



State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2002

K-12: A MOVING TARGET

by Joe Carrasco and Kathryn Summers-Coty, Fiscal Analysts

Where Have We Been?

Prior to the implementation of Proposal A, about 80% of a school district's revenue was raised at the local level through property taxes. Since Proposal A went into effect in the 1994-95 school year, about 80% of a school district's revenue comes from the State while an estimated 20% is raised through local property taxes. On the property taxpayer side, homeowners went from paying an average K-12 education millage rate that was close to 33 mills before Proposal A, to paying an average of just six mills since Proposal A. Nonhomestead property owners went from an average millage rate of 33 mills to an average of 18 mills since the implementation of Proposal A. Proposal A also brought about a new funding mechanism called a foundation allowance, which is a per-pupil amount that is guaranteed each year and provides the majority of a school district's operating revenues.

The amount of State funding a school district receives is determined by the difference in the amount of foundation allowance revenue that is guaranteed and the amount of revenue raised through local property taxes. The majority of school districts raise their local revenues through the statutorily determined millage rate of 18 mills on nonhomestead property. Both homestead and nonhomestead property owners pay a State Education Tax (SET) of six mills that does not stay locally but goes directly to the State, which in turn helps fund the portion of a district's foundation allowance that is not raised through its local property tax millage. The amount of State funding is capped each year; thus, districts that need additional revenue to ensure that they receive their full foundation allowance must levy "hold harmless" millage. Less than 10% of Michigan's school districts are allowed to levy hold harmless millage on property. With voter approval, these districts may levy additional millage (first on homestead property up to 18 mills, then uniformly on all property) up to the amount necessary to receive their full foundation allowance.

By the time fiscal year (FY) 2003-04 arrives, it will have been nine years since Proposal A was first implemented in the 1994-95 school year. In those nine years, the gap in per-pupil funding between the highest foundation allowance district and the lowest will have been narrowed by exactly \$1,000 per pupil. In FY 1994-95 the minimum foundation allowance was \$4,200 per pupil, while the highest foundation allowance (excluding the island school districts) was \$10,454. The gap between highest and lowest was \$6,254. In FY 2003-04, the minimum foundation allowance will be \$6,700 while the highest (again, excluding the island school districts) will be \$11,954, a difference of \$5,254. The growth in the foundation allowances for those at the minimum over nine years will have been \$2,500 per pupil in total while the per-pupil total increase over the same nine years for the highest foundation allowance district will have been \$1,500, thus narrowing the gap between highest and lowest by \$1,000 per pupil.



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Table 1

FOUNDATION ALLOWANCE HISTORY						
Year	Basic Foundation Allowance	Increase from Prior Year	Additional Payments	Minimum Foundation Allowance	Average Foundation Allowance	Highest Foundation Allowance*
1993-94	N/A	N/A		2,762**	5,272**	10,294**
1994-95	5,000	N/A		4,200	5,942	10,454
1995-96	5,153	153		4,506	5,685	10,607
1996-97	5,308	155		4,816	5,876	10,762
1997-98	5,462	154		5,124	6,059	10,916
1998-99	5,462	0	\$51 suppl. payment (not incl. in base)	5,170	6,068	10,916
1999-2000	5,700	238		5,700	6,342	11,154
2000-01	6,000	300		6,000	6,648	11,454
2001-02	6,300	300	\$200 equity payment (included in base)	6,500	6,952	11,754
2002-03	6,700	400-200 = 200		6,700	7,229	11,954
2003-04	6,700	0		6,700	7,229	11,954
* Excludes island school districts.						
** This was the amount of the base calculation that was used to determine the FY 1994-95 foundation allowance.						

