

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

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### **Declining Enrollment and its Effect on School District Revenue** **By Joe Carrasco, Jr., Fiscal Analyst**

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Since the implementation of Proposal A in fiscal year 1994-95, the main source of funding for school districts in Michigan has been the foundation allowance payment. Foundation allowance payments are unrestricted revenue paid to each school district on a per-pupil basis. Foundation allowances for FY 2004-05 range from a minimum of \$6,700 per pupil to a high of just under \$12,000 per pupil for a non-island school district. A foundation allowance is based primarily on the amount of State funding a district received before the implementation of Proposal A and is unique to each district. As can be surmised, Michigan school districts have become very reliant on their foundation allowance payments and, as a result, pupil counts have come to play a vital role in determining a school district's level of funding.

Overall pupil enrollment in Michigan school districts since FY 1993-94 (the last year before the implementation of Proposal A) has increased by nearly 8% according to the most recent data for FY 2004-05. Table 1 below shows the growth in pupil enrollment for both local school districts and public school academies (PSAs) from FY 1993-94 to FY 2004-05.

**Table 1**

<b>Michigan Public School Pupil Enrollment: FY 1993-94 and FY 2004-05</b>				
	<b>FY 1993-94</b>	<b>FY 2004-05 (estimated)</b>	<b>Growth</b>	<b>% Change</b>
Local School District Pupils	1,583,400	1,627,350	43,950	2.8%
Public School Academy Pupils	0	82,350	82,350	N/A
<b>Total Pupils</b>	<b>1,583,400</b>	<b>1,709,700</b>	<b>126,300</b>	<b>8.0</b>

As indicated in Table 1, total pupil enrollment from FY 1993-94 to FY 2004-05 has grown by 126,300 pupils or 8% in an 11-year span. Currently, there are 553 local school districts and 208 PSAs. Public school academies began operation in Michigan in the spring of 1995 and have continually grown to the 208 currently in operation. Although PSAs account for only 5% of Michigan's total pupil enrollment, some districts like Detroit and Flint have lost a significant portion of their pupils to PSAs that have opened in or near those school districts. Other school districts, mainly small, rural districts, have lost pupils due simply to the economy and migration. The remainder of this article looks at pupil decline and its effect on the revenue of districts that have experienced pupil decline.

### **Membership Blend**

A district's pupil count is determined by the membership blend. Before Proposal A, the State determined a district's pupil count by averaging the current and prior school years' pupil counts. Those counts were typically taken on the fourth Friday of September. After the implementation of Proposal A, schools began to count pupils twice a year: once in September and again in February. From those counts, a district's membership blend is determined. For the first three years, FY 1994-95 to FY 1996-97, the blend was based on



50% of the current-year September pupil count and 50% of the prior-year February count. The blend was changed to a 60/40 ratio for FY 1997-98 and FY 1998-99, when the blend was based on 60% of the current-year September pupil count and 40% of the prior-year February count. The blend was changed to a 75/25 ratio for FY 1999-2000 and to an 80/20 blend for FYs 2000-01 to 2003-04. For the current year, FY 2004-05, the blend has been changed back to a 75/25 ratio.

There are many reasons for the changes to these blends over the years. In general, placing a higher weight on the current-year September count tends to benefit a district that is gaining pupils, as 80% of its count will be based on a higher September count since most new pupils tend to show up in their new districts for the start of the new school year. Conversely, a blend that is closer to the 50/50 blend benefits a district that is experiencing a decline in its pupil counts as a heavier weight is placed on the prior-year February count before the pupils moved out of the district. There will always be districts that benefit one way or another depending on how the blend is set for a particular school year.

### **Declining Enrollment and its Effect on Revenue**

As stated earlier, there are currently 553 local school districts and 208 PSAs in Michigan. For the purposes of this article, public school academies are excluded from this study. Current law in Michigan allows 64 small, rural districts that meet strict criteria to determine their pupil membership by using the greater of a three-year average of membership blends or the actual pupil count for the current fiscal year. Since these 64 school districts are currently receiving a benefit, they too have been excluded from this study.

Of the remaining 489 local school districts, 214 districts have experienced a decline in their pupil membership from FY 1993-94 to the current year, FY 2004-05. The remaining 275 local school districts have experienced an increase in their pupil membership counts in the same time frame. Including the 64 districts currently receiving an enhanced benefit, just over 50% of Michigan's local school districts have experienced a net decrease in their pupil membership counts since the implementation of Proposal A.

Table 2 is a sampling of 10 school districts that have experienced a net decrease in pupil counts since FY 1993-94. Five school districts are examples of smaller, rural school districts that have fewer than 1,000 total pupils in membership in FY 2004-05. The other five school districts are examples of larger, more urban school districts with more than 1,000 total pupils in membership in FY 2004-05

As shown in Table 2, the decrease in pupil membership over the years has had a negative effect on the amount of foundation allowance revenue that these districts could otherwise be receiving. The lost revenue is based on the number of pupils lost multiplied by the district's FY 2004-05 foundation allowance. On average, a district's foundation allowance revenue accounts for nearly 90% of the district's total revenue from the State. As can be seen from the table, even for a small, rural district, the lost foundation allowance revenue can be quite significant. The impact on foundation allowance revenue for larger, more urban districts is even greater, at least in total.



