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AUTHOR	Fulford, Nancy; Kroeger, Marianne
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ABSTRACT

In 1993 the Michigan Legislature voted to eliminate the property tax as a source of school revenue, cutting the educational budget by $6.3 billion. An alternative funding source was not identified. Proponents of the bill say it will move the Michigan educational system into the 21st century; opponents criticize the bill as being a political campaign. Michigan's education history shows attempts at restructuring educational financing; between 1992 and 1992 voters had 11 chances to vote on finance reform programs, all of which were defeated. With Michigan's educational system facing a financial crisis, a special summit was held in September of 1993 to address the problem. James Guthrie, John Augenblick, and Allan Odden spoke at the summit. Guthrie believes finance reform must occur along with governance changes. Augenblick sees the property tax cut as a move toward creating equity for taxpayers; however, the cut possibly creates a pupil equity problem. Odden promotes cutting the property tax, but raising the sales tax to replace the lost revenue. In March 1994 Michigan will vote on a rise in sales tax from 4 to 6 percent; if it is defeated, the income tax will be raised from approximately 4 and a half percent to 6 percent. (KDP)

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Supporters of S.B. 1 believe its passage was a positive step to advance education to the 21st century, something that past attempts at reform have failed to do. Critics charge it was a political campaign maneuver engineered for the 1994 gubernatorial election. One thing is certain: The elimination of property tax funding for schools has created a crisis that must be resolved.

Winter 1994

Funding Crisis Forces Action in Michigan

by Nancy Fulford and Marianne Kroeger, NCREL

In response to a request from the Michigan Department of Education, NCREL provided assistance for a one-day convocation on the school finance crisis, prepared this report, and conducted an evaluation of the event. NCREL's work on this report and the evaluation of this convocation was supported by a grant from the Kellogg Foundation.

Introduction

Michigan lawmakers created a $6.3 billion shortfall in school budgets when they voted last July to eliminate property tax as a source of school funding beginning with the 1994-95 school year. By enacting no replacement revenues, lawmakers have forced the Governor, the Legislature, and the public to address the school finance issue. While the whole country watches, Michigan—the first state to eliminate the sole source of funding without any solution—must now develop a new funding system for education.

The legislation, Senate Bill (S.B.) 1, includes four significant provisions:

1. All property is exempt from local school district and intermediate school district operating millage beginning December 31, 1993. Consequently, school funding from local property taxes for 1994-95 is eliminated.
2. Starting in 1994 the assessment on which taxes are levied is delayed one year. Therefore, the 1994 levy will be based on assessments as of the end of 1992 rather than the end of 1993.
3. No more than two ballot requirements for millage elections will be allowed annually, and questions of millage renewal and increase must be separate. The ballot must also state the amount of revenue to be raised by the millage.
4. Local governments are not allowed to automatically roll up "Headlee" millage rates, which are increases without voter approval, in years when assessments increase less than the rate of inflation. In 1994 millage reductions required by the constitution will permanently reduce the maximum authorized millage rates.

Michigan's current school finance crisis has resulted in part from a history of school funding reform initiatives.

Supporters of S.B. 1 believe its passage was a positive step to advance education to the 21st century, something that past attempts at reform have failed to do. Critics charge it was a political campaign maneuver engineered for the 1994 gubernatorial election. One thing is certain: The elimination of property tax funding for schools has created a crisis that must be resolved.

In an effort to address the problem, the State Board of Education called an emergency summit on school reform. Held in Lansing on September 13, 1993, "Hope for the Children—An Emergency Convocation on Educational Reform and School Finance" provided a forum for discussion on reform and finance issues facing the education community. Sponsored by the Kellogg Foundation, the Joyce Foundation, the Michigan Association of Computer and related technology Users in Learning (MACUL), the North Central Regional Educational Laboratory (NCREL), and many other contributors, the daylong event brought together both state and national experts on school reform.

National perspectives were offered in three keynote presentations, each followed by a panel of experts. James Guthrie, a professor at the University of California at Berkeley, spoke on school restructuring and design. John G. Augenblick, president of a Denver-based school finance consulting firm and vice-president of New Directions for Education Policy in the States, addressed the issue of equity in public school finance. Allan R. Odden, a University of Wisconsin professor and codirector of the Finance Center, Consortium for Policy Research in Education (CPRE), spoke on public school finance reform.

