



2018-19 General Fund Budget Recommendation

May 23, 2018

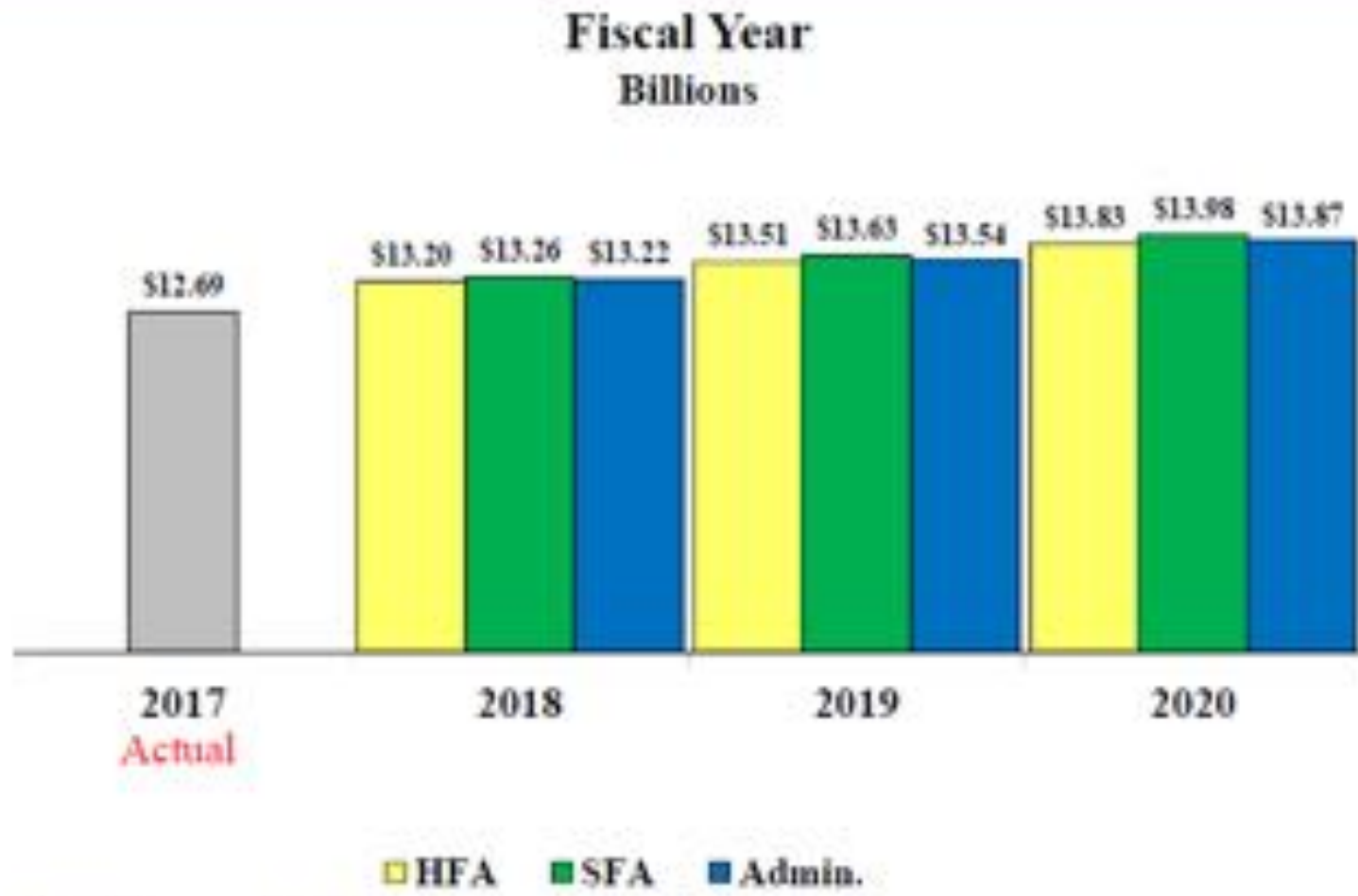
**Prepared by Amanda Matheson
and Marios Demetriou**

