



Budget Briefing: School Aid

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January 2025

Briefing Topics

- Funding Sources
- Appropriation Areas
- Major Budget Topics
 - School Aid Fund Revenues
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School Aid

The School Aid Budget pays for the operations of public schools to “maintain and support a system of free public elementary and secondary schools as defined by law” as required by the Michigan Constitution.

- The School Aid budget makes appropriations to **537** local school districts, **286** public school academies, and **56** intermediate school districts (ISDs) for operations and certain categorical programs.
- It also provides funds to the Michigan Department of Lifelong Education, Advancement, and Potential (MiLEAP), the Center for Educational Performance and Information (CEPI), and other entities to implement certain grants and other programs related to K-12 education.

Key Budget Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2024-25 is October 1, 2024 through September 30, 2025.

Appropriation: Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the legislature.

Line Item: Specific appropriation amount in a budget bill that establishes spending authorization for a particular program or function.

Boilerplate: Specific language sections in a budget bill that direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

Lapse: Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

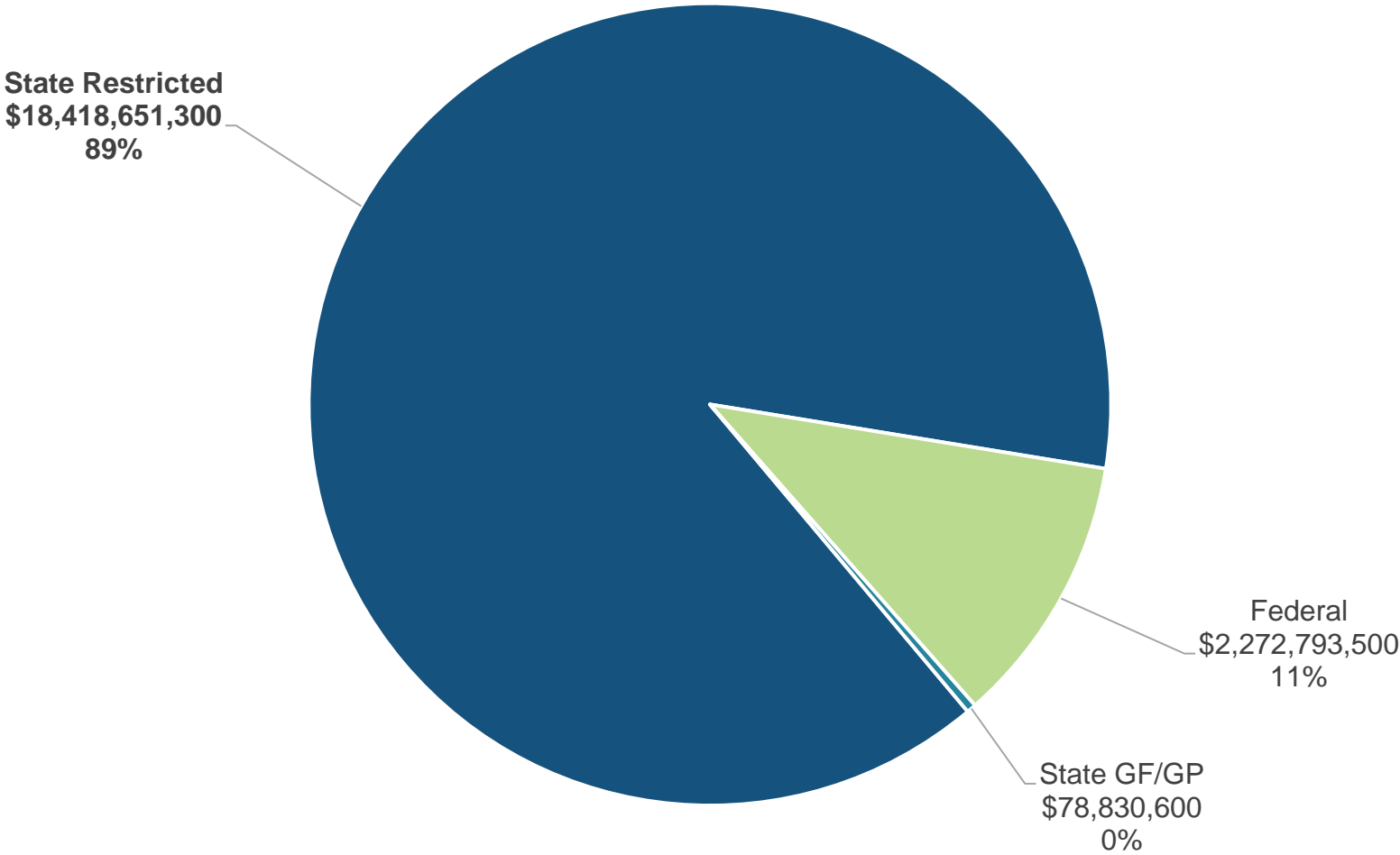
Funding Sources

FY 2024-25 School Aid Budget

Fund Source	Funding	Description
Gross Appropriations	\$20,770,275,400	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	0	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$20,770,275,400	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	2,272,793,500	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	0	Revenue received from local units of government for state services
Private Revenue	0	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	18,418,651,300	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue
State General Fund/General Purpose (GF/GP) Revenue	\$78,830,600	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the legislature

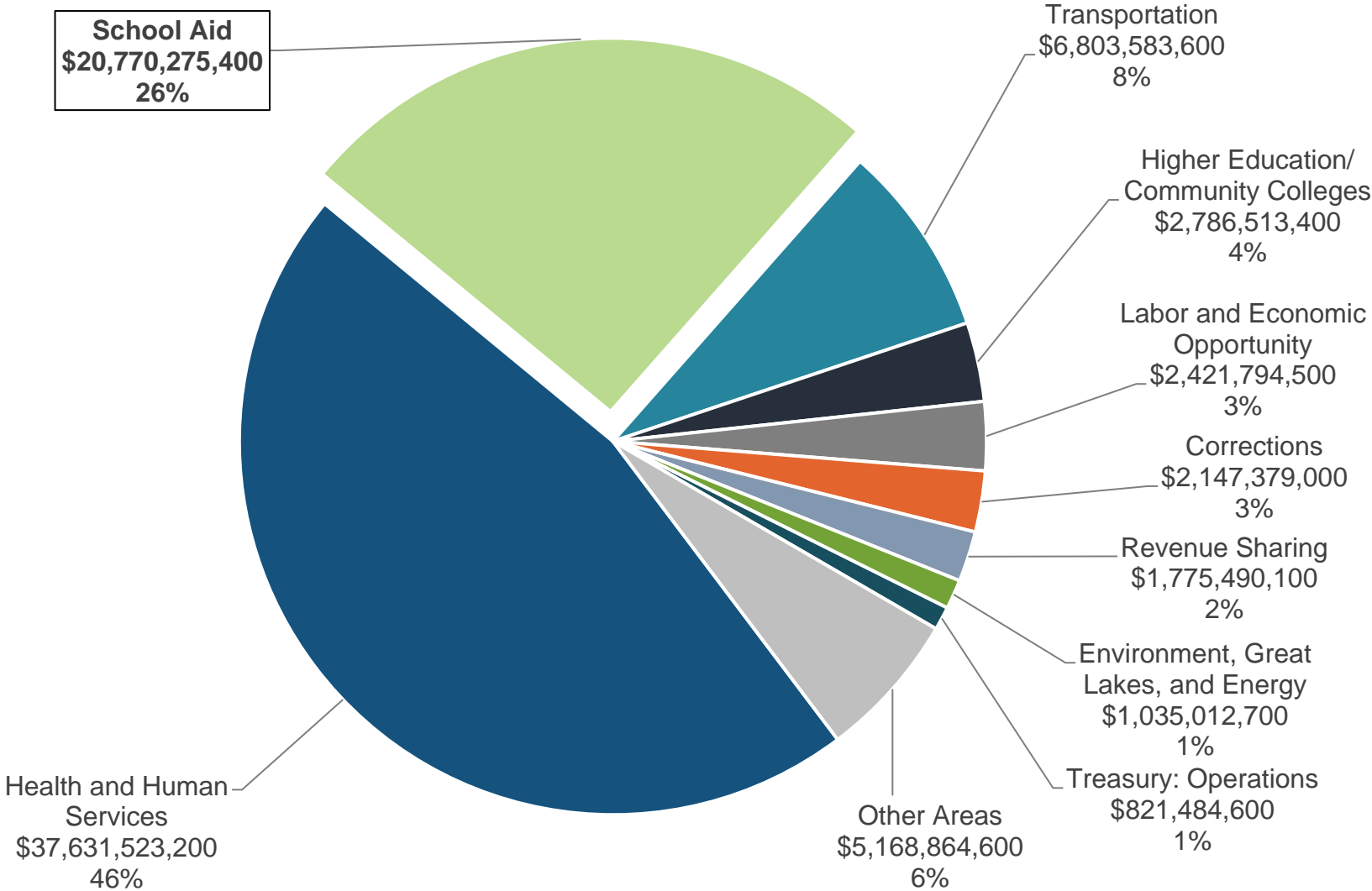
FY 2024-25 Fund Sources

89% of the \$20.8 billion School Aid budget is funded by state restricted revenue, almost all of which is School Aid Fund (SAF) revenues.



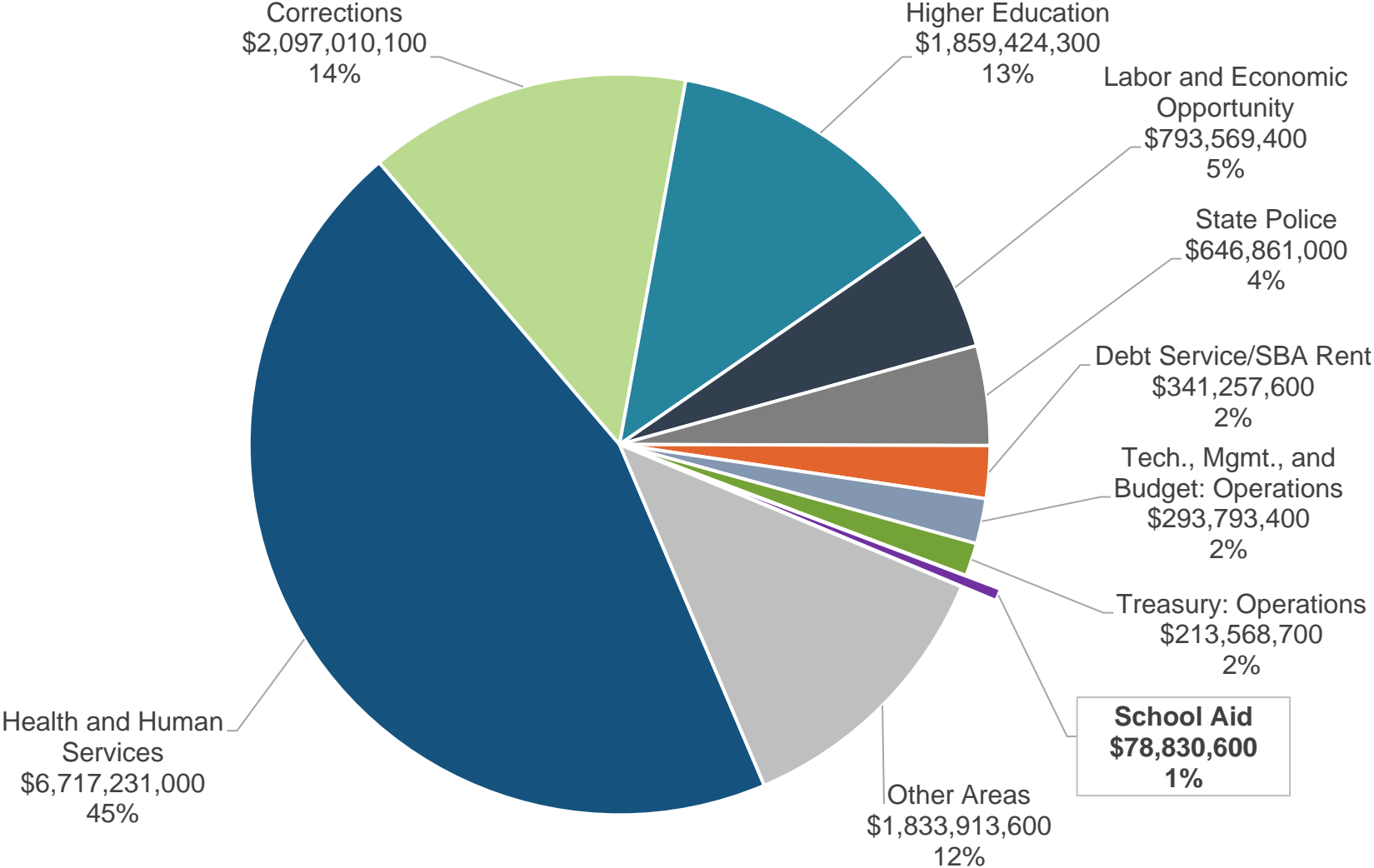
School Aid Share of Total State Budget

The School Aid budget represents a quarter of the \$81.4 billion state budget (adjusted gross) for FY 2024-25.



