

2018 MSBO FINANCIAL STRATEGIES CONFERENCE: SCHOOL AID FUND UPDATE JANUARY 17, 2018

Presented to Michigan School Business Officials
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senate.michigan.gov/sfa



REVENUE UPDATE FROM CONSENSUS REVENUE ESTIMATING CONFERENCE

January 2018 Consensus Revenue Estimates

	Fiscal Year 2016-17				Fiscal Year 2017-18			
	Total	\$ Change from May	\$ Change from FY 16	% Change from FY 16	Total	\$ Change from May	\$ Change from FY 17	% Change from FY 17
School Aid Fund	\$12,685.1	\$ 75.2	\$ 566.4	4.5%	\$13,084.5	\$ 114.0	\$ 399.4	3.1%
General Fund/General Purpose (GF/GP)	\$10,192.3	\$ 81.0	\$ 176.9	1.7%	\$10,307.7	(\$100.9)	\$ 115.4	1.1%
Total Revenue	\$22,877.4	\$ 156.2	\$ 743.3	3.2%	\$23,392.2	\$ 13.1	\$ 514.8	2.2%

(Dollars in Millions)

January 2018 Consensus Revenue Estimates

	Fiscal Year 2018-19				Fiscal Year 2019-20			
	Total	\$ Change from May	\$ Change from FY 18	% Change from FY 18	Total	\$ Change from May	\$ Change from FY 19	% Change from FY 19
School Aid Fund	\$13,464.0	\$ 133.5	\$ 379.5	2.8%	\$13,822.7	n/a	\$ 358.7	2.7%
General Fund/General Purpose (GF/GP)	\$10,339.6	(\$149.9)	\$ 31.9	0.3%	\$10,413.5	n/a	\$ 73.9	0.7%
Total Revenue	\$23,803.6	(\$16.4)	\$ 411.4	1.7%	\$24,236.2		\$ 432.6	1.8%

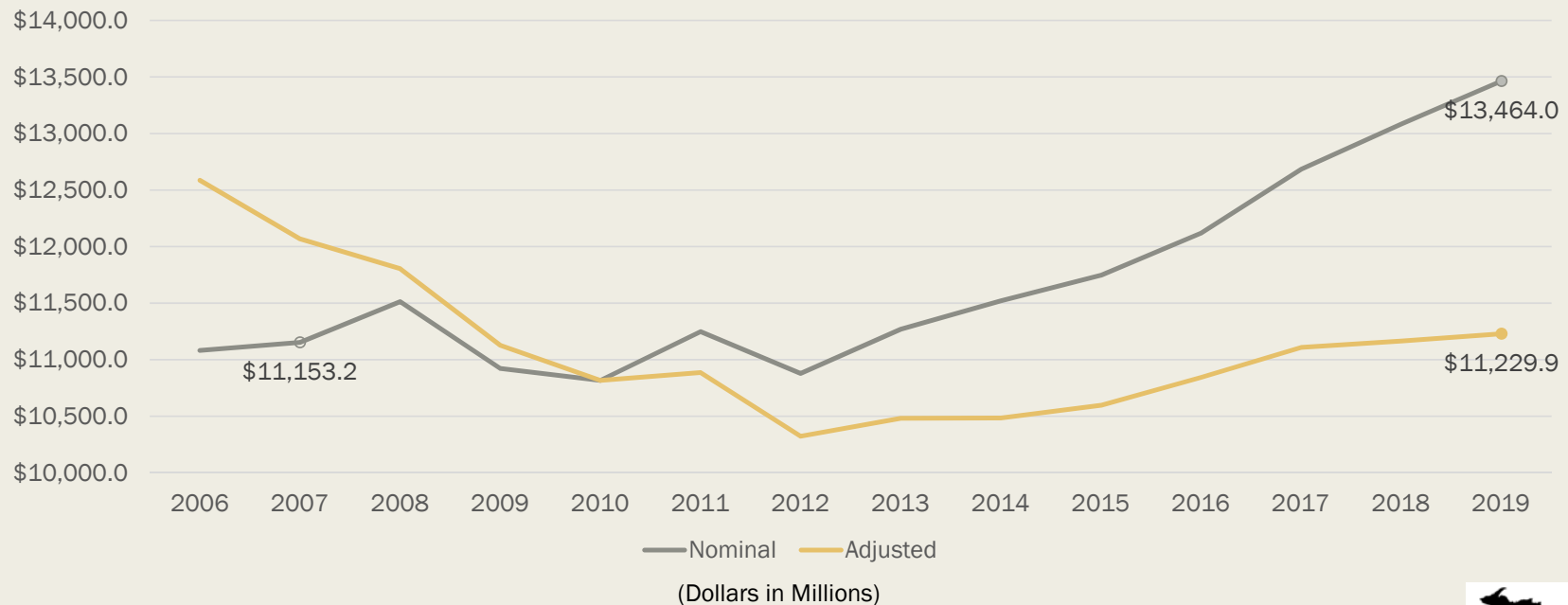
(Dollars in Millions)

