



School Aid Funding Overview

Bi-Partisan Freshman Caucus

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The fiscal information in this background briefing is based on data through November 1, 2009.

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.”

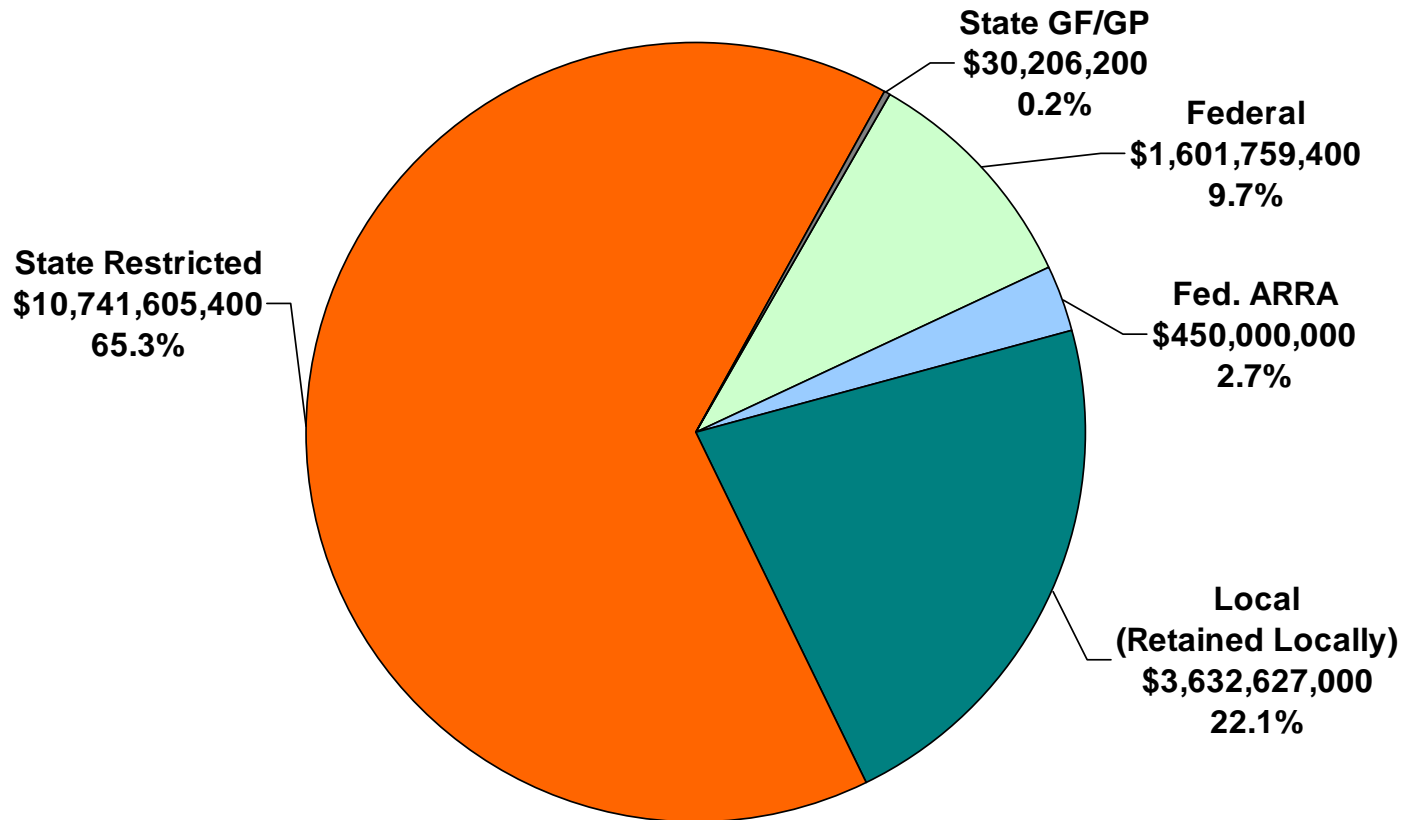
- Michigan Constitution

SCHOOL AID REVENUE

FY 2009-10 School Revenue

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

Total Revenue = \$16,456,198,000



Federal Revenue

- No Child Left Behind Funding = \$752.9 million
- Special Education = \$424.7 million
- Free and Reduced Lunch = \$372.5 million
- Other Federal Revenue = \$51.7 million
- ARRA = \$450.0 million

Local Revenue (Operational)

- 18 Mills Non-Homestead = \$2,326.5 million
- Special Education Mills = \$1,038.6 million
- Vocational Education Mills = \$204.9 million
- ISD Operation Mills = \$62.6 million

