

# Public Education Funding in Michigan

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Citizens Research Council of Michigan

# Presentation Outline

- School Funding Basics
  - Where does the money come from to fund schools?
- Financing School Operations
  - How does it get distributed to schools?
- Current Issues
  - Is Michigan's school funding system working?

# Public School Funding Basics

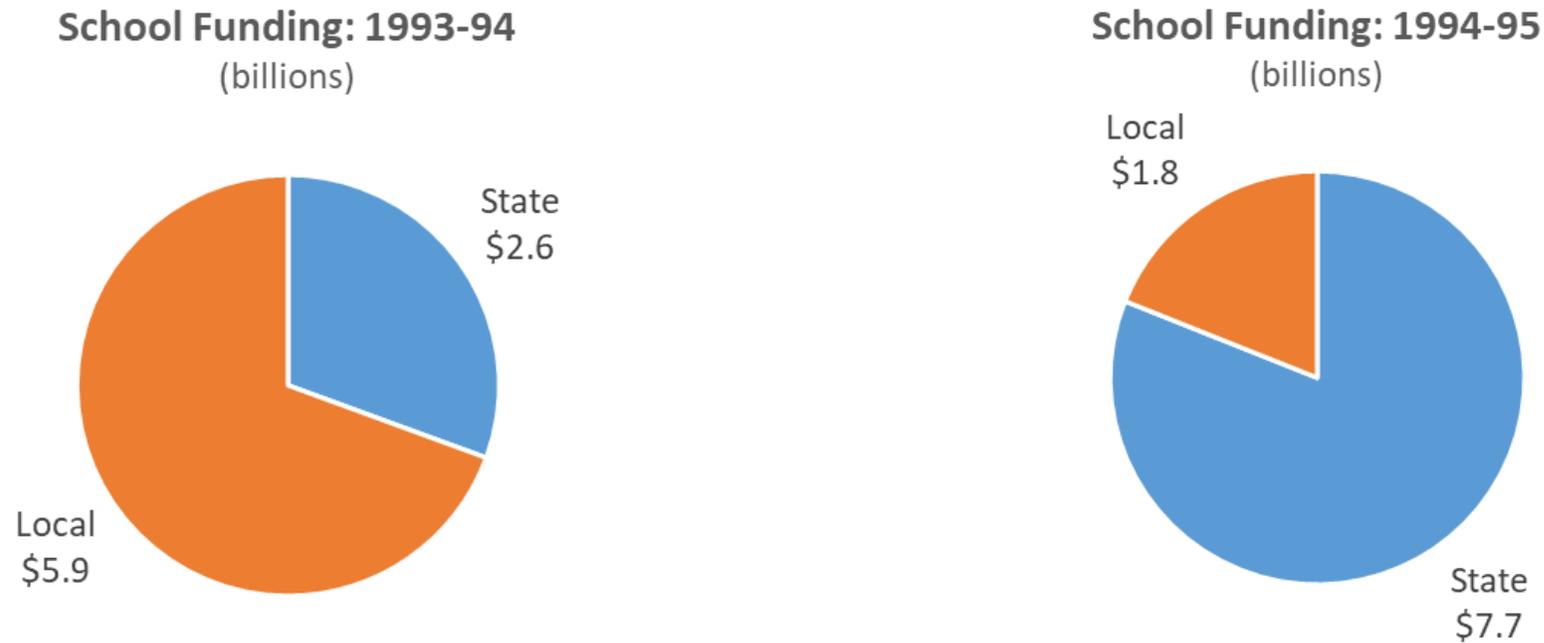
# Michigan's School Funding System

*Put in place in 1994 by vote of people*

- March 1994 constitutional amendment – Proposal A
- Key objectives of school finance reform
  - Substantially reduce property tax burden in Michigan (local school operating property taxes)
  - Increase role of state taxes to finance public education
  - Create the foundation allowance (per-pupil grant) as primary mechanism to distribute state funding
  - Reduce the per-pupil funding disparities across

# Before Proposal A – Schools Funded by Local Communities

## After Proposal A – State Controls School Funding

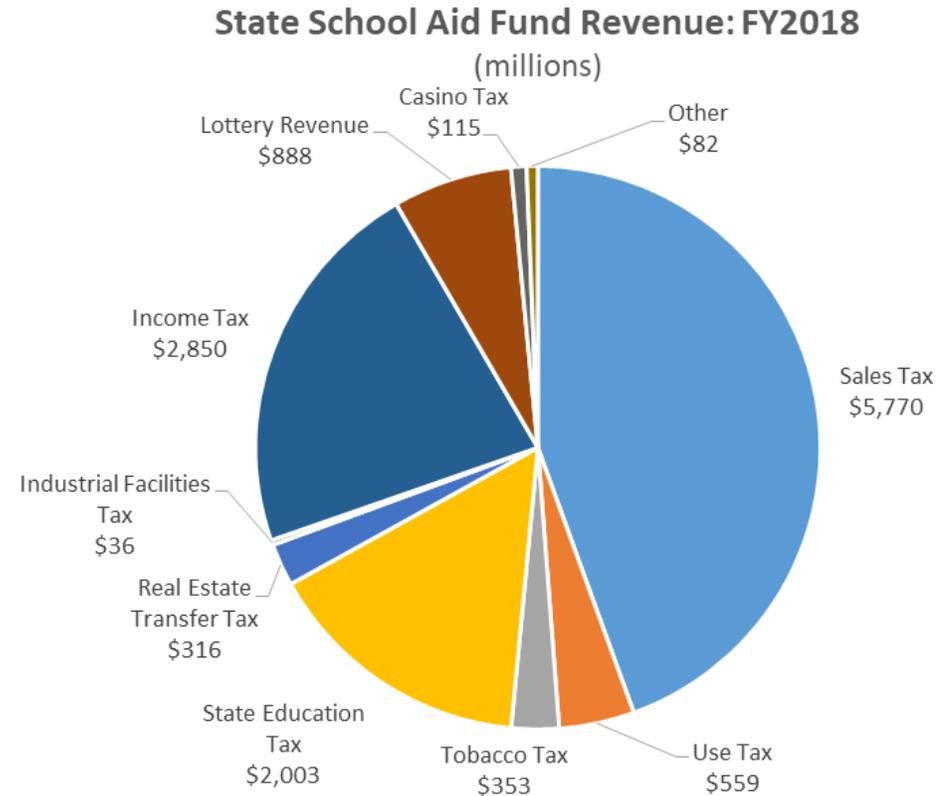


*Proposal A Inverted the Local/State Funding Relationship*

# Where Does the Money Come from to Fund Schools?

# State School Aid Fund

*Where the state money comes from*



*Total: \$13.0 Billion*

**Notes:**

- 75% of Sales Tax constitutionally dedicated
- 33% of Use Tax constitutionally dedicated

