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 (MPSERS)
  - At-Risk Program
  - Early Childhood
  - One-Time Categoricals
  - 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 537 local school districts, 285 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 Department of Labor and Economic Opportunity, 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 2023-24 is October 1, 2023 through September 30, 2024.

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

**Boilerplate:** Specific language sections in a budget bill that 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 2023-24 School Aid Budget

<table>
<thead>
<tr>
<th>Fund Source</th>
<th>Funding</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Appropriations</td>
<td>$21,463,651,300</td>
<td>Total spending authority from all revenue sources</td>
</tr>
<tr>
<td>Interdepartmental Grants (IDG) Revenue</td>
<td>0</td>
<td>Funds received by one state department from another state department, usually for services provided</td>
</tr>
<tr>
<td>Adjusted Gross Appropriations</td>
<td>$21,463,651,300</td>
<td>Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas</td>
</tr>
<tr>
<td>Federal Revenue</td>
<td>2,204,793,500</td>
<td>Federal grant or matching revenue; generally dedicated to specific programs or purposes</td>
</tr>
<tr>
<td>Local Revenue</td>
<td>0</td>
<td>Revenue received from local units of government for state services</td>
</tr>
<tr>
<td>Private Revenue</td>
<td>0</td>
<td>Revenue from individuals and private entities, including payments for services, grants, and other contributions</td>
</tr>
<tr>
<td>State Restricted Revenue</td>
<td>19,170,957,800</td>
<td>State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue</td>
</tr>
<tr>
<td>State General Fund/General Purpose (GF/GP) Revenue</td>
<td>$87,900,000</td>
<td>Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the legislature</td>
</tr>
</tbody>
</table>
FY 2023-24 Fund Sources

89% of the $21.5 billion School Aid budget is funded by state restricted revenue, almost all of which is School Aid Fund (SAF) revenues.
The School Aid budget represents a quarter of the $80.7 billion state budget (adjusted gross) for FY 2023-24.
The School Aid budget is less than 1% of the state’s $15.3 billion GF/GP budget for FY 2023-24.
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

The School Aid budget represents 95% of the state’s $19.4 billion SAF appropriations for FY 2023-24.
Funding for School Aid has grown by **68%** over the last 15 years, with **30%** 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.
The amount included to hold districts harmless from increasing retirement liability costs is $2.4 billion in FY 2023-24. Since FY 2009-10, non-MPSERS funding has increased by 52%.
Appropriation Areas
School Aid Appropriation Areas

**Foundation Allowance:** Provides per-pupil payment for general school operations.

**Michigan Public School Employees’ Retirement System (MPSERS):** Contributes a portion of annual retirement costs.

**Federal Programs (Non-Special Ed):** Primarily school food programs and Every Student Succeeds Act (ESSA) program funding.

**Special Education:** Both state and federal funds reimburse districts for a portion of their special education costs.

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

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

**Teacher Recruitment/Retention:** Provides future educator scholarships, a “Grow Your Own” pathway for support staff to become teachers, student teacher stipends, and funding for other recruitment and retention initiatives.
FY 2023-2024 Gross Appropriations

About 49% of the $21.5 billion School Aid budget supports per-pupil foundation allowances used for school district general operations.

- **Foundation Allowances** $10,514,200,000 (49%)
- **MPSERS** $2,474,389,000 (12%)
- **Federal Programs (non-Special Ed)** $1,739,793,500 (8%)
- **Special Education** $2,231,796,100 (10%)
- **At-Risk Programs** $952,000,000 (4%)
- **Early Childhood Programs** $584,720,000 (3%)
- **Teacher Recruitment/Retention** $435,800,000 (2%)
- **Other Programs** $2,526,952,700 (12%)

Note: Does not include Local portion of Foundation Allowances
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 is estimated to receive approximately $18.3 billion in revenue for FY 2024-25 (January 2024 CREC).
- 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 $18.3 billion in total estimated SAF revenue for FY 2024-25.

- **Sales Tax**: $7,996,300,000 (44%)
- **Income Tax**: $3,912,600,000 (21%)
- **State Education Tax**: $2,802,600,000 (15%)
- **Lottery Transfer**: $1,290,000,000 (7%)
- **Use Tax**: $940,300,000 (5%)
- **Real Estate Transfer**: $385,000,000 (2%)
- **Online Gaming/Sports Betting**: $361,700,000 (2%)
- **Other**: $618,500,000 (4%)

*Figures based on January 2024 Revenue Estimating Conference*
SAF revenues are estimated to increase by 1% in FY 2023-24 before increasing by 2% to a total of $18.3 billion in FY 2024-25.

