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While finance reform is an issue in most if not all of the 50 states, Michigan's approach to reform has been somewhat different. Like most states, Michigan had relied heavily on local property taxes to support schools. Even though Michigan used a guaranteed tax base funding approach that rewarded for local effort to provide state support, disparities existed. According to Michigan Department of Education Reports per pupil local and state revenues for 1993-94 varied from $3,277 in Onaway to $10,358 in Bloomfield Hills, a range of $7,081. There were several reasons for these disparities.

In Michigan, property value for taxation purposes is referred to as the state equalized value (SEV), and it is equal to 50 percent of the market value. The state aid membership formula was a combination flat grant plus a dollar amount per mill levied; this amount was called the gross membership allowance or GMA. State aid was the difference between what could be generated locally and the GMA. Those districts whose local dollars exceeded the GMA were called "out-of-formula," and although there was no provision for recapture of revenues generated locally, categorical grants in out-of-formula districts were subject to recapture.

According to MDE reports, 1993-94 operating millage rates for districts in Michigan varied from a low of 7.8 mills to a high of 45.67 mills with a mean of 33.39 mills and a median of 33.89 mills.[1] Total school district property wealth varied from a low of $15,057,180 to a high of $6,442,484,436. The district at the fifth percentile had an SEV of $32,833,812 while the district at the 95th percentile had an SEV of $1,195,962,846. The SEV per pupil varied from a low of $32,285 to a high of $1,085,346. Clearly, a mill levied in one district did not generate the same number of dollars as a mill levied in another district.

There were a number of districts that levied low millage and had SEVs per pupil that were high enough to put them out-of-formula, made their categorical grants subject to recapture, and kept them low spending. Onaway is an example of such a district. Onaway had an SEV per pupil of $113,691 and levied 22.65 mills. Under Michigan's 1993-94 state aid formula, Onaway was out-of-formula even though it generated only $3,277 per pupil. On the other hand, Bloomfield Hills, with its high SEV per pupil of $400,540, could raise over $10,000 per pupil by levying 24 mills. Clearly, a mill levied in one district did not generate the same number of dollars as a mill levied in another district giving rise to both taxpayer and pupil inequities.

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In July of 1993, the state legislature, in a surprise move, voted to eliminate property taxes altogether for the support of schools. The history and politics of the remaining six months of 1993 are well documented by Addonizio, Kearney, and Prince[2] and by Vergari[3]. The end result was a ballot proposal, Proposal A, to amend the constitution, which was overwhelmingly approved by Michigan voters in March 1994. The amendment called for increases in the sales tax and other miscellaneous taxes and the restoration some property taxes. Under Proposal A, property is classified as either homestead (primary residence) or non-homestead. Eighteen mills are levied by local districts on non-homestead property and six mills are levied by the state on all property.

In addition to revenue changes, allocation of state dollars to local school districts was changed.[4] Districts were divided into three funding tiers which were determined by their 1993-94 state and local revenues. Those districts that had revenues less than $4,200 were raised to that level or received an increase of $250 per pupil, whichever was greater. Districts with revenues above $6,500 received a minimum increase of $160 per pupil. These districts can levy hold harmless millage by seeking voter approval for enough millage to allow them to remain at their high spending rate. Those districts in the middle tier received a per pupil increase that ranged from $250 to $160 depending on the district's place on the continuum. This meant that districts received increases in revenue that ranged from 23.60 percent (Onaway) to 1.55 percent (Bloomfield Hills). The calculation of the district's 1993-94 local and state revenues (both general membership aid and most categorical grants) plus the additional dollars as described above became the district's foundation allowance. Categorical grants have, for the most part been eliminated as they have been subsumed into the district's foundation allowance. A new categorical, funding for at-risk students, has been created. Districts below the $6,500 level are eligible to receive dollars for at-risk students. The amount is a function of the district's foundation allowance and the number of students eligible for the Federal free lunch program. Students eligible for reduced lunch are not counted for the state at-risk dollars.