# School District Operations

How the Money gets Distributed

# Foundation Allowance

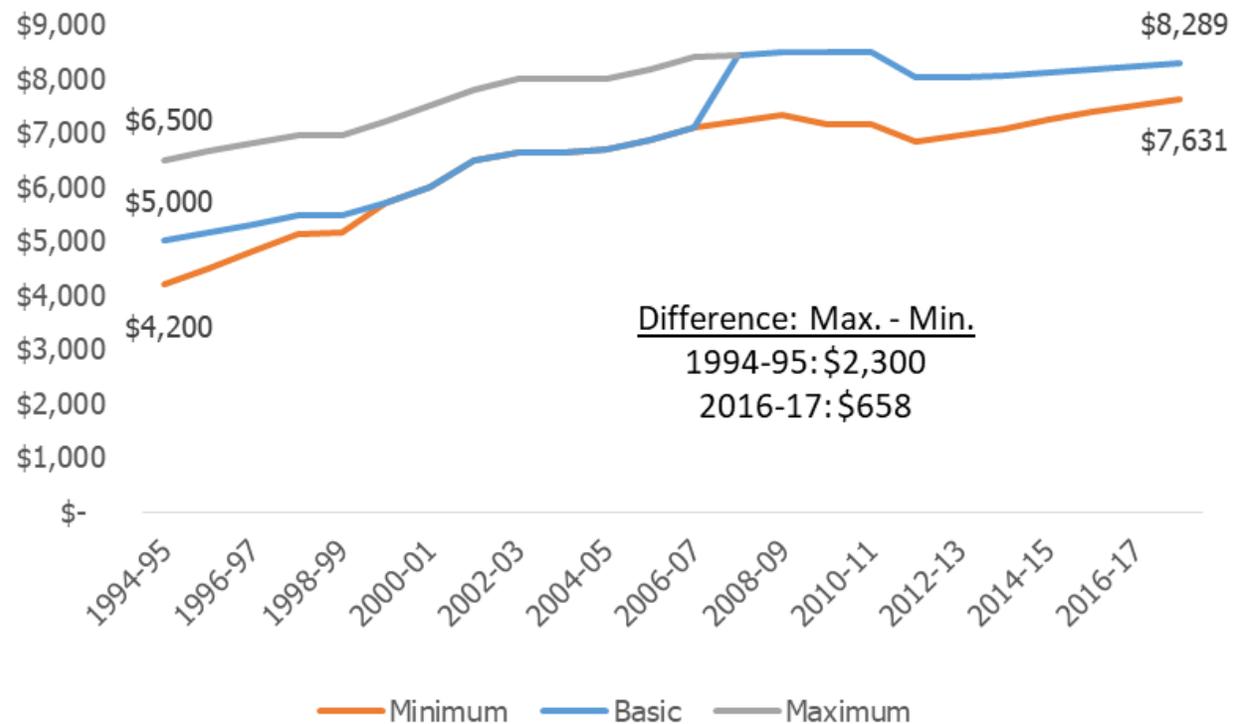
*Michigan's primary mechanism to fund schools*

- Per-pupil foundation allowance created under Proposal A
  - District-specific amount
  - 1994-95 amount based on state and local funds received in previous year
- Effectively, three “benchmark” amounts
  - Minimum, basic, and maximum
- Annual adjustments to districts' foundation allowances made in state budget

# History of Foundation Adjustments

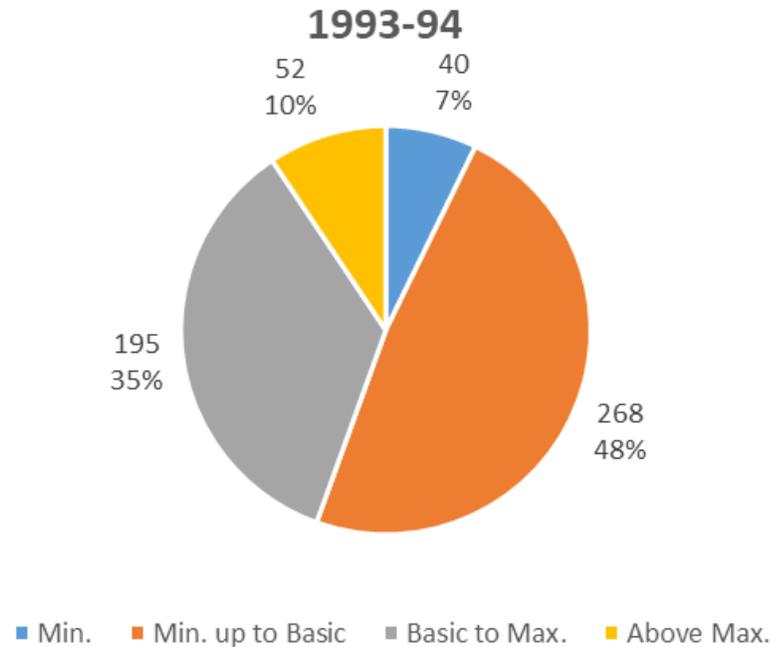
*Reducing the gap between minimum and maximum*