Main Takeaways from CREC

- Sales tax predicted to continue to be strong – possible combination of higher price of gasoline and consumers using credit card debt to pay for purchases
- Personal income did not grow as expected, meaning income tax revenue was down
- However, over the forecast period, wages should start to grow with tighter labor market
- Earmarks on the General Fund restrain available revenue
- MBT revenue continues to be volatile and strongly negative (credits)

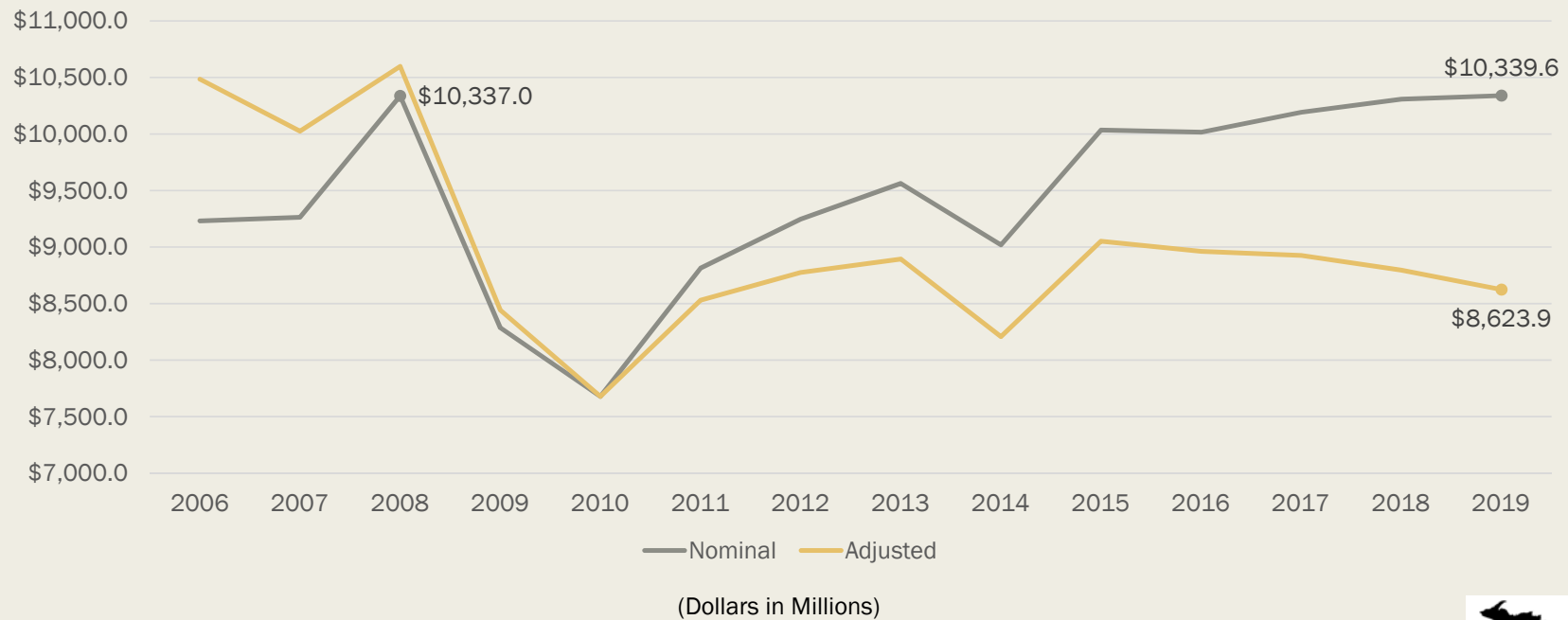
Historical School Aid Fund Revenue: Nominal and Inflation-Adjusted

FY 2019 – Record Nominal SAF Revenue;
Inflation-Adjusted at Roughly FY 2007 Nominal Level; down 3% from FY
1995 Inflation-Adjusted Revenue (not shown)

