

State Notes

TOPICS OF LEGISLATIVE INTEREST

March/April 2009



Public School Enrollment – A Geographical Representation By Debra Hollon, Fiscal Analyst

Overall, enrollment in Michigan's public schools has been falling continuously for several years. For fiscal year (FY) 2009-10, total statewide enrollment is projected to fall by over 29,000 pupils (1.8%) from the FY 2008-09 estimates. When compared with just five years ago, the FY 2009-10 estimate is a decrease of almost 107,000 pupils (6.3%) statewide. Because State School Aid payments are calculated based upon enrollment (a per-pupil allowance), school district and charter school budgets are being increasingly affected by this trend. For example, Detroit Public Schools are projected to have an FY 2009-10 enrollment of 86,315 pupils, which would be a decrease of 9,613 pupils from the current year. With an FY 2008-09 foundation allowance of \$7,660, that enrollment decrease would equate to the loss of \$73.6 million in State funding (assuming no change in the foundation allowance).

There are multiple factors involved in the decrease in public school enrollment. One of these is the decline in birth rates over the past 15 to 20 years. There are simply fewer children being born in Michigan than there were in the past. Smaller kindergarten classes are entering the system while larger senior classes are exiting, resulting in lower enrollment. Table 1 reflects the actual Michigan birth rates from 1988 through 2007.

Table 1

Michigan Birth Rates	
Calendar Year	Michigan Births
1988	139,635
1989	148,164
1990	153,080
1991	149,478
1992	143,827
1993	139,560
1994	137,844
1995	134,169
1996	133,231
1997	133,549
1998	133,649
1999	133,429
2000	136,048
2001	133,247
2002	129,518
2003	130,850
2004	129,710
2005	127,518
2006	127,537
2007	123,383

Source: Michigan Department of Community Health

Another factor involves the net migration of the State's population. Net migration is the difference between the number of individuals moving into the State and the number moving out.



For the period from August 2007 through July 2008, net migration estimates by the Michigan State Demographer indicate a loss of over 92,600 residents. For the five-year period from August 2003 through July 2008, the loss totals over 288,500. While these statistics do not include the age of the individuals involved, it is reasonable to assume there are families leaving the State with school-age or younger children. Table 2 outlines the migration patterns for this five-year period.

Table 2
Michigan Migration

Time Frame	Net International Migration	Net U.S. Migration	Net Total Michigan Migration
August 2003-July 2004	17,598	(39,853)	(22,255)
August 2004-July 2005	18,279	(57,267)	(38,988)
August 2005-July 2006	18,527	(73,991)	(55,464)
August 2006-July 2007	16,627	(95,787)	(79,160)
August 2007-July 2008	16,621	(109,257)	(92,636)

Source: Michigan State Demographer, Library of Michigan

School District Data

A look at data strictly for school districts reveals a trend similar to the State's migration pattern. The FY 2008-09 estimated school district enrollment dropped by almost 35,000 pupils (2.2%) from FY 2007-08. Tables 3 and 4 below outline the five districts with the greatest reduction in enrollment from FY 2007-08 to FY 2008-09 in terms of percentage and absolute numbers. Tables 5 and 6 list those districts with the greatest increase in enrollment (both percentage and absolute numbers) over the same time period. Proportionally large shifts in enrollment are not limited to either large or small districts; both large and small school districts are affected.

Table 3
School Districts with Greatest Percentage Enrollment Decrease

School District	FY 2007-08 Enrollment	FY 2008-09 Enrollment	Difference	Percent Change
Bloomfield Township	7.1	4.8	(2.3)	(32.9)%
Free Soil	99.1	72.3	(26.8)	(27.1)
Oneida Township	18.0	14.6	(3.4)	(19.0)
Highland Park	3,419.0	2,783.3	(635.7)	(18.6)
Bois Blanc Pines	2.8	2.3	(0.4)	(15.3)

Source: Michigan Department of Education

Table 4
School Districts with Greatest Absolute Enrollment Decrease

School District	FY 2007-08 Enrollment	FY 2008-09 Enrollment	Difference	Percent Change
Detroit	106,485.4	95,927.5	(10,557.8)	(9.9)%
Flint	15,486.7	14,044.0	(1,442.7)	(9.3)
Pontiac	8,245.1	7,435.2	(810.0)	(9.8)
Grand Rapids	20,077.6	19,370.1	(707.5)	(3.5)
Highland Park	3,419.0	2,783.3	(635.7)	(18.6)

Source: Michigan Department of Education



Table 5

School Districts with Greatest Percentage Enrollment Increase				
School District	FY 2007-08 Enrollment	FY 2008-09 Enrollment	Difference	Percent Change
Grant Township	2.7	4.0	1.3	49.3%
Inkster	2,228.0	2,942.6	714.6	32.1
Ionia	8.0	10.0	2.0	25.0
Easton Township	27.2	32.0	4.8	17.7
Palo	42.0	46.0	4.0	9.5

Source: Michigan Department of Education

Table 6

School Districts with Greatest Absolute Enrollment Increase				
School District	FY 2007-08 Enrollment	FY 2008-09 Enrollment	Difference	Percent Change
Inkster	2,228.0	2,942.6	714.6	32.1%
Hazel Park	4,662.0	4,981.0	319.0	6.8
Kalamazoo	11,283.7	11,561.6	277.8	2.5
Chippewa Valley	15,344.6	15,568.0	223.4	1.5
L'Anse Creuse	11,727.1	11,945.7	218.6	1.9

