HOUSE FISCAL AGENCY

Background Briefing

SCHOOL AID

Mary Ann Cleary, Associate Director
Bethany Wicksall, Senior Fiscal Analyst

January 2010

The fiscal information in this background briefing is based on data through January 15, 2010.

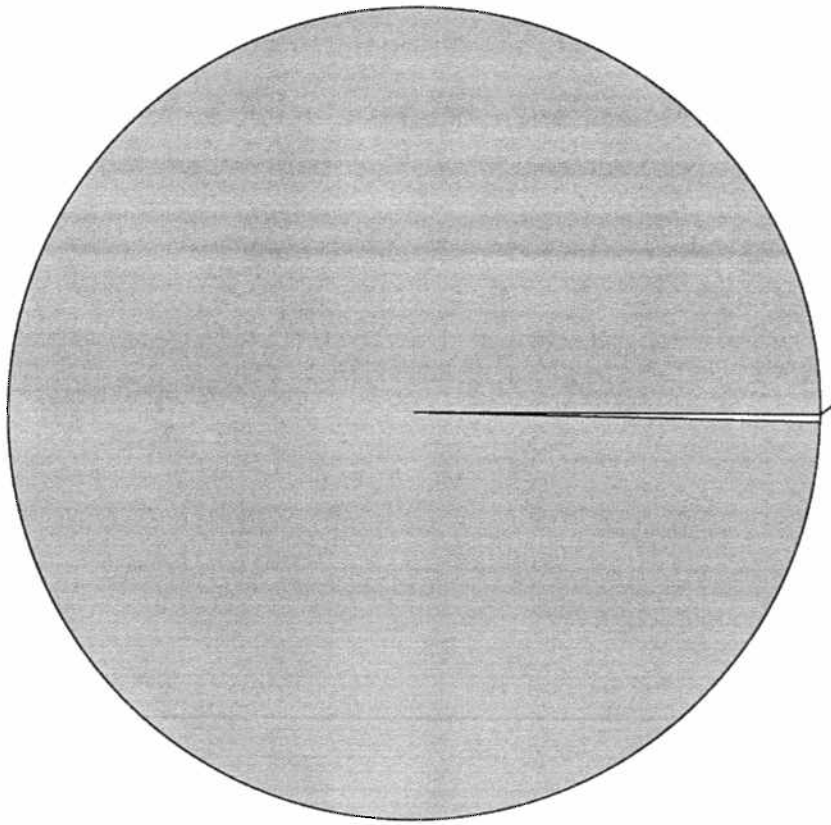
School Aid Budget

The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to "maintain and support a system of free public elementary and secondary schools as defined by law."

- Michigan Constitution

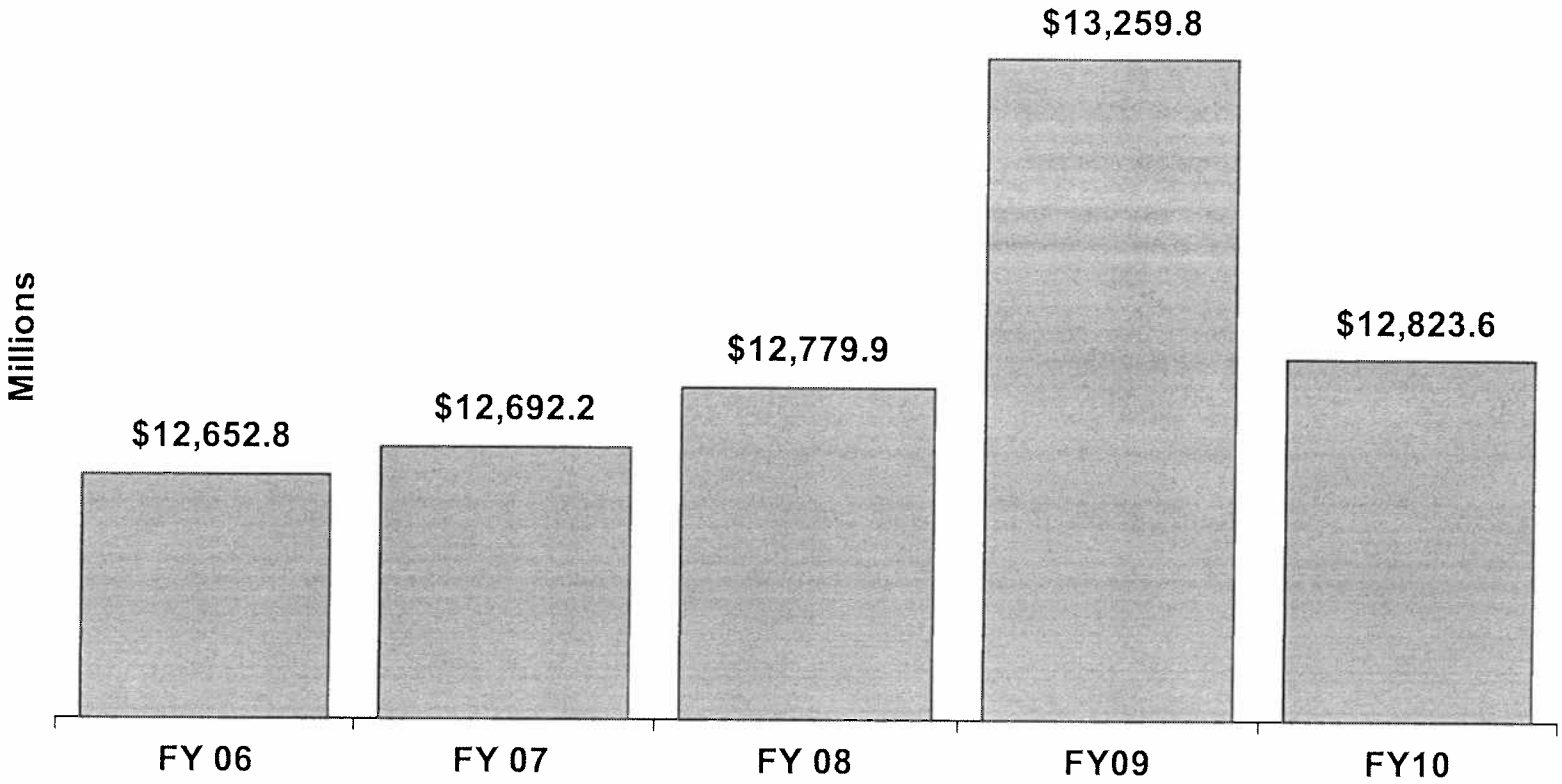
School Aid Share of State GF/GP

FY 2008-09 Total = $8,128,039,200



School Aid Expenditures

School Aid expenditures have grown slightly over the last four years. The significant increase in FY 2008-09 is largely due to the replacement of lost local revenues with state revenues from the Michigan Business Tax (MBT).



*Includes $341.6 million in local replacement revenue from the MBT.

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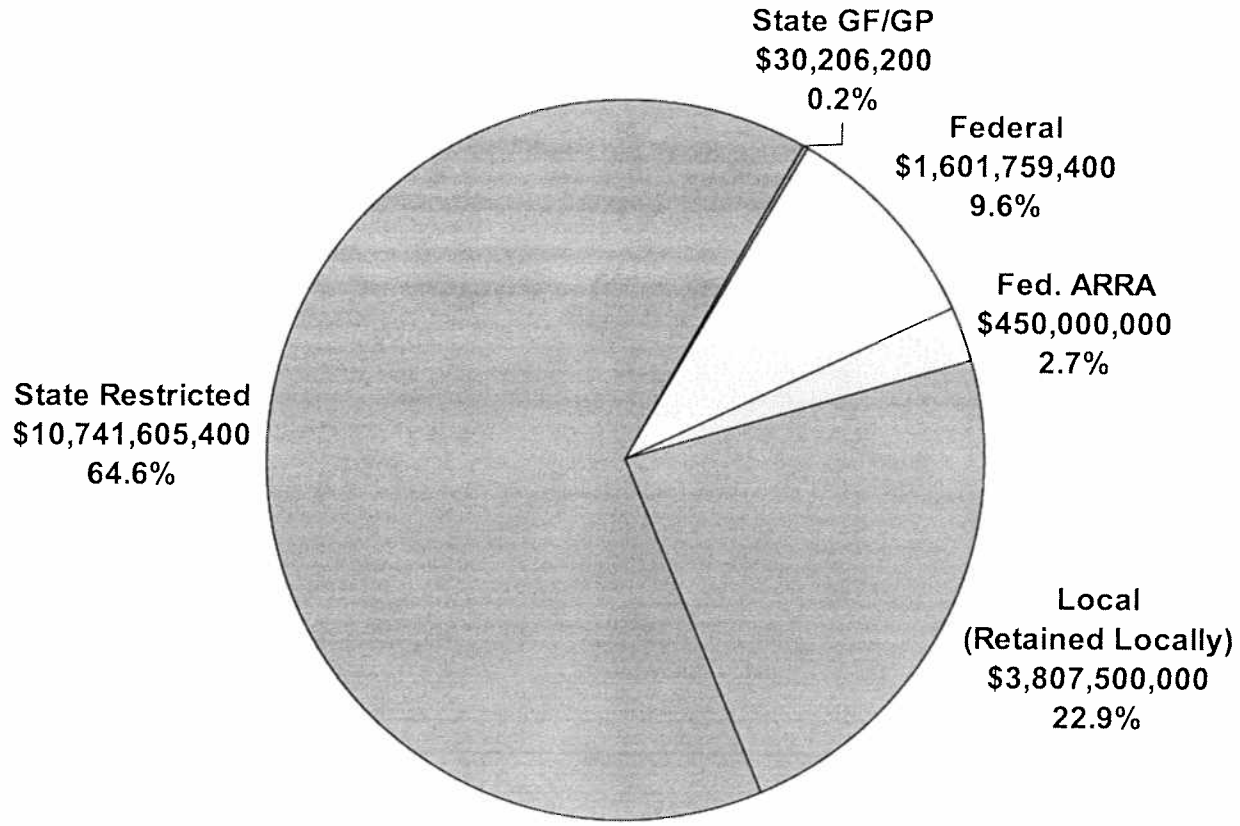
SCHOOL AID REVENUE

