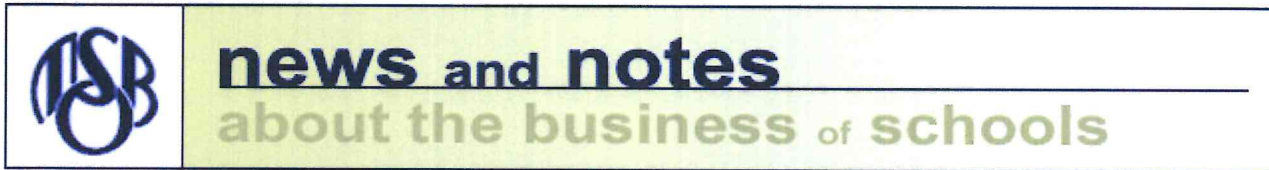


Karen Hill

From: Steve Goss
Sent: Thursday, February 06, 2014 8:38 AM
To: Karen Hill
Subject: FW: The Governor Releases His Budget

FYI

From: David Martell [mailto:dmartell@msbo.org]
Sent: Wednesday, February 05, 2014 9:46 PM
To: msbo-members@listserv.melg.org
Subject: The Governor Releases His Budget



February 5, 2014

The "Talk" is Over and the Numbers are OUT!

As they say, "talk is cheap," but in this case, cheap is measured in the millions. Governor Rick Snyder detailed his FY 2014-15 Budget Proposal late this morning, which included more good news than bad for Michigan school districts! We have seen the news reports from earlier this week, but today we actually received documents to back up some of the claims we've been hearing about. With everything we heard in the State of the State about "\$660 per pupil increase" and "3% increase in funding for schools"; we can now get into the details and determine for ourselves the local impact of the proposal.



It's important to understand, there are many percentages, dollar amounts and per pupil figures cited in documents that need to be taken with a grain of salt. It is our understanding in some cases; per pupil figures are based on K-12 students only, not including public school academy students. Savings may also include "cost avoidance" rather than true savings. We will try to keep it simple and get to the "Bottom Line" in our explanations that follow, but the detailed documents need to be read with caution.

As we detailed in our January 10 eblast on the Consensus Revenue Estimating Conference (CREC), there are funds available in FY 2014-15 to the tune of \$335 million as seen in the House Fiscal Agency estimated FY 2014-15 School Aid Fund balance sheet. Comparing that document to a balance sheet based on the Governor's proposal, we see the overall impact of the funding proposal. The detailed line item summary, which shows all funded sections of the proposal, details the proposed appropriations compared to the current year and a glimpse of the FY2015-16 "Executive Planning Budget." A very useful document to quickly see the overall appropriation for each section!

We told you before, it looked like it was a matter of budget priority rather than whether or not additional funds were available, and by the looks of the Governors' proposed bill language, it's obvious that the "devil is in the details." The 219 pages of the bill are littered with language changes that will take some time to analyze. We plan on doing that over the next few days. For now, we can hit on some highlights as presented to a joint session of the Legislature this morning.

All of the documents we receive regarding the budget will be posted on our web page dedicated to State School Aid FY 2014-15. The process is just beginning, so "bookmark" that page for future reference.

Transparency Reporting

Although no funding is specifically attached to *Section 18 Transparency Reporting*, the fact that districts must comply with transparency reporting requirements in order to qualify for foundation funds section continues in FY 2014-15. Additional reports to be posted under the state mandated transparency icon include any deficit elimination plans or a *new* enhanced deficit elimination plan as proposed under this legislation. In addition, there is language that would change the due date for annual audit submission and FID upload to October 15, rather than the current November 15. The timeline for report updating was also shortened to 15 days after a board adopts a budget, rather than the current 30-day requirement.

Per Pupil Foundation Allowance

One of the areas that always gets attention is the foundation allowance. The Governor has proposed a foundation increase for FY 2014-15, which provides all districts a per-pupil increase of \$55, and an increase distributed through the 2x formula that provides an additional amount for districts at the minimum funding level of between \$28 and \$56 per pupil. This brings the total increase in the foundation allowance in the range of \$83 to \$111 per pupil. It should be noted that districts are receiving Section 22c \$50 per pupil equity payment in FY 2013-14 and that this amount continues FY 2014-15 but is included in the minimum foundation allowance. This brings the minimum foundation allowance to the \$7,187 for FY 2014-15, up from the current \$7,026. The basic foundation is proposed at \$8,132 for FY2014-15. The good news is that the equity payment is included and the \$83-\$111 is on top of that, so it is a true increase!

