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# A study of the factors involved and the strategies employed by Michigan school districts in developing deficit elimination plans

Sue C. Carnell

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FACTORS AND STRATEGIES BY MICHIGAN SCHOOL DISTRICTS

A Study of the Factors Involved and the Strategies Employed by Michigan School Districts in

Developing Deficit Elimination Plans

by

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Dissertation

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## FACTORS AND STRATEGIES BY MICHIGAN SCHOOL DISTRICTS

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## Abstract

The purpose of this research was to study the factors that contribute to financial deficits, examine the strategies used to reduce deficits, and explore the barriers that may prohibit the reduction of financial deficits. As part of legislative mandates, school superintendents are faced with creating a *deficit elimination plan* to reduce the financial deficits facing their districts. In 2013, the State of Michigan began to shut down financially challenged districts for the first time. School districts labeled as “deficit districts” struggled to remove the designation assigned to them. Fifty-eight traditional Michigan public school districts with financial deficits between school years 2010-11 and 2014-15 were the focus of this study. The research methodology utilized for this study was a mixed methods approach. Both qualitative and quantitative models were used to collect and analyze data in pursuit of answers to the stated research questions on factors, strategies and barriers supported by the research of Creswell (2014). Initial exploratory phone interviews were used to develop a quantitative survey. Superintendents who worked in a school district with a financial deficit were surveyed to obtain data to answer and address the research questions. Documentation from the Michigan Department of Education, Senate Fiscal Agency, and Center for Education Performance Information provided the information to create the variables used for the various outputs and statistical analysis. The number of districts with the designation as a deficit district grew from the years 2002 to 2014. The number of deficit districts doubled during the focused years of this study. During this same time, resources to schools declined. The findings indicate that of the three areas (factors, strategies, and barriers) studied in this research, factors are the most prominent causes for creating districts with deficits. The study emphasizes that strategies that school districts use when coupled with increased per-pupil foundation allowance have a huge impact on reducing the number of school districts with financial deficits.

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### **Chapter 1: Introduction**

The provision of education to our nation's youth is imperative, yet it can be costly. In the Fall 2014, the National Center for Education Statistics (NCES, 2014) reported nearly 50 million students were enrolled in approximately 98,000 pre-kindergarten through grade 12 public schools across the nation. The NCES also reported U.S. public schools spent an estimated \$591 billion on expenses related to K-12 education. Research by Leachman and Mai found that "At least 30 states are providing less funding per student for the current school year than they did before 2007 when the recession hit. Fourteen of these states have cut per-student funding by more than 10 percent". (Leachman & Mai, 2014, p. 1). Even though most states are providing more funding to school districts than they did in the 2013–14 school year, it is not enough to make up for the cuts made since the beginning of the recession period. In the 2006–2007 fiscal year, Michigan's School Aid Fund appropriation to schools totaled over \$11.2 billion. After the economic crisis hit Michigan in 2008, the funding level from the School Aid Fund decreased to \$10.9 billion in the 2012–13 fiscal year, (Senate Fiscal Agency, 2015). With these cuts in K-12 funding, it was inevitable school districts would endure financial strain and deficits.

The placement of an emergency manager by the state is becoming a more common occurrence for many Michigan school districts with significant financial challenges. During the periods of fiscal years 2012–14, the number of school districts in Michigan facing financial deficits grew from 14 to 21. Fifty-eight school districts and public school academies ended the FY 2014 in a deficit, compared to only 10 schools in 2003 (Michigan Department of Education, 2015). All school districts with financial deficits must comply with state mandates to create and implement plans to eliminate these deficits. However, for superintendents facing financial

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deficits too large to be eliminated within an extended five-year time frame, an emergency manager is often assigned to take control of district finances and push through spending cuts towards the elimination of the deficit.

In 2015, the Michigan legislature passed several bills that called for an increase in financial accountability for school districts. These package bills, named “Early Warning,” enhanced financial reporting, changed deficit elimination plan requirements, broadened the ability for the state to withhold funds, and revised the emergency manager law. During this period, school funding decreased. As a result, it is likely that superintendents in deficit districts faced an impossible task of reducing district deficits in compliance with legislative mandates while simultaneously facing the reduction of per pupil funding. However, the diminishing economy is not the only factor for decaying revenues to school districts. Other factors contributing to district spending and exceeded revenues were declining enrollment and lack of support to carry out needed cuts to reduce the deficit.

### **Statement of the Problem**

It is difficult to talk about education and not mention the words *financial accountability*. There is a plethora of education-related legislation that includes new mandates for school districts with fiscal deficits. These mandates require superintendents to focus on performing several tasks to meet the requirements to avoid district closures, emergency managers, consent agreements, or state takeovers. These tasks include developing and submitting deficit elimination plans and monthly financial reports to the state.

As part of the legislative mandates, school superintendents are faced with creating a *deficit elimination plan* (DEP) to reduce the financial deficits facing their districts. With this scenario, the focus of education leaders may significantly differ from one district leader to

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another. As a result, choosing strategies to reduce the financial burden is critical to the success of this plan. Superintendents with financial deficits spend time creating and identifying strategies to eliminate the deficits. District superintendents must diligently seek viable options that will systematically reduce expenditures while exploring limited options to increase revenues that address the fiscal deficit. According to the Michigan Department of Education (2017), a district is considered to have a deficit fund balance if it has adopted a deficit budget or incurred an operating deficit as evidenced by the following:

- 1) Its total general fund balance is negative, or projected to be negative at the end of the current fiscal year; or,
- 2) Other funds have negative fund balances or projected negative fund balances that are greater than the General Fund balance.

When faced with this challenge, the focus of education leaders' DEPs may significantly differ from one district to another. As a result, choosing appropriate strategies to reduce the financial burden is critical to the success of these plans. Superintendents within districts with financial deficits must spend time creating and identifying strategies to eliminate the deficits and diligently seek viable options that will systematically reduce expenditures while exploring limited options to increase revenues that address the fiscal deficit.

In 2011, the Michigan Department of Education began providing a quarterly report to the legislature. This report listed all school districts and public school academies (PSAs) that were projected to end the school year with a deficit, ended the school year with an increased deficit, ended the school year with a reduced deficit, and/or ended the school year with the deficit eliminated. Although fiscal deficits for school districts are more prevalent in the recent past, there has been no effort to catalog or create a list of strategies for superintendents to use to

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address the financial deficits. With the lack of effective strategies documented, it is difficult to know the most commonly implemented and effective strategies for reducing expenditures. The lack of a centralized resource results in countless hours spent by district leaders searching for ways to reduce their expenditures. Time spent on searching for strategies could result in less time to focus on instructional programs. Even districts that have not reached the point of operating under a deficit budget may need to creatively look at strategies to reduce expenditures to achieve a balanced budget. As districts reach the phase where expenditures are higher than revenues, it is presumed that they will require strategies to help balance their budgets. Moreover, instructional programs for students may be reduced or eliminated to save money due to the fiscal strain in school districts. Minimal funds impact instructional resources and staffing.

Additionally, there are more state level-mandates, developed in more recent years, that need to be addressed by superintendents to remain compliant. These include, but not are limited to, educator evaluation systems, increased lockdown/fire/tornado drills, and epinephrine auto injector requirements. Although the need for effective education leaders is constant, the pressure for results is episodic. The pressures for academic results are informed by broader state and federal policy decisions. The public expects school leaders to be held accountable for improving student outcomes on accountability systems that, unfortunately, change from one year to another. Now, more than any other time in history, education leaders are pressured by policymakers, school boards, foundations, government, parents, and communities to obtain certain academic performance goals with an ever-changing target. Tactical leadership is critical to the success of organizations.

The ability to make decisions around district finances involves the approval of the local school district's board of education (BOE). In Michigan, the district BOE has the power of local

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control and must adopt a balanced budget. But their power and ability are limited when faced with budgets where expenditures exceed revenues. School districts are dependent on these resources. They need them to retain the economic and political freedom to make decisions and to be competitors in the market-driven, education environment.

### **Purpose and Significance of the Study**

In 2013, the State of Michigan began to shut down financially challenged districts for the first time. School districts labeled as “deficit districts” struggled to remove the designation assigned to them. The primary purpose of this study was to examine the strategies used by traditional school districts with a minimum of one year in a financial deficit between FY 2010 and FY 2015. This study included a survey of superintendents of these districts to determine strategies used and considered to reduce financial deficits and regain financial solvency. Additionally, the study explored the factors that contributed to financial stress in the 58 school districts selected. Lastly, this study investigated the barriers that may exist and prohibit the reduction of a financial deficit by superintendents in Michigan.

With the largest number of Michigan school districts ending the school year with deficits in 2014, there is a lack of robust research in this area. However, this study builds upon the research of two prior studies—Bolen (2009) who examined key factors implemented by Michigan school districts to mitigate budgetary stress with a focus on six school districts, and Miller (2007) who studied one superintendent’s leadership in times of economic hardship and attempts to gain insights on strategies used to eliminate fiscal deficits. Much of the school finance research over the years has been around school funding, with little research existing on school districts operating with balance deficits. This study seeks to provide insights on strategies used to eliminate fiscal deficits and identify successful strategies to eliminate financial deficits.

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Additionally, the results of this study may be used to mitigate financial distress and assist superintendents with information that could help minimize the impact to instructional programs. Further, stakeholders who understand the strategies used by districts and the factors associated with the financial deficit may advocate for changes in the funding formula that would eliminate the problematic situation of cuts in instructional programs; layoffs; and overall reductions impacting staff, students, and the community. This study also seeks to promote the understanding of the public and policymakers on education issues facing deficit districts when attempting to educate students to work in the knowledge economy. Finally, factors contributing to school districts shifting into deficits need to be explored to assist decision-makers at the policy level.

Education reforms have deeply affected school districts and the superintendents who work in them (Bredeson & Kose, 2007). The increased accountability mandated by legislation has created a new environment for education leaders that is more challenging than in the past. The Michigan legislature passed several bills that call for an increase in financial accountability for school districts as a result of the 2008 recession impact on district's finances. These bills include MCL 380.1220, which addressed how a district must operate under a deficit budget; MCL 388.1702, which authorized the department to withhold payments to school districts that failed to have an approved DEP; and MCL 380.1219, which applied new mandates for school districts in danger of fiscal stress (Michigan Legislature, 2015). The impact of these bills reframed the roles and responsibilities of superintendents across the state—likely pushing superintendents in deficit districts to focus on the management of risks rather than the pursuit of strong academic performance.

### **Limitations**

The researcher was very cautious about inserting any bias in the study. At the time of the

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study, the researcher was a superintendent in a district with a deficit. The study only looked at traditional school districts with a financial deficit for one or more years between FY 2010 and FY 2015. It examined strategies used by superintendents during that time. Factors that contributed to financial stress for districts present during FY 2010 through FY 2015 may no longer exist after the time of this study.

### **Delimitations**

This study did not consider school districts with a financial deficit beyond the span of the FY 2010–FY 2015. School districts who were never labeled as “deficit districts” were not part of this study. This study did not seek to make a correlation between the strategies used and the successful elimination of a school district’s financial deficit. Achievement data were not included in this study. Furthermore, this study does not include charter schools with a financial deficit between FY 2010–FY 2015.

### **Theoretical Framework**

The theoretical framework of the study incorporates two theories: resource dependency and economic freedom and power. These two theoretical frameworks intertwine to demonstrate school districts’ dependency on resources and how these resources impact localized power. One way of comparing these theories is to briefly explore how each deal with vulnerability, external constraints, and the connection between internal decisions and limited power.

**Resource dependency.** Resource dependency theory is drawn from the research of Pfeffer and Salancik (2003), who traced the relationship between the environment and governance actions. Pfeffer and Salancik (2003) examined organizations faced with competing resources and their ability to attract and maintain resources to survive. While Pfeffer and Salancik (2003) depicted resource

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dependency relationships through a corporation lens, it is possible to transfer this theory to school districts due to the political structure of state funding and how resources are allocated to school districts: “Since school district cannot function without state resources, then it must comply with state regulations” (Pfeffer & Salancik, 2003, p. 258). This study uses resource dependency theory and its connection with fund allocation in the K-12 Michigan school system.

According to Price (2015), Michigan public schools face an era of increased competition for scarce public resources. Throughout the book, entitled *The External Control of Organizations*, Pfeffer and Salancik (2003) talked about the critical nature of resources to an organization's survival. Pfeffer and Salancik (2003) also addressed an organization's dependency on resources: “The need for resources, including financial and physical resources as well as information, obtained from the environment, made organizations potentially dependent on the external sources of these resources—hence the characterization of the theory as resource dependence” (Pfeffer & Salancik, 2003, p. xii). Resource dependency theory is examined through two facets: vulnerability and external constraints.

**Vulnerability.** As Pfeffer and Salancik (2003) noted, “The key to organizational survival is the ability to acquire and maintain resources” (p. 2). They further point out that if organizations had total control of all aspects of the organization that ability to obtain and maintain resources would be easier (p. 2). Based on current the school funding formula in Michigan, school districts must compete for resources. In Michigan, school district funding is derived from the number of students enrolled on two count periods during the school year, October and February. In part, School of Choice and charter school policies play a role in the competition for resources. When the amount of resources decreases and the number of



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education entities increase or remains static, the competition for resources grows. As Pfeffer and Salancik (2003) stated:

If stable supplies were assured from the sources of needed resources, there would be no problem. If the resources needed by the organization were continually available... there would be no problem. Problems arise not merely because organizations are dependent on their environment, but because this environment is not dependable. (p. 2)

Funding allocations to school districts in Michigan are fraught with fluctuation due to changes in enrollment and the economy.

Public school districts often struggle to meet the demands of reducing expenditures in the budget, strategically trying not to deeply reduce academic, non-academic, and enrichment programs. The severe cuts to these programs cause parents to choose schools for their children elsewhere. If a district has a low-performing school, it is also faced with the challenge of attempting to save programs that may successfully raise achievement scores. Cooper (2015) states that organizations become vulnerable when they have an interwoven relationship between a larger social system that controls resource acquisition, allocation, and use. Cooper further states “that without resources, organizations do not exist” (p. 36).

***External constraints.*** One primary focus of this research was to examine the strategies school districts used to manage resources. Resource dependence predicts that organizations will attempt to manage the constraints and uncertainty that result from the need to acquire resources from the environment. Pfeffer and Salancik (2003) looked at how external control affects organizational behavior. However, this theory does not address specific strategies organizations will use, as Pfeffer and Salancik (2003) believe that strategies used by organizations are dependent upon various circumstances.

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According to Pfeffer and Salancik (2003), resource dependence influences organizations and an organization's necessity for adaptation due to its reliance on external entities. In the case of school districts, students are the ones that provide the resources districts need to survive, and school districts must adapt in response to external entities (Pfeffer & Salancik, 2003).

Comparatively, external entities for this study include parents who may choose to send their children to another district and the legislature that allocates resources and dictates how these resources will be dispersed.

When new educational organizations become a part of the environment, the availability of resources can become more scarce (Pfeffer & Salancik, 2003). The addition of charter schools can result in resource scarcity: "When environments change, organizations face the prospect either of not surviving or of changing their activities in response to these environmental factors" (Pfeffer & Salancik, 2003, p. 3)

There is an interdependent relationship between resource dependence and organizational decisions (Pfeffer & Salancik, 2003). To survive in a pupil resource dependency climate, educational organizations need to adjust to the environment. Districts must make themselves attractive to lure and maintain students. This approach is difficult for districts with deficits to maintain when neighborhood school districts are not the education entity of choice by parents and when resources leave the district. Pfeffer and Salancik (2003) stated, "In school districts, budgets and educational demands, which are largely a function of state legislative action, local economic growth, and demographic factors are largely outside the control of the district administration" (p. 10). School districts are considered effective when they manage the decline in student enrollment and reduce expenditures while still managing the demands of parents, legislative policies, state education requirements, accountability systems, and academic quality.

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School districts with financial deficits are inescapably connected with the circumstances of their environment. When the resources are scarce, school districts are forced to make decisions about how to allocate these limited resources. The inability to effectively allocate these resources can result in ending the school year with an operational deficit. School districts with financial deficits are limited in their ability to make a financial decision that effects the programs offered by the district to assist students in gaining academic independence. Lastly, one of the dominant views about resource dependency theory is that organizations' autonomy and relationships with external entities are obligatory to obtain the resources needed to survive (Cooper, 2015; Pfeffer & Salancik, 2003).

**Economic freedom and power.** The second theoretical framework employed in this dissertation research is derived from Milton Friedman's (2002) *Capitalism and Freedom*, which stated, "Economic freedom is also an indispensable means toward the achievement of political freedom" (p. 33). Schools are under political constraints mandated by legislative policies, which includes the disbursement of money or foundation allowance. These political constraints around financial freedom for districts hinders school district's ultimate mission of providing students with exemplary educational opportunities.

**Limited power.** Friedman (2002) stated that limited power results in a limited number of alternatives. State mandates—including legislation, rules, and regulations around fiscal accountability—provide limited alternatives for a school district to make decisions about how money is spent. Hence, the ability to allocate resources at the discretion of the school board and the superintendent is limited. The limited number of educational alternatives for school districts with financial deficits places students and school systems at a disadvantage.

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Friedman (2002) makes the point that the absence of external pressures and power allows the freedom to make decisions at the discretion of the organization. He also makes the point that the elimination of such concentration of power preserves freedom. There may be many reasons why some local boards of education (BOE) do not support the recommendations of the superintendent. These reasons might include an aversion to the feeling of coercion and pressures of constituents. Districts faced with financial deficits have limited options, and their ability to govern without restraints hinders progress.