**Min., Basic, and Max. Foundation Grants**

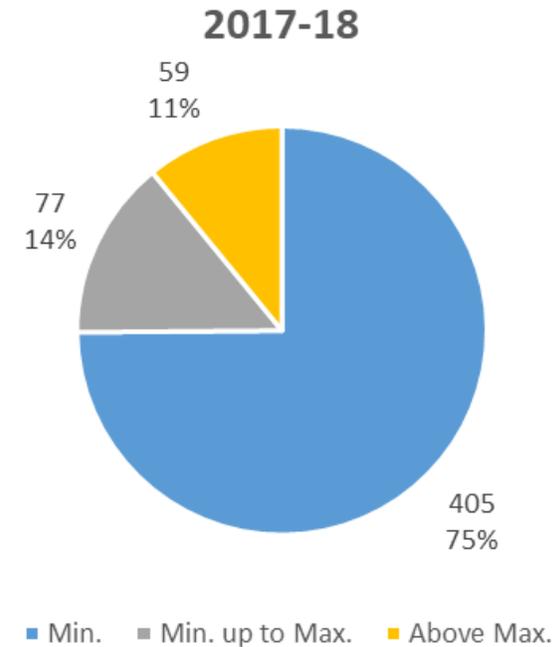


# School Districts by Foundation Amount

*Greater parity in per-pupil funding*



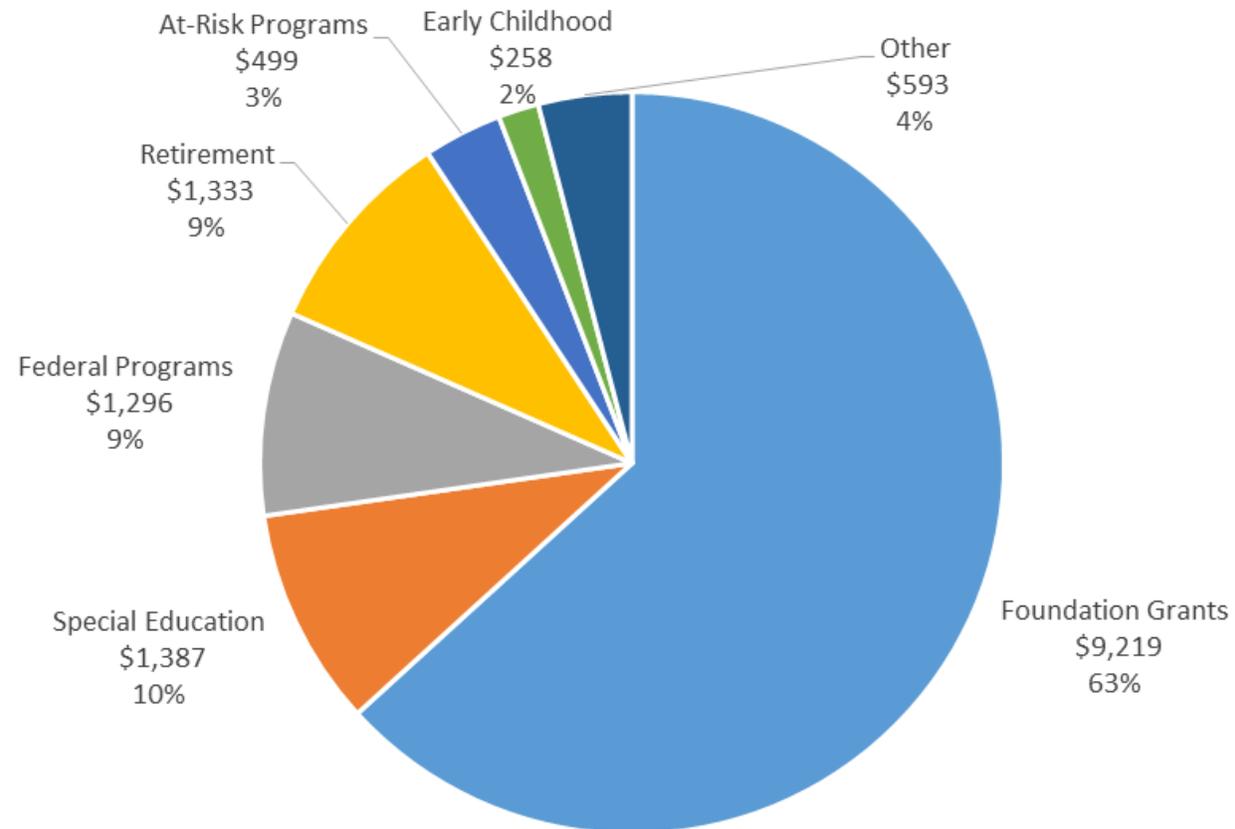
*Min. = \$4,200*  
*Basic = \$5,000*  
*Max. = \$6,500*



*Min. = \$7,631*  
*Max. = \$8,289*

# State School Aid Budget Program Allocation

*Two-thirds of total supports general operations*



\* Amounts in millions

Total - \$14.6 billion

# Current Issues

# Is Michigan's School Funding System no longer working?

- Michigan has dropped in school funding compared to other States in the U.S.
- Enrollment decline combined with policy changes that increased the number of schools (i.e. charter schools) created significant budget pressures
- Retirement Costs have taken a larger portion of school revenues
- Special Education Funding has put extra pressure on General Education programs as funding has declined
- School Aid funds diverted to higher education
- Inequities in School Infrastructure Funding exists

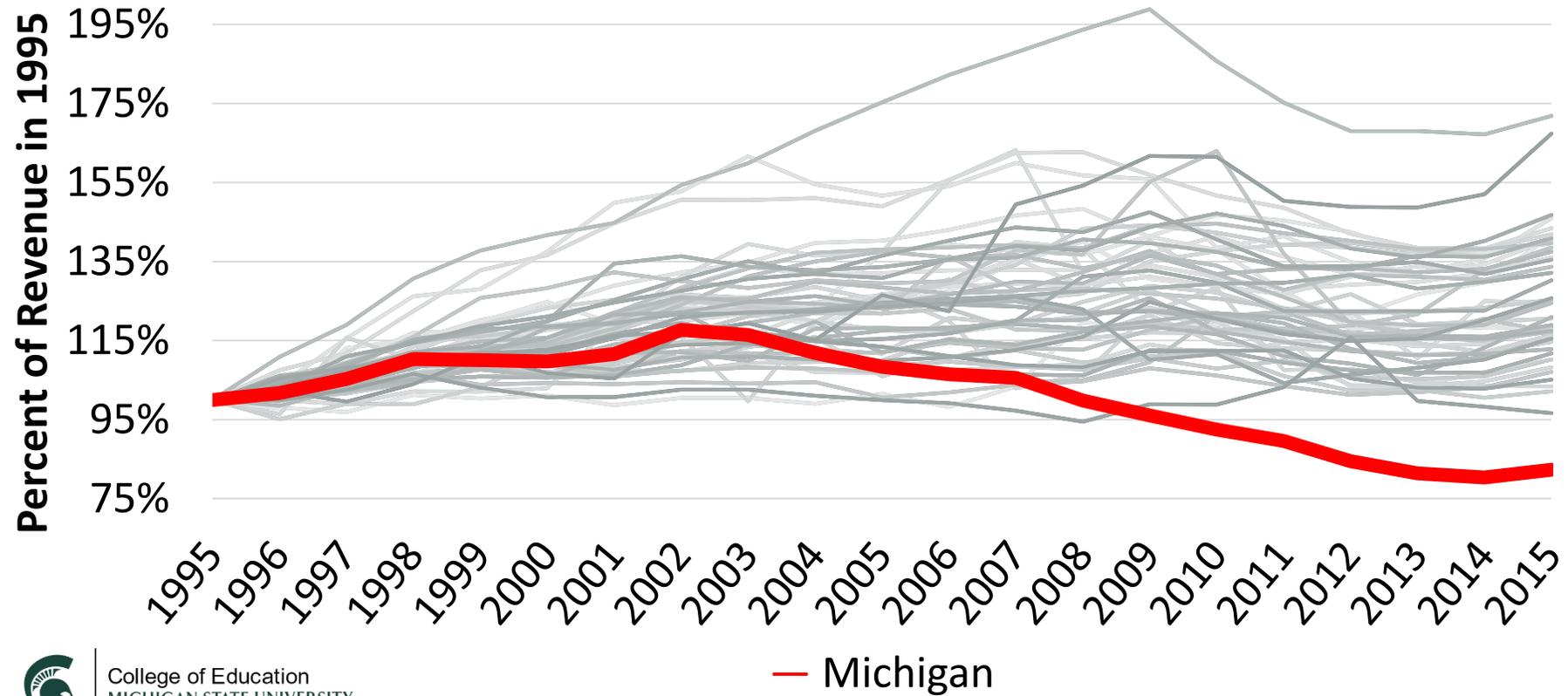
Result: A gradual reduction in Programs and Services and Student Performance in local schools (higher class sizes, fewer support services, less supplies, textbooks, materials, fewer offerings)

