



# OVERVIEW OF K-12/SCHOOL AID



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SENATE FISCAL AGENCY  
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*<http://www.senate.michigan.gov/sfa/>*



# LEGAL AUTHORITY



**STATE CONSTITUTION (EXCERPT)**  
**CONSTITUTION OF MICHIGAN OF 1963**

**ARTICLE VIII**  
**EDUCATION**

**§ 2 Free public elementary and secondary schools; discrimination.**

Sec. 2. The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law. Every school district shall provide for the education of its pupils without discrimination as to religion, creed, race, color or national origin.

**Nonpublic schools, prohibited aid.**

No public monies or property shall be appropriated or paid or any public credit utilized, by the legislature or any other political subdivision or agency of the state directly or indirectly to aid or maintain any private, denominational or other nonpublic, pre-elementary, elementary, or secondary school. No payment, credit, tax benefit, exemption or deductions, tuition voucher, subsidy, grant or loan of public monies or property shall be provided, directly or indirectly, to support the attendance of any student or the employment of any person at any such nonpublic school or at any location or institution where instruction is offered in whole or in part to such nonpublic school students. The legislature may provide for the transportation of students to and from any school.

**History:** Const. 1963, Art. VIII, § 2, Eff. Jan. 1, 1964;--Am. Initiated Law, approved Nov. 3, 1970, Eff. Dec. 19, 1970.

**Constitutionality:** That portion of second sentence of second paragraph of this section, prohibiting use of public money to support attendance of any student or employment of any person at any location or institution where instruction is offered in whole or in part to nonpublic students, was held unconstitutional, void, and unenforceable because it contravened free exercise of religion guaranteed by the United States Constitution and was violative of equal protection of laws provisions of United States Constitution. *Traverse City School District v Attorney General*, 384 Mich 390; 185 NW2d 9 (1971).

**Former constitution:** See Const. 1908, Art. XI, § 9.

# Fiscal Year 2017-18 K-12 Fact Sheet

## ❖ Districts and Pupils

- 540 (or 64%) Local School Districts with 1,336,500 (or 90%) pupils in membership (estimated)
- 300 (or 36%) Public School Academies (Charters) with 150,000 (or 10%) pupils in membership (estimated)
- 840 Total School Districts with 1,486,500 pupils in membership (estimated)

## ❖ Foundation

- Pupil-Weighted Average Foundation Allowance (estimated): \$7,690
- Lowest-funded K-12 District (including equity payment): \$7,631
- Basic (Target) Foundation Allowance: \$8,289
- Highest-funded K-12 District: \$12,124
- Gap Between High and Low: \$4,493
- Gap Between Basic and Low: \$658

## ❖ Equity

- 84% of districts (including all charters) are at \$7,631
- 9% are above the minimum but below the basic (between \$7,632 and \$8,288)
- 7% receive at least \$8,289 per pupil

## ❖ Spending

- Total State Spending: \$12,851,920,100 (of which \$213.7 million is GF/GP, \$12.54 billion is School Aid Fund, \$72.0 million is from Tobacco Settlement Revenue to support Detroit Public Schools, and \$23.1 million is from the MPSERS Reforms Fund to pay for the additional costs associated with S.B. 401 of 2017)
- Total Federal Aid: \$1,726,943,500

## ❖ Revenue

School Aid Fund Major Taxes – Three taxes make up 82% of SAF revenue (est. at \$12,970.5 million for FY 2017-18):

- State Education Tax (6 mills levied on all property and remitted to the State): \$2.0 billion (15% of total SAF revenue)
- Income Tax (23.3% of gross income tax revenue): \$2.9 billion (22% of total SAF revenue)
- Sales Tax (73.3% of gross sales tax revenue): \$5.8 billion (44% of total SAF revenue)





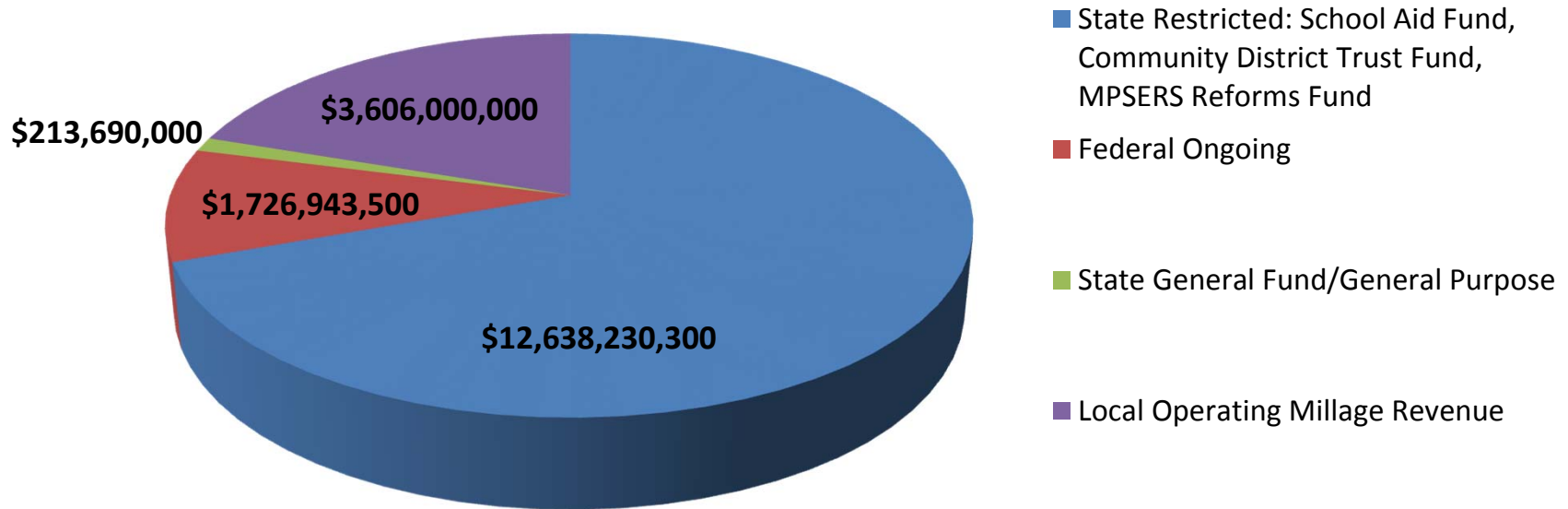
# TOTAL REVENUE



# Figure 1:

## Funding Sources for Schools: FY 2017-18

Total Estimated Operating Funds: \$18,184,863,800



Local operating millage revenue includes millages levied by school districts to support their foundation allowances and millages levied by intermediate school districts for operations, enhancement, special education, and vocational education. Local operating millage excludes millage levied for capital purposes, including debt and sinking funds. Dollars shown for local revenue are estimates.



# Table 1: Sources of Local School Operating Revenue (Doesn't Include ISDs)

## School Years 1979-80 to 2015-16 (Thousands of Dollars)

School Year	Local Revenue	Intermediate Source <sup>1)</sup>	State Aid	Federal Funds	Total Revenue	School Year	Local Revenue	Intermediate Source <sup>1)</sup>	State Aid	Federal Funds	Total Revenue
1979-80	2,273,569	3,837	1,377,578	226,782	3,881,766	2000-01	2,262,056	3,605	10,110,856	631,139	13,007,656
1980-81	2,633,766	4,468	1,207,740	254,153	4,100,127	2001-02	2,332,596	934	10,751,260	725,425	13,810,215
1981-82	2,996,860	4,291	1,173,373	210,491	4,385,015	2002-03	2,378,674	2,972	10,832,994	779,364	13,994,004
1982-83	3,149,922	4,575	1,095,332	187,879	4,437,708	2003-04	2,485,736	7,299	10,681,126	966,624	14,140,785
1983-84	3,228,169	4,261	1,285,303	196,075	4,713,808	2004-05	2,643,016	7,824	10,588,877	1,006,116	14,245,833
1984-85	3,383,114	4,710	1,470,427	210,052	5,068,303	2005-06	2,792,574	8,009	10,751,345	988,062	14,539,991
1985-86	3,508,905	5,377	1,664,557	229,673	5,408,512	2006-07	2,961,717	7,162	10,935,563	792,222	14,696,664
1986-87	3,676,307	5,188	1,821,094	233,911	5,736,500	2007-08	3,078,342	7,174	10,745,825	711,067	14,542,408
1987-88	3,869,211	5,582	1,900,569	235,988	6,011,350	2008-09	2,789,910	7,528	10,315,380	1,391,093	14,503,911
1988-89	4,199,299	4,071	1,915,357	245,457	6,364,184	2009-10	2,797,119	5,990	9,942,383	1,453,422	14,198,914
1989-90	4,616,138	4,854	2,047,707	269,529	6,938,228	2010-11	2,713,343	8,409	10,142,007	1,530,959	14,394,718
1990-91	4,983,706	6,810	2,223,626	302,147	7,516,289	2011-12	2,655,796	12,534	10,077,081	975,211	13,720,622
1991-92	5,309,150	7,453	2,317,866	351,914	7,986,383	2012-13	2,596,469	11,376	10,248,563	825,525	13,681,933
1992-93	5,469,923	6,564	2,364,689	389,693	8,230,869	2013-14	2,561,857	12,420	10,426,399	785,321	13,785,997
1993-94	5,851,981	1,396	2,629,924	409,447	8,892,948	2014-15	2,562,522	11,803	10,807,294	778,430	14,160,049
1994-95 <sup>2)</sup>	1,790,264	3,683	7,741,043	415,198	9,950,188	2015-16	2,608,569	12,619	11,006,196	737,302	14,364,686
1995-96	1,899,850	2,669	8,176,544	436,288	10,515,351						
1996-97	1,993,808	7,924	8,461,969	463,795	10,927,496						
1997-98	2,006,521	706	9,089,960	487,642	11,584,829						
1998-99	2,093,206	1,301	9,082,936	534,282	11,711,725						
1999-2000	2,207,147	1,030	9,479,966	573,072	12,261,215						

<sup>1)</sup> "Intermediate Source" revenue is defined as revenue received by a school district from a governmental unit other than a local or intermediate school district. Prior to 1993-94, however, some revenue from intermediate school districts has been included here.

<sup>2)</sup> The 1994-95 school year was the year Proposal A and related school finance reforms were implemented.

**Source:** Bulletin 1011, Michigan Department of Education: General Fund Revenues Before Transfers.



# **SCHOOL AID FUND REVENUE**





**STATE CONSTITUTION (EXCERPT)**  
**CONSTITUTION OF MICHIGAN OF 1963**

**ARTICLE IX**  
**FINANCE AND TAXATION**

**§ 11 State school aid fund; source; distribution; guarantee to local school district.**

Sec. 11. There shall be established a state school aid fund which shall be used exclusively for aid to school districts, higher education, and school employees' retirement systems, as provided by law. Sixty percent of all taxes imposed at a rate of 4% on retailers on taxable sales at retail of tangible personal property, 100% of the proceeds of the sales and use taxes imposed at the additional rate of 2% provided for in section 8 of this article, and other tax revenues provided by law, shall be dedicated to this fund. Payments from this fund shall be made in full on a scheduled basis, as provided by law. Beginning in the 1995-96 state fiscal year and each state fiscal year after 1995-96, the state shall guarantee that the total state and local per pupil revenue for school operating purposes for each local school district shall not be less than the 1994-95 total state and local per pupil revenue for school operating purposes for that local school district, as adjusted for consolidations, annexations, or other boundary changes. However, this guarantee does not apply in a year in which the local school district levies a millage rate for school district operating purposes less than it levied in 1994.

**History:** Const. 1963, Art. IX, § 11, Eff. Jan. 1, 1964;<sup>3</sup>/<sub>4</sub>Am. S.J.R. S, approved Mar. 15, 1994, Eff. Apr. 30, 1994.

