



# Bay City Public Schools

## Office of the Director of Finance and Accounting

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### *Lighting the Way*

January 23, 2007

The Honorable Governor Jennifer M. Granholm  
Honorable State Representatives and State Senators

Ladies and Gentlemen:

The purpose of our letter is to convey our concerns in the aftermath of the January 18, 2007 Revenue Estimating Conference and the probable reduction in funding for schools and other local governments. Our letter outlines what we have done in Bay City, the issues we face, our perspective of what is being done in Lansing, and the issues that we believe need closer scrutiny.

#### **What Bay City Has Accomplished:**

In the Bay City Public Schools we have made tremendous strides in dealing with the budget issues that we have faced during the last 5 years with declining student population and little or no help from the State with funding. We are proud of our board, administration, and employees who have worked extremely hard and have made sacrifices to make many difficult changes. Some of the major changes that we have made include:

1. Pay freezes and step freezes for all staff bargained in two of the last three years
2. All support staff, including administration, changing from MESSA health insurance to Blue Cross with higher deductibles and higher drug co-pays
3. Reductions in athletics (including pay to play), administration, transportation, counseling, libraries, nursing, and other support functions
4. Closing and selling school buildings considered under-utilized
5. Changed the timing of payroll and accounts payable to reduce operational borrowing
6. Collaborated with our ISD to reduce staffing and operational costs
7. Over 70 different changes have been made in the past four years; our budget has been reduced by \$20 million out of a total budget of \$76 million

#### **Issues We Face:**

We still face significant financial issues, as do other school districts. The cry for help seems to fall on deaf ears of far too many leaders in Lansing. Here are the major financial issues:

**1. Headlee Override:** We have been working on a campaign to ask voters to approve a Headlee override on our 18-mill non-homestead property tax, a tax that is supposed to be part of the per student foundation grant. Our voters already approved this tax for 20 years in 2003, yet we have to spend energy and money to re-coup the \$20 per student lost by the rollback just to get us back to the minimum funding level.

**2. Inequity of Funding and Schools of Choice:** Some legislators believe schools should feel the pain of funding reductions equally. That's fine if schools were funded equally in the first place. **THEY ARE NOT.** Why is it when it comes to sharing pain, it is supposed to be equal, but sharing the wealth is not? By our math, a \$224 reduction per student for the Bay City Public Schools is a cut of 3.2%. For a district at \$11,000 per student that cut is 2.0%. Our district has an at-risk population of 34% and covers 254 square miles. We are bordered by two school districts that receive \$400 and \$1,500 more per student. And yet, we are supposed to compete with these districts under schools of choice. This is not realistic.

How are school districts at the minimum funding level ever going to get on their feet financially? We are forced to cut into core programs while some neighboring districts receive more per-pupil funding and can attract students with more programs while building up large fund balances. Unfortunately, we believe that some legislators either do not understand

this problem or *want* these situations to exist. If they represent higher funded districts that have benefited from higher funded budgets in conjunction with schools of choice, it would appear they are doing their jobs.

The continuing, unanswered question is why should a district receiving \$7,085 per student take the same dollar reduction as a district receiving \$12,000 per student. Is that equitable? Is that fair to the students, staff, or communities of the minimum funded school districts? Why has the State been unwilling to address this issue? This year lower funded districts, like Bay City, are receiving a small equity payment that at least is a start in the right direction. Unfortunately that payment was also reduced due to insufficient funding. It appears that legislators are untroubled with unequal overall funding but do not have a problem making cuts equally. This is neither fair nor equitable and is discriminatory at the very least.

**3. Borrowing for Operations:** Higher funded school districts get criticized for building up fund balances. What those who criticize do not consider is that this is the only way to avoid having to borrow operational funding and pay interest expense, draining budgets even further. Why? Because the State cannot afford to start paying schools until the end of October of each year with the last payment coming almost three months after the school year ends! School districts unable to build up large fund balances must borrow. Our district has borrowed as much as \$10 million annually with interest costs of approximately \$250,000. We have made efforts to reduce this amount by 50%, but with the funding pressures, will never be able to avoid borrowing completely.

### **Our Perspective:**

Despite issues such as Headlee and discriminatory funding practices and the problems they create, there appears to be little will in Lansing to fix these issues. However, there seems to be ample time to pass legislation for more mandates such as the new fingerprinting requirements that cost the districts more money. In our case between \$80,000 to \$100,000 is the cost to implement this, while allowing lawmakers to take credit for making our lives better and safer.