# Inflation Adjusted

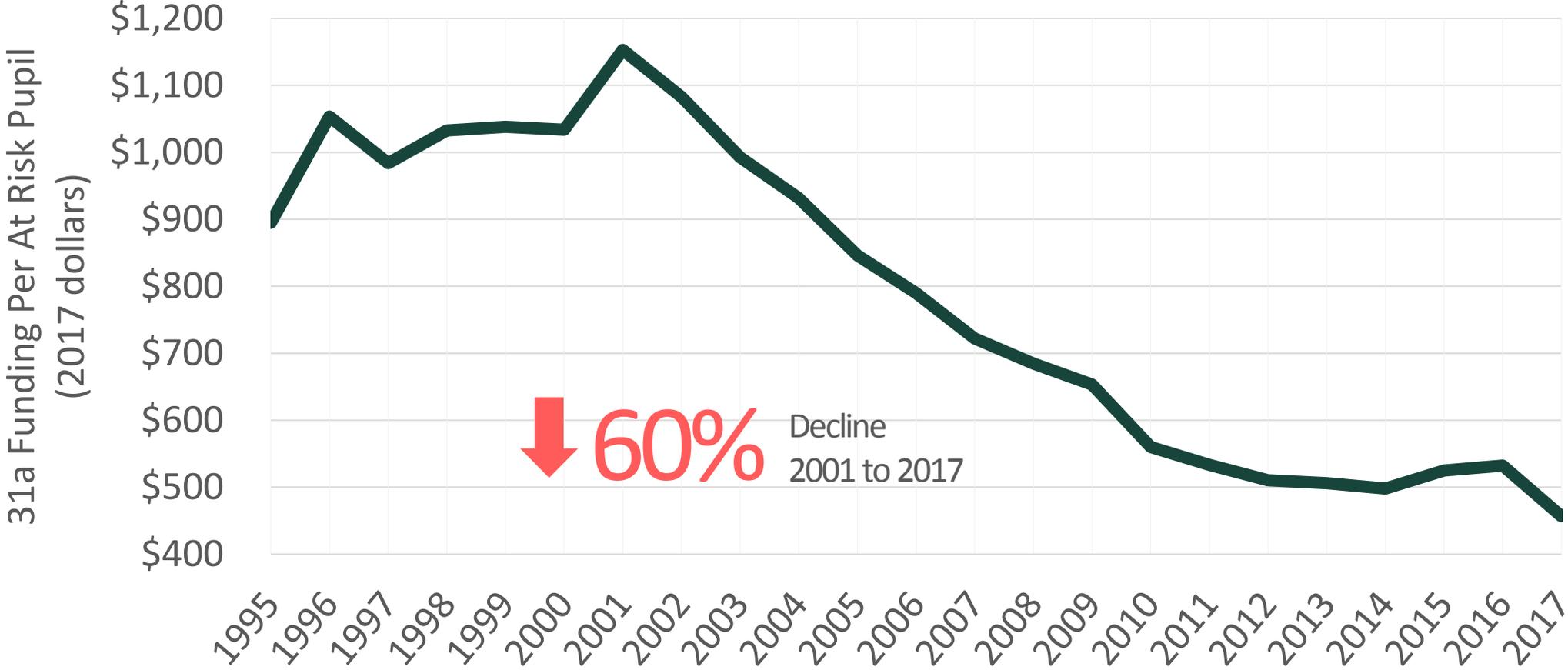
## Spending Since 2000

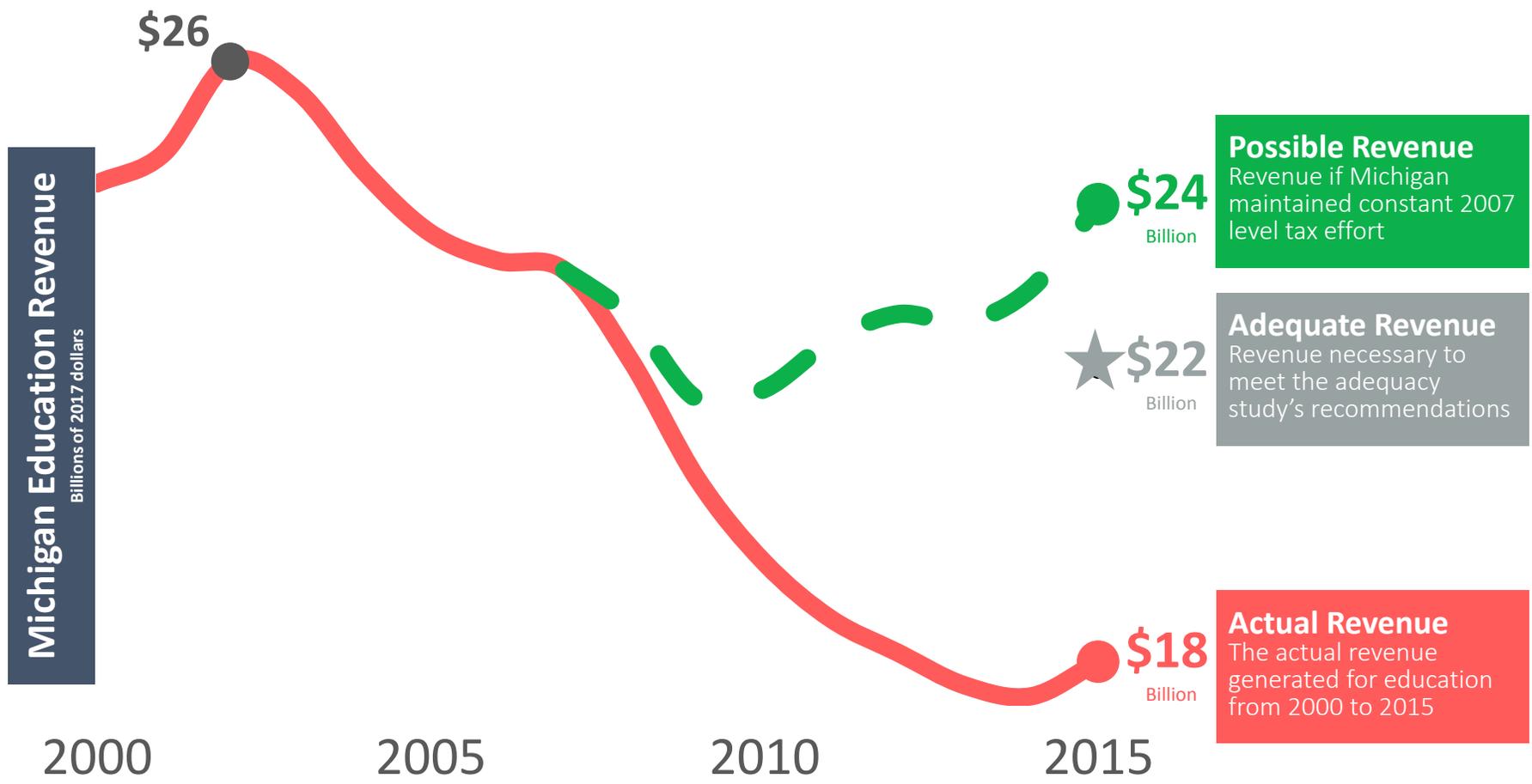
- U.S. Average \$1,400 increase per student
- Michigan \$663 decrease per student