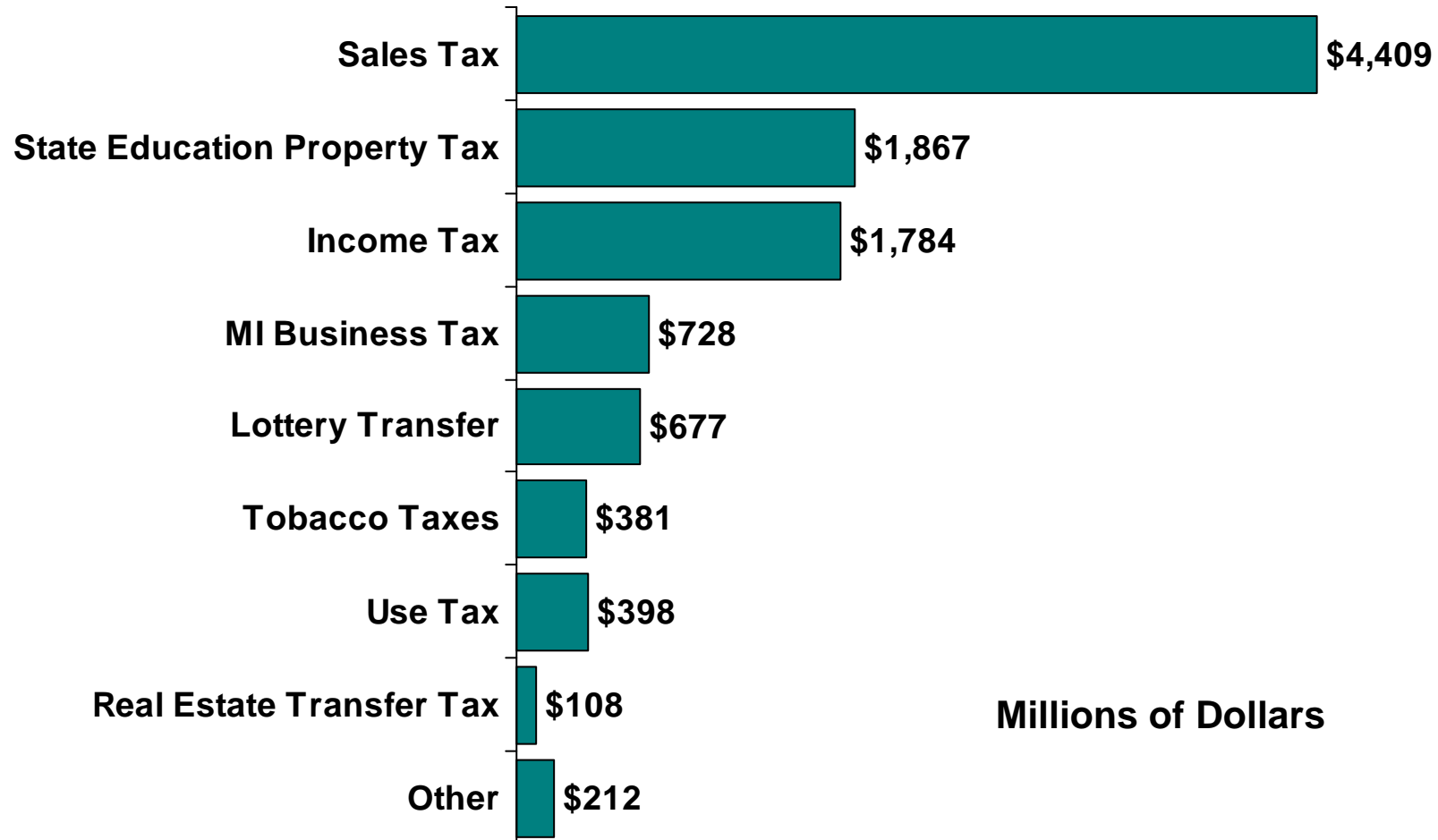
Note: Local Revenue on slides 5 and 6 does not include revenue generated from debt mills or hold harmless mills.

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 \$10.6 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.

