



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Distribution of State Aid to Michigan Schools

Webinar Presentation

Craig Thiel, Director of State Affairs
August, 2011



About The Citizens Research Council

- Founded in 1916
- Statewide
- Nonpartisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals



CRC's Education Project

CRC's education study is funded in part by:

- The W. K. Kellogg Foundation
- The Frey Foundation
- The PNC Foundation
- ArvinMeritor
- The Richard C. and Barbara C. Van Dusen Family Fund
- A consortium of education groups including: the Tri-County Alliance for Public Education, Michigan Association of School Boards, Metropolitan Detroit Bureau of School Studies, Inc., Michigan Association of School Administrators, Michigan School Business Officials, Middle Cities Education Association, Michigan Association of Intermediate School Administrators, Michigan PTSA, Michigan Association of Secondary School Principals, and the Michigan Elementary and Middle School Principals Association.



Overview of Topics to Cover

- Proposal A and the foundation grant's origins
- Growth of different foundation grants
- Enrollment changes
- Per-pupil funding equalization
- Growth in total foundation revenue
- Towards further equalization and effects on academic performance



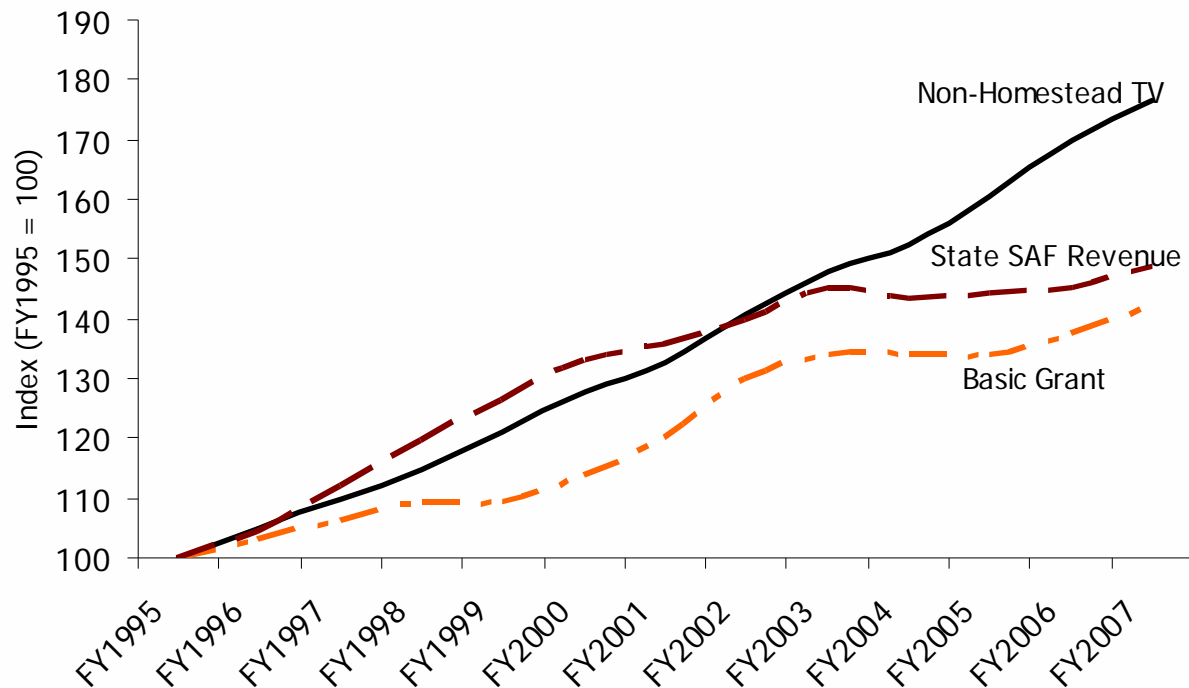
Basics of the Foundation Grant

- Created under 1994's Proposal A finance reforms – amount of \$ per pupil *specific* to each district
- Initial grant (1995) based on 1994 per-pupil \$
 - Three grants: “minimum”, “target” and “maximum”
- Funded through combination of local tax (required) and state aid
- Primary mechanism used by policymakers to equalize per-pupil general operating revenue across districts
- Provides vast majority of operating funding; but districts receive categorical aid (state and federal \$)



