HOUSE FISCAL AGENCY

Funding Overview

SCHOOL AID

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January 2009

The fiscal information in this background briefing is based on data through January 9, 2008.

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."

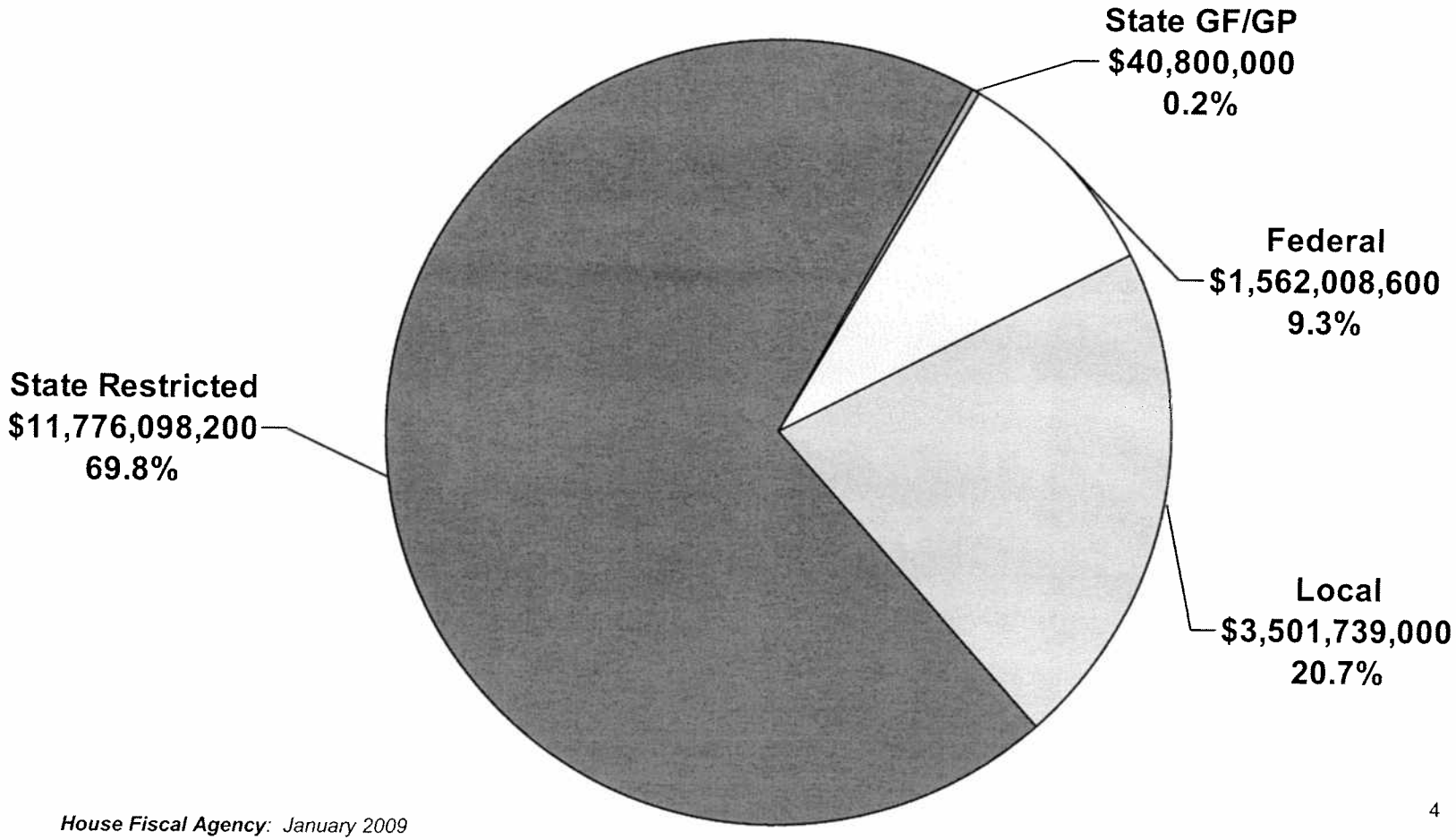
- Michigan Constitution

SCHOOL AID REVENUE

FY 2008-09 School Revenue

Most FY 2008-09 school revenue is from state resources.

Total Revenue = $16,880,645,800



Federal Revenue

- No Child Left Behind Funding = $753.0 million
- Special Education = $424.7 million
- Free and Reduced Lunch = $332.5 million
- Other Federal Revenue = $51.8 million

Local Revenue (Operational)

- 18 Mills Non-Homestead = $2,189.8 million
- Special Education Mills = $1,045.4 million
- Vocational Education Mills = $203.7 million
- ISD Operation Mills = $62.8 million

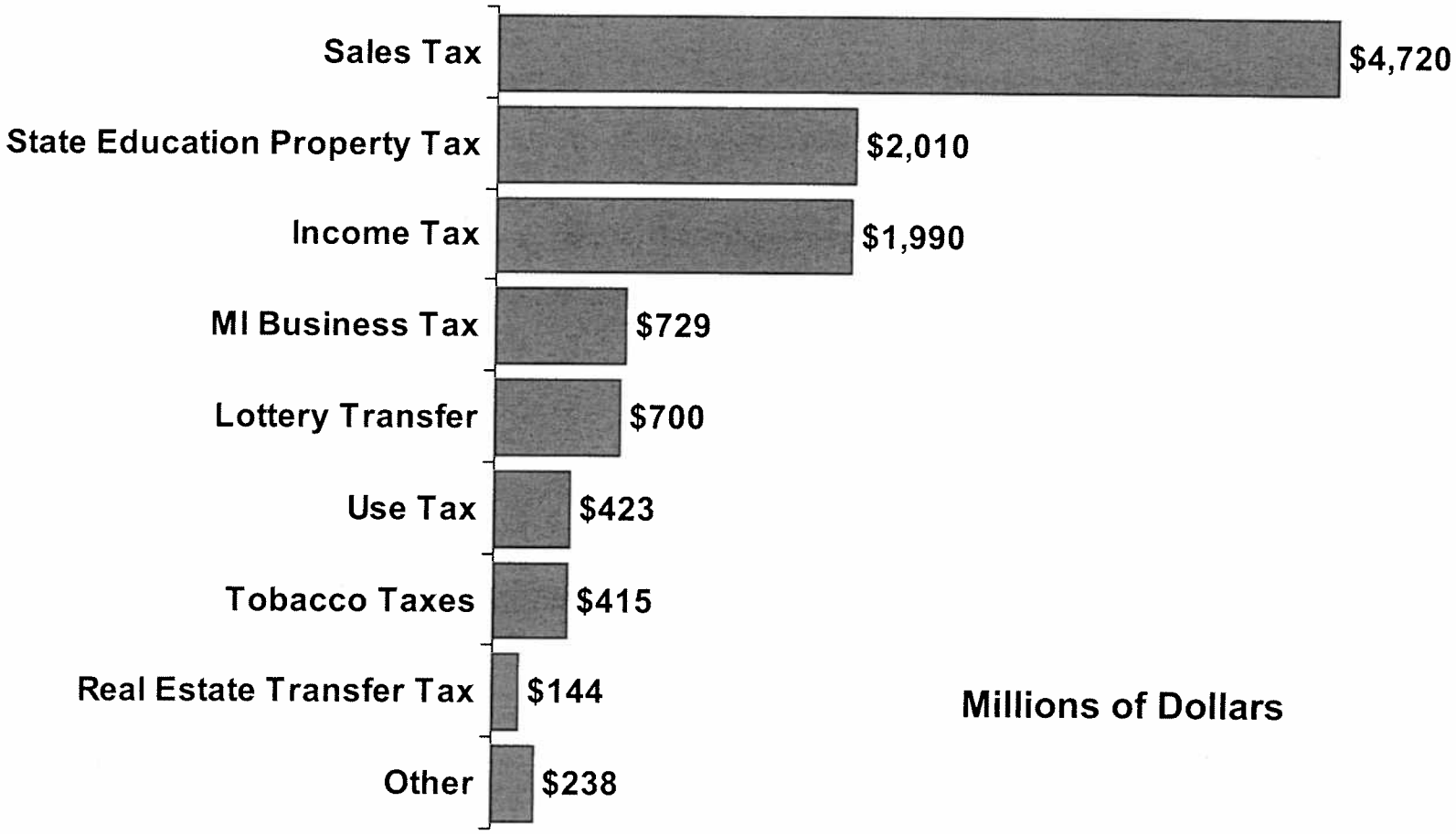
Note: Local Revenue on slides 5 and 6 does not include revenue generated from debt mills.

