



Background Briefing

SCHOOL AID

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January 2014

The fiscal information in this background briefing is based on data through January 10, 2014.

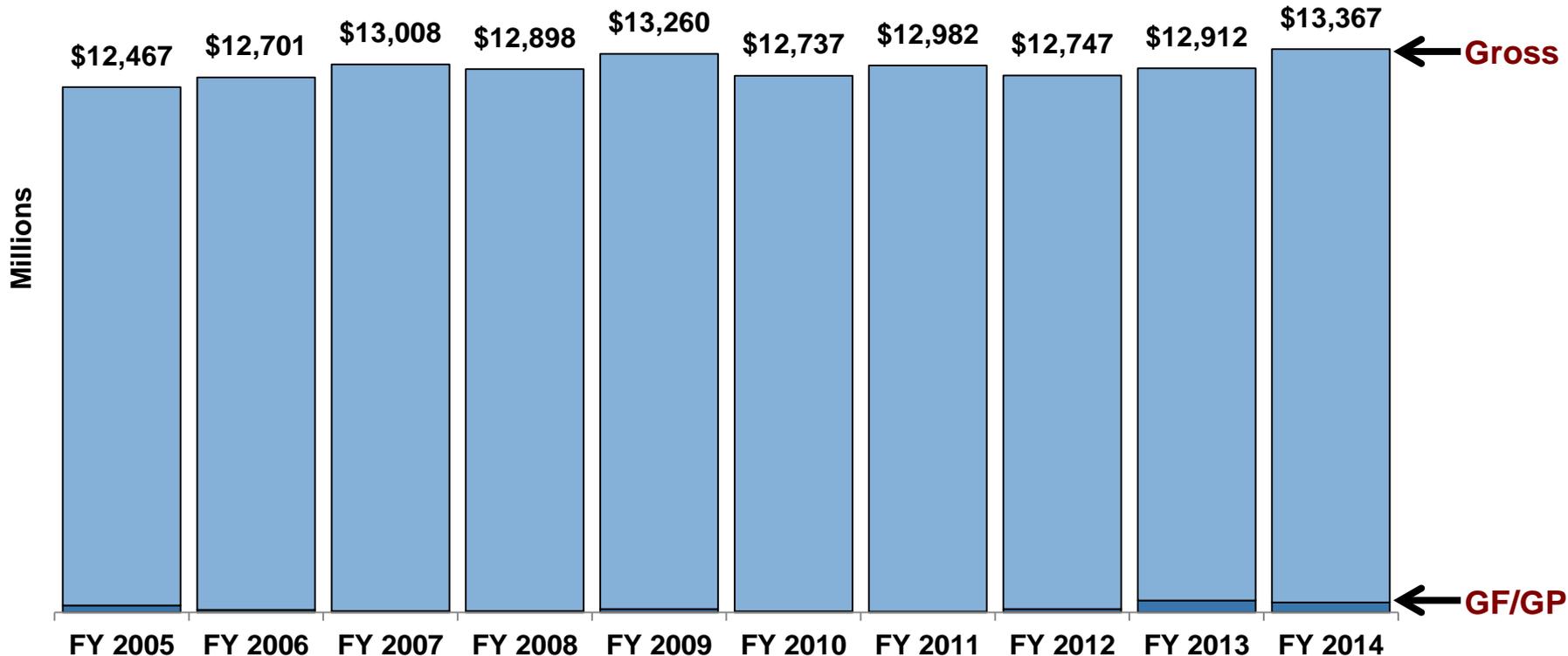
School Aid Budget

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 have remained fairly flat over the last ten years.
In FY 2013-14 gross appropriations are 7.2% higher than in FY 2004-05.



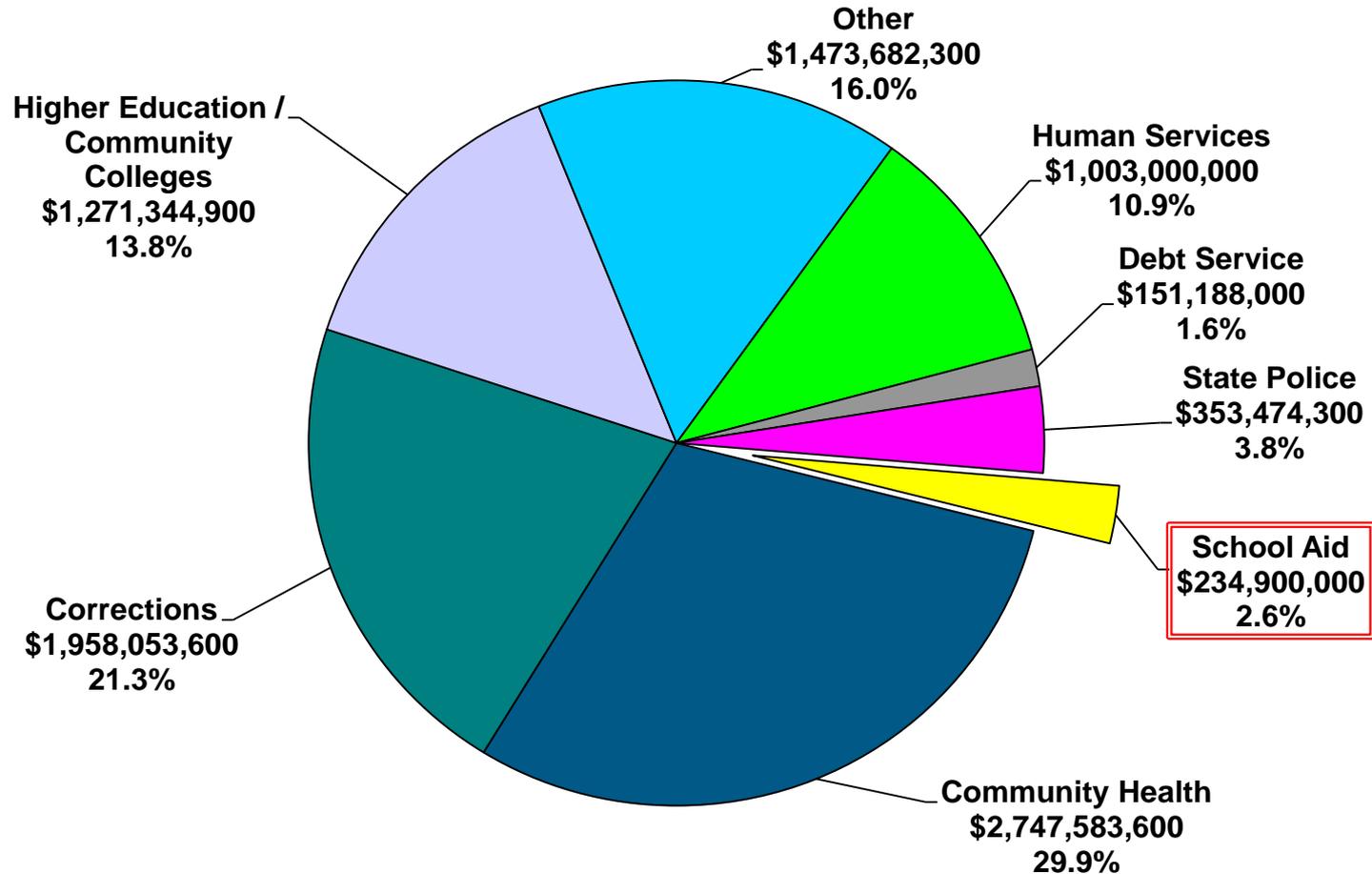
Notes:

1. Beginning in FY 2009 figures include a \$342 million shift from local expenditures to State School Aid associated with business tax changes.
2. FY 2009 through FY 2011 each include between \$450 million and \$600 million in contributions from Federal ARRA and EdJobs funding.

