



# Budget Briefing: School Aid

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# 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 539 local school districts, 294 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 Talent and Economic Development Department, 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 2017-18 is October 1, 2017 through September 30, 2018.

**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 which establishes spending authorization for a particular program or function.

**Boilerplate:** Specific language sections in a budget bill which 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.

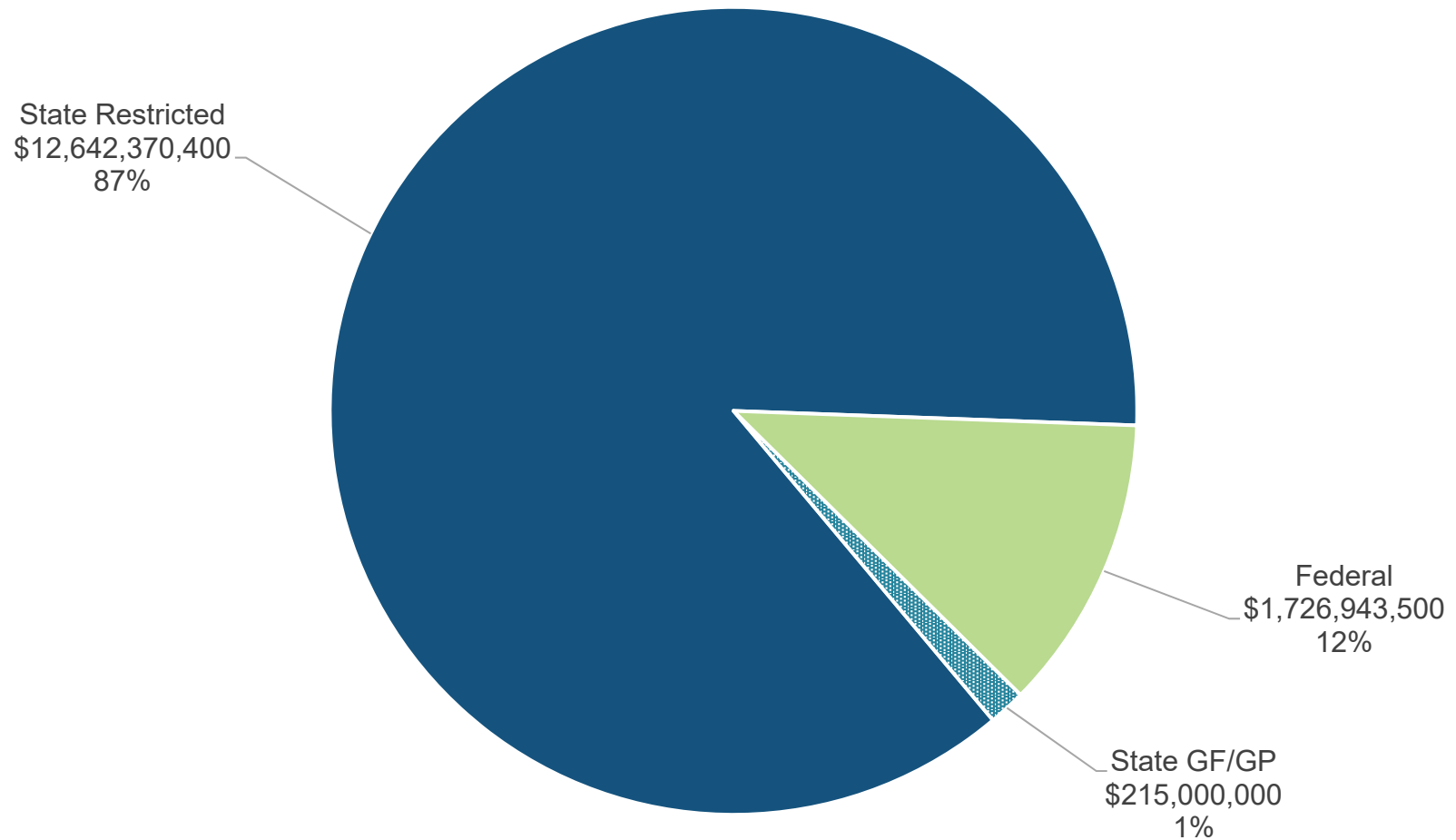
# Funding Sources

# FY 2017-18 School Aid Budget

Fund Source	Funding	Description
Gross Appropriations	\$14,584,313,900	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	\$14,584,313,900	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	1,726,943,500	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	12,642,370,400	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	\$215,000,000	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

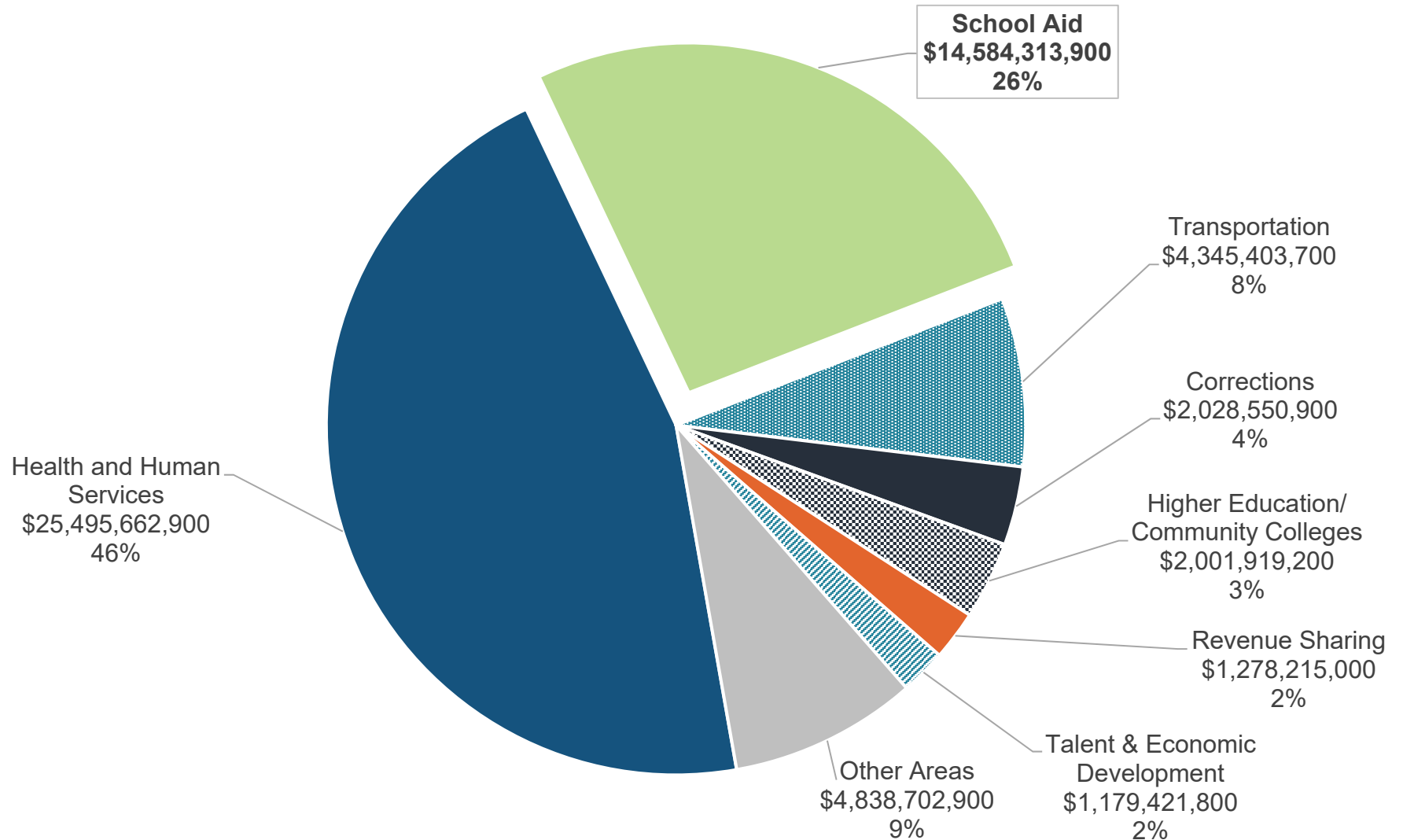
# FY 2017-18 Fund Sources

87% of the **\$14.6 billion** School budget is funded by state restricted revenue, almost all of which is School Aid Fund (SAF) revenues.



# School Aid Share of Total State Budget

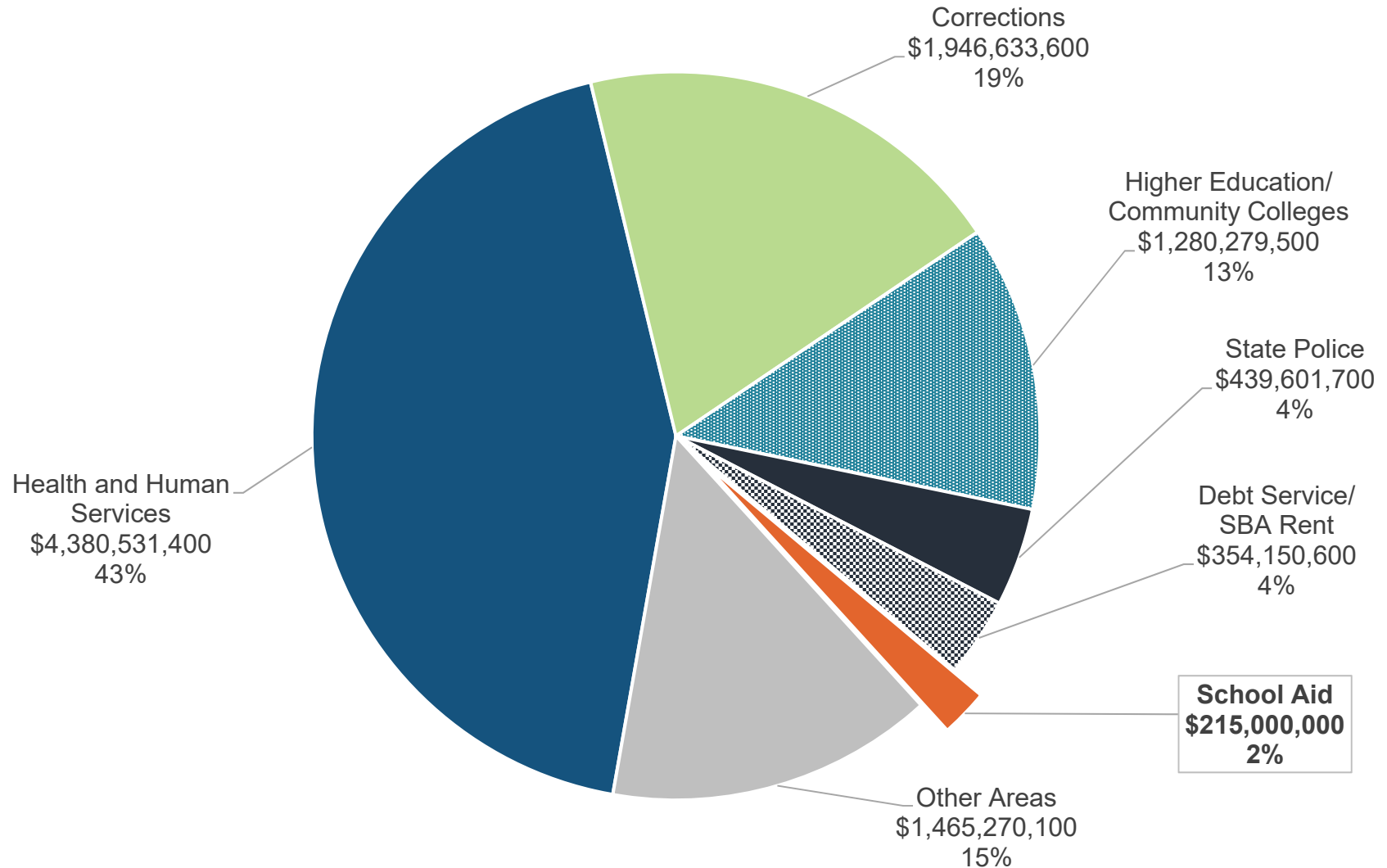
The School Aid budget represents over a quarter of the **\$55.8 billion** state budget (adjusted gross) for FY 2017-18.





