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The Impact of Proposal A on Two Michigan School Districts

by

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Submitted to the Department of Leadership and Counseling

Eastern Michigan University

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September 16, 2015

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## **Abstract**

In 1994 the state of Michigan changed its school finance system. Over a nine-month period between July, 1993, and March, 1994, state legislators and the voters of Michigan acted to change the tax structure and address funding equity for public schools. In the fall of 1994, Michigan's public schools began operating under an entirely new set of school finance reforms.

The primary focus of this research is the articulation of the effects of the 1994 Michigan school funding reform (Proposal A). The purpose of this research was to conduct a policy analysis and impact analysis of Proposal A on two Michigan school districts. The research, which is drawn from Thompson (1967) and Pfeffer & Salancik (2003), traced the relationship between environment and governance actions as it pertained to fund allocation in the K-12 Michigan school system. A case study design with a qualitative emphasis was chosen as the structure of this research. The research centered upon the formulation and instrumentation of organizational changes for two northern lower Michigan school districts, as they occurred, as well as the results of those changes. Research focused around data which consisted of interviews, observational notes, state and local documents, and other artifacts.

The initial focus was upon the events leading to Proposal A and why these factors necessitated change. Those data are followed by a review of the relationship between fiscal federalism, governance, and resource dependency theory and application of those findings to data relevant to the two districts in northern Michigan. This study is unique in its narrowed focus and structural specificity.

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## **Chapter 1: Introduction and Background**

### **Background Information**

Over a nine-month period between July, 1993, and March, 1994, state legislators and the voters of Michigan acted to change the tax structure and address funding equity for public schools. Subsequently, the 1994-95 fiscal-year brought dramatic change in the way that Michigan's public schools were funded, as Michigan's public schools began operating under an entirely new set of school finance arrangements.

Previously, under Michigan's equal yield approach, local property taxes provided better than 60 % of the revenues needed to fund public schools (Addonizio, Kearney, & Prince (1995). Under the new foundation approach adopted by the legislature in December, 1993, each district received a state-calculated base revenue per pupil. Lower revenue districts received larger dollar and larger percentage increases, whereas higher revenue districts received flat dollar increases.

### **Statement of Problem**

The focus of this research is the articulation of the effects of Proposal A, the 1994 Michigan K-12 school funding reforms that centered on the formulation, instrumentation, and results of organizational changes as they occurred. Data gathered in a close examination of the factors contributing to and the effects of Michigan's 1994 school reforms revealed effects of fund allocation as viewed by the fund recipient. Three concepts are basic to comprehending the complexity of the reforms: fiscal federalism, governance, and research dependency theory (Baldrige, 1971; Thompson, 1967; Pfeffer & Salancik, 2003).

The research, which is drawn from Thompson (1967) and Pfeffer & Salancik (2003), traced the relationship between environment and governance actions as it pertains to fund

allocation in the K-12 Michigan school system. Specifically, data collected from two school districts in northern, lower Michigan were examined to identify correlations and areas of concentration in relation to Proposal A and possible deficiencies or enhancements to each school district's programs. This study focused not only on how the change came about but more specifically, on the results of the change. Examination of change in this comparative case study of two school districts enabled the researcher to deduce how the change occurred and the impact of the change in those school districts.

### **Significance of the Study**

In 1994 Proposal A became law, and many thought this would finally resolve the dilemma across the state regarding the funding of K-12 school districts. Many substantial changes occurred; however, almost 20 years later Michigan's school districts are still struggling to find financial stability. As a result of the Great Recession of 2008-2009, and the elimination of tax dollars earmarked for public education, Michigan is again embroiled in the debate over school funding.

Since the institution of Proposal A in 1994, much research has been conducted pertaining to the State of Michigan over all (Diebold, 2004). Districts are generalized and categorized by the foundation amount that they are allotted to spend. Little research regarding Michigan school district funding has been case-specific. This study will benefit all K-12 school districts in Michigan as well as the specific two school districts in northern Lower Michigan that were the focus of the study.

According to Thompson's (1967) work about organizing a conceptual framework, the study of phenomena as a specific entity inside a larger system will better explain the situation of the selected K-12 schools in communities supported by citizens who fund them through

tax monies. The research for this case-study contributed to the scholastic system at a state and local level and focus on funding as viewed from the fund-recipient. The study is unique in its narrowed focus and structural specificity.

### **Purpose of the Study**

The purpose of this research was to conduct a policy analysis and impact analysis of Proposal A on two Michigan School Districts. “All research is a search for patterns, for consistencies.” (Stake, 1995, p. 585) To that end, this study examined similarities and dualities between two selected school districts before and after Proposal A. The initial focus was upon the events leading to Proposal A and why these factors necessitated change. These data are followed by a review of the relationship between fiscal federalism, governance, and resource dependency theory and application of those findings to data relevant to the two districts in northern, lower Michigan.

The term fiscal federalism applies to fund allocation from the top down; thus, a discussion of the federal system is necessary to explicate meaning at the state level. It is important to note that in 1989, Michigan ranked lowest among the states in federal spending per person (Frantzich & Percy, 1994); therefore, understanding the construct of governmental grants at all levels is necessary to comprehend the State of Michigan’s financial needs prior to and after 1994. The necessary coupling of fiscal federalism and governance in this study is documented by correlating data involved with organizational governance actions. The incorporation of Thompson’s (1967) framework, which proposes that the external environment of an organizational member influences the route of organizational change, provides the foundation for the examination of relationships between governance and fiscal

federalism. As Baldrige wrote, “Understanding governance is of primary importance if we are to understand the political model of education” (1971, p. 52).

The third basic concept in the state’s fiscal reforms is an extensive understanding of resource dependency theory and how it relates to governance and fiscal federalism (Pfeffer & Salancik, 2003). The unity of the three as a research topic will provide a better foundation for the understanding of the organizational change and its impacts on the K-12 school system in Michigan.

This study examined districts’ expenditure patterns and revenue streams before and after Proposal A to determine the impact of that legislation on school districts. Specific criteria for each of the two school districts will be examined followed by comparing individual districts before and after Proposal A regulations, and finally, the two districts will then be compared to each other using the same criteria and timeframe.

### **Research Questions**

A primary question and three related questions guided the preliminary research on Proposal A and its impact.

- What changes occurred in the two districts in northern, lower Michigan after the 1994 institution of Proposal A?
  - What are the anticipated and unanticipated consequences of Proposal A?
  - How have districts fared under Proposal A?
  - How has the management of districts changed since Proposal A took effect?

A case study design with a qualitative emphasis was chosen as the structure of this research. Stake (1995), Van de Ven & Huber (2007), Yin (2014), Erickson (1986), Eisenhardt (1995), and Pettigrew (1995) provided relevant models of case study design.

“The researcher's role is to gain a holistic (systemic, encompassing, and integrated) overview of the context under study: its social arrangement, its way of working, and its explicit and implicit rules” (Miles & Huberman, p. 9).

Research about organizational change typically tends to focus on the antecedents and consequences of change, generally focusing on two types of questions: “What are the antecedents or consequences of changes in organizational forms or administrative practices?” and “How does an organizational change emerge, develop, grow, or terminate over time?” (Van de Ven & Huber, 2007, p. 7). Whereas the first question asks whether specific variables explain variations in specific criteria, the second question does not ask whether there is a change but how the change came to be. The difference between the two questions produces a dichotomy in approach. The term *how* is associated with a qualitative approach, and the research methods take a different direction, as a consequence is necessary in constructing a sequence of events (such as organizational change).

To explicate how a sequence of events occurred, one must explain the events in terms of underlying generative mechanisms or laws that cause events to happen and the contingencies that exist when these mechanisms operate (Van de Ven & Huber, 2007). “A qualitative analysis would first compare the consistency between the observed and the originally stipulated sequence for each case, affirming (or rejecting or modifying) the original sequence” (Yin, 2014, p. 156). To comprehend how an organizational change develops, a method or theory explanation based on select events associated with a historical story must occur. “The researcher attempts to capture data on the perceptions of local participants from the inside through a process of deep attentiveness, of empathetic understanding, and of suspending or bracketing preconceptions about the topics under

discussion” (Miles & Huberman, 2014, p. 9). Answers to both questions are needed regarding the “inputs, processes, and outcomes of organizational change” (Van de Ven & Huber, p. 9).

### **Theoretical Framework**

The theoretical framework is drawn from Pfeffer and Salancik’s (2003) *The External Control of Organizations: A Resource Dependence Perspective* and Thompson’s (1967) *Organizations in Action*, socio-political framework based on the idea that the external environment (as enacted by organizational members) influences organizational change. This study used a combination of the theories of Thompson and Pfeffer and Salancik (2003) to examine organizational change at the K-12 level through the concepts of environment, fiscal federalism, governance, and core activities as orchestrated by resource dependency theory.

The theoretical framework incorporates five concepts:

- (1) Complex organizations are open systems operating in context of their environment;
- (2) the organization’s members enact the organizational environments;
- (3) organizations will grow in direction of their most crucial dependencies;
- (4) organizations constantly balance the tension between certainty and managing competing demands; and
- 5) managers, in a position to link the core activities and the environmental needs, seek to manage environmental constraints and garner resources for organizational stability.

An organization cannot operate in isolation; it must depend upon specific environments to ensure its stability. With this in mind, the structure of Michigan’s school system will be examined to deduce the dependencies between the internal organization and



its outside resources and how these resources may have affected the changes brought about in 1994.

### **Definition of Relevant Terms**

**Categoricals:** Funds earmarked or targeted to be spent only on specific programs such as special education, transportation or interventions for at-risk students

**Charter school:** An independent public school with its own board and that, in Michigan, operates under a contract authorized by a school district, intermediate district, community college, or university (Bridge Magazine, 2014).

**Core Activities:** According to Thompson (1967), core activities are core technologies, one or more of the technologies that constitute the core of all purposeful organizations. An organization must have a core technology/activity to sustain its existence.

**Environment:** An environment is the context in which the organization is situated. The boundary between the organization and environment is not always defined.

**Equity:** Often used in Michigan funding discussions to refer to a system where all communities – whether rich or poor – have equal access to similar amounts of revenue per student. (In contrast to adequacy method of school funding). But equity is sometimes used by adequacy proponents as interchangeable with adequacy; i.e., providing enough funding to ensure all students have an equal opportunity to succeed, which may mean more money for some student populations than others, given their challenges (Bridge Magazine, 2014).

**Fiscal Federalism:** This term encompasses the involvement of financial arrangements and transfers between governments at different levels in the federal system, including intergovernmental grants (Frantzich & Percy, 1994). This study examined fiscal federalism at the state and federal level to determine the impact of aid on Michigan's school funding.

Fiscal federalism refers to any monies allotted by the federal government or state in the form of grants, which may be categorized as one of the following: categorical, matching funds, formula and project grants, block grants, general revenue sharing, and federal impact aid.

**Foundation Allowance:** Since the passage of Proposal A in 1994, the Michigan Legislature has annually calculated a per-pupil funding allowance for each local school district and charter school in the state (LaFaive, 2007).

**Governance:** The administration or management provides the framework for activities that keep the organization operable. The governing body is empowered to make decisions regarding organizational operation.

**Hold Harmless:** Districts that have foundation allowances that are higher than the maximum foundation allowance for conventional school districts (LaFaive, 2007).

**Millage:** Factor applied to the assessed, taxable, valuation of real and personal property for tax revenue purposes. A mill is defined as one-tenth of a percent (LaFaive, 2007).

**Resource Dependency Theory:** The types of resources that organizations require and suggests conditions under which organizations become vulnerable are determined by the dependency theory. It stresses an interrelatedness between the organization and the larger social environment (Pfeffer & Salancik, 2003).

**Resource Dependent Groups:** The organization depends upon various groups for its resources. For the purpose of this study, state and local funding agents are considered to be resource dependent groups.

**School Aid Fund:** A constitutionally mandated fund that provides the majority of state revenue for education. It is paid for through a portion of the state sales tax, state education

tax, use tax, tobacco tax, real estate transfer tax, industrial facilities tax, income tax, casino tax and lottery profits (Bridge Magazine, 2014).

**State Education Tax:** Tax on all property in Michigan that is used to fund public schools – 6 mills assessed on state equalized value (half of market value). This statewide tax was established after Proposal A passed in 1994, changing the education funding system in Michigan from a system that had primarily relied on local property taxes to fund local schools. Prior to the state education tax, property owners paid an average of 33 mills for their local schools (Bridge Magazine, 2014; Price, 2014).

**The Great Recession:** Officially designated as the period from December 2007 to June 2009, The Great Recession began with a collapse of the housing market and led to sharp cutbacks in consumer spending, decline in business investment, and massive unemployment (Mishel, Bivens, Gould, & Shierholz (2012)).

### **What Is Proposal A?**

In 1994 the State of Michigan proposed and passed legislation which changed its tax policies and distribution mechanism for K-12 public school funds. These changes, known as Proposal A, were brought about by years of citizen-initiated referenda calling for a more equitable distribution of school funds and less emphasis on property tax as the main source of school funding.

The institution of the new tax laws reduced and restricted local property taxes and created a statewide property tax. There was also a reduction in individual and corporate income tax rates and an increase in the general sales tax rate. Proposal A also founded a formula for distribution of state school funds. The process called for a weighing of district need against district wealth and allotted state funds according to a new state-set per-pupil

amount. The most problematic concern regarding per-pupil equity and spending is a wide gap in some districts' equity. Though much has been done to diminish these gaps, they still exist among some districts and create a rift in the policy intentions. Some believe that the primary funding sources are elastic, thus making the concern more urgent.

### **Tax Policies**

In 1993 the Michigan State Legislature eliminated local property taxes as the primary source of Michigan school operation funds. The amount of revenue lost equaled 6.5 billion in 1993, which generated an abundance of questions regarding the replacement of lost revenue. The crisis led to debate, legislative compromise, and eventual voter approval concerning fund allocation (Addonizio, Kearney, & Prince, 1995).

To counteract an existing tax imbalance and replace revenues lost to the reforms, Michigan worked from the existing tax structure to substantially change the property tax, raise the sales tax, lower the state income tax, and institute or lower various other taxes. As a result, there were large-scale changes in property taxes. Local communities could no longer tax homestead properties (with the exception of well-regulated properties). To compensate for this loss, school districts were required to tax non-homestead, industrial, and commercial properties at 18 mills to be eligible to receive state aid. The rationale offered by Prince (2000) stated that the shift from primary homestead to non-homestead taxation would target out-of-state residents who owned vacation property in Michigan, thus tapping resources out of Michigan. The state also instituted a mandatory state tax of six mills on all property. The revenues gained from this were constitutionally earmarked for distribution through the school foundation formula.

Sales tax was increased 2 %, with the majority of the additional revenues applied to school funding. The sales tax increase became the primary revenue producer for funds allocated to K-12 public elementary and secondary schools. As with the non-homestead millage tax elevation, out-of-state residents were contributing to school funding, as a large percentage of sales tax is paid by tourists as well as Michigan residents.

The fourth large tax measure was the substantial increase in cigarette tax and the 0.2 % decrease in income tax. Overall, the tax policy changes instituted by Proposal A diminished the use of property taxes and increased the use of the general sales tax.

The substantial change in property tax structure and rates raised serious issues of tax equity among Michigan residents. The millage taxation issue was among the most controversial due to the wide-spread disparity in property taxation. Now, homestead properties were taxed at just six mills, and non-resident homesteads were taxed the six mills plus an additional 18 mills, a total of 24 mills. In 1993, the final year for the old property tax system, the average mill rate statewide was 33 mills (Addonizio, Kearney, & Prince, 1995).

While the balance in major tax sources greatly improved, bringing Michigan closer to the average of property tax, the cap on property tax assessment proved problematic. Beginning in 1995, property assessment increases were capped at 5 % or at the rate of inflation (whichever was less) until the property was transferred. At that point the property would be assessed at 50 % of its market value. This put a constraint on assessed values and created a wide difference in property tax values.

### **Per-Pupil Equity Issues**

Does the distribution of money provide for equal treatment of equals? After the reforms of 1994, an accelerated distribution of foundation funds were allocated to districts

whose income prior to Proposition A was lower than basic foundation level. The additional funding was provided yearly until each district reached the basic foundation level. When the lower-spending districts reached the foundation level they were allocated the same amount as the districts already at foundation level.

The method of accelerated increase was an effort to increase pupil equity by narrowing the per-pupil spending gap among districts. No district could spend above the state-set foundation amount per student. The only exception to this state mandate was that 10 % of Michigan districts (the highest spenders) were allowed to spend \$1,500 above the basic foundation amount. Those districts were defined as being at the maximum foundation (*range-preserving effect*) and numbered only about 10 % of all districts. In an effort by the state to eliminate the maximum foundation districts, those districts were responsible for raising the extra hold-harmless monies through local property taxes on homestead and non-homestead properties (Hanrahan, personal communication, September 14, 2000). Although they were allowed to spend \$1,500 more per-pupil, the state did not subsidize the amounts higher than basic foundation. Because the majority of foundation monies were provided by the state, local autonomy was limited in funding decisions to further narrow the per-pupil spending gap among districts.

Other provisions under Proposal A aimed at the equalization of the basic foundation amount included the following: the enhancement option, equalization of social security and staff retirement funds, and compensatory aid for at-risk students. The enhancement option was a restrictive option for districts who wished to spend above the basic level. The enhancement option called for districts to convince regional voters to raise additional funds through an approved levy. Finally, compensatory aid for at-risk students was increased

greatly. The amount allocated for free lunch was increased ten times, raising the 26 million dollar amount allocated in 1993 to \$260 million in 1994.

### **Effectuated Spending Patterns**

Rader (1999) examined how local districts had changed their uses of foundation monies as a result of the reforms. The research, which examined spending patterns three years prior to and post-reform, categorized expenditures as follows: instructional support, per-pupil cost for instruction, operating & maintenance, and administration.

According to Rader (1999), districts changed their spending patterns in four areas:

1. Districts spent more in classroom instruction.
2. Districts made most significant change in spending patterns in administrative areas of their budgets.
3. Districts made the least spending changes in routine maintenance operations.
4. A large number of districts successfully passed bond proposals for construction and renovation capital.

The per-pupil expenditure changed for classroom instruction increased by \$158 on average in the three years following the reforms. There was no change, however, in the number of dollars allocated to instructional support (counselors, therapists, library staff, and so on). The most significant change in spending occurred in the area of administrative services – principals, superintendents, and so on, where post-reform there was an average increase of \$94 per pupil. The final area of concentration, maintenance and operations monies, proved to show the least amount of change pre- and post-reforms. Evidence showed an increase in passed millage proposals for school construction and renovation.

