

MEMORANDUM



DATE: January 17, 2003
TO: All Interested Parties
FROM: Laurie Cummings
Mary Ann Cleary
RE: Proration of School Funding - Revised

Section 11 of the School Aid Act states that if appropriations exceed the amount available for expenditure from the School Aid Fund in any given year, the State must prorate payments to school districts in order to eliminate the shortfall. The January 14 Revenue Estimating Conference reduced school aid revenues, resulting in a \$127 million school aid shortfall in FY 2002-03.

As a result, the State Budget Director gave notice to the legislature on January 15 stating that the department will prorate payments, as required by Section 11(3) of the School Aid Act. We are currently estimating that the proration will be a 3.8% across-the-board cut in payments for all school districts.

The Timeline

The legislature has 30 days or 6 session days (whichever is greater) from the date the notice is given to appropriate additional funds (from the Budget Stabilization Fund, general fund, or other source) or reduce appropriations in order to avoid a proration. Assuming a 30-day timeframe, the legislature would need to act by February 14, 2003, if a proration is to be averted.

The Impact on Programs

While the School Aid Act requires proration, it protects certain sections, listed below, from being reduced. It shows that a total of \$7.8 billion cannot be prorated. Since the FY 2003 estimate for school aid appropriations is \$11.5 billion, this means that there is a total of \$3.7 billion remaining which can be prorated to make up the shortfall of approximately \$127 million.

Items Not Subject to Proration (Dollars in Millions)	
Section	Estimated Amount, FY 2003
11f. Durant Non-plaintiff Cash Payment	\$32.0 million
11g. Durant Non-plaintiff Debt Service	\$40.0 million
22a. Proposal A Obligation Payment	\$6,953.0 million
31d. School Lunch Programs	\$18.1 million
51a(2). ISD Special Education	\$149.5 million
51c. Durant Special Education Percentages	\$621.9 million
Total Not Subject to Proration	\$7,814.5 million

The Foundation Allowance

Currently, districts' foundation allowances, the source of their general operating revenue, constitute approximately 80 percent of their total funding. Foundation allowances are paid out of two different sections: the Proposal A Obligation Payment (Sec. 22a) and the Discretionary Payment (Sec. 22b). Only the Proposal A Obligation Payment, which guarantees districts' per pupil funding at the FY 1994-95 level as required by the Michigan Constitution, is prohibited from being cut. Since the Proposal A Guarantee accounts for different proportions of districts' foundation allowances, the amount of proration on the foundation allowance will vary by district.

Summary

A proration would reduce state appropriations to districts. If the legislature chooses, it has the option of averting a proration by appropriating additional dollars to the School Aid Fund or reducing or eliminating specific programs. If no action is taken, schools will see a reduction in their state school aid payments.

If you have any questions, please call us at 3-8080.