School Finance Committee Findings

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Executive Summary

In fall 2015, the Michigan Department of Education (MDE) created a School Finance Committee consisting of a diverse set of education stakeholders. The workgroup was charged with developing actionable policy recommendations aimed at improving Michigan's school finance system. Public Sector Consultants (PSC) facilitated three meetings for the committee, which identified the strengths and weaknesses of the current finance system and prioritized the areas in need of improvement. For each of the priority areas, the committee identified readily apparent policy solutions as well as more challenging policy questions that warranted further study. Given the diversity of the group, the recommendations developed by the committee were not unanimous, but instead reflect the broad consensus of committee members.

The committee identified 12 policy priority areas. In discussing these areas, three broad themes repeatedly came up: the overall level of school funding; equity issues; and differentials between the costs of educating students and the revenues received.

Overall Level of School Funding

With respect to the overall level of school funding, committee members tended to believe the system is underfunded and that districts are experiencing significant fiscal stress. The committee's recommendations to address these issues include:

- Raising taxes, such as the state education tax, or enacting a sales tax on services
- Making it easier for intermediate school districts to enact enhancement millages
- Protecting the School Aid Fund from tax cuts
- Restricting the use of School Aid Fund revenues to K–12
- Finding ways to address legacy costs—methods suggested include expanding the retirement system's membership base and using resources outside of the School Aid Fund to pay for legacy costs
- Increasing budget transparency by appropriating Michigan Public School Employees Retirement System (MPSERS) legacy costs off the top of the School Aid Fund, rather than appropriating money to districts that then must return this money to the state
- Expanding the allowable uses for sinking funds to include technology, transportation, and security
- Investigating ways to reduce excess capacity in the K–12 system

Equity Issues

Equity concerns came up frequently during committee discussions. These concerns included the difference in per-pupil funding between districts, variations in district resources available for capital and special education funding, and insufficient resources for at-risk students. Recommendations to address these issues include:

- Directing new revenues toward equalizing the per-pupil funding amount that each district receives
- Reducing the number of categorical grants and instead weighting the per-pupil foundation formulas with higher weights allocated to at-risk students
- Creating a workgroup to address inequities in capital funding arising from variations in per-pupil taxable value
- Removing the cap on special education millages
- Expanding the scope of allowable special education costs
- Using a categorical appropriation to address equity in special education funding
- Creating a workgroup to analyze special education funding

Revenues and Costs

The committee frequently pointed to differences between the costs of educating students and the revenues received for each student as a challenge. Recommendations to address this issue include:

- Smoothing the funding adjustment relating to enrollment changes—suggestions included using the greater of the current and prior year pupil count for funding allocation, or potentially phasing in the impact of enrollment changes over several years
- Creating a new funding model that has fixed and variable cost components; this model should also provide additional weighting for students with extra needs
- Identifying best practices in funding formulas from other states
- Providing a categorical appropriation to aid with transportation costs

Purpose of the School Funding Committee

State Superintendent Brian Whiston and the Michigan Department of Education convened an education finance committee consisting of key education stakeholders in fall 2015. The committee was charged with providing the superintendent with advice and recommendations for improving Michigan's school finance system. The committee met three times in 2015: October 16, November 6, and December 18.

Committee members' education affiliations included the Michigan Education Association, the Great Lakes Education Project, the Michigan Association of School Boards, and others. A list of the individuals invited to participate is included in Appendix B.

The goal of the committee was to reach a consensus on a set of recommendations to improve Michigan's school finance system in ways that would benefit students. Given the diverse interests of committee members, the MDE and participants recognized that achieving unanimous support for the recommendations was unlikely. Instead, the committee strove to identify recommendations with broad support. Committee members who disagreed strongly with any of the recommendations were asked to voice their dissent, and these dissenting viewpoints were captured and are presented in this report along with the recommendations.

Support for any individual recommendation should not be ascribed to individual committee members. The recommendations represent the collective thinking of a broad group, and the individual members and their respective associations should not be assumed to support specific recommendations.

Public Sector Consultants' Role

PSC's role was to facilitate the school finance committee meetings and reproduce the discussion and opinions of the group without inserting its own thoughts, opinions, and biases. On occasion, PSC expanded slightly on the group's conversation by adding some explanatory text to clarify the problem or solution the group discussed. PSC has also identified broader themes of the discussion and summarized key recommendations. PSC exercised its own judgment in doing this. The full set of the committee's recommendations are also included with this report. The recommendations presented in this document represent the consensus of the School Finance Committee and should not be considered as recommendations of PSC.

School Finance Priority Policy Areas

The committee started its work by identifying the strengths and weaknesses of the current system. The full list of strengths and weaknesses identified by the committee are included in Appendix A. After identifying these strengths and weaknesses, the committee split into small groups to begin prioritizing the policy areas. After the small group work was completed, the full committee discussed the small group findings and identified the highest priority policy areas. This list of high-priority areas was the output of the first committee meeting, and the subsequent meetings were dedicated to examining these areas in depth.

When considering policy areas, committee members were asked to consider the following questions:

- What is the challenge?
- Why is the policy area a top priority?

- How widespread is the problem?
- What is the potential upside to fixing the problem?

The committee identified 12 policy areas and associated policy questions as the top priorities for school finance reform efforts.[1]

1. *Declining enrollment*—The current finance system does not seem to work well for districts facing declining enrollment. How could Michigan improve the system with respect to enrollment changes?

2. *Need-based funding*—Does the funding system adequately reflect the higher costs associated with educating certain types of students, such as low-income students and English language learners? What changes could Michigan make to the system to better address these issues?

3. *Equity*—What shortcomings prevent the current finance system from providing an equitable education opportunity for all students? How could these shortcomings be addressed?

4. *Outcome-based funding*—The current system funds districts based on inputs (such as the number of students educated), but little, if any, funding is based on outcomes. Are there opportunities to improve the system by tying funding to student or district outcomes?

5. *Capital funding*—What are the issues associated with how districts fund capital spending? How could capital funding be improved?

6. *Fixed and variable costs*—The current foundation allowance provides a per-pupil allotment, which does not vary based on the fixed and variable costs of a district. For example, some grades and subjects cost more than others, but the foundation allowance does not vary by grade or subject. Districts may have fixed costs that do not vary directly with their pupil count. How could these issues be addressed?

7. *Retirement costs*—Retirement costs are a significant challenge for many districts. What is the best approach for dealing with the challenges associated with both legacy costs and prospective retirement costs?

8. *Special education*—What are the issues and challenges associated with funding special education? How can these issues and challenges be addressed?

9. *Transportation*—What issues are associated with funding transportation for both general education and special education students? How can these issues be addressed?