## **Possible Policy Challenges**

In the years following Proposal A, problematic areas and potentially problematic areas have surfaced. Areas at issue include limitation of local revenue supplements, income elastic revenues, limitation of voter spending preferences, a rise in the reliance of non-profit fundraising foundations, pupil equity concerns by district, and a lack of inclusion of facilities funds as part of the equal formula foundation distribution (Summers, 2014; Cullen & Loeb, 2004).

The foremost concern is the lack of options concerning local revenue supplements. In the three years following the reforms, districts had the option of raising up to three mills to enrich revenues. In 1997, however, that option was eliminated, making it more difficult to raise option money. Currently, local fundraising endeavors must be approved and shared at the ISD level on a per pupil basis (Arsen & Plank, 2003; Lockwood, Haas, & Heideman, 2002, December).

Income elastic revenues are also of concern regarding stability of funding. Because much of the tax revenue used in the dispersion of school funding is generated by sales tax and income tax, a decline in economic stability would lead to a reduction in funding. According to Addonizio (1997), the reliance on income-elastic revenues (sales tax) would retard equity efforts if the overall state economic growth were to slow or decline.

The limitation of voter spending concerns the relationship between communities' income levels and the preferred school spending levels. According to Addonizio (1997), Michigan's limits on school spending levels will diverge from voters' desired spending levels for schools, particularly in high-income and urban districts. As the average community income increases, voters will desire a high foundation amount per pupil.



Addonizio (1997) predicted a rise in demand for high spending as income level increased. This could produce a demand at the state level for a locally-controlled system of district funding and could also lead to a higher reliance on private fundraising foundations and private schools. A rise in non-profit fundraising foundations (also known as booster clubs) resulted from Proposal A. In a 1999 study by Addonizio (1997), 153 non-profit foundations were formed to raise money for curriculum improvement, instructional materials, and enrichment activities. Statistics revealed these districts to be predominately Caucasian, thus raising concerns regarding pupil equity. The average amount of funds raised by non-profit foundations was \$17,000 in 1997.

Some high-spending districts found that the annual dollar increase in the state-set per-pupil foundation was lower than inflation. The limited growth in high-spending districts caused problems in the district's ability to assume retirement and social security costs previously the responsibility of the state (Prince, 2000).

Proposal A did not change the funding structure for school construction and renovation. Capital improvement costs continued to be met from funds allocated by local property taxes (as well as foundation allowance monies). Because there was a substantial cut in property taxes as a result of Proposal A, school officials assumed that voters would be agreeable to financing such repairs through property taxes; this did not prove to be true.

Although many thought Proposal A would be a resolution to school funding problems in Michigan, Proposal A generally did not resolve schools funding concerns but did affect school districts in many different ways. "The adoption and implementation of a new school district dissolution policy signals that state officials are continuing to search for a policy

solution to deal with financially failing school districts" (Bergeron, Donnelly, & Miziolek, December 2013. p. 1).

Many districts throughout Michigan have made significant reductions to balance their budgets, and some have closed or consolidated because funding issues continued. Two bills approved in June of 2013 allowed Inkster Public Schools and Buena Vista School District to dissolve (Michigan Legislature, 2013, PA 96 and 97). Buena Vista dissolved and reorganized under the Saginaw Intermediate School District Board of Education's vote. Inkster Public Schools dissolved, and the territory was attached to other district(s), according to Wayne County Regional Education Service Agency. On November 4, 2014, Whitmore Lake, a school district with a severe debt, went before the voters of Ann Arbor and Whitmore Lake to decide whether Whitmore Lake would be annexed to Ann Arbor Public Schools; the proposal failed (Knake, 2014). Now Whitmore Lake must decide their next steps as a school district. Today, more than 20 years after the passage of Proposal A, school funding continues to be an issue and educational institutions continually struggle to resolve financial problems.

### **Summary**

The structure of school funding changed significantly in 1994 with the passage of Proposal A. Understanding the necessity of the need for school funding reform and other issues that led to the passage of Proposal A, is an important part of this study. The new structure of school funding across the State of Michigan affected schools in many ways that resulted in organizational changes. This chapter comprised the introduction to this study, which focused on two Michigan school districts and the impacts of Proposal A, the events leading to Proposal A, and why these events necessitated change. A primary question and

three related questions guided the research. A review of relevant literature, the methods employed in this research, and a report of the findings are addressed in subsequent chapters.

## **Chapter 2: Review of Literature**

### **History of School Finance in the United States**

School finance in the United States and Michigan, even in its earliest days was plagued with inequity. Michigan has always relied heavily on property values to fund school operations. Initially, Section 16 land sales were used to fund local schools. Rousseau, Masters, and Kelly (1992) noted in 1758 that “public education is one of the fundamental rules of popular or legitimate government” (p. 52).

The Massachusetts Act of 1642 (O’Callaghan, 2009) was recognized as the beginning of the first American school finance laws (Rousseau and Cole, 1950). The founding fathers believed an educated general populace was necessary for its democratic republic’s survival. The Law of 1647 was the next step forward in the history of school finance. The government believed that the wealthy should be responsible for the financial burden of public education. Land owners during this time period were considered wealthy. This prompted government to begin taxing property. The laws of 1642 and 1647 had a significant historical impact on our state public school systems; they not only provided the foundation on which our public schools were built, but also established the state’s right to tax for education.

Establishing property taxes as the basis for school funding remains a significant piece of school finance to this day. Even though the U. S. Constitution made education a state responsibility, the federal government continued to support public schools with financial assistance. The Ordinance of 1785 established that new congressional townships in the Western territories should be 36 square miles; the 36 square miles were surveyed and divided into 36 one mile square lots, and the proceeds from lot number 16 were designated to finance

public schools. Table 1 referencing the history of school funding, gives a chronological overview of school funding in the United States.

Table 1

*The Economic History of School Funding in the US and Michigan*

1785	New congressional townships in the Western territories created lot #16 structure to create revenue to finance public schools.
1787	Northwest Ordinance of 1787: Authorized land grants to establish education.
1802-1954	Congressional legislation establishing the Military Academies
1835	First Constitutional Convention – recognition that geography and economics caused inequality in school funding
1836	Surplus Revenue Deposit Act: \$28 million of federal funds dispersed to the states
1840s	Sale of Section 16 Lands no longer able to sustain funding for statewide education
1850s	New State Constitution – Required local schools provide at least three months of instruction to satisfy educational needs of the economy and culture
1850	Most valuable Section 16 lands already sold – significant problem for maintain school funding
1850	As enrollments increased, per-pupil allocation from the state’s perpetual school aid fund now unable to keep pace with local school costs
1859	Approval of Public Act 161 – Establishment of graded high school for any district with 200+ resident children ages 4-18 years
1917	Smith Hughes Act: This act gave states grants to support vocational education for World War I returning soldiers who needed specific work related skills
1932	Approval of constitutional amendment designed to cap skyrocketing millage rates.
1946	Agreeing to specifically set aside portion of state sales tax to school aid fund
1965	Elementary and Secondary Education Act created categorical aid programs: Title 1 specifically targeted economically disadvantaged students
1968	Handicapped Children’s Early Education Act authorized preschool and early education programs for handicapped children.
1970	The National Commission on School Finance established

<i>Table 1 Continued</i>	
1975	Education for All Handicapped Children Act – Federal government to pay 40% of the funding necessary for special education services.
November 1978	Statewide ballot contained three proposals to address school funding and/or property taxes; To use property taxes for school operating expenses and establish voucher system. Reduce property tax assessments and create school income tax Headlee Amendment – designed to restrict tax rate growth.
December 1993	Districts received state calculated base revenue per pupil
1994	Proposal A
March 15, 1994	Proposal A approved
Prior to Fall, 1994	Local property taxes provided 60% plus of revenue to fund schools
1994	First Charter Schools Opened in Michigan*
1995	Beginning of Shift from Property Taxes Levied on State Equalized Value (SEV) to Property's Taxable Value; (SEV 50% of true cash value)**
1994-2000	Individual School District Foundation Allowances Increased**
1994-2003	Proposal A Provided a Net Tax Cut of 17 Billion Dollars**
2000	Individual School District Foundation Allowances Stayed the Same
2000	Michigan Voters Defeated Proposal 00-1 Which Allowed Vouchers*
2001-2003	Individual School District Foundation Allowances Increased**
2004-2005	Individual School District Foundation Allowances Stayed the Same
2006-2009	Individual School District Foundation Allowances Increased**
2010-2012	Individual School District Foundation Allowances Decreased**
2013	298 Charter Schools in Michigan*

Benson & O'Halloran (1987)

\*2000, Citizens Research Council

\*\* 2002, School Finance Reform in Michigan

### **History of School Finance in Michigan**

Overriding concerns about issues of per-pupil and taxpayer equity in school funding were catalysts for Michigan's major funding reforms of 1994. (Michigan State Board of Education, 2014). Wide spread disparities in per-pupil spending existed among Michigan's school districts at the time (Addonizio, 1999). Although some districts were spending as little

as \$2,800 per pupil, others were spending as much as \$10,800 per pupil in the same year. Additionally, Michigan had a tax imbalance compared to other states. It was low on sales tax rates, middle on income tax rates, but much higher than other states in property tax rates (Prince, 1997).

Dissatisfaction with the wide range of per-pupil spending among districts, and the heavy reliance on personal property taxes prompted several citizen-initiated referenda over a period of years, and culminated in a final referendum and government resolve to institute major school finance reform measures in 1994. Reforms fundamentally changed state and local tax policies as well as the school funding distribution mechanism. According to Addonizio (1999), citizens called for their government to address taxpayer equity issues by: (a) substantially reducing property taxes and (b) increasing the state share of local funding. In terms of pupil equity, the people of Michigan called for (a) a reduction in the gap of per-pupil spending among school districts and (b) a minimum level of per-pupil revenue per district sufficient for meeting statewide achievement standards.

It is necessary to first examine tax policy when noting the change in Michigan's funding distribution mechanism. In 1993 the Michigan State Legislature voted to eliminate local school operating property taxes as the primary source of Michigan public school operations funds, an amount equal to \$6.5 billion. This legislative action sparked debate, legislative compromises, and voter approval regarding the replacement of lost revenues and fund allocation (Addonizio, Kearney, & Prince, 1995). Working from its existing tax structure, Michigan substantially changed the property tax, raised the sales tax, slightly lowered the state income tax, and instituted or altered various other taxes. This shift and balance of major tax sources provided the basis of per-pupil equity so badly needed. The

creation of these new funds necessitated re-distribution of school funds generated at the state level. Prior to 1994 the majority of per pupil funding was raised at the local level.

The increase in per pupil equity relied heavily upon restricting high-spending districts in annual per pupil spending and accelerating low-spending districts in annual per-pupil spending. Instituting such policy required a shift in philosophy of local control. As the state began providing the major portion of school funds, local districts were subjected to a change in fiscal control and a yield in decision-making autonomy.

Specific data about the variety in the range of per-pupil equity; tax policies of the State of Michigan, prior to and following reform; the initial impact of the tax policy; and the long-term effects and projections based on recent figures are needed to fully comprehend the effects of Michigan's 1994 school reforms. That information in three periods of time; 1989 to 1994, 1994 to 2002, and 2002 to the present, provide the foundation for this large-scale case study of selected Michigan school districts. The majority of case studies conducted on grants and aid focus on the donor as opposed to the recipient. A bottom up case-specific environment will be described in the present case study, as the researcher seeks to better understand the effects of fund allocation viewed from the fund recipients, two major school districts in the State of Michigan.

Case-specific, qualitative studies typically seek patterns of unanticipated as well as expected relationships in the cases or phenomena. “Qualitative studies call for continuous refocusing and redrawing of study parameters during fieldwork, but some initial selection still is required” (Miles & Huberman, 2014, p. 30). Jick (1979), as cited in Eisenhardt (1995) stated, “The qualitative data are useful for understanding the rationale for theory underlying



relationships revealed in the quantitative data or may suggest directly theory that can be strengthened by quantitative support” (p. 73).

A study of school administrative organization is basic to understanding the effects of 1994s Michigan school reform. It is suggested that organizations exhibit three distinct levels of responsibility and control: technical, managerial, and institutional (Thompson, 1967). Using this principle as the basis of the present qualitative study, the close examination of all actors involved in the organization (Michigan school reform parties) is a case-specific examination of fund allocation at the local level.

Fiscal federalism, governance, and resource dependency theory are closely tied to the effects of the 1994 reforms on the Michigan school system. Extensive data and an explanation of a relationship between the three areas of concentration will be the basis for the conceptual framework of the present case study and may show how specific policies and theories may aid in better understanding the policy development and impact resulting from the institution of Proposal A.

### **Fiscal Federalism**

Frantzich and Percy (1994) said, “Federalism refers to the legal and political relationships among two or more units of government that operate at different levels.” Therefore, fiscal federalism: “involves the financial arrangements and transfers between governments at different levels in the federal system, including intergovernmental grants” (p. 64). In the American system, federalism involves the sharing of governing powers between the national government in Washington, D. C., and the 50 state governments (Frantzich & Percy, 1994). “Fiscal federalism is affected by the relationship between levels of

government and thus by the historical events that shape this relationship” (Encyclopedia Britannica, 2014).

**Dispersion of Federal Fiscal Funds.** The dispersion of federal fiscal funds generally falls into six categories: categorical grant, matching funds, formula and project grants, block grants, general revenue sharing, and federal impact aid. The most common form of federal fiscal assistance is the categorical grant, provided to states and localities with the condition that specific operations are performed. Categorical funds are dispensed much as a contract; the state creates and operates programs as defined by the federal government. Under this premise, state and local discretion in spending is low, and federal control over spending is very high (Frantzich & Percy, 1994).

Another form of federal grant, matching fund grants, provides the state with certain monies under the condition that the state match a percentage of these funds. The general expectation under this program is that state and local parties will invest time, monies, and commitment to federal programs, thus creating a dependency and interest upon federal program objectives and implementation.

The third form of fiscal grant is a separation of categorical funds. Formula and project grants are “allocated to state and local government according to pre-specified formulas. Such formulas allow the federal government to target funds to specific areas or purposes” (Frantzich & Percy, p. 64). These funds are very target-specific in that they are allocated strictly to areas that meet the exact requirements based upon need.

The block grant, on the other hand, provides funding to state and local parties for broad program areas as opposed to specific fund allocation. A block grant allows much

greater discretion at the local and state level as opposed to sole federal control over state and local spending.

The fifth, and now obsolete, form of federal funding is general revenue sharing funds. These funds were allocated to states and localities without imposing restrictions on the destination or usage of the funding. General revenue sharing to states and localities was popular because they were able to allocate the funds as they saw necessary; the funds provided a sense of flexibility and security at the same time. The program was cut in 1986 to reduce federal spending (Frantzich & Percy, 1994).

Federal impact aid (the sixth form of federal fiscal funding) is evidenced through programs such as Medicare, Aid to Families with Dependent Children, and food stamps. Though state participation is legally optional, the monies distributed through these grants are very substantial, thus encouraging states to participate and enhancing the spending power of the federal government without violating constitutional provisions.

**History of Fiscal Federalism.** The American debate over the proper balance between the various governmental entities in a federal system date back to the Articles of Confederation. The federal/state balance and the public/private balance has teetered back and forth throughout U.S. history, and power regarding education shared between the states and the national government has been a major issue. When the United States Constitution established the federal government in 1787, the federal government exercised only limited or enumerated powers such as the printing of money and the establishment of treaties. In 1791 the tenth amendment to the Bill of Rights clarified that all other powers were the responsibility of the states.

An increase in poverty in the 1930s led to an expansion of the federal government. Aid to the poor in this country prior to the Great Depression came mostly from churches and few charity organizations; however, with poverty impacting millions of Americans in the 1930s, churches and charities along with state governments were unable to meet the overwhelming needs for financial assistance. No federal policy existed at this time. President Franklin Roosevelt and congress created and passed legislation known as the New Deal, which created jobs for the unemployed and created social security and aid to families with dependent children.

In the 1960s President Johnson waged war on poverty by instituting a plan known as the Great Society. Vocational Education and job training were offered to eliminate poverty, and the plan also included programs of Medicare and Medicaid. Thereafter, President Nixon continued to support the programs created during the New Deal and Great Society eras; many political scientists believed that Nixon was responsible for the greatest expansion of federal regulation of state and local governments in American history.

Prior to 1960, the federal government did not play a large role in the development of educational policy. The Elementary and Secondary Education Act was passed in 1965 in reaction to pressure to expand educational opportunity for children left behind by the educational system between 1960 and 1970. This milestone in public education “broke through the long-standing opposition to federal aid to education” (Kantor, 1991, p. 49). The federal government initiatives increased aid to elementary and secondary schools from roughly a half a billion dollars to \$ 3.5 billion, and federal education programs expanded from about 20 to 130. The primary focus on equitable standards for poor and disadvantaged students helped establish federal standards for school districts (Kantor, 1991).

In the early 1980s President Reagan set his sights on reducing the size and scope of federal government. Reagan contended that the federal government was part of the problem, not the solution. By downsizing federal influence, Reagan promised a balanced budget. Although he was contending with a Democrat-controlled Congress during his presidency, and much of what he proposed did not materialize, Congress did adopt his large budget proposals each year, thus creating a larger budget deficit. A Republican majority in both the United States House and Senate in 1994 promised to scale down the federal government. President Clinton embraced this sentiment in 1996 by declaring an end to big government.

Measuring the impact of federal spending on the expenditures for education is one aspect of fiscal federalism. According to Frantzich and Percy (1994), in 1988, federal grants represented over 18 % of all state and local spending; in other words, almost one-fifth of state and local government expenditures were funded by federal grants. Given the magnitude of federal grant dollars, federal spending cuts can have a strong and negative influence on states and localities. When faced with federal cutbacks, state and local governments have two options: (a) apply more state and local revenues to make up the difference or (b) cut back programs (Frantzich & Percy, 1994).

With the termination of much federal fiscal funding, individual states were left to determine how to decrease and eliminate the funding deficits. Education funding was no exception. Prior to Proposal A, few explicit changes were made to the governance system. Districts were expected to follow state reforms and respond as directed. Although districts welcomed the increased funding, they did not embrace the regulatory mandates or strings attached to the reform policies.

Federally regulated mandates forced behavioral changes by state and local governments (Frantzich & Percy, 1994). Because the mandates represented the federal government's efforts to pursue objectives broader than those of individual programs, the regulations seemed unreasonable and difficult, masking the core of the real issue. The difference in views on such mandates lead to partisan politics and grantsmanship games.

