

## **Background Paper**

# **Local Education Study of Public School Financing In Midland County**

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# Table of Contents

	<b>Page</b>
<b>I. Financing K-12 Public Schools in Michigan</b>	<b>3-5</b>
<b>A. Before 1994-95</b>	<b>4</b>
<b>B. Proposal A – Foundation Grant</b>	<b>4-5</b>
<b>C. Enhancement Millage</b>	<b>5</b>
<b>D. Federal Funding</b>	<b>5</b>
<b>II. Midland County Schools</b>	<b>6-10</b>
<b>A. Midland Public Schools</b>	<b>6-8</b>
<b>B. Bullock Creek Schools</b>	<b>8-9</b>
<b>C. Meridian Schools</b>	<b>9</b>
<b>D. Coleman Community Schools</b>	<b>10</b>
<b>E. Midland County Educational Service Agency</b>	<b>10</b>
<b>III. Effects of Decreased Funding</b>	<b>11</b>
<b>IV. Conclusion</b>	<b>12</b>
<b>V. Bibliography</b>	<b>12-13</b>

## **I. Financing K-12 Public Schools in Michigan**

The Michigan economy is not doing well. It has been in this condition for a few years. The budget difficulties at the state level have severely affected the K-12 public school system across the state. Funding public schools takes a very large piece of the state budget. Prior to the 1994-95 school year, local taxes paid the largest share of K-12 education costs. However, beginning with the 1994-95 school year, the state took over the primary task of funding the schools' operation costs through Proposal A.

While there are a few additional sources of dollars available that public school districts may use to pay operational expenses of educating the children and youth of the community, the per pupil foundation grant provided by Proposal A is by far the major source. It provides 80-90% of the funds for each district's operational costs. Therefore, the amount of the foundation grant is vitally important to the financial welfare of every district.

The per pupil foundation grant worked well when the economy was healthy. However, for three years, beginning in 2008-09, the foundation grant was unchanged. That did not mean school districts received the same revenue from the grant for three years. A decline in student numbers reduced one of the multipliers in the formula. The loss of students meant loss of revenue, often without a corresponding decline in costs.

Then came the 2011-12 school year. Federal dollars, used by the state to keep the foundation grant at the 2008-09 level, evaporated. Some of the monies in the State School Aid Fund were siphoned off to fund post-secondary institutions. The per pupil foundation grant was reduced by \$470. Not only were schools hit with revenue losses due to declining student enrollment, revenues were reduced by \$470 per enrolled student.

The Midland Public Schools (MPS) district is unique in Midland County in that its homeowners pay the hold harmless millage in addition to the 6 mills of state education tax (SET). Until the 2009-10 school year, the hold harmless tax added \$415 to Midland's per pupil funding. However, as of 2009-10, MPS district taxpayers pay the equivalent of \$415 per pupil in taxes, but the MPS receives only \$122 per pupil. MPS revenues were reduced dramatically over the period of 2008-09 through 2011-12 school years. The student enrollment declined; revenue from hold harmless millage declined; then the per pupil foundation grant declined.

Except for the potential of intermediate school district-wide enhancement millage of up to 3 mills, local school districts cannot raise revenue through additional taxes. Proposal A prohibits it. By law, public school districts are required to live within a balanced budget; deficit budgeting is not possible. Therefore districts

are left with the dismal task of making budget cuts to accommodate loss of revenue.

The funding of K-12 public schools in the State of Michigan has reached a critical stage. That critical moment is playing out in the community of every school district in the State. In Midland County all four K-12 districts are feeling the pressure. It is magnified in the largest, strongest district, the Midland Public Schools.

## **A. Before 1994-95**

For 21 years prior to the 1994-95 school year, Michigan used a guaranteed tax base (GTB) formula to distribute state aid to public school districts. The school operational millage levied in each district varied widely and the per pupil revenue raised by the local millage levies varied greatly from district to district.

## **B. Proposal A – Foundation Grant**

Proposal A funding was first used for funding Michigan's public K-12 schools for the 1994-95 school year. Sales and use taxes were increased from 4% to 6%; homestead property was taxed at 6 mills; non-homestead property was taxed at 18 mills.

