

# Budget Assumptions & Parameters

The mission statement of Edina Public Schools is that we are “a dynamic learning community delivering educational excellence and preparing all students to realize their full potential. Through academics, activities, and opportunities, we encourage creativity, foster curiosity, and develop critical thinking skills. We support every student's educational journey by creating a caring and inclusive school culture that supports the whole student.” This mission and accompanying vision of ensuring that “each and every student discovers their possibilities and thrives” obviously has great impact on the District’s programs and what happens in each of our classrooms, however, the mission and vision extend further than that and have influence over all aspects of the District, including administrative functions such as financial planning and budgeting. Decisions made regarding the District’s budget are evaluated for alignment with the guiding mission and vision, and although school districts in Minnesota perpetually do not receive enough funding to match rising costs, resulting in difficult decisions each budgeting cycle, the Edina Public Schools community can have a high level of confidence that the administration is committed to upholding the District’s mission and vision.

The budgeting cycle for public school districts is extremely complex and involves many moving parts; however the basic components include projecting, budgeting, operating, reporting, and projecting again. Administrators are often analyzing two or three fiscal years at any given time, and targets are always moving, adding to the complexity of budgeting for an organization with an operating budget of approximately \$140,000,000, serving about 8,500 students. Before budgeting for the subsequent fiscal year, it is important to establish assumptions regarding the key drivers that can materially affect the District’s budget. Once assumptions are established, parameters for creating the budget and allocating resources to programming are recommended to the Board of Education for approval. This document will provide the Board and public with a review of the administration’s preliminary assumptions as well as a recommendation of parameters to be used in the development of the District’s general fund budget for the 2023-2024 school year to be adopted by the Board in June 2023.

## **Assumptions and Preliminary Forecast**

At the January 9, 2023, Work Session, the Board was presented with a memo detailing the District administration’s forecast of the general fund budget for the 2023-2024 school year. The key assumption and underlying methodology of the forecast was “level-services”, or the assumption that the District will largely operate identically in 2023-2024 as it is in 2022-2023, the current year. Edina Public Schools is known for its high-quality programming and options for students, as well as a very talented staff. The District’s stable financial position will allow for this strong history and tradition of academic excellence to continue. In addition to assuming level-service, the District administration also applied conservative inflationary factors to both revenues and expenditures as part of the forecast. The administration is confident that this cautious approach is fiscally prudent and will provide safeguards against circumstances that cannot reasonably be predicted at this time.

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 2022 fiscal year serving an ADM of 8,364, up 122 from fiscal year 2021’s 8,242. The December 2022 enrollment count was 8,546. 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 of school buildings or programs, and other factors which are known by the administration. The administration has used a five-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 was also used to determine the District’s property tax revenue for the 2024 fiscal year:

Grade	Actual Enrollment							Projected Enrollment	
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
ECSE	57.67	55.46	56.97	53.87	58.34	48.20	62.79	63.00	54.00
HK	9.09	6.48	9.99	60.84	56.78	72.98	74.00	74.00	74.00
KG	504.56	558.16	528.85	506.53	520.09	518.57	537.18	535.00	553.00
1	588.05	578.94	625.56	586.97	592.51	583.79	622.12	640.00	675.00
2	634.00	611.91	595.42	621.16	593.68	591.82	625.52	639.00	650.00
3	615.25	653.18	615.07	604.87	628.46	588.15	606.03	639.00	635.00
4	631.53	625.76	666.50	629.61	612.27	622.01	611.19	617.00	622.00
5	664.43	634.78	630.78	662.41	651.55	597.74	652.94	631.00	624.00
6	679.16	679.24	667.98	656.86	680.58	658.19	622.93	666.00	694.00
7	693.27	681.85	685.86	657.04	637.61	681.10	667.07	627.00	617.00
8	676.93	684.34	690.25	679.72	654.62	630.63	685.42	667.00	660.00
9	689.06	670.16	671.71	662.42	700.24	661.21	665.21	713.00	705.00
10	678.36	687.59	676.25	680.61	656.67	687.48	650.33	675.00	666.00
11	674.91	668.31	689.76	653.04	654.80	650.46	655.35	668.00	640.00
12	633.07	683.15	652.60	696.25	667.22	649.46	626.14	653.00	694.00
<b>Total</b>	<b>8,429.34</b>	<b>8,479.31</b>	<b>8,463.55</b>	<b>8,412.20</b>	<b>8,365.42</b>	<b>8,241.79</b>	<b>8,364.22</b>	<b>8,507.00</b>	<b>8,563.00</b>

An alternative way of analyzing the District’s conservative enrollment assumption is to simply take current year enrollment, assume no growth, and add the two new sections that will attend the Countryside Elementary expansion and dual-language program. Overall, the District has a high level of confidence that actual enrollment will be within 50 students of the forecasted amount. The District will have initial kindergarten enrollment data by mid-February, a strong indication of what the kindergarten cohort for the subsequent fiscal year will look like. The District will continue to monitor enrollment at all grade levels until the final budget is recommended for approval in June, and will adjust the recommended budget and related staffing accordingly.

