



Budget Briefing: School Aid

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Briefing Topics

- Funding Sources
- Appropriation Areas
- Major Budget Topics
 - School Aid Fund Revenues
 - Foundation Allowance
 - Special Education Funding
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 - Early Childhood
 - One-Time Categoricals
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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, **285** public school academies, and **56** intermediate school districts (ISDs) for operations and certain categorical programs.
- It also provides funds to the Center for Educational Performance and Information (CEPI), the Department of Labor and Economic Opportunity, 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 2023-24 is October 1, 2023 through September 30, 2024.

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.

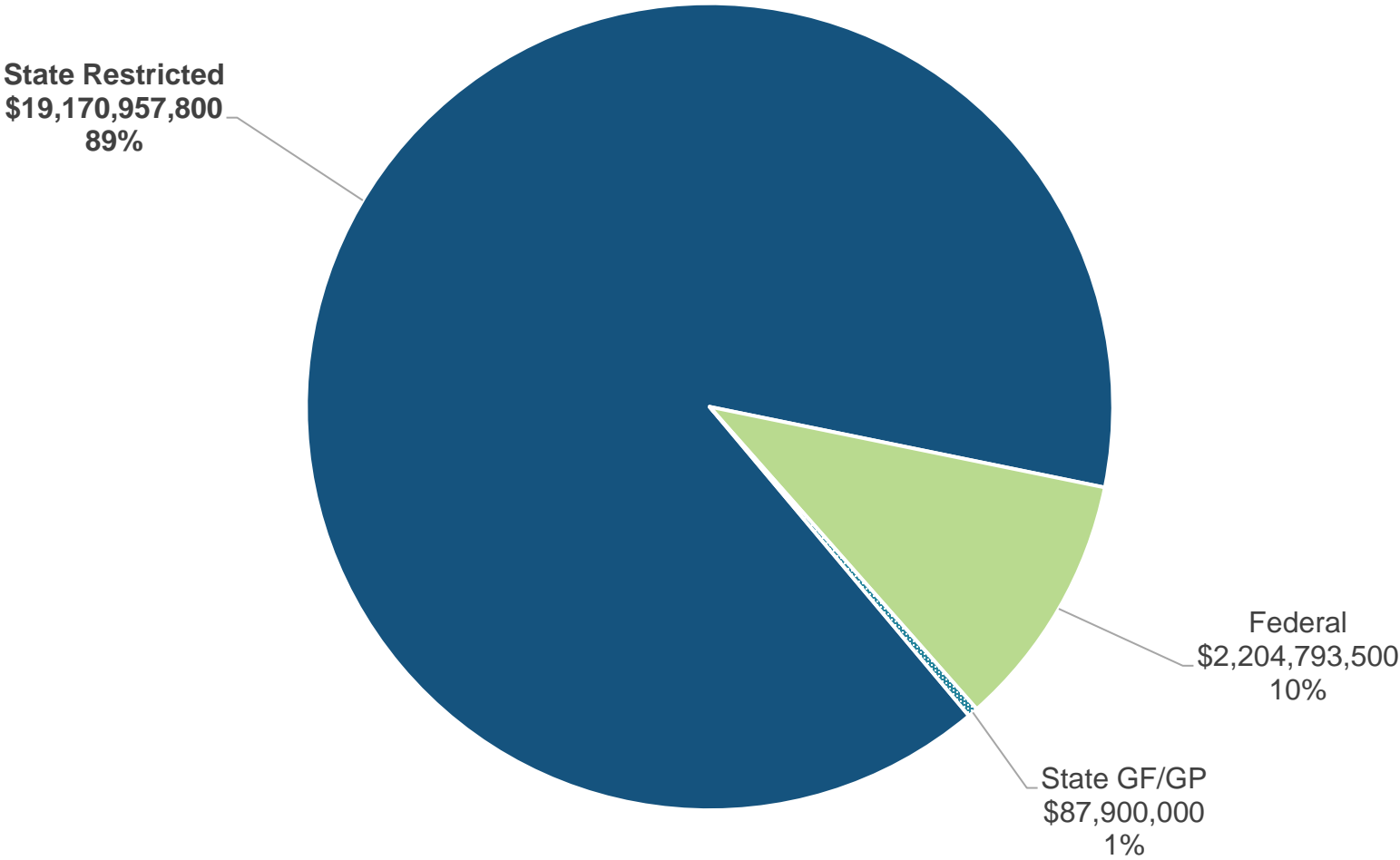
Funding Sources

FY 2023-24 School Aid Budget

Fund Source	Funding	Description
Gross Appropriations	\$21,463,651,300	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	\$21,463,651,300	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	2,204,793,500	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	19,170,957,800	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	\$87,900,000	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the legislature

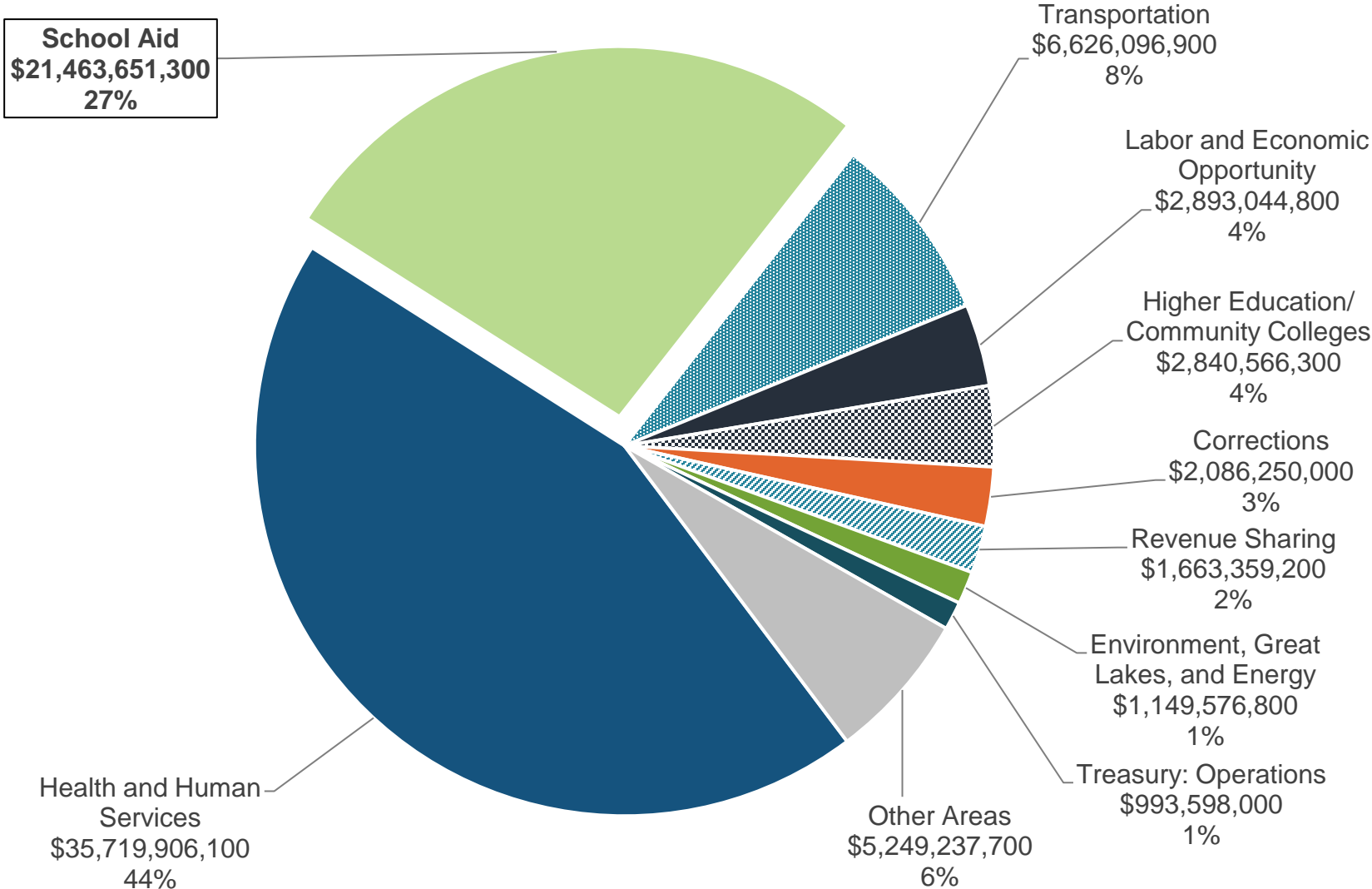
FY 2023-24 Fund Sources

89% of the \$21.5 billion School Aid budget is funded by state restricted revenue, almost all of which is School Aid Fund (SAF) revenues.



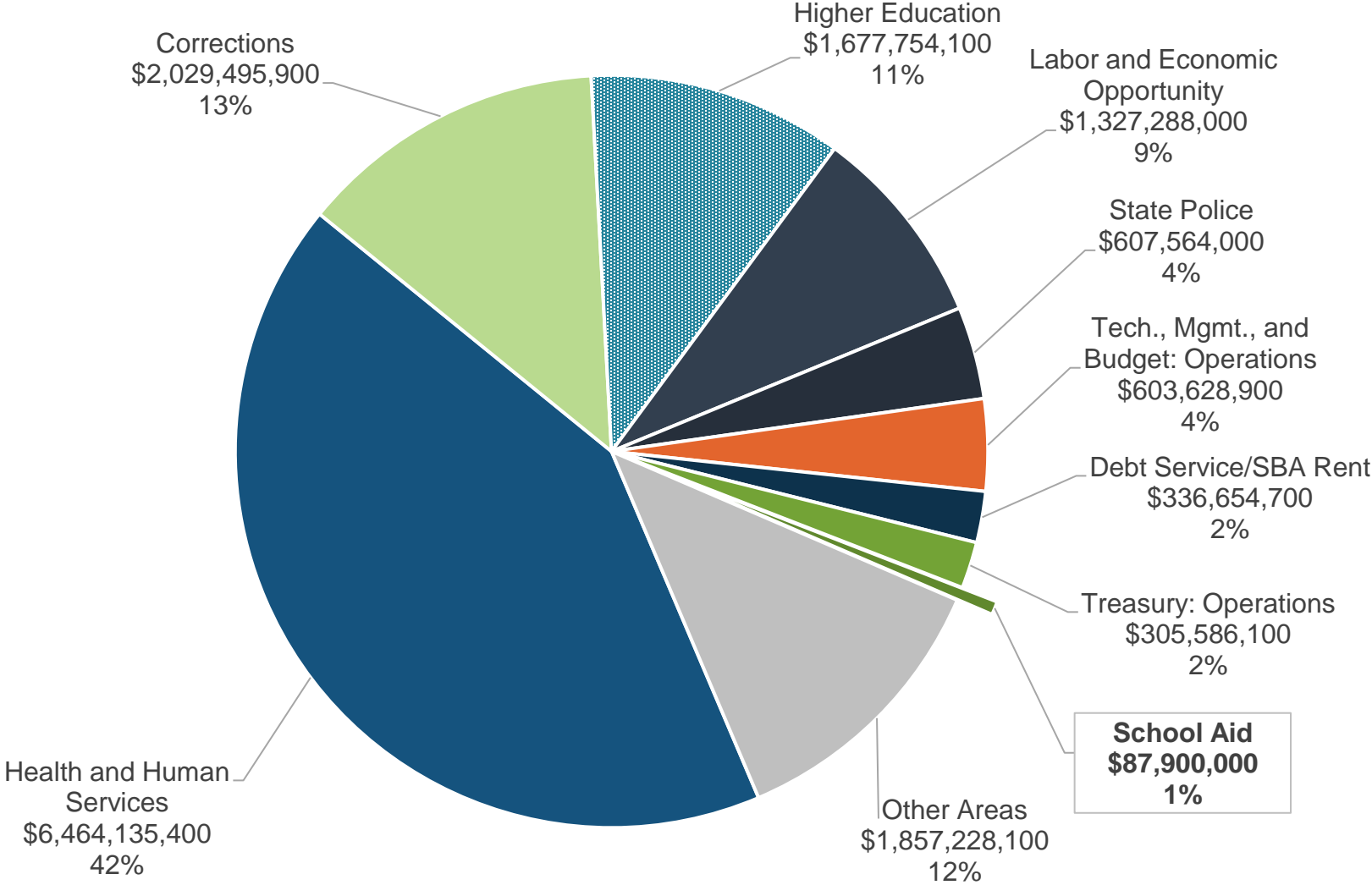
School Aid Share of Total State Budget

The School Aid budget represents a quarter of the **\$80.7 billion** state budget (adjusted gross) for FY 2023-24.



