

# LegislativeUpdate

Michigan Association of Superintendents & Administrators | March 8, 2019



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### Summary

This week in Lansing, all activity was fixated on Gov. Gretchen Whitmer's Budget and the tax proposals related to it. We've been working on snow day legislation, educator evaluations and now third grade reading has moved to the top of the list. A lot of pressure exists for lawmakers to begin moving bills out of their first chamber as spring break is fast approaching and some legislation has a tight timeline. For now, we appreciate your continued communications with us on issues

important to your district and students.

As always, please contact [MASA](#) with any questions or concerns.

### **Budget. Budget Budget.**

Unless you're living under a rock, you're probably aware that Gov. Whitmer has proposed changes to Michigan's gas tax. The 45 cent per gallon gas tax increase is expected to generate roughly \$2.5 billion annually and will be dedicated to a new formula that will repair Michigan's legendarily awful roads. While this proposal has generated a lot of discussion among supporters and detractors, it is somewhat positive for the school community given that the proposal does not include eliminating sales tax collection on fuel – a move that would cost the School Aid Fund hundreds of millions of dollars.

The gas tax change would be implemented in a three-step process. The tax would go up 15 cents every six months and would be fully in effect by October 2021. The revenue raised from this change in taxes will go to a new funding formula, however, the first \$325 million collected in proposed new gas tax revenue would flow into the Michigan Transportation Fund (MTF). This is to account for the \$325 million in General Fund dollars that would have gone to roads as part of the 2015 transportation package. As you may remember, the 2015 legislation generated \$600 million from an increase to both the gas tax and registration fees, as well as an additional \$600 million from earmarked income tax revenues from the General Fund. This was intended to be phased in over the course of three years. Whitmer's budget proposal for FY 2020 would maintain the \$325 million commitment in FY 2020 but uses the new gas tax revenue as the source, rather than General Fund dollars.

With this change, Gov. Whitmer proposes putting the General Fund that would have been earmarked for roads to higher education instead. This will allow her to redirect the School Aid Fund (SAF) dollars that were funding universities back into K-12 education. Gov. Whitmer acknowledged that the School Aid Fund has been

used to finance other things rather than be invested in the classroom. We have advocated for years that this should be done. We are pleased to see that it's being seriously considered and that a proposal has been made to make it a reality.

To offset the tax increase for some Michiganders, the governor also proposed doubling the earned income tax credit (EITC), from 6 percent to 12 percent, as well as reinstating the income tax exemption on public pensions. Restoring this exemption will cut \$75 million from the School Aid Fund. However, this is offset by an increase in the business tax.

Simple, right? MASA has not yet taken a position on any of the tax policy changes in the proposal. However, one constant in our position related to taxes is that any change should hold the School Aid Fund harmless, or increase investment. It's worth noting that this proposal does do that.

For additional details on the governor's budget recommendation please see below.

### Education in the Budget

The governor proposed \$15.4 billion for the state's K-12 schools, with a proposed foundation allowance increase of \$235 million. This will allow for an increase in the foundation allowance between \$120 and \$180 per pupil, using a 1.5X formula to fund basic classroom and operational expenses. The minimum foundation allowance would be **\$8,051** and the maximum, **\$8,529** for FY 2019-20. This would reduce the funding gap between the minimum and state maximum to \$478 per pupil. The proposal does not include the historical 2X formula, but does begin to implement the weighted foundation allowance recommended by the School Finance Research Collaborative (SFRC). This goal has been one supported by MASA numerous times over the last two budget cycles.

The weighted foundation allowance recognizes the higher cost of educating students that require additional services, per the SFRC recommendations. Her

budget includes additional weighted foundation payments per pupil for students that are defined as economically disadvantaged, participate in career and technical education programs, or receive special education services.