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 $11.4 billion in revenue for FY 2008-09.
- Largest sources of SAF revenue are shown on the next slide.

FY 2008-09 SAF Revenue

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



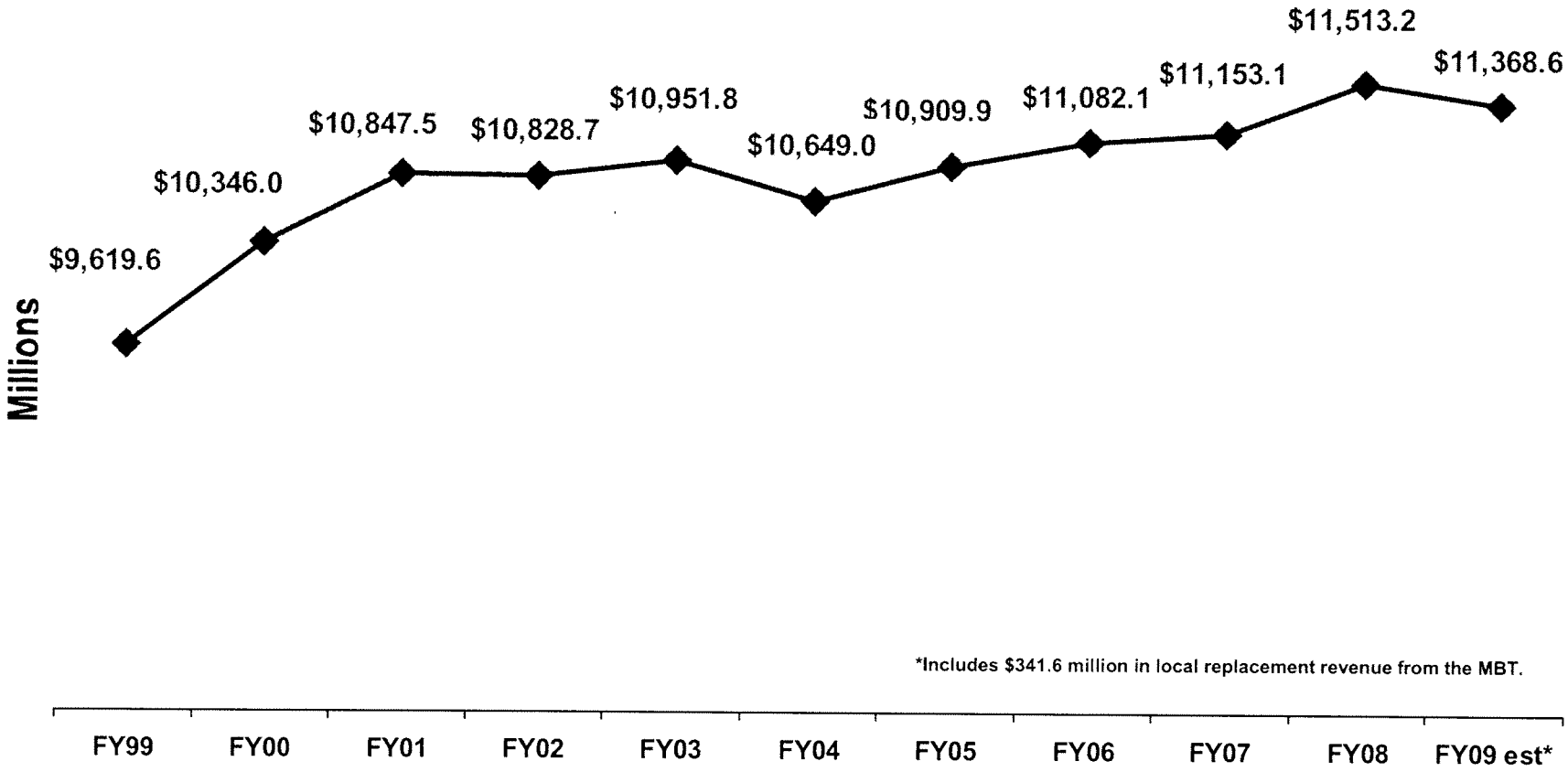
Source: January 2009 Revenue Estimating Conference.

FY 2008-09 SAF Revenue Sources

- **Sales Tax** – SAF receives 73.3% of gross sales tax revenue. Tax rate is 6%.
- **State Education Tax** – 6 mills levied on all property; SAF receives 100%.
- **Income Tax Earmarking** – SAF receives 25.95% of gross income tax revenue.
- **Lottery Transfer** – SAF receives the net revenue from lottery sales.
- **Michigan Business Tax** – SAF receives a base of $729 million beginning in FY 2008-09 which will be adjusted for inflation in following years.
- **Use Tax** – SAF receives 33.3% of gross use tax revenue. Tax rate is 6%.
- **Tobacco Taxes** – SAF receives 41.6% of cigarette tax revenue.
- **Real Estate Transfer Tax** – SAF receives 100%. Tax rate is 0.75% of the sale price of real estate.
- **Other taxes** – Includes Liquor Excise Tax, Casino Wagering Tax, Industrial & Commercial Facilities Tax, Commercial Forest Tax, and others.