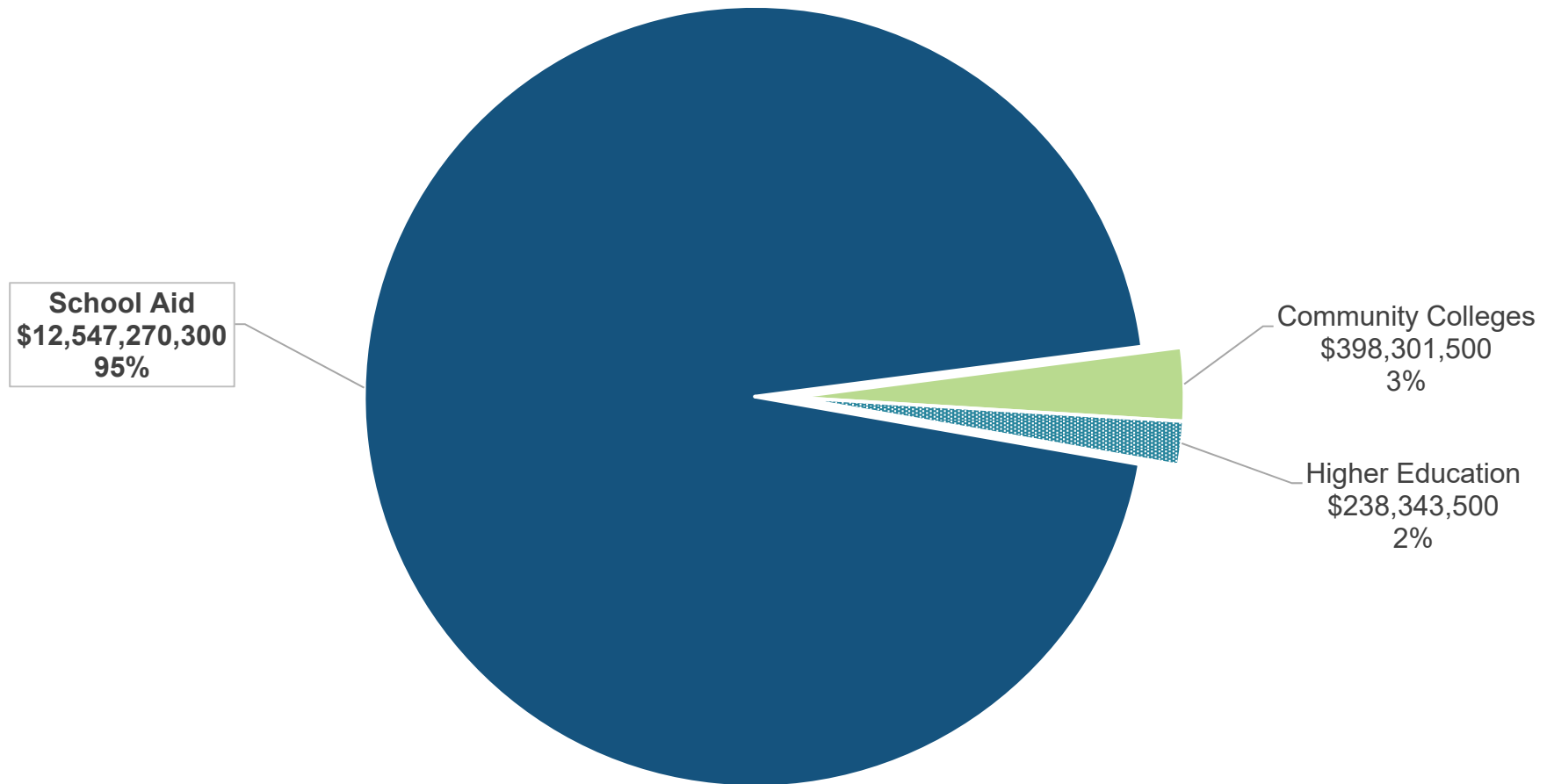
# School Aid Share of Total GF/GP Budget

The School Aid budget represents 2% of the state's **\$10.1 billion** GF/GP budget for FY 2017-18.



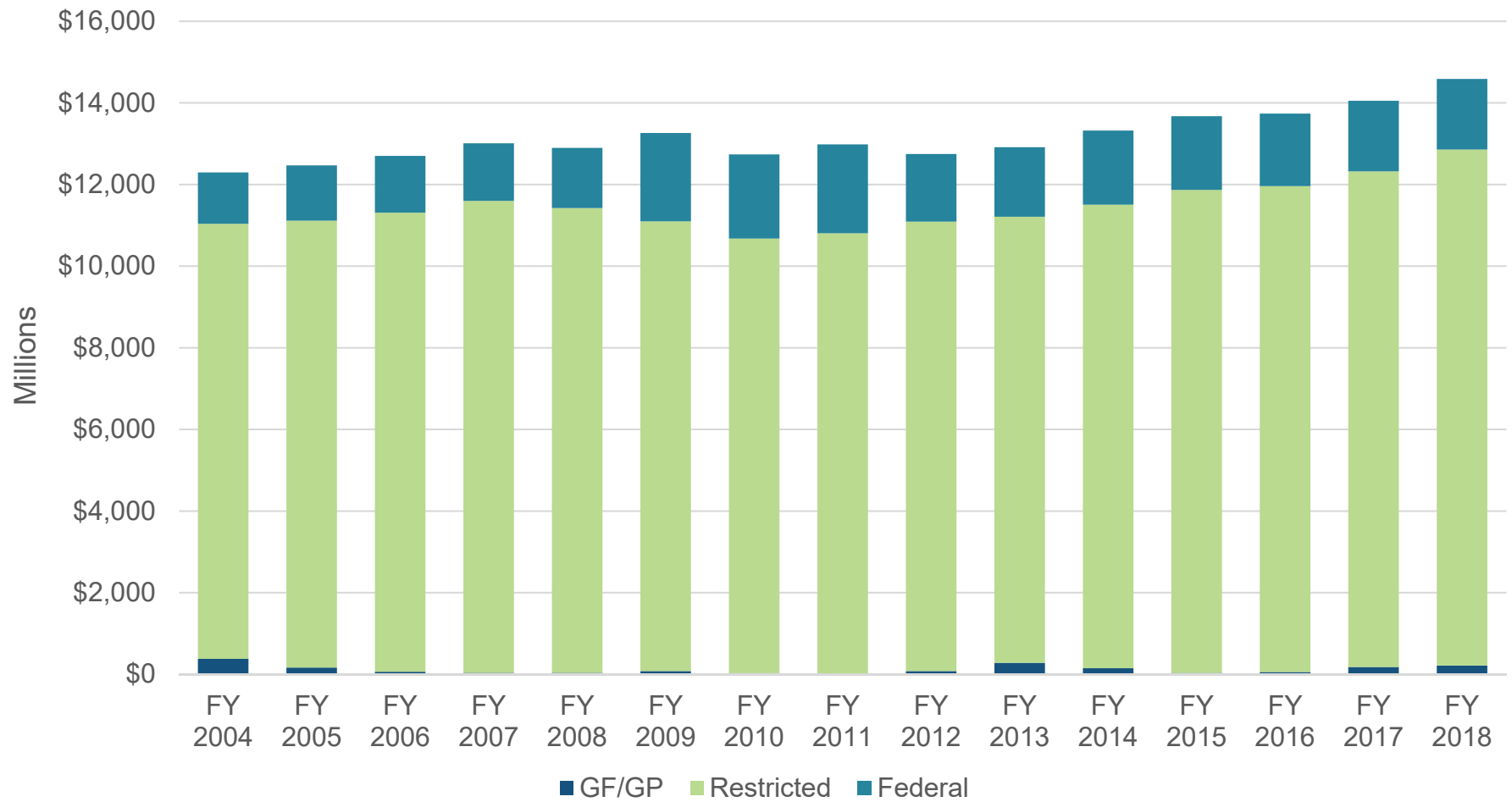
# School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

The School Aid budget represents 95% of the state's \$13.2 billion SAF appropriations for FY 2016-17.



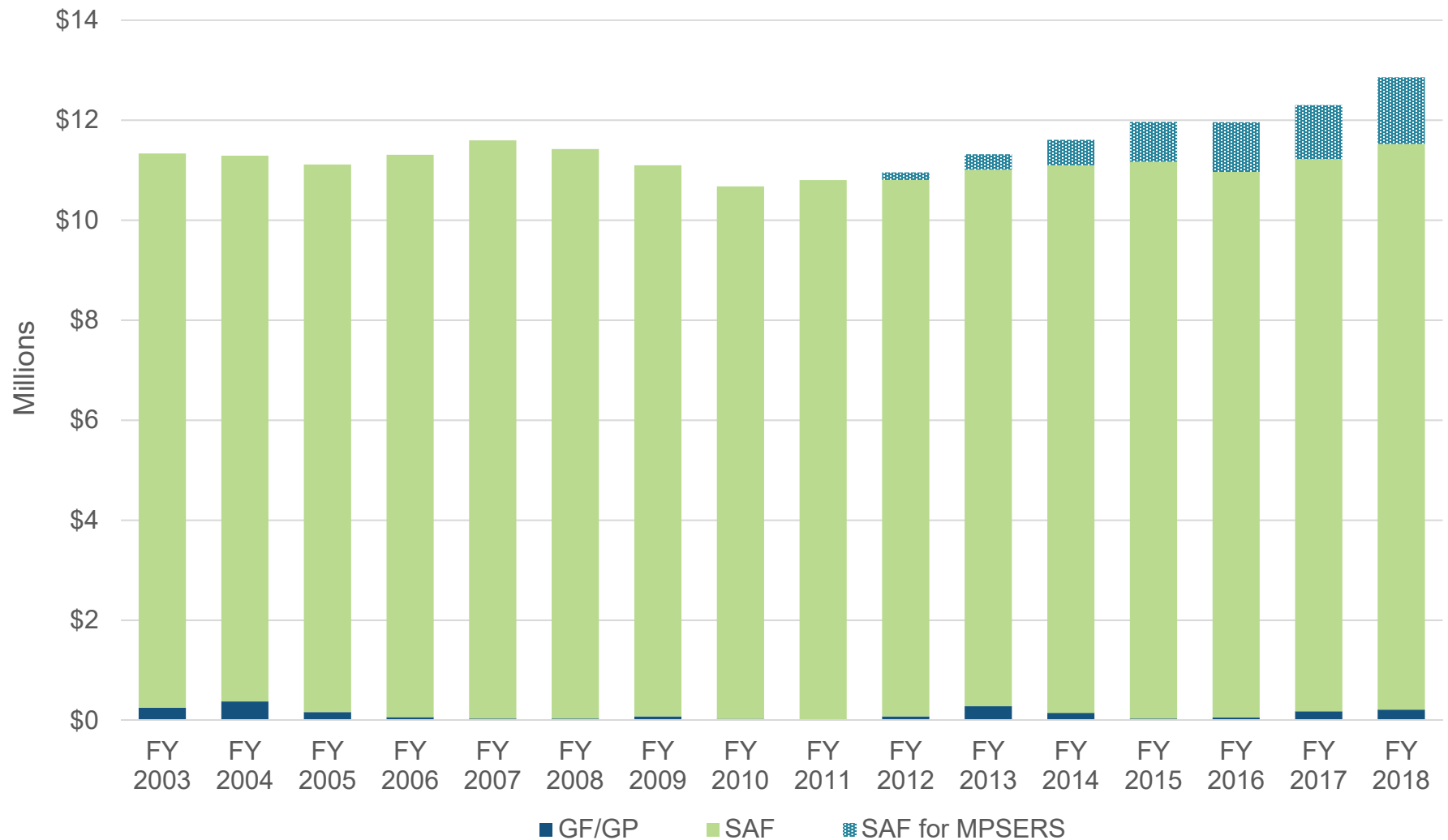
# School Aid Funding History

Funding for School Aid has grown by 19% over the last 15 years, with nearly 80% 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

\$1.3 billion has been added to hold districts harmless from increasing retirement liability costs. Total funding for foundation allowances and other operational costs is still below the previous 2007 peak.



