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CAPITOL REPORT

February 2010

State Faces at Least a \$1.725 Billion Deficit for FY 2011

According to estimates reached during the January Consensus Revenue Estimating Conference, Michigan is facing **at least a \$1.725 billion budget deficit for Fiscal Year 2011**. Based on the revenue projections reached by the Department of Treasury and the Senate and House Fiscal Agencies, the preliminary estimates have the General Fund between \$1.3 and \$1.5 billion short and a deficit of \$425 million in the School Aid Fund.

On the bright side, no corrective action should be necessary for FY 2010. The newly realized \$150 million deficit in the General Fund and the School Aid Fund should be covered by about \$190 million in projected lapsed money.

Revenue for FY 2010 is estimated to be \$6.9 billion for the General Fund and \$10.5 billion for the School Aid Fund. The difference between FY 09 and projected revenue for 2010 is a 20% drop in General Fund dollars and a 4.9% reduction in the School Aid Fund. Additionally, the state will not have over \$1 billion in federal stimulus money to fall back on that it did in FY 2010.

To balance the 2010-11 budget with all cuts and no additional revenue would require a 20% reduction in all General Fund Budgets. Higher Education and Community Colleges are funded by the General Fund. A 20% reduction in these budgets would require a cut of \$87.7 million. State university and community college operation reductions to the maximum amount allowed due to a Maintenance of Effort requirement under Federal ARRA statutes, would total \$7.1 million. Elimination of all remaining state funding of financial aid and grants would total \$80.6 million.

The current FY 2010 K-12 per-pupil funding grant is \$7,151 per pupil. If the foundation grant is reduced by \$268 in 2011, the minimum per-pupil grant would fall to \$6,883 per student. The reduction amount utilizes the \$200 million federal stimulus funds State Treasurer Bob Kleine said is left over left for 2011.

The state is projected to lose 22,000 K-12 students this year, but that is 4,900 less than what economists thought at the May 2009 Consensus Revenue Estimating Conference. The reasons for this are that outmigration is slowing and parents who cannot afford private school are shifting their kids to public and charter schools. Next year there might be 1,000 new students in cyberschools and "Schools of Excellence," due to recent "Race to the Top" reforms. The current total number of public school students in Michigan is estimated at 1.6 million.

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Granholt's State of the State Address

In Governor Granholt's last State of the State Address, she urged the Legislature to pass the Fiscal Year 2011 budget by July 1. She hinted that a major tax restructuring proposal may be included in the budget she presents to the Legislature on February 11. She pledged to protect funding for tourism advertising and education.

The Governor emphasized that the state must work to restore the Michigan Promise Scholarship which was cut in the 2009-10 budget. She said she would put the scholarship back in her budget, indicating that there would be a novel way to finance the scholarship and that it would be geared toward keeping graduates of state universities in the state.

She also said she would not support any more cuts to education. It was not specified if that applied to all levels of education in the state or just to K-12 schools. We look forward to seeing her proposal to close the \$1.725 billion budget deficit and will keep you updated on the details as they become available.

Groups Announce Reform Plans

"Reform" seems to be the "solution du jour" as the *answer* to the state's fiscal woes. Below is a synopsis of several groups list of reforms. You will notice similarities and overlaps from list to list, and as you can see, education employees are a major focus of these "reforms." Please keep a watchful eye for AFT Michigan e-mails as these reforms start to move.

Governor Granholt's Reform Plan

Governor Granholt claims that her reform package would save state and local government a combined \$450 million through an early retirement incentive.

Her early retirement plan would cap service credits at 30 years and take away state-subsidized retiree vision and dental coverage for any state employees who stay past September 30, 2010. The plan would also increase the multiplier to 1.6 percent and allow certain employees to collect retirement benefits for three years while still working for the state part-time. Employees would have between April 15 and May 15 to make a decision on an early retirement.

The new "cost effective" State Health Care Plan would be opened up to public employees in local governments, schools, and universities.

