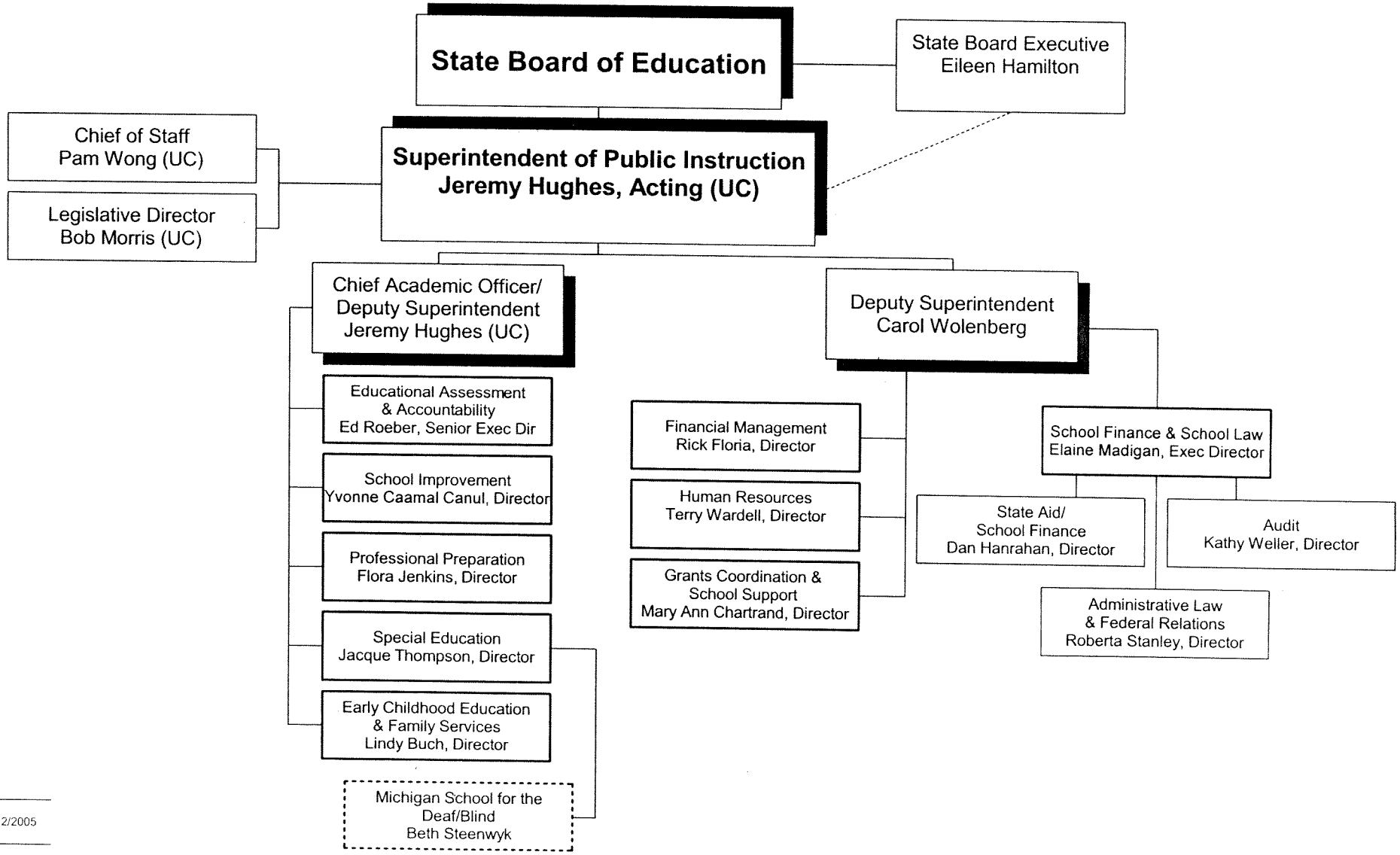
Michigan Department of Education
FY 2004-05



