

Michigan School Finance at the Crossroads

Quarter Century of State Control
(including some updated analyses)

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School Aid and Michigan Department of Education Budget Subcommittee

May 20, 2021



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Michigan's School Funding System

Established with passage of Proposal A in 1994

Key objectives of Proposal A:

- Substantially reduce property taxes
- Reduce per-pupil funding disparities across districts

Proposal A largely accomplished these goals



Inequality in Local District Property Tax Revenue: Pre-Proposal A

District (county)	Taxable value per pupil	Millage rate (MI average in 1994)	Local property tax revenue per pupil
Northport (Leelanau)	2,846,237	34	96,772
Covert (Van Buren)	1,912,921	34	65,039
Bloomfield Hills (Oakland)	615,343	34	20,922
Harper Woods (Wayne)	57,418	34	1,952
Bendle (Genesee)	56,554	34	1,923
Godfrey-Lee (Kent)	52,923	34	1,799

Features of the Proposal A Funding System

- Created per-pupil foundation allowances as primary source of discretionary revenue for all districts and charter schools
- Since 1994, annual adjustments of foundation allowances have narrowed funding gaps between low- and high-revenue districts
- Nearly all operational revenue follows students when they switch to another district or charter school

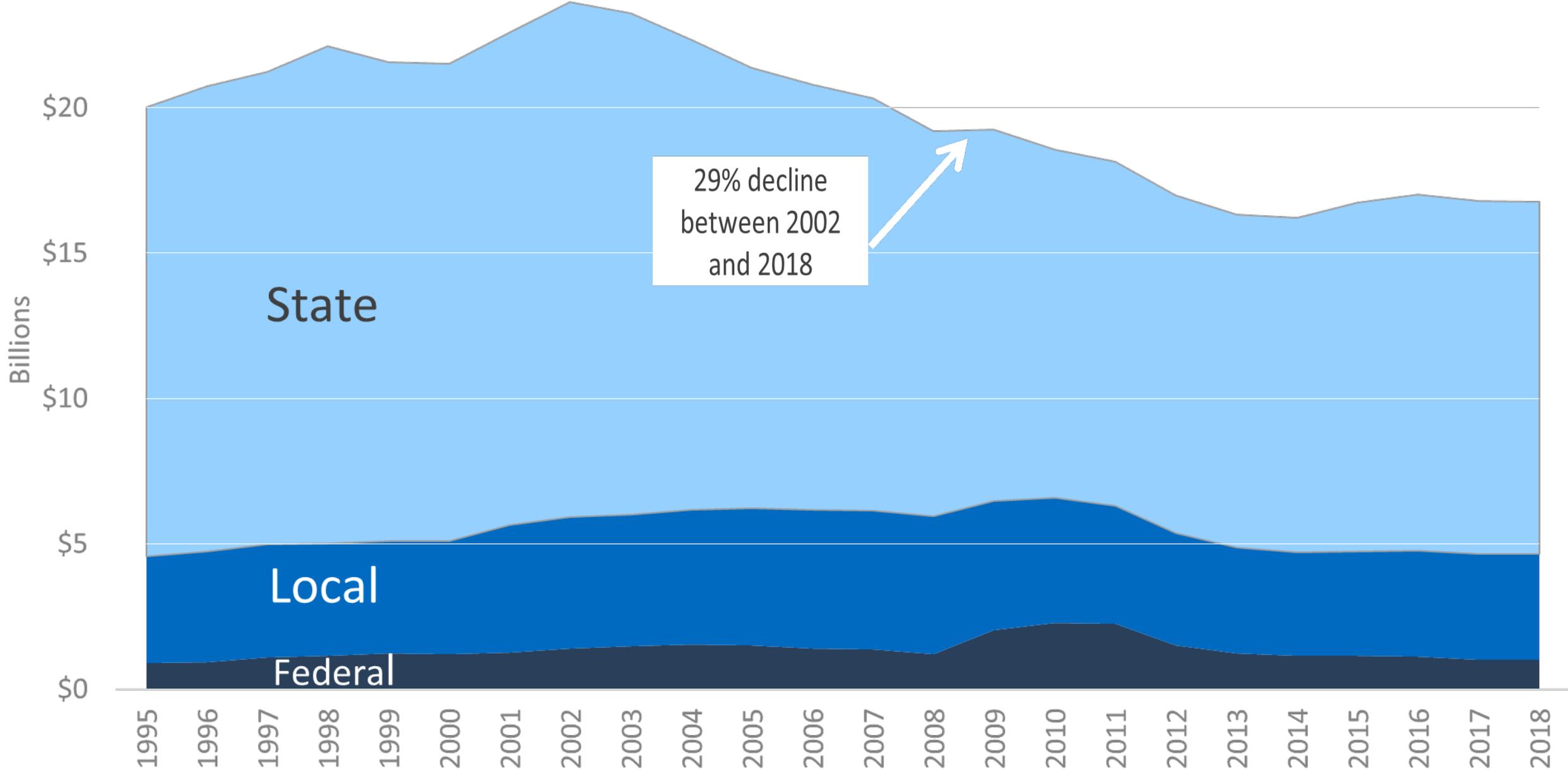


Features of the Proposal A Funding System

- Proposal A sharply curtailed local voters' discretion to set millages for operating revenues
- Foundation allowances have never been calibrated to the cost of providing education services
- Proposal A did not address school facilities which are funded exclusively by local property taxes with voter approval



