



# SCHOOL FUNDING IN MICHIGAN

## *Common Myths*

By Michael Van Beek



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# INTRO

The number of students in public schools — and the dollars tied to them — are on the decline as families leave Michigan in search of employment. Compounding the problems for school boards and administrators are rising costs, most of which are tied up in labor. There is a lot at stake for school employees, students, parents and taxpayers, so it's not surprising that the money-related debates become fertile ground for school funding myths to take root.

The funding mechanism for Michigan's public schools is excruciatingly complex. It includes money from local, state and federal sources, some of which arrives via a state-controlled distribution formula, and some from local property taxes, special "categorical" programs, borrowing or grants. Matters that might seem simple — like how much money different districts receive, how the amounts differ between them and where the money comes from — are in fact hard to decipher.

For example, there are numerous misconceptions surrounding the "foundation allowance," the largest single component of school funding. Since the state Legislature controls the exact amount each year, the political battles surrounding it get the most attention, leading many to believe that this is schools' only revenue source. Legislative control also gives the perception that the "foundation allowance" is a grant from the state to each district. In reality, it's a complicated formula that includes both local and state revenue sources.

Some myths are perpetuated by groups that perennially call for "equal" and "stable" funding. That drumbeat fosters the impression that current funding is neither. Strictly speaking, funding is not equal — and never will be. Not all communities or student populations are the same, and funding levels cannot be separated from how well (or poorly) the state is doing as a whole. Michigan's public schools, however, are more equally funded today than they've ever been, and the mechanisms to collect and distribute the

money have proven remarkably stable, especially compared to nearly any other public- or private-sector institution.

Other myths abound. When voters approved Proposal A in 1994, the largest single revenue source for the system became a statewide 6 percent sales tax, rather than local property taxes. When a district's revenues don't keep up with rising costs, reliance on the sales tax is often blamed. Yet even after the shift, the sales tax still contributes only about 20 percent of total public school revenues.

Similarly, the role of the lottery is often misunderstood. In its marketing, the Michigan Lottery loudly trumpets its contribution to education, but this money amounts to less than 4 percent of the complete school revenue pie. An upsurge in federal revenues since 2002 has reduced the relative proportions of both the sales tax and the lottery ingredients of that pie.

Myths about revenues and expenses are often perpetuated by self-interested special interests groups. Rather than embrace reforms that would help educate children more effectively and efficiently, school employee unions routinely block reform and instead demand more money.

In fact, as a group, school employees have been remarkably insulated from the "lost decade" of Michigan's ongoing recession. That doesn't stop the Michigan Education Association union from making claims that concessions by its members have saved taxpayers \$1 billion over the last three

years. In fact, employee compensation was higher in 2008 (the most recent year for which data is available) than in 2006. Relative to the incomes of the population that supports them, the average Michigan teacher's salary has been the highest in the nation from 2003 to 2009.

Even some assumptions that seem intuitive are mythical, such as the idea that smaller classes produce better results. At best, the research on this is mixed. The quality of the teacher at the head of a classroom matters much more than the number of students in it. Moreover, Michigan has more school employees per student than ever before, yet objective achievement measures haven't budged.

The following is no myth: The outsized political power of the state's largest school employee union has contributed to a vicious cycle of ever-increasing costs. This could lead to an unprecedented prospect for Michigan residents — in the near future we may not be able to afford the public school establishment as it is currently constituted.

Michigan residents face critical decisions on how best to allocate scarce resources to provide learning opportunities for our children. But we can't make sound decisions without dispelling the myths that surround school funding.

## #1 THE SCHOOL FOUNDATION ALLOWANCE MYTH

Michigan's method for funding public education changed significantly when voters approved Proposal A in 1994.<sup>1</sup> The nearly 400 pages of laws

1 For a thorough discussion of this change, see: Gary S. Olson, "Michigan School Finance Reform: Analysis of the Enacted School Finance/Education Reform Package" (Michigan Senate Fiscal Agency, 1994), <http://www.senate.michigan.gov/sfa/publications/issues/schoolfinancereform/schoolfinancereform.pdf> (accessed October 6, 2010).

directing the state's school funding mechanism can be complex and convoluted. A key component of the system is the per-student "foundation allowance," and two common myths pertain to it.<sup>2</sup>

First, each year, the Legislature establishes a "basic" foundation allowance (\$7,151 per student in the 2009-2010 school year), which many incorrectly assume is a state *grant* to each district. It's not a grant, but one part of a complicated formula that limits per-pupil funding disparities across districts.

Second, because each school district uses the number generated for it under the foundation allowance formula to estimate its annual operating revenue, many believe the figure represents the total amount per student that each school will have to spend for the year.

In reality, the school aid grant each district receives from the state — different for every district and also determined by the formula — only represents one portion of each district's total annual operating revenue. (The total amount distributed by the state under this formula in 2009-2010 was \$5,730 per pupil.)<sup>3</sup>

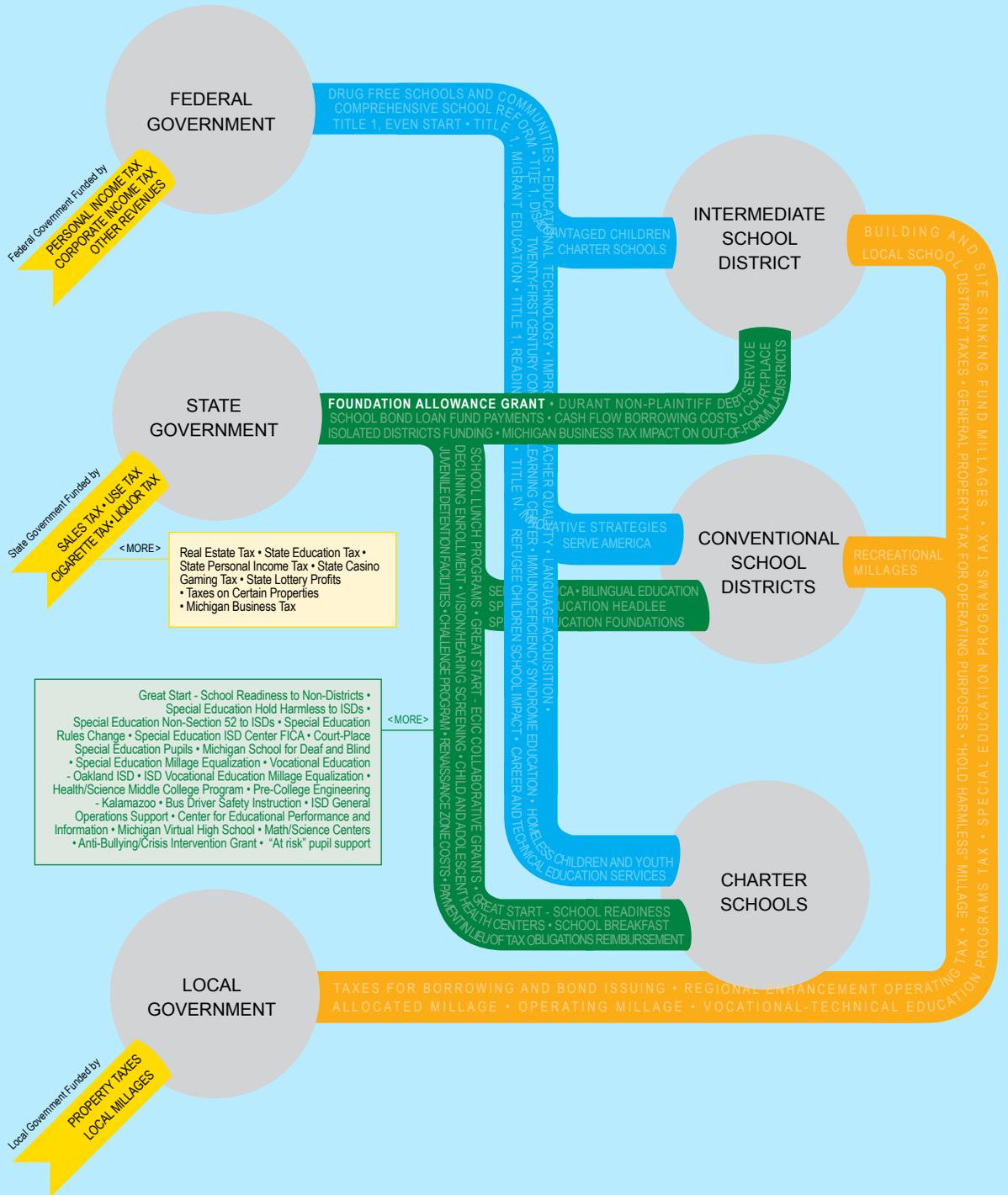
The rest of each school district's annual operating revenue comes from an 18-mill property tax on the district's non-homestead property (i.e., commercial, industrial, etc.).<sup>4</sup> The amount this

2 For a detailed description of the foundation allowance, see: Ryan S. Olson and Michael D. LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents* (Midland, MI: Mackinac Center for Public Policy, 2007), 55-78. Also available at <http://www.mackinac.org/8580> and <http://www.mackinac.org/8628>.

