

School District Fiscal Health and State Policy

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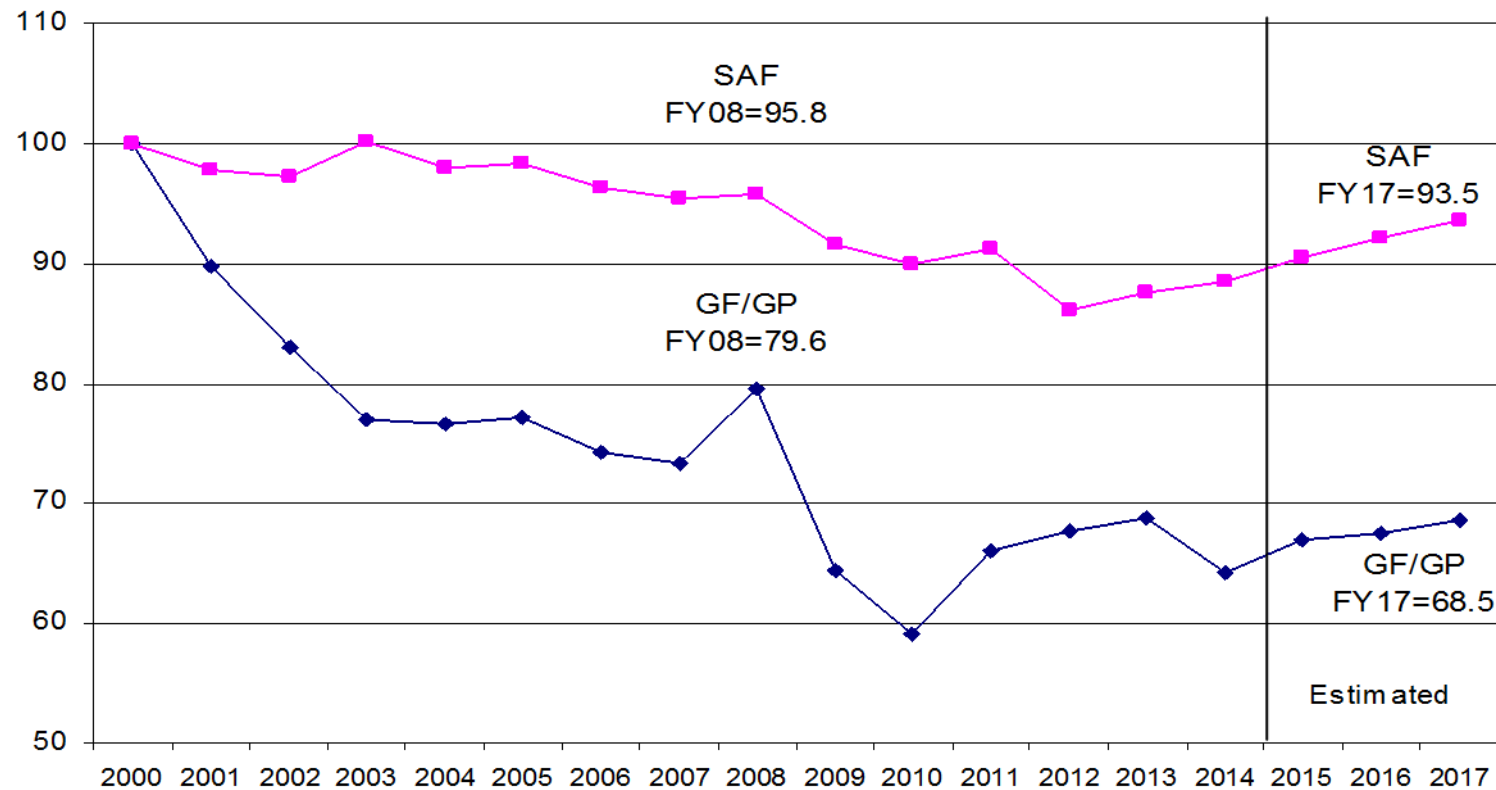
About Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions from Michigan foundations, businesses, and individuals
- *www.crcmich.org*