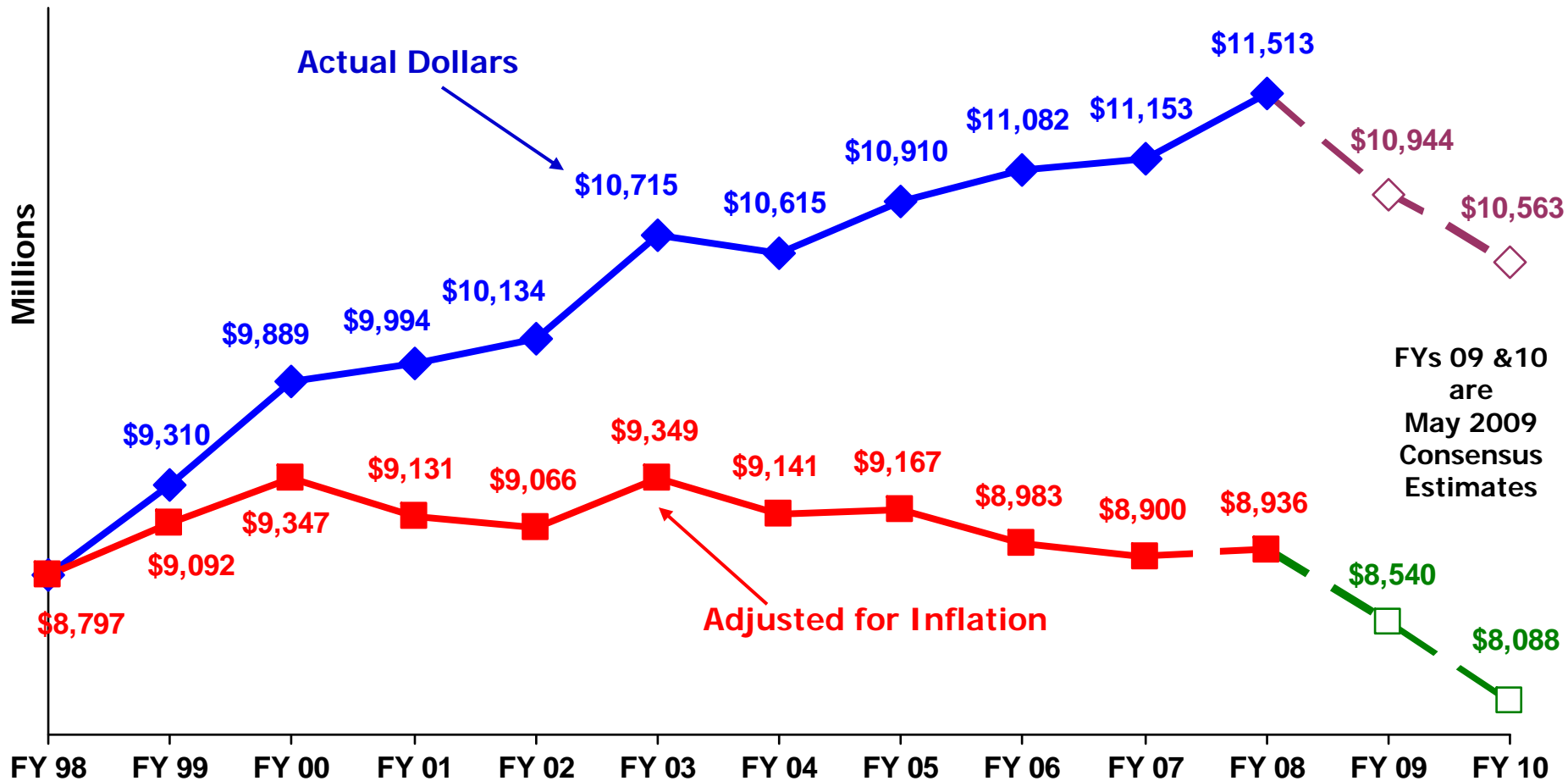


FY 2009-10 SAF Revenue Sources

- **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 23.3% of gross income tax revenue.
- **Lottery Transfer** – SAF receives the net revenue from lottery sales.
- **Michigan Business Tax** – SAF receives 4.95% tax on business income and a 0.8% tax on gross receipts less purchases from other firms.
- **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

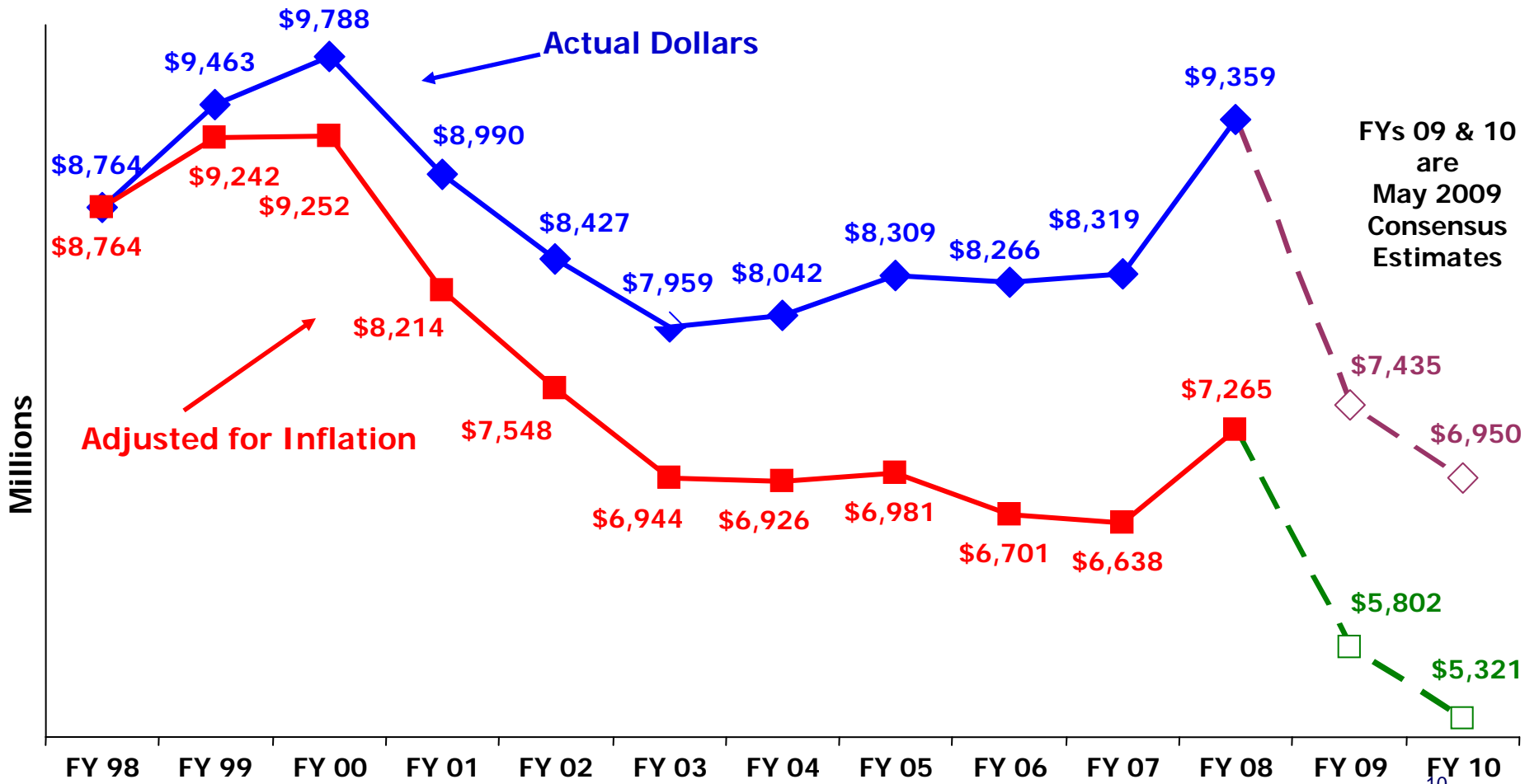
Inflation Adjusted SAF Net Revenue Down 13.5% Since FY 2000



