Special Operating Plan
Statutory Operating Debt (SOD)
Greenbush Middle River Schools - ISD 2683

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1. Introduction and Explanation of Current SOD Position

Introduction:

Greenbush Middle River Schools is located in the northwest corner of Minnesota with district boundaries inside the counties of Roseau, Kittson and Marshall. Roseau is the district's home county. The district provides an early learning program including VPK, School Readiness and a collaborative agreement with Head Start, which is housed within the school building. Online college courses are offered at the secondary level and there is a strong connection with Northland Community College in Thief River Falls. The district offers secondary courses in music, advanced math, science and English. Courses in Spanish are offered as well as new opportunities in emergency response. There is strong GATOR PRIDE in the community and among students and staff. Many teams and activities have been highly competitive in recent years and gifts of financial support are frequent. The Gators belong to a sports co-operative with Badger Public Schools, located eight miles northeast of Greenbush.

The K - 12 enrollment of the district hovers around 216 to 220, varying slightly throughout the year and from year to year over the past three years. The January 22, 2024 K-12 enrollment is 218; 99 students K-6 and 119 students 7-12. The district has 53 employees. The number varies from time to time throughout the year. Staffing has been stable for the past two years. The full-time principal is also the activities director. The district has had a part-time superintendent for several years and currently shares a superintendent with Tri County Schools. Both administrators are new to their respective positions in the 2023-2024 school year. A full-time business manager serves as the payroll specialist and manages all accounts payable and receivable. There are two clerical support staff positions located in the principal office.

Many students live a fair distance from the school which is located in the city of Greenbush. There are six regular bus routes with some students beginning their morning bus commute at 6:35 a.m. One regular route's end destination is over 27 miles from Greenbush. Bus transportation is provided to in-town students at various pickup locations. A late shuttle to Middle River is provided for students involved in sports.

In 1992, the districts of Greenbush and Middle River consolidated. Several years later, the decision was made to close the Middle River School in May 2018. Middle River is located 18 miles south of Greenbush. At the time of the closing, selected grades were held in Greenbush and others in Middle River. The district realized a considerable decline in enrollment in the year prior to and the year directly following the closing of the Middle River building and enrollment has been in decline since 2018. There are currently 210 fewer students enrolled than the fall enrollment of 2013-2014. Many families chose to open-enroll their children to neighboring schools, primarily to Marshall County Central (MCC) located in Newfolden, as a result of the school closing.

A ten-year operating referendum was approved by voters in the fall of 2022. The expected funds to be generated annually is approximately $288,000 at $1206.05 per pupil unit.

Explanation of Current SOD position:

The accounting firm of Brady Martz completed the district's financial audit in late November 2023, identifying the district's SOD status. The primary contributing factors as identified through the audit process were:

A. County apportionment related to power lines in the district counties was not accurately budgeted for. The district received less levy as a result of these lines with subsequent aid support. The auditors have concluded the stated expected general education receivable would be $324,000. Only $227,000 was received. Therefore, the expected receivable aid was overstated. This was an approximate $100,000 adjustment.
B. Parking lot project abatement revenue was budgeted for in one year and not expended until the following year. Therefore, the project was not budgeted for in FY23 when the expenditures occurred. This was an approximate $200,000 adjustment.
C. A levy shortage occurred in two counties over the past two fiscal years (FY22 and FY23). THis was an approximate $204,000 adjustment over two years.
D. Sufficient reductions were not in place to account for the actuated declining enrollment in the past two fiscal years.
E. The district budgeted to deficit spend by $329,355 in FY23. This, coupled with the above factors, compounded the negative impact on the End of Year Balance of which resulted in SOD status.

