



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

April 30, 2022

Dear Colleagues:

It has been a busy couple of weeks in Lansing as the wheels of the budget process began to turn faster! With the budget dominating conversations, this month's newsletter will focus exclusively on that topic. Here we go...!

1. Where the Budget Stands and Where It Is Headed

A few days ago we sent along our summary of the Senate and House 2022-23 budget proposals which have now both been released. On Wednesday and Thursday both the House and Senate Appropriations Committees reported their respective K-12 budget bills to their corresponding full chamber where they will most likely be taken up in the next few days. It is expected that both bills will be passed, and then sent to a conference committee where the numerous differences between them and Governor Whitmer's original proposal will be resolved. That process will not be complete until sometime after the next Consensus Revenue Estimating Conference (CREC) being held on Friday, May 20, that will provide the final estimated revenue numbers upon which the completed budget will be based.

Following the work of the conference committee, the budget bills will then return to each chamber for final passage before being sent on to Governor Whitmer for her review. This week the chair of the Senate Appropriations Committee expressed his expectation that the budget would be complete by the end of June or early July.

2. Revenue Review

As we begin to look more deeply at the various budget proposals, it would first be helpful to review the estimated revenue numbers from the last CREC in January. At that time revenue collections for the state led to a very positive outlook with a great deal of money available toward expenditures, both in the way of potentially adding expenditures in the current year (2021-22) and as we head into next year (2022-23). The table below shows the Senate Fiscal Agency's projection of these numbers, with the estimate for 2022-23 based on carrying the current level of expenditures forward for another year (i.e., without any increases or additional spending).

**Year-End Fund Balance Projections
 (based on the January 2022 CREC, amounts in millions)**

	EOY 2021-22	EOY 2022-23
School Aid Fund (SAF)	\$3,601.4	\$4,843.4
General Fund (GF/GP)	\$3,484.8	\$4,503.4
TOTAL	\$7,085.2	\$9,346.8

It is obvious that the state's balance sheet is in a very strong position! Additionally, the rate of positive movement in the budget has been remarkable. Just one year prior we were celebrating unexpectedly high revenue numbers from the January 2021 CREC, but that rosy outlook now pales in comparison to what we see today. The table below illustrates this by looking at the projected budget surplus at the end of our current budget year as it was viewed in January 2021 compared to January 2022:

**2021-22 Projected Year-End Fund Balance
(comparing the January 2021 and January 2022 CRECs, amounts in millions)**

	January 2021 Estimate	January 2022 Estimate
School Aid Fund (SAF)	\$1,085.3	\$3,601.4
General Fund (GF/GP)	\$1,659.7	\$3,484.8
TOTAL	\$2,745.0	\$7,085.2

It is also important to note that the January 2021 estimate was projecting expenses as they were known at that time (prior to the large increases seen to the foundation allowance and in other state spending this year), while the January 2022 estimate incorporates those higher expenses. Even with this much higher level of spending, the end-of-year fund balance projection has ballooned by more than \$4 billion.

What is the point of this revenue review? Simply to reinforce what has already been well-documented – that we are dealing with unprecedentedly large amounts of money in the state's coffers.

Indeed, since January those coffers have kept swelling – the most recent monthly revenue report from March shows the year-to-date SAF revenues \$317 million above the level projected just two months prior, with the GF/GP running \$1 billion ahead of the January estimate (a combined 24.1% ahead of where collections were at this time in 2021). We will be watching closely how this trend continues as the April revenue report is released, but it is certainly expected that revenue numbers at the May CREC will go up from their January estimates.

3. Comparing the Budget Plans

Now that we have all three budget plans in hand, we are able to take a deeper dive into what each of the three parties in the budget process (House, Senate, and Governor) are proposing for the School Aid Fund budget. (For a more detailed look at specific items within the 2022-23 budgets, please reference the Information Alert sent out earlier this week and attached again to this email).

It is first important to point out that Governor Whitmer's proposal was structured differently than that of the House and Senate. The governor's budget recommendation contained a significant amount of spending for the current year (in the form of a budget supplemental), with additional expenditure in 2022-23. In contrast, the House and Senate chose to structure their proposals with their increases booked entirely or nearly entirely to next year, leaving the current year much closer to where it was originally passed. Specifically, recall that the governor's supplemental proposal (for the current year) included more than \$2.3 billion in staff retention payments, literacy and recovery programs, and programs intended to increase the teacher pipeline; in contrast, the House – whose budget also contained some related proposals regarding literacy and the teacher pipeline – puts any such line-items into the 2022-23 budget year.

