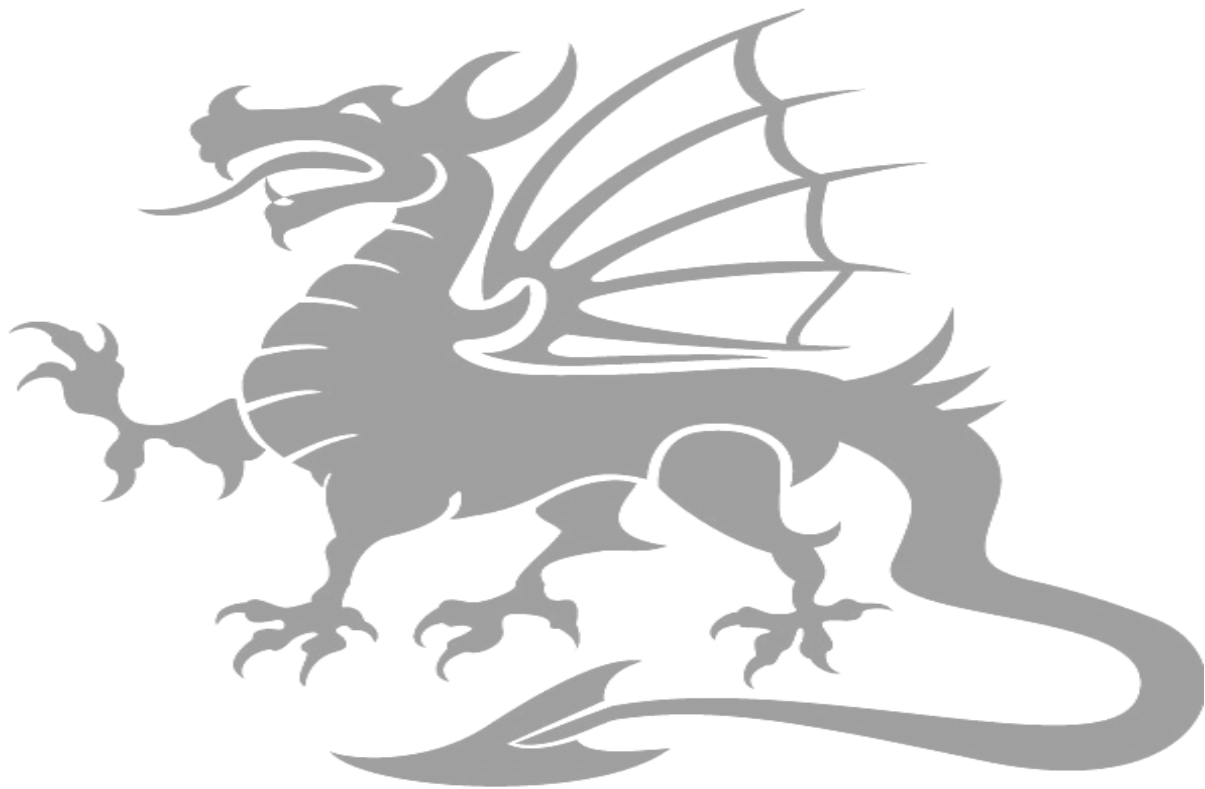


# **LAKE ORION COMMUNITY SCHOOLS**

## **FINANCIAL REPORTING PACKAGE**

**September**

**Fiscal Year 2018-19**



**LAKE ORION COMMUNITY SCHOOLS**  
**Fiscal Year 2018-19**

**Table of Contents:**

1. Executive Summary
2. Commentary & Analysis
  - a. Operational Overview
  - b. Economic Information
  - c. State Aid & Legislative Update
  - d. Fund Level Activity Review
  - e. Cash Position and Disbursement Activity
3. "Budget to Actual" Financial Analysis Reports:
  - a. General Fund (Funds 110 - 190) Expenditure by Function
  - b. General Fund (Funds 110 - 190) Expenditure by Object
  - c. Community Service Special Revenue Fund (230)
  - d. Food Service Special Revenue Fund (250)
  - e. Pine Tree Center Special Revenue Fund (220)
4. Other Funds Overview
5. District Cash Balance & Investments Report
6. General Fund Basic Cash Flow Report
7. Summary Disbursements Report for the Period
8. Electronic Funds Transfers Activity for the Period (EFT, ACH & Wires)
9. District Purchase Card Program Activity for the Period

# LAKE ORION COMMUNITY SCHOOLS

Fiscal Year 2018-19

## EXECUTIVE SUMMARY

### Economic Update:

Job growth in September added 134,000 new jobs. The unemployment rate declined to 3.7%. The “third” estimate of the second quarter 2018 U.S. GDP shows an increase of 4.2%. The U.S. economic forecast is to continue expanding at a moderate pace in 2018 and experience decelerating growth in 2019 in spite of the external headwinds related to trade and the (Federal Reserve driven) rising U.S. interest rate environment.

### State Aid and Legislative Issues:

#### **House Education Committee Meets to Take Up Educator Evaluation and Innovative Schools Legislation**

House Education Committee met Thursday morning to vote out legislation related to educator evaluations and waivers from state regulations school districts. House Bill 5707 amends the Revised School Code to prevent the percentage of annual year-end teacher evaluations based on student growth and assessment data from increasing from 25% to 40% in the 2018-2019 school year. The committee also voted out a newly introduced bill that makes a similar change for administrators. House Bill 6401, introduced on September 26, will cap an administrator’s evaluations based on student growth and assessment data from increasing from 25% to 40% in the 2018-2019 school year. The committee also took further testimony on House Bill 6314 and House Bill 6315, known as the “Innovations Districts” legislation. House Bill 6314 would amend the Revised School Code to allow the board of a school district to apply to the superintendent of public instruction for permission to operate as a public innovative district (PID). The bill outlines the application process, the responsibilities of the superintendent, and what requirements must be met by programs offered by a school district operating as a PID. Additionally, the bill would create the Education Accountability Policy Commission, charged with selecting a statewide auditor to perform audits of all qualifying districts. House Bill 6315 would exempt PIDs from the general rules for determining the hours of pupil instruction or calculating the full-time equivalency of students (a term used to describe the school’s membership, or student count) in the State School Aid Act. The bills would take effect 90 days after enactment. House Bill 6315 is tie-barred to House Bill 6314, which means that it could not take effect unless both bills were enacted.

#### **Issue Private School Bus Sales Tax Exemption**

House tax policy took up Senate Bill 906 and 907 to amend the General Sales Tax Act and the Use Tax Act, respectively, to exempt from taxation under those Acts the purchase, sale, or lease of a school bus or transportation-related services, including parts, if the school bus or services were used to transport pupils to or from a school or school-related events. There was no vote on the bills.

# **LAKE ORION COMMUNITY SCHOOLS**

**Fiscal Year 2018-19**

## **General Fund Actual Verses Budget Highlights:**

The adopted fiscal year 2018-19 revenue budget total is \$82,423,432. We have recognized to date \$7,139,339, 8.7% of the budget. Considering how the State Aid funding mechanism operates, taken together, we are on budget. The adopted fiscal year 2018-19 expenditure budget total is \$82,115,809. We have expended to date \$12,030,847. This represents 14.7% of budget. Considering the point in the fiscal year we are at, taken together, we are on budget.

## **General Fund Cash Position:**

This month's cash flow analysis continues to portray a favorable cash flow position for the General Fund. The current General Fund cash position is \$5.1 million with a forecast of \$7.2 million at year-end.

