

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2014



The School Aid Budget for Fiscal Year 2014-15 By Kathryn Summers, Associate Director

On June 11, 2014, the Legislature adopted a conference report for House Bill (HB) 5314, the Education omnibus budget bill for fiscal year (FY) 2014-15; the bill then was ordered enrolled and sent to the Governor, who signed it into law on June 24, 2014. The budget provides continued funding for the statutory rate cap on retirement costs pertaining to unfunded accrued liabilities, along with a sizeable allocation to reduce the funding gap between the minimum- and higher-funded school districts. This article will provide a summary of the major items included in the School Aid portion of Public Act 196 of 2014.

Overall Appropriations History

Table 1 shows the changes over time in overall appropriations for School Aid. For FY 2014-15, gross (total) appropriations are increasing \$548.0 million above FY 2013-14 spending levels. Of this increase, \$375.9 million is related to additional spending on the Michigan Public School Employees' Retirement System (MPERS), and the remaining changes in the budget are tied to increases in per-pupil foundation allowances and equity payments, categorical changes, and technical cost adjustments, discussed below.

Table 1
School Aid
Funding History

Fiscal Year	Full-Time Equated Positions (FTEs)	Interdepart. Grants Received (IDGs)	Federal Funds	Local and Private Funds	State Restricted	General Fund	Gross
FY 2000-01	N/A	\$0	\$160,000,000	\$0	\$10,346,671,500	\$385,613,500	\$10,892,285,000
FY 2001-02	N/A	0	209,584,700	0	11,022,148,200	198,413,500	11,430,146,400
FY 2002-03	N/A	0	1,219,825,200	700,000	11,085,138,100	249,413,500	12,555,076,800
FY 2003-04	N/A	0	1,316,681,900	0	10,730,437,100	377,850,000	12,424,969,000
FY 2004-05	N/A	0	1,353,540,100	0	10,948,322,200	165,200,000	12,467,062,300
FY 2005-06	N/A	0	1,392,587,300	0	11,245,313,200	62,714,000	12,700,614,500
FY 2006-07	N/A	0	1,411,236,900	0	11,561,963,200	35,000,000	13,008,200,100
FY 2007-08	N/A	0	1,476,003,900	0	11,386,866,600	34,909,600	12,897,780,100
FY 2008-09 ^{a)}	N/A	0	2,162,008,600	0	11,019,798,200	78,000,000	13,259,806,800
FY 2009-10 ^{b)}	N/A	0	2,062,382,800	0	10,644,891,500	30,206,200	12,737,480,500
FY 2010-11 ^{c)}	N/A	0	2,178,333,300	0	10,784,760,500	18,642,400	12,981,736,200
FY 2011-12 ^{d)}	N/A	0	1,658,031,800	0	11,010,210,400	78,642,400	12,746,884,600
FY 2012-13	N/A	0	1,701,041,400	0	10,928,614,200	282,400,000	12,912,055,600
FY 2013-14	N/A	0	1,816,158,800	0	11,356,232,300	149,900,000	13,322,291,100
FY 2014-15	N/A	0	1,808,162,700	0	11,947,262,900	114,900,000	13,870,325,600

^{a)} Includes \$600.0 million in Federal American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization funds.
^{b)} Includes \$450.0 million in Federal ARRA State Fiscal Stabilization funds.
^{c)} Includes \$184.3 million in Federal ARRA State Fiscal Stabilization funds and \$316.3 million in Federal Education Jobs funds.
^{d)} Includes one-time funding of \$455,500,000 Gross and State Restricted.

Per-Pupil Funding: Total Appropriations Related to Per-Pupil Funding - \$9.0 Billion

The enacted budget for School Aid contains several pieces related to per-pupil funding, including building the FY 2013-14 equity payment into the base, and then providing all districts with a \$50 increase to their foundation allowances for FY 2014-15 (costing \$74.0 million). The combination of these two measures brings the minimum foundation allowance up from \$7,026 in FY 2013-14 to \$7,126 for FY 2014-15. An additional item in the School Aid budget, at a cost of \$103.0 million, is an equity payment for FY 2014-15, whereby any district with a foundation allowance below \$7,251 will



get an increase in funding so that the district receives \$7,251 per pupil, or, an increase of up to \$125 on top of the \$50 provided across the board.

