

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: October 21, 2009
TO: Members of the Senate
FROM: Kathryn Summers, Chief Analyst
RE: Section 20j of the State School Aid Act

On Monday, October 19, 2009; Governor Granholm vetoed Section 20j of House Bill 4447, Public Act 121 of 2009 (the fiscal year 2009-10 School Aid budget). The veto reduced State aid payments to affected districts by \$51.5 million. This memo explains Section 20j; also attached is a list of districts that received funding under this section in fiscal year (FY) 2008-09, which will be affected by the loss of funds as a result of the veto.

AN EXPLANATION OF SECTION 20J OF THE STATE SCHOOL AID ACT

The Issue

Beginning with the implementation of Proposal A, Section 1211(3) of the Revised School Code (MCL 380.1211) prohibits "hold-harmless" districts from collecting more than an inflationary increase in their per-pupil State and local revenue from one year to the next year. (A "hold-harmless" district is one whose foundation allowance exceeds the State Maximum Foundation Allowance, which in FY 2009-10 is \$8,489.) There are 52 hold-harmless districts.

The restriction in the School Code means that if, in any given year, the dollar increase in the basic foundation allowance exceeds the inflation rate when it is applied to a *hold harmless district's previous-year foundation allowance* (not when applied to the basic foundation allowance itself), the district cannot by law levy the number of mills necessary to receive the full dollar increase given in the basic foundation allowance. Instead, the statutory increase that may be given to a hold-harmless district is equal to the rate of inflation multiplied by that district's foundation allowance. There were two years when the state of Michigan was experiencing very low inflation and when very large per-pupil increases were provided to schools: FY 1999-2000 and FY 2000-01.

The following example illustrates this phenomenon. In FY 2000-01, the dollar increase in the basic foundation allowance was \$300. This means that all school districts with foundation allowances below the State Maximum Foundation Allowance received the full \$300 increase in their funding. Inflation that year was only 2.8%.

According to Section 1211(3) of the Revised School Code, a hold-harmless district with a foundation allowance of \$10,000 in FY 2000-01 would have been able to levy mills only to reach a foundation allowance increase of \$280 per pupil (which is equal to \$10,000 multiplied by inflation, or 2.8%). However, the increase in the basic foundation allowance, given to all districts that were not hold-harmless, was \$300. Without a change to the School Aid Act or Revised School Code, this hypothetical district would have received \$20 per pupil less than the increase given to any non-hold-harmless district.

The Resolution - Section 20j

Public Act 119 of 1999 added Section 20j to the State School Aid Act, to take effect in FY 1999-2000. This section was established in order to enable hold-harmless districts to receive the full dollar amount of the increase in the basic foundation grant given to all other districts. In the above example, Section 20j would allow the State to make a payment to the district for the \$20 per pupil that the district would have been prohibited from raising locally due to Section 1211(3) of the Revised School Code.

There were 40 districts that received State funding calculated under Section 20j for FY 2008-09, totaling \$51.8 million. Again, this funding represents the difference between what the affected districts would have been capped at in any given year (inflation) and what the per-pupil foundation allowance increase was in that year. This is a cumulative calculation of those differences, whenever they occur.

In the years since FY 2000-01, the per-pupil increases in the basic foundation allowance have been lower than inflation compared to the foundation allowances of 20j districts, and so the funding for Section 20j has been fairly constant, only changing based on the number of pupils counted by the affected districts, and whether an eligible district falls "out of formula" (when its local funding exceeds its 20j payment). Therefore, even though no increase was provided in the basic foundation allowance for FY 2009-10, Section 20j funding of \$51.8 million was included by the Legislature to maintain those districts' per-pupil funding at levels not capped by inflation for FYs 1999-2000 and 2000-01, but instead at levels provided to all non-20j districts. The effect of the Governor's veto of this funding is to reduce 20j districts' funding to the inflationary increases prescribed for FYs 1999-2000 and 2000-01, as capped by the School Code.

Affected Districts

The attachment illustrates the 40 districts that received 20j funding in FY 2008-09. As seen on the attachment, the reimbursement to affected districts follows an inverse relationship: The lower-funded 20j districts were provided a higher per-pupil payment under this section, and therefore will lose more per pupil than the higher-funded districts. For example, East Lansing's capped foundation is \$8,307 and its 20j per-pupil funding is \$314, while Bloomfield Hills' capped foundation is \$12,324 and its 20j per-pupil funding is only \$119.

One final note: The elimination of 20j funding is in addition to the \$165 per pupil reduction in State Aid that all districts will face. Therefore, the total per-pupil reduction to 20j districts will be the sum of their 20j per-pupil funding (found in the attachment) and the \$165 cut to all districts.

If it were the will of the Legislature to restore this funding in some manner, options would include: 1) a veto override, requiring a two-thirds affirmative vote by both chambers; 2) a separate supplemental K-12 budget that includes funding for Section 20j; or 3) legislation allowing the affected districts to levy additional local mills to replace the lost State revenue. The last option would require a supermajority vote by both chambers, or three-fourths of the members.

