

Governor Snyder's FY2018 Education Budget

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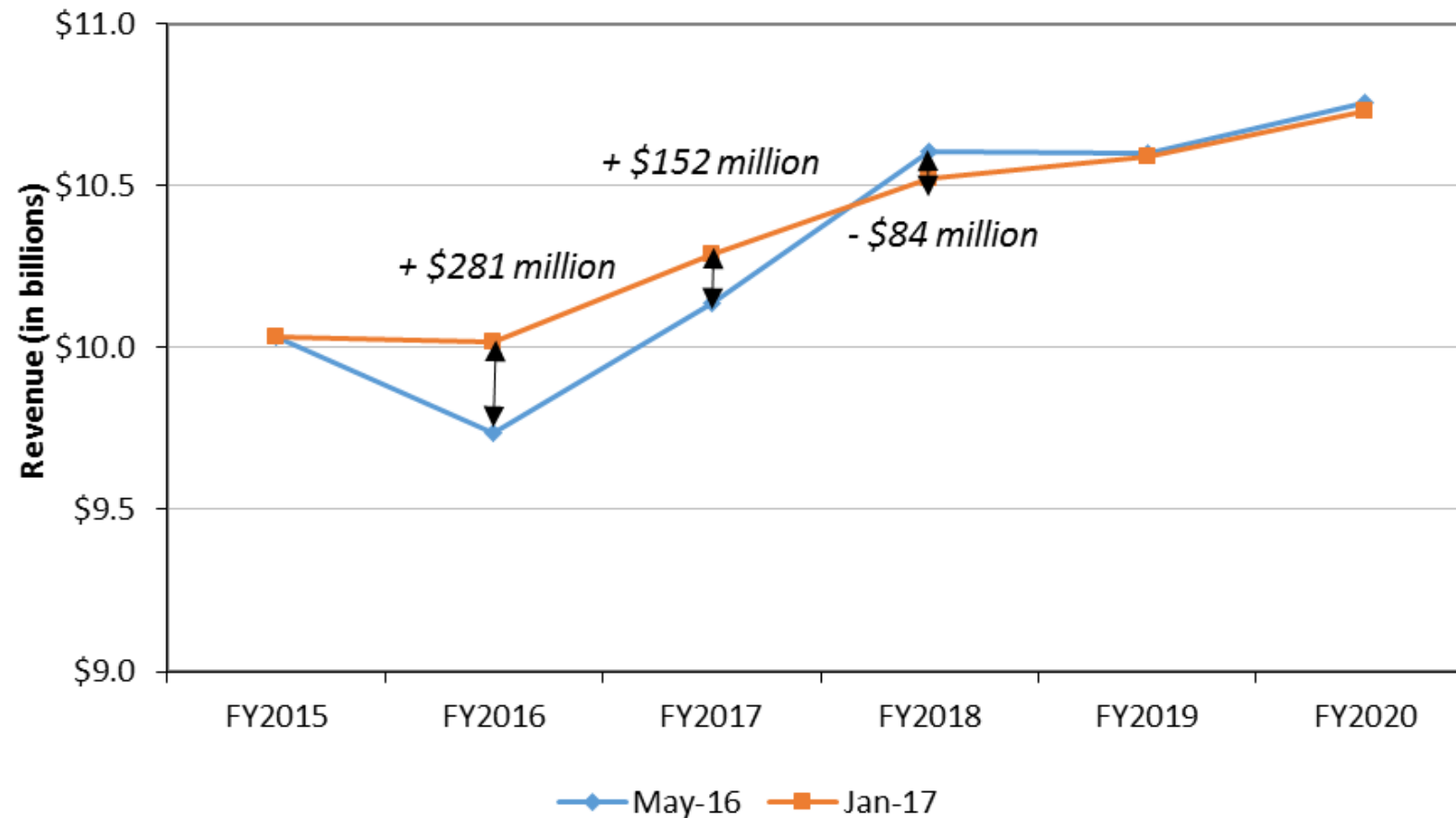
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State Revenue Update

