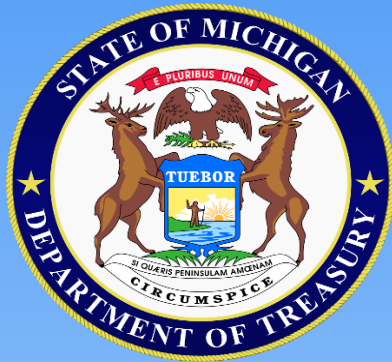




MICHIGAN SCHOOL BUSINESS OFFICIALS

SCHOOL FINANCE UPDATE



Budget & Finance
Training
March 2, 2019



Robert Dwan

Associate Executive Director



Special Thanks to:

- Kathryn Summers – Senate Fiscal Agency
- Bethany Wicksall – House Fiscal Agency
- Samuel Christensen – House Fiscal Agency





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SCHOOL AID FUND 2018-19

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- [HFA Appropriations Summary and Analysis for Fiscal Year 2018-19](#) (Posted 7/31/18)
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SFA ANALYST: Kathryn Summers
DATE: July 2018

APPROPRIATION LINE ITEM AND BOILERPLATE HISTORY

K-12 SCHOOL AID
PART 1: LINE ITEM DETAIL

2018 PA 265
Article I
FY 2018-19
Initial

Sec. 11 APPROPRIATION SUMMARY

- | | |
|---|-------------------------|
| 1. <u>Unclassified full-time equated (FTE) positions</u> - Positions that are exempted from the classified State civil service pursuant to Article XI, Section 5 of the Michigan Constitution. | N/A |
| 2. <u>Classified FTE positions</u> - All positions in State service unless exempted by Article XI, Section 5 of the Michigan Constitution. One FTE position equals 2,088 hours. | N/A |
| 3. <u>GROSS APPROPRIATION</u> - Total appropriations | \$14,765,468,800 |
| 4. <u>Interdepartmental grants (IDG)</u> - Funds that are also appropriated in other budgets. These funds are categorized as IDGs in the Department of Education that spends the funds and are therefore subtracted from the Gross Appropriation to avoid double counting total statewide appropriations. | N/A |
| 5. <u>ADJUSTED GROSS APPROPRIATION</u> - Gross appropriations less IDGs. | 14,765,468,800 |
| 6. <u>Federal revenue (on-going)</u> - Funding allocated to the State by the Federal government that is not temporary in nature. | 1,724,743,500 |
| 8. <u>Local revenue</u> - Funds paid by local units of government that support State services and programs. | N/A |
| 9. <u>Private revenue</u> - Available appropriated funds from private sources, including funding from non-governmental agencies. | N/A |

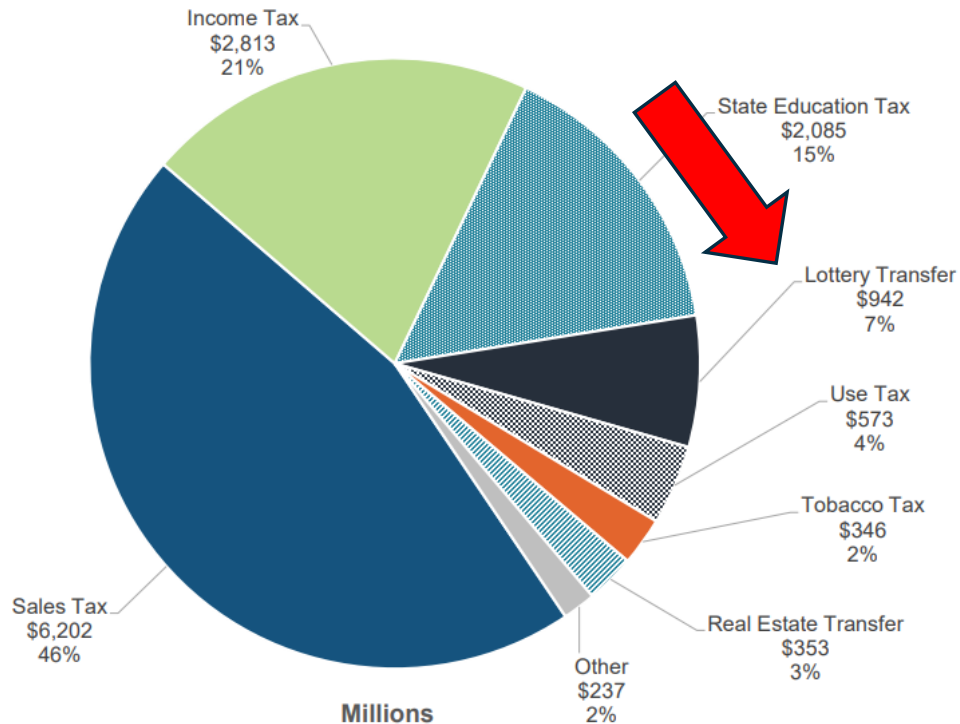


Growing economic factors

- Income; Property Values; Consumerism
- Lottery proceeds = University and CC xfer

SAF Revenue Sources

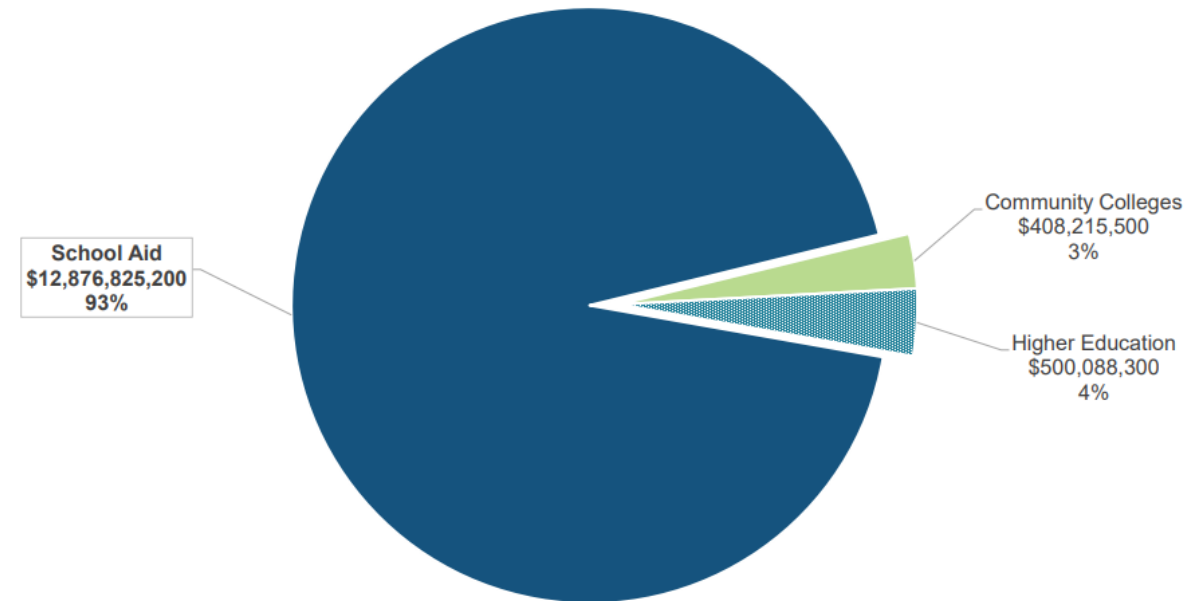
Sales Tax is the largest revenue source, contributing nearly half of the \$13.6 billion in total estimated SAF revenue for FY 2018-19.



*Figures based on Jan 2019 Revenue Estimating Conference

School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

The School Aid budget represents 93% of the state's \$13.8 billion SAF appropriations for FY 2018-19.



