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Three Quick Takes on the Governor's Proposed K-12 Education Budget

In a Nutshell

- When Governor Whitmer described her K-12 education budget proposal for next year as “historic” – she meant it. State K-12 appropriations have been on an upward trajectory for the last 10 years and will reach new heights in Fiscal Year 2024.
- If adopted, the governor’s budget would effectively exhaust the entire projected \$4.1 billion School Aid Fund surplus by the end of Fiscal Year 2024. This surplus, combined with the fact that public schools are being shielded from the fiscal effects of likely future tax cuts, fuel the impressive K-12 budget growth next year.
- Entirely separate from the historic level of state K-12 appropriations recommended in the budget, many Michigan districts still have substantial amounts of one-time federal COVID-19 relief aid to spend before their availability expires at the end of 2024.

Michigan’s public K-12 students are struggling on many fronts right now. Even before the pandemic, 4th and 8th grade reading and math scores were stagnating at best and the state’s students were losing ground compared to their peers’ performance in other states. The state’s students experienced some of the most severe effects of learning disruptions during the pandemic, driving down test scores in districts across the state. The data also show that pandemic disruptions have widened long-standing gaps between low-income students and their more affluent peers.

At the same time, Michigan students are experiencing alarming increases in the prevalence of mental, emotional, and behavioral health conditions. These various health challenges are a strong headwind for public schools working to meet the learning needs of their students and drive performance higher, especially for those already struggling to learn. In short, K-12 schools have considerable work to do to keep students healthy, get them performing at higher levels, and prepare them for their futures.

Fortunately, from a financial perspective, the state’s public schools have not had it this good in decades. Despite early warnings about pandemic-induced funding cuts to schools, strong growth in state and local education tax revenues expanded school budgets substantially over the past three years, even before factoring in the unprecedented amount of one-time federal COVID-19 relief funding schools received since early 2020.

It looks like the happy financial days will continue for public schools.

Now comes Governor Whitmer's \$79 billion Fiscal Year (FY)2024 State Budget recommendation. Unveiled last Wednesday, the Executive Budget proposal calls for a bit of everything when it comes to allocating the state's financial resources. The budget includes broad-based and targeted tax relief, spending increases across state agencies and programs, deposits into various "rainy day" funds, and paying down some of the state's long-term debts. The breadth of the proposal is understandable given the historic state revenue levels the governor had to work with in coming up with her spending plan.

For public K-12 schools, the School Aid portion of the governor's proposal recommends \$21 billion in total appropriations, including a nearly nine percent increase in School Aid Fund (SAF) appropriations, which grow by \$1.5 billion over the current-year level of \$18 billion. The increased SAF spending is spread across a litany of existing programs and services, but also includes funding for Governor Whitmer's new priorities (e.g., tutoring, universal school meals, expansion of state-paid preschool for low-income four-year olds). Further, the proposed FY2024 spending plan, combined with a current-year supplemental budget request, would exhaust all but \$200 million of the projected \$4.1 billion SAF budget surplus, driving state K-12 appropriations to new heights.

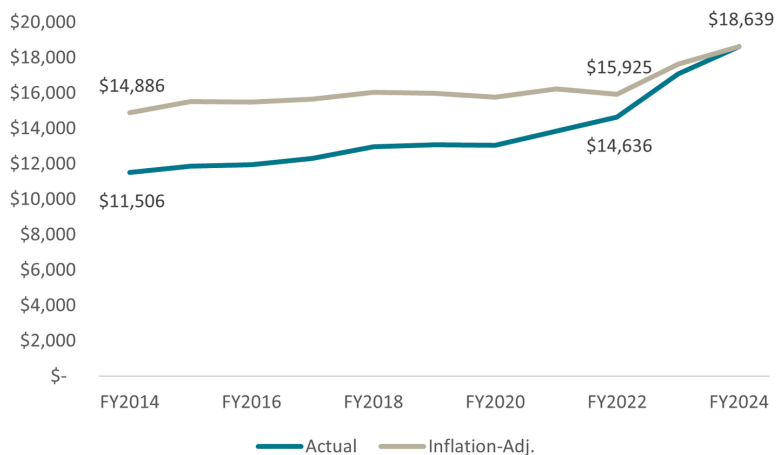
Unpacking all the details of Governor Whitmer's \$21 billion School Aid budget for next year will take time and closer attention beyond the space of this blog. In the meantime, and using a slightly wider lens to view the budget, here are three key takeaways from the governor's proposed K-12 spending plan and what they mean for public schools. (Note: The Citizens Research Council will be hosting a webinar on February 28 that will provide analyses and assessments of the FY2024 budget.)