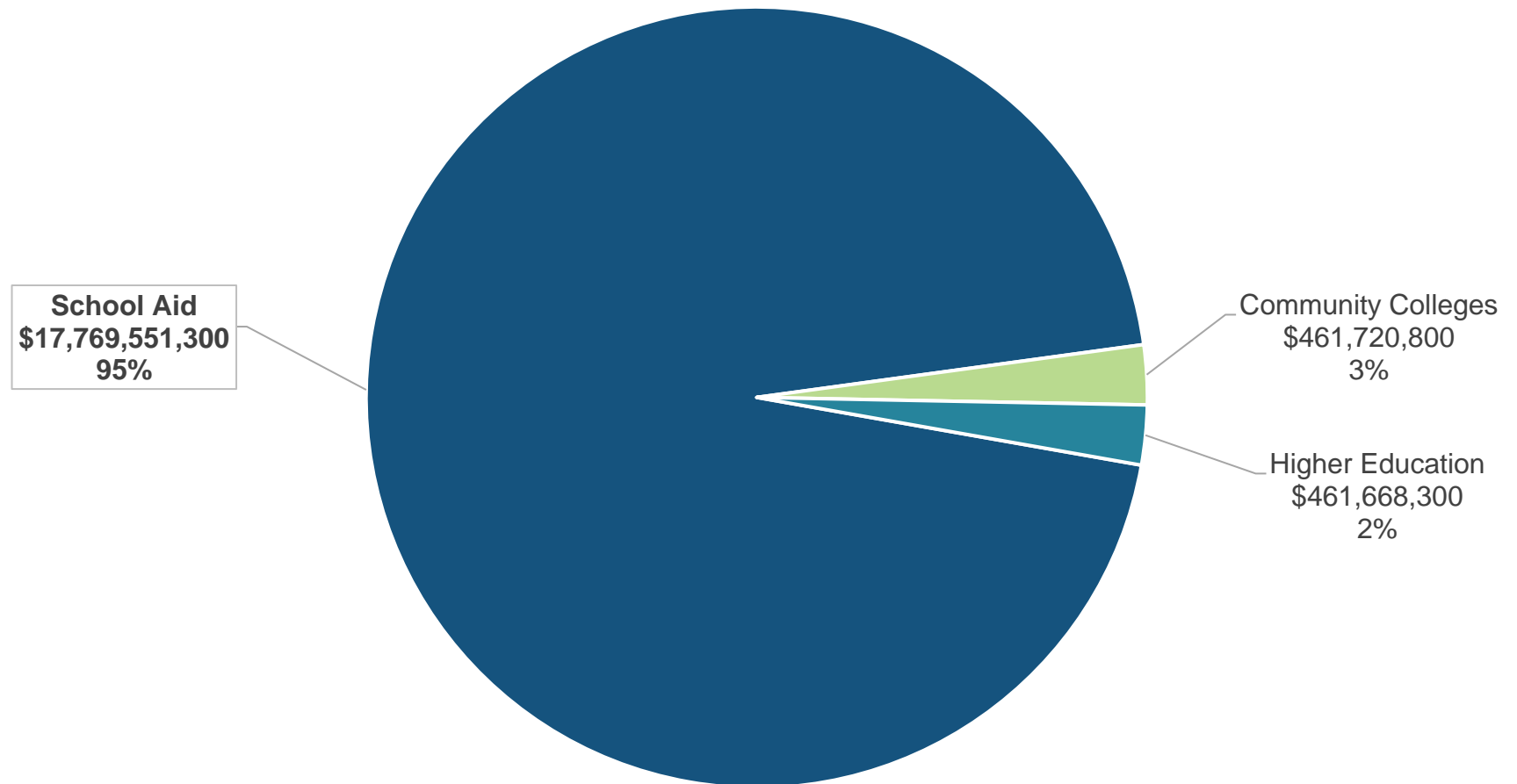
School Aid Share of Total GF/GP Budget

The School Aid budget is less than 1% of the state's \$14.9 billion GF/GP budget for FY 2024-25.



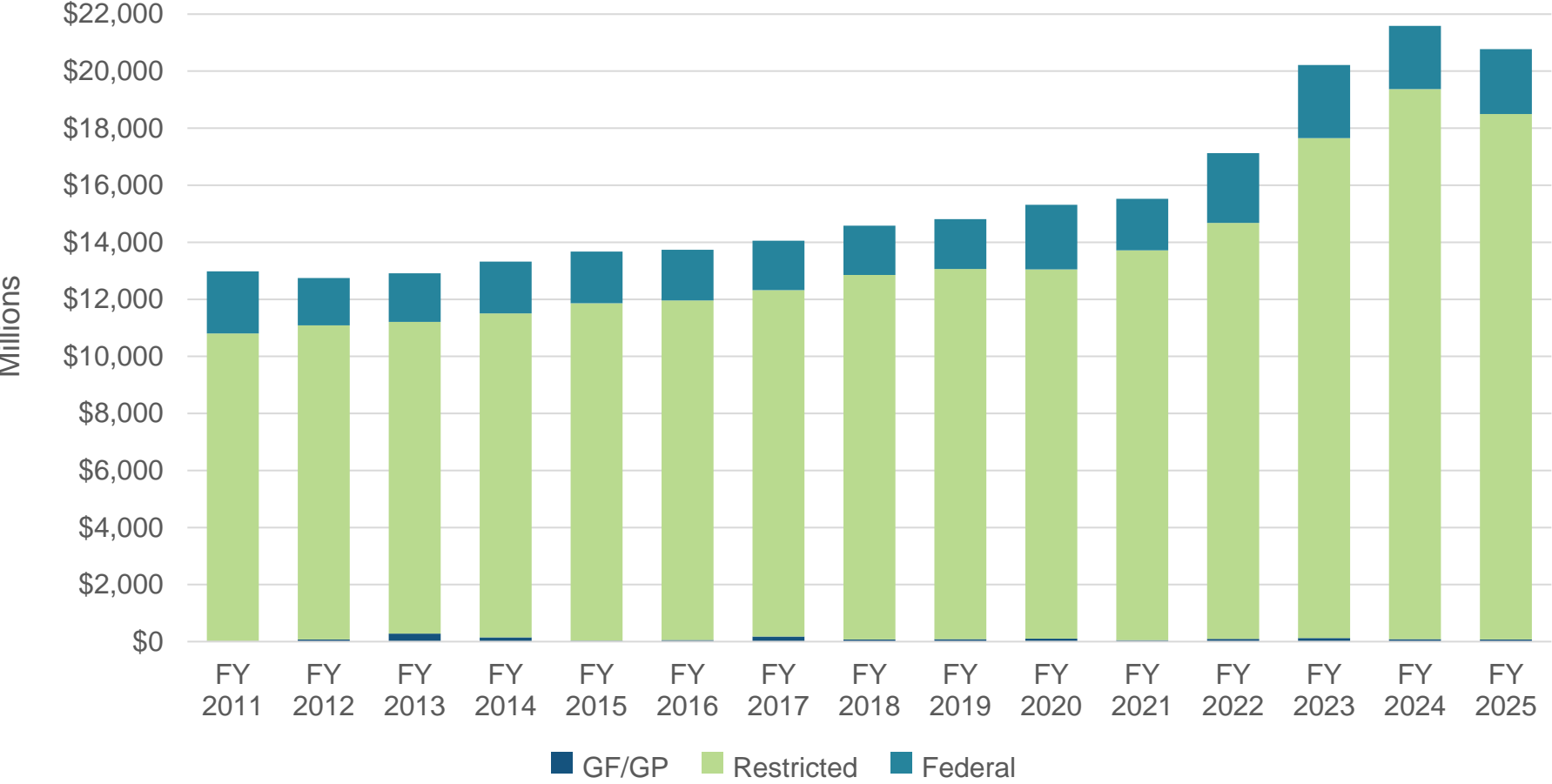
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

The School Aid budget represents **95%** of the state's **\$18.7 billion** SAF appropriations for FY 2024-25.



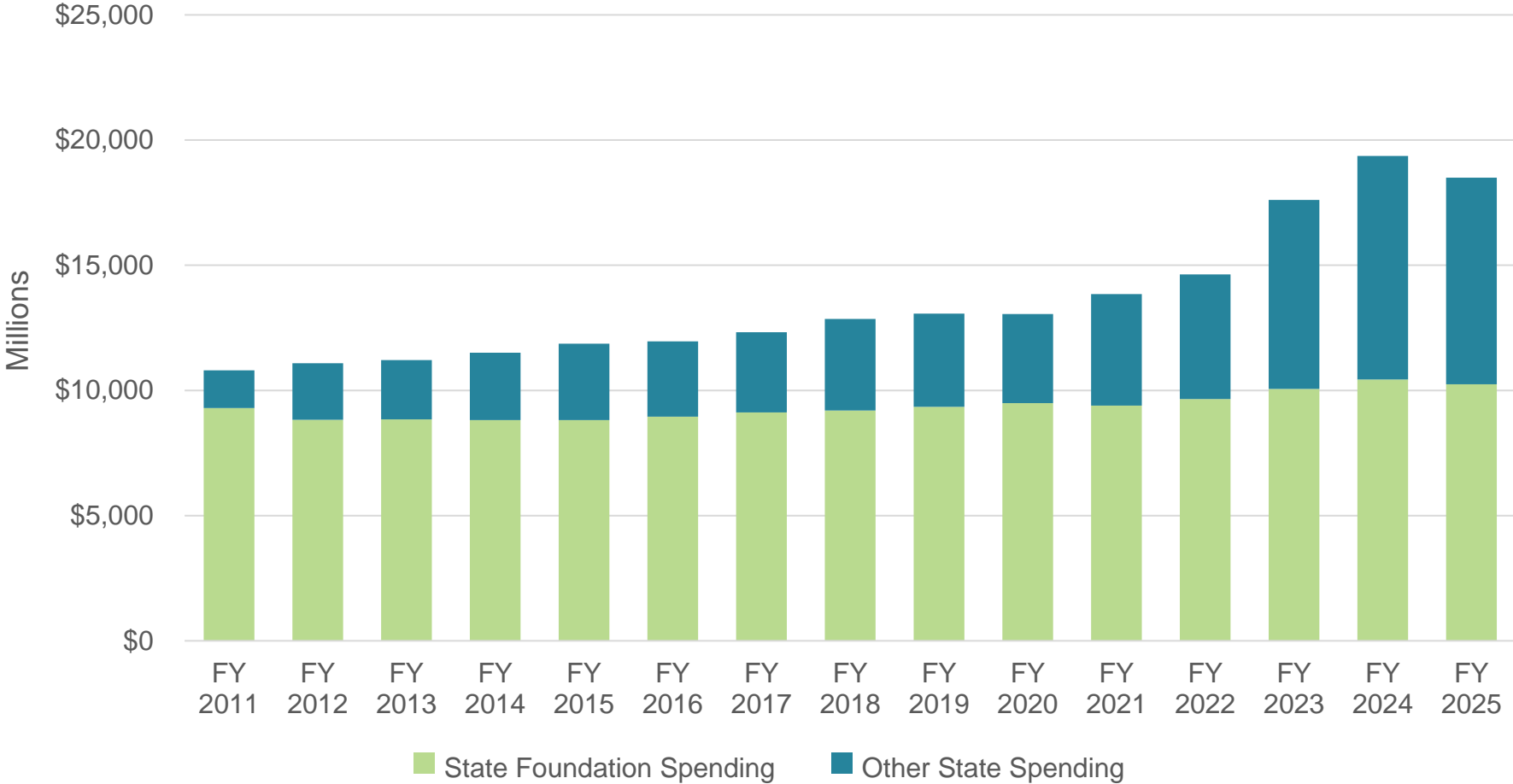
School Aid Budget Funding History

Funding for School Aid has grown by **60%** over the last 15 years, with **34%** of that growth driven by increases in funding for public school retirement.



