




December 15, 2025

TO: Ron Gorman, Superintendent
FROM: Kevin Philipps 
RE: December Budget Amendment

Each fiscal year, we propose amendments to our budgets three times. The first of those amendments is in December (the other two are in April and June).

Prior to getting into the individual fund detail, I would like to highlight major overall issues to keep in mind when reviewing the amended budget detail:.

Transfers to Capital Project Funds - The 2025-26 budget includes significant transfers to our capital project funds from our operating funds. The various transfers are detailed below:

- \$10 million transfer from the Special Education Fund to the Spec Ed Cap Projects Fund
- \$10 million transfer from the CTE Fund to the CTE Capital Projects Fund
- \$1.5 million transfer from the General Fund to the General Capital Projects Fund
- \$1.5 million transfer from the CTE Capital Projects Fund to the General Capital Projects Fund

The \$1.5 million transfers are to provide funding for the ESC renovation project and the \$10 million transfer to the CTE Capital Projects Fund is for the KCTC satellite campus.

Enhancement Millage Election Costs - The General Fund includes a one time budget of \$512,000 for the cost of the election in November. It's very possible this budget will be increased in the next amendment.

Health Insurance Expenses (Original to Amended) - Health insurance costs are 8.9% lower (\$1,275,000) in the amended budget than the original budget. The original budget assumed that House Bill 6058 would be implemented, which called for a 7% one time increase to the employer maximum contribution cap. The amended budget has removed the impact of HB 6058, which is currently still being contested in court, with the House Speaker appealing to the Supreme Court.

State Retirement Funding/Costs - There were many changes to state retirement funding and costs for 2025-26. A summary of those are:

- Elimination of Section 147a(3) funding: **Reduction of \$1,066,753 (true budget impact)**
- Elimination of Section 147a(4) funding: Reduction of \$5,648,916
 - Offset by 5.75% reduction in employer contribution rate towards unfunded liabilities (**net zero budget impact**)
- Employer Contribution normal cost rate increase: **Approximate increase in cost of \$2,100,000**
 - 1.5% to 1.7% increase to pension normal cost
 - 2.58% increase to health care normal cost
- **Total budgetary impact of approximately \$3,200,000**

Provided below is summary detail of the proposed amendments by fund.

General Fund

| | <u>Original Budget</u> | <u>Amended Budget</u> |
|----------------------------|-------------------------------|------------------------------|
| Revenues/Transfers In | \$87,970,247 | \$132,291,648 |
| Expenses/Transfers Out | <u>\$88,142,708</u> | <u>\$134,159,337</u> |
| Change in Fund Balance | (\$172,461) | (\$1,867,689) |
| Projected Fund Balance | \$9,540,172 | \$7,844,944 |

The proposed amended General Fund budget would **reduce fund balance by \$1,867,689**. This is an increase in the use of fund balance from the original budget's projected reduction of \$172,461. The amended budget would result in a fund balance at the end of the fiscal year of **\$7,844,944, 6.00% of total expenditures, or 45.8% of non-grant expenditures..**

Revenues/Transfers In increased by \$44,379,719 in the proposed agreement. The majority of the increase can be attributed to grant funding, which increased \$44,788,043 and will have a corresponding increase in projected expenses. Non-grant revenues decreased by \$408,324. The decrease represents a reduction in state revenue to offset retirement expenses (\$1.0 million), offset by an increase in investment earnings from the West Michigan teacher collaborative grant (\$564,000).

The increase in grant revenues is attributed to a \$40.2 million increase for the Great Start Readiness Program, \$3.6 million for the West Michigan Teacher Collaborative, \$780,000 for Literacy professional development, \$575,000 for Title I Regional Assistance, and \$442,000 for Great Start to Quality. This was offset by a \$530,000 reduction in the 32p Bright Beginning grant. *Although we have been allocated an additional \$40 million in GSRP funding, as of this budget amendment, we believe the state will recoup \$36.4 million of the increase due to unfilled student slots around the county.*

Expenses/Transfers Out in the proposed amendment increased by \$45,980,737. Grant expenses increased by the corresponding increase in revenue. Non-grant expenses increased \$1,262,896 from the original budget. \$564,000 of that increase is setting aside the investment income from the West Michigan Teacher collaborative. MDE has not provided guidance on whether we can utilize the investment income.

The increase in the use of fund balance from the original budget (\$1,695,228) can be summarized into the categories below:

- Reduction in Section 147c expenses for grants: \$1,005,720
- General Fund Subsidy of GSRP grant: \$232,000
- Increase in Gen Fund Subsidy of Bright Beginnings: \$199,000
- Increase in Howard Christensen Nature Center maintenance: \$160,000
- Other Capital Outlay: \$40,000

Section 147c is school aid fund dollars used to support the state retirement system. The funding is provided to districts, who then return those dollars to the state retirement system (governmental accounting requirement). MDE guidance is to charge 147c expense for grant funded employees against grant funding. State funding provided for 147c then becomes a duplication of revenue. Due to the financial strain of some of our grants, we are starting to reduce the effect of how much 147c expense is charged against grants, which results in a negative impact on the General Fund.