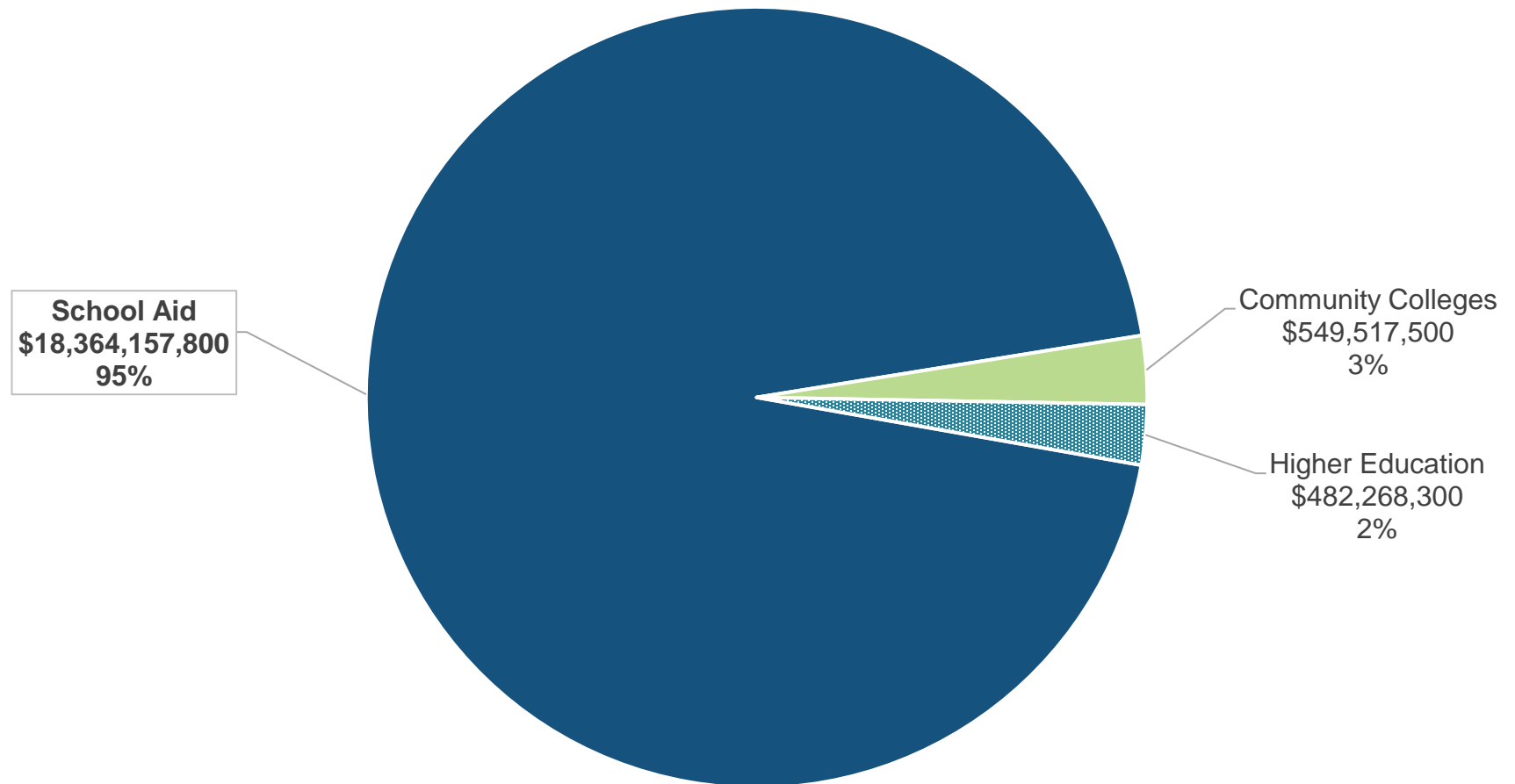
School Aid Share of Total GF/GP Budget

The School Aid budget is less than 1% of the state's \$15.3 billion GF/GP budget for FY 2023-24.



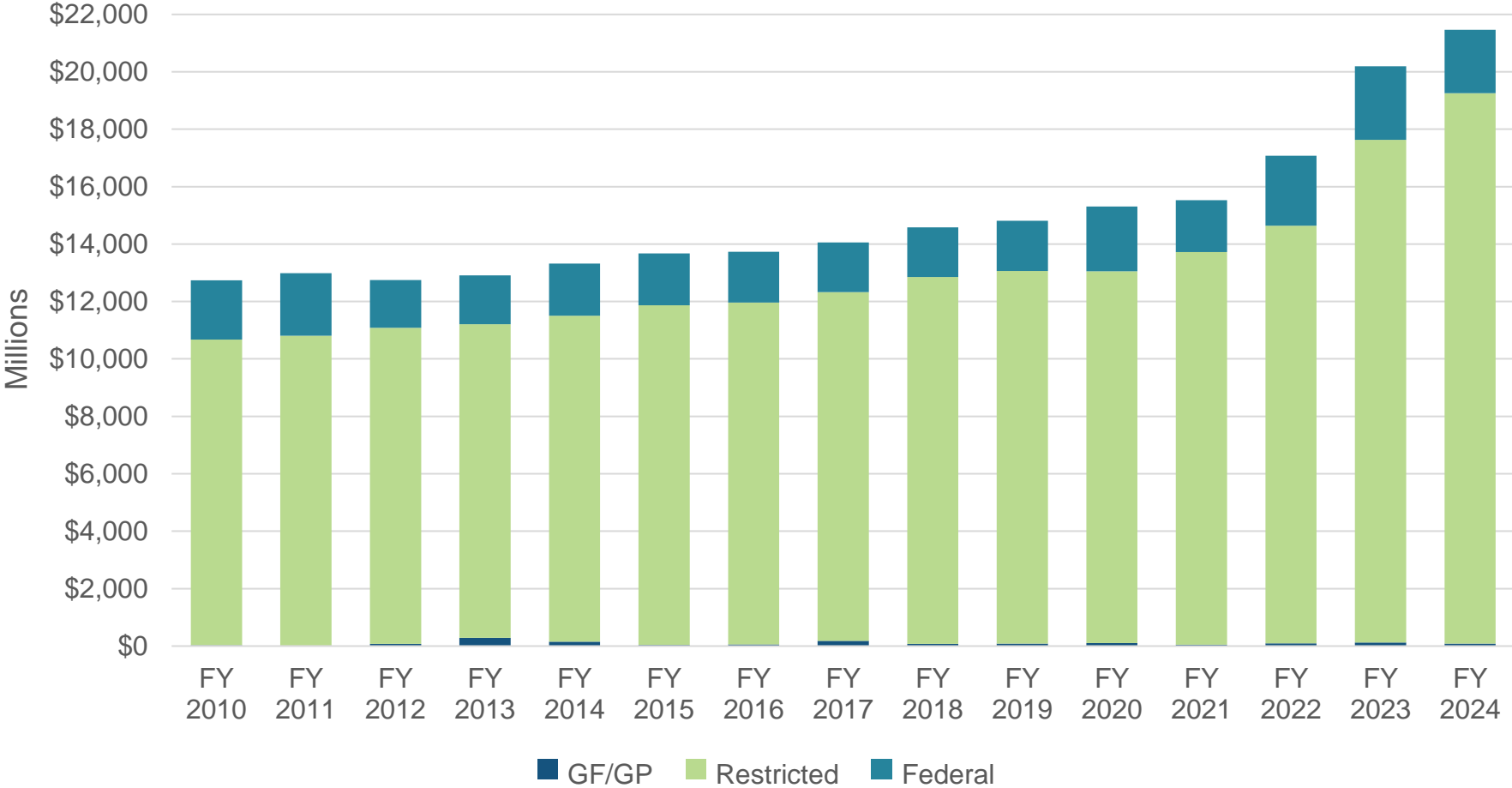
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

The School Aid budget represents **95%** of the state's **\$19.4 billion** SAF appropriations for FY 2023-24.



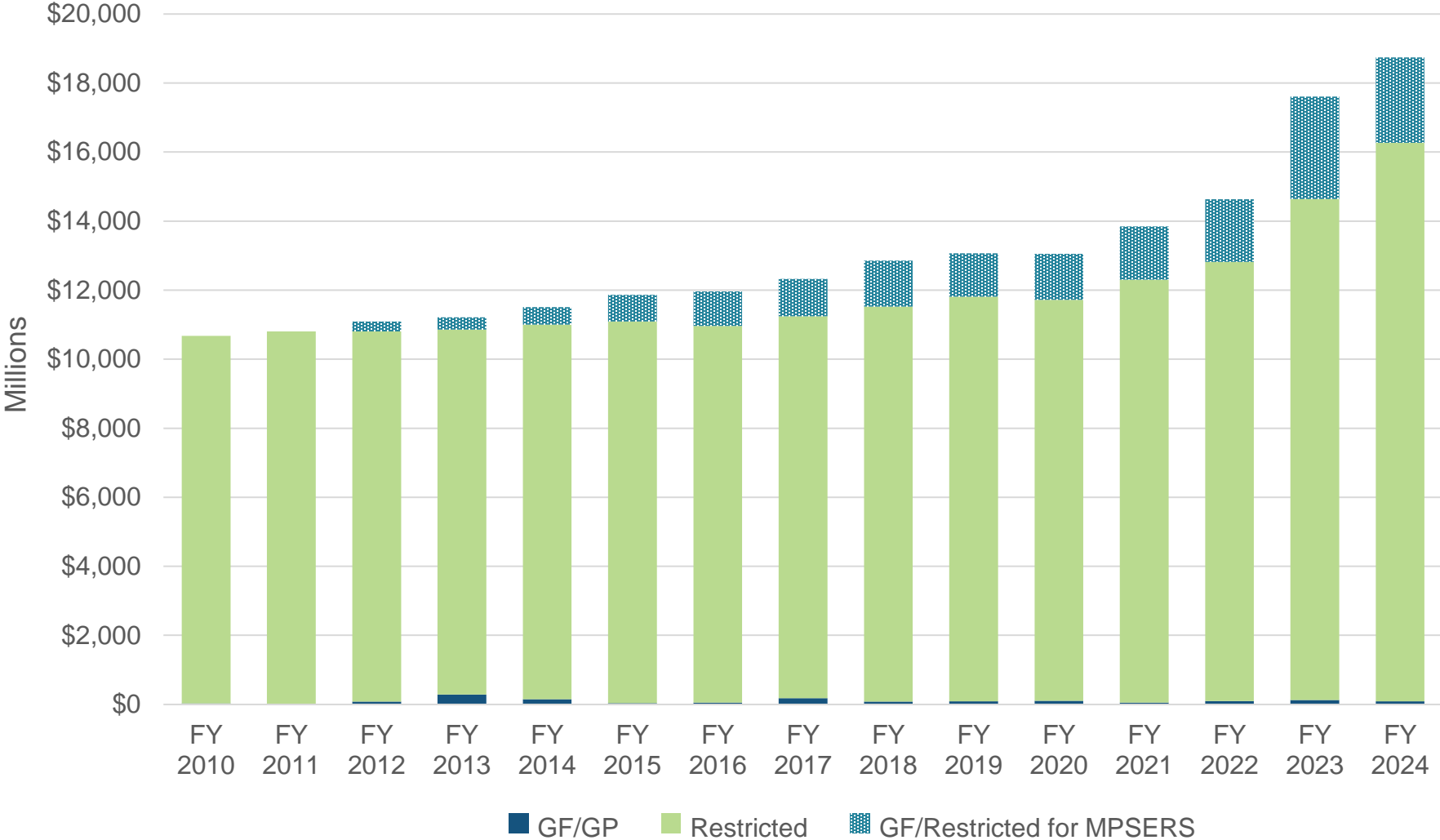
School Aid Budget Funding History

Funding for School Aid has grown by **68%** over the last 15 years, with **30%** of that growth driven by increases in state funding for public school retirement and federal funding for school food programs, special education, and other federal education programs.



