



Budget Briefing: School Aid

Jacqueline Mullen, Senior Fiscal Analyst

Noel Benson, Fiscal Analyst

January 2026

Briefing Topics

- Funding Sources
- Appropriation Areas
- Major Budget Topics
 - School Aid Fund Revenues
 - Foundation Allowance
 - Special Education Funding
 - Michigan Public School Employees' Retirement System (MPERS)
 - At-Risk Program
 - Great Start Readiness Program
 - One-Time Categoricals
 - School Districts

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, **288** public school academies, and **56** intermediate school districts (ISDs) for operations and certain categorical programs.
- It also provides funds to the Michigan Department of Lifelong Education, Advancement, and Potential (MiLEAP), the Center for Educational Performance and Information (CEPI), 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 2025-26 is October 1, 2025 through September 30, 2026.

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.

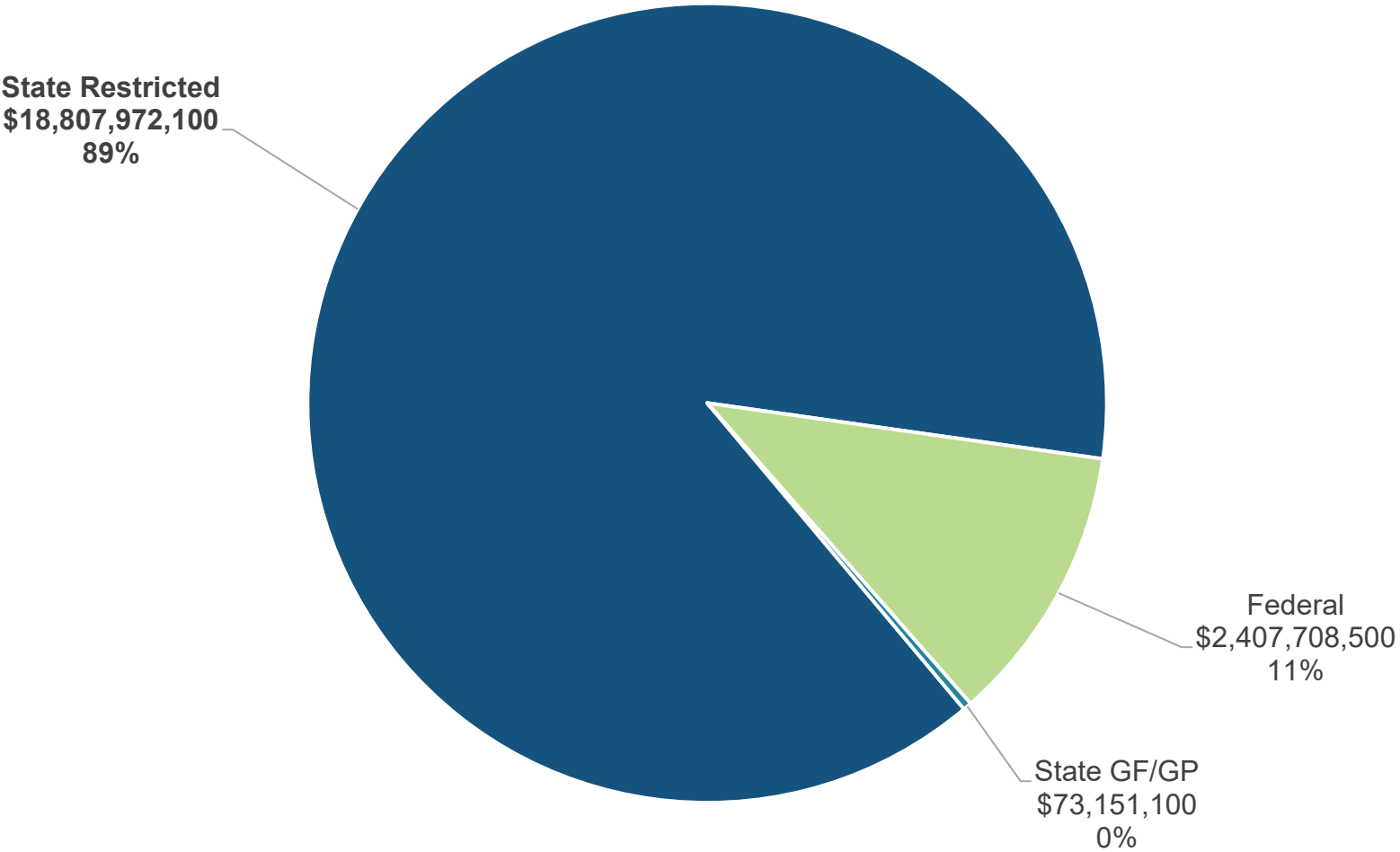
Funding Sources

FY 2025-26 School Aid Budget

Fund Source	Funding	Description
Gross Appropriations	\$21,288,831,700	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	0	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$21,288,831,700	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	2,407,708,500	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	0	Revenue received from local units of government for state services
Private Revenue	0	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	18,807,972,100	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue
State General Fund/General Purpose (GF/GP) Revenue	\$73,151,100	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the legislature

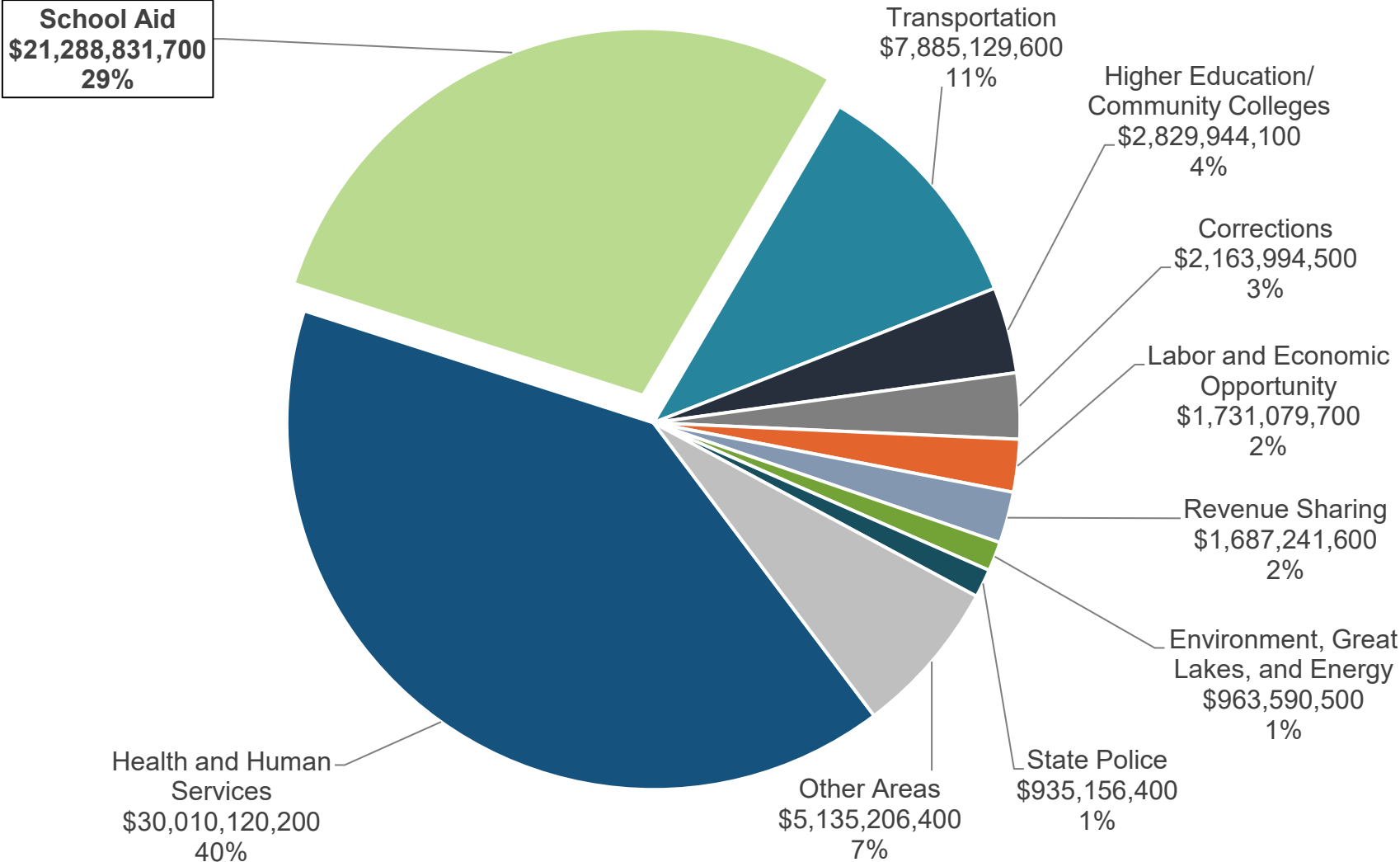
FY 2025-26 Fund Sources

89% of the \$21.3 billion School Aid budget is funded by state restricted revenue, almost all of which is School Aid Fund (SAF) revenues.



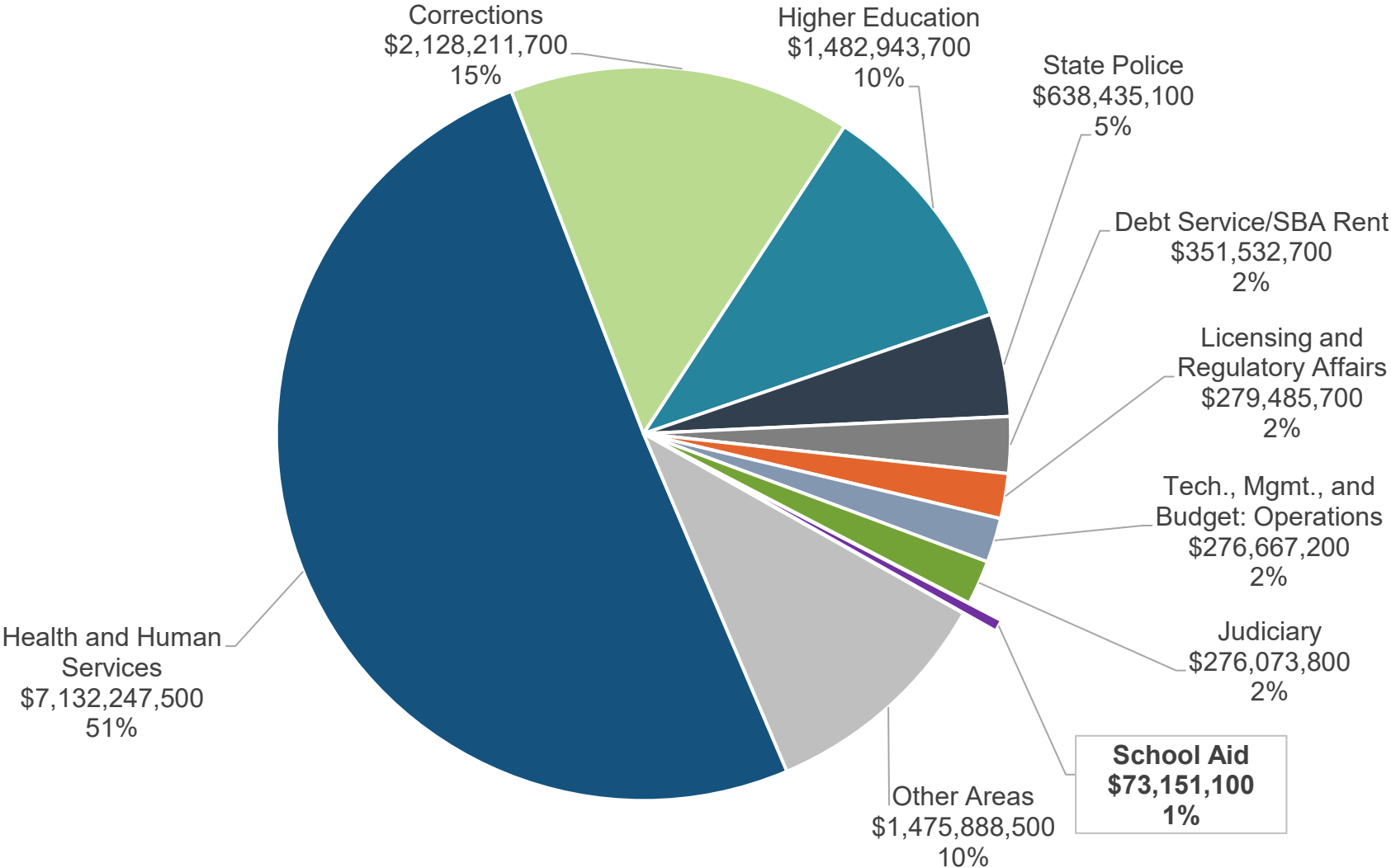
School Aid Share of Total State Budget

The School Aid budget represents over a quarter of the **\$75.9 billion** state budget (adjusted gross) for FY 2025-26.