In an effort to smooth out these fiscal year differences, the table below provides an overview of both the total SAF 2021-22 supplemental proposals and the 2022-23 budget proposal from each of the three entities. Additionally, to get to the bottom-line spending put forward by each, a combined total for 2021-22 and 2022-23 is shown on the last line:

**Comparing SAF Budget Proposals
(2021-22 Supplemental and 2022-23, amounts in millions)**

	Governor	Senate	House
<i>2021-22 Budget as Originally Passed (P.A. 48 of 2021)</i>	\$16,978.1	\$16,978.1	\$16,978.1
2021-22 Budget including Supplemental as Proposed	\$19,331.1	\$16,978.1	\$17,081.8
2022-23 Budget Proposal	\$18,356.0	\$17,840.0	\$19,920.2
Combined Most Recent 2021-22 and 2022-23 Proposals	\$37,687.1	\$34,818.1	\$37,002.0

Viewed through this lens, one can see that Governor Whitmer’s proposal contains the most combined spending across the two years, and that the House plan is much closer in total to the governor’s than the plan put forward by the Senate. It must also be noted though that Senator Wayne Schmidt, chair of the K-12 Appropriations Subcommittee, has reiterated a number of times that the Senate budget represents just a starting place, implying that the Senate is also willing to see the expenditure number increase in the negotiations to come.

One final thought from a “big picture” point of view...the Senate Fiscal Agency’s analysis of total SAF revenues for 2021-22, using the numbers from the January 2022 CREC, showed there would be a total – without the expected increases in the months since January – of more than \$21.1 billion available to budget for the coming year. If this number is used in comparison to each of the budget proposals, the following “balance sheet” projections emerge:

**SAF Budget Proposals vs. January 2021 Estimated Available Revenue
(2021-22 Supplemental and 2022-23, amounts in millions)**

	Governor	Senate	House
2021-22 Estimated Available Revenue	\$21,142.4	\$21,142.4	\$21,142.4
2021-22 Budget including Supplemental as Proposed	\$19,331.1	\$16,978.1	\$17,081.8
2021-22 Ending Balance	\$1,811.3	\$4,164.3	\$4,060.6
2022-23 New Revenue	\$18,312.6	\$18,312.6	\$18,312.6
2022-23 Estimated Available Revenue	\$20,123.9	\$22,476.9	\$22,373.2
2022-23 Budget Proposal	\$18,356.0	\$17,840.0	\$19,920.2
2022-23 Ending Balance	\$1,767.9	\$4,636.9	\$2,453.0

What this table shows is that even with all of the programs being proposed by any of the entities, the 2022-23 end-of-year SAF fund balance would still be very healthy – and this is before any potential upward revision of estimated funds available that may come at the May 2022 CREC.

The bottom line – we can afford to spend some money!

4. What Should Our Focus Be?

As our detailed comparison of the competing budget plans distributed earlier this week showed, the governor, House, and Senate each took a much different path toward next year's budget. A very quick and far-too-generalized review of some of the most unique components of each plan includes the following:

Governor Whitmer:

- An increase of \$435 per student (5%) on the foundation allowance.
- 5% increases in many other components of a weighted student funding formula.
- A significant increase in At Risk funding, and a healthy increase in Special Education reimbursement (to 8%).
- Significant increases in mental health spending.
- An initial attempt at a School Infrastructure Fund.
- The aforementioned \$2.3 billion in 2021-22 in staff retention payments, literacy and recovery programs, and programs intended to increase the teacher pipeline with more spending for the latter two items in 2022-23.

House:

- An increase of \$300 per pupil (3.4%) on the foundation allowance.
- No increase for At Risk, but a higher increase in Special Education reimbursement (to 10%).
- \$1.7 billion extra down payment on MPSERS UAAL costs.
- Significantly more spending toward school safety and school resource officers than the other two plans.
- \$674 million deposited into the School Aid Stabilization Fund (in essence adding to the carry-forward fund balance).
- \$50 million toward offsetting rural transportation costs.
- Funding of a number of teacher pipeline initiatives.

Senate:

- Increases the per pupil foundation allowance by \$450 – the most of the three plans.
- \$500 million for school consolidation.
- A far greater tendency to hold most other spending lines at current levels.

Here are some general thoughts about what is in – and what is missing from – the various plans:

- Structural Cost Escalation. One can see in each of these plans that there is concern about inflating structural costs during the current period when revenues are high for fear of creating a “bubble” that may not be sustainable over the longer term. Therefore, these proposals leave money in the fund moving forward and/or contain programs that consist of “one-time” or “pre-funded” expenditures. As those in school leadership know, stability in school funding is very important, so this cautious approach is understood – it would be counterproductive to run up costs over the next few years only to return to difficult cuts in a few years.

That being said, with inflation currently running at an annual rate of 8.5%, increases in base funding of 5% leave districts losing ground. Inflationary pressures are already impacting our districts in many ways, with the prospect for additional cost escalation in the months ahead. Personnel costs are rising fast, with labor in short supply in many parts of the state. Because of these pressures,

it is necessary to look at higher increases in some of these areas – especially in the per pupil amount.

