

State of Michigan Budget and Executive Budget Proposal



A REVIEW AND ANALYSIS IN RELATION TO LOCAL SCHOOL DISTRICT BUDGETS

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Disclaimer: This presentation is the independent research and analysis of Brendan Walsh and does not represent in any way the views or opinions of the Grosse Pointe Public School System or its Board of Education.

Amidst a sea of numbers in what follows, here are the key points:

To understand local budget, we need to know the state budget and related issues.

K-12 costs continue to rise at a pace exceeding state revenue and some of the most significant costs are rising rapidly.

Legacy costs, mainly retirement, is the K-12 budget's biggest problem – and this is a state obligation made in wealthier times.

Those cost increases are not, by and large, reckless but logical given economic realities and state law

Gov. Snyder's proposal, in and of itself, is not a grand "reset" and the same financial constraints are very likely to recur.

The Snyder Budget Proposal Controversial Issues

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86% Business Income Tax
Reduction (\$1.7B)

- The state General Fund projects a \$1.4B deficit. This cut broadens the gap.

Elimination of Earned
Income Tax Credits

- Viewed by some as a regressive tax model, placing burden on low incomes.

Levy income tax on
retiree pensions (\$0.9B)

- Deal struck yesterday to reduce this to \$0.3B, offset by other tax increases

Reduce K-12 spending
by \$960M in 2011-2

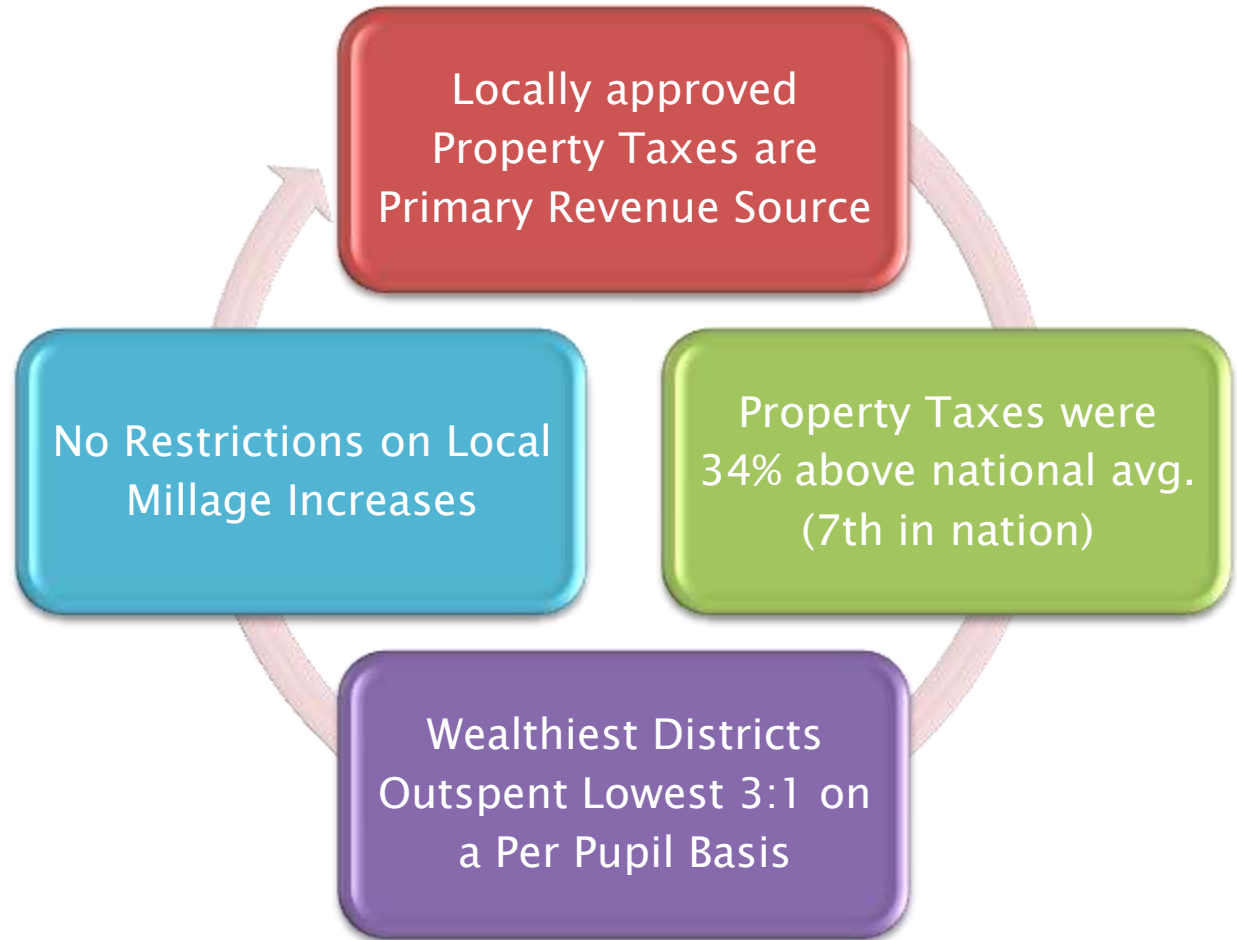
- This despite the School Aid Fund shows a \$507M Fund Balance

Use \$700M of School Aid
Fund for Higher Ed.

- Snyder/GOP argue this is legal, but it's never been done before (to this degree)

Before Proposal A

*Why School
Finance and
Tax Reform
Were Hot
Issues in
Michigan in
1993*



Implications of Proposal A

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Reduced school property taxes, increased sales, other taxes.

School funding based on student enrollment.

Revenue per pupil is set, capped by state.

Locals traded lower taxes for loss of local funding control.

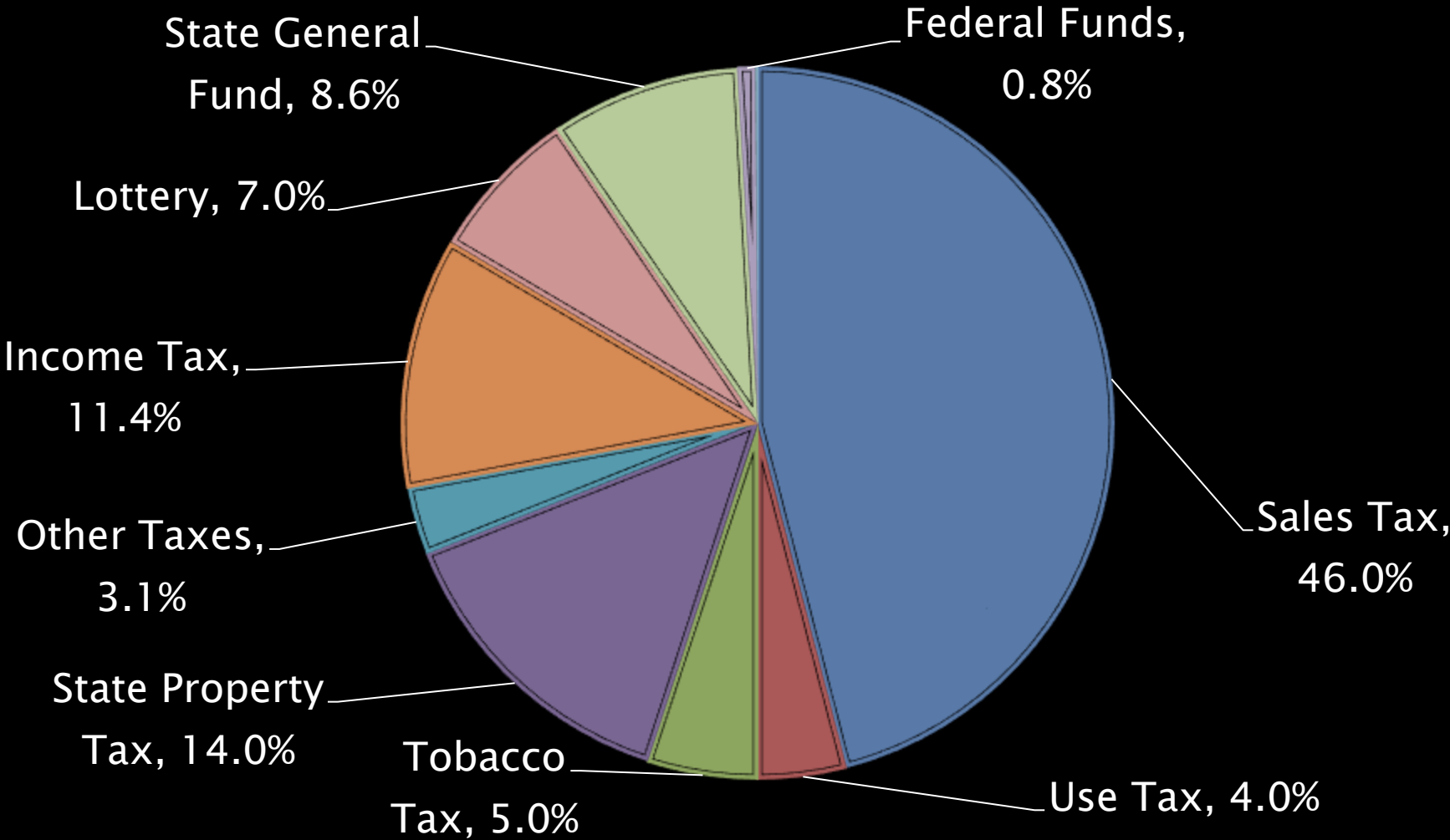
Low spending districts got “leveled up” to close gap.

Highest spending districts allowed a Hold Harmless Millage.

Pre-Proposal A, GPPSS residents were levied 29 mills on Homestead properties. In 2011, same are levied <15 mills.

