SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

121 W Allegan • Lansing, Michigan 48933
www.schoolequitycaucus.org
schoolequitycaucus@gmail.com
269-806-6159

January 31, 2022

Dear Colleagues:

It was great to see so many of you in Grand Rapids for the School Equity Caucus luncheon at the MASA Midwinter Conference! A big “thank you” also to our business partners, American Fidelity and Northland Securities! We very much appreciate their support of the work of the School Equity Caucus!

It has been another relatively quiet month in Lansing as the legislature dealt with their own COVID-19 issues, but we are nearing the start of the 2022-23 budget year and other issues are under discussion. Here’s this month’s update:

1. **<u>Governor Whitmer Delivers State of the State Address, Budget Expected Soon</u>**

On Wednesday, Governor Whitmer delivered her fourth State of the State address electronically due to COVID concerns. While the speech itself was relatively light on new initiatives in education, she did preview her upcoming budget that will contain “the biggest state education funding increase in more than 20 years.”

That budget proposal is expected to be presented to the legislature by Governor Whitmer on Wednesday, February 9. Preliminary reports are that it will contain proposals to continue moving schools toward an SFRC-style funding formula as well as additional funding designed to increase teacher recruitment and retention. We will provide an update on the specific contents of the proposal when it is released.

2. **<u>Revenue Conference Recap</u>**

As reported earlier this month, the Consensus Revenue Estimating Conference (CREC) held a couple of weeks ago reported continued strong state revenues. When the 2020-21 fiscal year closed out at the end of September, combined state revenues were estimated to be up a whopping 17.1% (more than $4 billion) over the year prior.

Looking forward, as both Governor Whitmer and the legislature set out to work on the School Aid Fund (SAF) budget for next year, there appears to be ample funding available to deliver on the governor’s State of the State promise for a large education funding increase. At the current time, the SAF is expected to end the current year with a surplus of approximately $3.6 billion, adding $700 million to the surplus this year alone. With additional revenue increases projected for next year (although at a much lower rate), there would appear to be at least $800 million in additional spending available before even truly dipping into fund balance.

Of course, with the 2021 inflation rate coming in at 7%, a $609 increase on the foundation allowance would be required just to keep pace with increasing costs. And the prospects of future revenue growth could also be impacted greatly by any changes to the current income tax structure (see related item below).

For more information on the CREC, please reference emails and attachments distributed earlier this month.

3. Time for a Tax Cut?

Last week the Senate Finance Committee passed **SB 768** (sponsored by Sen. Nesbitt) and sent it to the full Senate floor. This bill would reduce both individual and corporate income taxes to 3.9% from their current levels. (The individual rate is currently 4.25%, while the corporate rate is 6.0%). Additionally, the legislation contains an additional dependent tax credit instituted of $500 per dependent (beyond current levels).

The Senate Fiscal Agency estimates that such a cut would reduce revenue by more than $1.6 billion in the current fiscal year, with even more significant reductions moving forward (estimated at more than $2.3 billion in FY 2022-23, and increasing from there). It is important to note that under state law the General Fund (GF/GP) would bear the brunt of this revenue reduction, but the SAF would still be impacted to some degree. And as has been demonstrated over the last several years, when the GF/GP is under pressure, the SAF can be made to pick up the burden.

So, the natural bottom line question is whether the state's revenue picture is strong enough to withstand such a cut. The short-term answer is that, with the current strength on the state's balance sheet, such a tax cut could be afforded – at least for this year. However, such a reduction would use up much of the current surplus, with the impact of potential year-over-year revenue reductions putting significant additional pressure on the balance sheet moving forward.

Needless to say, the current fund balances for both the GF/GP and SAF are certainly very large and a tax cut in an election year would be a very popular political move. Whether this is a wise move fiscally is an open question, especially when much of state government – including education – has been significantly underfunded for years, and given the fact that such a cut is likely not sustainable over time. Governor Whitmer has also proposed other tax cuts (including the elimination of the so-called retirement tax), and supplemental spending bills currently before the legislature may also reduce available funds heading into next year. So, there is much discussion and negotiation that still lies ahead! We will be closely monitoring this income tax legislation as it continues its journey through the legislature.

4. Rate Relief for the SLRF?

HB 5666 (sponsored by Rep. Calley) had a hearing this week before the House Local Government and Municipal Finance Committee. This bill would assist school districts participating in the School Bond Loan Revolving Fund (SLRF) by removing the current interest rate floor of 3% for those districts borrowing through the fund.

