



FY 2019-20 Budget Update

MAY 15, 2019

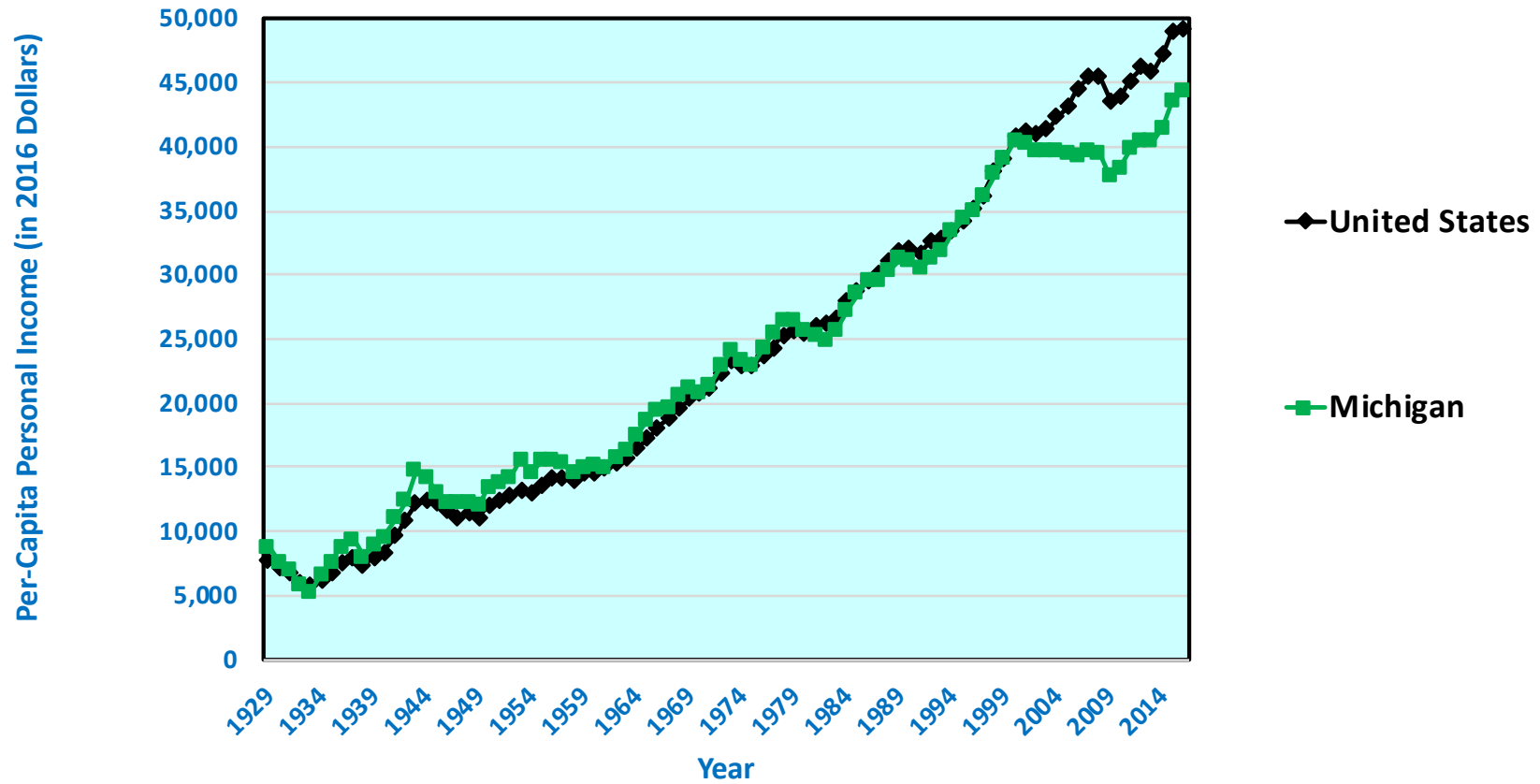
PRESENTED BY:

MARIOS DEMETRIOU

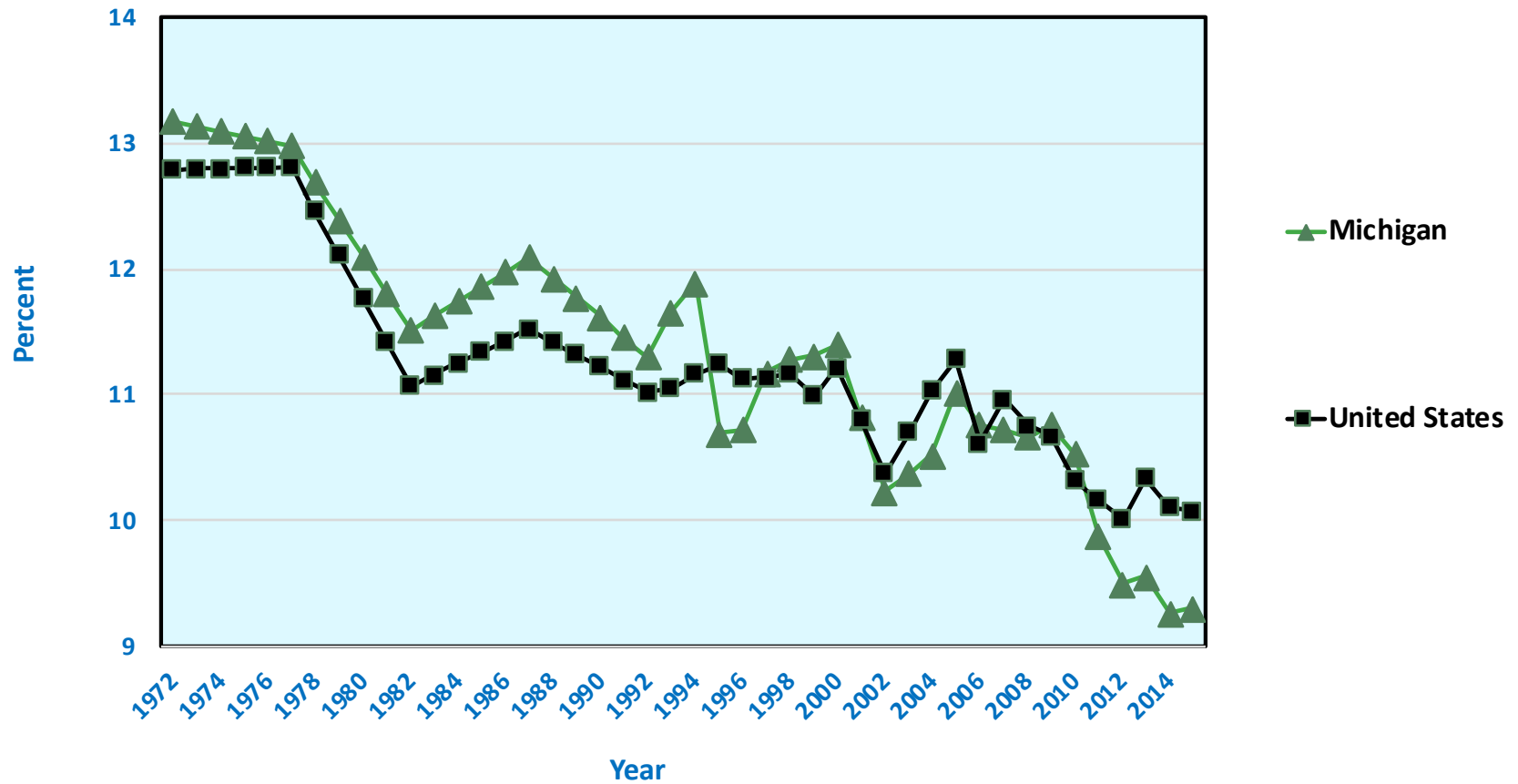
ASSISTANT SUPERINTENDENT - FINANCE AND OPERATIONS

State Budget Considerations

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

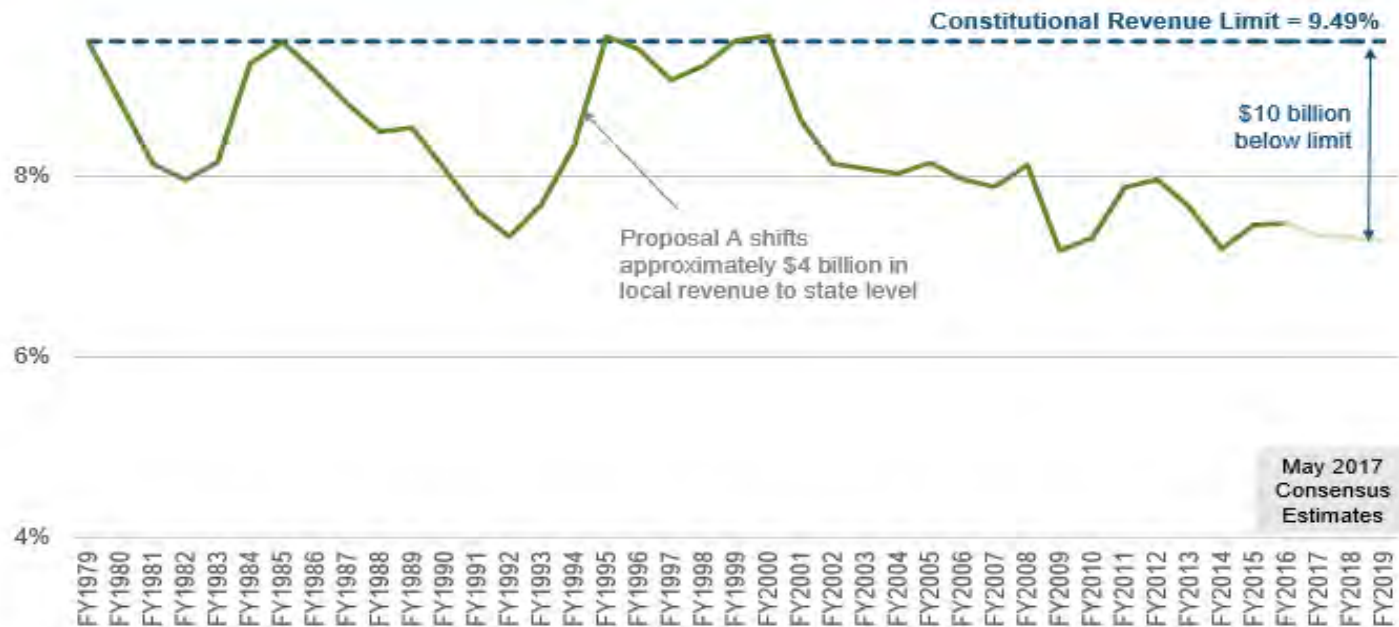


State and Local Taxes as Percent of Personal Income,
In Michigan and the United States, 1972-2015



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.