3 Author's calculations based on "FY 2009-10 Enacted and FY 2009-10 Recommended Changes, Conference School Aid Recommendation for FY 2010-11" (Michigan Senate Fiscal Agency, 2010), [http://www.senate.michigan.gov/sfa/Departments/Lineltem/LIk12\\_web.pdf](http://www.senate.michigan.gov/sfa/Departments/Lineltem/LIk12_web.pdf) (accessed October 7, 2010); "Pupil Membership History, FY 1994-95 to Fy 2010-11" (Michigan Senate Fiscal Agency, [http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12\\_PupilHistory.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12_PupilHistory.pdf) (accessed October 7, 2010).

4 Olson and LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents*, 16-17. Also available at <http://www.mackinac.org/8570>.

# How School Funding Works



raises in a particular district varies, and the amount is also included in the foundation grant formula. The combined revenue from this tax and the state school aid grant represents the total amount the school will have to spend for operations under the Proposal A funding mechanism.

Schools also get operations funding that is totally unrelated to that mechanism (such as “categorical” grants described below), and other non-operational revenue from millages levied to pay debt service on long-term capital investments like new school buildings. In 2009 the average school district revenue from all sources for all purposes was \$13,074 per pupil — significantly more than the foundation allowance.<sup>5</sup>

The above is a highly simplified description of how the Proposal A foundation grant system works. The reality is much more complicated.

For example, the “basic” foundation allowance is actually a cap, or the maximum amount of state school aid grant money to any district when all the other factors in the Proposal A formula are calculated. Most districts get less than the “basic.”

Because the formula includes several other factors, including how much the district raised and spent prior to Proposal A’s passage in 1994, there is *another* figure, called the “maximum foundation grant” (\$8,489 in 2009-2010). Although the “basic” and the “maximum” figures are different, they still represent the same thing: caps on a school’s maximum state school aid grant under the foundation allowance formula.<sup>6</sup>

5 Based on data provided by the Michigan Department of Education as prepared for the National Public Education Finance Survey and available at “Michigan School District Revenue and Expenditure Report” (Mackinac Center for Public Policy), <http://www.mackinac.org/depts/epi/fiscal.aspx> (accessed October 6, 2010).

6 For a historical view of the differing levels of the foundation allowance, see: “Effective Foundation Allowance Changes since Proposal A, Fiscal Years 1993-94 through 2009-10” (Michigan Senate Fiscal Agency, <http://www.senate.michigan.gov/sfa/>

In addition, and easier to understand, schools get other money from the state that is not determined under the foundation grant formula. In 2009-2010, the Legislature approved 40 different types of supplementary “categorical grants.”<sup>7</sup> These are distributed based on myriad factors (“categories”), including districts’ special education and “at-risk” student populations, location, enrollment trends and local tax base.<sup>8</sup>

Other revenues come from the federal government and are distributed through targeted grants. Most of these are prescribed by the federal No Child Left Behind Act and the Individuals with Disabilities Education Act. Money from 19 different federal programs is apportioned by the Michigan Legislature, but schools also may qualify for separate funding directly from Washington, D.C., through a host of other grant programs.<sup>9</sup>

In addition to the 18-mill non-homestead property tax discussed above, there are also separate “local” revenues from millages levied by regular and intermediate school districts.<sup>10</sup> Most of the

[Departments/DataCharts/Dck12\\_BasicFoundationHistory.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/Dck12_BasicFoundationHistory.pdf) (accessed October 6, 2010).

7 For a description of these grants, see: Olson and LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents*, 96-111. Also available at <http://www.mackinac.org/8584>. A complete list of state categorical funds is available at “FY 2009-10 Enacted and FY 2009-10 Recommended Changes, Conference School Aid Recommendation for FY 2010-11” (Michigan Senate Fiscal Agency, 2010), [http://www.senate.michigan.gov/sfa/Departments/LinItem/Lik12\\_web.pdf](http://www.senate.michigan.gov/sfa/Departments/LinItem/Lik12_web.pdf) (accessed October 7, 2010).

8 A description of special education funds is provided at Olson and LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents*, 78-88. Also available at <http://www.mackinac.org/8581>.

9 Details about federal revenue sources for Michigan public schools is provided at Olson and LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents*, 90-96. Also available at <http://www.mackinac.org/8583>.

10 Local revenues for school districts are described in detail at Olson and LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents*, 23-32. Also available at <http://www.mackinac.org/8572>. Intermediate school

former go to pay for capital expenditures (buildings and land), with the ISD levying taxes for special and vocational education, plus general operating expenditures.

The Michigan Department of Education reports that total public school revenues in 2008 were comprised of 54 percent state sources, 37 percent local sources and 8 percent federal sources.<sup>11</sup>

When all of these revenue streams are included, total per-pupil revenues are substantially higher than the amount allotted through the foundation allowance or state categorical grants. As mentioned, total per-pupil revenue in 2009 was \$13,074, well above those “basic” and “maximum” foundation allowances.

As can be seen, the foundation allowance is just one part of the complex school funding system in Michigan. Not surprisingly, it's easy for taxpayers — and even school officials and legislators — to misunderstand how it works.

## #2 THE SCHOOL EMPLOYEE CONCESSION MYTH

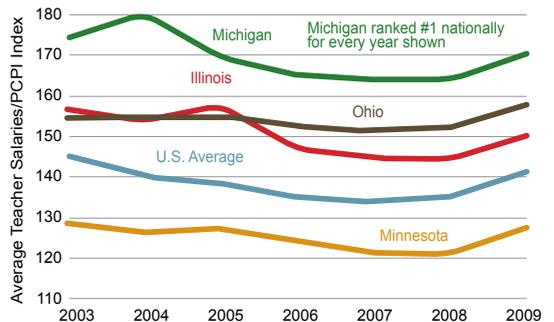
With Michigan's economy in decline and families departing the state in increasing numbers, tax revenues that pay for our public schools are also falling.<sup>12</sup> Because employee compensation

district revenues are detailed at Olson and LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents*, 32-37, 111. Also available at <http://www.mackinac.org/8572> and <http://www.mackinac.org/8585>.

<sup>11</sup> Data compiled from “Financial Information Database Financial Summary Report, 2007-2008” (Center for Educational Performance and Information), [http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_49874---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_49874---,00.html) (accessed October 6, 2010).

<sup>12</sup> For a details about Michigan's outbound migration rates, see: Michael D. LaFaive, “Michigan's Gift to Texas? People” (Mackinac Center for Public Policy, 2010), <http://www.mackinac.org/12667> (accessed October 7, 2010).

## Average Teacher Salaries Relative to State Per Capita Personal Income



Note: Index Calculation = average teacher salary + state per capita personal income × 100.  
Data Sources: National Education Association, Bureau of Economic Analysis.

costs consume around 80 percent of most school districts' operating budgets and also include unsustainable retirement benefit provisions, the Legislature is considering proposals to reduce these expenses.<sup>13</sup>

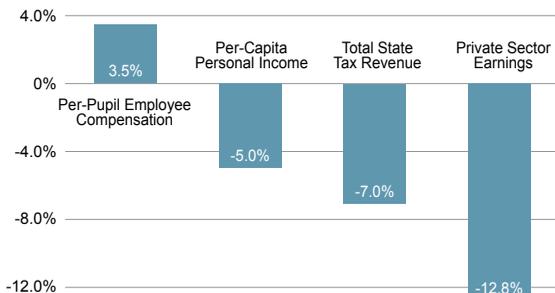
Notwithstanding fiscal and economic realities, the Michigan Education Association, the state's largest school employee union, has pulled out all the stops in its efforts to shut down any reforms in this area. One of the union's tools is a claim that school employees have already made “\$1 billion worth” of concessions over the last three years.

The data, however, fails to show any significant reduction in public school labor costs.

Typical of the union's claims was a 2009 Detroit News column written by MEA President Iris Salters, stating that school employees saved taxpayers \$200 million in salary concessions and another \$700 million

<sup>13</sup> Public Act 75 of 2010 was the result of one of the proposals to reduce the costs of school employee retirement benefits. It slightly modified the state-controlled school employee pension program in an attempt to limit future liabilities. For more information about this legislation, see: Jack McHugh, “Analysis: Senate GOP Fumbles, May Approve \$25.9 Billion Taxpayer Liability to Satisfy MEA” (Mackinac Center for Public Policy, 2010), <http://www.mackinac.org/12702> (accessed October 7, 2010); Jack McHugh, “New Teacher's ‘Hybrid’ Pension Label a Phony Political Confection” (Mackinac Center for Public Policy, 2010), <http://www.mackinac.org/13211> (accessed October 7, 2010).