According to the Citizens Research Council of Michigan's August 2011 Report 371, "Distribution of State Aid to Michigan Schools:"

*The Proposal A school finance reforms had a number of objectives, one of which involved switching the method used to distribute general state aid to local districts. At its core, this change shifted the basis upon which the state distributed unrestricted operating dollars to local districts from the property tax rate to the number of pupils in each school district. The GTB formula was replaced with a per-pupil foundation formula that more heavily relied on state taxes to finance school operations.*

For the 1994-95 school year, the minimum per pupil foundation grant was set at \$4,200, the basic grant at \$5,000; the maximum grant at \$6,500. No school got less than \$4,200 (the minimum grant). No school got less than a \$250 increase over the per pupil amount provided by the GTB formula for 1993-94. Schools below the basic \$5,000 received additional dollars to move them toward the basic grant target. Midland received \$6,912 (\$412 above the maximum); Bullock Creek's foundation allowance was \$4,979; Meridian's allowance was \$4,807; Coleman received \$4,794. By the 1997-98 school year, Bullock Creek, Meridian, and Coleman were all receiving a foundation grant of \$5,462 and Midland's foundation grant was \$7,377.

A stated goal of Proposal A was to narrow the gap between per pupil revenues of school districts. In Midland County before Proposal A, MPS had the highest per pupil revenue for 1993-94, \$6,752; Coleman had the lowest, \$4,559. The gap was \$2,193. By 1997-98, Coleman, Meridian, and Bullock Creek were all at

\$5,462; Midland was at \$7,377. The gap was \$1,915. It had been reduced by \$278 or 12.68%. Today the gap is \$1,295. It's been 14 years and the gap has decreased another \$620 or 32.38%. However, some of the latest decrease is due to the decreased hold harmless dollars that has been imposed on MPS. Instead of closing the gap by increasing the lower foundation grants, the dollar gap has been lessened by decreasing the top foundation grants.

### C. Enhancement Millage

Proposal A language prevents individual districts from levying additional operational millage. However, there is a provision for levying up to three "enhancement" mills at the intermediate school district (ISD) level. [In Midland, the ISD has been renamed Educational Service Agency (ESA)]. If the Board(s) of Education in the district(s) enrolling a majority of the students in an ISD/ESA approve of the action, voters may be asked to approve up to 3 enhancement mills. If approved by the voters, the ISD/ESA levies the millage, then distributes it on an equal per pupil basis to each of the districts in the ISD/ESA jurisdiction. None of the approved enhancement dollars goes to the ISD/ESA.

In May of 2009 voters in the Midland County Educational Service Agency jurisdiction approved 1.5 enhancement mills for five years.

### D. Federal Funding

Generally, federal dollars are not very significant in the overall revenue of the four K-12 districts in Midland County. Data is not readily available for 2010-11 or 2011-12. The table below includes data from Bulletin 1014 for 2006-07 through 2009-10 showing what each district received in federal per pupil funding for each of the four years:

District	2006-07	2007-08	2008-09	2009-10
Midland	\$152	\$164	\$538	\$534
Bullock Creek	\$365	\$361	\$856	\$694
Meridian	\$244	\$230	\$650	\$686
Coleman	\$261	\$244	\$645	\$670

The first two years' data are primarily dollars for at risk (disadvantaged) students. The last two years' data reflect the addition of some American Recovery and Reinvestment Act (ARRA) and EduJobs dollars. Part of the \$470 decrease in the per pupil foundation grant for 2011-12 is due to the expiration of these two federal sources of supplemental funding for public K-12 education.