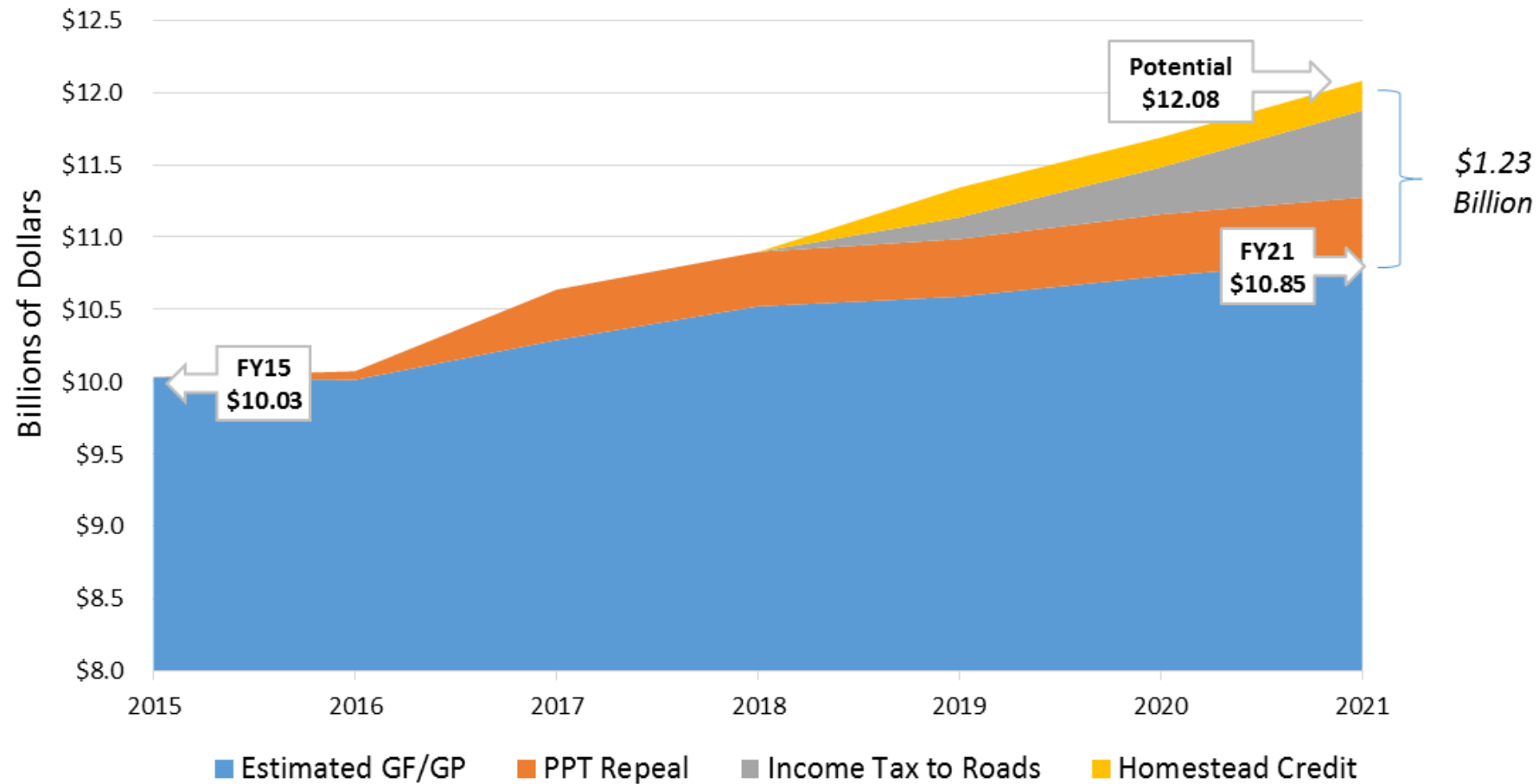
GF/GP Revenue Forecasts

January Revisions Provide One-Time “Surplus”



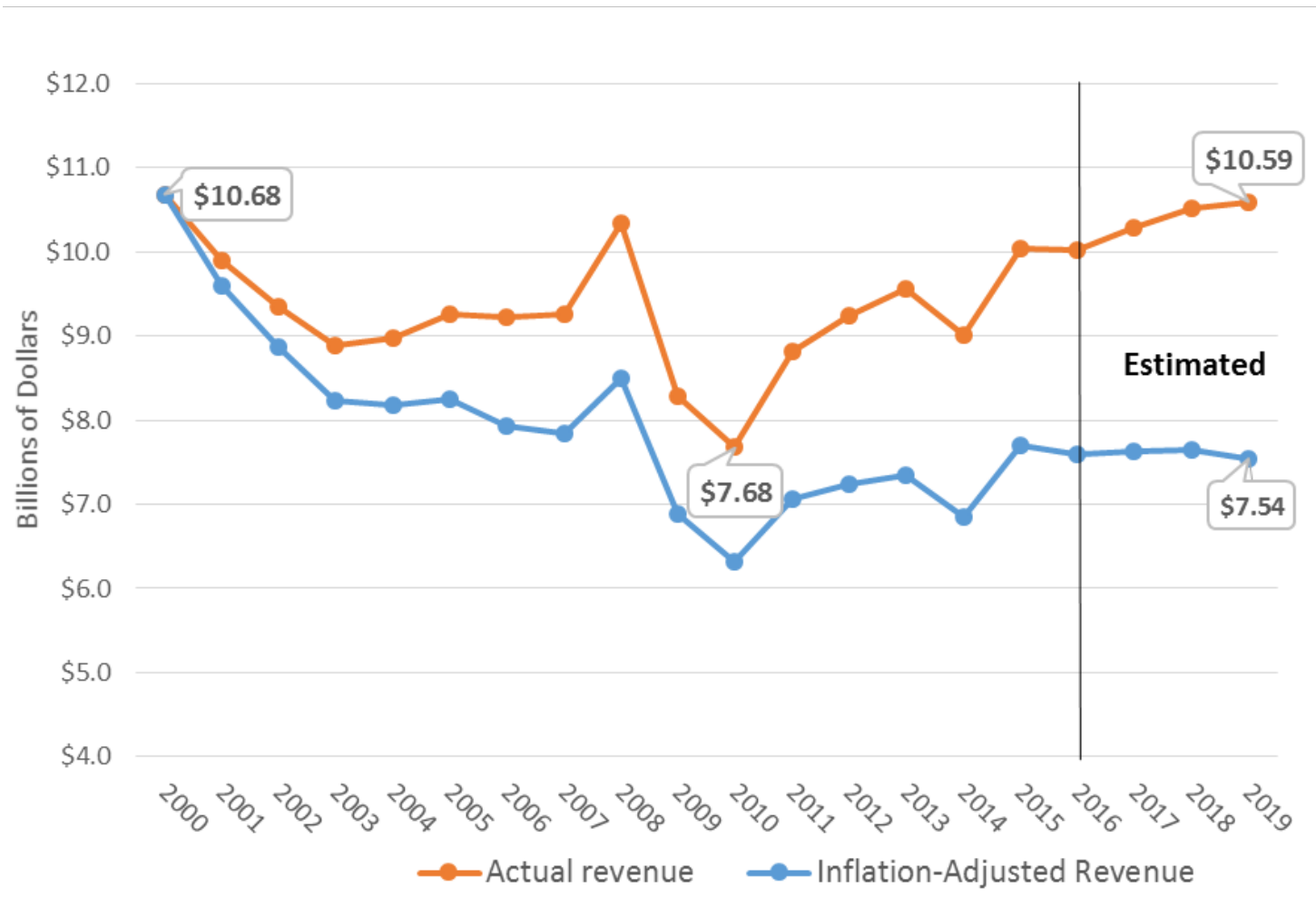
Recent Major Tax Changes Constrain Growth

