

MEMORANDUM

DATE: February 11, 2014
TO: Members of the House Appropriations Committee
FROM: Mary Ann Cleary, Director
 Bethany Wicksall, Associate Director
RE: Changes in K-12 Funding

In response to numerous inquiries our office has received regarding changes in funding for the School Aid budget, we are providing a summary of several valid, though by no means exhaustive, ways to look at the change in School Aid funding over several periods of the last decade, utilizing the fiscal year (FY) 2015 Executive Budget as the endpoint.

While the Gross Appropriation for the FY 2015 Executive School Aid budget is 10.7% higher than the FY 2005 budget, a third of that increase was due to increasing federal funds for federal programs with restricted purposes (e.g., School Lunch Program, No Child Left Behind), which are excluded for the purposes of this discussion. Additionally, in order to make comparisons in the growth of the budget on a per pupil basis, the calculations in the Appendix and the text below exclude both preschool and adult education funding. References below, therefore, are to K-12 funding rather than to the School Aid budget. The detail behind both [Table 1](#) and [Table 2](#) is available in the Appendix.

Table 1: K-12 Funding Change – FY 2015 Executive Budget as Endpoint

	4-Year		7-Year		10-Year	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Total State Source Appropriations						
Total (in millions)	\$1,045	9.8%	\$423	3.7%	\$707	6.4%
Per Pupil	\$939	13.8%	\$905	13.2%	\$1,291	20.0%
District-Level Funding Including Local 18-Mill and Federal ARRA Funding						
Total (in millions)	\$417	3.2%	(\$144)	(1.0%)	\$499	3.8%
Per Pupil	\$584	6.9%	\$667	8.0%	\$1,312	17.1%
District Operational Funding (Less MPSERS State Share Funding)						
Total (in millions)	(\$258)	(1.9%)	(\$819)	(5.9%)	(\$176)	(1.3%)
Per Pupil	\$138	1.6%	\$221	2.7%	\$867	11.3%
Net District Operational Funding (Less Local MPSERS Costs)						
Total (in millions)	(\$501)	(4.4%)	(\$1,244)	(10.2%)	(\$796)	(6.8%)
Per Pupil	(\$64)	(0.9%)	(\$148)	(2.0%)	\$352	5.1%
Michigan (Detroit) Consumer Inflation (FY)		7.4%		10.3%		19.4%

Total State Source Appropriations

From a state budgeting perspective, a common measurement of K-12 funding is total state source appropriations: those funded by School Aid Fund and General Fund/General Purpose revenues. Using this as one method of growth, under the FY 2015 Executive recommendation districts would have

- \$939 or 13.8% more state funding per pupil than in FY 2011.
- \$905 or 13.2% more state funding per pupil than in FY 2008.
- \$1,291 or 20.0% more state funding per pupil than in FY 2005.

District Level Funding Including Local 18-Mill and Federal ARRA

While total state funding reflects the allocation of state resources through the state budget, district general operations funding is also heavily dependent on the local revenue generated through 18-mill local property taxes on non-homestead property. The state's portion of each district's foundation allowance rises or falls each year based on available local revenue. This means when local revenues decrease, state funding automatically increases to keep foundation allowances level.

Local property tax revenue has decreased for two major reasons during certain periods of the last decade. The first was the exemption of some, or all, of commercial and industrial personal property from state and local taxes. The exemption created a local school operating revenue reduction of \$342 million beginning in 2009, which is offset annually by an equal amount of state funding. The second factor in decreasing local school operating revenues is decreasing property values since the Great Recession, which has further reduced local revenues by \$226 million over the same time period, thus requiring an equal increase in state funds.

Additionally, for three years during and immediately following the Great Recession (FYs 2009-2011), the state used federal American Recovery and Reinvestment Act (ARRA) dollars to offset reduced available state funding in the foundation allowance. Unlike other federal funds dedicated to specific federal programs, which we excluded in this memo, ARRA funds were intended for and used to maintain state funding levels for general operations support.

Given this relationship between state, local, and federal ARRA revenues, the change in overall funding from a district's perspective, rather than the state's perspective, can be described by looking at a combination of general operational funding sources. Using this second method to measure K-12 funding indicates that districts' total funding has grown less than when measuring just state funds over the most recent 4- and 7-year periods. (Note that federal ARRA revenues affect only the 4-year change.) Based on this measure, in FY 2015 districts would have

- \$584 or 6.9% more funding per pupil than in FY 2011.
- \$667 or 8.0% more funding per pupil than in FY 2008.
- \$1,312 or 17.1% more funding per pupil than in FY 2005.