# Appropriation Areas

# School Aid Appropriation Areas

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

**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.

**Michigan Public School Employees' Retirement System (MPERS):** Contributes a portion of annual retirement costs for unfunded liabilities

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

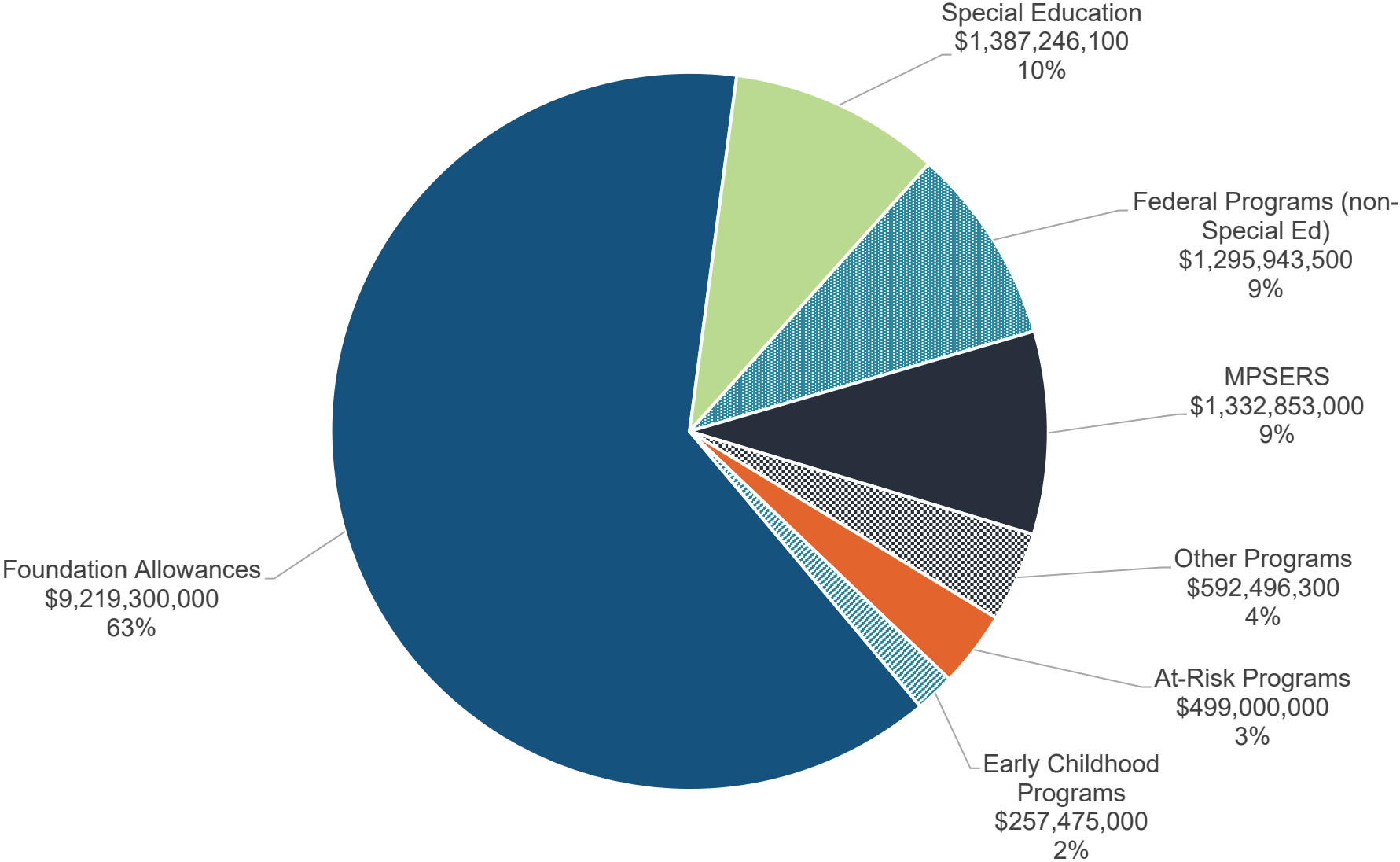
**Early Childhood Programs:** Provides preschool programs for 4-yr-olds and parenting programs for parents of children ages 0-5

**Intermediate School District (ISD) General Operations:** Provides funding to ISDs based on previous allocations

**Career and Technical Education (CTE) Programs:** Provides reimbursements to districts and ISDs for CTE programs and funds CTE early/middle college programs and CTE equipment purchases

# FY 2017-18 Gross Appropriations

About two-thirds of the \$14.6 billion School Aid budget supports per pupil foundation allowances used for school district general operations.



# Major Budget Topics



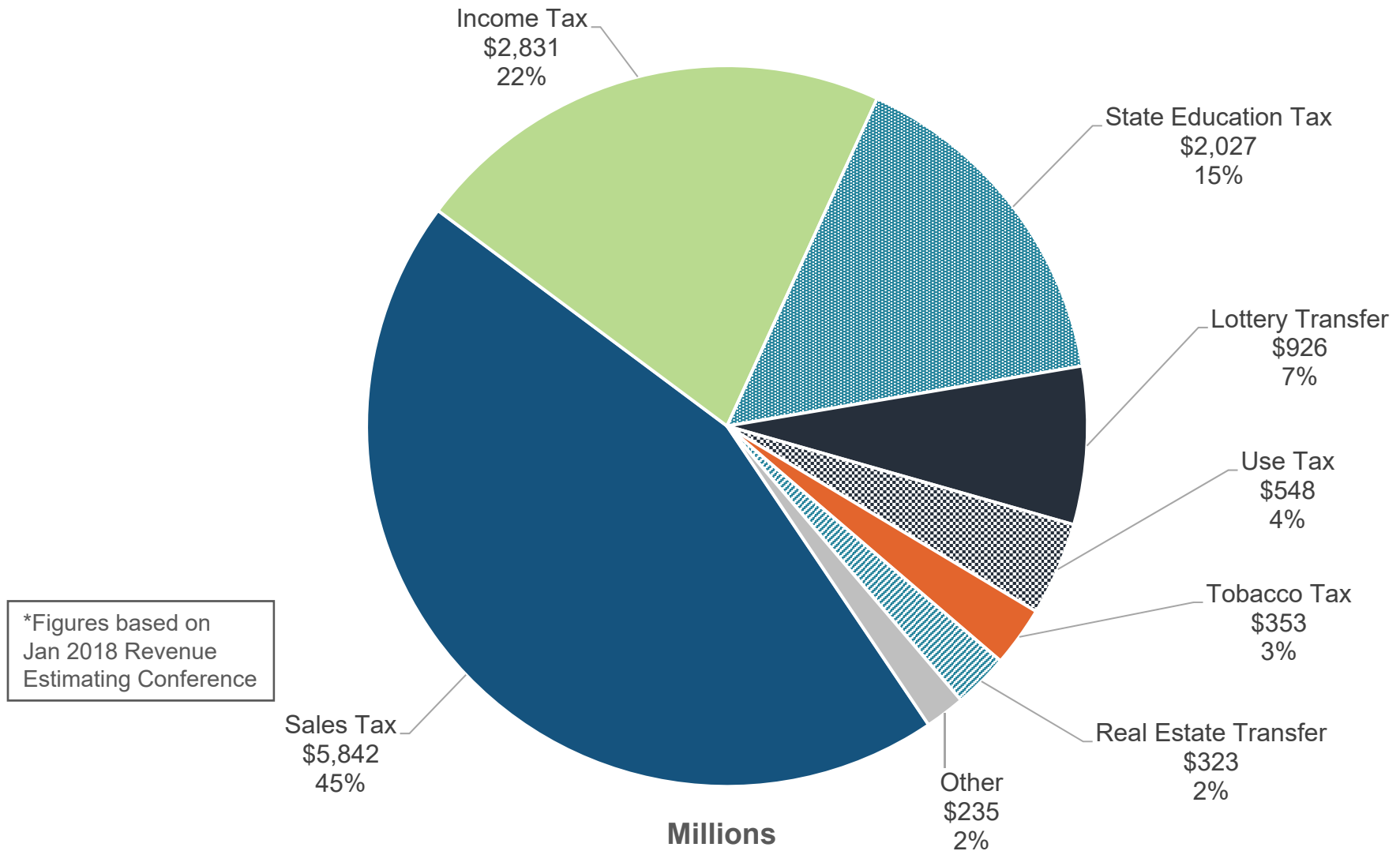
# School Aid Fund Revenues

# 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 \$13.1 billion in revenue (estimated) for FY 2017-18.
- Primary sources of SAF revenue are shown on next slide.

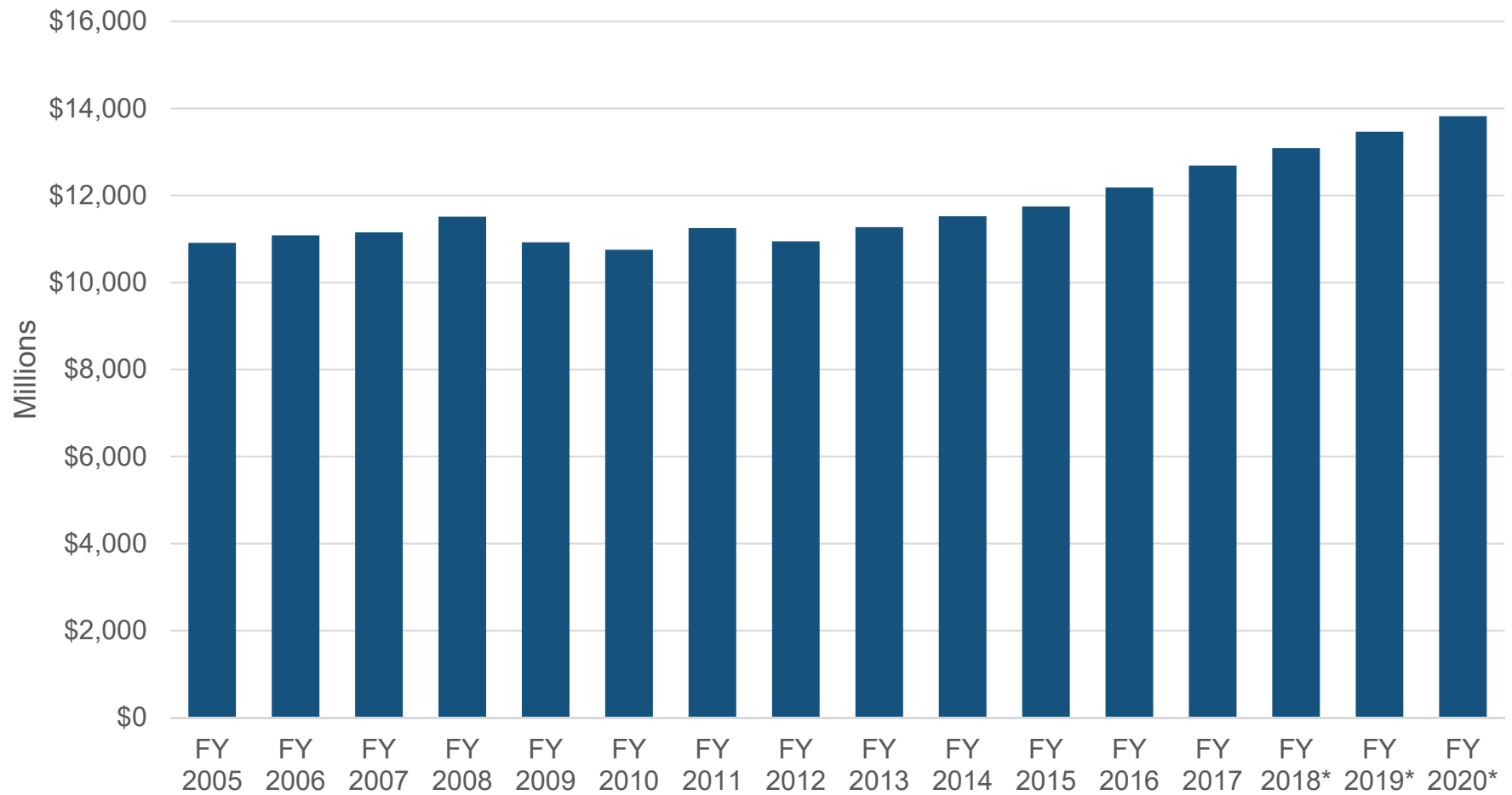
# SAF Revenue Sources

Sales Tax is the largest revenue source, contributing nearly half of the **\$13.1 billion** in total estimated SAF revenue for FY 2017-18.