Since the BOE is the governing body for a school district in Michigan, superintendents are powerless if the BOE does not support their recommendations. A collaborative and amicable relationship is needed between the BOE and the superintendent when creating budget deficit plans. Because of this crucial relationship, the nature of BOE support of recommendations made by superintendents in reducing the deficit will also be examined. This researcher will also examine the BOE support of recommendations made by the superintendent in reducing the deficit. Even though the BOE collectively has power in advocating for policy and legislative changes at the local and state level, boards of education, in school districts with financial deficits, have little economic freedom to make financial decisions due to the threat of financial penalties or other consequences. Friedman (2002) stated, "Viewed as a means to the end of political freedom, economic arrangements are important because of their effect on the concentration or dispersion of power" (p. 34). Local control or political freedom at the local level is limited when the funding and policies that effect funding allocations are set by the state. This is particularly amplified for school districts with financial deficits. When school districts gain economic power, they, in turn, gain political power to make decisions: "Clearly, economic freedom, is an extremely important part of total freedom" (Friedman, 2002, p. 9).

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The consequences for not reducing a financial deficit include the appointment of an emergency manager, entering into a consent agreement, or district dissolution. All three of these scenarios remove the political decision-making power from BOEs—as demonstrated in districts such as Highland Park, Pontiac, and Benton Harbor when they entered into a consent agreement with the State of Michigan’s Department of Treasury. The following are excerpts from MCL 141.1549 (2013), which provides the language in the law which speaks to emergency managers:

(2) Upon appointment, an emergency manager shall act for and in the place and stead of the governing body and the office of chief administrative officer of the local government. The emergency manager shall have broad powers in receivership to rectify the financial emergency and to assure the fiscal accountability of the local government and the local government's capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare. Following appointment of an emergency manager and during the pendency of receivership, the governing body and the chief administrative officer of the local government shall not exercise any of the powers of those offices except as may be specifically authorized in writing by the emergency manager or as otherwise provided by this act and are subject to any conditions required by the emergency manager.

In these and other cases, districts have lost both political and economic freedom by the insertion of these State imposed sanctions.

**Complimentary nature of two theoretical frameworks.** There is a powerful relationship between resource dependency and economic freedom and power. Together these theoretical frameworks address how the condition of the environment weighs upon

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organizational decisions. The two theories complement each other in their reference to constraints. The constraints of scarce resources can implicate the limitation of power to make internal decisions. School districts need resources to have political power to make decisions about their organization. Likewise, limited economic freedom impairs the decisions of an organization. School districts with financial deficits are systems operated with limited power in the context of their environment.

### **Research Questions**

1. What are the prominent factors that contribute to a school district's deficits?
2. Are there specific strategies commonly used by Michigan school districts with financial deficits to reduce deficit budgets?
3. What barriers exist that would prohibit reduction of financial deficits for Michigan school districts?

### **Summary**

Education is an investment. Unfortunately, funding to school districts has declined across the nation, including in Michigan. It may be assumed the reduction in funding contributed to school districts falling into a financial deficit. Legislative mandates attempt to make school district more fiscally responsible by requiring deficit elimination plans. Compliance with legislation can usurp the economic and political power of school district leadership as school districts are dependent on resources to operate. This research looked at the limited prior studies and used the research from Bolen (2009) and Miller (2007) as foundations to build upon. Findings from this research would help policymakers understand the factors that contribute to financial deficits, help superintendents develop and implement successful strategies to mitigate

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financial deficits, and bring awareness of the barriers that could prohibit reduction to financial deficits.

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

The State of Michigan has a primary responsibility to fund schools to ensure children receive a high-quality education. This review of the literature explores how resources are allocated to school districts, legislation and policies on financial accountability, and the relationship between state funding and deficit districts. Additionally, this literature review examines factors that may be attributed to districts going into and retaining deficits. Specific attention is paid to school districts' need for resources and the ways in which the lack of financial resources limits district power and options for serving students.

The literature selected for this review includes prior studies on school finance in Michigan, doctoral dissertations, books, journals, publications, legislation, and electronic reports. This review of the literature includes the examination of documentation that addresses a range of issues, such as the economic recession, methods of district funding, school district leadership, school governance, and state and federal requirements for districts with deficits. The literature review focuses on five key areas: (a) a brief history of school finance in Michigan, (b) federal and state funding, (c) Michigan public policy, (d) school governance, and (e) contributing factors that impact deficit district.

#### **History of School Finance**

Addonizio and Kearney (2012) stated that the historical movement of congressional reform was an attempt to move from equity to excellence. Beginning with the passage of the National Defense Education Act in 1958, Congress made its first attempt to improve achievement in the academic areas of mathematics, science, and foreign language (Addonizio & Kearney, 2012). In 1965, the federal government sharpened its focus on a specific student



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population by providing financial assistance to states to help low-income children with emphasis on improving reading and mathematics achievement with the authorization of Elementary and Secondary Education Act (ESEA; Addonizio & Kearney, 2012). This single piece of complex legislation became the foundation for financial and academic accountability at the federal level, particularly with the addition of Title I in 1994. School districts were held accountable to serve students of poverty to receive federal dollars. The ESEA was later known as No Child Left Behind (NCLB) Act and more recently known as Every Student Succeeds Act (ESSA).

Another form of federal financial support came with the implementation of the Individuals with Disabilities Education Act (IDEA; P.L. 94-142) that mandated free and appropriate education of all students with disabilities in the least restrictive environment. From this law, special education expenditures grew. Advocacy for increased funding to support students with disabilities remained in the forefront of school spending. While Congress estimated its contribution as 40% to states, its actual appropriations were 16%, leaving states and local school districts to pick up the remaining costs (Bolen, 2009; Dancy, 2016).

**School finance in Michigan.** Public education in the U.S. was primarily the responsibility of “local financing and local control” (Card & Payne, 2002, p. 1) as local property taxes were used to fund over 125,000 school districts nationwide in the 1920s. Over the years “local funding remains a critical and contentious aspect of almost all state systems” as evidenced by court cases (Card & Payne, 2002 p. 1). State aid for school districts in Michigan began at the same time Michigan established statehood in 1837 (Addonizio & Kearney, 2012).

Prior to 1973, every Michigan school district was guaranteed a minimum per pupil allowance through a foundation system, which distributed general aid from the State of Michigan. Each township could levy local taxes to provide additional funds to their school

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district. By 1973, the expenditure gap between the highest per pupil allocation districts and the lowest had tripled. This funding gap—in addition to legal challenges to the constitutionality of the ways in which school districts were funded—resulted in the development of a new funding formula created by the Michigan legislature. This new funding system used a guaranteed tax based (GBT) system and began in the 1973–74 fiscal year. With this new system, local property tax rose to a point of contention in some districts. For example, the voters in Kalkaska School Districts voted down additional funding taxation that caused the school district to end the school year three months early in 1993 (Addonizio & Kearney, 2012).

**Disparity in Funding.** Federal and state funding seemed to run parallel courses. The state of the economy affected both systems. Additionally, funding gaps existed in both systems. However, these gaps were different in nature. At the federal level, the gaps were within a program such as special education. States only received a portion of what was promised by the federal government for educating students with special needs (Bidin, 2012; Dancy, 2016). At the state level, there was a gap between rich and poor districts. Across the nation, there was not only a wide range of funding within a state but an enormous variance in state aid per pupil. This was not a new phenomenon. Card and Payne (2002) found that a gap remained between richer and poorer districts based on the inequality of local revenues per student to school districts. The role of federal financial support remained limited and accounted for approximately 13% of the total school funds in Michigan (Price, 2015). As our nation faced an economic crisis, funding to our American public education entities suffered financial cuts. In their examination of funding levels and changes in funding formulas, Card and Payne (2002) noted, “the relative amounts of state aid received by richer and poorer districts... do not necessarily lead to corresponding changes in spending” (p. 50). This would suggest that appropriately funding school districts matters.

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Whether a district is on the low end of the amount it receives from the state or the high end, a district must spend money on the same operational and educational programs.

School districts may find it challenging to adhere to academic accountability systems when school finance policies are not aligned to support a high level of academic success for all students—particularly students of poverty. According to Addonizio and Kearney (2012), the first judicial utterance that addressed the concept of educational adequacy saw more than a dozen states deliver court decisions declaring school finance systems to be inequitable and unconstitutional. This resulted in school finance reforms. Card and Payne (2002) examined several 1980 court rulings concerning unconstitutional funding by states and showed that these states responded by moving toward more equitable funding formulas.

**General funds.** A school district's main fund for operations is referred to as the general fund. This is the fund for day-to-day operations expenditures, such as supplies, salaries, and utilities (CRC, 2014; CRC, 2015; Price, 2015). Prior to 1994, school districts received an allocation from the state. The main source of school district revenues were property taxes. After the passage of Proposal A, a 2% increase in sales taxes was added to the revenue. The passage of Proposal A increased Michigan's sales tax from 4% to 6%. This increase reduced a school district's reliance on local property taxes. Funds are deposited in the School Aid Fund (SAF)—which is exclusively allocated for school districts, higher education institutions, and the school employee retirement system. SAFs are then allocated to school districts after high education and employee retirement are deducted.

**Proposal A.** It was presumed that if a school district becomes less reliant on property taxes for local revenue, then it would have more revenue choices in deciding how to balance the budget (Ammar, Duncomb, Jump, & Wright, 2005). According to Addonizio and Kearney

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(2012), “With these reforms, the state had essentially removed the school tax and spending decision from local district voters and claimed it for itself” (The Foundation Formula, para. 1). As part of his campaign promise, Governor John Engler wanted to reform school funding and alleviate the growing property tax burden for residents. On March 15, 1994, voters approved Proposal A: the Michigan Homestead Property Tax Amendment. This proposal created a new state education tax, eliminating the use of local property taxes for schools and increased the state sales tax to six cents per dollar—two cents of which were to go to the school aid fund. The implementation of Proposal A ended a 20 year stretch of no school funding reforms. It is interesting to note, that at the time of this study, Proposal A is more than 20 years old. This funding formula is currently being used by the state (Addonizio & Kearney, 2012; Summers, 2017).

The application of Proposal A in the 1994–5 school year, fostered the belief that there would be an increase in and equitable distribution of funds, for students and taxpayers, while also providing a centralized, adequate, and stable revenue source to schools. The goal was to close the foundation gap over time. Over time, Proposal A has proven to work well in a good economy (Addonizio & Kearney, 2012; Price, 2015). This law guaranteed that every school district has at least a minimum foundation allowance of \$4,200 per pupil, even though the target was \$5,000 per pupil. The maximum foundation allowance a district could receive from the State Aid Fund was \$6,500 (Addonizio & Kearney, 2012; Price, 2015). Since the per-pupil funding follows the student, enrollment in school districts played a larger role than before in determining revenue. School districts lose revenue when they lose students.

While the plan reduced the gap between the highest and lowest spending districts, Proposal A was approved in an era of solid economic growth in Michigan. Miller (2007)

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concluded that

as the economy grew through the 1990s Michigan became the icon nationwide for its new way of financing and equalizing funding among its school districts. With its dependence on the auto industry, when Michigan residents began to spend less with the onset of the recession, the economic boon for school funding came to a screeching halt. (p. 2)

Under Proposal A, school districts across Michigan were prohibited from asking taxpayers for increases in taxes to raise money for the school district. School funding was shifted from local school boards to the state legislature and the governor (Cooper, 2015; Michigan Education Report, 2001). Cooper (2015) found that

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. (p. 89)

This erosion of power from local school district impacts a BOE's economic and political freedom.

**State revenue sources.** State aid to a school district is comprised of a variety of revenue sources. The largest source is the state sales tax followed by the share (23%) of the state revenue tax and the 6 mills state education tax. However, given that state taxes are dependent upon the stability and strength of the state economy, these funding sources are quite vulnerable (Addonizio & Kearney, 2012; Cooper, 2015; Price, 2015).

Aside from federal and state funding, local funding mainly comes from two property tax millage rates. One levied by the local school district and the other levied by the intermediate school district. An additional 18 mills (over and above the 6 mills) may be levied by local school

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districts on non-homestead property. Voters must approve the mills assessed. Local funding that helps all districts within the boundaries of an intermediate school district may also be raised through an enhancement millage of up to 3.0 mills for operations that must be approved by voters within the specified intermediate school district (Hollenbeck, Bartik, Eberts, Hershbein, & Miller-Adams, 2015; Summers, 2017).

**Categoricals.** It is not uncommon for states to offer some type of categorical grant program to districts to add to the foundation allowance. Through categorical funding, resources can be provided to districts to help increase state aid. Categorical grant programs provide state aid to districts for specific spending. According to Cullen and Loeb (2004), “Between 1994 and 1995, the share of state operating aid distributed through separate categorical grants fell from more than 40% to approximately 15%” (p. 6). This pattern of declining categorical grant funding has continued in recent years. Smith, Gasparian, Perry, and Capinpin (2013) found that the average number of categorical programs have dropped since FY 2008. Categorical funding is a highly prescriptive and restrictive resource that includes funding for early education, bilingual education, gifted education, vocational education, transportation, and special education. One of the most dominant categorical grants that still exists is “at-risk” funding (Card & Payne, 2002; Cullen & Loeb, 2004; Price, 2015). The Michigan Department of Education provides funding to assist students with attendance, reading, and math achievement who qualify for this service. Students are considered “at-risk” if they meet criteria, such as economically disadvantaged, English learner, chronically absent, and a history of school failure. According to Wong (1999), categorical programs are “funding structures that allow state dollars to be traced from the statehouse all the way down to the classroom” (p. 13).

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**Best Practice Money.** Through allocations designated as *Best Practices* by the Michigan State Legislature, school districts were able to receive an additional \$50 per pupil above the basic foundation allowance if they were sound stewards of taxpayer money. Price (2015) identified eight best practices that reflected best practices between 2011 and 2015. They were

the district was the policy holder for health insurance; participated in schools of choice (PSAs meet this requirement); engaged in competitive bidding for at least one non-instructional service; provided a public online dashboard with finance and academic metrics; offered one credit of foreign language in grades K-8; complied with prohibited subjects of bargaining; implemented the Michigan Comprehensive guidance and counseling program, complied with school employee compensation determination requirements under MCL 380.1250; and offered online or blended learning programs for students. (p. 83)

This incentive funding was eliminated in the 2015–16 school year.

**Performance improvement.** While best practice allocation was rather easy to obtain by most districts, performance improvement allocation, called Performance-Based Bonus, proved to be more difficult for districts with low academic achievement scores on state assessments. These assessments included Michigan Education Assessment Program (MEAP), Michigan Merit Exam (MME), and MI-Assess. During the fiscal year 2014–15, the legislature added performance improvement allocations for school districts if each student met the predetermined growth target in math and reading. An additional \$60 per pupil was allocated for improvement in math and reading on the MEAP for grades 3–8 (\$30 if the school district only met the threshold for either math or reading). At the high school level, the target growth period for academic performance improvement was over a four-year period using the MME and MI-Assess and worth \$40 per

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pupil (MDE Rules, 2014; Price, 2015). This incentive funding was only available during the 2014–15 school year.

### **Michigan Public Policy for Fiscal Accountability**

This section examines Michigan legislation for districts and the requirements they must follow to avoid having state aid allocation withheld. All school districts in Michigan are required by law to operate a positive fund balance by June 30, the end of the school year. Additionally, school districts are required by law to annually adopt a written budget. This budget must be approved by the local board of education and be filed with the Michigan Department of Education. Every year a school district's budget must be balanced. In other words, school districts can not submit a budget to the Michigan Department of Education indicating that its expenditures are greater than its revenues. The following are excerpts from MCL 388.1702 (2015), which provides the language in the law that speaks to a district inability to operate under a deficit budget:

Sec. 102 (1) A district or intermediate district receiving money under this act shall not adopt or operate under a deficit budget, and a district or intermediate district shall not incur an operating deficit in a fund during a school fiscal year. A district or intermediate district that has an existing deficit fund balance, that incurs a deficit fund balance in the most recently completed school fiscal year, or that adopts a current year budget that projects a deficit fund balance shall not be allotted or paid a further sum under this act until the district or intermediate district submits to the department for approval a budget for the current school fiscal year and a plan to eliminate the district's or intermediate district's deficit not later than



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the end of the second school fiscal year after the deficit was incurred or the budget projecting a deficit was adopted...

Sec. 102 (4) A district or intermediate district that has an existing deficit fund balance, that incurs a deficit fund balance in the most recently completed school fiscal year, or that adopts a current year budget that projects a deficit fund balance shall submit to the department a monthly monitoring report on revenue and expenditures in a form and manner prescribed by the department (2015).

This language precipitates the onset of the demands districts must adhere to when faced with financial challenges. New and revised education policies are enacted in every legislative session. Some policies are the result of a court decision (Addonizio & Kearney, 2012) and others may be the result of campaign promises. The legislation below is the latest amendment on deficit districts, which defines what a school district must do if it incurs an operating fund deficit. MCL 380.1220 (2015) states the following:

A school district, intermediate school district, or public school academy shall not adopt or operate under a deficit budget, and a school district, intermediate school district, or public school academy shall not incur an operating deficit in a fund during a school fiscal year.

