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EVALUATING PUBLIC SCHOOL FUNDING IN MICHIGAN AND THE IMPACT OF PROPOSAL A

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“The scope of reductions under consideration by the Grand Rapids Public School Board should be a wake-up call for the entire community. We can no longer expect business as usual—what was once unimaginable now becomes reality.” - Grand Rapids Education Reform Initiative.

While it is a national trend that public schools are struggling financially, each state has a unique situation due to different funding practices. The budget problems are often blamed on poor money management: too many administrators, too high levels of salaries, extra cost in working with unions, excessive benefits. As for Grand Rapids Public Schools, there are four reasons for the financial crisis: State funding, declining enrollment, high needs student population, and increasing costs of employee benefits which are mandated by the State.

This paper analyzes the funding issues of the Grand Rapids Public Schools by looking at the history of how school funding has changed with the creation of Proposal A—how revenues are collected and distributed, and how Proposal A has been modified since inception. In analyzing the issues surrounding what seems to be an unfixable budget problem, two questions arise: Is state funding meeting the needs of the students in Michigan? And, is there need for a policy change?

INTRODUCTION

In March 2005, the Grand Rapids Public Schools (GRPS) announced the need for significant cuts to a budget of \$218 million that has already been cut by \$45 million over the previous six years as it continued to serve 24,000 students. Now, following privatization of its transportation and maintenance personnel, the GRPS administration is pinching pennies to survive, and will present a plan to the School Board on January 17, 2006 involving the reorganization of twelve schools in order to save capital improvements and approximately 1.5% of the operating budget.

While some are quick to blame financial management, the funding crisis in Michigan's public schools is the result of the state funding structure itself which was significantly changed in 1994 with the implementation of Proposal A. Based on sales tax, Proposal A falls short in the current economical climate; it is inequitable in state funding given per student based on different districts, and is weakened due to tax policy changes impacting the School Aid Fund. The unexpected and added burden on schools since 1994 to pay retirement funds seems to be a final blow.

Some people might be hoping for a modern-day miracle like Kalamazoo experienced. On November 11, 2005, it was announced that local philanthropists would pay college expenses for resident graduates of Kalamazoo public schools. Immediately there was news of property values rising and companies from Grand Rapids planning to move there. While waiting for a miracle, however, schools alone cannot move legislators to action; in order to have successful programs for all schools, and successful education for all children, support by school parents and the community is desperately needed to enact a change in the funding policy.

FUNDING PRIOR TO PROPOSAL A

In looking to understand the current funding for the Grand Rapids Public Schools, it is important to understand the history of its funding, and the change in how revenues have been collected and distributed to the different schools. The principle literature and reports used to support this paper are the House Fiscal Agency's *Proposal A and Pupil Equity*; Michigan Association of School Administrator's *A Review and Analysis of Michigan Tax Policies Impacting K-12 Finances*; the Michigan Department of Education's *Structural Issues surrounding Michigan School Funding in the 21st Century*.

Before 1994, State aid was allotted to schools through general purpose aid and categorical aid. Categorical aid provided funding for specific services and programs including special education, transportation and vocational education. The general purpose aid was provided through an equalization formula. This was a guaranteed funding per student which goes back to 1973,

when under the Gilbert E. Bursley School District Equalization Act, a formula known as District Power Equalizing was approved. This “equalizing” approach guaranteed every district “a minimum return per pupil for each mill of property tax levied” (House, 7).

To make up the difference needed, local school districts could levy a tax at whatever level the citizens approved through voting, as long as it did not surpass the 50 mill limit of Article IX, Section 3 of the Michigan Constitution. The State offered guaranteed revenue from the tax rate, and if the district’s revenue from the levied tax rate were less, the State made up the difference by way of State formula aid payments. Formulas involved were:

$$\text{Guaranteed Millage Revenue per Pupil} = \text{Guaranteed Amount per Mill} \times \text{District Tax Rate (Mills)}$$

$$\text{Gross Allowance per Pupil} = \text{Guaranteed Millage Revenue per Pupil} + \text{Flat Grant per Pupil}$$

$$\text{State Membership Aid per Pupil} = \text{Gross Allowance per Pupil} - \text{Local Operating Revenue per Pupil}$$

