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Michigan schools on brink of funding crisis

Double whammy of recession, tax reform spur looming deficits

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Lansing -- While lawmakers enacted sweeping education reforms last week in an effort to win up to \$400 million in federal Race to the Top cash, they left in place a finance system that some say is failing public schools.

Funding is heavily reliant on retail sales in a down economy that is increasingly shifting toward services. That has left school budgets lean and getting leaner at a time when the state needs to retool to prepare students for a knowledge-based marketplace.

"We have to fix the way education is funded in Michigan," Gov. Jennifer Granholm said. "Our funding structure was adopted at a time when the economy was different."

When Michigan switched 15 years ago from using property taxes to sales taxes as the cash wellspring for public schools, economists warned leaders the new setup would be far more volatile -- rising and falling with the whims of a fickle economy.

Schools are suffering the full crush of that now.

Recession-weary consumers aren't buying big-ticket items and the economy is shifting from goods subject to a sales tax to non-taxable services, causing a 10 percent, or \$800 million, plunge in sales tax collections this year. The state will take in about the same amount in sales tax revenue this year as it did in 1999.

As a result, school budgets -- which depend on revenue from retail sales for about half their money -- are being slashed by at least \$165 per pupil and more than \$600 a student in some districts, and the future appears even more dismal. There's talk of greater cuts next year when federal stimulus cash for school aid begins to fade away.

"There aren't going to be any schools in Michigan that will be able to manage under the conditions we have," said Don Sovey, associate superintendent for business at the Charlotte Public Schools. He noted a recent Michigan School Business Officials survey showed 40 percent of school districts are headed for severe debt by June 2011.

Jacklin Zeidan, who has a daughter at Dearborn Fordson High School, said the state's education finance system is failing everybody.

"Proposal A (the 1994 school finance statewide ballot issue) has never really been funded properly and has hindered us more than helped us," she said. "We need to step back and look at it again."

Her district has to cut up to \$10 million.

Michael Griffith, school finance analyst for the Denver-based Education Commission of the States, said many states use the sales tax to fund schools, but Michigan's problem is more acute because its economic downturn is worse than most.

"It is a proven fact that property taxes are more stable than sales taxes. And you can adjust the property tax when the economy sours, which you can't do with the sales tax," he said. In Michigan, raising the sales tax requires a constitutional amendment.

"But the voters in Michigan came down clearly on the side of the swap" in 1994 when they voted in Proposal A to dramatically cut property taxes in exchange for a two-cent increase in the sales tax to pay for schools, Griffith added.

State taxes few services

Even the property tax -- which accounts for about one-third of the \$12.9 billion in school aid -- is not as reliable as it once was due to the housing bust. Property tax revenue continued to grow statewide through 2008, but is expected to decline the next couple of years.

Compounding the sales tax decline is the fact that Michigan taxes fewer services than 38 other states; Michigan's economy becomes more service-oriented with each passing year.

"It's clear now that if we're going to use the sales tax we have to bring in more services because that's where the action is," said Michael Flanagan, state superintendent of public instruction.

Don Wotruba, a lobbyist for the Michigan Association of School Boards, said voters won't sit still for tax reforms unless school districts undertake spending reforms at the same time.

"We're not going to get voters to revamp the tax system if they don't think we're spending their money wisely," Wotruba said.

Steve Gunn, communications director for the Muskegon-based Education Action Group, says before lawmakers revamp funding, they should look at overhauling teacher health care, privatizing services and consolidating school districts, and adopt other money-saving measures.

"Before they do anything to change our formula for funding schools, they need to make the necessary reforms to cut labor costs," Gunn said. "There are all kinds of reforms that could cut costs, but the Legislature doesn't want to do them because of union opposition."

While continued streamlining is essential, the state can't continue to squeeze districts and ignore holes in the finance system, said Charlotte schools' Sovey.

"We cannot cut our way out of this crisis as the only solution or we will see a complete dismantling of public school districts as we know them today."

'We need to diversify'

Michigan's second-leading source for financing schools -- the state income tax, which picks up 16.4 percent of the tab -- also is in the tank due to the state's unemployment rate of 14.7 percent, among the highest in the nation. And "we need to diversify our portfolio," said Doug Pratt, spokesman for the Michigan Education Association, which represents more than 150,000 teachers and staff in the state. "The system we have now is not sustainable."

The lottery, which many taxpayers point to as the savior of education, generates only \$700 million a year for schools, about 5 percent of the \$12.9 billion pot.

While Michigan uses a mix of taxes similar to other states to pay for education, it is the only state with no local funding option, Griffith said. Additional local property millage votes for schools were scrapped under Proposal A. School millage votes on the ballot are renewal issues to maintain funding.

"There should be an opportunity to increase revenues at the local level. Cities can do it and even universities can do it with tuition," said Michael Adamczyk, assistant superintendent of business services in the Troy School District.

"Revenue is controlled by the state, but expenditures are controlled at the local level. I don't know of any business that operates that way."

Added Tom White, who heads a group of educators working on a reform plan that may lead to a ballot proposal in 2010: "Proposal A did provide stability for 10 years, but it no longer does. We don't have equity, adequacy or stability."

So, what are the chances the Legislature will make reforms in education finance and spending in 2010, an election year?

White said reforms will come about only if lawmakers get considerable pressure from parents.

"We're going to have to have blood in the streets before the Legislature fixes this," he said.

Polling suggests the public is starting to understand the consequences. School funding emerged as the second-leading issue, behind the economy, in a Nov. 22-24 poll of 600 voters conducted by EPIC-MRA of Lansing.

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