Michigan's Tax Policies

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%

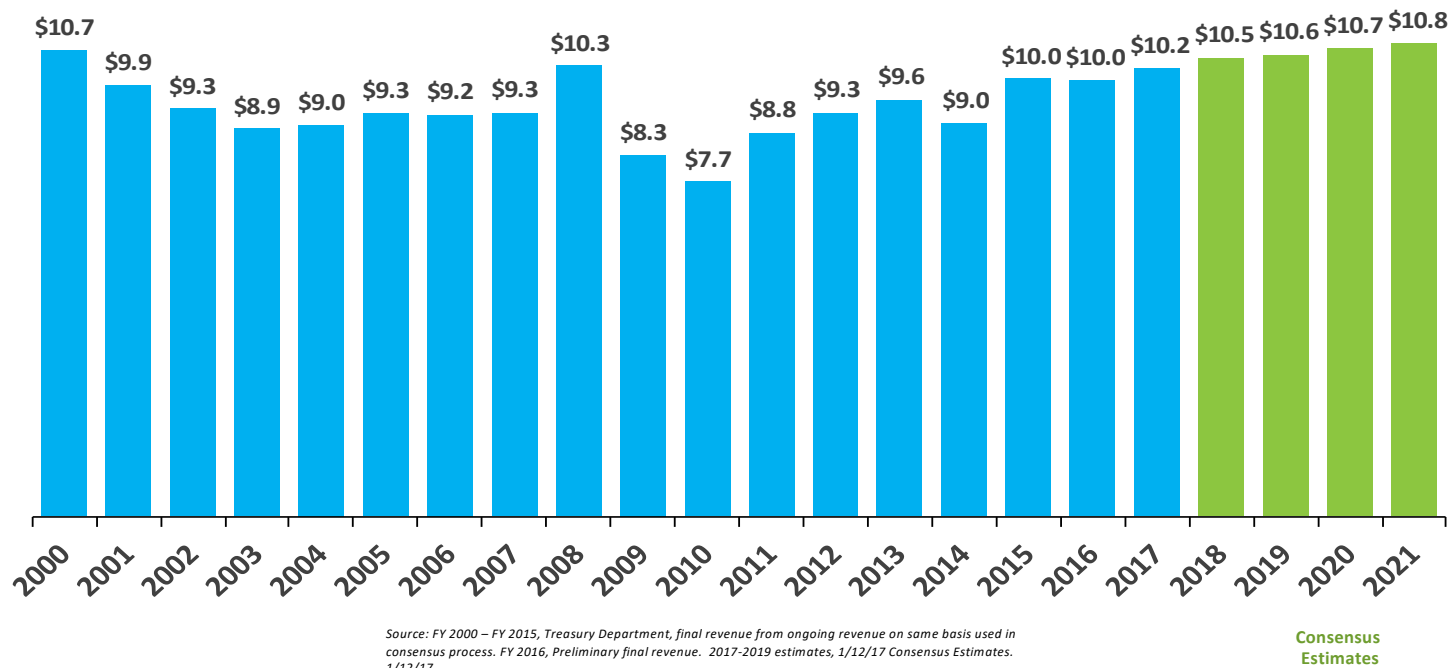
SOURCES:

State of Michigan 2016 Comprehensive Annual Financial Report, pages 306-307. (<http://www.michigan.gov/documents/bi>)

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

State General Fund Revenue – Growth?

General Fund - General Purpose Revenue Remains Under \$11 Billion
(Graph in billions of dollars)



Content provided by: Chris Glass – West Michigan Talent Triangle

School Aid

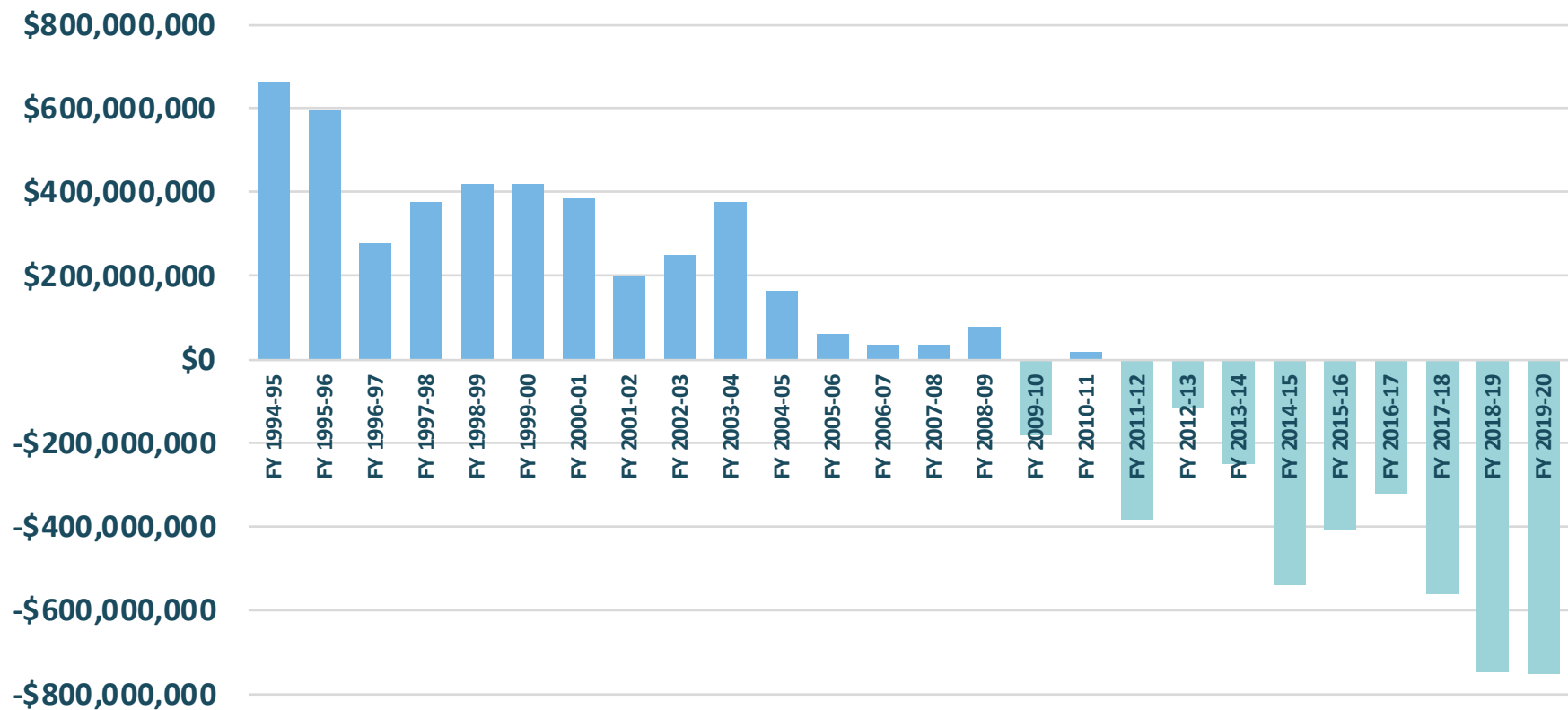
The School Aid Budget pays for the operations of public schools to “maintain and support a system of free public elementary and secondary schools as defined by law” as required by the Michigan Constitution.

- 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*



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

School Aid Fund/General Fund Relationship

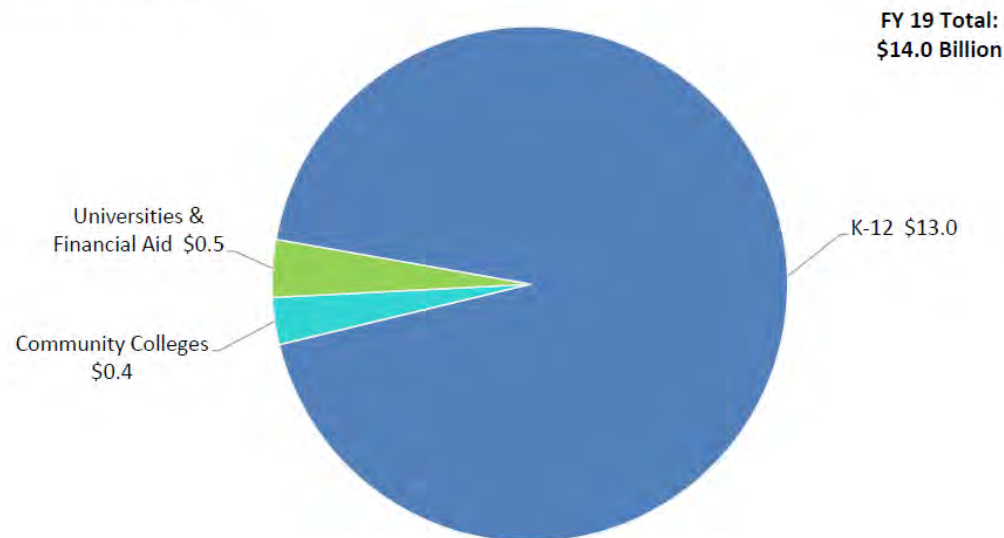


School Aid Fund Raids

SAF Appropriations by Area



About \$900 million SAF revenue is now appropriated for universities and community colleges.



Lame Duck Diversion of School Aid Funds

Income Tax Changes



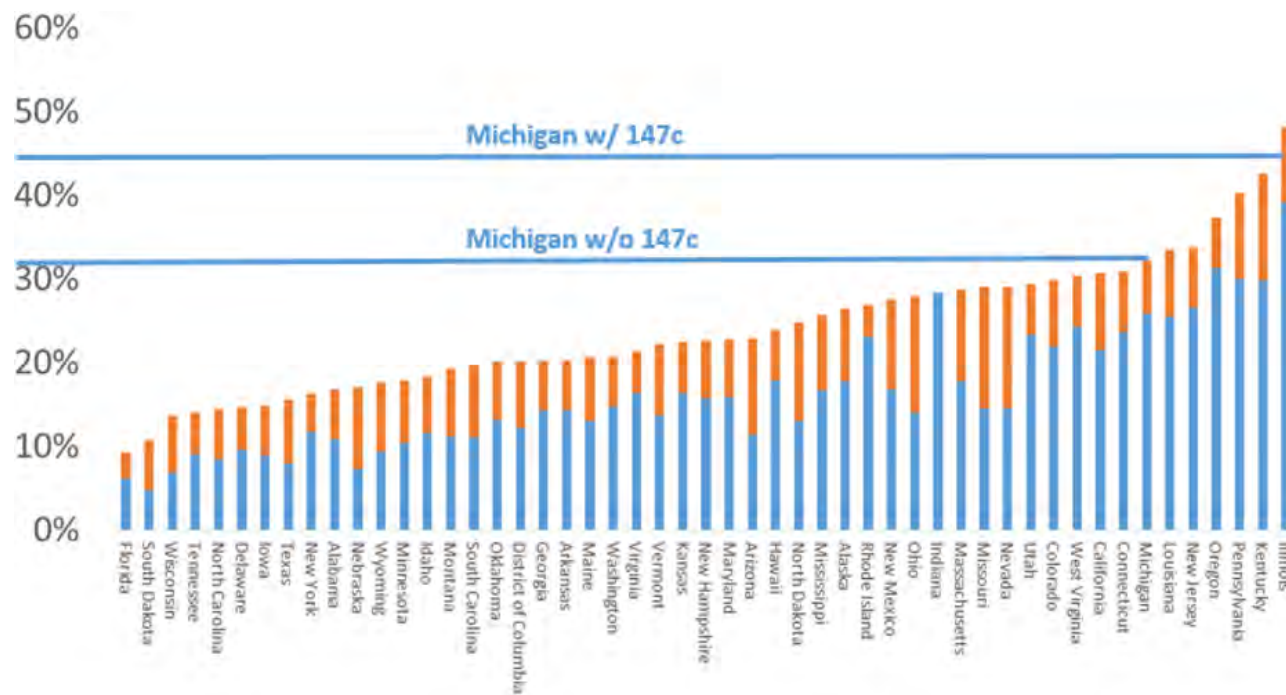
- HB 4991 passed in lame duck diverts \$149 million in income tax revenue from the SAF and \$34 million from the GF beginning in FY19.
- Dedicates those funds for:
 - Roads - \$114m
 - Renew Michigan (environmental cleanup, recycling, waste mgmt.) - \$69m
- Offset by additional revenue to the SAF from increased online sales tax collections (*South Dakota v Wayfair* decision, June 2018).
- Trigger included to halt diversion if foundation allowance falls below FY18 level. Sunsets after FY22.