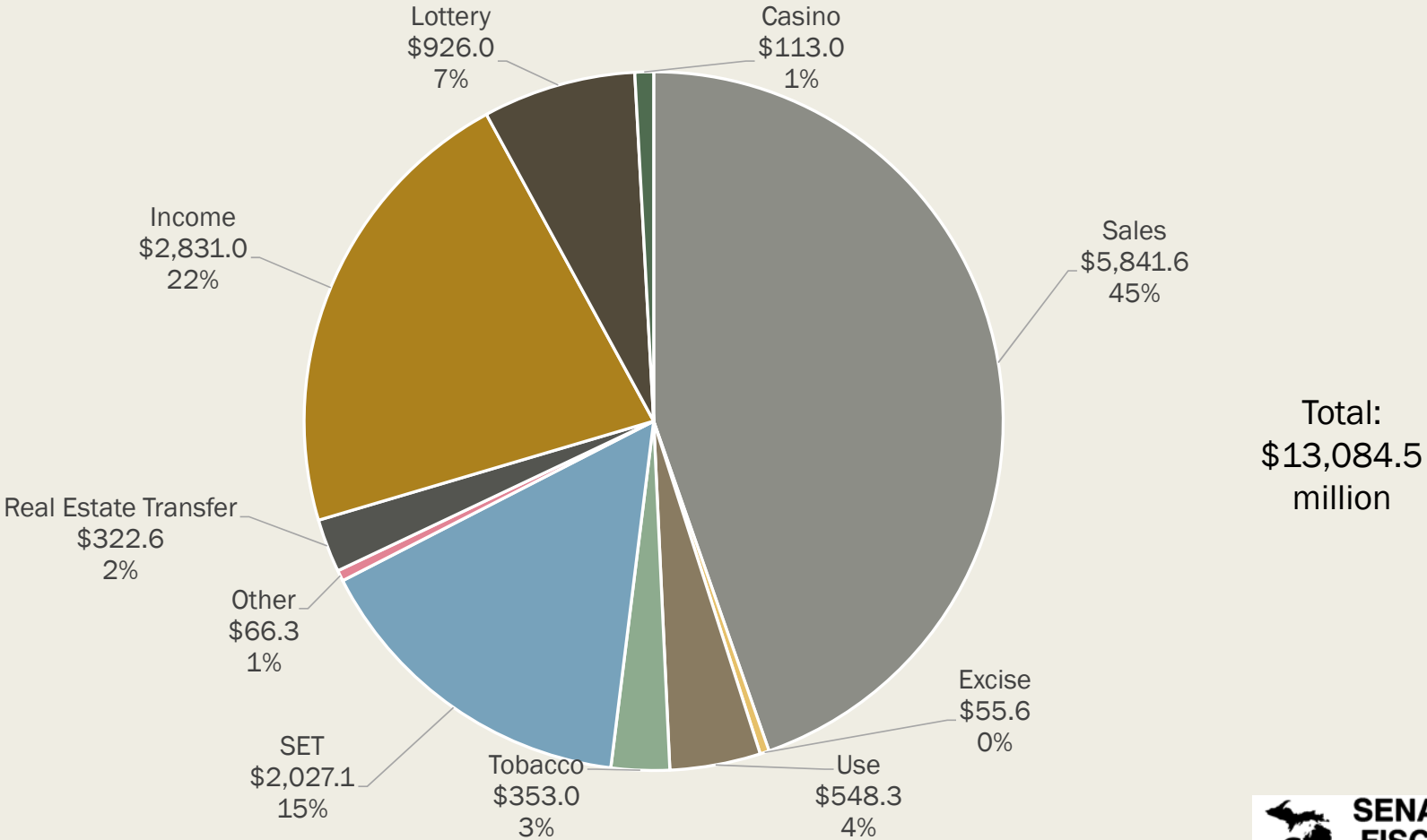


Historical GF/GP Revenue: Nominal and Inflation-Adjusted

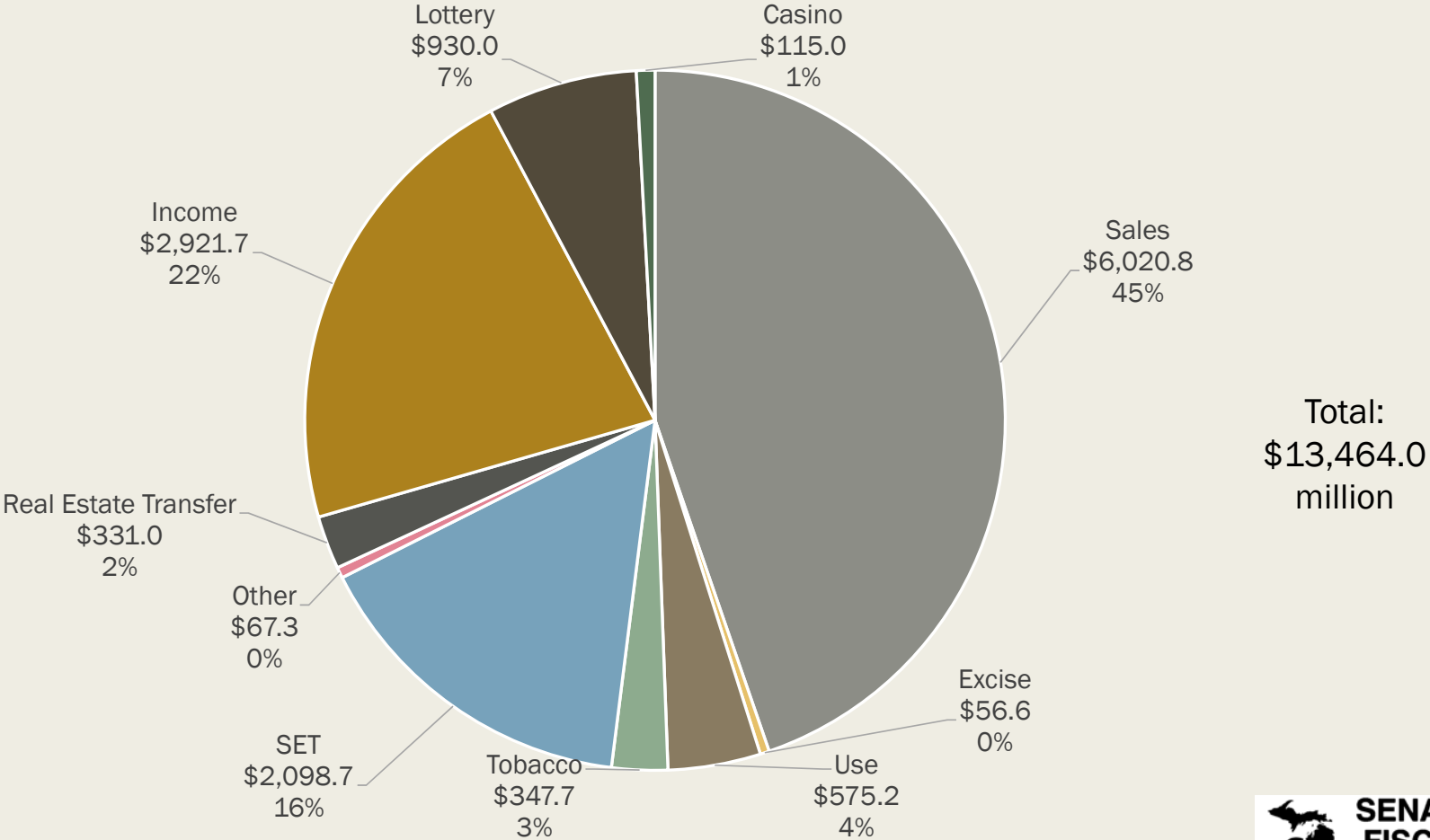