If a school district, intermediate school district, or public school academy has an existing deficit fund balance, incurs a deficit fund balance in the most recently completed school fiscal year, or adopts a current year budget that projects a deficit fund balance, all of the following apply:

1. The entity must notify the superintendent of public instructions and the state treasurer.

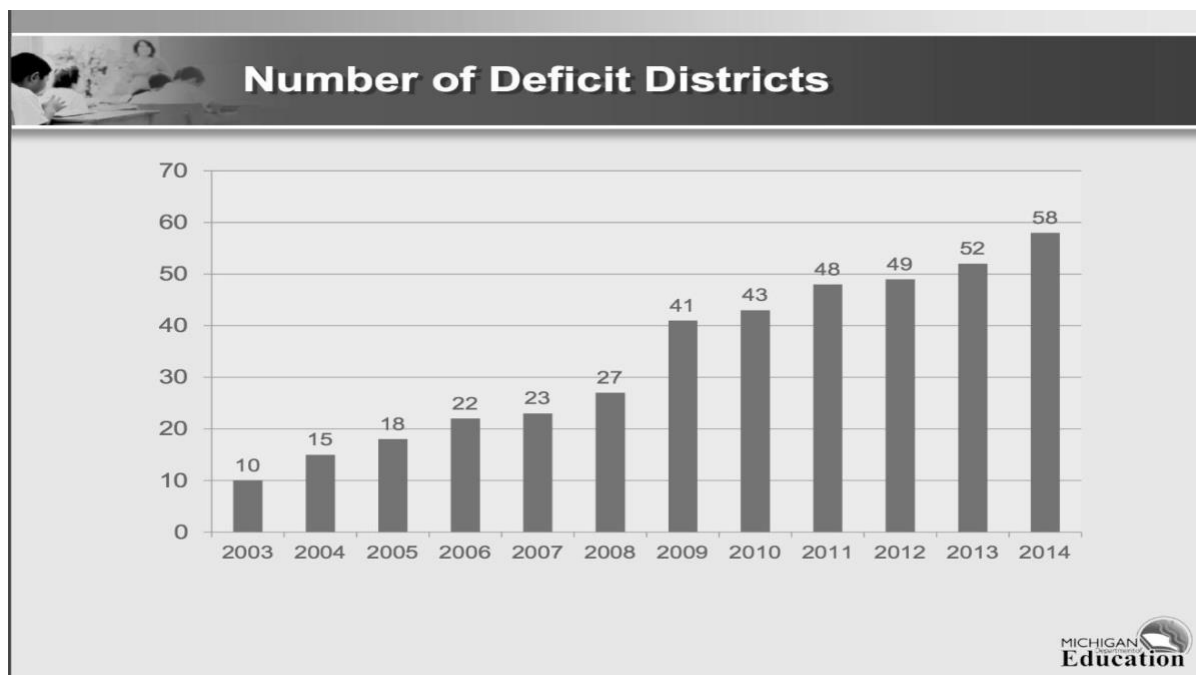
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2. Within 30 days submit to the superintendent of public instruction an amended budget and a deficit elimination plan (DEP).
3. MDE may withhold and release some or all of the money payable to the entity.
4. The DEP may require the inclusion of an academic plan.
5. The DEP shall be posted on the entity's website upon approval by the superintendent of public instruction.

The actions listed above causes both threats and tasks for school districts with financial deficits. The threat of withholding money from an already financially struggling district seems counterproductive to the mission of educating students.

**Deficit elimination plan for deficit districts.** It is mandatory that deficit districts participate in the State of Michigan's deficit reduction programs. Upon discovery of a district's operating deficit or adoption of a deficit budget, the Michigan Department of Education (MDE) will notify the district of its obligation to submit a deficit elimination plan (DEP) to MDE. The DEP is due 30 days after MDE notification or 30 days after the state school aid budget is passed, whichever comes later. Districts are required to develop and submit a budget that complies with the DEP and adheres to mandatory monthly monitoring by the Michigan Department of Education. Compliance with this monthly responsibility is essential to a school district's ability to keep the doors open for students. If a district fails to submit a DEP and/or monthly report that is not approved by the Michigan Department of Education, it jeopardizes its monthly state aid allocation. The DEPs are designed to assist districts in managing their resources. Figure 1 shows the number of school districts that had to provide a DEP from 2003 to 2014.

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*Figure 1.* Number of deficit districts. Reprinted with permission from MDE.

### Local Governance

District leadership is comprised of school board members who are elected by the local community and a superintendent who is hired by the school board. In most cases, the school board membership is made of seven members. Board members and superintendents are sometimes faced with challenging issues particularly when they are contending with a financial deficit. At times, they are faced with conflicting forces and issues (Johnson, 2007).

**School Boards.** The purpose of school districts, as defined in the state school code, is to provide educational services to children. The traditional local school district's board of education is responsible for developing policies, approving budgets, and hiring the superintendent (Wong, 1999). The role of school boards is becoming increasingly challenging over the years, especially

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in school districts where there is a need to reduce expenditures. Research by Johnson (2007) stated that, initially, school boards were just part of the education process background and their roles did not have a lot of conflict in their decision making (p. 22). He further asserted, “[T]heir roles changed; some became champions of lay groups, but others supported professional groups” (Johnson, 2007, p. 22).

Board members currently need to understand financial issues at the federal, state, and local levels as well as teacher contracts, curriculum, and other issues that place a demand on the district’s finances (Johnson, 2007). The demands on a school board member increases in districts with a financial deficit. Members of boards are asked to support the financial recommendations of superintendents to help restore financial solvency for the district. These recommendations could include cutting staff that may live within the school community. Tensions and conflict of interest may arise when school staff may be friends or acquaintances of individual board members. When individual board members do not support recommendations by the superintendent, it can cause friction.

On the other hand, when school board members support the strategies of a superintendent, it may be a matter of survival. If the school district believes that it will be taken over or dissolved, then the members may be more prone to support the reduction strategies posed by the superintendent. The culture and climate of the district may dictate how board members respond. As Pfeffer and Salancik (2003) stated, “External resource dependencies also affected internal power dynamics” (Introduction to the Classic Edition, para. 8). As such, school board members that have the final decision, also have the power to control the limited external resource. The school board is ultimately responsible for the governance of the school district and should select a leader with whom they are willing to work and whose leadership style is

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compatible with the school board. It is imperative that the school board and superintendent have a healthy, positive

working relationship if the school district is to consistently make the needed changes for improvement (Johnson, 2007). Johnson noted that external interests may influence decision-makers when a lack of resources necessitates changes in programs.

**Superintendents.** The role of superintendents in deficit districts can be more challenging than their counterparts in districts with a fund equity of 5% or above. Research by Johnson (2007) indicated that superintendents are faced with challenging issues that can make it difficult to focus on other matters (such as increasing student achievement). These include mandates from federal and state policies, community interests, and cuts in funding. Responsibility for trying to reduce a financial deficit and handle other duties can be an overwhelming experience for superintendents. Successful leadership can be attributed to, in part, as to how superintendents are trained, interact with the community, implement accountability mandates, and communicate.

Further examination of the roles of superintendents was the basis of a study conducted by Bredeson and Kose (2007). They administered two surveys that looked at education reforms and how these reforms had affected schools and the educators who worked in them. Using statewide survey data from 1993 and 2003, this study examined how the work of school superintendents had been affected over a 10 year period—especially the increased demands for accountability. The general message from their data was that superintendents were interested in curriculum and instruction and believed these were important tasks, but the daily realities of their work often subverted even the most committed professional. It was further asserted by the authors that whether one was speaking of direct, indirect, distributed, or other ways of asserting instructional

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leadership, increased attention and responsibility in superintendent instructional leadership was a desirable response to education reforms and accountability.

The key point is that over the years the role of education leaders has changed dramatically. The responsibility for education leaders has shifted over time—and even if they are held accountable for student results—many superintendents find that the actual day-to-day activities are far from the role they needed to play as leaders that yielded increases in student achievement. Bredeson and Kose (2007) described accountability measures as a governance shift from the local to the state and proposed that superintendents needed to adjust their behavior to fit new accountability policy environments. They also argue through the work of Firestone (1989) “that an examination of school district leadership would help policymakers understand whether reforms were viewed as opportunities or constraints” (p. 3). These findings could have implications for policymakers in understanding the actual role of a superintendent.

### **Factors Contributing to Deficit Districts**

This section addresses many contributing factors that may cause districts to be in deficit by the end of the school year. Overall, national funding for kindergarten through 12th grade is less than it was 7 years ago (Leachman & Mai, 2014). In looking at how school districts with financial deficits have dealt with the deterioration of Michigan’s precarious economy, eight prominent factors emerge as particularly relevant.

**Recession.** The recession in Michigan, beginning in 2008, has been attributed to the loss of jobs and loss of residents. The collapse of the three major automakers in Michigan also contributed to the economic recession. Workers were laid off and tax collection in Michigan suffered. The population shrank as people left the state to find jobs (Drake, 2014). Recessions can place budgetary stress on school districts. When property tax and sales tax collections are

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low, aid from the state is cut. School budgets are sensitive to the ebbs and flows of the state's economy. According to Senate Fiscal Agency (2015), Michigan lost approximate 163,200 individuals between August 2009 and March 2015. The unemployment rate during this same period declined from 14.2% to 5.6%. Even though the state saw employment gains of 285,000 jobs, the bulk of jobs emerged in early 2014 Senate Fiscal Agency (2015). This finding was supported by Addonizio and Kearney (2012, who reported more broadly that Michigan lost 880,000 jobs between May 2000 and July 2009, and approximately 376,000 residents moved out of Michigan during the same time.

Cyclical forces, such as recessions, can impact resources to school districts. In addition, state governments have reduced their contributors to public schools (Wong, 1999). During a recession sales taxes will inevitably decline, which in turn reduces the amount of money that goes into the School Aid Fund used to provide resources to school districts (Bolen, 2009). Reliance on state aid results in vulnerability for school districts. When the economy is weak, districts with low fund balances rely heavily on state aid. As such, these districts are more vulnerable. During economic downturns, these districts may be faced with dramatic reductions in state aid and potentially large budget cuts (Ammar et al., 2005, p. 239). Bolen (2009) asserted that "in Michigan where state funding is tied to sales tax revenue—which is further tied to the health of the economy—tax and expenditure limitation movements, declining enrollments, and recessions all have a negative impact on education budgets" (p. 21). Therefore, the decline in aid from the state is a major factor for districts with a deficit.

Despite revenue increases during the 2011–2015 school year, at the tail end of the recession, some school districts still suffered revenue loses. Total per-pupil funding (both general and categorical aid) rose nearly \$1,000 per pupil—from \$6,800 in FY 2011 to \$7,797 in FY 2015

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(CRC, 2014). Unfortunately, retirement contributions and health care cost consumed much, if not all the increases. A look at the SAF revenue from 1994 to 2014 is shown in Figure 2.

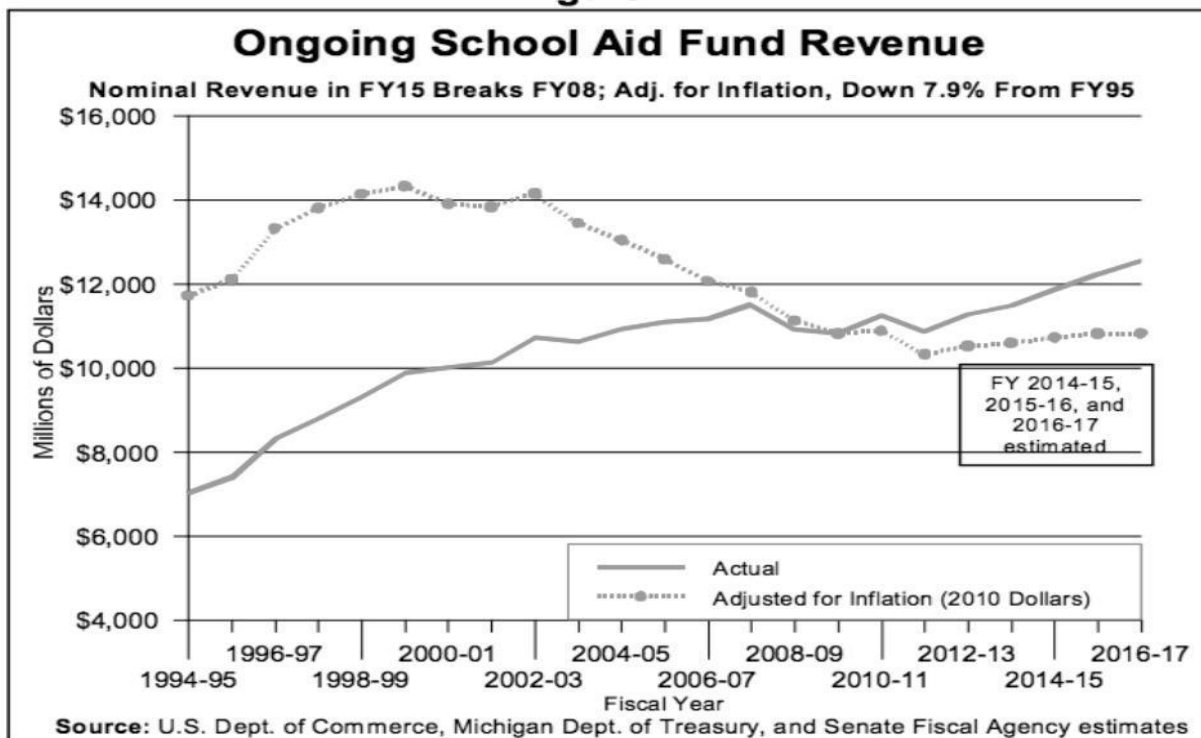


Figure 2. Ongoing School Aid Fund revenue. Reprinted with permission from Senate Fiscal Agency.

**Budget Cycle.** The timing of the budget cycle and incorrectly forecasting student enrollment can be a contributing factor to districts going into deficit. The fiscal year for school districts is July 1 through June 30 of the following calendar year. School districts are required to adopt their budget in June. It is difficult to accurately predict the number of students that will be in attendance in September at the time of the budget adoption in June. This type of budgeting system compels districts to use prior spending as a measure of resources needed for the following year. As such, a budget amendment that will portray the most accurate student count



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occurs in November (Price, 2015). According to Price (2015), “School districts can suffer sudden large enrollment losses not reflected in their previous enrollment history” (p. 93). As school choice opportunities increase in Michigan, enrollment projections in June is a hit or miss endeavor.

**Loans (SANs).** Within the 12 month June–July budget cycle, school districts only receive 11 state aid payments. No state aid allocations are given to school districts during the month of September. There is a disconnect between the school district’s budget cycle and that of the State of Michigan (which begins October 1 and ends September 30). During the gap between their last payment in August and first payment in October, school districts with low or no fund balance are forced to borrow money to meet payroll and cash flow needs (Price, 2015). This loan is called State Aid Notes (SANs) and districts must budget repayment of the loan with interest cost attached.

### **Michigan Public School Employees Retirement Systems and health insurance costs.**

A big concern for school districts as a school funding issue is the Michigan Public School Employees Retirement System (MPSERS). According to Price (2015), “Prior to Proposal A local school districts were partially reimbursed by the state for the employer’s share of the cost of this state-run system that provides monthly pension payments and health care for MPSERS retirees” (p. 104). Since Proposal A, school districts, generally, pay for the employer’s contribution to MPSERS out of their pupil membership aid (Miller, 2007; Price, 2015). Since the MPSERS rates increased from 2012–2014, these contributions reduce the amount of dollars available for instructional related expenses. As more educators grow older and more people retire, the payment of pension and health care costs will become exacerbated.

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**Loss of revenue.** During the 2011–12 school year, districts lost \$470 in state aid due to a compounding shortfall in revenues to the state treasuries. The Michigan legislature had to fix a \$2 billion gaping financial hole in the budget. Part of the solution to balance the state’s budget was to cut foundation allowance or state aid to school districts. As such, by the end of the 2012 school year, 49 school districts were in deficit and at the end of the 2014 school year, 53 school districts were in deficit (MDE Quarterly Reports, 2012, 2014).

**Enrollment decline.** Declining enrollment adds substantial constraints to school district budgets. In the school year 2002–03, K-12 enrollment was just over 1.75 million in Michigan. By the 2007–08 school year, student enrollment dropped to just over 1.66 million students (Addonizio & Kearney, 2012). According to MiSchool Data (2015), in 2014–15 student enrollment in Michigan was down to approximately 1.5 million. Due to the passage of Proposal A, the funding of a school district is primarily based on enrollment. In other words, the funding follows the child. When students leave a school district, the school district’s budget is reduced by the number of students who leave. This number can vary significantly from one year to another and is intensified during an economic downturn. Research of Clark (1956) and Pfeffer and Salancik (2003) asserted that “Schools [have] adapted their functioning to attract students since students were the sine qua non of existence” (p. 196). Although the authors were referring to adult education, this is also true for the K-12 education system.

Financial planning for school districts is difficult and they must institute “enrollment frugality.” The ways in which school districts respond to declining enrollment affects their budgetary practices. Being conservative in the enrollment estimates for the following year should be a practice particularly used for districts who face low to no fund equity. Since 2002, more than 75% of the school districts that existed at that time have experienced declining enrollment

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(Hollenbeck et al., 2015). More recently, during the 2011–13 fiscal years, over 66% traditional school districts faced losses in student enrollment (Price, 2015).

**School of choice/charter schools.** Another factor affecting the fiscal health of a school district is parental choice through the state’s School of Choice program. Linked to enrollment losses, this program creates financial instability for school districts when large numbers of students choose to attend another school district—which includes charter schools that accept students outside of the school attendance boundaries. Between 2010 and 2015, 46 additional charter schools opened, bringing the total number of charter school in Michigan to 302. During the same period, the student count in Michigan went from 1,559,847 to 1,520,074 in all public schools. This reduction of close to 40,000 students who left public schools can cause serious concerns and increased financial burdens to school districts with little or no financial equity. When a school district loses students, it occurs across all grade levels, sometimes the loss at each grade level is not enough to eliminate a teacher or other staff, and as such, it is difficult to reduce staff. Additionally, operational upkeep (heating, electric, etc.) is still needed whether there are 2,000 students or 1,800 students enrolled in the district (Price, 2015).