FY 2009-10 School Revenue

Most FY 2009-10 school operating revenue is from state resources.

Total Revenue = $16,631,071,000

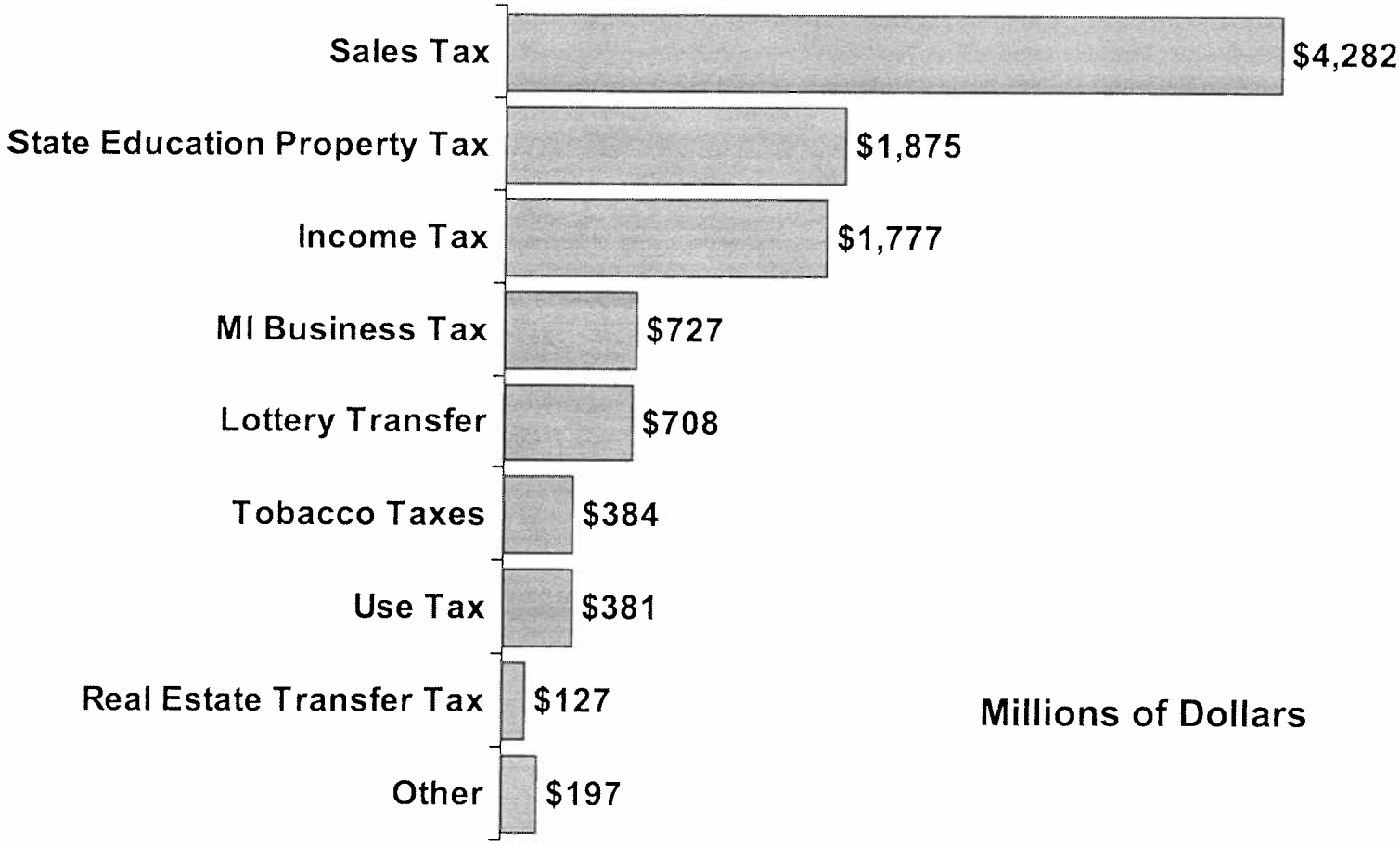


School Aid Fund (SAF)

- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked, or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires the SAF to be used exclusively for schools, higher education, and school employee retirement benefits.
- SAF will receive approximately $10.7 billion in revenue for FY 2009-10.
- Largest sources of SAF revenue are shown on the next slide.

FY 2009-10 SAF Revenue

State sales tax, state income tax, and state education property tax are the three largest sources of SAF revenue.



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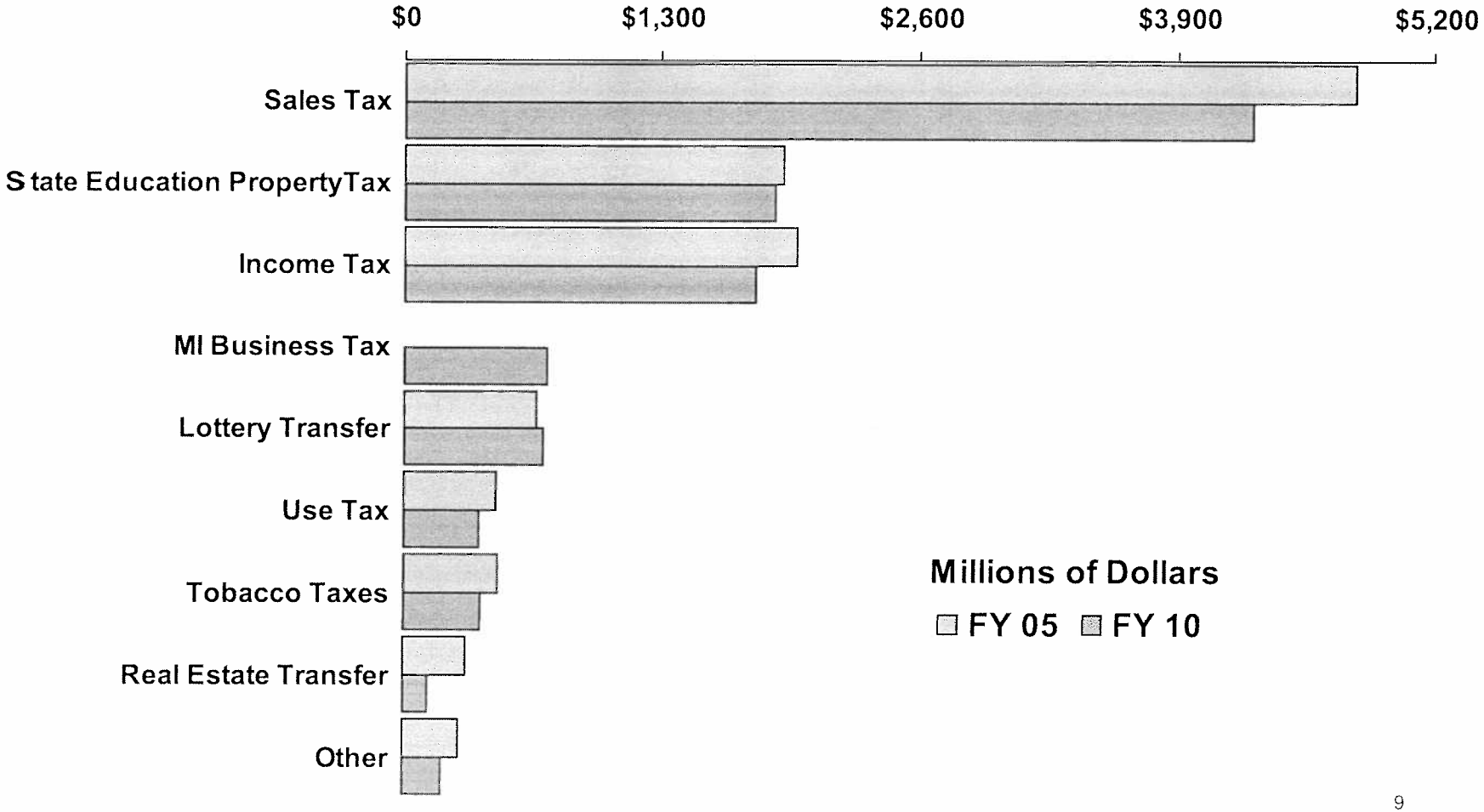
Source: January 2010 Revenue Estimating Conference