FYs 09 & 10 are May 2009 Consensus Estimates

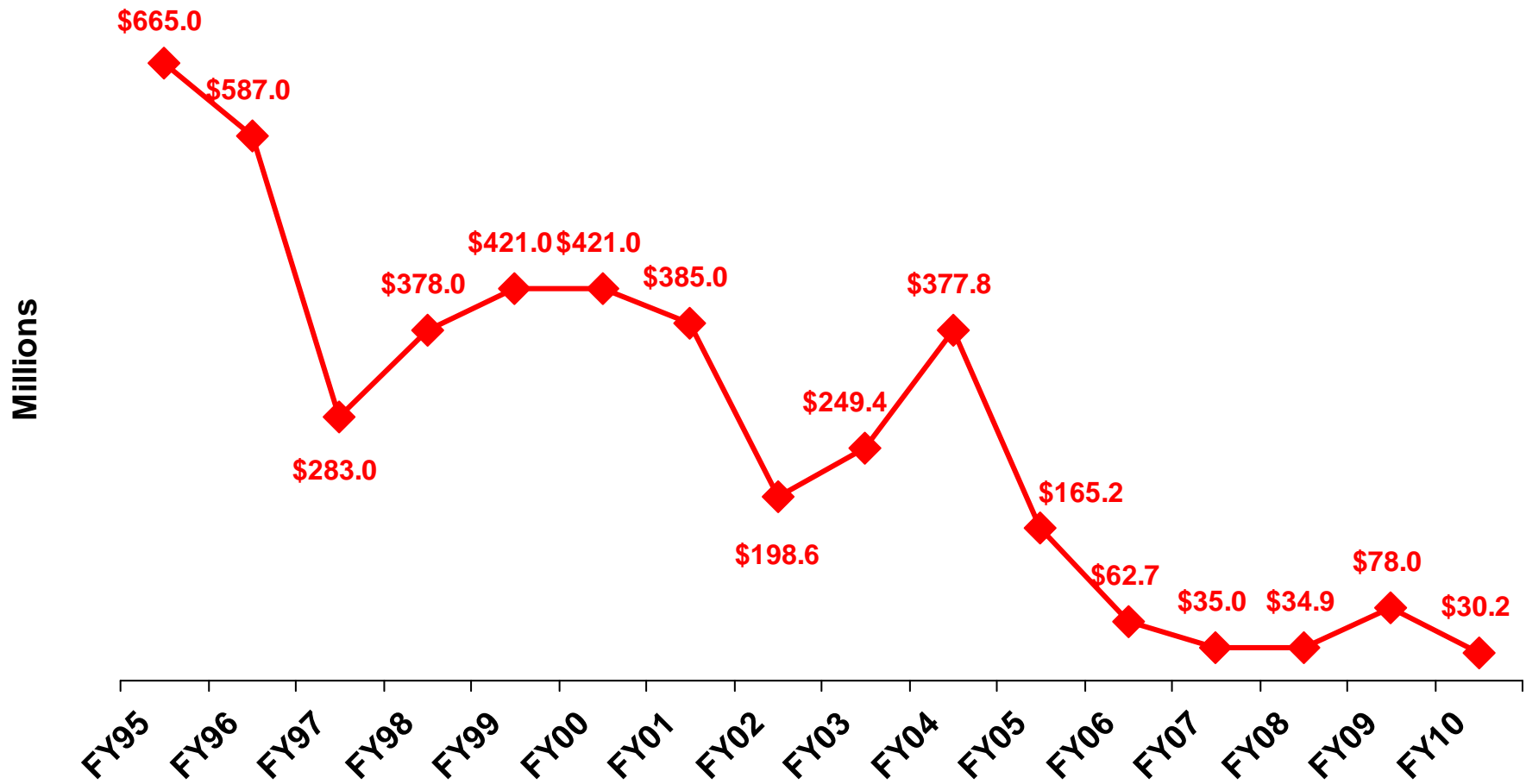
General Fund Growth

Inflation Adjusted GF/GP Net Revenue Down 42.5% Since FY 2000



GF/GP Contribution to Schools

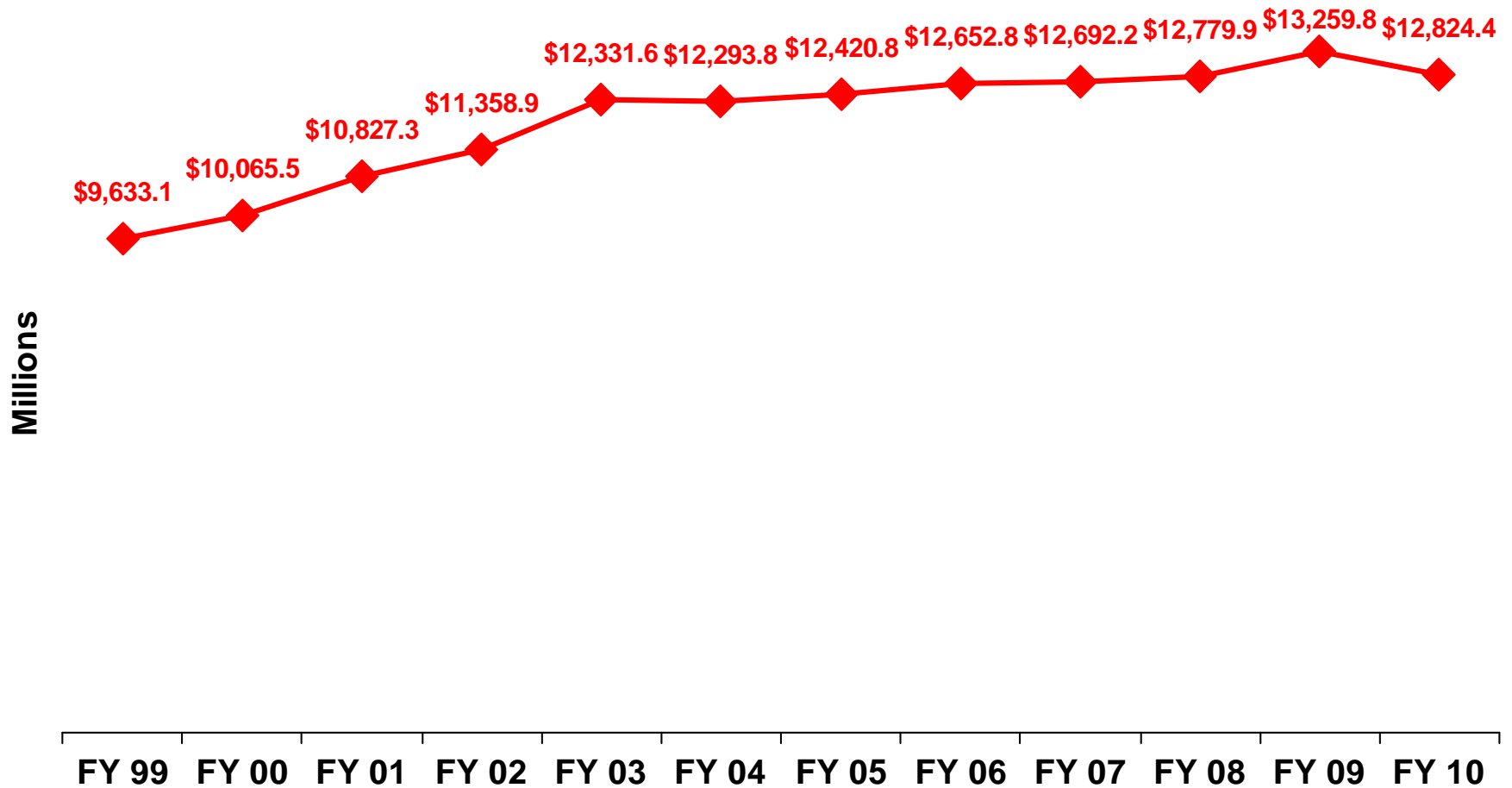
FY 2009-10 GF/GP contribution to schools is at its lowest levels since after the passage of Proposal A.