- The SAF Raid for Higher Ed Continues. The School Aid Fund continues to be raided to support community colleges and higher education, even with such enormous fund balances in the General Fund (GF/GP). Governor Whitmer’s budget proposal included an 8.9% increase in funding for community colleges, and actually trimmed SAF support for universities by \$13.5 million. In contrast, the House budget adds more than \$500 million in new costs to the SAF for a total of \$1.38 billion. Included is more than \$500 million for community colleges, along with approximately \$450 million to pay down remaining university MPERS obligations, on top of other university operational expenditures of more than \$400 million.

The Senate goes even further, including more than \$580 million to pay off remaining UAAL for the state’s seven universities that are part of MPERS. Additionally, the Senate shifted some \$269.4 million more in university operations funding to the SAF from the General Fund, and reduced the overall GF/GP responsibility for universities by 23.8%. When grants and financial aid are excluded, SAF support for universities in the Senate proposal is actually now higher than the amount being appropriated from the state’s General Fund. In total, the increase alone in SAF funding by the Senate for universities is proposed at more than \$928 million, with total SAF support at more than \$1.29 billion. When added to the \$470 million proposal for community colleges, the Senate plan would see the SAF carrying a whopping \$1.76 billion in post K-12 costs.

**2022-23 Proposals, SAF Support for Community Colleges/Higher Ed.
(amounts in millions)**

	Governor	Senate	House
Community Colleges	\$470.0	\$470.0	\$518.9
Universities	\$347.9	\$1,290.1	\$861.0
Total SAF Support	\$817.9	\$1,760.1	\$1,379.9

The School Equity Caucus has always strongly opposed such raids on the SAF, even in the most difficult budget times. To add such enormous expenditures to the SAF budget when there are huge fund balances on the General Fund side is even more egregious. This money must be kept for the original purpose of the School Aid Fund – the support of Michigan’s K-12 schoolchildren. ***Now is the perfect time to reverse this dependency on the SAF and return higher education to the General Fund where it was for decades.***

- Are Tax Cuts Wise? It is clear that a major legislative motivation behind keeping K-12 expenditures lower than they otherwise could be is to enable a large tax cut as we head toward the November elections. As we have described in previous newsletters, these tax cut proposals have been many and varied with single-year reductions in revenue estimated at more than \$1.3 billion in some individual cases.

Now that we have seen what it would take to keep such a cushion available, the question to be asked again is whether these sorts of sweeping tax cuts are wise or sustainable. As noted above, proposed budget increases are running short of the rate of inflation, and we have much more that needs to be done. ***Michigan’s schools have borne the brunt of underfunding for decades, one of the major factors in our current struggles to recruit and retain staff. It seems***

counterproductive to make deep revenue reductions when our budget situation turns around for the first time in a quarter century.

Instead, we should take this opportunity to structure our present surplus so that we can provide the resources and funding our schools need for the long haul. Inflation concerns and other economic uncertainty should be adding to the need for caution. Our current tax structure has proven to provide only marginally sufficient revenues (at best) in tough economic times. Let's not put our educational system, and state government as a whole, on a revenue roller coaster by enacting tax cuts that may need to be reversed a few short years from now.

- **Addressing Inequities.** The various proposals offer a mixed bag toward addressing the inherent inequities in Michigan's school funding system. Governor Whitmer's budgets continue to contain movement toward a weighted student funding formula as was proposed in the original School Finance Research Collaborative report. While the governor's proposal did not include any recognition of differences in transportation costs, the House budget gave some attention to this important area. Another step forward came with the governor's plan acknowledging that there needs to be attention given to the vast disparities in school infrastructure funding capability for local districts. ***These moves are all welcome, and show that Lansing is starting to hear the call to eliminate inequities in these other areas beyond the foundation allowance.*** We are making progress, but still have significant more work to do.

Additionally, as noted in the Information Alert earlier this week, none of the three plans included a continuation of the 2X plan to shrink remaining gaps in per pupil funding levels. This is an omission which must be corrected. Even though state-funded support for the foundation allowance is now level, the remaining structural inequities in the foundation allowance continue to leave 8% of school districts able to generate more per pupil funding than is allowed for the rest of the state.

5. **Closing Thoughts**

The baseline for upcoming budget discussions is now known, but there will still be many moves ahead. Governor Whitmer, the House, and the Senate will now be working to create a final product that is mutually agreeable, and your voice needs to be heard! Caucus members are encouraged to contact their legislators and the governor's office to express your perspective on these issues, and we encourage you to do so using the ideas outlined above.

We are in a unique position with the financial resources that could set us up for a better future – let's not throw this chance away in the interest of short-term political gains through giveaways of dubious value, or through cuts that leave our funding structurally unsound. We must keep the best interest of **our children** front and center!

Hope you have a great week ahead, and that your end-of-year activities go well! As always, please be in touch with questions or concerns.

Take care,

A handwritten signature in black ink, appearing to read 'D. Weeldreyer', with a stylized flourish at the end.

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