

Legislative Update

This is the MEA Legislative update. **This is the current Legislative Update that will focus on the budget, the proposed State takeover of health care, and retirement changes.** For previous issues of this Legislative Update, including the final version for 2009, go to <http://www.mea.org/gov/legislativeupdates.html>.

The time is now to contact your Senator and Representative to stop the assault on public education. Tell him/her that ENOUGH IS ENOUGH.

- **Adopt a budget with no more cuts to education.**
- **To fund the budget, either raise new taxes or repeal some of the massive tax loopholes and tax giveaways that were created after Proposal A was adopted and that now have helped make the funding crisis we are in.**
- **Oppose any State run health plan that limits private sector choices for school employee health insurance coverage.**

“Health Care Reform” –

Last year, Speaker of the House Andy Dillon (D-Redford Township) unveiled a proposal to require all state, county, local, school district, community college and university employees and retirees to be part of a mandatory government run health insurance system. HB 5345, the bill to accomplish this, was introduced on September 10, 2009 and referred to the House Public Employee Health Care Reform committee for consideration. Several hearings were held by this committee in late 2009, but it has been quiet for several months.

That ended last Thursday, May 20, when the committee was re-convened and the Speaker presented a slightly modified version of the bill and another sales pitch for it was unveiled. This is really nothing more than a political ploy to keep the issue before the media and enhance the Dillon campaign for Governor at the expense of school employees and other public employees.

HB 5345 still sets up a thirteen member state committee, made up of political appointees of the governor, the speaker of the House and majority leader of the Senate, to establish a few benefit packages (4 or so) that would be mandatory as the only packages by which public employees could be covered. The new version adds several sub-committees to deal with specialized questions, thus complicating the bureaucratic structure.

In addition to creating a state bureaucracy to put together mandatory insurance plans, the bill allows for the cost to be passed on to local units of government that would be forced into these plans adding potentially large costs for them to bear. Any actual savings would come from forced reduction in benefits, not more efficient administration.

Bargaining would be limited to which state plan to choose, how much of the cost employees will pay or whether or not to opt out. For groups that opt out, employees would be forced to pay all cost over a state plan, whether or not the benefits are the same.

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This proposal cannot be fixed. It is designed to have a governmental bureaucracy set up and administer a government run health care plan with a handful of options. It will force successful private sector providers out of the market and, perhaps, out of business. Pie-in-the-sky savings claims are grossly exaggerated and based upon highly suspect assumptions and data.

Budget –

Today, May 21, the Revenue Estimating Conference met to agree on the consensus figures that will be used to complete the budget bills for 2010-11 and also to make any needed adjustments to balance the 2009-10 budget(s). The result of the Conference was a good news bad news scenario as projections showed the General Fund/General Purpose (GF/GP) budget to be down from the January estimates, but School Aid Fund (SAF) revenue to be up. Current SAF funds are supposed to come in \$292 million higher for the 2010 budget year and are projected to be up \$352 million for 2011 budget year. This is an addition of \$644 million from January 's projections and should erase the prior projected deficits of over \$400 million, and restore the \$118 per pupil cut passed by the Senate in SB 1163. Additionally, SB 1163 relied on a transfer of \$195.4 million from the General Fund which at that time was already projected to be \$1.2 -\$1.3 billion in deficit.

Translated, there is now enough money projected to fund the fiscal year 2010-2011 School Aid Budget at the same amount as the 2009-2010 budget with about \$224 million left over. The Legislature has three obvious approaches they can use as they finalize the 2010-2011 School Aid Budget:

- 1. It can use all or some of the projected surplus to offset last year's reduction of \$165 per pupil which was done outside of the foundation allowance and is carried forward into this budget.**
- 2. It can simply project the money as the closing balance for the 2010-2011 fiscal year and if that comes true fold it into the 2011-2012 budget.**
- 3. It can attempt to use the money for General Fund Budget obligations, most notably community colleges. The legislature has attempted to pay for part of the community college budget out of the School Aid Fund in the past. These attempts have failed several times because of a united front from the school community.**

Now that the revenue picture has been clarified, be prepared to fight for preserving the School Aid Fund for the K-12 students as it was intended rather than using the SAF revenue to balance the GF/GP budget as others are proposing. Because of the tax cuts of the last fifteen years, Michigan has dropped to 37th in the ranking of states by tax burden. This was reported by the economists this morning as they also stated that Michigan is now at 1961 levels for tax revenue. Michigan does need to pay for community colleges, but not at the expense of our pre-K – 12 students. As the budget process resumes, there will be periodic updates and requests for you to contact your legislators.

