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From

SCHOOL AID

TO

STUDENT AID

Modernizing K-12 Funding in Michigan



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From School Aid to Student Aid: Modernizing K-12 Funding in Michigan

By Ben DeGrow

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Introduction

For more than a quarter century, Michigan public schools have been financed under a structure commonly known as Proposal A. Policymakers designed the system, ratified by Michigan voters in 1994, to reduce large funding discrepancies between school districts. Proposal A's greater dependence on using state revenue to finance an enrollment-based funding formula has led to greater parity over time and fueled more publicly supported schooling options for parents. A student-based funding model rewards school officials and leaders when they pay attention to and serve the particular needs of students because parents can vote with their feet. Yet, today, school districts still rely significantly on other funding sources and structures that change the incentives of school officials who want to best serve their students. Too much focus remains on funding the preservation of institutions and infrastructure that may not effectively serve today's parents nor fulfill the mission of public education.

The current education funding system is not maximized to support a broad range of options for students to achieve their potential, a need that was only heightened by the frustrating experiences of students, parents and educators during the COVID-19 pandemic. Michigan needs a nimbler funding system, one that prioritizes directing dollars to meet individual learning needs so that decisions are based as closely on the unique and diverse needs of students as possible. Embracing this vision of a dynamic upgrade to Proposal A would expand the reach of educational opportunities by distributing dollars more broadly and fairly, and by making those dollars substantially more portable and flexible. In so doing, it would confront both immediate and long-term challenges facing Michigan's public education providers.

Schools and districts exist as institutions to serve children. Article VIII of the Michigan Constitution recognizes that a district's purpose is to "provide for the education of its pupils."¹ Importantly, the state's governing document does not suggest that this responsibility should be limited to public schools, as it makes a clear distinction between schools and other "means of education."² The constitution requires that both "shall forever be encouraged" to foster the necessities of "good government."³ Though it lacks the same binding authority, state statute observes that the state's public schools "serve the needs of the pupils by cooperating with the pupil's parents and legal guardians," who are recognized as owning the fundamental right to "determine and direct" their children's education.⁴

To the greatest extent possible, state policymakers should allocate K-12 education resources based on the needs of students, recognizing that schools have an important, but not exclusive, role to play. Adopting this approach would ease the stress placed on the system's current structures by underlying negative trends and a recent pandemic-induced shock. For most of this century, Michigan's school-aged population has steadily declined. More recently, the COVID-19 pandemic and response pushed even more families to choose schooling outside publicly funded options. Regardless of how many students return to conventional districts and charter schools after the pandemic is officially over, declining birth rates predict the larger trend to continue into the foreseeable future.⁵

The unique shock of COVID-19 has amplified the pressure on rigidly designed school systems to adapt effectively to serve students with increasingly varying and diverse needs. Extended school building closures reshaped the day-to-day and familiar activities of faculty and staff in the short run, while business closures and private sector layoffs threatened key sources of school tax revenue. Yet federal relief funds arrived in multiple waves, not only ensuring the status quo level of funding but also providing an unprecedented injection of new cash into the state's K-12 system.⁶ Looking to the future, Michigan should focus on tying education dollars more directly to student needs and choices and on empowering educator flexibility to meet changing local needs.

This combined challenge compels a close look at the state's approach to funding and delivering K-12 education. If the primary focus of policymakers shifts from preserving institutional structures and prerogatives to meeting the needs of students and their families, the challenge may well prove fruitful. The time is right to reform Michigan's bureaucratic infrastructure and develop a funding model that better adapts to personal learning needs. This should apply broadly to an array of education revenue streams. Put simply, student aid should take precedence over school aid.

K-12 Enrollment Trends: Slow Decline And Sudden Disruption

Although parents and students have some ability to choose among public schools, the existing system of K-12 funding has historically operated on the presumption that regional government entities possess taxation power to fund the provision of education services to all children who live inside their boundaries. Michigan's 537 conventional school districts, governed by locally elected boards of education, are set up as the default formal learning option.⁷

Beginning in the early 1990s, Michigan lawmakers created a few exceptions to this standard model of providing public education services. Most districts now serve at least some nonresident students who live in neighboring districts but enroll via the Schools of Choice program. Districts enrolling such students get state aid on their behalf, and a growing number of districts have participated as their enrollments of resident students have shrunk over time. More students means more dollars under Proposal A, an opportunity for districts to grow budgets that no longer strictly depend on local tax revenues or population growth.

Charter schools — known in Michigan statute as public school academies — enroll more than 10% of public school students throughout Michigan, most commonly in low-income urban communities. First authorized in 1994, charter schools are independently governed public schools. Their funding depends entirely on families opting to enroll their children. While charter school enrollment consistently grew over the last two decades, the combined student count in public schools has fallen every year since 2003.⁸

Schooling options in the private sector have shrunk over time, too. In fact, religious and independent schools have faced even larger losses, at least to the extent comparable data is available. From 2009 to 2017, the 13.9% enrollment decline in Michigan private schools eclipsed the 8.4% loss experienced by public schools over the same period.⁹ Even if every private school and home school student in Michigan had enrolled instead in a district or charter school, the total

2018 public school population would still fall well short of its recent peak in 2003.* The U.S. Department of Education forecasts the state's downward enrollment trend will continue at least another decade.†

A disproportionate share of the youth population decline occurred in the state's largest city. The Detroit school district's K-12 enrollment plummeted from 156,000 in 2003 to about 50,000 in 2018, before stabilizing.¹⁰ Some blame more families exercising public school choice, enrolling in charter schools or neighboring districts, as the culprit for the demise.¹¹ However, the city's population decline and changing demographics account for most of the lost enrollment.‡

While Detroit's loss of students has been noticeably steep, most other districts have experienced some degree of declining enrollment in recent years. Of the 551 conventional school districts operating in 2008-09, nearly 80% of them enrolled fewer students 10 years later, including 14 districts that were consolidated, dissolved or taken over by the state. Of the 537 districts still operating today, one-third (175) serve student populations that are at least 20% smaller than a decade earlier.¹²

Fewer school buildings remain in use over time, though the trend has lagged behind the drop in student population. From July 2007 to July 2020, the number of Michigan K-12 public school buildings decreased by 9.2%, compared with a 12.9% drop in enrollment during the same time span. As a result, the average number of students per school fell from 446 to 428.¹³

The unexpected disruption caused by the recent pandemic deepened the enrollment decline in many public schools. Parents in many parts of Michigan experienced frustrations with the quality of the improvised distance learning programs for their children. School officials faced added uncertainty, caught between the governor's emergency orders, families' child care needs and competing opinions among parents and employees and their unions about reopening schools, mask mandates and other health protocols. The one-year drop-off of 61,940 in statewide public school enrollment in 2020 exceeded the total decline of the previous five years combined.¹⁴

* In 2002-03, total Michigan public school enrollment exceeded 1,713,000. The best and most recent available population estimates show 1,682,280 Michigan children ages 3 to 17 enrolled in any kind of school in 2018. "Historical Student Enrollment Counts Data" (Center for Educational Performance and Information, 2021), <https://perma.cc/9CBW-6HUP>; "Table S0901: Children Characteristics: 2014-2018 American Community Survey 5-Year Estimates: Michigan" (U.S. Census Bureau, American Community Survey), <https://perma.cc/FJR6-AEDP>.

† Michigan is forecast to experience an 8.4% decline in public school enrollment between 2016 and 2028. "Table 203.20: Enrollment in public elementary and secondary schools, by region, state, and jurisdiction: Selected years, fall 1990 through fall 2028" (U.S. Dept. of Education, National Center for Education Statistics, Digest of Education Statistics, March 2019), <https://perma.cc/G2A5-NZDE>.

‡ Between 2002-03 and 2017-18, the city's estimated school-aged population (5-18) declined by 88,700, accounting for about 83% of the district's enrollment decline.

Toward Student-Based Funding

Core Support: The Foundation Allowance

The state's declining enrollment trend matters in large part because the single greatest source of a district's revenue is directly tied to the number of students served. Created by Proposal A, the foundation allowance guarantees a floor of basic financial support for school districts and charter schools. Dollars distributed by the state fund the remaining portion of the foundation allowance not otherwise funded by a local 18-mill tax on businesses and second homes in a district. The state calculates what a district is owed according to official student counts, its estimated property tax collections and the current foundation allowance level. The money is then sent out in monthly installments, with occasional adjustments made as data and estimates are updated.