May 16, 2018

Consensus Revenue

Estimating Conference

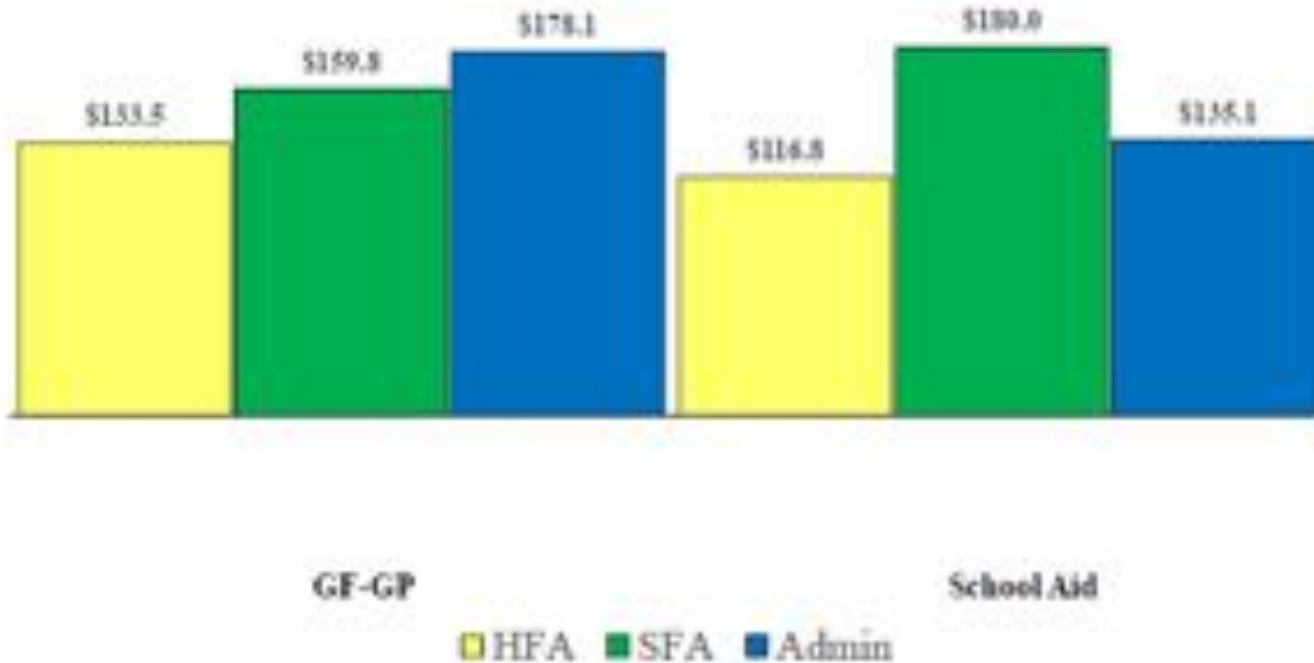
School Aid Fund Net Revenue Estimates



May 2018 Consensus Conference

FY 2018 Changes Since January Consensus Estimates

Millions



May 2018 Consensus Conference

FY 2019 Changes Since January Consensus Estimates

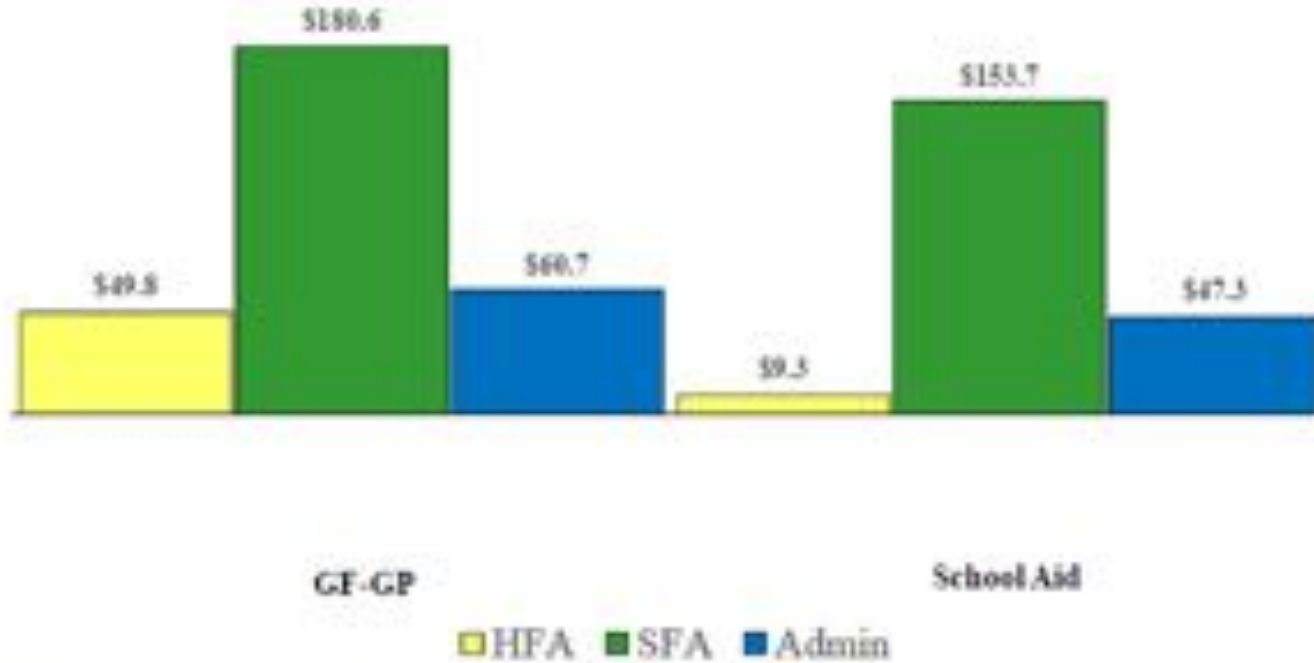
Millions



May 2018 Consensus Conference

