



2018-19 Preliminary Budget Considerations

Presented to the Board of Education

April 25, 2018

Prepared by Amanda Matheson, CFO

Presented by Marios Demetriou, Assistant Superintendent-Finance

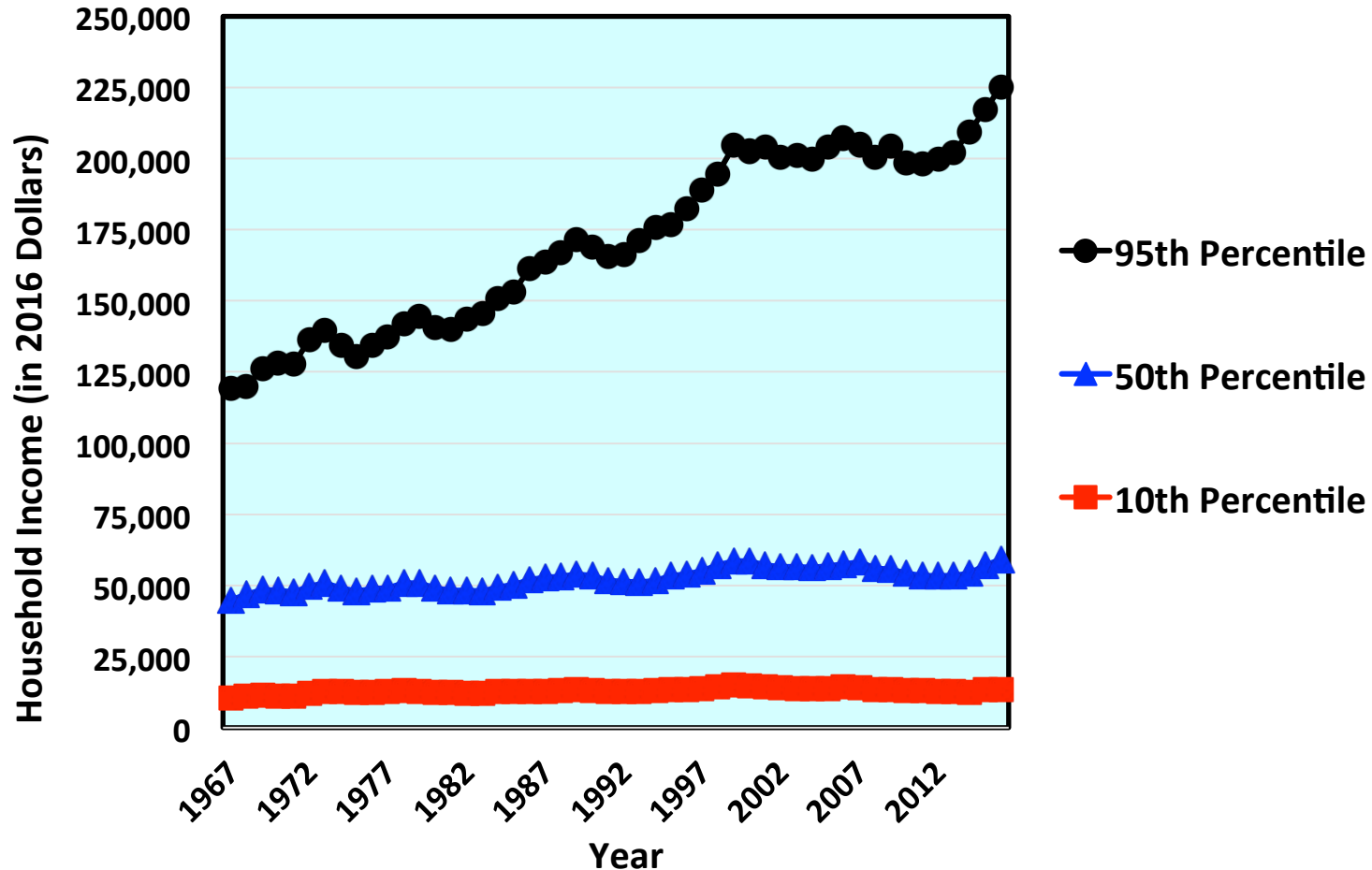
Federal Budget Considerations

Will U.S. companies decide to invest in the U.S., instead of overseas?

The tax rate on domestic-source corporate income drops from 35% to 21%, while the tax rate on foreign-source income drops from 35% to zero.

