Michigan officials, rating agencies move against cash-strapped schools

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Public education in the state of Michigan is increasingly being placed on rations. According to a recent report from the Center on Budget and Policy Priorities, Michigan has reduced K-12 spending by 7.5 percent since 2008, the 12th deepest cut in the nation. Per-pupil funding in the state declined by $526 between 2008 and 2015, with only $45 restored last year.

At the same time, the state superintendent of schools has announced that measures will be finalized this month to determine the fate of 11 "financially distressed" school districts. New legislation was passed this year to impose stringent financial reporting and deficit reduction plans on school districts and to provide broad new powers for state intervention. It is predicted the law may quickly double the number of school districts under state control or monitoring.

The proliferation of charter schools and cuts to per-student funding has devastated district budgets across the state and pushed unfunded liabilities to the teachers' pension plan to over $25 billion. The defunding of K-12 schools has already led to the shuttering and/or charterization of entire districts in the Great Lakes state.

Compounding the assault, Moody's Investors Service downgraded 47 of Michigan's 206 districts in the beginning of December, a measure which forces higher borrowing costs on the beleaguered districts and deepens their growing debt burden. General fund reserves for 41 of these districts suffered a median collapse of 45 percent over the last five years. The majority of school districts in the state—150 of them—have faced such fiscally punitive measures and Moody's says more downgrades are in the works for 2016.

Mike Addonizio, a school finance expert and professor of education at Wayne State University, says Moody's rating cuts reflect a long, steep recession in which Michigan fell behind many other states economically. "Michigan is now a relatively poor state, ranking 41st among states in Gross State Product per capita," he said. "That would impair the credit worthiness of local governments, including school districts."

The state's new legal "early warning" system provides for state monitoring of all schools without a 5 percent general fund balance (or surplus) for the two most recent school years. Under the new rules, a total of 249 districts will be subject to state monitoring.

For districts in more severe fiscal crisis, there will be some level of direct state intervention. This will affect 141 of Michigan's 541 traditional districts and about 50 of 302 charter school districts. For example, Pontiac and Benton Harbor Schools, which both faced the threat of takeover by an emergency manager, are now working with the state under a consent agreement, a preliminary stage of state oversight. In Pontiac the consent agreement was used to impose massive cuts: Teachers' pay was slashed by 11 percent and district employees are forced to pay an additional $7,000 annually to cover their family health care costs.

But the most extreme measures will be meted out against districts, which are in deficit, or are expected to be so, for more than five years. These are labeled as "financially distressed" and the law empowers the state treasurer to recommend an emergency manager (EM) to usurp the authority of elected local school boards. The state can also withhold a portion or all of state school aid, force a consent agreement or recommend Chapter 9 bankruptcy.

These draconian measures were modeled on the Detroit municipal bankruptcy of 2013-14. They streamline the process of imposing an EM or—even more ominously—of dissolving the public school system itself. Such measures have proven useful to the business interests pursuing privatization efforts, as well as providing a pseudo-legal cover to rob pension funds.

Privatization of education has been pursued by both Democrats and Republicans in state government since 1994, but was singled out for acclaim by Obama's former Education Secretary Arne Duncan when he cited Detroit as ground zero for "school reform."

The 11 targeted districts collectively educate tens of thousands of children and include a diverse group of city, suburban and outstate school districts: Bridgeport Spaulding

Community, Clintondale Community, Flint Community, Hazel Park City, Lincoln Consolidated, Mackinaw City, Mt. Clemens Community, New Haven Community, Southgate Community, Vanderbilt Area and Westwood Community.

Among these districts are many in the inner-ring suburbs of Detroit where large sections of the working class have been turned into the "working poor," particularly since the 2008 recession. Presently, 58 percent of those living below the poverty line in Metro Detroit now reside—not in the city proper—in suburban communities in the Detroit tri-county area. The loss of jobs in these areas has translated into steep drops in K-12 enrollment, dramatically impacting school budgets.

Even before these measures took effect, Flint Community Schools extracted $8.1 million in concessions from teachers and paraprofessionals, imposed wage freezes and closed buildings.

Emergency managers have been utilized to cut education budgets in Michigan since 2009, when Democratic Governor Jennifer Granholm first appointed an EM for the Detroit Public Schools. Since that time no school district under an EM has ever exited this form of state receivership unless the district was dissolved.

This has happened in two districts: the Buena Vista Township Public Schools, located outside of Saginaw, and Inkster Public Schools in the western suburbs of Detroit. In the summer of 2012 state-appointed emergency managers converted all the schools in both Muskegon Heights and Highland Park to charters, effectively dissolving both school districts. This allowed the local property millage to be used exclusively to pay off old debts.

The Leona Group, a for-profit Education Management Organization (EMO) hired by the EM, later closed Highland Park's last remaining high school outright, with parents forced to find places elsewhere for their children.

Not only has state funding declined since 2008, it has been coupled with the downgrading of federal support to education. Under the Obama administration, there has been an 11 percent decline in Title 1 funding to the most impoverished schools and another 9 percent cut in special education. Additionally, local property tax revenues have fallen and in some cases collapsed under the impact of deindustrialization and economic downtown.

This systemic crisis has been exacerbated and seized upon by the pro-privatization forces controlling the State of Michigan education system. Michigan has a greater percentage of students in charters than all but two other states. In Detroit, 55 percent of students attend charters, in Flint 44 percent.

Michigan school superintendents have increasingly charged that charters are "cannibalizing" their districts and destabilizing enrollment, which is their baseline funding source. For-profit Education Management Organizations (EMOs) run 80 percent of Michigan's charter schools, the highest percentage in the nation.

With enrollment levels devastated by the growth of charter schools, the Detroit Public Schools—the largest district in the state—is teetering on the verge of collapse. DPS is the subject of several competing reorganization plans, all of which aim to increase privatization.

In a major political provocation announced in the *Detroit News* Monday, the State of Michigan is demanding that DPS begin $26 million monthly payments in February on its accrued deficits—a measure which will literally bankrupt the schools within a couple of months. The move is a transparent attempt to ram through the state-dictated reorganization, slashing jobs, pensions and educational services.

In 2015, debt service cost the deficit-ridden Detroit Public Schools $53 million, including over $13 million annually in interest payments. This amounted to a whopping $1,111 per student per year (out of the per student foundation allowance of $7,296). The new measures, set to take effect in a month, would triple the tribute being exacted by the finance industry from the city's children.

The district is under its fourth emergency manager and has seen a decline of state aid by whopping 33 percent since 2011—from $591 million down to $394 in fiscal year 2015.

All in all, the measures being implemented throughout the state are designed to insure that school districts' debts to wealthy bondholders are repaid through the elimination of teachers, the destruction of their pensions and the closure of schools and entire districts.