School Aid Share of State GF/GP

The School Aid budget makes up 2.6% of the total state GF/GP budget

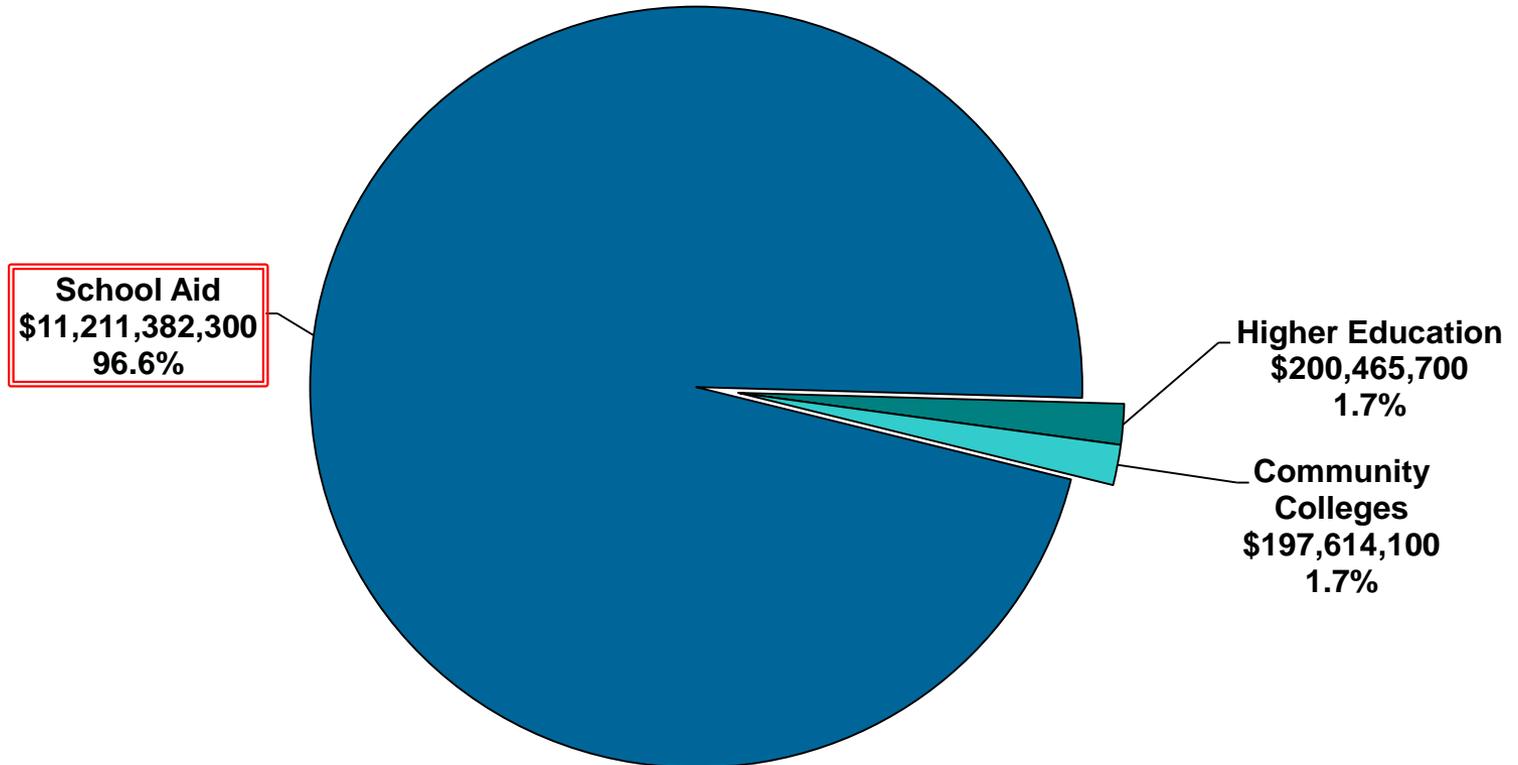
FY 2013-14 GF/GP Total = \$9,193,226,700



School Aid Budget Share of School Aid Fund

The School Aid budget receives 96.5% of the total state School Aid Fund (SAF) appropriations

FY 2013-14 SAF Total Appropriations = \$11,609,462,100

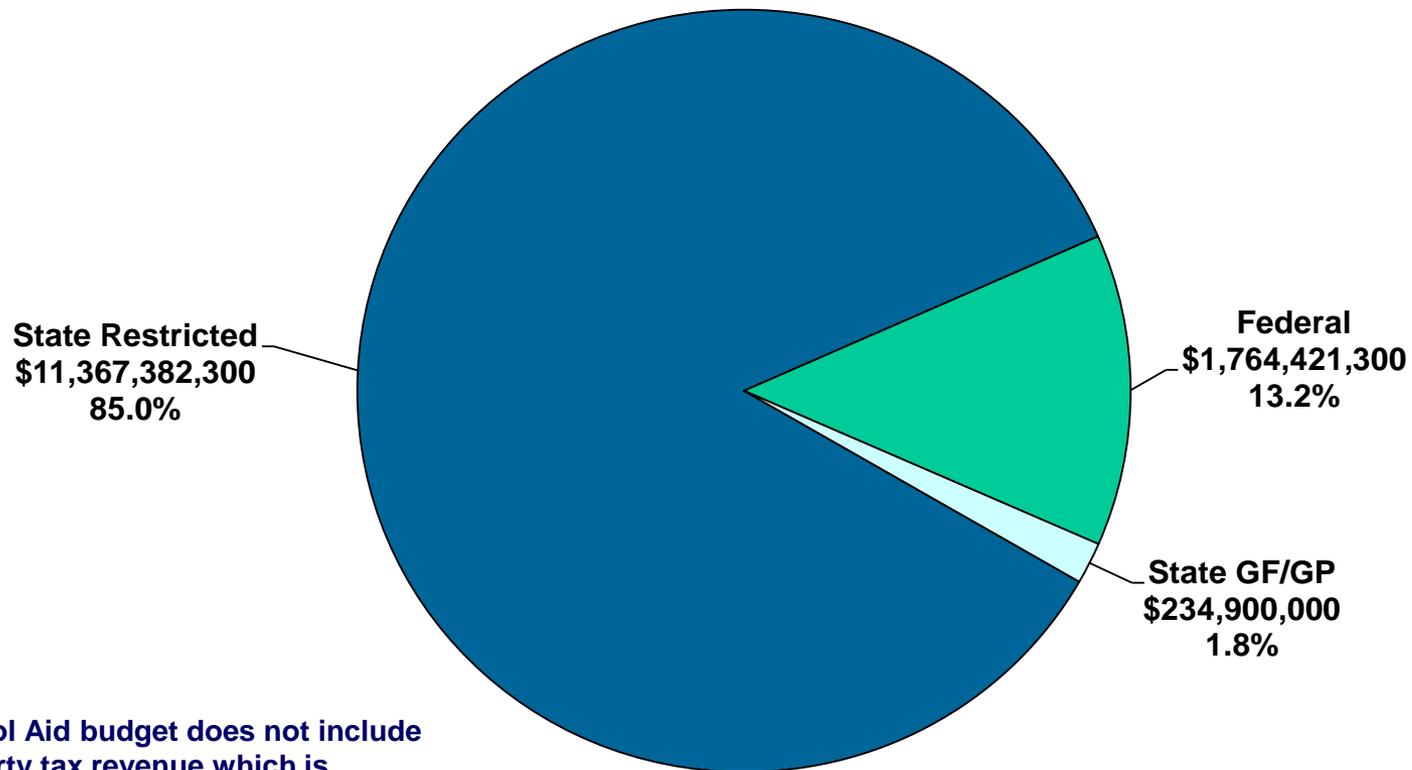


SOURCES OF FUNDING

School Aid Funding Sources

School Aid Fund restricted funds are the largest revenue source in the School Aid budget

FY 2013-14 School Aid Budget = \$13,366,703,600



* The School Aid budget does not include local property tax revenue which is collected and retained locally.

SCHOOL AID APPROPRIATIONS

School Aid Appropriations

The School Aid Budget includes the following major spending categories :

- **Foundation Allowances**

- Provides per pupil payment for general school operations
- \$8.9 billion or 66.9% of the School Aid Budget

- **Special Education**

- Reimburses districts for a portion of their special education costs
- \$1.4 billion or 10.7% 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
- \$504.6 million or 3.8% of the School Aid budget

- **At-Risk Programs**

- Additional funds to help students at risk of academic failure
- \$309.0 million or 2.3% 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.
 - \$185.5 million or 1.4% of the School Aid Budget

- **Best Practices Incentive Grants**
 - Provides \$52 per pupil to districts meeting 7 of 8 requirements.
 - \$80.0 million or 0.6% of the School Aid Budget

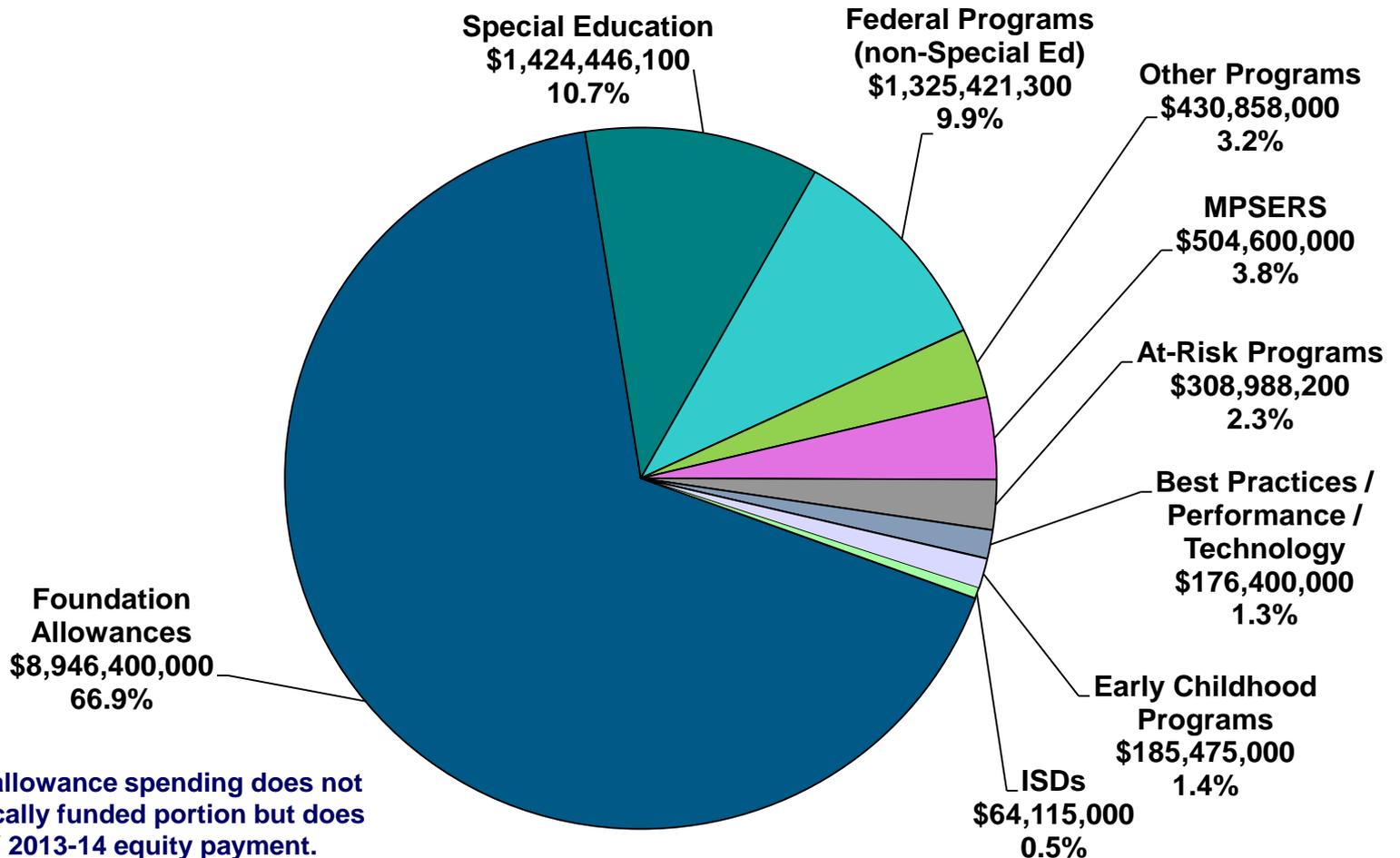
- **Technology Infrastructure Improvement Grants**
 - Provides grants to prepare districts for increasing technology infrastructure needs
 - \$50.0 million or 0.4% of the School Aid Budget

