



February 17, 2025

TO: Ron Gorman, Superintendent

FROM: Kevin Philipps *KP*

RE: 2025-26 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 5th 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 **5.00% increase**. The annual increase the last three years has averaged 8.23%, including last year’s 9.07% increase. Kent County has been providing preliminary figures as municipalities submit them, and the increases are trending around 6%. The inflation rate for Headlee calculations in 2025 is 3.1%. Taking into account a slight reduction from preliminary to actual taxable value increases as well as a projected reduction in our millage rates due to Headlee, leads to the overall 5.00% increase projection for 2025-26.
- **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: 4.1% increase
 - Section 51e Special Education Foundation Allowance: Remains 100% of FA (\$10,000)
 - Section 61 & 62 (CTE): 0% increase
 - Great Start Readiness: \$392 full day increase to \$10,577 per student
 - Section 31n: No increase
 - Section 107 Adult Education: No increase
 - Section 147(g): 50% reimbursement of 3% employee retirement health care contributions.

- **MPERS Retirement Rate – Retirement contribution rates will decrease between 1.45% and 5.75% for 2025-26.** The legislature amended the retirement act to reduce the contribution for unfunded liabilities from 20.96% to 15.21% and also eliminated the 3% employee contribution to retirement health care benefits. These changes are the result of the health care portion of the retirement system being fully funded. The 3% employee contribution was shifted to the employer rate for 2025-26 offsetting some of the 5.75% reduction in the unfunded liability contribution. This 3% increase to the employer rate will most likely drop off in 2026-27.
- **Investment income – Budgeting a 3.75% earning rate for 2025-26.** Current earning rates are still above 4.00%, but we believe rates will continue to decrease into 2026. Based on an average cash balance of \$125,000,000, we are projecting **\$4,500,000** in investment income, compared to this year's current budget of \$5,120,000.
- **Staff compensation – Budgeted increase of 3.00% on schedule, plus step increment for all employees.** 2025-26 is the second year of three year collective bargaining agreements with employees.
- **Medical – As a result of the passage of House Bill 6058, which provides for a 7% one-time increase to the employer maximum contribution cap, we are budgeting for an overall increase of 11.2% for 2026.** The 11.2% included a normal 3% inflationary increase to the cap along with the 7% one-time adjustment. The overall cost increase would be closer to **6% for 2025-26**, as a portion of the fiscal year will be at the 2025 cap levels. At this time, House Bill 6058 has not been presented to the Governor for signature, so it is possible it could be sometime before the bill takes effect, or gets amended via a revised bill.
- **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.

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 2025-26

OVERVIEW:

Will the following budgets be structurally balanced in 2025-26 (annual ongoing revenues match or exceed ongoing annual expenditures)?

General Fund: Yes

Special Education Fund: Yes

Career Technical Fund: Yes

REVENUE

- A. Taxable Value: **5% increase**
 - a. Total taxable value of: \$35,151,678,720
 - b. Taxable value increase of: \$1,673,889,463
- B. State Aid Categorical Funding: (Governor's budget proposal)
 - a. Section 81: **4.1% increase**
 - b. Section 51e: Special Education: **\$10,000 foundation allowance**
 - c. Section 61a1 & 62 (CTE): **No increase**
 - d. Section 147(g): **50% of "assumed 3% employee retirement health care contributions"**
- C. Federal & State Grants: (Governor's budget proposal)
 - a. GSRP: **\$392/full day pupil Increase (\$10,577)**
 - 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 **3.75%** Total projected investment income of **\$4,500,000**.

EXPENDITURES

- A. Staff Compensation:
 - a. Collectively bargained staff: **3.00% on schedule, plus increment** (if applicable)
 - b. Non-Union staff & support staff: **3.00% on schedule, plus increment** (if applicable)
- B. Board Contribution to Retirement (MPSERS): **1.45% to 4.93% reduction on defined benefit plans, 5.75% reduction on defined contribution plans**
- C. Social Security: **7.65% of payroll**
- D. Health Insurance Contributions:
 - a. Medical: All staff at annual state contribution cap (**11.2% increase from 2025**):
 - i. 2026 Single Subscriber: \$8,506.30
 - ii. 2026 Two Person: \$18,713.85
 - iii. 2026 Full Family: \$23,199.04
 - b. Dental, Vision:
 - i. Collectively bargained staff: **3.0% increase** (medical CPI)
 - ii. Non-Union staff: **3.0% increase** (medical CPI)
 - c. Life/LTD: **1.0% increase**



- d. 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 taxable value increase **5.0%**
- 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.