Proposal A has greatly narrowed the gap in per-student funding among most districts over the last quarter century. It has also shifted the primary responsibility to fund public schools from local property tax dollars to the state treasury. All told, nearly six in 10 dollars that reached Michigan public schools in 2020 were state-collected funds. More than three in 10 dollars came from local sources, while almost one in 10 arrived via Washington, D.C. The massive outpouring of billions in response to the COVID-19 pandemic is likely to increase the federal share, at least in the short term.*

In a typical school year, a count of students present in school on a single day in October determines 90% of a district's foundation allowance. The other 10% of a district's official enrollment comes from a similar count on a day in February, from the previous school year. This helps stem the fiscal effects of districts losing students from one year to the next. The Legislature has adjusted the formula over the years, at different times basing 20% or 25% of the foundation allowance on the previous school year's count. From 2011 through 2019, the previous February count strictly determined 10% of the formula funding.†

During the first year of the COVID-19 pandemic, state policymakers adjusted the formula to further help preserve institutional budgets and payrolls. An August 2020 agreement between Gov. Gretchen Whitmer and the Legislature secured districts at least 75% of the previous year's formula

* As of the end of fiscal year 2020, the last full year of available data, Michigan public schools reported receiving a total of \$40.3 million in COVID relief, less than 1% of the total allocated relief funds combined from the three different, federal, COVID-19 relief bills. Funds will be available for several years. The last and largest pot of federal aid must be obligated by September 2024.

See Ben DeGrow, "Adding Up the Extra COVID-19 Funding for Michigan Public Schools" (Mackinac Center for Public Policy, April 20, 2021), <https://www.mackinac.org/S2021-01>.

† Kathryn Summers, "Overview of K-12 / School Aid" (Michigan Senate Fiscal Agency, Feb. 2019), Table 8, <https://perma.cc/CSZ7-CFT3>. Exceptions to this rule are few: 1) Public school academies in their first year are funded based on a 50-50 blend of the relevant October and February counts of the current year; 2) Sparsely populated districts with fewer than 1,550 pupils enrolled can average student counts going back up to three years to lessen the effect of declining enrollment, provided they do not also receive specially designated funding for isolated rural districts. See MLC § 388.1606(4)(i), (x) and "State School Aid Update" (Michigan Department of Education, Oct. 2018), vol. 27, no. 1, <https://perma.cc/YBQ2-MBH2>.

funding, regardless of enrollment.* Only 25% was based on the student counts from the 2020-2021 academic year. As enrollments significantly declined that year, the state funded many districts to educate pupils who weren't there. This temporary arrangement abandoned Michigan's longstanding practice of student-based funding. The state resumed the normal 90-10 split to count pupil membership for the 2021-22 foundation allowance formula.

The forecast of a combined additional \$1.7 billion in state school aid revenue for fiscal years 2021 and 2022 should greatly ease the return to a formula that reflects actual student numbers.† The availability of more per-pupil dollars cushions the impact of declining enrollment that affects many districts. It further rewards districts that buck the trend by strengthening the incentive to attract and retain students. Parents, the public school “customers,” benefit when funding follows students, because this provides an incentive to schools to meet families' needs. After all, that is the primary benefit of a K-12 funding system that is chiefly based on enrollments.

Growing Equity in Core Funding

A student-based funding system should generally provide equal funding on behalf of each student. The state has been steadily moving in this direction for decades: The wide funding disparity between districts has narrowed significantly over time.

Before the passage of Proposal A in 1994, districts received much of their revenue from property taxes, which caused funding disparities based on the value of property within the school district's boundaries. Lawmakers have frequently prioritized greater increases to district foundation allowance rates at the floor level, enabling them to catch up, over time, with districts that have higher rates. More than 25 years later, exactly 75% of conventional school districts and all charter schools received the same minimum foundation allowance in both 2020 and 2021: \$8,111.

In 2022, the share of conventional districts at the record highest floor level of \$8,700 swelled to 92%. The higher-funded districts tend to be larger. Thus, including charter schools in the calculation, 88% of students bring in \$8,700 in per-pupil funding through the foundation allowance. Today, excluding two tiny districts, the highest foundation allowance is only 44% higher than the amount taken in by the vast majority of the state's schools. By comparison, in 1994, the maximum district foundation allowance some of these districts received was nearly four times greater than the lowest-funded district.‡

* The 75% weight based on the prior year's enrollment is also referred to as a “super blend.” Jacqueline Mullen, Jenny McInerney and Samuel Christensen, “K-12 Education During COVID-19: Return to Learn and Funding Provisions” (Michigan House Fiscal Agency, Nov. 20, 2020), 1, <https://perma.cc/T2MK-B9ZR>.

† “Consensus Revenue Agreement Executive Summary: Economic and Revenues Forecasts, Fiscal Years 2021, 2022 and 2023” (State of Michigan, May 21, 2021), <https://perma.cc/8WQT-JE58>. That forecast may be further adjusted upward after May 2021 School Aid Fund revenues came in nearly \$300 million above projections. See “Monthly Revenue Report” (Michigan Senate Fiscal Agency, May 2021), <https://perma.cc/A4G5-EZDK>.

‡ The gap was nearly 56% two years earlier. Kathryn Summers, “Overview of K-12 / School Aid” (Michigan Senate Fiscal Agency, Feb. 2019), Table 6, <https://perma.cc/CSZ7-CFT3>.

The creation of a guaranteed foundation allowance shifted the balance of K-12 funding from the local to the state level. The share of state funds that support Michigan's public schools doubled from 29% the year Proposal A passed to 59% today, while local funds shrank from 65% of the pie to 32% over the same time period.¹⁵ Local taxes nonetheless still play a role in funding Michigan's 537 conventional school districts, including as part of the foundation allowance. In 2020, school districts and charter schools across Michigan together received nearly \$11.8 billion in foundation allowance money.* Of that amount, \$2.4 billion was raised locally by school districts from the 18-mill nonhomestead tax.¹⁶ Nearly 80% of the allowance, \$9.4 billion in all, came from state aid.[†]

Out-of-Formula Districts

Most districts are funded by a mix of local and state dollars to fund their foundation allowance. In 2020, however, 39 districts — disproportionately representing less populated vacation destinations that have high property values subject to the 18-mill tax on nonhomestead property — raised more than enough local funds to cover their entire foundation allowance.[‡] These “out-of-formula” districts combine to educate fewer than 1% of Michigan public school students.[§]

Collecting the foundation allowance entirely through local dollars does not mean forgoing state aid altogether. In 2020, these 39 districts received a total of \$37.4 million in other sources of state revenue.¹⁷ That amount represents a tiny fraction of the state's school aid budget.

Out-of-formula districts received about \$4,300 per pupil in state dollars, half the total that their formula-funded conventional district peers did. Because extra local dollars enable them to take in more tax dollars than otherwise provided in the state foundation allowance, out-of-formula districts' total revenue, including all local, state and federal funds, is about \$23,000 per student, on average, roughly \$9,700 more than other conventional districts. The disparity is at least partly explained by the fact that nearly half of the 39 districts are composed of 100 or fewer students.

* Author's calculation based on data from the Michigan Department of Education and Center for Educational Performance and Information. Total foundation allowance spending was derived from combining two pieces of information: 1) Each district's 2019-20 foundation allowance amount, and 2) Calculating state aid membership from each district's audited FTE pupil membership for fall 2019 and spring 2019. “2019-2020 School District Foundation Amounts” (Michigan Department of Education), <https://perma.cc/8VRQ-AD5Q>; “District FTE Pupil Counts” (Center for Educational Performance and Information), <https://www.mischooldata.org/historical-district-fte-pupil-counts>; “2019-2020 State Aid Financial Status Report” (Michigan Department of Education, 2020), <https://perma.cc/CXM6-X2ZM>.

† Author's calculations based on “Line Item and Boilerplate Summary: School Aid, Fiscal Year 2019-20, Public Act 58 of 2019, House Bill 4242 as Enacted, Including Vetoes and Supplemental Appropriations through December 31, 2019” (Michigan House Fiscal Agency, Jan. 2020), 2, <https://perma.cc/WR3P-XPFT>. The amount represents the sum of appropriations for Sec. 22a (\$4.943 billion) and Sec. 22b (\$4.556 billion).