Content provided by: Charles L. Ballard, Department of Economics, Michigan State University

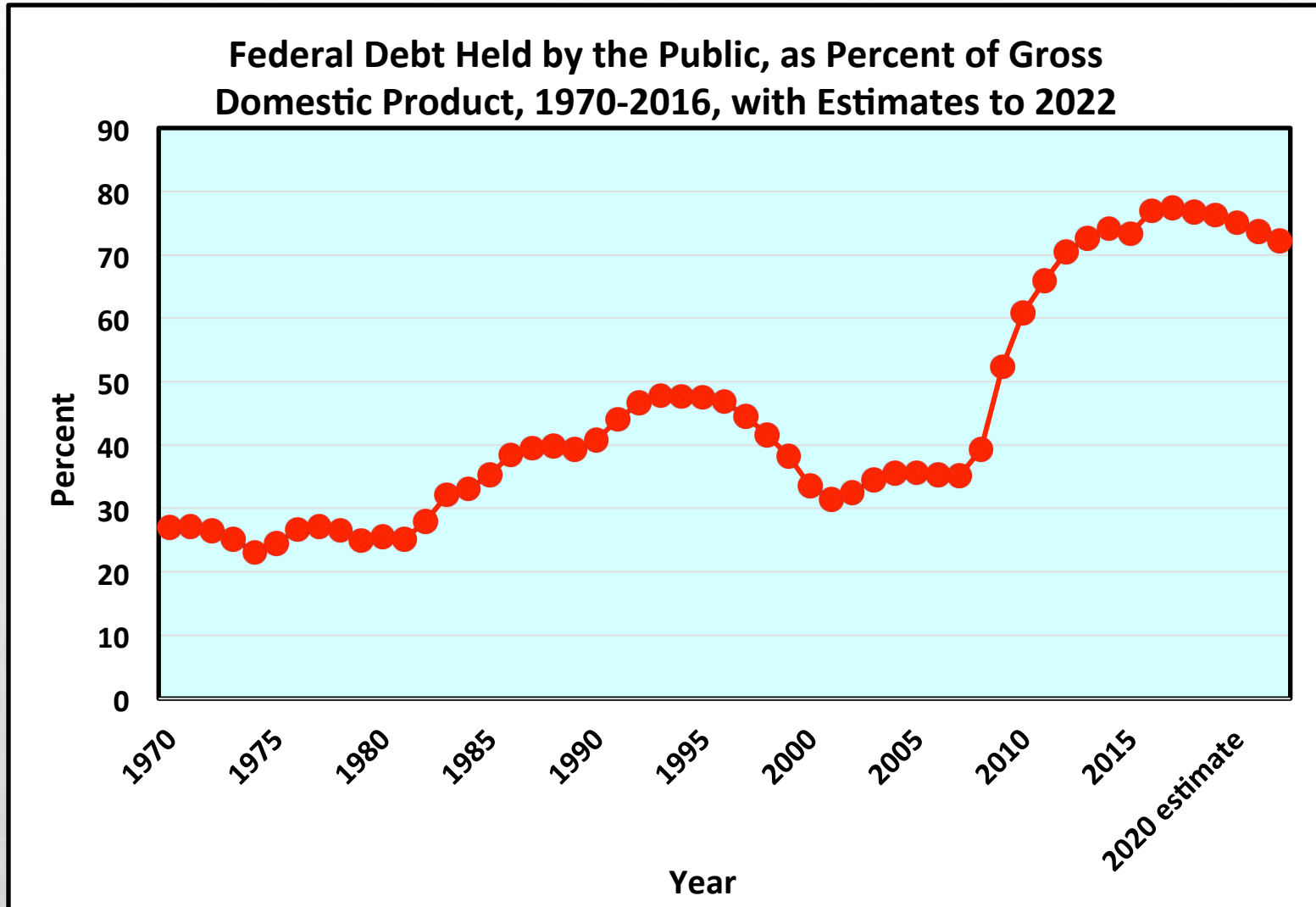
**Inflation-Adjusted Income at Selected Percentiles of the
U.S. Household Income Distribution, 1967-2016**



Content provided by: Charles L. Ballard, Department of Economics, Michigan State University

Nonpartisan calculations indicate that the proposed tax cuts will increase the national debt by between \$1 trillion and \$1.5 trillion, on top of all the debt we already have.

Content provided by: Charles L. Ballard, Department of Economics, Michigan State University



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Office of Management and Budget estimates of federal debt held by the public as percent of GDP:

	2008	
	<u>Estimate</u>	<u>Actual</u>
2008	36.8%	39.3%
2009	36.3	52.3
2010	35.2	60.9
2011	33.9	65.9
2012	32.1	70.4

Content provided by: Charles L. Ballard, Department of Economics, Michigan State University

In Fiscal Year 2016, net interest payments by the federal government were about \$430 billion.

The number is that low because we are borrowing at historically low interest rates.