# Table 2: School Aid Fund Earmarked Revenue and Type of Earmarking: FY 2017-18 (Dollars in Millions)

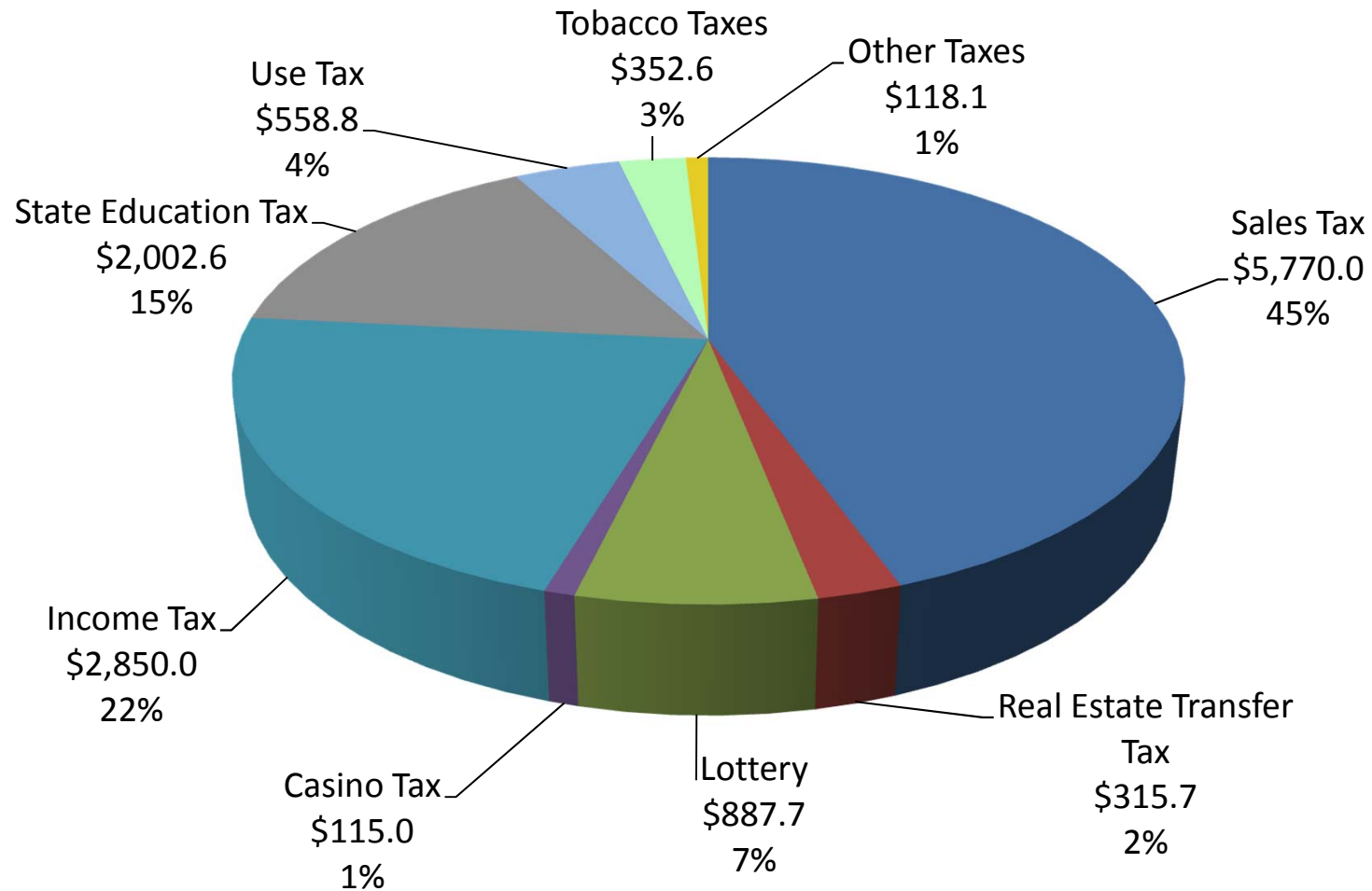
School Aid Fund Earmarked Revenue	FY 2017-18 Consensus 05/17	% of Tax/Revenue Earmarked to SAF	Earmarking and Citation
Sales Tax	\$5,770.0	73.3% of 6% Tax	Constitutional
Use Tax	558.8	33.3% of 6% Tax	Constitutional
Income Tax	2,850.0	23.3% of Gross Collections	Statutory
State Education Property Tax	2,002.6	100% of 6-mill Tax	Statutory
Michigan Business Tax	0.0	Fixed amount adjust. for inflation	Statutory
Real Estate Transfer Tax	315.7	100% of State Tax	Statutory
Tobacco Taxes	352.6	41.6% of Tobacco Taxes	Statutory
Industrial & Commercial Facilities Tax	36.0	100% of Local School Share	Statutory
Liquor Excise Tax	53.8	100% of 4% Tax	Statutory
Commercial Forest Tax	3.3	100% of Local School Share	Statutory
Casino Tax	115.0	67% of State Tax	Statutory
Other Specific Taxes (MSHDA, Trailers...)	25.0	Various	Statutory
Subtotal Earmarked Taxes to SAF	\$12,082.8		
Lottery	887.7	100% of Net Revenue	Statutory
<b>Total School Aid Fund</b>	<b>\$12,970.5</b>		
<u>Addendum:</u>			
Constitutional versus Statutory Earmarking:	Revenue		% of Total
Constitutional Earmarked	\$6,188.3		48.8%
Statutory Earmarked	6,641.7		51.2%
<b>Total</b>	<b>\$12,970.5</b>		<b>100.0%</b>

Source: Senate Fiscal Agency



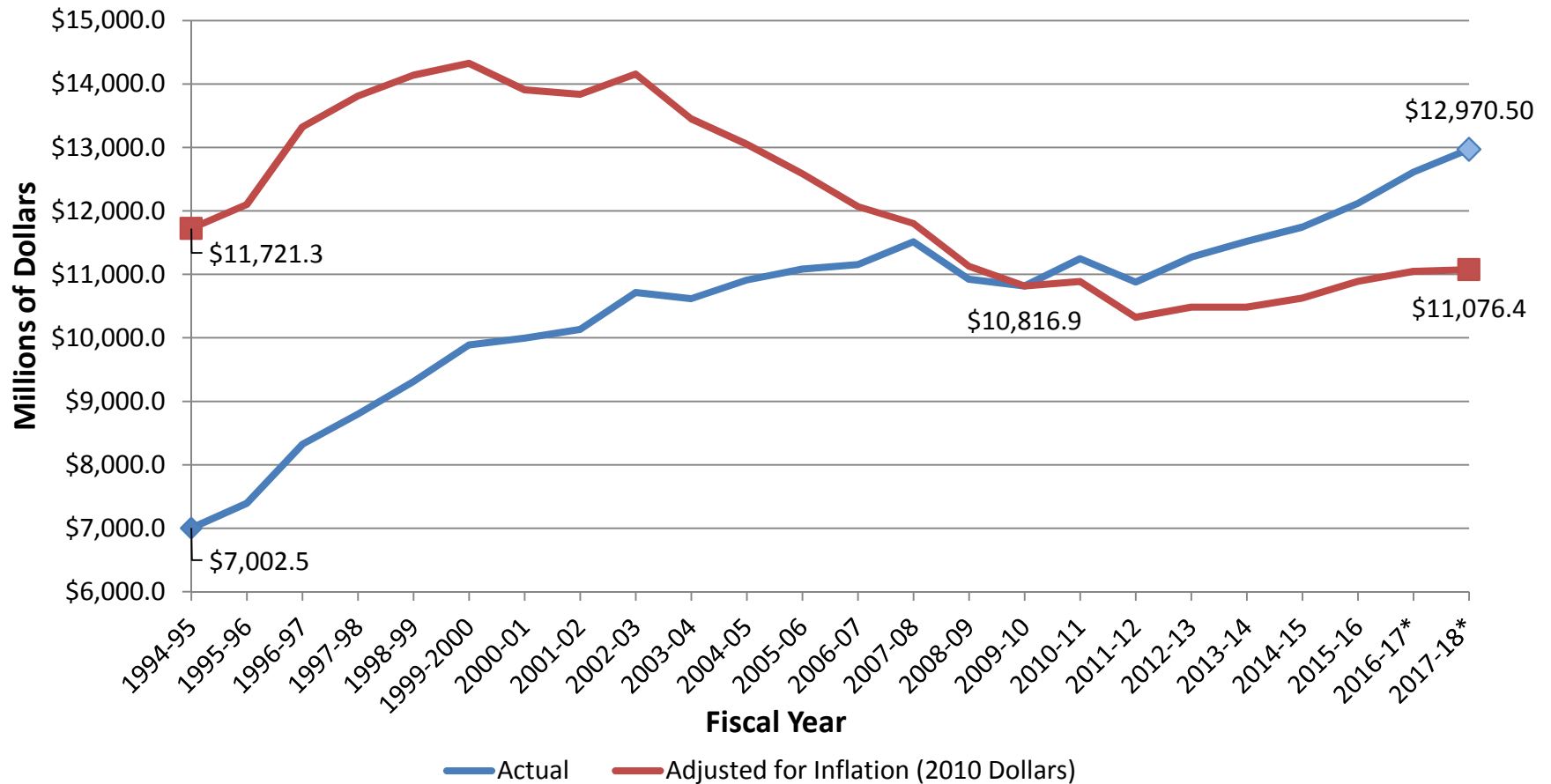
# Figure 2: Est. FY 2017-18 School Aid Fund Revenue Sources (Excludes Federal) (Millions of Dollars)

Total (Earmarked Taxes Plus Lottery): \$12,970.5 (Millions)



# Figure 3:

**Ongoing School Aid Fund Revenue**  
**Nominal Revenue in FY18 15.8% Above Prior Peak (FY 08)**  
**Adjusted for Inflation\*\*: Down 5.5% From FY95**



\*Estimated

\*\*Inflation measured by Government Price Deflator

**Source:** U.S. Dept. of Labor, Michigan Dept. of Treasury, and May 2017 consensus revenue estimates

**Table 3: State Restricted (including SAF, DPS Trust Fund, MPSERS Reserve Fund) and GF/GP in School Aid Budget**

Fiscal Year	State Restricted Appropriations in School Aid	Dollar Change	Percent Change	General Fund Appropriation in School Aid	Dollar Change	Percent Change
FY 1994-95	\$7,246,867,400	n/a	n/a	\$664,914,900	n/a	n/a
FY 1995-96	7,625,544,400	\$378,677,000	5.2%	596,352,000	(\$68,562,900)	-10.3%
FY 1996-97	8,280,347,000	654,802,600	8.6%	277,947,800	(318,404,200)	-53.4%
FY 1997-98	8,929,471,600	649,124,600	7.8%	377,935,400	99,987,600	36.0%
FY 1998-99	9,074,461,900	144,990,300	1.6%	420,613,500	42,678,100	11.3%
FY 1999-2000	9,536,995,100	462,533,200	5.1%	420,613,500	0	0.0%
FY 2000-01	10,346,671,500	809,676,400	8.5%	385,613,500	(35,000,000)	-8.3%
FY 2001-02	11,022,148,200	675,476,700	6.5%	198,413,500	(187,200,000)	-48.5%
FY 2002-03	11,085,138,100	62,989,900	0.6%	249,413,500	51,000,000	25.7%
FY 2003-04	10,730,437,100	(354,701,000)	-3.2%	377,850,000	128,436,500	51.5%
FY 2004-05	10,948,322,200	217,885,100	2.0%	165,200,000	(212,650,000)	-56.3%
FY 2005-06	11,245,313,200	296,991,000	2.7%	62,714,000	(102,486,000)	-62.0%
FY 2006-07	11,561,963,200	316,650,000	2.8%	35,000,000	(27,714,000)	-44.2%
FY 2007-08	11,386,866,600	(175,096,600)	-1.5%	34,909,600	(90,400)	-0.3%
FY 2008-09	11,019,798,200	(367,068,400)	-3.2%	78,000,000	43,090,400	123.4%
FY 2009-10	10,644,891,500	(374,906,700)	-3.4%	30,206,200	(47,793,800)	-61.3%
FY 2010-11	10,784,760,500	139,869,000	1.3%	18,642,400	(11,563,800)	-38.3%
FY 2011-12	11,010,210,400	225,449,900	2.1%	78,642,400	60,000,000	321.8%
FY 2012-13	10,928,614,200	-81,596,200	-0.7%	282,400,000	203,757,600	259.1%
FY 2013-14	11,356,232,300	427,618,100	3.9%	149,900,000	-132,500,000	-46.9%
FY 2014-15	11,832,097,400	475,865,100	4.2%	33,700,000	-116,200,000	-77.5%
FY 2015-16	11,905,439,300	73,341,900	0.6%	55,100,000	21,400,000	63.5%
FY 2016-17	12,144,131,900	238,692,600	2.0%	179,040,000	123,940,000	224.9%
FY 2017-18	12,638,230,400	494,098,500	4.1%	213,690,000	34,650,000	19.4%
<b>Change from FY 1994-95 to FY 2017-18</b>		<b>\$5,391,363,000</b>	<b>74.4%</b>		<b>(\$451,224,900)</b>	<b>-67.9%</b>





