

Section 56 Millage Equalization Formula

**How We Got Here
Where We Are At
Where We Suggest Going**



Funding Special Education in Michigan

Focus on a Quality, Adequate,
and Equitable System

SOLUTION

Provide funding to improve the quality and enhance the outcomes for children with Individualized Education Programs (IEPs), reflecting the additional programs and services needed. The first step is to fulfill the promise made in the legislative intent language from the FY' 23 budget and fund 100% foundation + the reimbursement.

We request State Funding increases (in order of priority):

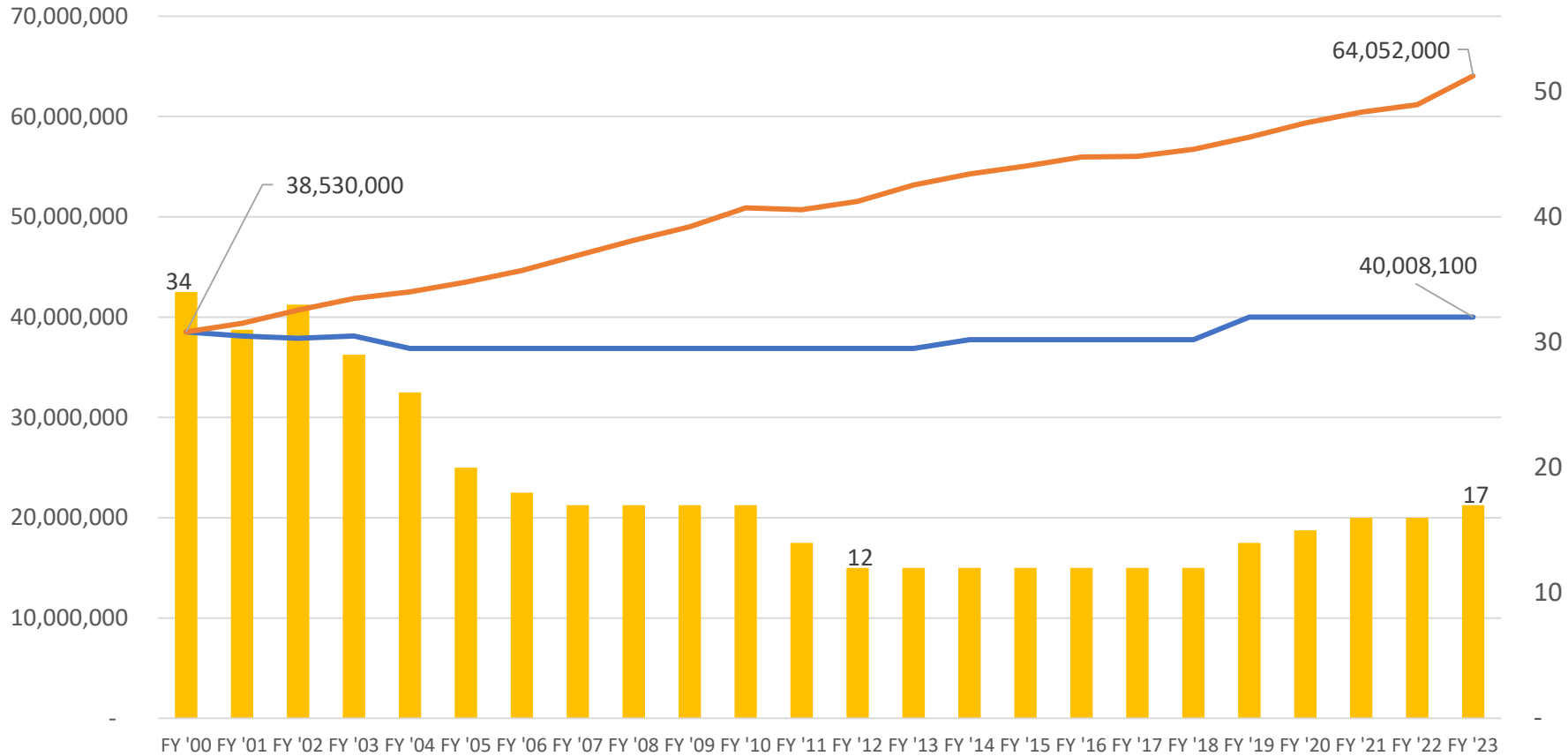
1. Foundation + Durant settlement (Calley Report, 2017). The last state budget included legislative language indicating an intent to move from 75% foundation to 100% foundation + the reimbursement. We request an additional \$109,000,000.00.
2. Increase and modify Section 56 Equalization Formula (Calley Report, 2017). We request an additional \$100,000,000.00.
3. NEW section for additional reimbursement of expenses for students requiring high-cost programming. We request an additional \$20,000,000.00.
4. Section 51f reimbursement - after Special Education Foundation + Durant % fully funded. We request an additional \$114,000,000.00.

