

June 7, 2010

House Passes FY 2011 School Aid and Department of Education Budgets

Next Step: Conference Committee

The House passed their recommendation for the School Aid and Department of Education budgets for the upcoming fiscal year (FY11), which begins on October 1st of this year and ends on September 30th of 2011. The Senate had passed their recommendations for those budgets in late March. Both chambers responded to the Governor's budget proposal, which she released in February. The Governor's budget addresses a projected deficit of \$1.5 billion as a result of declining revenues and additional spending pressures. Since 2002, state revenues adjusted for inflation have fallen 41 percent, and are now at 1965 levels—a 46-year low. Now the budgets will be discussed by a conference committee made up of members of the House and Senate to iron out the differences between the proposals. After that agreement is reached, they will go to the Governor for signature.

The Senate has named its conferees, which are: Sens. Ron Jelinek (District 21 – Berrien, Cass and VanBuren Counties), Cameron Brown (District 16 – Branch, Hillsdale, Lenawee and St. Joseph Counties) and Michael Switalski (District 10 – Part of Macomb County including Sterling Heights and Clinton Township), all ranking members on the Appropriations Subcommittee. The House will name their conference committee representatives shortly.

Following significant reductions in the FY10 budget in per pupil grants to all local school districts, reductions for Intermediate School Districts, and cuts in programs improving school readiness, adolescent health, and high school completion, the Governor had recommended few cuts in K-12 programs for FY11, with the vast majority remaining at FY10 levels. Those few experiencing increases are supported through expected federal funding. Maintenance of current state spending is made possible in the Governor's proposed budget by earmarking to the School Aid Fund expected revenue resulting from lowering the state's existing sales and use taxes from 6 to 5.5 percent, while expanding the tax to consumer services. The Senate did not include that expansion in School Aid revenue in their proposal. The House included an expansion of School Aid revenue in their proposal as well, based on updated revenue estimates and assuming the elimination of the double deduction allowed for indirect oil and gas production costs.

Among the cuts in the current fiscal year that will continue into FY11 are:

- At least \$165 per pupil cuts to local school districts and a 20 percent cut to Intermediate School Districts.
- Elimination of the School Aid contribution to the 0 to 3 Secondary Prevention program (Early Childhood Grants).
- Great Start Readiness Program competitive funding cut in half, and a reduction in Early Childhood Investment Corporation grants.
- A 25 percent cut to adolescent health centers.
- Elimination of the 21st Century School Fund, an 8 percent cut to adult education and a 50 percent cut in Youth Challenge Grants.

FY11 SCHOOL AID BUDGET (SB 1163)

The Governor's budget included a total of \$12.9 billion for School Aid, representing \$11 billion from the School Aid Fund, just over \$30 million from the state general fund, and \$1.86 billion in federal dollars (including the remaining \$184 million in ARRA funding). The Senate recommendation includes a total of \$12.7 billion, representing the same federal contribution of \$1.86 billion, an increased general fund contribution to \$226 million and \$10.6 billion from the School Aid Fund. The House recommendation includes a total of \$12.95 billion, representing the same federal contribution as the Governor and the Senate include, a slight increase in general fund contribution to \$31.7 million and \$11.0 billion from the School Aid Fund. However, with a deficit in the general fund, the additional contribution would likely need to come from funding represented in another Department budget. And the House relies on additional revenue that would need additional legislation to enact.

