



Funding Michigan's Future

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Background on EPIC and Introductions



- The **Education Policy Innovation Collaborative (EPIC)** at Michigan State University is an independent, non-partisan research center that operates as the strategic research partner to the Michigan Department of Education (MDE), the Center for Educational Performance and Information (CEPI), local school districts, and Michigan-based organizations.
- EPIC is devoted to **research with consequence** and the idea that rigorous evidence can improve education policy and programs, and, ultimately, students' lives.
- EPIC conducts **original research** using a variety of methods that include advanced statistical modeling, representative surveys, interviews, and case study approaches to **produce new insights** that decision-makers can use to create and implement policy.

SLF Session Agenda

1. Money matters in education
2. Review relevant aspects of Proposal A
3. Changing demographics in Michigan and their implications for K-12 finance
4. Trends in K-12 funding in Michigan
5. Trends in K-12 district spending in Michigan



Money Matters in Education

- If sustained for at least 4 years, increased funding produces stronger student outcomes
 - Higher attendance
 - Higher achievement
 - More likely to attend and complete college
 - Less likely to enter the criminal justice system in adulthood
- Increased funding improves educator outcomes as well
 - Higher retention
 - Higher salaries
- Emerging evidence suggests that spending on instructional salaries drives improved outcomes



Sources: Baron et al., 2024; Hyman, 2017; Jackson & Mackevicius, 2024; Rauscher et al., 2024; Sun et al., 2024

Proposal A (1994)

Major Shifts

- State assumed responsibility for operating revenues
- Shift from funding education through local property taxes to a constellation of property, sales, income, and consumption taxes
 - ~40% of School Aid Fund from sales tax
 - ~20% from income tax
 - ~15% from State Education Tax
- Limited increases in taxable value of property
- Funding based on pupil counts rather than local tax base
- Though not part of Proposal A, school choice coincided with its implementation

For Consideration

Thinking about the future

1. Why should people without K-12 age children support K-12 funding?
2. What may happen to the resources for Michigan's schools if the state's tax effort declines?

The Changing Demographics of Michigan's Students



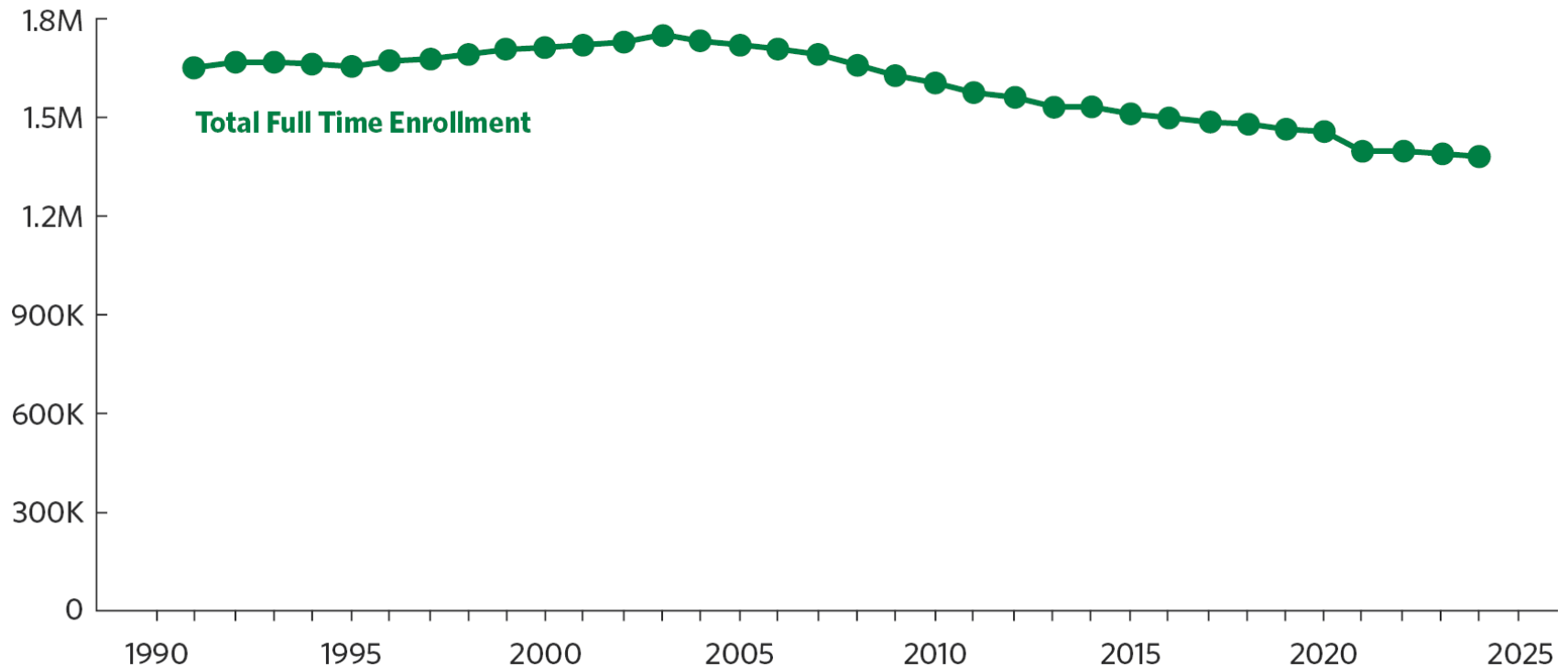
The Relationship Between Demographics and Finance

Under Proposal A, district revenues are mostly based on enrollment.

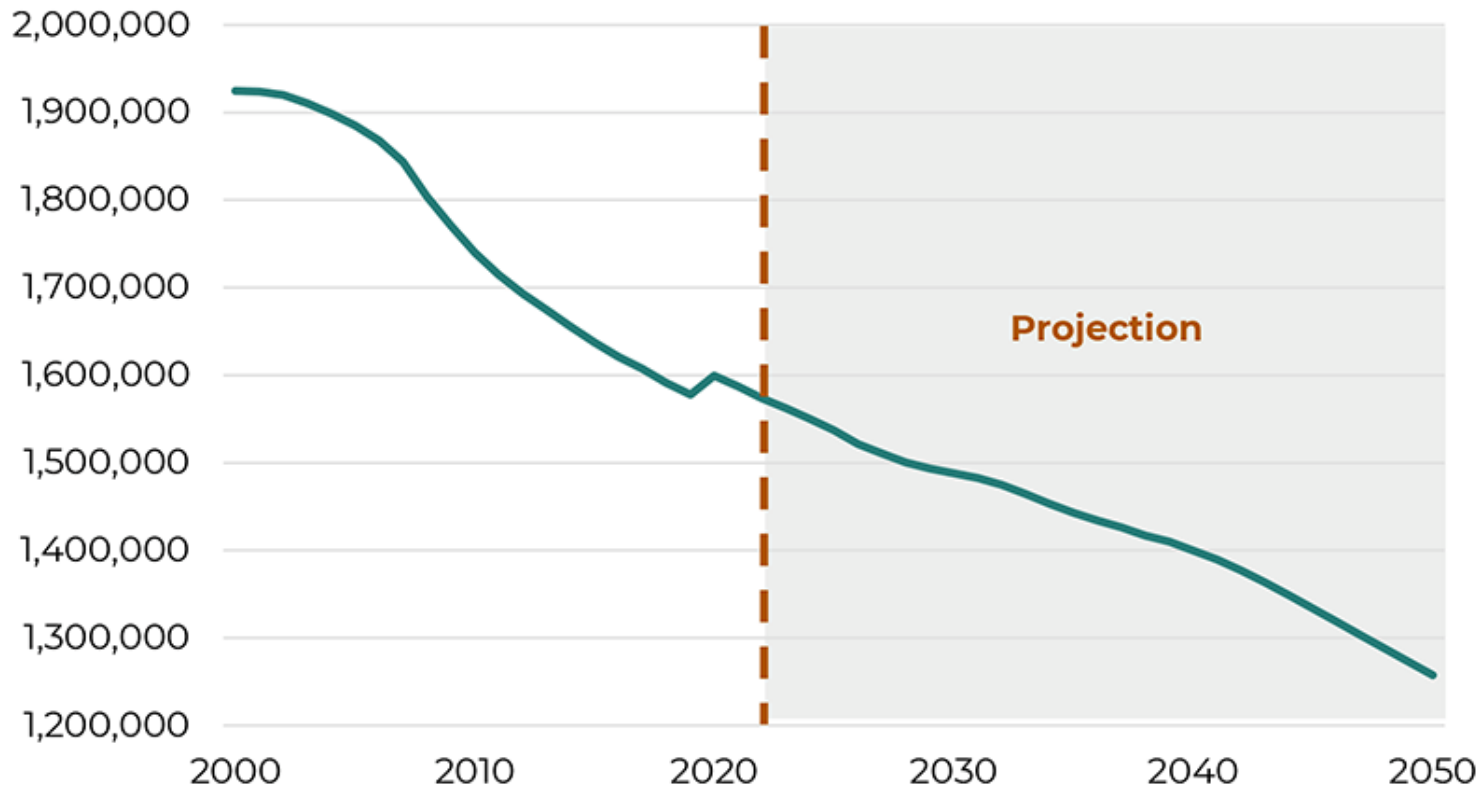
- a) If the student population declines, funding declines
- b) Smaller districts have higher “overhead”
- c) Costs don’t necessarily rise/fall in line with student enrollment