School Aid Fund Growth

After four years of moderate growth, the SAF revenues are expected to decrease for FY 2008-09 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.

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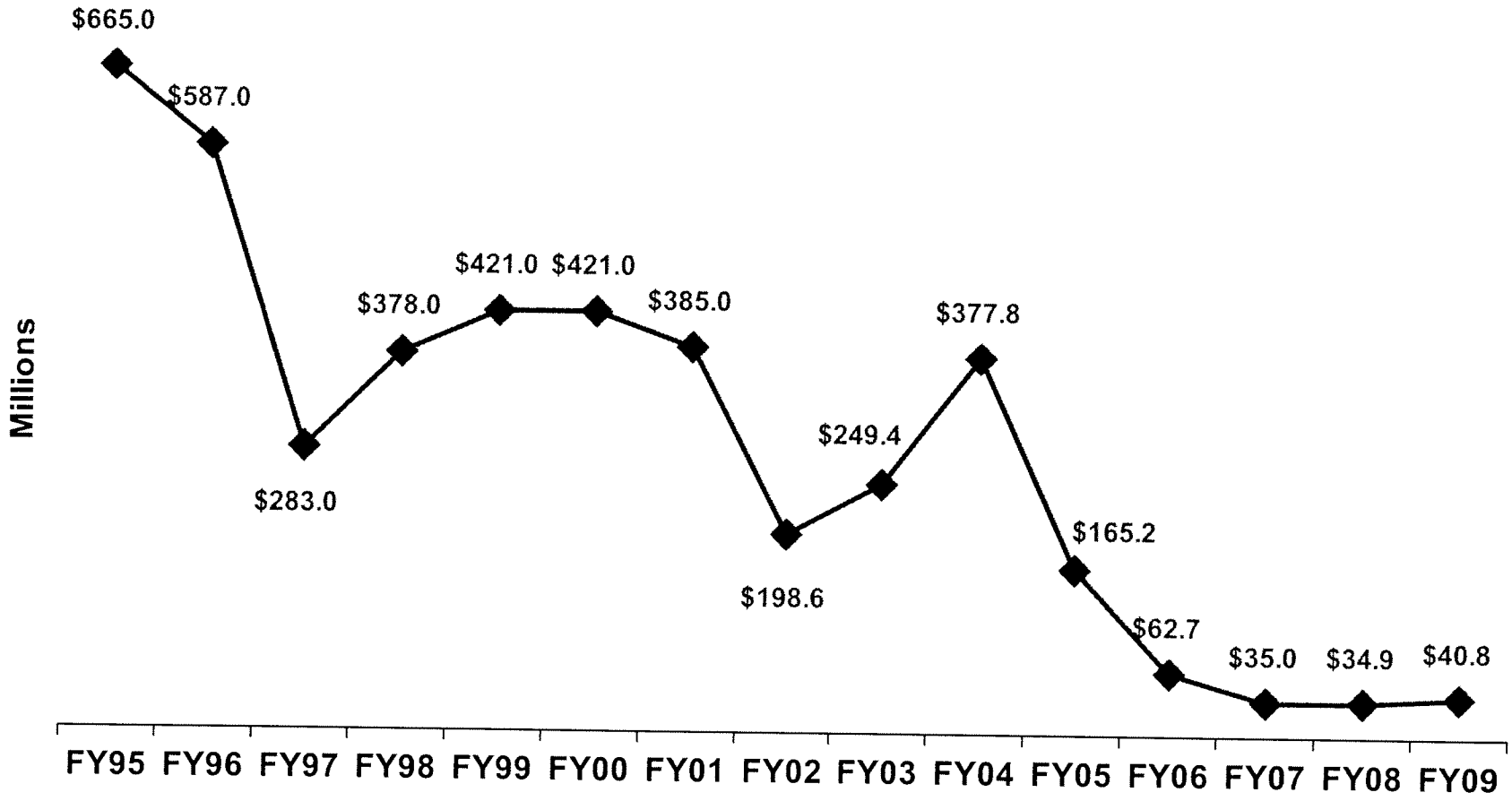
GF/GP Contribution to Schools

FY 2008-09 GF/GP contribution to schools remains at a very low level compared to past years.



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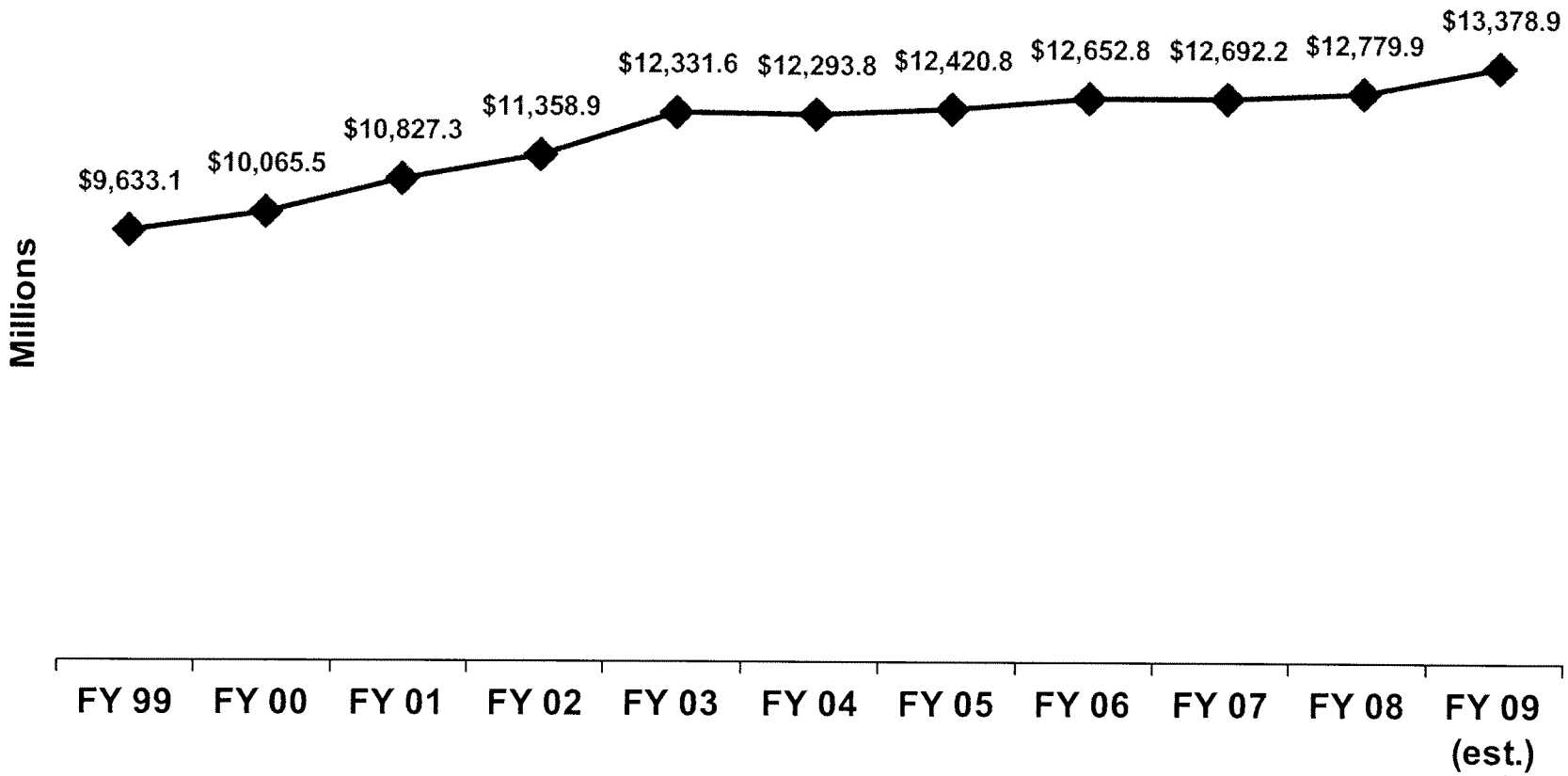
SCHOOL AID SPENDING