# Inflation Adjusted Total K-12 Education Revenue as Percentage of 1995 Revenue, 50 States, 1995 - 2015



# At-Risk Funding per At-Risk Pupil, 1994-2017





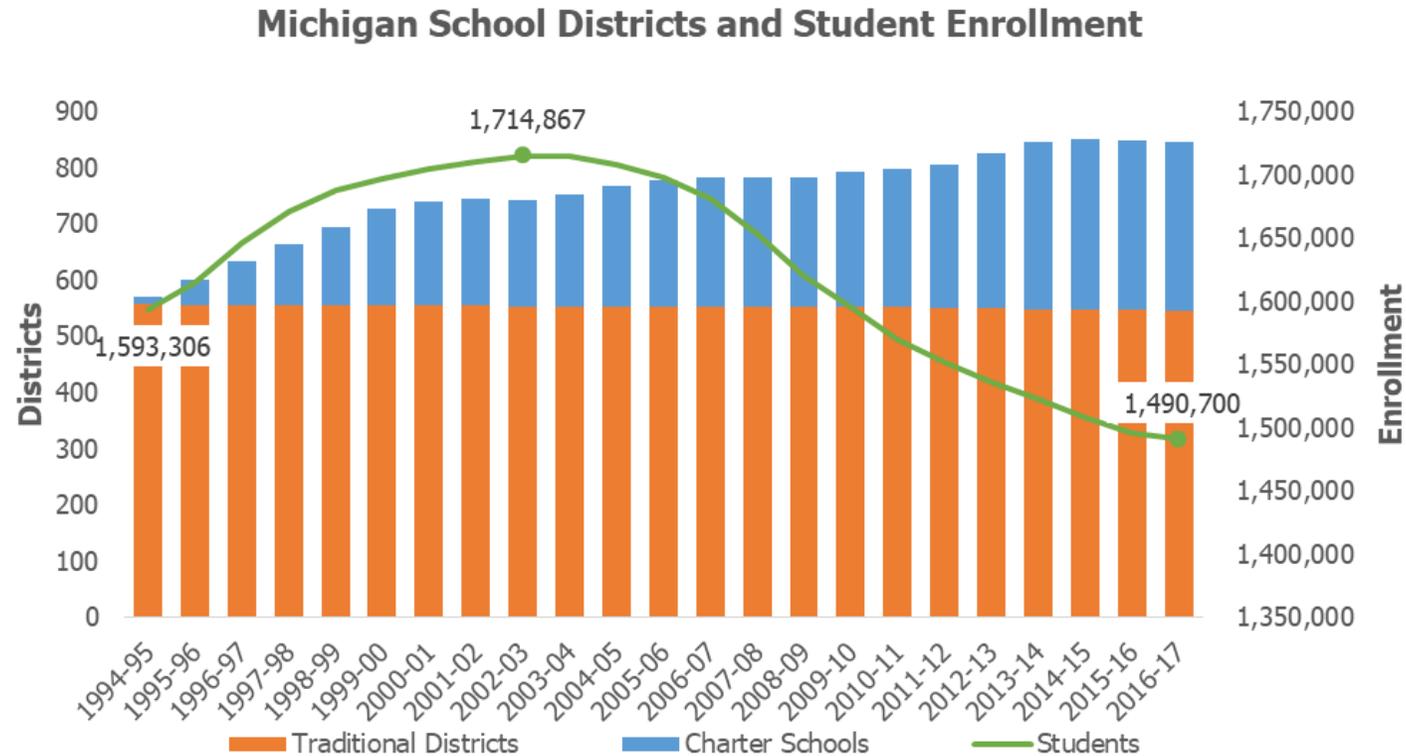
# Effects of Declining Enrollment

## *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
  - Mix of fixed and variable costs in K-12 education setting

# Student Enrollment

*Era of declining student enrollment since 2002-03*

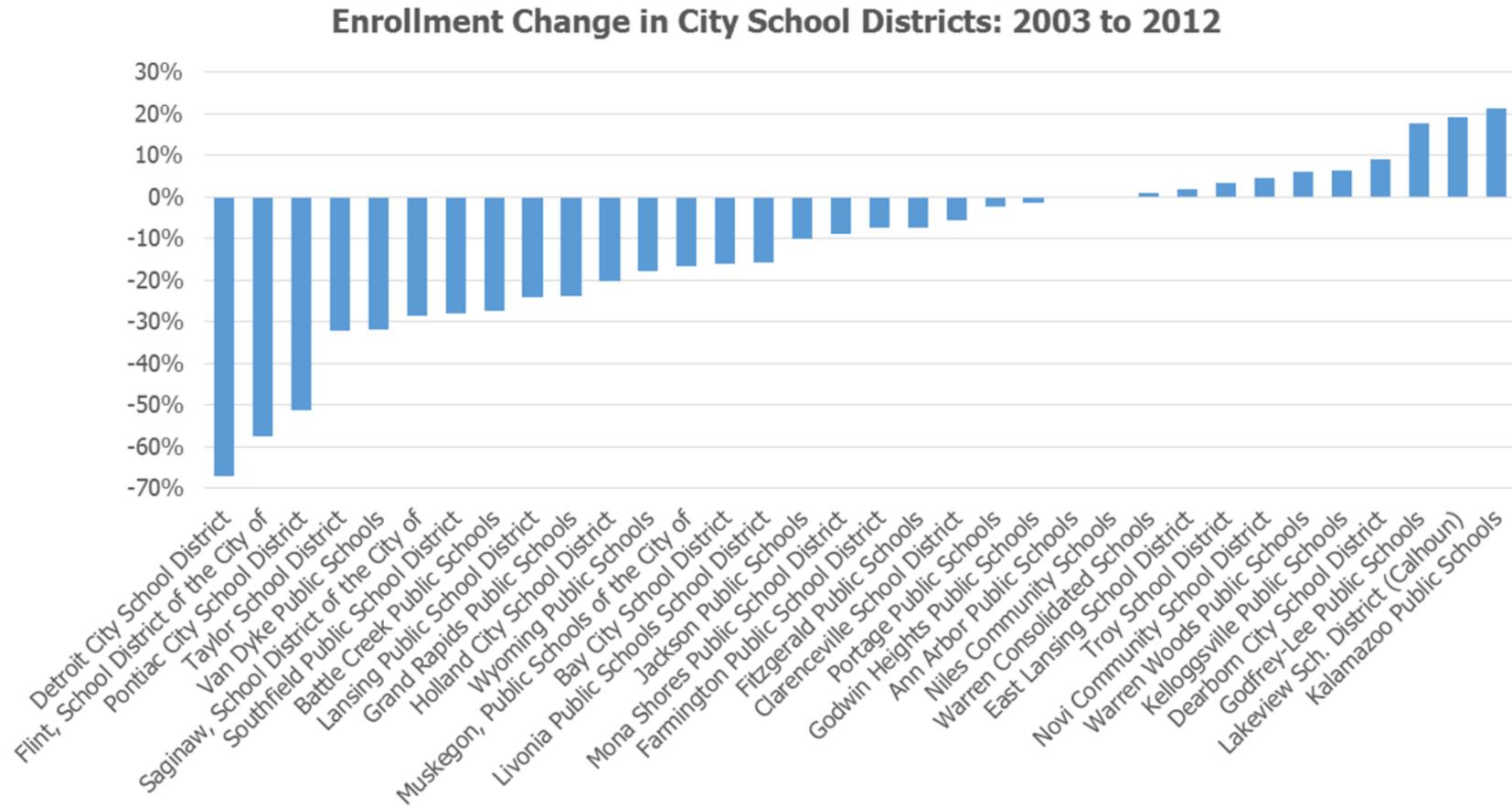


Source: Michigan Department of Education

Note: Excludes Intermediate School Districts (56); 2016-17 projected

