I. GENERAL BACKGROUND

State

State aid for school districts in Michigan dates back to statehood in 1837. Prior to 1973–74, Michigan distributed unrestricted aid to local schools through a foundation aid system that guaranteed a minimum expenditure per pupil in every local district. However, by 1973, Michigan’s highest-spending district tripled the per pupil expenditures of the state’s lowest spender. Facing disparities of this magnitude, along with a court challenge of the constitutionality of Michigan’s aid system, the legislature replaced the foundation formula with a guaranteed tax base (GTB) formula, effective for the 1973–74 fiscal year.

In that first year, more than 90% of Michigan’s school districts received GTB aid. By 1993–94, however, this percentage had fallen to approximately two-thirds and the ratio of per student spending between the highest- and lowest-spending districts had risen to the levels of the early 1970s. Further, school property tax rates had risen to unacceptably high levels for many and 122 districts were within 4 mills of the state’s constitutional 50-mill limit.

Michigan’s 1994 School Finance Reforms

Voter ambivalence toward Michigan’s property tax and school funding systems was reflected in a string of 12 consecutive failed statewide ballot proposals spanning more than a decade in the 1980s and early 1990s. Then, in July of 1993, in a stunning development that drew national and international notice, the Michigan legislature eliminated the local property tax as a source of operating revenue for the public schools. In August, Governor John Engler signed P.A. 145

On March 15, 1994, Michigan voters approved a constitutional amendment (Proposal A of 1994) increasing the state sales tax from 4% to 6%. In addition to the sales tax increase, Michigan’s flat rate income tax was lowered from 4.6 to 4.4%, the cigarette tax was raised from 25 cents to 75 cents per pack, and a per-parcel cap on assessment growth was set at the lesser of inflation or 5% (reassessed at 50% of market value on sale). Property taxes for school operations were reduced in most districts to 6 mills on homestead property and 24 mills on non-homestead property (i.e., all property except owner-occupied residences and “qualified agricultural property”).

In summary, the Michigan reforms resulted in a substantial shift in funding responsibility from the local level to the state level, as well as a shift away from the property tax as a school revenue source. State revenues increased from 28% in 1994–94 to 66% in 1998–99 while local revenues dropped from 65% to 27%. In 1993–94, local property taxes accounted for 59% of the revenues; by 1998–99 that percentage dropped to 21%.

The general sales tax is the major source of state revenue for K–12 education. The 1994 constitutional amendment raised the sales tax from 4% to 6%, with the increased revenue earmarked entirely for the School Aid Fund. Prior to 1994, the Michigan Constitution earmarked 60% of the net revenue raised by the existing 4% sales tax for the School Aid Fund. Thus, the School Aid Fund now collects 60% of the revenue generated by the first 4% tax on general sales, plus 100% of the revenue from the additional 2% sales tax. Other revenues dedicated to the fund include all proceeds from the six mill state property tax established as part of the 1994 reforms, a portion of the state personal income tax, the tobacco tax, the liquor tax, the tax on commercial and industrial facilities, other miscellaneous taxes, and all profits from the state lottery. The balance of annual state aid requirements is transferred from the state general fund.

On the allocation side, Michigan has returned from a GTB formula to a foundation plan as the core of state school funding. This foundation formula is supplemented by a relatively large state compensatory education grant program. These and other state grant programs are detailed below.
Local

While not eliminated by the 1994 reforms, the local property tax has been substantially de-emphasized as a school revenue source. Local districts are expected to levy 18 mills (or the 1993–94 general operating millage rate if less than 18), with voter approval, on all non-homestead property. These revenues constitute the local district’s contribution under the new foundation approach. In addition to this basic local levy on non-homesteads, local districts may also be subject to one or two additional property tax levies, both of which require voter approval. The first of these levies is the “hold harmless” millage, which is available only to those 52 local districts whose 1994–95 foundation allowance exceeded $6,500. These mills, which are intended to allow these historically high-revenue districts to maintain their revenue levels following the 1994 reforms, are assessed against homesteads at a level sufficient to reach permissible revenue levels, up to a maximum of 18 mills. In the rare instance where an 18-mill levy on homesteads is insufficient to maintain local school revenue levels, additional millage is permitted on all property. In addition, all local districts may approve “enhancement” millage to supplement their foundation revenue. The reform legislation permitted such local levies of up to three mills for up to three years. However, since the 1997–98 school year, enhancement levies have been permitted only at the intermediate school district level, with revenue shared equally among constituent local districts on a per-pupil basis. At the time of this writing, only one such millage had been approved.

As a part of the Proposal A reforms, the Michigan legislature eliminated some 31 categorical grant programs and consolidated these revenues in the local districts’ foundation payments, thus affording the districts considerably more discretion as to the use of funds. In addition, local districts are now fully responsible for contributions to the Public School Employees Retirement Fund and FICA payments, with the state’s contributions included in the local districts’ foundation allowances.

Michigan’s reforms also included several new revenue limitations. First, the constitutional amendment includes a “super-majority” requirement (three-fourths vote by each house) to change the 18 mill local rate on non-homestead property and the six-mill state levy on all property. Second, limitations are imposed on the dollar increases in some local districts' combined state and local revenue; specifically, a district’s “hold harmless” millage rate would be reduced if local property tax base growth resulted in excess per pupil revenue growth. Third, a cap is placed on annual increases in the assessed value of real property. Since the
1995 tax year, annual increases in the assessed values of individual parcels of property are limited to 5% or the rate of inflation, whichever is less. On resale, the property is reassessed at 50% of market value.

The Michigan Constitution provides for two additional local property tax limitations. These limitations predate the 1994 tax reforms and have been rendered somewhat moot by those measures. The first places a limit of 15 mills (or 18 mills if approved by a vote of the people) on the sum of school district, township, and county tax rates not needing voter approval. As a consequence of the 1994 reforms, the school district portion is no longer effective. The second places a limit of 50 mills on the total tax levy, including voted millage above the 15 or 18 mill limit. Debt retirement is excluded from both limitations, as are millages levied by cities, villages, and charter units of government. Hence, it is somewhat misleading to refer to 50 mills as a limit. The average millage statewide exceeded 50 mills in every year between 1973 and 1994 and total millage still exceeds 50 mills in many local jurisdictions despite the recent reforms.

