# FISCAL BRIEF

## BASICS OF THE FOUNDATION ALLOWANCE—FY 2025-26 UPDATE

Jacqueline Mullen, Senior Fiscal Analyst
Noel Benson, Fiscal Analyst
February 25, 2026

### FAST FACTS

- Proposal A of 1994 created a per-pupil funding method, including both state and local funds, known as the foundation allowance to fund general school operations.
- In FY 2025-26, state funding for foundation allowances totals $10.6 billion, half of the School Aid budget.
- Local funding is expected to provide an additional $3.0 billion.
- The equity gap between the Minimum and Target was closed in FY 2021-22.
- All non-Hold Harmless districts are now set at the Target foundation, which is $10,050 per pupil for FY 2025-26.

### INTRODUCTION

Proposal A of 1994 created a new mechanism for providing operational funding to school districts in Michigan. Called the foundation allowance, each school district is allocated a per-pupil amount—in combined state and local funds—to support school operations. State funding for foundation allowances totals $10.6 billion for fiscal year (FY) 2025-26, or half of the total School Aid budget. Local school operating property taxes, which do not flow through the state budget, will add an estimated $3.0 billion. Foundation allowances represent the majority of general school operation funding. The method for determining initial foundation allowances and annual funding increases is described in detail below.

### FOUNDATION ALLOWANCE HISTORY

The foundation allowance was first used in FY 1994-95. Initial foundation allowances were based on the amount of revenue per pupil each school district received during FY 1993-94 (prior to implementation of Proposal A) in combined state and local funds. This figure included local property tax revenue levied for school operating purposes, state aid under the prior guaranteed tax base method, and certain categorical funding. Among K-12 districts, this FY 1993-94 baseline funding varied considerably, from a low of $3,398 to a high of $10,294, largely reflecting variances in local property tax values and millage rates.

Proposal A created three main foundation allowance levels:

- The **Minimum** foundation allowance, set initially at $4,200, to create a floor below which no district would fall.
- The **Basic** (now known as the **Target**) foundation allowance, set initially at $5,000, to create a goal that the Proposal A drafters hoped to bring all districts under the Basic up to over time.
- The **State Maximum** guaranteed foundation allowance, set initially at $6,500, to create a ceiling above which the state would not contribute.

The Legislature and the Governor determine foundation allowance increases or decreases each year through the School Aid budget (compiled in Article I of the State School Aid Act, 1979 PA 94). Initially, increases were calculated with a statutory formula—often referred to as the *2x formula*—that allocated an increase equal to twice the amount of the increase in the Basic/Target and State Maximum (State Max) for districts at the Minimum. Under the 2x formula, foundation allowances above the Basic/Target were increased by the same amount as the Basic/Target, and foundation allowances between the Minimum and the Basic/Target were increased incrementally on a sliding scale calculated by the formula (see Table 1 below).

**Table 1: Annual 2x Formula Increases**

| Foundation Level | Annual Increase |
|---|---|
| Equal to or Greater than the Basic/Target | x |
| Between the Minimum and the Basic/Target | x < Incremental Increase < (2 * x) |
| At the Minimum | (2 * x) |

Doubling the increase to districts at the Minimum diminished the inequity in per-pupil funding among school districts, thus accomplishing one of the primary goals of Proposal A. By FY 1999-2000, using the 2x formula, the Minimum caught up to the Basic/Target level of $5,700, and the difference between the Minimum and the State Max had decreased to $1,500.

From FY 2000-01 to FY 2006-07, all school districts received the same dollar increase in their foundation allowance, except in cases of equity payments where districts at the Minimum received an additional payment to further diminish the difference between the Minimum and the State Max.

In FY 2007-08, the Legislature and Governor reestablished the use of the 2x formula, resetting the Basic/Target to be equal to the State Max, thus creating a new goal of completely eliminating the equity gap between the Minimum and the State Max. However, beginning in 2009-10, foundation allowances were reduced for three consecutive years due to reduced school aid revenues (initially and unofficially through Sec. 11d reductions due to the recession, and then officially through subsequent tax policy changes in FY 2011-12).