The convocation also included a special town meeting, guests from the Michigan Senate and House, and the Superintendent of Public Instruction. Following the town meeting, Governor John Engler delivered concluding remarks. Approximately 800 invited guests attended the convocation in Lansing's Civic Arena. The day's proceedings also were broadcast live via satellite to sites across the country.

Michigan's History

Michigan's current school finance crisis resulted in part from a history of school funding reform initiatives. Some efforts sought to reform the Michigan school finance system through statutes. The Spencer-Ryan plan (P.A. 100) in 1970 was developed by Republican Representative Roy Spencer and Democratic Speaker of the House William Ryan. It contained a two-year membership formula: The 1970-71 formula was a conventional deductible millage formula; but the 1971-72 formula was a power-equalizing or equal yield formula that would guarantee a local school district an equal return in state and local funds for each mill levied.

This provision, however,was combined in a proposal that provided state reimbursement

3

for a part of the teachers salaries in non-public schools. So when voters later adopted an amendment to the Michigan Constitution prohibiting state aid to non-public schools, the rest of the package fell apart. After the repeal of the Spencer-Ryan plan in 1971, a traditional deductible millage formula was adopted.

A 1972 Michigan Supreme Court decision prompted the Governor and the Legislature to take action. Milliken vs. Green challenged the existing school finance system. Subsequently, the Court ruled that the system violated constitutional provisions outlining the state's responsibility for education. Then in 1973 the state adopted Public Act 101, which authorized a new membership formula based on the power equalizing concept. Because of this, the Supreme Court vacated its 1972 decision. The equal yield formula has been adjusted over the years, but today remains basically the same membership formula as in 1988-89.

Other efforts have addressed the issue of school finance through constitutional reform.

Other efforts have addressed the issue of school finance through constitutional reform. Between 1972 and 1981 the electorate voted on—and defeated—five constitutional ballot issues relevant to school finance reform. Proposal C was initiated by the Governor and the Michigan Education Association (MEA) and placed on the ballot in November of 1972. Its purpose was to require the state to assume the primary responsibility for financing elementary and secondary education and to reduce reliance on local property tax for school finance. The Legislature was to determine the means for imposing taxes at the state level to finance schools. It was defeated 58 percent to 42 percent.

In 1978 Proposal H sought to establish an educational voucher system for every child attending public and nonpublic elementary schools. A general state taxation program would support the voucher system. The proposal was defeated 74 percent to 26 percent.

Two 1980 proposals would have affected school finance: Proposal A (the Smith-Bullard Proposal) and Proposal C (the Coalition Tax Plan). The Smith-Bullard Proposal attempted to equalize per-pupil revenues and reduce the reliance on the property tax over a five-year period. The proposal was defeated 79 percent to 21 percent. Proposal C's major provision was a state equalized valuation exemption of $7,100 on homesteads. The revenue loss was to be offset with increases in both sales and use taxes as well as state income taxes. This proposal was defeated 74 percent to 26 percent.

The Governor and the Legislature called a special election in the spring of 1981 to consider a tax shift proposal called Proposal A. Its primary aim was to reduce property taxes on homesteads and individuals' city income taxes. The proposal would increase state sales taxes, reduce state income tax credits, and reduce the state budget. This proposal was defeated 72 percent to 28 percent.

This pattern of proposed amendments to the Michigan Constitution on school finance reform and property taxes continued. In November 1989 a proposal to reduce property taxes, revise the school aid formula, and raise the sales tax to 6 percent was defeated along with a proposal to increase education spending and raise the sales tax to 4.5 percent. From 1972 to 1989, nine proposals to change school finance plans and to reduce property taxes were defeated. This left Michigan still operating with a permanent budget deficit and citizens with a higher tax burden than the U.S. average.