SAF Revenue Comparison

Most of the SAF revenue sources are anticipated to collect less in FY 2009-10 than they did in FY 2004-05.



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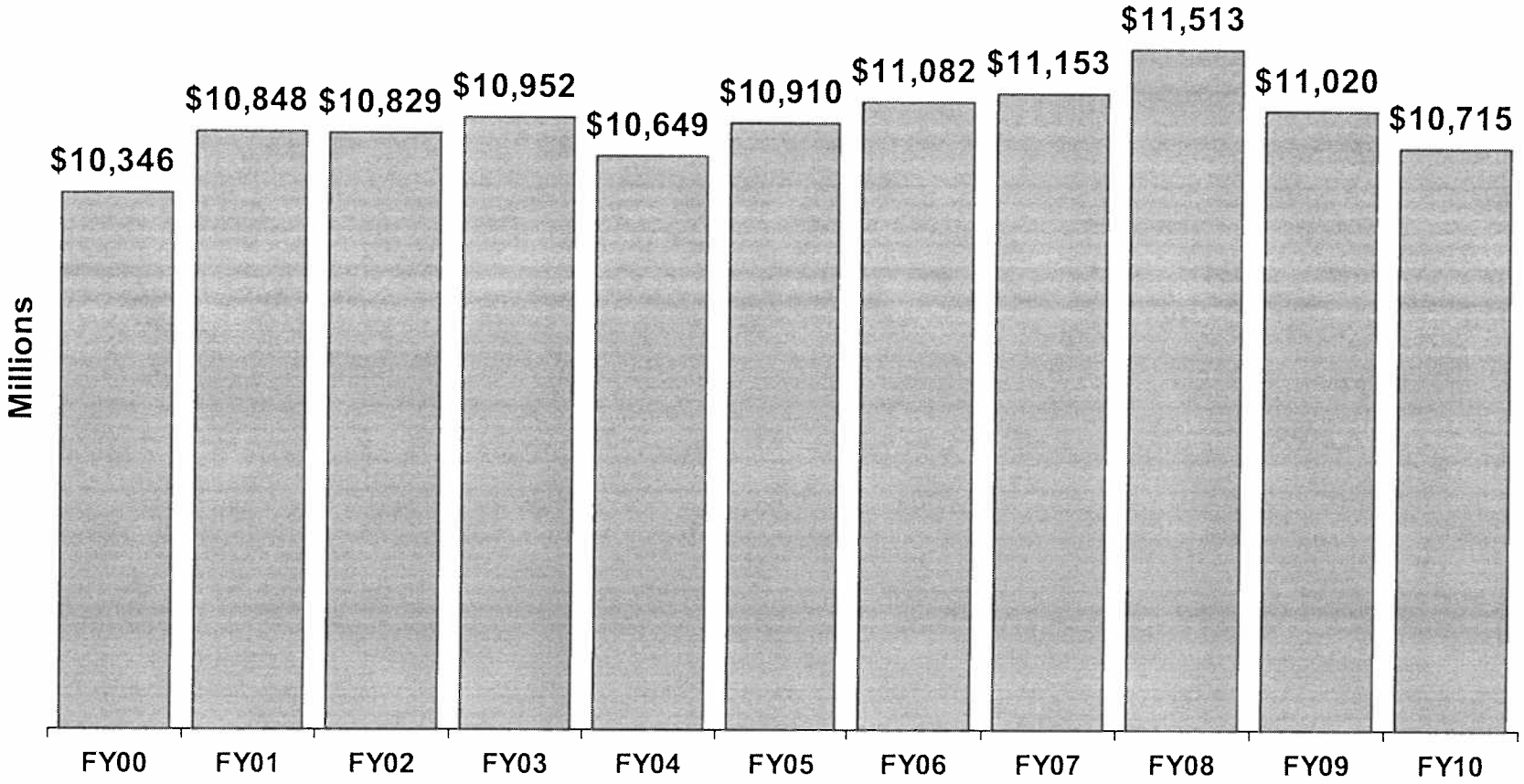
Source: January 2010 Revenue Estimating Conference

School Aid Fund Revenue

School Aid Fund is estimated to collect about $10.7 billion in FY 2009-10.



**Includes $341.6 million in local replacement revenue from the MBT.*

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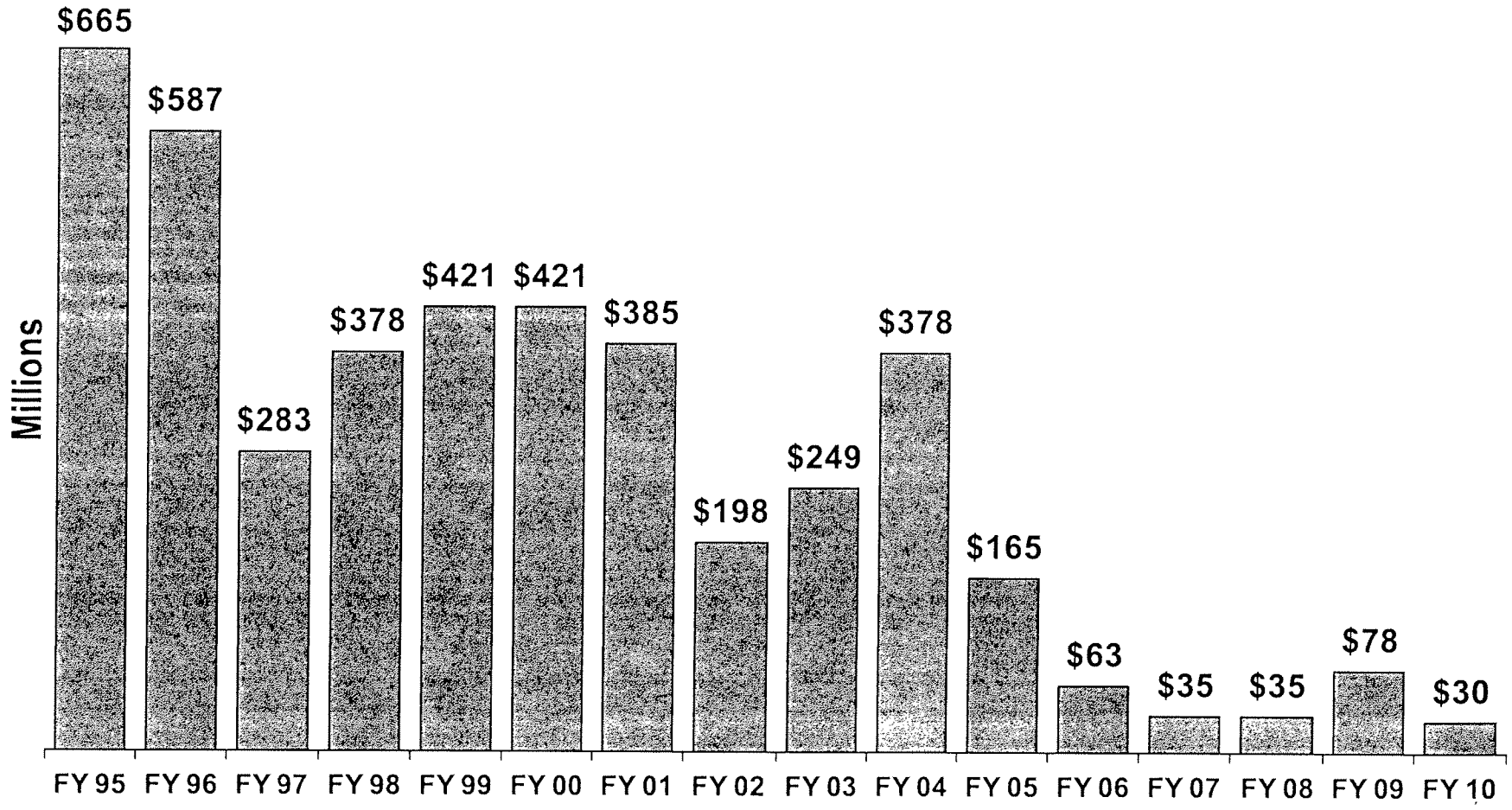
GF/GP Portion of School Aid Revenue

GF/GP will contribute almost $30.2 million to the School Aid Budget in FY 2009-10.