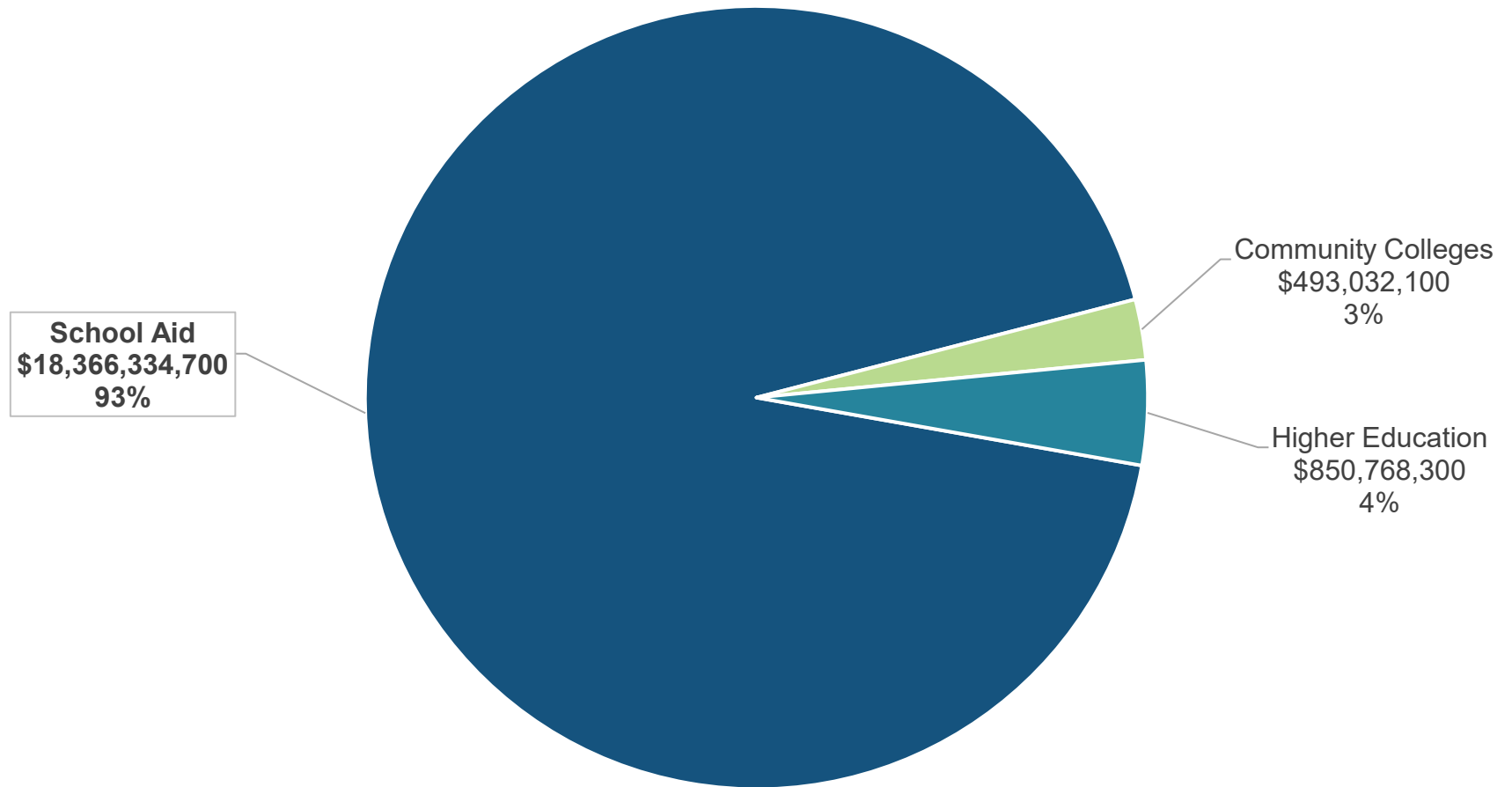
School Aid Share of Total GF/GP Budget

The School Aid budget is less than 1% of the state's \$14.1 billion GF/GP budget for FY 2025-26.



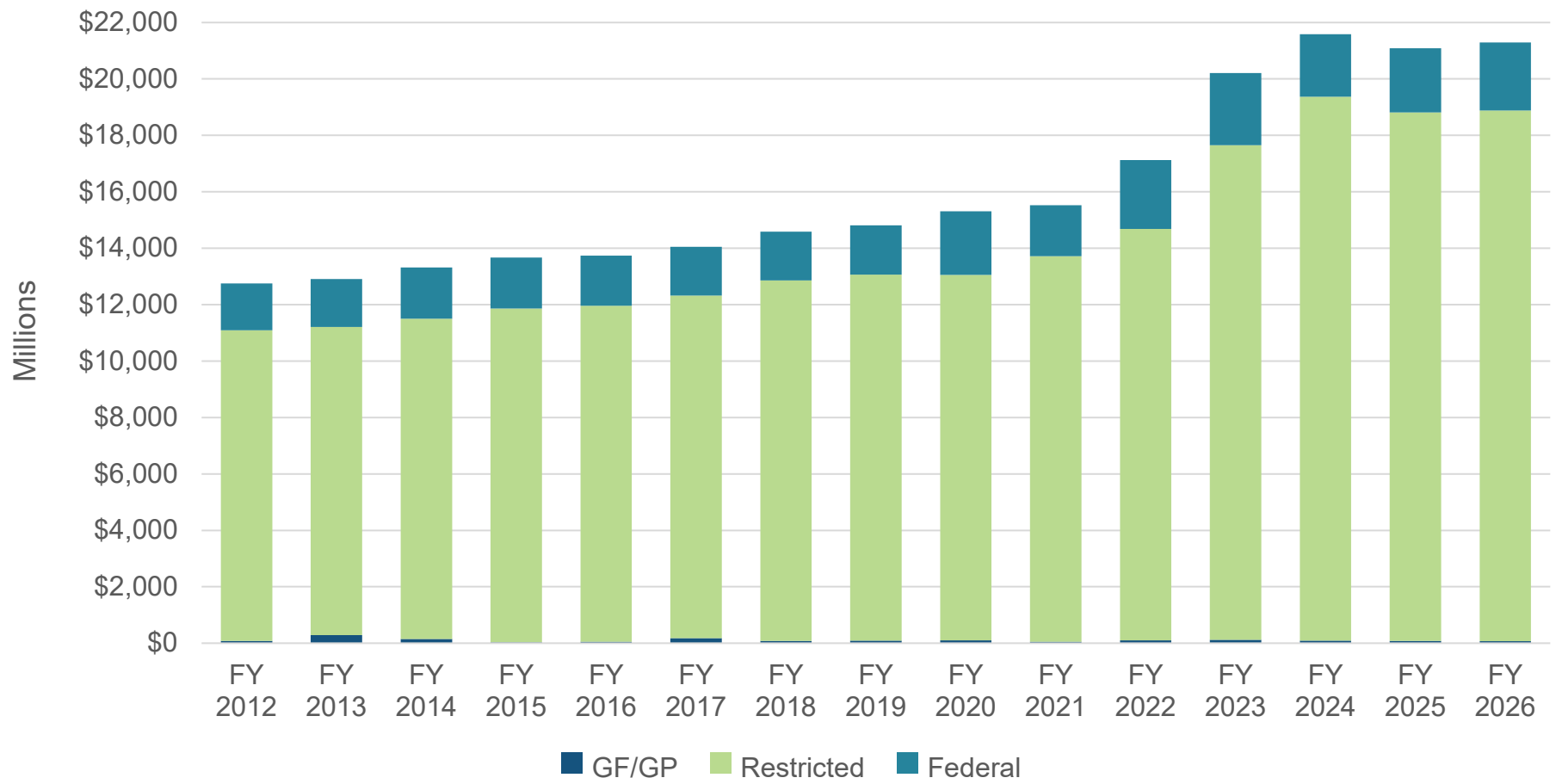
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

The School Aid budget represents **93%** of the state's **\$19.7 billion** SAF appropriations for FY 2025-26.



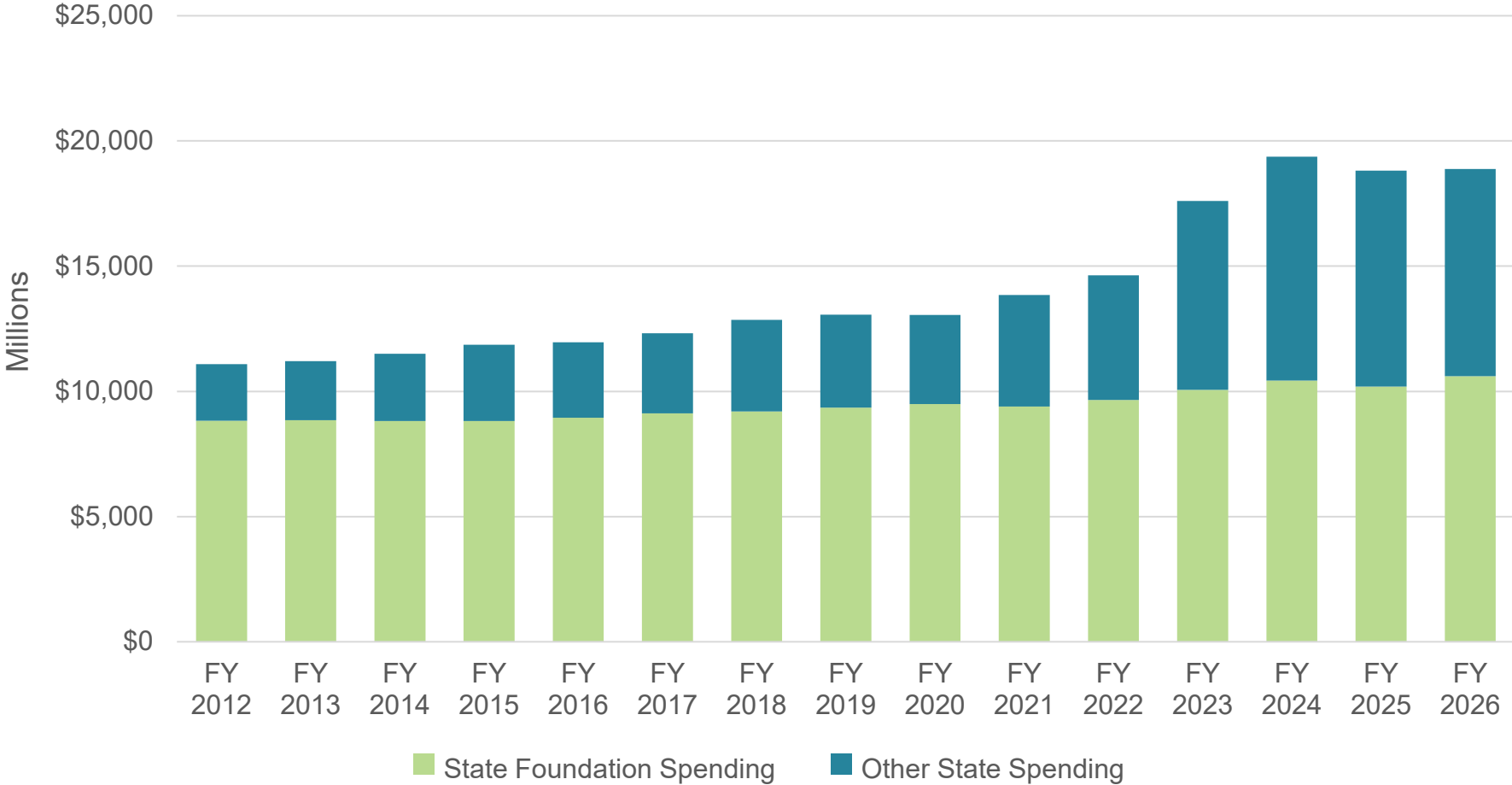
School Aid Budget Funding History

Funding for School Aid has grown by **67%** over the last 15 years, with **20%** of that growth driven by increases in funding for public school retirement.



