



A HARD HABIT TO BREAK: THE RAIDING OF K-12 FUNDS FOR POST- SECONDARY EDUCATION

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A one-time fix to help balance the state budget has now become regular practice in the annual appropriations process. Michigan has shifted a total of \$4.5 billion intended for K-12 public schools to universities and community colleges since 2010, including a record \$908 million for the upcoming budget year. This cut to K-12 education was not done for the benefit of postsecondary education, but to balance the state budget and compensate for General Fund dollars that are increasingly stretched thin due in large part to tax cuts for businesses.

The School Aid Fund (SAF) was first established in 1955 as an amendment to the 1908 Michigan Constitution, retained in the 1963 constitution, and transformed through Proposal A of 1994. From the time it was first established until Budget Year 2010, the School Aid Fund had been used exclusively to fund Michigan's K-12 schools.¹ Funding for postsecondary education, on the other hand, came from the General Fund. For 2010, in order to balance a state budget that had been beaten down over the past decade by tax cuts and the Great Recession, Governor Jennifer Granholm and the Michigan Legislature used a supplemental bill to appropriate \$208.4 million in SAF dollars to community colleges. The one-time appropriation included language stating that "funds appropriated to community colleges from School Aid Fund [will] be considered a loan" that "will be repaid from General Fund to School Aid Fund over the period of FY 2011-12 to FY 2015-16."² The Legislature never paid the funds back.

In Budget Year 2012, Governor Rick Snyder's first budget drew from the School Aid Fund to replace General Fund dollars going to universities and community colleges, with no language stating it needed to be repaid. In its final form, the nearly \$400 million taken from K-12 was accompanied by a \$470 per pupil cut in the K-12 foundation allowance—the only year since Proposal A in which the foundation allowance was statutorily cut.³ The cut was accompanied by a very large tax cut for businesses that cost \$1.6 billion, with only part of that amount made up by increased taxes on individuals. The Legislature later passed a supplemental budget that took an additional \$63.7 million from the School Aid Fund to pay for community college operations, for a total of \$459.6 million in SAF dollars shifted from K-12 to postsecondary institutions in 2012.

This shift has been the norm during the past eight years, as every budget introduced by the Snyder administration and passed by the Legislature has shifted at least \$350 million—and often more—from K-12 public schools to universities and community colleges.⁴



A Growing Dependence on the School Aid Fund

The precedent begun by the administration and Legislature in 2012 has led to a growing dependence on SAF dollars to fund postsecondary education rather than finding the dollars for that use in the General Fund. Three of the past five budgets have funded community college operations *entirely* from the School Aid Fund, and the most recent budget more than doubles the SAF dollars going to universities. In Budget Year 2019, rather than reversing a practice that started as a one-time budget solution in the lean years of the Great Recession, the Legislature dug in its heels and shifted a record high \$908.3 million from K-12 to postsecondary education.

Use of School Aid Fund for Universities and Community Colleges

Budget Year	School Aid Fund Dollars*		Percent of Operations Funding from SAF		Total School Aid Fund Dollars to Postsecondary
	Universities	Community Colleges	Universities	Community Colleges	
2009	\$0	\$0	0%	0%	\$0
2010**	\$0	\$208,400,000	0%	70%	\$208,400,000
2011	\$0	\$0	0%	0%	\$0
2012**	\$200,019,500	\$259,629,400	15%	91%	\$459,648,900
2013	\$200,465,700	\$197,614,100	16%	67%	\$398,079,800
2014	\$200,465,700	\$197,614,100	16%	66%	\$398,079,800
2015**	\$206,467,900	\$364,724,900	15%	100%	\$571,192,800
2016	\$205,179,500	\$256,714,800	15%	76%	\$461,894,300
2017	\$237,109,500	\$260,414,800	17%	59%	\$497,524,300
2018	\$238,343,500	\$398,301,500	16%	100%	\$636,645,000
2019	\$500,088,300	\$408,215,500	34%	100%	\$908,303,800
Total	\$1,988,139,600	\$2,551,629,100			\$4,539,768,700

* In addition to operations funding, figures include, when appropriate, contributions to the employee retirement system and reimbursements to community colleges for Renaissance Zone tax credits.

** Includes funding provided through a supplement budget.

Source: Michigan House and Senate Fiscal Agencies

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Why Are Michigan's Elected Leaders Using School Aid Fund Dollars for Postsecondary Education Rather Than Enhancing K-12 Education?