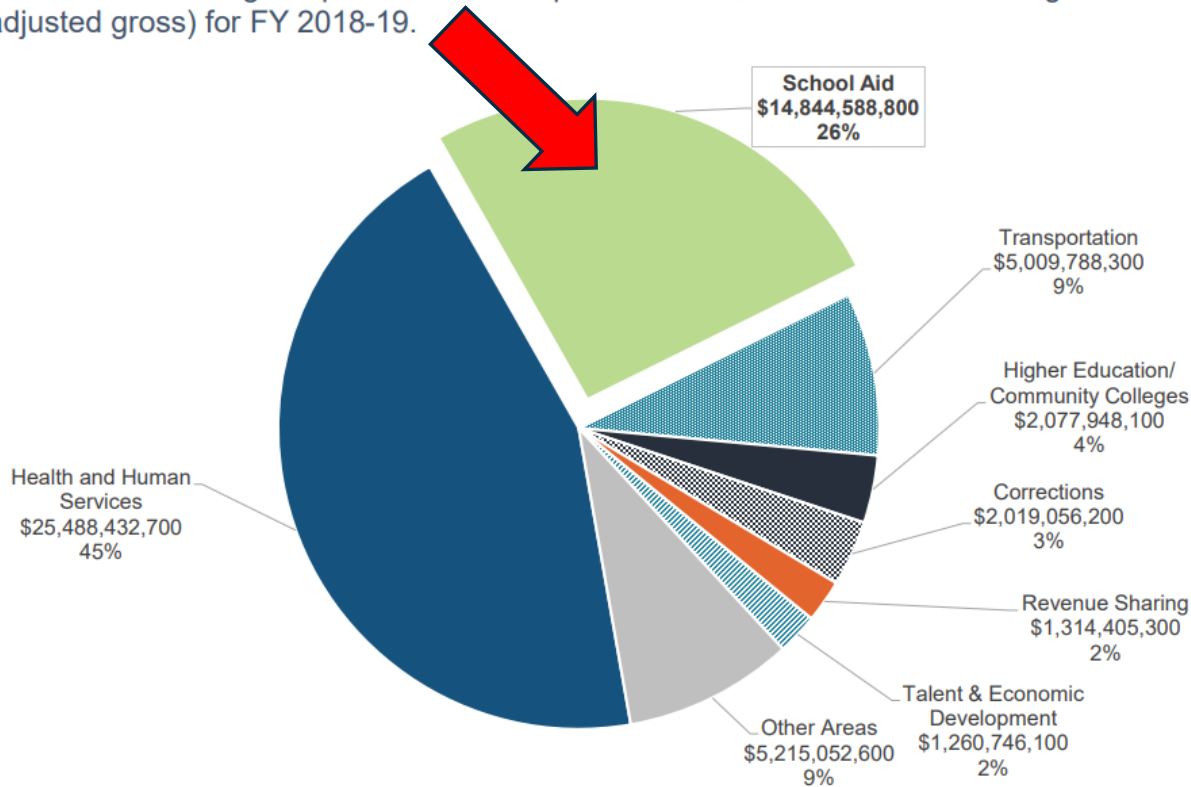
- \$908 million being used to fund University and CC



Increase of \$162 million over FY2017-18

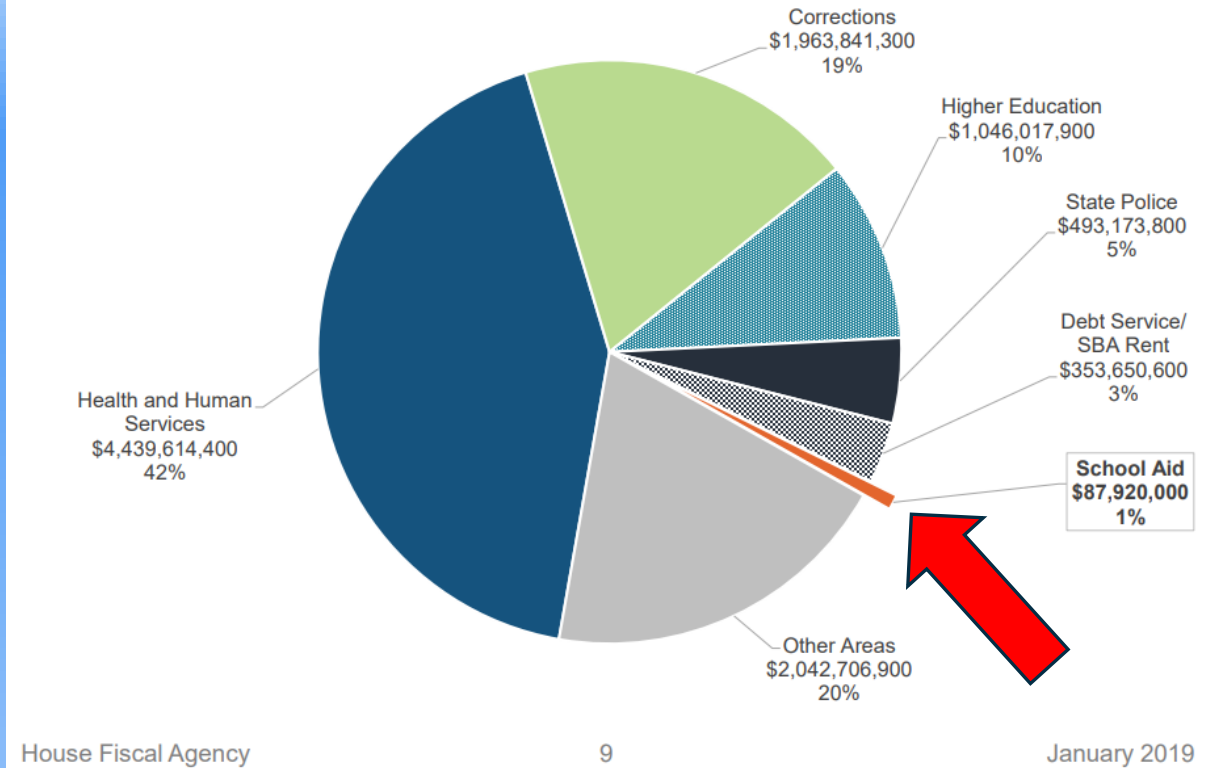
School Aid Share of Total State Budget

The School Aid budget represents over a quarter of the \$57.2 billion state budget (adjusted gross) for FY 2018-19.



School Aid Share of Total GF/GP Budget

The School Aid budget less than 1% of the state's \$10.4 billion GF/GP budget for FY 2018-19.