**Table 2**

<b>Examples of Revenue Losses Realized by Districts with Pupil Decreases FY 1993-94 to FY 2004-05 (estimated)</b>						
<b>School District</b>	<b>FY 1994 Pupils</b>	<b>FY 2005 Pupils (est.)</b>	<b>Loss in pupils FY 1993-94 to FY 2004-05</b>	<b>Percentage Loss</b>	<b>FY 2004-05 Foundation Allowance</b>	<b>FY 2004-05 FA Revenue Loss Due To Pupil Loss</b>
<b>Districts &lt; 1,000 Total Pupils</b>						
Ionia Township	70	12	(58)	(82.9%)	\$6,700	(\$388,660)
Autrain-Onata	126	36	(90)	(71.4)	7,081	(637,300)
North Ottawa	223	136	(87)	(39.0)	6,700	(582,900)
White Pigeon	1,225	926	(299)	(24.4)	6,700	(2,003,300)
Harbor Beach	911	772	(139)	(15.3)	6,700	(931,300)
<b>Districts &gt; 1,000 Total Pupils</b>						
Gwinn Area	2,896	1,454	(1,442)	(49.8)	\$6,700	(\$9,661,400)
Marquette	4,874	3,570	(1,304)	(26.8)	6,700	(8,736,800)
Flint	25,569	19,145	(6,424)	(25.1)	7,432	(47,743,200)
Royal Oak	7,588	6,185	(1,403)	(18.5)	8,851	(12,418,000)
Detroit	166,932	141,660	(25,272)	(15.1)	7,180	(181,453,000)

One could argue that when a district loses pupils, one of the first cost-cutting measures it could undertake is to reduce the number of teaching positions in direct relation to the number of pupils lost. Using the White Pigeon school district from Table 2 as an example of a small district, its loss of 299 pupils in the 11-year span since Proposal A would equate to the elimination of 12 teachers (using 25 pupils as an average class size). Using an average teacher salary and fringe benefits of \$55,000 would equate to an estimated \$660,000 in cost savings, making up nearly 33% of the lost foundation allowance revenue. Using the Flint school district as an example of a larger district, its loss of nearly 6,500 pupils would equate to a reduction of 257 teaching positions and cost savings of an estimated \$14.1 million. This would make up only 29.6% of the district's lost foundation allowance revenue.

Regardless of whether a school district is small and rural or large and urban, a loss in pupil membership counts results in lost revenue and places an extra financial burden on the district. Not only has the school district had to deal with rising costs and no increases in its per pupil foundation allowance like all the other school districts in the State, it also must contend with a decrease in revenue due to the loss in pupils. Conversely, a district similar to White Pigeon that gained 300 pupils would have a net increase in revenue of nearly \$1.4 million even after having to hire 12 new teachers (assuming the same averages as used above). Although these are just random examples used in this analysis, it clearly shows the financial hardship placed on a district that has experienced a loss in pupil membership over the years.

### **Revenue Enhancements**

Current law allows districts within an intermediate school district (ISD) to levy up to three mills in what is known as a "regional enhancement property tax". To date, only one ISD in Michigan (the Monroe ISD) has been successful in gaining voter approval to levy this type of property tax (millage). In Michigan, one mill is equal to \$1 of property tax per \$1,000 of assessed property value.



According to Section 705 of Michigan's Revised School Code (MCL 380.705), if a majority of the ISD electors vote to approve a regional enhancement property tax, the tax is levied in each of the ISD's constituent local school districts and the revenue is shared among the local school districts on an equal per pupil basis. Table 3 below shows the effect of the revenue that could be gained by four of the sample districts used above if they were to levy a 3-mill regional enhancement property tax.

**Table 3**

<b>Effect of a 3-Mill Regional Enhancement Property Tax on Sample Declining Enrollment Districts (excluding PSAs)</b>						
<b>District</b>	<b>FY 2004-05 Total ISD Taxable Value</b>	<b>FY 2004-05 Total 3-Mill Enhancement Revenue</b>	<b>FY 2004-05 Total ISD Pupils</b>	<b>3-Mill Revenue Per Pupil</b>	<b>FY 2004-05 Local District Pupils</b>	<b>FY 2004-05 Total Local District 3- Mill Revenue (est.)</b>
Ionia Township	\$1,334,209,795	\$4,002,629	11,854	\$338	12	\$4,056
White Pigeon	1,655,284,479	4,965,853	11,690	425	926	393,550
Flint	10,604,238,035	31,812,714	78,840	404	19,145	7,734,580
Detroit	45,918,730,113	137,756,190	322,926	427	141,660	60,488,820

As indicated in Table 3, the sample districts could levy a 3-mill regional enhancement property tax and receive additional revenue of between \$338 and \$427 per pupil. Coupled with the aforementioned reduction in teaching staff as an example, a district like Flint could recoup nearly 45% of its lost foundation allowance revenue with a combination of teaching staff cuts and a regional enhancement property tax levy. Detroit, as seen in Table 3, would recoup 33% of its lost foundation allowance revenue from simply levying a regional enhancement property tax. While this additional revenue clearly would not make up for all of the foundation allowance revenue lost due to the decline in pupil memberships, it would provide some additional funding to cushion the financial burden that these districts face.