Since 2003, Michigan has lost over 360,000 students, more than any other state

Enrolled Students



Michigan's school-aged population is projected to decline by another 280,000 from 2025 to 2050



Source: WONDER Database, Centers for Disease Control; 2024 Vintage Population Projections, Michigan Center for Data and Analytics; Population Estimates Program, U.S. Census Bureau

In 2024, the typical Michigan district was **half as large** as the typical district in 1995 and had just over **half as much revenue**

| | 1994-95 | 2001-02 | 2023-24 |
|-------------------------------------|----------|----------|----------|
| Total Revenues (2024\$) | \$25.46M | \$19.48M | \$12.85M |
| Number of Districts | 559 | 735 | 822 |
| Median # of Students | 1,687 | 1,173 | 781 |
| # of Districts With <= 200 Students | 40 | 98 | 117 |

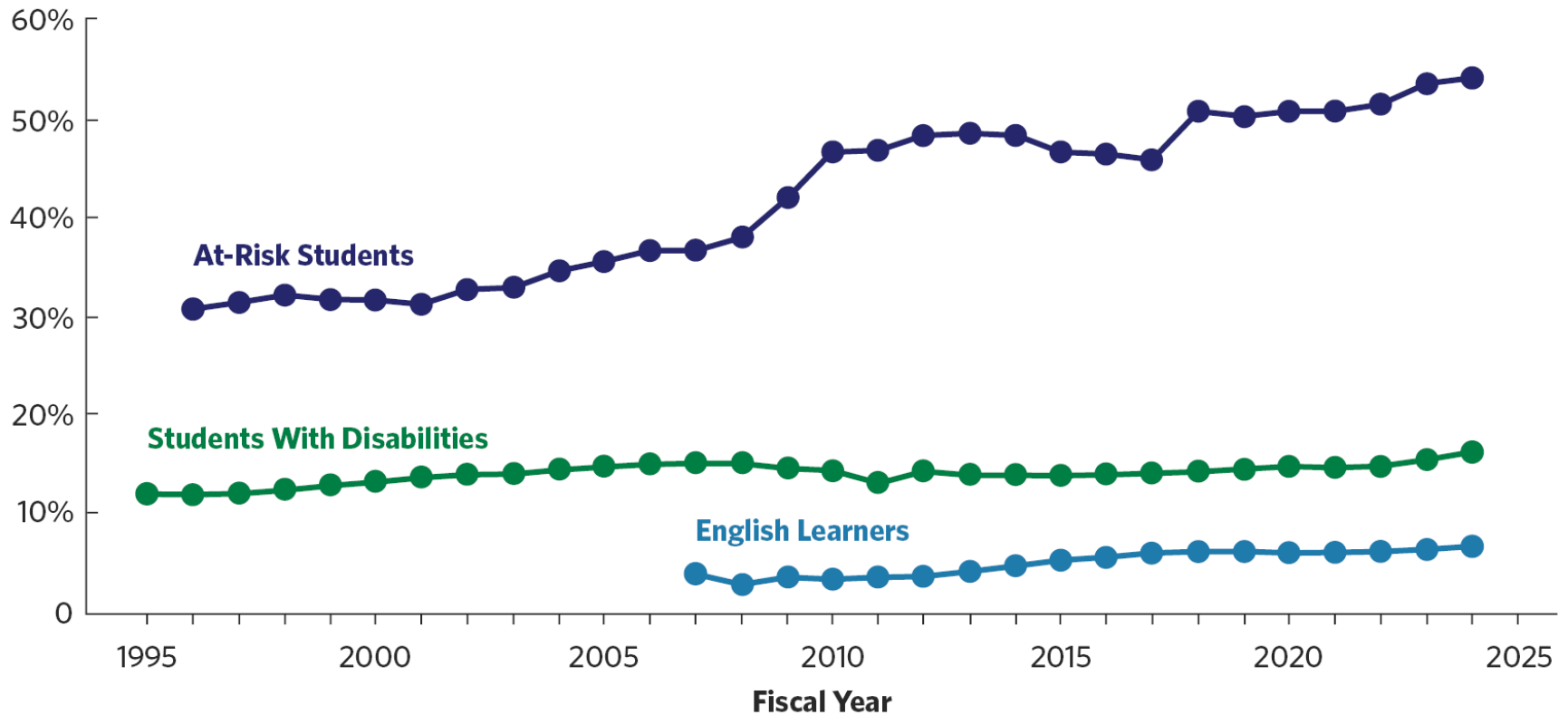
The Relationship Between Demographics and Finance

Some student groups are more expensive to educate:

1. At-risk/economically disadvantaged students (~35% more)
2. Students with disabilities (SWDs) (70% - ? more)
3. English learners (35%-70% more)

Michigan's student body has **much greater needs now than in the past**

Percent of Total Student Population



Demographic changes mean that educating students to a given level is now more expensive

1. Michigan has far fewer students now than in the past
 1. The typical district now is much smaller
 2. Fewer students means less revenue
 3. Costs don't always decline with enrollment
 4. Smaller districts have higher "overhead"
2. The student population is expected to decline at a similar rate for the next 25 years
3. Higher-needs students are now a much larger share of Michigan' student body
 1. Students with disabilities
 2. At-risk/economically disadvantaged
 3. English learners
 4. High-needs students are more expensive to educate

For Consideration [and Discussion]

1. What would your district need to do if it lost 15%-25% of its students?
2. How might demographic changes shape the politics around K-12 funding?
3. In what ways could your district collaborate with other districts (or the ISD) to share services to realize cost efficiencies?

How can your values guide your approach to these questions?

Trends in K-12 District Revenues

Tracking Inflation

What is inflation?

