K–12 Funding

BACKGROUND

After 25 years of futility and 12 ballot proposals, in 1994 Michigan voters approved Proposal A, which revamped the way the state funds K–12 education. Voters reduced the state's relatively high property taxes, which had been about 35 percent above the national average before the reforms and now are about the same as the national average. Proposal A not only gave property tax relief but reduced funding disparities among school districts—spending had ranged from $3,400 to $10,300 per pupil.

Local property taxes for schools were largely replaced with new state education taxes. The reforms

- increased the state's 4 percent sales tax to 6 percent and earmarked the increase for the School Aid Fund;
- created several new revenue sources for schools, including a 6-mill state education property tax and a 75-cent per pack cigarette tax;
- limited annual property tax increases on each parcel of property to the lower of (1) the inflation rate or (2) 5 percent;
- stipulated that school districts on the low end of the funding spectrum would receive bigger annual funding increases than would the "richer" schools; and
- eliminated a number of categorical (special) grants and rolled the funds into the foundation allowance.

Funding Distribution

To reduce funding disparities among school districts, a "foundation allowance"—a per pupil amount of operating funding—was established for each district in the state. This allowance was influenced by the amount of funding a district had received before Proposal A was passed, meaning that districts that had higher property values before Proposal A were assigned a higher foundation allowance. (In the first year of Proposal A, foundation allowances for K–12 districts ranged from $4,200 to $10,294.) A "minimum" foundation allowance—the least amount a district would receive—was established at $4,200 in FY 1994–95 and has increased each year to the current level of $6,500.

A basic foundation allowance (the "basic")—a target amount to which lower-funded districts one day would be raised—also was established. In FY 1994–95, the first full fiscal year of the new school finance system, the basic was $5,000 per pupil. Districts with a foundation allowance *below* the basic received an increase in their per pupil funding of up to twice the dollar amount of the increase in the basic. For example, if the basic increased from $5,000 to $5,153, as it did from the first to second year of the reforms, all districts with a minimum foundation allowance of $4,200 in FY 1994–95 received a per pupil increase of twice this $153 rise, or $306. However, every district that was *above* the basic received only $153 per pupil—the amount of increase in the basic. (See the exhibit.)

GLOSSARY

Charter school
A public school, sometimes with a particular educational approach, that is exempt from certain state regulations; also known as a public school academy.

Foundation allowance
A per pupil amount of state funding that pays for school operations.

Intermediate school district (ISD)
An education service agency that provides support to school districts within a geographic area (frequently approximates the county).

Millage
A monetary unit equal to 1/1000 of a dollar. Millage is the tax rate on property—the number of mills assessed against the property's taxable value.

Public school academy
A charter school.

School Aid Fund
A fund into which certain state revenues are deposited and from which funds may be spent only on K–12 education.

Taxable value
The amount of property value upon which property taxes are levied.

History of the School Foundation Allowance, FY 1994–95 to FY 2001–02

Fiscal Year	Minimum Foundation Allowance	Basic Foundation Allowance	Maximum Foundation Allowance	Dollar Increase in the Basic
1994–95	$4,200	$5,000	$6,500	NA
1995–96	4,506	5,153	6,653	$153
1996–97	4,816	5,308	6,808	155
1997–98	5,124	5,462	6,962	154
1998–99	5,170	5,462	6,962	0
1999–2000	5,700	5,700	7,200	238
2000–01	6,000	6,000	7,500	300
2001–02	6,500	6,500	7,800	300
% Change, FYs 1995–2002	54.8%	30.0%	20.0%	NA

SOURCE: Public Sector Consultants, Inc., using data from the House Fiscal Agency.
NOTE: The FY 2001–02 allowance includes a $200 per pupil "equity payment" designed to raise the lowest foundation allowance from $6,300 to $6,500.

Emerging Issues

The 2003–04 legislative session will see Proposal A's 10-year anniversary. This occasion, along with budget cuts caused by the current recession, no doubt will bring the "new" system's strengths and weaknesses under scrutiny, and the following issues are likely to be part of the debate.

Reducing the Funding Gap

As stated above, Proposal A has achieved the goal of bringing all districts up to the basic foundation allowance. The exhibit shows that the minimum foundation allowance has increased nearly 55 percent from the first year of Proposal A, more than twice the 20 percent increase of the maximum foundation allowance. The per pupil funding gap between the highest- and lowest-funded district has narrowed from $6,900 to $5,255. While it is good news that all districts have reached the basic foundation allowance, it also means that all districts now will receive the same dollar increase each year, and the gap will not be further narrowed without additional legislation.

Infrastructure and Capital Improvements

Proposal A was targeted toward school operating funds, which are used to pay for wages and salaries, textbooks, and other day-to-day operational expenses. It was not intended to address capital needs such as building, expanding, or improving school buildings; these still are funded primarily from voter-approved debt millage. However, the aging of the state's stock of school buildings and the necessity to equip buildings for computer technology are escalating the need for capital improvements, for which money must be raised locally. The value of the property in the district affects the amount of money per mill that a district can raise for capital expenses—for example, in Northport one mill raises about $816 per pupil, but in Highland Park it raises only about $32 per pupil.