* FYs 2024, 2025, and 2026 figures from January 2024 Revenue Estimating Conference
GF/GP as a Fund Source in the School Aid Budget

The School Aid budget has $87.9 million GF/GP appropriated in FY 2023-24.
## FY 2023-24 School Aid Fund Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>FY 2023-24</th>
<th>Baseline FY 2024-25</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BEGINNING BALANCE</strong></td>
<td>$2,153.6</td>
<td>$525.4</td>
</tr>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Aid Fund (SAF) Revenue</td>
<td>$17,946.8</td>
<td>$18,307.0</td>
</tr>
<tr>
<td>General Fund/General Purpose (GF/GP)</td>
<td>$87.9</td>
<td>$49.8</td>
</tr>
<tr>
<td>Other Restricted Funds</td>
<td>$842.6</td>
<td>$193.9</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>$2,204.8</td>
<td>$2,199.0</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$21,082.1</td>
<td>$20,749.7</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Aid (Adj for consensus revisions)</td>
<td>$21,459.7</td>
<td>$19,224.0</td>
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<tr>
<td>Michigan Department of Education</td>
<td>$40.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>$544.5</td>
<td>$489.0</td>
</tr>
<tr>
<td>Higher Ed</td>
<td>$482.3</td>
<td>$451.2</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td>$22,710.3</td>
<td>$20,164.1</td>
</tr>
<tr>
<td><strong>CURRENT YEAR: REVENUES - EXPENDITURES</strong></td>
<td>($1,628.2)</td>
<td>$585.6</td>
</tr>
<tr>
<td><strong>TOTAL ENDING BALANCE</strong></td>
<td>$525.4</td>
<td>$1,111.0</td>
</tr>
</tbody>
</table>
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 FY 1994-95.

- Districts receive a foundation allowance (per-pupil funding amount) initially determined in FY 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
  - Target (previously known as the Basic) level determined: $5,000
  - State Guaranteed Maximum (Hold-Harmless) level set: $6,500

- In FY 2021-22, the gap between the Minimum and the Target was closed.

- In FY 2023-24, the Target is now set at $9,608. The foundation allowance for cyber schools was held at $9,150.
  - In addition, the Enrollment Stabilization Fund was created to provide districts with declining enrollment an amount equal to the difference between a two-year average blend and the district’s FY 2023-24 pupil count. Funds were deposited to provide coverage for future fiscal years.

- Hold Harmless districts’ foundation allowances range up to a high of $13,443.
“Target” Foundation Allowance

- The “Target,” previously known as the “Basic,” foundation allowance was a goal established in 1994 as part of the Proposal A reforms, and it was set by the legislature each year as the target per-pupil funding level.

- In FY 1999-00, the Minimum foundation allowance caught up to the Target, 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/Target to decrease the funding gap between those at the top and bottom.

- In FY 2007-08, the legislature re-set the Target 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 Target or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.

- In FY 2021-22, the Minimum again caught up to the Target and all non-Hold Harmless, non-cyber districts now receive the same foundation allowance.
Foundation Allowance History
Growth Since Proposal A

The Target is increased by $458 per pupil to $9,608 for FY 2023-24.
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 pays the remaining amount per pupil needed to equal the Target foundation allowance.

- Districts with foundation allowances above the Target (hold harmless districts) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance. There are 21 districts levying hold harmless mills in FY 2023-24.

- Districts whose local revenue exceeds their foundation allowance (out-of-formula districts) do not receive a state share and may keep the revenue that exceeds their statutory foundation. There are 48 out-of-formula districts in FY 2022-23.
FY 2023-24 State/Local Funding Mix Examples

<table>
<thead>
<tr>
<th>Type, District</th>
<th>Foundation</th>
<th>Local</th>
<th>State</th>
<th>HH</th>
<th>NHS Mills</th>
<th>HH Mills</th>
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<tbody>
<tr>
<td>Clarkston</td>
<td>$9,608</td>
<td>$1,089</td>
<td>$8,519</td>
<td>$0</td>
<td>18.0</td>
<td>0.0</td>
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<tr>
<td>Fairview</td>
<td>$9,608</td>
<td>$7,570</td>
<td>$2,038</td>
<td>$0</td>
<td>18.0</td>
<td>0.0</td>
</tr>
<tr>
<td>O-of-F Big Bay</td>
<td>$9,608</td>
<td>$12,150</td>
<td>$0</td>
<td>$0</td>
<td>18.0</td>
<td>0.0</td>
</tr>
<tr>
<td>O-of-F Baldwin</td>
<td>$9,608</td>
<td>$18,164</td>
<td>$0</td>
<td>$0</td>
<td>18.0</td>
<td>0.0</td>
</tr>
<tr>
<td>HH, O-of-F New Buffalo</td>
<td>$11,443</td>
<td>$30,298</td>
<td>$0</td>
<td>$0</td>
<td>18.0</td>
<td>0.0</td>
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<tr>
<td>HH Southfield</td>
<td>$12,410</td>
<td>$6,620</td>
<td>$2,988</td>
<td>$3,023</td>
<td>18.0</td>
<td>10.7</td>
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<tr>
<td>HH Jefferson</td>
<td>$12,619</td>
<td>$3,670</td>
<td>$5,938</td>
<td>$0</td>
<td>18.0</td>
<td>0.0</td>
</tr>
<tr>
<td>HH Birmingham</td>
<td>$13,363</td>
<td>$4,044</td>
<td>$5,564</td>
<td>$3,738</td>
<td>18.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>
Special Education Funding
Special Education Funding

