Michigan School Finance: Still at the Crossroads

David Arsen and Tanner Delpier
Michigan School Business Officials

Financial Strategies Meeting
East Lansing, Michigan
January 22, 2019
Total Education Revenue by Source, 1994–2015

Billions of 2017 Dollars

 Decline in per-pupil revenue 2002 to 2015

 Decline 2002 to 2015
## Change in Per-pupil Foundation Allowances for Select School Districts, 2003-2019

<table>
<thead>
<tr>
<th></th>
<th>Holland</th>
<th>Grand Rapids</th>
<th>Midland</th>
<th>Lansing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 Nominal Foundation</td>
<td>$6,838</td>
<td>$6,782</td>
<td>$8,122</td>
<td>$7,105</td>
</tr>
<tr>
<td>2019 Nominal Foundation</td>
<td>$7,871</td>
<td>$7,871</td>
<td>$8,531</td>
<td>$8,002</td>
</tr>
<tr>
<td>% Change 2003-2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal</td>
<td>15%</td>
<td>16%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>Real (CPI deflator)</td>
<td>-16%</td>
<td>-15%</td>
<td>-23%</td>
<td>-18%</td>
</tr>
<tr>
<td>Real (state &amp; local govt deflator)</td>
<td>-28%</td>
<td>-27%</td>
<td>-34%</td>
<td>-30%</td>
</tr>
</tbody>
</table>
http://education.msu.edu/faculty/arsen/gf-webmap/index.html
Inflation Adjusted Total K-12 Education Revenue as Percentage of 1995 Revenue, 50 States, 1995 - 2015
Michigan Average Teacher Salaries
Inflation-Adjusted, 2018 Dollars

$69,207  $67,833  $71,700
$64,993  $66,030  $62,125

State revenue is poorly matched to higher-need student costs
At-Risk Funding per At-Risk Pupil, 1994-2017

Decline 2001 to 2017

60%
Special Education in Michigan

- Local: ~60%
- State: ~30%
- Federal: ~10%

Under 1997 Durant settlement state pays
~28% of approved special education costs
~70% of special education transportation costs
Why Michigan’s Special Education Funding Is Inequitable

• Local districts cannot raise millage rates
• ISDs vary dramatically in their ability to pay: taxable value per pupil
• The state imposes different caps on ISD millage rates (based on their 1993 millage rate
• Varying shares of local and ISD students need special ed services

Genesee ISD
$144,302
per-pupil taxable value

Charlevoix-Emmet ISD
$600,000
per-pupil taxable value
Special Education Encroachment

Special education funding

General education funding

- Average of $500 per special education student
- $1,200 per pupil in some districts
Facility finance in Michigan is unfair to both students and taxpayers
Why School Facilities Matter

• Student achievement
• Preparation for high-tech jobs
• Student health & attendance
• Teacher turnover
• After-school learning, recreation, arts, and community engagement
School Capital Facilities in Michigan

- Funded entirely by local property taxes
- Michigan is one of 13 states that provides no state aid for school facilities
- Inadequate facilities in many districts
- Unequal opportunities for students
- Unequal burdens for taxpayers
Some Basic Features of Property Tax
(Only Source of Tax Revenue Available to Local Districts)

- **Tax revenue** = Tax base x Tax rate

- **Tax base** is the assessed value of property
  - In Michigan, the “taxable value” of property is typically ~ 50% of market value

- **Tax rate** (called “millage rate” for property tax)
  - One mill = $1 of tax for each $1,000 of taxable value
## Capital Millage Costs of a New Elementary School in Selected Michigan Districts

<table>
<thead>
<tr>
<th>District</th>
<th>County</th>
<th>Enrollment</th>
<th>Taxable value per pupil</th>
<th>Total taxable value</th>
<th>Millage rate Needed</th>
<th>Tax on a $200,000 property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrolton</td>
<td>Saginaw</td>
<td>2,306</td>
<td>$31,252</td>
<td>$72,100,000</td>
<td>22.27</td>
<td>$2,226</td>
</tr>
<tr>
<td>Imlay</td>
<td>Lapeer</td>
<td>2,078</td>
<td>$162,668</td>
<td>$338,000,000</td>
<td>4.75</td>
<td>$474</td>
</tr>
<tr>
<td>Escanaba</td>
<td>Delta</td>
<td>2,397</td>
<td>$212,140</td>
<td>$509,000,000</td>
<td>3.16</td>
<td>$315</td>
</tr>
<tr>
<td>Ludington</td>
<td>Mason</td>
<td>2,186</td>
<td>$499,551</td>
<td>$1,090,000,000</td>
<td>1.47</td>
<td>$147</td>
</tr>
</tbody>
</table>
Why Has Revenue Declined?