School Aid Funding History – State Funds

Since FY 2010-11, non-foundation allowance spending has contributed to **88%** of the growth in School Aid state appropriations. In FY 2024-25, foundation allowances make up **55%** of total state spending.



Appropriation Areas

School Aid Appropriation Areas

Foundation Allowance: Provides per-pupil payment for general school operations.

Michigan Public School Employees' Retirement System (MPSERS):
Contributes a portion of annual retirement costs.

Federal Programs (Non-Special Ed): Primarily school food programs and Every Student Succeeds Act (ESSA) program funding.

Special Education: Both state and federal funds reimburse districts for a portion of their special education costs.

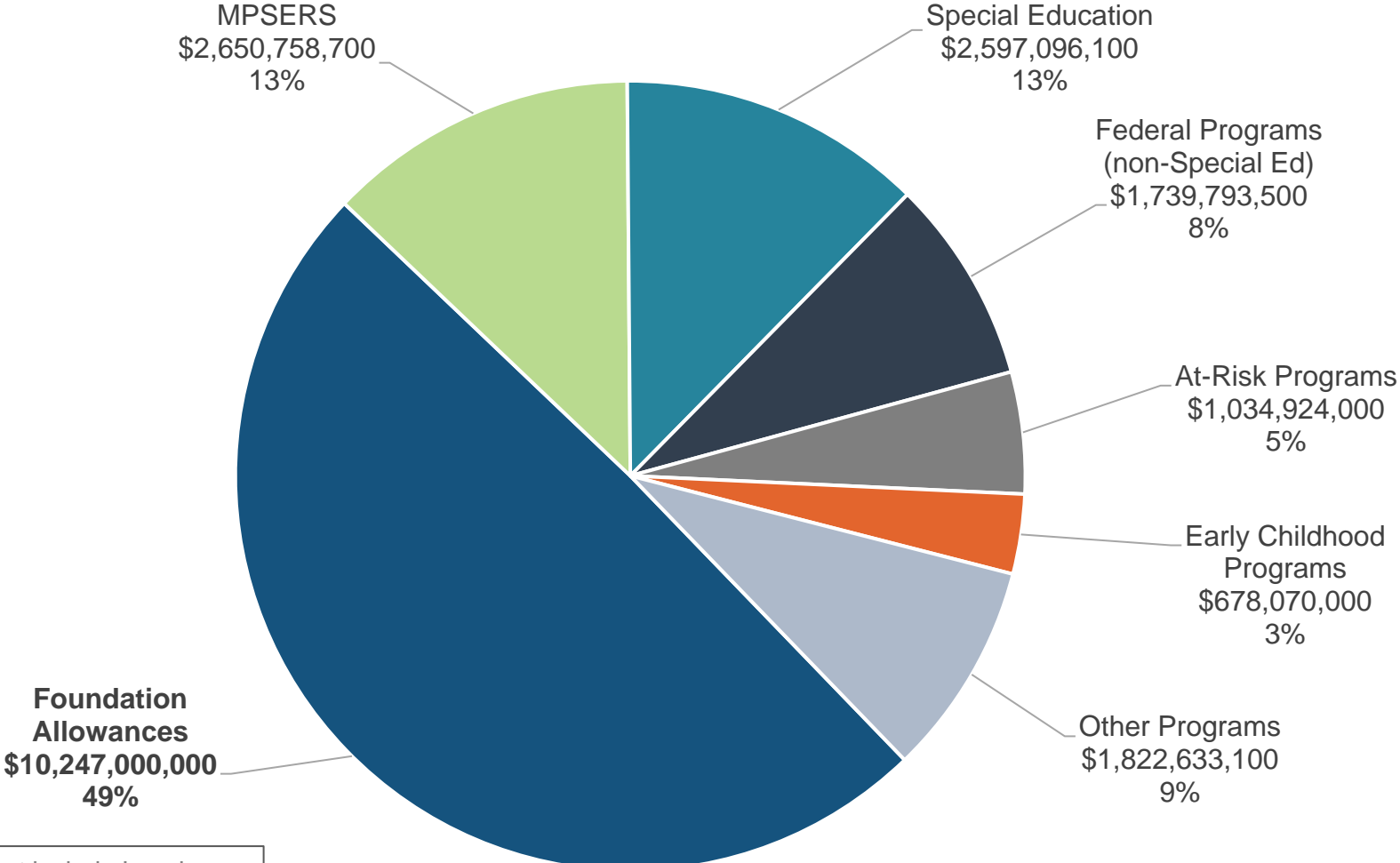
At-Risk Programs: Additional state funds to help students at risk of academic failure.

Early Childhood Programs: Provides preschool programs for 4-year-olds (GSRP) and parenting programs for parents of children ages 0-5.

One-Time Categoricals: Provides one-time funding for grants and other programs intended to receive support for one year only.

FY 2024-25 Gross Appropriations

About **49%** of the **\$20.8 billion** School Aid budget supports per-pupil foundation allowances used for school district general operations.



Note: Does not include Local portion of Foundation Allowances

Major Budget Topics

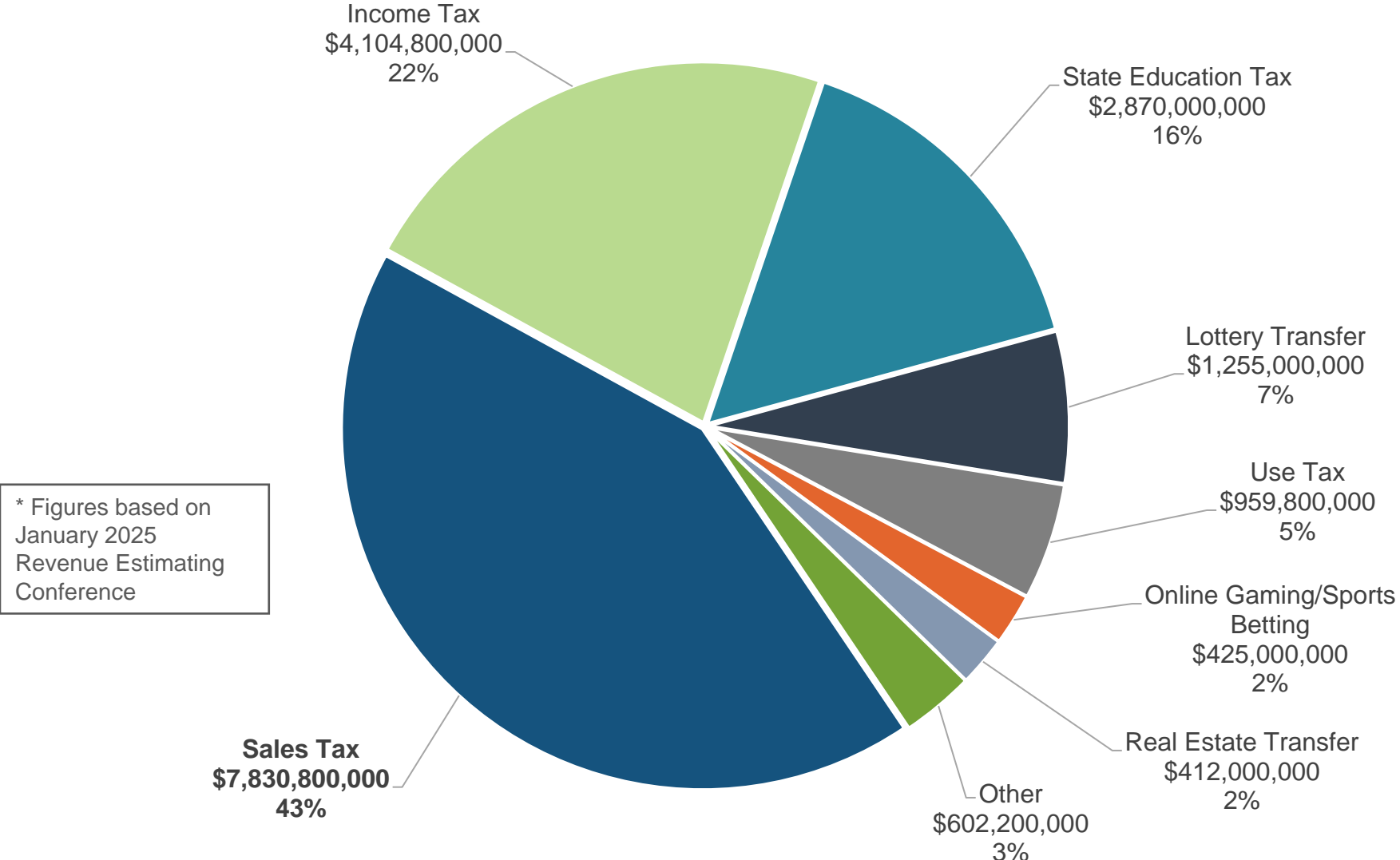
School Aid Fund Revenues

School Aid Fund (SAF) Revenue

- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked, or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires SAF to be used exclusively for schools, higher education, and school employee retirement benefits.
- SAF is estimated to receive approximately **\$18.5 billion** in revenue for FY 2024-25 (January 2025 CREC).
- Primary sources of SAF revenue are shown on next slide.