School Aid Funding History – State Funds

The amount included to hold districts harmless from increasing retirement liability costs is **\$2.4 billion** in FY 2023-24. Since FY 2009-10, non-MPSERS funding has increased by **52%**.



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.

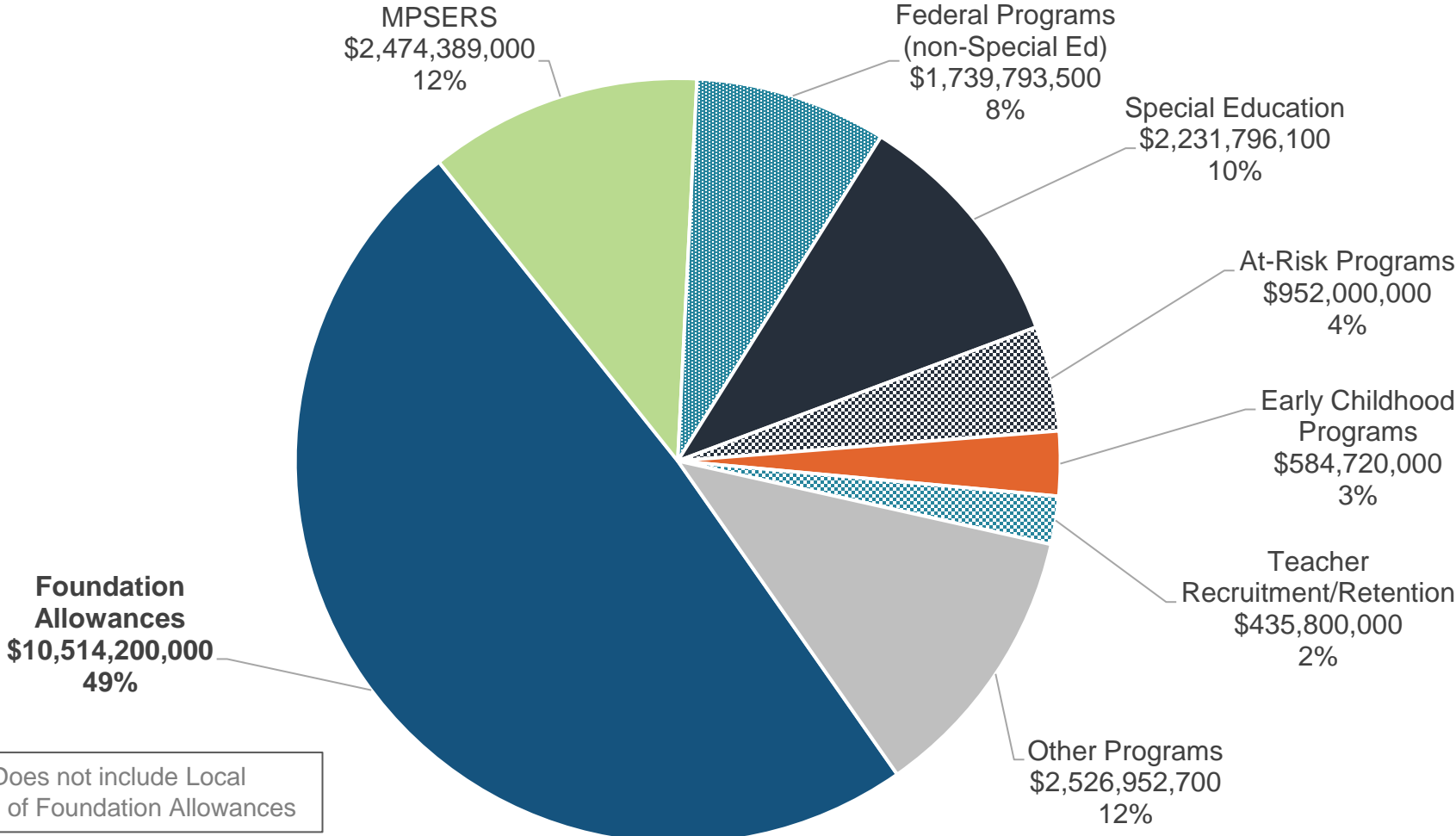
At-Risk Programs: Additional state funds to help students at risk of academic failure.

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

Teacher Recruitment/Retention: Provides future educator scholarships, a “Grow Your Own” pathway for support staff to become teachers, student teacher stipends, and funding for other recruitment and retention initiatives.

FY 2023-2024 Gross Appropriations

About **49%** of the **\$21.5 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

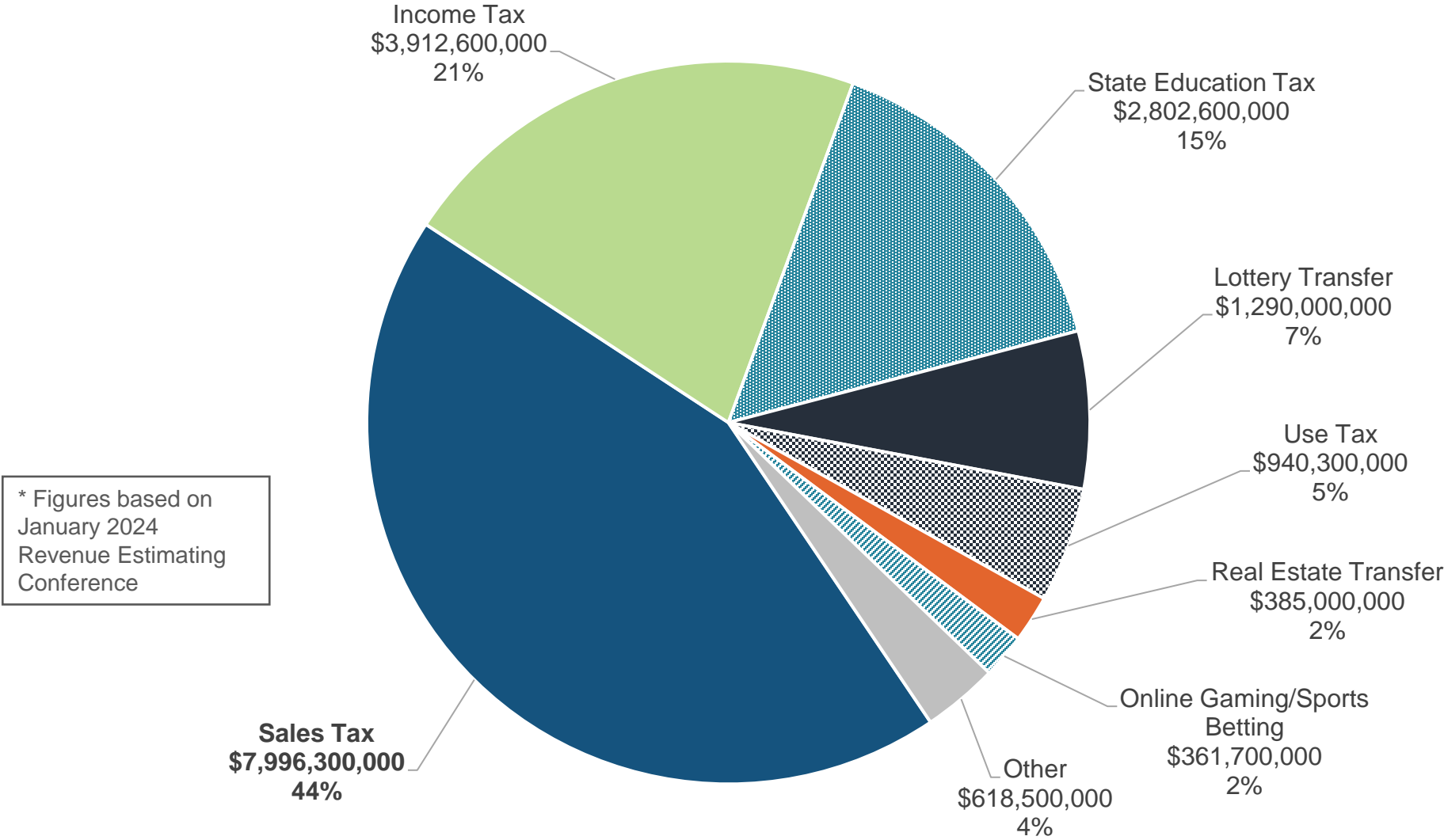
School Aid Fund Revenues

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 **\$18.3 billion** in revenue for FY 2024-25 (January 2024 CREC).
- Primary sources of SAF revenue are shown on next slide.