When it comes to the tough decisions of cutting services and the possibility of facing an angry public, lawmakers fall back on “it’s a local control” issue or it is “too tough to change due to politics.” Local boards and school staffs are then left to deal with the dirty work and face the wrath of an angry public that still wants these services despite the extreme budgetary pressures of trying to fund them.

We are tired of the talk about tightening our belts and living within our means. Exactly what is the “means?” It seems to be a moving target throughout the school year making managing and planning virtually impossible. If tightening the belt was the answer, why have many school districts like Bay City been doing just that while still are facing distressed budgets?

We have heard legislators, and even the state superintendent, suggest that we need to keep more of our youth here in Michigan where they went to college. Teachers have been specifically mentioned; many receive teaching certificates here and then get jobs in other states. But it’s no secret that the reason for leaving Michigan is that we cannot afford to hire more teachers and, even if we could, many of them are finding better opportunities in other states.

In our households, if we need to change something we do it. We do not need anyone’s permission, or hold public meetings, or negotiate contract changes, worry about tenure laws, or worry that we will be sued. In government, including schools, there are many needs of citizens including parents, students, and staff, who expect certain things or are entitled to certain things by law and they do not necessarily care about the issues as to why these things are changed, cut, or reduced. They just want them.

There is an opinion with some in Lansing that governments should operate like businesses as though shedding pensions, cutting wages, and outsourcing jobs is a way to help the economy. Well the business philosophy includes eliminating unprofitable areas and strengthening profitable ones. No doubt the legislature will support schools if we unilaterally want to reduce or eliminate programs such as special education that continuously cost more each year, above and beyond normal K-12 costs, and for which mandates continue to increase. In our district, special education alone accounts for 10% of the budget or \$7 million of which 50% has to be funded out of the general fund above and beyond normal K-12 costs.

Several economists have illustrated that Michigan is slightly below the national average in taxation. Some have made presentations to leaders in Lansing but it seems as though not everyone is listening because it does not fit their agendas. Michigan is not a high tax State. Michigan is slightly below the national average in taxation. The tax cut mode has been going for 10 years ranging from income taxes to tax abatements. If tax cutting and smaller government were the solutions to our problems, states like Michigan, Alabama, Mississippi, and Arkansas would be the hot bed of business

activity. They are not. A question that should be asked is how do less taxes, higher college tuition, and unequal opportunities for students in different school districts lead to a higher educated work force to meet Michigan's needs for the 21<sup>st</sup> century service economy?

The notion of more tax cuts is analogous to an individual who keeps looking in the mirror and thinks he/she needs to lose more weight when in reality he/she is already anorexic. In reality, we are starving essential services that make for a stronger state with stronger communities.

It is as if some in Lansing would prefer a fee based system so they can take credit for lower taxes while citizens are left paying significantly more for services or are unable to get some services at all. We have tax cuts but:

- Parents have to pay more for high school activities and college tuition.
- We are cutting police, firemen, and teachers who live and spend money in our communities.
- Our roads get plowed less.
- Businesses and citizens are still leaving our State.

While it is true the difficulties of the automotive industry and State economy are a major problem, we have not helped ourselves by compounding it with a decade of tax cutting and then blaming anyone who dares suggest that taxes need to be increased to provide essential services.

**Issues that Need Closer Scrutiny:**

It is time for those in Lansing to stop criticizing schools and governments for not doing enough, and letting local boards take the heat from the public instead of State government where the biggest decisions are made. Our board and many other boards of education have already made many tough and unpopular decisions that others seem to be unwilling to make. It is time for those in Lansing to work together for solutions.

Let's look at alternatives such as expanding the sales tax base on services or a graduated income tax rate. Without some stability to annual funding to assist with the continual cost cutting, this state will continue to face the same budget problems year after year.

It is also time to deal with the inequity issue. If we cannot fund schools equally, then we should not expect them to compete equally under schools of choice. The borrowing and Headlee issues also need to be addressed. The time and money spent to deal with these issues every year is a wasteful use of tax dollars. In the case of the Headlee issue on the 18 mills, if these funds are part of the per-student foundation grant then they should be exempt from Headlee because the tax revenues are already part of the per-student cap. A Headlee rollback on the 18 mills will always be a reduction in the per student amount but can never create an overall increase, which Headlee was designed to address. We are eager and willing to be called to testify or to assist in any way possible. Thank you for your time.

Sincerely,

Carolyn C. Wierda  
Superintendent of Schools

Douglas L. Newcombe, MBA, CPA  
Director of Finance and Accounting

Cc: Bay City Board of Education Members  
John Hiner, Editor, Bay City Times  
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Bay City Public School Principals, Assistant Principals, and Directors  
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