10. *Millages*—Despite the changes of Proposal A, the school finance system still depends on a significant amount funding from property tax revenues. Millages are levied for operating purposes, special education, and capital. What challenges are schools facing as a result of our continued reliance on property taxes and how can they be addressed?

11. *Pupil accounting*—Technical changes need to be made to the way districts currently count and account for pupils. The current system allows districts to potentially game the system to access additional funding. Districts that game the system have a negative fiscal impact on all of the state's remaining districts. What are the specific issues with pupil accounting, and how can these best be addressed?

[1] The first ten priority areas were identified at the first committee meeting. The last two areas were identified at the second committee meeting.

12. *Total investment in school aid*—While there may be policy issues associated with many aspects of Michigan school finance system, the overall level of funding for the system and for some of the system's components, such as special education, is also a concern. Does Michigan invest the right amount in K–12 education? If not, how much should Michigan invest and where should new funding go?

Key Themes and Recommendations

Although the committee identified 12 priority areas, three broad policy themes came up repeatedly during the discussions: difficulties arising due to a low level of school funding, funding equity issues across students and districts, and a lack of alignment between school revenues and costs. These themes are closely related to one another. For example, the low overall level of funding makes the lack of alignment between revenues and costs more difficult for districts to manage. This lack of alignment can also exacerbate equity issues by creating incentives for districts to avoid students who bring more costs than revenues to a district, such as special education students.

Overall Level of Funding

Most committee members felt that the K–12 system is underfunded and that districts are experiencing significant fiscal pressure. Many committee members also felt that current spending levels were not adequate to provide a high-quality education to all students. The committee was aware that the state is currently conducting a study estimating the cost of providing an adequate education. The committee was divided on whether or not it should look at the overall funding level, since this topic would be examined in detail by the study. In the end, the committee did included total investment in School Aid as a priority policy area for its consideration. The overall level of funding also came up during the discussions of a number of other priority areas.

While there was broad consensus that more resources should be dedicated to the classroom, the committee did not reach consensus on the proper metrics for evaluating school funding. Committee members disagreed on whether personal income growth or price inflation was the proper metric to compare with per-pupil funding growth. The committee also did not reach consensus on how to best address retirement system issues such as how to best fund the system.

Most committee members would like to see additional resources dedicated to K–12 education. The committee supported education tax increases, such as expanding the sales tax to services or increasing the state education property tax, but it also recognized the political difficulty of enacting an increase. The committee also expressed opposition to diverting School Aid Fund resources from K–12 to other state priorities such as tax cuts and paying for higher education. The committee was divided on whether community colleges should be included as a proper use of School Aid Fund resources. However, the committee did agree that if community colleges were going to be included as an appropriate place to spend School Aid Fund revenue, then the fund should be increased to reflect this expanded mandate. It should be noted that while committee membership represented a broad cross-section of education interests, it did not include stakeholders such as business leaders, who are interested in education outcomes but might be more likely to oppose additional funding for the system.

Many committee members believe that the way that legacy retirement costs are treated in the state's budget confuses constituents. Currently, schools pay a portion of their payroll back to the state to cover legacy costs in MPSERS. When money flows from the state to districts and then back to the state, it can cause confusion over how much funding is actually available for classroom operations. The committee recommends that MPSERS legacy costs be paid directly from the School Aid Fund to the retirement system, without first being appropriated to districts. This would make the funding available for district operations more readily apparent to school district employees, policymakers, and the general public.

Equity

Equity concerns came up repeatedly during committee discussions. Michigan's 1994 school finance reforms made funding for school operations significantly more equitable by capping spending in high-spending districts and increasing it in low-spending districts. This change greatly reduced the gap between high- and low-spending districts. The 1994 reforms, however, did not address capital or special education spending, and the inequity in both areas has been an ongoing policy concern.

The equity issues with both special education and capital financing are widely known, and documented in such reports as *Adequacy, Equity, and Capital Spending in Michigan Schools: The Unfinished Business of Proposal A* (Arsen et. al. 2005) and *Financing Special Education: Analyses and Challenges* (Citizens Research Council of Michigan 2012). Addressing either issue without adding resources to the School Aid Fund is very challenging, since putting more resources into low-spending or high-need districts necessitates taking some from higher-spending districts. Reallocating resources from some districts to others is always politically difficult, but doing this during a period when all districts are feeling fiscal stress would be particularly challenging. As a result, the equity issues around capital spending and special education have remained widely recognized but unaddressed.

The committee also noted a number of equity issues surrounding the way the state's per-pupil foundation allowance works. While the 1994 reforms reduced the difference in the amount of funding per pupil between districts, significant gaps remain. Given that 20 years have passed since the funding reforms were enacted, the remaining gaps seem arbitrary and unfair to many committee members.

The per-pupil foundation allowance is generally seen to represent the average cost of educating a student. Some students cost more to educate than the average and some cost less. In particular, at-risk students, such as those from low-income households or those who speak English as a second language, are more expensive to educate. While some additional funding is available for these students, the committee believes that the additional resources districts receive to educate these students are less than the additional costs of these students.

Districts that have a large share of expensive-to-teach students can struggle to provide an adequate education. In addition, districts may try to lure lower-cost students through school of choice programs. If districts are successful at luring these lower-cost students, their home district will be left with an increasing share of high-cost students, exacerbating the problem. The committee saw weighting the foundation allowance as a way to address this issue. At-risk students would receive a per-pupil weight greater than one in the foundation formulas.

Revenues and Costs

Committee members frequently pointed to differences between the costs of educating students and the revenues received for each student as a challenge. As noted, this arises with respect to educating at-risk students, but the problem is broader than that. There are also significant issues that arise from the variable and fixed costs of educating a student.

This issue is most prominently seen with respect to enrollment changes. In the short run, if a district loses a student, it loses more in revenue than it does in costs—due to the fixed nature of some district costs. For example, districts that lose a handful of students lose the full foundation allowance for those students, but in the short run, they may not be able to reduce staff or close buildings. The committee noted other potential variances between costs and revenues. For example, the foundation allowance does not vary by grade level, but district costs likely do. Finally, the committee noted that districts faced some costs, such as facility or transportation costs, that might not vary based on the number of students.

Committee recommendations in this area included addressing declining enrollment by slowing the adjustment of the aid formulas with respect to enrollment changes. For example, allocating money to districts based on the greater of current year and prior year enrollment, or smoothing the revenue reduction from an enrollment loss over several years. The committee also recommended that the state investigate a new funding model that has both a fixed and variable component.

Recommendations

The key recommendations that arise from these themes and cross policy areas are summarized here. The full list of committee recommendations is provided in the next section.