In the 1990s the problem continued as it had for some 20 years with the inequities rising. In 1992 when Governor John Engler was elected, he proposed a constitutional amendment for the November 1992 ballot. The amendment was designed to cut local property taxes and cap future increases in the assessed property valuations. It was known as Proposal C. At the same time, a Democratic proposal, Proposal A, was initiated. It strived to provide property relief by eliminating a capital gains deduction for businesses. Both proposals were defeated by large margins. Between 1972 and 1992 voters had 11 opportunities to change the means of financing schools—either statutorily or constitutionally—and they defeated every measure.

The Olmstead/Kearney Plan followed in 1992-94 while the Governor introduced S.B. 146, both aimed at solving the ongoing problem. A Bipartisan Legislative Proposal that linked property tax reform with school reform also was designed. The Governor made another attempt called the "School Taxpayer Agenda Reform" or STAR. In July 1993 Senate Bill 1 was adopted, which forced some kind of change in the state's response to school reform and school finance.

Having presented both the current status and a historical context for school finance in Michigan, we turn now to the summaries of keynote presentations from Michigan's emergency summit so that readers may consider the possible solutions to this funding crisis.

James Guthrie, University of California at Berkeley "School Restructuring and Design"

"I must confess to you that it takes a lot of chutzpa to travel 2,000 miles from a state that's falling on its face and offer advice in a place such as Michigan," Guthrie admitted. Then he posed this question: "How is it that we can link school finance with the operation of schools in a manner that will give Michigan the kinds of schools that almost inevitably it will need for the next century?"

While it is difficult to predict what schools should be like or need to be in the future, he said, there are a few things that can be said with confidence:

1. Expectations for academic achievement will remain high or intensify.
2. Children and youth will need more attention from social institutions.
3. Social and technological change will continue to be rapid and education will need the organizational flexibility and capacity to continually respond.
4. Resources for education will be insufficient.

The appropriate link between school finance and school operation, Guthrie said, is to have arrangements and incentives that enable schools continually to adapt to new circumstances and reassess how they are doing. A school finance system should induce all professional educators to search for ways in which to do better, and for means by which to assess how well they are doing now.

"How is it that we can link school finance with the operation of schools in a manner that will give Michigan the kind of schools that almost inevitably it will need for the next century?" James Guthrie

To facilitate education change, finance reforms must occur in tandem with governance changes. Desirable conditions, such as incentives for professional educator performance, parent engagement and citizen commitment, and performance and fiscal accountability are impossible to induce through state taxation and revenue distribution arrangements alone.

Governance and finance changes must balance three principal and conflicting interests—equity, efficiency, and liberty. How can Michigan do this? "All you have to do is to look to California and just mirror the opposite, and you're bound to be in better shape," Guthrie quipped. He cautioned against repeating mistakes made elsewhere:

1. Exclusive reliance upon state revenues for school support
2. Overly large school districts
3. State prescriptions regarding instructional processes

California has a state system of school finance, and local boards have no taxing discretion. They can't add to what is spent, whether they want to or not. There is no resilience left in the system, and California has fallen from the 5th highest per-pupil spending state in the nation to the 41st. A local school district can't buffer a recession by generating any resources for itself, so whatever happens to the state in an economic sense happens to every school district.

Centralizing finance in this manner has turned state policymaking almost completely over to special interest groups. All of the decisions are made in the state capitol and there is little, if any, time or resources for teachers, parents, or other citizens to participate in influencing those decisions. Only the voices of special interests are heard.

As the state sinks further into mediocrity, local school districts have little ability to operate against the tide. Professional educators typically want more and more state funding, which they see as a stable source of revenue. Yet the higher the proportion of state contributed school revenues, the lower the per-pupil expenditures.

The appropriate link between school finance and school operation, Guthrie said, is to have arrangements and incentives that enable schools continually to adapt to new circumstances and reassess how they are doing. A school finance system should induce all professional educators to search for ways in which to do better, and for means by which to assess how well they are doing now.

If you force education into a competitive political arena with every other social sector service, it often does not emerge very well, Guthrie said. By relying to some degree and with some balance upon locally generated resources, education has an opportunity to buffer itself from other state exigencies and to have a resource base of its own.

Citizens dislike property taxes, which is understandable. Nevertheless, an appropriately administered property tax is a very resilient source of income. In a recession, income taxes and sales taxes will take a downward turn, but property taxes will remain remarkably stable. Only at the last moment of financial stress will people default or become delinquent on their property taxes.