School Aid Funding History – State Funds

Over the past 15 years, foundation allowance spending has gone from **80%** of state School Aid funding to **56%** in FY 2025-26 as the proportion of total funding for major programs like MPERS, At-Risk, Special Education, and GSRP, as well as smaller categoricals, has increased



Appropriation Areas

School Aid Appropriation Areas

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

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

Michigan Public School Employees' Retirement System (MPERS):
Contributes a portion of annual retirement costs.

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

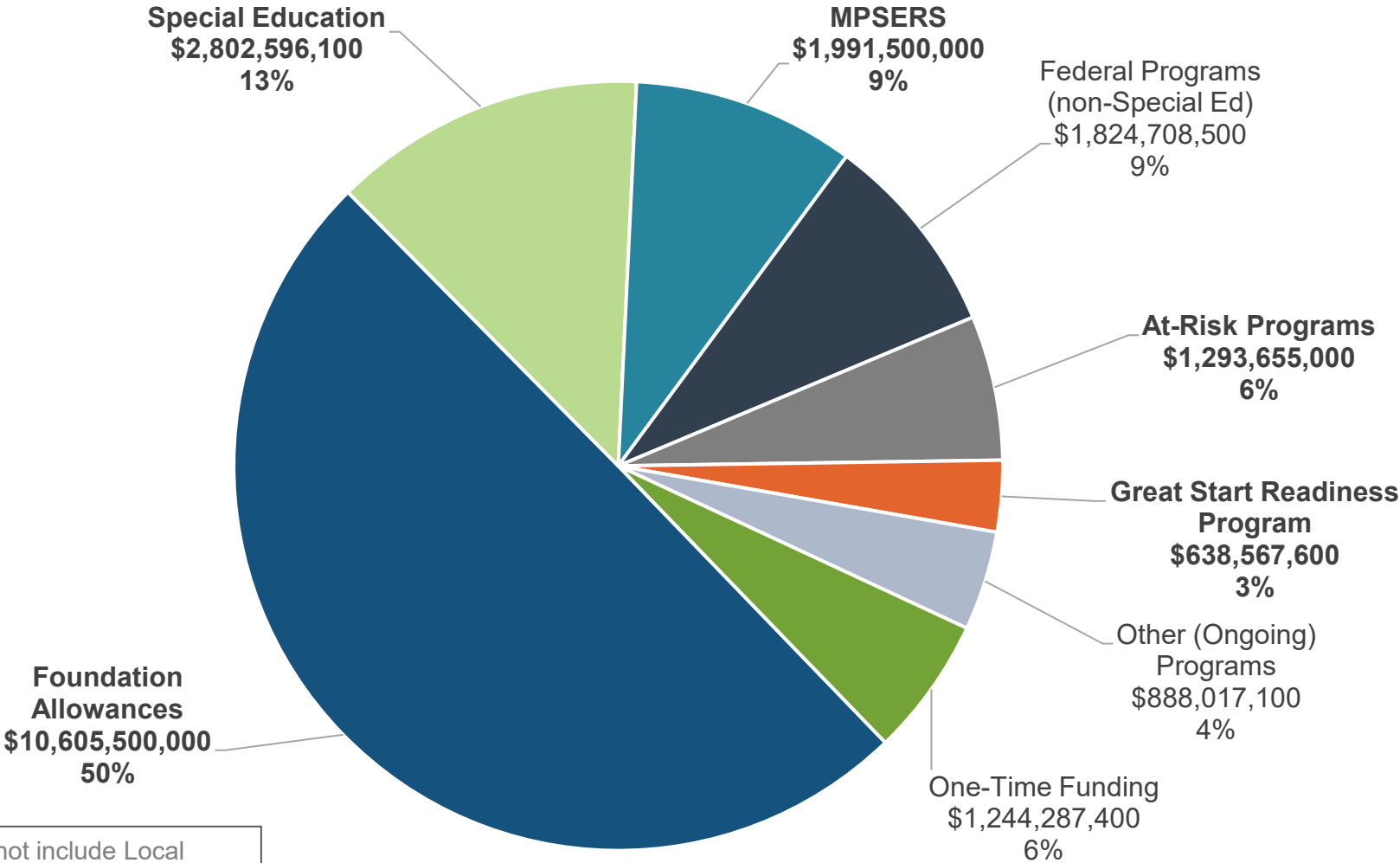
At-Risk Programs: Additional state funds to help students at risk of academic failure.

Great Start Readiness Program (GSRP): Provides universal preschool for 4-year-olds.

One-Time Categoricals: Provides one-time funding for grants and other programs intended to receive support for one year only.

FY 2025-26 Gross Appropriations

81% of the total \$21.3 billion School Aid budget supports foundation allowances and the top four non-federal spending categories: Special Education, MPSERS, At-Risk, and GSRP.



Note: Does not include Local portion of Foundation Allowances

Major Budget Topics

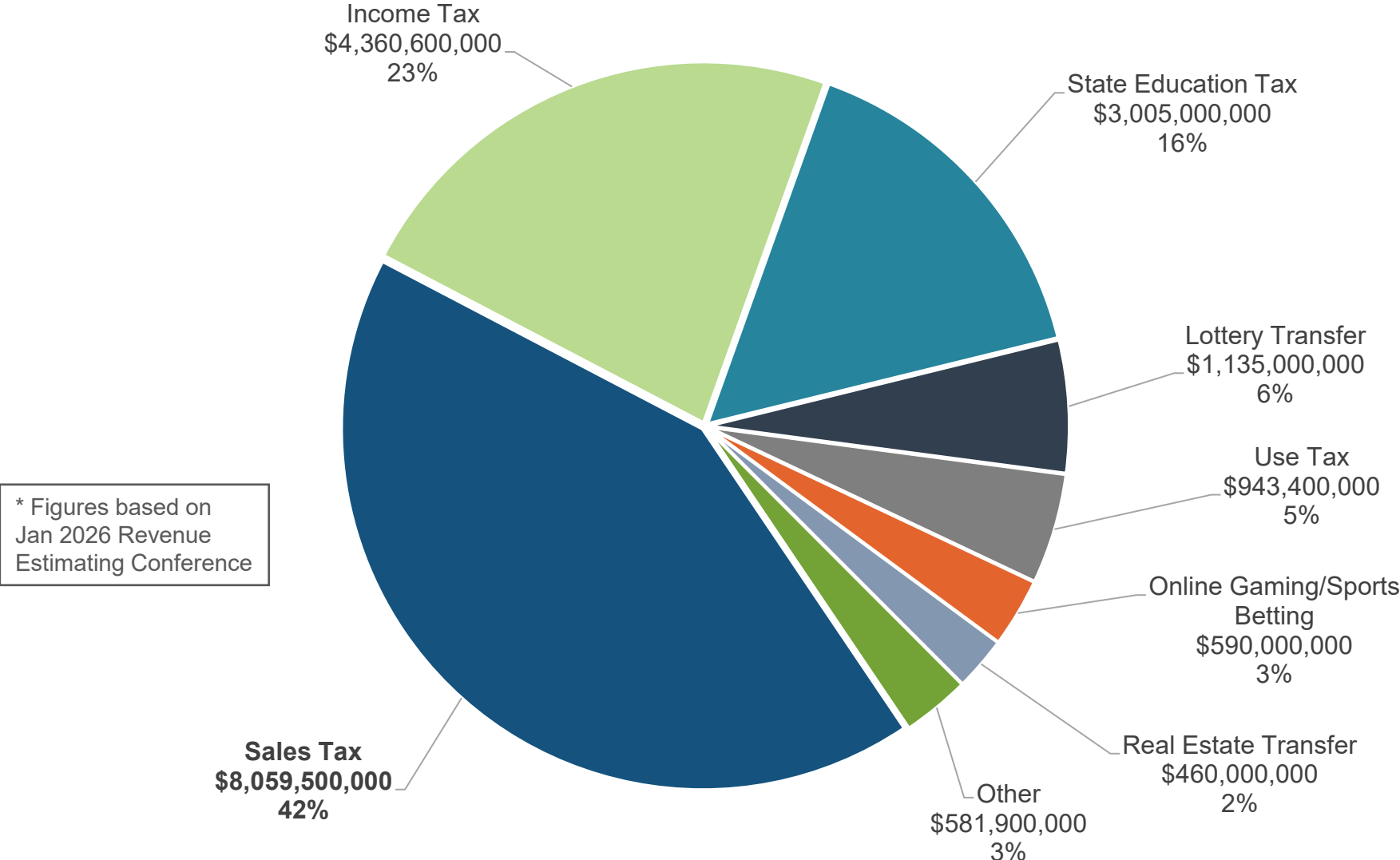
School Aid Fund Revenues

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 **\$19.1 billion** in revenue for FY 2025-26 (January 2026 CREC).
- Primary sources of SAF revenue are shown on next slide.

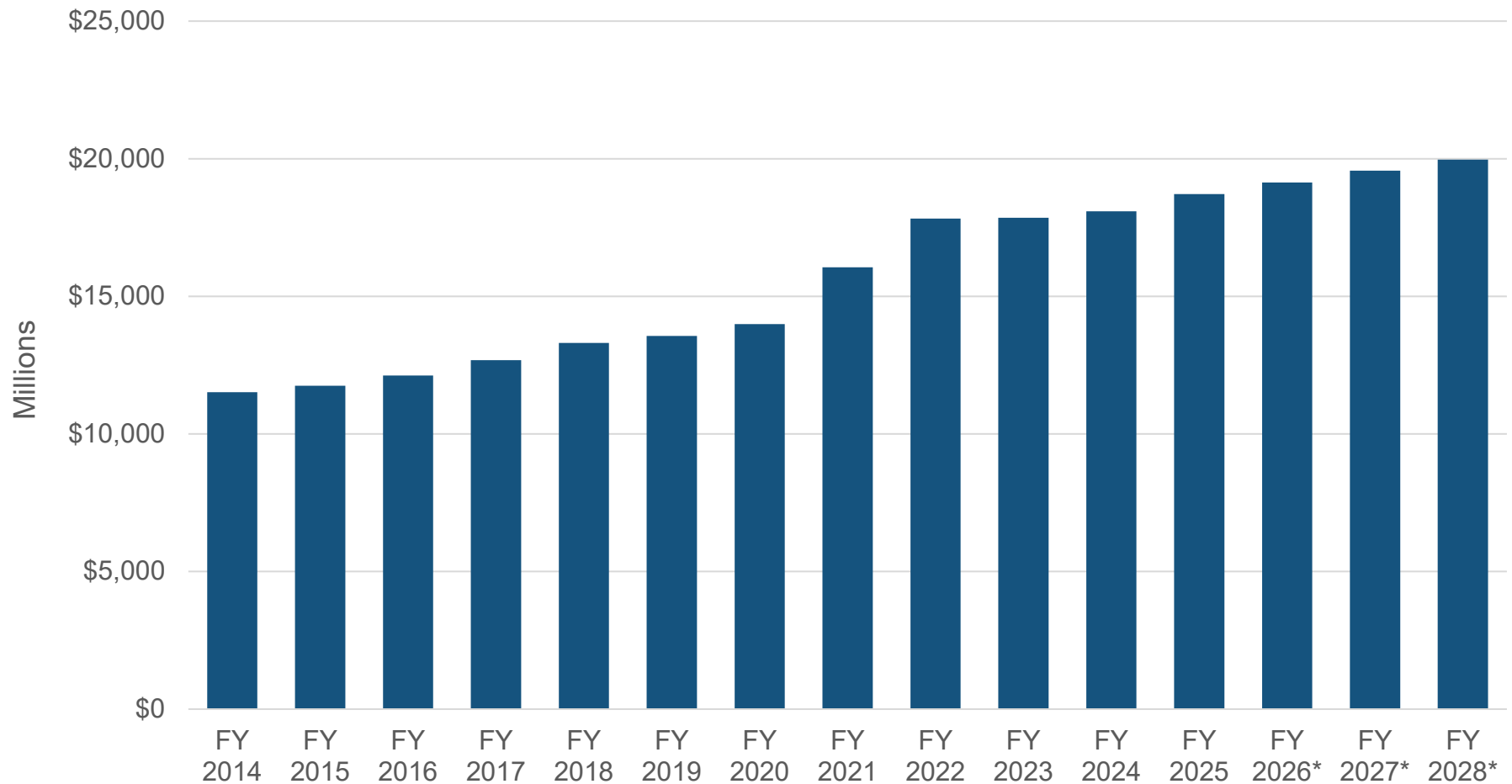
SAF Revenue Sources

Sales tax is the largest revenue source, contributing **42%** of the **\$19.1 billion** in total estimated SAF revenue for FY 2025-26.