# SAF Revenue History

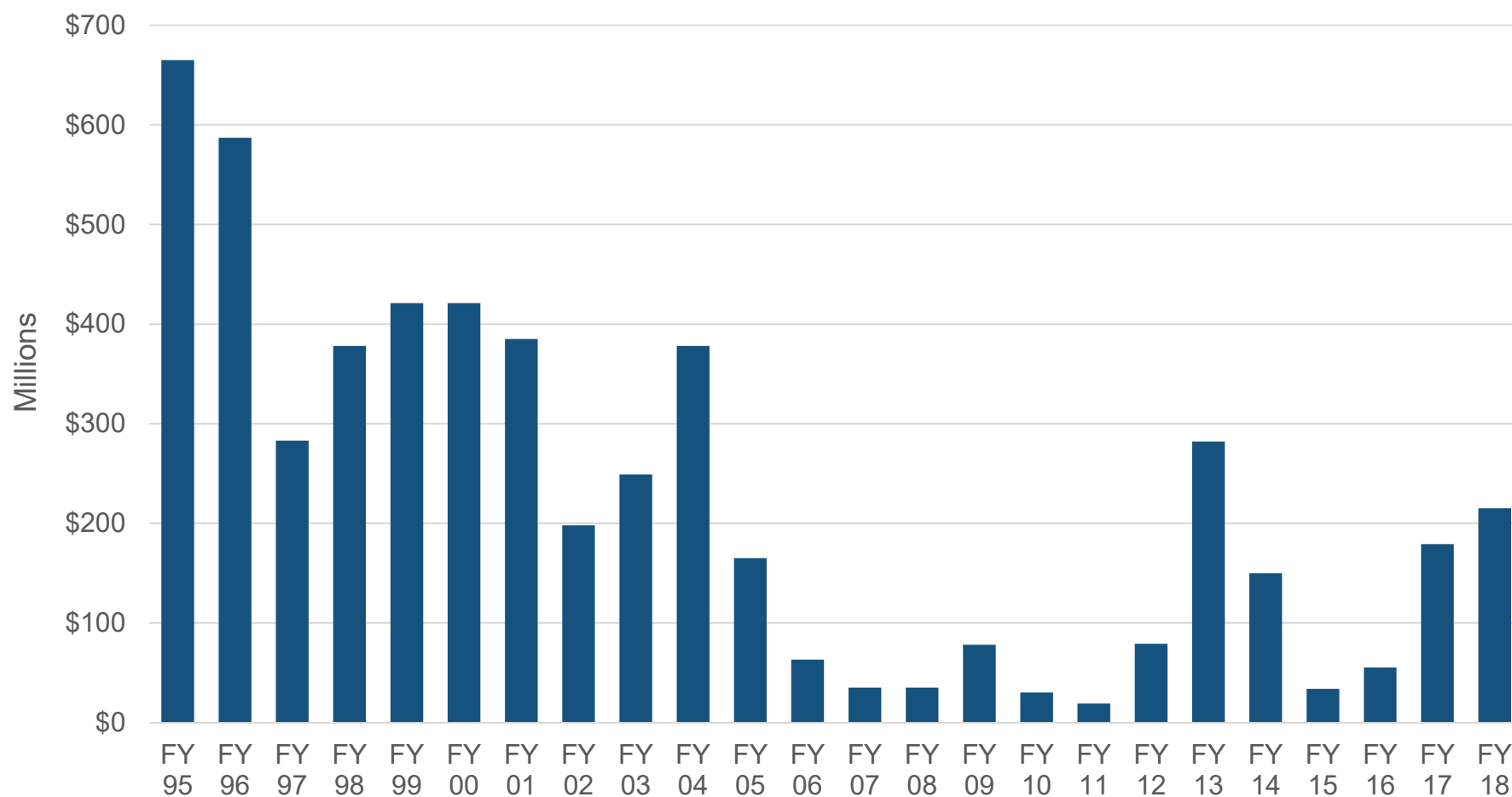
Annual SAF revenues are estimated to grow by **3.2%** to a total of **\$13.1 billion** in FY 2017-18.



\* FYs 2018, 2019 and 2020 figures from Jan 2018 Revenue Estimating Conference

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

The School Aid budget has **\$215.0 million** GF/GP appropriated in FY 2017-18. Of that total \$42.4 million is reimbursement to the School Aid Fund for the 2014 personal property tax (PPT) reform.



# FY 2017-18 School Aid Fund Balance Sheet

	FY 2016-17	FY 2017-18
<b>BEGINNING BALANCE</b>	<b>\$168.2</b>	<b>\$377.4</b>
<b>REVENUE</b>		
School Aid Fund (SAF) Revenue	\$12,685.1	\$13,084.5
Managed Care Organization (MCO) Use Tax	\$60.8	\$0.0
General Fund/General Purpose (GF/GP)	\$179.0	\$215.0
Community District Education Trust Fund (DPS)	\$72.0	\$72.0
MPERS Reserve Fund	\$0.0	\$23.1
<u>Federal Funds</u>	<u>\$1,730.7</u>	<u>\$1,726.9</u>
<b>TOTAL REVENUE</b>	<b>\$14,652.4</b>	<b>\$15,006.2</b>
<b>EXPENDITURES</b>		
School Aid (Adj for lapses/consensus revisions)	\$14,020.9	\$14,576.8
Higher Ed/Community Colleges	\$497.5	\$636.6
<u>Deposit to MPERS Reserve Fund</u>	<u>\$0.0</u>	<u>\$55.0</u>
<b>TOTAL EXPENDITURES</b>	<b>\$14,518.4</b>	<b>\$15,268.4</b>
<b>CURRENT YEAR: REVENUES - EXPENDITURES</b>	<b>\$209.2</b>	<b>(\$146.9)</b>
<b>TOTAL ENDING BALANCE</b>	<b>\$377.4</b>	<b>\$230.5</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
  - Basic level determined: \$5,000
  - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500
- In FY 2017-18, the foundation allowance varies for K-12 districts from a low of \$7,631 per pupil to a high of \$12,124.



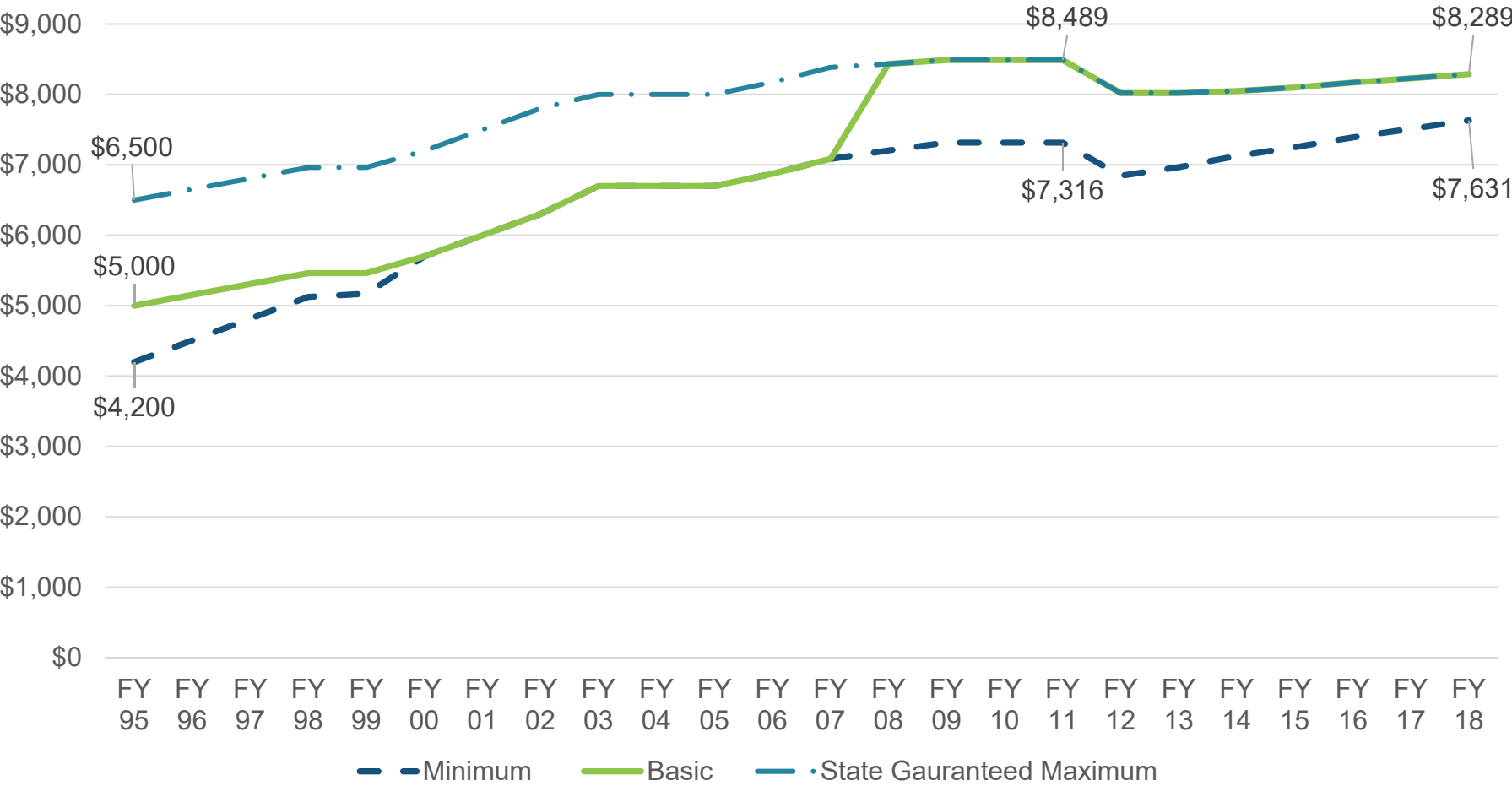
# "Basic" Foundation Allowance

- 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 1999-2000, all school districts in Michigan reached the Basic 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 Basic 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 Basic or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.
- In FY 2017-18, the legislature used the 2x formula increasing the Basic foundation by \$60 and increasing the minimum foundation by \$120.