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SCHOOL AID SPENDING

Did you know . . .

- There are 791 school districts in Michigan: 551 local districts, plus 240 public school academies.
- There are 1.6 million public school pupils in Michigan.
- The School Aid budget supports all 791 districts to provide a free education to 1.6 million pupils.

School Aid Major Spending Categories

- Foundation Allowances
  - Per-pupil payment for general school operations
  - $9.6 billion in FY 2009-10
  - 73.1% of the School Aid Budget

- Special Education
  - Reimburses districts for some of their special education costs
  - $1.5 billion in FY 2009-10
  - 11.3% of the School Aid Budget

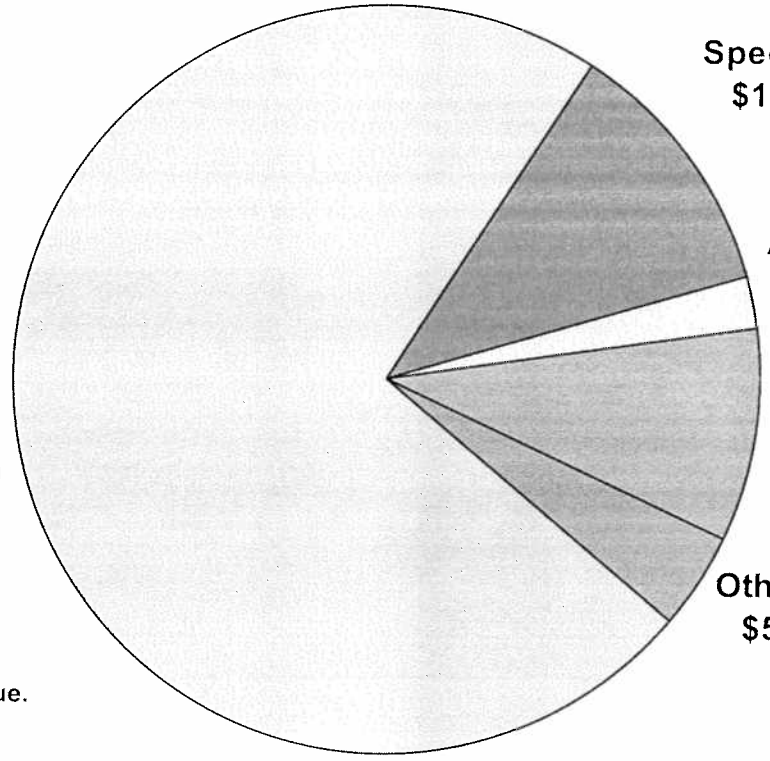
- At-Risk Programs
  - Additional funds to help students at risk of academic failure
  - $309.0 million in FY 2009-10
  - 2.4% of the School Aid Budget

School Aid Major Spending Categories

Foundation allowances, used for school operations, absorb $3 out of every $4 spent.

FY 2009-10 Total = $12,823,571,000

(Includes a $263 million reduction applied as a $165 per pupil reduction to total state aid payments, which is not reflected in the pie chart below.)



Special Education
$1,485,983,000
11.3%

At-Risk Programs
$308,988,200
2.4%

Federal Programs
(non Spec. Ed.)
$1,177,059,400
9.0%

Other Programs
$564,408,200
4.3%

Foundation
Allowances*
$9,604,300,000
73.1%

* Does not include local revenue.

Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations.
- Varies for K-12 districts from a low of $7,316 per pupil to a high of $12,324 in FY 2009-10.
- Foundation allowances were created as part of the "Proposal A" school finance reforms which took effect in FY 1994-95.

"Basic" Foundation Allowance

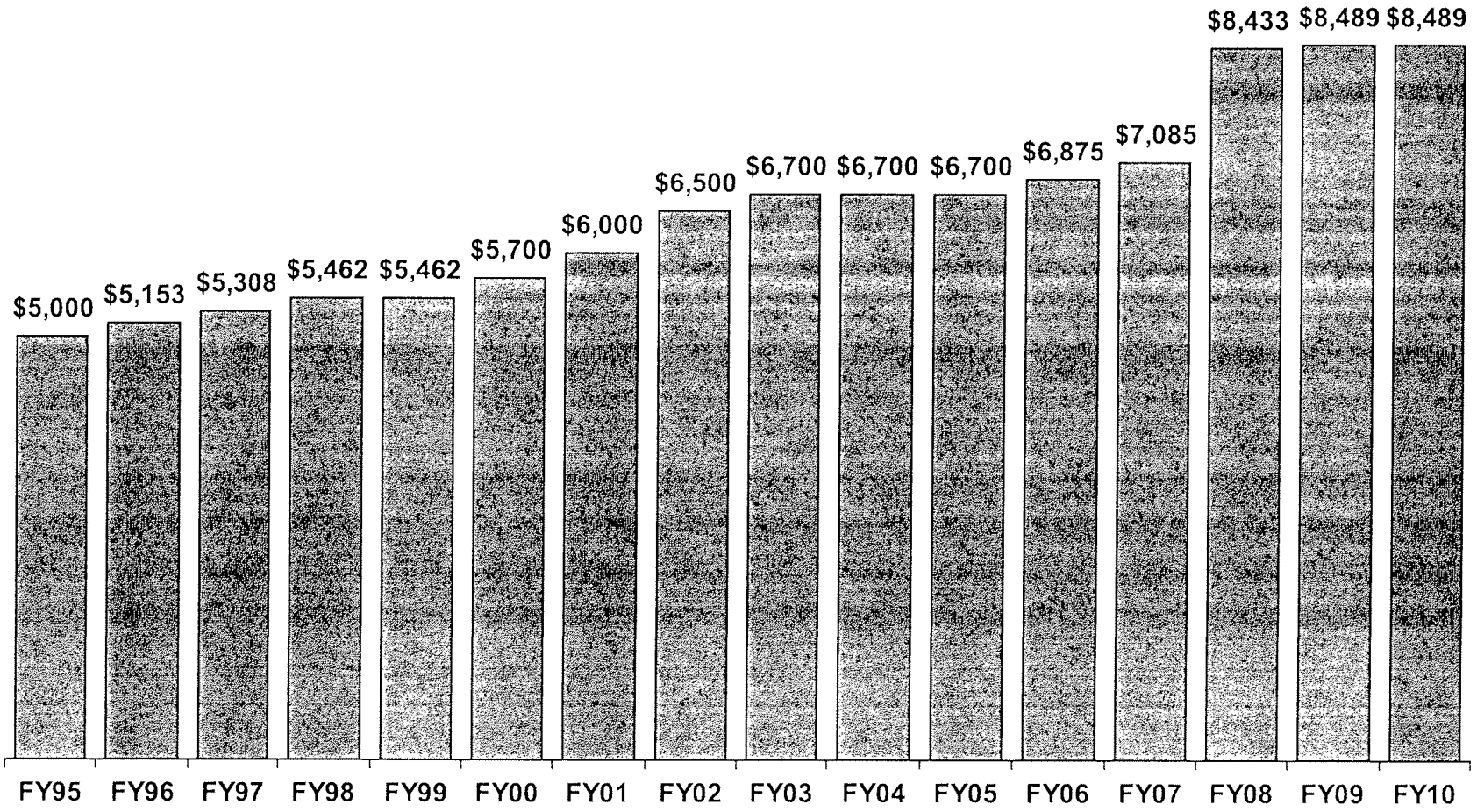
- The "Basic" foundation allowance was a minimum goal established in 1994 as part of the Proposal A reforms, and it is set by the Legislature each year as a target per-pupil funding level.

- In FY 1999-2000, all school districts in Michigan reached the basic foundation allowance, after which point all districts received the same annual increases except for two years where equity payments were made to those at the bottom.