- **District Performance Funding**
 - Provides up to additional \$100 per pupil to districts meeting performance requirements in reading and math
 - \$46.4 million or 0.4% of the School Aid Budget

School Aid Appropriations

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

FY 2013-14 School Aid Budget = \$13,366,703,600



* Foundation allowance spending does not include the locally funded portion but does include the FY 2013-14 equity payment.

MAJOR BUDGET TOPICS

Major School Aid Topics

- **School Aid Revenues**
- **Foundation Allowances**
- **Special Education Funding**
- **MPSERS Funding**
- **Types of Schools**
- **Declining Enrollment**
- **District Fund Balances and Deficits**

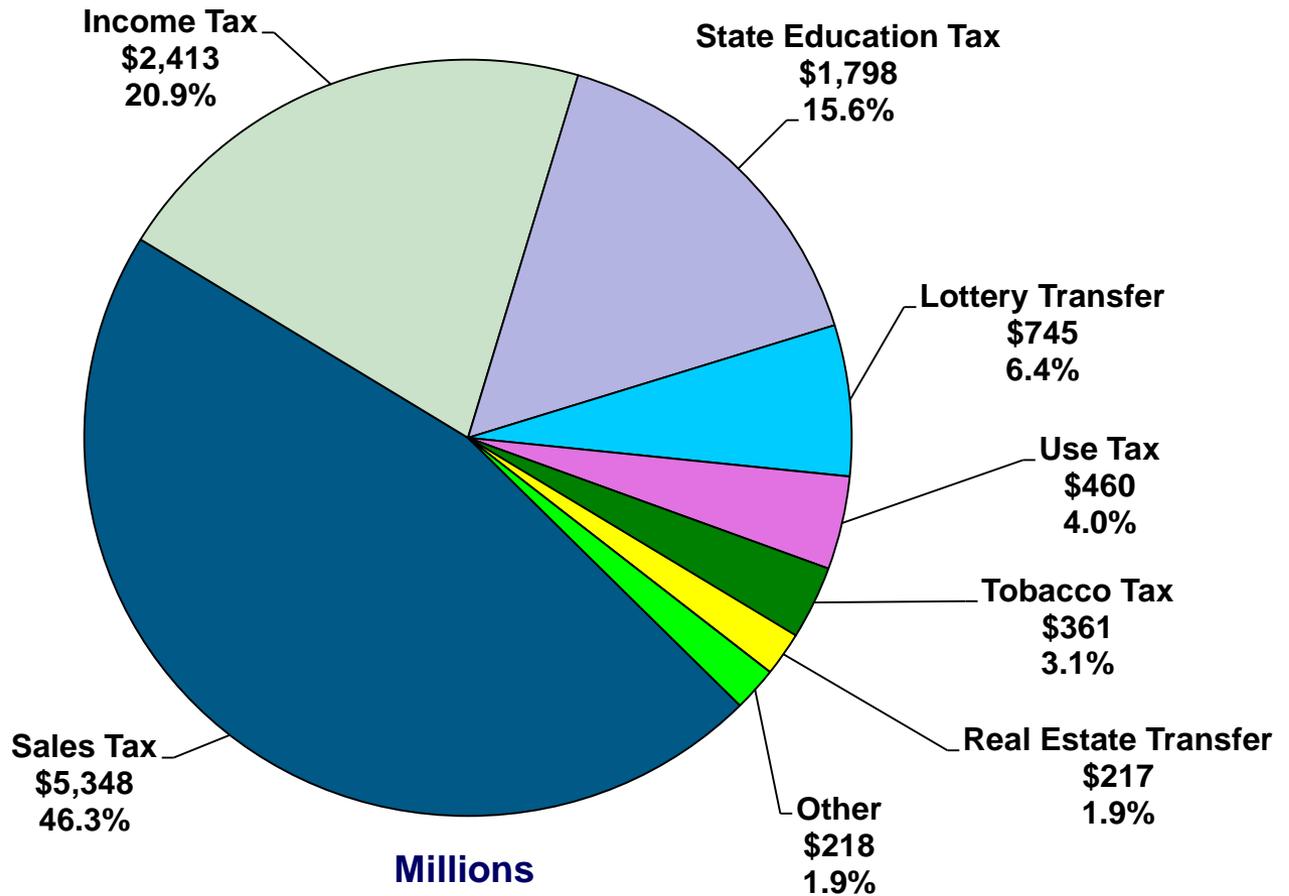
SCHOOL AID REVENUE

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 \$11.6 billion in revenue *(estimated)* for FY 2013-14
- Largest sources of SAF revenue are shown on next slide