## Public School Employee Compensation and Other State Economic Measures, 2000-08\*



Data Sources: Michigan Department of Education, Michigan Senate Fiscal Agency, Bureau of Economic Analysis  
\*All figures have been adjusted for inflation.

in health insurance reductions over the last three years.<sup>14</sup> The MEA has repeated this claim a number of times, including in recent radio and television advertisements.<sup>15</sup> Only the televised ads cite the source for the claim, referencing the Michigan Department of Education Financial Information Database.

Those “\$1 billion in savings,” however, are not found in this data. Instead, it shows that Michigan public schools spent \$13.758 billion on school

14 Iris Salters, “Salters: Michigan Teachers Already Sacrifice for Students,” *The Detroit News*, August 26, 2009, [http://www.mea.org/press/pdf/salters\\_082609.pdf](http://www.mea.org/press/pdf/salters_082609.pdf) (accessed October 7, 2010).

15 Examples of newspaper articles in which the MEA makes this claim are: Julie Mack, “Pay for Michigan Educators Raises Questions: Can State Afford High Salaries? Should Pay Be Linked to Performance?,” *Kalamazoo Gazette*, August 9, 2010, [http://www.mlive.com/news/kalamazoo/index.ssf/2010/08/pay\\_for\\_michigan\\_educators\\_rai.html](http://www.mlive.com/news/kalamazoo/index.ssf/2010/08/pay_for_michigan_educators_rai.html) (accessed October 7, 2010); Traci L. Weisenbach, “State Associations Sound Off About School Budget Cuts,” *Huron Daily Tribune*, January 16, 2010, [http://www.michiganstumb.com/articles/2010/01/16/news/local\\_news/doc4b514cd888024955142508.txt](http://www.michiganstumb.com/articles/2010/01/16/news/local_news/doc4b514cd888024955142508.txt); and Iris Salters, “Legislators Need to Properly Fund Schools,” *The Detroit News*, April 28, 2010, [http://mea.org/press/pdf/salters\\_042810.pdf](http://mea.org/press/pdf/salters_042810.pdf) (accessed October 7, 2010). The MEA also used one of its blogs to further this statistic: Doug Pratt, “Does ‘S.O.S’ Stand for Something Else?,” in *MEA Votes* (Michigan Education Association, 2010). Links to the radio and television advertisements can be found here: “Teachers and School Employees Launch ‘Punching Bags’ TV Ad at Capitol Rally” (Michigan Education Association, 2010), [http://mea.org/press/042310-teachers\\_and\\_school\\_employees\\_launch\\_ads.html](http://mea.org/press/042310-teachers_and_school_employees_launch_ads.html) (accessed October 7, 2010).

employee compensation in 2006. In 2008 (the latest year available), the number had increased by \$39 million to \$13.797 billion.<sup>16</sup>

To be sure, the increase was not generated by the two specific items mentioned by the MEA — employee salaries and health insurance — but neither did changes in these two areas come anywhere near to saving \$1 billion. Total payments for employee salaries and health insurance stayed level during this period.<sup>17</sup>

In contrast, the unsustainable defined-benefit pension system and post-retirement health care benefits were key contributors to the overall compensation expense increase.

To get a more accurate picture of school employee compensation changes, it is necessary to examine a longer time period. From 2000 to 2008, total compensation for school employees increased by \$90 million after adjusting for inflation. The number of students and full-time school employees, however, declined during this same time. When the gross amounts are adjusted to reflect those declines, they show taxpayers shouldering \$280 more per pupil in total compensation at the end of this period.<sup>18</sup>

16 “Financial Information Database Financial Summary Report, 2005-2006” (Center for Educational Performance and Information, [http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_49874---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_49874---,00.html)) (accessed October 6, 2010); “Financial Information Database Financial Summary Report, 2007-2008” (Center for Educational Performance and Information, [http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_49874---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_49874---,00.html)) (accessed October 6, 2010).

17 Ibid.

18 Author’s calculations based on data provided by the Michigan Department of Education’s Center for Educational Performance and Information. For school fiscal information prior to 2004, “Historical Form B Data” was used (available at [http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_40460---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_40460---,00.html)). Fiscal data for 2004 to 2008 was compiled from “Financial Information Database Summary Reports” ([http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_49874---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_49874---,00.html)). Pupil count figures came from Mary Ann Cleary and Bethany Wicksall, “School Aid” (Michigan House Fiscal Agency, 2010), 36, <http://www.house.mi.gov/hfa/briefings/School%20Aid%202009->

In absolute terms, inflation-adjusted school employee compensation increases have been relatively modest. Compared to the economic devastation and income loss suffered by the rest of the state over the past decade, however, those increases assume a different character.

From 2000 to 2008, the per capita personal income of Michigan's population plummeted by nearly 5 percent after adjusting for inflation.<sup>19</sup> Total private-sector earnings from 2000 to 2008 — which includes both employee compensation and profits earned by businesses — fell a whopping 12.8 percent in the state, according to the Bureau of Economic Analysis. Not surprisingly, the government's ability to afford those generous school compensation packages also diminished, with total state tax revenues down 7 percent from 2000 to 2008 after adjusting for inflation.<sup>20</sup>

School employees earning more than the rest of the taxing population is nothing new in Michigan. In 1996, the Citizen's Research Council of Michigan reported that, in proportion to the per capita personal income of taxpayers that support their salaries and benefits, Michigan teachers had the highest pay in the nation.<sup>21</sup>

The most recent data available show that Michigan again ranks number one in the country by this measure, and has done so since the 2003-2004 school year.

Michigan's economy and the economic well-being of its population have declined dramatically over the last decade. Contrary to union claims, however, there has been no "shared sacrifice" by school employees. If anything, compared to the rest of us, their relative well-being in economic terms has likely never been better.

### #3 THE UNDERFUNDED MYTH

A common claim by Michigan's public school establishment and its political allies is that, despite spending \$20 billion annually on education, our schools are "underfunded."<sup>22</sup> Comparisons to other states and to historical funding levels show that the claim is unsubstantiated and misleading.

The underfunding myth rests on an assumption that there exists some known "price" for a public school education that taxpayers are failing to meet. In fact, no such figure exists. All we have are the amounts actually spent on schools and the knowledge that they have consistently increased each year for at least the last five decades.

According to the National Center for Education Statistics, the per-student operating cost of Michigan's public schools nearly quadrupled from 1960 to 2007, from \$2,991 in 1960 to \$11,337 in 2007, as measured in 2007 dollars.<sup>23</sup> Therefore,

10%20final.pdf (accessed October 7, 2010).

19 "U.S. and Michigan Per Capita Personal Income: 1970-2009" (Michigan Senate Fiscal Agency), <http://www.senate.michigan.gov/sfa/Economics/US&MichiganPerCapitaPersonalIncome.PDF> (accessed October 7, 2010).

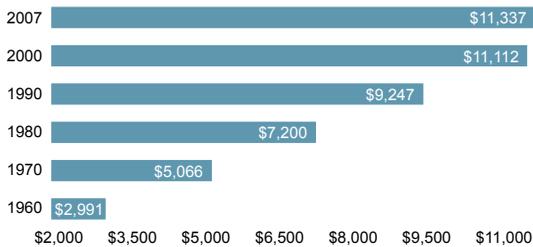
20 "Total Michigan State Government Tax Revenue: FY 1970-71 to FY 2007-08" (Michigan Senate Fiscal Agency), <http://www.senate.michigan.gov/sfa/Revenue/TotalStateTaxRevenue.PDF> (accessed October 7, 2010).

21 "Public School Teacher Pay Relative to Personal Income in Michigan" (Citizen's Research Council of Michigan, 1996), <http://www.crcmich.org/PUBLICAT/1990s/1996/note9603.pdf> (accessed October 7, 2010).

22 For just two examples of this claim being made, see these two news releases made three days apart: "Legislature Pulls Bait and Switch on State's K-12 Students" (Michigan Education Association), October 16, 2009, [http://www.mea.org/press/pdf/101609\\_Legs\\_Pulls\\_BaitSwitch.pdf](http://www.mea.org/press/pdf/101609_Legs_Pulls_BaitSwitch.pdf) (accessed October 7, 2010); "Governor Granholm Signs State School Aid Budget, Warns That K-12 Education Underfunded" (Michigan Office of the Governor) October 19, 2009, [http://www.michigan.gov/gov/0,1607,7-168-23442\\_21974-224579--,00.html](http://www.michigan.gov/gov/0,1607,7-168-23442_21974-224579--,00.html) (accessed October 10, 2010).