Rev. 2/2005

http://www.michigan.gov/mde

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50 Ways to Not Make Adequate Yearly Progress (AYP)

Federal "No Child Left Behind" Act

	Entire School	Racial/Ethnic Groups						Limited English Proficient	Students With Disabilities	Economically Disadvantaged
		Black or African American	American Indian or Alaska Native	Asian American Native Hawaiian or Other Pacific Islander	Hispanic or Latino	Caucasian or White	Multiracial			
Achievement - ELA										
Achievement - Math										
Participation - ELA										
Participation - Math										
Additional Indicator										

Missing the target in *any* of the 50 "cells" causes a school to Not Make AYP

- ELA – English Language Arts
- Additional Indicator – Attendance rate for elementary and middle schools; and graduation rate for high schools
- The racial/ethnic categories are taken from the U.S. Census, and the Single Record Student Database administered by the Center for Educational Performance and Information (CEPI).

MICHIGAN Department of Education

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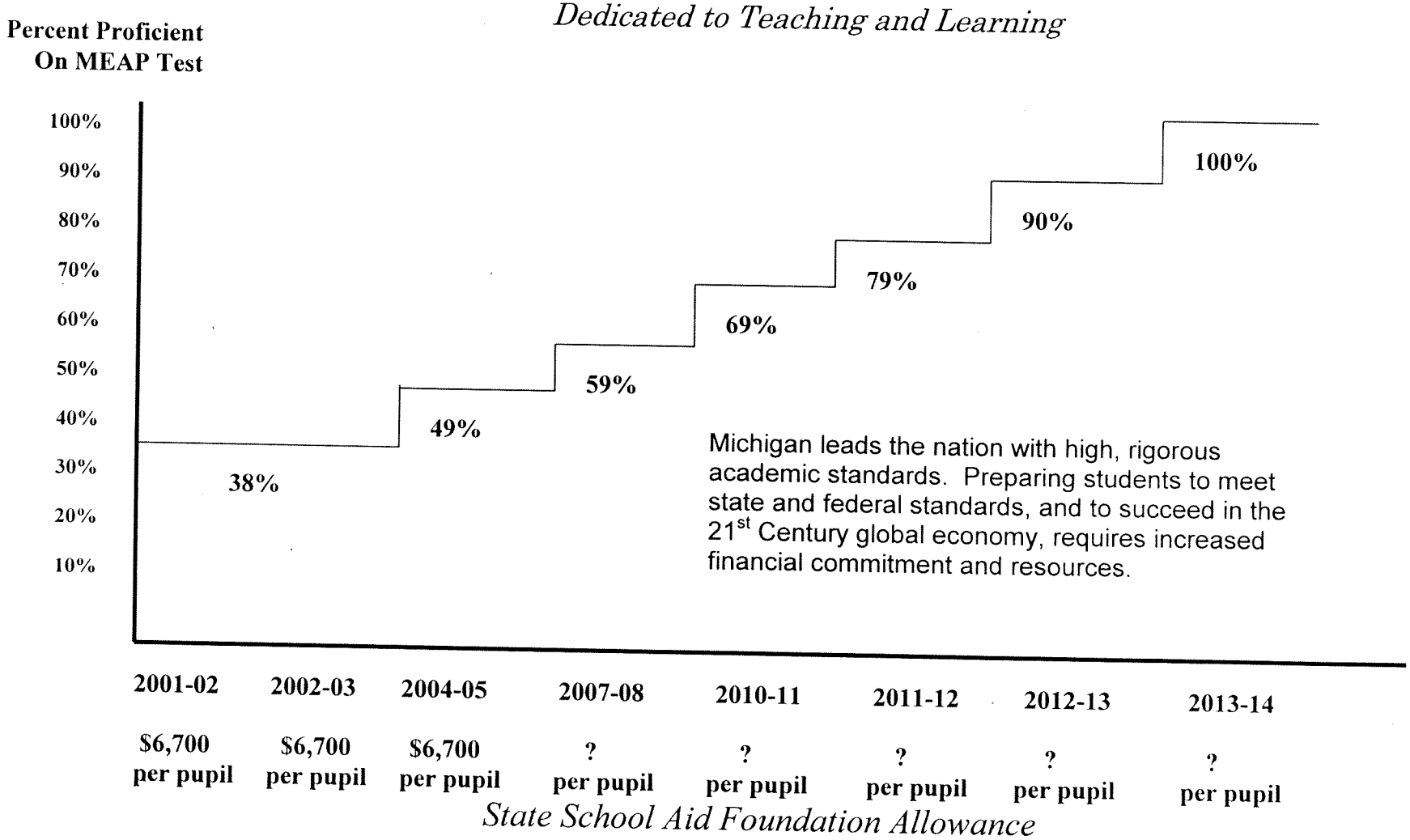
The Need to Achieve at Higher and Higher Levels