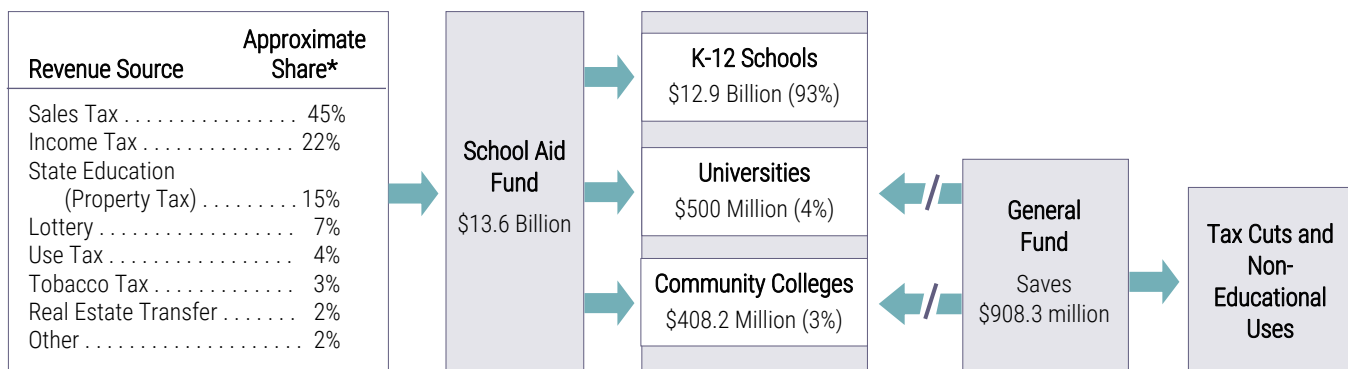
For Budget Year 2012, a larger SAF balance than initially expected led to hopes that the per-pupil allowance would be increased, but the money was shifted to postsecondary education instead and the allowance was reduced by \$470. This shift did not benefit universities and community colleges, as an equivalent amount of General Fund money

was subtracted from their funding and the amount they received only increased at the level it normally does each year for inflation. In 2012 and every budget year since, the shift only serves to increase General Fund dollars available for other uses, including tax cuts and credits that reduce revenue to the state unless made up elsewhere. Examples of such tax expenditures include:

- the 2012 tax shift favoring businesses
- legacy business tax credits
- the repeal of the personal property tax
- triggered income tax rate cuts
- small property and sales tax exemptions
- the increase in the personal exemption

The governor and Legislature have chosen to rely on shifting educational funds to balance the state budget rather than addressing the underlying issue: the shortage of General Fund money due to large tax cuts the state could not afford, particularly those enacted in Budget Year 2012. Rather than make difficult decisions regarding how to restore the lost state revenues, elected leaders year after year have resorted to taking School Aid Fund dollars from K-12 education, using it to fund postsecondary education, and subtracting a roughly equal amount of postsecondary education funding and putting it back into the General Fund to help make up for shortfalls created by tax cuts. Following the money leads to only one conclusion: the state is paying for tax cuts with money taken from its K-12 students.

The School Aid Fund: Following the Money (FY 2018-19)



* Approximate share is based on F& 2017-18 revenue projections.
Source: Michigan House and Senate Fiscal Agencies

Who Benefits from Raiding the School Aid Fund to Pay for Postsecondary Education?

K-12 Schools?	Universities and Community Colleges?	Non-Educational Programs and Wealthy Taxpayers?
No, they lose. They do not receive dollars that are primarily intended for them.	No. Their annual operations funding increases are generally the same as when paid for 100% out of the state's General Fund.	Yes. Replacing General Fund dollars with SAF dollars enables the Legislature to spend the "savings" on things unrelated to education—at the expense of K-12 schools.

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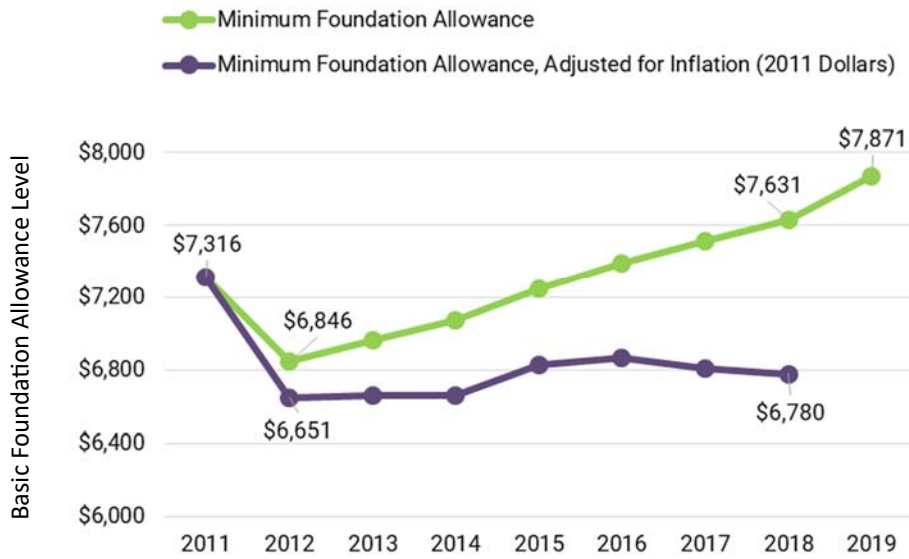
How Could Michigan Have Strengthened Public Education with the \$908 Million Taken from the School Aid Fund?