The way this works is as follows. You take the total amount of money a district would receive for eligible pupils, and distribute it out on a total per-pupil basis. Essentially adding dollars to the foundation allowance calculation to compensate districts for students with higher educational costs. So, if you have a high special education population and a low student count, the per-pupil premium seems higher. If you have a high population of economically disadvantaged students but it's a small percentage of your total count, the premium seems lower. It's a new structure, that will take time to understand the true benefit or lack thereof, so we are working to simplify the explanation. In the meantime, cross multiply and understanding denominators will be key.

	Additional Weighted Foundation Payment Per Pupil		
	Special Education*	Economically Disadvantaged and Other At Risk	Career and Technical Education (CTE)
Current	\$4,875	\$720	\$50
Increase	\$2,571	\$174	\$437
Total Per Pupil	\$7,446	\$894	\$487

*Source: Michigan State Budget Office*

The proposal includes an additional \$120 million for special education students. This represents a 4 percent increase, \$102 million for at-risk students which is equal to nearly a 20 percent increase and \$50 million for CTE students. Additionally, the proposal includes a \$22 million slash to the cyber school foundation allowance (20 percent off the foundation allowance).

- Preschool funding would increase by \$85 million. This would permit 4-year-olds from families up to 300 percent of poverty to participate in the programs.
- The budget would add \$24.5 million in grants for literacy coaches with the goal of tripling the number available. The proposal also eliminates the local match requirement.

- Included in the SAF would be \$60 million for lead remediation efforts. The funds would be used to install hydration stations in school buildings that still have lead plumbing and fixtures.

Funding for Section 147, the MSPERS related items in the budget will be increased. However, the retirement rates for the coming year will increase to 39.91 percent with 27.5 percent paid by the employer for MIP/Basic with health premium subsidy. This is an employer increase of 1.32 percentage points or a 3.4 percent increase in the rate. This will be an increased cost for districts.

Universities will see a three percent increase but with funding sourced from the General Fund. They will only see an increase in funding if they cap tuition increases to 3.2 percent, participate in the Michigan Transfer Network, hold reverse transfer agreements with a minimum of three community colleges and universities as well as refrain from considering whether dual enrollment credits were utilized for high school graduation when deciding to award university credit for those classes.

Community colleges will still be partially funded out of the School Aid budget and will see an increase. However, their increase will be sourced from the General Fund. So, unfortunately, we won't see that \$408 million out of the School Aid Fund and into the classroom. The governor's Monday presentation mentioned that removing all of this funding out of the School Aid Fund would be too much pressure on the General Fund.

The budget recommendation does not include two of the MI Opportunity Scholarship programs that we heard the governor propose during her state of the state address last month. The scholarship that provides for two years of tuition at a community college and two years of tuition assistance at a university of eligible students will not be included in this budget but will be proposed in the FY 2020-21 according to Whitmer's team. Additionally, the budget presentation touched on the Michigan Reconnect Grant Program that would provide tuition-free education opportunities for Michiganders 25 and older who are already working and want to earn an industry certificate or associate degree. That program would be funded from the Talent Investment Fund until 2021.

This proposal will be the first step of a months-long process for Governor Whitmer's budget with a Republican-controlled legislature. Many lawmakers have said to the MASA team that getting a school budget done before July 1 is a priority. We'll see if that translates into action and reality, but for now, we are hopeful lawmakers recognize the need to accomplish that task.

### **MASA Testifies on Snow Day Forgiveness**

The House Education Committee held a hearing this week on snow day forgiveness legislation. HB 4206 sponsored by Rep. Ben Frederick (R-Owosso) allows the state superintendent to waive days of instruction that were canceled due to a state of emergency that was declared by the Governor. This is in addition to the six days permitted under current law.

HB 4206 was amended to revise the percentage requirement for rescheduled days of instruction due to snow days from 70 percent to 60 percent.

MASA provided testimony in favor of this legislation and we've been working with the chair and many members of the House and Senate to seek resolution on this issue as soon as possible. No vote was taken this week and the House Education Reform is scheduled to meet next Tuesday on this same piece of legislation. We urge the House to take action on this timely issue.