According to Frantzich and Percy (1994), “Grantsmanship refers to the competitive efforts of state and local governments to attract federal grant dollars” (p. 69). The competitiveness of the grant-seeking cycle led to grant writers, grant researchers, and agents hired to enhance an organization’s chances for receiving monies. Competition for federal installations (military base, nuclear facility, and so on) in the state is another mechanism for attracting federal funds. A federal installation provides jobs and federal expenditures that move monies throughout the state. Federal allocation is lowest in many Midwestern states that are landlocked and cannot support ports and defense contractors. In 1989, Michigan ranked the lowest in federal spending per person (Frantzich & Percy, 1994).

In the 1980s, state governments made a vibrant comeback as major players. As states became more active, they were awarded increased grant monies and began to institute policy innovation at the state level. This is due in part to the demands placed upon the state by federal cutbacks in the area of social programs. Also, the state was forced to aid in assisting localities facing dire budget situations due to cutbacks in federal grant monies. Many states responded by increasing funding of locally operated programs (Frantzich & Percy, 1994). The emergence of the state as a major funding player during the 1980s had lasting effects on fund allocation during the years to follow.

Evidence suggested that the readjustment of federalism reduced power of the national government, thus providing the basis for President Reagan's policy of deregulation. Deregulation modified federalism by loosening federal mandates (Frantzich & Percy, 1994). Succeeding Reagan, President Bush furthered this policy by “calling for less governmental regulation and more state and local flexibility in spending federal funds” (Frantzich & Percy, 1994, p. 69).

**Fiscal Federalism in Michigan.** The most important underlying factor in understanding the flow of power from the local to state level is the transformation in education funding that began in the early 1970s and continued to the present (Wohlstetter & Odden, 1992). For many years Michigan residents wanted property tax relief and more equal educational funding for local school districts. Funding inequities among school districts continued to grow. Many millage elections were defeated due to voters' discontent with property taxes.

In August 1993, with rising discontent, the Michigan Legislature repealed property taxes (for school operating purposes) as the primary funding source for K-12 education. In October of the same year, the governor presented an outline to reform Michigan schools and school finance. The proposal comprised four basic goals:

1. ***Reduce property taxes.*** An immediate and substantial cut in property taxes to most taxpayers, elimination of local homestead property tax, and institution of state property tax on all property (including homestead or primary residence—a substantial tax increase on all non-homestead property).
2. ***Improve school funding equity.*** A new system of school funding, the foundation grant system. Under the foundation grant system, the State would take responsibility

for a greater share of school funding to improve school funding equity across school districts. School funding equity would be enhanced through a constitutionally-guaranteed minimum funding level per student.

3. ***Implement various reforms to improve the quality of education.*** Reforms included allowing children to choose among competing public schools, lengthening the school year, and the creation of charter public schools. A student's foundation allowance would follow the student and would be allocated to his or her school of choice.

4. ***Redefine state and local government relations.*** State law would be modified to limit the number of property tax millage elections.

On March 15, 1994, Michigan voters approved Proposal A, which not only changed how schools would be funded, but also brought significant educational reforms. Proposal A guaranteed a minimum per-pupil foundation allowance, lower property taxes, and more accountability and equity among school districts. Proposal A also established a new classification for property called homestead and non-homestead. Charter schools and schools of choice were also part of the reforms enacted with Proposal A.

## **Governance**

“Understanding governance is of primary importance if we are to understand the political model of education” (Baldrige, 1971, p. 112).

Conley's (1997) research on educational governance suggested that a revolution is occurring, the reshaping of power and authority relationships at all levels of the educational governance and policy system. Almost every state is evolving from a local control model of governance and finance to a state system of finance, specified standards and content



knowledge, and statewide tests and assessments. The federal government's involvement in education policy has become more assertive. Many local educational associations find the changes intrusive, as nearly every state legislature has assumed more control over school funding and educational policy (Hirth, 1996). State assessment systems and accountability systems are being instituted in nearly every state to gather data on performance and to compare schools (Goertz & Duffy, 2001). In some states these efforts are subtle; in others they drive the educational policy (Olson, 1999).

Funding is linked to expected student learning in some states (Conley, 1999). In the academic literature on the subject, the concept of governance encompasses the explicit, and occasionally implicit arrangements by which authority and responsibility for making decisions concerning the institution is allocated to the various participant parties (Hirsch & Weber, 2000). Organizations of all types confront the difficulty of governance. How organizations address the challenge of governance will depend upon their legal status: whether they are public or private, whether they operate for-profit or not, and upon the legal requirements placed upon them by their charter and the contracts into which they enter (Weeks & Davis, 1982). In the for-profit setting, the study of governance is generally limited to the study of the governing board and its relations with top executives (Fama & Jensen, 1983; Lorsch & MacIver, 1989).

**Organizational Governance Environment.** Close examination of the issue of governance, as it relates to school funding, requires a study of organizational governance actions. Thompson's (1967) *Organizations in Action* and Pfeffer and Salancik's (2003) *The External Control of Organizations: A Resource Dependence Perspective* are central to the conceptual framework of this case study. Because the conceptual framework is socio-

political, Thompson's (1967) narrative of the external environment, in which organizational members influence the route of organizational change, demonstrated how organizations are open systems subject to criteria of rationality. The smaller facets of the organization contribute to the larger organization. The unit as a whole is interdependent with the environment, receiving and providing with the smaller factions and sharing an interdependency with outside forces as well.

Thompson (1967) categorized the strategy of organizational study as one of two methods: closed-system strategy (rational model) and open-system (natural-system) strategy. In a closed-system, all variables can be controlled or predicted. Study of the organization as closed-system employs rational thought, meaning the components of the organization are deliberately chosen for their specific contribution to a goal. Often, organizations tend to fall under this category for a closed-system is viewed as more stable and predictable. Organizations with specific goals and destinations tend to seek control over all or most variables. The open-system strategy operates on the assumption that a system contains more variables than are comprehensible at one time. This can also mean that some of the variables are subject to unpredictable and uncontrollable influences (Thompson, 1967).

Thompson (1967) based his theory on a suggestion made by Parsons (1960) that "organizations exhibit three distinct levels of responsibility and control—technical, managerial, and institutional" (Thompson, 1967, p. 10). Organizations can be subdivided into sub-organizations. The players in these sub-organizations focus on effective performance of processing of specific material and the basic, physical, core functions that are the duties of the sub-organization. In a school, the players would be the teachers in the

classroom level. Effective completion of a task is based upon physical work and cooperation with those surrounding players.

The second sub-organization, the managerial level, services the technical sub-organization. Duties at the managerial level include the following:

1. mediating between the technical sub-organization and those who use its products- the customers, pupils, and so on, and
2. procuring the resources necessary for carrying out the technical functions. The managerial level controls, or administers the technical sub-organization by deciding such matters as the broad technical tasks to be performed, the scale of operations, employment and purchasing policy, and so on (Thompson, 1967).

For such an organization to exist and carry out the tasks necessary for furthering production, the technical and managerial sub-organizations must be bound together with an adhesive body. Thompson (1967) classified this as the institutional level of organization. The institutional level ensures meaning within the organizations.

The distinction between the three levels of organization is identified by qualitative breaks in operation. Each sub-organization is task-specific: thus a lack of function by any of the three levels produces a retard in productivity. There are three component activities involved in organizational rationality: “1) input activities, 2) technological activities, and 3) output activities” (Thompson, 1967, p. 19).

**The Role of Organizational Domain.** Based upon these principles, the role of domain in an organization becomes symbiotic with component activities in organizational rationality. Thompson stated, “The essential point is that all organizations must establish a domain” (p. 27). Loosely translated, the term domain refers to the exact and specified roles

which an organization plays: a niche, perhaps. An example of domain in the public school system might be the difference in course offerings, population served, or even athletic teams. As Thompson stated, “the concept of domain appears useful for the analysis of all types of complex organizations” (p. 27). Hence, in analyzing the composition of the organizations which contribute to or deal with the allocation of funding in Michigan schools, it is crucial to examine the role each actor plays as well as the domain of that particular organization.

It is even more important to keep in mind, particularly when conducting a case study, that the organization is always a member of a larger environment. There are very necessary dependencies between the organization and its environment; each separate organization receiving the necessary item from and reciprocating the other organization. Thompson (1967) aptly noted: “The public school usually finds its clientele and financial supporters concentrated, and the two interconnected” (p. 27). The researcher will find it beneficial to note that the separation of organizations within the larger environment may better provide correlation and themes within much of the research collected. Thompson also noted: “Although a particular organization may operate several core technologies, its domain always falls short of the total matrix. Hence the organization's domain identifies the points at which the organization is dependent on inputs from the environment” (1967, pp. 26-27). Evidence of one sub-organization’s failures or successes may not necessarily correlate to the overall environment.

Specifically, in terms of researching the source of fiscal funding in the Michigan public school system, the researcher must examine the organization as a whole, examine each sub-organization, and then deduct the relationships. For example, “The organization may find that there is only one possible source for a particular kind of support needed, whereas for

another there may be many alternatives” (Thompson, 1967, p. 27). It must be noted that the organization operates in accordance with its resources and availability of said resources.

As the researcher collects data pertaining to fund allocation prior to and post 1994, Thompson's (1967) theory regarding domain will act as a foundation for evaluation of the environment of the organization under each time period. It is also important to consider Thompson's theory that: “(1) patterns of culture can and do influence organizations in important ways, and (2) the environment beyond the task environment may constitute a field into which an organization may enter at some point in the future” (p. 29).

Examining fund allocation at the local and state level, it is essential to note the environments in which the funds are being received as well as allocated. The role of each sub-organization and the individual role of each at the technical, managerial, and institutional levels, may strongly affect the environment's ability to succeed. Thompson (1967) stated, “The relationship between an organization and its task environment is essentially one of exchange, and unless the organization is judged by those in contact with it as offering something desirable, it will not receive the inputs necessary for survival” (p. 28). Because of this competition within the environment, an organization must develop an ability to be flexible or adjust to change. There usually is an alternative source for input if the organization proves to possess the ability to adjust. How well an organization is able to adjust to changes may indicate that the environment is multi-faceted or pluralistic. “This appears to be true even of organizations embedded in totalitarian politico-economic systems, since for any specific organization there appears to be alternative sources for some inputs; the several kinds of inputs required come under the jurisdictions of different state agencies; and there are

alternative forms of output or places for disposal of output” (Thompson, 1967, p. 29; Berliner, 1957; Granick, 1959; Richman, 1963).

Research on educational governance suggested that a revolution is occurring; thus, the role of the complexity of the structure of an organization is an important factor in this case study's pertinence to governance and its organizational structure. The revolution is the reshaping of power and authority relationships at all levels of the educational governance and policy system. As evidenced by Thompson's (1967) work, the complexities of organizational systems directly affect the input or output of those organizations.

### **Resource Dependency Theory**

Resource dependency theory is reported to articulate the relationship between organizations and their environment. It is an organizational theory that stresses the concept of the organization, the environment, the resources linking the two and the dependent nature of the relationship involving these three. The underlying connection between resource dependency theory and the studies of organizational structure is the notion that resource dependency denotes the types of resources that organizations require, suggests the conditions under which organizations become vulnerable, and specifies the inter-woven relationship between the organization and the larger social system. It identifies resource acquisition, allocation, and use, and clarifies that without resources, organizations do not exist. The basic argument of resource dependence theory can be summarized as follows:

- Organizations depend on resources.
- Resources ultimately originate from an organization's environment.
- The environment, to a considerable extent, contains other organizations.

- The resources one organization needs are thus often in the hand of other organizations.
- Resources are a basis of power.
- Legally independent organizations can therefore depend on each other.
- Power and resource dependence are directly linked:
  - Organizations A's power over organization B is equal to organization B's dependence on organization A's resources.
- Power is thus relational, situational, and potentially mutual (Pfeffer & Salancik, 2003).

Resource dependency theory is built on the foundation that an organization must attain specified resources to either sustain or proliferate itself or be terminated; this theory is often used in conjunction with other theories that demonstrate the specificity of the relationship between resources and the organizational environment. This particular case study concurred with Baldrige (1971) that fiscal resources are the most crucial resource for an organization to obtain.

In stressing the role of interdependency in relation to this theory, it is important to note the four assumptions on which the theoretical foundation is based. First, given that resources are scarce, decisions on allocation are based on the value priorities and political preferences of the larger social system. Second, dependencies result from criticality and availability of resources for the survival, growth, and maintenance of an organization. If resources are not critical and abundant, there is no dependency. Third, the dependence of an organization on an entity for a resource gives that entity leverage in constraining the

activities of the focal organization. Fourth, organizations are represented by actors in different subsystems of the organization. Each subsystem has its own environment and resource base, as discussed in relation to Thompson's (1967) theory.

Many researchers, especially in the field of policy analysis, apply the notion of policy networks as an analytical concept or model to connote the structural relationships, interdependencies, and dynamics between actors in politics and policy-making. This network concept focuses on the interaction of various separate but interdependent organizations that coordinate their actions through efforts to obtain or deliver resources and interests. Actors who take an interest in the making of a certain policy directed at obtaining or disposing of resources (material and immaterial) required for the formulation, decision or implementation of the policy, form linkages to exchange these resources.

The resource dependency theory discussed by Pfeffer and Salancik (2003) and others study the theory is in relationship to corporate examples. It is relatively easy to apply the mechanics of the theory to other organizations, including governance organizations, which are also political in nature, state government and its relationship with public schools, and other organizations related to education. Benson (1975) defined inter-organizational networks as a political economy.

**Environmental Relationships.** Pfeffer and Salancik (2003) developed resource dependency theory as a means for analyzing the relationships between organizations and the external environment in which they operate. The researchers noted that most organizations are heavily dependent upon the external environment for their continuing survival. The basic story of exchange-based power in the theory was derived from Emerson's (1962) parsimonious account: the power of A over B comes from control of resources that B values



and that are not available elsewhere. In this account, power and dependence are simply the obverse of each other: B is dependent on A to the degree that A has power over B.

“Concretely, to use a favorite example of transaction cost theorists, General Motors was dependent on Fisher Body for auto bodies because these were not readily available in volume elsewhere. At the same time, Fisher was dependent on GM because it was the predominant buyer of Fisher’s products” (Davis & Cobb, 2009, p. 6). For-profit organizations operate under some constraints, but can try developing new markets and new sources of support as they see fit. Non-profit organizations, however, operate under more constraints. They have less geographic mobility, less control over their product, and face a difficult external environment because their role in society is so distinctive (Clark, 1983; Clott, 1995).

Drawing upon resource dependency theory, Tolbert (1985) suggested that structure of organizations, both for-profit and non-profit, are associated with the resources upon which they are dependent in the external environment. “Resource dependency is an open-system theory that states that all organizations exchange resources with the environment as a condition of survival” (Scott, 2003, p. 114). Scott further stated, “The need to acquire resources creates dependencies between organizations and external units” (p. 114). This characteristic can ultimately cause political problems that require political solutions, and this perspective contends that organizations can adapt and directly affect their chances of survival. Like population ecology, resource dependency focuses its research at the organizational unit level. Earlier work by Walmsley and Zald (1973) defined it as the political economy model. Thompson (1967) defined some of his related work as the power-dependency model (1967). The most definitive reference is Pfeffer and Salancik (2003).

The basic premise of the resource dependency theory, as explained by Pfeffer and Salancik (2003) is that organizations constantly struggle to survive, and the key to this survival is in acquiring resources from other organizations included in the environment. Since the environment is ever-changing, unstable, and undependable, organizations must employ various strategies in order to amass, or deliver the resources needed for survival.

Pfeffer and Salancik (2003) argued that an organization's effectiveness, which is an externally measured standard of performance, is their “ability to create acceptable outcomes and actions” (p. 11) in the exchange to deliver or acquire resources. Further, Pfeffer and Salancik opined that in contrast, efficiency is an internal standard, which shows how well an organization is meeting its goals, which is very different than whether or not outside constituents are happy.

Pfeffer and Salancik (2003) also posited that the organizations related in dependency theory are typically interdependent. This basic assumption in the network model is that the individual firm is dependent on resources controlled by other firms. Because of the interdependencies of firms, the use of an asset in one firm is dependent on the use of the other firm's assets (Johanson & Mattsson, 1988).

Pfeffer and Salancik (2003) claimed that interdependence can either be competitive or symbiotic in nature. The competitive relationship would be a zero-sum relationship, whereas the symbiotic relationship suggests that “the output of one is input for the other” (p. 12). The dependence of one organization on the other can fall into any of three categories as suggested by Pfeffer and Salancik :

1. The concentration of resource control
2. The importance of the resource to the focal organization.

3. The outside group's discretion over the allocation and use of the resource.

A major tenet of resource dependency theory is that organizations tend to avoid inter-organizational linkages that limit their decision making and other forms of autonomy, argued Oliver (1991). However, some instances indicate that these kinds of inter-organizational relationships are unavoidable in order for one organization to obtain the resources provided by the organization that possesses them. That is, the network ties of organizations dependent on other organizations for their resources often are forced to give up some or all of their individual autonomy to become a part of the new network organization in the effort to gather the resources available from the benefactor organization.

Pfeffer and Salancik's (1974a) work suggest that it is the composition of resources rather than the arrangements of decision and the assignment of authority that matters here. Resource flows may lead to a divergence between explicit authority, the vested right to make a decision, and actual power, the ability to influence the decision taken (Pfeffer & Salancik, 1974b). As Pfeffer and Salancik (2003) noted, "Organizations end and the environment begins at the point where the organization's control over activities diminishes and the control of other organizations or individuals begins" (p. 113). Thus, the boundary between the organization and the environment is defined by the level of control which determines the dominance of one system over another and is the zone where organizational conflict arises and political maneuvering and posturing takes place. To better understand the nature of organizational relationships, the definition of boundaries must be examined. The following four concepts separate organizational relationships: (a) differing incentive systems, (b) differing resource requirements, (c) differing patterns of resource availability, and (d) differing organizational goals and political ties.

