



## **Background Briefing**

# **School Aid**

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**January 2015**

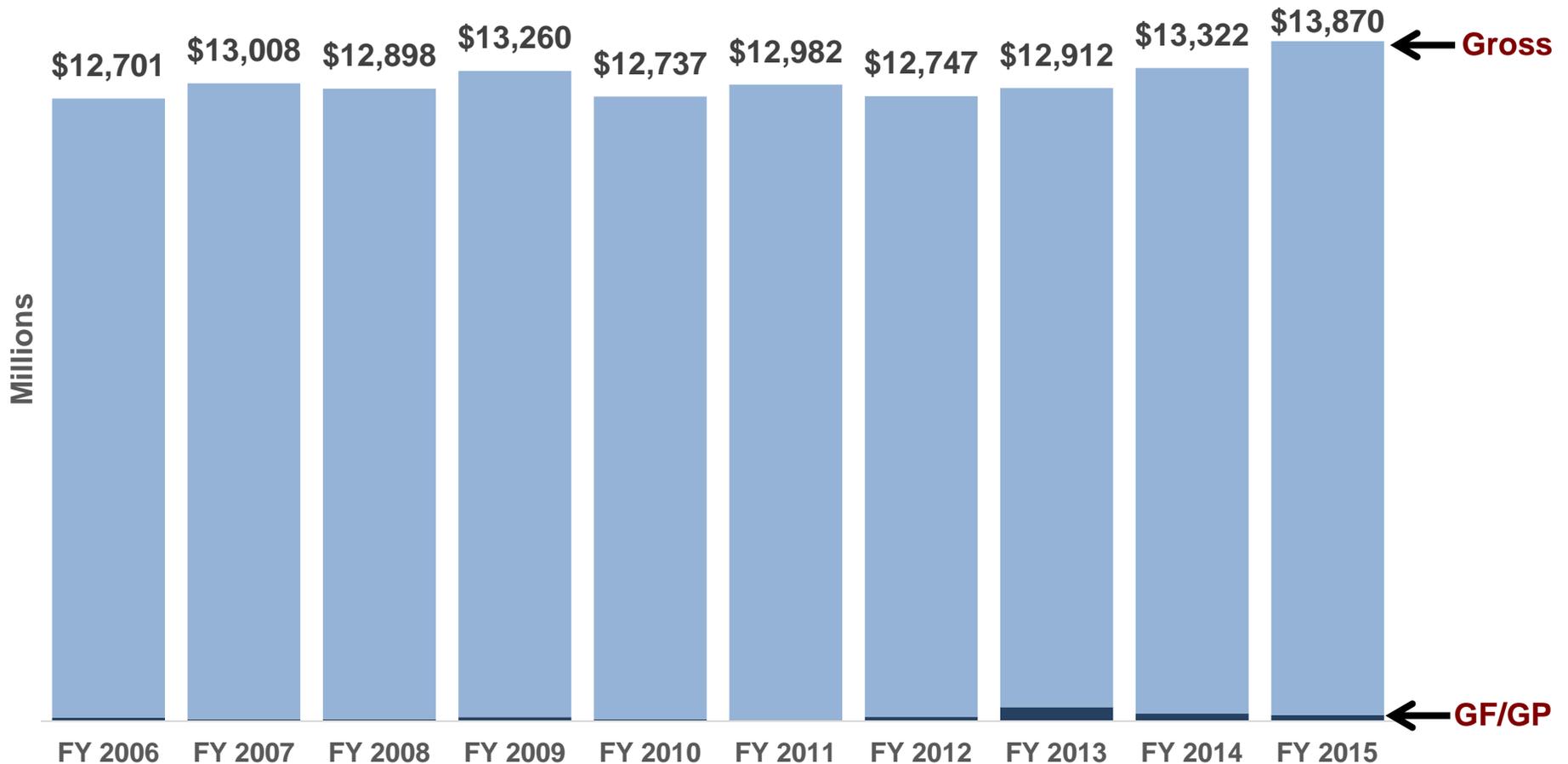
# School Aid Budget

The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to “maintain and support a system of free public elementary and secondary schools as defined by law.”

--- The Michigan Constitution

# School Aid: Gross Appropriations

Total School Aid appropriations for FY 2014-15 grew 4.1% compared to the previous year after fairly flat or reduced funding for much of the decade. However, gross appropriations are just 6.4% higher than in FY 2005-06, after adjusting for the shift in local personal property tax revenues in 2009.

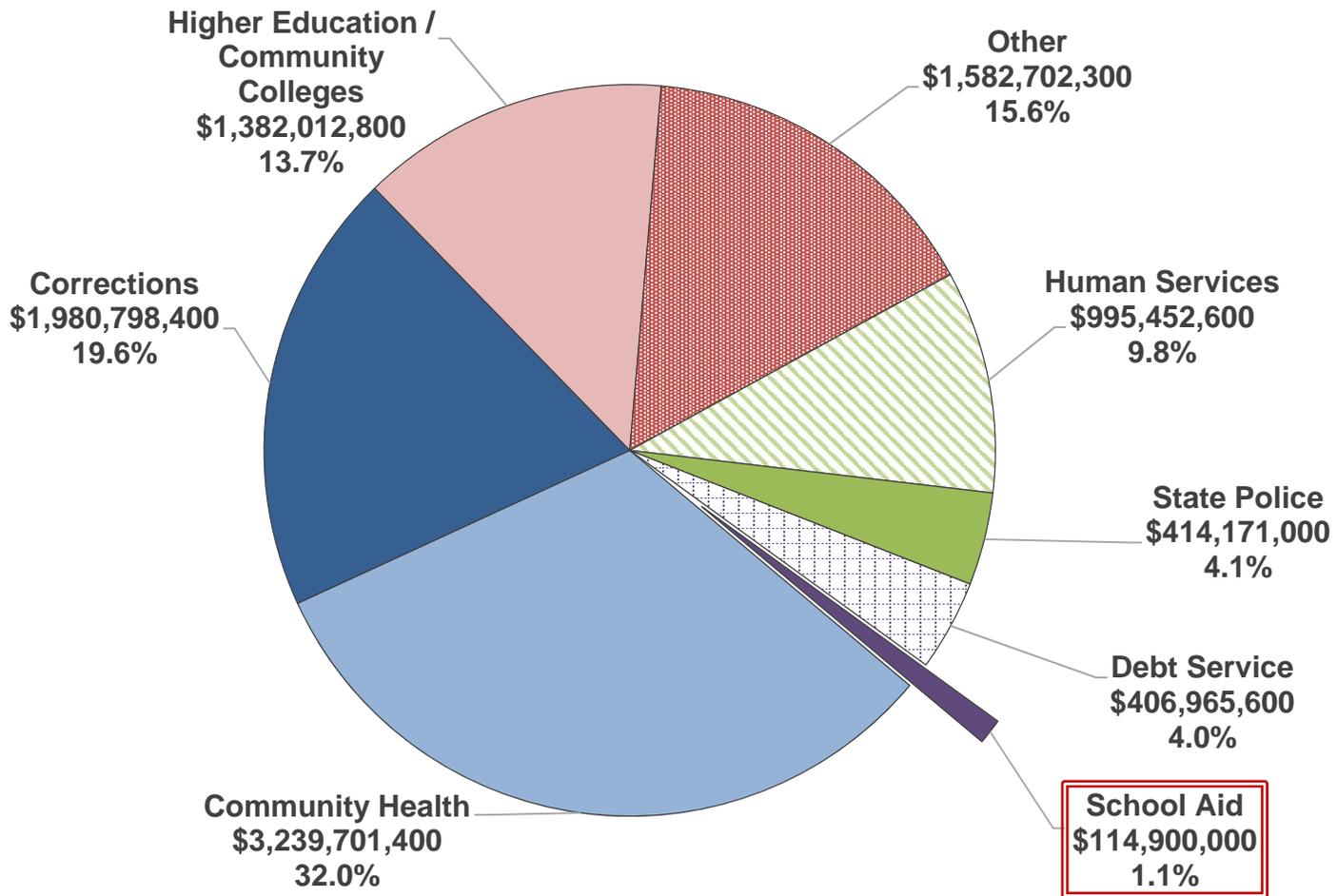


NOTE: Beginning in FY 2009, state funds increased by about \$350 million to replace local revenue eliminated due to personal property tax reductions.

# School Aid Share of State GF/GP

The School Aid budget makes up 1.1% of the total state GF/GP budget.

