

## Creating a Better Funding System for Michigan

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*In 1994, Michigan voters approved a ballot initiative that transferred the power in Michigan's education system from local communities to the state. Proposal A succeeded in slowing the growth of local property taxes and narrowing the gap between the richest and poorest districts in Michigan. However, due to a decade of sluggish economic growth, revenue available to schools has deteriorated, placing strain on local school districts facing declining enrollment and expanded school choice. This commentary considers Michigan's current educational funding system, explores two recently released school finance reports, and offers recommendations for funding reform. The history of Michigan's Proposal A is explored along with the challenge of providing additional revenues in an anti-tax climate. The analysis and recommendations are relevant to states facing similar problems with regard to fostering funding adequacy and equity in public education.*

### Creating a Better Funding System for Michigan

Before 1994, Michigan, like many other states across the U.S., relied predominantly on revenue from local property taxes to fund schools. With the passage of Proposal A that year, funding shifted toward a state-based equalization system (one designed to better provide equal funding for schools across the state). Since then, local funding from property taxes in Michigan has been blended with state funding collected through a two percent increase in the statewide sales tax (from 4% to the current 6%). The intended outcomes of Proposal A were to: (1) decrease tax obligations for property taxpayers and (2) close the school funding gap between the richest and poorest districts (Loeb & Cullen, 2004). However, in recent years the debate has moved beyond providing equitable funding, toward a focus on educational adequacy (Mattoon, 2004).

Over the last 20 years, progress toward the goals of Proposal A has been realized (Arsen & Plank, 2004; Loeb & Cullen, 2004; Papke, 2008). However, Michigan school districts are now faced with several school funding challenges, given that: (1) districts now receive a bulk of their funding on a per-pupil basis tied to student enrollment; (2) state sales-tax collections are dependent on the shape of the overall economy; and (3) districts are prohibited from soliciting additional revenue through local property taxes to fund operations. Because funding is allocated on a per-pupil allowance, districts need to maintain enrollment levels, otherwise funding will decline. All the while, school choice policies (uncapped charter schools and inter-district school choice) and privatization efforts, primarily for support services, have generated substantial financial strain on local school districts, which struggle with declining school-age populations.

### Principles and Background

According to a presentation to the Michigan State Board of Education (Addonizio & Kearney, 2014), Michigan's current school funding has lagged even behind 2004-5 levels. For the fiscal

year 2011-12, the state would have needed an additional \$2.34 billion in revenue (\$1,520 per pupil) to match previous funding levels (Addonizio & Kearney). Michigan, despite recent progress, has not kept pace with funding increases from previous decades.

Michigan's current school finance system was supposed to more equitably support schools, yet it does not address the adequate distribution of resources. Resources for schools in Michigan continue to be unfairly distributed. An adequate distribution of resources depends on the ability of the state to ensure all students receive an education that prepares them to participate fully in the economy (Arsen et al., 2005). Notwithstanding, "adequacy" remains difficult to define, and requires policy and value judgments (Mattoon, 2004). Michigan's current policies, according to Arsen et al., fail to provide all children with a fair chance to succeed. There remains an imbalanced allocation of resources, with the poorest communities operating with inadequate resources and facilities.

According to a recent report from the Education Law Center (ELC), school funding in many states continues to be unfair and inequitable. According to the ELC report *Is School Funding Fair? A National Report Card* (Baker, Sciarra, & Farrie, 2015), there remain large disparities in the amount spent on public education across the country. The report uses a fairness analysis to gauge funding levels and distribution, resource allocation, early childhood education, wage competitiveness, and pupil-teacher ratios. In terms of funding distribution, the report gives Michigan a letter grade of *C*, and a *B* for effort. The data show Michigan ranks 25th in terms of funding level, and 22nd in terms of coverage (the proportion of school-age children attending public schools against those attending private or other forms of schools). The tough question facing any school funding reform in Michigan continues to be: How can additional funds be raised, while distributing the funds more equitably?

Recently, the W.E. Upjohn Institute for Employment Research analyzed national and state data and scrutinized school funding provisions in Michigan. The report, *The Road toward K-12 Excellence in Michigan* (Hollenbeck, Bartik, Eberts, Hersbein, & Miller-Adams, 2015), suggests that, despite modest improvements in student achievement, Michigan lags behind much of the rest of the country in both school funding and student achievement. Along with these findings, there are recommendations for additional resources to address Michigan's education problems. According to the report, "Michigan has been slowly increasing resources for students, but virtually all other states have increased their spending faster" (p. ES-1). However, simply advocating for increased funding is unlikely to win support. Clearly, additional revenues will be needed; these funds should be targeted at proven strategies and include accountability measures to safeguard that the funds are being equitably distributed.

The Upjohn report makes six recommendations to address challenges in Michigan. According to the report, Michigan should: (1) implement a \$200 million four-year competitive grant program for districts offering interventions shown to increase student achievement; (2) alter Proposal A—allowing local districts to request enhancement millages (additional property taxes to fund operations) with state revenues supplementing low property-value districts; (3) ensure that a state mandated adequacy study is rigorous and includes cost data and qualitative data from experts; (4) increase funding for at-risk students; (5) enhance declining enrollment funds for school districts

experiencing population loss; and (6) implement weighted funding for grades 1-3 and 9-12, which, according to the report, tend to cost more.

