

**Summary: Conference Report
SCHOOL AID FY 2003-04
House Bill 4401**



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Budget Overview

The School Aid budget makes appropriations to the state's 554 local school districts, 184 public school academies, and 57 intermediate school districts for operations and certain categorical programs. It also appropriates funds to the Departments of Education, Career Development, and other agencies to implement certain grants and other programs related to K-12 education. There is currently a school aid budget in place for FY 2003-04.

Summary of Major Budget Issues

Foundation Allowances – Per-pupil foundation allowances, which are used to support day-to-day school operations, remain at the FY 2002-03 level.

School Aid Stabilization Fund – Sets up the School Aid Stabilization Fund within the School Aid Act. Also allows the stabilization fund to transfer funds to the school aid fund if there are insufficient funds in the school aid funds.

Revenue Sources – The Conference Report assumes \$100 million in new revenue from the refinancing of the School Bond Loan Fund debt, \$50 million in new money from two new lottery games, and \$4.3 million from the closing of tax loopholes. It also assumed a \$328.8 million General Fund contribution to the School Aid Fund and \$17 million from the Merit Award Trust Fund.

Retirement Rate Freeze – The percentage of payroll contribution rate that districts are required to pay for school retirement would remain at the FY 2002-03 level of 12.99%, saving districts an estimated \$133 million in FY 2003-04.

Adult Education – This program was recommended to be reduced by \$57.5 million to \$20 million.

Membership Blend – The blend used to calculate foundation allowance payments would be the sum of 80% of the current fall pupil count plus 20% of the previous February's count, the same as current law.

Categorical Programs Eliminated – The following are programs recommended to be eliminated from the School Aid budget: School Health Curriculum grants, Accreditation Assistance to the Department, Golden Apple Awards, and the Autism grant to Grand Valley State University.

Reform Board Allocation – The Conference Report eliminated language that would allocate \$15 million on a per-pupil basis to the Detroit school district in FY 2003-04 as long as the district is operated under a reform board.

	FY 2002-03 YTD (as of 3/6/03)	Executive	House	Senate	Conference	Difference: Conference to 2002-03 YTD	
						Amount	%
IDG/IDT	\$0	\$0	0	0	0	\$0	0.0
Federal	1,219,825,200	1,244,363,100	1,242,733,900	1,315,612,300	1,316,255,800	96,430,600	7.9
Local	700,000	0	0	0	0	(700,000)	(100.0)
Private	0	0	0	0	0	0	0.0
Restricted	11,164,441,400	11,223,600,000	11,063,658,400	10,955,778,600	11,009,820,500	(154,620,900)	(1.4)
GF/GP	198,413,500	0	206,870,100	306,800,000	260,100,000	61,686,500	31.1
Gross	\$12,583,380,100	\$12,467,963,100	\$12,513,262,400	\$12,578,190,800	\$12,586,176,300	\$2,796,200	0.02

The numbers in the table above reflect the change from FY 2002-03 appropriations, after a 3.8% proration. FY 2004 conference restricted number includes \$22 million from the School Aid Stabilization Fund.

<u>Major Budget Changes from FY 2003-04 YTD Appropriations:</u>		<u>YTD FY 2003-04</u>	<u>Conference Change FY 2003-04</u>
1. Durant Debt Service	Gross	\$40,000,000	(\$39,859,000)
The Executive recommended a reduction of \$39.9 million from the refinancing of the bonds. The House, Senate and Conference concurred with the reduction.	GF/GP	\$40,000,000	(\$39,859,000)
2. School Bond Redemption Fund	Gross	\$0	\$28,300,000
The Conference added funding to pay for the debt service on the School Bond Loan Fund to be funded from the refinancing of the school bond loans.	GF/GP	\$0	\$28,300,000
3. Proposal A Obligation Payment	Gross	\$6,953,000,000	(\$137,000,000)
The Conference report reduced the original appropriation by \$137 million to reflect changes in pupil count, taxable values, and anticipated savings due to personal property tax audits.	Restricted	6,953,000,000	(137,000,000)
4. Discretionary Payment	Gross	\$2,880,000,000	\$1,000,000
The Conference report increased the original appropriation by \$1 million, the changes reflect the following; 1) changes in pupil count and taxable values, 2) elimination of \$15 million to Detroit, and 3) an additional \$2.5 million for declining enrollment districts.	Restricted	2,880,000,000	1,000,000
5. Court Placed Pupils	Gross	\$8,900,000	(\$900,000)
The Executive and House recommended a \$2 million increase in the appropriation. The Senate recommended a \$900,000 reduction. The Conference report concurred with the Senate.	Restricted	8,900,000	(900,000)
6. Early Childhood Grants	Gross	\$2,000,000	(\$1,750,000)
The Executive recommended the elimination in funding. House recommended \$1.0 million appropriation. The Senate recommended a \$1.9 million appropriation. The Conference report appropriated \$250,000.	Restricted	2,000,000	(1,750,000)
7. ISD 0-5 Grants	Gross	NA	\$3,326,000
The Executive and House recommended a \$3.3 million for this new program. The Senate did not include the program. The Conference report concurred with the House.	Restricted	NA	3,326,000
8. Bilingual Education	Gross	\$4,212,000	(\$179,900)
The Senate recommended a reduction in state funds of \$1.1 million and new federal funds of \$1.2 million. The Conference report appropriates \$2.8 million in state funds and \$1.2 million federal funds.	Federal	0	1,232,100
	Restricted	4,212,000	(1,412,000)
9. GVSU Motor Impairment Grant	Gross	\$0	\$50,000
The Senate recommended \$150,000 to fund this new grant. The Conference report reduced the amount to \$50,000.	Restricted	0	50,000
10. Advanced and Accelerated (Gifted and Talented) Programs	Gross	\$5,000,000	(\$4,750,000)
The Executive eliminated Gifted and Talented Programs. The House reduced funding to \$1 million. The Senate reduced funding to \$1.6 million and changed the name to Advanced and Accelerated Programs. The Conference report concurred with the name change and appropriated \$250,000 for the program.	Restricted	5,000,000	(4,750,000)