23 "Table 185: Current Expenditure Per Pupil in Fall Enrollment in Public Elementary and Secondary Schools, by State or Jurisdiction: Selected Years, 1969-70 through 2006-07," in *Digest of Education Statistics* (National Center for Education Statistics,

## Total Inflation-Adjusted Per-Pupil Operating Expenditures\*



Data Sources: National Center for Education Statistics

\* Does not include capital expenditures

insinuations by the school establishment that its funding has undergone some dramatic declines in recent years should be taken with a large grain of salt. (These per-pupil operational expenses do not include school buildings and other capital spending.)

In addition, Michigan taxpayers transfer a greater proportion of their income to public schools than all but one state (Vermont). Figures from the Bureau of Economic Analysis show that some \$55 out of every \$1,000 in state personal income is consumed by our public school establishment. Vermont residents pay \$56 per \$1,000, and the national average is around \$43 per \$1,000. Residents in Nevada pay the least: \$32 per \$1,000 of personal income.<sup>24</sup>

There are other ways of comparing public school price and value. Some types of tax-supported schools cost much less to operate than others. Michigan's public charter schools cost on average \$2,200 less per pupil in 2007 than conventional schools.<sup>25</sup> Put another way, public charter

schools provide essentially the same service at a 25 percent "discount." Rather than accepting the "underfunded" myth, perhaps taxpayers should complain about being overcharged.

The tone of many media reports about school money issues contributes to the underfunded myth. One reason is that school funding is allocated on a per-pupil basis. When a district's enrollment drops, the local headlines often read, "School funding down ..." and give a dollar amount that represents the lost students. The article may or may not explain why schools should not get funding for students it is no longer obligated to educate, and is very unlikely to note that the alternative is to allocate a greater share of scarce resources to districts with fewer students.

In addition, many media reports focus on the state School Aid Fund, which the Legislature controls. Since Michigan's economy and tax base have shrunk over the last decade, the amount of *state* revenue flowing into this particular funding source has declined as well. However, that decline has been offset by a huge increase in the amount of *federal* money being funneled through the School Aid Fund. These revenues grew from \$122 million in 2000 to more than \$2 billion in 2009.<sup>26</sup>

Also, the number of students statewide has declined 6 percent over the last decade. After adjusting for inflation, districts on average get \$450 more School Aid Fund revenue per student than they did in 2000.

Other reasons for what may seem to be perpetual school money troubles are merely circumstantial.<sup>27</sup>

2009). Also available at [http://nces.ed.gov/programs/digest/d09/tables/dt09\\_185.asp](http://nces.ed.gov/programs/digest/d09/tables/dt09_185.asp).

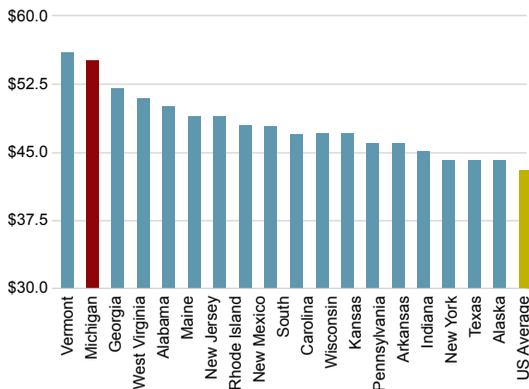
24 "Rankings & Estimates: Rankings of the States 2009 and Estimates of School Statistics 2010" (National Education Association, 2009), <http://www.nea.org/assets/docs/010rankings.pdf> (accessed October 7, 2010).

25 Andrew Coulson, "How Michigan Could Save \$3.5 Billion a Year" (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/11462> (accessed October 7, 2010).

26 Author's calculations based on data provided by the Michigan Department of Education's Center for Educational Performance and Information. For school fiscal information prior to 2004, "Historical Form B Data" was used (available at [http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_40460---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_40460---,00.html)). Fiscal data for 2004 to 2008 was compiled from "Financial Information Database Summary Reports" ([http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_49874---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_49874---,00.html)).

27 For a national perspective of this phenomenon, see: James

## State and Local Revenue for Public Schools Per \$1,000 Personal Income, 2007



Source: Bureau of Economic Analysis

By law, Michigan school districts must adopt a balanced budget by the end of June. However, the state's fiscal year doesn't begin until Oct. 1, and the Legislature rarely finalizes its budget before July. This unquestionably generates uncertainty for school boards, which among other things contributes to the "underfunded" myth.

Finally, union contracts dictate that school districts notify employees of potential layoffs prior to the end of the school year.<sup>28</sup> As a result, many more "just in case" pink slips are issued than the actual number of layoffs. Not surprisingly, the warnings get more attention than their later non-execution. In fact, the actual student-to-employee ratio has steadily declined over the last decade.

The real reason for school money troubles is not "underfunding," but a failure to contain employee costs, which comprise about 80 percent of operational budgets. As long as school boards continue to agree to contracts that grant school

employees, particularly teachers, automatic pay increases and lavish benefits packages that outpace comparable private-sector averages and the ability of taxpayers to support, schools will never have "adequate" funding.<sup>29</sup>

The beneficiaries of those unsustainable benefits have a strong incentive to promote the "underfunded" myth, but taxpayers should exercise a healthy measure of skepticism. On the whole, Michigan schools have more resources available than ever before, and receive a larger portion of state and local tax revenues than almost any other state.

## #4 THE UNSTABLE FUNDING MYTH

The Michigan Education Association and other groups seeking more money for public schools frequently claim that the current funding system is "unstable."<sup>30</sup> Several factors may make it *appear* so, but the reality is that school revenues have proven remarkably stable.

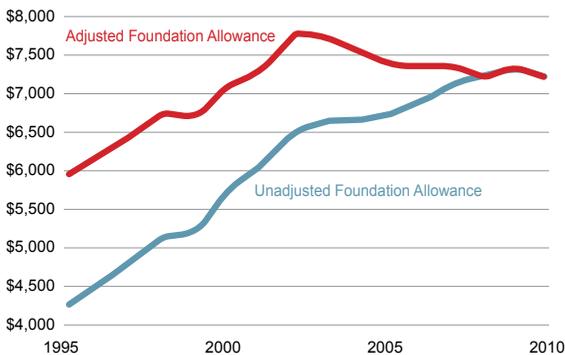
<sup>29</sup> For more information, see: Michael Van Beek, "What a Teacher Pay Freeze Really Means" (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/11291> (accessed October 7, 2010); Michael Van Beek, "Most School Health Care Plans Are Too Expensive for Michigan" (Mackinac Center for Public Policy, 2010), <http://www.mackinac.org/12083> (accessed October 7, 2010).

<sup>30</sup> For examples of this see: Lester Graham, "Paying for Michigan Schools: More Money for Schools?" (Michigan Public Radio, 2010), [http://www.publicbroadcasting.net/michigan/news.newsmain/article/0/1/1687616/Michigan.News/Paying\\_for\\_Michigan\\_Schools.More.Money.For.Schools](http://www.publicbroadcasting.net/michigan/news.newsmain/article/0/1/1687616/Michigan.News/Paying_for_Michigan_Schools.More.Money.For.Schools) (accessed October 12, 2010); "Iris K. Salters' Remarks to the State Board of Education" (Bay City Education Association, March 10, 2010), <http://www.baycityea.org/node/37> (accessed October 12, 2010); "What MEA Is Fighting Against" (Michigan Education Association, 2010), <http://www.mea.org/Enough/pdf/Enough-FightingAGAINST.PDF> (accessed October 12, 2010); "The 7th Annual MASB and MASA Legislative Conference: Bring the Fight to Lansing" (Michigan Association of School Boards, 2010), <http://masb.org/linkclick.aspx?fileticket=o4Cdjaz%2f3ps%3d&tabid=251> (accessed October 12, 2010).

Guthrie and Arthur Peng, "The Phony Funding Crisis," *Education Next* 10, no. 1 (2010), <http://educationnext.org/the-phony-funding-crisis/> (accessed October 7, 2010).

<sup>28</sup> Detailed analyses of several union contracts are available at <http://www.mackinac.org/12341>.

## Foundation Allowance Per Pupil 1995-2010



Data Source: Senate Fiscal Agency

Michigan is not unique in this; over the past century, school funding nationwide has advanced in one direction — up. James Guthrie and Arthur Peng of Vanderbilt University's Peabody Center for Education Policy analyzed this trend and found its source in state constitutional provisions, decentralized administration, employee unions and other special interests, and the existence of multiple revenue streams.<sup>31</sup>

All these factors are at work in Michigan, starting with the state constitution, which proclaims that education “shall forever be encouraged.”<sup>32</sup> Probably the most influential factor in recent decades is school employee unions, which have succeeded in making Michigan's teachers the highest paid in the nation relative to the population that supports them. In both local school board and legislative elections, the unions marshal tremendous manpower and financial resources for candidates who promote their members' interests, and against those who don't.<sup>33</sup>

31 James Guthrie and Arthur Peng, “The Phony Funding Crisis,” *Education Next* 10, no. 1 (2010), <http://educationnext.org/the-phony-funding-crisis/> (accessed October 7, 2010).