# **SCHOOL AID EXPENDITURES**



# Table 4: K-12 Budget Bill Appropriations History: the Last Decade-Plus of State Spending FY 2002-03 through FY 2017-18

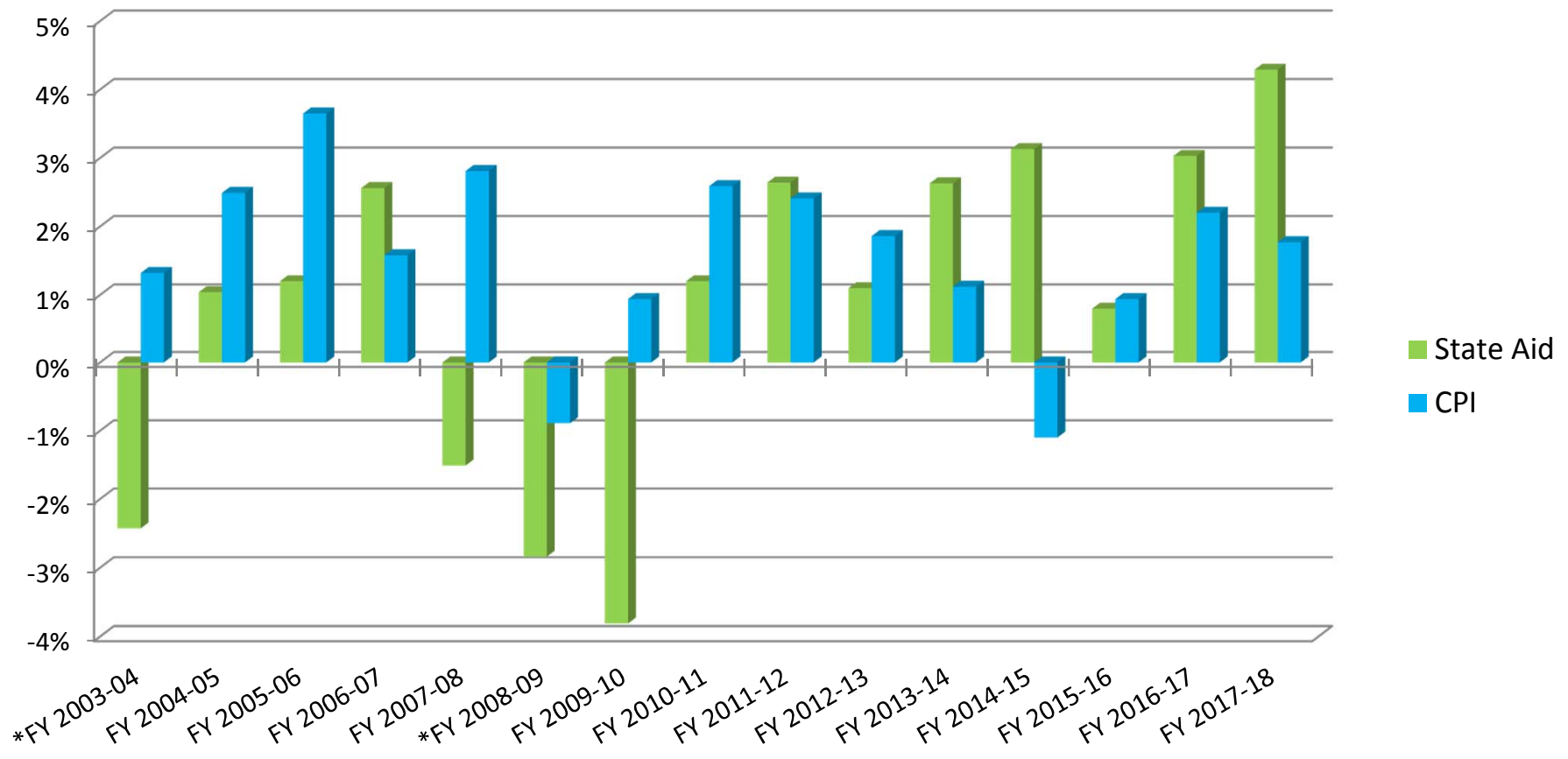
Fiscal Year	State Funding in K-12	Percent Change in State Funding	Detroit Area CPI	Difference Between State Funding and CPI Percentages
FY 2002-03	11,334,551,600	1.02%	2.54%	-1.52%
FY 2003-04 <sup>a)</sup>	11,059,287,100	-2.43%	1.32%	-3.75%
FY 2004-05	11,173,900,000	1.04%	2.49%	-1.45%
FY 2005-06	11,308,027,200	1.20%	3.65%	-2.45%
FY 2006-07	11,596,963,200	2.56%	1.58%	0.98%
FY 2007-08	11,421,776,200	-1.51%	2.81%	-4.32%
FY 2008-09 <sup>b)</sup>	11,097,798,200	-2.84%	-0.89%	-3.73%
FY 2009-10	10,675,097,700	-3.81%	0.94%	1.95%
FY 2010-11	10,803,402,900	1.20%	2.59%	-1.39%
FY 2011-12	11,088,852,800	2.64%	2.41%	0.23%
FY 2012-13	11,211,014,200	1.10%	1.86%	-0.76%
FY 2013-14	11,506,132,300	2.63%	1.12%	1.51%
FY 2014-15	11,865,797,400	3.12%	-1.10%	4.23%
FY 2015-16	11,960,539,300	2.18%	0.94%	-0.14%
FY 2016-17	12,323,171,900	3.03%	2.20%	0.83%
FY 2017-18	12,851,920,400	4.29%	1.77%	2.52%
<b>FY 2008-09 through FY 2017-18</b>	<b>\$1,754,122,200</b>	<b>7.22%</b>	<b>15.8%</b>	<b>-8.58%</b>

a) State funding in this year represented the effective, not actual, spending because \$49.0 million in known lapses occurred.

b) In FY 2008-09, \$341.0 million of State funding was added to offset lower local tax revenue from changes in the Michigan Business Tax; without this, State funding declined 5.8%.



# Figure 4: Comparison of K-12 State Funding Percentage Increases and Detroit CPI



\* State funding in this year represented the effective, not actual, State spending because \$49.0 million in known lapses occurred.

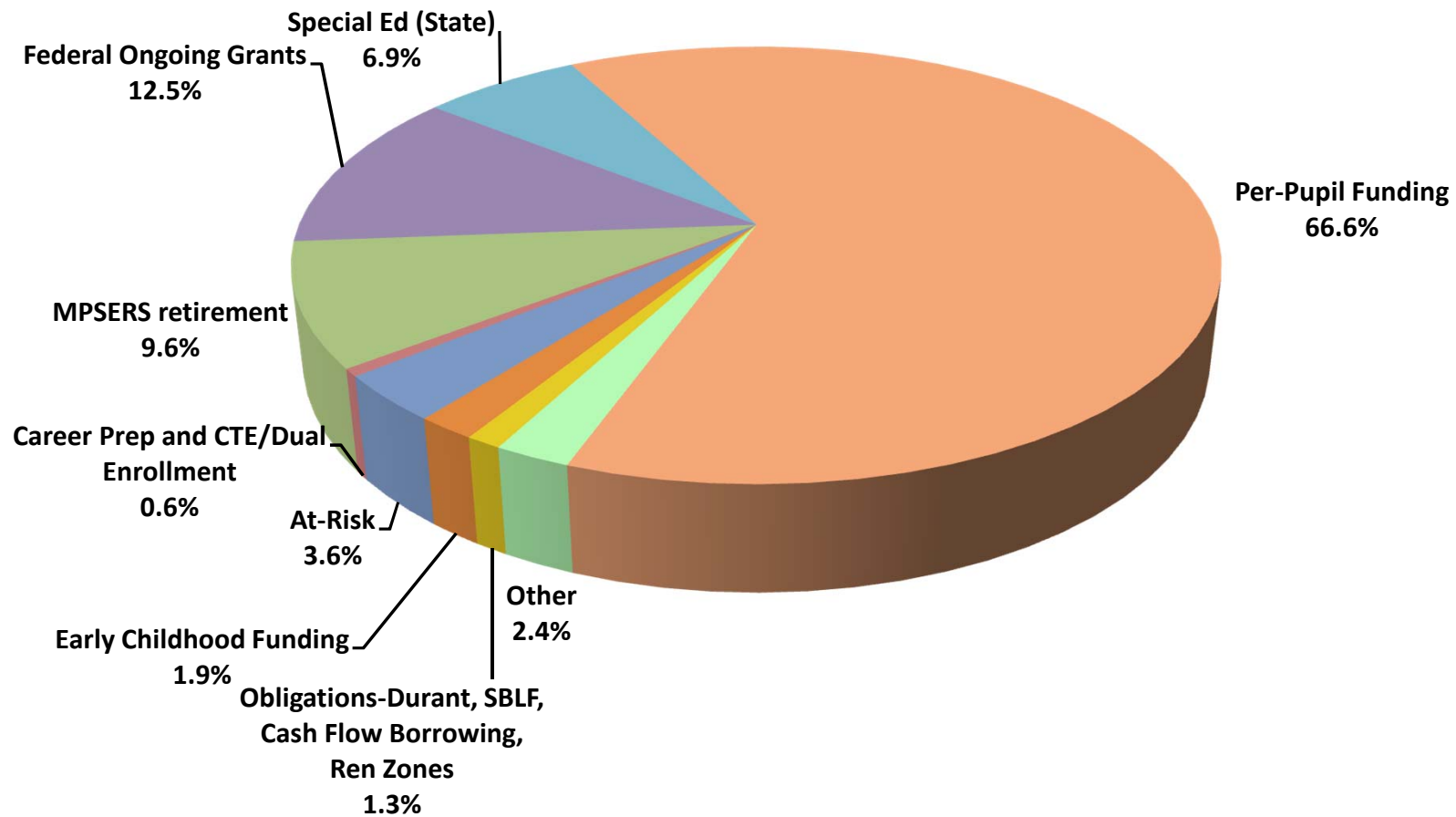
\*\* In FY 2008-09 \$341.0 million of State funding was added to offset lower local tax revenue from changes in the Michigan Business Tax; without this, State funding declined 5.8%.





# Figure 5: School Aid

FY 2017-18 Enacted Gross Appropriations by Program Area



**Total Gross: \$14,578,863,900**



# Table 7: Items Transferred to School Aid from Other Departments (Previously Covered by GF/GP or Equivalent)

Budget Item Transferred to K-12 from Other Department	Original Department	Fiscal Year Transferred	FY 2017-18 Amount	Cumulative Since Transferred In
Sec. 11j School Bond Loan Fund Payments - Debt Service	Treasury	FY 2002-03	\$125,500,000	\$1,102,432,600
Sec. 11m Cash Flow Borrowing Costs	Treasury	FY 2006-07	6,500,000	135,247,000
Sec. 24a Juvenile Detention Facilities	Human Services	FY 2006-07	1,339,000	24,676,400
Sec. 24c Challenge Program	Military & Veterans Affairs	FY 2006-07	1,528,400	15,009,200
Sec. 26b PILT Reimbursement	Natural Resources	FY 2005-06	4,405,100	46,924,500
Sec. 31a Vision/Hearing Screening	Community Health	FY 2006-07	5,150,000	61,800,000
Sec. 31a Child & Adolescent Health Centers	Community Health	FY 2005-06	6,057,300	50,744,500
Sec. 31f School Breakfast	Education	FY 2006-07	4,500,000	98,017,200
Sec. 32l Great Start - School Readiness to Nondistricts	Education	FY 2005-06	0	77,625,000
Sec. 65 Pre-College Engineering (amount transferred from DLEG)	Energy, Labor, and Economic Growth	FY 2006-07	340,000	5,170,500
Sec. 67 Michigan College Access Network	Higher Education	FY 2015-16	3,000,000	9,000,000
Sec. 93 State Aid to Libraries	Education	FY 2010-11	0	4,108,600
Sec. 104a MEAP Testing - State Share	Education	FY 2006-07	34,709,400	387,096,100
<b>Sum of Items Transferred</b>			<b>\$193,029,200</b>	<b>\$2,017,851,600</b>

Source: Senate Fiscal Agency



# **FOUNDATION ALLOWANCE**



## Financing for Schools

### After Proposal A: the Foundation Allowance Concept

After Proposal A, school funding was tied to each pupil counted in a district's membership. Districts receive a foundation allowance, which is a per-pupil funding amount initially determined in 1994-95 based on what the district was receiving on a per-pupil basis in 1993-94. A minimum level of funding was established (\$4,200), a target level was determined (\$5,000), and a "cutoff" point for State Aid was set (\$6,500). Today 65% of gross spending goes to paying districts' foundation allowances.

### State/Local Funding of Foundation Allowance

- Each district must levy 18 mills on non-homesteads.
- Local revenue from 18 mills is calculated at the State level on a per-pupil basis.
- State deducts the per-pupil local revenue from the lesser of the foundation allowance or hold-harmless "guaranteed" per-pupil amount.
- Districts above the hold-harmless cap are allowed by law to levy additional mills (with voter approval) to achieve their prescribed foundation allowance.

