

To: Council About Parochiaid
From: Cara Marie Dobie and Courtney VanCamp
Date: September 27, 2019
Re: Legislative Report

FY 20 Budget Update

With less than one week from the end of the fiscal year, the Legislature passed the FY 2020 department budgets yesterday. The budget bills were given final approval by both the Senate and the House and were passed on party-line votes for the most part. The bills will now be formally transmitted to Governor Whitmer where it is expected she will line item veto large portions of the bills after declaring in a statement, “These budget are a mess.” The Legislature’s budget does not include Governor Whitmer’s proposed 45-cent gas tax increase; the House and Senate are not holding any further voting this week.

The first budget sent to the Governor one week ago is the K-12 School Aid budget (HB 4242), wherein At-Risk funds, the Foundation Allowance, and other categorical funds are housed.

This 307-page bill passed committee on September 13. Highlights include:

- The Governor’s proposed weighted per pupil formula that sought to provide additional funding for struggling school districts was included in the budget. However, the Legislature did not include additional funding for this formula rendering it moot.
- Of the \$120 million proposed by the Governor, the Conference Report instead directs \$32 million to increase ISD and district special education reimbursements by an addition 1%
- The Legislature rejected the Governor’s proposed shift of all 31a funds – and some additional funding – for economically disadvantaged funding. Instead the language is consistent with prior budget years (in other words, 31a is still 31a, spent the way it’s always been)
- The bill increases At-Risk pupil support by \$5 million (from \$517 million to \$522 million), includes \$12 million in hold-harmless funds (for districts that might receive less at-risk funding than previous years to make them whole); Governor proposed \$18 million for that purpose
- The bill increases to \$50 per pupil (with an additional \$50 per pupil available) the CTE incentive payments, and adds an additional \$13.5 million in CTE equipment upgrades
- Adds a \$5 million bump to Great Start Readiness Program, but rejects the Governor’s proposed thresholds for eligibility, maintaining the existing thresholds

- Adds a \$14 million increase to early literacy coaches and requires a dyslexia screening tool
- The bill maintains both the funding (\$31 million) and boilerplate for 31n; the “mental health support services” line, which includes the implementation committee on which mental health professionals are represented
- The foundation allowance is increased, using the 2x formula, ranging from \$120 to \$240 per pupil, and the minimum allowance increase from the current level of \$7,871 to \$8,111
- The bill maintains \$250,000 in General Fund Dollars to provide and administer competitive grants to public or nonpublic schools, districts and intermediate districts to purchase technology equipment, upgrade hardening measures or conduct school building safety assessments to improve the safety and security of school buildings. All grants under this subsection shall be funded on a reimbursement-only basis.

FY 20 MDE Budget

The MDE budget passed for FY 2020 splits the department’s \$419.7 million funding into quarterly payments that will only be distributed if lawmakers affirm that MDE officials are not holding up policies or funds intentionally.

This was prompted by concern among Republicans that the MDE is slowing down policies they disagree with and requires more oversight. The department’s delay in implementing school building A-F grading scales by the Sept. 1 deadline is being held up as an example. MDE has claimed that the delay was due to concerns that the law conflicts with federal law. It was passed during the lame-duck session and opposed by Democrats.

Democrats oppose this new move in the MDE budget because they argue that the approval of quarterly funds will be used as political leverage rather than as a check on the department. The Michigan Association of School Administrators opposed the budget, claiming it could lead to a shutdown of MDE in the future.

The bill passed the House on a mostly party-line 57-51 vote and in the Senate on a straight 22-16 party-line vote.

MPSERS No Longer Part of GOP Budget Plan

For the last several months, Republican legislative leaders (and a few Democrats as well) have urged the use of the Michigan Public School Employees Retirement System as a method for freeing up funds to “fix the damn roads.” Two proposals were floating around Lansing that received a great deal of support from Republican leadership. The first, mainly promoted by various business groups, argued that the state could save hundreds of millions of dollars in annual MPSERS costs if the state purchased a pension bond to help pay for MPSERS unfunded liability. The rationale was that the interest on the bond would be low enough that investment returns would not only pay for the cost of the bond itself, but also help to

continue to pay down the unfunded liability in MPSERS. Pension bonds on a smaller scale used by municipalities around the country have met with mixed success. This would be the first time a pension bond was used on a statewide level.

The second proposal was couched as a “refinancing” of the MPSERS unfunded liability. Essentially, the state would lower the annual payments into MPSERS and extend the time period in which the unfunded liability would be paid. Former Governor Snyder claimed over the past few years (as he invested greater amounts into MPSERS) that by doing so the unfunded liability would be erased by 2038. Some House and Senate leaders argued that the state could save hundreds of millions of dollars by merely delaying the date upon which the unfunded liability for MPSERS would be paid, possibly by 10 years or more.

Both of these proposals were hugely panned by various economic experts. The Anderson Economic Group, hired by the Macomb County ISD to review these proposals, indicated that the additional costs to the state for delaying payments into MPSERS would reach into the billions of dollars. Moreover, by reducing annual payments to MPSERS and diverting those funds into another need (in this case, roads and education), the system would be weakened in event of another economic downturn.

Leaders of CSR-MI affiliates met personally with Governor Whitmer in August to secure her commitment to reject any attempt to disinvest in MPSERS for the purpose of funding road construction. She agreed that such a plan was risky and foolhardy, especially as many indications point to a looming recession. This issue was one of the reasons that budget negotiations between the Governor’s office and the Michigan Legislature have been rocky over the past month. In early September, House and Senate Republican leaders gave the Governor three different options to pass the budget and add new revenue for road constructions. Each of the three options had one thing in common: “refinancing MPSERS.” The Governor rejected all three.

The conference report on School Aid and Higher Education was passed by the House on September 19, and it does not include a diversion of payments away from MPSERS. The issue, for now, has been taken off the table. However, it is certain to be raised again due to the fact that so many legislators view MPSERS as an easy way to shift funds toward other state needs. We will need to remain very vigilant to prevent school pension funds from being used as a credit card for badly needed infrastructure improvements.