School Finance Overview

Inflation-Adjusted School Aid Fund

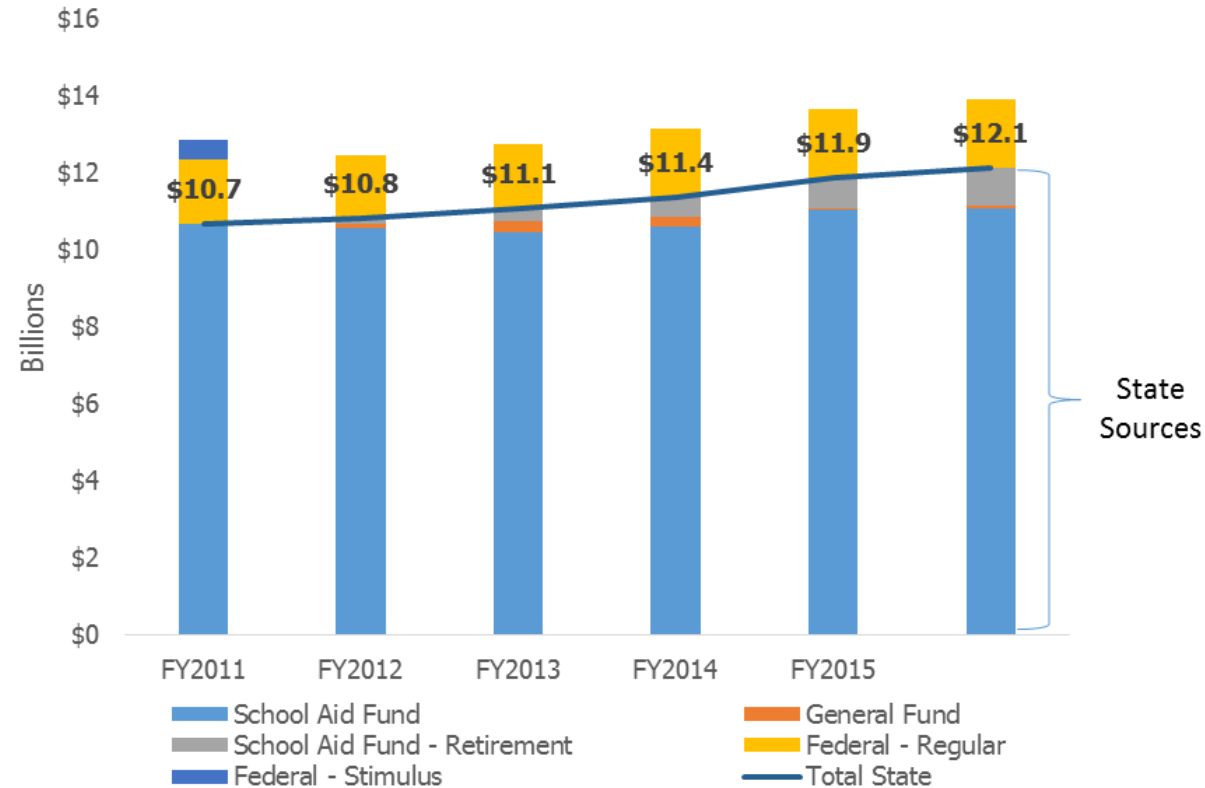
Improving, but Still Below FY2000 Level



Data: Revenue adjusted for inflation using Detroit-area Consumer Price Index.