School Aid Expenditures

In general, School Aid expenditures have grown over the last ten 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



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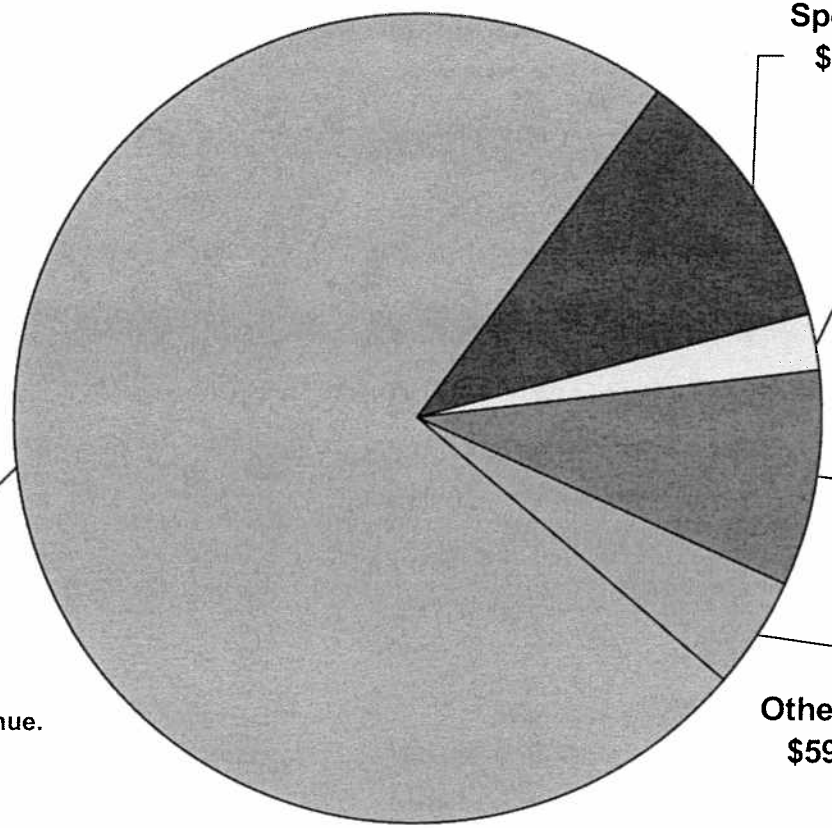
Did you know . . .

- There are 777 school districts in Michigan: 552 local districts, plus 225 public school academies.
- There are 1.62 million public school pupils in Michigan.
- The School Aid budget supports all 777 districts to provide a free education to 1.62 million pupils.

School Aid Major Spending Categories

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

FY 2008-09 Total = $13,378,906,800



* Does not include local revenue.

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School Aid Major Spending Categories

- Foundation Allowances
  - Per-pupil payment for general school operations
  - $9.9 billion in FY 2008-09
  - 73.9% of the School Aid budget

- Special Education
  - Reimburses districts for some of their special education costs
  - $1.4 billion in FY 2008-09
  - 10.8% of the School Aid budget

- At-Risk Programs
  - Additional funds to help students at risk of academic failure
  - $310.5 million in FY 2008-09
  - 2.3% of the School Aid Budget

Foundation Allowance

- School funding tied to each pupil counted in a district's membership.

- Districts receive foundation allowance (per pupil funding amount initially determined in 1994-95, based on what the district was receiving on a per pupil basis in 1993-94). Initial 1994-95 Levels:
  - Minimum level of funding established: $4,200
  - Basic level determined: $5,000
  - State Guaranteed Maximum (hold-harmless) set: $6,500

- Varies for K-12 districts from a low of $7,316 per pupil to a high of $ 12,443 in FY 2008-09.

Foundation Allowance:
State/Local Funding Mix

- Each district levies 18 mills on non-homestead property.
- State calculates local revenue from the 18 mills on a per pupil basis.
- State deducts per pupil local revenue from the lesser of foundation allowance or state maximum per pupil amount.
- Districts above the state maximum (hold-harmless districts) are allowed, by law, to levy additional mills (with voter approval) to achieve their prescribed foundation allowance.

Foundation Allowance:

State/Local Foundation Allowance Funding Examples

(Lesser of Foundation or State Max)(# of Pupils) – Local Revenue = State Revenue*

	FY 2008-09				
	Foundation Allowance	Local Non-Homestead 18- mills Revenue	State Revenue	Per Pupil Sec. 20j Payment	Local Hold-Harmless Revenue
Kakaska Schools	$7,316	$4,065	$3,251	$0	$0
Brighton Schools	$7,465	$1,742	$5,723	$0	$0
Flint Schools	$7,991	$985	$7,006	$0	$0
Waverly Schools	$9,148	$2,528	$5,686	$275	$659

