Statewide Issues on the November General Election Ballot

Proposal 2006-05
Educational Funding Guarantee Law

September 2006

Report 344

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Proposal 2006-05: Educational Funding Guarantee Law

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PROPOSAL 2006-05: EDUCATIONAL FUNDING GUARANTEE LAW

Proposal 2006-05, the Educational Funding Guarantee Law, is a statutory initiative that will appear on the November 7 statewide ballot as a result of petitions circulated by The K-16 Coalition for Michigan's Future (www.michigank16.org/index.html). The legislature received the proposed initiated law on June 5th and had 40 session days to enact the proposal. The legislature did not act on the proposal by July 15th and therefore it will be presented to the voters in November. The proposed law would amend section 11 and add two new sections (12 and 147a) to 1979 Public Act 94, commonly referred to as the State School Aid Act. The proposal would:

- Require, at least, inflationary spending increases in the K-12 schools, community colleges, and universities state budgets in Fiscal Year 2007 (FY07), using the FY05 budget levels as the base on which to apply the increases.
- Require, at least, inflationary spending increases in specific K-12 education categories in FY07, using the FY05 amounts as the base for the adjustments.
- Guarantee that future spending beyond FY07 for K-12 schools, community colleges, universities, and specific K-12 school components would increase by inflation.
- Modify the method by which K-12 school districts calculate their current-year student membership figure to allow the use of a three-year average, beginning in FY07.
- Reduce the gap between the basic and state-guaranteed maximum foundation allowance grants from $1,300 to $1,000 by FY12, beginning in FY07.
- Cap the annual employer contribution to the Michigan Public School Employees Retirement System at 80 percent of the actual contribution rate or 14.87 percent of payroll, whichever is less, for K-12 school districts, intermediate school districts, district libraries, community colleges and universities. The State of Michigan would be responsible to make up the difference between the capped employer's contribution and the actual retirement contribution made by these entities.
- Appropriate, from the State School Aid Fund and any available federal resources, amounts necessary to meet all the funding requirements of the proposal in FY07.
- Appropriate from the State General Fund in FY07 the amount necessary to cover the difference, if any, between all the funding guarantees and the amount of resources in the State School Aid Fund and from available federal sources.

The proposal is opposed by The Coalition to Stop the K-16 Spending Mandate (www.stopthespending mandate.com/index.htm).

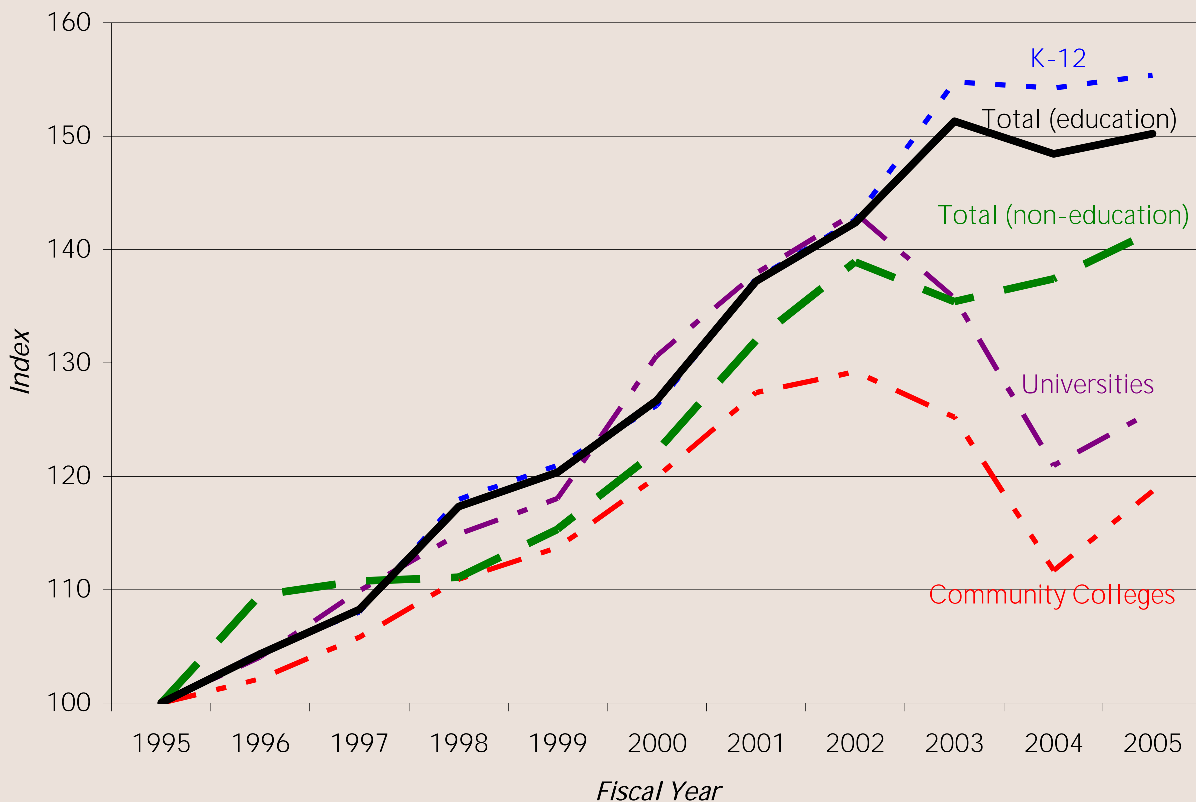
The statutory language that would become law if Proposal 2006-05 passes is included as *Appendix A*.

Background

The State of Michigan plays a significant role in the financing of education at all levels. In FY05, over one-third of the total state budget of $40.3 billion was spent on education at the K-12 schools, community college, and university level. Education is the largest single component of total annual state expenditures from all sources. In terms of General Fund/General Purpose GF/GP expenditures, education accounted for just under a quarter of the total $8.8 billion in FY05. The State's responsibility for financing education has evolved over the years. Although the State has played a major role in the financing of public higher education (community colleges and universities) for some time, the State's role in financing K-12 education has been largely defined by Proposal A of 1994, which, among other things, shifted the majority of the responsibility for funding local schools from the decentralized local level to the centralized state level.

Chart 1 (on page 2) compares the growth of education expenditures with the growth of total state spending since FY95. Since the passage of Proposal A in 1994, growth in state spending on K-12 education has consistently outpaced total state spending for all other

Chart 1
Growth of Total State and Education Spending



Source: various executive budgets, Office of the State Budget.

areas of the budget combined. Despite the considerable pressures on the state budget since FY02, the growth of K-12 school spending has fared well relative to total non-education state spending, which has been relatively flat. On the other hand, spending on higher education components has not kept pace with the growth of overall non-education state expenditures since FY02. Higher education spending has been reduced in two of the past three fiscal years as part of the overall solution to help balance the State's General Fund budget. The main reason for this decline is the role that the General Fund plays in financing higher education spending. General Fund/General Purpose appropriations support 100 percent of the community colleges' state appropriation and over 90 percent of the public universities' state appropriation in FY06, whereas the General Fund represents less than one-half of one percent of total K-12 education appropriations in FY06. In total, the growth of education spending in Michigan, primarily fueled by the state funding increases resulting from Proposal A, has exceeded total state non-education expenditure growth since FY98.

Proposal 2006-05 would provide a guarantee for annual education funding increases for K-12 schools, community colleges, and universities, regardless of the condition of state finances and the total state budget. The funding guarantees included in the proposal could likely require the legislature to reconfigure overall state finances to meet the specific education funding mandates in some years. Furthermore, these guarantees would require the legislature to give priority to specific areas of education funding when crafting annual spending plans. The proposal would remove a high degree of flexibility and discretion available to

The Initiative Process in Michigan

The Michigan Constitution provides four methods whereby a proposal can be placed on the statewide ballot: (1) statutory initiative, (2) voter referendum, (3) legislative referendum, and (4) constitutional amendment. Proposal 2006-05 appears on the November statewide ballot as a statutory initiative.

This method is defined by Article II, Section 9 of the 1963 Constitution as the power that the people reserve to themselves "to promote laws and to enact and reject laws." The power of initiative applies to any law the legislature may enact under the Constitution. The initiative process requires petitions signed by registered voters equal to at least eight percent of the total votes cast in the last election for governor. Once filed, the petitions cannot be withdrawn or supplemental filings accepted. The legislature is required to enact, without change or amendment, or reject any proposed statutory initiative within 40 session days of receipt. The legislature does not, necessarily, have to take any action to reject a proposed initiated law in order to reject it. The legislature, by failing to act upon a proposal within the required 40 days, can effectively reject it. An initiative not enacted by the legislature is placed on the statewide ballot where the electors either accept or reject the proposal at the next general election. Michigan's statutory initiative process is commonly referred to as an "indirect" process because the proposed legislation first goes to the legislature for consideration. Under a "direct" initiative process, proposals are placed before voters without first providing the legislature an opportunity to adopt or reject them.

Statutory initiatives adopted by the voters are not subject to gubernatorial veto. Once adopted by the voters, the initiated law cannot be amended or repealed except by a vote of the people or by an affirmative vote of three-fourths of each house of the legislature. Pursuant to the Constitution, the initiated law takes effect 10 days after the official declaration of the vote.

state policymakers as a result of locking certain spending requirements into the annual state budget.

Prior to Proposal A, the State of Michigan shared in the responsibility for a portion of the total contribution to the Michigan Public Schools Employees Retirement System (MPSERS) for local school districts.[1] As a result of Proposal A, the responsibility for financing the total contribution to the system was shifted to the local school districts and intermediate school districts. The new mechanisms put in place under Proposal A for funding local schools, namely the concept of the per pupil foundation allowance, were intended to provide the resources to allow the schools to assume full responsibility for MPSERS contributions. Proposal A did not directly affect the relationship between the State and the universities, community colleges, and libraries that participated in MPSERS. These entities were responsible for the total employer contribution to the system prior to school finance reform in 1994. The responsibility for financing the health care benefits for current employees rests entirely with the employer.

Since FY99 the required employer (non-university) contribution rate has risen from 10.8 percent of active employee payrolls to 17.74 percent for FY07. The factors contributing to this marked increase over the past eight years include the weak performance of investment holdings of the system in FY01 and FY02, the increasing costs of health care for retirees and their beneficiaries, the general flattening of employee payrolls, and the rising number of individuals eligible for retiree health care benefits. Proposal 2006-05 would relieve local school districts, intermediate school districts, universities, community colleges, and district libraries from the escalating costs associated with these rate increases by capping the employer contribution rate and requiring the State to make up the difference from the General Fund, at least in FY07.

[1] For a detailed discussion of the issues surrounding the financing of MPSERS benefits, see CRC Report 337, *Financing Michigan Retired Teacher Pension and Health Care Benefits*, September 2004. www.crcmich.org/PUBLICAT/2000s/2004/rpt337.pdf.

Components of Proposal 2006-05

Proposal 2006-05 can be divided into four general areas, which include: various funding guarantees for education, a requirement to narrow the gap between the basic and the maximum foundation allowance grants, a declining enrollment provision for K-12 school districts, and a cap on the MPSERS employer contribution rate. These components have the potential to increase the amount of state dollars provided to local schools, community colleges, and universities.