Beginning in FY 2012-13, the Governor and the Legislature used a mix of across-the-board increases, equity payments to districts at the Minimum, and 2x formula increases to continue to narrow the equity gap. In FY 2021-22, the Legislature and the Governor eliminated the equity gap and set the Target, which became the foundation allowance for all non-Hold Harmless districts, at $8,700.

For FY 2025-26, all districts except Hold Harmless districts have a foundation allowance of $10,050.

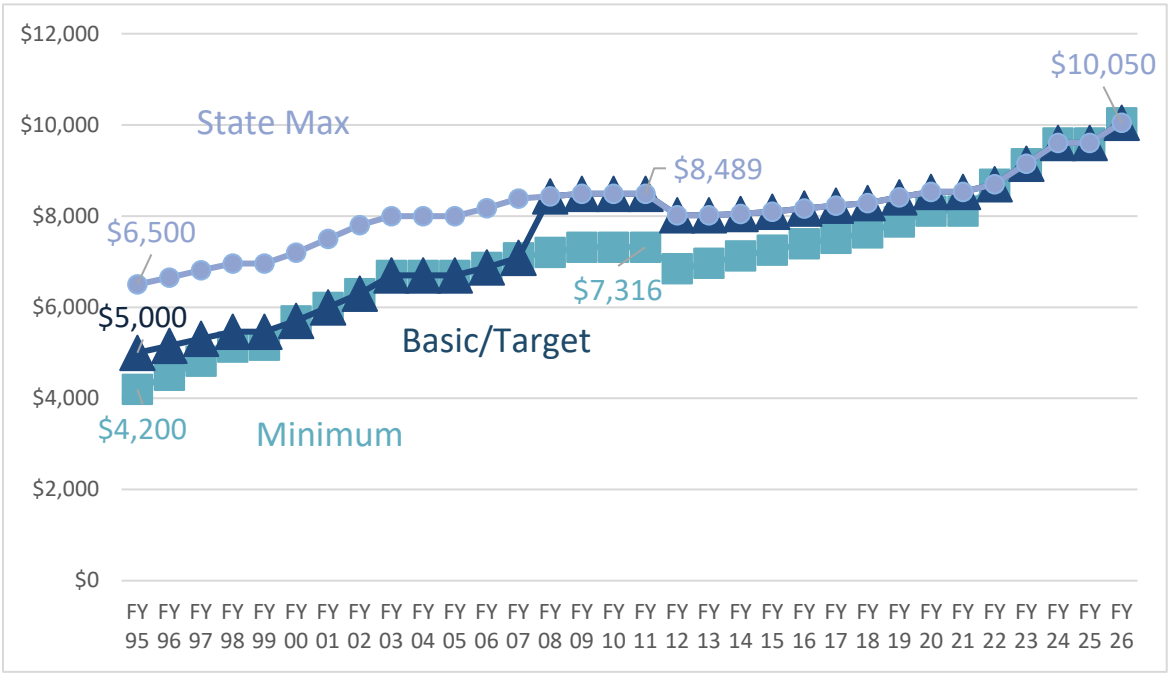
Table 2 and Figure 1 below display the history of the growth in the various levels of the foundation allowance.