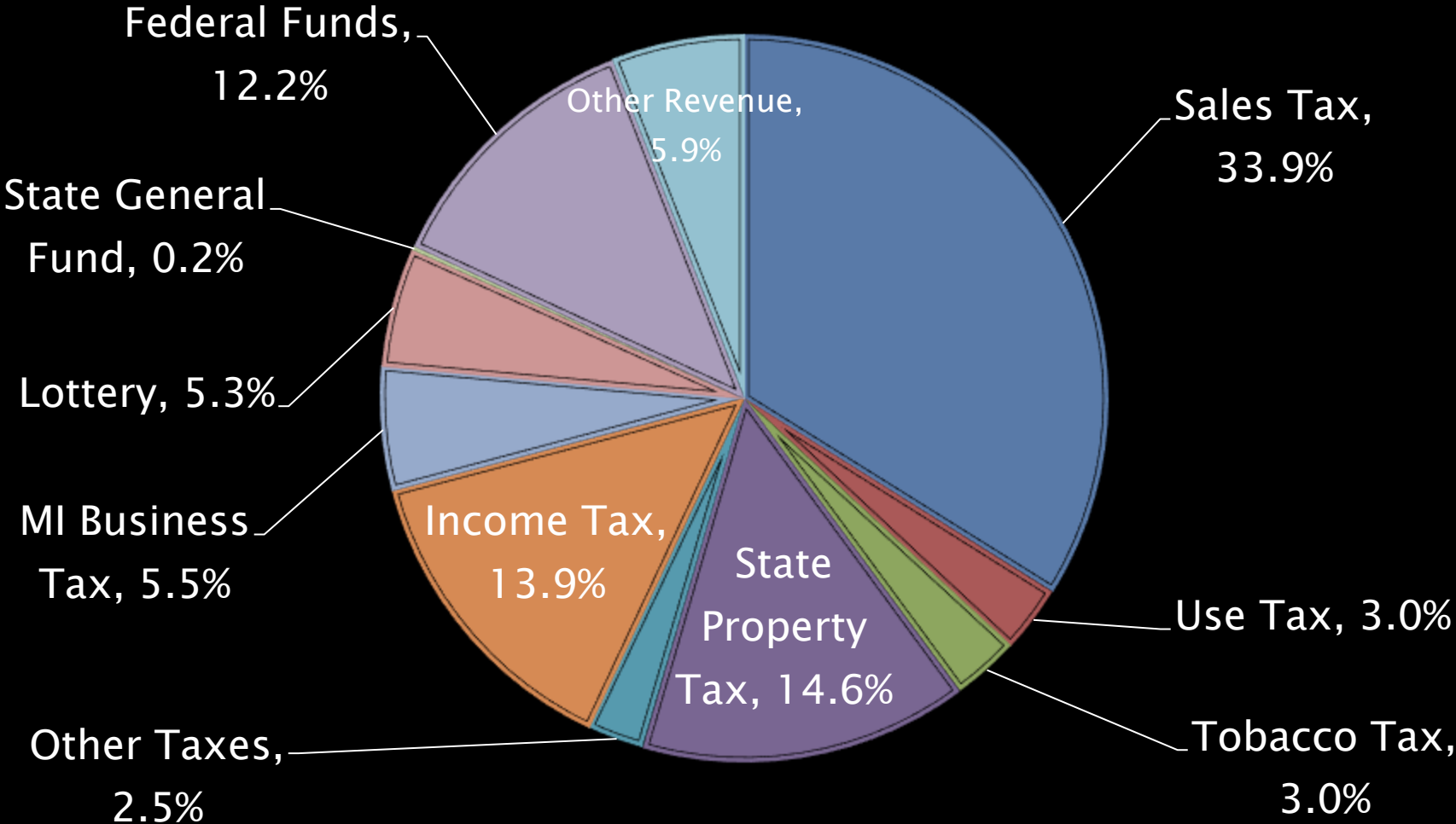
State School Aid Fund Sources – 1995

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State School Aid Fund Sources – 2010

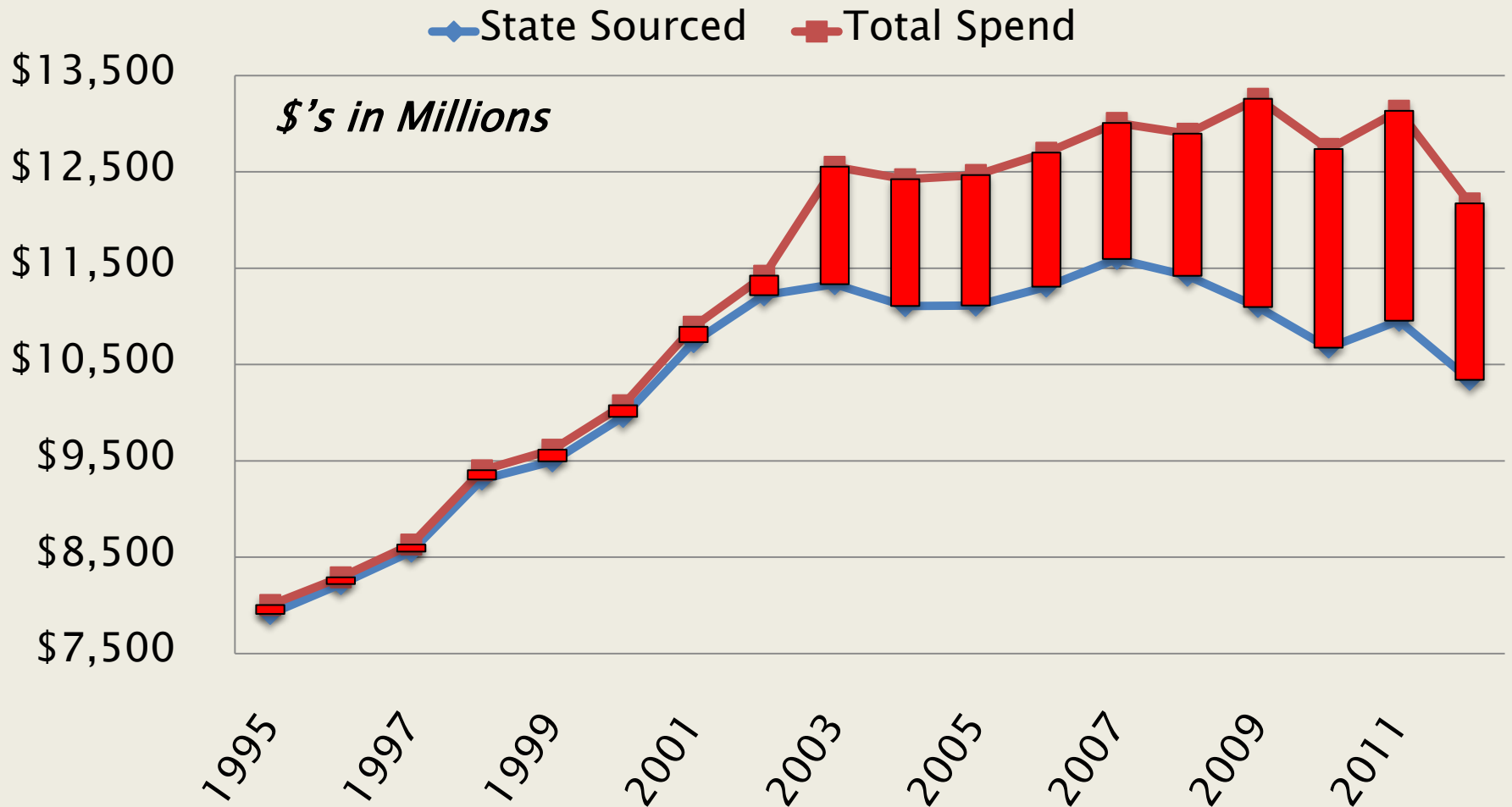
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State Portion of Total K-12 Appropriation

Growing reliance on non-state funding sources

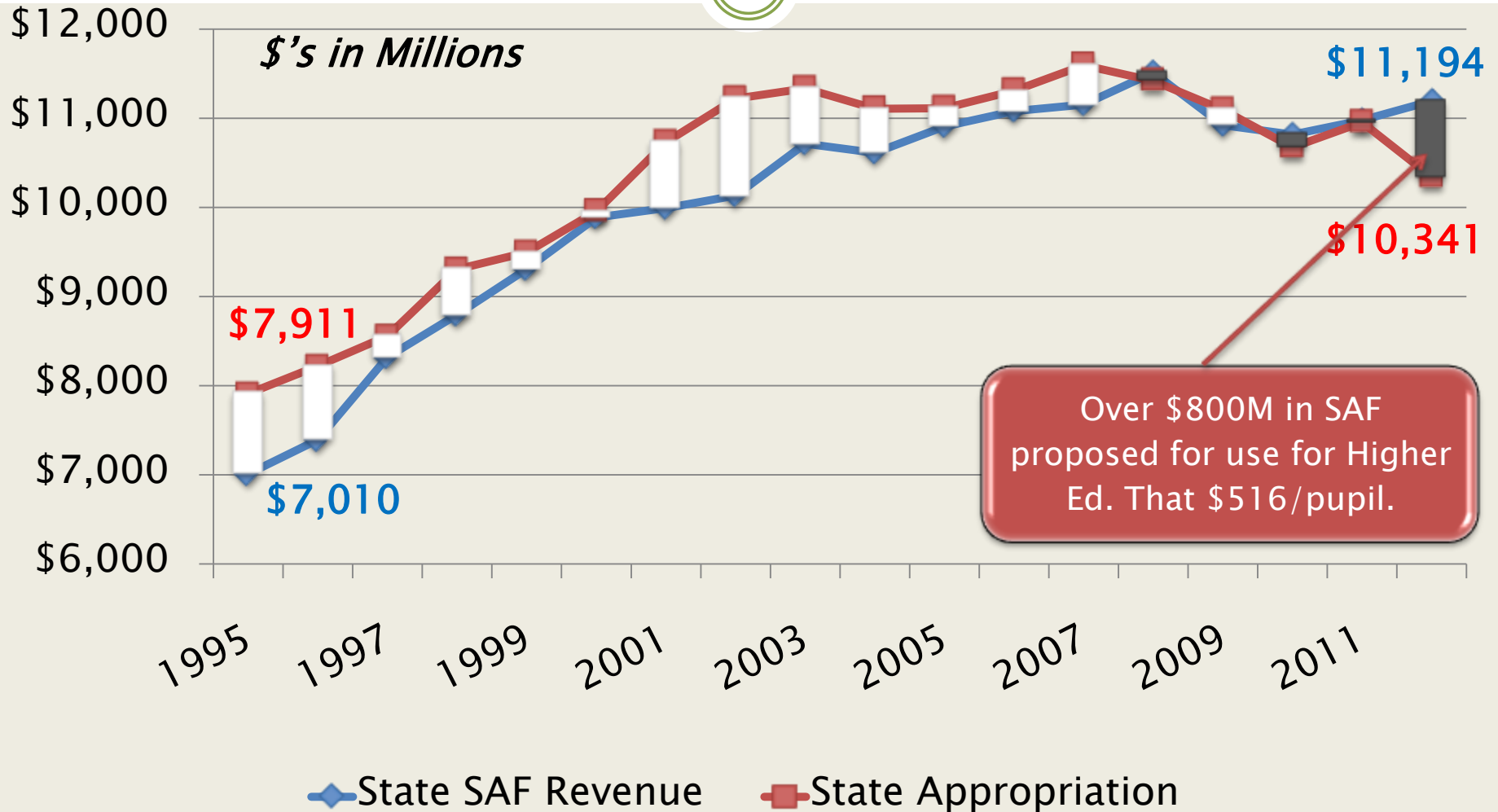
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SAF State Tax Revenue v. State K-12 Spending