SAF Revenue Sources

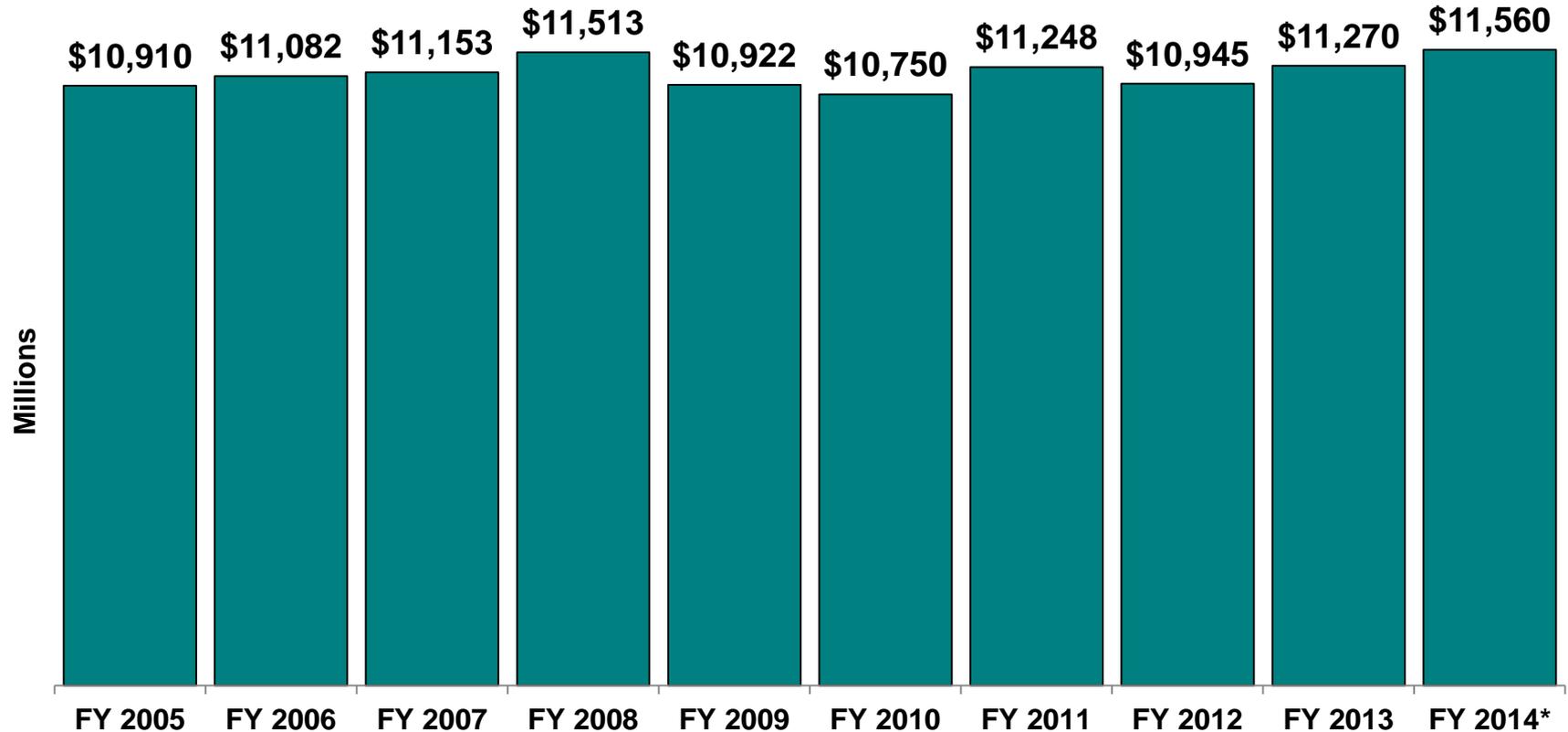
FY 2013-14 Total = \$11,560.0 Million



Figures based on
Jan 2014 Revenue
Estimating Conference

SAF Revenue History

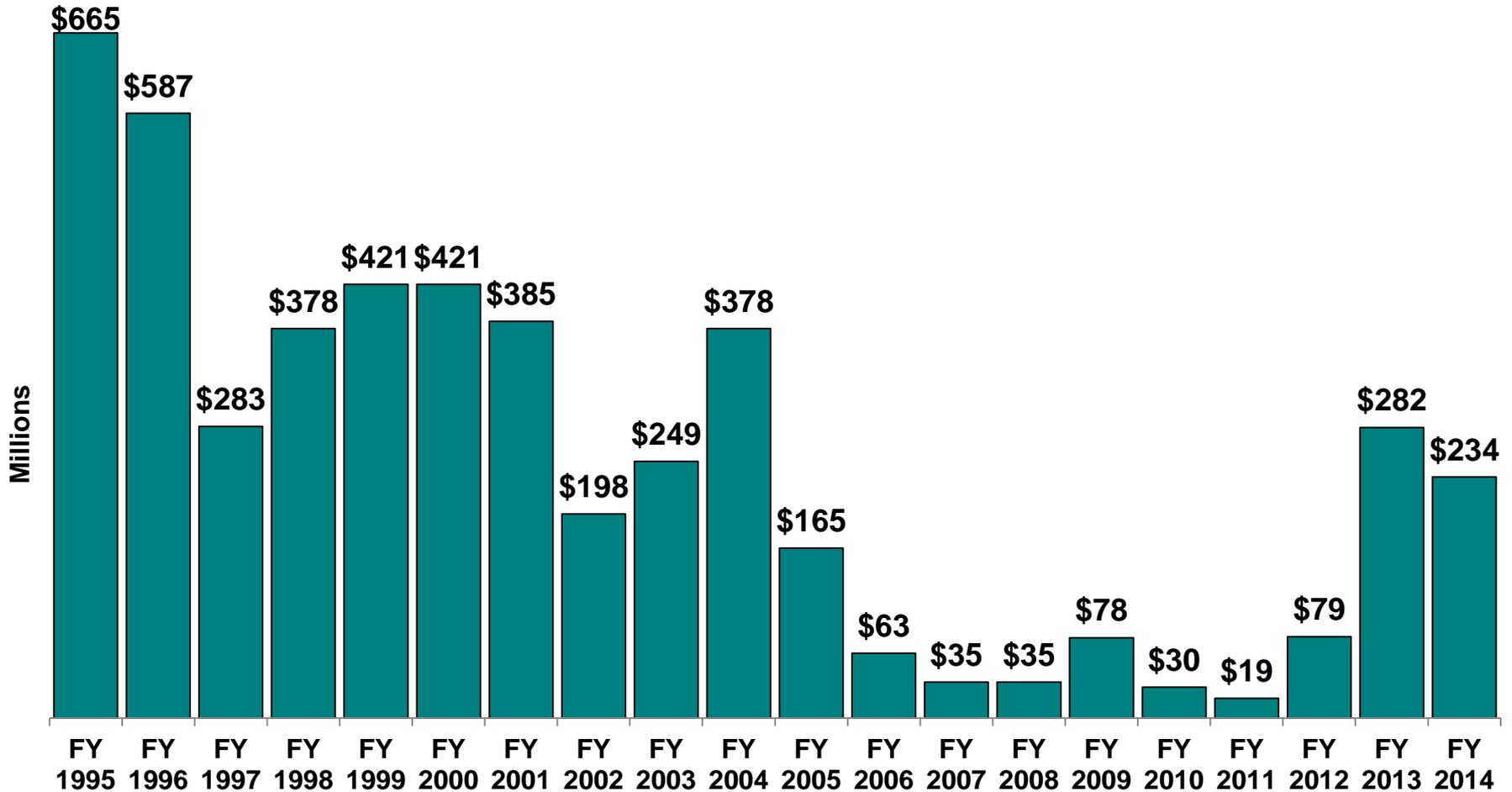
School Aid Fund is estimated to collect nearly \$11.6 billion in FY 2013-14, now exceeding its previous high of \$11.5 billion in FY 2007-08



* FY 2014 figures from Jan 2014 Revenue Estimating Conference

GF/GP Contribution to School Aid

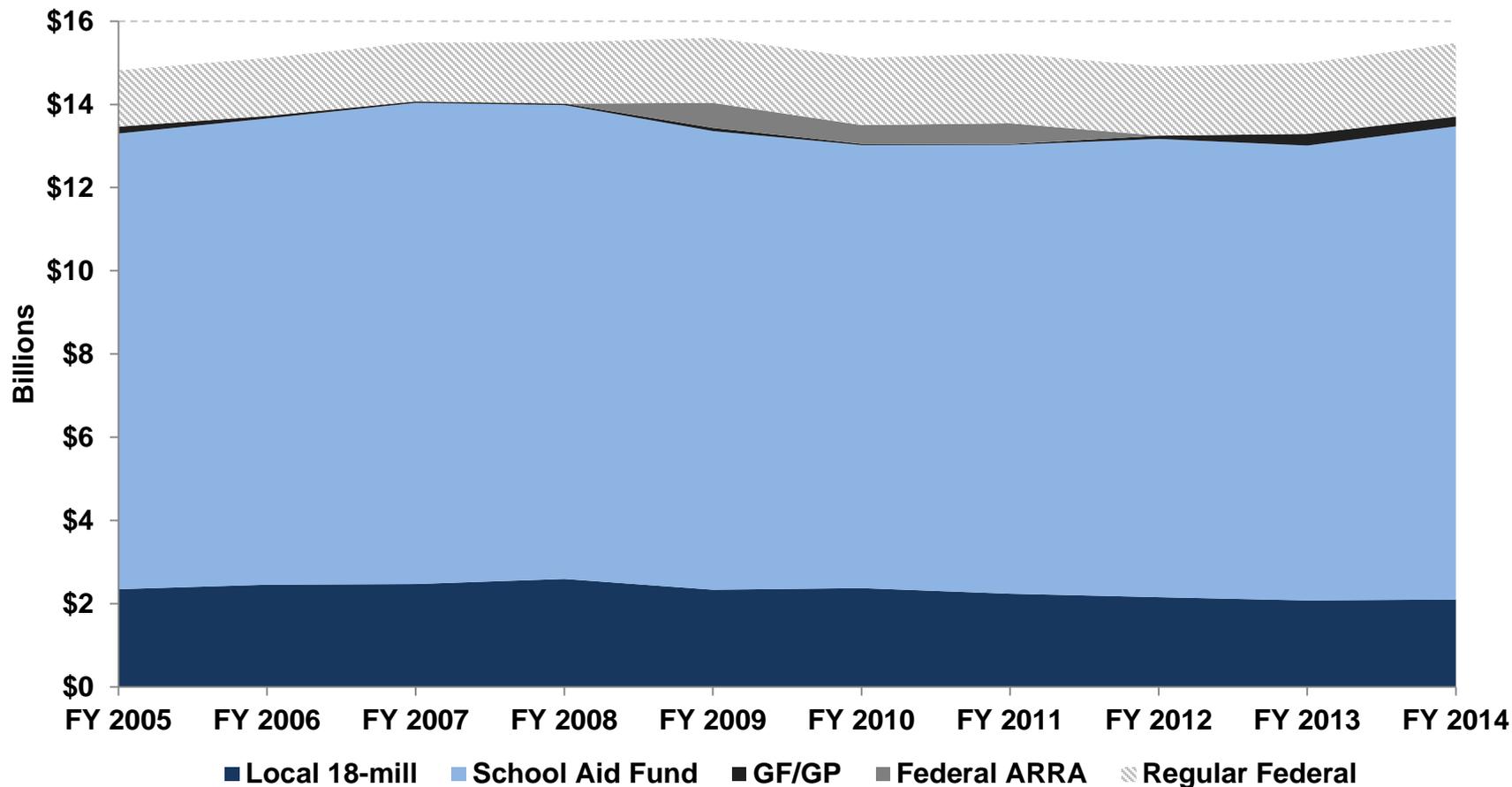
GF/GP will contribute \$235 million to the School Aid Budget in FY 2013-14



School Aid Funding

Local 18-mill Levy and State Appropriations

Excluding federal funds dedicated for specific purposes, total FY 2013-14 funding for schools is at the same level as FY 2005-06 (not adjusted for inflation).