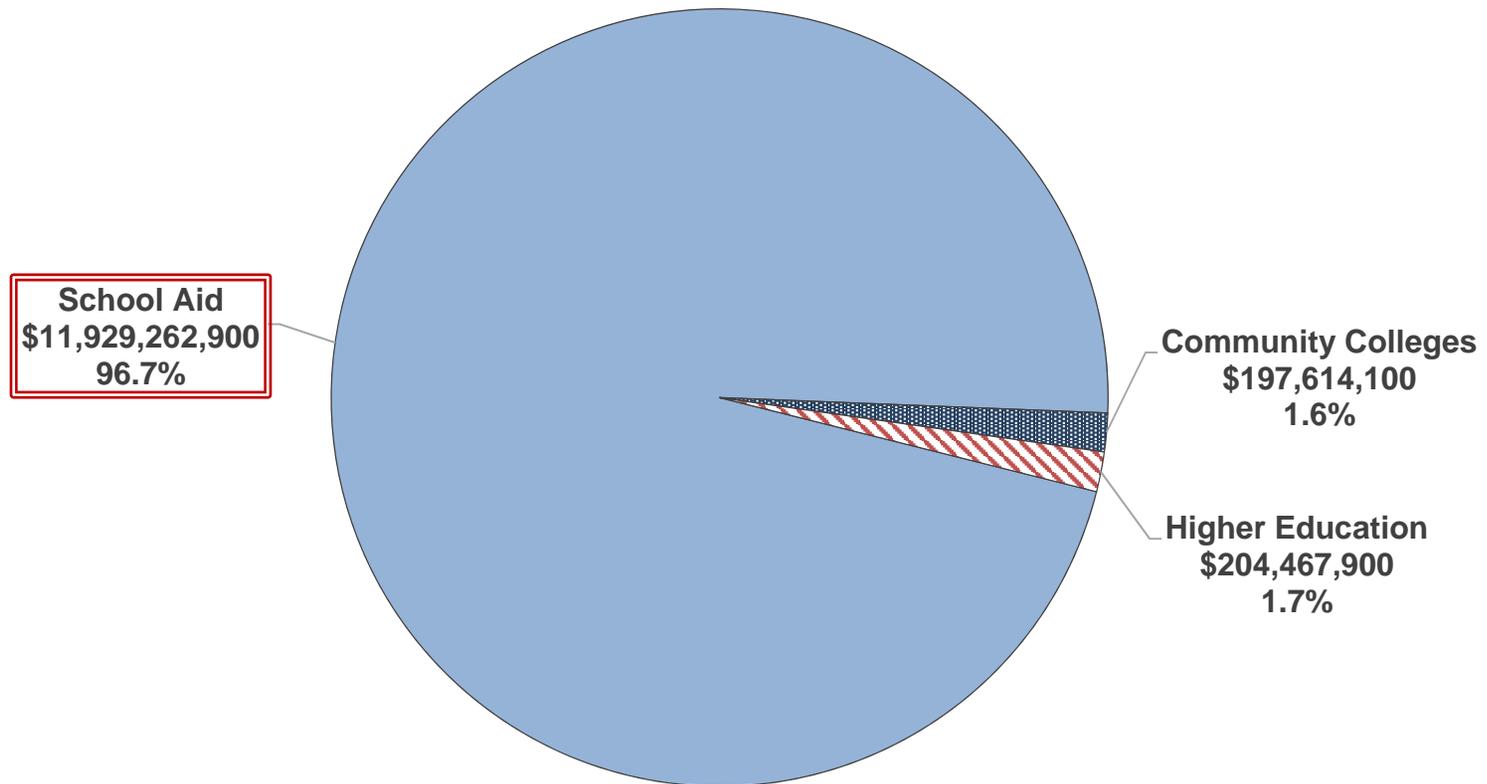
**FY 2014-15 GF/GP Total = \$10,116,704,100**



# School Aid Budget Share of School Aid Fund

The School Aid budget receives 96.7% of the total state School Aid Fund (SAF) appropriations.

**FY 2014-15 SAF Total = \$12,331,344,900**

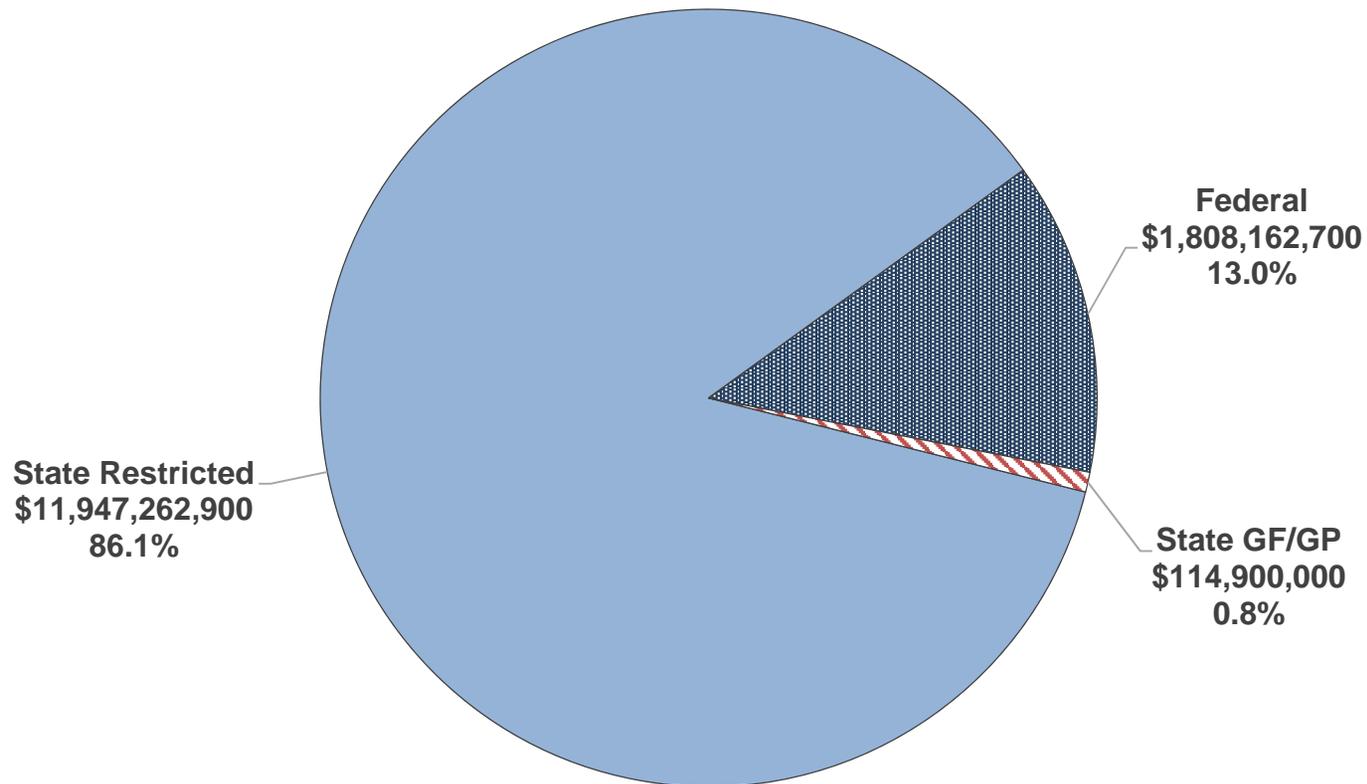


# **SOURCES OF FUNDING**

# School Aid Funding Sources

School Aid Fund restricted funds are the largest revenue source in the School Aid Budget.

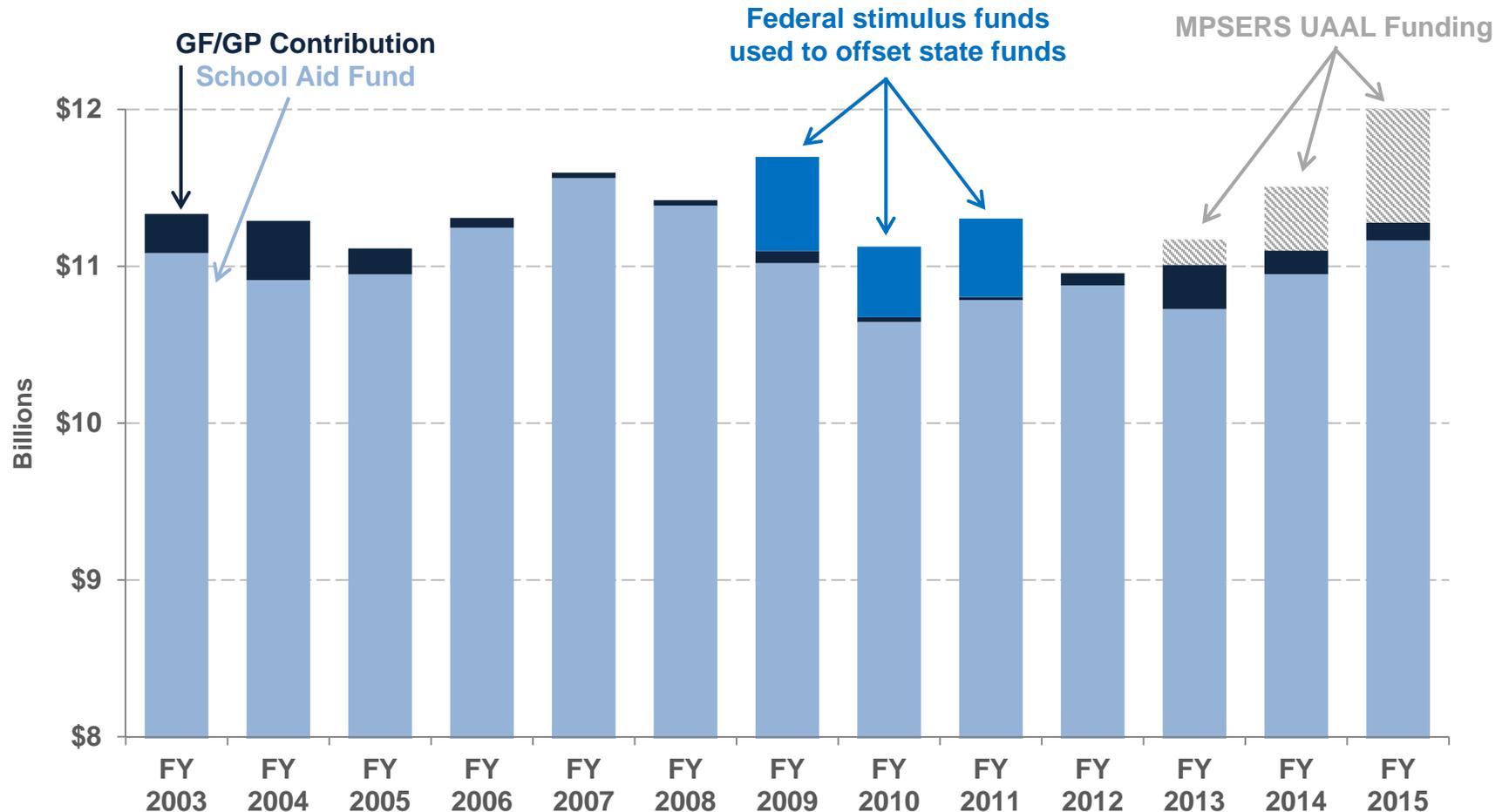
**FY 2014-15 School Aid Budget = \$13,870,325,600**



# **SCHOOL AID APPROPRIATIONS**

# School Aid Appropriations

\$783 million has been added to hold districts harmless from increasing retirement liability costs. Total funding for foundation allowances and other operational costs is still below previous peaks.



NOTES: 1) Beginning in FY 2009, state funds increased by about \$350 million to replace local revenue due to personal property tax reductions.  
 2) FYs 2012 and 2013 appropriations do not include funding set aside for future MPSERS payments, which was re-appropriated for MPSERS payments in FYs 2014 and 2015.