The Governor Wasn't Kidding When She Said "Historic"

Since the adoption of Michigan's school funding model under 1994's Proposal A, state-levied taxes deposited in the School Aid Fund play the primary role in funding public K-12 education services. Today, state funding accounts for nearly 60 percent of the total annual revenue schools receive (\$23 billion in FY2021) with 30 percent coming from local funds and about 10 percent from the federal government. All state dollars schools receive each year flow, through various funding streams, from the School Aid budget. As such, state K-12 appropriations largely determine the amount of financial resources available to Michigan's 897 local school districts (traditional, charter, and intermediate) each year.

When Governor Whitmer described her education budget as "historic", she meant it. (Ignore the fact that the same could be said of last year's budget. And the one before that.) State-financed K-12 appropriations have been on an upward trajectory for the last 10 years and would spike under this proposal (chart below).

State K-12 Appropriations History (\$ millions)



Source: Senate Fiscal Agency, State Funding from State Resources Table; Bureau of Labor Statistics, Detroit CPI; FY2023 and FY2024 Consensus Revenue Estimate, Detroit CPI

Even after factoring in the impact of inflation and its effects on schools' purchasing power, growth in total state support for public K-12 will grow from \$14.9 billion in FY2014 to \$18.6 billion under the proposed FY2024 budget. As seen in the chart, growth in state K-12 appropriations has modestly exceeded the growth in inflation through FY2022. However, the Executive Budget along with the current-year supplemental spending request, would change this trend in a noticeable way. Despite inflation hitting a 40-year high, annual growth in state K-12 appropriations over the next two years will greatly exceed the increase in cost pressures facing schools. Under the governor's proposal, inflation-adjusted appropriations would grow from \$15.9 billion in FY2022 to \$18.6 billion in FY2024, a 17 percent increase across the span of just two years.

While total state K-12 funding is on the rise, statewide public school enrollment has been shrinking. This long-term demographic trend has impacted local school districts' finances differently across the state (fewer students equals fewer total district-level resources in a system that allocates funding based on student counts). At the individual district level, sustained large-scale enrollment declines can create real fiscal challenges for schools that must ensure balanced budgets. In such an environment, annual school revenues often fall by more than the immediate reduction in operating spending.

But, in terms of the broader context of the SAF budget, fewer students statewide means that the total amount of state funding available can be stretched even further on a per-pupil basis. Factoring in declining student enrollment, as well as changes in the Detroit Consumer Price Index over time, shows that inflation-adjusted K-12 funding has grown from \$9,777 per-student in FY2014 to \$13,372 per-student under the governor's FY2024 budget. This represents a 37 percent increase in just 10 years.

\$4.1 Billion Surplus Gone

The "historic" level of K-12 spending called for by Governor Whitmer is made possible by the availability of a projected \$9.2 billion state budget surplus. As we've covered in past blogs, the state's revenue picture has been unexpectedly rosy since early in the COVID-19 pandemic with massive federal relief driving up incomes and spending – and thus state revenues. The governor recommends using these surplus funds over the current and next fiscal year to finance additional state spending, but also to provide substantial relief to different Michigan taxpayer groups.

Notably, the Executive Budget shields the School Aid Fund from paying for any of the governor's recommended tax relief. Instead, the total cost of the various general and targeted tax provisions will be financed by the General Fund portion of the budget, relying heavily on projected surplus dollars. In contrast, the SAF surplus funds are used entirely to increase existing state appropriations, finance new appropriations, and fund deposits to various K-12 education accounts, including a new "rainy day" fund.

Last month, state fiscal analysts projected that the School Aid Fund would finish FY2023 with a \$4.1 billion surplus and that, based on a continuation of FY2023 spending levels, the surplus would grow to \$5.5 billion by the end of FY2024. Approximately \$1.4 billion of the total is considered on-going funding that could be used to increase recurring spending items (e.g., increases to the per-pupil foundation allowance) without creating a fiscal cliff in later years. Statewide, this portion of the surplus amounts to an average of \$1,000 per K-12 student.

The remaining \$2.7 billion surplus is deemed one-time revenue accruing to the School Aid Fund. Because these are not on-going resources, they should most appropriately be designated for one-time expenditures to avoid a future fiscal cliff. On a per-pupil basis, there is nearly \$1,900 per-student in

one-time surplus funding available. In total, the projected surplus amounts to an average of \$2,900 per-student, nearly one-third of the \$9,150 per-pupil foundation allowance grant schools received this year.

The Executive Budget would use nearly \$1.9 billion of the SAF surplus, an additional \$1,400 per student, to finance one-time state appropriations in FY2023. To be clear, these resources would be OVER AND ABOVE the per-pupil foundation allowance and all other state funding K-12 schools are currently scheduled to receive to deliver their K-12 programs this school year. Given the limited time left in the 2022-23 school year, any unspent portions of the FY2023 supplemental appropriations would be available to spend next year.