Increased Expectations Demand Increased Resources
Dedicated to Teaching and Learning



Percent Proficient reflects the students that meet or exceed the high standards measured on the Michigan Educational Assessment Program (MEAP) tests.

This graph illustrates Michigan's elementary school reading objectives set by the Michigan State Board of Education, in compliance with the federal No Child Left Behind law requirements.

MICHIGAN Department of Education

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

THOMAS D. WATKINS, JR.
SUPERINTENDENT OF
PUBLIC INSTRUCTION

Structural Issues Surrounding Michigan School Funding In the 21st Century

a call for dialogue, input, and action

Tom Watkins
Superintendent of Public Instruction
December 6, 2004

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DEPARTMENT OF EDUCATION
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THOMAS D. WATKINS, JR.
SUPERINTENDENT OF
PUBLIC INSTRUCTION

December 13, 2004

MEMORANDUM

TO: Education Community

FROM: Kathleen N. Straus
President, State Board of Education

SUBJECT: School Funding – A Crisis that Requires Dialogue

At my request, Tom Watkins wrote the attached paper, Structural Issues Surrounding Michigan School Funding in the 21st Century. The paper lays out three specific recommendations that address the long-term funding crisis confronting Michigan school districts.

It is clear that any viable solutions require the engagement of Governor Granholm, the Legislature, education stakeholders and the Michigan citizenry at large. I am asking you, one of Michigan's education leaders, to review the paper. If possible, and I apologize for the short time line, could you email me at strauskn@michigan.gov or fax me (517/335-4575) your reactions by 9:00 a.m. Monday, December 13th? The State Board of Education meeting is scheduled for Tuesday, December 14, beginning at 9:00 a.m. I have asked the Board members to be prepared to discuss Tom's paper and your thoughts will add value to our discussion.

As we begin to work through this difficult issue, one of Henry Ford's quotes comes to mind.

"Coming together is a beginning.
Keeping together is progress.
Working together is success."

Thank you for your leadership on behalf of Michigan's children. Together, we are better. I send you and yours the warmest sentiments of the holiday season.

Attachment

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PUBLIC INSTRUCTION

December 6, 2004

MEMORANDUM

TO: Kathleen N. Straus, President, State Board of Education

FROM: Tom Watkins

RE: School Funding – A Challenge and Opportunity for Bold Action

Your phone call over the weekend resulted in one of the toughest assignments of my professional career. You asked me to outline my thoughts and to devise an action plan that addressed school funding issues for the purpose of stimulating dialogue among State Board members and other key stakeholders. A simple solution would be to join the chorus that simply asks for more tax revenue to fund our schools. Clearly, our children will benefit from strategically targeted resources. However, solely funding the current system will not yield the results our children need and deserve.

As I stress in the attached paper, the State Board cannot address these issues alone. The active engagement of policy makers from the Executive and Legislative branches along with involvement of the education community and Michigan citizenry is needed. Following is a summary of my initial thoughts. They are offered as a catalyst for much needed dialogue among those who are invested in Michigan's future and as a call to action. I look forward to discussing this further with you.