FY 2020 Changes Since January Consensus Estimates

Millions



May 2018 Consensus Conference

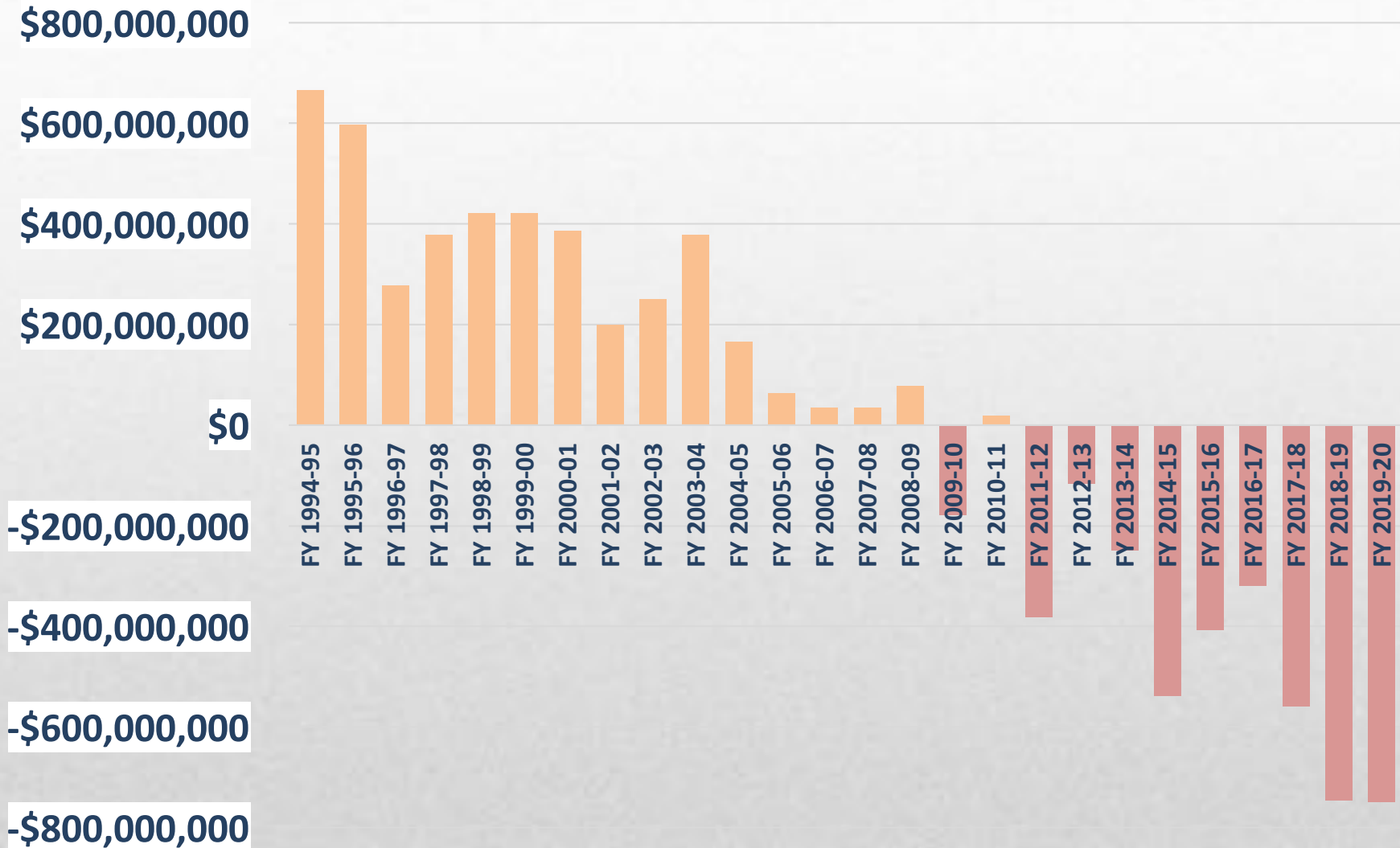
Forecast Risks

- International Uncertainty
 - Trade Policy
 - Oil Prices
- How tight are labor markets?
- Monetary policy: How will Fed respond if inflation pressures appear?
- Housing: How will it respond to higher interest rates?
- CIT volatility