**Mandated financial obligations for districts.** The final factor involves mandates from the legislature. Michigan legislatures passed several bills that call for an increase in financial accountability for school districts. Since taking office, Governor Snyder has signed a total of 1,963 public acts (as of 10/29/15). Approximately 10% or 194 of all public acts since 2011 have been education-related public acts (Tri-County Alliance for Public Education, n.d.). Several of these public acts resulted in unfunded mandates. For example, buying flags in every classroom, extending the school year, and the possible need to hire staff to conduct yearly educator evaluations. There is not enough money or funding sources to enable districts to adhere to these

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laws and still maintain the level of adequate funding toward overall instruction. The pressure to comply with mandated yet unfunded initiatives for districts within the current financial strain increases the difficulty of superintendents to resolve financial deficits while maintaining strong instructional programs within their schools. Lastly, it is yet to be determined if these legislative practices lead to restoring fiscal solvency for districts.

### **Other Factors for Consideration**

There are three other factors that may contribute to a district falling into a financial deficit:

- 1) The district did not engage in long range planning.
- 2) The board of education and the superintendent were unwilling to make difficult decisions.
- 3) The district used all of its fund equity without correcting the structural deficit spending that caused it.

### **District Deficits: A National Issue**

Michigan is not alone in having local school district with deficits. Trussel and Patrick (2012) found some school districts across the U.S. experienced financial distress and these districts “used a variety of strategies to mitigate this distress” (p. 206). Some of these strategies included cutting programs that are not considered essential, such as music, art, advanced placement, nurses, and summer school. In 2013 Illinois State Board of Education produced a report, *A Guide to Understanding the Illinois School District Budget Process*. According to this document, local school districts should use its contents to report their budget to the state-level department of education. The document also outlines how to construct a deficit reduction plan. Many of the components in developing a plan to reduce a deficit are similar to those components

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required by the Michigan Department of Education. However, implementation of such plans can be counterproductive. Cuts in local school districts may undermine the academic achievement of students.

With many school districts across the nation facing funding woes, Baker, Sciarra, and Farrie (2010) looked at fair school funding in their report *Is School Funding Fair? A National Report Card*. When examining sufficient school funding, Baker et al. (2010) analyzed how states fund school districts that serve a significant population of students in poverty. Sufficient school funding is termed as *fairly distributed* to districts by the state that serves this concentrated population. States provide funding to school districts through a school funding formula. Each state has its own formula. These formulas contain both state and local revenues. According to Baker et al. (2010), Michigan funds 166 school districts that have a concentration of under 10% student poverty. This represents approximately 40% of the enrolled students in Michigan. On the opposite end, Michigan funds the same allocation to 25 local school districts with over 30% concentration of students in poverty. This represents 13% of the total enrollment of students in public schools. Michigan's mean actual state and local revenue per pupil was \$10,200 in 2006–07 (Baker et al., 2010). In 2013, the average percent of student in poverty for districts with a financial deficit was 30%. At least 21 local school districts with a financial deficit had census poverty of at least 30%.

Michigan was ranked 23 out of 51 states. According to Baker et al. (2010), the top state with the highest funding level was Wyoming with \$16,238. By comparison, Illinois' mean actual state and local revenue per pupil was \$10,179. In a ranking on how fairly states fund their public schools, Baker et al. (2010), graded and ranked Michigan with a D for its funding distribution and ranked it 16th overall.

## FACTORS AND STRATEGIES BY MICHIGAN SCHOOL DISTRICTS

### Summary

The review of the literature reveals that funding of public schools is a state responsibility. While federal funding accounts for approximately 13% of the total allocation, states across the country provide the majority of the funding to school districts. In Michigan, the way school districts are funded greatly contributes to some of the funding woes for school districts. Proposal A dramatically changed the ways in which school districts are funded. In the 2011–12 school year school districts were drastically reduced by \$470 per pupil, and despite some modest increases since this time, the funding level has not fully replenished the total loss. Additionally, due to the recession in Michigan, student enrollment has declined, leaving school districts with less revenue. With loss of revenue, some districts have fallen into financial trouble where their expenditures were higher than their revenue. Consequently, they were mandated by the state legislature to report this deficit to the Michigan Department and hence the requirement to complete a DEP. A review of the literature also revealed several important factors that have led to funding issues for school districts.

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### **Chapter 3: Methodology**

This chapter provides a description of the research methodology, data collection procedures, and data analysis used in this study. The purpose of the study was to describe and analyze the factors that contribute to financial deficits in Michigan school districts, the strategies used to reduce these financial deficits, and barriers that impede the reduction of financial deficits. This research focused on the factors, strategies, and barriers from traditional school districts that had at least one year in a financial deficit between FY 2011 and FY 2015.

Only traditional public school districts were used for this study. Inclusion criteria included having a financial deficit between school years 2010–2011 and 2014–15. Charter schools (also known as public school academies) in Michigan were not used due to a number of factors—including the lack of historical data, lack of longevity as a school entity, differences in governance structure, and their unique overall structure. To avoid skewed results, uniform comparative data is needed. Therefore, the data from several traditional school districts in Michigan were excluded from the study. Muskegon Heights Public Schools and Highland Park City Schools were excluded from the study because emergency managers had been placed in these districts during the 2010–2015 school years. Ypsilanti School District and Willow Run School District were excluded due to their merger or consolidation in 2013. Due to the dissolution of the district for the City of Inkster and Buena Vista School District in 2013, these districts were also excluded from the data sets. Lastly, the Detroit Public Schools Community District was excluded from the study due to the size of the deficit—which increased in years 2013, 2014, and 2015—and the length of time it had been battling with financial problems (since 2006). As a result, 58 Michigan school districts with funding deficits between FY 2010 and 2015 were identified for inclusion in the study.

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### **Methodological Approach**

The research methodology utilized for this study was a mixed methods approach. Both qualitative and quantitative models were used to collect and analyze data in pursuit of answers to the stated research questions. Qualitative studies tend to use words rather than numbers or use open-ended questions through interviews. Quantitative research data are in the form of numbers (McDavid, 2013; Creswell, 2014; Punch 2014). Qualitative research looks at things in their natural setting and then attempts to make sense of the collection of information (Denzin & Lincoln, 1994, p. 2). Using a qualitative non-numerical method is much more diverse than using a quantitative method in the collection of data (Punch, 2014). Interviews and observations are examples of the ways data can be collected when using a qualitative method. Quantitative research is concentrated on discovering or revealing facts about the phenomenon and works within a fixed system. The methodological approach for data for quantitative research is collected through measurements with numerical comparisons and statistical analyses.

This study used both qualitative and quantitative data to explain some phenomena. This mixed method approach is supported by the research of Creswell (2014) who stated, “The core assumption of this form of inquiry is that the combination of qualitative and quantitative approaches provides a more complete understand of a research problem than either approach alone” (p. 4). In the case of this dissertation research, this approach provided a comprehensive picture of Michigan school districts with financial deficits and helped to identify the issues surrounding their financial deficits. More specifically, the researcher examined factors that contributed to financial deficits, strategies used to reduce financial deficits, and barriers that existed in attempting to reduce financial deficits.



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During this research, the researcher maintained pragmatic assumptions regarding the development of the study (Creswell, 2014). According to Creswell (2014), the pragmatist viewpoint—or pragmatist paradigm—aligns with a mixed methods research approach by looking at many ways for collecting and analyzing data. This viewpoint also carefully examines and takes into account the ways in which social, historical, and political contexts can inform the research. Research design frames the type of inquiry pursued in the research and provides the direction for procedures in the study (Creswell, 2014). The design used in this study was an exploratory sequential mixed methods approach. McDavid (2013) stated, “Sometimes initial qualitative exploratory work is followed by a quantitative approach, particularly when an evaluator is developing survey questions” (p. 173). Similarly, the researcher began with qualitative research to explore the perceptions of the superintendents about factors, strategies, and barriers of reducing financial deficits and this information was later used to formulate the quantitative segment—a web-based survey.

**Qualitative approach.** Initial exploratory phone interviews were used to develop a quantitative survey. This non-experimental research approach entailed utilizing questionnaires and interviews to collect information that was analyzed to identify patterns or characteristics that later informed the development of an online survey for superintendents of deficit districts (Johnson & Christensen, 2012). Babbie (1990) found that interviews conducted by the researcher tended to yield a high success rate in completion and that a higher response rate occurred when the researcher conducted the interviews. Babbie (1990) further stated that interviews conducted by the researcher can help avoid confusion over the questions being asked. Two separate phone interviews were conducted with two superintendents who worked in a district with a financial

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deficit in order to ensure the appropriate questions were asked for the online survey of 58 superintendents.

McDavid (2013) stated, “A principal means of collecting qualitative data is interviews” (p. 173). Throughout the interview process, the two superintendents were asked open-ended questions to collect data and discover general themes. Researchers often use open-ended questions that solicit a response in the individual’s own words. Closed-ended questions were considered for this process, but they were not chosen as the respondents would have been asked to select their answer from among a list of provided responses (Babbie, 1990). This explorative qualitative approach helped the researcher to avoid imposing preconceived ideas and assumptions when creating the quantitative survey.

Each interviewee received the same set of questions. The researcher documented the responses in writing. As this survey did not elicit statistical representation of the larger population, the quantitative survey was constructed based on the discovery responses. The data obtained in the phone interview were compiled to reveal generalizations on factors, strategies, and barriers. In addition, the responses were used to formulate the questions for a survey for the superintendents in the study. It was posited by the researcher that some of the survey questions would focus on the reduction of staff, privatization of services, building closures, and cuts in school related programs. The results of the interviews informed the quantitative approach used to determine which strategies were common for other school districts with financial deficits and if there was a relationship among certain variables (Creswell, 2014).

**Quantitative approach.** The quantitative methods used in the study entailed the use of non-experimental survey research. Surveys make it possible to study an extensive number of research questions (Muijs, 2011). Surveys are frequently conducted to elicit descriptive assertion

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about some populations (Krathwold, 2009). This type of data collecting approach was preferred due to its ability to provide a quick turnaround of information from a large population (Babbie, 1990). The survey mainly consisted of closed questions and Likert-type rating scales. The standardized questions were used in the survey to provide clear comparability between respondents (Muijs, 2011). Within the survey, there were three questions where the respondents could write in additional information beyond the preset choices. The participants were identified by the researcher through unique research identification codes.

According to Muijs (2011), in quantitative research, numerical data are collected and statistically analyzed. This design was used to look for relationships, trends, and/or interactions related to predominate factors, specific strategies, and barriers that impact school districts in attempting to reduce financial deficits. The results of the survey were used to look for patterns in the responses. The survey was web-based and used Surveyqizmo, an electronic survey software. This web-based survey was used as an effective and efficient method of collecting a considerable amount of information about a target population.

### **Data Collection**

Since there is little research on the topic of deficit school districts in Michigan, a three-step process was used to capture data. First a spreadsheet was compiled, listing current variables such as the school district's name, intermediate school district (ISD) location, the superintendent's name, email address, and phone number. In addition to demographic data, other variables included the number of years a district was in deficit, enrollment information, June fund balances (2011–2015), and the average basic instruction amount used in the general fund in school years 2010–11 through 2014–15. This information was used to analyze and provide information on the districts for the study. An examination of documents on school finance and

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deficit districts, education policies, and education legislation on school funding was used to gather information for the spreadsheet and provide additional information on each of the districts in the study.

The Michigan Department of Education Office of State Aid and School Finance provides documents on every school district in the state, depicting the per-pupil foundation allowance, student count for each school district, and funding distribution by category (Michigan Department of Education, 2015). Further, the 2011–2015 Michigan Department of Education’s Quarterly Reports were examined to look at districts that ended the school year with a financial deficit, increased deficit, or ended the year able to reduce their deficits. Since 2012, the superintendent of public instruction for Michigan has provided a report to the Michigan Legislature (Michigan Department of Education, 2014).

For the spreadsheet, information and data were collected from a variety of sources and the compiled research included both peer-reviewed and non-peer-reviewed sources. These sources included MDE Quarterly Reports to the Michigan Legislature, Center for Educational Performance Information (CEPI), Department of Treasury, National Center for Education Statistics, Citizens Research Council of Michigan, related school funding, and school districts with DEPs. Statistical information from the Center of Education Performance (CEPI) was also used as part of the profile of each district.

Following completion of the spreadsheet, the researcher conducted phone interviews with two superintendents to gather information to contribute to the formulation of questions for the survey. Lastly, a web-based survey was designed and conducted to gather responses from superintendents who worked in Michigan school districts with deficits between the school years 2010 and 2011 on factors and strategies related to deficit districts.

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**Selection of Subjects.** According to State School Aid and School Finance 2015 data files, there were 541 school districts within 84 ISDs/RESAs in Michigan. There were 58 district superintendents within 28 ISDs who were participants in the data set for this study. Two superintendents were selected to provide information for a qualitative interview. Convenience sampling was used to identify the two superintendents. As described by Muijs (2011), convenience sampling is used when the researcher has easy access to the subjects. In this case, the researcher was aware of the efforts of both superintendents to reduce deficits in a district and had contact with them in the past. All participants were superintendents of Michigan school districts that were in financial deficits during the school years between 2010–2011 through 2014–2015.

**Interviews.** The phone interviews with the two superintendents were used to explore strategies used to reduce a financial deficit. These interviews also sought to identify barriers that exist in attempting to reduce a financial deficit, as prioritized by the superintendents interviewed. To establish trust and rapport, prior to the interview the two superintendents received an email detailing the purpose of the phone interview and informing them that their responses were confidential. Johnson and Christensen (2012) described confidentiality as protecting participants' privacy and anonymity throughout the research process and publication. During the phone interview, the researcher asked open-ended questions to each superintendent to garner their individual responses to the questions. The main purpose of the phone interviews was to describe the phenomenon rather than show a relationship (Krathwohl, 2009). The interview questions were designed to elicit detailed responses, yet the answers resulting from this exploratory phone interview were not intended to address the research questions of this study (Babbie, 1990). The

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explorative interviews provided insight on the type of information needed to develop the quantitative survey questions. The interviews also assisted in eliminating the researcher's bias on the topic.

To allow in-depth discussions and data collection from the superintendent's perception on the deficit reduction strategies for budgets, two superintendents were chosen due to their extensiveness in working in a district with a deficit. These superintendents added legitimacy to the predetermined criteria of those who have developed deficit elimination plans and/or are working in districts with deficit elimination plans. The two superintendents came from districts of varying enrollment sizes and varying financial deficits. The two superintendents were asked the following 12 questions for the phone interview:

1. How long have you been a superintendent in the school district with a financial deficit?
2. Are there any particular strategies you used to help reduce expenditure? If so, which strategies did you use to reduce expenditures and why?
3. Which strategies were considered but not used?
4. Were there any strategies you used to increase revenues? If so, which strategies did you use to increase revenues?
5. How much did that strategy save the district?
6. How long have you implemented that particular strategy?
7. What barriers did you face in attempting to reduce your deficit?
8. Was the board of education supportive of your recommendations to reduce cost?
9. Did your board of education support your recommendation to increase revenues?
10. What is your perception of the role of MDE in helping to reduce or increase revenue?
11. Did you hire staff to assist with the DEP process?

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12. What are your thoughts about the DEP process as it relates to timelines, paperwork, and responsiveness?

The phone interview took approximately 45 minutes to complete. The responses from the phone open-ended interview were codified into answers (Babbie, 1990).

**Surveys.** Superintendents who worked in a school district with a financial deficit were surveyed to obtain data to answer and address the research questions. Fifty-eight superintendents were emailed information about the survey several weeks before receiving the survey. Weekly follow-up electronic reminders were made to superintendents who had not participated in the survey. After three weeks, follow-up phone calls were sent to superintendents to help encourage participation and improve the response rate. In the end, 44 of the 58 superintendents responded to the survey, yielding a participation rate of 76%. See Appendix A for the complete survey.

The following standardized questionnaire was used for the electronic survey:

1. In your career, how long have you been a superintendent?
2. How long have you been a superintendent in your district?
3. Were you the superintendent of your current district between July 2010–June 2015?
4. Please rate your level of experience with working with school district budgets.
5. Did you inherit the financial deficit in your current district?
6. Which strategies were used to reduce the financial deficit? (Check all that apply.)
  - a. Reduced spending (e.g., Cut overtime, Cut purchase orders)
  - b. Adhered to budgetary constraints
  - c. Layoffs
  - d. Reduced staff through attrition

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- e. Wage reduction/Concessions
  - f. Cutting services/programs (e.g., Transportation, Music, Art)
  - g. Outsourcing/Privatization
  - h. Buy outs
  - i. Closed building(s)
  - j. Began or expanded School of Choice program
  - k. Increased funding (e.g., Grants, Millage)
  - l. Increased enrollment
  - m. Strict adherence to contracts
  - n. Other—Write in
7. Which strategies were considered but not supported by the union, board of education, and/or parents and the community? (Check all that apply.)
- a. Reduced spending (e.g., Cut overtime, Cut purchase orders,)
  - b. Adhered to budgetary constraints
  - c. Layoffs
  - d. Reduced staff through attrition
  - e. Wage reduction/Concessions
  - f. Cutting services/programs (e.g, Transportation, Music, Art)
  - g. Outsourcing/Privatization
  - h. Buy outs
  - i. Closed building(s)
  - j. Began or expanded School of Choice program
  - k. Increased funding (e.g, Grants, Millage)



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- l. Increased enrollment
  - m. Strict adherence to contracts
  - n. Other—Write in
8. The Michigan Department of Education approved the deficit elimination plan promptly. (Responses ranged from *strongly agree* to *strongly disagree*)
9. If you currently do not have a deficit, what are the changes that the district may go into deficit again within the next three years?
10. What do you think contributed to the district's deficit? (Check all that apply.)
- a. Cut in pupil foundation allowance
  - b. Declining enrollment
  - c. MPSERS increase
  - d. Health care cost increase
  - e. Other—Write-in
11. When do you project that the district will be out of deficit? (Choices ranged from June 2017 to over the next three years)
- a. Not in deficit this current school year
  - b. This year, June 2017
  - c. June 2018
  - d. June 2019
  - e. Longer than 3 years
  - f. Unknown

The results from the survey were aggregated to determine three results: strategies considered but not used, strategies used most frequently, and barriers presented that prohibited

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implementation of a strategy to reduce cost. The results of the surveys provided mathematical information that that was analyzed using statistical procedures from SPSS v22.

