

## MEMORANDUM



**DATE:** October 12, 2011  
**TO:** All Interested Parties  
**FROM:** Bethany Wicksall, Senior Fiscal Analyst  
Mark Wolf, Senior Fiscal Analyst  
**RE:** The Basics of the Foundation Allowance — FY 2011-12 Update

The changes in school funding in the state under Proposal A of 1994 brought about a new means of providing state funding to school districts. This new mechanism came in the form of the **foundation allowance**, whereby each school district is guaranteed a per pupil amount – in combined state and local funds – to support school operations. This memo briefly discusses how the foundation allowance is determined and paid to schools.

### **Initial Foundation Allowances**

The foundation allowance was first used in Fiscal Year 1994-95. Initial foundation allowances were based on the amount of revenue per pupil each school district received during FY 1993-94 (that is, prior to implementation of Proposal A) in state and local funds. This figure included local property tax revenue levied for school operating purposes, state aid under the prior guaranteed tax base (GTB) method, certain categorical funding, and a prorated amount of fund equity spent by districts in FY 1993-94. Among K-12 districts, this FY 1993-94 baseline funding varied considerably, from a low of \$3,398 to a high of \$10,294, and largely reflected variances in local property tax values and millage rates.

### **The "Basic" Foundation Allowance**

Originally set at \$5,000 per pupil in FY 1994-95, the basic foundation allowance – or, simply "the Basic" – was essentially a target per-pupil funding level that the creators of Proposal A hoped all districts would achieve one day. However, this standard was phased in over a period of several years. Rather than immediately bringing all districts up to the "basic" level, the lowest-revenue districts were raised to the minimum foundation allowance, set at \$4,200 in FY 1994-95.

In the first several years following Proposal A, the Basic was automatically calculated based on a "final index" whereby beginning in FY 1995-96, increases in the Basic were calculated based on increases in School Aid Fund revenue, adjusted for changes in pupil membership. From FY 1995-96 to FY 1997-98, the Basic was determined based on this final index. During this period, the minimum foundation allowance increased as well, with schools with foundation allowances below the Basic receiving larger increases than schools with foundation allowance at or above the basic level. These larger increases were calculated with a formula – sometimes referred to as the 2x formula – that allocated an increase that was up to twice the amount of the increase in the Basic. This funding mechanism lessened the inequities in per pupil funding among school districts.

Since FY 1997-98, the Legislature has directly determined the amount of the Basic, with the Legislature raising the minimum foundation allowance to the Basic level of \$5,700 in FY 1999-2000. With that, all districts reached the basic foundation for the first time, and Proposal A's goal to raise all districts' funding to at least the level of the Basic was achieved.

From FY 2000-01 to FY 2006-07, all school districts received the same dollar increase in their foundation allowance as the annual increase in the Basic (except in cases of equity payments). For example, if the Basic increased by \$200 from the previous year, every school district received a \$200 increase in its foundation allowance. In FY 2007-08, however, the Basic was reset at the State Maximum Foundation Allowance, with increases in each district's foundation allowance determined according to a reinstated 2x formula. This policy remained in place for FY 2008-09 as well, with schools seeing actual reductions in per-pupil funding since that time.

In FY 2009-10 and FY 2010-11, districts' foundation allowances remained unchanged, per se. However, districts were subject to a per-pupil reduction of \$154 in FY 2009-10 and a \$170 per pupil reduction in FY 2010-11 under a separate section of the School Aid Act (MCL 388.1611d). In FY 2011-12 the \$170 per pupil reduction was rolled into the foundation allowance, along with an actual reduction of \$300 per pupil. In all, FY 2011-12 foundation allowances, for all districts, were cut by \$470.

### **State Maximum Foundation Allowance**

The highest amount which may be used when calculated the state portion of the foundation allowance is the "state maximum" foundation allowance. When the Proposal A reforms were first created, the state maximum foundation allowance was set at \$1,500 above the Basic, and remained at that level each year until FY 2002-03, when a \$200 equity payment made to districts below the state maximum was rolled into their foundation allowances, thereby decreasing the gap to \$1,300. In FY 2006-07, another equity payment of \$23 was provided, with that payment built into districts' foundation allowances the following year. At that point the gap decreased to \$1,277.