Provide additional resources for K–12—Many of the recommendations identified by the committee would generate additional resources. These include:

- Raising taxes, such as the state education tax or enacting a sales tax on services
- Making it easier for intermediate school districts to enact enhancement millages
- Protecting the School Aid Fund from tax cuts
- Restricting the use of School Aid Fund revenues to K–12
- Finding ways to address legacy costs—methods suggested include expanding the membership base of MPSERS and using resources outside of the School Aid Fund to pay for legacy costs
- Increasing budget transparency by appropriating MPSERS legacy costs off the top of the School Aid Fund rather than appropriating money to districts that then have to return this money to the state
- Expanding the allowable uses for sinking funds to include technology, transportation, and security
- Investigating ways to reduce excess capacity in the K–12 system.

Increase equity—Recommendations aimed at increasing equity include:

- Directing new revenues toward equalizing the per-pupil funding amount that each district receives
- Reducing the number of categorical grants and instead weighting the per-pupil foundation formulas with higher weights allocated to at-risk students
- Creating a workgroup to address inequities in capital funding arising from variations in per-pupil taxable value
- Removing the cap on special education millages
- Expanding the scope of allowable special education costs
- Using a categorical appropriation to address equity in special education funding
- Creating a workgroup to analyze special education funding

Revenues and costs— Recommendations aimed at addressing the variance between per-pupil revenues and costs include:

- Smoothing the funding adjustment relating to enrollment changes—suggestions included using the greater of current and prior year pupil count for funding allocation, or potentially phasing in enrollment changes over several years
- Creating a new funding model that has a fixed cost and variable cost component; this model should also provide additional weighting for students with extra needs
- Identifying best practices in funding formulas from other states
- Providing a categorical appropriation to aid with transportation costs

Policy Recommendations

At the first meeting, the committee identified the top school finance issues facing the state. At the second and third meetings, the committee discussed these areas in depth. The committee split into smaller groups with each group working on one of the priority areas. The small groups were asked to complete the following tasks for their priority area:

1. Identify the specific policy problems and shortcomings within each area

2. Identify benefits of addressing each policy problem or shortcoming
3. Identify any readily apparent policy solutions (i.e., the low-hanging fruit)
4. For problems without such solutions, answer the following questions:
    a. What makes this problem or shortcoming especially difficult to solve? For example, does it require significant additional resources? Is it technically complex?
    b. Does this problem or shortcoming warrant a workgroup? If so, who should be involved?
5. Is there any significant dissent from the opinion of the main group?

After the small groups met, they reported back to the full group. The work of the small groups was edited to reflect the opinions of the broader group, as well as any dissent from committee members. The output of this work is summarized below. It should be noted that the committee did not answer every question identified above for every priority area.

***Declining Enrollment*—**What are the issues associated with how the current finance system reacts and responds to changes in district enrollment? How could we improve the system with respect to enrollment changes?

Policy Problems and Shortcomings

- The timing of school district budgets is a problem. District budgets are created in June, but districts do not know their preliminary pupil counts until October. This does not provide the districts time to adjust their budgets for enrollment changes or to have a real understanding of their pupil numbers when they develop their budgets.
- The decline in revenues associated with pupil loss is not equal to the decline in expenses districts experience. A decline in enrollment rarely allows a district to balance the loss with eliminating teacher positions because it only takes a few students in each grade.
- Michigan is struggling with two potentially incompatible trends—the number of pupils is declining over time while the number of school districts is increasing. It is unclear if school district consolidation could help with these issues.
- Small districts may have difficulty surviving in the long run if current enrollment trends continue.
- School choice exacerbates the problem of declining enrollment.
- Budget adjustments resulting from pupil count changes can lead to midyear academic disruptions.
- Enrollment issues result in cuts to programming and classrooms due to the effect of enrollment changes on district budgets.

Benefits of Addressing the Policy Option or Shortcoming

- No comments were provided for this section.

Readily Apparent Policy Solutions

- Using the prior year's pupil count for funding would help mitigate the problems arising from declining enrollment. This would allow districts to know their pupil count when they enact their budgets.
- Smooth the funding adjustment relating to enrollment changes (soft fall/rise).
    - Spread the decrease in funding from declining enrollment (or the funding increase from an increase in enrollment) over five years.
    - Lessen the impact gradually, which would help districts budget accordingly and remove the midyear academic disruptions.

- Change the FTE amounts a district receives when enrolling a student from another district in a choice situation (e.g., 50 percent in year one; 75 percent in year two; and 100 percent in year three).

- Limit public school academy (PSA) growth—for example, areas that already have a traditional school and two or three charter options do not need more charters to compete for a limited pool of students.
- Create a foundation formula not solely based on pupils; create a base amount plus a per-pupil amount.

Policy Problems That Require Additional Work to Develop and Solution

- The overall lack of funding in the system has put fiscal pressure on schools, reducing their capacity to deal with declining enrollment. However, there is no easy solution to the lack of overall funding. (Issues with the overall school funding level is covered in the Total Investment in School Aid section.)
- Without new funding, changes to the funding formulas will create winners and losers.

Significant Dissent

- Some committee members objected to policy options that would limit charters, and they also expressed concern over how to adjust the formulas to address school choice.

Need-based Funding—Does the funding system adequately reflect the higher costs associated with educating students with differing levels of need, such as low-income students, English language learners, and so forth? What changes could we make to the system to better address these issues?

Policy Problems and Shortcomings

- The needs of some pupils are more expensive to meet than those of others. The per-pupil distributions under the current school formulas do not adequately address these differences.

Benefits of Addressing the Policy Option or Shortcoming

- Under the current finance system, these expensive-to-teach students are less desirable to districts, and as a result, districts do not compete for these pupils or advocate for them. Adjusting the formulas to better reflect the costs associated with educating different categories of students would reduce the financial penalty districts face when they educate more expensive students.
- Increased need-based funding would help to raise the achievement bar of lower-performing pupils and build advocacy for pupils that need it.

Readily Apparent Policy Solutions

- No comments were included for this section.[2]

Policy Problems That Require Additional Work to Develop and Solution

- Adjusting the finance formulas to better reflect need is complicated. Identifying best practices from other states would be a good first step toward developing new formulas. The committee mentioned Pennsylvania and Massachusetts as potential models.
- Without more funding added to the system, allocating additional funding based on need will create winners and losers and could harm the performance of some high-achieving districts.
- It is difficult to engage the suburban public in urban problems and vice versa. Need to develop a way to educate and engage the public in a statewide effort.

[2] The committee identified the studying of models from other states, such as Pennsylvania and Massachusetts, as a readily apparent policy option. However, since this option entails studying other states to develop policy solutions, we categorized it as a policy solution that required additional work to develop.

- The committee believed that a workgroup should be formed to study how to best implement need-based funding.

Significant Dissent

- Some committee members were interested in investigating how to use property tax levies as part of the solution.

Equity—What shortcomings prevent the current finance system from providing an equitable education opportunity for all students? How could these shortcomings be addressed?