The new plan also called for the determination of a basic foundation allowance of $5,000 for 1994-95.[5] The basic foundation allowance can best be described as a target minimum foundation allowance. However, the Michigan legislature decided not to raise all low spending districts to that amount immediately, choosing instead to raise revenues in the low spending districts over a number of years. In addition, the legislature decided to not lower the higher spending districts to the $5,000 level. The legislature chose to increase revenues in districts below the basic foundation allowance at a faster rate than those above the $5,000 amount. In subsequent years, the increase granted to districts will be based on an index factor calculated by the Consensus Revenue Estimating Committee.[6] The committee forms a consensus on state revenues based on economic indicators such as the CPI, unemployment rate, etc. This increase is then applied to the basic foundation allowance. Districts at the minimum revenue level receive twice the calculated increase. Those districts between the minimum and the basic allowance receive an amount between the calculated increase and twice the increase in an amount not to exceed the new basic foundation allowance. Districts above the basic foundation allowance receive the calculated increase. This method allows the lower revenue districts to experience greater revenue growth than the

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other districts so that disparities continue to be lessened. Local districts were given the option of requesting voter approval for three additional enhancement mills for up to three years. This local option will be replaced by a regional enhancement millage option beginning with the 1997-98 school year. The regional enhancement millage must be approved a majority of voters within an intermediate school district thereby broadening the tax base and improving equity in terms of property wealth.

A Study of Reform's Impact

The purpose of this study is to examine the impact Michigan's finance reform has had on three of the low revenue districts. This research is very important because other researchers' have pointed out that while total dollars for education have increased significantly over the years, the number of new dollars coming into any district at one time has been relatively small. This research focuses on three Michigan districts that received significant revenue increases for the 1994-95 school year. Although these districts will continue to receive more dollars per pupil over the next five or six years, the amount of the increase will not be nearly as much as they received during the first year.

This study examines changes in revenue and how these revenues were used by the districts. Analysis has been limited by the fact that the 1994-95 was the first year of reform. Financial reports were not completed by the districts until December 1995, and the MDE released the information in January 1996.

There were 31 districts (out of 524) whose local and state revenues were below $4,200 in 1993-94. The low revenue districts are located in the upper peninsula, northern lower Michigan, and southwestern Michigan. Constraints, such as lack of funding and professional commitments, limited travel to distant sites. The three districts that were selected for analysis are all located in southwestern Michigan. The three districts do differ in many ways, including enrollment growth and socio-economic status.

In addition to five years of financial data obtained from MDE, 1994-95 board minutes for each district were reviewed for information on changes in staffing, curriculum and other areas that may have been impacted by reform. After a review and analysis of the financial data and the board minutes, conversations were held with the superintendent and/or business administrator to clarify and respond to questions about the data. These central office personnel offered insights into the effects of reform on their districts that may not have been evident in the other data. Each conversation lasted approximately 1-1/2 hours. District personnel were promised anonymity.

Changes in Revenue in the Districts

Table 1 summarizes the characteristics of the three selected districts. All three districts levied below the state average mill rate in 1993-94. Since the state aid membership formula rewarded for local effort, these districts placed themselves in the low revenue category. District C had the highest State Equalized Value (SEV) per pupil; in fact, the property wealth in District C combined with its low millage rate put this district (like Onaway) into the position of being a low revenue, out-of-formula district, thus making its state aid categorical grants subject to recapture.

Table 1
District Characteristics – 1993-94

	District A	District B	District C
State Equalized Value/Pupil	$90,826	$84,855	$110,656
Pupils (FTE)	2,935	2,275	3,472
Operating Mills	25.98	27.76	30.42
Total Revenues	$11,639,452	$8,822,812	$13,464,419
Total Expenditures	$13,052,616	$9,431,230	$13,676,139
Total Expenditures/Pupil	$4,447	$4,145	$3,939
Fund Balance	$2,359,468	$406,948	$1,944,267
Average Teacher Salary	$34,896	$40,396	$44,503
Rank in State	446	269	150
Administrative & Business Costs/Pupil	$429	$527	$348
Rank in State	457	284	521
Free & Reduced Lunch	41.2%	20.5%	9.4%
Drop Out Rate	12.2%	4.6%	0.8%
Completion Rate	59.4%	84.0%	96.4%

Rankings were computed by MDE based on 524 districts.
Source: Information provided by Michigan Department of Education.