SAF Revenue Sources

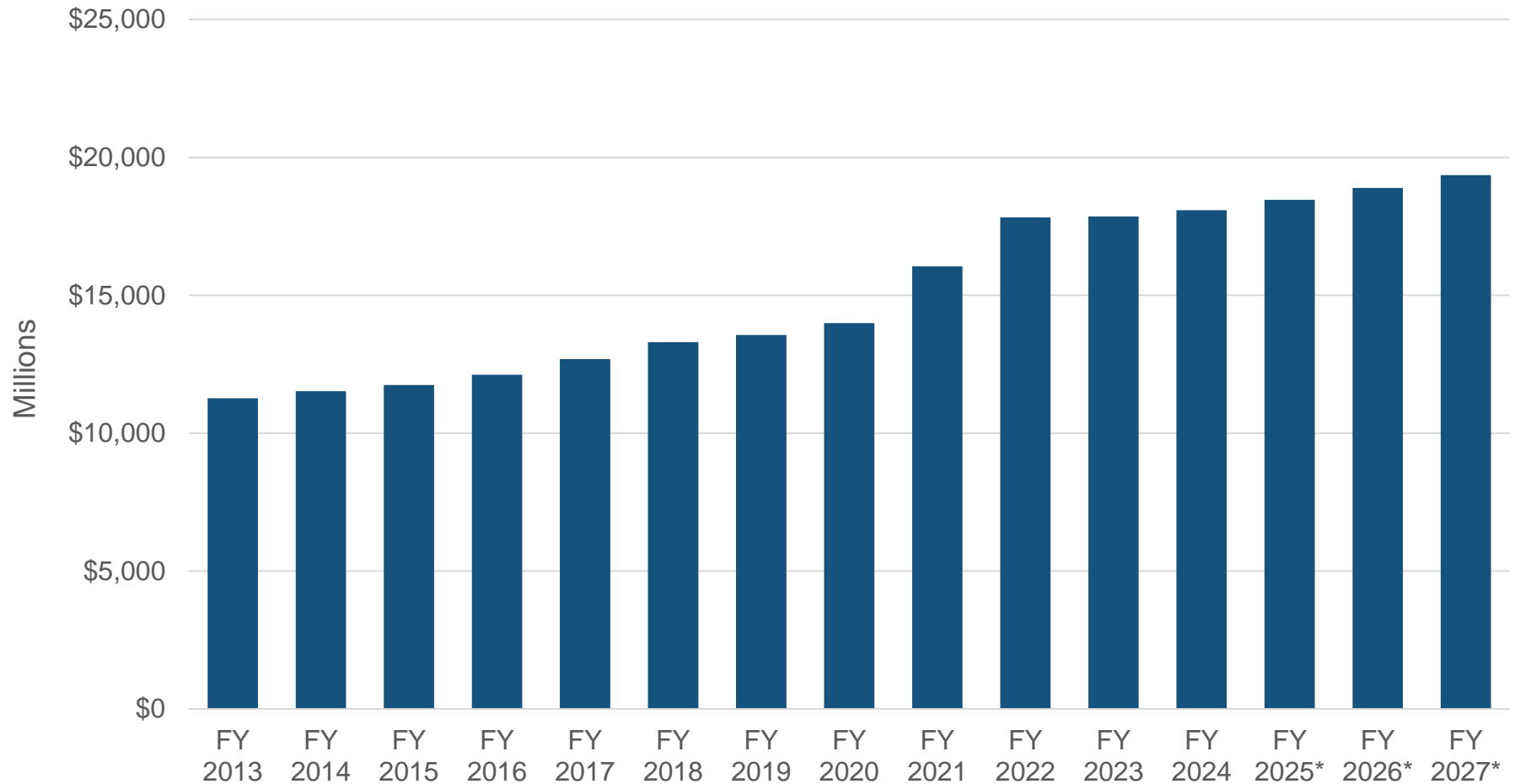
Sales tax is the largest revenue source, contributing **43%** of the **\$18.5 billion** in total estimated SAF revenue for FY 2024-25.



* Figures based on January 2025 Revenue Estimating Conference

SAF Revenue History

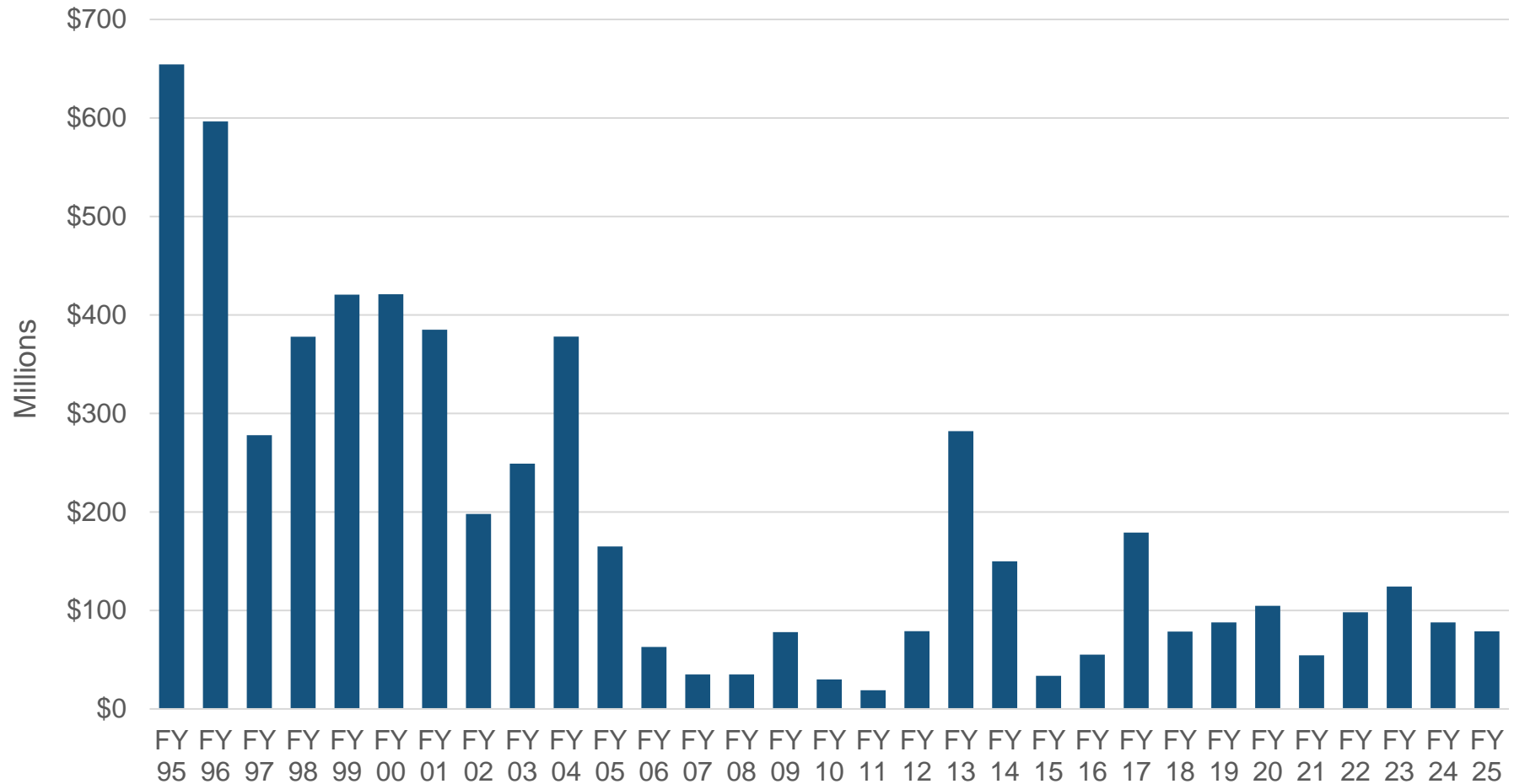
SAF revenues are estimated to increase by **2%** in FY 2024-25 and another **2%** in FY 2025-26 for a total of **\$18.9 billion** in FY 2025-26.



* FYs 2025, 2026, and 2027 are estimates from Jan 2025 Revenue Estimating Conference

GF/GP as a Fund Source in the School Aid Budget

The School Aid budget appropriates **\$78.8 million** GF/GP in FY 2024-25.



FY 2024-25 School Aid Fund Balance Sheet

	FY 2024-25	Baseline FY 2025-26
BEGINNING BALANCE	\$1,129.2	\$1,021.1
REVENUE		
School Aid Fund (SAF) Revenue	\$18,459.6	\$18,891.5
General Fund/General Purpose (GF/GP)	\$78.8	\$50.0
Other Restricted Funds	\$694.3	\$0.0
<u>Federal Funds</u>	<u>\$2,272.8</u>	<u>\$2,322.8</u>
TOTAL REVENUE	\$21,505.5	\$21,264.3
EXPENDITURES		
School Aid (Adj for consensus revisions)	\$20,689.7	\$19,314.7
Community Colleges	\$461.9	\$481.9
<u>Higher Ed</u>	<u>\$462.0</u>	<u>\$450.8</u>
TOTAL EXPENDITURES	\$21,613.6	\$20,247.4
CURRENT YEAR: REVENUES - EXPENDITURES	(\$108.0)	\$1,016.9
TOTAL ENDING BALANCE	\$1,021.1	\$2,038.0

Foundation Allowance

Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations was created as part of the Proposal A school finance reforms in FY 1994-95.
- Initial foundation allowance levels in FY 1994-95 were based on what each district collected from both state and local funds on a per-pupil basis in the prior year.
 - Minimum level of funding established: \$4,200
 - Target (previously known as the Basic) level determined: \$5,000
 - State Guaranteed Maximum level set: \$6,500
- In FY 2021-22, the gap between the Minimum and the Maximum was closed.
- The foundation allowance for most districts is set at **\$9,608** for FY 2024-25. The foundation allowance for cyber schools is **\$9,150**.
- The Enrollment Stabilization Fund provides districts experiencing declining enrollment additional funding based on a two-year average pupil blend.
- Hold Harmless districts' foundation allowances range up to a high of **\$13,443**.

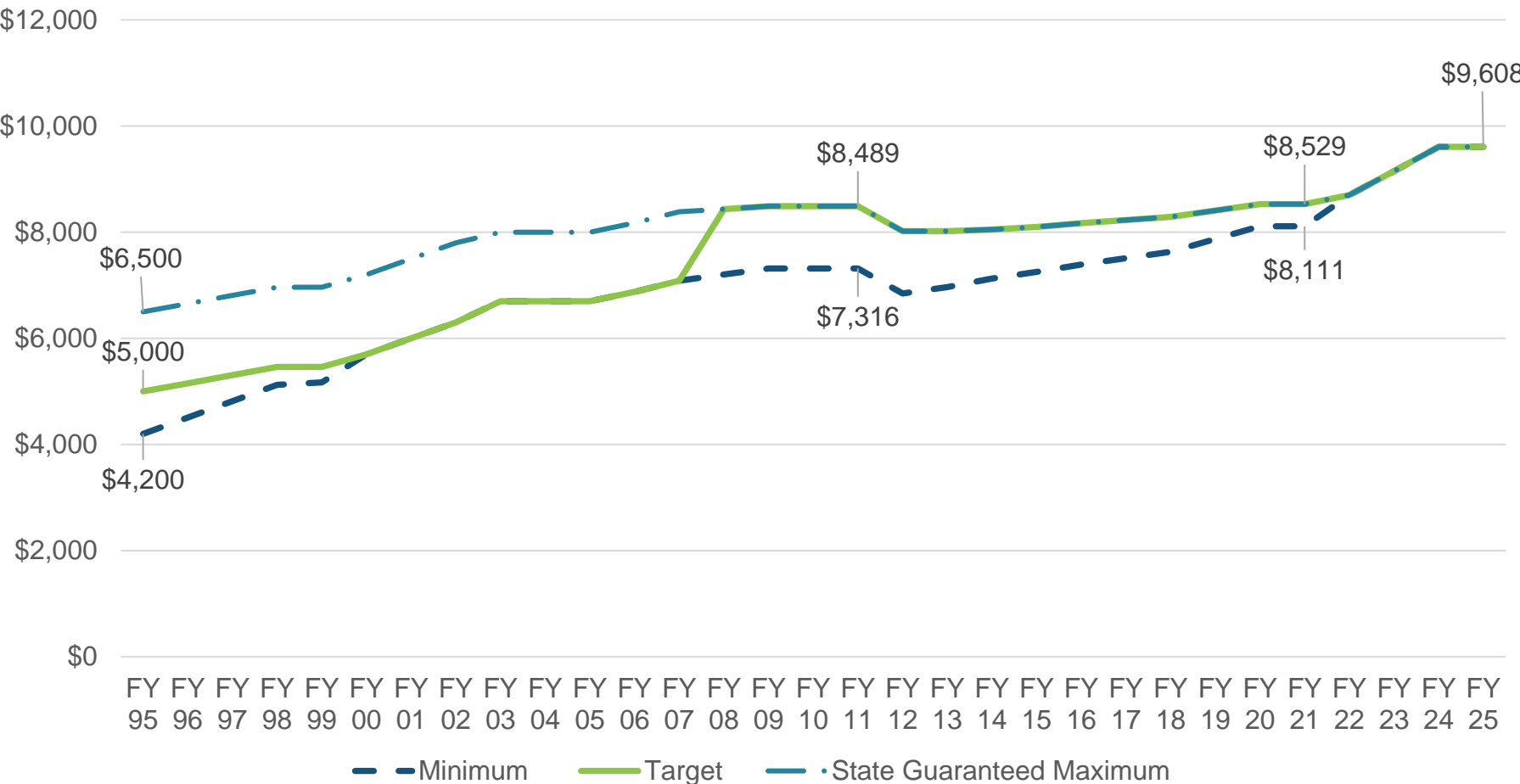
History of the Foundation Allowance Levels

- The “Target,” previously known as the “Basic,” foundation allowance was a goal established in 1994 as part of the Proposal A reforms, and it was set by the legislature each year as the target per-pupil funding level.
- In FY 1999-00, the Minimum foundation allowance caught up to the Target, after which point all districts received the same annual increases except for two years in which additional “equity” payments were made to those at the Minimum/Target to decrease the funding gap between those at the top and bottom.
- In FY 2007-08, the legislature re-set the Target foundation allowance to equal the State Guaranteed Maximum foundation and reinstated the 2x formula under which districts at the bottom receive twice the increase as those at the Target or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.
- In FY 2021-22, the Minimum again caught up to the Target and all non-Hold Harmless, non-cyber districts now receive the same foundation allowance.
- In FY 2023-24, the cyber school foundation allowance was separated from the Target foundation and cybers continue to be held at their FY 2022-23 level.