32 Michigan Constitution of 1963, Article VIII, Section 2.

33 The MEA is one of the state's largest campaign contributors and spends more on lobbying than any other special interest group. For more information, see: “MEA Advocates Deceptive High Pressure Tactics against School Board Members” (Mackinac

Schools here are also highly decentralized, though most operational funding for 551 local districts and 57 intermediate school districts is determined by the state's “foundation allowance” system, under which a large proportion of revenue comes from state sources instead of local property taxes. Local school officials sometimes express frustration at the system's limits on their power to increase millage rates, but it has provided a remarkably steady revenue stream over time.

In the 1994-1995 academic year, all schools received *at least* \$5,912 per pupil (measured in 2009 dollars) through the state's funding system. By 2009-2010, that minimum had grown to \$7,151. The annualized increase had been even higher when funding reached an all-time high of \$7,751 (in 2009 dollars) in 2001-2002. An inflation-adjusted 7 percent decline since then is one of the factors that can make funding seem “unstable.” But in real, inflation-adjusted terms, the minimum per-student funding level from this source is still up 21 percent since the inception of this system (and other sources — primarily federal money — have helped many districts make up the difference since that peak funding year).<sup>34</sup>

Prior to 1994, 80 percent of school revenues came from local property taxes.<sup>35</sup> In a 2004 report, the Senate Fiscal Agency noted the

Center for Public Policy, 1999), <http://www.mackinac.org/9405> (accessed October 10, 2010); “Tracking Union Money in School Board Elections” (Michigan Education Report, 2007), <http://www.educationreport.org/pubs/mer/article.aspx?id=9096> (accessed October 10, 2010); “Lobbyists Report Spending \$17.8m through July” (Michigan Campaign Finance Network, 2010), <http://www.mcfn.org/press.php?prld=119> (accessed October 7, 2010).

34 “Effective Foundation Allowance Changes since Proposal A, Fiscal Years 1993-94 through 2009-10” (Michigan Senate Fiscal Agency, 2010), [http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12\\_BasicFoundationHistory.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12_BasicFoundationHistory.pdf) (accessed October 6, 2010).

35 Joe Carrasco and Kathryn Summers-Coty, “K-12: A Moving Target” (Michigan Senate Fiscal Agency, 2002), <http://www.senate.michigan.gov/sfa/publications/notes/2002notes/notesjulaug02carrascosummers.pdf> (accessed October 12, 2010).

new funding system's elimination of one source of instability: "(T)he reliance on the often unpredictable nature of millage elections to determine the districts (sic) operating revenue ... has been virtually eliminated and a more stable source of revenue exists."<sup>36</sup>

That source is an annual state government infusion of some \$11 billion. More than half this amount comes from earmarked income and sales tax receipts; the rest comes from a 6-mill statewide education property tax, lottery revenue, business taxes, tobacco taxes and several other taxes.

While local property tax revenues traditionally were viewed as very stable, they are expected to decline significantly over the next several years and probably won't rebound for a decade.<sup>37</sup> The vast majority of school districts have benefited from the broad base of the taxes that support the state's contribution to their funding.

Other aspects of the school funding system create a *perception* of instability. For instance, a large portion of a district's funds are tied to enrollment, and conventional districts have experienced a 9.3 percent decline in enrollment over the last seven years.<sup>38</sup>

Furthermore, the fact that local districts must finalize their budgets by a June 30 deadline

while the state Legislature isn't required to set its portion of school funding until Oct. 1 generates more uncertainty. Even worse, "rosy scenario" legislative overestimates of state tax revenues have forced modest 1 to 3 percent midyear school aid cuts several times in recent years. Fortunately, schools have fund balances to make up the difference, and many have been able to use that money to prevent midyear layoffs or program cuts.

Finally, union contracts that lock in rising labor costs limit districts' ability to cope with midyear cuts, declining enrollments and various hard-to-project cost increases. Rather than attempting to get stubborn unions to yield concessions, districts find it easier to lay off staff and cut programs, furthering the illusion of instability.

Revenue that is 100 percent predictable and stable is an impossible dream, for schools or anyone else. Under any possible system, school funding is ultimately tied to the economic well-being of the state. Local school officials should focus on managing what they can control — expenses — and refrain from contributing to the myth that they're "victims" of unstable funding.

## #5 THE UNEQUAL FUNDING MYTH

In addition to demanding "adequate" and "stable" funding, the special interest groups embedded within Michigan's public school system frequently call for funding that is "equitable." They overlook the fact, however, that greatly reducing funding disparities was one of the goals — and accomplishments — of the 1994 Proposal A school finance reform. While achieving perfect equality is a greater challenge than most imagine, today the spending differences between schools is smaller than ever before.

36 Kathryn Summers-Coty, "Proposal A: Are We Better Off?: A Ten-Year Analysis, 1993-94 through 2003-04" (Michigan Senate Fiscal Agency, 2004), 8, <http://www.senate.michigan.gov/sfa/publications/issues/propa/proposalatenyears.pdf> (accessed October 12, 2010).

37 Nolan Finley, "The Bell Is Tolling for Michigan," *The Detroit News*, May 20, 2010, <http://detnews.com/article/20100520/OPINION03/5200336/The-bell-is-tolling-for-Michigan> (accessed May 20, 2010); Robert Daddow, "A Perfect Storm: Batten Down the Hatches or Drown (MPR)" (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/11572> (accessed October 12, 2010).

38 "Pupil Membership History, FY 1994-95 to FY 2010-11" (Michigan Senate Fiscal Agency, [http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCk12\\_PupilHistory.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCk12_PupilHistory.pdf)) (accessed October 7, 2010).

Before Proposal A, 80 percent of Michigan school operating funds came from local property taxes.<sup>39</sup> Because both property values and voter-approved millage rates varied widely between districts, the system produced large funding disparities. Prop A cut and capped millage rates, and made up the forgone revenue with an array of earmarks from state income taxes, sales taxes, a 6-mill state education property tax and others.

These sources provide an annual infusion of some \$11 billion in state money that is distributed to public school districts according to a “foundation allowance” formula, which establishes a minimum amount of dollars per student that each district gets to spend. This minimum represented a substantial increase over the revenues of the state’s poorest districts at the time, and over what those revenues most likely would be today were we still under the old system.

The new system, however, did not absolutely level revenue among districts, and arguably never intended to. Its distribution formula is based in part on districts’ pre-Proposal A funding levels, so that the most richly funded schools were not forced to come down. In other words, disparities would be reduced not by pulling down the well-funded districts, but by bringing up those below them.

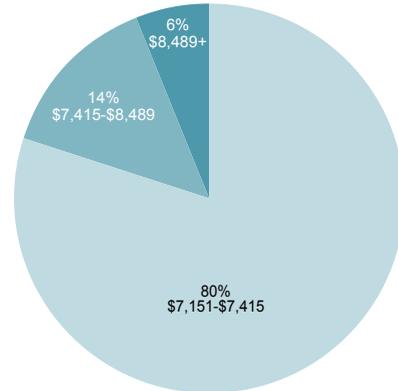
In simple terms, the Proposal A distribution formula factors in revenue from (capped) local millages levied on non-residential property, supplementing this with varying levels of state tax revenue.

Therefore, funding disparities still exist. For instance, the per-pupil foundation allowance in the Bloomfield Hills district is more than \$12,000, while the effective minimum amount for some districts is about \$7,100.<sup>40</sup> This particular

39 Joe Carrasco and Kathryn Summers-Coty, “K-12: A Moving Target” (Michigan Senate Fiscal Agency, 2002), 1, <http://www.senate.michigan.gov/sfa/publications/notes/2002notes/notesjulaug02carrascosummers.pdf> (accessed October 12, 2010).