Summary of Recommendations:

Per pupil expenditures/Local district administration:

- *Governor:* No additional cuts to the State Aid payment for schools beyond the \$165 per pupil reduction in FY10.
Senate: An additional cut of \$118 per pupil beyond the \$165 reduction for a total reduction in FY11 of \$283 per pupil from FY09 levels.
House: Includes a restoration of current year (FY10) cuts to schools of \$65 per pupil, and continues that funding level through the FY11 recommendation, resulting in a total reduction in FY10 and FY11 of \$100 per pupil from FY09 levels.
- *Governor:* Continuation funding for districts with declining enrollment of \$20 million.
Senate: Eliminated these grants.
House: Agrees with the Governor and continues the grants.
- *Governor:* Budget language is included requiring school service consolidation.
Senate: Did not include the Governor's language. Budget language is included requiring district reports on consolidation plans that have been submitted to the MDE.
House: Requires districts to begin consolidating services identified in their existing plans by 2/1/11 and report progress to MDE.
- *Senate:* Budget language is included that indicates that the per-pupil spending reduction would be offset for districts by savings due to retirement system reforms. This would include restoring half of the funding for the 20j districts that was eliminated in FY10. These reforms have not yet been passed by the Legislature.
- *House:* Expands the use of certain foundation allowance adjustments for maintaining small class sizes from grades K-3 to K-8.
- *Governor:* Revises budget language re-defining a first class school district to be 60,000 under all circumstances. FY10 language defines a first class school district at 100,000 for the purpose of prohibiting other local districts from operating within its boundaries. The Governor's proposed change would require other school districts (including public school academies/charter schools) to get approval from the Detroit Public Schools (DPS) to operate within DPS boundaries.
Senate and House: Retained FY10 language.
- *Senate:* Budget language is included that requires local districts who provided 170 instructional days or more in FY10 to provide at least that amount in FY11.
- *Senate:* Budget language is included that allows public school academies/charter schools to be paid for the provision of educational services to private schools in the same way as is allowed for local school districts.

- *Senate:* Revises budget language charging the Department of Education with determining compliance with a recent statute requiring local school districts to ensure that teachers have access to basic instructional supplies to allow each local district to determine building compliance.
House: Maintains current law.

Early childhood education:

Great Start Readiness Program (GSRP):

Funding:

- *Governor:* Provided continuation funding of \$88.1 million for the School Aid portion of the GSRP, as well as \$7.6 million for the GSRP competitive program. Funding for the GSRP competitive program was cut by 50 percent in the current year budget, affecting more than 2,000 children.
Senate: Concurred with the Governor and provided continuation funding for the GSRP without any restorations of current year budget cuts.
House: Concurred with the Governor and Senate for the GSRP School Aid allocation (\$88.1 million), but restored funding for the GSRP competitive program (\$7.6 million), for total funding of \$15.2 million. Added language requiring any additional lottery revenues resulting from new technology and “pull-tab” distribution of lottery games be used to fund school readiness programs.

Redirecting Funding:

- *Governor:* Proposed budget language prohibiting local districts from redirecting GSRP funds to other budget priorities. The language allowing districts the discretion to redirect GSRP funding was added in the current year budget, and as of the end of December of 2009, an estimated 10 percent of GSRP funds had been redirected to fill holes created by cuts in the K-12 per pupil allotment. Removed budget language allowing districts to use GSRP funds for preschool and parenting education programs similar to those provided under the old ASAP-PIE program.
Senate: Retained current-year budget language allowing GSRP funds to be used by districts for other purposes than early childhood education programs, and kept current language allowing use of program funds for ASAP-PIE-type programming.
House: Agreed with the Governor to eliminate current-year budget language allowing GSRP funds to be used by districts for other purposes than early childhood education programs and agreed with the Senate and retained language allowing funds to be used for ASAP-PIE-type programming.

Eligibility Changes:

- *Governor:* Added a requirement that more than 75 percent (up from 50 percent) of the children participating in a GSRP program are from families with incomes of 300 percent of poverty or less, language reflecting new GSRP participant eligibility and prioritization guidelines adopted by the State Board of Education.
Senate and House: Agreed with the Governor’s recommendation.

Great Parents/Great Start:

- *Governor:* Continuation funding for the Great Parents/Great Start program at \$5 million.
Senate and House: Agreed with the Governor.