Fiscal Factors Affecting Annual Changes

Initially Strong State and Local Revenue Growth



Since FY2003 state revenue growth slows



Great Recession's Effects Severe

Steep Declines and Slow Recovery

	<u>annual growth rates</u>			
	FY2008	FY2009	FY2010	FY2011
Sales	3.4%	-10.1%	1.4%	5.2%
Income	12.2%	-19.0%	-5.5%	12.5%
Use	-0.3%	-19.2%	9.3%	-5.5%
State Education	-0.1%	-1.9%	-5.4%	-4.1%
Real Estate Transfer	-28.5%	-26.2%	-3.0%	2.8%
School Aid Fund	3.2%	-5.1%	-1.0%	2.7%
Basic Foundation Grant	1.4%	1.6%	-2.1%	0.0%

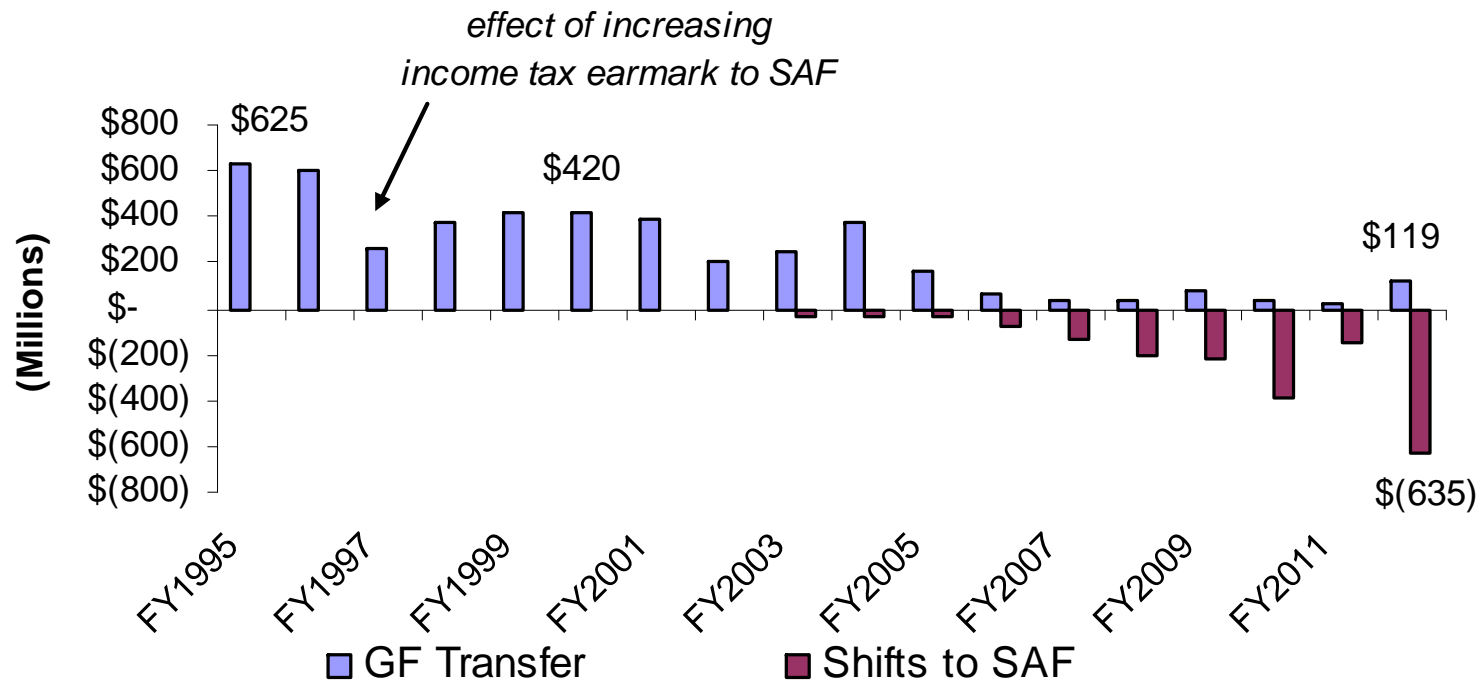
FY2011 SAF down \$680 million from FY2008