Snyder proposal largest non-K-12 use of SAF ever

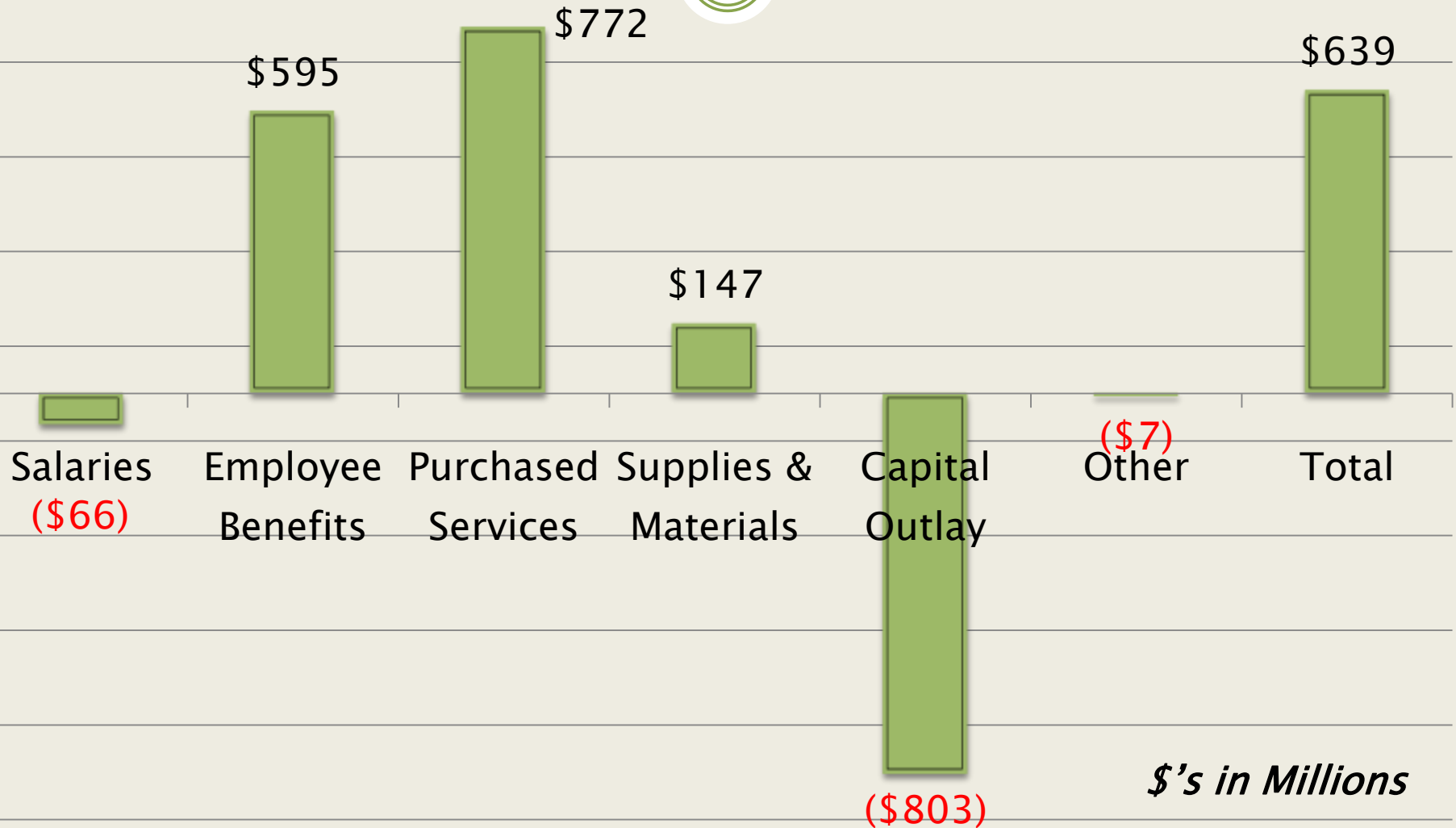
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Statewide K-12 Total Spending