Foundation Cost Components	Munising Public Schools	Central Lake Schools	New Buffalo Schools
1994-95 Foundation	\$4,200	\$5,961	\$8,527
1994 Nonhomestead T.V.	\$45,545,273	\$62,930,150	\$203,811,384
1994-95 Pupils	1,107.34	504.4	651.24
18 Mills (Per-Pupil Basis)	\$740	\$3,715	\$5,633
State Aid (Per-Pupil Basis)	\$3,460	\$2,246	\$867
Hold-Harmless Millage Revenue if Necessary	\$0	\$0	\$2,527
Hold-Harmless Mills Levied	0	0	12



**Table 8: Effective (Not Statutory) Foundation Allowance Changes Since Prop. A  
FY 1993-94 through FY 2017-18**

Fiscal Year	Effective Minimum (Min.)	Effective Basic (Becomes Min.)	Growth in Basic/Min.	Hold Harmless Threshold (H.H.)/Basic	Difference H.H. – Min.	Effective Maximum <sup>1)</sup>	Difference Max – Min
1993-94	\$2,762	n/a	n/a	n/a	n/a	\$10,294	\$7,532
1994-95	4,200	5,000	n/a	6,500	2,300	10,454	6,254
1995-96	4,506	5,153	153	6,653	2,147	10,607	6,101
1996-97	4,816	5,308	155	6,808	1,992	10,762	5,946
1997-98	5,124	5,462	154	6,962	1,838	10,916	5,792
1998-99	5,170	5,462	0	6,962	1,792	10,916	5,746
1999-2000	5,700	5,700	238	7,200	1,500	11,154	5,454
2000-01	6,000	6,000	300	7,500	1,500	11,454	5,454
2001-02	6,500	6,500 <sup>2)</sup>	500	7,800	1,300	11,754	5,254
2002-03 <sup>3)</sup>	6,626	6,626	126	8,000	1,374	11,880	5,254
2003-04 <sup>3)</sup>	6,626	6,626	0	8,000	1,374	11,880	5,254
2004-05	6,700	6,700	74	8,000	1,300	11,954	5,254
2005-06	6,875	6,875	175	8,175	1,300	12,129	5,254
2006-07 <sup>4)</sup>	7,108	7,108	233	8,385	1,277	12,339	5,231
2007-08	7,204	7,204	96	8,433	1,229	12,387	5,183
2008-09	7,316	7,316	112	8,489	1,173	12,443	5,127
2009-10 Enacted <sup>5)</sup>	7,162	7,162	(154)	8,489	1,327	12,170	5,008
2010-11 Enacted <sup>6)</sup>	7,146	7,146	0	8,489	1,343	12,154	5,008
2011-12	6,846	6,846	(300)	8,019	1,173	11,854	5,008
2012-13	6,966	6,966	120	8,019	1,053	11,854	4,888
2013-14	7,076	7,076	110	8,049	973	11,884	4,808
2014-15	7,251	7,251	175	8,099	848	11,934	4,683
2015-16	7,391	7,391	140	8,169	778	12,004	4,613
2016-17	7,511	7,511	120	8,229	718	12,064	4,553
2017-18	7,631	7,631	120	8,289	658	12,124	4,493

1) This maximum is for Bloomfield Hills, the highest per-pupil funded district with a standard-sized pupil population. (Two districts with fewer than 10 pupils have higher foundations.)

2) For FY 2001-02, the Basic Foundation Allowance was actually \$6,300. However, a \$200 per-pupil Equity Payment was subsequently built into the base for that year.

3) Proration occurred in FYs 2002-03 and 2003-04, which did not statutorily reduce the foundation allowance, but which reduced per-pupil funding by approximately \$74 each year and is reflected here.

4) For FY 2006-07, the Basic Foundation Allowance was actually \$7,085, but a \$23 per-pupil equity payment was appropriated and built into the base, which shrunk the gap by \$23.

5) FY 2009-10 does not statutorily reduce the foundation allowance but does reduce total State funding by \$154 per pupil, so the numbers shown in the table reflect the \$154 per pupil cut. Sec. 20j veto is reflected.

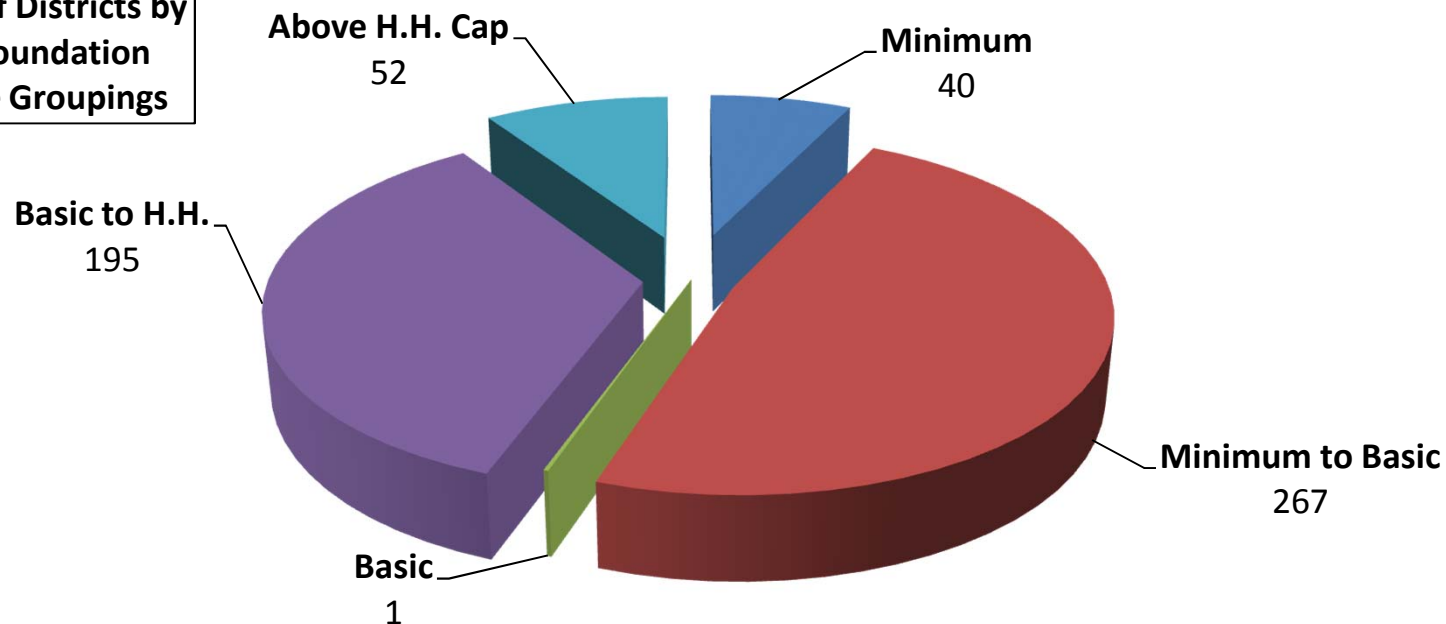
6) FY 2010-11 includes a \$170 per-pupil reduction in state aid funding compared with FY 2008-09 funding levels, reflected above.



# Figure 7: 1994-95 Foundation Allowances

- Five Groups of Districts' Per-Pupil Funding

Number of Districts by  
1994-95 Foundation  
Allowance Groupings



**Minimum** - \$4,200

**Minimum to Basic** - \$4,200 to \$5,000

**Basic** - \$5,000

**Basic to H.H.** - \$5,000 to \$6,500

**Above H.H. Cap** - Above \$6,500



## Explanation of "2x" and the Equity Gap Today

The "2x" equity formula provides a "base" dollar increase for all districts, and then gives more per-pupil funding to those districts below the "target" foundation allowance. When Proposal A was implemented in 1994-95, the "target" or basic foundation allowance at that time was \$5,000; districts above that amount received a flat per-pupil increase, and those below that amount received up to double the amount given to districts above, on a sliding scale. Over time, the \$5,000 "target" grew commensurately with the yearly dollar increases provided to all districts, until FY 1999-2000, when all districts that had been below the basic "caught up" to the adjusted target of \$5,700 per pupil.

Under Public Act 137 of 2007, a new target of \$8,433 was established. This figure was chosen because it represented the point at which State funding supporting a district's foundation allowance ceases, and any per-pupil allowance above that amount must be paid for with local revenue. In school aid terminology, this is the point at which "hold-harmless" districts begin levying additional mills to support their higher foundation allowances. After the reductions of 2011-12, and a small increase in the current year, the target figure is \$8,099 today and will continue to grow over time (as did the prior basic or target), with the growth equal to the per-pupil increases given to districts whose foundation allowances are above that amount. If the Legislature and Governor so choose, districts below that amount will receive more per-pupil funding than those above, and, in that manner, the equity gap can narrow.

If this formula remains in statute, the next time an increase is slated for the basic foundation allowance, districts at the minimum foundation allowance (which today stands at \$7,631) would receive two times the amount of that increase in the basic foundation allowance. The "1x" increase in the basic would be provided to districts at or above \$8,289 per pupil. In other words, districts at or above \$8,289 per pupil would receive an dollar increase equal to the increase in the basic foundation allowance; those districts at the minimum foundation allowance would receive twice that amount, and districts with funding in between would receive an increase somewhere between the two amounts, on a sliding scale.

If or when the new target is reached, the gap will still be more than \$3,800 per pupil, although, once reached, 90% of districts will be at the targeted level of funding. Of course, the Governor and Legislature at any time could enact legislation that changes or eliminates this method of closing the per-pupil funding gap, or could retain the formula. In fact, for FY 2014-15, the enacted budget provided a \$50 increase to all districts, and up to \$125 in additional equity payments to ensure all districts received at least \$7,251 per pupil in unrestricted funding. Therefore, time will tell the course of school district funding in Michigan. Something other than "2x" can be used at any time, dependent on the enactment of legislation specifying the funding formula.

# Table 9: Dollar Increases in the Basic Foundation Grant

Basic Foundation Allowance				
Fiscal Year	Dollar Increase		Fiscal Year (cont.)	Dollar Increase
1994-1995	n/a		2006-2007	\$210
1995-1996	\$153		2007-2008	\$48
1996-1997	\$155		2008-2009	\$56
1997-1998	\$154		2009-2010 <sup>b)</sup>	\$0
1998-1999	\$0		2010-2011 <sup>b)</sup>	\$0
1999-2000	\$238		2011-12	-\$470
2000-2001	\$300		2012-13	\$0
2001-2002	\$300		2013-14	\$30
2002-2003 <sup>a)</sup>	\$200		2014-15	\$50
2003-2004 <sup>a)</sup>	\$0		2015-16	\$70
2004-2005	\$0		2016-17	\$60
2005-2006	175		2017-18	\$60

a) Proration of approximately \$74 per pupil occurred in each of these years, which statutorily did not reduce the foundation allowance. Districts were allowed to choose how to absorb the cut. Funding was restored in 2004-2005.

b) In FY 2009-10, districts' State aid payments were reduced \$154 per pupil, and in FY 2010-11, they are reduced \$170 per pupil (when compared to FY 2008-09 funding levels). However, these reductions did NOT statutorily roll back foundation allowances, and so are not shown here. Federal Education Jobs Fund dollars will backfill the cut for FY 2010-11.

- The amount of available State funding can determine the increase in the basic foundation allowance.
- Every district at or above the Basic foundation gets the same dollar increase as is given to the Basic.
- Between FY 1994-95 and FY 1999-2000, districts at the minimum foundation got twice the dollar increase of the Basic Foundation grant, in order to partially close the funding gap. Between FY 2000-01 and FY 2006-07, after all districts below the basic caught up to the basic in FY 1999-2000, all districts received the same dollar increase per pupil. The "2x" formula was reinstated in FY 2007- 08 with a new basic set to be equal to the State maximum/Hold Harmless threshold.
- The enacted budget for FY 2017-18 provides a \$60 increase in the basic, and a \$120 increase in the minimum.