- In FY 2007-08, the legislature re-set the basic at the maximum state guaranteed foundation and reinstituted the original formula under which districts at the bottom receive twice as high an increase as those at the basic and above. All other districts receive an increase somewhere in between.

Basic Foundation Allowance

The per-pupil Basic foundation allowance was reset to the maximum State guaranteed foundation allowance in FY 2007-08 and was increased by $56 in FY 2008-09.



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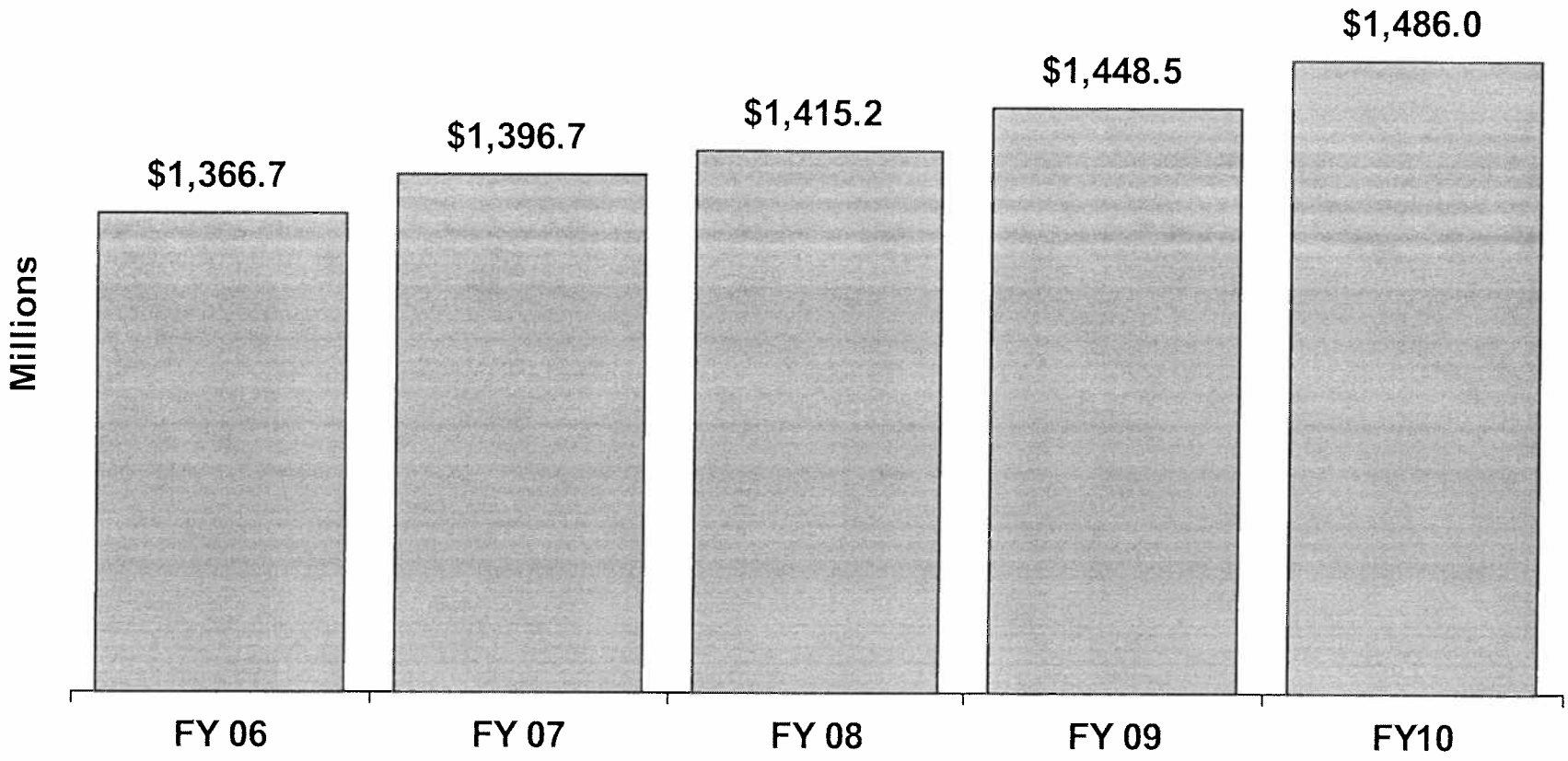
Special Education Funding

- Second largest School Aid appropriation in FY 2009-10
  - $1,061.3 million state dollars
  - $424.7 million federal dollars

- Reimburses school districts for the costs of educating special education students.

Special Education Appropriations

This categorical grew by 8.7% between FY 2005-06 and FY 2009-10.



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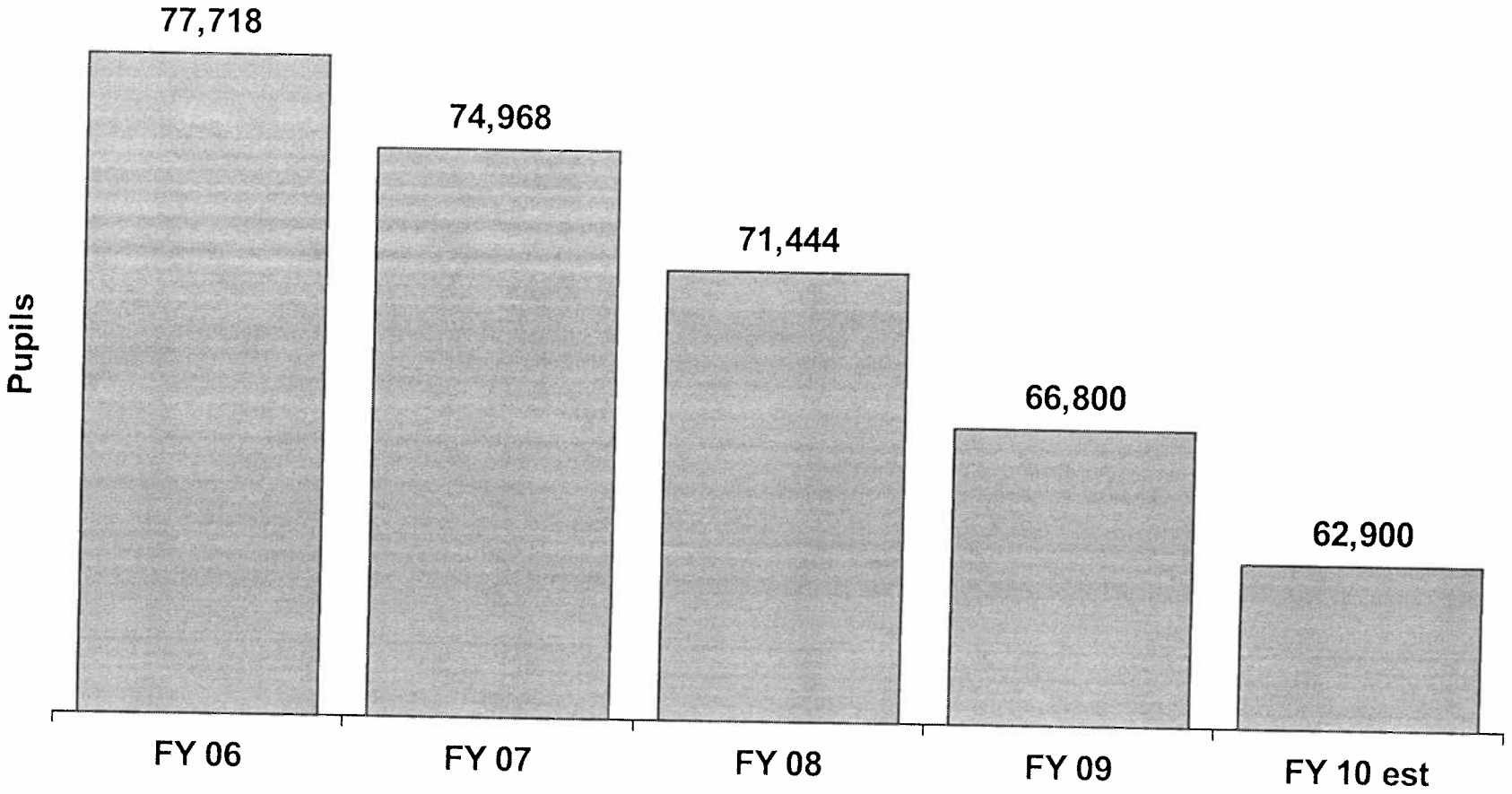
Special Education Pupil Membership

The number of full-time equivalent special education pupils dropped by 19.1% between FY 2005-06 and FY 2009-10.