Michigan has 524 K–12 districts, plus 31 non-K–12 districts, for a total of 555 traditional local school districts. In addition, Michigan has established 142 charter schools, known as public school academies (PSAs). Fifty-seven intermediate school districts provide a range of programs and services to the 555 districts. All 612 districts and 142 PSAs are fiscally independent.
### Funding Summary 1998–99

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total State School Aid (All Programs)</td>
<td>$9,667 million</td>
</tr>
<tr>
<td>Grants in aid</td>
<td>9,667 million</td>
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<tr>
<td>Teacher Retirement Contributions Included</td>
<td>Included</td>
</tr>
<tr>
<td>FICA Included</td>
<td>Included</td>
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<tr>
<td>Total Local School Revenue</td>
<td>$2,442 million</td>
</tr>
<tr>
<td>Property Tax</td>
<td>2,442 million</td>
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<tr>
<td>Other local source tax revenue</td>
<td>0 million</td>
</tr>
<tr>
<td>Local source non-tax revenue</td>
<td>0 million</td>
</tr>
<tr>
<td>Total Combined State and Local School Revenue</td>
<td>$12,109 million</td>
</tr>
<tr>
<td>State Financed Property Tax Credits Attributable to School Taxes</td>
<td>0</td>
</tr>
</tbody>
</table>

#### II. LOCAL SCHOOL REVENUE

**Property Tax**

The property tax is the only local tax that funds schools. In 1998–99, it will generate an estimated $2,442 million for school operations.

Under the Michigan Constitution, assessment ratios on all taxable property must be uniform throughout the state and must not exceed 50% of true cash value. A separate statute requires that the ratio of assessed value to true cash value equal 50%. The initial assessments are done by local assessors at the township, village, and city levels. The aggregate local unit assessments are adjusted or equalized at both the county and state levels and the resulting figures are termed state equalized valuations.

Compared to the nation, Michigan scores well in overall assessment practices. But there is still considerable variation in the quality of assessments among the 1,700 plus jurisdictions with assessment authority. In addition, there is considerable variation in assessment practices within the six separate classes of real property: agricultural, residential, commercial, industrial, timber cutover, and developmental. For example, accurate assessments of commercial and industrial property are much more difficult than accurate assessments of residential property,
due, in part, to the lack of frequent market transactions that would establish true cash value. Equalization studies are undertaken regularly by field staff of the State Tax Commission.

Property Tax “Circuit Breaker”

The State of Michigan addressed the problem of the regressivity of the property tax through the adoption in 1973 of the Michigan Homestead Property Tax Credit, the so-called “circuit breaker.” Under the circuit breaker, a refundable state income tax credit is given to taxpayers who pay more than 3.5% of their household income in property taxes; for renters, 20% of their gross rent is considered to be property tax. The credit is equal to 60% of the difference between the property tax paid on the principal household residence and 3.5% of the total household income. There is a maximum credit of $1,200, a phasing-out of the credit for persons whose household income exceeds $73,650, and no credit for those whose household income is over $82,650.

Michigan’s circuit breaker is one of the most generous in the nation. In 1993-94, it accounted for more than a $1 billion annual reduction in property taxes. However, with the overall reduction in property taxes under the school finance reforms, this figure dropped to $465 million in 1997–98; of this amount, an estimated $161 million was rebated to effectively reduce property taxes for school operations.

III. TAX AND SPENDING LIMITS

The 15–18 Mill Limit

The State of Michigan set limits on the aggregate tax rates that can be levied on property. The Michigan Constitution (Art. IX, § 6) places a limit of 15 mills, or 18 mills in those counties where the voters have approved the higher limit, on the aggregate tax rate levied by school districts, townships, and counties. In those counties where the limit is 18 mills, the voters have approved a fixed division of the 18 mill taxing authority. In either case, prior to 1994–95, the local school district generally was granted between eight and 11 mills of this taxing authority, usually referred to as the district’s “allocated millage.” However, under the constitutional amendment adopted on March 15, 1994 as part of the school finance reforms, school districts no longer receive any “allocated millage.” The 15 or 18 mill limit in each county is reduced by the number of mills formerly allocated to local school districts.
The 50 Mill Limit

These new limits, as was the case with the old limits, can be exceeded by a majority vote of the local taxpayers provided the total aggregate tax rate does not exceed 50 mills. However, the limits apply only to operating tax rates; taxes levied for debt retirement – for example, the retirement of school construction bonds – are exempted from this limitation. In addition, the 15–18 and 50 mill limits do not apply to cities, villages, or charter townships. Hence, it may be somewhat misleading to refer to 15–18 and 50 mills as limits. The average millage rate statewide for all purposes – schools, townships, counties, villages, cities, etc. – up to 1993–94 had exceeded 50 mills in every year since 1973. Even with the substantial reduction in school property taxes, this may still hold true in a number of locales.

The Headlee Amendment

In 1978, Michigan voters approved the so-called “Headlee Amendment” (Mich. Const. Art. IX §§ 25-33). The amendment places an additional limit on local property taxation and constrains state government in certain of its taxation and allocation actions. The additional limit mandates that local property tax rates be rolled back if the increases in tax revenues (other than from new construction) from one year to the next exceed the rate of inflation, as measured by the consumer price index. However, a majority of local voters can “override” the roll back and retain the existing millage rate. Constraints on state government include prohibiting state-mandated requirements for any new or expanded activities by local government without also providing full state financing for these activities and prohibiting reductions in the portion of state spending paid to local governments below 41.6%, the share in place at the time of the adoption of the amendment.

The ¾ Requirement to Raise Tax Rates

The successful March 15, 1994, ballot issue also established a three-fourths supermajority requirement for the Legislature to increase the rate of any state tax. As such, this requirement applies to the six mill State school tax on all property and the 18 mill required local school tax on non-homestead property. These rates cannot be raised without a three-fourths favorable vote by both houses of the Legislature.
Limitations on Hold Harmless Millage Rates

As noted in Section I, high revenue districts may levy “hold harmless” millage in order to avoid per pupil revenue losses under the 1994 reforms. Under state aid appropriations law, these millages are subject to three limitations. First, these district-specific rates may not exceed the rates certified by the Michigan Department of Treasury for the 1994–95 fiscal year. Second, the revenue per pupil raised by this millage shall not exceed the amount authorized to be raised by this millage for 1994–95. (This is the revenue in excess of the maximum foundation level.) Third, the “hold harmless” millage rate must be reduced if local state equalized valuation growth results in per pupil revenue growth that exceeds the lesser of the dollar increase in the state basic foundation allowance or the increase in the U.S. consumer price index.