Declining Enrollment

Proposal A tied a district's funding much more to enrollment than was the case under the old system, so for every pupil a district gains or loses, it now also gains or loses money. In FY 2001–02, more than 300 of the 554 local districts lost pupils and therefore funding. Although total school enrollment is increasing statewide, much of the growth is found in the state's 190 charter schools rather than in traditional school districts. In future years, total school enrollment is expected to decline statewide, meaning that even more districts, as well as charter schools, will see fewer pupils enter their doors.

Local Revenue-Raising Ability

As part of the effort to provide tax relief and reduce funding disparities, Proposal A severely limits a district's ability to levy additional mills in order to increase operating funds. Under the old system, districts were relatively free to ask voters to approve new millage for operations. Since Proposal A, however, districts may ask at any given time for only up to three "enhancement" mills for operation. In 1997 additional restrictions were imposed, and districts now must request enhancement mills on an intermediate school district (ISD)–wide basis. In other words, they must ask all voters in the ISD in which they are located to approve the additional mill(s) and, if approved, share the resulting revenue on an equal, per pupil basis with all districts in that ISD. Since 1997 only one such millage request has been approved, and it is unlikely that many others will follow.

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School Revenue Growth and Stability

When Proposal A passed, there were questions about whether, over time—in a good and bad economy—the new system would provide sufficient revenue to support schools. It appears that during a good economy, school revenue has been sufficient and has exceeded the inflation rate. From FY 1994–95 to FY 2001–02, a period during which the national and state economies were expanding, the foundation allowance grew from $5,000 to $6,500, an average annual increase of 3.8 percent, which exceeds the 2.7 percent Michigan inflation rate. At this writing, the School Aid Fund is larger than the entire state General Fund, the fund that pays for the operation of nearly all of the rest of state government.

In March 2001 the National Bureau of Economic Research declared that a recession was underway in the United States for the first time in ten years. The resulting decline in state revenue for schools forced lawmakers to reduce the FY 2001–02 budget from its enacted level, marking the first school budget cut since the Proposal A reforms came into being. It is too soon to determine whether in a recession schools will suffer more under Proposal A than they would have under the old system, but early evidence suggests that this may be the case, and this question deserves analysis when sufficient data become available.

DISCUSSION

Reducing the Funding Gap

As stated above, legislation is required to further close the school funding gap. Indeed, in FY 2001–02, a one-time "equity payment" was allocated to reduce the gap between the minimum and maximum foundation allowances from $1,500 to $1,300. This payment gave up to $200 per pupil to districts having a foundation allowance below $6,300, effectively raising the foundation allowance to $6,500. The cost to the state was $129 million. While many people support the concept of greater equity among school districts, the price tag of such an effort is an obstacle. The recent economic downturn makes it unlikely that the state will be able to afford another equity-enhancing program in the near future.

Infrastructure and Capital Improvements

Not since the 1970s, when the state provided funds for "millage equalization," has Michigan provided direct state assistance for infrastructure. Many school representatives and others are pressing for state help with infrastructure needs, but such assistance could cost billions if fully funded. Proponents argue that a state role is necessary because of the vast inequities in local districts' ability to raise such money. They also argue that Proposal A makes it harder for districts to get a debt millage passed, since there is a misperception among many that the reform meant there would be no more millage elections. Opponents counter that the current School Aid Fund was created to pay only for school operations and it is up to the locals to get their debt millages approved by voters and provide their own bricks and mortar. Others may not oppose state assistance on principle but argue that the state simply does not have sufficient funding to provide such support or has higher funding priorities.

Declining Enrollment

Supporters of financial help for districts with declining enrollment argue that such a decline can be caused by demographic or economic factors beyond a district's control. They point out that shrinking enrollment could one day affect almost all districts, as the total Michigan school-aged population is expected to decline 1.9 percent from FY 2001–02 to FY 2005–06. Opponents argue that many districts lose pupils to charter schools or other districts, and the state should not reward a district with extra funding when it simply could not compete with other schools. Others say that schools should adapt by cutting spending when enrollment declines.

Local Revenue-Raising Ability

Support seems to be growing to allow local districts to levy additional local operating millage. In 2001–02, legislation was introduced (House Bill 4917), for the first time since Proposal A passed, to permit districts to go to voters for additional operating millage. Supporters say that if voters are willing to pay more to support their local schools, they should be allowed to so. They also point to the fact that many of the higher-funded districts have received less-than-inflationary increases in their per pupil funding since Proposal A went into effect, and they argue that a millage would help them to keep up with rising costs. Opponents say that allowing additional local mills would erode the property tax relief granted under Proposal A; they also could argue that new operating mills in some districts would once again allow the funding gap between rich and poor districts to widen. As the state constitution requires that the enabling legislation for any type of new school millage must be passed by a three-fourths affirmative vote by both legislature chambers, enacting an operating-millage bill would be difficult.

See also K–12 Quality and Testing; K–12 Schooling Alternatives; Special Education.

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