

**ANALYSIS OF  
K-16 FUNDING INITIATIVE**



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## **Initiative: Article II, Section 9 of the Michigan Constitution of 1963**

- Requires petitions signed by registered electors equal to not less than eight percent of the total vote cast for all candidates for Governor at the last preceding general election at which a Governor was elected.
- In the 2002 General Election, 3,177,565 votes were cast for all candidates for Governor. Eight percent equals 254,206.
- Any law proposed by initiative petition (that is certified by the State Board of Canvassers) shall be either enacted or rejected by the Legislature without change or amendment within 40 days from the time such petition is received in the office of the Secretary of the Senate and Clerk of the House.

- Proposed laws that are not enacted within 40 days are submitted to the people for approval or rejection at the next general election.
- If the Legislature rejects an initiative petition, the Legislature may propose a different measure on the same subject. Both measures are then submitted to the electors for approval or rejection at the next general election. If two or more measures approved by the electors at the same election conflict, the measure receiving the highest affirmative vote prevails.
- Initiated laws adopted by the people at the polls can not be amended or repealed except by a vote of the electors unless otherwise provided in the initiative measure or by a three-fourths vote of the members elected to and serving in each house of the Legislature. (Note: Initiated laws enacted by the Legislature can be amended by a majority vote of the members of each house at a subsequent legislative session.)

- The K-16 Funding Initiative Petitions were filed with the Secretary of State on February 21, 2006.
- The Michigan Legislature was presented with the proposed initiative law on June 5, 2006.
- The Michigan Legislature did not act on the proposed initiative law within 40 days. This action automatically placed the initiative law on the November 7, 2006, general election ballot (Ballot Proposal 06-5).

# **Content of K-16 Funding Initiative**

A sum sufficient is appropriated from the School Aid Fund (SAF) to pay for the requirements of the K-16 Funding Initiative; any deficiency in SAF revenue is appropriated from the General Fund.

## **K-12**

- For FY 2006-07, total funding for the School Aid Act (hereafter referred to as "the Act") shall not be less than the total funding appropriated in FY 2004-05 adjusted by the increase in the U.S. Consumer Price Index (6.5%).
- For years subsequent to FY 2006-07, total funding for the Act is guaranteed to increase by at least the annual increase in the U.S. Consumer Price Index.

## **K-12 (continued)**

- In addition to a total funding guarantee, individual pieces of the Act are guaranteed to increase: Basic Foundation Allowance, Proposal A Obligation Payment, Discretionary Payment, At-Risk, Special Education, and Intermediate School District (ISD) General Operations funding. Similar to the total funding guarantee, these individual pieces are given inflationary increases from FY 2004-05 levels to FY 2006-07, and in subsequent years are increased by at least the annual increase in the U.S. Consumer Price Index.
- A declining enrollment provision is included if a district's three-year average pupil membership yields a higher number than a district's actual pupil membership for a given fiscal year. A district would be paid foundation allowances for the higher number of pupils.

## **K-12 (continued)**

- Finally, a closing of the foundation allowance gap is provided beginning in FY 2006-07. By 2011-2012, the State funding gap between the basic foundation allowance and the maximum foundation allowance must be decreased to \$1,000. At the current time, the gap between the basic and what is commonly referred to as the "state maximum" foundation allowance (i.e., the point at which State funding for a foundation ceases and hold harmless mills are levied) sits at \$1,300. Decreasing this gap to \$1,000 would mean closing it by \$300 between FY 2006-07 and FY 2011-2012. The petition does not state how this is to be accomplished; it could be done in one year, over several years, or over the entire six years.

## **Higher Education**

- For FY 2006-07, total funding for higher education shall not be less than the total funding appropriated in FY 2004-05 (provided in Public Act 352 of 2004) adjusted by the increase in the U.S. Consumer Price Index (6.5%).
- For years subsequent to FY 2006-07, total funding for higher education is guaranteed to increase by at least the annual increase in the U.S. Consumer Price Index.
- The minimum funding guarantee refers to the total funding appropriated in the higher education appropriation bill. The language has no impact on the mix of funding among the universities or the distribution of funding between the universities and the financial aid programs also appropriated in this budget.