History of Section 56

- ▶ Section 56 was created to help equalize those ISD's where low Taxable Values cause that ISD to receive less revenue from their S.E. millage than the rest of the State.
 - ▶ We assume that initially all/most ISD's below the Statewide average received funding. However, as the statewide allocation did not keep up with increasing values/costs, the number of ISDs that were funded by this categorical slowly decreased over time.
- ▶ FY '14 saw 2 new subsections added
 - ▶ (4) The amount paid to a single intermediate district under this section shall not exceed 62.9% of the total amount allocated under subsection (2) (**Capping Wayne RESA**)
 - ▶ (5) The amount paid to a single intermediate district under this section shall not be less than 75% of the amount allocated to the intermediate district under this section for the immediately preceding fiscal year (**was meant to be a 3-year phase-out by 25% a year**)
- ▶ FY '19 saw additional language added to subsection 4 (continued capping Wayne RESA)
 - ▶ (4) Reimbursement in 2018-2019 for an intermediate district whose 2017-2018 allocation was affected by the operation of subsection (5) shall be an amount equal to 102.5% of the 2017-2018 allocation to that intermediate district. (**Continued capping of Wayne RESA, with additional funding**)
- ▶ FY '22 saw the creation of Section 56(7), with a new funding formula

History of Funding

Section 56 History



■ # of Districts — Allocation — Allocation (at rate of inflation)

How Many ISD's Receive Section 56 Funding

ISD's Funded under Section 56(2) & 56(7) Under Following Scenarios

	<u>Current</u>	<u>Fully Funded</u>	<u>Partial Funding</u>
# of ISD's Not Getting Any Form of Section 56	26	16	16
# of ISD's Getting Some Form of Section 56	30	40	40
# of ISD's That Only Qualify for 56(2)	1	11	11
# of ISD's That Qualify for BOTH but 56(2) exceeds 56(7)	3	22	20
# of ISD's That Would Receive BOTH 56(2) & 56(7)	13	3	5
# of ISD's That Would Only Qualify for 56(7)	13	4	4
Total Costs	\$73M	\$155M	\$120M

Challenges of Current Formula

As funding has not kept up, decisions were made as how to payout the funding available.

- ▶ Currently the floor is adjusted to whatever amount is needed to payout the amount of funding available
 - ▶ This has resulted in fewer ISDs receiving funding from this categorical.
- ▶ Currently allocated based on Taxable Value / Total Students
 - ▶ This runs counter to MDE's emphasis that S.E. funding be tied to S.E. students
 - ▶ PA-18 formulas are being disallowed by MDE if they don't use S.E. pupils as part of the basis for that distribution
- ▶ Once an ISD qualifies for this categorical per above, their payment is based on the # of mills they levy, disproportionately distributing funds based on current mills levied vs. how much the millage is below statewide average.

Discussion Topics of Committee

- ▶ How Should Eligibility Be Determined?
 - ▶ What should an ISD's Taxable Value be measured against?
 - ▶ How should the Floor be Determined?
 - ▶ Should PPT taxable values be included in eligibility determination?
 - ▶ Should we continue to use prior year data only or go to 3-year averages?
 - ▶ Should the impact that Headlee rollbacks have be considered?
- ▶ What should equalization funding be funded up to?
 - ▶ How many mills should be equalized?
 - ▶ Calculate "Full Funding" and Prorate as needed?
- ▶ What about Section 56(7)?
 - ▶ Section 56(7) was introduced in FY '22, with an emphasis on incentivizing ISDs who passed millage increases. If Section 56(2) were to be fully funded, what happens to Section 56(7)?
 - ▶ It is calculated differently, which could cause "Hold Harmless" issues.