The Assessment Cap

The successful March 1994 ballot issue places a cap on annual increases in the assessed value of real property. Beginning with the 1995 tax year, annual increases in the assessed values of individual parcels of property are limited to 5% or the rate of inflation, whichever is less. On resale, the property is reassessed at 50% of market value.

Voter Approval of Bond Issues

A local school board by resolution, and without a vote of the electorate, may issue bonds that together with the district’s outstanding bonded indebtedness do not exceed 5% of the district’s state equalized valuation. However, these bonds must be retired from existing tax revenues. Unlimited unqualified bonds, with a debt to valuation ratio of 15%, may be voted for up to 30 years by the electorate. Unlimited qualified bonds, approved by the State Treasurer, may be issued for up to 30 years upon voter approval. However, bonds for an asset with a useful life of less than 30 years may not be issued for a term that is longer than the life of the asset. Qualified bonds are guaranteed 100% by the State. The local board has the authority to set annually the necessary tax rate (not to exceed 13 mills) for debt retirement. However, the local board has the option of setting the basic tax rate at seven mills and borrowing 90% of the remaining funds needed to meet the annual payment from the Michigan School Bond Loan Program.
Budget Deficits

Under Article 10, Section 102 of the State School Aid Act (Act 94, Public Acts of 1979 as amended) a local or intermediate district is prohibited from adopting or operating under a deficit budget. Additionally, a district is prohibited from incurring an operating deficit in a fund during a school fiscal year. A district that has an existing deficit or incurs a deficit receives no further state aid until it submits to the state education agency for approval a budget for the current school fiscal year and a plan to eliminate the deficit no later than the end of the second school fiscal year after the deficit was incurred.

IV. STATE/PROVINCIAL EARMARKED TAX REVENUE

The following state revenue is earmarked for school aid:

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Use Tax</td>
<td>$4,657 million</td>
</tr>
<tr>
<td>State Education Property Tax</td>
<td>1,279 million</td>
</tr>
<tr>
<td>Income Tax Earmarking</td>
<td>1,765 million</td>
</tr>
<tr>
<td>Tobacco Tax</td>
<td>371 million</td>
</tr>
<tr>
<td>Real Estate Transfer Tax</td>
<td>219 million</td>
</tr>
<tr>
<td>Liquor Excise</td>
<td>24 million</td>
</tr>
<tr>
<td>Industrial &amp; Commercial Facilities</td>
<td>117 million</td>
</tr>
<tr>
<td>Lottery</td>
<td>604 million</td>
</tr>
<tr>
<td>Commercial Forest Tax</td>
<td>3 million</td>
</tr>
<tr>
<td>Other specific taxes</td>
<td>11 million</td>
</tr>
<tr>
<td>Total earmarked revenue</td>
<td>$9,050 million</td>
</tr>
</tbody>
</table>

These revenues in 1998–99 were supplemented by appropriations of $495 million from the state general fund and $74 million from the state budget stabilization fund.

V. BASIC SUPPORT PROGRAM

Funding in 1998–99: $8,505 million.

Percentage of Total State Aid: 89.1%.

Nature of Program: Foundation allowance (Act 94, Public Acts of 1979 as amended) (Art. 2, § Sec. 20, Art. 5 §§ 51a(2)&(13)).
Allocation Units: Pupils. Each district’s pupil membership count is a blend of two counts. For 1998–99, the blend is comprised of 40% of the count taken in February of the prior school year and 60% of the count in September of the current school year. (The blend changes to 25% and 75%, respectively, for 1999–2000 and 20% and 80% for 2000–2001.) In general, in order for a pupil to be counted as 1.0 full-time equated (FTE) pupil, he or she must be scheduled and provided 1,047 hours of instruction in 1998–99. (The instructional hour requirement for kindergarten pupils is one-half that for pupils in grades 1–12.) Further, districts are required to provide at least 182 days of instruction in 1998–99 for their entire pupil membership. The minimum instructional time requirements in order for districts to retain full state funding and in order for individual pupils to count as 1.0 FTE will increase by statutorily specified increments each year, provided the state’s basic foundation allowance (see below) increases by at least the rate of inflation.

The foundation allowance payments for pupils who are not special education pupils are paid out of Section 20; the foundation allowance payments for special education pupils are paid out of special education Section 51a(2).

Local Fiscal Capacity: Taxable value of non-homestead property for base millage (18). For “hold harmless” millage, mills are first assessed against the taxable value of homesteads up to the 18 mill level (or the 1993–94 level, if less than 18) and then, if necessary to meet the permissible revenue target, against all property.

How Formula Operates: The basic concept undergirding Michigan’s foundation program is that the state will guarantee each district a basic level of funding per pupil provided the district levies a local voter-approved property tax at a millage rate set by the Legislature. Since the reform in 1993–94, districts’ foundation allowances each year have been based upon their foundation allowances of the immediately preceding year.

In the first year following the reform (1994–95), districts’ foundation allowances were based upon their combined state and local revenue per pupil in 1993–94. In theory, for 1994–95, the basic level of funding per pupil, known as the basic foundation allowance, was set at $5,000. The millage rate required of the local district is 18 voter-approved mills on non-homestead property (as noted above, the state levies an additional six mills on both non-homestead and homestead property). We say in theory, because all districts did not receive the basic foundation allowance of $5,000 per pupil in 1994–95 but rather an amount, called
the district’s foundation allowance, varying between $4,200 and $6,500. Furthermore, some districts received more than $6,500 per pupil if their 1993–94 per pupil revenue was above $6,500 and their voters approved local millage in addition to the 18 required mills to provide the supplement. These variations in 1994–95 district foundation allowances were due to three decisions made by the Legislature:

First, rather than move all districts in which the 1993–94 per pupil revenues were under $5,000 up to $5,000 immediately, the Legislature chose to move these districts up gradually. Districts below $4,200 per pupil in 1993–94 were raised to $4,200 per pupil in 1994–95, or by $250 per pupil, whichever was greater.

Second, the Legislature chose not to bring all remaining districts up, or down, to a $5,000 per pupil starting point in 1994–95. Rather, it chose to use each individual district’s 1993–94 revenue per pupil level as the starting point and increase that level on a sliding scale. The district in which the 1993–94 revenue per pupil level was closer to $4,200 receives a larger increase for 1994–95 than the district in which the 1993–94 per pupil level was closer to $6,500.

