

DATE: 2/15/2007

TO: All Interestee Parties

FROM: Bethany Wicksall
Mary Ann Cleary

RE: History of Section 20j Payments

The following memo explains Section 20j of the School Aid Act, which makes calculations for "hold-harmless districts". An understanding Section 20j requires understanding how foundation allowances are funded, the memo begins with a very general overview of foundation allowances.

Foundation Allowances

Proposal A established a minimum, a basic and a state maximum foundation allowance. Since then the minimum has been increased to meet the basic, and the two are now the same. In general, a district's foundation allowance comprises 1) the amount of revenue generated by the levy of 18 mills on non-homestead property (or the amount the district levied on non-homestead property immediately prior to the passage of Proposal A), and 2) revenue from the state. The basic foundation allowance is the mechanism used to calculate the dollar amount of the increase in each district's foundation allowance annually. For example if the basic foundation allowance increases \$210 as it did in FY 2006-07, all districts receive a \$210 increase in their foundation allowances. The state maximum foundation allowance is the maximum amount of funding the state will guarantee from state and local sources to any district. The state maximum foundation is used for capping the state funded portion of foundation allowance payments. The FY 2006-07 basic foundation is \$7,085, and the state maximum foundation is \$8,385.

Hold Harmless Districts

At the time of Proposal A's enactment, some school districts' foundation allowances exceeded the established maximum. These districts are generally referred to as "hold harmless" districts. Those districts were allowed to levy additional mills to make up the difference between the state maximum foundation allowance and the combined state and local revenue per pupil the district had previously received. Those mills are first levied on homestead property. In some instances, additional mills are also levied on non-homestead property. There are currently 51 hold harmless districts.

The section of the Revised School Code that allows "hold harmless" districts to levy additional mills also caps the number of mills a hold harmless district levies at either: 1) the number of mills levied in 1994, or 2) the number required to ensure that its combined state and local revenue per pupil grows at either the increase in the basic foundation or the rate of inflation, whichever is less. Effectively, this section limits the growth of hold harmless foundation allowances to the lesser of the increase in the basic foundation or the rate of inflation. As a result, any increases in state funding that would increase the districts' foundation allowance beyond the rate of inflation would result in an automatic, corresponding decrease in local revenue.

History of Section 20j

In FY 1999-2000, for the first time since Proposal A, a foundation increase of \$238 along with an inflationary increase of only 1.6% created a scenario in which giving the hold harmless districts the full increase would have raised their foundations higher than the rate of inflation. As shown in the example below, the cap affects districts within the hold harmless category differently:

*District A had a FY 1998-99 foundation allowance of \$7,000.
District B had a FY 1998-99 foundation allowance of \$10,000.
The state gave an increase of \$238 and inflation was equal to 1.6%*

*District A was capped to an inflationary increase of 1.6% * \$7,000 = \$112.
District B was capped to an inflationary increase of 1.6% * \$10,000 = \$160.*

So, in order to give all districts the same foundation increase for FY 1999-2000, Section 20j was created to provide hold harmless districts with the difference between the \$238 increase and the amount their foundations were allowed to increase. The districts in our example would have received the following 20j payments that year:

District A received \$238 minus \$112 = \$126.

District B received \$238 minus \$160 = \$78.

The same occurrence continued for the following two fiscal years, resulting in an increase to hold harmless districts' 20j payments. State budget issues have prohibited large foundation increases in recent years, and the per-pupil allocations under Section 20j have remained the same. The total cost in FY 2006-07 for Section 20j is approximately \$53.1 million, and adjustments in Section 20j range from \$119 per pupil to \$324 per pupil. (See attachment for a list of districts, their foundations, and their Section 20j supplemental payments.)

Section 20j payments do not increase the gap between the lowest and the highest foundation allowance; it instead ensured that all districts receive the same foundation allowance increase. In fact, during this same period they were initiated, an equity payment of \$200 was made to the basic foundation allowance to decrease the gap between the basic and state maximum foundations from \$1,500 to \$1,300.

If you have any questions or would like additional information please call us at 373-8080.