Foregone GF/GP Revenue Exceeds \$1.2B



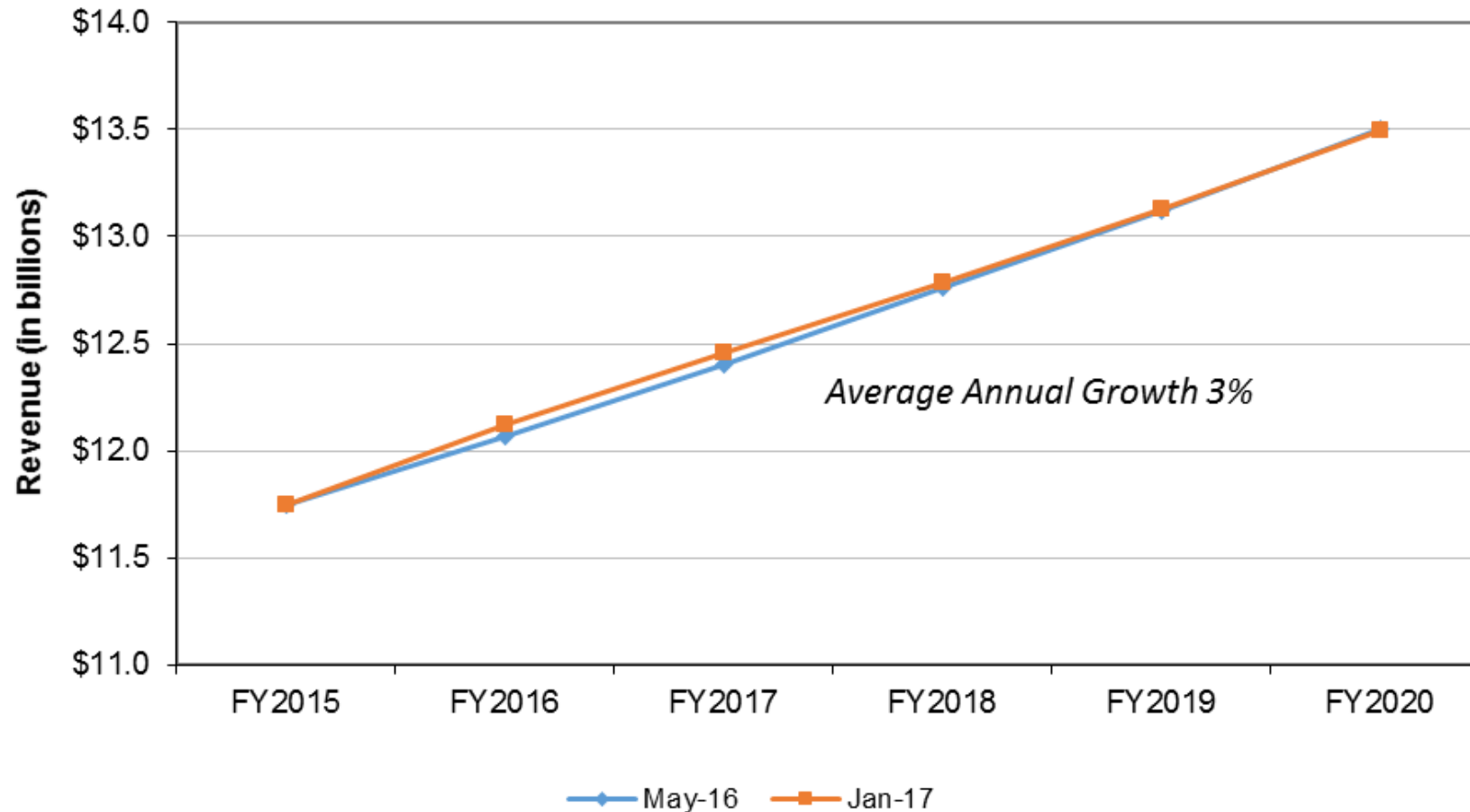
GF/GP Revenue Growth Since 2000

Improving, But Still Below 2000 Levels



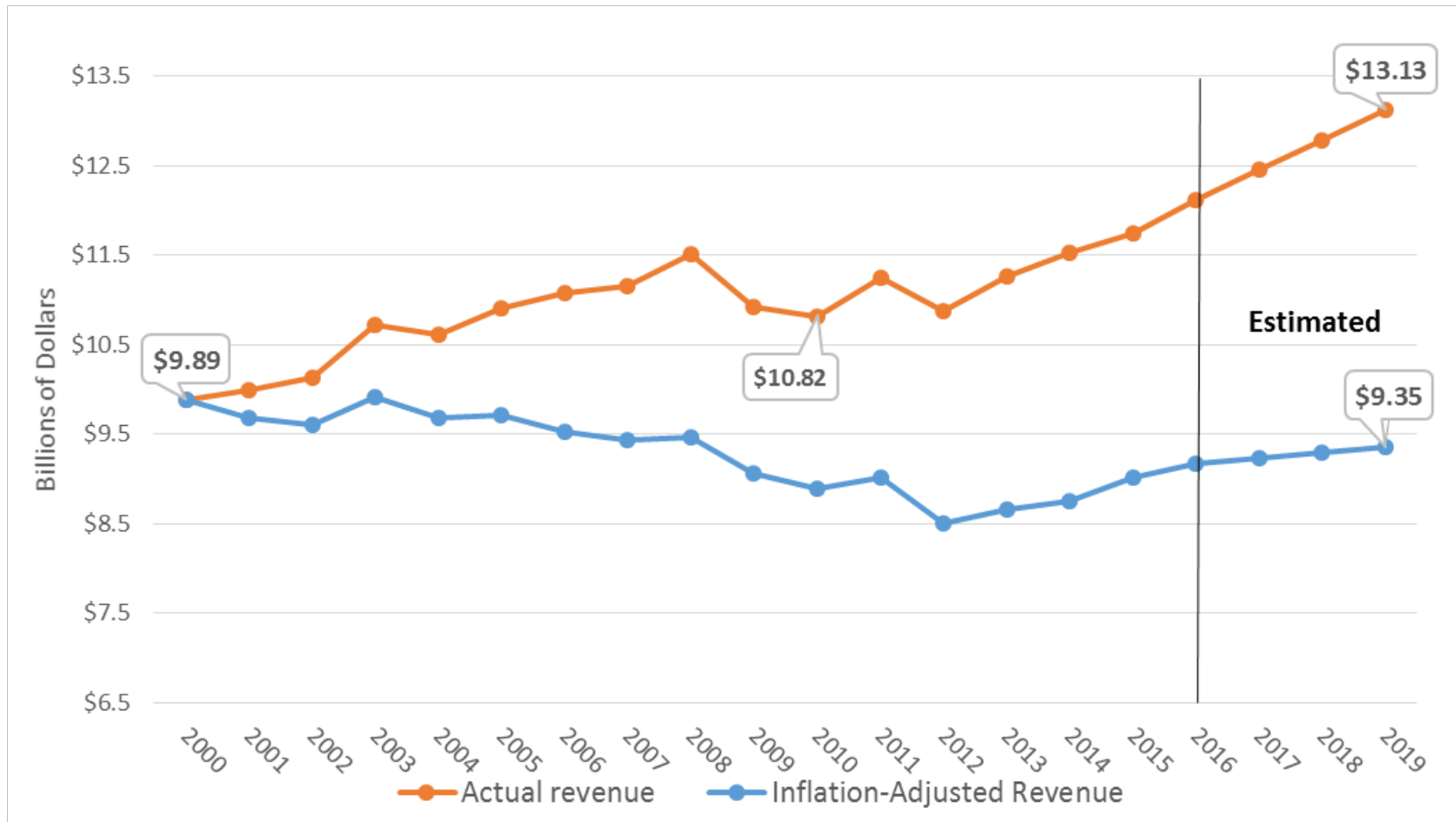
School Aid Fund Revenue Forecasts

January Estimates Tracking May Estimates



School Aid Fund Revenue Growth Since 2000

Steady Growth Since 2009



State Budget Update

Revenue Revisions Improve Bottom Line

In Addition, Lower-Than-Expected Spending

General Fund Balance Sheet (millions)

	FY2016			FY2017		
	<u>May-16</u>	<u>Jan-17</u>	<u>Change</u>	<u>May-16</u>	<u>Jan-17</u>	<u>Change</u>
Beginning Balance	\$694.7	\$694.7		\$135.3	\$604.4	
<u>Revenues</u>						
<i>Estimated Revenues</i>	\$9,686.3	\$9,975.6	\$289.3	\$9,841.1	\$9,946.6	\$105.5
<u>Expenditures</u>						
<i>Estimated Expenditures</i>	\$10,245.7	\$10,065.9	(\$179.8)	\$9,975.3	\$10,185.0	\$209.7
Ending Balance	\$135.3	\$604.4		\$1.1	\$366.0	

