



# SCHOOL EQUITY CAUCUS

*Making a difference for the public school children of Michigan*

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## CAUCUS INFORMATION ALERT

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### ***Re: Governor Whitmer's FY 2025 Budget Proposal***

Dear Colleagues:

This morning Governor Gretchen Whitmer released her K-12 education budget proposal as part of her overall budget proposal for FY 2025. Appearing in front of a joint session of the House and Senate Appropriations Committees, Governor Whitmer built on the ideas rolled out in the recent State of the State address in her presentation. As expected with the phase-out of federal COVID dollars, the amounts in this budget proposal begin to pull back on the unprecedentedly high levels seen over the last few years. Overall, the budget package presented today totals \$20.6 billion for the School Aid Fund (SAF) – a figure that represents a decrease in total expenditures of \$850 million.

Governor Whitmer's proposal continues to build on recent budgets that have been moving the state toward the type of weighted funding formula called for in the School Finance Research Collaborative (SFRC) research study released in 2018. The transportation categorical is maintained, as is free breakfast and lunch for all students. The budget proposal also continues to move in a direction that envisions a Pre-K through community college system that would be free for all students. Other recent initiatives are also maintained including funding for early literacy, mental health, teacher recruitment and preparation, and more.

The biggest single change in the budget comes from the administration's proposed approach to the MPSERS system and the resulting funds that are made available. For many years the state has been behind in its obligations for "unfunded actuarial accrued liability" (UAAL) – the benefits earned by those participating in the pension system, but for which there are not yet assets in the system to fully fund. This includes UAAL for both pensions and for the benefits (known as OPEB – other post-employment benefits) earned by those in the system. PA 300 of 1980 has mandated (for nearly a half century) that contributions toward this UAAL can be no lower than the previous year until the liability has been fully funded.

Current estimates are that the benefits (OPEB) side of the UAAL are now at the level where that side of the obligations are fully funded. Of course, these estimates are just that – estimates – and are impacted by the value of the investments on any given day where the state is holding these funds. And the pension side of the UAAL still has several years to go until it is fully funded (estimates on the pension side currently see the UAAL below two-thirds funded).

For 2024-25, Governor Whitmer’s budget proposal suggests repurposing some \$669 million of the funding that has been going toward the OPEB UAAL back into other areas of the budget. Doing so will require changes to the legislation governing the UAAL (beyond the actual budget bill), and will certainly be an area that will receive much discussion as budget talks move forward. The chart below provides an overview of what things would look like without this change, and what would happen if it is made:

Summary of Change (in millions)								
	Pension UAAL Contribution	OPEB UAAL Contribution	Total UAAL Contribution	Employer Payroll	Capped Employer Share	State Share	Sec. 147c (K-12 and Libraries)	Sec. 201(5) (Community Colleges)
FY25, without statutory change	\$3,273.2	\$679.8	\$3,953.0	\$10,410.9	\$2,182.1	\$1,770.9	\$1,671.1	\$99.8
FY25 Executive Budget	\$3,273.2	\$10.4	\$3,283.6	\$10,410.9	\$2,182.1	\$1,101.5	\$1,039.4	\$62.1
<b>Difference</b>	<b>\$0.0</b>	<b>\$ (669.4)</b>	<b>\$ (669.4)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$ (669.4)</b>	<b>\$ (631.7)</b>	<b>\$ (37.7)</b>

There are multiple considerations surrounding this debate:

- Some will argue that until the entire UAAL is covered (estimated to be more than a decade away), it does not make sense to begin repurposing these funds. What will happen between now and then? As noted earlier, the value of the assets in the system can change dramatically, both positively and negatively. Therefore, providing a cushion to allow for variations in value could make sense.
- On the other hand, others argue that at some point there should be a “smoothing”. One can see from the chart above that the state portion of the total UAAL (pension and OPEB) will be close to \$1.7 billion in next year’s budget without this change. If no modifications are made prior to the time that the system reaches the “fully funded” point, there will be an enormous and sudden jump in available revenues. By smoothing things out, the final “payoff” of the UAAL may be pushed further out into the future, but there would be a more gradual reabsorption of these funds back into general expenditures. In essence, it is the start of this approach that is being seen in the current proposal.
- It is important to reiterate the fact that implementing this change will require additional legislative changes beyond the budget itself. Will there be time to get these changes through before this budget would need to go into effect? As has been seen on multiple occasions in the last year, it has been extremely difficult to get “immediate effect” on many pieces of legislation with control of the legislature so closely divided. It seems highly probable that a philosophical change of this magnitude would become a matter of strong debate between the parties, particularly given the dynamics inherent in an election year.

This debate will play out over the weeks ahead, but it is important not to forget that Governor Whitmer’s proposal contains several initiatives that are made possible by incorporating this additional funding. Without those extra dollars, the choices become even harder.

Before we take a closer look at some of the particulars, it is also important to note that according to the State Budget Office, the governor’s proposals (if fully enacted) would leave only \$12 million on the SAF balance sheet at the end of 2024-25. To provide a bit of context for that number, the SAF fund balance at the end of the current year is currently projected to be around \$525 million. Therefore, 2024-25 expenditures would be outpacing revenues by half a billion dollars. This imbalance would be on top of the fact that some of the programs in the budget will already be drawing from money previously set aside over the past couple of years. There would still be funding available in the SAF’s “rainy day” fund, but the budget flexibility for 2025-26 and beyond would become more strained.