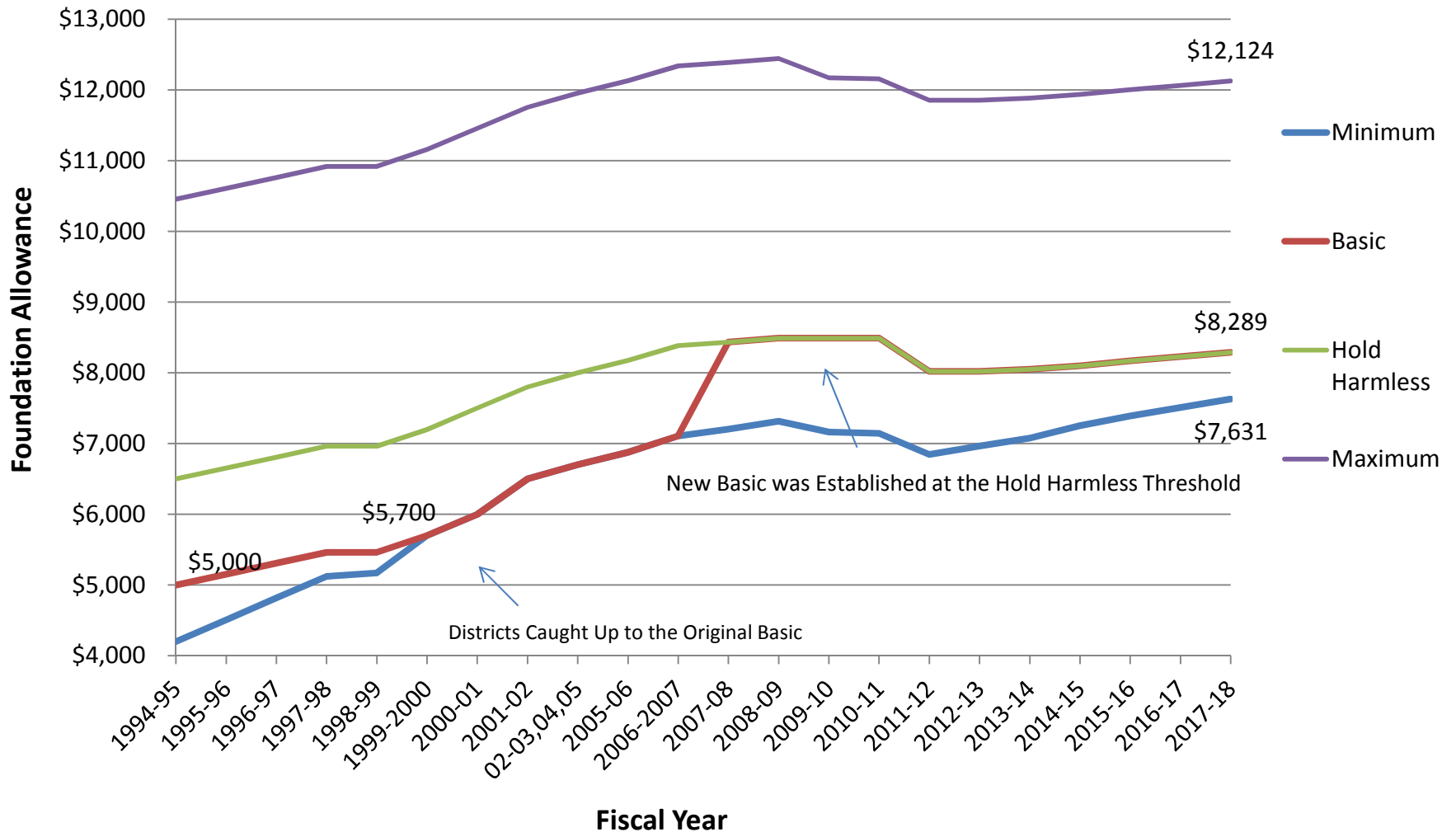




# Figure 8:

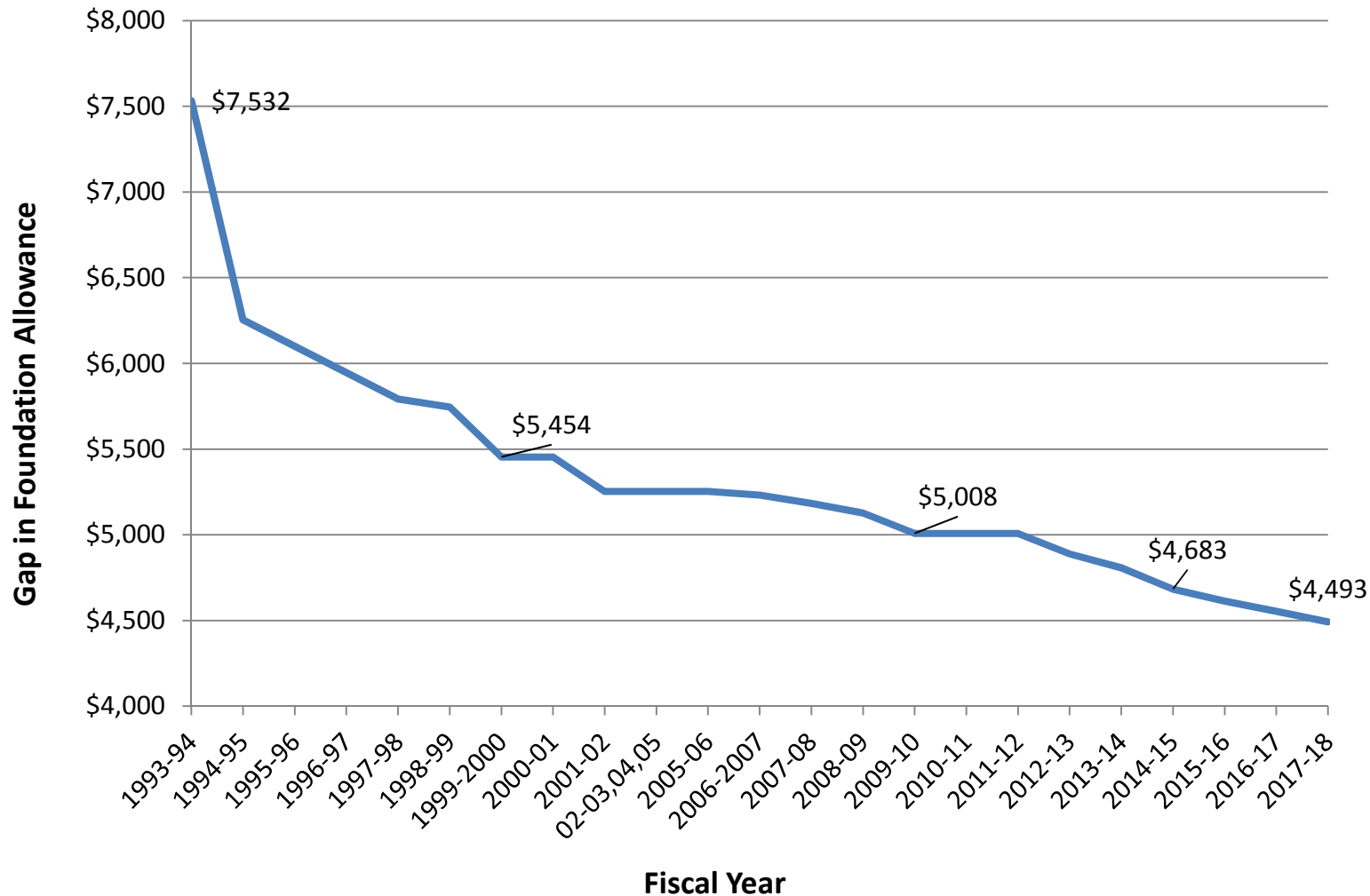
## Change in Foundation Allowance Over Time

Shrinking Gap between FY 1994-95 & FY 1999-2000,  
and Again Since FY 2007-08



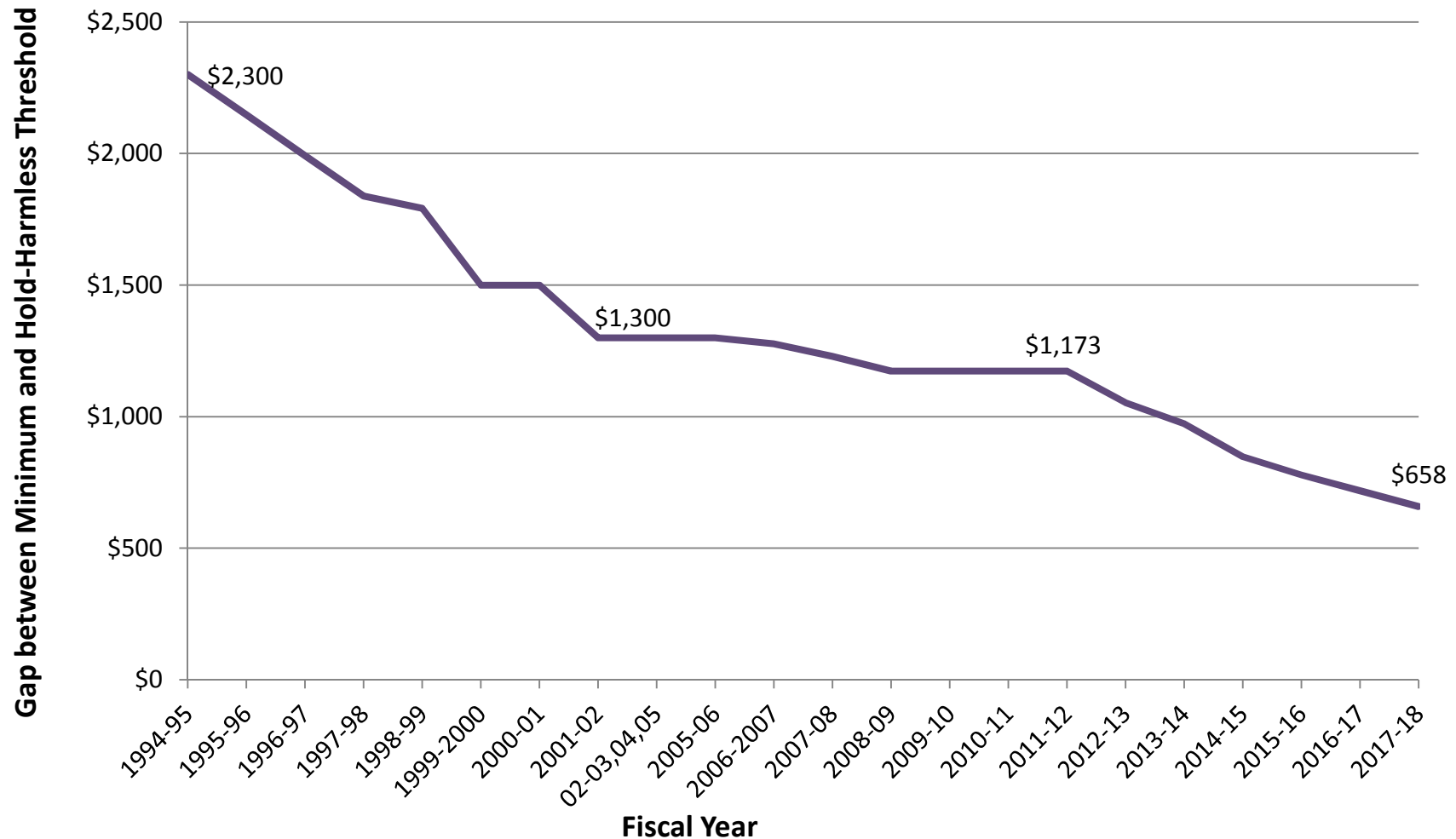
# Figure 8a:

**Change in Gap Between Minimum and Maximum  
Foundation Allowance Over Time**  
Shrinking Gap Between FY 1994-95 & FY 1999-2000,  
and Again Since FY 2007-08

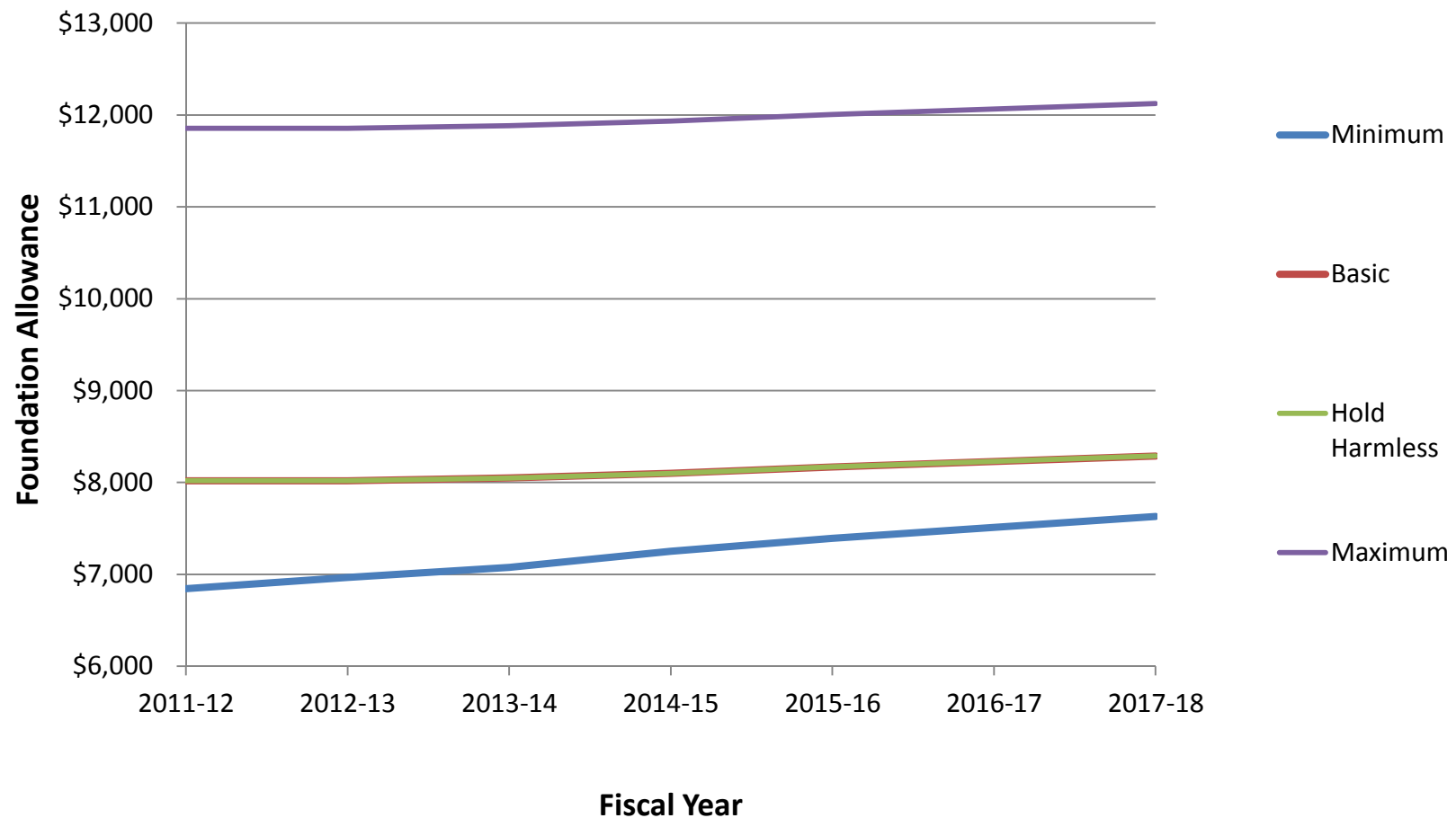


# Figure 8b:

Change in Gap Between Minimum and Hold-Harmless  
Threshold Over Time  
Shrinking Gap Between FY 1994-95 & FY 2001-02,  
and Again Since FY 2007-08