State Budget Problems Spill Over

Support for Schools Reduced

General Fund Transfers and Cost Shifts - School Aid Fund

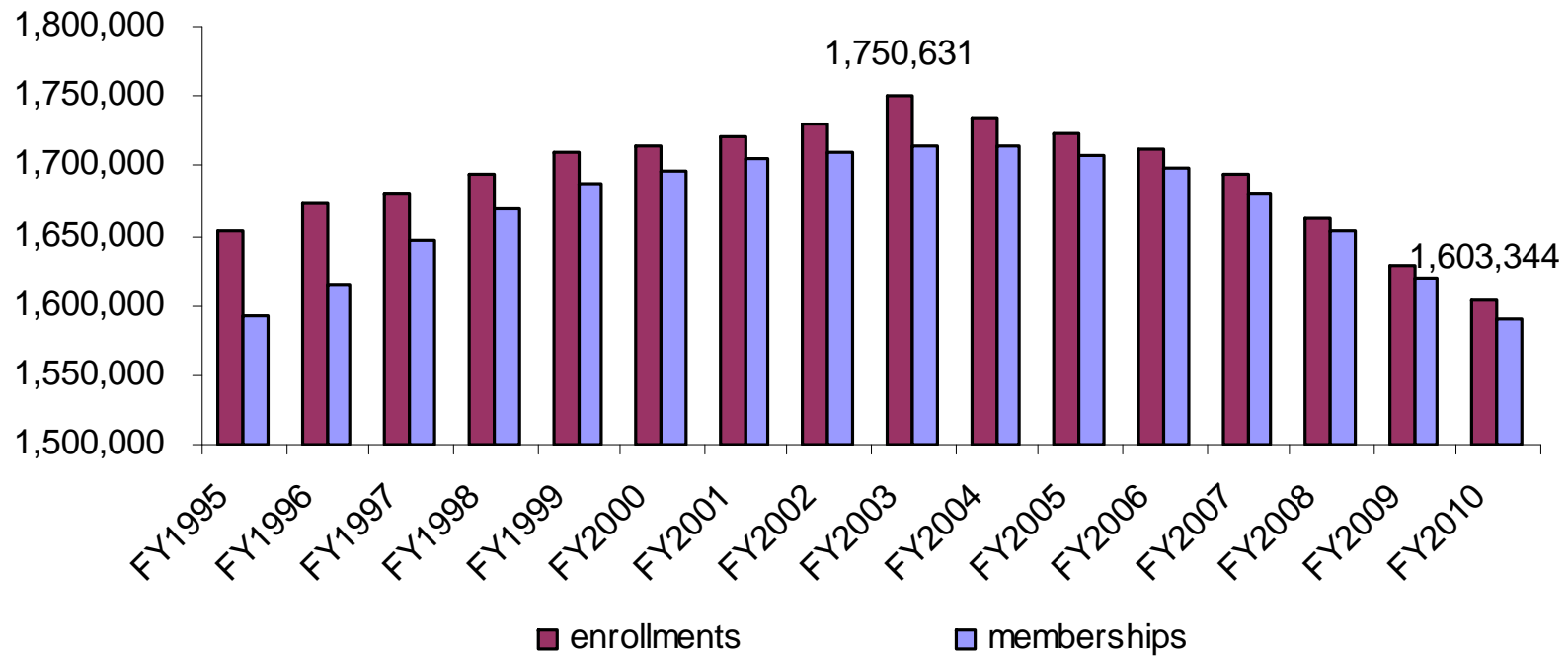




Demographic Factors

Since FY2003 "Era of Declining Enrollments"

Statewide Enrollments and Foundation Pupil Memberships





Methods Used to Annually Adjust Foundation Grants

Policies aimed at “raising the bottom”

