



# Budget Briefing: School Aid

Jacqueline Mullen, Senior Fiscal Analyst

Emily Hatch, Fiscal Analyst

January 2022

# Briefing Topics

- Funding Sources
- Appropriation Areas
- Major Budget Topics
  - School Aid Fund Revenues
  - Foundation Allowance
  - Special Education Funding
  - Michigan Public School Employees' Retirement System (MPERS)
  - At-Risk Program
  - Early Childhood
  - Types of School Districts
  - Declining Enrollment

# School Aid

The School Aid Budget pays for the operations of public schools to “maintain and support a system of free public elementary and secondary schools as defined by law” as required by the Michigan Constitution.

- The School Aid budget makes appropriations to **537** local school districts, **293** public school academies, and **56** intermediate school districts (ISDs) for operations and certain categorical programs.
- It also provides funds to the Center for Educational Performance and Information (CEPI), the Department of Labor and Economic Opportunity, and other entities to implement certain grants and other programs related to K-12 education.

# Key Budget Terms

**Fiscal Year:** The state's fiscal year (FY) runs from October to September. FY 2021-22 is October 1, 2021 through September 30, 2022.

**Appropriation:** Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the legislature.

**Line Item:** Specific appropriation amount in a budget bill that establishes spending authorization for a particular program or function.

**Boilerplate:** Specific language sections in a budget bill that direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

**Lapse:** Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

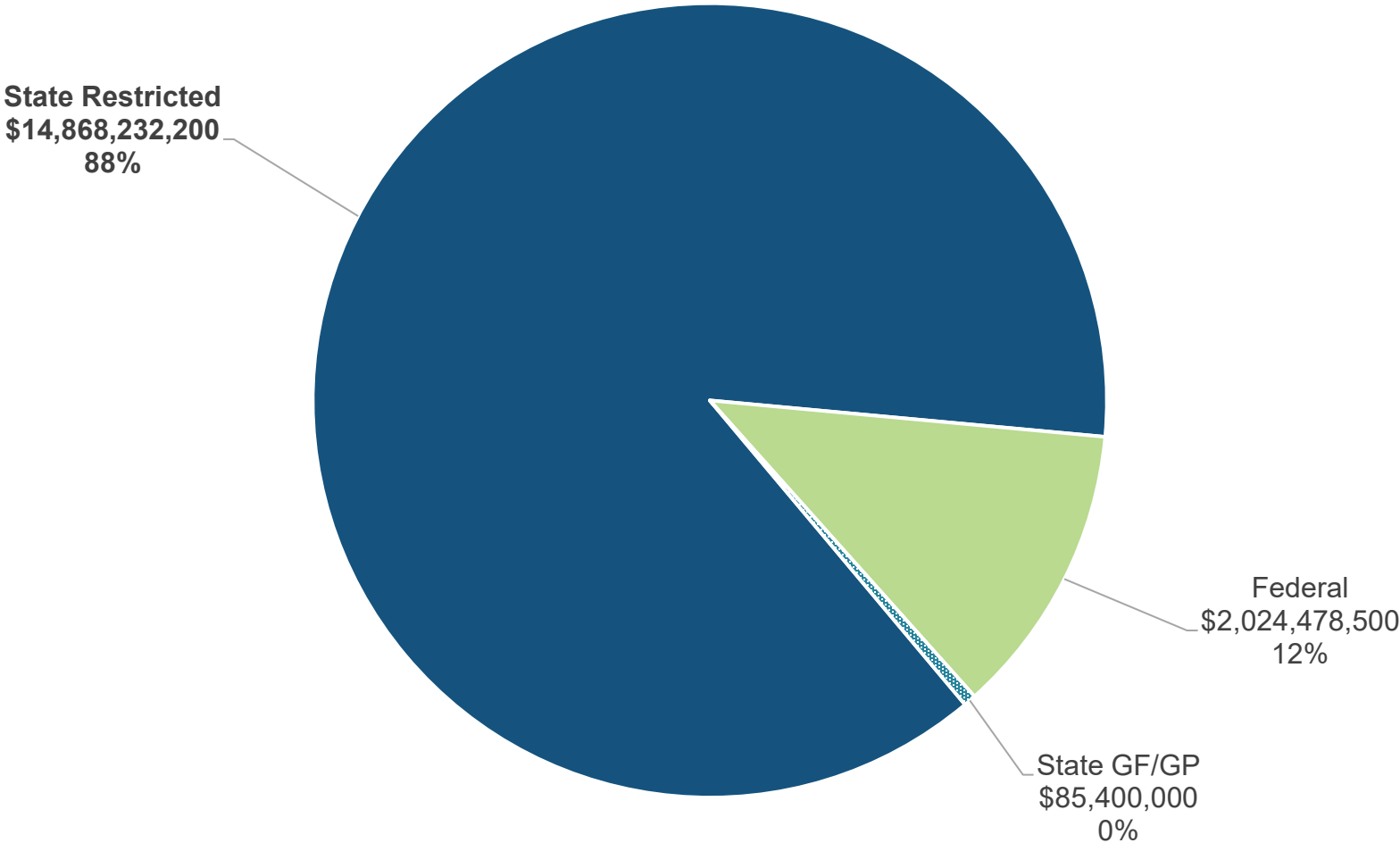
# Funding Sources

# FY 2021-22 School Aid Budget

Fund Source	Funding	Description
Gross Appropriations	\$16,978,110,700	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	0	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$16,978,110,700	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	2,024,478,500	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	0	Revenue received from local units of government for state services
Private Revenue	0	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	14,868,232,200	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue
State General Fund/General Purpose (GF/GP) Revenue	\$85,400,000	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the legislature

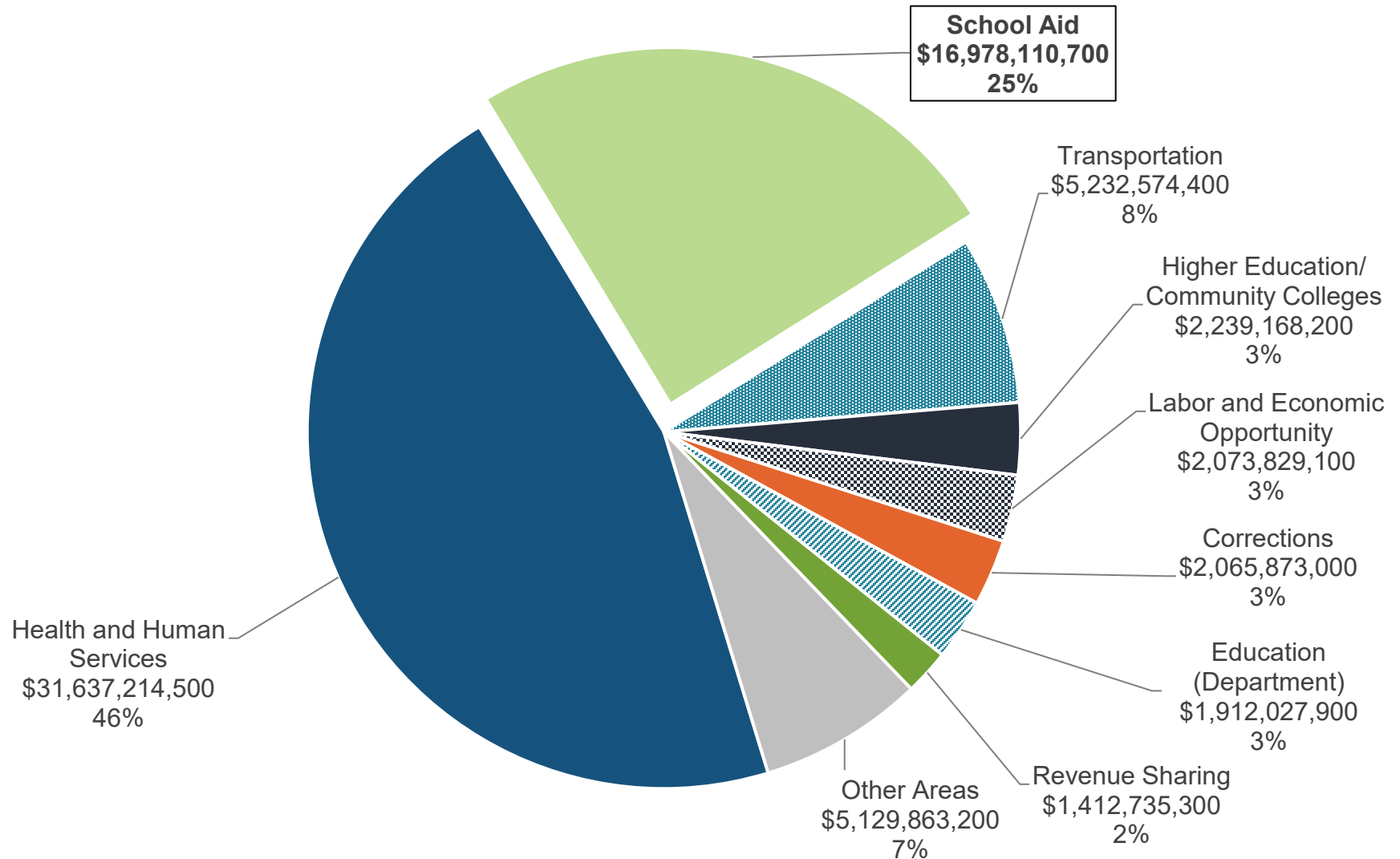
# FY 2021-22 Fund Sources

88% of the \$17.0 billion School Aid budget is funded by state restricted revenue, almost all of which is School Aid Fund (SAF) revenues.



# School Aid Share of Total State Budget

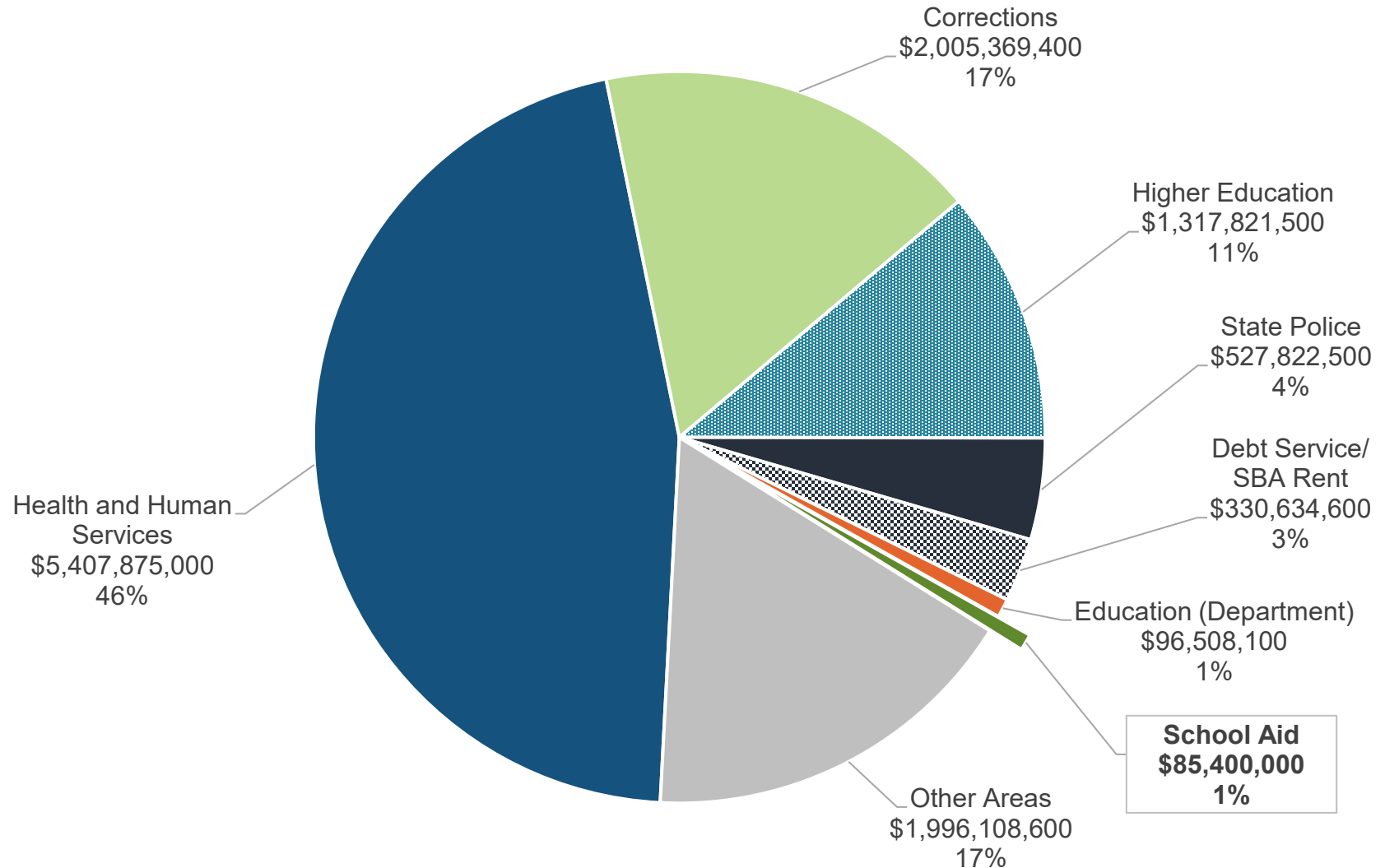
The School Aid budget represents a quarter of the **\$68.7 billion** state budget (adjusted gross) for FY 2021-22.