## Table 2: History of Foundation Allowance Growth

| Fiscal Year | Minimum | Basic/Target | State Max | Change in Minimum | Change in Basic/Target & State Max | Difference Between Minimum & State Max |
|---|---|---|---|---|---|---|
| 1994-95 | $4,200 | $5,000 | $6,500 | NA | NA | $2,300 |
| 1995-96 | $4,506 | $5,153 | $6,653 | $306 | $153 | $2,147 |
| 1996-97 | $4,816 | $5,308 | $6,808 | $310 | $155 | $1,992 |
| 1997-98 | $5,124 | $5,462 | $6,962 | $308 | $154 | $1,838 |
| 1998-99 | $5,170 | $5,462 | $6,962 | $46 | $0 | $1,792 |
| 1999-00 | $5,700 | $5,700 | $7,200 | $530 | $238 | $1,500 |
| 2000-01 | $6,000 | $6,000 | $7,500 | $300 | $300 | $1,500 |
| 2001-02[1] | $6,500 | $6,500 | $7,800 | $500 | $300 | $1,300 |
| 2002-03 | $6,700 | $6,700 | $8,000 | $200 | $200 | $1,300 |
| 2003-04 | $6,700 | $6,700 | $8,000 | $0 | $0 | $1,300 |
| 2004-05 | $6,700 | $6,700 | $8,000 | $0 | $0 | $1,300 |
| 2005-06 | $6,875 | $6,875 | $8,175 | $175 | $175 | $1,300 |
| 2006-07[2] | $7,108 | $7,108 | $8,385 | $233 | $210 | $1,277 |
| 2007-08[3] | $7,204 | $8,433 | $8,433 | $96 | $48 | $1,229 |
| 2008-09 | $7,316 | $8,489 | $8,489 | $112 | $56 | $1,173 |
| 2009-10[4] | $7,316 | $8,489 | $8,489 | $0 | $0 | $1,173 |
| 2010-11[5] | $7,316 | $8,489 | $8,489 | $0 | $0 | $1,173 |
| 2011-12 | $6,846 | $8,019 | $8,019 | ($470) | ($470) | $1,173 |
| 2012-13 | $6,966 | $8,019 | $8,019 | $120 | $0 | $1,053 |
| 2013-14[6] | $7,076 | $8,049 | $8,049 | $110 | $30 | $973 |
| 2014-15[7] | $7,251 | $8,099 | $8,099 | $175 | $50 | $848 |
| 2015-16 | $7,391 | $8,169 | $8,169 | $140 | $70 | $778 |
| 2016-17 | $7,511 | $8,229 | $8,229 | $120 | $60 | $718 |
| 2017-18 | $7,631 | $8,289 | $8,289 | $120 | $60 | $658 |
| 2018-19 | $7,871 | $8,409 | $8,409 | $240 | $120 | $538 |
| 2019-20 | $8,111 | $8,529 | $8,529 | $240 | $120 | $418 |
| 2020-21[8] | $8,111 | $8,529 | $8,529 | $0 | $0 | $418 |
| 2021-22 | $8,700 | $8,700 | $8,700 | $589 | $171 | $0 |
| 2022-23 | NA | $9,150 | NA | NA | $450 | NA |
| 2023-24[9] | NA | $9,608 | NA | NA | $458 | NA |
| 2024-25 | NA | $9,608 | NA | NA | $0 | NA |
| 2025-26[10] | NA | $10,050 | NA | NA | $442 | NA |

[1] The Minimum includes an equity payment of $200, which was officially rolled into foundations in FY 2002-03.
[2] In FY 2006-07, districts with a foundation below $7,460 received an equity payment of up to $23 per pupil, which was officially rolled into foundations in FY 2007-08.
[3] In FY 2007-08, the Basic was raised to the state maximum and the original Proposal A (2x) formula was reestablished to increase foundations below the Basic at a faster rate than those at or above it.
[4] While the statutory foundation allowance was not changed, the budget included a $154 per-pupil reduction under Sec. 11d.
[5] While the statutory foundation allowance was not changed, the budget included a $170 per-pupil reduction under Sec. 11d.
[6] The Minimum included an equity payment of $50, which was officially rolled into foundations in FY 2014-15.
[7] The Minimum included an equity payment of $125, which was officially rolled into foundations in FY 2015-16.
[8] While the statutory foundation allowance was not changed, the budget included a $350 Federal per-pupil increase, as well as a $175 SAF per-pupil reduction under Section 11d, for a net increase of $175 per pupil.
[9] The statutory foundation allowance for cyber schools was set at $9,150.
[10] The statutory foundation allowance for cyber schools was set equal to the Target.

**Figure 1: The Minimum, Basic/Target, and State Maximum Foundation Allowances**




## THE STATE/LOCAL FUNDING SPLIT

The total amount of revenue a district receives for its foundation allowance is derived by multiplying the number of pupils the district educates by its foundation allowance. For example, if a district with a foundation allowance of $10,050 has 1,000 pupils, it would receive $10.1 million in foundation allowance revenue ($10,050 × 1,000). However, the state pays only a portion of this revenue: the amount remaining after subtracting the amount of local revenue that the district is expected to collect from non-homestead property taxes.

