

SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

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February 29, 2024

Dear Colleagues:

Budget discussions have begun picking up in Lansing, and are dominating the legislative landscape, especially as we wait for the April special election to break the 54-54 tie in the House. Given that reality, much of this month's newsletter will be devoted to the budget. Here we go!

1. Budget Recommendation Discussions

Earlier this month, Governor Whitmer presented her 2024-25 School Aid Fund (SAF) budget to the House and Senate Appropriations Committees. (Our summary of the budget proposal is again attached to this email in case you missed it.) With its aspirational goals, the proposal would continue the work this administration has done to reshape our educational system. Since the release of the budget, work on sifting through all of the various provisions has been underway so that the implications of each item are more fully understood.

Last week the K -12 Appropriations Subcommittees in both the Senate and House began holding budget hearings, with presentations made by staff from the governor's budget office. Various questions were raised by legislators during these hearings as they sought more information on various elements of the proposal.

As a reminder, the latest Consensus Revenue Estimating Conference (CREC) held in January forecast a revenue increase of approximately 2.5% in the School Aid Fund for next year. Even with this increased funding, the governor's budget proposal takes the SAF end-of-year fund balance from approximately \$525 million at the end of this year down to an ending balance of \$12 million at the end of the 2024-25 fiscal year. This represents a one-year imbalance in spending of more than one-half billion dollars and adds to growing concerns about fiscal sustainability moving forward. As such, it would appear that many line-items currently being funded may not be able to continue into the future (i.e., beyond next year).

Similarly, on the General Fund (GF/GP) side of the budget, Governor Whitmer's budget proposal would leave only \$7 million remaining at the end of the fiscal year – a number smaller than that of a great many school districts across the state. The projected GF/GP fund balance amount for the current year is \$1.1 billion, meaning the one-year imbalance on expenditures on the GF/GP side is even greater than for the SAF.

It is important to note that there still remains a significant amount of SAF money that has been put aside into a number of reserve funds over the last couple of years. This funding has been set aside for particular programs, and the governor's budget proposal pulls some funding from these accounts. However, more than \$2.2 billion would still remain in them as the chart below (from the Senate Fiscal Agency budget summary) illustrates:

School Aid Budget: Reserve Funds						
SCHOOL AID RESERVE FUNDS SUMMARY						
TRANSFERS, INTEREST EARNINGS, AND FUND BALANCE						
FY 2024-25 GOVERNOR'S RECOMMENDATION						
(thousands of dollars)						
Sec.	Fund Name	Beginning Balance ¹	Pay-In	Interest Earned ²	Pay-Out ³	Fund Balance
11x	School Consolidation and Infrastructure Fund	280,285.9	-	14,014.3	-	294,300.2
11z	Countercyclical Budget and Foundation Stabilization Fund	477,567.4	-	23,878.4	-	501,445.8
22k	School Transportation Fund	246,019.3	-	12,301.0	125,000.0	133,320.3
27d	Educator Fellowship Public Provider Fund	259,878.3	-	12,993.9	-	272,872.2
27e	Educator Fellowship Private Provider Fund	49,653.9	-	2,482.7	-	52,136.6
29	Enrollment Stabilization Fund	262,235.9	-	13,111.8	71,000.0	204,347.7
30e	School Meal Reserve Fund	184,633.1	-	9,231.7	60,000.0	133,864.8
32e	Great Start Readiness Program Reserve Fund	193,000.0	-	9,650.0	18,000.0	184,650.0
147b	MPSERS Obligation Reform Reserve Fund	514,242.7	-	25,712.1	84,100.0	455,854.8
	Total	2,467,516.6	-	123,375.9	358,100.0	2,232,792.5