Source: Michigan Department of Education

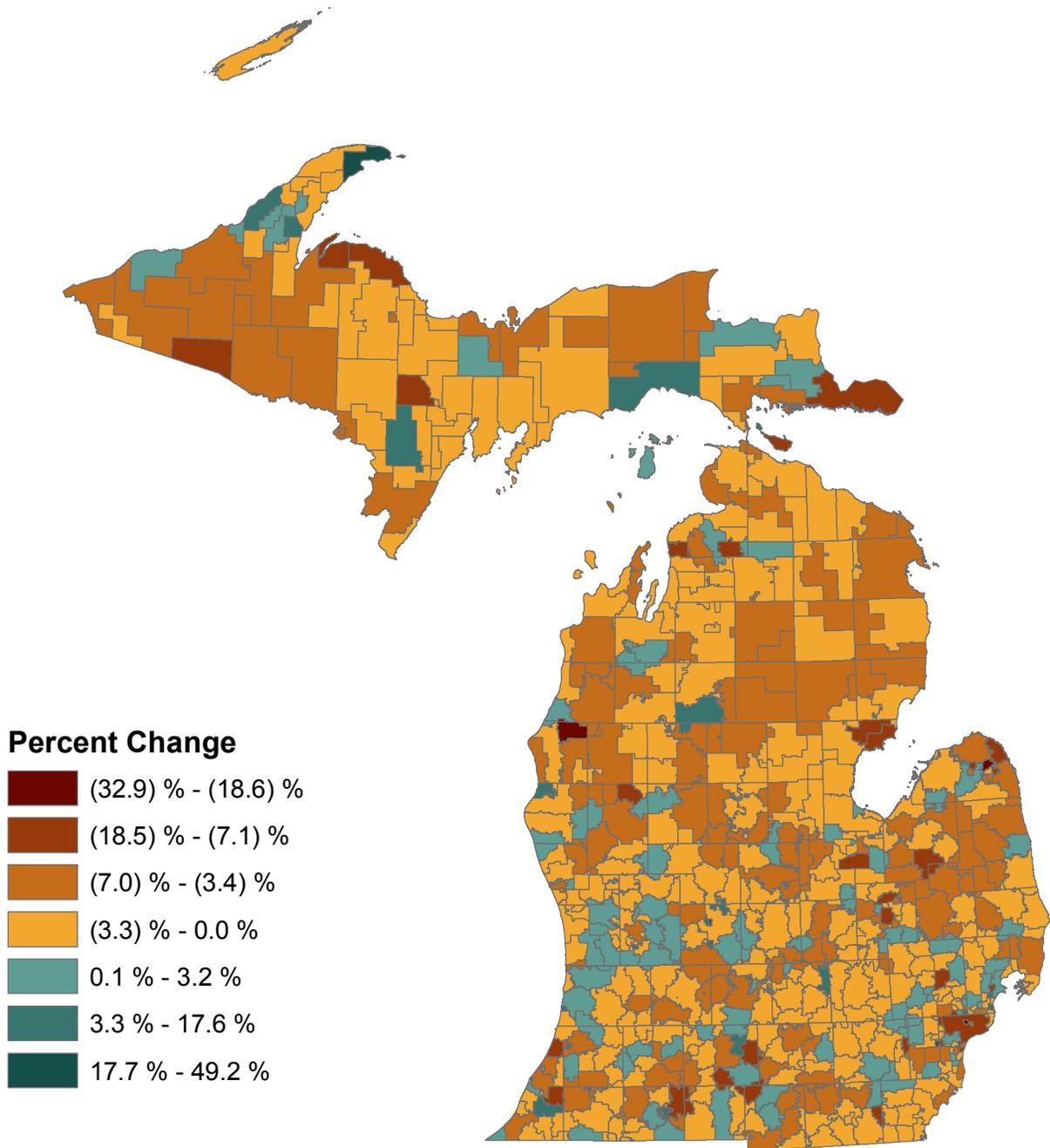
Because a listing of enrollment changes for the 542 school districts in Michigan can make regional and statewide comparisons difficult, the attached map represents these data geographically. The color for each school district represents the percentage change in enrollment from school year 2007-2008 to 2008-2009. The varying shades of green indicate an increase in enrollment; the yellows and reds indicate a decrease in enrollment.

More detailed maps can be found on the School Aid page of the Senate Fiscal Agency website. Under the "Other Budget Information" category (under "Education", under the "State Budget" heading) is a link entitled, "Declining Enrollment Statewide Map". That link (also noted below) will lead to the statewide map attached. Clicking on an area of that map will display a map of that specific region with the individual school districts labeled.

http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCk12_EnrollmentComparisonMap.pdf

Enrollment Comparison

2007-08 School Year - 2008-09 School Year



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Changes in Developmental and Standard Kindergarten Programs **Kathryn Summers-Coty, Chief Analyst**

Since the inception of Proposal A in fiscal year (FY) 1994-95, school districts have had the option of choosing to provide kindergarten on either a half-day or full-day basis (or anything in between), and receive funding for a full day of instruction, as long as the annualized hours of the program are at least equal to one-half of the minimum hours required of grades 1-12. (In recent years, 1,098 hours of instruction have been required for grades 1-12 and 549 hours have been required for kindergarten.) However, recent statutory changes in the State School Aid Act modified the instructional time requirements for full funding of "developmental" kindergarten programs beginning in the next school year, 2009-2010 and "standard" kindergarten programs in 2010-2011. The issue has been complicated by a decision of the House of Representatives that proposes to delay by two years the changes in the program; the Senate now is in possession of the bill that would enact the delay and has yet to weigh in on the matter. This article describes the changes in both developmental kindergarten and standard kindergarten instructional requirements, and includes a discussion of implementation dates and the fiscal impact on schools from these changes.

Background Information: Kindergarten and Developmental Kindergarten

The School Aid Act (MCL 388.1606) allows any child who is age five as of December 1 of the school year to enroll and be counted in a school district's pupil membership, thereby generating foundation allowance (operating) funding for the school. Before changes enacted in Public Act 268 of 2008, there was no difference between a child enrolled in a developmental kindergarten program or a standard program for School Aid purposes. A developmental kindergarten program, sometimes called "D-K", "Early 5s", or "Beginnergarten", is a program that enrolls children who do turn age five by December 1, but who often have birthdays in the fall and would be younger than many of their classmates if they were enrolled in standard kindergarten, or who may need an additional year of instruction before entering a standard kindergarten program. Again, before the most recent changes to the School Aid Act, there was no difference between a child enrolled in a developmental or standard kindergarten program for the purposes of calculating State funding.

Kindergarten: Requirements for Full Funding from 1994-95 to 2008-09

From FY 1994-95 to FY 2008-09, under the School Aid Act, "full-time equated memberships for pupils in kindergarten" was determined by dividing the number of class hours scheduled and provided per year per kindergarten pupil by a number equal to 1/2 the number used for determining full-time equated memberships for pupils in grades 1 to 12. In other words, in order for a district to count a child in any type of kindergarten program and receive full foundation allowance funding for that child, the district had to provide at least a half day of instruction. Whether the district provided a half day, three-quarters of a day, or a whole day of instruction, the district received a full foundation allowance for each child in developmental or standard kindergarten.