If the school districts surpassed the State’s guaranteed revenue, then they were considered “out-of-formula” and received no aid payments. However, another formula important to understand is that of the local operating revenue:

$$\text{Local operating revenue} = \text{local school operating millage rate} \times \text{State Equalized Valuation per student}$$

The State Equalized Valuation (SEV) is measured at 50% of the property’s true cash value. It is important to know that State formula aid payments per student differed among in-formula school districts depending on the SEV per student. “In-formula” districts with a more elevated SEV received lower State formula aid payments per student since they had more local revenue per mill levied. In fact, “out-of-formula” districts with a higher tax base per student were able to raise more revenue at the same or lower millage rate than a district with a lower tax base (School Finance, 7).

One other key factor is if at this time the School Aid Fund (SAF) monies were not enough to adequately cover all that was required by the School Aid Act, the State’s General Fund automatically transferred the difference to the SAF. This, however, could lead to unplanned reductions in other State budgets.

THE CREATION OF PROPOSAL A

By the 1990s, Michigan had the third highest property taxes in the country at approximately 30 percent above the national average. It is estimated that between 1980 and 1992 the cost of schools averaged an 8 percent increase per year. John Engler won the election for governor in 1990 and campaigned to roll back property taxes. Several attempts, both statutory and by ballot, failed to accomplish this, until 1993 when a bill was passed that abolished all property taxes, and left a \$6 to \$7 billion funding need for education. There was debate on how to meet this funding gap, whether the funding should come from income tax or sales tax—from sales tax would take an amendment to the constitution. On March 15, 1994, Proposal A passed in a state-wide referendum.

Proposal A is said to have been one of the most significant changes in public policy in State history and enacted the following changes: The revenues going into the School Aid Fund would be enlarged to include the initial 60% of the 4% sales tax as before, plus 100 % of the revenue from the 2% increase of the sales tax, the increase of the use tax and cigarette tax, the new State real estate transfer tax, the tax on tobacco products and the proceeds from the new State education property tax of 6 mills, plus 14.4 % of the collections (gross) of income tax. While there is a misperception that all local property taxes pertaining to the schools were eliminated, only two-thirds were eliminated, and there was still an 18 mill local property tax that goes into the School Aid Fund as well.

For a clearer perspective, education in Michigan is funded with over \$12 billion in State funds and serves 1.7 million children. The School Aid Fund makes up 24.5% of the General Fund. The School Aid Fund is comprised of the following revenues (Drake, 4):

Sales and Use Taxes	38%
Local Property Taxes	21%
State Property Taxes	14%
Income Tax	15%
Tobacco & Alcohol	3%
Gaming	5%
State Budget Stab. Fund	3%
State GF	1%

What all of this means is that the tax structure which supports the schools shifted drastically from the local level to the state level. The significance of this is seen when looking at the local/State funding mix. Another significant impact came from the exemption of local school operating taxes given to people

owning homesteads and certain agricultural property. The following data shows State and local funding pre- and post-Proposal A as well as the impact of the homestead exemptions:

	1994: Before Proposal A Local Funding/State Funding	1995: After Proposal A Local Funding/State Funding
Without effect of homestead exemptions	63%/37%	20%/80%
Including homestead exemptions	55%/45%	19%/81%
1997 Nationwide Average (Guthrie)		45.1%/45.2%

With Proposal A also came a new way to fund schools through a new school aid system. The equalizing formula was replaced by a “foundation allowance.”

$$\text{Foundation Allowance per Pupil} = \frac{\text{Base Revenue per Pupil} + \$250 - (\$90 \times (\text{Base Revenue per Pupil} - \$4,200))}{\$2,300}$$

$$\text{Total Blended Pupil Count} = (.25 \times \text{no. students in attendance on February count day}) + (.75 \times \text{no. students in attendance on Sept. count day}).$$

Therefore, the new formula for distribution:

$$\text{Total Blended Pupil Count} \times \text{per Pupil Foundation Allowance} = \text{Total Foundation Grant Revenue}$$

On the whole, the base revenue includes local school operating property tax revenue and State aid payments for formula aid, e.g., teacher retirement payments, and previous categorical programs such as social security that were moved into the foundation allowance (House, 10).