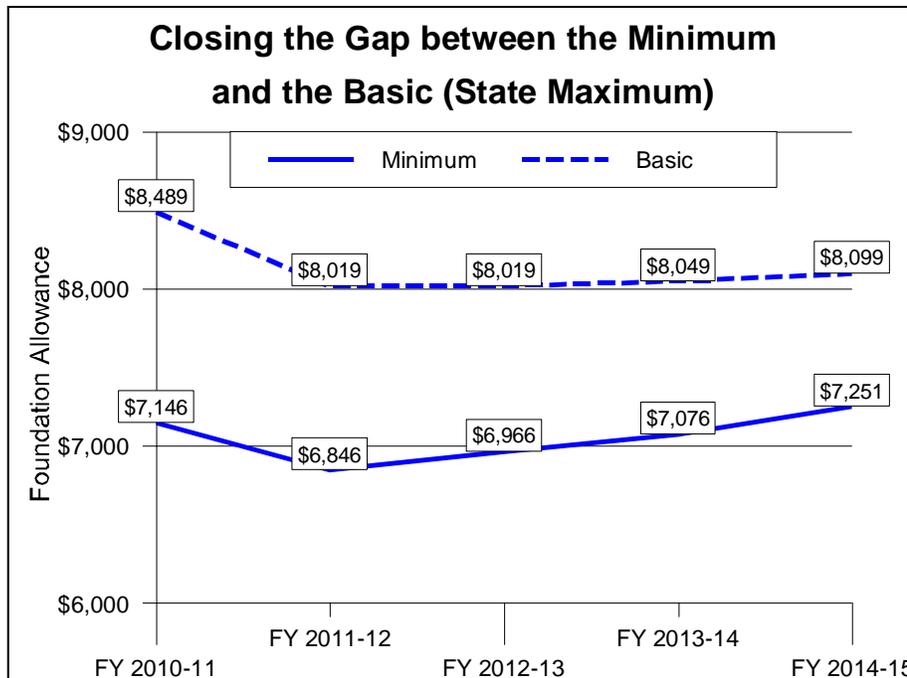
Table 2 illustrates the minimum and the "basic" foundation allowance, which is the point also called the State maximum: it is the target level to which the lower-funded districts are to be raised over time. Any districts with foundation allowances above that point levy local mills for the portion of their foundation allowance that exceeds the basic/State maximum.

Table 2

Per-Pupil Funding	FY 2013-14	FY 2014-15	Change
Statutory Minimum	\$7,026	\$7,126	\$100
Equity	50	125	75
Total Real Minimum	\$7,076	\$7,251	\$175
Basic.....	\$8,049	\$8,099	\$50

If the FY 2014-15 equity payment (of up to \$125) is built into base funding heading into FY 2015-16, the gap between the minimum and the basic will decrease from \$973 to \$848, and the gap between the minimum and the maximum (which includes locally levied hold harmless millage) will decline from \$4,858 to \$4,733. Figure 1 charts the closing of the gap between the minimum foundation allowance and the basic (State maximum) over the past five years.

