

DATE: February 4, 2013
TO: All Interested Parties
FROM: Bethany Wicksall, Associate Director
RE: The Basics of the Foundation Allowance — FY 2012-13 Update

The changes in school funding in the state under Proposal A of 1994 brought about a new means of providing state funding to school districts. This new mechanism came in the form of the **foundation allowance**, whereby each school district is allocated a per pupil amount – in combined state and local funds – to support school operations. This memo briefly discusses how the foundation allowance is determined and paid to schools.

Initial Foundation Allowances

The foundation allowance was first used in Fiscal Year (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 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 in FY 1993-94. Among K-12 districts, this FY 1993-94 baseline funding varied considerably, from a low of \$3,398 to a high of \$10,294, and largely reflected variances in local property tax values and millage rates.

The "Basic" Foundation Allowance

Since their original determination, district foundation allowances have been calculated each year by adding incremental dollar increases (or decreases) to the initial amount. The primary mechanism used to do this is the basic foundation allowance – or, simply "the Basic".

Originally set at \$5,000 per pupil in FY 1994-95, the Basic was essentially a target per pupil funding level that the creators of Proposal A hoped all districts would reach one day. However, this standard was phased in over a period of several years. Rather than immediately bringing all districts up to the "basic" level, the lowest-revenue districts were raised to a minimum foundation allowance, set at \$4,200 in FY 1994-95.

The Legislature and the Governor set the increase in the Basic each year in the School Aid budget. They increased the minimum foundation allowance as well; districts with foundation allowances below the Basic received larger increases than districts with foundation allowance at or above the basic level. These larger increases were calculated with a formula – often referred to as the *2x formula* – that allocated for districts at the minimum foundation an increase equal to twice the amount of the increase in the Basic. Under the 2x formula, foundation allowances above the Basic are increased by the same amount as the increase in the Basic, and foundation allowances between the minimum foundation and the Basic are increased incrementally on a sliding scale calculated by the formula.

This funding mechanism lessened the inequities in per pupil funding among school districts. Using the 2x formula, the minimum foundation allowance was raised to the Basic level of \$5,700 in FY 1999-2000. With that, all districts reached the Basic for the first time, and Proposal A's goal to raise all districts' per pupil funding to at least the level of the Basic was achieved.

Table 1: Annual 2x Formula Increases

Foundation Level	Annual Increase
Equal to or Greater than the Basic	x
Between the Minimum and the Basic	$x < \text{Increase} < (2 * x)$
At the Minimum	$(2 * x)$

From FY 2000-01 to FY 2006-07, all school districts received the same dollar increase in their foundation allowance as the annual increase in the Basic (except in cases of equity payments to increase the minimum foundations). For example, if the Basic increased by \$200 from the previous year, every school district received a \$200 increase in its foundation allowance.

But, in FYs 2007-08 and 2008-09, the Legislature reset the Basic to the State Maximum Foundation Allowance level, creating a new goal, and again began determining increases in each district's foundation allowance according to the 2x formula. Since then, however, districts have experienced mainly frozen or reduced foundation allowances.

**Table 2: The Minimum, Basic, and State Maximum Foundation Allowances
FY 1994-95 to FY 2012-13**

Fiscal Year	Minimum Foundation Allowance	Basic Foundation Allowance	State Maximum Foundation Allowance	Minimum Increase/ (Decrease)	Basic & State Max Increase/ (Decrease)	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	\$6,300	\$6,300	\$7,800	\$300	\$300	\$1,500
2002-03	\$6,700	\$6,700	\$8,000	\$400	\$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	\$7,085	\$7,085	\$8,385	\$210	\$210	\$1,300
2007-08 ³	\$7,204	\$8,433	\$8,433	\$119	\$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

¹ In FY 2001-02, districts with a foundation below \$6,500 also received an equity payment of up to \$200 per pupil, which was rolled into their foundation for FY 2001-02

² In FY 2006-07, districts with a foundation below \$7,460 also received an equity payment of up to \$23 per pupil, which was rolled into their foundation for 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 In FY 2009-10, while the foundation allowance was not changed, the budget included a \$154 per pupil reduction under Section 11d.