- **$2.4 billion** total in FY 2023-24
  - **$2.0 billion** state dollars
  - **$390.0 million** federal dollars

- Reimburses school districts and ISDs for the costs of educating special education students.

- Required state 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

- In FY 2023-24, **$491.2 million** was appropriated to pay 100% of special education pupils’ foundations (rather than use foundations to offset Durant costs).

- Local special education mills, levied by each ISD, will generate an estimated additional **$1.3 billion** in FY 2023-24.

- Uncompensated allowable special education costs equaled an estimated **$655.0 million** in FY 2020-21.
Special Education appropriations are expected to increase by $310.0 million in FY 2023-24 to $2.2 billion. Special education pupils peaked in FY 2004-05 and have since declined by 44%. Since FY 2021-22, special education pupil counts have remained relatively constant.
MPSERS – Retirement Costs
Michigan Public School Employees’ Retirement System (MPSERS) Appropriations

- **Section 147a (1)** – Provides $100.0 million to districts to offset a share of their MPSERS costs. Distribution is based on a district’s proportionate share of MPSERS covered payroll.

- **Section 147a (2)** – Provides $360.1 million to reimburse MPSERS employers for the increased normal costs associated with the reduction in the long-term investment rate of return assumptions from 8.0% in FY 2016-17 to 6.0% in FY 2023-24.

- **NEW Section 147a(3)** – Provides $11.9 million one-time to ISDs and district libraries to offset a share of their MPSERS costs. Distribution is based on a district’s proportionate share of MPSERS covered payroll.

- **Section 147c (1)** – Appropriates $1.9 billion to pay for the state share of unfunded actuarial accrued liability (UAAL) costs per 2012 PA 300, which required the state to pay the UAAL costs that exceed the capped employer contribution rate of 20.96% of MPSERS covered payroll.

- **Section 147e** – Provides $90.4 million to reimburse MPSERS employers for the increased normal costs associated with both the new Hybrid plan and the new Defined Contribution (DC or 401k plan) enacted under 2017 PA 92.

- **NEW Section 147f** – Appropriates $48.5 million one-time to reimburse districts an estimated 0.5 percentage points for their 20.96% contribution rate for UAAL costs.
MPSERS State Appropriations

For FY 2023-24, the state share of public school employee retirement system (MPSERS) costs totals about **$2.5 billion**. Prior to 2012 PA 300, MPSERS employers paid the full costs of MPSERS directly.
The employer MPSERS contribution rate is capped at 20.96% for unfunded liability plus the normal costs for retirement benefits newly earned each year, which fluctuate. The state pays the rest of the UAAL contribution.
Projected MPSERS Costs

The one-time deposit of $1.0 billion into the system and $425.0 million into a reserve fund to help pay for an accelerated reduction in the payroll growth assumption in FY 2022-23 reduced state UAAL costs over the remaining amortization term. Unfunded liabilities are still scheduled to be paid off by 2038.
Retirement Liabilities

The decision to begin prefunding retiree health benefits in FY 2011-12 led to declining health liabilities. Liabilities increased by $2.6 billion in FY 2017-18 due to the adoption of the most recent experience study. Reductions in the assumed long-term investment rate of return that began in FY 2015-16 have increased pension liabilities.
At-Risk Program
At-Risk Funding

- Supports added services for pupils at risk of not succeeding academically.

- **$952.0 million** in FY 2023-24, an increase of **$204.5 million**.
  - In FY 2023-24, the funding formula was revised to be based on a new opportunity index. Districts would receive between 35% and 47% of the Target foundation allowance, but current funding requires proration to an estimated range of 11.5% and 15.3%.

- Funding also increased in FY 2017-18, FY 2018-19, and FY 2022-23 along with the following programmatic changes:
  - In FY 2017-18, the number of funding-eligible pupils expanded beyond those eligible for free school meals to also include: those eligible for reduced-price meals, 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.
  - In FY 2018-19, the pool also increased due to direct certification of Medicaid-eligible pupils.
  - In FY 2022-23, payments were fully funded at 11.5% of the foundation allowance for the first time, and the 35% cap on certain high revenue districts was removed.