Pupil Hold Harmless to 2012-13 Funding Level up to \$5 per pupil

Section 20f was added in FY 2013-14 to allow all districts at least a \$5 increase per pupil when taking into consideration the increase in foundation allowance for the district and the impact of the reduced *Section 147a MPSEERS Offset* funds for FY2013-14. This section continues to be funded at the same \$6 million level as FY2013-14, however districts will only be eligible if they received the payment in FY 2013-14. There is also language that recognizes the need may be greater than the allocation and that the amounts per district would be prorated if the allocation was not sufficient.

District Performance Grants

Section 22j continues to be funded at the same levels of the prior years of \$30/\$30/\$40 per pupil for performance measures at the elementary and high school level for FY 2014-15. Although no district level information is available, we will post any information we receive that details specific information.

Best Practices

We've seen some changes in the best practice language over the last two years, but the proposal leaves the requirements "as is" and continues funding at a level of \$52 per pupil for those that qualify for local districts. ISD's best practices are also maintained in the proposal.

MPSERS Offset Funding

There is some good news and bad news regarding the *Sections 147a and 147c MPSERS Offset and Rate Cap* funding we are currently receiving. The good news is, the total funding remains relatively the same, however 147a has been eliminated and the funds moved to 147c. Districts will receive additional funding in section 147c, which will reduce the cap for the MPSERS unfunded accrued actuarial liability from 20.96% to 19.76%. Although the funding will flow in much the same manner as this year (received in State Aid and remitted to the Office of Retirement Services in the same amount), the district rate will be reduced moving forward by 1.2%. As proposed in the Governor's budget, district paid retirement rates are reduced to accommodate the change, which further reduces the district's current year MPSERS obligation. Surprisingly, only FY 2014-15 rates are included in the proposal, which is a change from the current year bill, both FY2013-14 and FY2014-15 rates were included. We aren't sure of the rationale, but we're better suited to forecast future budgets when they set the rate for two years. There is also an amount to be transferred of \$50 million "set aside" in *Section 147b MPSERS Retirement Obligation Fund*, which could be drawn upon in the future to offset future retirement obligations.

Remember that your full MPSERS rate is made up of the capped rate from the unfunded accrued liability noted above, PLUS the normal service cost. The normal service cost will be increasing this year by almost a full percent (.99%) for the employees who first worked for a public school before 7/1/2010 and who are enrolled in the health insurance subsidy, leaving net decrease in the rate from 24.79% to 24.58%, down .21%. All the rates published in the 2013-14 School Aid Act effective 10/1/2014 decreased by 1.2%.

Days and Hours of Instruction

We saw intent language in the FY 2013-14 budget to increase the FY2014-15 days and hours to 175 days. The Governor's proposal removes the intent and *requires 175 days* of instruction with a grandfathering of those districts that have settled agreements until the next renewal.

Other Issues – Deficit Districts and Now "Potential Financial Stress" Districts?

Section 11r District Financial Emergency Contingency Fund

\$10 million has been appropriated under this section, which is new for FY 2014-15 and would be used in matters pertaining to the dissolution of districts and for receiving districts under dissolution. This establishes a "separate account" within the School Aid Fund that would handle the funds, investment and allocation under the authority of the State Treasurer.

Section 102

This section deals with deficit districts and proposes a change, which includes additional reporting requirements and language adding an "enhanced deficit elimination plan." The language appears to move the oversight of the process and reporting to the Department of Treasury. Treasury's authority is not clear and not included in the language. This is a

section that we will have to investigate further to understand the impact, but one thing is for sure, this should be of great concern to districts!

Section 102A

This section adds enhanced reporting requirements for districts where there is a new category of district where "potential financial stress" exists. Language which gives authority to the State Superintendent OR the State Treasurer to determine if stress exists is included, but we can't tell you what the criteria may be because it's not listed in the language. Again, we will be investigating the intent of this section but it should be of great concern to districts!

Bottom Line

The Bottom Line really comes down to what funding is available next year above what we are currently receiving. From what we see with the Governor's proposed budget, the funding is positive and there should be additional resources available at the local level. We are very concerned with the role Treasury may play in new language and appropriations dealing with dissolution, deficit and now "potential" financially stressed districts. We are scheduled to meet with representatives of the Executive Office to get the details of the plan in the next few weeks, and we will most likely see the House and Senate budget proposals in the near future. Be sure to watch for more eblasts as the FY 2014-15 legislative budget process begins. We expect lively discussions and debates as the Governor's proposed School Aid Bill makes its way along the legislative process.

We have included the major changes in this discussion. If you have questions on specific sections on how they changed, consider reviewing the summaries or the full text of the School Aid Bill we have included on our [State School Aid FY 2014-15](#) webpage.

In the end, what matters most is that we have adequate funding to meet the needs of educating 1.5 million students. This budget proposal looks positive financially, but with most districts dealing with declining enrollment, each district will determine your own status and will work with your school board and community to tell your own budget story.

David and Bob

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