- 2X formula and sliding scale
- Separate “equity” payments

Uniform adjustments

- Same increases/decreases

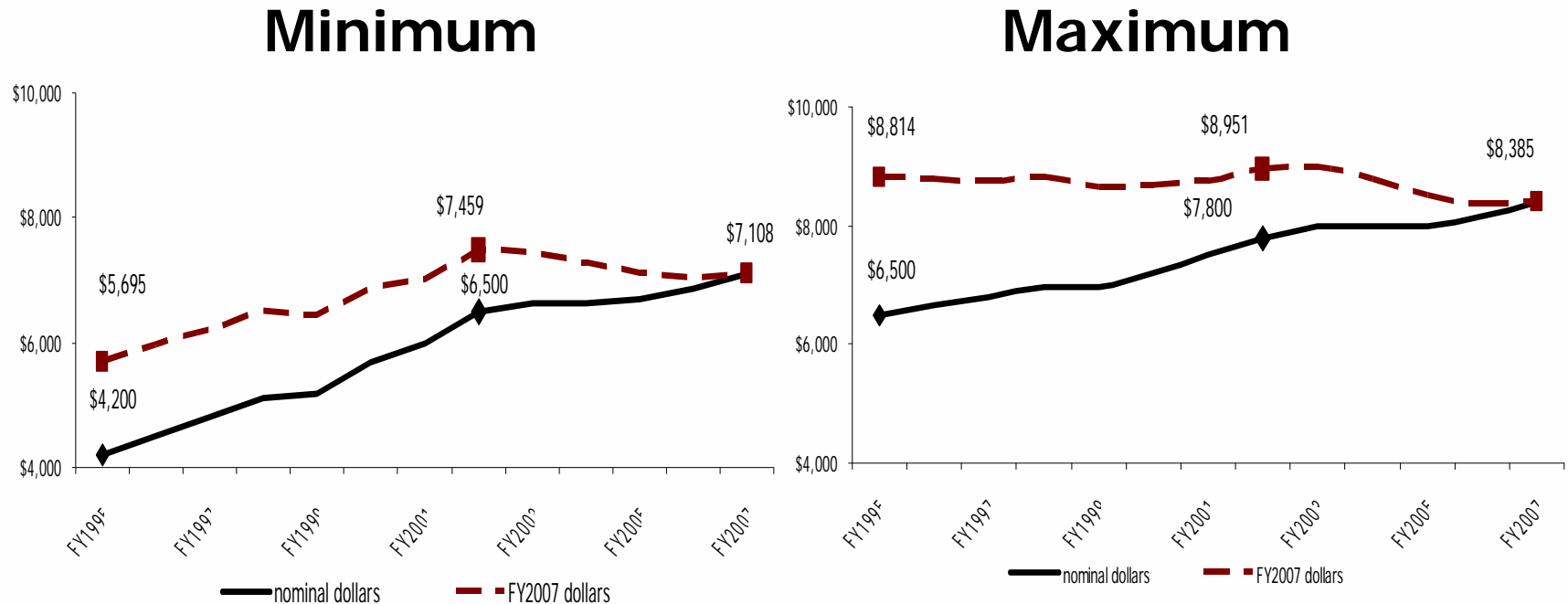
Funding reductions for those at the top

- Elimination of “hold harmless” payments (Sec. 20j)