Basic Education Revenue, or the “basic formula”, will continue to be the primary source of revenue for all school districts in Minnesota. At this time the District administration assumes that the basic formula allowance will be \$7,000 per adjusted pupil unit, a 2.00% increase from the 2022-2023 allowance of \$6,863. The increase of \$137 will provide an estimated additional \$1,300,000 of revenue to the District, which can be used for any lawful purpose.

A chart displaying formula increases since fiscal year 2015 can be found below:

<b>Fiscal Year</b>	<b>Formula Allowance</b>	<b>Change</b>
2023-2024	\$ 7,000.0	2.00%
2022-2023	6,863	2.00%
2021-2022	6,728	2.50%
2020-2021	6,567	2.00%
2019-2020	6,438	2.00%
2018-2019	6,312	2.00%
2017-2018	6,188	2.00%
2016-2017	6,067	2.00%
2015-2016	5,948	2.00%
<b>Average Increase</b>		<b>2.06%</b>

At the December 2022 Regular Meeting the Board certified taxes payable in 2023, which will become funding for the 2023-2024 school year. The District’s property tax revenue includes its voter-approved operating levy, which will increase by \$228.56 per pupil since the levy was approved by residents to be tied to inflation. This will provide the District with an additional \$2,200,000 of “all purpose” funding to be used in general fund operations. The levy also included the capital projects levy or “tech levy”, which increases in proportion with the aggregate net tax capacity of properties within the District’s boundaries. This revenue source will provide the District with an additional \$454,000 of funding for next school year. At this time the District assumes that all other per pupil revenue authority amounts will remain the same, resulting in forecasted additional revenue of \$4,000,000.

The District will continue to operate one early learning school, six elementary schools, two middle schools, and one high school. Normandale Elementary will continue to offer the French immersion program and Countryside Elementary will expand its dual-language Spanish program, welcoming two sections of kindergarten while continuing to serve the current kindergarten sections as first graders. The Edina Virtual Pathway will continue to offer programming to students in grades 9-12 with the District deciding to sunset programs at the elementary level (grades 4 and 5 will be sunset in 2024-2025). The District’s preliminary forecast also assumes the District will maintain its existing class-size ratios and all of its existing staff. A break-down of existing staff as of February 2023, by type, can be found below:

<u>Staff</u>	<u>Full-Time Equivalent</u>
Licensed Teachers	663.00
Paraprofessionals	267.00
Administrative Support Staff	58.00
Principals/School Administration	15.00
Transportation Staff	85.00
Custodial/Grounds Staff	75.00
District Administration/Non-Affiliated	64.00
Health Services Associates	12.00
<b>Total Staff</b>	<b>1,239.00</b>

\*Date for non-exempt staff may be expressed as a "head count" rather than as a full-time equivalent.

\*\*Only general fund staff are included.

The District's assumption for salary and benefit growth is an average 4.03% from fiscal year 2022-2023 to 2023-2024. This percentage has been applied to **all staff** in the District and includes the assumption that step movement will occur in addition to salary enhancements. The result is an assumed addition of \$5,700,000 to the District's expenditure budget. Growth factors averaging 4.59% were applied to the District's non-salary expenditure budget, resulting in an additional \$1,700,000 of non-salary expenditures. This figure is consistent with the 4.47% added to fiscal year 2022 to form the current year budget. Overall, the District's initial forecast for the 2023-2024 school year includes an additional \$7,400,000 of expenditures, offset by an additional \$4,000,000 of revenue, leaving a shortfall of \$3,400,000. The District would like to add at least \$600,000 to its unassigned fund balance in order to make up for the budget deficit that was approved by the Board for the 2022-2023 school year, resulting in the administration's recommended budget containment target of **\$4,000,000** for the 2023-2024 fiscal year.

