

Legislative Analysis



REVISE FOUNDATION CALCULATIONS FOR DISTRICTS UNDER CONSOLIDATION OR ANNEXATION

Mary Ann Cleary, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5848 (H-1)
Sponsor: Rep. Adam F. Zemke
House Committee: Appropriations

Complete to 11-13-14

A SUMMARY OF HOUSE BILL 5848 (H-1) SUBSTITUTE

The bill would amend Section 20 of the State School Aid Act to revise the calculation for the foundation allowance for a resulting district formed or reconfigured through consolidation or annexation.

Currently, the resulting district's foundation allowance is the LESSOR OF:

- The per pupil weighted average of the foundation allowances for each of the affected districts plus \$100, or
- The highest foundation allowance among the original or affected districts.

Under the bill, the resulting district's foundation allowance would be the per pupil weighted average of the foundation allowances for each of the affected districts plus \$150. The bill also clarifies that for the purposes of this calculation, a district's foundation allowance shall be considered to be the sum of its statutory foundation allowance as otherwise calculated under Section 20 plus its per pupil equity payment under Section 22c.

BACKGROUND INFORMATION:

As drafted, the bill intended to address a potential disincentive for a recent ballot question in which the Ann Arbor school district would have annexed the Whitmore Lake school district. However, the annexation was not approved by the public.

In this case, Ann Arbor has both a higher foundation allowance (\$9,100) and a significantly higher pupil membership (approximately 16,500 in FY 2013-14) than Whitmore Lake with a foundation allowance at the minimum (\$7,076 or \$7,251 including the FY 2014-15 equity payment) and a much lower pupil membership (approximately 1,000 in FY 2013-14). Current statute would have resulted in the newly configured Ann Arbor district having a slightly lower foundation allowance (\$9,086, based on FY 2013-14 pupil memberships) than it currently does, which was seen as a deterrent. The bill would have increased the new foundation allowance to \$9,143.

However, the bill would apply to all consolidations or annexation in the future, and the potential fiscal impact would vary significantly depending on the situation and is described in more detail below.

FISCAL IMPACT:

The bill would have an indeterminate fiscal impact on the State and local school districts. Both the cost to the State and the benefit to local school districts of creating a greater incentive would vary significantly depending on the difference between the districts' foundation allowances and pupil memberships. Table 1 on page 3 illustrates the potential fiscal impact of a number of variations using hypothetical districts, where all of the mergers would total 10,000 pupils.

As illustrated in Table 1, the costs could range significantly when holding constant the number of pupils in the combined districts and would vary even more when considering districts with varying total combined pupil memberships. The bill would increase the new foundation allowance and the cost of the incentive by doing all of the following:

- Including the FY 2014-15 equity payment in the base calculation.
- Deleting “the lesser of” of two calculations.
- Increasing the premium above the foundation average from \$100 to \$150.

Generally, an increased cost for higher foundation allowances would be incurred by the State. However, there are a number of anomalies due to the complexity of the school finance system where this may not be true. For example, as in the recent question of a possible Ann Arbor – Whitmore Lake annexation, where one of the districts was a Hold Harmless district (which means it has a foundation allowance exceeding the State Maximum Guaranteed Foundation of \$8,099) and the foundation allowance for the newly configured district also would have exceeded the State Maximum Guaranteed Foundation, any additional increase in the foundation allowance would have to have been paid locally through additional hold harmless millage revenue.

Also, as in some of the examples in Table 1, it is feasible that two districts, neither of which is a hold harmless district authorized to levy a hold harmless millage, could end up with a foundation allowance exceeding the State Maximum Guaranteed Foundation. There would be no mechanism in place under the current school finance system for either the local district to generate that revenue nor for the State to contribute the amount exceeding the State Maximum Guaranteed Foundation.

Presumably the bill would increase the likelihood that districts and voters would approve future mergers. While this may create initial transition costs, local districts could also experience long-term cost savings through efficiencies and economies of scale, most likely in their non-instructional costs. However, a number of factors affect the potential for cost savings including, for example, the size of the districts both in pupil population and geographical area as well as varying labor contracts.

Fiscal Analysts: Bethany Wicksall
Samuel Christensen

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

Table 1: Foundation Calculation Examples

| | Foundation Pupils | Foundation Pupils | CURRENT LAW | | HB 5848 (H-1) Avg + \$150 including Equity | Difference | |
|--|--|--|-------------|----------------|---|--------------|-------------|
| | | | Lesser of: | | | Per Pupil | Total Cost |
| | | | Highest | Avg + \$100 | | | |
| Districts Merging Have Equal Pupil Memberships | <u>DISTRICT A</u> \$7,126 5,000 | <u>DISTRICT B</u> \$7,126 5,000 | \$7,126 | \$7,226 | \$7,401 | \$275 | \$2,750,000 |
| | <u>DISTRICT C</u> \$7,300 5,000 | <u>DISTRICT D</u> \$7,300 5,000 | \$7,300 | \$7,400 | \$7,450 | \$150 | \$1,500,000 |
| | <u>DISTRICT A</u> \$7,126 5,000 | <u>DISTRICT E</u> \$8,099 5,000 | \$8,099 | \$7,713 | \$7,825 | \$113 | \$1,125,000 |
| | <u>DISTRICT C</u> \$7,300 5,000 | <u>DISTRICT E</u> \$8,099 5,000 | \$8,099 | \$7,800 | \$7,850 | \$50 | \$500,000 |
| Districts Merging Have Unequal Pupil Memberships: Higher Foundation District is Largest | <u>DISTRICT A</u> \$7,126 1,000 | <u>DISTRICT E</u> \$8,099 9,000 | \$8,099 | \$8,102 | \$8,164 | \$65 | \$652,000 |
| | <u>DISTRICT C</u> \$7,300 1,000 | <u>DISTRICT E</u> \$8,099 9,000 | \$8,099 | \$8,119 | \$8,169 | \$70 | \$701,000 |
| Districts Merging Have Unequal Pupil Memberships: Lower Foundation District is Largest | <u>DISTRICT A</u> \$7,126 9,000 | <u>DISTRICT E</u> \$8,099 1,000 | \$8,099 | \$7,323 | \$7,486 | \$163 | \$1,625,000 |
| | <u>DISTRICT C</u> \$7,300 9,000 | <u>DISTRICT E</u> \$8,099 1,000 | \$8,099 | \$7,480 | \$7,530 | \$50 | \$500,000 |