Growth of Foundation Grants

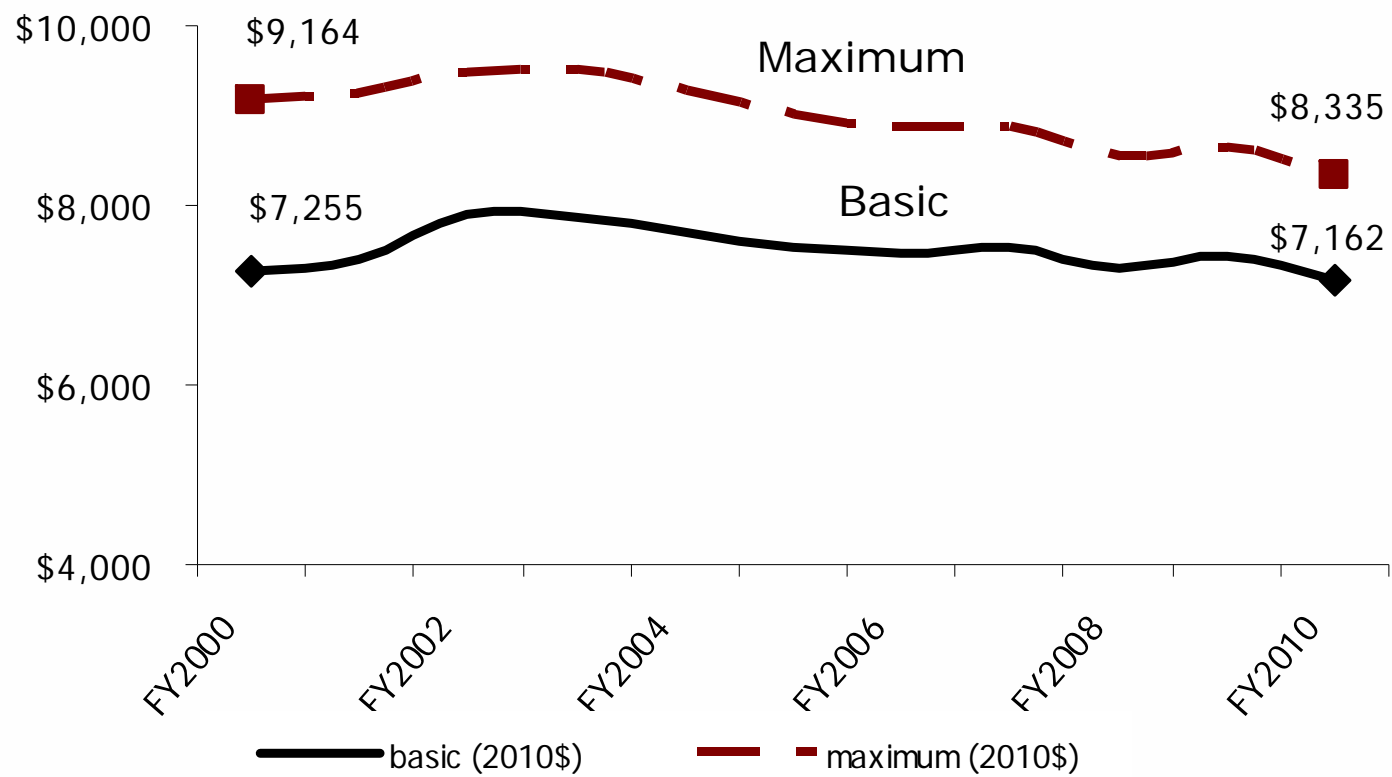
A Look at the Two Extremes



*Min. sees nominal and real growth; max. **no** real growth*

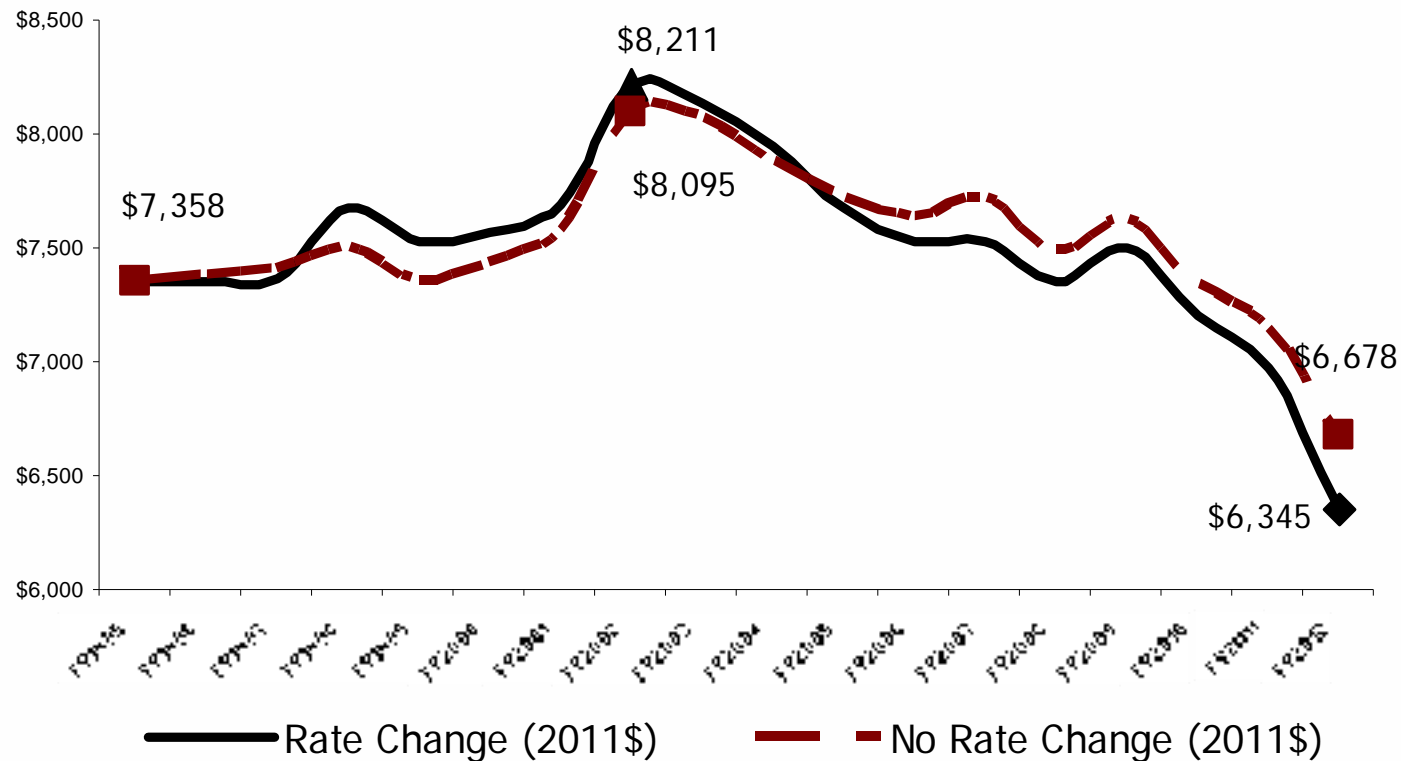


Real Values of Foundation Grants Deteriorate Over the Past Decade





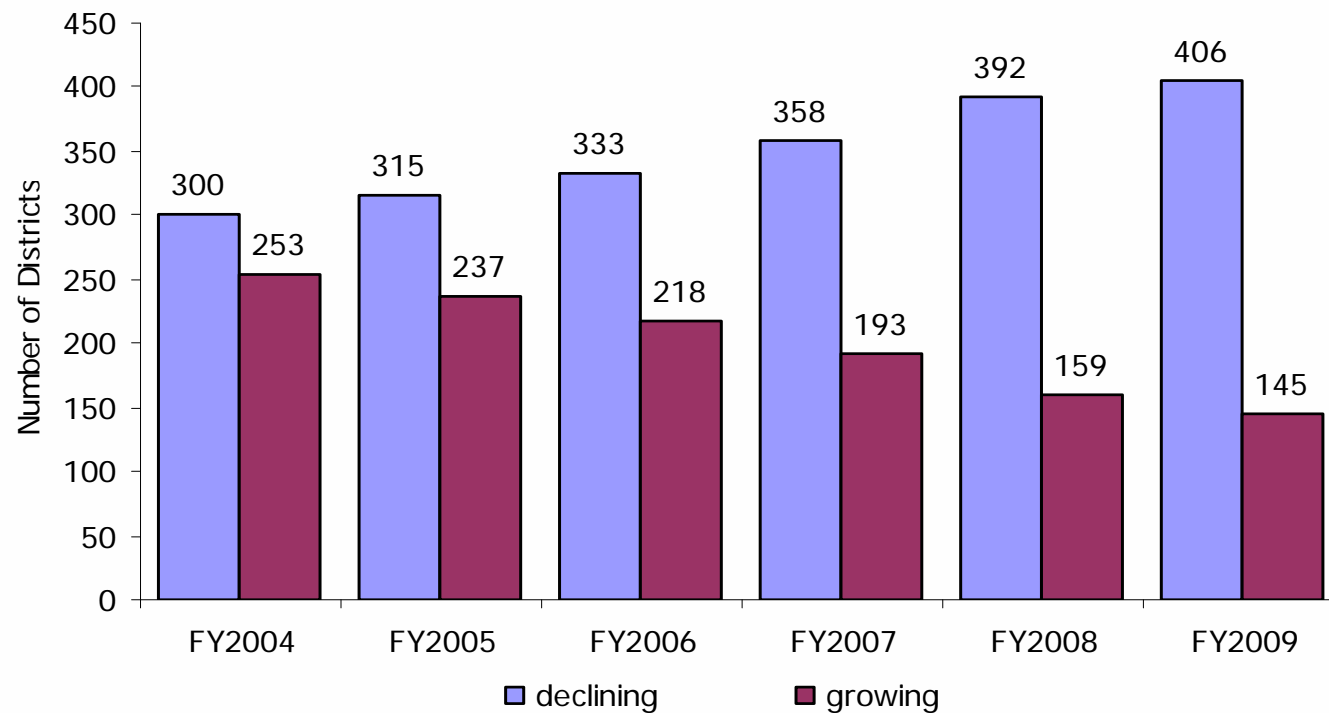
Effect of Retirement System Contribution Rate Changes on Basic Grant



Since FY2005 contribution rate grew faster than grant



Annual Enrollment Changes in Traditional Public School Districts



75% experienced some enrollment loss in FY2009



Degree of Enrollment Change Varies

Not Limited to Central City Schools

Enrollment Changes in Traditional Public School Districts: FY1995 to FY2009

<u>Enrollment Change</u>	<u>Number of Districts</u>	<u>Percent of Districts</u>	<u>Total Enrollment</u>	<u>Percent of Students</u>
Decline >33%	50	9.1	141,553	9.4
Decline 10% to 33%	186	33.8	339,183	22.4
Decline 0.1% to 10%	<u>98</u>	<u>17.8</u>	<u>245,087</u>	16.2
Subtotal	334	60.7	725,823	48.0
Increase 0% to 10%	87	15.8	283,431	18.7
Increase 10% to 33%	83	15.1	293,493	19.4
Increase > 33%	<u>47</u>	<u>8.5</u>	<u>210,857</u>	13.9
Subtotal	217	39.3	787,781	52.0

1/3 of districts had losses of 10% or more



Responses to Declining Enrollments

- Changes to the **blended membership** count
 - Place more emphasis on prior year count
 - Smooth enrollment losses in declining districts, but does not allow growing districts to realize the full benefit of year-over-year increases
 - FY2012 change from 75/25 (current/prior) blend to 90/10 blend
- Provide **categorical funding**
 - Significant proration reduces the effectiveness
 - Funding eliminated in FY2012