Resource dependency theory provides the framework which will be used to analyze the organizational changes taking place within the two school districts in this study. Because organizations will reorganize and devote time, energy, and resources to protect or gain scarce external resources, the following outline provides a basis for research regarding resource dependency theory and its relationship to governance and organizational change in the public school system:

A. Students as scarcity

1. Number
2. Diversity
3. Quality
4. Increased Competition

B. Shifting Institutional Resources

1. Admissions Marketing
2. Retention Efforts
3. Institutional Aid

C. Affecting Expenditures

1. Employee Salaries
2. HealthCare
3. Staff Development
4. Other

Extensive research which will follow the progress of the two districts in northern, lower Michigan prior to and after the funding reforms of 1994, an incorporation of the study of fiscal federalism, governance, and resource dependency theory, coupled with extensive

research on each of the selected school district's statistical progress, shall provide the framework for a case study on the participating school districts and the effects of Proposal A.

In exploring the role of resource dependency in cooperation with fiscal federalism and governance, the framework posits that organizations do not operate in isolation but depend on specific environments to affirm their existence. These environments, in exchange, depend on organizations for goods and services. The constraints placed upon both parties produce a co-dependent cycle which is the basis for this study's organizing conceptual framework.

The organization, viewed as a set of interdependent parts, contributes to and receives from the whole. This creates yet another interdependency with the environment. Among the factors of interdependency is the environment as a whole and the organizational parts. The complexity of such an organization produces a concept of open system. It is indeterminate and faced with uncertainty but also subject to criteria of rationality, hence requiring determinateness and certainty (Thompson, 1967).

How an organization learns about its environment, how it attends to the environment, and how it selects and processes information to give meaning to its environment are all important aspects of how the context of an organization affects its actions. (Pfeffer & Salancik, 2003).

Under this concept, organizations are created through a process of attention and interpretation by the organization's members; therefore, that organization is reflected in the belief and meaning which the members produce. The groups on whom the organization most depend for resources can potentially have the greatest impact or influence on the organization. The organization responds accordingly to its

environment. Pfeffer and Salancik (2003) believed “organizations survive to the extent that they are effective. Their effectiveness derives from the management of demands, particularly the demands of interest groups upon which the organizations depend for resources and support” (p. 2). It is an organization's nature, out of necessity, to adapt and change in consistency with environmental changes.

The organization creates the market to which they adapt by selecting the market they serve. They must alter their purpose and domain to accommodate new interest to ensure the survival of the organization. Thompson (1967) pointed out that “the organization will grow in the direction of its most crucial dependencies” (p. 156). He noted that organizations are dependent on an element in the environment “in proportion to the organization's need for resources or performances which that element can provide and an inverse proportion to the ability of the other elements to provide the same resources of performance” (p. 30). The level of dependency between a resource stream and an organization indicates the potential between the two for making demands and influencing one another. This critical balance can cause tension as the organization seeks to find its own identity but is obligated to meet the demands of external groups. The ultimate goal of the organization, as it fights to balance, sustain pressure, and meet demands, is survival. For an organization to survive there must be resource exchange from the environment in which it exists.

**Stability Versus Change.** There are two sides to a struggling organization. One side seeks stability and certainty, and the other seeks change and adaptation to the environment. The line of discretion that needs to be determined and enforced when balancing the two is fine. The member in the manager position must be able to discern between the necessary items for the survival of the organization and the steps which should be made toward

progressing the organization to meet modern demands. Pfeffer and Salancik (2003) stated, “The manager, though a leader, is also a follower who responds to the demands of those with whom he deals and upon whom he depends for support to accomplish his activities” (p. 246).

The administrative parties must work to reduce uncertainty while involving themselves in the management of the task environment; this creates a rift in administration, for there is uncertainty in operation. An environment of instability causes uncertainty regarding the choices made by administrators. The administrator must now work to reduce uncertainty through stability and consistency while promoting growth through change and adaptation. The pressure of such a situation may be the catalyst for major reform. Because the public school district is taxpayer- funded, the school districts are organizations directly dependent on outside resources. The basis for an organizing conceptual framework is as follows:

1. Public school districts are open systems operating in the context of their environment.
2. Public school districts are pressured to respond to the demands of those groups upon whom they are most resource dependent.
3. Public schools seek stability and certainty while receiving tension from competing demands of resource dependent groups.
4. Public school administrators may be in a position to adapt, modify, or ignore environmental pressures based upon environmental demand.

With the guidance of Pfeffer and Salancik (2003) and Thompson's (1967) theories, the organizing conceptual framework for this study will examine organizational change as influenced by the environment in the two districts in northern, lower Michigan.

## **Summary**

Reviewing the history of school finance throughout the United States and Michigan, as well as other literature is an important part of this study. School finance has been weighed down by inequities even since its earliest days. The concerns with school finance in Michigan peaked in the years preceding the passage of Proposal A. Literature regarding fiscal federalism or the relationships among two or more units of government was reviewed in relation to Proposal A. Governance and resource dependency theories were also reviewed to develop an understanding to other factors that affect school finance and organizational change. This literature helped to establish a foundation in understanding the direct effects of Proposal A on the two Michigan School districts in this study. The research design and qualitative methods used to conduct the study are described in Chapter 3.



## **Chapter 3: Research Design and Methods**

### **Research Design**

This study examined the impact of Proposal A on two Michigan school districts. The research questions guiding this study led to the use of qualitative research methods. “The events and ideas emerging from qualitative research can represent the meanings given to real-life events by the people who live them, not the values, preconceptions, or meanings held by researchers” (Yin, 2011, p. 8). Qualitative research allowed the researcher to better clarify the nature of the relationships. “There are separate and detailed literatures on the many methods and approaches that fall under the category of qualitative research, such as case study, politics and ethics, participatory inquiry, intertwined, participant observation, visual methods, and interpretive analysis” (Denzin & Lincoln, 2012, p. 5).

The analysis of qualitative data served to reveal a relationship between funding patterns prior to and after 1994, specifically in two districts in northern lower Michigan. “Within qualitative research, phenomenological studies, emphasizing hermeneutic, or interpretive analyses are most strongly devoted to capturing the uniqueness of events” (Yin, 2011, p. 14). A qualitative approach to the study of this data led to an adequate conclusion regarding the fiscal revenue stream dispersion but also described the process of organizational change.

Qualitative studies typically orient to cases or phenomena, seeking patterns of unanticipated as well as expected relationships, Jick (1979) opined. This study of school funding as applicable to the two school districts at mention is qualitative in that each party is case-specific (the examination of fund allocation at the local level as instituted by the above mentioned actors). “The [qualitative] studies strive to be as faithful as possible to the lived

experiences, especially as might be described by the participants' own words" (Yin, 2011, p. 15). Clarification of the relationships between governance actions and unique environmental factors that affect the results of the data are the responsibility of the researcher. In this study, a qualitative approach was used to determine the financial results of Proposal A and to determine the relationship of interconnectedness between governance, fiscal federalism, and resource dependency theory.

### **Contextualist Framework**

Contextualists use time as a means to identify events within an interrelated context. Contextualistic research is drawn from the event outward. According to Pepper (1948), contextualists begin with the historic event, but the historic event is not necessarily one in the past. Contextualism describes acts within a context that are interconnected with other events, actions, and referents. As Pettigrew (1995) asserted, contextualism makes a case that theoretically sound and useful research on change explores the content, context, and process of change in an interconnected manner through time.

Four key assumptions are involved with analyzing change in a contextualist mode: embeddedness, temporal interconnectedness, exploration of context and action, and a holistic analysis (Pettigrew, 1995). Embeddedness assumes "target changes should be studied in the context of changes at other levels of analysis" (p. 95). Temporal interconnectedness, used in context and content, refers to the horizontal level, linking past, present, and future in sequential order. Exploration of context and action refers to the need to explore both context and action, allowing that both processes are constrained by context, whether it is to continue with them or to alter them. A holistic analysis states that causation is neither linear nor singular. For this study to focus on organizational change through a contextualist

framework, the context and interconnectedness of Michigan's K-12 school structure over time were examined.

### **Purpose of Case Study Research**

Case study design, based on dynamics and relationships within a particular case, was chosen for this study. As Yin (2014) asserted, "In all of these situations, the distinctive need for case studies arises out of the desire to understand complex social phenomena" (p. 4).

When there are no definitive boundaries between the phenomena and the context in which it is settled, case study research is very beneficial. The most important purpose of a case study "is to explain the presumed casual links in real-world interventions that are too complex for survey or experimental methods" (Yin, 2014 p. 19).

Case study is very much an interpretive method of research. According to Erickson (1986), interpretive research "is concerned with the specifics of meaning and action in social life that takes place in concrete scenes of face-to-face interaction, and that takes place in the wider society surrounding the scene of actions" (p. 156). Case study research, which is based largely in the qualitative discipline, requires an intense analytical study.

It is important to note that universality is not the overall intention of this study, which focuses on two school districts in the State of Michigan and the impact of Proposal A upon these districts. Whereas the overview of the study notes the commonality of effect of Proposal A upon all school districts in Michigan, the intention of this particular case study is the impact of Proposal A from the viewpoint of two districts in northern, lower Michigan. As Mintzberg (1979) concisely stated, "The real business of case study is particularization, not generalization" (p. 8). This being the case, the focus of this study was on two selected school districts and the particular functions of each as related to Proposal A.

## **Data Collection Procedures**

The data necessary to the study were derived from school funding issues and the research questions. In data gathered in a qualitative study, certain issues may arise and concepts may change or take new shape. It is crucial to remain open to new courses of study as necessitated by the study of data. Data analysis was done simultaneously with data collection to better provide a flexible instrumentation. As Glesne and Peshkin (1992) stated, “Data analysis done simultaneously with data collection enables you to focus and shape the study as it proceeds” (p. 127). Reflection upon the data while gathering and organizing facilitates the search for meaning at each level of the process.

Because the course of the study is influenced by the data, the overall intention of this study was to access the best data sources for addressing the research questions. Pettigrew (1995) described data collection as being concerned with observation and verification. Gathering all pertinent data sources and discerning the best resources was the driving force behind data collection procedures for this case study.

Data gathering began in the preliminary activities of the research. During the construction of the historical narrative, data were necessary to formulate that portion of the study using historical pieces for verification. As the historical narrative unfolded, it was evident that certain data sources were necessary for the development of the case study. Historical research sought causes, effects, trends, or events that provided explanation for current situations or predict future situations or trends; thus, it was necessary to discern useful versus not useful data, while keeping in mind that the outcome should provide an explanation for the past and predictions for the future based on causal links.

The important data sought in this study included K-12 budget distributions by source, budget allocations by function, enrollment statistics, and historical documents concerning Proposal A, such as tax policy reform statistics, and so on. As the research developed, additional data were gathered to address initial questions and new questions as they emerged. As Stake (1995) pointed out, the best data are “those that best help us understand the case, whether typical or not” (p. 56). Useful data relative to the case study include the following:

- Governance decisions and activities related to Proposal A
- Budget distribution by source
- Budget allocation by function
- Core activities data for case study participants
- Environmental factors unique to Proposal A

### **Research Strategy**

Various strategies have been employed in the conduct of qualitative studies, including ethnographies, grounded theory, and narrative research. In this study, the strategies of case study and phenomenological research come closest to describing the process to conduct a policy analysis and impact analysis of Proposal A on two Michigan School Districts. Case studies explore programs or events in depth and employ a variety of data-collection methods over time. The phenomenological approach leads to an understanding of experience of specific groups or individuals and the search for patterns or themes that define the experience (Creswell, 2014). Although the school reforms initiated by Proposal A impacted all school districts in Michigan, this phenomenological study amassed a specific, detailed account of the impact of Proposal A in the two selected school districts in northern lower Michigan.

## **Research Instrumentation**

A case study was chosen as the means to conduct a policy analysis and impact analysis of Proposal A on two Michigan School Districts. Stake (1995) stated that a case study is: “the particularity and complexity of a single case, coming to understand its activities within important circumstances” (p. 11). The focus of this study was to explore the intricacies of the impact of Proposal A in two specific school districts, rather than the overall effect of the legislation in general. Qualitative research methods led to discovery of problematic areas as well as those of success, and application of the findings to better understand the status of the two participating school districts compared to others in the state. For the purpose of this case study, the methods of interview, historical research, observation, documentary review, and field research were employed.

**Interview.** As Stake (1995) stated, the purpose of interviewing is to formulate a description of an “episode, linkage, an explanation” (p.65). In the qualitative approach, interviews are instrumental to case studies as they may be used as the primary strategy for data collection or in conjunction with observation, document analysis, or other techniques (Bogdan & Biklen, 1994). “Interviews are an essential source of case study evidence because most case studies are about human affairs or actions” (Yin, 2014, p. 113). According to authors such as Rogers and Bouey (1996) and Patton (1990), qualitative interviews can be classified into three types: structured interviews, unstructured interviews, and semi-structured interviews.

The structured interview, or standardized interview, is not often employed during qualitative research because the researcher asks the interviewees the same questions in the same order, using the same words. Although the structured interview is thorough and

methodical, this level of standardizing is not associated with the more relaxed qualitative approach. Unstructured interviews are conducted in a less formal manner than the structured interview; there are no predetermined questions, and the interviewer and interviewee speak freely. These interviews are often used in conjunction with the observational method of data collection. Each question is used to generate further questions, as the interviewer and interviewee play off of the conversation in an informal manner.

The semi-structured, or guided interviews are a mixture of both structured and unstructured interviews, conducted in a format in which the interviewer uses prepared guides for informal questions, which help to progress the interview by probes generating further questions. This interview process is commonly used in the qualitative process. All three interview types are highly productive as tailored by each researcher. The three may be used in one case study, but generally one or two are chosen.

In this case study, interviews were conducted with K-12 public school superintendents, elected officials, State of Michigan and Michigan Department of Education personnel. This research specifically included interviews with the superintendents and former superintendents of the two districts that were the focus of this study, the business manager of the local intermediate school district, and the local school districts business managers. These individuals were selected because of their first-hand knowledge of the events following the passage of proposal A. They provided clarity on the impact of Proposal A for local school districts in Michigan.

Interviews were primarily unstructured to encourage interviewees to speak freely, generate their own conversations on the topic, and provide personal insight to the events leading to and following the institution of Proposal A. Interviews with key individuals

involved with the initiation and instrumentation of the 1994 school reforms to better grasp the correlation between governance, fiscal federalism and resource dependency theory. Key players were asked to respond to a series of case-specific questions to fill in gaps in information in the issue of Michigan school reform.

**Historical Research.** Historiography is the collection and evaluation of data related to past occurrences. A qualitative case study involving an occurrence of the past required extensive research and data gathered pertaining to events of a specific time period. Historical research seeks to find causes, effects, trends, or events that provide explanation for current situations or predict future situations or trends, and the factual findings cannot be manipulated. The main objective of historical research is the collection of pertinent, useful data. Written and oral historical data can be used in a qualitative study; written data may be in the form of legal documents, records, meeting minutes, correspondence, and so on. To establish the historical foundation of this case study, records pertinent to the environment and factors prior to, during, and post 1994 were closely examined.

Data pertaining to the history of educational funding in Michigan was found in resources such as local school board meeting minutes, local and state historical documents concerning the allocation of funding in the participating districts, newspaper accounts, which examined the same, state budget documents, which discussed the allocation of funds per district, and various other documents that discussed per pupil equity and fund allocation at the state and federal levels as they applied to the districts involved. This qualitative case study pursued understanding of the phenomenon of Michigan school reform, primarily 1994s Proposal A and why specific related events occurred. Historical data and documents related



to past occurrences led to understanding the causes, trends, and effects related to policy reform of proposal A.

**Documentary Review.** This case study included the examination of documents containing ratios of K-12 budget revenue by source with budget expenditures by function, and comparisons of K-12 budget expenditures by function to enrollment statistics in two districts in northern, lower Michigan, both prior to and following the reforms of 1994. Further, information about federal fiscal funds and state-generated funds and the allocation of these funds added much to the data in the research. Meaning was extrapolated from documents related to the setting in which the study was conducted. Findings were documented in graphs, spreadsheets, and charts. These visual materials helped to determine any commonalities and differences.

**Field Research/Observational Method.** Field research and observation require the researcher to go into the field to gather data and observe the phenomenon in its natural state. This method requires the researcher to keep extensive field notes, which will be analyzed and coded for analysis.

Although seemingly simplistic, Lofland (2006) explained that observational research is: “the most intimate and morally hazardous” form of social research (p. 7). The researcher must walk the line between intrusion and observation, while refraining from influencing and manipulating behavior during the study. These field notes provided a way of capturing data that the researcher collected from participant observations. The notes taken for this purpose included records of both formal and informal conversations and interviews with participants in the field, information garnered from observations, and records of activities. There were also a number of public sources available for review. These sources included committee

reports, Board of Education minutes, bills, research publications, proposed and current legislation and a variety of documents regarding school finance and Proposal A.

### **Data Analysis**

A contextualist approach to data analysis was based largely on Pettigrew's (1995) theories. Pettigrew considered contextual analysis to be an examination of “the reciprocal relations between processes and contexts at different levels of analysis” (p. 105). This process applied both inductive and deductive reasoning in a system in which all data is thoroughly reviewed and weighed by the deductive process, then inductive process, and again by the deductive process in the search for patterns, overall themes, and correlations between data.

As the data is collected it was filed in accordance to subcategories, such as fiscal federalism, state fund allocation data, governance, resource dependency, historical data, and so on. The large volume of data required a coding system to ensure validity and aid in reducing unnecessary data. In qualitative research, data analysis typically begins with identification of themes from raw data. This process of open coding described by Strauss and Corbin (2007) requires the researcher to first identify and then categorize the conceptual groups according to data. To better cohere the data, it is then drafted (from conceptual groups) into a story line that will be translatable by outside parties.

To allow some flexibility concerning the time frame, a system of overlapping data collection and analysis was incorporated into the filing system. Use of field notes regarding impressions, personal observations, relationships and ideas may lead to a change in categorization of data. According to Coffey and Atkinson (1996), “We should never collect data without substantial analysis going on simultaneously. Letting data accumulate without

preliminary analysis along the way is a recipe for unhappiness, if not total disaster” (p. 2). This advice is especially true of the unstructured interview, where analysis of data must occur immediately to progress the interview and produce new questions for the subject.

Pattern recognition and theme categorization led the researcher to deduct specific patterns and draw conclusions about the case study subjects’ organizational composition in regard to governance, fiscal federalism, and resource dependency theory as pertained to K-12 education in the State of Michigan and the effects of the Michigan school reforms of 1994.

### **Validity and Reliability**

The concepts of consistency and stability related to reliability, the expectation that findings remain constant with replication of the study, are minor considerations in a qualitative study. Validity in a qualitative study is related to concepts of authenticity, trustworthiness, credibility, and accuracy as determined by the researcher, the participants, or the recipients of the data (Creswell, 2014). The researcher is solely responsible for internal validity, as he is the only agent between what is being studied and what was intended to be studied. According to Irwin (1995), validity “lies in the correspondence between what is being measured and what was intended to be measured” (p. 177). Lincoln and Guba (1985) noted four main criteria to account for the validity of data in qualitative research.