Inflation Adjusted K-12 General Fund Revenue by source, Michigan 1995 - 2018

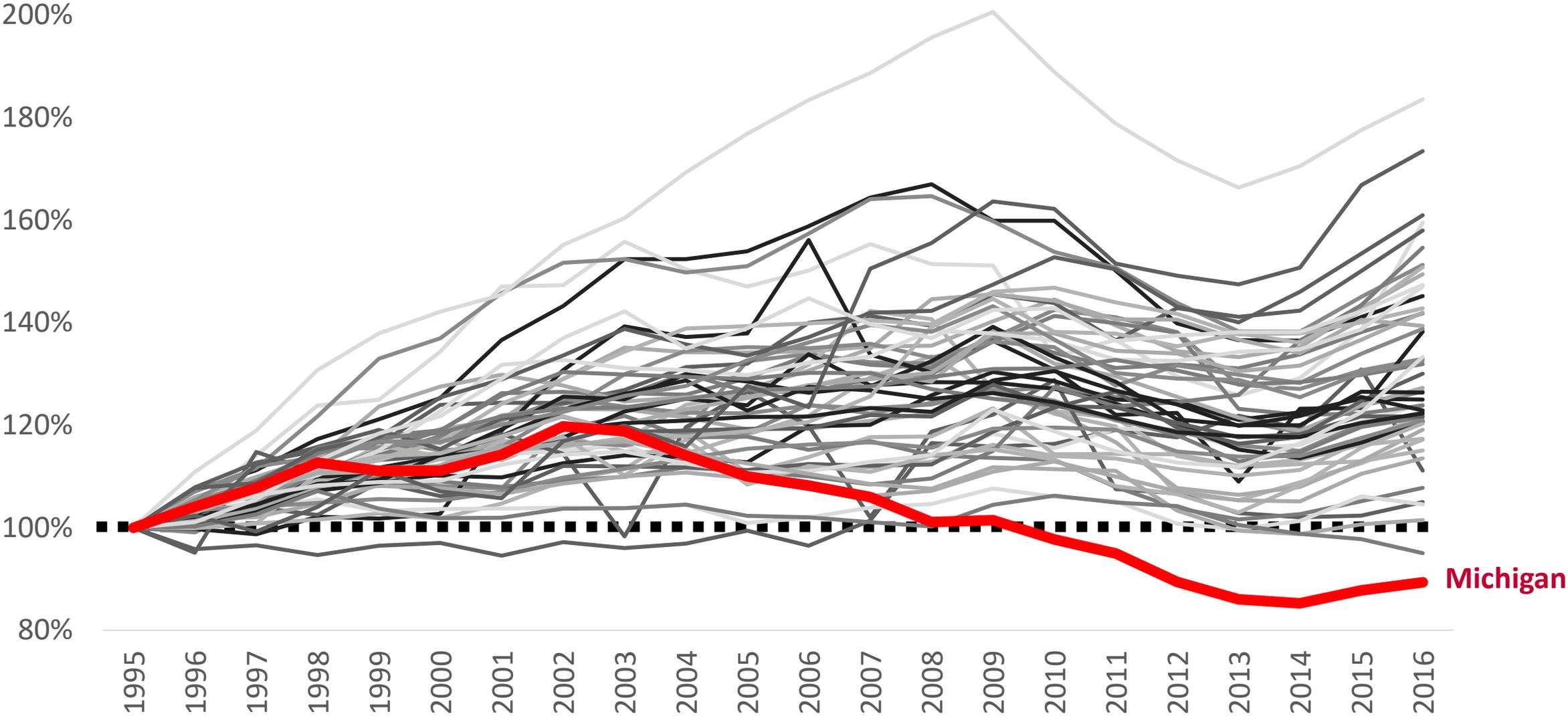


Change in Per-pupil Foundation Allowances for Select School Districts, 2003-2019

	Holland	Grand Rapids	Midland	Lansing
2003 Nominal Foundation	\$6,838	\$6,782	\$8,122	\$7,105
2019 Nominal Foundation	\$7,871	\$7,871	\$8,531	\$8,002
% Change 2003-2019				
Nominal	15%	16%	5%	13%
Real (CPI deflator)	-16%	-15%	-23%	-18%
Real (state & local govt deflator)	-28%	-27%	-34%	-30%