# Districts Across State Affected

## *Massive enrollment losses in urban districts*



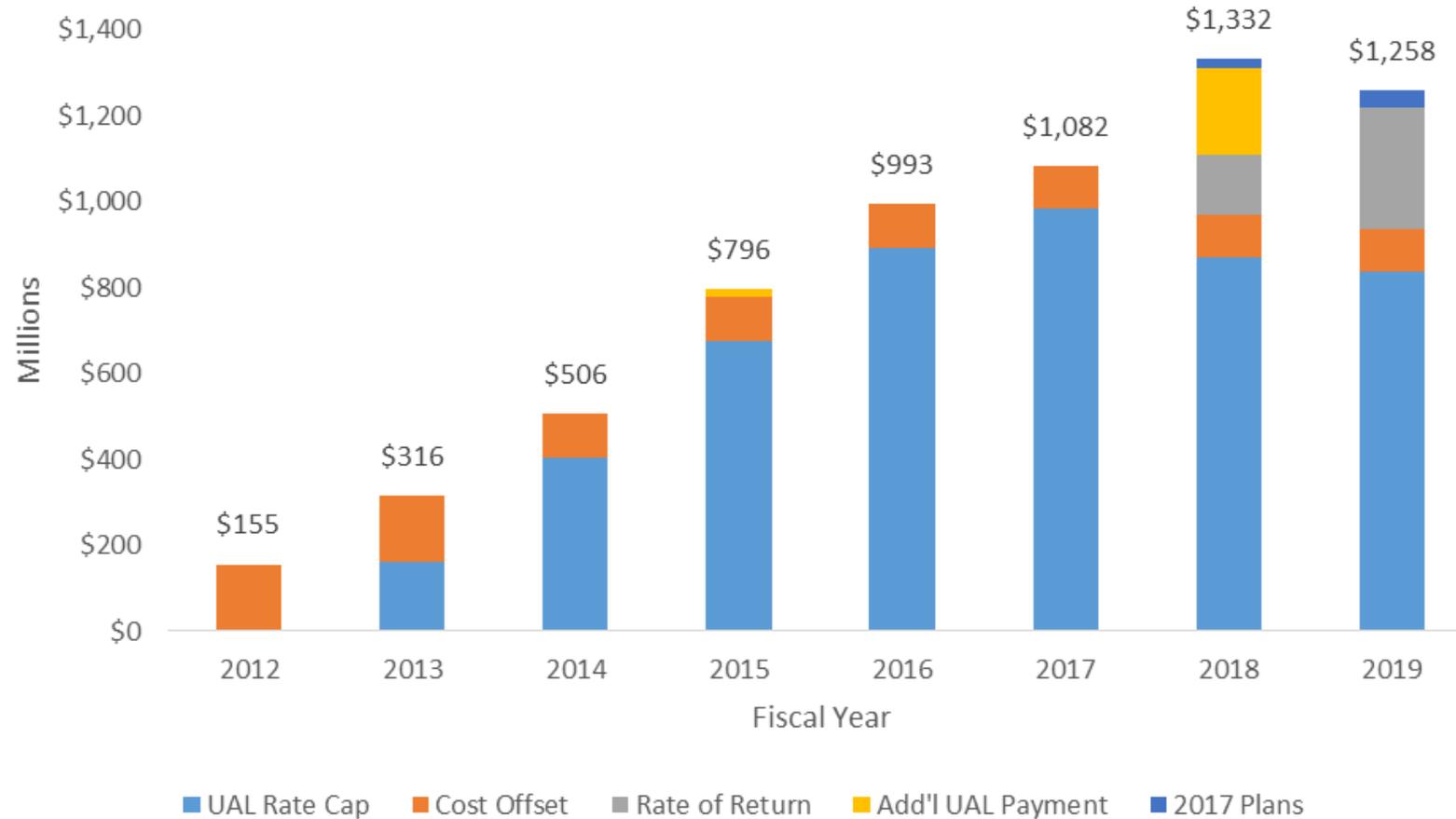
# Retirement Cost Growth

## *Crowds out other spending*

- Primarily a problem for traditional public schools, most charters not members of system
- Funding for legacy costs – “catch up” funding
- Increases in state funding have been eroded by growing retirement contributions
  - Employer costs have stabilized because of various system reforms
  - State picking up portion of the cost (\$1.3B in FY2018) – these funds unavailable for other purposes
- Crowds out other school spending
- Results in flat per-pupil classroom funding