WHAT IS THERE NOT TO LIKE ABOUT PROPOSAL A?

“Criticizing Proposal A is politically easier than making the tough business-like decisions that almost everybody else makes every day of the week” (Reed, 2). “The promise of Proposal A has been more than fulfilled by taxpayers. There’s no longer monetary excuses for poor school performance,” Economist Patrick Anderson of the Anderson Economic Group (LSJ, 3).

According to the above opinions, Proposal A is not the problem. Proposal A did accomplish the two goals it set out to do: first, relieve a heavy property tax burden, and second, close the disparity gap in funding per student between districts. In these two regards, Proposal A can be touted as a success. However, there are four key aspects regarding or connected to Proposal A which lead to an easy misperception of mismanagement regarding the public schools funding: 1) Equality in the foundation allowance disbursed per child, 2) Equity in funding regarding services and programs needed to meet the needs of students, 3) Seventy-one tax policy changes that impact revenues to the School Aid Fund, 4) The unexpected burden on school districts to pay retirement funds starting in 1994.

As for equality in the foundation allowance, there is the misperception that every child is given the same amount of money from State funding. Prior to Proposal A when school funding was based solely on the value of property, there was a great inequality per pupil funding ranging from \$4,000 to \$11,000 (Reurink, 2). Contrary to what most people think, Proposal A did not erase the inequality in funding amongst districts, but agreed to a new minimum payment of \$6,700 per child which, according to the GRPS School Board Treasurer Cathy Mueller, is now actually down to \$5,900.

In looking through the Foundation Allowance listing (see attachment), it is very clear that every child is not given an equal amount. The Foundation Allowance given per child reaches as much as \$12,000 in some cases. While the average Foundation Allowance is \$7,211, Oakland County, for example, has several schools with a higher Foundation Allowance: Birmingham City School District is at \$11,878, Southfield Public School District is at \$10,759, Bloomfield Hills School District is at \$11,755, Lamphere Public Schools is at \$10,237.

This disparity is explained in Section 20j of the School Aid Act and is explained by the House Fiscal Agency in its memo of February 17, 2004. At the time of Proposal A, there were 52 districts out of the total 554 districts with the highest per pupil revenue due to higher property values. Under Section 20j, these districts were selected to be “hold harmless districts”

These schools are “held harmless” from the Proposal A requirement that other local governments are not allowed to raise property taxes above the 18 mill limit. These 54 districts can keep their original millage amounts, and still have the match allotted by the State that others cannot (Cummings, 2004).

In 2004 alone, this special “hold harmless” category cost the state an additional \$54 million which is going to only 9.3% of the schools (Cummings 2004). It is said that this provision was necessary for Gov. Engler to have consensus amongst the legislators in order to pass Proposal A.

The House Fiscal Agency’s own report on Proposal A and Pupil Equity states, “Though not at levels of strict horizontal equity, the measures examined in this study indicate movement toward greater equity. Michigan has made

progress in its effort to equalize pupil base funding. Nevertheless, it has not broken the strong connection between property wealth and district per-pupil base revenue that existed before implementation of Michigan school finance reform” (Prince, 11).

As reviewed earlier, the formula for the Foundation Allowance is based on the student count which is taken twice a year. Those schools with declining enrollment suffer an immediate loss of revenue under this system. The declining enrollment is never in just one class, but often spread throughout the district in several buildings. It is therefore very difficult to cut programs and services in order to balance the loss of revenue for one or two students in the same area. One can neither reduce electricity, nor cut back on a teacher or transportation to make up for the loss of one or two students; schools must continue to meet the needs of all the other students. Urban districts which have a trend of decreasing enrollment are at a clear disadvantage.

One other reason for the disparity is that, for many schools, the full millage promised by Proposal A cannot be collected due to the Headlee Amendment of 1978. The full significance of the Headlee Amendment combined with Proposal A is outlined in the Michigan Municipal League’s report done by Plante and Moran, and released March 23, 2004. The Headlee amendment “requires a local unit of government to reduce its millage when annual growth on existing property is greater than the rate of inflation” (Michigan Municipal League, 2004). Versus the described “Headlee roll back,” Prior to Proposal A, a government could eventually recuperate or “roll up” the millage rate to its original amount authorized when inflation decreased. Also, new construction and other new items with taxable value had been exempt from the Headlee rollback calculation. But with Proposal A was the change to the 1994 General Property Tax Act that did not state that these “uncapped values” were exempt, and therefore local governments can not benefit from new growth for it automatically kicks into the Headlee roll back and hurts the local government, and therefore, the local schools (MML, 2004).

