

### Education Reform: Lessons from Michigan

*On January 11, 1996, Mackinac Center for Public Policy President **Lawrence W. Reed** addressed a Pioneer Forum on the course of education reform in Michigan. A bold political stroke by Governor John Engler set in motion a debate that led to radical changes in financing, such as de-coupling education funding from the property tax, and important quality reforms, like cutting edge charter school legislation. At the same time, the Mackinac Center worked to pave the way for change. They published extensively on the benefits of a free market for education and challenged supporters of the status quo, most notably Michigan's largest teachers union. Excerpts from Dr. Reed's talk follow. My challenge today is to tell an expansive story of great change in a limited time. It is the story of education reforms in Michigan that only a few years ago would have seemed impossible. First I will give some background and talk about some of the reforms in both quality and financing. Then I will devote the second half of my talk to our work at overcoming teachers union resistance to meaningful reform.*

By 1993, Michigan's oppressive property tax burden had been an issue in virtually every contest for governor and each seat in the State Legislature for more than a decade. We had the third highest property tax burden in the country and were about 30 percent above the national average. Voter frustration mounted as politician after politician promised to do something about it, but failed to deliver.

Michigan was delivering poor education at a very high cost. We currently have the highest teacher salaries in the country when adjusted for cost of living. Between 1980 and 1992, school spending rose by an average of 8 percent a year. Some of the highest spending districts had poor student performance. Oak Park, near Detroit, is consistently in the top 3 percent in per-pupil spending, and the bottom 3 percent in student performance. The message that dollars do not always translate into quality was beginning to sink in.

At the same time, the school choice and education reform movement was gaining ground. In 1988, we at the Mackinac Center began to make the case for opening the system to more competition, accountability, and privatization of support functions. That message was also starting to get through.

In the critical 1990 gubernatorial election, almost everyone thought incumbent Governor James Blanchard would win. Instead, State Senate Majority Leader John Engler, who ran on an anti-tax platform and promised to roll back the high property taxes, won by a razor thin margin. Several attempts to cut the property tax, both by statute and ballot initiative, failed during the first couple of years of the Engler Administration, and frustration continued to mount as prospects for resolving the issue before the 1994 election waned.

The Michigan Education Association opposed reform. Their basic position was that any education problem could be solved by throwing more money at it. With by far the largest war chest of any special interest at the state capitol in Lansing, they were spending a huge amount on legislative races to blunt any reform or change in the formula for financing public education.

### Reforming Public Education in Michigan

In 1993, the latest in a long line of attempts to roll back property taxes at the ballot box failed. It did not fail because people approved of the high taxes, but because opponents convinced them that the property tax decreases would only result in increases in other taxes.

Later that year, a State Senator who was preparing to run against Governor Engler introduced a bill to abolish all property tax funding for public schools, but offered no replacement funding. At that time, about 60 percent of school funding in Michigan came from local property taxes and 35 percent from the state (see footnote). The Senator expected that Engler and his allies in the legislature would oppose the plan, allowing the Senator to claim he tried to cut taxes while the Governor stood in the way.

Engler sent word back to friendly legislators that he would oppose the bill. This allowed opponents to back it, assuming it would be vetoed. After the measure came up for a vote and was passed, Engler surprised his opponents by announcing he would sign the bill. But that left a \$6 billion dollar hole in education funding that needed to be filled.

Thus began the great education debate. Governor Engler opened the debate by declaring that everything was on the table. He said, "we are going to talk quality before we talk finance. No business determines what its price is going to be before it decides what product to make. Let's talk about what kind of education system we want, then we can see how much it costs and how we can finance it."

In the midst of a great debate about choice, charter schools, and other innovative reforms that fall, the governor delivered a speech in which he outlined his platform. He said, "public education is a government monopoly and government monopolies never work," and that "no teacher in Michigan should ever again be compelled to join a labor union in order to hold their job as a teacher."

When a compromise was finally reached on Christmas Eve, we did not quite get that kind of reform. Several finance changes were enacted, but not a lot of quality reform. We did get a charter school initiative, with no limit on the number of charter schools. A limit was added later, and it has since been increased. We have had continued improvement in our charter school initiative as we have given them more freedom. A recent, substantial revision in the State School Code so deregulates existing public schools that they have nearly as much freedom as charter schools. But that was about it in the way of quality reforms.

With the state moving closer to schools opening in the fall of 1994 with only 30 percent of their previous year's funding, the Legislature ended up wrestling mostly with finance questions. They determined a statewide referendum would be held on March 15, 1994 on what we will call "Proposal A." If Proposal A was rejected, a back-up plan would automatically take effect.

Proposal A shifted school funding from mainly local to mainly state. It rolled back property taxes enormously. Most people would see their property taxes decrease by half, some by more, with tough constitutional limits on subsequent property tax increases. The proposal raised the state sales tax from 4 to 6 percent, putting us right about at the national average. It actually cut Michigan's flat rate income tax from 4.6 to 4.4 percent, and marginally cut the single business tax, our primary tax on businesses.

The back-up proposal would have cut property taxes only slightly, but it provided for a large increase in the income tax. The packages were calculated to raise roughly the same amount in revenues.

