Presentation Overview

- School Aid Budget
- Road Funding Solutions
- Republican Options for Roads
- Recent Polling on Road Proposals
- Tax Legislation
- Policy Legislation
- Questions and Answers
School Aid Budget

- Government Shutdown – *NO!*
- Continuation Budget – *NO!*
- Budget & Road Funding Solution – *NO!*
- Basic Budget – *YES!*
  - Anticipate a budget similar to House version *(HB4242)*
  - Conference Committee – September 12
  - House and Senate Vote *(simple yes or no)*
  - Line Item Veto?
  - Signature Into Law
School Aid Budget

■ Is this acceptable?

■ Must pursue long-term objectives of SFRC:
   New revenue for schools,
    ➢ Being held-harmless is FLAT – Money Shifts
   Structural change that includes weighted foundation, and
   Stop the School Aid Fund shell game
    ➢ university and community colleges
Road Funding Solutions

- Eliminate Sales Tax for gas; Replace with a 15-cent Fuel Tax dedicated for roads.
- Extend MPSERS Payment Timeline by 5 or 10 years.
- $10 Billion MPSERS Pension Obligation Bond
Road Funding Solutions

- Eliminate Sales Tax for gas; Replace with a 15-cent Fuel Tax dedicated for roads.
  - The impact is a cut to School Aid Fund revenues of nearly $600 million.
  - Proponents of this plan suggest that the reduction in sales tax is offset by not shifting School Aid money to universities, and instead funding them with the General Fund. (Held Harmless?)
  - This weakens dedicated funding for schools and increases the risk of funding shifts from School Aid in the future.
Current Status of MPSERS

- As of 2018, the MPSERS system held only 61% of the assets needed to pay for current and future pension benefits, with a total unfunded liability of 39.8 billion.
- The state plans to pay off the MPSERS unfunded liability debt by 2038.
- Currently, school districts contribute a maximum of 20.96% of their current active payroll toward the unfunded liability each year.
- The state contributes any difference between the school district contribution and the required total payment through the school aid fund.
Road Funding Solutions

Extend MPSERS Payment Timeline

- The impact of extending MPSERS debt payments by 5 years will reduce short-term annual payments by $360 million, but long-term costs would increase $9.9 billion.

- The cost to taxpayers of extending the MPSERS debt payment schedule by 10 years would be $20.4 billion.

- Extending MPSERS debt payment results in reduced short-term annual payments for the state. School districts would realize no reduction in short-term annual payments, and would see much higher long-term costs.

- Postponing debt payments, while explicitly using the savings for other purposes, may violate the Michigan Constitution's balanced budget approval of debt funding provisions.
Road Funding Solutions

Figure 1. Principal and Interest Costs to Pay off Current Total MPSERS Unfunded Liability (billions)
Current Schedule and Debt Postponement Scenarios

![Graph showing payment under current schedule, 20-year amortization scenario.]

- **Current Value of Status Quo Payment**: $39.8
- **25-Year Payment**: $73.9
- **30-Year Payment**: $83.8
- **30-Year Payment**: $84.3


Figure 3. State and School District Payments to MPSERS, 2019-2050
Current Schedule and Debt Postponement Scenarios

- **Payment under Current Schedule, 20-Year Amortization Scenario**
  - State
  - Local School Districts

- **Payment under 25-Year Amortization Scenario**
  - State
  - Local School Districts

- **Payment under 30-Year Amortization Scenario**
  - State
  - Local School Districts

$10 Billion MPSERS Pension Obligation Bond

- Proponents claim the plan would reduce annual MPSERS cost by $980 million.
- Their numbers show that when accounting for the bond payment of $581 million, $987 million in savings doesn’t happen until FY2026.

- Proponents claim the plan will free up $440 million for operational investments in the classroom.
  - The $440 million would not be available until FY2026.
  - When accounting for removing the sales tax on gas – the resources available for operational investment is negative for two years before it slowly builds to $437 million.
Road Funding Solutions

$10 Billion MPSERS Pension Obligation Bond

- Total projected cost of the system under the current structure until 2049 is estimated at $83.4 billion.
- The WMPF proposal projects the cost over the same period to be $95.06 billion.
- The proposal does not consider the potential risk of projected rate of return on the bond proceeds (6%) not outpacing the projected borrowing cost (4%).
- Total revenue lost in sales tax on gas over that same period is $15.9 billion.
Road Funding Solutions

$10 Billion MPSERS Pension Obligation Bond

- Pension obligation bonds are a financial instrument that often leaves governments worse off financially than they were before issuing the bonds.