The \$908.3 million in SAF dollars shifted to universities and community colleges in Budget Year 2019 could have gone into K-12 classrooms, improving educational achievement, reducing inequities based on race, income and place, and helping more Michigan children become college- and career-ready. Here are some ways in which the School Aid Fund should have been used to improve outcomes for schoolchildren:

Increase the Foundation Allowance: In the 2018 budget year, 63% of Michigan public school students were in districts receiving the minimum foundation allowance of \$7,631. The 2019 budget increases the minimum foundation allowance by \$240 per pupil, to \$7,871. While this sounds like a significant increase, it leaves the minimum allowance far below the level prior to the Budget Year 2012 cut when adjusted for inflation. Although the foundation allowance has been raised in small amounts each year since, the 2018 minimum allowance of \$7,631 was equal to only \$6,780 in 2011 dollars—a 7% drop in purchasing power. In 2018, per-pupil funding would have had to be \$8,234 in order to equal the 2011 level.

Bringing the per-pupil funding back up to its 2011 level in real dollars is not enough, however. The Michigan School Finance Research Collaborative, a nonpartisan group of education experts, school officials, business leaders, public policy advocates and others, has recommended that schools receive a base cost of \$9,590 per pupil, with additional funding weighted by the number of students in poverty, the number of English language learners, district size, and geographic isolation, up to a maximum of \$11,482.⁵ These figures were based primarily on 2018 needs, and the \$7,631 per-pupil allowance for that year fell far short of the recommendation.

The Erosion of the Minimum Foundation Allowance Since 2011



Figures adjusted for inflation using the Bureau of Labor Statistics CPI Calculator.
Source: Michigan House Fiscal

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Fully Fund Early On: Early On is Michigan's early intervention program that identifies and serves infants and toddlers with developmental delays and helps them succeed in K-12 schools. Michigan receives approximately \$12.4 million each year in federal funds for the program, but is one of very few states that has put no state dollars into Early On, resulting in an inability to provide comprehensive services to all children identified as needing intervention. For the first time, the Legislature approved state funding and dedicated \$5 million from the School Aid Fund to the program in 2019. However, the Michigan Early On Foundation estimates that Michigan needs to appropriate nearly \$63 million in state dollars to the program in order to serve all students who need intervention.⁶

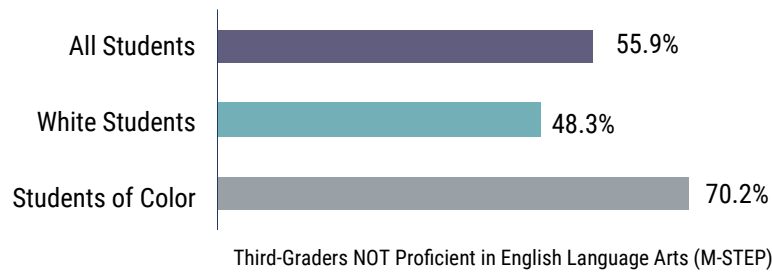
Fully Fund the At-Risk School Aid Program: The At-Risk School Aid program provides state funds to schools to serve students who are at risk of failing academically or who are chronically absent. Currently, At-Risk funding is used to ensure that third-grade students are reading proficiently and high school graduates are career- and college-ready. Despite recent increases, funding at the current level of \$499 million (using SAF dollars) still falls short, as many schools are not getting the formula payments required by law and many high-poverty schools continue to struggle to reduce educational inequities.⁷

Providing interventions to economically disadvantaged students, many of whom are students of color, is important for eliminating economic and racial disparities in school success. Students from households with low incomes and less job security are less likely to achieve in school or be prepared for college, while those whose families are more economically secure are twice as likely to be proficient on standardized tests for

reading and science and are much more likely to be prepared for college. This has resulted in large racial disparities in postsecondary education enrollment and success. In 2015-16, only 52.7% percent of African American and Latinx seniors had enrolled in a two- or four-year college within six months after graduation, compared to 67.5% of white students and 83.2% of Asian students. In addition, 52% of African American college students were enrolled in remedial education, compared with 38.6% of Latinx students, 22.6% of white students and 17.5% of Asian students.⁸

Increased Funding for Early Literacy: To improve reading proficiency, particularly in light of the new third-grade reading law, the Legislature should fund comprehensive programs for children from birth through third grade. This needs to include resources for schools to implement the new law and outreach to families to understand the state’s retention policy. Since 70% of third-graders of color tested as not reading proficient, the policy could disproportionately affect children of color.

