

Issue: MI Education

# K-12 Education Funding in Michigan

## A Deeply Inadequate Status Quo

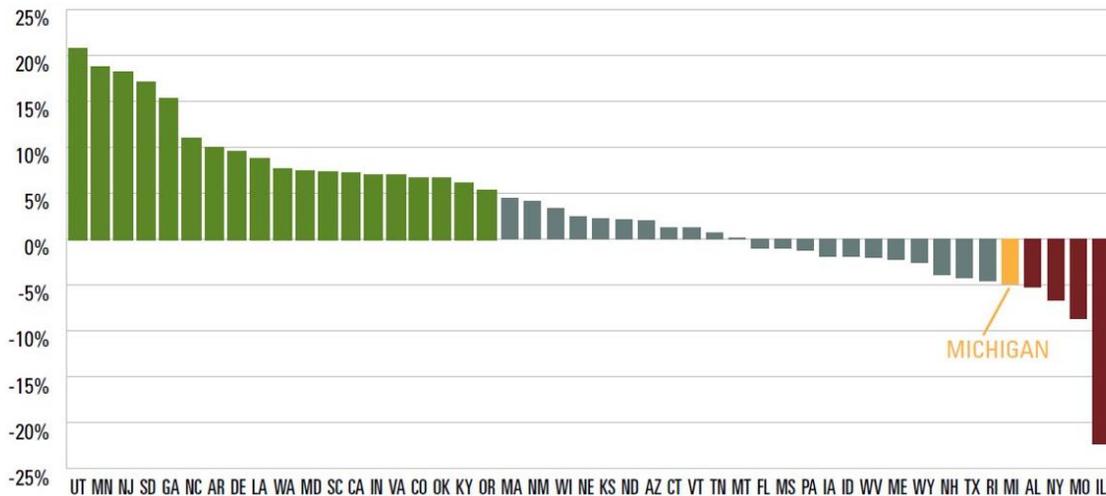
### Statewide Underfunding

For two decades, Michigan’s school funding system has suffered from inadequate state and local investment. Adjusted for inflation, between 1995 and 2015, Michigan had the sharpest decline in education revenue of all 50 states. Under the current funding scheme, established by Proposal A in 1994, the state allocates to each district a “foundation allowance,” or a fixed dollar amount per student.<sup>1</sup> In Fiscal Year 2019, that allowance ranged from \$7,871 in the lowest revenue districts to \$8,409, the “Basic” level set as the maximum.<sup>2</sup> This range, however, is grossly inadequate for a proper education. The Michigan School Finance Research Collaborative, a group of nearly 300 educators, school officials, and business leaders, calculates that \$9,590 to \$11,482 is the baseline cost to educate a student. (The variation reflects the size of the district.<sup>3</sup>) Those costs increase for districts with higher concentrations of impoverished students, English language learners (ELLs), special education students, and other needs.<sup>4</sup> That means the current per-pupil foundation allowance falls at least \$1,181 to \$1,719 short of the minimum cost required to educate a child, and much more than that for low-income students and those with additional needs.

### Disparities Between Districts

Not only are Michigan schools chronically underfunded, but funding disparities between high-poverty districts and their wealthier counterparts add an additional barrier to equitable school funding. The Education Law Center gives Michigan a “D” for its funding distribution relative to district poverty—clear evidence the state fails to provide needed funding to the poorest districts.<sup>5</sup> In fact, Michigan provides 15% less funding to low-income school districts when figures are adjusted for the additional needs of poor students and 5% less even without considering any additional needs. It’s one of only 16 states that provides *less* funding to its impoverished districts than to its more affluent ones, placing it in the bottom five states nationally for funding gaps.<sup>6</sup>

Funding Gaps Between the Highest and Lowest Poverty Districts, By State



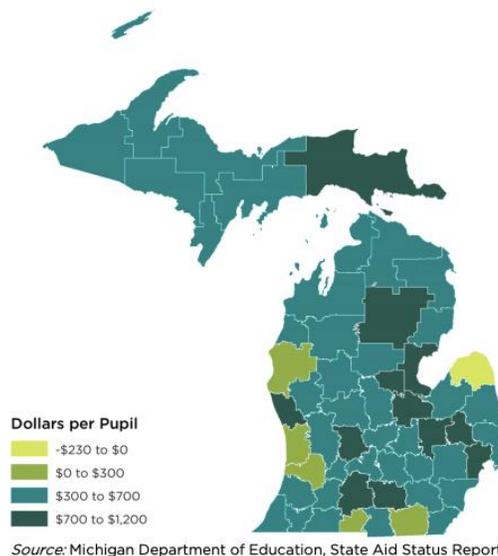
## Lack of Investment in School Facilities

Michigan’s system of financing school infrastructure breeds inequality in educational facilities. As of 2015, Michigan was one of just 12 states providing no direct funding to school districts for capital spending, including construction projects. So local property tax revenues dictate the quality of schools’ infrastructure.<sup>7</sup> This creates unequal opportunities for students because school districts with higher concentrations of poverty are unable to provide learning experiences offered in more affluent districts, like access to science and computer labs, libraries, sports equipment, and art studios. Moreover, low-quality school facilities threaten the well-being of students and staff. Poor ventilation is associated with higher rates of respiratory illness and student absence, while poor lighting and a lack of exposure to sunlight can cause delayed sleep onset, hurting a student’s ability to focus and retain information.<sup>8</sup> Poor facilities also increase both truancy and suspensions.<sup>9</sup> All these infrastructure-related issues disproportionately affect students in high-poverty districts.