Foundation Allowance History

Growth Since Proposal A

The Target is maintained at **\$9,608** per pupil for FY 2024-25. Cyber schools receive **\$9,150** per pupil.

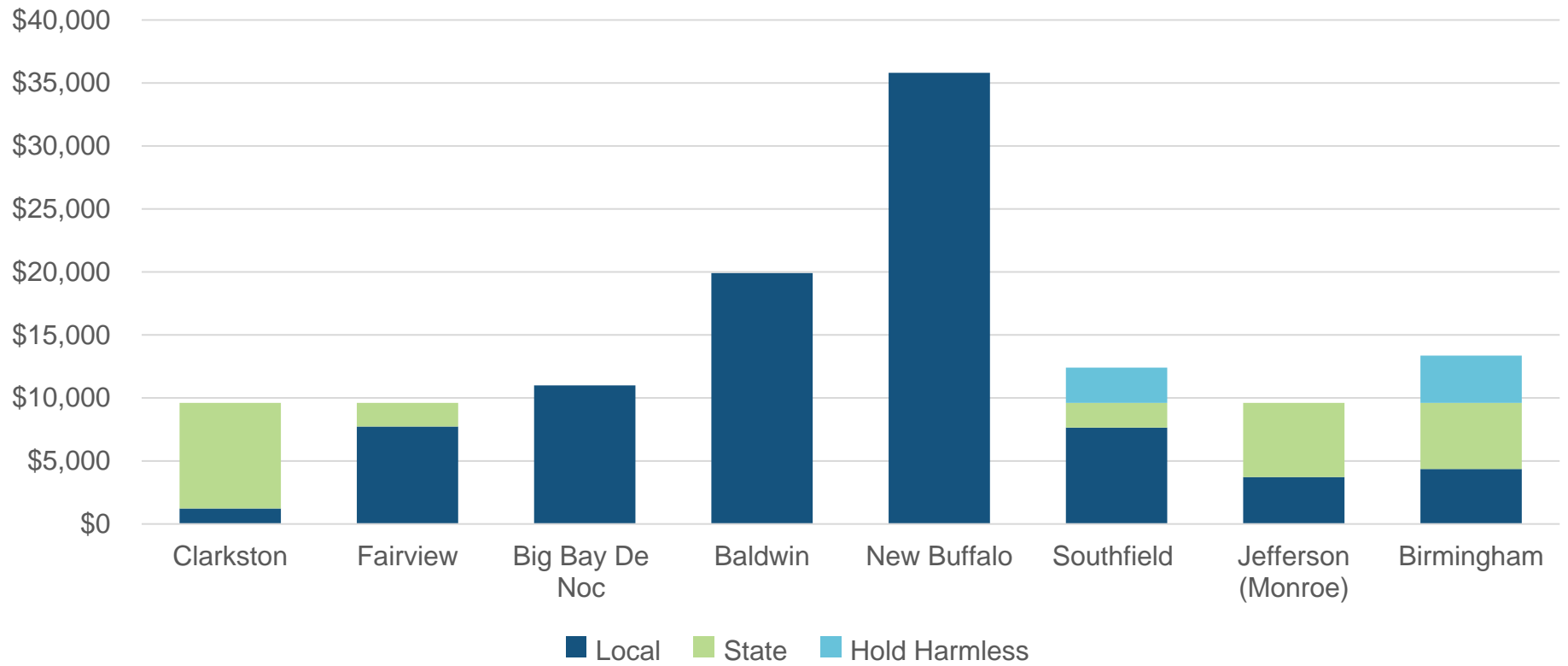


Foundation Allowance

State/Local Funding Mix

- Each district levies 18 mills on non-homestead property.
- State calculates local revenue from the 18 mills on a per-pupil basis.
- State pays the remaining amount per pupil needed to equal the Target foundation allowance.
- Districts with foundation allowances above the Target (**hold harmless districts**) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance. There are **21** districts levying hold harmless mills in FY 2024-25.
- Districts whose local revenue exceeds their foundation allowance (**out-of-formula districts**) do not receive a state share and may keep the revenue that exceeds their statutory foundation. There are **48** out-of-formula districts in FY 2024-25.

FY 2024-25 State/Local Funding Mix Examples



Type	District	Foundation	Local	State	HH	NHS Mills	HH Mills
	Clarkston	\$9,608	\$1,228	\$8,380	\$0	18.0	0.0
	Fairview	\$9,608	\$7,732	\$1,876	\$0	18.0	0.0
O-of-F	Big Bay	\$9,608	\$11,002	\$0	\$0	18.0	0.0
O-of-F	Baldwin	\$9,608	\$19,908	\$0	\$0	18.0	0.0
HH, O-of-F	New Buffalo	\$11,443	\$35,805	\$0	\$0	18.0	0.0
HH	Southfield	\$12,410	\$7,648	\$1,960	\$2,802	18.0	9.9
HH	Jefferson	\$12,619	\$3,720	\$5,888	\$0	18.0	0.0
HH	Birmingham	\$13,363	\$4,364	\$5,244	\$3,755	18.0	5.1

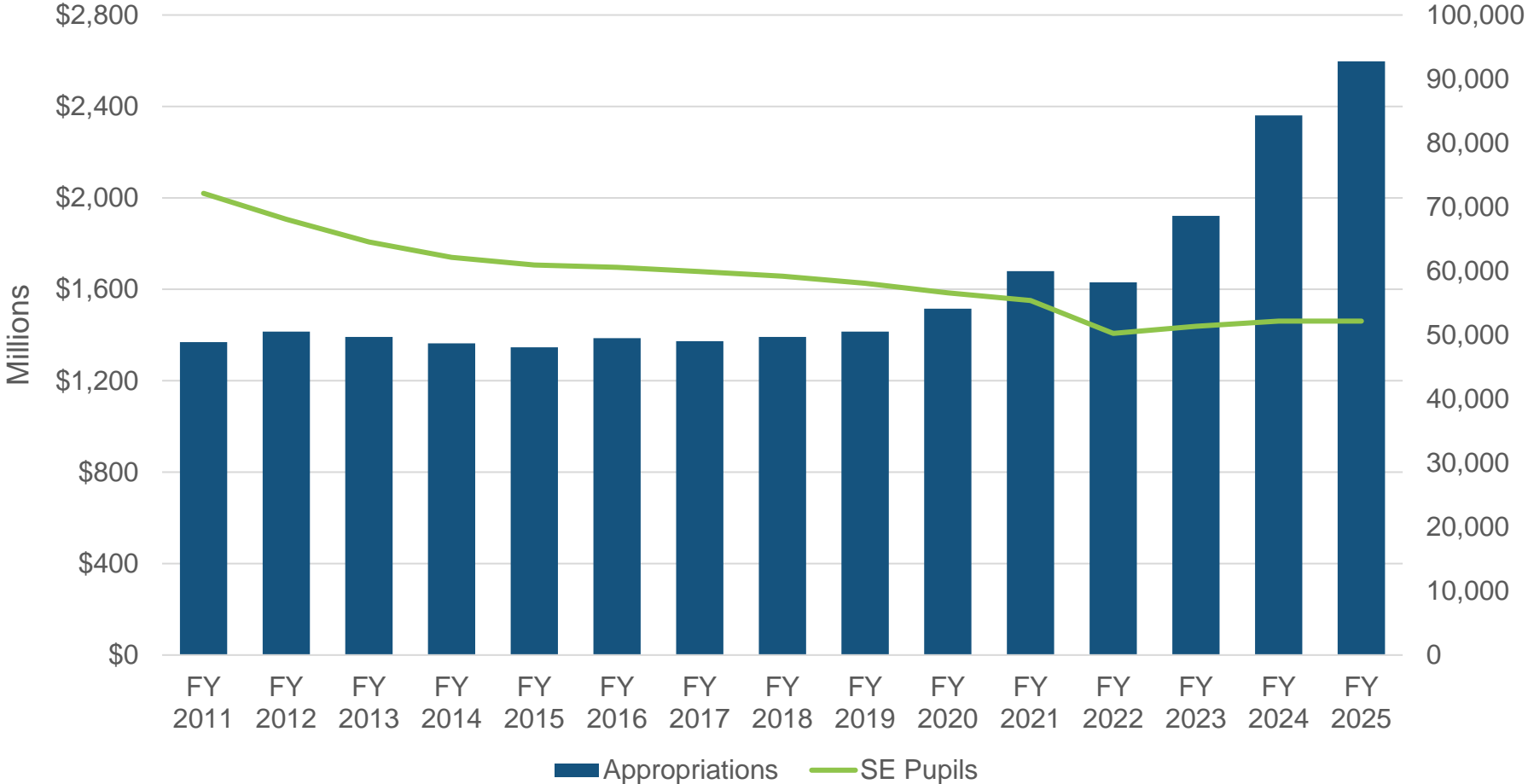
Special Education Funding

Special Education Funding

- **\$2.6 billion** total in FY 2024-25 (third largest School Aid appropriation area)
 - **\$2.1 billion** state dollars
 - **\$533.0 million** federal dollars
- Reimburses school districts and ISDs for the costs of educating special education students.
- Required state reimbursement rates determined by the Michigan Supreme Court in *Durant v. State of Michigan* in 1997:
 - **28.6138%** of Total Special Education Costs
 - **70.4165%** of Total Special Education Transportation Costs
- In FY 2023-24, the state began to pay **100%** of special education pupils' foundation allowances (rather than use foundations to offset Durant costs).
- Local special education mills, levied by each ISD, will generate an estimated additional **\$1.5 billion** in FY 2024-25.
- Uncompensated allowable special education costs equaled an estimated **\$601.5 million** in FY 2022-23.

Special Education Appropriations

Special Education appropriations are expected to increase by **\$236.4 million** in FY 2024-25 to **\$2.6 billion**. Special education pupils peaked in FY 2004-05 and declined by **43%** by FY 2024-25.