The fierce debate over the package hinged on whether people felt the sales tax or income tax did more harm to the economy. Those who preferred the sales tax argued effectively and Proposal A passed with 69 percent of the vote.

I am not a fan of centralizing school funding because it sacrifices a measure of local control. But Proposal A is saved by a very tough tax limitation amendment to our state constitution that has been in effect since 1978. The "Headlee Amendment" puts a limit of 9.49 percent on the amount of personal income the state can take in all its various forms of taxation from the people of Michigan. Shifting the bulk of school funding to the state put us right up to the cap. In fact, the Governor has just announced we are currently \$130 million over the Headlee limit, so every Michigan taxpayer will receive a 2 percent reduction in his or her 1995 state income taxes.

The amendment makes it extremely difficult for special interests in Lansing to call for increased spending. Since we are already at the cap, legislators are prohibited from approving spending increases unless corresponding cuts are made.

In April of 1994, Governor Engler pushed through two very important pieces of legislation. Public Act 112 deals with teacher strikes. For years, teacher strikes were illegal in Michigan, but the law was not enforced. The union would claim they were not striking, just bickering over when school should begin. This legislation gives school boards the sole right to determine when school begins. It also provides for strict penalties for teachers who strike and school boards that lock teachers out.

The same bill gives school boards more freedom to manage by eliminating a range of issues from the list of mandatory bargaining topics. Among the topics it takes off the table is privatization of school support services. School boards are now free to contract out food, custodial, and transportation services without being held up at the bargaining table. The Michigan Education Association (MEA) also has its own health insurance subsidiary and would threaten to strike if a school district did not purchase teachers' health insurance from this subsidiary. Public Act 112 takes the choice of insurance carrier off the list of bargainable issues as well.

Public Act 117, the other legislation enacted at that time, prohibits unions from automatically deducting dues for political contributions from their members. Union members must now indicate in writing that they want to give the union money for political purposes.

## **Taking on the Michigan Education Association**

As part of Mackinac Center's effort to encourage reform, we did studies on the high cost of certain school services, trying to chip away at the idea that the problem with our schools is a lack of funding. We looked at custodial costs in seven or eight school districts around Lansing and discovered some interesting things. The business manager in one of the districts did not know what his district was paying for the services in a way that would allow them to compare his district's costs with what a private firm would charge for the same work. Instead of knowing their cost per square foot, they knew only how much the district spent each year.

We helped them calculate figures in terms of cost per square foot and compared the numbers with what private firms in the area were paying for similar work. Every firm was paying less than a dollar per square foot, one as low as 47 cents per square foot. The public schools started at \$1.35 per square foot and went up to almost \$2.50. If East Lansing, the district that was paying the most, spent the average of what private firms in the area were paying for comparable work, that one school district would save over \$1 million, just in custodial costs. We expressed the magnitude in terms everyone could understand by noting that the money could have been used to pay for 20 teachers at \$50,000 a year, or 500 computers at 2,500 apiece.

I am proud to say the Mackinac Center has done an immense amount to help these reforms along by providing some of the intellectual ammunition. Another part of our role in bringing about reform has been to take on the MEA. We took on the MEA over its teacher health insurance subsidiary, in what was probably the most important, in-depth story we have ever done. As I mentioned earlier, for years, the MEA had been threatening to strike if school districts did not purchase teacher health insurance from the union. Our study showed that the health insurance subsidiary is in fact a cash cow for the MEA. Blue Cross/Blue Shield actually does the underwriting, while the MEA is simply a third party administrator that rakes off an exorbitant administrative fee -- with much of that money making its way into political activity.

Once signed up to buy the insurance, school districts could not compare their costs against those in other plans because the MEA, unlike any other third party administrator in Michigan, refuses to provide claims information. Sometimes the MEA would lowball quotes to attract the district's business, then refuse to provide the information necessary to put the contract out for competitive bids at the end of the agreement's tenure. They would even unilaterally declare increased costs and new conditions midway through a contract and boards of education would frequently be forced to cave in to the increased cost. Our report spurred legislation that took the issue of who should provide insurance off the list of mandatory bargaining topics.

If you take a high profile in doing battle with the teachers union, increasing numbers of teachers want to help. During the summer of 1994, someone from the regional MEA organization sent us a document revealing that the MEA was about to assess members \$90 apiece for each of the next three years to finance an "image building campaign." The document noted that the union had taken a beating from Governor Engler and Mackinac, and a statewide television campaign was needed to repair its image. Along with the document came a letter that read, "It's not my image that has suffered... Let them pay for their own image problems."

Having notice of this campaign before the rank and file were informed gave us a great advantage. We worked hard to get the word out. The Detroit News did a great story and published an op-ed we wrote. We cited Supreme Court decisions indicating that teachers could not be required to pay the extra money and laid out the procedure by which teachers could avoid the payment. More than one hundred teachers called us to express their intention not to pay the fee.

The lesson to take from our experience is not to be timid. We went up against what is perhaps the toughest state National Education Association affiliate in the country and, with the help of a cooperative governor, won fundamental reform. We have not seen the end of reform in Michigan, but we have come a long way. Thank you. 1.) This ratio of state to local spending on education is similar to Massachusetts, where the state contributes about \$2 billion to an aggregate education budget of about \$5 billion.

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