

# OneFAB

## Information Delivered on One Page, Front And Back

General Operational Funding Supporting Each Student  
(i.e., the Foundation Allowance)

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### The Foundation Allowance Concept

Since the fall of 1994, school funding in Michigan has provided a per-student amount of funding to school districts, which is called the foundation allowance. The foundation allowance is considered general operational funding for a district, and has few restrictions on its use. School districts are paid for the number of students enrolled and in attendance on the count day (the first Wednesday in October), with part of the funding based on the prior February's count day. The State also provides a number of other categories of funding to schools, including funding for special education, for students at risk of not achieving educational success, for preschool, and for assistance for retirement costs. This OneFAB will focus on the foundation allowance, with subsequent publications focusing on other areas in School Aid.

Roughly 84% of school districts receive the same amount of foundation allowance funding per pupil, and that amount is the minimum foundation allowance, which sits at \$7,871 per pupil for fiscal year (FY) 2018-19. The minimum started out at \$4,200 per pupil in FY 1994-95; over the past 24 years, it has grown by 87%, and supports 63% of Michigan's nearly 1.5 million K-12 students. The gap between the minimum (\$7,871) and the maximum amount received by a 'normal' school district<sup>1</sup> (\$12,244) sits at \$4,373; in FY 1994-95, the gap between these two figures was \$7,532. Therefore, the gap between the lowest-funded district and the highest-funded 'normal' district has shrunk by 42% in the past 24 years.

### History: Why is there a Gap in the Foundation Allowance

The reason for any gap at all can be traced back to the implementation of the school financing plan that was adopted by voters in March 1993, called Proposal A. Prior to Proposal A's implementation in FY 1994-95, schools in Michigan primarily received the bulk of their operational funding from their own property taxes. Districts whose voters approved high millage rates, or where the combination of mills and property values produced high local property tax revenue, enjoyed more operational support than districts with low millage rates or where the mills assessed on property with lower values brought in less property tax revenue.

At the time of the conversion from pre-Proposal A to post-Proposal A, a series of calculations was undertaken to determine how much revenue each school district was receiving from both local property taxes and from the State. The sum of those two revenue sources was divided by the number of pupils, and a base revenue-per-pupil amount was calculated for each district.

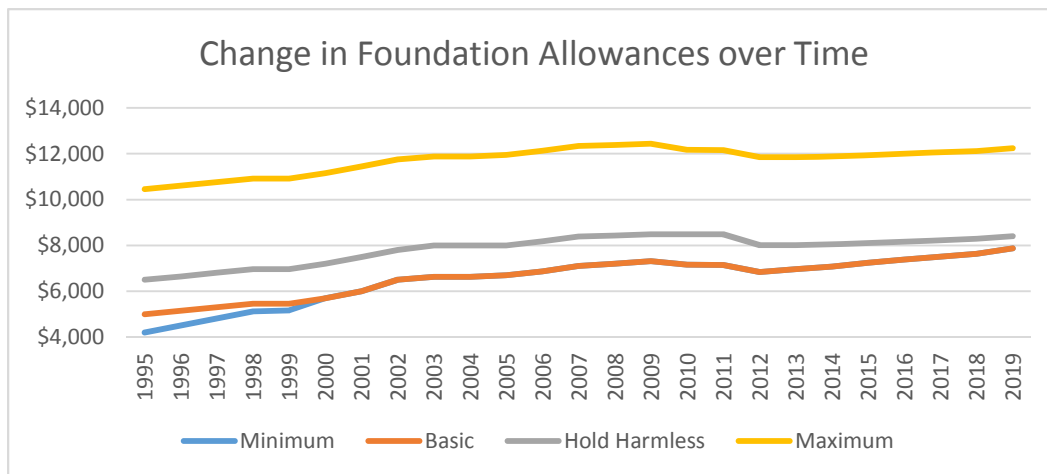
Clearly, there was significant variation around the State prior to Proposal A, where some districts had very low revenues-per-pupil and some districts had very high revenues-per-pupil. These 'base' revenues per pupil were then converted into foundation allowances, in large part retaining the funding variations among the districts. To close the equity gap, it was decided not to roll the higher-funded districts back, but to instead bring the lower-funded districts up. A minimum floor was established (bringing several districts immediately above the levels of funding they had experienced prior to Proposal A), and a 'target' foundation allowance was set - this was called the 'basic' foundation allowance.

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<sup>1</sup> The 'normal' school district referenced here is Bloomfield Hills; there are two districts with higher foundation allowances, but they have fewer than 5 pupils. Bloomfield Hills has more than 5,000 pupils.

## How the Equity Gap Has Narrowed over Time

Districts whose foundation allowances were at or above the minimum, but below the basic, were provided dollar increases that *exceeded* the dollar increase in the basic. In this manner, the gap between higher-funded and lower-funded districts has been reduced over time. There were some years when the gap-closing formula was not used, and the per-pupil increases in the foundation allowance were the same for all districts. In general, though, for the majority of years since Proposal A, some form of gap-closing formula has been used, and most of that time, the '2x' formula was used to provide twice the dollar increase to those districts at the minimum foundation allowance, compared to the dollar increase provided to those districts at or above the basic foundation allowance. (Under the '2x' formula, districts above the minimum, but below the basic, receive something more than '1x' but less than two times the dollar increase provided to districts at or above the basic foundation allowance.)



## How the Cost of the Foundation Allowance is Supported

The foundation allowance received by a school district (other than a public school academy) is generally supported from both State appropriations and local tax revenue. Changes implemented under Proposal A require that districts levy either 18 mills on non-homestead (i.e., business) property or the number of mills levied in 1993 in support of school operations, if that amount is less than 18. (More recently, this requirement has been tweaked to reflect exemptions for industrial and commercial personal property.)

In cases where a district's foundation allowance is less than the hold-harmless threshold (\$8,289 in FY 2018-19), the district levies 18 mills on non-homestead property, and the local revenue collected from that levy is converted to a per-pupil basis. The State then pays the difference between the district's foundation allowance and the amount raised by the 18-mill levy on business property. In cases where a district's foundation allowance exceeds the hold-harmless threshold, the district first levies its 18 mills on business property; the State then pays the amount up to the hold-harmless threshold; and, with voter approval, the district levies a 'hold-harmless' millage on homeowner property to generate the rest of the revenue to achieve the district's authorized foundation allowance.

There are instances where the foundation allowance is entirely paid by the State or where it is entirely paid by local taxes. The most common instance where the foundation allowance is paid entirely by the State is for charter schools, also called public school academies, since they do not have taxing authority. In some cases, the opposite occurs, and the local 18-mill levy generates revenues in excess of the foundation allowance, and no State cost-sharing is necessary. Total State foundation allowance appropriations exceed \$9.4 billion for FY 2018-19, and local cost-sharing is estimated at \$2.2 billion.

Districts no longer may ask voters to approve operational millage exceeding the foundation allowance. Districts can and do still hold millage elections for capital (building) projects, and do need to seek renewals of the 18-mill levy on non-homestead property and, where applicable, hold harmless millage.