### **Validity and Reliability**

Babbie (1990) stated, “Reliability is the matter of whether a particular technique, applied repeatedly to the same object would yield the same results each time” (p. 132). However, reliability does not ensure accuracy any more than precision does. Asking people only questions they are likely to know the answers to and asking them about things relevant to them are two techniques available for measuring the reliability. In addition, it must be clear what is being asked (Babbie, 1990). Babbie (1990) further stated, “Validity refers to the extent to which an empirical measure adequately reflects the real meaning of the concept under consideration” (p. 133). The validity of the interview and survey strength was maintained through the data collected from only superintendents who had knowledge in the deficit elimination process.

### **Measures to Ensure Safety, Anonymity, and Confidentiality**

Measures to ensure safety, anonymity, and confidentiality were as follows:

- IRB approval (see Appendix B);
- methods used to inform participants of their rights, potential threats, and expectations for privacy and anonymity; and
- security measures taken to ensure data were secure (storage in secure location, use of password protected computers, and files only accessible to the researcher)

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### **Data Analysis**

The data analysis is framed around the research's purpose of exploring the factors that contribute to financial stress, examining the strategies used by superintendents to reduce financial deficits, and investigating the barriers that may prohibit the reduction of a financial deficit. To provide a financial picture of the school districts in this study, SPSS program was used. Spreadsheet data were entered into SPSS in order to generate the analysis and allow for statistical correlational testing. This program provided the statistical analysis needed to discuss the financial characteristics related to this study of the school districts with deficits. These characteristics included declining enrollment, years in deficits, the fund balance for each of the 58 districts for school years 2010–2011 through 2014–2015, and cumulative deficit dollar amount for the 58 school districts during the 5 years. Since intermediate school districts (ISDs) may offer support to school districts with deficits, the study listed the ISD where the district's boundaries resided to compare the number of deficit districts with ISDs. This information was also incorporated in the SPSS database.

The online survey responses provided information on the tenure and experiences of the superintendents and on the factors, strategies, and barriers related to financial deficits. This information included the number of years a superintendent has served in the districts with a financial deficit and the number of years a superintendent has served as a superintendent in their career. Additional information included whether the superintendent inherited a deficit.

Initially, the goal was to report the data that provided overall financial information on the school districts. For example, the number of districts with deficits between school years 2010–2011 and 2014–2015, followed an examination of the funding allocation during the same

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period. Next, the cumulative fund balance of the 58 school districts were revealed to show if a correlation existed between the level of funding and the cumulative deficits.

Since the survey participation was high, the data looked at the length of time it took to complete the survey to see if the time could provide guidance to future studies. The next phase was to look at the factors that may contribute to a financial deficit. The tenure of a superintendent would appear to be an important factor: the tenure as a superintendent in a deficit district and the entire tenure in the role of a superintendent. In both cases, a frequency distribution was used to report these data for the superintendents who participated in the survey. Equally important was to look at the level of experience a superintendent had in working with school district budgets. To determine this experience this information was addressed in the survey and a frequency distribution was performed. A univariate analysis of variance was used to look at the enrollment decline for the school districts during the years of focus of this study.

The survey looked at which factors were more prevalent as revealed by the superintendents who participated in the survey. Survey data analysis also looked at how many superintendents used specific strategies to reduce a deficit and which strategies were the most frequently used to reduce a financial deficit. The survey analyzed the data on barriers that prohibited a reduction of a deficit. The three frequently referenced areas were ranked in order to determine the most prevalent response.

### **Summary**

The purpose of this research was to study the factors that contribute to financial deficits, examine the strategies used to reduce deficits, and explore the barriers that may prohibit the reduction of financial deficits. Fifty-eight traditional public school districts with financial deficits between school years 2010–11 and 2014–15 were the focus of this study. The research

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methodology utilized for this study was a mixed methods approach. Both qualitative and quantitative models were used to collect and analyze data in pursuit of answers to the stated research questions. More specifically, the study was an exploratory sequential mixed methods approach.

The data was collected using a three-step process:

1. Spreadsheet was compiled listing variables on the individual school districts.
2. Phone interviews were conducted to assist with compilation of questions for the online survey.
3. An online survey was presented to 58 superintendents to capture their responses.

The data analysis used to capture the information included statistical analysis of the financial information on the districts and survey results.

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### Chapter 4: Results

This study aimed to examine the factors that contribute to school districts' financial deficits, the strategies superintendents used to reduce financial deficits, and barriers that may prohibit the reduction of financial deficits. The chapter begins with information on deficits districts and the resources available during the focused school years of this study. This chapter, also, examines the study's findings in relation to the research questions using two methods of data collection: a database, SPSS, was developed using of a collection of variable from online sources to provide information on the districts, and the survey, Surveygizmo, was used to provide information on the superintendents and address the research questions. Lastly, this chapter concludes with a discussion of auxiliary findings.

Fifty-eight traditional local school districts with financial deficits made up the data set for the SPSS database. Documentation from the Michigan Department of Education, Senate Fiscal Agency, and Center for Education Performance Information (CEPI) provided the information to create the variables used for the various outputs. Three of the data points were used to formulate a SPSS database. This included years in deficit, enrollment trends, and fund balances for the targeted five school years between 2010–11 and 2014–15. These same 58 local school districts contained within the boundaries of 28 intermediate school districts in Michigan were given an online survey to complete. Each of the 58 school districts lacked financial stability for one or more years between school years 2010–11 through 2014–15.

The following sections draw from data derived from the database and the responses from the online survey to address the three research questions:

1. What are prominent factors that contribute schools district deficits?
2. Are there specific strategies commonly used by Michigan school districts with financial

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deficits to reduce deficit budgets?

3. What barriers exist that would prohibit reduction of financial deficits for Michigan school districts?

### **Description of Deficit Districts**

The following chart displays the increasing number of deficit districts between 2003–2014 (see Figure 3). This chart includes both traditional public schools and public school academies (charter schools). During the focused years of this study (2010–11 through 2014–15), 48 school districts had financial deficits in school year 2010–11. In the 2013–14 school year, the number of school districts with financial deficits peaked to 58. According to the Michigan Department of Education’s *December 2015 Report to the Legislature*, the 2014–15 school year had the fewest number of school districts, 39, with a deficit. These numbers include both traditional school districts and public school academies/charter schools. As mentioned earlier, only traditional public schools were included in the research for this study. On average, charter schools made up approximately 2% of the total number of districts with deficits during the school years 2011–12 through 2014–15.

While no detailed information is available from the Michigan Department of Education for June 2011, nine school districts eliminated their financial deficits in June 2012. In 2013 and 2014, 12 school districts eliminated their financial deficits and 20 school districts eliminated their deficit in 2015.

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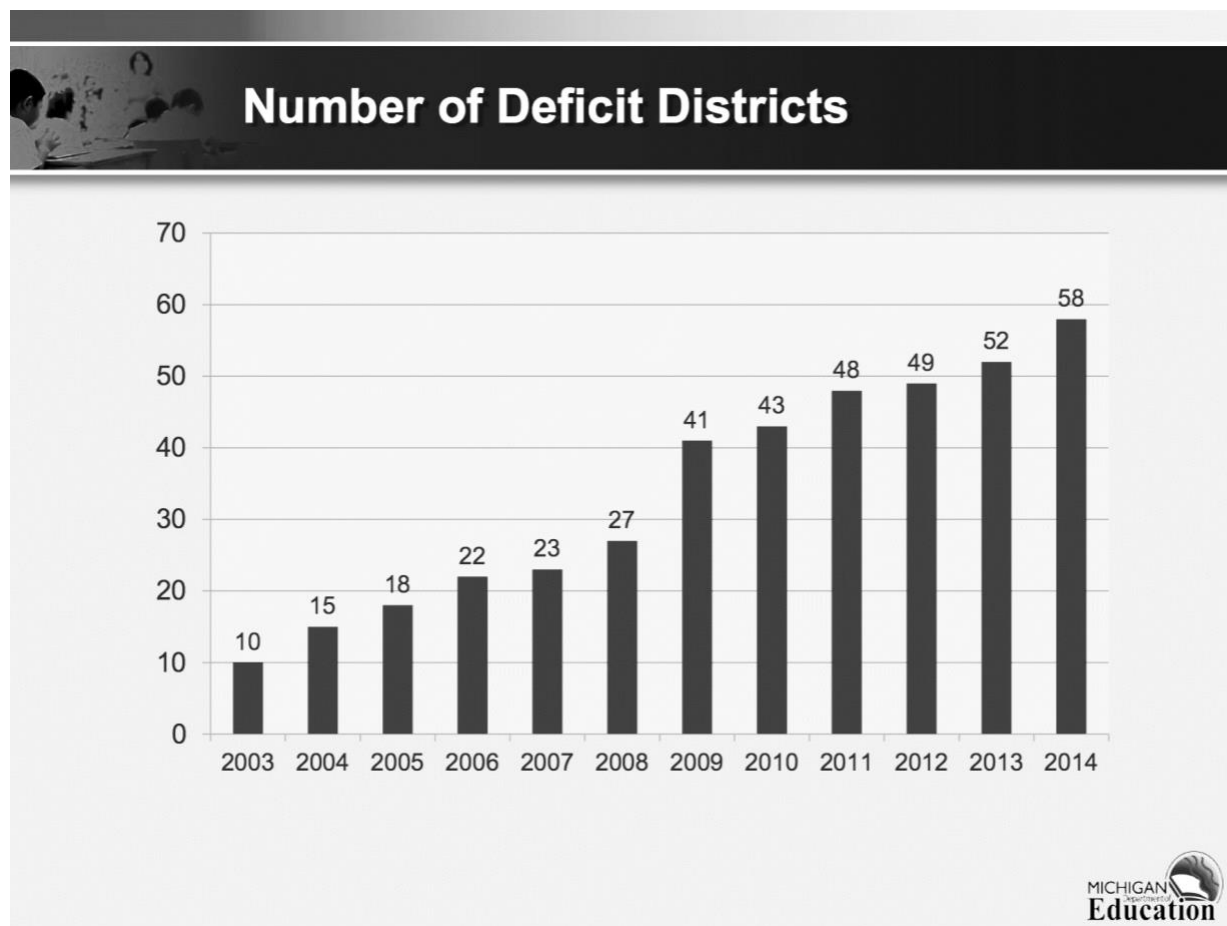


Figure 3. Number of deficit districts trend. Reprinted with permission from MDE.

**Basic foundation allowance.** The basic foundation allowance is a primary source of funding for school districts in Michigan. According to House Fiscal Agency (2016), “District foundation allowances have been calculated each year by adding incremental dollar increases (or decreases) to the initial amount” (para. 8). This initial minimal amount was set at \$5,000 per pupil, but paid out as \$4,200 per pupil, in FY 1994–95. The increases (or decreases) are determined by the Legislature. Table 1 displays the basic foundation allowance per-pupil increases over the past 12 years. During the years of this study, the net increase to the basic foundation allowance was -\$390. The amount of funding a school district receives each year and their dependence on this funding is critical to the financial stability for school districts.



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Table 1

*Basic Foundation Allowance Increase During Years of Study*

Fiscal Year	Dollar Increase
2010-2011	0
2011-2012	-470
2012-2013	0
2013-2014	30
2014-2015	50

Adapted from Senate Fiscal Agency, the Basics of School Funding, July 2015.

Reflecting an overall decrease of funding in the basic foundation allowance during the years of this study, Table 2 shows the cumulative fund balances each year for all the traditional school districts that had a financial deficit between the school years 2010–11 through 2014–15. The overall decrease of funding during these years could be one of the reasons why a district ended up in deficit. Fifty-eight traditional school districts chosen for this study had a financial deficit for at least one year between the school years focused in this study.

Table 2

*Cumulative Fund Balances for School Years 2010–11 Through 2013–14*

	<i>N</i>	Cumulative balance
June 2011 Fund Balance	48	(\$24,534,392)
June 2012 Fund Balance	58	(\$37,683,487)
June 2013 Fund Balance	58	(\$51,677,552)
June 2014 Fund Balance	58	(\$39,077,646)
June 2015 Fund Balance	58	(\$33,438,425)

**Intermediate school districts.** Each school district is part of a larger county school district called an intermediate school district. Twenty-eight out of 56 intermediate school districts (ISDs) in Michigan had districts with deficits contained within their boundaries. Wayne

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County had 16% (nine in total) of the districts with financial deficits, followed by Macomb ISD with 12% (seven in total) districts (see Table 3). In July of 2015, the Michigan legislature enacted Section 380.1220, which required school districts that have not eliminated their financial deficits within 5 years to submit an “enhanced deficit elimination plan” to the department of treasury. The law also required the department of treasury to consult with the intermediate school district in which the deficit district was located. ISDs with a large number of districts with financial deficits, may find it difficult to provide the needed help for districts to eliminate their deficits.

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Table 3

*Number of Districts in Deficit Within Each ISD*

ISD Name	Frequency	Percent
Alpena -Montmorency-Alcona ESC	2	3.4
Bay-Arenac ISD	1	1.7
Berrien RESA	1	1.7
Berry ISD	1	1.7
Calhoun ISD	3	5.2
Cheboygan-Otsego-Presque Isle ESD	4	6.9
Copper Country ISD	1	1.7
Dickinson-Iron ISD	2	3.4
Eastern Upper Peninsula ISD	1	1.7
Genesee ISD	3	5.2
Gratiot-Isabella RESD	1	1.7
Hillsdale ISD	2	3.4
Iosco RESA	1	1.7
Livingston ESA	2	3.4
Macomb ISD	7	12.1
Menominee ISD	1	1.7
Monroe County ISD	1	1.7
Muskegon Area ISD	1	1.7
Newaygo County RESA	1	1.7
Oakland Schools	4	6.9
Saginaw ISD	2	3.4
Shiawassee RESD	1	1.7
Traverse Bay Area ISD	2	3.4
Tuscola ISD	1	1.7
Van Buren ISD	1	1.7
Washtenaw ISD	1	1.7
Wayne RESA	9	15.5
West Shore ESD	1	1.7
Total	58	100

**Survey Participation**

Superintendents were asked to complete a 12-item survey. Out of the 58 districts identified with financial deficits during school years 2010–11 through 2014–2015, 44 superintendents participated in the survey with the response rate of 76%. This response rate adds to the quality of the data extrapolated from the survey responses. Superintendents have a busy

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schedule, and it is presumed that one of the reasons for the high response rate is the short amount of time it took to complete the survey. The average time for superintendents to complete the 12-item survey was 7 minutes and 39 seconds (see Table 4).

Table 4

*Survey Completion by Minutes*

	<i>N</i>	Minimum	Maximum	Mean
Time to complete the survey	44	2	36	7.39

Most of the superintendents took between 3 minutes and 8 minutes to complete the survey (see Figure 4).

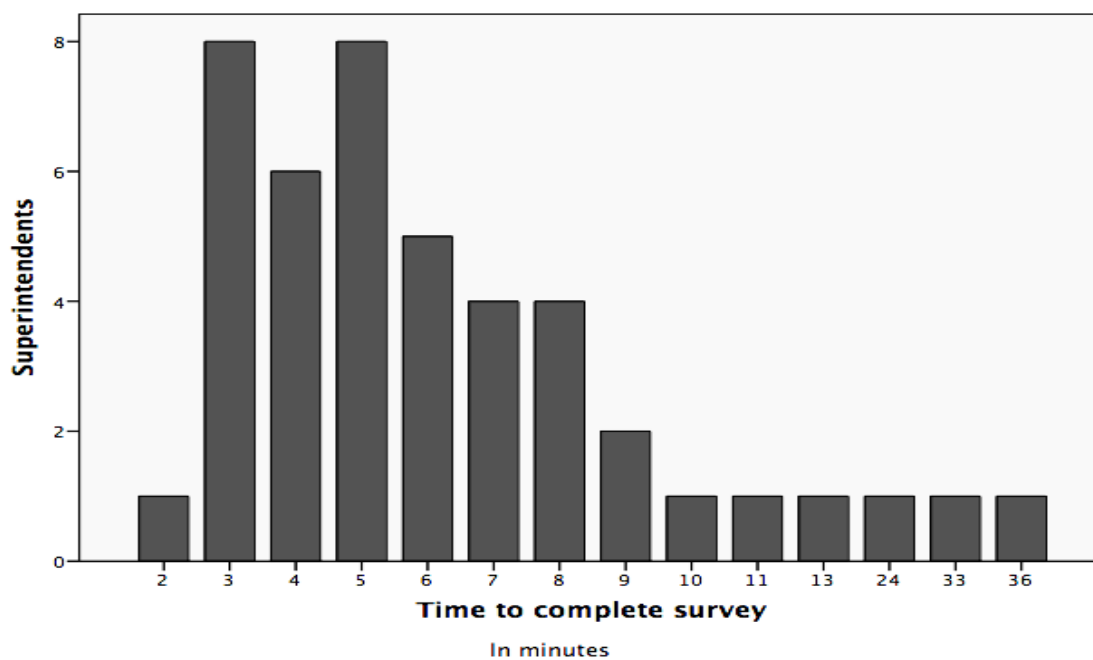


Figure 4. Time to complete survey ( $n = 44$ ).