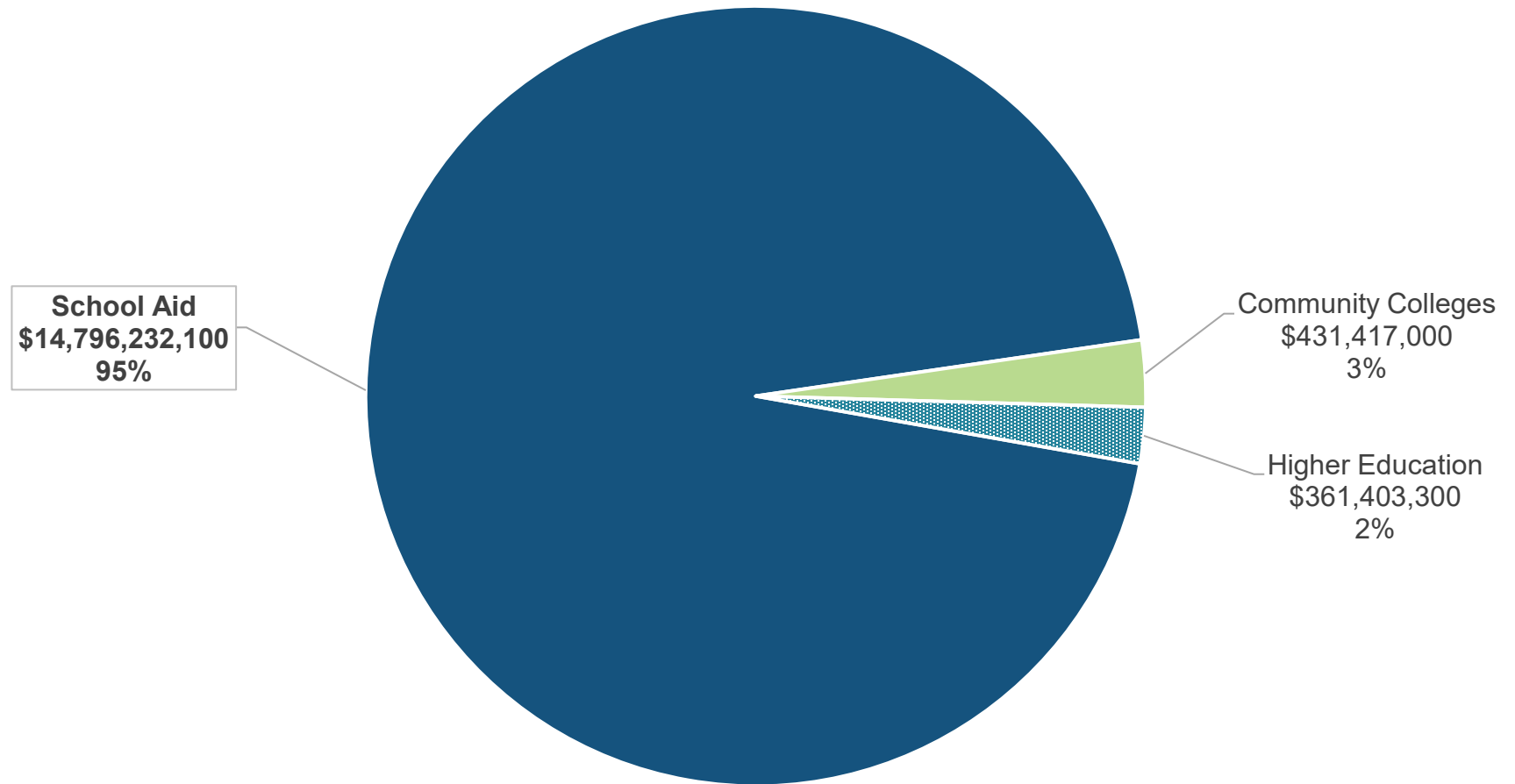
# School Aid Share of Total GF/GP Budget

The School Aid budget is less than **1%** of the state's **\$11.8 billion** GF/GP budget for FY 2021-22.



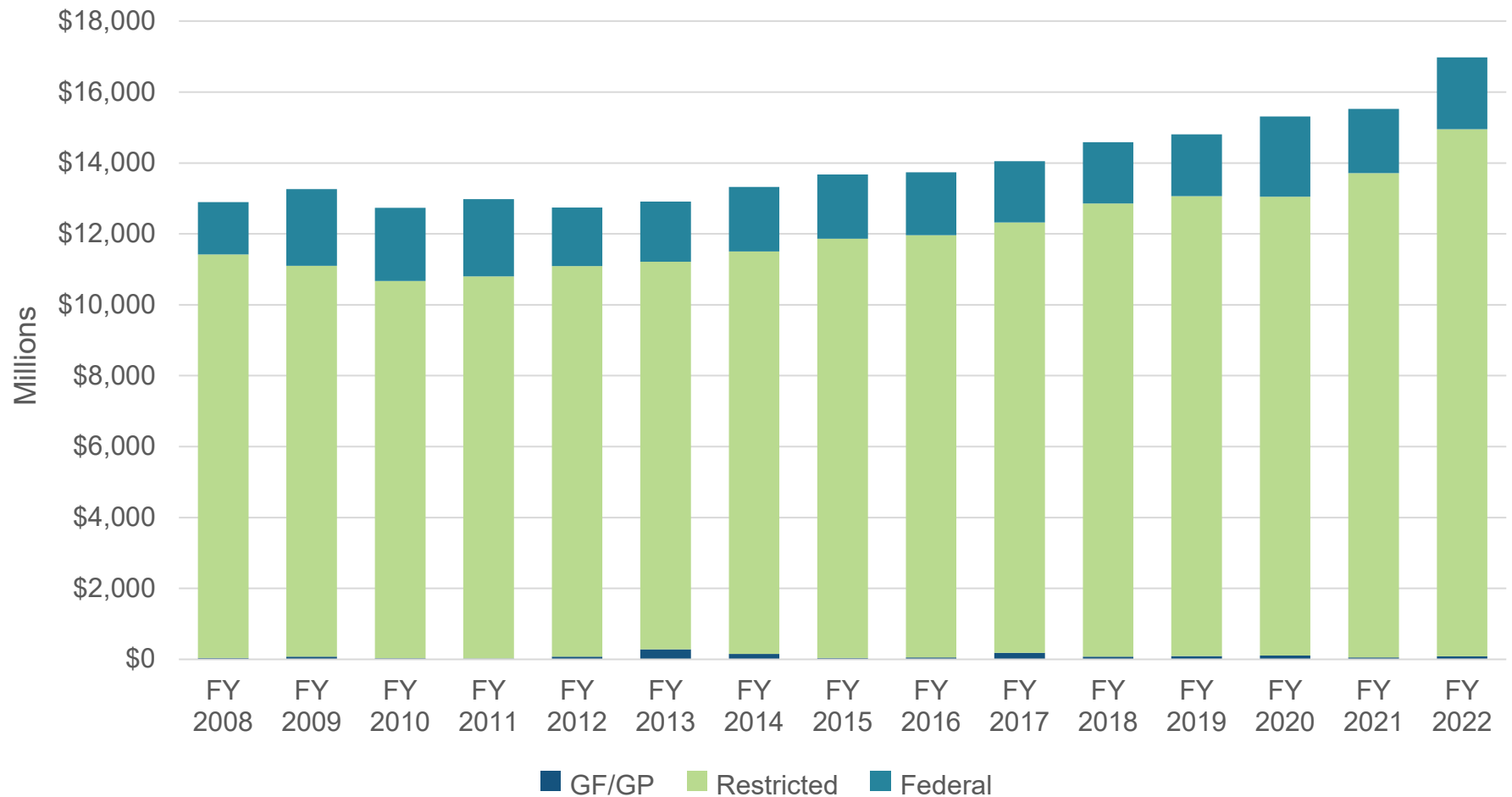
# School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

The School Aid budget represents **95%** of the state's **\$15.6 billion** SAF appropriations for FY 2021-22.



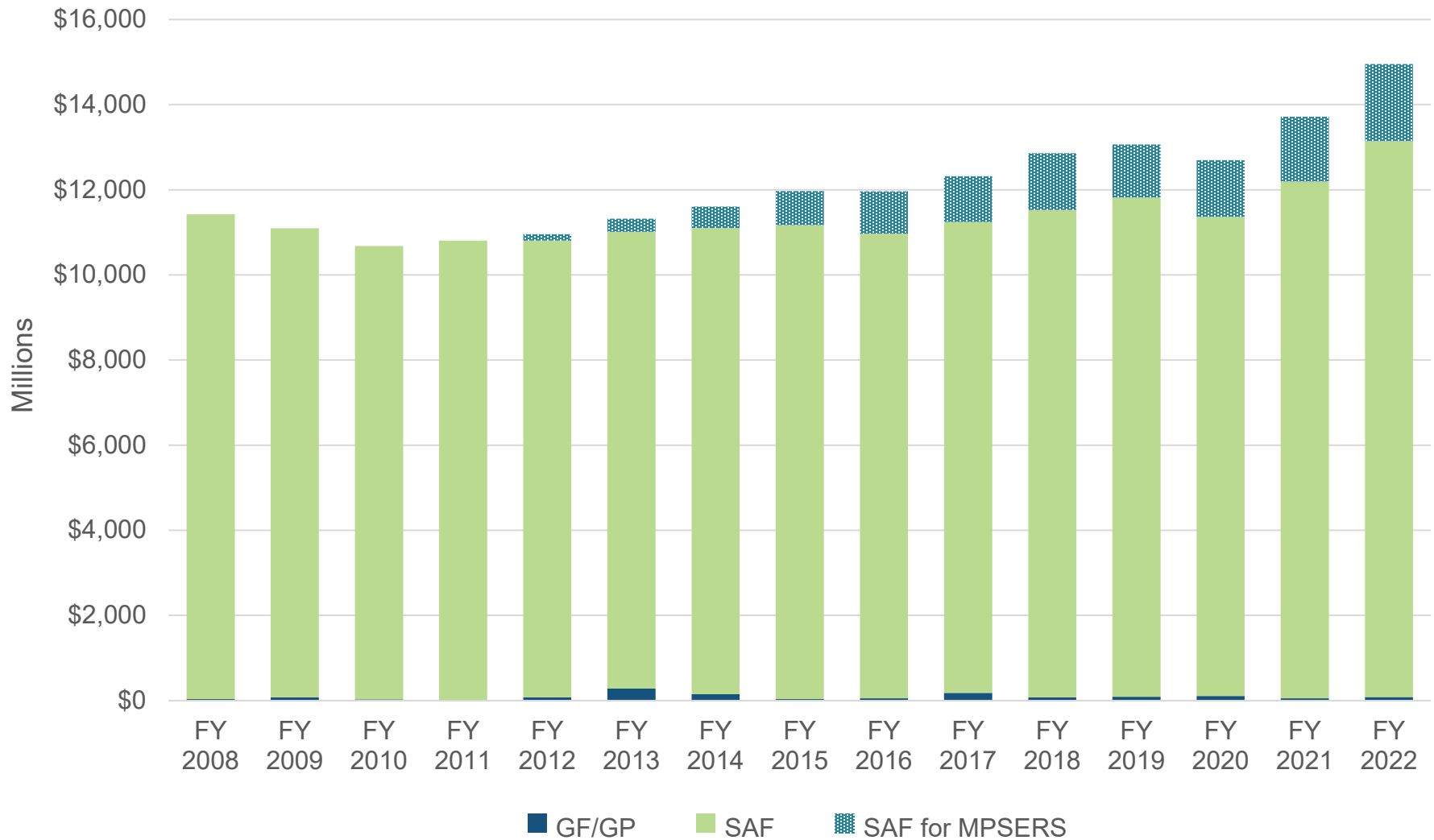
# School Aid Budget Funding History

Funding for School Aid has grown by **32%** over the last 15 years, with **71%** of that growth driven by increases in state funding for public school retirement and federal funding for school food programs, special education, and other federal education programs.



# School Aid Funding History – State Funds

The amount included to hold districts harmless from increasing retirement liability costs increased to **\$1.8 billion** in FY 2022. Since FY 2008, non-MPSERS funding has increased by **15%**.



