State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2011

Public Act 329 of 2010: FY 2010-11 Capital Outlay Appropriation Update
By Bill Bowerman, Associate Director

Introduction

Public Act 329 of 2010, approved by Governor Granholm on December 21, 2010, included authorization for new State Building Authority (SBA) projects totaling $968.1 million, with a State share of $383.7 million. Prior to Public Act 329, the last appropriation bill that included new planning authorizations for projects financed by the SBA was Public Act 278 of 2008. While a planning authorization is not a final commitment on the part of the State to fund a project, historically, institutions that proceeded with a project and complied with requirements of the Management and Budget Act (Public Act 431 of 1984) received construction authorization.

An April 1, 2011, letter from the State Budget Director to presidents of community colleges and universities that received planning authorizations in Public Act 329 stated that Governor Snyder's administration would be carefully reviewing and evaluating Public Act 329 projects, and that State participation would be assessed relative to other budgetary needs. While the State Budget Director stated in the letter that institutions could proceed with planning, the State Budget Office would review planning documents only in concert with the fiscal year 2012-13 Executive Budget Recommendation. This basically delays the process for institutions that would be ready to proceed before FY 2012-13. It also forces institutions that are not financially capable of funding a project without assurance of eventual State participation to postpone or abandon their project.

This article provides an overview of the capital outlay process, projects included in Pubic Act 329, and the cost impact on the State budget.

Capital Outlay Process

The process for authorizing State Building Authority-funded construction projects is specified in Section 242 of the Management and Budget Act.

- **Requests.** State agencies, community colleges, and universities develop five-year capital outlay requests. These requests are submitted annually to the Department of Technology, Management, and Budget (DTMB) and the Joint Capital Outlay Subcommittee (JCOS). The DTMB and the JCOS review capital outlay requests.

- **Planning Authorizations.** The request for program development and schematic planning must be approved by the JCOS and the Legislature through line-item authorizations in appropriation bills. Planning authorizations cannot be considered a commitment on the part of the Legislature to appropriate funds for the completion of plans or construction of any project.

- **Construction Authorizations.** Program statements and schematic planning documents are reviewed by the DTMB and, when the review is completed, are submitted to the JCOS as either approved or not approved. Upon review and approval by the JCOS, the Legislature may authorize the project for final design and construction with a line-item appropriation in an appropriation bill.

- **Oversight of Projects.** The Department of Technology, Management, and Budget provides for review and oversight of capital outlay projects financed either in total or in part by the SBA.

The SBA is the mechanism the State uses to fund its share of costs for State agency, university, and community college capital outlay projects. Bonds are issued by the SBA. The property is conveyed to the SBA and leased back to the State. Pursuant to the SBA Act (Public Act 183 of 1964) the conveyance and lease are subject to prior approval by the State Administrative Board, the Attorney General, the governing body of the institution of higher education, and a concurrent resolution of the Legislature. While the SBA holds title to the property, the State, through annual appropriations to the DTMB, pays rent to the SBA to fund annual debt service costs of SBA bonds. After the bonds are paid off, the property is transferred back to the State or institution.

Public Act 329 of 2010

Public Act 329 of 2010 included authorization for new SBA projects totaling $968.1 million, with a State share of $383.7 million. The Act also included a cost increase authorization (Sec. 605) for the Oakland University Human Health Building project, and construction authorizations for the Henry Ford Community College Science Building Improvements project and the Monroe County Community College Technology Center project (planning authorizations included in Public Act 278 of 2008). Table 1 provides an overview of new SBA projects included in Public Act 329.

State Costs

Public Act 329 would result in additional State costs funded through new SBA bond debt obligations of $383.7 million if all of the projects were completed. Annual General Fund rental payments to the SBA are estimated at $26.9 million to $34.5 million annually until the bonds are retired (approximately 15 to 17 years). Annual rental (debt service) payments to the SBA appropriated in the FY 2011-12 General Government appropriation bill total $256.9 million. Pursuant to Section 8(15) of the SBA Act, the SBA may not have obligations outstanding at any one time in a principal amount totaling more than $2.7 billion. Interest and costs of borrowing are not included in this limit. Based on the $2.7 billion bond cap, including projects in Public Act 329, the SBA estimates that the remaining available bond capacity is $339.3 million. The State generates additional bond capacity each year through rental payments to the SBA.

The State share of project costs for universities traditionally is based on a 75/25 State/institution match. Over recent years, however, this match has been limited to a maximum State share of $40.0 million for projects contained in Public Act 278 of 2008, and $30.0 million for projects contained in Public Act 329 of 2010. Community college projects are based on a 50/50 State/institution match. Cost increases, after the initial project authorization, are traditionally funded by the institutions.

Table 1

Public Act 329 of 2010 FY 2010-11 New State Building Authority Projects			
Project	**Total Cost**	**State Share**	**Institution Share**
Universities:			
Central Michigan University - Bio-Sciences Building. The new 126,000-gross-square-foot facility would provide state-of-the-art research and learning spaces to house laboratories, instrumentation, and teaching facilities. The University states that the new facility would have the required infrastructure and technology to promote joint projects involving the basic and medical sciences. The estimated annual operating cost of the new facility is $1.0 million. This project is separate from the $24.0 million (university reserves and private donations) addition to the Health Professions Building that will house the new School of Medicine.	$75,000,000	$30,000,000	$45,000,000
Ferris State University (FSU) - College of Pharmacy. This project would provide for the purchase and build-out of the 7th floor of the 25 Michigan Building in Grand Rapids for the FSU College of Pharmacy. Third-year students are involved in experiential learning at pharmacy practice sites. The fourth year includes clinical practice experience. The instructional needs of third-year students are currently met by delivery of curriculum at two locations (Grand Rapids and Kalamazoo). The proposal would consolidate the two sites into one location.	8,800,000	6,600,000	2,200,000
Grand Valley State University - Classroom/Office Additions. The project includes construction of a new 100,000-square-foot laboratory and faculty office building on the Allendale campus. The building would provide space for labs, office, and support. The project would include renovation of vacated spaces.	55,000,000	30,000,000	25,000,000
Lake Superior State University - School of Business Building. The new building would consist of approximately 50,000 square feet including general-use smart classrooms, a career and placement center, consultation rooms, faculty offices, and space easily modified to accommodate future needs as they may arise, along with several specialized classrooms. The facility also would house case study rooms and ancillary space for testing and placement services.	20,000,000	15,000,000	5,000,000
Michigan State University - Plant Science Facilities - Bioeconomy - Additions and Renovations. The MSU request consists of several separate projects including Plant Biology addition of 90,000 gross square feet at a cost of $40.0 million; Greenhouses addition of 30,000 gross square feet at a cost of $4.1 million; Plant Biology Teaching and Research Facilities renovation at a cost of $89.6 million; EIW Range Greenhouses renovation at a cost of $4.0 million; and Engineering addition of 90,500 gross square feet at a cost of $55.9 million.	193,600,000	30,000,000	163,600,000

Public Act 329 of 2010 FY 2010-11 New State Building Authority Projects			
Project	**Total Cost**	**State Share**	**Institution Share**
Northern Michigan University - Jamrich Hall Modernization. The renovation of Jamrich Hall would provide a modern, high-quality classroom facility to support active learning and provide academic department office space within the facility close to classrooms and other departments**.** The project ties into the University's master plan which includes the demolition of Gries Hall. New offices would be designed following the University's current space design guidelines and Gries Hall laboratories would be relocated to existing, repurposed laboratory space in the Seaborg Science complex. This would improve space utilization, reduce total campus square footage by over 21,700 square feet, reduce energy costs, and eliminate over $900,000 in deferred maintenance.	33,900,000	25,425,000	8,475,000
Oakland University - Engineering Center. The project would add approximately 42,225 square feet of assignable space to the School of Engineering and Computer Science, and 34,201 square feet of assignable general purpose classroom space. The proposed facility would provide instructional and research facilities for programs that support automotive, defense, and other industries.	74,551,739	30,000,000	44,551,739
University of Michigan-Ann Arbor - G. G. Brown (GGB) Memorial Laboratories Renovation. The project includes renovation of 45,000 gross square feet of the Department of Mechanical Engineering's space in GGB to substantially reconfigure and upgrade instructional facilities, offices, and support service facilities. The project also includes replacing and upgrading building infrastructure, including HVAC, laboratory and mechanical systems, electrical services, plumbing, fire alarm and suppressions systems, exterior wall repairs, and window repairs, encompassing approximately 120,000 gross square feet.	64,000,000	30,000,000	34,000,000
University of Michigan-Dearborn - Science and Computer Information Science Building Renovations. The project includes renovation of the Science building and the Computer Information Science building. These two buildings share mechanical and electrical infrastructure and therefore are submitted as one project. Improvements include a network system that would allow faculty and students to conduct research on viruses and other security issues in a safe environment, isolated from other networks and servers on campus. The addition of a digital forensics lab and an expanded agile software engineering lab would give undergraduate students hands-on experience with various software engineering techniques.	51,000,000	30,000,000	21,000,000

Public Act 329 of 2010 FY 2010-11 New State Building Authority Projects			
Project	**Total Cost**	**State Share**	**Institution Share**
University of Michigan-Flint - Murchie Science Laboratory Building (MSB) Renovation. The project includes reconfiguration of space to add several instructional labs for chemistry and biology plus attendant equipment storage space. The Biology Department, which recently added a Master of Science program, requires an additional 24-student lab to accommodate student demand at the undergraduate and graduate levels. Existing labs require extensive renovation, such as replacement of fume hoods and hood controls, and the addition of internet connectivity. Deferred maintenance items that require attention include replacing the roof, disabling operable windows, renovating for disability accessibility, and upgrading the MSB elevators.	22,170,000	16,627,500	5,542,500
Wayne State University - Multidisciplinary Biomedical Research Building. The facility would encompass approximately 360,000 square feet, consisting of six floors, five above ground, and a penthouse on the top level. The building would provide basic science research infrastructure, including small animal facilities, an appropriate environment for sensitive major scientific instruments, and advanced imaging technology, as well as "one stop shopping" for clinician scientists and research participants, including a clinical trials office.	200,000,000	30,000,000	170,000,000
Subtotal - Universities:	**$798,021,739**	**$273,652,500**	**$524,369,239**
Community Colleges			
Alpena Community College - Electrical Power Technology Education and Training Center. The project would include the renovation of 8,800 square feet and new construction of 9,700 square feet. The facility would include four classrooms, three equipment labs, faculty offices, and bays for four bucket trucks or other pieces of heavy equipment. Programs that would be provided in the new facility include technician training for occupations in wind turbine, solar power, biomass fuel, hydroelectric, geothermal, fiber optic, clean coal combustion, and power plant industries.	$4,997,500	$2,498,750	$2,498,750
Bay de Noc College - Nursing Lab/Lecture Hall Remodeling. The project encompasses 3,950 square feet. A lecture hall would be remodeled and space would be created for simulation labs. New equipment is also included in the cost. The renovation would enhance teaching and learning opportunities for nursing and the allied health program.	1,500,000	750,000	750,000

Public Act 329 of 2010 FY 2010-11 New State Building Authority Projects			
Project	**Total Cost**	**State Share**	**Institution Share**
Delta College - Health and Wellness Program - F Wing Renovation. The renovation would address the College's facility needs to support Allied Health and Nursing programs. The project consists of 91,484 square feet of renovated space and an approximate 950-square-foot addition for a hospital-size elevator to service the building and programs. The project also addresses several facility inadequacies that cross programs. Other facility upgrades are also included (accessibility, signage, site lighting, and upgrades to the emergency/essential power and lighting systems).	19,984,000	9,992,000	9,992,000
Gogebic - Building Renovation. The renovation would add a second floor (8,000 square feet) to create four new multipurpose classrooms to handle increased student needs across disciplines. The addition of the classrooms would help alleviate space constraints that the College has been facing for a number of years and provide a large lecture room for increased class sizes, which the College currently does not possess.	1,500,000	750,000	750,000
Grand Rapids Community College - Cook Academic Hall Renovation. The 83,000-square-foot renovation project would house the Nursing and Allied Health programs and consist of the complete transformation of floors two through five.	10,000,000	5,000,000	5,000,000
Jackson Community College - Student Services and Instructional Classrooms. The proposal includes renovations and expansion for two College buildings. Bert Walker Hall would be renovated and expanded to house a growing Foundation Studies program, as well as serve as the College's new Center for Student Support Services which will provide a one-stop location for admissions, student services, developmental education, counseling, disabilities support, and advising. Improvements would include energy conservation measures, heating and cooling system replacements, new roofing systems, an additional elevator, additional classroom and office space, and adjustments to permit smart classrooms and wireless access elements for instructional use. The JCC@LISD TECH facility, constructed in 2001, would be renovated to provide additional space in all academic areas, especially computers, business, English, and math, as well as industrial training spaces, larger lecture spaces, faculty offices, student learning spaces, and computer labs.	19,500,000	9,750,000	9,750,000
Lansing Community College - Arts and Sciences Building Renovation. The project would provide for the renovation of 151,000 square feet of the Arts and Sciences Building to increase the number of science classrooms, laboratories, and general classrooms to meet increasing enrollment in science and general education programs in the Liberal Studies Division of the College.	19,950,000	9,975,000	9,975,000