1. Funding Guarantees

K-12 School Base Funding Increase. The proposal would establish a funding floor for total K-12 education appropriations from state funds in FY07. The proposal limits the guaranteed increase to state funds provided for K-12 education, not total funds (e.g., including federal funds). Under the proposal, the FY07 minimum amount of state funds provided for K-12 education would have to be equal to the FY05 appropriation adjusted by the percentage increase in the United States Consumer Price Index (CPI) from 2004 to 2006 (see *Illustration 1*). Because the proposal establishes a floor and not a ceiling, the legislature could provide appropriations in excess of the minimum required. However, the final FY07 appropriation level would become the basis for determining the FY08 funding level.

The proposal guarantees inflationary increases in the state support for total K-12 education funding beyond FY07, using the FY07 appropriation level as the base. Because of the timing issues involved with the development and implementation of the state budget, the FY08 minimum would be determined by increasing the FY07 base amount by the annual CPI increase for 2006, estimated to be three percent. The actual 2007 CPI figure cannot be used for determining the FY08 minimum because the data will not be available until after the implementation of the FY08 budget (i.e., October 1, 2007). Using the 2006 figure allows the calculation to be prospective and accommodate the state budget timeline. Whereas the proposal provides a funding floor in FY07, it requires a specific increase in future years and does not allow annual funding increases greater than the change in the CPI, beginning in FY08, *under the State School Aid Act*.

Basic Foundation Allowance Increase. In addition to the base funding guarantee for state support of K-12 education, Proposal 2006-05 would require at least inflationary increases in specific components of K-12 education spending in the first year and only inflationary increases in ensuing years. The largest component of annual K-12 education spending, the foundation allowance, is guaranteed automatic increases under the proposal, beginning in FY07. The foundation allowance represents unrestricted aid paid to each school district. Under the proposal, the FY07 basic foundation allowance would have to be set at a level at least equal to the FY05 basic foundation allowance adjusted by the percentage change in the CPI from calendar year 2004

Illustration 1
Calculating the Minimum Funding for K-12 Education (dollars in millions)

Guaranteed Increase	= FY05 State Spending X Percentage Change in CPI from 2004 to 2006
	= $11,113.5 X 6.5% (estimated)
	= $722.4

(Note: FY05 state spending consisted of $10,948.3 million from the School Aid Fund and $165.2 million from the General Fund)

FY07 Minimum	= FY05 State Spending + Guaranteed Increase
	= $11,113.5 + $722.4
	= $11,835.9

Illustration 2
Calculating the Basic Foundation Allowance Grant

Guaranteed Increase	= FY05 Basic Foundation Grant X Percentage Change in CPI from 2004 to 2006
	= $6,700 X 6.5% (estimated)
	= $436
FY07 Minimum	= FY 05 Basic Foundation Grant + Guaranteed Increase
	= $6,700 + $436
	= $7,136

to calendar year 2006 (see *Illustration 2*). The proposal does not prevent the legislature from setting the FY07 figure higher than this minimum.

The proposal guarantees increases in the basic foundation allowance beyond FY07 and uses the same methodology as the base funding increase described above to calculate this adjustment, i.e., the FY08 figure would be determined by multiplying the FY07 figure by the annual change in the CPI for calendar year 2006. Whereas the proposal provides a minimum level for the basic foundation allowance in FY07, it requires specific increases in future years and does not allow the foundation allowance to grow in excess of the change in the CPI, beginning in FY08, *under the State School Aid Act*. Furthermore, the proposal appears to conflict with the act's requirement that the basic foundation allowance increase by at least the foundation allowance index, a measure tied to revenue and pupil membership growth, and not inflation.

Chart 2 (on page 7) compares the growth of the basic foundation allowance since passage of Proposal A with the growth in the CPI. Despite no growth in the basic foundation allowance from FY03 through FY05, overall growth has outpaced inflation since implementation of the foundation allowance concept in FY95. In FY06, 390 districts are eligible to receive the basic foundation allowance, 336 districts will receive a per pupil amount between the basic and maximum foundation grant, and 51 districts will receive a per pupil grant equal to or greater than the maximum foundation grant. (Note: All districts, although eligible to receive the minimum foundation allowance of $6,875 in FY06, will not receive this amount because of the impact that a "Headlee rollback" will have on the local share of the basic foundation allowance. As a result of a "rollback", a district is unable to levy the full 18 mills required under the foundation allowance program, effectively reducing its total basic foundation allowance.)

The Foundation Allowance Program

In general, there are two principal methods for providing state aid to K-12 education in the United States. During Michigan's long history of providing state assistance to local school districts, the state has experimented with both methods. Prior to 1974, Michigan employed a "foundation aid" formula to distribute state aid to local districts. This method guaranteed a minimum expenditure per pupil in every school district statewide. Over time, the disparities in per pupil spending grew so significant that the foundation formula was abandoned and replaced it with a "power-equalizing" or "equal yield" formula.

Beginning with the 1973-74 school year, Michigan switched to an equal yield formula to distribute state aid. Unlike a foundation formula that guarantees a specific amount of spending per pupil in each district, the equal yield formula guarantees each district an equal return in combined state and local funds for each mill of property tax levied. Financing local schools under this method was a function of the local property tax and the amount of funding a school received was directly dependent on the wealth of each district, as measured by its taxable value. Over time, this system of local school financing produced per pupil

spending disparities similar to those experienced in the early 1970s and contributed to a significant rise in local property tax rates for schools. In 1993, a change in state law scrapped the local property tax as the primary funding mechanism for local schools, effectively abandoning the equal yield formula. The combination of school finance reform of 1993 and the passage of Proposal A in early 1994 returned Michigan to the foundation aid formula method of providing state aid to K-12 school districts, beginning with the 1994-95 school year.

One of the major components of Michigan school finance reform and Proposal A was the establishment of a per pupil funding guarantee, called the foundation allowance. This concept was so central to the reform that it was included in amendments to the Michigan Constitution. Article IX, Section 11 guarantees that each local school district shall receive, beginning in FY96, total per pupil school operating revenue (from state and local sources) equal to or greater than the amount it received in FY95. This provision effectively set a per pupil funding floor for local school operating revenues at the 1995 level. The basic idea of the allowance is that the state guarantees a minimum per pupil funding level from a combination of local property tax revenues and state aid. If local property tax revenues are insufficient to meet the guarantee, a district will receive state aid to make up the difference. In order to qualify for the full basic foundation allowance, a local school district must levy 18 mills on non-homestead property. This tax levy is required in addition to the mandatory 6-mill State Education Tax assessed on all non-exempt property (homestead and non-homestead) required under Proposal A.

The *basic foundation allowance* was set at $5,000 per pupil for FY95. This was intended to be the minimum level of per pupil funding that each district would receive. However, this change did not move all districts below this level up to this point immediately. Instead, it guaranteed, for FY95, that each district would receive, at a minimum, their FY94 per pupil amount, called a *district foundation allowance*. Districts below the $4,200 per pupil level in FY94 were raised to $4,200 for FY95, or by $250 per pupil, whichever was greater. As a result, the constitutional per pupil funding floor was effectively set at $4,200.

State law implemented a sliding scale to move up districts spending below the basic foundation allowance of $5,000 per pupil for FY95. Districts with per pupil revenue closer to the $4,200 minimum received larger increases than districts with per pupil revenue closer to the basic foundation allowance. This allowed those districts closer to the funding floor to move towards the basic grant more quickly than if all districts received the same increase in per pupil funding. Once a district reached the basic foundation allowance level, its annual per pupil funding increased with the basic foundation allowance. Since FY00, all districts have been eligible to receive per pupil revenue at least equal to the basic foundation grant.

In addition to the basic foundation allowance, the State School Aid Act provides for a *maximum foundation allowance* that districts may receive. The concept is the same as the basic foundation allowance in that it ensures that a district will receive, from a combination of state and local revenues, per pupil school operating funding equal to the maximum amount. The maximum grant was established to address those districts whose per pupil funding in FY94 was above $6,500. The maximum grant was set at $6,500 in FY95. It is important to recognize that the maximum grant did not cap the amount of total per pupil funding that a district could receive, but it capped the amount of revenue that a district is guaranteed from state and local sources. Districts with per pupil revenue above the maximum grant, referred to as "hold harmless" districts, were required to raise additional revenue locally.

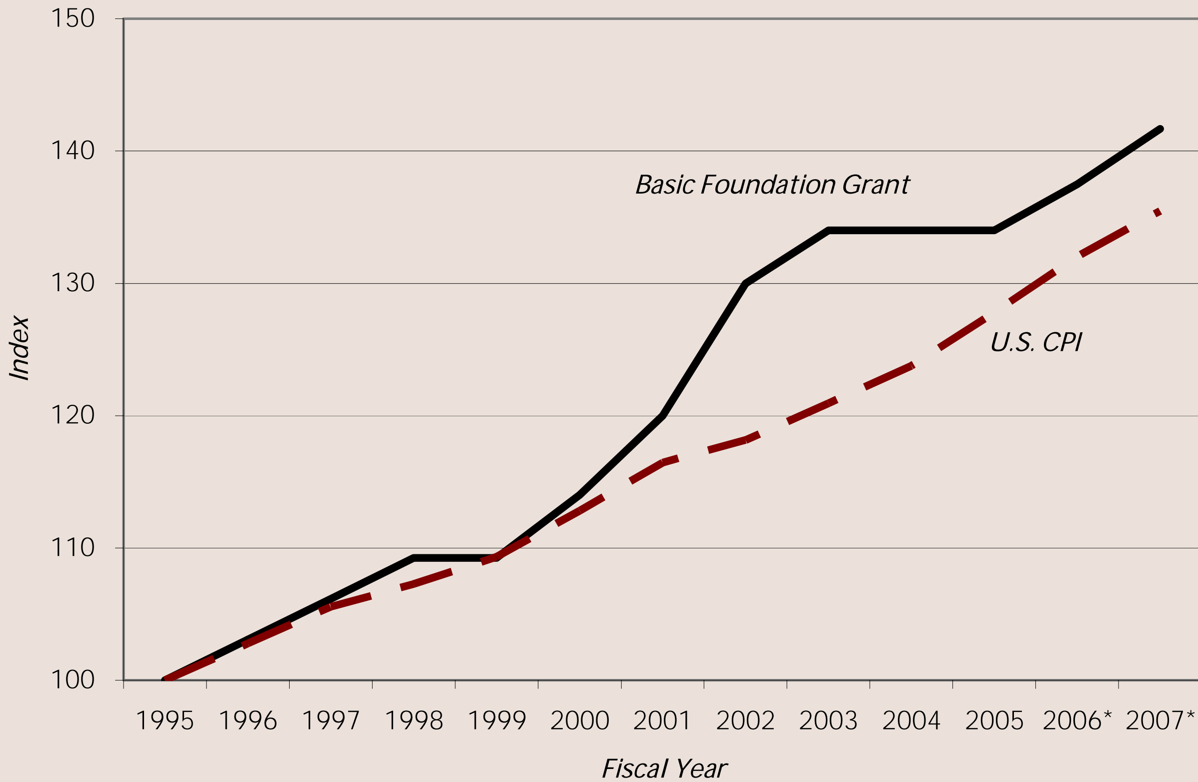
The constitutional guarantee of a base per pupil funding amount, while ensuring a funding floor for local school operating revenue, did not address the topic of increases in annual per pupil funding. This issue is handled in the State School Aid Act. The Act requires the basic foundation allowance to increase by at least the percentage change in the *foundation allowance index*, unless an exception is written into the Act to waive the requirement. This index is the product of a pupil adjustment factor and a School Aid Fund revenue growth factor. The resultant index is applied to the current basic foundation allowance to determine the level for the next year. For fiscal years 1996, 1997, and 1998, the basic foundation allowance was increased using the foundation allowance index method.