⁵ In FY 2010-11, while the foundation allowance was not changed, the budget included a \$170 per pupil reduction under Section 11d.

In FYs 2009-10 and 2010-11, while district foundation allowances technically remained unchanged, districts were subject to a per pupil reduction of \$154 in FY 2009-10 and a \$170 per pupil reduction in FY 2010-11 under a separate section of the School Aid Act (MCL 388.1611d). In FY 2011-12 the \$170 per pupil reduction was rolled into the foundation allowance, along with a further reduction of \$300 per pupil. In all, FY 2011-12 foundation allowances, for all districts, were cut by \$470. In FY 2012-13 the School Aid budget included the first foundation allowance increase since FY 2008-09; however, only districts at or near the minimum received an increase – through an equity payment which raised the minimum foundation allowance by \$120 per pupil to \$6,966.

In FY 2012-13, the minimum foundation allowance of \$6,966 is lower than it was in FY 2006-07. The State maximum foundation allowance at \$8,019 is just \$19 higher than it was a decade ago in FY 2002-03.

State Maximum Foundation Allowance

The highest amount that may be used when calculating the state portion of the foundation allowance is the "state maximum" foundation allowance. When the Proposal A reforms were first created, the state maximum foundation allowance was set at \$1,500 above the Basic, and it remained at that level each year until FY 2002-03, when a \$200 equity payment made to districts below the state maximum was rolled into their foundation allowances, thereby decreasing the gap to \$1,300. Another equity payment of \$23 per pupil was provided in FY 2006-07 and rolled into district foundation allowances the following year. At that point, the gap decreased to \$1,277.

In FY 2007-08, when the Legislature increased the Basic to the state maximum, and returned to the original 2x formula, the state maximum became the new goal. The equity gap was essentially revised to mean the difference between the state maximum and the minimum foundations. Through recent use of the 2x formula and the FY 2012-13 equity payment, the equity gap has decreased to \$1,053.

In addition, the state maximum foundation 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 \$8,019 maximum and their foundation allowances. There are 44 such districts in the state, however only 24 of those districts levy an additional hold harmless millage.

The State-Local Funding Split for the Foundation Allowance

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 \$7,000 has 1,000 pupils, it would receive \$7.0 million in foundation allowance revenue ($\$7,000 \times 1,000$). However, the state pays only a portion of this revenue, paying the amount remaining after subtracting from the total foundation allowance revenue the amount of local revenue that the district collects from non-homestead property taxes.

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

Generally, the state portion of the foundation allowance equals:

$$\left(\text{Membership Pupils} \times \begin{array}{c} \text{Lesser of a district's} \\ \text{foundation allowance or} \\ \text{the state maximum (\$8,019)} \end{array} \right) - \text{Assumed local non-homestead} \\ \text{property tax revenue}$$

Using our previous example, a district with a \$7,000 foundation allowance and 1,000 pupils would receive a total of \$7.0 million in foundation allowance revenue. However, if the district raises \$4.0 million in local revenue from its 18-mill non-homestead tax, the state pays only \$3.0 million of the \$7.0 million and the local district contributes the remaining \$4.0 million. In this example, the state pays \$3,000 per pupil (\$3.0 million ÷ 1,000 pupils) toward the district's \$7,000 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 non-homestead taxable value and number of pupils.