Although analysis of the current financial situation and future fiscal planning and projections will continue throughout the remainder of the fiscal year and beyond, the current analysis indicates the following:

A. The FY24 budget approved in June 2023 and December 2023 indicates a projected deficit of ($314,242).
B. As of June 30, 2023 the unrestricted fund balance was ($551,750).
C. The total current, updated projected deficit at June 30, 2024 is ($856,992). (A + B)
D. Approximately $286,000 would need to be reduced annually for 3 years to be at a zero (balance) budget. This would not rectify SOD. A combination of increased revenue and budget reductions totalling approximately $500,000 - $600,000 annually would be needed each year for 3 years to rectify SOD by June 30, 2027. This does not account for increased costs or declining enrollment.

2. Budget Development and Financial Management Process

2.1 - Student enrollment projections.

Enrollment data is derived from current enrollment, early childhood populations, expected progression of students from preschool through grade 12. Longitudinal data is provided to the school board in September and monitored at points during the year. With only a few points of exception, enrollment at all K-12 levels has been in steady decline since FY14.

% Change: FY14 enrollment compared to Fall FY24 enrollment: (10 yr trend)
- -49% K-12
- -46% K
- -44% K-6
- -55% 7-12

% Change: FY19 enrollment compared to Fall FY24 enrollment: (6 yr trend)
(following closing of Middle RIver school in May 2018)

- -23% K-12
- -12% K
- -0% K-6
- -39% 7-12

% Change: FY22 enrollment compared to Fall FY24 enrollment: (3 yr trend)

- -4% K-12
- +15% K
- +2% K-6
- -11% 7-12

Summary of Trends:

- K enrollment has fluctuated the least in the past 6 years with a fluctuation of 2 students.
- K-6 enrollment has fluctuated by 4 students over 6 years with a flatline trend of 117 students over this time period.
- 7-12 enrollment has declined each of the past 10 years.
- The average 6-yr decline in enrollment in grades 7-12 is -12.6 students.
- The largest decline in 7-12 enrollment was from FY20 to FY21 with a decline of 28 students.
- The decline in 7-12 enrollment since FY22 is -12 students.
- 7-12 enrollment has declined every year since FY15.
- K-6 enrollment dropped significantly between FY17 and FY20 the years directly prior to and after the Middle River school closing.
- The K-6 decline has been less severe than 7-12 with an increase of 7 students in K-6 from FY22 to FY23.
- The rate of decline has slowed over the past 3 years compared to 6 years ago.
- These trends are expected to continue at an average rate of decline by 9 students per year, 8 at the 7-12 level and 1 at the K-6 level. This expectation will continue to be reviewed.

2.2 - Unrestricted revenue projections.

Administration will:

➢ Collaborate with the following staff, advisors, and firms to develop a procedure and timeline to review how unrestricted revenue is projected.
  - Ehlers, Public Financial Advisors
  - Brady Martz and Associates, Accountants
  - MDE personnel in finance-related departments such as Deb Meiers (SOD), Jason Reil (levy and SOD), Cathy Erickson (MDE Finance director), and Sarah Miller (LTFM).
  - Business manager
  - Region 1

➢ Review policies and procedures related to budgeting to ensure compliance with policy and revise procedures as needed.

- ➢ Provide projection of unrestricted revenue to the board for review at the time of budget approval and add this step to procedures.
- ➢ Evaluate where to eliminate or reduce accessing unrestricted revenue to cover restricted revenue expenses.

2.3 - Restricted revenue projections (federal grants and state revenues relating to statutorily required reserves).

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  - Business manager
  - Region 1
- ➢ Review policies and procedures related to budgeting to ensure compliance with policy and revise procedures as needed.
- ➢ Provide projection of restricted revenue to the board for review at the time of budget approval and add this step to procedures. Reduce excess expenditures that are not covered by restricted revenue.

2.4 - Other revenues, such as cash flow borrowing, large donations, sale of receivables, etc.

The district had placed funds with MNTrust. At one time the amount was approximately $600,000. Withdrawals have occurred over time and the district has not been able to replace these funds. In January 2024, a withdrawal of $150,000 was made to cover cash flow concerns and ensure payment of a bond debt was made on time. The MNTrust fund balance is now at $6,908.17. These funds remain in case of additional cash flow need and to keep the fund in place with minimal balance.