- Inflation is a general rise in prices, which erodes purchasing power
- All prices do not move in the same direction or at the same rate
- Because different entities (consumers, businesses, governments, etc.) purchase different things, and in different quantities, they can experience different rates of inflation
- Different inflation indices track general prices for different entities and groups
- It is important to select a measure of inflation (price deflator) that is appropriate for a given purpose

Tracking Inflation

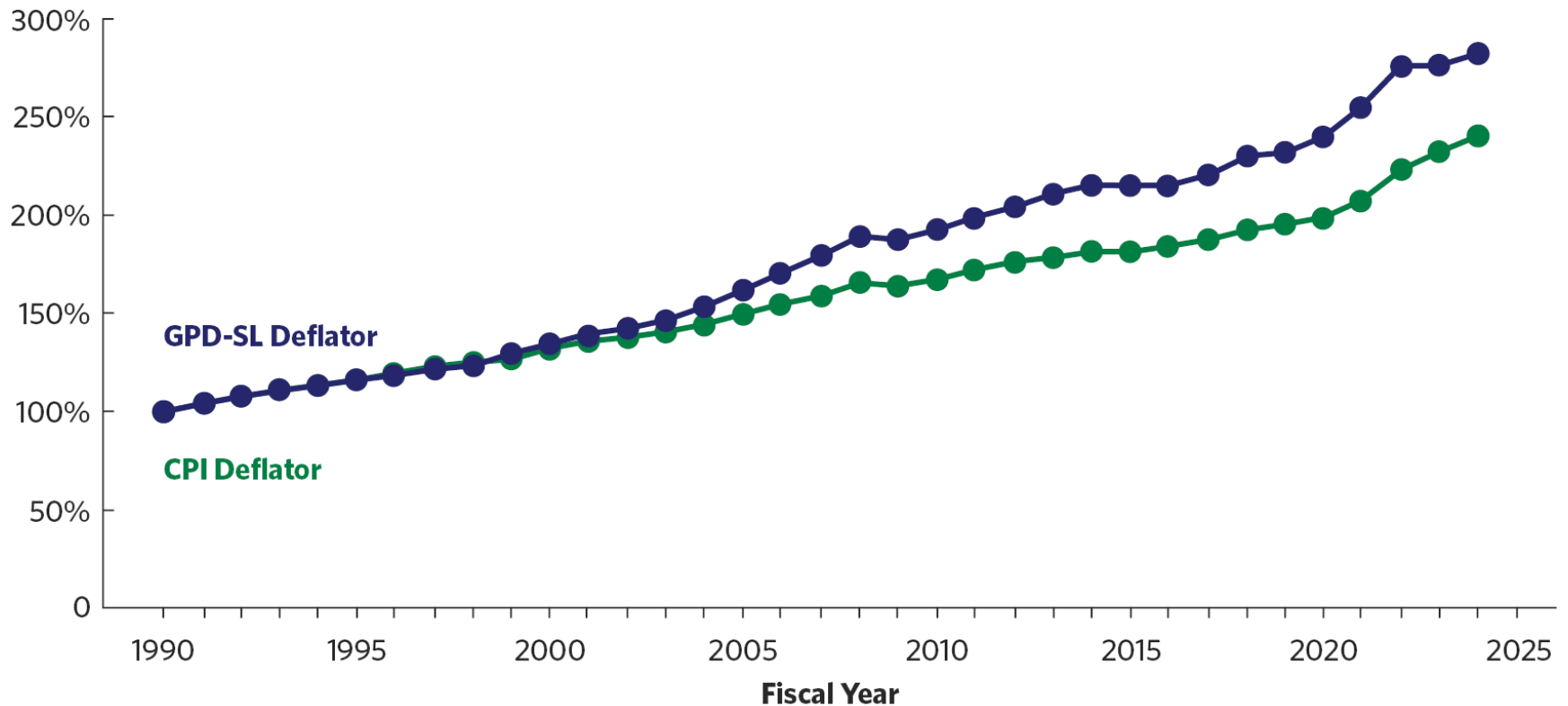
Multiple Measures

For the purpose of K-12 finance in Michigan, two measures of inflation are relevant:

1. CPI (consumer price index, generally for urban consumers):
 - Tracks inflation experienced by consumers
 - Measures inflation using prices for a market basket of goods and services and weights based on consumer spending
 - Housing, food, and transportation comprise a large share
2. GDP-SL (gross domestic product deflator for state and local governments):
 - Tracks inflation experienced by state and local governments
 - Measures inflation using the cost of providing government services
 - Labor and related costs are the largest component

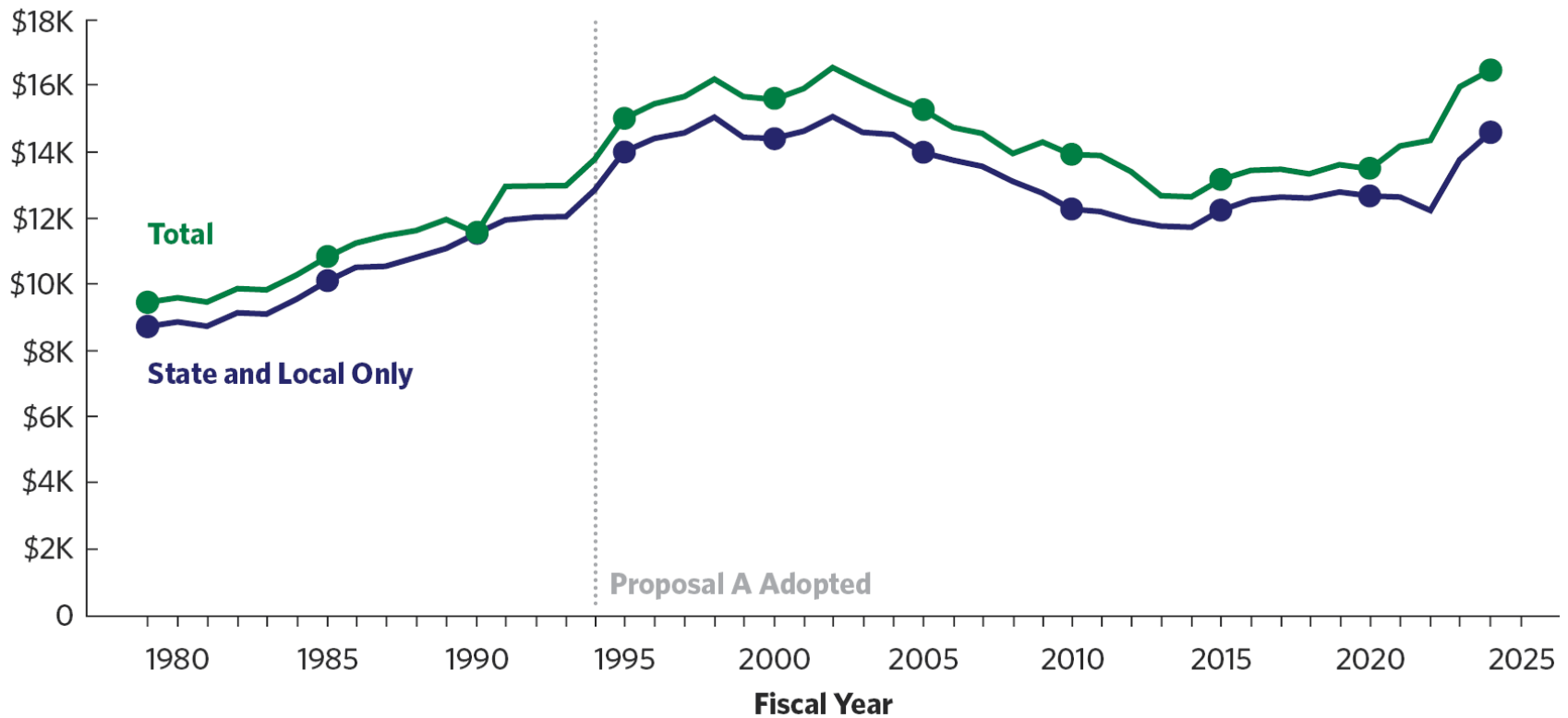
Using an inappropriate measure of inflation can change one's inference about K-12 funding over time.