Under Proposal A, school districts are expected to levy 18 mills (or the number of mills levied in 1993, whichever is less) on non-homestead property.[1] For the purposes of determining the state portion of the foundation allowance, it is assumed that districts levy the full number of their expected mills.

Generally, the state portion of the foundation allowance equals:

( Pupils × The Target ($10,050) ) − Assumed local non-homestead property tax revenue

[1] Non-homestead property is all property other than a taxpayer's principal residence or other limited types of exempt property under Sec. 1211 of the Revised School Code. Generally, non-homestead property includes commercial and industrial property, second homes, and rental homes.

Using our previous example, if a district with a $10,050 foundation allowance and 1,000 pupils raises $5.0 million in local revenue from its 18-mill non-homestead property tax, the state would pay $5.1 million of the $10.1 million. In this example, the state pays $5,050 per pupil ($5.1 million ÷ 1,000 pupils) toward the district's $10,050 foundation allowance and the local district pays $5,000 per pupil. This state/local mix is different for every district and changes from year to year depending on the district's local non-homestead taxable value growth and number of pupils. The variation in state/local share depends not so much on overall property values, but on the district's type of property and pupil density. A lakefront district with low levels of year-round residents and many second homes will generate a higher local share. A residential suburb with little commercial or industrial property will generate a lower local share.

## HOLD HARMLESS AND OUT-OF-FORMULA DISTRICTS

There are 43 **Hold Harmless** districts whose statutory foundation allowances exceed the Target. Those districts had combined state and local revenues that exceeded the State Max when Proposal A was adopted. They are allowed to make up the difference in revenue between the State Max and their foundation allowance by levying an additional local Hold Harmless millage. However, not all of them do (see breakout below).

**Out-of-Formula** districts generate enough revenue from their local non-homestead millage to exceed their statutory foundation, and as such do not receive any state funds toward their foundation allowances. Out-of-Formula districts may keep their excess local millage revenue. Some districts are both Hold Harmless and Out-of-Formula.

Currently, the breakout is as follows:

- 23 Hold Harmless districts levy an additional millage.
- 5 Hold Harmless districts do not levy an additional millage, and so are effectively capped at the Target, despite having a higher statutory foundation allowance.
- 16 Hold Harmless districts are also Out-of-Formula and generate enough local revenue to exceed their statutory foundation and therefore do not need to levy an additional Hold Harmless millage.
- 53 Out-of-Formula districts (including the 16 Hold Harmless districts above) receive local revenue exceeding their statutory foundation.

Figures 2 and 3 show foundation allowance levels for each local school district at the start of Proposal A and in FY 2025-26.