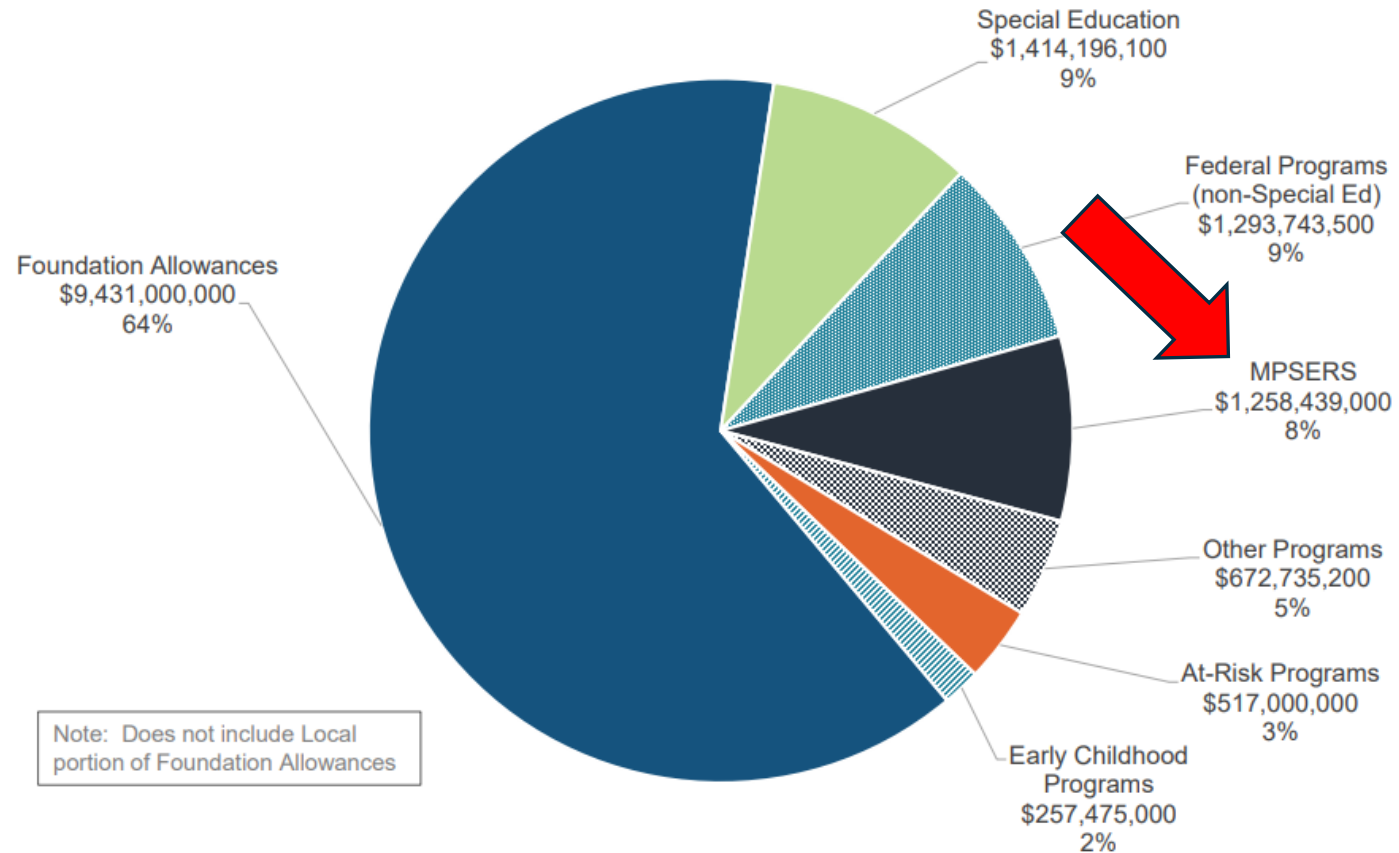


Increase of \$9.4 million over FY2017-18



FY 2018-19 Gross Appropriations

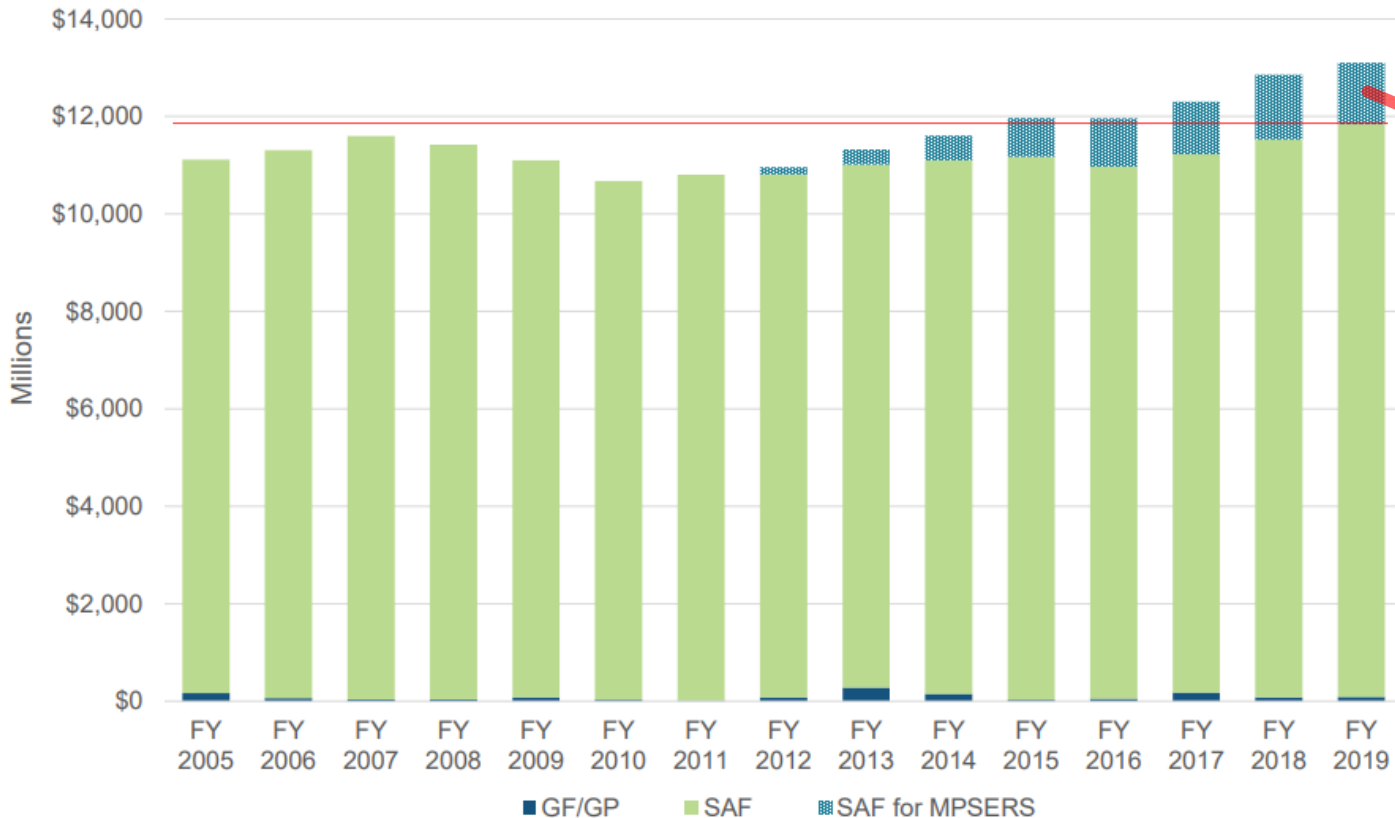
About two-thirds of the **\$14.8 billion** School Aid budget supports per pupil foundation allowances used for school district general operations.





School Aid Funding History – State Funds

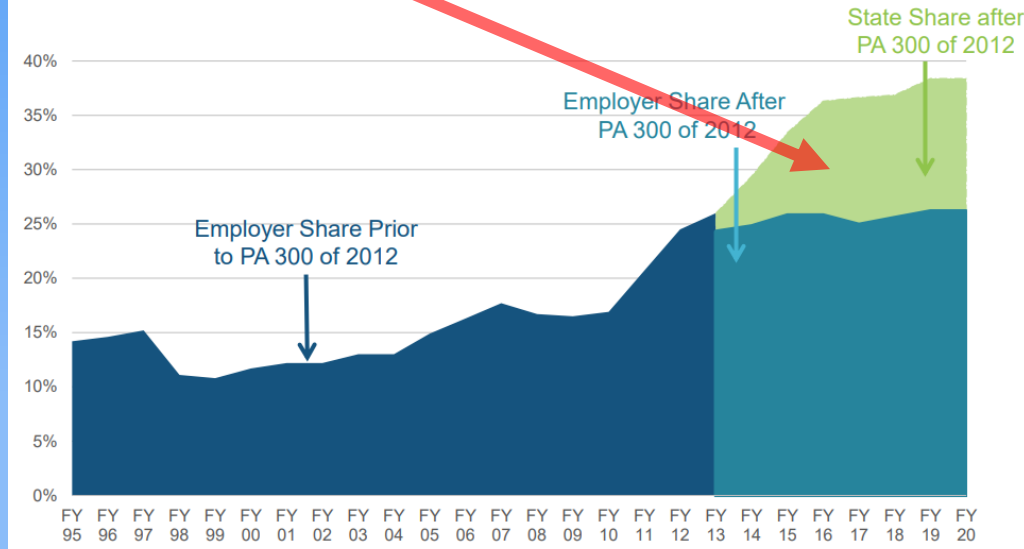
Since FY 2011-12, \$1.3 billion has been added to hold districts harmless from increasing retirement liability costs. Total funding for foundation allowances and other operational costs exceeded the previous FY 2006-07 peak for the first time in FY 2018-19.



