



SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

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CAUCUS INFORMATION ALERT

January 11, 2018

Re: Consensus Revenue Estimating Conference & MPSERS 3% Health Care Refund

Colleagues and Friends:

Here is a brief overview of two important developments this week, of note for all Michigan school districts:

1. Consensus Revenue Estimating Conference Projects Steady, Unspectacular Growth

Representatives of the House and Senate Fiscal Agencies, Treasury, and outside economists met this morning to arrive at “official” revenue estimates for the current and upcoming fiscal years as part of their semi-annual Consensus Revenue Estimating Conference (CREC). This meeting helps set the stage for the development of next year’s state budget by providing a snapshot of how revenue in the major state funds is doing to this point in the fiscal year, and the Governor’s Executive Budget Recommendation for 2018-19 and beyond (expected next month) will be based on these figures.

Most economic indicators continue to trend upward, with continued stable (if unspectacular) growth projected. As always, these numbers can change based on other factors in the economy and in the larger world. Among the areas identified as ones to watch include the impact of the recent changes to federal tax code, provocative statements about changes to NAFTA, and general uncertainty about federal fiscal and monetary policy.

With that being said, here are the numbers...

The state’s School Aid Fund (SAF) is being projected to grow at 3.1% in 2018, 2.9% in 2019, and 2.7% in 2020. In real dollar terms, the SAF is being projected to grow by nearly \$400 million this year—a projection that is up by \$114 million from the original May estimate. These numbers are certainly better than seeing decreases, but are actually down from 2017’s preliminary actual revenue growth in the SAF of about 4.7%. Both the 2018 and 2019 numbers have been revised upward slightly from the May Revenue Estimating Conference.

On the General Fund (GF/GP) side, revenues are projected to increase at rates of 1.1% (2018), 0.3% (2019), and 0.7% (2020). These rates of increase are also down from 2017’s preliminary actual revenue growth of 1.7%. For both 2018 and 2019, GF/GP estimates have been revised downward slightly from May.

When the numbers for the SAF and GF/GP are combined for the current year (2018), total revenue received only a slight revision upward (of \$13 million) from the numbers upon which the budget was originally based last spring.

Another major factor as we look to next year's budget is the number of pupils among whom the pot of money will be divided. Overall pupil count projections in Michigan continue to decline slightly both this year and next, having been revised further downward from the most recent projection in May 2017.

It is interesting to note though that the student losses for the next two years are being projected to all be contained in the charter school sector, with traditional local K-12 district pupil counts actually being projected to increase (by .03% this year and by .14% in 2018-19). Charter schools still represent just under 10% of the total student population in Michigan.

The bottom line--revenue is continuing to grow, but not at rates that will likely result in a large increase for local districts in the foreseeable future. Further, with the GF/GP continuing its steady decline, the Governor and legislators may again look to the SAF to bolster GF/GP programs, including community colleges, higher education, and others.

In the months ahead, we will continue to meet with key legislators and the Governor's office to promote the Caucus school funding and legislation agenda, including (at a minimum) an adequate Foundation increase using the 2X formula and continuation of categoricals critical to Caucus member districts, including At-Risk, ELL, special education, and MPSERS rate relief.

It is very important for districts to maintain contact with your legislators about the importance of protecting the SAF and the 2X equity formula in the coming budget negotiations.

2. "Measure Twice, Cut Once"—MPSERS Health Care 3% Refunding

No doubt you have been hearing much discussion regarding the refunding of the 3% health care deduction withheld for all school personnel between July 2010 and September 2012. Please be sure to stay tuned to updated information disseminated by state organizations—particularly MSBO that has been working tirelessly to sort this all out.

With that said, and hearing stories of some of the ways districts are intending to respond to this situation, I wanted to pass on a few items for you to think about.

By this time, all districts should have received an email from ORS containing a file of the names and contributions (plus interest) of employees who had 3% of their income deducted for retirement health care between 2010 and 2012. ORS is currently intending to push the amount required to process refunds back to districts as part of the January 22, 2018 state aid payment. However, there are some very important details and cautions for districts as they prepare to process these refunds:

- While ORS intends to send the funds to districts in the January 22 state aid payment, this plan has yet to be approved by the Court of Claims judge overseeing the case. That may yet affect the timetable for distribution of the refunds back to districts.
- There are multiple tax questions remaining about this disbursement. These questions will also be impacted by the individual decisions your district made during the initial

deductions—whether the deductions were pre- or post-tax, subject to payment of FICA, etc. This is one of the reason why ORS cannot return this money directly to employees.

- MSBO, ORS, audit and legal firms, etc., are continuing to meet regarding this situation, with a key meeting occurring this Friday (January 12). It is hoped that coming out of these meetings will be more specific “how-to’s” on the processing of the refunds, and more definitive answers to the many questions based on the individual circumstances for each district as a result of their decisions between 2010 and 2012.
- Please try to coordinate your refunding with your neighboring districts. We can all imagine the pressure that will be put on individual districts if they are perceived to be “lagging” in their return of this money.
- **Do not rush your processing these refunds, and in the process, further complicate matters by inaccurately reporting taxes, etc.** We are in a mess at this point in part because of a lack of clarity during the original collection period. The last thing we want is to make this difficult situation even worse. **Go slow to go fast!**
- You may wish to refer employees to the ORS FAQ website:

<http://www.michigan.gov/orsschools/0,4653,7-206-36609-456119--,00.html>

ORS has been making frequent updates to the page as questions are raised.

Again, watch for updates coming from MSBO, ORS, and legal/audit firms over the next several days. Without doubt, there will be many questions. Be sure to get your answers from the right source! And...good luck!

By separate cover you will be receiving an invitation to our luncheon and general membership meeting at the MASA Mid-Winter Conference on the 24th. Please be sure to respond to that invite and reserve your place! I look forward to seeing you all there!



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