Source: Senate Fiscal Agency

Situation Facing Governor

GF/GP Balance Improved

- FY2016 year-end GF/GP balance raised to \$604M
 - \$289M from revenue adjustment (\$152M relates Michigan Business Tax credits)
 - \$180M due to lower-than-expected spending
 - Additional resources largely “one-time” in nature
- This improves bottom line for FY2017 as Governor presents spending plan for FY2018
 - Instead of \$0 balance, GF/GP “surplus” of \$366M

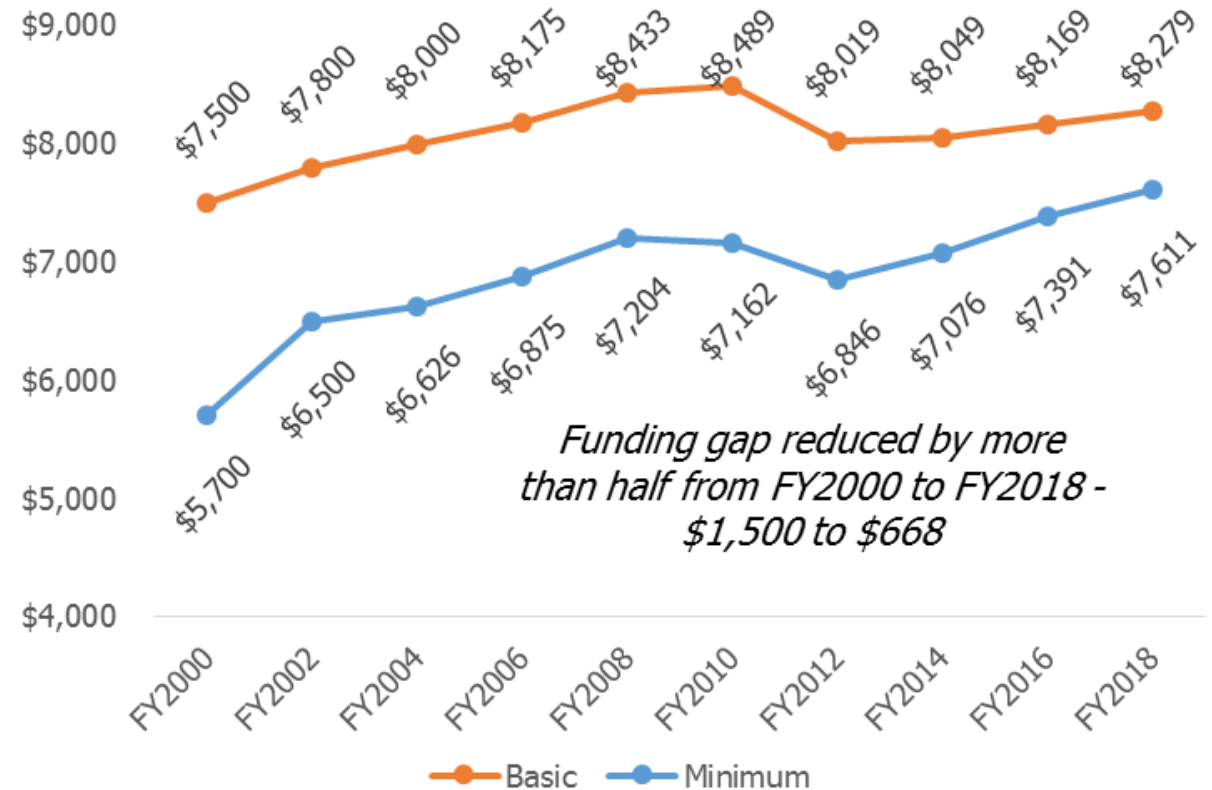
School Aid Highlights

Overview

- Total state funding \$12.6B, up 2.0% from FY2017 (\$231.9M)
 - Continued, but smaller, decline in student enrollment (-0.3%)
 - Expanded use of SAF to support community college appropriations
- Highlight Areas
 - Foundation Allowance
 - Differentiated Funding
 - At-Risk Students
 - Support for Nonpublic School Students (“Shared-Time” Instruction)
 - School Employee Retirement System
 - Detroit Public Schools