If interest rates were to rise to rates that we all have seen in our lifetimes, debt service would soar.

Content provided by: Charles L. Ballard, Department of Economics, Michigan State University

State Budget Considerations

School Aid

The School Aid Budget pays for the operations of public schools to “maintain and support a system of free public elementary and secondary schools as defined by law” as required by the Michigan Constitution.

- The School Aid budget makes appropriations to 541 local school districts, 300 public school academies, and 56 intermediate school districts (ISDs) for operations and certain categorical programs.
- It also provides funds to the Center for Educational Performance and Information (CEPI), the Talent and Economic Development Department, and other entities to implement certain grants and other programs related to K-12 education.

- Provides School Aid Funding to 28 Community Colleges*
- Provides School Aid Funding to 15 Universities*



* Added by



Content provided by: Robert K Dwan, Associate Executive Director, Michigan School Business Officials

April 2018

Michigan's Financial Picture

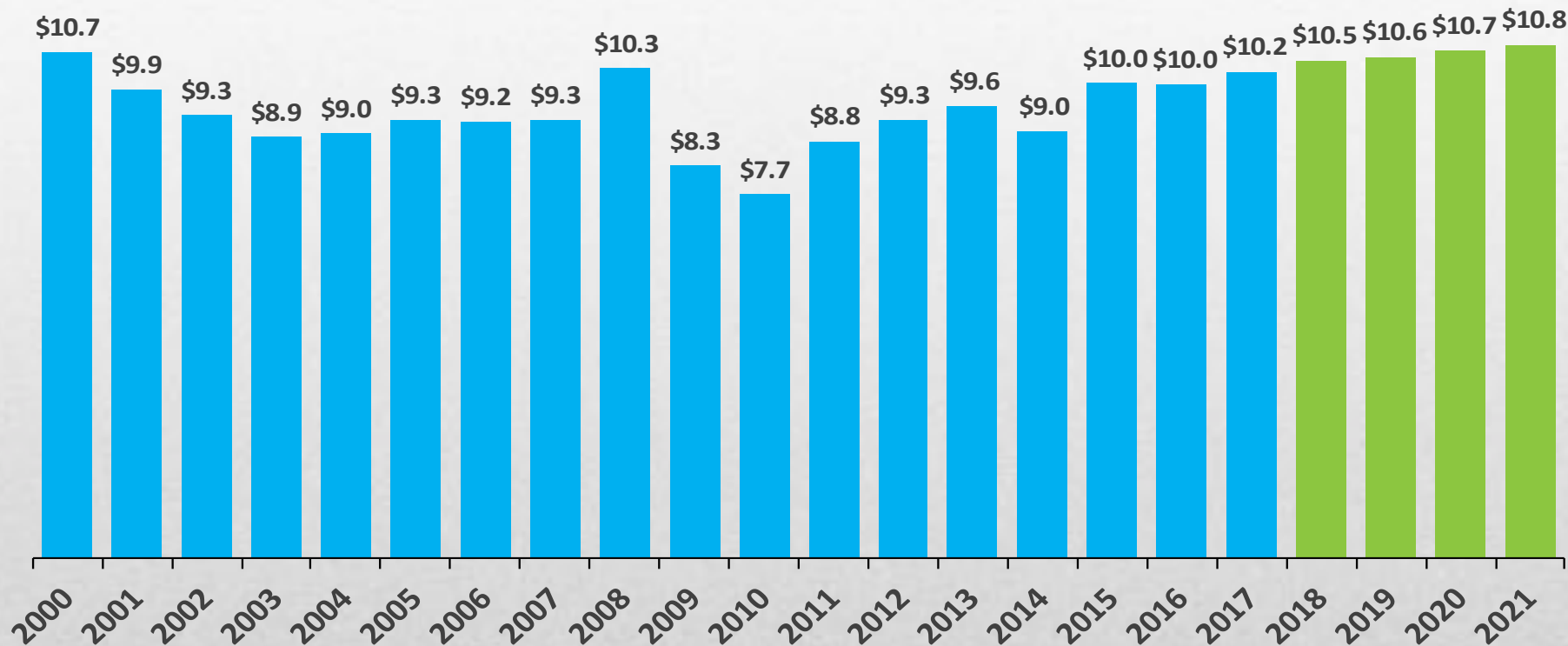
STATE TAX TRENDS OVER THE PAST DECADE (inflation adjusted in 2016\$)				
TYPES OF STATE TAXES	STATE TAXES COLLECTED			
	2008	2016	CHANGE	% CHANGE
Sales & Use Taxes	9,194,780,000	9,355,752,000	160,972,000	2%
Income Taxes	9,203,010,000	10,044,428,000	841,418,000	9%
Business Taxes	2,800,100,000	763,498,000	-2,036,602,000	-73%
Property (Education) Taxes	2,346,200,000	1,897,292,000	-448,908,000	-19%
Real Estate Transfer Taxes	191,600,000	289,314,000	97,714,000	51%
Tobacco Taxes	1,211,230,000	946,651,000	-264,579,000	-22%
Alcohol Taxes	182,880,000	208,689,000	25,809,000	14%
Casino Taxes	146,300,000	112,868,000	-33,432,000	-23%
Insurance Company Taxes	0	329,806,000	329,806,000	n/a
Health Insurance Claims Assessment	251,800,000	228,475,000	-23,325,000	-9%
Transportation (Vehicle & Fuel) Taxes	2,084,290,000	2,032,947,000	-51,343,000	-2%
Quality Assurance Assessment	1,154,960,000	1,138,810,000	-16,150,000	-1%
Penalties & Interest	181,560,000	124,391,000	-57,169,000	-31%
Other	461,790,000	325,461,000	-136,329,000	-30%
TOTAL TAXES COLLECTED	29,410,500,000	27,798,382,000	-1,612,118,000	-5%
SOURCES:				
State of Michigan 2016 Comprehensive Annual Financial Report, pages 306-307. (http://www.michigan.gov/documents/bv)				
All dollars inflation-adjusted and presented in 2015 dollars using Consumer Price Index calculators.				