# Appropriation Areas

# School Aid Appropriation Areas

**Foundation Allowances:** Provides per-pupil payment for general school operations

**Michigan Public School Employees' Retirement System (MPSERS):**  
Contributes a portion of annual retirement costs

**Special Education:** Both state and federal funds reimburse districts for a portion of their special education costs

**Federal Programs (Non-Special Ed):** Primarily school food programs and Every Student Succeeds Act (ESSA) program funding, formerly No Child Left Behind

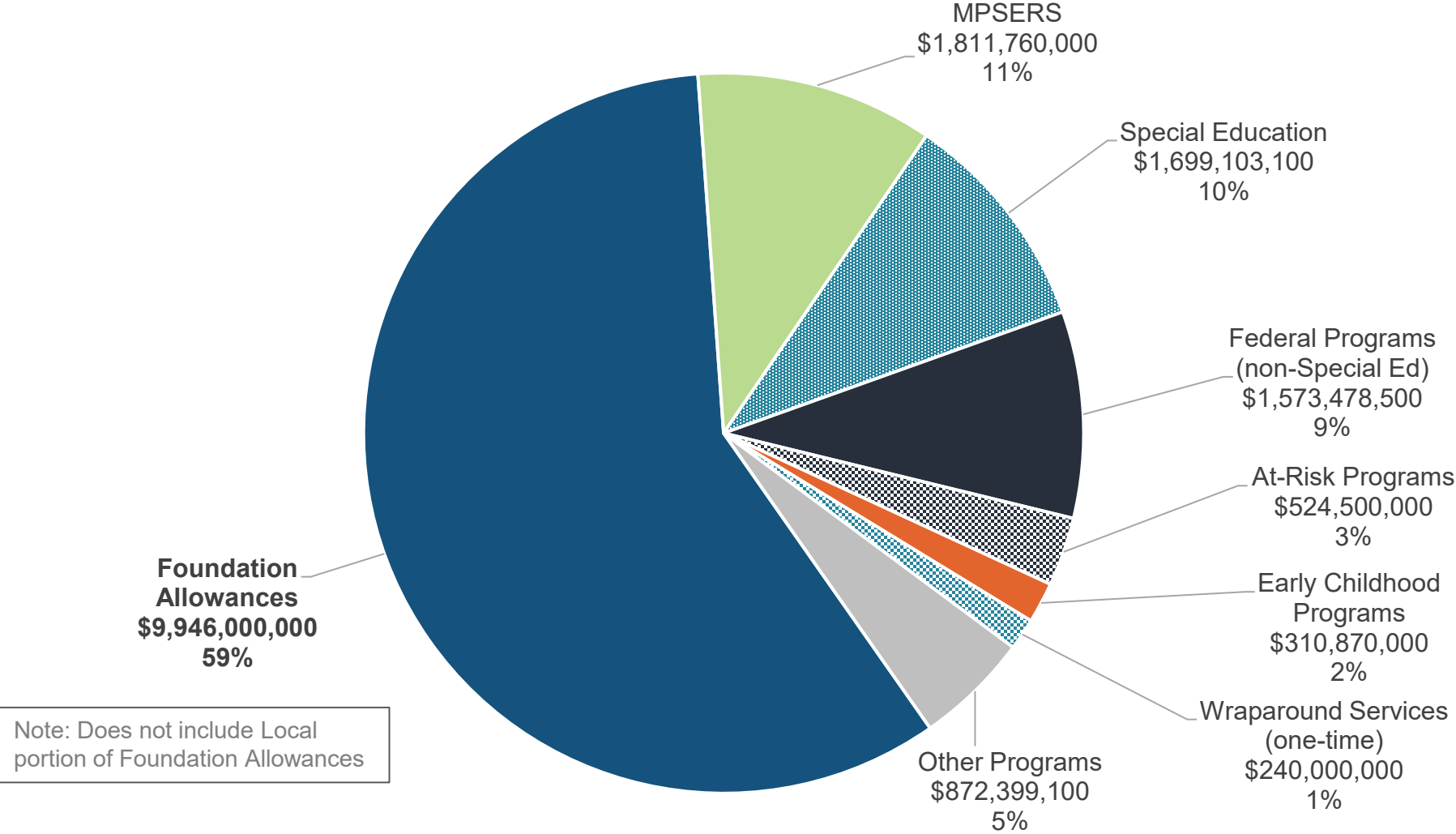
**At-Risk Programs:** Additional state funds to help students at risk of academic failure

**Early Childhood Programs:** Provides preschool programs for 4-year-olds and parenting programs for parents of children ages 0-5

**Wraparound Services:** Provides one-time funding over 3 fiscal years to increase the number of school psychologists, school social workers, school counselors, and school nurses

# FY 2021-2022 Gross Appropriations

About **59%** of the **\$17.0 billion** School Aid budget supports per pupil foundation allowances used for school district general operations.



# Major Budget Topics



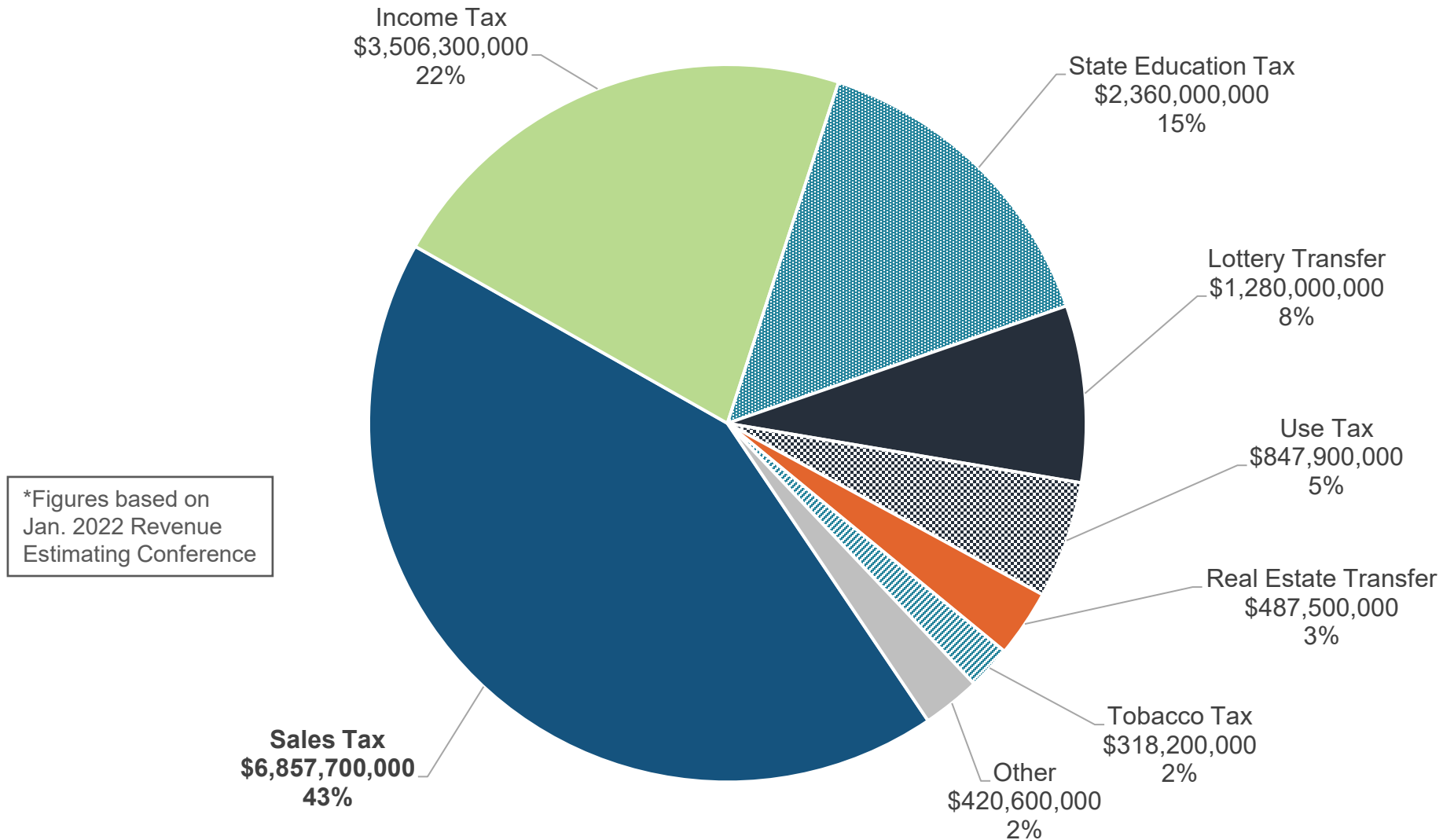
# School Aid Fund Revenues

# School Aid Fund (SAF) Revenue

- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked, or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires SAF to be used exclusively for schools, higher education, and school employee retirement benefits.
- SAF will receive approximately **\$16.1 billion** in revenue for FY 2021-22.
- Primary sources of SAF revenue are shown on next slide.

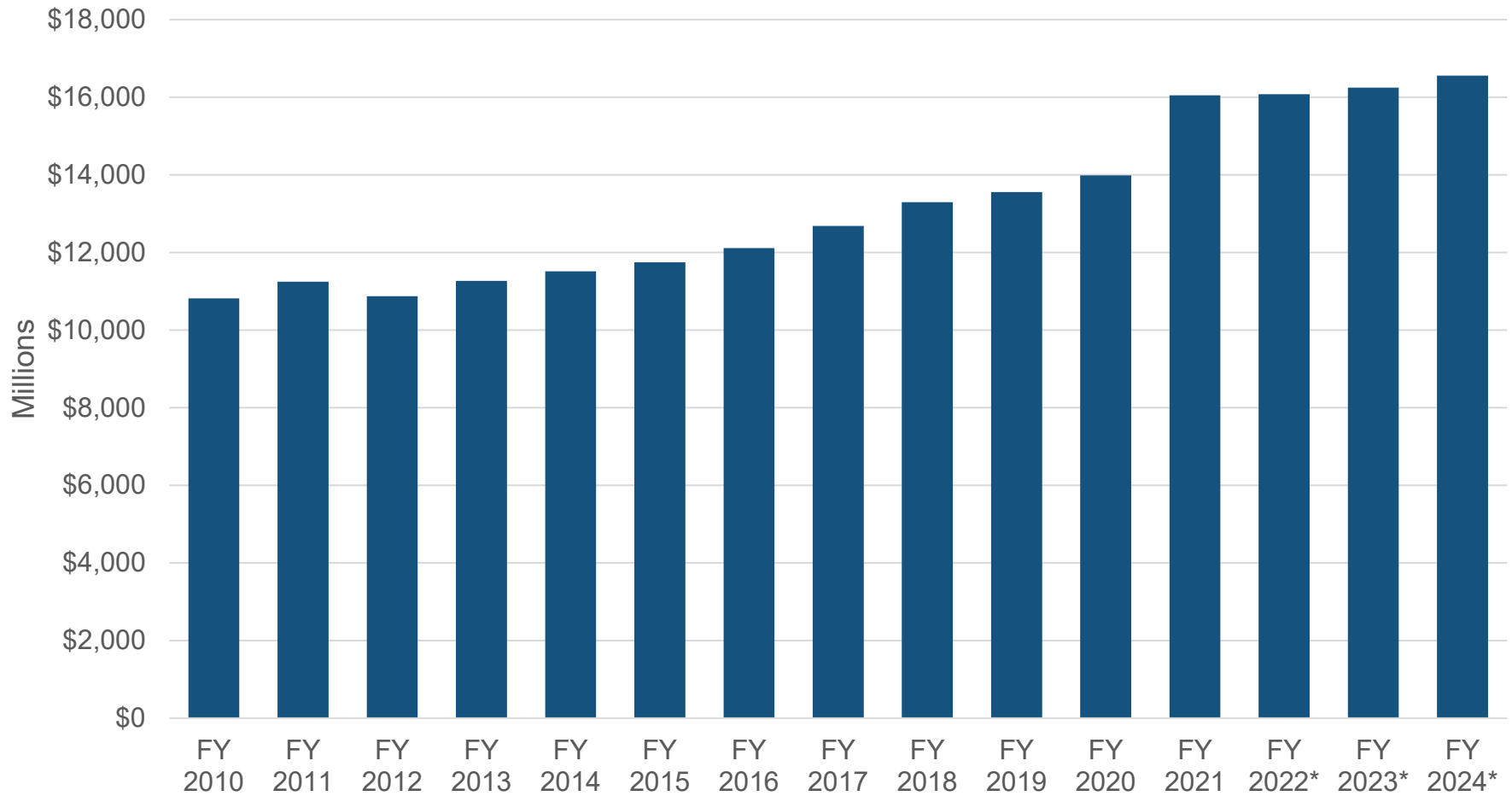
# SAF Revenue Sources

Sales tax is the largest revenue source, contributing nearly half of the **\$16.1 billion** in total estimated SAF revenue for FY 2021-22.



# SAF Revenue History

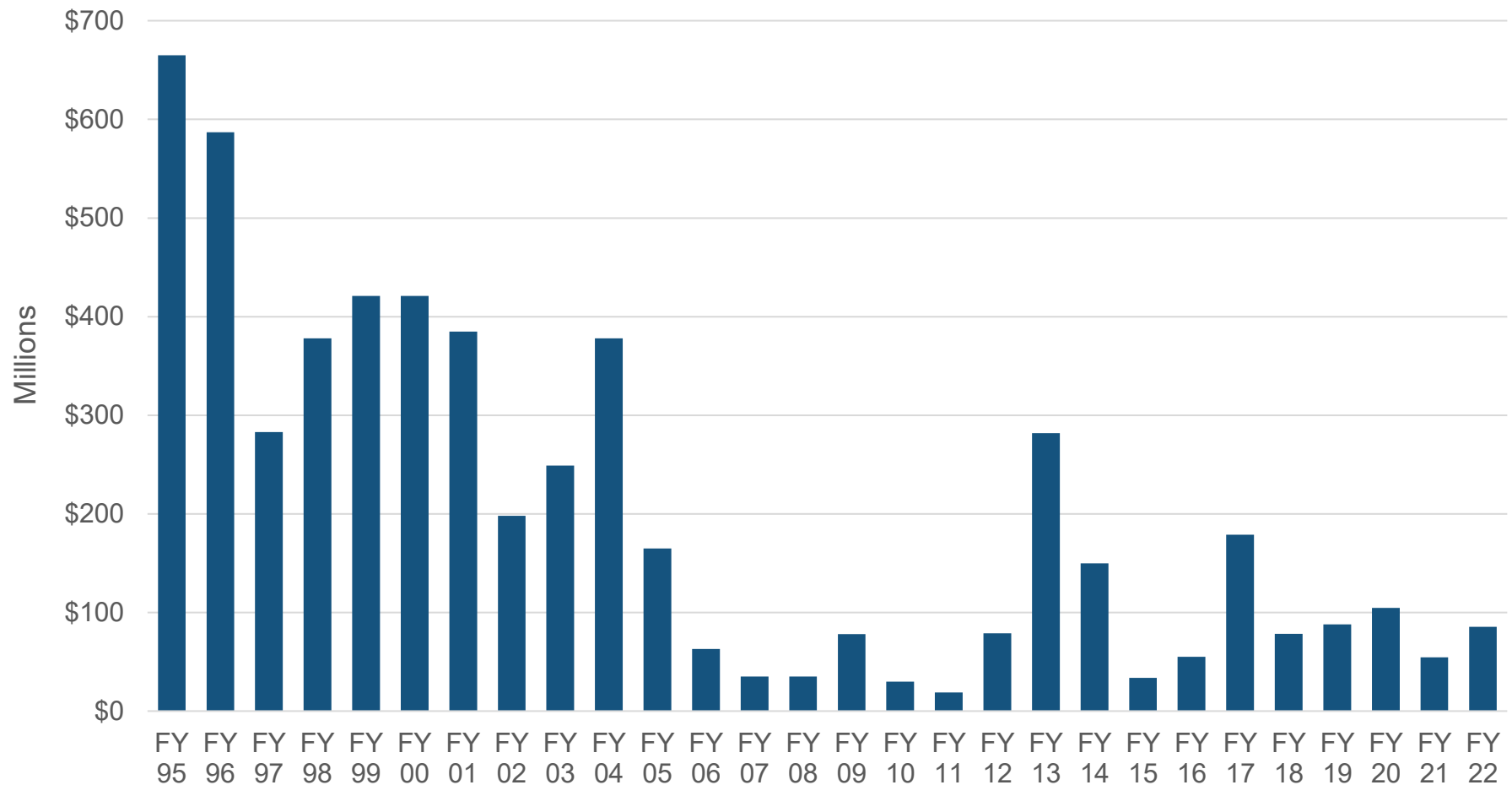
Annual SAF revenues grew by an estimated **20%** in FY 2020-21. SAF revenues are estimated to grow by **0.2%** to a total of **\$16.1 billion** in FY 2021-22.