PUBLIC SCHOOL ACADEMY (PSA) FOUNDATION ALLOWANCES

Prior to FY 2007-08, the foundation allowance for a PSA was the *lesser* of 1) the foundation allowance of the local district in which the public school academy is located or 2) \$300 above the Basic. This meant that in FY 2006-07, public school academies received a maximum of \$7,385, which was \$300 above the \$7,085 Basic that year. Since reestablishing the 2x formula in FY 2007-08, the foundation allowance for a PSA is the lesser of 1) the foundation allowance of the local district in which the public school academy is located or 2) the maximum public school academy allocation (PSA Max) which was \$7,580 in FY 2010-11 and was reduced to \$7,110 for FYs 2011-12 and 2012-13. The PSA Max is adjusted annually under the 2x formula like any other district foundation allowance. Public School Academies do not levy local property taxes, and therefore make no local contribution to their foundation allowance.

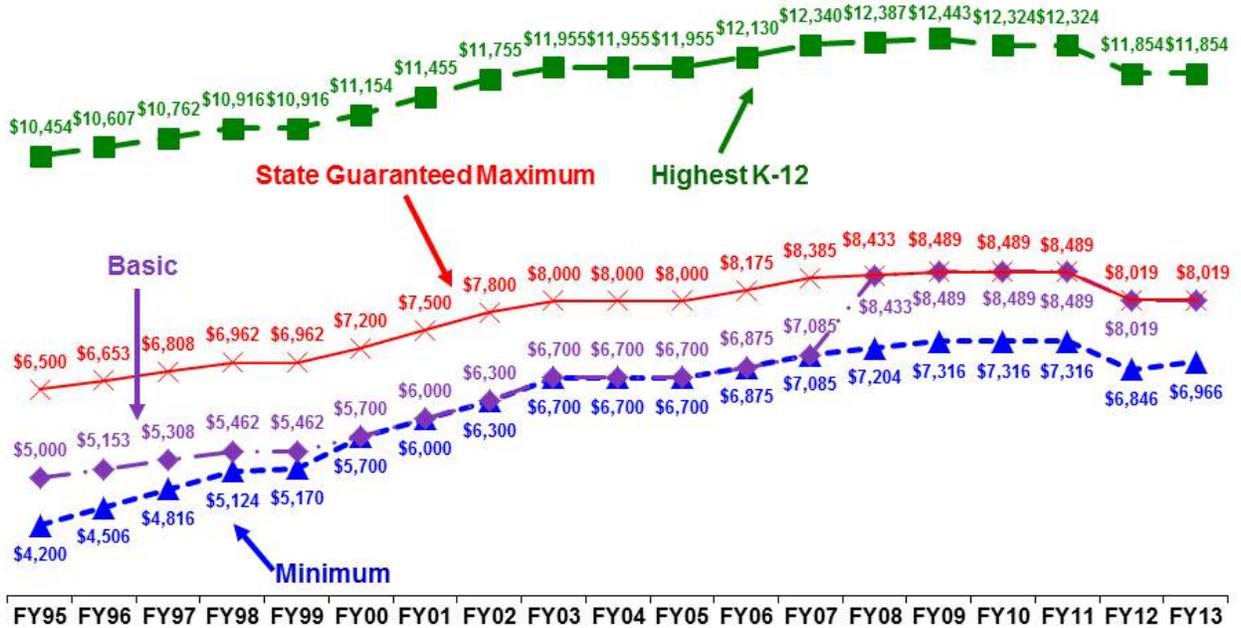
PUPIL MEMBERSHIP

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 October of the current school year to a percentage of those counted during the prior February. The pupil membership blend initially began with 50% of the Fall count and 50% of the prior February count, but has varied over time. Beginning with FY 2011-12, the membership blend is 90% of the October count plus 10% of the prior February pupil count, or a 90/10 blend. Statewide, there were approximately 1.54 million membership pupils in FY 2012-13, and we estimate that pupil memberships will decline to approximately 1.53 million in FY 2013-14.

Foundation Allowance History

Growth Since Proposal A

In FY 2012-13, an equity payment will bring the minimum foundation allowance up by \$120 to \$6,966 per pupil, which is still \$350 per pupil less than the minimum in FY 2010-11



House Fiscal Agency: February 2013