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The school budgets are awaiting action in the House of Representatives, having already passed the Senate (see below). The next step in the process is for the House to pass amended versions of these budget bills and send them back to the Senate where, in all likelihood, they will be sent to a conference committee to resolve the differences between the two houses.

The Governor presented her budget in February. A summary of the proposal by the House Fiscal Agency can be found at <http://www.house.mi.gov/hfa/schoolaid.asp>

On March 24 the 2010-11 school aid bill, SB 1163 sponsored by Sen. Ron Jelinek (R-Three Oak) was passed by the full Senate and sent to the House of Representatives.. It varied considerably from the Governor's proposed budget (below). Highlights of this version of SB 1163 include:

Decrease the per pupil funding level by a total of \$283 per pupil which includes the \$165/pupil enacted for 2009-10 plus an additional \$118/pupil in 2010-11.

The executive budget set the 2010-11 retirement contribution rate for employers at 19.41% of payroll. The current version of SB 1163 reduces that rate to 17.08% of payroll and added language that the lower rate reflects savings from the proposed "reforms" being enacted in school employee pensions (see above). It also assumes a transfer of \$195 million from the general fund, an assumption that is highly problematic.

The Senate removed the language and penalties proposed by the Governor for districts that do not consolidate non-instructional services, replacing this proposal with language that calls for reporting to the Department of Education on the implementation of service consolidation plans by districts.

The Senate added language on days and hours of instruction that provides districts that had 170 or more days of instruction in 2009-10 may not provide less than that number of days in 2010-11.

In a continuation of the trend to charge costs that were formerly borne by the general fund budget to the school aid budget, the sub-committee added a line, in the amount of \$1.0 million, to provide for the cost related to commercial property tax appeals. It also added a line item, in the amount of \$300,000, to create a new agricultural education program at Saginaw Valley State University.

A copy of SB 1163 as introduced and an analysis of the bill as passed can be found at [http://www.legislature.mi.gov/\(S\(r3ft4445wsejpf3es1blcm55\)\)/mileg.aspx?page=getObject&objectName=2010-SB-1163](http://www.legislature.mi.gov/(S(r3ft4445wsejpf3es1blcm55))/mileg.aspx?page=getObject&objectName=2010-SB-1163)

The Governor's budget features maintaining funding at the same level in 2010-11 as it is in the 2009-10 budget. This in turn sets the per pupil foundation allowance for each district at the level of the 2008-09 budget but directs that each district reduced its overall funding by \$165/per pupil, but leaves it up to the district to decide where to take the money.

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Categorical and other areas of the school aid budget are also proposed to remain at the 2009-10 level. Essentially, this is a status quo budget proposal, holding K-12 schools harmless from further cutbacks.

However, the spending levels proposed by the Governor are predicated on passage by the Legislature of a new revenue package tied to reducing taxes on some business, reducing the sales tax and use tax rate to 5.5% from the current 6% level, and expanding the base to which the sales and use taxes apply to include most services provided in Michigan. By 2013-14 this proposal would be revenue neutral, but next year it would raise some \$554 million in new revenue for schools, \$327 million in 2011-12 and \$48 million additional revenue in 2012-13. As expected, the Senate Republican leadership indicated that it will not deal with this revenue proposal, but, quite unexpectedly, the House Democratic Speaker declared, “the proposal is dead on arrival”. In other words, we are all worried about re-election and we don’t care about education.

Consolidation of Services – The K-12 budget proposal requires districts to implement “consolidation of service” plans by the beginning of 2011-12. These plans are required to implement the most cost effective method of providing the following services: purchasing, payroll, financial accounting, facilities maintenance, pupil transportation, human resources, technology and food services. Each district and each ISD is required to put together the most cost effective method of providing these services.