Change in total \$ spend from 2004 to 2009

10

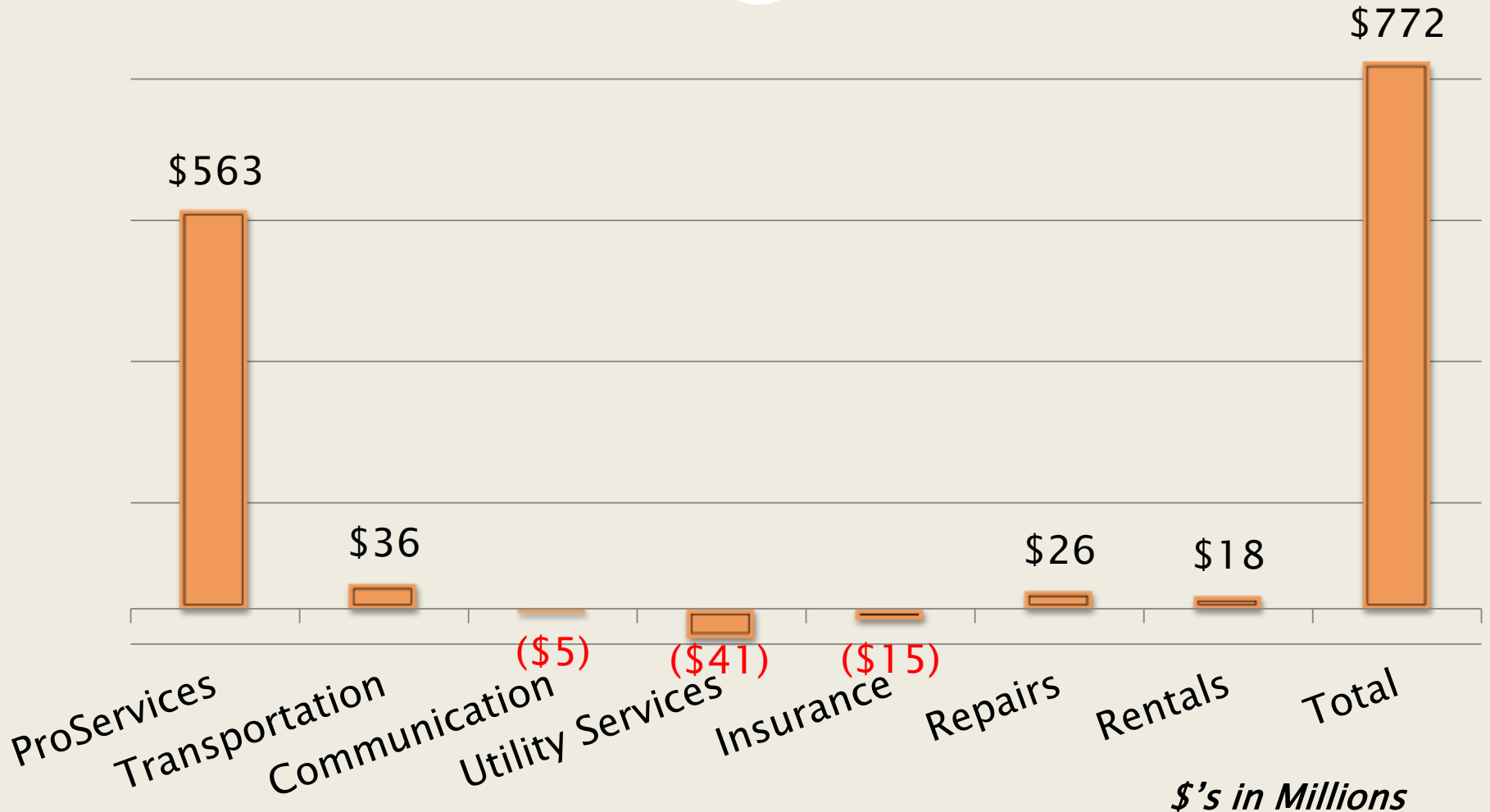


\$'s in Millions

Statewide Purchased Services

Change in total \$ spend from 2004 to 2009

11

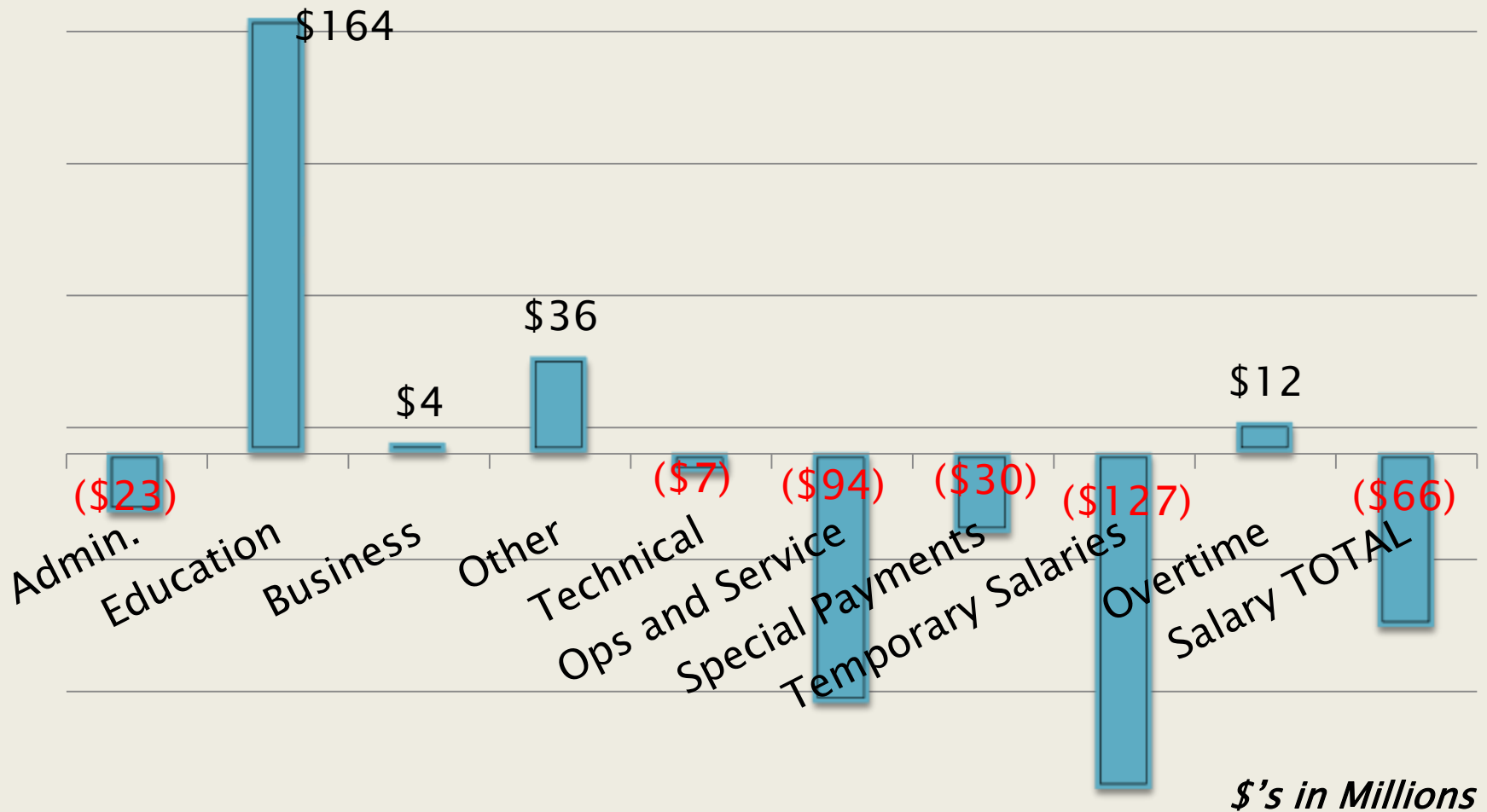


\$'s in Millions

Statewide K-12 Salary

Changes in total \$ spend from 2004 to 2009

12

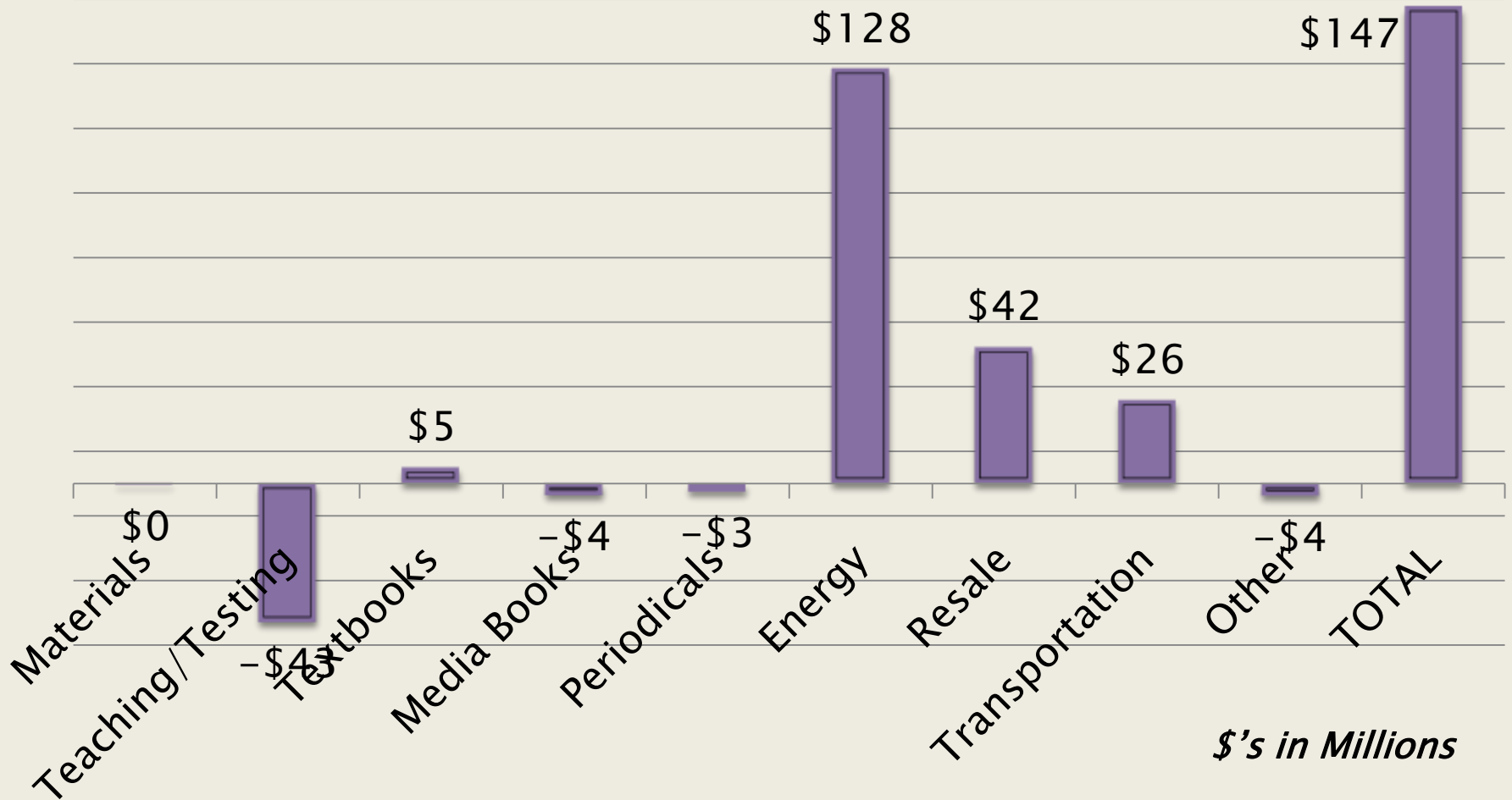


\$'s in Millions

Statewide Supplies and Materials

Change in Total \$ Spent from 2004 to 2009

13

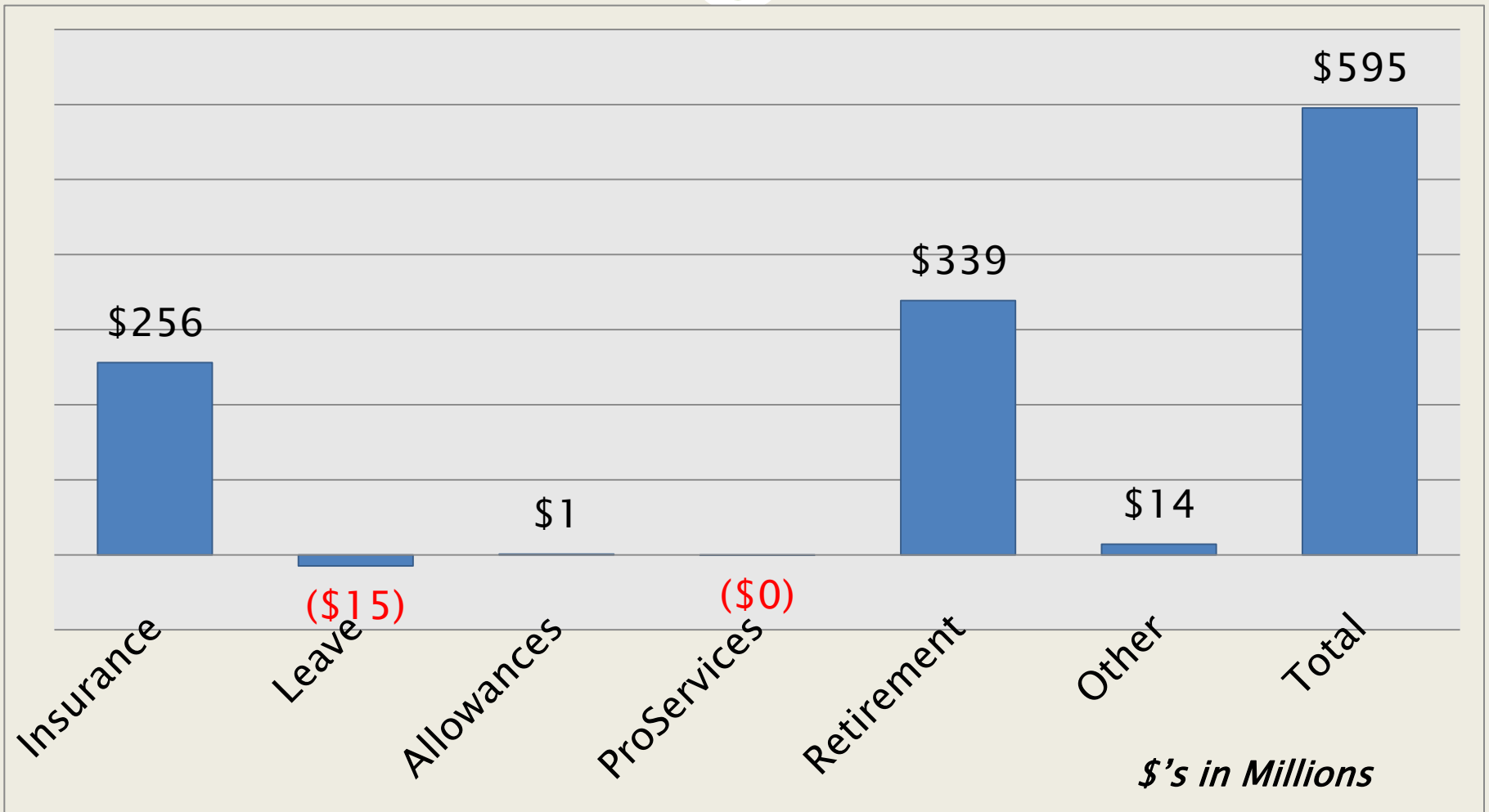


\$'s in Millions

Statewide Employee Benefits

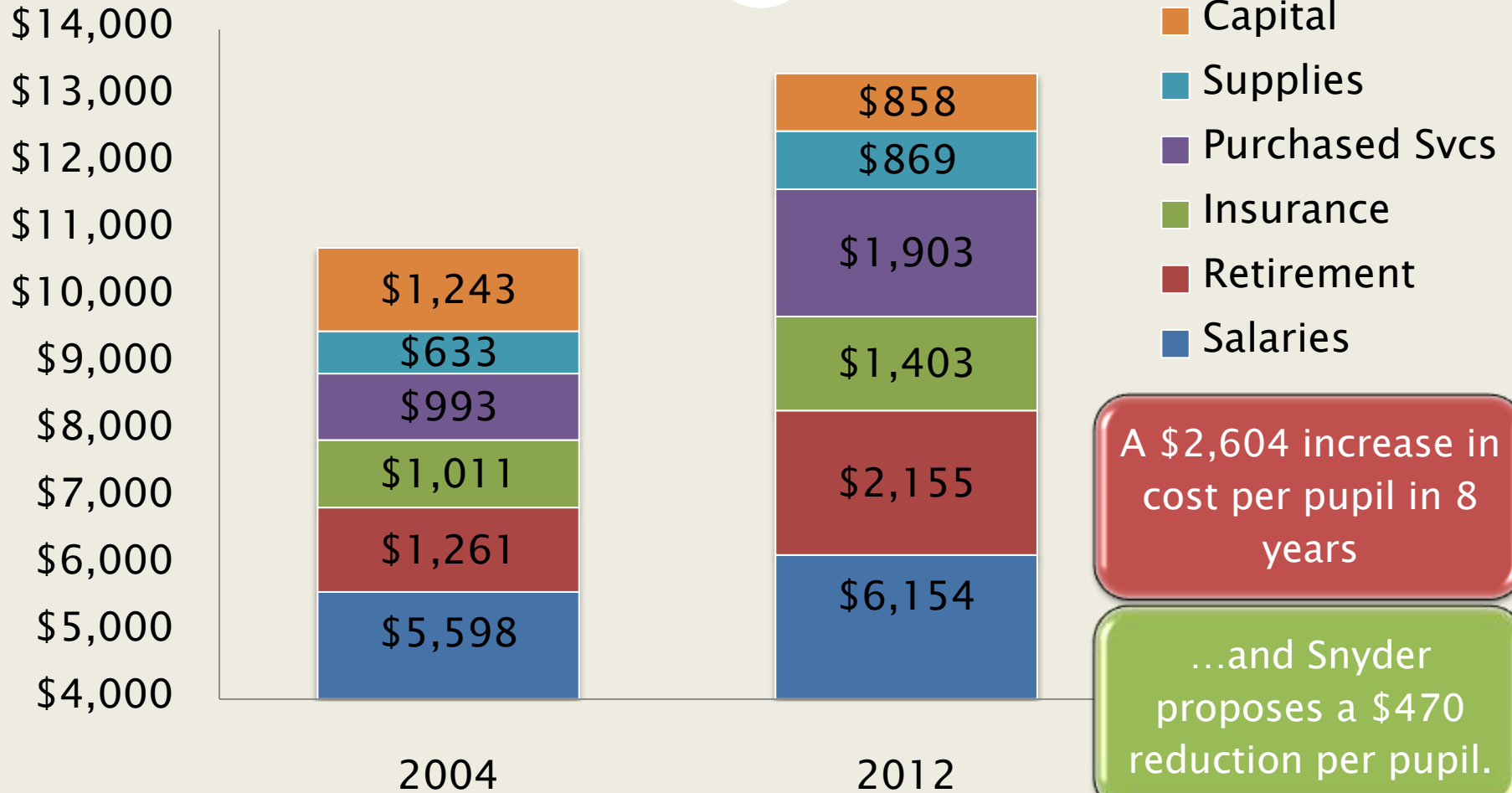
Change in Total \$ Spent from 2004 to 2009

