

MEMORANDUM



**DATE:** October 11, 2006  
**TO:** All Interested Parties  
**FROM:** Bethany Wicksall  
Mary Ann Cleary  
**RE:** The Basics of the Foundation Allowance

In FY 1994-95, Michigan's school finance system was revamped, and the "foundation allowance" became the basic mechanism used to distribute state funding to school districts. A foundation allowance is a per-pupil amount that is allocated to each school district and is used to pay for school operations. This memo briefly discusses the way that the state calculates and pays foundation allowances to schools.

**DETERMINATION OF INITIAL FOUNDATION ALLOWANCES**

When the FY 1994-95 school finance reforms were first implemented, a foundation allowance was created for each school district. This amount has been used as the basis for calculating district's foundation allowances every year since.

The initial foundation allowance assigned to each school district was based on the amount of revenue per pupil a district received just prior to the implementation of Proposal A. To approximate this revenue per pupil, analysts summed the amount of local property tax revenue, general state aid, and select categorical that each district received in FY 1993-94 and divided it by the number of FY 1993-94 pupils in each district. Because schools primarily were locally funded in FY 1993-94 with property taxes, these initial foundation allowances largely reflected variances in local property values and millages from district to district.

**THE "BASIC" FOUNDATION ALLOWANCE**

Since the original determination of foundation allowances, districts' foundation allowances have been calculated each year by adding incremental dollar increases to the initial amount. One of the primary mechanisms used to do this is the "Basic Foundation Allowance", sometimes simply known as "the Basic".

Originally set by the Legislature at \$5,000 per pupil in FY 1994-95, the Basic Foundation Allowance is a target per-pupil funding level which the creators of the Proposal A reforms hoped all districts would one day reach. The legislature sets the Basic Foundation Allowance each year, and until FY 1999-2000, districts with foundation allowances below this level received larger foundation allowance increases than districts with allowances at or above the basic. (These larger increases were calculated with a formula that allocated an increase that was up to twice the amount of the increase in the Basic.) Giving districts with a foundation allowance below the Basic larger annual increases was the mechanism by which lawmakers lessened inequities in per pupil funding among districts, and, in fact, resulted in the minimum foundation allowance increasing from \$4,200 in FY 1994-95 to \$7,085 in FY 2006-07. (See Table below.)

<b>The Minimum, Basic, and State Maximum Foundation Allowances, FY 1994-95 to FY 2006-07</b>				
<b>Fiscal Year</b>	<b>Minimum Foundation Allowance</b>	<b>Basic Foundation Allowance</b>	<b>State Maximum Foundation Allowance</b>	<b>Dollar Increase</b>
1994-95	\$4,200	\$5,000	\$6,500	NA
1995-96	\$4,506	\$5,153	\$6,653	\$153
1996-97	\$4,816	\$5,308	\$6,808	\$155
1997-98	\$5,124	\$5,462	\$6,962	\$154
1998-99	\$5,170	\$5,462	\$6,962	\$0
1999-00	\$5,700	\$5,700	\$7,200	\$238
2000-01	\$6,000	\$6,000	\$7,500	\$300
2001-02*	\$6,300	\$6,300	\$7,800	\$300
2002-03	\$6,700	\$6,700	\$8,000	\$200
2003-04	\$6,700	\$6,700	\$8,000	\$0
2004-05	\$6,700	\$6,700	\$8,000	\$0
2005-06	\$6,875	\$6,875	\$8,175	\$175
2006-07*	\$7,085	\$7,085	\$8,385	\$210
*In FY 2001-02, districts with a foundation below \$6,500 also received an equity payment of up to \$200 per pupil.				
*In FY 2006-07, districts with a foundation below \$7,460 also will receive an equity payment of up to \$23 per pupil.				

When, in FY 1999-2000, all districts reached the basic foundation allowance for the first time, Proposal A's goal to raise all district's funding to at least the level of the Basic Foundation Allowance was achieved. Since then, all school districts receive the same dollar increase in their foundation allowance as the annual increase in the Basic (except in cases of equity payments). For example, if the Basic increases by \$200 from its previous-year level, every school district will receive a \$200 increase in its foundation allowance.

### **THE LOCAL PORTION OF THE FOUNDATION ALLOWANCE**

The total amount of revenue a district will receive for its foundation allowance is derived from multiplying the number of pupils a district educates by its foundation allowance. For example, if a district with a \$7,500 foundation allowance has 1,000 pupils, it would receive \$7.5 million in foundation allowance revenue ( $\$7,500 \times 1,000$ ). However, the state pays only a portion of this revenue—it pays the amount remaining after subtracting from the total foundation allowance revenue the amount of local revenue that the district collects from its “nonhomestead” property tax. The nonhomestead property tax, also created as part of the Proposal A reforms, is equal to 18 mills or the number of mills a district levied in 1993, whichever is less, multiplied by the nonhomestead taxable value (taxable value levied on businesses and second homes) in the district.

Using our previous example, a district with a \$7,500 foundation allowance and 1,000 pupils would receive a total of \$7.5 million in foundation allowance revenue. However, if the district raises \$4 million in local revenue from its 18-mill nonhomestead tax, the state pays only \$3.5 million of the \$7.5 million and the local district contributes the remaining \$4 million. In this

example, the state pays \$3,500 per pupil ( $\$3.5 \text{ million} \div 1,000 \text{ pupils}$ ) toward the district's \$7,500 foundation allowance and the local district pays \$4,000 per pupil. This state/local mix is different for every district and changes for each district from year to year depending on the local nonhomestead taxable value.

### **STATE MAXIMUM FOUNDATION ALLOWANCE**

The highest amount which may be used when calculating the state portion of the foundation allowance is the "state maximum" foundation allowance. This is the highest foundation allowance that may be used when multiplying the number of pupils by a district's foundation allowance to calculate total revenue, as described above.

When the Proposal A reforms were first created, the state maximum allowance was set at \$1,500 above the Basic and remained at that level each year until FY 2002-03, when a \$200 equity payment was made. Since FY 2002-03, the state maximum foundation has been \$1,300 above the foundation allowance, and is currently \$8,385 per pupil ( $\$7,085 + \$1,300$ ). An equity payment of \$23 was provided for FY 2006-07 with the intent that it will be rolled into the basic foundation allowance in the following year, thereby decreasing the gap between the basic and the state maximum to \$1,277.

In addition, the state maximum allowance is also used to determine so-called "hold harmless" districts. These are districts with a foundation allowance above the state maximum, and, as such, must levy local millages to make up the difference between the \$8,385 maximum and their foundation allowances. There are 52 such districts in the state.

### **PUBLIC SCHOOL ACADEMY FOUNDATION ALLOWANCES**

The foundation allowance for a public school academy is the *lesser* of 1) \$300 above the basic foundation allowance or 2) the foundation allowance of the local district in which the public school academy is located. This means that in FY 2006-07, public school academies receive a maximum of \$7,385, which is \$300 above the \$7,085 basic foundation allowance that year. Public School Academies do not levy local property taxes, and therefore make no local contribution to their foundation allowance.

### **PUPIL MEMBERSHIP**

Pupil "membership," is the number of pupils used when calculating the amount of foundation allowance revenue a district will receive. It is calculated by adding a percentage of the number of full-time equivalent (FTE) pupils counted in September of the current school year to a percentage of those counted during the prior February. In FY 2006-07, pupil membership is the sum of 25% of the February 2006 pupil count plus 75% of the September 2006 count. Statewide, there are approximately 1.7 million membership pupils in FY 2006-07.