Content provided by: Chris Glass – West Michigan Talent Triangle

General Fund Revenue – Growth?

General Fund - General Purpose Revenue Remains Under \$11 Billion

(Graph in billions of dollars)

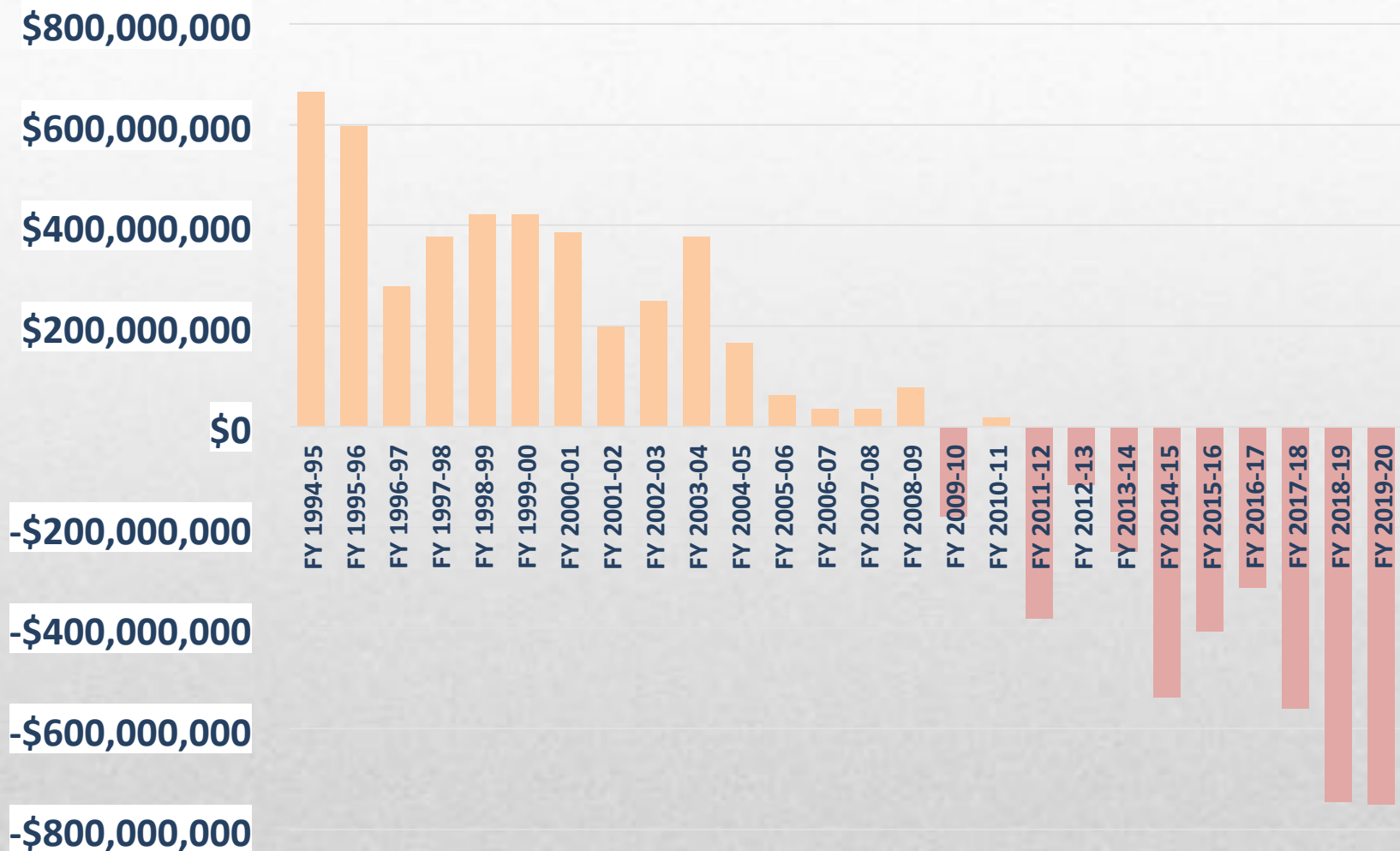


Source: FY 2000 – FY 2015, Treasury Department, final revenue from ongoing revenue on same basis used in consensus process. FY 2016, Preliminary final revenue. 2017-2019 estimates, 1/12/17 Consensus Estimates. 1/12/17.

Consensus
Estimates