## Community Colleges

- For FY 2006-07, total funding for community colleges shall not be less than the total funding appropriated in FY 2004-05 (provided in Public Act 358 of 2004) adjusted by the increase in the U.S. Consumer Price Index (6.5%).
- For years subsequent to FY 2006-07, total funding for community colleges is guaranteed to increase by at least the annual increase in the U.S. Consumer Price Index.
- The minimum funding guarantee for community colleges refers to the total funding appropriated in the community college appropriation bill. The language has no impact on the distribution of funding among community colleges.

## **Retirement Contributions to the Michigan Public School Employees' Retirement System (MPERS)**

- Each school district, community college, or participating public university would be responsible for paying into the MPERS the lesser of 80.0% of the total percentage points (determined by the Office for Retirement Services to fund retiree health and pension benefits) or 14.87%, applied to the schools' and colleges' salaries. The General Fund would pay the difference between what the schools' and colleges' required payments to the system would be under the Act, and the actual percentage points necessary to fund the retirement system.

# **Fiscal Impact of K-16 Funding Initiative on Enacted FY 2006-07 State Budget**

**Table 1**

<b>K-16 FUNDING INITIATIVE            CHANGES TO ENACTED FY 2006-07            GENERAL FUND/GENERAL PURPOSE BUDGET            (millions of dollars)</b>	
<b><u>Operational</u></b>	
K-12 Appropriations <sup>1)</sup> .....	\$153.4
Higher Education Appropriations.....	12.5
Community College Appropriations.....	<u>14.4</u>
<b>Subtotal Operations .....</b>	<b>\$180.3</b>
<b><u>Public School Employees Retirement System Payments:</u></b>	
K-12 School Districts.....	\$352.9
Higher Education.....	14.4
Community Colleges .....	<u>19.0</u>
<b>Subtotal Retirement Payments .....</b>	<b>\$386.3</b>
<b>Total State GF/GP Budget Impact .....</b>	<b>\$566.6</b>
<sup>1)</sup> <b>Note:</b> The estimated cost for K-12 Appropriations assumes using non-guaranteed funding in the K-12 budget as a partial offset for the guaranteed funding in the initiative. In other words, existing and new program funds (e.g., Adult Ed, School Readiness, or Middle School Math) are used to offset the costs found in the specific funding guarantees required in the initiative. However, if the K-16 costs were simply added <i>on top of</i> the School Aid budget as enacted for FY 2006-07, then the costs of funding all of the enacted initiatives <i>plus</i> the K-16 requirements would be \$295.1 million instead of the \$153.4 million listed above for K-12 (or \$322.0 million total among K-12, Higher Education, and Community Colleges, rather than \$180.3 million).	

Table 2

**K-16 FUNDING INITIATIVE  
PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM  
POTENTIAL STATE GF/GP COSTS IN FY 2006-07  
(millions of dollars)**

<b>Entity</b>	<b>Total Contribution Rate</b>	<b>Local Share</b>	<b>State GF/GP Share</b>	<b>Estimated State GF/GP Cost</b>
School Districts	17.74%	14.19%	3.55%	\$352.9
Community Colleges	17.74%	14.19%	3.55%	\$ 19.0
Higher Education <sup>1)</sup>	22.01%	14.87%	7.14%	\$ 14.4

<sup>1)</sup> Participating universities; estimated contribution rate and local and State shares.

# **Recent State Appropriation History**

**Table 3**

<b>STATE APPROPRIATION HISTORY</b> (millions of dollars)				
<b>Fiscal Year</b>	<b>Adjusted Gross</b>	<b>Total State Spending</b>	<b>General Fund/ General Purpose</b>	<b>K-16 Total State Spending</b>
1994-95	\$27,523.5	\$19,593.2	\$8,176.4	\$9,546.4
1995-96	28,493.9	20,521.9	8,449.4	9,903.9
1996-97	29,656.5	21,552.3	8,363.1	10,320.4
1997-98	31,472.8	22,493.6	8,735.1	11,143.9
1998-99	33,160.3	23,276.8	9,415.0	11,381.4
1999-2000	35,417.7	24,579.0	9,607.7	12,040.8
2000-01	36,953.3	25,761.6	9,744.6	12,967.9
2001-02	38,751.3	26,086.8	9,189.3	13,486.6
2002-03	39,553.1	26,020.5	8,830.9	13,490.4
2003-04	39,115.3	25,802.5	8,770.1	13,038.8
2004-05	39,908.6	26,285.3	8,702.8	13,130.8
2005-06	41,264.3	27,654.0	9,056.6	13,324.0
2006-07	41,886.3	28,077.6	9,222.8	13,759.9
<b>Dollar Change FY 2006-07 from FY 1994-95</b>	<b>\$14,362.8</b>	<b>\$8,484.4</b>	<b>\$1,046.4</b>	<b>\$4,123.5</b>
<b>Percentage Change FY 2006-07 from FY 1994-95</b>	<b>52.2%</b>	<b>43.3%</b>	<b>12.8%</b>	<b>44.1%</b>