SECTION 20J ADJUSTMENTS, FY 2007

District Code	District Name	County	General Education Pupils	FY 2007		Total Sec. 20j Allocation
				Per Pupil Foundation (includes 20j)	Sec. 20j Amount Per Pupil	
02020	BURT TOWNSHIP SCHOOL	ALGER	73.30	\$10,473	\$190.08	\$13,932.86
03080	SAUGATUCK PUBLIC	ALLEGAN	844.08	\$8,716	\$300.05	\$253,266.20
11340	BRIDGMAN PUBLIC	BERRIEN	975.90	\$8,739	\$298.38	\$291,189.04
17050	DETOUR AREA SCHOOLS	CHIPPEWA	226.28	\$9,424	\$247.82	\$56,076.71
17160	WHITEFISH SCHOOLS	CHIPPEWA	56.44	\$11,315	\$157.95	\$8,914.70
23490	ONEIDA TWP SCHOOL	EATON	15.50	\$11,067	\$167.76	\$2,600.28
24020	HARBOR SPRINGS	EMMET	1,085.28	\$8,862	\$289.15	\$313,808.71
27080	WATERSMEET TOWNSHIP	GOGEBIC	226.34	\$8,547	\$312.39	\$70,706.35
32130	PORT HOPE COMMUNITY	HURON	110.34	\$9,343	\$252.21	\$27,828.85
32260	COLFAX TOWNSHIP	HURON	25.00	\$9,213	\$263.00	\$6,575.00
33010	EAST LANSING SCHOOL	INGHAM	3,279.05	\$8,517	\$314.45	\$1,031,097.27
33215	WAVERLY SCHOOLS	INGHAM	3,123.32	\$9,044	\$275.46	\$860,349.73
50010	CENTERLINE PUBLIC	MACOMB	2,731.27	\$9,930	\$211.02	\$576,352.60
50200	SOUTH LAKE SCHOOLS	MACOMB	2,415.61	\$9,343	\$253.42	\$612,163.89
50230	WARREN CONSOLIDATED	MACOMB	14,847.66	\$9,467	\$245.26	\$3,641,537.09
50240	WARREN WOODS PUBLIC	MACOMB	3,108.82	\$9,124	\$270.11	\$839,723.37
52110	REPUBLIC MICHIGAMME	MARQUETTE	148.86	\$8,967	\$281.65	\$41,926.42
56010	MIDLAND PUBLIC	MIDLAND	8,788.12	\$8,800	\$293.31	\$2,577,643.48
58080	JEFFERSON	MONROE	2,257.46	\$11,545	\$148.96	\$336,271.24
63010	BIRMINGHAM CITY	OAKLAND	7,858.75	\$12,262	\$122.23	\$960,575.01
63040	ROYAL OAK SCHOOL	OAKLAND	5,420.34	\$9,236	\$261.80	\$1,419,045.01
63060	SOUTHFIELD PUBLIC	OAKLAND	9,091.93	\$11,344	\$156.78	\$1,425,432.79
63070	AVONDALE SCHOOL	OAKLAND	3,756.69	\$8,651	\$304.10	\$1,142,409.43
63080	BLOOMFIELD HILLS	OAKLAND	5,536.71	\$12,339	\$119.25	\$660,252.67
63090	CLARENCEVILLE SCHOOL	OAKLAND	1,819.72	\$8,460	\$318.87	\$580,254.12
63100	NOVI COMMUNITY	OAKLAND	6,203.26	\$8,976	\$280.58	\$1,740,510.69
63150	TROY PUBLIC SCHOOL	OAKLAND	11,783.55	\$9,419	\$248.18	\$2,924,441.44
63160	WEST BLOOMFIELD	OAKLAND	6,691.60	\$9,271	\$258.94	\$1,732,722.90
63200	FARMINGTON PUBLIC	OAKLAND	11,713.69	\$10,452	\$191.22	\$2,239,891.80
63280	LAMPHERE PUBLIC	OAKLAND	2,336.79	\$10,822	\$177.00	\$413,611.83
63290	WALLED LAKE	OAKLAND	15,353.16	\$8,822	\$291.38	\$4,473,603.76
80240	BANGOR TWP SCHOOL	VAN BUREN	21.50	\$8,697	\$301.98	\$6,492.57
81010	ANN ARBOR PUBLIC	WASHTENAW	16,369.58	\$9,619	\$233.35	\$3,819,841.49
82030	DEARBORN CITY SCHOOL	WAYNE	17,380.27	\$8,979	\$280.72	\$4,878,989.39
82045	MELVINDALE ALLEN PARK	WAYNE	2,755.29	\$9,158	\$267.27	\$736,406.36
82055	GROSSE POINTE PUBLIC	WAYNE	8,633.30	\$10,278	\$198.09	\$1,710,170.40
82095	LIVONIA PUBLIC SCHOOLS	WAYNE	16,613.58	\$8,490	\$316.81	\$5,263,348.28
82120	RIVER ROUGE CITY	WAYNE	1,401.39	\$9,000	\$279.17	\$391,226.05
82130	ROMULUS COMMUNITY	WAYNE	4,093.20	\$9,035	\$276.63	\$1,132,301.92
82155	TRENTON PUBLIC	WAYNE	2,887.50	\$8,927	\$285.11	\$823,255.13
82300	GROSSE ILE TOWNSHIP	WAYNE	1,953.28	\$8,971	\$280.63	\$548,148.97
82320	HARPER WOODS SCHOOL	WAYNE	1,202.65	\$8,393	\$323.61	\$389,189.57
82390	NORTHVILLE PUBLIC	WAYNE	6,745.75	\$8,435	\$320.87	\$2,164,508.80
	TOTAL PAYMENT					\$53,138,594.17