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Structural Issues Surrounding
Michigan School Funding
In the 21st Century

The Challenge

There is a structural funding challenge facing Michigan's system of public education. The plight of the Detroit Public Schools is not unique. Boldness and candor are required to identify the challenges as well as to make recommendations that address them. The primary postulate, that additional revenue without unprecedented change in the fundamental structure of our public education system is not enough, is **not** widely agreed to by the education populace. If progress is to be made, education policy makers must reach consensus regarding the problem and then set forth to craft solutions.

As educators and leaders, it is our responsibility to surface an issue that at the very least requires hearty dialogue and then a collective plan for action. The discussion undoubtedly will be uncomfortable for many.

The "Tipping Points"

Five "tipping point" events point to a convergence:

1. Provocative reading of The Price of Government – Getting the Results We Need in We Need in an Age of Permanent Fiscal Crisis by David Osborne and Peter Hutchinson. The book challenges public servants to re-think their role in government and to build common sense solutions and results at a price that taxpayers are willing to pay. The book is a call to action to those who are trying to "do good" and to "do it well."

2. Completing a difficult FY 2006 budget process due to structural deficit and dim economic forecast for the future. Extraordinary and difficult programmatic and fiscal decisions are being made focused on a moral obligation to provide each child with the quality education they need and deserve to thrive in the 21st century global, knowledge economy.

3. Addressing Detroit Public Schools' financial crisis that has resulted in a deficit of nearly $200 million. The issues will not be resolved by an additional infusion of State "rescue money." Although, just raising Detroit's foundation allowance to the average of what is received by other school districts in Wayne, Oakland, and Macomb Counties would provide them with $494 (using the average weight as to pupil count – both general and special education not including charter schools) additional per child annually. Detroit's crisis is at least structural in nature and will require a massive right-sizing to address the root cause of the challenge.

   If Detroit Public Schools ($7,180) was funded at the same rate as Bloomfield Hills Schools ($11,835), there would be $4,600 more per pupil annually. I am confident that the Detroit Public Schools team, community leaders, the

Department of Education, and the Governor, will develop a workable plan to alleviate the immediate crisis. However, Detroit's challenges foreshadow imminent problems faced by many other school districts, cities, counties, and universities across Michigan. There is not enough money with the current tax structure and economy to fix the problem. The Detroit Public Schools situation serves as a harbinger for all Michigan public schools.

4. Recalling the compelling, personal tragedy shared by *Detroit Free Press* editorial writer Nichole Christian (November 29, 2004) about the homicide of her great-nephew. The story depicts her agony over her neglect in encouraging her loved one to read and to engage in his education. Ms. Christian is certain that a meaningful connection with school would have saved her great-nephew from a life that was spent more on the street than in school. It gives pause and a real-life human reason to re-think, re-design, and recall the calling of educators – to do "right" by children.

   Ms. Christian's sharing puts a human face on the hard statistics that depict the story of too many youth. Children are not statistics – they are our future and our hope. Educators must redirect existing resources and dedicate new resources to teaching and learning. Every dollar that supports duplicative, overlapping, and perhaps ineffective systems is a dollar that should be invested in changing the outcome of a student's life.

5. Traveling to China five times since 1989, I have witnessed the emergence of a nation intent on challenging the United States educationally and economically. In this century, that State and Nation that gets its system of education right will prosper. Michigan must emerge from its heritage of "lifting for a living" to a future of "thinking for a living." China's people, hungry for improved economic success, are unrelenting in their quest for education about Western language, culture and government among many other things. Our children must receive unprecedented, quality educational opportunities if they are to be prepared to succeed in a global world.

These five factors have led to a convergence of thought pointing to needed dialogue resulting in structural adjustments within our public education system. Proposal A, supported by a thriving economy in the 1990s, provided a band aid that temporarily stabilized school funding. Three straight years (2002 through 2004) of flat funding levels have stressed schools financially and academically. Yet, local educators are filled with the commitment, energy, and enthusiasm to "do right" by our children. They are truly unsung heroes and heroines.