14



Costs per pupil – change from '04 to '12

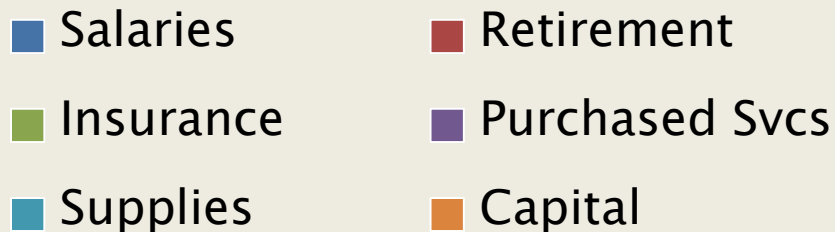
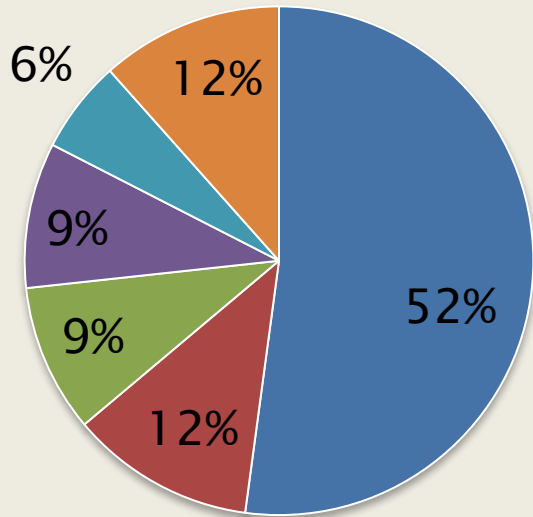
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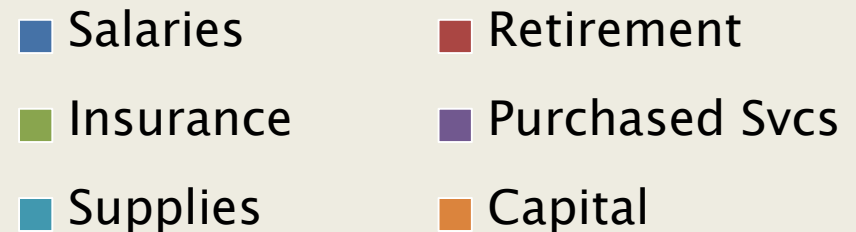
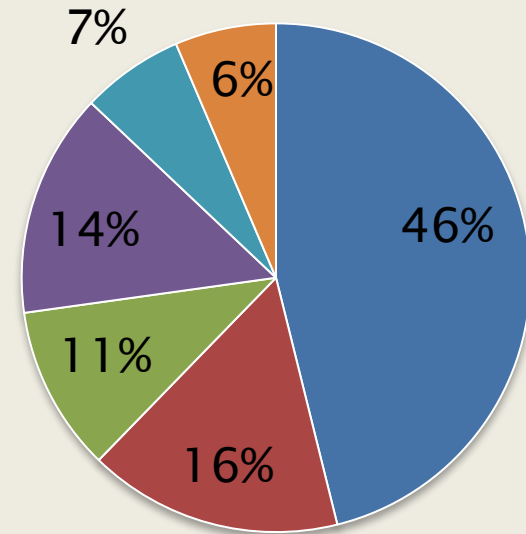
Statewide % per pupil on major expenses