In FY 2007-08, the Legislature increased the Basic to the state maximum, and returned to the original 2x formula providing larger increases to districts below the Basic than those districts at or above the Basic. Under this formula, districts with a foundation allowance at the minimum level receive an annual increase equal to twice the increase in the Basic. Districts with a foundation allowance higher than the minimum but less than the Basic received an increase on a sliding scale, receiving an increase higher than the increase in the Basic but less than the increase received by those at the bottom. For FY 2008-09 (the most recent year in which a foundation increase was given), the increase in the Basic was \$56. This meant that districts with the minimum foundation allowance received a \$112 increase, while districts in the middle received something in between.

In addition, the state maximum foundation allowance is also used to determine so-called "hold harmless" districts. These are districts with a foundation allowance above the state maximum and, as such, must levy local millages to make up the difference between the \$8,019 maximum and their foundation allowances. There are 44 such districts in the state, however only 27 of those districts levy an additional hold harmless millage and thus actually generate that additional revenue.

The Minimum, Basic, and State Maximum Foundation Allowances, FY 1994-95 to FY 2011-12						
Fiscal Year	Minimum Foundation Allowance	Basic Foundation Allowance	State Maximum Foundation Allowance	Minimum Increase/ (Decrease)	Basic & State Max Increase/ (Decrease)	Difference Between Minimum & State Max
1994-95	\$4,200	\$5,000	\$6,500	NA	NA	\$2,300
1995-96	\$4,506	\$5,153	\$6,653	\$306	\$153	\$2,147
1996-97	\$4,816	\$5,308	\$6,808	\$310	\$155	\$1,992
1997-98	\$5,124	\$5,462	\$6,962	\$308	\$154	\$1,838
1998-99	\$5,170	\$5,462	\$6,962	\$46	\$0	\$1,792
1999-00	\$5,700	\$5,700	\$7,200	\$530	\$238	\$1,500
2000-01	\$6,000	\$6,000	\$7,500	\$300	\$300	\$1,500
2001-02 <sup>1</sup>	\$6,300	\$6,300	\$7,800	\$300	\$300	\$1,500
2002-03	\$6,700	\$6,700	\$8,000	\$400	\$200	\$1,300
2003-04	\$6,700	\$6,700	\$8,000	\$0	\$0	\$1,300
2004-05	\$6,700	\$6,700	\$8,000	\$0	\$0	\$1,300
2005-06	\$6,875	\$6,875	\$8,175	\$175	\$175	\$1,300
2006-07 <sup>2</sup>	\$7,085	\$7,085	\$8,385	\$210	\$210	\$1,300
2007-08 <sup>3</sup>	\$7,204	\$8,433	\$8,433	\$119	\$48	\$1,229
2008-09	\$7,316	\$8,489	\$8,489	\$112	\$56	\$1,173
2009-10 <sup>4</sup>	\$7,316	\$8,489	\$8,489	\$0	\$0	\$1,173
2010-11 <sup>5</sup>	\$7,316	\$8,489	\$8,489	\$0	\$0	\$1,173
2011-12	\$6,846	\$8,019	\$8,019	(\$470)	(\$470)	\$1,173

<sup>1</sup> In FY 2001-02, districts with a foundation below \$6,500 also received an equity payment of up to \$200 per pupil, which was rolled into their foundation for FY 2002-02

<sup>2</sup> In FY 2006-07, districts with a foundation below \$7,460 also received an equity payment of up to \$23 per pupil, which was rolled into their foundation for FY 2007-08.

<sup>3</sup> In FY 2007-08, the Basic was raised to the state maximum and the original Proposal A (2x) formula was reinstated to increase foundations below the Basic at a faster rate than those at or above it.

<sup>4</sup> In FY 2009-10, while the foundation allowance was not changed, the budget included a \$154 per pupil reduction under Section 11d.

