Michigan Education Finance Study: Practical Considerations

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School Finance Adequacy Studies

• Link resources schools receive to outcomes expected by state
• Embody both equity and efficiency
• Studies have been completed in over 30 states
Adequacy: Two Key Questions

1) What constitutes an adequate education?
   – Just a minimal education or a higher level of quality
     • Preparation for gainful employment;
     • Preparation for citizenship (e.g., serve on jury)
   – Recent trend to define in terms of performance on state tests
2) How much does an adequate education cost?
   Costing out: two steps
   – Establish cost of a basic education (statewide)
   – Estimate variations in local district cost of educating students

Defining “Cost” in Education

• Definition: the minimum funding necessary in order to achieve a given education outcome
  – Need clear definition of desired outcomes
  – E.g., bringing students up to a given performance level
• Requires that schools are using best-practices
  – that is, they’re efficient
• By definition, variation in costs across schools are due to factors beyond schools’ control.
Significance of Educational Costs In State Funding

- Necessary complement to accountability policies. “Flip side of the accountability coin.”
- Especially important in educational settings with high levels of school choice.
- Wide differences across states in the extent to which state funding compensates for local cost variations.
- In Michigan, state funding compensates much more fully for variations in local fiscal capacity, than variations in cost.

Main Sources of Local Cost Variation

1. Special-needs students
   - % of students who are at-risk, have disabilities, or ELL

2. Geographic variation in input prices
   - Regional cost of living

3. District size and population density
   - Costs in small-enrollment districts lacking scale economies
   - Higher transportation costs in large, low-density districts

4. Declining enrollment
   - District revenues decline more rapidly than costs
Main Strategies to Measure Costs of an Adequate Education
Also known as “costing out”

• Professional judgment method
• Successful district method
• Cost function (econometric) method
• “Evidence-based” method

Each has strengths and weaknesses

Michigan’s Adequacy Study

• Conducted by Augenblick, Palaich and Associates
• Used “successful district” method

Key Findings
• Total base cost of $8,667 per pupil should be used for all districts
• 30% more for at-risk students
• 40% more for English-language learners
• Regional cost adjustments should not be implemented at this time
• Michigan should create a more equitable state funding system
Study Limitations

• Could not estimate special education costs, given shortcomings in state data
• Crude estimates of capital facility costs
• No assessment of impact of “turbulence” associated with state policy on district costs
• Are “notably successful districts” representative of true costs faced by other districts?
• Unfortunate claim about the performance gains associated with given revenue increases

Some Considerations

• Study provides excellent opportunity to frame an vitally important public policy discussion
• Study is not perfect, but a highly credible start
• APA did what the state asked them to do
• Gap between the statute authorizing the study and APA’s contract
• New language in statute. Allocate resources such that: “all children have an equal opportunity to succeed in school”