

# Kids First!

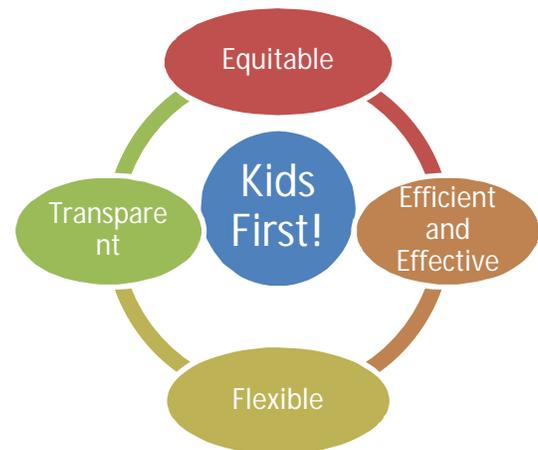
## EXECUTIVE SUMMARY

### Putting Kids at the Center of K-12 Finance Reform

Michigan's economic future rests on its ability to educate its students and create a strong workforce.

Accordingly, the state's public schools need to provide the highest quality educational process, so that all students can excel as individuals, and become contributing members of society. In order to do this, the state's finance program needs to have at its core the

best interest of kids. The aim in this proposal is to present ideas that would make Michigan school finance system more equitable, efficient and effective, flexible, and transparent.



### Guiding Principles of Proposed Reform

The recommendations in this proposal were created and are governed by the following guiding principles:

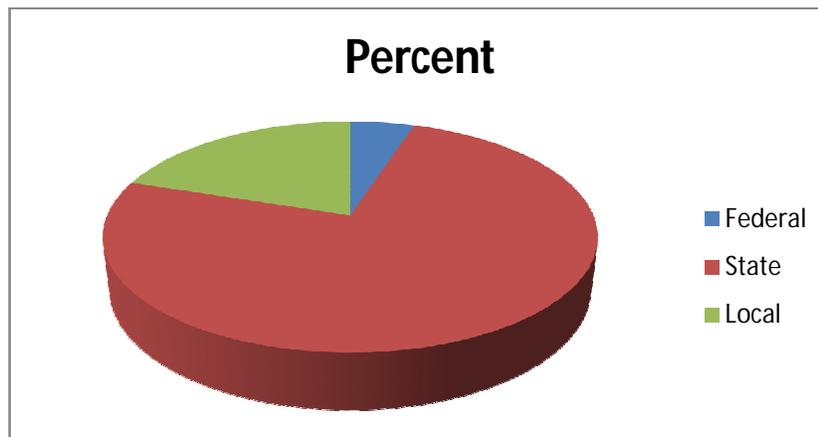
- **EQUITY** - Ensures a system of fairness. Equity will be addressed horizontally, vertically, and with equality of opportunity. (Kearney and Addonizio 2002).
- **EFFICIENCY and EFFECTIVENESS** - Dollars will be spent in a way that maximizes student achievement.
- **FLEXIBILITY** – Schools will be provided the freedom and opportunity for flexibility, creativity, and innovation in the use of resources.

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- **TRANSPARENCY** - Michigan citizens will have access to the details on the proposed funding system and citizens will be able to easily understand how money is allocated.

### Mechanisms for Raising Revenue under Proposed Reform

Public schools in Michigan currently receive a combination of federal, state, and local funds to pay for public school education with the majority of funding coming from the state. The passing of Proposal A in 1994 created a dramatic shift from local funding through property taxes to state funding, primarily through a hike in the sales tax from 4 to 6% and a reduction in property tax mills.



Sources of Public School Revenues (Proposal A)	
Source	Percent
Local	20
State	75
Federal	5

This *Kids First!* proposal calls for some shifting in funding from state sources to local sources. The Federal component will remain the same. The reasons for this proposed shift are two-fold: 1) to increase economic stability in the School Aid Fund as the State Education Tax (SET) holds up better during economic downturns (Arsen & Plank, 13) and 2) to shift some control and

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**flexibility** back to local sources unwinding some of the dramatic centralization that came about because of Proposal A.