\* FYs 2022, 2023, and 2024 figures from Jan. 2022 Revenue Estimating Conference

# GF/GP as a Fund Source in the School Aid Budget

The School Aid budget has **\$85.4 million** GF/GP appropriated in FY 2021-22.



# FY 2021-22 School Aid Fund Balance Sheet

	FY 2021-22	Baseline FY 2022-23
<b>BEGINNING BALANCE</b>	<b>\$2,889.1</b>	<b>\$3,608.2</b>
<b>REVENUE</b>		
School Aid Fund (SAF) Revenue	\$16,078.2	\$16,246.7
General Fund/General Purpose (GF/GP)	\$91.4	\$89.9
Other Restricted Funds	\$72.0	\$72.0
<u>Federal Funds</u>	<u>\$2,018.5</u>	<u>\$1,905.5</u>
<b>TOTAL REVENUE</b>	<b>\$18,260.1</b>	<b>\$18,314.1</b>
<b>EXPENDITURES</b>		
School Aid (Adj for lapses/consensus revisions)	\$16,648.2	\$16,395.7
Community Colleges	\$431.4	\$432.7
<u>Higher Ed</u>	<u>\$461.4</u>	<u>\$447.9</u>
<b>TOTAL EXPENDITURES</b>	<b>\$17,541.0</b>	<b>\$17,276.2</b>
<b>CURRENT YEAR: REVENUES - EXPENDITURES</b>	<b>\$719.1</b>	<b>\$1,037.9</b>
<b>TOTAL ENDING BALANCE</b>	<b>\$3,608.2</b>	<b>\$4,646.1</b>

# Foundation Allowance

# Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations was created as part of the Proposal A school finance reforms in 1994-95.
- Districts receive a foundation allowance (per-pupil funding amount) initially determined in 1994-95, based on what the district collected from both state and local funds on a per-pupil basis in the prior year.
- Initial 1994-95 levels:
  - Minimum level of funding established: \$4,200
  - Target (previously known as the Basic) level determined: \$5,000
  - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500
- In FY 2021-22, the gap between the Minimum and the Target was closed and both foundations were set at **\$8,700**.
- Hold Harmless districts' foundation allowances range up to a high of **\$12,517**.



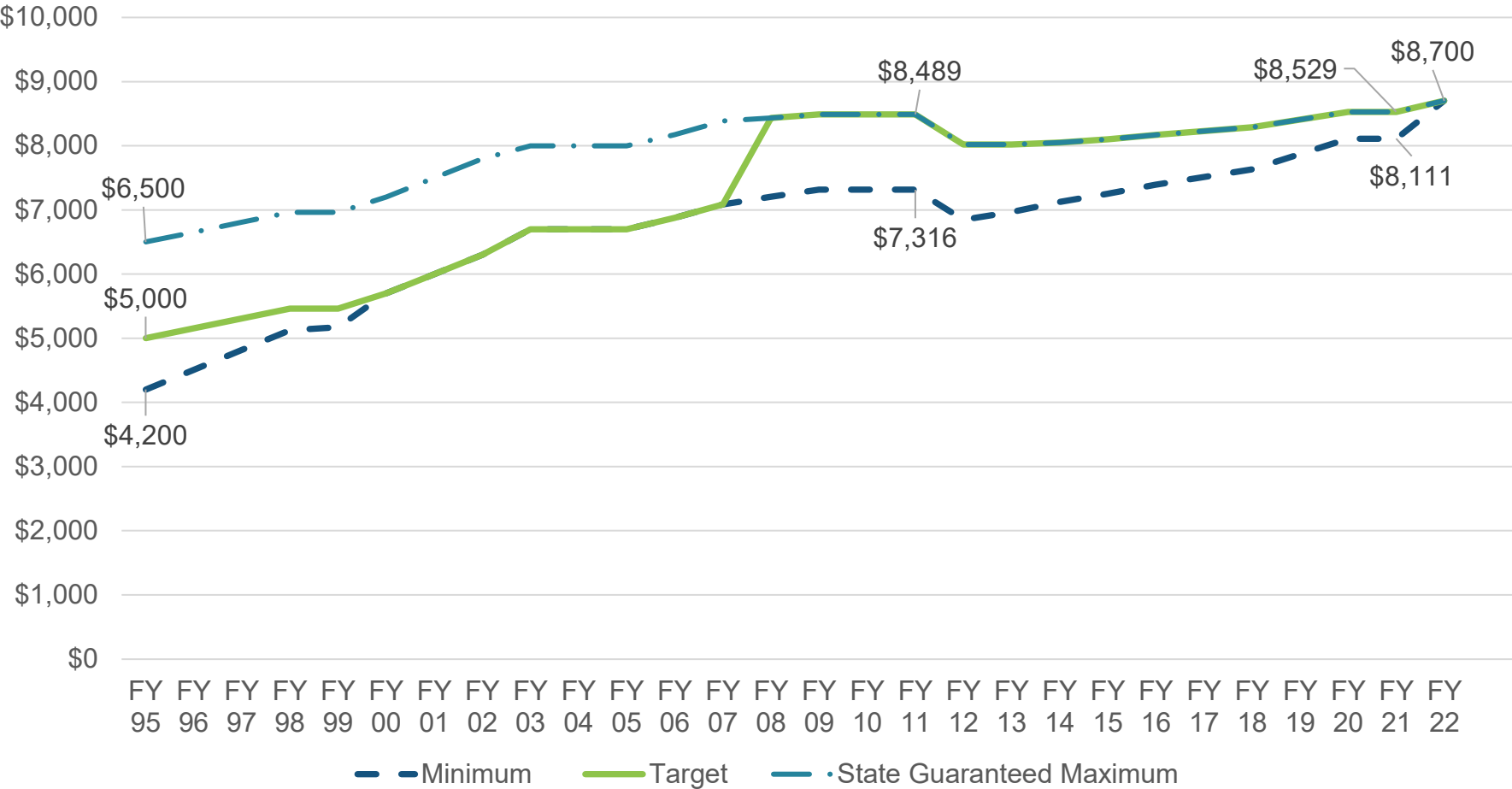
# “Target” Foundation Allowance

- The “Target,” previously known as the “Basic,” foundation allowance was a minimum goal established in 1994 as part of the Proposal A reforms, and it is set by the legislature each year as a target per-pupil funding level.
- In FY 1999-00, all school districts in Michigan reached the Target foundation allowance, after which point all districts received the same annual increases except for two years in which additional “equity” payments were made to those at the Minimum to decrease the funding gap between those at the top and bottom.
- In FY 2007-08, the legislature re-set the Target foundation allowance to equal the State Guaranteed Maximum foundation and reinstated the 2x formula under which districts at the bottom receive twice the increase as those at the Target or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.
- In FY 2021-22, the legislature increased the Minimum by \$589 and increased the Target by \$171 to set both foundation allowances equal to \$8,700.

# Foundation Allowance History

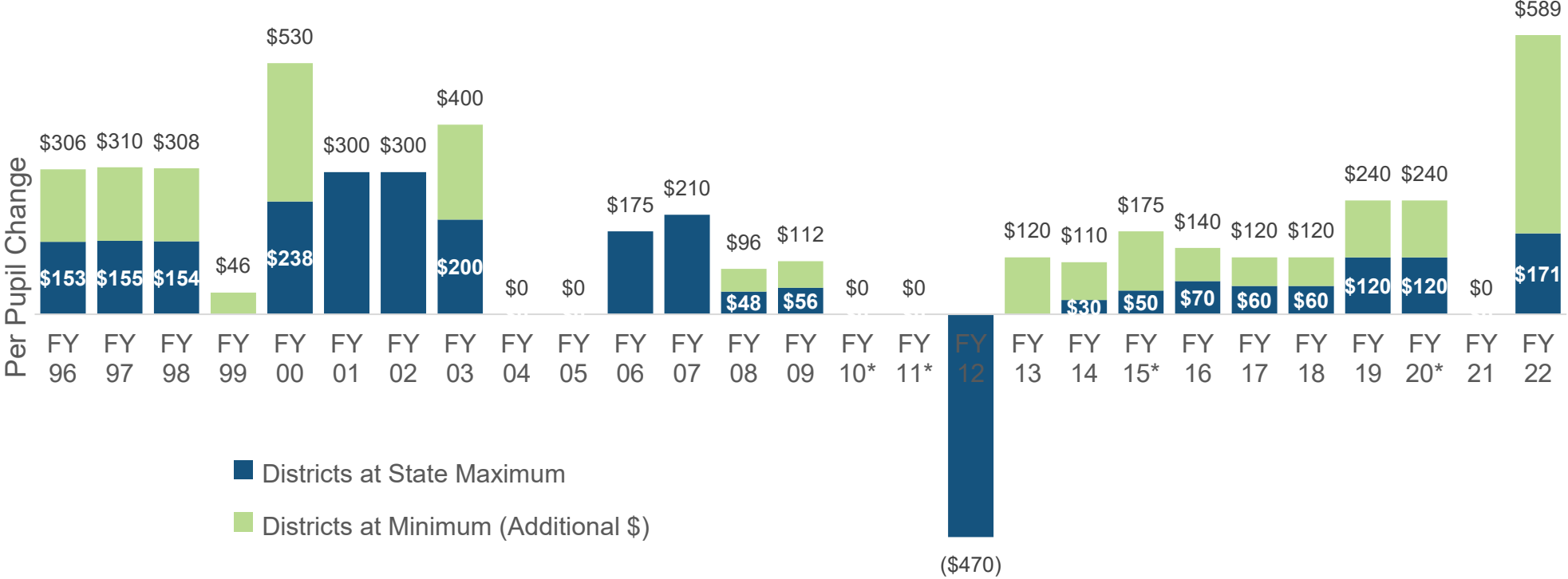
## Growth Since Proposal A

The Minimum, Target, and State Guaranteed Maximum are all set equal to **\$8,700** for FY 2021-22, closing the remaining “equity gap” of \$418 in the previous year.



# Per Pupil Foundation Allowances Increases/Decreases

The 2x formula has been used in about half the years since Proposal A. In other years, either all districts received the same increase/decrease, or equity payments were used to bring districts at the Minimum up even more quickly than the 2x formula would have.