Nominal – At Roughly the Recent Peak in FY 2007
 Inflation-Adjusted – Level in 1968 (not shown)



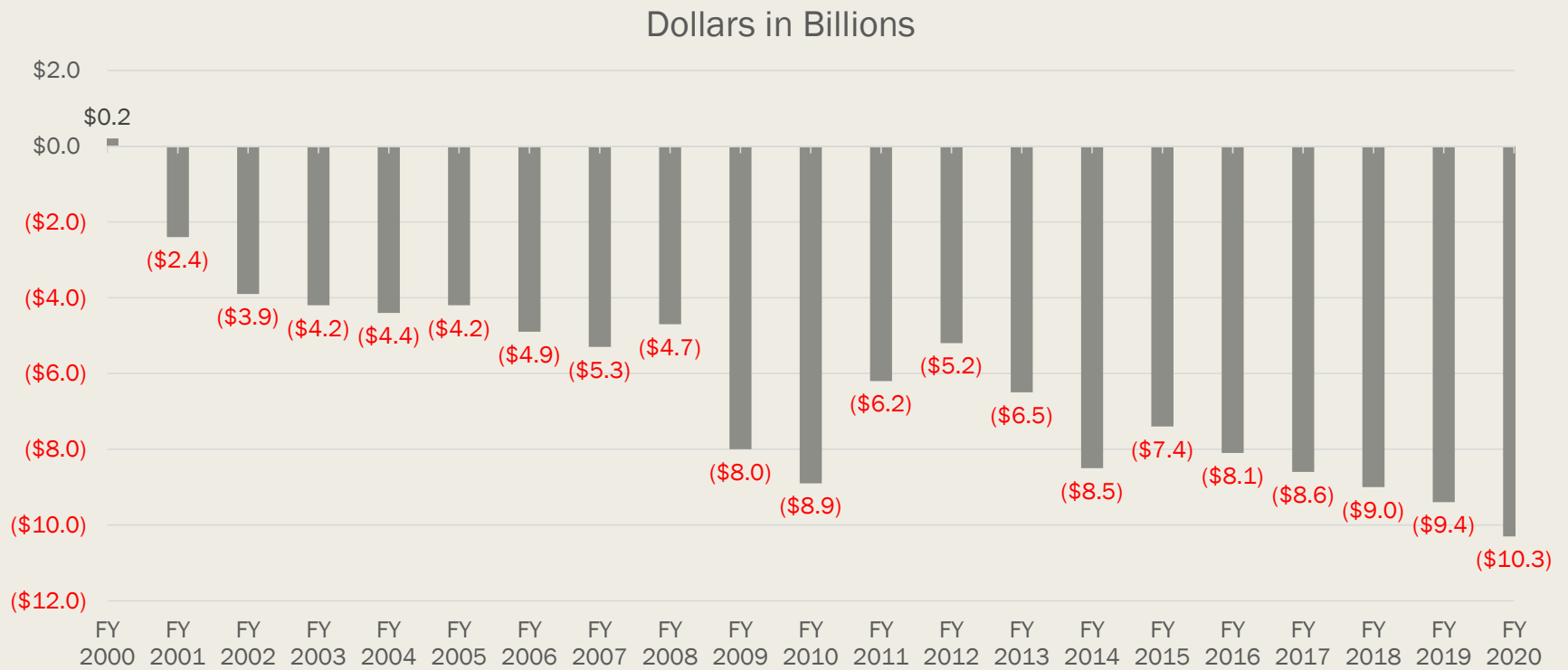
School Aid Fund Revenue Sources: FY 2017-18