1. Credibility – “refers to the researcher's ability to conduct the study in a manner that ensures that the participant is accurately identified and described” (LePage-Lees, 1997; pp.138-139).
2. Transferability– “refers to the applicability of the findings to other settings, contexts, and groups” (LePage-Lees, 1997; pp.138-139).

3. Dependability– “refers to the researcher's attempts to account for changing conditions in the phenomenon chosen for study as well as changes in the design created by an increasingly refined understanding of the setting” (LePage-Lees, 1997; pp.138-139).
4. Confirmability– confirming findings from data by means of checking with participants for accuracy.

Triangulation of data incorporated a variety of data collection methods, making a stronger research base for study and increased confidence in the validity of findings. Often, the “qualitative researcher draws on some combination of techniques to collect research data, rather than a single technique” (Glesne & Peshkin, 1992, p. 24); “Thus, any case study finding or conclusion is likely to be more convincing and accurate if it is based on several different sources of information, following a similar convergence” (Yin, 2014, p. 121). “Triangulation is not a tool or a strategy of validation but an alternative to validation.” (Flick, 2007, p. 227). According to Eisenhardt (1995), “The triangulation made possible by multiple data-collection methods provides stronger substantiation of constructs and hypotheses” (p.73).

In this study, the broad scope of data collection and extensive description of the environment in which the participating school districts experienced fiscal reforms in 1994 and beyond, helped to ensure validity of the findings (Creswell, 2014).

### **Preliminary Research Activity**

The relationships between the K-12 school system in Michigan and the policies instituted by Proposal A. was examined prior to conducting research for this study. The observations and data collected began the framework for preliminary research activity.

Two K-12 school districts in northern Lower Michigan were chosen as the participants of the study. The research focus of organizational change and the effects of policy institution as related to governance, fiscal federalism, and resource dependency theory emerged. A socio-political organizing framework was chosen.

A comparative case study method was selected as the most efficient means of studying the organizational process as it affected the two participating school districts. Preliminary data sources such as historical documents; local school board meeting minutes; newspaper accounts; state budget documents, which discussed the allocation of funds per district; and other documents relating to per-pupil equity and fund allocation at the state and federal levels were collected. The researcher had ready access to much data, which included historical narratives concerning the budget situation in Michigan prior to and post 1994.

After reviewing the options on data collection, a qualitative design was chosen as the means to achieve an understanding about the phenomena of experience in two Michigan School Districts before and after school finance reforms of Proposal A. With research instrumentation selected, the research task was concentrated on determining the causes, trends, and effects related to the study topic.

The pre-research activity narrowed the focus of the study to explore the three major components: fiscal federalism, governance, and resource dependency theory, which related to understanding the phenomena. The organizing conceptual framework for the study helped better focus the three components to be viewed as a whole unit for the purpose of understanding this particular phenomena. Focus questions and the organizing conceptual framework served as guides for the qualitative study. Research methods and direction of the study evolved in the work following, because, as Glesne and Peshkin (1992) observed: “In

the early stages of data collection, you may gain understandings of your topic that cause you to change your problem statement” (p. 17).

### **Summary**

This study of the impact of Proposal A on two Michigan school districts and the research questions that guided this study led to the use of qualitative research methods. The design utilized a comparative case study of the impact of Proposal A on two districts in Michigan, including data collection and analysis. The qualitative methods allowed the researcher to clarify the nature of relationships between the passage of Proposal A and how this affected the organizational structure of two districts in Michigan. Data collection included interviews, historical research, observations in the field and the review of documents. Data about how the two districts in Michigan were affected by the passage of Proposal A were analyzed within subcategories. Findings from the study and a discussion of the implications of the findings conclude the final chapters.

## **Chapter 4: Data**

The purpose of this study was to describe and explain the effects that Proposal A, the 1994 Michigan K-12 School Funding Reform legislation, had on two public K-12 school districts. Background information pertaining to Proposal A led to a better understanding of the impact of Proposal A on East Public Schools and West Public Schools. In 1993, the Michigan State Legislature eliminated local property taxes as the primary source of school operating funds. Following the elimination of approximately \$7 billion in school operating funds, several questions and concerns surfaced as elected officials sought a remedy for replacing the lost revenue (Lockwood, Haas, & Heideman, 2002).

In 1994, the State of Michigan passed legislation which changed tax policies and the manner in which public school funds would be distributed. These changes, known as Proposal A, culminated in part from the public outcry for a reduced burden on property taxes as the main source of school funding (Lockwood et al., 2002). The legislation also included a reduction in individual and corporate income tax rates. A new formula for distribution of state school funds was created, which examined district wealth against district needs. The derived funds were then distributed through a predetermined per-pupil amount.

In this chapter the research questions were addressed from the viewpoint of two northern Lower Michigan school districts. The primary question addresses the changes that occurred in the selected districts after the implementation of Proposal A in 1994. The anticipated and unanticipated consequences of Proposal A were specifically analyzed to determine how each district fared under Proposal A and how or if the management of the districts has changed since Proposal A took effect.

This study employed a contextualist mode of study, following the shift from deductive to inductive reasoning to best conclude the relationship between data and the impact of Proposal A. According to Pettigrew (1995), a data collection method is contextual when one “examine[s] the reciprocal relations between processes and contexts at different levels of analysis” (p. 105). The consequence moves from the deductive to inductive process and returns to the deductive process to look for patterns or themes before returning to the inductive process again.

The collection of information involved an in-depth process, which included gathering data and documents and conducting interviews. School finance information for the two selected northern Lower Michigan school districts, prior and post Proposal A, included enrollment numbers, foundation allowance, and other aspects of school funding. Documents from the Senate Fiscal Agency and the local education districts reflected historical data of each district's audit, enrollment, and allocated foundation allowance. In addition, each district's budget was obtained and reviewed in depth.

Qualitative data were gathered in interviews of current and past superintendents for both districts and local and ISD business managers. Yin (2011) described a process wherein “No questionnaire containing the complete list of questions [was] posed to a participant” (p. 134). The interview questions led to a conversational process, which was individualized for each participant, guided by the following:

1. What changes have occurred in your school district after the institution of Proposal A?
2. What were the anticipated consequences of Proposal A?
3. What were the unanticipated consequences of Proposal A?



4. How has your district fared under Proposal A?
5. How has Proposal A had an influence on governance? How has this been positive or negative?
6. How has the management of the school district changed since Proposal A took effect?
7. What are some concerns you have about Proposal A?

“This conversational mode, compared to structured interviews, presents the opportunity for two-way interactions, in which a participant even may query the researcher” (Yin, 2011, p. 134). The interviews were extensive and involved important discussions about the effects of Proposal A on school funding, especially relative to two northern Lower Michigan school districts. Additional open-ended questions and other unscripted questions explored the financial impacts in the school districts and management change due to Proposal A. The informal discussions encouraged the participants to express thoughts using their own words and not those of the researcher.

The deductive analysis began with comparisons of pre-Proposal A budgetary expenditures by function in the two districts in northern Lower Michigan. The focus was on expenditures per district as well as per pupil. The budgetary expenditures by function post-Proposal A were examined to identify correlations in figures pre- and post-Proposal A. The shift from deductive to inductive reasoning provided the framework for the basis of early hypotheses regarding correlations due to reform.

During the inductive analysis, the findings of pre- and post-Proposal A expenditures were cross-referenced with factors such as governance actions and historical environmental issues to identify commonalities and causal links.

Collected data was filed in accordance to pertinence. Subcategories included fiscal federalism, state fund allocation data, governance, resource dependency theory, and historical data. The large volume of data required a coding system to ensure validity and to aid in reducing unnecessary data to discern patterns and themes. In the qualitative research process, data analysis typically begins with identification of certain themes from raw data. This process of *open coding* requires identifying and then categorizing the conceptual groups according to data (Strauss and Corbin, 2007). Conceptual groups developed into a story line that was coherent and translatable by outside parties.

For flexibility and efficient use of time, a system of overlapping data collection and analysis to the filing system was incorporated. Coffey and Atkinson (1996) suggested that “We should never collect data without substantial analysis going on simultaneously. Letting data accumulate without preliminary analysis along the way is a recipe for unhappiness, if not total disaster (p. 2).” However, use of field notes regarding impressions, personal observations, relationships, and ideas may lead to a change in categorization of data.

### **What Did Proposal A Do?**

The school finance reform shifted the burden of school finance from local property taxes to the state sales tax and other levies. The state sales tax increased from four % to six % on the dollar. Large inequity existed in the way school districts across the State of Michigan were funded prior to Proposal A. "In FY 1994, the ten lowest-revenue school districts had weighted average per pupil revenues of \$3,476, while ten highest-revenue school districts had weighted average per pupil revenues of \$9,726, nearly three times more than the ten lowest-revenue school districts" (Lockwood et al., 2002, p. 35-36). Proposal A brought about reform in the way schools received funding. Initially, the foundation

allowance was set for the lowest spending districts at \$4,200 (Cullen & Loeb, 2004), and the maximum per pupil revenue was set initially at \$6,500 (Wicksall, 2013). While disparity still existed initially after the passage of Proposal A, one purpose of Proposal A was to reduce the inequity of funding for districts.

Prior to Proposal A, the gap in per pupil funding between the lowest and highest district was more than \$7,500 (Van Beek, 2010). More than 20 years after the passage of Proposal A, the inequity has lessened, but still exists. "Since the implementation of Proposal A, the spending gap has grown steadily smaller. Three-fourths of all school districts now receive the same per-pupil foundation allowance, while the remaining districts receive somewhat more" (Arsen & Plank, 2003, p. 4). In the "2009-2010 school year, 80 percent of all districts (including charter public schools) receive between \$7,100 and \$7400 per student through the foundation formula; 94 percent fall between \$7,100 and \$8,500" (Van Beek, 2010, p. 1). In 2014-2015, "84% of districts were at the \$7,251 (sum of foundation plus equity), 105 are between \$7,251 and \$8,099 and 6% receive more than \$8,099" (Summers, 2014, p. 4). Table 2 shows the history of change in foundation allowances.

Table 2

*Historical Foundation Levels with Increase/Decrease*

Fiscal Year	Minimum Foundation Allowance	Basic Foundation Allowance	State Maximum Foundation Allowance	Minimum Increase / Decrease
1994-1995	\$4,200	\$5,000	\$6,500	NA
1995-1996	\$4,506	\$5,153	\$6,653	\$306
1996-1997	\$4,816	\$5,308	\$6,808	\$310
1997-1998	\$5,124	\$5,462	\$6,962	\$308
1998-1999	\$5,170	\$5,462	\$6,962	\$46
1999-2000	\$5,700	\$5,700	\$7,200	\$530
2000-2001	\$6,000	\$6,000	\$7,500	\$300
2001-2002	\$6,500	\$6,500	\$7,800	\$500
2002-2003	\$6,700	\$6,700	\$8,000	\$400
2003-2004	\$6,700	\$6,700	\$8,000	\$0
2004-2005	\$6,700	\$6,700	\$8,000	\$0
2005-2006	\$6,875	\$6,875	\$8,175	\$175
2006-2007	\$7,108	\$7,108	\$8,385	\$233
2007-2008	\$7,204	\$8,433	\$8,433	\$96
2008-2009	\$7,316	\$8,489	\$8,489	\$112
2009-2010	\$7,316	\$8,489	\$8,489	\$0
2010-2011	\$7,316	\$8,489	\$8,489	\$0
2011-2012	\$6,846	\$8,019	\$8,019	-\$470
2012-2013	\$6,966	\$8,019	\$8,019	\$120
2013-2014	\$7,076	\$8,049	\$8,049	\$110

Source: House Fiscal Agency, September 6, 2013

**What Was the Initial Intent of Proposal A?**

“Proposal A was intended to solve the property tax problem and deal with equity,” according to the former state Senator and co-sponsor of Proposal A, Dan Degrow (D. Degrow, personal communication, January 20, 2011).

“Proposal A was drafted, in my opinion, for two primary purposes. The first purpose was to reduce the reliance on property taxes that Michigan had created for itself over time, and the second issue was to create a fairer distribution of revenue for the various school districts in Michigan” (Author of Proposal A, and former State Treasurer, Doug Roberts). (D. Roberts, personal communication, December 15, 1998).

Proposal A really did two things, it was aimed at lessening the differences between the wealthy and the less wealthy districts with the idea that more even distribution of resources would provide a fairer level of educational opportunities for children, which is the important thing; but it also was one of the most significant tax reform proposals that we've seen in this country in the last twenty years or so, because it changed the distribution of taxes away from property tax and more toward consumption tax/sales tax (Clay, Citizens Research Council, 2006). The language of the ballot proposal was as follows:

A proposal to increase the state sales and use tax rates from 4% to 6%, limit annual increases in property tax assessments, exempt school operating millages from uniform taxation requirement and require 3/4 vote of Legislature to exceed statutorily established school operating millage rates. The proposed constitutional amendment would:

1. Limit annual assessment increase for each property parcel to 5% or inflation rate, whichever is less. When property is sold or transferred, adjust assessment to current value.
2. Increase the sales/use tax. Dedicate additional revenue to schools.
3. Exempt school operating millages from uniform taxation requirement.
4. Require 3/4 vote of Legislature to exceed school operating millage rates.

5. Activate laws raising additional school revenues through taxation including partial restoration of property tax.
6. Nullify alternative laws raising school revenues through taxation, including an increase income tax, personal exemption increase, and partial restoration of property taxes.

Should this proposal be adopted? Yes\_\_\_ No\_\_\_

(Proposal A – Michigan Property and Sales Taxes – Adopted March 15, 1994

*<http://www.educ.msu.edu/epfp/meet/01-26-04propa.htm>)*

Table 3 shows the change in revenue sources prior to and after Proposal A.

Table 3

*Revenue Sources for K-12 Education Before and After Reform*

<b>Tax</b>	<b>Prior to Reform</b>	<b>Proposal A</b>
Sales Tax	60 % of proceeds from the 4% rate	60% from the 4% rate and 100% from the 2 percentage point increase
Use Tax		All revenue from the 2 percentage point increase
Income Tax		14.4% of collections from the 4.4% rate (down from 4.6%)
Real Estate Transfer Tax		All revenue from the 0.75% tax
Cigarette Tax (per pack)	\$0.02 of the \$0.25 tax	63.4% of proceeds from the \$0.75% tax
Other Tobacco Products		Proceeds of the 16% tax (on wholesale price)
Liquor Excise Tax	Revenue from the 4% tax	Revenue from the 4% tax
Lottery	Net revenue	Net revenue
State Tax on All Property		6 mills
Local Homestead Property Tax	34 mills (average)	0 mills
Local Non-homestead Property Tax	34 mills (average)	18 mills

*Source: Adapted from Michigan House and Senate Fiscal Agencies, 1994*

## **Overview of Selected Districts in Northern Lower Michigan**

**West Public Schools.** Superintendent Jones described West Public Schools as a small, rural district with approximately 1,050 students in northern Lower Michigan. The town of approximately 3,000 residents, in which the school district is located, is a resort community bordered by the Great Lakes shoreline.

West district comprises a kindergarten through sixth grade elementary building and a seventh through twelfth grade high school/middle school building. The school district also operates an alternative education program. The school district offers opportunities and programs for students; included offerings are advanced placement (AP) honors classes, vocational education, fine arts, visual arts, performing arts, and 17 varsity sports, with a broad offering of junior varsity, freshman, and middle school athletics. The elementary students have the opportunity to experience fine arts, visual arts, and performing arts on a regular basis.

Over several years, the landscape of the community and the type of students has dramatically changed. West has experienced declining enrollment of approximately 24 %, over the last 12 years, an increase in special needs students, and a larger population of at-risk students. The declining enrollment is a direct reflection of the lack of available employment opportunities in the area due to loss of a few large employers. Declining enrollment at West Public Schools can also be attributed to the opening of a charter school within the city limits, according to Superintendent Smith (R. Jones, personal communication, December 18, 2014).

The school district shows student performance, above the state average in math and reading, at most grade levels, as measured by MEAP, MME, and ACT. ([mischooldata.org](http://mischooldata.org),



2015). The district has an operating budget of nearly \$11 million dollars. The current budget shows revenues of \$10,526,542 and expenditures of \$10,957,770. West Public Schools' assigned foundation allowance for the 2014-2015 school year is \$8,046, according to the school district's transparency report located on its website.

**East Public Schools.** Current Superintendent Martin of East Public Schools described East as a district that serves approximately 1,300 students. The district's central campus comprises a high school that houses grades 8 through 12, a middle school with grades 5 through 8; and an elementary school with grades K through 4. In addition, the school operates an Early Childhood Education Center and two alternative programs at another site.

East Public Schools is a close-knit, family-oriented school district located in northern Lower Michigan. The school district is the pride of the community with strong support for its students, staff, facilities, and co-curricular activities. The city has a waterfront recreation area of more than 11 acres, a strong commitment to preserving its past, and a healthy civic-minded population of approximately 3,500.

The school district shows student performance above the state average in math and reading, as measured by MEAP and slightly below the state average on the ACT and MME. (mischooldata.org, 2015). Each building in the district provides specific programs to ensure that students reach their full potential. Some of the programs and staff are funded with at-risk funds under section 31a of the state school aid act, Title I, and Title IX.

East has experienced very small declining enrollment of approximately 0.3 % over the last 12 years, an increase in special needs students, and a larger population of at-risk students. The district has an operating budget of approximately \$13 million dollars. The

current budget shows revenues of \$12,687,070 and expenditures of \$13,069,550. East Public Schools' assigned foundation allowance for the 2014-2015 school year is \$7,243, according to the school district's transparency report on its website.

### **Inequity in the Foundation Allowance**

Proposal A helped to reduce the inequity in the foundation allowance throughout the state; however, according to the superintendents at both East Public Schools and West Public Schools, although reduced, this inequity still exists. Indeed, one way that Proposal A reduced the inequity among districts across the state created additional issues for districts such as East Public Schools and West Public Schools. The districts which received the smallest foundation allowances at times received double payments to reduce the inequity between the lowest and highest foundation allowances across the state. Under Proposal A, districts such as East Public Schools and West Public Schools did not receive these double payments, which created other issues, because, for many years, the minimal increases in Proposal A did not even meet inflation, according to local school's Intermediate School District's Business Manager Cook. Therefore, even in good years, both districts barely held their own financially.