SAF Revenue History

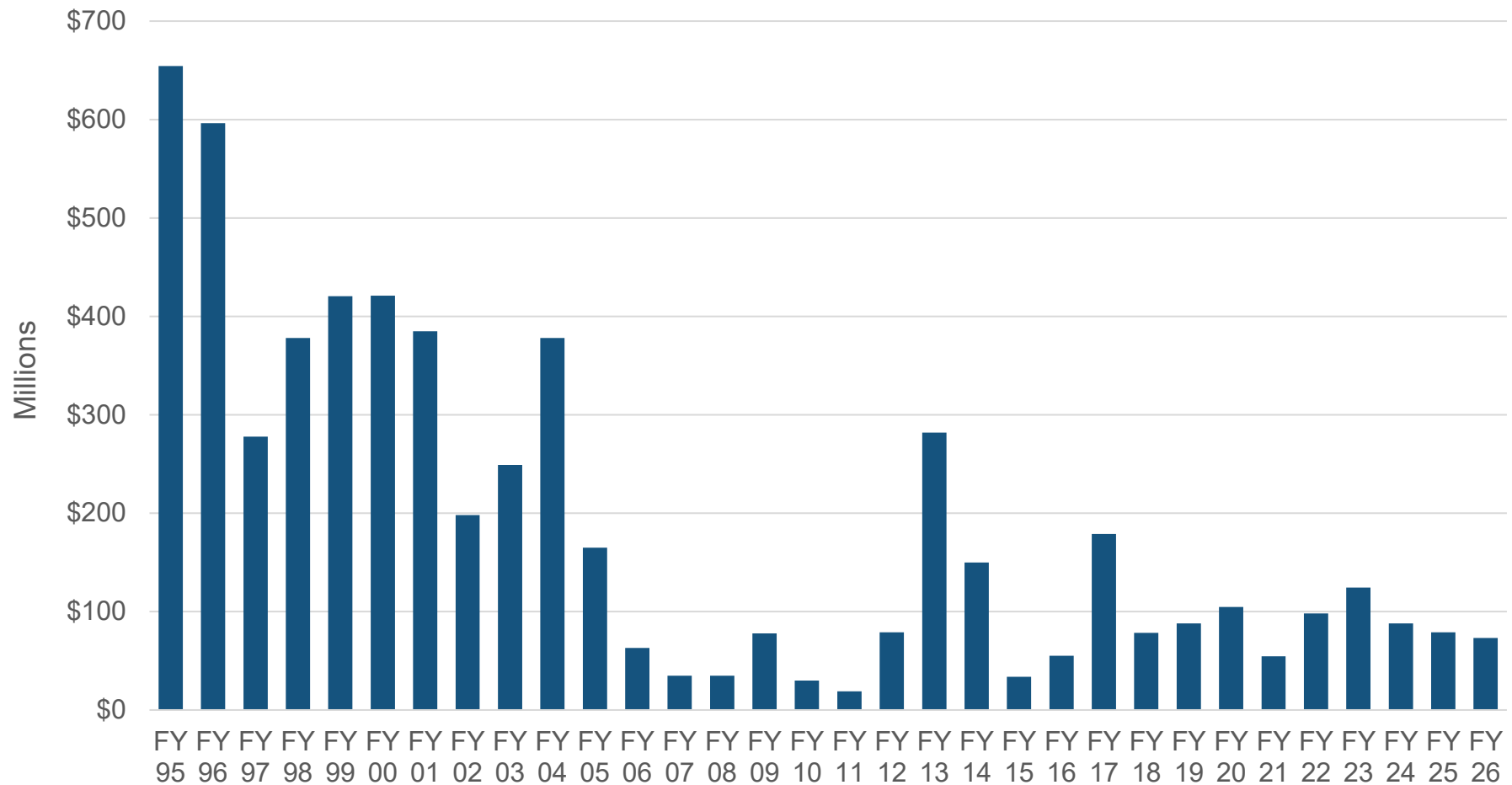
SAF revenues are estimated to increase by **2%** in FY 2025-26 and **2%** in FY 2026-27 for a total of **\$19.6 billion** in FY 2026-27.



* FYs 2026, 2027, and 2028 are estimates from Jan 2026 Revenue Estimating Conference

GF/GP as a Fund Source in the School Aid Budget

The School Aid budget appropriates **\$73.2 million** GF/GP in FY 2025-26.



FY 2025-26 School Aid Fund Balance Sheet

	FY 2025-26	Baseline FY 2026-27
BEGINNING BALANCE	\$1,320.1	\$750.8
REVENUE		
School Aid Fund (SAF) Revenue	\$19,135.4	\$19,556.9
General Fund/General Purpose (GF/GP)	\$73.2	\$46.2
Other Restricted Funds (incl. deposits)	\$68.9	\$0.0
<u>Federal Funds</u>	<u>\$2,407.7</u>	<u>\$2,407.7</u>
TOTAL REVENUE	\$21,685.2	\$22,010.8
EXPENDITURES		
School Aid (Adj for consensus revisions/lapses)	\$20,908.7	\$19,680.0
Community Colleges	\$494.9	\$476.1
<u>Higher Ed</u>	<u>\$850.8</u>	<u>\$844.9</u>
TOTAL EXPENDITURES	\$22,254.4	\$21,001.1
TOTAL ENDING BALANCE	\$750.8	\$1,760.5
<i>Ongoing</i>	\$386.9	\$1,009.7
<i>One-Time</i>	\$363.9	\$750.8

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.
- Initial foundation allowance levels in FY 1994-95 were based on what each district collected from both state and local funds on a per-pupil basis in the prior year.
 - Minimum level of funding established: \$4,200
 - Target (previously known as the Basic) level determined: \$5,000
 - State Guaranteed Maximum level set: \$6,500
- In FY 2021-22, the gap between the Minimum and the Maximum was closed.
- The foundation allowance is set at **\$10,050** for FY 2025-26.
- The Enrollment Stabilization Fund provides districts experiencing declining enrollment additional funding based on a two-year average pupil blend.
- Hold Harmless districts' foundation allowances range up to a high of **\$13,885**.

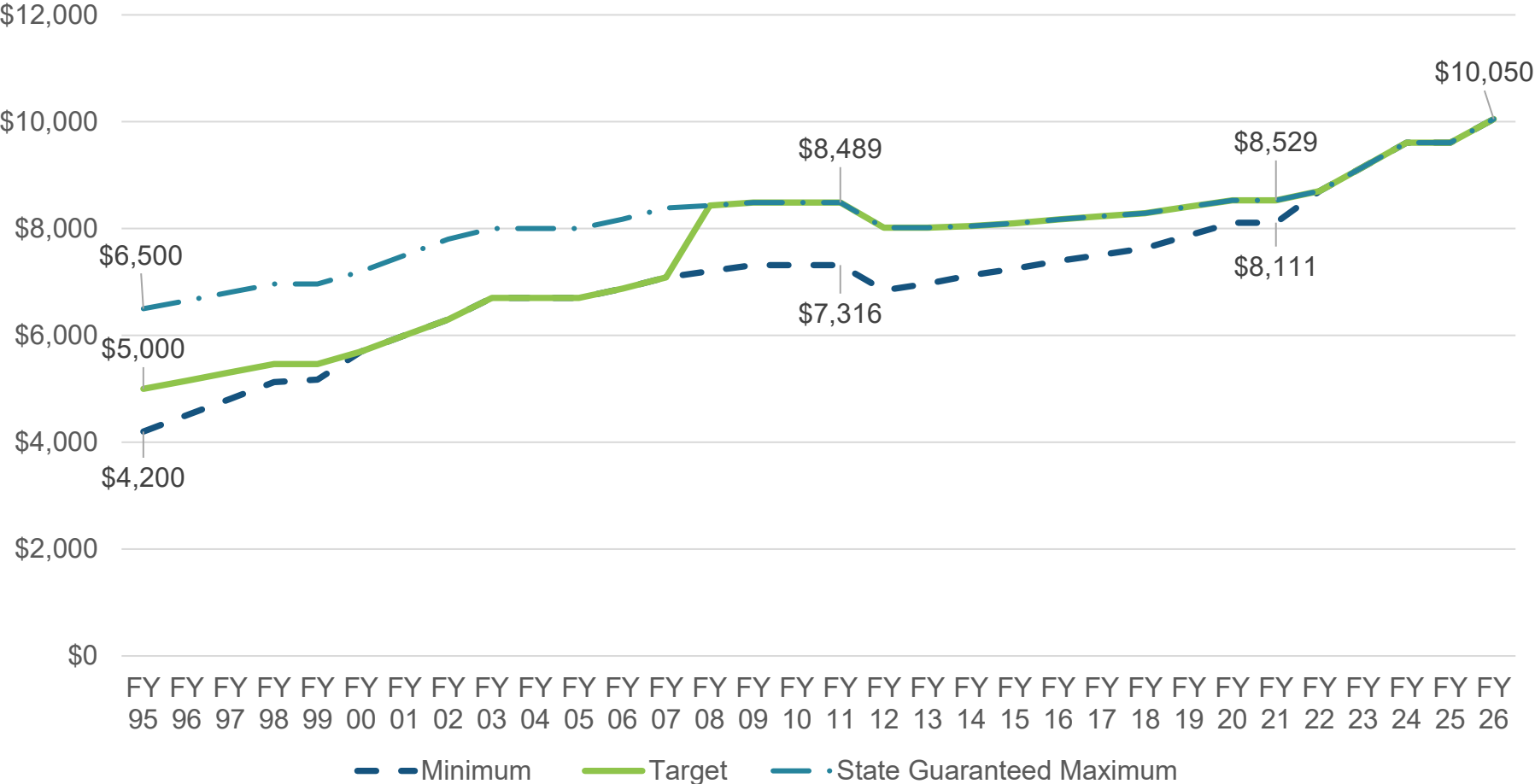
History of the Foundation Allowance Levels

- 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, resulting in all non-Hold Harmless districts receiving the same foundation allowance.
- In FY 2025-26, the foundation is **\$10,050**.

Foundation Allowance History

Growth Since Proposal A

The foundation allowance is **\$10,050** per pupil for FY 2025-26.