Third, the Legislature chose not to “level down” but rather to “hold harmless” those districts in which 1993–94 per pupil revenue levels exceeded $6,500, as long as voters in those districts were willing to tax themselves at a rate in addition to the required 18 mill rate.

The $5,000 per pupil basic foundation allowance for 1994–95 has increased annually as a consequence of growth in the earmarked revenues going into the School Aid Fund. Thus, in 1995–96 the basic foundation allowance increased to $5,153 per pupil, and additional annual increases have been realized in subsequent years. The actual dollar increase from year to year in the basic foundation allowance is determined by multiplying the prior year’s basic foundation allowance by a factor called the final index. Put simply, the increases for 1995–96 and subsequent years were indexed to the annual percentage increases in the School Aid Fund, adjusted for changes in statewide pupil membership.

In 1995–96 and beyond, all districts above the basic foundation allowance receive annual dollar per-pupil increases equal to the annual dollar per-pupil increases in the basic foundation allowance. Districts below the basic foundation allowance experience annual per-pupil increases at an accelerated rate until they reach the level of the basic foundation allowance, at which point their annual per-pupil
increases also will equal the annual dollar per pupil increases in the basic foundation allowance.

The basic foundation allowance remained unchanged between 1997–98 and 1998–99 as part of a complex combination of issues being resolved, including the provision of funding in response to the Durant court case. The “flat” foundation was combined with a significant reduction in the teacher retirement contribution rate, having the effect of maintaining level revenues for the districts while reducing their expenditures. Districts at the minimum foundation level, however, were provided with a small increase in foundation allowance funding for fiscal year 1998–99.

State Share: The state share of a district’s foundation allowance in 1998–99, for general education pupils, is the difference between the district’s foundation allowance or $6,962, whichever is less, and the amount that would be generated from the district’s base millage (18 mills) on non-homestead property, regardless of whether or not the district levies its local millage. That is, the state’s share of the foundation allowance is not affected by the local district’s decision and/or ability to levy the local taxes. The only reason a district would not realize the full amount of its foundation allowance in combined state and local revenue would be if it did not levy the maximum that it could; the loss would be in local dollars only. In 1998–99, $8.034 million was spent on the foundation for general education pupils.

The state share of a district’s foundation allowance for special education pupils is equal to the full amount of the foundation allowance or $6,962, whichever is less. In 1998–99, $471 million funded special education.

Local Share: The local district share of the foundation allowance is the yield from its operating levy, calculated by multiplying the district’s taxable value of non-homestead property per–pupil (plus homestead property per pupil for “hold harmless” districts) by its operating millage rate. On a per pupil basis, the local share is determined using the general education pupil membership count only, since the foundation allowance payments for special education pupils are fully funded by the state (up to a maximum of $6,962).

Weighting Procedures: None.

Adjustments for Special Factors: A categorical program for “at-risk pupils” provides $260 million in 1998–99, using a formula that is based upon the
district’s foundation allowance. See that discussion below. In addition, a “one-
time per pupil grant” is included in the FY99 appropriations, providing districts
with $51 dollars per pupil in supplemental funding in response to concerns about
the flat basic foundation allowance for 1998–99. The $51 per pupil increases on a
sliding scale to a maximum of $102 per pupil for districts with foundation
allowances below the basic foundation allowance of $5,462.

Aid Distribution Schedule: The State disburses state aid payments in eleven
equal portions on the 20th of each month beginning in October and running
through August. Districts are required to accrue the July and August payments to
its immediately preceding fiscal year, which ends June 30. An exception to the
payment schedule is the one-time per pupil grant, which was paid out in seven
equal installments between February and August.

Districts Off Formula: As a consequence of the 1994 reforms, no Michigan
districts are off formula. All districts receive some portion of their foundation
allowance from the state.

VI. TRANSPORTATION

Funding in 1998–99: $1.6 million.

Percentage of Total State Aid: less than 1%.

Description: Beginning in 1994–95, regular education transportation was no
longer a separate categorical but was included in the district foundation
allowance. Outside of special education transportation, a single transportation
categorical remains, providing reimbursement funding for two activities: the
training of school bus drivers and the reasonable costs of non-special education
auxiliary services transportation, i.e., for non-public school pupils (Act 94, Public
Acts of 1979 as amended, Art. 7 § 74). The amount shown above is for bus driver
safety instruction and auxiliary services transportation. Special education
transportation funding is included in the new special education funding formula,
described in Section VII, below.

State and Local Shares: For bus driver training, state reimbursement is limited to
75% of actual cost. The state pays all reasonable costs for non-special education
auxiliary services transportation.
Extent of Participation: In 1998–99, 13 intermediate districts and one post-secondary institution act as fiscal agents for bus driver safety instruction, which involves the majority of the local school districts in the state.

VII. SPECIAL EDUCATION

Funding in 1998–99: $735 million.

Percentage of Total State Aid: 7.7%.

Description: There are three funding programs for special education (State School Aid Act (Act 94, Public Acts of 1979 as amended, Art.5, §§ 51a, 53a, and 56). The first program, which provides foundation allowance payments for special education pupils and reimbursement for a percentage of the majority of special education costs (an estimated $667.4 million), was updated following settlement of Durant v State of Michigan (see section XX). The second, at $14.5 million, reimburses local and intermediate districts for 100% of the added cost of special education programs and services for certain low incidence special education pupils. The funding provided under the first and second programs described is not subject to proration. The third major program, at $33.95 million, equalizes intermediate district millage levied for special education purposes. Other smaller allocations, totaling $19.2 million, provide funding for the costs associated with rules revisions, reimbursement for pupils enrolled at the Michigan Schools for the Deaf and Blind, and payments to intermediate districts associated with certain FICA and retirement costs.

State and Local Shares: Under the first funding program, the formula guarantees that the state will cover a minimum of 28.6138% of local and intermediate district special education costs and 70.4165% of special education pupil transportation costs, but not less than what the local or intermediate district received in special education categorical funding in 1996–97. The foundation allowance payments for special education pupils (for that portion of time the pupil is assigned to a special education classroom) also contribute toward the required reimbursement percentages. Pupils who are assigned for part of the day in a special education classroom and the remainder in a general education classroom generate foundation allowance funding, proportionately, from both Sections 51a and 20. A pupil receiving special education services who is assigned only to a general education classroom generates a foundation allowance under Section 20; however, the special education services provided are eligible for reimbursement under the Section 51a formula. The formula works as follows:
(1) The foundation allowance payments are calculated and paid for special education pupils. There is a small segment of special education pupils whose foundation allowances do not contribute toward the reimbursement percentage requirements because the added cost of educating these pupils is reimbursed at 100% under the second program.