### **Governance and Local Control**

**Budget Process.** “The budget-building process for school districts became much more difficult after the passage of Proposal A, as districts were forced to rely on the State for the State Aid/Budget,” according to East Public Schools Superintendent Martin, who further explained that prior to Proposal A, districts relied on taxable property value to determine their revenue and build a budget (P. Martin, personal communication, February 10, 2014). This process was usually finalized in May for school board approval in June. At this time,

districts were subject to state legislators approving a state school budget. Many times, that process was not resolved until October or November, which is after the local district deadline for approving a budget and up to two months into a district's school year, well after the June 30 deadline for districts to have their budget board approved. Districts were five months into their fiscal year at that time.

West Public Schools' Superintendent Jones agreed with the difficulty of this process and further explained that the "reliance on the State budget process also makes it extremely difficult, if not impossible, for districts to meet contractual obligations they may have such as layoff notices and unnecessary unemployment costs." (R. Jones, personal communication, February 10, 2014).

During interview discussions, the local school's intermediate school district's business manager explained that during the administration of Governor John Engler, two state aid payments to schools were deferred until July and August, which was after the conclusion of the school year. "This action which was initiated to help the state's cash flow issue created situations where East and West School Districts not only lost revenue by not being able to collect interest on money allocated during the school year, but they were also forced to borrow money to bridge the time between summer tax collection (Cook, 2015)," another indirect yet unanticipated consequence of Proposal A. (J. Cook, personal communication, May 5, 2015).

The State Education Tax created within Proposal A is another area in which both districts have been negatively impacted. The six mills collected and sent directly to the state from *homestead* and *non-homestead* property taxes was a larger amount than the state

contributed to each district, according to Intermediate School District's Business Manager, Cook.

***Local budgets.*** Control of monies for all public schools shifted to the state as a result of Proposal A. "Before Proposal A, 80 percent of Michigan school operating funds came from local property taxes" (Van Beek, 2010, p. 1). Local property taxes as a source of revenue decreased significantly for both East Public Schools and West Public Schools as a result of the passage of Proposal A. According to the 1995 audit for East Public Schools, in 1994 the district received \$6,604,030 in property tax revenue, and in 1995, after the passage of Proposal A, \$2,671,681. West Public Schools, according to the 1995 audit, showed their property tax revenues were \$8,241,244 before Proposal A, and after the passage of Proposal A, these revenues in 1995 were \$4,750,710.

Budgets for both East Public Schools and West Public Schools indicated reductions across all functions after the passage of Proposal A. School districts had built capacity and long-range planning models around future tax revenues. The lower funding stream created by Proposal A was not sufficient to maintain their contractual obligations, according to former Superintendents Smith and Davis of East and West Public Schools. These reductions had a direct impact on several areas. The reductions in personnel not only affected the individual employees but also changed the manner in which the districts operated. Smith and Davis both discussed how academic and extra-curricular activities were impacted. Furthermore, course offerings were reduced and class sizes were increased as a result of necessary reductions. Former Superintendent Davis of East Public Schools discussed the drastic reductions made; student support services were reduced, as personnel and programs were eliminated. Other specific reductions included the elimination or reduction of

programs, including the school store, which was part of the marketing class; a welding class, an advanced physical education section, reduction of middle school art, and reduction of both elementary computers and music. Further, cost savings included replacement of the counseling position at the elementary school with a social worker; reducing the nurse's position and the media center specialists (librarians); eliminating eight paraprofessional positions and curriculum directors; and assigning responsibilities of the athletic director to the existing assistant principal. Superintendent Davis further explained that class sizes increased in several areas due to fewer classes being offered. The Responsible Thinking Program was eliminated, which shifted and increased responsibilities to administrators. Teachers and administrators were required to take on many of the tasks previously performed by the eliminated personnel.

Former West Public Schools Superintendent Smith shared similar reductions as a result of the change in the funding stream and the implementation of Proposal A, including elimination of the curriculum director position, a high school counselor, senior seminar class, media classes, and the reduction of the middle school counselor and foreign languages. Smith also shared concerns about the increase in class sizes at the high school level due to the reduction in so many class offerings.

The drastic reductions at East Public Schools not only resulted in lost services but also resulted in significant changes in the management and leadership of buildings and districts. Both East Public Schools and West Public Schools were forced to look for alternative answers for managing the district and building operations. Both East and West consolidated their business services, according to the local school's Intermediate School District's Business Manager Cook. In addition, privatizing of services became a mechanism

for reducing costs and maintaining services. Transportation, and custodial and maintenance operations were privatized across the state. “Although the move to privatization of either of these services has not occurred at East or West Public Schools, they have been considered at both districts as an option to potentially save the district money” (J. Cook, personal communication, April 14, 2015).

The privatization of services greatly strained and indirectly collapsed the retirement system as fewer payroll dollars were going into the retirement system. This resulted in retirement rates drastically increasing from 12% to 34% (J. Cook, personal communication, April 14, 2015). The increasing retirement rates were an unanticipated consequence, as a short-term fix became a long-term problem (J. Cook, personal communication, April 14, 2015), putting additional strain on district budgets across the State of Michigan. Figure 1 shows change in the percentages of payroll contributions for pension and health benefits as a consequence of the passage of Proposal A.

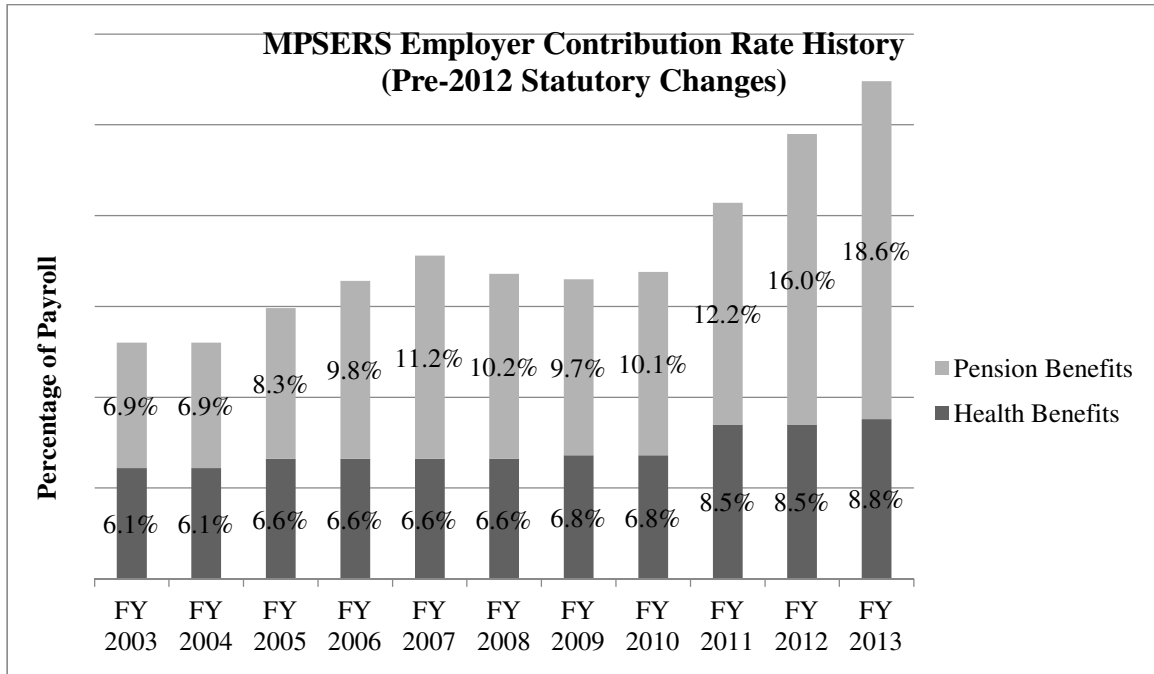


Figure 1. MPSERS Employer Contribution Rate History. Source: House Fiscal Agency Legislative Briefing, April 2013

Figure 2 shows “that MPSERS payroll decreased from \$10.0 billion in FY 2002-03 to \$9.2 billion in FY 2010-11. In FY 2002-03, payroll was projected to grow to \$13.2 billion in FY 2010-11 under actuarial assumptions. Thus, the current payroll is 31% lower than was projected in FY 2002-03” (Cleary, 2013, p. 15).

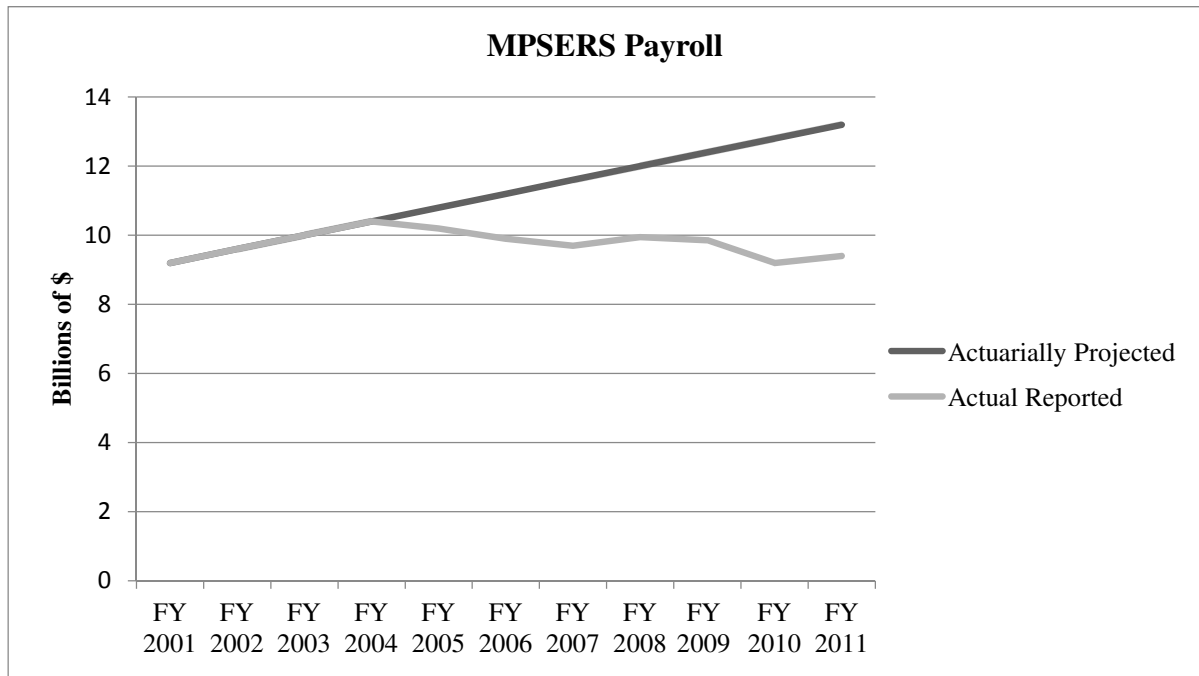


Figure 21. MPSERS Payroll. Source: Cleary, 2013, p. 15

**Negotiations.** Prior to Proposal A, especially in the 1980s, both East Public Schools and West Public Schools negotiated sizable salary increases for employees. Some of the contractual salary increases were in double-digits, according to the local school's Intermediate School District's Business Manager, Cook. East and West Public Schools found that they could no longer continue to support those contractual obligations (D. Davis, personal communication, March 22, 2013; J. Smith, personal communication, December 22, 2014). According to personal communications with former superintendents Davis (March 22, 2013) and Smith (December 22, 2014), negotiations became adversarial and, at times, came to an impasse as districts sought concessions on salary and benefit costs. Salary and step increases were frozen in both East and West Public Schools.

**Capital funding projects.** One area over which districts did not lose local control was the ability to fund capital projects through local millages. “The overall tight limits on local district revenue enhancement that were part of Proposal A, while working for taxpayers, have



meant that local school districts have fewer options available to them to increase local revenues” (Addonizio & Drake, 2005, p. 1). This was an anticipated consequence of Proposal A.

One impact of Proposal A on both districts was shown in the passage of capital project funding in both West Public Schools and East Public Schools. The ability to pass these additional millages was easier after the passage of Proposal A because property tax values dropped so significantly. The superintendents in each district indicated that the success of the millages could be attributed in part to voters’ willingness to support schools because Proposal A had reduced their property taxes. Initially, according to the West Public Schools Superintendent, the district attempted two millages in 1996, one for \$17,995,000 and one for \$3,080,000; both failed by margins of approximately two to one. Finally, in October 1999, the millage for West Public School, which included building, furnishing, and equipping a new high school building; an addition to the elementary school; acquiring and installing educational technology improvements; partially remodeling, refurnishing and re-equipping school buildings; acquiring and improving a playground, athletic, and outdoor physical education fields and sites; passed by a narrow margin of 1,440 to 1,340 for \$18,825,000. The superintendent attributed the failure of the first two millages soon after Proposal A went into effect to the fact that voters did not know how much money they would be saving on property taxes.

East Public Schools, like West Public Schools initially sought several millages that were defeated. A building project millage, attempted after the passage of Proposal A began in May 1997 for \$18,960,000, failed by a narrow margin. Two more attempts, one millage for the amount of \$830,000 and another for \$19,965,000, failed as well. Finally, however,

East Public Schools was successful. In September 1999, approximately four years after the implementation of Proposal A, East Public Schools passed a millage to erect, furnish, and equip a new high school; remodel, refurnish, and re-equip existing school buildings; and develop and improve athletic and outdoor physical education fields and sites. This millage passed by a vote of 1,293 to 1,060 for \$18,815,000.

According to Superintendent Martin of East Public Schools, although millage increase campaigns were allowed before the passage of Proposal A, they often failed as a result of already high property taxes. Eventually, the downturn in the economy created more tension in the passage of additional millages. This was an unanticipated effect of Proposal A. According to Superintendent Jones, of West Public Schools, millages became increasingly difficult to pass, even ten years after the passage of Proposal A due to the downturn of the economy.

Proposal A forced districts to be much more cognizant of the passage of bonds and millages. These avenues for funding became more of a necessity to ensure educational projects would continue to be supportive. This situation is especially true at East Public Schools where a technology millage was originally supported by voters, but continued support for technology for students depends solely on the community to pass a millage. “Continuing to pass a millage for technology has become increasingly difficult,” according to the East Public Schools Superintendent Martin. (P. Martin, personal communication, February 10, 2015). “Under Proposal A, school districts across Michigan have not had to experience the uncertainty of the potential loss of a major portion of their revenues due to the failure of local voters to renew expiring millages” (Addonizio & Drake, 2005, p. 1).

Prior to Proposal A, the majority of the expense of capital improvements was covered by a district's operating budget because revenues were linked to property values, which were on the rise. Funding was more plentiful. Prior to Proposal A, districts did not have to worry about passing bonds or sinking funds, as the necessary funds could be supplied from a districts' general fund. Passage of Proposal A impacted the district's limited funds, forcing them to pursue bonds and sinking funds to pay for some capital improvements. There are many drawbacks to a district pursuing bonds and sinking funds, including more limitations on how monies could be spent, associated costs for the elections, and the risk that these issues may not be approved by the voters. Districts that could no longer fund many projects with their shrinking budgets due to Proposal A needed to rely on the support of communities.

### **Change in Property Taxes Affects Local Districts**

Proposal A changed the ways schools were funded, which took the burden off of local taxpayers. "The finance reforms introduced with Proposal A transferred the bulk of responsibility for financing local schools from local voters to the state, and in the process also imposed tight limits on local revenue supplementation" (Addonizio & Drake, 2005, p. 21). Former East Public School Superintendent Davis believed that although property taxes were reduced, communities lost local control to vote in additional funding for operating millages. Davis stated, "This did not allow the local community to support the operating revenue and programs that needed to be cut as a result of the lack of funding." Davis further explained, "If the communities were still allowed to pass millages to support operation, as districts could do prior to Proposal A, then the East Public Schools would not have had to cut programs as their community support was very strong." (D. Davis, personal communication, March 22, 2013).

West Public Schools' Superintendent also believed that although local property taxes were reduced, the community would support operating millages to allow a building to remain open. Both East and West Public Schools Superintendents Martin and Jones believed that because they were *small town schools*, they would have received community financial support to avoid making reductions.

A further consequence was revealed, as revenues prior to Proposal A exceeded the base per-pupil foundation allowance amounts that Proposal A established, according to the local school's Intermediate School District's Business Manager Cook. "Proposal A actually reduced the amount of money both East and West Public Schools received while eliminating the opportunity to reach out for additional local funding to operate existing programs the community wanted and expected." (J. Cook, personal communication, April 14, 2015).

During the ten-year period prior to the implementation of Proposal A, districts could hire new staff members, as revenue was greater than after the passage of Proposal A, according to the local school's Intermediate School District's Business Manager Cook. These positions included teachers, paraprofessionals, clerical, and, administrative personnel. Districts also allocated large amounts of money to curriculum development and professional development for staff. Many staff members in both East and West Public Schools could participate in out-of-state conferences and other opportunities according to former Superintendents Davis and Smith.

### **Declining Enrollment**

Both East Public Schools and West Public Schools were negatively impacted by the State Foundation Grant versus the previous property tax reliance for funding schools, according to the local school's Intermediate School District's Business Manager Cook. He

further explained that in the subsequent years following the passage and implementation of Proposal A, both districts experienced stifled growth in revenues. That same period saw double-digit growth in property taxable value in these communities. Increases of 12% occurred in both school districts, far surpassing the percentage of increases in student foundation growth.

West Public Schools, according to former Superintendent Smith, experienced declining enrollment due to the charter school movement and Schools of Choice legislation. Under Proposal A, declining enrollment is very costly because the foundation amount is based on a per pupil calculation. “Prior to Proposal A, this same decline in enrollment would not have had the same financial impact. The property tax method of funding schools would have provided more revenue,” Superintendent Smith explained. (J. Smith, personal communication, December 22, 2014). He further explained that the district would have benefited from higher revenue regardless of the drop in enrollment during the periods of increasing property tax values.

The issue of declining enrollment, a devastating problem as a result of Proposal A, has affected many districts throughout the State of Michigan. “The adoption of charter-school and schools-of-choice policies has meant that many local school districts have had to confront significant enrollment losses that directly translated into revenue losses” (Addonizio & Drake, 2005, p. 1). West Public Schools’ enrollment dropped by approximately 300 students over the past ten years, according to the Intermediate School District’s Pupil Accounting Auditor Larson. Figure 3 shows the patterns of decline in enrollment in West Public Schools over the past ten years. This, according to Superintendent Jones, has had a direct impact on the financing for the district. Superintendent Jones explained, “Our funding

is tied directly to our enrollment. As our enrollment decreases across the K-12 continuum, it makes it difficult to make reductions without significantly affecting the quality of our programs.” (R. Jones, personal communication, December 18, 2014). West Public Schools was impacted by the Schools of Choice legislation and the start of charter schools (1996-97 School Aid Act, P.A. 300 of 1996).

