SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

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Dear Colleagues:

I hope you are reading this newsletter while relaxing on a deck overlooking a beautiful Michigan lake! Usually the newsletter takes a hiatus during the summer months, but we wanted to provide this quick update on where things stand with the unfinished budget as we head into the summer season.

The latest news is that there is not much to report! Both the House and Senate have gone out on recess and, despite having scheduled tentative session dates in July and August, legislators are not expected back in session until some sort of budget deal is reached with the governor. Work continues behind the scenes, but it would seem that there is still some distance to travel before agreement is reached.

Road funding continues to be a foundational element of the negotiations, and numerous plans are being discussed in addition to the governor's original gas tax proposal. One of the more recent ideas is to include bonding as part of the solution. One plan, pitched to Republican legislative leaders this week, centers around borrowing $10 billion through the issuing of a 30-year pension bond securitized by about 25% of the pension system's assets. In theory, proceeds would be used for a paydown on MSPERS debt with the remainder invested to cover payments on those bonds. Of course, investment always carries risk, and the return on investment would need to be large enough to make the plan work.

If the plan were to be enacted, proponents envision freeing up a large portion of the money that the School Aid Fund (SAF) currently expends annually to fund MPSERS debt. The amount spent annually on unfunded pension obligations is approaching $1 billion—it is unclear what this number would drop to under this plan, especially if only 25% of the MPSERS investment is securitized as is being proposed.

The second part of the plan incorporates the proposal put forth earlier this year by Speaker of the House Chatfield to shift the sales tax on gasoline that currently goes to the SAF (approximately $540 million) to roads. With these two plans working together, the idea is that the SAF would be freed from MPSERS debt to make up for the lost sales tax revenue. Proponents of the borrowing plan say that savings from the reduction of MPSERS debt would more than make up for the lost gasoline sales tax revenue.

The idea of creating more debt to pay off existing debt, all while assuming the risk of return on investment, seems to be a big ask. Neither the House nor the Senate leadership has endorsed the plan to this point, and are said to be looking at many different options.

Adding to the hurdles for such a concept, it is not at all clear that Governor Whitmer would support such a plan to securitize the pension system. Keep in mind that Michigan is also still paying off bonds (more than $1 billion remains) for road work authorized two decades ago; this existing debt is not projected to be paid off until 2037.

A Detroit News article describing the plan and some of the criticism of it can be found by clicking here. You can hear former Republican Speaker of the House Jase Bolger on Michigan Radio pitching the plan by clicking here.

So, as the parties keep working to find a mutually acceptable solution that opens up more funding, we will continue to monitor their work and will pass along information as it becomes available.

That's all for this update! Just one more quick reminder…by now you should have received your School Equity Caucus membership invoice for the 2019-20 school year. As the only statewide organization dedicated solely to advocating on behalf of districts funded at or near the minimum, we are determined to keep the cause of equity front and center for all students in the state of Michigan. Your ongoing support is appreciated as we advocate on your district's behalf in Lansing!

As always, please be in touch with questions or concerns.

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