# School Aid Appropriations

The School Aid Budget includes the following major spending categories :

- **Foundation Allowances**
  - Provides per pupil payment for general school operations
  - \$9.0 billion or 64.8% of the School Aid Budget
  
- **Special Education**
  - Reimburses districts for a portion of their special education costs
  - \$1.4 billion or 10.0% of the School Aid budget
  
- **Michigan Public School Employees' Retirement System (MPERS)**  
*(Includes one-time cost offset and State share of unfunded liability payments)*
  - Contributes a portion of annual retirement costs
  - \$882.7 million or 6.4% of the School Aid budget
  
- **At-Risk Programs**
  - Additional funds to help students at risk of academic failure
  - \$309.0 million or 2.2% of the School Aid Budget

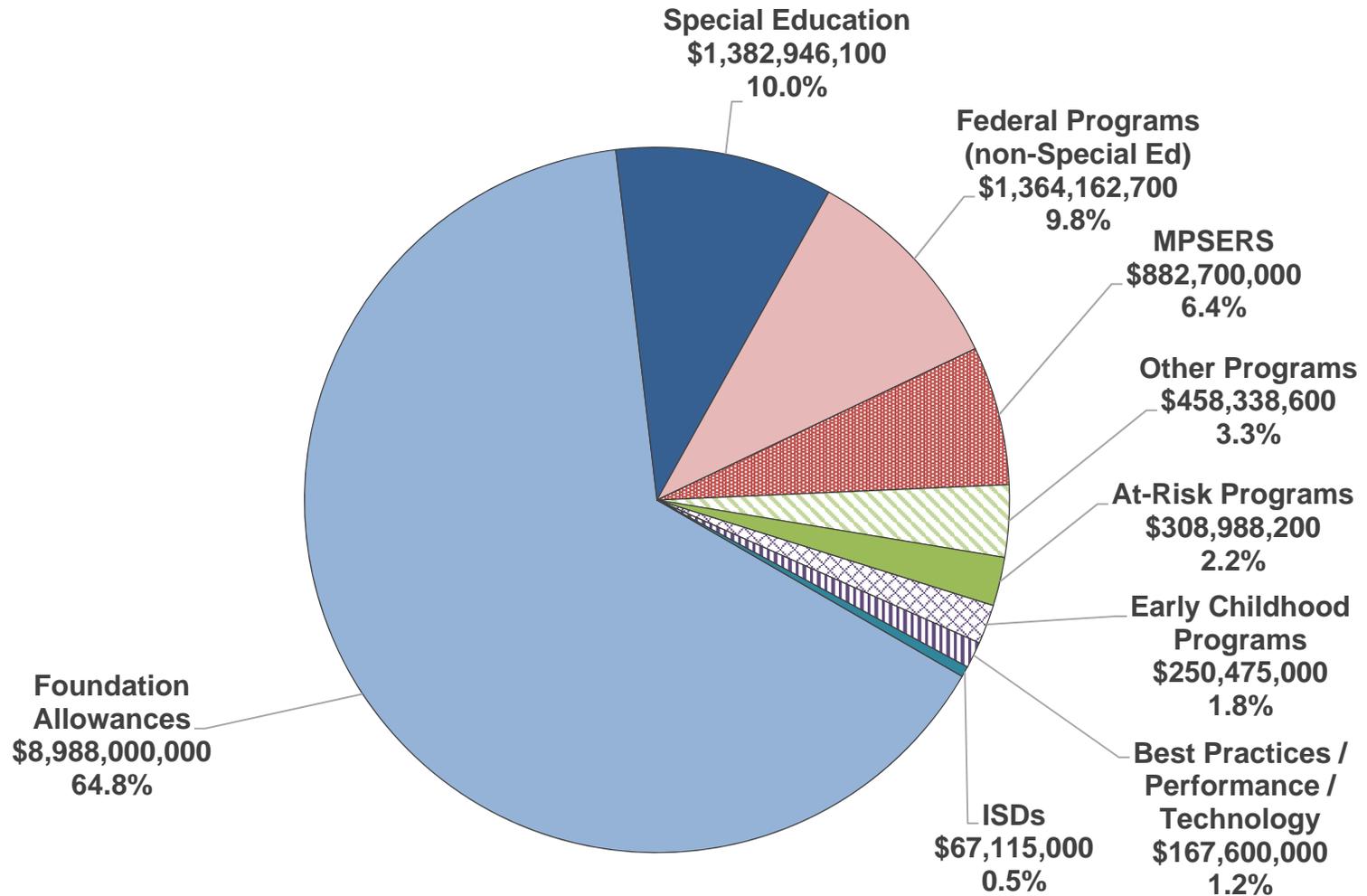
# School Aid Appropriations (cont.)

- **Early Childhood Programs**
  - Provides preschool programs for 4-yr-olds and parenting programs for parents of children ages 0-5
  - \$250.5 million or 1.8% of the School Aid Budget
  
- **Best Practices Incentive Grants**
  - Provides \$50 per pupil to districts meeting 7 of 9 requirements
  - \$75.0 million or 0.5% of the School Aid Budget
  
- **Technology Infrastructure Improvement Grants**
  - Provides grants to prepare districts for increasing technology infrastructure needs
  - \$41.5 million or 0.3% of the School Aid Budget
  
- **District Performance Funding**
  - Provides up to additional \$100 per pupil to districts meeting performance requirements in reading and math
  - \$51.1 million or 0.4% of the School Aid Budget

# School Aid Appropriations

Foundation allowances, used for school operations, absorb almost \$2 out of every \$3 spent.

**FY 2014-15 School Aid Budget = \$13,870,325,600**



# **MAJOR BUDGET TOPICS**

# Major School Aid Topics

- School Aid Revenues
- Foundation Allowances
- Special Education Funding
- MPSERS Funding
- Types of Schools
- Declining Enrollment
- Deficit Districts

# **SCHOOL AID REVENUES**

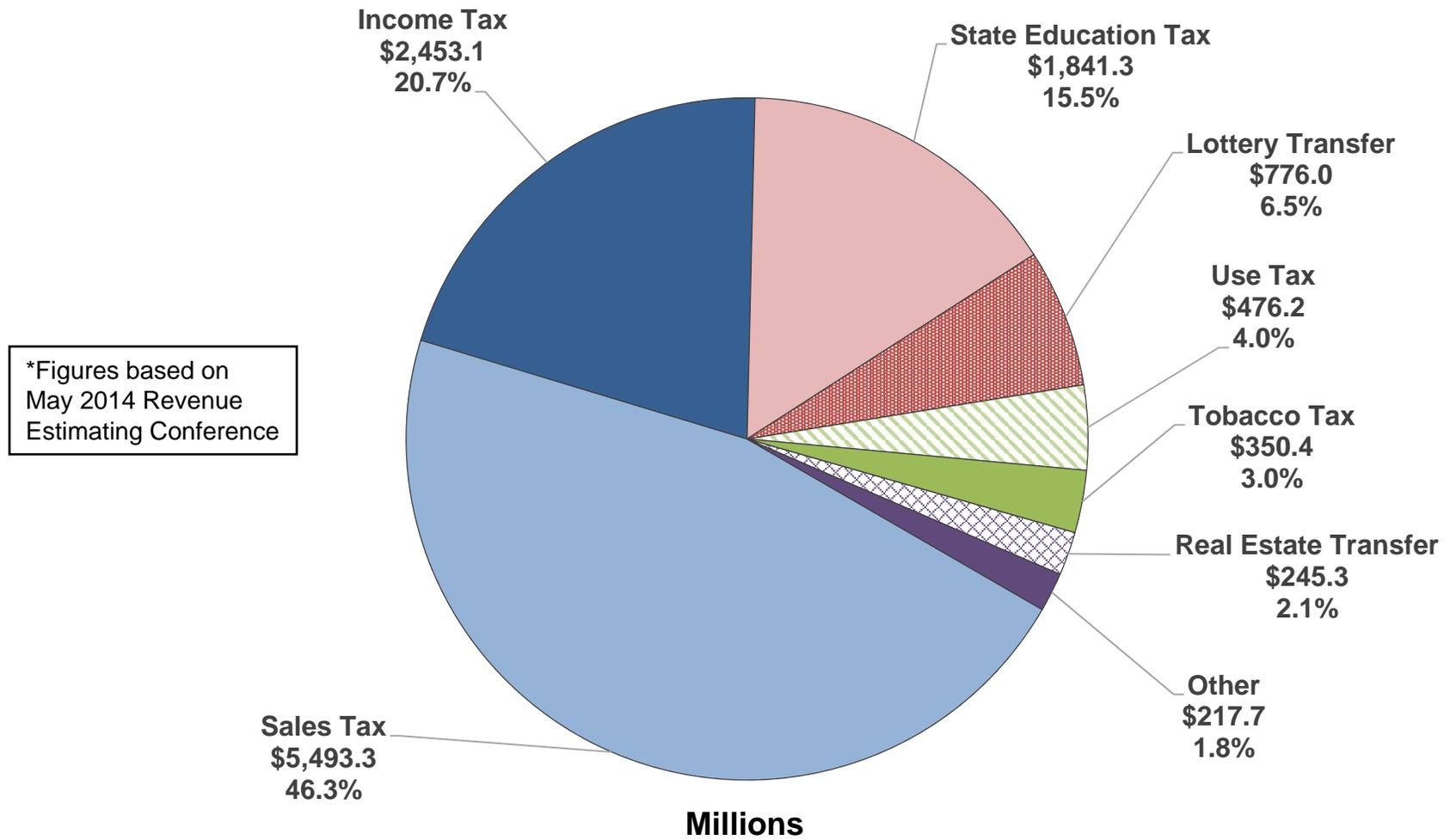
# School Aid Fund (SAF) Revenue

- 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 \$11.9 billion in revenue (estimated) for FY 2014-15.
- Largest sources of SAF revenue are shown on next slide.