Impact of HB 4991 (in millions)			
Fund	FY19	FY20	FY21
GF	\$ (34.0)	\$ (39.0)	\$ 113.0
SAF	\$ (149.0)	\$ (173.0)	\$ (182.0)
Roads	\$ 114.0	\$ 143.0	\$ -
Renew Michigan	\$ 69.0	\$ 69.0	\$ 69.0

17

Retirement Contribution Rates by State

- Employee Contribution
- Employer Contribution



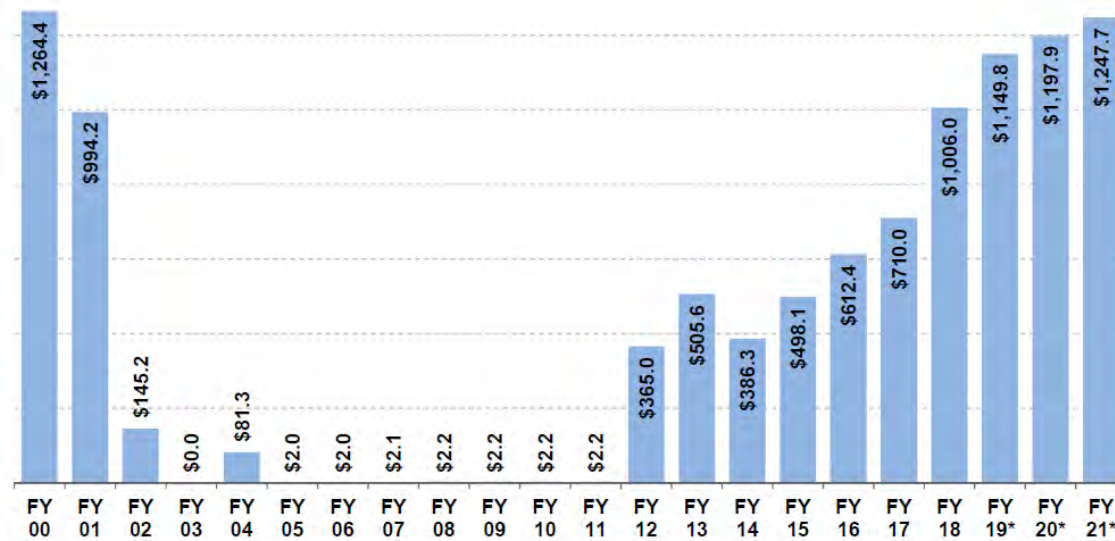
Content provided by: Chris Glass – West Michigan Talent Triangle

Budget Stabilization Fund

Budget Stabilization Fund Balance

The estimated FY 2019 BSF balance is 4.7% of combined GF/GP and SAF revenues. With interest and payments tied to the Detroit Bankruptcy, it will increase by about 4% a year absent deposits or withdrawals.

Millions of Dollars



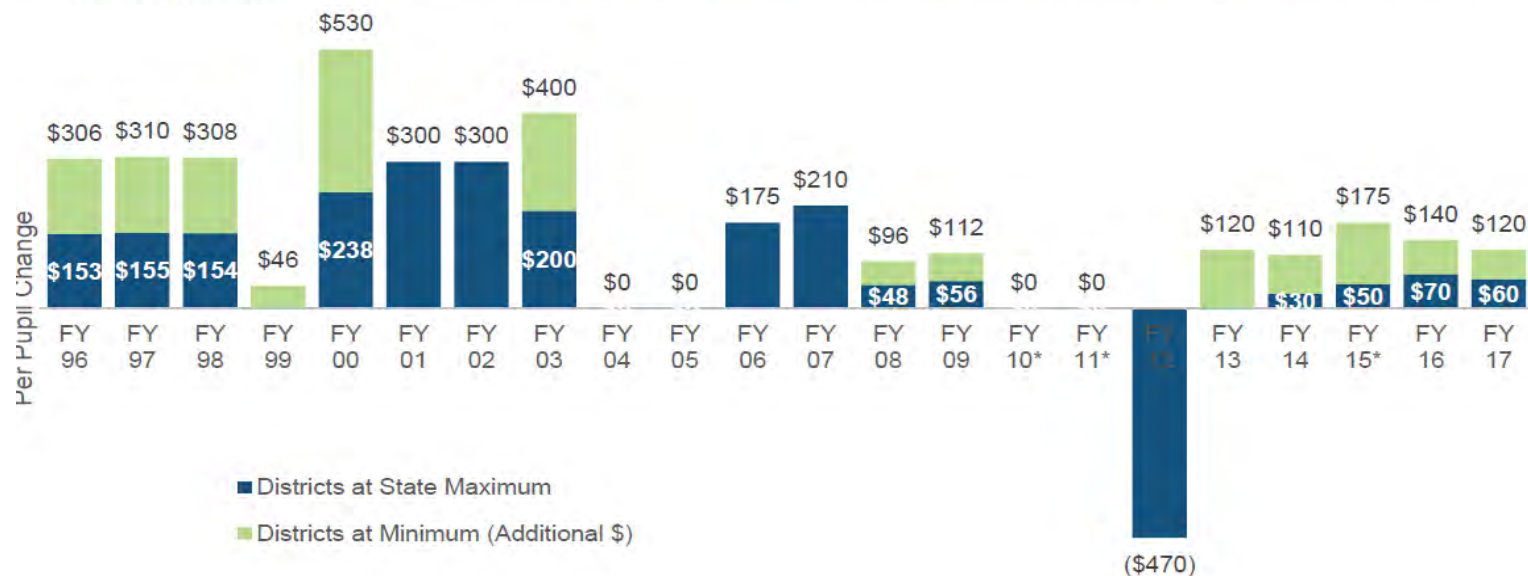
* HFA Estimate

13 House Fiscal Agency

January 2019

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.

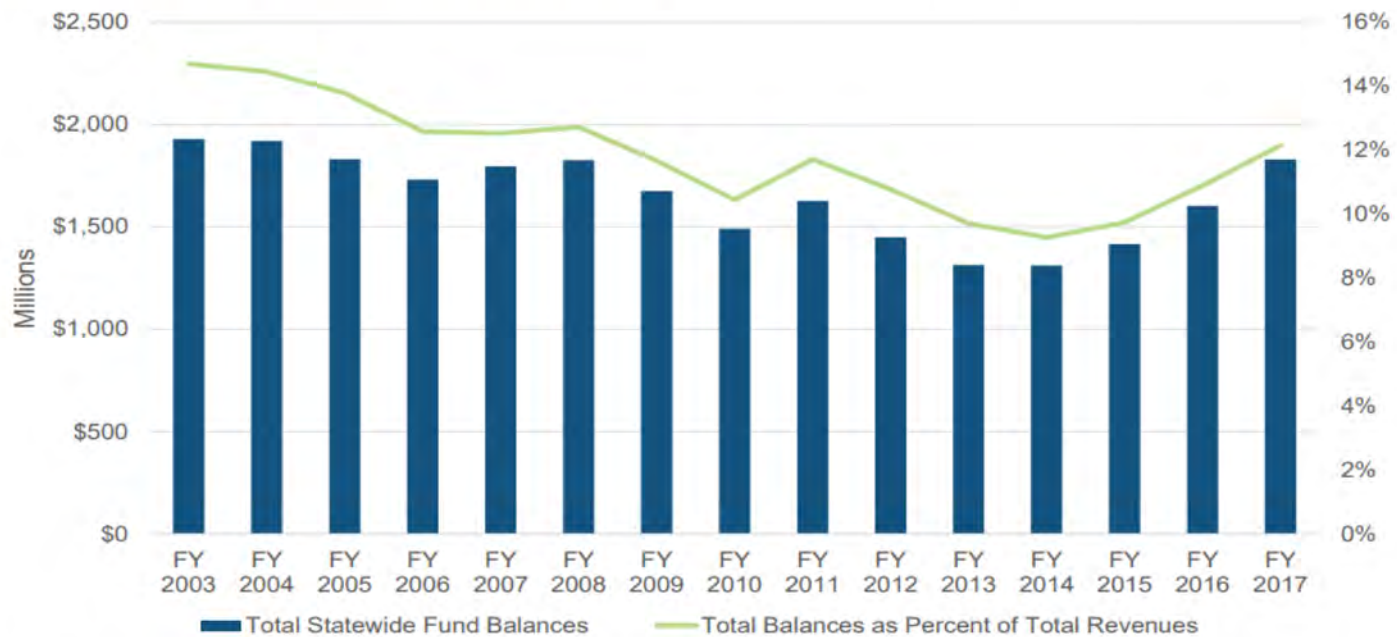


AAPS was cut an additional \$233 per student which was the Hold Harmless part of its Foundation in 2008-09

Content provided by: Chris Glass – West Michigan Talent Triangle

District Fund Balances

As pupils and funding declined, districts used their fund balances to replace lost revenue. However, fund balances have been growing again, and at the end of FY 2016-17, totaled \$1.8 billion, returning to pre-recession levels. The average statewide total fund balance as a percent of revenues is still lower than its peak of nearly 15% but has increased over the last three years to 12%.



Note: Figures exclude Detroit Public Schools, for which policy changes have significantly altered fund balance information.

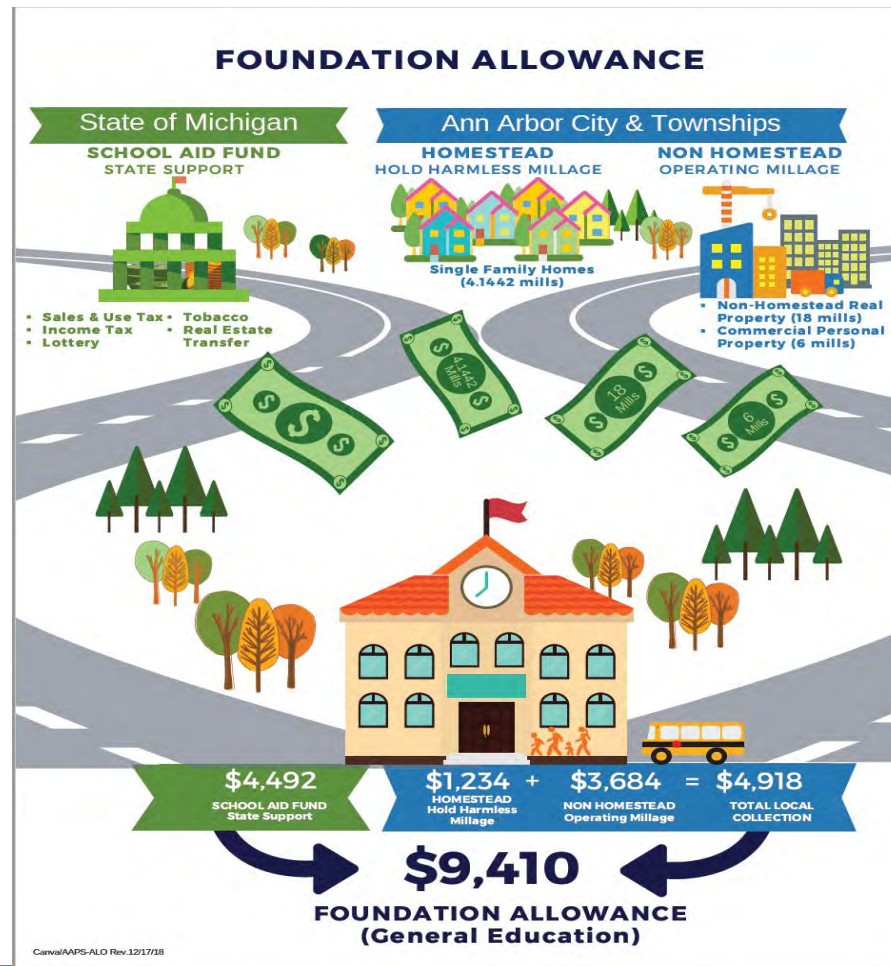
State Revenue Conclusion

- State Revenue is down due to decreased “**tax effort**”
 - **Tax effort** is the percentage of the economy that goes to taxes
- If tax revenue from state and local taxes was at national averages, we would collect **an additional \$3 billion per year**
- If tax revenue from state and local taxes were at the level we taxed ourselves in 1972, we would collect **an additional \$15 Billion Per Year**