Since FY99 the legislature has waived the requirement that the basic foundation allowance increase with the index and has set the basic foundation allowance when it amends the State School Aid Act. Since the State School Aid Act is an appropriations bill that the legislature amends annually, it is able to adjust the basic foundation allowance program each year. The legislature held the basic grant at $6,700 for fiscal years 2003 through 2005, before increasing it to $6,875 for FY06. The recently enacted state budget increases the basic grant to $7,085 for FY07.

The maximum grant increased by the same amount as the basic foundation allowance grant, except in FY02 when an "equity payment" was provided to the basic foundation grant. *Chart 3* highlights both the basic and maximum foundation allowance amounts since implementation of Proposal A.

Source: *A Primer on Michigan School Finance*, C. Philip Kearny and Michael F. Addonizio, 2002.

Chart 2
Growth of Foundation Allowance and Inflation



* U.S. CPI estimates, May 2006 Consensus Revenue Estimating Conference

Source: various appropriations acts, CRC calculation.

Other K-12 School Funding Increases. Proposal 2006-05 also sets funding floors for certain categorical grants in the State School Aid Act. The proposal guarantees that these grants will receive, in FY07, an amount of state funding at least equal to their FY05 base adjusted by the percentage change in the CPI from 2004 to 2006. This is the same calculation used to determine the K-12 education base funding and the basic foundation allowance guarantees. The proposal would guarantee a funding floor for "At-Risk" pupil support, special education, and intermediate school districts operations, beginning in FY07. Nothing in the proposal prevents the legislature from appropriating funds in excess of the minimums required in FY07.

For years beyond FY07, the proposal guarantees an inflationary increase to the FY07 base equal to the change in the CPI. The guaranteed increase in FY08 would be calculated in the same manner as the base funding and foundation allowance increase guarantees in FY08 (i.e., adjusting the FY07 figure by the annual percentage change in the CPI for 2006). Whereas the proposal provides funding floors in FY07 for these various K-12 education spending components, it effectively sets spending ceilings in future years and does not allow annual increases greater than the change in the CPI, beginning in FY08, *under the State School Aid Act*.

Community Colleges Base Funding Increase. The State of Michigan provides general, unrestricted operational support to Michigan's 28 public community colleges. In addition to the state assistance, each school receives local property tax revenue and tuition dollars to fund its operations. Proposal 2006-05

would provide a funding floor in the amount of total appropriations for all community colleges in FY07, using the FY05 initial appropriation as the base upon which a guaranteed increase is calculated.[2,3] Under the proposal, the floor would be set at the FY05 initial appropriation adjusted by the percentage increase in the CPI from 2004 to 2006. Nothing in the proposal would prevent the legislature from providing total appropriations in FY07 in excess of this minimum.

For years after FY07, the amount of total appropriations for community college would have to increase by the CPI. The calculation used for determining the FY08 amount would be based on the FY07 figure and the 2006 CPI, similar to the methodology used in the calculation of the various K-12 education spending guarantees beyond FY07. Whereas the proposal provides a funding floor in FY07, it requires specific increases in future years and does not allow annual funding increases in excess of the change in the CPI, beginning in FY08, *under the State School Aid Act*.

Universities Base Funding Increase. The State of Michigan provides general, unrestricted operational support to Michigan's 15 public universities. These schools also rely on federal aid and tuition dollars to support their general operations. The State also funds need- and merit-based financial aid to students attending public and private universities and colleges in Michigan. Additionally, the state budget supports a number of programs with statewide impact. Proposal 2006-05 would guarantee a funding floor for this component of higher education in FY07, using the FY05 initial appropriation upon which a guaranteed increase is based.[4] Under the proposal, the floor would be set at the FY05 initial appropriation adjusted by the percentage increase in the CPI from 2004 to 2006. Nothing in the proposal would prevent the legislature from providing total appropriations in FY07 in excess of this minimum.

For years after FY07, the amount of total appropriations for universities would have to increase by the CPI. The calculation used for determining the FY08 amount would be based on the FY07 figure and the 2006 CPI, similar to the methodology used in the calculation of the various K-12 education spending guarantees beyond FY07. The proposal does not allow annual increases above the annual change in the CPI, beginning in FY08, *under the State School Aid Act*.

Unlike the community colleges budget, which is financed entirely by the General Fund, the universities budget is supported by a combination of revenue sources, including the amount of federal funds that flow through the state budget, state restricted funds, and state General Fund. Because federal funds are included in the FY05 funding base, Proposal 2006-05 would require the spending guarantees to be applied to this funding stream, regardless of whether or not these resources are received. If additional future federal funds are not available, state resources will have to make up the difference to meet the funding guarantees of the proposal. Conversely, if the annual growth in the amount of federal dollars available to the universities exceeds the growth in inflation, the amount of state resources needed to meet the proposal's automatic increases would be reduced. In contrast to the higher education funding provisions of Proposal 2006-05, the funding guarantee for K-12 education applies only to state resources and excludes federal funds from the automatic increases.

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[2] The proposal refers to the "gross appropriation" for community colleges and universities. This is a common term referring to the total appropriation from all financing sources, e.g., federal funds, state restricted funds, and state General Fund.

[3] The initial appropriation provided in Public Act 358 of 2004 was increased $8.5 million by subsequent budget adjustments, bringing the total Fiscal Year 2005 state appropriation for community colleges to $294.3 million. If the inflationary adjustment required under Proposal 2006-05 used the total FY05 figure as the base, the FY07 budget would have to increase by $19.1 million, rather than $18.6 million.

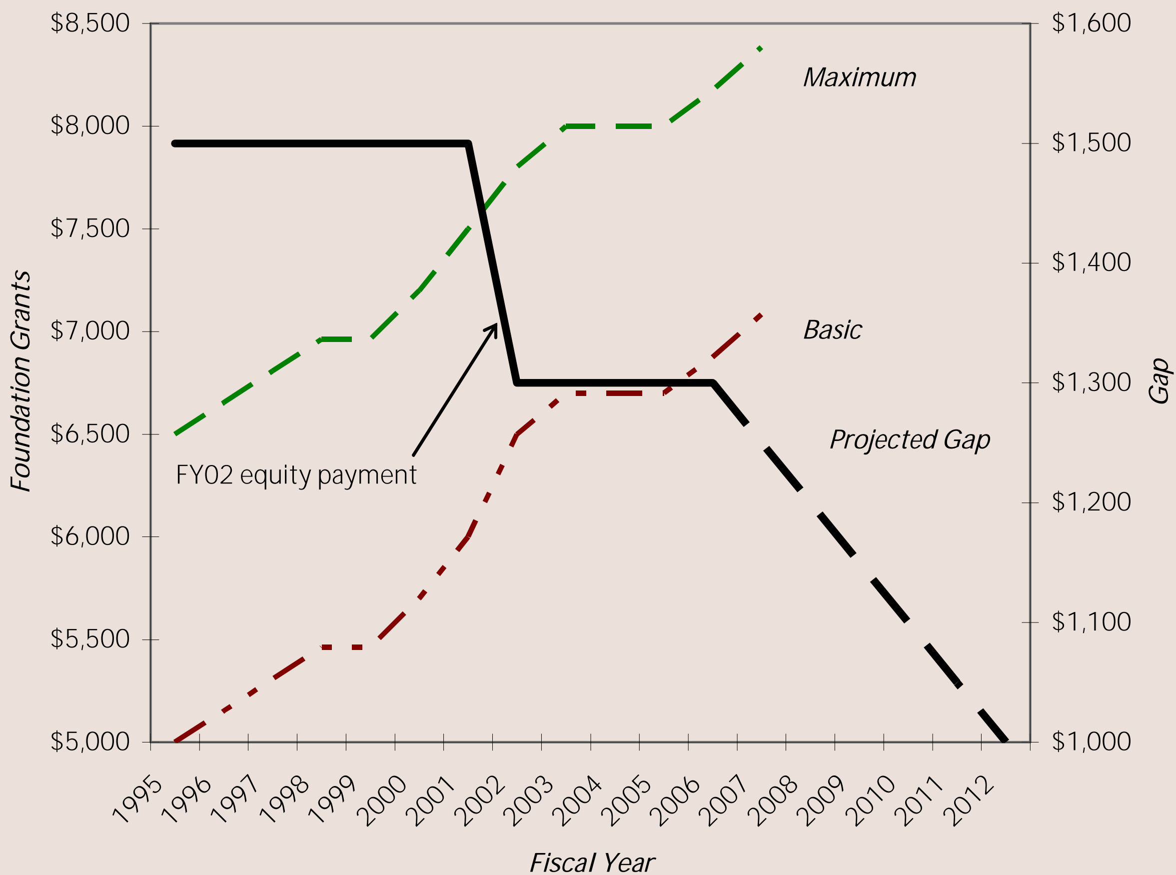
[4] The initial appropriation provided in Public Act 352 of 2004 was increased $32.9 million by subsequent budget adjustments, bringing the total FY05 appropriation for higher education to $1,723.0 million. If the inflationary adjustment required under Proposal 2006-05 used the total FY05 figure as the base, the FY07 budget would have to increase by $112.0 million rather than $109.9 million.

2. Narrow the Foundation Allowance Gap

In addition to the guaranteed funding provisions for overall K-12 education spending and specific categories of spending, Proposal 2006-05 requires the legislature to provide funding necessary to narrow the gap between the basic foundation allowance and maximum foundation allowance. *Chart 3* shows the basic and maximum foundation allowance grants since the implementation of Proposal A and the gap between these two amounts. The current gap is $1,300 per pupil. The proposal would reduce the gap to $1,000 per pupil by FY12. The method to reduce the gap is not specified in the proposal; therefore, for this analysis it is assumed that the gap is narrowed gradually, in six annual $50 per pupil increments, beginning in FY07, by raising the basic grant rather than lowering the maximum grant.

One of the results of Michigan's current architecture for financing local schools is a "range-preserving" effect between low- and high-revenue districts. In recent years, all districts have received equal annual increases in per pupil funding. Although an equal per pupil annual increase applied across all districts represents a larger percentage increase for lower spending districts, it does nothing to narrow the absolute dollar gap between lower and higher spending districts. During the early years of Proposal A, districts below the basic foundation allowance received annual dollar increases greater than those above the basic

Chart 3
Foundation Grants Under Proposal A



Source: various appropriations acts, CRC calculation.

grant in an attempt to "level up" the lower spending districts. By FY00, all districts were eligible to receive, at a minimum, the basic foundation allowance ($5,700 per pupil). In this respect, the components of school finance reform of the mid 1990s improved equity between districts by reducing the per pupil funding disparities that existed prior to FY95.