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2004

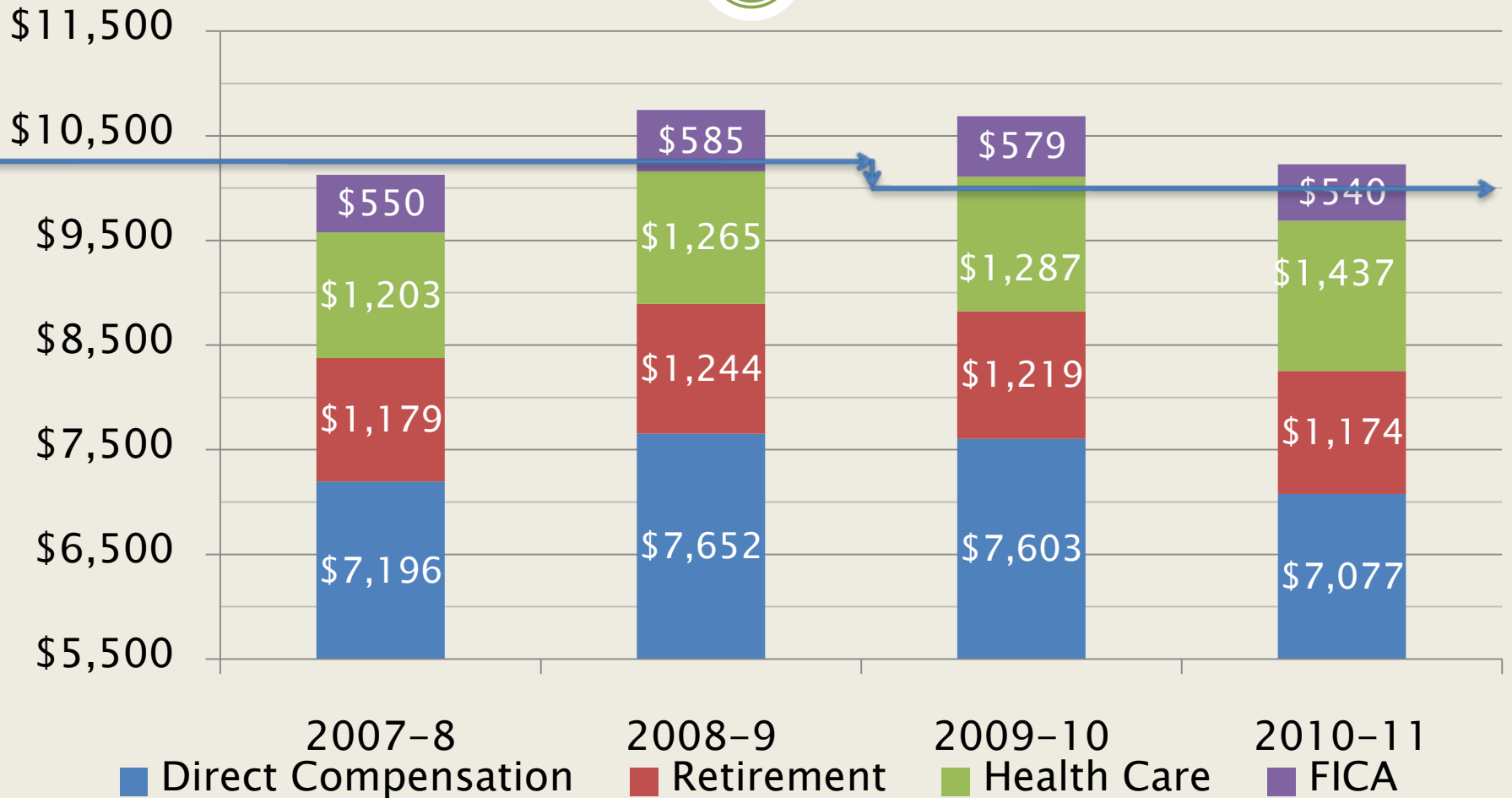


2012



GPPSS Employee Total Compensation on a Per Pupil Basis after New Contracts

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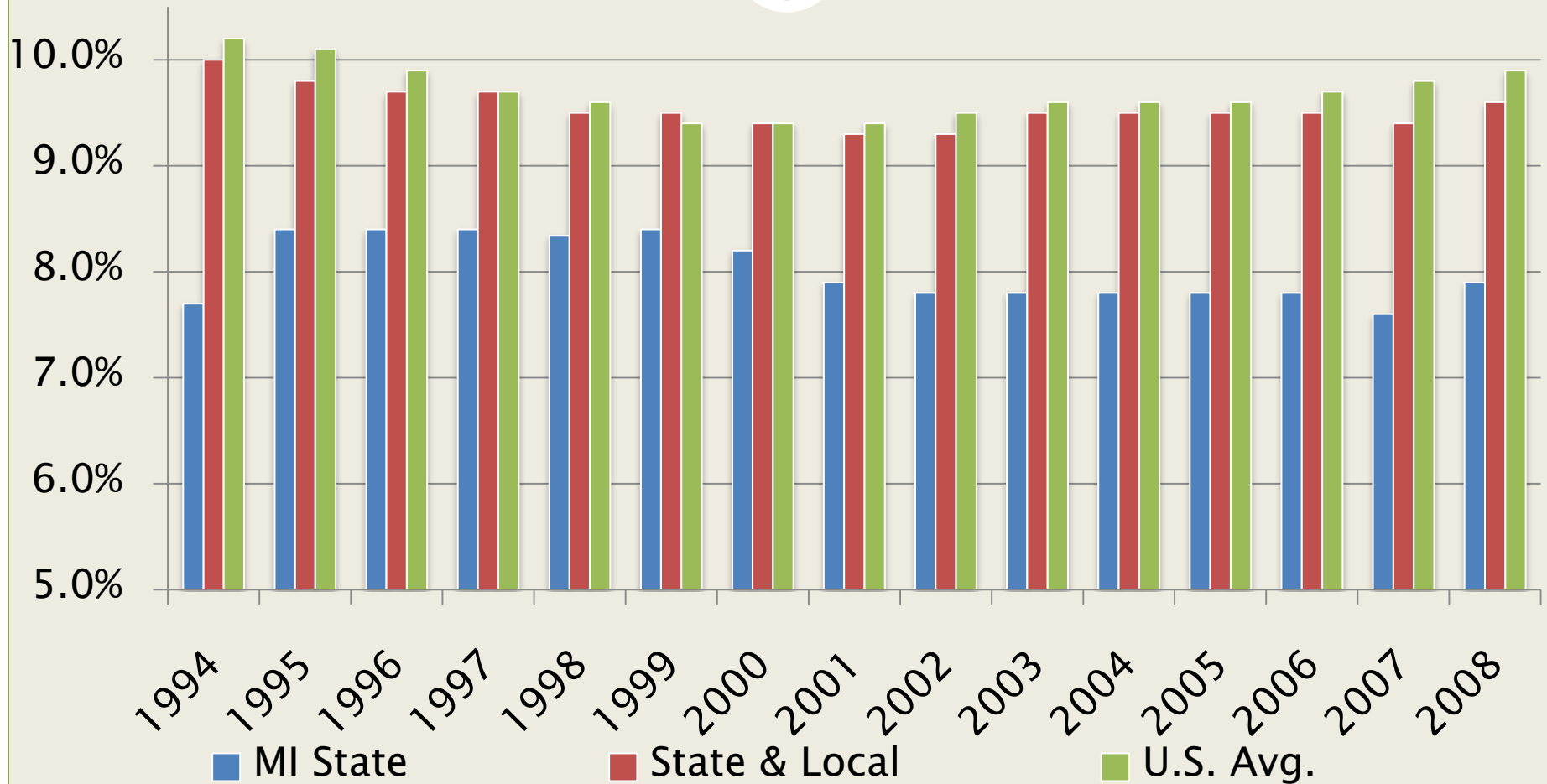


Horizontal line is Foundation Allowance per pupil.

Comparing Michigan's State and Local Taxes

Tax burden is % of personal income taxed

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Various Michigan National Rankings

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Students
per
Teacher

8th

Avg.
Teacher
Salary

12th

Public
School
Rev./
Student

21st

K-12
Rev. per
\$1k of
personal
income

3rd

% of
school
revenue
from
state

11th

K-12
expend.
Per
capita

21st

K-12
spend
per pupil

15th

Difficult to argue we don't spend enough on K-12, but legacy cost drivers are the biggest problem.

Loss of per capita income in Michigan

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1995

\$15,766

103% of
US avg.

17th in
US

2009

\$16,872

91% of
US avg.

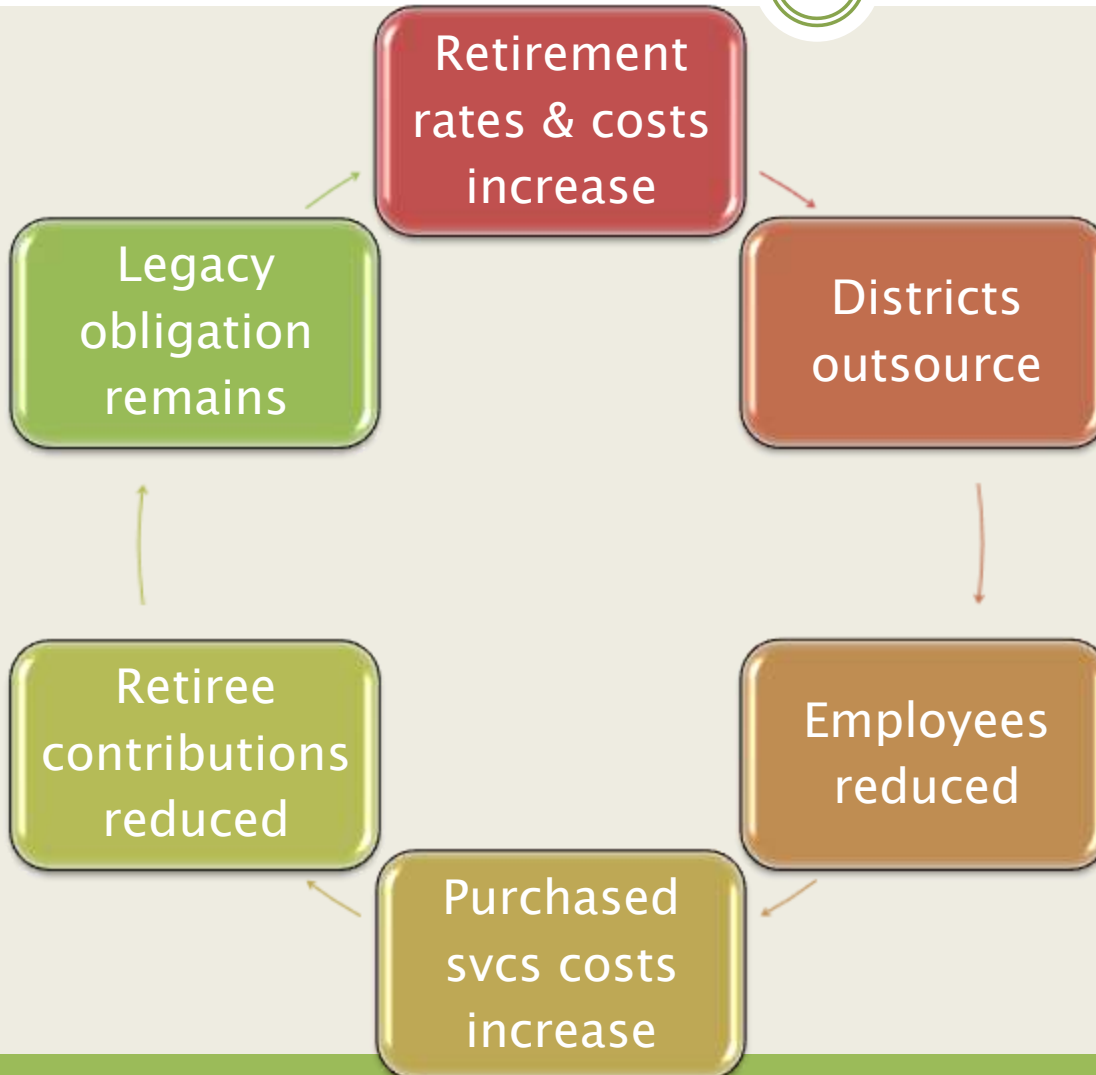
37th in
US

Budget practices,
tax policy
established in
wealthier times.

What of financial
commitments made
during that
wealthier time?

Is this reckless spending or predictable?

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When will the state admit ownership of the legacy costs incurred by a wealthier state?

A final word on the Snyder proposal

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Proposal has been packaged as a “getting our house in order” solution.

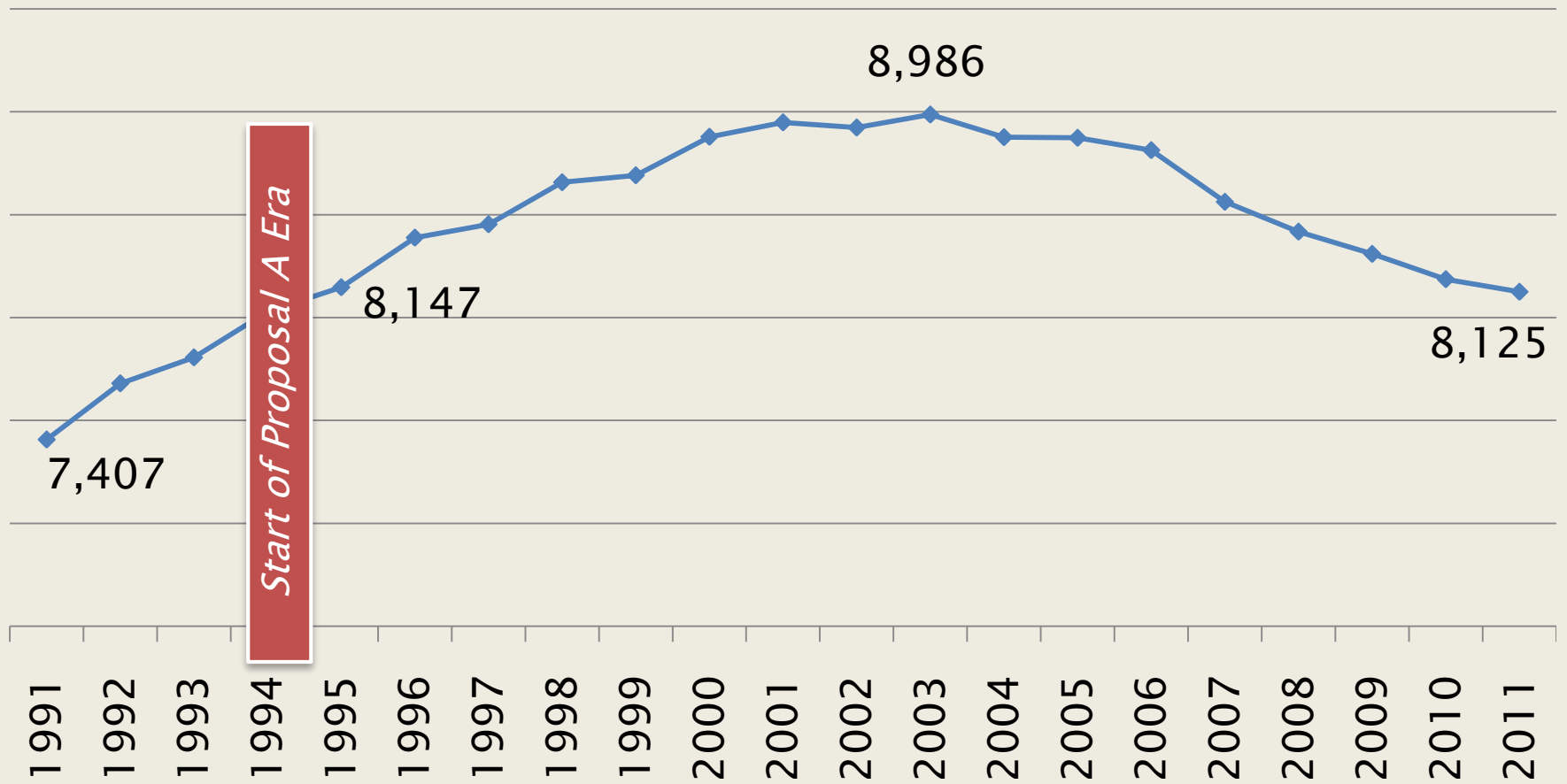
Legacy costs are K–12’s greatest problem, and getting much worse rapidly. This proposal does nothing to mitigate that.