Lack of taxpayer support of millage requests is part of the history of these districts, which is why they are low revenue. District A is a resort area; a lot of the property is owned by non-residents. Many students are transient, children of migrant workers who come here to work during the tourist season. The residents of the district have low incomes, as evidenced by the high percentage of free and reduced lunch students, and not inclined to increase property taxes. Administrators in Districts B and C described their voters as conservative. In District B, property owners have seen the valuation of their property increase as new, expensive houses are being built on many of the small lakes within the district. District C has a large number (approximately 2,000) of private, parochial school students within its boundaries. Although the district has no proof, administrators are inclined to believe that the parents of these students were unwilling to tax themselves for schools they do not use.

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Table 2 provides the information used by the Michigan Department of Treasury to calculate each district's 1993-94 base foundation allowance. Included in this calculation were the amounts collected in local property taxes and payments in lieu of taxes (PILOT). Revenues received from the state in the form of state membership aid and categorical aid were added. FICA was a categorical that had been added during the 1992-93 school year. For many years the state had paid the employer share of FICA. In the late 1980s, the state had local districts pay FICA but directly reimbursed the districts. In 1992-93, districts began accounting for FICA as a revenue and expenditure, and because it was labeled a categorical grant, it was subject to recapture for those districts that were out-of-formula. In 1993-94, FICA reimbursement was frozen at 70 percent of the amount received in 1992-93. Since the mid-1970s, Michigan districts had been paying five percent of retirement costs for its employees; the state paid the remaining amount. The base foundation calculation included the amount the state had paid for the district's employees during the 1993-94 school year. In addition, 15.7 percent of what a district had spent in fund balance was rolled into the calculation as revenue.

The method of calculating the base raises questions. For example, District C lost almost $200,000 in recapture during 1993-94. While recapture was not calculated as a revenue, it also was not subtracted out of the state revenues, thereby overstating the district's revenues. In addition, central office administrators question the inclusion of the expenditure of fund balance as a revenue.

The need to use fund balance in 1993-94 was necessitated by legislative actions that were designed to provide taxpayer relief but caused loss of revenue to districts. In 1992-93, SEVs in the state were frozen. The SEVs for 1993-94 represented two years of growth, often a double digit percentage increase. A constitutional amendment (P.A. 35 of 1979, often referred to as the Headlee Amendment) requires a roll back in local millage rates if the local tax base (SEV) increases more than inflation. The rollback caused a loss of 3.19 mills in District A, 2.31 mills in District B, and 0.4 mills in District C. While District C did not ask voters for a Headlee Override, Districts A and B did. Taxpayers defeated the request in both districts. Because the state aid formula was driven by mills levied, the districts lost substantial dollars. The decision reached in all three districts was to use fund balance rather than to cut staff and programs.

District A received the greatest revenue increase in 1994-95 of the three selected districts. The increase of approximately $400 per pupil represented a 10.5 percent rise in local and state revenues. District B's increase of $387 per pupil (10.15 percent) was slightly more than District C's increase of $335 per pupil (8.39 percent).

Table 2
District Base Foundation Calculation, 1994

	District A	District B	District C
Prop Taxes	$6,453,316	$4,903,637	$11,420,522
Payment in Lieu of Taxes	17,000	0	7,800
TOTAL LOCAL	$6,470,316	$4,903,637	$11,428,322
State Aid			
Formula	$2,024,838	$1,979,442	$496,600
Recapture[a]	0	0	199,813
Categorical Grants	452,290	291,051	308,786
FICA	455,132	336,937	469,747
Retirement	710,046	491,393	732,376
TOTAL STATE AID	$3,642,306	$3,098,823	$2,207,304
Fund Balance	192,641	119,545	33,071
TOTAL REVENUES	$10,305,263	$8,122,005	$13,468,883
Prior Year Pupils[b]	2,831	2,130	3,485
Base/Pupil	$3,802	$3,813	$3,865
Foundation Allowance	$4,200	$4,200	$4,200

a. Recapture was not considered a revenue.
b. These numbers differ slightly from Table 1.
Source: Information provided by Michigan Department of Education.

