



STATE OF MICHIGAN  
DEPARTMENT OF EDUCATION  
LANSING

RICK SNYDER  
GOVERNOR

MICHAEL P. FLANAGAN  
SUPERINTENDENT OF  
PUBLIC INSTRUCTION

March 1, 2011

**MEMORANDUM**

TO: State Board of Education

FROM: Lisa Hansknecht, Director of State and Federal Relations

SUBJECT: State and Federal Legislative Update

**Federal Update**

Elementary and Secondary Education Act Reauthorization

Work continues in the U.S. House through hearings related to the Reauthorization of the Elementary and Secondary Education Act (ESEA). Chairman Kline held a hearing on March 1, 2011, focusing on regulator burdens on schools and students. The hearing was titled, "**Education Regulations: Weighing the Burden on Schools and Students.**" This is archived and available online if you wish to watch at the following website:

<http://edworkforce.house.gov/Calendar/EventSingle.aspx?EventID=226021>

Federal Budget

On the budget front, work is progressing on a short term stopgap funding resolution that would keep the federal government running through March 18, 2011. The government is currently operating under a continuing resolution (CR) that runs out Friday, March 4, 2011. The proposed stopgap measure would cut about \$4 billion from current spending levels and also cut about \$2.7 billion in Congressionally directed national earmarks, which include several education programs.

The program eliminations included in the stopgap measure being proposed reflect the eliminations in both the previous House-passed long term CR and the President's proposed fiscal year (FY) 2012 budget. Given that alignment, it is believed likely that the short term stopgap proposal will pass. This will give Congress an additional two weeks to finalize work on FY 2011 spending, or else reach another shutdown face off between party leaders. The vote on that measure is expected today, March 1, 2011, in the House with the Senate voting later in the week.

**STATE BOARD OF EDUCATION**

JOHN C. AUSTIN – PRESIDENT • CASANDRA E. ULBRICH – VICE PRESIDENT  
NANCY DANHOF – SECRETARY • MARIANNE YARED MCGUIRE – TREASURER  
RICHARD ZEILE – NASBE DELEGATE • KATHLEEN N. STRAUS  
DANIEL VARNER • EILEEN LAPPIN WEISER

608 WEST ALLEGAN STREET • P.O. BOX 30008 • LANSING, MICHIGAN 48909  
[www.michigan.gov/mde](http://www.michigan.gov/mde) • (517) 373-3324

## **State Update**

### Emergency Manager Bills Update

As reported previously, the House and Senate are moving quickly to rewrite the law that governs the emergency managers related to municipalities and schools in fiscal distress. Please note that the Department of Treasury is the lead agency on these bills. As an update to the previous report, the most recent action was House passage of the bills with votes on each of the bills of 62 yeas to 47 nays. Those House Bills are scheduled before the Senate Education Committee this week. An analysis of the bills as passed the House is available online

(<http://legislature.mi.gov/doc.aspx?2011-HB-4214>).

The Senate Education Committee had already begun hearings on an almost identical set of bills previously and reported their package from the Senate Education Committee with a vote of 3 yeas to 2 nays. That package is awaiting action on the Senate floor. An analysis of those bills is also available online

(<http://legislature.mi.gov/doc.aspx?2011-SB-0153>).

That committee will be examining the House Bills at their meeting this week (Wednesday, March 2, 2011).

### State Budget

For your information I have attached the highlights documents created by the Office of the State Budget on what was formerly called the School Aid budget and is now an omnibus education funding bill for School Aid, Community Colleges, and Higher Education titled the State Education Funding Act (HB 4325 and SB 200).

The budget for the Michigan Department of Education is rolled in the omnibus bill addressing all state agencies (HB 4324 and SB 199). I have attached the summary for that as well. The two bills are available online

(<http://www.legislature.mi.gov/>).

It is unclear at this point if the Legislature will agree to this format of two omnibus bills and hearings have only just begun. It is important to note that action is occurring in both chambers at the same time, instead of the traditional method of starting in one chamber and then moving over to the other. Per Legislative Leadership, this is to help them meet the self-imposed deadline of having a budget by June 30. Note: Governor Snyder asked for budgets to be concluded by May 31.