Retirement Incentive

- ▶ Eligible employees receive 0.1 percentage point pension increase to retire before the end of the fiscal year (7,000 state employees and 39,000 school employees are eligible)

Retirement Changes (After September 30)

- ▶ State employees pay 3% and school employees pay 3% more to pension fund
- ▶ Dental and vision coverage not subsidized
- ▶ State employee credit capped at 30 years
- ▶ New school employees have combined defined benefit/defined contribution pension

Health Care

- ▶ New State employees (not education) pay 20% of premium
- ▶ Local governments and schools could buy into state plan
- ▶ Eliminate lifetime retirement benefit for legislators
- ▶ Ending immunity for drug companies would allow Medicaid costs to be recouped

Local Costs

- ▶ School districts encouraged to share services
- ▶ Competitive bidding required for contracts more than \$50,000
- ▶ Collective bargaining and arbitration laws changed to allow more consolidation and sharing among local governments

Budget Cycle

- ▶ State would go to two-year budgets
- ▶ Budget would have to be completed by July 1 or governor and legislators lose pay
- ▶ Year between budgets for reviewing tax credits

The Governor's plan also includes allowing for "streamlined elections" with no-reason absentee voting; elections by mail for some local, school and special elections; and instant run-off voting for local nonpartisan elections.

Senate Republican Reform Plan

Senate Republicans claim their plan for 10 government reforms could erase the Fiscal Year 2011 budget deficit. Senate Majority Leader Mike Bishop (R-Rochester) said that the reforms could save \$2 billion in the upcoming fiscal year and \$2.24 to \$2.6 billion in the long run.

Public Employees (includes schools, universities, & community colleges)

- ▶ 5% pay cut and 3-year pay freeze
- ▶ 20% share of health insurance premium
- ▶ Eliminate health care benefits for retired legislators who have not vested before January 1, 2010

Public Schools

- ▶ Cap districts' administrative costs at 28% of entire budget
- ▶ Require competitive bidding of custodial, transportation and food support services

Local Government

- ▶ Expedite binding arbitration
- ▶ Ease efforts at sharing services

Medicaid

- ▶ Eliminate some optional Medicaid services (yet to be determined)

State Government Efficiency

- ▶ Reduce number of departments to 11
- ▶ Combine all licensing and permitting within one department

The Senate has established a new seven-member panel, the Reforms and Restructuring Committee, to tackle the 10 reforms proposed by Senate Republicans. Senate Majority Leader Mike Bishop (R-Rochester) will serve as Chair, Senator Jud Gilbert (R-Algonac) will be Vice Chair and Minority Leader Mike Prusi (D-Ishpeming) will be Minority Vice Chair. Also serving will be Senators Deb Cherry (D-burton), Tom George (R-Texas Twp.), Wayne Kuipers (R-Holland) and Tupac Hunter (D-Detroit).

Legislative Commission on Government Efficiency Reform Plan

The Commission stated that the “goal of their recommendations was not to solve the fiscal issues in any one year, but rather to make recommendations that, together, represent a roadmap toward fiscal stability for the State.” In order to achieve savings, the Commission made the follow recommendations (some of which are currently being used on a partial basis):

Higher Education:

- ▶ Elimination of or restructuring of the Michigan Promise Grant Program
- ▶ Use of the "university center" model that brings four-year university programs to community colleges
- ▶ Use and expansion of group purchasing of goods and services
- ▶ More participation in the Voluntary System of Accountability
- ▶ Use and continued development of the "transfer wizard"
- ▶ More extensive use of public/private partnerships in the construction and renovation of campus buildings

K12 Education/School Aid:

- ▶ Reallocate \$300 million from the state school aid fund for funding community colleges to achieve general fund savings.
- ▶ Achieve further cost reductions at the school district level by allowing the State Superintendent to require consolidation of school districts or intermediate school districts if not less than 5 percent of savings can be shown or by providing a state monetary incentive to intermediate school districts that consolidate non-instructional services beyond the current level under certain conditions.

