CROSBY-IRONTON SCHOOLS
FINANCE COMMITTEE MEETING SUMMARY
March 12, 2018

Item 7.3a

The finance committee met in the district office on March 12, 2018 at 3:00 p.m. with the following present: Tom Nixon and Abby Geotz. Bob Sandin was absent. Jamie Skjeveland and Bill Tollefson were also present.

2017-18 Enrollment – The committee received information on the enrollment counts through early March. After enrollment stabilized in December, January and February; there was a decline in enrollment in the last week of February/first week of March, with enrollment dropping by seven students. The seven-month year-to-date average for pupil units is now at 1,118, which is below the estimate of 1,125 pupil units used to calculate the 2017-18 Preliminary Budget.

State of Minnesota – February State Budget Forecast – The committee received updated information about the State of Minnesota February Budget Forecast. The State Constitution requires a balanced state budget, with the February forecast providing the substantiation of whether the budget is balanced or not. The November forecast reflected a projection of a deficit of $188 million. The February forecast now reflects a surplus of $329 million, which is the result of increased revenue projections and decreased expenditure expectations. The largest expenditure reduction resulted from the Federal government reauthorizing appropriations for the Children's Health Insurance Program (CHIP). E-12 Education is also projected to cost $54 million less, primarily in special education and compensatory aid spending. Expenditures did increase as funding for the state legislature was reinstated at a cost of $114 million. The most important change is the move from deficit to surplus, which will alleviate the need to make state budget reductions to balance the budget and which could impact education funding.

Pension Bill – TRA Changes – The committee received an informational summary of the changes to Teacher Retirement Association (TRA) that are part of the pension bill that is moving through the state legislature. Of the three Minnesota pension plans – MSRS, TRA, and PERA – TRA is the farthest away from actuarial solvency. The bill reduces the annual cost of living adjustment (COLA) from 2% to 1%, which will gradually increase up to 1.5% by January 1, 2028. The employee contribution will remain at 7% until it increases to 7.75% after June 30, 2023. The employer contribution will increase gradually from 7.5% to 8.75% through a series of .21% annual increases until it reaches 8.75% for payrolls after June 30, 2023. The employer rate increases will result in increased costs for Minnesota school districts. To help alleviate these cost increases, the legislation includes a pension adjustment revenue change that will help offset costs. The bill also increases the "penalty" for early retirees who retire before full retirement age by reducing their pension payments, thus likely keeping senior teachers in the workforce longer. The bill is reported to have the support of all constituent groups, including school districts, current teachers, retired teachers and bipartisan support in the legislature. *Post meeting analysis was completed at the committee's request. The cost increase of the first year of employer contribution from 7.5% to 7.71% will be about $10,000. It is presently unclear whether the pension adjustment revenue will provide for 100% recovery of those costs.*

2018-19 Budget Planning – The committee reviewed updated budget projections that include an estimate of settlement costs for the AFSCME bargaining unit, which will commence negotiations shortly for the 2018-2020 Master Agreement period, as well as a correction to fix a previously overstated Title I revenue to expenditure calculation that reflected about $26,000 more in Title I revenue than expenditures – a situation that cannot happen because Title I is a reimbursing revenue program. With those adjustments, the projected unreserved fund balance in the General Fund will decrease by approximately $275,000. With the deficit in compensatory revenue of $158,000 and smaller overspending in other reserved fund balance accounts, the overall General Fund deficit is projected to be $492,000. These figures remain similar to those reviewed at the February 2018 finance committee meeting.

The committee next discussed staffing changes that will be made for 2018-2019. The committee looked at some program options for high school electives and would presently prefer to maintain one elective position while trying to find the most advantageous education programming, rather than reduce a position to generate savings. The same concept held with Title I funding, if at all possible, once the entitlement is known.

The committee discussed how long it will take to move from the current unreserved fund balance level to the 7% minimum fund balance as outlined in Board policy and discussed when it might be best to propose an operating referendum to the District voters. At current expenditure levels, the 7% fund balance would be at about $900,000. The projected ending fund balance as of June 30, 2019 using the current projection is approximately $1.48 million. This would mean that the minimum fund balance would be within sight after slightly more than two (2) fiscal years, assuming no growth in current expenditures and no significant change in revenue. On top of this, an adjustment will need to be made to reduce compensatory revenue funded expenditures because that fund balance is not allowed to go in deficit. Again assuming no expenditure growth or substantial revenue decline, that fund balance will be depleted in 3 years.

The committee suggested that between now and June the Board and administration solidify arguments for and against an operating referendum question on the ballot in November 2018. One thought was that the middle of the road operating referendum proposal presented at the February board workshop at a rate of $260 per pupil unit would generate about $290,000 in revenue and would maintain or slightly reduce taxes on most property classifications following the payoff of the OPEB debt. This figure coincidentally represents the anticipated unreserved deficit currently projected for 2018-2019.

The committee also discussed linking the need for facilities funding with the vision for the operating referendum, including more information on special projects levy funding and what could be funded with a school building bond referendum. The goal being to appropriately and adequately maintain the District's school buildings by improvements identified in the facilities evaluations recently completed for CRES and to be completed for the High School in early June with a report by end of June.

The meeting adjourned at 4:25 p.m. Respectfully prepared and submitted by William Tollefson