

State Notes

TOPICS OF LEGISLATIVE INTEREST

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Per-Pupil Funding Gaps and Equity in School Aid **By Kathryn Summers-Coty, Chief Analyst**

Questions arise in Michigan and nationwide regarding per-pupil funding in schools. Are there differences among districts? Should there be differences? What is an equitable level of disparity? This article examines the status of per-pupil funding in Michigan's school districts before Proposal A's passage in 1994, the immediate impact of Proposal A on that funding, and how the per-pupil dollars have changed over time.

Before Proposal A

In fiscal year (FY) 1993-94, the year before the implementation of Proposal A, school districts received a combination of State and local money supporting their operations. The local operational money received by a school was entirely dictated by the conditions within that school district. Some schools had very high local millage revenue, due to high property tax values or voter passage of high millage rates or some combination of both; other schools had less local millage revenue because of lower property tax values, low millage rates, or some combination of the two.

The unrestricted operational funding a district received from the State was based on a funding equalization formula known as District Power Equalizing. District Power Equalizing guaranteed each district a minimum return per pupil for each mill of property tax levied. Districts were allowed to tax themselves at whatever rate the voters approved, within the 50-mill limit of Article IX, Section 3 of the Michigan Constitution. If a district's revenue from the levied tax rate was less than the State guaranteed revenue from that tax rate, the State paid the district the difference in the form of State formula aid payments.

The State and local funding received by a school district during FY 1993-94 was crucial to the impact of Proposal A. In most cases, the State and local funding received in that year on a per-pupil basis became the platform, or "base revenue", on which the new "foundation allowance" funding was based. In a few situations, the amount received in FY 1993-94 on a per-pupil basis was less than what was received in FY 1992-93, and an average of the two years was used as the base revenue per pupil.

Since local funding varied dramatically in these years, there was substantial per-pupil funding disparity among the 557 school districts. In fact, the lowest base per-pupil funding received by a school district in FY 1993-94 was \$2,762; the district was Sigel Township 3F in Huron County with 33 pupils. At the other end of the spectrum, the highest base per-pupil funding received was \$13,734 in the Bois Blanc district. However, this district had only four pupils, so the small population led to a high per-pupil figure. The highest base per-student funding received by a district with more than 50 pupils was Bloomfield Hills (5,559 pupils) at \$10,294. If this figure is compared with Sigel Township's figure, the funding gap in FY 1993-94 was \$7,532, or a gap of almost 4 to 1.



Immediate Impact of Proposal A on Per-Pupil Funding

In FY 1994-95, school districts experienced a major change in determining their revenue, moving from the equalization formula driven by property taxes to the foundation allowance system. The foundation allowance is a per-pupil revenue amount that a district may receive, and it changed the focus of school funding from the property tax to the number of students enrolled in the district. In the initial calculation of the foundation allowance, the starting point was the base revenue that a district received in FY 1993-94 (or an average of revenue received in FY 1992-93 and FY 1993-94, if that yielded a larger result), adjusted by the following formulas to determine the FY 1994-95 foundation allowance:

Formula 1: If the base revenue per pupil was less than \$4,200:

1994-95 Foundation Allowance Per Pupil = \$4,200

Formula 2: If the base revenue per pupil was greater than \$4,200 and not more than \$6,500:

1994-95 Foundation Allowance Per Pupil	=	Base Revenue Per Pupil + \$250 - {\$90 X [(Base Revenue Per Pupil - \$4,200)/\$2,300]}
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Formula 3: If the base revenue per pupil was greater than \$6,500:

1994-95 Foundation Allowance Per Pupil = Base Revenue Per Pupil + \$160.

The immediate impact of Proposal A was to increase the operational funding of Sigel Township (and any district with base funding below \$4,200 per pupil) to \$4,200 per pupil in FY 1994-95. At the same time, Bloomfield Hills saw an increase of \$160 per pupil above its base, bringing its FY 1994-95 foundation allowance to \$10,454. The funding gap between these two districts shrunk to \$6,254, or a ratio of 2.5 to 1.

The use of widely disparate base revenue per pupil as the platform for determining foundation allowances meant that funding gaps that existed before Proposal A would carry forward once Proposal A was implemented. However, with the inclusion of funding formulas in the School Aid Act, the gaps would grow smaller over time until the minimally funded districts achieved the targeted "basic" funding.

