St. Louis Park
Public Schools

Finance Advisory Committee
FY2025 Budget and Fiscal Recommendations to Interim Superintendent Maguire
April 16, 2024

Executive Summary	**Pages 1-2**
FY2025 Budget Recommendation Background	**Pages 3-9**
❖ Recommendation #1: Within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of 8%; with growth toward 12% - 16% (2 months)	Page 3-4
❖ Recommendation #2: 2% (current law) Increase in per pupil formula	Page 5
❖ Recommendation #3: 4,212 K-12th grade adjusted pupil units (APU), with potential for increased enrollment if efforts to improve the student capture rate are successful	Pages 6-7
❖ Recommendation #4: No change in local revenue	Pages 8-9
❖ Recommendation #5: Expenditure recommendation ➢ Understand the district cost drivers and the reasons for major variances from comparison districts on a cost-per-student basis.	Pages 9
Finance Advisory Committee Purpose & Membership	**Page 10**

Executive Summary

The Financial Advisory Committee (FAC) is designed to advise administration and the school board on economic and school finance issues and to build community trust in district finances. The Committee has formally met six times this year, with one more meeting scheduled in May. The FAC also held a few optional meetings in March to finalize budget recommendations and prepare this report.

In order to arrive at recommendations for fiscal actions and budget assumptions, the Committee focused on the following information:

- Current Unassigned General Fund Balance
- Governmental Finance Officers Association (GFOA) Guidelines
- Current student enrollment and enrollment model projections
- Past, current and projected per student funding from the State
- Economic outlook for State and other factors likely to impact the District's financial health
- Understanding why families choose St. Louis Park Public Schools
- Current expenditures and enrollment as compared to neighboring districts

The Committee's recommendations to the Superintendent reflect a general consensus of its members regarding the underlying assumptions for the 2024-2025 (FY2025) budget. These recommendations are informed by four primary conditions that drive the school district budget:

1. **State Economy** - Minnesota's economic outlook has improved. The 2023 legislative session resulted in a significant and historic investment in public education. We do not expect additional funding increases to come from the 2024 session. If additional funding is provided in the 2024 legislative session, it should be used to balance the budget and maintain fund balance reserves.
2. **Cost Structure -** The cost structure of the district's General Fund (not restricted for capital-related purposes) is approximately 85% human resources (salary and benefit costs) and the current employment market is highly competitive. Additionally, other cost drivers such as transportation, substitute teacher costs, and utilities continue to rapidly rise. As a result, expenses continue to significantly outpace the rate of state increases. This continues to threaten the financial and programmatic viability of the District.
3. **Student Enrollment** - District enrollment, the most significant sign of fiscal health, has continued to lag behind pre-pandemic levels. There was a leveling of enrollment in FY2022, likely due to students returning following the pandemic. In FY2024 enrollment continues to lag behind pre-pandemic levels, even though kindergarten met the enrollment projection target of 330 students. We expect Kindergarten enrollment to continue around the 300-student level.
4. **New/Rising Costs** - New initiatives or rising costs associated with infrastructure needs (i.e. transportation services, utilities) will erode available resources. Efficiency measures must be an intricate part of the district's work. Potentially reducing future costs in operational areas through energy efficient construction and streamlined service models is essential.

Based on its review, the Committee presents the following fiscal and budget assumption recommendations to the Superintendent. These are discussed in greater detail in this report.

FY2024 Budget Recommendations:

1. **Fund Balance Minimum** - Within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of 8%. We further recommend that the district create a long-term plan to increase fund balance to 12%-16% (an amount that reflects the equivalent of 2 months expenditures). If enrollment continues to decline and/or state funding continues to lag behind inflation, this will require expenditure reductions.
2. **General Education Funding Formula** - 2% (current law) increase in per pupil formula
3. **Student Enrollment** - 4,212 K-12th grade adjusted pupil units (APU), with a focus to improve the student capture rates to maintain and increase enrollment
4. **Maintain local revenue** - Maintain local revenue at current levels. This includes student fees in the General Fund and meal prices in the School Nutrition Fund. The Community Education Advisory Council will make recommendations about class fees and rental rates. The district is studying a technology fee to offset the growing cost of lost equipment and equipment repairs as student technology needs expand.
5. **Expenditure recommendation** - Focus on understanding the cost drivers for St. Louis Park Public Schools, how this compares to historical and statewide data, and what can be done to contain these costs within revenue constraints. This analysis will allow for a more rigorous recommendation about expenditures.

