

**School Funding Update presented by Daniel Romzek,**

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The purpose of this presentation was to give an overview of how public education is funded in Michigan; what this means for RCS; and to provide a district financial and budget outlook.

State budget and School Aid Fund

State budget estimates are established twice annually, in January and May, through the CREC—Consensus Revenue Estimating Conference. This group is a “meeting of the minds” and includes budget forecasts from the House Fiscal Agency, Senate Fiscal Agency and State Treasurer.

- The CREC met on January 16, 2015, and set current estimates for the School Aid Fund for these three school years: 2014-15; 2015-16; and 2016-17.
- There is an accounting complication that gives schools a 3-month gap, where they do not receive payments from the state. The state fiscal year is October-September. The school year fiscal year runs July 1-June 30. Schools need to plan carefully to manage their cash flow in that July-August-September gap.
- The CREC sets more than just the School Aid Fund forecasts. They use many factors to set their budget estimates (national economic climate, state economic forecasts, retail sales and home sales outlooks, etc.) and they then provide forecasts for the School Aid Fund and School Foundation Index, but also for: Total GF/GP Revenue; Constitutional Revenue Limit; Budget Stabilization Fund Pay-in/Pay-Out.
- The slide below shows the estimated budgets for the School Aid Fund for three school years. (These numbers are in millions.) These numbers reflect modest growth over three years and generally reflect good feelings about our economic forecast.

**CREC 3-Year Estimates**



State of Michigan Consensus Revenue Estimates January 16, 2015						
	FY 2014/2015			FY 2015/2016		
	Total	\$ Chg	% Chg	Total	\$ Chg	% Chg
School Aid Fund (SAF)	\$11,889.1	\$368.6	3.2%	\$12,263.7	\$374.6	3.2%
General Fund/General Purpose (FGFP)	\$9,501.4	\$482.9	5.4%	\$9,713.2	\$211.8	2.2%
Total Revenue	\$21,390.5	\$851.5	4.1%	\$21,976.9	\$586.4	2.7%
FY 2016/2017						
	Total	\$ Chg	% Chg			
School Aid Fund (SAF)	\$12,640.9	\$377.2	3.1%			
General Fund/General Purpose (FGFP)	\$10,000.6	\$287.4	3.0%			
Total Revenue	\$22,641.5	\$664.6	3.0%			

Source: Consensus Revenue Agreement Executive Summary, 1/16/15

January 2016 Consensus Revenue Estimates show modest SAF and FGFP revenue growth over the next two years.

- School Aid Funding comes from a variety of sources, including lottery/casino funds, income tax, sales tax, etc. Details are available regarding the break-out of these sources.

**State School Aid Fund Make-Up**



Table 15  
Administration School Aid Fund Revenue Detail

	FY 2015		FY 2016		FY 2017	
	Amount	Growth	Amount	Growth	Amount	Growth
School Aid Fund						
Income Tax	\$2,455.4	4.1%	\$2,546.3	3.7%	\$2,646.6	3.9%
Sales Tax	\$5,512.9	3.0%	\$5,724.7	3.8%	\$5,941.6	3.8%
Use Tax	\$481.1	3.7%	\$499.2	3.8%	\$518.1	3.8%
Liquor Excise Tax	\$46.4	0.9%	\$47.0	1.3%	\$47.6	1.3%
Cigarette & Tobacco	\$345.7	-3.8%	\$339.7	-1.8%	\$330.9	-2.6%
State Education Tax	\$1,849.3	2.5%	\$1,899.9	2.7%	\$1,966.9	3.5%
Real Estate Transfer	\$250.3	7.2%	\$264.0	5.5%	\$276.8	4.8%
Industrial Facilities Tax	\$36.1	7.8%	\$37.0	2.5%	\$37.0	0.0%
Casino (45% of 18%)	\$109.0	2.0%	\$109.0	0.0%	\$109.0	0.0%
Commercial Forest	\$3.5	2.9%	\$3.5	0.0%	\$3.5	0.0%
Other Spec Taxes	\$28.5	0.7%	\$28.5	0.0%	\$28.5	0.0%
Subtotal Taxes	\$11,118.2	3.1%	\$11,498.7	3.4%	\$11,906.5	3.5%
Lottery Transfer	\$758.0	3.3%	\$781.3	3.1%	\$797.0	2.0%
Total SAF Revenue	\$11,876.2	3.1%	\$12,280.1	3.4%	\$12,703.5	3.4%

Source: Administration Estimates and Revenue Outlook, 1/16/15

Proposal A and state funding: Proposal A changed the way public education is funded to level the playing field for small, poor, and urban schools, specifically. This has been our system for more than 20 years, since 1993/94.

