



October 19, 2015

State Superintendent Brian J. Whiston
Michigan Department of Education
608 W. Allegan Street
P.O. Box 30008
Lansing, MI 48909

Dear Superintendent Whiston:

It is my pleasure to contact you regarding your goal to make Michigan a Top Ten Education State in the Next Ten Years! I know you have received many suggestions and recommendations from various stakeholder groups throughout the state, including MSBO. We are very supportive of your effort and would like to continue to offer our support where and when needed.

Recently, MSBO hosted a professional development opportunity for our members titled "*Group Solutions – Current Events.*" This is a special workshop for us as the "think tank" format is unlike our traditional presentation-style offering. Moderators guide the flow of the conversation, but it's the participants that provide the content and discussion. We had two intense half-day sessions, which dealt with many current topics including the use of data analysis for school districts, a roundtable discussion on the future of Michigan schools based on the reports of Public Sector Consultants and the Upjohn Research Institute, general funding issues, and a session that the intended outcome would be to identify areas to recommend to the State Superintendent of Schools that would help Michigan become a Top Ten Education State in the Next Ten Years!

Below is a compilation of the work of 50 participants in the workshop. I have attached a list of the participants who attended our session and gave input to these recommendations. Although not exhaustive, we offer the following topics for your consideration. We understand that you may have limited authority over some of the areas identified and that the legislative process may be the proper venue. Nonetheless, we bring these areas of interest to your attention:

Property Taxes

The collection of property taxes, the state aid payment cycle and district cash flow borrowing are somewhat interrelated. Districts must gain voter approval through ballot initiative in order to levy their local operational millage. With approval, the district is allowed to levy taxes limited to a maximum of 18 mills on Non-Principal Residence Exempt property and 6 mills on certain commercial property for school operational purposes. The revenue from the millage represents the local portion of the districts foundation allowance revenue, and is collected over the months following the tax billing. July and December are the two designated months for the tax billing and districts are included at one of the two dates, some levying a portion in each. Districts receive tax payments directly from each of the local taxing authorities within the district's boundaries at various times in the months following the billing date. Strict internal control procedures must be in place at the district and municipality to assure that funds are received, recorded and reported to the various constituencies. The

process can be extremely complex depending on the specific tax situations within the district, and cash flow provided from local millage levies can be inconsistent from year to year. A district can change the date of tax billing from December to July; however local taxing authorities may charge seek reimbursement for costs of collection for the change. In addition to the complexity of the process, the 18 mill levy for operations is also subject to the Headlee Amendment, potentially limiting the maximum levy possible. This is a dollar for dollar loss of foundation allowance revenue.

The recommendation is to work with the legislature and state to move the 18-mill operational levy to a charter millage to be collected and forwarded directly to the state through the July tax billing. This would be similar to the process of the State Education Tax of 6 mills which is currently levied in July and paid directly to the state. This change would eliminate redundancy in tax reconciliation, the need for a local district election and ballot initiative costs, and provide for a more streamlined and cost effective tax collection process for the public.

State Aid Payments

The state is currently on an 11-payment cycle beginning in October and ending in August of each fiscal year. Those payments reflect the State portion of the foundation allowance obligation and other categorical state funds that are processed through the state aid payment system. Some districts are considered “out-of-formula” and receive the full foundation allowance through local funds and only receive categorical funding through the state aid process.

The payments are received on the 20th of the month and divided equally over the 11 payments. The nature of school operational expenditures tends to be weighted more to the beginning of the school year in September and October and lesser towards the end of the school year in May and June. Combined with a December tax revenue billing cycle, revenue to support the districts local share of foundation allowance is received six months after the fiscal year start, which tends to put many districts in a need for cash flow assistance.

The recommendation is to work with the legislature and state to move to a payment system that would create larger state aid payments the first several payments and smaller payments at the end of the year. Coupled with the above recommendation to move the 18-mill levy to July, the cash flow challenge of this change for the state could be minimized. This change would reduce the costs associated with borrowing and also provide resources to schools during greater times of needs.

Cash Flow Borrowing

Currently the Municipal Finance Authority offers a State Aid Note program through which districts can borrow funds based on their anticipated state aid payments. The program works well, but the recommendation is to allow for more flexibility in repayment of the notes from the current set-aside and payment at maturity options. It was also discussed that if the above recommendations of the 18-mill levy and the state aid payment cycle changes were implemented, the number of districts requiring cash flow assistance could potentially be smaller.

Weighted Foundation Allowance Calculation

With greater emphasis on more individualized service delivery to students at different levels of education, consideration should be given to study the impact of a weighted foundation allowance. The study should take into consideration student grade level, special needs, transportation requirements and other socio economic and poverty/need factors. Weighting factors would be assigned to the districts foundation allowance for each category of student as identified using the above criteria. Specific student needs would be the cost drivers that

would be funded through this weighted foundation allowance calculation. There are several states that have implemented a weighted funding formula. This change would allow for enhanced funding for students at critical times of development and for those with the greatest need.