## Special Education Encroachment

Michigan reimburses only 28.6% of school districts’ special education expenditures. Only five states use this percentage reimbursement model, and of those five, Michigan has the lowest rate of reimbursement.<sup>10</sup> Even factoring in state-level reimbursement for special education-related transportation costs (70.4%) and federal funding (10%), localities are still responsible for 60% of special education spending.<sup>11</sup> This disproportionate local burden is further exacerbated because raising taxes to cover special education costs is prohibited; instead, the funding must come from districts’ regular education budgets.<sup>12</sup> On average, Michigan intermediate school districts (ISDs) divert more than \$500 annually per pupil from their general education budget for special education costs.<sup>13</sup> In some districts, this diversion exceeds \$1,200 per pupil.<sup>14</sup> Because the maximum foundation allowance is \$8,409, some students are losing 10% or more of this revenue.<sup>15</sup> As a result, both special education and general education students lose out.

Figure 2. Encroachment per General Education Student by ISD, 2014-2015



## The Result: Poor Student Outcomes

Given the funding shortages and inequities plaguing K-12 education, it is no surprise that student outcomes have declined. In 2015, Michigan ranked 41st in the nation in fourth-grade reading skills, down from 28th in 2003.<sup>16</sup>

It is also no surprise that with Michigan's inequitable system of funding, significant achievement gaps exist. In 2016-2017, only 44 percent of

all third graders were proficient in reading; that drops to one-third for Latino students, 29 percent for low-income students, and one-fifth for Black students.<sup>17</sup>

Relative National Rank, Grade 4 Reading

	2003		2015
All Students	28 <sup>th</sup>		41 <sup>st</sup>
African American Students	38 <sup>th</sup>		41 <sup>st</sup>
Latino Students	22 <sup>nd</sup>		33 <sup>rd</sup>
Low-Income Students	35 <sup>th</sup>		45 <sup>th</sup>
White Students	13 <sup>th</sup>		49 <sup>th</sup>
Higher Income Students	24 <sup>th</sup>		48 <sup>th</sup>

Source: NCEES, NAEP Data Explorer

## Teacher Pensions Under Attack

In 2019, two proposals were floated that would weaken the foundation of the public school employee retirement system in an attempt to upgrade Michigan's infrastructure.

## The False Promise of Pension Obligation Bonds

The first scheme is for the state to borrow \$10 billion by issuing pension obligation bonds (POBs) to pre-fund pensions for school system employees.<sup>18</sup> In theory, if the stock market were to return a higher investment than the interest on the POBs, the earnings could be used to make pension payments and repay the debt. That would in turn free up school tax dollars no longer necessary to cover the unfunded pension liabilities. These could be used to repair the state's crumbling roads.

But this proposal hinges on the assumption that the rate of return on the bond proceeds will exceed the prevailing interest rate, which is far from certain.<sup>19</sup> If the POB proceeds fail to earn enough, liabilities increase, compounding the pension crisis. The Government Finance Officers Association (GFOA), a 20,000-member group of federal, state, provincial, and local finance personnel, warns against issuing POBs partly because their structure make investments extremely unpredictable.<sup>20</sup>

Moreover, GFOA notes that relying on income from POBs has created financial problems for localities in the past.<sup>21</sup> Detroit was forced to file for bankruptcy in 2014 after it was unable to make debt payments after it issued POBs with complicated interest-rate swaps in 2005 ahead of the 2008 mortgage crisis.<sup>22</sup> If the current economic decline resulting from the COVID-19 pandemic continues, it could wreak similar havoc on the state of Michigan if this proposal were to be implemented.

## The Consequence of Large Pension Debt

The second proposal would extend the schedule for repaying retirement liabilities by anywhere from five to 10 years, making more funding available immediately to pay for infrastructure improvements. But this pension scheme would cost more in the long term.<sup>23</sup>

The growth in Michigan's unfunded retirement liabilities has required more expenditures to cover these liabilities, siphoning money away from other education spending like teacher salaries, which have stagnated, threatening hiring and retention.<sup>24</sup>

## Charter Expansion Increases Financial Difficulties

### Declining Fiscal Stability in Public Schools

School choice has sharply cut enrollment in Michigan's traditional public schools. When students move to charters, their schools lose the per-pupil funding. This revenue loss is problematic because, even if public schools have less income, the costs of many services remain the same.<sup>25</sup> Unlike charter schools, public schools must pay for costs like transportation. They have higher concentrations of special needs students and English language learners, who require more resources.<sup>26</sup> In Michigan, a loss of about 15 percent of a district's enrollment to charters was associated with a \$300 per-pupil loss in the district's fund balance.<sup>27</sup> Researchers from Princeton University and the Brookings Institute argue that financial difficulties brought about by the presence of charter schools can cause traditional schools to shut down, which ultimately hurts students.<sup>28</sup>

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<sup>1</sup>[https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal\\_Brief\\_Basics\\_of\\_the\\_Foundation\\_Allowance\\_FY19\\_Update\\_Nov2018.pdf](https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_Basics_of_the_Foundation_Allowance_FY19_Update_Nov2018.pdf), 1.