May 2018 Consensus Conference

State Budget Considerations

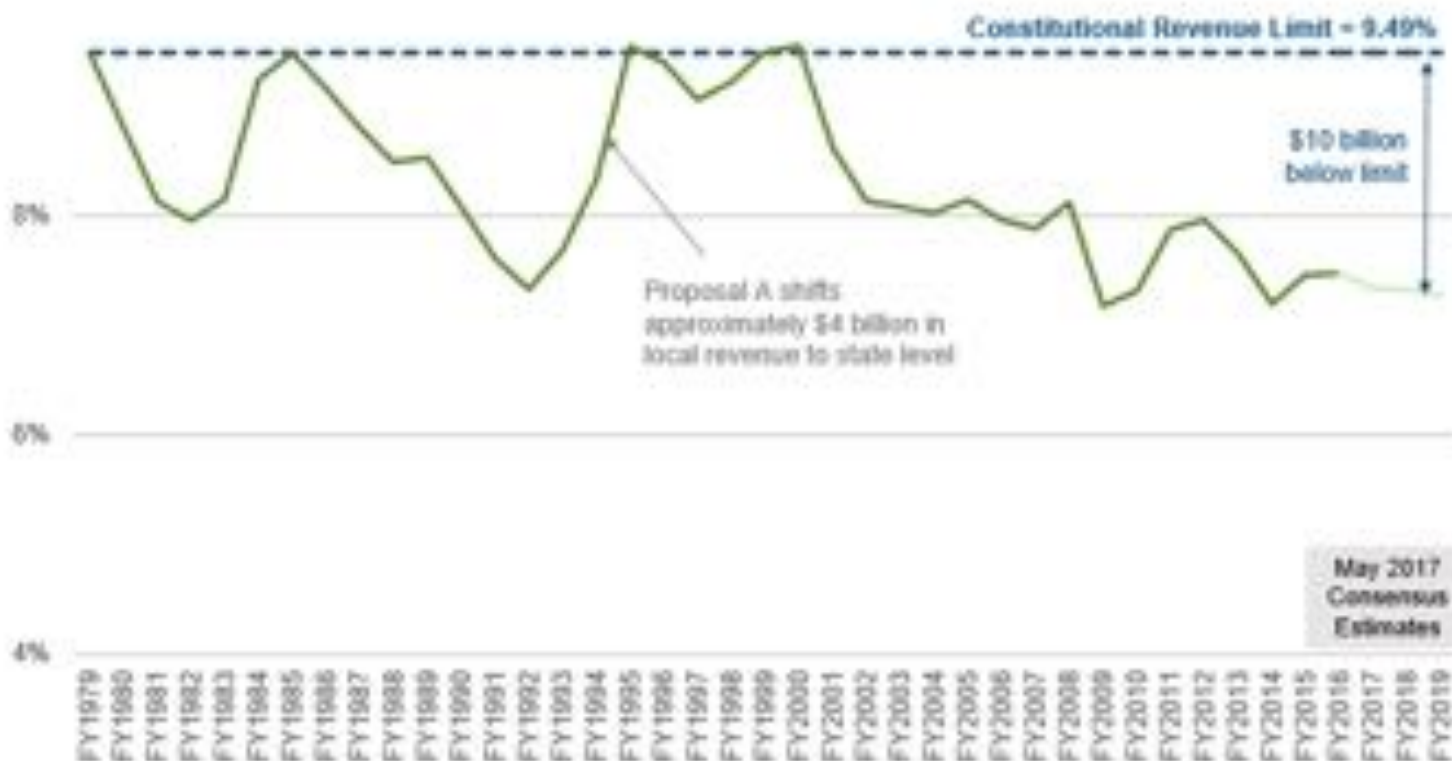
School Aid Fund/GF Relationship



Content provided by: Chris Glass – West Michigan Talent Triangle

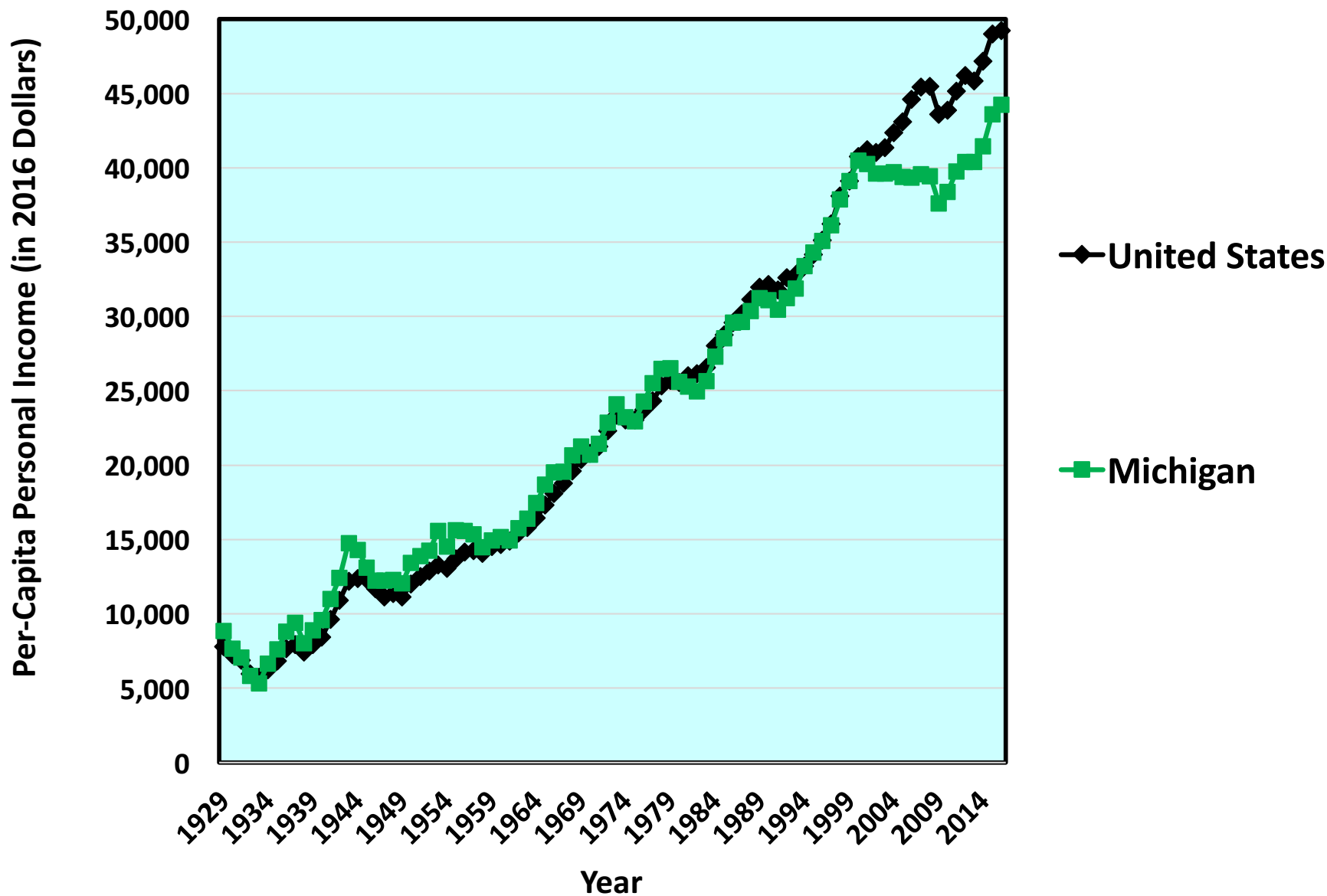
Total State Revenue as a Percentage of Michigan Personal Income

Michigan's constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. For FY 2016-17, the state is projected to be \$10 billion below that limit.