Fiscal Recommendations:

- **Balanced budget** - The District is currently projected to deficit spend for FY2024 in the amount of $488,000 and should continue efforts to return to a balanced budget. The District should find a fiscal solution to ensure it can increase to a prudent fund balance into the future.
- **Manage expense increases** - Focus on managing expenses, through mission-focused expenditures, cost saving and efficiency measures, to stop erosion of the General Fund balance.
- **Grow enrollment -** Focus significant effort to recruit and retain resident students.

FAC Conclusion

The District, with a General Fund Unassigned balance of $5.1 million, approximately 8.4% of FY2023 unassigned operating expenditures, has a deteriorating financial condition. Continued deficit spending rapidly erodes the Fund Balance below board policy levels. The General Fund Balance represents one-time funding and should not be used to pay for ongoing costs.

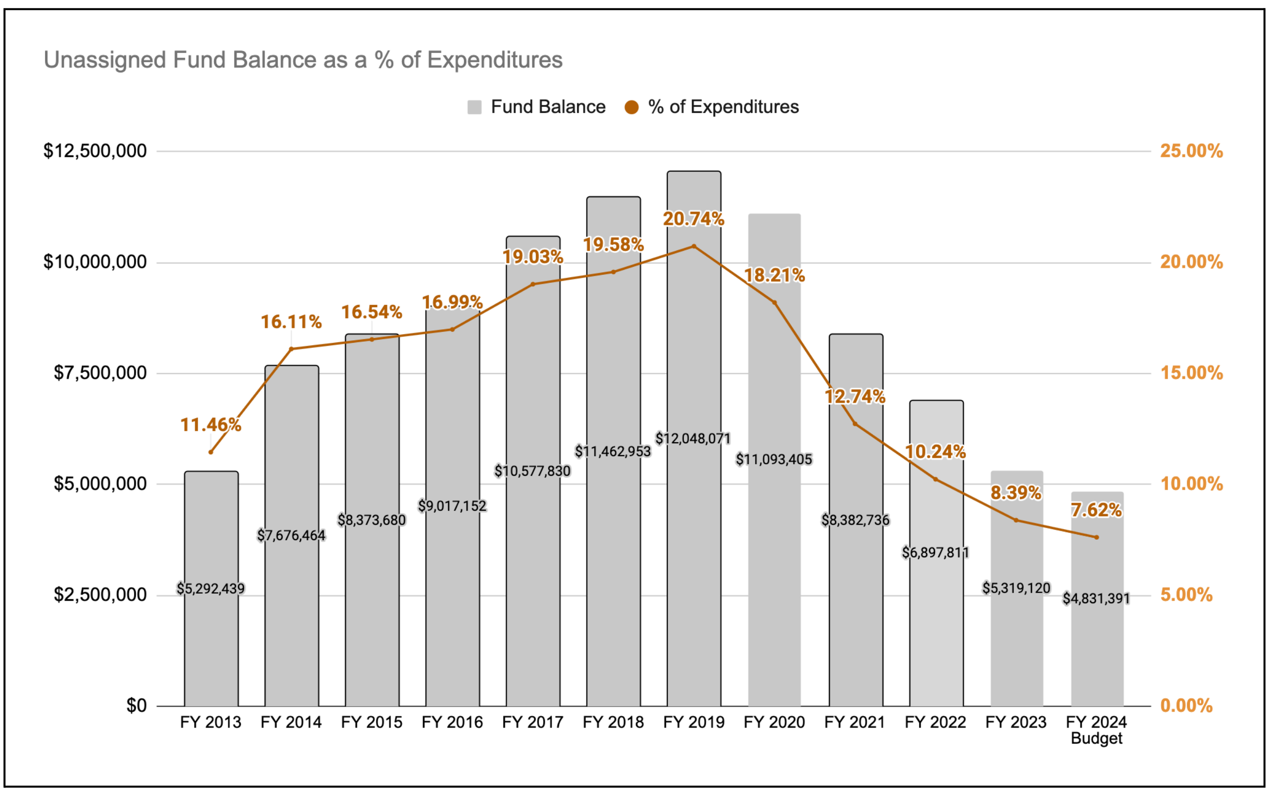
FY2025 Budget Recommendation Background

<u>FY2025 Budget Recommendation #1</u>: Within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of 8%