Public Act 329 of 2010 FY 2010-11 New State Building Authority Projects			
Project	**Total Cost**	**State Share**	**Institution Share**
Macomb Community College - Health Science and Technology Building, Phase II. The first phase of the Health Science and Technology Classroom Building was included in Public Act 10 of 2005 and completed in June 2008. The project was split into two phases due to the availability of State funding. Phase II would be a 30,000-square-foot state-of-the-art facility, which would provide specialized laboratories for the emerging health information technology field, classrooms to support health and information technology occupations, and additional laboratories for basic science.	14,500,000	7,250,000	7,250,000
Mid Michigan Community College - Mt. Pleasant Campus Unification. The project consists of the construction of a 76,760-square-foot Liberal Arts and Business facility, adjacent to the Phase I student services building currently under development. The Phase II building would finalize the unification of the southern Mt. Pleasant campus. The construction would facilitate the relocation of arts and sciences instruction, student and academic support services, library and media services, and specific occupational instruction.	17,704,500	8,852,250	8,852,250
North Central College - Health Education and Science Center Project. The proposal includes a new 23,260-square-foot Science Center at a cost of $8,046,800 and renovations to the existing Science and Chemistry Building at a cost of $2,381,600. The new facility would house laboratories and related support spaces to replace inadequate and unsafe existing facilities; science classrooms; offices and storage for the Institute for Business and Industry Training and the Information Technology Department; server farm for the entire College, consolidating the current servers into one central, climate-controlled environment, computer lab; and reception/lobby/student commons/connector space.	10,428,400	5,214,200	5,214,200
Subtotal - Community Colleges:	**$120,064,400**	**$60,032,200**	**$60,032,200**
State Agencies			
Michigan State Police - Detroit Crime Lab. The proposal included the purchase and renovation of one floor of the former MGM Grand Casino Building in Detroit to serve as a new regional forensic laboratory for the Michigan State Police.	**$15,000,000**	**$15,000,000**	**N/A**
Department of Technology, Management, and Budget - State Facility Preservation Projects. The funding will support infrastructure needs for State-owned buildings.	**35,000,000**	**35,000,000**	**N/A**
Subtotal - State Agencies:	**$50,000,000**	**$50,000,000**	**N/A**
TOTAL SBA PROJECTS:	**$968,086,139**	**$383,684,700**	**$584,401,439**

Conclusion

While the statutory limits regarding the bond cap would allow for State funding of Public Act 329 projects, and potential new projects for FY 2011-12 and future years, the real issue for the State is debt costs related to the bond issue and its impact on future fiscal years. The State Budget Director's position on Public Act 329 puts institutions that received planning authorizations in a precarious position. If they proceed with planning and do not receive construction authorization for the project, they will incur costs that will not be shared by the State.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2011

How does Michigan's Kindergarten System Compare with Other States?
M. Christian McNally, Intern

Introduction

During the early School Aid budget deliberations in 2011, two different kindergarten proposals were discussed. One of the proposals was to move the kindergarten "start date" from age five as of December 1 to age five as of September 1, and the other was to eliminate Michigan's longstanding policy of paying a full foundation allowance for a child in kindergarten, whether the kindergarten program is half-day or full-day. Both proposals would have fiscal ramifications, since moving the kindergarten start date would reduce, for one cohort, the number of children able to enroll in kindergarten (thereby reducing State costs), and the other would reduce State costs to the extent school districts continued to offer half-day programming while receiving half the funding that was previously paid.

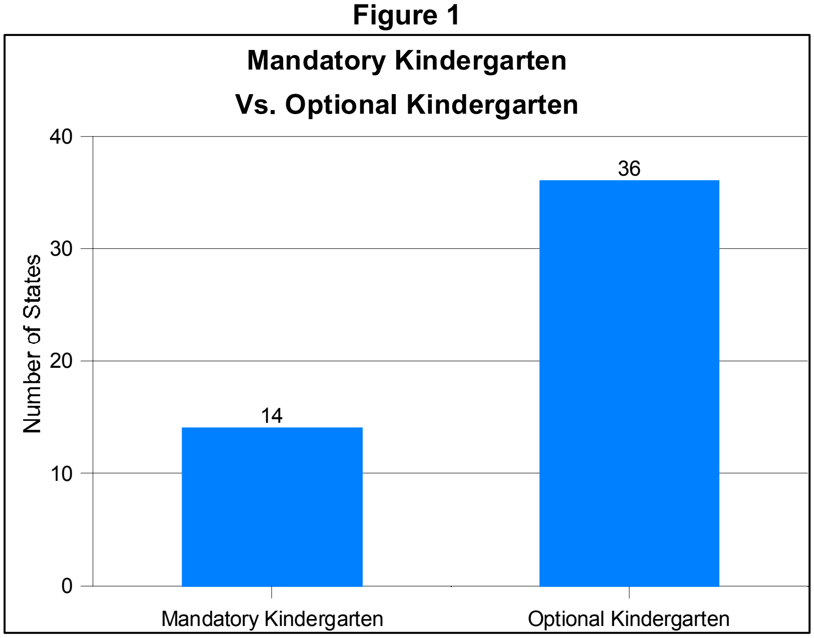
The enacted School Aid budget (Public Act 62 of 2011) includes the proposal to pay half of a foundation allowance for half-day kindergarten programs, effective with the 2012-2013 school year. However, the budget did not include the proposal to change the kindergarten eligibility date, although the Senate Education Committee did hold a hearing on Senate Bill (SB) 315 to discuss the issue. To date, the Committee has not acted on SB 315, and thus kindergarten eligibility remains age five as of December 1.

This article and Table 1 provide a look at how all states, including Michigan, handle kindergarten attendance and age requirements, and requirements to provide kindergarten.

Attendance Requirement

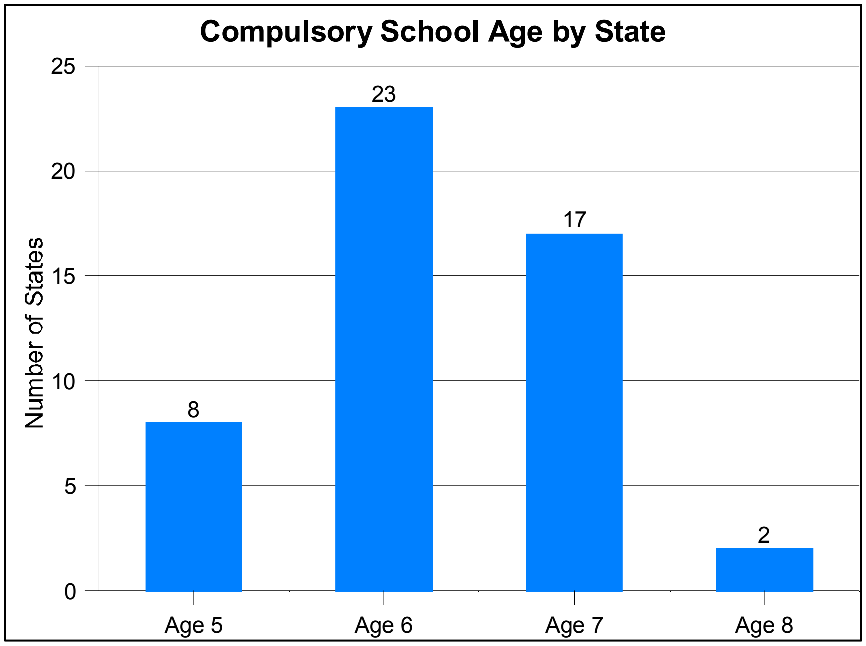
Kindergarten attendance requirements are often the first consideration when one examines how states approach kindergarten education. The vast majority of states, including Michigan, do not mandate kindergarten attendance. As Figure 1 shows, only 14 states require kindergarten attendance, leaving the other 36 states to offer optional kindergarten education.

Figure 1



While not all states require kindergarten attendance, all states do have a compulsory school age beginning between five years of age and eight years of age, as shown in Figure 2. Only eight states require five-year-olds to begin schooling. Twenty-three states, including Michigan, require students to begin schooling by age six. Seventeen states require students to begin schooling by age seven, and the final two states require students to begin schooling no later than age eight.

Figure 2



Kindergarten Entrance Age

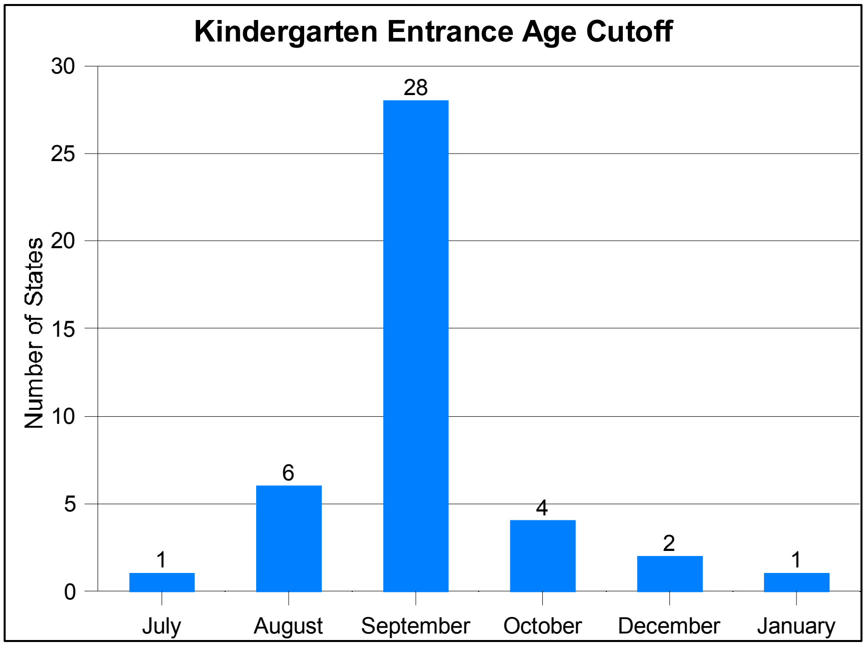
Kindergarten entrance age requirements have been a source of great discussion both in Michigan during this year's budget talks, and across the nation over the past 40 years. When the entrance age is moved to earlier in the school year, there are fewer four-year-olds in kindergarten.

Among states with a kindergarten cutoff date (the date by which a child must reach the minimum age), 30.0% had a cutoff date in September or earlier in 1975. By 1990, 66.7% of the states with an established cutoff date set that date in September or earlier. By 2005, that number had risen to 73.3% of states[1]. Based on the most recent data from the Education Commission of the States, 83.3% of states with a cutoff date set that date in September or earlier. There has been a clear trend toward earlier cutoff dates for kindergarten students. Figure 3 shows the number of states with cutoff dates between July and January.

Michigan currently requires children to be five years old on or before December 1 in order to be eligible for kindergarten. Michigan is one of two states with a cutoff date in December. Only two other states set a cutoff date after December 1 (California: December 2; and Connecticut: January 1).

[1] Education Commission of the States, March 2007, "Kindergarten Entrance Ages: A 30 Year Trend Analysis"

Figure 3



Full-Day vs. Half-Day

The length of a kindergarten school day varies greatly among states. While some states require all school districts to offer full-day kindergarten, other states do not require any kindergarten and leave the decision to the school districts. Forty-two states require all school districts to offer kindergarten. Of those 42 states, nine require all school districts to offer full-day kindergarten. Additionally, Oklahoma will require school districts to offer full-day kindergarten beginning with the 2011-2012 school year. Only Louisiana and West Virginia require all students to attend full-day kindergarten.[2] Michigan does not fall into any of those categories. Michigan is one of eight states that do not require school districts to offer kindergarten.