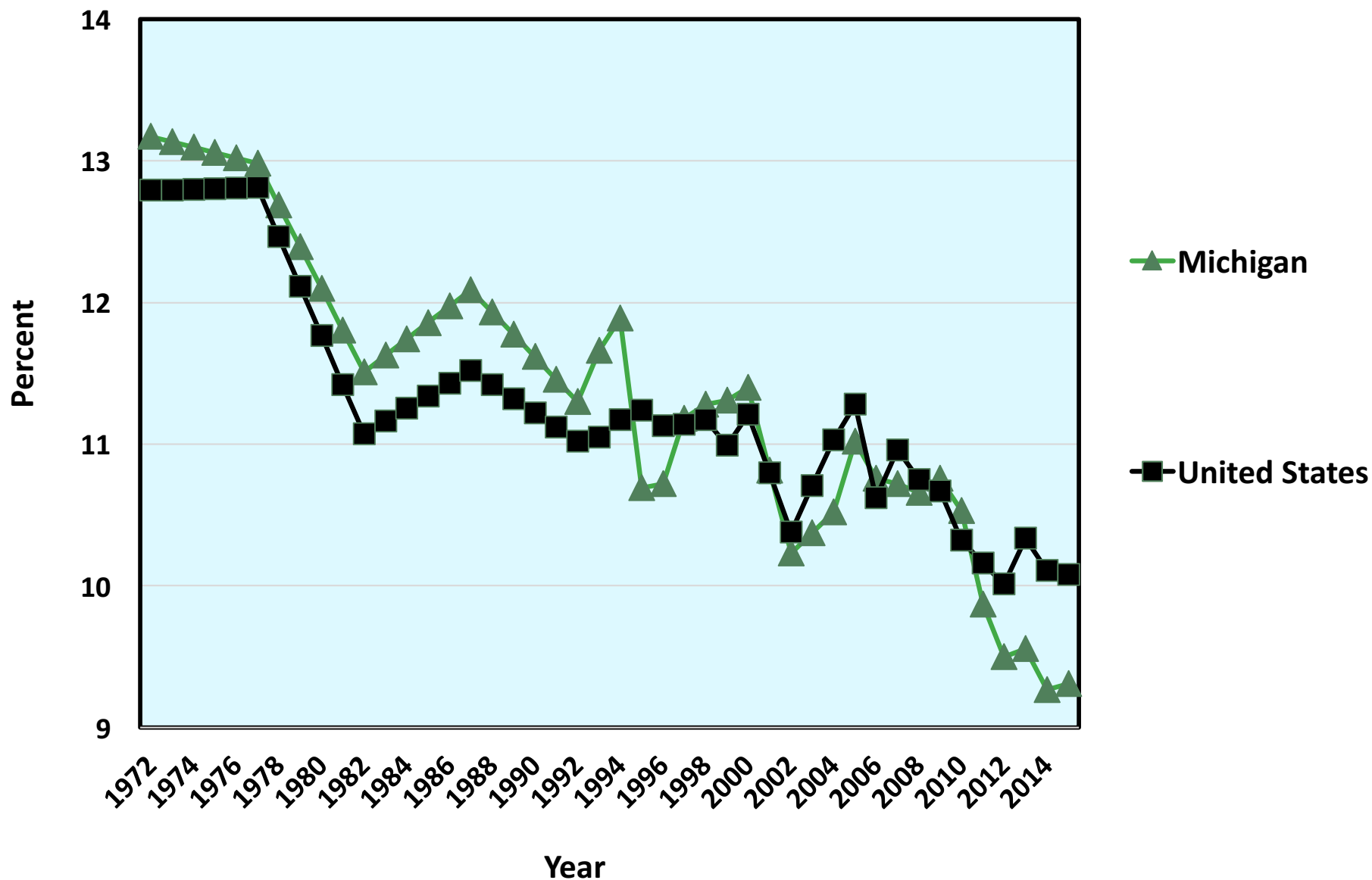


Content provided by: Chris Glass – West Michigan Talent Triangle

Per-Capita Personal Income, Adjusted for Inflation, In Michigan and the United States, 1929-2016



State and Local Taxes as Percent of Personal Income, In Michigan and the United States, 1972-2015



- The reason that the budget is down is that **“tax effort” is down**
- Tax effort is the percentage of the economy that goes to taxes
- If the fraction of our economy that is devoted to state and local taxes were at the national average, we would collect **an additional \$3 billion per year in tax revenues**