Public Act 268 of 2008 Changes

Public Act 268 of 2008, the FY 2008-09 School Aid budget bill, enacted significant changes to the funding of kindergarten programs, and, for the first time, differentiated between developmental and standard kindergarten. Beginning in the 2009-2010 school year, developmental kindergarten or any "class intended to be the first of 2 school years before a pupil enters grade 1" must operate a full day, every day, in order to receive full foundation allowance funding for children enrolled in the program. However, also in the 2009-2010 school year, for children enrolled in standard kindergarten programs, school districts will continue to receive full foundation allowance funding, as long as at least a half day of instruction is provided. (Because these provisions are in current law, they are described as though they will take effect, although their implementation may be delayed, as discussed in the next section of this article.)

Moving ahead one year, to school year 2010-2011, developmental kindergarten programs will continue to have to operate for a full day every day to generate full foundation allowance dollars. However, districts will have to increase from 50.0% of a day to 60.0% of a day of instruction in standard kindergarten programs in order to receive full funding. This does not mean that a district will not be able to continue operating a half-day program; if the district chooses to continue a half-day kindergarten class, it is to receive 83.0% of foundation allowance funding, since it will be providing 83.0% of the required instructional time.

Finally, beginning in 2011-2012, Public Act 268 requires standard kindergarten programs to provide 70.0% of the instructional hours provided to children in grades 1-12 in order to receive full foundation allowance funding. Again, though, a school district may choose to continue its half-day program, but will receive 71.0% of foundation allowance funding. Developmental kindergarten programs will continue to have to operate for a full day in order to receive full funding. In any of these years, if a developmental program chooses to continue operating a half-day program, it will receive 50.0% funding. In fact, for D-K, whatever portion of a day of instruction is provided will be the portion of foundation allowance funding received.

Table 1 summarizes the various changes in instructional time (measured in hours of instruction), as enacted under Public Act 268 of 2008. Table 2 illustrates how a district's funding will change if it continues to operate a half-day program for both developmental and standard kindergarten, instead of providing the required hours for full funding. For the purposes of this example, the district's foundation allowance is assumed to be \$7,500 per pupil.

Table 1

Required Hours for Full Foundation Allowance Funding FY 2008-09 to FY 2011-12				
Program	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Developmental Kindergarten	549	1098	1098	1098
Kindergarten	549	549	659	769



Table 2

Per-Pupil Fiscal Impact on a School District Choosing to Continue Half-Day Developmental Kindergarten and Standard Kindergarten				
Program	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Developmental Kindergarten	\$7,500	\$3,750 (reduction of \$3,750 per D-K pupil)	\$3,750 (reduction of \$3,750 per D-K pupil)	\$3,750 (reduction of \$3,750 per D-K pupil)
Kindergarten	\$7,500	\$7,500	\$6,225 (reduction of \$1,275 per kindergarten pupil)	\$5,325 (reduction of \$2,175 per kindergarten pupil)

House of Representatives Action on Delaying the Implementation Dates

As mentioned above, the changes to D-K and kindergarten were enacted in the FY 2008-09 School Aid budget bill, Public Act 268 of 2008. During discussion this spring, the House of Representatives heard testimony from numerous school districts that the implementation of these changes for D-K and kindergarten would have an adverse impact on their financial situations. The House passed House Bill 4447 (the FY 2009-10 School Aid budget) on April 2, 2009, and in that budget, proposes to delay the implementation dates for D-K and kindergarten by two years. This means that, instead of requiring a full day of instruction for full funding in D-K this upcoming fall, the increased hours would not be required until the 2011-2012 school year. Also, the increased hours required for full funding in standard kindergarten would not be required until the 2012-2013 school year.

House Bill 4447 will see action next by the Senate, which will hold public hearings on the budget beginning April 21, 2009, and continuing through May 12, 2009. If the Senate agrees with the delay in implementing these changes, the proposal will go on to the Governor for her signature and enactment into law. If the Senate does not agree, then a Conference Committee will decide the terms of the program. The Governor's recommended budget did assume \$5.8 million in State savings from requiring full-day instruction for full funding of developmental kindergarten programs in FY 2009-10. If the final action on the budget delays the implementation dates, then these savings will not occur, and the cost to restore full funding for the half-day program will need to be appropriated.

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Examining a Change from Defined Benefit to Defined Contribution for the Michigan Public School Employees' Retirement System **Kathryn Summers-Coty, Chief Analyst**

As Michigan's school districts face uncertain financial times in a struggling State economy, one potential avenue for savings that often is mentioned relates to the pension benefits provided to members of the Michigan Public School Employees' Retirement System (MPSERS). Specifically, debate often focuses on changing the system from a defined benefit (DB) plan to a defined contribution (DC) plan. However, as this article demonstrates, such a move does not guarantee savings, and in fact, would produce short-term costs and potentially could cost more in the long term, depending on the structure of the replacement plan. This article explains the differences between DB and DC plans, discusses what is offered in MPSERS, reviews the costs of pensions under the DB plan in MPSERS and under the DC plan for State employees, and illustrates what would occur if MPSERS were changed from DB to DC.

What is a Defined Benefit Plan?

A defined benefit plan is one that offers a fixed, continuous stream of income after a person retires, often referred to as a "pension". An employee in a DB plan must work for a set period of years before becoming eligible to receive a pension upon retirement ("vesting"), and must work either a certain number of years or to a certain age, or both, in order to receive full pension benefits. Working fewer than the required number of years, or leaving employment before reaching a certain age (but after vesting) results in a permanent reduction to the maximum amount of pension allowance. Currently, MPSERS is a DB plan.

What is a Defined Contribution Plan?

A defined contribution plan is one in which contributions are made to a retirement account, by either the employer or the employee, or both. The amount a person receives when he or she retires depends on the level of contributions made over the employee's lifetime and the investment returns on those contributions. A DC plan does not provide a fixed, continuous stream of retirement income, but instead provides a retirement account with a variable value that usually relies on market and investment performance. The State of Michigan used to offer a DB plan for all State government employees; however, State employees hired after March 31, 1997, are now part of a DC plan.

What is the MPSERS?