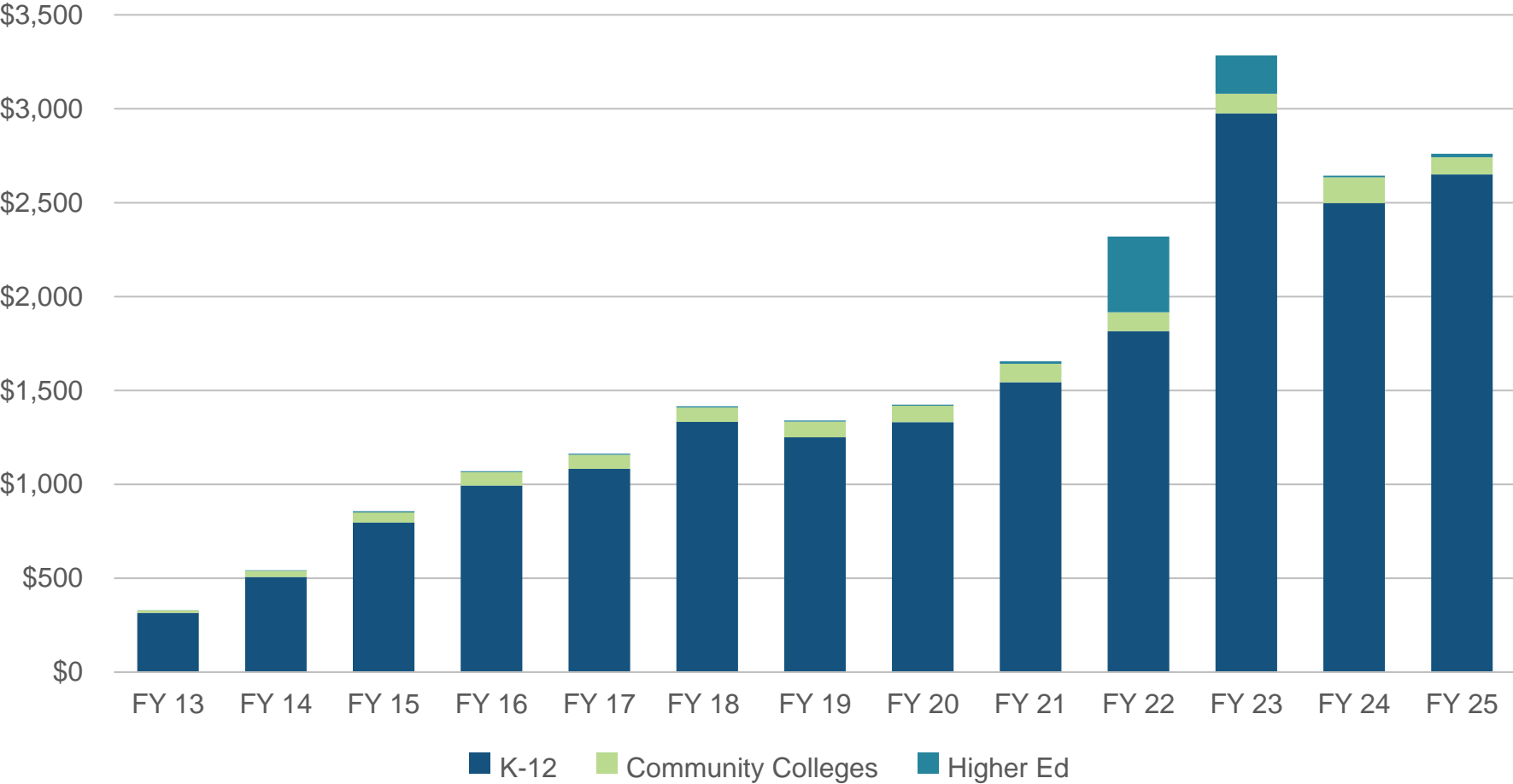
MPERS – Retirement Costs

Michigan Public School Employees' Retirement System (MPERS) Appropriations

- Section 147a(1) – Provides **\$100.0 million** to districts to offset a share of their MPERS costs.
- Section 147a(2) – Provides **\$365.2 million** to reimburse MPERS employers for the increased normal costs associated with the reduction in the long-term investment rate of return assumptions from 8.0% in FY 2016-17 to 6.0% in FY 2023-24.
- Section 147a(3) – Provides **\$11.9 million** one-time to ISDs and district libraries to offset a share of their MPERS costs.
- **NEW** Section 147a(4) – Provides **\$598.0 million** to effectively lower the 20.96% unfunded actuarial accrued liability (UAAL) contribution cap to an estimated 15.22% of MPERS covered payroll.
- Section 147c – Provides **\$1.3 billion** to pay for the state share of UAAL costs above 20.96% as required by 2012 PA 300.
- Section 147e – Provides **\$104.7 million** to reimburse MPERS employers for the increased normal costs associated with both the new Hybrid plan and the new Defined Contribution (DC or 401k plan) enacted under 2017 PA 92.
- **NEW** Section 147g – Provides **\$181.5 million** one-time for districts to reimburse certain employees for their 3% healthcare contribution.

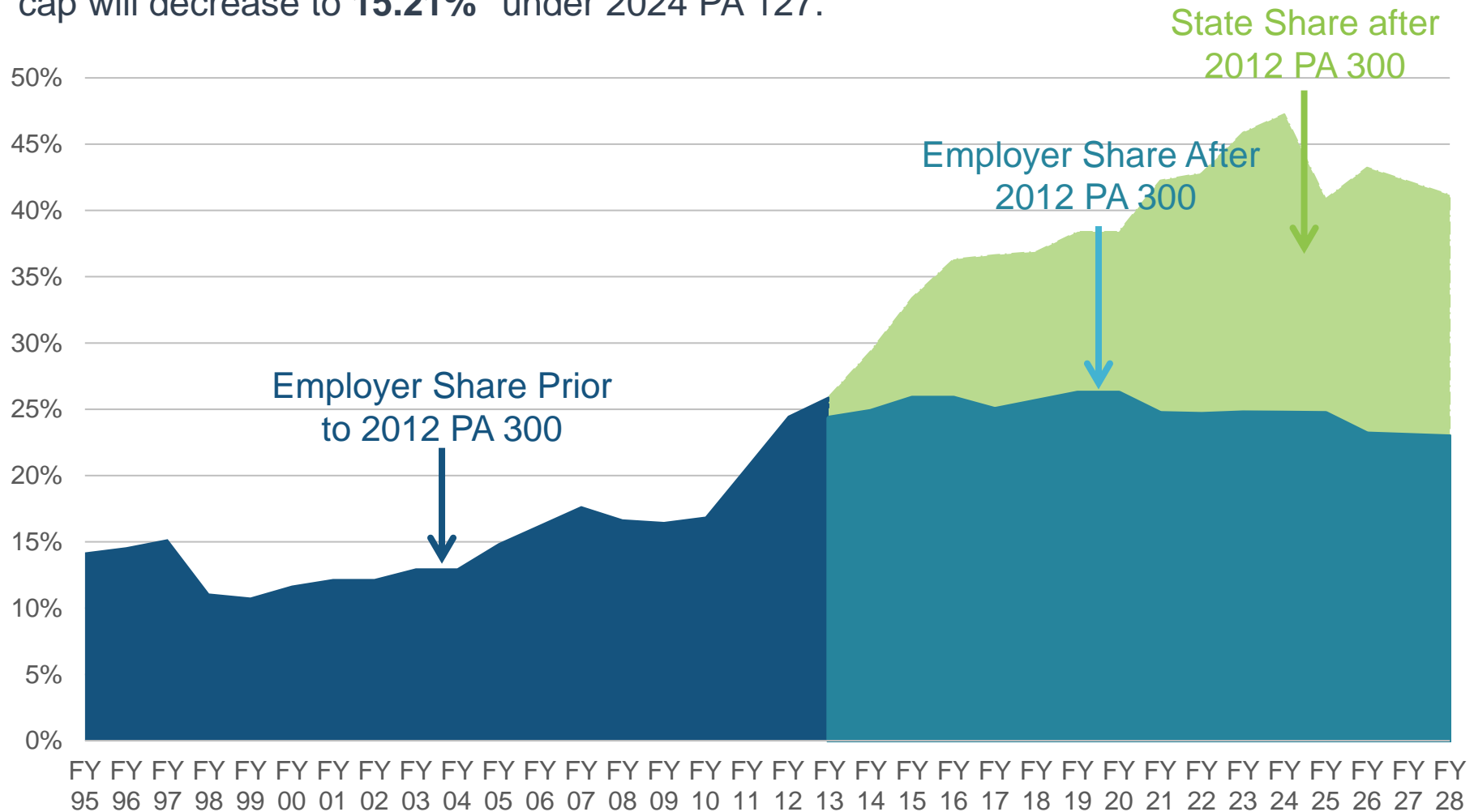
MPERS State Appropriations

MPERS appropriations total **\$2.8 billion** in FY 2024-25. In some years, funding has included additional one-time payments to pay down unfunded liabilities; most notably, the state paid off existing university UAAL and provided **\$1.0 billion** toward remaining UAAL in FY 2022-23.



MPERS State Share - Unfunded Actuarial Accrued Liability (UAAL)

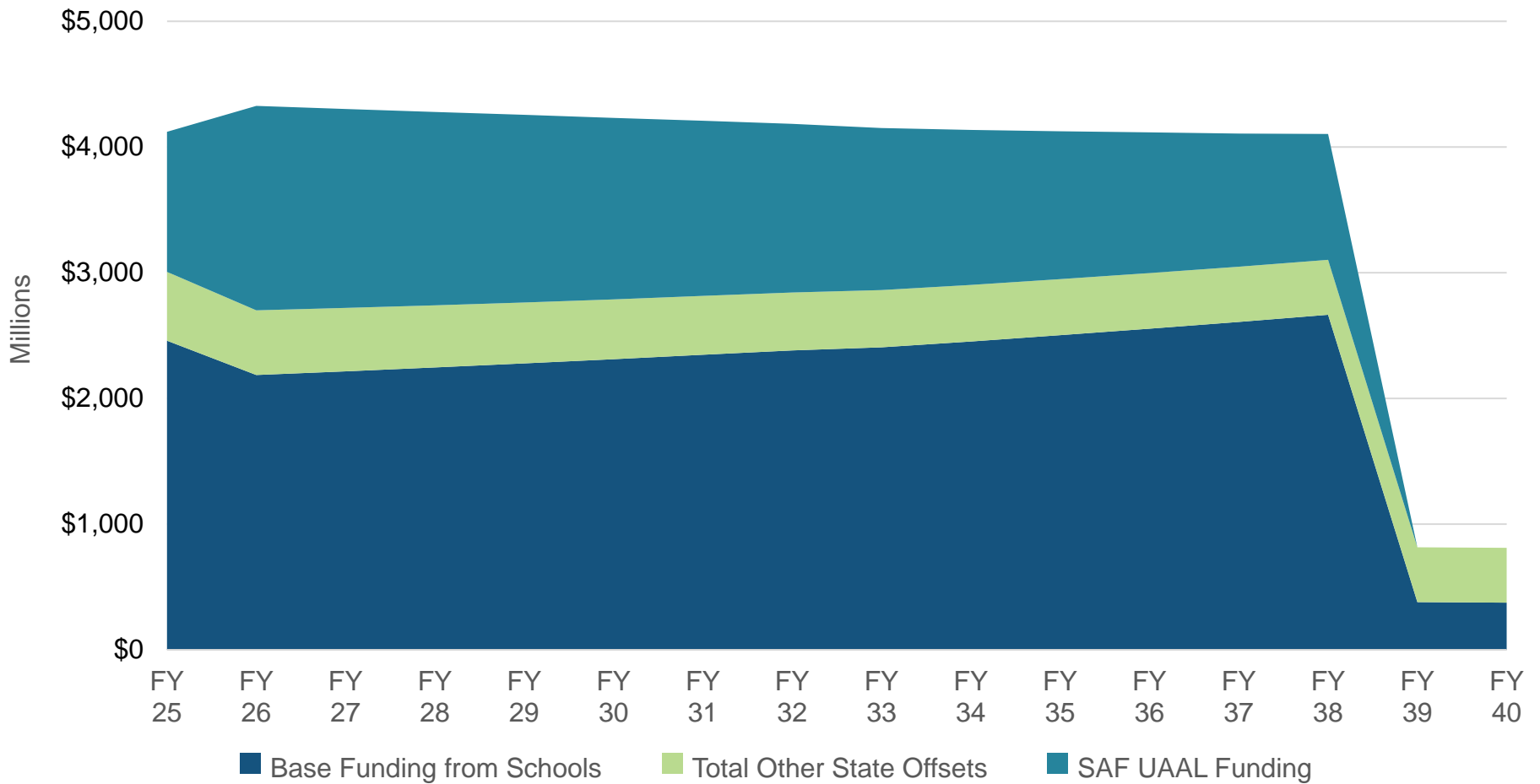
The employer MPERS contribution rate is capped at **20.96%** for unfunded liability plus the normal costs for retirement benefits newly earned each year, which fluctuate. The state pays the rest of the UAAL contribution. Beginning in FY 2025-26, employers' UAAL cap will decrease to **15.21%*** under 2024 PA 127.