(2) The amount necessary (over and above the foundation allowance payment) to reach the required reimbursement percentages is determined and paid as special education categorical funding.

(3) If the categorical funding under (2) is less than the amount received by the local or intermediate district in 1996–97, the amount necessary to meet that requirement is paid as special education “hold harmless” funding.

The district is responsible for the remainder of the cost. However, intermediate school districts levy special education millage, the revenues from which are distributed to their constituent districts to offset the costs not already reimbursed by the state.

The second funding program reimburses local and intermediate districts for 100% of the cost of educating a small (low incidence) segment of special education pupils. The foundation allowances are paid for these pupils out of the Section 51a allocation, and categorical funding reimburses the local and intermediate districts for the remainder of the cost under State School Aid Act Section 53a. This group of pupils includes those residing in community health institutions and residential child care institutions, pupils who were formerly in an institution who have been placed in a community setting other than their home, and pupils placed outside of their resident district either by a court or for purposes of a suitable home.

The third funding program provides equalization funding for intermediate district special education millage. For 1998–99, the taxable value per 1997–98 pupil computed for the intermediate district is subtracted from $102,200 and the difference is multiplied by the special education millage rate levied in 1997–98. The result, if a positive number, is the amount per pupil received by the intermediate district. Funding under this section is capped; the proration factor in 1998–99 is approximately 95%.

**Extent of Participation:** Under the first (main) program, 569 traditional local districts and public school academies and all 57 intermediate districts receive
funding. Under the second program, 88 locals and 37 intermediates receive funds. For the third program, although all 57 intermediate districts levy special education millage, only 37 are eligible for equalization funds under the formula.

VIII. COMPENSATORY EDUCATION

At-Risk Pupils Program


Percentage of Total State Aid: 2.7%.

Description: Funds are provided to districts for services to at-risk pupils in grades K–12 (State School Aid Act, Act 94, Public Acts of 1979 as amended, Art. 3, § Sec. 31a).

State and Local Shares: The state’s share is determined by multiplying 11.5% (a 1.115 per pupil weighting) of the foundation allowance of those school districts that are eligible by the number of pupils who meet the federal income eligibility criteria for free breakfast, lunch or milk. However, the total number of dollars available, being capped at $260 million, makes proration of payments likely. In 1998–99, the per pupil amounts paid to eligible districts are reduced by approximately $37 in order to have total state payments for this categorical remain under the capped allocation of $260 million. Eligibility is limited to districts with 1998–99 revenue per pupil less than $6,962. The funds must be used to provide instructional programs and direct non-instructional services including medical and counseling services for at-risk pupils. The target population for these services consists of pupils meeting at least two of the “at risk” criteria enumerated in the legislation as well as pupils who fail to secure a satisfactory score on statewide assessment tests.

The per-pupil dollar figures for districts will range from $557 to $733 (11.5% of $5,170 to 11.5% of $6,961, each figure reduced by the $37 per pupil proration figure) for each eligible pupil for 1998–99. The local district assumes any remaining costs.

Extent of Participation: 575 local districts and public school academies.
IX. GIFTED AND TALENTED EDUCATION

Funding in 1998–99: $5 million.

Percentage of Total State Aid: less than 1%.

Description: There are three programs that support Gifted and Talented Education (Act 94, Public Acts of 1979 as amended, Art. 5, § 57). The first ($600,000) is targeted for intermediate school districts that provide support for teachers in gifted and talented programs. A second program ($400,000) is targeted to help intermediate districts defray the costs of summer institutes held in cooperation with local colleges and universities. A third program ($4 million) is targeted for development and operation of comprehensive programs by local districts or consortia of districts.

State and Local Shares: For the first program, the state reimburses the intermediate district up to 75% of the actual salary cost of a support services teacher, not to exceed $25,000, and up to $4,000 for approved program expenditures.

For the second program, the state supports a percentage of the cost of the summer institutes under a discretionary grant program established by the state agency.

For the third program, the district or consortium of districts may receive up to $50 per-pupil for up to 5% of its total K–12 membership, with a minimum grant of $3,000.

Total state payments cannot exceed the appropriation levels for any of the three programs. The district, or consortium of districts, assumes the remaining costs under all three programs.

Extent of Participation: 57 intermediate districts participate in the first program; there are 6 sites for the summer institutes; and, for the comprehensive program there are 367 grants awarded to districts and consortia of districts, including 48 intermediate districts.

X. BILINGUAL EDUCATION

Funding in 1998–99: $4.2 million.
Percentage of Total State Aid: less than 1%.

Description: Aid is provided to local and intermediate districts offering bilingual instruction programs in speaking, reading, writing, or comprehension for pupils of limited English-speaking ability (Act 94, Public Acts of 1979 as amended, Art. 4 § 41).

State and Local Shares: The state’s share is the amount available per pupil multiplied by the number of pupils of limited English-speaking ability participating in the district’s approved program. The amount available per pupil is calculated by dividing the total state appropriation by the total number of eligible pupils enrolled in all approved programs. The district assumes the remaining costs.

Extent of Participation: 107 local districts and 6 intermediate districts.

XI. EARLY CHILDHOOD EDUCATION

Michigan School Readiness Program

Funding in 1998–99: $55.2 million.

Percentage of Total State Aid: less than 1%.

Description: Of the total allocation, $55 million is provided for comprehensive compensatory education programs to improve school readiness of at-risk four-year-olds (Act 94, Public Acts of 1979 as amended, Art. 3 §§ 36-39), including educational curriculum, nutrition and health screening services, a parent-involvement component, and referrals to appropriate community services. The remaining $200,000 is allocated for a longitudinal evaluation of program participants.

State and Local Shares: The number of eligible four-year-old children in a district is calculated by taking one-half of the percentage of pupils in first through fifth grades in the district who were eligible for free lunch in the immediately preceding year and multiplying this number by the average kindergarten enrollment in the prior two years. (For a district with at least 315 eligible children, the number used in the allocation amount determination is equal to either 315 or 65% of the originally calculated amount, whichever is greater.) This number, in turn, is multiplied by $3,100 and the funds are allocated among
districts in decreasing order of concentration of eligible children until the funds are exhausted. The district is expected to use the state funds in conjunction with whatever federal funds may be available under Title I and/or Head Start; the district then assumes the remaining costs.