The decline in enrollment, attributed to the combination of factors, eventually forced West Public Schools to close a sixth-through-eighth-grade building. This closure led to building grade-level restructuring, creating a kindergarten through sixth-grade building and a seventh-through-twelfth-grade-middle and high school building.

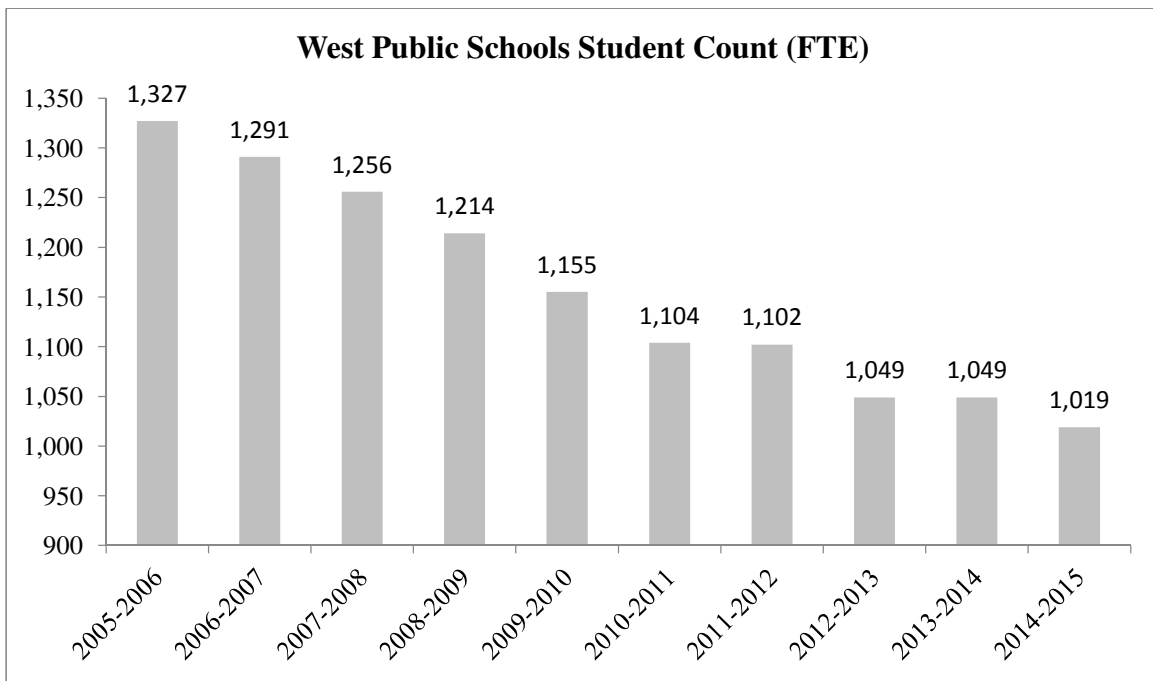


Figure 3. Full-time Equated Enrollment of West Public Schools by Date.  
 Source: Pupil Accounting Auditor, Local Schools Intermediate School District, 2015

East Public Schools did not see a significant overall drop in enrollment. East Public Schools was impacted by the passage of charter school legislation in 1993 as a K-8 charter school was constructed in 1995 within the boundaries of East Public Schools. According to

Superintendent Davis at the time, East Public Schools lost approximately 15 % of its student population to the charter school at the time of its opening. Superintendent Davis also mentioned that East Public Schools was fortunate enough to gain students from other locales through schools of choice, which helped to reduce the impact of the student loss (See Figure 4).

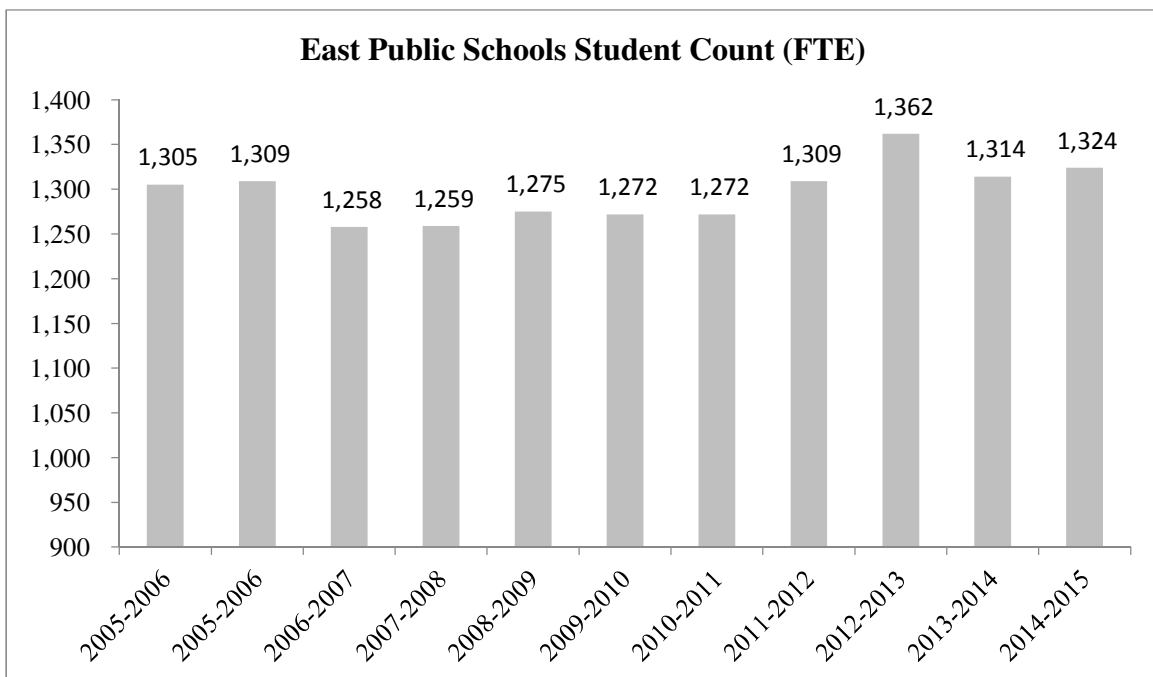


Figure 4. Full-time Equated Enrollment of East Public Schools by Date.

Source: Pupil Accounting Auditor, Local Schools Intermediate School District, 2015

### General Funding

Funding for local school districts may be a problem with or without Proposal A. The current East Public Schools superintendent attributed part of his funding issues to an aging and more expensive staff, a circumstance likely to have been an issue even without the passage of Proposal A. He also attributed part of their funding issues and low fund balance to former superintendents and school boards who did not support making necessary reductions to avoid the financially distressed position. The former West Public Schools

superintendent agreed, in some part, that he often did not receive school board support when reductions were recommended until drastic reductions, such as closing a building, were necessary to stay fiscally responsible.

Previous superintendents of East and West Public Schools Smith and Davis, said that in earlier times the districts were in a position to address staff and community desires because their finances were more plentiful. This helped to keep communities and stakeholders content and supportive of their schools. Decisions became tougher as finances have become scarcer; this created more tension among stakeholders of the community. “After the passage of Proposal A, money became more limited and was not available to pacify stakeholders as it had been done prior to Proposal A, which made it more difficult to meet stakeholders’ and personal interest groups’ expectations,” according to former West Public Schools Board of Education President Harris. (D. Harris, personal communication, January 11, 2014). This issue is evidence of how district decision-making and governance changed as a result of Proposal A.

### **Summary**

The two districts who were the subjects of this study changed dramatically after Proposal A became law. Prior to Proposal A, the districts relied primarily on local funding and support. Since implementation of Proposal A, the districts are dependent on the state for funding and support. Proposal A changed the financial landscape of the districts and substantially impacted enrollment, facilities, programs, staff, and governance in each district.



## **Chapter 5: Conclusions and Discussion**

Most opponents and proponents of public education agree that changes to Michigan school finance in Proposal A transformed the state's public school system (Arsen & Plank, 2003). Although Proposal A did resolve some previous issues with school funding, over the past 20 years, many unanticipated issues surfaced as a result of the legislation. Out-of-control property taxes were alleviated with the implementation of Proposal A; the inequity of school funding across the State of Michigan was also reduced but not eliminated. However, other issues still need to be addressed, such as the loss of local control, equalization of the debt millage, the continued inequity in the foundation allowance, and declining enrollment tied to funding.

### **Property Taxes**

Property taxes were reduced significantly for homeowners as a result of Proposal A. Prior to enactment, Michigan property taxes were 34.4 % above the national average. Since passage of Proposal A, property taxes are 14.8 percent below the national average, which means that the average homeowner in Michigan pays approximately \$2,000 less in property taxes per year. In the first ten years after the passage of Proposal A, the average millage rate on Michigan homes was reduced by 4.4 % between 1993 and 2002 (Arsen & Plank, 2003). “Heavy reliance on the local property tax had driven rates sky high in many districts, while in other districts the taxpayer enjoyed relatively low rates” (Addonizio, Kearney, & Prince, 1995, p. 236). The reduction in property taxes was a huge relief for homeowners in Michigan. At the same time, the local property tax reductions had some divergent implications for school districts.

## **Governance and Local Control**

The reduction in property taxes was a benefit for homeowners, but after the passage of Proposal A, school districts' inability to raise local operating cost revenues became an issue. East and West Public School leaders said that they believed their communities would have supported additional millage to avoid reductions and maintain programs in their districts. Prior to Proposal A, voters in local districts could approve additional millage for school funding. Essentially, the more mills a district could levy the more revenue per pupil it was able to generate. The first three years after the passage of Proposal A, some districts could adopt local property tax levy up to three mills to supplement state spending (Mattoon, 2003). When this option was no longer available, tension developed in high-spending districts.

Proposal A accounts for an unprecedented shift of power away from local communities to Michigan's legislators. The effects on the loss of local control for school and community leaders had many implications for school districts. Historically, local educators and citizens played the key roles in making educational decisions in their communities; with enactment of Proposal A, those decisions were more often made by state legislators. School leaders struggled with losing local control as local funding sources were essentially eliminated and local schools were completely reliant on the state for funding.

“At the state level, K-12 education has to compete with many other funding areas” (Cullen & Loeb, 2004, p. 16). “The substitution of local control by state-mandated spending may lead to a decline in average school expenditures in the state as a whole” (Roy, 2003, p. 29). Hoxby (1996, 2001) argued that finance programs that tamper with local control over spending are harmful for school productivity and decrease support for overall school

spending. Matoon (2004) acknowledged that, in general, the slowdown in state revenue sources made increases in the foundation grant more difficult.

One basic policy question that has sparked the greatest debate to help resolve the issues with Proposal A is whether local districts should be given the right to raise additional revenue locally or to have more local control. Some people believe the greater issue here is one of governance and resource dependency. They argue that, as a result of Proposal A, local districts have lost all control over the amount of money available to operate their schools. Public schools should be controlled locally, not by the state. Erosion of local control undermines the values a community may have for its schools. If a community wants to raise taxes on itself, why should the state be concerned? Low, middle, and high revenue districts could all benefit from this restoration of local control.

Conversely, some concerns about moving back in the direction of districts having local control suggest that restoration of local control could be the beginning of increased property taxes across the state. This, of course, would be in total opposition to one of the main goals of Proposal A. Further, some argue that only wealthy districts benefit from return to local control, thus widening the spending gap between lower and higher revenue districts.

### **Debt Millage**

Another concern and possible change to Proposal A would include equalizing debt millage across the state. Proposal A did not recognize or address the inequities in the debt millage from one district to another and offered no provision for equalizing debt millage among school districts. Proposal A was never intended to address funding school infrastructure. Although this is a critical problem, it needs to be handled independently from any changes made to Proposal A. Moreover, Proposal A “limited the rate by which the base

of the property tax (values) could increase” (Drake, 2014, p. 32), which also limits revenues generated by property taxes. Low property value districts are currently at a disadvantage, as more mills in lower property value districts are required to generate the same dollar value as the same number of mills in higher property value districts. As an alternative, the state could subsidize the difference in costs for low revenue districts.

Another proposed solution to the capital needs problem would base the amount each district receives from levying debt mills on the average intermediate school district (ISD) property value per pupil. This would benefit the lower revenue districts. It could be of some benefit to middle revenue districts as well. Wealthier districts would be forced to share revenue with other districts. Equalizing debt millage would allow districts to generate equal amounts of revenue for each mill approved.

Capital funding is one of the few issues left to local control. Many communities have gone to the polls and supported school construction since the implementation of Proposal A (Addonizio, & Drake, 2005). Reduced property taxes have made it much easier for some communities to support these issues, as evidenced in East and West Public Schools. This increase in capital spending has not benefited all districts. In some instances it has widened the distance between districts with adequate facilities and those without them. It has been suggested that low property wealth districts need some form of subsidization for capital costs; however, this assistance needs to remain outside the parameters of Proposal A. If the state bails out districts now, what happens to those districts that have already raised taxes for renovation and/or new construction?

The general recession of state revenue sources means there is less money to fund everything. “From a financial point of view, the recent slowdown in state revenue sources

has made increases in the basic foundation grant level more difficult” (Matoon, 2004, p. 1). “In fiscal year 2003, a revenue shortfall in the SAF [School Aid Fund] produced the first reductions in foundation support for Michigan school districts since Proposal A was approved in 1994” (Arsen & Plank, 2003, p. 16). Often, money is transferred from the school aid fund to assist with funding in areas other than K-12 education.

### **Economic Downturn**

Stability of the system of school funding under Proposal A during an economic downturn has been questioned by many. "State revenue declined sharply during the recession. But instead of addressing budget shortfalls by taking a balanced budget approach that includes new revenues, Michigan relied very heavily on cuts to state services, including education" (Putnam, 2013, p. 1). Education revenues in Michigan have not kept up with rising operating costs, and districts across the state have cut programs and services. “School funding is now more directly tied to economic conditions through the shift from the property tax to the sales tax. The instability of the sales tax combined with the indexing of the school aid formula to state taxes may become a problem for local districts that have no flexibility to raise additional funds” (Cullen & Loeb, 2004, p. 17). “Schools rely on state sales taxes, putting them at the mercy of a state economy that has seen tremendous upheaval since the 1990s” (Dawsey, 2014, p. 2). The recession has meant less money for schools.

### **Inequity in the Foundation Allowance**

In theory, Proposal A was supposed to narrow the gap between the lowest- and the highest-funded districts. Revenues across districts have been somewhat equalized by increasing the revenues for the lowest-spending districts (Cullen & Loeb, 2004). At the same time, the highest-spending districts have seen a smaller increase or no increase in funding.

“While the gap is narrower in terms of per pupil spending between the richest and poorest districts, that gap still exists, although the floor for the poorest has increased substantially” (Drake, 2014, p. 32).

Proposal A has affected different districts in different ways. The reform generated large increases in per-pupil revenue in more than 300 school districts, particularly low revenue districts. Three-fourths of all school districts now receive the same per-pupil foundation allowance. Several studies such as the one conducted by The Education Policy Center at Michigan State University confirmed that school spending in Michigan increased in the years immediately following the adoption of Proposal A. The legislation has also significantly reduced property taxes. However, most low-income suburban districts and central city districts are not as well off under Proposal A, because of the combination of slow growth in their per-pupil foundation allowance and declining enrollments.

### **Declining Enrollment**

Declining enrollment’s effect on funding for Michigan schools was an unanticipated consequence of Proposal A. Tying school funding to student enrollment was the basic principle behind Proposal A, and “It worked for a short period of time” (Drake, 2014, p. 32). Initially, no provision helped districts experiencing declining enrollment, which diminished services to students in these districts because revenues did not keep up with rapidly rising costs. Declining enrollment, which resulted in the loss of revenue at West Public Schools, clearly depicted this issue. “Michigan's school-age population overall is declining – and in business terms, education, especially K-12 is a high fixed cost business” (Drake, 2014, p. 32). “Michigan has seen overall declining enrollments from a high of 1,714,867 students in 2003, to a current 1,523,300, a decline of 11% over ten years” (Citizen Research Council,

2015, p. 2). “Two-thirds of all school districts are experiencing declining enrollment” (Geier, 2014, p. 261).

Enrollment change is generally affected by multiple issues. Under Proposal A, declining enrollment has been difficult to address. Proposal A provides additional resources when enrollment goes up in a district, but it is very difficult for districts with declining enrollment to keep up with rising costs. It is important to identify the reasons for declining enrollment. Districts are generally thought to be in one of two types of decline. Some experience declining enrollment because of *choice* issues, in which parents choose a local school of choice option or send their child to a charter school or academy. A second type of declining enrollment occurs in a district faced with demographic or economic decline. Support for helping districts facing the demographically-driven decline in enrollment is apparent; however, districts where the declining enrollment is due to parental choice do not have significant support.

School districts with declining enrollment may face various financial challenges. “K-12 education is built upon a structure with high fixed costs: the K-12 education ‘industry’ does not control the input of raw materials (pupils); it is limited in productivity by the need to limit the number of ‘customers’ (pupils) per employee (teacher) to a class size that is manageable” (Drake, 2014, p. 32). As pupil enrollment declines under Proposal A in Michigan, so do revenues for a school district. The per-pupil foundation allowance or the amount of money a district receives per pupil stays the same even if districts decline in enrollment, resulting in less revenue overall for districts. Generally, however, the expenses of the district initially do not decrease. West Public Schools addressed this issue, in part, by closing a building. “Many costs such as facility maintenance and utilities are fixed, and

programs must continue until the existing structure can be reorganized to adjust to these shrinking populations” (Cullen & Loeb, 2004, p. 16).

Year-to-year fluctuations can make determining programs difficult because staff is hired and/or retained based on student enrollment. The passage of Proposal A, which directly ties the costs of staff and program to enrollment, allows little flexibility. The decline in student enrollment must be large enough at one grade level or in one subject area to allow a district to make reductions in staff and eliminate a classroom. If pupil numbers decrease across the K-12 levels, the reduction of teachers occurs at a much slower rate. “In the real world, enrollment declines from year-to-year are spread across each grade level, making down-sizing even more difficult of a management issue than in most industries” (Drake, 2014, p. 32). “The distribution of funds on a per pupil basis means that a growing district will have more resources to put into the classroom, while a declining enrollment district may lose revenues faster than they can reduce the number of classrooms, while a stagnant growth district may fall behind due to inflation in costs for the same number of students” (Drake, 2014, p. 32).