AAPS Budget Considerations

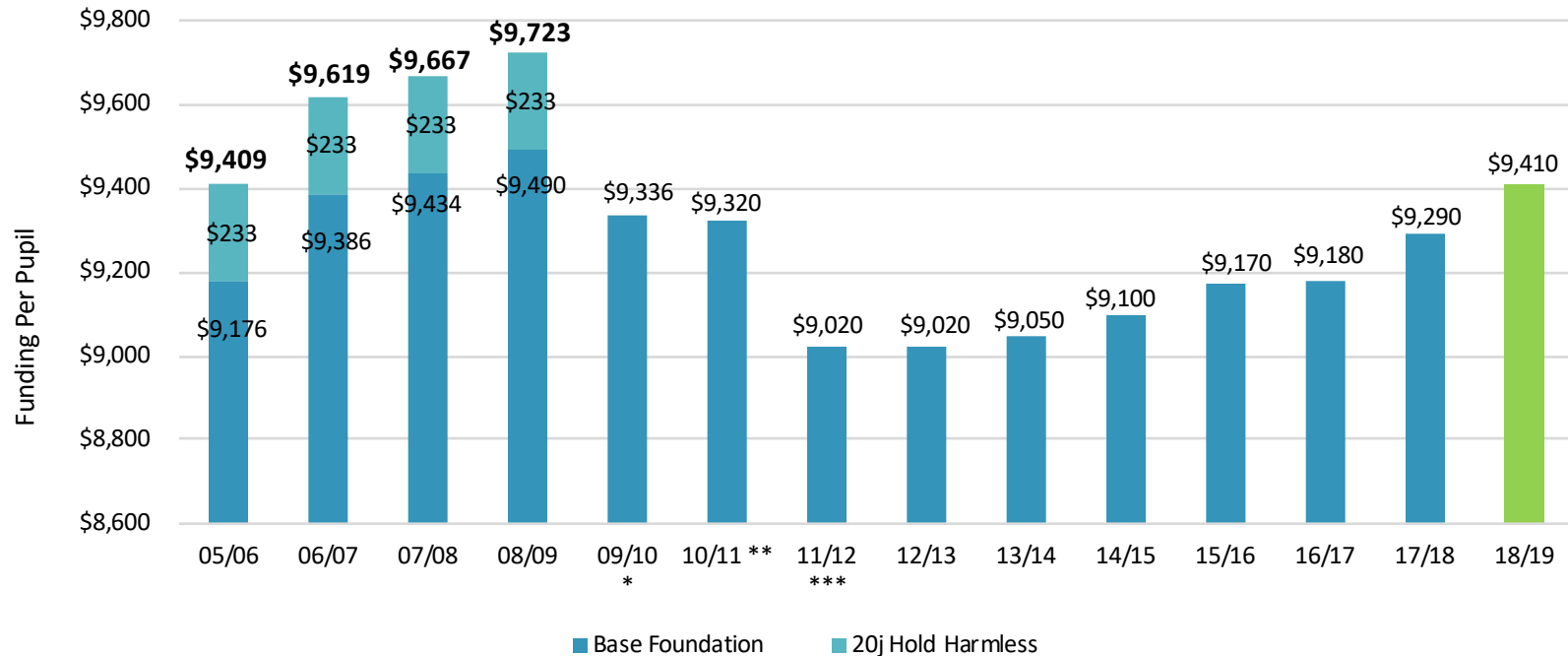
Foundation Allowance Story

AAPS is levying the maximum Operating Millage



AAPS Foundation Allowance

An Historical Look at Funding



* 09/10 reflects Section 11d funding reduction of \$154 per pupil

** 10/11 reflects Section 11d funding reduction of \$170 per pupil

*** 11/12 \$170 reduction noted for 10/11 was statutorily enacted in 11/12, along with an additional \$300 per pupil rollback of foundation allowance

AAPS Foundation Allowance Truth

2005-06 Foundation Allowance	\$9,409
2018-19 Foundation Allowance	<u>\$9,410</u>
Increase over 13 Years	\$1
CPI Inflation since 2005-06	25.60%
Compounded CPI Inflation	28.75%
Foundation Allowance just to cover CPI	\$12,114
Effective Revenue Reduction per AAPS FTE Student	\$2,704
17,908 FTE Revenue Reduction for 2018-19 ONLY	\$48,430,238

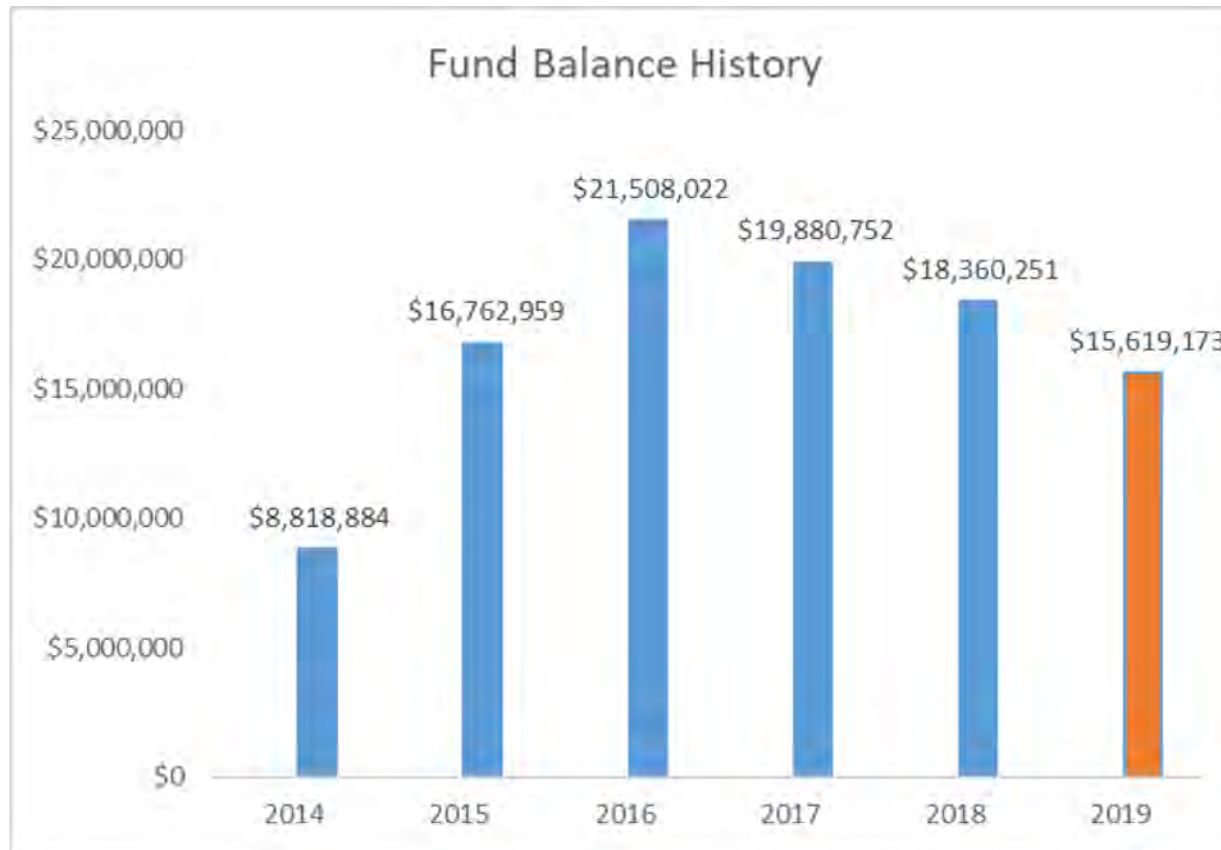
Cumulative Aggregate Reduction In Revenue For AAPS 2005-06 To 2018-19 = \$359M

From Year	To Year	CPI %	AAPS Foundation Allowance With CPI	Actual AAPS Foundation Allowance	FTE Enrollment	Foundation Allowance Variance (Actual- With CPI)	AAPS Cumulative Addition (Reduction) Due To Foundation	Compounded CPI
2005	2006		\$ 9,409	\$ 9,409	16,852.47			100.00%
2006	2007	3.20%	\$ 9,710	\$ 9,619	16,730.56	\$ (91)	\$ (1,523,953)	103.20%
2007	2008	2.80%	\$ 9,982	\$ 9,667	16,517.79	\$ (315)	\$ (5,202,616)	106.09%
2008	2009	3.80%	\$ 10,361	\$ 9,723	16,438.53	\$ (638)	\$ (10,492,473)	110.12%
2009	2010	-0.40%	\$ 10,320	\$ 9,336	16,432.29	\$ (984)	\$ (16,166,747)	109.68%
2010	2011	1.60%	\$ 10,485	\$ 9,320	16,562.44	\$ (1,165)	\$ (19,294,541)	111.44%
2011	2012	3.20%	\$ 10,820	\$ 9,020	16,657.71	\$ (1,800)	\$ (29,991,812)	115.00%
2012	2013	1.70%	\$ 11,004	\$ 9,020	16,681.65	\$ (1,984)	\$ (33,103,473)	116.96%
2013	2014	1.50%	\$ 11,169	\$ 9,050	16,479.79	\$ (2,119)	\$ (34,928,762)	118.71%
2014	2015	0.80%	\$ 11,259	\$ 9,100	16,834.32	\$ (2,159)	\$ (36,342,716)	119.66%
2015	2016	0.70%	\$ 11,338	\$ 9,170	17,113.37	\$ (2,168)	\$ (37,095,944)	120.50%
2016	2017	2.10%	\$ 11,576	\$ 9,180	17,460.62	\$ (2,396)	\$ (41,831,270)	123.03%
2017	2018	2.10%	\$ 11,819	\$ 9,290	17,698.56	\$ (2,529)	\$ (44,756,830)	125.61%
2018	2019	2.50%	\$ 12,114	\$ 9,410	17,908.53	\$ (2,704)	\$ (48,430,238)	128.75%
25.60%							\$ (359,161,375)	

Fund Balance – What Is Appropriate?

- **Michigan School Business Officials (MSBO)** recommends a Fund Balance of 15% to 20% of expenditures
- **Government Finance Officers Association (GFOA)** recommends no less than 60 days of operating expense in Fund Balance or the equivalent of 16% of expenditures. GFOA also recommends a formal policy on fund balance be adopted
- **AAPS Policy on Fund Balance**: The District shall manage its financial matters so that the budgeted year-end fund balance of the general fund is targeted to fall within a range of 6 to 15 percent of the preceding year's expenditures from the general fund

AAPS 2019-20 Budget Outlook – Fund Balance



Percentage of Expenditures	4.60%	8.30%	10.20%	8.50%	7.20%	6.20%
----------------------------	-------	-------	--------	-------	-------	-------

