

Information Updated on December 17, 2009

Frequently Asked Questions about Michigan's School Funding Crisis

How are schools funded in Michigan?

Tax reform (Proposal A) in 1994-95 created a dependency on the state for approximately 90 percent of a K-12 district's total revenue. Prior to Proposal A, schools mainly relied on property taxes from the communities they served. Today the State of Michigan distributes funds to each school district in the form of a foundation grant per student. In 2008-09 most school districts in Muskegon received \$7,316 per student.

Why are schools across the state in crisis?

When the state experiences significant financial difficulties, it affects their ability to properly fund schools. In general, the state's financial difficulties fall into six areas:

1. A slow economy results in less tax collection for the state. (Sales tax is the main source of state revenue for the School Aid Fund. The School Aid Fund pays for the day-to-day operations of local public schools.)
2. Tax cuts. Since Proposal A was passed, tax cuts have reduced annual tax collection by approximately \$600 million per year.
3. In 1995, the State of Michigan's General Fund/General Purpose contributed \$665 million to the School Aid Fund. Today that fund only contributes \$41 million to the School Aid Fund.
4. Declining enrollment. In six years time there are over 100,000 fewer K-12 students in Michigan's public (and charter) schools. In Muskegon County there are 907 fewer students enrolled in public (and charter) schools in 2009-10 compared to 2008-09 which means schools received \$6.8 million less in revenue.
5. The state has used one-time funds and stimulus dollars from the federal government to balance budgets, but no new funds are available in the future. Since 2000 the legislature and the Governor have been aware of the state's financial difficulties and have chosen to use these one-time fixes instead of identifying a stable source of funding for public schools.
6. State-mandated retirement costs for state employees continue to rise. Retirement costs have increased from 11.66% of payroll in 1999-2000 to 16.94% in 2009-10.

What happened to the stimulus money?

The American Recovery Reinvestment Act (ARRA) provided dollars from the federal government to each state in the union. These funds were to be used to protect jobs and stimulate economic growth. The dollars for education have been used to offset the lack of revenue at the state level. Actually, because of a larger, more rapid decline in revenues than originally anticipated, stimulus dollars were used to plug budget holes in the 2008-09 School Aid Fund and again in 2009-10. There will be little or no funds available beyond this year creating an even worse financial crisis in 2010-11.

What does all this mean to local public schools?

The state has not provided adequate funding for public schools for several years. The per-pupil foundation allowance has remained relatively flat for many years, and the state has made mid-year reductions in funding in 2002-03, 2003-04, and now in 2009-10. This school year all public school districts (and charter schools) will receive **\$165 less per student** which totals **\$5.0 million** countywide. In 2009-10 there were **907 fewer** students enrolled in local public (and charter) schools compared to 2008-09 which equates to an additional **\$6.8 million** loss of revenue for schools in Muskegon County. The state has also cut funding for intermediate school districts. MAISD funding has been cut by **\$290,511**.

Countywide, with the mid-year reduction and loss of enrollment, schools must operate on **\$12.1 million less** than last school year. The per student funding cut came four months after the state mandates that school budgets be approved by school boards, class sizes were established, programs and activities were launched, and teachers and other staff were in place serving students. School leaders are already being told that, before the school year ends, legislators may vote for even further reductions. All districts will be forced to make substantial changes in 2010-11.

Repeated years of revenue cuts from the state, coupled with increases in all expenditures, have caused the funding crisis to spiral. Schools have worked diligently over the years to reduce expenditures without reducing the quality of education. This past year alone schools have cut their budgets by millions of dollars. Additionally, as a service industry, our largest costs are salaries and benefits (between 80-90% of our budget). Retirement costs, which are controlled at the state level, have significantly increased each year. Schools have increased co-pays for health insurance and reduced benefit programs for health insurance for staff.

What is the estimated total revenue loss to local schools in 2009-10?

Fruitport	(905,696)
Holton	(347,097)
Mona Shores	(1,167,748)
Montague	(265,268)
Muskegon	(2,850,391)
Muskegon Heights	(2,350,490)
North Muskegon	(73,645)
Oakridge	(377,822)
Orchard View	(1,556,955)
Ravenna	(379,084)
Reeths-Puffer	(1,342,669)
Whitehall	(759,649)
WayPoint Academy	(86,209)
Three Oaks Academy*	787,870
Timberland Academy	(132,986)
MAISD	(290,511)
2009-10 Total Loss of School Funding	(12,098,350)

**The \$165 per student cut was offset by a reported increase in enrollment at Three Oaks Academy.*

How will this financial crisis affect local schools?

In 2009-10 funding for schools in Muskegon County has been reduced by **\$12.1 million**, so far. Because school districts were not notified of the \$165 per student cut until four months after school began, it was not possible to make all adjustments necessary to balance this year's budget. Most schools are using fund equity to balance the budget. In 2010-11 it is projected that the state will reduce per student funding by approximately \$700. This equates to approximately **\$20.7 million**. It is also estimated that schools in Muskegon County will have **750 fewer** students which equates to another **\$4.9 million** of lost revenue. Combined the projected loss for 2010-11 is **\$25.6 million**.

The bottom line is that over the 2009-10 and 2010-11 school years, schools are projected to receive **\$37.8 million** less than what they operated with in 2008-09. Next year's school funding reductions will have a significant impact on our public schools. Based on the size of the deficit, balancing next year's budget will require a variety of reductions including cuts in operational and staffing costs. It could cause school buildings to close, increases in class sizes, elimination of programs, and layoffs. In 2007-08 public schools in Muskegon County eliminated **83** positions. In 2008-09 an additional **101** positions were eliminated.

Does the district have any money in the bank that it can use to solve the problem?

Michigan School Business Officials (MSBO) recommends that districts save an amount of money equal to 15 percent of their annual expenditures. This is necessary to avoid borrowing money that leads to interest rates and legal costs. These are one-time dollars used to meet emergency or unplanned expenditures. Once used, they are gone. They should never be used for ongoing expenses. Schools have conservatively used these funds over the years to help balance the budget and to offset mid-year cuts, which traditionally come late in the school year after the school district budget has already been committed. The average fund balance in 2008-09 for the schools in Muskegon County, including the MAISD, was 9.7%.

Why is this important for me to know?

It is important for you to know because these are your tax dollars. The elected officials in Lansing control the vast majority of the dollars you pay for schools, and they are the only people who can change the way schools are funded. You can help by contacting your legislators and asking them to fully fund our schools. When the Governor and legislature passed Proposal A in 1994-95, they promised to fund schools properly. They have not lived up to that promise. Make sure they know how you feel by contacting:

Senator Gerald D. VanWoerkom, Jr. (34th District) sengvanwoerkom@senate.michigan.gov

Representative Mary Valentine (91st District) maryvalentine@house.mi.gov

Representative Doug Bennett (92nd District) dougbennett@house.mi.gov