People also believe that considerable savings can be made by consolidating school districts into even larger units and that consolidation provides better education for youngsters than small districts. One is hard pressed to find evidence that either one of those beliefs is true. By creating larger and larger districts, you lose accountability by making the system remote and you lose the engagement of parents and citizens in the process.

What are some of the fundamental elements a school finance system must embody? Guthrie offered five: stability, measurable goals, school-based management, public school choice, and state-operated assessment linked to goals.

Without a system of resources that continually has the capacity to be adequate, to be distributed equitably, and to be stable, there can be no progress. There will only be incentives to improve if local school districts, teachers, and parents have some certainty about what's on the horizon. One possibility for the Legislature to consider is forward funding guarantees—that at least over a two-year period, school resources will not fall below a certain level.

Once we have established that the system must be adequate and equitably distributed, and have some kind of stable resources, it is crucial that state government adopt a set of goals for Michigan schools. These can be expressed as some core of knowledge or performance, or skills or activities that state government wants every youngster in Michigan to know. They have to be measurable, or there is no reason to have them. The system should specify the major directions in which schools and students in Michigan are expected "to travel." There should be minimal core with a lot of discretion for local school districts and schools and for students to add to it on the periphery.

In a recession, income taxes and sales taxes will take a downward turn, but property taxes will remain remarkably stable.

It is crucial that the state adopt a system of school-based management. The individual school must become the principal unit of management, not the district. There is a role for school districts, but parents and students do not identify with school districts; they identify with schools.

Another component is to permit parents to choose from among public schools. This is easier to arrange in the more densely populated areas, but it is complicated. The best example of a public school choice system in the United States is Cambridge, Massachusetts.

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The final component is a state-operated system of assessment, linked to the state goals and performance objectives. This system ought to enable us to generalize the performance of each individual school building so that we know what is happening at a school; it is insufficient to measure by district. Each school should prepare an annual performance report, one component of which would be its scores on statewide testing. Other components should include student information, the qualifications of the teachers, and how the school is spending its money. Although states should not prescribe the activities of professional educators, they should prescribe the expected outcomes. With one possible exception, Guthrie believes that how those outcomes are achieved should be left to the discretion of professional educators.

The exception to the state's role in prescriptions for educators is in the areas of preservice preparation of teachers, inservice preparation, and incentives for professional activity. Too often in school districts, all of the inservice training resources erode so quickly that there is no real ability to continually tailor a system of training for existing or newly hired teachers. Guthrie suggests setting aside two to three percent of a school's budget for the continued professional development of teachers.

In the new school finance plan for Michigan, Guthrie proposed paying substantial attention to providing local schools with the resources and the discretion to use them, and for accountability, using a set of outcome standards, not dictating processes.

John Augenblick, Augenblick, Van de Water, & Myers "Equity in Public School Finance"

Augenblick described Michigan's action in repealing the use of property tax for school funding as a "bold step" and said it appeared to him that no one was trying to destroy education in the process. He mentioned that *USA Today* had asked what he thought of the Michigan situation. "I said, 'It's as if they took a dose of hemlock, and the only problem is no one is standing by with the antidote.' And I think what we're here to do today is to begin the process of finding that antidote."

Augenblick explained that you must deal with three basic kinds of issues in changing the school finance system. There are philosophical issues such as how much variation should be allowed in the system and to what extent should districts be allowed to provide extra money for education. There are also technical issues and political concerns.

Most legislators skip to the third issue and spend almost no time on philosophical or technical issues. You must "hold the Legislature's feet to the fire," said Augenblick and force them to deal with the first two before they jump into the third. The problem is that even if you have agreed philosophically and overcome technical problems, you still have to deal with the issue of altering the distribution of money, and people are very uncomfortable when money gets switched around.

No matter how Michigan decides to restructure its schools, equity must be a concern. However, not only are most people—particularly policymakers—reluctant to define exactly what they mean by equity, they also often don't know what they mean. And, they are inconsistent in how they talk about it. It has been Augenblick's experience that equity has been used to justify almost anything, so he advised caution in dealing with those who use the word to justify almost any change they support.