The SLRF provides the opportunity for local districts to utilize the state's resources in dealing with their outstanding debt. Under current law, districts levying at least seven mills for debt retirement are able to borrow from the state to make payments on their outstanding debt at interest rates of either 3% or 0.125% over the state's rate (whichever is higher).

Because interest rates are currently well below the floor of 3%, districts have been paying more to the state for the program than would otherwise be necessary without this statutory limit. In fact, the Department of Treasury (who testified in favor of the bill) estimates that the rate would currently be 1.14% if this legislation were to be enacted. Rates and agreements are recalculated annually, so rate relief would be able to begin with the next fiscal year.

Many members of the School Equity Caucus are among the 123 districts that would be positively impacted, and we are highly supportive of this legislation. The bill is expected to move out of the committee to the full House next week.

5. Redistricting Process Completed…for the Time Being…

On December 28, the Michigan Independent Citizens Redistricting Commission approved final maps for State House, State Senate, and US House districts for the next ten-year period. You can review the final maps by clicking here.

The redistricting process has not been without controversy, and the Commission is currently facing two lawsuits that have been filed to this point, one in the state court system and another in the federal system. Beyond that, at least one more group has announced intentions to proceed with their own legal challenge. In the meantime, the Commission's chief legal counsel resigned late last week without going in detail about the reasons for her departure, and members of the commission publicly squabbled with one another. You can read more about these latest doings by clicking here.

We'll see where things go next! Individuals wishing to file as a candidate in the upcoming election cycle have an April 19, 2022 filing deadline. Obviously, for these potential candidates to file, they would need to know which district they would be residing in, so legal challenges would need to be wrapped up before that time.

6. Other Legislative Activity

As noted earlier, it has been a fairly quiet month in the legislature. Most of the bills highlighted in prior newsletters have remained where they were at last report with the exception of **HB 5523** (sponsored by Rep. Calley) which has now been discharged by the Senate Appropriations Committee back to the full Senate. This is the bill that appropriates more than $1 billion toward a variety of healthcare and COVID-19 needs, $395.3 million of which comes from federal ARP funding. Within this bill is $150.8 million for COVID-19 tests for school districts. This bill previously passed the House in mid-December.

Other legislation being watched includes:

- **HB 4981** (sponsored by Rep. Hauck) would bring lottery sales commissions into state law, rather than having them be set by the State Lottery Commission as is now the case. The bill would also provide significantly increased commissions to lottery retailers, and all told could siphon an estimated $125 million from the School Aid Fund (SAF) in the current year alone. The bill remains stuck on the House floor, thanks in large part to the opposition raised by school districts across the state.
- **HB 5522** (sponsored by Rep. Mueller) appropriates approximately $368.5 million toward law enforcement and public safety (nearly $156 million of which comes from federal ARP funds). Included in the bill is $50 million in funding for School Resource Officers. The bill passed the House in early December and remains in the Senate Appropriations Committee.
- **SB 565** (sponsored by Sen. Bumstead) allocates $3.34 billion focused on water infrastructure across the state including water quality, dam safety, wastewater, and wetlands. The bill also includes $85 million for schools to install filtered drinking water stations (a 30% match would be required on the part of the local district; this allocation is also connected to SB's 184/185 that mandates a number of water quality requirements for schools). SB 565 passed the Senate in December and is now in the House Appropriations Committee, while SB's 184/185 remain on the Senate floor.
- **HB 4970** (sponsored by Rep. O'Malley) currently sits in the Senate Education and Career Readiness Committee, having previously passed the House. This bill requires all school personnel to complete seizure recognition and response training, and would mandate that all students being treated for a seizure disorder have a seizure action plan.
- **HB 5190** (sponsored by Rep. Farrington) also passed the House in December and remains in the Senate Education Committee. This bill would add a required personal finance course (0.5 credits) to the Michigan Merit Curriculum, and would reduce the foreign language requirement from two to 1.5 credits. This would be in addition to current law which allows a personal economics course to substitute for the 0.5 credit requirement in economics in the mandatory curriculum.

That's all for this update! As always, please be in touch with questions or concerns.

Dirk Weeldreyer
Executive Director
(269) 806-6159
schoolequitycaucus@gmail.com