

State Notes

TOPICS OF LEGISLATIVE INTEREST

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No New Categoricals: An Analysis of the Recent Past for State K-12 Funding and the Decline in Categorical Funding

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State funding of the K-12 education budget accounts for roughly 42.8% of the entire State budget, defined as State Spending from State Resources¹⁾. For fiscal year (FY) 2004-05, total State funding in the School Aid Act is nearly \$11.2 billion. While this is a large figure, total funding actually has fallen since FY 2002-03, when the appropriation was slightly more than \$11.3 billion. In fact, during the last three fiscal years, total State funding has fallen by about \$161.4 million, the foundation allowance has remained flat at \$6,700, and nonobligation categorical funding (i.e., spending that is not discretionary and not required by law) has declined by roughly \$214.2 million. Examining categorical and foundation allowance funding, and further observing funding obligations such as Special Education, yields an insight that K-12 funding is struggling to return to a more prosperous time.

Categorical and Foundation Allowance Funding

One aspect of Proposal A, the major K-12 funding change adopted by voters in 1994, was the elimination of many categoricals, often by rolling them into base funding for schools, thereby eliminating any restrictions on the use of the funds. Categoricals are allocations that have specific purposes, such as Adult Education or Math and Science Center funding. All of the pre-Proposal A categoricals that remained as categoricals after the approval of Proposal A are, in fact, still funded today, and include At-Risk, Special Education, Vocational Education, Intermediate School District (ISD) Operational Funding, and Adult Education, among others. Over the past five years, funding for these items (excluding Special Education, which is discussed below) has declined nearly 15%, with major declines in Adult Education (falling from an FY 2000-01 appropriation of \$80.0 million to \$20.0 million in FY 2004-05), Math and Science Centers (\$9.7 million to \$2.5 million), Gifted and Talented (\$6.0 million to \$250,000), and ISD Operations (\$87.8 million to \$77.7 million). The only categorical to see a substantial increase is the At-Risk program, which grew by \$10.2 million over the past five years.

Nevertheless, nearly all of the categoricals added in the years after Proposal A have since been eliminated due to lack of State funding. Notable eliminations include Career Preparation (begun in 1998-99 at \$21.9 million), Reading Programs (which began in 1999-2000 at \$60.3 million and lasted for one more year), Parental Involvement and Education Programs (about \$45.0 million for each of two years, beginning in 2000-01), and the Partnership for Adult Learning (\$20.0 million for each of three years, beginning in 2000-01). All told, the number of categoricals funded after Proposal A and subsequently eliminated totals 21. Two programs were originally funded as categoricals and later rolled into base funding: Small Class Size grants and the Reform Board grant to Detroit Public Schools (due to expire after this year unless a change is made).

¹⁾ State spending from State Resources refers to Adjusted Gross appropriations (gross appropriations less interdepartmental grants received) minus Federal, local, and private funds.



The only categoricals added after Proposal A was adopted that remain funded today include the following, with their FY 2004-05 appropriations noted: Bus Driver Safety Education (about \$1.6 million), Renaissance Zone Reimbursements (\$36.2 million), *Durant*²⁾ non-Plaintiff appropriations for debt service and cash payments (about \$32.1 million), School Lunch (nearly \$21.1 million), Interagency Early Childhood Grants (\$250,000), Center for Educational Performance and Information (CEPI) (\$1.5 million), Michigan Virtual High School (\$750,000), School Bond Loan Fund debt service payments (\$41.1 million), ISD Early Childhood (more than \$3.3 million), and Freedom to Learn (\$3.7 million).