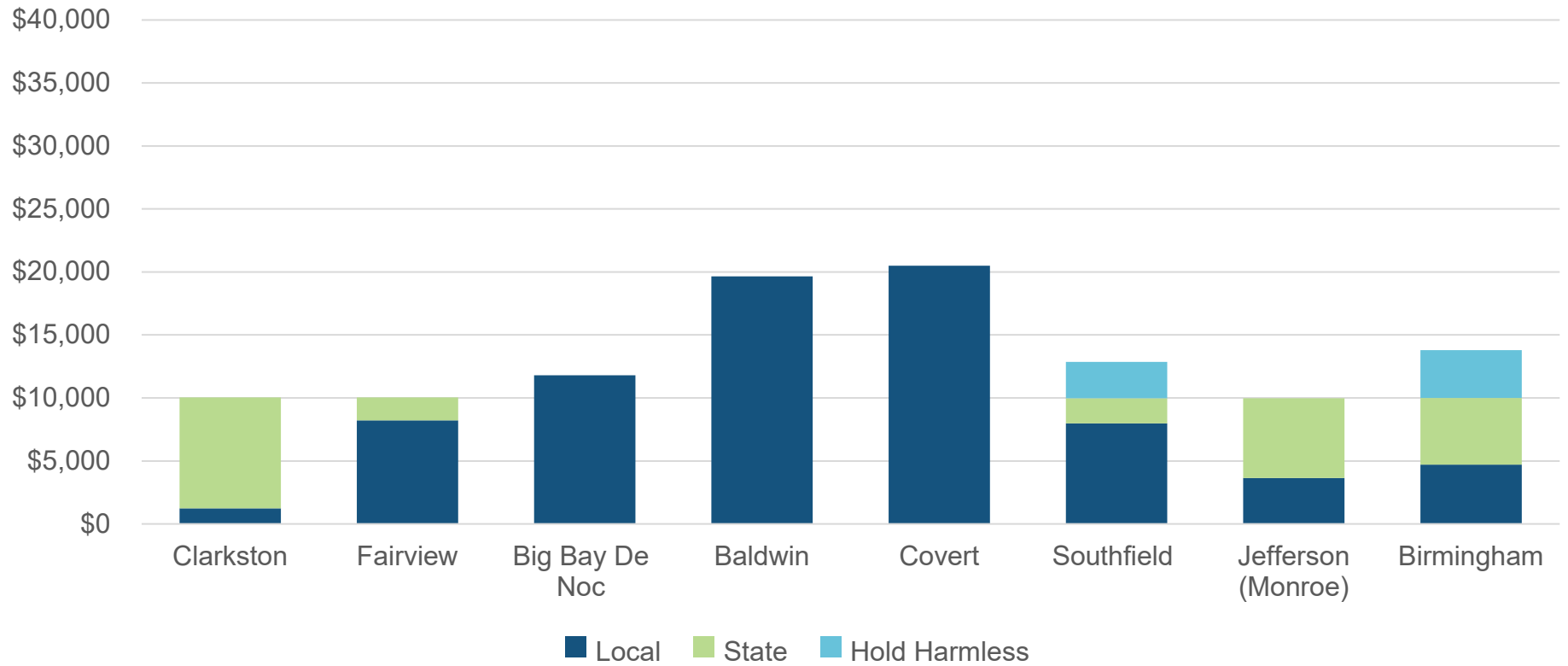


Foundation Allowance

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 foundation allowance.
- Districts with foundation allowances above the foundation (**hold harmless districts**) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance. There are **23** districts levying hold harmless mills in FY 2025-26.
- 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 **54** out-of-formula districts in FY 2025-26.

FY 2025-26 State/Local Funding Mix Examples



Type	District	Foundation	Local	State	HH	NHS Mills	HH Mills
	Clarkston	\$10,050	\$1,246	\$8,804	\$0	18.0	0.0
	Fairview	\$10,050	\$8,223	\$1,827	\$0	18.0	0.0
O-of-F	Big Bay	\$10,050	\$11,791	\$0	\$0	18.0	0.0
O-of-F	Baldwin	\$10,050	\$19,643	\$0	\$0	18.0	0.0
HH, O-of-F	Covert	\$11,091	\$20,487	\$0	\$0	18.0	0.0
HH	Southfield	\$12,852	\$7,991	\$1,984	\$2,877	18.0	8.6
HH	Jefferson	\$13,061	\$3,650	\$6,331	\$0	18.0	0.0
HH	Birmingham	\$13,805	\$4,700	\$5,303	\$3,802	18.0	4.8

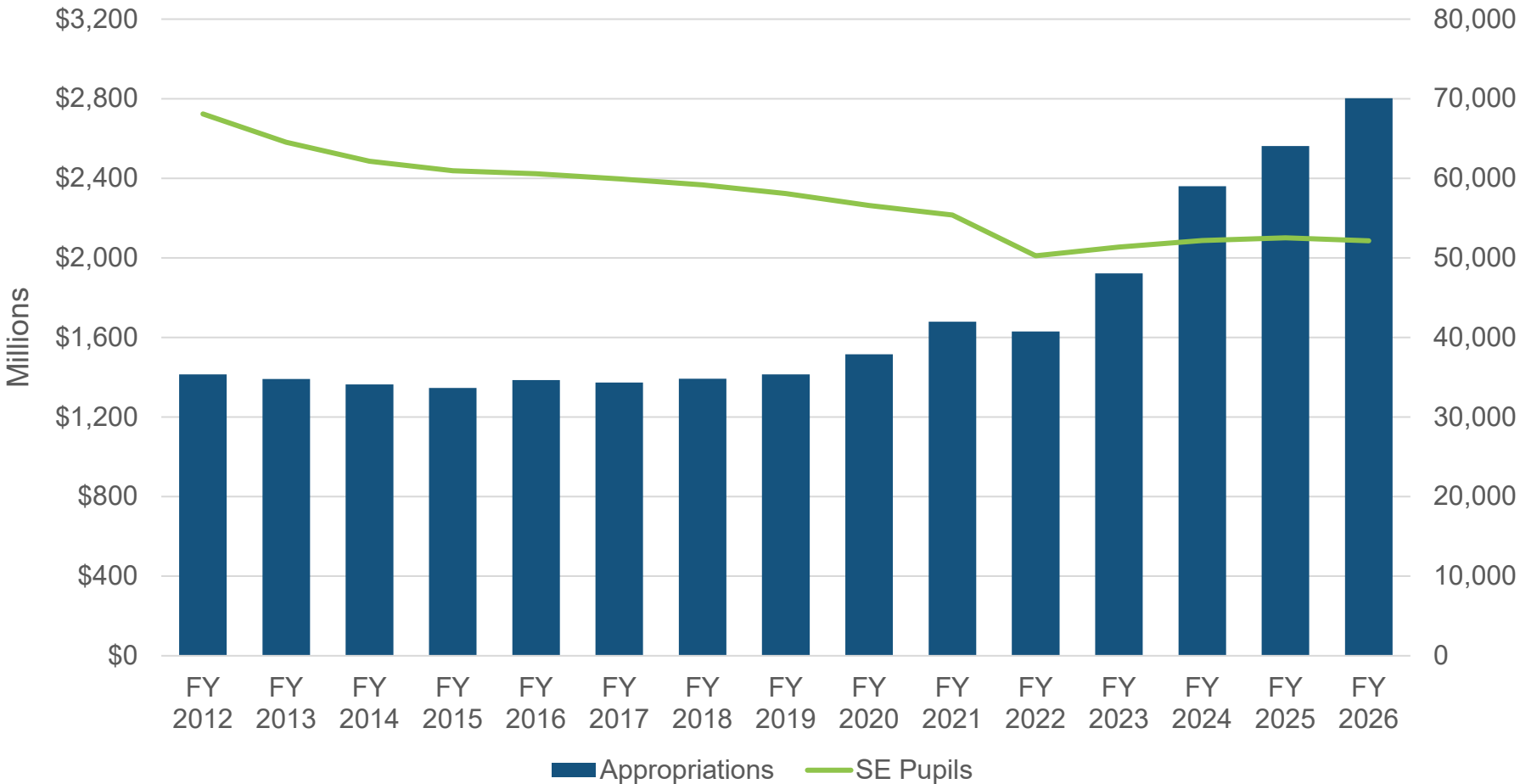
Special Education Funding

Special Education Funding

- **\$2.8 billion** total in FY 2025-26 (second largest School Aid appropriation area)
 - **\$2.2 billion** state dollars
 - **\$583.0 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, the state began to pay **100%** of special education pupils' foundation allowances (rather than use foundations to offset Durant costs).
- Local special education mills, levied by each ISD, will generate an estimated additional **\$1.5 billion** in FY 2025-26.
- Uncompensated allowable special education costs equaled an estimated **\$616.8 million** in FY 2023-24.

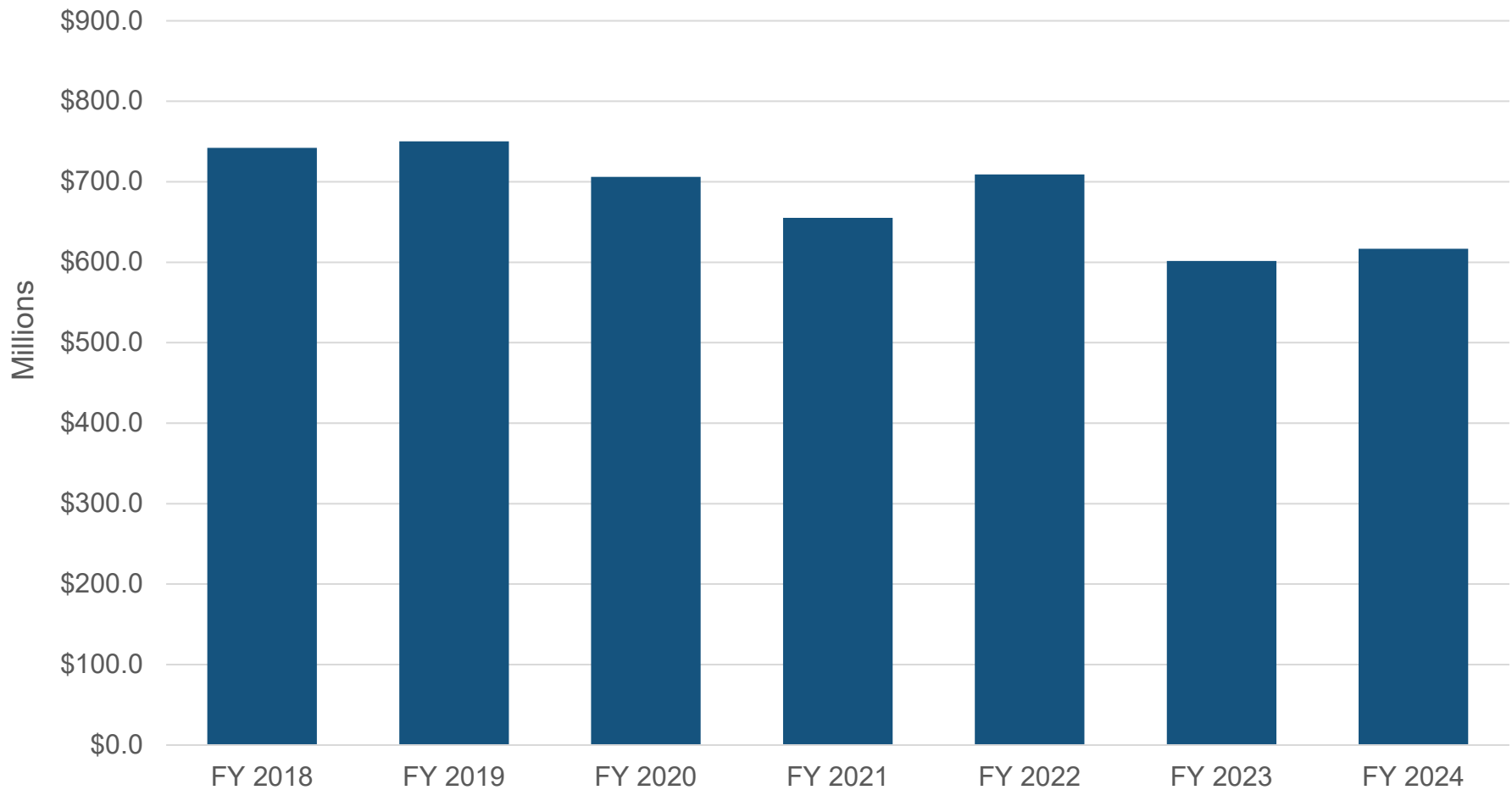
Special Education Appropriations

Special Education appropriations are expected to increase by **\$205.5 million** in FY 2025-26 to **\$2.8 billion**. Special education pupil counts have leveled off at around 52,000 in recent years.



Special Education Uncompensated Costs

After accounting for local, state, and federal revenues, districts incurred an additional **\$616.8 million** in uncompensated special education costs in FY 2023-24, **14%** of total reported special education costs.