Table 1 illustrates how the basic foundation allowance has grown over the years and how, beginning in FY 1999-2000, the basic and minimum foundation allowances have become one and the same. (The basic foundation allowance is used to determine the amount of per-pupil increase for each school district. Districts at or above the basic foundation allowance receive only the per-pupil amount of increase while, previously, districts below the basic foundation allowance received up to twice the amount of increase depending on how far below the basic foundation allowance was their actual foundation allowance. With all 554 local school districts now being at or above the basic foundation allowance, the gap between the school district with the highest foundation allowance and those at the minimum (the basic foundation allowance) is permanently reduced. From now on, all school districts will receive exactly the same amount of per-pupil increase in their foundation allowances in years that an increase is provided by the Legislature, unless a new formula is enacted.)

Budget Bills

The seven years since Proposal A was implemented have seen a total of 14 K-12 School Aid appropriations bills adopted. At an average of two budget bills per year, school aid in Michigan has been anything but quiet. While the adjustments to the foundation allowance in all but one of those seven years remained intact (meaning that there was only once a change in the amount of the original per-pupil adjustment to the



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foundation allowance in years when a supplemental and/or multiple-year budget bill was enacted), several policy changes have come and gone, most notably, those dealing with the *Durant I* and *Durant II* court cases. Table 2 provides a brief history of the budget bills that have been passed since the details of Proposal A were first laid out in Public Act (P.A.) 336 of 1993.

Table 2

K-12 BUDGET BILL HISTORY			
P.A. #	Year	Bill #	Bill Contents
336	1993 (Dec.)	HB 5123	FY 1993-94 Supplemental FY 1994-95 original appropriation & Implementation of Proposal A
283	1994 (July)	HB 5463	FY 1994-95 1st supplemental
360	1994 (Dec.)	SB 887	FY 1994-95 2nd supplemental
130	1995 (June)	HB 4436	FY 1995-96 original appropriation
300	1996 (June)	SB 851	FY 1995-96 supplemental FY 1996-97 original appropriation
93	1997 (Aug.)	HB 4310	FY 1997-98 original appropriation Veto of At-Risk appropriation
142	1997 (Nov.)	SB 178	<i>Durant I</i> FY 1997-98 supplemental FY 1998-99 original appropriation
339	1998 (Oct.)	HB 5516	FY 1998-99 1st supplemental FY 1999-2000 original appropriation
553	1998 (Dec.)	SB 240	FY 1998-99 2nd supplemental FY 1999-2000 1st supplemental
119	1999 (July)	HB 4498	FY 1998-99 3rd supplemental FY 1999-2000 2nd supplemental FY 2000-01 original appropriation
297	2000 (July)	SB 1044	<i>Durant II</i> FY 1999-2000 3rd supplemental FY 2000-01 1st supplemental FY 2001-02 original appropriation FY 2002-03 original appropriation
121	2001 (Sept.)	HB 4371	FY 2000-01 2nd supplemental FY 2001-02 1st supplemental FY 2002-03 1st supplemental
191	2002 (April)	SB 1107	FY 2001-02 2nd supplemental FY 2002-03 2nd supplemental
521	2002 (July)	HB 5881	FY 2002-03 3rd supplemental FY 2003-04 original appropriation



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Beginning with the fall of 1997, the K-12 budget bills have been multiple-year appropriations. Public Act 142 of 1997 contained supplemental appropriations for FY 1997-98 as a result of the settlement of the first *Durant* lawsuit and began the trend that continues today by also including the initial appropriations for FY 1998-99 while in the middle of the 1997-98 fiscal year. This first multiple-year budget bill was enacted to secure funding for the upcoming fiscal year in order to relieve the uncertainty that many school districts were experiencing because of the possibility that their funding may be decreased as a result of the settlement of that first lawsuit. As seen in Table 2, the trend progressed from two-year budget bills to three-year budget bills with the enactment of P.A. 297 of 2000. Public Act 297 contained supplemental appropriations for FYs 1999-2000 and 2000-01 to address the second *Durant* lawsuit. Again, in order to secure funding for future years, the Legislature enacted a budget for FY 2002-03 as well as FY 2001-02. Both of those fiscal years have been supplemented three times since the enactment of P.A. 297, most recently with the enactment of P.A. 521 of 2002 which also contains the initial appropriation for FY 2003-04. The contents of P.A. 521 are discussed in more detail below.