Snyder aims to drive job growth via corporate tax relief. As jobs return tax revenues should increase.

The question is this: Will Snyder choose to increase K–12 spending at any time?

GPPSS Enrollment from 1991 to 2011

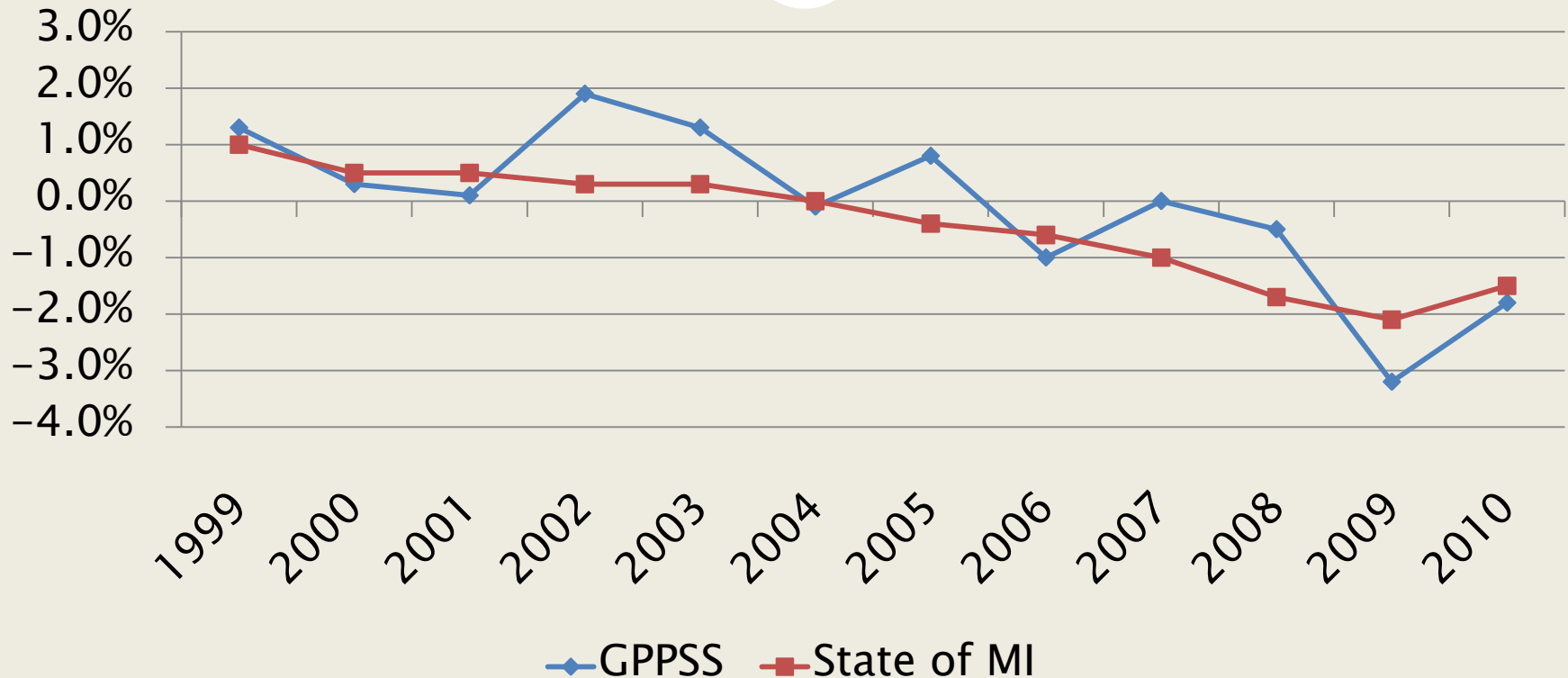
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State of Michigan and GPPSS Student Enrollment

GPPSS' correlates with state's pattern

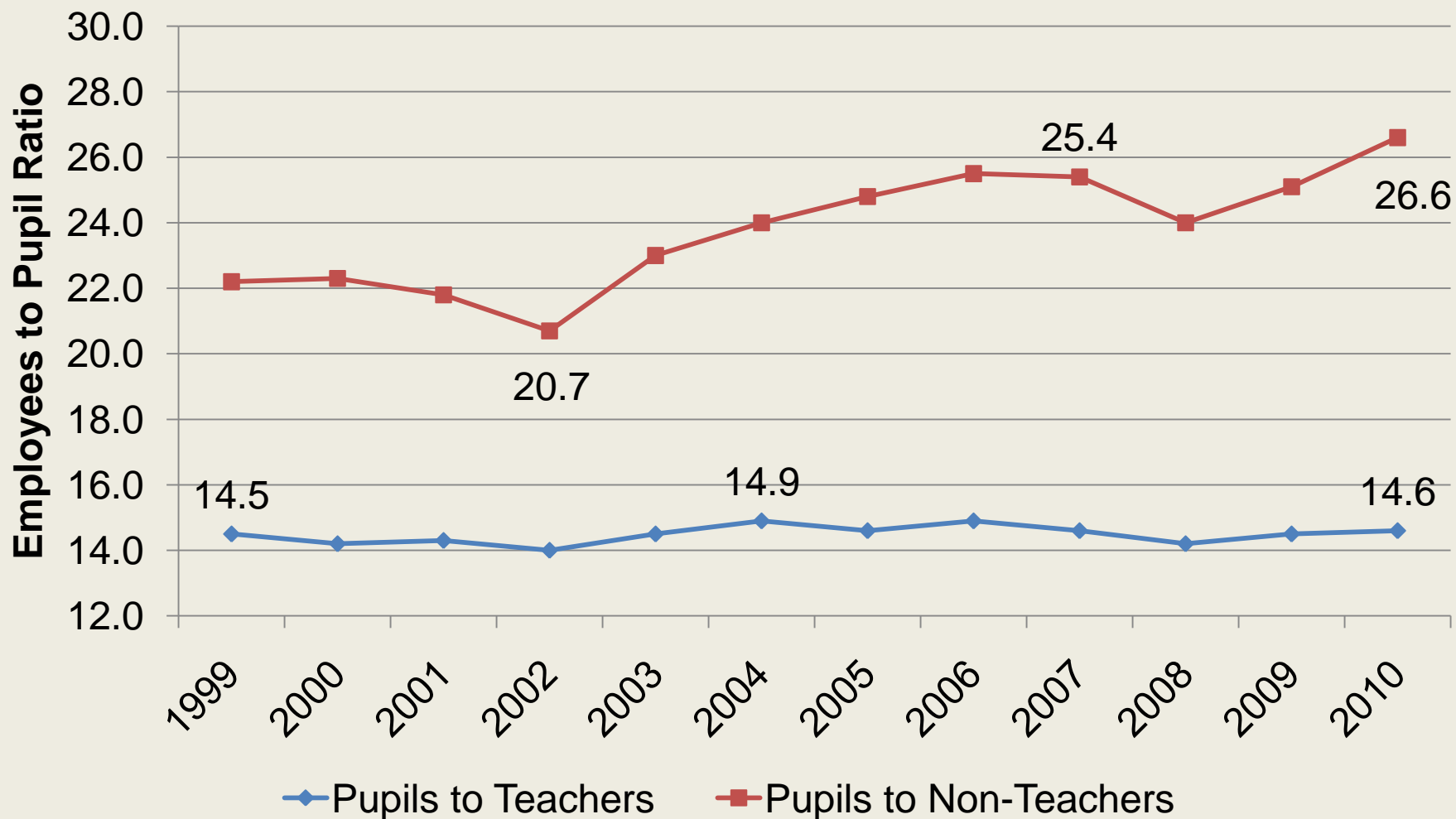
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Loss of students means revenue relief for state and enabled even moderate per pupil funding increases, but all in all a huge problem for local districts.

GPPSS Teaching & Non-Teaching Staff to Enrollment Ratio

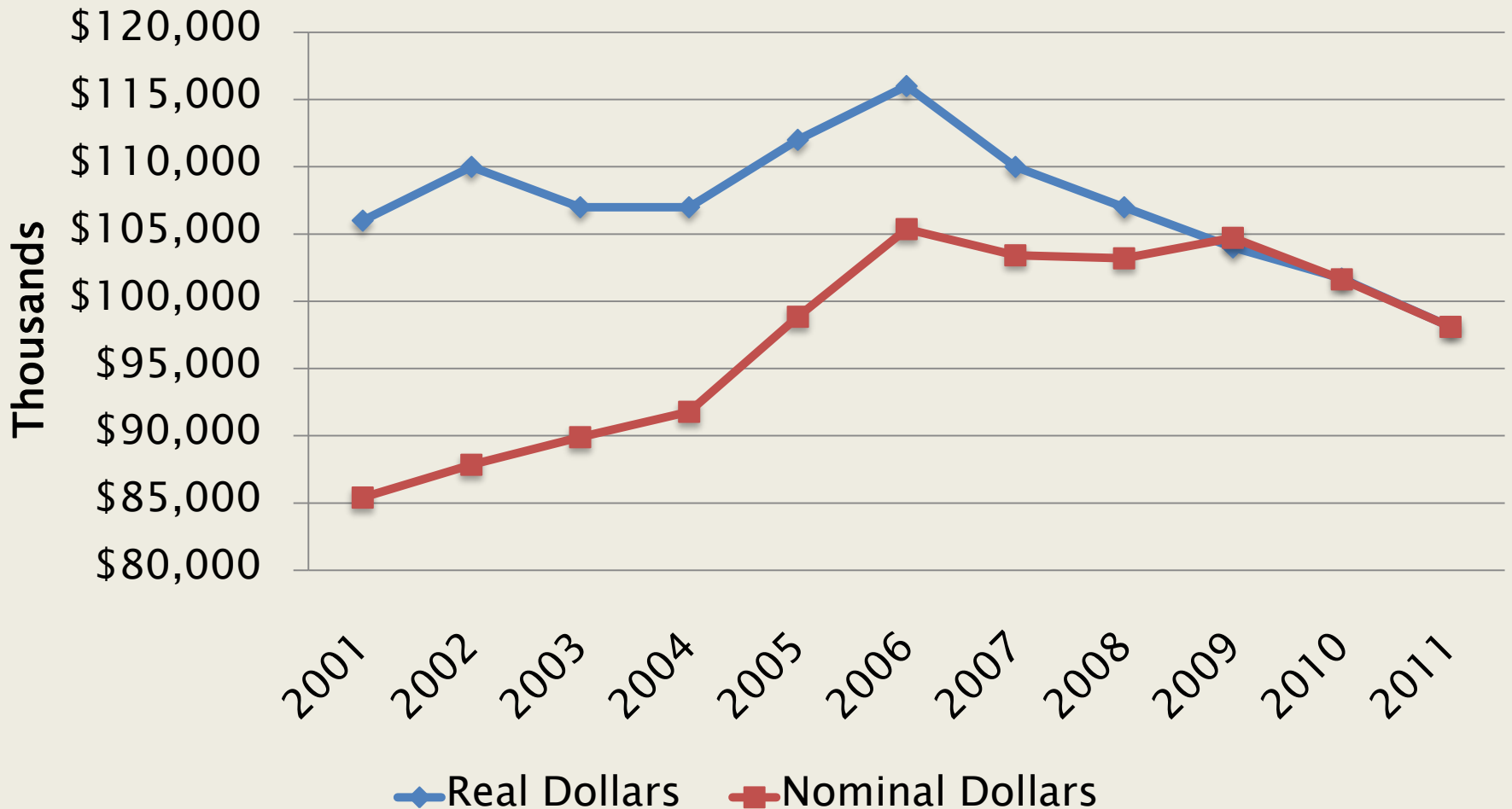
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GPPSS 10 Yr History of General Fund Expend.