Figure 1

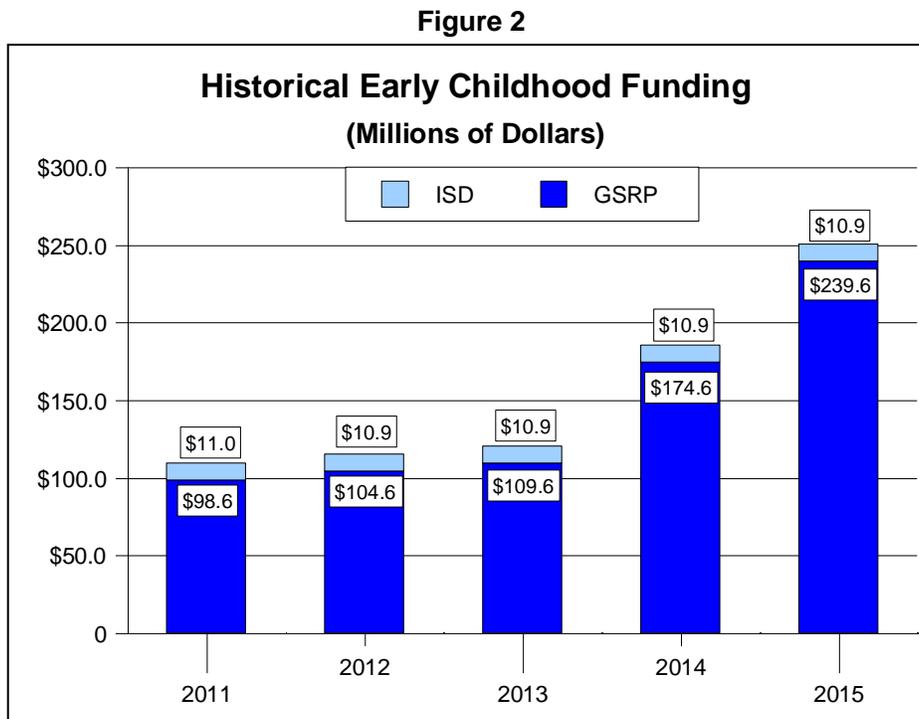


Early Childhood Funding: Total Appropriations Related to Early Childhood - \$250.5 Million

As in FY 2013-14, the enacted budget again includes a \$65.0 million increase in Great Start Readiness Program (GSRP) funding, with \$40.0 million immediately available and the remaining



\$25.0 million available upon transfer by the Legislature. The per-slot grant amount remains constant at \$3,625 per half-day placement, and a new earmark of \$10.0 million out of the total funding (which now stands at \$239.6 million) was included to reimburse for transportation costs of at-risk four-year-olds enrolled in the GSRP. Historical funding of early childhood, which also includes \$10.9 million in block grants for intermediate school districts' early childhood programs, is shown in Figure 2, with growth of \$130.0 million over the past two years for the GSRP.



Michigan Public School Employees' Retirement System: Total Appropriations Related to MPERS - \$882.7 Million

The enacted budget includes the required increase in funding necessary to maintain the statutory cap on the amount schools pay toward the unfunded accrued liabilities in the Michigan Public School Employees' Retirement System. The required increase for FY 2014-15 for schools was \$267.9 million; the required increase for community colleges was appropriated in the Community Colleges budget, and the required increase for libraries was appropriated in the Department of Education budget.

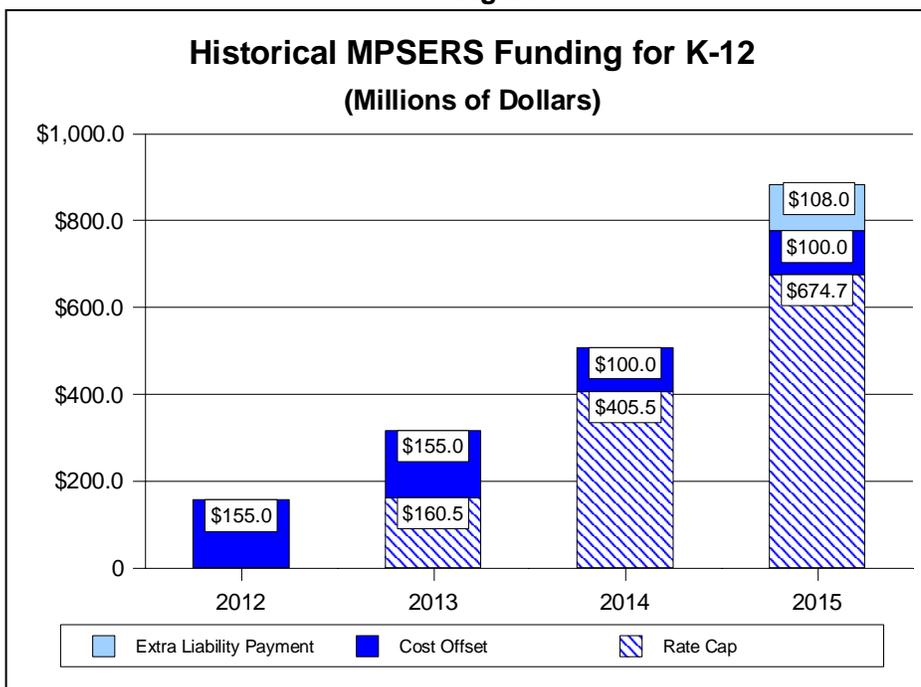
In addition, MPERS "cost offset" grants, which provide funding to districts in a manner that reflects their proportion of payroll out of the total MPERS payroll, were retained at \$100.0 million. Although MPERS "cost offset" grants provide an average benefit of \$66 per pupil, the actual value depends, again, on each district's payroll as a share of total statewide MPERS payroll.