## **District Disbursement Activity:**

For the month, the district disbursed, net of investments, \$6.7 million via accounts payable check, purchasing card settlement, automated ACH payments and payroll. It included two (2) payrolls.

## **COMMENTARY & ANALYSIS**

### **Revenue & Expenditure Operational Overview:**

The "Budget to Actual" reports provided herein reflect posted activity for the fiscal year to date. All budgets reflect the Fiscal Year 2018-19 adopted budget as approved by the Board of Education June 13, 2018.

Operational funding for Lake Orion Community Schools are categorized into five broad revenue sources. The five major revenue sources include local, intermediate, state, federal, and other financing source revenues. The local source revenues include locally levied operating property taxes, program based fees, athletic fees, grant revenue and investment income. The "intermediate source" revenues consist of Public Act-18 special education funds and Medicaid program revenues. The "state source" revenue consists of the state portion of the per student foundation allowance, state issued grants and categorical payments. The state-aid payment process runs from October of our existing fiscal year to August of our next fiscal year. Federal source revenues are comprised of federally issued grants. Other financing source revenue includes operating transfers-in from other funds.

Operational spending for Lake Orion Community Schools, as presented, is comprised of three broad expenditure categories: salary and wages, fringe benefits and program operations. Program operations consist of purchased services, supplies (including gas and electricity), materials, capital outlay and other miscellaneous expenditures. For the purposes of this report, the definition of "expenditure" is the actual expenditure incurred to date.

# **LAKE ORION COMMUNITY SCHOOLS**

**Fiscal Year 2018-19**

## **Economic Overview:**

Please see the attached University of Michigan U.S. Economic Forecast.

## **National Economic Dashboard:**

The following data set contains indicators that inform the reader about the current and near future national macroeconomic picture:

- US real gross domestic product (GDP) increased at an annualized rate of 4.2% in the second quarter of 2018 according to the “third” estimate of the Bureau of Economic Analysis.
- Total non-farm job payroll increased 134,000 in September.
- The U.S. unemployment rate declined to 3.7%.
- The September civilian labor force participation rate (LFPR) remained at 62.7% from the prior month. The LFPR peaked in 2000 at 67.3%.
- Annualized existing home sales unchanged in August at 5.34 million units.
- Housing starts, defined as single-family units and multifamily units, for August were at a seasonally adjusted annual pace of 1.282 million units, up 9.2% from the prior month.
- The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in September to a seasonally adjusted annualized rate of 2.3 percent.
- Conference Board’s leading economic indicator index increased 0.4 in August to 111.2. This indicator is designed to predict future economic growth or decline six months forward.
- U.S. light vehicle annualized sales for September increased 4.8% to 17.364 million units.
- The University of Michigan consumer sentiment index registered a seasonally adjusted decline to 100.1 in September.

## **State Aid Overview & Legislative Update:**

The typical Local Education Agency (LEA), better known as the local school district, receives the majority of its operating revenues from two funding sources, locally levied property taxes and the School Aid Fund. Lake Orion Community School’s fiscal year 2018-19 foundation allowance level, net of the permanent reduction of \$470 in fiscal year 2011-12, has been increased by \$180 from \$8,212 to \$8,392. The student membership blended count formula is unchanged for fiscal year 2019 from the prior year. The formula continues to use 90% of the current year’s October count plus 10% of the prior year’s February count to calculate the district’s total foundation allowance funding.

# LAKE ORION COMMUNITY SCHOOLS

## Fiscal Year 2018-19

Lake Orion's foundation allowance guarantee is funded from two sources. The first source is the district's local tax levy of 18 mills on qualifying non-homestead property only. This levy is expected to generate about \$1,046 per pupil this year. The second and primary funding source is from the State's School Aid Fund (SAF). The balance of the fiscal year foundation allowance funding comes from the SAF. State aid continues to be paid out over 11 payments based on the state's fiscal year (spanning October through August) and not the school district's fiscal year. The district's fiscal year 2018-19 budget continues to incorporate the \$470 foundation allowance reduction (\$3.6 million annual loss) imposed by the state in fiscal year 2012. The section 147c MPERS unfunded liability rate stabilization categorical has been approved again for 2018-19. This State categorical will provide funding and a corresponding (invoice) expenditure to the district for the Michigan Public Schools Employee Retirement System existing unfunded accrued actuarial liability. The manner in which the State has chosen to fund this categorical and generate the corresponding invoiced expenditure results in a "grossing up" of the district's revenue and expenditure budgets. The growth (grossing up) in the district's revenue and expenditure budgets resulting from this state categorical (section 147c) gives the very false impression that the district has received or benefitted from "additional revenue" as a result of this categorical. This state categorical is simply a "pass through" funding mechanism that comes with a bill attached.

### **General Fund Analysis:**

#### **Revenue:**

The General Fund revenue budget for the period, as approved in the fiscal year 2018-19 adopted budget, is \$82,423,432.

- Revenue recognized fiscal year to date is \$7,139,339 or 8.7% of the budget.

The Local Source revenue budget is \$9,237,372 and is 11.1% of the total budget.

- We have recognized \$5,281,851 to date.

The State Source revenue budget is \$64,657,187 and is 78.5% of the total budget.

- We have recognized \$644,067 to date.
  - State aid (foundation allowance and categorical funds) is paid out over 11 payments beginning in October and is based on the State of Michigan's fiscal year. We expect the last two payments for our fiscal year 2019 state aid to arrive in July and August of 2019, which are the first and second month of our next fiscal year (FY2020).

The Federal Source revenue is grant based reimbursement funding with a total budget of \$2,751,288 and is 3.2% of the total revenue budget.

- We have recognized \$0 to date.

## **LAKE ORION COMMUNITY SCHOOLS**

### **Fiscal Year 2018-19**

The ISD and Medicaid source revenue is budgeted at \$5,381,185 and is 6.6% of the total revenue budget.

- We have recognized \$1,114,322 to date. PA-18 Special Education funding provided through Oakland Schools is paid out quarterly. The majority of the Medicaid funding is released from Oakland Schools in June of each fiscal year.

The “Other” revenue source are indirect charges assessed to the Food Service, Community Service and Pine Tree Center Special Revenue funds and is currently budgeted at \$396,400.

- We have recognized \$99,099 to date.

### **Expenditures:**

The General Fund expenditure budget is \$82,115,809 as approved in the fiscal year 2018-19 adopted budget. We have expended \$12,030,847 or 14.7% of the budget.

The Salary & Wage expenditure budget of \$41,739,350 represents 50.8% of the budget.

- We have spent \$5,495,216 or 13.2% of our salary & wage budget to date.

The Benefits expenditure budget of \$27,594,500 represents 33.6% of the budget. We have spent \$3,373,392 or 12.2% of this budget to date.

- This category of expenditure is typically expended in close tandem with the salary & wage budget with a few exceptions.

The Purchased Services budget of \$6,869,863 represents 8.4% of the budget.

- We have spent \$2,003,636 or 29.2% of this budget to date.

The Supplies expenditure budget of \$3,294,059 represents 4.0% of the budget.

- We have spent \$559,114 or 17.0% of this budget to date.

The Capital Outlay expenditure budget of \$200,000 represents 0.24% of the budget.

- We have spent \$60,894 or 30.5% of this budget to date.

The Other Expenditures & Other Financing Uses budget of \$2,418,037 represents 2.9% of the budget.

- We have spent \$538,595 of these budgets to date.

