

To: Members of the Board of Education
Dr. Stacie Stanley, Superintendent of Schools

From: Mert Woodard, Director, Finance & Operations

Date: December 11, 2023

Subject: Fiscal Year 2025-2029 General Fund Forecast

The financial cycle for governmental organizations such as school districts is a year-long process that involves planning, budgeting, operating, and reporting, repeating every year in perpetuity. The District administration has already begun planning for the 2025 fiscal year and feels it is an appropriate time to share with the School Board, District employees, and members of the public a preliminary outlook and forecast for next school year as well as the subsequent four school years before seeking approval of recommended budget parameters for next year. This will allow the Board time to review the goals and strategic direction of the District in relation to financial realities, seek feedback from stakeholders, determine areas of prioritization, and provide guidance to the District administration before final parameters are recommended for approval.

Forecasting Methodology

The District administration has typically utilized the combination of “level services” and “revenue based” budgeting approaches to update its five-year General Fund forecast for fiscal year 2025 through 2029. This means, in basic terms, that the District plans to offer the same educational programming and support services that it currently offers, adjusted for the revenue it anticipates generating in 2024-25 and beyond. This form of budgeting is common in school districts and other local government organizations and can also be referred to as “incremental budgeting”. In some years this may result in offering the same services but to a lesser degree due to expenditures exceeding revenue and in others it may mean increasing the degree to which services are offered or offering additional programming due to increased revenues or new revenue sources being appropriated by the state.

Enrollment

Enrollment is the most critical variable of a school district’s finances as it largely determines the number of staff employed by a school district to deliver its educational programming as well as the revenue generated by the school district. The state of Minnesota accounts for enrollment using average daily membership (“ADM”) which is the average number of students enrolled in the District each day of the school year. The District ended the 2023 fiscal year serving an average daily membership (ADM) of 8,582, up 218 from fiscal year 2022’s 8,364.

To project the subsequent year’s enrollment, districts typically use the “cohort survival” method which takes each grade level and multiplies it by a historical growth (or decline) factor, returning the estimated enrollment for the next year. The growth factor is typically a weighted average of previous years, which can be adjusted for increases in development within the district’s boundaries, the addition or elimination school buildings or programs, and other factors which are known by the administration. The administration has used a three-year weighted average to determine the growth factor that is applied to the enrollment projections and has also added a slight pro-rating factor for the purposes of conservatism. The resulting enrollment figure listed on the

table below have been used to determine the District's property tax revenue for the 2025 fiscal year:

GRADE	ACTUAL ENROLLMENT						PROJECTED	
	FY2018 PAY17	FY2019 PAY18	FY2020 PAY19	FY2021 PAY20	FY2022 PAY21	FY2023 PAY22	FY2024 PAY23	FY2025 PAY24
PK	56.97	53.87	58.34	48.20	62.79	74.85	55.00	70.00
HK	9.99	60.84	56.78	72.98	74.00	84.12	-	-
KG	528.85	506.53	520.09	518.57	537.18	524.46	585.00	590.00
1	625.56	586.97	592.51	583.79	622.12	642.09	622.00	611.04
2	595.42	621.16	593.68	591.82	625.52	642.16	639.00	646.72
3	615.07	604.87	628.46	588.15	606.03	643.00	650.00	652.05
4	666.50	629.61	612.27	622.01	611.19	618.16	643.00	663.34
5	630.78	662.41	651.55	597.74	652.94	632.33	621.00	662.23
6	667.98	656.86	680.58	658.19	622.93	667.33	653.00	637.60
7	685.86	657.04	637.61	681.10	667.07	628.44	678.00	658.91
8	690.25	679.72	654.62	630.63	685.42	676.36	646.00	682.86
9	671.71	662.42	700.24	661.21	665.21	715.50	700.00	673.24
10	676.25	680.61	656.67	687.48	650.33	671.36	702.00	697.38
11	689.76	653.04	654.80	650.46	655.35	665.58	675.00	698.30
12	652.60	696.25	667.22	649.46	626.14	696.08	694.00	686.21
TOTAL	8,463.55	8,412.20	8,365.42	8,241.79	8,364.22	8,581.82	8,563.00	8,629.88