‡ Small districts with vacation destinations typically have a large amount of high-value property they can assess, because the second homes and vacation properties are subject to the 18-mill nonhomestead local property tax.

§ Author's calculations based on “2019-2020 State Aid Financial Status Report” (Michigan Department of Education, 2020), <https://perma.cc/CXM6-X2ZM>; “Historical Student Enrollment Counts Data File” (Center for Educational Performance and Information), <https://www.mischooldata.org/historical-student-enrollment-counts-data-file>. Out-of-formula districts receive no state aid in the form of the foundation allowance. The 39 out-of-formula districts enrolled 8,632 students in 2019-20, or 0.6% of the state's total headcount of 1,444,258.

Tiny districts do not typically provide as many services at scale compared to their larger counterparts and tend to have greater per-pupil spending as a result.¹⁸

Inequitable Sources Outgrow Core Funding

Revenues not used for funding the foundation allowance are increasingly becoming a more significant factor in school district budgets. Even as foundation allowance rates have become more equalized, local schools get a smaller share of their revenues from the foundation allowance.

In 2008, more than 70% of the total funds collected by districts and charters came in the form of foundation allowance dollars. A dozen years later, the allowance comprised only 63% of total revenues. Total revenues statewide increased slightly in real dollars to just over \$13,000 per pupil in 2020. Yet on average, districts and charters took in more than \$1,000 per pupil more from other allocations and funding sources outside the foundation allowance in 2020 than in 2008. That translates to an extra \$1.48 billion in nonfoundation allowance revenue.*

A large amount of this money comes from what are called categorical grants. These are funds appropriated by the Legislature for specific purposes or programs. The number and size of these categorical grants fluctuate from year to year. A sizable share of this funding is not distributed according to student enrollment, but is designed to benefit districts with certain characteristics, or to underwrite specific educational programs or state mandates.¹⁹ These funds are allocated without accounting for locally raised dollars.

Taken as a whole, the distribution of categorical funds widens the disparity in funding among districts. In 2020, the small number of highly funded hold-harmless districts brought in nearly \$450 more per full-time student, on average, in categorical grants than the typical district funded at the minimum foundation allowance rate.²⁰

A key driver in that disparity is the appropriation of about \$1.525 billion in Section 147 categorical funds, designated to offset employee pension obligations.²¹ These allocations — first included in the state's 2012 budget — are based on payroll expenses rather than student counts.† As a result, districts receive a disparate range of Section 147 allocations per student.

In the 2019 school aid budget, state lawmakers designated nearly \$3.67 billion from the state treasury through 75 different line-item grants. This amount comprised 28% of the state's total

* In 2007-08, Michigan school districts and charter schools took in \$12.147 billion through the foundation allowance, 70.7% of \$17.172 billion in total revenue. Twelve years later, only \$11.78 billion out of \$18.745 billion in total revenue arrived through the foundation allowance. Subtracting federal funds, the foundation allowance went from 75% of revenues in 2008 to 68% in 2020. Using a slightly different methodology, the Edunomics Lab measured Michigan's student-based allocations at 67% of combined local and state revenues in fiscal year 2018. Michigan ranked 11th out of the 29 states analyzed. See "Student-Based Allocation: Doling Out Dollars Based on Student Needs" (Edunomics Lab, 2022), <https://perma.cc/4L26-2JRH>.

† See "School Aid Archives" (Michigan House Fiscal Agency), <https://www.house.mi.gov/hfa/Archives/SchoolAidArchive.asp>. The initial allocations under Section 147 for Fiscal Year 2011-12 totaled \$288 million, a figure that has only grown since.

school aid allocation.* As part of a contentious battle over the 2020 budget, Gov. Gretchen Whitmer's veto ultimately removed more than a third of the line items. Even so, the final enacted budget preserved enough of the larger line items to slightly increase the share of categorical dollars in the 2020 budget.²²

Many categorical funds underwrite specific programs in areas such as early literacy and career-technical education. Some funds are competitively awarded to vendors who provide services (e.g., student testing). Districts may receive some of these funds to help pay for special added costs or to recoup lost tax revenue from other sources.

Other line items bear a more direct relationship to student demographics, based on the recognition that students with certain characteristics typically need extra support to meet academic standards. Bilingual education funding, for example, is consistently allotted according to the number of pupils who meet certain measures of English language proficiency.[†] In 2020, most districts netted about \$945 for each student deemed at-risk due to various measures of poverty or family instability. Districts with higher foundation allowances receive significantly smaller at-risk allocations per student, because they typically serve a smaller portion of at-risk students.[‡]

The foundational assumptions used to undergird the increasing use of categorical funding is problematic. State policymakers appear to believe that local school districts, without the extra state funds, would fail to provide the programs and services that these politicians believe students really need. While some students certainly benefit from the targeted programs the state Legislature funds, it is highly improbable that lawmakers would know better than individual parents, teachers and school leaders what services local students need most. This reality suggests that a lot of this categorical spending is inefficient at best, or worse, wasteful.

Lawmakers have continued their preference to boost K-12 funding through line-item categorical grants. This approach enables elected officials to exert more control to prescribe how local agencies use dollars. It also tends to distribute money in a way that does not necessarily align with the local needs and characteristics of students served.

* "Budget Briefing: School Aid" (Michigan House Fiscal Agency, Jan. 2019), 6, 15, <https://perma.cc/4R55-ZAQ8>. This figure can quickly be determined by subtracting the state's foundation allowance spending (\$9,431,000,00) from total state School Aid spending (\$13,098,645,300), which includes the total allocations from both restricted funds and the general fund.

† MCL § 388.1641. For 2019-20, the Legislature appropriated anywhere from \$100 for each English language learner with the highest proficiency to \$900 for each learner with the lowest proficiency.

‡ MCL § 388.1631a(2), (4). The figure is derived from a calculation of a "statewide weighted average foundation allowance" that calculates all the foundation allowance dollars allocated up to the target rate and divides the total by the number of full-time equivalent students in membership. The resulting figure of \$8,214 is then multiplied by the statutory weight of .115, to approximate \$920. Districts with foundation allowances above the minimum level generally receive at-risk funding at 35% of the standard allocation. See also "FundEd: Poverty Funding Policies in Each State" (EdBuild), <https://perma.cc/U5F7-RSPN>.

Federal Funds

The federal government provides funding for education, too.* Its payments are not made on a per-pupil basis, but instead favor districts that enroll students from poor families. If counting only local and state K-12 dollars in the allocation, the Urban Institute ranks Michigan among the more “regressive” states for providing less funding for districts with high-poverty student populations compared to other states. Adding federal funds into the mix moves Michigan into the top 10 for most “progressive” states.²³

Apart from special education and school nutrition subsidies, the largest share of K-12 federal funds underwrites programs for low-income and at-risk students through Title I.† These dollars are stacked on top of all state and local funding a district receives. Thus, school systems with larger populations of low-income students tend to receive more total revenue per student because they receive more federal dollars per student.

But the complex nature of the Title I at-risk formula in particular yields frequent disparities and, in a few cases, some widely divergent results. For example, the Flint and Muskegon school districts have nearly identical enrollment levels and operate in communities with similar poverty rates. Yet in 2020-21, Flint received \$12.7 million in Title I funds, compared to Muskegon’s \$3.5 million. Flint particularly benefits from a provision in the federal Title I formula that ensures high-poverty districts must receive at least 95% of the previous year’s allocation.²⁴ Because the district was once much larger, this hold-harmless provision keeps Flint’s Title I funding elevated on a per-pupil basis.²⁵

Such disparities were magnified greatly in the distribution of federal COVID-19 relief funds, an additional, albeit short-term, source of revenue. Michigan districts received nearly \$5.2 billion combined from three separate allocations of the Elementary and Secondary School Emergency Relief Fund, each round of which relied on the same Title I formula.²⁶ Additional federal COVID relief allocations pushed the total over \$6.1 billion, or \$4,200 per student enrolled in fall 2020. Muskegon is set to collect the significant amount of \$40.6 million, or about \$11,750 per student. Meanwhile, Flint will take in the immense sum of \$156 million, or nearly \$50,000 per pupil.²⁷

Growing Inequalities Between Districts and Charters

Because public school academies on average serve a much larger share of low-income students, they typically receive more federal dollars per pupil than conventional districts do. On the whole, charter schools and conventional districts take in almost identical Title I revenues for each

* Most K-12 federal revenues are appropriated through the state budget process: \$1.75 billion out of \$1.955 billion in fiscal year 2019-20, as reported in National Public Education Financial Survey data and “Line Item and Boilerplate Summary: School Aid, Fiscal Year 2019-20, Public Act 58 of 2019, House Bill 4242 as Enacted, Including Vetoes and Supplemental Appropriations through December 31, 2019” (Michigan House Fiscal Agency, Jan. 2020), <https://perma.cc/WR3P-XPFT>.