Transfers into the General Fund increased by \$199,251 to \$4,920,609. Transfers out of the General Fund increased by \$2,690 to \$3,000,267. Transfers out include a \$1,500,000 transfer to capital projects for the ESC renovation project.

The General Fund budget remains balanced on a structural basis. Although the fund is projected to use \$1,867,689 of fund balance this year, it is important to remember that \$1.5 million is being transferred to the capital projects fund for the ESC renovation project, and \$512,000 is budgeted for the cost of the enhancement millage election. **Without those two one time expenses, the general fund would project an approximate \$150,000 addition to fund balance.** Looking ahead, we need to keep in mind that 86% of the General Fund is grant related. Ensuring that larger grants are managed so the expenditures of those grants stay within funding for those grants will be crucial to maintain the structural financial strength of the General Fund. An example would be the Bright Beginnings program. With the loss of 32p funding this fiscal year, the subsidization of the program increased to over \$700,000 for this fiscal year.

Special Education

| | <u>Original Budget</u> | <u>Amended Budget</u> |
|------------------------|-------------------------------|------------------------------|
| Revenues/Transfers In | \$222,406,925 | \$232,410,237 |
| Expenses/Transfers Out | <u>\$229,489,668</u> | <u>\$237,440,197</u> |
| Change in Fund Balance | (\$7,082,743) | (\$5,029,960) |
| Projected Fund Balance | \$14,862,182 | \$16,914,965 |

The proposed amended Special Education Fund budget would **reduce fund balance by \$5,029,960**. This is an improvement from the original budget's projected reduction of \$7,082,743. The amended budget would result in a fund balance at the end of the fiscal year of **\$16,914,965, 7.12% of total expenditures, 11.1% of non-grant expenditures, and 69.3% of operational expenditures.** It should be noted that the special education fund is transferring **\$10,000,000** to the special education capital projects fund.

Revenues/Transfers In increased by \$10,003,312 in the proposed amendment. Revenue from grants increased by \$1,831,093 and will have a corresponding increase in expenses. Non-grant revenues increased by \$8,172,219.

The increase in grant revenues can be attributed to a \$800,000 increase in IDEA funds and \$800,000 increase in funds for the Clean School Bus grant on behalf of Dean Transportation.

Non-grant revenues increased by \$8,172,219. The increase can be attributed to increases in state transportation funding (\$3.5 million), Medicaid funding (\$2.15 million), payments for the use of Powerschool by other ISD's (\$750,000), state funding (\$660,000), and investment earnings (\$342,000). Accounting rules regarding leases and subscriptions increased revenue by \$2.0 million, but are offset by an expense of the same amount.

Expenses/Transfers Out in the proposed amendment increased by \$7,950,529. Grant expenses changed by the corresponding change in revenue. Non-grant expenses increased by \$6,119,462.

The increase in non-grant expenses is summarized below:

| | |
|------------------------|-------------------------|
| Salaries/Wages: | Decrease of \$491,674 |
| Employee Benefits: | Decrease of \$496,348 |
| Purchased Services: | Increase of \$1,306,247 |
| Supplies: | Increase of \$138,315 |
| Lease/Subscription: | Increase of \$1,982,622 |
| Capital Outlay: | Decrease of \$141,556 |
| Medicaid Distribution: | Increase of \$2,185,670 |
| State Transp Distrib: | Increase of \$1,810,425 |
| Act 18 expense: | Decrease of \$1,188,055 |

Transfers into the Special Education Fund decreased \$40,790 to \$292,643. Transfers out of the Special Education Fund increased \$270,109 to \$47,008,143. The transfers out of the fund include **\$10 million to the special education capital projects fund for facility improvements.**

The special education fund remains in an excellent financial position and has benefited greatly from the growth in taxable values in recent years. The special education fund balance has increased from \$1.9 million in 2013-14 to the current projection of \$16.9 million. Although over \$5 million in fund balance is projected to be used this year, it includes \$4 million in supplemental Act 18 distributions to LEA's and PSA's in addition to the \$10 million transfer to capital projects. **Removing those additional payments leaves the fund with an approximate \$9 million structural surplus.**

Center Programs

The proposed amendment for center programs includes expenses, and transfers of \$71,745,802, with revenues exceeding expenses by **\$671,228**. The original budget projected expenses exceeding revenues by \$311,861. This does include a projected local district contribution of \$3,299,100.

Revenues in the proposed amendment decreased by \$642,286. The decrease is fundamentally due to a reduction in state revenues to offset retirement expenses.

Expenses decreased by \$1,625,375 in the proposed amendment. Salaries/Wages were reduced by \$1,099,309, and employee benefits by \$1,120,216. The reduction in benefits does reflect a significant reduction in health benefits due to removing the impact of House Bill 6058 on the state employer contribution cap. The reduction in personnel costs were offset by an increase in transfers to the CTE fund to represent a more accurate share of facility department expenses.