Dialogue Needed, Then Action

We must take a deep, introspective look at our system of public education. We must ask ourselves what we are willing to do to re-direct our finite resources and optimize support for our core mission of teaching and learning. This may entail consolidations, mergers, joint operating agreements, and drastically modified business processes. The

auto industry has and continues to adapt to change. So too, education must assess reality and make appropriate changes to serve students' needs in the 21st century. None of these options will be easy or without pain to local communities, schools, and families. Change never comes easily.

Indeed, many local school boards, superintendents, teachers, and support personnel have already implemented tough decisions.

Structural Budget Deficits

At the December 14, 2004, State Board of Education meeting, Tom Clay, a budget expert from Citizens Research Council, a non-partisan think-tank organization, will again share information regarding the state's structural budget deficit and the looming pension and health care cost crisis. Flint's Superintendent Dr. Felix Chow, will chronicle that district's cost-saving efforts and the drastic reductions necessary to balance the budget in the future. Flint's situation bears a startling resemblance to Detroit's. Although Dr. Chow and the Flint Community Schools Board of Education have made some tough decisions to date—more are required to maintain a balanced budget and educate the children.

The Detroit Public Schools' crisis magnifies the reality faced by many of Michigan's large, urban districts as well as others of all shapes and sizes across Michigan. Recently, the Board has heard public alarm from:

- Lee Suits, President, Muskegon Area Public Schools Board of Education
- Cliff Crosett, Superintendent, Hemlock Public Schools
- Judy Mardigian, Treasurer, Plymouth-Canton Board of Education
- Scott Mensel, Superintendent, Whitmore Lake Public Schools
- Gary Rider, Superintendent, Brandywine Public Schools
- Bill Miller, Superintendent, Centreville Public Schools

Compelling, eloquent accounts of the tough decisions they have made and will continue to make were shared. Each expressed a sense of urgency and concern for the quality education children need to succeed in the global, knowledge-driven economy of the 21st century. It is likely that educators and parents will continue to share their concerns as they seek relief and assistance from the State Board, the Governor, and the Legislature.

Their stories are familiar. Similar alarms were sounded in the 1980's and resulted in the passage of Proposal A, the landmark Constitutional amendment that reduced property taxes and, to some degree, inequities in school funding. The benefits of Proposal A are recognized. Much like automobiles however, school funding, governance, and structure are in need of an overhaul and body redesign to remain contemporary and in tune with the changing times.

Historical School Funding

Michigan school funding formulas have been based more on dollars available in the state's budget than on research regarding what it actually costs to educate a child. The "foundation allowance" introduced in Proposal A differed from district to district and was

based on how much revenue per child each district received before Proposal A. It did not consider whether the level of funding was adequate to provide a sound education. Further, it built into Michigan's Constitution the implication that some children, based on history and geography rather than need, were "worth" more than other children.

Attempts to provide additional funding for pupils with greater needs have been made by augmenting the foundation allowance using an 11.5% weighting for "at-risk" children. No research substantiates that it costs an additional 11.5% to educate these children.

"Proposal A to A+," the report commissioned by the State Board of Education in March 2002 (www.michigan.gov/mde) addressed three specific areas with regard to school funding. These included operational fixes or "tweaks" to Proposal A, infrastructure/ capital improvement needs, and administrative efficiencies for local districts and intermediate school districts (ISDs). There has been no legislative action on any of the ideas in the report, even though legislative leaders were actively engaged in the process of developing the report and shaping its recommendations.

Dr. David Plank, Professor and co-director of Michigan State University's (MSU) Education Policy Center; and Dr. David Arsen, MSU Professor of Education Administration, produced a report in November 2003 titled *Michigan School Finance Under Proposal A – State Control – Local Consequences.* It is available at www.epc.msu.edu. The study cites the impact of Proposal A in reducing property taxes and reducing the inequities in funding Michigan's schools. The study also points out that the burden of funding schools shifted from the local level to the state level with Proposal A. The study indicates that more needs to be done to improve Michigan's school funding system. Among the perspectives the authors share is that Proposal A diminishes the services available to students in declining enrollment districts due to revenue that falls more rapidly than costs and that students should not be harmed when other students leave their school. Revenue declines that accompany falling enrollment damage the quality of education in many school districts.