Changes in Total Foundation Revenue

Enrollment Losses Negate Foundation Grant Growth

Changes in Enrollment, Foundation Grant, and Total Foundation Revenue by District Type:
FY1995 to FY2009 (FY2009 Dollars)

	Enrollment		Real Foundation Grant		Total Foundation Revenue	
	Decline	Gain	Decline	Gain	Decline	Gain
City	18	8	19	7	18	8
Suburban	47	102	93	56	56	93
Rural	269	107	80	296	199	177
Total	334	217	192	359	273	278

50% experienced inflation-adjusted revenue decline



Some Larger Districts Experienced the Worst of Both Worlds

Changes in Enrollment, Foundation Grant, and Total Revenue in Urban Districts:
FY1995 to FY2009

	Percentage of Statewide Enrollment	District Enrollment Change	Real Foundation Change	Total Foundation Revenue Change
Flint	0.9%	-44.8%	-1.6%	-45.7%
Benton Harbor	0.2%	-43.8%	12.4%	-36.8%
Pontiac	0.5%	-42.6%	-1.5%	-43.5%
Detroit	6.2%	-40.3%	-2.9%	-42.0%
Grand Rapids	1.2%	-28.0%	1.2%	-27.1%
Lansing	1.0%	-27.3%	-1.0%	-28.0%
Saginaw	0.6%	-27.0%	-2.3%	-28.7%
Muskegon	0.3%	-23.8%	1.3%	-22.8%
Battle Creek	0.4%	-22.6%	-1.7%	-23.9%
Jackson	0.4%	-18.4%	-0.7%	-18.9%
Highland Park	0.2%	-13.9%	-4.3%	-17.6%
Bay City	0.6%	-13.0%	16.8%	1.7%