ARRA: Federal American Recovery and Reinvestment Act of 2009

School Aid Balance Sheet: FYs 14 and 15

(Dollars in Millions)

	YTD	Baseline
	<u>FY 2013-14</u>	<u>FY 2014-15</u>
REVENUE		
Beginning Balance	\$291.5	\$351.3
School Aid Fund (SAF) Revenue	11,560.0	11,931.8
General Fund/General Purpose (GF/GP)	234.9	234.9
Federal Funds	1,764.4	1,764.4
<u>MPERS Reserve Fund</u>	<u>156.0</u>	<u>18.0</u>
TOTAL REVENUE	\$13,715.3	\$13,949.1
EXPENDITURES		
K-12: FY 14 YTD and FY 15 Baseline	\$13,257.4	\$13,502.6
<u>FY 15 Exec Rec Preschool Increase</u>	<u>---</u>	<u>65.0</u>
Subtotal K-12 Expenditures	\$12,928.7	\$13,567.6
Subtotal Post Secondary Expenditures	<u>\$398.1</u>	<u>\$398.1</u>
<u>TOTAL EXPENDITURES</u>	<u>\$13,655.5</u>	<u>\$13,965.7</u>
Total Change in current year Balance	\$59.8	(\$16.6)
ESTIMATED ENDING BALANCE	\$351.3	\$334.7

FOUNDATION ALLOWANCES

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 2013-14, varies for K-12 districts from a low of \$7,076 per pupil to a high of \$11,884

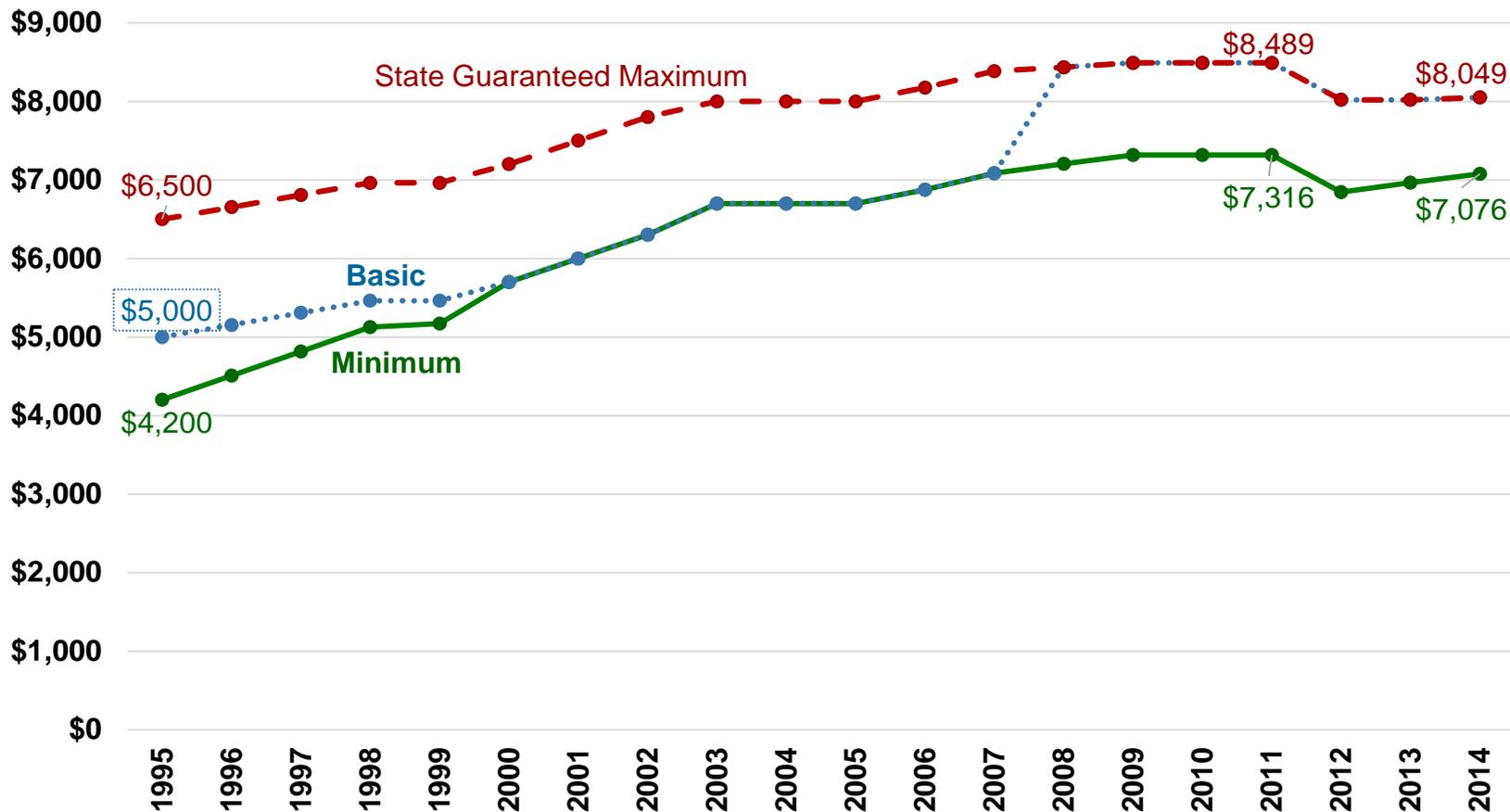
“Basic” Foundation Allowance

- **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 2013-14**, the legislature increased the Basic foundation by \$30 and increased the minimum foundation by \$60 plus a \$50 equity payment for a total of \$110 per pupil.

Foundation Allowance History

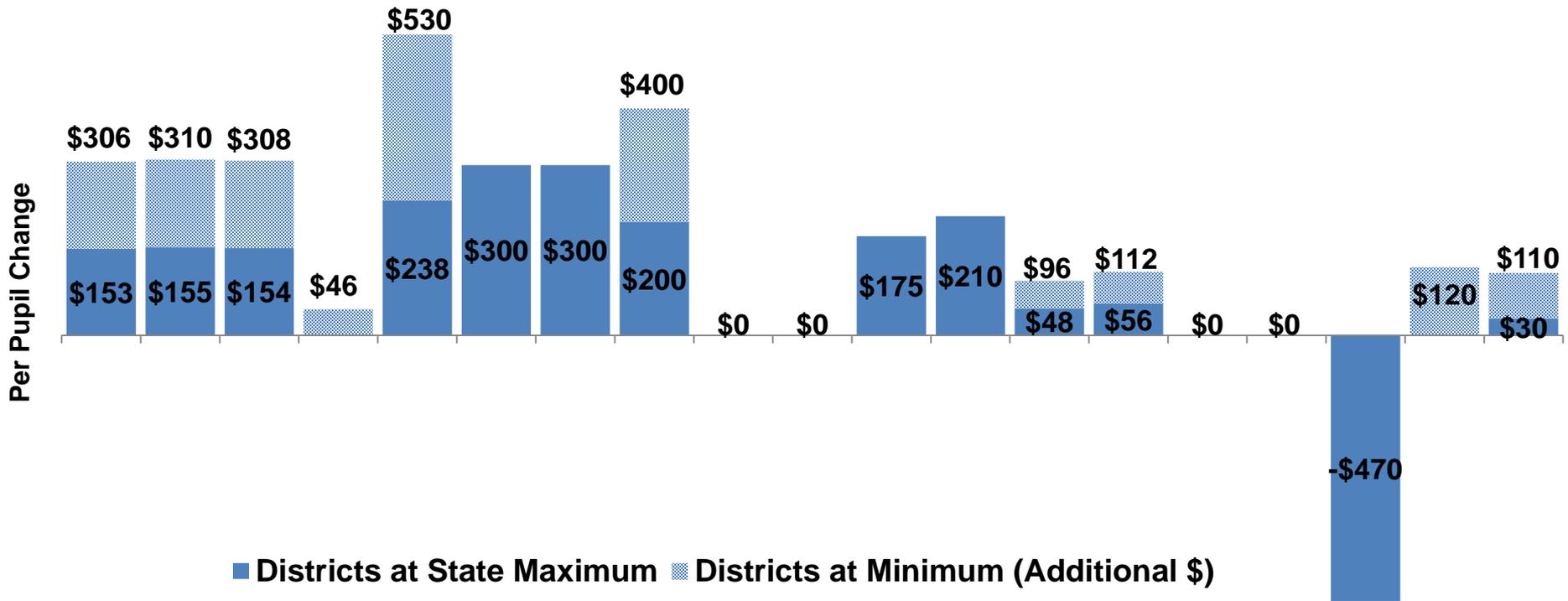
Growth Since Proposal A

In FY 2013-14, a 2x formula increase plus an equity payment will bring the Minimum foundation allowance up by \$110, while the State Guaranteed Maximum increases by just \$30, decreasing the gap between the two to \$973.



*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



FY 96 FY 97 FY 98 FY 99 FY 00 FY 01 FY 02 FY 03 FY 04 FY 05 FY 06 FY 07 FY 08 FY 09 FY 10* FY 11* FY 12 FY 13* FY 14*

***Notes:**

1. FY 2010 school district funding was reduced \$154 per pupil, and FY 2011 funding was reduced an additional \$16 per pupil.
2. For FY 2013 districts with a foundation allowance below \$6,966 received an equity payment of up to \$120 per pupil.
3. For FY 2014 foundation increases ranged from \$30-\$60, with districts with a foundation allowance below \$7,026 also receiving an equity payment of up to \$50 per pupil.