2010 budget same as 2005; but 24% lower than 2001 in real \$'s

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GPPSS: Comparison of Enrollment and Staffing from 1993 to 2010

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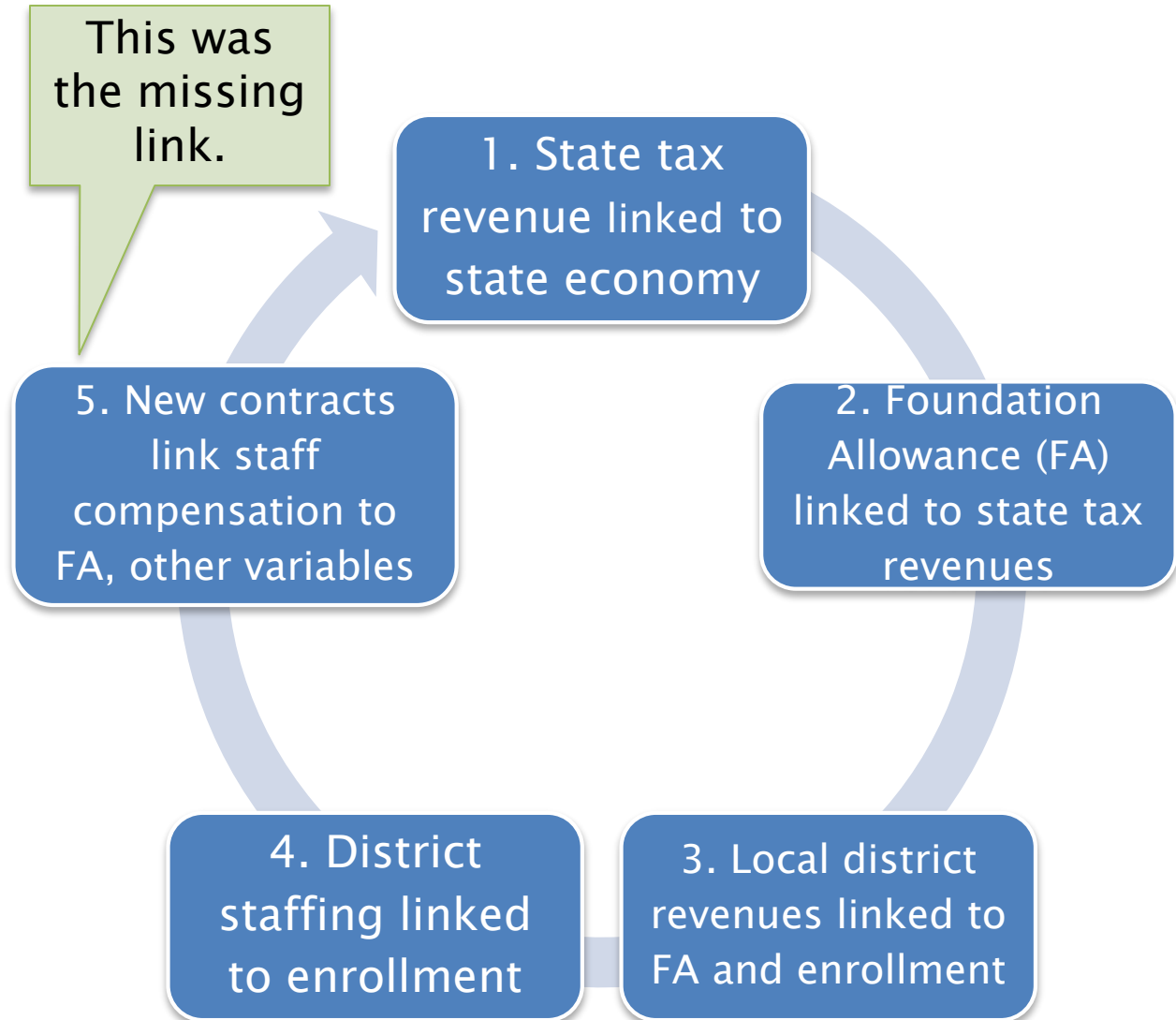
Student and Staff Data	September, 1993	September, 2010	% Change '93-'10
General Education Student Enrollment	7,850	8,125	3.5%
Total Number of Teachers	527	569	8.0%
Pupil : Teacher Ratio	14.90	14.28	-4.1%
Average Elementary Class Size	23.1	22.3	-3.5%
Public Librarians	14	0	-100.0%
Clerical Staff	93	47	-49.5%
Plant and Cafeteria Staff	108	68	-37.0%
Classroom Assistants/Paraprofessionals	108	130	20.4%
Administrators	30	30	0.0%
Other Regular Staff	35	22	-37.1%
<i>Total Employees</i>	<i>915</i>	<i>866</i>	<i>-5.4%</i>
Total Teachers and Classroom Assistants	635	699	10.1%
All Other Employees	280	167	-40.4%

Significance of the new contracts:

Staff compensation was formerly uncoupled to the very economic system upon which it should have been primarily dependent.

The new contract fixes this.

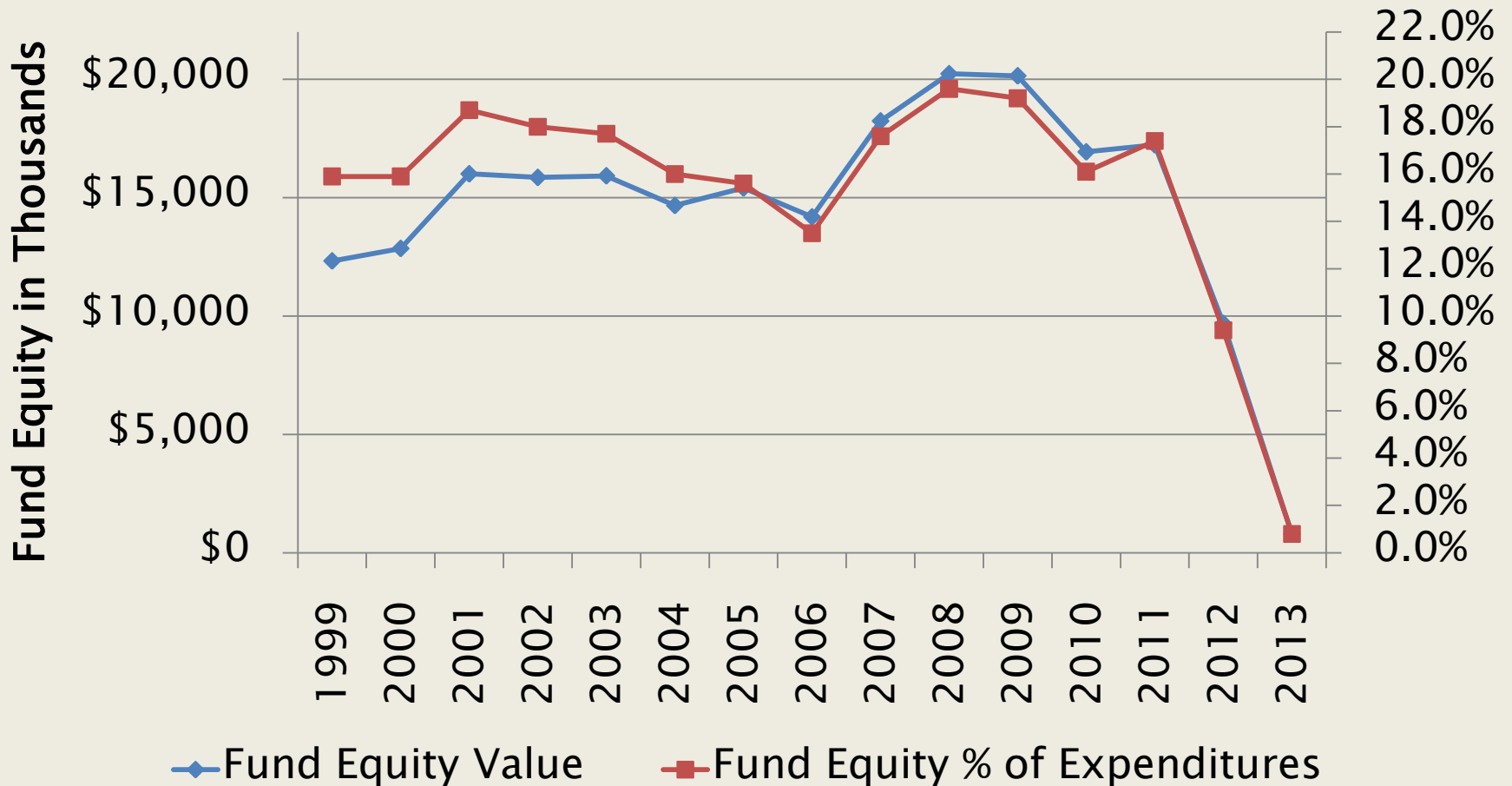
This was the missing link.



GPPSS General Fund Equity

2012-3 projections reflect Snyder proposal if no other offset found

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New Contract and Implications for Budget Decisions

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Key Elements

- Restructured salary grid
- Health care contributions (with annual increase provision)
- Guarantees 10% minimum General Fund Equity
- If Fund Equity drops below 10% all employees total compensation adjusts automatically to return it to 10%

Implications

- Contractual ability to adjust human resources costs to respond to funding variables beyond our control
- Every \$1 million below 10% fund equity amounts to about 1% in total compensation reduction required to return it to 10%.

Data Sources

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- State of Michigan, Center for Educational Performance and Information (CEPI)
<http://www.michigan.gov/cepi>
- Michigan Senate Fiscal Agency
<http://www.senate.michigan.gov/sfa/>
- Michigan House Fiscal Agency
<http://house.michigan.gov/hfa/>
- National Education Association, Rankings of the States 2010, <http://www.nea.org/>
- Grosse Pointe Public School System Financial Transparency Series, <http://www.gpschools.org/>