† The three largest federal appropriations are: Section 31d - School Lunch Program for low-income children (\$537.2 million); Section 39a(1) - Title I funding for disadvantaged children (\$535 million); and Section 51a – Special Education (\$431 million). Together, they make up about 86% of the \$1.746 billion federal appropriation in Michigan’s school aid budget. “Line Item and Boilerplate Summary: School Aid, Fiscal Year 2019-20, Public Act 58 of 2019, House Bill 4242 as Enacted, Including Vetoes and Supplemental Appropriations through December 31, 2019” (Michigan House Fiscal Agency, Jan. 2020), <https://perma.cc/WR3P-XPFT>.

economically disadvantaged student.²⁸ But PSAs, by design, are unable to raise local property taxes to fund school construction and infrastructure projects. In 2020, districts generated more than \$1.9 billion in local taxes for these purposes.*

While charters educated 10% of public school students in 2020, they only collected about 3% of all state categorical allocations, a total of about \$117.8 million. The disparity could partially be explained by the fact that categorical dollars set aside large sums to backfill obligations created by the state pension system, which very few charter schools participate in. Yet even setting aside Section 147 pension funds, charter schools still received only 5% of state categorical dollars.†

As a combined result of these factors, public school academies have consistently received less revenue per pupil than conventional districts. The disparity has increased in recent years. The number of charter school students nearly doubled from 2004 to its recent peak in 2017. Charter schools' inflation-adjusted, per-student revenues remained mostly steady between 2012 and 2020, which is about 7% below 2010 levels. Since the typical conventional district's real per-student revenues accelerated beyond 2010 levels in recent years, charters are financially further behind districts than they were a decade earlier.²⁹

The average Michigan school district's per-pupil revenues have surpassed their earlier 2007 peak, after ebbing in 2013 as federal stimulus dollars ran out. Since that time, real funds available for each student have grown. As of 2020, conventional districts, on average, took in \$13,365 in revenue for each student enrolled, compared with \$10,242 for charter schools. The typical district spent over \$11,700 per student, more than \$2,000 greater than what the average charter school spent per pupil.³⁰

Expanding ISDs and Unresolved Inequities

Michigan's 56 intermediate school districts are regional bureaucratic agencies. All are charged with overseeing local special education services, auditing district student counts for funding purposes and administering money for the state's preschool program. But wide variations exist in the precise programs they provide. ISDs directly serve less than 1% of Michigan public school students, mostly students with disabilities enrolled in special programs. Yet these agencies have fared much better financially in recent years than the state's districts and charter schools.

ISDs receive a small amount of foundation allowance funding for special education students whom they serve directly, but they are heavily dependent on other revenue sources. Nearly a billion dollars, or 27% of all categorical dollars, was delivered to these regional agencies in 2019-

* Author's calculations based on "Financial Reports: FID Data Files: School Year 2019-20 Financial Revenue, Balance Sheet, ESP Data" (Center for Educational Performance and Information), <https://www.mischooldata.org/historical-financial-reports>. Total includes all revenues from property tax levies reported by districts for debt service and capital projects.

† Author's calculations based on estimating 2019-20 charter schools' foundation allowance revenue at \$1.176 billion, by multiplying minimum foundation allowance rate of \$8,111 by state-audited FTE pupil membership count of 144,997.69 (90% of Fall 2019 and 10% of Spring 2019). Estimated foundation allowance revenue then subtracted from calculation made from the state revenue for all public school academies (\$1.294 billion), as reported in NPEFS, 2019-20 data. State funding outside the foundation allowance are estimated at \$3.64 billion; less Section 147, the total is a little under \$2.3 billion.

20.* Meanwhile, ISDs also took in \$566 million, or 29% of the state's total K-12 federal allotment.[†] Some of these state-appropriated funds are passed through to local districts and other educational providers, but most are retained and spent by ISDs.

ISD oversight of special education services are more heavily dependent on local tax revenue, and thus, more unevenly funded than K-12 school district budgets.[‡] These regional agencies collected nearly \$1.1 billion from local special education taxes in 2019-20, about half their total annual revenue to fund special education services.[§] Measured on a per-pupil basis for all special education students within a regional ISD, a wide gap in millage funding exists. Washtenaw ISD, for instance, raised \$13,400 for each student with a disability within its boundaries, more than 10 times the rate of Lapeer ISD (\$1,196), Sanilac ISD (\$1,292) and the Midland County Educational Service Agency (\$1,325). However, this wide gap is significantly smaller than in 2004, when Bay-Arenac ISD brought in nearly 80 times more special education millage funding per eligible student (\$12,835) than the Upper Peninsula's Copper Country ISD (\$165).[§]

These pots of local funding in many cases come with restrictions that limit student opportunities. As of 2017, 21 of the 56 ISDs specifically prohibited millage funds from being used to provide services to nonresident students. A small number of those agencies further limit some or all state funds to serve only those who live within certain regional boundaries.[§]

State lawmakers appropriate in the school aid budget a pot of money to help equalize special education revenues: just over \$40 million in each of fiscal years 2019 and 2020 to ISDs that collect less property tax revenue for the students served. The formula for allocating these funds to some ISDs is not necessarily aligned to how much local money is raised per pupil, however. Injecting this money along with federal special education revenue somewhat reduces the regional gap, but the highest-funded ISD still receives nearly four times as much per eligible student as its lowest-funded counterpart.[§]

Inequities also occur within the service regions. Wayne Regional Education Service Agency, the largest of the state's 56 intermediate districts, uses local policy to limit access for certain special-needs students. Wayne RESA's large pot of local tax money is allocated for programs designed to serve specific student populations and operated by certain conventional district schools. As a result, students with disabilities in the region are limited to programs offered by conventional

* Author's calculation based on 2019-20 NPEFS data. Michigan ISDs collected \$996.1 million in state revenues. The state made roughly \$3.64 billion in school aid allocations outside the foundation allowance.

† Author's calculation based on 2019-20 NPEFS data. Michigan's total K-12 federal revenue was nearly \$1.955 billion.

‡ Peer-reviewed research has found that inequities in special education funding are "exacerbated by Michigan's Intermediate School Districts." See Michael Conlin and Meg Jalilevand, "Systemic Inequities in Special Education Financing," *Journal of Education Finance*, vol. 41, no. 1 (Summer 2015): 85, <https://perma.cc/X4MQ-Q9Z5>.

§ Author's calculations based on CEPI's "Financial Information Database," <https://www.mischooldata.org/historical-financial-reports-and-Special-Education-Enrollment>, <https://www.mischooldata.org/historical-special-education-enrollment>. Inequitable special education funding among ISDs has been documented for some time. For the most notable and comprehensive output, see "Financing Special Education: Analyses and Challenges" (Citizens Research Council of Michigan, Report No. 378, March 2012), <https://perma.cc/XXZ8-DADM>.

districts and are less likely to be fully served if they enroll in a local public charter school. This disparity is not evident in Michigan's other highly populated regions.³⁴

A series of other millages that ISDs can levy brought their total local property tax revenues to nearly \$1.55 billion in 2020.³⁵ Adding in state and federal education dollars, intermediate school districts have grown their overall financial footprint. As Michigan's special education student enrollment declined by 14% from 2004 to 2020, ISD operational spending rose by 35% (including a 39% increase in payroll spending) in inflation-adjusted dollars. During that time, ISD spending increased from 6.3% to 10.1% of the statewide K-12 total.³⁶

The Limited Effects of Popular Reform Ideas

The trends highlighted above raise concerns about the distribution of K-12 education dollars to serve Michigan students. Before the pandemic arrived, student outcomes left much to be desired. Achievement levels on state and national tests were flat or declining, with far too many students lacking the basic knowledge and skills to put them on track for success in higher education and career. Thousands of young people drop out each year, and among those who graduate, one in four need remedial help at the college level.³⁷

Given the recent trend of growing resources and stubbornly frustrating results, the state's existing K-12 infrastructure does not appear well-suited to meet the goal of advancing student learning on a large scale. This section explores approaches to reforming K-12 funding that could help more students succeed in reaching their potential.