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

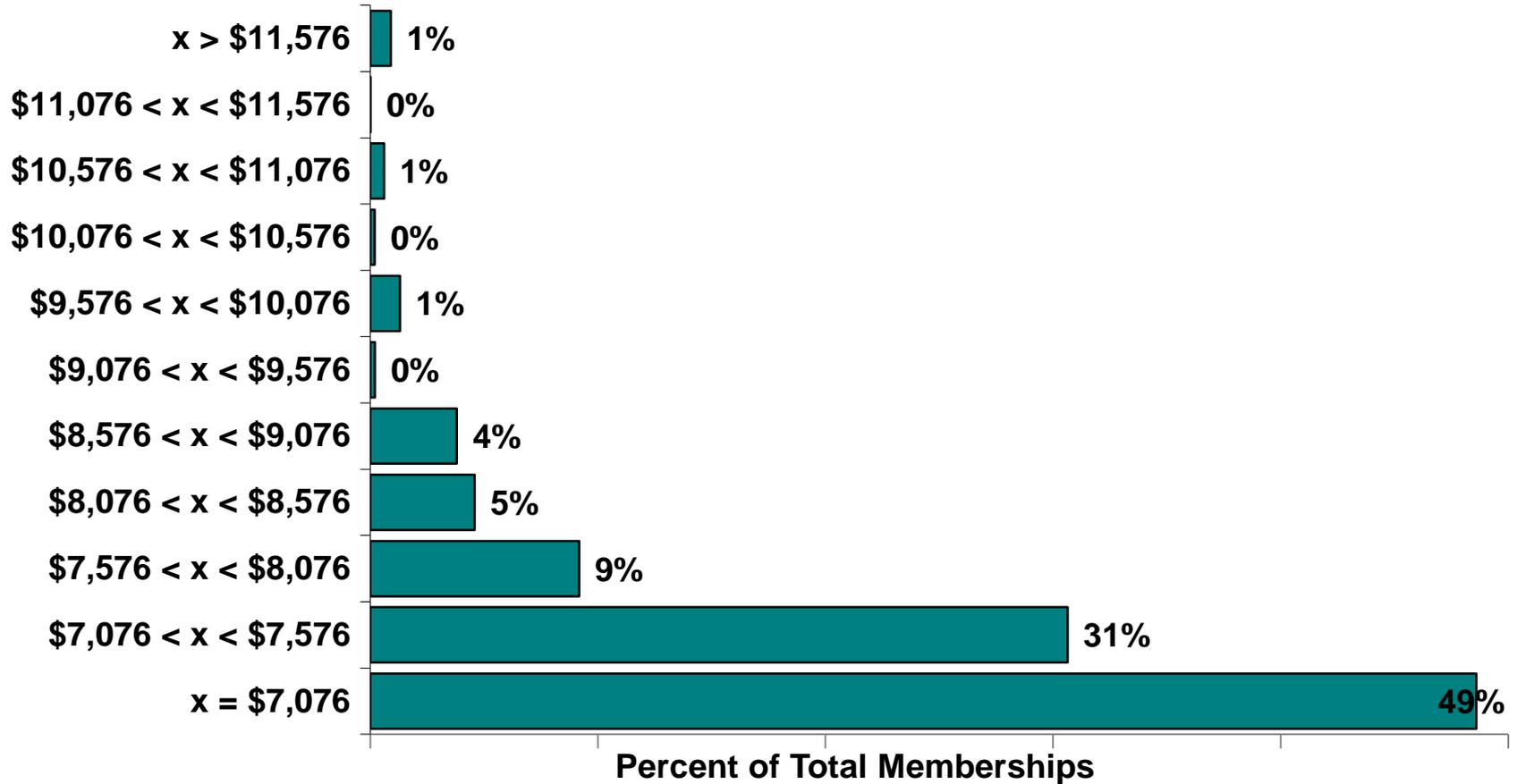
- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost \$6,900 or 3:1
- In FY 2013-14, the difference between the highest and lowest K-12 district is \$4,808, less than 1.7:1
- In FY 2013-14, excluding the 36 hold harmless districts whose revenue per pupil exceeds the Basic foundation allowance, the difference between the top and the bottom has been reduced to \$973, down from a gap of \$2,300 when Proposal A was first implemented

Equity Among Districts

FY 2013-14 Pupil Distribution

80% of pupils are concentrated in districts with a foundation allowance at or within \$500 of the minimum foundation \$7,076

x = Foundation Per Pupil



SPECIAL EDUCATION FUNDING

Special Education Funding

- **Second largest School Aid appropriation in FY 2013-14**
 - \$980.4 million state dollars
 - \$444.0 million federal dollars

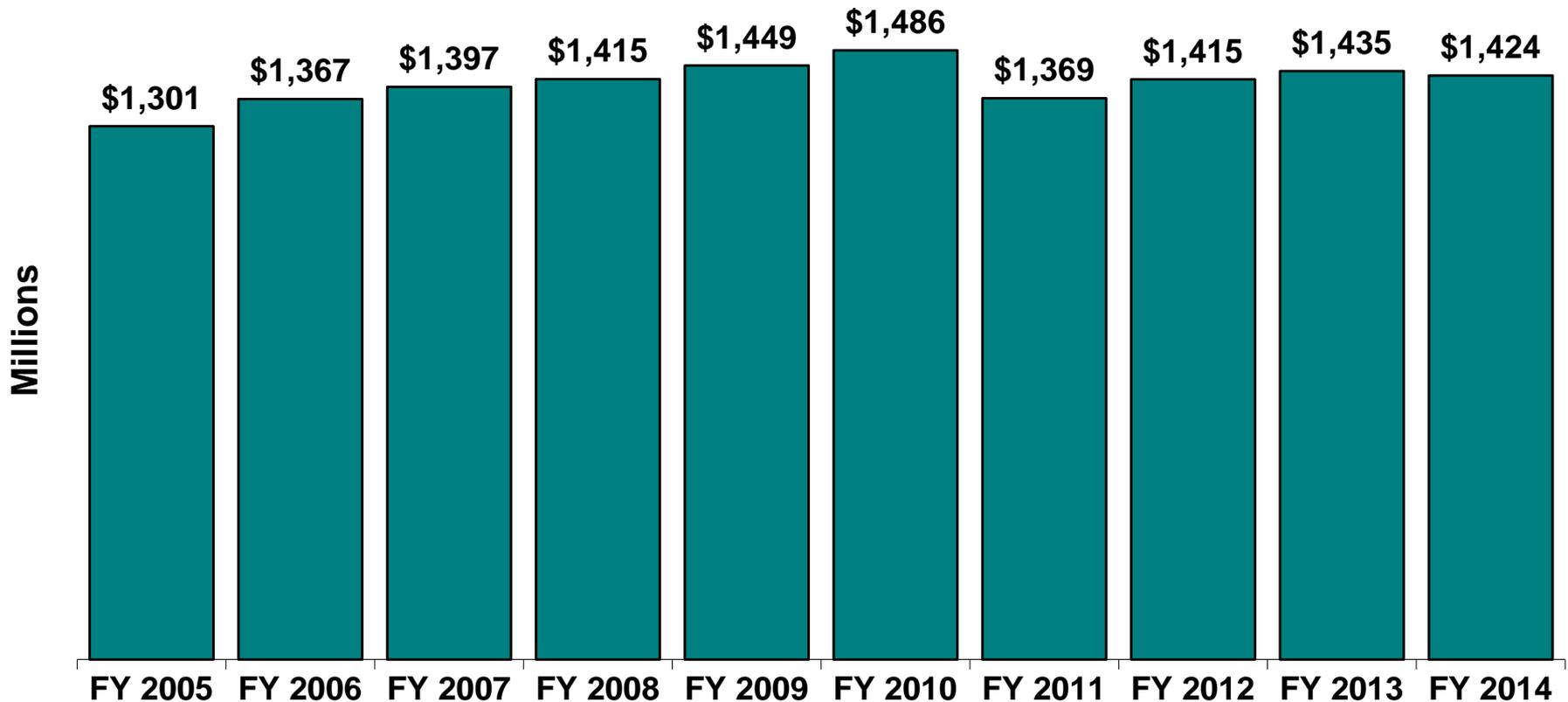
- **Reimburses school districts for the costs of educating special education students**

- **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 additional \$909.5 million in FY 2013-14.**