Another significant aspect of the Headlee Amendment is Section 30 regarding the minimum shared revenue by the state. This provision “prohibits state government from reducing the share of total state spending allocated to local units of government to a level lower than that allocated in FY 1978-1979” (Michigan in Brief, 2004) . Therefore, when Proposal A brought the share of state funding to 81%, it far exceeded the required amount of 41.6% in local aid when the Headlee Amendment was made constitutional. “This change has made this section ineffective and has allowed the state in recent years to make reductions in state revenue-sharing payments to local governments” (Michigan in Brief, 2004).

The Headlee Amendment is also significant regarding mandated programs, and will be further explained later.

The advent of charter schools and schools of choice legislation at the same time as the passage of Proposal A has not helped. These schools have attracted those families who can move out of the urban into suburban districts. The Grand Rapids Education Reform Initiative, calls itself a federation of public and private partners, and is funded by three local foundations. Regarding this subject, GRERI states that needed reforms must include the recognition that “the manner in which the State has structured school choice has been a windfall for suburban districts at the expense of urban districts. Adjust the School Foundation Allowance to reflect the differences in the cost of education for urban school districts. It costs more to educate students in urban districts for a variety of factors, and funding formulas need to be adjusted accordingly” (GRERI, 2).

PROPOSAL A TAX EXEMPTIONS HURT THE SCHOOL AID FUND

The following tax policy changes are explained in detail in a 56-page report, *A Review and Analysis of Michigan Tax Policies Impacting K-12 Finances*, produced by the Michigan Associations of School Administrators, School Business Officials, and School Boards.

The report’s premise: Compared to 1990, it is estimated that Michigan’s tax system is better balanced and fairer as of 2002, and that all of the tax cuts that accompanied and followed Proposal A are seen as good tax policy. While they can be argued as good tax policy individually, they negatively impact the local property tax collections and the state taxes that would have supported the State School Aid Fund. the combination of all of them has cost the School Aid Fund an estimated \$8,346,217,766 (Drake, 30).

In the majority of circumstances this impact has not been recognized with one exception being the phased-in reduction of income tax from 4.6% to 4.4% was to take place, the legislature realized that this was going to have a significant effect on the School Aid Fund and therefore enacted a “hold harmless” status, and allowed the General Fund, General Purpose Revenues to provide the additional \$11.5 million needed to meet the guaranteed base revenue. This income tax rate still had a cumulative impact of \$700 million in lost revenue to the SAF as of 2002 and is predicted to have an impact of \$1.2 billion by the end of 2005 (Drake, 5).

On the other hand, it is the smaller tax policy changes that have impacted the potential for growth of the SAF because certain items have either been limited or stricken from the base of the tax. For the School Aid Fund to operate, one has to estimate the growth rate of the SAF which can vary depending on the economy. When the growth of the SAF is limited, the Foundation Grant won’t have increases to match even inflation, let alone increasing costs that schools face. But because of the mandates given them, schools cannot simply decrease services or increase prices.

This is important when looking at all the “small” exemptions and deductions that followed Proposal A and the negative impacts they had on the School Aid Fund. This includes a list of exemptions pertaining to income tax and includes private pension deductions, dividend and interest deductions, child exemptions, special exemptions, dependent exemptions, college savings, federal IRA changes and Federal Student Loan deductions. These are exemptions to the income tax that were allocated to the School Aid Fund: for the 2002 fiscal year alone, its total negative impact was \$155 million; Its total negative cumulative loss is \$698 million in revenue for the School Aid Fund since Proposal A was implemented.