**Survey Results**

The survey questions, with the exception of three, were answered by all of the 44 participants. Two questions were answered by 42 of the respondents and one question was

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answered by 41 of the respondents. These skipped questions may have been non-applicable to superintendents who were not working in the district at the time of deficit. The results from the survey indicate that most of the superintendents in deficits districts had been a superintendent for 3 years or less. The majority of superintendent have less than 6 years of experience as a superintendent. Most of the superintendents inherited a district with a deficit. While the tenure of the superintendent is short, most believed they had average or advanced experience with working with school district budgets. The majority of the superintendents in districts with a deficit during the focused years of this study stated in the survey that their district did not currently have a deficit.

### **Research Questions**

**What prominent factors contribute schools district deficits?** The superintendents were asked questions in the survey to address this research question. Some of the questions referred to their experiences as superintendents and included their perceptions on their experiences with working on school budgets. There was a specific question in the survey that asked superintendents their thoughts on what contributed to the deficit in the district. In the examination of prominent factors that may contribute to school district deficits, several potential causes were discovered: the tenure of superintendents, their experiences with school district budgets, and enrollment trends.

***Tenure of superintendents.*** The tenure for a superintendent may contribute to the experience needed to reduce financial deficits. However, the data below show a different picture. Out of the 44 superintendents, almost 41%, or 18 superintendents who participated in the study, had been a superintendent for 1–3 years. Eighteen percent (8 superintendents) responded that they had been a superintendent for 4–6 years. Twenty-three percent (10 superintendents)

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responded with between 7–10 years, and 18% (8 superintendents) responded that they have been a superintendent for over 10 years (see Table 5).

Table 5

*Career as Superintendent*

No. of Years	Frequency	Percent
1—3 years	18	40.9
4–6 years	8	18.2
7–10 years	10	22.7
Over 10 years	8	18.2
Total	44	100

In addition to reporting the number of years in their career as a superintendent, they also reported how long they had been a superintendent in their current district and if they had experienced a financial deficit during school years July 2010–June 2015. Fifty-seven percent (25 superintendents) had been in the district with a deficit between 1–3 years and only 5% (2 superintendents) had been in the district for over 10 years (see Table 6).

Table 6

*Frequency Distribution of Superintendent Tenure in Current District (n = 44)*

Number of Years	Frequency	Percent
1-3 years	25	56.8
4-6 years	8	18.2
7-10 years	9	20.5
Over 10 years	2	4.5
Total	44	100

For this study, the researcher sought to see if the superintendents who responded to the survey were also the ones who served as superintendent during the focused years of the survey. Over half ( $n = 25$ , 55%) of the superintendents responded that they were the superintendent during the years of the study, 2010–2011 through 2014–2015. Superintendents were also asked if

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they inherited the financial deficits in their current district. Seventy-one percent of the (31 superintendents) reported they inherited the financial deficit when they became the superintendent in the district (see Figure 5). Since the majority of the superintendents inherited the deficit, they would have first-hand knowledge of the strategies used to reduce the district's financial deficit.

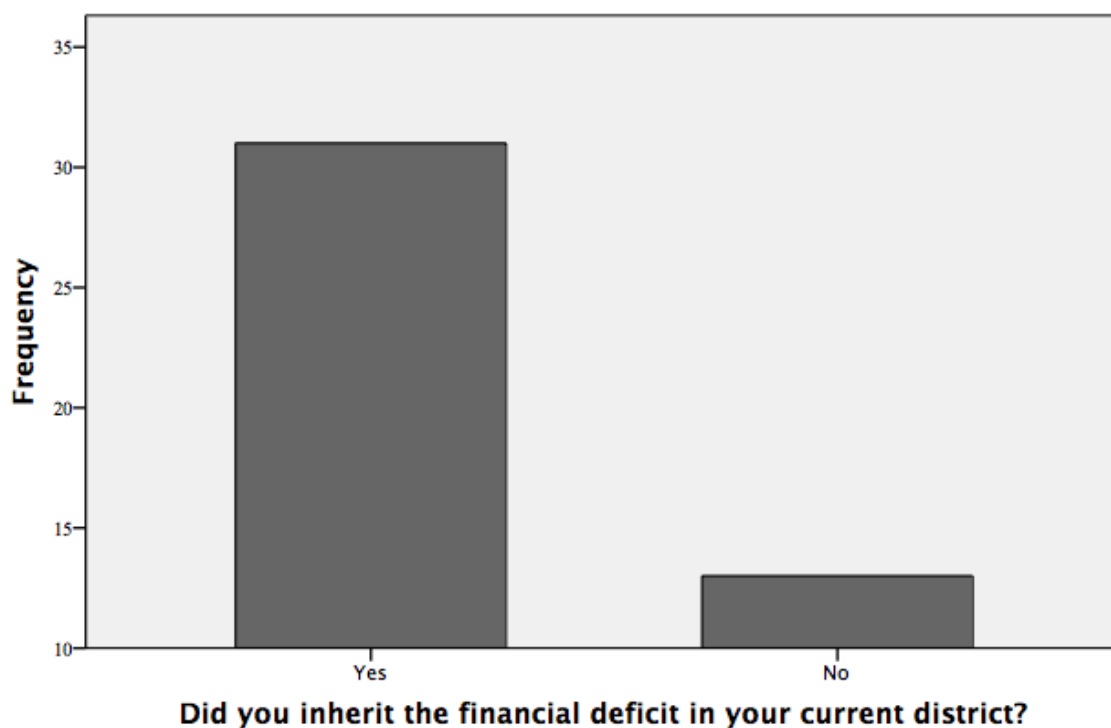
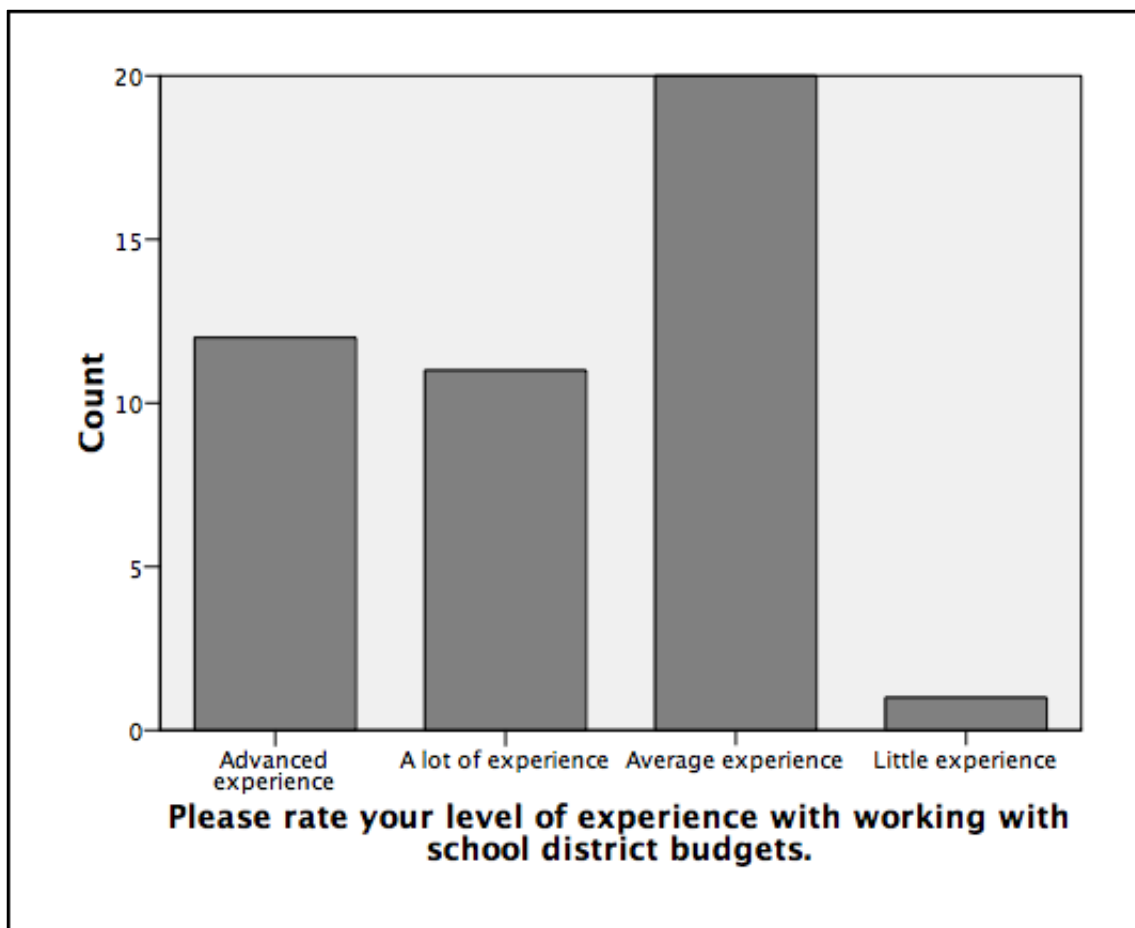


Figure 5. Number of superintendents who inherited the deficit ( $n = 44$ ).

***Experience with school district budget.*** Good financial management is essential in reducing deficits; therefore, having knowledge about school district budgets would appear to be an asset for superintendents—particularly those that work in districts with a financial deficit. According to the survey, 20 superintendents out of 44 believed they possessed average experience with working on school district budgets (see Figure 6). Only one superintendent reported on the survey having little experience with working on school district budgets. Ninety-

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seven percent of superintendents ( $n = 43$ , 97.7%) reported having average to above average experience with school district budgets.



*Figure 6.* Level of experience with school district budgets.

Table 7 shows a cross tabulation of the level of experience working on school district budgets and years of experience as a superintendent.



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Table 7

*Experience with Budgets and Years of Experience as Superintendent (n = 44)*

Years of Experience	Level of Experience				Total
	A lot	Advanced	Average	Little	
1-3 years	5	6	13	1	25
4-6 years	4	1	3	0	8
7-10 years	2	4	3	0	9
Over 10 years	0	1	1	0	2
Total	11	12	20	1	44

***Enrollment trends.*** Many school districts are facing declining enrollment. In 2009, the Center for Educational Performance and Information (CEPI) reported 1,487,297 students attended traditional public schools in Michigan. During the same period, the staffing totals for teachers reached 79,959 full-time equivalency (FTE) positions in traditional public schools. In 2013–14, student attendance decreased to 1,374,800. There were a total of 72,014 FTE positions for teachers. Citizens Research Council (2014) reported that 70% of all districts experienced enrollment change. From 70% of schools, “over one-quarter of all districts had declines of 10 percent or more” (p. 6). Accordingly, with the declining enrollment school districts were left with fewer resources and often a reduction in staff.

Thirty-seven (84%) of the 44 superintendents who responded to the survey reported that declining enrollment contributed to the district’s deficit. Using the database created for this study, Figure 7 shows 65% of the school district included in this study suffered enrollment losses. During the years of this study, three districts saw no change in enrollment. Eight of the districts saw their enrollment decline and then increase. Another eight districts saw their enrollment increase and then decline during the 2010–11 through 2014–15 school years. One district saw its enrollment increase, decrease, and then increase during this same period.

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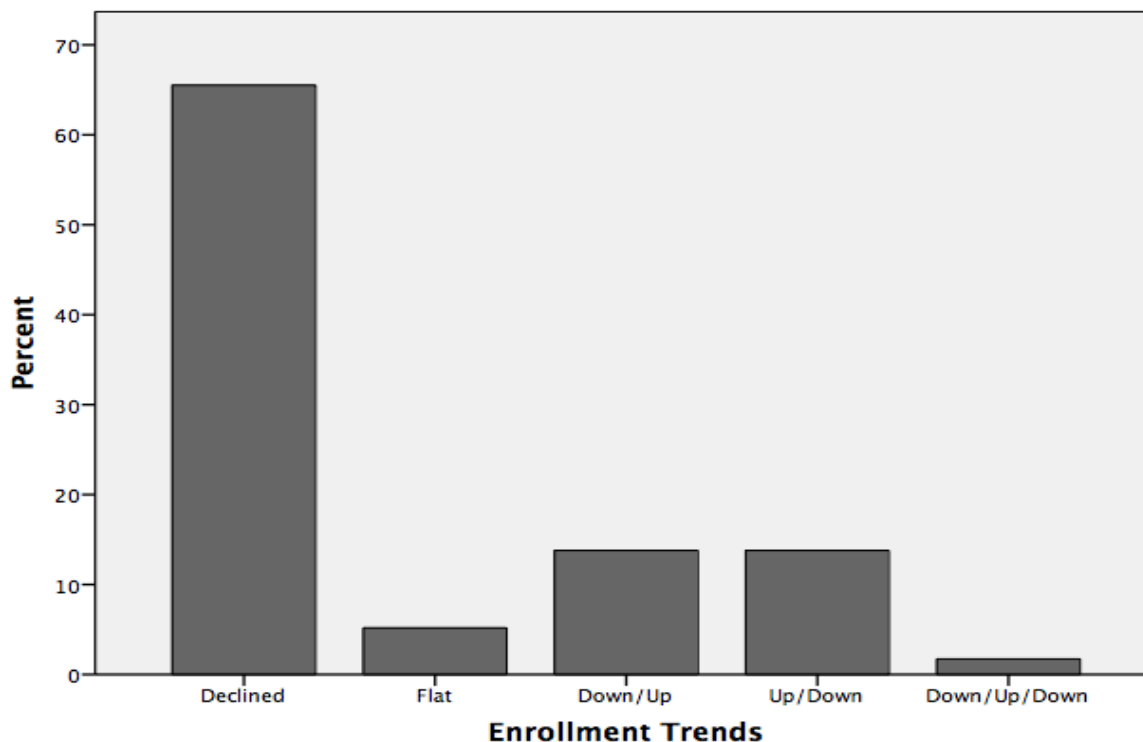


Figure 7. Enrollment trends.

*Additional factors that contribute to deficit.* Participants were asked to express their thoughts regarding a list of possible options, provided by the researcher, on contributing factors to the district's deficit. Respondents could select more than one of the listed options. In addition to the 37 (84%) superintendents who selected declining enrollment, 33 (75%) superintendents selected health cost increases, 32 (73%) superintendents selected a cut in pupil foundation allowance, and 28 (64%) selected Michigan Public School Employees Retirement Services (MPERS) increases. In this section of the survey, superintendents could write in additional factors they thought contributed to the district's deficit.

**Are there specific strategies commonly used by Michigan school districts with financial deficits to reduce deficit budgets?** Using a prefilled list of strategies in the survey, superintendents were asked to select the strategies used to reduce the district's financial deficit. The survey questions allowed the respondent to make more than one selection. In examining the

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responses from the 44 superintendents, 93% (41 superintendents) selected reducing spending (e.g., cutting overtime, cutting purchase orders, or eliminating purchasing new equipment for the cafeteria). Reducing spending was selected the most by the superintendents. Thirty-seven (84%) superintendents selected wage reductions and/or concessions as a strategy used to reduce the financial deficit. Thirty-four (77%) superintendents selected adherence to budgetary constraints, which was tied with reducing staff through attrition. Using layoffs as a strategy was selected by 28 (63%) superintendents. Table 8 contains the list from the survey and the selections by the superintendents.

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Table 8

*Strategies*

Strategies	Percent	Responses
Reduced spending (e.g., cut overtime, cut purchase orders, eliminated certain spending)	93.18%	41
Adhered to Budgetary Constraints	77.27%	34
Layoffs	63.64%	28
Reduced staff through attrition	77.27%	34
Wage reductions/Concessions	84.09%	37
Cutting services/programs (e.g., Transportation Music, Art)	45.45%	20
Outsourcing/Privatization	59.09%	26
Buy outs	25.00%	11
Closed building(s)	47.73%	21
Began or Expanded School of Choice Program	36.36%	16
Increased funding (e.g., Grants, Millage)	31.82%	14
Increased Enrollment	25.00%	11
Strict adherence to contracts	27.27%	12
Other–Write In	18.18%	8

Eight superintendents individually wrote in an additional response. These responses included the following:

- elimination of half of teacher’s planning time to reduce staffing (secondary teachers have planning time either first or second semester only, and elementary teachers have planning time every other day);

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- increased class size;
- instituted energy savings;
- created a marketing and public relations campaign;
- reimaged the district;
- implemented virtual program; and
- reduced legal costs.

**What barriers exist that would prohibit reduction of financial deficits for Michigan school districts?** Superintendents were asked which strategies were considered but were not supported by the union, the board of education (BOE), and/or parents/community. A list of strategies was provided in the survey. All 44 superintendents responded to this questions on the survey and selected one or more of the barriers provided by the researcher. Overall, 18 out of 34 (53%) superintendents reported that either the union, the BOE and/or parents/community did not support outsourcing/privatization as a strategy to reduce the district's financial deficit. Seventeen (49%) out of 35 superintendents reported that using a strategy of closing a building to reduce a financial deficit was not supported by either the union, BOE, or parents/community. Parents/community ranked the highest in this category by 12 (34%) out of 35 superintendents selecting this option.