Special Education Appropriations

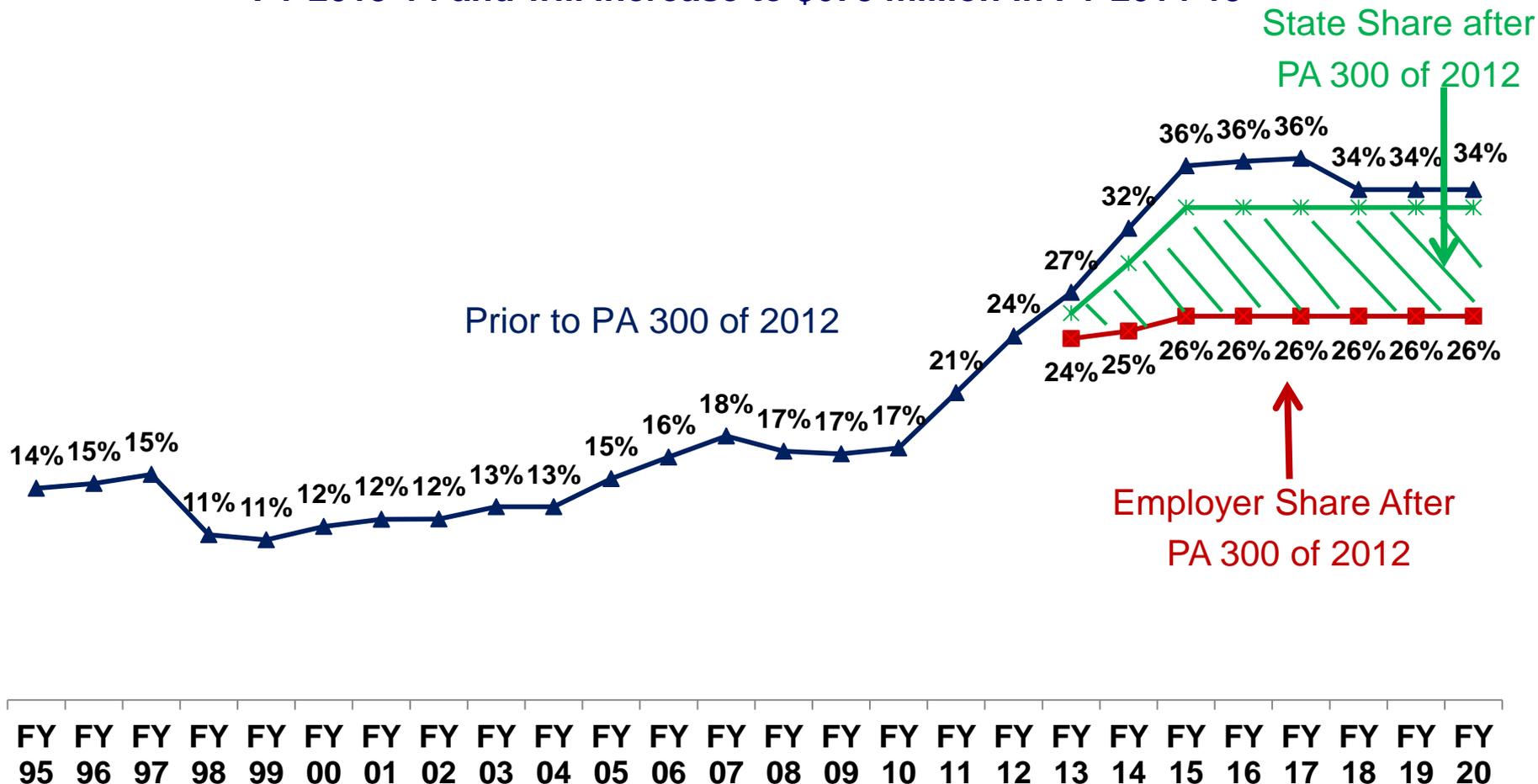
This categorical is 9.5% higher in FY 2013-14 than in FY 2004-05, however Special Ed appropriations are 4.1% lower in FY 2013-14 than its recent high in FY 2010



MPSERS COSTS

MPERS Employer Contribution Rates History and Future Projections

The state portion of the MPERS contribution rate is \$403 million in FY 2013-14 and will increase to \$673 million in FY 2014-15



Note: Future projected rates are from Office of Retirement Services based on current actuarial valuation.

TYPES OF SCHOOLS

Traditional, Locally Governed School Districts

- **Traditional local school districts have defined boundaries and locally elected school boards**
- **548 traditional local districts**
- **1,377,050 pupils or 90.4% of the statewide public pupil membership**

Public School Academies

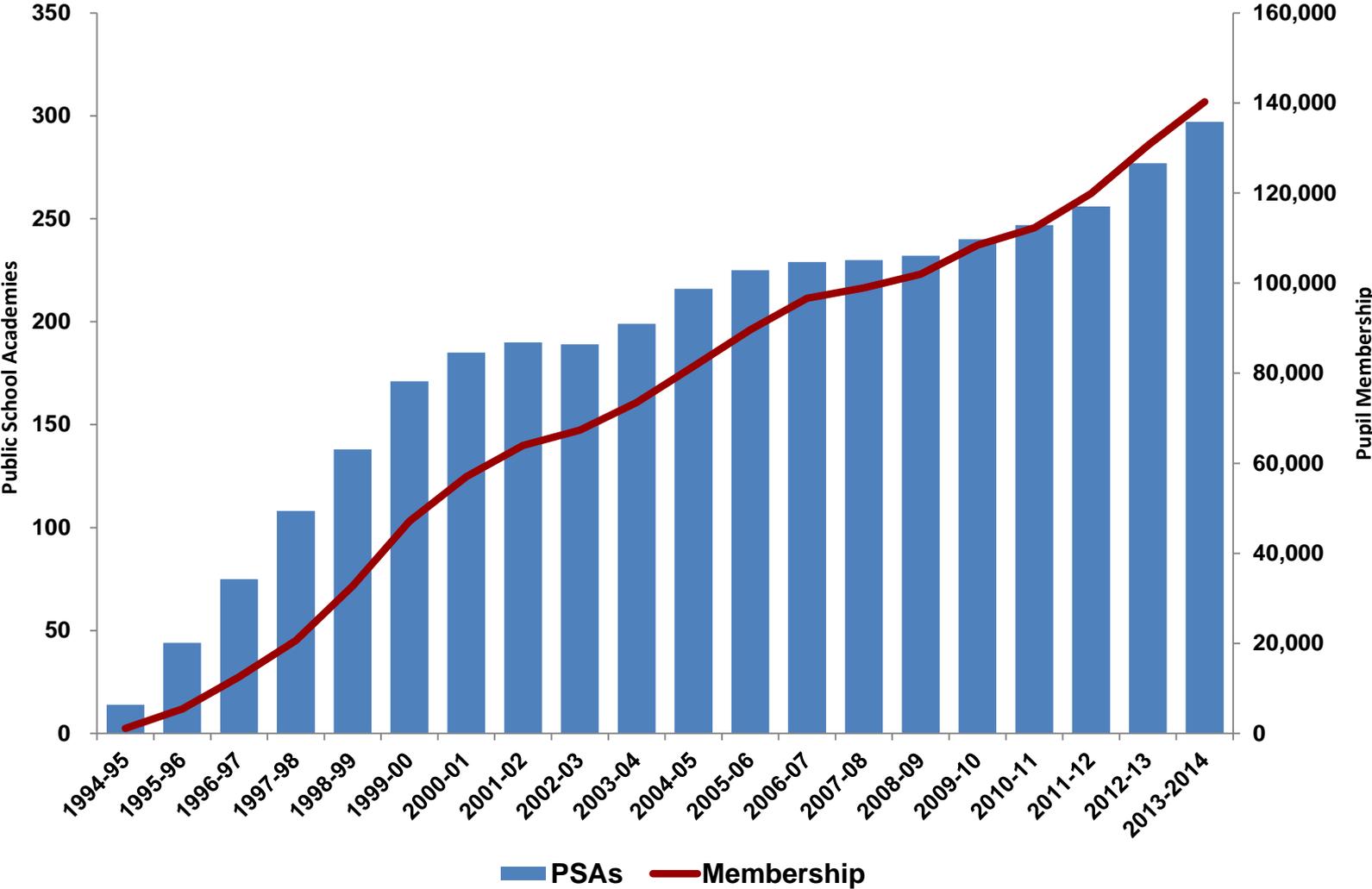
- **Public School Academies (PSAs) are independent public schools formed by individuals or groups to provide students and parents a public alternate to traditional school districts**
- **PSAs are authorized to operate by public universities, community colleges, intermediate school districts, local school 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

- 297 Public School Academies
- 140,275 pupils in PSAs or 9.2% of statewide pupil membership
- Average size of a PSA is about 470 pupils per school
- FY 2013-14 PSA foundation allowance equals the lower of:
 - Foundation allowance of the school district in which it is physically located or
 - \$7,168 per pupil

Public School Academies

Number of PSAs 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 2013-14**
 - **2 original cyber schools from FY 2010-11 with enrollment totaling 5,170**
 - **5 new cyber schools in FY 2013-14 with initial enrollment totaling 910**

Education Achievement Authority (EAA)

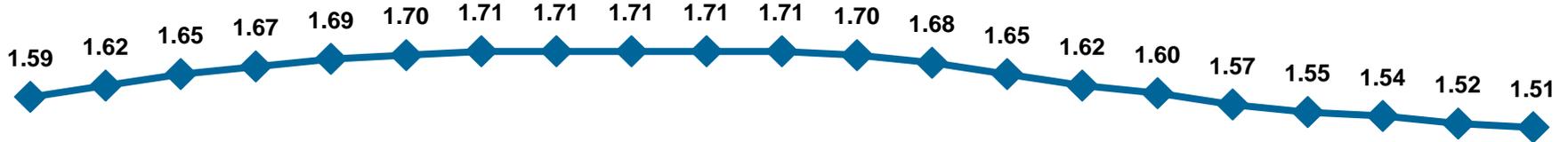
- Created by an inter-local agreement between Detroit Public School (DPS) and Eastern Michigan University in August 2011
- EAA assumed control of 15 DPS schools in FY 2012-13
 - 9 elementary/middle schools
 - 6 high schools
 - EAA converted 3 schools to a PSA
 - Total enrollment in the EAA and its PSA dropped from 9,300 in FY 2012-13 to 7,525 in FY 2013-14
- 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. Over 2/3 of all traditional (non-PSA) districts and over 1/3 of PSAs experienced declining enrollment from FY 2012-13 to FY 2013-14.