# State Appropriations to Teacher Retirement

*Total contribution up to \$1.3B in FY2019*



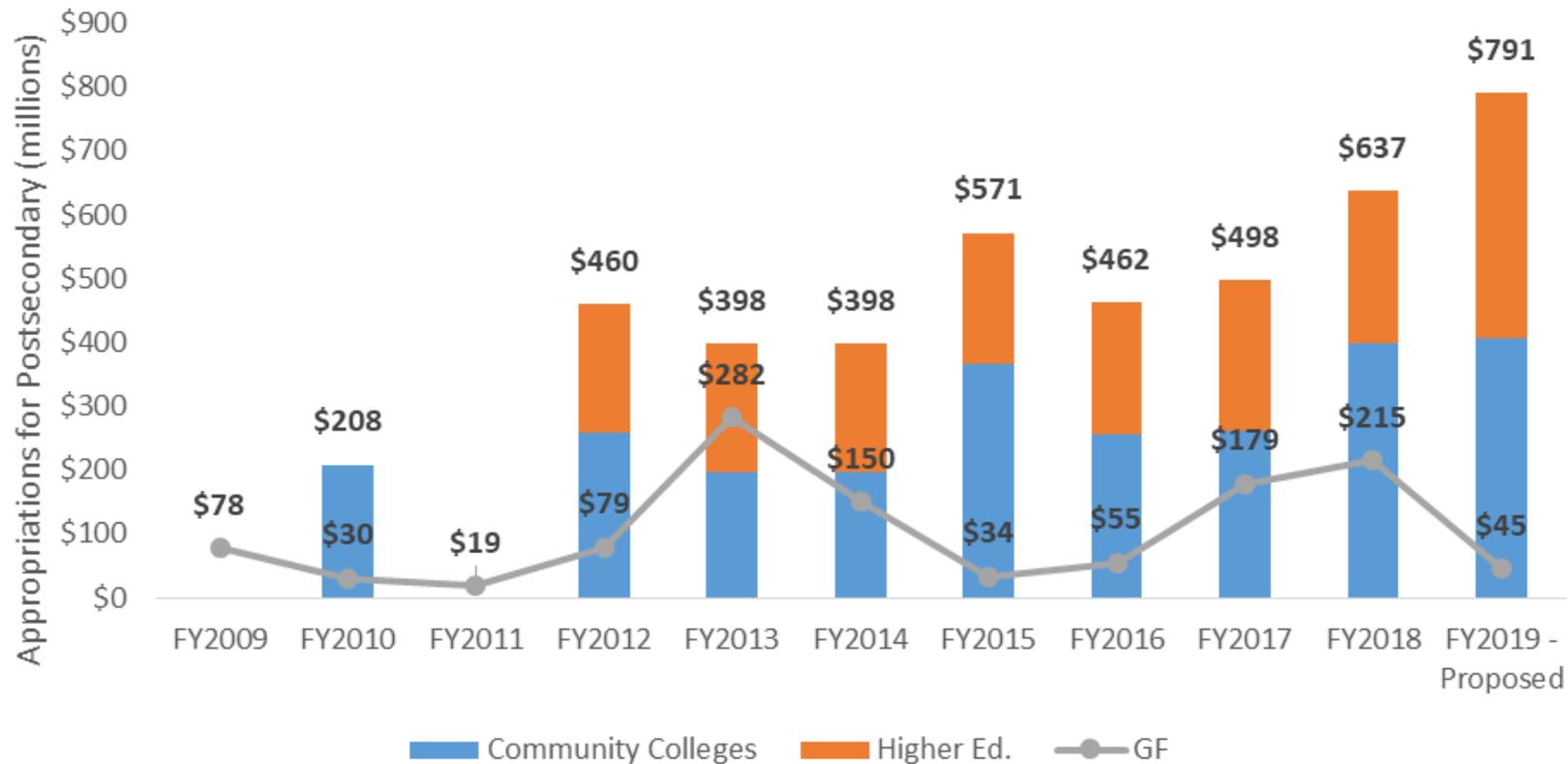
# Special Education Spending Gap Widening

*Proposal A did not address special education spending disparities*

- Since 2007, per-pupil spending gap increased
  - Special education costs not fully reimbursed, districts must use General Fund resources to finance costs (encroachment)

# GF/SAF Appropriation Interplay

SAF Appropriations for Postsecondary and  
GF Appropriations for K-12



# Financing School Infrastructure

## *The unfinished business of Proposal A*

- Significant per-pupil inequities exist in the financing of school construction and capital spending
- The division is along economic lines
  - Poorer communities (urban districts) – avg. capital stock equal to \$15,000 per pupil
  - Wealthier communities (high-income suburban districts) – avg. of \$25,000 per pupil
- Responsibility for capital spending remains at the local level
  - For wealthy districts – raise considerable revenue with little tax effort
  - For poor districts – raise very little revenue with very high tax rates
- State plays virtually no direct financial role

## Students with unmet needs fall **BEHIND**

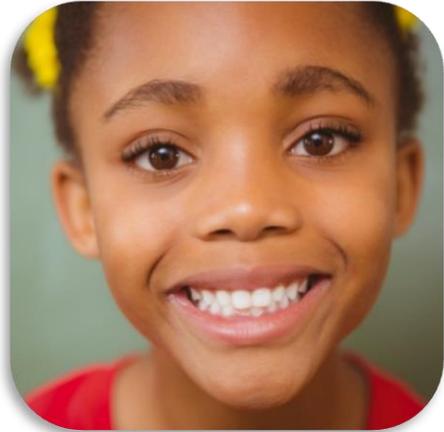
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- Economically Disadvantaged
- Students with Disabilities
- English Learners



# More than 1 in 5 Michigan children live in **POVERTY** – more than 444,000 children

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**42% of African American children**



**30% of Latino children**



**15% of white children**

## Wide **gaps** in **learning**

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- 3<sup>rd</sup> graders **at grade level in reading**
  - 30.3% of poor children, compared to 62.6% of children who aren't poor
- 8<sup>th</sup> graders **at grade level in math**
  - 17.3% of poor children, compared to 47.8% who aren't poor



Where Do We Go From Here?