A lack of support for wage reduction/concessions from the union and parents/community was reported by 17 (47%) out of 36 superintendents. Fifteen (42%) superintendents reported that the union was the top group in this area who did not support this option. However, the other 16 (44%) superintendents reported wage reduction/concession was supported by all—union, BOE, and parents/community. Three out of the 36 superintendents who responded reported that wage reduction/concession was not an applicable option for consideration.

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Thirteen (41%) out of 32 superintendents who responded to this question reported that the union, BOE, or parents/community did not support cutting services/programs. These programs may include transportation, music, and art as a strategy to reduce financial deficit. The same number of superintendents indicated that cutting services/programs was not applicable as a strategy for reducing the district's financial deficit. Further, 12 (32%) out of 37 superintendents who responded to this question reported that the union, BOE, or parents/community did not support layoffs. Sixteen (43%) superintendents reported that layoffs were supported by these groups. Nine (24%) superintendents indicated that layoffs were not applicable as a strategy for reducing the district's financial deficit.

Seven (21%) out of 34 superintendents responded the BOE did not support buy-outs as a strategy to reduce financial deficit. A "buy-out" is basically a financial incentive to get employees at the top of the pay scale to retire early so the district could replace them with employees with less years of service and pay them at a lower pay amount. An effort to reduce staff through attrition was not supported by the union and parents/community as reported by 7 (19%) out of 36 superintendents. However, another 25 (70%) superintendents indicated that reducing staff through attrition was supported by all three of the groups on the survey—union, BOE, and parents/community. Four (11%) superintendents indicated reducing staff through attrition was not applicable as a strategy. Strategies that scored high by superintendent in the "not applicable" options are presented in Table 9.

It should be noted that there was the option of "not applicable" for the question "Which strategies were considered but not supported by the union, board of education, and/or parents and the community?" There may be several reasons for superintendents to select this option. First, the superintendent may not have given this strategy any consideration assuming the strategy

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would not garner support. Secondly, this strategy may not have been available for consideration. For example, using a “buy-out” strategy to reduce financial deficit may not be feasibly possible and thus not discussed with the union, board of education and/or the parents/community. Lastly, the option may not have come under consideration because it was not a familiar strategy. For example, perhaps a superintendent looked at other strategies and did not think of strictly adhering to employee or service contracts.

Table 9

*Other Strategies Not Applicable*

Strategy	No. of Superintendents
Cutting services/program	13
Closing building(s)	14
Begin or expand School of Choice	13
Increase funding (e.g., grants and millages)	17
Strict Adherence to Contracts	13

***Deficit Elimination Plans.*** To implement the reduction needed to address the budget shortfall, the deficit elimination plan needs to be approved by the Michigan Department of Education (MDE). Waiting for approval can also be a barrier to implementing effective strategies. Districts may not be able to make the cuts or ask for concessions if a plan has not been approved by MDE. Approved plans can add leverage for the reductions that are needed. Forty-two superintendents responded to the survey question asking of prompt approval by the MDE for their districts’ deficit elimination plans. Twenty-two of the superintendents agreed, 1 superintendent disagreed, 8 superintendents responded that they were neutral on this issue, and 11 superintendents strongly agreed that the MDE promptly approved their deficit elimination

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plan. Two superintendents skipped this question.

Table 10

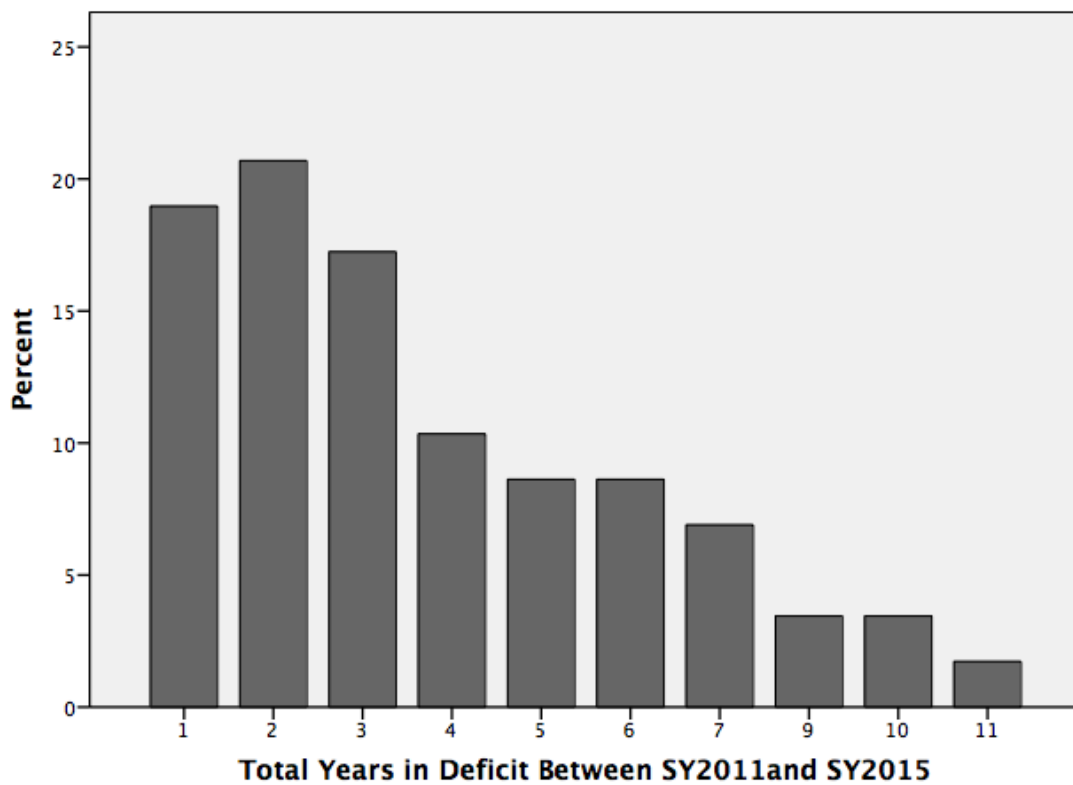
*MDE Approved DEPs Promptly (n=42)*

	Frequency	Percent
Agree	22	52
Disagree	1	2.3
Neutral	8	18.2
Strongly Agree	11	25

*Number of years a school district has been in deficit.* Figure 8 shows the percentage of years that the school districts were in a deficit. The longer a district has exhibited a financial deficit, the more difficulty they may have in reducing or eliminating this deficit. This may be a potential barrier to reducing a deficit. The majority of the districts had a financial deficit for 4 or less school years. Additionally, the amount of the deficit can determine how many years a district is in deficit and be a reason for the inability to reduce a deficit in 3 years or less.



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*Figure 8.* Total number of years with a financial deficit.

Table 11 is a cross tabulation of the number of years a district was faced with a financial deficit and the enrollment trend of the 58 districts used in this study. Comparing these two variables can provide information on the role enrollment declines have on districts with financial deficits.

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Table 11

*Number of Years in Deficit Compared to Enrollment Trends*

No. of Years	Decline	Flat	Down/Up	Up/Down	Down/Up/Down	Total
1	5	0	3	2	1	11
2	10	0	1	1	0	12
3	6	0	2	2	0	10
4	5	0	1	0	0	6
5	3	1	0	1	0	5
6	2	2	0	1	0	5
7	3	0	0	1	0	4
9	2	0	0	0	0	2
10	1	0	1	0	0	2
11	1	0	0	0	0	1
	38	3	8	8	1	58

**Ancillary Findings**

One of the final questions on the survey asked was when the district could be expected to be out of deficit. Of the 42 superintendent respondents, four predicted that their district would be out of deficit by June 2017. Four responded by June 2018 and three superintendents thought it would take longer than 3 years before the district would be out of deficit. Thirty-one superintendents reported that the district was not in deficit at the time of the survey, and two superintendents skipped this question. Forty-one superintendents responded to the question, “If you currently do not have a deficit, what are the chances that the district may go into deficit again with the next three years?” Nine percent responded that it was likely. Fifteen percent responded that they were unsure. Thirty-two percent of superintendents reported that it was unlikely. Twenty-seven percent reported that it was highly unlikely, and 17% responded that it was not applicable. Three superintendents skipped this question.

**Summary**

The data presented answer to research questions associated with the purpose of this study. Due to the various sizes of the districts and the amount of each district’s deficit, it is predicted

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that the outcomes will not be symptomatic of all the districts, but highlights the most prevalent among the districts in this study.

The number of districts with the designation as a deficit district grew from the years 2002 to 2014. The number of deficit districts doubled during the focused years of this study. During this same time, resources to schools declined. The results of the survey revealed that most superintendents of districts with deficits had 6 years or less of experience as a superintendent. The majority of the superintendents who participated in the survey indicated they had average or above experience in working with school district budgets. This would seem to be an asset as 71% reported that they inherited the financial deficits when they began as a superintendent in their current districts. The financial deficit in the districts lasted, primarily, between 1 and 3 years.

The survey results showed the factors that contributed to the district having a financial deficit. These included (a) declining enrollment, (b) cuts in pupil foundation allowance to schools, and (c) increases in the cost of health care and retirement. The survey results indicated that the superintendent implemented reduced spending, adherence to budget constraints, layoffs, wages reductions and concessions, and reductions in staff as the top strategies to reduce a district's financial deficit. Chapter 5 will discuss the conclusions drawn from this research, the implications for researchers and practitioners and recommendations for future research.

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### Chapter 5: Conclusion

#### Summary of the Findings

The purpose of this chapter is to provide a summary of the findings for the data collected and analyzed for this research. There is minimal variation in the literature review and the superintendents' responses on the factors that contribute to financial deficits. The strategies discussed in this study revealed familiar strategies, but the emphasis is on the commonality of strategies implemented by superintendents. The barriers that focus on the three stakeholder groups, board of education (BOE), union, and parents/community, show what areas superintendents can explore to garner the most support for the implementation of a specific strategy. Implications for practice are presented within this chapter along with recommendations for future research. State funding for schools is tied to the health of the economy in Michigan (Bolen, 2009; Citizens Research Council of Michigan, 2014). Beginning in 2008, a recession created an economic crisis for Michigan. Consequently, school districts received a cut in per-pupil foundation allowance. As a result, many school districts in Michigan were faced with financial deficits due to the changing economic conditions and enrollment losses. Subsequently, the number of school districts with financial deficits increased.

School districts across the nation are heavily dependent on state and local revenues (Wong, 1999). As such, state government has much power over school districts. Funding allocations directed to school often include a bevy of reporting requirements that require districts to comply with certain criteria to maintain these allocations. Districts must comply with the rules and regulations if they want this funding. Districts with a financial deficit must complete a deficit elimination plan as a part of this compliance. These deficit elimination plans (DEP) are submitted to the Michigan Department of Education. If the department approves a DEP, the

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district usually has 1–3 years to eliminate the deficit. In some cases, the department has granted an extension to the timeline if extenuating circumstances can be justified. These extensions usually range from 1–7 years; however, there are exceptions. For example, Pontiac Schools received approval for a 10-year plan.

The review of the literature illustrated the importance of support from the BOE in the recommendation of funding cuts needed to reduce financial deficits in school districts (see Chapter 2). The literature also indicated that factors that contributed to financial deficits included economic recession, education policies that provided financial mandates to districts in deficit, the misalignment of local and state education budget cycles, the State Aid Notes (SANs) loans, and the role of retirement and health insurance on school district budgets.

### **Reported Factors**

Three prominent factors informing financial deficits became clear from the perspectives reported by the superintendents who participated in the survey: (a) declining enrollment, (b) cuts in pupil foundation allowance, (c) health care costs and costs associated with Public School Employees Retirement Services (MPSERS).

**Enrollment decline.** Two-thirds of all traditional public school districts (360 of 543 districts) saw their enrollment decline from 2012–13 to 2013–14. Given the per-pupil funding allotment, declining enrollment clearly leaves school districts with fewer resources. Managing in an environment of declining resources—at least in the short term—can be difficult, especially when the funding reduction is sizable. Managing declining resources due to enrollment loss is a significant hardship for districts. The results of the study showed that declining enrollment was a major factor in financial deficits—as indicated by 84% of the participating superintendents. All schools

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faced some fixed (or semi-fixed) costs for building operations (i.e., lighting, heating, and maintenance), employing teachers, and staffing various non-instructional positions. When students left a district, many of these costs remain as they were vital to keeping school districts functioning. The reality is that the relationship between enrollment and district operational costs is not linear—rather all districts require a baseline of funding to function, above which nonessential services are accessed. School districts can reduce their budgets to accommodate a smaller student body when given time. The bottom line is that declining enrollment is and will continue to be a challenge for districts unless a more stable funding structure can be put in place. As student population decreases, there is more financial stress to districts. The decrease in student population has a greater impact on districts currently with existing deficits. The continual loss of revenue and the timing of the budget cycle, as discussed in Chapter 2, have a major impact on a district's budget.

*Schools of Choice.* Many school districts lose students through the Schools of Choice program. The Schools of Choice option has become more popular in recent years in many school districts. School districts are dependent upon parents' choices—as these choices equate to resources. Schools of Choice is a contentious issue among many school districts and BOEs. The results of the superintendent survey showed that only 36% of the participants reported beginning or expanding School of Choice in their districts. This indicates that, despite losing students, cutting costs was more of an impact on reducing financial deficits than trying to increase resources.

Education has become a very competitive environment to acquire students in order to fiscally operate within individual districts. Due to declining enrollment, more and more districts are trying to gain resources by opening their doors to Schools of Choice students.

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**Cuts in funding.** Due to Michigan's deteriorating revenues, Governor Rick Snyder and the legislature eliminated a \$2 billion budget deficit in October of 2011. As such, school districts' per-pupil foundation allowance was cut by \$470 in the 2011–12 school year. During this period, in which draconian cuts to K-12 education took place, 10 traditional school districts were added to the financial deficit list. In the 2012–13 school year, there were no increases to the per-pupil foundation allowance. Correspondingly, the overall amount of the cumulative negative fund balance increased by almost \$14 million. This relationship between the per-pupil foundation allowance and the negative fund balance illustrates the need for adequate funding. When funding levels slightly increased by \$30 in school year 2013–14 and by \$50 in school year 2014–15, the overall amount of the cumulative negative fund balance decreased. This study verified that cuts in funding had a significant impact on the number of school district with financial deficits.

**Health care and MPERS.** The rising cost of health care and retirement costs had a large impact on the financial stability of school districts in Michigan. Schools districts pay 33% of their employee costs budget in retirement costs. In 2013, the number of retirees supported by these funds in Michigan was nearly the same as the number of active members (Price, 2015). The number of retirees will increase in years to come, resulting in an unstable funded retirement system (Price, 2015). This, coupled with the rising cost of health care, are major contributors to financial deficits. Seventy-five percent of the superintendents responded that health care is major factor, and 64% of the superintendent responded that the MPERS increases were another major factor.

The three factors listed above are also a part of the eight factors listed in the review of the literature. These factors are beyond the control of the districts. It is important to note that some

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districts change the type of health care coverage or carriers they provide to their employees as a way to mitigate the increase in cost. This short-term solution is effective only until the cost of the new plan increases.

### **Reported Strategies**

Examination of the various strategies among the 58 school districts in this explorative study enabled the researcher to identify how districts across Michigan endured legislative policies that mandated changes in financial practices and implemented strategies to reduce the deficits. The most commonly used strategies used by superintendents to help reduce deficits were (a) reduction in spending for purchase orders and overtime, (b) reduction in wages and wage concessions, and (c) reduction of staff and layoffs.

**Reduction of spending.** It is no surprise that reducing spending would be the number one strategy used by superintendents in reducing the financial deficits. This strategy was the most common with 93% of participating superintendents reporting employing this measure. The way that spending was reduced was primarily through cuts in overtime and purchase orders.

**Wage reductions/concessions.** The results of the survey illustrated the strategy of wage reductions and concessions fell within the top three strategies for reducing the deficit. While this was a top strategy for some superintendents, other superintendents reported that this was a significant barrier. Wage reduction can be a contentious issue and superintendents cautiously utilize this strategy due to how responses from stakeholders can impact their job security.

**Reduction of staff and layoffs.** Similarly, but less dramatic, it is expected that the loss of student enrollment implies that the reduction of staff would be necessary. According to Leachman and Mai (2014), school districts across the nation reduced staff by 330,000 jobs by 2012. According to reporting superintendents, reduction of staff occurred in two ways: layoffs or



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reduction through attrition (elimination of staff positions). The majority of the superintendents used one or both of these strategies to reduce the deficit.

### **Reported Barriers**

This research examined the barriers school districts faced when trying to reduce their financial deficits. Boards of education, unions, and parents and the community were the primary focus in looking at barriers. Superintendents are dependent upon the support of these three stakeholders to reduce the financial deficit. When there is a lack of support from one or more of these stakeholders, it is presumed that the district is unable or unwilling to comply with the district's deficit elimination plan. This perception is often fraught with more intervention from the State.

**Boards of Education.** Due to the crucial relationship between BOE and the superintendent, this dissertation research examined the nature of BOE and its support of the superintendent's recommendations for reducing the deficit. The BOE has the final say on the recommendations to reduce the district's financial deficit. Building and maintaining good relations with the board of education is necessary part of a successful superintendent (Johnson, 2007). According to the superintendents who participated in the study, BOE were less likely to support buy-outs, followed by cutting services and privatization. This may be due to the added cost for buy-out programs and the length of time to see the savings. Nonsupport by BOEs for outsourcing/privatization and cutting services may exist due to the board not wanting to eliminate positions of those who live in the community, or upsetting parents by cutting transportation. Both groups are every school board's constituents.