<u>Major Budget Changes from FY 2003-04 YTD Appropriations:</u>		YTD FY 2003-04	Conference Change FY 2003-04
11. Vocational Education	Gross	\$31,027,600	(\$1,027,600)
The Executive and House reduced the appropriation for vocational education by \$1.0 million from current law. The Senate reduced funding by \$1.03 million. The Conference reported concurred with the Senate.	Restricted	31,027,600	(\$1,027,600)
12. Career Preparation System	Gross	\$22,200,000	(\$21,200,000)
The Executive and House eliminated funding for the Career Preparation System, which incorporates curriculum with work-based learning programs to help students make career choices. The Senate reduced funding to \$10.0 million. The Conference report reduced funding to \$1.0 million.	GF/GP	\$22,200,000	(\$21,200,000)
13. ISD General Operations	Gross	\$95,028,100	(\$3,326,000)
The Executive reduced funding to \$88.7 million. The House recommended \$91.4 million appropriation. The Senate recommended no change from current law. The Conference report decreased the funding by \$3.3 million to \$91.7 million.	Restricted	95,028,100	(3,326,000)
14. Center for Education Performance and Information	Gross	\$6,857,600	(\$3,062,700)
The Executive reduced the state appropriation for the Center for Education Performance and Information (CEPI) by \$4.1 million and eliminated funding for a contract with Standards and Poors. The House reduced the appropriation by a total of \$1.9 million and allocated \$2 million to continue a contract with Standards and Poors. The Senate appropriated \$2.0 million for CEPI and \$1.0 million of federal funds for Standard and Poors contract. The Conference report reduced the funding for CEPI operations to \$363,400 and \$1.5 million in state funds for the Standard and Poors contract.	Federal	2,357,600	(426,100)
	GF/GP	\$4,500,000	(\$2,636,600)
15. Michigan Virtual University	Gross	\$11,584,700	(\$8,584,700)
The Executive recommendation reduced the state appropriation for the Michigan Virtual University (MVU) to \$2.0 million, with \$1.0 million of this for Learning Without Limits grants. The House allocated \$1.0 million for the MVU and transferred the Learning Without Limits grants to a new section 98b. The Senate Appropriated \$4.0 million state funds and \$2.25 million in federal funds, with \$4.7 million earmarked for online professional development activities. The Conference report appropriated \$750,000 in state funds and \$2.25 million in federal funds, with \$1.25 million earmarked for professional development activities.	Federal	6,584,700	(4,334,700)
	GF/GP	5,000,000	(4,250,000)
16. Freedom to Learn (Learning Without Limits) Grants	Gross	NA	39,343,200
The House appropriated \$24.7 million in total funds and adds new language that expands a pilot program to purchase wireless technology for 6 th grade pupils. These grants were funded with \$3.5 million in state funds in FY 2003-04. The Senate funded the program with \$21.4 million in federal funds. The Conference report appropriates \$22.0 million in school aid stabilization funds and \$17.3 million in federal funds.	Federal	NA	17,343,200
	Restricted	NA	22,000,000

<u>Major Budget Changes from FY 2003-04 YTD Appropriations:</u>		<u>YTD</u> <u>FY 2003-04</u>	<u>Conference</u> <u>Change</u> <u>FY 2003-04</u>
17. Math and Science Centers	Gross	\$10,232,300	(\$5,244,600)
The Executive eliminated state funding for the 33 Math and Science Centers throughout the state, while the House reduced funding by 51% to \$5.0 million. The Senate reduced state funding by \$7.7 million and increased federal funds by \$2.5 million. The Conference report appropriated \$2.5 million in state funds and \$2.5 million in federal funds.	Federal	0	2,487,700
	Restricted	9,684,300	(7,184,300)
	GF/GP	\$548,000	(\$548,000)
18. Adult Education	Gross	\$77,500,000	(\$57,500,000)
The Executive reduced the Adult Education program by \$57.5 million and the per-participant amount from \$2,850 to \$880. The House reduced the appropriation by \$49 million to \$28.5 million and kept the per-participant amount at \$2,850. The Senate reduced the appropriation by \$58.2 million and concurred with the House on the per-participant amount. The Conference report reduced the appropriations to \$20.0 million and kept the per-participant amount at \$2,850.	Restricted	77,500,000	(57,500,000)
19. Partnership for Adult Learning	Gross	\$20,000,000	(\$19,000,000)
The Executive and House eliminated the Partnership for Adult Learning program, which provides English as a second language, GED preparation, and high school completion programs. The Senate reduced the appropriation by \$10 million. The Conference report appropriated \$1.0 million.	GF/GP	\$20,000,000	(\$19,000,000)