Inflation as a Percentage of Costs Relative to 1990



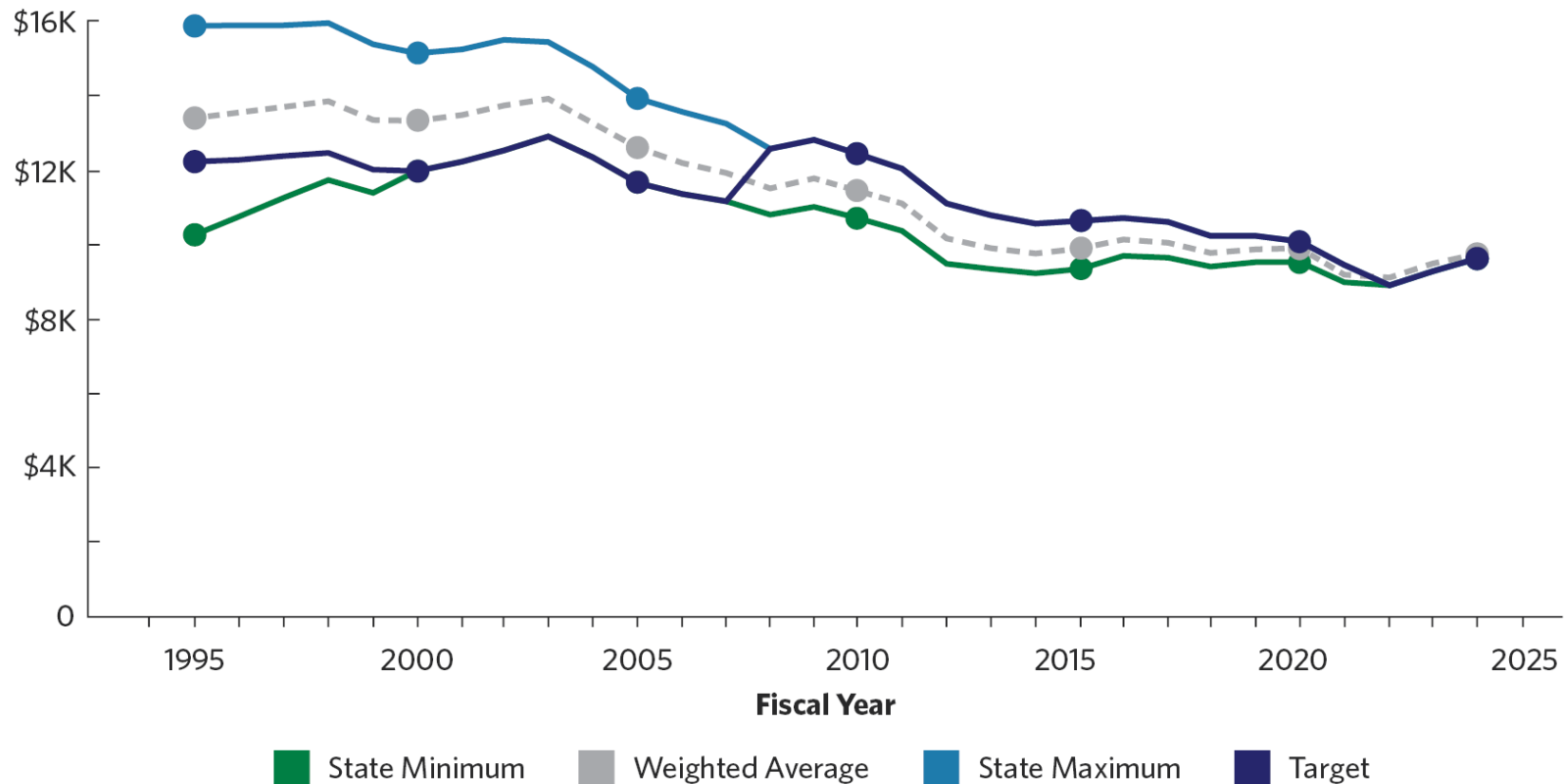
K-12 funding shows 4 periods, with transitions in 2002, 2014, and 2022. As of 2024, per-pupil funding remained below the high point of 2002.

Average Per Pupil Revenue



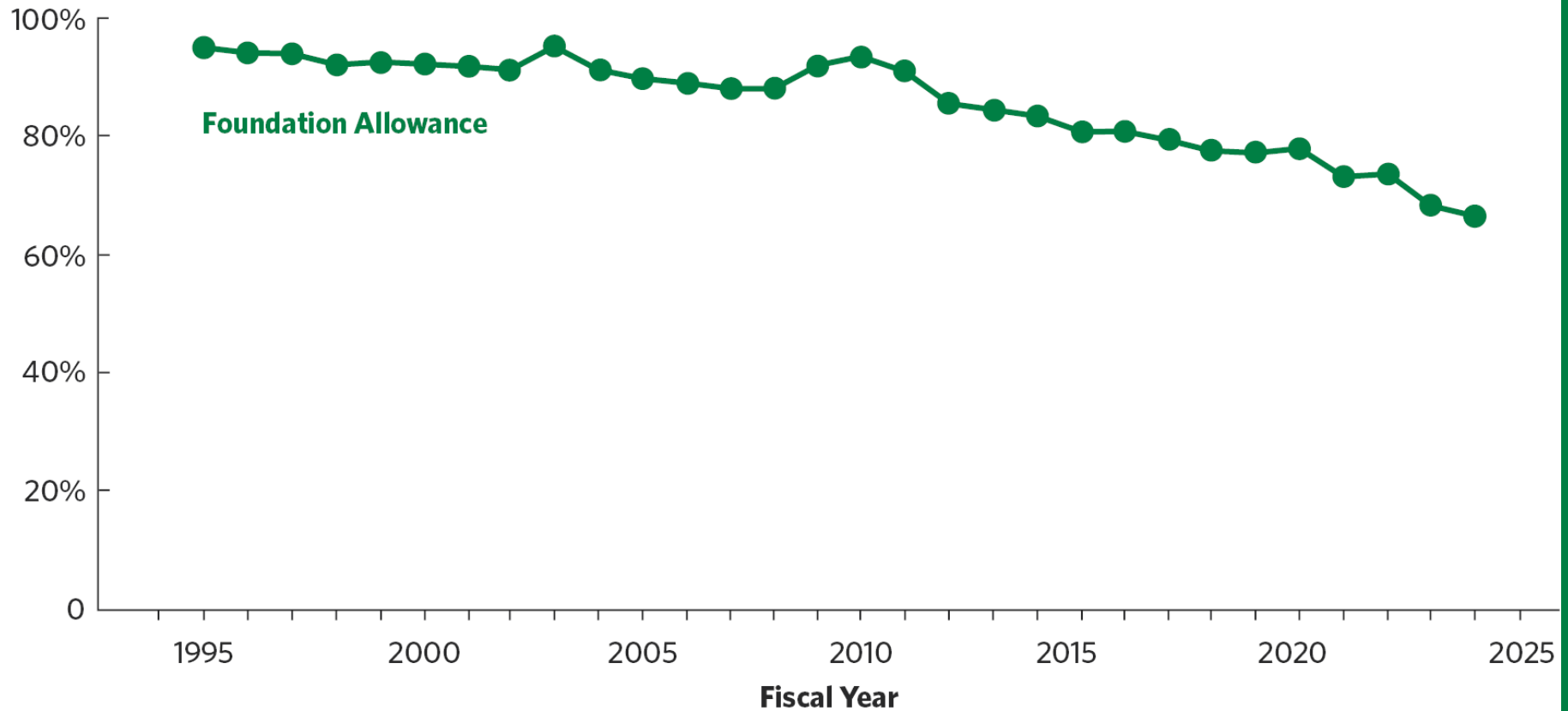
The foundation allowance was **intended to equalize funding**. This was accomplished by **reducing revenues for historically higher-funded districts**.

Foundation Allowances



The foundation allowance now accounts for only about **2/3 of districts' state and local revenues**: more funding comes from categorical grants.