States that offer more funding for full-day kindergarten programs than for half-day kindergarten programs create an incentive for school districts to offer full-day programs, while states that do not provide additional funding for full-day kindergarten create a disincentive for full-day programs, to the extent that the additional funding exceeds the additional costs of full-day programs. Of the eight states that do not require school districts to offer kindergarten, four states, including Michigan (until the 2012-2013 school year), offer the same funding for half-day and full-day kindergarten programs.

Conclusion

Looking ahead, it is possible that Michigan may continue to examine whether a change in the kindergarten eligibility date is warranted, or whether retaining December 1 is appropriate for the State. A full description and fiscal analysis of SB 315, which would require children to be age five by September 1 (instead of the current December 1) in order to enroll in kindergarten, can be found at

[2] Education Commission of the States, 2011, "State Kindergarten Statutes: State Comparisons"

http://legislature.mi.gov/(S(fld1a3ed1ysnadiwsgfwksne))/mileg.aspx?page=getObject&objectName=2011-SB-0315. The change in kindergarten funding that was enacted under Public Act 63 of 2011 means that school districts will face not insignificant choices in 2012-2013 on whether to continue half-day programs, but at reduced funding, or to expand their half-day programs to full-day, in order to continue receiving full foundation allowance funding for the enrolled kindergarteners. If school districts choose to continue their half-day programs, then the State will see reduced costs; if school districts choose to expand to full-day, then the State will not see reduced costs, but the districts will face increased costs to pay for additional staffing or space.

Table 1

Kindergarten Comparison by State						
State	**Student Kindergarten Requirement[1)]**	**Kindergarten Entrance Age[1)]**	**Compulsory School Age[1)]**	**District Offering of Kindergarten[2)]**	**District Offering of Full-Day Kindergarten[2)]**	**Same Funding for Full-day vs. Half-day[3)]**
Alabama	Optional	5 on or before Sept. 1	7	Mandatory	Mandatory	---
Alaska	Optional	5 before Aug. 15	7	Optional	Optional	No
Arizona	Optional	5 before Sept. 1	6	Mandatory	Optional	Yes
Arkansas	Mandatory	5 on or before Sept. 15	5	Mandatory	Mandatory	Yes
California	Optional	5 on or before Dec. 2	6	Mandatory	Allowed for Early Primary Programs only	Yes
Colorado	Optional[4)]	Local education agency option[4)]	7[4)]	Mandatory	Optional	Yes* (exceptions apply)
Connecticut	Mandatory	5 on or before Jan. 1	5	Mandatory	Optional	Yes
Delaware	Mandatory	5 on or before Aug. 31	5	Mandatory	Optional	Yes
Florida	Optional	5 on or before Sept. 1	6	Mandatory	Optional	No foundation for half-day
Georgia	Optional	5 by Sept. 1	6	Mandatory	Mandatory	No
Hawaii	Optional	5 on or before Aug. 1	6	Mandatory	Optional	---
Idaho	Optional	5 on or before Sept. 1	7	Optional	Optional	---
Illinois	Optional	5 on or before Sept. 1	7	Mandatory	Optional	No
Indiana	Optional	5 on or before July 1	7	Mandatory	Optional	Yes
Iowa	Optional	5 on or before Sept. 15	6	Mandatory	Optional	No
Kansas	Optional	5 on or before Aug. 31	7	Mandatory	Optional	Yes
Kentucky	Optional	5 by Oct. 1	6	Mandatory	Optional	Yes
Louisiana	Mandatory	5 on or before Sept. 30	7	Mandatory	Mandatory	No foundation for half-day
Maine	Optional	5 on or before Oct. 15	7	Mandatory	Optional	No foundation for half-day
Maryland	Mandatory	5 by Sept. 1	5	Mandatory	Mandatory	Yes
Massachusetts	Optional	Local education agency option	6	Mandatory	Optional	No
MICHIGAN	**Optional**	**5 on or before Dec. 1**	**6**	**Optional**	**Optional**	**Yes**
Minnesota	Optional	At least 5 on Sept. 1	7	Mandatory	Optional	Yes
Mississippi	Optional	5 on or before Sept. 1	6	Mandatory	Mandatory	Yes
Missouri	Optional	5 before Aug. 1 (exceptions apply to metropolitan school districts)	7	Mandatory	Optional	Yes
Montana	Optional	5 on or before Sept. 10	7	Mandatory	Optional	Yes
Nebraska	Optional	5 on or before Oct. 15	6	Mandatory	Optional	No
Nevada	Mandatory	5 on or before Sept. 30	7	Mandatory	Optional	Yes

Kindergarten Comparison by State						
State	**Student Kindergarten Requirement[1)]**	**Kindergarten Entrance Age[1)]**	**Compulsory School Age[1)]**	**District Offering of Kindergarten[2)]**	**District Offering of Full-Day Kindergarten[2)]**	**Same Funding for Full-day vs. Half-day[3)]**
New Hampshire	Optional	Not specified in statute	6	Optional	Optional	Yes
New Jersey	Optional	A district may admit to kindergarten "any child over the age of 4 and under the age of 5 and shall admit…any child over the age of 5 and under the age of 6 years who is a resident of the district"	6	Optional	Optional	Yes
New Mexico	Mandatory	5 before Sept. 1	5	Mandatory	Optional	No
New York	Optional	Local education agency option	6	Optional	Optional	No
North Carolina	Optional	5 on or before Oct. 16	7	Mandatory	Mandatory	---
North Dakota	Optional	5 before Sept. 1	7	Optional	Optional	Yes
Ohio	Mandatory	Districts may choose to set the cut-off date for Sept. 30 or Aug. 1	6	Mandatory	Optional	Yes
Oklahoma	Mandatory	5 on or before Sept. 1	5	Mandatory	Optional**	No
Oregon	Optional	5 on or before Sept. 1	7	Mandatory	Optional	Yes
Pennsylvania	Optional	Local education agency option	8	Optional	Optional	No
Rhode Island	Mandatory	5 on or before Sept. 1	6	Mandatory	Optional	---
South Carolina	Mandatory	5 on or before Sept. 1	5	Mandatory	Mandatory	Yes
South Dakota	Optional	5 on or before Sept. 1	6	Mandatory	Optional	Yes
Tennessee	Mandatory	5 on or before Sept. 30	6	Mandatory	Optional	---
Texas	Optional	5 on or before Sept. 1	6	Mandatory	Optional	Yes
Utah	Optional	5 on or before Sept. 2	6	Mandatory	Optional	Yes
Vermont	Optional	Local education agencies may choose date between Aug. 31 and Jan. 1	6	Mandatory	Optional	Yes
Virginia	Mandatory	5 on or before Sept. 30	5	Mandatory	Optional	Yes
Washington	Optional	5 as of midnight Aug. 31	8	Mandatory	Optional	---
West Virginia	Mandatory	5 on or before Sept. 1	6	Mandatory	Mandatory	---
Wisconsin	Optional	5 on or before Sept. 1	6	Mandatory	Optional	No
Wyoming	Optional	5 on or before Sept. 15	7	Mandatory	Optional	Yes

*Colorado offers additional funding for only a limited number of full-day kindergarteners. **Oklahoma districts will be required to offer full-day kindergarten beginning with the 2011-12 school year.

Sources: 1) Education Commission of the States, 2011, "Access to Kindergarten: Age Issues in State Statutes". 2) Education Commission of the States, 2011, "State Kindergarten Statutes: State Comparisons". 3) Education Commission of the States, 2011, "State Funding Formula: Students Weights by Grade". 4) Education Commission of the States, February 2005, "Access to Kindergarten: Age Issues in State Statutes".

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TOPICS OF LEGISLATIVE INTEREST
Summer 2011

The Proposed New International Trade Crossing (NITC)
By Jack Hummel, Intern

Background

The Detroit River has long been an important crossing point for the abundant trade between the United States and Canada. The flow of goods between these nations necessitates having open, accessible routes of trade from Detroit to Windsor, Ontario. In 1921, the United States and Canada granted permission to the American Transit Company, which later became the Detroit International Bridge Company (DIBC), to build and operate a bridge over the Detroit River. Officials signed the general contract for construction on July 20, 1927, and two years later, in November 1929, the Ambassador Bridge opened.

Over the remainder of the century, trade between Canada and the United States saw numerous advancements, including the additions of the Detroit-Windsor Tunnel (DWT), the Blue Water Bridge (BWB) in Port Huron, Michigan, and the Peace Bridge (PB) in Buffalo, New York. The Ambassador Bridge, however, remains the most efficient and the most-used option for commerce because of its location and capacity. By 1970, the bridge had been connected to I-75, I-94, and I-96 on the U.S. side, making it more convenient for commercial trucking. In 1995, after 66 years of operation, Federal law recognized the Ambassador Bridge as part of the National Highway System, making it an established part of United States infrastructure.

Commerce between Canada and the U.S. totals $500.0 billion annually, averaging $1.5 billion every day. According to the Southeast Michigan Council of Governments (SEMCOG), 25.0% of U.S.-Canadian trade goes by way of the DWT or the Ambassador Bridge, and total trade between Michigan and Canada was estimated at $67.4 billion in 2008 (SEMCOG, "Economic Impact of the Border", Fall, 2009). Last year, Michigan alone exported $21.6 billion of goods to Canada (*Detroit Free Press*, "Tom Walsh: On Mackinac Island, talk turns to 2nd Detroit-Canada bridge", 6-1-11). Other states that trade with Canada include New York and California, which trade over $23.0 billion annually, while Washington trades $17.0 billion annually. The commercial traffic between the two nations is the lifeline that supports this lucrative relationship, and much of that traffic crosses the Detroit River.

The Proposed New Bridge

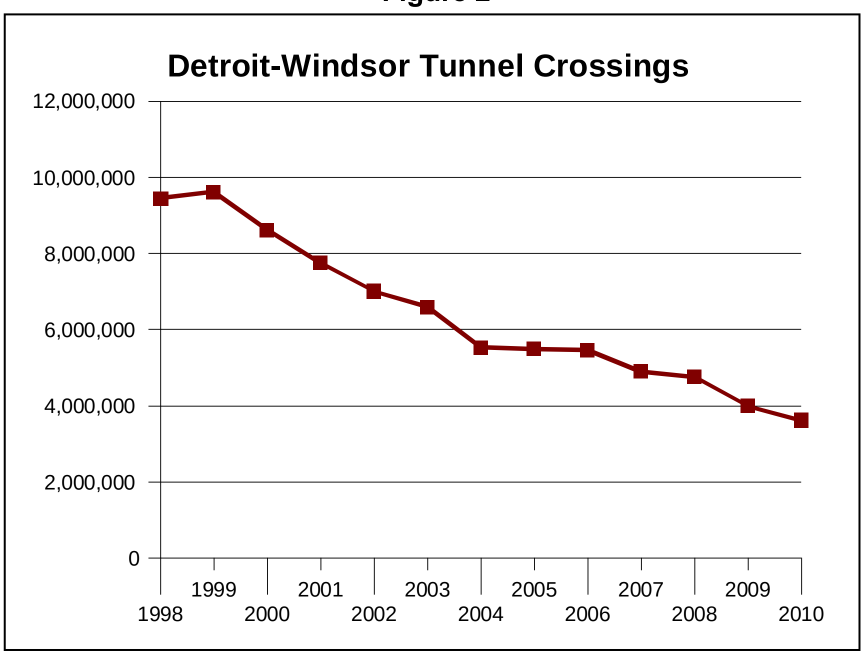
The New International Trade Crossing (NITC) is one name for a proposed bridge spanning the Detroit River between Detroit and Windsor, approximately one mile south of the existing Ambassador Bridge. According to the Snyder administration, the cost, including the connecting ramps and roads, would be approximately $3.8 billion. The cost of the span itself is estimated at $949.1 million. An estimated $413.6 million would be needed to pay for the connecting infrastructure on the Michigan side of the proposed bridge (*Detroit News*, "Snyder: Canadian Offer for Bridge is Legit", 4-12-11). Canada has offered to pay for Michigan's costs with an up-front payment of $550.0 million; the details of this offer are discussed below.