* The School Aid Budget effectively reduces the cap one year early in FY 2024-25 by reimbursing employers. This change is not shown here.
 House Fiscal Agency 35 January 2025

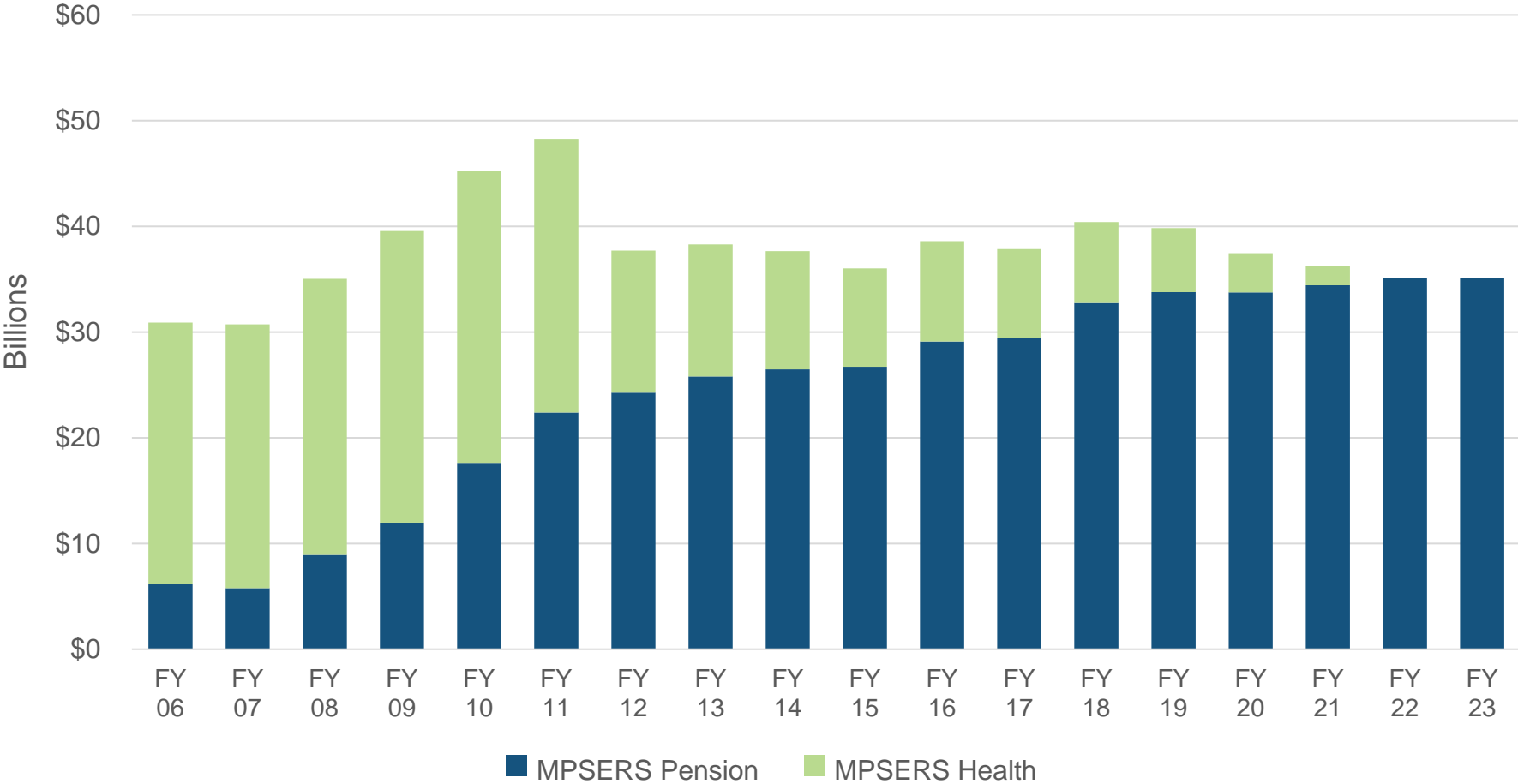
Projected MPSERS Costs

Additional investments into the MPSERS system in recent years have resulted in relatively stable UAAL costs over the remaining amortization term. Unfunded liabilities are scheduled to be paid off by 2038.



Retirement Liabilities

Prefunding retiree health benefits in FY 2011-12 led to the system being over **100%** funded by FY 2022-23. Since FY 2015-16, pension liabilities have increased due to revised risk assumptions and policies, including lowering the assumed rate of return from **8%** to **6%**, moving to level dollar amortization, and creating a contribution floor.



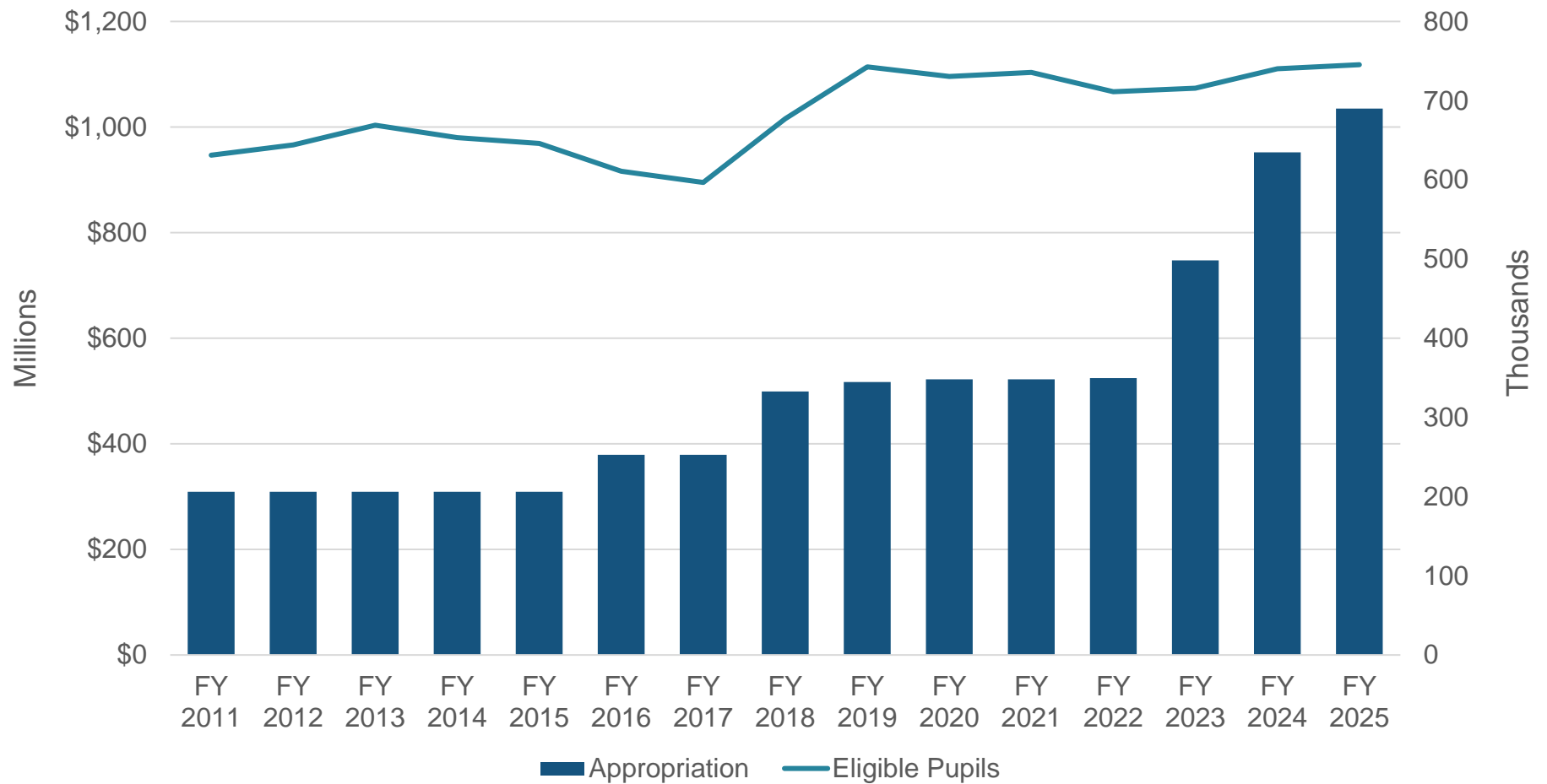
At-Risk Program

At-Risk Funding

- Provides **\$1.0 billion** for added services for pupils at risk of not succeeding academically.
- Approximately half of all pupils statewide are eligible.
- The funding formula is based on an **opportunity index**:
 - Funding is tiered so that districts with a higher proportion of eligible pupils receive a higher amount per eligible pupil.
 - If funding was sufficient, districts would receive between **35%** and **47%** of the foundation allowance per eligible pupil.
 - For FY 2024-25, the estimated prorated range is **12.5%** to **16.6%**.
- Other major program changes:
 - In FY 2017-18 and FY 2018-19, policy changes resulted in an increase in eligible pupils.
 - In FY 2022-23, payments were fully funded at **11.5%** of the foundation allowance for the first time, and a cap on certain high-revenue districts was removed.
 - In FY 2023-24, the opportunity index set higher funding goals, resulting in proration.

At-Risk Appropriations

The At-Risk program is funded at **\$1.0 billion** in FY 2024-25. Payments will be between an estimated **12.5% to 16.6%** of the foundation allowance, or between **\$1,204** and **\$1,597** per pupil.



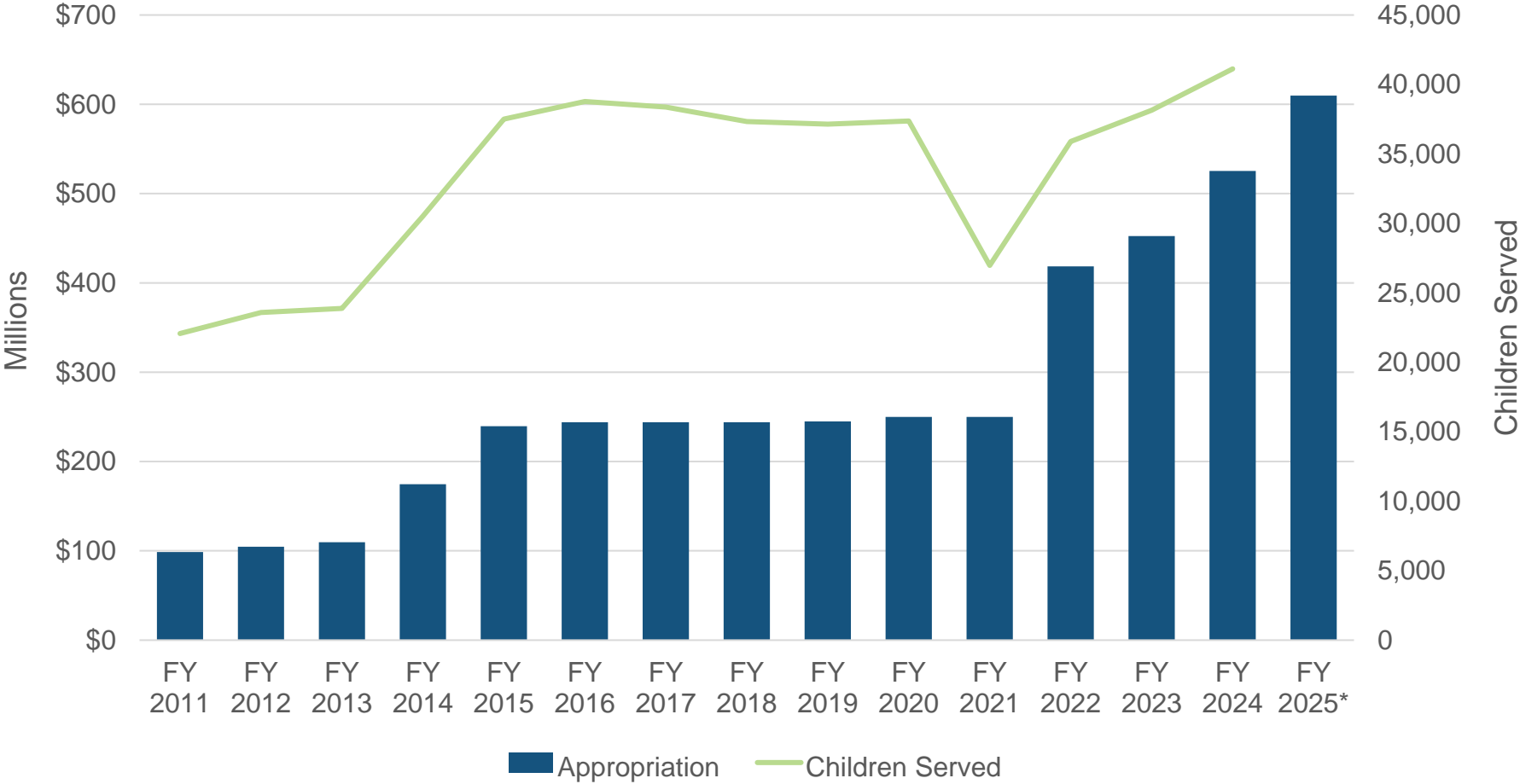
Early Childhood

Great Start Readiness Program (GSRP)