Special Education

FUNDING

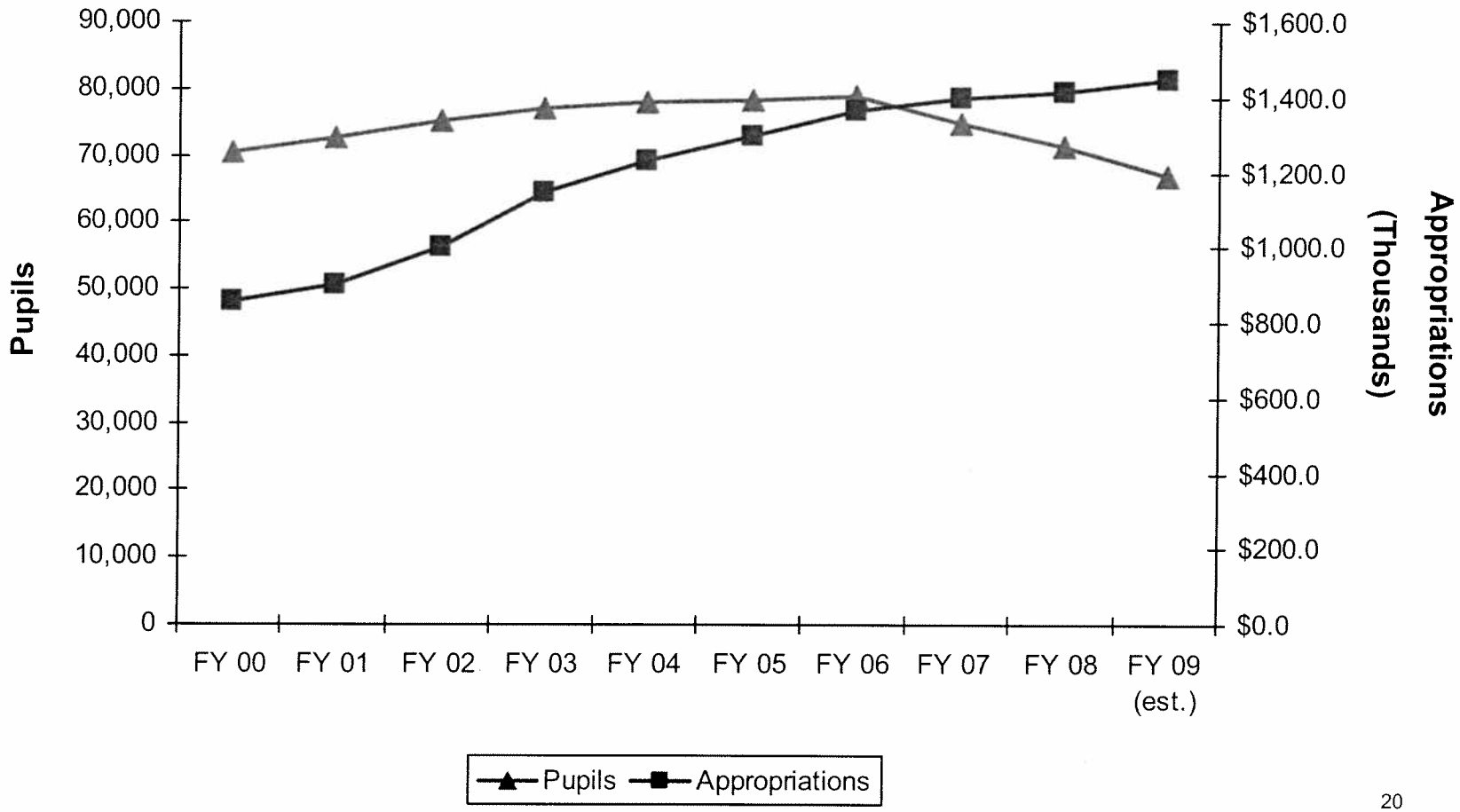
- Second largest School Aid appropriation in FY 2008-09
  - $1,023.8.0 million state dollars
  - $424.7 million federal dollars
- Reimburses school districts for the costs of educating special education students.

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.

Special Education Appropriations

Spending for Special Ed has grown by 69% since FY 1999-2000 while the number of Special Ed pupils has declined by 5% during the same period.



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At-Risk Program

- Third largest state-funded School Aid appropriation
- 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.

Public School Academies

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: 225 schools
- Pupils: 102,174 pupils in PSA
- Average size: 450 pupils per school
- Percent of pupils in PSAs: 6.3% of public school students
- The number of public school academies that state universities may authorize is currently limited to 150.
- PSA FY 2008-09 foundation allowance equals the lower of:
  - Foundation allowance of the school district in which it is physically located

  OR
  - $7,580 per pupil

MAJOR ISSUES

Major School Aid Issues

- School Aid Shortfall
- Equity
- Declining enrollment
- Future Issues:
  - Retirement Costs
  - Infrastructure financing
  - Local property taxes

Issue: School Aid Shortfall
FY 2008-09 Balance Sheet

	(Millions of Dollars)
AVAILABLE REVENUE	$13,218.6
EXPENDITURES	
P.A. 268 2008 as enacted	$13,378.9
Revised pupil count/taxable value/sped costs	($100.0)
Reduced renaissance zone payment to SAF	($22.1)
TOTAL EXPENDITURES	$13,256.8
ENDING SAF BALANCE	($38.2)

Issue: School Aid Shortfall
FY 2009-10 Balance Sheet

	(Millions of Dollars)
AVAILABLE REVENUE	$12,898.6
EXPENDITURES	
Estimated Baseline Appropriation	$13,132.9
TOTAL EXPENDITURES	$13,132.9
ENDING SAF BALANCE	($234.3)

Issue: Equity Among Districts :

The "Basic"

- 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.