- GF/GP Transfer is minimal in scope
- MPSERS specific allocations have increased in recent years since the “capping” of the district UAAL at 20.96%

MPSERS State Share - Unfunded Actuarial Liability (UAAL)

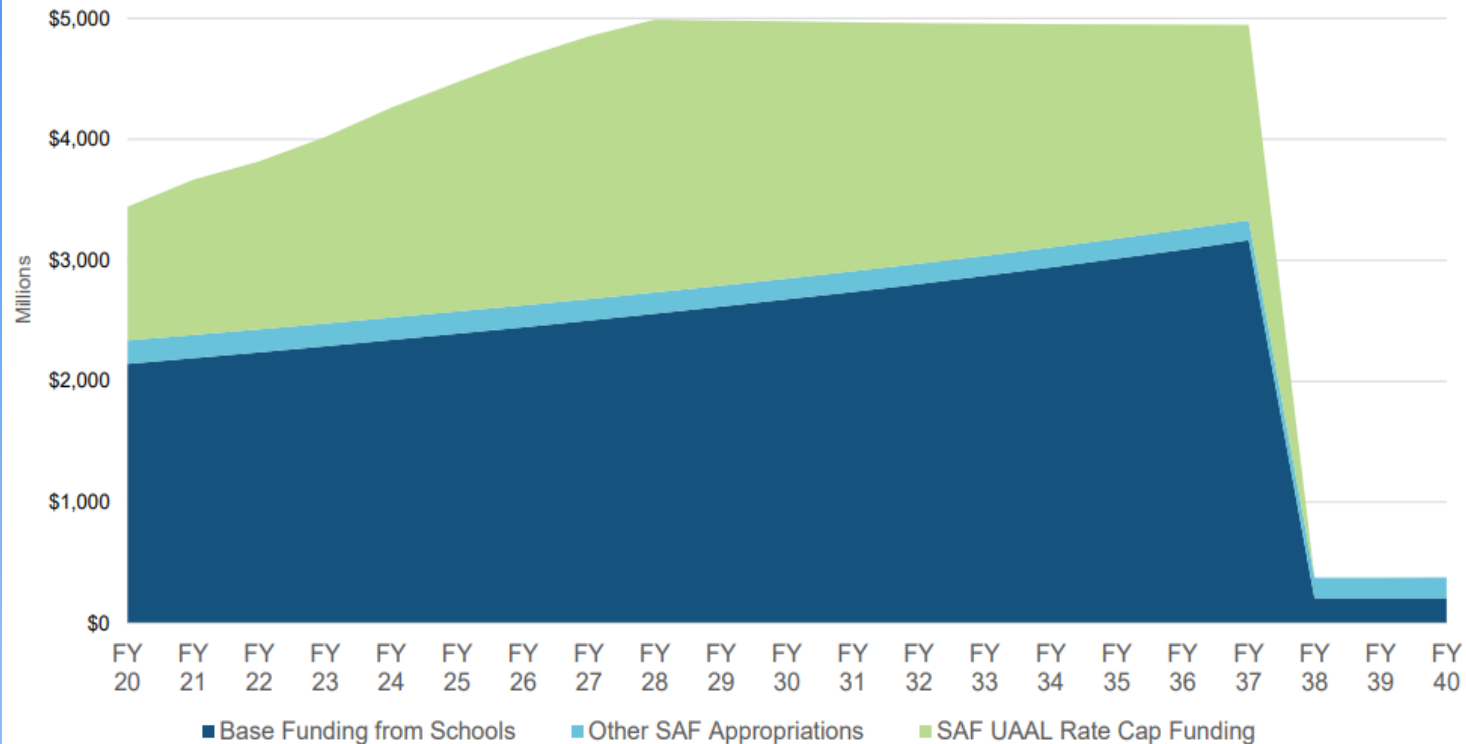
The state portion of the MPSERS UAAL contribution rate is \$1.0 billion in FY 2018-19. The employer contribution rate is capped at 20.96% for the unfunded liability plus the normal costs for retirement benefits newly earned each year, which fluctuate.





Projected MPSERS Costs

MPSERS costs will continue to increase as actuarial assumptions are revised and a level-dollar assumption is phased in under recent statutory changes. Unfunded liabilities are scheduled to be paid off by 2038.





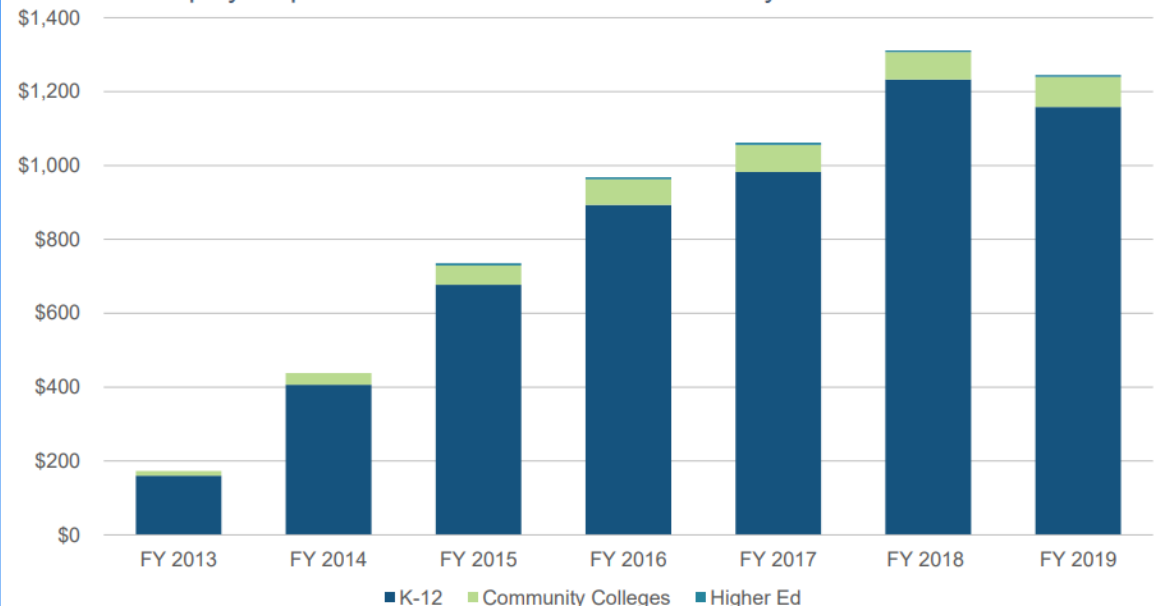
Michigan Public School Employees' Retirement System (MPSERS) Appropriations

- Section 147a (1) – Provides **\$100.0 million** to districts to offset a share of their MPSERS costs. Distribution is based on a district's proportionate share of MPSERS covered payroll.
- Section 147a (2) – Provides **\$88.1 million** to reimburse MPSERS employers for the increased normal costs associated with the reduction in the long-term investment rate of return assumptions from 8.0% to 7.5%. This is the second of a 2-year phase-in.
- Section 147c (1) – Appropriates **\$1.0 billion** to pay for the state share of unfunded accrued liability (UAL) costs per PA 300 of 2012, which required the state to pay the UAL costs that exceed the capped employer contribution rate of 20.96% of MPSERS covered payroll.
- Section 147e – Provides **\$37.6 million** to reimburse MPSERS employers for the increased normal costs associated with both the new Hybrid plan and the new Defined Contribution (DC or 401k plan) enacted under PA 92 of 2017.