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 was largely due to the replacement of lost local revenues with state revenues from the Michigan Business Tax



Did you know . . .

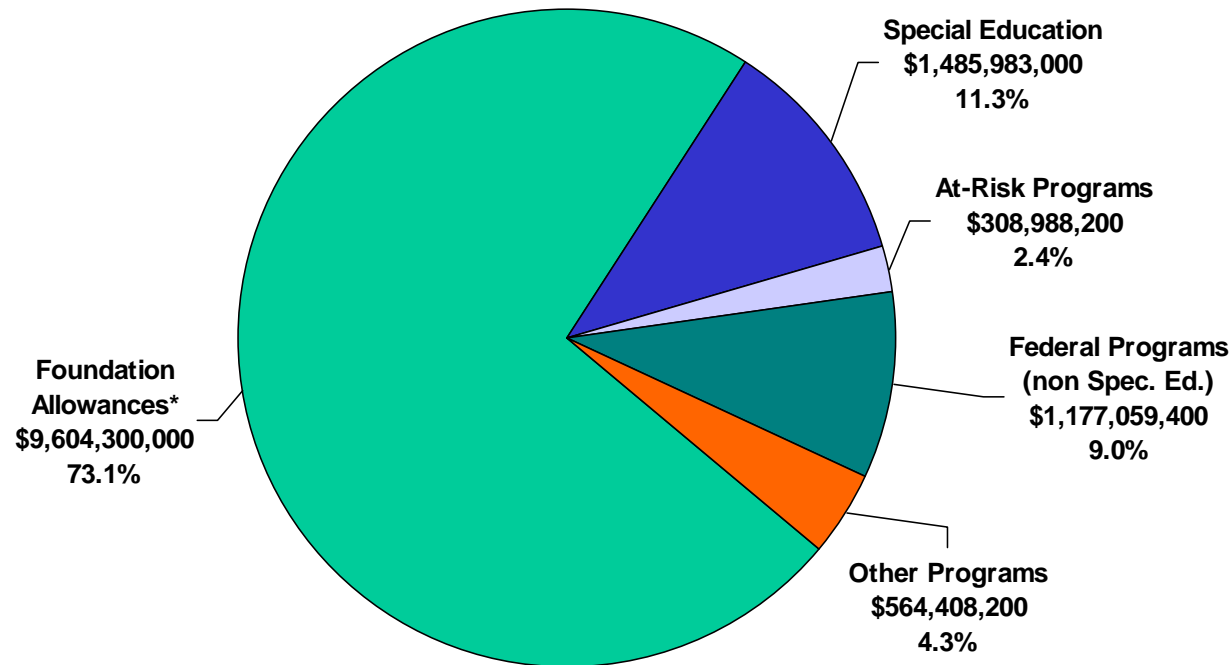
- **There are 791 school districts in Michigan: 551 local districts, plus 240 public school academies.**
- **There are 1.59 million public school pupils in Michigan.**
- **The School Aid budget supports all 791 districts to provide a free education to 1.59 million pupils.**

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.)



* Does not include local revenue.

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

	<u>Foundation Allowance</u>	<u>Local Non-Homestead 18- mills Revenue</u>	<u>State Revenue</u>	<u>Per Pupil Sec. 20j Payment</u>	<u>Local Hold-Harmless Revenue</u>
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

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: 240 schools**
- **Pupils: 105,000 pupils in PSA**
- **Average size: 440 pupils per school**
- **Percent of pupils in PSAs: 6.6% 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**

Issues: Equity and Declining Enrollment

Issue: Equity Among Districts :