For fiscal years 2026 through 2029 the District administration has used 8,630 as its ADM figure, which translates to approximately 9,450 in adjusted pupil units (APU). While the District does expect some growth due to a building addition and programming addition to one of its elementary schools, the District is also assuming enrollment declines in the exact amount of the gain at the elementary level. This flat enrollment project will result in no additional revenue driven by enrollment; the only additional revenue will come via per pupil funding amount increases appropriated by the state. The administration believes to be a conservative assumption for its overall General Fund revenues.

Revenue

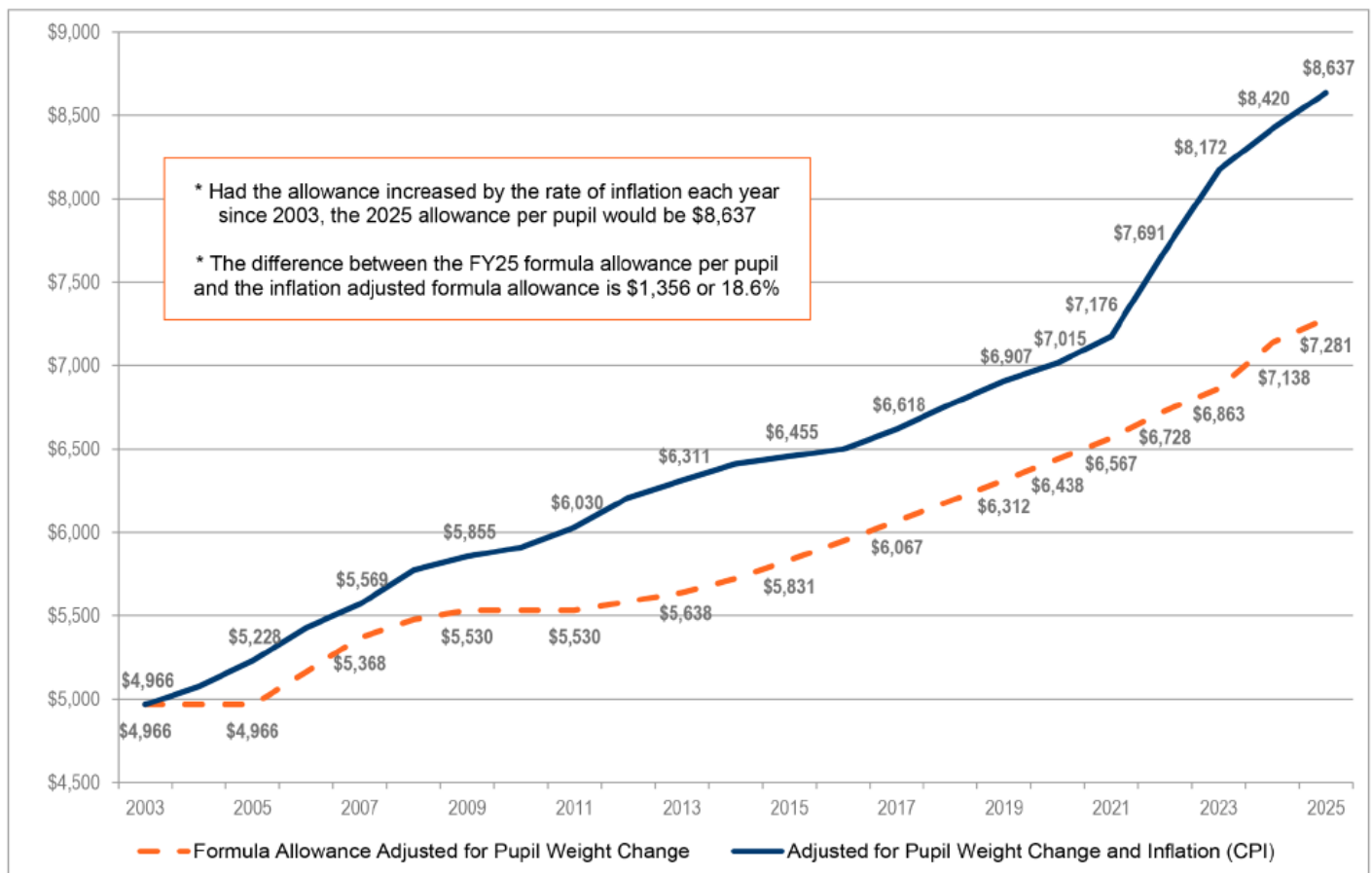
In the state of Minnesota the vast majority of a school district's revenue authority is determined by formulas defined in state statute, many of which are per pupil revenue authorities. Most of the general fund revenue for any public school district in the state of Minnesota, an estimated 43.3% for Edina in fiscal year 2024, comes from the basic education revenue formula allowance, which is a per pupil revenue allotment. The state does not define any specific uses for basic education revenue, however the revenue is used to finance the most basic operations you would expect within a school district, including, but not limited to: classroom teachers, paraprofessional staff, administrative support staff, regular to-and-from school transportation, custodial staff, utilities, and supplies and materials. The basic formula allowance is determined each biennium, with the current fiscal year being the first year of the current biennium.