## II. Midland County Schools

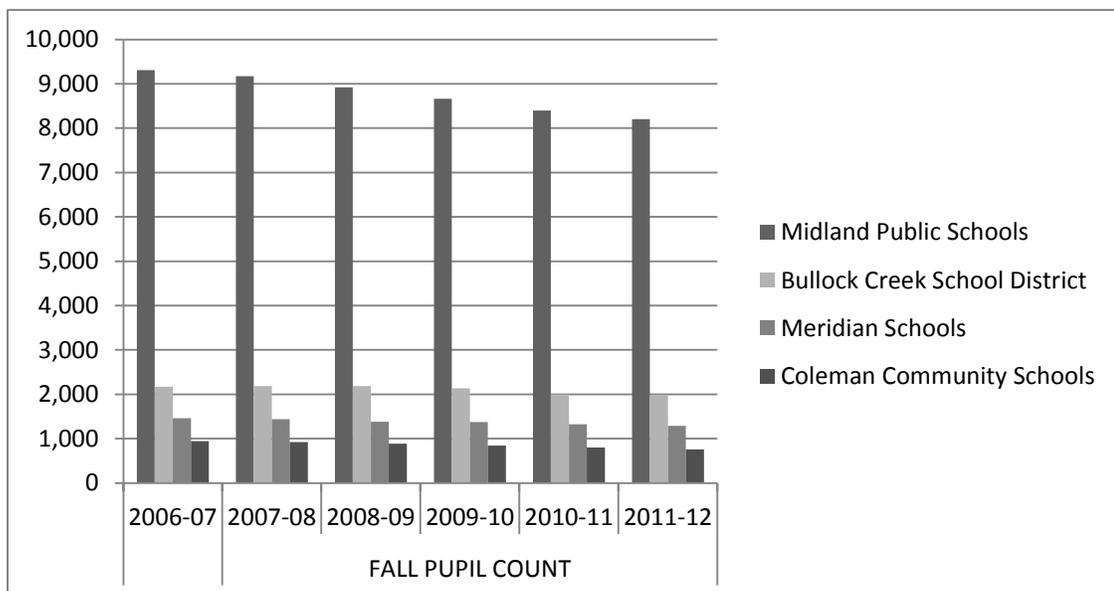
There are four public school districts, an educational service agency (formerly intermediate school district), three public school academies, plus seven private and parochial schools in Midland County. Information in this background paper will be limited to the four public school districts and the educational service agency.

### A. Midland Public Schools

Midland Public Schools (MPS) serves by far the largest student population in the County. According to Associate Superintendent Linda Cline, 65% of all the pupils in Midland County attend MPS. Like most public school districts in the state, MPS has realized a gradual decline in the number of pupils it serves. In 2006-07 the fall pupil count was 9,309; the 2011-12 count is 8,205. That's a loss of about 1,100 pupils over a period of five years; an average loss of 220 pupils per year. Since state K-12 funding is calculated on a per pupil basis, the loss of pupils equals a loss of funding. This decline in student numbers alone has meant an average loss in annual funding from the foundation allowance monies greater than 2% per year.

FALL PUPIL COUNT

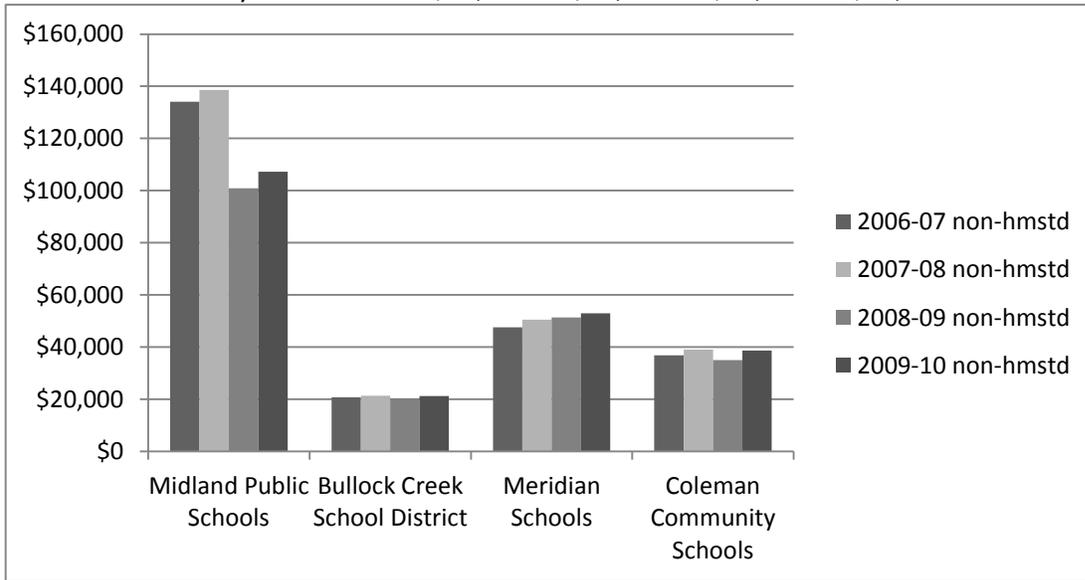
School Year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Midland Public Schools	9,309	9,173	8,923	8,663	8,399	8,205
Bullock Creek School District	2,172	2,186	2,186	2,138	1,997	1,982
Meridian Schools	1,461	1,436	1,379	1,376	1,322	1,292
Coleman Community Schools	946	926	889	847	798	760