The NITC proposal is designed to encourage more efficient trade with Canada. The data reveals, however, that although trade with Canada is a vital part of the U.S. economy, traffic over the past 10 years has shown a significant downward trend. Figures 1, 2, 3, and 4 show the changes in the number of crossings from 1998 to 2010 on the Ambassador Bridge, the DWT, the BWB, and the PB. The Ambassador Bridge, which sees the most traffic, is down from its peak of over 12.0 million vehicles to 7.2 million vehicles annually.

Figure 1

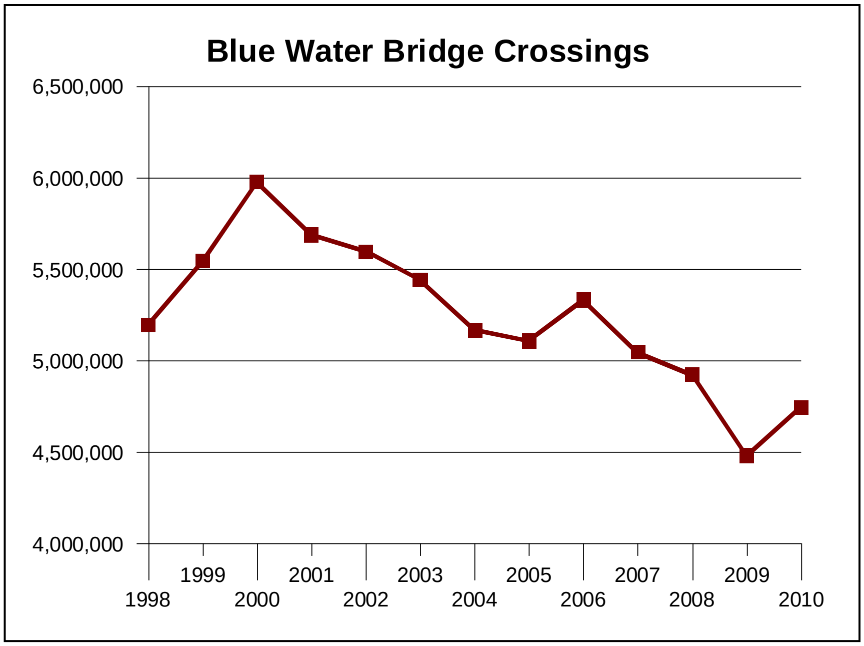
Source: 1998-2005 data provided by The Bridge and Tunnel Operator's Association; 2006-2010 data provided by the Public Border Operators Association (PBOA), a division of the International Bridge Administration

Figure 2



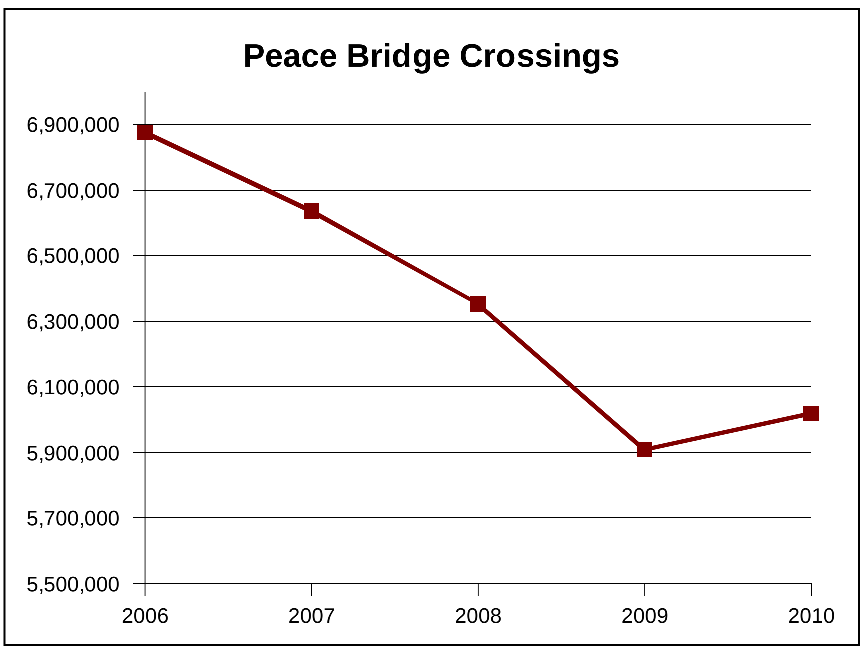
Source: 1998-2005 data provided by The Bridge and Tunnel Operator's Association; 2006-2010 data provided by the PBOA

Figure 3



Source: 1998-2005 data provided by The Bridge and Tunnel Operator's Association; 2006-2010 data provided by the PBOA

Figure 4



Source: Public Border Operators Association

Although there has been a significant downward trend over the past 10 years, traffic has increased slightly over the last year on the three bridges.

Bridge Proponents

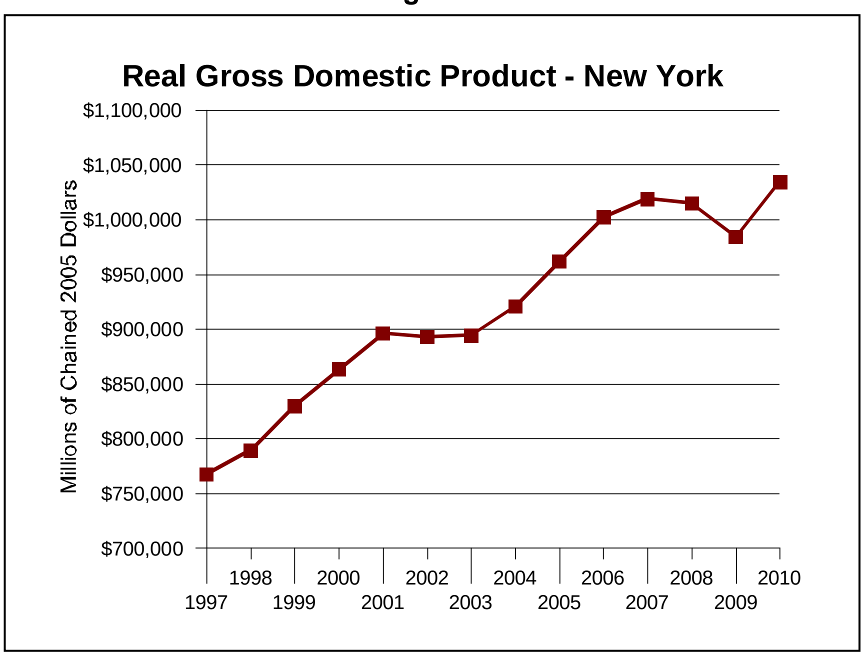
The proponents of the NITC cite several key reasons supporting the claim that a new crossing would help improve infrastructure along the border. The first of these is a new location. The NITC would be built south of the Ambassador Bridge, stretching from the Delray area of Detroit to the Brighton Beach area of Windsor. The new crossing would have direct access to freeways on both sides of the border. Supporters say that these connections, especially to the Canadian Highway 401, would reduce delays and increase efficiency for those crossing the border.

Another benefit of the new location would be security. In the event of a natural or manmade disaster, it is unlikely that both bridges would become incapacitated simultaneously. A second bridge would allow trade between the U.S. and Canada to be more reliable during times of crisis.

According to NITC advocates, the traffic between Michigan and Canada is expected to increase steadily over the next several decades, making a more integrated and updated system vital to keeping up with increasing trade volumes. In the fall of 2009, the Border Transportation Partnership, which was created in 2004 by the Federal Highway Administration, Transport Canada, the Ontario Ministry of Transportation, and the Michigan Department of Transportation, released the Detroit River International Crossing (DRIC) Study report, which projected that truck traffic will increase 128.0% in the next 30 years. It also reported that border infrastructure will surpass capacity by 2033. Proponents claim that current low traffic volumes are the result of two unexpected occurrences: the September 11, 2001, terrorist attacks and the economic recession that began in 2000 and from which Michigan is just beginning to recover.

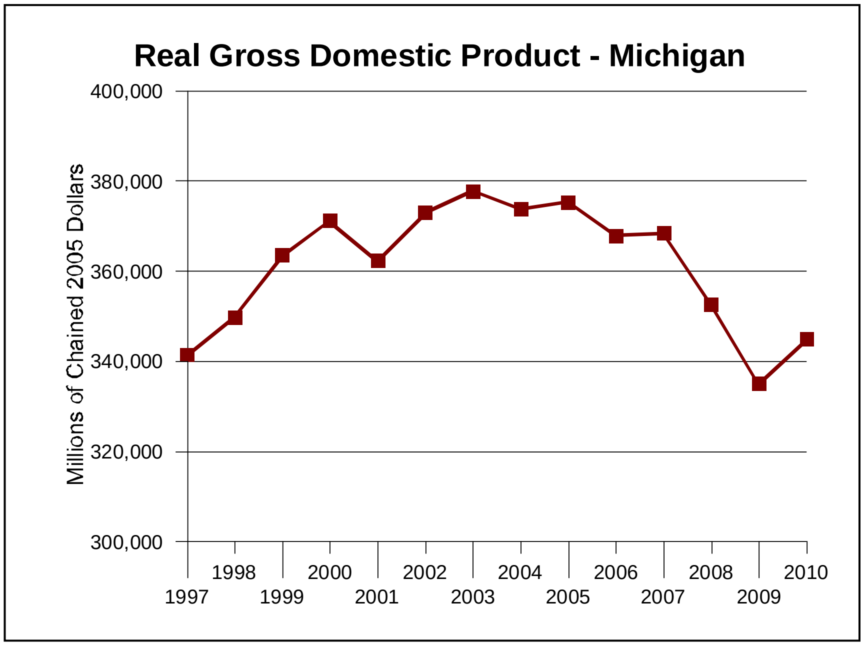
Figures 5 and 6 show the real Gross Domestic Product (GDP) in recent years for both New York and Michigan, two key border states.

Figure 5



Source: U.S. Bureau of Economic Analysis

Figure 6



Source: U.S. Bureau of Economic Analysis

This economic decline in Michigan has contributed to the low traffic levels, but the graphs do not align well with the earlier figures on traffic volume. Traffic began decreasing even before Michigan's economy began to decline, making the economy only one of the factors contributing to lower traffic. "In spite of these unprecedented events [9-11 and the recession] the commercial vehicle traffic over the most recent 25-year period still grew 74 percent", according to the DRIC Study. The Study claims that if the NITC is built, it will capture 34.5% of combined border traffic that must cross in either the Detroit or Buffalo area, making the crossing lucrative for Michigan's economy. If Michigan does not build the NITC, however, New York may build a bridge in the Buffalo area. Supporters of the new bridge, therefore, would like Michigan to act promptly in order to keep business and profits in this State.

The projections concerning traffic and revenue are varied among reports. The proponents of the bridge hold to a June 2010 report released by the DRIC Study, which claims that the bridge will provide more than enough revenue to support the cost:

> The baseline revenue estimates are forecasted in U.S. dollars to generate revenues of close to $70.4 million (nominal dollars) in the opening year (2016) and are expected to grow to $123.5 million by 2025 at an average annual rate of approximately 6.4 percent with ramp-up effects included. The nominal revenues between 2035 and 2065 are projected to grow from $196.1 million to $577.1 million, which reflects a long-term average annual growth rate of 3.7 percent over the 30 year period under a 2.3 percent inflation growth index.

This forecast of revenue, if correct, shows that the bridge would be an affordable infrastructure project.

Other financial options have been presented as reasons why the NITC would benefit the State of Michigan. On April 29, 2010, and again on March 25, 2011, the Canadian government offered to pay $550.0 million to cover Michigan's cost of connecting interchanges and a customs plaza, according to Canada's Minister of Transport. This offer from Canada would have no up-front cost to Michigan for building the bridge. Governor Snyder also has claimed that he will leverage four times the Canadian contribution in Federal funds for the State if the deal is finalized, equaling $2.2 billion (*Detroit Free Press*, "Michigan's recovery depends in large part on new bridge", 4-24-11). The validity of this claim, however, has been disputed.