Basic System Information

In 2008, there were 278,642 active (working) members and 167,265 retired members of MPSERS. Pensions totaling \$3.1 billion were paid to retirees in 2008. Also, health care for retirees was provided, at a cost of \$666.4 million. The system includes all 554 K-12 districts, 58 public school academies (charter schools), seven universities (for employees hired before January 1, 1996), all 28 community colleges, all 57 intermediate school districts (ISDs), and 11 libraries.



As of September 30, 2008, net system assets were \$39.9 billion; the Department of Treasury invests these assets. In 2008, the system was 88.7% funded. This means that, at the present time, the total value of all earned benefits (to be paid out over the lifetimes of retirees) exceeds the amount of assets in the system. When assets equal all earned benefits, a system is 100% funded. The variable that has the most impact on a system's funded ratio is the performance of the stock market.

It is very critical to note that MPSERS is a plan that requires contributions from employees, as well as from employers, in order to have funds available to pay out the earned pensions. Employees hired after January 1, 1990, and before July 1, 2008, pay \$510 plus 4.3% of salary above \$15,000. However, due to the enactment of Public Act 111 of 2007, employees hired after July 1, 2008, pay \$510 plus 6.4% of salary above \$15,000. In 2008, employees contributed \$477.3 million into MPSERS; this contribution will increase over time as more employees are newly hired and required to pay a higher portion of their salary into the retirement system.

Each year, the Office of Retirement Services publishes the upcoming fiscal year's retirement "rate", and employers (e.g., school districts) pay that published MPSERS rate applied to their payroll. The total rate includes both a pension component and a health care component. The rate for 2008-09 is 16.54%, of which 6.81% is to pay for health care costs and 9.73% is to cover the costs of funding pensions. For example, a school district with a \$20.0 million payroll in the 2008-09 fiscal year would pay \$3.3 million (16.54% of \$20.0 million) into the system. In 2008, employers statewide paid more than \$1.6 billion into MPSERS. Therefore, total combined employee and employer contributions in 2008 were more than \$2.1 billion.

Calculating a Pension under MPSERS

Employees hired after January 1, 1990 (enrolled in the Member Investment Plan, or MIP) may retire with a full pension allowance at any age if they have 30 or more years of service; or at age 60 with 10 or more years of service; or at age 60 with five years of service, with the service credited in each of the last five years before retirement and through age 60.

Employees hired before January 1, 1990 (enrolled in the Basic plan) may retire with a full pension allowance at age 55 with 30 or more years of service, or at age 60 with 10 or more years of service.

A person's pension depends on the years of service and final average compensation (FAC). The multiplier is 1.5% under current law. The FAC is the average of the three-year period yielding the highest total wages for MIP members, and the average of the five-year period yielding the highest total wages for Basic members.

- Under current law, Pension = Years of Service X FAC X 1.5%.
- For example, a person with 30 years of service and FAC of \$70,000 would earn, under current law, a pension of \$31,500 per year.



What are the Costs of the State's DC Plan?

Before examining how a change from DB to DC would look for MPSERS, a discussion of the State's DC plan for State employees is prudent. Also, the remainder of this analysis will focus only on pensions and will not include a discussion of the cost of providing health care to retirees, since changes have made health care benefits for MPSERS retirees that are very similar to benefits for those in the State's DC plan.

State employees hired before March 31, 1997, were placed into the State's DB plan, which offers a fixed pension based on years of service and final average compensation. Unlike the MPSERS defined benefit plan, the State employees' DB plan did not require employee contributions, which made the employer normal pension cost more expensive, since the employer paid the entire cost of funding pensions. The State changed this plan, however, and all employees hired after March 31, 1997 (and those hired before this date who voluntarily switched over) were placed into a DC plan.

The State employees' DC plan is basically a 401k investment account. The State first deposits 4.0% of the employee's salary into the investment account. Next, the State will match the first 3.0% of the employee's contributions into that account. Therefore, if an employee contributes 3.0% or more into the 401k, the total that the State contributes is 7.0% of the person's salary (the first 4.0% plus matching the 3.0% that the employee contributes). Currently, according to the Office of Retirement Services, the average that the State contributes for a DC employee is 6.65% of salary, meaning that most people do in fact contribute to their 401ks and earn the State match. This 6.65% of salary represents the State's cost of funding a DC employee's retirement account. Any additional deposits into that account must come from the employee, and the amount of deposits and market performance over time will determine how much the employee will have available in retirement.

What if MPSERS Changed to a DC Plan Like the Plan for State Employees?

If MPSERS were converted to a DC plan for new employees hired after a certain date, and if the DC plan were identical to what is provided to new State government employees, there would be costs associated with the change. First, there would be ongoing increases in the amount of contributions that employers would have to pay based on the "normal cost" variance between the plans. Second, there would be costs of paying off the existing unfunded liability on a different payment schedule, as required when a system is closed to new hires. Third, there would be one-time administrative costs for the Office of Retirement Services (ORS). These three costs are discussed in more detail below.

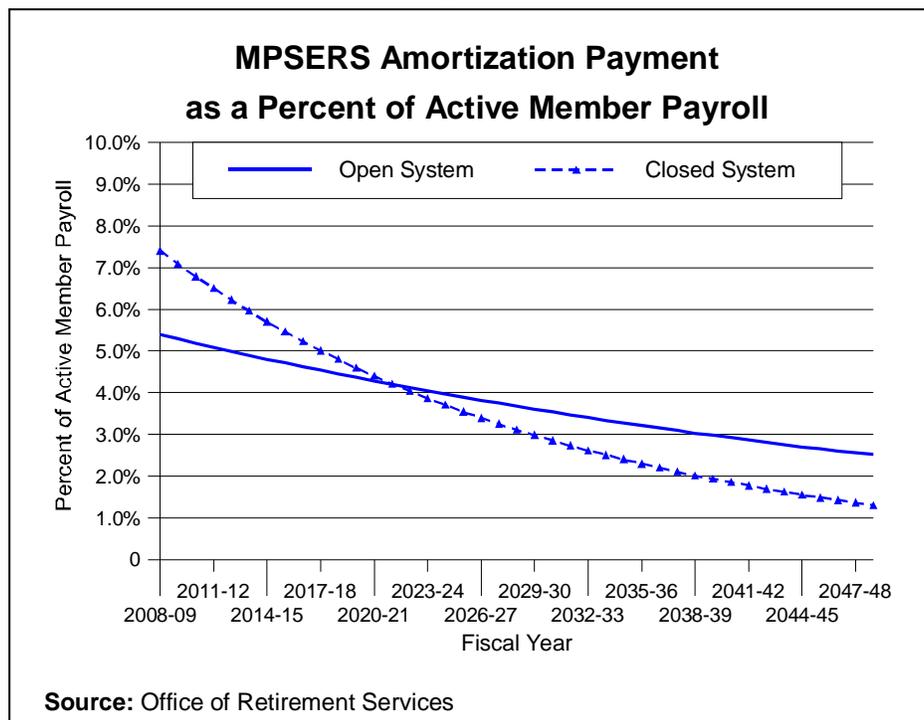
Because MPSERS requires contributions from employees in the plan, the "normal cost" to employers (e.g., school districts) of funding pensions will be 4.21% of salary in fiscal year (FY) 2009-10. This compares to the normal cost of funding 401k accounts under the State's DC plan estimated by ORS for FY 2009-10 at 6.55% of salary (again, with the State first contributing 4.0% of salary and matching up to 3.0% of employee contributions). In addition, if a MPSERS DC plan were designed to match the SERS DC plan, the employer would need to pay an additional 0.4% to fund the DB disability and survivor benefits that are extended to DC participants, for a total cost of 7.05%. If MPSERS were restructured to a DC plan with the same parameters as the State employees' DC plan, then there would be an increase in costs to