Before detailing the administration's specific proposed budget parameters for next school year, it is important to address the matter of the record surplus at the state level. In its November 2022 Budget and Economic Forecast the Minnesota Management and Budget Office (MMB) stated a predicted budgetary surplus of \$17.6 billion for the next biennium. This forecast is expected to be maintained if not enhanced in the MMB's February forecast. In January 2023 Governor Walz made public his proposed budget for the next biennium, promising significant increases to education funding. The most significant additional appropriation proposed by Walz is increasing the special education cross-subsidy reduction aid from 6.43% of the cross-subsidy to 47.30%. This would result in additional revenues for the District of at least \$3,350,000 in fiscal year 2024. The second major component of the Governor's proposal is adding 4.00% to the basic education revenue formula for fiscal year 2024 rather than the 2.00% we have become accustomed to. The additional 2.00% would yield the District approximately \$1,300,000. Interestingly, the Governor's proposal calls for the formula to be tied to inflation in 2025-2027 biennium, with a cap of 3.00%. Finally, the Governor has proposed reducing the English learner cross-subsidy by approximately 25.00%, which would yield the District an additional \$300,000 of revenue. If all three of the Governor's proposals were signed into law, the District would receive a projected \$4,950,000 of additional revenue above its current assumptions for the 2023-2024 school year.

## **Fiscal Year 2024 Budget Parameters**

The budget parameters for fiscal year 2023-2024, or next school year, have been developed using the preliminary general fund forecast that was presented to the Board and to the public in January as well as the feedback that has been received through the BRRRG process. The District administration's recommended budget parameters for 2023-2024 are as follows:

### Enrollment

- Projected enrollment of 8,563 derived from a 5-year weighted average with proration for conservatism. This figure to be updated up until approval of the adopted budget at the June 13, 2023 Regular Meeting.
- Pupil Unit Weighting Factors – Pre-Kindergarten (1.0), Kindergarten (1.0), Grades K-6 (1.0) and Grades 7-12 (1.2).
- Average Daily Membership (ADM) increase of 56 and Adjusted Pupil Units (APU) increase of 52 based on 5-year average enrollment projection method selected.

### Revenue

- Basic Education Revenue of \$7,000 per APU for 2023-2024, an increase of \$137 per APU above the current year.
- Operating Levy allowance of \$2,105 per APU for 2023-2024, an increase of \$228 per APU above the current year.
- Local Optional Revenue of \$724 per APU, the same as the current year.
- Equity Revenue of approximately \$70 per APU, about the same as the current year.
- Operating Capital of approximately \$230 per APU, about the same as the current year.
- Basic Skills Revenue (Compensatory) of \$1,284,558 per the October 1, 2022 enrollment count.
- Safe Schools revenue of \$36 per APU, the same as the current year.
- Gifted & Talented revenue of \$13 per APU, the same as the current year.
- Achievement and Integration revenue of \$350 per APU multiplied by protected class enrollment as a percentage of total enrollment, the same as the current year.
- Gifts and Donations to remain flat; the expenditure budget derived from gifts will equal that of the revenue.
- Alternative Teacher Compensation revenue of \$260 per ADM, the same as the current year.
- Interest revenue based on current market rates and cash available for investment
- All other revenue, including special education, federal programs, user fees, and local miscellaneous revenues to remain flat.

### Expenditures

- Class-size ratios of 22.00 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.
- No additional specialists, media specialists, counselors, social workers, nurses, teachers on assignment, or other classifications of licensed staff.

- No additional non-licensed staff; the District will operate the same non-licensed staff currently employed by the District. Departments and school sites will not be allocated additional staff (unless class sizes are at levels warranting increases).
- Student Support Services staffing to be adjusted per the demands of Individualized Educational Programs and minutes of service requirements.
- Salaries and fringe benefits estimated based on contracts already settled, predictable step movement, and expected increases to contracts currently under negotiation or those expiring on June 30, 2023. Total projected salaries and benefits for all general fund staff in 2023-2024 is \$115,646,063.
- Lane change budget for licensed staff of \$200,000.
- An additional 4.59% of inflation added to the non-salary budget, including utilities, fuel, technology licenses and devices, classroom supplies and materials, custodial supplies, administrative supplies, contracted services, and other items. This would result in an anticipated additional \$1,700,000 of expenditures.
- Operating capital to be distributed in accordance with revenue and prior year allotments.
- Reserve teacher budget and pro-rata pay based on the prior year's actual activity.
- Other Post-Employment Benefit and severance costs of \$1,531,700 based on the most recent GASB 75 actuarial report and the current year budget of \$1,501,667.