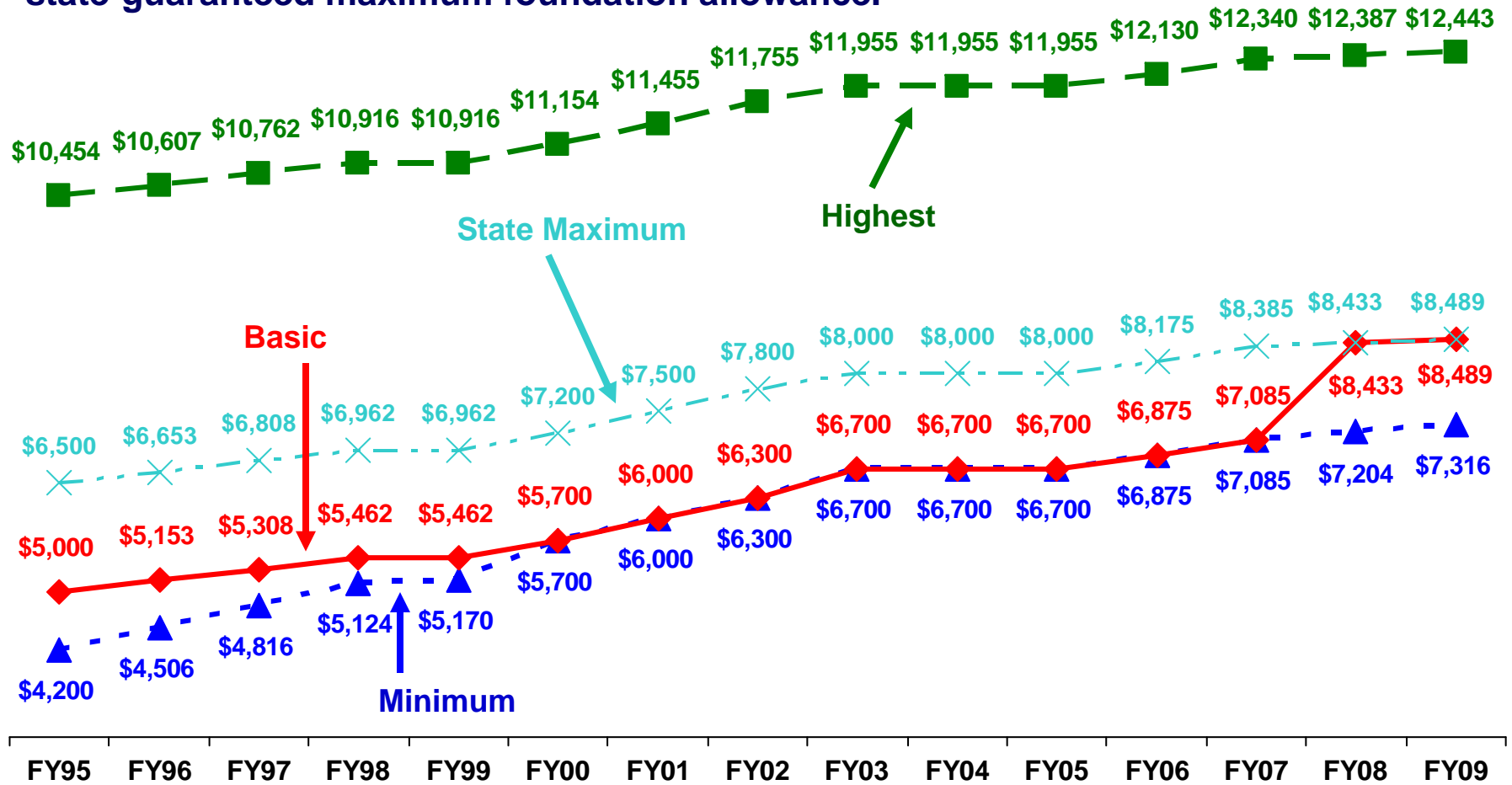
The “Basic”

- 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 reinstated 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

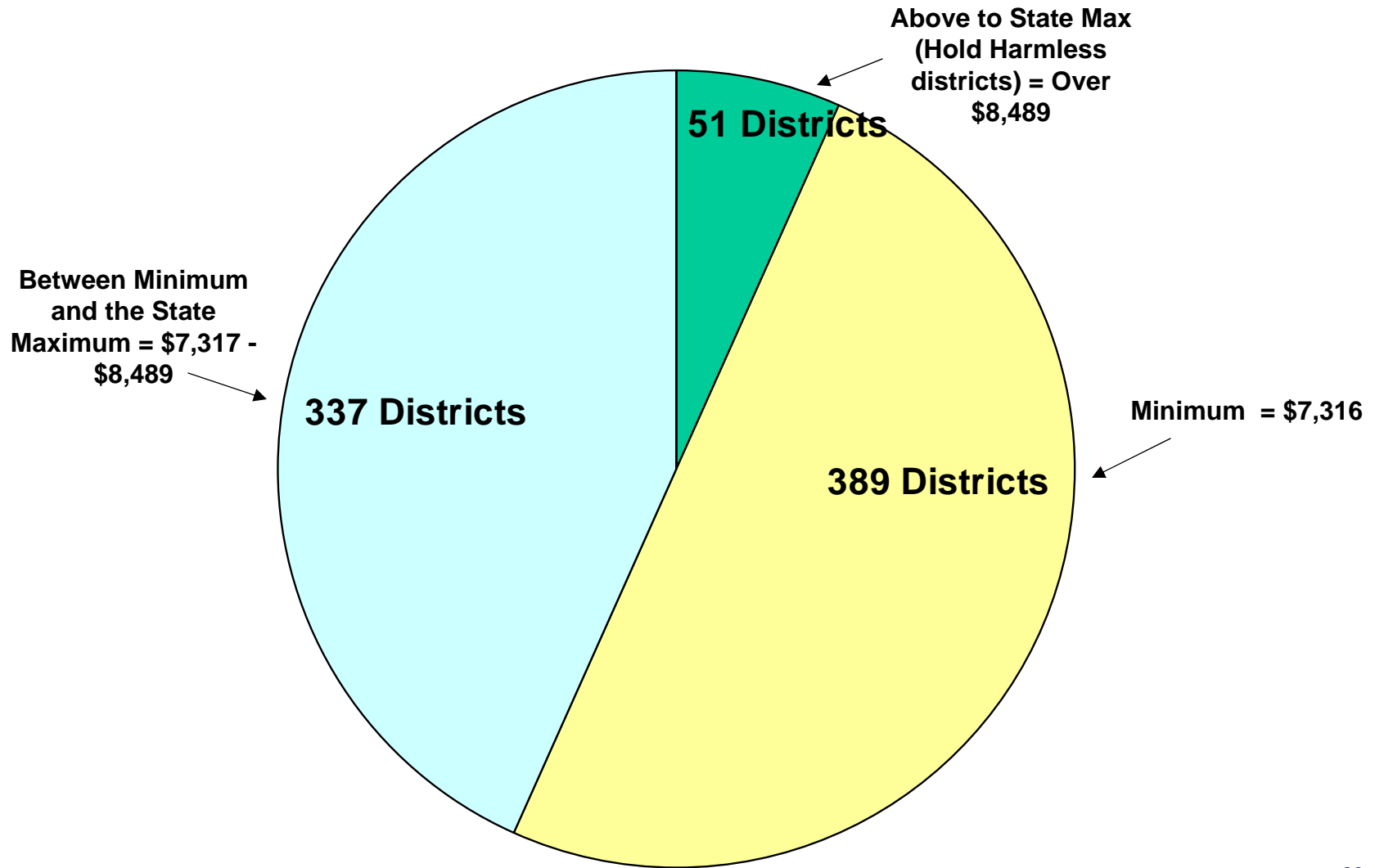
In FY 2007-08 the basic was increased to the state-guaranteed maximum foundation allowance.