I hope this information is helpful to you. If you have any questions or concerns regarding these or other legislative issues, please contact Lisa Hansknecht, Director of the Office of State and Federal Relations, 517-241-4993.



OFFICE OF THE STATE BUDGET  
Presented February 17, 2011

DEPARTMENT OF EDUCATION  
FY 2012 & 2013 EXECUTIVE BUDGET–HIGHLIGHTS

	<b>FY2011</b>	<b>FY2012</b>		<b>FY2013</b>
<b>Total Funding:</b>	<b><u>Enacted</u></b>	<b><u>Exec Rec</u></b>	<b><u>Difference</u></b>	<b><u>Exec Rec</u></b>
Federal	\$ 87,772,100	\$ 77,929,200	\$ (9,842,900)	\$ 78,869,000
Local	\$ 7,199,400	\$ 7,159,200	\$ (40,200)	\$ 7,269,600
Private	\$ 3,124,500	\$ 3,044,400	\$ (80,100)	\$ 3,053,700
State Restricted	\$ 6,949,800	\$ 7,166,300	\$ 216,500	\$ 7,313,600
GF/GP	\$ <u>21,914,100</u>	\$ <u>18,644,200</u>	\$ <u>(3,269,900)</u>	\$ <u>18,883,500</u>
Total	\$ 126,959,900	\$ 113,943,300	\$ (13,016,600)	\$ 115,389,400

**FY2012 ADJUSTMENTS:**

	<b>GROSS</b>	<b>GF/GP</b>
<b>Technical Adjustments</b>	<b><u>\$(11,273,400)</u></b>	<b><u>\$(370,900)</u></b>
Increase private gifts to the blind	\$ 110,000	\$ 0
Remove excess funding authorization	\$ (6,012,500)	\$ 0
Remove one-time cost to rewrite OEAA's secure site	\$ (5,000,000)	\$ 0
Early retirement savings	\$ (370,900)	\$ (370,900)
<b>Administrative Reductions</b>	<b><u>\$(3,300,000)</u></b>	<b><u>\$(3,300,000)</u></b>
Reduce state aid to libraries by 40% to \$3.4 M	\$ (2,304,300)	\$ (2,304,300)
Eliminate various state education reform activities (\$1.9 M)		
State Reform/Redesign Office	\$ (1,369,700)	\$ (1,369,700)
Online Testing Platform	\$ (500,000)	\$ (500,000)
Basic Instructional Supplies Hotline & Appeals Process	\$ (76,000)	\$ (76,000)
Redirect a portion of the state aid to libraries reduction to support the Michigan eLibrary	\$ 950,000	\$ 950,000
<b>Economic Adjustments</b>	<b>\$ 1,556,800</b>	<b>\$ 401,000</b>
<b>TOTAL FY2012 ADJUSTMENTS:</b>	<b><u>\$(13,016,600)</u></b>	<b><u>\$(3,269,900)</u></b>

**FY2013 ADJUSTMENTS:**

<b>Technical Adjustment</b>	<b><u>\$ 1,446,100</u></b>	<b><u>\$ 239,300</u></b>
Active and retiree insurance and pension adjustment	\$ 1,446,100	\$ 239,300
<b>TOTAL FY2013 ADJUSTMENTS:</b>	<b>\$ 1,446,100</b>	<b>\$ 239,300</b>



**STATE BUDGET OFFICE**

**EDUCATION OMNIBUS BUDGET  
EXECUTIVE BUDGET  
FISCAL YEAR 2012 AND 2013**

**Presented February 17, 2011**

**Proposal**

With this budget, the Governor is proposing the creation of a new comprehensive State *Education Funding Act* that supports the state’s education system at all levels from preschool to higher education. The Executive Budget for education totals \$13.8 billion - \$12.2 billion in funding for public schools, \$295.9 million for community colleges and \$1.36 billion for higher education overall.

**Highlights of the Education Omnibus Budget Bill**

- Using the existing statutory school aid act as a base, community colleges and higher education appropriations and language sections are added to create the new comprehensive State Education Funding Act.
- The omnibus budget bill proposes appropriations for FY2012 as well as anticipated spending for FY2013.
- A more user-friendly, traditional appropriation line item section has been created in section 191 that lists funding for all components of Michigan’s education system.
- Line item appropriations supporting similar purposes in the education omnibus bill are “rolled up” into distinct categories of funding, with a schedule of programs detailed in each category.