Major Boilerplate Changes from FY 2003-04:

Sec. 6(4). Membership Blend – RETAINED

The Executive recommended changing the membership blend upon which foundation allowance payments are calculated from a “80/20” blend—a sum of 80% of the current fall pupil count plus 20% of the previous February’s count—to a 50/50 pupil membership blend—a sum of 50% of the current fall pupil count plus 50% of the previous February’s count. The House, Senate and **Conference** report retained the 80/20 blend.

Sec. 6(4)(y). Three-Year Average for Declining Enrollment Districts – MODIFIED

The Executive would eliminate a provision that gives certain districts in the Lower Peninsula with declining enrollment the ability to use a three-year average membership, giving these districts additional pupil membership to count towards their foundation allowance payments. The House and Senate retained this provision, but expanded the language to also include districts in the Upper Peninsula. The **Conference** report concurred with the House and Senate.

Sec. 11(3). Proration Language – MODIFIED

Current law requires an across-the-board proration when revenues are expected to fall short of appropriations. The House replaced this language with a requirement for the State Budget Director to develop a fair and equitable method of reducing payments. The Senate modified the language to have districts receive an equal per pupil amount reduction. The **Conference** report concurred with the Senate with some technical modifications.

Sec. 11a. School Aid Stabilization Fund – NEW

Establishes the School Aid Stabilization Fund within the School Aid Act. Sets up an automatic transfer to the School Aid Fund if expenditures exceed revenues. If there is insufficient funds available in the fund the remaining shortfall would be prorated as stated in section 11(4).

Sec. 11b. Federal Fund Transfer to School Aid Stabilization Fund – NEW

Transfers \$22 million from general funds to the School Aid Stabilization Fund.

Sec. 11c General Fund Transfer to the School Aid Stabilization Fund – NEW

Transfers \$75 million from the general fund to the School Aid Stabilization Fund if the balance in the general fund at the end of FY 2003 is at least \$350 million.

Sec. 20(1). Basic Foundation Allowance – MAINTAINED

The Executive retained per-pupil foundation allowances at the same level as FY 2002-03. The House, Senate and **Conference** report concurred with the Executive.

Sec. 20L. School District Consolidation – MODIFIED

The Executive replaced current law language that gives consolidating districts a new foundation allowance equal to the highest foundation allowance among the consolidating districts plus \$50, with new language that would give consolidating districts a pupil-weighted average foundation allowance plus \$10. The House would give consolidating districts and districts that are annexed a pupil-weighted average foundation allowance. It would also create a consolidation incentive program that pays \$50 per pupil in a consolidated district, with payments to districts capped at \$500,000 per consolidated district. The Senate concurred with the House language giving a pupil-weighted average foundation allowance only. The **Conference** report concurred with the Senate.

Sec. 147. MPSERS Contribution Subsidy – MODIFIED

The Executive proposed to reduce the estimated percentage of payroll that districts pay for public school employee retirement from 14.37% to 12.99%, contingent upon districts in the state refinancing their School Bond Loan Fund debt. The Executive also proposed using funds in a Michigan Public School Employee Retirement System (MPSERS) stabilization subaccount to offset the difference in the contribution rates. The House, Senate and **Conference** agreed with the Executive.

New Revenue Sources for FY 2003-04

Revenue Sharing Reserve Funds

The Executive recommends transferring \$198.6 million from a Revenue Sharing reserve fund to replace the General Fund contribution to the School Aid Fund. This is a one-time revenue source. The House would instead keep the \$198.4 million General Fund contribution to school aid. The Senate appropriated \$306.8 million in General Funds. The **Conference** report appropriated \$328.8 million in General Funds.

School Bond Loan Fund Refinance

The Executive recommends transferring a net one-time revenue source to the School Aid Fund of approximately \$100 million from an anticipated refinance of School Bond Loan Fund debt. The House agreed, but assumed that \$138.7 million would be raised from the refinance. The Senate and **Conference** report concurred with the Executive.

New Lottery Revenues

Two new games were recommended by the Executive which would generate an estimated \$50 million in FY 2003-04 for deposit in to the School Aid Fund. The House, Senate and **Conference** report concurred with the Executive.

Closing Tax Loopholes

The Executive recommended closing various tax loopholes in order to raise an estimated additional \$20.3 million in revenue for schools. The House concurs with the Executive. The Senate estimated \$4.3 million in additional revenue for the closing of various tax loopholes. The **Conference** report concurred with the Senate.

Merit Trust Fund Lapse

The Senate recommended using \$17.0 million in additional revenue from Merit Trust Fund lapses. The **Conference** report did not include funding from the Merit Trust Fund.