Before FY02 the gap between the basic and maximum foundation grant was $1,500 per pupil. The increase in the basic foundation allowance for that year included an "equity" payment, effectively reducing the spread to $1,300 per pupil. In that year, the basic grant was set at $6,300 per pupil, however, all districts below $6,500 per pupil received an additional $200 in per pupil funding, effectively bringing the basic foundation allowance to $6,500 per pupil. The maximum grant in that year was $7,800 per pupil. Since FY02, the spread between the two amounts has held constant at $1,300 per pupil.

The FY07 budget contains a new "equity" payment to K-12 districts whose basic foundation allowance is below $7,360 per pupil. Under this program, all districts below this level will receive up to $23 per pupil, or an amount necessary to bring them up to $7,360 per pupil, whichever is less. The payment will be made to eligible districts separate from their basic foundation allowance grant in FY07. Although separate from the foundation allowance, the FY07 equity payment effectively would reduce the spread between the basic and maximum grants by $23 per pupil, outside of the provisions of Proposal 2006-05.

3. Declining Enrollment

The proposal includes a declining enrollment provision to address K-12 school districts that are experiencing falling pupil membership. Under the State School Aid Act, a district's pupil membership is determined by a combination of enrollment figures from the current year, as well as the preceding year. This is referred to as a "blended count". This membership figure is used to calculate the total per pupil funding provided to a district under the foundation allowance program. Using the "blended count" to determine pupil membership benefits districts whose numbers are growing. Mathematically, the actual pupil membership is determined by adding the product of 75 percent of the current year fall pupil count to the product of 25 percent of the preceding year's spring count.

Under the declining enrollment provision of the proposal, a school district would be able to use, for the purposes of determining its membership figure, the average of the district's membership calculated for the three-year period ending with the current year or the actual membership figure for the current year, whichever is greater (see ***Illustration 3***). To calculate the membership figure for each year when using the three-year average methodology, the proposal requires a district to use the blended count formula prescribed in the Act. Use of this three-year average methodology would further exaggerate the total number of students actually attending Michigan schools and require an increase in the amount of state resources dedicated to the foundation allowance program.

Illustration 3
Calculating Pupil Membership
Current Law vs. Proposal 2006-05

Current Law:

FY07 membership (blended count) = 75% of September 2006 count + 25% of February 2006 count

Proposal 2006-05:

Greater of:

A) FY07 membership (blended count) = 75% of September 2006 count + 25% of February 2006 count

or

B) FY07 membership = (FY07 "blended count" + FY06 "blended count" + FY05 "blended count") / 3

The School Aid Act currently has a declining enrollment provision that applies only to small, geographically dispersed rural districts. The provision allows these smaller districts to use the larger of the two membership figures for calculating state assistance. The language in Proposal 2006-05 would use the same methodology for calculating membership as the current law provision; however, it would not restrict the calculation to only a subset of districts in Michigan.

The FY07 budget includes a new $20 million appropriation to address declining enrollments in K-12 districts. This funding would be provided to eligible districts as a separate payment in addition to the foundation allowance grant. Proposal 2006-05's declining enrollment provision would change the method for determining pupil membership for calculating the total foundation allowance grant that each district receives.

4. Retirement Funding Guarantee

The Michigan Public School Employees Retirement System (MPSERS) is the largest public employee retirement system in the state, providing pension and health care benefits to retired employees and their eligible dependents.[5] Pension benefits are financed on an advance funding basis while the health benefits are on a cash disbursement basis. In both cases, these benefits are funded by employer contributions. For the non-university employers of MPSERS members, the total contribution rate consists of three components: normal pension cost, unfunded pension cost, and health benefit cost. The Office of Retirement Services, Department of Management and Budget annually determines these rates. The level of total contributions to the system to fund benefits, expressed as a percentage of payrolls, has been on the rise since FY98 (see *Chart 4* on page 13). Currently, employers are responsible for the entire amount of the contribution to the system. Proposal 2006-05 would shift the responsibility for a portion of the contribution from the employer (e.g., local schools, community colleges,

[5] MPSERS provides benefits to employees of 553 local school districts, 57 intermediate school districts, 7 state public universities, 28 public community colleges, 58 public school academies, and 10 public libraries. As of September 30, 2005, the system had a total of 488,049 members (321,057 active employees, 15,286 vested inactive employees, and 151,706 retirees and beneficiaries).

Higher Education Institutions Participation in MPSERS

Seven of Michigan's 15 public universities and all 28 of Michigan's community colleges are members of MPSERS. These schools' participation in the system dates back to 1945 and the adoption of the Public School Employees Retirement Act, which mandated their participation in the system. Prior to FY90, the State of Michigan paid a portion of the employers' contributions to MPSERS through the School Aid Fund, similar to other employers that participated in MPSERS. For fiscal years 1990 and 1991, the School Aid Fund contribution to MPSERS for universities and community colleges was replaced with General Fund support. Until FY92, these contributions were included in the annual MPSERS retirement budget bills, along with the state's contribution to the retirement system on behalf of other employers. Beginning in FY93, retirement contributions were rolled into the base funding provided to each university and community college. (Note: There was no state retirement contribution for the universities and the community colleges in FY92.) Since FY93, the state's portion of the MPSERS retirement contribution for these seven universities and all the community colleges has not been funded directly, but instead indirectly through annual base operational funding adjustments provided in the state budget.

Although seven universities participate in MPSERS, not all employees of these schools are members. The system was statutorily closed to new university employees on January 1, 1996, and employees hired after this date became members of alternative retirement plans at each university.

universities, district libraries, and intermediate school districts) to the State of Michigan.

Under the proposal, beginning in FY07, the employer contributions to MPSERS would be capped at the lesser of 80 percent of the contribution rate or 14.87 percent of payroll, which was the FY05 rate. The State of Michigan would be responsible for making up the difference between the capped employer contribution and the total actual contribution required. To meet its new fiscal responsibility, the State would be required to appropriate, to the various MPSERS employers, a sufficient amount from the General Fund to make up the difference in FY07. The proposal does not contain a specific appropriation or funding source to cover the State's obligation beyond FY07, although the employer cap would be in effect after FY07.

Under The Public School Employees Retirement Act of 1979, the State must calculate a separate contribution rate for the seven universities that have employees who are members of MPSERS.[6] In actuality, the State must calculate two contribution rates, each reflecting a different component of the pension benefit, i.e., the normal pension cost and the unfunded pension cost. The normal pension costs represent the actuarial determinations of the cost of benefits arising from current service. The normal pension cost rate is applied to the active MPSERS payroll at each school to fund this portion of the benefit. For FY07, this figure is 6.38 percent of payroll. The unfunded pension cost rate (i.e., the difference between present value of all earned pension benefits and the value of current assets) also is applied to both MPSERS employee payroll and to a portion of the nonmember employee payroll at each school. This rate is 6.85 percent for FY07. Use of the larger payroll base to fund the unfunded pension cost is required under The Public School Employees Retirement Act because the system was closed to new university employees effective January 1, 1996. As a result, the MPSERS employee payroll base at each university is shrinking.

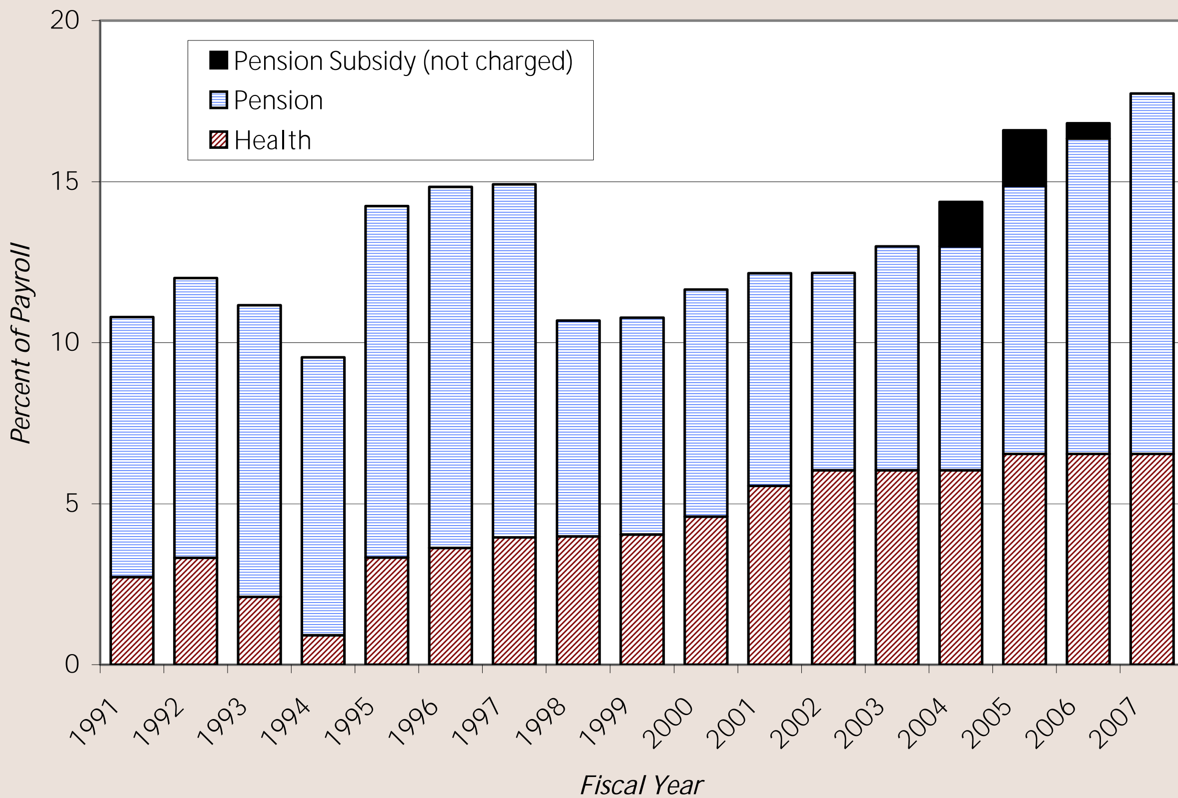
The universities' contribution rate does not include the retiree health benefit component. Instead, the cost of health care benefits for university retirees and their dependents is determined by the State and expressed in actual dollars. Each school is billed monthly for its share of MPSERS retiree health benefits. Given the current funding arrangement for retiree health benefits at these seven universities, it is unclear how the State's share of the universities' retiree health care benefit would be handled, if at all, under the proposal's contribution cap. Since Proposal 2006-05 caps the total employer contribution rate and not necessarily the dollar amount of the employer costs of the retirement benefits, one possibility would be to compute the costs of this benefit as a percentage of the payroll necessary to fund the benefits and add this figure to the two pension rates to arrive at a total contribution rate, similar to the method used to pay for the retiree benefits by other MSPERS employers. Converting the retiree health care component to a percent of payroll, would allow the total contribution rate for the universities to be capped at 80 percent of the actual rate or 14.87 percent of payroll.