Finally, a new "extra mortgage" payment toward MPERS' liabilities was included in the budget for FY 2014-15. The new payment of \$108.0 million is a direct deposit into the MPERS' assets or portfolio, to pay down a small portion of the overall unfunded accrued liabilities. Currently, the



unfunded accrued liabilities of the MPSERS pension plan stand at \$25.8 billion; this "extra mortgage" payment will decrease that figure by \$0.1 billion, to \$25.7 billion, all else being equal. Figure 3 shows historical funding related to MPSERS.

Figure 3



Other Major Funding Items Continued into FY 2014-15

The budget includes required funding for special education, with appropriations totaling \$939.0 million from State sources. Best practice grants again were funded, but with a slight reduction to \$75.0 million (down from \$80.0 million). The per-pupil best practices grant amount was reduced from \$52 to \$50, and eligibility criteria were changed, making it impossible to predict which districts will qualify for the best practice grants by the deadline of June 1, 2015. Pupil performance grants were fully funded at \$51.1 million, with no legislative change in the eligibility criteria, although some districts will see differences in their funding based on their pupil performance. Technology readiness grants were funded at \$41.5 million, down from the \$45.0 million set aside for this purpose in FY 2013-14. At Risk remains funded at \$309.0 million.

Other Major Funding Items New or Increased in FY 2014-15

The budget includes \$14.8 million for new teacher evaluations, to be spent only upon enactment of House Bills 5223 and 5224¹, and includes a \$14.7 million increase in assessment funding over FY 2013-14, to a total of \$41.4 million from State sources. Operational funding for intermediate school districts (ISDs) was increased \$3.0 million, to \$67.1 million total. New items funded in the budget

¹ House Bills 5223 (H-4) and 5224 (H-4), as passed by the House, would amend the Revised School Code to modify requirements for teacher and administrator performance evaluations.



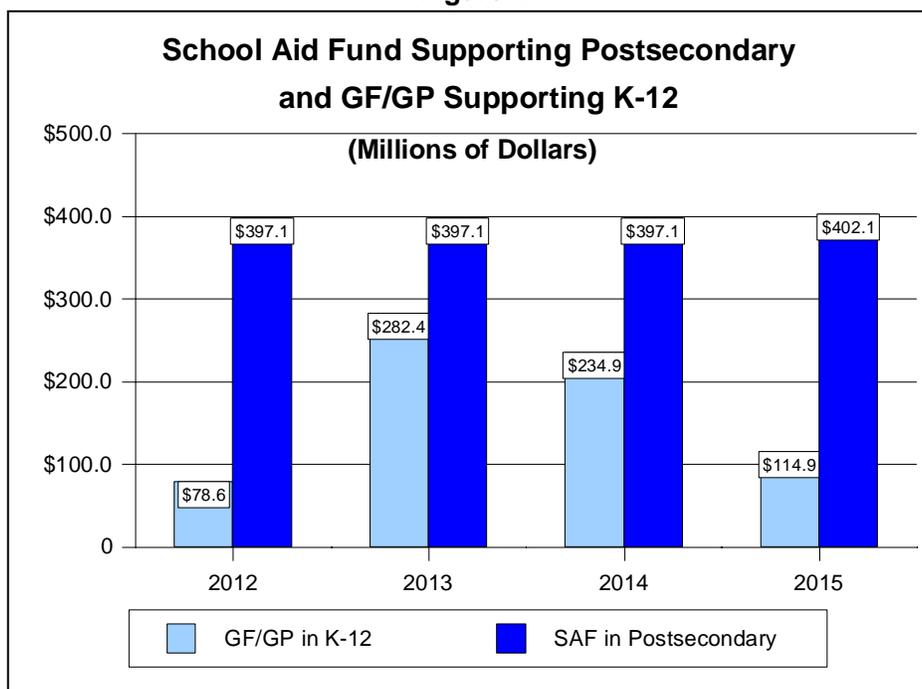
include \$4.0 million for a distressed districts' emergency fund, \$3.0 million for grants to convert school buses from diesel to natural gas, \$1.2 million for nutrition education, and \$1.8 million to rewrite teacher certification tests.