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 51 districts above the new basic, with everyone else in between.

Issue: Equity Among Districts



Issue: Equity

Per Pupil Foundation Allowance Increase

<u>District</u>	<u>FY 1994</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Average Annual Growth</u>
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%

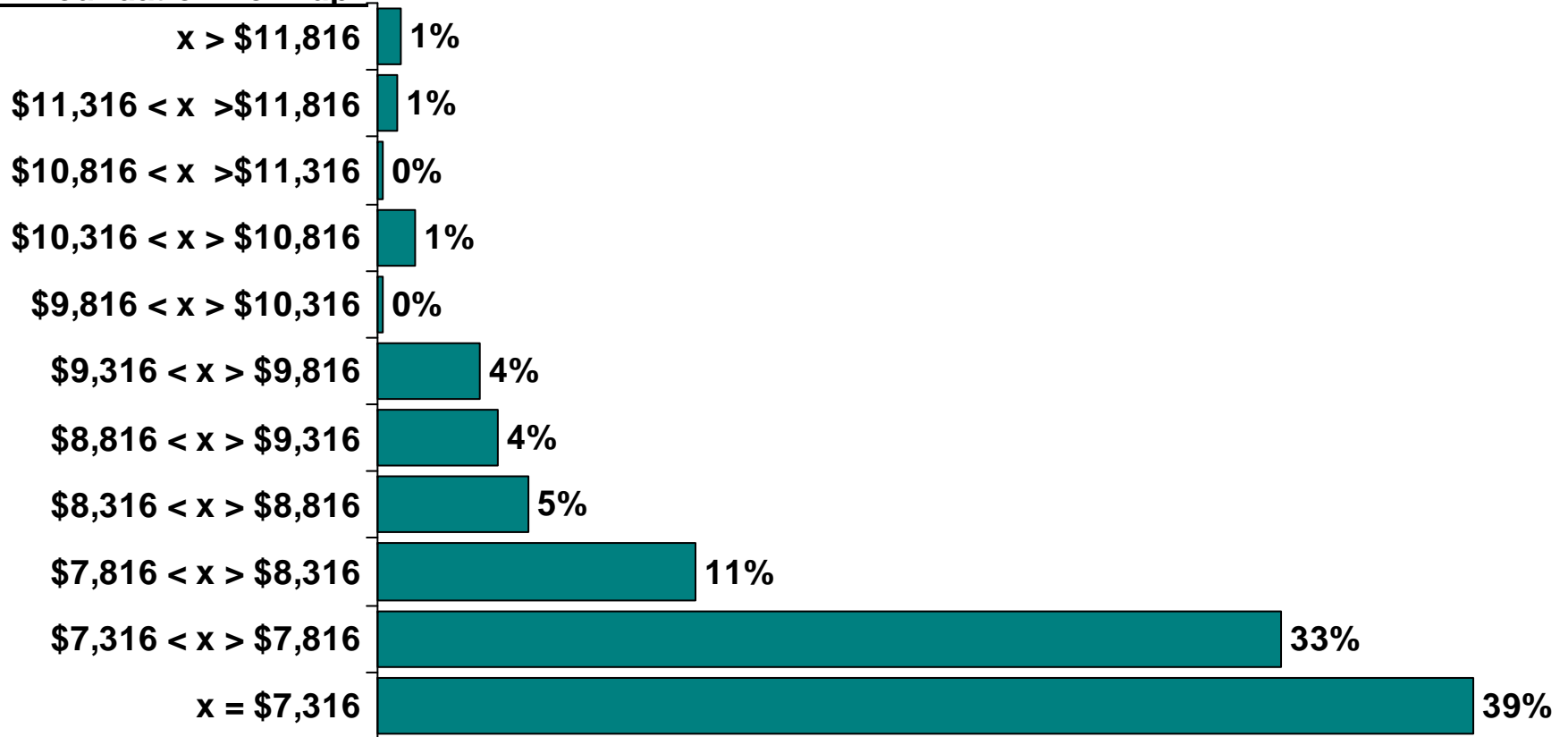
Note: The Detroit CPI increased an estimated 44% during this time period for an average annual growth of 2.46%.

