

March 18, 2024

TO: Ron Koehler, Superintendent
FROM: Kevin Philipps
RE: 2024-25 Budget Assumptions

At the beginning of the calendar year we create a “working document” to assist with the creation of next fiscal year’s budget. The intention of the document is to give us a starting point to begin creating the budget, then update the assumptions as we move through the spring. There are certain data points, such as taxable value and state funding that will be finalized later in the spring, at which time we will adjust the assumptions. The Governor released her proposed budget on the 9th of February, and we are incorporating her proposal for state funding at this time. There are other data points, such as the bargaining unit contract wage increase and medical costs, which have already been finalized for next year so they won’t change.

Attached is the list of budget assumptions. Below, we have included a brief explanation of some of the key assumptions, which as mentioned above, could change before the budget is finalized.

- **Taxable value** – Budgeting a **6.50% increase**. The annual increase the last three years has averaged 6.70%, including last year’s 8.61% increase. Kent County has provided a preliminary estimate for next year, which is an 8.35% increase. 2.25% of that increase is a result of additional properties on the tax rolls. The inflation rate multiplier is 5.0% for 2024, same as last year. Last year, the actual increase was approximately 0.75% less than the preliminary estimate. Taking into account the same preliminary to final decrease, and assuming the 6.1% of growth on existing properties is reduced to the 5.0% inflation rate multiplier provides the calculation of our overall 6.50% increase assumption.
- **State aid funding** – We recommend we use the Governor’s recommendation for our budget planning. The specific increases related to our budget are below:
 - Section 81 Operational Funding: 2.5% increase
 - Section 51e Special Education Foundation Allowance: Remains 100% of FA
 - Section 61 & 62 (CTE): 0% increase
 - Great Start Readiness: \$734 full day increase to \$10,342 per student
 - Section 31n: No increase
 - Section 107 Adult Education: No increase

- **MPSERS Retirement Rate** – **No change** is being budgeted to the contribution rate paid by the Board. Due to the health care liabilities of MPSERS now being fully funded, the Governor has proposed that the money taken from the School Aid Fund to support unfunded health care liabilities be discontinued. This would impact our “147c” pass-through funding, which would decrease from 17% to 10.5% of payroll.
- **Investment income** – Budgeting a **4.50% earning rate** for 2024-25. Current earning rates are still above 5.00%, but we believe rates will begin to decrease later in 2024 and into 2025.. We are also working with our investment provider to set up a portfolio with 2-5 maturities to capture higher rates prior to any decreases. Based on an average cash balance of \$100,000,000, we are projecting \$4,500,000 in investment income, compared to this year’s current budget of \$3,578,000.
- **Staff compensation** – Budgeted increase of **3.50%** on schedule, plus step increment for all employees. All of the collective bargaining agreements expire at the end of this school year, so this assumption is a placeholder until new agreements are in place sometime this spring or summer.
- **Medical** – The Department of Treasury has released the medical plan cap amounts for 2024, which is a **4.1% increase** over 2023. Because the state cap is based on the calendar year, this only covers the first six months of the fiscal year. For the second half of the fiscal year (2025), we are budgeting no increase (0.0%) to the medical plan cap amount. 11 of the 12 months for the 2025 calculation are known, and the current increase is 0.0%. The ISD’s overall increase for the 2024-25 fiscal year will be **2.0%**.
- **Utilities** – Budgeting for a **5% increase** for electricity, **5% increase** for natural gas (heat), and **5%** for other utilities (water, telephone, trash removal).
- **Risk Management** – Budgeting for a **15% increase**. This increase is based on industry wide increases being realized, led by increases in cyber liability coverage. This fiscal year was a 20% increase, and we expect another year of elevated increase.

If you have any questions on any of the other assumptions or want more detail, please let me know.

KP/kg

Attachment

Budget Assumptions for 2024-25

OVERVIEW:

Will the following budgets be structurally balanced in 2024-25 (annual ongoing revenues match or exceed ongoing annual expenditures)?

General Fund: Yes

Special Education Fund: Yes

Career Technical Fund: Yes

REVENUE

- A. Taxable Value: **6.5% increase**
 - a. Total taxable value of: \$32,870,916,173
 - b. Taxable value increase of: \$2,006,206,151
- B. State Aid Categorical Funding:
 - a. Section 81: **2.5% increase**
 - b. Section 51e: Special Education: **100% of foundation allowance (No change)**
 - c. Section 61a1 & 62 (CTE): **No increase**
 - d. Section 147(a): **Continuation of ISD's receiving funding**
- C. Federal & State Grants: (Governor's budget proposal)
 - a. GSRP: **\$734/full day pupil Increase (7.5%) (\$10,342)**
 - b. Section 31n Mental Health: **No change**
 - c. Section 107 Adult Education: **No change**
- D. Local & Private Grants: **No change**
- E. Investment Income: Average earning rate of **4.50%** Total projected investment income of **\$4,500,000.**
 - a. Based on average cash balance of \$100 million
 - b. Doesn't include Grow Your Own investment income

EXPENDITURES

- A. Staff Compensation:
 - a. Collectively bargained staff: **3.50% on schedule, plus increment** (if applicable)
 - b. Non-Union staff & support staff: **3.50% on schedule, plus increment** (if applicable)
- B. Board Contribution to Retirement (MPSERS): **0.0% increase to contribution rates**
- C. Social Security: 7.65% of payroll
- D. Health Insurance Contributions:
 - a. Medical: All staff at annual state contribution cap (**0.0% increase from 2024**):
 - i. 2024 Single Subscriber: \$7,702.85
 - ii. 2024 Two Person: \$16,109.06
 - iii. 2024 Full Family: \$21,007.83
 - b. Dental, Vision, LTD:
 - i. Collectively bargained staff: **4.0% increase** (medical CPI)
 - ii. Non-Union staff: **4.0% increase** (medical CPI)

- c. Worker's Compensation Rates: **3.0% increase**
- E. Property/Casualty/Liability: **15% increase**
- F. Utilities:
 - a. Electric: **5% increase**
 - b. Natural Gas: **5% increase**
- G. Capital Outlay: Per approved schedule, increase in total will match original taxable value assumption
4.0%
- H. Local Mileage reimbursement: Current IRS authorized
- I. Workshops/Conferences: No change
- J. Contracted Legal Services: No change

NOTE: Changes in these assumptions may be necessary after the sources and level of funding have been determined.