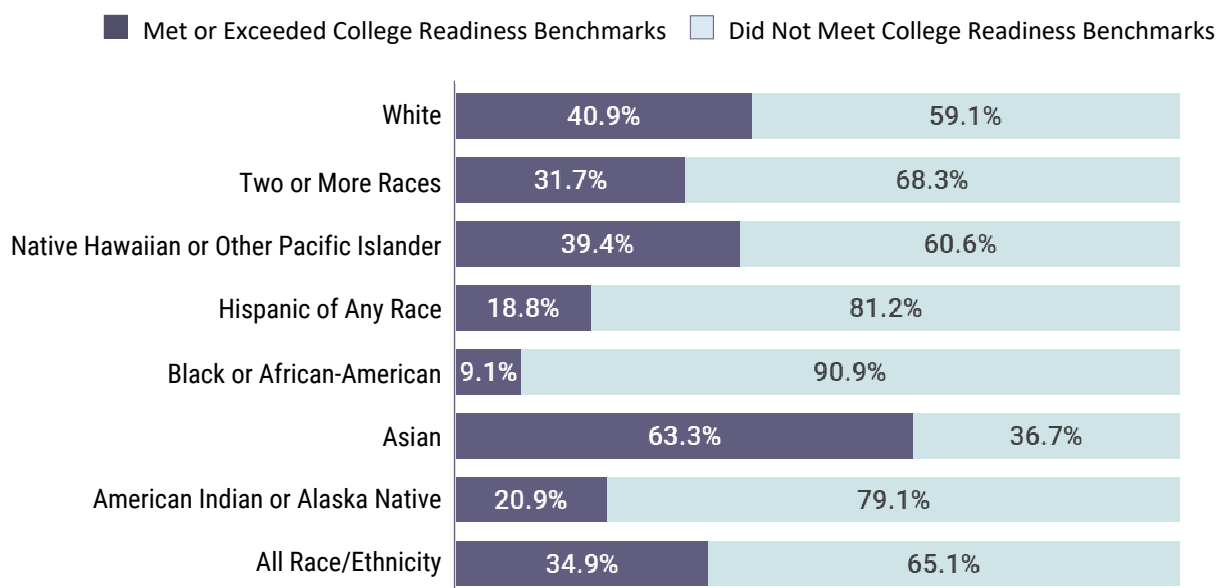
Kids of Color Are More Likely to Attend Underresourced Schools Compared to Their White Peers, Resulting in Disparate Outcomes in Third-Grade Reading.



Source: 2018 Kids Count in Michigan Data Book

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Students of Color Face Additional Barriers to Reaching College Readiness.



Source: 2018 Kids Count in Michigan Data Book

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Expand Preschool and Early Learning Programs: For 2019, the Legislature provided a continuation of the 2018 level of funding (\$243.9 million) for the Great Start Readiness Program, which provides a high-quality preschool program for 4-year-olds from families with low incomes. However, this is not sufficient to ensure that all eligible 4-year-olds can participate, nor does it enable the state to expand the program to 3-year-olds, as is done in some other states.

Michigan Must Stop Creating a Zero-Sum Game Between K-12 and Postsecondary Education

Although the Michigan Constitution states “there shall be established a state school aid fund which shall be used exclusively for aid to school districts, higher education, and school employees’ retirement systems, as provided by law,” it had not been used for postsecondary education until Budget Year 2010, and even that first year it was appropriated as a loan to be paid back rather than as a precedent for an ongoing annual funding shift.