We talk about two distinct kinds of equity: equity for taxpayers and equity for children. Across the country, some states emphasize one more than the other; others treat them more equally. Michigan's elimination of property taxes appears on the surface to be aimed completely at equity for taxpayers who perhaps view property taxes as unfair. If all that were necessary was to replace the lost property tax revenue with revenue from a tax that is perceived as fairer, the problem for taxpayers might be solved. But that alone will not solve the pupil equity problem, which takes more work.

The problem, said Augenblick, is that we don't know how funding is related to pupil performance. If we knew that, we could create a very equitable school finance system, both for taxpayers and for pupils.

Equity for school children means that all pupils can perform, test, or achieve at a standard level that the state believes to be appropriate; it also means that all pupils have an equal opportunity to develop skills beyond that level. The problem, said Augenblick, is that we don't know how funding is related to pupil performance. If we knew that, we could create a very equitable school finance system, both for taxpayers and for pupils. Some research results suggest that there are positive relationships, based on a focus on class size or characteristics of teachers. But we don't know that well enough to precisely and confidently say how to spend six or eight billion dollars in such a way that would maximize student achievement.

Without such precise knowledge, we must define pupil equity in terms of the resources that we provide the children, not the outcomes. Most of the litigation of the past 20 years has been concerned with revenue to expenditure disparities that are too great across school districts of a particular state and the strong relationship between those disparities and the wealth of the communities. With both of those conditions, the probability increases that a court will vote in favor of the plaintiffs. Recent litigation has refined those concerns and added the question of adequacy as a possibility for successfully suing a state.

Cautioning the audience that he is not a lawyer in these cases and is not offering a legal opinion, Augenblick presented his view of cases from around the country. Overall, litigation and its focus on pupil equity asserts that the state has the responsibility to assure equity for all pupils. It is the state legislature's responsibility to do that—not the state education agency's, not the school district's, not the governor's. Second, litigation states that legitimate reasons exist for revenue and expenditure levels to vary across school districts, based on different cost pressures. No one talks any more about equity meaning equality or equal dollars for every student.

Third, litigation states that it is not necessary to achieve perfect equity, but if you don't, then the state must have a strong rationale for distributing funds in ways that do not consider either the needs of pupils or the wealth of the education providers. Although political compromises may be necessary to implement a system, they are only acceptable in the short run.

What does this mean for Michigan? How does the concern for equity affect the structure of school finance systems? First, no matter how you choose to organize public education, the distribution of funds must be based on the characteristics of the pupils, the programs in which they are enrolled, and the cost pressures faced by the service providers. Second, because it is critical that the state define what it means by an adequate level of resources, you must first define equity and then define precisely what you mean by an adequate level of resources.

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Third, the state can permit additional revenues to be provided, whether by parents, schools, or school districts, but everyone must have substantially the same opportunity to raise them. Fourth, in order to control revenue disparity, the state may need to control the extent to which additional revenues are provided. Fifth, all components of the system must be considered when you talk about pupil equity and taxpayer equity. Components must include such things as regular instruction, special instruction, transportation, support services, and personnel benefits, not just what might be considered the biggest expenditures of the system.

This is possible; other states have done it. The most notable example in the last few years is Kentucky. In 1990 Kentucky revamped its school finance system at the same time that it restructured its education delivery system. In the four years that the system has been operating, no one has gone back to court or suggested that the funding system needs to be changed.

The first thing Kentucky did was define what seemed to be an appropriate per-student base level that was the same for all students. Then they adjusted that base number for a variety of pupil, programmatic, and district cost pressures, factoring in costs associated with at-risk students, special education, and a variety of other things. Therefore, although the base started out the same, in the end it was different in every school district in recognition of the pressures placed on those districts to deliver particular services to particular students.

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Kentucky also allowed districts to generate funds above the base and provide support for districts with the least ability to pay. Also, they limited how much revenue any district can raise above the base, regardless of their willingness to do so. The state also provided for additional funding for a variety of noninstructional services such as technology and testing. And they have developed a system of allocating money for schools that does better than expected, so there is an incentive component.