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



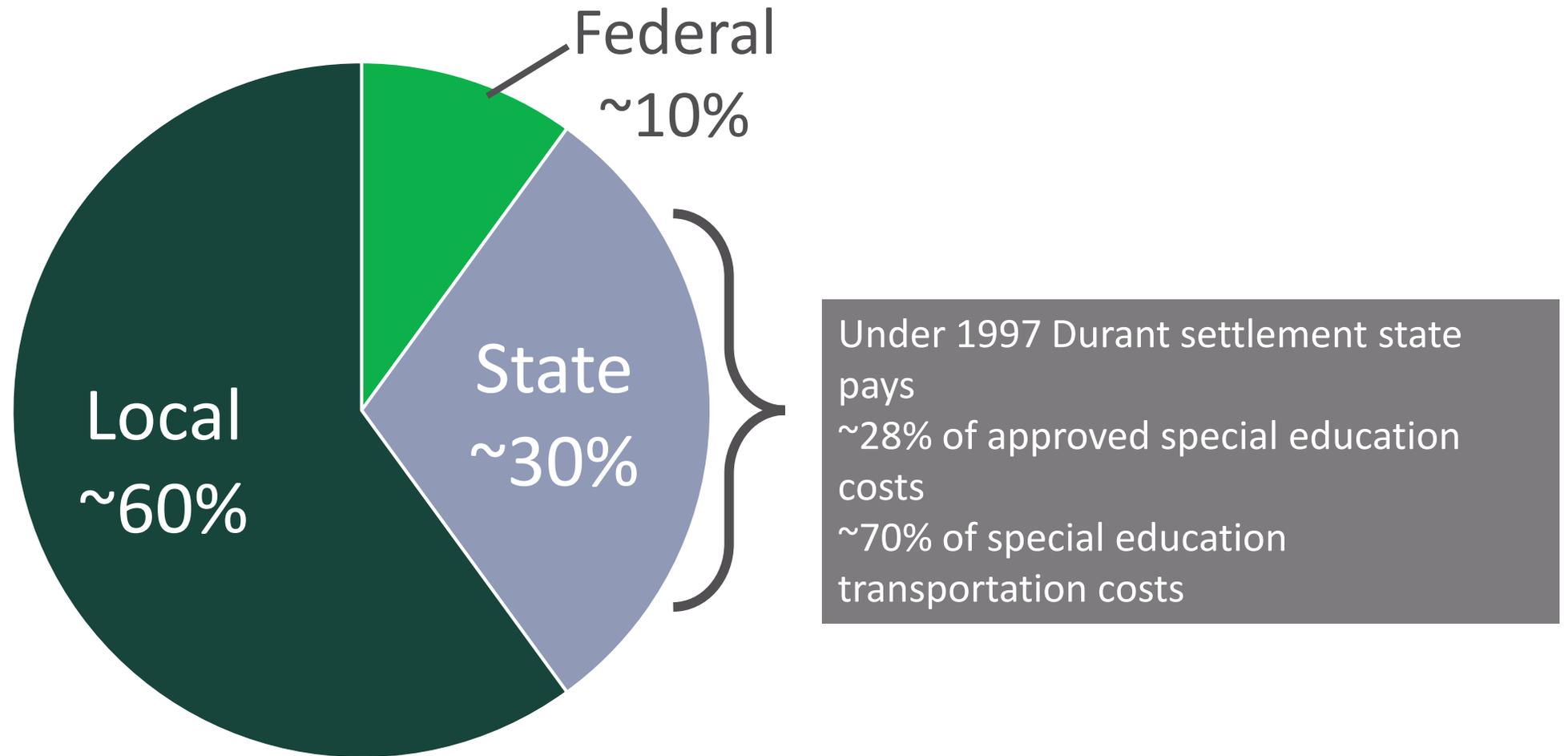
Michigan



State revenue is poorly matched to local cost variations



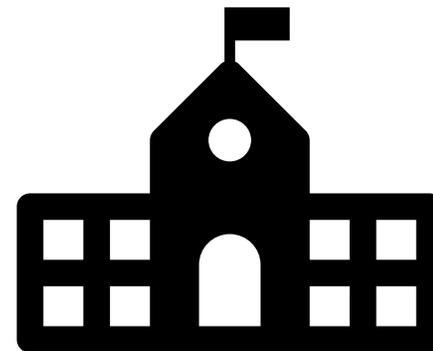
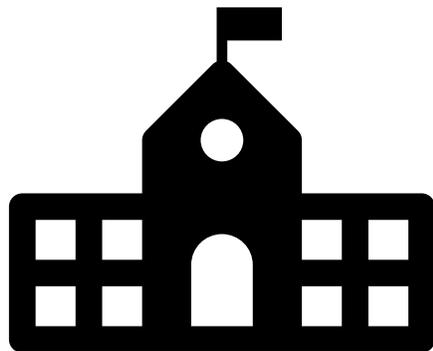
Special Education in Michigan