Content provided by: Chris Glass – West Michigan Talent Triangle

School Aid Fund/GF Relationship



Content provided by: Chris Glass – West Michigan Talent Triangle

Per Pupil Foundation Allowances Increases/Decreases

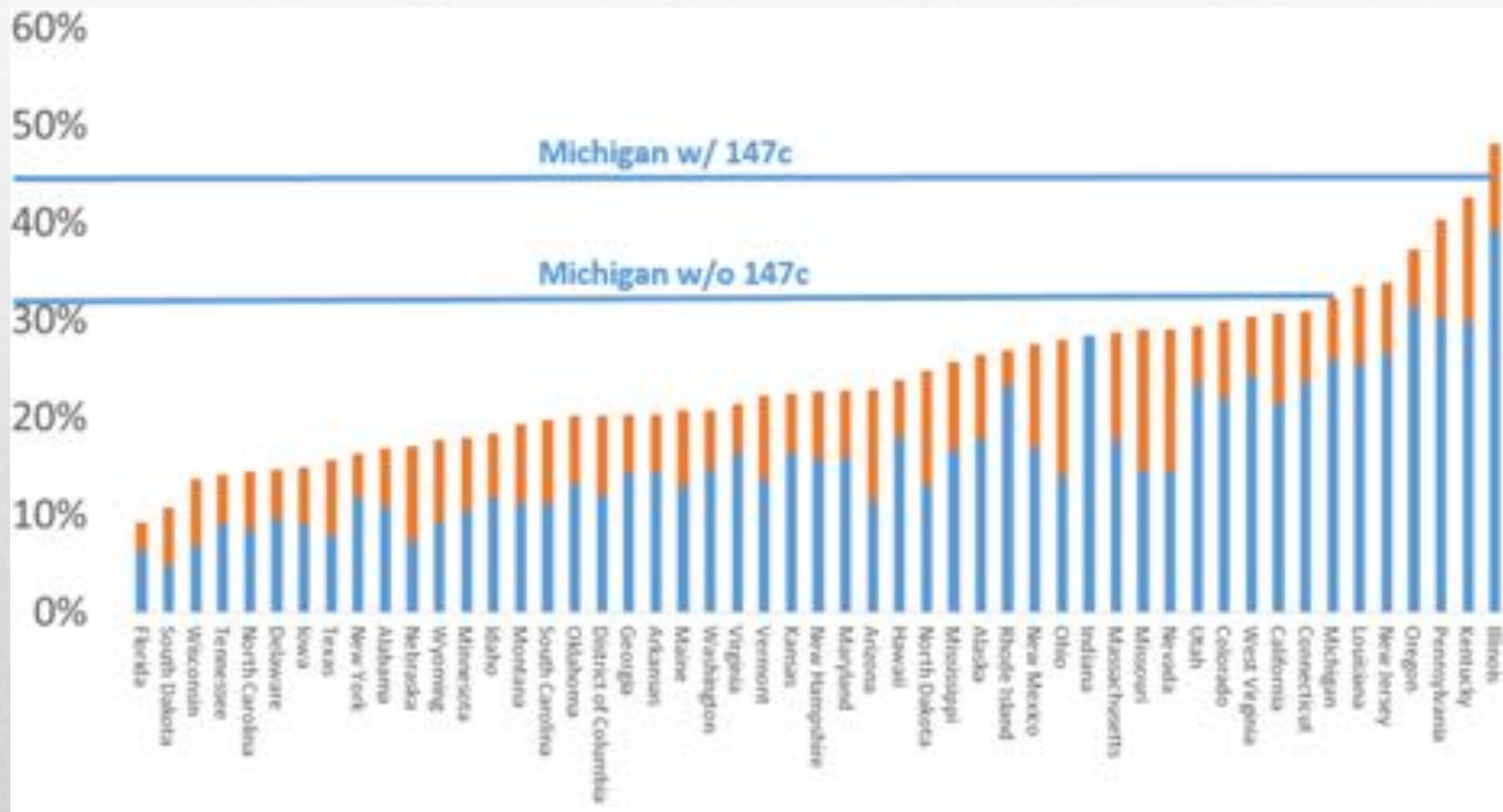
The 2x formula has been used in about one-third of the years since Proposal A. In other years, either all districts received the same increase (or decrease), or equity payments were used to bring the districts at the Minimum up even more quickly than the 2x formula would have.