The False Hopes of More Spending

Could continuing the trend of increased funding make a difference in delivering better outcomes for students? The logic of this approach is simple, but the evidence of conflicting incentives and inherent inefficiencies in the K-12 system calls it into question. That system is generally designed to provide mass, compulsory schooling more than it is designed to serve the diverse needs of individual learners.

As the late economist Milton Friedman famously said: "Not all schooling is education nor all education, schooling. The proper subject of concern is education. The activities of the government are mostly limited to schooling." Education policy, properly devised, should aim higher than the goal of corralling and keeping as many students as possible in school.

The disconnect between the nation's school funding systems and the primary goal of education is nothing new. In 2008 the University of Washington's Center on Reinventing Public Education concluded a six-year, in-depth study of the topic with a dire assessment: "What we have now is a finance system that is focused on maintaining programs and paying adults, not on searching for the most effective way to educate our children. This system doesn't fit America's needs."³⁸

Simply giving schools more money to spend is unlikely to drive substantial improvements in student outcomes. Two early studies did show academic benefits for previously low-funded

Michigan school districts after they received large funding boosts from Proposal A.³⁹ But a 2016 Mackinac Center school-level analysis tracked 10 subsequent years of spending. The study found no statistically significant relationship between more spending and better results on 27 of 28 different measures of academic achievement.⁴⁰

A 2016 education finance study paid for by the state arrived at only a slightly more encouraging conclusion: Each additional \$1,000 spent per pupil would add 1 percentage point to the proportion of students proficient in math and reading. According to that calculation, K-12 spending would have to surpass \$30,000 per student before half of Michigan's 11th graders could do math proficiently.⁴¹ The study called for a much smaller funding increase, with an estimated price tag of about \$1.4 billion, a statewide average of about \$1,000 per student.⁴²

More recent school finance studies call for even larger amounts of new funding for Michigan schools. A January 2018 study released by a group representing businesses, foundations and public education interests called for a \$2.8 billion annual funding boost at the time of its release. Their recommendations were based on interviews with panels of school district officials.* Both the 2016 and 2018 reports failed to identify where the added money should come from, while assuming districts would continue to spend any new money as they usually do. In 2020, Ed Trust-Midwest proposed funding policy changes that would tally an additional \$5.4 billion. Unlike its two predecessors, it explicitly recognized the need for more effective spending, but offered very few specific recommendations beyond a requirement that school districts develop and publish their spending plans.⁴³

Major studies have called for Michigan to enact large spending increases for K-12 education. But those studies have not connected the dots to show how more money would yield improved outcomes for students. That's a significant problem.

Personnel-Based Policies and Reforms

Legislators seeking accountability for large outlays of state tax dollars could reasonably justify requiring districts to spend this money in ways that are most likely to deliver quality education services to Michigan students. For example, the best evidence indicates that seniority-based and degree-based pay systems for teachers do not promote higher quality instruction nor greater student achievement. Yet schools overwhelmingly tend to pay their teachers based strictly on

* Tom Gantert, "Public Schooling Interests Recommend Spending More On Public Schooling" (Michigan Capitol Confidential, Feb. 2, 2018), <https://perma.cc/PXY9-9FC3>. The price tag is likely somewhat smaller today. In May 2021, the School Finance Research Collaborative released an update of its recommended base per-student cost from \$9,590 to \$10,421, an 8.7% increase in raw dollars. See "Update to Costing Out the Base Resources Needed to Meet Michigan's Standards and Requirements" (Augenblick, Palaich & Associates, 2021), <https://perma.cc/9PB5-LUA4>. Over the same three-year period, state-level NPEFS data shows that current per-pupil spending rose by 9.5%, while statewide enrollment declined.

length of service and the number of degrees they hold.* Policymakers could require districts to use a pay system that promotes and rewards excellent teaching.

Proponents of these types of reforms correctly recognize that human resources are crucial to making the enterprise of education succeed and particularly the effectiveness of teachers.⁴⁴ Personnel expenses comprise, on average, 82% of school budgets, 57% of which is dedicated to compensating instructional personnel like teachers.⁴⁵ More often than not, directing extra money to K-12 education means hiring additional staff or paying staff members more across the board. Given that the common compensation structure schools use are inefficient, the amount of resources needed to attract and retain enough effective educators to raise achievement at scale could be prohibitively expensive.

Michigan's relatively modest attempts to improve the overall level of teaching have a poor track record, such as revamping teacher evaluations and requiring pay be based on performance. While the language authorizing those reforms remains in statute, districts have largely ignored these reforms and the Michigan Department of Education has made little effort to enforce them. For instance, many district administrators have refused to differentiate effectiveness among their teaching staff and offered only token payments that reward performance.

District officials, university researchers and reform-minded legislators appear to share concerns that the state's efforts to improve educator evaluations have not worked well.⁴⁶ For one thing, local schools consistently rate nearly 99% of teachers as "effective" or "highly effective," making it difficult to identify and replace ineffective teachers.⁴⁷ Similarly, the 2010 law that mandates districts use performance as a significant factor to determine educator compensation is essentially a dead letter. The idea that great teaching should be financially rewarded and incentivized is a sound one, but most districts flout the law and maintain their seniority-based pay scales without consequences.⁴⁸

State leaders have been largely unsuccessful in implementing policies that elevate teacher professionalism and break the factory mold. Improvements are also stymied by top-down accountability that is widely dispersed and weakly enforced. Attempted sanctions on conventional school districts for persistently poor performance have amounted to little more than empty threats. State lawmakers are more inclined to assign districts extra money when they fail to deliver results for students than they are to give those students access to effective alternatives. As such, funds are disproportionately used to maintain the status quo rather than expand the delivery of

* A long track record of research identifies no consistent relationship between a teacher attaining a master's degree and student performance. See Marguerite Roza and Raegan T. Miller, "Separation of Degrees: State-by-State Analysis of Teacher Compensation for Master's Degrees" (Center on Reinventing Public Education, July 2009), <https://perma.cc/3456-FYFT>. Researchers identified billions of K-12 dollars spent annually on these "master's bumps." More recent research confirms a positive effect for a master's degree in mathematics on middle and high school math instruction, but no such effect for most degrees, including some that have a slight negative effect on teaching quality. See Kevin C. Bastian, "A Degree Above? The Value-Added Estimates and Evaluation Ratings of Teachers with a Graduate Degree" (Education Finance and Policy, Fall 2019) vol. 14, no. 4: 652-678, <https://perma.cc/DC3Z-329F>. Regarding seniority, a recent study not only affirms findings that the average teacher improves rapidly in their first four years and more modestly up to year 10, but also identifies wide variation in trend lines, such that more effective teachers tend to continue improving longer. This implies that paying teachers based on seniority matters little to the overall effectiveness of a school's ability to teach children. See Matthew A. Kraft, John P. Papay and Olivia L. Chi, "Teacher Skill Development: Evidence from Performance Ratings by Principals" (EdWorkingPaper, Annenberg Institute for School Reform at Brown University): 19-97, <https://perma.cc/5CZC-4582>.

effective educational outcomes or experiment with new methods or models, no matter how promising they may be.

The jury is still out on the state education department's Partnership Model, an initiative launched in 2017 to turn around struggling local school systems and help them avoid harsher sanctions. But the results have not been very encouraging. Specific interventions have varied based on local response and need, but commonly include establishing clear, consistent academic goals, adopting new curricula, emphasizing greater expectations for student attendance and building better relationships with parents, and providing extra coaching and mentoring for younger teachers. The first two years of the state's Partnership Model registered some initial gains for younger students in some areas, but less evidence that any of these improvements could be sustained.*

Generally speaking, school officials are rewarded more for complying with outside agency rules and adopting union-favored policies than for embracing promising initiatives that might directly benefit students. The state's Partnership Model program seeks to transform some facets of compliance into cooperation, supporting school leaders who make necessary reforms. Even so, state intervention has mostly yielded modest changes in practice and modest results in return.

Most Michigan districts are not subject to partnership arrangements. They feel even less pressure to rethink business as usual. On the whole, school officials face no financial incentive to improve. Some might use extra money to do a better job improving student achievement, but trying to mandate improvements through state regulations and financial support has largely proven ineffective. The failure to produce change is impacted by the inertia of traditional practices and habits, resistance from labor organizations and a lack of will from state bureaucrats. Thus, top-down reforms, no matter how promising or grounded in good evidence, often fail to produce widespread improvements in teaching and learning.