Since 2003, state school appropriations have been flat. In 2003, districts experienced a pro-rata reduction of approximately 3.7% of discretionary school aid funding. In 2004 districts experienced a pro-rata reduction of $74 per pupil. The fact is that a large portion of a district's expenses is invested in escalating personnel and transportation costs. In essence, maintaining status quo funding equates to falling behind. Educators were relieved that Governor Granholm and the Legislature stated that they would protect school funding for the 2004-05 school year in spite of another mid-year shortfall in the School Aid Fund. They also realize that the temporary respite in funding provides little help in resolving the structural challenges they face.

Absorbing Increasing Expenses

Escalating labor costs, primarily health care, pensions and minimal inflation-related salary increases, exacerbate the financial situations of local districts. As discussed at the November 9, 2004, Board meeting, almost 2/3rds of every new dollar provided is consumed by health care and pension costs.

The teachers' retirement plan, Michigan Public School Employees Retirement System, like many similar plans, is staggering from the stock market setback. This effort, coupled with increasing numbers of retirees as well as increased retiree life spans, continues to put strains on school budgets across the state. Citizens Research Council's recent report titled *Financing Michigan Retired Teacher Pension and Health Care Benefits,* (www.crcmich.org) states that if actuarial assumptions beyond 2003 prove accurate, the employer's contribution rates will jump from 14.87% for FY 2005 to over 20% for FY 2008. The report also concludes that in a year of moderate economic growth, school aid revenues would likely increase by approximately $300 per pupil or more. **Combining increased pension contributions and health benefit costs for working employees leaves little room for increased spending directed to teaching and learning even if the economy improves.**

Succinctly, these obligations are competing with the ability to invest in tools such as professional development, technology, lowering class size, quality pre-school programs, reading programs, drop out prevention programs, and para-professionals among many other tools that help teachers teach and children learn.

Article VIII, Section 3 of Michigan's Constitution says the State Board's responsibility is as follows:

> The State Board of Education has leadership and general supervision over all public (elementary and secondary) education...and shall advise the Legislature as to the financial requirements and connections therewith.

The thoughts articulated here as a call to action ring hollow unless we enlist the active engagement of the Executive Office, Legislature, education community, and most importantly, the understanding and support of Michigan citizens. Michigan's citizens are willing to invest in children and schools if they see a return on their investment. Educators need to demonstrate their commitment to do the hard work and to continue to make the right decisions to ensure efficient, world-class learning environments for children.

As a result of Proposal A, and as articulated in the Michigan Constitution, the ultimate responsibility for school funding lies with the State. The Constitution states, "The Legislature shall maintain and support a system of free public elementary and secondary schools." Proposal A has virtually eliminated a local school district's ability to raise revenue locally. There are only three ways to balance a school's budget:

- To increase revenue (primarily state responsibility)
- To reduce expenditures (state and local responsibility)
- To do a combination of the above (state and local responsibility).

Where Do We Go From Here?

The State Board cannot act alone to identify solutions to the challenges of school funding and restructuring. A non-partisan effort must result in development of a shared vision and common agenda that puts the needs of children and schools above all else.

Collective efforts must be focused on teaching, children, and learning; and not power, control, politics, and adults.

A holistic approach is needed that recognizes the limitations of Proposal A to fund schools appropriately during economic downturns. Policy decisions to fund schools on a per pupil basis (along with choice and charter schools) will continue to have significant impact on urban school districts. The Plank – Arsen report clearly demonstrates this.

A new approach will require everyone to let go of deeply entrenched constraints and the "we've always done it this way" mentality. We are challenged to take a fresh look at how business is conducted. Inability or unwillingness to act is detrimental to Michigan, its communities, families, and most importantly, its children.

At the state level, the difficult decisions local districts are forced to make to balance their budgets and educate their children must be addressed. Much more needs to be done. A comprehensive, state-level right-sizing and school funding action plan must be developed.