school districts, community colleges, ISDs, and participating charter schools and libraries, equal to the difference between these rates (4.21% compared to 7.05% of salary). The ORS estimates these costs to be \$7.0 million in the first year, \$24.0 million in the second year, and \$38.0 million in the third year, growing over time as more employees are newly hired and placed into the DC plan. If employers had to contribute the maximum rate as a result of all employees contributing the full 3.0% match, the costs rise to \$9.0 million in the first year, \$28.0 million in the second year, and \$45.0 million in the third year.

The second area of costs has to do with paying off the unfunded accrued actuarial liability (UAAL) in the system. The UAAL represents the shortfall of assets in the system to meet the cost of all earned benefits, if those benefits had to be paid out in their entirety today. As of September 30, 2008, the UAAL was \$8.9 billion. When a DB system remains open and enrolls newly hired employees, this unfunded liability is paid off over 28 years as a *level percentage of payroll*. If a DB system becomes closed to new employees, accounting rules require the unfunded liability to be paid off over 30 years as a *level dollar amount*. In the first year, the amortization payment would be 7.4%, instead of 5.4% if the system were open. The additional cost of this requirement is estimated at \$208.0 million, or 2.0% of payroll, in the first year; the cost would decline slowly over the next 14 years. In years 15 to 30, the cost of paying off the liability after the system was closed would be less than if it had been paid off as a level percentage amount. The costs would be paid for by an increase in the retirement rate, meaning higher costs for employers. Figure 1 illustrates the differences between these two payment plans, and shows that though the liability is a fixed amount, how it is paid off varies under an open DB or closed DB plan, and closing the system would require higher payments and a higher retirement rate in early years, but lower payments in outer years.

Figure 1





Finally, the ORS has indicated that if MPSERS were changed to a DC plan, and if the plan applied only to new employees, a one-time transition cost would be incurred, estimated at \$2.0 million. However, if the DC plan were offered to employees currently in the DB plan, as well as mandated for new personnel, the administrative costs would range from \$8.0 million to \$10.0 million.

Advantages of a DC Plan

While a DC plan for MPSERS (if structured like the State employees' plan) would not be less expensive than the DB plan, it would likely be more stable and predictable for employers in terms of knowing their costs from one year to the next. This is because the risk of asset investments is taken off the employers in a pension system (under a DB plan), and shifted onto the employees (under a DC plan). When the market underperforms, the investment portfolio in a DB plan does not generate the assumed level of interest income, and therefore employer contributions have to increase in future years to make up for the shortfall (the UAAL), but employees' pensions are not adversely impacted. For FY 2009-10, employers in MPSERS have to pay 6.15% applied to salaries to make up for some of the market shortfall. This is in addition to the 3.98% "normal cost". Combining the two means that, in FY 2009-10, employers will have to pay 10.13% of each eligible employee's salary into MPSERS.

The converse is true as well. When the market performs better than assumed, the required amount of funding may be reduced from one year to the next, all else being equal, because the unfunded accrued liability is either smaller or eliminated. Since 1996, there were seven years in which less than 1.0% of payroll had to be paid into the system to cover the unfunded accrued liability.

A DC plan, by its very nature, does not have any unfunded accrued liability, because, if the market declines, the value of the employee's asset portfolio declines and the amount available to the retiree falls, but the State is not required to make up any shortfall in market performance. To give a sense of how the rates between the two major retirement plans have changed over time, Table 1 compares the MPSERS' DB rate with the State Employees Retirement System (SERS) DC rate. As shown, the MPSERS DB plan has had a lower pension normal cost in recent years than the SERS DC plan has had. The higher employee contributions to MPSERS resulted in a lower employer pension normal cost compared with the SERS DC plan.

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Table 1

		Employer Contribution Rates¹⁾	
		MPSERS-DB	SERS-DC²⁾
2000	Pension Normal Cost	6.47%	5.75%
	UAAL	<u>0.59%</u>	n/a
	Total Pension	7.06%	5.75%
2001	Pension Normal Cost	6.42%	6.22%
	UAAL	<u>0.19%</u>	n/a
	Total Pension	6.61%	6.22%
2002	Pension Normal Cost	6.06%	5.62%
	UAAL	<u>0.06%</u>	n/a
	Total Pension	6.12%	5.62%
2003	Pension Normal Cost	6.26%	6.03%
	UAAL	<u>0.68%</u>	n/a
	Total Pension	6.94%	6.03%
2004	Pension Normal Cost	6.26%	5.77%
	UAAL	<u>0.68%</u>	n/a
	Total Pension	6.94%	5.77%
2005	Pension Normal Cost	6.31%	6.35%
	UAAL	<u>2.01%</u>	n/a
	Total Pension	8.32%	6.35%
2006	Pension Normal Cost	5.47%	6.55%
	UAAL	<u>4.32%</u>	n/a
	Total Pension	9.79%	6.55%
2007	Pension Normal Cost	5.49%	6.65%
	UAAL	<u>5.70%</u>	n/a
	Total Pension	11.19%	6.65%
2008	Pension Normal Cost	5.28%	6.65%
	UAAL	<u>4.89%</u>	n/a
	Total Pension	10.17%	6.65%
2009	Pension Normal Cost	5.17%	6.65%
	UAAL	<u>4.56%</u>	n/a
	Total Pension	9.73%	6.65%
2010	Pension Normal Cost	3.98%	6.65%
	UAAL	<u>6.15%</u>	n/a
	Total Pension	10.13%	6.65%
¹⁾ Rates shown do not include percentage of payroll applied to fund the cost of retiree health care, which is provided to retirees of both retirement systems.			
²⁾ Rates shown represent total employer contributions divided by total payroll for all SERS DC participants.			