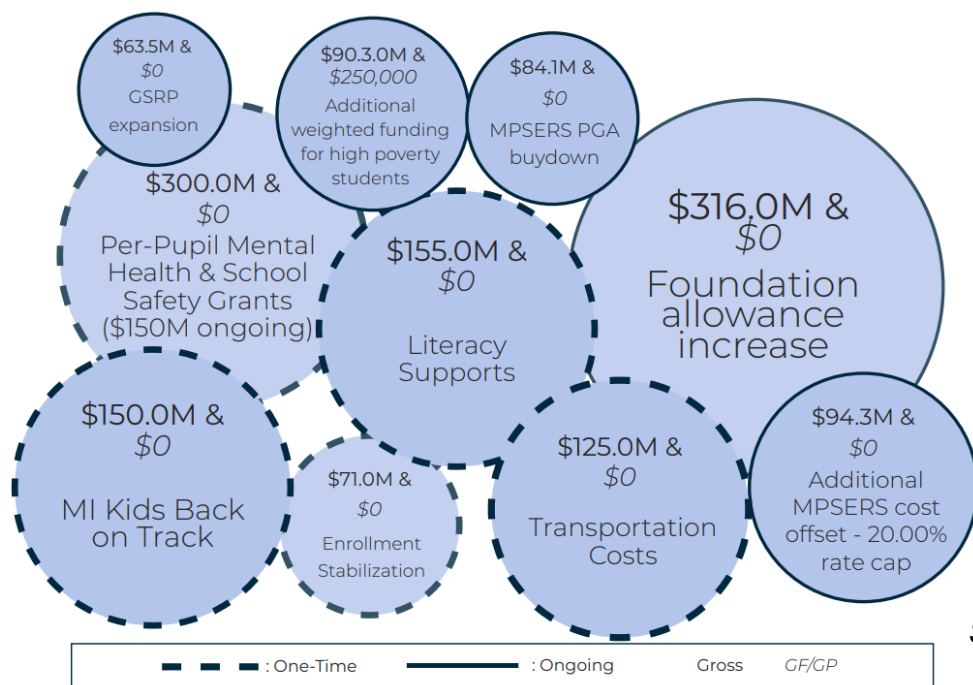
¹ Beginning balance includes estimated interest earnings for FY 2023-24, based on Senate Fiscal Agency estimates
² Estimates from Senate Fiscal Agency
³ Payout for School Meals Reserve Fund includes additional \$30.0 million in FY 2023-24 and \$30.0 million in FY 2024-25.

Source: Senate Fiscal Agency

One particular line to note in the chart is for the expenditure for Section 22K (the School Transportation Fund). After being called for since 2018 as part of the SFRC study recommendation, last year the legislature set aside money to fund a transportation reimbursement expenditure for three years. 2024-25 would be the second of those three years, and to date the transportation funding remains considered as “one-time”. In other words, unless something is changed, this funding could disappear after the 2025-26 school year. Other reserve funds are still set aside for educator fellowships, school

consolidation and infrastructure, enrollment stabilization, and more.

Indeed, as the chart to the left indicates (with the dashed circles vs. solid circles), it is very important to understand that certain funding proposals in Governor Whitmer’s budget are considered “one-time” allocations (shown with a dashed outer edge) as opposed to “ongoing”



Source: Senate Fiscal Agency

expenditures (with a solid outer edge). As the names would suggest, districts must be very aware that these proposed “one-time” expenditures – even if enacted for 2024-25 – are very much on a year-to-year basis; as money gets tighter down the road, they could be among the things eliminated to keep the budget afloat despite their popularity.

Another element of the SAF budget that continues to pull money from K-12 classrooms is the amount of funding going to community colleges and universities – in direct contradiction to the original stated purpose for the SAF. Community college expenditures are proposed to increase to \$465.9 million (all from the SAF), while university funding from the SAF would increase to a total of \$545.5 million (up \$93 million from a year ago). This puts the grand total of SAF support for colleges and universities 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.

As discussion continues, there appear to be a number of questions being raised about Governor Whitmer’s proposal to reallocate some \$669 million from MPSERS OPEB payments (funding retirement benefits) back into other areas of the budget. In addition to the fact that this move will require changes to the legislation governing these payments (beyond the actual budget bill – something that may be challenging to achieve), there have been several other points raised questioning the wisdom of this move:

- The proposal is based on the projection that the retirement OPEB is going to be 100% funded next year. However, that projection is based on current stock market values and could change to the negative.
- The 100% funded portion of the system is only for benefits – just one part of the equation. The pension benefits side of MPSERS still remains significantly underfunded. It would seem wiser to continue bringing that liability down instead of creating new programs.
- Redirecting this OPEB money into other areas would also have the net effect that entities that had not paid down any of this debt (among them, public schools academies/charter schools) would benefit significantly from more funding being available while leaving traditional schools – which have sacrificed for many years to pay down this huge bill – with a large amount to still pay off.
- Strong concerns have been raised about the potential Maintenance of Effort issues that may be created, both on a district level and on the state level, from less funding going toward these areas.

Together, the \$669 million in OPEB reallocation and the \$525 million taken from the SAF fund balance (as described earlier) represent nearly \$1.2 billion worth of revenue in Governor Whitmer’s proposal. It is obvious that without such additional revenue, a number of the programs and expenditures proposed are unable to be afforded.

In general, here are some potential points of discussion for district leaders to use in their advocacy with legislators over the weeks ahead:

- **More funding needs to go to the base foundation allowance.** A 2.5% increase will have districts losing ground when considering inflation-driven salary increases, step increases on top of that, large expected increases in insurance costs, and so on.
- **The budget contains too many categorical grants.** The 2024-25 budget should strive to reduce and roll up many of these grants. Beyond the prescriptive nature of these grants, it has also become very apparent over the current school year that the large number of grants to be administered have severely taxed the

ability of MDE to promulgate rules in a reasonable timeframe, leading to lengthy delays in the distribution of funds and a lack of impact on the education of students in the classroom.

