

# MICHIGAN HISTORY OF SCHOOL FUNDING

Going back as far as 1963, schools were primarily funded at the local level. Local school districts held elections, which determined the millage rate for property taxes that would fund the school system. On average, districts received 69% of their funding from local sources and 31% from State sources. This meant that funding for districts varied considerably, ranging from a high of over \$10,000 per student to a low of **only** \$3,398.

Between 1963 and 1994 there were over 12 ballot proposals to change the way schools were funded, but none passed. However, in 1994, Proposal A passed and it fundamentally changed the way schools were funded. The majority of school funding is now funneled through the State Foundation Allowance and other categorical allowances, while a limited amount of funding continues to come from local sources.

## FOUNDATION ALLOWANCE

With the passing of Proposal A in 1994, districts receive a per-pupil Foundation Allowance. The initial foundation allowance was based on the per-pupil revenue each district was receiving prior to implementation of Proposal A. That figure ranged from \$3,398 to \$10,294 per pupil. The initial minimum foundation allowance was set at \$4,200 and the maximum was set at \$6,500, so there was a difference of \$2,300 between the lowest and highest foundation allowance received by districts. The plan over time was to bring the minimum and maximum closer together by increasing the minimum foundation allowance at a faster pace than the maximum foundation allowance. In 2012-13 (nearly 20 years later), the minimum foundation allowance was \$6,966 and the maximum was \$8,019, with a difference of \$1,053. (The foundation allowance for Woodhaven Brownstown Schools was \$7,252 in 2012-13.)

There are several districts in the State that have a “hold-harmless” status. At the time of Proposal A, the maximum foundation allowance that was to be paid by the State was significantly less than the amount of funding these districts had been receiving. These few districts were allowed to levy additional taxes to make up the difference in funding and those taxes are levied first on homestead property. **Only those districts are allowed to levy additional taxes to support the operational (or General Fund) of their district – the majority of districts are capped at collecting 18 mills on Non-Homestead properties.** In Wayne County, Dearborn, Grosse Pointe, River Rouge, Romulus, Trenton, and Grosse Isle Schools have this “hold-harmless” status.

## FOUNDATION ALLOWANCE – LOCAL AND STATE FUNDING

Although determined by the State each year, the foundation allowance is actually funded by both local and State funds.