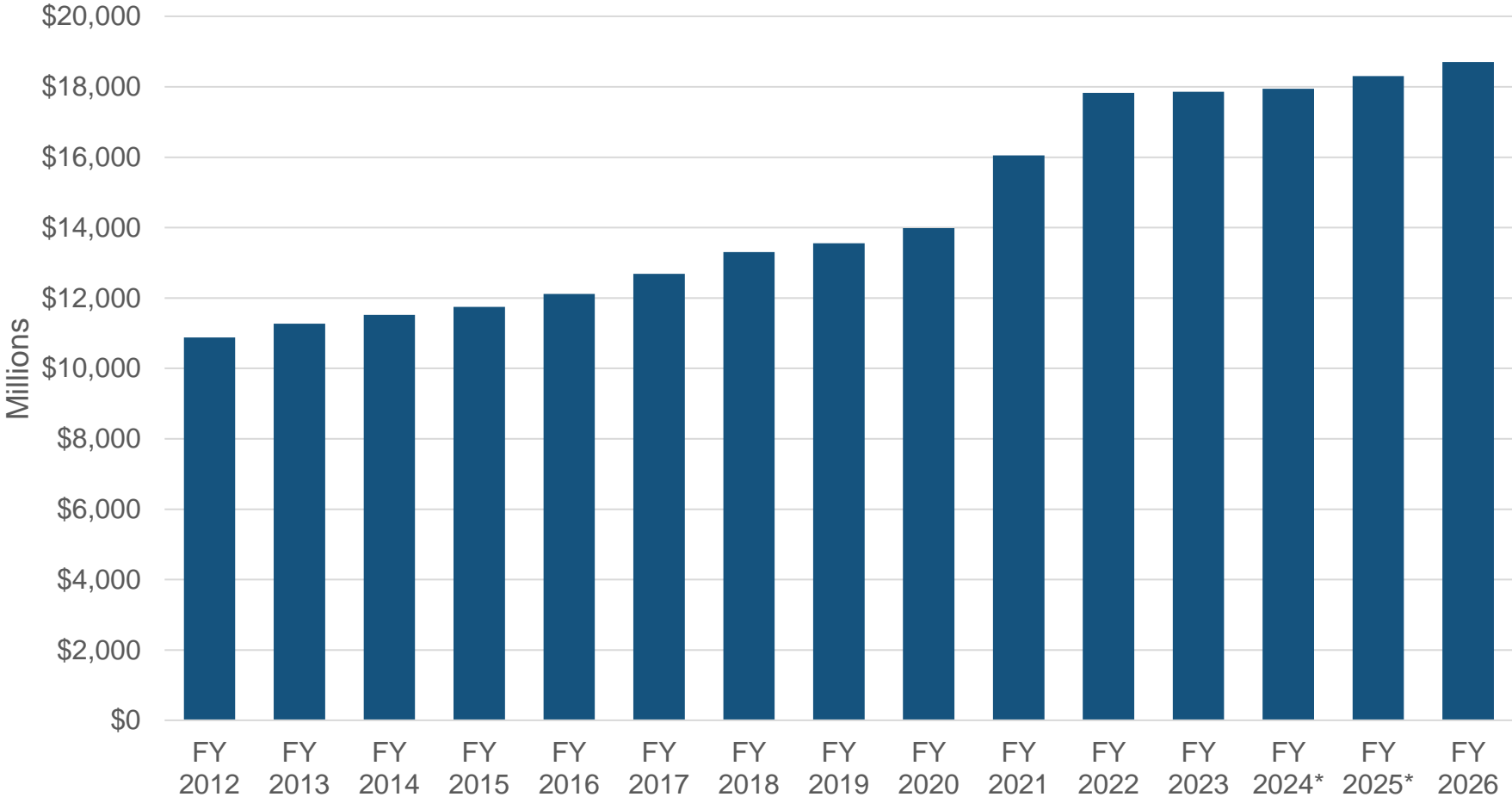
SAF Revenue Sources

Sales tax is the largest revenue source, contributing nearly half of the **\$18.3 billion** in total estimated SAF revenue for FY 2024-25.



SAF Revenue History

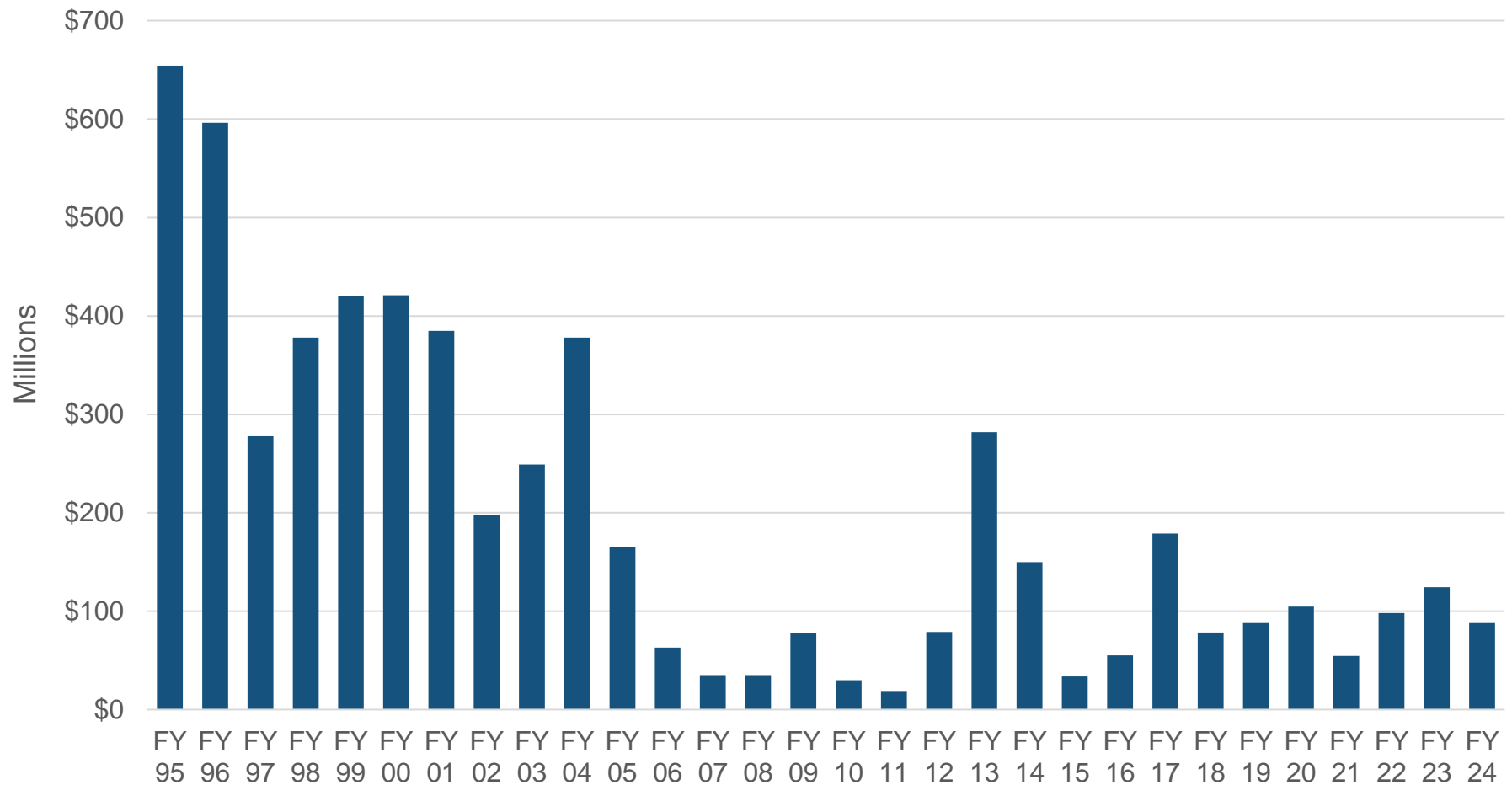
SAF revenues are estimated to increase by **1%** in FY 2023-24 before increasing by **2%** to a total of **\$18.3 billion** in FY 2024-25.



* FYs 2024, 2025, and 2026 figures from January 2024 Revenue Estimating Conference

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

The School Aid budget has **\$87.9 million** GF/GP appropriated in FY 2023-24.



FY 2023-24 School Aid Fund Balance Sheet

	FY 2023-24	Baseline FY 2024-25
BEGINNING BALANCE	\$2,153.6	\$525.4
REVENUE		
School Aid Fund (SAF) Revenue	\$17,946.8	\$18,307.0
General Fund/General Purpose (GF/GP)	\$87.9	\$49.8
Other Restricted Funds	\$842.6	\$193.9
<u>Federal Funds</u>	<u>\$2,204.8</u>	<u>\$2,199.0</u>
TOTAL REVENUE	\$21,082.1	\$20,749.7
EXPENDITURES		
School Aid (Adj for consensus revisions)	\$21,459.7	\$19,224.0
Michigan Department of Education	\$40.0	\$0.0
Community Colleges	\$544.5	\$489.0
<u>Higher Ed</u>	<u>\$482.3</u>	<u>\$451.2</u>
TOTAL EXPENDITURES	\$22,710.3	\$20,164.1
CURRENT YEAR: REVENUES - EXPENDITURES	(\$1,628.2)	\$585.6
TOTAL ENDING BALANCE	\$525.4	\$1,111.0

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.
- Districts receive a foundation allowance (per-pupil funding amount) initially determined in FY 1994-95, based on what the district collected from both state and local funds on a per-pupil basis in the prior year.
- Initial 1994-95 levels:
 - Minimum level of funding established: \$4,200
 - Target (previously known as the Basic) level determined: \$5,000
 - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500
- In FY 2021-22, the gap between the Minimum and the Target was closed.
- In FY 2023-24, the Target is now set at **\$9,608**. The foundation allowance for cyber schools was held at \$9,150.
 - In addition, the Enrollment Stabilization Fund was created to provide districts with declining enrollment an amount equal to the difference between a two-year average blend and the district's FY 2023-24 pupil count. Funds were deposited to provide coverage for future fiscal years.
- Hold Harmless districts' foundation allowances range up to a high of **\$13,443**.

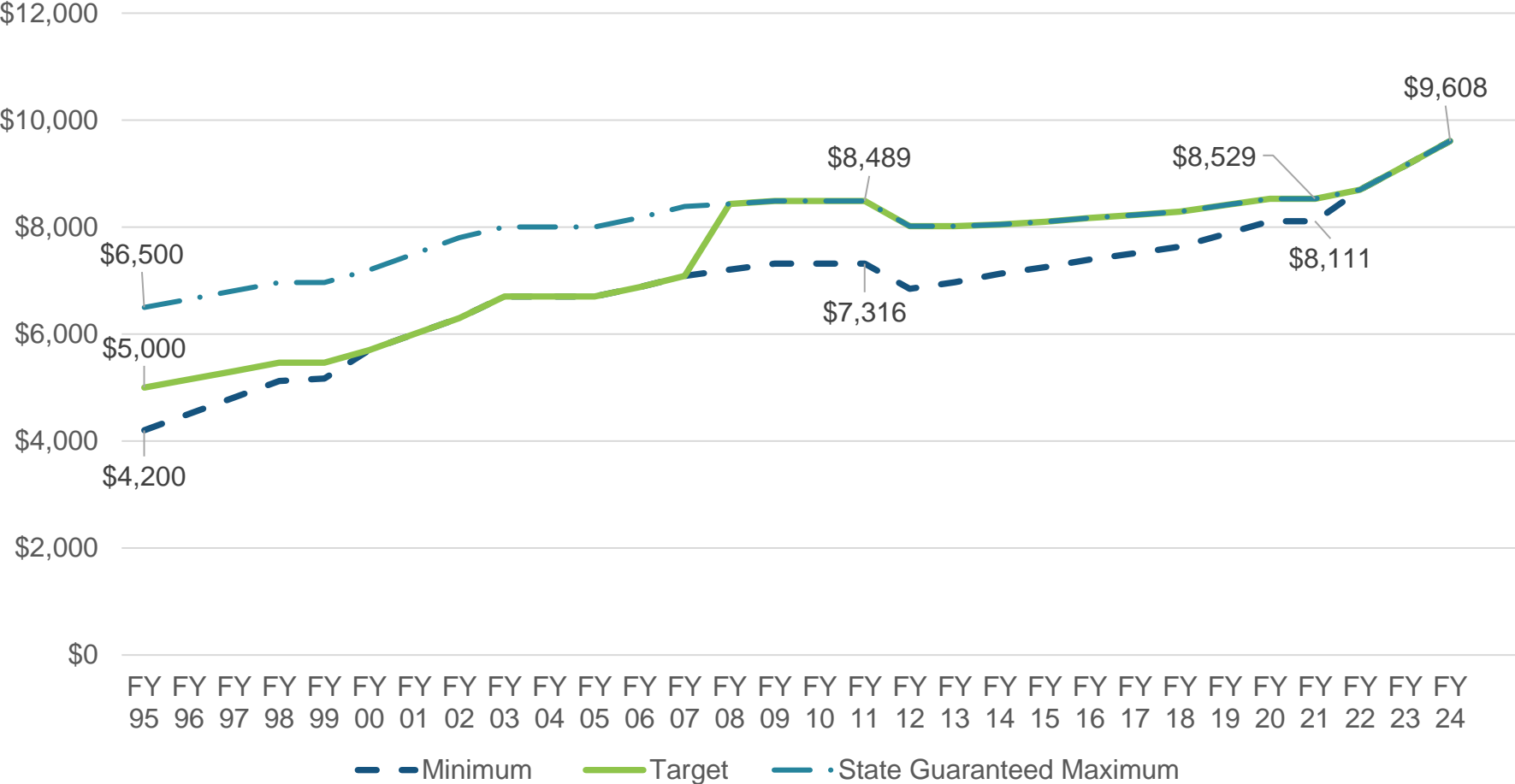
“Target” Foundation Allowance

- 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.