**Extent of Participation:** 341 local school districts and 16 intermediate school districts receive Michigan School Readiness Program funding either as a single district or as the fiscal agent for a consortium of districts.

### XII. OTHER CATEGORICAL PROGRAMS

**Court-Placed Children**

**Funding in 1998–99:** $7 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** Reimbursement aid is provided to local and intermediate school districts that are providing an on-grounds educational program to pupils placed in or assigned by a court to attend a juvenile detention facility or child caring institution (Act 94, Public Acts of 1979 as amended, Art. 2 § 24).

**State and Local Shares:** Reimbursement is calculated on an “added cost” basis, computed by determining the total cost of the educational program and then deducting all other school aid generated by the district or intermediate district on behalf of the pupils being educated (e.g., foundation allowance payments and special education funding). Thus, the state covers the total cost of the program.

**Extent of Participation:** 18 local districts and 16 intermediate districts.

**Small Class-Size Program**

**Funding in 1998–99:** $20 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** Grants were awarded on a competitive basis to reduce or maintain K–3 class size at an average of 17 pupils per class with not more than 19 pupils in a single classroom (Act 94, Public Acts of 1979 as amended, Art. 3 § 31c). Of the $20 million total allocation, $250,000 is earmarked for an effectiveness study.
Eligible applicants were those K–12 districts meeting the eligibility requirements for “at-risk pupil” funding and with an elementary building in which at least 50% of the pupils are free-lunch eligible. Planning grants totaling $100,000 were awarded in 1997–98 to those districts that are receiving implementation grants in 1998–99.

State and Local Shares: Grant recipients are required to supplement the state funding for this program with at least $2 million or 25% of its 1998–99 “at-risk pupils” funding, whichever is less.

Extent of Participation: 17 local K–12 school districts.

Vocational Education

Funding in 1998–99: $40.7 million.

Percentage of Total State Aid: less than 1%.

Description: There are two state programs for vocational education (Act 94, Public Acts of 1979 as amended, Art. 6 §§ 61a and 62). Basic support on an “added cost” reimbursement basis is provided to districts and vocational-technical centers that offer secondary vocational-technical programs ($31 million). A second program ($9.6 million) equalizes intermediate district millages levied for area vocational-technical education programs.

State and Local Shares: There are three segments to the first program. Of the total allocation, approximately $30 million is allocated on an “added cost” basis, with each district or vocational-technical center receiving reimbursement of up to 75% of the “added costs” of the approved program, depending upon the type of program provided, program enrollment, and program length. Total state payments cannot exceed the appropriation level. In addition, $400,000 is allocated to certain intermediate districts that served as fiscal agents to certain districts in the year immediately preceding the first year of “Proposal A.” Finally, the remaining $800,000 is for reimbursement of program administration costs, pursuant to State Board of Education guidelines.

For the second program, a state equalized valuation per pupil is computed for the intermediate district or the area vocational-technical education program in the same manner as is done for special education millage reimbursement (see above); this figure is subtracted from $104,400 and the difference is multiplied by the
vocational education millage rate levied in 1997–98; the product, if a positive number, is the amount per-pupil received by the intermediate district or the area vocational-technical education program.

**Extent of Participation:** 300 local districts and 43 intermediate districts participate in the main segment of the first program, one intermediate district receives the $400,000 allocation, and 49 locals and 43 intermediate districts receive reimbursement for program administration; 19 intermediate districts participate in the vocational education millage equalization program.

**Career Preparation System**

**Funding in 1998–99:** $24.2 million.

**Percentage of Total School Aid:** less than 1%.

**Description:** $350,000 in planning grants and $23.9 million in implementation grants have been awarded to establish and support a regional system of career preparation programs (Act 94, Public Acts of 1979 as amended, Art. 6 §§ 67, 68). Planning grant funds are allocated to the Council for Career Preparation Standards and the Department of Education for educational advisory groups to prepare regional career preparation plans, establish guidelines and peer review criteria, provide technical assistance, and for marketing and publicity activities. The implementation grant funds support program operations, including the incorporation of academic and technical curricula and work–based learning opportunities at the local school district level and for the placement of graduates.

**State and Local Shares:** The planning funds for the Council for Career Preparation Standards and the Department of Education were established statutorily. Implementation grants are calculated based upon 50% of the allowable cost per full-time equated pupil for defined career clusters, multiplied by program enrollment for each cluster.

**Extent of Participation:** Two local districts and 23 intermediate districts are receiving implementation grant funds in 1998–99. Other entities identified as “advanced career academies” are also eligible for funding.

**Intermediate School Districts**

**Funding in 1998–99:** $80.2 million.
**Percentage of Total State Aid:** less than 1%.

**Description:** Intermediate School District General Formula funding of $79.85 million (Act 94, Public Acts of 1979 as amended, Art. 8 § 81) represents a block grant, combining the dollars from a former millage equalization program with what were formerly separate categorical programs, including school district consolidation, technologically enhanced curricula choices, dropout prevention, alternative juvenile rehabilitation, media centers, ISD schools of choice, school age parents, and school improvement grants, as well as FICA reimbursement and public school employees retirement system contributions. An additional $362,000 is provided to reimburse ISDs for local revenue losses as a result of personal property depreciation table adjustments.

**State and Local Shares:** The amount allocated to each intermediate district, under the general formula funding, is representative of the amounts allocated for the millage equalization program and for the individual categorical grants in the year prior to the block grant, increasing annually at a rate comparable to the increase in the basic foundation allowance for local school districts. The FY 1998–99 allocations are unchanged from 1997–98 (see the foundation allowance discussion above); the 1997–98 allocations were equal to 102.9% of the previous year’s payment. The amount allocated for reimbursement of local revenue losses will be based upon documented losses by the ISD.

**Extent of Participation:** All 57 intermediate districts receive payment under Section 81.

**School Accreditation Technical Assistance**

**Funding in 1998–99:** $1.5 million

**Percentage of Total State Aid:** less than 1%.

**Description:** The funds are allocated to the Department of Education, which awards grants to provide technical assistance to districts with unaccredited school buildings (Act 94, Public Acts of 1979 as amended, Art. 9 § 94).

**State and Local Shares:** The Department uses a competitive grant process to award the funds.
Extent of Participation: 3 intermediate districts are receiving Section 94 funds in 1998–99.

Mathematics and Science Centers

Funding in 1998–99: $7.7 million.

Percentage of Total State Aid: less than 1%.