Conclusion

This analysis was intended to illustrate issues surrounding the conversion of the MPSERS from a defined benefit (guaranteed pension) to a defined contribution (401k or similar) plan. The analysis compared the existing MPSERS DB plan for school employees with the existing DC plan for State government employees. Clearly, if a DC plan were structured differently, the analysis would change. For example, a DC plan that only offered a maximum of 4.0% of salary contribution to a personal investment account would have the same normal cost as the MPSERS plan for FY 2009-10, and would ensure cost certainty for employers, but would provide a lower level of benefits for employees, and, while costing employers the same amount, could yield very different results in terms of dollars available to the employee at retirement. Also, even if a DC plan were enacted with a lower normal cost than the current DB plan (by offering less than a 4.0% contribution into a personal investment account), short-term costs of paying off the unfunded liability of the existing DB system still would be incurred, until the system was closed and the liability paid off.

While this analysis focused on employer costs and the shift of risk from employers to employees if a DC system were considered, there are other issues that likely would require discussion. One of these issues is whether a DC system provides an adequate level of retirement funding, given the inherent risks in market performance that drive the return on investments, and the importance of the level of contributions made by the employee throughout his or her lifetime, along with any matching employer contributions. In time, experience with the State's DC plan for State employees hired after March 1, 1997, may yield valuable comparative statistics as to the level of dollars available to retirees under the DC plan, relative to fixed pensions available to the State's DB employees. Until then, however, an analysis of retirement income for Michigan government employees will not be possible.

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Community College Revenue Sources: How Colleges Have Managed Increasing Costs and Declining State Aid

By Bill Bowerman, Chief Analyst

Introduction

Between fiscal year (FY) 2001-02 and FY 2008-09 annual State appropriations for community colleges have decreased by \$23.3 million (7.3%), from \$319.2 million to \$295.9 million. During the same time period, expenditures by most colleges have increased well above the rate of inflation. This article provides an overview of revenue for community colleges and how reductions in State aid have been offset by other revenue sources and cost containment measures.

The source of most of the data for this article is the Activities Classification Structure (ACS) 2007-08 Data Book & Companion, Department of Energy, Labor, and Economic Growth, February 23, 2009. Analyzing data on a statewide basis presents various challenges, as described below.

- 1) State aid is appropriated on an October 1 through September 30 fiscal year-basis, while community colleges operate on a July 1 through June 30 fiscal year.
- 2) Further complicating the analysis of revenue is the fact that FY 2007-08 State appropriations included a \$25.8 million delayed payment related to reductions made in FY 2006-07. Delaying the State aid payment was one of the methods used to offset General Fund budget shortfalls for the State in FY 2006-07. Section 211(2) of the FY 2007-08 Community College appropriation bill (Public Act 120 of 2007) required community colleges to accrue the delayed payment to their institutional fiscal year ending June 30, 2007. However, accounting standards do not allow for that accrual, and most of the revenue reports included the delayed payment in FY 2007-08 reporting.
- 3) Comparing sources of revenue for community colleges on a statewide basis involves information in terms of aggregates and averages. There is a wide disparity among community college districts related to their ability to generate revenue from property taxes, which are controlled by the taxable value in each district and the millage rate. Property tax revenue accounts for less than 20.0% of total operating fund revenue at Alpena (17.0%), Bay de Noc (14.0%), Gogebic (14.0%), Jackson (13.0%), Mid Michigan (12.0%), and Henry Ford (18.0%). Property tax revenue accounts for more than 50.0% of total college operating fund revenue at Monroe (53.0%), Oakland (59.0%), Washtenaw (54.0%), Wayne (60.0%), and West Shore (52.0%). The reduction of State aid to community colleges has a heightened impact on colleges that cannot generate significant amounts from property taxes and tuition. State aid ranges from 13.0% of total operating fund revenue at Oakland and Wayne to 50.0% at Gogebic.

College Operating Expenditures

Table 1 compares FY 2001-02 statewide community college operating fund expenditures with those expenditures in FY 2007-08.



Table 1

Community College Operating Fund Expenditures				
	FY 2001-02	FY 2007-08	Change From FY 2001-02 to FY 2007-08	
			Change	Percent
<u>GROUP 1</u>				
ALPENA	\$9,694,709	\$13,197,394	\$3,502,685	36.1%
BAY DE NOC	9,938,827	13,626,621	3,687,794	37.1
GLEN OAKS	7,853,603	9,598,963	1,745,360	22.2
GOGEBIC	6,300,282	7,387,300	1,087,018	17.3
KIRTLAND	10,613,502	13,858,534	3,245,032	30.6
MID MICHIGAN	9,995,554	15,247,992	5,252,438	52.5
MONTCALM	8,376,276	14,107,891	5,731,615	68.4
NORTH CENTRAL	8,022,941	12,239,187	4,216,246	52.6
SOUTHWESTERN	12,729,908	14,468,030	1,738,122	13.7
WEST SHORE	7,702,496	10,671,750	2,969,254	38.5
<u>GROUP 2</u>				
JACKSON	\$23,831,017	\$34,029,371	\$10,198,354	42.8%
KELLOGG	24,990,315	29,316,009	4,325,694	17.3
LAKE MICHIGAN	16,305,608	22,848,164	6,542,556	40.1
MONROE	17,438,803	23,577,181	6,138,378	35.2
MUSKEGON	20,547,825	28,538,626	7,990,801	38.9
NORTHWESTERN	25,786,552	32,623,072	6,836,520	26.5
ST. CLAIR	20,236,255	25,792,983	5,556,728	27.5
<u>GROUP 3</u>				
DELTA	\$43,630,724	\$61,535,991	\$17,905,267	41.0%
GRAND RAPIDS	57,916,669	88,671,165	30,754,496	53.1
HENRY FORD	67,126,165	69,304,917	2,178,752	3.2
KALAMAZOO VALLEY	32,638,483	45,253,705	12,615,222	38.7
MOTT	50,586,159	61,964,108	11,377,949	22.5
SCHOOLCRAFT	42,166,641	59,983,753	17,817,112	42.3
WASHTENAW	56,390,414	80,702,318	24,311,904	43.1
WAYNE COUNTY	63,280,695	94,644,305	31,363,610	49.6
<u>GROUP 4</u>				
LANSING	\$71,822,715	\$96,731,146	\$24,908,431	34.7%
MACOMB	78,240,211	98,624,122	20,383,911	26.1
OAKLAND	91,510,341	128,924,300	37,413,959	40.9
STATE AGGREGATE	\$895,673,690	\$1,207,468,898	\$311,795,208	34.8%