Foundation Allowance

- Per-pupil funding increase
 - Uses "2X" formula
 - Increases: \$50 to \$100
- Narrows gap to \$668 from \$1,500 in FY2000
- 85% of districts receive minimum grant, up from 46% in FY2000



Differentiated Funding

Governor's budget recognizes cost differentials:

1. For **cyber charters**, foundation allowance reduced by 20%
 - Assumption that it costs less to operate these schools
 - Start-up cybers would receive full foundation allowance for first year
2. New categorical grant (\$22M) for **high school students**
 - Assumption that it costs more to provide instruction in grades 9-12
 - Districts with high school students receive additional \$50 per pupil
3. Additional funding to support **at-risk students**

At-Risk Students

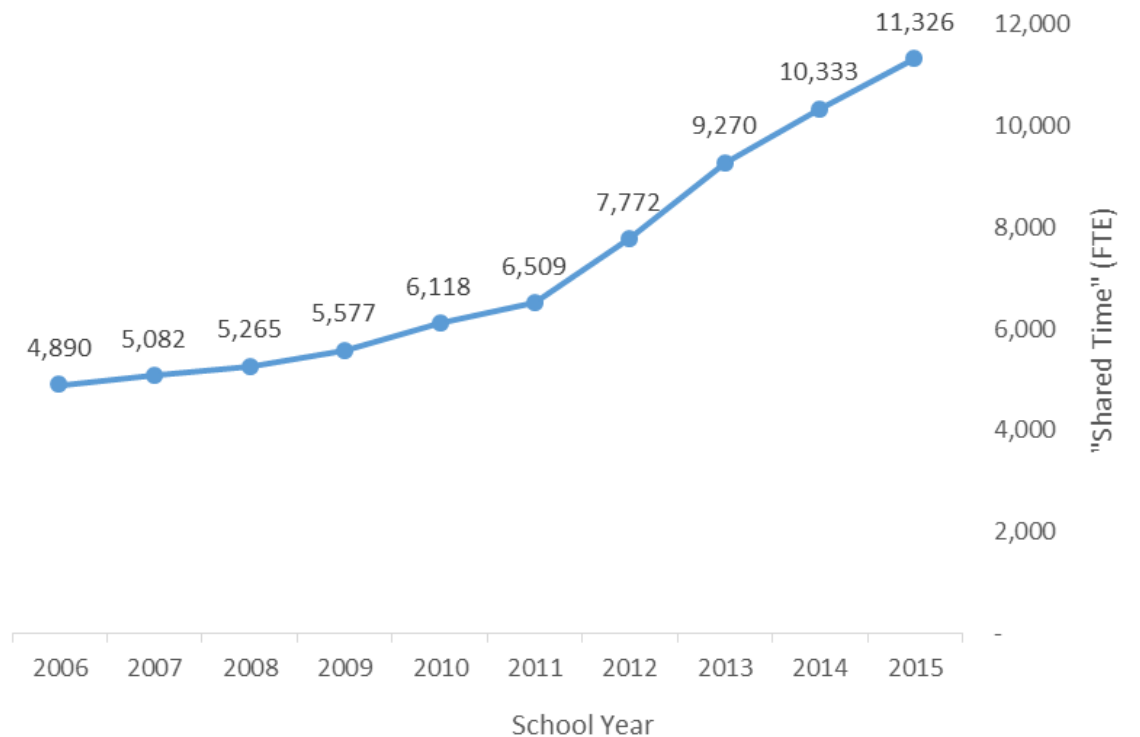
- Governor recommends additional \$150M, total \$529M
- Eligibility expanded based on district and student criteria
 - **ALL** districts would be eligible
 - **ALL** economically disadvantaged students would be eligible
 - Additional 130,000 students eligible for services
- Continue to require Multi Tier System of Support (MTSS) with expanded metrics for success
- Ave. foundation amount used in calculation (est. \$778 per pupil)
- Second significant increase in three years (\$70M in FY2016)

“Shared-Time” Instruction

- Program allows nonpublic school students to enroll in public schools to receive instruction in “nonessential” elective courses
 - Public schools (traditional and charter) receive a portion of the per-pupil foundation grant based on nonpublic student FTE enrolled
- Growth in program substantial (FTE and funding)
- FY2018 estimated spending of \$115M (\$80 per pupil from SAF)
- Governor recommends creating a new categorical grant and capping total state outlay at \$60M
 - Does NOT address definition of “nonessential” course

Growth in “Shared-Time” Impressive

- Since '06 enrollment up 280%
- Represents less than 1% of total enrollment statewide
 - In 8 districts, accounts for 10% or more of total enrollment
 - 10 districts account for over 50% of total “shared-time”
- Total 15,500 FTE in 2017