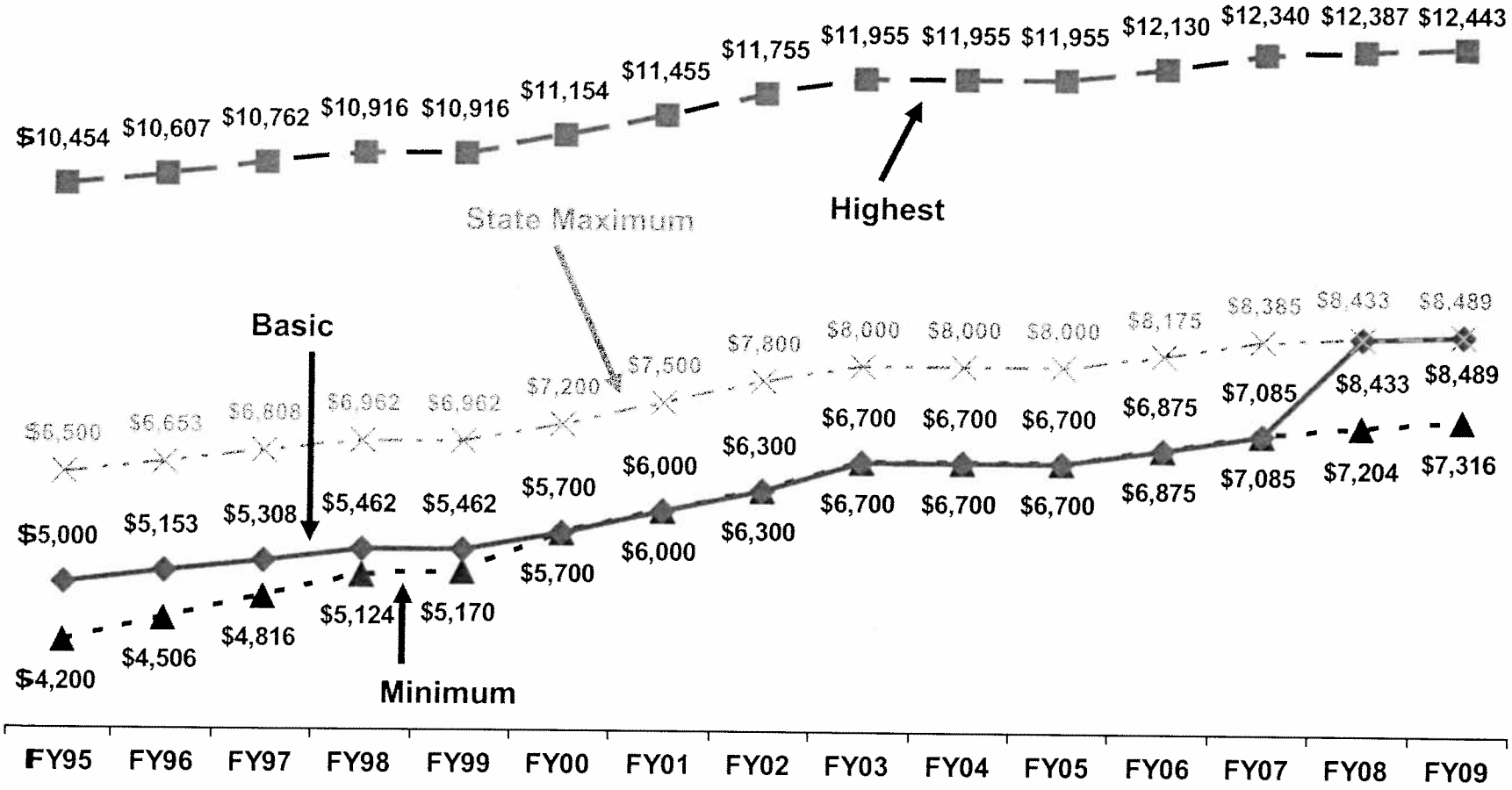
- In FY 1999-2000, all school districts in Michigan reached the basic foundation allowance, after which point all districts received the same annual increases except for two years where equity payments were made to those at the bottom.

- 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.

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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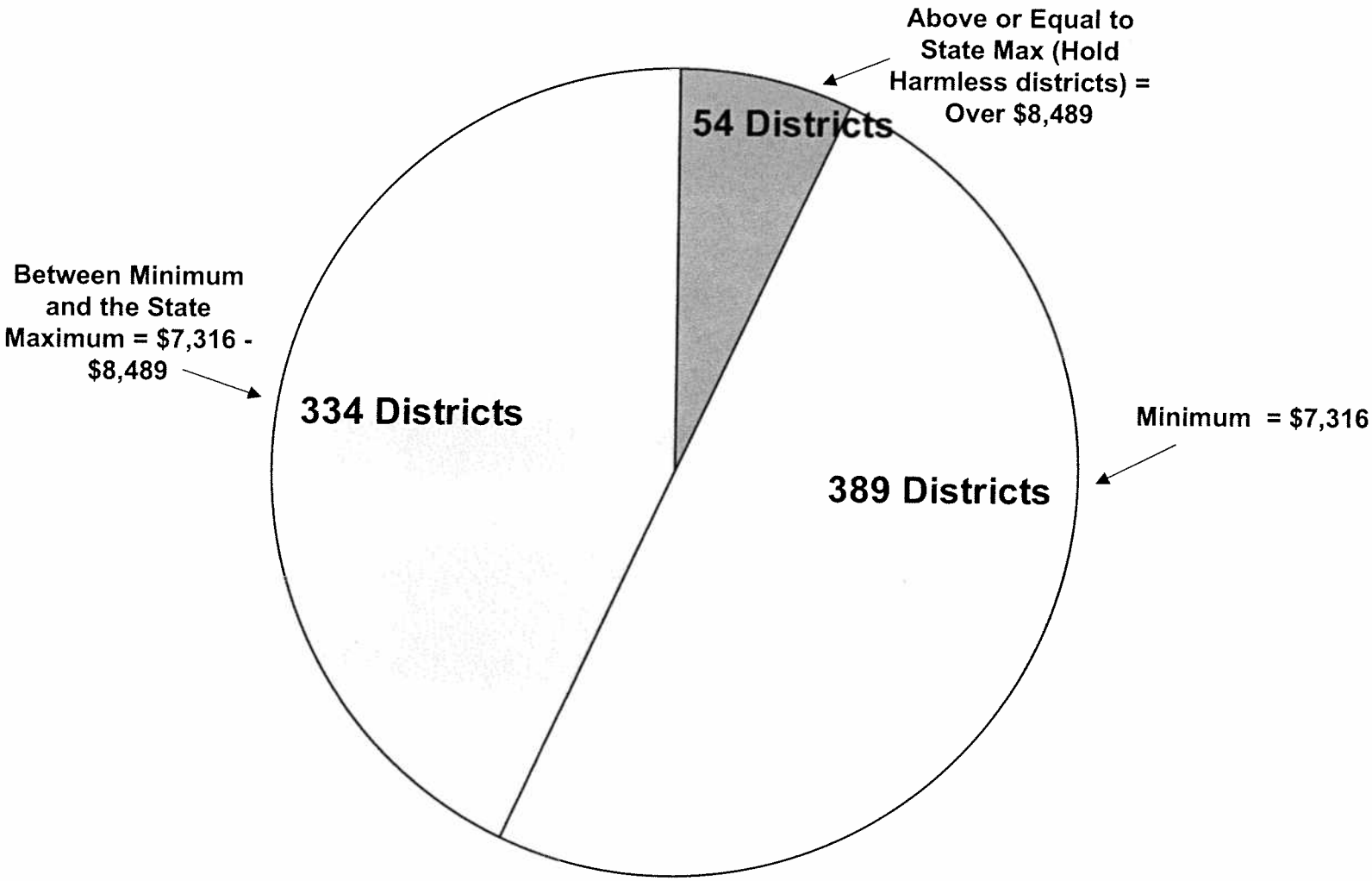
Issue: Equity Among Districts

- 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 2008-09, 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 2008-09, there are 389 districts at the minimum foundation allowance, and 54 districts at or above the new basic, with everyone else in between.