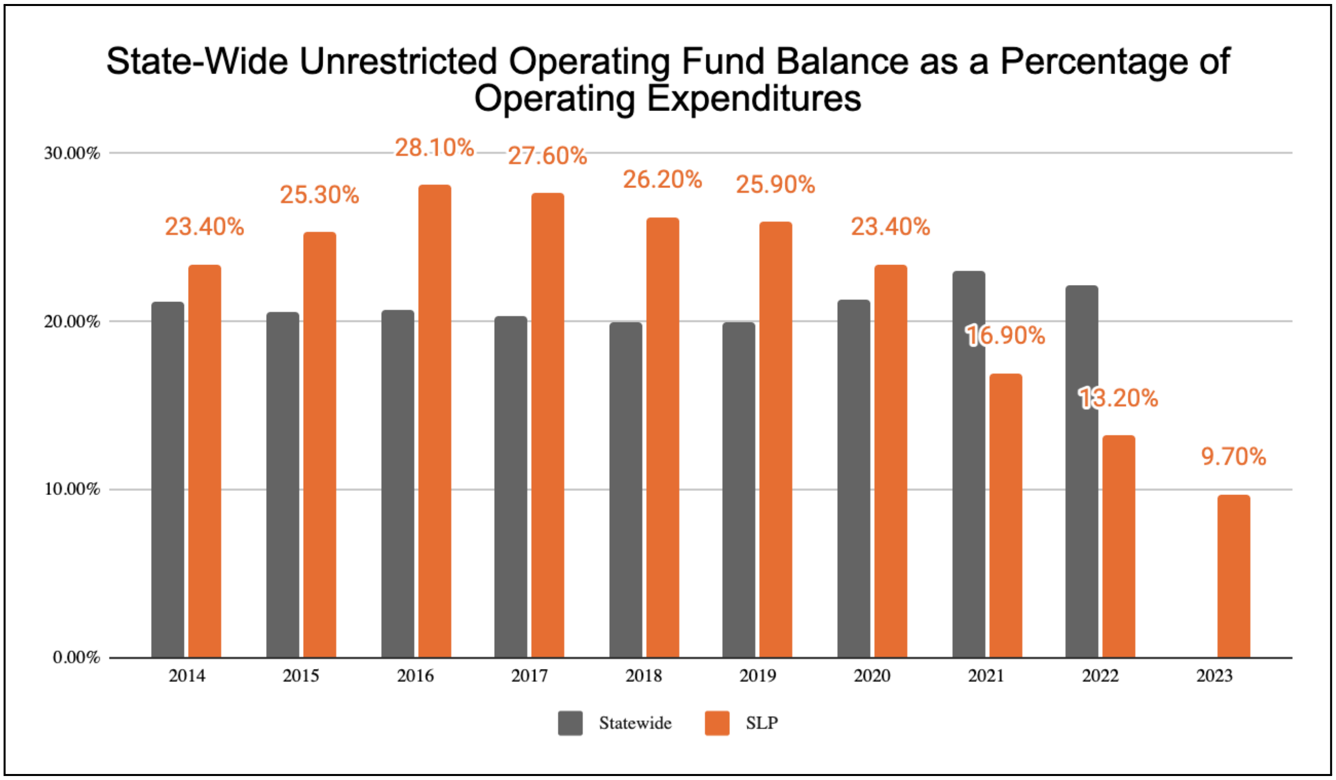
We further recommend that the district create a long-term plan to increase fund balance to 12%-16% (an amount that reflects the equivalent of 2 months expenditures). If enrollment continues to decline and/or state funding continues to lag behind inflation, this will require expenditure reductions. The FAC recommends careful management of the District's Fund Balance, as it is the contingency reserve for the District.