Content provided by: Chris Glass – West Michigan Talent Triangle

Retirement Contribution Rates by State

- Employee Contribution
- Employer Contribution



Content provided by: Chris Glass – West Michigan Talent Triangle

Retirement Impact - Apples to Oranges

State Funding Comparison

State	Retirement Rate	Retirement Per Pupil Amount in Michigan Dollars
Michigan	36.88%	\$2,034
Florida	7.2%	\$397
Indiana	11.2%	\$618
Tennessee	15.02%	\$829

Content provided by: Chris Glass – West Michigan Talent Triangle

Local Budget Considerations

State Aid Proposals

	<u>Executive</u>	<u>Senate</u>	<u>House</u>
Foundation Increase per pupil	\$120	\$115	\$120
Computer Adaptive Tests (section 104d)	Eliminated (\$65K)	Eliminated (\$65K)	No Change
MPSERS One-Time (section 147c(2)) (Michigan Public School Employee Retirement System)	Eliminated (\$2.7M)	Eliminated (\$2.7M)	Eliminated (\$2.7M)

Revenue Budget Assumptions

Local

Revenues	Executive	Senate	House
Local			
One-time revenue in prior year for cell tower income, easements and rent settlement	\$ (3,790,000)	\$ (3,790,000)	\$ (3,790,000)
Operating millage restoration to 18 mills	\$ 1,426,724	\$ 1,426,724	\$ 1,426,724
Local Total	\$ (2,363,276)	\$ (2,363,276)	\$ (2,363,276)

Revenue Budget Assumptions Foundation Impact

	<u>Per Pupil</u>	<u># Pupils Fall 2017-18</u>	<u>Total</u>
Executive Foundation Increase	\$120	17,695.64	\$2,123,477
Senate Foundation Increase	\$115	17,695.64	\$2,034,999
House Foundation Increase	\$120	17,695.64	\$2,123,477

Revenue Budget Assumptions State

State	Executive	Senate	House
Foundation Increase	\$ 2,123,477	\$ 2,034,999	\$ 2,123,477
Increased enrollment: 240 students at the estimated foundation allowance of \$8,400 per pupil	\$ 2,016,000	\$ 2,016,000	\$ 2,016,000
Increase in special education reimbursement	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Elimination of section 104d, <i>Computer Adaptive Tests</i>	\$ (65,000)	\$ (65,000)	\$ -
Elimination of section 147c(2), <i>MPERS One Time Deposit</i>	\$ (2,700,000)	\$ (2,700,000)	\$ (2,700,000)
Tax base one-time revenue for prior year adjustments	\$ (3,800,000)	\$ (3,800,000)	\$ (3,800,000)
State Total	\$ (925,523)	\$ (1,014,001)	\$ (860,523)

Revenue Budget Assumptions – cont'd

Revenues	Executive	Senate	House
Other			
ACT 18 increase	\$ 1,142,179	\$ 1,142,179	\$ 1,142,179
Total Revenues	\$ (2,146,620)	\$ (2,235,098)	\$ (2,081,620)