# **LAKE ORION COMMUNITY SCHOOLS**

**Fiscal Year 2018-19**

## **Community Service Special Revenue Fund Analysis:**

### **Revenue:**

The Community Service Special Revenue Fund budget for fiscal year 2018-19 is \$2,303,718. Year to date recognized revenue is at \$615,625 or 26.7% of budget.

The Community Enrichment revenue of \$677,916 comprises 29.4% of the total budget.

- Year to date recognized revenue is \$288,981 or 42.6% of budget.

The Early Childhood revenue is \$1,625,802 and represents 70.6% of the total budget.

- Year to date recognized revenue is \$326,644 or 20.1% of budget.

### **Expenditures:**

The Community Service Special Revenue Fund expenditure budget is \$2,248,493 as approved in the fiscal year 2018-19 budget. We have expended \$554,987 or 24.7% of the total budget.

The Salary & Wage expenditure budget of \$1,016,600 represents 45.5% of the total budget.

- We have spent \$206,693 or 20.3% of this budget to date.

The Benefits expenditure budget of \$584,081 represents 26.4% of the total budget.

- We have spent \$127,157 or 21.8% of our Benefits budget to date.

The remaining expenditure budgets (Purchased Service, Supplies & Materials, Capital Outlay & Other, and Other Financing Uses – Transfer to General Fund) total \$647,812 and represents 28.8% of the total budget.

- We have spent \$221,136 or 34.1% of these budgets.

## **Food Service Special Revenue Fund Analysis:**

### **Revenue:**

The Food Service Special Revenue Fund revenue budget as approved in the fiscal year 2018-19 budget is \$2,684,365. We have recognized \$107,393 or 4.0% of the budget.

The Food & Vending Sales revenue budget of \$1,585,145 is 59.1% of the budget.

- Food & Vending Sales recognized to date are \$103,460 or 6.5% of budget.



## **LAKE ORION COMMUNITY SCHOOLS**

### **Fiscal Year 2018-19**

The Federal Grants revenue budget of \$890,960 is 33.2% of the budget.

- The revenue recognized to date is \$0 or 0.0% of budget.

#### **Expenditures:**

The Food Service Special Revenue Fund expenditure budget as approved in the 2018-19 budget is \$3,068,542. We have recognized \$215,668 or 7.0% of the total budget.

The Salary & Wage expenditure budget of \$775,567 represents 25.3% of the budget.

- We have spent \$94,547 or 12.2% of this budget to date.

The Benefits expenditure budget of \$430,375 represents 14.0% of the budget.

- We have spent \$61,224 or 14.2% of our Benefits budget to date.

The Supplies expenditure budget of \$1,144,900 represents 37.3% of the budget.

- We have spent \$10,699 or 1.0% of our Supplies budget to date.

The Purchased Services, Capital Outlay, Other and Other Financing Uses expenditure budgets of \$717,700 represents 23.4% of the budget.

- We have spent \$49,198 or 6.9% of these budgets to date.

#### **Pine Tree Center Special Revenue Fund Analysis:**

##### **Revenue:**

The Pine Tree Center Special Revenue Fund revenue budget as approved in the fiscal year 2018-19 budget is \$1,209,042. We have recognized \$87,997 or 7.3% of the budget.

##### **Expenditures:**

The Pine Tree Center Special Revenue Fund expenditure budget as approved in the 2018-19 budget is \$1,139,187. We have recognized \$147,287 or 12.9% of the total budget.

# LAKE ORION COMMUNITY SCHOOLS

Fiscal Year 2018-19

## **Debt Service Funds (Combined):**

The revenue and expenditure budgets for all debt service funds are based on our current year debt service requirements. The majority of our debt service payments occur in November and May of each fiscal year. The summary Debt Service Funds adopted revenue and expenditure budgets are:

Total revenue and other financing sources:	\$19,453,756
Total expenditures:	<u>\$19,554,064</u>
Revenues over/(under) expenditures:	\$ (100,308)
Beginning Fund Balance (budget):	\$ 397,920
Ending Fund Balance:	\$ 297,612

## **Capital Project Funds (410 & 440):**

The summary Capital Projects Funds revenue and expenditure budgets as adopted for fiscal year 2017-18 are:

Total revenue and other financing sources:	\$ 4,277,747
Total expenditures:	<u>\$ 4,876,174</u>
Revenues over/(under) expenditures:	\$ (598,427)
Beginning Fund Balance:	\$ 929,663
Ending Fund Balance:	\$ 330,735

## **RISK - Internal Service Fund (81):**

The summary Internal Service Fund revenue and expense budgets as adopted for fiscal year 2017-18 are:

Total revenue sources:	\$675,000
Total expenses:	<u>\$650,000</u>
Revenues over/(under) expenses :	\$ 25,000
Beginning Net Assets:	\$144,978
Total Ending Net Assets:	\$169,978

# LAKE ORION COMMUNITY SCHOOLS

Fiscal Year 2018-19

## **District Cash Position Analysis:**

Contained in the enclosed reports are the district's current (as of this report date) cash balances, investment position, and projected cash flow information. The results of this month's review of the current period's information continue to support a favorable cash position for the district. The General Fund current period cash balance is at \$5.1 million. In this month's report, we forecast a fiscal year end cash balance of \$7.2 million. The combination of our current fund balance policy, a 100% summer tax levy and collection practice continues to position the district in its most efficient cash management position.

## **District Disbursement Activity:**

The District issued 264 accounts payable checks in an aggregate amount of \$1,938,411, 17 electronic payments in an aggregate amount of \$2,474,903 and completed 2 payroll runs in the net aggregate amount of \$2,267,450 during the period. The District's purchasing card program incurred 1,030 transactions in the aggregate amount of \$182,972 for an average expenditure of \$177.64 generating an estimated rebate of \$2,195.66 for the period. The district receives a rebate based on card spending and receives a 120 basis point (1.20%) rebate. The Summary Disbursements, Electronic Funds Transfers Activity, and the District Purchase Card Program Activity reports represent the District's cash disbursements summary information for the period. Detail check information will continue to be provided at the first board meeting of each month under the "consent agenda" format and can be found on our website in our [Transparency Reporting](#) section. The District's (all funds) total cash out flow for the month, reflecting current operating expenditures net of investments, is \$6,680,764.

**LAKE ORION COMMUNITY SCHOOLS**  
**Fiscal Year 2018-19**

**LAKE ORION COMMUNITY SCHOOLS**  
**FUND STRUCTURE INFORMATION**

General Fund (Consolidated)