School Aid Fund Revenue Sources: FY 2018-19



Constitutional Revenue Limit: Calculated as 9.49% of State personal income



GF/GP BUDGET

Balance Sheets, Issues, and Pressures

GF/GP Balance Sheets

	Final FY 2016-17	Recently Updated FY 2017-18	Estimated Baseline FY 2018-19
BEGINNING BALANCE	\$ 604.4	\$ 622.5	\$ 341.3
ESTIMATED REVENUE			
GF/GP Revenue	\$ 10,206.5	\$ 10,296.1	\$ 10,333.8
HMO Use Tax	\$ 116.0	\$ -	\$ -
<u>Earmarks:</u>			
Local Revenue Sharing	\$ (465.3)	\$ (465.9)	\$ (466.2)
Total Current-Year Revenue	\$ 9,857.2	\$ 9,830.2	\$ 9,867.6
ESTIMATED EXPENDITURES			
<u>Estimated Ongoing Appropriations</u>			
YTD or Estimated Appropriations	\$ 9,669.0	\$ 9,784.4	\$ 9,784.4
<u>Estimated One-Time and Other Approps.</u>			
One-Time Expenditures	\$ 388.5	\$ 177.0	\$ 271.8
Budget Stabilization Fund	\$ 75.0	\$ 150.0	\$ -
<u>Lapses</u>	\$ (293.4)	\$ -	\$ -
Total Expenditures	\$ 9,839.1	\$ 10,111.4	\$ 10,056.2
Current-Year: Revenues - Expenditures	\$ 18.1	\$ (281.2)	\$ (188.6)
Total Estimated Ending Balance	\$ 622.5	\$ 341.3	\$ 152.7

General Fund/General Purpose Pressures

- GF/GP available revenue essentially flat, reflecting \$150 million earmarked for transportation in FY 19; this increases to \$325 million in FY 20 and \$600 million annually beginning in FY 21
- Another GF/GP reduction is \$206 million for Homestead Property Tax Credit expansion
- Personal Property Tax Reform – Loss of \$438.0 million GF/GP in FY 19
- Medicaid Expansion - \$30 million; other Medicaid: another \$60 million
- PFAS – Cleaning up Environment; Infrastructure; Sewers, etc. Environmental bond?
- Pharmaceutical Cost Pressures for DHHS and Corrections
- Roads? Any desire to do more?
- Pension Liabilities? Pension Rates of Return? Local units in distress?
- Eliminate Driver Responsibility Fees? - \$26 million in FY 19
- Flint – Education/Health/Infrastructure costs – drain on GF/GP.

SCHOOL AID FUND

Balance Sheets, Issues, and Pressures

School Aid Fund Balance Sheets

	Final FY 2016-17	Recently Updated FY 2017-18	Estimated Baseline FY 2018-19
BEGINNING BALANCE	\$ 168.2	\$ 377.4	\$ 230.5
ESTIMATED REVENUE			
<u>School Aid Fund Revenue</u>			
Subtotal: SAF Revenue	\$ 12,685.1	\$ 13,084.5	\$ 13,464.0
<u>Other Revenue Sources</u>			
Subtotal: Other Revenue	\$ 1,932.3	\$ 1,982.0	\$ 1,975.8
Total Current-Year Revenue	\$ 14,617.4	\$ 15,066.5	\$ 15,439.8
ESTIMATED EXPENDITURES			
<u>Estimated School Aid Expenditures</u>			
K-12 Expenditures	\$ 13,910.7	\$ 14,576.8	\$ 14,457.5
<u>Postsecondary Expenditures</u>			
Community Colleges	\$ 260.4	\$ 398.3	\$ 405.6
<u>Higher Education</u>	\$ 237.1	\$ 238.3	\$ 237.0
Subtotal: Postsecondary	\$ 497.5	\$ 636.6	\$ 642.6
Total Expenditures	\$ 14,408.2	\$ 15,213.4	\$ 15,100.1
Current-Year: Revenues - Expenditures	\$ 209.2	\$ (146.9)	\$ 339.7
Total Estimated Ending Balance	\$ 377.4	\$ 230.5	\$ 570.2

