SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

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Dear Colleagues:

It has been a busy month of May! Hope your school year is winding down well, and that you're enjoying all of the activities and celebrations! Meanwhile in Lansing, much of the focus has been on the budget. Here's a look at the latest updates:

1. 2024-25 Membership Invoices

It's that time of year again when we remind you to be on the lookout for your 2024-25 School Equity Caucus membership invoice. Despite prices increasing all around us, we are pleased to announce that we will once again be able to keep our dues rates frozen!

Your membership in the Caucus remains critically important. In addition to the monthly *Caucus Newsletter* and published-as-necessary *Information Alerts*, your membership makes our efforts on your behalf possible. The Caucus has consistently helped set the tone for the school budget discussion by bringing the need and importance of school funding adequacy and equity to the legislative table.

If you are retiring or otherwise leaving your district at the end of the year, please consider sending in your Caucus invoice before departing. It's always much easier to demonstrate the value of Caucus membership to new superintendents once they have received the Newsletters and Alerts and better understand our focus and activities.

We appreciate your ongoing support as we advocate on your district's behalf in Lansing! The School Equity Caucus continues to make an impact, and we are determined to keep the cause of equity front and center for all students in the state of Michigan.

2. May CREC Anticipates Slow Growth

Earlier this month representatives from the House, Senate, and the Department of the Treasury (from the executive branch) met for their semi-annual Consensus Revenue Estimating Conference (CREC). As outlined in our recap of that meeting, School Aid Fund revenues for the current year are down slightly from what was previously expected, but modest growth is predicted for the next two years. This level of revenue should enable some increases for local districts moving forward, but these increases will not be anything like the large amounts of the last couple of years.

The revenue estimates agreed upon at this month's meeting form the basis for the final 2024-25 state budget being negotiated right now. In case you missed it, our CREC summary is attached again to these notes.

3. <u>Budget Discussions and the OPEB Question</u>

A couple of weeks ago, the Senate and House officially passed their versions of the School Aid Fund (SAF) budget bill (SB 751 in the Senate and HB 5503 in the House). Because the two versions are quite different, and because they also differ from the original proposal put forward by Governor Whitmer in February, they must be resolved through a conference committee process. That work is going on right now. We may see a final proposed version as early as the end of next week.

Much discussion in this budget cycle has focused around the news that the MPSERS system's retiree healthcare fund (OPEB) is now "fully funded" (indeed, it is now actually overfunded). It is important to understand the implications of this situation and what it could mean for schools.

First, let's take a look at how the system is funded. The chart on the next page illustrates the different payment rates for districts and the state, shown as a percentage of an employee's payroll. The various columns refer to the different plans that impact each individual employee differently based on when they entered the system and what choices they opted for. For the purposes of this discussion, the different ***columns*** do not matter. Rather it is the various ***rows*** that are important to understand.

Note that the chart is grouped into two sections – the top portion representing the pension side of MPSERS and the bottom part representing the healthcare or OPEB side of the system. These are set up in law as two separate and distinct trust funds; therefore, characterizations of the current discussion as some sort of "raid on pensions" are <u>not</u> accurate. It is the OPEB trust fund that is now fully funded, and it is the OPEB side of the system that is the focus of these budget talks.

For both the upper section (pension) and lower section (OPEB), there are two rows containing percentages currently required to be paid by districts.

- The **"normal"** cost is the cost associated with saving for the retirement benefits of school personnel who are still working and paying into the system. It is designed to match the additional benefits earned by these individuals in a given year.
- The **"UAAL"** (or "Unfunded Actuarial Accrued Liability") is designed to address the costs of previously earned benefits – for those still working and those already retired – that are underfunded. This results when the total costs of providing benefits (the "liabilities") are greater than the assets available to pay for them.

More than a decade ago, as the system's growing insolvency was becoming a greater and greater concern and as UAAL costs for districts were growing, legislation was passed that provided for a cap on the combined pension and OPEB UAAL costs at 20.96% of payroll (13.9% for pension UAAL and 7.06% for OPEB UAAL). Any additional growth in the liabilities associated with UAAL was taken off the top instate budgets using School Aid Fund monies.