The story is similar with sales and use tax. Almost immediately after Proposal A was enacted, Public Act 49 of 1994 exempted drinks and food sold by mobile vendors. While this caused an approximate loss in revenues to the SAF of \$5.6 million for 2002 alone, the significance of this first food exemption acted as a precedent for other food exemptions: Public Act 63 of 1995 exempted bakery goods sold from vending machines; Public Act 567 of 1996 exempted juice drinks sold from vending machines; Public Act 417 of 2000 exempted soft drinks sold from vending machines. Public Acts 328 and 329 permitted exemptions from sales taxes of food provided to employees of restaurants, even though the food was prepared and eaten on location.

The exemptions for food were argued on the basis of immediate consumption. Immediate consumption has also been used to obtain industrial exemptions under the terminology of “component part.” Again, there are many, many public acts regarding commercial advertising, telecom equipment, industrial laundry sales and purchases, exempt investment coins and bullion, aircraft and truck parts, electrical deregulation, and others. The sales and use tax policy changes for food and industrial related products totaled a negative impact of \$85 million on the SAF for 2002 alone.

Another detail regarding Proposal A is that prior to its adoption, legislators implemented a property tax assessment freeze due to the worries of the property tax increase. This assessment freeze was never lifted and therefore assessments are forever one year behind. The cumulative impact of this one item is a loss to the SAF of \$307 million (Drake, 18).

In searching for equity in what should be taxed regarding food made for numerous exemptions. “Each new exemption moves the line between exempt and non-exempt items closer to the next item still taxed. That business then often discovers the inequitable treatment it receives relative to the recently exempted industry or product that is so much like it. It then begins to discuss the equity of the treatment it faces under the statute and seeks ‘fairness’” (Drake, 12).

Other exemptions revolve around a real estate transfer tax, sales of tobacco products, liquor, lottery profits, and specific taxes vs. property taxes such as Industrial Facilities Tax and Commercial Forest Tax. As for economic

development exemptions, under the Renaissance Zone program, legislators have taken into consideration some of the lost revenue; and for 2001, of the \$13.2 million lost to SAF, \$7.5 million was reimbursed. Again, while all of these tax exemptions can be argued to be good tax policy individually, the combination of all of them has cost the School Aid Fund an estimated \$8,346,217,766 (Drake, 30).

A final aspect that is not directly tied to Proposal A, but was passed on to the schools at the same time, was the transfer of responsibility of who pays for retirement funding. Prior to Proposal A the retirement and pension funds were paid out of the General Fund and, therefore, were separate from the School Aid Fund. While under Proposal A, funding controls shifted from local to state; responsibility for retirement shifted from state to local in 1994 just after the passage of Proposal A. In 1994, the cost of retirement was not as significant as it is today; since then, however, the retirement rate has increased over 10%. The significant stock market crash hurt the public schools all the more, for their retirement plan is a defined benefit plan vs. a defined contribution plan and, therefore, the schools have to pay back the difference lost. The significance is shown when for 1993-94 the retirement rate was 4%, costing GRPS \$6,390,000. For this 2004-2005 year, the retirement rate was 14.87% and cost \$21,481,708 (GRPS Budget Crisis Report, 13).

Tom Watkins, Superintendent of Public Instruction for the State Board of Education, summed up Proposal A in this way: Proposal A, supported by a thriving economy in the 1990s, provided a band-aid that temporarily stabilized school funding. Three straight years (2002-2004) of flat funding levels have stressed schools financially and academically. Yet, local educators are filled with commitment energy, and enthusiasm to “do right” by our children.

IS CURRENT FUNDING MEETING THE NEEDS OF STUDENTS?

As far as meeting the needs of all students, the Foundation Allowance does not take into account the services needed in educating the complexity of students. Students fall into different categories that vary in needs regarding their education. For example, high school students are more expensive to educate than elementary students. Students who are learning English as a second language and students in poverty have greater needs than the general student, and special education students are more expensive. These are examples that are found predominately in urban settings, and in the end, urban schools are being penalized for they are getting no additional support for these “categories” of students (Bleke, 5).

State and Federal Mandates are an additional complication that needs to be taken into account, for the funding received does not necessarily cover what is required, and some of the mandates overlap. Regarding special education, for example, a federal mandate says that school districts must provide special

education from 0-21 years of age. However, the State of Michigan mandates that special education be provided from 5-26 years of age. These mandates really affect only the urban districts, for that is where most of the special education students are, and where the programs are based.

