

DATE: 1/31/2009

TO: All Interested Parties

FROM: Bethany Wicksall
Mary Ann Cleary

RE: History of Section 20j Payments

The following memo explains Section 20j of the School Aid Act, which makes calculations for "hold-harmless districts". Because an understanding Section 20j requires understanding how foundation allowances are funded, the memo begins with a very general overview of foundation allowances.

Foundation Allowances

Proposal A established a minimum, a basic and a state maximum foundation allowance. In general, a district's foundation allowance comprises 1) the amount of revenue generated by the levy of 18 mills on non-homestead property (or the amount the district levied on non-homestead property immediately prior to the passage of Proposal A), and 2) revenue from the state. The basic foundation allowance is the mechanism used to calculate the dollar amount of the increase in each district's foundation allowance annually.

The original Proposal A formula provided twice the annual increase in foundations at or above the basic to those at the bottom, so that by 1998-99 the minimum reached the basic. For FY 2007-08 the Legislature reestablished a similar formula to reset the basic foundation at the state maximum level. Over time this will further reduce the gap between the minimum and state maximum foundation allowances. For example, under the formula, if the basic foundation allowance increases \$56 as it did in FY 2008-09, those at the state maximum receive an additional \$56 while those at the bottom receive \$112, and everyone in between receives something in between based on a sliding scale. The state maximum foundation allowance is the maximum amount of funding the state will guarantee from state and local sources to any district and is used for capping the state funded portion of foundation allowance payments. The FY 2008-09 minimum foundation is \$7,316, and the state maximum foundation and new basic is \$8,489.

Hold Harmless Districts

At the time of Proposal A's enactment, some school districts' foundation allowances exceeded the established maximum. These districts are generally referred to as "hold harmless" districts. Those districts were allowed to levy additional mills to make up the difference between the state maximum foundation allowance and the combined state and local revenue per pupil the district had previously received. Those mills are first levied on homestead property. In some instances, additional mills are also levied on non-homestead property. There are currently 51 hold harmless districts.

The section of the Revised School Code that allows "hold harmless" districts to levy additional mills also caps the number of mills a hold harmless district levies at either: 1) the number of mills levied in 1994, or 2) the number required to ensure that its combined state and local revenue per pupil grows at either the increase in the basic foundation or the rate of inflation, whichever is less. Effectively, this section limits the growth of hold harmless foundation allowances to the lesser of the increase in the basic foundation or the rate of inflation. As a result, any increases in state funding that would increase the districts' foundation allowance beyond the rate of inflation would result in an automatic, corresponding decrease in local revenue.

History of Section 20j

In FY 1999-2000, for the first time since Proposal A, a foundation increase of \$238 along with an inflationary increase of only 1.6% created a scenario in which giving the hold harmless districts the full increase would have raised their foundations higher than the rate of inflation. As shown in the example below, the cap affects districts within the hold harmless category differently:

*District A had a FY 1998-99 foundation allowance of \$7,000.
District B had a FY 1998-99 foundation allowance of \$10,000.*

The state gave an increase of \$238 and inflation was equal to 1.6%

*District A was capped to an inflationary increase of 1.6% * \$7,000 = \$112.*

*District B was capped to an inflationary increase of 1.6% * \$10,000 = \$160.*

So, in order to give all districts the same foundation increase for FY 1999-2000, Section 20j was created to provide hold harmless districts with the difference between the \$238 increase and the amount their foundations were allowed to increase. The districts in our example would have received the following 20j payments that year:

District A received \$238 minus \$112 = \$126.

District B received \$238 minus \$160 = \$78.

The same occurrence continued for the following two fiscal years, resulting in an increase to hold harmless districts' 20j payments. State budget issues have prohibited large foundation increases in recent years, and the per-pupil allocations under Section 20j have remained the same. The total cost in FY 2008-09 for Section 20j is approximately \$51.8 million, and adjustments in Section 20j range from \$119 per pupil to \$324 per pupil. (See attachment for a list of districts, their foundations, and their Section 20j supplemental payments.)

Section 20j payments do not increase the gap between the lowest and the highest foundation allowance; it instead ensured that all districts continued to receive the same foundation allowance increase during a period when all districts had been receiving equal increases. In fact, during this same period they were initiated, an equity payment of \$200 was made to the basic foundation allowance to decrease the gap between the basic and state maximum foundations from \$1,500 to \$1,300. Since then through additional equity payments and the return to the 2x formula, the gap has decreased to \$1,173 for FY 2008-09.

If you have any questions or would like additional information please call us at 373-8080.