How is an ISD Eligible for Section 56?

▶ Current Calculation

- ▶ If an ISD's Taxable Value / Total Pupils FTE is less than the established floor, that ISD is eligible for Sec. 56 reimbursement

▶ Other Eligibility Options

- ▶ Taxable Value / Special Education FTE
- ▶ Taxable Value / Special Education Head Count
- ▶ Taxable Value / Special Education Unreimbursed Costs

▶ Blended Calculation of Above Options

- ▶ Recommending 50% S.E. Head Count & 50% Unreimbursed S.E. Costs

How is an ISD Eligible for Section 56?

Taxable Value / Special Education FTE

▶ Pros

- ▶ Specific to Special Education, taking into account the severity of the needs
- ▶ If counted consistently across the State, would best correlate to the level of S.E. services being delivered to those students

▶ Cons

- ▶ Variability in how services are provided across ISDs makes this count inconsistent across the State
- ▶ Ancillary students aren't counted in FTE
- ▶ S.E. students aren't counted in team-teaching instances

How is an ISD Eligible for Section 56?

Taxable Value / Special Education Head Count

▶ Pros

- ▶ Specific to Special Education, while removing differences in how S.E. services are provided
- ▶ Is counted consistently across the State, so at this time best correlates to the level of S.E. services being delivered to population

▶ Cons

- ▶ Does not take into account the severity of needs (i.e. every S.E. student counted the same)
- ▶ Less aligned with weighted formula evidence in S.E.

How is an ISD Eligible for Section 56?

Taxable Value / Special Education Unreimbursed Costs

▶ Pros

- ▶ Takes into account what costs are actually being incurred for S.E. students/services
- ▶ Consistent with how S.E. is funded in general
- ▶ Aligns with SFRC weighted funding model

▶ Cons

- ▶ Could create a disincentive to work hard to control S.E. costs, thereby incentivizing increased S.E. costs.
- ▶ Would there be less incentive to increase S.E. millages?

How is Section 56 payout calculated?

Current Calculation

- ▶ If an ISD's Taxable Value/Pupil (total FTE) is less than the established floor:

▶ Guaranteed TV/Pupil - ISD TV/Pupil	\$ 50,000	(\$150,000 - \$100,000)
▶ Times # of students	10,000	
▶ Times S.E. Millage Rate	<u>2.0000</u>	
	\$1,000,000	
▶ Less: PPT Reimbursement	<u>(100,000)</u>	
	<u>\$ 900,000</u>	

Considerations Discussed

- ▶ PPT taxable values and revenue currently don't factor into determining eligibility, only reducing reimbursement of those ISD's that are eligible
- ▶ Guaranteed floor is arbitrary, should be set at Statewide average
- ▶ Uses prior year values only. 3-year average would "smooth" formula
- ▶ Currently equalizes for all mills levied, causing disproportionate equalization based on the number of mills allowed

How is Section 56 payout calculated?

Recommended Calculation

- ▶ If an ISD's Taxable Value(**factoring in PPT properties**)/Pupil (**S.E. Head Count**) is less than the established floor, the ISD is reimbursed:
 - ▶ **Statewide Average** TV/Pupil - ISD TV/Pupil (**Average of last 3 years**)
 - ▶ Times # of students (**Average of last 3 years**)
 - ▶ Times S.E. Millage Rate (**up to the statewide average S.E. millage rate**)

Notes

- ▶ Same formula, regardless of what pupil count is used
- ▶ Using 3-year averages allows for a “Smoothing” of the final equalization payment. This will allow ISDs to fall in and out of eligibility more slowly and allow them time to adjust to those changes.
- ▶ Moving PPT taxable values and revenue up in the formula ensures that it factors into eligibility while still included in reimbursement calculation.
- ▶ Capping the # of mills equalized at statewide average allows for equalization to be distributed more equitably.