# Foundation Allowance History

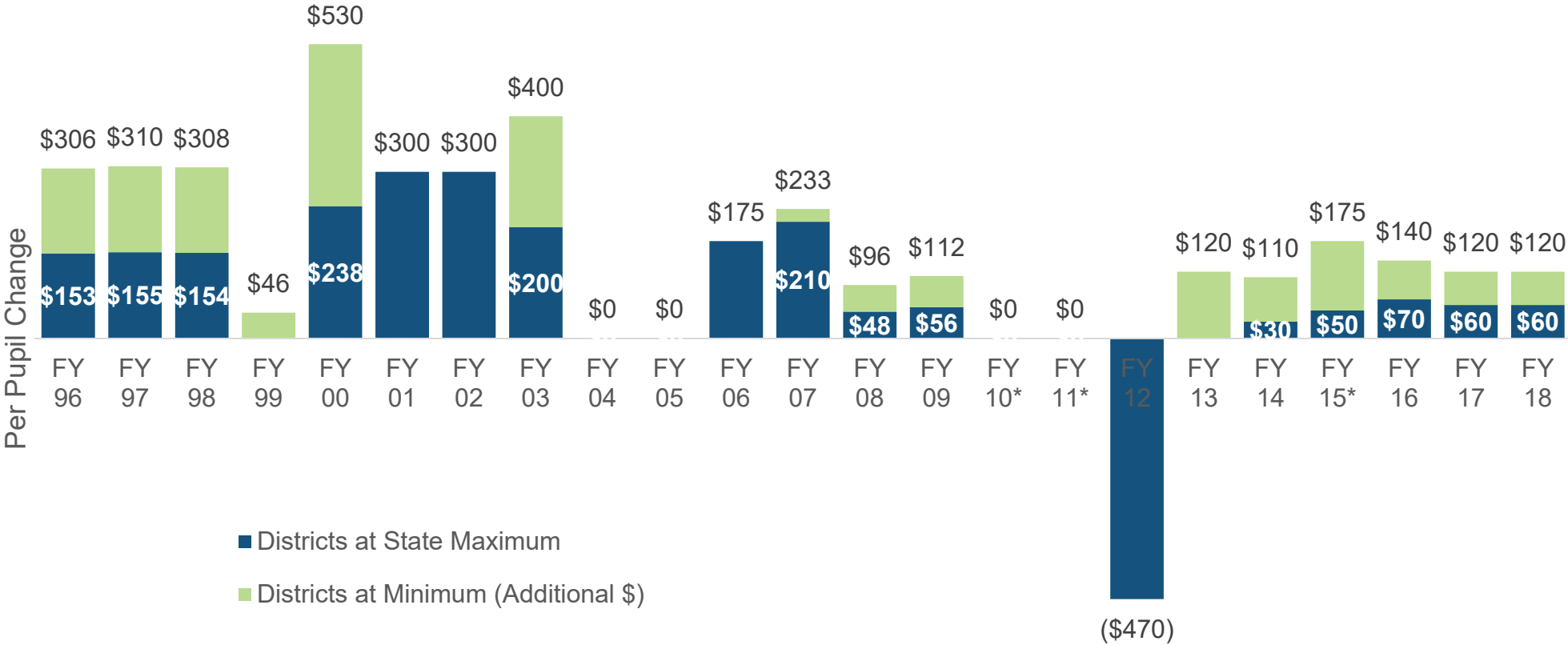
## Growth Since Proposal A

The FY 2017-18 foundation allowance for schools at the Minimum level is \$315 above the previous FY 2010-11 peak. For schools at the State Maximum level, it remains \$200 below the FY 2010-11 peak. The "equity gap" between the two (excluding local hold harmless funds) is down to \$658 per pupil.



# Per Pupil Foundation Allowances Increases/Decreases

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

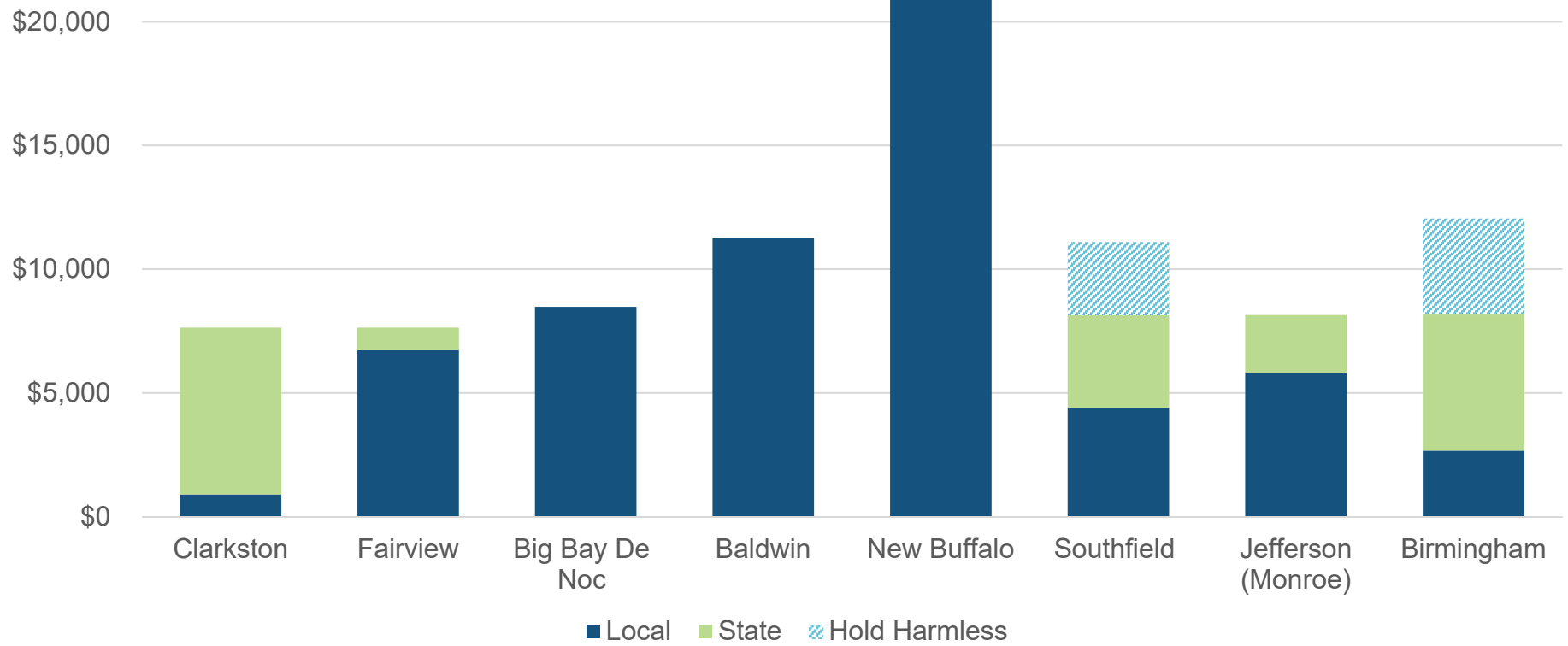


# Foundation Allowance

## 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, known as **hold harmless** districts, are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance.
- Districts whose per-pupil local revenue exceeds their statutory foundation allowances receive no state share and are known as **out-of-formula** districts. (A district can be both hold harmless and out-of-formula, but the two are not the same.)

# FY 2017-18 State/Local Funding Mix Examples



Type	District	Foundation	Local	State	HH	NHS Mills	HH Mills
	Clarkston	\$7,631	\$890	\$6,741	\$0	18.0	0.0
	Fairview	\$7,631	\$6,723	\$908	\$0	18.0	0.0
O-of-F	Big Bay	\$7,631	\$8,473	\$0	\$0	18.0	0.0
O-of-F	Baldwin	\$7,631	\$11,245	\$0	\$0	18.0	0.0
HH, O-of-F	New Buffalo	\$10,124	\$20,906	\$0	\$0	17.7	0.0
HH	Southfield	\$11,091	\$4,388	\$3,745	\$2,958	18.0	17.0
HH	Jefferson	\$11,300	\$5,798	\$2,342	\$0	18.0	0.0
HH	Birmingham	\$12,044	\$2,658	\$5,508	\$3,878	18.0	8.5

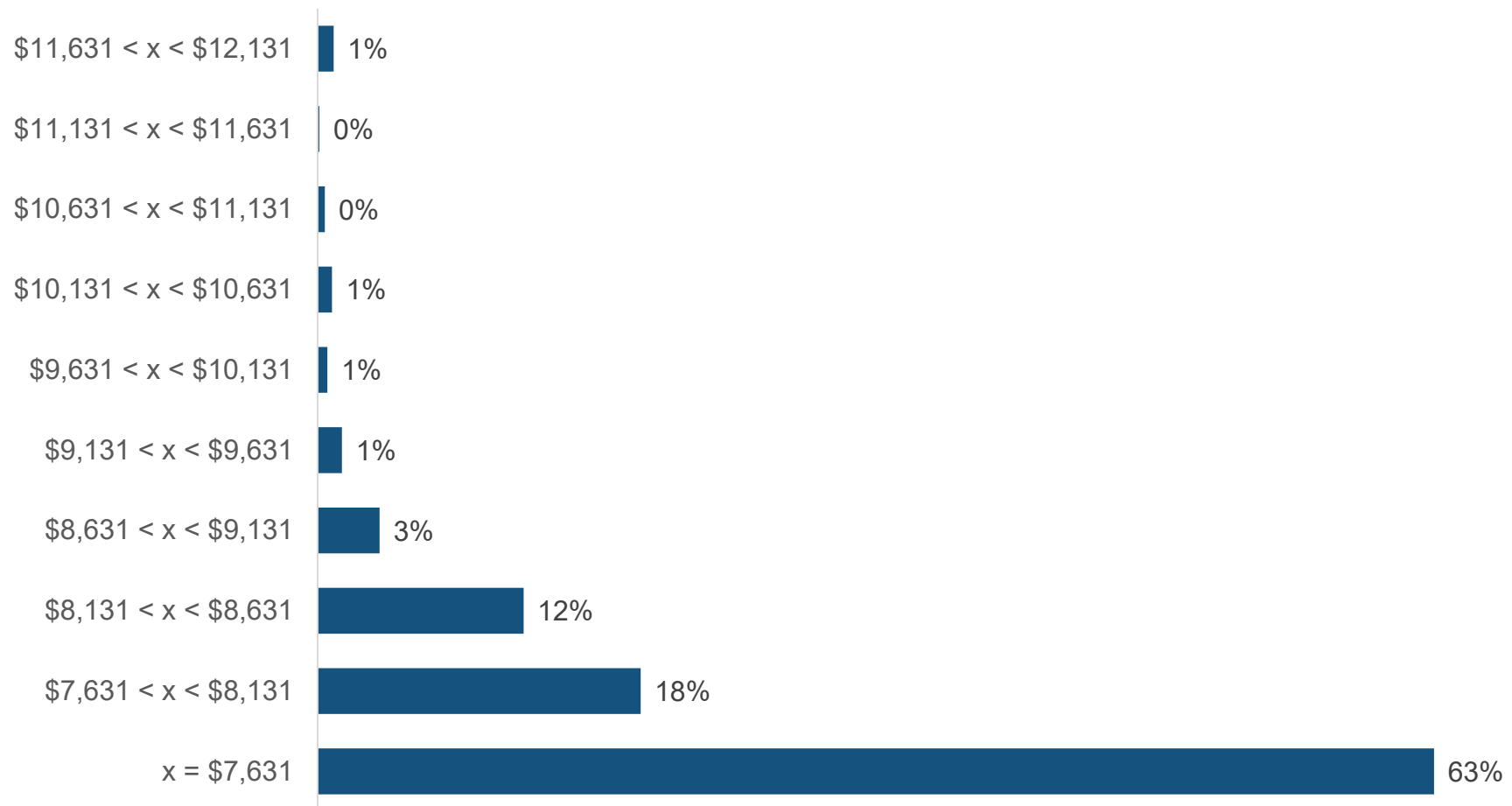
# Equity Among Districts

- 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 2017-18, the difference between the highest and lowest K-12 district is \$4,493, is approximately 3:2.
- In FY 2017-18, excluding the 37 hold harmless districts whose revenue per pupil exceeds the Basic foundation allowance, the difference between the top and the bottom has been reduced to \$658, down from a gap of \$2,300 when Proposal A was first implemented.

# Equity Among Districts

## FY 2017-18 Pupil Distribution

In FY 2017-18, 63% of pupils were concentrated in districts with a foundation allowance at the minimum foundation \$7,631. As the minimum increases relative to the Basic, that share continues to grow, thereby increasing the cost of future equity payments.