# SAF Revenue Sources

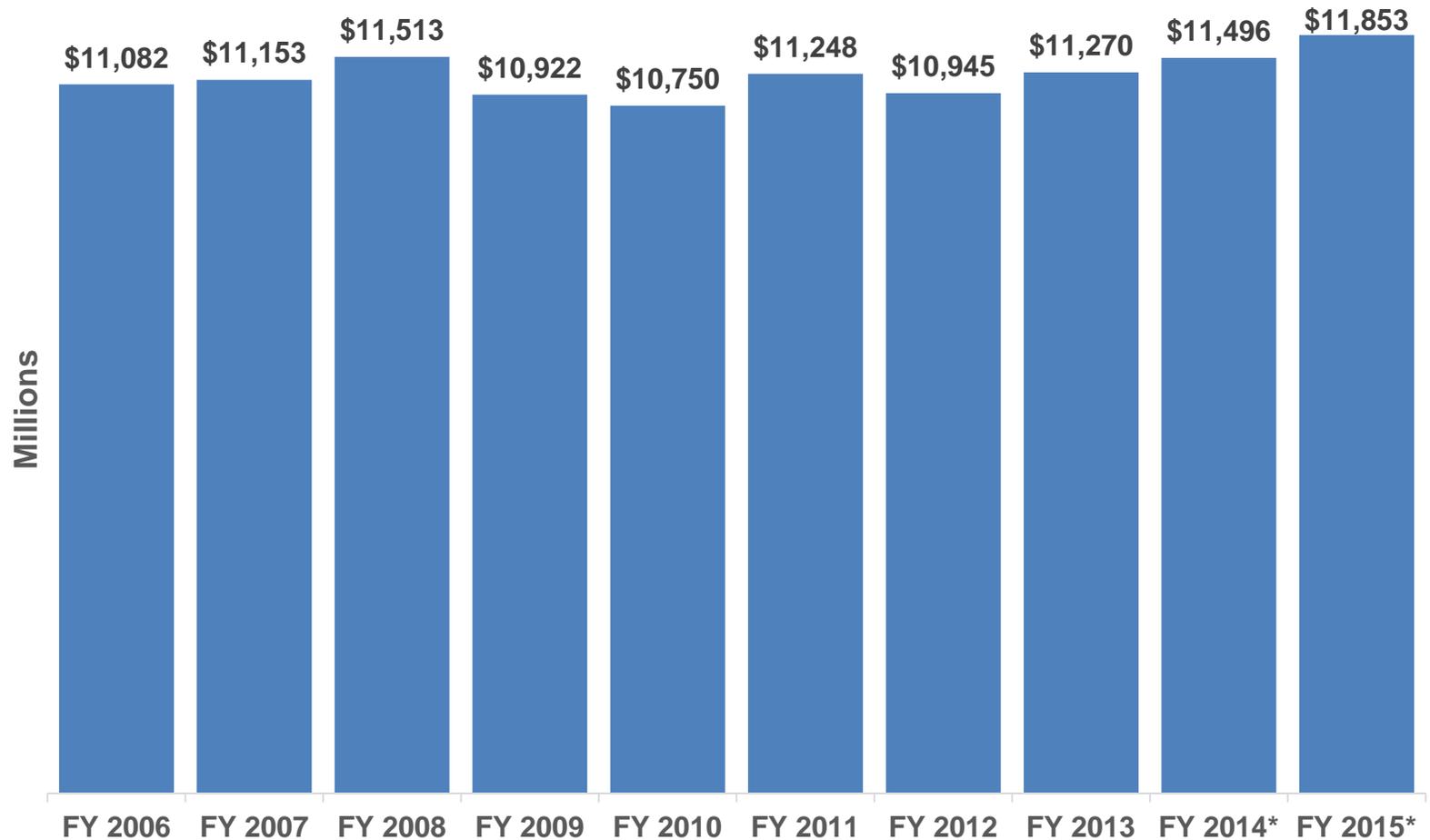
Sales Tax is the largest revenue source, contributing nearly half of total SAF revenue.

**FY 2014-15 Total = \$11,853.3 Million**



# SAF Revenue History

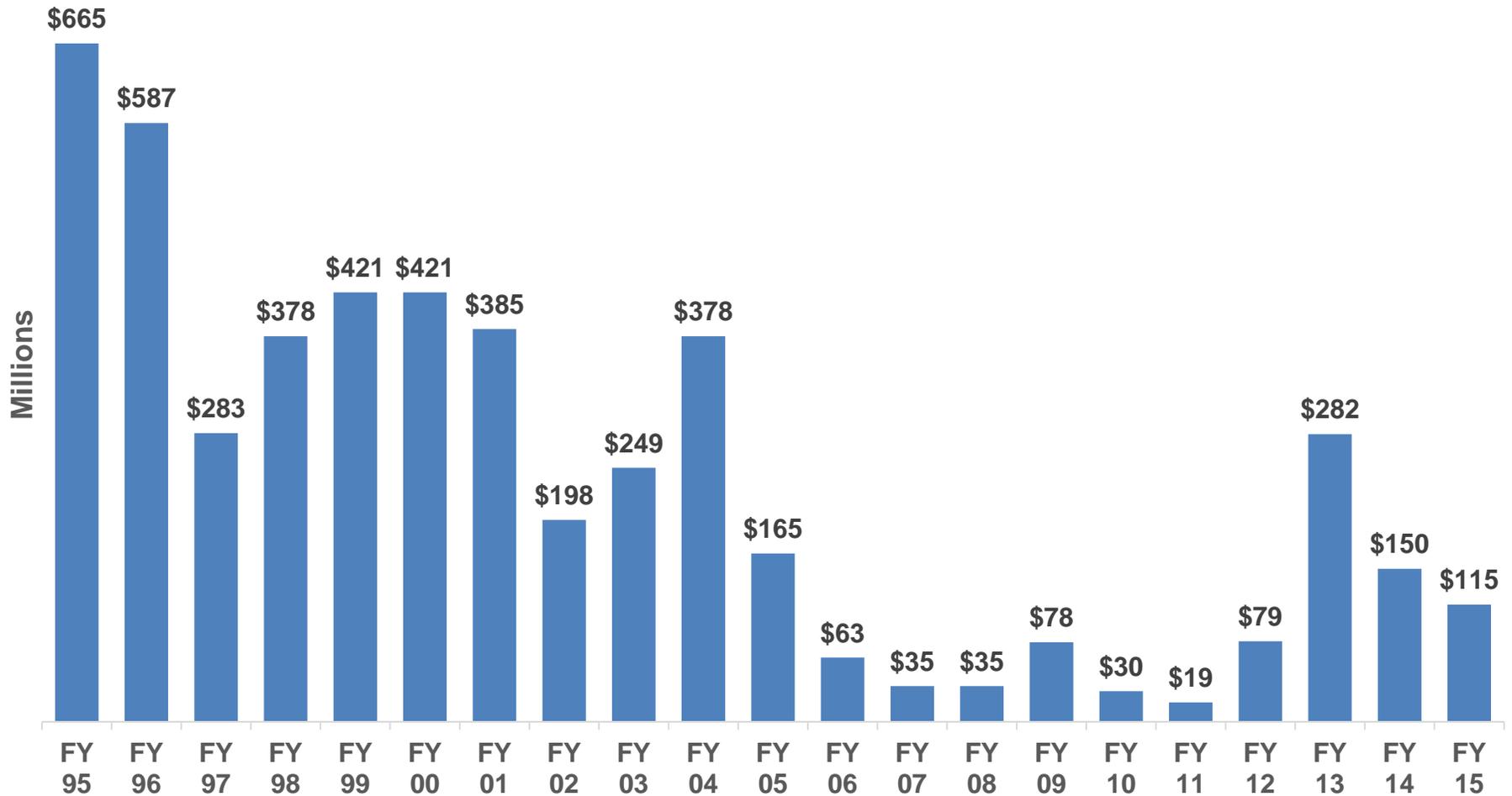
The School Aid Fund is estimated to collect over \$11.8 billion in FY 2014-15, exceeding its previous peak of \$11.5 billion in FY 2007-08 (not adjusted for inflation).



\* FY 2014 and FY 2015 figures from May 2014 Revenue Estimating Conference

# School Aid Budget: GF/GP as a Fund Source

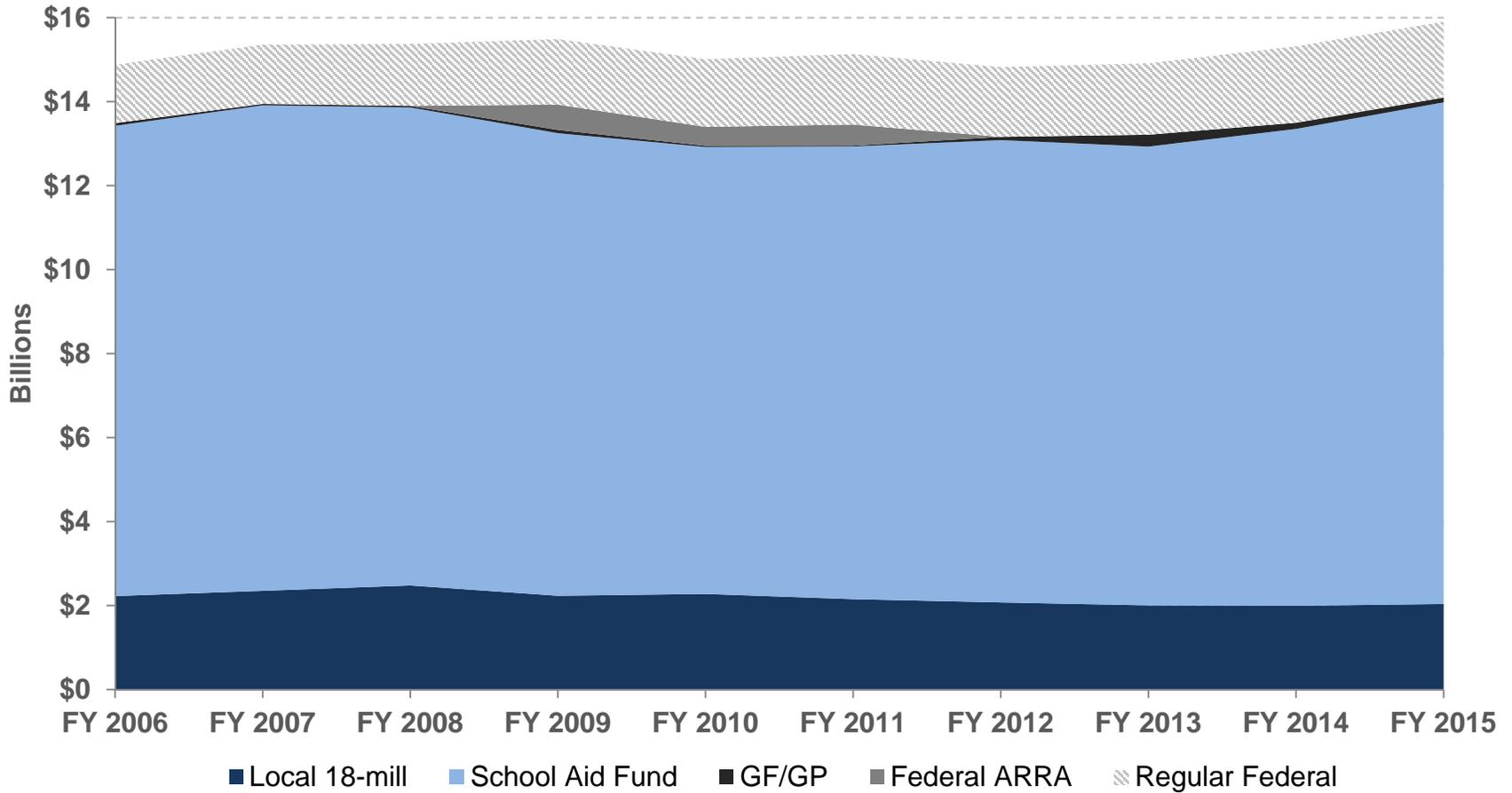
GF/GP will contribute \$114.9 million to the School Aid Budget in FY 2014-15.