40 “Effective Foundation Allowance Changes since Proposal

## Range of Per-Pupil Foundation Allowances Under Michigan Public School Funding Formula 2009-2010



eyebrow-raising \$5,000 disparity is abnormal and is the most extreme case; under the previous system the gap between highest and lowest was more than \$7,500.<sup>41</sup>

But the vast majority of schools now are funded at levels that fall in a fairly narrow range. The House Fiscal Agency reports that in the 2009-2010 school year, 80 percent of all districts (including charter public schools) receive between \$7,100 and \$7,400 per student through the foundation allowance formula; 94 percent fall between \$7,100 and \$8,500.<sup>42</sup>

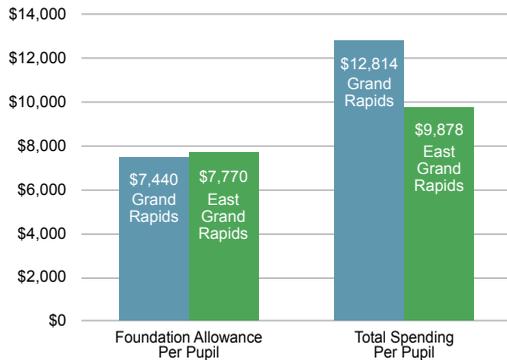
Only 5.5 percent of districts exceed \$8,300 in per student spending under the formula. And like

A, Fiscal Years 1993-94 through 2009-10” (Michigan Senate Fiscal Agency, [http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12\\_BasicFoundationHistory.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12_BasicFoundationHistory.pdf) (accessed October 6, 2010).

41 Kathryn Summers-Coty, “School Aid Funding Formula: Further Closing of the School Aid Equity Gap” (Michigan Senate Fiscal Agency, 2007), 1, <http://www.senate.michigan.gov/sfa/publications/notes/2007notes/notesnovdec07ksc.pdf> (accessed October 13, 2010).

42 Mary Ann Cleary and Bethany Wicksall, “School Aid” (Michigan House Fiscal Agency, 2010), 32, <http://www.house.mi.gov/hfa/briefings/School%20Aid%202009-10%20final.pdf> (accessed October 7, 2010).

## Foundation Allowance Revenue and Total Current Spending, 2007-2008



Bloomfield Hills, the other big spenders generally get less state money, relying on local property taxes to maintain their comparatively high revenues.<sup>43</sup>

The foundation allowance is only one school revenue source, however, and money from other sources further reduces disparities. For example, the foundation allowance for Grand Rapids schools is around \$300 less per student than the neighboring district of East Grand Rapids, but the Grand Rapids district receives much larger amounts of federal and state “categorical funding” that is allocated in large part on the basis of having a greater number of students from low-income households.<sup>44</sup> In 2007-2008, Grand Rapids schools spent \$3,000 more per pupil on operations than its wealthier neighbor — a disparity would-be “levelers” unlikely want to reverse.<sup>45</sup>

43 A breakdown of the foundation allowance formula for each school district is available through the Michigan Department of Education at <http://mdoe.state.mi.us/statusreports/>.

44 “Per Pupil Statutory Funding History for Schools, FYs 1993-94, 1994-95, and 1999-2000 to 2009-10” (Michigan Senate Fiscal Agency, 2010), 14, [http://www.senate.michigan.gov/sfa/Departments/DataCharts/Dck12\\_FoundationHistorySincePropA.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/Dck12_FoundationHistorySincePropA.pdf) (accessed October 13, 2010).

45 “Michigan School District Revenue and Expenditure Report” (Mackinac Center for Public Policy), <http://www.mackinac.org/depts/epi/fiscal.aspx> (accessed October 6, 2010).

Michigan policymakers and voters wisely decided in 1994 that the proper goal in a system of government-run public schools is not “leveling” to achieve perfect funding equality, but instead to ensure that every community’s schools have a reasonable amount of money to educate its students. As mentioned, the system created then did not attempt to tear down the high spenders, but instead raise up lower-funded ones.

There is in fact a means to provide equal funding for all students no matter where they live — it’s called school vouchers. Interestingly, those who complain the most about “inequitable funding” — like representatives of school employee unions and school boards — are also the loudest opponents of eliminating inequity by giving parents the choice of where to school their children.

## #6 THE SALES TAX AND LOTTERY MYTH

School officials often complain (and the media repeats) that funding for Michigan’s public schools is “unstable” because it relies in part on revenue from the 6 percent state sales tax. Additionally, many people seem to think that a significant proportion of the money going into our schools comes from the Michigan Lottery.

In fact, over the last 15 years, even though the proceeds from the sales tax and lottery have increased, the portion of total school revenue from both has steadily decreased. In 1995, they contributed 32 percent and 5 percent, respectively. In 2010, it’s forecasted that they’ll make up just 21 percent and 3.5 percent.<sup>46</sup>

46 “Michigan’s Economic Outlook and Budget Review: FY 2009-10 and FY 2010-11” (Michigan Senate Fiscal Agency, 2010), 21, <http://www.senate.michigan.gov/sfa/Publications/BudUpdates/EconomicOutlookMay10.pdf> (accessed October 13, 2010).

Misperceptions about the magnitude of the Michigan Lottery's contribution may arise because the operation markets itself as a significant source of school revenue. Part of the strategy behind its \$27 million annual advertising budget is to convince people that gambling away their income really isn't so reckless given that their loss is education's gain.<sup>47</sup>

The marketing includes giant yellow billboards declaring that \$15 billion has been dedicated to public schools thanks to the public's gambling ways. What the signs don't reveal is that this amount is the total cumulative contribution over 36 years.<sup>48</sup> This is not to say the lottery is a bust, just that it doesn't provide as much as many believe.

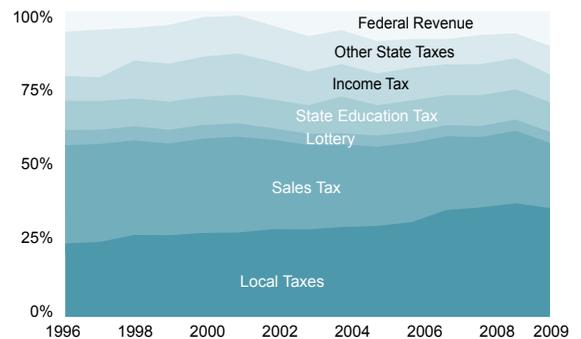
The sales tax myth is also common and deeply rooted. One reason is that a 50 percent sales tax rate hike was a key component of the Proposal A school funding overhaul adopted by voters in 1994, with 100 percent of the new revenue (and 60 of the revenue from the original 4 percent levy) going into the state School Aid Fund.<sup>49</sup>

47 "2009 Annual Report" (Michigan Lottery), 17, [http://www.michigan.gov/documents/lottery/BSL-L-AR2009\\_310276\\_7.pdf](http://www.michigan.gov/documents/lottery/BSL-L-AR2009_310276_7.pdf) (accessed October 13, 2010); Michael E. Heberling, "State Lotteries vs. Truth-in-Advertising" (Mackinac Center for Public Policy, 2002), <http://www.mackinac.org/4379> (accessed October 13, 2010).

48 "2009 Annual Report" (Michigan Lottery), 2, [http://www.michigan.gov/documents/lottery/BSL-L-AR2009\\_310276\\_7.pdf](http://www.michigan.gov/documents/lottery/BSL-L-AR2009_310276_7.pdf) (accessed October 13, 2010); "Michigan Lottery's Financial Contribution to Michigan Education" (Michigan Lottery), <http://www.michigan.gov/lottery/0,1607,7-110-888-4091--,00.html> (accessed October 13, 2010).

49 For more information about the changes brought about through Proposal A, see: Gary S. Olson, "Michigan School Finance Reform: Analysis of the Enacted School Finance/Education Reform Package" (Michigan Senate Fiscal Agency, 1994), <http://www.senate.michigan.gov/sfa/publications/issues/schoolfinancereform/schoolfinancereform.pdf> (accessed October 6, 2010); Joe Carrasco Jr. and Hank Prince, "School Finance in Michigan before and after the Implementation of Proposal A: A Comparison of FY 1993-94 and FY 1994-95 Approaches to K-12 School Funding in Michigan" (Michigan Senate Fiscal Agency and Michigan House Fiscal Agency, 1995), <http://www.senate.michigan.gov/sfa/Publications/JointRep/FINPROPA/95COMP.HTML> (accessed October 13, 2010).

## Michigan School Revenue Sources



Source: Senate Fiscal Agency, Michigan Department of Education

All told, 73 cents of every dollar paid in sales tax goes to schools.<sup>50</sup>

School board members and officials perpetuate the myth when they express frustration at having less control over their revenues than they did before Proposal A. An oft heard complaint during the difficult process of crafting annual local school budgets is that the state controls funding levels and relies heavily on the sales tax.

Like many good myths, there's more than a grain of truth to this one. Forty-one percent of all state-based revenues for schools in 2009 came from the sales tax. Although the proportion from other state sources is growing (the income tax, Michigan business tax and the 6 mill state education property tax), the sales tax still remains the largest single revenue source for *state-based* school funding. However, the proportion falls to just 21 percent when *all* school revenue sources are considered, including money from local property taxes and the federal government.<sup>51</sup>

50 Ryan S. Olson and Michael D. LaFaive, *A Michigan School Money Primer: For Policymakers, School Officials, Media and Residents* (Midland, MI: Mackinac Center for Public Policy, 2007), 38. Also available at <http://www.mackinac.org/8573>.