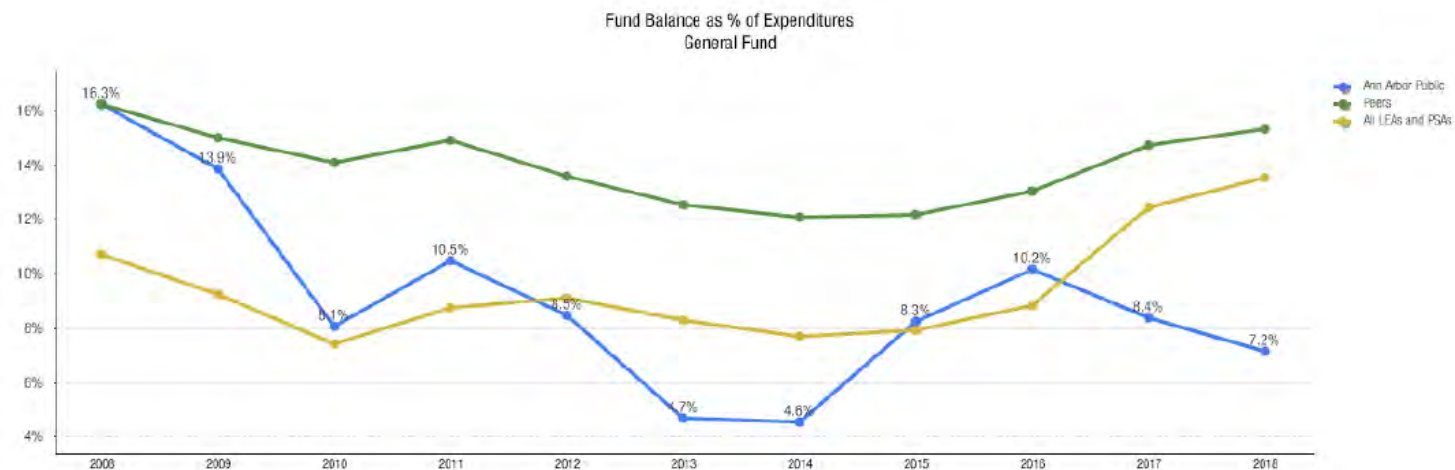
Fund Balance Trend Comparison

Eidex Fund Balance Comparison with Notably Successful Districts/State

April 2, 2019

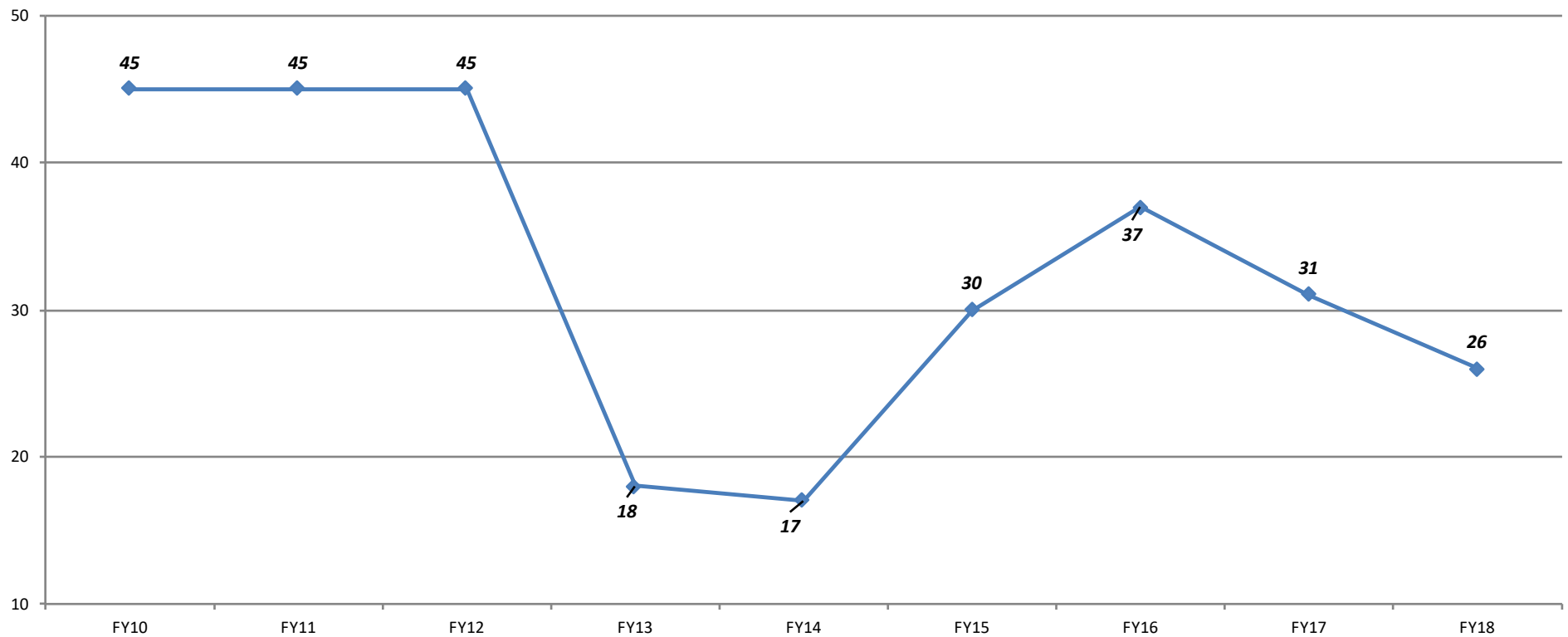
"Notably Successful Districts" identified by 2016 MI Educational Finance Study prepared by Augenblick, Palaich, and Associates: Ann Arbor, Berkley, Birmingham, Blissfield, Bloomfield Hills, Bridgman, Brighton, Byron Center Public, Caledonia, Cheboygan, Chelsea, Clare Public, Clarkston, Clawson, Dexter, East Grand Rapids, Forest Hills, Forest Park, Fowler Public, Fremont, Glen Lake, Grand Blanc Community, Grand Haven, Grosse Pointe, Harbor Beach, Haslett, Hudsonville, Jenison, Lake Orion, Lakeview-Macomb, Midland Public, New Lothrop, North Muskegon, Northville, Novi Schools, Okemos, Oneida Twp 3, Otsego, Ovid-Elsie, Paw Paw, Pinconning, Plymouth-Canton, Rochester, Roscommon, Royal Oak, Saline, South Lyon, Spring Lake, St. Joseph, Tawas, Troy, West Branch-Rose City, Williamston, Zeeland