Public Employee Health Benefits (State Hire Consultants to Review the Following Issues):

- ▶ The appropriate level of the total cost of public employee health insurance borne by state government, local government, and public education employees through premiums and co-pays
- ▶ Investigate the possibility of charging newly hired state employees a different rate to purchase health plans than existing employees
- ▶ Investigate the feasibility of either allowing or requiring all public sector employees to purchase health insurance off of the State of Michigan health plans
- ▶ Consider the option of conditioning a portion of the revenue sharing payments to units of local government on offering health benefits no richer than those afforded by the State to its employees
- ▶ Conduct a complete review of the structure of public health plans in Michigan
- ▶ Consider ways to pre-fund retiree health benefits, including the option of selling bonds to finance the long-term cost of retired employee health benefits

Business Leaders of Michigan Reform Plan

Business Leaders of Michigan's Reform Plan (formerly Detroit Renaissance) publicly announced their plan claiming it would make Michigan look more attractive to job providers and roll back the national perception that Michigan is not a desirable place to do business. The *revenue-neutral* proposal would expand sales tax to services, drop the rate from 6 to 5.5 percent, and cut business taxes in half.

The plan includes:

- ▶ Expand sales tax to services and drop the rate from 6 to 5.5 percent
- ▶ Cut business taxes in half
- ▶ Create a two-year budget cycle for the State
- ▶ Form an independent public-private revenue forecasting council to complete quarterly revenue and spending estimates
- ▶ Change eight laws that would better allow local municipalities and school districts to better be able to share services
- ▶ Consolidate school administrative functions across K-12 school district lines
- ▶ Adjust public employee health care contributions to the national public sector average
- ▶ Reduce state employee compensation to the average compensation of state workers in the U.S. and eliminates the scheduled 3 percent pay increase
- ▶ Reduce the state workforce by 5 to 10 percent
- ▶ Enact reforms to Michigan's corrections system that bring our costs in line with other Midwest states.

A Better Michigan Future Reform Plan

For more than a decade Michigan has tried and failed to cut its way out of budget deficits, implementing short-term fixes instead of long-term reforms. Michigan's financial crisis is a rallying point for real reform that ensures that our state budget meets the priorities of Michigan's families and communities. Those priorities are clear: **a better economy, good jobs, strong schools, safe communities and healthy families.**

A Better Michigan Future is mobilizing Michiganders to support reform that modernizes state finances and funds Michigan's priorities. A Better Michigan Future is a coalition of over 30 organizations, including education, environment, healthcare professionals, human services, public and private-sector unions, and children's and women's health advocates, representing nearly one-million Michigan citizens.

AFT Michigan is a coalition partner and supports this four-point priority plan that calls on the Legislature and Governor to:

- ▶ *Implement a Graduated Income Tax* -- Michigan is one of only seven states with a flat-rate tax. We must modernize our tax code to ensure fairness and equity, while offering a tax cut to 90 percent of Michigan families.
- ▶ *Audit Government Contracts* – Reduce wasteful spending by conducting performance audits on \$16 billion worth of government contracts with an eye toward efficiencies -- ensuring Michigan taxpayers are getting the most value for their dollar.
- ▶ *Close Tax Loopholes & Giveaways* – Eliminate tax incentives and loopholes for companies failing to create and retain jobs, while requiring yearly performance reviews for all remaining tax credits and incentives.

- ▶ *Modernize the State's Sales Tax* – Our current sales tax is based on the old economy; we must expand the sales tax to include services and luxury items to ensure stable revenue into the future.