The Limits of District Consolidation

As an alternative to adding large amounts of extra revenue to the K-12 system, some groups have proposed consolidating education agencies as a way to direct dollars more efficiently. While persuasive evidence is in short supply, a look at the experiences of service consolidation at the intermediate school district level and combining operations at the local school district level can offer some insight into the potential benefits of consolidation.

The Michigan Legislature created the current ISD system in 1962, during a time of significant growth in student enrollment and consolidation of local districts.† Nearly six decades later, the

* Katharine O. Strunk et al., "Partnership Turnaround: Year Two Report" (Education Policy Innovation Collaborative at Michigan State University, Oct. 2020), <https://perma.cc/77SZ-QZCW>. As of fiscal year 2021, the state annually kicked in about \$6 million from the school aid budget to underwrite the program. See also "School Aid Section-by-Section Highlights- Boilerplate Only, Fiscal Year 2020-21" (Michigan Senate Fiscal Agency, July 14, 2021), <https://perma.cc/Y35J-KSDP>.

† Matthew J. Brouillette, "What Are Intermediate School Districts?" (Mackinac Center for Public Policy, Michigan Education Report, Feb. 10, 2000), <https://www.mackinac.org/2709>; "School District Organization in Michigan" (Citizens Research Council of Michigan, November 1990), 4, <https://perma.cc/JT5G-ACQC>. In 1960 the state had 2,149 districts serving 1.62 million pupils; five years later there were 1,227

landscape of K-12 education has changed dramatically. Michigan's ISDs consolidate a wide variety of services for local districts within their regional boundaries. Yet the trend toward greater consolidation of services within ISDs in recent decades has failed to create desired efficiencies, according to the limited research on the topic. A peer-reviewed study found that the practice of service consolidation within Michigan ISDs between 2004 and 2010 did not significantly reduce spending on the affected services. However, consolidating one of the five specific types of activity — business office services — was associated with an increase in classroom instructional spending.⁴⁹

The combination of various operations at the ISD level continued apace during the last decade. At the same time, the rate of school district consolidations increased from a prolonged slowdown. Conventional districts disappeared at the rate of one every other year between 1990 and 2010. Over the following eight years, though, the number of districts accelerated downward from 551 to 537.⁵⁰ Two of the 14 losses, Highland Park and Muskegon Heights, were reconstituted as public school academies in an attempt to address serious fiscal distress and academic challenges. The remaining 12 combined with or were annexed by other districts. In 2013 alone, four districts shut down and were absorbed by their neighbors.*

The following year, then-state superintendent Michael Flanagan recommended more districts combine as a means of blunting downward enrollment pressures and post-recession budget challenges.⁵¹ Yet, by that time the number of districts under financial distress had already started to wane. From 50 districts or charter schools in deficit at the end of June 2013, the number dropped to 38 two years later.⁵² Conditions have improved even more since: According to the state department's official September 2021 report, fewer than 10 districts were expected to end the fiscal year in deficit.† District officials who have an easier time managing their finances face little pressure to consolidate, even if the new arrangement would be more efficient.

A 2007 Mackinac Center analysis suggests that school district consolidation could result in some cost savings under certain circumstances, but there are limitations. Specifically, once districts grow beyond a certain size — about 2,900 students based on the study — the savings from consolidation starts to recede. The reason for this is that larger districts, for one reason or another, are not as cost effective as smaller school districts.⁵³ Therefore, grand consolidation schemes are unlikely to help direct more resources to student learning. Organizing public education under larger bureaucracies would likely be less cost effective and potentially less capable of serving students' unique needs.

districts and 1.92 million pupils. Most of the consolidation occurred among primary districts that did not operate a high school. Still, the number of comprehensive districts declined from 582 in 1960 to 545 in 1965.

* The four were Inkster City School District (Wayne), Buena Vista School District (Saginaw), Willow Run School District (Washtenaw) and Palo Community School District (Ionia). Other districts annexed in the past decade include Freesoil Community School District (Mason), Galien Township School District (Berrien), Port Hope Community Schools (Huron), Albion Public Schools and Arenac Eastern School District. In 2011, the Britton-Macon and Deerfield districts in Lenawee County merged to form Britton-Deerfield Schools.

† Michael F. Rice, "Quarterly Report to the Legislature on Deficit Districts" (Michigan Department of Education, Sept. 24, 2021), attachment A, <https://perma.cc/HC4K-5NUW>. Of the 17 districts that began fiscal 2020 in deficit, state analysts project eight will end up in the black. No new deficit districts were identified.

In the fall of 2019, the average size of Michigan's 537 conventional districts was about 2,400 students, with a median enrollment of 1,362. Following the onset of the pandemic, the next fall's average district size dropped to 2,313 and the median to 1,315.⁵⁴ This suggests that selective instances of consolidation could lead the state closer to the optimal number of districts from a cost effectiveness point of view but does not suggest a widespread or general benefit from the policy.

Earlier research into the consolidation of rural New York school districts revealed some meaningful patterns. The smaller the districts that joined together, the greater efficiencies were realized. Combining two 300-student districts resulted in substantial savings of 20%, while combining districts with 1,500 students each yielded no fiscal benefit.⁵⁵ However, one of the study's authors critiqued a 2010 attempt to use these numbers to forecast precise fiscal impacts in Michigan.⁵⁶

The New York analysis found that consolidation tends to generate per-pupil savings by preserving one board and superintendent regardless of district size, as well as through bulk purchasing power and lower utilities costs at more densely inhabited school buildings. Often overlooked, however, are the added costs larger district units tend to face. Longer commutes increase transportation spending, larger and thus more influential unions exert pressure to dedicate all new spending to increasing employee compensation, and heftier, more formalized management bureaucracies reduce productivity. With more powerful interest groups aimed at influencing the decisions of the school district, parental involvement and input is more difficult to hear and to consider as a source of ideas for improvement.⁵⁷

These limitations are in addition to another significant barrier to effective school district consolidation: it tends to be unpopular due to historic community school affiliations and athletic traditions. Consolidation often involves eliminating cherished high school sports programs and teams, some of which play a role in defining local communities. Significant pushback against consolidation from district residents often rests on these sentiments.

Precisely forecasting the effects of consolidation is difficult. Combining smaller Michigan school districts could save money. But applying the same approach to larger districts, under conditions that likely vary by region, the costs may outweigh the benefits. A general program to reduce the number of Michigan school districts could well have unintended, negative impacts. Some degree of consolidation could marginally improve efficiency, but even that result is not guaranteed.

Limited Benefits from Contracting Services

Private contracting of noninstructional services has helped many districts meet their bottom line without drastic cuts to core programs. The share of districts that contract out for transportation, custodial or food service climbed significantly since 2001, a time when education revenues were steadily rising and state public school enrollment was near its peak. Back then, only 30% of districts contracted out for these noninstructional services, but that rate grew significantly since and has stabilized at around 70%.⁵⁸

Thus, the number of districts that could stand to benefit from contracting services is comparatively smaller than it was 20 years ago. Extra state and federal dollars, including those allocated to address the effects of COVID-19, further reduce incentives for districts to pursue this cost-saving approach.

Under state law, charter schools have the additional authority to contract out for instructional services.⁵⁹ More than 90% of them already take significant advantage of this cost-effective option for staffing their classrooms.*

School officials in some cases can stretch their budgets through optimizing district size, contracting out, and similar practices. But alone they do not promise to bring a great deal more bang for the buck to Michigan's K-12 system, just as current funding increases hold very little promise of improving the state's overall educational performance. The system requires deep-seated design changes to fulfill the promise of providing quality public education for all Michigan students.