Tough decisions may be left in the hands of local school boards since these are "local" decisions. However, since the advent of Proposal A in 1994, 77% of a school's operating budget comes from state sources. The question must be asked. Are we willing to expend millions of dollars to finance three school districts in St. Clair Shores serving 8,300 students? Why do five separate school districts and five charter schools serving 18,000 students carve up the City of Inkster? These examples are illustrative of the structural problems that exist across the State. There are few local level incentives that encourage making tough decisions. There is a joke in the education community that asks what a superintendent or school board that closes a school is called? The answers is fired or recalled. If this tough work is to be done on a consistent basis across the state, then state leadership is required.

The actions required are likely to be bitter medicine for all. Facing decisions on Michigan's ability to continue financing over 750 traditional and charter school districts and 57 intermediate school districts, thousands of school buildings ranging from "state-of-the-art" to "state-of-disgrace" will be difficult.

One option that could be mandated legislatively is the creation of "joint operating agreements" (JOA) that have a school district or ISD assume responsibility for administrative services for surrounding districts. This eliminates duplication of administrative costs that may be re-directed to teaching and learning. The JOA concept is borrowed from the Detroit News and Detroit Free Press that combined administrative operations for cost efficiency but retained distinct editorial and news functions. Similarly, local districts have the potential to combine payroll, transportation, curriculum development, special education, data systems, and other business functions while maintaining separate identities.

Enterprising superintendents and school boards across Michigan are already implementing this concept in order to move dollars from the administrative side of the ledger to the teaching and learning side. Leadership at the state level must be contemplating how to provide strong incentives that will facilitate implementation of these actions.

Over the past decade, change has drastically altered the contextual reality of Michigan schools, including:

- The introduction of choice and charter schools
- Declining enrollment in a variety of urban, suburban, and rural districts
- Demographic shifts in our school age population
- The irony of Michigan's "local control" history and Proposal A, which virtually eliminates a local district's ability to generate revenue
- Band aid fixes and "tweaks" to Proposal A since 1994
- Greater expectation that all children be educated to higher standards

The demands of the federal No Child Left Behind (NCLB) Act and Michigan's State Accreditation System, Education YES!, have spurred debate about the adequacy of state funding. With increasing emphasis on accountability and achievement, an effective and equitable funding system must link dollars invested to quality of services provided, and ultimately to student achievement. Simply put, investment of dollars must be analyzed in direct relation to the outcomes achieved.

Widely recognized is the fact that an overhaul of the school finance system is meaningless if it is not accompanied by comprehensive efforts to improve efficiency, effectiveness, and equity. Only after these efforts are made will seeking additional revenue to invest in a new system of public education be justified. In any case, the research necessary to revamp the system may begin in advance of an improved economic scenario.

ACTION: Next Steps

Calls to raise taxes to fund education without a systematic overhaul will only serve to maintain the status quo. For our children's sake, this is unacceptable. A foundation allowance increase of $300/student annually equates to about $1.5 billion over a three-year period-- ($300 X 1.7 million students X 3 years). Of that, almost 2/3rds would be absorbed by health care and pension costs. The budget shortfalls make that increase unlikely. Current projections indicate that local districts require an additional $250 per pupil per year to maintain their current levels of program delivery. Simply put, administrative efficiencies must be optimized and other creative solutions identified so we can invest more resources in teaching and learning.

Therefore, it is proposed:

1. That the State Board request a meeting with Governor Granholm and representative bi-partisan legislative leaders to create a unified action plan.

2. That a bi-partisan commission be appointed to review current school district boundaries, sizes and costs and to identify administrative inefficiencies and optimize allocation of resources to enhance student achievement.

3. That Governor Granholm and the Legislature be asked for resources to conduct a thorough school funding Adequacy and Equity Study. Michigan's last analysis of what it costs to educate a child was done in 1968. The Thomas Study – *School Finance and Education Opportunity in Michigan – A Michigan School Finance Study*, led to a revamping of the education finance system in the early 1970s.