Expenditures for Salaries, Benefits, Staffing and Curriculum

Attention is now turned to how the districts used the new dollars they received. Tables 3, 4, and 5 provide a breakdown of objects of expenditure for instruction and support as a percentage of total expenditures for a five year time period. Instruction includes all expenses for classroom instruction including basic K-12, special education, vocational education, and other added needs such as at-risk students and gifted and talented. Support expenditures include all administration, transportation, business services, maintenance and operations, non-classroom support services for students and staff (counseling, professional development), etc. These are general fund operating expenses and under Michigan's accounting code do not include expenditures for food service, athletics, debt retirement, building and site funds, and sinking funds.

The most obvious and expected increase in expenditures occurs in benefits. There was an increase in this expenditure area in 1993-94 when FICA began to be accounted for as an expenditure and an even larger increase for 1994-95, the first year of finance reform, as districts assumed the full cost of retirement. District A, which had actually received $1,165,178 credited to its base foundation calculation for FICA and retirement, expended $1,861,399 for these two items that had been shifted from state responsibility to school district responsibility. District B received credit for $828,330 but expended $1,316,866 for these two non-discretionary expenses. District C received credit for $1,202,123 but expended $2,037,375 for FICA and retirement.

Table 3
District A – Expenditures as a Percentage of Total Budget

	1990-91	1991-92	1992-93	1993-94	1994-95
INSTRUCTION					
Salaries	41.7	47.4	47.3	46.4	42.4
Benefits	7.6	8.4	8.9	12.1	15.5
Purchased Serv	0.8	0.7	0.9	0.8	1.1
Supplies	2.7	1.7	1.9	1.5	2.4
Other	0.3	1.0	0.5	0.5	0.3
Total Instruction	53.1	59.2	59.5	61.3	61.6
SUPPORT					
Salaries	17.7	20.5	20.7	18.5	16.3
Benefits	3.6	4.1	4.4	5.4	6.4
Purchased Serv	7.0	5.1	5.4	5.9	5.9
Supplies	2.1	2.2	2.1	2.3	4.5
Other	16.6	8.6	7.8	6.5	8.8
Total Support	47.0	40.5	40.4	38.6	38.4
DISTRICT TOTAL					
Salaries	59.4	67.9	68.0	64.9	58.7
Benefits	11.2	12.6	13.3	17.6	21.8
Purchased Serv	7.7	5.8	6.2	6.7	5.9
Supplies	4.8	3.9	4.0	3.9	4.5
Other	16.9	9.6	8.4	7.0	9.1
TOTAL	100.0	99.8	99.9	100.0	100.0

Discrepancies in addition due to rounding.
Source: Computed by author from information from MDE.

In reviewing the data in Table 1, we can see that District A is clearly at the low end in the state for teacher salaries and administrative costs; District B is below the median for these personnel costs. Although District C was on the higher end of the rankings for teacher salaries, it is almost last in administrative costs. These are not districts that are leading the state in salaries in 1993-94, and for 1994-95 these three districts approved only three percent or less across the board salary increases. The need to use such a significant portion of the revenue increase for mandated benefits arises because of the way the base was calculated and not by increases in personnel or huge salary settlements.

District A has begun many new programs targeting its very needy, at-risk population. One such program is a four level curriculum delivery system which gives students alternatives to a traditional high school curriculum. One part of this curriculum is a half day of academic and vocational classes with the other half day devoted to tutorial programs and other student support systems. According to board minutes, early reports by the administration to the board of education state "learning is up and discipline problems are down." A pilot school/court liaison program is in place. An all day kindergarten in a multi-age setting has been implemented. In the elementary grades, a multi-age continuous progress curriculum is provided with teams of teachers (consisting of regular classroom teachers, special education teachers and Title I teachers) working with students. These programs are serving as models for others across the state and appear to be in keeping with some of the recommendations of Miles[8] and Odden and Clune[9] as ways to reform education and better utilize existing resources. Central office administrators stress that these programs have no connection to finance reform. The new superintendent is responsible for bringing these innovations to the district, and they were started before reform. The innovations have been funded by using a fund balance that had been allowed to grow over the years by

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Table 4
District B – Expenditures as a Percentage of Total Budget