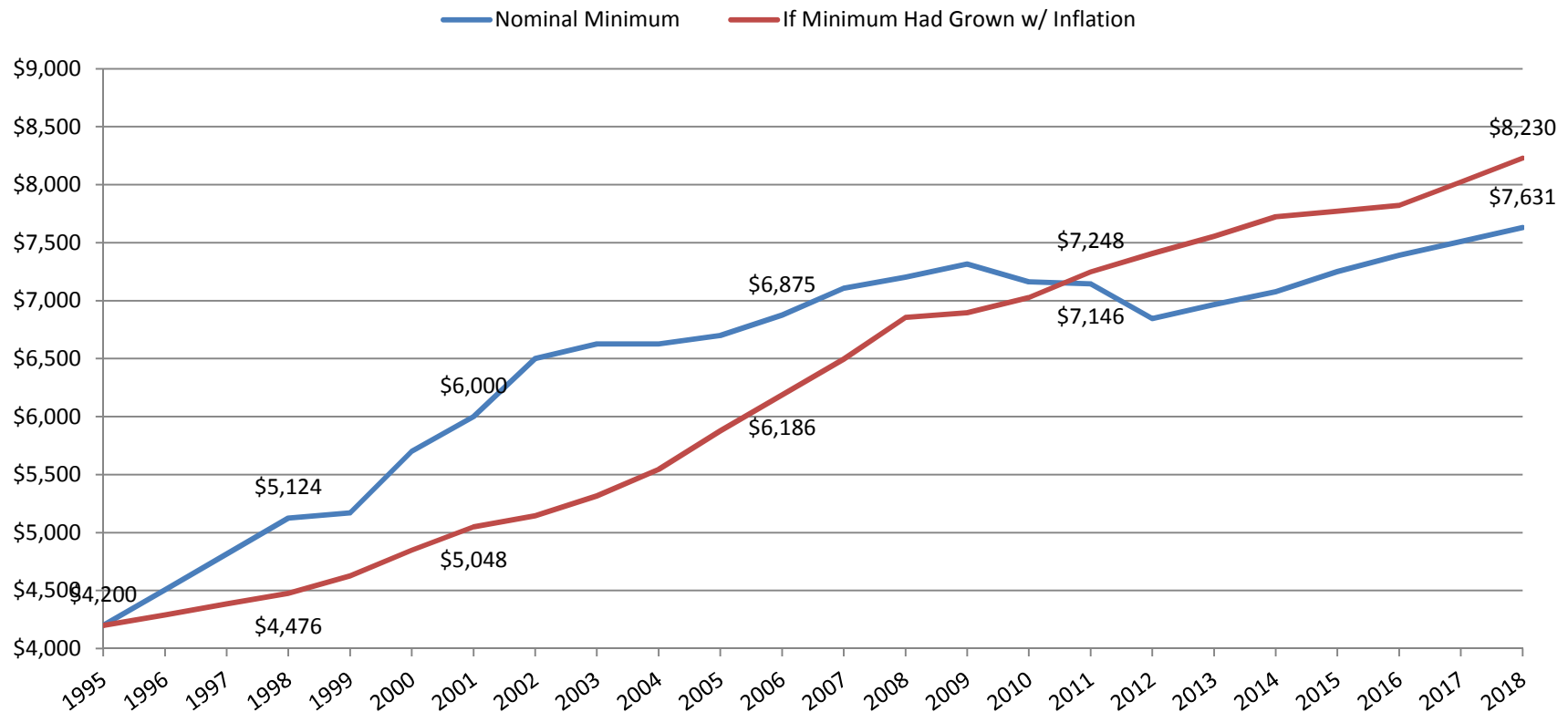


# Figure 8c: Recent History of Foundation Allowance Gap Closing



# Figure 8d: Minimum Foundation Allowance and Inflation\*

**In Early Years, Minimum Foundation Exceeded Inflation**  
**In Recent Years, Minimum Foundation Below Inflation-Adjusted Level**

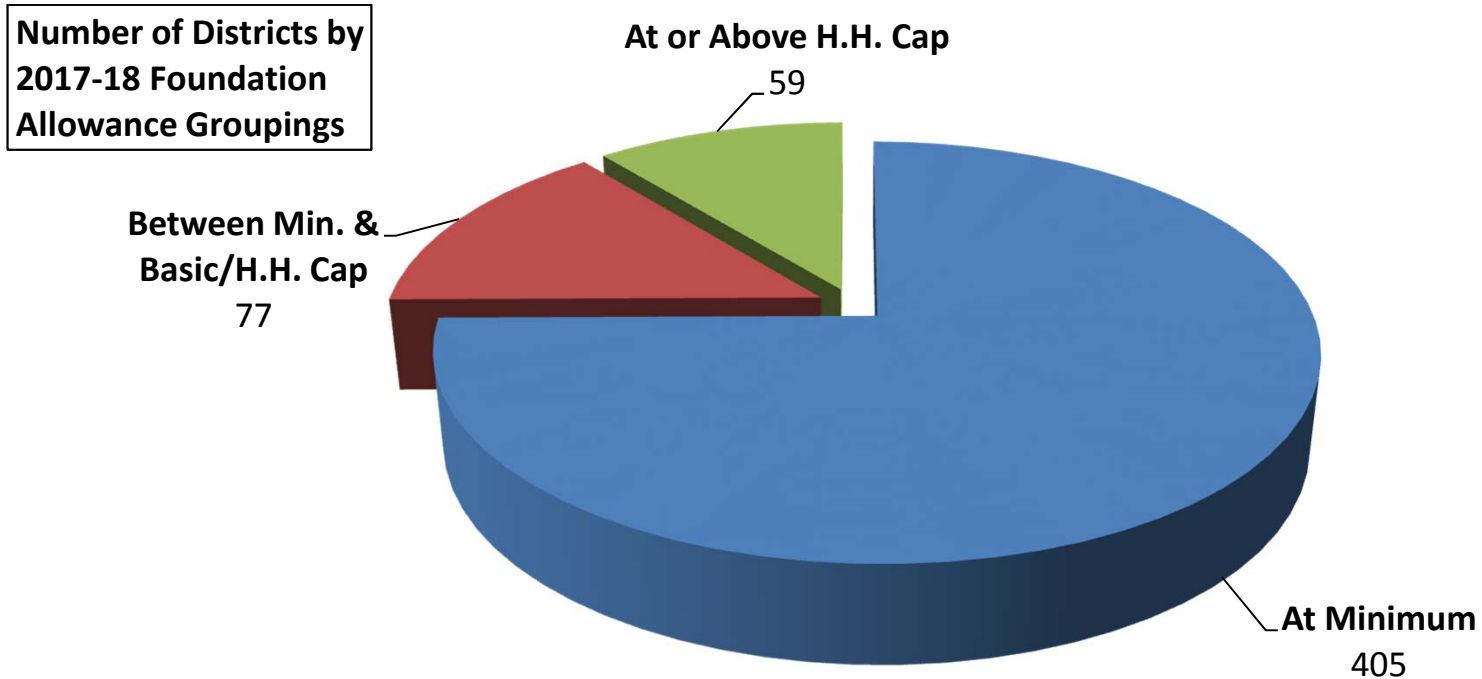


\*Inflation measured by Government Price Deflator



# Figure 9: 2017-18 Foundation Allowances

- Three Groups of Local Districts' Per-Pupil Funding (not PSAs)



**At Minimum** - \$7,631

**Between Min. & Basic/H.H. Cap** - \$7,632 to \$8,288

**At or Above H.H. Cap** - At or Above \$8,289

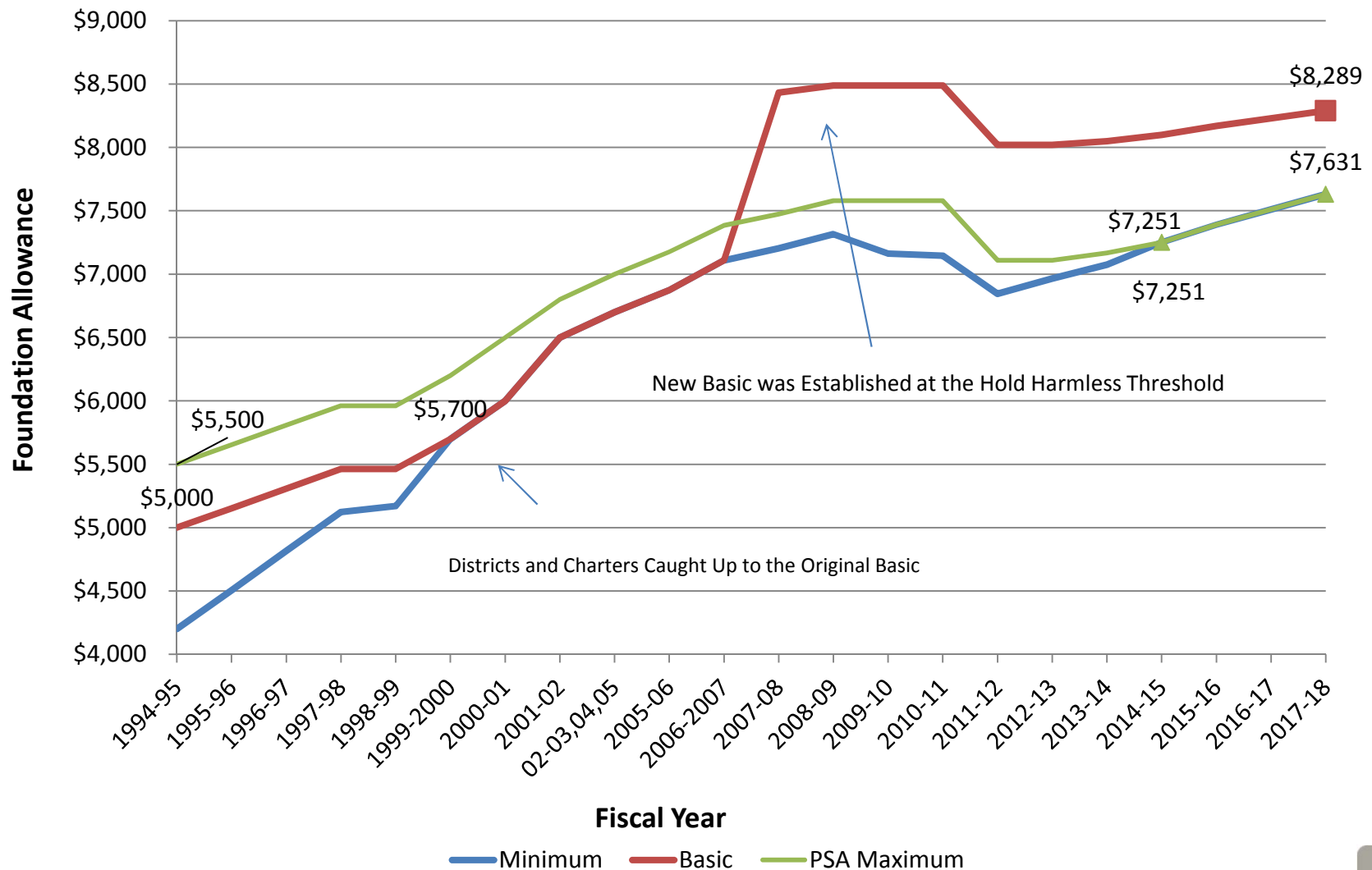


# Public School Academy/Charter School Foundation Allowance Funding

- Between 1994-95 and 2006-07, a charter school's foundation allowance was equal to the lesser of the foundation allowance of the local district in which the PSA was located, or \$500 above the basic.\*
  - \*Note that the \$500 was lowered to \$300 in FY 2001-02 with the \$200 equity payment paid to lower-funded districts, and lowered to \$277 in FY 2006-07 with the \$23 equity payment paid to lower-funded districts.
- Starting in 2007-08, charters were rolled in to the '2x' formula.
  - Now, a charter school's foundation allowance is equal to the lesser of the district in which it is located or the PSA Maximum.
  - Beginning in FY 2014-15, the minimum 'caught up' to the PSA Maximum, and all PSAs now receive the PSA Maximum. For FY 2017-18, all PSAs will receive \$7,631 per pupil.
  - Any increases given in the foundation allowance are run through the 2x formula like local districts (or whatever formula is enacted each budget year).