How is Section 56 payout calculated?

Unreimbursed S.E. Costs Calculation

- ▶ If an ISD's Taxable Value/Unreimbursed S.E. Costs is less than the statewide average, the ISD is reimbursed:

- ▶ Unreimbursed S.E. Costs

21,000,000 \$400 TV/Unreim. Costs

- ▶ Less: What unreimbursed costs would be at the
Statewide Average TV/Unreimbursed Costs

20,000,000 \$420 TV/Unreim. Costs

\$ 1,000,000

- ▶ **The above calculation provides millage equalization so district's Taxable Value / Unreimbursed Costs is at the statewide average.**

- ▶ Unreimbursed Costs is calculated as follows:

- ▶ SE-4094 & SE 4096 costs

- ▶ Less: Durant reimbursement received from 4094 & 4096 costs

- ▶ Less: Local S.E. Property tax revenue

- ▶ Computed as the amount that would be received if the ISD levied the maximum levy allowed (ensures an incentive remains to seek additional levies)

How is Section 56(7) payout calculated?

- ▶ **Compute Average Per Pupil Revenue Per Mill**
 - ▶ 3-Year Average of Taxable Value/Pupil
 - ▶ Times S.E. Millage Rate
 - ▶ Divided by # of S.E. Mills
- ▶ **Equalize up to a 2-Tiered Floor of Per Pupil Revenue Per Mill**
 - ▶ ISD's at original millage rate - equalized up to \$251
 - ▶ ISD's that have passed additional mills - equalized up to \$281
- ▶ **Equalization is then computed as follows:**
 - ▶ Per Mill Equalization Amount (as calculated above)
 - ▶ Times # of Mills Equalized (1, unless millage rate is less than 1)
 - ▶ Times 3-year Average Pupil Blend (total pupils)
 - ▶ **Less: Section 56(2) payment**

Section 56(7) going forward

- ▶ How would 56(7) and 56(2) coordinate going forward
 - ▶ If 56(2) were fully funded, many of the districts currently receiving both 56(2) and 56(7) would be phased out of 56(7).
 - ▶ Some ISD's are only funded by 56(7) due to the fact that the higher Per Mill Equalization Amount used (\$281) is above the Statewide Average (\$259).
- ▶ Should 56(7) continue, incentivizing ISD's to seek millage increases?
 - ▶ If so, how would the upper tier continue to be calculated?
 - ▶ If not, should current recipients be held harmless?
- ▶ Under continued funding, would recommend that the tiers be indexed to statewide average
 - ▶ Lower tier currently 97% of statewide average.
 - ▶ Upper tier currently 115% of statewide average.
- ▶ If funding discontinued, would recommend that it be phased out by keeping current formula in place, with no future changes to the current floors
 - ▶ This would phase this out over time as property values increase
 - ▶ This holds those districts that would only received reimbursement under Section 56(7) harmless initially, while eventually phasing that out over time.

Committee Recommendations

- ▶ Funding Should be Determined by a 50/50 Blend of:
 - ▶ Taxable Value / S.E. Head Count (Which determines Eligibility)
 - ▶ Taxable Value / Unreimbursed S.E. Costs
- ▶ Equalization Floor should be set at the Statewide Average for each calculation, calculating what funding is needed to bring all ISD's to that Statewide Average.
 - ▶ If categorical can't be fully funded, all eligible districts would be prorated down to get to the available funding levels.
- ▶ Eliminate Wayne RESA cap and 75% guarantee from year to year
- ▶ Use 3-year average of Taxable Values, S.E. Head Count and Unreimbursed S.E. Costs
- ▶ Eligible districts will only be equalized up to the Statewide average of mills.
 - ▶ Conversely, for the unreimbursed costs calculation, millage revenue generated on mills above the statewide average will not count against an ISD in the Unreimbursed S.E. Costs calculation.
 - ▶ Ensures ISDs neither benefit or are harmed, when levying above the statewide average.
- ▶ Consider freezing Section 56(7) as is, with no future changes to its floors. When Sec. 56(2) is fully funded, 56(7) could be revisited to continue rewarding those districts that seek additional S.E. millages.

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Questions/Comments