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Special Education Payment

- A 1997 court ruling (*Durant* ruling) specified the amount of special education funding the state must pay:
  - State must pay 28.6138% of special education program costs
  - State must pay 70.4165% of special education transportation costs

At-Risk Program

- Third largest state-funded School Aid appropriation at $308,988,200.
- Additional funds for each pupil who meets the income eligibility for free-meal assistance.
- Makes an extra payment equal to 11.5% of a district's foundation allowance for each eligible pupil.
- Current appropriation is not sufficient to meet the necessary funding level; thus, payments will be pro-rated.

MAJOR ISSUES

Major School Aid Issues

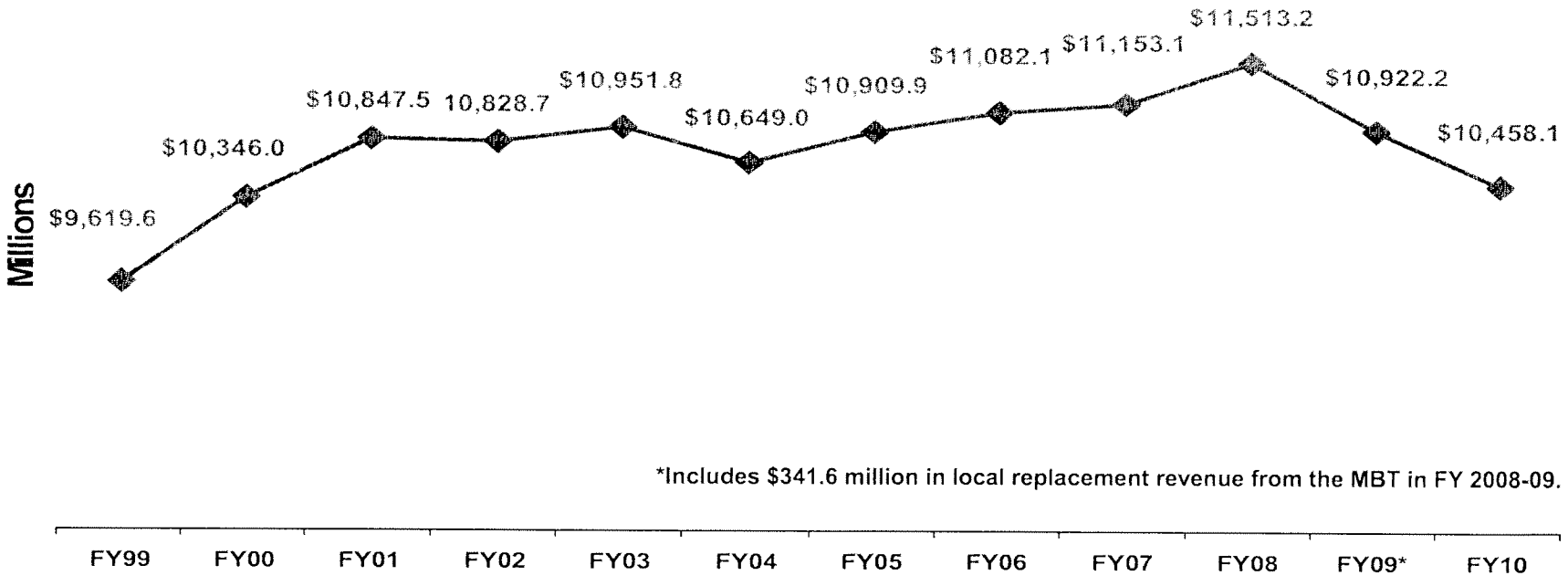
- Funding Levels
- Equity
- Public School Academies or "charter schools"
- Declining enrollment
- Future Issues:
  - Infrastructure financing
  - Local property taxes

Issue: Funding Levels

- The basic foundation allowance did not increase in FY 2009-10.
- The GF/GP contribution to the SAF has declined and programs formerly funded with GF/GP are being transferred to the SAF.
- Schools costs are rising, particularly health care and retirement costs. For FY 2008-09, retiree pension and health care benefits will equal approximately $1,000 per pupil.

Issue: Funding Levels
School Aid Fund Growth

After four years of moderate growth, the SAF revenues are expected to continue to decrease for FY 2008-09 and FY 2009-10 despite a significant adjustment to replace reduced local revenues with state revenues from the MBT.



*Includes $341.6 million in local replacement revenue from the MBT in FY 2008-09.

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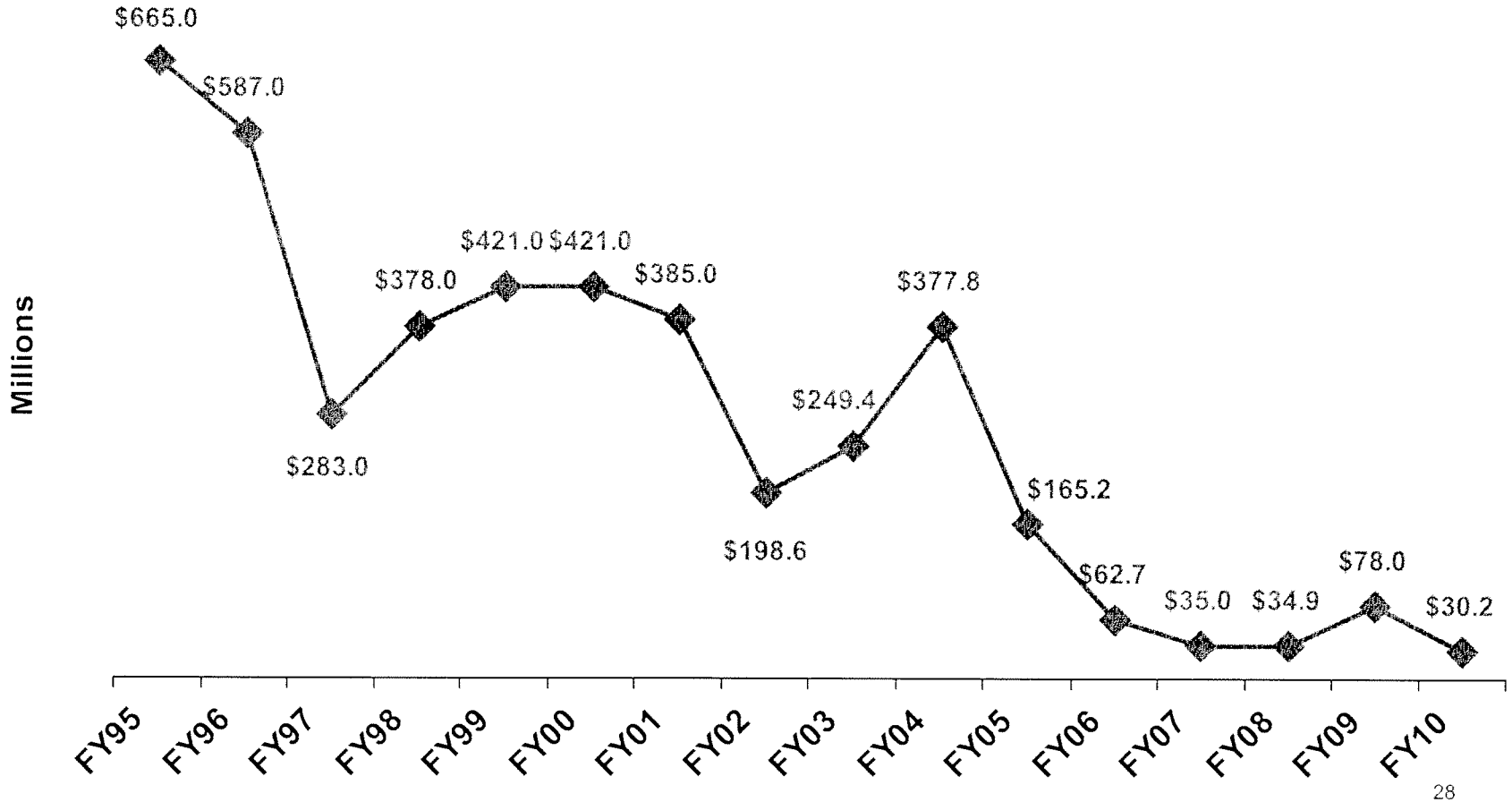
Issue: Funding Levels
GF/GP Contribution to Schools

FY 2009-10 GF/GP contribution to schools is at the lowest level.