Source: Audited Financial Statements as reported in the Activities Classification Structure (ACS) 2007-08 Data Book & Companion, Department of Energy, Labor, and Economic Growth, February 23, 2009.



From FY 2001-02 to FY 2007-08, community colleges reported expenditures increasing by 34.8%, from \$895,673,690 to \$1,207,468,898. During the same time period, the United States Consumer Price Index increased by 19.9%. The driving forces behind the expenditure increases include rising enrollments, demand for classes that are more costly to offer compared with other types of instruction, and increases in employee-related costs.

Fiscal year equated student (FYES) is defined as the calculated equivalent of a student completing one full year of instructional work (31 semester credit hours). From FY 2001-02 to FY 2007-08, total FYES statewide at community colleges increased by 25.2%, from 116,802 to 146,234.

Certain classes are more expensive to provide compared with general education courses. For example, Monroe County Community College reports that the cost-per-student contact hour for a licensed practical nurse (LPN) is \$19 compared with \$4 for social science and math courses. From FY 2001-02 to FY 2007-08, statewide FYES in health occupations increased from 8,548 to 13,054 (52.7%). The health occupations category includes nursing, diagnostic technologies, therapeutic technologies, dental technologies, and other health-related programs. Demand for industrial and high technology courses also has increased. These courses result in additional costs to the colleges for equipment, software, and other technology.

Most community colleges report that employee-related costs (salaries, retirement, and insurance) account for 75.0% to 80.0% of their operating budget. Increases in costs of health care premiums and retirement consistently exceed inflation. From FY 2001-02 to FY 2007-08, community college (employer) payments to the Michigan Public School Employees Retirement System increased by 37.4%, from 12.17 % of members' wages to 16.72% of members' wages. Health care costs also grew dramatically over the same time period.

In addition, energy costs increased significantly from FY 2001-02 to FY 2007-08. Although these costs have been mitigated by energy-saving efforts, the statewide aggregate energy cost per cubic foot rose by 46.7% from FY 2001-02 to FY 2007-08.

Each year, community colleges file reports with the Department of Management and Budget, listing cost-containment measures implemented by the colleges. These cost-saving measures have to be balanced against the need to attract and retain qualified staff. Most of the reports include the following cost-saving measures:

- Increased efficiency in scheduling classes
 - Increasing class sizes
 - Reducing frequency offered
 - Eliminating low-enrollment/high-cost instructional programs
 - Providing web-based instruction
- Staff adjustments
 - Eliminating/consolidating positions
 - Outsourcing
 - Reducing professional development and travel
 - Replacing full-time staff with part-time personnel
 - Retirement/separation incentives



- Employee concessions
 - Wage freezes/COLA delays
 - Benefit changes (increased co-pays, deductibles, premiums)
- Other Measures
 - Deferred maintenance
 - Energy conservation (use and technology)
 - Reducing community service
 - Delaying purchases/Group/bulk purchasing
 - Self-insurance

College Operating Revenue

Table 2 is based on information contained in the ACS for FY 2001-02 and FY 2007-08. Revenue sources for Michigan public community colleges consist mainly of State aid, local property tax revenue, and tuition. In FY 2001-02, State aid as a share of total operating revenue for community colleges totaled \$316.4 million, 30.3% of total community college operating revenue. By FY 2007-08, declining State revenue and ensuing budget reductions reduced State aid to approximately 21.7% of the total operating revenue sources for community colleges. The FY 2007-08 ACS report included the delayed State aid payment related to FY 2006-07 budget reductions in the FY 2007-08 State aid revenue amounts. Netting the delayed payment out of Table 2 would show State aid at 20.3% of total college revenue and an increase of 34.7% instead of 37.2% in statewide total college revenue.

Table 2

Community College Operating Fund Revenue						
Community College Revenue	FY 2001-02	Percent of Total	FY 2007-08	Percent of Total	Change from FY 2001-02	Percent from FY 2001-02
State Aid	\$316,410,944	30.3%	\$310,876,116	21.7%	(\$5,534,828)	(1.7%)
Property Tax	416,867,238	39.9	558,893,181	39.0	142,025,943	34.1
Tuition & Fees	280,043,137	26.8	492,364,216	34.3	212,321,079	75.8
Other	31,890,847	3.1	71,577,033	5.0	39,686,186	124.4
Total	\$1,045,212,166	100.0%	\$1,433,710,546	100.0%	\$388,498,380	37.2%

Source: FY 2001-02 and FY 2007-08 ACS

State Aid

Table 3 provides a history of State aid (operations and at-risk funding) appropriations for community colleges from FY 2001-02 through FY 2008-09. While there have been increases in recent years, those adjustments have not offset reductions made since FY 2001-02. Fiscal year 2008-09 appropriations for community colleges are \$23.3 million (7.3%) below the \$319.2 million appropriated in FY 2001-02. The FY 2008-09 appropriation includes an overall 2.0% increase over the FY 2007-08 appropriation for community colleges (netting out the delayed payment from FY 2006-07). The FY 2009-10 Governor's recommendation would maintain that level of funding, which is less than what colleges received statewide in FY 1999-2000. The

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information in Table 3 is adjusted to net out the delayed payment from FY 2007-08 in order to reflect the actual impact of State aid payments.