Where Are We Now?

Declining revenues were confirmed at the January 2002 revenue estimating conference, necessitating a revised K-12 budget to balance anticipated revenues with expenditures, both for FY 2001-02 and for FY 2002-03. The basic foundation allowance had already been enacted for FY 2002-03 with a \$200 per-pupil increase, which would not be sustainable without a dramatic increase in revenues. The Governor released a budget plan in February 2002, providing the necessary revenues to balance the FY 2001-02 budget and supporting the \$6,700 basic allowance in FY 2002-03, which incorporated three one-time funding sources: 1) moving ahead the collection of the State Education Tax (generating revenue estimated at \$474.3 million); 2) transferring \$350 million from the Budget Stabilization Fund to the School Aid Fund (SAF); and 3) transferring \$79.5 million from an account within the Michigan Employment Security Act Contingent Fund to the General Fund for use in the K-12 budget. Senate Bill (S.B.) 1107, predicated upon these three funding sources and various budget-balancing appropriations, was enacted in April, and became P.A. 191 of 2002.

At the time the Governor's FY 2002-03 budget was presented in February, it appeared as though there would be a sufficient fund balance in the School Aid Fund at the end of FY 2002-03 to support a continuation budget in FY 2003-04. However, by the May 2002 revenue estimating conference, this prediction was overturned. Not only was a continuation budget impossible for the following year, but the recently-enacted FY 2002-03 budget would face an estimated deficit of \$73 million.

During the same time, the Governor and the Legislature began discussions on increasing the cigarette tax as a means to help balance the FY 2002-03 General Fund (GF) budget. The discussions centered initially on a 30-cent per-pack increase in the tax, but in a new plan that emerged toward the end of June, a 50-cent per-pack increase was proposed, with 20 cents per pack dedicated to the SAF. In this manner, the deficit



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for FY 2002-03 would be eliminated and a continuation budget for FY 2003-04 could be positively sustained. It is anticipated that the additional revenue from the 20-cent per-pack earmarking will generate \$225 million between August 1, 2002 (the implementation date for the tax increase) and September 30, 2004. These revenues, combined with an estimated \$54 million in new revenues from a Sunday lottery drawing, are expected to eliminate the deficit projected, given the assumptions that the economic growth of the SAF is at least 4.5%, the continuation budget remains in place without further supplementals, and \$198 million is again transferred from the GF to the SAF (as was the case in FY 2001-02 and will be for FY 2002-03).

The result of these negotiations was the adoption and subsequent enactment of House Bill 5881 (P.A. 521 of 2002), a K-12 budget that includes two changes from S.B. 1107 for the 2002-03 fiscal year and a continuation budget for FY 2003-04. The upcoming changes comprise rolling \$15 million into Detroit Public Schools' foundation allowance (which will remain in place as long as the reform board administers the district), and providing funding for declining enrollment grants in Upper Peninsula districts (rather than only for Lower Peninsula districts, as previously provided). The main purpose of P.A. 521, however, was to enact an FY 2003-04 continuation budget, which maintains all funding from the previous year with the exception of three items: 1) a one-time appropriation of \$5.4 million to pay the debt service on the School Bond Loan Fund; 2) a one-time appropriation of \$4.6 million to reimburse local treasurers for administrative revenues lost from the (one-time) one-mill reduction in the SET (which accompanied the acceleration in collections); and 3) discontinuation of declining enrollment grants for Upper Peninsula districts.

In conclusion, the budget supporting K-12 education in Michigan is a steadily moving target, responding with alacrity to changes in revenue forecasts. At this time, an FY 2003-04 continuation budget has been enacted, the first State budget to be enacted for that fiscal year. Given the uncertainty of the economy, the political climate, and the trend of K-12 School Aid appropriations over the past several years, it is nearly assured that the appropriations for FY 2003-04 will be revisited.