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

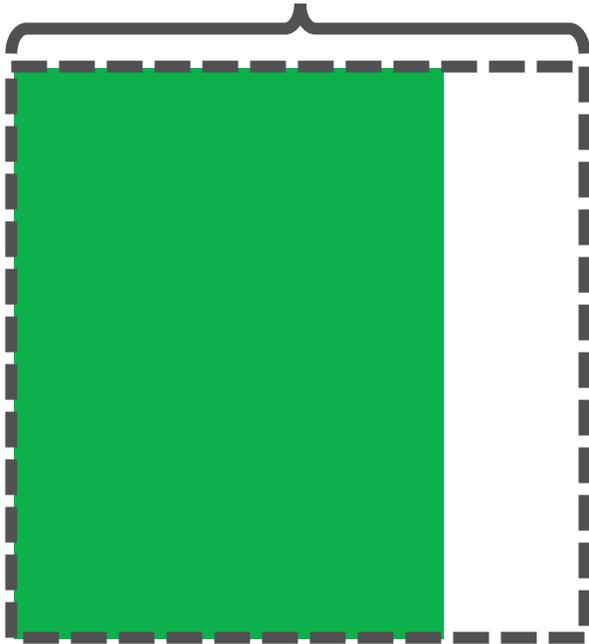


Charlevoix-Emmet ISD
\$600,000
per-pupil taxable value

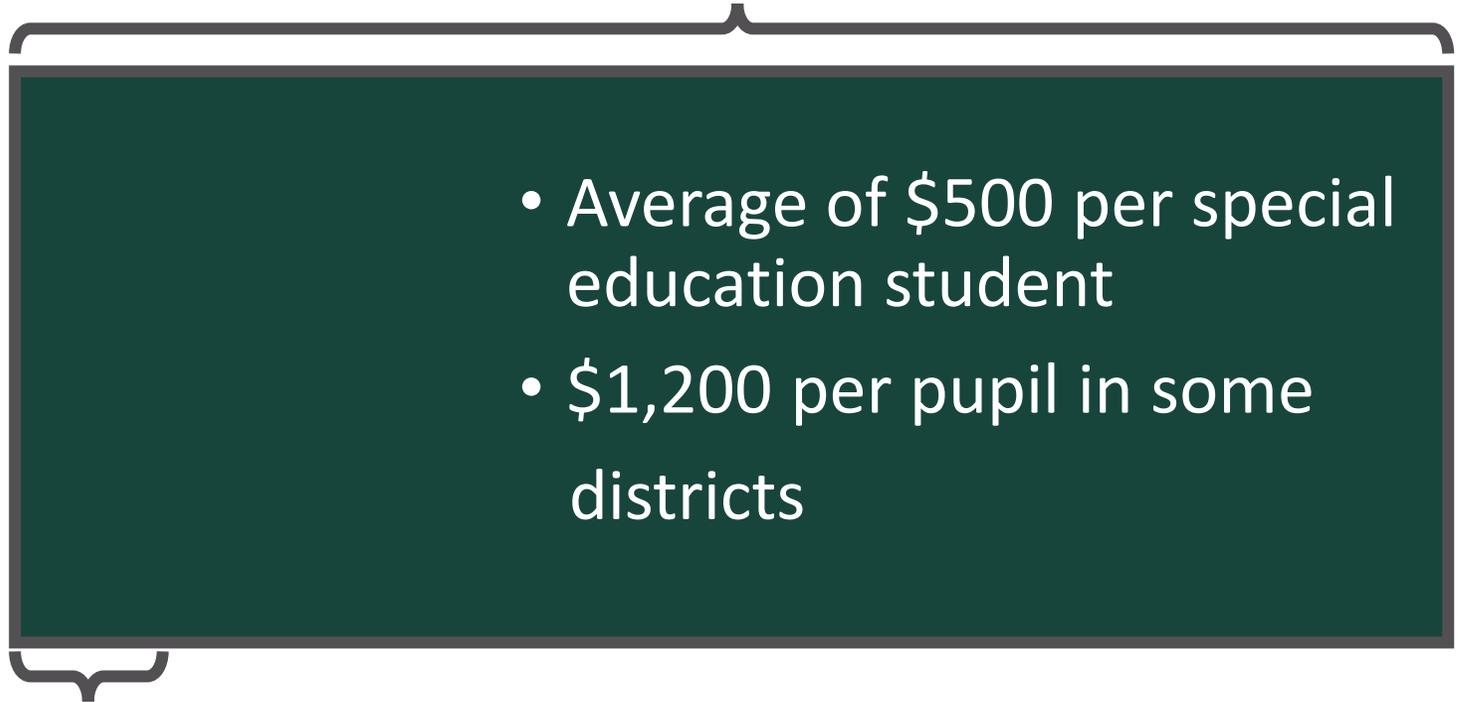


Special Education Encroachment

Special education funding



General education funding



Encroachment





Facility finance in Michigan is unfair to both students and taxpayers



Why School Facilities Matter

- Student opportunities and 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