Issue: Equity Among Districts



Issue: Equity

Per Pupil Foundation Allowance Increase

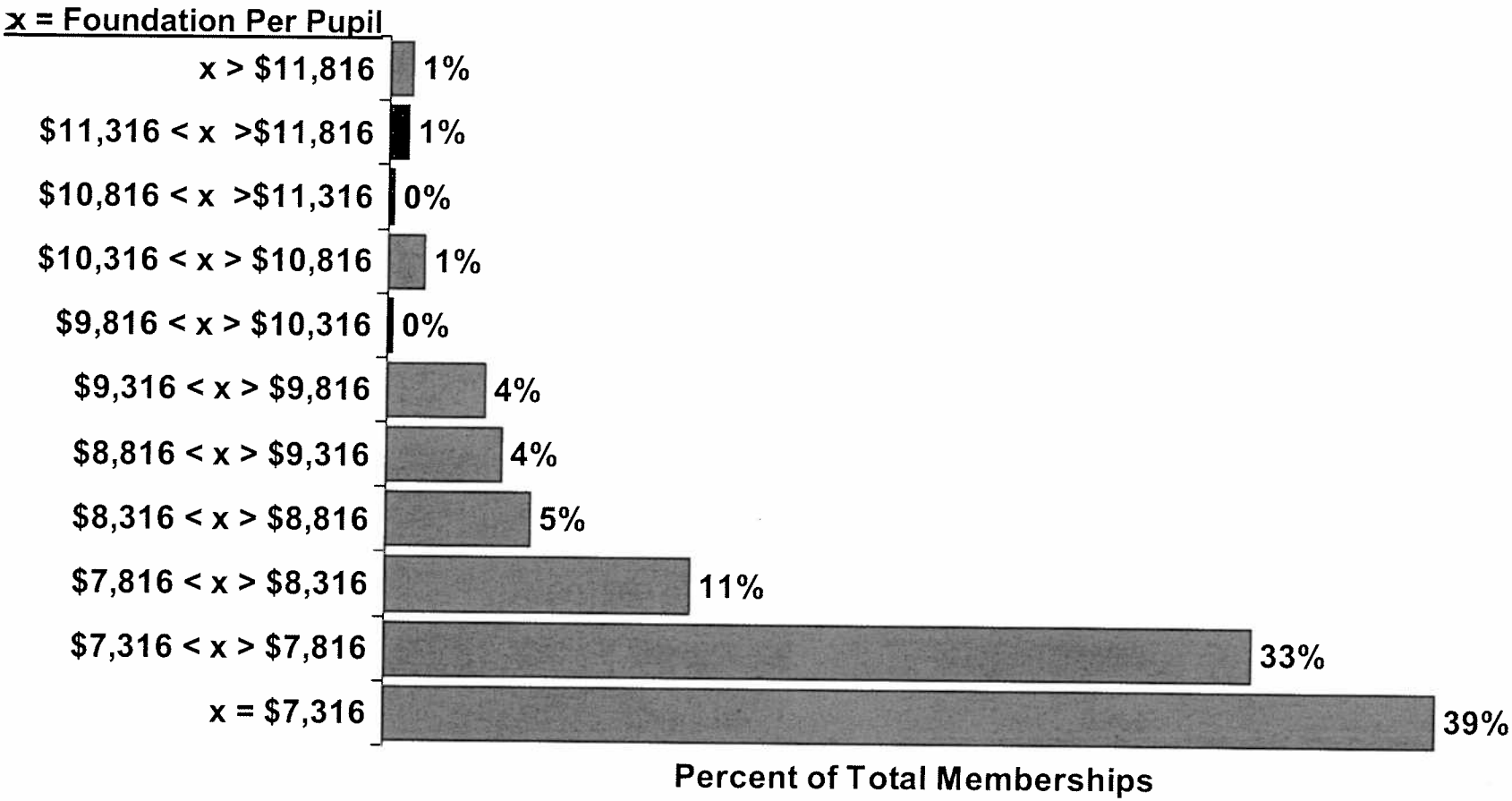
District	FY 1994	FY 2009	Dollar Change	Percent Change	Average Annual Growth
Lowest-Revenue	$3,398	$7,316	$3,918	115.3%	5.25%
District Average-Revenue	$4,675	$7,616	$2,941	62.9%	3.31%
Pupil-Weighted Average	$5,275	$7,792	$2,517	47.7%	2.63%
(K-12 only) Highest-Revenue	$10,294	$12,443	$2,149	20.9%	1.27%

Note: The Detroit CPI increased an estimated 44% during this time period for an average annual growth of 2.46%.

Issue: Equity Among Districts

FY 2008-09 Pupil Distribution

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



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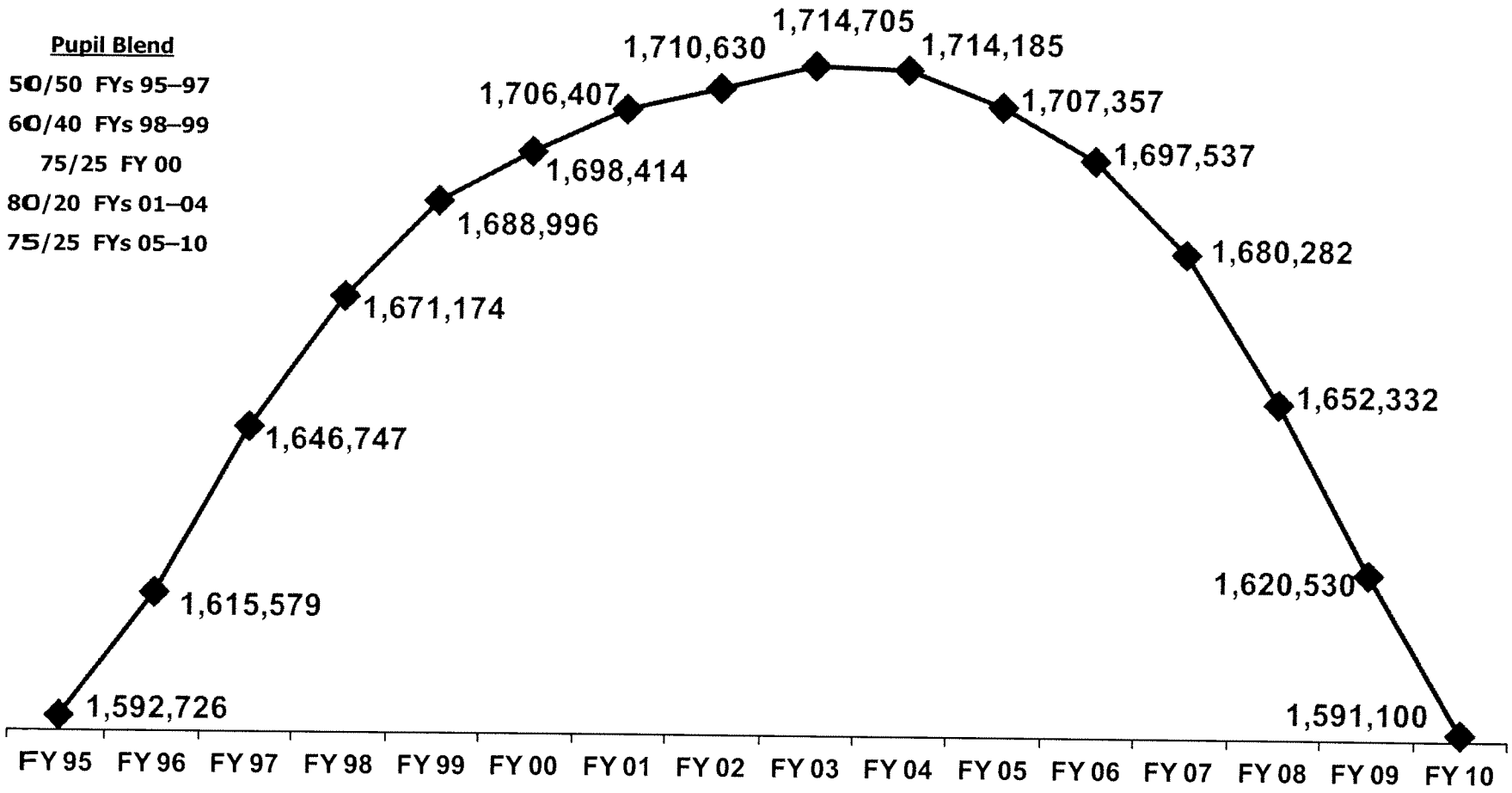
Issue: Declining Enrollment