	1990-91	1991-92	1992-93	1993-94	1994-95
INSTRUCTION					
Salaries	51.6	52.0	51.4	46.6	46.5
Benefits	9.2	9.4	9.0	14.0	16.4
Purchased Serv	0.5	0.5	0.7	0.8	0.6
Supplies	2.7	3.0	3.2	3.5	2.5
Other	0.0	0.8	0.4	0.3	0.3
Total Instruction	64.0	65.7	64.7	65.2	66.3
SUPPORT					
Salaries	19.1	18.4	18.2	17.3	18.0
Benefits	3.8	3.6	3.6	4.7	5.6
Purchased Serv	5.8	5.3	5.3	5.0	4.6
Supplies	4.4	3.1	3.4	3.2	2.9
Other	2.9	3.9	4.8	4.5	2.5
Total Support	36.0	34.3	35.3	34.7	33.6
DISTRICT TOTAL					
Salaries	70.7	70.4	69.6	63.9	64.5
Benefits	13.0	13.0	12.6	18.7	22.0
Purchased Serv	6.3	5.8	5.9	5.8	5.1
Supplies	7.1	6.0	6.6	6.7	5.4
Other	2.9	4.7	5.2	4.9	2.9
TOTAL	100.0	99.9	99.9	100.0	99.9

Discrepancies in addition due to rounding.
Source: Computed by author from information from MDE.

administrators and board members who believed they were being fiscally responsible. Administrators believe that reform does not allow them to do innovative and creative things. In fact, this district believes that it has been negatively impacted by the new at-risk dollars because the district had received significant dollars under the old categorical programs for compensatory education and low income. These categorical grants did not restrict the population for which these dollars could be targeted. At-risk dollars must be spent on a specifically defined population. Administrators say that there will be no additions in program or staff for next year; the district will just be able to meet the payroll.

District B administrators say that they used the new money to cover the shortfall from the Headlee rollback of the previous year. District B used its at-risk dollars to institute a tutoring program which is targeted at upper elementary and the middle school grades. The district hired six instructional assistants to implement this program. The instructional assistants are certified teachers who have been unable to find full time teaching jobs, so the district and students receive the benefits of a fully certified teacher while paying non-teacher union pay. The district has had to assume more special education costs because the intermediate school district millage for special education can now support only about 70 percent of the costs. This finding is in keeping with that of Lankford and Wyckoff[10] who found that in New York more dollars are spent on the disabled at the expense of the regular students. For District B there was no new hiring and no expansion, other than the at-risk program. In an effort to cut costs, District B has tied salary increases to revenue increases. In addition, increases in health insurance and retirement costs will be subtracted from the salary increase. The only increase in expenditures for capital outlay are the result of the need to purchase new buses.

District C used some its dollars to rebuild and enhance fund balance. In addition, District C has used its new dollars to buy things

Table 5
District C – Expenditures as a Percentage of Total Budget

	1990-91	1991-92	1992-93	1993-94	1994-95
INSTRUCTION					
Salaries	48.5	49.1	52.6	48.6	46.9
Benefits	8.8	8.8	9.9	12.7	15.8
Purchased Serv	0.2	0.1	0.3	0.2	0.3
Supplies	2.9	3.3	2.8	2.5	2.6
Other	0.1	0.1	0.1	0.1	0.2
Total Instruction	60.5	61.4	65.7	64.1	65.8
SUPPORT					
Salaries	19.6	19.6	19.7	17.7	16.9
Benefits	2.9	3.0	3.2	4.1	5.5
Purchased Serv	6.5	7.1	5.8	5.4	0.6
Supplies	2.4	2.2	2.3	1.9	5.5
Other	8.1	6.7	3.5	6.7	5.7
Total Support	39.5	38.6	34.5	35.8	34.2
DISTRICT TOTAL					
Salaries	68.1	68.8	72.3	66.4	63.8
Benefits	11.6	11.8	13.0	16.8	21.3
Purchased Serv	6.7	7.2	6.1	5.6	1.0
Supplies	5.3	5.4	5.0	4.4	8.1
Other	8.3	6.8	3.6	6.8	5.8
TOTAL	100.0	100.0	100.0	100.0	100.0

Discrepancies in addition due to rounding.
Source: Computed by author from information from MDE.

other districts in the surrounding area already have. It added staff with its new dollars. District C is growing at the rate of approximately 200 students per year; however, the state uses a blended student count (the previous year's February enrollment and the current year's October count) for purposes of state aid, so each year the district is behind revenue for approximately 100 students. Enrollment has increased 47.1 percent between 1988 and 1994. Prior to finance reform, elementary classrooms including kindergarten, had 30 or more students per class. Additional staff reduces class size somewhat. In addition, a psychologist and social worker have been added. The district has six elementary school buildings. Prior to finance reform, the district had two elementary principals. It was able to add a principal in 1994-95 and another one in 1995-96.