Capital Millage Costs of a New Elementary School in Selected Michigan Districts

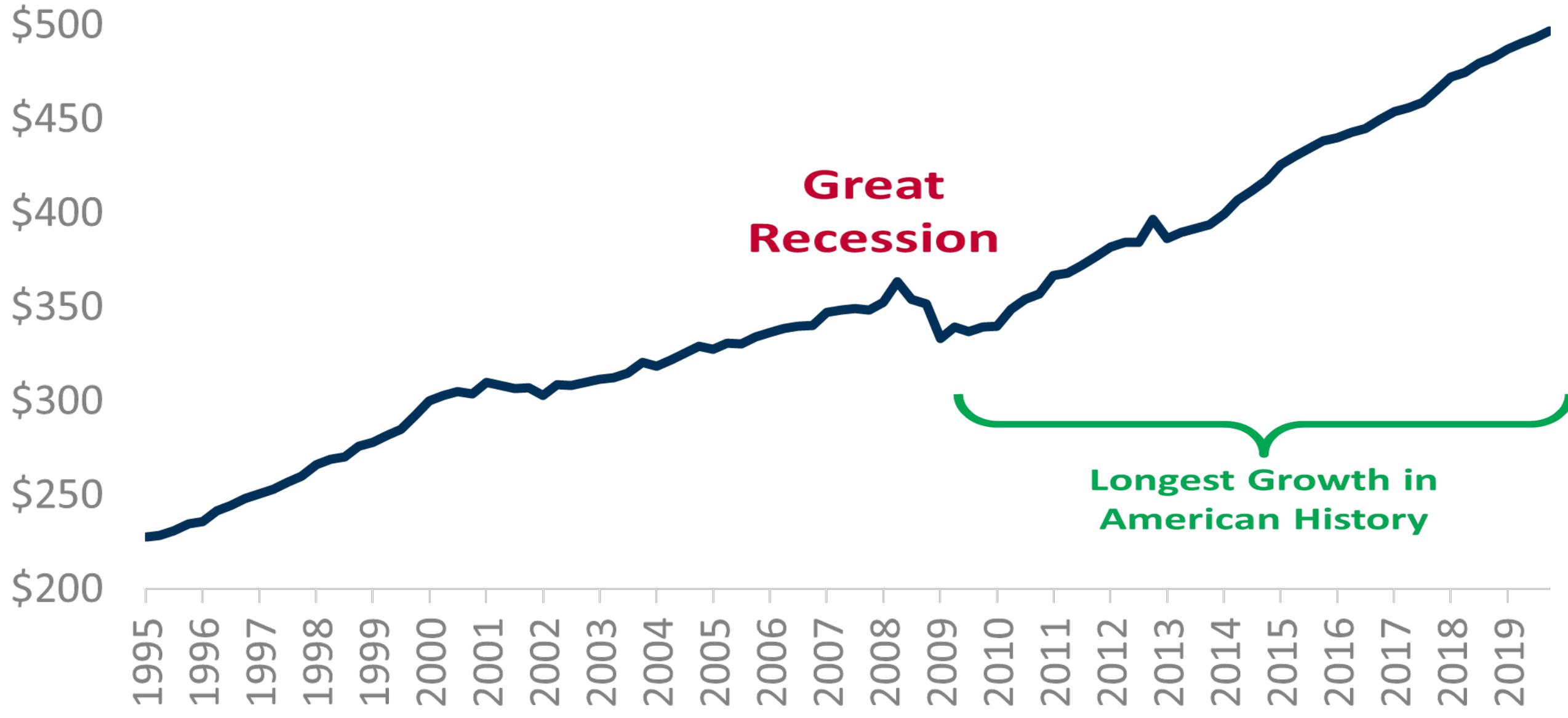
District	County	Enrollment	Taxable value per pupil	Total taxable value	Millage rate Needed	Tax on a \$200,000 property
Carrolton	Saginaw	2,306	\$31,252	\$72,100,000	22.27	\$2,226
Imlay	Lapeer	2,078	\$162,668	\$338,000,000	4.75	\$474
Escanaba	Delta	2,397	\$212,140	\$509,000,000	3.16	\$315
Ludington	Mason	2,186	\$499,551	\$1,090,000,000	1.47	\$147