<b>Sources of Public School Revenues (Proposed)</b>	
<b>Source</b>	<b>Percent</b>
Local	25-30*
State	65-70*
Federal	5

*\*Percent varies due to ability of local district to augment through an additional 3 mills levied for operating costs as outlined below under recommendation 2. If the local voters do not approve additional mills to augment state sources of revenue, then the percent provided by the state will be higher.*

This report makes two basic recommendations for changes to Michigan's current sources of revenue for school funding. The sources of Federal funds will remain unchanged.

***Recommendation 1: Increase the State Education Tax by 2 mills from 6 mills to 8 mills. In addition, establish a flat collection rate of 65% of total sales tax collected instead of the current 72.8% blended rate.***

In an effort to combat economic instability with such a reliance on sales tax revenue, this proposal calls for a shift in funding from state sales tax revenue to local property tax revenue collected as part of the State Education Tax.

***Recommendation 2: Permit ALL districts the ability to levy up to 3 mills of "enhancement" mills for operating costs.***

Currently under Proposal A, enhancement mills are only permitted on a regional basis rather than on an individual district basis. In this proposal, enhancement millages would be permitted at an individual district level only. This adjustment re-establishes local control and permits districts

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the opportunity to account for higher operating costs that cannot be covered with the basic foundation allowance. In addition, it permits districts the **flexibility** to seek out new and innovative programs that enhance student outcomes and to discard those that are working poorly for a continuous and ongoing system of improvement. Districts will be asked to report and reflect on the **effectiveness** of innovative programs adopted under enhancement millages. It also gives local districts the choice to participate in an enhancement millage and not be obligated just because of their location in the county. A comparison of the School Aid Fund revenue sources is outlined below.

### School Aid Fund (SAF) Revenue Source Comparison

Revenue Source	Proposal A	After <i>Kids First!</i> Reform
<b>Sales tax</b>	60% of 4% rate, 100% from 2%*	65% of entire 6% rate
<b>Use tax</b>	All from 2%	No change
<b>Income tax</b>	14.4% of collections from the 4.4% rate	No change
<b>Cigarette tax</b>	63.4% of proceeds from the .75% tax	No change
<b>Other tobacco</b>	Proceeds of the 16% tax	No change
<b>Liquor Excise Tax</b>		No change
<b>Lottery</b>		No change
<b>State tax on all property (SET)</b>	6 mills	8 mills
<b>Local Non-homestead Property Tax**</b>	18 mills	No change
<b>Local Enhancement**</b>	Up to 3 mills (regional only, voter approved)	Up to 3 mills (local, voter approved)

\*2014-2015 average was 72.8% (House Fiscal Agency)

\*\*Revenues from the tax on non-homestead property and from local enhancement millages remain at the local level and are not part of the SAF but are included in this table for comparison purposes.

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A comparison of the School Aid Fund revenue sources as it translates in dollars is outlined below.

### School Aid Fund Revenue Source Comparison in Dollars

Revenue Source	FY 2014-2015 (in millions)*	Kids First! Reform (in millions)
<b>Sales tax</b>	<b>\$ 5,493.3 (46.4%)</b>	<b>\$ 4,906.9 (41.3%)**</b>
Use tax	476.2 (4%)	476.2 (4%)
Income tax	2,453.1 (20.7%)	2,453.1 (20.7%)
Tobacco tax	350.4 (3%)	350.4 (2.9%)
Lottery	776.0 (6.5%)	776.0 (6.5%)
State Education Tax	<b>1,841.3 (15.5%)</b>	<b>2,455.1 (20.7%)***</b>
Real Estate Transfer	245.3 (2.1%)	245.3 (2.1%)
Other	217.7 (1.8%)	217.7 (1.8%)
<b>TOTAL</b>	<b>\$11,853.3</b>	<b>\$ 11,880.7</b>

\*Source: House Fiscal Agency, January 2015

\*\*\$7549.1 total sales tax revenue at 65%, House Fiscal Agency, June 2014

\*\*\* 8/6 of FY 2014-2015 amount, \$1841.3

### Recommendations for Allocation of Funding under Proposed Reform

This report makes two basic recommendations for changes to Michigan's current funding formula under Proposal A for allocation of funds. The allocation of Federal dollars will remain unchanged.