Expenditure Budget Assumptions

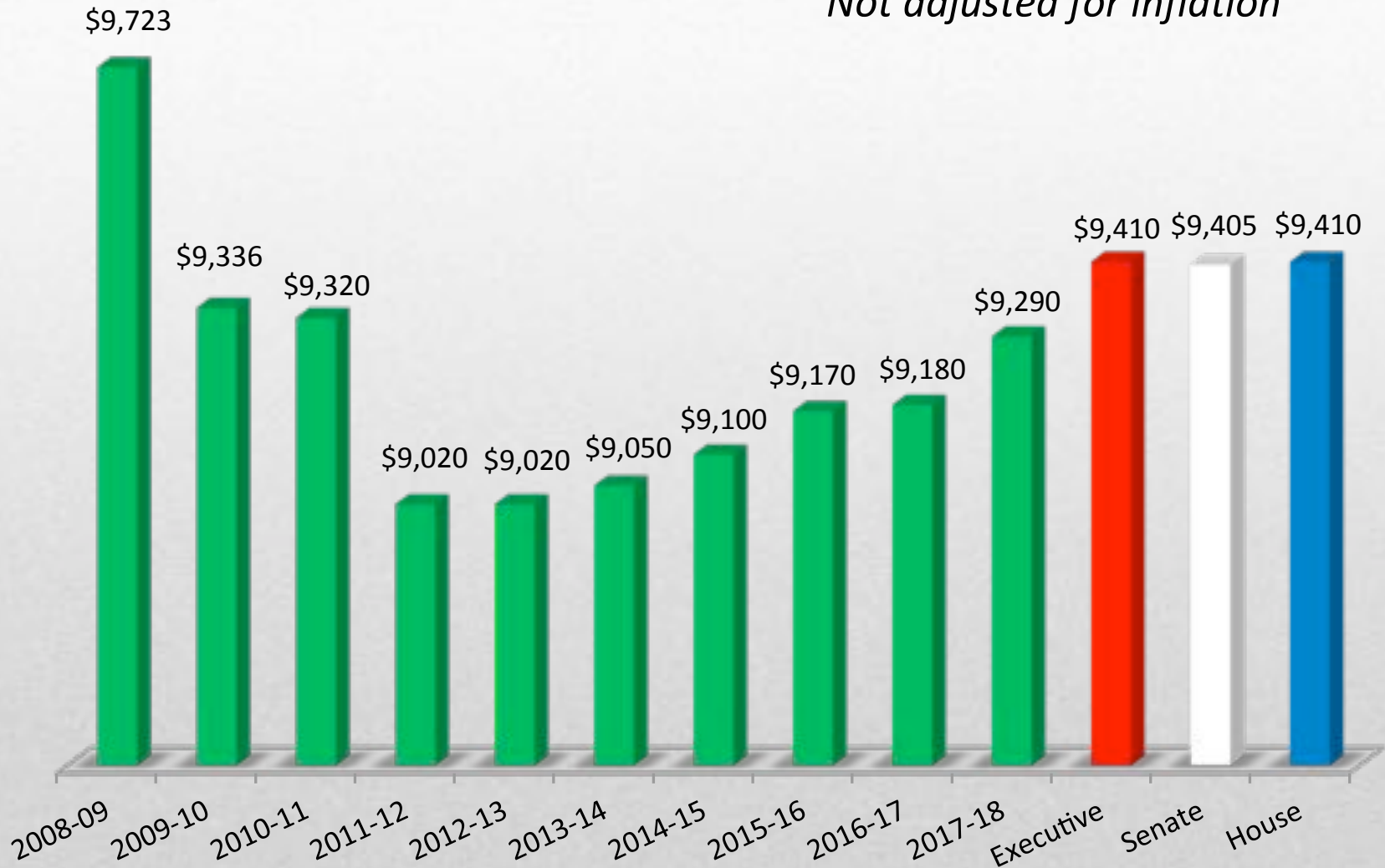
Expenditures	
Wage increases per negotiated CBAs (OP, Para, TSP, ASCSA)	\$ 671,428
Health Insurance increase	\$ 217,215
Retirement rate increase from 25.56% to 26.18%	\$ 834,318
Operations contracts COLA	\$ 200,000
Elimination of section 147c(2), <i>MPERS One Time Deposit</i>	\$ (2,700,000)
One-time expenditure in prior year for FICA on 3% refund	\$ (525,000)
Professional staff retirements of 50 replaced	\$ (2,000,000)
Total Expenditures	<u>\$ (3,302,039)</u>