In addition to the financial benefits, the public-private partnership (P3) that would be designed to oversee and construct the project would place no liability on the taxpayers of Michigan, according to supporters of the NITC. (One detailed proposal for a P3 is found in Senate Bill 410, which presently is in the Senate Committee on Economic Development.) A 2010 report by the Michigan Department of Transportation, however, summarizes potential risks and liabilities involved:

> If a default were to occur during the construction period, the P3's lenders (e.g., financial institutions) bear all the risks to complete the project. The lenders would have the obligation to complete the project at no additional costs to government – i.e., the private lenders bear all the risks as this is a contractual obligation under the P3 concession agreement. Similarly, if the default were to occur over the operating period, again the lenders would bear all the risks associated with covering the default and continuing with the operations. This obligation is secured by the payments for the construction costs of the bridge, which are only paid out from toll revenues during the operating period if the facility performs in line with the contractual obligations of the concessionaire.

The risk to Michigan taxpayers, argue the advocates of the new crossing, would be virtually nonexistent.

Figure 7 shows the division of payments for the proposed crossing. The low financial risk of the NITC could present Michigan with a very prudent business deal, especially in light of the benefits for Michigan business that bridge supporters repeatedly claim would be realized from the new crossing.

Figure 7

	I-75/I Interchange $385.9 M	US Customs Plaza $413.6 M	Bridge $949.1 M	Canadian Customs Plaza $387.6 M	Windsor Essex Parkway $1.4 B
MICHIGAN	$0	$0	$0	$0	$0
GSA	$0	$263.6 M	$0	$0	$0
CANADA	$385.9 M	$150.0 M	$0	$387.6 M	$1.4 B
P3 PARTNER	$0	$0	$949.1 M	$0	$0

GSA = U.S. General Services Administration

Source: Michigan Lt. Governor's office

Proponents also assert that shorter wait times to cross the border can save money for businesses. If border crossing traffic increases rapidly, as earlier discussed, delays, especially at the Ambassador Bridge, are likely to rise. "Michigan could lose up to 25,000 jobs and $4.4 billion in 2030 if the congestion issues at the Detroit River Border are not addressed", said one DRIC Study report. The auto industry is a good example of the effect wait times have on business. Vehicles produced in North America will have crossed the border an average of seven times during their production: "these customs rules and border delays could easily add an extra cost of $800 [$810.17 in U.S. dollars] per vehicle", according to the Waterloo Border Delays Report. Delays cause a serious problem to industry, especially businesses oriented around time-restricted delivery. Advocates of the NITC see the new crossing as the ideal way to address these delay problems, and provide fast, reliable routes from the U.S. to Canada.

Bridge Opponents

Opponents of the NITC argue that the proposed project is less than ideal, and could even be harmful to the State of Michigan. Manuel Moroun, the owner of the Ambassador Bridge and the DIBC, is a key opponent to the NITC. He contends that the low traffic levels, which currently are a little more than half of those in the late 1990s, do not justify the NITC (*Detroit Free Press*, "Detroit-Windsor bridge battle: Separating out the truth", 4-24-11). This lack in traffic brings into question the necessity of a new bridge. The steady decline in traffic over the past decade is the main reason that there is no need to build more infrastructure, argue those against the NITC.

Conflict between the two sides of the argument revolves around the projections of future traffic volumes and the toll revenue the NITC would generate. The DIBC hired Conway MacKenzie, a financial consulting firm, to provide an independent analysis of the costs and profits of the proposed bridge. The results claimed there would be "a shortage of $63.1 million a year", based on current traffic volumes (*Detroit News*, "Moroun: 2nd bridge span could take decade", 5-5-11). According to Conway MacKenzie's projections, by 2035 losses could mount to $4.7 billion, making the new bridge a very costly project. These results differ greatly from the DRIC Study, but each side claims its report to be valid.

Opponents of the NITC contend that the negative effect on private business would be high. The State would be entering into a private market and diverting business from the privately owned DIBC, resulting in a "45 percent reduction in the future anticipated revenue at the Ambassador Bridge", according to the June 2010 DRIC Study report. Not only would the new bridge take profits away from the DIBC's current bridge, but it also could prevent the DIBC from building a second span and "twinning" the current span (erecting a second span that would use the same plazas and roadways). The potential loss incurred by the DIBC is evident in Table 1.

The DIBC questions why the State needs to build its own bridge if the DIBC is ready and willing to build a new span. A privately owned bridge would pay income, property, and Detroit City taxes, as well as link to local freeways, and there would be little to no demolition needed to twin the Ambassador Bridge (*The Daily Tribune*, "Ambassador Bridge owners push for second span, no new bridge", 2-24-11). The DIBC representatives said on June 16, 2011, in testimony before the Senate Economic Development Committee, that when they get the permission of the Canadian and Michigan governments, they will start building their second span "the next day". They argue that the demand of the market, and not the governments of Michigan and Canada, should decide where the bridge is built, and who builds it.

Table 1

Ambassador Bridge Annual Revenue Estimates (In Millions of 2010 Dollars)			
Year	**No NITC**	**NITC Built**	**Difference**
2015	$93.90	$93.90	---
2020	107.60	57.30	($50.30)
2025	125.00	67.30	(57.70)
2030	142.20	76.90	(65.20)
2035	156.60	76.90	(71.60)
2040	169.20	76.90	(77.30)
2045	181.00	76.90	(82.50)
2050	193.30	76.90	(88.20)
2055	205.50	76.90	(93.80)
2060	218.20	76.90	(99.70)

Source: DRIC Study Report, June 2010

Conclusion

Whether the NITC is ultimately built will be decided by the Michigan Legislature. Senate Bill (SB) 410, currently before the Michigan Senate, would create the "New International Trade Crossing Act". The proposed Act would create the Michigan Governmental Authority for an NITC within the Michigan Department of Transportation. The Authority would coordinate efforts in the building of the NITC on behalf of the State of Michigan. For further information on SB 410, please follow the link to the summary of the bill http://www.legislature.mi.gov/documents/2011-2012/billanalysis/Senate/pdf/2011-SFA-0410-S.pdf.

This article has presented findings that indicate that traffic on the various crossings between Michigan and Canada was down over the last decade. However, studies indicate that traffic over the next 30 to 50 years could more than double. In an attempt to get the facts from both sides, the Senate Economic Development Committee has begun hearings on the proposed NITC. It is expected that these hearings will continue over the summer. After all the facts from both sides of the issue are gathered, the Committee will decide on whether to report the bill to the full Senate for passage.

Senate passage of SB 410 is only half the battle. If passed by the Senate, the bill then would go to the Michigan House of Representatives. The only thing that is certain regarding SB 410, or another legislative proposal on the subject, is that Governor Snyder has said that he will sign a bill to create a New International Bridge Crossing.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2011

The Impact of Tuition Restraint on 2011-12 University Tuition and Fee Increases

By Bill Bowerman, Associate Director

Introduction

The Governor's fiscal year (FY) 2011-12 budget recommendation, and the budget as enacted, included a $213.1 million (15.0%) across-the-board reduction to funding for university operations. In order to limit the extent to which this reduction was passed on to Michigan students and their families, the budget withholds $83.0 million, conditioning that funding on universities' keeping tuition and fee increases below a certain threshold. This article provides an overview of tuition restraint and its impact on tuition and fee increases for FY 2011-12.

Background

Article III, Section 265 of Public Act 62 of 2011 contains the tuition restraint provisions. The mechanism to implement tuition restraint, as recommended by the Governor and enacted by the Legislature, removed a portion of funding from each university's operations line item and included that amount in a separate tuition restraint line item. The tuition restraint amount for each university was determined based on its five-year average annual tuition and fee percentage increase multiplied by the Governor's proposed level of FY 2011-12 funding (FY 2010-11 year-to-date appropriation less 15.0%). If a university keeps its tuition and fee increases for the next academic year at or below the recent five-year average of annual statewide tuition increases (7.1%), the university will receive its tuition restraint incentive appropriation. (Appendix A provides the full text of Section 265.) To receive the tuition restraint payment, universities must certify both of the following to the State Budget Director by August 31, 2011:

1. The university did not adopt an increase in tuition and fee rates for resident undergraduate students after February 1, 2011, for the 2010-2011 academic year.

2. The university will not adopt an increase in tuition and fee rates for resident undergraduate students for the 2011-2012 academic year that is greater than the calculated average of annual statewide changes in tuition and fee rates for academic years 2006-2007 through 2010-2011, as determined by the State Budget Director. (The State Budget Director has determined this rate to be 7.1%.)

Table 1 provides detail on FY 2011-12 appropriations, including: reductions, five-year average percentage increases in tuition, tuition restraint amounts, and total potential reductions.

Table 1

FY 2011-12 University Operations							
Universities	(a) FY 2010-11 Appropriation	(b) 15.0% Reduction	(c) FY 2011-12 Initial Appropriations	(d) Average Five-Year % Increase Tuition & Fees	(e) Tuition Restraint Amount	(f) Potential Total Reduction	(g) Potential % Change to FY 2010-11
Central	$80,132,000	($12,023,100)	68,108,900	9.8%	($6,677,800)	($18,700,900)	(23.3%)
Eastern	76,026,200	(11,407,100)	64,619,100	5.1	(3,299,200)	(14,706,300)	(19.3)
Ferris	48,619,200	(7,294,900)	41,324,300	8.1	(3,352,700)	(10,647,600)	(21.9)
Grand Valley	61,976,400	(9,299,000)	52,677,400	8.1	(4,245,900)	(13,544,900)	(21.9)
Lake Superior	12,694,200	(1,904,700)	10,789,500	6.8	(734,400)	(2,639,100)	(20.8)
Michigan State	283,685,200	(42,564,400)	241,120,800	7.6	(18,324,600)	(60,889,000)	(21.5)
Michigan Tech	47,924,200	(7,190,600)	40,733,600	8.2	(3,323,900)	(10,514,500)	(21.9)
Northern	45,140,300	(6,772,900)	38,367,400	5.6	(2,142,200)	(8,915,100)	(19.7)
Oakland	50,761,300	(7,616,300)	43,145,000	8.9	(3,831,500)	(11,447,800)	(22.6)
Saginaw Valley	27,720,700	(4,159,200)	23,561,500	6.8	(1,592,200)	(5,751,400)	(20.7)
UM-Ann Arbor	316,254,500	(47,451,200)	268,803,300	5.2	(13,871,500)	(61,322,700)	(19.4)
UM-Dearborn	24,726,200	(3,709,900)	21,016,300	6.6	(1,388,900)	(5,098,800)	(20.6)
UM-Flint	20,898,000	(3,135,600)	17,762,400	6.1	(1,083,000)	(4,218,600)	(20.2)
Wayne State	214,171,400	(32,134,500)	182,036,900	7.0	(12,827,500)	(44,962,000)	(21.0)
Western	109,615,100	(16,446,800)	93,168,300	6.8	(6,301,600)	(22,748,400)	(20.8)
Total Universities	**$1,420,344,900**	**($213,110,200)**	**$1,207,234,700**	**7.1%**	**($82,996,900)**	**($296,107,100)**	**(20.8%)**

a) Current year (FY 2010-11 year-to-date appropriation)
b) 15% across-the-board reduction
c) Amount received if universities comply with tuition restraint (tuition and fee increase for resident undergraduate students at or below 7.1%)
d) Average percent increase in tuition and fees over five-year period by institution (FY 2006-07 through FY 2010-11)
e) Tuition restraint calculated by multiplying column (d) by column (c)
f) Total reduction if tuition/fees increases over 7.1% -- column (b) plus column (e)
g) Percent reduction to FY 2010-11 if tuition increases over 7.1%.

Source: FY 2011-12 Governor's recommendation and FY 2011-12 enacted appropriation

2011-12 Tuition and Fee Increases

Michigan's Higher Education Institutional Data Inventory (HEIDI) is used by Michigan public universities to report financial and student information, including tuition and fees, to the State of Michigan. The data are entered electronically by State universities and the information assists the Legislature in its decision-making processes. It is important to note that the guidelines for entering tuition and fee information into HEIDI are not the same as the tuition restraint criteria contained in Section 265 of Public Act 62 of 2011. Specifically, HEIDI tuition and fee information is based on fall and winter semesters. (Summer semester is not included in the calculation.) Tuition and fee rates are reported for each undergraduate student level – freshman, sophomore, junior, and senior. Reported tuition and fee charges include all mandatory charges that are paid by a majority of full-time, on-campus, degree-seeking students at each class level. Reported tuition and fee amounts are the net of any refunds/rebates. Based on those standards, Table 2 provides preliminary information on 2011-12 tuition and fee increases.