# Special Education Funding

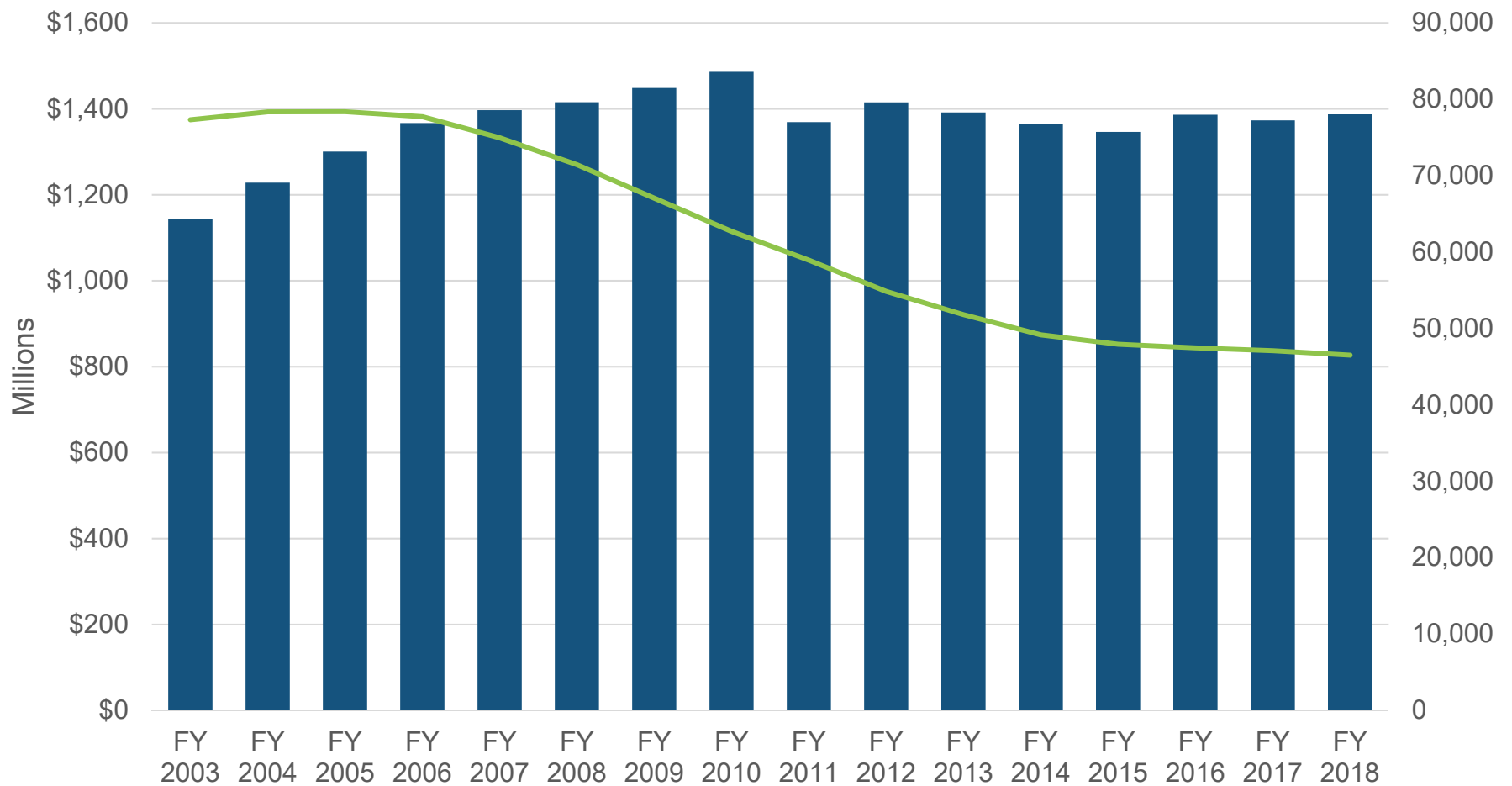


# Special Education Funding

- Second largest School Aid appropriation in FY 2017-18
  - \$956.2 million state dollars
  - \$431.0 million federal dollars
- Reimburses school districts for the costs of educating special education students.
- Required 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
- Local special education millages, levied by each ISD, generated an estimated additional \$1,012.2 million in FY 2017-18.

# Special Education Appropriations

Special Education costs are expected to increase again slightly to almost \$1.4 billion in FY 2017-18 after several years of both fairly flat expenditures and pupil memberships.



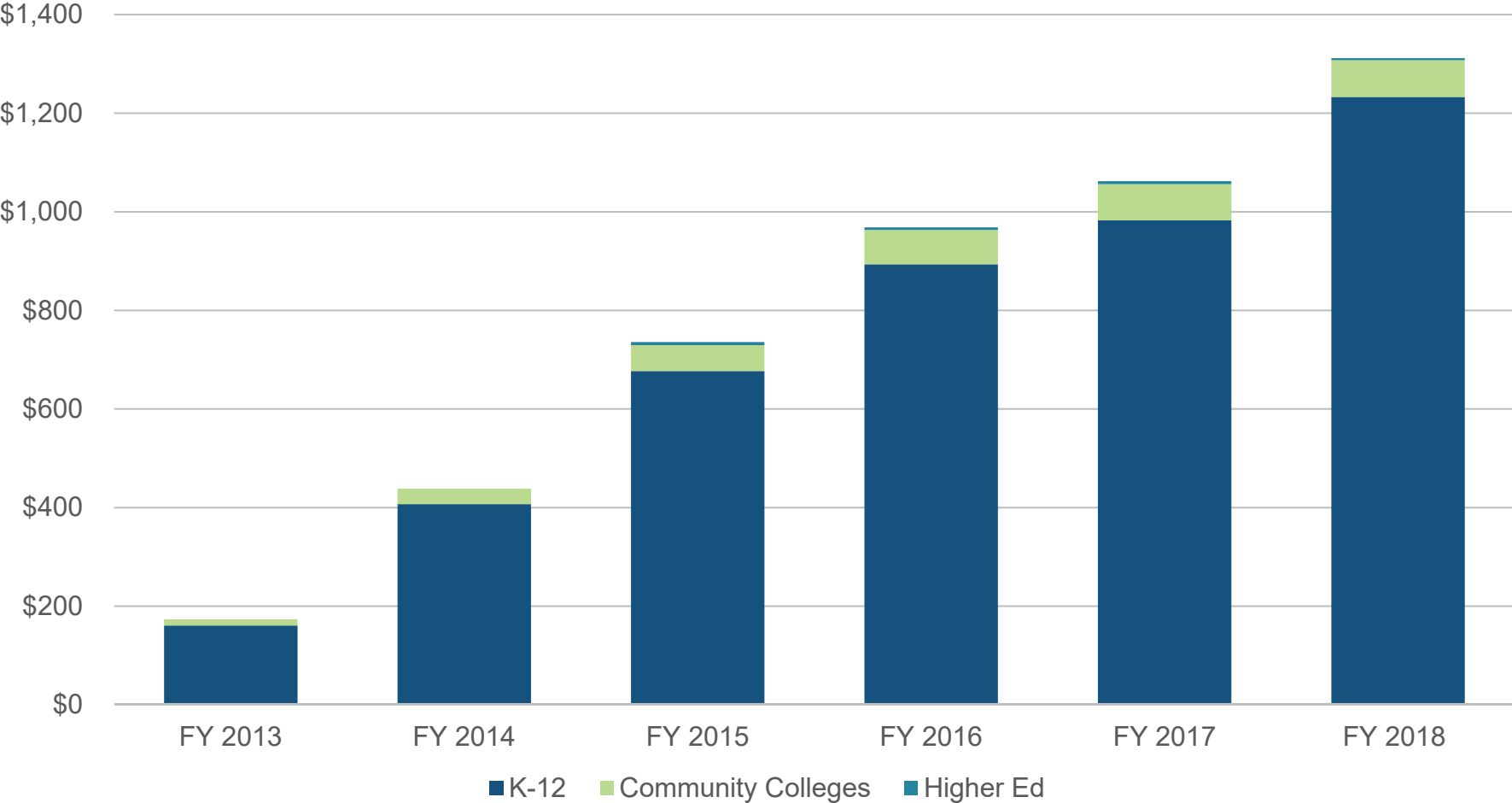
# MPERS – Retirement Costs

# 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 **\$49.0 million** to reimburse MPERS employers for the increased normal costs associated with the reduction in the long-term investment rate of return assumptions from 8.0% to 7.5%. This is the first of a 2-year phase-in.
- Section 147c (1) – Appropriates **\$960.8 million** to pay for the state share of unfunded accrued liability (UAL) costs per PA 300 of 2012, which required the state to pay the UAL costs that exceed the capped employer contribution rate of 20.96% of MPERS covered payroll.
- Section 147c (2) – Appropriates **\$200.0 million** in a one-time added payment toward the cost of the 2010 early retirement incentive. The payment is expected to reduce the amortization period by 2 years, making the final year FY 2019-20.
- Section 147e – Provides **\$23.1 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 PA 92 of 2017.

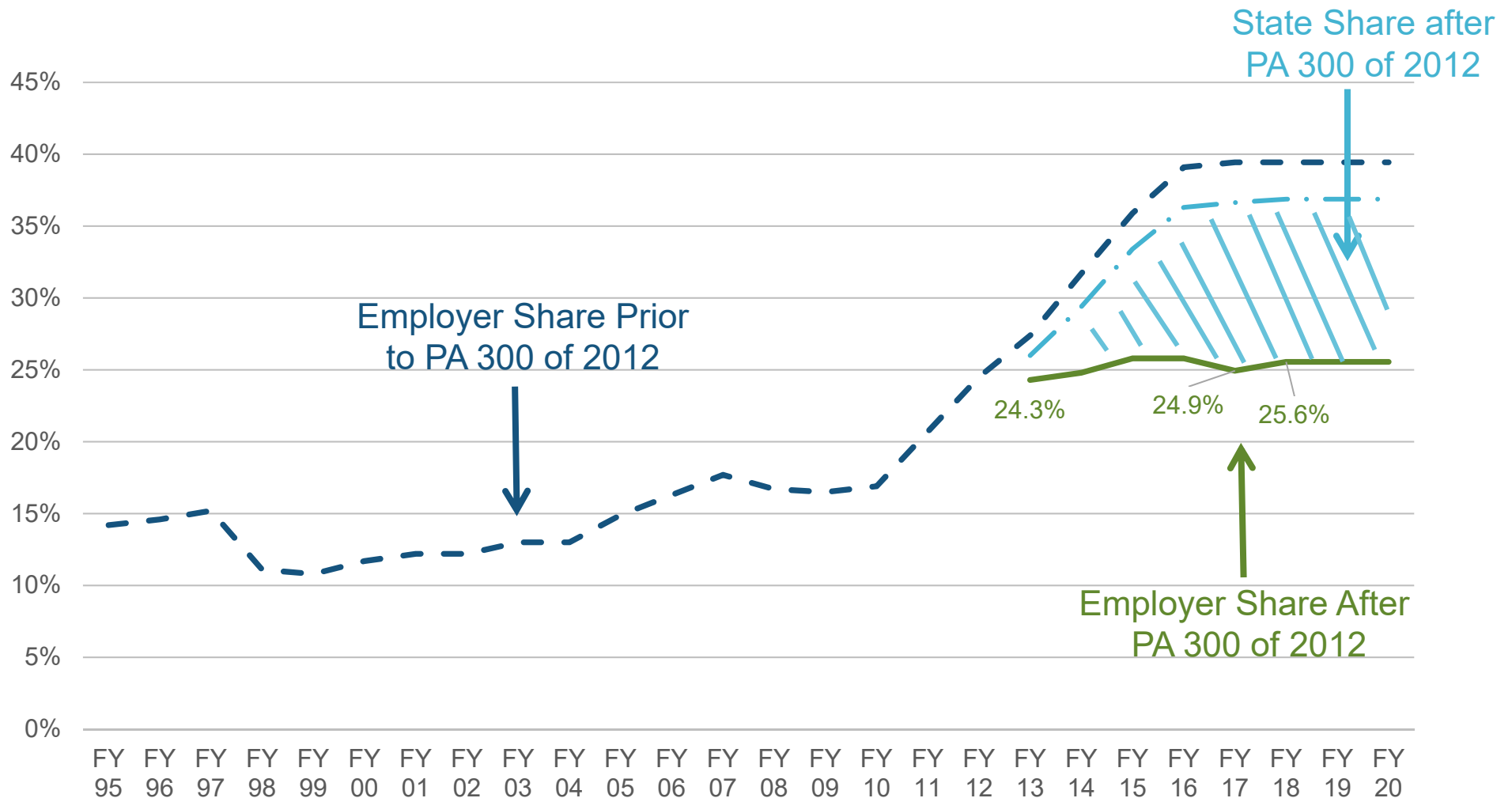
# MPERS State Appropriations

For FY 2017-18, the state share of MPERS costs totals about \$1.3 billion, but includes an additional, one-time \$200 million unfunded liability payment. Prior to PA 300 of 2012, MPERS employers paid the full costs of MPERS directly.