District C was able to add a program for its at-risk students with the new dollars. It had not been eligible for low income dollars and even if it had been, recapture would have taken most of those dollars away. Like District B, this district is using otherwise unemployed teachers to work as instructional aides to provide services for at-risk students. District C has a very high graduation rate, so it is not surprising that additions to the curriculum have been at the high school level. Additions include advanced placement courses, advanced computer applications courses, and specialized English classes. District C is the only district of the three districts studied to have schools that have achieved summary accreditation based on their high scores on the Michigan Educational Assessment Program (MEAP - Michigan's assessment tool).

District C is also working to bring change in the teacher salary schedule. For example, once a negotiated settlement is reached with teachers, $2,000 is subtracted from steps 1 and 2. The argument for this action is that it represents the job market. There are far more teachers than positions; the board of education wants teachers to make a commitment to the district before receiving more dollars. In

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addition, the district has implemented an incentive program for teachers who have demonstrated expertise is the use of classroom technology and who then act as leaders in promoting technology.

District C has a long history of site-based management in all facets of decision-making - budgeting, spending, hiring, curriculum. District C has had and continues to have many long range plans for enrollment, staffing, facilities, etc. There are many concerns. For example, the district is in the midst of a large building program due to its increasing enrollment. This will mean additional staff and also the need to add dollars to the budget for increased costs of maintaining and operating the new buildings. It is calculated that the district will need to add $560,000 to its budget just for routine maintenance and operations when the current construction is completed. The district is going to continue to be hurt by receiving state dollars based on a blended count of current year and prior year enrollment.

The reactions to Michigan's finance reform vary across the selected districts. The administrators in District A believe that reform is not working because not enough dollars were put into the reform effort. Equity has not been achieved, and further equity must consider the population being educated. Administrators in District A, with its very needy population, believe many more dollars are needed. Administrators in District A also point out that there is a misconception on the part of the public as to how many dollars are being received by the district. The state talks about the base foundation (which began at $5,000 and has increased to $5,153). The administrators in District A believe that most voters do not understand that the base foundation is a target and that district foundation grants can be as low as $4,200. District A believes it could do a lot more with $800 more per student.

District B believes that it is better off because of finance reform. The district needed more dollars, and it was impossible to get voter approval for additional millage. As an added bonus, District B passed a bond issue for $22,285,000 for a new high school and renovations in other buildings. It is the District's belief that the bond issue would have failed without finance reform.

District C is positive about finance reform. It now has more resources than it had before, but it still does not have the resources other districts have. In addition, the equity issue has not been resolved. The district, from all appearances, has done well - high graduation rate, low drop-out rate, high test scores - and it has a good reputation. School district administrators are concerned that as more people move into the community the district may not be able to live up to expectations because revenue increases will not keep pace with the growth.

Conclusion

Finance reform in Michigan has increased revenues for school districts in Michigan but has not resolved the equity issue. Reform occurred at a time when districts were finding themselves unable to obtain more revenues through local millage efforts. Reform followed on the heels of circumstances that had reduced revenues coming into districts. In addition, with increased dollars also came increased costs that were shifted to local school districts. New dollars are being used to cover the costs of non-discretionary items such as mandated benefits. New dollars are also being used to recover losses experienced as a result of the Headlee rollback which forced districts to use fund balance rather than make massive cuts.

The districts studied have negotiated modest salary increases and have found themselves able to implement some new programs, particularly those aimed at at-risk students. New dollars have not been used for administration except in District C, which was clearly understaffed. It appears that in these three low spending Michigan school districts, finance reform has allowed them to maintain the status quo with only modest programmatic changes.

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