**FY2012 State Education Funding Act  
Summary of Appropriations  
(in millions)**

<b>Revenue Sources</b>	<b>K-12 School Aid</b>	<b>Community Colleges</b>	<b>Higher Education</b>	<b>Total</b>
School Aid Fund Revenue	10,107.8	195.9	699.7	11,003.3
General Fund	412.5	100.0	564.0	1,076.5
Other State Restricted	0.0	0.0	0.2	0.2
Federal Funds	<u>1,653.3</u>	<u>0.0</u>	<u>98.3</u>	<u>1,751.7</u>
<b>Total Appropriations</b>	<b>\$12,173.6</b>	<b>\$295.9</b>	<b>\$1,362.2</b>	<b>\$13,831.7</b>



STATE BUDGET OFFICE

SCHOOL AID HIGHLIGHTS  
EXECUTIVE BUDGET  
FISCAL YEAR 2012 AND 2013

Presented February 17, 2011

**FY2012 K-12 School Aid Executive Budget**

<b>K-12 Funding (in millions)</b>	<b><u>FY2012</u></b>	<b><u>FY2013</u></b>
School Aid Fund Revenue	\$ 10,107.8	\$ 10,145.0
General Fund	\$ 412.5	\$ 345.2
Federal Funds	<u>\$ 1,653.3</u>	<u>\$ 1,653.3</u>
Total Appropriations	\$ 12,173.6	\$ 12,143.5
Local Revenue	<u>\$ 3,428.0</u>	<u>\$ 3,338.0</u>
Total State/Local/Federal	\$ 15,601.6	\$ 15,481.5

**Consensus Pupils:**

FY2011 – 1,569,500, a decrease of 26,300 pupils from FY2010

FY2012 – 1,548,800, a decrease of 20,700 pupils from FY2011

SBO Planning Estimate for FY2013 – 1,530,800, a decrease of 18,000 from FY2012

**Basic Operations**

- Total funding for the **per-pupil foundation allowance** is \$8.7 billion. Foundation allowances are reduced \$470 per pupil from the FY2011 level - \$170 for the per-pupil reduction currently in effect for FY2011 (\$267 million) and an additional amount of \$300 per pupil (\$452.5 million) to reflect available revenues. The FY2012 basic foundation allowance is \$8,019 and the minimum is \$6,846.

<b>Per-Pupil Foundation Allowance History</b>			
	<u>Minimum</u>	<u>Basic</u>	<u>Maximum</u>
<b>FY1995</b>	\$4,200	\$5,000	\$6,500
<b>FY2000</b>	\$5,700	\$5,700	\$7,200
<b>FY2008</b>	\$7,204	\$8,433	\$8,433
<b>FY2011*</b>	\$7,316	\$8,489	\$8,489
<b>FY2012</b>	\$6,846	\$8,019	\$8,019
*Under FY 2011 current law, total school aid payments are being reduced by \$170 per pupil.			

- **ISD Operations** funding is reduced by 5% from \$65.4 million to \$62.1 million.
- To offset state funding reductions, the Governor recommends districts continue to seek economies of scale for **non-instructional services**. A 10 percent savings in non-instructional services would yield \$300 million statewide.
- Districts are also urged to explore cost-cutting measures in the areas of employee compensation plans. For fiscal year 2013, the Governor proposes to set aside \$300 million from the discretionary funding for districts that are eligible as established by law, but at a minimum, require employees to share in health insurance premium costs at a rate comparable to that for state employees. Further details are forthcoming in the Governor's April 2011 message on education reform.

## Special Education

- The FY2012 budget provides for \$1.4 billion for **special education services**: \$975.1 million in state funds (a decrease of \$82.8 million from FY2011 enacted levels) and \$437.4 million in federal funds (a decrease of \$22.3 million).