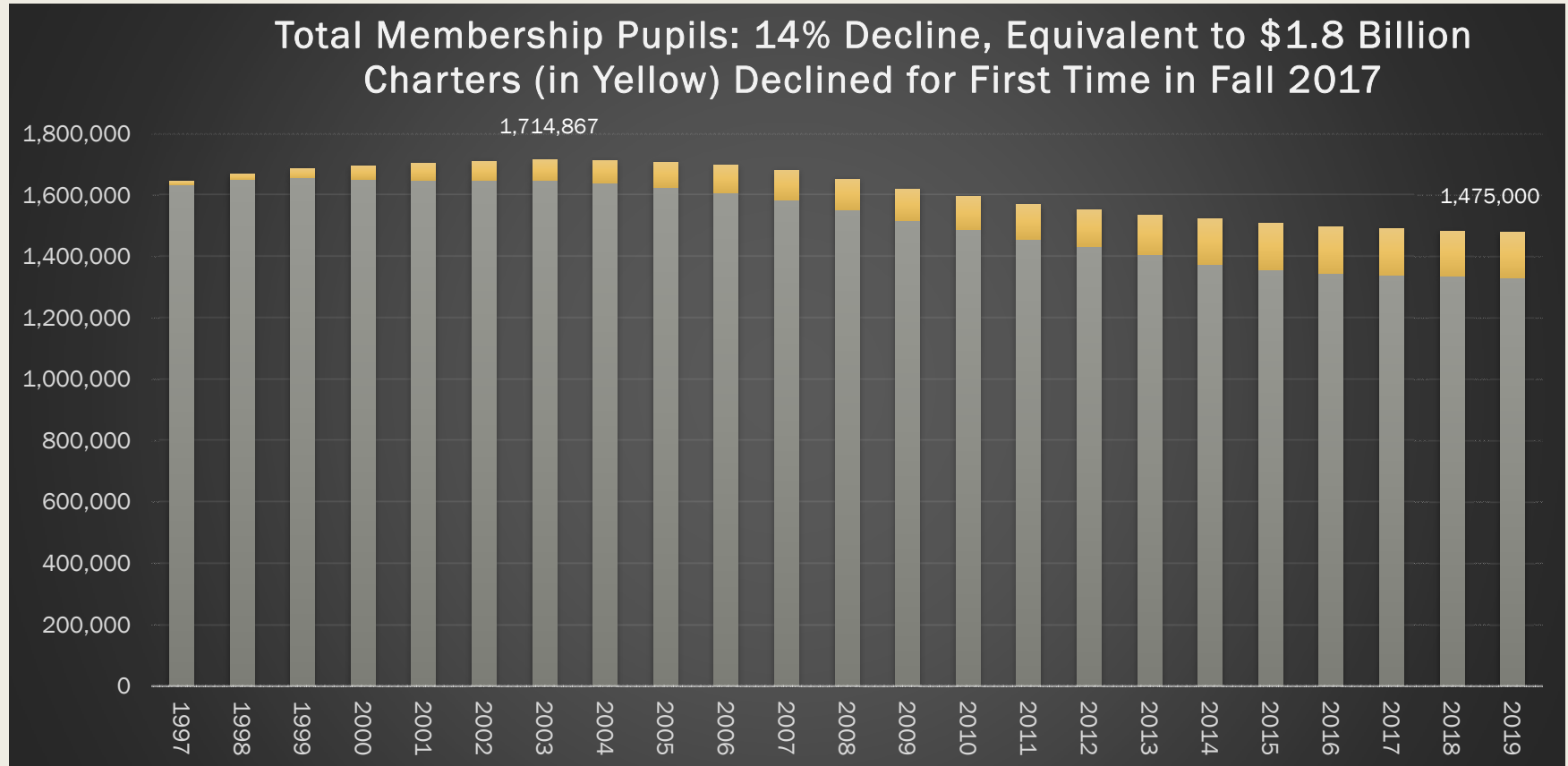
Possible FY 2018-19 School Aid Budget Issues

- CTE – equipment and/or counselors
- CTE – aligning pathways/education/jobs/talent
- Adult Education ?
- Foundation allowance: a \$75-\$150 per-pupil increase would cost \$194 million
- At Risk? Another increase?
- Early childhood?
- Other Continued MPSERS Discussions?
- Shared Time Continued Discussions?