Great Start Collaboratives:

- *Governor:* Continuation funding for local Great Start Collaboratives through the ECIC at \$6 million.
Senate and House: Agreed with the Governor.

0 to 3 Secondary Prevention:

- *Governor:* Did not restore funding for the 0 to 3 secondary prevention program (also known as community-based collaborative prevention services) in the K-12 School Aid budget (\$2.1 million). At its peak in 2001, \$7.75 million was available through three state budgets, including those for the Departments of Human Services and Community Health, and K-12 School Aid. In the current fiscal year, funding was continued only in the DHS budget. Budget language related to the expenditure of 0 to 3 secondary prevention services was also removed by the Governor.
Senate: Agreed with the Governor.
House: Appropriated up to \$1.5 million for 0 to 3 Secondary Prevention, contingent on new revenues (specifically the elimination of the double deduction allowed for state income tax purposes for indirect costs incurred in oil and gas production). The House retained current year budget language that: (1) requires that funds are used for secondary prevention programs as described by the Children's Trust Fund for the prevention of abuse and neglect; (2) distributes funds through a joint request for proposals process established by the department in conjunction with the Children's Trust Fund and the interagency director's workgroup; (3) directs that services are voluntary, and not intended to serve children and families with substantiated cases of neglect or abuse; and (4) requires applicants to show that the services are part of a community's comprehensive family support strategy endorsed by the community collaborative, and part of the community's Great Start strategic plan.

Programs to improve academic achievement and reduce dropout rates:

Programs and initiatives receiving continuation funding in Governor, House and Senate recommendations:

- The At Risk Program at \$309 million. These are flexible dollars available to districts for a range of academic and supportive services,
- Youth Challenge Grants. The Governor and House recommended a slight increase to \$653,200. The Senate recommended FY10 funding of \$624,300. These grants help to fund the Michigan Youth Challenge Academy run through the Department of Military Affairs.
- Career and Technical Education (CTE) at \$26.6 million. The Senate adds a provision where a pupil can remain eligible for CTE services up to age 22 in a Public School Academy focused on educating homeless youth or youth who have dropped out of school. The House did not include the Senate language.
- Middle colleges at \$2 million. Budget language is retained in all recommendations focusing those programs on health and sciences or other fields.
- Decreased funding for pre-college engineering and science programs to \$905,000 from \$980,000, which includes \$680,000 to continue two currently operating through the Department of Energy, Labor and Economic Growth (Grand Rapids and Detroit), and \$225,000 for alternative energy programs to Huron, Tuscola, and Bay-Arenac intermediate school districts.
- Adult education at \$22 million. Budget language is included in all recommendations requiring that the funds not be redirected to other programs.
- Math and science centers at \$7.8 million.

Program expansions based on expected federal resources in the Governor, Senate and House recommendations:

- Drug and violence prevention programs from \$8 million to \$10.8 million.
- Extended learning programs through the 21st Century Learning Grants from \$35.7 million to \$40.5 million. Federal funding for this program has been proposed with changes in priority funding,

which could alter the impact in Michigan. Despite the increase in funding, budget language allowing resources to be used to support the Michigan After-School Partnership was present in four Departmental budgets in FY09 (DHS, DCH, School Aid, and DELEG). FY10 budgets removed the language, and it is not included in the Governor, Senate, or House FY11 budget recommendations for School Aid. The Governor, Senate and House repealed boilerplate language defining the before- and after-school program (has not been funded for several years), and additional language related to intent to fund 21st century learning initiatives.

- Rural and low-income schools improvement programs from \$898,000 to \$1.7 million. (Expansion funding was NOT included for this program in the House proposal.)
- Migrant children programs from \$7.8 to \$8.8 million.