## Student Supplemental Services

- The FY2012 budget maintains \$309.0 million in funding for **at-risk** programs. Funding for **adolescent teen health centers** is continued at \$3.6 million. Funding for **hearing and vision screenings** is maintained at \$5.2 million. An additional \$535.1 million in federal funds are also available to assist schools in need of support services to improve student achievement and meet federal education standards.
- The FY2012 budget allocates \$3.1 million for **school transportation safety programs**. Funding for **school bus inspections** is increased by \$1.1 million to \$1.5 million to provide the necessary resources to the Michigan State Police for school bus inspections. Also, funding for **school bus driver safety** is maintained at \$1.6 million.
- **State funding is maintained at FY2011 levels for the following programs:**
  - A total of \$35.6 million for **career and vocational education** programs (\$26.6 million) and vocational education millage subsidy payments (\$9 million) is maintained.
  - Funding to support **adult education** programs is maintained at \$22.0 million.
  - Educational programs that serve **wards of the court** are supported with \$8.0 million.
  - A total of \$10.5 million (\$2.6 million state funds and \$7.9 million federal) supports the state's **math and science centers**.
  - Funds to support the **Michigan Virtual High School** are maintained at \$4.4 million (\$1.7 million state funds and \$2.7 million federal).

## School Meal Programs

- The FY2012 budget continues \$434.6 million in funding for **school lunch and breakfast programs**: \$32.1 million in state funds and \$402.5 million in federal funds.

## Early Childhood Programs

- Total funding for **Great Start** programs is maintained at the current year level of \$109.6 million.
- The funding for **Great Start Readiness** programs is maintained at \$98.3 million (School-based: \$89.4 M; Competitive: \$8.9 M), sufficient to fund over 28,000 slots at the **per-child allotment of \$3,400**. Funding for the longitudinal study is maintained at \$300,000.
- The FY2012 budget continues funding for **Great Start Local Collaboratives** at \$6.0 million for the creation and continuance of local Great Start collaborations.
- The FY2012 budget maintains funding of \$5.0 million for the **Great Parents, Great Start ISD Program**, intended to provide children 0-5 and their families with early learning opportunities.

## Student Assessment and Accountability

- The FY2012 budget maintains funding to districts of \$34.1 million for **data collection and reporting costs, which includes** \$8.4 million formerly in the Center for Educational Performance and Information line to provide financial support to districts for efforts related to the linking of individual teachers to student achievement data.
- The FY2012 budget maintains \$43.4 million (\$35.2 million in state and \$8.2 million in federal) for costs associated with **student assessments** required under state and federal law.
- The **Center for Educational Performance and Information (CEPI)** is funded with \$5.5 million in state funds and \$2.9 million in federal funds, a decrease of \$7.2 million for Race to the Top funding that was not awarded to Michigan.

## Debt Service and Other Required Payments

- **School Bond Loan Fund Debt Service** is increased by \$88.4 million to \$93.6 million.
- **Debt Service on Non-Durant District Bonds** is maintained at \$39.0 million.
- **Renaissance Zone** reimbursements are maintained at \$26.3 million.
- **School Aid Fund Borrowing Costs** are funded at \$20.0 million, a reduction of \$25.0 million from the FY2011 enacted levels.

## Summary of FY2012 Reductions – Total \$538.1 million (4.9% of FY11 Enacted State Level)

### **Foundation Allowance Funding Reduced - \$452.5 million**

- The foundation allowance is reduced an additional \$300 per pupil for all districts.

### **Categorical Programs Reduced for FY2012 – Total \$4.3 million**

- Intermediate School District Operations – reduced \$3.3 million (5%) to \$62.1 million.
- Payment in Lieu of Taxes Reimbursements – reduced \$510,000 (15%) to \$2.9 million to reflect declines in property values.
- Juvenile Justice Facilities – reduced \$387,700 to \$1.1 million.
- ChalleNge Program– reduced \$96,900 to match DMVA budget.

### **Non-Mandated Categorical Programs Eliminated for FY2012 – Total \$46.0 million**

- Declining Enrollment - \$20.0 million
- Special Education ISD Center Program FICA Payments - \$15.3 million
- Bilingual Education - \$2.8 million
- Middle College Program - \$2.0 million
- Supplemental Funding for Small, Rural Districts - \$2.0 million
- MBT Impact on Out of Formula Districts - \$1.8 million
- Precollege Engineering Programs - \$905,100
- Special Education Hold Harmless ISD Payment - \$900,000
- Positive Behavioral Support Program - \$300,000