- In 2014-15, the Foundation allowance is \$7,972 per student. This applies to all students in all public school districts in Michigan.
- Each area’s taxable value is different, based on homeowner debt, local funding, property values, etc. We have about \$4 billion in taxable value in the Rochester area. And we are debt-free, which is unusual compared to many school districts. As such, Rochester pays in more than it gets out, for school funding. We are considered a “donor” district. We are helping others meet their needs.
- Our funding is based on our enrollment multiplied by the foundation allowance of \$7,972 per student for 2014-15. Our budget is based on 14,912 students, which is derived from 2 state-wide count days, where we calculate our number of students for budgeting purposes.
- Of this \$7,972 per student, the state portion is funded by 6 mills on ALL property, which means \$6,887 per student, or 86% of total foundation. The remaining \$1,085 per student (or 14%) is the local portion which is 18 mills on non-primary residence property and 6 mills on commercial property in Rochester.
- Enrollment is important. We recently had to make cuts, due to an unforeseen drop in enrollment, to make sure we kept a balanced budget and managed our cash-flow. Budgets are based on projected enrollment. When there was an unexplained drop in enrollment, we had a \$1.2 million problem.
- Every year, hundreds of families enter and leave the district. Last year, 600 families left RCS. We surveyed these families to understand why they were leaving RCS. The good news: they loved the schools and had great things to say about RCS. They were leaving because of life circumstances (job relocation, divorces, etc.). They were NOT leaving to go to different schools in the area because they were dissatisfied. They were leaving for unrelated reasons. And RCS still educates 80% of the students in this community. So we are not losing those students to private schools or charters.
- Enrollment projections predict a 70-student decline for 2016. And this decline continues through 2020, based on birthrates in our county and community. This will be true state-wide, and is not unique to RCS. But we must budget accordingly.
- Rochester-area housing rates are not starter-home prices. (around \$400,000) This impacts our expectation to see our enrollment decline in elementary schools, grades 1-5, where young families may have trouble affording more expensive homes. Our numbers are not as low in high-school or middle-school, since older families may have more money to spend on housing. Demographers predict RCS (and all Michigan schools) will lose school-age children in enrollment. Also, Rochester has a vibrant senior population, so we have lots of residents that don’t necessarily have school-age children.
- Regarding open enrollment and opening our borders to gain more students, Dr. Shaner cautioned the audience to consider the complexity of the situation and not jump too quickly or to over-react to a temporary downward blip in enrollment. A recent survey asked residents about that option and school-of-choice was not supported by 80% of Rochester residents. This enrollment lapse is not cause for panic, but instead, for prudent business practices.

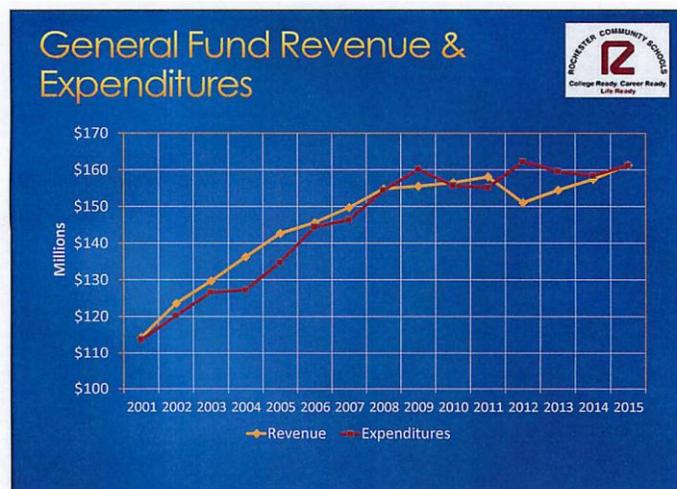
RCS budget: Because of the timing of the 11 payments from the state, and the gap in funding, RCS needs to be good stewards of the district’s money and keep adequate cash reserves to cover payroll and expenses during that gap. We keep our fund balance around 9-10% to manage this variable.

- With 21 schools and 15,000 students, RCS is a large, complex organization. We are projected to retain our balanced budget and we are proud of the responsible way we are managing our district’s finances.

### Rochester Schools Budget

	2012/2013	2013/2014	2014/2015
	Actual	Actual	Budget
Revenue	\$154,419,992	\$157,167,083	\$161,337,669
Expenditures	\$159,596,424	\$158,654,578	\$161,227,118
Surplus (Deficit)	(\$5,176,432)	(\$1,487,495)	\$110,551
Beginning Fund Balance	\$21,434,439	\$16,258,007	\$14,770,512
Estimated Ending Fund Balance	\$16,258,007	\$14,770,512	\$14,881,063
Fund Balance as a % of Budgeted Expenditures	10.2%	9.3%	9.2%

We are in the process of preparing budget projections for the 2015/2016 year.