**Source:** Senate Fiscal Agency

**Table 4**

<b>K-16 STATE APPROPRIATION HISTORY                      VERSUS U.S. CONSUMER PRICE INDEX                      (millions of dollars)</b>		
<b>Fiscal Year</b>	<b>K-16 Total State Spending</b>	<b>U.S. Consumer Price Index</b>
1994-95	\$9,546.4	144.5
1995-96	9,903.9	148.2
1996-97	10,320.4	152.4
1997-98	11,143.9	156.9
1998-99	11,381.4	160.5
1999-2000	12,040.8	163.0
2000-01	12,967.9	166.6
2001-02	13,486.6	172.2
2002-03	13,490.4	177.1
2003-04	13,038.8	179.9
2004-05	13,130.8	184.0
2005-06	13,324.0	188.9
2006-07	13,759.9	195.3
<b>Dollar Change FY 2006-07 from FY 1994-95</b>	<b>\$4,213.5</b>	<b>\$50.8</b>
<b>Percentage Change FY 2006-07 from FY 1994-95</b>	<b>44.1%</b>	<b>35.2%</b>

**Source:** Senate Fiscal Agency

**Table 5**

<b>MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM RECENT HISTORY EMPLOYER CONTRIBUTION RATES (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>Covered Wages</b>	<b>Total Rate<sup>a)</sup></b>	<b>Estimated Local Contribution</b>
1994-95	\$7,460.5	14.21%	1,060.1
1995-96	7,764.9	14.56	1,130.6
1996-97	8,052.2	15.17	1,221.5
1997-98	8,234.5	11.12	915.7
1998-99	8,589.9	10.77	925.1
1999-2000	9,147.4	11.66	1,066.6
2000-01	9,367.3	12.16	1,139.1
2001-02	9,770.7	12.17	1,189.1
2002-03	10,032.5	12.99	1,303.2
2003-04	10,150.4	12.99	1,318.5
2004-05	10,137.4	14.87	1,507.4
2005-06 <sup>b)</sup>	10,367.0	16.34	1,694.0
2006-07 <sup>b)</sup>	10,677.9	17.74	1,894.3
<p><sup>a)</sup> University rate is assumed to be the same as for K-12 and community colleges in this analysis.</p> <p><sup>b)</sup> Senate Fiscal Agency estimates for covered wages.</p>			

# **Fiscal Impact of K-16 Funding Initiative Assuming FY 1994-95 Effective Date**

**Table 6**

<b>K-12 SCHOOL AID FUND APPROPRIATION HISTORY  INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX  (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>State Spending Appropriations</b>	<b>Growth Equal to CPI</b>	<b>Difference</b>
1994-95	\$7,911.8	\$7,911.8	\$0.0
1995-96	8,221.9	8,117.5	104.4
1996-97	8,558.3	8,344.8	213.5
1997-98	9,307.4	8,595.1	712.3
1998-99	9,495.1	8,792.8	702.3
1999-2000	9,957.6	8,933.5	1,024.1
2000-01	10,732.3	9,130.1	1,602.2
2001-02	11,220.6	9,440.5	1,780.1
2002-03	11,334.6	9,704.8	1,629.8
2003-04	11,108.3	9,860.1	1,248.2
2004-05	11,113.5	10,086.9	1,026.6
2005-06	11,308.0	10,359.2	948.8
2006-07	11,682.5	10,711.4	971.1