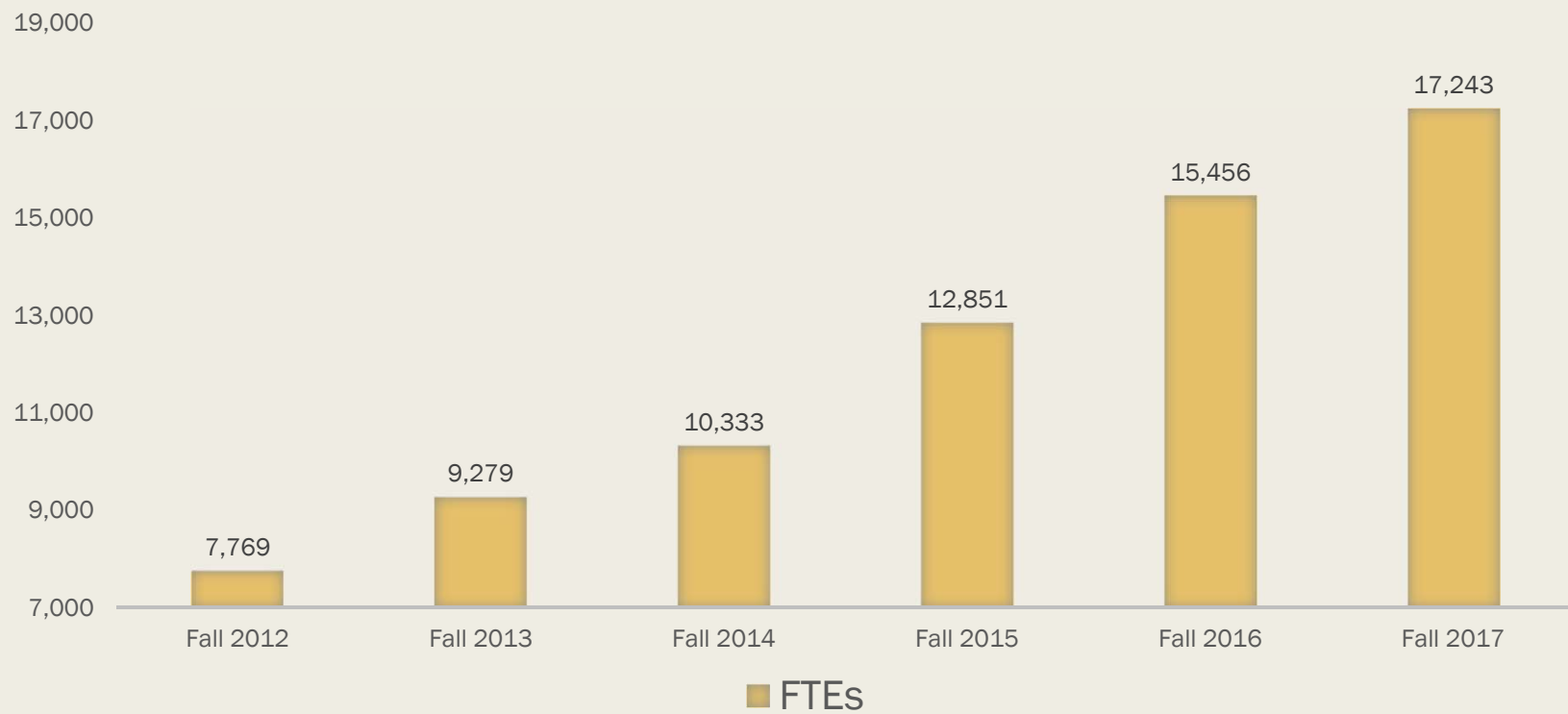
School Aid Fund Pressures

- Continued declining enrollment, although not at quite the same pace as previously – estimates assume some growth in participation rates in kindergarten (i.e., more students entering public K-12 system), shared time with nonpublic and home school students, and early/middle colleges.
- Continued MPSERS issues due to actual payroll growth being flat or negative, compared to assumed growth of 3.5%, which means not enough money is remitted each year to support UAAL and therefore a larger SAF cost is necessary to comply with the rate cap and pay for the higher resulting total MPSERS contribution rate. Rep. Albert has a bill (HB 5335) to pay UAAL based on level dollar instead of level percent of payroll.
- Continued use of SAF to support Community Colleges and Higher Education budgets...More than \$636 million in FY 2017-18.
- Free Community College? Push nationwide to offer first two years free.