Table 2

Annual Resident Undergraduate Tuition and Fee Rates			
Universities	**FY 2010-11 Rates**	**FY 2011-12 Rates**	**% Increase**
Central	$10,065	$10,740	6.7%
Eastern	8,399	8,705	3.6
Ferris	9,930	10,440	5.1
Grand Valley	9,314	9,958	6.9
Lake Superior	8,795	9,395	6.8
Michigan State	11,670	12,769	9.4
Michigan Tech	13,007	13,911	6.9
Northern	7,728	8,470	9.6
Oakland	9,716	10,399	7.0
Saginaw Valley	7,308	7,815	6.9
UM-Ann Arbor	12,590	13,437	6.7
UM-Dearborn	9,575	10,236	6.9
UM-Flint	8,656	9,243	6.8
Wayne State	9,732	10,585	8.8
Western	9,510	10,140	6.6

Source: HEIDI Appendix B and fiscal agency calculations based on preliminary data on tuition/fee increases for FY 2011-12. The data are not intended to determine compliance with Section 265 of Public Act 62 of 2011.

Table 2 implies that Michigan State, Northern, and Wayne State could be out of compliance with the requirements of tuition restraint, with respective increases of 9.4%, 9.6%, and 8.8%. However, Section 265 states: "'Tuition and fee rate' means the average of rates for all undergraduate classes, based on the highest board-authorized rate for any semester during the academic year." The 2011 summer semester could be considered as a part of the 2010-2011 academic year. For Michigan State, FY 2011-12 tuition and fee rates equate to a 6.9% increase over rates charged for the 2011 summer semester. For Northern, FY 2010-11 rates reflect a fall semester credit rate of $192 per resident student. Calculating the tuition/fee increase from the highest board-authorized rate equates to a 6.9% increase for Northern. For Wayne State, tuition was increased during the summer 2011 semester. That adjustment will not be part of information contained in HEIDI based on current reporting guidelines. The increase from the highest rate charged in the 2010-2011 academic year would result in a 7.0% increase in tuition and fees for Wayne State.

Conclusion

Tuition restraint was designed to limit the extent to which universities used tuition increases to offset reductions in State appropriations. Section 265 gives the State Budget Director the sole authority to determine if a public university has met the requirements of this section. However, the practical impact on students (and parents) at Michigan State, Northern, and Wayne State will be the higher increase, assuming that a student did not attend the summer semester.

APPENDIX A

Section 265 of Pubic Act 62 of 2010

Sec. 265. (1) The amounts appropriated in section 236 for public university tuition restraint incentives shall only be paid to a public university that certifies to the state budget director by August 31, 2011 that its board did not adopt an increase in tuition and fee rates for resident undergraduate students after February 1, 2011 for the 20c10-2011 academic year and that its board will not adopt an increase in tuition and fee rates for resident undergraduate students for the 2011-2012 academic year that is greater than the calculated average of annual statewide changes in tuition and fee rates for academic years 2006-2007 through 2010-2011, as determined by the state budget director. As used in this subsection:

(a) "Fee" means any board-authorized fee that will be paid by more than 1/2 of all resident undergraduate students at least once during their enrollment at a public university. A university increasing a fee that applies to a specific subset of students or courses shall provide sufficient information to prove that the increase applied to that subset will not cause the increase in the average amount of board-authorized total tuition and fees paid by resident undergraduate students in the 2011-2012 academic year to exceed the limit established in this subsection.
(b) "Tuition and fee rate" means the average of rates for all undergraduate classes, based on the highest board-authorized rate for any semester during the academic year.

(2) The state budget director shall implement uniform reporting requirements to ensure that a public university receiving an appropriation under section 236 has satisfied the tuition restraint requirements of this section. The state budget director shall have the sole authority to determine if a public university has met the requirements of this section. Information reported by a public university to the state budget director under this subsection shall also be reported to the house and senate appropriations subcommittees on higher education and the house and senate fiscal agencies.

(3) In conjunction with the uniform reporting requirements established under subsection (2), each public university shall also report the following information to the house and senate appropriations subcommittees on higher education, the house and senate fiscal agencies, and the state budget director by August 31, 2011:

(a) Actual fiscal year 2010-2011 and budgeted fiscal year 2011-2012 total general fund tuition and fee revenue.
(b) Actual fiscal year 2010-2011 and budgeted fiscal year 2011-2012 total general fund revenue.
(c) Actual fiscal year 2010-2011 and budgeted fiscal year 2011-2012 general fund expenditures for student financial aid.
(c) Actual fiscal year 2010-2011 and budgeted fiscal year 2011-2012 total general fund expenditures.
(d) Actual fiscal year 2010-2011 and budgeted fiscal year 2011-2012 total fiscal year equated student enrollment.

State Notes
TOPICS OF LEGISLATIVE INTEREST
Summer 2011

The Family Independence Program: 48-Month Time Limit and JET Program Exemptions
By Frances Carley, Fiscal Analyst

Introduction

When the Governor's recommended budget was introduced earlier this year, it included a 48-month lifetime limit on Family Independence Program (FIP) assistance. The Legislature concurred with the proposed policy change with the passage of Public Act (PA) 63 of 2011, the omnibus State budget for fiscal year (FY) 2011-12, but enabling legislation is still required to implement this policy change. The State's Social Welfare Act (PA 280 of 1939) includes a September 30, 2011 sunset clause for the 48-month lifetime limit that had been enacted during the Granholm Administration. If House Bill (HB) 4409 and HB 4410 are enacted, the sunset clause will be eliminated, resulting in the immediate disenrollment of an estimated 12,600 FIP cases on October 1, 2011. At present, the House and the Senate have passed different versions of those bills and they have not yet gone to the Governor.

In order to remain eligible for FIP, recipients must meet minimum work requirements unless they are exempt. The Governor's recommended FY 2011-12 budget included exemptions for approximately 6,100 cases. These exemptions would prevent the recipients from being immediately disenrolled and allow them to continue receiving FIP assistance for the duration of the fiscal year. Assuming the enactment of HB 4409 and HB 4410, the exemptions will be further refined. Under the bills, exemptions from the Jobs, Education, and Training (JET) Program work requirements will be granted on permanent and temporary bases for certain eligible groups. Some of these exemptions will allow cases to extend beyond the 48-month time limit under special circumstances. Regular FIP cases, however, will remain subject to the time limit.

Background on the Family Independence Program

The Department of Human Services describes the Family Independence Program as temporary cash assistance for low-income families with minor children and pregnant women. The Program helps them pay for living expenses such as rent, heat, utilities, clothing, food, and personal care items. The main goal of FIP is to help families become self-supporting and independent. In exceptional cases, assistance also is made available to households without children. As of June 2011, the average number of monthly FIP cases/households was 81,500, serving approximately 221,400 individuals, 153,500 of whom are children. As of October 2010, 91.0% of grantees were female and the average number of people in a household was 2.7.

Funding for FIP primarily comes from the Federal Temporary Assistance for Needy Families (TANF) block grant and the State General Fund/General Purpose (GF/GP) budget, depending on the type of case. Cases funded by TANF comprise an estimated 83.0% of all FIP cases and are primarily single-parent households. Cases funded with GF/GP support are primarily two-parent households or child-only cases. In June 2011, total monthly costs for both TANF- and GF/GP-funded cases averaged $32.3 million (approximately $26.2 million of which was paid by TANF). The average monthly cost per case was $416.

The length of time that households are enrolled in FIP varies. A report from the House Fiscal Agency compared Michigan's cash assistance program to other states' programs and found that the average length of time on assistance in Michigan is 25.1 months, which is lower than the national average of 31.2 months. Those receiving cash assistance through the TANF block grant are limited to a maximum of five years of assistance in accordance with Federal regulations.

To qualify for assistance, a household must meet eligibility requirements and comply with work requirements (or qualify for work exemptions). Work requirements can be fulfilled through participation in the JET Program. Applicants must have less than $3,000 in assets and must be Michigan residents. The House Fiscal Agency report demonstrated that the State's maximum allowable monthly income of $815 at the time of application is comparable to the national average of $817. Work requirements for the TANF-funded cases require a single adult to average 30 hours a week (20 hours of which must be in a "core activity", which includes working, community service, and job searching). A single adult with a child under age six must average 20 hours a week, and a two-parent family must average 35 hours a week. Individuals who do not meet the work requirement are subject to penalties, including the loss of benefits for three months after the first or second instance of noncompliance and for 12 months after the third instance.

According to a report issued by the State Budget Office earlier this year, a FIP grant for a family of three with no earned income is $492 per month plus $526 per month in food assistance, for a monthly total of $1,018. The Federal poverty level for a family of three is $17,400 per year.

48-Month Lifetime Limit for FIP

The Governor's budget recommended a 48-month lifetime limit for FIP assistance. The time limit would be retroactive beginning in fiscal year (FY) 2011-12 so that immediate savings would be realized in the upcoming year. Approximately 15.0% of the total current caseload would lose eligibility effective October 1, 2011.

The Governor's budget assumed that 12,623 cases at an average cost of $511 per case per month would be immediately disenrolled. The Gross savings are projected to total $77.4 million and the GF/GP savings are projected at $65.0 million. Data on the number of cases that would be disenrolled in the future are not available.

FY 2011-12 Exemptions From the 48-Month Time Limit

The Governor's budget assumed that, as of October 1, 2011, there will be 18,754 cases that will have been open for more than 48 months. Approximately 6,100 of these cases would be exempt from the time limit in FY 2011-12. These cases also received exemptions from work requirements. Depending on the circumstances, however, they could be required to take part in the JET Program beginning in FY 2012-13 or be subject to the time limit. The State Budget Office provided the data in Table 1, which lists the allowable exemptions from the time limit in FY 2011-12 and the number of cases that fall into each category.

Table 1

FY 2011-12 Exemptions From the 48-Month Time Limit	Cases
Total FIP cases over 48 months as of October 1, 2011	**18,754**
Exemptions:	
Incapacitated adults - incapacitation over 90 days	4,042
Victim of domestic violence - 90 days plus potential for 90-day extension	155
Pregnancy - duration plus 90 days after	478
Needed in the home to care for disabled spouse	80
Needed in the home to care for disabled child	820
Chronic mental health problems - based on medical circumstances; granted by Medical Review Team	143
Physical limitations - based on medical circumstances; granted by Medical Review Team	388
Low intellectual capacity - based on medical circumstances; granted by Medical Review Team	19
Subtotal - FIP cases with exemptions	6,124

Source: State Budget Office

Exemptions Under House Bills 4409 and 4410 and the Senate Substitutes

Temporary and Permanent Exemptions

House Bills 4409 and 4410 would further refine the exemptions that were accounted for in the FY 2011-12 Governor's recommended budget, by defining temporary and permanent exemptions to the JET Program work requirements. In FY 2011-12, more than 6,100 cases that will have reached the 48-month limit would be able to remain in FIP for the duration of the year. Beginning in FY 2012-13, however, some of the cases with temporary exemptions from the JET Program could be subjected to the time limit.

Temporary exemptions from the JET Program (under HB 4410 in Section 57f(4)) would be granted to groups with the following circumstances:

- Short-term mental or physical illness or disability (case review required at 90 days).
- Domestic violence (case review required at 90 days).
- Postpartum recovery or a parent with an infant under 60 days old (case review required at 60 days).
- Difficult pregnancy as confirmed by a medical review.
- Caregiver of a disabled spouse (case review required at 365 days).
- Caregiver of a disabled child (case review required at 365 days).

It is unlikely that recipients with permanent exemptions from the JET Program (under HB 4410 in Section 57f(3)) would be subjected to the 48-month time limit. Cases in which a child is the primary FIP recipient are considered child-only cases, and are listed as permanent exemptions. These are exceptional cases, however, and do not include children who are part of a household in which an adult is the primary FIP recipient (please refer to "Exemptions for Children" on page 4 for more information). The list of permanent exemptions includes the following:

- A child under the age of 16 (*refers to child-only cases*).
- A child age 16 to 18 who is attending elementary or secondary school full time (*refers to child-only cases*).
- A recipient who is disabled or has a mental or physical condition.
- A recipient otherwise unable to participate as determined by the medical review team.
- A recipient aged 65 or older.
- A recipient of Supplemental Security Income.
- A recipient of retirement, survivor, or disability insurance and a recipient who is eligible for this insurance and is in a nonpay status.