Retirement System

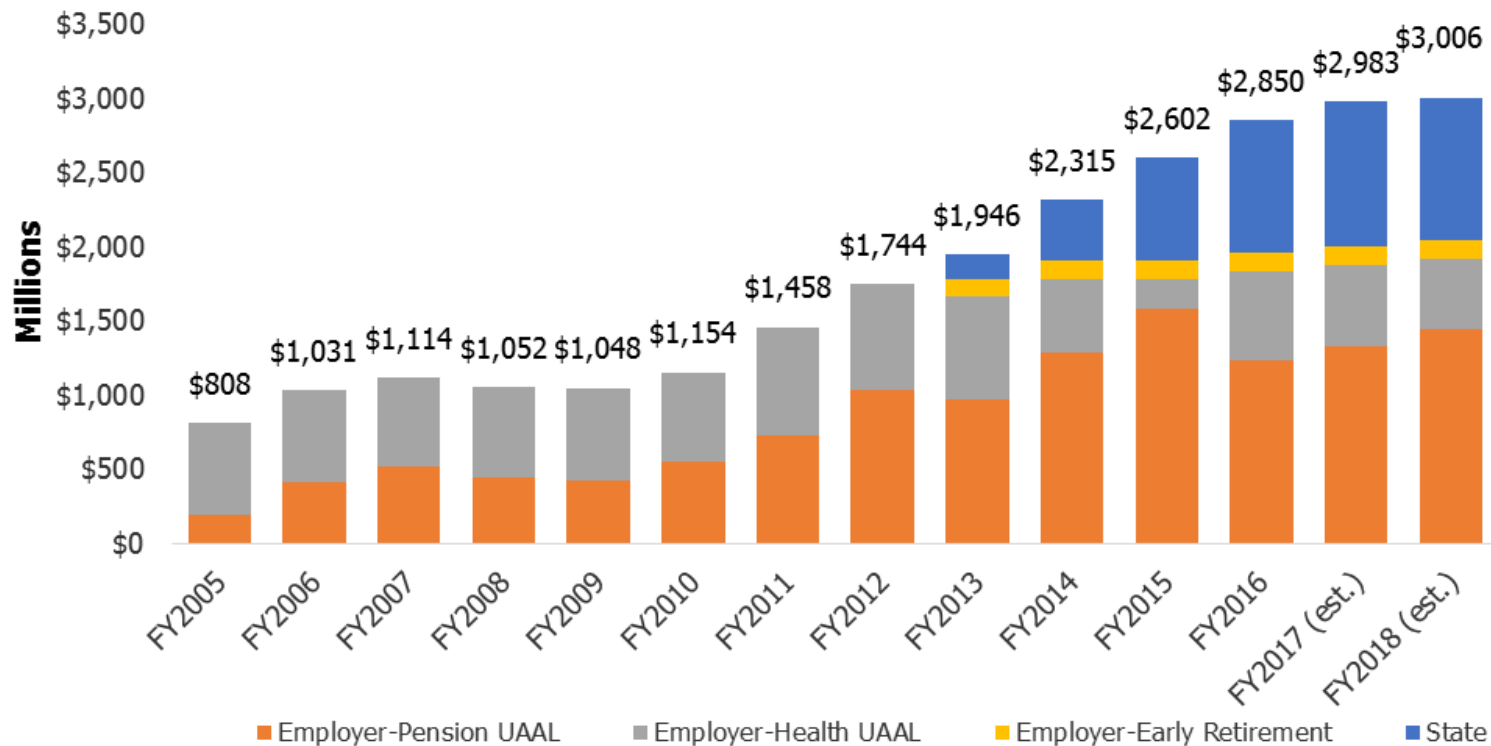
- Considerable investment in school retirement system
- Employer rate cap for unfunded liabilities maintained
 - Positive investment returns and health experience reduce baseline costs
 - Governor recommends \$869.3M to cover costs above cap, reduction of \$112.9M compared to FY2017
- Reduce assumed rate of return for defined benefit investments
 - Two-year phase-in of 0.5% reduction (8.0% to 7.5%)
 - Short-term effects:
 - 1) increases unfunded liabilities (state cost), and
 - 2) increases normal costs (employer cost)
- Long term, reduces exposure to additional unfunded liabilities

Retirement System

- Governor's proposal holds districts harmless
 - Additional \$90.8M for unfunded liabilities (above employer cap)
 - Additional \$48.9M for normal costs (\$33 per pupil)
- Retirement cost offset payment maintained
 - Governor recommends \$100M (\$67 per pupil)
- Total state contribution to MPERS on behalf of school districts is \$1.1B (up from \$160.5M in FY2013)
 - Total state and local contributions for legacy costs exceed \$3.0B

Legacy Costs Top \$3.0B

MPSERS Unfunded Liability Contributions (millions)