Table 3

State Appropriations for Community Colleges								
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
ALPENA	\$5,415,977	\$5,226,563	\$4,931,300	\$4,931,200	\$4,853,400	\$4,983,400	\$5,115,300	\$5,206,300
BAY DE NOC	5,228,594	5,057,658	4,783,600	4,783,500	4,709,800	5,050,700	5,161,000	5,241,200
DELTA	14,924,104	14,450,752	13,247,600	13,247,500	13,014,200	13,407,100	13,557,800	13,856,100
GLEN OAKS	2,621,344	2,540,572	2,333,500	2,333,400	2,290,700	2,353,000	2,374,200	2,417,300
GOGEBIC	4,444,025	4,302,469	4,093,800	4,093,700	4,017,700	4,106,800	4,265,900	4,333,800
GRAND RAPIDS	18,707,559	18,129,871	16,636,100	16,636,000	16,364,700	16,829,400	17,007,700	17,352,100
HENRY FORD	22,873,301	22,148,444	20,301,400	20,301,300	19,947,000	20,481,900	20,683,300	21,060,800
JACKSON	12,684,209	12,281,961	11,258,700	11,258,600	11,062,800	11,340,100	11,452,300	11,663,200
KALAMAZOO VALLEY	12,939,470	12,532,330	11,483,900	11,483,800	11,273,300	11,608,000	11,734,400	11,980,600
KELLOGG	10,235,318	9,909,540	9,086,900	9,086,800	8,941,800	9,197,000	9,297,000	9,475,400
KIRTLAND	3,217,147	3,125,026	2,861,200	2,861,100	2,792,600	2,873,400	2,910,000	2,968,200
LAKE MICHIGAN	5,616,015	5,432,078	4,975,700	4,975,600	4,883,800	5,028,400	5,074,900	5,169,300
LANSING	32,380,906	31,361,118	28,747,200	28,747,100	28,236,900	29,025,300	29,327,600	29,916,000
MACOMB	34,472,041	33,382,797	30,599,200	30,599,100	30,062,200	30,930,600	31,242,900	31,858,300
MID MICHIGAN	4,715,839	4,575,479	4,194,700	4,194,600	4,133,500	4,252,600	4,350,100	4,430,600
MONROE	4,561,498	4,417,152	4,051,200	4,051,100	3,984,800	4,107,300	4,158,200	4,248,200
MONTCALM	3,299,224	3,192,474	2,932,500	2,932,400	2,881,000	2,956,700	2,985,500	3,056,600
MOTT	16,400,616	15,883,355	14,561,400	14,561,300	14,308,000	14,691,300	14,835,900	15,122,700
MUSKEGON	9,484,150	9,180,484	8,413,900	8,413,800	8,233,600	8,410,900	8,450,800	8,597,300
NORTH CENTRAL	3,318,548	3,192,087	2,908,500	2,908,400	2,854,000	2,927,600	2,954,200	3,004,700
NORTHWESTERN	9,580,843	9,285,469	8,526,200	8,526,100	8,372,000	8,573,900	8,654,500	8,804,400
OAKLAND	21,847,342	21,153,961	19,390,900	19,390,800	19,055,500	19,632,300	19,845,700	20,282,600
ST. CLAIR	7,345,023	7,120,212	6,536,200	6,536,100	6,427,700	6,626,700	6,710,900	6,854,600
SCHOOLCRAFT	12,878,904	12,473,201	11,432,300	11,432,200	11,227,900	11,523,400	11,644,800	11,894,300
SOUTHWESTERN	7,013,475	6,791,248	6,217,000	6,216,900	6,092,800	6,259,700	6,319,100	6,427,600
WASHTENAW	13,098,937	12,692,456	11,639,600	11,639,500	11,442,300	11,849,200	11,995,500	12,289,300
WAYNE COUNTY	17,373,105	16,816,331	14,972,600	14,972,500	14,982,100	15,381,500	15,733,900	16,022,500
WEST SHORE	2,518,804	2,433,506	2,232,700	2,232,600	2,206,300	2,271,200	2,300,600	2,346,500
TOTAL	\$319,196,318	\$309,088,594	\$283,349,800	\$283,347,000	\$278,652,400	\$286,679,400	\$290,144,000	\$295,880,500

Notes: Amounts include appropriations for operations and at-risk payments. FY 2006-07 does not include reductions contained in EO 2007-3 and 2007 PA 17. FY 2007-08 does not include FY 2006-07 delayed payment.

Source: ACS and appropriation acts



Tuition

From FY 2001-02 to FY 2007-08, the statewide in-district tuition rate increased by \$17.59 (32.5%), from 54.09 per credit hour to \$71.68 per credit hour. During the same time period, the out-of-district tuition rate increased by \$34.55 (43.1%), from \$80.07 to \$114.62. As a revenue source, tuition accounted for 26.8% of community college operating revenue in FY 2001-02. By FY 2007-08, it accounted for 35.0% of college operating revenue.

Property Tax Revenue

Growth in property tax revenue is limited by constitutional provisions. Also, tax increment finance authorities and tax abatements affect potential growth in property tax revenue to community colleges. However, from FY 2001-02 to FY 2007-08, revenue from property taxes grew enough to remain at about 40.0% of total operating revenue statewide. This trend will not continue. The January Consensus Revenue Forecast indicated that State Education Tax revenue, which is tied to statewide taxable values, rose 3.9% in FY 2006-07, but fell 0.1% in FY 2007-08. Declines of 3.3% and 2.5% are forecast for FY 2008-09 and FY 2009-10, respectively. Calendar year 2009 County Equalization Reports show assessed values decreasing by 10.0% in Wayne County, 8.9% in Oakland County, and 8.3% in Macomb County. Another indication of the future decline in property tax revenue for community colleges is the average home price. In calendar year 2007, home prices statewide fell 6.8%, and they were down 16.2% in 2008. As of March 2009, average home prices are down 27.3% from the January to March period of 2008.

Conclusion

Community colleges state that their goal is "to provide quality education at an affordable price". It will become increasingly difficult for colleges to balance revenue and expenditures without raising tuition above inflationary increases. While overall revenue has grown for most community colleges, revenue has not kept pace with cost increases. State aid will not decrease from the current level through FY 2010-11 due to requirements of the Federal American Recovery and Reinvestment Act of 2009. After FY 2010-11, lingering State budget issues will limit the State's ability to increase funding for community colleges. State aid at best will continue at the same level, or more likely be reduced beginning in FY 2011-12. That, combined with projections regarding taxable values, leaves tuition increases and cost containment measures as the only likely means to deal with increasing costs in future years.