District Operational Funding Less MPSERS State Share Funding

Beginning in FY 1995 with the adoption of Proposal A, and until FY 2013, districts directly paid for all retirement costs related to the Michigan Public School Employees' Retirement System (MPSERS) out of their general operations funding. Beginning in FY 2013, as part of the retirement reforms of PA 300 of 2012 (PA 300), the state has begun specifically appropriating an amount equal to the growth in MPSERS unfunded accrued liability (UAL) costs that exceed 20.96% of MPSERS payroll.¹ While this represents an increasing state appropriation, this does not increase local district general operations

¹ For more information on benefit and other changes contained in PA 300, see this HFA report: <http://www.house.mi.gov/hfa/PDF/Retirement/MPSERSreport.pdf>

funding because the entire appropriation must be paid to the MPSERS system. The funding pays for what otherwise would have been experienced as a cost increase, but does not create savings compared to prior year MPSERS costs for a local district.

Thus, a third way to measure K-12 funding changes in order to reflect the change in what is available for districts to spend, rather than total funding received by the district, is to exclude the increased MPSERS state share. Doing so shows that in FY 2015 districts would have

- \$138 or 1.6% more per pupil in available funding than in FY 2011.
- \$221 or 2.7% more per pupil in available funding than in FY 2008.
- \$867 or 11.3% more per pupil in available funding than in FY 2005.

Net District Operational Funding Less Local MPSERS Costs

Despite the recent change to cap a district's MPSERS contribution rate for unfunded liabilities, the district share of MPSERS costs have increased significantly over the last decade and have continued to increase since PA 300. PA 300 did not cap the *normal* contribution rate for MPSERS, which is the cost related to benefits earned in the current year rather than unfunded liabilities tied to previously earned benefits. Since FY 2005, local MPSERS costs have risen from approximately \$824 per pupil to an estimated \$1,339 per pupil for FY 2015. This is due to both the growth in the UAL and the decline in the pupil base. Since FY 2005, total pupils in the state have declined by 11.3%.

So, a fourth way to measure change in K-12 funding available for districts to spend is to exclude the increase in required local expenditures for MPSERS to arrive at net funding available for operational expenditures. Based on this measure, in FY 2015 districts would have

- \$64 or 0.9% *less* per pupil to spend than in FY 2011.
- \$148 or 2.0% *less* per pupil to spend than in FY 2008.
- \$352 or 5.1% more per pupil to spend than in FY 2005.

Foundation Allowance Changes

The largest unrestricted operational funding source for school districts is the foundation allowance. The foundation allowance is funded through a combination of state and local revenue, and it is distributed on a per pupil basis. The Minimum and the State Maximum foundation allowances have increased at significantly different rates over the last decade because both formula increases and equity payments have continued one of the original Proposal A goals to decrease the funding gap between the two funding levels.

After equal across-the-board reductions of \$470 between FY 2009, their peak, and FY 2012, increases since then have been weighted toward the Minimum. While the Minimum has recouped nearly half of that reduction over the last two years (increasing by \$230), the State Maximum has increased by just \$30. Under the Governor's proposal for FY 2015, the Minimum would increase by another \$111 to \$7,187, and the State Maximum would increase by \$83 to \$8,132, leaving the Minimum \$129 below its peak and the State Maximum \$357 below its peak. Districts with foundation allowances between the two have fared somewhere in the middle.²

Using the same 4-, 7-, and 10-year changes used in the previous table, Table 2 shows the change in the foundation allowances over the last decade in both dollar and percent change. While the proposed Minimum is 0.6% higher since FY 2011, the proposed State Maximum is still 2.2% lower than in FY 2011. Both the proposed Minimum and the State Maximum are lower than they were in FY

² For more information on the history of foundation allowances, see this HFA memo: http://www.house.mi.gov/hfa/PDF/SchoolAid/Basics_of_the_FoundationAllowance_FY14_Sept2013.pdf

2008. The proposed Minimum is 7.3% higher than in FY 2005, but the State Maximum is just 1.7% higher than in FY 2005. These figures do not reflect any funding increases for specific categorical programs (which are incorporated in the previous measures presented in this memo).

Table 2: Foundation Allowance Change – FY 2015 Executive Budget as Endpoint

	4-Year		7-Year		10-Year	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Minimum Foundation Allowance	\$41	0.6%	(\$17)	(0.2%)	\$487	7.3%
State Maximum Foundation Allowance	(\$187)	(2.2%)	(\$301)	(3.6%)	\$132	1.7%
Michigan (Detroit) Consumer Inflation (FY)	7.4%		10.3%		19.4%	

Conclusion

There are a number of valid ways to measure changes in K-12 funding. It is true that the state has provided increased funding over the last 4, 7, and 10 years; but it is also true that overall funding available for districts’ net operational funding has actually declined over the last 4- and 7-year periods and increased at a rate of less than 0.5% per year over the last decade. The only measure by which average district K-12 funding per pupil has kept up with inflation is in total state sources.

The difference in the foundation allowance growth between the Minimum and the State Maximum means that while the first four measures of K-12 funding changes discussed in this memo are true on a statewide average, the actual experience varies significantly for each district depending on the foundation allowance of a district. Additionally, the proportion that MPSERS payroll constitutes of a district’s total expenditures will effect changes in the measure that incorporate MPSERS funding and costs. Finally, varying changes in pupil enrollment among districts have significant ramifications for short-term district budget adjustments.