Fund Balance as % of Expenditures

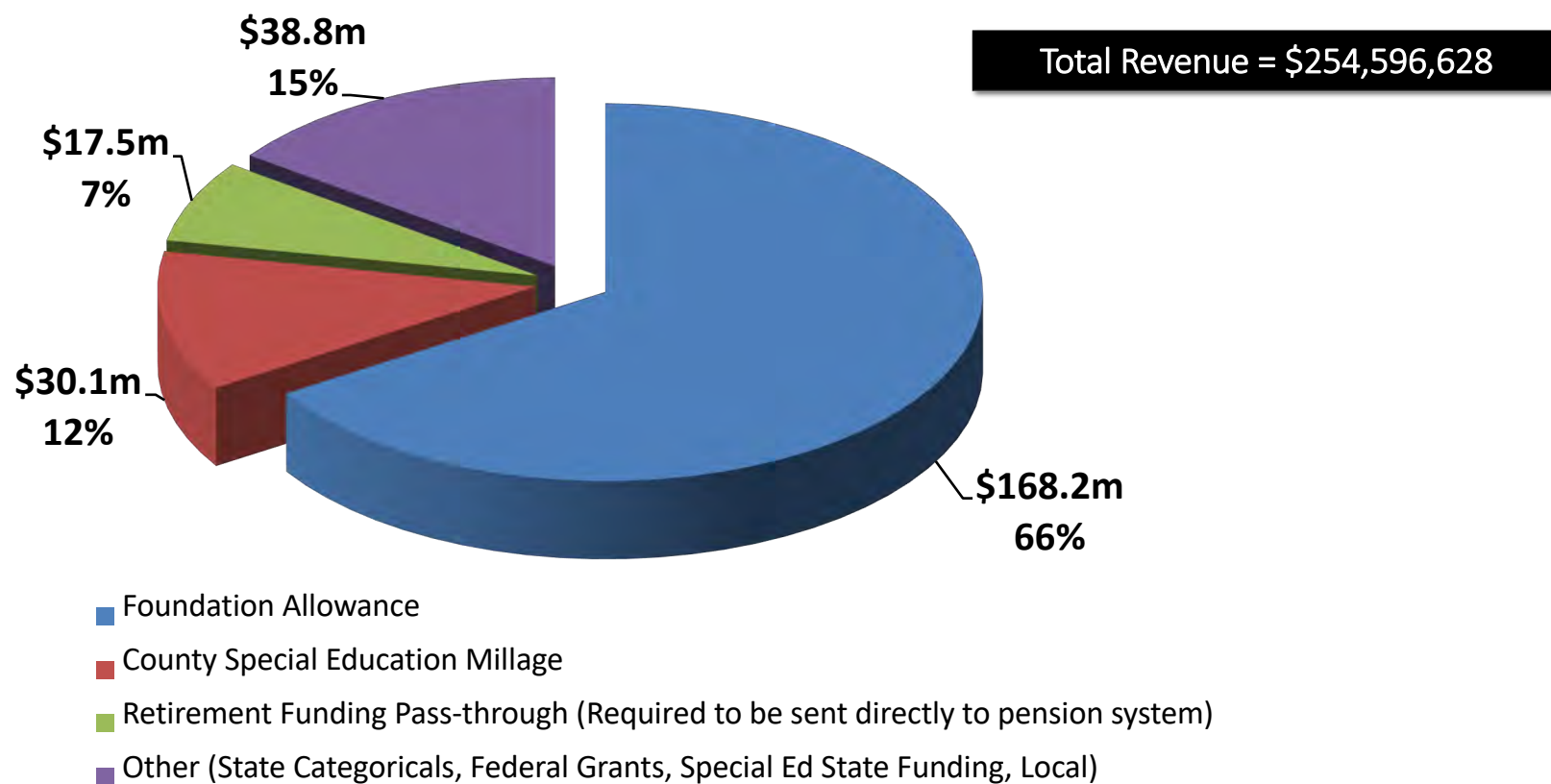


Fiscal Health: One Metric

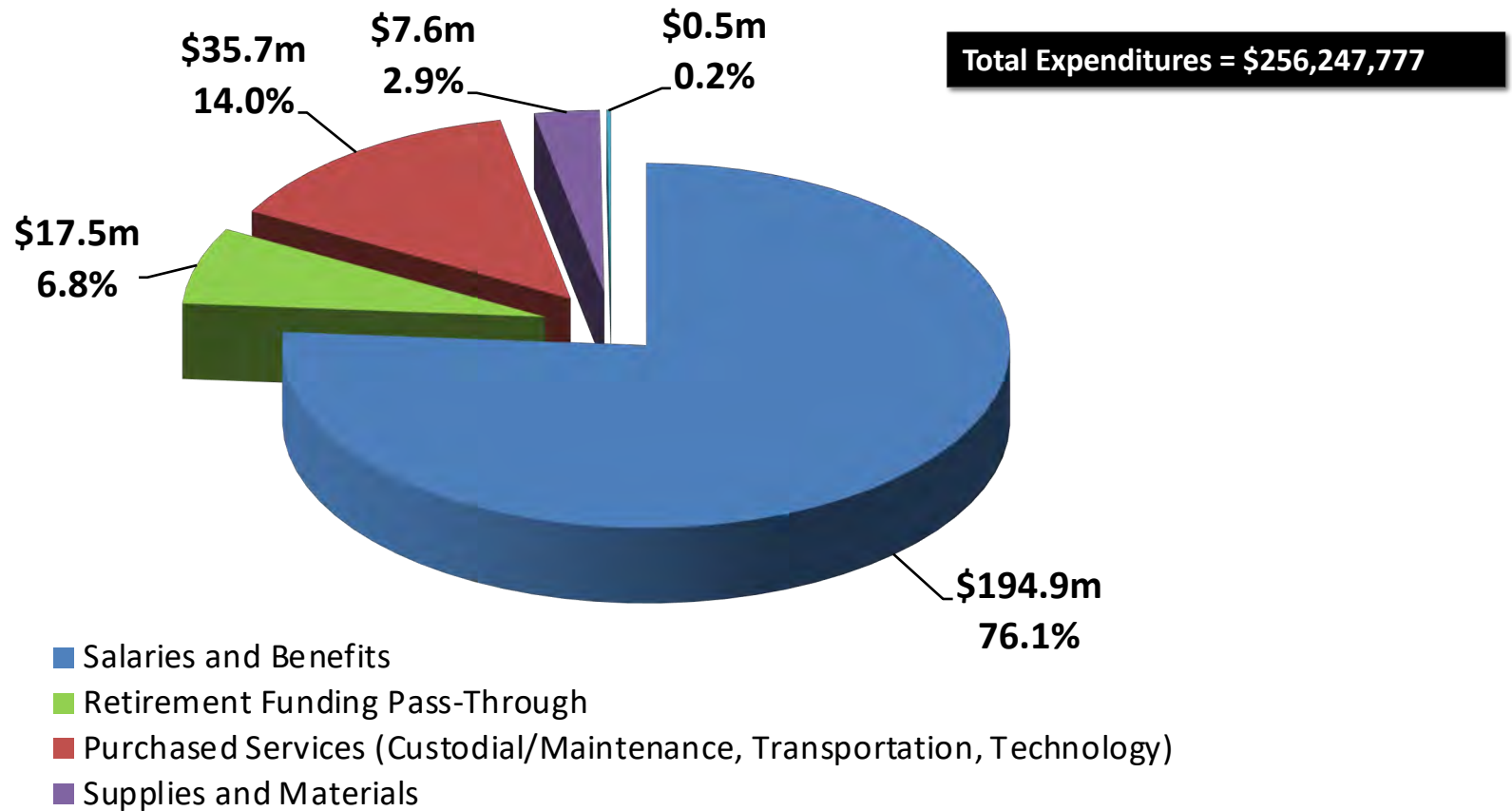
AAPS Days of Operation – Fund Balance



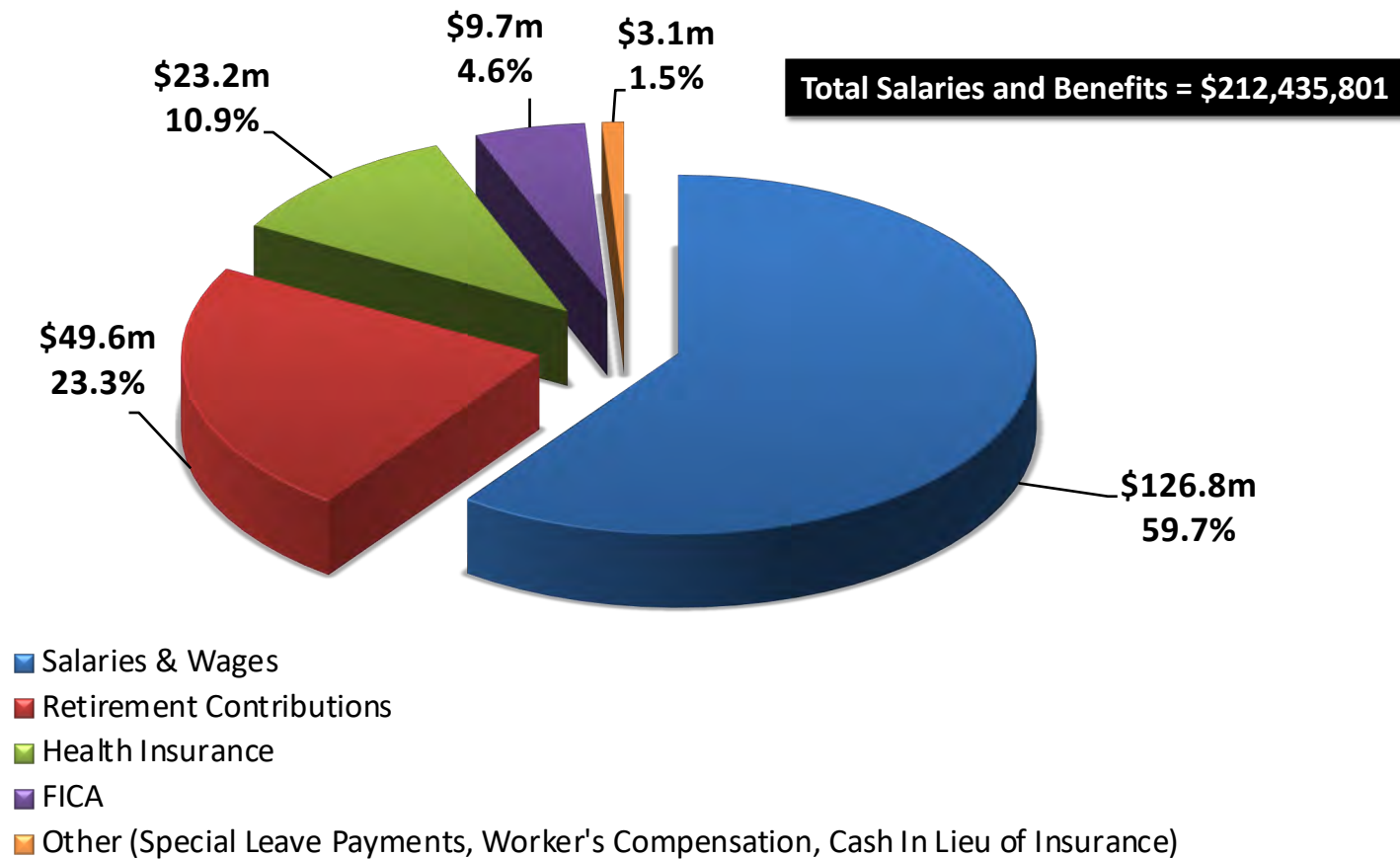
Where Our Money Comes From



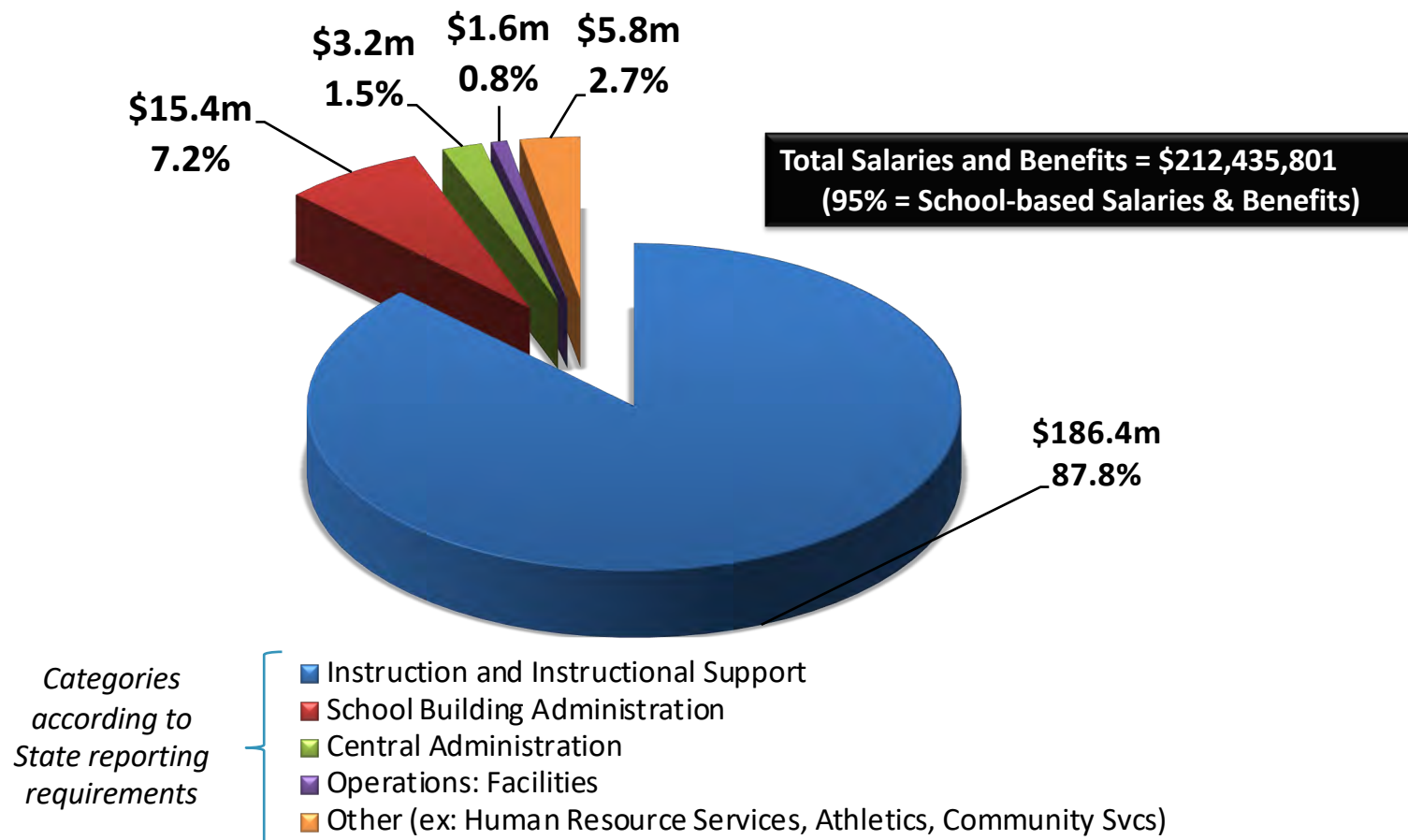
How Our Money is Spent



How Our Money is Spent

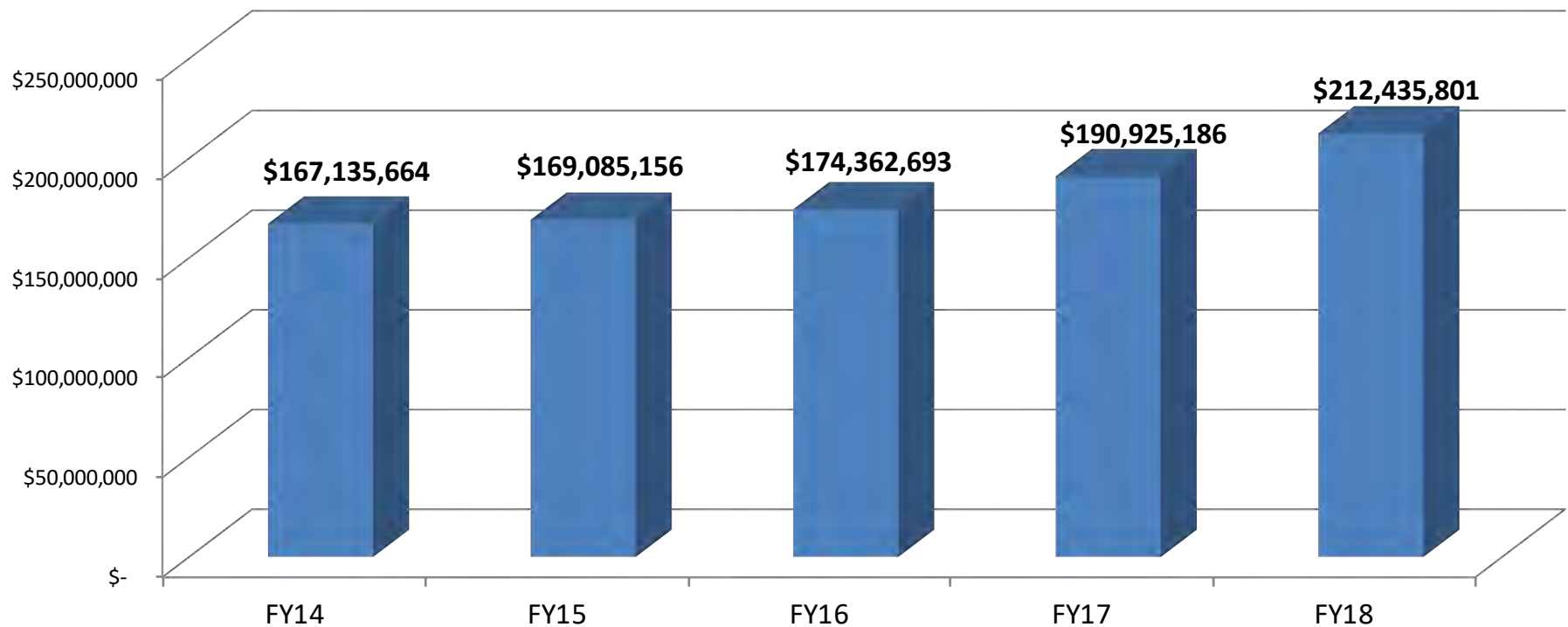


How Our Money is Spent

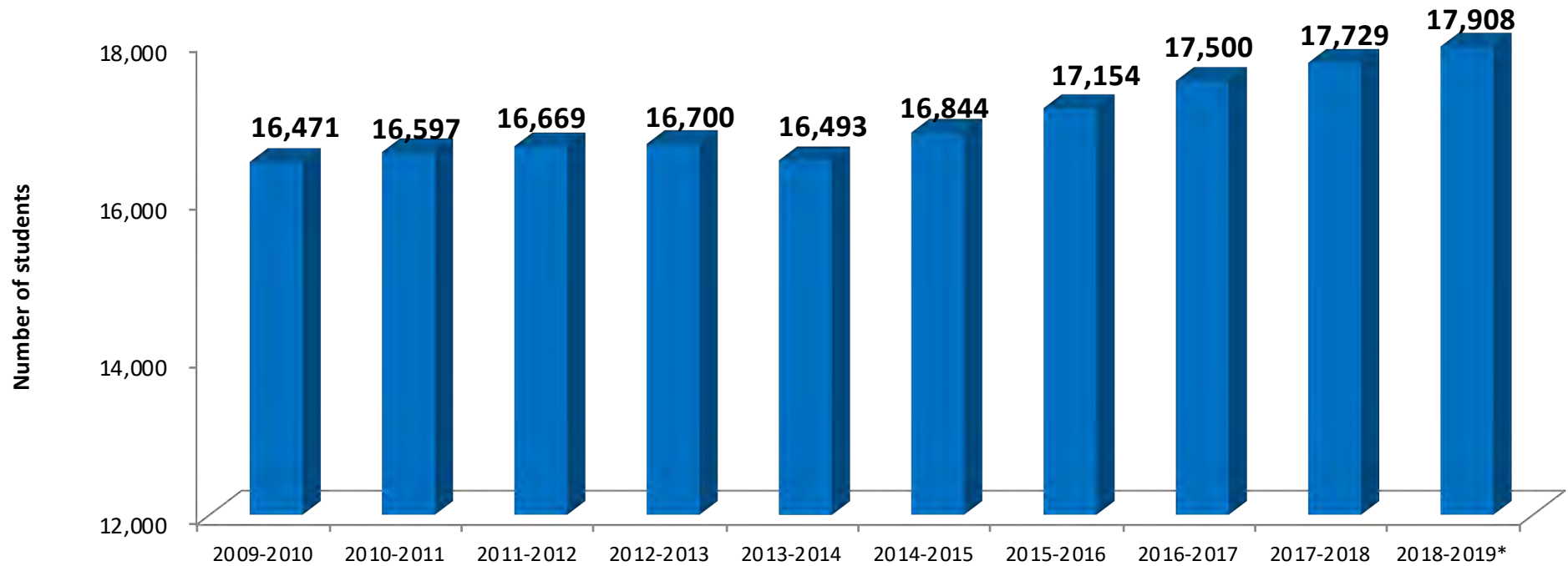


District Costs - AAPS Total Salary and Benefits

5 Year Trend – 27% Increase



Enrollment



* Fall 2018 count (FTE)

AAPS 2019-20 Budget Outlook – Enrollment Trend

Fiscal Year	Enrollment FTE's	Change Prior Year	Percentage Change
2019	17,935	206	1.16%
2018	17,729	229	1.31%
2017	17,500	346	2.02%
2016	17,154	310	1.84%
2015	16,844	351	2.13%
2014	16,493	(207)	(1.26%)

99% of New Employees are Located in Schools

	2014-15	2015-16	2016-17	2017-18	2018-19	# Change	% Change
01 – Superintendents & Cabinet	8	6	9	9	9	1	13%
02 – School Based Leaders (AAAA)	56	56	60	64	67	11	20%
03 - Directors	14	20	20	16	14	-	0%
04 - Teachers (AAEA)	1,037	1,164	1,347	1,381	1,405	368	35%
05 - Office Professionals (AAEA/OP)	114	133	134	128	121	7	6%