Reducing Funding Disparities

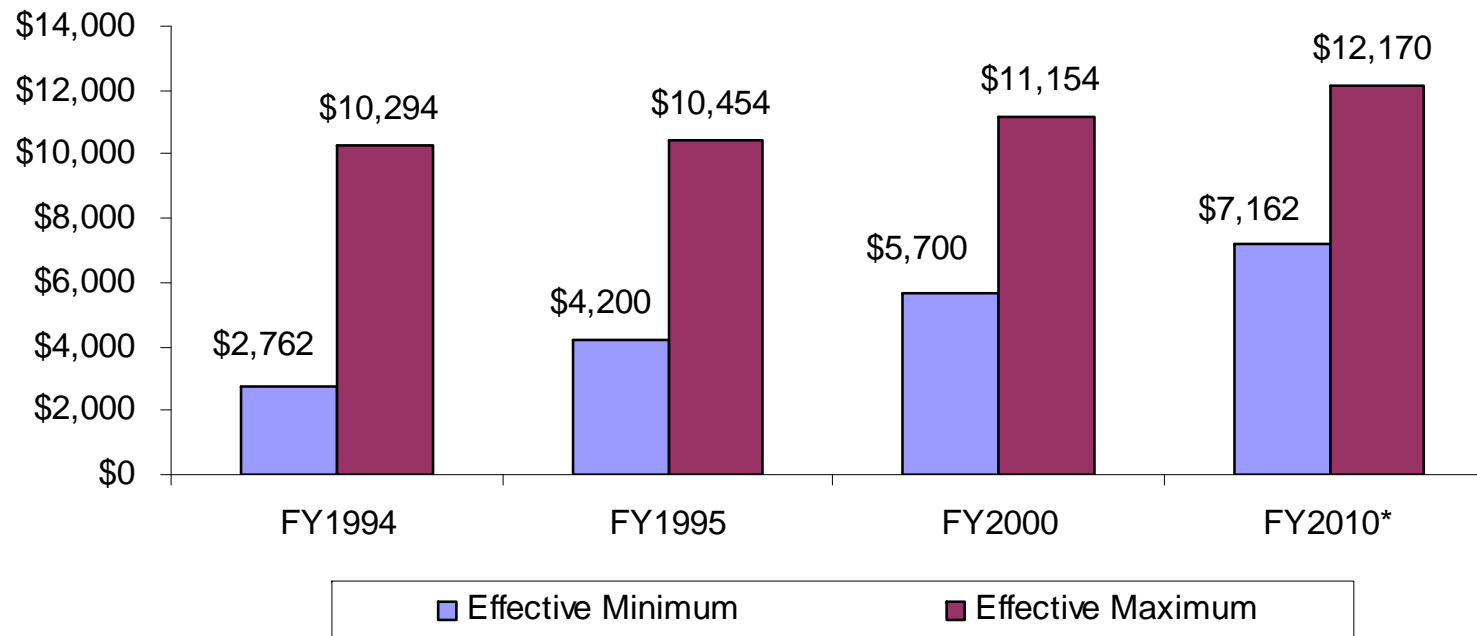
A Key Objective of Reforms

- Clear and major policy focus following Proposal A
 - Greatest gains achieved early on
 - Use of 2X formula to “raise the bottom”
- Series of years when districts received no increase or uniform increase
- Recently, some gains achieved through funding cuts for high revenue districts (Sec. 20j)
- Result in different foundation growth rates



Evidence of Funding Equalization

Per-Pupil Revenue Differences at the Extremes





Greater Equalization Has Resulted in Different Growth Rates

Inflation-Adjusted Average Foundation Grants by Student Group

Quintile	FY1994	FY2000	FY2009	Change FY1994 - FY2000	Change FY2000 - FY2009	Change FY1994 - FY2009
1 - low	\$6,065	\$7,135	\$7,322	\$1,070	\$187	\$1,257
2	\$6,760	\$7,152	\$7,325	\$391	\$173	\$564
3	\$7,452	\$7,570	\$7,498	\$119	(\$73)	\$46
4	\$7,964	\$7,997	\$7,816	\$33	(\$181)	(\$147)
5 - high	\$10,319	\$9,981	\$9,255	(\$338)	(\$726)	(\$1,064)
Diff. = Q5 - Q1	\$4,254	\$2,846	\$1,933			

60% of students experienced a decline in the value of grant



Revenue Growth and District Wealth

- In general, poorer districts experienced greater revenue growth than wealthier districts
- However, the poorest districts did not receive the greatest increases under Proposal A
 - Some of the poorest districts had higher per-pupil revenue pre-Proposal A
 - Middle-income districts had below-ave. revenue because of lower tax effort and state aid



Revenue Growth and Racial Composition

Inflation-Adjusted Foundation Grants by Percent of African American Students

Percent of District African American	FY1994	FY2009	Dollar Change	Percent Change
0% to 1%	\$6,902	\$7,599	\$698	10.1%
1% to 5%	\$6,970	\$7,536	\$566	8.1%
5% to 33%	\$8,031	\$8,014	(\$17)	-0.2%
> 33%	\$8,334	\$8,088	(\$246)	-3.0%

Districts with higher concentrations of minorities lost ground



Addressing Wealth Disparities

State Categorical Funding

	<u>"At-Risk"</u> <u>Appropriation</u> <u>(millions)</u>	<u>Eligible</u> <u>"Free Lunch"</u> <u>Students</u>	<u>Number of</u> <u>Districts</u>	<u>Percent of</u> <u>Statutory</u> <u>Maximum</u>	<u>Per-Pupil</u> <u>Proration</u>
FY2003	\$ 302.2	458,997	675	90.6%	\$ 73
FY2004	\$ 314.2	479,275	684	87.1%	\$ 99
FY2005	\$ 310.4	498,390	701	83.1%	\$130
FY2006	\$ 310.5	510,273	707	77.7%	\$176
FY2007	\$ 310.5	508,562	714	74.9%	\$206
FY2008	\$ 310.5	528,898	715	70.9%	\$242
FY2009	\$ 309.0	531,842	719	69.8%	\$254
FY2010	\$ 309.0	555,832	741	64.9%	\$321

Declining \$ + Growing Demand = Significant Proration



Towards Further Funding Equalization

- Should this be the policy going forward?
- What is involved with this?
 - Method and how to proceed?
 - What level?
 - Timeframe and how soon?
 - Fiscal constraints?
 - Relationship between funding equalization and student academic achievement



Equalization and Student Performance

Michigan's Experiment

- Research conducted by MSU economics professor Leslie Papke, Ph.D.
- Largest improvements scores in those districts with greatest funding increases
 - 10% real increase yielded improvement in pass rates 2%
 - Occurred during early years of Proposal A, when equalization gains greatest
 - Fairly significant funding increase needed to achieve modest gains
- Since early 2000s, inflation-adjusted declines in foundation grants
- Do not know if the relationship works in the reverse with recent funding cuts



Questions and Discussion



Thank You

CRC Publications available at

www.crcmich.org

Providing Independent, Nonpartisan Public Policy
Research Since 1916