***Recommendation 1: Revise Proposal A's state formula for per pupil funding to a equalization formula that is the equitable amongst districts.***

To ensure **horizontal equity**, or the "equal treatment of equals", a base level of per-pupil funding under this proposed reform would be provided to fund a child's education. No matter where a child lives in the state, he or she will receive the exact same base level funding as every other child in this state. This would thereby eliminate the three groups established under

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Proposal A based on their previous levels of education revenues also insuring equality of opportunity. Currently sixty-six percent of all school districts ('14-'15) receive either the minimum \$7,126 or the public school academy (PSA) \$7,218 per pupil. The amount proposed for a base level of funding in this paper is **\$7,000** which is a rounded amount slightly below what the majority of schools currently receive as their per pupil foundation allowance under Proposal A. Schools will receive adjustments to their base level of funding as outlined below in recommendation 2. This straightforward per funding pupil allocation eliminates questions under the current system as to why different districts receive different amounts; thereby aiding in making the finance system easy to understand and more **transparent** for citizens.

***Recommendation 2: Adjust the state base level of per-pupil funding for categories of students that require more costly instruction.***

To ensure **horizontal equity**, or the “unequal treatment of unequals,” the base level of per pupil funding formula will be student-based with weights for the more costly types of instruction. This shift helps to adjust the model to reflect the cost of educating students based on their needs. Because the weights are straightforward and easy to understand, this adjustment to the per-pupil funding is also easy to understand and more **transparent** for citizens. For special education students and at-risk students, this weighted allocation would replace the partial district reimbursement for special education and the at-risk programs currently in place.

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The weights are outlined below:

### Allocation Weights and Associated Additional Dollars

Category	Weight	Additional \$ Per Pupil*
<b>Special Education:</b>		
Severe impairment (self-contained)	2.000	7000
Visual impairment	1.500	3500
Hearing impairment	1.250	1750
Moderate impairment (self-contained)	1.250	1750
Learning disabilities, speech & language, other mild impairment (push-in or pull-out)	1.100	700
English Language Learners	1.015	105
At-Risk Students**	1.015	105
K-3 Students	1.005	35
High School Students	1.004	28
Small/isolated Districts***	1.003	21
Declining Districts****	1.003	21
Gifted and Talented	1.002	14

\* Calculated as (\$7000 x weight)-\$7000

\*\* At-risk students are also addressed in Federal Title I funding. Accordingly, this state weight factor is supplemental to those funds.

\*\*\* To adjust for economies of scale for rural, small, or isolated districts.

\*\*\*\* To compensate districts with continued declining enrollment to financial burden over a longer period of time. When districts have stabilized, the weight would no longer be afforded.

### Conclusion

Educating students for 21<sup>st</sup> century learning is more important than ever. Obtaining a high-quality education will increasingly determine each student's prospects for employment and income. Michigan's economic future rests in the hands of the next generation. Budgets are tight and will remain tight. Michigan policy makers need to reevaluate the current school finance system in consideration of economic stability and fluctuations that can arise in revenues that are obtained through sales taxes by shifting some of the revenue raising back to the local property tax holder. In addition, Michigan policy makers need to return some of the control back to the local communities so that decisions can be made at the local level for what is most effective and

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efficient for educating their kids. Consideration should be given to the diverse needs of students and how it costs different amounts to education different students, keeping in mind the “unequal treatment of unequals,” while also considering the “equal treatment” of equals. Michigan citizens also have the right to have a system that is easy to understand and transparent to all. The aim in this Kids First! proposal is to present ideas that would make Michigan school finance system more equitable, efficient and effective, flexible, and transparent!

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