In May of 2023 the Legislature agreed to a 4.0% increase to the basic formula allowance for fiscal year 2024, and increase of \$275 per APU, and 2.0% for fiscal year 2025, a further increase of \$143.

For fiscal years 2026 and beyond, the Legislature has put into law that the formula will be indexed to inflation. School districts will receive at least 2.0% on the formula each year but no more than 3.0%. Typically, school business officials will use highly conservative assumptions regarding future, unknown appropriations from the state. Since a minimum 2.0% increase has been signed into law, the District administration feels comfortable using that figure to forecast the revenues of future years:

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Adjusted Pupil Units	9,359	9,450	9,450	9,450	9,450	9,450
Per Pupil Unit Amt	\$ 7,138	\$ 7,281	\$ 7,427	\$ 7,575	\$ 7,727	\$ 7,881
Total Basic Education Aid:	66,807,397	68,805,450	70,181,559	71,585,190	73,016,894	74,477,232
<i>Additional Revenue:</i>	\$ -	\$ 1,998,053	\$ 1,376,109	\$ 1,403,631	\$ 1,431,704	\$ 1,460,338

It's important to remember that while the Legislature did tie future basic education aid growth to inflation, albeit capped at 3.0%, over the last 20 years the formula has greatly lagged inflation:



One way school districts in Minnesota are allowed to increase their revenues is by seeking voter approval for an operating referendum. In November of 2017, the District held a referendum seeking approval from voters to raise an additional \$2,075 per pupil for taxes payable in 2020 with an inflationary increase each subsequent year through 2027. For the current fiscal year, the District's voter approved operating referendum authority is \$2,106. Due to the relatively high inflationary environment and the fact that the operating referendum is tied to inflation, the per pupil revenue authority for fiscal year 2025 will be \$2,197, an increase of \$92 per APU. This will result an estimated additional \$1,057,338 of revenue in fiscal year 2025 which can be used in the same manner as basic education revenue. For future years the District administration believes that the efforts of the United States Federal Reserve and other macroeconomic factors will lead to lower inflation, and thus, lesser increases to the District's operating referendum authority. For fiscal years 2026 through 2029 the District is assuming 3.0% added to the operating referendum authority each year:

	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>
Adjusted Pupil Units	9,359	9,450	9,450	9,450	9,450	9,450
Per Pupil Unit Amt	\$ 2,106	\$ 2,197	\$ 2,263	\$ 2,331	\$ 2,401	\$ 2,473
Total Basic Education Aid:	19,708,931	20,766,281	21,389,269	22,030,947	22,691,875	23,372,632
<i>Additional Revenue:</i>	\$ -	\$ 1,057,338	\$ 622,988	\$ 641,678	\$ 660,928	\$ 680,756

The second way a District can raise additional revenue for operations is another voter approved property tax level officially known as the *capital projects levy* but commonly referred to as the *tech levy*. In May 2021 the District successfully asked voters to revoke and replace the District's existing tech levy of 5.556% of net tax capacity with a levy of 5.932% of net tax capacity. This revenue is used to pay for the District's technology infrastructure, student and staff devices, and technology staff. Like the operating referendum, the tech levy has already been finalized for fiscal year 2025. For future years, revenue will increase in direct proportion to the District's tax base. The District administration is utilizing a three-year moving average to project increases to net tax capacity over the next five years. The average increase the District is using is approximately 6.5%, which will result in the following capital projects levy revenue:

	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>
Tax Rate	5.932%	5.932%	5.932%	5.932%	5.932%	5.932%
Net Tax Capacity	125,283,792	142,891,874	151,971,467	162,079,178	172,334,087	183,439,475
Tech Levy Revenue	\$ 7,431,835	\$ 8,476,346	\$ 9,014,947	\$ 9,614,537	\$ 10,222,858	\$ 10,881,630
<i>Additional Revenue:</i>	\$ -	\$ 1,044,511	\$ 538,601	\$ 599,589	\$ 608,321	\$ 658,772

The combination of basic education revenue, operating referendum authority, and the capital projects levy represents approximately 70 percent of the District's general fund revenue. These revenue categories are also the three which can potentially add the most additional revenue to the District, so they will continue to be analyzed in great detail. The other revenue categories the District has access to include, but are not limited to: special education aid, operating capital, categorical state aid and local levy categories, locally generated revenue, and federal revenue. At this time the District does not have any indication that categorical state aid revenue authorities will be increased for fiscal year 2025. The forecast assumes that they will remain flat and does not assume growth factor that may or may materialize during subsequent legislative sessions. The District also assumes that special education cross-subsidy aid increase that was put into place for fiscal year 2024 will see no further increases.

Expenditures

As previously mentioned, the forecast was built with the assumption that the District will largely operate in the same manner that it has over the last few fiscal years. That means six elementary schools, two middle schools, one high school, and an early learning school. The District's current staffing model, meaning the staff that were budgeted for in fiscal year 2024, has been used as the basis of the expenditure forecast. Currently, the District determines the number of classroom teachers it will employ with the following student to teacher ratio, by grade level: 20.00 to 24.00 students per classroom in kindergarten and first grade, 22.00 to 25.00 in second grade, 24.00 to 26.00 in third grade, 25.00 to 27.00 in grades four and five, 28.15 for grades six through eight, and 30.85 at the high school. In addition to classroom teachers, other licensed staff the District employs includes various teachers on special assignment, counselors, media specialists, school psychologists, licensed nurses, social workers, and licensed teachers who work with special education students or students with disabilities. In total, the District currently employs 645.07 full-time equivalents (FTE) of licensed staff, representing approximately 70.0% of the District's general fund budget that is dedicated to salaries and benefits. The remaining 30.0% is comprised of administration, administrative support staff, paraprofessionals, school bus drivers, custodial and maintenance staff, technology staff, and others.

Before addressing salary growth from fiscal year 2024 to fiscal year 2025 and beyond, it is important to note that the administration's original expectations of fiscal year 2024 salary and benefit expenditures will most likely need to be revised upward due to the ratification of new collective bargaining agreements. The District's original fiscal year 2024 General Fund budget was approved by the Board as \$149,411,639 and at this time the District estimates it will need to revise to \$154,274,727. The exact amount of the budget revision will not be known until February 2024. This revision creates a new base from which salary and benefit expenditures will grow, rapidly increasing the District's outlay over time.