- **Among the grants that should be rolled up (or distributed automatically elsewhere in the budget) are the competitive grants that exist within the current budget.** Competitive grant programs are inherently inequitable, putting a significant additional burden especially on our smaller districts that do not have large central office staff resources.
- **Keep building on the current SFRC weighted funding model.** We have made progress, but much more work needs to be done before we fully achieve the funding model and levels from the SFRC report. By reducing other grants, more money can go in this direction using the existing framework that has already been laid out.
- **Community colleges and universities need to come out of the SAF.** What was first sold some years ago as a “one-time loan” is now severely hampering the ability to adequately fund K-12 education. The additional \$730 per student every year that this funding represents would be a welcome boost to our schools. Proposal A, as specifically outlined in our state constitution, was structured to fund a K-12 public school system – not a PK-14 or PK-16 system. It is not possible to fund such a system without major changes and increases to our state’s revenue structure for education.
- **There are too many issues and unknowns with the current proposal to draw funds away from the MPSERS OPEB payments.** There will be a time in the future when we can, and should, start bringing the level of these payments down, but it needs to be done thoughtfully and at a time when we have much more of the UAAL pension liability funded.
- **The transportation grant is a positive step toward meeting the recommendations of the SFRC funding study and should be permanently moved into the “ongoing” expenditure category.**

When meeting with legislators, be sure to tell actual stories of the struggles your district has had with onerous and overwhelming grant administration requirements, inflationary increases, tight labor markets, and the potential for financial challenges as revenues flatten out. This approach helps make things real for those who do not live in the educational world every day.

As we move forward, it would appear that the House and Senate will be targeting early April for the release of their respective budget proposals. This time frame falls in line with most recent budget years, and should provide adequate opportunity for review and discussion before final budget negotiations need to wrap up in June. And keep in mind that final budget numbers will be based on the projections that come out of May Consensus Revenue Estimating Conference – these could be different (either to the good or bad) from those in January.

2. Salary Schedule/Retirement FAQ Released

In case you missed it, earlier today the Office of Retirement Services (ORS) released an updated FAQ document on their website with the latest guidance on retirement calculations, salary schedules, the Normal Salary Increase (NSI), and other pertinent retirement information. There will certainly be much more evaluation of this latest

information coming from various school sources, but if you'd like to get started on your own, you can get to the website [by clicking this link](#).

3. Legislative Roundup

There continues to be relatively little policy work in the legislature with attention turning to the budget and given the House control stalemate. Here are the significant pieces of legislation that have received action in the last few weeks:

- **SB 518** (sponsored by Sen. Camilleri) – This bill extends the current provision that allows the state superintendent to issue an interim special education teaching certificate to individuals enrolled in an alternate pathway program toward certification. The current authorization for this interim certification expires in July of this year. Under this bill the authority would be extended for another three years (until July 2027). The bill unanimously passed the Senate in October, and cleared the House Education Committee earlier this month. The bill is now on the full House floor, and appears to also have bipartisan support. It is unclear whether it will be brought for a final vote before the two vacant House seats are filled in April.
- **SB 567/568** (sponsored by Sens. Irwin and Polehanki, respectively) – These proposals collectively address dyslexia, the way that literacy coaches would be required to perform their job, and the way that teacher preparation institutions educate future teachers about dyslexia. While the attempt to address this issue is appreciated, unfortunately the bills continue to contain a number of overly prescriptive mandates that would make it difficult for districts to respond to the needs of children in the ways they deem best. In the Senate Education Committee the legislation was modified to delay implementation until the 2027-28 school year, and has now been voted out to the full Senate floor. If it is approved there, it will then move on to the House.
- **HB 4603** (sponsored by Rep. Liberati) – The legislation would amend state law governing the construction of school buildings to more broadly allow for design-build team approaches to school facility construction in addition to more standard architect- or engineer-led design. This bill has been unanimously voted out of the House Committee on Regulatory Reform and is now on the House floor.
- **HB 5025** (sponsored by Rep. Arbit) – This bill has received an initial hearing in the House Education Committee, but has not yet moved out of committee. It would repeal the 2017 “Education Instruction Access Act” that prohibited districts from placing restrictions on the sale of former properties including school buildings (and therefore preventing them from being sold to private or charter schools). In other words, if passed this bill would once again permit districts to include deed restrictions when selling property.

The past week has shown us a tantalizing glimpse of spring, followed by a return to February reality! It's only a few more weeks until Spring Break—hang in there!

And as always, please be in touch with questions or concerns.



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