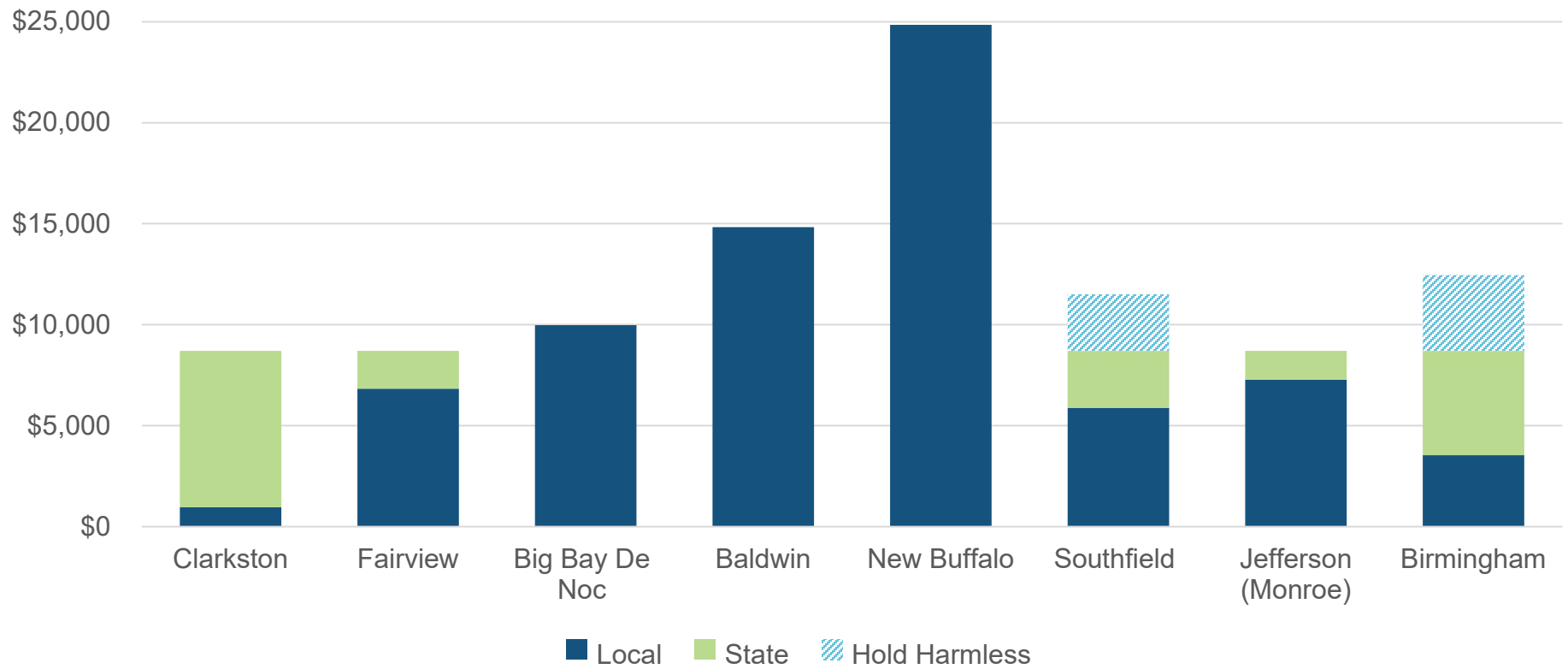
\*Does not reflect one-time Section 11d per pupil reductions.

# Foundation Allowance

## State/Local Funding Mix

- Each district levies 18 mills on non-homestead property.
- State calculates local revenue from the 18 mills on a per-pupil basis.
- State deducts per-pupil local revenue from the lesser of the district's foundation allowance or state guaranteed maximum per pupil amount.
- Districts with foundation allowances above the state guaranteed maximum (**hold harmless districts**) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance.
- Districts whose local revenue exceeds their foundation allowance (**out-of-formula districts**) do not receive a state share and may keep the revenue that exceeds their statutory foundation.

# FY 2021-22 State/Local Funding Mix Examples



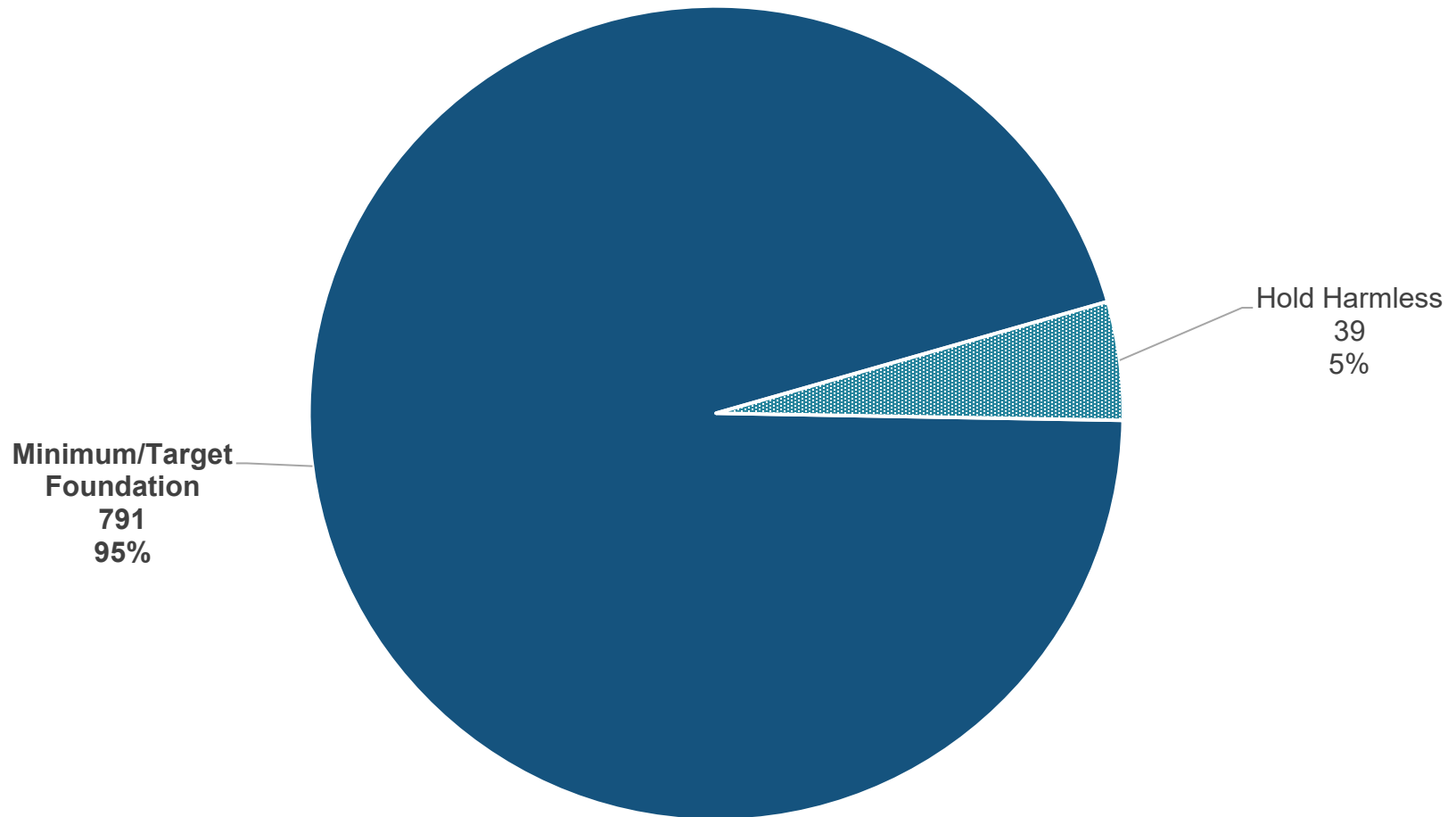
Type	District	Foundation	Local	State	HH	NHS Mills	HH Mills
	Clarkston	\$8,700	\$968	\$7,732	\$0	18.0	0.0
	Fairview	\$8,700	\$6,831	\$1,869	\$0	18.0	0.0
O-of-F	Big Bay	\$8,700	\$9,979	\$0	\$0	18.0	0.0
O-of-F	Baldwin	\$8,700	\$14,832	\$0	\$0	18.0	0.0
HH, O-of-F	New Buffalo	\$10,535	\$24,843	\$0	\$0	18.0	0.0
HH	Southfield	\$11,502	\$5,889	\$2,811	\$2,802	18.0	15.1
HH	Jefferson	\$11,711	\$7,280	\$1,420	\$0	18.0	0.0
HH	Birmingham	\$12,455	\$3,532	\$5,168	\$3,755	18.0	7.0

# Equity Among Districts

- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost **\$6,900** or **3:1**.
- In FY 2021-22, the difference between the highest and lowest K-12 district is **\$3,817**, approximately **3:2**.
- In FY 2021-22, excluding the 39 hold harmless districts whose foundation exceeds the Target foundation allowance, the difference between the top and the bottom has been eliminated, compared to a gap of **\$2,300** when Proposal A was first implemented.

# FY 2021-22 District Foundation Allowances

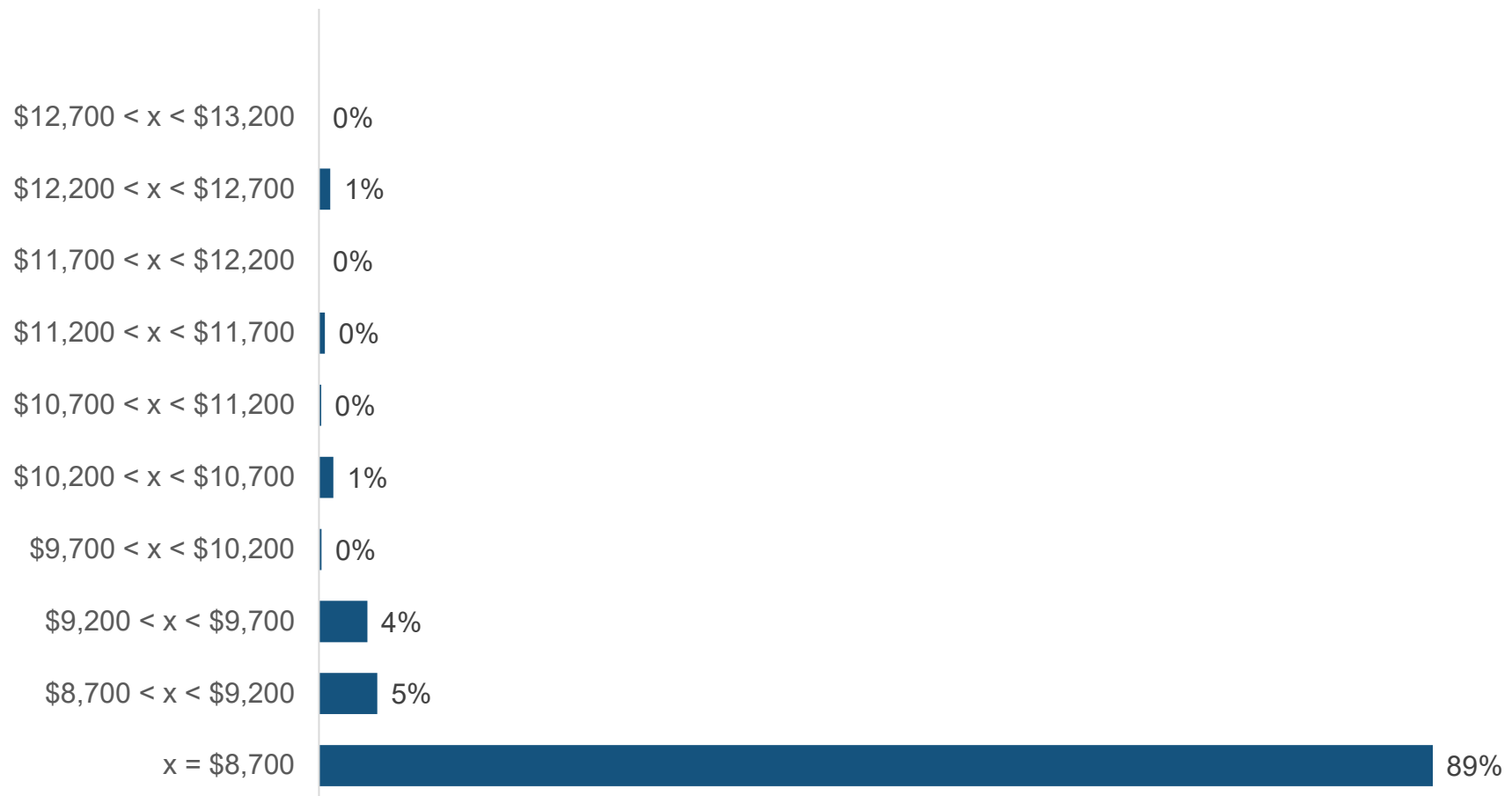
All districts, except for Hold Harmless districts, have a foundation allowance equal to the Minimum/Target.



# Equity Among Districts

## FY 2021-22 Pupil Distribution

In FY 2021-22, **89%** of pupils are in districts with a foundation allowance at the Minimum/Target, **\$8,700**. The remainder of pupils are in Hold Harmless districts.