In 1993-94, property owners in the MPS district were paying 26.8800 school operational mills. The large industrial base within the borders of the MPS district resulted in a greater per pupil revenue amount with a lower operational millage than was being levied in the surrounding districts. Proposal A reduced the rate to 6 mills of state education tax (SET) for homestead and 18 mills for non-homestead properties. Proposal A effected a decrease of 18.59 mills for homestead properties and a decrease of nearly 9 mills for non-homestead properties. Some of the tax savings for residents was not realized because of the additional \$.02 sales and use taxes. Nevertheless, Proposal A clearly resulted in lower property taxes for MPS district property owners.

**TAXABLE VALUE PER PUPIL**

	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
	non-hmstd	non-hmstd	non-hmstd	non-hmstd
Midland Public Schools	\$134,023	\$138,614	\$100,884	\$107,266
Bullock Creek School District	\$20,643	\$21,257	\$20,386	\$21,247
Meridian Schools	\$47,517	\$50,475	\$51,297	\$52,963
Coleman Community Schools	\$36,845	\$39,012	\$34,997	\$38,657



When Proposal A came into effect for the 1994-95 school year, MPS was already being funded at \$6,751 per pupil, a level higher than the \$6,500 that was set as the “maximum grant.” It was an “out of formula” district. Proposal A had provisions that allowed such districts to levy additional millage on properties in their boundaries in a sufficient amount to make up that difference. The term

“hold harmless” is the name used to describe this property tax. The hold harmless levy varies from year to year, depending on the taxable value of the properties on which it is levied. For the first two years, hold harmless millage was calculated to produce \$412 per student. Beginning with 1996-97, the hold harmless tax levy for MPS has been calculated each year to raise \$415 per student. In 2009 the hold harmless levy was 2.289 mills, making the total school operating millage 8.289 for homesteads.

From 1999-2000 through the 2008-09 school year, the MPS foundation grant included Section 20(j) monies. Section 20(j) allowances were designed to protect the hold harmless tax proceeds of \$415 per pupil when cost of living increases were smaller than the dollar increase in per pupil foundation grants. In 2008-09, with 8,923 pupils, the hold harmless dollars equaled \$3,703,045 (415 x 8923). A line-item veto by Governor Granholm changed Section 20(j) of the law beginning with the 2009-10 school year. MPS would not receive \$293 per pupil of 20(j) funding which had become part of the foundation grant in 2001-02. For 2009-10 and the following years, the \$415 per student hold harmless tax revenue has netted the MPS only \$122. That’s \$293 less per student [the 20(j) dollars]. In 2009-10, with 8,663 pupils, the revenue loss was \$2,538,259. In 2010-11, with 8,399 pupils, the loss was \$2,460,907. With 8,205 pupils in 2011-12 it will be a loss of \$2,404,065. In just three years, that’s over seven million dollars **(\$7,403,231)** paid by residents of the MPS district [in addition to the 6 mills of state education tax (SET)] on their homesteads in support of their schools that is **NOT** going into the district’s general fund. It’s a \$7 million loss not only for the MPS district, but for its taxpayers as well.

The 2008-09 school year is the last time Midland’s foundation grant has increased. That year it was \$8,611. It remained the same for the next three years. Then it was reduced by \$470, to \$8,141. The 2010 fall pupil count was 8,399. The 2011 fall count is 8,205 – a loss of 194 pupils. Multiplying the loss of pupils by the 2010 foundation allowance shows a **revenue loss of \$1,670,534**. Also, the \$470 was lost on each of the 8,205 pupils attending school this year, **an additional \$3,856,350**. The total loss of funding this year is over five-and-a-half million dollars, **\$5,526,884**.

## **B. Bullock Creek Schools**

Bullock Creek Schools (BCS) is the second largest district in the county by student population. With some 1,982 pupils, its student body is just a little less than ¼ the size of MPS.