Policy Problems and Shortcomings

- Schools get differing amounts per pupil, even before looking at items such as low socioeconomic status or English language learners.
- Depending on the district in which they live, students have access to different services and program offerings, such as special education and vocational and technical education services.
- Districts have access to widely varying levels of funding for capital expenses. (While this topic was identified as an issue with equity, the committee decided to cover this area in the capital funding policy area discussion.)

Benefits of Addressing the Policy Option or Shortcoming

- The achievement gap would be smaller with more equitable funding.
- At-risk students would have access to more services.

Readily Apparent Policy Solutions

- Change the funding formulas so that when new revenues become available, they are directed toward equalizing the per-pupil funding amounts that each district receives.

Policy Problems That Require Additional Work to Develop and Solution

- The committee believed that one way to address issues with equity is to reduce the number of categorical grants. The purpose of these grants should instead be achieved by weighting the foundation allowance. There was no consensus on which types of items should be recognized by formula weights. In addition, creating the proper weights is technically complex and may require a workgroup. (This same issue was raised in the need-based funding discussion.)
- The types of changes contemplated to increase equity could create winners and losers, and this type of change is difficult to do. The committee thought that a vision of what the system should look like should be developed, and then significant effort should be put into developing a strategy that would move the state from the current system to the system we'd like to have.

Significant Dissent

- One group participant called for the state to address that state-mandated services for nonpublic schools do not come with funding. The participant felt this was inequitable and argued that the state should find a revenue source to support mandated services.

Millages—Despite the changes of Proposal A, the school finance system still depends on a significant amount funding from property tax revenues. Millages are levied for operating purposes, special education, and capital. What challenges are schools facing as a result of our continued reliance on property taxes and how can they be addressed?

Policy Problems and Shortcomings

- Sinking funds cannot support the same types of activities as bonds, which limits their usefulness.
- There are barriers to the use of the enhancement millage option that was created as part of Proposal A, including a lack of awareness surrounding this option.
- Millages are unequal for vocational education and special education.

Benefits of Addressing the Policy Option or Shortcoming

- No comments were included for this section.

Readily Apparent Policy Solutions

- The allowable uses of sinking funds should be expanded to include technology, transportation, and security.
- Barriers to enacting ISD-wide operational enhancement millage (e.g., the option to levy up to three mills of enhancement millage ISD-wide) should be removed. This includes reviewing potential statutory challenges to this option, including whether you need a yes vote equal to 50 percent of people or 50 percent of districts.

Policy Problems That Require Additional Work to Develop and Solution

- Increasing the equalization of vocational and special education millages is difficult to do without extra funding due to the "winners and losers" issue.
- Some beneficial policies would require constitutional changes. These include:
    - Changing the 18-mill local school operating tax to a state levy.
    - Once the 18 mill school operating tax is a state levy, using it to help fund state aid payments with an eye toward adjusting the state aid payment schedule in a way that improves district cash flow.
    - When property values have declined, the taxable value cap should be waived until property values have recovered.

Significant Dissent

- No comments were included for this section.

Outcome-based funding—The current system funds districts based on inputs (such as the number of students educated), but little, if any, funding is based on outcomes. Are there opportunities to improve the system by tying funding to student or district outcomes?

Policy Problems and Shortcomings

- Currently school districts are funded primarily based on inputs—the number of students that attend the district. There is no incentive for success, even though outcomes are a critical part of the education business.

Challenges

- *Defining success.* What outcomes should be considered in an outcome-based funding model? How do you select these outcomes? How closely should they be tied to accountability metrics? Who defines them (state or local)? Should the measures be the same for all students and districts?
- *Creating a funding structure.* What outcome-based funding models exist? Are we considering reallocating existing dollars of finding new funding?
- *Level the playing field.* While funding based on outcomes is an intriguing idea, the playing field must be level before outcome-based funding is considered. Otherwise, there is a risk of setting up a system

that punishes districts serving higher-need students with fewer dollars. If this path is explored, there needs to be a consideration of equity first.

- *Unintended consequences.* An outcome-based funding system needs to ensure that the system does not create the wrong incentives. For example, you do not want to make it more difficult for students with high needs to find a good school.
- *Psychology.* Group members questioned the efficacy of paying for outcomes. Research across many fields suggests that this investment won't work.

Benefits of Addressing the Policy Option or Shortcoming

- No comments were included for this section.

Readily Apparent Policy Solutions

- The committee did not believe there were any readily apparent policy solutions.

Policy Problems That Require Additional Work to Develop and Solution

- The committee decided that while is an important and intriguing issue, upon further review it was lower priority than the other issue areas under review by the committee. Therefore, the committee believes this issue should be tabled for now.

Significant Dissent

- No comments were included for this section.

Capital Funding—What are the issues associated with how districts fund capital spending? How could this be improved?

Policy Problems and Shortcomings

- The per-pupil taxable value varies widely across districts. Districts with higher taxable value per pupil can generate funding for capital spending much more easily than districts with lower per-pupil taxable value.
- Communities with higher need are often communities with lower per-pupil taxable value.
- Charter schools cannot levy property taxes to pay for capital spending.

Benefits of Addressing the Policy Option or Shortcoming

- Addressing the capital funding inequities would help address overall inequity in the system and improve fairness. Those in the most need would better be able to access funding.

Readily Apparent Policy Solutions

- The policy options identified here were also discussed in the next section as requiring additional work to develop. Therefore, they were moved to the next section.

Policy Problems That Require Additional Work to Develop and Solution

- The committee discussed a couple of different options to address inequities in capital funding. These options involve using resources from wealthier districts to help support the capital needs of poor districts. For example, capital funding could be done through state government with a statewide capital millage. Proceeds from this millage would be directed to the state and then distributed back to the individual districts. The committee recognized that any plan redistributing resources from wealthier to poorer districts will be very difficult politically. In addition, the committee noted that legislators who believe in local control are unlikely to support a statewide millage.

- One participant suggested creating a state process for capital outlay funding similar to what the state provides for community colleges. Under this option, the state would match a portion of local funding.
- The committee thought a workgroup could be helpful. The workgroup should consist of representatives from both richer and poorer districts and charter schools. A study of how these issues are addressed in other states could also be helpful.

Significant Dissent

- Not all committee members supported the idea of a statewide millage.
- Some committee members expressed concerns that there were policy issues around charter schools that would need to be resolved before they were granted access to capital funds. In particular, there were concerns around charter management companies using public funds to pay for private property.

Fixed and Variable Costs—The current foundation allowance provides a per-pupil allotment, which does not vary based on the fixed and variable costs of a district. For example, some grades or subjects cost more than others, but the foundation allowance does not vary by grade or subject. Districts may have fixed costs that do not vary directly with their pupil count. How could these issues be addressed?