Section 20j Adjustments - FY 2008-09

District Code	District Name	County	Per Pupil Foundation	Sec 20j (Incl in Found)	Total S 20j Allocation
02020	BURT TOWNSHIP SCHOOL DISTRICT	ALGER	\$10,577	\$190.08	\$11,948
03080	SAUGATUCK PUBLIC SCHOOLS	ALLEGAN	\$8,820	\$300.05	\$248,066
11340	BRIDGMAN PUBLIC SCHOOLS	BERRIEN	\$8,843	\$298.38	\$286,245
17050	DETOUR AREA SCHOOLS	CHIPPEWA	\$9,528	\$247.82	\$51,309
23490	ONEIDA TOWNSHIP S/D #3	EATON	\$11,171	\$167.76	\$2,446
32130	PORT HOPE COMMUNITY SCHOOLS	HURON	\$9,447	\$252.21	\$23,110
32260	COLFAX TOWNSHIP S/D #1F	HURON	\$9,317	\$263.00	\$6,620
33010	EAST LANSING SCHOOL DISTRICT	INGHAM	\$8,621	\$314.45	\$1,038,848
33215	WAVERLY COMMUNITY SCHOOLS	INGHAM	\$9,148	\$275.46	\$812,500
50010	CENTER LINE PUBLIC SCHOOLS	MACOMB	\$10,034	\$211.02	\$574,937
50200	SOUTH LAKE SCHOOLS	MACOMB	\$9,447	\$253.42	\$596,272
50230	WARREN CONSOLIDATED SCHOOLS	MACOMB	\$9,571	\$245.26	\$3,701,905
50240	WARREN WOODS PUBLIC SCHOOLS	MACOMB	\$9,228	\$270.11	\$860,349
52110	REPUBLIC-MICHIGAMME SCHOOLS	MARQUETTE	\$9,071	\$281.65	\$39,054
56010	MIDLAND PUBLIC SCHOOLS	MIDLAND	\$8,904	\$293.31	\$2,487,415
58080	JEFFERSON SCHOOLS (MONROE)	MONROE	\$11,649	\$148.96	\$313,558
63010	BIRMINGHAM CITY SCHOOL DISTRICT	OAKLAND	\$12,366	\$122.23	\$953,631
63040	SCHOOL DISTRICT OF THE CITY OF ROYAL OAK	OAKLAND	\$9,340	\$261.80	\$1,352,459
63060	SOUTHFIELD PUBLIC SCHOOL DISTRICT	OAKLAND	\$11,448	\$156.78	\$1,336,956
63070	AVONDALE SCHOOL DISTRICT	OAKLAND	\$8,755	\$304.10	\$1,124,191
63080	BLOOMFIELD HILLS SCHOOL DISTRICT	OAKLAND	\$12,443	\$119.25	\$625,777
63090	CLARENCEVILLE SCHOOL DISTRICT	OAKLAND	\$8,564	\$318.87	\$574,556
63100	NOVI COMMUNITY SCHOOL DISTRICT	OAKLAND	\$9,080	\$280.58	\$1,716,367
63150	TROY SCHOOL DISTRICT	OAKLAND	\$9,523	\$248.18	\$2,949,550
63160	WEST BLOOMFIELD SCHOOL DISTRICT	OAKLAND	\$9,375	\$258.94	\$1,707,414
63200	FARMINGTON PUBLIC SCHOOL DISTRICT	OAKLAND	\$10,556	\$191.22	\$2,212,809
63280	LAMPHERE PUBLIC SCHOOLS	OAKLAND	\$10,926	\$177.00	\$437,512
63290	WALLED LAKE CONSOLIDATED SCHOOLS	OAKLAND	\$8,926	\$291.38	\$4,468,411
80240	BANGOR TOWNSHIP S/D #8	VANBUREN	\$8,801	\$301.98	\$6,493
81010	ANN ARBOR PUBLIC SCHOOLS	WASHTENAW	\$9,723	\$233.35	\$3,742,866
82030	DEARBORN CITY SCHOOL DISTRICT	WAYNE	\$9,083	\$280.72	\$4,875,565
82045	MELVINDALE-NORTH ALLEN PARK SCHOOLS	WAYNE	\$9,262	\$267.27	\$730,532
82055	GROSSE POINTE PUBLIC SCHOOLS	WAYNE	\$10,382	\$198.09	\$1,655,929
82095	LIVONIA PUBLIC SCHOOLS	WAYNE	\$8,594	\$316.81	\$5,012,460
82120	RIVER ROUGE SCHOOL DISTRICT	WAYNE	\$9,104	\$279.17	\$302,503
82130	ROMULUS COMMUNITY SCHOOLS	WAYNE	\$9,139	\$276.63	\$1,076,495
82155	TRENTON PUBLIC SCHOOLS	WAYNE	\$9,031	\$285.11	\$778,681
82300	GROSSE ILE TOWNSHIP SCHOOLS	WAYNE	\$9,075	\$280.63	\$523,111
82320	CITY OF HARPER WOODS SCHOOLS	WAYNE	\$8,497	\$323.61	\$390,762
82390	NORTHVILLE PUBLIC SCHOOLS	WAYNE	\$8,539	\$320.87	\$2,213,897
TOTAL					\$51,823,509