Under the Headlee Amendment, Article IX, (sections 25-32) gives the provision that for those programs that are mandated by the State, the state government to pay to the “increased costs of any activity that it may require local units to perform (State of MI, 2002). Currently the state government is paying 18% of the funding when it is supposed to be paying 40%. There have been three lawsuits that the schools have brought against the State, known as the Durant lawsuits. In 1997, the 84 plaintiff schools districts won, and the Michigan Supreme Court ruled that the state had to pay \$212 million plus legal fees. However, the schools are still under-funded.

THE 2004-2005 BUDGET OF THE GRAND RAPIDS PUBLIC SCHOOLS

The current budget of GRPS is \$218 million. The budget revenues for GRPS are as follows: The General Fund makes up 77% of the budget; categorical grants 19%; and transportation 1%. Of the General Fund, 54% is the Foundation Allowance. The remainder of the General Fund is from property tax, investments, federal grants to reduce class size and special education. It is important not to confuse this special education with the center based program special education that goes through a separate grant. The categorical grants are mainly funded through Title I and 31 A monies that help disadvantaged youth.

The Grand Rapids Public Schools is mandated by law to have a balanced budget by June 30, the end of their fiscal year. With the increasing costs and the flat funding over the past three years, this is getting more and more difficult.

The good news is that despite a declining enrollment and decreasing revenues, the fund balance has been maintained over the past four years in the positive, and for the 2003-2004 school year, the fund balance was \$14,240,060. However, much has been sacrificed over the past six years to eliminate \$45 million from a \$220 million budget.

Budget cuts have gone from postponing new textbooks to closing buildings. West Leonard Elementary School is one example; a strong neighborhood school which had recently been the recipient of the Golden Apple Award. Other sacrifices have been increasing the size of the classes and eliminating the Early 5's program, outdoor education, and kindergarten art. Special education services were streamlined, administrative positions were eliminated, and transportation services were decreased (Freiburger).

While not tied directly to Proposal A, an additional challenge for the schools is the mid-year funding reductions due to a decrease in enrollment. The trend for the declining enrollment is not reversing. For the 2004-2005 school

year, GRPS lost more than 800 students, which equaled a loss of over \$5 million in state revenue. The 2005-2006 year has seen a loss of 900 students. There are 1500 classrooms district-wide and the students leave from many of the different schools and classrooms throughout the district. Where does one cut?

The budgeting formula used by GRPS is what they call “site based” budgeting and the administration does projections based on the previous year’s numbers. They project the salaries for the teachers using the union projections and the student ratios.

As for the administrative departments, there are no extra funds with which to negotiate budgets. As of the past three years there are no non-salary expenditures such as discretionary funds for supplies, professional development or travel. The CFO has a district holding account for crises—a whole \$300,000—which is mostly spent on operation and maintenance (Freiburger 2005).

From a school perspective, administrators are told what services they will provide. For example, at CA Frost Elementary and Environmental Studies, one of GRPS’ eight theme schools, the only additional funding they receive is to have one extra teacher who focuses on the specialization of the school. Otherwise, CA Frost has three AEI rooms for autistic emotionally impaired, and three resource rooms for students who are not necessarily special education students but who receive special tutoring services. While they receive the funds for personnel, they receive no extra funds for books and supplies connected to these services.

To understand how the change in funding and budget cuts have affected CA Frost, before the budget crisis really was being felt over these past few years CA Frost had enough funding to have an extra staff person in the library or an extra aide at lunch. They could offer a “character” program and summer school. Things are much different now: for the 2003-2004 year they had to use their own funds to “buy” a school nurse; for 2004-2005 they received a grant from Spectrum Health for a school nurse. The Parent-Teacher-Student Association has also pledged to help with office costs next year out of their own coffers.

Programming at CA Frost has also been highly impacted by the minimal funding. Parents mounted a campaign to have a full-time kindergarten program which would mean two full kindergartens feeding into the two first-grade classrooms. While the idea was well supported, because of the site-base funding, teachers would have to be moved around. It came down to the choice of reducing the environmental lab (the theme of the school) from two times to one time per week in order to have the additional kindergarten staff needed. The staff voted to retain the lab, the kindergarten teacher is stretched to teach all that is necessary to the kindergarten students in half the time.

