

February 16, 2026

TO: Ron Gorman, Superintendent
FROM: Kevin Philipps
RE: 2026-27 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 11th 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 **6.00% increase**. The annual increase the last three years has averaged 7.99%, including last year’s 6.30% increase. Kent County has been providing preliminary figures as municipalities submit them, and the increases are trending around 6.4% so far. The inflation rate for Headlee calculations in 2026 is 2.7%. 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, **we project an increase in tax collection revenue of 5.00% for 2026-27**. Tax collection revenue increased by 5.3% in 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: 2.5% increase
 - Section 51e Special Education Foundation Allowance: \$250 increase to \$10,300
 - Section 61 & 62 (CTE): 6% increase
 - Great Start Readiness: \$640 full day increase (6%) to \$11,290 per student
 - Section 31n: No increase
 - Section 107 Adult Education: 23% increase, restores reduction from 2025-26

- **MPSERS Retirement Rate** – Retirement contribution rates will reduce by **2.4%** for programs with health care coverage. (Example: Basic/MIP with health will reduce from 29.91% to 27.51% of payroll). Programs without health care coverage remain at **2025-26 rates**.
- **Investment income** – Budgeting a **3.50% earning rate** for 2026-27. Current earning rates are approximately 3.75%, and we think rates will be relatively stable for 2026-27, possibly drifting a little lower. Based on an average cash balance of \$125,000,000, we are projecting **\$4,375,000** in investment income, compared to this year's current budget of \$5,021,900.
- **Staff compensation** – Budgeted increase of **3.00%** on schedule, plus step increment for all employees. 2026-27 is the final year of three year collective bargaining agreements with employees.
- **Medical** – The state's PA152 cap is projected to increase by **3.25% for 2027**. The measuring period for 2027 is March 2025 to February 2026, and as of November, the increase was tracking towards 3.00 to 3.25%. The increase for 2026 was 2.9%. The ongoing legal challenge around House Bill 6058 continues, and it is possible the final decision from the court will require the bill to be presented to the Governor. Keep in mind HB6058 includes a 7% one-time increase to PA152 contribution levels. We will keep the Board updated on HB6058 and the potential impact on health care costs.
- **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 **10% 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

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