Then, for FY2024, the governor's proposal appropriates all but \$200 million of the remaining surplus dollars, about \$2.1 billion in total or \$1,500 per student. Appropriately, the one-time surplus funds are designated for non-recurring appropriations (e.g., \$900 million "rainy day" fund deposit), while the recurring SAF dollars are used to finance on-going state K-12 spending, including a five percent increase (\$458) to the per-pupil foundation allowance (\$9,608).

In total, the governor's budget recommendation, if adopted, would effectively exhaust the entire projected \$4.1 billion SAF surplus by the end of FY2024. It should be noted, however, that \$900 million of the surplus would be deposited in the new K-12 "rainy day" fund in FY2024, effectively maintaining these dollars as "surplus" but reserved for specific future K-12 programming.

Some Districts Would be Awash in Money, While Others Would See Modest Funding Bumps

Entirely separate from the historic level of state K-12 appropriations that will flow to local schools via various state funding streams under the Executive Budget for next year, schools are still working through their federal relief aid. Many school districts still have substantial amounts of one-time federal COVID-19 relief aid to spend before their availability expires at the end of 2024. Some have remaining federal per-pupil balances equivalent to two or three times their annual \$9,150 state per-pupil foundation allowance. For these districts, the additional state K-12 funding that they would receive under the governor's budget, particularly the one-time SAF surplus dollars, would grow their already-healthy financial resource bases.

But Governor Whitmer's FY2023 supplemental budget proposal does not acknowledge this fiscal reality and, in doing so, misses an opportunity to make sure all districts are going to have the necessary financial support to address students' unfinished learning and mental health needs arising from the pandemic. Instead, several of her spending proposals appear to target state surplus dollars to the same districts that received the most federal relief aid and would be best able to meet state matching requirements.

Take for example the Governor's marquee \$300 million supplemental budget request for a new statewide tutoring program, [MI Kids Back on Track](#), to help students recover from pandemic. Under the proposed budget language, these dollars would flow to all public school districts, traditional and charter, on an equal \$200 per-student basis and require a 100 percent match from other existing funds to gain access to state funds. While all schools are eligible for the same dollar amount per student to support new and expanded tutoring services, districts with access to greater amounts of discretionary funds, including their unspent federal relief dollars, will have a much easier "lift" in meeting the matching requirement. Greater consideration should have been given to those districts that have fewer discretionary resources to meet the required \$200 per-student match.

Consider another \$300 million supplemental budget item that would distribute state aid, on a competitive basis, to help lower schools' energy costs and improve indoor air quality. The grant criteria, again, appear to target the same districts that were given priority for federal relief aid. And, just like tutoring services, the federal aid dollars can be used for the very same school services being targeted in the governor's budget.

As FY2023 and FY2024 budget discussions shift to the legislative arena, state lawmakers should take note of the amount of federal relief funds that schools still have at their disposal and, just as importantly, which districts have the largest balances remaining. This information should be factored into their upcoming state budget decisions to ensure that future state School Aid Fund investments are appropriately leveraged to address the educational recovery needs of all Michigan school children affected by the pandemic.

Where appropriate, state funds should be used to fill-in the funding gaps for those schools that did not receive large allotments of federal relief funding and for those schools where students are furthest behind academically and developmentally. To help students today, they should avoid allocating large portions of the state's \$4.1 billion School Aid Fund surplus to those schools that already have sizable per-pupil federal aid balances to spend.

By shielding the SAF from the fiscal impacts of her proposed tax cuts, and with \$4.1 billion of SAF surplus dollars available, Governor Whitmer's Executive Budget would grow state K-12 appropriations to historic heights and thus expand public school budgets across the state next year. These dollars will arrive on top of already-growing school budgets and the massive influx of federal COVID-19 relief funds schools received since 2020. While there is much work still to do to help students recover from the educational and other disruptions caused by the pandemic, as well as get them performing at higher levels, the governor's budget makes sure that a lack of financial resources will not be an obstacle for tackling these challenges.

ABOUT THE AUTHOR

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Craig is the Research Council's Research Director and primary researcher of education and school finance issues. Prior to becoming Research Director, Craig served as the Director of State Affairs and as a Senior Research Associate. During his graduate school studies, he worked for the Council as a Lent Upson-Loren Miller Fellow from 1993 to 1995. Before joining the Council in 2006, Craig worked for ten years as a fiscal analyst at both the Senate Fiscal Agency and the House Fiscal Agency. He previously worked for the Michigan Department of State, Office of Policy and Planning and the United States Environmental Protection Agency in Chicago.

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