Supporting on-line-learning:

- *Governor and Senate:* Funding for the Michigan Virtual University (MVU) for development, implementation and operation of the Michigan virtual high school, and to provide professional development opportunities for educators at \$4.4 million.
House: Reduced funding by \$250,000 to MVU and redirected that funding to Genesee ISD through GENnet to operate a statewide on-line education program.
- *House:* Includes \$100 (a placeholder) for on-line courses that would provide students with no-cost access to quality on-line course options for pregnant students, students with other health issues, students who have dropped out of school, students who have failed at least one course, expelled or suspended students, students attending in a district that doesn't offer the course available on-line, or students who are pursuing the arts or athletics. This funding was not included in either the Governor's or Senate's recommendation.

Child and adolescent health:

- *Governor:* Continuation funding for child and adolescent health programs (\$3.6 million) and for hearing and vision screenings (\$5.15 million).
Senate: Agreed with the Governor.
House: Continuation funding for hearing and vision screening, but included an additional \$1.2 million for adolescent health centers (to \$4.7 million)
Note: The Governor did eliminate funding in her budget proposal for the Arthur Hill High School and Mumford High School clinics, which are funded through the Department of Community Health (DCH) at \$164,000. The House agreed with the Governor, but the Senate included that funding in their DCH budget recommendation.

Improving data systems:

- *Governor:* Proposes an increase of federal funding for FY10 of nearly \$16 million, declining to \$7.3 million in FY11 that would be appropriated if Michigan is awarded one of two Federal grant applications for data systems funding. In total for FY11, funding of \$10.8 million is transferred to the Department of Technology, Management and Budget to operate the Center for Educational Performance and Information (CEPI). Of the total, \$8.4 million would go to local school districts, \$1.3 million to post-secondary institutions and \$850,000 to form an ISD partnership to institute Michigan's longitudinal data system.
Senate: Agrees with the Governor, but removes \$170,000 for cost-of-living increases.
House: Agrees with the Governor.
- *Governor:* Budget language is included requiring CEPI to develop a longitudinal data system that includes individual student-level data from preschool through post-secondary education and into the workforce, suggests certain uses of the data and mandates the development of a research

agenda. The language refers to the creation of a “P-20 Council” that would oversee that data system.

Senate and House: Agree with the Governor, but do not but do not mention a P-20 Council.

DEPARTMENT OF EDUCATION (SB 1154)

The Governor’s FY11 proposal for the Department of Education (MDE) reflects an increase of nearly 16 percent over FY10 appropriations from \$113 to \$131 million. Most of the increase results from an assumption of increased federal funding from \$76 to \$94 million, and the vast majority of the increase reflects additional staff to implement reforms, including a newly formed Office of Educational Improvement and Innovation. Implementation includes several components from recent federal requirements and recently passed Michigan legislation for MDE to adhere to:

- Support for a new school reform/redesign officer.
- Continued coordination of charter schools, including oversight of the new Schools of Excellence.
- Support for new data systems.
- Support for new teacher and administrative certification programming.

The Senate’s FY11 recommendation continues FY10 funding at \$113 million, including \$1.6 million in funding for reform positions, reflecting only the positions necessary to implement Michigan’s already enacted reforms outlined above. Funding for those positions would be offset by removing 3 percent cost-of-living increases throughout the Department, a reduction in funding to the Library of Michigan, and several other adjustments.

The House agrees with the Governor’s recommendation of \$133 million in MDE funding also assuming federal funding under the applied for Race to the Top program and staffing increases related to Michigan-passed requirements for reform. In addition, the House includes an increase of funding to local libraries (from \$6 - \$7 million), and \$100,000 for a State School Nurse Consultant – both increases funded through the elimination of a current tax deduction for oil and gas producers. The House also includes a reporting requirement for the MDE on the districts, pupils and costs involved in on-line education programs operated as either a cyber school or under seat-time waivers.

The Budget Watch Project is generously funded by the Detroit-based Skillman Foundation. For more information about the state budget or the Budget Watch project of Michigan’s children, visit Michigan’s Children’s website at www.michiganschildren.org.