When the state of Michigan went from the GTB formula to Proposal A’s per pupil foundation grant, it was a tremendous benefit to taxpayers in the BCS district. Property owners in the BCS district were paying 36.0511 school operational mills. Proposal A lowered taxes on homestead properties to 6 mills; on non-homestead properties to 18 mills. BCS does not qualify for hold harmless

monies, therefore, the school operational millage levied on properties in that district remains at 6 mills SET on homesteads and 18 mills on non-homesteads. Some of the property tax savings for residents is spent by them on the additional \$.02 sales and use taxes. However, a decrease of 18 (non-homestead) and 30 mills (homestead) resulted in a hefty cut in property taxes.

Like Midland, the last per pupil funding increase for Bullock Creek was for the 2008-09 school year. That year the foundation grant was \$7,316. It remained the same for the next three years. Then for 2011-12 it was reduced by \$470, to \$6,846. The 2010 fall pupil count was 1,997; the 2011 count is 1,982 – a loss of 15. Multiplying the loss of pupils by the 2010-11 foundation allowance shows a **revenue loss of \$ 109,740**. The \$470 was lost on each of the 1,982 pupils attending school this year, **an additional \$931,540**. The total decrease of funding from the foundation grant this year this year is a little over a million dollars, **\$1,041,280**.

### **C. Meridian Schools**

Meridian Schools is the third largest district in the county by student population. With some 1,292 pupils, its student body is just a little less than 1/6 the size of MPS.

When the state of Michigan went from the GTB formula to Proposal A's per pupil foundation grant, it was a great benefit to taxpayers in the Meridian Schools district. Property owners in the Meridian district were paying 34.0484 school operational mills. Proposal A lowered taxes on homestead properties to 6 mills; on non-homestead properties to 18 mills. Like Bullock Creek, Meridian does not qualify for hold harmless monies, therefore, the school operational millage levied on properties in that district remains at 6 mills SET on homesteads and 18 mills on non-homesteads. Not all of the savings for taxpayers are realized because of the added \$.02 sales and use taxes. However, a decrease of 16 (non-homestead) and 28 mills (homestead) resulted in a serious cut in property taxes.

Like Midland and Bullock Creek, the last per pupil funding increase for Meridian was for the 2008-09 school year. That year the foundation grant was \$7,316. It remained the same for the next three years. Then for 2011-12 it was reduced by \$470, to \$6,846. The 2010 fall pupil count was 1,322; the 2011 count is 1,292 – a loss of 30. Multiplying the loss of pupils by the 2010-11 foundation allowance shows a **revenue loss of \$ 219,480**. The \$470 was lost on each of the 1,292 pupils attending school this year, **an additional \$607,240**. The total decrease of funding from the foundation grant this year is just short of a million dollars, **\$826,720**.

## D. Coleman Community Schools

Coleman Community Schools is the smallest district in the county by student population. With some 760 pupils, its student body is a little less than 1/10 the size of MPS.

When the state of Michigan went from the GTB formula to Proposal A's per pupil foundation grant, it was a tremendous benefit to taxpayers in the Coleman Community Schools district. Property owners in the Coleman district were paying 35.4795 school operational mills. Proposal A lowered taxes on homestead properties to 6 mills; on non-homestead properties to 18 mills. Like Bullock Creek and Meridian, Coleman does not qualify for hold harmless monies, therefore, the school operational millage levied on properties in that district remains at 6 mills SET on homesteads and 18 mills on non-homesteads. Some of the tax decrease is replaced by the \$.02 increase in sales and use taxes. However, a decrease of 17 (non-homestead) and 29.48 mills (homestead) resulted in an impressive cut in property taxes.

Like the other three districts, the last per pupil funding increase for Coleman was for the 2008-09 school year. That year the foundation grant was \$7,316. It remained the same for the next three years. Then for 2011-12 it was reduced by \$470, to \$6,846. The 2010 fall pupil count was 798; the 2011 count is 760 – a loss of 38. Multiplying the loss of pupils by the 2010-11 foundation allowance shows a **revenue loss of \$ 278,008**. The \$470 was lost on each of the 760 pupils attending school this year, **an additional \$357,200**. The total decrease of funding from the foundation grant this year is more than half a million dollars, **\$635,208**.

