan was ranked by the Tax Foundation as having the 13<sup>th</sup> highest tax burden in the country; in 2003 Michigan's rank is 29<sup>th</sup>.