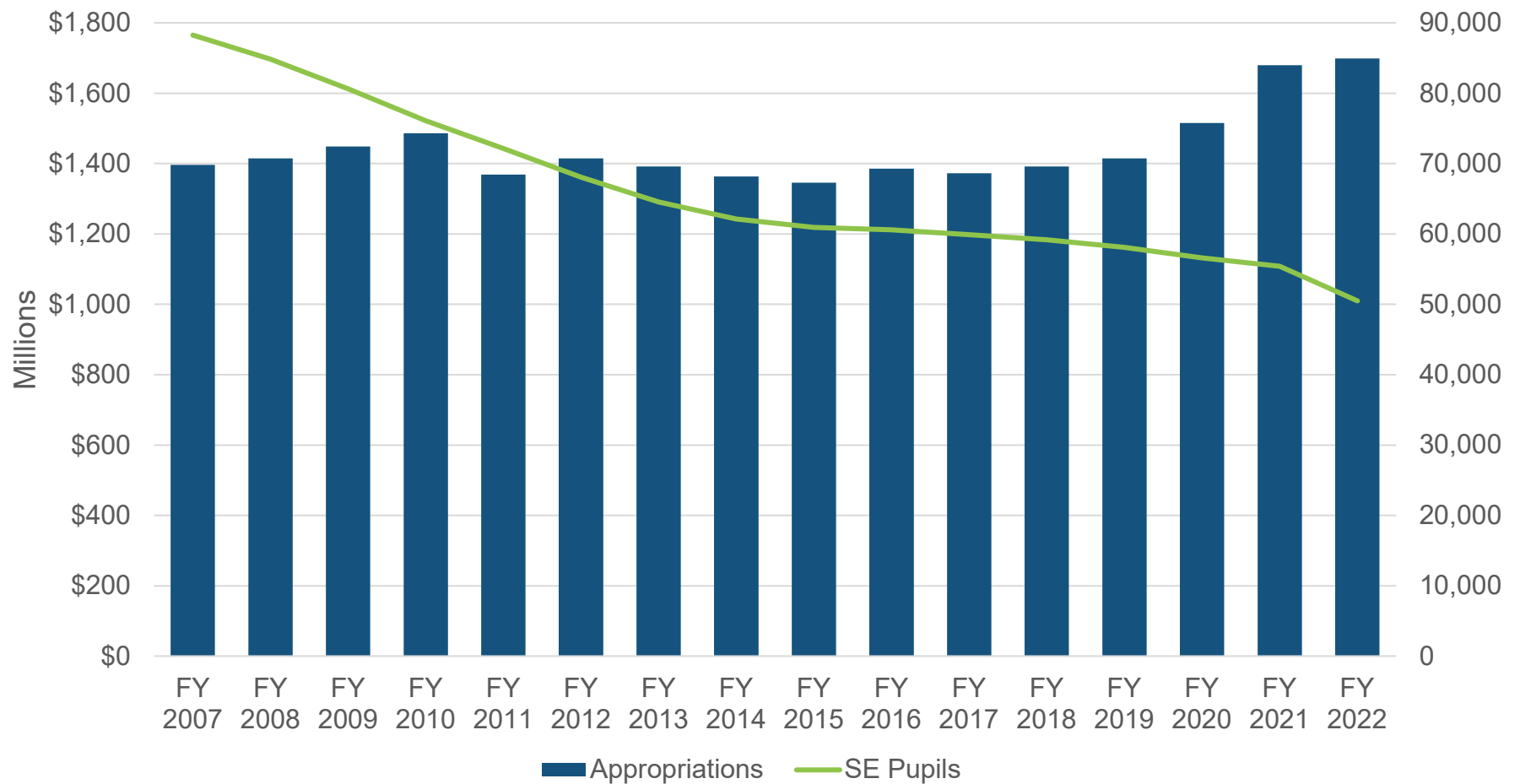
# Special Education Funding

# Special Education Funding

- Third largest School Aid appropriation in FY 2021-22
  - **\$1.2 billion** state dollars
  - **\$451.0 million** federal dollars
- Reimburses school districts and ISDs for the costs of educating special education students.
- Required state reimbursement rates determined by the Michigan Supreme Court in Durant v. State of Michigan in 1997:
  - **28.6138%** of Total Special Education Costs
  - **70.4165%** of Total Special Education Transportation Costs
- Also reimburses another estimated **3%** of special education costs under Sec. 51f.
- Local special education mills, levied by each ISD, will generate an estimated additional **\$1.2 billion** in FY 2021-22.
- Uncompensated allowable special education costs equaled an estimated **\$706.2 million** in FY 2019-20.

# Special Education Appropriations

Special Education appropriations are expected to increase by **\$19.6 million** in FY 2021-22 to **\$1.7 billion**.



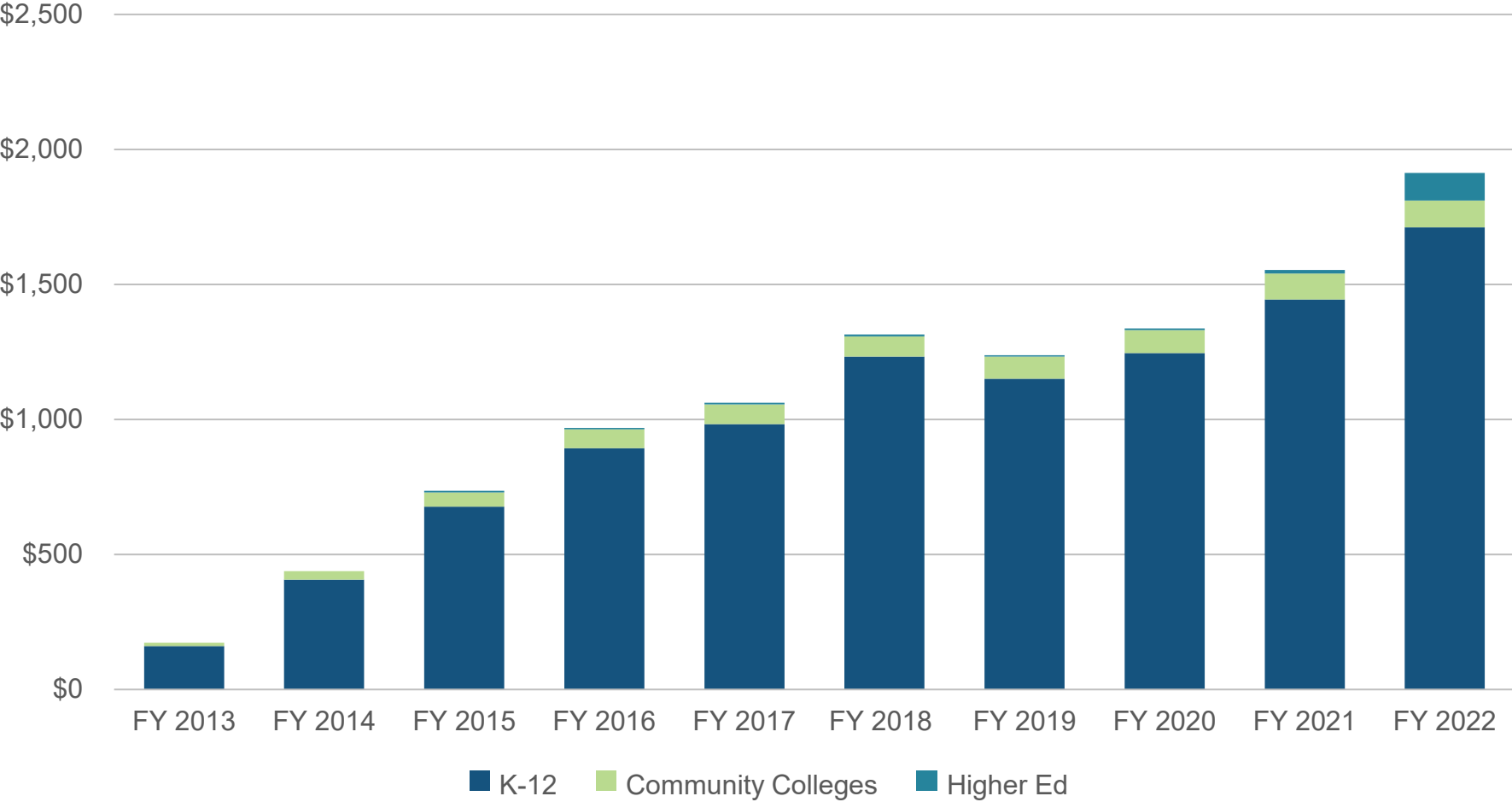
# **MPERS – Retirement Costs**

# Michigan Public School Employees' Retirement System (MPERS) Appropriations

- Section 147a (1) – Provides **\$100.0 million** to districts to offset a share of their MPERS costs. Distribution is based on a district's proportionate share of MPERS covered payroll.
- Section 147a (2) – Provides **\$177.5 million** to reimburse MPERS employers for the increased normal costs associated with the reduction in the long-term investment rate of return assumptions from 7.05% to 6.80% due to a dedicated gains policy.
- Section 147c (1) – Appropriates **\$1.5 billion** to pay for the state share of unfunded actuarial accrued liability (UAAL) costs per 2012 PA 300, which required the state to pay the UAAL costs that exceed the capped employer contribution rate of 20.96% of MPERS covered payroll.
- Section 147e – Provides **\$65.3 million** to reimburse MPERS employers for the increased normal costs associated with both the new Hybrid plan and the new Defined Contribution (DC or 401k plan) enacted under 2017 PA 92.

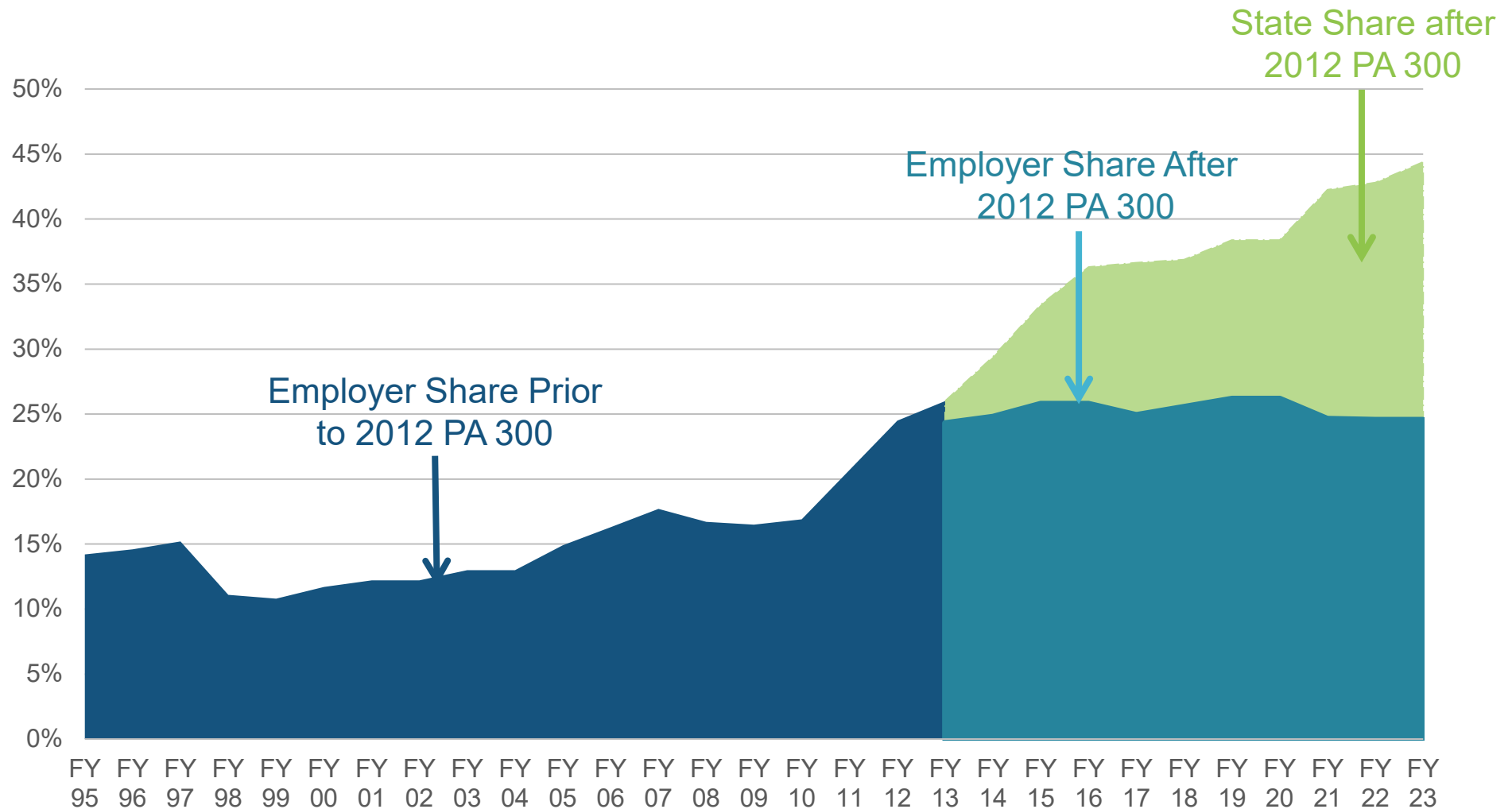
# MPERS State Appropriations

For FY 2021-22, the state share of public school employee retirement system (MPERS) costs totals about **\$1.9 billion**. Prior to 2012 PA 300, MPERS employers paid the full costs of MPERS directly.