**Source:** Senate Fiscal Agency

**Table 7**

<b>BASIC FOUNDATION ALLOWANCE HISTORY INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX</b>			
<b>Fiscal Year</b>	<b>Basic Foundation Allowance</b>	<b>Growth Equal to CPI</b>	<b>Difference</b>
1994-95	\$5,000	\$5,000	\$0
1995-96	5,153	5,130	23
1996-97	5,308	5,274	34
1997-98	5,462	5,432	30
1998-99	5,462	5,557	(95)
1999-2000	5,700	5,646	54
2000-01	6,000	5,770	230
2001-02	6,500	5,966	534
2002-03	6,626 <sup>a)</sup>	6,133	493
2003-04	6,626 <sup>a)</sup>	6,231	395
2004-05	6,700	6,375	325
2005-06	6,875	6,547	328
2006-07	7,085	6,769	316

<sup>a)</sup> Reflects estimated \$74 per-pupil proration.

**Source:** Senate Fiscal Agency

**Table 8**

<b>HIGHER EDUCATION APPROPRIATION HISTORY INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>Adjusted Gross Appropriations</b>	<b>Growth Equal to CPI</b>	<b>Difference</b>
1994-95	\$1,383.0	\$1,383.0	\$0.0
1995-96	1,429.0	1,419.0	10.0
1996-97	1,499.9	1,458.7	41.2
1997-98	1,561.5	1,502.4	59.1
1998-99	1,604.3	1,537.0	67.3
1999-2000	1,786.0	1,561.6	224.4
2000-01	1,910.6	1,596.0	314.6
2001-02	1,945.8	1,650.2	295.6
2002-03	1,844.9	1,696.4	148.5
2003-04	1,653.7	1,723.6	(69.9)
2004-05	1,723.0	1,763.2	(40.2)
2005-06	1,734.4	1,810.8	(76.4)
2006-07	1,787.5	1,872.4	(84.9)

**Source:** Senate Fiscal Agency

**Table 9**

<b>COMMUNITY COLLEGE APPROPRIATION HISTORY INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>Adjusted Gross Appropriations</b>	<b>Growth Equal to CPI</b>	<b>Difference</b>
1994-95	\$251.6	\$251.6	\$0.0
1995-96	253.0	258.1	(5.1)
1996-97	262.2	265.4	(3.2)
1997-98	275.0	273.3	1.7
1998-99	282.0	279.6	2.4
1999-2000	297.2	284.1	13.1
2000-01	325.0	290.3	34.7
2001-02	320.2	300.2	20.0
2002-03	310.9	308.6	2.3
2003-04	276.8	313.6	(36.8)
2004-05	294.3	320.8	(26.5)
2005-06	281.6	329.4	(47.8)
2006-07	289.9	340.6	(50.7)

**Source:** Senate Fiscal Agency

Table 10

<b>MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM                      LIMIT LOCAL CONTRIBUTION TO 80% OF TOTAL CONTRIBUTION RATE                      (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>Total Contribution</b>	<b>Local Contribution</b>	<b>State Contribution</b>
1994-95	\$1,060.1	\$848.1	\$212.0
1995-96	1,130.6	904.5	226.1
1996-97	1,221.5	977.2	244.3
1997-98	915.7	732.5	183.1
1998-99	925.1	740.1	185.0
1999-2000	1,066.6	853.3	213.3
2000-01	1,139.1	911.3	227.8
2001-02	1,189.1	951.3	237.8
2002-03	1,303.2	1,042.6	260.6
2003-04	1,318.5	1,054.8	263.7
2004-05	1,507.4	1,205.9	301.5
2005-06	1,694.0	1,355.2	338.8
2006-07	1,894.3	1,515.4	378.9

**Source:** Senate Fiscal Agency estimates from Office of Retirement Services wages data.

Table 11

**K-16 FUNDING INITIATIVE: INCREASED FUNDING NEEDED IF  
IN EFFECT FROM FY 1994-95 TO FY 2005-06  
(millions of dollars)**