Fund 110 = General Fund Sub-fund

Fund 120 = Special Education Sub-fund

Fund 130 = Local Grants Sub-fund

Fund 140 = State Grants Sub-fund

Fund 150 = Federal Grants (non Special Education) Sub-fund

Fund 170 = Special Education Federal Grants Sub-fund

Fund 180= Shared Time Services

Fund 190 = Athletics Sub-fund

Fund 230 - Community Service Special Revenue Fund

Fund 250 – Food Service Special Revenue Fund

Fund 220 – Pine Tree Center Special Revenue Fund

Funds 330 – 390 Debt Service Funds

Fund 410- Building & Site Sinking Fund

Fund 440 – District Capital Projects Fund

Fund 610 – Agency Fund - Internal Accounts

Fund 810 – Internal Service Fund



**Lake Orion Community Schools**  
**General Fund (110 - 190) Financial Analysis**  
**September 30, 2018**

<b>Stated by Function</b>	<b>Current Budget</b>	<b>Year-to-Date Actual</b>	<b>% of Budget</b>
<b><u>REVENUE</u></b>			
Local Sources	9,237,372	5,281,851	57.18%
State Sources	64,657,187	644,067	1.00%
Federal Sources	2,751,288	-	0.00%
ISD and Other Sources	5,381,185	1,114,322	20.71%
Other Revenue	396,400	99,099	25.00%
<b>TOTAL REVENUE</b>	<b>82,423,432</b>	<b>7,139,339</b>	<b>8.66%</b>
<b><u>EXPENDITURES</u></b>			
<u>Instruction</u>			
Basic Programs	41,704,355	4,531,407	10.87%
Added Needs	11,280,949	1,307,364	11.59%
SUB TOTAL	52,985,304	5,838,771	11.02%
<u>Non-Instruction</u>			
Pupil Services	6,381,489	814,453	12.76%
Instructional Staff Support Services:			
Instruction Improvement	568,931	178,288	31.34%
Educational Media Services	1,234,065	133,050	10.78%
Technology Assisted Instruction	25,100	200	0.80%
Instructional Staff Supervision	862,681	154,762	17.94%
General Administration	1,055,952	292,793	27.73%
School Administration	4,667,982	1,021,487	21.88%
Business Services	854,238	294,015	34.42%
Operations & Maintenance	5,422,481	1,141,879	21.06%
Transportation	3,590,610	1,082,370	30.14%
Communication Services	142,942	55,736	38.99%
Human Resources	849,045	264,324	31.13%
Technology Services	1,628,821	472,239	28.99%
Athletic Activities	1,177,328	224,649	19.08%
Community Services	256,730	61,831	24.08%
SUB TOTAL	28,718,395	6,192,076	21.56%
<u>Other Financing Uses</u>			
Transfer to Capital Projects	412,110	-	0.00%
<b>TOTAL EXPENDITURES</b>	<b>82,115,809</b>	<b>12,030,847</b>	<b>14.65%</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>307,623</b>	<b>(4,891,508)</b>	
<b>Beginning Fund Balance</b>	<b>7,603,372</b>	<b>7,603,372</b>	<b>100.00%</b>
<b>Projected Ending Fund Balance</b>	<b>7,910,995</b>	<b>2,711,864</b>	<b>34.28%</b>



**Lake Orion Community Schools**  
**General Fund (110 - 190) Financial Analysis**  
**September 30, 2018**

<b>Stated by Object</b>	<b>Current Budget</b>	<b>Year-to-Date Actual</b>	<b>% of Budget</b>
<b><u>REVENUE</u></b>			
Local Sources	9,237,372	5,281,851	57.18%
State Sources	64,657,187	644,067	1.00%
Federal Sources	2,751,288	-	0.00%
ISD and Other Sources	5,381,185	1,114,322	20.71%
Other Revenue	396,400	99,099	25.00%
<b>TOTAL REVENUE</b>	<b>82,423,432</b>	<b>7,139,339</b>	<b>8.66%</b>
<b><u>EXPENDITURES</u></b>			
Salaries	41,739,350	5,495,216	13.17%
Benefits	27,594,500	3,373,392	12.22%
Purchased Services	6,869,863	2,003,636	29.17%
Supplies	3,294,059	559,114	16.97%
Capital Outlay	200,000	60,894	30.45%
Dues, Fees and Other	200,975	131,484	65.42%
	<b>79,898,747</b>	<b>11,623,736</b>	<b>14.55%</b>
<u>Other Financing Uses</u>			
Outgoing Transfers and Other	2,217,062	407,111	18.36%
<b>TOTAL EXPENDITURES</b>	<b>82,115,809</b>	<b>12,030,847</b>	<b>14.65%</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>307,623</b>	<b>(4,891,508)</b>	
<b>Beginning Fund Balance</b>	<b>7,603,372</b>	<b>7,603,372</b>	<b>100.00%</b>
<b>Projected Ending Fund Balance</b>	<b>7,910,995</b>	<b>2,711,864</b>	<b>34.28%</b>

**LAKE ORION COMMUNITY SCHOOLS**  
**FINANCIAL REPORT - ANALYSIS EXPLANATIONS**  
**September 30, 2018**

**Expected % of Budget To Date**

The percentage in this column is based solely on passage of time or events (i.e. 3 out of 12 months or 5 out of 26 paychecks). While this percentage can be an accurate benchmark, it doesn't allow for normal fluctuations in spending (i.e. a majority of educational supplies are purchased at the beginning of the year).

**Prior Year % of Budget To Date**

The percentage in this column shows the percentage of budget spent in the prior year. This percentage is good benchmark, as it allows for the normal fluctuations in spending. However, it can be misleading if there was an extraordinary event in either the current or prior year (i.e. purchase of a bus in one year).

**Explanation of Analysis**

Since both of these benchmarks have their strengths and weaknesses, the "Percentage of Budget To Date" for the current year will be compared to both of the benchmarks. If this percentage is aligned with at least one of the benchmarks, no further analysis will be done. If the "Percentage of Budget To Date" is not aligned with either benchmark, an explanation will appear on this sheet.

- A** Technology Assisted Instruction expenses are lower than expected and prior year, due to Software Licensing Fees not yet paid. Considering this, the percentage is reasonable.
- B** Transportation expenses are higher than expected and prior year, due to bus leases paid. Considering this, the percentage is reasonable.
- C** Communications Services are higher than expected and prior year, due to website hosting and support services paid. Considering this, the percentage is reasonable.
- D** Human Resources are higher than expected and prior year, due to payment of software fees paid. Considering this, the percentage is reasonable.