Description: The funds are provided to implement the comprehensive master plan for mathematics and science centers developed by the department of education and approved by the state board. The mathematics and science centers are to provide six basic services: pupil services, curriculum support, community involvement measures, professional development, resource clearing-house services, and leadership.

State and Local Shares: The program is a discretionary one and applications are submitted to the department of education. The 1998–99 allocation provides for the continuation funding of all previously established mathematics and science centers plus five other centers identified in the master plan. Provision is also made for the establishment of satellites in areas that cannot support a center and are a considerable distance from existing centers.

Extent of Participation: 25 centers have been established, 3 at local districts, 17 at intermediate districts, 4 at universities, and 1 statewide project at Michigan State University.

Court Ordered Desegregation

Funding in 1998–99: $5.3 million.

Percentage of Total State Aid: less than 1%.


State and Local Shares: Under the desegregation order, the Benton Harbor School District receives a foundation allowance for each of their resident pupils who attend school in either of the two neighboring districts that are parties to the
court order. In addition, Benton Harbor receives a “maintenance allowance” equal to the district’s per pupil operating expenditures (thus, somewhat greater than a foundation allowance) for each nonresident pupil that the district educates under the order. Finally, the two neighboring districts receive a foundation allowance for each of their nonresident pupils and all three districts are reimbursed for pupil transportation costs associated with the program.

**Extent of Participation:** 3 local districts and 1 intermediate district.

**Adult Education**

**Funding in 1998–99:** $80 million.

**Percentage of Total State Aid:** less than 1%.

**Description:** The allocation provides funding for local districts or consortia of local districts to provide adult basic education programs, adult high school completion programs, English as a Second Language programs, job- or employment-related programs, and GED preparation programs.

**State and Local Shares:** Funding is provided at $2,850 per full-time equated (FTE) adult education participant, with a 450-hour block of instruction counted as 1.0 FTE. Each district or consortium of districts is limited as to its maximum amount of potential funding, which is capped at 36.76% of the amount of funding received in 1995–96. Certain districts also received adult education funding in 1996–97 under a competitive grant program, and their maximum allocation for fiscal year 1998–99 also reflects these competitive grant amounts. In the event that the $80 million total allocation is not spent, districts are able to generate funding for program participants enrolled over and above the cap.

**Extent of Participation:** 230 local districts and 6 intermediate districts receive adult education funding either as a single district or as the fiscal agent for a consortium of districts.

**XII. OTHER CATEGORICAL PROGRAMS**

In addition to the above categorical programs, the 1998–99 Michigan School Aid Act provides $73.7 million for payments to the local and intermediate districts that were not plaintiffs in *Durant v. State* 566 NW2d 272 (Mich. 1997) (Act 94, Public Acts of 1979 as amended, Art. 1 §§ 11f, 11g). Another $5.1 million is

**XIII. TEACHER RETIREMENT AND BENEFITS**

**Funding in 1998–99:** Included in the foundation allowance.

**Percentage of Total State Aid:** N/A.

**Description:** Beginning in 1994–95, as one consequence of the school finance reforms, the retirement payments previously made by the state were built into the foundation allowances of each local district and paid by the district directly to the retirement system. The system is a defined benefit pension system and has been noncontributory since July 1974; however, beginning in January 1987, the law was amended to include a 4% member contribution investment plan. There are no state appropriations related to the member investment plan.

The system’s funding requirements are determined by the actuarial percentage of aggregate payroll sufficient to cover future pension obligations of current service and to provide for the unfunded portion of the annual pension allowances. The payments also provide for the health insurance costs of public school retirees, retiree’s spouse, and dependents.

As part of a state financial settlement with local school districts in *Durant v State*, 566 NW2d 272 (Mich. 1997) a special education funding case discussed below, 1997 state legislation lowered local district budget requirements by reducing the employers share of retirement contributions beginning in Fiscal Year 1997–98. These retirement savings were achieved by fully reflecting the large increase in the value of the retirement fund portfolio through September 30, 1997 and by reducing the assumed rate of increase in employees salaries from 5% to 4% annually. These savings are estimated at approximately $300 million annually.

**Extent of Participation:** Not reported.
XIV. TECHNOLOGY

No state aid provided.

XV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

State school aid is not provided for capital outlay financing.

Local Capital Project Financing

Capital outlay financing needs of local districts can be met from (1) cash reserves, (2) building and site sinking funds, and (3) the sale of bonds. However, under the provisions of the Michigan Constitution, Art. IX § 16, a school district may qualify its bonds under statutory provisions, set the debt retirement at 7 mills, and borrow from the State up to 90% of the remaining funds needed to meet the annual principal and interest payments on the bonds.

Cash Reserves. Minor capital outlay needs can be financed from (1) unencumbered funds in an existing building and site fund, (2) federal assistance under P.L. 815 if the district qualifies, (3) proceeds from the sale of buildings and/or land, (4) diversion of up to 5% of annual state aid for operation, and (5) monetary gifts.

Building and Site Sinking Funds. A local school district, by an affirmative vote of its electors, can establish a building and site sinking fund of not more than five mills for 20 years. The funds can be used only for capital outlay purposes.

Bonds. A local school board by resolution, and without a vote of the electorate, may issue bonds that, together with the district’s outstanding bonded indebtedness, do not exceed 5% of the district’s state equalized valuation. However, these bonds must be retired from existing tax revenues. Unlimited unqualified bonds, with a debt-to-valuation ratio of 15%, may be voted for up to 30 years by the electorate. Unlimited qualified bonds, approved by the Superintendent of Public Instruction, may be issued for up to 30 years upon voter approval. Qualified bonds are guaranteed 100% by the State. However, bonds for an asset with a useful life of less than 30 years may not be issued for a term that is longer than the life of the asset. The local board has the authority to set annually the necessary tax rate (not to exceed 13 mills) for debt retirement. However, the
local board has the option of setting the basic tax rate at seven mills and borrowing 90% of the remaining funds needed to meet the annual payment from the Michigan School Bond Loan Program. In 1998–99, 105 local districts were participating in the School Bond Loan Program, with seven repaying past loans and the remainder borrowing some $214.8 million in new money.

All bonds issued by school districts in Michigan are subject to the provisions of the Municipal Finance Act (Act 202, Public Acts of 1943, as amended). Approval must be obtained from the State Treasurer before bonds are sold.