Policy Problems and Shortcomings

- Some districts have large fixed costs, which can make it difficult to address deficits.
- Funding varies directly with the number of pupils, but costs do not, at least in the short run. As a result, districts with increasing enrollment see a windfall, while districts with falling enrollment lose more revenue than they lose in costs. Most districts in Michigan are now dealing with declining enrollment.
- The cost of educating a student varies by grade, but funding does not vary based on a student’s grade. For example, educating a high-school student may be more expensive than educating a middle-school student.
- Districts have fixed costs associated with things like curriculum and infrastructure, but there is no base funding available for these costs.
- Few districts are willing to consider consolidating with a district that is very large geographically.
- Some school structures have a lower cost. For example, cyber schools may have lower costs than traditional public schools. The funding formulas, however, do not reflect these differentials.
- The methodology for funding schools has been the same since 1994 and this methodology is not working well.

Benefits of Addressing the Policy Option or Shortcoming

- No comment was provided for this section.

Readily Apparent Policy Solutions

- Change the per-pupil accounting to provide for a more stable budget environment. For example, districts count their pupils each fall. District funding could be set equal to the greater of the current year’s pupil count or the prior year’s pupil count. This would allow districts to base their budgets on a known pupil amount, and always give them at least one year to respond to enrollment declines.

Policy Problems That Require Additional Work to Develop and Solution

- Michigan should consider adopting a new funding methodology. This methodology should have both a fixed component and a component that varies with the number of pupils. The new funding formula should also provide additional weighting for students with extra need.
- There are several significant policy challenges to implementing new formulas. First, new formulas would create winners and losers. Given the limited pool of funding, there is likely to be strong resistance

to change from districts that would see reduced funding under the new formulas. In addition, the rationale behind the current formula is straightforward—every child is worth the same amount. Making changes to provide additional funding for student with special needs would add complexity and could be politically difficult.

Significant Dissent

- Not everyone agreed that these changes were needed. One committee member noted that it is the school board's duty to allocate funding based on student need and that the state's formulas do not need to be changed.

Retirement Costs—Retirement costs are a significant challenge for many districts. What is the best approach for dealing with the challenges associated with both legacy costs and prospective retirement costs?

Policy Problems and Shortcomings

- More people are drawing benefits from MPSERS than are paying into it.
- Increased use of charter schools and privatization are putting pressure on the system.
- The distribution of costs across districts can be inequitable.
- The percentage of pay that teachers and other employees now need to contribute to the system limits the number of talented employees interested in working at schools.
- MPSERS assumes an unrealistically high growth in employee payroll. This will result in the unfunded liability growing.

Benefits of Addressing the Policy Option or Shortcoming

- Better talent in the teaching/school staff ranks
- More stable school budgets
- Higher academic achievement

Readily Apparent Policy Solutions

- Broaden the base of MPSERS to include charter schools, third-party contractors, virtual schools, etc.
- Stop funding universities with School Aid Fund dollars and use the savings to pay down MPSERS liabilities.
- Use more realistic assumptions and expectations when calculating MPSERS liabilities.
- Consider bonding to reduce the pension liability.

Policy Problems That Require Additional Work to Develop and Solution

- No comments were provided for this section.

Significant Dissent

- The committee did not list any dissent, but they wanted to make sure that any retirement reforms did not result in more costs being borne by employees, and that changes did not make the system more complicated.

Special Education—What are the issues and challenges associated with funding special education? How can these issues and challenges be addressed?

Policy Problems and Shortcomings

- Added cost for special education is a burden to district's general funds, and this burden is not equitably shared.

- There is a wide variance in the millage rates levied for special education across the state, and the corresponding revenue generated from these millages also varies widely.
- The state has special education requirements that exceed the federal requirements, but the state does not adequately fund these requirements.

Benefits of Addressing the Policy Option or Shortcoming

- There would be more equity in education.
- Special education would be less of a drain on district general funds, which would have a positive impact on education overall.

Readily Apparent Policy Solutions

- Remove the cap on special education millages. The current maximum rate the districts can levy is 1.75 times the rate they levied in 1993 (Citizens Research Council of Michigan 2012).
- Fully fund the Section 56 allocation in the State School Aid Act. This section provides funding to guarantee a minimum level of funding per pupil for each special education mill levied.
- Establish a budget categorical appropriation to address equity.
- Expand the scope of what is an allowable special education cost.

Policy Problems That Require Additional Work to Develop and Solution

- Provide more flexibility with federal maintenance of effort requirements.
- Increase the availability of state funds.
- Group thought a workgroup consisting of some of the key players should be created. These include the Michigan Association of Intermediate School Administrators, Michigan School Business Officials, the Michigan Association of Administrators of Special Education (MAASE), special education teachers, and the MDE.

Significant Dissent

- No comment was provided for this section.

Transportation—What issues are associated with funding transportation for both general education and special education students? How can these issues be addressed?

Policy Problems and Shortcomings

- Although providing transportation is not mandatory, some rural districts do not really have a choice but to provide transportation.
- All districts receive a per-pupil allocation that they can use for transportation, but not all districts provide transportation. Districts that do not provide transportation can take the savings and apply it toward improved academic programming creating equity problems.
- Transportation is a problem for the Great Start Readiness Program (GSRP), particularly for half-day slots. The state appropriates $10 million for GSRP transportation, but this likely is not enough and this may be impeding access.

Benefits of Addressing the Policy Option or Shortcoming

- Mandatory transportation will improve education access, resulting in higher achievement.

Readily Apparent Policy Solutions

- Provide more full-day slots for GSRP. This will allow districts to run buses at more convenient times. The committee noted, however, that some parents of four-year-olds might not like the idea of their children riding the bus.
- Provide categorical funding to solve equity issues with transportation. The committee thought that some type of distribution based on bus mileage would work.

Policy Problems That Require Additional Work to Develop and Solution

- No comments provided for this section.[3]

Significant Dissent

- No comments provided for this section.

Pupil Accounting—Technical changes need to be made to the way districts currently count and account for pupils. The current system allows districts to potentially game the system to access additional funding. Districts that game the system have a negative fiscal impact on all of the state's remaining districts. What are the specific issues with pupil accounting, and how can these best be addressed?

- The committee did not address this category separately. Instead, this area was incorporated into the fixed and variable cost subgroup discussion. However, while this category was not discussed at the meeting, Paul Bodiya, chief financial officer for Macomb ISD, brought a list of technical problems with the current school aid formulas. These included issues with accounting for nonpublic students taking nonessential classes through a traditional district, the treatment of dropouts, pupil transfers, students taking classes at cyber schools, and foreign exchange students. Mr. Bodiya's notes are included in Appendix C.

Total Investment in School Aid—While there may be policy issues associated with many aspects of Michigan school finance system, the overall level of funding for the system and for some of the system's components, such as special education, is also a concern. Does Michigan invest the right amount in K–12 education? If not, how much should Michigan invest and where should new funding go?