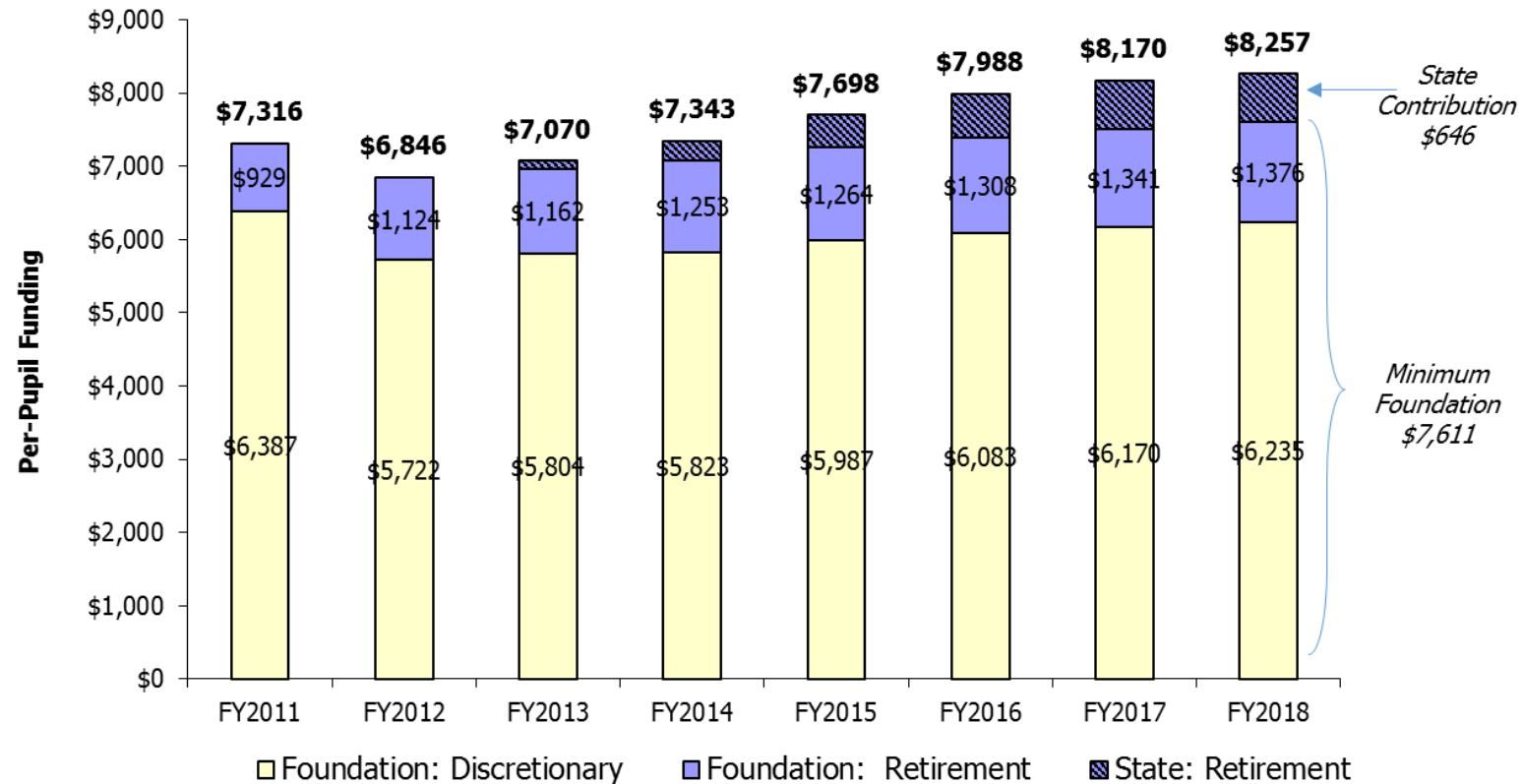
Note: 1) Prior to FY2013, retire health benefits were funded on a cash basis.

2) Employer share capped at 20.96% of payroll beginning FY2013.

Source: Office of Retirement Services

Effects on Per-Pupil Funding

Legacy Costs Crowd Out Discretionary Funding



Notes: Includes retiree health payments funded on a cash basis in FY2011 and FY2012.

Source: Senate Fiscal Agency and House Fiscal Agency Reports; Office of Retirement Services

Detroit Public Schools

- 2016 law split DPS into “old” and “new” districts in July 2016
- Total \$617M to meet legacy debts of “old” district and start-up costs of the “new” district
 - Repaid via repurposing revenue from 18-mill local tax
 - To finance “new” district’s foundation, \$72M/year from Tobacco Settlement
- “New” district began operations in July with clean balance sheet
- Education Achievement Authority will terminate June 2017
 - EAA schools will be folded into “new” district