- Regarding revenues, 76% (or \$122,435,100) of the 2014-15 general operating fund comes from State Aid (Foundation Allowance). The remaining 24% (or \$38,902,569) comes from other sources, including non-homestead property tax (which was just upheld in the recent election) accounting for about \$16 of the \$38 million; plus \$11 million from ISD for special education; about \$5 million for Title I grants and teacher training grants, and also PTA donations, which have to be reported as revenue.
- Regarding expenditures, 52% of the 2014-15 operating fund is spent on salaries (\$83, 978, 942) and 31% (or \$46,565,672) is spent on employee benefits. Retirement funding is a huge component of this equation. The remaining expenses are split between contracted staff and other expenses, including buildings, utilities, etc. RCS has about 2 1/2 million square feet of building space to maintain. Ninety-one percent of our budget is for staffing.
- A large and mandatory cost of all public schools is retirement contributions. RCS makes retirement and pension contributions based on MPSERS contribution rates, which were restructured and reformed in 2012. Without reforms, 42-43 cents of every dollar was spent for retirement costs. Now, it is around 25 cents of every dollar of salary that is paid in retirement. The state gives us money that we turn around and pay back to the MPSERS fund, but it does get counted as revenue in our School Aid Fund, even though that money is NOT for classrooms or students, but goes directly back to staff retirement. So, we are to be cautioned: even though the School Aid Fund may have increased, the actual money for students has not. A large chunk of that money is paid right back in restricted dollars, specifically for retirement and pensions.
- See below for per-pupil funding history.

## Per Student Funding History



**Rochester Community Schools  
State Aid Per Student Historical Information**

Description	Per Pupil Allocations				
	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016(1)
Section 22a Foundation Allowance	\$7,878	\$7,878	\$7,922	\$7,972	\$8,047
11d Pupil Reduction	\$0	\$0	\$0	\$0	\$0
20f Hold Harmless	\$0	\$0	\$4	\$4	\$4
147a MPSERS Cost Offset	\$115	\$120	\$76	\$77	\$77
22f Best Practices Grant	\$100	\$57	\$52	\$50	\$20
22j Pupil Performance Funding	\$0	\$40	\$70	\$60	\$0
<b>Total State Aid (per pupil)</b>	<b>\$8,093</b>	<b>\$8,095</b>	<b>\$8,124</b>	<b>\$8,163</b>	<b>\$8,148</b>
State Aid Increase (Decrease) over Prior Year (per pupil)					
	(\$255)	\$2	\$29	\$39	(\$15)
147c MPSERS UAAL Payment - Pass Through	\$0	\$0	\$282	\$473	\$600
147d MPSERS UAAL Liability - Pass Through	\$0	\$0	\$0	\$75	\$0

(1) Governor's Budget Proposal, February 11, 2015

The Governor's budget is just the starting point for the legislative process. These figures WILL change in the coming weeks.

### RCS challenges and next steps

- Two major challenges for RCS in the near future are: 1. Maintaining a structurally balanced budget and 2. The governor's May 5 state-wide roads election.
  - With a projected enrollment decrease, RCS needs to right-size the district and pay close attention to student-staffing ratios, increasing efficiencies, maintaining a strong credit rating (currently AA-, which is just one step shy of perfect AAA rating), and continued stewardship.
  - Governor Snyder's plan for road improvement calls for a 1% increase in sales tax, moving from 6% to 7%, to fund roads. A portion of that revenue is supposed to be committed to education, however, that is not guaranteed and is open to the legislative process. The governor has committed to supporting up to \$200 additional per K-12 student if funding is passed. But this commitment is not mandated, and should not be relied upon for future budget forecasts. It would prohibit School Aid Fund payments to universities, and limits that to K-12 and community colleges. (If costs go up, universities can raise tuition. RCS can not.)
  - RCS will monitor enrollment and this roads election carefully to maintain a balanced budget.
  - The RCS budget must be adopted by June 30, 2015, in accordance with Michigan law. The district is in early stages of budget building, but must wait to see how Governor Snyder's budget is adopted, since that helps set spending priorities. (Last year, 3 budgets were passed and none were actually adopted. This gets tricky.) Budget projections will be shared with the RCS Board of Education in the coming weeks and will be closely monitored as changes are made in the state.

### **Stay informed**

To stay informed about relevant pending legislation, RCS parents and families may utilize the following resources:

- Please visit the Tri-County Alliance for Public Education website at: <http://www.tricountyalliance.org/>. Remember to check back regularly and sign up to receive e-mail briefs.
- Subscribe to the Bridge Magazine (electronic), which provides news and analysis from the Center for Michigan. This is not limited to public education issues, but includes relevant news. To sign up, visit: [www.bridgemi.com](http://www.bridgemi.com).
- The Michigan Education Association offers two electronic newsletters: *Capitol Comments* and *Voice Online*. To subscribe, visit: [www.mea.org](http://www.mea.org).

Future RCS PTA legislative committee meetings are: April 17, May 1, and June 5, from 9:30-11:00 a.m., in the Rochester Community Schools Administration Building.

*\*Discussions/meeting minutes summarized by Amy DiCresce. ([amydicresce@gmail.com](mailto:amydicresce@gmail.com)) To see this slide presentation in its entirety, please contact Brian Kirksey, legislative chair, at [bkirksey@kresinc.com](mailto:bkirksey@kresinc.com).*