Policy Problems and Shortcomings

- Tax policy and other changes are eroding the school funding base. Total school funding as a percent of state personal income has been declining. In addition, the growth in school funding available for classroom operations has been trailing inflation after paying for legacy costs.

Benefits of Addressing the Policy Option or Shortcoming

- The committee identified a number of benefits to increased funding, including:
  - Improved academic performance
  - Reduced gaps in access to quality education
  - Increased ability to attract and retain good school employees
  - Increased ability to attract businesses to Michigan
  - Increased ability to implement education reforms that will improve academic outcomes

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[3] The committee did list some of the challenges associated with their policy recommendations in this section, including the difficulty in getting more funding for GSRP and transportation.

Readily Apparent Policy Solutions

- Limit the use of the School Aid Fund to supporting preschool through 12^{th} grade. These funds are currently also being used to support postsecondary education.
- Hold the School Aid Fund harmless from tax policy changes.
- Increase the funding available for K–12. The committee mentioned expanding the sales tax to services or increasing the six-mill state education tax as potential ways to raise revenues.
- Appropriate legacy costs directly from the School Aid Fund to the retirement system, without first directing these funds to schools. This will make it easier for community members to understand how much money is actually available for educating students.

Policy Problems That Require Additional Work to Develop and Solution

- Finding a way to reduce the burden of unfunded legacy costs on districts
- Finding a way to reduce the excess capacity in the K–12 system

Significant Dissent

- The committee did agree on whether the appropriate metric for judging the adequacy of growth in school funding was growth in personal income or growth in inflation.
- The committee did not agree on whether the School Aid Fund should be limited to supporting pre-K through 12^{th} grade, or pre-K through community college. The committee did agree that if the School Aid Fund is going to be used to support community colleges, it should receive additional resources.

Appendix A—Strengths and Challenges of Michigan's School Finance System

At the first meeting, participants were first asked to identify the strengths and challenges of the current school finance system. This appendix contains the full list of challenges identified by committee members. Some of the strengths and challenges listed below represent the views of just one member, while others represent the views of multiple members. After identifying this longer list of challenges, the group spent time discussing the challenges and identifying what they believed were the top priorities for the state. The list of top priorities is presented in the main text of this report.

To guide the discussion, school finance issues were organized into the following categories:

- Foundation allowance and school finance formulas
- Federal title programs
- Special education funding
- Other budget line items (also known as categorical appropriations or categoricals)
- Capital funding
- MDE policies and funding administration
- Other

Once the discussion began, the group mostly abandoned discussing the system's strengths, and instead zeroed in on what they perceived to be the weaknesses of the current system. The group's discussion is summarized below. This summary represents all of the comments made by committee members.

Foundation Allowance and School Finance Formulas

Strengths:

- School funding dollars follow the student.
- For the past few years, the state's budget has been passed earlier in the year. This means districts have known how much they will receive per pupil by the start of their fiscal year, which has helped them develop more accurate budgets.
- As a result of Proposal A, school districts no longer need as their voters to approve a millage each year to support funding.

Challenges:

- All students receive the same foundation allowance, regardless of their level of need or grade level.
- Voters must periodically renew the 18-mill local school operating tax, and it is difficult to communicate to voters the need for this renewal.
- The 18-mill school operating tax is subject to Headlee rollbacks under Article IX, Section 31 of the state's constitution. The state, however, always assumes districts levy the full 18 mills, creating difficulties for districts that have seen this millage reduced by rollbacks.
- The per-pupil foundation allowance varies by district.
- Declining enrollment is a challenge for districts. The current system assumes a growing student population.
- Districts have both fixed and variable costs. Because of this, they face economies-of-scale issues, and the formulas are not designed to reflect these issues.
- In the 1990s, the state changed how it funded pension liabilities, and this has created problems for districts.
- Funding provided to schools is not tied to outcomes.

- There is no funding to support a P–20 system.
- The foundation allowance is subject to the budget process.
- There is a disparity between the school and budget calendars, which creates cash flow issues. Specifically, school district fiscal years start on July 1 and the state's fiscal year starts on October 1. School districts do not receive their first payment from the state until October, four months into their fiscal years.
- The increased use of categorical appropriations by the state creates winners and losers.
- Funding is piecemeal.
- Transportation is not adequately funded.

Pupil Accounting

Challenges:

- When enrollment is declining, districts take the budget hit all at one time.
- There is a lot of room for interpretation in the pupil accounting manual, allowing for some gaming of the system. Districts will interpret information differently depending on who they ask at the local, regional, and state levels.

Federal Title Programs

Challenges:

- There is not enough flexibility in the programs.
- There is not enough money in the programs. The Individuals With Disabilities Education Act (IDEA) is not fully funded.
- There is confusion among public schools about how to flow funding through to non-public schools.
- The lines between state and federal funds are not always clear, nor is interpretation (for example, the definitions of "supplant" compared to "supplement").
- There is no consistency within the state regarding how to implement federal programs. Each program has its own requirements, but there should be some consistency across programs in how we operate them.

Special Education

Challenges:

- There is not enough money.
- The state is committed to providing services to students with disabilities through age 26. Are there other organizations that could/should be providing these services, especially ones that have lower personnel costs?
- A lot of money from the foundation grant is being shifted to pay for special education costs.
- Costs depend on who lives in the local community, something districts cannot control. For example, if the district has a higher proportion of special education students, its costs go up.
- Millage rates vary between counties, and Proposal A capped the maximum special education millage that counties can levy.
- There is not enough funding for transportation.
- There are wide differences in the reimbursement rates between schools within an intermediate school district (ISD).

- The IDEA federal formula is now determined on a headcount basis, but is that the right/best way? For example, should we use full-time equivalencies (FTEs) instead?
- The line between educational costs and medical costs is blurred. Why are educational entities responsible for some medical expenses?
- Investment in infrastructure (equipment and facilities) varies depending on where you live, which creates inequities.

Budget Categorical Appropriations

Challenges:

- Sometimes categorical appropriations compete against each other (e.g., some incentivize districts to privatize, while others discourage privatization).
- Categorical appropriations do not support cohesion at the local level. When these appropriations do not line up with strategic priorities, a patchwork system is created.
- There is a "flavor of the month" feel to these appropriations. Sometimes categorical appropriations incentivize something that does not show up in outcomes for years, but the funding does not always continue because it is subject to politics.
- There are too many categorical appropriations.
- There is a patchwork of career and technical education (CTE) funding.
- Some categorical appropriations should instead be part of the school finance formulas, especially early childhood funding and funding for at-risk students.