Proportion of School District Revenues



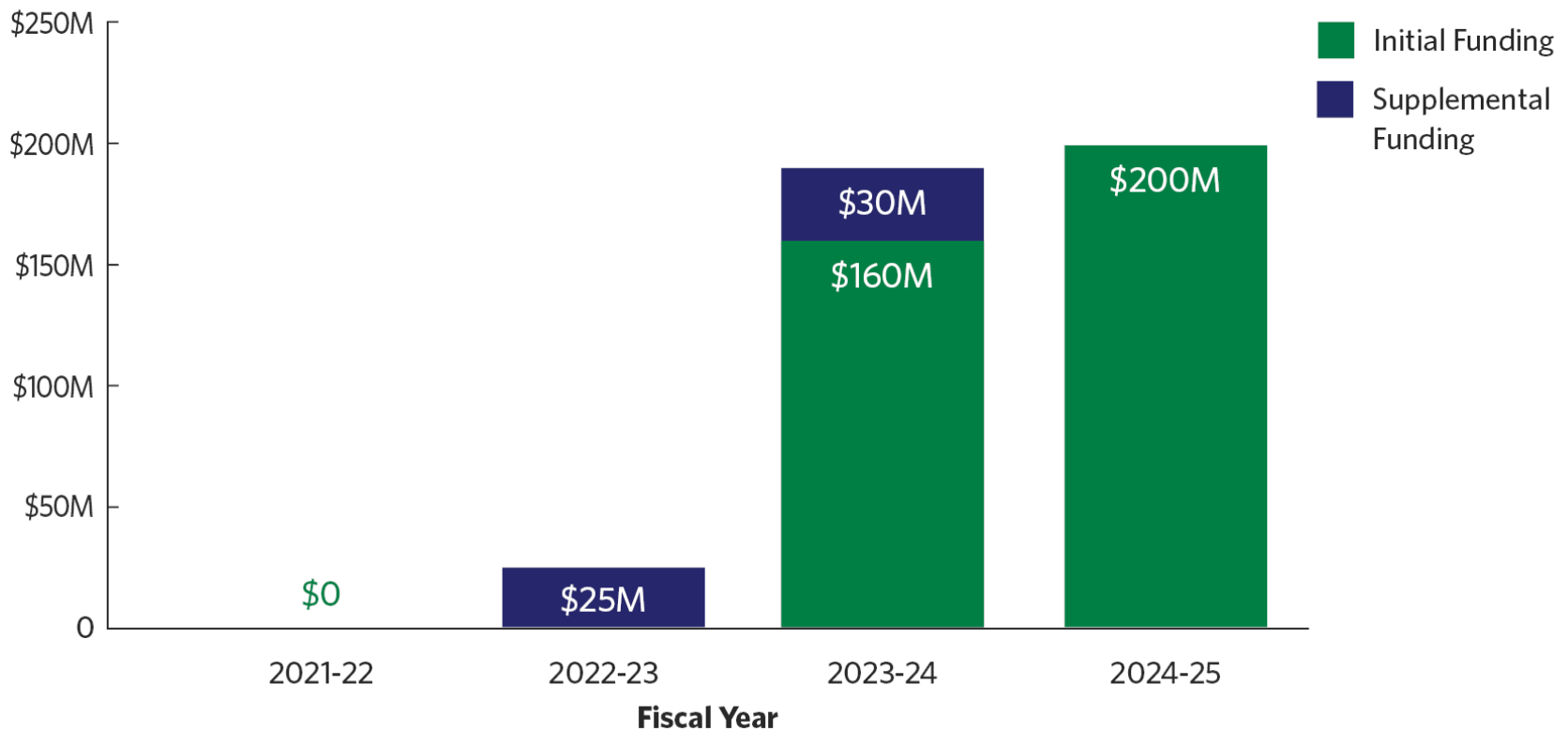
Why categorical funding?

2 ways of understanding categorical funding

- Equity
 - Some students and districts have additional needs and require additional resources
 - *Rural and isolated districts, declining enrollment districts, etc.*
 - *Students with disabilities, English learners, at-risk students, etc.*
 - Categorical funding is a vehicle to provide additional funds to meet greater needs
- Accountability
 - The Michigan Constitution stipulates that if the state requires local governments to provide new or enhanced services (relative to 1978), the state must provide the necessary funding for those services
 - Categorical funding comes with reporting requirements that allow the state to track whether funds are used as intended

Districts may have to **scale up rapidly** to serve students in new ways.

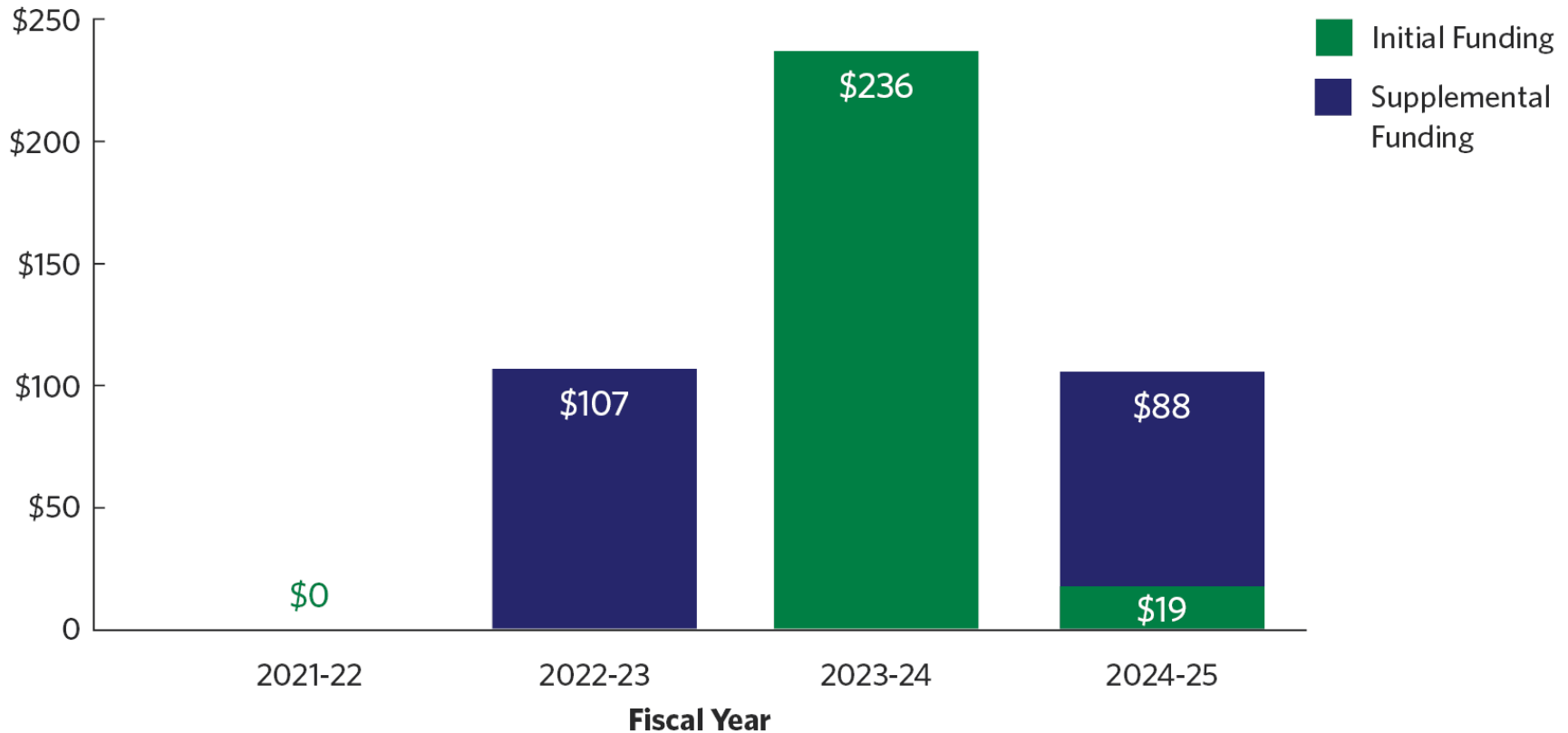
Funding for Expanded Breakfast and Lunch



Categorical funding can fluctuate significantly from year to year.

Student Mental Health and Safety

Dollars Per Pupil



For Discussion

Thinking about now

1. How would you respond to claims of “record funding” for education? Consider overall figures, what schools are asked to do, and restrictions on funding.
2. Should student mental health remain as a categorical grant? How about universal meals? What are the pros and cons of saying yes/no to each?
3. How has a decline in the value of the foundation allowance affected your district?