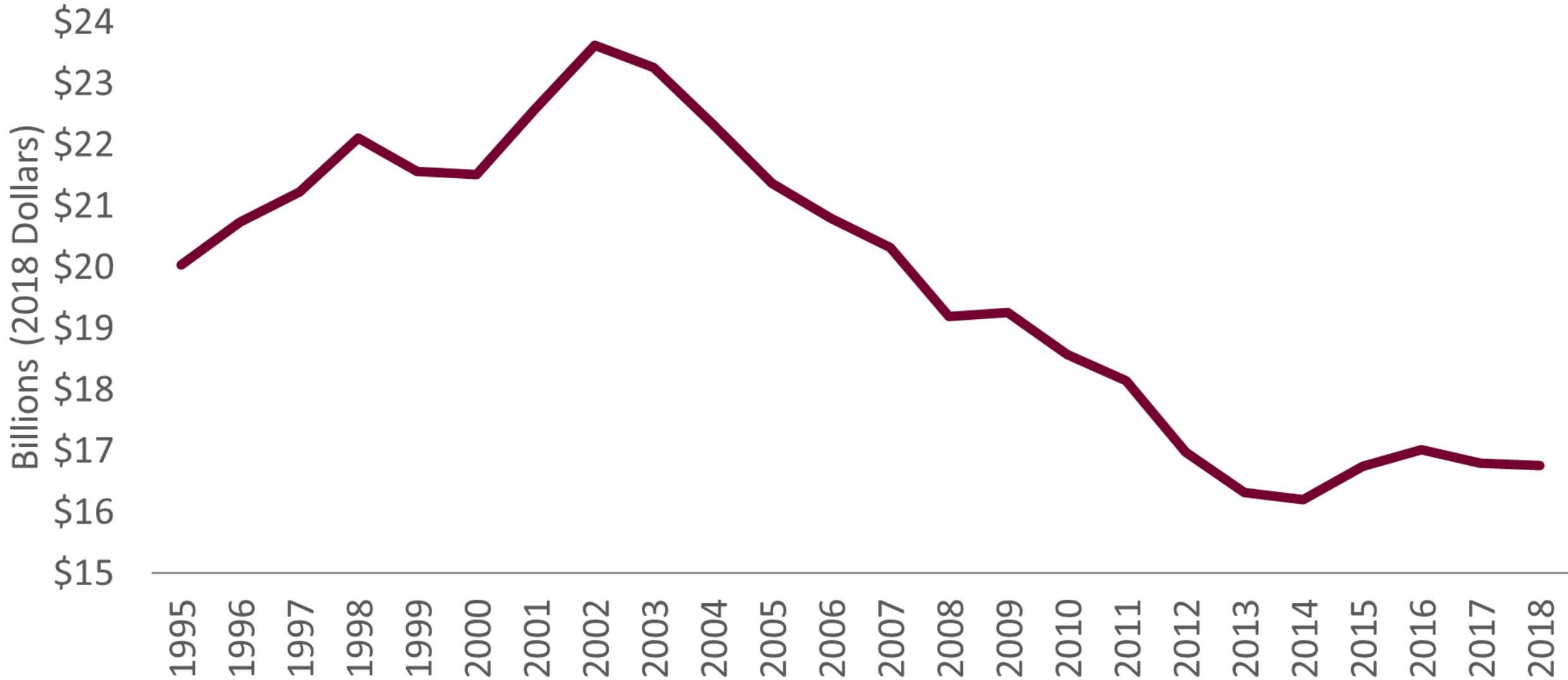
Why Did Michigan's Real K-12 Education Revenue Decline So Much?



Michigan Personal Income (Billions)