- If the fraction of our economy is devoted to state and local taxes were at the level **we taxed ourselves in 1972 we would collect an additional \$15 Billion Per Year**

Michigan's Financial Picture

STATE TAX TRENDS OVER THE PAST DECADE (inflation adjusted in 2015\$)				
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>)

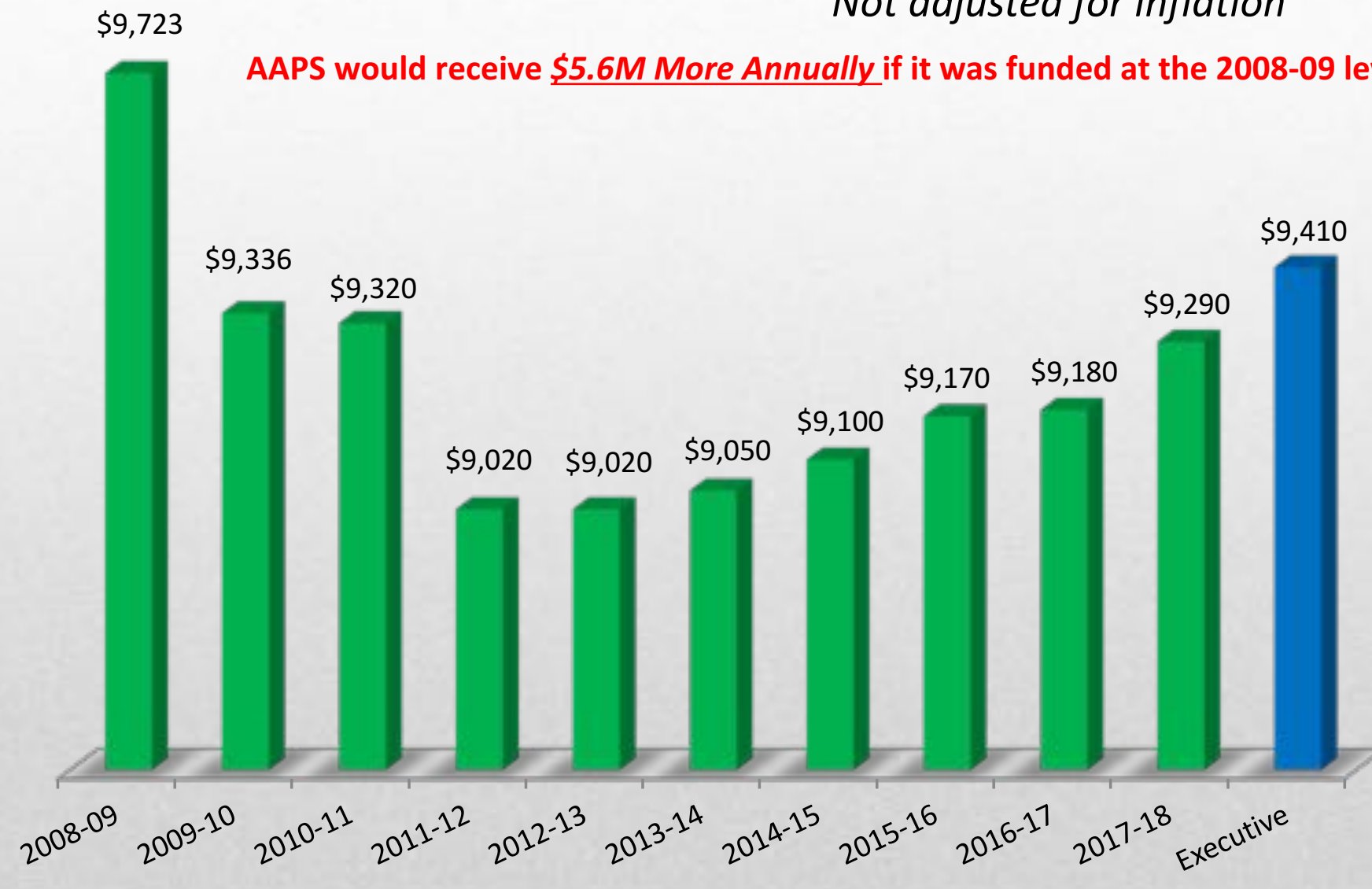
All dollars inflation-adjusted and presented in 2015 dollars using Consumer Price Index calculators.