**LAKE ORION COMMUNITY SCHOOLS**  
**FINANCIAL REPORT - ANALYSIS**  
September 30, 2018

	<u>2018-19 Budget</u>	<u>Year-to-Date Actual</u>	<u>Percentage of Budget To Date</u>	<u>Expected % of Budget To Date</u>	<u>Prior Year % of Budget To Date</u>	Explanations	<u>Variance A vs. E</u>	<u>Variance CY v. PY</u>
<b>REVENUE</b>								
Local	9,237,372	5,281,851	57.18%	52.45%	61.77%		4.73%	-4.59%
State	64,657,187	644,067	1.00%	0.79%	0.75%		0.21%	0.25%
Federal	2,751,288	-	0.00%	3.89%	3.50%		-3.89%	-3.50%
Medicaid and ISD	5,381,185	1,114,322	20.71%	22.71%	22.68%		-2.00%	-1.97%
Other	396,400	99,099	25.00%	25.65%	25.52%		-0.65%	-0.52%
<b>TOTAL REVENUE</b>	<b>82,423,432</b>	<b>7,139,339</b>	<b>8.66%</b>	<b>21.10%</b>	<b>8.73%</b>		<b>-0.32%</b>	<b>-2.07%</b>
<b>EXPENDITURES</b>								
<u>Instruction</u>								
Basic Programs	41,704,355	4,531,407	10.87%	12.40%	10.75%		-1.54%	0.12%
Added Needs	11,280,949	1,307,364	11.59%	12.40%	12.50%		-0.81%	-0.91%
<b>SUB TOTAL</b>	<b>52,985,304</b>	<b>5,838,771</b>	<b>11.02%</b>	<b>12.40%</b>	<b>11.10%</b>		<b>-1.38%</b>	<b>-0.08%</b>
<u>Non-Instruction</u>								
Pupil Services	6,381,489	814,453	12.76%	12.40%	12.24%		0.36%	0.52%
Instructional Staff Support Services:								
Instruction Improvement	568,931	178,288	31.34%	25.00%	27.92%		6.34%	3.42%
Educational Media Services	1,234,065	133,050	10.78%	12.40%	12.17%		-1.62%	-1.39%
Technology Assisted Instruction	25,100	200	0.80%	12.40%	32.27%	<b>A</b>	-11.61%	-31.47%
Instructional Staff Supervision	862,681	154,762	17.94%	12.40%	14.33%		5.54%	3.61%
General Administration	1,055,952	292,793	27.73%	25.00%	27.42%		2.73%	0.31%
School Administration	4,667,982	1,021,487	21.88%	21.63%	21.66%		0.25%	0.22%
Business Services	854,238	294,015	34.42%	25.00%	34.57%		9.42%	-0.15%
Operations & Maintenance	5,422,481	1,141,879	21.06%	25.00%	19.78%		-3.94%	1.28%
Transportation	3,590,610	1,082,370	30.14%	20.00%	29.75%	<b>B</b>	10.14%	0.39%
Communications Services	142,942	55,736	38.99%	25.00%	9.97%	<b>C</b>	13.99%	29.02%
Human Resources	849,045	264,324	31.13%	25.00%	39.27%	<b>D</b>	6.13%	-8.14%
Technology Services	1,628,821	472,239	28.99%	25.00%	30.04%		3.99%	-1.05%
Athletic Activities	1,177,328	224,649	19.08%	20.00%	21.07%		-0.92%	-1.99%
Community Services	256,730	61,831	24.08%	22.50%	19.23%		1.58%	4.85%
<b>SUB TOTAL</b>	<b>28,718,395</b>	<b>6,192,076</b>	<b>21.56%</b>	<b>19.74%</b>	<b>20.85%</b>		<b>1.83%</b>	<b>0.71%</b>
<u>Other Financing Uses</u>								
Transfer to Capital Projects	412,110	-	0.00%	0.00%	0.00%		0.00%	0.00%
<b>TOTAL EXPENDITURES</b>	<b>82,115,809</b>	<b>12,030,847</b>	<b>14.65%</b>	<b>14.91%</b>	<b>14.38%</b>		<b>-0.25%</b>	<b>0.27%</b>

Explanations for variances greater than 5% in both columns are on attached "Financial Report - Analysis Explanations".





**Lake Orion Community Schools**  
**Community Services Fund (230) Financial Analysis**  
**September 30, 2018**

	<u>Current Budget</u>	<u>Year-to-Date Actual</u>	<u>% of Budget</u>
<b><u>REVENUE</u></b>			
Community Enrichment	677,916	288,981	42.63%
Early Childhood	1,625,802	326,644	20.09%
<b>TOTAL REVENUE</b>	<u>2,303,718</u>	<u>615,625</u>	<u>26.72%</u>
<b><u>EXPENDITURES</u></b>			
Salaries	1,016,600	206,693	20.33%
Benefits	584,081	127,157	21.77%
Purchased Services	298,336	137,402	46.06%
Supplies	61,300	19,824	32.34%
Capital Outlay/Other	63,176	7,660	12.12%
<b>TOTAL EXPENDITURES</b>	<u>2,023,493</u>	<u>498,737</u>	<u>24.65%</u>
<b><u>Other Financing Uses</u></b>			
Transfer to General Fund	225,000	56,250	25.00%
<b>TOTAL EXPENDITURES</b>	<u>2,248,493</u>	<u>554,987</u>	<u>24.68%</u>
<b>Revenues Over/(Under) Expenditures</b>	<u>55,225</u>	<u>60,639</u>	
<b>Beginning Fund Balance</b>	725,075	725,075	100.00%
<b>Projected Ending Fund Balance</b>	<u>780,300</u>	<u>785,714</u>	<u>100.69%</u>



**Lake Orion Community Schools**  
**Food Service Fund (250) Financial Analysis**  
**September 30, 2018**

	<b>Current Budget</b>	<b>Year-to-Date Actual</b>	<b>% of Budget</b>
<b><u>REVENUE</u></b>			
Food and Vending Sales	1,585,145	103,460	6.53%
Interest and Rebates	12,500	1,277	10.22%
Catering Services	37,000	2,656	7.18%
State Revenue	158,760		0.00%
Federal Revenue	890,960		0.00%
<b>TOTAL REVENUE</b>	<b>2,684,365</b>	<b>107,393</b>	<b>4.00%</b>
<b><u>EXPENDITURES</u></b>			
Salaries	775,567	94,547	12.19%
Benefits	430,375	61,224	14.23%
Purchased Services	78,100	19,515	24.99%
Supplies	1,144,900	10,699	0.93%
Capital Outlay	500,000	-	0.00%
Other	39,600	4,684	11.83%
<b>TOTAL EXPENDITURES</b>	<b>2,968,542</b>	<b>190,669</b>	<b>6.42%</b>
<b><u>Other Financing Uses</u></b>			
Transfer to General Fund	100,000	24,999	25.00%
<b>TOTAL EXPENDITURES</b>	<b>3,068,542</b>	<b>215,668</b>	<b>7.03%</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>(384,177)</b>	<b>(108,276)</b>	
<b>Beginning Fund Balance</b>	<b>1,011,628</b>	<b>1,011,628</b>	<b>100.00%</b>
<b>Projected Ending Fund Balance</b>	<b>627,451</b>	<b>903,352</b>	<b>143.97%</b>



**Lake Orion Community Schools**  
**Pine Tree Center Fund (220) Financial Analysis**  
**September 30, 2018**

	<u>Current Budget</u>	<u>Year-to-Date Actual</u>	<u>% of Budget</u>
<b><u>REVENUE</u></b>			
Local Sources	1,408	-	0.00%
State Sources	304,962	-	0.00%
Federal Sources	25,090	-	0.00%
ISD and Other Sources	877,582	87,997	10.03%
<b>TOTAL REVENUE</b>	<b>1,209,042</b>	<b>87,997</b>	<b>7.28%</b>
<b><u>EXPENDITURES</u></b>			
Salaries	549,079	96,249	17.53%
Benefits	436,649	61,317	14.04%
Purchased Services	10,700	2,969	27.75%
Supplies	3,500	1,624	46.40%
Capital Outlay	-	(36,277)	0.00%
Other	67,859	3,555	5.24%
<b>TOTAL EXPENDITURES</b>	<b>1,067,787</b>	<b>129,437</b>	<b>12.12%</b>
<u>Other Financing Uses</u>			
Indirect Costs/Transfer to GF	71,400	17,850	25.00%
<b>TOTAL EXPENDITURES</b>	<b>1,139,187</b>	<b>147,287</b>	<b>12.93%</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>69,855</b>	<b>(59,290)</b>	
<b>Beginning Fund Balance</b>	<b>-</b>	<b>-</b>	<b>#DIV/0!</b>
<b>Projected Ending Fund Balance</b>	<b>69,855</b>	<b>(59,290)</b>	<b>-84.88%</b>