1. Fund transfers between the School Aid Fund and the General Fund
2. Decline in tax effort

• Decline in tax effort is the more fundamental problem
• Transfers from SAF to GF is a symptom of tax effort decline
Real General Fund and School Aid Fund Revenues, 1995-2020

- General Fund
- School Aid Fund

Proposal A Enacted
Net Transfers from General Fund to the School Aid Fund, 1995 - 2017
Highest School Funding Ever!

Largest School Aid Budget In the History of the State

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2013</td>
<td>$12.9</td>
</tr>
<tr>
<td>FY 2014</td>
<td>$13.3</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$13.6</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$13.7</td>
</tr>
<tr>
<td>FY 2017</td>
<td>$14.1</td>
</tr>
<tr>
<td>FY 2018</td>
<td>$14.6</td>
</tr>
<tr>
<td>FY 2019</td>
<td>$14.8</td>
</tr>
</tbody>
</table>
School Aid Fund, Adjusted for Inflation and General Fund Transfers

Since 2003, the School Aid Fund has declined by $5.1 billion or 26%.

MPSERS and new liabilities made up $2.2 billion, about 15% of the School Aid Fund in 2020.

General Fund Contributions to the School Aid Fund have fallen by 95% since 1995, a decline of $1.23 billion annually.
State and Local Taxes as a Percent of Personal Income, U.S. and Michigan, 1972 - 2014
Education Tax-Effort, 1994 - 2015
School Finance Adequacy Studies

• Designed to inform policy solutions to school funding problems like those Michigan now confronts
• Link resources schools receive to outcomes expected by the state
• Embody both equity and efficiency
• Studies have been completed in over 30 states
How Much Does an Adequate Education Cost?

Studies must first define what constitutes an adequate education.

Cost estimates then follow a two-step procedure:
1. Estimate base cost of education for a typical student (statewide)
2. Estimate variations in the basic cost due to local district and student characteristics
Michigan’s 2018 Adequacy Study

• Organized by the Michigan School Finance Research Collaborative
• Conducted by the two most experienced and nationally prominent consulting firms
• Researchers used both professional judgment and evidence-based methods
• First study to incorporate charter schools
• Drew on input of 300 Michigan representatives
Michigan School Finance Research Collaborative: Final Recommendations

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Cost</strong></td>
<td>$9,590</td>
</tr>
<tr>
<td><strong>Size Adjustment</strong></td>
<td>Adjusted by Formula</td>
</tr>
<tr>
<td><strong>Poverty Weight</strong></td>
<td>0.35</td>
</tr>
<tr>
<td><strong>ELL</strong></td>
<td></td>
</tr>
<tr>
<td><strong>WIDA 1-2</strong></td>
<td>0.70</td>
</tr>
<tr>
<td><strong>WIDA 3-4</strong></td>
<td>0.50</td>
</tr>
<tr>
<td><strong>WIDA 5-6/FELS</strong></td>
<td>0.35</td>
</tr>
<tr>
<td><strong>Special Education</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Mild</strong></td>
<td>0.70</td>
</tr>
<tr>
<td><strong>Moderate</strong></td>
<td>1.15</td>
</tr>
<tr>
<td><strong>Severe</strong></td>
<td>State Reimbursement</td>
</tr>
<tr>
<td><strong>CTE</strong></td>
<td>Base cost plus 10% per CTE enrolled student</td>
</tr>
<tr>
<td><strong>Preschool</strong></td>
<td>14,155</td>
</tr>
<tr>
<td><strong>Isolation</strong></td>
<td>0.04</td>
</tr>
</tbody>
</table>
Copyright © 2019 Board of Trustees of Michigan State University

Possible Revenue
Revenue if Michigan maintained constant 2009 level tax effort

Adequate Revenue
Revenue necessary to meet the adequacy study’s recommendations

Governor’s Proposal

Actual Revenue
The actual revenue generated for education from 2000 to 2020
Looking Ahead: How Should We Raise Revenue?

1999 to 2016
- MI per-capita income 13% larger
- MI median income 9% smaller

Income inequality has increased

High-income households should take the lead in restoring tax revenues

- Michigan’s 4.25% flat income tax rate is:
  - Among the 10 highest tax states for low-income households
  - Among the 5 lowest tax states for high-income households
Academic Research Clearly Shows that Increased Funding Improves Student Outcomes

MICHIGAN SCHOOL FINANCE AT THE CROSSROADS:
A QUARTER CENTURY OF STATE CONTROL

Michigan State University
Education Policy Report
January 2019

David Arsen,
Tanner Delpier,
and Jesse Nagel


Copyright © 2019 Board of Trustees of Michigan State University