Fund Balance Budget Assumptions

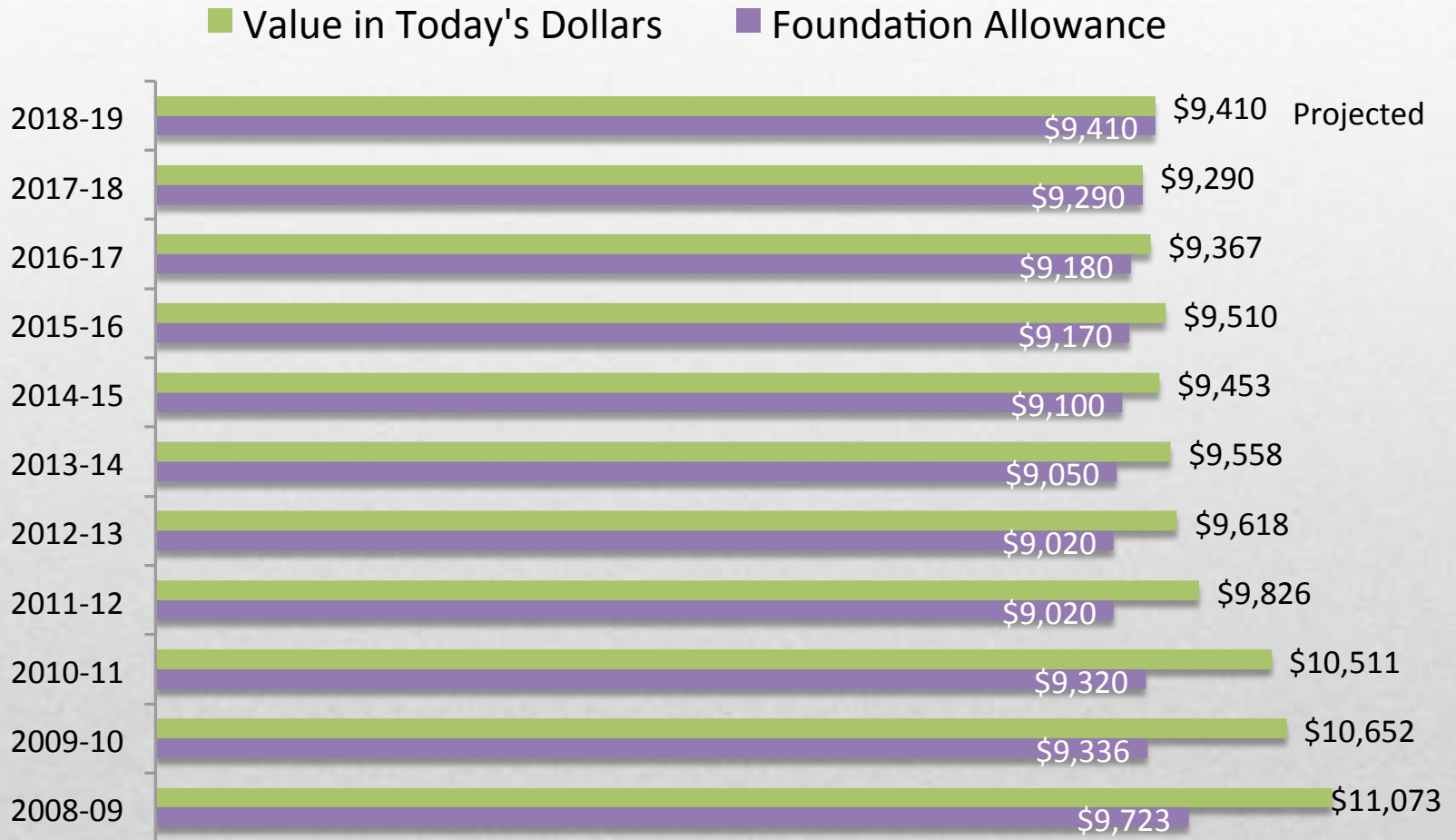
	Executive		Senate		House
2018-19 Beginning Fund Balance, Projected	\$ 18,047,253		\$ 18,047,253		\$ 18,047,253
Change in Fund Balance	\$ (678,080)		\$ (766,558)		\$ (613,080)
2018-19 Ending Fund Balance, Projected	<u>\$ 17,369,173</u>		<u>\$ 17,280,695</u>		<u>\$ 17,434,173</u>

AAPS Foundation Grant Trend

Not adjusted for inflation



AAPS Foundation Grant Trend



Next Steps

Continue Preliminary Budget Discussions

- ◆ Analyze Conference Budget Proposal when available
- ◆ Consider impact of May Consensus Revenue Estimating Conference
- ◆ Continue to monitor Spring enrollment processes
- ◆ Develop Final Amended 2017-18 Budget

Other Considerations

- ◆ Enrollment
- ◆ Compensation and Benefits
- ◆ Federal Budget Implications
 - Medicaid
 - Federal Grants

Next Steps

(Continued)

Board Adoption of a balanced budget prior to June 30, 2018 (in accordance with state law)

- ◆ Board Study Session – April 25, 2018
- ◆ Approve Notice Calling for Public Hearing on Budget – May 9, 2018
- ◆ First Briefing and Public Hearing – May 23, 2018
- ◆ Final Amendment 2017-18 Budget – June 13, 2018
- ◆ Second Briefing and Approval of the Budget – June 13/27, 2018