Attracting and Retaining Quality Staff

Several factors have significantly changed the face of education in Michigan over the last few years. Michigan schools have certainly attempted to “do more with less” but in reality, the impact of stagnant wages, retirement reform and benefit changes have left the system with less than desirable recruiting attributes. Although areas of critical shortage are somewhat being addressed, we are finding that more and more districts are having trouble attracting the talent needed to maintain an elaborate financial and educational system. In many respects, it can be argued that we have raised expectations of accountability and professionalism, but at the same time diminished the work environment to a level of processing information rather than fostering an innovative, creative industry. In short, the current situation finds many districts in a position of not being able to attract quality and capable individuals to carry out the functional and operational demands of the business.

The recommendation is to add the position of Chief Financial Officer/Business Manager to the critical shortage list to allow for seasoned retirees to have the ability to return working in a school district without penalty to their retirement pension and benefits. This would allow for additional mentoring and hands-on training for those districts that find themselves unable to hire experienced business officials and needing day-to-day operational training, especially in situations when an interim position is filled while the search for a permanent replacement is underway. Although not a solution to the long-term issue, it would provide a short-term opportunity to offer a transition period that could lead to passing on critical institutional knowledge of the district. This is a training issue in some cases rather than a talent issue.

Long-term, the recommendation is for the department to work with the legislature to understand the impact the most recent reforms have had on the industry from a future talent pool perspective. The number of college students making public education career choices, business leaders perceptions of school business positions and the general public perception of the their districts level of staff competency/professionalism are all factors that should be taken into consideration. We always hear that we need to “attract the best and brightest,” but what has Michigan done to truly implement this for education? The answer is we’ve developed a more elaborate administrative heavy business model that includes more monitoring, cuts to employee benefits, reduced retirement plans, stagnant or regressive wages, and have given the public the perception that educating our youth is too expensive and less is better. In other words, we’ve done nothing to attract the best and brightest. These recommendations would better position districts to maintain business knowledge and operational consistency through times of transition and potentially offer insights on the potential effects of recent reforms on the next generation of public school employees.

Special Education Reform

In many districts and regions, special education delivery costs have far outpaced funding and the needs of the students continue to outpace the resources. With regional variations in levels of funding for special education due in part to property values and millage levies, equalization of funding for special education should be a priority. Section 56 Special Ed ISD Millage Equalization funding attempts to deal with this issue. The funding formula is generally adjusted to fit the appropriation, versus the appropriation set based on the formula. There has been discussion and legislative changes to this section in recent years, but the intent to equalize funding based on the formula falls far short of the reality.

The recommendation is to convene a workgroup to study Section 56 and propose changes to the formula and or calculation methodology to provide for the intent of this legislation. In addition, the recommendation would also be to further fund this section using any unspent special education allocations due to reduced expenditures as generally seen in the school aid fund final year end reconciliation.

Additional reforms in Michigan specific mandates that exceed federal special education requirements are also recommended. Providing special education school services through age 26 is an example of this issue. The recommendation is to phase out this mandate over an appropriate number of years, and develop other opportunities for individuals with disabilities in this age group who could be better served by other state agencies in more efficient and effective environment.

Overall Improvement of Educational Delivery System

Over the last few years we have seen significant events occur in school districts, ISD's and PSA's. We've had two districts dissolve, two ISD's consolidate, K-12's change to charters, cyber schools and an unlimited expansion of the charter schools. On one hand, districts have been given financial incentives to consolidate, collaborate and contract out services, and on the other hand, we've greatly expanded the number of small educational providers in the state, which leads to additional administrative overhead, reporting requirements and monitoring from the Departments of Education and Treasury. This being said, Michigan seems to be struggling with the overall delivery system model to employ. Less is best, or more is better?


The recommendation is to study the state by regions and determine the best delivery system for each region based on the geographic location, demographics and needs of the residents. This may lead to differing methods of delivery and funding including needs-based delivery, but could offer an overall improved educational system and "right size" the number of educational providers statewide. Data from current student data collections, financial information and other data analysis tools could be used to assist with the study.

As stated above, although not an exhaustive list, the issues above fairly represent the discussions that took place and the recommendations that were offered by the October 15-16, 2015 *MSBO Group Solutions – "Current Events"* participants. I qualify this with the statement that the issues identified should not be construed as the official position of the MSBO Board of Directors and leadership, but as the collective results of our discussions with the members present.

On behalf of the October 15-16, 2015 *MSBO Group Solutions – "Current Events,"* thank you for your consideration and we applaud your goal to make Michigan a Top Ten Educational State in Ten Years!

If you have any questions, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to be "RD", written on a light-colored rectangular background.

Robert K Dwan
Associate Executive Director