If you need any further explanation of this section, please feel free to call at 3-2768.

c: Gary S. Olson, Director
Ellen Jeffries, Deputy Director

FY 2008-09 Section 20j Per Pupil and Total 20j Funding

<u>County</u>	<u>District Code</u>	<u>District Name</u>	<u>FY 2008-09 Statutory Foundation</u>	<u>FY 2008-09 Section 20j Amount Per Pupil</u>	<u>FY 2008-09 Total Per Pupil Funding</u>	<u>Actual Total Section 20j Grant Amount</u>
ALGER	02020	BURT TOWNSHIP SCHOOL DISTRICT	\$10,387.00	\$190.08	\$10,577.08	\$11,948
ALLEGAN	03080	SAUGATUCK PUBLIC SCHOOLS	8,520.00	300.05	8,820.05	248,066
BERRIEN	11340	BRIDGMAN PUBLIC SCHOOLS	8,545.00	298.38	8,843.38	286,245
CHIPPEWA	17050	DETOUR AREA SCHOOLS	9,280.00	247.82	9,527.82	49,549
EATON	23490	ONEIDA TOWNSHIP S/D #3	11,003.00	167.76	11,170.76	2,446
HURON	32130	PORT HOPE COMMUNITY SCHOOLS	9,195.00	252.21	9,447.21	23,110
HURON	32260	COLFAX TOWNSHIP S/D #1F	9,054.00	263.00	9,317.00	6,620
INGHAM	33010	EAST LANSING SCHOOL DISTRICT	8,307.00	314.45	8,621.45	1,038,848
INGHAM	33215	WAVERLY COMMUNITY SCHOOLS	8,873.00	275.46	9,148.46	812,500
MACOMB	50010	CENTER LINE PUBLIC SCHOOLS	9,823.00	211.02	10,034.02	574,937
MACOMB	50200	SOUTH LAKE SCHOOLS	9,194.00	253.42	9,447.42	596,272
MACOMB	50230	WARREN CONSOLIDATED SCHOOLS	9,326.00	245.26	9,571.26	3,701,905
MACOMB	50240	WARREN WOODS PUBLIC SCHOOLS	8,958.00	270.11	9,228.11	860,349
MARQUETTE	52110	REPUBLIC-MICHIGAMME SCHOOLS	8,789.00	281.65	9,070.65	39,054
MIDLAND	56010	MIDLAND PUBLIC SCHOOLS	8,611.00	293.31	8,904.31	2,487,415
MONROE	58080	JEFFERSON SCHOOLS (MONROE)	11,500.00	148.96	11,648.96	313,558
OAKLAND	63010	BIRMINGHAM CITY SCHOOL DISTRICT	12,244.00	122.23	12,366.23	953,631
OAKLAND	63040	SCHOOL DISTRICT OF THE CITY OF ROYAL OAK	9,078.00	261.80	9,339.80	1,352,459
OAKLAND	63060	SOUTHFIELD PUBLIC SCHOOL DISTRICT	11,291.00	156.78	11,447.78	1,336,956
OAKLAND	63070	AVONDALE SCHOOL DISTRICT	8,451.00	304.10	8,755.10	1,124,191
OAKLAND	63080	BLOOMFIELD HILLS SCHOOL DISTRICT	12,324.00	119.25	12,443.25	625,777
OAKLAND	63090	CLARENCEVILLE SCHOOL DISTRICT	8,245.00	318.87	8,563.87	574,556
OAKLAND	63100	NOVI COMMUNITY SCHOOL DISTRICT	8,799.00	280.58	9,079.58	1,716,367
OAKLAND	63150	TROY SCHOOL DISTRICT	9,275.00	248.18	9,523.18	2,949,550
OAKLAND	63160	WEST BLOOMFIELD SCHOOL DISTRICT	9,116.00	258.94	9,374.94	1,707,414
OAKLAND	63200	FARMINGTON PUBLIC SCHOOL DISTRICT	10,365.00	191.22	10,556.22	2,212,809
OAKLAND	63280	LAMPHERE PUBLIC SCHOOLS	10,749.00	177.00	10,926.00	437,512
OAKLAND	63290	WALLED LAKE CONSOLIDATED SCHOOLS	8,635.00	291.38	8,926.38	4,468,411
VANBUREN	80240	BANGOR TOWNSHIP S/D #8	8,499.00	301.98	8,800.98	6,493
WASHTENAW	81010	ANN ARBOR PUBLIC SCHOOLS	9,490.00	233.35	9,723.35	3,742,866
WAYNE	82030	DEARBORN CITY SCHOOL DISTRICT	8,802.00	280.72	9,082.72	4,875,565
WAYNE	82045	MELVINDALE-NORTH ALLEN PARK SCHOOLS	8,995.00	267.27	9,262.27	730,532
WAYNE	82055	GROSSE POINTE PUBLIC SCHOOLS	10,184.00	198.09	10,382.09	1,655,929
WAYNE	82095	LIVONIA PUBLIC SCHOOLS	8,277.00	316.81	8,593.81	5,012,460
WAYNE	82120	RIVER ROUGE SCHOOL DISTRICT	8,825.00	279.17	9,104.17	302,503
WAYNE	82130	ROMULUS COMMUNITY SCHOOLS	8,862.00	276.63	9,138.63	1,076,495
WAYNE	82155	TRENTON PUBLIC SCHOOLS	8,746.00	285.11	9,031.11	778,681
WAYNE	82300	GROSSE ILE TOWNSHIP SCHOOLS	8,794.00	280.63	9,074.63	523,111
WAYNE	82320	CITY OF HARPER WOODS SCHOOLS	8,173.00	323.61	8,496.61	390,762
WAYNE	82390	NORTHVILLE PUBLIC SCHOOLS	8,218.00	320.87	8,538.87	<u>2,213,897</u>

Statewide Total Section 20j Funding in FY 2008-09

\$51,821,749