06 - Custodians	2	3	2	-	-	(2)	-100%
09 - Non-Bargaining	21	24	35	36	37	16	76%
10 - Para Pros (AAEA/TA)	349	335	380	392	415	66	19%
11 - Instructional (ASCSA)	21	27	23	21	24	3	14%
12 - Technical (TSP)	25	25	24	24	23	(2)	-8%
Total FTE Employees	1,647	1,793	2,034	2,071	2,115	468	28%

AAPS Class Size Over Time

Fiscal Year	Student Per Teacher Ratio
2017/18	19
2016/17	23
2015/16	21
2014/15	22
2013/14	22
Increase or (Decrease)	(3)

* Number of students divided by number of classroom teachers

Source: Michigan Department of Education Bulletin 1014

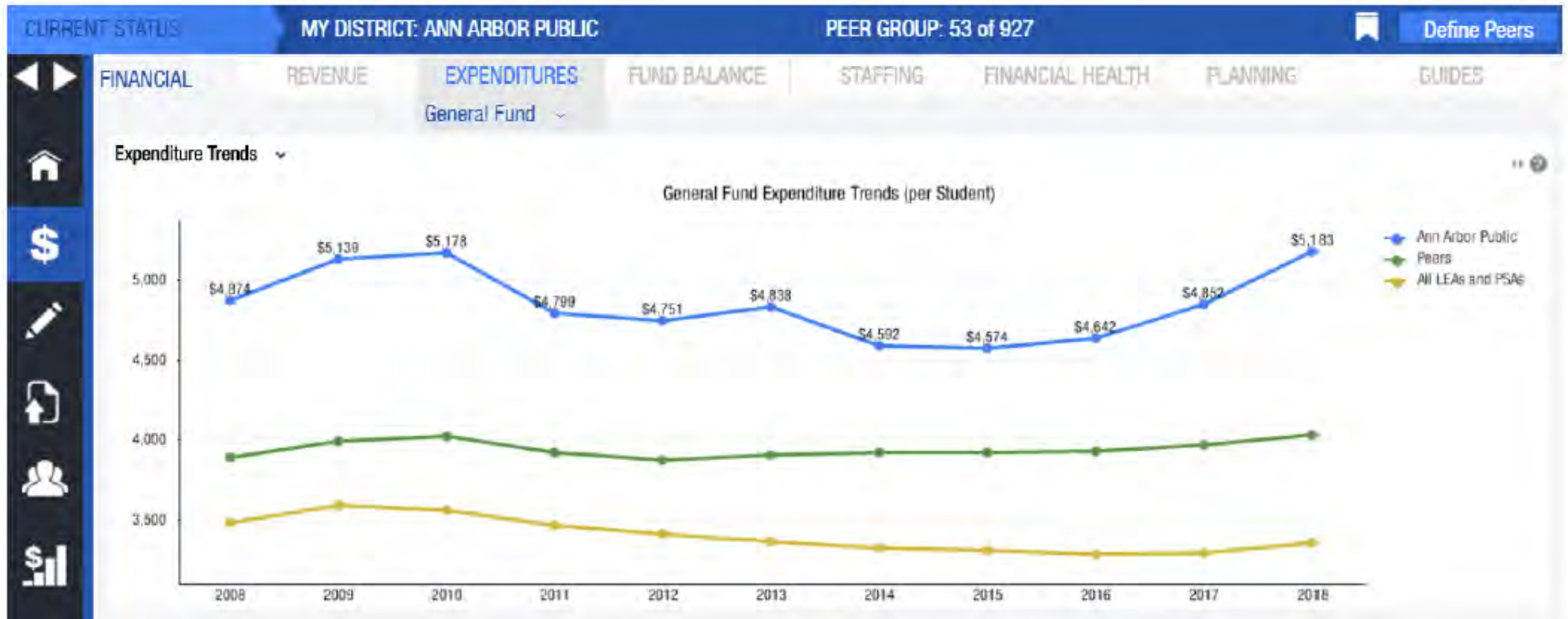
AAPS Average Teacher Salary

YEAR	Total # Districts in State	AAPS State Salary # Ranking	AAPS State Salary Percentile Ranking	AAPS Average Teacher Salary
2017/18	825	28	96.61%	\$71,546
2016/17	830	4	99.52%	\$78,545
2015/16	839	29	96.54%	\$71,564
2014/15	841	28	96.67%	\$72,036
2013/14	829	27	96.74%	\$72,550
2012/13	813	20	97.54%	\$74,153
2011/12	797	31	96.11%	\$72,122

Source: Michigan Department of Education Bulletin 1014

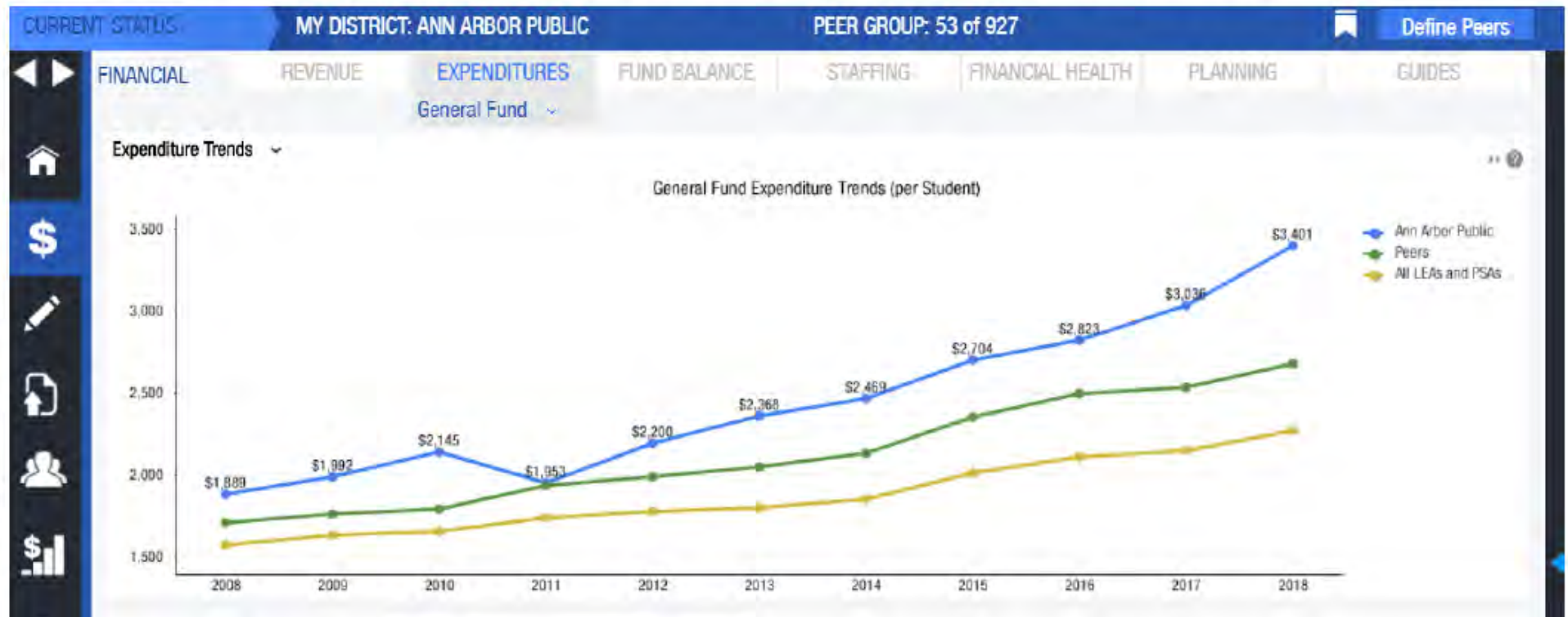
2017-18 Michigan Average Teacher Salary is \$61,908

EIDEX Professional Educator Salaries Compared with Notably Successful Districts/State