- In FY 2024-25, funding for the GSRP 4-year-old preschool program is **\$655.3 million**.
- The allocation for each child is **\$10,185** for a full-day program, **\$5,093** for a half-day program, **\$12,222** for an extended program (began in FY 2023-24), and **\$6,111** for a half-day extended program (began in FY 2024-25).
- The program served approximately **41,120** children in FY 2023-24.
- The program went from 100% half-day program in FY 2004-05 to the following for FY 2023-24:
 - Half-Day: 3%
 - GSRP/Head Start Blend: 12%
 - Full-Day: 69%
 - Extended Program: 17%
- **\$28.0 million** is allocated for up to **\$500** per child for preschool transportation.

GSRP Preschool Appropriations

Funding increased by **67%** in FY 2021-22. Children served dipped during the pandemic before recovering to pre-pandemic levels. The program has continued to increase its per-slot funding as well as the number of children served each year since then.



* FY 2024-25 Children Served is not yet known.

One-Time Categoricals

One-Time Categoricals

- In FY 2024-25, there are **58** sections that include one-time funding, totaling **\$1.2 billion**.
- Major sections include:
 - **\$181.5 million** for MPERS Employee Healthcare Reimbursement;
 - **\$126.5 million** for Per-Pupil Mental Health & School Safety (in addition to \$25.0 million ongoing);
 - **\$125.0 million** for Transportation Costs;
 - **\$87.0 million** for Literacy Supports;
 - **\$71.0 million** for Enrollment Stabilization;
 - **\$57.0 million** for Charter School Per-Pupil Payment;
 - **\$50.0 million** for Out-of-School Time

School Districts

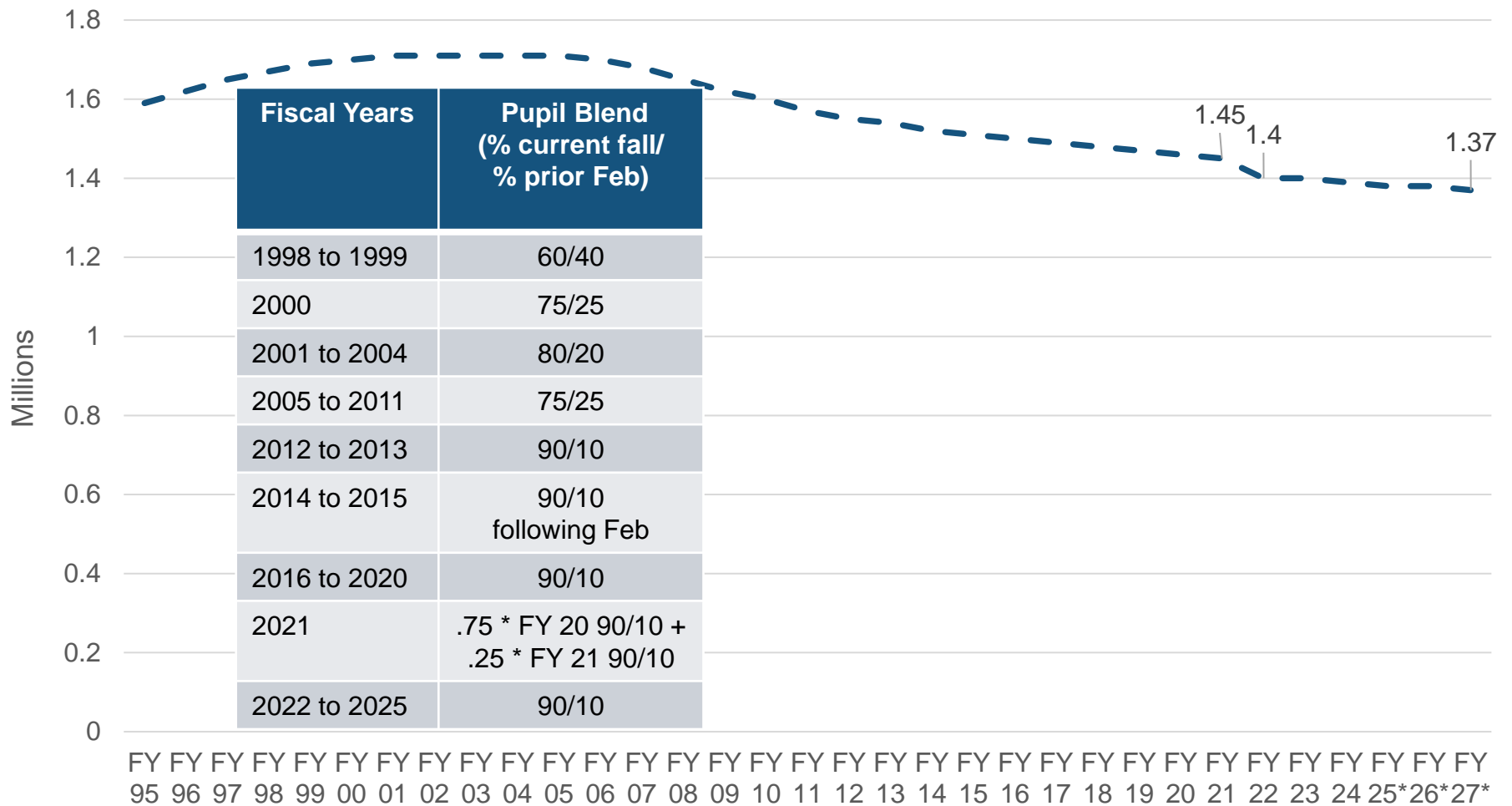
Types of School Districts

- Traditional local school districts:
 - Have defined boundaries, locally elected school boards, and are authorized to levy local taxes.
 - In FY 2024-25, there are **537** traditional local districts with **89%** of the statewide public pupil membership.
- Public School Academies (PSAs), or charter schools:
 - Independent public schools formed to provide an alternate to local districts.
 - Authorized to operate by public universities, community colleges, intermediate school districts, and local school districts.
 - In FY 2024-25, there are **286** PSAs with **11%** of statewide pupil membership.
- Cyber schools:
 - A type of public school academy.
 - In FY 2024-25, **16** cyber schools have an enrollment totaling **21,872**.
 - 2012 PA 129 caps statewide cyber enrollment at **30,870** pupils.

Declining Enrollment

Total Pupil Membership Counts

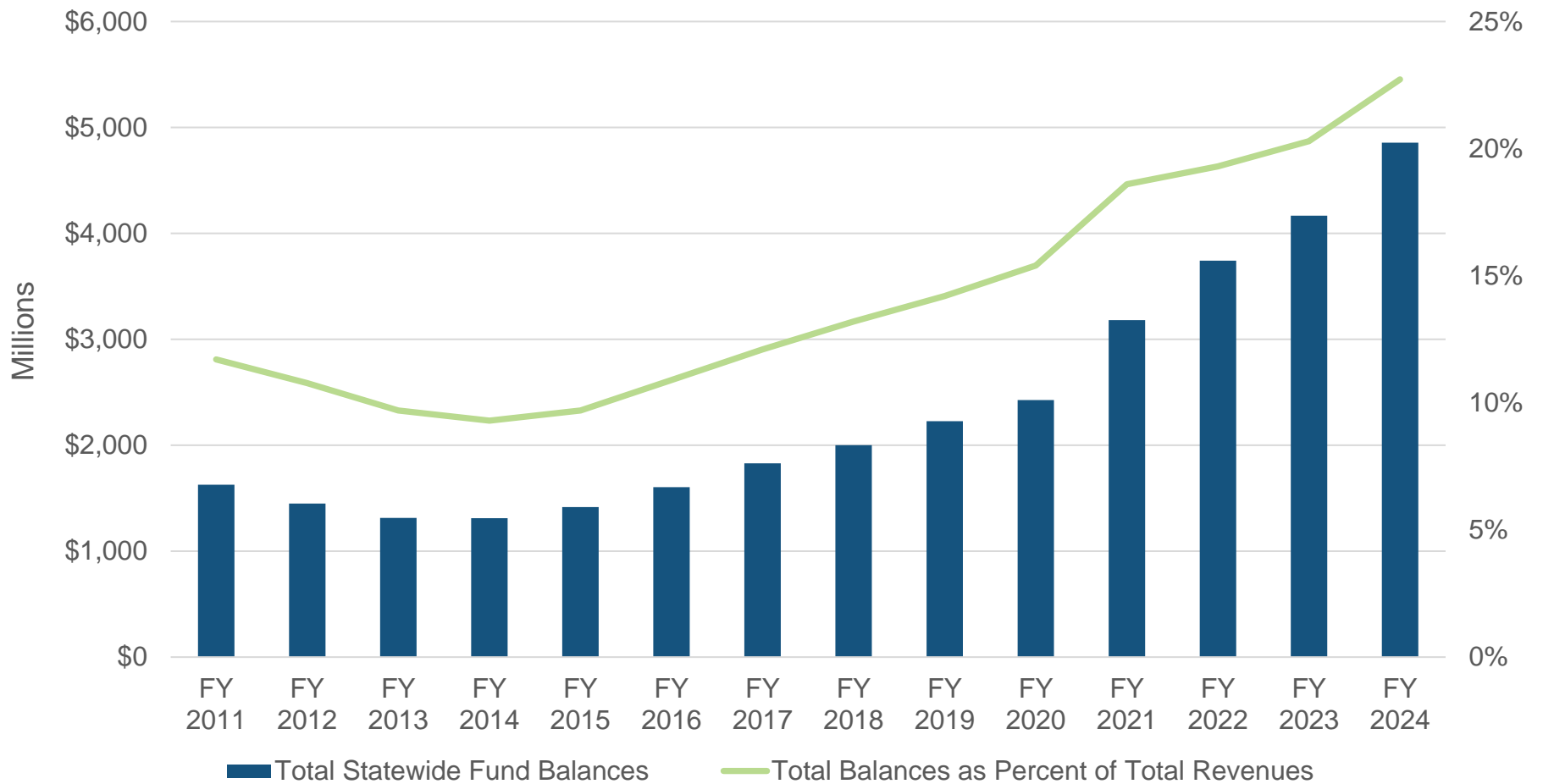
Statewide, pupil memberships are **19%** lower than their peak in FY 2002-03 and dropping. **70%** of traditional districts are experiencing pupil decline.



* FYs 2025, 2026, and 2027 are January 2025 consensus estimates

District Fund Balances

Fund balances have been growing since FY 2013-14, and at the end of FY 2023-24, totaled **\$4.9 billion**. The average statewide total fund balance as a percent of revenues is now at **23%** in FY 2023-24.



Note: Figures exclude Detroit Public Schools, for which policy changes have significantly altered fund balance information.

For more information about the School Aid budget:

HFA Resources

<http://www.house.mi.gov/hfa/SchoolAid.asp>

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