51 Author's calculations based on: "School Aid Fund Revenue: FY 1979-80 to FY 2007-08" (Michigan Senate Fiscal Agency, <http://www.senate.michigan.gov/sfa/Revenue/SAFRevDollars.PDF>) (accessed October 13, 2010); Mitchell E. Bean, "Economic Outlook and Revenue Estimates for Michigan: FY 2009-10 and FY

Indeed, federal money represents an ever-growing share of school budgets over the last decade. The amount has almost tripled since 2000, rising from \$890 million to \$2.46 billion in 2009. Likewise, local property tax revenues also grew by \$900 million from 2004 to 2009 (the net increase may be less going forward due to depressed real estate values).<sup>52</sup>

Finally, school officials should be grateful for state-based sources of revenues like the sales tax. The current funding system has produced relatively predictable and stable income, vastly different from the pre-Proposal A era when when school districts were forced to devote extensive resources to passing uncertain operating-fund millages to keep their doors open. Instead of complaining about their lack of control of revenues, school board members should make it a habit to focus on the things they can control — like their district’s expenses.<sup>53</sup>

2010-11” (Michigan House Fiscal Agency, 2010), [http://www.house.mi.gov/hfa/PDFs/Rev\\_5-10.pdf](http://www.house.mi.gov/hfa/PDFs/Rev_5-10.pdf) (accessed October 13, 2010); “Michigan’s Economic Outlook and Budget Review: FY 2009-10 and FY 2010-11” (Michigan Senate Fiscal Agency, 2010), <http://www.senate.michigan.gov/sfa/Publications/BudUpdates/EconomicOutlookMay10.pdf> (accessed October 13, 2010); David Zin, “Doesn’t the State Lottery Fund the Schools?” (Michigan Senate Fiscal Agency, 2009), <http://www.senate.michigan.gov/sfa/publications/notes/2009notes/notesnovdec09dz.pdf> (accessed October 13, 2010).

52 Author’s calculations based on data provided by the Michigan Department of Education’s Center for Educational Performance and Information. For school fiscal information prior to 2004, “Historical Form B Data” was used (available at [http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_40460---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_40460---,00.html)). Fiscal data for 2004 to 2008 was compiled from “Financial Information Database Summary Reports” ([http://www.michigan.gov/cepi/0,1607,7-113-21423\\_35782\\_49874---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_35782_49874---,00.html)).

53 For a description of fiscally responsible strategies for school districts, see: Kirk A. Johnson and Elizabeth Moser, “The Six Habits of Fiscally Responsible Public School Districts” (Mackinac Center for Public Policy, 2002), <http://www.mackinac.org/4891> (accessed October 13, 2010).

## #7 THE CLASS SIZE MYTH

Reducing class size is often promoted as a surefire way to improve student achievement. The argument is intuitive and simple: The fewer students per teacher, the more individualized attention each student will get; the more individualized attention, the better students learn.

Yet smaller class size has less impact on outcomes than its backers would have people believe. For example, class sizes in Michigan have been shrinking steadily for more than a decade without any measurable boost in student achievement. This is also one of the most expensive proposals for changing outcomes.

The argument that smaller class size yields better outcomes is not entirely groundless. An experiment done in Tennessee nearly 30 years ago known as the STAR project did find that, on average, students in the lower elementary grades randomly assigned to smaller classes performed better on standardized tests than peers in larger classes.<sup>54</sup>

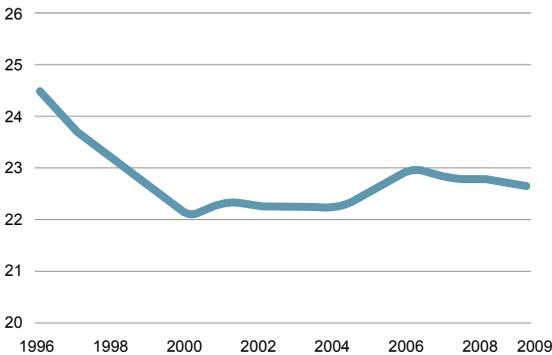
Some education researchers have questioned the study’s methodology, and others have shown that, while statistically significant, the effect was nevertheless limited and relatively small.<sup>55</sup> Importantly, beyond the confines of a single modest study in a single state, reducing class size on a large scale has not been linked to improved learning.

In 1997 and 1998, California gave out an average of \$725 more per pupil to schools that reduced

54 Information about the project can be found at “Project STAR” (Health & Education Research Operative Services, Inc). <http://www.heros-inc.org/star.htm> (accessed October 13, 2010).

55 Jay P. Greene, *Education Myths: What Special Interest Groups Want You to Believe About Our Schools — and Why It Isn’t So* (New York: Rowman & Littlefield Publishers, Inc., 2005), 52-54; Eric A. Hanushek, “The Evidence on Class Size” (W. Allen Wallis Institute of Political Economy, 1998), [http://www.wallis.rochester.edu/WallisPapers/wallis\\_10.pdf](http://www.wallis.rochester.edu/WallisPapers/wallis_10.pdf) (accessed October 13, 2010).

## Student/Teacher\* Ratio, 1996-2009



Data Source: Michigan Department of Education  
 \*Includes only "basic programs" teachers

class sizes to 20 students in kindergarten through third grade.<sup>56</sup> Florida has spent \$20 billion since 2002 to reduce average class sizes by three students in certain districts. Studies of both states have found no conclusive evidence that all the extra spending raised student achievement.<sup>57</sup>

Although Michigan hasn't undertaken any similar large-scale initiatives, the statewide pupil-teacher ratio has still fallen considerably. From 1996 to 2009, the ratio of students to certified, "basic programs" teachers dropped by 7.5 percent, from 24.5 to 22.6, according to the Michigan Department of Education.<sup>58</sup> Furthermore, the

56 Edward Wexler et al., "California's Class Size Reduction: Implications for Equity, Practice & Implementation" (PACE-WestEd, 1998), [http://www.wested.org/policy/pubs/full\\_text/class\\_size/toc.htm](http://www.wested.org/policy/pubs/full_text/class_size/toc.htm) (accessed October 13, 2010).

57 Paul E. Peterson, "Florida's Class Size Amendment: Did It Help Students Learn?" (Education Next, 2010), <http://educationnext.org/floridas-class-size-amendment-did-it-help-students-learn/> (accessed October 13, 2010); Matthew M. Chingos, "The Impact of a Universal Class-Size Reduction Policy: Evidence from Florida's Statewide Mandate" (Program on Education Policy and Governance, John F. Kennedy School of Government, Harvard University, 2010), [http://www.hks.harvard.edu/pepg/PDF/Papers/PEPG10-03\\_Chingos.pdf](http://www.hks.harvard.edu/pepg/PDF/Papers/PEPG10-03_Chingos.pdf) (accessed October 13, 2010); *What We Have Learned About Class Size Reduction in California*, eds. George W. Bohrnstedt and Brian M. Stecher (Sacramento: California Department of Education, 2002).

58 Author's calculations based on the Michigan Department of Education's annual "Bulletin 1014" report, available at [http://www.michigan.gov/mde/0,1607,7-140-6530\\_6605-21514--,00.html](http://www.michigan.gov/mde/0,1607,7-140-6530_6605-21514--,00.html).

ratio of students to all school employees fell by 12 percent over this same period, and now there's one school employee for every 7.8 students.<sup>59</sup>

Moreover, pupil-teacher ratios have shrunk nationally for at least the last six decades, yet there have been no quantifiable improvements to student achievement nationally or in individual states, including Michigan.<sup>60</sup> Indeed, student performance in the United States lags behind many industrialized nations where class sizes are substantially greater.<sup>61</sup>

These facts don't prevent the public school establishment from continuing to push for smaller classes (and thus more teachers), but the costs here would be prohibitive.<sup>62</sup> Given no change in the current level of teacher salary and benefits, reducing student-teacher ratios in Michigan by 10 percent (from 22.6 to 20.3) would cost taxpayers some \$1.3 billion, or \$850 per pupil.<sup>63</sup> The state would have to boost combined school revenues from personal income taxes and the 6-mill state education property tax by one-third

59 Author's calculations based on "full-time equivalencies" data provided by the Michigan Department of Education's Center for Educational Performance and Information, available at [http://www.michigan.gov/cepi/0,1607,7-113-21423\\_30446--,00.html](http://www.michigan.gov/cepi/0,1607,7-113-21423_30446--,00.html).