# What Does it Cost to Educate a Student?

*Efforts to answer question is underway*

- What is a school funding “adequacy study”?
  - Resources needed to meet expected outcomes (usually set by the state)
  - Origins linked to standards-based reforms at state and federal level
  - Study goals: To determine 1) base cost (statewide) of educating a student, and 2) adjustments related to local cost variations (e.g., factors outside control of local schools)
  - Studies conducted in more than 35 states (some multiple studies)
- Michigan’s current school finance system not based on results from an adequacy study

# Key Questions to Answer in Adequacy Study

- What constitutes “adequate” education?
  - Meet minimal performance on state tests?
  - Prepare students for success in college/career?
  - Prepare students to be good citizens?
- What does it cost to provide an adequate education?
- Multiple methodologies used, including:
  - Professional judgement
  - Evidence-based
  - Successful schools
  - Costing out (econometric model)

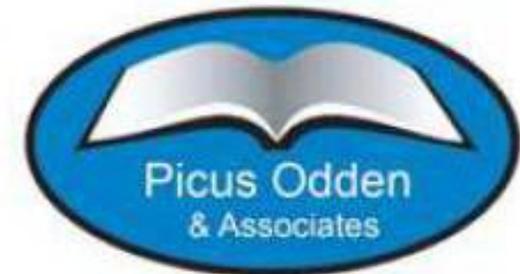
# Who We Are

The study was supported by the **School Finance Research Collaborative**, a statewide, diverse and bipartisan group of business leaders and education experts who agree: It's time to change how Michigan's schools are funded.



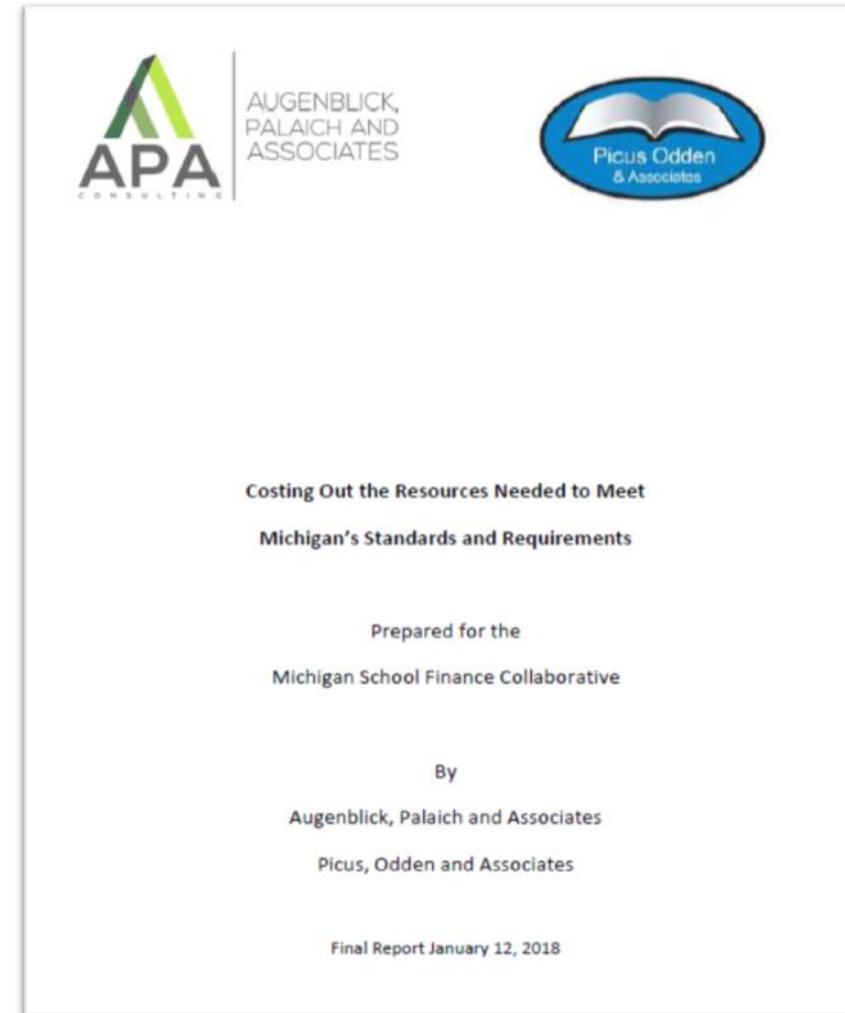
# About the Study

- ❑ Conducted in fall 2017 by the nation's top two school finance research firms based on Michigan Standards
- ❑ Used the Evidence Based (EB) and Professional Judgment (PJ) approaches
- ❑ Updated the Successful School Model



# Our Work

- ❑ The School Finance Research Collaborative completed Michigan's **first comprehensive school adequacy study** to determine the true cost of educating a student.
- ❑ The report included the nation's first in-depth examination of the cost of delivering services to **charter school students**.



# Final Recommendation

Final Recommended Per-Student Base Cost and Weights\*

Final Recommendation	
Base Cost	\$9,590
Size Adjustment	Adjusted by Formula
Poverty Weight	0.35
ELL	
WIDA 1-2	0.70
WIDA 3-4	0.50
WIDA 5-6/FELS	0.35
Special Education	
Mild	0.70
Moderate	1.15
Severe	State Reimbursement
CTE	Base cost plus 10% per CTE enrolled student
Preschool	14,155
Isolation	0.04

# RECAP

- Michigan's School Funding System is primarily State controlled
- Money comes from Sales Tax, Property Tax, Income Tax – Lottery is only 7% of the total
- This money goes to the State, and then is distributed by the State to local school districts
- Most funds are distributed to local schools based on an amount for each child – Foundation Allowance
- This amount is not equal between school districts – although it is getting closer
- Additional funds are provided to support students with additional needs, i.e. students with disabilities, vocational programs
- Funding in Michigan has not kept up with inflation or other states
- Other pressures on the system are reducing funds for local schools, such as retirement costs, enrollment decline, using the school aid budget for higher education and unfunded special education costs
- Michigan is currently looking at the way they fund schools through new research studies

# Questions