Taking a different look at categorical funding by breaking it into two categories, items that are obligations of the State and items that are not, yields one more statistic. First, though, a definition of "State obligations" is required. The State is constitutionally required to fund various aspects of Special Education. This analysis combines all Special Education funding into the "obligation" category, though certain pieces, such as Special Education Millage Equalization, are not required by law or court order. Other obligations include Renaissance Zones, School Bond Loan Fund debt service, School Lunch, and *Durant* cash and bonding payments. State appropriations for these categorical obligations have increased by \$203.4 million or 24.4% from FY 2000-01 through FY 2004-05. The change in the total amount of funding for all categoricals (excluding foundation allowance funding) from FY 2000-01 to FY 2004-05, including obligations, is a decline of more than \$132.7 million, or 7.7%. When obligations are excluded, however, the decline is slightly more than \$336 million, or 38.0%. This statistic shows that funding for obligations has increased substantially, but at the expense of discretionary programming.

Over the past five years, the basic foundation allowance has grown from \$6,000 per pupil to \$6,700 per pupil, or about 11.7%. This is the minimum amount of funding a school district receives for each pupil in membership. Over the past two years, the K-12 budget has experienced proration, or a reduction in funding to districts due to a lack of revenue. For both years, the proration has worked out to a per-pupil reduction of \$74. Although the foundation allowance was not legally, or statutorily, reduced, the effect of the proration was to eliminate \$74 per pupil from each district's overall funding. In FY 2002-03, this was accomplished by reducing all nonobligation funding by over 3%; in FY 2003-04, districts' total funding was simply reduced by \$74 per pupil, leaving up to districts how to achieve that reduction in their local budgets. Total State funding of the foundation allowance has risen commensurately with the increase in the per-pupil funding, from just over \$9.0 billion in FY 2000-01 to almost \$9.6 billion in FY 2004-05, or an increase of 6.37%. Table 1 illustrates the five-year funding changes in the foundation allowance, obligations, and discretionary programs.

The combination of the increase in State funding of the foundation allowance and the increased funding of obligation categoricals has driven the increase in total K-12 funding over

²⁾ *Durant* refers to litigation brought by school districts against the State, involving the State's alleged failure to fund Special education and other programs at constitutionally mandated levels. The action was first brought in 1980 and led to a series of lawsuits, continuing to the present.



the past five years, to the tune of approximately \$441.6 million, or 4.11%. However, over the last three years, when the basic foundation allowance remained flat, total K-12 State funding actually has declined by the \$161.4 million mentioned above, which translates to a 1.4% reduction. During this time, the only increases seen in the K-12 budget were found in the obligation categories such as Special Education, Renaissance Zones, and Debt Service.

These increases totaled \$106.2 million. Decreases (or eliminations) in nonobligation programs (e.g., Adult Education, Career Preparation, and Partnership for Adult Learning) totaled \$118.4 million, and State foundation allowance funding declined by about \$149.2 million over the last three years.

Table 1

Five-Year Change in Foundation Allowance, Obligations, and Discretionary Funding				
	FY 2000-01	FY 2004-05	Dollar Change	Percent Change
Foundation Allowance	\$9,015,000,000	\$9,589,277,800	\$574,277,800	6.37%
Obligations	832,853,600	1,036,219,100	203,365,500	24.42%
Discretionary (Other Categoricals)	884,431,400	548,403,100	(336,028,300)	(37.99%)
Total	\$10,732,285,000	\$11,173,900,000	\$441,615,000	4.11%

Today's K-12 Budget

Ten years after Proposal A, today's K-12 budget looks surprisingly similar, in terms of the number of categoricals, to the budget in the first year of Proposal A's implementation. The decline in State revenue in the recent past has led to the elimination of many programs implemented after FY 1994-95 and to the funding reduction of several programs that existed before Proposal A. While the foundation allowance has grown substantially since FY 1994-95 (when the minimum amount of funding was \$4,200 per pupil and the basic was \$5,000) to a time when the least amount each district receives is \$6,700 per pupil, the recent past ranges from stagnant to slightly declining in terms total funding, and discretionary categoricals have been whittled down to the bare bones. The previously seen large growth in K-12 funding in terms of increasing foundation allowances and new programming has been replaced with a focus on preserving per-pupil operational funding. Certainly, future growth will depend on the condition of the State's economy.