Another unanticipated consequence of the implementation of Proposal A included the constantly changing system for counting pupils, which added to the burden of determining the revenues received by a district. Currently, part of a district’s revenues is based on enrollment in February of the previous year and part on enrollment in September of the current academic year. “Prior to 2000, this split was 40 percent and 60 percent. In 2000, it changed to 25 percent and 75 percent” (Cullen and Loeb, 2004, p. 16). After two more changes from 20 percent to 80 percent, the current enrollment determination is based on a formula of 10 % and 90 %. One additional change to the way students are counted became



law in 2013 under Section 25e of the School Aid Act. This revision allowed districts to count students for the actual number of days that the students are in the district. The constantly changing way in which students are counted compounds the effects of planning a budget for school districts.

Declining enrollment in traditional K-12 districts has been aggravated by the increase in charter schools in Michigan. “The number of school districts, both traditional public and charter schools has increased from 571 districts in 1994-1994 to 845 districts in 2013-2014” (CRC Memorandum, 2015, p. 2) Although the number of schools has increased in Michigan, State Superintendent Michael Flanagan suggested a different direction. He advised the House-Senate subcommittee that he “would change over to county-wide school districts” (M. Flanagan, personal communication, 2013); thus, decreasing the number of school districts throughout the state of Michigan. In general, wide distribution of students among schools in Michigan often results in some school districts with vacant buildings to maintain and others with need for new buildings. Because the number of school districts has increased, costs for this has increased as well.

The development of charter schools, mostly at the elementary level, puts a further burden on the way schools are funded. “[Charter] schools are concentrated heavily on elementary grades – often the lowest-cost students – and thus pull even more revenues from traditional community schools” (Drake, 2014, p. 32). The foundation allowance is not adjusted currently for schools that include only the elementary grades. This, in a sense, gives charter schools more money to operate the least expensive grades. Horn and Miron (2000) recommended differentiated foundation grants based on the average cost by grade level.

## **The Evolution of Other Methods of Funding**

Clearly, Proposal A was not a clear *fix* for school funding, as other methods to support schools have become apparent. The foundation allowance is not the only source of funding for local schools. New methods of funding schools have arisen over the past several years. In addition to the foundation allowance or the amount of money districts realize per pupil, other *incentives* have been developed. Governor Snyder enacted legislation under Section 22f of the State School Aid Act, 2011 PA 62 that appropriated \$100 per pupil if districts could meet four of five financial best practices (Wolenberg, 2011). The financial best practices designated by law in June 2011 included: 1) charge employees at least 10 % of health care premiums, 2) become the insurance policyholder on medical benefit plans, 3) produce a plan to consolidate services with cost savings, 4) obtain competitive bids for non-instructional services, and 5) develop a *dashboard* that measures the district's effectiveness. These best practice incentives continued through the 2014-2015 school year; however, since 2011, the requirements that districts must meet to earn best practice monies have changed. The amount of money districts receive has changed as well. In the budget for the 2015-2016 school year, best practice money has been eliminated (Cleary, 2015, p. 4).

Other sources of funding include performance pay and legacy payment costs offsets. “In recognition of the growing MPSERS [Michigan Public School Employees Retirement System] cost burden, the FY 2012 budget included a \$155.0 million MPSERS cost offset” (Bergeron, Donnelly, & Miziolek, 2013). Performance-based funding, originally signed into law in July 2012 allocates funding for districts that meet prescribed student achievement goals. Although these incentives contribute to district funding, they are continually changing and may not be a permanent fix.

## **Regional Cost of Living Differences**

Regional and special education cost differences were not considered in Proposal A. “Michigan's school funding system provides no compensation for regional cost of living differences, nor is state funding adequately adjusted to reflect differences in the cost of educating special needs students” (Arsen & Plank, 2003, p. ii). The cost of living throughout Michigan varies from one region to another.

## **Implications for Policymakers and Future Research**

Subsequent to the passage of Proposal A, many issues need to be addressed by policymakers, and more research should be conducted. Issues include the basic need to ensure appropriate school district funding, while avoiding additional financial challenges. Failing schools are only one area that has created an additional burden on the State School Aid Budget. Many financial issues brought about by the passage of Proposal A have forced local school districts to manage their budgets with limited funds.

Proposal A not only failed to alleviate funding problems but also exacerbated financial struggles of school districts. “Fifty-five of 549 school districts are now deficit districts, representing approximately 10% of all public schools” (Geier, 2014, p. 262). The problem of deficit-spending districts came to the forefront when Saginaw Buena Vista and Inkster School Districts dissolved in the spring 2013 through legislation (Geier, 2014).

Failing districts, such as Buena Vista and Inkster, placed additional stress on the State School Aid Fund. The communities in these districts failed to support the passage of their operating 18 mills. Money that would have been received for those 18 mills no longer support the School Aid Fund or pay off Buena Vista Schools debt. “Buena Vista schools has a \$1 million deficit and in August [2013] must start making payments on a \$2 million loan

for operating costs to the Michigan Department of Treasury” (Knake, 2013). Pending legislation has proposed the \$750,000 debt “would come from the Saginaw Intermediate School District's \$2.5 million ‘work project’ fund, set aside to help the Saginaw, Bridgeport-Spaulding and Frankenmuth school districts demolish, maintain and insure buildings formerly owned by the Buena Vista district” (Tower, 2015, p. 1).

Another struggling district, Detroit Public Schools, has “\$2.1 billion accumulated debt” (Allen, Anthony, Hecker, Rakolta, & Reyes, 2015, p. 5). The Coalition for the Future of Detroit Schoolchildren released a report outlining a comprehensive plan “to make quality schools the new norm for Detroit families” (Allen et. al, 2015, p. 1). The report believes “the state is liable for the debt, much of it accumulated while the state was in charge of the district” (Allen, et. al, 2015, p. 3).

The solution offered by policymakers currently includes shifting this burden to school districts throughout the State of Michigan. The proposal would provide financially-failing Detroit Public Schools with additional support monies raised by a \$50 reduction in the per-pupil foundation allowance from districts across the state and diverting those funds to Detroit Schools (Livengood, 2015). The attorney general is looking for ways to *force* communities to be responsible for debts incurred by districts that have dissolved. Policymakers should find alternative ways to compensate for this lost revenue without taking additional money from districts across the State of Michigan. Legislatures need to find ways to reduce additional burdens on already strained school district budgets. Future research could explore whether districts are spending their money properly and if, in fact, districts can operate on the revenues that are being provided by the state.

Other pressures added to the already strained School State Aid Fund include those caused by financially-strapped school districts such as Muskegon Heights. “Beginning in the fall of 2012, the financial and operating plan offered by the emergency manager for the Muskegon Heights School District would end direct educational services provided by the district and instead have services provided by a charter school operator hired by the emergency manager, acting in lieu of the Muskegon Heights School District’s elected school board and appointed superintendent” (Bergeron, Donnelly, & Miziolek, 2012, p. 1). Charter school legislation has placed undue stress on the School Aid Fund while allowing districts to convert to charter schools, which cannot levy 18 mills to support the operating budget of the school district (Tower, 2015). “Because charter schools do not have defined geographic boundaries and do not have property value upon which to levy a property tax (or the authority to levy such taxes), they are dependent on state funding for their operating revenues (notwithstanding some federal funding),” placing an additional burden on the State School Aid Fund (Bergeron et al., 2012, p. 3). This means the entire per-pupil foundation that charter schools receive is paid wholly by the School Aid Fund. Additional research could examine whether charter schools are adequately educating our youth and how much of a burden charter schools put on the State School Aid Fund.

Districts continue to look for ways to save money; privatization of services is an idea urged by legislatures. Privatization may initially save school districts money, but these privatized companies do not contribute to the retirement system. Fewer contributions to the retirement system have actually forced retirement rates up. “In recognition of the growing [Michigan Public School Educators Retirement System] MPSERS cost burden, the FY2012 budget included a \$155.0 million MPSERS cost offset” (Bergeron et al., 2013, p. 4). While

this money is given to districts to offset the drastically increasing retirement rates, a more permanent solution needs to be sought. Further research could focus on privatization and the Michigan retirement system to determine whether privatization is financially beneficial for school districts in the long run.

Policymakers need to develop a more permanent resolution to the budget woes of the districts across the State of Michigan. Legislative change that rewarded best practice and student performance attempted to address financial funding methods but were easily eliminated or reduced. Another effort included the MPERS offset to assist districts but drastically increased financial burden of the retirement system.

Events in the years following passage of Proposal A have led to implications for policymakers and the necessity to conduct further research. The correlation between enrollment and funding needs to be addressed. When a district's enrollment declines, so does their funding. A minimal amount of funding is required to operate a school and district. Policymakers need to review the ways that districts can support the necessary expenses when enrollment declines.

In its original form, Proposal A has unsuccessfully funded school districts. The revenues earmarked for the State Aid Fund under Proposal A have not been adequate to fulfill the promises made by Michigan Legislators. As shown in Table 4, since the inception of Proposal A, the state has been forced to transfer millions of dollars from the general fund to school aid.

Table 4

*Composition of \$85.7 Million Transferred from General Fund Revenue (Drake, 2002).*

<b>Fund Source</b>	<b>\$ Transferred in Millions</b>
Mobile Vendors Food Sales	(\$5.6)
Auto Lemon Law Returns	(\$0.7)
Non-Profit Sales and Purchases	(\$2.6)
Promotional Materials	(\$0.2)
Vended Bakery Products	(\$0.4)
Expand Definition of Relatives, Auto Use Tax	(\$0.2)
Commercial Advertising	(\$3.4)
Telecomm Equipment	(\$2.0)
Aircraft, Aircraft Parts, Rolling Stock	(\$8.4)
Vended Juice Drinks	(\$2.0)
Payment Schedule Changes	+\$0.6
Materials for Church Construction	(\$2.0)
Industrial Laundry Sales and Purchases	+\$0.4
Exempt Certain Hospital Construction	(\$0.9)
Payment Schedule, Construction Credit	(\$2.1)
Exempt Certain Computer	(\$0.6)
Exempt Investment Coins and Bullion	(\$0.2)
Apportionment and Industrial Processing	(\$10.7)
Trucks, Pats, Rolling Stock #2	(\$8.8)
Use Tax Bad Debt Deduction	(\$2.0)
Electrical Deregulation Impact	(\$3.1)
Telecomm Reform Imports	(\$5.9)
Aircraft #2	(\$2.2)
Exempt Employee Meals	(\$5.1)
Electrical Deregulation #2	(\$12.0)
Vended Soft Drinks	(\$7.8)
<b>Total</b>	<b>(\$85.7)</b>

**Policy implications.** Policymakers should consider the variance in costs needed to educate students at different grade levels. One solution could be to provide additional funding to districts that have high schools, as the cost at this level is typically more than at the elementary level. Further research could investigate these costs and how districts support buildings and programs while enrollment declines.

The following issues and recommendations concerning school funding would have a positive impact on all school districts regardless of their relationship to per pupil revenue:

- Address sales tax on internet sales could add millions of dollars to the School Aid Fund each year.
- Consider adjustment of the state aid payment system to 12 equal payments beginning on July 1. Leave the burden of borrowing money to the state. Currently, school districts receive their first state aid payment in October, three months after the fiscal year begins. The last payment is received in August, more than a month after the districts' fiscal year has ended. This delayed payment method forces many districts to borrow money for operational purposes.
- Give each local school district the authority to seek support through an enhancement millage. A formula could be developed to control the amount of revenue a district could generate. Although many people strongly believe in local control and generally reject the idea of controls on local districts, a compromise may be necessary to get legislative support for this issue.
- Take immediate attention on Michigan's tax policies, which have had the most devastating impact on Proposal A. The following tax policies are all relevant to



school finance discussions because they each contribute significant portions of the revenue supporting the School Aid fund: Income tax, sales and use tax, property tax, and miscellaneous tax.

- Address economic development policies. All of these policies have resulted in a significant reduction in the growth potential of the State Aid Fund. Policymakers need to review these policies and reconsider the impact they have on Michigan's schools.

Conduct more research to find alternative funding methods for schools. Proposal A has not adequately provided districts with the necessary funding to be successful. Funding for districts across the State of Michigan needs to be revisited to determine the best funding method for schools.

## **Conclusion**

Local districts have lost power under Proposal A and need to look to legislators and other groups that are influential at the state level (Arsen & Plank, 2003). Arguments can be made for supporting and opposing school funding issues based on the potential benefit or harm they bring to each district. The promise of Proposal A to alleviate the burden to taxpayers was realized; however, the promise of Proposal A to adequately fund public schools has been broken and, under the complex taxation system upon which Proposal A was built and relies, continues to be broken each time a tax cut is implemented that undermines school funding.

The way that K-12 education is funded and many issues regarding Proposal A need to be addressed legislatively. Fiscal experts and those in the educational community have expressed numerous opinions on the *tweaking* of Proposal A. Most would agree that nothing

should be done that would erode the positive changes brought about by Proposal A, but many also feel that some adjustments should be made. The legislature has already made changes to Proposal A, and adjustments are constantly being made to the way K-12 education is funded. The question remains whether these changes are enough to provide districts with consistent funds to provide students with an effective education?

The revenues earmarked for the School Aid Fund under Proposal A have never been adequate to fulfill the promises made by Michigan legislators. The state has been forced to transfer millions of dollars each year from the general fund to the School Aid Budget as shown in Table 5.

Table 5

*GF/GP Appropriated in School Aid Budget*

<b>Years</b>	<b>Appropriation</b>
1994-95	\$664,900,000
1995-96	\$596,400,000
1996-97	\$277,900,000
1997-98	\$376,000,000
1998-99	\$420,613,500
1999-2000	\$420,613,500
2000-01	\$385,613,500
2001-02	\$198,400,000
2002-03	\$249,413,500
2003-04	\$377,800,000
2004-05	\$165,200,000
2005-06	\$62,714,000
2006-07	\$35,000,000

Table 5 *Continued*

2007-08	\$34,909,600
2008-09	\$78,642,400
2009-10	\$30,206,200
2010-11	\$18,642,400
2011-12	\$78,642,400
2012-13	\$282,400,000
2013-14	\$149,900,000
2014-15	\$114,900,000

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*Source: House Fiscal Agency, 2015*

Legislators need to ensure the adequacy and stability of revenues intended for the School Aid Fund. This has not been the case as shown in Table 6, as money has been transferred out of the School Aid Budget to community colleges and higher education.

Table 6

*School Aid Programs Formerly Funded from the General Fund and Program Transfers from Other Departments*

<b>Program</b>	<b>FY 2010-11 YTD</b>	<b>FY 2014-15 YTD</b>
Durant - Debt Service	\$39,000,000	\$39,000,000
School Bond Redemption Fund	\$5,167,800	\$126,000,000
Cash Flow Borrowing Costs	\$15,000,000	\$4,000,000
Juvenile Detention Facility	\$1,440,000	\$2,195,500
Challenge Program	\$742,300	\$1,500,000
Renaissance Zone Costs	\$26,300,000	\$26,300,000
PILT Reimbursement	\$2,400,000	\$4,210,000
Adolescent Health Centers	\$3,557,300	\$3,557,300
School Breakfast Program	\$9,625,000	\$9,625,000
School Readiness - Competitive	\$7,575,000	\$0
Precollege Engineering Grants	\$905,100	\$0
School Bus Inspections	\$433,800	\$1,691,500
MEAP Tests - State only	\$40,194,400	\$41,394,400
Community Colleges	\$0	\$197,614,100
Higher Education	\$0	\$204,565,700
<b>Total</b>	<b>\$157,490,700</b>	<b>\$663,303,500</b>

*Source: House Fiscal Agency, 2015*

The way schools are funded, and whether they receive the appropriate amount of money, has been an ongoing topic of discussion and focus of this dissertation. Proposal A's passage was, at the time, a remedy to many issues on the forefront of school funding. Issues have continued to arise as various types of funding have been provided by the State of Michigan. Will school funding issues ever be resolved, or will others arise in response to new methods of funding? Funding our schools to ensure the success of our students and future generations is an important and never ending task.



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## Appendix

University Human Subjects Review Committee Approval

**E**ASTERN MICHIGAN UNIVERSITY Education First

**December 28, 2013 UHSRC INITIAL APPROVAL: EXEMPT**

**To: James Cooper**

**Eastern Michigan University – Educational Leadership & Counseling Re: UHSRC: #131201S**

**Category: Exempt #1 Approval Date: December 26, 2013**

**Title: The Impact of Proposal A on Michigan School Districts**

The Eastern Michigan University Human Subjects Review Committee (UHSRC) has completed their review of your project. I am pleased to advise you that **your research has been deemed as exempt** in accordance with federal regulations.

The UHSRC has found that your research project meets the criteria for exempt status and the criteria for the protection of human subjects in exempt research. **Under our exempt policy the Principal Investigator assumes the responsibility for the protection of human subjects** in this project as outlined in the assurance letter and exempt educational material.

**Renewals:** Exempt protocols do not need to be renewed. If the project is completed, please submit the **Human Subjects Study Completion Form** (found on the UHSRC website).

**Revisions:** Exempt protocols do not require revisions. However, if changes are made to a protocol that may no longer meet the exempt criteria, a **Human Subjects Minor Modification Form** or new **Human Subjects Approval Request Form** (if major changes) will be required (see UHSRC website for forms).

**Problems:** If issues should arise during the conduct of the research, such as unanticipated problems, adverse events, or any problem that may increase the risk to human subjects and change the category of review, notify the UHSRC office within 24 hours. Any complaints from participants regarding the risk and benefits of the project must be reported to the UHSRC.

**Follow-up:** If your exempt project is not completed and closed after three years, the UHSRC office will contact you regarding the status of the project and to verify that no changes have occurred that may affect exempt status.

Please use the UHSRC number listed above on any forms submitted that relate to this project, or on any correspondence with the UHSRC office. Good luck in your research. If we can be of further assistance, please contact us at 734-487-0042 or via e-mail at [gs\\_human\\_subjects@emich.edu](mailto:gs_human_subjects@emich.edu). Thank you for your cooperation.

Sincerely,

Dr. Jennifer Kellman Fritz

Faculty Co-Chair University Human Subjects Review Committee

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[www.ord.emich.edu](http://www.ord.emich.edu) (see Federal Compliance) The EMU UHSRC complies with the Title 45 Code of Federal Regulations part 46 (45 CFR 46) under FWA00000050.