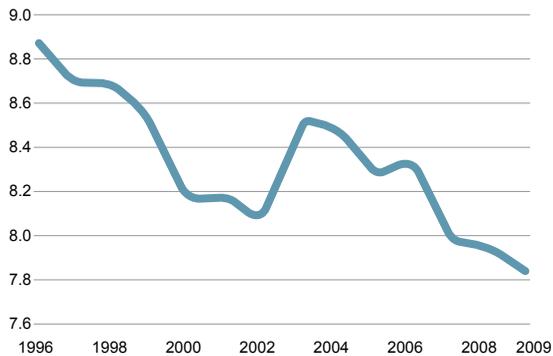
60 "Table 64: Public and Private Elementary and Secondary Teachers, Enrollment, and Pupil/Teacher Ratios: Selected Years, Fall 1955 through Fall 2018," in *Digest of Education Statistics* (National Center for Education Statistics, 2009); Bobby D. Rampey, Gloria S. Dion, and Patricia L. Donahue, "The Nation's Report Card: Long-Term Trend 2008" (National Center for Education Statistics, 2009), <http://nces.ed.gov/nationsreportcard/pdf/main2008/2009479.pdf> (accessed October 13, 2010).

61 Maria Glod, "U.S. Teens Trail Peers around World on Math-Science Test," *The Washington Post*, December 5, 2007, <http://www.washingtonpost.com/wp-dyn/content/article/2007/12/04/AR2007120400730.html> (accessed October 13, 2010).

62 Caroline Hoxby, "The Cost of Accountability" (Hoover Institution, Stanford University), [http://media.hoover.org/sites/default/files/documents/0817938826\\_47.pdf](http://media.hoover.org/sites/default/files/documents/0817938826_47.pdf) (accessed October 13, 2010).

63 Author's calculations based on data from the National Public Education Finance Survey, available at <http://www.mackinac.org/depts/epi/fiscal.aspx>.

## Student/Employee\* Ratio, 1996-2009



Data Source: Michigan Department of Education  
\*Based on full-time equivalency

to afford this extra expense. Reducing class sizes to 15, (as in the STAR experiment and advocated by teachers unions) would more than triple the amount needed.<sup>64</sup>

Other unseen costs need to be considered, too. To cut class sizes, the state would have to hire a slew of new instructors, potentially diluting quality of the teacher labor pool. Additionally, since funding would be directed to putting more instructional bodies in classrooms, districts would be less able to incentivize the most effective classroom teachers to stay by offering them pay increases. These cost increases don't even take into consideration the expenses that would be involved with building more classrooms to accommodate the smaller student-teacher ratios.

It's no coincidence that the nation's two largest teachers unions both adamantly support reducing class sizes.<sup>65</sup> For the American Federation of

<sup>64</sup> "Class Size: Priorities for Changing NCLB: A Federal Class Size Reduction Program Is an NEA Priority in Rewriting NCLB" (National Education Association), <http://www.nea.org/home/13120.htm> (accessed October 13, 2010).

<sup>65</sup> "Class Size Reduction: A Proven Reform Strategy" (National Education Association), [http://www.nea.org/assets/docs/mf\\_PB08\\_ClassSize.pdf](http://www.nea.org/assets/docs/mf_PB08_ClassSize.pdf) (accessed October 13, 2010); "Benefits of Small Class Size" (American Federation of Teachers, 2010), [http://www.aft.org/pdfs/teachers/ib\\_classsize0410.pdf](http://www.aft.org/pdfs/teachers/ib_classsize0410.pdf) (accessed October 13, 2010).

Teachers and the National Education Association, a lower teacher-per-student ratio means more members, more money and more political power. As the NEA's retiring general counsel admitted in 2009, that power stems solely from the hundreds of millions in dues that more than 3 million members fork over each year.<sup>66</sup>

Reforms such as improving teacher quality are far more cost-effective, and have been shown to actually boost student achievement.<sup>67</sup> Unfortunately, seniority-based staffing policies dictated by union contracts and state tenure laws prevent districts from identifying, attracting and rewarding high-performing teachers and putting them in front of as many kids as possible.

## CONCLUSION

Michigan's state-run school system is the largest and most expensive government service taxpayers support. It employs more than 350,000 people who work in one of the more than 4,100 different entities. The total amount this system expends each year adds up to more than \$20 billion. Given the enormity and complexity of the system, it's no surprise that a number of myths exist about how public schools are funded.

It is important to understand both the basis and the truth behind these myths, especially in an economically depressed era. When times were good in Michigan, mismanaged and misused funds could be whitewashed with new resources. In today's environment, however, school finances warrant greater scrutiny, which is why accurate school funding information is so important.

<sup>66</sup> "NEA General Counsel Bob Chanin Says Farewell," <http://www.youtube.com/watch?v=-piPkgAUo0w> (accessed October 13, 2010).

<sup>67</sup> Marc J. Holley, *A Teacher Quality Primer: For Michigan School Officials, State Policymakers, Media and Residents* (Midland, MI: Mackinac Center for Public Policy, 2008), 19. Also available at <http://www.mackinac.org/9579>.

Moving forward, Michigan will have to address the likelihood that for the next several years, schools on average will have fewer real dollars per pupil than they have had in the past. In order to best manage this challenge, policymakers need to understand clearly how their decisions will impact the well-being of students, districts, school employees and the taxpayers who foot the bill. ■

## MICHIGAN SCHOOL DATABASES

Much of the day-to-day life of Michigan's public schools is shaped by their district's union contracts, spending choices and available revenues. Michigan School Databases, hosted by the Mackinac Center, provides a revealing look at Michigan's public school districts.



**District Collective Bargaining Agreements:** This database contains PDF copies of each Michigan district's collective bargaining agreements for teachers, bus drivers, aides, office staff and other employees. Union contracts spell out not just salaries and benefits, but also information about class size, employee evaluations, school calendars, and more.



**District Health Insurance Information:** This database contains information about 2008-2009 district-provided employee health insurance. Users can find the insurance providers, plan types and titles, number and type of employees enrolled, monthly premium costs and the amount employees contribute to the premium for nearly every district in the state.



**District Revenue and Expenditure Report:** These data are taken from the National Public Education Finance Survey and show major categories of revenue and expenditure for each public school district for fiscal 2004 through fiscal 2008. The figures appear as both dollar amounts per category and dollar amounts per pupil. Each district is compared to the state average.



**District Checkbook Register Report:** Part of the Mackinac Center's ongoing government transparency project "Show Michigan the Money," this database links users to the checkbook registers of the school districts that publish such data online. Users can track districts' expenditures check by check at these sites. More districts are expected to publish their registers online in the months to come.



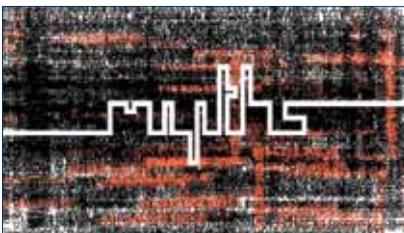
**District Categorical Grant Report:** In addition to per-pupil revenues, Michigan school districts receive grant money for specific purposes independent of total student enrollment. The categorical grants database lists the amount each district received in fiscal 2007 in categories as diverse as "at-risk students," "math readiness" and "bilingual education." The database permits district-to-district comparisons.



**A Michigan School Money Primer:** This primer does not make policy recommendations. Instead, it explains how revenues are raised for Michigan's elementary and secondary public school system; how money is distributed to education programs and school districts once it is collected by various taxing authorities; and how districts budget monies for the various activities involved in operating schools and other educational programming.



Visit [www.Mackinac.org/SchoolMyths](http://www.Mackinac.org/SchoolMyths) for an overview of these school myths and enjoy our lively series of animated video shorts.



### #1 The Foundation Allowance Myth Video

The foundation allowance is not simply a grant to each district — it is just one of many school revenue sources. Most districts get about \$7,000 per student through the foundation allowance, but the statewide average revenue from all sources is almost \$13,000 per pupil.

[www.mackinac.org/13362](http://www.mackinac.org/13362)



### #2 The School Employee Concession Myth Video

School employees on the whole have not saved taxpayers money through contract concessions and have remained relatively shielded from Michigan's economic downturn. Michigan's teachers are the nation's highest-paid when compared to state wealth.

[www.mackinac.org/13912](http://www.mackinac.org/13912)



### #3 The Underfunded Myth Video

Michigan school expenditures have nearly quadrupled since 1960. As measured by personal income, Michigan devotes more state and local tax revenue to schools than any other state besides Vermont.

[www.mackinac.org/14150](http://www.mackinac.org/14150)





## ABOUT THE AUTHOR

Michael Van Beek is director of education policy for the Mackinac Center for Public Policy. In this position, Van Beek oversees the Center's education research and publications, including Michigan Education Digest and Michigan Education Report.



## About the Mackinac Center for Public Policy

The Mackinac Center for Public Policy is dedicated to improving the understanding of economic and political principles among citizens, public officials, policymakers and opinion leaders. The Center has emerged as one of the largest and most prolific of the more than 50 state-based free-market "think tanks" in America. More information about the Mackinac Center and its publications can be found at [www.mackinac.org](http://www.mackinac.org).

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