The District administration assumes the following inflationary increases to all expenditure types from fiscal year 2025 through fiscal year 2029:

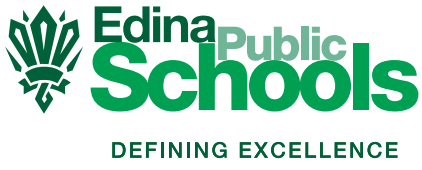
CATEGORY	INFLATION				
	2025	2026	2027	2028	2029
LICENSED SALARIES	3.74%	4.63%	3.53%	3.58%	3.74%
NON-LICENSED SALARIES	3.00%	2.50%	2.50%	2.50%	2.50%
ADMINISTRATIVE SALARIES	3.00%	2.50%	2.50%	2.50%	2.50%
OTHER SALARIES	3.00%	2.50%	2.50%	2.50%	2.50%
STATUTORY BENEFITS	3.36%	3.36%	3.36%	3.36%	3.36%
OTHER BENEFITS	2.00%	2.00%	2.00%	2.00%	2.00%
REPAIRS AND MAINTENANCE	3.00%	3.00%	3.00%	3.00%	3.00%
PURCHASED SERVICES	3.00%	3.00%	3.00%	3.00%	3.00%
SUPPLIES	5.00%	3.00%	3.00%	3.00%	3.00%
CAPITAL PURCHASES/LEASES	3.00%	3.00%	3.00%	3.00%	3.00%
OTHER EXPENDITURES	3.00%	3.00%	3.00%	3.00%	3.00%
TRANSPORTATION	3.40%	2.50%	2.50%	2.50%	2.50%
TRANSFERS OUT	0.00%	0.00%	0.00%	0.00%	0.00%
UTILITIES	10.00%	10.00%	10.00%	10.00%	10.00%
LIABILITY INSURANCE	25.00%	15.00%	10.00%	5.00%	5.00%

Fund Balance Impact

Based on the District's assumptions regarding enrollment, incremental revenue increases, and expenditure inflation, the expected unassigned fund balance position at the end of fiscal year 2024 is anticipated to be 5.7%, lower than the original budget that anticipated 8.8% and lower than the Board policy of a minimum of 6.0%. If the District's operations are not adjusted and if the Legislature does not appropriate significantly more funds than anticipated, beginning with fiscal year 2025 the District's fund balance will begin to rapidly deteriorate. Based on the current forecast, the District would reach "statutory operating debt", or a negative 2.5% overall fund balance or lower, at some point during the 2027 fiscal year:

	2023	2024	2025	2026	2027	2028	2029
Revenue:							
Property Taxes	\$ 46,405,453	\$ 53,290,711	\$ 56,342,167	\$ 54,392,166	\$ 54,601,361	\$ 55,644,042	\$ 55,613,871
State Sources	87,753,124	95,178,065	97,609,636	99,445,510	101,579,374	103,508,874	105,477,142
Federal Sources	2,923,061	2,285,697	2,285,697	2,285,697	2,285,697	2,285,697	2,285,697
Miscellaneous local	6,377,764	3,694,838	3,694,838	3,694,838	3,694,838	3,694,838	3,694,838
Other Financing Sources	1,067,740	-	-	-	-	-	-
Total Revenue	\$ 144,527,142	\$ 154,449,311	\$ 159,932,338	\$ 159,818,211	\$ 162,161,270	\$ 165,133,450	\$ 167,071,548
Expenditures:							
Administrative Salaries	\$ 5,304,845	\$ 6,398,608	\$ 6,899,572	\$ 7,072,057	\$ 7,248,858	\$ 7,430,075	\$ 7,615,830
Licensed Salaries	53,608,090	59,709,457	61,942,596	64,810,527	67,098,347	69,500,460	72,099,776
Non-licensed Salaries	12,408,339	13,517,278	13,922,801	14,270,881	14,627,654	14,993,351	15,368,183
Other Salaries	10,027,889	10,586,790	10,904,392	11,176,996	11,456,426	11,742,832	12,036,402
Statutory Benefits	13,823,818	15,190,481	15,701,507	16,229,703	16,775,674	17,340,003	17,923,346
Other Benefits	14,712,361	14,390,269	15,257,882	15,562,994	15,874,202	16,191,675	16,515,504
Purchased Services	12,633,739	9,301,704	9,580,760	7,656,217	6,751,310	6,655,477	5,420,622
Utilities	2,178,271	2,092,342	2,301,576	2,531,734	2,784,910	3,063,404	3,369,751
Liability Insurance	672,301	918,984	1,148,730	1,321,040	1,453,144	1,525,801	1,602,091
Repairs and Maintenance	431,323	402,936	415,024	427,476	440,300	453,506	467,114
Supplies	3,708,361	2,860,282	3,003,302	3,093,415	3,186,214	3,281,797	3,380,249
Transportation	7,496,108	7,723,659	7,986,269	8,185,929	8,390,579	8,600,346	8,815,357
Capital Purchases/Leases	3,037,059	4,416,106	5,249,924	5,407,421	5,569,641	5,736,733	5,908,834
Other Expenditures	430,950	428,515	441,371	454,612	468,251	482,298	496,768
Transfers Out	1,584,127	6,337,316	6,337,316	6,337,316	6,337,316	6,337,316	6,337,316
Total Expenditures	\$ 142,057,580	\$ 154,274,727	\$ 161,093,022	\$ 164,538,318	\$ 168,462,826	\$ 173,335,074	\$ 177,357,143
Change in Fund Balance	2,469,562	174,584	(1,160,684)	(4,720,107)	(6,301,556)	(8,201,624)	(10,285,595)
Fund Balances:							
Nonspendable	392,982	-	-	-	-	-	-
Restricted	4,342,395	4,873,952	5,592,020	6,172,950	6,988,956	8,074,087	9,459,070
Committed	2,322,850	2,548,331	2,644,814	2,730,964	2,819,541	2,913,446	3,000,849
Assigned	5,519,524	6,118,681	6,187,468	6,256,256	6,325,043	6,393,831	6,462,618
Unassigned	8,013,834	7,225,205	5,181,183	(274,793)	(7,549,720)	(16,999,166)	(28,825,935)
Total Fund Balances	\$ 20,591,585	\$ 20,766,169	\$ 19,605,485	\$ 14,885,377	\$ 8,583,821	\$ 382,198	\$ (9,903,397)
Fund Balance Policy:							
Unassigned Fund Balance	6.90%	5.67%	3.92%	-0.20%	-5.36%	-11.67%	-19.21%

It is critical to note that the assumptions used to calculate the projected shortfall are conservative and a "worst case" scenario, the administration believes that in its role as steward and fiduciary of taxpayer funds it is better to air on the side of extreme caution. It is common to see five-year forecasts developed annually by school districts and the vast majority of them paint a bleak picture. Clearly, education funding in Minnesota does not, over time, meet the needs of school districts. Also, it is important to note that estimates are just that, estimates. The administration has used the best information available at the time of analysis and will continuously update its forecast as new or better information presents itself.



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Board Policy 702 stipulates that if the District's operations result in an unassigned fund balance of less than 6.0% of the subsequent years' unassigned expenditures, the administration must present a plan to the Board to reestablish the fund balance to the acceptable level in the previous fiscal year. Per the forecast, the District would need to contain its budget in the amount of approximately of \$2.56 million to have an unassigned fund balance of 6.0% at the end of fiscal year 2025.

The administration will now begin the "Budget Reduction, Reallocation, and Revenue Generation" process and, after a period of stakeholder engagement, provide the School Board with a list of options to bring the District into compliance with its own fund balance policy.

Regards,

Mert Woodard
Director, Finance & Operations