<sup>5</sup> In FY 2010-11, while the foundation allowance was not changed, the budget included a \$170 per pupil reduction under Section 11d.

### The State-Local Funding Split for the Foundation Allowance

The total amount of revenue a district will receive for its foundation allowance is derived by multiplying the number of pupils the district educates by its foundation allowance. For example, if a district with a foundation allowance of \$7,000 has 1,000 pupils, it would receive \$7.0 million in foundation allowance revenue (\$7,000 × 1,000). However, the state pays only a portion of this revenue, paying the amount remaining after subtracting from the total foundation allowance revenue the amount of local revenue that the district collects from its levy on nonexempt (non-homestead) property tax.<sup>1</sup>

Generally speaking, under Proposal A, school districts (except hold harmless districts) are required to levy 18 mills on non-homestead property. For the purposes of determining the state portion of the foundation allowance, it is assumed that districts levy the full 18 mills (or the number of mills levied in 1993, whichever is less) on non-homestead property.<sup>2</sup>

<sup>1</sup> This is generally referred to as the non-homestead millage. The local school operating millage does not apply to principal residences, qualified agricultural property, supportive housing property, industrial personal property. Commercial personal property is exempt from 12 of the school operating mills.

<sup>2</sup> See Section 1211 of the Revised School Code, 1976 PA 451, MCL 380.1211. Districts shall levy up to 18 mills or the number of mills levied in 1993 for school operating purposes. Hold harmless districts may levy additional millage, capped at 18 mills, on homestead property at a millage rate that enables it to maintain its pre-Proposal A per pupil funding level.

Generally, the state portion of the foundation allowance calculates to be:

$$\left( \text{Membership Pupils} \times \text{Lesser of } \$8,019, \text{ or district foundation allowance} \right) - \text{Assumed local non-homestead property tax revenue}$$

Using our previous example, a district with a \$7,000 foundation allowance and 1,000 pupils would receive a total of \$7.0 million in foundation allowance revenue. However, if the district raises \$4.0 million in local revenue from its 18-mill non-homestead tax, the state pays only \$3.0 million of the \$7.0 million and the local district contributes the remaining \$4.0 million. In this example, the state pays \$3,000 per pupil (\$3.0 million ÷ 1,000 pupils) toward the district's \$7,000 foundation allowance and the local district pays \$4,000 per pupil. This state/local mix is different for every district and changes for each district from year to year depending on the local non-homestead taxable value and number of pupils.

### **PUBLIC SCHOOL ACADEMY (PSA) FOUNDATION ALLOWANCES**

Prior to FY 2007-08, the foundation allowance for a PSA was the *lesser* of 1) the foundation allowance of the local district in which the public school academy is located or 2) \$300 above the Basic. This meant that in FY 2006-07, public school academies received a maximum of \$7,385, which was \$300 above the \$7,085 Basic that year. Since reestablishing the 2x formula in FY 2007-08, the foundation allowance for a PSA is the lesser of 1) the foundation allowance of the local district in which the public school academy is located or 2) the maximum public school academy allocation (PSA Max) which is \$7,580 in FY 2010-11 and is reduced to \$7,110 in FY 2011-12. The PSA Max will be adjusted annually under the 2x formula like any other district foundation allowance. Public School Academies do not levy local property taxes, and therefore make no local contribution to their foundation allowance.

### **PUPIL MEMBERSHIP**

Pupil "membership," is the number of pupils used when calculating the amount of foundation allowance revenue a district will receive. It is calculated by adding a percentage of the number of full-time equivalent (FTE) pupils counted in October of the current school year to a percentage of those counted during the prior February. In FY 2010-11, pupil membership was the sum of 25% of the February 2010 pupil count plus 75% of the September 2010 count, or a 75/25 blend. Beginning in FY 2011-12, the membership blend is 10% of the February 2011 pupil count plus 90% of the October 2011 count, or a 90/10 blend. Statewide, there were approximately 1.57 million membership pupils in FY 2010-11, and we estimate that pupil memberships will decline to approximately 1.55 million in FY 2011-12.