For FY07, the MPSERS employer contribution rate for all non-university employers is 17.74 percent of payroll. Under the proposal, the employers' contribution would be capped at 80 percent of this figure (14.19 percent of payroll) and the State of Michigan would be responsible for the remaining 20 percent (3.55 percent of payroll). The cost to the State would be calculated by multiplying the State's share of the total contribution rate by the payroll figures for each employer for FY07.

[6] The universities that have employees who are members of MPSERS are: Central Michigan University, Eastern Michigan University, Ferris State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, and Western Michigan University.

Chart 4 shows the actual MPSERS (non-university) contribution rates for FY91 through FY07. For the three years, FY04 to FY06, the pension component of the contribution rate was subsidized, using available reserves. The subsidy amounted to 1.38 percent, 1.78 percent, and 0.48 percent of payroll during these years, respectively. Use of reserves resulted in a total contribution rate below the actual calculated rate, as reflected in *Chart 4*. The FY07 level represents an unsubsidized rate. It is worth noting that Proposal 2006-05 caps employer contributions at the FY05 rate (14.87 percent of payroll), a year when the rate charged reflected the use of reserves to hold the rate below the calculated level, which was 16.6 percent of payroll.

Chart 4
MPSERS (Non-University) Contribution Rates



Source: Office of Retirement Services, Michigan Department of Management and Budget.

Fiscal Impacts of Proposal 2006-05

The Citizens Research Council of Michigan estimates that the total FY07 cost of Proposal 2006-05 will be between $565 million and $707 million above the enacted budget for FY07, depending on how the legislature implements the K-12 funding guarantees. Because the proposal sets funding floors in FY07, the actual total cost could be even higher than the $707 million figure. The responsibility for financing the added costs associated with the guarantees included in Proposal 2006-05 would fall primarily on the State's General Fund. For FY07 only, the proposal requires the State School Aid Act to pay for all of the funding guarantees, and, if insufficient, appropriates the requisite amount from the General Fund to make up the difference. For years beyond FY07, the proposal is silent as to the source of funds to finance the new spending requirements.

Overall, Proposal 2006-05 would redirect more of the General Fund/General Purpose budget towards education spending and require state finances to be organized in such a manner to meet the various funding guarantees. For the non-retirement costs, the following analysis examines these guarantees in light of the recently enacted FY07 state budget. The retirement costs represent a new financial obligation to the State of Michigan. *Table 1* highlights the FY07 impact of the proposal in terms of both its retirement and non-retirement components.

1. Non-Retirement Costs

K-12 School Base Funding. Proposal 2006-05 would require at least an inflationary increase, from the FY05 base, in the amount of state funding provided to K-12 education for FY07. In FY05, K-12 education received a total of $11,113.5 million in appropriations from state sources. The CPI is estimated to increase by 6.5 percent between 2004 and 2006. Based on this estimate, total state-source appropriations for K-12 education would have to increase by at least $722.4 million from the FY05 base in FY07. The FY07 budget includes $11,682.5 million in state funds for K-12 education, $153.4 million below the guarantee. This difference would have to be made up by General Fund appropriations shifted from other areas of the state budget to K-12 education or from an increase in revenues.

Specific K-12 School Programs. In addition to the base funding guarantee, specific components of K-12 education funding are guaranteed automatic increases as well. As a result, these specific programs effectively would become the first items funded when the legislature develops annual K-12 education spending plans. Proposal 2006-05 provides automatic increases in the per pupil foundation allowance grant. The FY05 basic foundation allowance was $6,700 per pupil meaning that the FY07 figure would have to be at least $7,136 under Proposal 2006-05. The legislature set the FY07 basic foundation allowance at $7,085 per pupil, $51 less than the floor included in the proposal. The Senate Fiscal Agency estimates that this provision would add $84.1 million to the State's share of the foundation allowance program in FY07.[7]

Two of the three categorical grants listed in the proposal would receive additional funding in FY07. First, "At-Risk" funding received $314.2 million in FY05 and is budgeted to receive $319.5 million in FY07. Under the proposal, "At-Risk" funding would be required to receive no less than $334.7 million in FY07, about $15.2 million more than is currently budgeted. Second, intermediate school district (ISD) operational support received $77.7 million in FY05 and is scheduled to receive $80.1 million in FY07, about $2.7 million less than the guarantee included under Proposal 2006-05.

The third K-12 education categorical grant, special education, has received increases in excess of the inflationary adjustments required under Proposal 2006-05 since FY05. In FY05, a total of $896.4 million was allocated for this program. In FY07, this grant is scheduled to receive $992.0 million, about $37.2 million more than the minimum funding guarantee under the proposal. The growth in this component has been the direct result of the 1997 Michigan Supreme Court's *Durant* decision, which requires the State to pay for a specific amount of a district's approved special education program and transportation costs. In its deci-

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[1] Senate Fiscal Agency, *Explanation of the K-16 Coalition for Michigan's Future Funding Initiative and Revised Cost Estimates using May 2006 U.S. CPI Updated Figures*, July 27, 2006.

Table 1
Fiscal Year 2007 Impact of Proposal 2006-05
(millions of dollars)

Non-Retirement Costs

	FY05 Base	*Minimum Increase (6.5%)*	*Proposal 2006-05 FY07 Minimum Guarantee*	*FY07 Budget*	*FY07 State Costs*
K-12 Budget Base Increase	$11,113.5	$722.4	$11,835.9	$11,682.5	$153.4
Other K-12 Costs					
Foundation Allowance	6,700 per pupil*	436 per pupil*	7,136 per pupil*	7,085 per pupil*	84.1
At- Risk	314.2	20.4	334.6	319.4	15.2
ISD Operations	77.7	5.1	82.8	80.1	2.7
Narrow the Foundation Gap			33.8	20.0	13.8
Declining Enrollment			199.4	20.0	179.4
Subtotal Other K-12 Costs:					295.2
Additional Resources/Reductions:(net of Other K-12 costs minus Base K-12 costs)					141.8
Community Colleges Budget	285.7	18.6	304.3	289.9	14.4
Universities and Financial Aid Budget	1,690.2	109.9	1,800.1	1,787.5	12.6
Total Non-Retirement Costs:					*$180.3** to $322.1****

* Actual dollars, not millions.
** Assumes that specific K-12 funding guarantees will be met within resources provided under the base funding increase required by the proposal and reductions/eliminations to existing K-12 discretionary programs.
*** Assumes that specific K-12 funding guarantees will be met by additional resources provided above base funding, without reductions/eliminations to existing K-12 discretionary programs.

Sources: annual appropriations acts; Senate Fiscal Agency, CRC calculations.

Retirement Costs

Employer	*Est. FY07 Payroll**	*FY07 Rate*	*State Share of FY07 Rate*	*FY07 State Costs*
K-12 schools, ISDs, libraries**	$10,182.3	17.74%	3.55%	$361.3
Community Colleges**	541.0	17.74%	3.55%	19.2
Universities***				
Normal Pension Cost	127.2	6.38%	1.28%	1.6
Unfunded Pension Cost	194.6	6.85%	1.37%	2.7
Total Retirement Costs:				*$384.8*

* Based on FY05 payroll figures with three and a half percent annual increases for FY06 and FY07.
** Assumes that the employer contribution rate would be capped at 80 percent of total FY07 rate or 14.19 percent of payroll.
*** Assumes that the employer contribution rate would be capped at 80 percent for each pension component.

Sources: Office of Retirement Services, Michigan Department of Management and Budget; CRC calculations (numbers may not add due to rounding).

sion, the Court found that the State is constitutionally obligated to cover a set percentage of local school districts' special education costs. This cost-sharing arrangement has resulted in annual growth in excess of inflation.

Narrow the Foundation Allowance Gap. The proposal creates a requirement to narrow the gap between the basic and maximum foundation allowance grants by FY12. It does not direct the State how to implement this provision, therefore, it is assumed that the current $300 per pupil difference between the basic and maximum foundation grants would be reduced in six equal $50 per pupil increments, by raising the basic foundation allowance in each year. According to the Senate Fiscal Agency, this provision would cost $13.8 million above the amount contained in the FY07 budget. The annual costs of this provision between FY08 and FY12 would be roughly the same, assuming that the K-12 budget is structured similar to FY07. The annual cost to the state budget of this provision could be postponed if the legislature chose to delay implementing the reduction in the gap. Conversely, if the legislature chose to address the mandate sooner, the cost in any one year could be higher.

Declining Enrollment. With respect to the non-retirement components of the proposal, the district declining enrollment provision would cost the most. The Senate Fiscal Agency estimates that the Proposal 2006-05 declining enrollment provision would cost the State of Michigan an additional $179.4 million, above the amount contained in the FY07 budget.

Total K-12 Costs. Overall, it is estimated that the K-12 education funding provisions will cost between $153.4 million and $295.2 million above the enacted FY07 state budget. The actual cost to the budget will depend on how the legislature addresses the specific K-12 school funding guarantees, the foundation gap provision, and the declining enrollment provision, which total $295.2 million. A portion of this total could be financed by the additional resources provided through the base funding guarantee ($153.4 million). The legislature would have to consider two alternatives to finance the remaining $141.8 million of the total. One option would be reduce/eliminate other "discretionary" or "non-guaranteed" categorical K-12 education programs by this amount in order to meet the Proposal 2006-05 guarantees. Or, the legislature could choose to provide additional resources from the General Fund to cover these costs, above the base funding amount. This alternative would draw more resources from other non-education areas of the General Fund budget, without an increase in general tax receipts. Ultimately, the method employed to finance the K-12 education provisions will directly determine the actual total costs of the proposal, which would range from $565 million to $707 million.

It is worth noting that if the legislature chose to reduce/eliminate other K-12 programs to finance a portion of K-12 education guarantees, districts could use a portion of the savings that they will realize from the provision to cap their retirement contributions to offset these reductions. As a result of the retirement provisions of the proposal, local districts will have to contribute about $361 million less to MPSERS in FY07, thereby freeing up this amount for other K-12 spending.

Higher Education Base Funding. Calculating the fiscal impact of the community colleges and higher education operational costs is relatively straightforward. The proposal guarantees a minimum increase from the FY05 base for FY07. The FY05 initial appropriation for community colleges was $285.7 million. Using a CPI growth factor of 6.5 percent between 2004 and 2006 means that total appropriations for community colleges would have to increase by at least $18.6 million, to $304.3 million. The FY07 budget includes $289.9 million for community colleges, $14.4 million below the funding floor set in the proposal.

The FY05 initial appropriation for universities and financial aid was $1,690.2 million. Of this total, 85 percent was allocated for unrestricted general operational support, 11 percent for financial aid, and 4 percent for programs with statewide impacts. Based on the CPI increase from 2004 to 2006, total appropriations for this component of higher education spending would have to increase by at least $109.9 million to $1,800.1 million. The FY07 budget provides $1,787.5 million in total appropriations, $12.6 million below the minimum guarantee set in the proposal.