Along with breaking the decades-long practice of using the School Aid Fund exclusively for public K-12 schools, it has been argued shifting some SAF dollars to postsecondary education goes against the general expectations (though not the letter) of Proposal A, which had been promoted to the public as a way to reduce property taxes, equalize funding to the state’s K-12 schools, and protect overall school funding.⁹ The ballot proposal that Michigan voters supported 69%-31% used the language of “schools,” “school revenues” and “school operating millages,” which the public could reasonably interpret to mean K-12 schools.¹⁰

K-12 education and postsecondary education depend on each other: universities and community colleges need K-12 schools to adequately prepare students to continue education after high school, and K-12 schools depend on universities and community colleges to produce skilled workers (including those who work in K-12 schools) who contribute to the tax base, create jobs and keep communities strong. However, recent state budgets have set up a zero-sum game in which money that has traditionally supported K-12 is used for postsecondary education instead, with the savings going to the General Fund to be used for non-educational purposes—including tax cuts.



The Bottom Line

Because of tax cuts, Michigan’s General Fund revenues have been lower during the past eight years than they were before, jeopardizing the state’s ability to provide the services its residents expect and need. To make up for the shortfalls, Michigan’s elected leaders have shifted funds around and ultimately reduced the amount of money going toward the education of the state’s children. Currently, the minimum foundation allowance falls

\$1,300 short of the base cost recommended by the Michigan School Finance Research Collaborative; Early On funding from the state is \$58 million less than what is recommended by the Michigan Early On Foundation; At-Risk funding remains inadequate to provide the resources to schools that are required by law; and investments in early learning and literacy are insufficient—particularly in light of the new threat of retention for students not reading adequately by third grade. This neglect in funding especially impacts children of color in high-poverty areas, and perpetuates the deep racial and income inequities in educational outcomes.

Until K-12 schools and programs are financed at levels recommended by experts and that fulfill statutory requirements, the governor and Legislature should put 100% of the School Aid Fund toward making that happen by committing to three things:

- Use School Aid Fund dollars only to fund Michigan’s K-12 public schools and programs at adequate levels, with the top priorities being the foundation allowance, adequate funding for high-poverty schools and programs to reduce racial and ethnic inequities, literacy programs and early education;
- Fund universities and community colleges at adequate levels using General Fund dollars and other existing appropriate sources (i.e. certain federal funds and local tax revenues); and
- Address General Fund shortfalls responsibly by increasing revenue sources rather than shifting educational funds away from their intended purposes.

Endnotes

1. Constitution of Michigan of 1963, p.37. (<http://www.legislature.mi.gov/documents/mcl/pdf/mcl-chap1.pdf>, accessed July 8, 2018)
2. Michigan House Fiscal Agency, 2009-10 Supplemental Appropriations Summary (<http://www.legislature.mi.gov/documents/2009-2010/billanalysis/House/pdf/2009-HLA-6086-7.pdf>, accessed on July 11, 2018)
3. During the previous two years, while the foundation allowance was not statutorily cut, the Legislature reduced funding in the final budget by \$154 and \$170 per pupil, respectively.
4. Since 2013, funding for the postsecondary institutions’ contribution to the Michigan Public Schools Retirement System (MPSERS) has also been paid for in part or in whole from the School Aid Fund each year, and the community colleges’ reimbursement from the state for money lost due to Renaissance Zone tax credits has been paid from the fund some years as well.
5. Michigan School Finance Collaborative, Costing Out the Resources Needed to Meet Michigan’s Standards and Requirements, prepared by Augenblick, Palaich & Associates and Picus, Odden & Associates, January 12, 2018. (<http://www.fundmischools.org/wp-content/uploads/2018/01/School-Finance-Research-Collaborative-Report.pdf>, accessed on June 22, 2018)
6. Early On Michigan Foundation, “Early On Michigan: Imperative to Fund the First 1000 Days” slide presentation. (http://earlyonfoundation.org/Files/Resources/EO_Finance_Final.pdf, accessed on July 17, 2018)
7. Michigan League for Public Policy, 2019 Budget Priorities: Fully Fund the State’s Program for Students At Risk of Low Achievement, January 2018. (https://www.milhs.org/wp-content/uploads/2010/07/2019-Budget-Priorities_Fully-Fund-Students-at-Risk.pdf)
8. Michigan Department of Education, College Enrollment by High School Snapshot 2016-17 (<https://www.mischooldata.org/DistrictSchoolProfiles2/PostsecondaryOutcomes/lheEnrollmentByHighSchool2.aspx>, accessed on August 7, 2018)
9. Michigan Bureau of Elections, “Initiatives and Referendums Under the Constitution of the State of Michigan of 1963, March 2015. (https://www.michigan.gov/documents/sos/Initia_Ref_Under_Consti_12-08_339399_7.pdf, accessed July 11, 2018)
10. Library of Michigan website (<http://governingmichigan.org/collections/view-item/?DMaliaslist=p16110coll7&DMItem=138416&DMFileType=cpd>, accessed on July 11, 2018)