Foundation Allowance History

Growth Since Proposal A

The Target is increased by \$458 per pupil to \$9,608 for FY 2023-24.

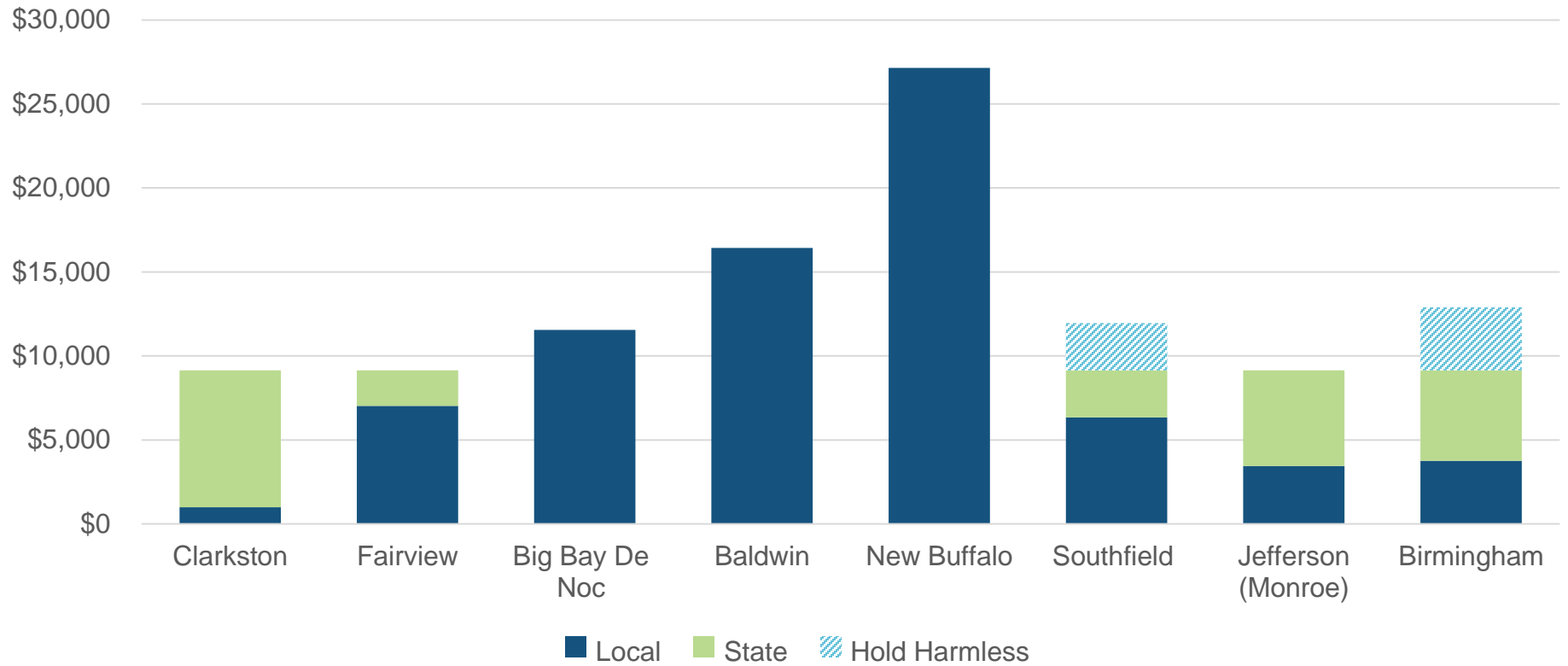


Foundation Allowance

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 2023-24.
- 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 2022-23.

FY 2023-24 State/Local Funding Mix Examples



Type	District	Foundation	Local	State	HH	NHS Mills	HH Mills
	Clarkston	\$9,608	\$1,089	\$8,519	\$0	18.0	0.0
	Fairview	\$9,608	\$7,570	\$2,038	\$0	18.0	0.0
O-of-F	Big Bay	\$9,608	\$12,150	\$0	\$0	18.0	0.0
O-of-F	Baldwin	\$9,608	\$18,164	\$0	\$0	18.0	0.0
HH, O-of-F	New Buffalo	\$11,443	\$30,298	\$0	\$0	18.0	0.0
HH	Southfield	\$12,410	\$6,620	\$2,988	\$3,023	18.0	10.7
HH	Jefferson	\$12,619	\$3,670	\$5,938	\$0	18.0	0.0
HH	Birmingham	\$13,363	\$4,044	\$5,564	\$3,738	18.0	5.0

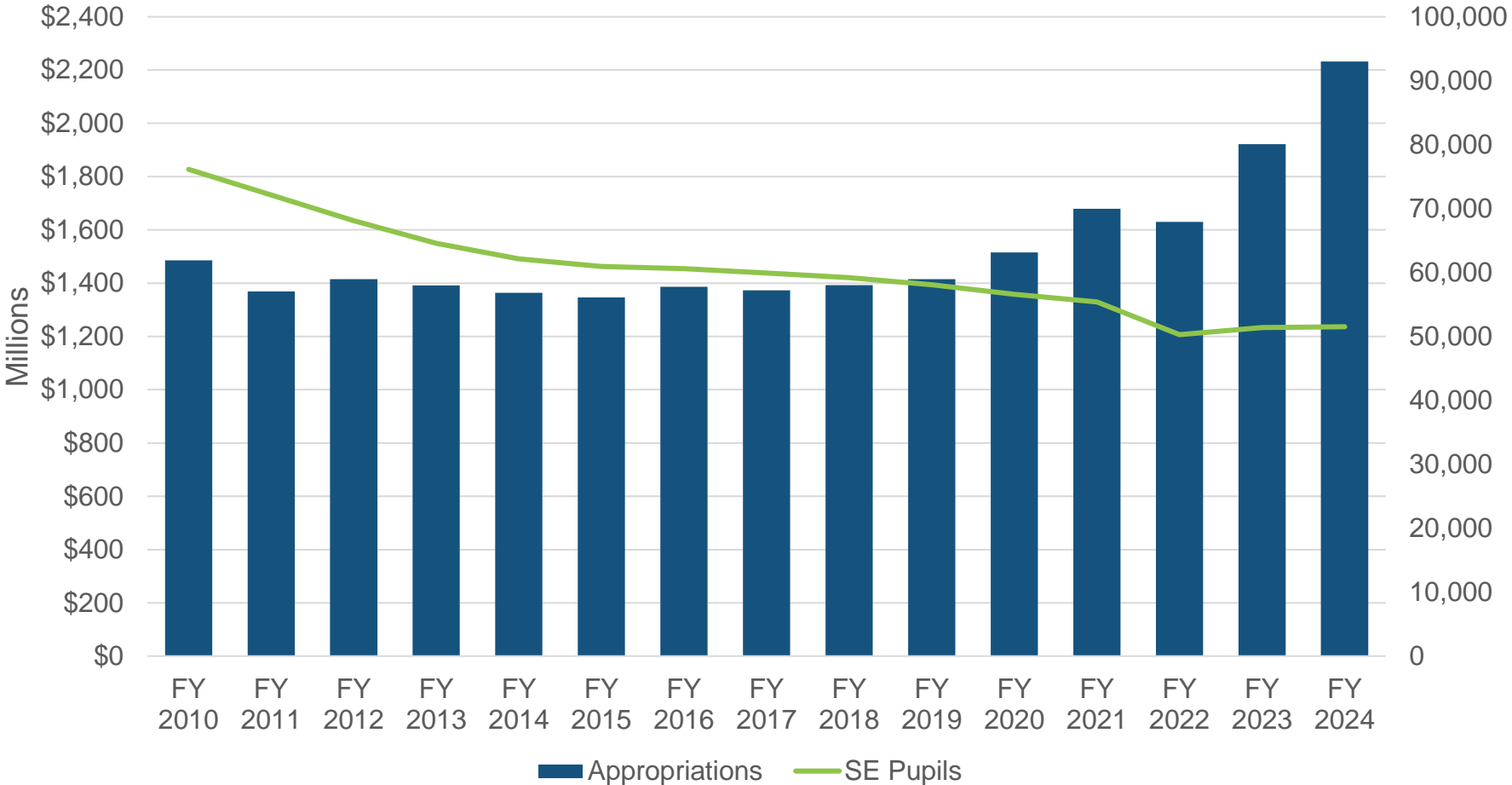
Special Education Funding

Special Education Funding

- **\$2.4 billion** total in FY 2023-24
 - **\$2.0 billion** state dollars
 - **\$390.0 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, **\$491.2 million** was appropriated to pay **100%** of special education pupils' foundations (rather than use foundations to offset *Durant* costs).
- Local special education mills, levied by each ISD, will generate an estimated additional **\$1.3 billion** in FY 2023-24.
- Uncompensated allowable special education costs equaled an estimated **\$655.0 million** in FY 2020-21.

Special Education Appropriations

Special Education appropriations are expected to increase by **\$310.0 million** in FY 2023-24 to **\$2.2 billion**. Special education pupils peaked in FY 2004-05 and have since declined by **44%**. Since FY 2021-22, special education pupil counts have remained relatively constant.