Future Costs. The costs to the State of Michigan beyond FY07 will be contingent on changes in the rate of inflation. Once the base funding levels for K-12 schools, community colleges, and universities are established in the budget, the State's ability to finance the marginal annual costs will depend, in large measure, on the growth in state revenues, assuming state revenues are not raised to meet the funding guarantees. With respect to the K-12 components, State School Aid Fund revenues are likely to increase with inflation, given moderate economic growth, and therefore provide the resources to meet future required annual increases for both the base and specific spending guarantees.

Financing the higher education components, which are almost entirely funded from GF/GP appropriations, will depend on future growth in GF/GP revenues. Annual revenue growth below the rate of inflation will make it more difficult to meet the spending mandates of the proposal, especially in light of other spending pressures on the State's GF/GP budget.

2. Retirement Costs

The retirement component of the proposal represents, by far, the most significant costs to the State of Michigan, in both the short and especially the long term. Proposal 2006-05 caps the total employer contribution rate and requires the State of Michigan to make up the difference between the capped employer contributions to MPSERS and the total contribution required, beginning in FY07. The proposal appropriates the necessary amount of General Fund resources to meet the State's share of the retirement guarantee in FY07. These costs would represent a new financial obligation of the State of Michigan.

The FY07 total non-university employer contribution rate is 17.74 percent of payroll. Under the proposal, the employer's share of this rate would be 14.19 percent of payroll (80 percent of the total). The State of Michigan would be responsible for the difference between the total and the capped employer share of the contribution rate, which is 3.55 percent of payroll in FY07. This figure would be applied to the employers' payroll to determine the State's share of the retirement costs. *Table 1* (on page 14) shows the costs to the State of Michigan in FY07 of the retirement provisions, by type of employer. It is estimated that the proposal's retirement funding guarantee will cost the State $361.3 million for K-12 schools, intermediate school districts, and district libraries and $19.2 million for community colleges.

Determining the State's total share of the retirement funding guarantee for the MPSERS universities is somewhat problematic due to the manner in which the retiree health care component is currently financed. The health care portion is not included in the annual contribution rates determined by the Office of Retirement Services. The State provides rates to the universities for the pension components only. For FY07, the employers' share of the two pension components (normal pension cost and unfunded pension cost) would be capped at 80 percent under the proposal. The unfunded pension cost rate is applied to a larger payroll base, which, by law, includes both current university employees in MPSERS as well as university employees who are not members. Under Proposal 2006-05, the State would be responsible for the remaining 20 percent of the pension rates, resulting in a cost of $4.3 million in FY07.

Determining the impact of the retirement funding guarantees beyond FY07 is difficult. It is likely that these costs will account for the majority of the future costs to the State, after the bulk of the non-retirement costs are incorporated into the FY07 budget and assuming moderate revenue growth in the School Aid Fund and General Fund. In general, the State's share of the retirement funding guarantee will depend on the total MPSERS contribution rate and the active payroll levels of each employer. Predicting the increases in payroll is much easier than estimating future contribution rates, as many active MPSERS employees are subject to multi-year collective bargaining agreements that prescribe annual salary increases. Changes in the required contribution rates are less predictable; however, it is very likely that rates will continue to increase steadily in the future.

Factors influencing the rate include the escalating unfunded accrued liability for retiree pension benefits, the increasing costs of health care for retirees and their beneficiaries, and the rising number of individuals eligible for retiree health care benefits. In most cases, employers have very little, if any, control over these factors. *Table 2* projects the future employer and state shares of the total MPSERS contribution rate under Proposal 2006-05 and the future state costs. Beginning in FY08, the employer share of the total will be capped at 14.87 percent of payroll and the State of Michigan will be responsible for the remainder of the contribution rate. The State's share continues to grow as it shoulders the full responsibility for the marginal costs associated with annual rate increases. By FY20, the State's portion of the total contribution rate (15.28 percent of payroll) will be greater than the employers' share (14.87 percent of payroll). The State's financial obligation increases significantly as its responsibility for financing MPSERS retiree benefits grows.

Table 2
Projected MPSERS (Non-University) Contribution Rates and State Costs (millions of dollars)

Fiscal Year	Projected Rate	Employer Share**	State Share	State Costs***
2007*	17.74%	14.19%	3.55%	$ 380.5
2008	19.15	14.87	4.28	474.5
2009	20.15	14.87	5.28	606.3
2010	20.61	14.87	5.74	682.3
2011	21.25	14.87	6.38	784.9
2012	21.89	14.87	7.02	894.3
2013	22.58	14.87	7.71	1,016.6
2014	23.44	14.87	8.57	1,168.5
2015	24.35	14.87	9.48	1,339.3
2016	25.35	14.87	10.48	1,531.1
2017	26.42	14.87	11.55	1,746.5
2018	27.57	14.87	12.70	1,988.2
2019	28.81	14.87	13.94	2,259.3
2020	30.15	14.87	15.28	2,563.3

* Actual rate
** Employer share equal to lesser of 80 percent of rate or 14.87 percent
*** Based on annual payroll increases for K-12, intermediate school districts, libraries, and community colleges of three and a half percent.

Source: Citizens Research Council of Michigan

Issues

Per Pupil Funding Equity. The proposal's requirement to narrow the gap between the basic and maximum foundation grants attempts to further the per pupil funding equity gains realized by Proposal A by "leveling up" the basic foundation allowance. Proposal A was effective at narrowing the initial gap between low and high per pupil revenue districts by providing low spending districts with larger annual per pupil funding increases. As a result of the financing mechanisms implemented, by FY00 all districts were eligible to receive the basic foundation grant ($5,700), assuming that they levied the required level of local taxes. Disparities between the low and high per pupil revenue districts were further reduced with the $200 "equity" payment in FY02.

This proposal would further reduce the per pupil funding disparities across districts by narrowing the gap between low and high spending districts to $1,000 by FY12. However, without additional modifications to the foundation allowance formula, the "range preserving" phenomenon effect described above would remain in the years following FY12.

Increases Provided Regardless of State Fiscal Health. The funding guarantees are provided regardless of the condition of the state budget. Various components of education funding would be assured annual increases commensurate with increases in the CPI, whether or not the revenue needed to support the spending increases is growing. The proposal does not tie the future funding increases to any measure of the fiscal health of the State of Michigan; instead it links these increases to changes in inflation. The CPI is not an indicator of the State's budget condition. Furthermore, there is no close relationship between what the CPI measures and the goods and services purchased by the public sector.

It is worth noting that the State School Aid Act provides a mechanism for automatic annual increases in the basic foundation allowance that is tied to actual revenue growth, called the foundation allowance index. The Act requires that the foundation allowance increase by at least the index each year, unless an exception is written into the Act to waive the requirement. The requirement has been waived each year since FY99. The proposal would cap increases in the foundation allowance equal to inflation, even if the index suggests a larger annual bump.

While the proposal provides a level of guaranteed spending for education irrespective of the State's fiscal condition, it does not isolate these programs from the constitutional responsibility of the Governor to maintain a balanced budget. Executive order spending reductions necessary to bring expenditures in line with estimated revenues would apply to the education areas of the state budget.

Inflationary Increases. Whereas the proposal sets spending floors in FY07, it effectively sets funding targets beginning in FY08. Requiring annual spending increases to mirror changes in the CPI would prohibit the legislature from providing increases through the State School Aid Act above the statutory target set by the proposal even if state revenue growth surpasses changes in the CPI, as it did in the late 1990s. However, there is nothing in the proposal that would prevent the legislature from providing funding above the statutory targets to any of the recipients via something other than the School Aid Act.

Generally speaking, education and other services supplied by the public sector experience annual cost increases greater than general inflation. The use of the CPI to increase education spending raises the question of applying consumer price changes to the increases in the costs of government-provided services. The CPI measures price changes in a market basket of goods and services purchased by a typical urban consumer. The market baskets of the state government budget and a typical urban consumer are very different. Food, housing, and transportation account for nearly three-fourths of urban consumers' market basket, while only six percent of the basket is attributable to medical care and three percent to education. On the other hand, the state budget is weighted heavily toward education and medical care. Proposal 2006-05 would prevent the legislature from appropriating to K-12 schools, community colleges, and universities a level of resources sufficient to address this reality.

Faced with capped state appropriations, the institutions of higher education (community colleges and universities) would be able to turn to other funding

streams to meet the spending pressures they face, should annual inflationary increases prove insufficient. However, given the statutory limitations placed on K-12 schools' ability to generate additional revenue for general operations at the local level, the proposal's guarantee of annual inflationary increases may not be sufficient to meet rising annual spending demands.

The proposal conflicts with the current methods for determining the annual funding level of two specific K-12 education categories, the basic foundation allowance and special education. The basic foundation allowance is set in Section 20 of the State School Aid Act. Under Proposal 2006-05 and beginning in FY08, the basic foundation allowance under Section 20 must increase by exactly inflation, no more and no less. There does not appear to be a conflict between this aspect of the proposal and the current interpretation of Section 20. However, the proposal specifies that the two components that make up the foundation allowance, the constitutionally required payment (Section 22a) and the discretionary payment (Section 22b), must also each increase by exactly inflation beginning in FY08.

The Section 22a payment represents the State's portion of the foundation allowance necessary to ensure that each district receives, in the current year, at least the same amount of per pupil funding it received in FY95. The Section 22b component represents the State's portion associated with the increase in the allowance since FY96. Inflationary increases cannot be provided to each component individually to arrive at an overall inflationary increase in the basic foundation allowance grant, as required under Section 20. On a year-to-year basis, the amount of state funding provided under Section 22a will decrease as the local share of the constitutionally-required per pupil funding increases due to increases in local property values. At the same time that the amount of state funding under Section 22a is falling, Section 22b funding is increasing, possibly by more than inflation, to address the annual increases in the foundation allowance that have occurred since FY96. The proposal's attempt to over-specify the funding necessary to increase the basic foundation allowance by inflation will need to be addressed by the legislature should the proposal pass in November.

The second place in the proposal where there is a conflict between current practice and the proposed increase in state spending is in the area of special education. Under the 1997 Michigan Supreme Court *Durant* decision, the Court ruled that the State is constitutionally obligated to pay for a specific portion of local schools' special education program and transportation costs. This cost-sharing arrangement makes it impossible for the annual increase in the State's portion of special education costs to be limited to exactly inflation beginning in FY08 and still meet the State's responsibilities under Article IX, Section 9 of the 1963 Constitution.

Earmarking General Fund Appropriations. At its most basic level, Proposal 2006-05 would guarantee a specified level of spending for select programs in the state budget. In many respects this concept is similar to the practice of earmarking, or dedicating, certain revenues for specific purposes. The use of earmarking tax revenue is widespread in the Michigan budget. Many of the justifications for and criticisms against earmarking can be applied to the discussion of this proposal. Although the differences between earmarking and this proposal may be subtle, they are important and worth noting.