Fiscal Transparency Enhancements

Increased transparency in reporting where and how education dollars are spent can foster both greater equity and efficiency. A 2008 law requires districts to post several specific financial items on their websites, including budget documents, audited financial reports, expenditure summaries, spending amounts for government lobbying and travel, compensation details for a district's highest-paid employees and an accounts payable check register showing individual amounts and vendors. Compliance appears to be generally good, though weak enforcement efforts allow districts to maintain outdated or incomplete data without consequence.⁶⁰

While Michigan has made recognizable progress in district-level financial transparency, the picture of how dollars are allocated among individual schools and for what purposes they can be used has been far less clear. As the writer for a prominent education trade publication described it, "[H]ow districts distribute federal, state and local dollars between schools has long been a mystery even to district superintendents."⁶¹

The latest reauthorization of a major federal K-12 education law, the 2015 Every Student Succeeds Act, has pushed states to provide a clearer picture of school finances. States now have to publish detailed reporting at the school level. In June 2020, Michigan launched an online school-level expenditure report, which lists the federal, state and local dollars spent per student at each public school. Every expense attached to a particular building, including total teacher salaries and benefits, is compiled and reported separately. All other district spending is divided on a per-student basis among individual schools.⁶²

This additional layer of information can provide some helpful insights, especially in observing the state's largest districts. How evenly do these districts spend resources among their schools? For

* Author's calculations based on 2019-20 NPEFS data. Out of 294 public school academies, 272 of them, or 92.5%, reported spending more on instructional purchased services than instructional salaries, a strong indicator of contracting.

example, the data can highlight the gap between a district's highest-funded and lowest-funded schools. The difference in per-pupil spending among Detroit Public Schools Community District's 16 high schools is notably large, with figures ranking from about \$12,400 to \$20,400. Conversely, all five Ann Arbor middle schools spend close to the median of \$13,800 per student.⁶³

A general relationship exists between school funding levels and populations with economic disadvantages or special learning needs. Within the state's five largest districts, there is a strong correlation between higher poverty rates and higher per-pupil spending. The sole exception is Dearborn's 22 district elementary schools, where there appears little connection between a school's poverty rate and its per-pupil spending level. Additionally, schools with smaller enrollments are much more likely to receive more funds per student.⁶⁴

The recent addition of online reports in school-level spending has brought Michigan closer to the level of transparency prescribed under the federal education law. But other states also highlight areas for further improvement that could point to additional inequities as well as opportunities for greater efficiencies at the local level.

Unveiled in 2017, the Colorado K12 Financial Transparency website clearly depicts how many dollars fund student instruction and other areas that support the learning environment, as opposed to a district's business operations. Users can also see what is spent on total employee salaries and benefits at each school, compared with supplies and services.⁶⁵ Georgia provides a similar level of detail in school system financial information.⁶⁶

Additional enhancements like greater online transparency of public data alone have done little to promote wiser spending. Within the confines of the current system, it does provide some advantages, however. That is especially true when local and state officials operate according to reporting requirements that are clear, consistent and manageable.

Yet, it's not just a matter how much data is disclosed, but also how it is broken down. Michigan school districts are not required to link spending to specific groups of students. Instead, dollars are tracked and reported based on specific programs and staffing assignments. The subtle but real effect of this approach is to limit public understanding of how money is being deployed to fulfill the primary mission of public education. The ready availability of financial information in direct connection to students served can improve incentives to allocate resources effectively.

Modernizing K-12 Funding: Guiding Principles

Calls for more money to fund K-12 education are common but fail to make a clear connection to better outcomes for students. School systems spend most funds on personnel, yet inertia, union resistance and the friction of state bureaucracy combine to thwart changes to reshape basic incentives embedded in outdated employee compensation and management systems. Other strategies, like district consolidation or additional contracting out for services, offer few extra efficiencies.

As student population shrinks and school systems adjust to move beyond pandemic-related challenges, policymakers need to rethink existing funding systems. Significant changes are needed to fuel systems that better respond to individual student needs and provide financial incentives to districts to meet those needs. To review, three goals outlined above are ripe for state policymakers to improve in the next iteration of Michigan K-12 state budgeting.

- 1) **Student-Based:** Dollars should be distributed more fairly based on individual student needs, funded at equivalent levels regardless of the chosen educational setting. One great challenge can be found in determining appropriate amounts to address the needs students in poverty and those with disabilities. To create a more student-based funding system, state policymakers must also account for the incentives created by federal dollars, especially those already designated for these purposes.
- 2) **Efficient:** Local education providers should be given greater incentive to use both existing resources and new funding streams effectively. More promising results should come from strengthening accountability to the parent, who is most invested in a child's academic success, rather than from state-imposed mandates.
- 3) **Transparent:** There is value in ensuring funds are clearly traceable from the source to how they are used at the site where the student is served. But in a student-based, choice-driven funding system, it's even more important to see the outcomes that are linked to available resources and spending decisions. That type of transparency better enables informed decision-making by parents in partnership with local educators, who all can see whether the system is giving individual or select groups of students the chance to succeed.

State leaders can revamp Michigan's K-12 funding system to break down existing barriers and give families more tools to chart a suitable course that prepares them for future challenges and opportunities. Two key and related principles also ought to govern reform:

- 1) **Portability:** The greatest possible amount of money should accompany students to their school of choice during the term they are enrolled. Students could direct dedicated portions of dollars to additional providers for courses or services that lead toward educational goals. The Flex Learning program, proposed especially for students in the upper grades, meets this design standard.⁶⁷
- 2) **Flexibility and Local Decision-Making:** Technology and cultural norms give today's students access to more flexibility than prior generations knew. State policymakers and officials should respond by freeing the greatest possible amount of education money from designated uses, allocating resources in a way that enables more decisions to be made as close to the student as possible.* Local decision-making benefits from the knowledge of an individual student's needs and circumstances.

* Michigan could follow a model set up by U.S. Secretary of Education Betsy DeVos to incentivize funding that bypasses district offices and puts more discretionary money into the hands of local school leaders. See Marguerite Roza, "DeVos Proposed \$50 Million for Districts

Together, these principles provide a guide to transforming the focus of K-12 funding from schools to students. While the details of such a change could manifest differently, the following offers a vision for that reform.

- 1) **Increase core funding for students.** The first priority should be to shift more dollars from designated categorical funds into direct, student-based aid. Dollars should be distributed in a way that finally eliminates the gap between the vast majority of districts funded at the standard foundation allowance rate and the remaining few funded at higher levels.

Many of the state's categorical grants are allocated to local or intermediate school districts to support current educational services to students in grades K-12, but there's little evidence that increased categorization yields better results. On the contrary, districts and other providers have greater incentive to serve students' needs when less money is tied to characteristics, programs and other inputs. Excluding funds designated for special education services, this comprises nearly \$780 million in the 2020-21 Michigan School Aid budget, or over \$550 per student. These dollars should be distributed as portable allowances attached to individual students based on what services and schools they choose.

In a time of unprecedented school aid revenues, lawmakers may feel less pressure to downsize categorical appropriations. If anything, when revenue is up, lawmakers tend to sock more into categorical grants. They should resist this urge and reverse course. The ongoing priority for state budgets should be to wean local officials off secondary revenue sources and focus attention on providing equitable grants that follow students as closely as possible to the education service provider of their choice.

- 2) **Remove needless Schools of Choice boundaries.** State law should change to enable students to enroll in any public school program offered anywhere statewide. With today's technology and remote work becoming a growing reality around the world, there is no good reason to limit the opportunities of students to the artificial lines that define the geographical boundaries of a school district. On the other side of the coin, state law should no longer limit districts to operate facilities and programs just within their own geographic boundaries. Just as there's not a justified purpose to limiting students' access to courses, there's no justification for restricting which students a public school in Michigan can serve.

Under current law, most Michigan school districts enroll nonresident students who live in a neighboring district within the same ISD, in a neighboring ISD, or both. In all, nearly 15% of the state's public school pupils attend a conventional district outside their assigned boundaries, through the state's Schools of Choice law or through a local Cooperative

to Decentralize Federal Money, to Put Schools in the Driver's Seat. It's a Smart Idea" (The 74, March 27, 2019), <https://perma.cc/8345-EAVS>; Aaron Garth Smith, "Why We Should Send Education Dollars Directly to Schools" (The Hill, Oct. 29, 2019), <https://perma.cc/JPU9-AW9F>; Andrew Ujifusa, "Betsy DeVos Announces Aid to Help Create 'Student-Centered' Funding Systems" (Education Week, May 12, 2020), <https://perma.cc/4AQA-ANZK>.

Education Program.⁶⁸ These voluntary agreements allow some individual districts to be funded by cooperating peers when students enroll outside of their resident district.

