



# Livonia Public Schools

*Finance Office*

Date: March 5, 2025

To: Andrea Oquist, Superintendent

From: Alison Smith, Chief Financial Officer

Re: Financial Update

I would like to update the Board of Education on revenue and expenditure projections for the 2024-2025 school year as well as share information made available from the Governor's office on the proposed 2025-26 School Aid budget.

As shared at the Study Session earlier this week, interest earnings on General Fund investments is coming in more favorably than the \$100,000/month that was included in the 2024-2025 Proposed budget. I anticipate during our final budget amendment being able to adjust interest earnings from \$1.2 million to \$1.9 million which is an additional \$700,000 of revenue. Another revenue adjustment that will be included in the final amendment will be a \$200,000 decrease to the Section 29(7) Enrollment Stabilization categorical. This categorical was created to help stabilize the effects of declining enrollment. Since our enrollment decline was less this Fall than we have seen in prior years, we are receiving less stabilization funds. On the expenditure side, I don't see any major proposed changes coming during the final amendment other than possibly some shifts in costs between the Instructional and Pupil Support categories.

The Governor has released her proposed budget for 2025-2026. Her budget includes a \$392 per pupil increase as well as a 4.1% increase to the following categories: At-Risk, Special Education, English Language Learner, and Career Technical Education. While that is great news, unfortunately, changes to the retirement rates effective October 1, 2025, are going to eat away a large chunk of that additional revenue. I'd like to provide some context about the retirement system that will hopefully help explain how the retirement rates changes will impact our district next year.

There are currently twenty different plans within the Michigan Public Schools Employees' Retirement System. Twelve of the plans are a defined benefit plan (pension style plan). Five of the plans are a defined contribution plan (401k style plan). Three of the plans are a hybrid defined benefit and defined contribution plan.

On average, the district is currently paying 31% on wages towards retirement benefits. There are several components that make up the total employer retirement rate: **Pension Normal Cost**, **Pension UAAL**, **Health Normal Cost**, and **Defined Contributions**.

**Pension Normal Cost** rates for defined benefit plans are increasing from 9.15% to 10.87% effective October 1, 2025. **Defined Contribution** rates are staying the same for next year.

In 2024-2025, Livonia Public Schools is set to receive \$6.4 million in Section 147a(4) funds. This is a new categorical that was created to reimburse districts 5.75% of payroll costs effectively lowering the **Pension UAAL** from 20.96% to 15.21%. For 2025-26, Section 147a(4) is being eliminated. Instead of giving districts revenue to offset the retirement cost, the **Pension UAAL** rate will be reduced by 5.75% which will reduce our retirement costs.

Eleven of the twenty retirement plans include a Personal Healthcare Fund component in which the employee and employer each contribute 2% into a 457-retirement plan with the idea being that the funds accumulated in the 457 plans can be used to cover healthcare costs in retirement. The remaining nine retirement plans include a health insurance component for retirees referred to as a premium subsidy. Since 2012, employees have been contributing 3% of their pay towards the healthcare premium subsidy benefit. In 2024-2025, employers contributed 1.25% towards the **Health Normal Cost**. Effective October 1, 2025, employees will now contribute 0% towards the healthcare premium subsidy benefit and employer contributions will go up 2.58% from 1.25% to 3.83%.

Last Spring districts learned that the MPSERS Health Fund was fully funded so hearing that legislators were taking action to eliminate the employee 3% contribution did not come as a complete surprise. At that time, though, there was no indication shared with districts that employer contributions would be going up due to the elimination of the employee contribution.

To summarize, the district was anticipating the **Pension UAAL** rate to be lower by 5.75% which would reduce our retirement costs by \$6.4 million. Now, though, because other components of the retirement rate are going up, our retirement costs are only going to be down \$4.3 million. That additional retirement cost of \$2.1 million equates to approximately \$157 per pupil or 40% of the per pupil increase proposed by the Governor for next year.

Please include this Financial Update on the agenda on the March 10, 2025, Finance Committee meeting.

Thank you.

AS

c: Board of Education