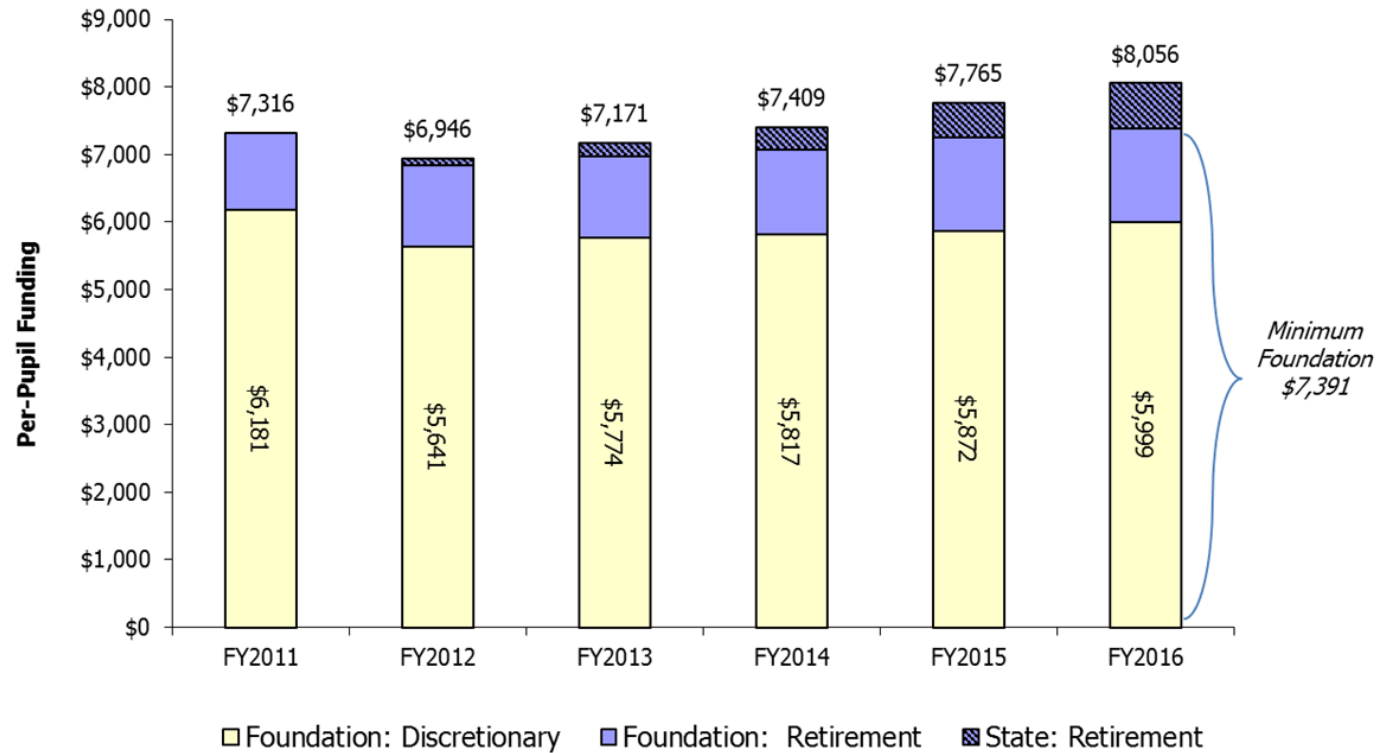
State Funding Up \$1.4B Since FY2011

But, most of the increase is for retirement



Source: Senate Fiscal Agency and House Fiscal Agency reports

Retirement Costs and Per-Pupil Funding



Source: Senate Fiscal Agency and House Fiscal Agency Reports; Office of Retirement Services