### **District-Specific Provisions Eliminated for FY2012 – Total \$35.3 million**

- Class Size Reduction Grants - \$19.7 million
- Declining Enrollment for Small, Rural Districts - \$7.0 million
- Foundation Adjustments for Wayne Westland, Garden City, Huron and Gibraltar School Districts - \$8.2 million
- State Supplemental Payments for Rural and/or Island Districts - \$431,200
- At-Risk Earmarks for Dearborn and Baldwin - \$0 (Total At-Risk is Maintained)

(Continued)

**MPERS Retirement Rates for FY2012 and FY2013**

	FY 2011-Rev 10/1/10		FY 2012		FY 2013	
	Employed Prior to 7/1/2010	Employed After 7/1/2010	Employed Prior to 7/1/2010	Employed After 7/1/2010	Employed Prior to 7/1/2010	Employed After 7/1/2010
Pension Normal Cost	3.74%	2.24%	3.47%	2.24%	3.47%	2.24%
Pension Unfunded Accrued Liability (UAL)	8.42%	8.42%	12.49%	12.49%	12.49%	12.49%
Retirement Incentive (5-yr. payback)					2.66%	2.66%
<b>Pension Total Rate</b>	<b>12.16%</b>	<b>10.66%</b>	<b>15.96%</b>	<b>14.73%</b>	<b>18.62%</b>	<b>17.39%</b>
Retiree Health (Cash Basis)	5.50%	5.50%	5.50%	5.50%	5.75%	5.75%
Surcharge due to Injunction	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
<b>Health Total Rate</b>	<b>8.50%</b>	<b>8.50%</b>	<b>8.50%</b>	<b>8.50%</b>	<b>8.75%</b>	<b>8.75%</b>
<b>Total Rate</b>	<b>20.66%</b>	<b>19.16%</b>	<b>24.46%</b>	<b>23.23%</b>	<b>27.37%</b>	<b>26.14%</b>
<b>Rate Increase</b>			<b>3.80%</b>	<b>4.07%</b>	<b>2.91%</b>	<b>2.91%</b>

- The rate charged to school districts for employees that participate in the Michigan Public School Employees' Retirement System will increase by approximately 4% in FY2012.
- The increased rate is reflective of severe investment losses in 2008 and 2009 and significant membership declines. The total number of active members declined by 26% from 327,000 in 2003 to 242,500 in 2010, a drop of 84,500. During this same time period, the number of retirees in the system increased by 34% from 139,800 to 187,700.



**STATE BUDGET OFFICE**

February 17, 2011

**School Aid Executive Budget  
Fiscal Years 2011, 2012, and 2013  
Balance Sheet (in millions)**

<b>AVAILABLE REVENUES:</b>	<b><u>FY2011</u></b>	<b><u>FY2012</u></b>	<b><u>FY2013</u></b>
Beginning Balance	\$255.9	\$507.0	\$95.5
Current Year Revenues	10,979.1	11,193.7	11,468.4
Net Tax Changes	0.0	(593.9)	(526.6)
Other Revenue Adjustments	29.3	(8.0)	3.2
General Fund	18.6	412.5	345.2
Federal Revenue	<u>2,178.3</u>	<u>1,653.3</u>	<u>1,653.3</u>
<b>TOTAL AVAILABLE REVENUES</b>	<b>\$13,461.3</b>	<b>\$13,164.7</b>	<b>13,039.1</b>
<b>APPROPRIATIONS</b>			
PA 217 of 2010	\$13,134.2	\$12,954.2	\$12,173.6
Cost adjustments	(180.0)	(242.6)	(30.1)
Per pupil reduction	0.0	(452.5)	0.0
Other reductions	<u>0.0</u>	<u>(85.6)</u>	<u>0.0</u>
Subtotal, Adjustments	(180.0)	(780.7)	(30.1)
<b>Subtotal, School Aid Appropriations</b>	<b>\$12,954.2</b>	<b>\$12,173.6</b>	<b>\$12,143.5</b>
Community Colleges	0.0	195.9	195.9
University Operations	<u>0.0</u>	<u>699.7</u>	<u>699.7</u>
<b>Subtotal, Higher Ed Appropriations</b>	<b>\$0.0</b>	<b>\$895.6</b>	<b>\$895.6</b>
<b>ENDING BALANCE</b>	<b>\$507.0</b>	<b>\$95.5</b>	<b>\$0.0</b>