LAKE ORION COMMUNITY SCHOOLS

Cash Balance Report

As of September 30, 2018

Institution	Funding Source	Type of Investment	Acquisition Date	Maturity Date	Days Duration	Rate	Principal Amt/Bal
PNC Bank	General Fund (11 - 19)	Corporate Business Acct	na	na	na	0.700%	\$ 1,043,742
PNC Bank	Debt Service Funds	Corporate Business Acct	na	na	na	0.700%	2,133,079
PNC Bank	Internal Agency Funds	Corporate Business Acct	na	na	na	0.700%	934,567
PNC Bank	Food Service Fund	Corporate Business Acct	na	na	na	0.700%	1,042,731
PNC Bank	Community Service Fund	Corporate Business Acct	na	na	na	0.700%	863,697
PNC Bank	Building & Site Sinking Fund	Corporate Business Acct	na	na	na	0.000%	1,671,205
PNC Bank	General Fund (11 - 19)	Premium Business MMA	na	na	na	1.340%	4,013,343
PNC Bank	LOCS ORS 3% Refund Escrow	Escrow Account	na	na	na	0.000%	15,958
Business Account Totals:							11,718,322
MILAF	General Fund	Cash+/Max funds	na	na	na	2.030%	\$ 136
MILAF	Debt Service Fund	Cash+/Max funds	na	na	na	2.420%	\$ 7,830,466
Comerica Bank	Flex Spending	Business Int. Chk	na	na	na	0.100%	27,980
Other Totals:							\$ 7,858,582
<b>Total Cash/Investments</b>							<b>\$ 19,576,904</b>

## GENERAL FUND CASH FLOW TRACKING MODEL

	July	August	September	October	November	December
<b>Beginning cash/investments</b>	6,922,042	7,544,026	5,343,678	5,057,221	7,503,951	7,193,888
<b>Cash basis revenues:</b>						
Property taxes	473,031	470,875	3,906,508	2,593,000	79,762	-
State aid (cash basis)	5,814,016	5,844,236	-	5,888,771	5,888,771	5,888,771
LOC Proceeds	-	-	-	-	-	-
Operating transfers in	24,700	24,700	49,699	<b>33,033</b>	33,033	33,033
Other income	1,450,078	461,305	1,627,057	300,928	300,928	300,928
<b>Total revenue (sources of CF):</b>	7,761,825	6,801,116	5,583,264	8,815,732	6,302,494	6,222,732
<b>Total available resources:</b>	14,683,867	14,345,142	10,926,942	13,872,953	13,806,445	13,416,620
<b>Cash basis expenditures:</b>						
Accounts payable	2,479,075	2,045,097	1,793,030	1,624,638	1,624,638	1,624,638
Payroll	4,660,766	6,956,367	4,076,691	4,744,364	4,744,364	4,744,364
Operating transfers out	-	-	-	-	243,555	-
LOC Repayment				-		
<b>Total expenditures (uses of CF):</b>	7,139,841	9,001,464	5,869,721	6,369,002	6,612,557	6,369,002
<b>Ending cash/investments</b>	7,544,026	5,343,678	5,057,221	7,503,951	7,193,888	7,047,618
<b>Ending available resources</b>	7,544,026	5,343,678	5,057,221	7,503,951	7,193,888	7,047,618

## GENERAL FUND CASH FLOW TRACKING MODEL

	January	February	March	April	May	June
<b>Beginning cash/investments</b>	7,047,618	8,001,348	7,855,078	5,336,626	6,390,356	6,075,531
<b>Cash basis revenues:</b>						
Property taxes	-	-	-	100,000	-	200,000
State aid (cash basis)	5,888,771	5,888,771	5,888,771	5,888,771	5,888,771	5,888,767
LOC Proceeds	-	-	-	-	-	-
Operating transfers in	33,033	33,033	33,033	33,033	33,033	33,037
Other income	1,400,928	300,928	300,928	1,400,928	300,928	1,400,805
<b>Total revenue (sources of CF):</b>	7,322,732	6,222,732	6,222,732	7,422,732	6,222,732	7,522,609
<b>Total available resources:</b>	14,370,350	14,224,080	14,077,810	12,759,358	12,613,088	13,598,140
<b>Cash basis expenditures:</b>						
Accounts payable	1,624,638	1,624,638	1,624,638	1,624,638	1,624,638	1,624,248
Payroll	4,744,364	4,744,364	7,116,546	4,744,364	4,744,364	4,744,227
Operating transfers out	-	-	-	-	168,555	-
LOC Repayment						
<b>Total expenditures (uses of CF):</b>	6,369,002	6,369,002	8,741,184	6,369,002	6,537,557	6,368,475
<b>Ending cash/investments</b>	8,001,348	7,855,078	5,336,626	6,390,356	6,075,531	7,229,665
<b>Ending available resources</b>	8,001,348	7,855,078	5,336,626	6,390,356	6,075,531	7,229,665



**Lake Orion Community Schools**  
**Cash Disbursement Detail**  
**September 1 - September 30, 2018**

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**Checks Issued**

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<u>Check Range</u>	<u>Number of Checks Written</u>	<u>Total Amount of Checks Issued</u>
310724      -      310987	264	\$      1,938,410.94

**Payroll**

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<u>Payroll Dates Range</u>	<u>Number of Pay Periods</u>	<u>Total Amount of Net Payroll</u>
9/14/2018      -      9/28/2018	2	\$      2,267,449.60

**Electronic Payments**

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<u>Number of Electronic Payments</u>	<u>Total Amount of Electronic Payments</u>
17	\$      2,474,903.41

**Total Cash Disbursements      \$      6,680,763.95**

Approval:

10/10/18  
Board of Education  
Regular



**Lake Orion Community Schools**  
**Electronic Payment Detail**  
**September 1 - September 30, 2018**

<u>Date</u>	<u>Payment To</u>	<u>Description</u>	<u>Amount</u>
9/5/2018	State of Michigan	Payroll Taxes	55.52
9/5/2018	IRS	Payroll Taxes	301.03
9/6/2018	National Processing Company	Credit Card Processing Fees	200.55
9/10/2018	PNC	Credit Card Charges	237,909.75
9/11/2018	Office of Retirement Services	Retirement Payment	512,649.77
9/14/2018	EduStaff	Contracted Staffing	42,998.66
9/14/2018	Health Equity	Transfer for HSA Deductions	12,424.74
9/14/2018	IRS	Payroll Taxes	384,101.30
9/14/2018	State of Michigan	Payroll Taxes	57,133.39
9/14/2018	OMNI	403B Contributions	68,819.25
9/25/2018	Office of Retirement Services	Retirement Payment	583,401.38
9/26/2018	IOS Capital	Copier Leases	7,881.32
9/28/2018	EduStaff	Contracted Staffing	46,128.92
9/28/2018	OMNI	403B Contributions	68,394.64
9/28/2018	IRS	Payroll Taxes	387,429.98
9/28/2018	State of Michigan	Payroll Taxes	58,388.53
9/28/2018	BASIC	Transfer for FSA Deductions-Sept.	6,684.68
<b>Total Electronic Payments</b>			<b>\$ 2,474,903.41</b>