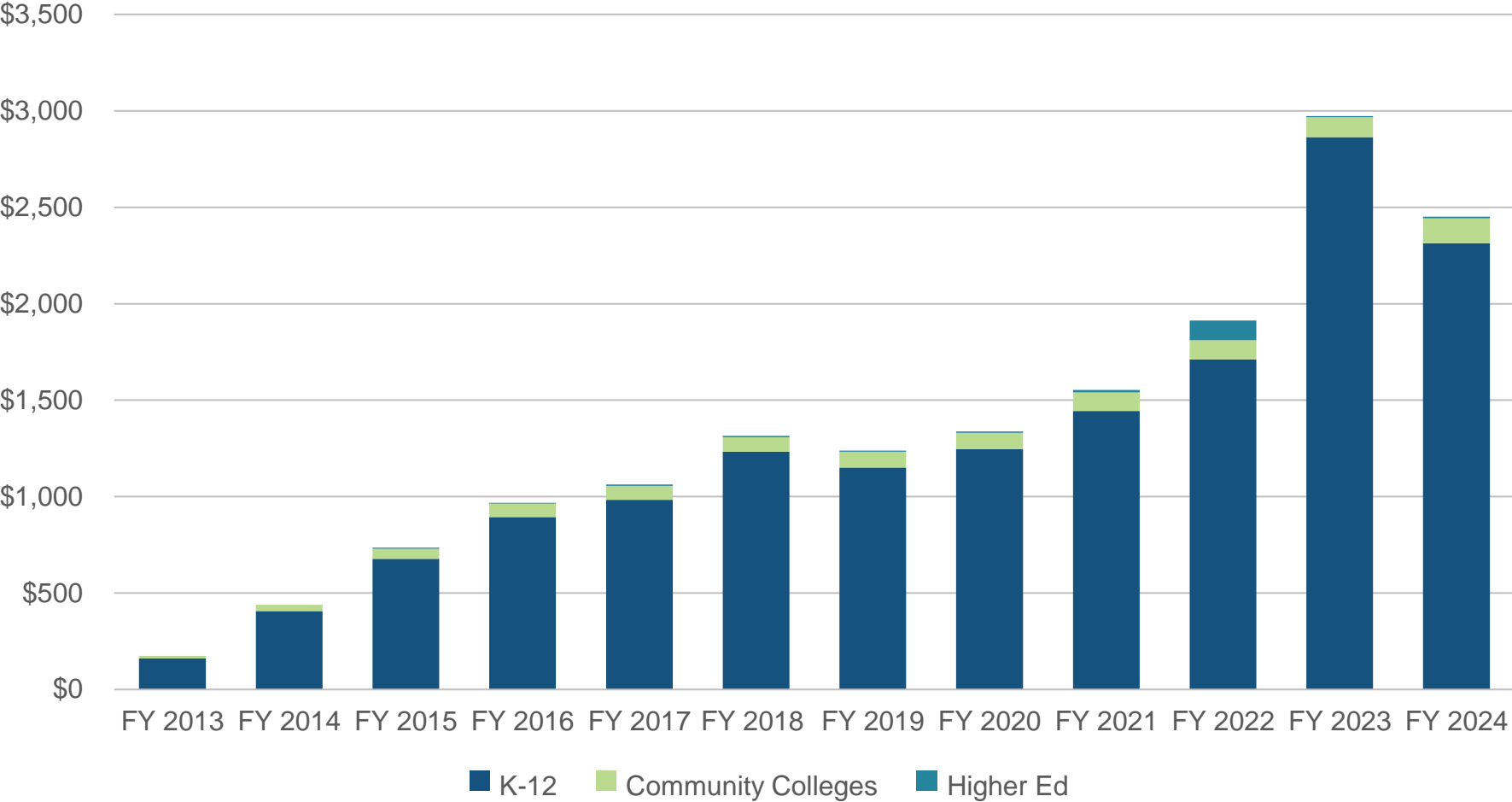
MPERS – Retirement Costs

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. Distribution is based on a district's proportionate share of MPERS covered payroll.
- Section 147a (2) – Provides **\$360.1 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.
- **NEW** Section 147a(3) – Provides **\$11.9 million** one-time to ISDs and district libraries to offset a share of their MPERS costs. Distribution is based on a district's proportionate share of MPERS covered payroll.
- Section 147c (1) – Appropriates **\$1.9 billion** to pay for the state share of unfunded actuarial accrued liability (UAAL) costs per 2012 PA 300, which required the state to pay the UAAL costs that exceed the capped employer contribution rate of 20.96% of MPERS covered payroll.
- Section 147e – Provides **\$90.4 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 147f – Appropriates **\$48.5 million** one-time to reimburse districts an estimated 0.5 percentage points for their 20.96% contribution rate for UAAL costs.

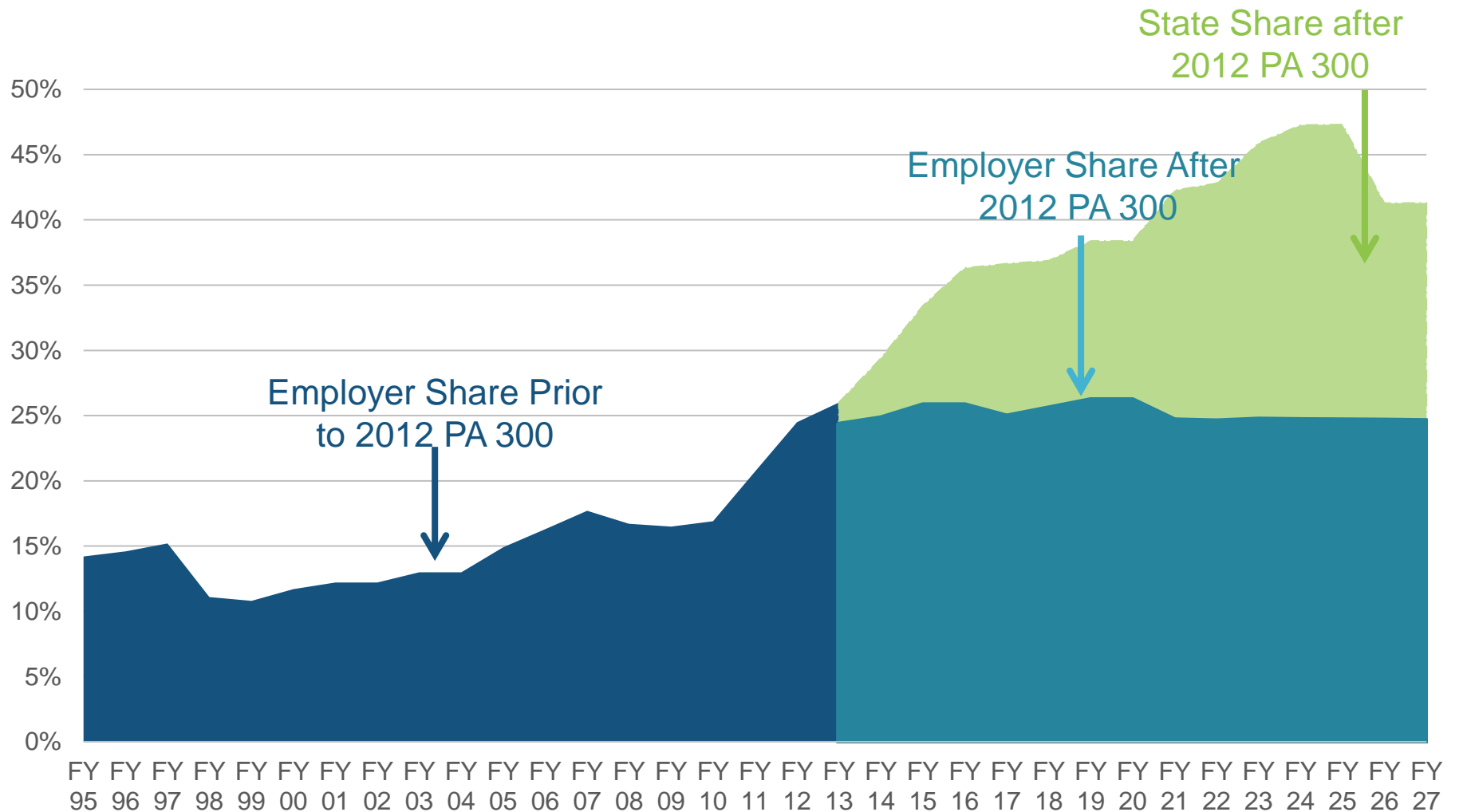
MPERS State Appropriations

For FY 2023-24, the state share of public school employee retirement system (MPERS) costs totals about **\$2.5 billion**. Prior to 2012 PA 300, MPERS employers paid the full costs of MPERS directly.



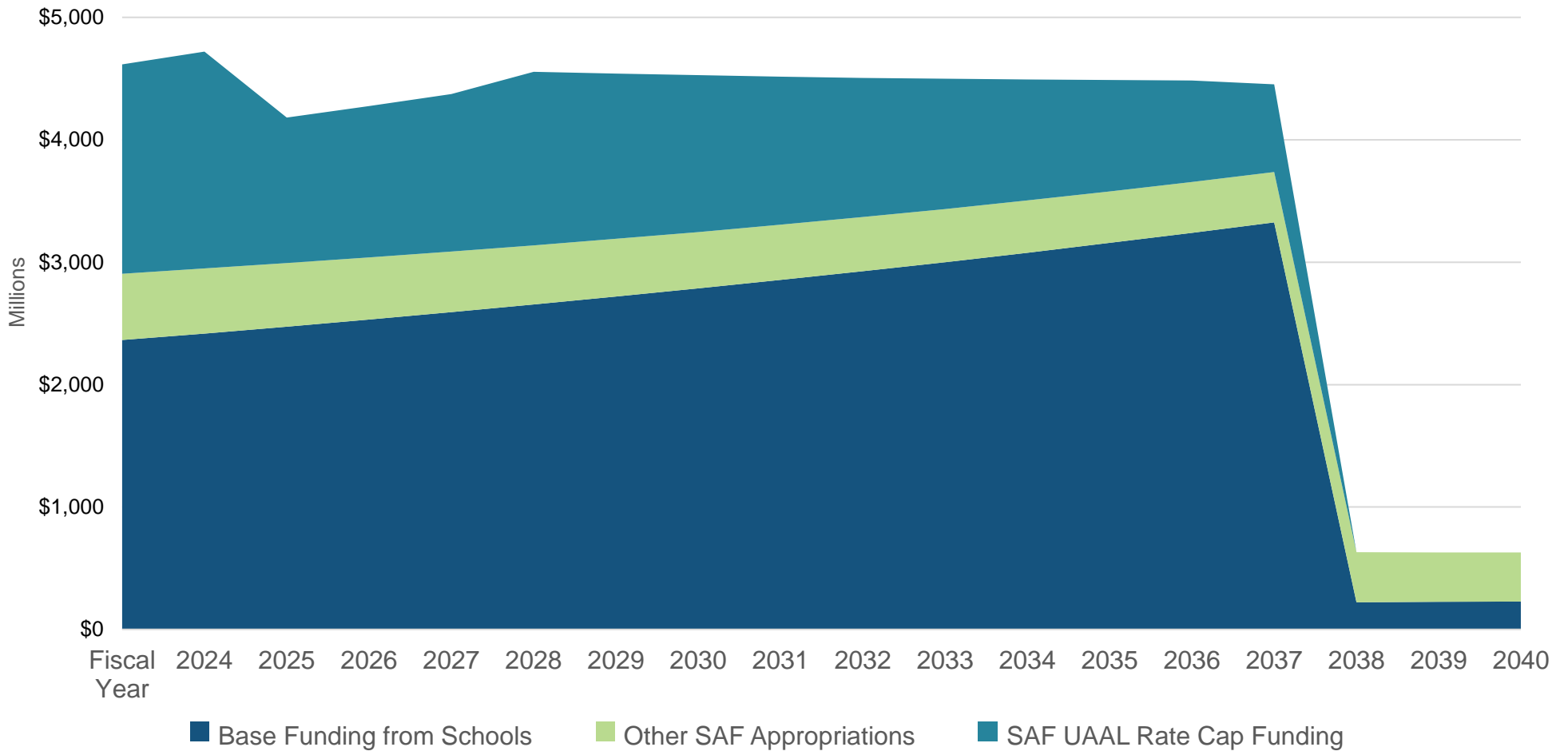
MPERS State Share - Unfunded Actuarial Accrued Liability (UAAL)

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.