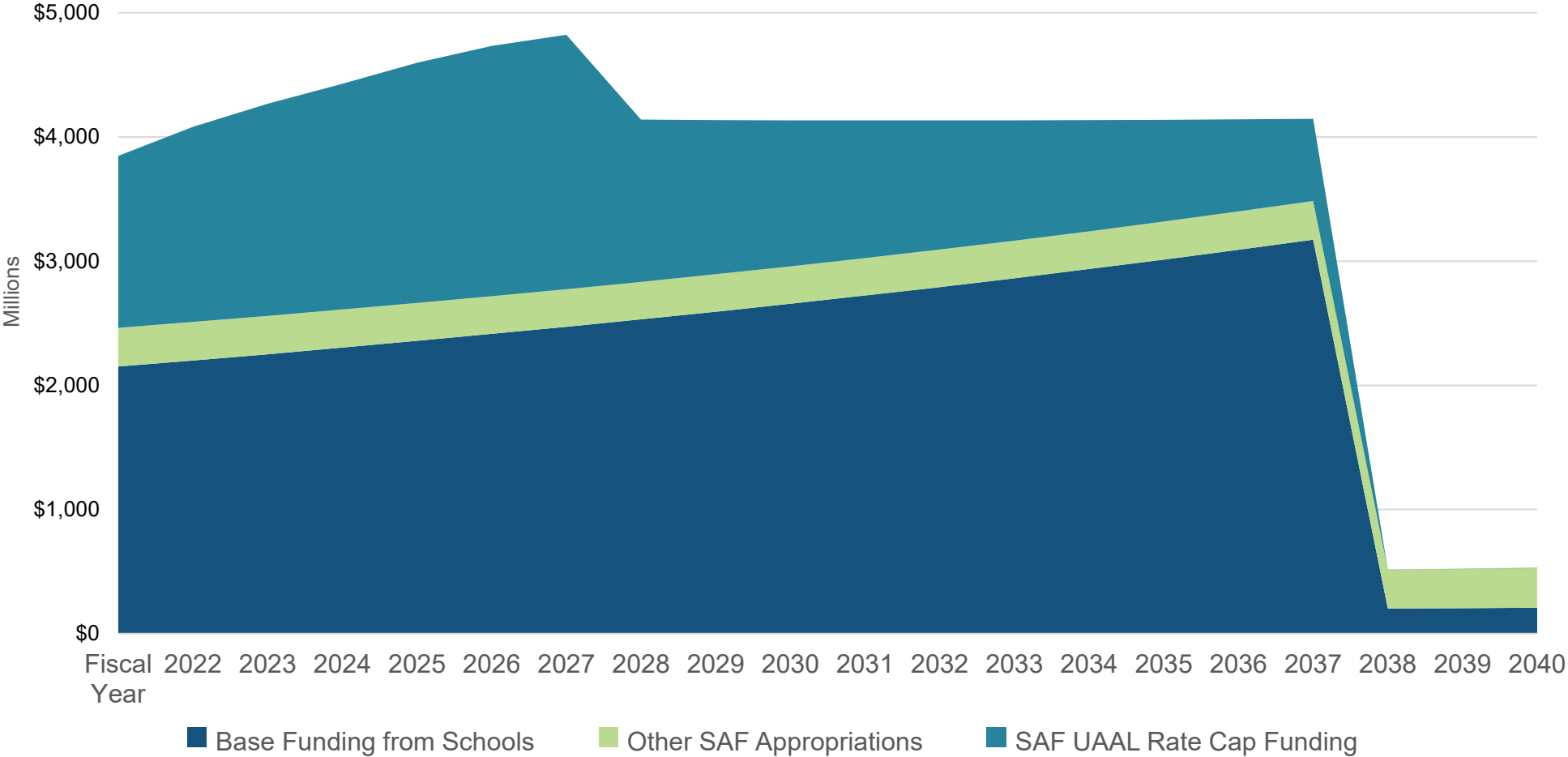
# MPERS State Share - Unfunded Actuarial Accrued Liability (UAAL)

The state portion of the MPERS UAAL contribution rate is **\$1.5 billion** in FY 2021-22. The employer contribution rate is capped at **20.96%** for the unfunded liability plus the normal costs for retirement benefits newly earned each year, which fluctuate.



# Projected MPSERS Costs

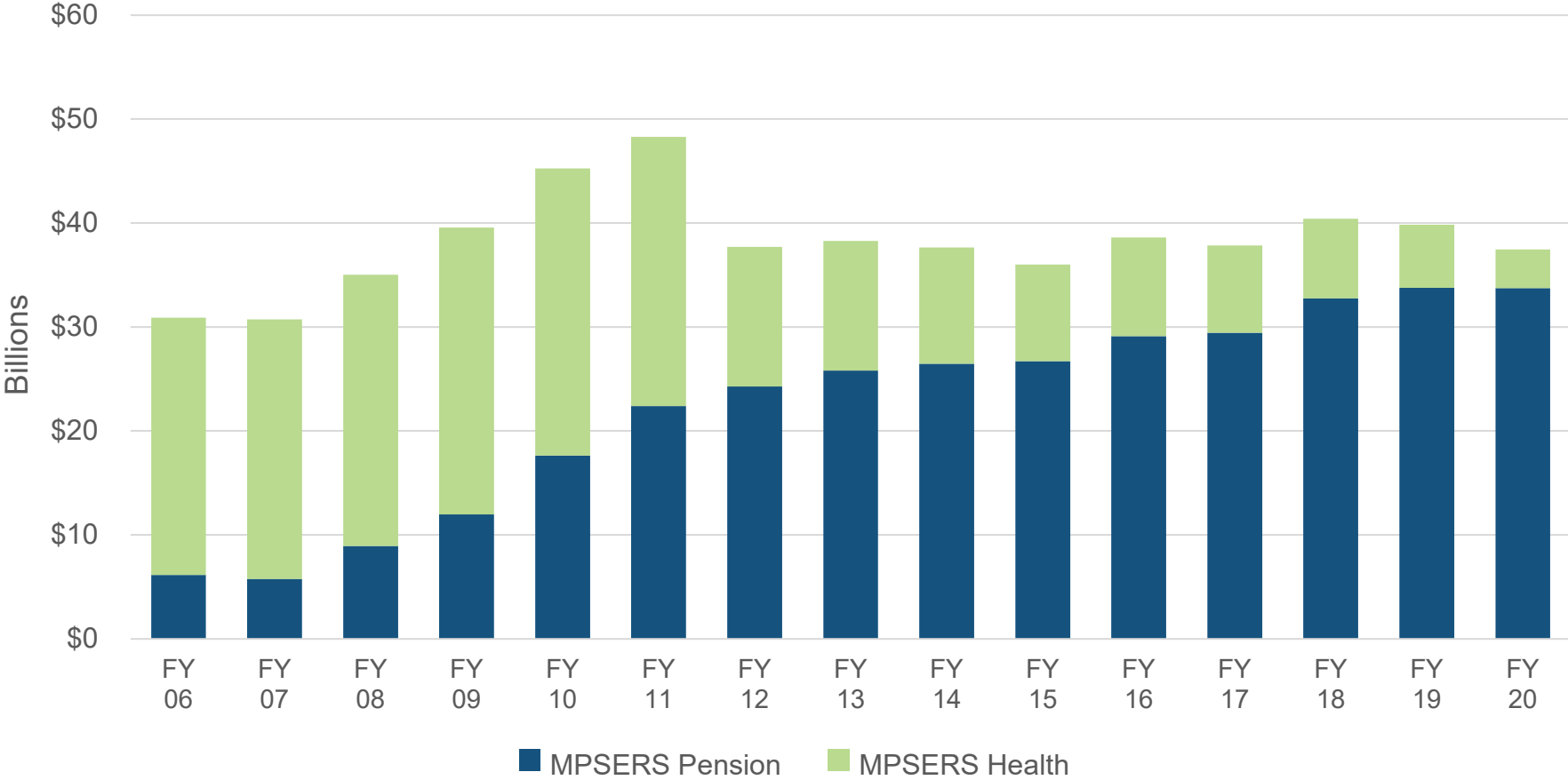
MPSERS costs will continue to increase as actuarial assumptions are revised and a level-dollar assumption is phased in under recent statutory changes. Unfunded liabilities are scheduled to be paid off by 2038.





# Retirement Liabilities

Total unfunded liabilities for MPSERS declined by **\$10.7 billion** in FY 2011-12 due primarily to the decision to begin prefunding retiree health benefits, but increased by **\$2.6 billion** in FY 2015-16 due to the reduction in the assumed long-term investment rate of return from **8.0%** to **7.5%** and increased by **\$2.6 billion** in FY 2017-18 due to the adoption of the most recent experience study.



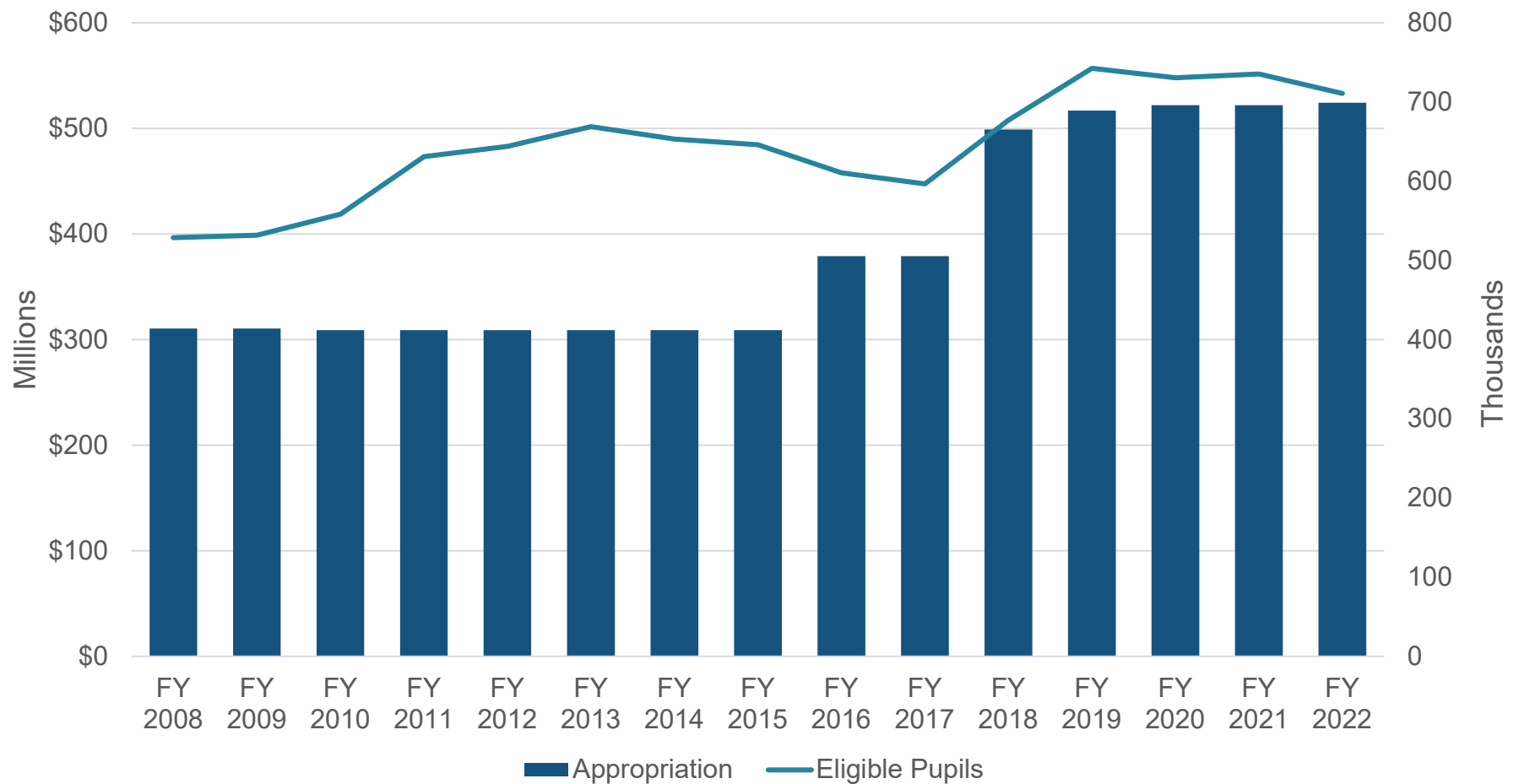
# At-Risk Program

# At-Risk Funding

- Supports added services for pupils at risk of failing to achieve academic proficiency or who are chronically absent.
- FY 2021-22 appropriation is **\$524.5 million**, an increase of **\$2.5 million**.
  - **\$512.5 million** for base formula funding
  - Up to **\$12.0 million** to ensure districts receive at least their prior year allocation (adjusted for declining enrollment)
- Formula allocation equals **11.5%** of **\$8,700** for each eligible student. However, the program is not fully funded, so payments are prorated on a percentage basis (**77%**) to about **\$768** per eligible student.
  - If a district's combined state and local revenue exceeded the Target foundation allowance in the current year, the prior year, and in FY 2018-19, that district's at-risk funding must be discounted to **30%**.
- The FY 2017-18 budget expanded the pool of pupils for whom a district receives funding beyond those eligible for free school meals to also include: those eligible for reduced-price meals, children in families eligible for Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF), and children who are homeless, migrant, or in foster care. The pool also increased in FY 2018-19 due to direct certification of Medicaid-eligible pupils.

# At-Risk Appropriations

The At-Risk program is funded at **\$524.5 million** in FY 2021-22, which represents growth of **70%** since FY 2014-15 after more than a decade of flat funding. Eligible pupils grew in FY 2017-18 and FY 2018-19 based on policy that expanded the definition of pupils who may be counted for funding.



