

Senate Bill 197 (Substitute S-1, as passed by the Senate)
Sponsor: Senator Roger Kahn, M.D.
Committee: Appropriations

Date Completed: 12-6-11

CONTENT

Senate Bill 197 (S-1) is a fiscal year (FY) 2010-11 School Aid book-closing supplemental that would make adjustments in several lines to reflect actual costs and payouts. In brief terms, declines in local property tax revenue dedicated for schools have triggered an offsetting increase in State support of foundation allowance payments, resulting in a shortfall of \$94.3 million in foundation allowance funding, along with a \$0.3 million shortfall in special education funding. However, within numerous lines of the FY 2010-11 School Aid budget, there is \$67.1 million in lapses available to partially meet the funding shortfalls, leaving the need for a net supplemental appropriation of \$27.5 million in School Aid Fund (SAF) spending.

Specifically, the funding formula for foundation allowance payments found in the State School Aid Act requires the State to make up the difference between a district's foundation allowance and the amount of local revenue raised in that district. Therefore, when local revenue is high, the proportion of State funding is low, and when local revenue falls, State support increases.

In FY 2010-11, a significant decline in local property tax revenue occurred, for three separate reasons: 1) FY 2009-10 foreclosures around the State that actually were recognized and paid in FY 2010-11 (\$47.8 million additional cost); 2) new (lower) taxable value adjustments around the State, reported since August 2011 (\$38.1 million additional cost); and 3) a settlement in the Michigan Cogeneration Venture tax case in Midland (\$8.4 million additional cost). Altogether, these reductions in local property revenue booked in FY 2010-11 resulted in additional unforeseen State costs totaling \$94.3 million.

Separately, a small supplemental appropriation of \$334,000 is necessary to ensure full funding of the Special Education Hold Harmless line item. The two supplemental needs (\$94.3 million for foundation allowance funding and \$0.3 million for special education) total \$94.6 million.

As mentioned above, the FY 2010-11 School Aid budget is projected to lapse \$67.6 million, of which \$67.1 million can be transferred out of the lapsing lines and into the foundation allowance and special education line items, to partially make up the funding shortfalls. The lapsing lines and their projected lapses are as follows:

- Special Education Headlee Funding (\$34.1 million)
- Cash Flow Borrowing Costs (\$8.2 million)
- Discretionary Payments (\$7.3 million)

- School Breakfast (\$5.8 million)
 - Other Special Education Accounts (\$4.8 million)
 - Renaissance Zone Reimbursements (\$3.4 million)
 - School Bond Loan Fund Debt Service (\$2.3 million)
 - School Lunch (\$0.9 million)
 - Vocational Education (\$0.3 million)
- Total: \$67.1 million

Senate Bill 197 (S-1) would transfer the lapsing dollars listed above out of those line items and into the foundation allowance and special education lines that are short. Since the lapsing money would not entirely cover the projected shortfall, the bill would appropriate an additional \$27.5 million in School Aid Fund revenue.

The bill is tie-barred to House Bill 4445, which is also a School Aid supplemental. In the most recent version of House Bill 4445, which passed the Senate on November 10, 2011, the bill would appropriate \$12.5 million in FY 2011-12 for a kindergarten assessment and tiered quality rating improvement system of early childhood providers. The House has not yet acted on the most recent substitute for House Bill 4445.

MCL 388.1611, et al.

FISCAL IMPACT

The bill would appropriate an additional \$27.5 million in School Aid Fund revenue above previously enacted spending levels in order to ensure that the FY 2010-11 School Aid budget closes its books in the black. Due to unforeseen large negative adjustments in local property tax revenue received by schools, which are required to be made up by increases in State payments, the budget requires an additional \$27.5 million in State spending and the transfer of \$67.1 million (which otherwise would lapse from numerous lines to the SAF) to foundation allowance and special education line items.

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