Local property taxes provide about 30 percent of the money for education. (Kansas last year enacted a new school finance system that is very much like Kentucky's, but they use a state property tax.) So, it is possible to build a system and to fund that system from different sources than are presently being used.

None of these approaches achieves perfect equity, and all trade off between equity and local control when it comes to how much local money can be raised. Yet they all share similar characteristics. They all give broad control to school districts to decide how to spend funds; they attempt to change the way that the schools are evaluated; and they hold schools accountable based on student performance. Still, in addition to defining equity and defining your base, you also need to be able to measure equity. You need to be able to measure it so that you can monitor it over time.

Allan Odden, CPRE Finance Center, University of Wisconsin-Madison "Public School Finance Reform"

Calling Michigan's action bold on one hand, Odden commented that he knew of no other time in the country's history that a state eliminated property tax as a fiscal support for schools without creating a strategy for revenue replacement at the same time.

"I think it's a bold action if your goal is to cut revenues for government or schools," he said. "It may not be a bold action if you're concerned about the funding of schools and the quality of schools and the level of revenues."

Michigan has been working on the issue of reducing the property tax and replacing it with greater state taxes for 20 years without success. This history includes 11 referendums, all promising to reduce one tax by raising one or two others. People generally believed that such a move would result in a net increase in taxes, so they voted the referendum down.

The perplexing thing about Michigan, Odden said, is that the state and local taxes, per capita, are about the same as the national average. Property taxes are about 31 percent above the national average, but sales taxes are about 31 percent below, so the total tax burden is normal for the national average.

Property taxes as a percentage of personal income (4.7%) are the highest of Michigan's neighboring states, but not among the country's top ten. (Michigan is 11th.) There are other states, such as New York and Connecticut, where the property tax poses a greater burden on its residents.

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A protective factor in Michigan is the "circuit breaker," which is the most generous program of its type in the country. The state spends approximately $800 million to shield people with incomes just above $82,000 from some degree of property tax overburden. The Headlee Amendment also functions to protect people from inordinate increases in assessments, except for those that were voted in by the people. Nevertheless, Michigan has tried again and again to reduce the property tax and replace it with higher state taxes.

Odden proposed that a reasonable approach is to cut the property tax by some level and replace it with a sales tax higher than the current 4 percent. But that's difficult because the sales tax is written into the state constitution.

What generally happens when reform efforts are required on a short timeline is that revenues never get fully replaced and the function ends up with less money. For example, Oregon took such an approach, although not as drastic as Michigan's. Their proposal was to reduce the property tax by some substantial amount over five years. They cut the revenue by 20 percent a year for five years. A state surplus in the first year covered the lost property tax revenue. However, there was no state surplus the next year and no new taxes were enacted, so the education budgets have been cut. Unless something happens, it is likely that the education budgets will be cut again next year and the year after.

California took a similar route but for a different reason. Proposition 13 was enacted in 1978. The California Legislature, too, had a history of wrestling with rapidly rising property taxes and never agreeing on how to control them. Because the state had a large surplus at the time of the referendum, one could reasonably argue that it was a rational decision to cut property taxes.

The state immediately took the surplus and bailed out the system, providing short-term relief. They did not, however, cut expenditures in the high-spending school districts by 30 to 50 percent to equalize spending across districts. So when school finance equity was not obtained, the state had to fund and set the spending level for all districts. When the state is obligated to provide the bulk of school funding from the state budget, Odden said, you find over time that the state can't afford it.

California's sales tax and income tax are twice as high as Michigan's, and even with several other state taxes, they still can't fund schools adequately. With the schools subject to the vagaries of the state national economies, California is in terrible shape right now. Furthermore, the schools have been even-funded for three years (the same dollars per child each year), so inflation is decreasing the value of the dollar.

Real education spending per pupil relative to other states has decreased in California; in the '60s California was in the top 25 percent of the country; now they are in the bottom 25 percent, lower than Michigan. In addition, the quality of the system has declined. It has been shown that if you cut the revenue source down, you must either watch the system decline or come up with some new strategies that will, even with stable or declining resources, make the system better.