Trends in K-12 District Spending

Tracking Spending

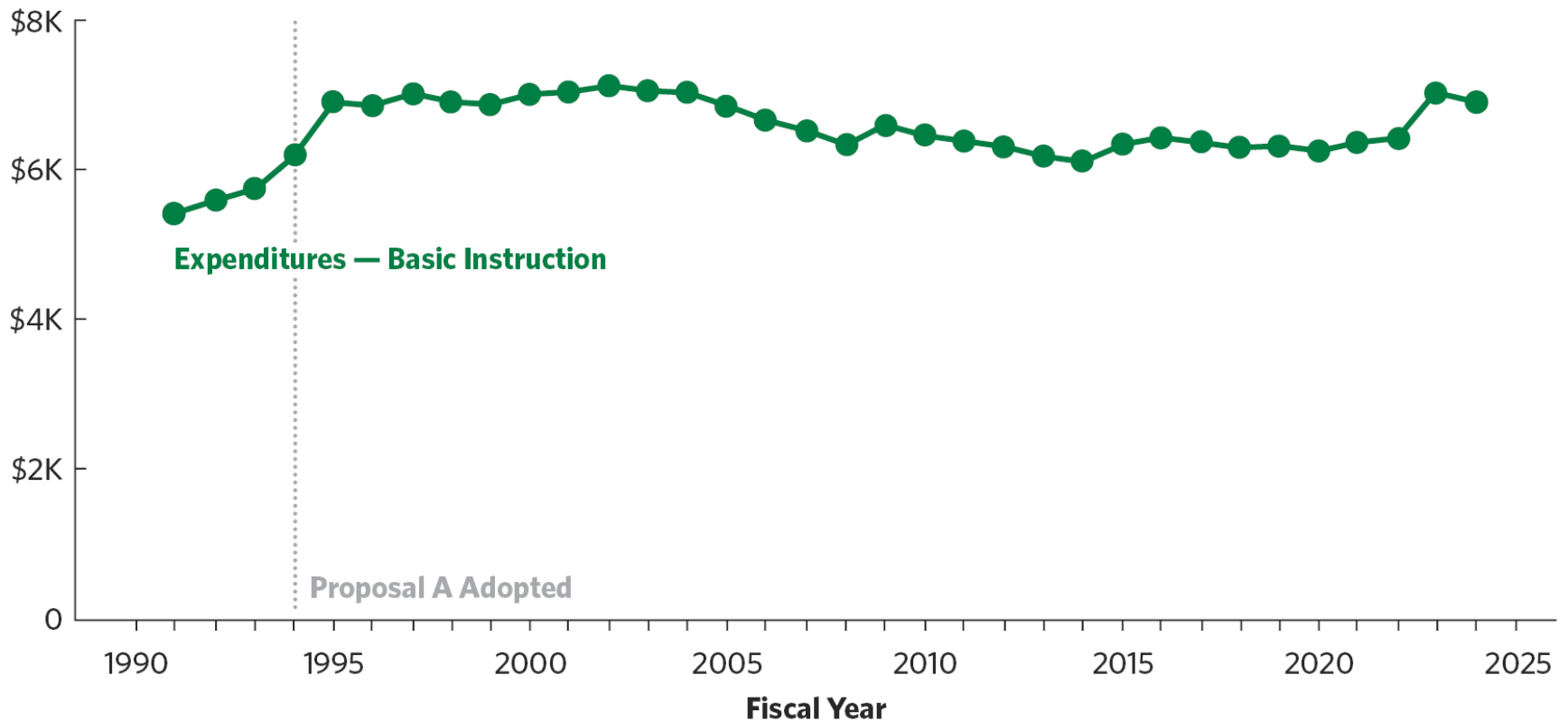
- K-12 operating expenditures are often broken down into several components
 - Instruction
 - Basic instruction
 - Added needs instruction
 - Support
 - Administration
 - Instructional support
 - Transportation
 - Operations and maintenance
- These components can be broken down into subcomponents
 - Salaries
 - Benefits
 - Services
 - Supplies and materials
 - Other



Instructional expenditures have been more stable than revenues.