Expanded enrollment opportunities could first be made available on an individual course basis. Districts would still receive their full foundation allowance based on a pupil's enrollment. But participating students could opt to use a portion of their allowance to "purchase" courses and other educational services provided or sponsored by other districts. The enrolling district would be guaranteed an administrative fee, with the opportunity to keep more based on a student's selection of courses within the home district. Outside course providers would receive some of their fee as students sign up, but a student would have to complete the course in order to receive full funding.

This design holds providers more directly accountable to users.⁶⁹ Ultimately, though, all students, families and education providers should be afforded the ability to enroll more broadly within the state's boundaries.

- 3) **Eliminate 'count days' and target school funding to real student needs.** A district's student funding should be based on average daily membership, or ADM, rather than two main count days. This will pay districts more accurately for the students they actually serve. ADM uses more frequent and consistent student enrollment counts to adjust district funding levels. This approach counts the full-time equivalent of students actively enrolled in a school as it changes over time and adjusts state aid payments monthly or periodically based on updated numbers. It assigns essentially the same funding weight to each school day, attaching tangible financial value to districts that continue to serve students. Reversing the pandemic formula to place greater weight on current enrollments represents the first step toward a more nimble and student-centered funding system.

The switch from multiple count dates to an ADM system would ensure dollars more closely follow students throughout the school year. Though empirical research is limited, one study shows that ADM policies have a strong statistical relationship with more students completing school rather than dropping out.⁷⁰ The likeliest reason for this relationship is that school systems have a greater incentive to effectively serve marginal, at-risk students. The incentive is enhanced by associating tangible value with keeping students enrolled and engaged on all the days instruction is provided, not just during certain periods that unduly determine funding. If every day matters for educational purposes, it should matter for fiscal purposes as well.

- 4) **Enhance reporting of finances in connection with student outcomes.** User-friendly websites should report the relationship between dollar inputs and expenditures with assorted results for students. Measures of academic growth could be displayed alongside trend lines that highlight other metrics of student well-being and success. Given a more robust market for families to choose schools and courses, the responsibility for reporting should not rest alone in the hands of a centralized state

agency. New and existing private services that capture customer reviews and data on school performance could step up to meet the demand.

Closely related, the state should upgrade its online data interface to display more clearly how dollars are spent at the school building level. Michigan should model its school-level expenditure web portal after places like Colorado or Georgia. The upgrade should allow comparisons of resource allocations to instruction, administration and other services. Additional transparency in school-level spending patterns may highlight the need to give school leaders greater autonomy over resource decisions.

- 5) **Adjust funding weights for at-risk students.** Michigan officials should assign at-risk pupils more money as part of their portable student allowance. Students in poverty or for whom English is a second language typically require additional supports to succeed at school. For eligible students, an additional percentage should be added above the standard foundation allowance to reflect this need. This total student allowance should then follow each student to the site or program where they are served, not just to the district administrative level.

Students who come from households at or below 130% of the federal poverty level would be recognized as economically disadvantaged. This classification should be based on eligibility for other social service benefits, as identified through the direct certification process.* Research demonstrates that the more loosely vetted process of determining free and reduced-price meal eligibility identifies many students who do not actually live in poverty.⁷¹ In addition to low-income pupils and English language learners, students who are homeless, living in foster care, or who come from migrant families would automatically qualify for an at-risk funding bonus.[†]

A 2018 report released by the School Finance Research Collaborative calls for Michigan to adopt a poverty funding weight of 35%. The figure represents a compromise recommendation between analysts' cost estimate of desired educational resources and surveys of local teachers and school administrators.[‡]

It is widely accepted that it takes more resources to educate the average student in poverty than a middle-income or affluent child. But it is not clear how much more the average low-income Michigan student needs to succeed. Schools with demographically similar

* Direct certification means that local education officials make students whose families qualify for certain other federal aid programs automatically eligible for subsidized school meals, by matching student enrollment information with data from other government agencies. See "MSDS Direct Certification Report (Center for Educational Performance and Information, 2022), <https://perma.cc/7882-NFC6>. The rate of 130% of federal poverty level corresponds with current guidelines for federal free (not reduced) lunch eligibility.

† This would not differ greatly from Michigan's current approach to measuring student poverty. See "Section 31a At-Risk" (Michigan Department of Education, 2022), <https://perma.cc/7TE4-TRKA>.

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populations often get disparate academic results with similar funding levels.* Further, as leading education finance scholar Marguerite Roza has observed, unseen human factors can lead similar schools to spend funds in similar ways but produce significantly different achievement outcomes.⁷²

These complexities call for both matching funds to schools where they are served and giving school operators maximum flexibility to help address individual student needs. With school-level spending and results more clearly reported, it will be easier to set and adjust at-risk funding weights properly, informed by additional data. The starting point for the funding weight should be no lower than the 11.5% standard currently used in the school aid law.⁷³

6) **Guarantee students with disabilities options for special education services.**

Michigan leaders ought to break the intermediate school district grip on local special education program dollars. That tight grip often prevents students with disabilities from accessing resources outside the area where they live. Under current law, a student can receive special education services in another ISD if both the district of residence and the enrolling district agree on a cost-sharing plan.⁷⁴ The intermediate district's control of dollars also may limit a student's ability to access certain schools, often public charter schools, within its regional boundaries.

Instead, the state should guarantee consistent shares of local, state and federal dollars follow students with disabilities to help fund needed services and programming, regardless of where they live. Those dollars should reach any chosen district or charter school within or beyond the ISD. One legislative proposal would require an ISD to spend a per-pupil share of its local, state and federal funds with another ISD where one of its resident students is enrolled, if the two agencies cannot otherwise come to a funding agreement.[†]

A more sustainable solution, in the spirit of the original Proposal A, would shift the burden for financing special education services from local agencies to a statewide formula. While preserving other sources of special education revenue, state policymakers should adjust the current approach as follows:

- ♦ **Cap the ISD special education millage.** A nearly tenfold gap exists between the highest rate (6.265 mills) and lowest rate (0.6371 mills) in the state.⁷⁵ Effective on a near future date, lawmakers should cap the rate at or about 2.4 mills, roughly the median among ISDs. To help ensure that the effects are revenue-neutral, the change should be compensated by a proportional increase in the State Education Tax, which currently assesses most properties at 6 mills.⁷⁶

* Wide variations can be seen in the performance of Michigan schools with similar rates of students who are eligible for free lunch assistance, as measured in the Mackinac Center's Context and Performance Report Cards, available here: <https://www.mackinac.org/depts/epi/performance.aspx>.

† These are Michigan Senate Bills 410 and 411 of 2021. For more information, see Kathryn Summers, "Special Education Millage" (Michigan Senate Fiscal Agency, June 8, 2021), <https://perma.cc/W2WA-ZCUM>.

- ♦ **Repurpose ISD equalization categorical spending to student formula funds allocated on a per-pupil basis.** While the first step would lower the ceiling on locally generated special education revenue, the Legislature should simultaneously raise the funding floor. New dollars generated should top off local millage revenues based on the enrollment of disabled students.* The state should establish multiple weights to fund special education pupils, with higher weights to underwrite the needs of those with more severe diagnoses. A similar approach is already used in 21 different states.⁷⁷

The combined effect of these changes would be to balance the diverse needs of individual special-needs students with the disproportionate power of intermediate school districts. ISDs would have more incentive to create and fund programming that serves students both within and beyond their boundaries.

Conclusion

School funding in Michigan has reached record levels. But based on the historical record, simply adding more money to school budgets does not automatically raise performance and remedy educational woes. More attention should be focused on changing how dollars are distributed and used. The system for financing the state's K-12 schools contains many layers created over extended periods of time. None is more far-reaching than Proposal A, a systemic change adopted in 1994.

While Proposal A importantly ensured basic student funding levels across the state and closed the foundation allowance gap among districts, key shortcomings remain. Outside the core foundation allowance, other local, state and federal revenue streams flow unevenly to districts, and change the incentives to district officials who want to best serve their students. These often reflect system priorities, detached from the needs of students whom the system is supposed to serve.

Michigan must reexamine how K-12 education is financed, building on the Proposal A model with further refinements that make sure dollars more fairly and effectively reach the students they are intended to serve. By adopting this series of funding changes, Michigan can provide the kind of dynamic student aid that sets the right priorities for the next generation of teaching and learning.

* This approach represents a more ambitious version of a proposal to increase the section 56 equity categorical recommended in the "Special Education Funding Subcommittee Report" (State of Michigan, November 2017), 9, <https://perma.cc/S4B4-9NUS>.

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