Implementation of FY 2009-10 Financial Aid Cuts

The Michigan Higher Education Assistance Authority is composed of 15 members representing the various education sectors and the general public, who are appointed by the Governor, and one ex-officio member, the State Treasurer, who serves as the chairman of MHEAA. By statute, actions regarding maximum award amounts for the State Competitive Scholarship and Tuition Grant Programs must be approved by the Michigan Higher Education Assistance Authority (MHEAA). On December 18, the Michigan Higher Education Assistance Authority took three actions related to state financial aid programs receiving appropriations in the Higher Education budget:

- Established a maximum award amount of \$510 for the State Competitive Scholarship in FY 2009-10 reduced from \$1,300 in FY 2008-09.
- Allocated \$3.0 million each to Baker College and Davenport University for campus-based awards under the Tuition Grant Program in FY 2009-10.
- Established an effective maximum award amount of \$1,610 for the Tuition Grant in FY 2009-10 reduced from \$2,100 in FY 2008-09.

As you will recall, Public Act 132 of 2009, the FY 2009-10 Higher Education Budget Act, contained a substantial reduction to overall state funding for financial aid programs. Total state financial aid funding was reduced from \$217.5 million in the original FY 2008-09 budget to \$78.6 million in the initial FY 2009-10 budget – a reduction of \$138.9 million or 63.9%.

'Race to the Top' Application Submitted on Time

The state submitted its application for the first round of federal "Race to the Top" grant funds. While it has been widely publicized that Michigan may receive \$200 - \$400 million, there are no guarantees the state will be awarded these funds. In recent weeks, Superintendent of Public Instruction Mike Flanagan has cautioned that the first application might be more valuable in providing the basis for a second application than for actually funding reforms.

It appears that 40 states and the District of Columbia have applied for the money, with approximately 10 states projected to receive grants in April. Due to the popularity of the grants, President Barack Obama announced on January 21 that he is seeking an expansion to the federal program by \$1.35 billion and would allow individual school districts to apply for the money.

Michigan's **Race to the Top 630-page application and plan** can be found on the Michigan Department of Education's website at:

<http://www.mdoe.state.mi.us/MDEDocuments/MDE-RTTT-2010-01-19.pdf>

The 5-page **Executive Summary** can be found at:

http://www.michigan.gov/documents/mde/Michigan_RTTT_Exec_Summary_307954_7.pdf

Emergency Financial Manager Disclosure

Public Act 181, 2009 (House Bill 5052 - Womack, D-Detroit) amends the Local Government Fiscal Responsibility Act to require an emergency financial manager to file with the Governor, the Senate Majority Leader, and the Speaker of the House of Representatives, and post on the website of the local unit of government or school district, a report that contained all of the following:

- ▶ A description of each expenditure made, approved, or disapproved during the reporting period that had a cumulative value of at least \$10,000 and the source of the funds.
- ▶ A list of each contract that he or she awarded or approved with a cumulative value of at least \$10,000, the purpose of the contract, and the contractor's identity.
- ▶ A description of each loan sought, approved, or disapproved during the reporting period that had a cumulative value of at least \$10,000 and the proposed use of the funds.
- ▶ A description of any new position created or any vacancy in a permanent position filled by the appointing authority.
- ▶ A description of any position that was eliminated or from which an employee was laid off.

The report must be submitted every six months, beginning six months after the emergency financial manager's starting date.

Math Teacher Fellowships Announced

The Kellogg Foundation has committed funds totaling \$16.7 million to the Woodrow Wilson National Fellowship Foundation to cover the costs of designing programs to assist **240 new teachers** complete their **master's degrees in mathematics and science**. Those chosen will receive a \$30,000 stipend to complete the master's program.

Under the program, the prospective teachers (current educators are not included) have to be approved by both the university and the Wilson Foundation for the program and have to agree to teach at their assigned district for three years after completing their education. The five school districts are **Grand Rapids, Battle Creek, Kalamazoo, Detroit, and Benton Harbor**.

The six participating universities are **University of Michigan, Michigan State University, Wayne State University, Eastern Michigan University, Western Michigan University, and Grand Valley State University**. The program will begin in 2011.



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