Inflation Adjusted K-12 General Fund Revenue, Michigan 1995 - 2018



$$\frac{\text{Revenue}}{\text{Personal Income}} = \text{Tax Effort}$$

Education Tax-Effort, 1995 - 2018



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

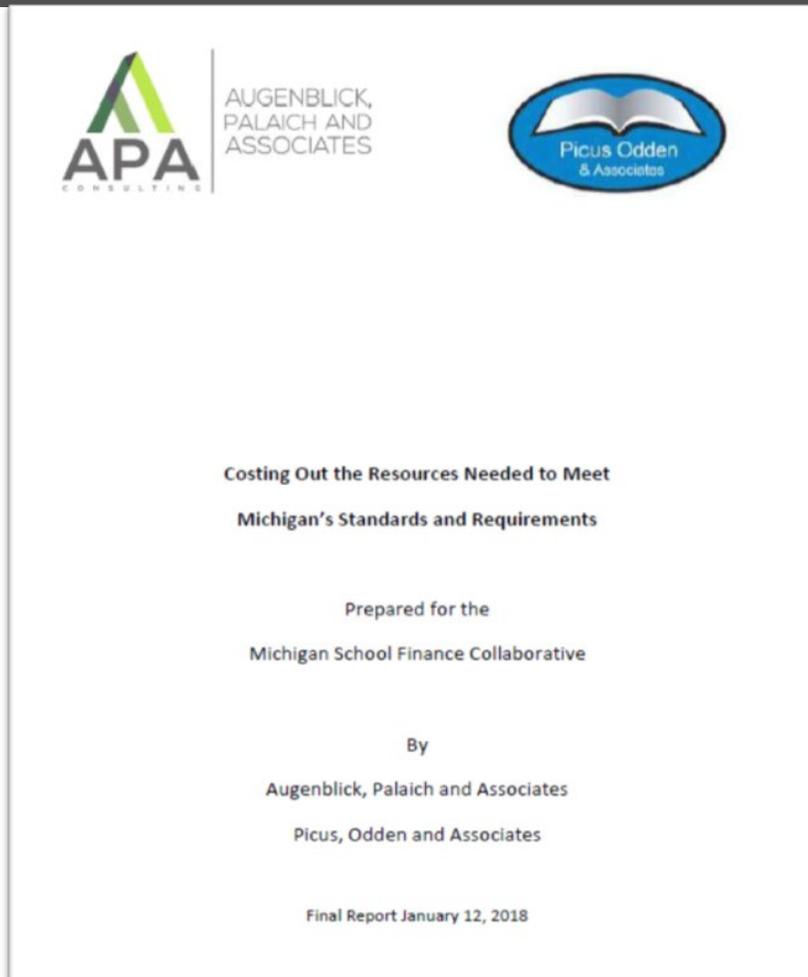


Michigan's 2018 Adequacy Study

- 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

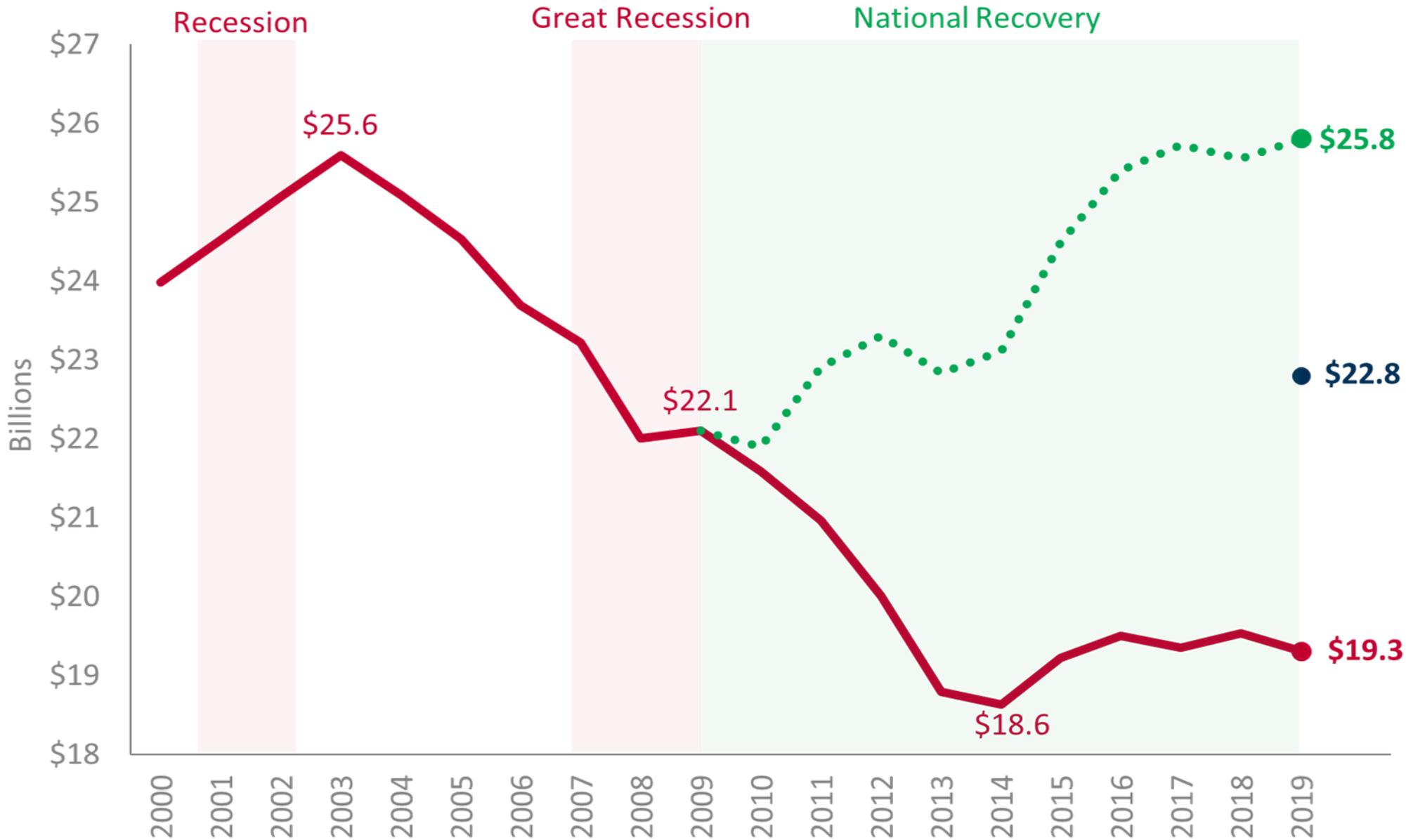


Michigan School Finance Research Collaborative: Final Recommendations



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





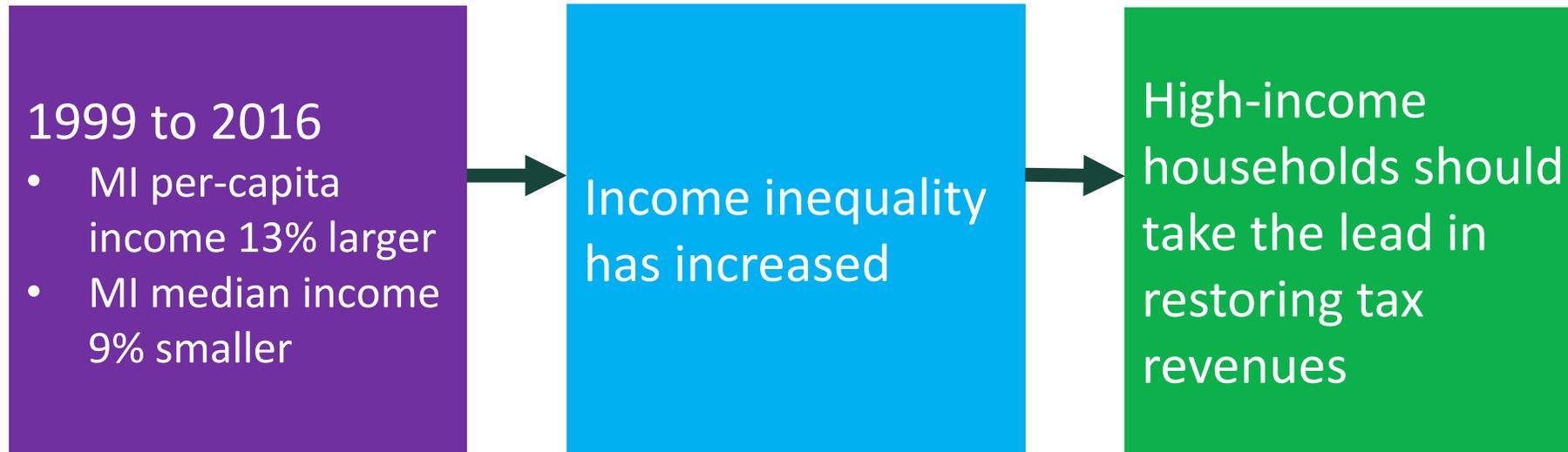
Possible Revenue
 Revenue had Michigan maintained constant 2009 tax effort

Adequate Revenue
 Revenue necessary to meet SFRC adequacy study recommendations

Actual Revenue
 The actual revenue in all general fund and special education funds from 2000 to 2019



Looking Ahead: How Should We Raise Revenue?



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

Michigan State University
Education Policy Report
January 2019

David Arsen,
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<http://education.msu.edu/ed-policy-phd/pdf/Michigan-School-Finance-at-the-Crossroads-A-Quarter-Center-of-State-Control.pdf>



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Q & A; Further Discussion

- Federal stimulus funding
- Rural schools and communities
- Fiscal aspects of school choice policies
- Pupil accounting
- Others?

Academic Research Shows that Increased Funding Improves Student Outcomes



POLICY BRIEF

Does Money Matter in Education?

Reconsidering an Old Question with Reference to Michigan

Michigan State University Education Policy Brief • January 2019

Tanner Delpier, Jesse Nagel, Kelly Stec, Alounso Gilzene, David Arsen

For over half a century, researchers have attempted to measure the academic and economic returns to increased education funding. Using a range of methods of varying quality, this ever-growing body of research has yielded mixed results, although a clearer understanding is now available. Early research, done primarily before the turn of the century, often failed to find strong or systematic