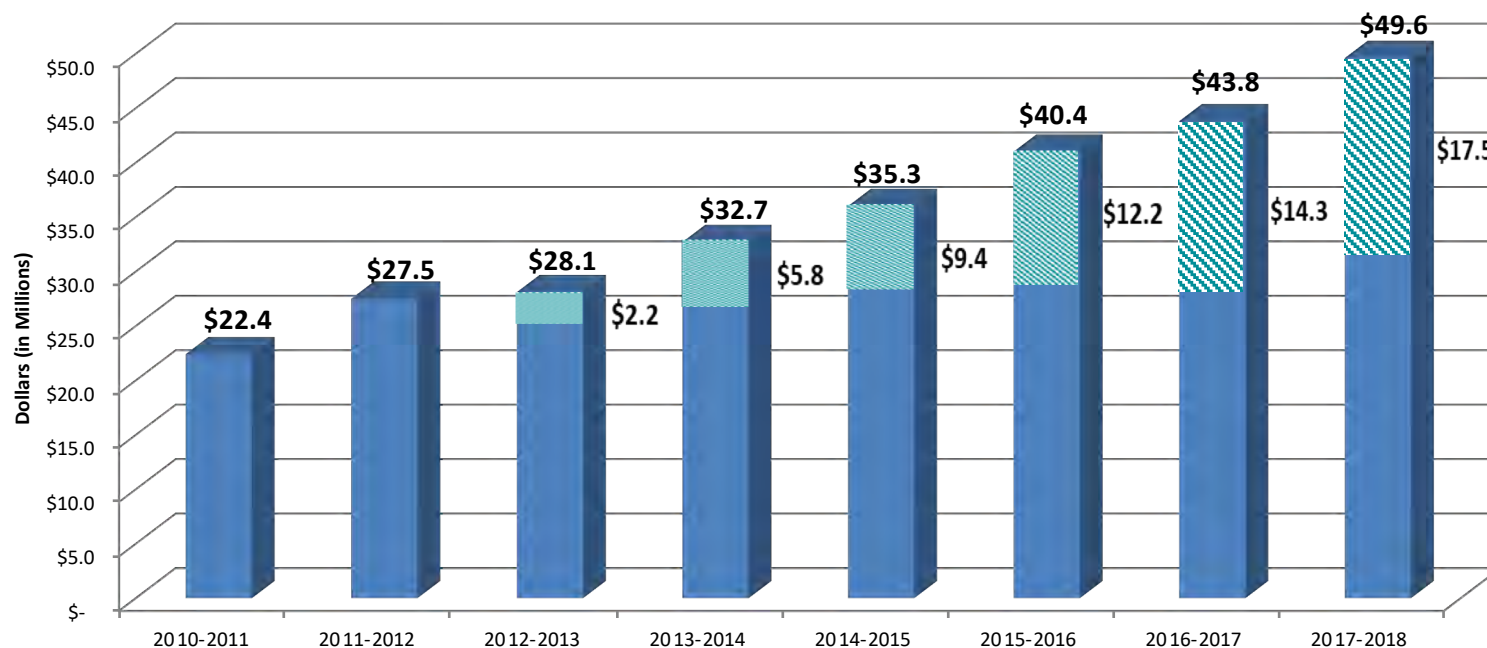


EIDEX – Instruction Employee Benefits Compared With Notably Successful Districts/State

EIDEX – INSTRUCTION (100) EMPLOYEE BENEFITS COMPARED WITH NOTABLY SUCCESSFUL/STATE 4.2.2019



AAPS 2019-20 Budget Outlook – Retirement



MPSERS Unfunded Actuarial Accrued Liability (UAAL) expense from State Aid.

This is a direct pass-through from State:

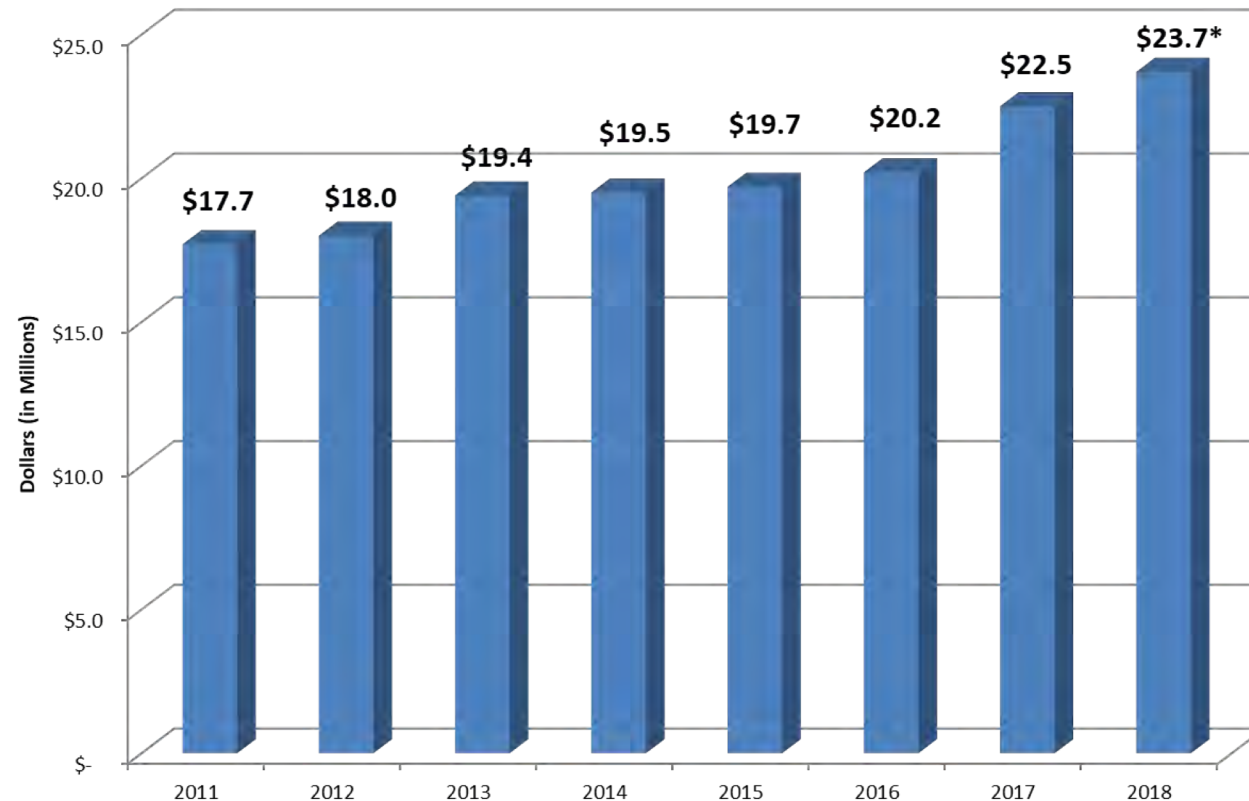
- 2013 includes \$2.2 million
- 2014 includes \$5.8 million
- 2015 includes \$9.4 million
- 2016 includes \$12.2 million
- 2017 includes \$14.3 million
- 2018 includes \$17.5 million

Retirement Impact - 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

AAPS 2019-20 Budget Outlook – Health Care Increases



*Increase in FY2018 was primarily the result of increasing the hard cap. The District currently pays a maximum of \$13,219 per teacher (the largest covered group) for insurance (an increase of \$289 per person from FY 2017)

2019-20 Estimated Revenue Changes – Governor's Proposal

- Estimated enrollment increase \$135 = **\$1.2M**
- Estimated increase in Foundation Allowance \$120 = **\$2.1M**
- Estimated increase in Special Education Reimbursement \$120 = **\$2.3M**
- Reduction due to one time adjustment in 2018-19 State Aid **\$1.4M**
- Estimated Act 18 Increase **\$700K**
- Estimated Act 18 December Payment Decrease (From \$2.7M to \$1.7M) **\$1.0M**
- Estimated other Categoricals (At-Risk, Voc. Ed., MPSERS UAAL) **\$1.5M**

Total Estimated Additional Revenues = \$5.4M

AAPS 2019-20 Estimated Expenditure Changes at Status Quo

- Estimated savings from teacher retirements = **\$1.2M**
- Estimated 2018-19 Deficit that continues into 2019-20= **\$2.9M**
- Proposed increase in Retirement rate by 1.32% increase at \$127M Payroll = **\$1.7M**
- Estimated increase in Health Care at 5% = **\$1.2M**
- Estimated 12 Teachers needed for additional enrollment = **\$1.2M**
- Estimated Increases in Categorical Spending (At-Risk, Voc. Ed., MPSERS UAAL) **\$1.5M**
- Estimated Increases in contracts (Custodial, Transportation, Utilities etc.) **\$1.5M**

Total Estimated Additional Expenditures = \$8.8M

Fund Balance Addition

Total Estimated Additional Revenues = \$5.4M

Total Estimated Additional Expenditures = \$8.8M

AMOUNT NEEDED TO AVOID IMPACT ON FUND BALANCE = \$3.4M

Estimated Beginning Fund Balance for 2019-20 \$15.6M

Estimated Ending Fund Balance for 2019-20 \$12.2M WITHOUT CHANGES

How Much Do AAPS Raises And Steps Cost?

	Cost of Steps Including FICA and MPSERS	Cost of 1% including FICA and MPSERS	Total Cost By Group
01 – Superintendent's	\$ -	\$ 17,705	\$ 17,705
02 - Principals (AAAA)	\$ 135,239	\$ 107,747	\$ 242,986
03 - Directors	\$ -	\$ 19,039	\$ 19,039
04 - Teachers (AAEA)	\$ 4,177,409	\$ 1,403,124	\$ 5,580,533
05 - Office Professionals (AAEA/OP)	\$ 113,574	\$ 67,473	\$ 181,047
06 - Custodians	\$ -	\$ -	\$ -
09 - Non-Bargaining	\$ -	\$ 36,481	\$ 36,481
10 - Para Pros (AAEA/TA)	\$ 226,931	\$ 130,989	\$ 357,920
11 - Instructional (ASCSA)	\$ 38,242	\$ 22,824	\$ 61,066
12 - Technical (TSP)	\$ 14,615	\$ 15,172	\$ 29,787
TOTAL	\$ 4,706,010	\$ 1,820,554	\$ 6,526,564

Reasons For Fund Balance

- Allows districts to pay bills, including payroll, until the first state aid payment is received in late October
- Allows districts to avoid borrowing costs
- Provides stability and sustainability in a highly volatile school funding climate
- Helps cover unexpected expenses such as higher utility bills, unanticipated building maintenance, and one-time costs
- Serves as a hedge to temporarily offset unplanned student enrollment loss

Early Warning Law MCL 380.1219

- Signed by Governor Snyder on July 1, 2015
- Provides option for ISD oversight of local district or PSA finances
- Budgetary assumptions must be reported by July 7 for any district without a positive fund balance of at least 5% for the two most recent school years
- Allows for withholding of certain payments
- Emergency manager appointment option by Treasury instead of State Superintendent

Early Warning Law MCL 380.1219

Assessing Financial Health

- Financial Practices (Uniform Budgeting and Accounting Act, Budget Variance, Amendments)
- Comparative Staffing, Wages and Benefit Cost With Other Districts
- Bargaining Agreement Costs – Current And Future
- School Building Student Capacity Utilization
- Comparative Non-Instructional Costs
- Enrollment Projection Methods
- Deferred Maintenance And Capital Investment Needs
- Substitute Costs, Workers Comp, Unemployment, Insurances
- Pupil Transportation Costs/Routing

In Closing

- The State of Michigan has reduced its tax effort for the benefit of businesses and corporations
- The effect of the State's decisions has impacted AAPS by receiving the same Foundation in 2018-19 as in 2005-06
- Just to cover Consumer Price Index (inflation) during the 13 year span of time 2005-06 to 2018-19 AAPS would have received an additional \$359M
- AAPS ranks 28th in the State of Michigan in Teacher Average Pay
- AAPS spends more on benefits than its peers or the average of the whole State of Michigan
- AAPS has used Fund Balance for the past two years plus it is expected to use Fund Balance again this year to make ends meet
- AAPS cost of 1% raise and steps combined is \$6.5M
- AAPS at the end of 2018-19 is projected to be at 6.2% Fund Balance
- After being at or below 5% Fund Balance for two years the State of Michigan intervenes and AAPS could lose some or all of its financial decision making due to Early Warning Legislation