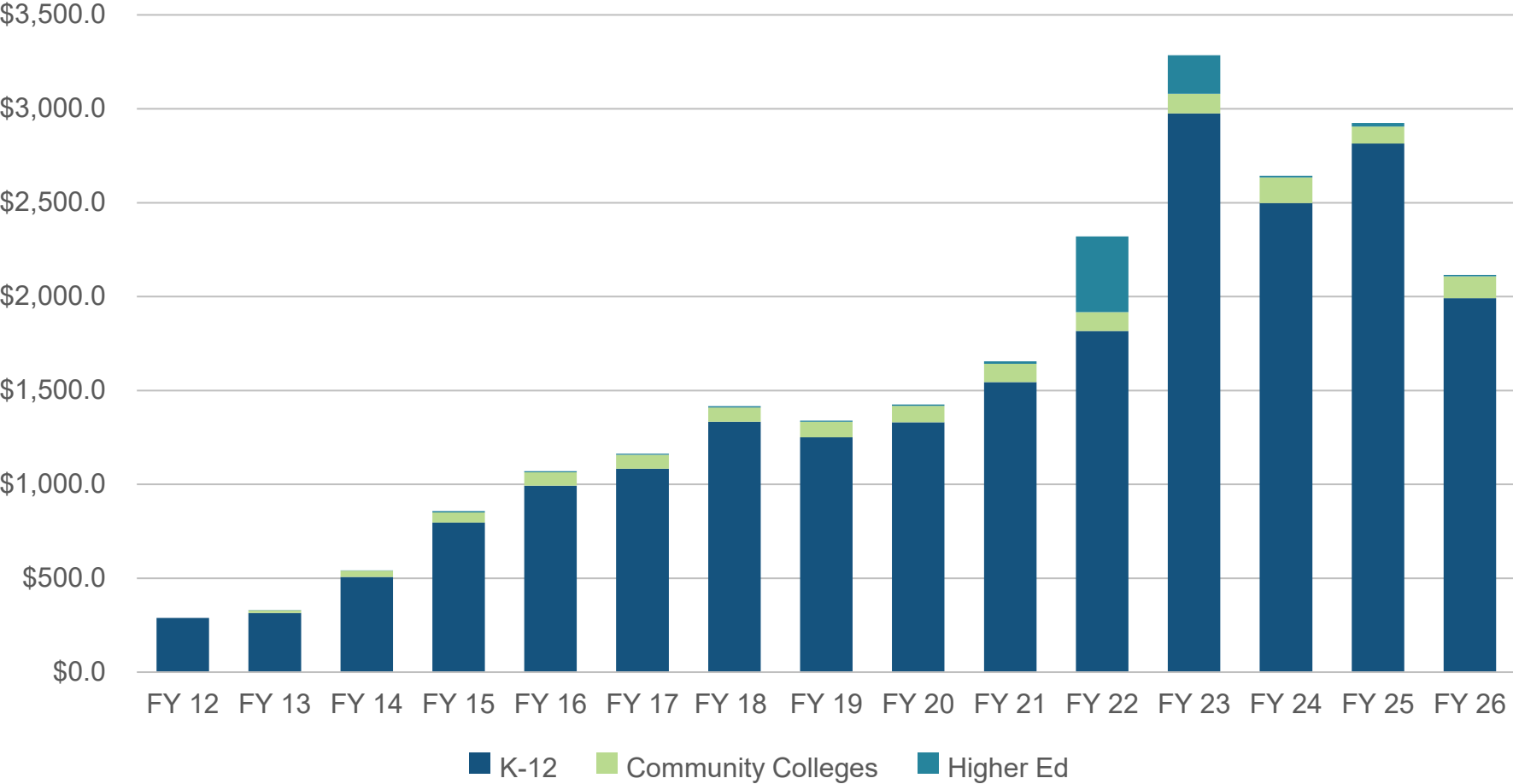
MPERS – Retirement Costs

Michigan Public School Employees' Retirement System (MPERS) Appropriations

- Section 147a(2) – Provides **\$336.3 million** to reimburse MPERS 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.
- Section 147c – Provides **\$1.5 billion** to pay for the state share of UAAL costs above **15.21%** as required by 2024 PA 127. The UAAL cap was 20.96% until FY 2025-26.
- Section 147e – Provides **\$118.4 million** to reimburse MPERS 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.

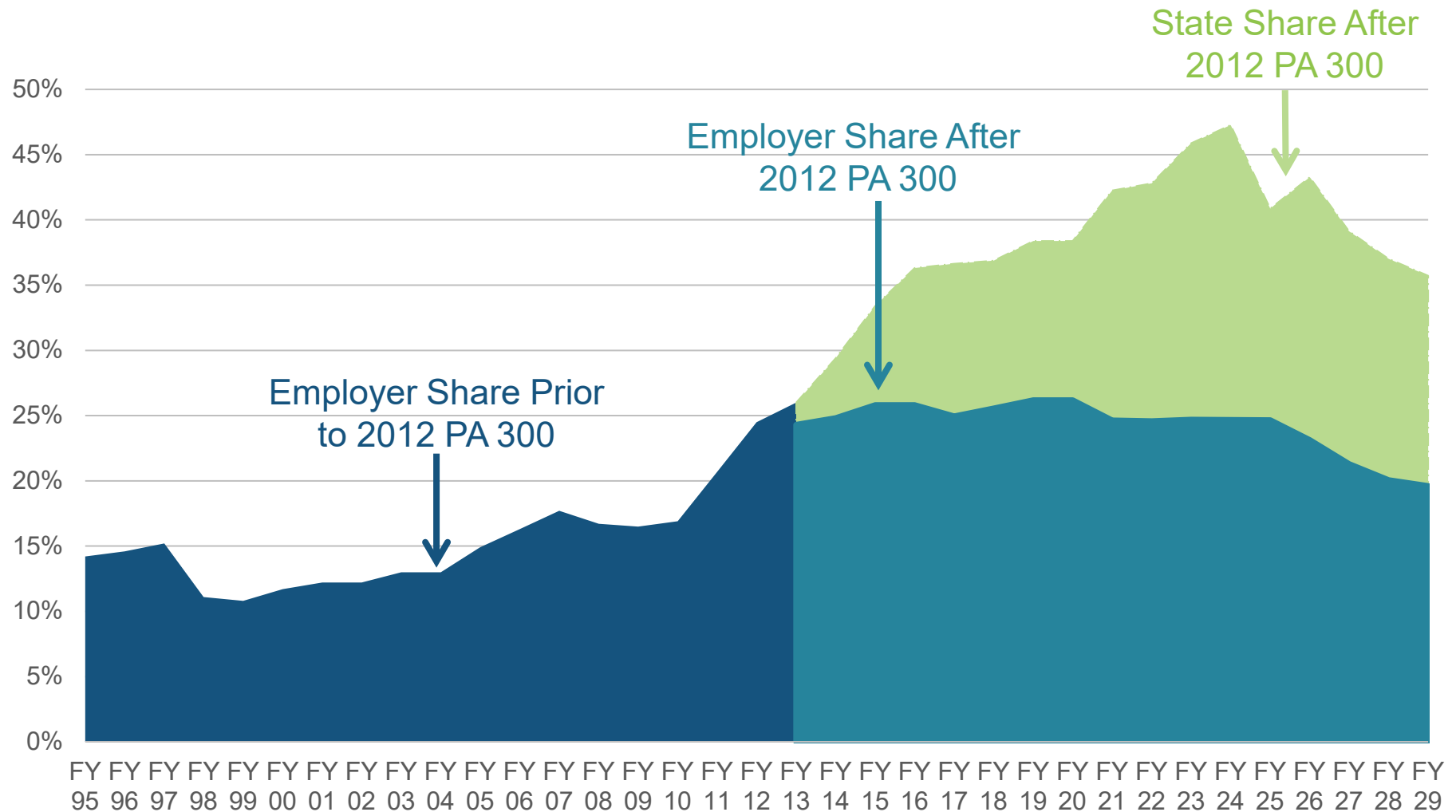
MPERS State Appropriations

MPERS appropriations total **\$2.0 billion** in FY 2025-26. Recent major changes include paying off existing university UAAL and providing **\$1.0 billion** toward remaining UAAL in FY 2022-23 and effectively implementing the **15.21%** cap one year early in FY 2024-25.



MPERS State Share - Unfunded Actuarial Accrued Liability (UAAL)

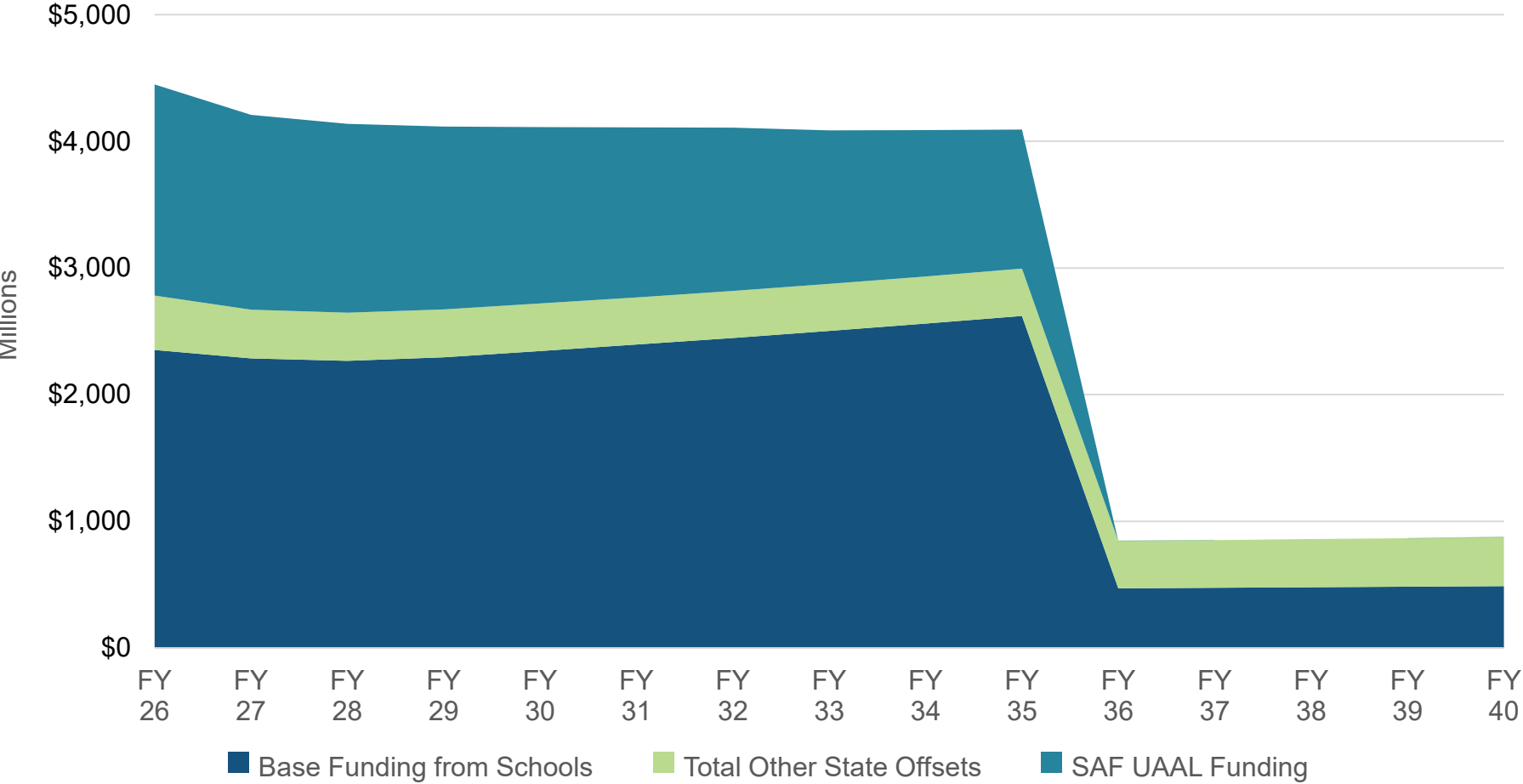
As of FY 2025-26, employer MPERS contribution rate is capped at **15.21%** for unfunded liability plus the normal costs for retirement benefits newly earned each year, which fluctuate. The state pays the rest of the UAAL contribution.