Capital Funding

Challenges:

- There is no capital funding available.
- There is a disparity in taxable value which leads to a disparity in capital funding. Some districts are struggling to replace boilers, while others are designing second auditoriums. Charter schools do not get anything at all.
- There are challenges on the side of both PSAs and local education agencies (LEAs). Disparities in funding pit both sides against each other.[4]
- Is it possible to be less complex? The public does not understand how capital funding works, so people ask, "Why should I vote for a millage increase when you just remodeled your track?" We need something that can be easily explained to the community to improve decision making at the local level. The current way is confusing for community members and the education community.
- Sinking funds should be more flexible. The allowed uses of the funds should be expanded to include technology, software, busing, furnishing, etc. The rules for sinking funds should be the same as for funds raised through debt issuance.
- There are no clear rules regarding how to dispose of unused school buildings, especially those in districts that have been dissolved.
- State changes and limitations to the School Bond Loan Fund have made it more difficult for districts to access funds needed for capital improvements.

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[4] This report uses the terms charter school and PSA interchangeably. The usage in a particular report section is generally based on which term the members of the School Finance Committee used when discussing an issue.

MDE Policies and Administration

Challenges:

- The department is compartmentalized.
- There is not always consistency in how questions are answered across MDE offices.

ISD Administration

Challenges:

- Interpretation of policies varies widely at the ISD level, which is especially difficult for PSAs that have schools in different ISDs.
- Policy variation is a particularly big problem with respect to special education.

Legacy Costs

Strengths:

- The state is allocating funds to pay down the pension liability.
- Caps on the Michigan Public School Employees Retirement System's (MPSERS) reimbursement rate help districts set realistic expectations for district staff and the community with respect to district budgets.
- The retirement system is going to be more affordable in the long term, due to the changes made to the pension system.

Challenges:

- Although the state is allocating funding to pay down the pension liability, this funding is coming from the same source of funding used for the foundation grant.
- MPSERS is the only pension fund in Michigan that does not require employees to work 2,000 hours a year to earn one year of service in pension system.
- The pension fund is antiquated, and recent changes may have been insufficient to fix the problem. The "state is putting money in a leaky bucket."
- Districts are paying 30 percent of their budgets in pension funds. The state needs to recognize that districts did not mismanage pensions at the local level; it was the state that caused this problem.
- Schools are paying for a retirement system that they do not have a voice in controlling.
- Too much money is going into retirement as opposed to classrooms.
- Interest in education jobs has declined. This is true for teachers and other staff, like accountants.

Other

Challenges:

- There is no opportunity for nonpublic schools to access public money, even though nonpublic schools are obligated to follow some state mandates. There is a real sense among nonpublic schools that they need some financial support for state mandates. This is not intended to suggest that the state should consider vouchers. Instead, this is an equity issue, and the state should look more closely at the 100,000 students that attend nonpublic schools.
- Article IX, Section 29 of the Michigan Constitution has a prohibition on unfunded mandates. Three of the current categorical appropriations were created as a result of court cases stemming from this prohibition, and the School Finance Committee should not ignore court orders when considering solutions.

- The definition of equity can be challenging. What does it mean? Does it mean equity in funding, does it mean equity in the quality of service provision, or does it mean something else?
- The cost of cyber schools costs compared to the cost of brick-and-mortar schools is an issue. Should part of the finance formulas reflect a variable cost that is based on the type of school?
- There is incoherence in state and local tax policy, especially as it relates to the base for the School Aid Fund. One of the committee members noted the report *Michigan's Tax Policies: Wrong Turns on the Path to* Prosperity (Drake 2014).

Appendix B—School Finance Committee List

The list of individuals invited by the Michigan Department of Education to participate in the School Finance Committee are presented in the list below. Attendance was not taken at the meetings, so some individuals listed below were not present at some or all of the meetings, and some individuals may have attended who were not included on the original invitation list.

School Finance Committee Invitation List

Full Name	Organization	Title
Ruth Beier	Michigan Education Association	Economist
Anne Blankenhorn	Michigan Senate	Policy Analyst
Paul Bodiya	Macomb Intermediate School District	Chief Financial Officer
Phil Boone	Michigan Department of Education	Assistant Director, State Aid and School Finance
Christina Canfield	Michigan Education Association	Lobbyist
Sue Carnell	Middle Cities Education Association	Superintendent, Wayne-Westland School District
Sam Christensen	House Fiscal Agency	Fiscal Analyst
Mark Cummins	Macomb Intermediate School District	Chief Information Officer
Thomas DeJonge	Michigan Association of Nonpublic Schools	Superintendent, Grand Rapids Christian Schools
Bob Dwan	Michigan School Business Officials	Associate Executive Director
Steve Ezikian	Michigan School Business Officials	Deputy Superintendent, Wayne Regional Education Service Agency
Dan Feinberg	Michigan House of Representatives	Policy Analyst
Jon Felske	Middle Cities Education Association	Superintendent, Muskegon Public Schools
Eric Griggs	Michigan House of Representatives	Policy Advisor/Associate Legal Counsel
Dan Hanrahan	Michigan Department of Education	Director, State Aid and School Finance
Judd Herzer	Michigan Senate	Policy Analyst
Robbie Jameson	State Budget Office	Director of Office of Education and Infrastructure
Ruthann Jaquette	Michigan Parent Teacher Association	President
Bob Kefgen	Michigan Association of Secondary School Principals	Assistant Director for Government Relations

Penny Kentish McWilliams	Michigan Elementary and Middle School Principals Association	Director of State and Federal Programs, Beecher Community Schools, Past President of MEMPSA
Karen Leslie	Crawford-AuSable Federation of Teachers	President, Crawford-AuSable Federation of Teachers
Tom Livezey	Muskegon Intermediate School District	Superintendent Oakridge School District
Jason Mancini	Education Trust Midwest	Director of Government Affairs
David Martell	Michigan School Business Officials	Executive Director
Dennis McDavid	Berkley School District	Superintendent Berkley School District
William Miller	Michigan Association of Intermediate School Administrators	Executive Director
Jeff Mills	Michigan Association of Intermediate School Administrators	Superintendent Van Buren Intermediate School District
Gary Naeyaert	Great Lakes Education Project	Executive Director
Tamera Powers	Michigan School Business Officials	Director of Finance & ESSA Human Resources, Kenowa Hills Public Schools
Cory Savino	Senate Fiscal Agency	Fiscal Analyst
Erin Schor	Michigan Community College Association	Legislative Director
John Severson	Muskegon Intermediate School District	Superintendent Muskegon Intermediate School District
Peter Spadafore	Michigan Independent Colleges and Universities	Vice President
Derrick Stair	John Engler Center for Charter Schools	Director, Fiscal Performance and Accountability
Kathryn Summers	Senate Fiscal Agency	Associate Director
Alicia Urbain	Michigan Association of Public School Academies	Vice President of Government and Legal Affairs
Bethany Wicksall	House Fiscal Agency	Associate Director
Chris Wigent	Michigan Association of School Administrators	Executive Director
Don Wotruba	Michigan Association of School Boards	Executive Director
David Zuhlke	Middle Cities Education Association	Government and Legislative Liaison

Appendix C—Pupil Accounting Issues

This appendix contains issues with the current methods of accounting for pupils. The list was provided by Paul Bodiya, chief financial officer of Macomb Intermediate School District. Mr. Bodiya's comments are provided here unedited, and do not necessarily reflect the opinions of the School Finance Committee.