## E. Midland County Educational Service Agency

The Midland County Educational Service Agency (MCESA) is not a K-12 district. It is an intermediate school district. MCESA receives per pupil foundation grant monies for the special education students attending there. Additional funding for MCESA operations is obtained through the levy of property taxes. Currently the MCESA operating millage being levied is 1.1756 mills. At one time the revenue was sufficient to cover special education services in the County. However, for the last few years, local districts have been billed for additional special education costs. The school districts pay these costs through a transfer of funds from the individual districts to the MCESA.

MCESA also levies the 1.5 enhancement mills for the four K-12 districts discussed above. MCESA collects the tax. It is then paid out to the districts on an equal per pupil basis. None of the enhancement revenue is kept by the MCESA. For the districts, the enhancement money is general fund revenue in addition to the dollars from the per pupil state foundation grant.

## Effects of Decreased Funding

The loss of funding due to declining student enrollment has affected the K-12 schools for several years. When per pupil foundation grants were increasing, districts were mostly able to balance budgets with minor changes.

When foundation grants became stagnant and then decreased dramatically, educational programs were put at risk. In the spring of 2010, the LWV of the Midland Area organized a meeting with area district superintendents to address the community on the issue. At that meeting superintendents shared lists of cuts being made and/or planned in the future to keep budgets balanced. Those lists included the following:

- Reduce teaching staff
- Reduce administrative staff
- Reduce custodial staff
- Reduce secretarial staff
- Reduce food service staff
- Delay purchase of textbooks
- Freeze salaries
- Charge fees for student participation in athletic activities
- Privatize support services
- Close buildings
- Reduce/eliminate counselors
- Eliminate professional media staff
- Delay bus purchases
- Eliminate auto-mechanic and wood shop courses
- Eliminate Reading Recovery program
- Reduce middle and high school elective courses
- Cut full-time student support employees to part-time
- Negotiate concessions in labor contracts
- Reduce purchase of materials and supplies
- Reduce professional development activities

All of these cuts have materialized. MPS has closed 5 elementary buildings; the Coleman Middle School is closed. Many teaching positions have been eliminated. As of 2010, Bullock Creek had reduced its teaching staff by 11.5 and Meridian had eliminated 5.5 teaching positions. Since the 09-10 school year, Midland Public has reduced its teaching staff by 33.7. Several positions to support students like counselors, social workers, curriculum coordinators, and librarians have been reduced from full- to part-time or eliminated completely. Specialized course offerings have been eliminated. "Pay to play" is a reality in more than one district.

### III. Conclusion

The cuts required to balance school district budgets due to inadequate per pupil funding from the State of Michigan go well beyond a shortage of construction paper or the need to turn off lights when leaving a room. They affect the quality of education for children and youth in Midland County.

The voting citizens of the community have approved 1.5 of the 3 enhancement mills that are legally allowed. They could be asked to approve the remaining 1.5 mills.

As a “hold harmless” district under Proposal A, Midland Public Schools levies millage above the 6 mills SET on homesteads within the district sufficient to produce tax revenue of \$415 per student. Section 20(j) payments guaranteed a hold harmless district would receive a per pupil foundation grant with an increase in dollars equal to the basic foundation grant increase despite a cost of living ceiling. Until the 2009-10 school year, the MPS per pupil foundation grant included increases that reflected the \$415 per student being levied on homestead properties within the district. A line-item veto of Section 20(j) monies by Governor Granholm resulted in a decrease of \$293 in the MPS per pupil foundation grant for 2009-10. Beginning that year, taxpayers in the MPS district have been paying \$415 per student in additional school taxes on their homesteads (above the 6 mills SET) and only \$122 per student is returned in state funding. Taxpayers are having to pay \$293 extra in homestead property taxes with no corresponding financial benefit to the school district in which they reside.

If Proposal A is broken, then perhaps it is time to look at fixing it. In its August 2011 Report 371, “Distribution of State Aid to Michigan Schools,” the Citizens Research Council of Michigan made the following observation:

*...in this era of resource constraints, public schools are being asked to educate children to a higher standard, to improve student outcomes, to increase graduation rates, and to prepare kids for success in a globally-competitive workforce or post-secondary education...Given the fiscal realities of today and the evidence provided by the past 16 years under Proposal A, the timing may be right to consider school finance reform.*

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