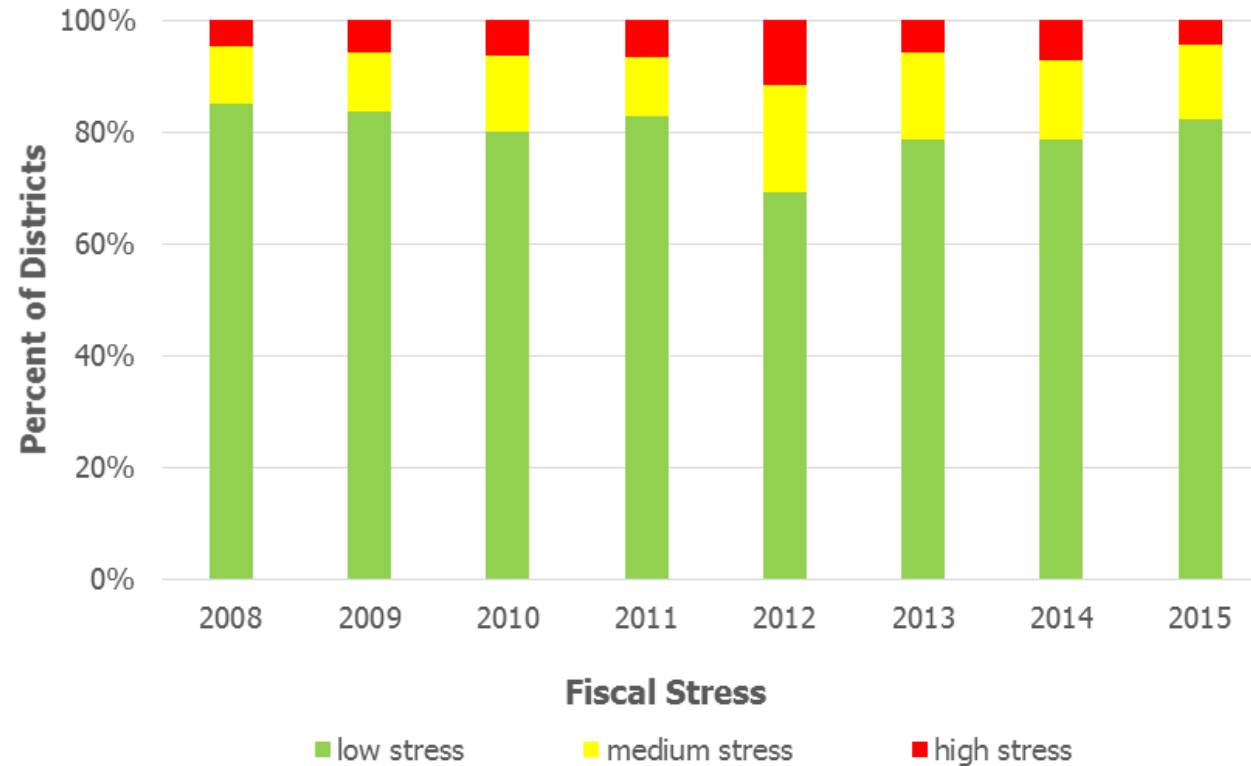
Retirement Contributions Total Over \$2,000 per pupil

Fiscal Stress

Fiscal Stress Increased Through 2012

Signs of Improvements Since

Munetrix Fiscal Stress Measure: Traditional Public School Districts



Fiscal Distress in Michigan Schools

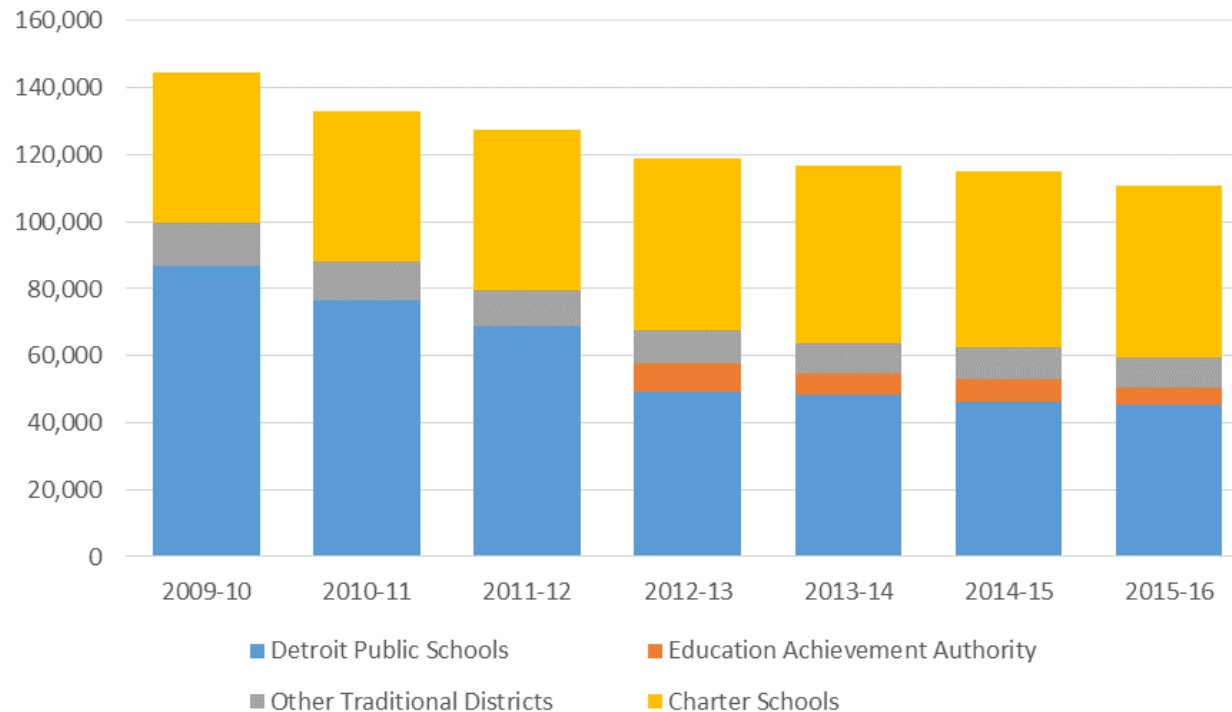
- Deficit districts – from 27 districts (2008) to 48 districts (2011)
 - Hovered around 50 districts from 2011 to 2013
 - Increased to 58 districts (2014) before falling to 41 (2015)
- Five school districts operating under “Emergency Manager” law
 - Detroit, Highland Park, and Muskegon Heights - emergency managers
 - Benton Harbor and Pontiac - consent agreements
- Additionally, two districts (Buena Vista and Inkster) dissolved in 2013 as a state response to their fiscal problems