If you have any questions regarding this information, please do not hesitate to call.

Attachment

APPENDIX

K-12 Funding (in millions)

(Excludes Adult Ed and Early Childhood Funding)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014*	Exec FY 2015*	CHANGE w/ FY2015 Executive as Endpoint					
												4-Year		7-Year		10-Year	
												Dollar	Percent	Dollar	Percent	Dollar	Percent
School Aid Fund	10,856	11,139	11,447	11,269	10,892	10,527	10,664	10,884	10,797	11,062	11,547						
General Fund/General Purpose	165	63	35	35	78	30	19	79	282	235	180						
Total State Source Appropriations	11,021	11,202	11,482	11,304	10,970	10,557	10,683	10,962	11,079	11,297	11,727	1,045	9.8%	423	3.7%	707	6.4%
plus Local 18 Mills	2,117	2,224	2,349	2,477	2,110	2,156	2,036	1,963	1,893	1,881	1,909						
plus Federal ARRA	0	0	0	0	600	450	501	0	0	0	0						
District-Level Funding	13,138	13,426	13,831	13,781	13,680	13,163	13,219	12,926	12,973	13,177	13,636	417	3.2%	(144)	(1.0%)	499	3.8%
less MPSERS State Funding	0	0	0	0	0	0	0	0	(161)	(405)	(675)						
District Operational Funding	13,138	13,426	13,831	13,781	13,680	13,163	13,219	12,926	12,812	12,773	12,962	(258)	(1.9%)	(819)	(5.9%)	(176)	(1.3%)
less Local MPSERS costs	(1,407)	(1,542)	(1,688)	(1,602)	(1,590)	(1,542)	(1,783)	(2,031)	(2,001)	(2,068)	(2,027)						
Net Operational Funding after MPSERS costs	11,730	11,884	12,143	12,179	12,090	11,621	11,436	10,895	10,811	10,705	10,935	(501)	(4.4%)	(1,244)	(10.2%)	(796)	(6.8%)

*FY 2014 and FY 2015 Local Revenues and Local MPSERS costs are estimates.

K-12 Funding Per Pupil

(Excludes Adult Ed and Early Childhood Funding)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014*	Exec FY 2015*	CHANGE w/ FY2015 Executive as Endpoint					
												4-Year		7-Year		10-Year	
												Dollar	Percent	Dollar	Percent	Dollar	Percent
School Aid Fund	6,358	6,562	6,812	6,820	6,726	6,611	6,795	7,012	7,029	7,262	7,627						
General Fund/General Purpose	97	37	21	21	48	19	12	51	184	154	119						
Total State Source Appropriations	6,455	6,599	6,833	6,841	6,774	6,630	6,807	7,063	7,213	7,416	7,746	939	13.8%	905	13.2%	1,291	20.0%
plus Local 18 Mills	1,240	1,310	1,398	1,499	1,303	1,354	1,297	1,265	1,233	1,235	1,261						
plus Federal ARRA	0	0	0	0	370	283	319	0	0	0	0						
District-Level Funding	7,695	7,909	8,232	8,340	8,447	8,266	8,423	8,328	8,446	8,651	9,007	584	6.9%	667	8.0%	1,312	17.1%
less MPSERS State Funding	0	0	0	0	0	0	0	0	(104)	(266)	(446)						
District Operational Funding	7,695	7,909	8,232	8,340	8,447	8,266	8,423	8,328	8,341	8,385	8,561	138	1.6%	221	2.7%	867	11.3%
less Local MPSERS costs	(824)	(908)	(1,005)	(969)	(982)	(968)	(1,136)	(1,308)	(1,303)	(1,357)	(1,339)						
Net Operational Funding after MPSERS costs	6,870	7,001	7,227	7,371	7,466	7,298	7,287	7,020	7,038	7,028	7,222	(64)	(0.9%)	(148)	(2.0%)	352	5.1%

*FY 2014 and FY 2015 Local Revenues and Local MPSERS costs are estimates.

Foundation Allowances

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010*	FY 2011*	FY 2012	FY 2013	FY 2014	Exec FY 2015	CHANGE w/ FY2015 Executive as Endpoint					
												4-Year		7-Year		10-Year	
												Dollar	Percent	Dollar	Percent	Dollar	Percent
Minimum Foundation Allowance	6,700	6,875	7,085	7,204	7,316	7,162	7,146	6,846	6,966	7,076	7,187	41	0.6%	(17)	(0.2%)	487	7.3%
State Guaranteed Maximum Foundation Allowance	8,000	8,175	8,385	8,433	8,489	8,335	8,319	8,019	8,019	8,049	8,132	(187)	(2.2%)	(301)	(3.6%)	132	1.7%

*FY 2010 and FY 2011 Foundation Allowances are reduced by \$154 and \$170 per pupil respectively, to recognize a Sec. 11d reduction.

	PERCENT CHANGE					
	4-Year		7-Year		10-Year	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Michigan (Detroit) Consumer Inflation (Fiscal Year)		7.4%		10.3%		19.4%