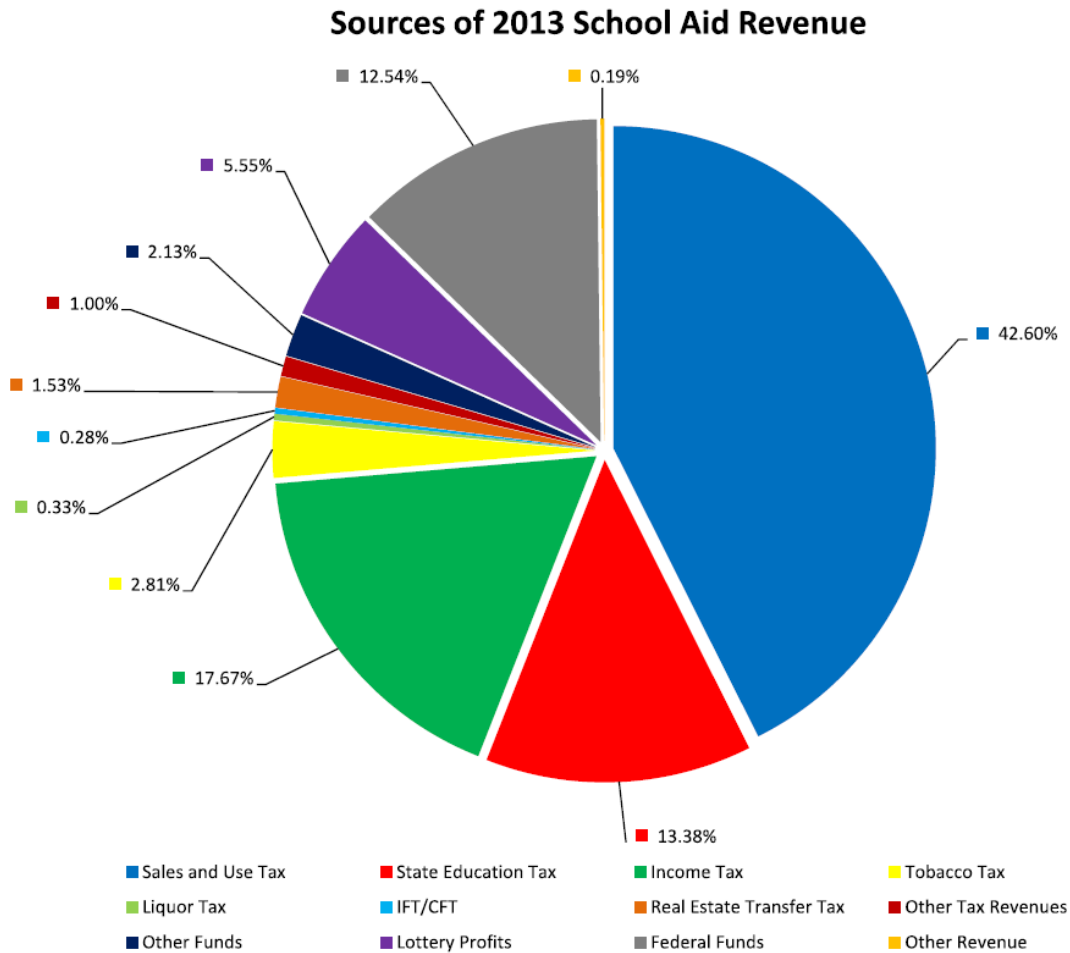
### Local sources

A property tax of 18 mills is collected on Non-Homestead properties (commercial, industrial, development and personal property) and these funds are paid directly to the District. **Taxpayers do NOT pay this tax on their primary residence.** For Woodhaven-Brownstown Schools, this accounts for approximately \$6.6 million of our funding.

### State Sources

The primary source of revenue for the School Aid Fund is from the State Education Property Tax, which is 6 mills collected on all but a few exempted properties in the State. **This tax IS paid on your primary residence and you will see it on your property tax bill as “State Education Tax”.** These funds are sent to the State and are earmarked for the State School Aid Fund.

Additional funds for the School Aid Fund come from a variety of sources.



The State determines the per-pupil amount of taxes that are collected at the local level and subtracts that amount from the foundation allowance (see example A). As taxable values go down, as we have experienced in recent years, the State must pick up a larger

portion of the foundation allowance. When taxable values increase, there is less strain on the State.

### **Example A:**

District A has 1,000 students and a foundation allowance of \$7,000 per pupil

$1,000 \times \$7,000 = \$7,000,000$  Total foundation allowance funding

District A collects \$2,000,000 in local property taxes (18 mills collected on non-homestead properties)

$\$7,000,000 - \$2,000,000 = \$5,000,000$ , which is the amount of funding received from the State.

### **ADDITIONAL STATE FUNDING - Categorical Funding**

In addition to the per-pupil Foundation Allowance, districts in Michigan also receive funding through “Categoricals”, which is special funding as determined by the State. Categorical funding is **not guaranteed to continue from year to year**. Much of the current categorical funding is in place because the foundation allowance has been reduced in the last several years and categorical funding can be adjusted more easily year-to-year than the foundation allowance. In 2012-13, a Woodhaven-Brownstown school received the following General Fund Categorical Funding.

- At Risk – Funding for students that meet “At Risk” criteria specified in legislation
- Best Practice Incentive – (\$52 per pupil in 2012-13, as we meet 7 of 8 criteria set by the State)
- Performance Based Funding – up to \$100 per pupil based on prior year performance (WBSD received \$70 per pupil in 2012-13)
- Headlee Obligation for Data Collection – The Headlee amendment requires that any costs incurred by local districts or municipalities to meet mandates required by the State, must be reimbursed by the State. \*
- MPSEER’s Cost Offset/Stabilization – as the retirement rate that schools are required to pay for school employees has skyrocketed, the State provided a small offset in 2010-11 and 2012-13 of approximately \$200 per-pupil. With retirement reform, it is unclear how long this will continue.