- Issuing state pension obligation bonds really affects the cost of borrowing for local governments, universities, and hospitals.

- The actual asset returns over the 30-year debt payment may fall short of the costs of borrowing through pension obligation bonds.
Republican Options for Roads

Option 1 - $1.25 Billion
- Gas Tax Replacement on Fuel ($850 Million)
- Budget Reprioritization ($400 Million)
- MPSERs Refinance
- Local Options
- Reforms

Option 2 - $1.45 Billion
- All of Option 1
- New Revenue ($200 Million)
Republican Options for Roads

Option 3 - $1.55 Billion now / $2.25 Billion later

- All of Option 1
- New Revenue ($300 Million)
- 1% Sales Tax Increase (1.7 Billion / Ballot Proposal)
- Registration Fee Reduction (-$1 Billion / Ballot Proposal)
- Prohibit SAF for Higher Education (Ballot Proposal)
Recent Polling on Proposals

- The poll found 76% oppose proposals to eliminate the 6-cent sales tax on fuel and replace it with a 15-cent per gallon gas tax increase with all funding going to roads instead of schools and local governments.

- The poll found 65% oppose the idea of extending debt payments, with 44% strongly opposing it. Only 19% favored the idea, with 4% strongly favored it. Undecideds were 16%.

- Opposition was strongest among GOP respondents, at 67%.

- The $10 Billion pension obligation bond idea fared no better. 63% were opposed with 45% strongly opposing. Only 24% favored it, with 6% strongly favoring it. Undecideds were 13%.
Tax Legislation

- Online Sports Betting / Internet Gaming
  - HB4916 – Creates Sports Betting Act (Tie Bar: HB4308 & HB4311)
  - HB4917 – Eliminates the Prohibition on Sports Betting
  - HB4918 – Sentencing Guidelines for Gambling

- Online Sales Tax Collection
  - Marketplace Facilitators – HB4540 & HB4541
  - Out of State Retailers – HB4542 & HB4543

- Income Tax
  - HB4125 – Reverses PA588 of 2018 to amend the Income Tax Act and adjust SAF earmark from .954% to 1.012%.
    - Shifts $172 million back to the School Aid Fund

- School Supply Tax Holiday – HB4824 & HB4825
Tax Legislation

- Local Millages
  - Enhancement Millage Ballot Language – HB4823
  - Special Education Reimbursement – HB4887 & HB4888

- Local Stabilization Authority Act
  - HB4926 – Allow county and township assessors to make a series of new calculations for the enhancement millage on intermediate school districts, starting in 2020.
  - HB4927 – Eliminates the basic school operating mills from the calculation of a municipality's school operating loss that had not been reimbursed by the SAF when determining the local community stabilization shared revenue for given municipality.
Tax Legislation

Local Stabilization Authority Act

- HB4928 – Creates an operating fund for the share of the local community stabilization shared revenue used to operate the Local community Stabilization Authority.

- HB4929 - Adjusts the calculation made for the act's millage on industrial and commercial property, starting in 2020.

- HB4930 - Amend the circumstances under which municipalities may report an error made by the Department of Treasury when calculating the act's millage on industrial and commercial personal property, beginning in 2020.
Policy Legislation

- MMC – Bumstead Bill (In Draft Form)
- Truancy / Chronic Absence (In Draft Form)
- Mental Health / Counselor Information (In Draft Form)
- MMC Flexibility – HB4269, HB4271, HB4282
- Public Innovative Districts – HB4626 & HB4627
- School Safety / Door Barricades – HB4689
- Public School Retirement – HB4694
Policy Legislation

- Performance Evaluation – HB4904 &4905
- Collective Bargaining – HB4906
  - Allows length of service to be included as a factor in personnel decisions.
- Prohibited Bargaining Subjects – HB4907
  - Removes third party contracting and compensation structures from the list of prohibited subjects.
- A-F Implementation
  - Delay for Grades from MDE
  - Ongoing Challenge with 2 Accountability Systems
Policy Legislation

Third Grade Reading

- Grade Retention is the most immediate concern in the field.
- Next school year is the first time that third graders, who aren't reading at grade level, could be held back.
- One estimate suggests that 5% of third graders who take the state's reading assessment could be facing retention.
- The law provides exceptions to certain students who don't read on grade level by the end of third grade.
- There are also ways to support students, such as having individualized plans for every student who falls behind.
- There are requirements for administrators to provide teachers with professional development programs to assist them in improving reading proficiency.
Questions / Answers

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