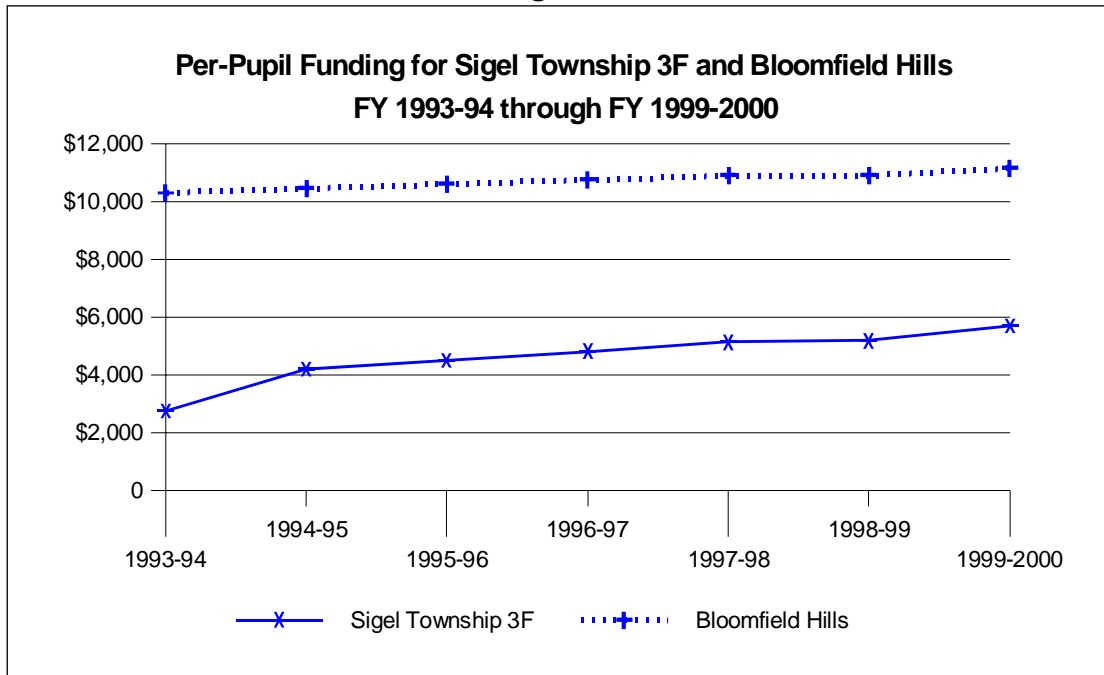
What Has Happened Since FY 1994-95

From FY 1995-96 through FY 1999-2000 (except for FY 1998-99), formulas were written into the School Aid Act to provide larger per-pupil dollar increases to lower-funded districts. Any district below the "basic foundation allowance" (defined as \$5,000 in FY 1994-95 and growing to \$5,700 in FY 1999-2000; currently at \$7,085 in FY 2006-07) benefited from the "catch-up" funding formulas in place each of these years. Once all districts began receiving at least the basic amount per pupil in FY 1999-2000, the gap closed to \$5,454, or a ratio of



just under 2 to 1. This gap resulted from the lowest-funded district's receiving \$5,700 in FY 1999-2000 and the highest receiving \$11,154. In the space of seven years, funding for Sigel Township 3F doubled, while Bloomfield Hills's funding increased slightly more than 8.0%. In this manner, the equity gap was narrowed. Figure 1 illustrates the growth in Sigel Township 3F's per-pupil funding over this time period compared with that of Bloomfield Hills.

Figure 1



Since FY 1999-2000, when all districts "caught up" to the basic foundation allowance, there have been only two instances in which extra funding was provided to districts at the lower end of the per-pupil funding scale. The first time this occurred was in FY 2001-02, when a \$200 per-pupil "equity" payment was given to all districts below \$6,500. The second time is in the current year, FY 2006-07, when a \$23 equity payment is being provided. Combining these two equity payments, the equity gap has been narrowed by a further \$223, meaning that the gap between the lowest-funded district (now at \$7,108) and the highest (now at \$12,339) stands at \$5,231. Table 1 illustrates the growth, since FY 1993-94, in the minimum, basic, and maximum per-pupil funding.



Table 1

Foundation Allowance Changes Since Proposal A FY 1993-94 through FY 2006-07					
Fiscal Year	Minimum	Basic	Growth in Basic	Maximum¹⁾	Equity Gap
1993-94	\$2,762	n/a	n/a	\$10,294	\$7,532
1994-95	4,200	\$5,000	n/a	10,454	6,254
1995-96	4,506	5,153	\$153	10,607	6,101
1996-97	4,816	5,308	155	10,762	5,946
1997-98	5,124	5,462	154	10,916	5,792
1998-99	5,170	5,462	0	10,916	5,746
1999-2000	5,700	5,700	238	11,154	5,454
2000-01	6,000	6,000	300	11,454	5,454
2001-02	6,500	6,500 ²⁾	500	11,754	5,254
2002-03 ³⁾	6,700	6,700	200	11,954	5,254
2003-04 ³⁾	6,700	6,700	0	11,954	5,254
2004-05	6,700	6,700	0	11,954	5,254
2005-06	6,875	6,875	175	12,129	5,254
2006-07 ⁴⁾	7,108	7,108	233	12,339	5,231

¹⁾ This maximum is for Bloomfield Hills, the highest per-pupil funded district with a standard-sized pupil population. (Two districts with fewer than 10 pupils have higher per-pupil allowances.)
²⁾ For FY 2001-02, the Basic Foundation Allowance was actually \$6,300. However, a \$200 per pupil Equity Payment was subsequently built into the base for that year.
³⁾ For FY 2003-04 and FY 2004-05, proration occurred, which did not statutorily reduce the foundation allowance, but which reduced per-pupil funding by approximately \$74 each year.
⁴⁾ For FY 2006-07, the Basic Foundation Allowance is actually \$7,085, but a \$23 per-pupil equity payment is appropriated, which, by FY 2007-08, is proposed to be built into the base and shrink the gap by \$23.

In the Future

Without new equity payments or the adoption of a new funding formula, the funding gap between the highest and lowest foundation allowance districts will not change. Nevertheless, this issue is one that keeps garnering attention. On April 4, 2007, the House Appropriations Subcommittee on School Aid adopted a budget bill for FY 2007-08 that proposes a \$100 equity payment for those districts whose per-pupil funding would be less than \$7,669. This payment would be on top of a \$100 increase proposed in the foundation allowance for all districts. If the equity payment proposal is enacted, it will narrow the equity gap by \$100. The Governor has not proposed additional closing of the equity gap, and instead would put more funding (\$178 per pupil) into all districts' foundation allowances for FY 2007-08. The timetable for Senate action on the K-12 budget provides for a bill to be reported out of subcommittee in the latter part of May. Whether dollars ultimately will be put toward closing the funding gap depends upon available revenue and the demand on that revenue for other purposes. Figure 2 illustrates the closing of the gap over time, from FY 1993-94 through FY 2006-07, and shows that while the gap started out at \$7,532 per pupil, it has closed by \$2,301 and, as mentioned above, now stands at \$5,231.



Figure 2