First, earmarking generally deals with revenues, not necessarily expenditures. While earmarking may reserve specific revenues for specific functions, it does not guarantee that these revenues will be made available through the appropriations process. In contrast, the primary focus of Proposal 2006-05 is to prescribe a specific spending level for various education programs. Second, whereas earmarking ties particular revenue sources to programs, e.g., transportation-related revenues are reserved for road and street construction and maintenance, this proposal guarantees spending, irrespective of the actual funding stream. This is especially true beginning in FY08, when the proposal guarantees specific increases but does not identify the resources to finance them. Third, although both earmarking and the spending guarantees of Proposal 2006-05 deal with future state finances, the practice of earmarking revenues is limited by the amount of resources available. In contrast, the Proposal 2006-05 spending guarantees will occur regardless of the condition of the overall budget and actually includes an automatic appropriation from the State's General

Fund to make up the difference between the new spending requirements and available School Aid Fund revenue in FY07.

General Fund/General Purpose (GF/GP) revenue represents the pool of resources with which the legislature has the most flexibility and discretion with when making annual appropriation decisions. Total GF/GP appropriations for FY07 are $9,222.9 million and $1,949.7 million, or 21.1 percent, of this total is allocated to the education components of Proposal 2006-05. Assuming that the added costs to the state budget associated with the proposal ($565.1 million) would be borne by GF/GP appropriations, the state budget would have to dedicate $2,514.8 million, or 27.2 percent, of the total GF/GP budget to meet the mandates of the proposal. Increased earmarking of GF/GP resources reduces policymakers' flexibility to craft annual spending plans. As more discretionary dollars are allocated to education, fewer resources are available for other programs and functions. This "crowding out" effect can be compounded if education spending increases faster than overall state revenue growth.

Future Financing of Spending Guarantees. The proposed initiated law provides appropriations in FY07 to finance the required spending, requiring the General Fund to make up for any deficiency between the total costs of the proposal and available State School Aid Fund and federal revenue. Furthermore, the proposal guarantees annual increases for education funding and requires the state to continue to provide retirement contributions to MPSERS beyond FY07. However, the proposal fails to appropriate or identify the funding source to meet these future spending mandates. Presumably the State School Aid Fund will be used to finance the K-12 education components. Does the General Fund have to make up the funding shortfall in years after FY07? Or, could another state revenue source provide the resources? What about a new state revenue stream based upon member assessments to fund the required MPSERS contributions?

The proposal does not address financing for the various requirements in years when State School Aid Fund revenue growth exceeds inflation. It appears that the proposal requires the General Fund to make up only for a deficiency between the various spending requirements and available State School Aid Fund revenue. What would happen to this excess revenue? Recently, any excess School Aid Fund revenue has been designated for deposit in the School Aid Stabilization Fund, basically a reserve account to help smooth any revenue fluctuations in future years. Presumably, a portion of the excess revenue would be used to offset the General Fund grant to the School Aid Fund. Could some of the additional revenue be used to offset the General Fund appropriations to higher education? Could some of the additional revenue be used to pay for the State's required contribution to MPSERS?

Article IX, Section 11 of the 1963 Constitution restricts the use of State School Aid Fund for aid to school districts, higher education, and school employees' retirement systems, all of which are guaranteed funding under Proposal 2006-05. Use of School Aid Fund revenue outside of the K-12 education budget would suggest a change in recent state budget policy that has appropriated this revenue exclusively for K-12 education.

Fiscal Relationship Between Schools and State of Michigan. Prior to Proposal A, local schools' and intermediate school districts' contributions to MPSERS were capped at five percentage points of the total contribution rate and the State of Michigan was responsible for the remainder of the annual contribution. To meet its financial obligations, each year the State provided a separate appropriation to MPSERS. Under this arrangement, the State was responsible for the marginal costs associated with any year-to-year increase in the contribution rate. After implementation of school finance reform in 1994, full responsibility of the employer contribution to MPSERS was shifted to local schools and intermediate school districts. The foundation allowance program was structured in such a way to provide sufficient resources to meet the annual contributions required of the retirement system. (Note: The other employers participating in MPSERS have been responsible for the entire amount of the employer contribution to the system since FY92.)

Proposal 2006-05 would change the relationship between the State and the employers participating in MPSERS, and result in a new, additional cost to the state budget. By capping the employer contribution, the State of Michigan will be responsible for directly funding benefits of MPSERS members. This represents a

return to the pre-Proposal A relationship between local schools and the State with respect to MPSERS funding. Proposal 2006-05 also would change the relationship between libraries, community colleges, universities, and the State of Michigan with respect to the financing responsibility for MPSERS contributions.

Under this new cost-sharing arrangement for MPSERS contributions, the State of Michigan would have little control over many of the factors that determine its share of the costs. While the Office of Retirement Services determines MPSERS member retiree health benefits, the State has no influence over contract negotiations between MPSERS employers and their employees that ultimately will affect the pension benefit and its costs. These negotiations determine multi-year pay raises, time off, and other compensation that directly affect the level of employer retirement contributions to the system.

Furthermore, by capping the employer contribution, the State of Michigan will be responsible for the marginal costs associated with yearly increases in the contribution rate. By FY20, the State of Michigan would be responsible for over one-half of the total required contribution to the system.

The proposal would provide a new source of state funding to the seven public universities currently participating in MPSERS that would not be provided to Michigan's other eight public universities. For the seven schools, this new funding could be used to replace other university resources, currently dedicated to MPSERS contributions.

University Retirement Funding Guarantee. Implementing a portion of the retirement provision, as written, may be difficult in light of the current method that universities fund MPSERS retiree health care costs. The proposal caps the employer retirement contribution, which is reported as a percent of payroll. Because each university pays for its retirees' health care benefits directly, as opposed to as a percent of payroll, it is unclear how the proposal's cap would be applied. Would the State of Michigan be responsible for 80 percent of the monthly health care costs? Or, would these costs have to be converted into a percent of payroll, then the cap applied? If this method were used, against which payroll base would the costs be applied, the university MPSERS employees payroll only or a larger payroll base? Or, would these costs fall outside of the proposal's cap and the universities would continue to be responsible for the full amount of retiree health care costs? If the proposal becomes law, the legislature could decide to clarify this provision through statutory amendments. Because of the ambiguity surrounding this aspect of the proposal, an estimate of the fiscal impact of the university retiree health care component is not feasible at this time.

Legislative Oversight. The state budget process is the arena in which policymakers determine public priorities by allocating finite financial resources among competing claims. During this process, lawmakers are able to review and evaluate programs and adjust annual spending plans accordingly. Proposal 2006-05 would reduce the effect of legislative oversight by removing a significant portion of the state budget from the annual appropriations process. Lawmakers will lose the ability to make certain resource allocation decisions in response to their oversight findings, as the funding guarantees included in the proposal effectively make these decisions for them.

Amending the Educational Funding Guarantee Law. Article II, Section 9 makes clear the requirements to amend or repeal an initiated statute. The Educational Funding Guarantee Law only could be amended or repealed by a vote of the people or by an affirmative vote of three-fourths of each house of the legislature. This proposed law, which addresses three sections of the State School Aid Act, would have to be amended in order to implement the FY08 appropriations needed to finance the various funding guarantees. However, the School Aid Act contains a number of other sections that also will have to be amended at the same time that the FY08 appropriations are made. Given the constitutional requirements involved with amending initiated laws, it is likely that future proposed changes to the Educational Funding Guarantee Law will be contained in legislation separate from legislation that aims to modify other sections of the School Aid Act. Therefore, at least two pieces of legislation will have to be enacted to implement the initial FY08 K-12 school aid budget.

Appendix A
Statutory Language of Proposal 2006-05

Existing Michigan law is set forth below. Alterations to existing provisions of law are set forth below in **BOLD AND UPPERCASE LETTERS** to indicate new language and ~~strike through~~ to indicate deleted language.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Title

An act to make appropriations to aid in the support of the public schools and the intermediate school districts of the state, to make appropriations for certain other purposes relating to education, to provide for the disbursement of the appropriations. **TO ESTABLISH MINIMUM FUNDING FOR THE PUBLIC SCHOOLS, THE INTERMEDIATE SCHOOL DISTRICTS, THE COMMUNITY COLLEGES, THE PUBLIC UNIVERSITIES, AND THE INDEPENDENT NONPROFIT COLLEGES OR UNIVERSITIES OF THIS STATE;** to supplement the school aid fund by the levy and collection of certain taxes, to authorize the issuance of certain bonds and provide for the security of those bonds; to prescribe the powers and duties of certain state departments, the state board of education, and certain other boards and officials; to create certain funds and provide for their expenditure; to prescribe penalties; and to repeal acts and parts of acts.

Sec. 11. (1) ~~In addition to all other appropriations under this act for that fiscal year, for the fiscal year ending September 30, 2004, there is appropriated to the state school aid fund from the unreserved balance in the general fund an amount equal to any deficit balance that would otherwise exist in the state school aid fund at bookclosing for the fiscal year ending September 30, 2004.~~ For the fiscal year ending September 30, ~~2005~~ **2007**, there is appropriated ~~for the public schools of this state and certain other state purposes relating to education the sum of $10,909,200,000.00 from the state school aid fund established by section 11 of the state constitution of 1963 and the sum of $264,700,000.00 from the general fund~~ **FROM THE STATE SCHOOL AID FUND THE SUM NECESSARY TO FULFILL THE REQUIREMENTS OF THIS ACT, AND ANY DEFICIENCY IS APPROPRIATED FROM THE GENERAL FUND.** In addition, available federal funds are appropriated for ~~each of those fiscal years~~ **THAT FISCAL YEAR.**

(2) FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE TOTAL AMOUNT APPROPRIATED UNDER THIS ACT FROM STATE FUNDS SHALL NOT BE LESS THAN THE TOTAL AMOUNT APPROPRIATED UNDER THIS ACT FROM STATE FUNDS FOR THE 2004-2005 STATE FISCAL YEAR, ADJUSTED BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FROM THE 2004 CALENDAR YEAR TO THE 2006 CALENDAR YEAR. FOR EACH STATE FISCAL YEAR AFTER THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE TOTAL AMOUNT APPROPRIATED UNDER THIS ACT FROM STATE FUNDS SHALL BE INCREASED FROM THE TOTAL AMOUNT FOR THE IMMEDIATELY PRECEDING STATE FISCAL YEAR BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FOR THE CALENDAR YEAR ENDING IN THE IMMEDIATELY PRECEDING STATE FISCAL YEAR. AS USED IN THIS SUBSECTION, "GENERAL PRICE LEVEL" MEANS THE CONSUMER PRICE INDEX FOR THE UNITED STATES AS DEFINED AND OFFICIALLY REPORTED BY THE UNITED STATES DEPARTMENT OF LABOR OR ITS SUCCESSOR AGENCY.

(3) ~~(2)~~ The appropriations under this section shall be allocated as provided in this act. Money appropriated under this section from the general fund shall be expended to fund the purposes of this act before the expenditure of money appropriated under this section from the state school aid fund. If the ~~maximum amount appropriated~~ **AMOUNT AVAILABLE FOR APPROPRIATION** under this section from the state school aid fund for a fiscal year exceeds the amount necessary to fully fund allocations under this act from the state school aid fund, that excess amount shall not be expended in that state fiscal year and shall not lapse to the general fund, but instead shall be deposited into the school aid stabilization fund created in section 11a.