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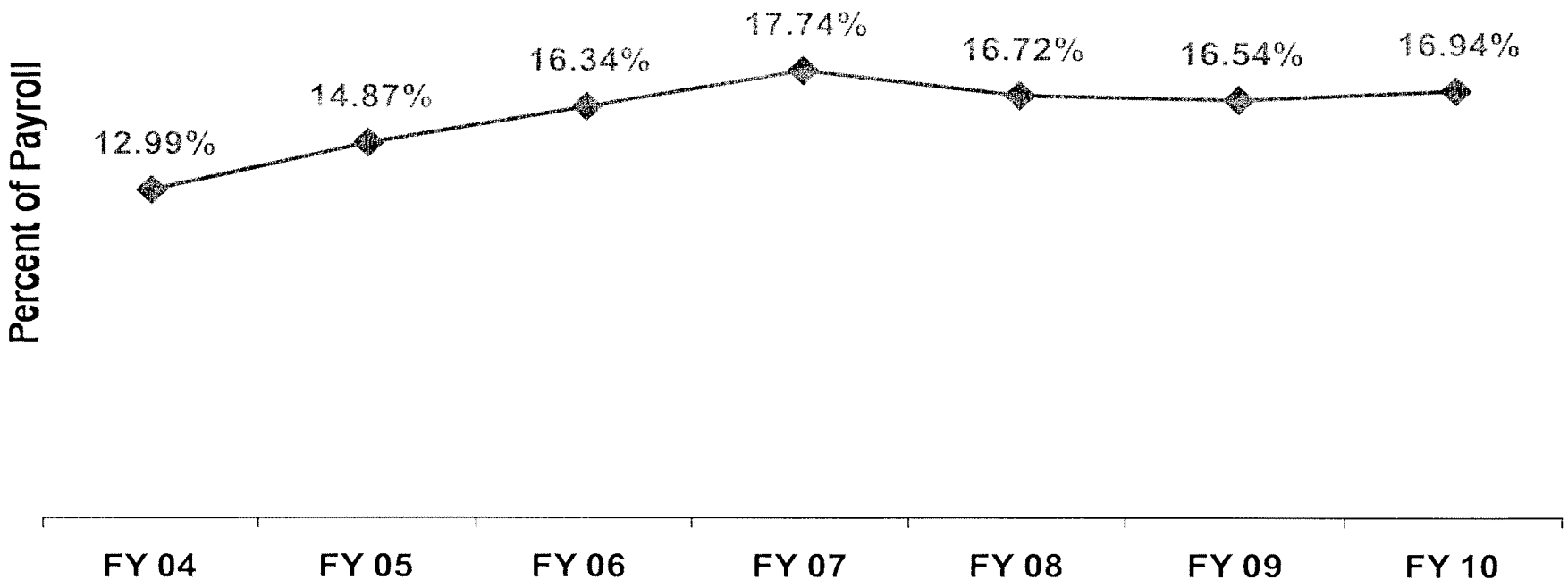
Issue: Funding Levels
District Retirement Contributions

Local districts have been paying an increasing percent of payroll for retiree pension and health care costs; however, recent costs decreased due to a FY 2007-08 revaluation of the pension system assets.



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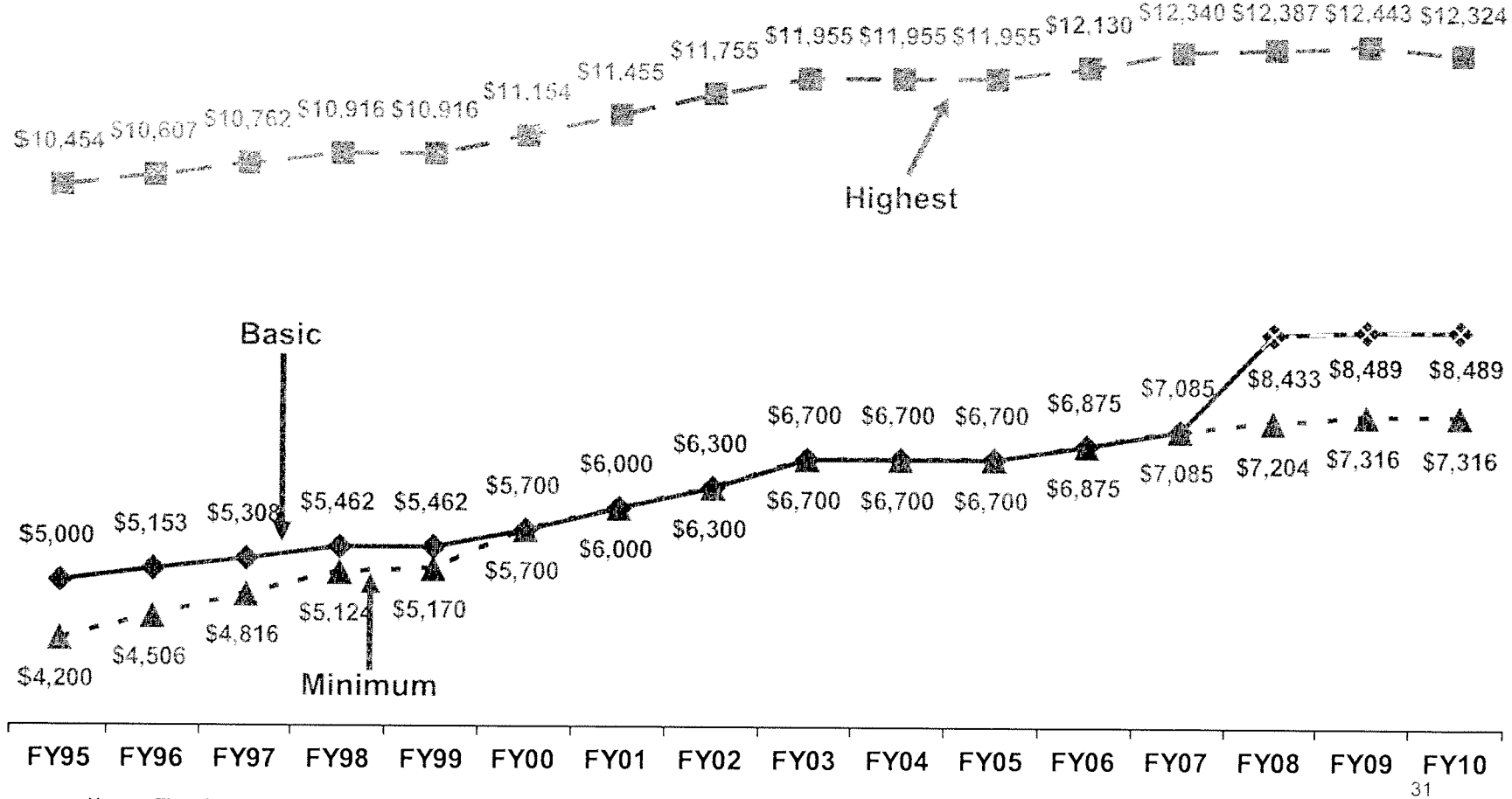
Issue: Equity Among Districts

- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost $6,900 or 3:1.
- In FY 2009-10, the difference between the highest and lowest is $5,127, less than 2:1.
- In FY 1994-95 there were 356 districts and public school academies below the basic foundation allowance.
- By FY 1999-2000, all districts and public school academies were at or above the basic foundation allowance.
- In FY 2009-10, there are 397 districts at the minimum foundation allowance, and 44 districts above the new basic, with everyone else in between.

Issue: Equity Among Districts

Funding Levels

In FY 2007-08 the basic was increased to the state-guaranteed maximum foundation allowance.