Basic Instruction

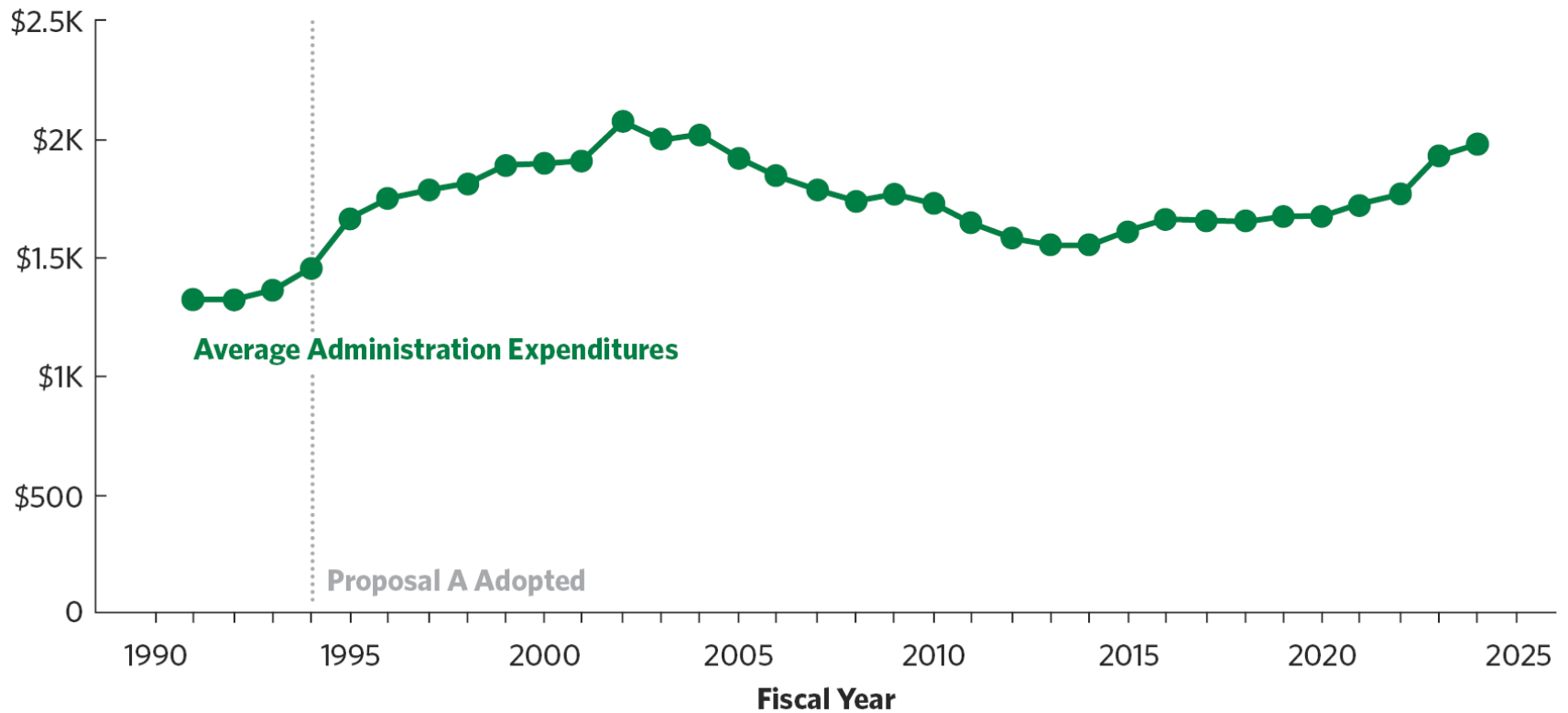
Dollars per Pupil



Administrative expenditures have seen more change over time

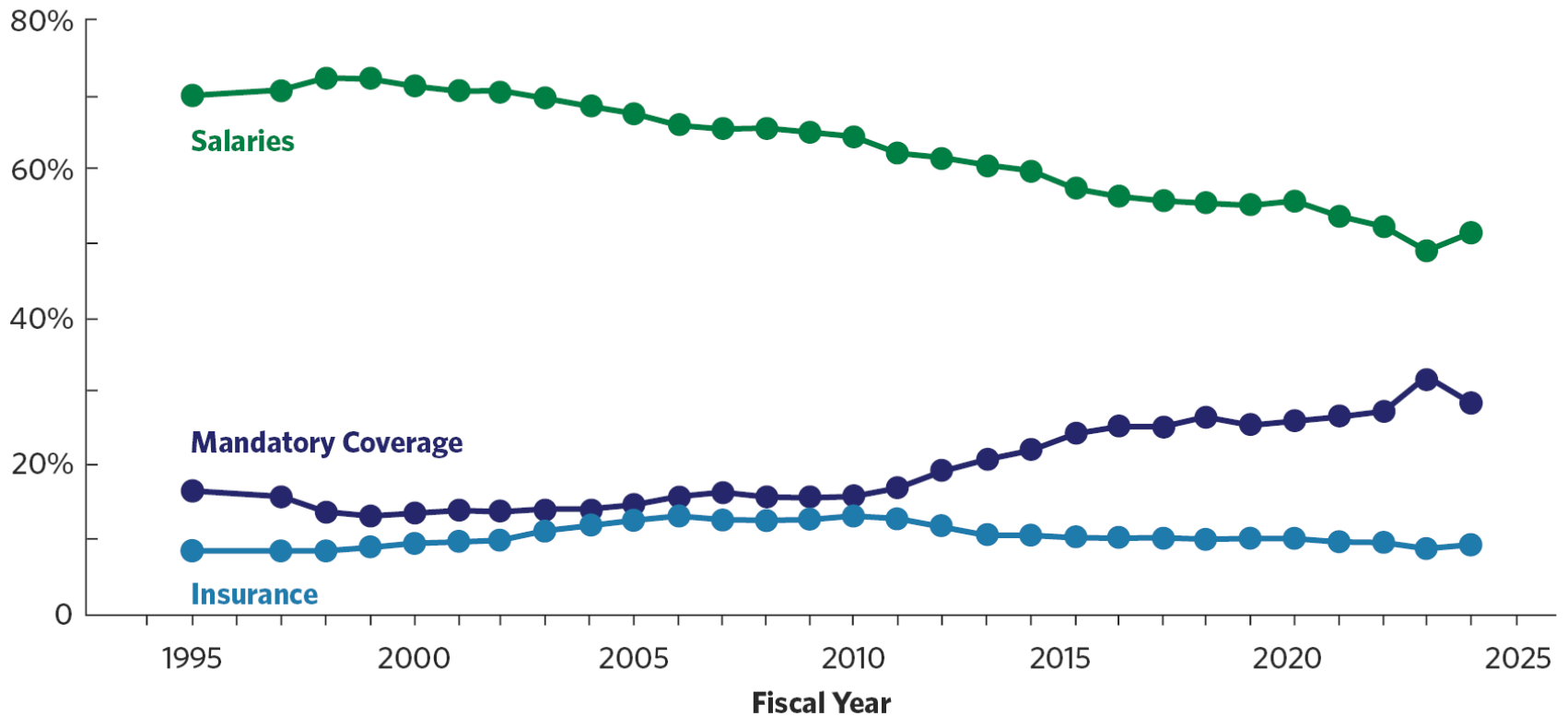
Administration

Dollars per Pupil



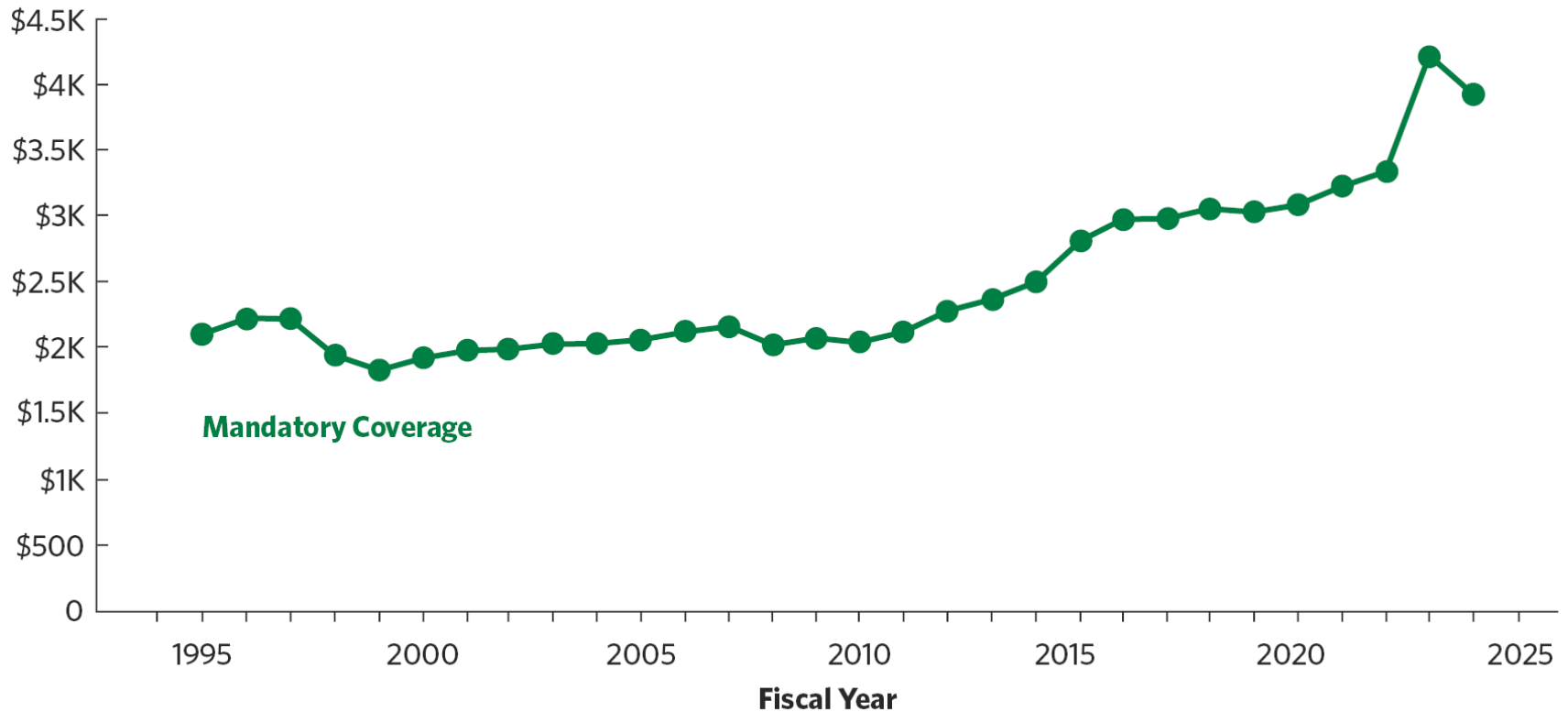
Mandatory benefits have **crowded out** spending on instructional salaries.