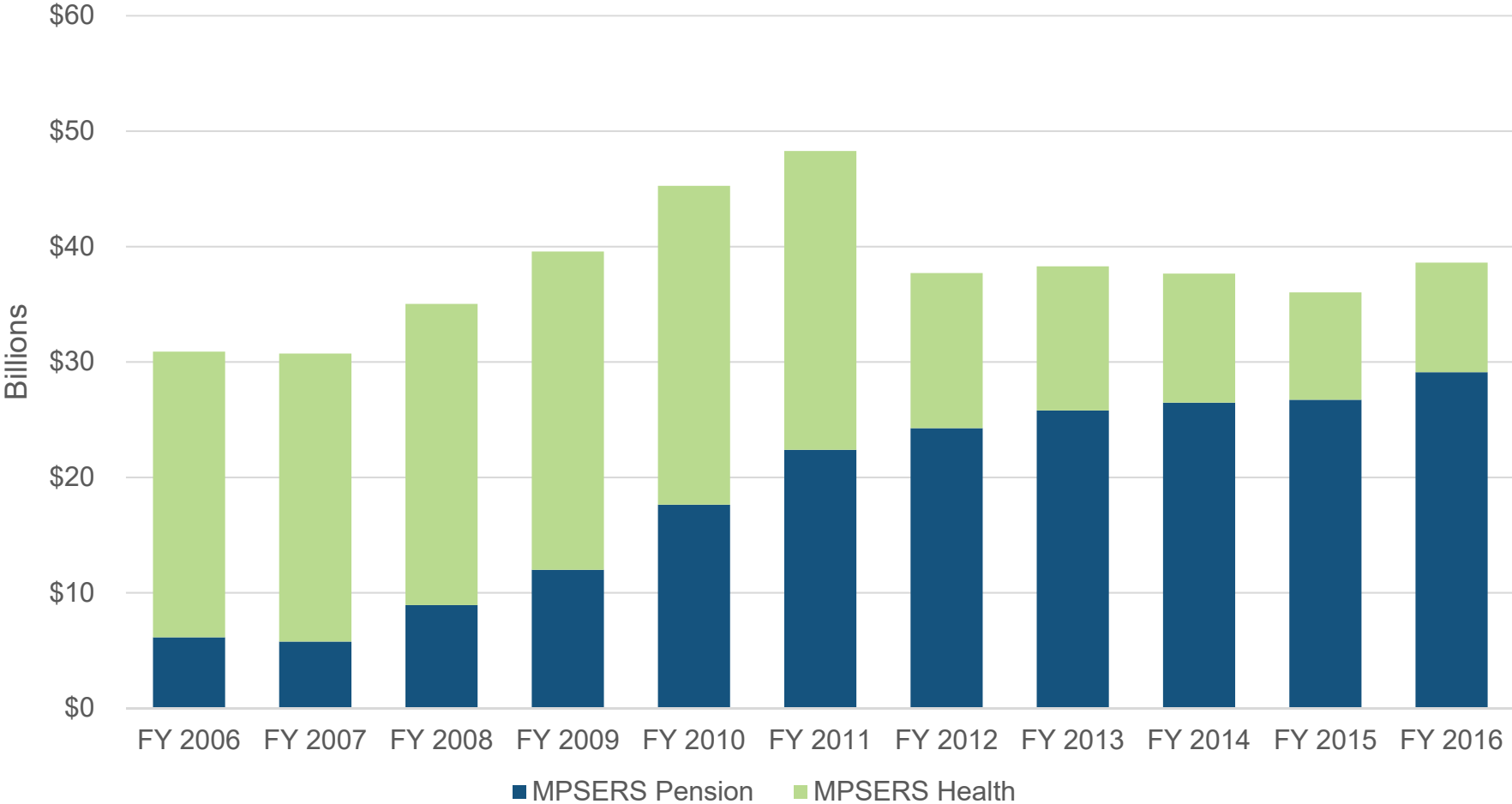
# MPERS State Share - Unfunded Accrued Actuarial Liability (UAAL)

The state portion of the MPERS UAAL contribution rate is \$1.0 billion in FY 2017-18. The employer contribution rate is capped at 20.96% for the unfunded liability plus the normal costs for retirement benefits newly earned each year.



# Retirement Liabilities

Total unfunded liabilities for the public school employee retirement system (MPSERS) had declined by \$12 billion since FY 2010-11, 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 long-term investment rate of return assumption from 8.0% to 7.5%.



# At-Risk Program

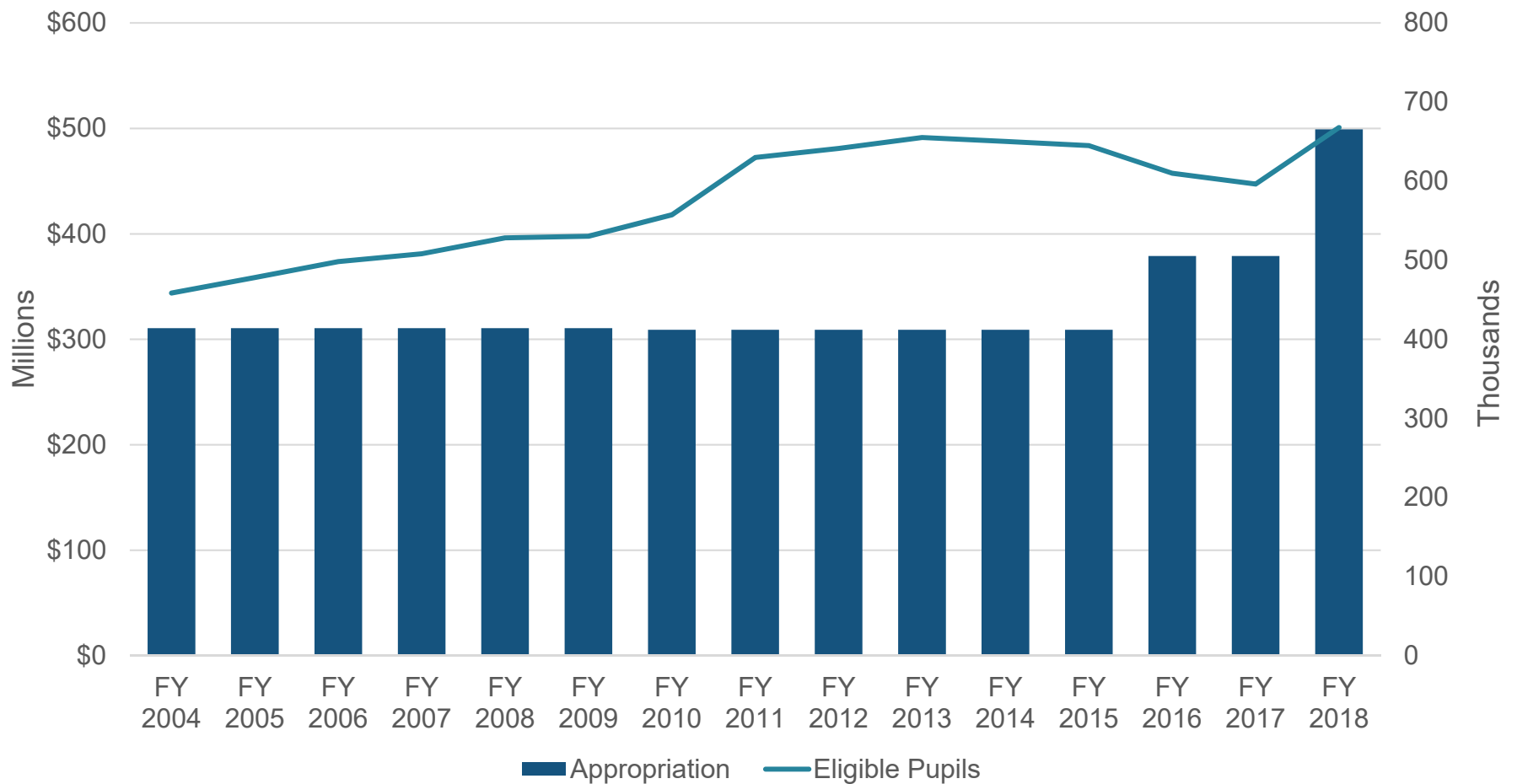


# At-Risk Funding

- FY 2017-18 appropriation includes an increase of \$120.0 million bringing the total to \$499.0 million
- Supports added services for pupils at-risk of failing to achieve academic proficiency or who are chronically absent.
- The At-Risk formula allocation is equal to 11.5% of the statewide average foundation allowance for each eligible student. However, the program is not fully funded so payments are prorated on a percentage basis for FY 2017-18 rather than on a per pupil basis as in past years. The estimated per pupil amount for most districts (see below) is \$790 for each eligible pupil.
- The FY 2017-18 budget expands the pool of pupils for whom a district receives funding beyond those eligible for free school meals to include those eligible for either free or reduced-price meals as well as 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. This expands the number of funding eligible pupils by approximately 71,400.
- For FY 2017-18 both Hold Harmless and Out-of-Formula districts (those whose combined state and local revenue per pupil exceeds the Basic foundation allowance of \$8,289) are eligible for at-risk funding for the first time but at a rate of 30% of the per pupil amount. The estimated per pupil for these districts for FY 2017-18 is \$237 for each eligible pupil.

# At-Risk Appropriations

The At-Risk program grew by \$120 million for FY 2017-18, after a \$70 million increase in FY 2015-16, which combined have increased the program by 61% after more than a decade of flat funding. The added funding supported an increase in eligible pupils of 71,400 through broader pupil eligibility criteria.