# Figure 9b: Charter School Foundation Allowances Over Time







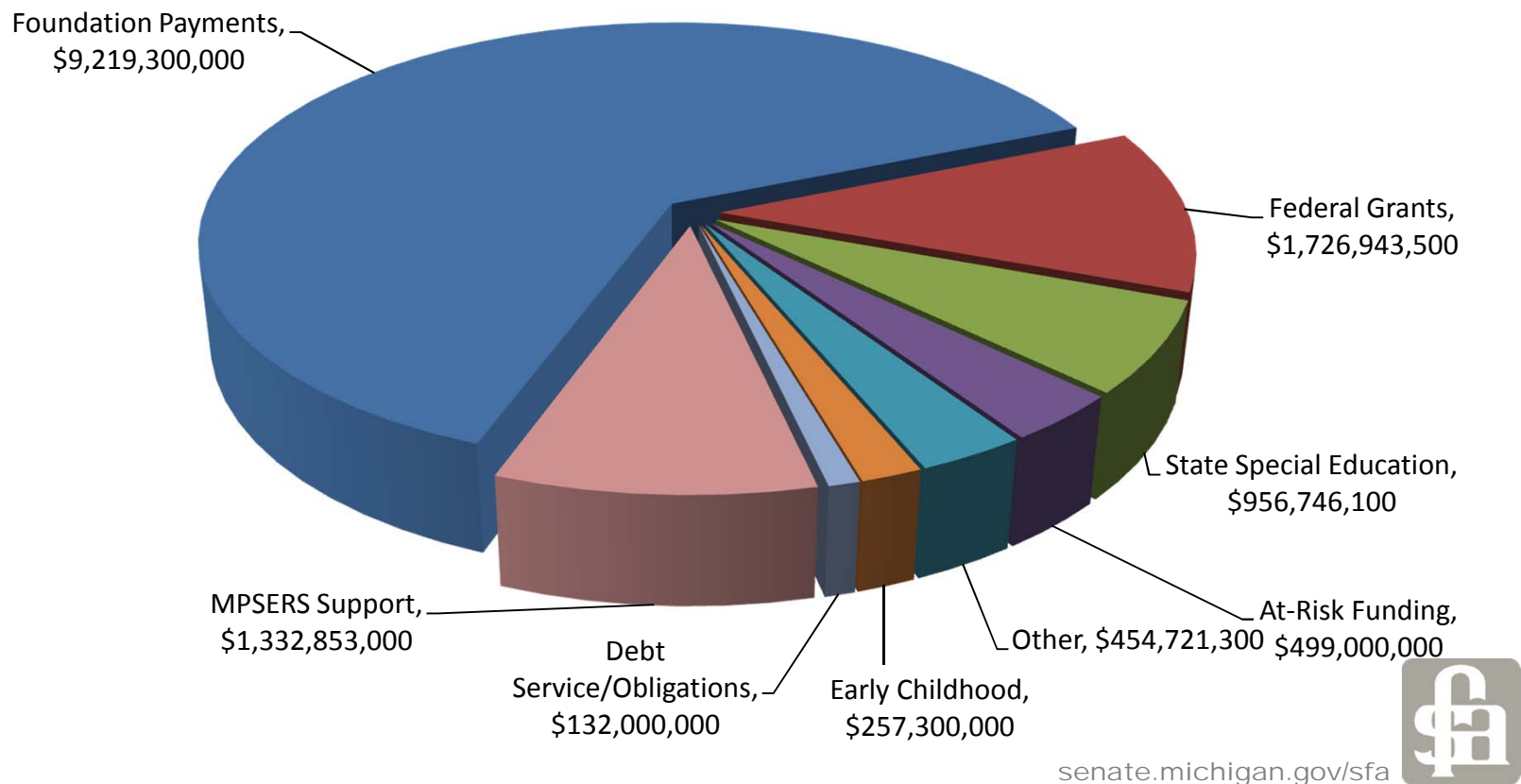
# **FACTS AND FIGURES**



# Figure 10:

## Facts and Figures FY 2017-18 School Aid Budget

- For initial enacted FY 2017-18, the total K-12 budget is \$14.6 billion of which \$1.7 billion is Federal aid, and the remaining \$12.9 billion is State funding. (Local revenues are not included here.)
- Foundation Allowance payments make up roughly 63% of the K-12 budget. Federal grants are 12%, State Special Education funding is 7%, At-Risk funding is 3%, MPSERS Support is 9%, Early Childhood is 2%, Debt Service and other Obligations sum to 1%, and other categoricals account for the remaining 3% of funding.
- In 2017-18, there will be an estimated 1,336,500 FTEs in 540 Local School Districts and 150,000 FTEs in roughly 300 Charter Schools.





# OTHER ISSUES

(declining enrollment) (deficit districts)  
(MPSERS)



# Table 10:

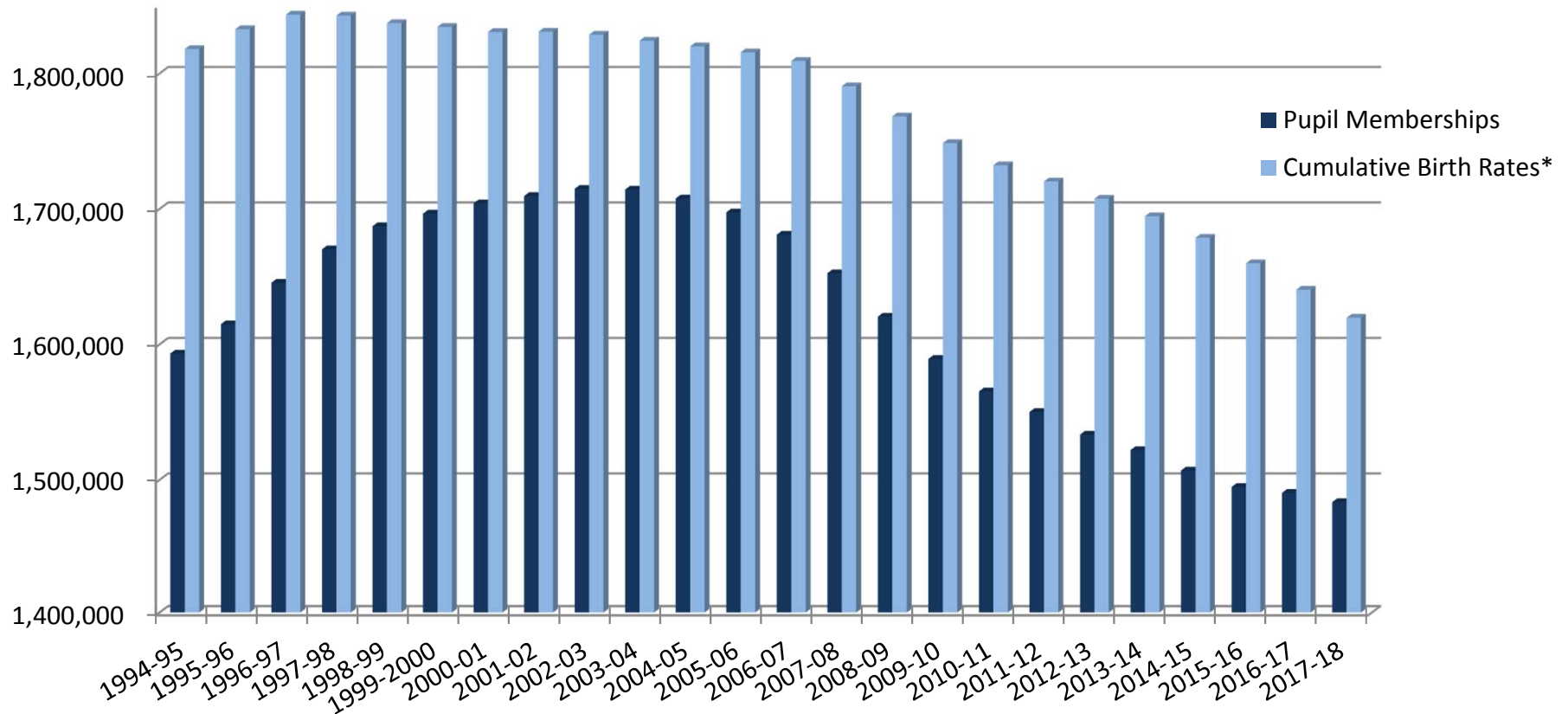
## Pupil Membership History FY 1999-2000 to FY 2017-18 (Estimated)

Blend Calculation	Fiscal Year	Local Districts	Charter Schools	Total
75/25	1999-2000	1,651,300	45,290	1,696,590
80/20	2000-01	1,649,085	55,072	1,704,157
80/20	2001-02	1,647,459	62,113	1,709,572
80/20	2002-03	1,647,531	67,336	1,714,867
80/20	2003-04	1,640,929	73,473	1,714,402
75/25	2004-05	1,626,289	81,491	1,707,780
75/25	2005-06	1,607,880	89,654	1,697,534
75/25	2006-07	1,584,435	96,627	1,681,062
75/25	2007-08	1,553,568	98,987	1,652,555
75/25	2008-09	1,517,714	102,030	1,619,744
75/25	2009-10	1,487,297	108,425	1,595,722
75/25	2010-11	1,457,160	112,276	1,569,436
90/10	2011-12	1,432,200	119,900	1,552,100
90/10	2012-13	1,405,599	130,390	1,535,989
90/10 CY	2013-14	1,374,800	147,828	1,522,628
90/10 CY	2014-15	1,356,640	151,368	1,508,008
90/10	2015-16	1,344,367	151,611	1,495,980
90/10	2016-17	1,337,700	153,000	1,490,700
90/10	2017-18	1,336,500	150,000	1,486,500



# Figure 11: Pupil Membership Birth Rate Trends

FY 1994-95 to FY 2017-18



\* This figure is calculated by summing up all Michigan births from the previous 18 years, assuming all children born in Michigan attend school in Michigan. This is to illustrate declining birth rates and the correlation with declining school populations.

**Source:** Senate Fiscal Agency

# Deficit Districts

## **SUMMARY from June 2017 Quarterly Update**

- 9 Districts projected to eliminate their deficit by June 30, 2017
- 12 Districts that ended FY 2016 in deficit project a reduced deficit in FY 2017
- 2 Districts that ended FY 2016 in deficit project a greater deficit in FY 2017
- 3 Districts are eliminating deficits with school operating taxes (Detroit, Muskegon Heights, and Highland Park)
- 1 District projects it will eliminate its deficit by the end of FY 2017
- 1 District that began FY2017 with a positive fund balance but projects to end the year in deficit

## **Beginning in FY 2014-15, Early Warning and Financial Independence Teams**

- New Funding in MDE and Treasury began in FY 2014-15 for an Early Warning System and Financial Independence Team; continued in FY 2017-18
- \$4.2 million GF, 9.0 FTEs in Treasury, and \$250,000 GF and 2.0 FTEs in MDE
- \$1.5 million School Aid Fund for financial data analytics grants

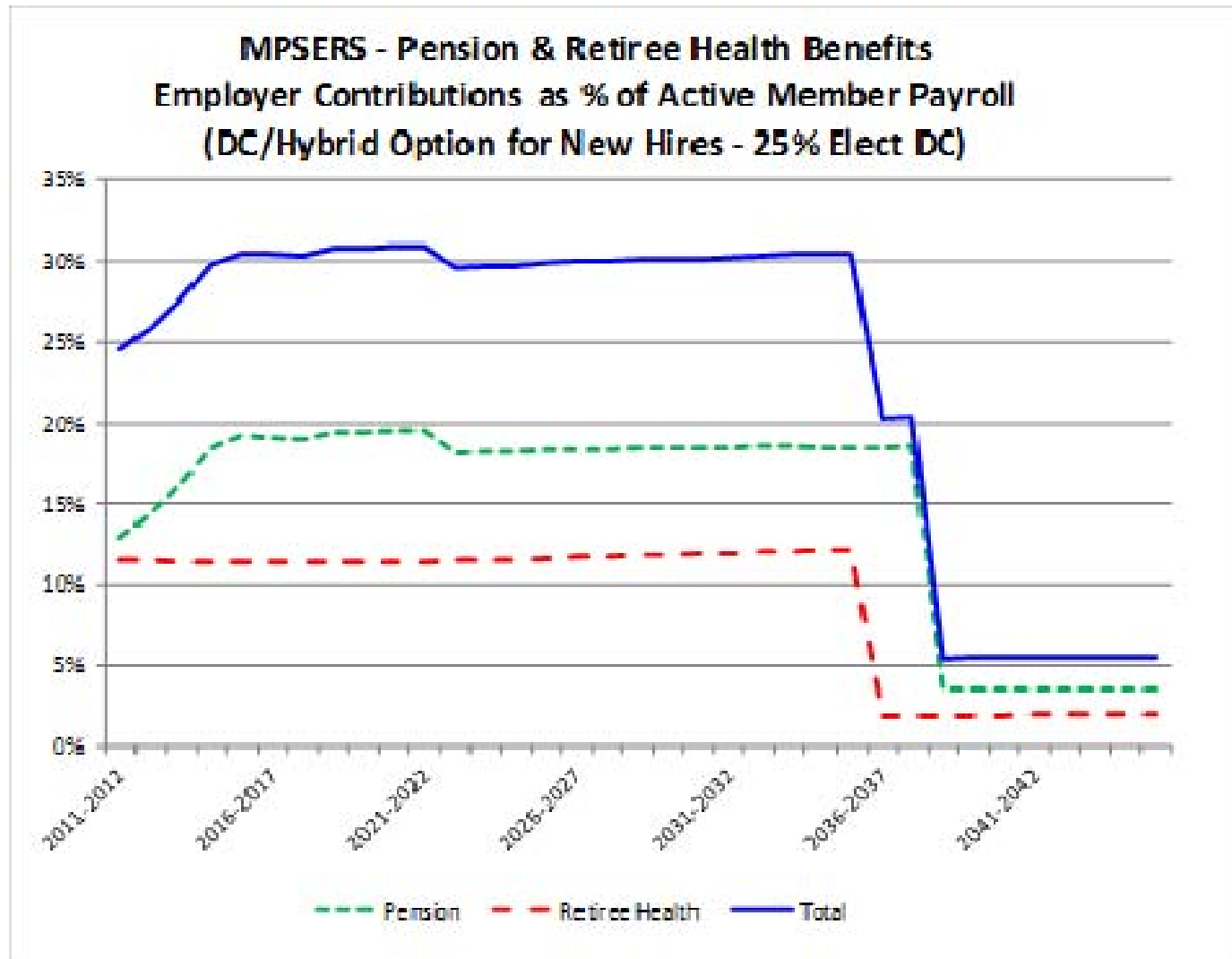


## **MPSERS – School Retirement in School Aid**

- FY 2017-18 Rate Cap costs of \$960.8 million
- \$100.0 million additional cost offset grants to districts
- \$200.0 million one-time additional payment toward Unfunded Accrued Liabilities
- \$49.0 million to hold districts harmless from costs related to lowering the Assumed Rate of Return from 8% to 7.5% over two years
- \$23.1 million to hold districts harmless from costs related to reforms under Senate Bill 401 of 2017
- Additional SAF paying for Community Colleges and Higher Education MPSERS costs