- Total MPSERS allocations in school aid slated at **\$1.2 Billion** for 2018-19

MPSERS State Appropriations

For FY 2018-19, the state share of public school employee retirement system (MPSERS) costs totals about \$1.2 billion, slightly lower than the prior year after the removal of an additional, one-time \$200 million unfunded liability payment. Prior to PA 300 of 2012, MPSERS employers paid the full costs of MPSERS directly.





FY 2018-19 SCHOOL AID BUDGET

H.B. 5579 (P.A. 265 of 2018): INITIAL APPROPRIATIONS



Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536

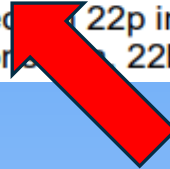
BILL ANALYSIS



Telephone: (517) 373-2768
Fax: (517) 373-1986

Conference Agreement on Items of Difference

<p>19. Foundation Allowance. Governor and House increased the foundation allowance using the "2x" formula, from \$120-\$240 per pupil, bringing the minimum to \$7,871 and basic to \$8,409. Senate increased from \$115 to \$230 per pupil; minimum of \$7,861 and basic of \$8,404. Senate transferred \$400.0 million of partnership districts' discretionary foundation allowance funding into a new categorical where those districts would need to meet certain criteria related to their partnership agreement in order to access their calculated discretionary foundation allowance payment. Conference provided a \$120-\$240 per-pupil increase, and required partnership districts to comply with requirements in Section 22p in order to receive the discretionary portion of their foundation allowances. (Section 22b, and new 22p)</p>	<p>312,000,000</p>
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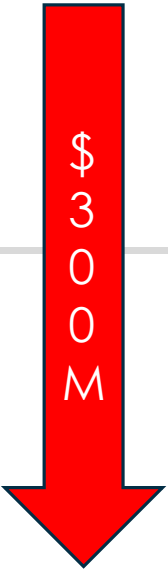


- Foundation Allowance settled at an increase of \$120-\$240 per-pupil based on the 2X formula
- Minimum Foundation is \$7,871 and Basic is \$8,409
- **Total Cost of \$312 Million**



Table 2: History of Foundation Allowance Growth

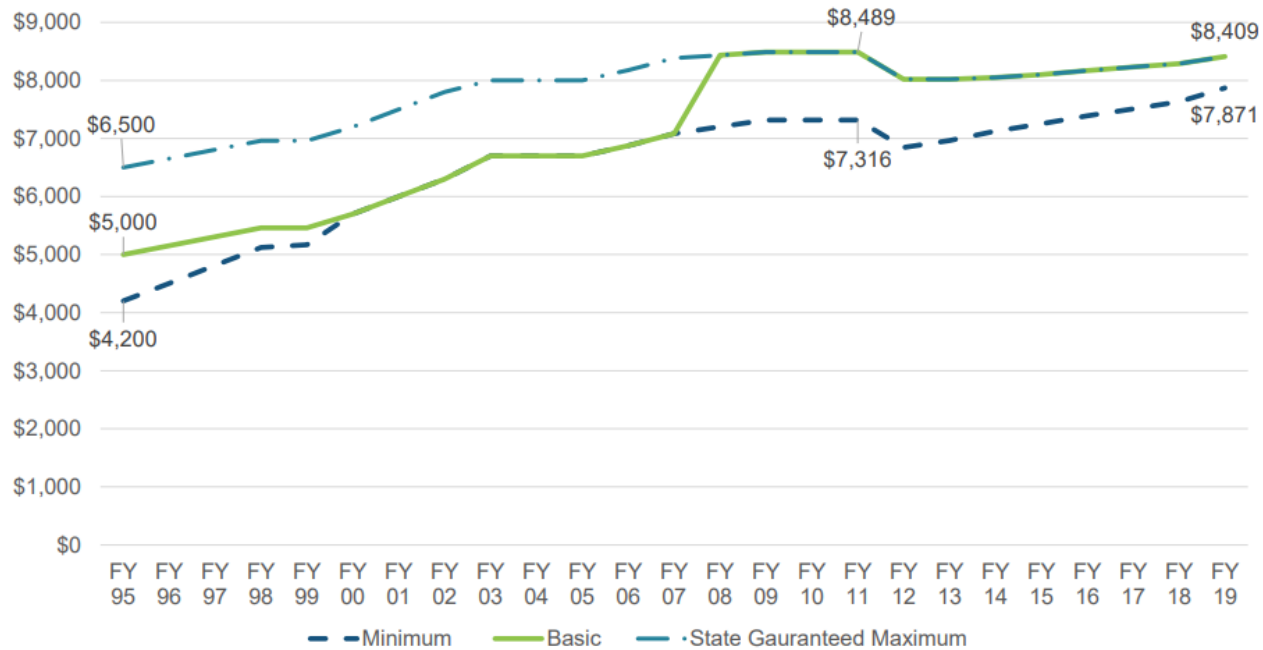
Fiscal Year	Minimum	Basic	State Max	Change in Minimum	Change in Basic & State Max	Difference Between Minimum & State Max
2009-10 ⁴	\$7,316	\$8,489	\$8,489	\$0	\$0	\$1,173
2010-11 ⁵	\$7,316	\$8,489	\$8,489	\$0	\$0	\$1,173
2011-12	\$6,846	\$8,019	\$8,019	(\$470)	(\$470)	\$1,173
2012-13	\$6,966	\$8,019	\$8,019	\$120	\$0	\$1,053
2013-14 ⁶	\$7,076	\$8,049	\$8,049	\$110	\$30	\$973
2014-15 ⁷	\$7,251	\$8,099	\$8,099	\$175	\$50	\$848
2015-16	\$7,391	\$8,169	\$8,169	\$140	\$70	\$778
2016-17	\$7,511	\$8,229	\$8,229	\$120	\$60	\$718
2017-18	\$7,631	\$8,289	\$8,289	\$120	\$60	\$658
2018-19	\$7,871	\$8,409	\$8,409	\$240	\$120	\$538





Foundation Allowance History Growth Since Proposal A

The FY 2018-19 foundation allowance for schools at the Minimum level is \$555 above the previous FY 2010-11 peak. For schools at the State Maximum level, it remains \$80 below the FY 2010-11 peak. The “equity gap” between the two (excluding local hold harmless funds) is down to \$538 per pupil.

