

School Board Workshop:

June 12, 2023

Subject:

2023-24 Preliminary
Budget Review

Presenter:

**Ryan L. Tangen, Director
Finance and Operations**

SUGGESTED SCHOOL BOARD ACTION:

No action required

DESCRIPTION:

Minnesota state statute requires the Board of Education to adopt the school district budget by June 30th each year. We have attached the 2023-24 preliminary budget in summary for the Board's approval at the June 26, 2023 meeting.

This budget represents our financial operating plan for the next year. It is also a key piece of our general financial planning for the district and certainly a key piece of our long-range financial plan. The budget provides a platform for decision-making. It is a financial guide for the next year and reflects our district's priorities and expectations. It is a guide for future activities, both financial and program. It is a management tool for district fiscal control, allocates the district's resources, and provides guidelines for spending those resources. It also provides the legal authority as an authorizing document for the district staff to gather those resources together and spend them in a wise manner.

This budget is more than numbers, rows, and columns. It is people and programs. It provides the direction for maximizing opportunities for student learning. In this budget, we have tried to reflect the mission of the District and the Board's plans and priorities for the next year and beyond. It reflects input from Board members, district administration, building leadership, and other district staff.

The budget planning process is long and actually spans multiple years. One of the most important inputs in planning the budget is enrollment projections since our basic funding is based on the number of students in our schools. After we settle into the school year next fall and get our first official enrollment numbers on October 1, 2023, we will review the budget and put together a revised budget for the Board to review at the same time as the financial forecast. We are using our best estimate of the number of students we will see walk through the school building doors next September. We will monitor the budget closely throughout the year and provide updates to the Board as needed. In the spring, we will revise the budget once again as we adjust to the year in progress.

This budget reflects the following revenue and expenditure assumptions adopted in January 2023 and revised in May 2023:

Revenue Assumptions:

- Enrollment projection based on the November 2022 enrollment report.
- \$750 per Adjusted Pupil Unit (APU) operating referendum approved in November 2019 through 2025.
- General Education formula allowance increase of 4% or \$275 to \$7,138 in 23-24 and 2% increase for future years.
- Special Education increases of 5% for all years.
- Special Education Cross Subsidy Aid increased from 6% to 44%.
- Includes utilization of Federal Pandemic Relief Funds for staffing expenditures in 2023-24.

Expenditure Assumptions:

- OPEB contributions continue in 2023-24.
- Maintain/exceed 2018-19 approved staffing ratios.
- Staffing maintained at current levels for 2023-24.
- Utilization of Federal Pandemic Relief Funds for 16 licensed FTEs.
- Continuation of 6.0 FTE for Class Size Reduction – includes marketing budget and social workers.
- Continuation of 6.0 FTE addition for Local Option Revenue funding.
- 1.0 FTE special education staffing contingency.
- 2.95 FTE Superintendent staffing contingency.
- Salary and benefit changes based on settlements in place and market conditions for non-settled contracts.
- Non-salary, non-benefit costs are estimated to increase by 0-5%.
- Continued cost containment initiatives such as joint purchasing agreements, energy use reduction, paper reduction, insurance contracts, and other operational efficiencies.
- QComp (PPD) continues for 2023-24 assuming revenues and expenditures are equal.

Summary of Funds

The **General Fund** (01) is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities; district instructional and student support programs, expenditures for the superintendent, district administration, operations and maintenance, pupil expenditures, and capital expenditures. The General Fund budget shows total revenues of \$78,172,574 and total expenditures of \$77,505,239 resulting in an overall increase of \$667,335 in the projected fund balance.

The **Food Service** fund (02) is used to record the financial activities of a school district's food service program. Food Service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school community

service activities. All expenditures relating to meal preparation must be recorded in the Food Service Fund. Eligible expenditures include application processing, meal accountability, food preparation, meal service, and kitchen custodial service. The Food Service fund budget shows total revenues of \$4,507,670 and total expenditures of \$4,519,912. This is a projected decrease of \$12,242 resulting in a projected fund balance at the end of the year of \$2,622,225. The budget was developed using guidelines for the new program allowing students to eat free.

