

Navigating the Maze of School Funding

By Daniel Murphy, GITS BOE President

Funding for K-12 education in the State of Michigan is a very complicated process and is currently the topic of heated debate in Lansing. This week, the Governor slashed portions of the state funding for K-12 education in an attempt to compel the legislature to raise more revenue (i.e., increase taxes) to support adequate school funding. In essence and in reality, it is a very high-stakes political showdown between the Governor and the legislature with the K-12 students of the State of Michigan caught directly in the crossfire. Unfortunately, the political posturing and game playing in Lansing have a direct and devastating impact on the students of the Grosse Ile schools as outlined below.

Prior to 1994, K-12 public schools in Michigan were largely funded through a local property tax millage. The local millage funded both operations and infrastructure of the district. Proposal A, adopted by the voters of Michigan, went into effect for the 1994-95 school year and dramatically changed the way that schools are funded. While Proposal A provided homeowners significant property tax relief, for schools it was a new funding mechanism that distributes state funds on a per pupil basis to each school district. This per pupil payment from the state is commonly called the school's foundation allowance. The original foundation allowance for each Grosse Ile student for the 2009-2010 academic year was \$9074.63. The school aid bill forwarded to the Governor called for a \$165 per student reduction translating into an approximate \$300,000 loss to the district. On Thursday night, Governor Granholm announced another reduction of \$127 per student resulting in an additional loss of \$233,000 for the students of Grosse Ile.

Under Proposal A, school districts must still raise local revenue for building projects via bonds or sinking funds, but these are the only options currently available for individual districts to raise money. Public schools are now mostly funded through the combination of a statewide 6-mil tax, the State Education Tax (SET), an 18-mil local tax on non-homestead property (businesses), and other state collected taxes including the state income tax and sales tax. An approximate breakdown for the source of public school funding is 42% from the state sales tax, 19% from the state income tax, 16% from the SET, and the remainder from other sources including the state lottery. Surprising to some, proceeds from the state lottery fund only a small percentage of the K-12 budget (approximately 6%).

The foundation allowance for each student comprises about 90% of most school districts' general fund revenues. The remainder comes from other state or federal programs plus local revenue from interest earned, tuition, and fund transfers. Funds from state and federal programs are often designated as categoricals, meaning that they are designated for a particular category of expenditure (e.g. at-risk students, Title I, districts with declining enrollment, etc.).

Proposal A also included provisions that categorized local districts as being either below average, average, or above average with respect to per pupil spending before the implementation of Proposal A. The Grosse Ile schools were one of 48 districts designated as a "Tier 3," "out of formula," or "rich" district. This designation meant that the school district could increase the per pupil foundation allowance through a local tax levy. This component of the foundation allowance is referred to as the local Hold Harmless provision or the Hold Harmless as it relates to Proposal A and has amounted to approximately \$585 per student annually for Grosse Ile.

Another "hold harmless" provision was added to Proposal A by the legislature in the fiscal year 1999-2000. These funds are often referred to as "20j" or "State Hold Harmless" monies and represented, at the time, an effort to limit the amount of increase in the state foundation allowance of "rich" districts to a 1.6% inflationary increase when districts with smaller foundation grants received larger increases. Currently, Grosse Ile receives approximately \$280 per student in 20j funds. On Monday night of this week, the Governor announced that she was vetoing this line item in the school aid bill resulting in an additional loss of approximately \$513,000 to the Grosse Ile school district for the current academic year.

Finally, another factor that deserves explanation is the Headlee Amendment to the state constitution. This amendment limits the increase in the amount of money that a unit of government (i.e. school district) can raise annually to no more than the rate of inflation. The effect on school funding is that when a school district levies the 18-mills on non-homestead property, and property values go up faster than the rate of inflation, there must be a millage reduction so that revenue doesn't grow at a rate greater than inflation. If the reduction reduces the non-homestead millage below 18 mills, this would result in a reduction of the district's foundation grant because the state requires districts to levy the full 18-mills in order to receive the full foundation grant. The result is that after such a millage rollback, school districts must return to the voters seeking to return the millage to 18-mills.

If the school aid bill is passed in its current form, the Grosse Ile school district will receive approximately \$1,052,000 less (approximately 5.5%) than was budgeted for when adopted by the school board on June 23, 2009. That will mean that, either the fund balance (i.e. rainy day fund) will be further depleted from \$2.4 million to approximately \$1.6 million, or programs will have to be cut in the middle of the school year. Either option, or combination of alternatives, compromises the educational opportunities for our students now and in the future. As has been noted, the forecast for K-12 funding for the 2010-2011 academic year is even worse. Now is the time to contact your Governor and state legislators to implore them to adequately fund K-12 education. Nothing less than our future is at stake. Contact information is available at www.gischools.org.