Proportion of Per-Pupil Basic Instruction Expenditures



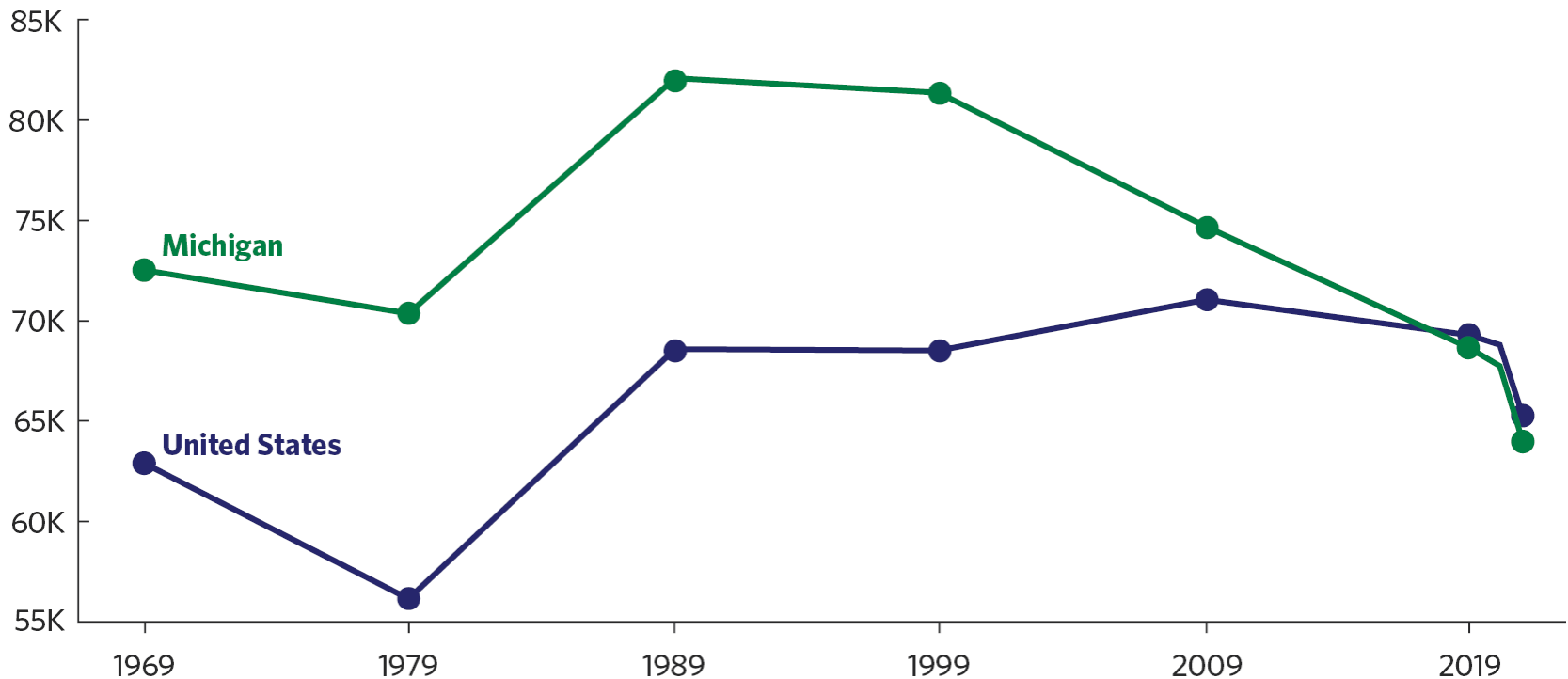
Mandatory benefits spending has doubled. MPSERS is the largest component and now accounts for roughly 1 of every 5 dollars of K-12 operating revenues.

Dollars per Pupil



Through 2000, MI was among the highest-paying states for teachers. Since then, **the average teacher's salary has decreased >20% in real terms.**

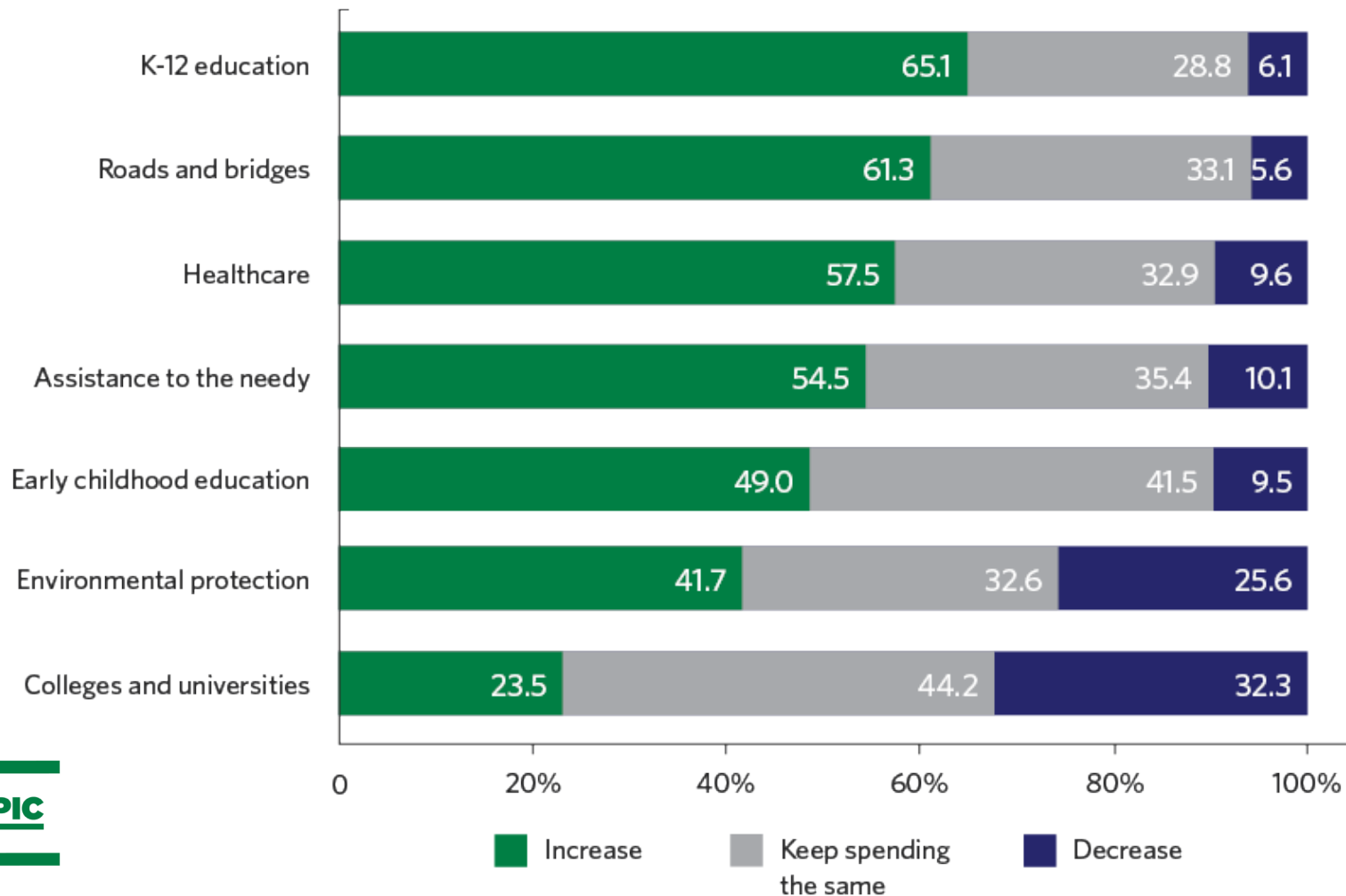
Average Teacher Salary



There is strong support to increase K-12 funding

If you were making up the state budget for Michigan this year, would you increase, decrease, or keep spending the same for ...

State Budget Priorities - Public Opinion



Recap

- Money matters for student outcomes
- Demographic changes in Michigan mean that education is more expensive now
- K-12 revenues have not kept pace with inflation
- Districts are asked to do more for students now than in the past
- Funding for new priorities can be unstable
- Districts have generally protected instructional spending
- State-mandated benefits has cannibalized spending on instructional salaries, which are an important driver of student outcomes
- Yet, there is strong public support for funding K-12 education

For Discussion

1. Pick one of the graphs from this section
2. In small groups, discuss:
 - a) Complete the [blanks]:

“If [this trend] continues, then [impact on students/district] because [mechanism/process].”
 - b) What levers, if any, do local leaders have to affect this?
 - c) What kinds of state or local policies may be needed on this issue?
3. Share out one key insight per group

Who needs to hear this?

What should the following groups know about K-12 funding in Michigan, and what actions should they take based on that information?

- a. Your board
- b. Your families
- c. The public



Education Policy Innovation Collaborative

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