This practice was of benefit to districts in the retirement system as compared to charter schools (that are not in the MPSERS system). If this money was not taken off the top, it would need to be paid from funding received through a district's foundation grant. Therefore, increases in the foundation grant disproportionately benefitted charter schools (who were paying no MPSERS costs but who received the same foundation allowance increases). By taking these costs "off the top", increases in the foundation allowance had equal benefit to both traditional and charter schools. (Indeed, it might also be argued that the entire MPSERS UAAL cost should be taken off the top. However, the counter argument is that traditional districts have benefitted in hiring employees over time by having pension benefits available.)

FY 2023-24 Contribution Rates
As a percent of Payroll

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Elected DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF	Pension Plus 2 with PHF
Pension/DC Contributions*								
Normal Cost	9.13	6.27	6.27	7.00	7.00	7.00	9.13	7.20
UAAL	13.90	13.90	13.90	13.90	13.90	13.90	13.90	13.90
Pension Total	**23.03**	**20.17**	**20.17**	**20.90**	**20.90**	**20.90**	**23.03**	**21.10**
Health Contributions*								
Normal Cost	1.25	1.25	2.00	2.00	1.25	2.00	2.00	2.00
UAAL	7.06	7.06	7.06	7.06	7.06	7.06	7.06	7.06
Health Total	**8.31**	**8.31**	**9.06**	**9.06**	**8.31**	**9.06**	**9.06**	**9.06**
Employer Total	**31.34**	**28.48**	**29.23**	**29.96**	**29.21**	**29.96**	**32.09**	**30.16**
State Share	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**
TOTAL	**48.23**	**45.37**	**46.12**	**46.85**	**46.10**	**46.85**	**48.98**	**47.05**

* Assumes 100% participation in employee DC contributions and Personal Healthcare Fund contributions.

Employer (District) Costs

Example NEW Employer Total (under this proposal):

31.34% - 7.06% = 24.28%

House Fiscal Agency 34 April 2024

So, in looking at the chart, the "Pension – Normal" cost still needs to be paid for employees working and accumulating benefits. The "Pension – UAAL" cost still needs to be paid because the pension trust fund is still only about two-thirds funded, and is not currently estimated to reach solvency until 2038. The "Health – Normal" cost is also paying for the accumulation of benefits for those still working. **But the "Health – UAAL" is no longer necessary because the healthcare (OPEB) trust fund is fully funded/overfunded.** This is the row outlined in blue on the chart, and represents 7.06% of payroll costs for districts.

Therefore, the current proposal from a broad coalition of education groups including the MEA, AFT, and education management organizations (including the School Equity

Caucus) is to reduce the cap on MPSERS UAAL contributions to 13.90% (from the current 20.96%) in line with the achievement that districts have realized in paying off this portion of MPSERS debt. Therefore, districts across the state would have an amount freed up in their budgets equivalent to 7.06% of their payroll. These funds would then be available for districts to use at their discretion rather than being returned to the state. This is obviously a big amount, and could arguably have a greater impact than any of the other increases currently being proposed.

Additionally, the proposal from these educational groups also calls for an end to the additional 3% of payroll that the employees also have had to contribute toward the healthcare (OPEB) UAAL. This would provide all impacted employees with the equivalent of an immediate 3% raise.

In her budget proposal, Governor Whitmer took a different approach which would not adjust the 20.96% cap for local districts and would instead see the state's share of payments decrease. The savings realized would then be able to help fund other initiatives in her SAF budget proposal.

While these initiatives may provide value for districts, it is preferred to allow the local district to make decisions on how to spend the money. It would be a recognition of our successful "full funding" of OPEB obligations and would mean that the districts, staff, and students who have had to do with less for many years could now utilize these dollars in the classroom. This would also leave the entire pension funding structure intact and on its current trajectory, while providing relief for all those who have sacrificed to bring the benefits side into solvency.

In real dollar terms, the 7.06% amount equates to approximately $670 million – more than $540 per student for traditional districts. A file is attached to this mailing providing an estimate of what the impact of this change could mean for each district across the state. The actual letter sent to legislators (and shared with you earlier this month) advocating this approach is also attached if you wish to see it again.