Figure 2: FY 1994-95 Per Pupil Foundation

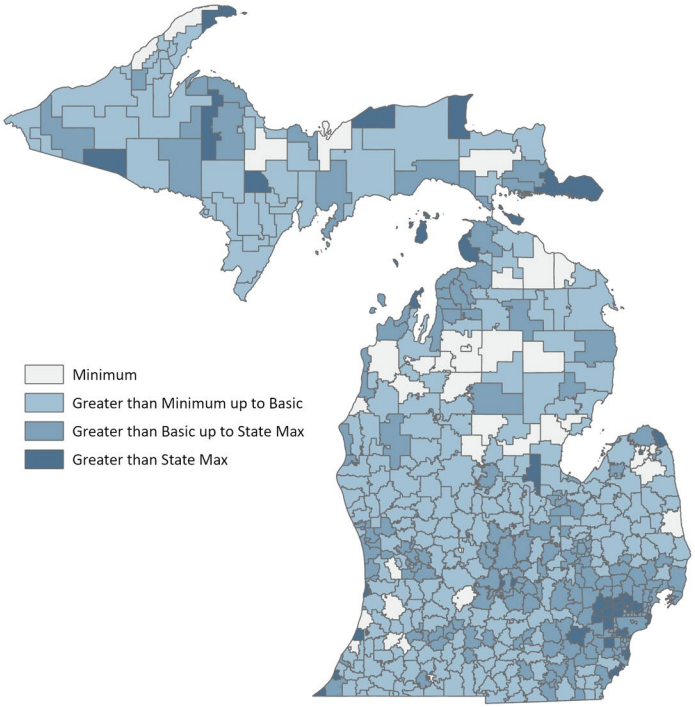
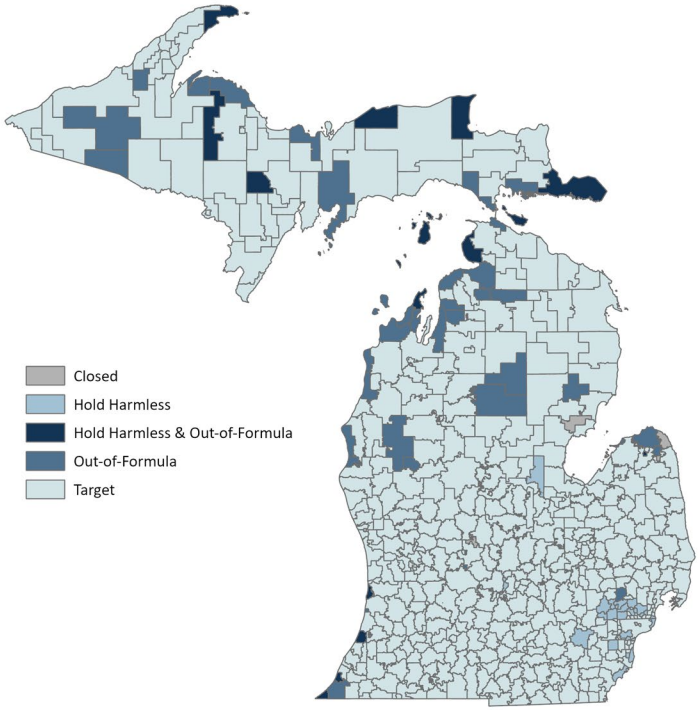



Figure 3: FY 2025-26 Per Pupil Foundation




Note: Maps do not include public school academies because they do not have a geographic boundary.

## PUBLIC SCHOOL ACADEMIES (PSAS)

Originally, and until FY 2007-08, the foundation allowance for a PSA, or charter school, was the lesser of the following:

- The foundation allowance of the local district in which the PSA is located; or
- $300 above the Basic/Target.

Beginning in FY 2007-08, the foundation allowance for a PSA was the lesser of:

- The foundation allowance of the local district in which the PSA is located; or
- The maximum public school academy allocation (**PSA Max**).

The PSA Max was an amount adjusted annually under the 2x formula like any other district foundation allowance, based on the level of the highest PSA foundation allowance when the formula was restored. Due to equity payments that significantly increased the Minimum in subsequent years, the Minimum caught up with the PSA Max in FY 2014-15, making them equal.

When the Minimum caught up to the Target in FY 2021-22, all PSA foundations were equal to the Target. However, in FY 2023-24 and FY 2024-25, an exception to this rule was made to maintain PSAs that are cyber schools at their FY 2022-23 Target foundation of $9,150 (rather than the Target level of $9,608). In FY 2025-26, the PSA foundation was again set equal to the Target. There are currently 16 cyber schools operating in Michigan.

PSAs do not have a geographical boundary and so cannot levy local property taxes; therefore, the state funds 100% of their foundation allowances.

## DECLINING ENROLLMENT

After rising for nearly a decade following Proposal A, the statewide pupil membership[2] peaked at nearly 1,715,000 in FY 2002-03 before declining to an estimated 1,371,800 in FY 2025-26, a drop of about 343,000 pupils, or 20%. Under a per-pupil funding mechanism, fewer pupils means fewer dollars to districts, but also reduces state costs. The membership decline since FY 2002-03 equates to a loss of approximately $3.4 billion for districts based on the FY 2025-26 Target. The state savings related to declining enrollment each fiscal year offsets the state cost of a foundation allowance increase, sometimes resulting in a net decrease in state foundation funding. During the FY 2002-03 peak in statewide membership, total state and local foundation allowance funding equaled $12.3 billion, and in FY 2025-26 it equals an estimated $13.6 billion. Table 3 below shows the pupil membership history since Proposal A.