The **Community Service** fund (04) is used to record all financial activities of the Community Education program. The Community Service fund is comprised of four components each with its own fund balance: community education, early childhood family education, school readiness, and adult basic education. The focus of community education is educational and personal growth activities and programs for all age levels that are not directly part of the K-12 education program. The Community Service fund budget shows total revenues of \$4,257,869 and total expenditures of \$4,031,670. This is a projected increase of \$226,199 resulting in a projected combined fund balance at the end of the year of \$578,975.

The **Building Construction** fund (06) is used to record all financial activities of building projects utilizing outside financing. This fund is not projected to have activity during this fiscal year.

The **Debt Service** fund (07) is used to record revenues and expenditures for a school district's outstanding bond indebtedness. When a bond is sold, the school board must levy a direct general tax upon the property of the district for the payment of principal and interest on such bonds due. The revenue from such a tax and related state aid must be separately accounted for in a Debt Service fund. This fund is also used to record any refunding bonds that are sold during the year. The Debt Service fund budget shows total revenues of \$7,863,282 and total expenditures of \$7,256,773. This is a projected increase of \$606,509 resulting in a projected fund balance at the end of the year of \$1,780,420.

The **HRA Trust** (18) fund is used for reporting contributions to an employee's HRA account upon hire and an annual contribution to the employee's HRA account for each year of service. These funds are held in an irrevocable trust with Mid-America through National Insurance Services. The employees have to meet certain vesting requirements before they can access these funds. The auditors require us to show the cumulative balance of the contributions plus any accrued interest in these trust accounts for those individuals eligible for the program. The actual payments to the trust are already included in the general fund expenditures shown previously in this report. The projected increase of \$672,564 will increase the fund balance to \$4,731,230.

The **OPEB Trust** fund (45) is used for reporting resources set aside and held in an irrevocable trust arrangement for post-employment benefits. We are projecting an increase of \$655,820 in the market value of our portfolio. We started using some of the trust funds beginning in the 2012-13 fiscal year. We will do so again in 2023-24.

We record severance and retiree payments for teachers and administrators in the Trust. We are projecting revenues of \$899,899 and expenditures of \$928,295 for a net decrease in the Trust of \$28,396 resulting in a projected ending balance of \$12,310,098.

The **OPEB Debt Service** fund (47) is used to record levy proceeds and the repayment of the outstanding OPEB bonds. In September 2009, a \$10.845 million OPEB bond was approved to pay for the district's other post-employment benefits and severance based on years of service. The OPEB Debt was extinguished during the 2022-23 fiscal year but still has a residual fund balance. The transfer out is the result of a property tax adjustment moving fund balance to the Debt Service Fund. The projected decrease of \$191,345 is projected to result in a year-end fund balance of \$249,839.

Summary

An increase in funding from the State of MN, continued use of Federal Pandemic Relief Funds, and the operating referendum allow for maintaining a similar level of programming as was in place for the 2022-23 fiscal year. Looking ahead to the next few years is also part of the budgeting process. Exhausting Federal Pandemic Relief Funds by the end of the 2023-24 school year will be a major budget discussion in future years.

Our revenues are largely dependent on three variables – funding from the state legislature, student enrollment, and board/voter-approved levy referendums. The 2023 legislative session increased many existing revenue and expenditure sources and uses, as well as, created new revenue and expenditure categories. Student enrollment for budget purposes is based on projections and therefore must be conservatively figured. Those enrollment projections are the driving factor for planning both revenues and expenditures. Our current projected kindergarten enrollment for 2023-24 indicates a 5% increase but is still about 15% less than the average class size in grades 8 through 12. Based on the November 2022 enrollment projections, counting on increased enrollment to help balance the budget in future school years is not anticipated. The 2023 legislative session granted board authority for a one-time renewal of the operating referendum. This authority ensures the operating referendum will be in effect through the 2029-30 school year.

As funding streams change and our enrollment projections are updated, monitoring our fund balance to make sure that we maintain a stable financial position will continue to be at the forefront of planning and budgeting.

ATTACHMENTS:

- 2023-24 Original Budget 6.12.23
- 2023-24 Gen Fund Projected Fund Balances 6.12.23
- Board Budget Assumptions Memo 5.22.23