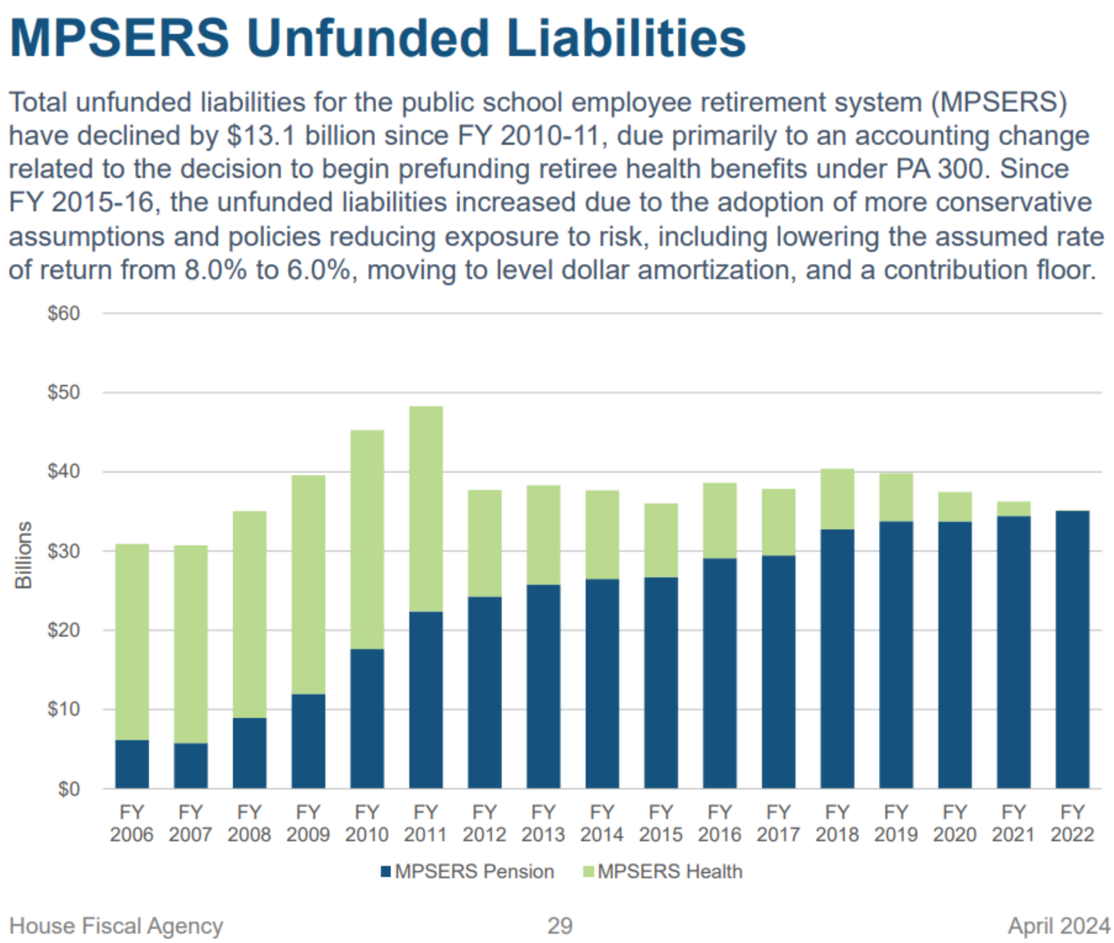
What can you do? Call your legislator and ask for the 7.06% be returned to districts by lowering the cap to 13.90%. Explain the sort of impact these additional funds could mean for your district, especially as budgets are shrinking with the expiration of COVID-era funds. With foundation allowance increases being proposed in a range between 2.25% and 3.1%, districts will be losing ground when considering inflation-driven salary increases, step increases on top of that, large expected increases in insurance costs, and so on.

The next few days will be crucial in this push as final negotiations are underway. It is unclear at this time where things will land.

And again, this is not a "raid on pensions". The healthcare benefits (OPEB) trust fund is now more than fully funded; we should provide relief to the districts and employees that have been carrying this burden for more than a decade, and who will still be carrying the burden of paying off the pension trust fund UAAL for many years to come.