The FAC also notes the importance of the General Fund Balance to the District's overall financial health. While the District should seek to spend every dollar possible to support its strategic plan and today's students, we must simultaneously maintain a fund balance that protects cash flow and the District's ability to address unanticipated financial costs or opportunities that arise during the fiscal year.

Audit results for FY2023 show St. Louis Park's General Fund Unreserved Fund Balance plus Assigned for future year's deficits at $5.3 million. This was approximately 8.39% of FY2023 unassigned operating expenditures. The FY2024 school board approved budget includes deficit spending, which will reduce the Fund Balance to below the currently recommended 8% minimum. The chart below shows the recent history of the fund balance and the decline in fund balance resulting from planned deficit spending.



The chart below includes data from the FY023 audit report. It shows historical statewide data for fund balances (using a comparable fund balance calculation that differs from the district's internal calculation). While St. Louis Park has reduced fund balance in the past several years, the statewide fund balance trend has been on the rise.



<u>FY2024 Budget Recommendation #2</u>: 2% increase in per pupil formula, with excess beyond this assumption be held to provide fund balance capacity to balance future budgets and avoid budget cuts

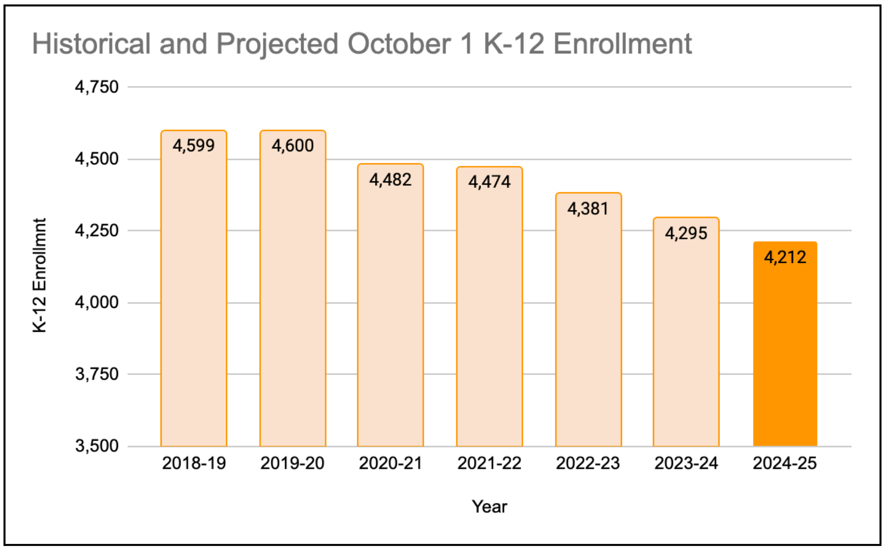
The chart below depicts the State's basic formula allowance increases in recent years.

Year	Amount	Explanation
2013-14	$5,302	1.5% increase
2014-15	$5,831	1.5% increase + $25
2015-16	$5,948	2.0% increase
2016-17	$6,067	2.0% increase
2017-18	$6,188	2.0% increase
2018-19	$6,312	2.0% increase
2019-20	$6,438	2.0% increase
2020-21	$6,567	2.0% increase
2021-22	$6,728	2.45% increase
2022-23	$6,863	2.0% increase
2023-24	$7,138	4.0% increase
2023-24	$7,281	2.0% increase (current law)

Because the State of Minnesota has experienced some positive economic indicators, such as relatively low unemployment and a budget surplus, continued modest funding increases are probable. Current state law includes a future (after FY2024) general education aid increase in alignment with the rate of inflation (not less than 2% and not more than 3%). The state will continue to have many competing funding priorities and will experience future economic downturns. For this reason, the FAC recommends reducing expenses to maintain operations within the constraints of a 2% increase in the general funding formula.

Voter approval in November 2017 set the operating referendum at the maximum cap and provided for increases to an inflationary factor as established by state law. As a result, the District receives the maximum operating levy dollars and will have no option to increase the operating levy. Therefore, the District must rely on increases in the General Education Formula Allowance.