With all that being said, we are still analyzing a number of aspects and details of the proposal and will have more information as we move forward in the budget process. And as with any state budget, there is also much more to the entire plan than just what is included for K-12 schools. But for now, here is an initial brief overview of some of the highlights of today's budget recommendation relative to schools:

- An increase to the minimum foundation allowance of 2.5% (\$241) to \$9,849 per student (added cost of \$316 million above current year funding).
- Cyber schools that are 100% online would be funded at 80% of basic foundation grant (\$7,879 per student).
- GSRP programs would also see an increase to \$10,342 per full-time equivalent student (an increase in funding of \$106 million). As originally proposed in the State of the State address, access would be expanded for all children in Michigan regardless of family income levels – an estimated additional 6,800 children. Reimbursement for GSRP transportation costs is continued, and \$35 million is included for startup grants to address the need for additional classrooms and teachers.
- Funding for At-Risk would be increased by 2.5%, as would support for EL programs, rural/isolated districts, and CTE programs. Additional increases in At Risk, EL, and special education funding are also proposed, but in the governor's proposal would require the changes in UAAL contributions discussed earlier.
- Reduction in the district portion of UAAL liability from 20.96% to 20% of payroll is included (at a cost of \$94 million), but is tied to the changes in UAAL described above.
- Increases of 2.5% are also included for ISD Operations and Early On.
- As occurred for the first time in 2023-24, districts would continue to receive full foundation allowance payments for their students in special education on top of the mandated cost reimbursements. The proposal also contains a new funding equalization formula for special education which is still being analyzed.
- \$71 million is continued for declining enrollment stability supports (Section 29).
- Continuation of the combined per pupil funding for mental health and student safety (\$300 million, down from the current \$318 million). Half of the funding would be considered ongoing, with the other half considered one-time spending.
- Funding is also maintained at the same \$107.8 million for 31(n) mental health grants.
- Transportation reimbursement funding is also continued at the same \$125 million level as in 2023-24.
- \$150 million on a per pupil basis is included for the MI Kids Back on Track program.
- Continuation of the free lunch and breakfast program is included for all students (\$200 million).
- The proposal also includes an additional \$90.25 million in new funding for the academic, social-emotional, and physical needs of high poverty students.
- Also included is a new allocation of \$155 million for literacy supports, including evaluation of literacy tools and payments to districts that adopt these tools. There is also a new \$10 million allocation for competitive innovation grants in literacy.
- Before and after school programs are supported at \$50 million, and the funding is now considered ongoing rather than one-time.
- \$33 million is included for teen health centers (down from \$78 million in 2023-24).
- The proposal continues to allocate \$6.65 million for hearing, vision, and dental screenings.
- \$12.5 million is included for the TRAILS program (social and emotional learning).
- \$40 million is set aside for continuation of FAFSA completion initiatives (funding for four years, \$10 million per year).
- An increase of \$6.8 million (to \$35.1 million) in Promise Zone payments.

- Certain teacher support programs are continued at their same level from 2023-24 including the MI Future Educator fellowships (\$25 million), student teacher stipends (\$50 million), and teacher mentoring and induction (\$50 million). Grow Your Own supports are also included at \$50 million.
- A new program is proposed that would connect high school seniors with industries and trade associations in their area for on-the job training and potential employment after graduation (\$20 million).
- Funding continues for CTE equipment upgrades (\$15 million), middle college (\$8 million), and vocational education revenue equalization (\$9.2 million).

Unfortunately, it is also important to note that the governor's proposal also provides community colleges and universities with 2.5% increases, to the tune of a combined \$51.5 million in additional funding. Community college expenditures are proposed to increase to \$465.9 million (all from the SAF), with university funding from the SAF would increase to a total of \$545.5 million (\$2.3 billion total).

This means that the overall total of SAF funding being diverted to higher education is now over \$1 billion – a number that would mean additional funding of approximately \$730 per K-12 student if it was returned to its intended purpose. Looked at another way, this number is 50% more than the entire amount being proposed to come from the changes to MPERS UAAL on benefits. Clearly, returning these funds to the support of our K-12 system would have a tremendous impact and is something that must continue to be strongly advocated for.

A number of items did not have their expenditure renewed in Governor Whitmer's budget proposal including:

- Electric bus grants.
- The student loan repayment assistance program.
- The 27(L) one-time educator payment funding.
- A host of other district-specific or program-specific items funded last year.

As always, the governor's proposal is the first major step toward a budget agreement for next year, with both the House and Senate versions still to come. Work is expected to continue on those budgets despite the current stalemate in the House, so that things will be prepared to move forward following the April special elections in the two vacant House districts. Each chamber will undoubtedly have their own priorities that will need to be resolved with the governor's proposed plan.

Of course, the final budget that will not be wrapped up until sometime after the May Consensus Revenue Estimating Conference (CREC) when updated state revenue numbers will be known. Being an election year, there will be a high degree of motivation to wrap things up in a timely manner by the end of June.

If you're looking for more information, here are some links:

- The slides from Governor Whitmer's presentation to the joint committee session are available by [clicking here](#).
- More information about the governor's proposals for education (both K-12 and higher education) are available by [clicking here](#).
- More information about the governor's proposals in other areas of the budget beyond K-12 are available by [clicking here](#).
- You can also watch Governor Whitmer's full budget presentation, along with additional presentations by other State Budget Office staff and questions from House and Senate

committee members by [clicking here](#) (just over one hour in length, presentation begins at the 6:00 mark).

We will be continuing to dive more deeply into today's recommendation, and as the ball now moves into the legislative court, we will be working with legislators in the House and Senate to continue advancing the School Equity Caucus agenda. We will keep you informed on these budget discussions as they move forward.

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Please be sure to contact us if you have additional questions or need more information.



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