Alternative Education

Pupils enrolled in Alternative Education programs have a higher drop rate than other pupils. As a result, the student may be eligible to be counted for membership for the count date and discontinue enrollment in any public school subsequent to the count day, sometimes very soon after the count date. Unless the student subsequently enrolls in another public school, no Section 25e adjustment could be done to transfer the funding to a new district. As a result, the district that counted the student for the count date continues to receive funding for the student even though they are no longer educating the student. This could be addressed by requiring additional count dates for Alternative Education Programs.

Seat Time Waiver

Seat time waiver pupils are funded at the same foundation as traditional pupils despite the fact that there are: no limitations on the number of students which can be serviced by a teacher of record or mentor teacher, there is no brick and mortar overhead cost, and districts can schedule a full schedule of courses for the pupil but are not required to pay for the classes until they are actually taken by the pupil.

Students Taking Online Courses

Students taking online courses (including Seat Time Waiver pupils) often do not complete the courses they are enrolled in. The enrolling district is eligible to claim the pupil for membership if the student is enrolled in a class on the count date, has a schedule, and has had two-way interaction with the teacher of record or mentor for the course for the count window (4 weeks of the count period). If the student does not complete the course, there are no funding implications currently if the requirements above have been met. To ensure that a student completes classes, districts could be funded based on completion of courses, with funding adjusted for courses not completed.

Homeschooled

There is currently no limit on the number of nonessential elective classes which can be taken through the public school and counted for membership. A traditional public school student's FTE is calculated based on their required and elective courses. As such, a traditional public school student would have a limit on the number of nonessential, elective courses which could be counted for membership in a given year,(and over the course of their public education, based on the required classes for grade progression and/or graduation requirements.

In addition, if a homeschooled pupil wishes to take nonessential, elective courses in their resident district LEA, the resident district LEA must allow the student to take any courses offered to its traditional public school pupils at the same grade level, even if they cannot receive funding for the courses provided. This would be the case if the homeschooled pupil is also enrolled in a Cyberschool with a full schedule.

Finally, while nonpublic schools are required to register and meet reporting requirements to be eligible for services and for students in nonpublic schools to be counted for membership by public schools, there is currently no reporting requirements which must be met for students being homeschooled to be counted for membership by public schools.

Nonpublic

There is currently no limit on the number of nonessential elective classes which can be taken through the public school and counted for membership. A traditional public student's FTE is calculated based on their required and elective courses. As such, a traditional public school student would have a limit on the number of nonessential, elective courses which could be counted for membership in a given year, and over the course of their public education, based on the required classes for grade progression and/or graduation requirements.

Dropouts

Under current rules, there are no requirements which must be proven to validate that a student is a dropout. Consequently, it is possible for a public school LEA or PSA to enroll a student without a release from the resident district LEA if the student is enrolled as a "dropout", even if the student has never been enrolled/counted for membership by any public school LEA.

Section 25e (Pupil Transfer Adjustments) and Section 21F (Expanded Online Learning)

Currently, Section 21F courses are exempted from being eligible for Section 25e adjustments. Therefore, if a district is providing a student with an expanded online learning opportunity under 21F, the FTE associated with these courses are not eligible to be transferred under Section 25e. This results in a different treatment of Section 21F courses than all other courses offered by a district LEA as it relates to Section 25e adjustments.

FTE conflicts with Cyberschools (Districts/PSA's)

Under current rules, if an LEA (Local Educating Agency) has an FTE conflict with a Cyberschool resulting in a student being claimed in excess of 1.0, the Cyberschool receives priority in determining the FTE to be claimed for the pupil and the LEA gets whatever is left of the FTE up to 1.00. If a student has a full schedule at the Cyberschool, the LEA gets no funding for the pupil even if they are legitimately enrolled and being educated by the LEA. However, if there is an FTE conflict between a Cyberschool and a Public School Academy (PSA), the FTE is prorated based on the total number of classes the student is enrolled in both the Cyberschool and PSA. Each of the schools (Cyberschool and PSA) receives a prorated share of the FTE based on the number of classes each is providing divided by the total number of classes the student is receiving in both the Cyberschool and PSA.

School of Choice

Under current rules, a student who enters as a school of choice student under Section 105 is permitted to remain enrolled and counted for membership, even if the student later moves outside of the ISD and the district is not a Section 105C district However, a student who enrolled as a resident pupil who later moves outside of the ISD is not eligible to remain in the district without a release from their resident district or by meeting one the exceptions in Section 6(6) of the State School Aid Act (of which school of choice is one). Therefore, if a student who was previously a resident moves to a district outside the ISD and desires to remain in the district they moved out of, the district must be a 105C district and the requirements of Section 105C must be met or the pupil cannot remain in that district.

In addition, School of Choice students funding is the lesser of the educating district LEA foundation or the resident district LEA foundation. However, if the student is a non-resident student enrolled under one of the exceptions in Section 6(6) not including School of Choice, the funding for the student is the foundation of the educating district LEA. School of Choice students and non-resident students are both by definition, non-resident pupils and yet the funding for a school of choice pupil could be less than other non-resident pupils if the resident district LEA foundation for the School of Choice pupil is less than the educating district foundation.

Travel Time

Travel time (up to 3 hours per week or more if approved by MDE) can be counted toward the minimum required hours of instruction (and consequently included as part of the student's FTE calculation) if travel time between instructional sites in different district LEA's is the sole reason the student cannot meet the minimum required 1,098 hours of instruction. However, travel time between sites in the same district LEA cannot be counted toward the minimum required 1,098 hours, even if it is the sole reason that the student cannot meet the minimum required 1,098 hours. For example, Student 1 attends District A LEA for all but one class and takes one class in District B LEA under a Cooperative Agreement. Student 2 attends District A LEA Building 1 for all but one class and takes one class in District A LEA Building 2 (the same district LEA). The distance between District A LEA and District B LEA is 5 miles and travel time is 10 minutes. The distance between District A LEA Building 1 and District A LEA Building 2 (the same district LEA) is 5 miles and travel time is 10 minutes. The travel time for Student 1 can be counted (as it is between instructional sites in different district LEA's) but the travel time for Student 2 cannot be counted as both buildings are in the same district LEA.

Appendix D—References

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