# School Aid Funding

## Local 18-mill Levy and State Appropriations

Excluding federal funds dedicated for specific purposes, total FY 2014-15 funding for schools is now slightly above the previous FY 2006-07 peak (not adjusted for inflation). Recent increases have included significant funding for retirement costs and other categoricals.



*ARRA: Federal American Recovery and Reinvestment Act of 2009*

# School Aid Balance Sheet

	FY 2013-14 YTD	FY 2014-15 YTD
<b>Revenue:</b>	(in millions)	
Beginning Balance	\$337.3	\$473.1
School Aid Fund (SAF) Revenue	\$11,621.1	\$12,064.0
General Fund/General Purpose (GF/GP)	\$149.9	\$114.9
MPERS Reserve Fund	\$156.0	\$18.0
<u>Federal Funds</u>	<u>\$1,816.2</u>	<u>\$1808.2</u>
<b>TOTAL REVENUE</b>	<b>\$14,098.5</b>	<b>\$14,460.2</b>
<b>Expenditures:</b>		
K-12: Ongoing Expenditures	\$13,021.4	\$13,394.1
<u>K-12: One-time Expenditures</u>	<u>\$205.9</u>	<u>\$380.2</u>
Subtotal K-12 Expenditures	\$13,227.3	\$13,774.3
<u>Subtotal Higher Ed/Community Colleges</u>	<u>\$398.1</u>	<u>\$402.1</u>
<b>TOTAL EXPENDITURES</b>	<b>\$13,625.4</b>	<b>\$14,176.4</b>
<b>Current Year: Revenues - Expenditures</b>	<b>(\$38.2)</b>	<b>(\$189.3)</b>
<b>ESTIMATED ENDING BALANCE</b>	<b>\$473.1</b>	<b>\$283.8</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 bases 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 2014-15, the foundation allowance varies for K-12 districts from a low of \$7,251 per pupil to a high of \$11,934.

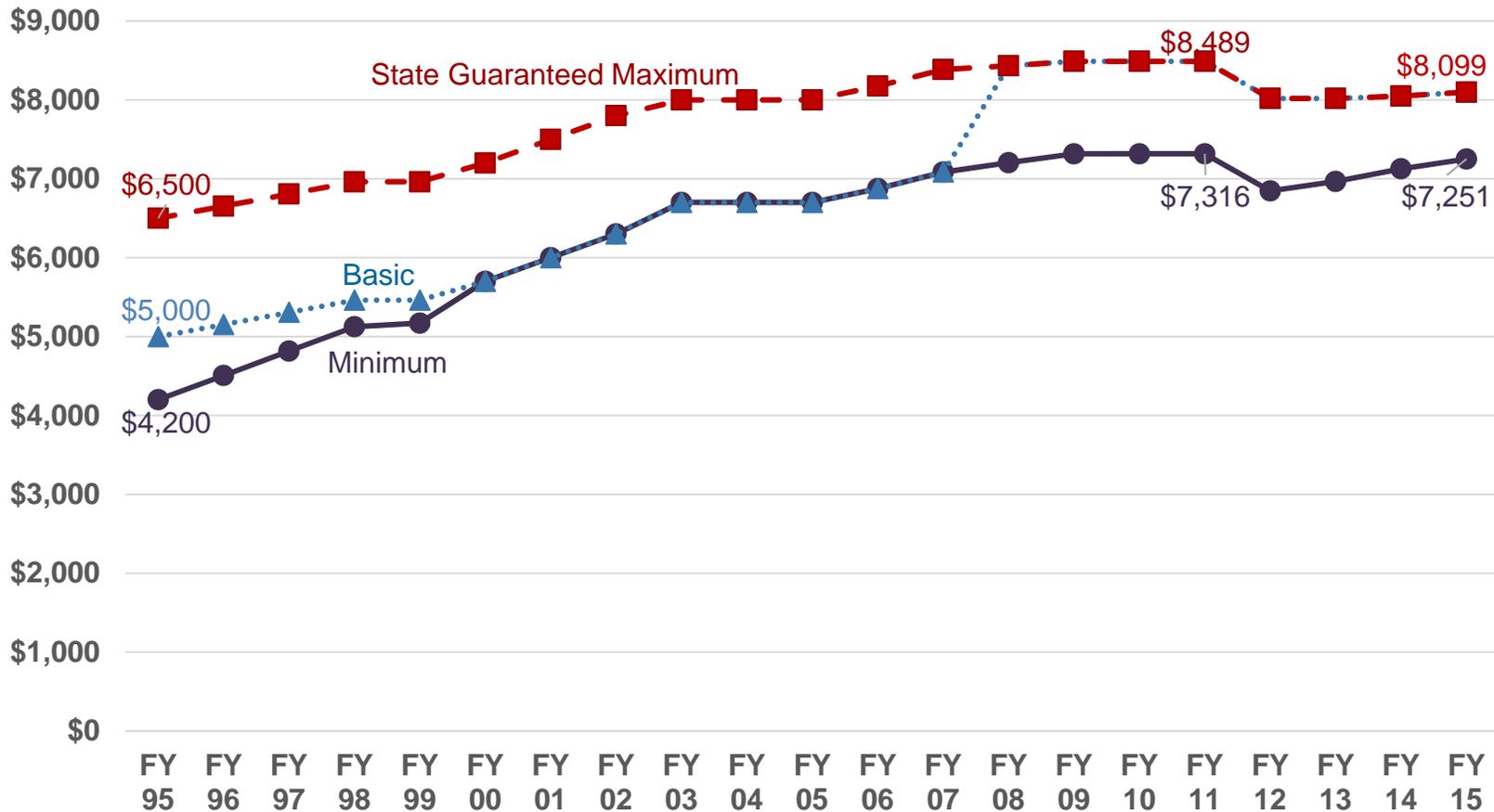
# “Basic” Foundation Allowance

- **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 as much an 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 2014-15**, the legislature increased the Basic foundation by \$50 and increased the minimum foundation by \$50 plus a \$125 equity payment for a total of \$175 per pupil.

