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BILL ANALYSIS

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Senate Bill 246 (as introduced 2-23-05)
Sponsor: Senator Bob Emerson
Committee: Appropriations

Date Completed: 6-23-05

**CONTENT**

The bill would amend the State School Aid Act to appropriate a sum sufficient from the School Aid Fund (SAF) to pay for the requirements of the Act; any deficiency in the SAF would be appropriated from the General Fund. The bill would address funding for three branches of education: K-12, community colleges, and higher education.

K-12

For fiscal year (FY) 2005-06, total funding in the Act would be guaranteed to increase from the FY 2002-03 level, adjusted by the increase in the U.S. Consumer Price Index (CPI).

For years subsequent to FY 2005-06, total funding in the Act would be guaranteed to increase by the lesser of inflation or 5% over the prior year.

In addition to a total funding guarantee, individual pieces of the Act would be guaranteed to increase: the Basic Foundation Allowance, the Discretionary Payment, At-Risk, Special Education, and Intermediate School District (ISD) General Operations funding. Similar to the total funding guarantee, these individual pieces would receive inflationary increases from FY 2002-03 levels to FY 2005-06, and in subsequent years would increase by the lesser of 5% or inflation.

A pupil funding guarantee would be included if a school district lost more than 10% of its resident pupils to other local districts or charter schools (not including private schools). Beginning in FY 2005-06, if the total pupils enrolled and counted in a school district were less than 90% of the total pupils residing in the district who were enrolled and counted in membership in either that district or one or more other districts, the district would be guaranteed foundation allowance and special education funding as if 90% of the pupils residing in the district were actually enrolled and counted by the district for membership purposes.

Community Colleges

For FY 2005-06, total funding for community colleges would be guaranteed to increase from the FY 2002-03 level (provided in Public Acts 161 of 2002 and 146 of 2003) adjusted by the increase in the U.S. CPI.

For years subsequent to FY 2005-06, total funding for community colleges would be guaranteed to increase by the lesser of inflation or 5% over the prior year.

Public Universities

For FY 2005-06, total funding for public universities would be guaranteed to increase from the FY 2002-03 level (provided in Public Acts 144 of 2002 and 144 of 2003) adjusted by the increase in the U.S. CPI. (As defined in the bill, total funding for Michigan State University would include funding for the Agricultural Experiment Station and Cooperative Extension Service.)

For years subsequent to FY 2005-06, total funding for public universities would be guaranteed to increase by the lesser of inflation or 5% over the prior year.

Retirement Contributions to the Michigan Public School Employees' Retirement System

Each school district, community college, or participating public university would be responsible for paying into the MPSERS the lesser of 80% of the total percentage points (determined by the Office for Retirement Services to fund retiree health and pension benefits) or 12.99%, applied to the schools' and colleges' salaries. The General Fund would pay the difference between what the schools' and colleges' required payments to the system would be under the Public School Employees Retirement Act, and the actual percentage points necessary to fund the retirement system.

MCL 388.1611 et al.

## FISCAL IMPACT

To estimate the costs in FY 2005-06 of Senate Bill 246, a comparison to the Governor's recommended budgets for K-12, community colleges, and higher education is necessary. The additional funds needed to ensure inflationary increases since FY 2002-03 in K-12, community colleges, and public universities above the Governor's funding levels in these three budgets is $1.2 billion. The cost to the State to pay for the difference between the actual retirement rate for FY 2005-06 (estimated at 16.34%) and the rate that locals would pay (12.99%) would total over $300 million. The cost to provide the 90% enrollment guarantee is estimated at $400 million. Therefore, the total estimated cost in FY 2005-06 of the bill is $1.9 billion above the Governor's recommended funding levels. Of this amount, $1.2 billion is "catchup" funding, or the provision of inflationary increases from FY 2002-03 to FY 2005-06. In FY 2006-07, the "catchup" funding would be eliminated, and one-year inflationary increases from the new base funding would comprise the operational costs. Without changes in the retirement system, the bulk of the cost in years subsequent to FY 2005-06 lies in the MPSERS guarantee, where the State would continue to pay the difference between the actual rate (growing yearly) and the 12.99% capped rate that the school districts, community colleges, and participating universities would pay.

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