* The budget effectively reduced the UAAL cap one year early in FY 2024-25 by reimbursing employers. This change is not shown here.
 House Fiscal Agency 36 January 2026

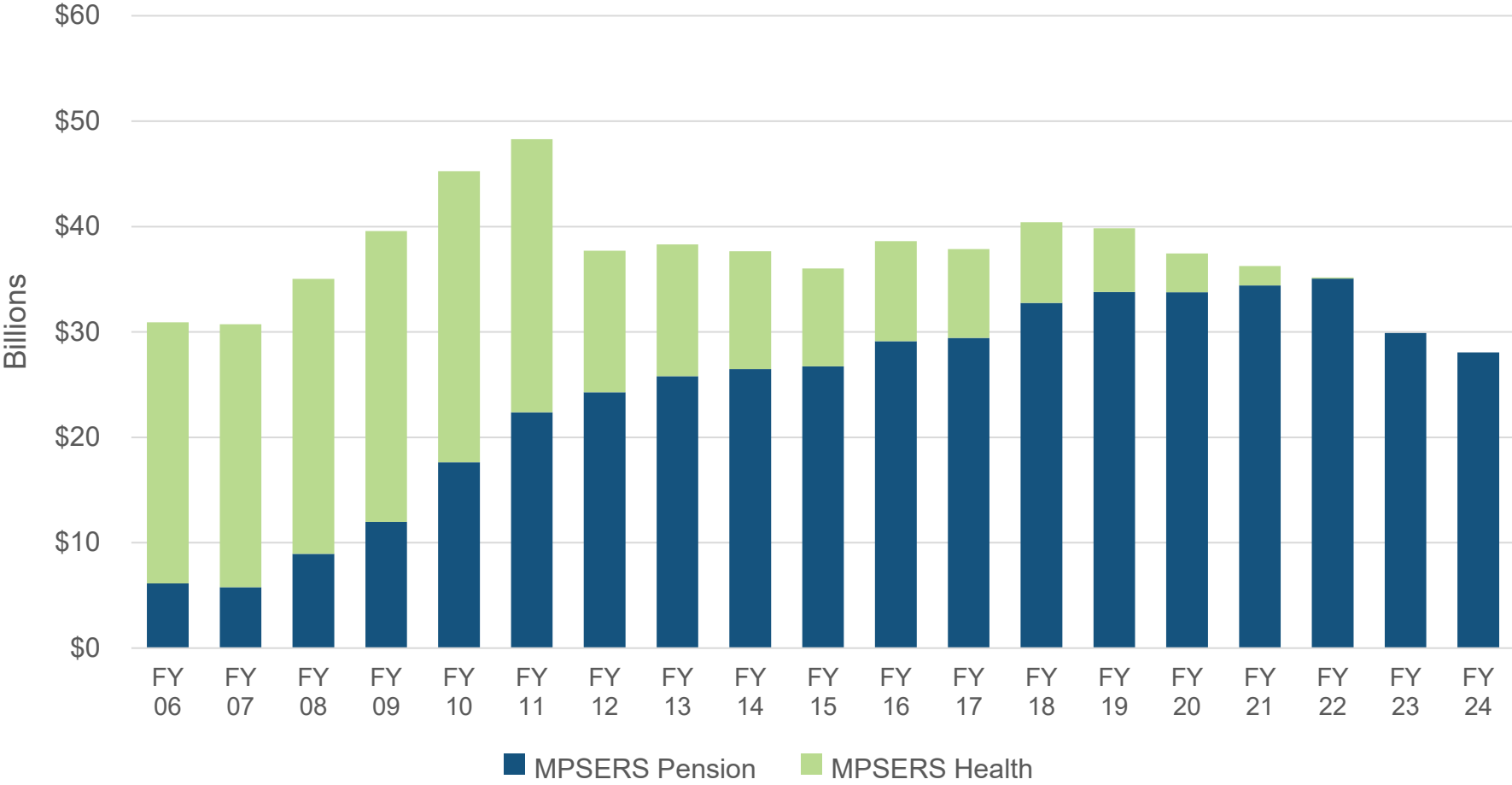
Projected MPERS Costs

Unfunded liabilities are now anticipated to be paid off by 2035 rather than 2038, largely due to contribution floors in place.



Retirement Liabilities

Prefunding retiree health benefits in FY 2011-12 led to the OPEB system being over **100%** funded by FY 2022-23. Pension liabilities are **\$28.0 billion** for FY 2023-24.



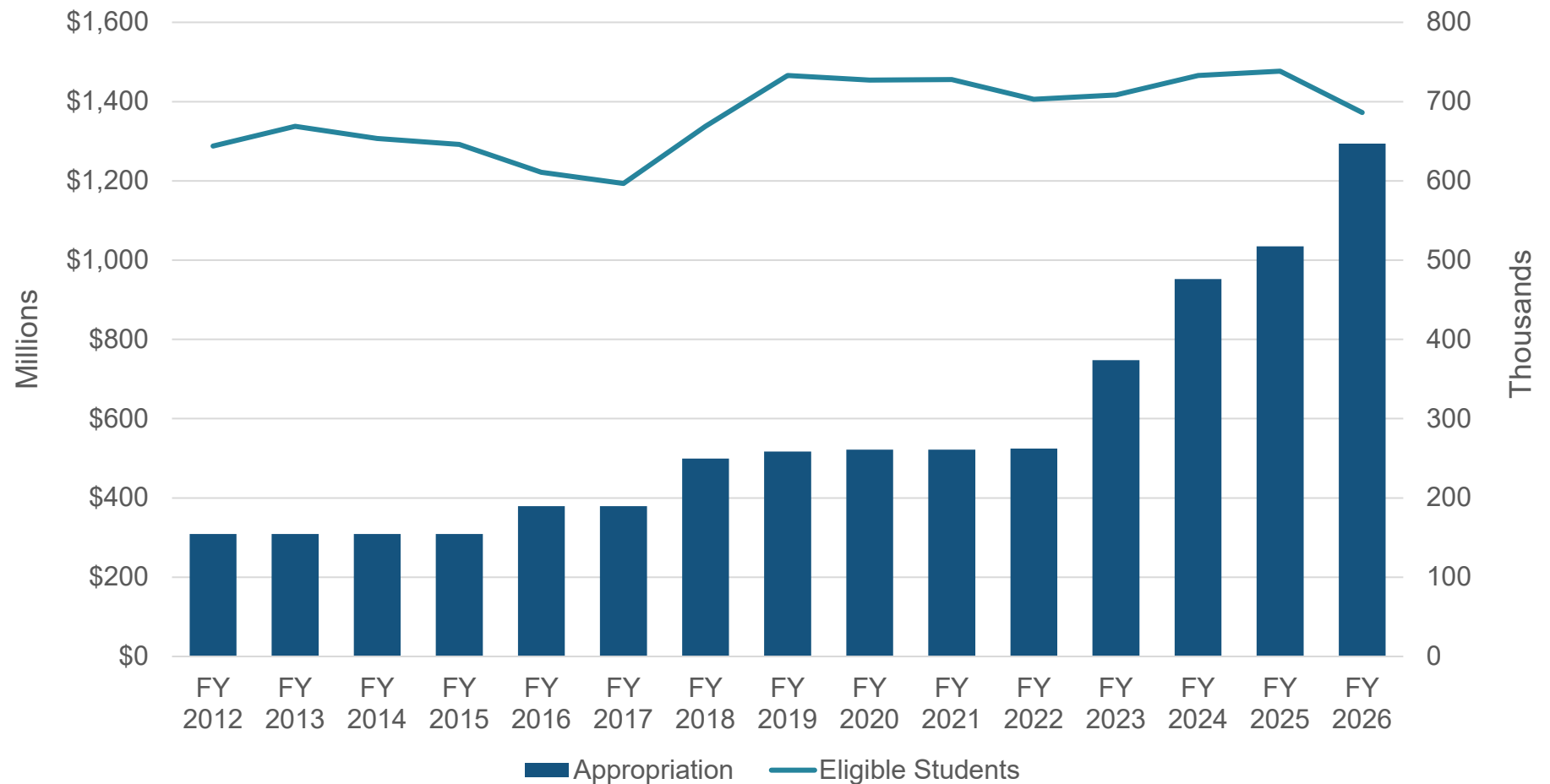
At-Risk Program

At-Risk Funding

- Provides **\$1.3 billion** for added services for students at risk of not succeeding academically.
- Approximately half of all students statewide are eligible.
- The funding formula is based on an **opportunity index**:
 - Funding is tiered so that districts with a higher proportion of eligible students receive a higher amount per eligible student.
 - If funding was sufficient, districts would receive between **35%** and **47%** of the foundation allowance per eligible student.
 - For FY 2025-26, the estimated prorated range is **16%** to **22%**.
- Other major program changes:
 - In FY 2017-18 and FY 2018-19, policy changes resulted in an increase in eligible students.
 - In FY 2022-23, payments were fully funded at **11.5%** of the foundation allowance for the first time, and a cap on certain high-revenue districts was removed.
 - In FY 2023-24, the opportunity index set higher funding goals, resulting in proration.
 - In FY 2025-26, the removal of federal pandemic-era provisions resulted in a decrease in eligible students.

At-Risk Appropriations

The At-Risk program is funded at **\$1.3 billion** in FY 2025-26. Payments will be between an estimated **16% to 22%** of the foundation allowance, or between **\$1,618** and **\$2,156** per eligible student.



Great Start Readiness Program

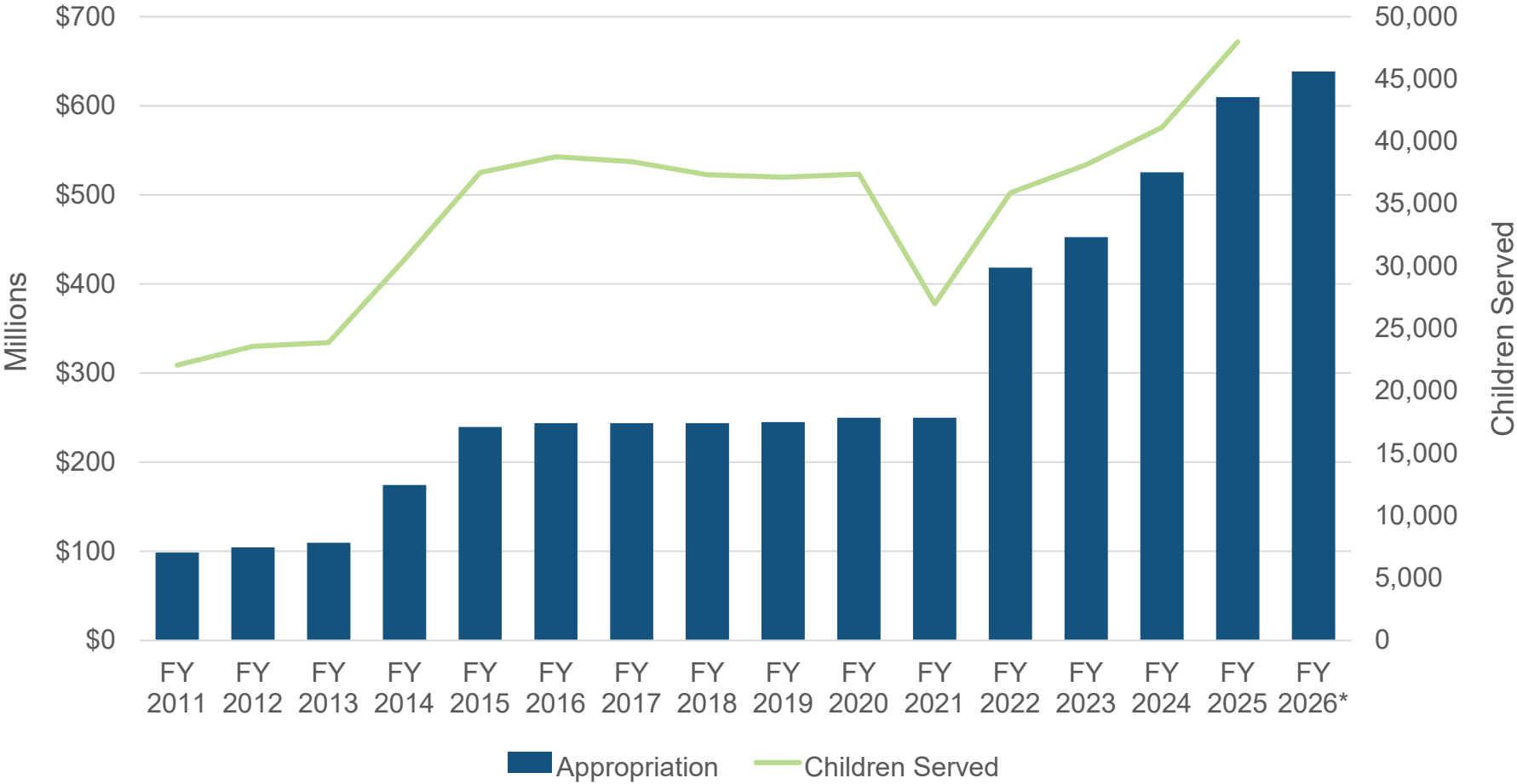
Great Start Readiness Program (GSRP)