<b>Fiscal Year</b>	<b>K-12</b>	<b>Community Colleges</b>	<b>Universities</b>	<b>MPSERS</b>	<b>Total</b>
1994-95	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
1995-96	0.0	5.1	0.0	226.1	231.2
1996-97	0.0	3.2	0.0	244.0	247.2
1997-98	0.0	0.0	0.0	182.9	182.9
1998-99	157.2	0.0	0.0	184.8	342.0
1999-2000	0.0	0.0	0.0	213.1	213.1
2000-01	0.0	0.0	0.0	227.6	227.6
2001-02	0.0	0.0	0.0	237.6	237.6
2002-03	0.0	0.0	0.0	260.4	260.4
2003-04	0.0	36.8	69.9	260.9	367.6
2004-05	0.0	26.5	40.2	300.2	366.9
2005-06	0.0	47.8	76.4	338.8	463.0
2006-07	0.0	50.7	84.9	378.9	514.5

**Source:** Senate Fiscal Agency

**Potential Adjustments to  
Enacted FY 2006-07 State Budget  
Assuming Passage of K-16 Funding Initiative**

Table 12

<b>FISCAL IMPACT OF K-16 FUNDING INITIATIVE ON FY 2006-07 BUDGET (millions of dollars)</b>	
Additional GF/GP Appropriations from K-16 Initiative .....	<b>\$566.7</b>
GF/GP Enacted Appropriation .....	<b>9,222.8</b>
<b>Less Appropriations Not Reduced:</b>	
State Building Authority Debt Service (Rent) .....	(232.7))
Treasury Debt Service .....	(76.2)
Higher Education .....	(1,624.8)
Community Colleges .....	(289.9)
GF/GP Grant to School Aid Fund.....	<u>(35.0)</u>
<b>Subtotal .....</b>	<b><u>\$(2,258.6)</u></b>
Remaining GF/GP Appropriations .....	<b>\$6,964.2</b>
K-16 Costs as % of Remaining Appropriations.....	<b>8.14%</b>

**Source:** Senate Fiscal Agency

Table 13

General Fund/General Purpose Appropriations FY 2006-07 Changes to Enacted		
Department/Budget Area	FY 2006-07 Enacted	8.137% Reduction
Agriculture .....	\$30,913,300	\$2,515,415
Attorney General .....	32,896,000	2,676,748
Capital Outlay .....	2,200	179
Civil Rights .....	12,454,000	1,013,382
Civil Service .....	6,972,400	567,344
Community Colleges .....	289,879,400	0
Community Health.....	2,940,082,700	239,234,529
Corrections.....	1,858,555,000	151,230,620
Education .....	6,592,500	536,432
Environmental Quality .....	33,828,400	2,752,617
Executive.....	5,509,900	448,341
Higher Education.....	1,624,791,300	0
History, Arts and Libraries .....	43,175,200	3,513,166
Human Services .....	1,197,447,900	97,436,336
Judiciary .....	160,604,800	13,068,413
Labor and Economic Growth.....	47,436,700	3,859,924
Legislature.....	128,072,700	10,421,276
Management & Budget .....	268,409,600	2,905,690
Military Affairs.....	40,640,200	3,306,893
Natural Resources (Operations).....	25,269,600	2,056,187
School Aid .....	35,000,000	0
State.....	19,132,700	1,556,828
State Police .....	249,298,700	20,285,435
Transportation .....	0	0
Treasury (Debt Service) .....	76,243,700	0
Treasury (Operations) .....	56,509,700	4,598,194
Treasury (Revenue Sharing) .....	1,104,400	89,865
Treasury(Strategic Fund) .....	32,009,200	2,604,589
<b>TOTAL GF/GP APPROPRIATIONS.....</b>	<b>\$9,222,832,200</b>	<b>\$566,678,402</b>

Source: Senate Fiscal Agency

**Table 14**

<b>MAJOR TAXES: ESTIMATED PER UNIT YIELDS FY 2006-07</b>			
<b>(millions of dollars)</b>			
<b>Tax</b>	<b>Current Tax Rate</b>	<b>Increase in Tax Rate</b>	<b>Revenue Amount<sup>1)</sup></b>
State Education Tax	6 mills	1 mill	\$351.4
Income Tax	3.9%	0.1%	170.5
Sales Tax	6.0%	0.1%	113.1
Use Tax	6.0%	0.1%	25.1
Single Business Tax	1.9%	0.1%	101.9
Cigarette Tax	\$2/pack	\$0.10/pack	54.8
Casino Tax	12.1%	1.0%	12.4
Real Estate Transfer Tax	0.75%	0.1%	41.1

<sup>1)</sup> Reflects a full fiscal year impact.

**Source:** Senate Fiscal Agency