Since FY 2023-24, the budget includes annual funding under Sec. 29, which appropriates $71.0 million Enrollment Stabilization Fund (a fund created as a subaccount of the School Aid Fund) to provide districts with declining enrollment additional funding to temporarily offset part of the financial impact of declining enrollment. The Sec. 29 formula calculates an amount equal to the difference between a two-year average pupil membership blend and the district's FY 2025-26 pupil count, multiplied by the Target foundation allowance. However, due to insufficient funding, Sec. 29 is prorated to about 63% of the calculation. There is about $130.0 million remaining in the Enrollment Stabilization Fund for future appropriations.

[2] A district's pupil blend is determined by the full-time-equated pupils enrolled in the district on the October count date in the current school year and the February count date in the prior school year. The proportional weight given to each count date has changed over time, but is currently equal to 90% of the October count plus 10% of the prior February count.

**Table 3: Pupil Membership History**

| Fiscal Year | Pupils | Change | % Change |
|---|---|---|---|
| 1994-95 | 1,592,726 | | |
| 1995-96 | 1,615,579 | 22,853 | 1.4% |
| 1996-97 | 1,646,747 | 31,168 | 1.9% |
| 1997-98 | 1,671,174 | 24,427 | 1.5% |
| 1998-99 | 1,688,996 | 17,822 | 1.1% |
| 1999-00 | 1,698,414 | 9,418 | 0.6% |
| 2000-01 | 1,706,407 | 7,993 | 0.5% |
| 2001-02 | 1,710,630 | 4,223 | 0.2% |
| 2002-03 | 1,714,705 | 4,075 | 0.2% |
| 2003-04 | 1,714,185 | (520) | 0.0% |
| 2004-05 | 1,707,357 | (6,828) | (0.4%) |
| 2005-06 | 1,697,537 | (9,820) | (0.6%) |
| 2006-07 | 1,680,282 | (17,255) | (1.0%) |
| 2007-08 | 1,652,332 | (27,950) | (1.7%) |
| 2008-09 | 1,619,449 | (32,883) | (2.0%) |
| 2009-10 | 1,592,380 | (27,069) | (1.7%) |
| 2010-11 | 1,569,436 | (22,944) | (1.4%) |
| 2011-12 | 1,548,999 | (20,437) | (1.3%) |
| 2012-13 | 1,535,989 | (13,010) | (0.8%) |
| 2013-14 | 1,522,628 | (13,361) | (0.9%) |
| 2014-15 | 1,508,008 | (14,620) | (1.0%) |
| 2015-16 | 1,495,980 | (12,028) | (0.8%) |
| 2016-17 | 1,491,164 | (4,816) | (0.3%) |
| 2017-18 | 1,484,193 | (6,971) | (0.5%) |
| 2018-19 | 1,470,839 | (13,354) | (0.9%) |
| 2019-20 | 1,461,051 | (9,788) | (0.7%) |
| 2020-21 | 1,449,814 | (11,237) | (0.8%) |
| 2021-22[1] | 1,405,083 | (44,731) | (3.1%) |
| 2022-23 | 1,399,229 | (5,854) | (0.4%) |
| 2023-24 | 1,390,859 | (8,370) | (0.6%) |
| 2024-25 | 1,384,334 | (6,525) | (0.5%) |
| 2025-26[2] | 1,371,800 | (12,534) | (0.9%) |
| **Total Change since FY 1994-95** | | **(220,926)** | **(13.9%)** |
| **Total Change since FY 2002-03 peak** | | **(342,905)** | **(20.0%)** |

[1] FY 2020-21 used a superblend ratio to calculate the number of pupils in order to mitigate the sharp decline that happened as a result of the COVID-19 pandemic. As a result, schools experienced a loss of pupils in FY 2021-22 instead.
[2] This is an estimate based on the January 2026 Consensus Revenue Estimating. Conference.