- About half of all pupils statewide are now eligible for At-Risk funding.
At-Risk Appropriations

The At-Risk program is funded at $952.0 million in FY 2023-24, a growth of 27% over the prior year. Payments will be between an estimated 11.5% and 15.3% of the Target foundation allowance, or between $1,105 and $1,470 per pupil.
Early Childhood
Great Start Readiness Program (GSRP)

- In FY 2023-24, funding for the GSRP 4-year-old preschool program is $525.3 million.

- In FY 2023-24, a GSRP extended program was introduced that operates for the same length as first grade programs.

- The allocation for each child is $9,608 (equal to the Target foundation allowance) for a full-day program, $4,804 for a half-day program, and $11,530 for an extended program.

- The program served approximately 38,140 children in FY 2022-23.

- The program went from 100% half-day program in FY 2004-05 to the following for FY 2022-23:
  - Half-Day: 3%
  - GSRP/Head Start Blend: 13%
  - Full-Day: 83%

- $28.0 million is allocated for up to $500 per child for preschool transportation.

- In FY 2022-23, $200.0 million was deposited into the Great Start Readiness Program Reserve Fund to support and augment GSRP programming.
GSRP Preschool Appropriations

Funding increased by 67% in FY 2021-22 to bring the per-slot allocation up to the Target foundation allowance. Children served dipped by over 10,000 in FY 2020-21 due to the pandemic, but increased by about 9,000 in FY 2021-22 before fully recovering to pre-pandemic levels in FY 2022-23.

* FY 2023-24 Children Served is not yet known.
One-Time Categoricals
One-Time Categoricals

- In FY 2023-24, a record number of categoricals were funded for a single fiscal year. There are 93 sections that include one-time funding, totaling $2.3 billion.

- Major sections include:
  - $328.0 million for Per-Pupil Mental Health and Safety Grants
  - $245.0 million for Consolidation Grants
  - $225.0 million for a Student Loan Repayment Pilot
  - $140.0 million for Early Literacy Instruction
  - $125.0 million for MI Clean School Bus Grants
  - $125.0 million for School Transportation Costs
  - $63.8 million for an Educator Compensation Program
  - $50.0 million for Mentoring Grants
Types of School Districts
Traditional, Locally Governed School Districts

- Traditional local school districts have defined boundaries, locally elected school boards, and are authorized to levy local taxes.

- In FY 2023-24, there are 537 traditional local districts with 1,246,059 pupils, or 89.3% of the statewide public pupil membership.

- Average size of a traditional, locally governed district is about 2,320 pupils.
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, and local school districts.

- 2011 PA 277 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 2023-24, there are 285 PSAs with 149,942 pupils, or 10.7% of statewide pupil membership.

- Average size of a PSA is about 526 pupils.
Cyber Schools

- Cyber schools are a type of public school academy.
- FY 2010-11 was first year of operation.

2012 PA 129 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 7 are authorized by statewide entities.
- Enrollment limited to 2,500 in first year, 5,000 in second year, and 10,000 in third year.
- Total cyber enrollment is capped at 2% of the total statewide pupil enrollment in FY 2011-12, or approximately 30,870 pupils.

- In FY 2023-24, 16 cyber schools have an enrollment totaling 21,294.
Declining Enrollment
Declining Enrollment
Total Pupil Membership Counts

Due to the pandemic, total pupils declined by about 40,000 more than expected in FY 2020-21, although the drop was not fully experienced by districts until FY 2021-22. Total enrollment is expected to decline by about 7,500 pupils in FY 2023-24 and 6,000 pupils in FY 2023-24.

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>Pupil Blend (% current fall/ % prior Feb)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 to 1999</td>
<td>60/40</td>
</tr>
<tr>
<td>2000</td>
<td>75/25</td>
</tr>
<tr>
<td>2001 to 2004</td>
<td>80/20</td>
</tr>
<tr>
<td>2005 to 2011</td>
<td>75/25</td>
</tr>
<tr>
<td>2012 to 2013</td>
<td>90/10</td>
</tr>
<tr>
<td>2014 to 2015</td>
<td>90/10</td>
</tr>
<tr>
<td>2016 to 2020</td>
<td>90/10</td>
</tr>
<tr>
<td>2021</td>
<td>.75 * FY 20 90/10 + .25 * FY 21 90/10</td>
</tr>
<tr>
<td>2022 to 2024</td>
<td>90/10</td>
</tr>
</tbody>
</table>

* FYs 2023, 2024, and 2025 figures are from January 2024 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 since FY 2013-14, and at the end of FY 2021-22, totaled **$4.1 billion**. The average statewide total fund balance as a percent of revenues is now at **19.3%** in FY 2021-22.

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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