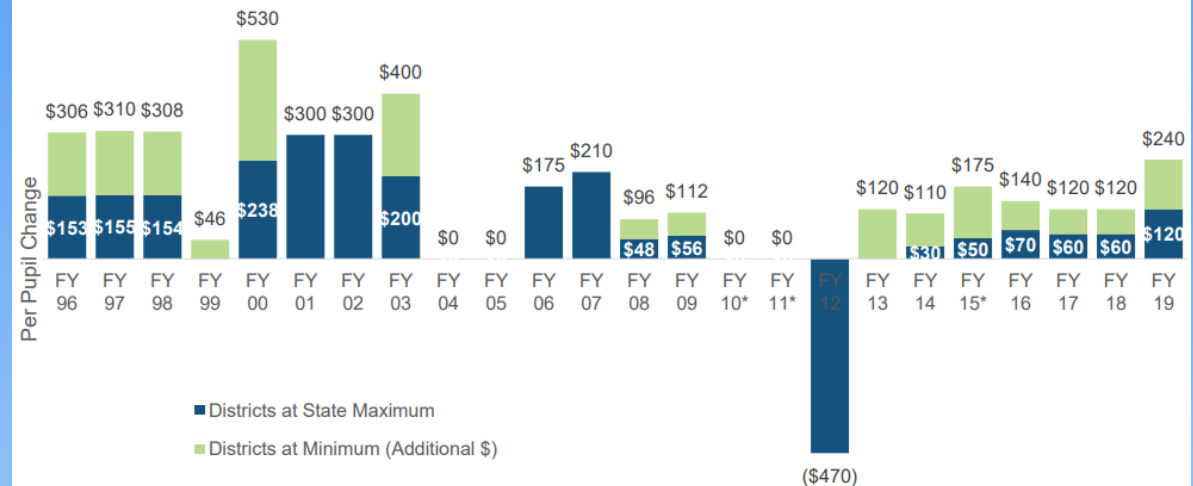


- 2X formula used for 2017-18
- Minimum at highest level; Gap of \$538

- State Maximum increase still below the FY12 \$470 per pupil reduction. (\$390 pp)
- Minimum increase of \$1,025 since FY12

Per Pupil Foundation Allowances Increases/Decreases

The 2x formula has been used in about half the years since Proposal A. In other years, either all districts received the same increase (or decrease), or equity payments were used to bring the districts at the Minimum up even more quickly than the 2x formula would have.

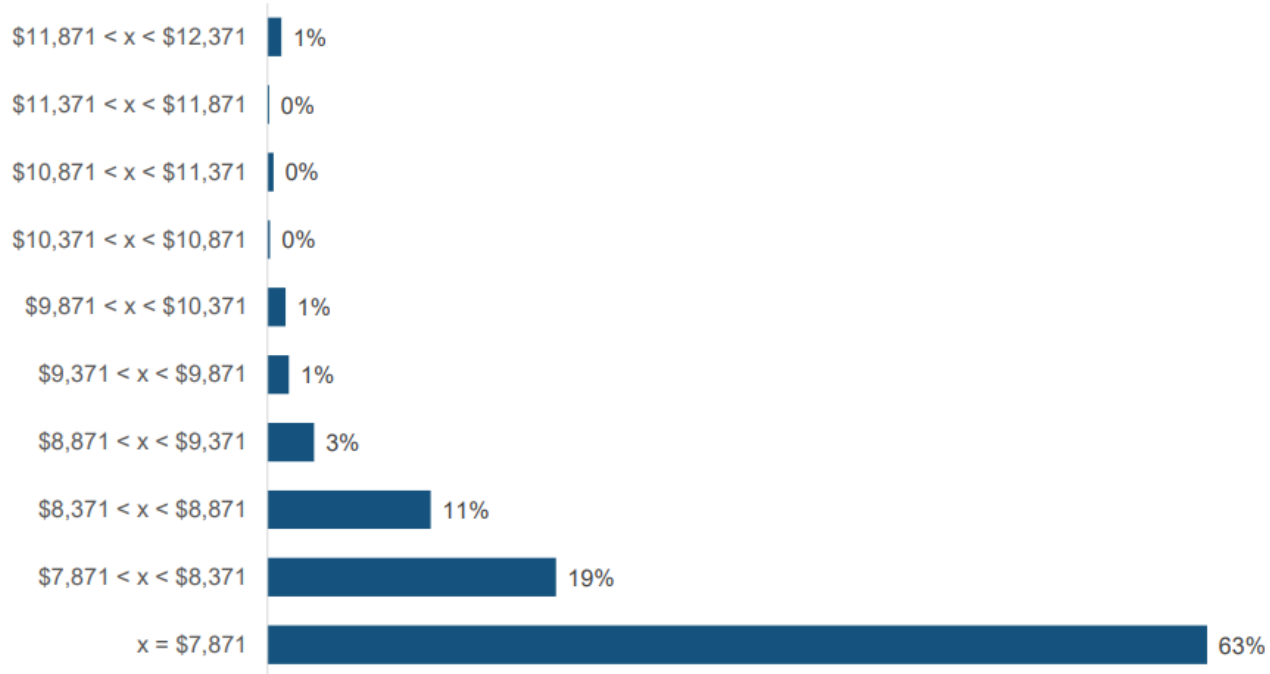


*Does not reflect one-time Section 11d per pupil reductions.



Equity Among Districts FY 2018-19 Pupil Distribution

In FY 2018-19, 63% of pupils were concentrated in districts with a foundation allowance at the minimum foundation \$7,871. As the minimum increases relative to the Basic, that share continues to grow, thereby increasing the cost of future equity payments.



- The gap is closing and 93+% of the districts are within \$1,000 of the minimum foundation allowance

Equity Among Districts

- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost \$6,900 or 3:1.
- In FY 2018-19, the difference between the highest and lowest K-12 district is \$4,373, is approximately 3:2.
- In FY 2018-19, excluding the 37 hold harmless districts whose revenue per pupil exceeds the Basic foundation allowance, the difference between the top and the bottom has been reduced to \$538, down from a gap of \$2,300 when Proposal A was first implemented.





FY 2018-19 School Aid Fund Balance Sheet

	FY 2017-18	FY 2018-19
BEGINNING BALANCE	\$401.4	\$362.5
REVENUE		
School Aid Fund (SAF) Revenue	\$13,339.9	\$13,550.5
General Fund/General Purpose (GF/GP)	\$78.5	\$87.9
Other Restricted Funds	\$95.1	\$133.9
Federal Funds	\$1,726.9	\$1,745.9
TOTAL REVENUE	\$15,240.4	\$15,518.2
EXPENDITURES		
School Aid (Adj for lapses/consensus revisions)	\$14,557.7	\$14,784.8
Deposits for MPSERS/School Counselors	\$85.0	\$0.0
Community Colleges	\$398.3	\$408.2
Higher Ed	\$238.3	\$500.1
TOTAL EXPENDITURES	\$15,279.3	\$15,693.1
CURRENT YEAR: REVENUES - EXPENDITURES	(\$38.9)	(\$174.9)
TOTAL ENDING BALANCE	\$362.5	\$187.6

- **WHAT ARE WE WATCHING?**
- “Structural Deficit” of \$175 M for FY2018-19
- High Ed allocation drawing \$272 M more than in FY2017-18
- Ending balance still positive
- May not be funding in FY2019-20 for similar foundation increase
- Governor budget proposal March 5