Under HB 4409 (in section 57p), the months in which certain cases would be exempt from participating in the JET Program work requirements would not count toward the 48-month time limit. This exclusion would apply to the cases that would be permanently exempt from the JET Program, as well as victims of domestic violence referred to in the list of temporary exemptions. In FY 2011-12, an estimated 155 domestic violence victims would be exempt from the 48-month limit. (Costs are already figured into the $77.4 million Gross savings of the policy change.) Caseload projections beyond FY 2011-12 are not available, however, for either the permanent exemptions or the temporary exemptions.

Exemptions for Children

Children under the age of 18 who are exempt from the JET Program are considered primary recipients of FIP assistance. These children are categorized as child-only FIP cases and receive payments under special circumstances, primarily being in foster care. As of January 2009, there were as many as 21,000 child-only cases. By exempting the child-only cases from the work requirement, the bills would allow these children to continue receiving FIP assistance, provided they remain eligible, until the age of 18. After they reached 18, the individuals would be subject to the regular rules and considerations of FIP, including the 48-month time limit.

All other children under the age of 18 are considered to be part of a household in which the parent or caregiver is the primary FIP recipient. These children would be subjected to the 48-month time limit and to their caregivers' compliance with the FIP requirements. If the household reached the 48-month limit or the caregiver failed to comply with the program requirements, the entire household, including children, would no longer receive FIP benefits. In FY 2011-12, there are approximately 12,600 cases (or households) that would no longer receive FIP assistance.

Senate Substitutes for House Bills 4409 and 4410

The Senate substitute for HB 4409 would add caregivers of disabled spouses and children to the exemptions in Section 57p. As provided for domestic violence cases, but at the Department of Human Services' discretion, the months in which caregivers were temporarily exempt from the JET Program would not count toward the 48-month time limit. As the caregiver cases are already being counted in both the current caseload and the FY 2011-12 caseload, it is unlikely that there would be additional overall expenditures in the budget's FIP line in FY 2012-13, compared to FY 2011-12, as a result of the change. Each individual caregiver case that received the year-long exemption beginning in FY 2012-13, however, would have an annual cost of approximately $6,000 (based on current figures).

According to the most recently available data, there are approximately 900 caregivers receiving FIP assistance who either have already reached the 48-month limit or will have reached the limit in October 2011. These caregivers are expected to remain exempt from the limit for the duration of FY 2011-12. Caregiver cases would be reviewed on an annual basis, at which time the Department would decide whether to grant a year-long extension of the JET Program exemption. Individual caregiver cases currently average approximately $510 per month, or $6,000 a year. It has not been determined how many caregiver cases would receive an extension in FY 2012-13 or in subsequent years.

Conclusion

Under the proposed 48-month time limit on FIP assistance, a projected 12,600 households would immediately lose their benefits on October 1, 2011. Exemptions for approximately 6,100 cases would prevent immediate disenrollment and allow them to continue receiving FIP assistance for the duration of the fiscal year. In addition to making the 48-month limit effective, HB 4409 and HB 4410 would provide clarity and define the exemptions to include both permanent and temporary exemptions from the JET Program. All other FIP cases would be subject to the 48-month limit. It is not known whether the immediate disenrollment of families from FIP would affect the demand for other State services, such as State Emergency Relief or Child Protective Services.

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2011

Michigan Income Taxes on Seniors and Retirees Under the 2011 Tax Restructuring Legislation
By David Zin, Chief Economist

Introduction

On May 25, 2011, Governor Snyder signed House Bill (HB) 4361 into law as Public Act (PA) 38 of 2011 and initiated arguably the most substantial changes in the Michigan individual income tax since its establishment in 1967. House Bill 4361 was part of a package of bills to substantially alter business taxes in Michigan. In addition to changes in the individual income tax, the package repealed the Michigan Business Tax for most businesses and imposed a corporate income tax. The business tax changes were estimated to reduce tax revenue by $1,094.3 million in FY 2011-12, and $1,647.6 million in FY 2012-13. In addition to making changes in the tax rate and base, PA 38 also repeals a substantial number of credits against the tax and substantially modifies the Homestead Property Tax Credit (HPTC). The total of these individual income tax changes is expected to generate an additional $559.1 million in FY 2011-12 and $1,423.7 million during FY 2012-13, the first full fiscal year the changes will be effective. Except for changes to the income tax rate, which take effect October 1, 2011, PA 38 will not take effect until January 1, 2012, and therefore will not affect the taxation of income in 2011.

Among the most controversial changes, and those that generate the largest share of the increased revenue, are changes in the way retirement and pension benefits are taxed. This article will summarize those changes, as well as discuss select other changes that affect seniors -- the demographic group that represents the largest share of taxpayers who receive retirement and pension benefits.

Background

Retirement and pension benefits include distributions from a wide variety of plans and savings instruments, including: qualified trusts and annuity plans operated under Section 401(a) of the Internal Revenue Code (including plans for self-employed individuals, such as KEOGH plans); individual retirement accounts (IRAs) under Section 408, if distributions are not made until the participant is at least age 59-1/2; employee annuities or tax-sheltered annuities purchased under section 403(b) by 501(c)(3) organizations or public school systems; 401(k) distributions related to employer contributions or mandatory employee contributions; plans maintained by churches or associations of churches; and other unqualified plans that prescribe eligibility for retirement and predetermine contributions or benefits, if the distributions are made from a pension trust. Effectively, if an employer sets rules on the retirement plan and contributes money to the plan, Michigan tax law treats it as a retirement or pension benefit.

Many of the changes in PA 38 affect different types of retirement and pension income differently. For example, for some taxpayers income from public pensions will no longer be fully exempt, while income from private pensions will face a different set of exemptions. Both public and private pensions include defined benefit plans, in which an employee earns a specified retirement payment based on years of service and average compensation, and defined contribution plans, in which an employee receives a specified payment from his or her employer into a retirement account during the term of their employment. Public pensions are those that are created by the Federal government, the State of Michigan, or a political subdivision of Michigan. Public pensions also include those from a retirement system of another state or local government, if the tax treatment for Michigan retirement income is taxed in a reciprocal fashion. As a result, affected pensions include a wide variety of retirement plans, including 401k and 457 plans and both defined contribution and defined benefit plans, from a wide variety of employers.

Under the law prior to PA 38, retirement and pension benefits from public entities were exempt from taxation, as were social security benefits. Similarly, compensation and retirement benefits received for service in the U.S. armed forces were exempt from the income tax. Income from private pensions was exempt from taxation up to a certain level that was adjusted for inflation. In tax year 2010, $45,120 of income from private pensions was exempt for single filers, while married filing jointly taxpayers received an exemption of $90,240. Certain withdrawals from retirement plans that were directed to charitable institutions or used to pay higher education expenses also were exempt from taxation. Seniors also received an exemption for interest, dividends, and capital gains, up to a specified level that was adjusted for inflation. In tax year 2010, $10,058 of interest, dividends, and capital gains earned by single seniors was exempt, while married filing jointly taxpayers received an exemption of $20,115. Several of these exemptions were reduced by any amount claimed under other provisions. For example, the exemption for private pension income was reduced by any exemptions claimed for military service or a public pension. Each senior claimed as a dependent also received an additional deduction, which totaled $2,300 in tax year 2010.

Taxpayers Born Before 1946

Public Act 38 makes no changes in the treatment of retirement or pension income for taxpayers born before 1946. (For married couples, the age of the older spouse determines if they fall into this category.) For these taxpayers, public pensions, as well as social security benefits and several other categories of income (including social security income), remain completely exempt from taxation. A portion of pension and retirement income from private plans will continue to be exempt from tax ($45,120 for single filers or $90,240 for joint filers in tax year 2010, and adjusted for inflation), and the private pension exemption will continue to be reduced by the amount of any compensation and retirement benefits received for service in the armed forces as well as any public pension. However, not only does PA 38 retain the provisions regarding the interaction of these exemptions, but it also reduces the private exemption by the amount of any retirement or pension benefits received under the Federal Railroad Retirement Act of 1974.

As shown in Table 1, while PA 38 does not change the tax treatment of retirement or pension income for individuals born before 1946, numerous other changes in the bill do affect these individuals. Among the changes that will affect individuals born before 1946 are the elimination of the additional deduction for seniors, changes in the tax rate, changes in the HPTC, and the phase-out of the standard exemption for higher-income taxpayers.

Taxpayers Born During the 1946-1952 Period

For taxpayers born during the 1946 to 1952 period (determined by the age of the older spouse, for married couples), PA 38 limits many of the exemptions for retirement and pension income, although the exemptions for social security income and several other types of income (such as income related to service in the armed forces) are retained while taxpayers are less than 67 years of age. For taxpayers in this age group who have not yet reached age 67, PA 38 limits the value of exemption of pension and retirement income to $20,000 for a single return or $40,000 for a joint return, regardless of whether the income is from a public or private pension. After the taxpayer reaches age 67, PA 38 keeps the exemption amount the same, but applies the exemption to all income, including retirement and nonretirement income. However, a taxpayer in this age group with household income of more than $75,000 if single, or $150,000 if married filing jointly, may not claim the exemption. Similarly, a taxpayer who claims the unlimited deduction for income related to service in the armed forces, or for income under the Railroad Retirement Act of 1974, may not claim the $20,000/$40,000 exemption. Under PA 38, a taxpayer in this age group may continue to claim the standard personal exemption, regardless of age or whether any other deduction or exemption is claimed.

As will be discussed later, the more general provisions of PA 38 also will affect taxpayers in this age group, including the elimination of the additional deduction for seniors, changes in the tax rate, changes in the HPTC, and the phase-out of the standard exemption for higher-income taxpayers. Table 2 shows the changes in tax treatment for this group.

Taxpayers Born After 1952

For taxpayers born after 1952 (determined by the age of the older spouse, for married couples), PA 38 eliminates any exemption of public or private pension or retirement income until the taxpayer reaches 67 years of age, although the exemption for other social security income and certain other types of income (such as income related to service in the armed forces) is retained. After a taxpayer reaches age 67, PA 38 eliminates the standard personal exemption and creates a deduction ($20,000 for a single return or $40,000 for a joint return) against all types of income, including social security income and other types of income (including retirement and nonretirement income).

Public Act 38 allows a taxpayer to forgo the $20,000/$40,000 exemption and instead deduct 100% of social security income and continue to claim the standard personal exemption. As with taxpayers born during the 1946-1952 period, PA 38 also eliminates the $20,000/$40,000 exemption if total household resources exceed $75,000 for a single return, or $150,000 for a joint return, or if a taxpayer claims the deduction for a military pension or railroad pension. Table 3 shows the changes in the tax treatment for individuals born after 1952.

Other Significant Provisions Affecting Seniors and Retirees

Regardless of age, PA 38 eliminates the standard personal exemption if total household resources exceed $75,000 for a single return, or $150,000 for a joint return. All taxpayers will also be affected by the changes in the tax rate, which had been scheduled to drop 0.1 percentage point, to 4.25%, on October 1, 2011, and then drop another 0.1 percentage point every October 1 after that until the rate reached 3.9%. Under PA 38, the rate is scheduled to remain at 4.35% through January 1, 2013, when it will decline to 4.25%. No additional rate reductions are scheduled under PA 38.

All taxpayers, regardless of age, also will be affected by the provisions in PA 38 that eliminate nonrefundable credits, including the Public Contribution Credit, the Homeless Shelter/Food Bank Credit, and the Community Foundation Credit. Similarly, all taxpayers living in a city with an income tax will be affected by the elimination of the City Income Tax credit.

Beginning January 1, 2012, senior citizens born after 1945 will no longer be able to deduct a portion of interest, dividends, and capital gains received. Prior to PA 38, seniors age 65 or older could deduct a portion of this income, up to $10,058 for singles and $20,115 for joint filers in tax year 2010, although the deduction was reduced by the amount of any exemptions claimed for public and private pension benefits or income related to service in the armed forces. Other deductions related to retirement income that are eliminated by PA 38 include distributions from certain individual retirement accounts used to pay qualified higher education expenses and charitable contributions made from a qualified retirement plan or account.

The additional $1,800 exemption allowed for each individual age 65 and older claimed by taxpayer, is terminated by PA 38. The elimination of this provision affects all taxpayers and dependents age 65 and older, regardless of the year they were born.