**Lake Orion Community Schools Purchasing Card - 9/1-9/30/18 (PNC VISA)**

Name	School/Dept	Title	Last 4 Acct #	Credit Limit	No. of Trans.	Total Spent	Average Trans.
Anderson, Gwen	Waldon MS-St Council	Teacher	9816	1,000	5	325.43	65.09
Anderson, Kerri	Board Office	Director of Curriculum	8070	20,000	25	6,334.40	253.38
Arnett, Rick	Board Office	Asst Superintendent HR	919	2,500			
Barry, Lisa	Board Office	Admin Assistant	643	2,500	4	340.78	85.20
Bartley, Susan	Headstart	Headstart Director	8559	1,000	8	540.01	67.50
Bell, Chris	High School	Athletic Director	6022	25,000	41	12,957.65	316.04
Crimmins, Eric	Music Director	Teacher	5032	500	6	499.39	83.23
Crissman, Jeannine	Carpenter Elementary	Media Specialist	7891	2,500			
Cubitt, Brent	High School	Teacher	9263	1,500	4	586.52	146.63
Dalrymple, Julia	High School - School Store	Teacher	784	15,000	16	2,078.05	129.88
Deutsch, Wendy	Scripps MS	Teacher	8534	1,000			
Drumm, Lisa	Stadium Drive Elementary	Secretary	4500	5,000	33	3,638.00	110.24
Ernst, Marla	Food Service	Director	8195	5,000	2	122.74	61.37
Eveland, Kathy	Paint Creek Elementary	Secretary	6967	5,000	12	2,293.89	191.16
Everitt, Rosa	High School - Voc Ed	Director	7356	20,000	23	5,642.90	245.34
Falls, Joyce	Oakview MS	Secretary	8039	8,000	35	5,665.30	161.87
Fitzgerald, John	Board Office	Asst. Superintendent	9151	20,000	3	7,764.71	2,588.24
Ginopolis, Marion	Board Office	Superintendent	8179	2,500	2	478.92	239.46
Goethals, Jennifer	Webber Elementary	Administrator	1557	5,000	9	455.00	50.56
Goodman, Wes	Ops & Mtce	Director	2860	10,000	21	956.37	45.54
Green, Chris	Bldgs & Grounds	Supervisor	9094	7,500	8	4,380.55	547.57
Groya, Randy	Waldon MS	Administrator	3272	5,000	18	1,707.28	94.85
Gutman, Julie	Special Ed	Director	560	25,000	59	15,535.43	263.31
Haas, Dan	Scripps MS	Administrator	376	12,000	13	3,052.37	234.80
Hammerl, Heather	High School-Principal Office	Secretary	7986	5,000	24	3,153.26	131.39
Harris, Stephanie	Oakview MS	Teacher	8435	1,000	2	456.77	228.39
Hawley, Stephen	High School-Principal Office	Administrator	6824	5,000	4	286.40	71.60
Hetzel, Bonnie	Oakview MS	Teacher	9037	1,000			
Hogan, Lori	High School - St Leadership	Teacher	9366	15,000	21	1,635.02	77.86
Howe, Jennifer	High School - World Lang.	Teacher	9490	5,000	1	239.94	239.94
Hunter, Dan	Waldon MS	Teacher	9193	1,000	1	15.52	15.52
Kempski, Melissa	Oakview MS	Media Specialist	3242	2,500	25	1,110.60	44.42
Kind, Jonathan	High School Drama	Teacher	4093	3,500	7	541.32	77.33
King, Pam	Transportation	Dispatcher	5792	20,000	25	6,845.06	273.80
Kowalski, Ashley	High School - Lifeskills	Teacher	9166	1,000	12	790.75	65.90
Larsen, Jason	Oakview MS	Administrator	9474	5,000	3	220.50	73.50
Lowe, Rebecca	Scripps MS	Media Specialist	4085	2,000	5	1,438.07	287.61
Manzo, Sarah	Oakview MS	Administrator	8369	5,000	5	3,064.64	612.93
Marcoux, Paula	Scripps MS	Teacher	8260	500			
McGraw, Lori	Community Services/GAP	Program Director	3686	7,000	11	1,159.51	105.41
McKay, David	Scripps MS	Administrator	8615	6,000	25	3,079.62	123.18
McLean, Kim	Early Childhood	Director	1024	3,500	7	931.26	133.04
Mercer, Heidi	Board Office	Asst. Superintendent	9325	30,000	28	10,545.66	376.63
Meteyer, Kyle	High School	Assistant Principal	8719	5,000	1	62.12	62.12
Middleton, Melissa	High School - Media	Media Specialist	8229	15,000	180	4,175.71	23.20
Montei, Katherine	Waldon MS Media	Media Specialist	7274	2,000	21	867.99	41.33
Mundie, Kathy	Scripps MS	Teacher	7957	1,000			
Murray, Robert	Stadium Drive Elementary	Administrator	9570	7,500	2	318.99	159.50
Nuss, Ken	Blanche Sims Elementary	Administrator	6181	7,000	11	1,043.69	94.88
Olko, Julie	Board Office	Exec. Assistant	9565	13,000	6	541.18	90.20
Okonowski, Karen	Scripps MS	Teacher	3234	1,000			
Palmeri, Anthony	High School	Associate Principal	3605	5,000	3	385.00	128.33
Paulson, Kris	Bldgs & Grounds	Bldgs & Grounds	0185	3,500	6	651.75	108.63
Perry, Beth	LifeSkills	Scripps	9029	500	10	1,034.98	103.50
Perry, Sarah	Waldon MS	Administrator	8385	5,000			
Roeher, David	Bldgs & Grounds	Bldgs & Grounds	9276	1,500	4	247.92	61.98
Romito, Tom	High School - Social Studies	Teacher	9158	4,000	2	69.06	34.53
Rutledge, Heather	High School - Sp Ed	Teacher	9391	2,000	4	449.12	112.28
Schoon, Craig	WMS -Admin	T&L Coach/Teacher	4378	15,000	4	781.80	195.45
Schwartzmiller, Marysue	Admn Asst - Teach/Learn	Admin Assistant	2480	500			
Sliwinski, Kristin	Learning Options	Director	0398	2,500	6	402.46	67.08
Smith, Roger	High School	Teacher - Broadcasting	8926	5,000	6	1,756.30	292.72
Smith, Lauren	Paint Creek Elementary	Administrator	8104	5,000	3	184.98	61.66
Snyder, Mark	Board Office	Communications Director	1557	5,000	9	589.15	65.46
Sprengr, Gloria	Webber Elementary	Secretary	9359	4,500	25	1,875.86	75.03
Thompson, Bryce	High School - Music	Teacher	9743	3,000	11	1,893.21	172.11
Thornton, Karen	Scripps MS	Teacher	9581	500			
Tighe, Steve	High School - Science	Teacher	1650	4,000	13	3,139.92	241.53
Towlerton, Andrew	Orion Oaks - NEW	Administrator	4173	10,000	41	7,941.15	193.69
Tumey, Susan	Technology/Mtce	Secretary - OP&MTCE	8476	32,500	21	30,792.65	1,466.32
Tumey, Susan	Technology/Mtce	Secretary - Technology	2299	25,000	40	6,315.72	157.89
Weldon, Adam	Carpenter Elementary	Administrator	9735	5,000	16	2,751.45	171.97
Whitaker, David	High School Phys Ed	Teacher	9292	3,000	3	84.93	28.31
Wilson, Melissa	High School-Art	Teacher	232	4,000	16	2,082.45	130.15
Young, Ryan	Bldgs & Grounds	Bldgs & Grounds	8351	1,000	3	318.79	106.26
Zach, Tina	Blanche Sims Elementary	Secretary	8492	3,500	10	1,343.73	134.37

Number of Transactions

1,030

Total Purchases

\$182,971.65

Average Cost Per Transaction

\$177.64



Gabriel M. Ehrlich, Director

George A. Fulton & Saul H. Hymans,  
Directors Emeriti

For Release: 9/21/2018

## The U.S. Economic Outlook for 2018–2020 Executive Summary: September 2018

### **Spring Blip**

*At 4.2 percent, the seasonally adjusted annualized real GDP growth rate in 2018q2 was the strongest in nearly four years. The economy benefited from a pickup in consumption expenditure growth, net exports, and business fixed investment. However, we expect a moderation in these sectors' contributions to GDP growth going forward.*