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.

x = Foundation Per Pupil



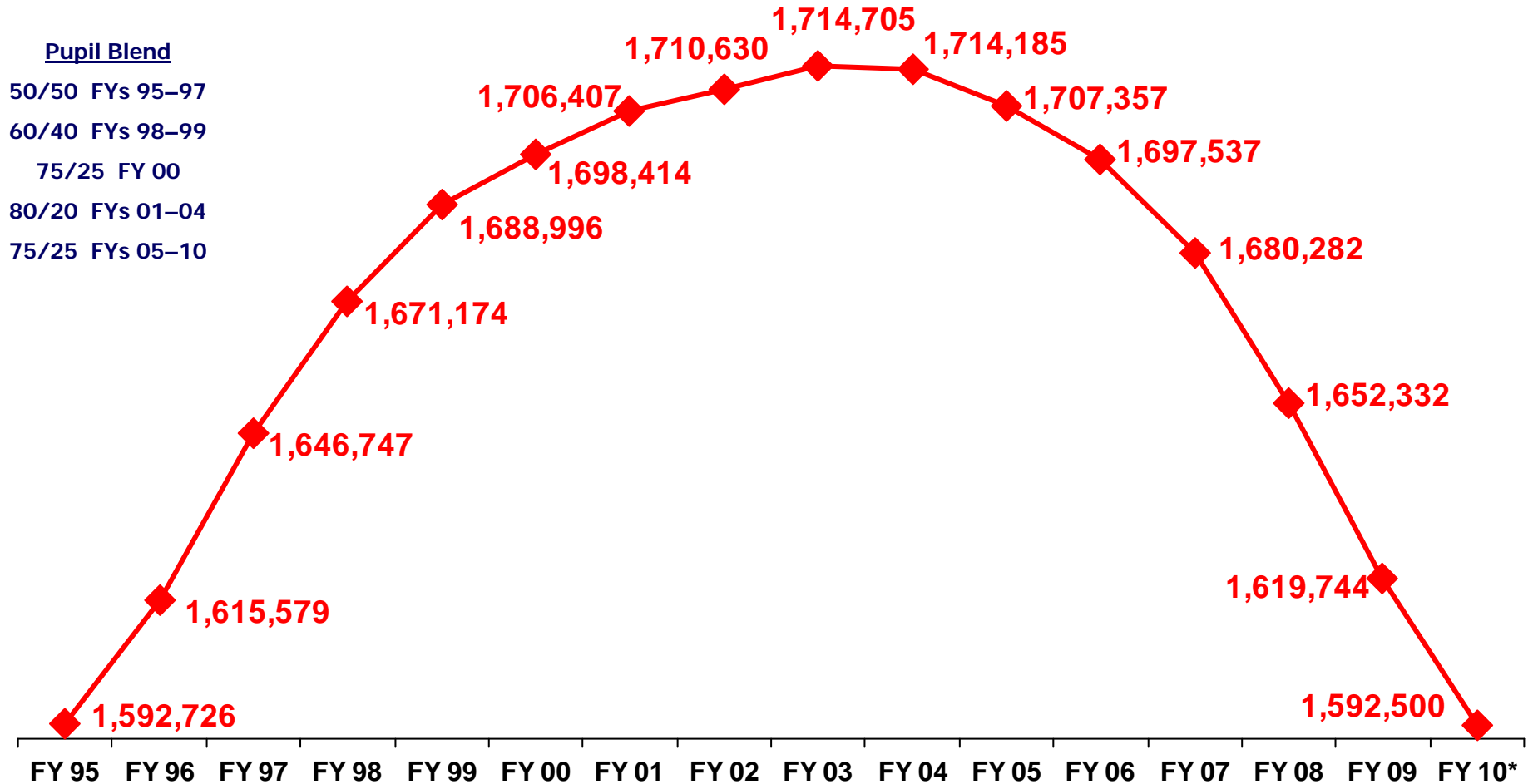
Percent of Total Memberships

Issue: Declining Enrollment

- Fewer pupils means a loss of revenue to schools.
- 80% of all traditional districts face declining enrollment.
- The FY 2009-10 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 over \$300 million, so payments will be prorated.

Issue: Declining Enrollment

Total Membership Pupil Counts



School Aid Balance Sheet

School Aid Fund Balance Sheet

	<u>Millions of Dollars</u>	
	<u>FY 2008-09</u>	<u>FY 2009-10</u>
Estimated Revenue	\$13,461.3	\$12,948.1
Estimated Expenditures	\$13,259.8	\$12,823.5
Available Year-End SAF Revenue	\$201.5	\$124.6
Available ARRA Revenue	\$634.1	\$184.1
<i>Estimated Year End Balance</i>	<i>\$835.6</i>	<i>\$308.7</i>

Source: May 2009 Revenue Estimating Conference and PA 121 of 2009.

FY 2009-10 Best/Worst Case Scenarios

- **Best Case Scenario maintain \$165 per pupil reduction**
 - Assumptions
 - Maintain beginning balance
 - No adjustment to May SAF estimate
 - NEW SAF revenues of \$100 million

- **Worst Case Scenario a reduction of \$310 per pupil**
 - Assumptions
 - Smaller beginning balance
 - Revise May SAF estimate downward
 - No NEW SAF revenues of \$100 million

- **Use of the Available ARRA of \$184.1 million will mitigate reduction by \$115 per pupil**

FY 2010-11 Best/Worst Case Scenarios

- **Best Case Scenario a reduction of \$224 per pupil**
 - **Assumptions**
 - **Maintain beginning balance**
 - **Increase in SAF revenues over FY 2009-10 levels**
 - **Available ARRA carry forward of \$184.1 million**

- **Worst Case Scenario a reduction of \$600 per pupil**
 - **Assumptions**
 - **NO beginning balance**
 - **SAF revenue growth remains flat**
 - **No available ARRA carry forward**

What Determines Best/Worse Outcome

- **? Actual Consensus Forecast in January 2010**
- **? Does the Legislature pass NEW SAF revenues**
- **? What fiscal year will the remaining ARRA revenue be appropriated**

**For more information about the
School Aid budget, contact:**

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