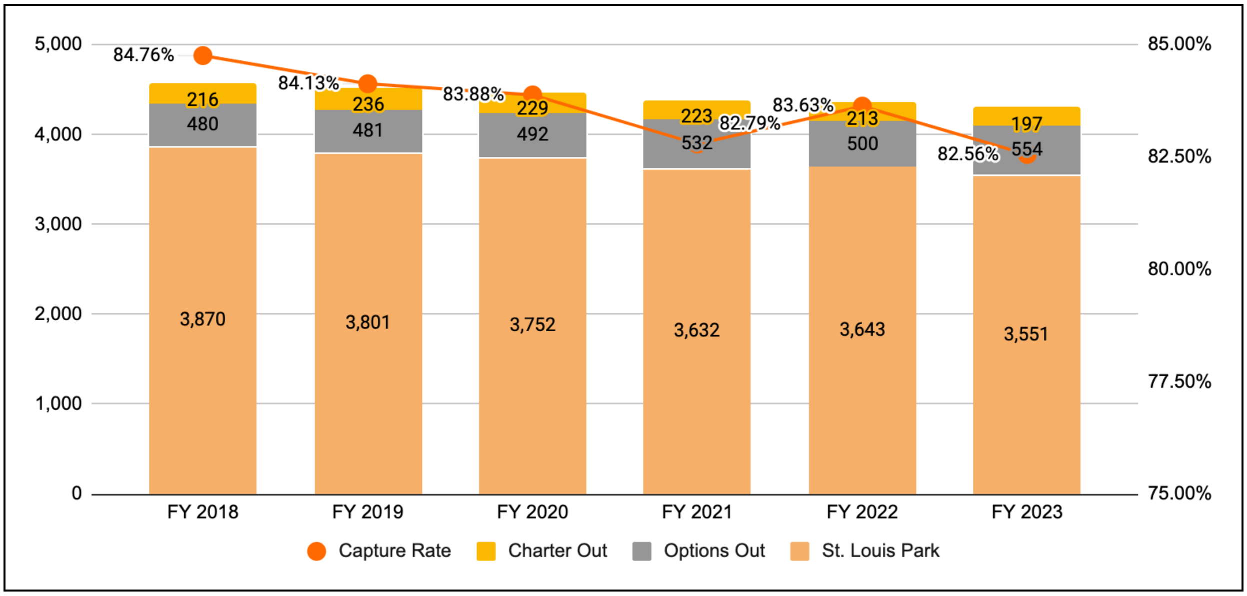
<u>FY2024 Budget Recommendation #3</u>: 4,212 K-12th grade adjusted pupil units (APU), with potential for increased enrollment if efforts to improve the capture rate are successful.



In FY2024, the District will graduate a senior class of 369 and expects to enroll a smaller kindergarten class in FY2025 (309) which will decrease overall enrollment in FY2025. In addition, the projected Kindergarten enrollment is expected to decline in FY2025 to 309 from 330 in FY2024.

	Historical Fall Actual					Projected	Prelim.	Variance	Projected
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24			2024-25
K	332	391	302	351	298	330	330	0	309
1	351	329	384	309	345	295	289	-6	324
2	333	338	319	365	294	327	343	16	282
3	355	334	325	319	364	293	286	-7	337
4	357	346	322	315	316	361	341	-20	271
5	359	347	345	312	303	310	325	15	343
6	356	358	323	330	320	311	313	2	328
7	323	357	340	331	322	329	317	-12	309
8	340	333	338	331	316	320	317	-3	309
9	392	370	374	399	361	353	326	-27	340
10	390	380	366	383	393	356	361	5	325
11	337	378	356	352	364	379	378	-1	345
12	374	339	388	377	385	389	369	-20	390
K-12	4,599	4,600	4,482	4,474	4,381	4,353	4,295	-58	4,212
Year over Year Change		1	-118	-8	-93	-121	-86		-83
		0.02%	-2.57%	-0.18%	-2.08%	-2.70%	-1.96%		-1.93%

The chart below depicts the history of resident enrollment. The trendline shows that the % of resident students who attend public school by their respective choices (charter school, opting out to another public school district, or attend (captured) within St. Louis Park Public Schools. The orange line depicts the decline in this capture rate from 84.76% in FY2018 to 82.56% in FY2023.