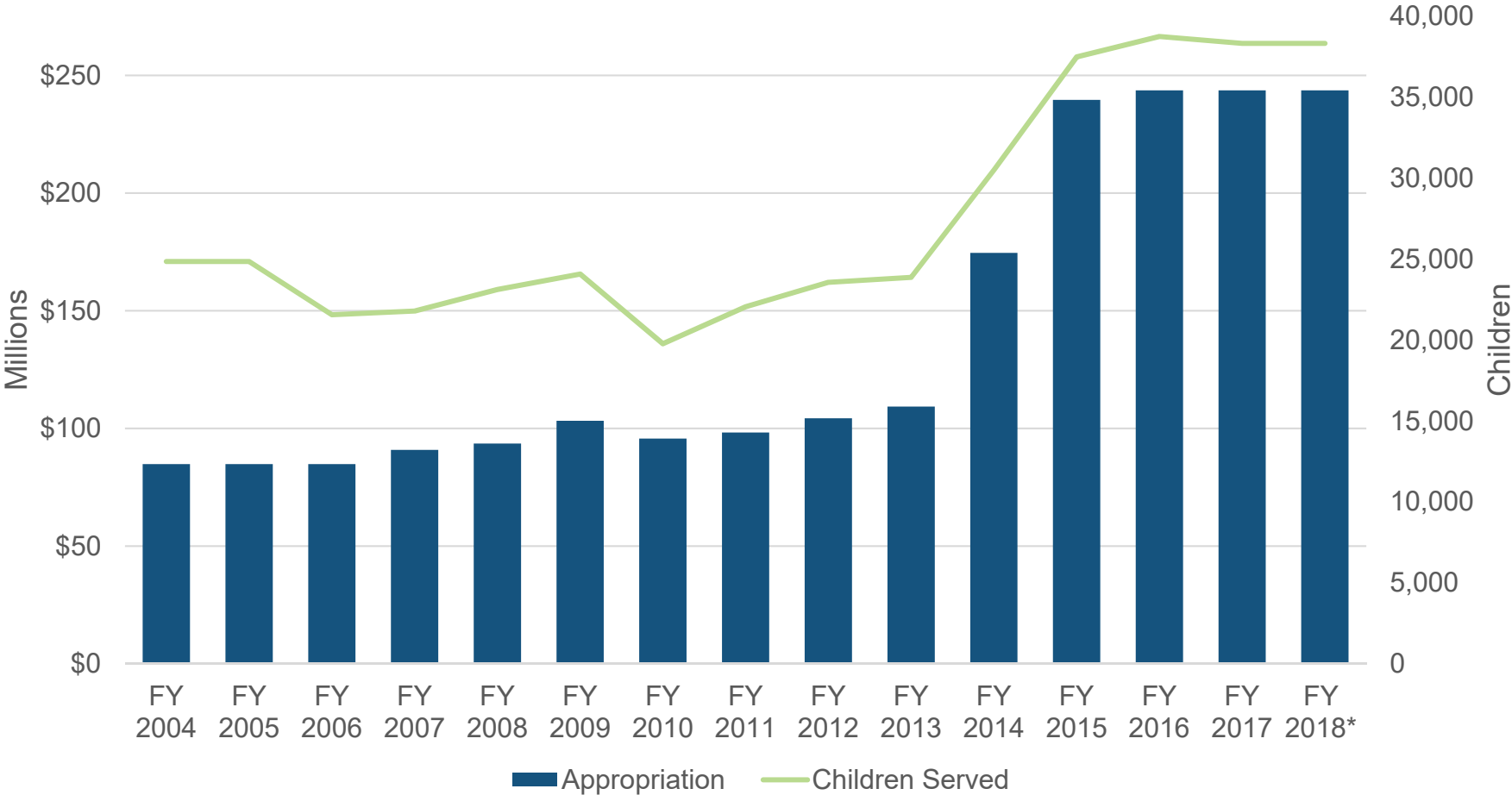
# Early Childhood

# Great Start Readiness Program (GSRP)

- Funding for the GSRP preschool program for 4-year-olds has more than doubled from \$109.6 million in FY 2012-13 to **\$243.9 million** in FY 2017-18.
- The per diem allocation for each child in a half-day program is \$3,625 or for a full-day program is \$7,250.
- The program served approximately 38,400 children in FY 2016-17.
- The program went from 100% half-day program in FY 2004-05 to the following for FY 2016-17:
  - Half-Day: 14%
  - GSRP/Head Start Blend: 16%
  - Full-Day: 70%
- In FY 2017-18, there is \$10.0 million appropriated for allocations of up to \$300 per child for preschool transportation.

# GSRP Preschool Appropriations

GSRP funding more than doubled over two years between FY 2012-13 and FY 2014-15 and remains at \$243.9 million for FY 2017-18.



# Types of School Districts

# Traditional, Locally Governed School Districts

- Traditional local school districts have defined boundaries and locally elected school boards, and are authorized to levy local taxes.
- In FY 2017-18 there are 539 traditional local districts with an estimated 1,336,700 pupils or 90.1% of the statewide public pupil membership.

# 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, local school districts and the Education Achievement Authority.
- PA 277 of 2011 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 2017-18 there are 294 Public School Academies with an estimated 146,600 pupils in PSAs or 9.9% of statewide pupil membership.
- Average size of a PSA is about 500 pupils per school.
- The statutory PSA foundation allowance is capped at the PSA maximum, which is \$7,631 per pupil for FY 2017-18, equal to the statewide Minimum foundation.



# Cyber Schools

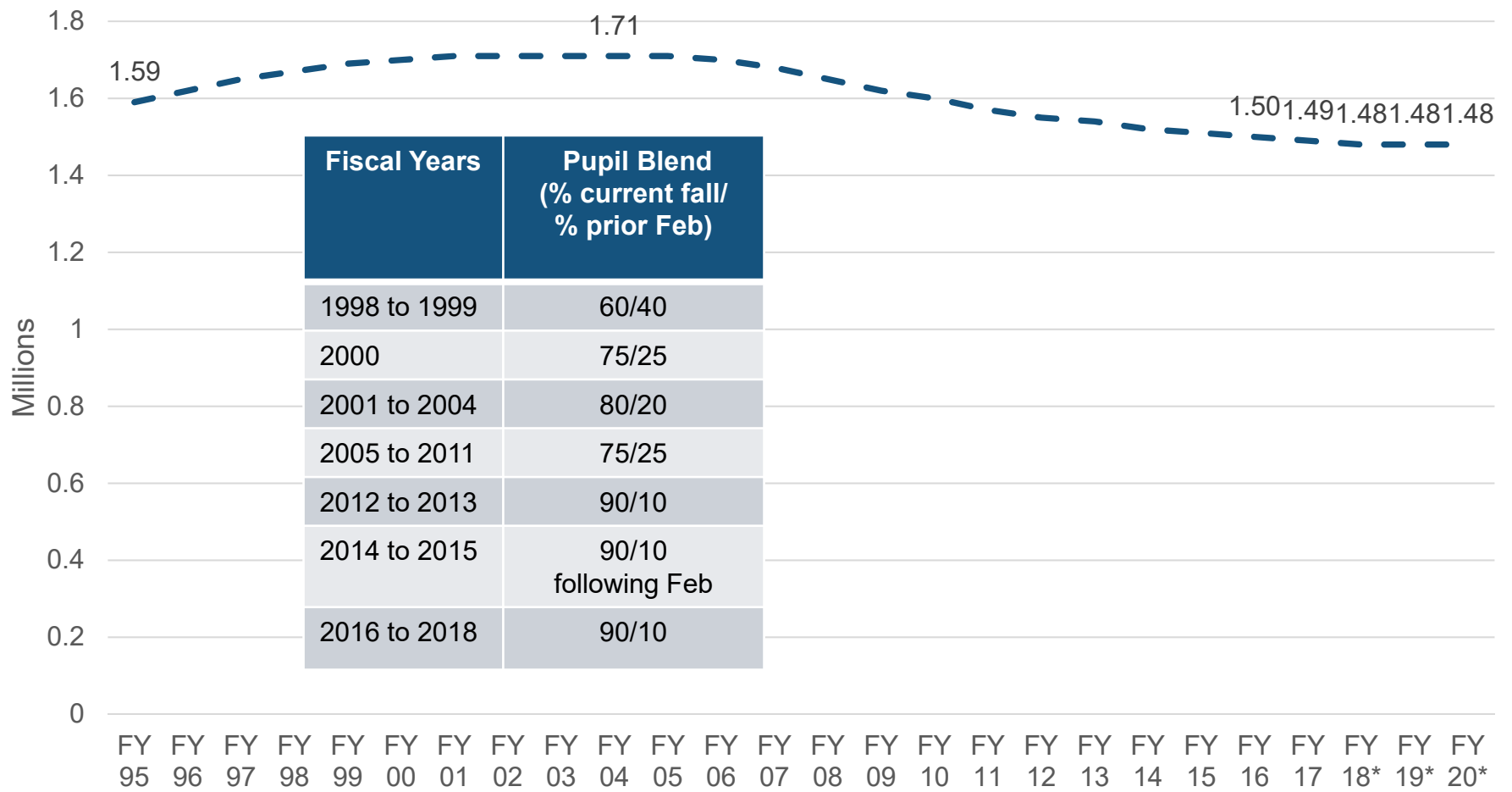
- Cyber schools are a type of public school academy.
- FY 2010-11 was first year of operation.
- PA 129 of 2012 increased limits on cyber schools:
  - Limit on schools authorized by statewide entities increased to 5 in 2013, 10 in 2014, and 15 starting January 2015. Currently only 6 are authorized by statewide entities.
  - Enrollment limited to 2,500 in first year, 5,000 in second year, and 10,000 in third year.
- In FY 2017-18, 14 cyber schools had an enrollment totaling 12,175.

# Declining Enrollment

# Declining Enrollment

## Total Pupil Membership Counts

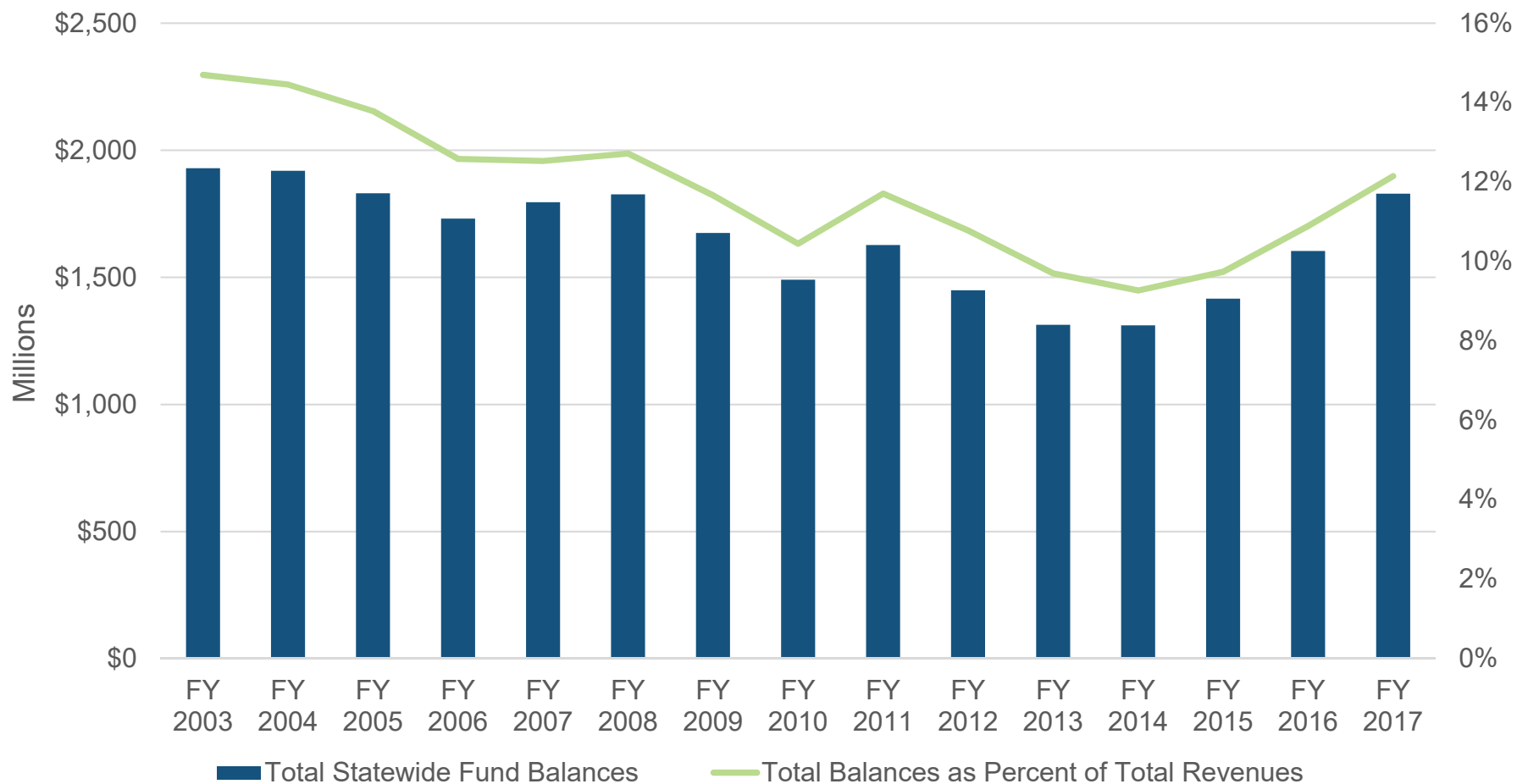
Fewer pupils means a loss of revenue to schools. Statewide, pupil memberships are 13% lower than their peak in FY 2002-03 and dropping. Nearly 2/3 of traditional districts experienced declining enrollment from FY 2016-17 to FY 2017-18.



\* FY 18, 19, and 20 figures are from Jan 2018 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 2016-17, totaled \$1.8 billion, returning to pre-recession levels. The average statewide total fund balance as a percent of revenues is still lower than its peak of nearly 15% but has increased over the last three years to 12%.



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>

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