Content provided by: Chris Glass – West Michigan Talent Triangle

AAPS Foundation Grant Trend

Not adjusted for inflation

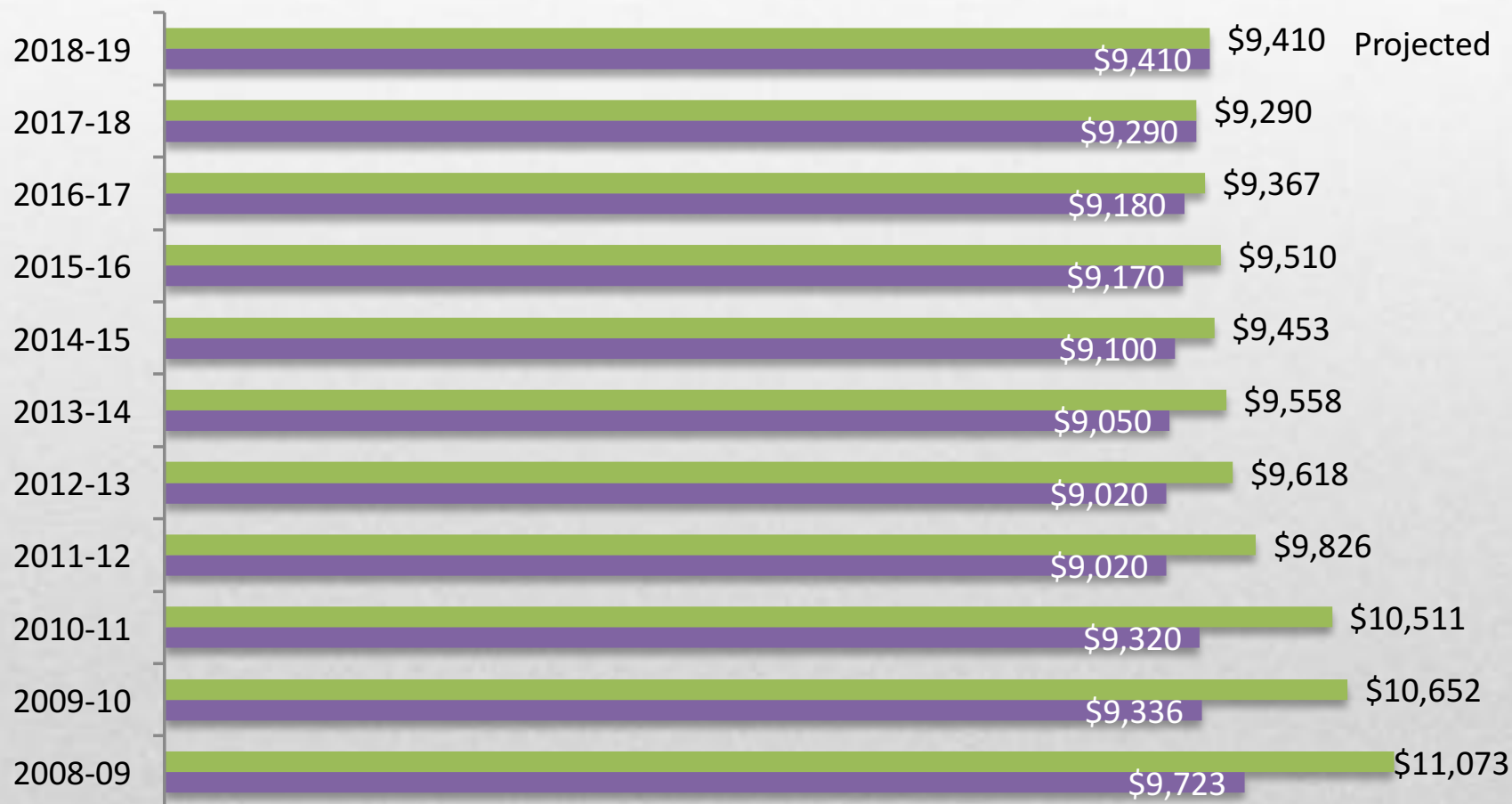
AAPS would receive \$5.6M More Annually if it was funded at the 2008-09 level!