In order to maintain and increase enrollment, it is important that focus be placed on attracting resident St. Louis Park students that might otherwise choose other public school districts, charter schools, or private schools.

Some recommended actions include:

- persist in improving academic outcomes for each student
- understand and promote the unique things that attract and retain families in St. Louis Park Public Schools
- create high expectations for the initial experiences of families such as; the appearance of facilities and grounds, staff interactions in public-facing areas such as the enrollment center and front offices
- ensure transparency for student access to curricular, co-curricular and extra curricular activities that foster their growth and brilliance
- understand the non-academic experiences of students and families in the areas of transportation and school nutrition and infuse changes that improve these experiences

<u>FY 2024 Budget Recommendation #4</u>: Maintain local revenue at current levels. This includes student fees in the General Fund and meal prices in the School Nutrition Fund. The Community Education Advisory Council will make recommendations about class fees and rental rates.

[General Fund] High School Activity Fees - Fees will be maintained as outlined below

	2024-25 Recommendation
Cross Country	$210
Swimming	$210
Synchronized Swimming	$210
Tennis	$210
Baseball	$220
Golf	$220
Nordic Ski	$220
Soccer	$220
Softball	$220
Track & Field	$220
Volleyball	$220
Basketball	$230
Gymnastics	$230
Lacrosse	$230
Football	$250
Hockey	$270

[General Fund] Middle School Activity Fees - maintain per activity fee of $110 for all sports

Note: High School and Middle School fees are cut in half for students who apply and qualify for reduced educational benefits; fees are waived for students who qualify for free educational benefits

[General Fund] Parking Fees - no change to the current parking fee of $50 per semester is recommended; these fees accrue to the General Fund

[School Nutrition Fund] Meal Prices - maintain breakfast & lunch prices as per chart below; the 2023 MN Legislative Session fully funded breakfast and lunch for all students regardless of economic status, as a result, these prices will apply only to second meals for students. Adult meal prices are not impacted by state or federal funding, so these meal prices will apply to all adult meals.

Breakfast	
	Proposed
Elementary	$1.75
Middle School	$1.75
High School	$1.75
Adults/Guests	$3.00

Lunch	
	Proposed
Elementary	$2.95
Middle School	$3.15
High School	$3.30
Adults/Guests	$5.25

<u>FY2025 Budget Recommendation #5</u>: Understand the district spending patterns by program areas and the reasons for major variances from comparison districts on a cost-per-student basis.

The ongoing work of the Finance Advisory Committee must be focused on understanding the cost drivers for St. Louis Park Public Schools, how this compares to historical and statewide data, and what can be done to contain these costs within revenue constraints. Specifically we plan to:

- ➢ Focus on understanding the cost drivers for St. Louis Park Public Schools, how this compares to historical and statewide data, and what can be done to contain these costs within revenue constraints.
- ➢ Understand the district spending patterns by program areas and the reasons for major variances from comparison districts on a cost-per-student basis.
- ➢ Work with budget managers to understand individual site/department cost drivers

Financial Advisory Committee Membership

	First Name	Last Name	Connection to district/years of service
Students			
1	Alicia	Margali	high school senior
2	Jaiden	Leary	high school junior
Community Members			
1	Carlee	Bendickson	year 3; high school parent
2	Jacey	Cassem	year 2; PSI and Aquila parent
3	Matthew	Ernst	year 1
3	Barry	Fitzpatrick	year 3; middle and high school parent
4	Robert	Grommesh	year 3; high school & private school parent
5	Drew	McGovern	year 3; Susan Lindgren parent
6	Mitch	Meyer	year 1; Aquila parent
7	Michael	Ness	year 3; PSI parent
8	Lisa	Wahlstrom	year 3; Susan Lindgren parent
9	MIchael	Wells	year 3; community member
Staff/School Board			
1	Sue	Cantor	SPARK
2	Anne	Casey	School Board Member (starting in January 2024)
3	Patrice	Howard	Cabinet
4	Linda	Guenther	Senior Accountant
5	Patricia	Magnuson	Director of Business Services
6	Virginia	Mancini	School Board Member (through December 2023)
7	Scott	Peterson	Accounting Technician
8	Shanique	Williams	Business Services Supervisor