~~(3) If the maximum amount appropriated under this section from the state school aid fund and the school aid stabilization fund for a fiscal year exceeds the amount available for expenditure for the state school aid fund for that fiscal year, payments under sections 11f, 11g, 11j, 22a, 26a, 31d, 51a(2), 51a(12), 51c, 53a, and 56 shall be made in full. In addition, for districts beginning operations after 1994-95 that qualify for payments under section 22b, payments under section 22b shall be made so that the qualifying districts receive the lesser of an amount equal to the 1994-95 foundation allowance of the district in which the district beginning operations after 1994-95 is located or $5,500.00. The amount of the payment to be made under section 22b for these qualifying districts shall be made as calculated under section 22a, with the balance of the payment under section 22b being subject to the proration otherwise provided under this subsection and subsection (4). Subject to subsection (5), if proration is necessary after 2002-2003, state payments under each of the other sections of this act from all state funding sources shall be prorated in the manner prescribed in subsection (4) as necessary to reflect the amount available for expenditure from the state school aid fund for the affected fiscal year. However, if the department of treasury determines that proration will be required under this subsection, or if the department of treasury determines that further proration is required under this subsection after an initial proration has already been made for a fiscal year, the department of treasury shall notify the state budget director, and the state budget director shall notify the legislature at least 30 calendar days or 6 legislative session days, whichever is more, before the department reduces any payments under this act because of the proration. During the 30 calendar day or 6 legislative session day period after that notification by the state budget director, the department shall not reduce any payments under this act because of proration under this subsection. The legislature may prevent proration from occurring by, within the 30 calendar day or 6 legislative session day period after that notification by the state budget director, enacting legislation appropriating additional funds from the general fund, countercyclical budget and economic stabilization fund, state school aid fund balance, or another source to fund the amount of the projected shortfall.~~

~~(4) Subject to subsection (5), if proration is necessary, the department shall calculate the proration in district and intermediate district payments that is required under subsection (3) as follows:~~

~~(a) The department shall calculate the percentage of total state school aid allocated under this act for the affected fiscal year for each of the following:~~

~~(i) Districts.~~

~~(ii) Intermediate districts.~~

~~(iii) Entities other than districts or intermediate districts.~~

~~(b) The department shall recover a percentage of the proration amount required under subsection (3) that is equal to the percentage calculated under subdivision (a)(i) for districts. This reduction shall be made by calculating an equal dollar amount per pupil as necessary to recover this percentage of the proration amount and reducing each district' total state school aid from state sources, other than payments under sections 11f, 11g, 11j, 22a, 26a, 31d, 51a(2), 51a(12), 51c, and 53a, by that amount.~~

~~(c) The department shall recover a percentage of the proration amount required under subsection (3) that is equal to the percentage calculated under subdivision (a)(ii)) for intermediate districts by reducing payments to intermediate districts. This reduction shall be made by reducing the payments to each intermediate district, other than payments under sections 11f, 11g, 26a, 51a(2), 51a(12),53a, and~~

~~56, on an equal percentage basis.~~

~~(d) The department shall recover a percentage of the proration amount required under subsection (3) that is equal to the percentage calculated under subdivision (a)(iii) for entities other than districts and intermediate districts by reducing payments to these entities. This reduction shall be made by reducing the payments to each of these entities, other than payments under sections 11j and 26a, on an equal percentage basis.~~

~~(5) Beginning in 2004-2005, if a district has an emergency financial manger in place under the local government fiscal responsibility act, 1990 PA 72, MCL 141.1201 to 141.1291, payments to that district are not subject to proration under this section.~~

(4)~~(6)~~ Except for the allocation under section 26a, any general fund allocations under this act thar are not expended by the end of the state fiscal year are transferred to the state school aid fund. ~~If it is determined at the May 2005 revenue estimating conference conducted under section 367b of the management and budget act, 1984 PA 431, MCL 18.1367b, that there is additional school aid fund revenue beyond that determined at the May 2004 conference, then it is the intent of the legislature to enact legislation to fund, to the extent that revenues are available, the same programs in the same amount that were funded under section 81 in 2003 PA 236 and the same pupil membership formula as in effect under 2003 PA 236.~~

SEC. 12. (1) FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE AMOUNT OF THE BASIC FOUNDATION ALLOWANCE AS CALCULATED UNDER SECTION 20 AND THE AMOUNTS ALLOCATED UNDER SECTIONS 22A, 22B, 31A, 51A, 51C, AND 81, RESPECTIVELY, SHALL NOT BE LESS THAN THOSE AMOUNTS AS ORIGINALLY ENACTED FOR THE 2004-2005 STATE FISCAL YEAR BEFORE ANY PRORATION, ADJUSTED BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FROM THE 2004 CALENDAR YEAR TO THE 2006 CALENDAR YEAR. FOR EACH STATE FISCAL YEAR AFTER THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE AMOUNT OF THE BASIC FOUNDATION ALLOWANCE AS CALCULATED UNDER SECTION 20 AND THE AMOUNTS ALLOCATED UNDER SECTIONS 22A, 22B, 31A, 51A, 51C, AND 81, RESPECTIVELY, SHALL BE INCREASED FROM THOSE AMOUNTS FOR THE IMMEDIATELY PRECEDING STATE FISCAL YEAR BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FOR THE CALENDAR YEAR ENDING IN THE IMMEDIATELY PRECEDING STATE FISCAL YEAR.

(2) AS USED IN THIS SECTION, THE MEMBERSHIP FIGURE CALCULATED UNDER SECTION 6 IS THE GREATER OF THE FOLLOWING:

(A) THE AVERAGE OF THE DISTRICT'S MEMBERSHIP FOR THE 3-FISCAL-YEAR PERIOD ENDING WITH THAT FISCAL YEAR, CALCULATED BY ADDING THE DISTRICT'S ACTUAL MEMBERSHIP FOR EACH OF THOSE 3 FISCAL YEARS, AS OTHERWISE CALCULATED UNDER SECTION 6, AND DIVIDING THE SUM OF THOSE 3 MEMBERSHIP FIGURES BY 3.

(B) THE DISTRICT'S ACTUAL MEMBERSHIP FOR THAT FISCAL YEAR AS OTHERWISE CALCULATED UNDER SECTION 6.

(3) CONTEMPORANEOUS WITH THE INCREASES IN THE BASIC FOUNDATION ALLOWANCE PROVIDED FOR IN SUBSECTION (1), BEGINNING WITH THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE LEGISLATURE SHALL DECREASE TO $1,000 BY THE 2011-2012 FISCAL YEAR THE STATE FUNDING GAP BETWEEN THE BASIC FOUNDATION ALLOWANCE AND THE MAXIMUM FOUNDATION ALLOWANCE.

(4) FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE GROSS APPROPRIATION FOR ALL COMMUNITY COLLEGES SHALL NOT BE LESS THAN THE GROSS APPROPRIATION FOR ALL COMMUNITY COLLEGES FOR THE 2004-2005 STATE FISCAL YEAR, AS PROVIDED BY 2004 PA 358, ADJUSTED BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FROM THE 2004 CALENDAR YEAR TO THE 2006

CALENDAR YEAR. FOR EACH STATE FISCAL YEAR AFTER THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE GROSS APPROPRIATION FOR ALL COMMUNITY COLLEGES SHALL BE INCREASED FROM THE GROSS APPROPRIATION FOR ALL COMMUNITY COLLEGES FOR THE IMMEDIATELY PRECEDING STATE FISCAL YEAR BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FOR THE CALENDAR YEAR ENDING IN THE IMMEDIATELY PRECEDING STATE FISCAL YEAR.

(5) IN THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE GROSS APPROPRIATION FOR HIGHER EDUCATION SHALL NOT BE LESS THAN THE SUM OF THE GROSS APPROPRIATION FOR HIGHER EDUCATION FOR THE 2004-2005 STATE FISCAL YEAR, AS PROVIDED BY 2004 PA 352, ADJUSTED BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FROM THE 2004 CALENDAR YEAR TO THE 2006 CALENDAR YEAR. FOR EACH STATE FISCAL YEAR AFTER THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, THE GROSS APPROPRIATION FOR HIGHER EDUCATION SHALL BE INCREASED FROM THE GROSS APPROPRIATION FOR HIGHER EDUCATION FOR THE IMMEDIATELY PRECEDING STATE FISCAL YEAR BY THE PERCENTAGE INCREASE IN THE GENERAL PRICE LEVEL FOR THE CALENDAR YEAR ENDING IN THE IMMEDIATELY PRECEDING STATE FISCAL YEAR.

(6) AS USED IN THIS SECTION:

(A) “COMMUNITY COLLEGE” MEANS A COMMUNITY COLLEGE ORGANIZED UNDER THE COMMUNITY COLLEGE ACT OF 1966, 1966 PA 331, MCL 389.1 TO 389.195, OR ESTABLISHED UNDER PART 25 OF THE REVISED SCHOOL CODE, MCL 380.1601.

(B) “GENERAL PRICE LEVEL” MEANS THE CONSUMER PRICE INDEX FOR THE UNITED STATES AS DEFINED AND OFFICIALLY REPORTED BY THE UNITED STATE DEPARTMENT OF LABOR OR ITS SUCCESSOR AGENCY.

SEC. 147A.(1) OF ALL OF THE TOTAL PERCENTAGE POINTS DETERMINED AND ASSIGNED TO REPORTING UNITS PURSUANT TO THE PUBLIC SCHOOL EMPLOYEES RETIREMENT ACT OF 1979, 1980 PA 300, MCL 38.1301 TO 38.1408, AND ALLOCATED TO REPORTING UNITS UNDER SECTION 147 OR OTHERWISE OFFICIALLY COMMUNICATED TO REPORTING UNITS, EACH REPORTING UNIT IS RESPONSIBLE FOR PAYING FROM ITS GENERAL OPERATING FUNDS 80% OF THE TOTAL PERCENTAGE POINTS OR 14.87%, WHICHEVER IS LESS. EACH REPORTING UNIT SHALL PAY THE REMAINING BALANCE OF THE TOTAL PERCENTAGE POINTS TO THE PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM FROM FUNDS APPROPRIATED TO THE REPORTING UNITS FOR THIS PURPOSE UNDER SUBSECTION (2).

(2) FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, IN ADDITION TO THE GENERAL FUND MONEY APPROPRIATED UNDER SECTION 11, THERE IS APPROPRIATED FROM THE GENERAL FUND TO THE REPORTING UNITS THE SUM NECESSARY FOR PAYING THE REMAINING BALANCE OF THE TOTAL PERCENTAGE POINTS TO BE PAID BY THE REPORTING UNITS AS DESCRIBED IN SUBSECTION (1).

(3) AS USED IN THIS SECTION, “REPORTING UNIT” MEANS THAT TERM AS DEFINED IN SECTION 7 OF THE PUBLIC SCHOOL EMPLOYEES RETIREMENT ACT OF 1979, 1980 PA 300, MCL 38.1307.

Enacting section 1. This amendatory act shall be known as the “educational funding guarantee law”.