

## “Smoothing” For 2024

- Michigan uses what is called a Fixed with carry-forward rate.
- The rate is based on an estimate of the future period’s level of operations and costs to be incurred. The difference between estimated costs and actual costs is carried forward as an adjustment to the rate calculation of a subsequent period (see 2 CFR Appendix VII to Part 200 B.5.).
- An accurate forecast will ideally result in minimal carry-forward adjustments. However, due to the emergency funding from various Coronavirus relief packages, the carry-forward adjustment in the base fiscal year has significantly increased.
- A higher than usual indirect cost over-recovery resulted from the rate (which was based on known costs) being subsequently applied to much higher base costs (which included unanticipated relief funding). This means the carryforward computation is also much higher than usual and will likely result in a significant decrease in the next calculated rate.
- The dramatic decrease in the next period’s calculated rate may result in much lower or negative rates. This decrease will have a detrimental impact on the LEA’s ability to carry out necessary administrative functions.

This is where smoothing comes in. What is Smoothing?

Smoothing spreads the over-recovery over the next two odd year cycles for districts that would otherwise experience drastic decreases in their indirect cost rates and who, also, reported use of indirect cost rates in their FY22 FID.

For each rate – restricted, unrestricted, and Medicaid - we first looked at districts that used their rates in 21-22. We will then take that list and look at one of two factors.

First, we will look at districts whose 23-24 rates decreased by 50% or more from their 22-23 rates. For instance, if a district had a 7.58% rate last year and their calculated rate for 23-24 is 1.96, that is a 74.14% decrease.

Second, we will look at districts with a rate decrease from 22-23 to 23-24 of 5 percentage points or more. For example, a district has a decrease of 6.21 percentage points, with a rate of 13.92% last year and a 7.71% rate this year. While this 44.61% decline does not hit the 50% decrease threshold, it does meet the criteria for the decrease in percentage points.

Often these two criteria overlap, but we will capture a few with one measure or the other.

A list of districts impacted by smoothing will be posted at a later date.