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Because the revenues have been cut out in Michigan, the optimistic scenario is to replace those revenues on a dollar-for-dollar basis. That probably would include or assume the people voting in an increase in sales tax. But Odden suspects that a more reasonable scenario is that the money allocated to schools is going to decline, even though probably more is needed to make it a world-class education system. The issue, then, is finding strategies to improve the quality with stable or declining resources, which is the thematic issue, not only for schools in Michigan, but for government agencies across the country and for all private sector organizations.

Concerning revenue sources, Odden offered three comments:

- Eliminating property tax for schools and replacing it solely with state money is a bad idea.
- Some significant amount of property tax for schools should be retained, simply because it's a stable revenue provider.
- There ought to be some local revenue raising authorities put into the system. In Michigan, that probably would be some element of local income taxes.

In order to develop a new finance system and program quality, we need to look back at whether or not spending has increased in the past. Whether you look at Michigan or national numbers, spending actually has gone up substantially on an average per-pupil basis. From 1960-1990 it went up about 210 percent in real terms, while achievement remained the same nationally. That tends to negate the statement, "We just need more money for schools," said Odden.

During this same time period, we served more students with disabilities and more poor and needy students, but the overall achievement level remained the same. Therefore, we have a productivity problem. Regardless of the revenue situation, quality and student achievement need to improve. The reform strategy that seems to be getting a consensus around the country has the following characteristics:

- Ambitious student outcomes and expectations that all students will perform at high levels on thinking and problem-solving skills
- High quality curriculum standards coupled with new and revised instructional materials
- New forms of performance assessment, strongly linked to the curriculum standards, that indicate what students know as well as what they can do, which can be used to measure student and system progress toward goal attainment
- Development of teacher expertise to include the knowledge and skills needed to teach this curriculum and produce the new high levels of student learning, i.e., substantially expanded professional staff development along with dramatically revised preservice training
- Restructured management and governance, including site-based implementation

Translating all of this to a finance system, Odden offered the following strategy:

- Set the new finance system in an achievement-oriented context
- Fund schools rather than districts
- Direct more money to schools in a lump-sum basis and give schools more authority over school personnel
- Develop a school-level fiscal information system, such as a computer program allowing each school access to its fiscal information
- Invest between 2 and 4 percent of revenues in ongoing professional development
- Redesign the teacher compensation structure, shifting from an education- and experience-based salary structure to one based more directly on skills and knowledge

With regard to the specific structure of funds that should go to the schools, Odden offered three components: (1) a high base of dollars for all students on a per-pupil basis, (2) extra dollars for low-income students, and (3) an adjustment to reflect regional prices.

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Recent Action

Late in December 1993 the Governor and a bipartisan group of Legislators enacted a revision of the school funding infrastructure. Under a package of laws, a statewide ballot will be before the electorate on March 15, 1994, that features a sales tax increase from 4 to 6 percent. If rejected, residents will see an increase from 4.6 to 6 percent in the state's personal income tax. In addition, the state's main business tax, the Single Business Tax, will be raised from 2.35 to 2.75 percent. Two companion laws, Public Act 335 and Public Act 336, change the school code to improve education quality and to allocate the amounts of the dollars to be spent on educating children in Michigan.

Both plans would reinstate some property taxes on businesses and homes, but the ballot plan would reinstate less property tax on homes. The effect of the new legislation on individuals will vary based on income, property value, and school district. The economy and the new taxes on individuals may have an even greater impact on the Governor and lawmakers who are up for election in November.

What Next?

Because this document went to press before Michigan's special statewide ballot went to voters on March 15, we can only hope this story has a happy ending . . . one that will improve the quality of public education for Michigan's young people and help other states as they try to resolve the complexities of school finance.

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Regional Educational Laboratory
1900 Spring Road, Suite 300
Oak Brook, IL 60521-1480
Telephone: (708) 571-4700
FAX: (708) 218-4989
GTE: ncrel.lab

Jeri Nowakowski, *Executive Director*

Deanna H. Durrett, *Regional Policy Information Center (RPIC) Director*

Nancy Fulford, *Editor*

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North Central Regional Educational Laboratory
1900 Spring Road, Suite 300
Oak Brook, IL 60521-1480
(708) 571-4700