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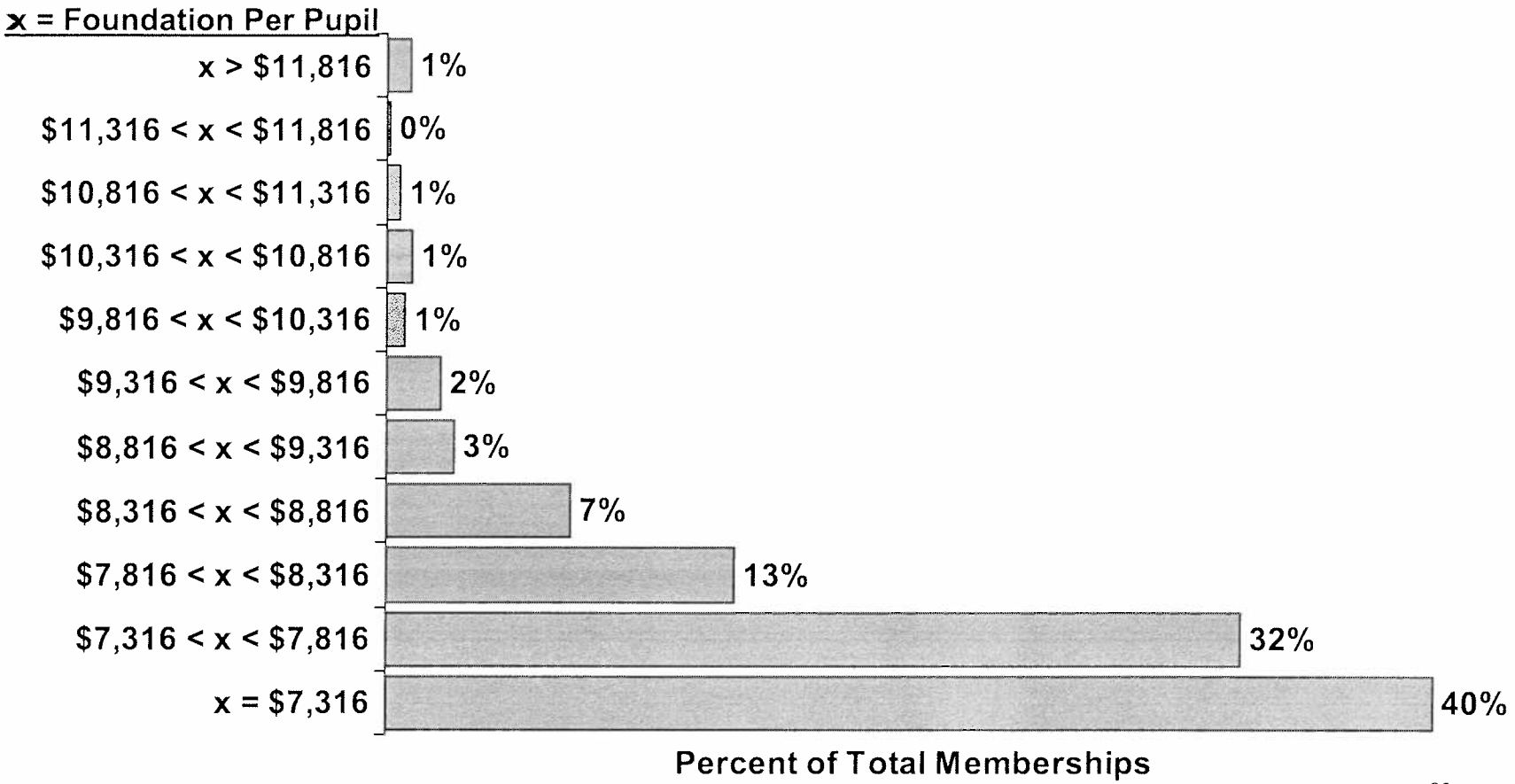
Issue: Equity Among Districts

FY 2009-10 Pupil Distribution

72% of pupils are concentrated in districts with a foundation revenue per pupil of less than $7,816.



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Issue: Public School Academies (Charter Schools)

- A public school academy is a special type of public school formed by individuals or groups of individuals to use a special educational approach or serve a particular school population.

- Public school academies have been in existence since FY 1994-95 in Michigan.

- Charter schools are authorized to operate by universities, community colleges, intermediate school districts, and local school districts.

Facts About
Public School Academies (PSAs)

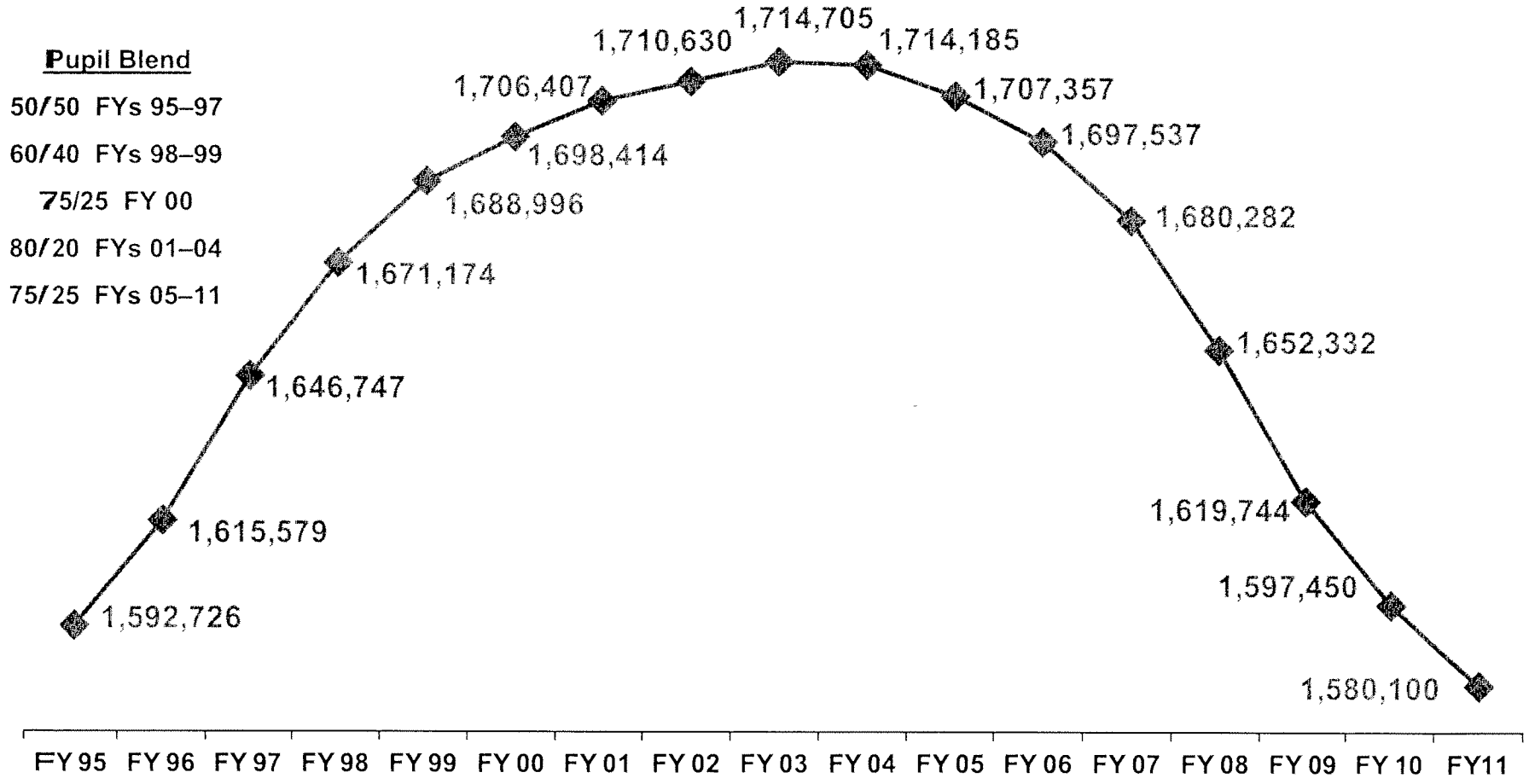
- Number: 240 schools
- Pupils: 108,650 pupils in PSA
- Average size: 450 pupils per school
- Percent of pupils in PSAs: 6.8% of public school students
- The number of public school academies that state universities may authorize is currently limited to 150.
- PSA FY 2009-10 foundation allowance equals the lower of:
  - Foundation allowance of the school district in which it is physically located

  OR
  - $7,580 per pupil

Issue: Declining Enrollment

- Fewer pupils means a loss of revenue to schools.
- 76% of all traditional districts face declining enrollment.
- The FY 2009-10 budget includes $20 million for districts to be distributed as grants based on a three-year average pupil count for those with two consecutive years of decline. The actual total cost would reach over almost $260 million, so payments will be prorated.

Issue: Declining Enrollment
Total Pupil Membership Counts



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** FY 10 and FY 11 January consensus estimates.*

Future Issues

Increasing calls for the state to address:

- School Infrastructure
  There is no state support for school infrastructure; districts may have difficulty raising sufficient local tax revenue to improve or maintain buildings.

- Local Revenue-Raising Ability
  Some districts want the authority to raise local mills to enhance school funding.

Further Information

Michigan School Aid Act Compiled

Complete School Aid Act with explanatory appendices

http://www.house.mi.gov/hfa/schoolaid.html

For more information about the School Aid budget, contact:

Mary Ann Cleary
mcleary@house.mi.gov

Bethany Wicksall
bwicksall@house.mi.gov

(517) 373-8080