Declining Enrollment



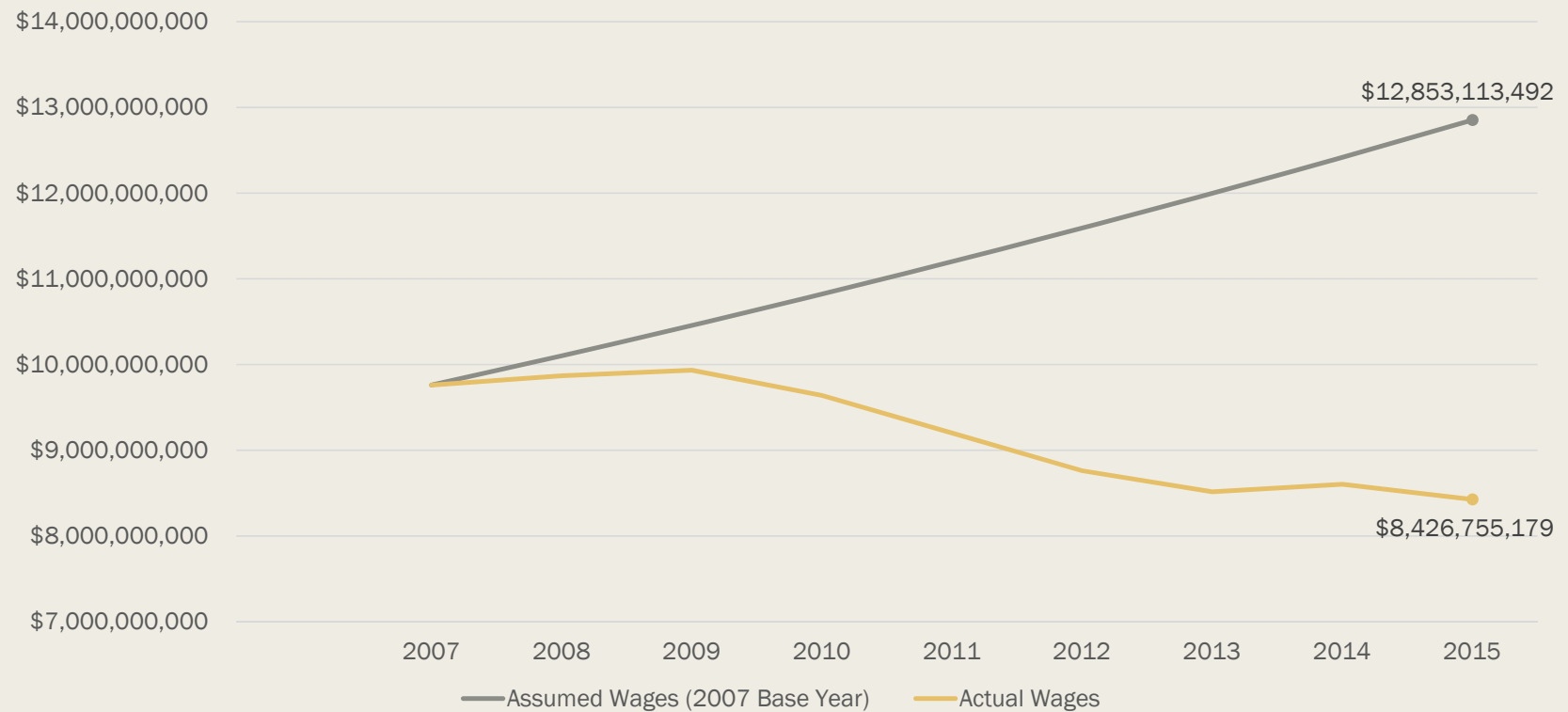
Growth in Shared-Time FTEs



MPERS Actual Wages vs. Assumed

Based on 2007 Actual, w/o Revision

In a 2016 analysis, roughly 1/4 was due to charters; rest was purchased services



MPERS Appropriations in K-12

(Dollars in Millions)

K-12	Sec. 147c	Sec. 147a(1)	Sec. 147a(2)	Sec. 147d/c	Sec. 147e	K-12
	<u>Rate Cap</u>	<u>Cost Offset</u>	<u>Add'l AROR</u>	<u>Add'l Liability</u>	<u>SB 401 Reforms</u>	<u>Total by Year</u>
2012	\$ -	\$ 155.0		\$ -		\$ 155.0
2013	\$ 160.5	\$ 155.0		\$ -		\$ 315.5
2014	\$ 405.5	\$ 100.0		\$ -		\$ 505.5
2015	\$ 676.4	\$ 100.0		\$ 19.6		\$ 796.0
2016	\$ 892.9	\$ 100.0		\$ -		\$ 992.9
2017	\$ 982.2	\$ 100.0		\$ -		\$ 1,082.2
2018	\$ 960.1	\$ 100.0	\$ 48.9	\$ 200.0	\$ 23.1	\$ 1,332.2

Another nearly \$84.0 million is appropriated to support MPERS costs for Community Colleges, Universities, and Libraries.

School Aid Fund in Postsecondary