- In FY 2025-26, funding for the GSRP 4-year-old preschool program is **\$666.6 million**.
- The GSRP foundation allowance is **\$10,650** per child for a full-day program. The foundation is adjusted as follows for other programs:
 - **50%** for a half-day program
 - **120%** for an extended program (began in FY 2023-24)
 - **60%** for a half-day extended program (began in FY 2024-25)
- The program served approximately **47,981** children in FY 2024-25.
- The program went from 100% half-day program in FY 2004-05 to the following for FY 2024-25:

• Half-Day:	3%
• GSRP/Head Start Blend:	9%
• Full-Day:	61%
• Extended Program:	26%
• Extended Blended Program:	1%
- **\$28.0 million** is allocated for up to **\$500** per child for preschool transportation.

GSRP Operational Appropriations

Funding for and enrollment in GSRP programming has continued to increase since the pandemic. The household income limit was removed in FY 2025-26.



* FY 2025-26 Children Served is not yet known.

One-Time Categoricals

One-Time Categoricals

- In FY 2025-26, there are **30** sections that include one-time funding, totaling **\$1.2 billion**, or **6%** of the School Aid budget.
- Major sections include:
 - **\$321.0 million** for Per-Pupil Mental Health & School Safety;
 - **\$125.0 million** for Transportation Costs;
 - **\$100.0 million** for Infrastructure Grants (plus the remaining ~\$186.5 million in the fund if needed);
 - **\$75.0 million** for Out-of-School Time;
 - **\$71.0 million** for Enrollment Stabilization;
 - **\$70.0 million** for Grow Your Own Programs;
 - **\$70.0 million** for Literacy Supports;
 - **\$70.0 million** for CTE Pathways to Success;
 - **\$65.0 million** for Small Class Size Pilots

School Districts

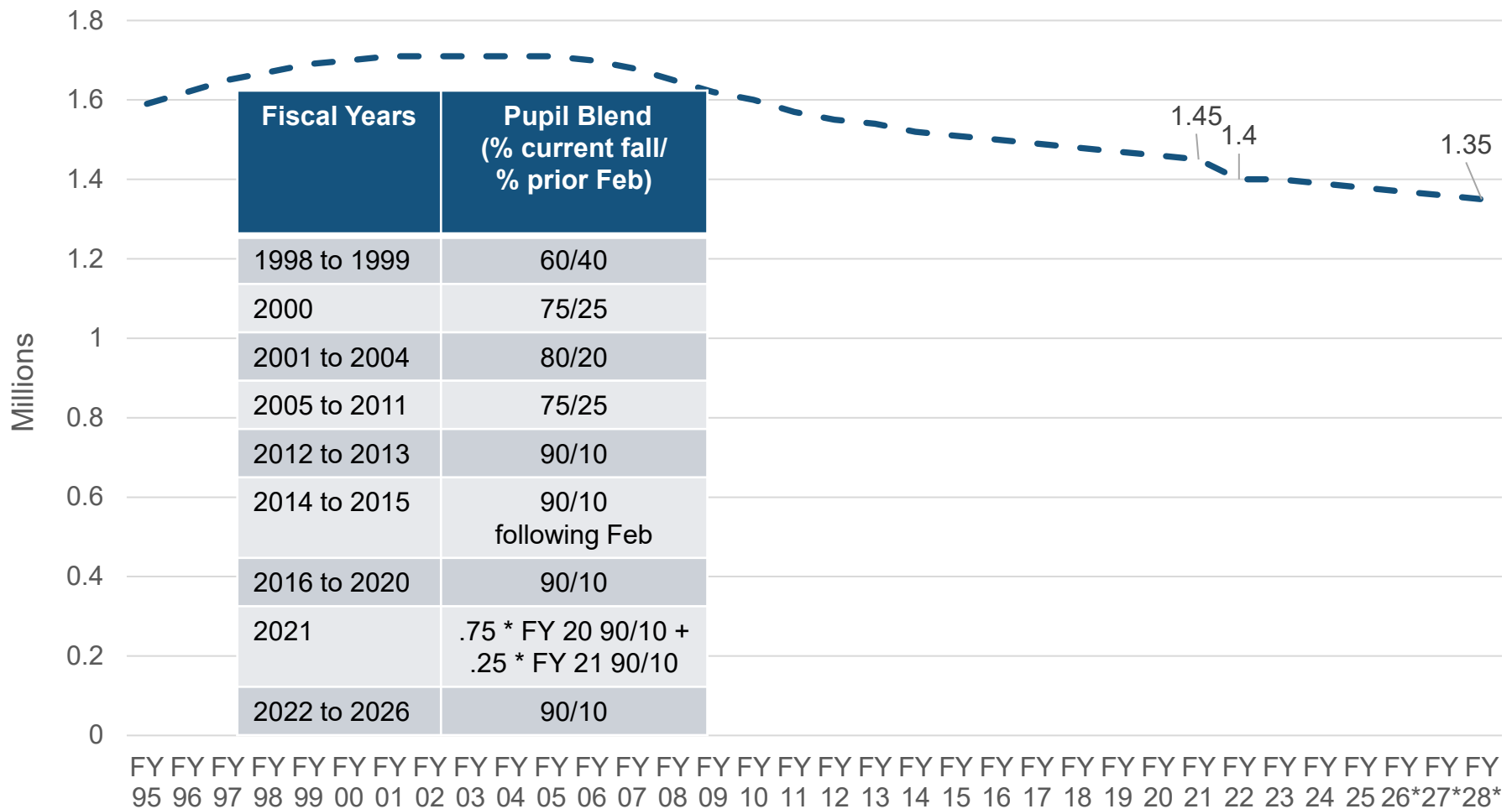
Types of School Districts

- Traditional local school districts:
 - Have defined boundaries, locally elected school boards, and are authorized to levy local taxes.
 - In FY 2025-26, there are **537** traditional local districts with **89%** of the statewide public pupil membership.
- Public School Academies (PSAs), or charter schools:
 - Independent public schools formed to provide an alternate to local districts.
 - Authorized to operate by public universities, community colleges, intermediate school districts, and local school districts.
 - In FY 2025-26, there are **288** PSAs with **11%** of statewide pupil membership.
- Cyber schools:
 - A type of public school academy.
 - In FY 2025-26, **16** cyber schools have an enrollment totaling **24,714**.
 - 2012 PA 129 caps statewide cyber enrollment at **30,870** pupils.

Declining Enrollment

Total Pupil Membership Counts

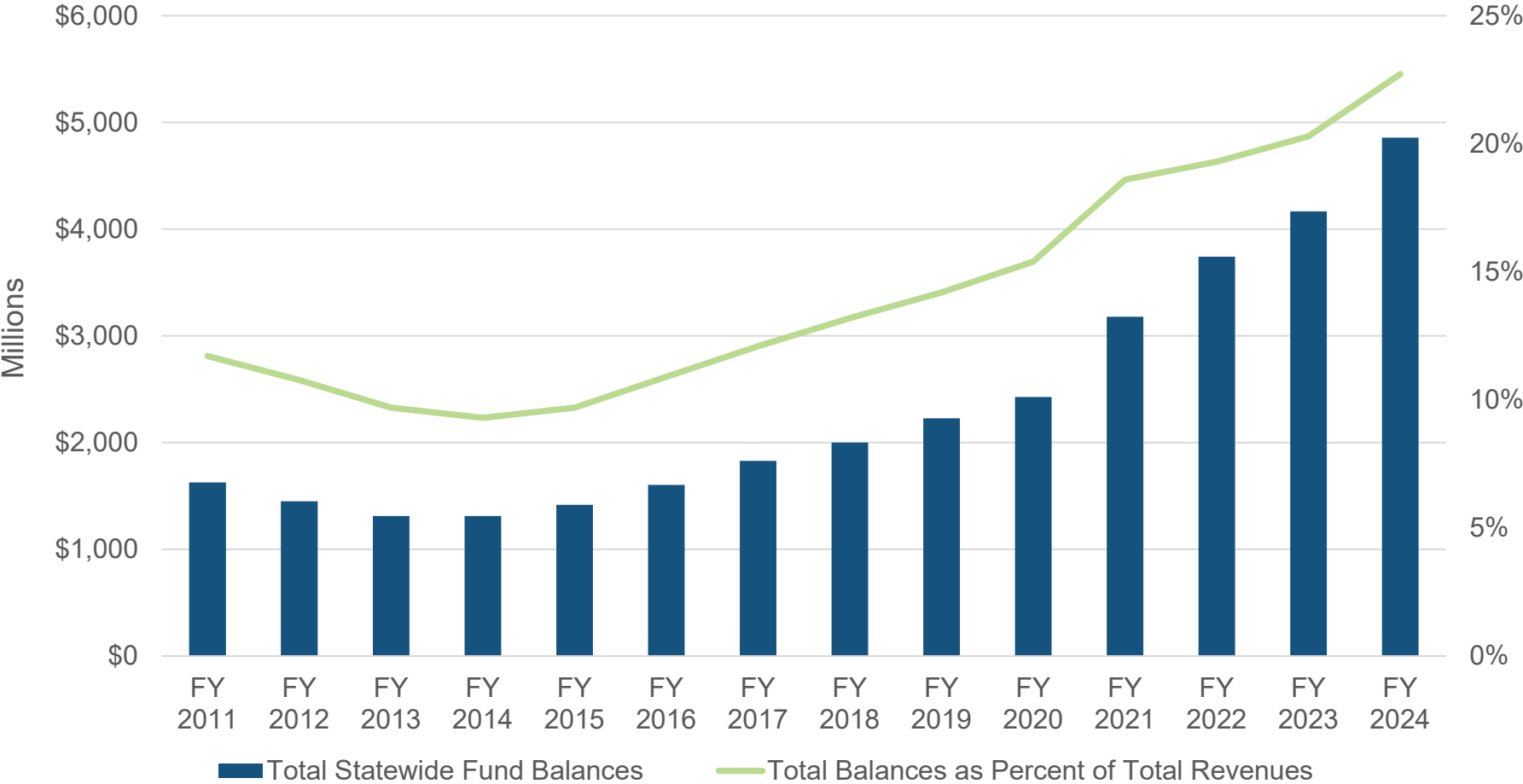
Statewide, pupil memberships are **21%** lower than their peak in FY 2002-03 and dropping. **74%** of traditional districts are experiencing pupil decline.



* FYs 2026, 2027, and 2028 are Jan 2026 consensus estimates

District Fund Balances

Fund balances have been growing since FY 2013-14, and at the end of FY 2023-24, totaled **\$4.9 billion**. The average statewide total fund balance as a percent of revenues is now at **23%** in FY 2023-24.



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>

Contact Information

Jacqueline Mullen, Senior Fiscal Analyst

jmullen@house.mi.gov

Noel Benson, Fiscal Analyst

nbenson@house.mi.gov

(517) 373-8080