

# FISCAL BRIEF

## PRORATION OF PAYMENTS UNDER THE SCHOOL AID ACT

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### FAST FACTS

- School aid payments may be automatically prorated under Sec. 296
- The legislature may prevent automatic proration within 30 calendar days
- Payments to districts, ISDs, other entities, and community colleges and public universities are prorated based on each group's share of SAF appropriations
- Sec. 296 protects some sections from proration; statute mandates some other sections be fully funded
- School aid payments have been prorated in previous fiscal years through former Sec. 11(3) and former Sec. 11d

### INTRODUCTION

Section 296 of the School Aid Act states that if School Aid Fund (SAF) appropriations exceed the amount of SAF available for expenditure in any given fiscal year, the state must prorate payments to school districts, intermediate school districts (ISDs), other entities receiving SAF under Article I, and community colleges and public universities.

After the Department of Treasury notifies the State Budget Director that proration is necessary, the State Budget Director must notify the legislature at least 30 calendar days or 6 legislative session days (whichever is greater) before payments are prorated.

Within the 30-calendar-day or 6-session-day period, the legislature may prevent proration by doing either of the following:

- Enacting legislation appropriating additional funds from the general fund, Budget Stabilization Fund, or other source to fund the projected shortfall
- Reducing appropriations in order to avoid a proration

The proration for each group is determined by calculating the percentage of SAF that the group receives and multiplying that percentage by the total proration amount. Certain protected sections must remain fully funded.

### CALCULATED PERCENTAGE

If proration is necessary, the Michigan Department of Education (MDE) calculates the proration for districts, ISDs, and other entities, and the Department of Treasury calculates the proration for community colleges and public universities.

The departments calculate the percentage of total SAF appropriated for each of the following groups:

1. Districts
2. ISDs
3. Entities receiving SAF under Article I other than districts or ISDs
4. Community colleges and public universities

The percentage of SAF that a group receives determines the percentage of the total proration amount by which that group's payments must be reduced.

## **REDUCING PAYMENTS**

State aid payments to districts must be reduced by an equal dollar amount per pupil as necessary to equal the group's calculated percentage of the total proration amount.

Districts' foundation allowances, the source of their general operating revenue, are paid out of two different sections: Sec. 22a (Proposal A Obligation Payment) and Sec. 22b (Discretionary Payment). Only the Proposal A Obligation Payment, which guarantees districts' per pupil funding at the FY 1994-95 level as required by the Michigan Constitution, is protected from proration. However, if a district began operations after FY 1994-95, the lesser of \$5,500 or the FY 1994-95 foundation allowance of the district's district of residence is reserved from that district's Discretionary Payment and calculated as part of the Proposal A Obligation Payment. The remaining balance of the district's Discretionary Payment may be prorated.

State aid payments to ISDs and other entities must also be reduced as necessary to equal each respective group's calculated percentage of the total proration amount. Unlike the per-pupil proration for districts, payments for ISDs and other entities are reduced on an equal percentage basis.

SAF payments to community colleges and public universities must be reduced on an equal percentage basis as necessary to equal the group's calculated percentage of the total proration amount. The entirety of the Community Colleges budget is funded with SAF, while SAF makes up 21% of the Higher Education budget. Proration would primarily affect operations appropriations for individual community colleges and public universities. However, state appropriations related to the Michigan Public Schools Employees' Retirement System (MPSERS), including the MPSERS unfunded actuarial accrued liability (UAAL) state share contribution, MPSERS offset payment, and MPSERS normal cost offset payment, could be impacted, as those appropriations contain SAF.

## **PROTECTED SECTIONS**

When prorating payments to districts, ISDs, and other entities, the following sections are protected from proration and must remain fully funded:

- Sec. 11f – Durant Non-Plaintiff Cash Payment (Districts; ISDs)
- Sec. 11g – Durant Non-Plaintiff Debt Service (Districts; ISDs)
- Sec. 11j – School Bond Redemption Fund (Districts; Other Entities)
- Sec. 22a – Proposal A Obligation Payment (Districts)
- Sec. 26a – Renaissance Zone Reimbursement (Districts; ISDs; Other Entities)
- Sec. 26b – Payment in Lieu of Taxes (PILT) Reimbursement (Districts; ISDs; Other Entities)
- Sec. 31d – School Lunch Programs (Districts)
- Sec. 31f – School Breakfast Program (Districts)
- Sec. 51a(2) – Special Ed ISD Foundations and Costs (Districts; ISDs)
- Sec. 51a(12) – Now Sec. 51a(11) – Special Ed ISD Foundations for Non-Sec. 52 (Districts; ISDs)
- Sec. 51c – Special Education Headlee Obligation (Durant) (Districts)
- Sec. 53a – Special Education for Court-Placed Pupils (Districts; ISDs)
- Sec. 56 – Special Education ISD Millage Equalization (ISDs)
- Sec. 152a – Adair Database Payment (Districts; ISDs)

The protected sections list has not been updated since Sec. 296 was added to the School Aid Act in FY 2011-12 (2011 PA 62). Sec. 11f and Sec. 11g have not appropriated funds since FY 2007-08 and FY 2014-15, respectively, and Sec. 51a(12) is now Sec. 51a(11) in current statute.

There are no protected sections for community colleges and public universities.

## **UNPROTECTED BUT MANDATED SECTIONS**

Despite not being protected from proration under Sec. 296, some appropriations in the Act are statutorily required to be fully funded. For instance, 2012 PA 300 mandates state MPSERS UAAL contribution levels for districts, ISDs, community colleges, and public universities. MPSERS UAAL contributions totaled \$1.1 billion in FY 2019-20. Additionally, Sec. 26c – Promise Zone Funding appropriates funds to districts and ISDs with an approved Promise Zone development plan as mandated under 2008 PA 549.

## **PORATIONS IN PREVIOUS FISCAL YEARS**

In FY 2002-03, state aid payments were prorated under Sec. 11(3), the predecessor to Sec. 296. Sec. 11(3) pertained only to districts at the time. The proration resulted in a 3.8% across-the-board reduction in state aid payments (except for certain protected sections) to account for a \$126.9 million SAF shortfall.

In FY 2009-10 and FY 2010-11, the legislature bypassed automatic proration under Sec. 11(3) by reducing payments to districts in a new Sec. 11d, which involved a per-pupil reduction of total state aid payments (except for certain protected sections). In FY 2009-10, the reduction was \$154 per pupil; in FY 2010-11, the reduction was \$170 per pupil.