associations between school funding and student outcomes. The data and methods used in those studies, however, left much to be desired in terms of scientific precision. With the benefit of better data and more rigorous statistical methods, studies over the last 20 years have consistently shown that increases in school funding do, in fact, generate improved educational outcomes.

The purpose of this nontechnical brief is to describe the arc of research studying the relationship between educational funding and achievement, to highlight strengths and limitations of data and methods used in each wave of the literature, and to show how recent research has reversed early conclusions that 'money doesn't matter.' Additionally, we pay special attention to Michigan as a uniquely advantageous context for researchers to establish causal links between the money schools receive and the benefits their students enjoy.

Beginnings: Education Production Function Studies

The debate over the effect of educational resources can be traced to the landmark 1964 Coleman report.¹ Contrary to prevailing assumptions, that report found little relationship between school financial resources and student outcomes, but instead highlighted the social and economic resources in children's homes in accounting for the variance in educational outcomes.

For over two decades following the Coleman report, many studies employed similar research methods, which became known as education production function analyses, in an attempt to pinpoint key determinants of educational success. Education production function studies typically applied basic regression statistical models to cross-sectional data (i.e., all data coming from one point in time) to estimate the relationship between educational inputs (e.g., per-pupil expenditures) and outcomes (such as student

¹ Coleman, James S., Ernest Campbell, Carol Hobson, James McPartland, Alexander Mood, Frederick Weinfield, and Robert York. "The Coleman report." *Equality of Educational Opportunity* (1966).

<http://education.msu.edu/ed-policy-phd/pdf/Does-Money-Matter-Policy-brief.pdf>