Other Debt Service

In addition to the debt service provisions noted above for the sale of capital outlay bonds, the State of Michigan allows, upon voter approval, a local district to sell bonds for the elimination of operating deficits caused by State Tax Tribunal decisions or court orders. Such millage was equalized prior to 1994–95. If the district was “in-formula,” the state shared in meeting the annual principal and interest payments under the provisions of the general school aid formula. Beginning in 1994–95, the amount of equalization aid received in 1993–94 is built into the district’s foundation allowance.

XVI. STANDARDS/ACCOUNTABILITY MEASURES

The State Board of Education oversees a school accreditation program. This program, created by P.A. 180 of 1997, evaluates individual schools according to standards established for six areas of school operations: administration and school organization, curricula, staff, school plant and facilities, school and community relations, and school improvement plans and student performance on Michigan education assessment program (MEAP) tests.

XVII. REWARDS/SANCTIONS

A school that has been unaccredited for three consecutive years is subject to one or more of the following sanctions, as determined by the superintendent of public instruction: The superintendent of public instruction shall appoint, at the expense of the affected school district, an administrator of the school until the school becomes accredited; a parent, legal guardian, or person in loco parentis of a child who attends the school may send his or her child to any accredited public school with an appropriate grade level within the school district; the school, with the approval of the superintendent of public instruction, shall align itself with an
existing research-based school improvement model or establish an affiliation for providing assistance to the school with a Michigan college or university; the school shall be closed.

At the time of this writing, no school had been subject to any of these sanctions.

**XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS**

Since the school finance reforms of 1994, the Michigan Legislature has passed two additional measures designed to expand parental choice among public schools. The first measure, P.A. 416 of 1994, established a system of charter schools or “public school academies” (PSAs) in Michigan, while the second reform, passed into law as a part of P.A. 300 of 1996, the FY 1996–97 school aid appropriation, provided for interdistrict public school choice. Since funding follows the student to the PSA or the school district of choice, both school choice initiatives have important implications for public school finance.

**Public School Academies**

Under the 1994 Michigan statute, a public school academy may be authorized (i.e., granted a charter) by the governing board of a state public university, community college, intermediate school district, or local school district. A total of 142 academies were authorized as of September 1998: 114 by public universities, 15 by intermediate school districts, 12 by local school districts, and one by a community college. Collectively, these public school academies enrolled approximately 34,000 students in 1998–99. In 1996, the Legislature restricted the number of academies which public universities may authorize. That limit is set at 150 for the 1999 calendar year and thereafter. No limit exists on the number of academies that may be authorized by the remaining authorizing bodies.

The foundation allowance for a public school academy is equal to the foundation allowance of the district in which it is located, but not to exceed $5,500 plus the cumulative increase in the state basic foundation allowance since its inception in 1994–95. For 1998–1999, this amount is $5,962.

**Interdistrict School Choice**

Michigan’s interdistrict school choice law requires all school districts to determine whether or not they will accept nonresident students within their intermediate school district (generally coterminous with county) into their
Districts are responsible for publishing the schools, grades, and programs which are available for nonresident students. In cases where the number of applicants exceeds the spaces available, student selections are made by lottery. In the 1998–99 school year, 268 local districts (48% of the total) elected to participate in the interdistrict choice plan, an increase of 58 districts over the 1996–97 first-year participation levels. The number of students participating in interdistrict choice rose from approximately 6,200 in 1996–97 to 14,450 in 1998–99.

XIX. STATE AID FOR PRIVATE SCHOOLS


XX. RECENT/PENDING LITIGATION

On June 10, 1997, the Michigan Supreme Court ruled in Durant v Michigan, 566 NW2d 272 (Mich. 1997) that the state must reimburse local school districts for special education services mandated by state law. Plaintiffs in this long-running case, which was filed in 1980, were 83 local districts and one intermediate district. On July 31, 1997, the Michigan Supreme Court set damages at $212 million for the plaintiffs, explicitly limiting damages to the 1991–92, 1992–93, and 1993–94 fiscal years. Some policymakers expressed concerns over the equity impacts of this decision, since most of the payments were owed to relatively affluent, suburban districts whose special education aid in past years had been reduced by the state in order to increase state equalization aid to property-poor school districts. Further concerns arose from the likely "zero-sum" character of the settlement. That is, most observers expected that the plaintiffs’ damages would be paid by means of reductions in other school aid payments, principally foundation formula payments or compensatory aid. Districts with large concentrations of low-income children would be particularly burdened by the latter strategy.

In November of 1997, the elements of a legislative financial settlement involving not only the plaintiff districts but also an estimated 470 districts that were not a party to the suit but were nevertheless adversely affected by the state’s underfunding of special education costs were agreed upon. This additional liability totaled $632 million. Full payment was made to the plaintiff districts on April 15, 1998. The funds were withdrawn from the state’s Budget Stabilization Fund. In order for a nonplaintiff district to participate in the settlement, it had to
agree to waive any claim against the state. In return, payments totaling the estimated amount the district would have been awarded had it been a party to the suit were made by the state. In general, nonplaintiff districts will receive half their payments in cash and half in support for bonded expenditures. The cash payments will be made in ten equal annual installments beginning November 15, 1998. The bonding payments will be made over a fifteen year period beginning May 15, 1999.

At the time of this writing, the Court of Appeals is considering a suit filed by 125 districts (Durant v. Michigan II) that claims that the state underfunded its special education mandates by $335 million in the 1997–98 school year.

XXI. SPECIAL TOPICS

Local Education Foundations

By 1998, 153 local school districts had established education foundations. Generally, a foundation is a non-profit, tax-exempt entity with a board of trustees engaged in raising, managing and disseminating resources for one or more designated purposes, such as charitable, religious, literary, scientific or educational. Foundation trustees are generally selected from the local community and focus on raising resources, while directors implement policies and programs.

Creating a local education foundation in Michigan is relatively simple. Organizers file a four-page Articles of Incorporation form, along with a $20 fee, with the Corporation Division, Corporation, Securities and Land Development Bureau, Michigan Department of Consumer and Industry Services, as required by Michigan’s Nonprofit Corporation Act (P.A. 162 of 1982). Foundations generally begin operations within 4 to 6 months of filing Articles, and often exist alongside booster and parent groups that also raise funds for the local public schools. Although their fundraising activities may overlap (e.g., raffles, sales, etc.), foundations often focus on developing partnerships with corporations, individual major donors and other foundations, and seek planned gifts through wills and memorials. Grants are often made to indicate that average annual revenue for these individual local districts is approximately $20,000 to $25,000.