The budget bill provides that if the district is most cost effective, it may use its own plan. If it is not the most cost effective, it must use the ISD to provide the service or face a reduction of 1% in its total state aid. The ISD may change the district(s) for this service.

Community College Budget SB 1151 sponsored by Sen. Bill **Hardiman** (R-Kentwood). The Senate adopted its version of this bill on March 23 and sent it to the House of Representative. That version contains a reduction of 3.1% in community college funding in 2010-11. The recommended budget of the Governor contained level funding with no reduction in 2010-11. The next step is action by the full Appropriations Committee. The bill and its analysis can be found at [http://www.legislature.mi.gov/\(S\(wr4zdy3jpuxagwftueb3zmev\)\)/mileg.aspx?page=getObject&objectName=2010-SB-1151](http://www.legislature.mi.gov/(S(wr4zdy3jpuxagwftueb3zmev))/mileg.aspx?page=getObject&objectName=2010-SB-1151)

Higher Education Budget SB 1157 sponsored by Sen. Tony **Stamas** (R-Midland). The Senate passed its version of the bill and sent it to the House of Representatives on March 23. That version of the bill also contained a reduction of 3.1% for 2010-11. This is the maximum reduction allowed under the maintenance of effort provision of federal AARA funding requirements. The recommendation of the Governor was for no reduction in funding next year. A copy of the bill and an analysis of it can be found at [http://www.legislature.mi.gov/\(S\(wr4zdy3jpuxagwftueb3zmev\)\)/mileg.aspx?page=getObject&objectName=2010-SB-1157](http://www.legislature.mi.gov/(S(wr4zdy3jpuxagwftueb3zmev))/mileg.aspx?page=getObject&objectName=2010-SB-1157)

Retirement Changes -

On May 14 the Legislature adopted SB 1227 and HB 4073 and sent them to Governor who signed them into law on May 19. These bills enact several changes in school employee pensions and benefits, a few of which are positive and several of which are negative.

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The positive incentive is an increase in the “multiplier” from 1.5% to 1.6% of final average compensation for all employees who are immediately eligible for a full pension and who retire with an effective date between July 1 and September 1, 2010. For employees who are not immediately eligible for a full pension but whose age and years of service when added together total at least 80 and who retire between July 1 and September 1, 2010, the multiplier is increased from 1.5% to 1.55% times their final average compensation.

The cost of the enhanced benefit will be amortized over five years and charged to all participating employers. The local school employer will not have any say over whether an employee may exercise this option. The increase in the multiplier to 1.6% would increase the pension of people taking advantage of the incentive by 6.66%.

The bills also set up a trust for providing health benefits to retirees. The added 3% contribution will be deposited into the trust which is a gain for employees. However, HB 4073 contains specific language that re-enforces the “Studier” decision of the Michigan Supreme Court that was issued several years ago and that ruled there is no right of public school employees to receive health care benefits when they retire. In essence, the new legislation says that these benefits could be ended at some point in the future.

The negative incentives are numerous, including:

- Increase the employee contribution by 3% for all employees who continue to work effective July 1, 2010 (the only exception is “MIP Plus” employees whose contribution was increased to 6.1% in 2008. These employees will have contributions increased by 0.9%). This amounts to a permanent tax of some \$900 to \$2,500 per year on every school employee. Over 30 years it will cost school employees about \$5.5 to \$6 Billion (measured in 2010 dollars)
- For employees hired after July 1, 2010, a reduced pension system that will be a combination of a defined benefit plan and a defined contribution plan. They will have a DB plan similar to the current plan but with no purchase of service credit, no benefits till age 60, no COLA. The DC portion would be an option from which the employee may opt out. If s/he stays in, s/he will contribute to a DC plan and the employer must match the first 2% at a rate of \$1.00 for every \$2.00 the employee contributes (a 1% employer maximum). The pension would be calculated based on a final average compensation (FAC) of the best 5 consecutive years’ earnings, not on the best consecutive 3 years as is now the case.