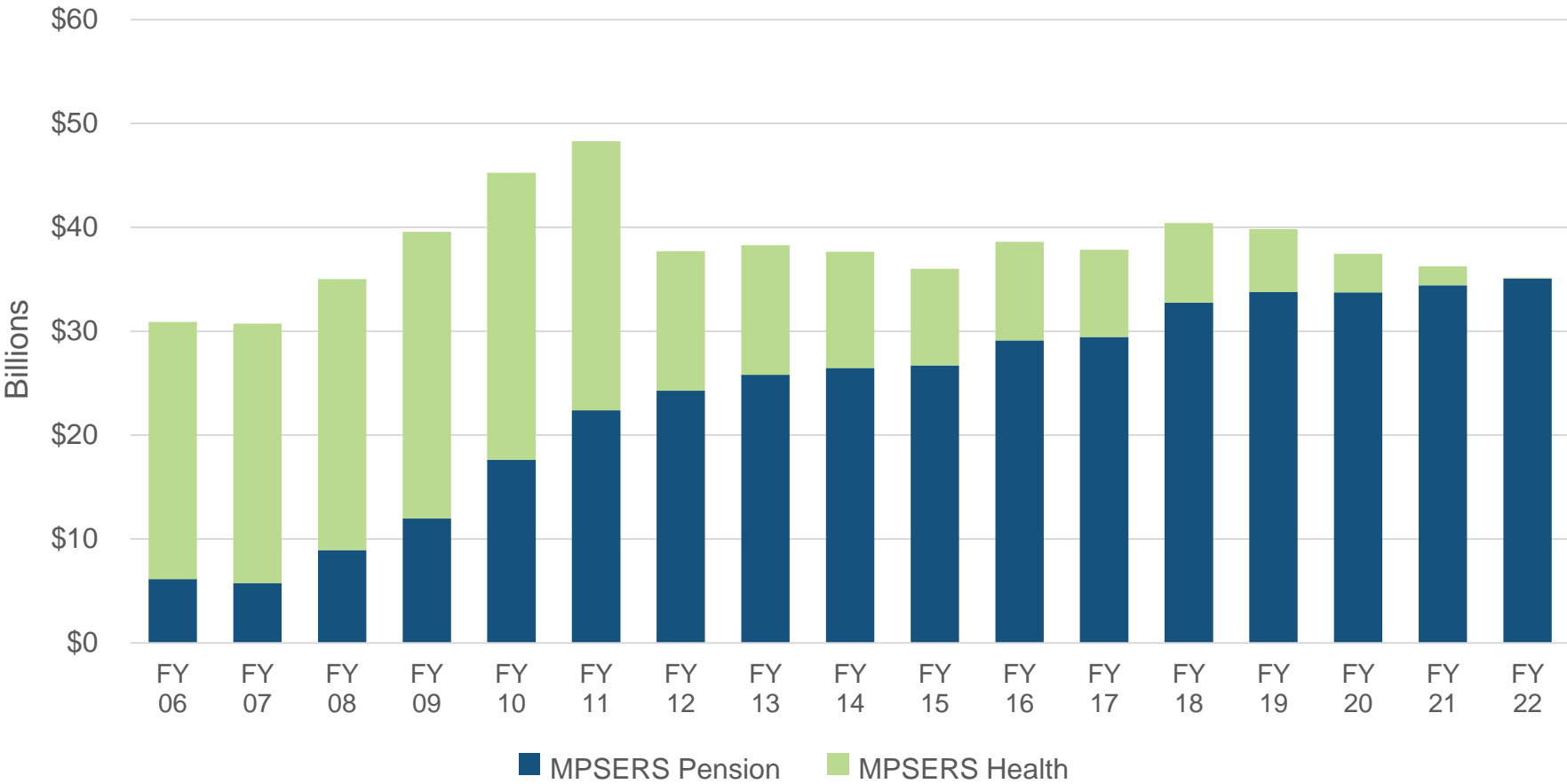
Projected MPERS Costs

The one-time deposit of **\$1.0 billion** into the system and **\$425.0 million** into a reserve fund to help pay for an accelerated reduction in the payroll growth assumption in FY 2022-23 reduced state UAAL costs over the remaining amortization term. Unfunded liabilities are still scheduled to be paid off by 2038.



Retirement Liabilities

The decision to begin prefunding retiree health benefits in FY 2011-12 led to declining health liabilities. Liabilities increased by **\$2.6 billion** in FY 2017-18 due to the adoption of the most recent experience study. Reductions in the assumed long-term investment rate of return that began in FY 2015-16 have increased pension liabilities.



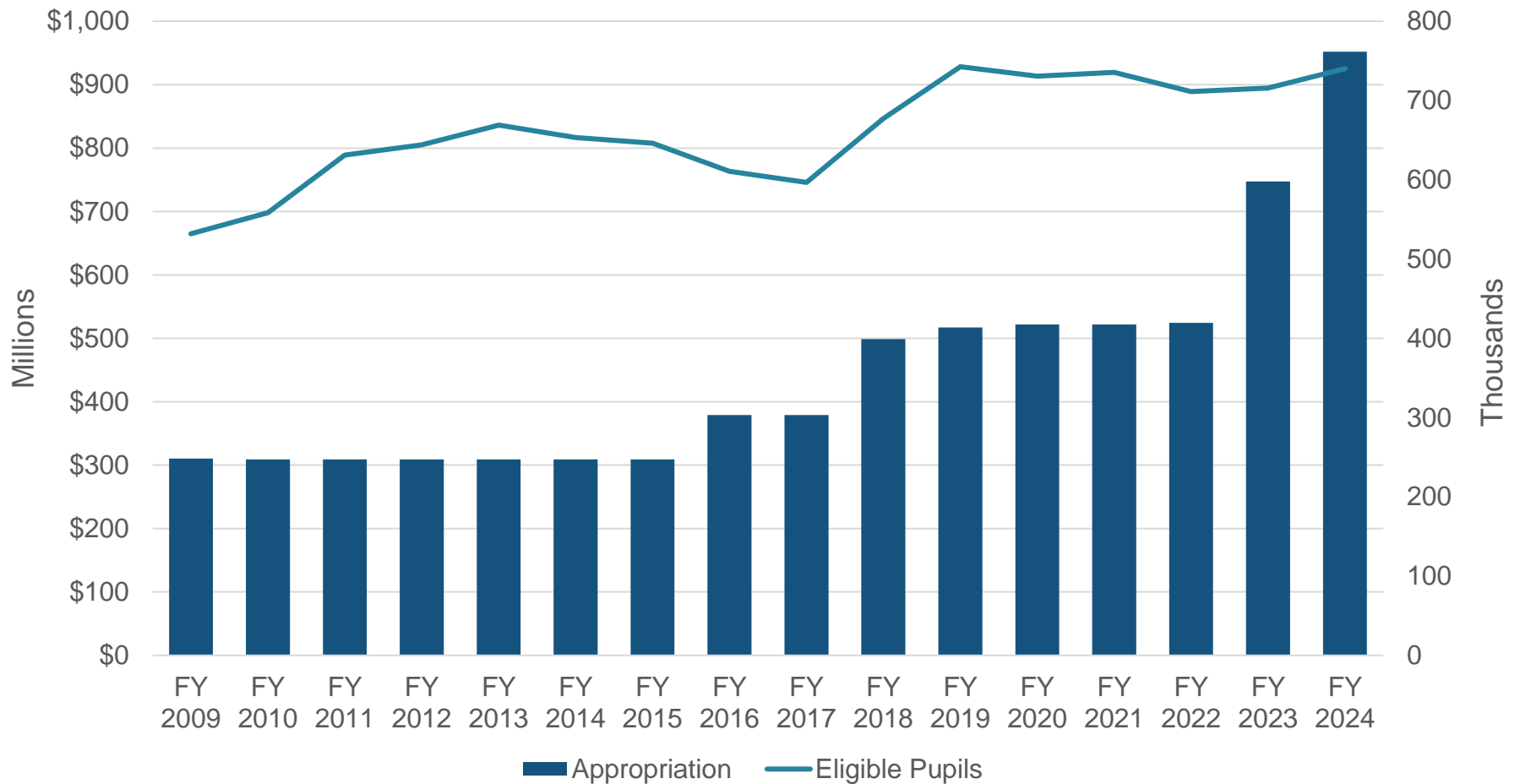
At-Risk Program

At-Risk Funding

- Supports added services for pupils at risk of not succeeding academically.
- **\$952.0 million** in FY 2023-24, an increase of **\$204.5 million**.
 - In FY 2023-24, the funding formula was revised to be based on a new opportunity index. Districts would receive between 35% and 47% of the Target foundation allowance, but current funding requires proration to an estimated range of 11.5% and 15.3%.
- Funding also increased in FY 2017-18, FY 2018-19, and FY 2022-23 along with the following programmatic changes:
 - In FY 2017-18, the number of funding-eligible pupils expanded beyond those eligible for free school meals to also include: those eligible for reduced-price meals, children in families eligible for Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF), and children who are homeless, migrant, or in foster care.
 - In FY 2018-19, the pool also increased due to direct certification of Medicaid-eligible pupils.
 - In FY 2022-23, payments were fully funded at 11.5% of the foundation allowance for the first time, and the 35% cap on certain high revenue districts was removed.
- About half of all pupils statewide are now eligible for At-Risk funding.

At-Risk Appropriations

The At-Risk program is funded at **\$952.0 million** in FY 2023-24, a growth of **27%** over the prior year. Payments will be between an estimated **11.5%** and **15.3%** of the Target foundation allowance, or between **\$1,105** and **\$1,470** per pupil.



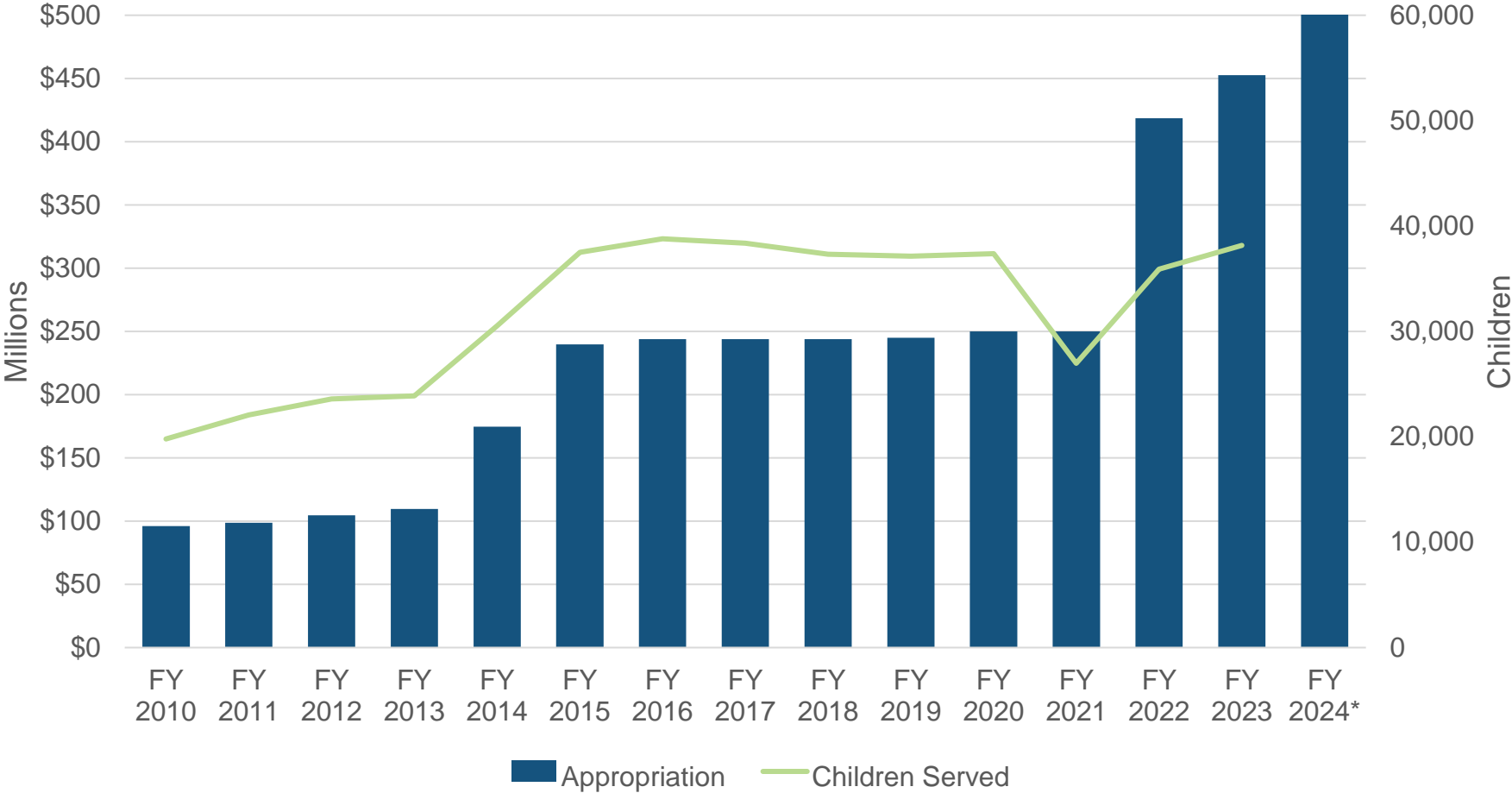
Early Childhood

Great Start Readiness Program (GSRP)

- In FY 2023-24, funding for the GSRP 4-year-old preschool program is **\$525.3 million**.
- In FY 2023-24, a GSRP extended program was introduced that operates for the same length as first grade programs.
- The allocation for each child is **\$9,608** (equal to the Target foundation allowance) for a full-day program, **\$4,804** for a half-day program, and **\$11,530** for an extended program.
- The program served approximately **38,140** children in FY 2022-23.
- The program went from 100% half-day program in FY 2004-05 to the following for FY 2022-23:
 - Half-Day: 3%
 - GSRP/Head Start Blend: 13%
 - Full-Day: 83%
- **\$28.0 million** is allocated for up to **\$500** per child for preschool transportation.
- In FY 2022-23, **\$200.0 million** was deposited into the Great Start Readiness Program Reserve Fund to support and augment GSRP programming.