Career Technical Education

| | <u>Original Budget</u> | <u>Amended Budget</u> |
|------------------------|-------------------------------|------------------------------|
| Revenues/Transfers In | \$44,240,314 | \$44,721,889 |
| Expenses/Transfers Out | <u>\$51,959,270</u> | <u>\$52,491,391</u> |
| Change in Fund Balance | (\$7,718,956) | (\$7,769,502) |
| Projected Fund Balance | \$17,588,024 | \$17,537,478 |

The proposed amended CTE budget projects a **reduction in fund balance of \$7,769,502**. This is a slight increase from the original budget, which projected a reduction of \$7,718,956. The amended budget would result in a fund balance at the end of the fiscal year of **\$17,537,478, or 33.4% of projected expenditures.**

Revenues/Transfers In increased by \$481,575 in the proposed amendment. Revenues from grants increased \$54,000 from the original budget, and non-grant revenues increased by \$427,575. The increase in non-grant revenues is attributed to a larger transfer in from center programs to cover facility personnel costs, revenue from the MEERA program, and increase in investment earnings, offset by a reduction in state funding to support retirement expenses.

Expenses/Transfers Out in the proposed amendment increased by \$532,121. Non-grant expenses increased by \$478,121.

The increase in non-grant expenses is summarized below:

| | |
|---------------------|---|
| Salaries/Wages: | Increase of \$97,639 |
| Employee Benefits: | Decrease of \$45,681 |
| Purchased Services: | Increase of \$275,620 (primarily Dual Enrollment Tuition) |
| Supplies: | Increase of \$9,293 |
| Capital Outlay: | Decrease of \$192,232 |
| Miscellaneous: | Increase of \$6,693 |

The decrease in benefit costs is a result of reduction in projected health benefits.

Transfers into the CTE fund increased \$636,000, to \$4,318,700. Transfers out of the CTE fund increased \$264,109 to \$13,923,503. This includes the \$10,000,000 transfer to capital projects for the satellite campus project.

The CTE fund is in excellent financial position currently as a result of the significant increases in property tax valuations over the last several years. The fund balance has increased from \$4.5 million in 2014-15 to the projected \$17.5 million. The increase in fund balance provides flexibility to supplement the 0.1 mill set aside for the satellite campus project as well as support the efforts of our CareerPrep 2030 initiative and potential regional programming. **Structurally, the CTE fund has a \$2.2 million positive variance after removing the \$10 million transfer to capital projects.**

Cooperative Education

As a reminder, this fund houses our IT and business services in Region 1, our data warehouse collaborative, School News Network, and MySchool. The proposed amendment for the Cooperative Education fund is an increase to the original deficit of \$68,453 to \$479,373. The increase primarily can be attributed to a \$250,000 reduction in projected revenue for MySchool at Kent. MySchool expenses increased by \$43,000. The projected year-end fund balance is \$2,656,073 (46% of expenditures), which is split amongst the different programs within this fund.

Community Service Fund

This fund is where the enhancement dollars are budgeted. It will always net to zero as 100% of the money is paid to locals. The total revenue in this amendment is projected to be \$31,540,508, a decrease of \$31,322 from the original budget. The decrease can be attributed to a slight reduction in projected property taxes from the enhancement millage compared to the original estimate. LEA's will receive approximately \$358 per student this year from the enhancement millage. The original distribution in 2017 was \$210 per student.

Capital Projects

The General Fund and Special Education capital projects funds have minor changes compared to the original budget. In the General Fund, the budget for the ESC renovation project was increased by \$542,000, primarily due to an increase in the expected cost of furniture for Phase 2 of the project. In the Special Education capital project fund, additional funds were added for parking lot improvements this upcoming June, as well as additional funds to complete the security camera renovation project. The Career Technical capital project fund has the largest change from the original budget. \$3 million in expense was added for the purchase of the Dutton Elementary site as well as the cost to demolish the building and parking lot at Dutton.

As mentioned earlier in the memo, the Special Education and Career Technical capital funds are receiving \$10 million dollar transfers from their respective operational funds. The Career Technical transfer is the first infusion of funding to begin the new satellite campus project. The Special Education transfer is to assist with continued renovations at our center program facilities, specifically Empower U Central and South, as well as the Lincoln campus.

The General Capital Projects Fund goes from a surplus of \$31 to a reduction in fund balance of \$342,381, with a projected ending fund balance of **\$360,971**. **The Special Education Capital Projects Fund** goes from a surplus of \$8,523,970 to a surplus of \$7,832,228, with a projected ending fund balance of **\$14,065,248**. **The Career Technical Capital Projects Fund** goes from a surplus of \$12,675,095 to a surplus of \$9,668,303, with a projected ending fund balance of **\$12,665,229**.

As always, if you have any questions or would like additional information, please let me know.

KP/kg