Regardless of age, taxpayers will no longer be eligible for the Homestead Property Tax Credit if the taxable value of their homestead exceeds $135,000. (For a new home, this limit equates to a sale value of $270,000.) Public Act 38 also lowers the household income limits for taxpayers to be eligible for the HPTC, with the credit phased out starting at total household resources of $41,000 and eliminated once total household resources reach $50,000. Prior to PA 38, the phase-out did not begin until household income exceeded $73,650.

For most taxpayers, the HPTC is calculated based on some percentage of the property taxes that exceed 3.5% of household income. Prior to PA 38, the applicable percentage varied, with most taxpayers receiving 60.0%, while seniors and disabled individuals were able to receive 100%. Changes were enacted in PA 38 that affect the HPTC, but some of the changes conflict with others, and likely will require additional cleanup legislation to correct the problem.

Originally, the Governor's proposal for the HPTC increased the percentage for most taxpayers to 80.0%, lowered the percentage for seniors from 100% to 80.0%, and kept the percentage for disabled individuals at 100%. According to information released during legislative debate on the bill, the legislation's intent was to eliminate the difference in rates between seniors and most taxpayers, setting the applicable percentage at 60.0%, except for senior citizens with income of $21,000 or less, where the applicable percentage would be 100%, and phased down in four percentage point increments every $1,000 of household resources until the applicable percentage declined to 60.0% at household resources of $30,000. Public Act 38 does contain these provisions, but it also contains language (that had been inserted at one point in a separate section, but not subsequently removed) to make the applicable percentage 100% for all seniors, regardless of income (rather than only for seniors with household resources of $21,000 or less). As a result, PA 38 offers seniors two different, and somewhat contradictory, formulas for computing the HPTC. Consequently, it is anticipated that legislation to correct this issue will be introduced at some point, particularly given that the revenue estimates for the bill assumed that the language providing seniors with 100% HPTC would be limited to those with household resources of $21,000 or less.

Prior to PA 38, several types of withdrawals or contributions from retirement income were either deductible or exempt from taxation. For example, charitable contributions made from a retirement plan were deductible, and withdrawals used to pay higher education expenses were exempt from taxation. Public Act 38 eliminates most of these provisions, although contributions and payments to the Michigan Education Trust or a Michigan Education Savings Plan remain exempt.

Conclusion

Changes in the taxation of retirement and pension income are expected to account for $224.9 million (40.2%) of the $559.1 million of increased individual income tax revenue in FY 2011-12, and $343.8 million (24.1%) of $1,423.7 million of increased individual income tax revenue in FY 2012-13, under PA 38. While individuals born before 1946 are largely held harmless from the changes in the taxation of pension income, all seniors (whether or not they receive retirement or pension income) will be affected by other changes in the bill. The elimination of the additional senior exemption, combined with the elimination of the senior exemption for interest, dividends and capital gains, accounts for another $12.9 million of the revenue increase in FY 2011-12, and $47.2 million of the revenue increase in FY 2012-13. Seniors also will be affected by the higher tax rates on other types of incomes, the changes in the HPTC, and the elimination of the nonrefundable credits.

Public Act 38 makes significant changes in Michigan's individual income tax, changes that will affect every taxpayer in the State. Seniors, and individuals receiving some sort of retirement or pension income, are perhaps the demographic most affected by the changes. While the legislation phases in a system that will tax income more uniformly, eliminating many provisions that treated income from different sources differently, the transition period will not only retain some of this differential treatment but also treat the same income differently based on the age of the taxpayer. During the phase-in period, for the same income, taxpayers born in earlier years will receive more exemptions and deductions from income than taxpayers born in later years will receive. As a result, as taxpayers born in earlier years die and individuals born after 1952 represent an increasingly larger portion of seniors, the individual income tax revenue generated from seniors under the provisions of PA 38 will increase.

Table 1

Taxation of Individuals Born Before 1946		
Type of Income	**Previous Law**	**New Law**
Wage Income	Taxed	Taxed
Compensation/Retirement benefits received for service in U.S. armed forces	Exempt	Exempt
Retirement/Pension benefits under Railroad Retirement Act of 1974	Taxed	Exempt
Retirement/Pension benefits from a Federal public retirement system	Exempt	Exempt
Retirement/Pension benefits from a Michigan public retirement system	Exempt	Exempt
Retirement/Pension benefits from a public retirement system of local government in Michigan	Exempt	Exempt
Retirement/Pension benefits from other state/local retirement system with reciprocal treatment of Michigan income	Exempt	Exempt
Retirement/Pension benefits from any other retirement system/pension system/retirement annuity[1)]	Limited Exemption	Limited Exemption
Other types of retirement income[2)]	Taxed	Taxed
Social Security benefits	Exempt	Exempt
Eligible under Section 22 of Internal Revenue Code (elderly/disabled credit)	Exempt	Exempt
Charitable contributions/payments to the Michigan Education Trust	Exempt	Exempt
Contributions to Michigan Education Savings Account	Exempt	Exempt
Interest/dividends/capital gains received by senior citizens	Limited Exemption	Limited Exemption
IRA withdrawals used to pay higher education expenses	Exempt	Taxed
Charitable contributions made from a retirement or pension plan	Exempt	Taxed
Additional deduction for seniors	$2,300	None
Personal exemption	Not Limited	Limited
Nonrefundable Credits (homeless shelter/food bank, city income tax, public contributions, etc.)	Available	Eliminated
Homestead Property Tax Credit		
Percent of tax eligible for credit for regular/seniors[3)]	60%/100%	Varies based on income
Income eligibility phase-out range	$73,650-$82,650	$41,000-$50,000
Business income included in household income	Yes	No
Taxable value cap	None	$135,000
Maximum credit	$1,200	$1,200

1) Includes retirement and pension benefits from private systems, whether defined benefit (traditional pension) or defined contribution (such as a 401k plan).
2) Includes all retirement income not listed elsewhere, such as nonqualified IRAs and self-purchased annuities.
3) See text for additional explanation.

Table 2

Taxation of Individuals Born During 1946-1952 Period

Type of Income	Previous Law	New Law: Prior to Age 67	New Law: Age 67 or Older
Wage income	Taxed	Taxed	Taxed
Compensation/Retirement benefits received for service in U.S. armed forces	Exempt	Exempt[4)]	Exempt[4)]
Retirement/Pension benefits under Railroad Retirement Act of 1974	Taxed	Exempt[4)]	Exempt[4)]
Retirement/Pension benefits from a Federal public retirement system	Exempt	Limited Exemption[4)]	Limited Exemption[4)]
Retirement/Pension benefits from a Michigan public retirement system	Exempt	Limited Exemption[4)]	Limited Exemption[4)]
Retirement/Pension benefits from a public retirement system of local government in Michigan	Exempt	Limited Exemption[4)]	Limited Exemption[4)]
Retirement/Pension benefits from other state/local retirement system with reciprocal treatment of Michigan income	Exempt	Limited Exemption[4)]	Limited Exemption[4)]
Retirement/Pension benefits from any other retirement system/pension system/retirement annuity[1)]	Limited Exemption	Limited Exemption[4)]	Limited Exemption[4)]
Other types of retirement income[2)]	Taxed	Taxed	Limited Exemption[4)]
Social Security benefits	Exempt	Exempt	Exempt
Eligible under Section 22 of Internal Revenue Code (elderly/disabled credit)	Exempt	Exempt	Exempt
Charitable contributions/payments to the Michigan Education Trust	Exempt	Exempt	Exempt
Contributions to Michigan Education Savings Account	Exempt	Exempt	Exempt
Interest/dividends/capital gains received by senior citizens	Limited Exemption	Taxed	Limited Exemption[4)]
IRA withdrawals used to pay higher education expenses	Exempt	Taxed	Taxed
Charitable contributions made from a retirement or pension plan	Exempt	Taxed	Taxed
Additional deduction for seniors	$2,300	None	None
Personal exemption	Not Limited	Limited	Limited
Nonrefundable Credits (homeless shelter/food bank, city income tax, public contributions, etc.)	Available	Eliminated	Eliminated
Homestead Property Tax Credit			
Percent of tax eligible for credit for regular/seniors[3)]	60%/100%	Varies based on income	Varies based on income
Income eligibility phase-out range	$73,650-$82,650	$41,000-$50,000	$41,000-$50,000
Business income included in household income	Yes	No	No
Taxable value cap	None	$135,000	$135,000
Maximum credit	$1,200	$1,200	$1,200

[1)] Includes retirement and pension benefits from private systems, whether defined benefit (traditional pension) or defined contribution (such as a 401k plan). [2)] Includes all retirement income not listed elsewhere, such as nonqualified IRAs and self-purchased annuities. [3)] See text for additional explanation. [4)] Before the taxpayer reaches age 67, the total exemption for retirement and pension income in these categories is limited to $20,000 (single)/$40,000(joint). Once the taxpayer is age 67, the same exemption can be claimed against all income, not just retirement and pension income. The exemption is not available to taxpayers with incomes above $75,000 (single)/$150,000 (joint) or to those who elect to fully exempt compensation/retirement benefits received for service in the armed forces or under the Railroad Retirement Act.

Table 3

Taxation of Individuals Born After 1952

Type of Income	Previous Law	New Law: Prior to Age 67	New Law: Age 67 or Older
Wage income	Taxed	Taxed	Limited Exemption[4)]
Compensation/Retirement benefits received for service in U.S. armed forces	Exempt	Exempt	Exempt[4)]
Retirement/Pension benefits under Railroad Retirement Act of 1974	Taxed	Exempt	Exempt[4)]
Retirement/Pension benefits from a Federal public retirement system	Exempt	Taxed	Limited Exemption[4)]
Retirement/Pension benefits from a Michigan public retirement system	Exempt	Taxed	Limited Exemption[4)]
Retirement/Pension benefits from a public retirement system of local government in Michigan	Exempt	Taxed	Limited Exemption[4)]
Retirement/Pension benefits from other state/local retirement system with reciprocal treatment of Michigan income	Exempt	Taxed	Limited Exemption[4)]
Retirement/Pension benefits from any other retirement system/pension system/retirement annuity[1)]	Limited Exemption	Taxed	Limited Exemption[4)]
Other types of retirement income[2)]	Taxed	Taxed	Limited Exemption[4)]
Social Security benefits	Exempt	Exempt	Limited Exemption[4)]
Eligible under Section 22 of Internal Revenue Code (elderly/disabled credit)	Exempt	Exempt	Exempt
Charitable contributions/payments to the Michigan Education Trust	Exempt	Exempt	Exempt
Contributions to Michigan Education Savings Account	Exempt	Exempt	Exempt
Interest/dividends/capital gains received by senior citizens	Limited Exemption	Taxed	Limited Exemption[4)]
IRA withdrawals used to pay higher education expenses	Exempt	Taxed	Taxed
Charitable contributions made from a retirement or pension plan	Exempt	Taxed	Taxed
Additional deduction for seniors	$2,300	None	None
Personal exemption	Not Limited	Limited	Eliminated[4)]
Nonrefundable Credits (homeless shelter/food bank, city income tax, public contributions, etc.)	Available	Eliminated	Eliminated
Homestead Property Tax Credit			
Percent of tax eligible for credit for regular/seniors[3)]	60%/100%	Varies based on income	Varies based on income
Income eligibility phase-out range	$73,650-$82,650	$41,000-$50,000	$41,000-$50,000
Business income included in household income	Yes	No	No
Taxable Value Cap	None	$135,000	$135,000
Maximum credit	$1,200	$1,200	$1,200

[1)] Includes retirement and pension benefits from private systems, whether defined benefit (traditional pension) or defined contribution (such as a 401k plan). [2)] Includes all retirement income not listed elsewhere, such as nonqualified IRAs and self-purchased annuities. [3)] See text for additional explanation. [4)] Once the taxpayer is age 67, the total exemption for all income (including all income in these categories) is limited to $20,000 (single)/$40,000(joint). Taxpayers may elect to forgo this exemption, and instead fully exempt social security benefits and claim the personal exemption. The $20,000/$40,000 exemption is not available to taxpayers with incomes above $75,000 (single)/$150,000 (joint) or to those who elect to fully exempt compensation/retirement benefits received for service in the armed forces or under the Railroad Retirement Act.