

State Budget Shortfall Puts School Funding at Risk

The pandemic has had a significant impact on many aspects of our day to day lives. As we look toward the 2020-21 school year, there are many questions. One of the most significant concerns that the education community is facing is a reduction in the funds provided to school districts.

First, here are a few school funding basics:

- In Michigan, school districts receive the bulk of their funding from a base amount called a Foundation Grant to each district. In 2019-20, the state allocated approximately \$8100.00 per full time student to the Gull Lake Community Schools. This amount is paid in monthly installments from October-August from the State School Aid Fund.
- The State School Aid Fund is the source for school funding in Michigan. It is comprised primarily of dedicated sales tax revenue. Other sources, such as the lottery, do not add to the school fund, but supplant sales tax dollars allocated to the fund. While the lottery dollars go to the fund, an equal amount is then redirected out of the fund.
- By law, the school fiscal year runs from July 1-June 30, but the state fiscal year runs October 1-September 30th. School districts are required by law to have local school boards approve a balanced budget before June 30th. This year the Gull Lake Board will act on this requirement on June 29th, after the required Budget Hearing on that same day (Check the GL website for details). By constitutional mandate, the state must adopt a balanced budget by October 1.
- The State of Michigan, unlike the Federal Government, cannot run a “deficit” budget.
- The other main state fund is the general fund, which provides dollars to most other state government activities. The state also has a significant amount of federal funds which it receives and passes through for use by state agencies. These funds are earmarked, by law, for use for specific purposes.

The State of Michigan budgeting process is complicated.

- Throughout the fiscal year, the state holds revenue estimating conferences to determine if the dollars are flowing into the treasury at a rate which meets estimates. If these projections do not meet estimates, the state can REDUCE the amount allocated to agencies, including school districts, and reduce the monthly allocations. If this occurs early in the School year, it allows for districts to make adjustments to expenditures, as districts get closer to June 30th, they have less and less ability to reduce spending to adjust for reductions in allocations.
- Funds collected via bonding which voters approve for specific purposes cannot be used for operational expenses. Therefore these funds cannot be redirected for the purpose of supporting day to day costs to districts.
- School districts hold some limited funds in a Fund Balance, which are unallocated funds built up over time to help offset unexpected expenses. These funds are used by lenders to determine the financial stability of districts; they impact bond ratings for borrowing as well as interest rates. These funds also impact the annual borrowing districts must do to cover operational costs for the month of September when the state does not allocate any funds to the districts, yet the costs continue. The Gull Lake Board has worked to maintain a 10% Fund Balance (as a % of expenses) for many years. The Balance has fluctuated over the years, from as high as 15% to as low as 8.1% during the great recession.

What is the challenge and impact on Gull Lake Community Schools?

We are facing unprecedented fiscal challenges. The State School Aid Fund is projected to have a \$1.2 billion deficit for the current year, and deficits for the 2020-21 and 2021-22 years as well. The state general fund is facing a \$2-3 billion deficit. Since the state cannot deficit spend, there are few if any options to make these funds whole.

Based on the best sources of information coming from the educational community and the Treasury Department, our current year state aid will be reduced by \$650.00 per student. With very little time left in the school fiscal year, there is no way to reduce expenditures to meet this reduction. The district will be forced to absorb this using the Fund Balance. This then reduces the Fund Balance to approximately 6.99%, and leaves little for use in the 20-21 fiscal year or beyond.

The Board Finance Committee has recommended to the full Board that the Fund Balance floor be set at 6% for next year (a reduction of 4% below Board Policy recommended amount). This allows some flexibility for unseen issues, but leaves very few funds to help offset the expected ADDITIONAL reduction of another \$650.00 per student for the 2020-21 school year. It's also important to note that the Michigan Treasury Department maintains a "watch list" of districts with fund balances at 5% or below. If a district ends up on this list, the state can mandate budget changes, and local districts lose some local control to the state.

The district will face a deficit of nearly \$2.6 million for the 2020-21 year. This will require significant reductions in operations. Since over 81% of the district's budget is salary and benefits, this will mean a reduction in staffing, a reduction and freeze in compensation or a combination of both. The district has been engaged in ongoing discussions with employee groups and all parties are working to find the best and fairest way to make these decisions and minimize the impact on the classroom and programs that make Gull Lake Community Schools special and unique.

While the state and the district hope that Federal funds will be allocated to states to help backfill the deficits for the next 2-3 years, there currently is NOT a Bill in congress to do this. There are bi-partisan discussions going on to offer such a bill, but it will not be approved (if it is offered) before the district is required to adopt a budget (June 30th). During these difficult times, the district continues to be committed to offer the very best public education to all members of our community and to support appropriate staffing to achieve this goal. As an employer, the district is committed to working with all employee groups to find the most compassionate and collaborative manner to achieve the reductions necessary to meet the expected challenges in the next few years, while remaining nimble enough to make programs and staff whole should federal funds arrive anytime in the next few months.

Please contact Superintendent Rittenhouse with any questions you may have.

Sincerely,

Jeff Brown
VP and Treasurer
Gull Lake Board of Education