- Fund balances grow
- 19 deficit districts
- Down from 40 a few years ago



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

SHEILA A. ALLES
INTERIM STATE SUPERINTENDENT

MEMORANDUM

DATE: September 13, 2018

TO: House and Senate K-12 Appropriations Subcommittees

FROM: Sheila A. Alles, Interim State Superintendent *Sheila*

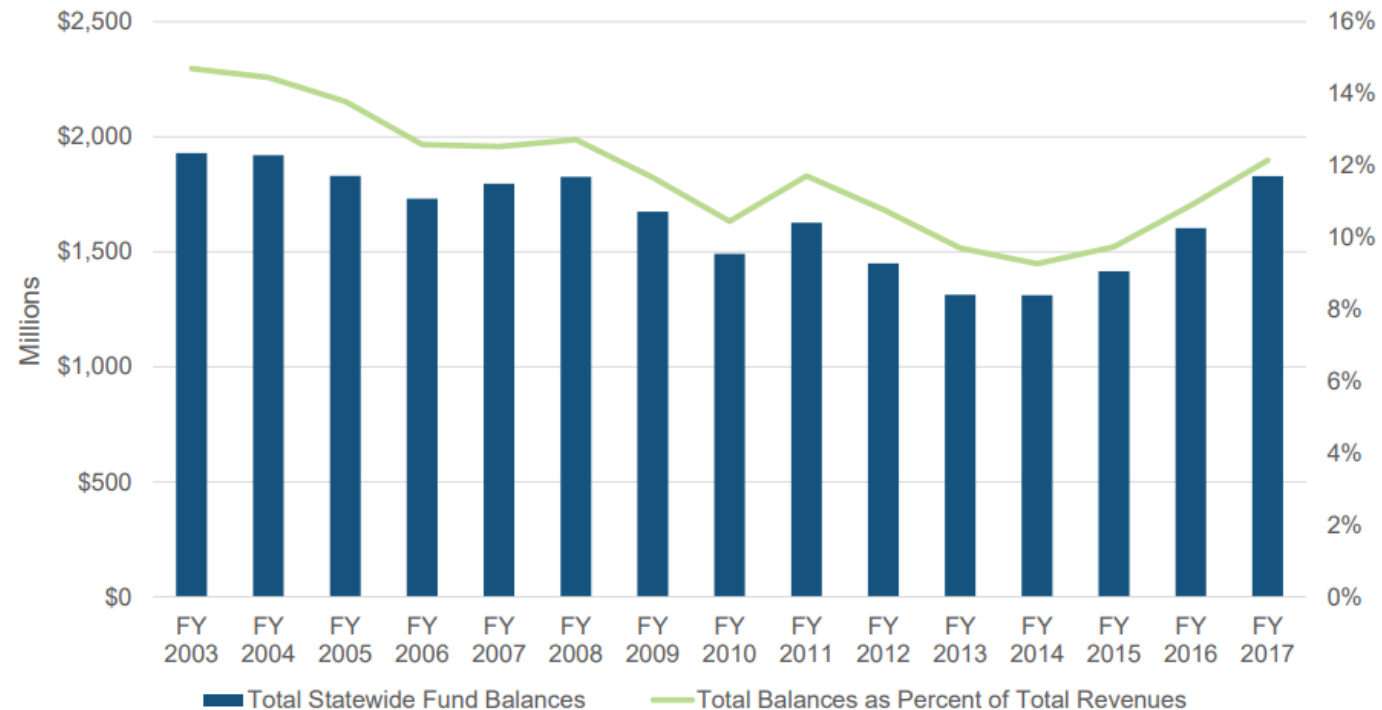
SUBJECT: Quarterly Report to the Legislature on Deficit Districts

EARLY WARNING LEGISLATION

Legislation to address districts that trigger indicators of potential financial stress was signed into law by Governor Snyder on July 7, 2015. It expands the role of the Department of Treasury, including oversight of districts experiencing rapidly deteriorating financial circumstances and districts that have been in deficit for more than five years. Of the 19 districts that were in deficit at June 30, 2017, 13 are under Treasury's oversight:

District Fund Balances

As pupils and funding declined, districts used their fund balances to replace lost revenue. However, fund balances have been growing again, and at the end of FY 2016-17, totaled \$1.8 billion, returning to pre-recession levels. The average statewide total fund balance as a percent of revenues is still lower than its peak of nearly 15% but has increased over the last three years to 12%.



Note: Figures exclude Detroit Public Schools, for which policy changes have significantly altered fund balance information.

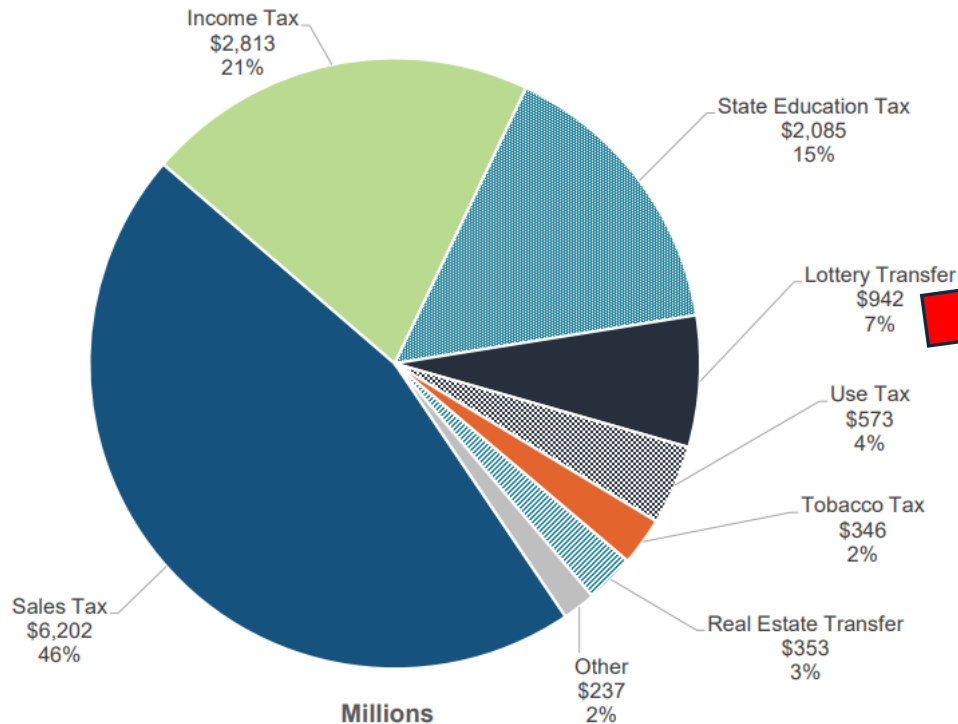


Growing economic factors

- Income; Property Values; Consumerism
- Lottery proceeds = University and CC xfer