**Unions.** Outsourcing/privatization was not supported by the union as indicated by 8 of 34 (28%) superintendents who responded to this question. According to the 36 superintendents

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surveyed who responded to this question, the union did not support wage reduction. Similar results were recorded for reducing staff through attrition with 14% of the superintendent responding that the union did not support this strategy. Eight percent of superintendents reported that the union did not support using layoffs as a strategy to reduce the district's deficit.

**Parents/community.** In examining the barriers to reducing districts' financial deficits through the closure of buildings, superintendents reported that parents/the community were against closing buildings, with 12 of 35 (34%) superintendents selecting this item. Additionally, parents/community were against cutting services, (e.g., transportation, music, art), which was a strategy chosen by 6 out of 32 (19%) superintendents.

**Overall lack of support.** Overall lack of support by the union, BOE, and parents/community is one of the primary reasons a district cannot reduce its deficit. The survey results showed 18 (54%) out of 34 superintendents responded that the union, BOE, and/or parents/community did not support outsourcing/privatization. Seventeen (48%) out of 35 superintendents responded that closing a building was not supported by all three groups. In addition, cutting services was not supported as reported by 13 (41%) out of 32 superintendents as well as layoffs where 13 (33%) out of 37 superintendents responded the lack of support by all. Lastly, eight (21%) out of 38 superintendents responded that reducing spending was also not supported by all. Since lack of support creates barriers for reducing deficits, this provides a rationale for why consent agreements or emergency managers have been assigned to run school districts. Both consent agreements and the authority of an emergency manager limits the power of the BOE and other stakeholders.

### **Implications for Practice**

To avoid a financial deficit, it is recommended that a district begin using strategies

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discussed in this study to reduce finances as soon as expenditures exceed revenues. While some districts can avoid facing a financial deficit by dipping into its fund balance, this practice should not continue for more than one year. It is highly recommended that strategies are used immediately to offset the loss of revenues. In other words, when school district begins to erode their fund balance, it should begin using these strategies and not wait until the district reaches a financial deficit that requires a deficit elimination plan. When faced with a financial deficit, the obvious remedy would be to cut spending, as suggested by the findings. However, the findings also suggested that simply adhering to budget constraints helped reduced a financial deficit. This further proves the point of early intervention instead of waiting until the district is faced with a financial deficit. The recommendation above is suggested for superintendents.

In 2017, the superintendent of public instruction in Michigan introduced partnership agreements (PAs) for 10 school districts. These agreements are formed with school districts that have schools that fall in the bottom 5% of academic achievement in the state. This agreement uses the school and community partners to generate and implement a plan for success. According to the Michigan Department of Education's (2017) website, as of September of 2017, eight traditional school districts have PAs with the Michigan Department of Education State Reform Office. Seven of these school districts had a financial deficit between school years 2010–11 through 2014–15. One of the partnerships included an agreement with the intermediate school district (ISD). Two ISDs carry over 10% of the number of traditional school districts with financial deficits, but the majority of the ISDs carry less than 2%. Given this variation, it may prove difficult for ISDs to assist districts in gaining fiscal solvency and academic improvements. As such, additional human and financial resources may be needed to meet the demands.

Given the per-pupil foundation allowance increases from 2013 to 2017, it appears that the

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number of school districts going into financial deficit has drastically declined. According to MDE Quarterly Report (2016), only one school district began FY2016 in with a positive fund balance and ended the year in deficit. There were 20 traditional school districts with financial deficits in 2016. One notable recommendation is that districts with deficits continue their deficit elimination plan even after eliminating the deficit to gain a sizable fund balance to avoid returning to a deficit fund balance.

There is a need for training of education administrator to ensure that they are equipped with the knowledge base to handle implementing strategies to reduced financial deficits. The study revealed that there was a sizable number of superintendents with a short tenure as superintendents. As superintendents leave the position, these positions must be backfilled with highly qualified replacements. Berry (2009) looked at the evolving changes in the preparation of educators in universities. Expecting prospective leaders to provide evidence of what they know through performance activities plays to the strength of programs in education administration. Acquisition of practical skills in school budgeting may prove useful in education leadership training program and would address Berry's concept of the real world of schooling. Berry likened the techniques used for education training to performance training for athletes and artists.

### **Future Studies**

Given the trends in school funding for the past few years, it appears that the legislature believes that coercive legislative influence motivates school districts to get out of financial deficits. The efficiencies of legislative social control need to be further studied. Further studies can look at the mobility rates of districts with deficits to determine a correlation between student mobility rate in districts able to reduce their deficit and districts that can not.

Additionally, further research could examine the percentage of student poverty levels of

## FACTORS AND STRATEGIES BY MICHIGAN SCHOOL DISTRICTS

districts with deficits compared to districts that do not have a deficit. This research could also examine the percent of students in poverty with the percent of the deficit is revenue. This may reveal the likelihood for districts to quickly reduce or eliminate the deficit. The issues surrounding the relationship between deficit districts and poverty are complex and involve other factors for consideration. There is a need to examine how resources should be distributed to determine how local school districts with a large percentage of students who live in poverty should be funded. States that have changed their funding systems to provide more aid to lower income districts should be studied further to see the economical and statistical impact on education—as noted in Card and Payne (2002).

The research could also explore how deficits impinge on instructional programs when superintendents work to meet the mandated requirements for developing and implementing deficit elimination plans. A district with a deficit is forced to implement strategies that are oftentimes counterproductive to student achievement. Attempting to cut expenditures while growing programs that attract students places a district in a difficult situation. As many school districts use education programs to lure in students from other districts, a deficit school district may be faced with trying to implement the same type of programming or gamble on new programs to keep students.

Further research can also study the impact of academic performance in districts with deficits. Cuts to local school districts make it difficult to produce quality education programs to help students achieve. This is especially true for districts where there are cuts in staff and education programs due to financial deficits. Further research could also study the correlation between a superintendent longevity in a school district and the school district's financial accountability. In addition, the study can look at superintendent and board relationships as

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factors for reducing and eliminating deficits.

### **Recommendations**

One recommendation includes addressing the misalignment of the school district budget cycle from July 1–June 30 and the state budget cycle from October 1–September 30. The 11 payments of funding allocation to school districts leave the school district short by one payment. School districts with deficits do not have a fund balance to use to fill the gap between their last payment in August and the first payment in October. Often, they need to take out a loan to meet payroll and operation obligations. This dynamic contributes to the deficit as districts must pay back the loan with interest. The interest payments further contribute to revenue loss. Policymakers should consider the distribution of funding allocations to school districts to ease the financial burden.

Charter schools do not have the same constraints as traditional public schools and do not have some of the same hurdles to garner support to reduce funds. For example, in most cases, charters can reduce staffing without contract restraints. Another reason would include the management structure of charter schools. The structure of charter school management resembles emergency manager governance. Emergency managers appointed by the governor serves as the chief administrative officer and has broad powers to assure fiscal accountability (MCL 141.1542, 2017). School districts with financial deficits have been forced to face the notion of losing the district either through the placing of an emergency manager to run the district or dissolution of the district. The legislature should consider giving the superintendents the same power of authority as emergency managers.

Finally, as economic recessions are cyclical, new methods of financing public schools must be considered to avoid this issue of deficit districts in the future. The past has proven that

## FACTORS AND STRATEGIES BY MICHIGAN SCHOOL DISTRICTS

the economy oscillates throughout the years. Therefore, history will repeat itself and Michigan one again will face an economic downturn. The economic downturn draws a clear picture that a stable revenue stream is needed for Proposal A to work. As such, to avoid the high number of districts with a deficit, a new funding formula should be considered in the very near future. The research indicated that enrollment decline was a major factor that contributed to districts going into deficit. This study also shows many of the reasons a school district fall into deficit is out of its direct control and more aligned with economic recession. It is recommended that state policymakers consider a “smoothing” funding approach school districts with financial deficits and large enrollment loses. This funding system should consider a smoothing of years when student enrollment declines over 10% and especially when there are funding cuts to school districts. When a district with a financial deficit loses 10% of its enrollment, then a “smoothing” funding formula should be put into effect. A district would lose only half of its students within two years and a third of its students within three years. This funding system should be in effect for the same duration as MDE has approved the district’s deficit elimination plan. For example, if a district with a student enrollment count of 1,000 students loses 100 students the following school year, that school district would receive funding for 950 students instead of 900. If the same school district loses another 100 students the second year, then it would receive funding for 933 students ( $1000+950+850=2800/3=933$ ). This would help ease the traumatic financial loss school districts experience in poor economic times. Other states used “differential pupil weighting or district-specific adjustments” to fund schools. (Cullun & Loeb, 2004, p. 6). Perhaps it is time to look at those states for successful funding models.

This next recommendation is a legislative change needed to keep district from falling further into deficit. If charter schools only make up on average 2% of the total number of district

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with deficits during the 2010–11 through 2014–15 school years, there should be an in-depth analysis of the charter school structure and financial process to understand how they are less likely to obtain a financial deficit. This disequilibrium between charter schools and traditional school districts' structure and financial process may be reflected in the small number of charter school on the list of deficit districts.

Despite the challenges associated with reducing or eliminating a financial deficit, there is evidence that show school districts are making progress. However, there are unintended consequences for meeting the demands of state policy and legislation. School districts with deficits do not have the resources to meet the demands and are faced with financial penalties for failure to comply. These financial penalties to either cut or withhold funds from school districts that are already in a financial deficit is counterproductive to reducing the deficit. Public policy around school funding may have unintended outcomes for certain districts. School districts spend a lot of time and energy completing monthly reports. It can be assumed that this leaves less time on student achievement. Therefore, greater attention should be given to a school district facing a deficit, not only from the monitoring stage but from state funding policy viewpoint. The factors that contribute to a school district deficit should be given careful consideration as most factors are beyond the control of the local school district and are a result of the state economy.

Therefore, it is recommended that the legislature consider providing boards of education with the same authority to manage a school district as charter schools. As such, boards of education should have similar power to make the necessary decision for reducing financial deficits. When the recourse for a school district that is unable to reduce their financial deficit is to assign an emergency manager or dissolve the district then give the boards of education the same power of authority and an emergency manager. This would eliminate the need to garner support from



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stakeholders and may allow budget reductions to occur sooner. If the school district believes that it will be taken over or dissolved, there may be a sense of urgency to support the reduction strategies posed by the superintendent.

### **Conclusion**

This dissertation study revealed commonly used strategies of superintendents to reduce the financial deficit within their districts. Additionally, other strategies emerged for consideration. The dissertation research illustrates the negative correlation between revenue and district deficits. As school districts gained increased per-pupil funding, more and more school districts eliminated their financial deficits. Similarly, the number of school district falling into financial deficit decreased. Districts in deficit have been broadly portrayed as incapable of responsibly managing their finances. However, the results of this study indicate that cuts in funding and declining enrollment are some of the primary reasons that school districts are faced with deficits. This study emphasizes that even when less funding is available to school districts, implementation of strategies alone may not reduce the deficit. Further, this study suggests that it is not until districts receive additional funding that deficits are reduced overall. Furthermore, the barriers that would prevent a district from reducing a deficit may not be monumental as some may believe—as demonstrated by the number of school districts that were able to reduce and eliminate their deficit. However, where there is a lack of support, the school district could benefit if the boards of education had similar authority as an emergency manager.

Based on the study of two theoretical frameworks in Chapter 2, on resource dependency and economic freedom, the conditions of the environment heavily influence organizational decisions. Legislation and the associated rules that impact a school district's budget can cause budgetary stress—hence limiting the economic and political freedom of school districts. School

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districts are coerced into complying with these laws so not to suffer the penalties, which include withholding state funding. Schools must acquiesce to these rules, as they cannot afford to operate the district without state financial aid. School districts are vulnerable when they have a heavy dependence on state aid. Dependable access to this monthly check is essential to the ability to keeping the doors open for students.

The findings indicate that of the three areas (factors, strategies, and barriers) studied in this research, factors are the most prominent causes for creating districts with deficits. The study emphasizes that strategies that school districts use when coupled with increased per-pupil foundation allowance have a huge impact on reducing the number of school districts with financial deficits. Many districts are facing reduction of revenues due to changing economic conditions in the nation. Between the years of 2008–2014, the number of school districts in Michigan facing financial deficit more than doubled. Proposal A gave property tax relief to and reduced the funding gap among school districts but failed to keep funding levels stable during poor economic conditions. State resources during an economic downfall are scarce presenting a challenge for school districts with financial problems. School districts are dependent upon these resources to survive; however, during periods of economic recession, the availability of these resources is inconsistent and uncertain. As these resources are allocated through per-pupil foundation allowance, there is no surprise the top factors contributing to financial deficits is loss of students and reduction in per-pupil foundation allowance to school districts. This study illustrates the need to offset this financial impact on school districts to help avoid financial deficits.

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## APPENDICES

## FACTORS AND STRATEGIES BY MICHIGAN SCHOOL DISTRICTS

## Appendix A: Survey on Deficit Districts

## Research Survey on Districts with Deficit July 2010-June 2015

1. To ensure that your responses are confidential, please create your unique Research Identification RID code (using the following instructions:

- a) List the first three letters of your District's name. (ex. Westwood-WES)
- b) List the first three letters of your last name and, (ex. Carnell-CAR)
- c) List the first letter of your first name. (ex. Sue-S)

Please place the combined the responses in the order of a, b and c to create your individual RID. in the box below. (e.g. a) Westwood-WES, b) Carnell-CAR, c) Sue-S=WESCARS).

\*This question is required.

2. In your career, how long have you been a superintendent?

- 1-3 years
- 4-6 years
- 7-10 years
- Over 10 years

3. How long have you been a superintendent in your current district?

- 1-3 years
- 4-6 years
- 7-10 years
- Over 10 years

4. Were you the superintendent of your current district between July 2010-June 2015?

- Yes
- No

5. Please rate your level of experience with working with school district budgets.

- No experience
- Little experience
- Average experience
- A lot of experience
- Advanced experience

6. Did you inherit the financial deficit in your current district?

- Yes
- No

7. Which Strategies were used to reduce the financial deficit? (Check all that apply)

- Reduced spending (i.e. Cut overtime, Cut purchase orders, Eliminated certain spending)

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- Adhered to Budgetary Constraints
- Layoffs
- Reduced staff through attrition
- Wage reductions/Concessions
- Cutting services/programs (i.e. Transportation Music, Art)
- Outsourcing/Privatization
- Buy outs
- Closed building(s)
- Began or Expanded School of Choice Program
- Increased funding (i.e. Grants, Millage)
- Increased Enrollment
- Strict adherence to contracts
- Other - Write In Please enter an 'other' value for this selection.

8. Which strategies were considered but **not** support by the Union, Board of Education, and/or Parents and the Community? (Check all that apply)

	Union	Board of Education	Parents/Community	Supported by all	Not Applicable
Reduced spending (i.e. Cut overtime, Cut purchase orders, Eliminated certain spending)					
Layoffs					
Reduced staff through attrition					
Wage reductions/concessions					
Outsourcing/Privatization					
Cutting services/programs (i.e. Transportation Music, Art)					
Buy outs					
Close building(s)					
Began or Expanded School of Choice					
Increased Funding (i.e. grants, millages)					
Strict Adherence to Contract					
Enter another option					
Enter another option					

9. The Michigan Department of Education approved the Deficit Elimination Plan promptly.

Strongly Agree
Agree
Neutral
Disagree
Strongly, Disagree

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10. If you currently do not have a deficit, what are the chances that the district may go into deficit again within the next three years?

Highly likely    Likely    Unsure    Unlikely    Highly Unlikely    Not applicable

11. What do you think contributed to the district's deficit? (Check all that apply)

- a. Cut in pupil foundation allowance
- b. Declining enrollment
- c. MPSERS increase
- d. Health cost increase
- e. Other - Write In

12. When do you project that the district will be out of deficit?

-- Please Select --

Not in deficit this current school year

This year June 2017

June 2018

June 2019

Longer than 3 years

Unknown

## FACTORS AND STRATEGIES BY MICHIGAN SCHOOL DISTRICTS

## Appendix B: IRB Approval Letter

**RESEARCH @ EMU**

**UHSRC Determination:** EXEMPT

**DATE:** October 27, 2016

**TO:** Sue Carnell, MA  
Department of Leadership and Counseling  
Eastern Michigan University

**Re:** UHSRC: # 960288-1  
Category: Exempt category 3  
Approval Date: October 27, 2016

**Title:** Study of the Factors Involved and the Strategies Employed by Michigan School Districts in Developing Deficit Elimination Plans

Your research project, entitled **Study of the Factors Involved and the Strategies Employed by Michigan School Districts in Developing Deficit Elimination Plans**, has been determined **Exempt** in accordance with federal regulation 45 CFR 46.102. UHSRC policy states that you, as the Principal Investigator, are responsible for protecting the rights and welfare of your research subjects and conducting your research as described in your protocol.

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

**Modifications:** You may make minor changes (e.g., study staff changes, sample size changes, contact information changes, etc.) without submitting for review. However, if you plan to make changes that alter study design or any study instruments, you must submit a **Human Subjects Approval Request Form** and obtain approval prior to implementation. The form is available through IRBNet on the UHSRC website.

**Problems:** All major deviations from the reviewed protocol, unanticipated problems, adverse events, subject complaints, or other problems that may increase the risk to human subjects **or** change the category of review must be reported to the UHSRC via an **Event Report** form, available through IRBNet on the UHSRC website

**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.

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 734-487-3090 or via e-mail at [human.subjects@emich.edu](mailto:human.subjects@emich.edu). Thank you for your cooperation.

Sincerely,

Beth Kubitskey  
Chair  
COE Human Subjects Review Committee