# Foundation Allowance History

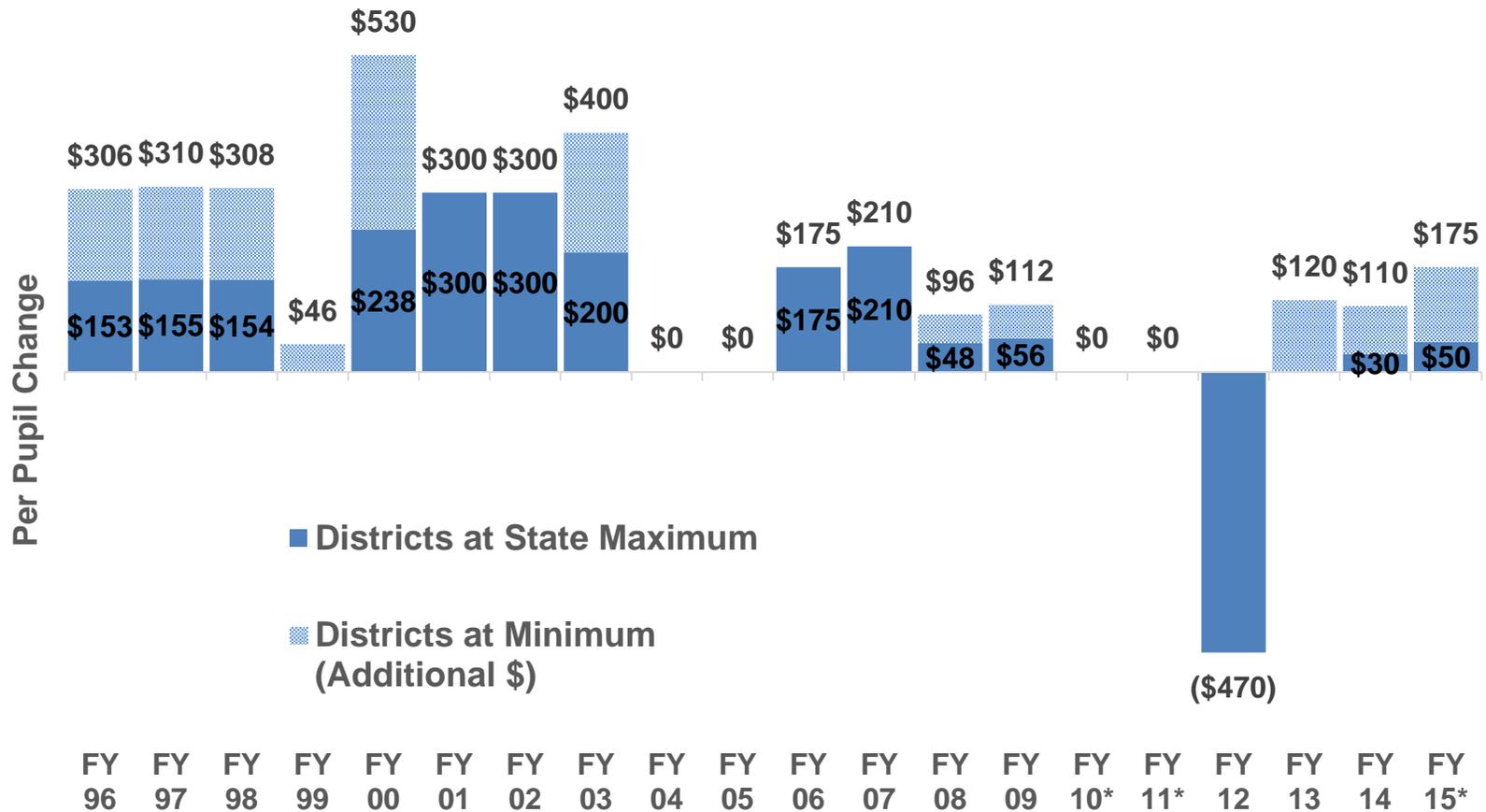
## Growth Since Proposal A

The FY 2014-15 foundation allowance for schools at the Minimum level is \$65 below the FY 2010-11 peak. For schools at the State Maximum level, it's \$390 below the FY 2010-11 peak. The “equity gap” between the two is down to \$848 per pupil.



*\*Does not include the foundation allowances of 37 hold harmless districts that are allowed to collect additional local millage revenue to maintain statutory foundation allowances above the State Guaranteed Maximum.*

# Per Pupil Foundation Allowances Increases/Decreases



**\*Notes:**

1. FY 2009-10 school district funding was reduced \$154 per pupil, and FY 2010-11 funding was reduced an additional \$16 per pupil, but it was done in a separate categorical Section 11d.
2. FY 2014-15 foundation allowances were increased by \$50 across the board, and districts below \$7,251 receive up to an additional \$125 per pupil equity payment under Section 22c, intended to be rolled into their base in the following fiscal year.

# 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 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.

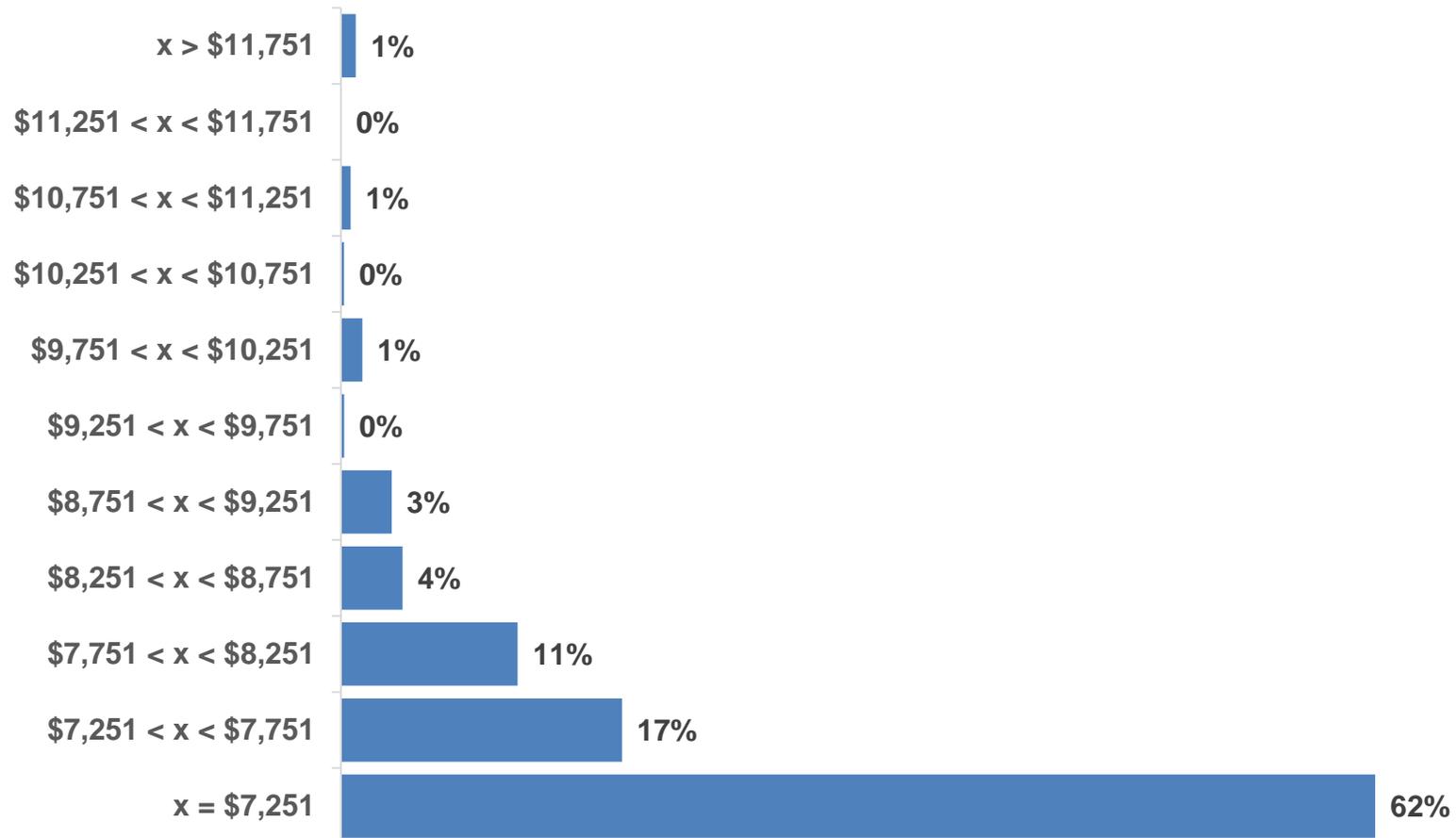
# Equity Among Districts

- 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 2014-15, the difference between the highest and lowest K-12 district is \$4,683, is approximately 3:2.
- In FY 2014-15, 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 \$848, down from a gap of \$2,300 when Proposal A was first implemented.

# Equity Among Districts

## FY 2014-15 Pupil Distribution

62% of pupils are concentrated in districts with a foundation allowance at the minimum foundation \$7,251. As the minimum increases relative to the Basic, that share continues to grow, thereby increasing the cost of future equity payments.



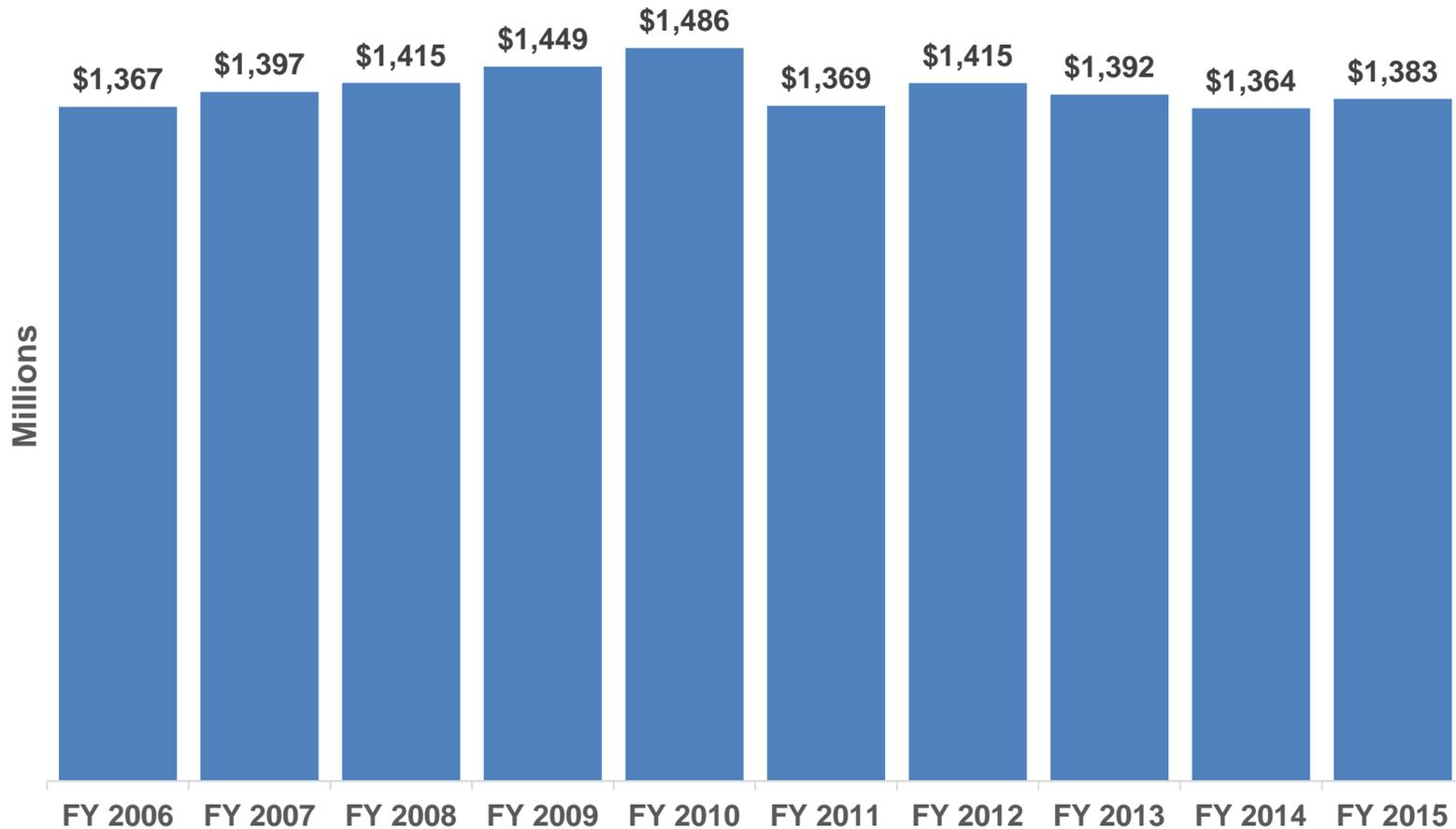
# **SPECIAL EDUCATION FUNDING**

# Special Education Funding

- Second largest School Aid appropriation in FY 2014-15
  - \$938.9 million state dollars
  - \$444.0 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, will generate an estimated additional \$923.1 million in FY 2014-15.