AAPS Foundation Grant Trend

AAPS has \$29.8M Less purchasing power

■ Value in Today's Dollars ■ Foundation Allowance



Local Budget Considerations

AAPS Initiatives

- Reduced class sizes
- Pre-school and early childhood expansion
- Implementation of Project Lead The Way (PLTW)
- Science, Technology, Engineering, Arts & Mathematics (STEAM)
- International Baccalaureate (IB)
- Elimination of split classes
- Implementation of social/emotional supports
 - Intervention Specialists
 - 9th Grade Counselors
 - 9th Grade Deans

AAPS Millages

Millage Type	Primary Residence	Commercial Personal Property (ex. equipment)	Non-Primary Residence Real Property (ex. rentals, agricultural, industrial, commercial)
Operating		6.0000	18.0000
Hold Harmless	4.1442	4.1442	
Sinking Fund	2.4673	2.4673	2.4673
Debt	2.4500	2.4500	2.4500
Total	9.0615	15.0615	22.9173

Foundation Grant Funding Sources Breakdown

2018-19 Pupil Count Enrollment Estimate	2018-19 Foundation	Revenue	Revenue Source	Percent
17,938	\$9,410	\$168,796,580		100%
		21,857,018	Hold Harmless – Primary Residence 4.1442 Mills	13%
		2,827,163	Commercial Personal Property 10.1442 Mills	2%
		62,847,048	Operating- Real Non Residential 18.0000 Mills	37%
		81,265,351	State	48%

2018-2019 State Aid Proposals

	Executive
Foundation increase of \$120 per pupil	\$2,123,477
Computer Adaptive Tests (section 104d)	(65,000)
MPSERS One-Time (section 147c(2)) (Michigan Public School Employee Retirement System)	(2,700,000)
	\$ (641,523)

2018-2019 Revenue Assumptions

Local Revenues	
2017-2018 Amended Budget	\$88,832,147
One-time revenue in prior year for cell tower income, easements and rent settlement	(3,790,000)
Operating millage restoration to 18 mills	2,489,082
Local Revenues	\$87,531,229

2018-2019 Revenue Assumptions

State Revenues	
2017-2018 Amended Budget	\$124,849,658
Foundation Revenue Increase of \$120 per pupil	2,123,477
Increased Enrollment: 240 students at the estimated foundation allowance of \$8,400 per pupil	2,016,000
Increase in special education reimbursement	1,500,000
Elimination of section 104d, <i>Computer Adaptive Tests</i>	(65,000)
Elimination of section 147c(2), <i>MPSERS One Time Deposit</i>	(2,700,000)
Tax base one time revenue for prior year adjustments	(3,800,000)
Tax base increase, which reduces State's responsibility	(1,062,358)
State Revenues	\$122,861,777

2018-2019 Revenue Assumptions

Federal Revenues	\$ 8,906,275
Incoming Transfers and Other Transactions	
2017-2018 Amended Budget	\$ 28,346,600
PA 18 Increase	1,142,179
Incoming Transfers and Other Transactions	\$ 29,488,779
TOTAL REVENUES	\$248,788,060

2018-2019 Expenditure Assumptions

Expenditures	
2017-2018 Amended Budget	\$252,768,179
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
	Cont'd

2018-2019 Expenditure Assumptions

Expenditures cont'd	
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)
Additional staff (15) due to enrollment increases	1,550,000
Instructional materials due to enrollment increases	200,000
TOTAL EXPENDITURES	\$251,216,140

2018-2019 Fund Balance Assumptions

Fund Balance		
2017-2018 Beginning Fund Balance, <i>Actual</i>		\$ 19,880,752
Change in Fund Balance per <i>Amended Budget</i>		(1,833,499)
2018-2019 Beginning Fund Balance, <i>Projected</i>		18,047,253
Total Revenues	248,788,060	
Total Expenditures	251,216,140	
Change in Fund Balance		(2,428,080)
2018-2019 Ending Fund Balance, <i>Projected</i>		\$ 15,619,173

Next Steps

Continue Preliminary Budget Discussions

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

Other Considerations

- ◆ Monitor expenditures
- ◆ Make internal adjustments
- ◆ Seek opportunities to increase revenue
- ◆ 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 ✓
- ◆ Notice of Public Hearing on Budget Published – May 17, 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