THE PERFECT STORM

2004 marked the tenth anniversary of Proposal A and this year marks the largest storm yet. To understand the full picture and thus the complete crisis that the Grand Rapids Public Schools finds itself in, one must look at the State's economy and own budget crisis, the declining enrollment, the increase in healthcare and retirement, the extra expenses when working with an urban population, and special education. It is also important to note that these budget crises are occurring across the State. In the report "Structural Issues Surrounding Michigan School Funding in the 21st Century," Tom Watkins, Superintendent of Public Instruction of the State Board of Education, says the following regarding the Detroit Public Schools which currently faces a deficit of \$200 million:

"If Detroit Public Schools (\$7,180) was funded at the same rate as Bloomfield Hills Schools (\$11,835), there would be \$4,600 more per pupil annually. I am confident that the Detroit Public Schools team, community leaders, Department of Education, and the Governor, will develop a workable plan to alleviate the immediate crisis. However, Detroit's challenges foreshadow imminent problems faced by many other school districts, cities, counties, and universities across Michigan. There is not enough money with the current tax structure and economy to fix the problem. The Detroit Public Schools situation serves as a harbinger for all Michigan public Schools."

A deeper issue is the condition of the State's own finances. According to budget expert Tom Clay, Director of State Affairs for the Citizens Research Council, the State of Michigan has structural as well as cyclical deficits. The impact of the structural deficit is seen in cuts to higher education (-14% or -\$297 M in two years), cuts in revenue sharing (-26% or -\$399M in four years) and cuts in the State's own workforce (-14% or -\$8,500 in three years, or the smallest since 1974). The spending for Medicaid, retiree health care and corrections are surpassing revenues. Mr. Clay expects the structural deficits in the General Fund and the School Aid Fund to affect cities and schools even after 2006 (ERI, 2).

As for GRPS, the trend regarding its budget deficit is not seeing signs of reversing under the present system and is trying to sound the warning for the "perfect storm" (GRPS Budget Crisis Report).

- There is no sign of an increase in enrollment
- There is a high-needs population with 76% meeting the at-risk standard based on free and reduced lunches
- 13.9% receive special education program services
- GRPS services 5,234 Second Language students
- Special education was under-funded by \$15 million for 2003/2004 fiscal year.
- The Kent County special education millage that passed last year means that this year will be under-funded by \$11 million.

(The cost of providing special education is between \$21,500 and \$60,000 per child.)

- Retirement rates are projected to increase 3% to 17.87%, and will cost \$1,047 per pupil funding.

LOOKING FOR A SOLUTION:

On September 30, 2005 Governor Granholm signed into law House Bill 4887. This bill increases the minimum per-pupil foundation allowance for schools by \$175 per pupil to \$6,875, the highest minimum rate in Michigan history. House Bill 4887 confirms the appropriation of almost \$12.8 billion K-12 education in Michigan for fiscal year 2006—a 2.3 percent increase, or \$290.3 million, in funding compared to fiscal year 2005. This funding consists of \$11.4 billion in state funds and \$1.4 billion in federal funds.

This is helpful, but doesn't solve the issues.

There are signs that more and more people are starting to realize the inadequacy of funding, and even the wealthier districts are starting to feel the pinch. On June 16, 2005, over 10,000 people came to Lansing to request support of Senate Bill 246. Parents and teachers for Grand Rapids and Grand Rapids' wealthier neighbor, Forest Hills, marched side by side.

Senate Bill 246, however, never left committee, and effort to collect signatures to force a vote on Senate Bill 246 ended December 12, 2005. As listed by the K-16 coalition and Michigan Parent Teacher Association, the passage of this bill would do the following:

- Provide minimum yearly funding increases in the state budget for schools.
- Base the funding increases on the rate of inflation or 5%--whichever is less.
- Cap the school districts' contributions to the retirement fund at 12.99%, and would require the state to pick up the balance.
- Address the issue of declining enrollment by guaranteeing 90% of the funding of the prior year's budget.
- There exist many issues, however, that this bill does not cover which still harm the schools. The following points still need to be addressed:
- There is a significant loophole through the 71 tax exemptions that have been given to businesses and have reduced the tax pool that was to make up the funding for schools.
- There are mandated services, mainly special education services that are significantly under-funded by the government, and which in the end oblige the school districts to pay for them through their general funds.
- The burden of the retirement funding that prior to Proposal A was paid from a separate fund has been handed to the school districts to deal with on their own, without additional compensation from Proposal A.