Some Key Differences: Schools vs Cities

- Nature of the problem
 - For local governments, problem **EXCLUSIVELY** financial
 - For school districts, almost always dual crisis – financial **AND** academic
- Operating environment
 - Local governments don't face competition in service delivery
 - Nearly all distressed districts operate in a competitive market (for students and operating resources)
- Finances fundamentally different
 - School operating revenues highly centralized at state level

Fiscal Instability: Detroit Enrollment Trends

Resident Student Enrollment by Type of District, 2009-10 to 2015-16



DPS Experienced a 50% Enrollment (Revenue) Decline over 7 Years

State Policy

Why be Concerned with Fiscal Stress?

- Directly effects the quality of educational offerings
 - If not dealt with, can lead to “death spiral”
- Accountability for public funds – majority of school funding comes from state taxes
- Ensure that vendors get paid in timely fashion
- Avoid emergency manager law
- Avoid state bailout where other schools pay price
- Protect the credit ranking of the state

Range of State Responses

- For majority of districts in distress, current Deficit Elimination Plan process functions well
- However, for those hardest hit, state policy responses vary
- Emergency manager law used in different ways
 - “Charterized” districts (Muskegon Heights and Highland Park)
 - Emergency manager in Detroit (emergency manager)
 - Consent agreements in Pontiac and Benton Harbor
- “One-off” dissolution law used in Buena Vista and Inkster

Key Observations

- Financial solutions involve additional state resources
 - Emergency loans
 - State assumption of legacy debts
- When additional state resources are provided there is less funding available to share with other districts statewide
- Managers unable to stabilize enrollment, while some decisions exacerbate enrollment decline
- Academic problems unaddressed by emergency management

Addressing Academic Failure

- Grounds for state intervention are strictly financial
 - Emergency manager's priority is to fix financial problem; training and experience as financial manager
 - Goal: Short-term budget balance
- Manager assumes role of elected board and school professionals
 - Law requires development and implementation of education plan, but manager is not an educator or school administrator
 - Financial decisions most often negatively affect education programs
- Failure to address academic failure can result in "death spiral"
- Bottom line: Require different solutions and timing

Alternatives to Emergency Management

- State School Reform Office (2010)
 - Multiple interventions available – focus on academic failure
 - CEO option – currently used in Eastpointe Schools
 - Closure option - currently being discussed for lowest 5% schools
- Educational Achievement Authority (2011)
 - 15 Detroit schools placed in new state-run reform district
 - Operated since September 2012, but will dissolve June 2017

A Shift Away from Reactive Measures

- “Early warning” system for school districts developed in 2015
 - Preemptive tool developed and administered by Dept. of Treasury
 - Projects fund balance for current and next two years
 - If “potential fiscal stress” exists, allow district to contract with ISD for administrative review
 - Additional technical resources, but no financial resources provided
- Too early to tell how effective

Closing Thoughts

Key Takeaways

- Overall fiscal health improving, but a few stubborn cases
- Emergency manager law has been primary tool used, but in various forms with different results
- While it may help address immediate fiscal distress, emergency management not a solution to long-standing academic problems
- Shift away from emergency management to other forms of state interventions, including those with greater focus on academics
- Increase emphasis on proactive measures, including new early warning system

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