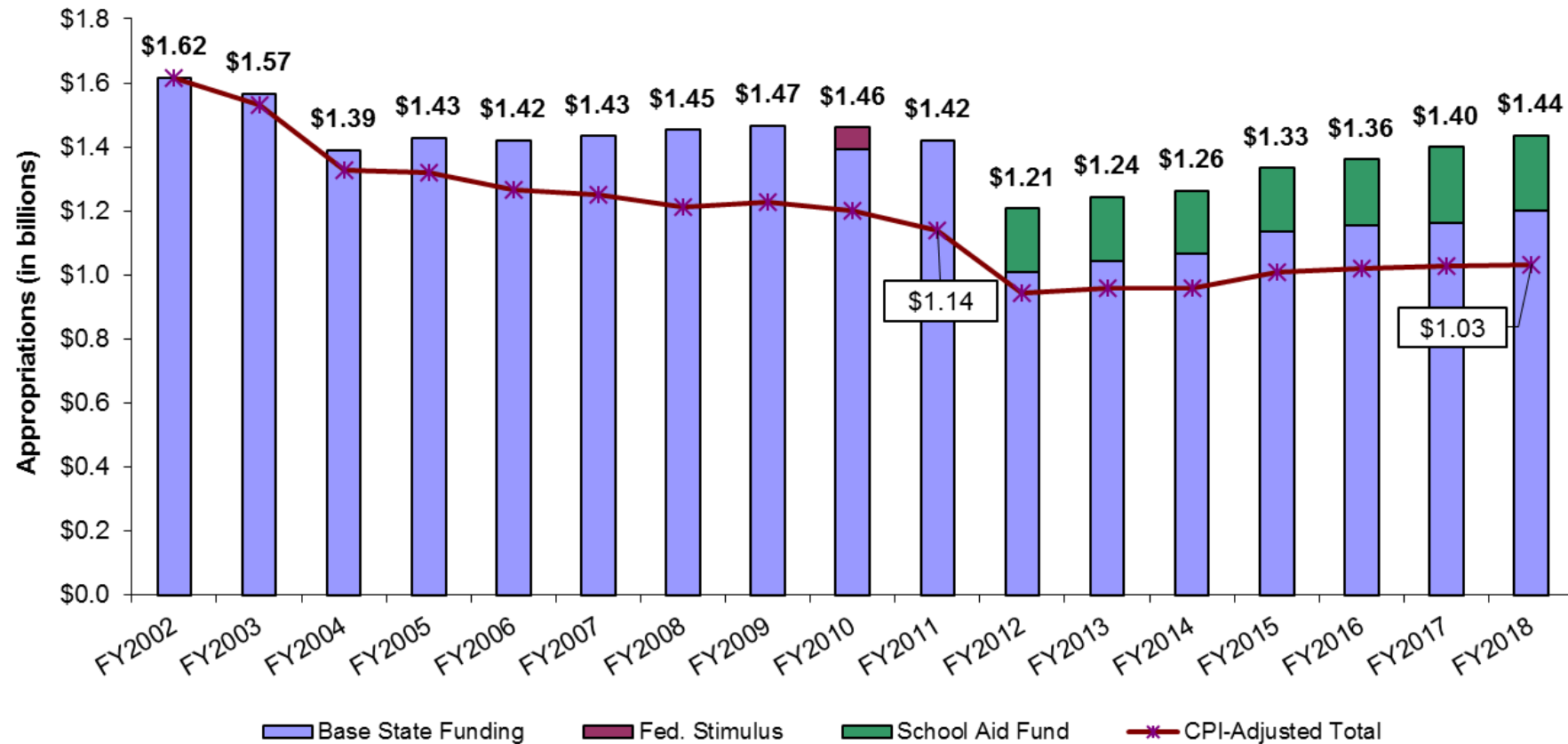
Higher Education Highlights

Higher Education

- Increase provided for basic operations as well as state financial aid/scholarships
- \$35M increase to basic operations, half allocated via performance funding formula and half proportional
 - Individual school funding increases range from 1.9% to 3.4%
- \$16M increase for three financial aid programs
- Tuition restraint language (lesser of 4.2% or \$475 per student)
- Continued use of School Aid Fund (\$236M total)

University Operations Funding

With Increase, Back to FY2011 Amount



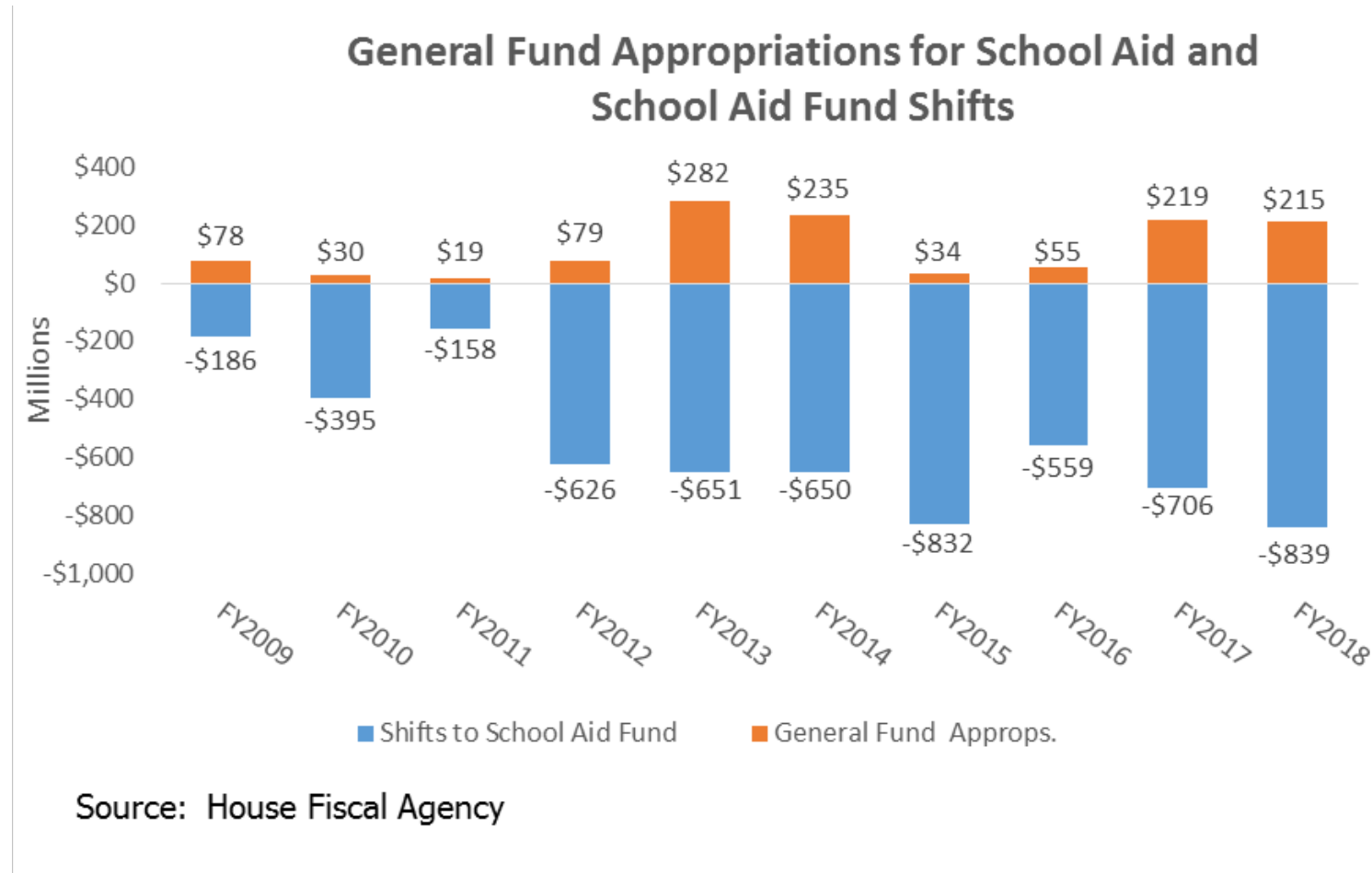
Personal Property Tax Reimbursement

In Lieu of State Appropriation Increase

- Certain discretionary appropriations held at FY2017 levels
- PPT reforms enacted in 2014
 - Portion of state Use Tax allocated to reimburse local governments for exempted property
 - In total, certain local governments “over” reimbursed by \$135M in FY2017
 - Shares – cities (\$64M), counties (\$37M), community colleges (\$15.7M)
- State law requires “excess” funds to be proportionally distributed
- Ignores consideration of needs among local governments

GF/SAF Appropriation Interplay

Majority is Related to Higher Education



Closing Thoughts

Education Budget from 50K Feet

- Emphasis on differentiated funding (horizontal vs. vertical equity)
 - Foundation grant (horizontal)
 - At-risk, high school students, and cyber charters (vertical)
- Additional retirement system reforms to match experience
 - School districts held harmless
- Expanded use of SAF to finance higher education appropriations
 - SAF used to ease some of General Fund budget pressures
- Effects of Income Tax relief on school funding unknown

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