- Fewer pupils means a loss of revenue to schools.
- 80% of all traditional districts face declining enrollment.
- The FY 2008-09 budget includes $20 million to 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 almost $280 million, so payments will be prorated.

Issue: Declining Enrollment

Total Membership Pupil Counts



***House Fiscal Agency**: January 2009*

Note: FY 09 unaudited count; FY 10 January 2009 consensus estimate

Future Issues

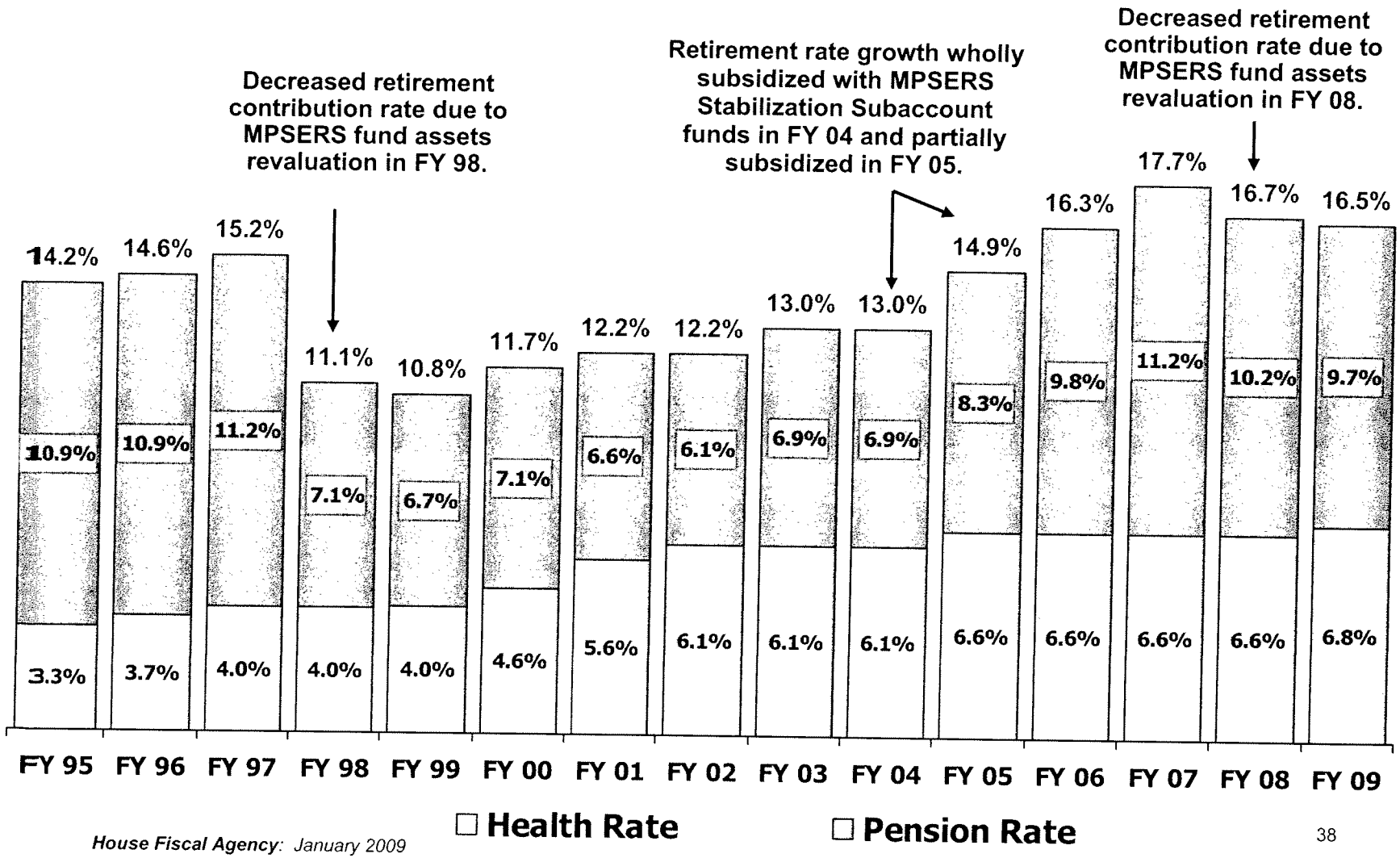
Increasing calls for the state to address:

- Schools costs are rising, particularly health care and retirement costs. Despite slight drops for the last two years, rates are expected to increase again for FY 2009-10. For FY 2008-09, retiree pension and health care benefits will equal approximately $1,000 per pupil.

- 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 Property Taxes
  - With property values decreasing, local ability to raise revenue decreases which then increases the State's funding responsibility.
  - At the same time some districts want the authority to raise local mills to enhance school funding.

School Retirement Contribution Rate



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School Aid Act vs. Revised School Code

- School Aid Act is unique compared to other budget bills:
  - The Act is done in statute and remains in effect unless amended.
  - All other budget bills have effect for one year only.
- School Aid Act contains both budget and policy directly related to education funding.
- The Code contains all other education policy including for example school organization and elections, curriculum and instruction, and teacher and school employee regulation.
- Typically School Aid issues are dealt with through the appropriations committee and School Code policy is handled through this standing committee.
- Information
  - House Fiscal Agency (HFA) will provide you with fiscal analyses of proposed legislation and detailed information on the overall school budget or individual information on your district.
  - Legislative Service Bureau (LSB) will help with drafting all bills related to the School Code and School Aid Act.

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:

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