# Illustration of MPERS Total Rate



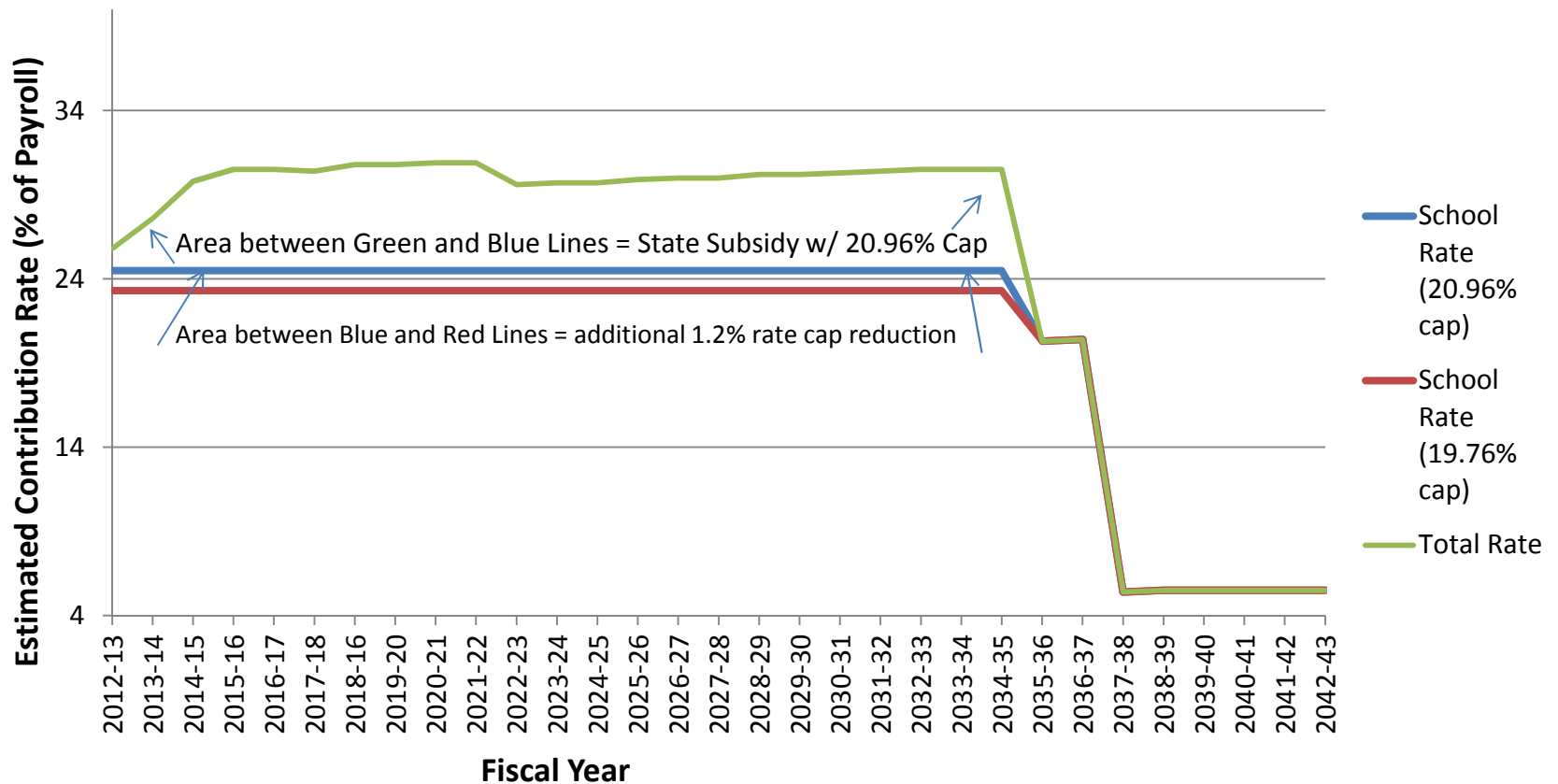
Source: Office of Retirement Services during Passage of Senate Bill 1040 in 2012

[senate.michigan.gov/sfa](http://senate.michigan.gov/sfa)





# Illustration of MPERS Rate Cap



**Source:** Office of Retirement Services during Passage of Senate Bill 1040 in 2012, and SFA analysis of 1.2% rate reduction proposal.

# Cumulative Spending on MPERS by Budget Area (Millions)

K-12	Sec. 147c	Sec. 147a(1)	Sec. 147a(2)	Sec. 147d/c	Sec. 147e	K-12
	<u>Rate Cap</u>	<u>Cost Offset</u>	<u>Add'l Normal Cost</u>	<u>Add'l Liability</u>	<u>SB 401 Reforms</u>	<u>Total by Year</u>
2012 \$	- \$	155.0	\$	-	\$	155.0
2013 \$	160.5 \$	155.0	\$	-	\$	315.5
2014 \$	405.5 \$	100.0	\$	-	\$	505.5
2015 \$	676.4 \$	100.0	\$	19.6	\$	796.0
2016 \$	892.9 \$	100.0	\$	-	\$	992.9
2017 \$	982.2 \$	100.0	\$	-	\$	1,082.2
2018 \$	960.1 \$	100.0 \$	48.9 \$	200.0 \$	23.1 \$	1,332.2

Community Colleges	<u>Rate Cap</u>	<u>Retiree Health</u>	<u>Add'l Normal Costs</u>	<u>Total by Year</u>
2012 \$	- \$	-	\$	-
2013 \$	12.5 \$	1.7 \$	- \$	14.2
2014 \$	31.4 \$	1.7 \$	- \$	33.1
2015 \$	52.3 \$	1.7 \$	- \$	54.0
2016 \$	69.5 \$	1.7 \$	- \$	71.2
2017 \$	73.2 \$	1.7 \$	- \$	74.9
2018 \$	70.8 \$	1.7 \$	3.6 \$	76.1

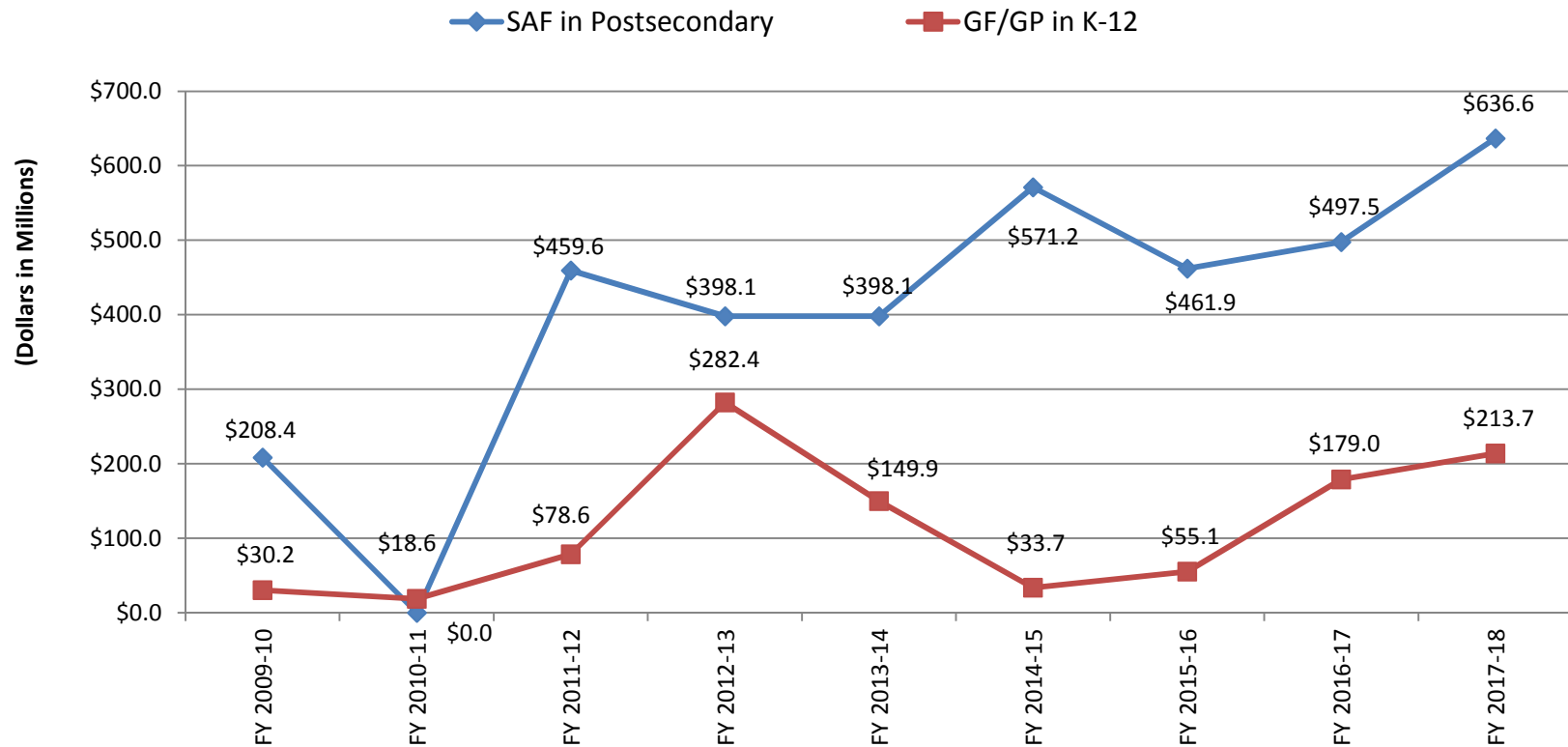
Libraries	<u>Rate Cap</u>	<u>n/a</u>	<u>Add'l Normal Costs</u>	<u>Total by Year</u>
2012 \$	- \$	- \$	- \$	-
2013 \$	0.5 \$	- \$	- \$	0.5
2014 \$	1.3 \$	- \$	- \$	1.3
2015 \$	0.5 \$	- \$	- \$	0.5
2016 \$	0.6 \$	- \$	- \$	0.6
2017 \$	0.6 \$	- \$	- \$	0.6
2018 \$	0.7 \$	- \$	0.0 \$	0.7

Higher Education	<u>Cost/Rate Cap</u>	<u>Retiree Health</u>	<u>Add'l Normal Costs</u>	<u>Total by Year</u>
2012 \$	- \$	- \$	- \$	-
2013 \$	- \$	0.4 \$	- \$	0.4
2014 \$	- \$	2.4 \$	- \$	2.4
2015 \$	4.0 \$	2.4 \$	- \$	6.4
2016 \$	5.2 \$	- \$	- \$	5.2
2017 \$	5.9 \$	- \$	- \$	5.9
2018 \$	6.7 \$	- \$	0.4 \$	7.1



# Figure 11: Use of SAF to Partially Support Postsecondary Education Budgets

SAF Revenue Supporting Postsecondary and GF/GP Supporting K-12



Source: Senate Fiscal Agency



# Other FY 2017-18 Budget Highlights

- Additional \$120 million in At Risk funding, and including hold harmless districts at 30% funding
- New \$11 million for \$25 per high school pupil
- \$200 million for one-time MPERS UAAL payment
- \$23 million for MPERS reforms
- \$49 million for lowering MPERS rate of return
- \$6 million for Partnership Model (MDE)
- Restructuring of math and science programs





# **BALANCE SHEETS**



# Table 12: FY 2017-18 School Aid Fund

Revenue, Expenditures, and Year-End Balance (Millions of Dollars)

	Enacted Year-to-Date <u>FY 2016-17</u>	Initial Enacted <u>FY 2017-18</u>
BEGINNING BALANCE	- 168.2	- 271.7
ESTIMATED REVENUE	-	-
<u>School Aid Fund Revenue</u>		
Subtotal: SAF Revenue	12,670.7	12,970.5
<u>Other Revenue Sources</u>		
Subtotal: Other Revenue	<u>1,984.2</u>	<u>2,035.7</u>
Total Revenue	14,654.9	15,006.2
ESTIMATED EXPENDITURES		
<u>Estimated School Aid Expenditures</u>		
K-12 Expenditures	14,053.9	14,578.9
SAF Deposit into MPSERS Reserve	0.0	55.0
<u>Postsecondary Expenditures</u>		
Community Colleges	260.4	398.3
<u>Higher Education</u>	<u>237.1</u>	<u>238.3</u>
Subtotal: Postsecondary	497.5	636.6
Total Expenditures	14,551.4	15,270.5
Current-Year: Revenues - Expenditures	103.5	(264.3)
Total Estimated Ending Balance	271.7	7.4