SAF Revenue Sources

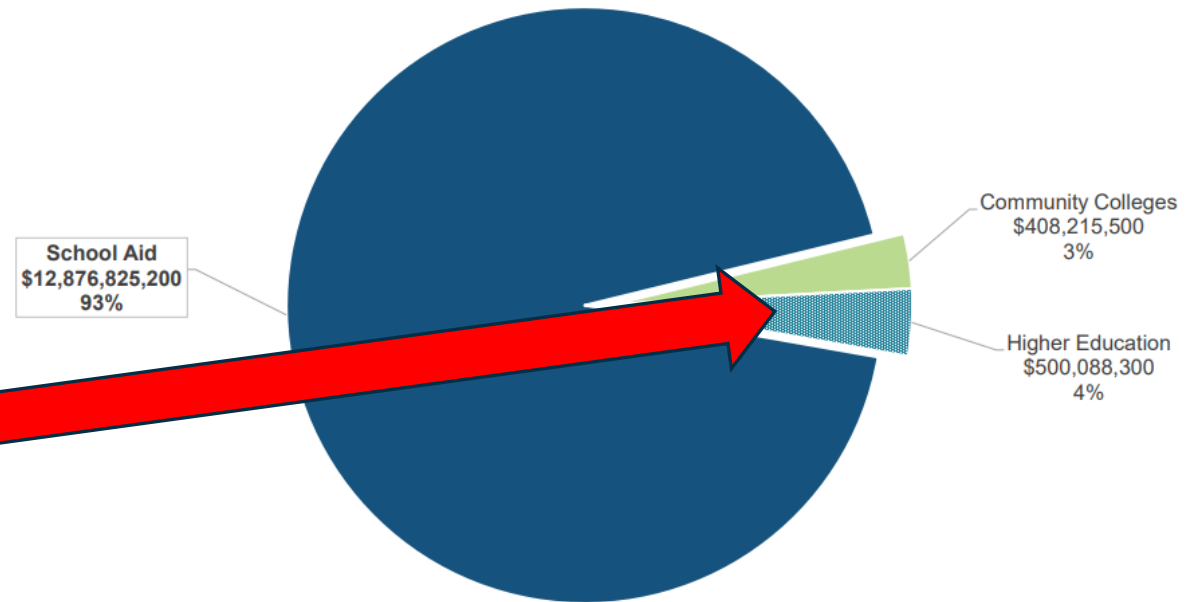
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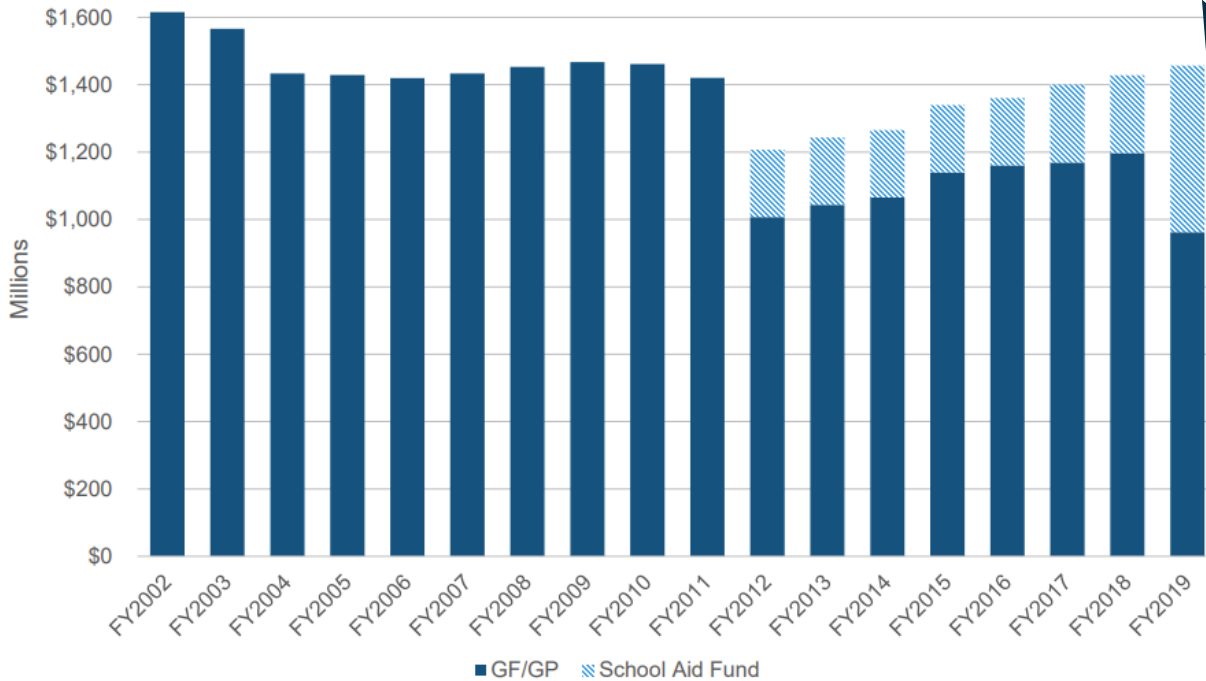


- \$908 million being used to fund University and CC



University Operations Grants History

State support for public universities operations grants has increased by \$249.7 million (21%) since FY 2011-12, but remains \$158.6 million (10%) below the FY 2001-02 peak of \$1.6 billion.

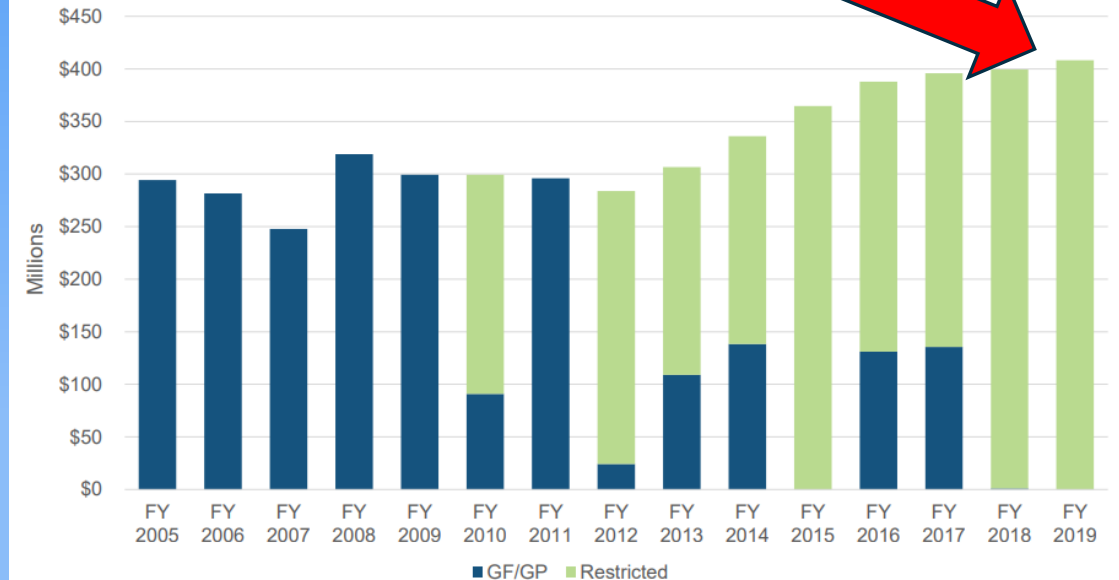


- Trend of SAF use for Higher Ed is increasing
- \$908 Million for 2017-18
- GF/GP support at nearly \$1 Billion



Community Colleges Funding History

Historically, community colleges have been funded entirely with state GF/GP revenues. Recent budgets have been funded mostly with School Aid Fund (SAF) revenue, and the FY 2018-19 budget consists entirely of SAF. Increases since FY 2011-12 are largely the result of funding the state's share of retirement contributions.





**SCHOOL AID FUND
SHIFT OF COMMUNITY COLLEGE AND UNIVERSITY FUNDING
2009-10 THRU 2018-19
(Millions)**

<i>Year</i>	<i>Community College</i>	<i>University</i>	<i>Total</i>	<i>Per K-12 Student</i>
2009-10	\$ 208.4	\$ -	\$ 208.4	\$ 131
2010-11	-	-	-	-
2011-12	195.9	200.2	396.1	255
2012-13	197.6	200.6	398.2	259
2013-14	197.6	200.6	398.2	262
2014-15	364.7	206.5	571.2	379
2015-16	256.7	205.2	461.9	309
2016-17	260.4	237.1	497.5	334
2017-18	398.3	238.3	636.6	429
2018-19	408.2	500.2	908.4	614
	\$ 2,487.8	\$ 1,988.7	\$ 4,476.5	\$ 2,970.5

\$614 per K-12 pupil being used to fund Higher Ed (\$908 Million)

Some perspective:

- 31a At Risk 31a = \$499 Million
- 32d Great Start = \$243.9 Million
- 51a(2) Spec Ed Found = \$272 Million
- 51c Special Ed Headlee = \$651 Million
- 147c MPSERS = 1.03 Billion

STATE SCHOOL AID UPDATE
Michigan Department of Education



August 2018
Vol. 26 No. 11

- **Proration factors:** Section 31a – At Risk funding per pupil proration is 87.98158255%.
- Section 22d(4) Isolated District funds are being paid at a rate of \$45.8416559557 per pupil.
- Section 152a Headlee Obligation for Data Collection funds are being paid at a rate of \$25.383475476 per pupil.

And we are still prorating!



Robert Dwan

(517) 327-2581

rdwan@msbo.org