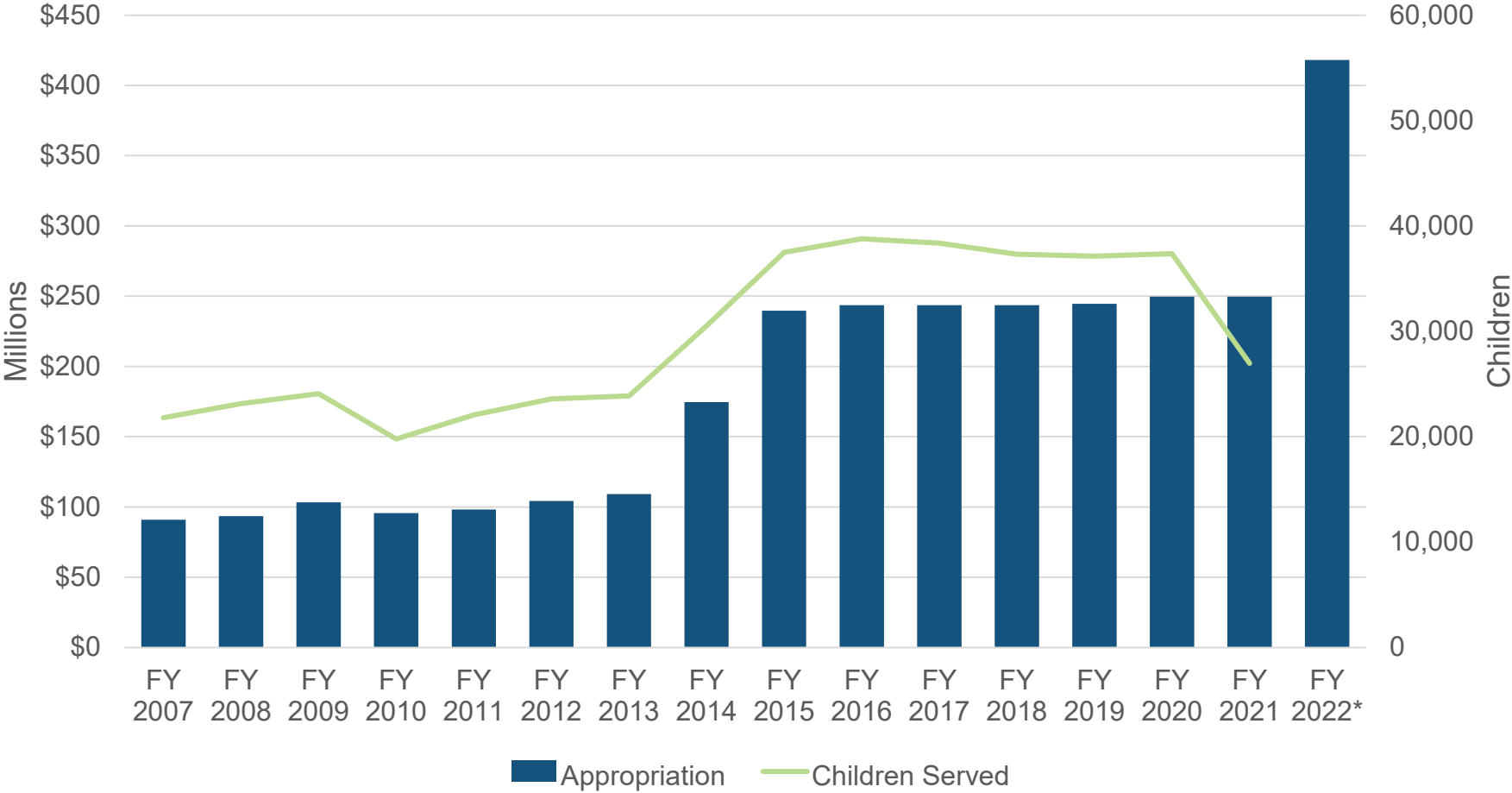
# Early Childhood

# Great Start Readiness Program (GSRP)

- In FY 2021-22, funding for the GSRP 4-year-old preschool program increased by **67%** to **\$418.5** million.
- The per diem allocation for each child is **\$8,700** (equal to the Target foundation allowance) for a full-day program and **\$4,350** for a half-day program.
- The program served approximately **26,969** children in FY 2020-21, a decrease of **28%** from the prior year due to the COVID-19 pandemic.
- The program went from 100% half-day program in FY 2004-05 to the following for FY 2020-21:
  - Half-Day: 7%
  - GSRP/Head Start Blend: 17%
  - Full-Day: 76%
- **\$10.0 million** is allocated for up to **\$300** per child for preschool transportation.

# GSRP Preschool Appropriations

GSRP funding more than doubled from FY 2012-13 and FY 2014-15. Funding increased again by **67%** in FY 2021-22 to bring the per diem allocation up to the Target foundation allowance. Children served dipped by over **10,000** in FY 2020-21 due to the pandemic.



\* FY 2022 Children Served is not yet known.

# Types of School Districts



# Traditional, Locally Governed School Districts

- Traditional local school districts have defined boundaries, locally elected school boards, and are authorized to levy local taxes.
- In FY 2020-21, there are **537** traditional local districts with **1,254,307** pupils, or **89.3%** of the statewide public pupil membership.
- Average size of a traditional, locally governed district is about **2,336** pupils.

# Public School Academies

- Public School Academies (PSAs), or charter schools, are independent public schools formed by individuals or groups to provide students and parents a public alternate to traditional school districts.
- PSAs are authorized to operate by public universities, community colleges, intermediate school districts, and local school districts
- 2011 PA 277 increased the limit on university-authorized PSAs from 150 (reached in 1999) to 300 in 2012 and 500 in 2014, after which the cap was eliminated.
- In FY 2020-21, there are **293** PSAs with **150,255** pupils, or **10.7%** of statewide pupil membership.
- Average size of a PSA is about **513** pupils.

# Cyber Schools

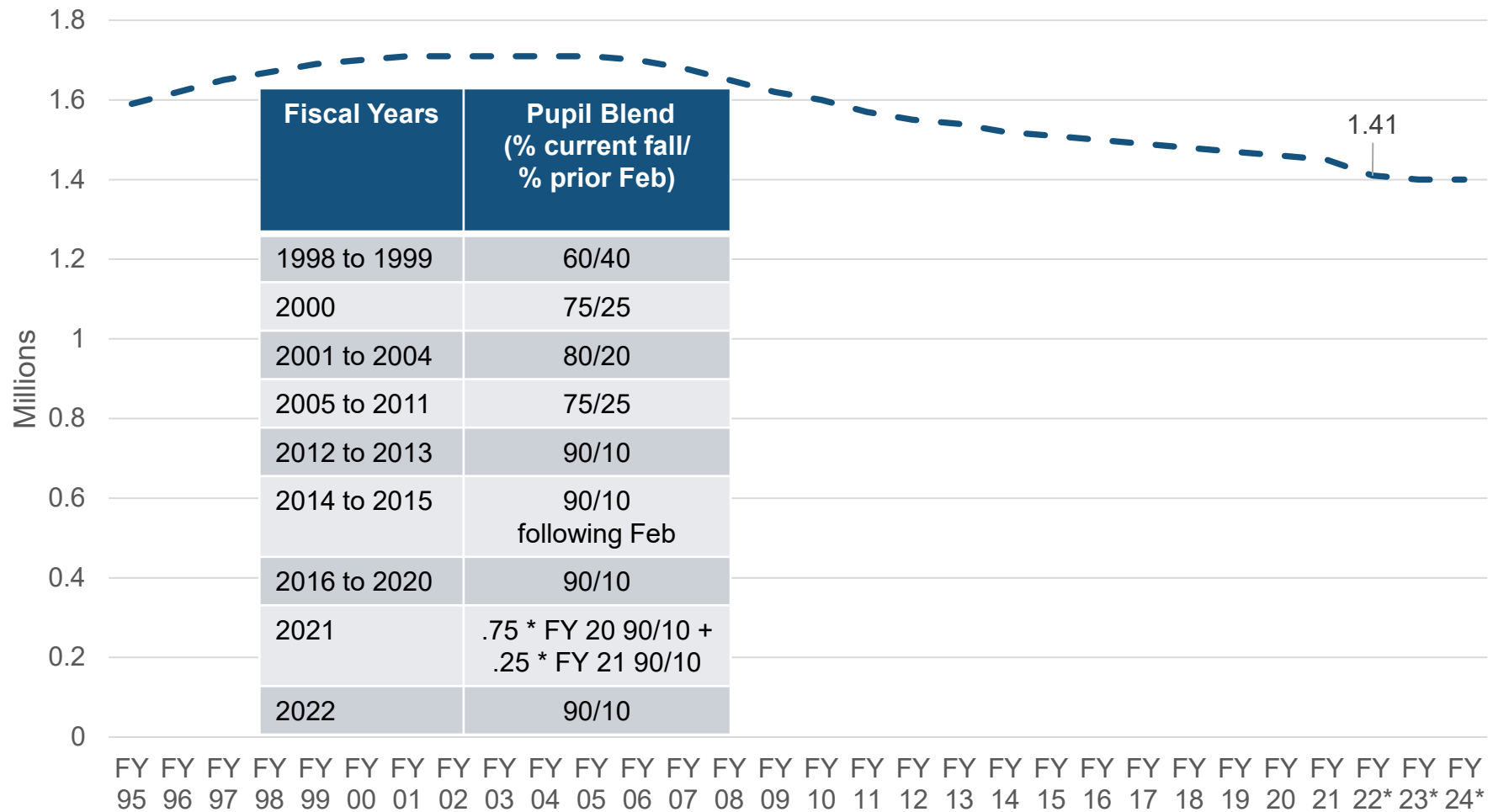
- Cyber schools are a type of public school academy.
- FY 2010-11 was first year of operation.
- 2012 PA 129 increased limits on cyber schools:
  - Limit on schools authorized by statewide entities increased to 5 in 2013, 10 in 2014, and 15 starting January 2015. Currently only 7 are authorized by statewide entities.
  - Enrollment limited to 2,500 in first year, 5,000 in second year, and 10,000 in third year.
  - Total cyber enrollment is capped at **2%** of the total statewide pupil enrollment in FY 2011-12, or approximately **30,870** pupils.
- In FY 2021-22, **15** cyber schools have an enrollment totaling **20,790**, an increase of **5,329** or **26%** from the prior year.

# Declining Enrollment

# Declining Enrollment

## Total Pupil Membership Counts

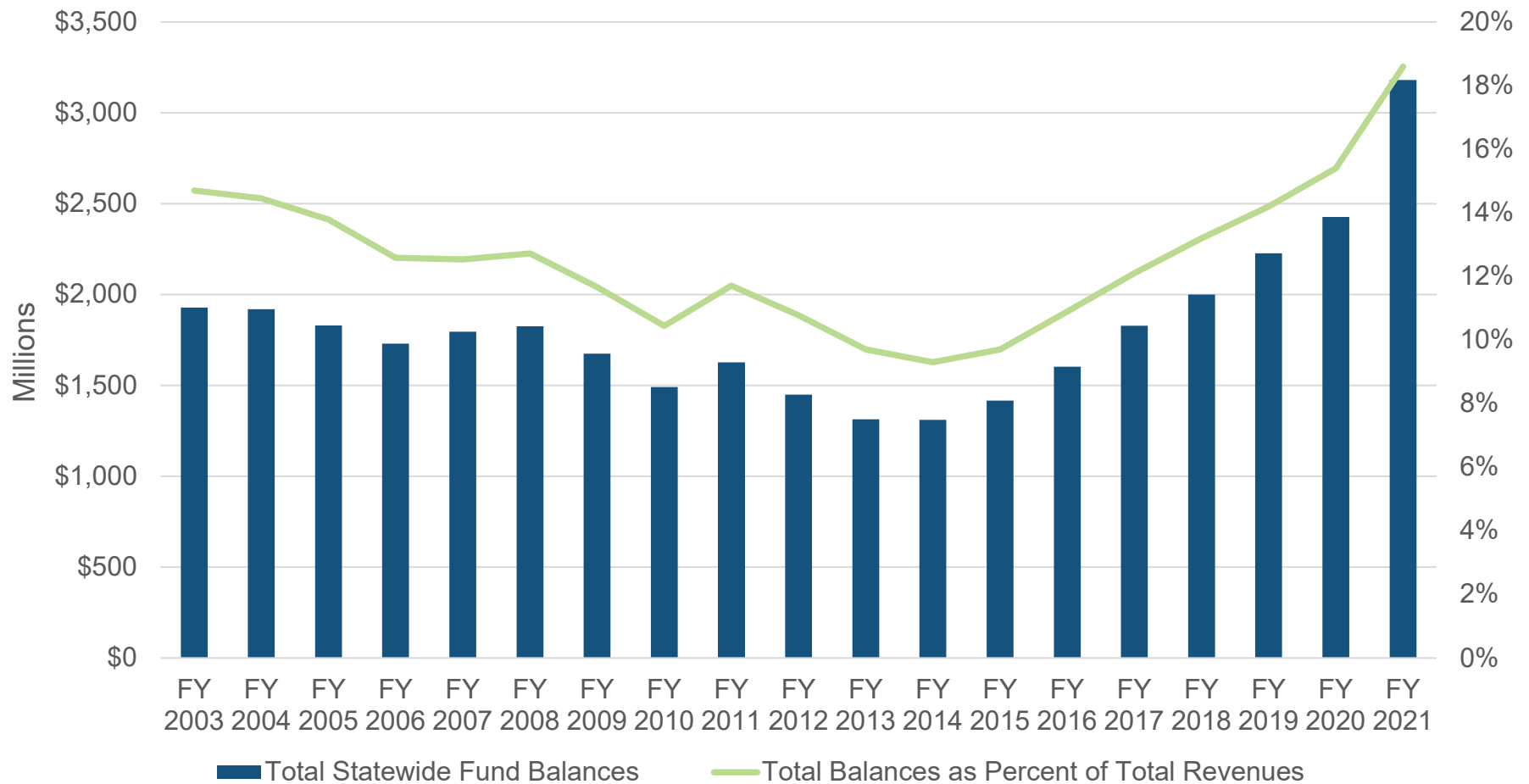
Total membership declined by about **44,000** pupils in FY 2021-22 as a result of returning to a 90/10 blend from the “superblend”, which masked the full extent of pupil decline in FY 2020-21. **82%** of traditional districts experienced declining enrollment in FY 2021-22.



\* FYs 2022, 2023, and 2024 figures are from January 2022 consensus estimates

# District Fund Balances

As pupils and funding declined, districts used their fund balances to replace lost revenue. However, fund balances have been growing again, and at the end of FY 2020-21, totaled **\$3.2 billion**. The average statewide total fund balance as a percent of revenues surpassed its previous peak of **14.7%** (FY 2002-03) and is now at **18.6%** in FY 2020-21.



Note: Figures exclude Detroit Public Schools, for which policy changes have significantly altered fund balance information.

# For more information about the School Aid budget:

## HFA Resources

<http://www.house.mi.gov/hfa/SchoolAid.asp>

## Contact Information

Jacqueline Mullen, Senior Fiscal Analyst

[jmullen@house.mi.gov](mailto:jmullen@house.mi.gov)

Emily Hatch, Fiscal Analyst

[ehatch@house.mi.gov](mailto:ehatch@house.mi.gov)

(517) 373-8080