The primary goal of education is to ensure that all students learn. We need to right-size our public education system to optimize resources toward educating our children. This work must recognize the fact that in addition to educating children, schools are the heart and soul of every community. The bi-partisan commission mentioned in number 2 above also must take into account the "humanity" of efficiency – that is the isolation and distances rural children must travel to school and the rich cultural diversity of Michigan among many other factors.

An Adequacy and Equity Study will provide a contemporary view of the true costs of educating a child. Perhaps, some 30 years later, it is now time to determine if educating children with greater needs requires greater resources. At least 34 other states have conducted, or are currently conducting, such a review or a portion of a review.

In other states across the country, court orders have mandated funding levels for public education. In New York, the State and City of New York were ordered to provide $5.6 billion more annually for operating costs and $9.2 billion for renovation and other capital investments in order to provide students with the sound basic education called for in their Constitution. While Michigan's needs and Constitution differ from New York, perhaps the issues of funding inequity are more similar. Courageous, forward-looking action focused on teaching and learning may avoid costly litigation.

Several education organizations have called on the Department of Education and the State Board of Education to conduct an Adequacy and Equity Study. A successful study requires funding as well as the collaborative efforts of the State Board, the Department of Education, the Governor, and Legislature, as well as education stakeholders and the general citizenry. At current staffing levels the department lacks the resources to conduct the study. Further, for credibility and objectivity, the study would best be conducted by an external entity with an impeccable reputation.

In the end, a workable solution must engage ALL stakeholders and constituencies. To build a foundation for a viable future, more than common ground must be sought. A higher ground for our teachers and students to assure prosperity in the 21st century global economy must be sought.

Conclusion

These are initial thoughts. To be pursued further, they will require additional enhancement through input from the State Board of Education, Governor, Legislature, education stakeholders, and Michigan citizens at large throughout the state. It is hoped that they will serve as a catalyst for intense dialogue among Michigan policy makers to help move toward a long-term solution.

Action is preferable to appointing committees and task forces and holding meetings. However, the drastic action that is needed may only be accomplished in concert with the Governor, the Legislature, the education community and the engagement of Michigan citizens at large.

The viability of our society, the strength of our economy, and the quality of our lives are inextricably linked to the quality of our local schools. The competition our children, state, and nation face is fierce and unrelenting. There are no quick fixes to this issue. Viable solutions will be found if we work together.

Education in Michigan is funded with over $12 billion state funds. Let's clean the slate and approach this challenge as if a new territory has been discovered with 1.7 million children desiring quality education. How would $12 billion be invested to assure that children obtain the education necessary to thrive in a 21st century knowledge economy? Michigan citizens are up to this challenge.

MDE Budget Overview

Cliff Notes Version

Michigan Department of Education

January 20, 2005

	Authorized FTE's	Filled FTE's
■ FY 2001	457.6	359
■ FY 2002	455	356
■ FY 2003	436.1	306
■ FY 2004	427	336
■ FY 2005	407	359

Michigan Department of Education
Comparison of Appropriated Funds
Operations

	State Funds	%	Federal Funds	%	Restricted Funds	%	Total
2004-2005	$6,119,700	7%	$59,796,800	66%	$25,185,400	28%	$91,101,900
2003-2004	$6,772,400	11%	$45,834,100	72%	$11,359,800	18%	$63,966,300
2002-2003	$10,561,700	16%	$44,827,400	67%	$11,485,800	17%	$66,874,900
2001-2002	$15,744,900	27%	$31,267,100	54%	$10,985,900	19%	$57,997,900
2000-2001	$16,460,700	27%	$32,818,100	53%	$12,416,500	21%	$61,695,300
1999-2000	$18,986,000	23%	$35,961,100	44%	$26,424,500	43%	$81,371,600
1998-1999	$24,962,800	37%	$28,697,100	43%	$12,940,100	16%	$66,600,000
1997-1998	$25,149,300	38%	$28,147,300	42%	$12,959,400	19%	$66,256,000

Michigan Budgeting for Outcomes

Education Goal:

Improve Student Achievement