One final note of background – the chart below gives a historical look at the UAAL issue, with the healthcare UAAL shown in light green and the pension UAAL in the dark color. One can see the impact of changes made in 2012 (including the institution of the 3%

employee contribution) that have led to the light green portion of the bar disappearing. The pension liability remains, but the rate of growth has also changed for the better.



We will keep you informed as more budget information becomes available.

4. Evaluation Cleanup and Certification Bills Pass

SB 744 (sponsored by Sen. McDonald Rivet) has now passed both houses of the legislature and will be on its way to Governor Whitmer. It fixes certain elements of the evaluation legislation approved several months ago. In that earlier law, the number of rating categories were reduced, including the elimination of the "Highly Effective" rating, and the probationary period was reduced to four years if a teacher receives a rating of "Highly Effective" (prior to July 1, 2024) or "Effective" (after July 1, 2024).

This bill further modifies these provisions so that ratings of "Effective" received prior to July 1, 2024 may also be included in the calculation of whether a teacher has completed the probationary period. Additionally, probationary teachers had previously been required to achieve a rating of "Highly Effective" or "Effective" on their three most recent evaluations in order to complete probation. This bill would also eliminate the provision that these ratings be on consecutive evaluations. Therefore, the net effect of this legislation is that probationary teachers would now need a minimum of three "Effective" ratings (including the most recent) in their first four years of teaching to receive tenure.

Another bill headed to the governor's desk is **SB 518** (sponsored by Sen. Camilleri) having had final approval this month. 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).

5. Other Legislation

Here is the latest on some of the other legislation we are watching:

- A group of long-awaited charter school transparency bills have passed the House and have now been referred to the Senate Education Committee. **HBs 5231-5234** (sponsored by Reps. Weiss, Young, Steckloff, and Scott respectively) would require the name of a charter school's authorizer and educational management organization be printed on school signs and promotional materials. **HB 5269** (sponsored by Rep. Kolesar) would require salary information to be posted on a charter school's website. All of these bills have passed the House Education Committee and are on the House floor.

- **HBs 5450 & 5451** (sponsored by Reps. MacDonnell and Brixie) have been passed out of the House Education Committee back to the House floor. These bills would require Michigan public schools to distribute information on the safe storage of firearms to students.

- **SB 567/568** (sponsored by Sens. Irwin and Polehanki, respectively) – These proposals regarding dyslexia passed the Senate in March and remain in the House Education Committee where they have been put on the committee's meeting agenda for consideration next Tuesday. While the attempt to address this issue is appreciated, and despite modifications that have been made so far, the bills continue to contain a number of overly prescriptive mandates that would make it difficult for districts to respond the needs of children in the ways they deem best. The bills as currently written require districts to screen all K-3 students for dyslexia at least three times per year and contain a number of other specific requirements if students show characteristics of dyslexia. The bill currently calls for implementation beginning with the 2027-28 school year.

- **HB 5649** (sponsored by Rep. Glanville) received a hearing in the House Education Committee earlier this month. This bill would require districts to offer at least one computer science course in their curriculum beginning in 2027-28. Under the legislation, a district would have to make a "good faith effort" to provide the course with an in-person instructor, but if that was not feasible the course could be made available using a virtual or distance-based option.

No action was taken this month on the following bills:

- **SB 285** (sponsored by Sen. Polehanki) – This bill remains in the House Education Committee after having passed the Senate in April. The bill would make attendance in kindergarten mandatory for all five-year-olds born prior to September 1 of each year (kindergarten is currently still considered to be optional). Parents would have the ability to hold their child out of kindergarten for an additional year by submitting written notification to that effect to the school.

- **SB 741-743** (sponsored by Sens. Camilleri and Bayer) – This proposed legislation would require a school library staffed by a school librarian in every Michigan public school building. The libraries would be required to be in place by the start of the 2025-26 school year, while the mandate calling for a school librarian (prorated by size of the school building) would be mandated as of the start of the 2024-25 school year. The bills also would require participation in an interlibrary loan program. The legislation is in the Senate Education Committee where it received a hearing earlier this month.

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

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