# Special Education Appropriations

After a previous historical trend of long-term increases in costs, Special Education appropriations have been relatively flat over the last 5 years.



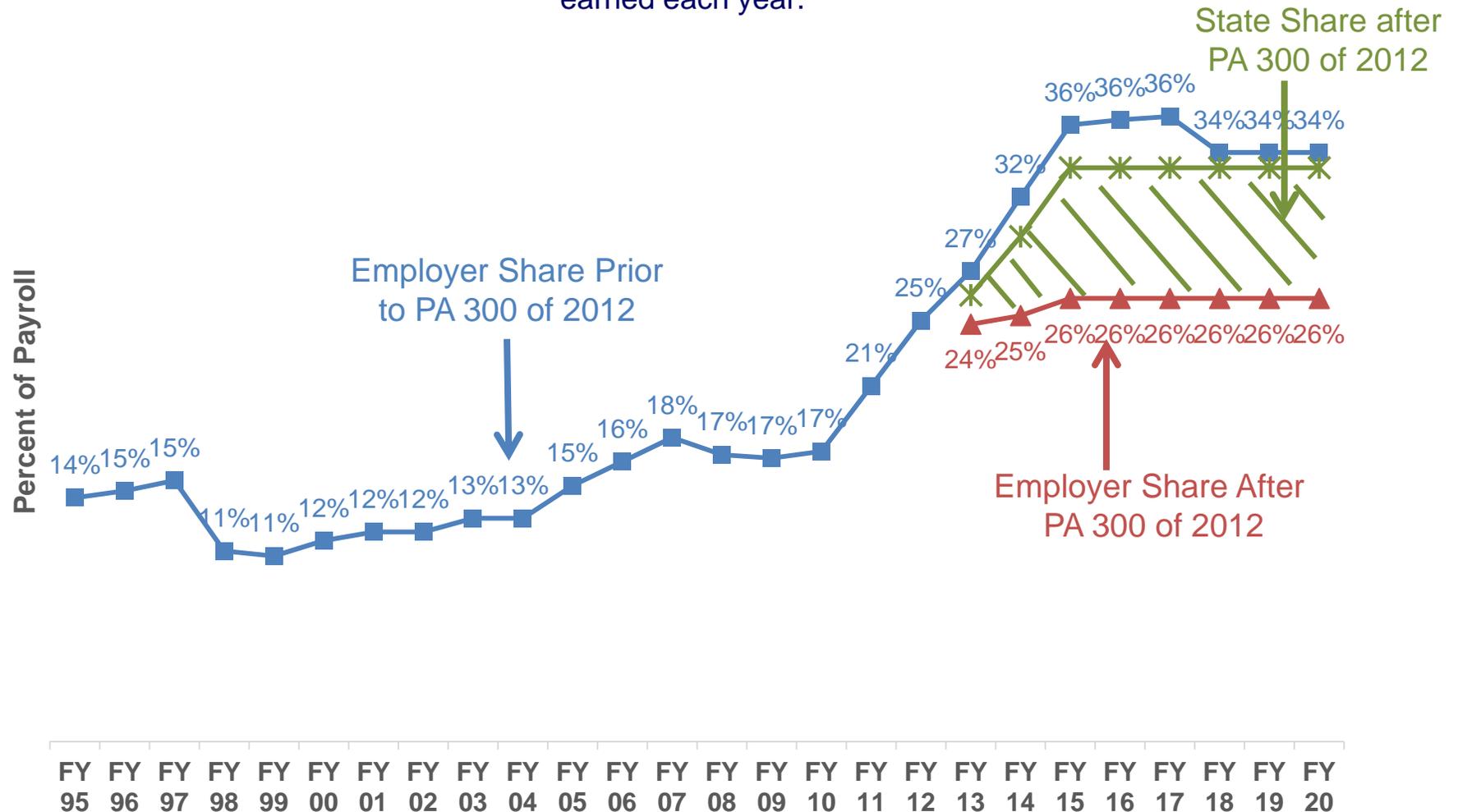
**MPERS**

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

- **Section 147a**
  - 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 147c**
  - Appropriates \$674.4 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 147d**
  - Makes a one-time additional payment of \$108.0 million toward the MPERS unfunded accrued liability.

# MPERS Employer Contribution Rates History and Future Projections

The state portion of the MPERS contribution rate is \$675 million in FY 2014-15 and is expected to increase to \$908 million in FY 2015-16. The employer contribution rate is capped at 20.96% for the unfunded liability plus the normal costs for retirement benefits newly earned each year.



# **EARLY CHILDHOOD**

# Great Start Readiness Program (GSRP)

- Funding for the GSRP preschool program for 4-year-olds has more than doubled in two years from \$109.6 million in FY 2012-13 to \$239.6 million in FY 2014-15.
- The per diem allocation for each half-day preschool slot is \$3,625. A district may use two half-day slots to serve a child for a full day.
- The number of available half-day slots has increased from 32,140 in FY 2012-13 to 63,250.
- Beginning in FY 2014-15, there is \$10.0 million appropriated for allocations of up to \$150 per slot for preschool transportation.

# **TYPES OF SCHOOLS**

# Traditional, Locally Governed School Districts

- Traditional local school districts have defined boundaries and locally elected school boards.
- 548 traditional local districts
- 1,356,535 pupils or 90.0% of the statewide public pupil membership

# Public School Academies

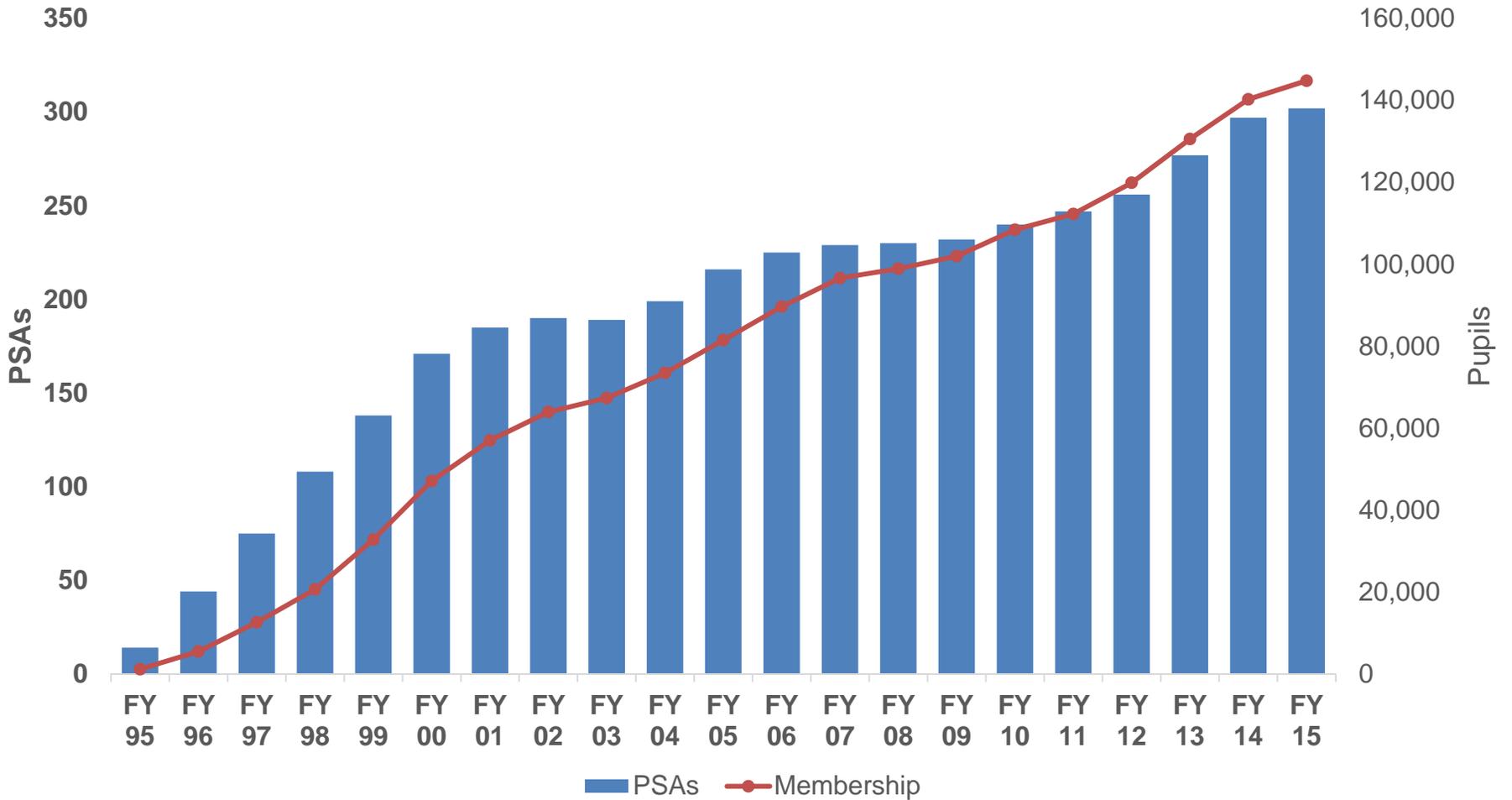
- Public School Academies (PSAs) are independent public schools formed by individuals or groups to provide students and parents a public alternate to traditional school districts.
- PSAs are authorized to operate by public universities, community colleges, intermediate school districts, local school 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 is eliminated.
  - The bill also allowed a single PSA to operate multiple school sites with the same grade configuration.