The ideas generated in the Upjohn report are crucial; however, any starting point for school finance reform in Michigan must start with an adequacy study recommendation. Before making any long-term changes to school funding, Michigan needs to ascertain how much it actually takes to educate students (grades P-16), and create a system that reflects the necessary resources for the students in the schools. Adequacy studies are designed to capture the necessary investments that must be made in schools, to ensure adequate outcomes. Resting on the idea that education fuels the economy, the state of Michigan has a vested interest in increasing high school graduation rates, decreasing dropout rates, and improving the college readiness of all students. An adequacy study would look at factors such as socioeconomic status, the needs of English language learners (ELL), special education requirements, and specialized needs in both rural and urban schools.

Michigan passed a law in 2014 calling for an adequacy study, and the state is currently soliciting bids to conduct it (\$500,000 had been allocated to pay for it). The debate surrounding the study has been controversial and a final report is expected in March 2016. Once a final report is received, it will be necessary for policy makers to ensure that the recommendations included in the report are implemented.

In the short term, and until an adequacy study can be developed, the state should adopt two key short-term provisions from the Upjohn report. Michigan should: (1) create an enhanced, adjustment fund specifically designed to assist school districts experiencing declining enrollment (because of school choice policies and declining population swings) and (2) allow local school districts in deficit or approaching deficit to pass short-term revenue enhancement millages to avoid financial insolvency (partially undoing a key provision of Proposal A).

With funding in Michigan tied to enrollment, districts that are seeing population declines face increased financial hardships. The Upjohn report recommends an adjustment of the enrollment count for districts with more than a 2% decline in a year. Adjusting for enrollment declines would provide financial stability, lessening year-over-year swings in revenue tied to enrollment. Additionally, giving temporary approval (the Upjohn report recommends no more than a 3% increase over five years) to increase local property taxes to support operations would provide districts with an opportunity to fund schools without going into a deficit elimination plan.

### **Raising Revenue**

The reforming of school finance in Michigan will require additional resources and enhanced revenue from taxpayers to adequately support school districts. There are also signs that the contemporary financial/political climate in Michigan may be averse to new taxation. For instance, given the recent loss of a statewide ballot proposal to raise funds for Michigan roads, it is unlikely to expect statewide support for additional taxation.

According to Ballard (2010), there are several long-term revenue changes that could be implemented in Michigan to raise funds for schools. He has advocated for extending the sales tax

to services and entertainment (something Michigan's current taxing system does not target), establishing a graduated income tax, and re-establishing a state estate tax. All of these proposals are likely to be opposed by the Michigan Legislature, which has struggled to find additional funds for public projects. Two more potential sources of income could come from removing colleges and universities from the School Aid Fund (SAF), and the legalization and taxing of marijuana; both are likely unpopular in Lansing. These reforms will need to be explored after a full adequacy study is completed. One thing is clear; further funding will likely be needed to adequately support Michigan school districts. Moreover, the state must also realize that additional funds by themselves are unlikely to have an impact on student achievement and economic outcomes, unless they are coupled with evidence-based strategies (e.g., early childhood programs and dropout prevention). The funding also needs to be distributed in ways that continue the recent push toward equity, safeguarding that those who most need assistance receive the necessary financial support.

### **Allocation to Local Districts**

All of the proposals advocated in this commentary require additional funds in some manner. The first proposal, creating additional, adjusted funding for local districts facing declining enrollment, is an indispensable reform that would provide much needed relief. However, it is also likely to be met with challenges from market-based reform organizations. If the recommendation from the Upjohn report were to be implemented, only local school districts facing a 2% or more enrollment decline year-over-year would be eligible to receive the funding. The second proposal advocated, allowing districts to pass temporary millages, would be locally funded with additional local revenues being used to temporarily keep districts solvent. The temporary millages would be set aside for school districts facing deficits, those on the state's early warning list, and districts under state-mandated deficit elimination plans. The concept behind the local enhancements are taken from the Upjohn report; however, it is recommended that policy makers narrow their use to only districts facing a deficit or those already in deficit. There would need to be strict statewide oversight for these funds, with a limit on the amount, use, and time frame. Another necessary improvement, to be worked out later, would be to provide state funding to low-income schools, which are unlikely to be able to pass revenue enhancement millages.

### **Conclusion**

Michigan, like many other states, faces a challenge to fix its antiquated school funding structure in a way that provides adequate resources and promotes equitable opportunities. The current anti-tax political climate found in many states across the U.S. creates problems, and potentially threatens the continued existence of traditional public schools. Michigan needs to innovate and rethink how it supports public education, ensuring that the next generation of students receives an adequate and equitable education. The future of the U.S. economy is inextricably tied to our educational systems. Careful analysis of public funding options and opportunities is needed to best provide resources in schools.

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