<sup>2</sup> Ibid., 2.

<sup>3</sup> <https://www.fundmischools.org/wp-content/uploads/2018/01/School-Finance-Research-Collaborative-Report.pdf>, viii.

<sup>4</sup> Ibid., viii-ix.

<sup>5</sup> <https://edlawcenter.org/assets/Making-the-Grade/Making%20the%20Grade%202019.pdf>, 2-3.

<sup>6</sup> <https://edtrust.org/graphs/?sname=Michigan>.

<sup>7</sup> <https://files.eric.ed.gov/fulltext/ED581630.pdf>, 20.

<sup>8</sup> <https://pubmed.ncbi.nlm.nih.gov/28683161/>.

<sup>9</sup> <https://files.eric.ed.gov/fulltext/ED581630.pdf>, 6;

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.564.7665&rep=rep1&type=pdf>.

<sup>10</sup> <http://education.msu.edu/ed-policy-phd/pdf/Michigan-School-Finance-at-the-Crossroads-A-Quarter-Center-of-State-Control.pdf>, 39.

<sup>11</sup> Ibid., 38-39.

<sup>12</sup> [https://michiganachieves.com/wp-content/uploads/sites/12/2020/01/Education-Trust-Midwest\\_Michigan-School-Funding-Crisis-Opportunity\\_January-23-2020-WEB.pdf](https://michiganachieves.com/wp-content/uploads/sites/12/2020/01/Education-Trust-Midwest_Michigan-School-Funding-Crisis-Opportunity_January-23-2020-WEB.pdf), 11.

<sup>13</sup> <http://education.msu.edu/ed-policy-phd/pdf/Michigan-School-Finance-at-the-Crossroads-A-Quarter-Center-of-State-Control.pdf>, 2.

<sup>14</sup> Ibid., 42.

<sup>15</sup> Ibid., 42-43.

<sup>16</sup> [https://michiganachieves.com/wp-content/uploads/sites/12/2018/03/Top-Ten-for-Education-Not-By-Chance\\_The-Education-Trust-Midwest\\_March-2016-WEB-FINAL.pdf](https://michiganachieves.com/wp-content/uploads/sites/12/2018/03/Top-Ten-for-Education-Not-By-Chance_The-Education-Trust-Midwest_March-2016-WEB-FINAL.pdf), 11.

<sup>17</sup> Ibid., 11-2.

<sup>18</sup> <https://www.freep.com/story/opinion/contributors/2019/09/01/dont-mess-school-pension-debt-find-road-money-opinion/2164165001/>.

<sup>19</sup> [https://crr.bc.edu/wp-content/uploads/2014/07/slp\\_40.pdf](https://crr.bc.edu/wp-content/uploads/2014/07/slp_40.pdf); <https://www.gfoa.org/pension-obligation-bonds>.

<sup>20</sup> <https://www.gfoa.org/pension-obligation-bonds>.

<sup>21</sup> Ibid.

<sup>22</sup> [https://www.civiced.org/sites/default/files/detroits\\_bankruptcy\\_pensions\\_retirees.pdf](https://www.civiced.org/sites/default/files/detroits_bankruptcy_pensions_retirees.pdf).

<sup>23</sup> <https://www.freep.com/story/opinion/contributors/2019/09/01/dont-mess-school-pension-debt-find-road-money-opinion/2164165001/>.

<sup>24</sup> [https://crcmich.org/PUBLICAT/2010s/2019/memo1159-pensions\\_crowding\\_teacher\\_salaries.pdf](https://crcmich.org/PUBLICAT/2010s/2019/memo1159-pensions_crowding_teacher_salaries.pdf), 1, 4, 8.

<sup>25</sup> <http://education.msu.edu/ed-policy-phd/pdf/Michigan-School-Finance-at-the-Crossroads-A-Quarter-Center-of-State-Control.pdf>, 60.

<sup>26</sup> Ibid., 60-61.

<sup>27</sup> <https://www.aft.org/sites/default/files/decade-of-neglect-2018.pdf>, 11.

<sup>28</sup> [https://futureofchildren.princeton.edu/sites/futureofchildren/files/resource-links/charter\\_schools\\_compiled.pdf](https://futureofchildren.princeton.edu/sites/futureofchildren/files/resource-links/charter_schools_compiled.pdf), 13.