# Public School Academies

- 302 Public School Academies
- 144,804 pupils in PSAs or 9.6% of statewide pupil membership
- Average size of a PSA is about 480 pupils per school
- FY 2014-15 statutory PSA foundation allowance equals the lower of:
  - Foundation allowance of the school district in which it is physically located or
  - The PSA maximum which is currently \$7,218 per pupil
  - However, the result of the FY 2014-15 equity payment is that all PSAs end up with a total of \$7,251.

# Public School Academies

Growth in PSA Numbers and Pupil Membership



# 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.
  - Enrollment limited to 2,500 in first year, 5,000 in second year, and 10,000 in third year.
- In FY 2014-15
  - 7 existing cyber schools with enrollment totaling 7,443
  - 3 new cyber schools in FY 2014-15 with initial enrollment totaling 515

# Education Achievement Authority (EAA)

- Created by an inter-local agreement between Detroit Public School (DPS) and Eastern Michigan University in August 2011. Agreement recently extended until June 2016.
  
- EAA assumed control of 15 DPS schools in FY 2012-13
  - 9 elementary/middle schools
  - 6 high schools
  - EAA converted 3 schools to a PSA
  
- Total enrollment in the EAA and its PSA dropped from 9,300 in FY 2012-13 to 7,480 in FY 2014-15.
  
- Target Population is lowest achieving 5% of schools.

# **DECLINING ENROLLMENT**

# Declining Enrollment Total Pupil Membership Counts

Fewer pupils means a loss of revenue to schools. Statewide, pupil memberships are nearly 12% lower than their peak in FY 2002-03. Over 2/3 of traditional districts experienced declining enrollment from FY 2013-14 to FY 2014-15.



Fiscal Years	Pupil Blend
	% current fall/ % prior Feb
1998 to 1999	60/40
2000	75/25
2001 to 2004	80/20
2005 to 2011	75/25
2012 to 2013	90/10
2014 to 2015	90/10 following Feb

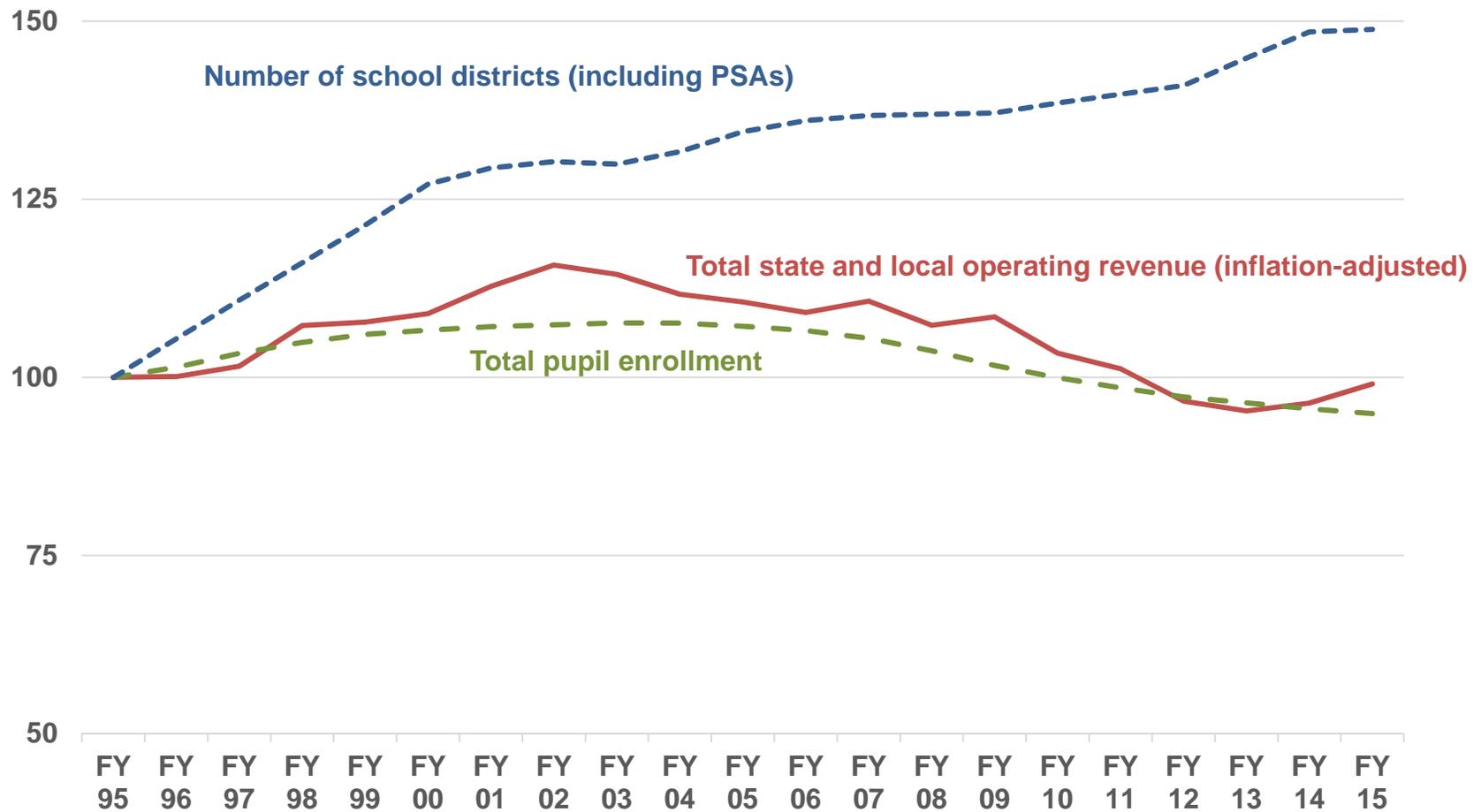


\* FY 15 figures are from May 2014 consensus estimates

# K-12 Enrollment, Operating Revenue, and Number of Districts

(Indexed to 100 for FY 1995)

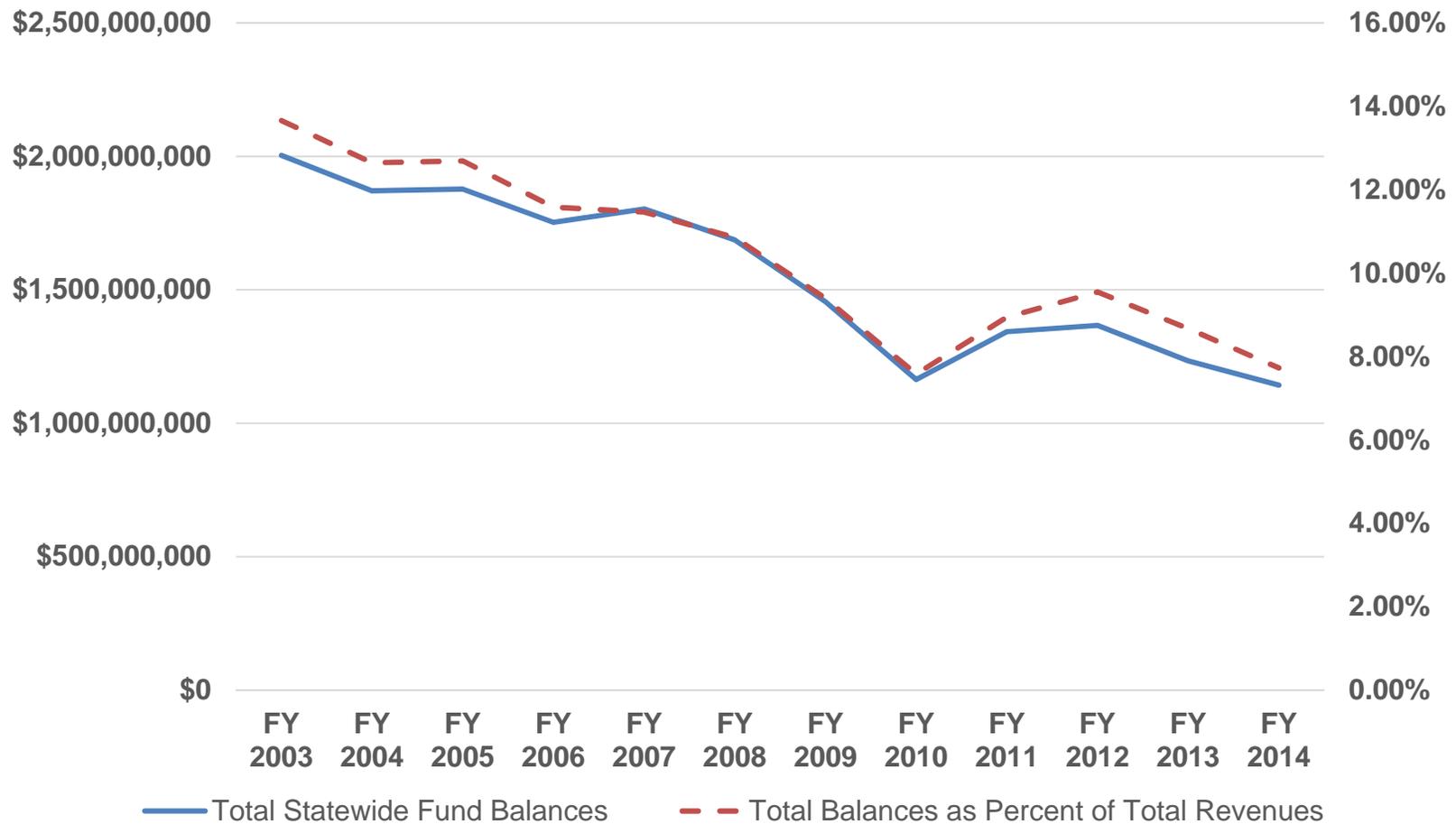
The number of districts statewide, including PSAs, has continued to climb despite declining enrollment and declining revenue, when adjusted for inflation.



# **DISTRICT FUND BALANCES AND DEFICITS**

# District Fund Balances and Deficits

Total fund balances decreased from a high of \$2.0 billion in FY 2002-03 to \$1.1 billion in FY 2013-14. The average statewide total fund balance as a percent of revenues declined from 13.7% in FY 2002-03 to 7.7% in FY 2013-14. During the same period, the number of districts with a deficit increased from 10 to 55.



**For more information about the  
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