### **Special Education Funding**

School districts receive reimbursement for 28.6138% of their total Special Education program costs, as well as 70.4165% of Special Education Transportation costs from the State. The per-pupil foundation allowance for each Special Education FTE (Full Time Equivalency) is first subtracted.

## **EFFECT OF PROPOSAL A, 1994 TO PRESENT**

Proposal A did provide consistent funding for districts across the state and also reduced the overall level of property taxes paid by homeowners for many years. Although the disparity between minimum and maximum foundation allowances that districts receive continues, the gap has been reduced substantially from \$2,300 in 1994-95 to \$1,053 in 2012-13. The minimum and maximum foundation allowances steadily increased through the years until 2002-03. It then held steady until 2005-06 when increases were once again instituted. In 2009-10 through 2011-12, across the board decreases were made in the foundation allowance, so the basic allowance was just over the allowance of 2004-05. (See Table A, below.)

Some of the funding lost from the decreases in the foundation allowance were regained with Federal money in the form of American Recovery and Reinvestment Act Stabilization (ARRA) funds and grants (2009-10 and 2010-11) and then Education Jobs (EduJobs) funding (2010-11 and 2011-12).

**Table A**

<b>Fiscal Year</b>	<b>WBSD Grant</b>	<b>Minimum Grant</b>	<b>Basic Grant</b>	<b>Max Grant</b>	<b>WBSD Change</b>
1995	\$5,648	\$4,200	\$5,000	\$6,500	
1996	\$5,801	\$4,506	\$5,153	\$6,653	\$153
1997	\$5,956	\$4,816	\$5,308	\$6,808	\$155
1998	\$6,110	\$5,024	\$5,462	\$6,962	\$154
1999	\$6,110	\$5,170	\$5,462	\$6,962	\$0
2000	\$6,348	\$5,700	\$5,700	\$7,200	\$238
2001	\$6,649	\$6,000	\$6,000	\$7,500	\$301
2002	\$6,949	\$6,500	\$6,300	\$7,800	\$300
2003	\$7,149	\$6,700	\$6,700	\$8,000	\$200
2004	\$7,149	\$6,700	\$6,700	\$8,000	\$0
2005	\$7,149	\$6,700	\$6,700	\$8,000	\$0
2006	\$7,324	\$6,875	\$6,875	\$8,715	\$175
2007	\$7,534	\$7,085	\$7,085	\$8,385	\$210
2008	\$7,621	\$7,204	\$8,433	\$8,433	\$87
2009	\$7,722	\$7,316	\$8,489	\$8,489	\$101
2010	\$7,722	\$7,151	\$8,489	\$8,489	\$0
2011	\$7,722	\$7,146	\$8,489	\$8,489	\$0
2012	\$7,252	\$6,846	\$8,019	\$8,019	(\$470)
2013	\$7,252	\$6,966	\$8,019	\$8,019	\$0
2014	\$7,307	\$7,026	\$8,049	\$8,049	\$55
2015	\$7,357	\$7,126	\$8,099	\$8,099	\$50

The continued economic struggles of the State continue to put a strain on the School Aid Fund. In April 2011, Governor Rick Snyder issued “A Special Message from Governor Rick Snyder: Education Reform”. The Governor’s reform measures include a proposed

change in the way schools are funded. The Oxford Foundation of Michigan has undertaken the Michigan Education Finance Project, which will propose a replacement of the School Aid Act of 1979.

Many reforms have come forward from State laws on the Oxford Foundation drafts and other studies. Some of these items are prohibitive subjects of bargaining on union contracts, evaluations, on-line learning, early education initiatives, and many more areas for future articles.

Thank you for taking the time to read this article. We will issue quarterly articles in the future for further understanding of school finance issues.