GSRP Preschool Appropriations

Funding increased by **67%** in FY 2021-22 to bring the per-slot allocation up to the Target foundation allowance. Children served dipped by over **10,000** in FY 2020-21 due to the pandemic, but increased by about **9,000** in FY 2021-22 before fully recovering to pre-pandemic levels in FY 2022-23.



* FY 2023-24 Children Served is not yet known.

One-Time Categoricals

One-Time Categoricals

- In FY 2023-24, a record number of categoricals were funded for a single fiscal year. There are **93** sections that include one-time funding, totaling **\$2.3 billion**.
- Major sections include:
 - **\$328.0 million** for Per-Pupil Mental Health and Safety Grants
 - **\$245.0 million** for Consolidation Grants
 - **\$225.0 million** for a Student Loan Repayment Pilot
 - **\$140.0 million** for Early Literacy Instruction
 - **\$125.0 million** for MI Clean School Bus Grants
 - **\$125.0 million** for School Transportation Costs
 - **\$63.8 million** for an Educator Compensation Program
 - **\$50.0 million** for Mentoring Grants

Types of School Districts

Traditional, Locally Governed School Districts

- Traditional local school districts have defined boundaries, locally elected school boards, and are authorized to levy local taxes.
- In FY 2023-24, there are **537** traditional local districts with **1,246,059** pupils, or **89.3%** of the statewide public pupil membership.
- Average size of a traditional, locally governed district is about **2,320** pupils.

Public School Academies

- Public School Academies (PSAs), or charter schools, are independent public schools formed by individuals or groups to provide students and parents a public alternate to traditional school districts.
- PSAs are authorized to operate by public universities, community colleges, intermediate school districts, and local school districts.
- 2011 PA 277 increased the limit on university-authorized PSAs from 150 (reached in 1999) to 300 in 2012 and 500 in 2014, after which the cap was eliminated.
- In FY 2023-24, there are **285** PSAs with **149,942** pupils, or **10.7%** of statewide pupil membership.
- Average size of a PSA is about **526** pupils.

Cyber Schools

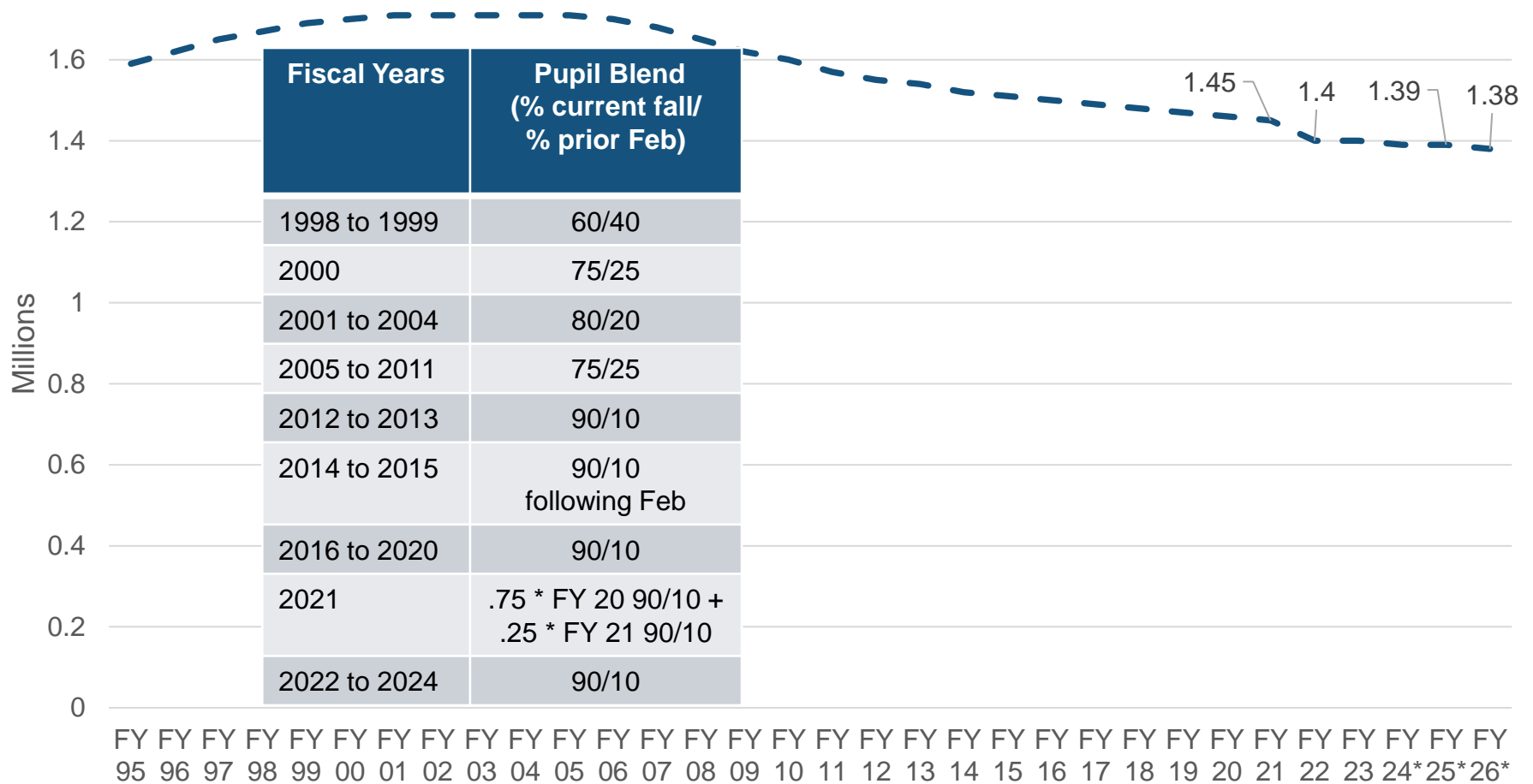
- Cyber schools are a type of public school academy.
- FY 2010-11 was first year of operation.
- 2012 PA 129 increased limits on cyber schools:
 - Limit on schools authorized by statewide entities increased to 5 in 2013, 10 in 2014, and 15 starting January 2015. Currently only 7 are authorized by statewide entities.
 - Enrollment limited to 2,500 in first year, 5,000 in second year, and 10,000 in third year.
 - Total cyber enrollment is capped at **2%** of the total statewide pupil enrollment in FY 2011-12, or approximately **30,870** pupils.
- In FY 2023-24, **16** cyber schools have an enrollment totaling **21,294**.

Declining Enrollment

Declining Enrollment

Total Pupil Membership Counts

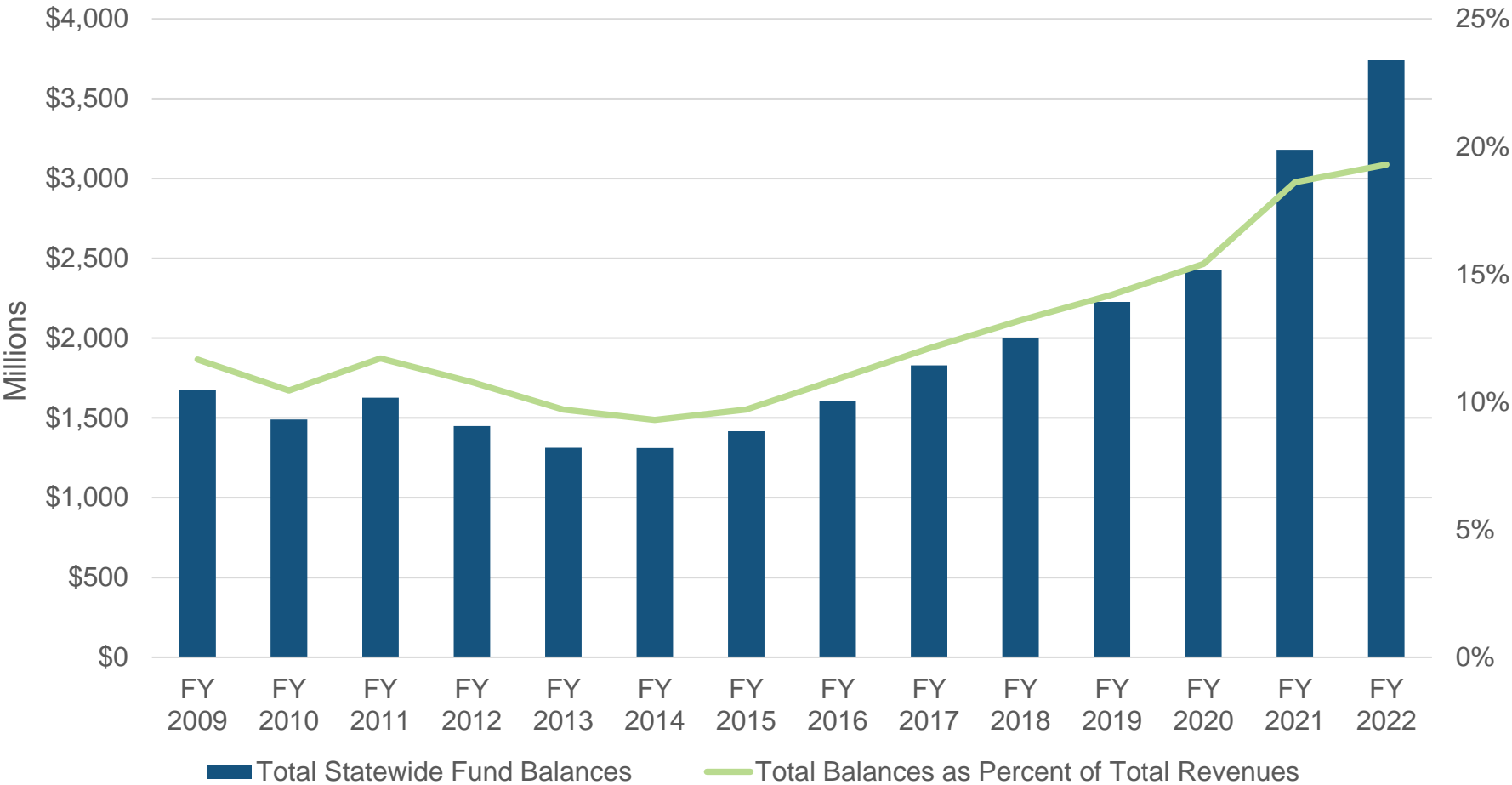
Due to the pandemic, total pupils declined by about **40,000** more than expected in FY 2020-21, although the drop was not fully experienced by districts until FY 2021-22. Total enrollment is expected to decline by about **7,500** pupils in FY 2023-24 and **6,000** pupils in FY 2023-24.



* FYs 2023, 2024, and 2025 figures are from January 2024 consensus estimates

District Fund Balances

As pupils and funding declined, districts used their fund balances to replace lost revenue. However, fund balances have been growing since FY 2013-14, and at the end of FY 2021-22, totaled **\$4.1 billion**. The average statewide total fund balance as a percent of revenues is now at **19.3%** in FY 2021-22.



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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