*Personal consumption rebounded from weak growth in 2018q1, which was held down by slower spending on vehicles and clothing. Exports jumped, likely due to businesses trying to move as many goods as possible before tariffs on U.S. exports kicked in. Business fixed investment likely benefited from the provision for 100-percent expensing of new equipment in the Tax Cuts and Jobs Act and from strong investment in oil and gas exploration. The effect of expensing incentives is likely to wane over time, while recent data suggest that another boost to oil exploration investment is unlikely.*

*On the other hand, the ramp-up in federal government expenditures is only just starting, following a fiscal stimulus unusual this far into an economic expansion. Federal spending contributed two-tenths of a percentage point to GDP growth in 2018q2, and is likely to add substantially more over the next couple of quarters.*

*We expect GDP growth to moderate relative to its 2018q2 reading going forward, but to remain solid in the near term.*

### **Wage Growth Here to Stay**

*Nonfarm payroll employment has increased by 207,000 jobs per month on average so far in 2018. The unemployment rate since April has hovered around its lowest level since the year 2000. Wage growth, the long-missing ingredient for an economy at full employment, finally appears to be accelerating. The year-over-year growth of private sector employees' hourly earnings was the strongest in this business expansion, at 2.9 percent in August.*

*Along with the tightening labor market and improving economy, PCE deflator and CPI inflation rates have*

*been picking up in 2018 so far. The latest reading of annualized inflation in the PCE deflator was 2.3 percent in July. We expect PCE inflation to stay near the Fed's medium-run target of 2 percent for the duration of our forecast.*

### **Open–Shut–Open–Shut ...**

*Government shutdowns are unpopular and risky, especially in an election year. For fiscal 2019, the House and Senate are working on passing "minibus" bills that each include multiple spending bills to keep the government open beyond the September 30 funding deadline.*

*Congress has a limited number of working days before the fiscal year ends. To avoid contentious battles before midterm elections, we expect Congress to continue its practice of passing a continuing resolution that will temporarily fund the government at existing levels.*

*Corporate tax receipts fell by 115 billion dollars and personal tax receipts fell by 49 billion dollars in the first quarter of this year. We project federal current receipts to decline by 2.1 percent in fiscal 2018. With growth in expenditures far outpacing growth in receipts, the federal government deficit steadily worsens from 3.4 percent of GDP in 2017 to 5.5 percent of GDP in 2020.*

### **Trade War Alert Level: RED**

*The trade war between the United States and China has escalated in recent months. Following failed attempts to negotiate a truce, the United States announced a 25-percent tariff on 50 billion dollars' worth of Chinese imports at the end of May, which came into effect in two installments in July and August. The Trump administration just announced a 10-percent tariff on an additional 200 billion dollars' worth of Chinese imports, to be raised to 25 percent at the end of the year. The most recent tariffs are not included in our forecast. It remains to be seen whether negotiations will happen and whether they will be effective. Any further retaliation by China is constrained by the fact that Chinese imports from the U.S. amount to only one-third of U.S. imports from China in dollar value.*

## Powell Makes His Mark

The new Federal Reserve Chair, Jerome Powell, announced that he will begin holding a news conference after every FOMC meeting beginning in 2019, removing some self-imposed constraints on policymaking.

The FOMC and markets seem to interpret the state of the economy differently, leading to different expectations about the future path of interest rates. While the FOMC's median expectation of the target range for the federal funds rate is 3.25–3.5 percent at the end of 2020, the federal fund futures market is pricing in a shallower path through the end of 2020. Of course, inferring investors' expectations from market prices is complicated by time-varying risk and liquidity premia.

We project two 25-bps rate increases in the remainder of 2018, followed by three in 2019 and two more in 2020, as PCE deflator inflation is already around the Federal Reserve's 2 percent target.

## The 2018–2020 Outlook

We expect real GDP growth to decelerate from 2.9 percent in 2018 to 2.8 percent in 2019 and 2.0 percent in 2020, as the expansionary effects of fiscal policy fade. Over 2019–2020, consumption and most of the main components of business fixed investment contribute to growth in the economy. The contributions of automotive, residential, and inventory investment, however, are either close to zero or negative. Improvement in the trade balance generated by tariffs on Chinese imports will be short-lived as suppliers adjust their global supply chains. Import growth outpaces

growth of exports in 2019–2020, and net exports subtract 0.3–0.4 percentage points from growth.

We anticipate light vehicle sales to edge down from 17 million units in 2018 to 16.9 million units sold in 2019 and 2020. Sales of cars continue to decrease from 6.1 million units in 2017 to 4.0 million in 2020 as the appetite for cars continually falls. Consumers' preference for light trucks continues unabated, with the share of light trucks rising from about 70 percent of all light vehicle sales in 2018 to over 76 percent in 2020.

Total housing starts increase from 1.21 million units started in 2017 to 1.27 million in 2018. Starts grow more slowly in 2019–2020, reaching 1.32 million in 2020. Multifamily starts stay essentially flat.

## Employment and Inflation

We expect average monthly nonfarm payroll job gains to moderate over our forecast horizon. They decelerate from about 195,000 job additions per month in 2018q3–q4 to 104,000 jobs at the end of 2020. The unemployment rate continues to decline, falling from 3.9 percent in 2018q2 to 3.4 percent at the end of 2019 and 3.3 percent by the end of 2020.

We expect headline CPI inflation to rise to 2.5 percent in 2018 and then slow down to 2.0–2.1 percent in 2019–2020. Core CPI inflation rises to 2.1–2.2 percent in 2018–19, and edges up to 2.3 percent in 2020. Headline inflation sits higher than core inflation in 2018, but that pattern is expected to reverse in 2019–2020, as oil prices stay essentially flat and food price inflation runs behind core.

	Actual		RSQE Forecast	
	2017	2018	2019	2020
GDP (billions of current \$)	19485.4	20511.3	21531.3	22471.5
Real GDP (billions of 2012 \$)	18050.7	18570.5	19088.4	19472.9
% change: year-over-year	2.2	2.9	2.8	2.0
% change: 4th-qtr-to-4th-qtr	2.5	3.1	2.5	1.7
Nonfarm payroll employment (millions)	146.6	149.0	151.2	153.0
Civilian unemployment rate (%)	4.4	3.9	3.5	3.3
Capacity utilization, total industry (%)	76.1	77.9	78.2	78.5
Inflation (private nonfarm GDP deflator, % change)	1.9	2.3	2.1	2.3
Inflation (CPI-U, % change)	2.1	2.5	2.0	2.1
Inflation (core CPI, % change)	1.8	2.1	2.2	2.3
Light vehicle sales (millions)	17.1	17.0	16.9	16.9
Private housing starts (thousands)	1208.2	1267.8	1310.4	1321.7
3-month Treasury bill rate (%)	0.9	1.9	2.6	3.1
10-year Treasury note rate (%)	2.3	2.9	3.3	3.7
Conventional mortgage rate (%)	4.0	4.5	5.0	5.4
Real disposable income (billions of chained 2012 \$)	13949.3	14349.7	14815.3	15275.2
% change	2.6	2.9	3.2	3.1
Corporate profits after tax (billions of current \$)	1831.2	1949.9	1990.8	2090.6
Value of U.S. \$ (FRB broad index), % appreciation	-0.3	0.3	2.9	0.0
Current account balance (NIPA basis, billions of current \$)	-472.5	-478.7	-538.5	-593.1
Federal surplus (FY, NIPA basis, billions of current \$)	-664.1	-948.1	-1135.4	-1213.8