Cities have a lot to lose with the decline in the schools. It is a catch-22 situation between urban sprawl and the decline of the public schools' reputations. Not only are there less workers to attract companies and for companies to pull from, but the augmented concentration of poverty is evident and not only hampers the students' learning, but weakens the available workforce for the community's economy. As explained by expert Myron Orfield, "Concentrated poverty, resulting in a large proportion of the students in a school being poor, exacerbates and compounds the effects of these poverty-related problems in such a way that they become systemic. Teachers and staff in these districts must spend more time and resources dealing with family and health crises, security, and children not adequately prepared for learning (Orfield 1997, 18).

The significance of the level of poverty is further explained by studies regarding students of various incomes and their performance in schools with different levels of poverty concentration. These studies show that "low income students attending low-poverty schools perform on average better than middle income students attending high-poverty schools" (Rusk 2002, 87).

CONCLUSION AND POLICY RECOMMENDATION

This paper has covered many of the difficulties and inadequacies of the current funding system based on Proposal A, as well as other challenges facing mainly urban schools in Michigan and other states. This is not a cyclical, but a structural problem that is now tied by constitution to the economy—an economy that is not seeing much improvement. Where does one go from here to resolve the funding problems?

Abolishing Proposal A is not necessarily the solution. Proposal A, as it was created originally, could have worked if the economy were strong indefinitely. However, due to the way the public school funds are collected and distributed, it is not a system based on equality or equity, and it shows all children are not given the same value, nor are they receiving the same service.

People are studying the other side of the equity equation, and looking at the question of adequacy. Other states are also trying to determine what the cost is to educate a child. The last time Michigan studied this question was in 1968. According to Superintendent Watkins, "Michigan school funding formulas have been based more on dollars available in the state's budget than on research regarding what it actually costs to educate a child" (Watkins, 3).

While stated in the beginning that each state has its own funding formulas, the disparity in funds within and across districts is not unique and has been a significant issue over the past forty years. "Since the mid-1960s, lawsuits have been filed in 43 states seeking a reduction in intrastate district-to-district per-pupil spending disparities" (Guthrie 1997, 35). Only in 16 of the cases did the plaintiffs win and legislatures have to revise the statutes of school funding.

I would recommend that there is a need for real policy change as soon as possible regarding the following:

- That a cost analysis for educating students in the state of Michigan be updated from the 1968 report as soon as possible, so that the State can be accountable for proper funding of education programs
- That the monies from the state should not depend on what district the child lives in, but that there be equity for everyone
- That urban city schools be looked at for their importance to the community and that the additional attributes they share for special education, at-risk, and second-language students be taken into account
- That the state fulfill its funding obligations to special education mandates
- That the loopholes and exemptions to Proposal A be fixed, and monies lost paid be recuperated.

People throughout the community need to understand the whole picture and the importance of giving the same value to educating all children—for the child’s sake as well as the local and national economy of the United States in the fast-developing global economy. Finally, there is a need to understand the structural deficit of our government. Taxes have continuously been cut in Michigan; if it is eventually seen important enough, someone might have to sacrifice his or her political career and campaign for higher taxes. In the meantime, however, legislators need to hear from parents, and even more so, whole communities, that their public schools are important to them.

Why should everyone in the community care about the success of our urban school districts? The importance of the situation is bigger than our local school or state or country. It all comes down to the economy, and in today’s world, that economy is global.

“In this century, the State and Nation that gets its system of education right will prosper. Michigan must emerge from its heritage of ‘lifting for living.’ China’s people, hungry for improved economic success, are unrelenting in their quest for education about Western language, culture and government, among many other things. Our children must receive unprecedented, quality educational opportunities if they are to be prepared to succeed in a global world” (Watkins, 2).

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