Pupil Blend (% current fall/% prior Feb)

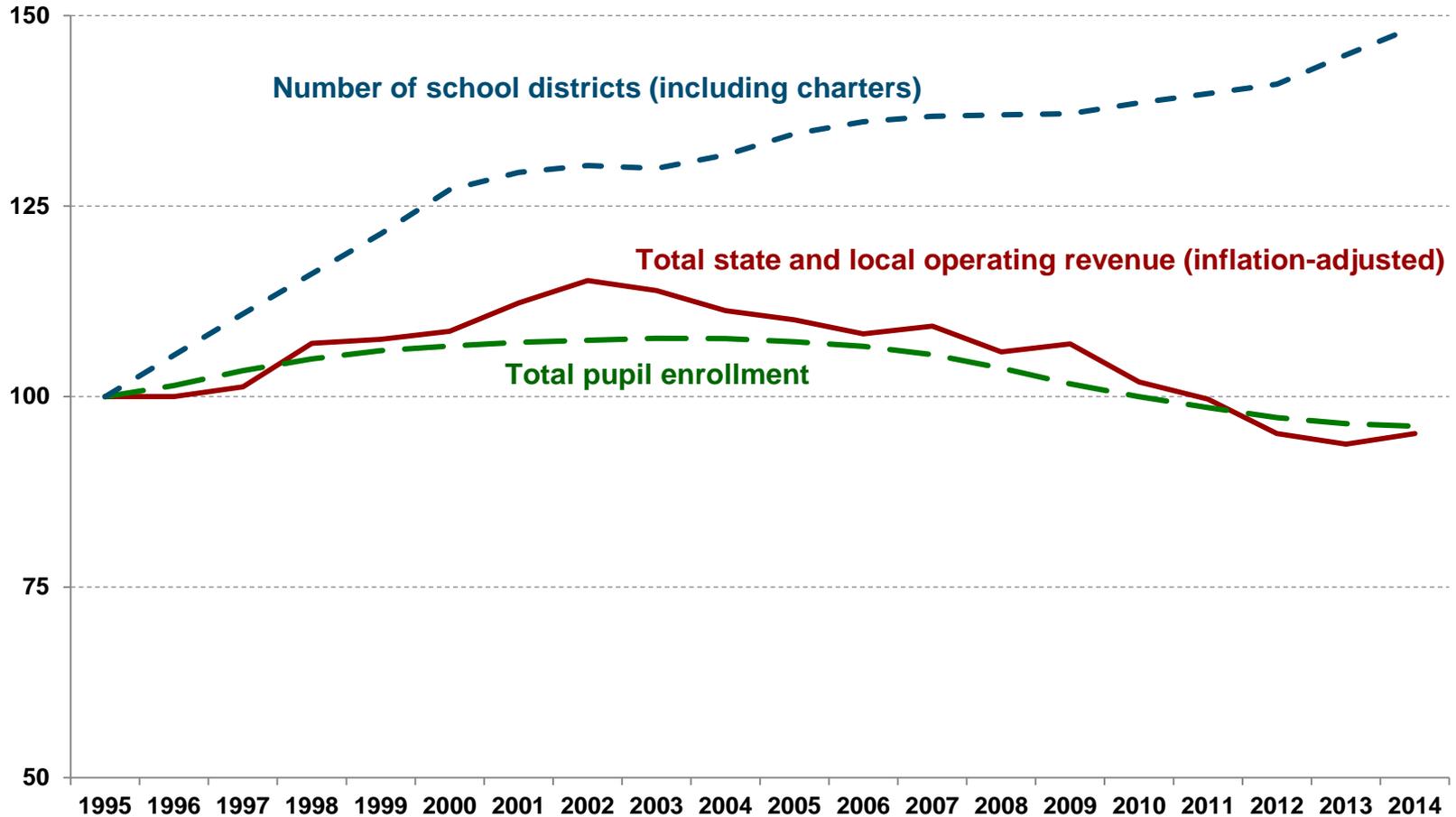
- 50/50 FYs 95–97
- 60/40 FYs 98–99
- 75/25 FY 00
- 80/20 FYs 01–04
- 75/25 FYs 05–11
- 90/10 FY 11-13
- 90/10 current Feb FY 14

FY	FY																			
95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14*	15*

* FYs 14 and 15 figures are from Jan 2014 consensus estimates

K-12 Enrollment, Operating Revenue, Number of Districts

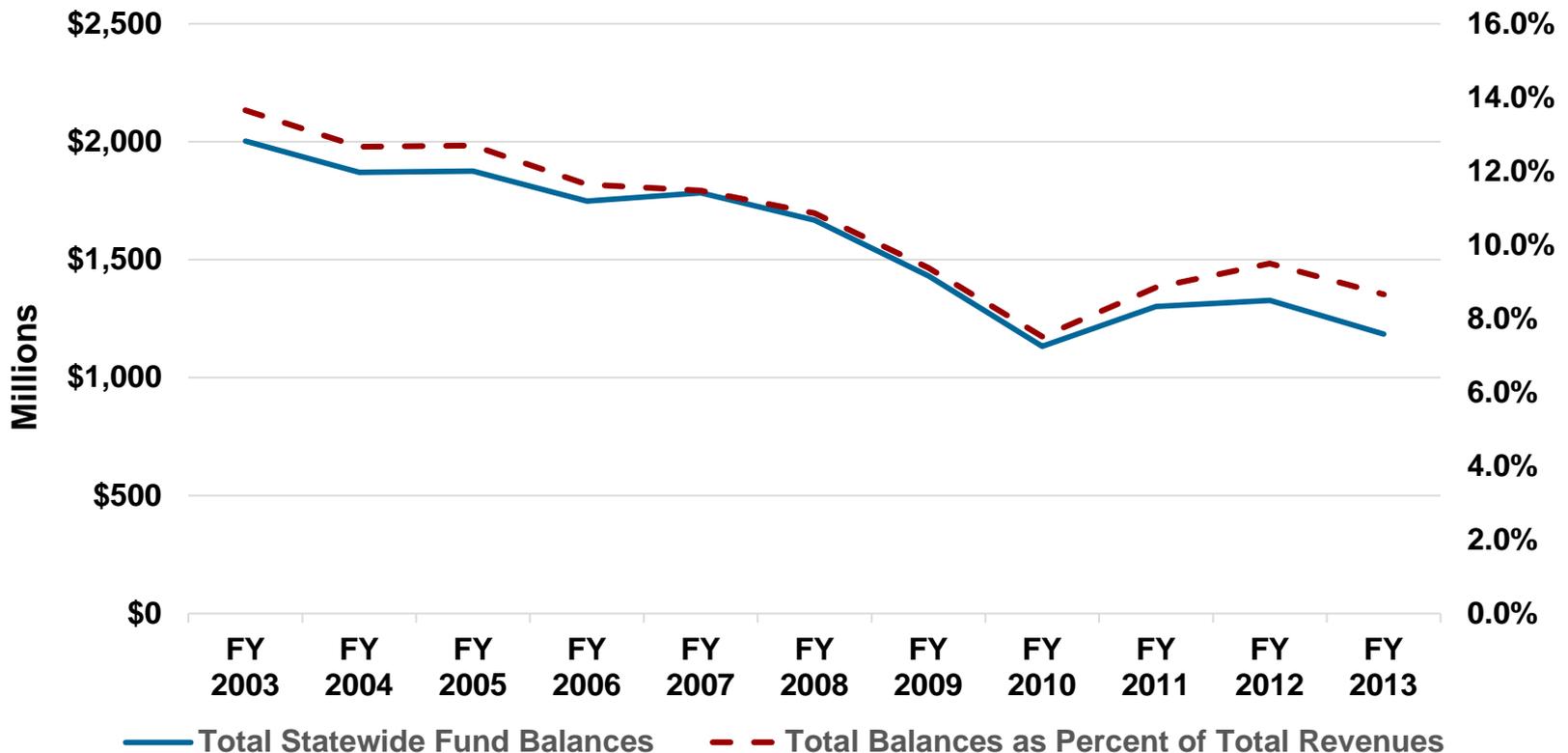
Indexed to 100 for FY 1995



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 \$1.2 billion in FY 2012-13. Total fund balances as a percent of revenues declined from 13.7% in FY 2002-03 to 8.7% in FY 2012-13. During the same period, the number of districts with a deficit increased from 10 to 46.



District Fund Balances

There are 46 districts that ended FY 2012-13 with a deficit. While another 165 districts, or 20%, have a positive fund balance which is less than 5% of revenues. 300 districts, or 37%, of districts have a fund balance exceeding the recommended level of 15% of revenues.

Fiscal Year	In Deficit	0% - 1%	1% - 5%	5% - 10%	10% - 15%	Greater than 15%
2003						
#	10	36	90	125	146	338
%	1.4	4.9	12.2	17.0	19.9	46.0
2013						
#	46	64	101	163	134	302
%	5.7	7.9	12.4	20.1	16.5	37.2

**For more information about the
School Aid budget, contact:**

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