Fund Shifts

In FY 2009-10, a fund shift of \$208.4 million was made between the State's General Fund/General Purpose (GF/GP) budget and the School Aid Fund (SAF) to ensure that the GF/GP budget closed the fiscal year with a positive year-end balance. This fund shift, characterized as one-time, was done in the Community Colleges budget; the GF/GP revenue supporting the appropriations was reduced and replaced with SAF revenue.

Beginning in FY 2011-12, a change occurred in the funding of both the Community Colleges and Higher Education budgets. The Governor proposed, and the Legislature adopted, partial support of the ongoing budgets using SAF revenue. For the first three budget years, the total from the SAF used in the two budgets was \$397.1 million, and for FY 2014-15, the total is \$402.1 million. At the same time, GF/GP support in the K-12 budget first increased, but then decreased, as shown in Figure 4.

Figure 4



Whether an Increase is a Decrease

Recently, there has been some discussion as to whether the \$50 across-the-board increase provided in the foundation allowance results in more cuts to some districts. There are at least two methodologies behind this line of thinking, one that has to do with increases in retirement costs not



covered by the rate cap, and the other related to comparing the final budget with the earlier budget proposals recommended by the Governor, House, and Senate. Both are discussed here.

First, the cost for MPSERS is levied as a percentage of payroll, and that percentage is made up of both a "normal" cost component and the capped component for the unfunded accrued liability (UAL). While the State makes an appropriation for any UAL payment required above the cap, there can be variations in the "normal" cost portion of the rate, and that is occurring for FY 2014-15: the normal cost is increasing by 0.99% applied to payroll for employees in the basic or member investment plans. (The normal cost increase for members in the hybrid plan is 0.14% of payroll.)

These changes, which were first published in the February 2013 Governor's budget recommendation, translate to increased costs at the local level during FY 2014-15. If those increased retirement costs at the local level exceed, on a per-pupil basis, the \$50 provided for a district with a foundation allowance above \$7,251, then conceivably the district may have retirement expenses growing at a rate faster than the growth provided in the foundation allowance.

The other possible line of thinking in which the minimum \$50 increase, enacted in the final version of the budget, could be considered a decrease involves comparing the earlier versions of the School Aid budget. The Governor's recommended budget provided a minimum increase of \$83; the House-passed budget provided a minimum increase of \$72; and, the Senate-passed budget provided a minimum net increase of \$75 in operational funding. Therefore, the enacted \$50 increase for districts above \$7,251 in per-pupil funding is lower than any of the previous proposals.

However, as discussed earlier, the final K-12 budget provides more for districts at the lowest end of the foundation allowance scale, namely a further \$125 in an equity payment, bringing the total increase to \$175 per pupil for districts at the minimum. This is a much higher total increase compared with both the Governor's budget, which provided at most \$111, and the budget that passed the House, which provided at most \$128 per pupil.

Conclusion

In summary, the FY 2014-15 School Aid budget contains \$548.0 million in increased appropriations over FY 2013-14 levels. The major items contributing to that increased spending level include MPSERS, per-pupil operational funding, and early childhood. Many other specific categorical funding items also were continued for FY 2014-15, including special education, At Risk, best practices, pupil performance, and technology grants. A list of each district's estimated FY 2014-15 per-pupil foundation allowance and equity payment may be found at: http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12_EquityList.pdf.