The district has secured a line of credit for $150,000 from Border Bank that is accessible until June 30, 2024. This is in place in case of the need for cash flow emergency. The district is working with Ehlers, Public Financial Advisors, for assistance in cash flow projections and management through the end of this fiscal year.

2.5 - Staffing.

All staffing is in place for FY24. Administration has begun to review the instructional schedule and program offerings to identify areas for staff reduction and savings for FY25. Staffing will be reduced for the FY25 school year. As or if staff members resign, the position will be evaluated to determine if savings through attrition can be realized.

Administration has begun an analysis of positions supported in part or whole by federal grants to ensure that revenue and expenses are aligned and to ensure that federal funds are being spent as indicated in applications. Staffing reductions will occur for FY25.

2.6 - Expenditure projections for unrestricted expenditures.

Administration will evaluate all department and program budgets and prepare a budget for FY25 to reduce expenditures in unrestricted codes. The amount will be calculated based on the finalized reduction amount when it is determined. Department staff will provide information to assist in cost needs analysis. The state financial reports, levy certification reports, audit report and projected enrollment numbers will be used to assist in establishing projections for unrestricted expenditures.

2.7 - Expenditure projections for restricted expenditures (federal grants and state revenues relating to statutorily required reserves).

Administration will be evaluating all program budgets supported with restricted funds such as Title funds and special education funds. The budget for FY25 will reduce expenditures in restricted codes to reduce or eliminate excess costs.

2.8 - Contingency budgeting - i.e. are there plans in place to deal with unexpected costs or revenue shortfalls?

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The district has collaborated with Roseau, Kittson, and Marshall Counties along with MDE officials to verify the amount of levy shortage from Kittson and Marshall Counties. These funds have already been provided to the district in full.

Department budgets for supplies and materials have been curtailed for the remainder of the fiscal year to the extent possible. Procedures are being put in place to more accurately determine the department and program budget needs. The budgeted amounts per program code have not been adjusted significantly in the recent school years. Field trips that are not funded from outside sources or grants are highly scrutinized and only essential instructional trips will be approved for the remainder of the school year.

Planning and discussion for large capital projects has been discontinued indefinitely.

2.9 - The school board's role and the administration's role in the budgeting process.

The district has retained part-time, interim superintendent services for the past several years with a non-interim superintendent hired starting in FY24. The superintendent is a shared position with Tri County Schools through a Joint Powers agreement. The process from the previous four years has been continued through the first half of FY24 with procedural changes being reviewed as the new superintendent enters the next phase of work. The SOD status will have a direct impact on how procedures are revised.

2.10 - Making mid-year revisions to the budget and the approval process for such revisions.

The budget was presented to the school board in December for approval. No adjustments were made to the budget at that time as the information regarding SOD status had only recently been provided, the district had not settled with teacher negotiations and the status of the levy shortage was not known. The process consists of the superintendent and business manager preparing the proposed budget and any revisions. This is provided to the school board for review and approval/denial.

3. Ongoing Financial Monitoring Processes and Procedures

3.1 - Budgeting to ensure that restricted expenditures do not exceed available restricted revenues plus prior year fund balance.

The district is currently engaged in analyzing the process needed for this to occur with validity. This SOD plan is the beginning of that process.

3.2 - Providing the school board ongoing financial information comparing actual data with budgeted data for revenues and expenditures. Indicate the frequency of such reporting to the board and provide copies of such reports.

The school board agenda has a standing item titled "Business Services", under which three additional items are included:
a) Approve payment of checks, Purchasing Card electronic payments,
b) Approval of the Treasurer's Report showing receipts, expenditures and ending balance with comparison to previous year, and
c) Budget to Actual Expenditure Report

All monthly financial reports for these agenda items are provided to the board in the BoardBook agenda packet. The board members serve on the audit committee on a rotating basis. Two members are assigned to the monthly audit and review all materials prior to the start of the regular board meeting.

(Previously approved Board financial reports for FY 23 and FY 24 will be submitted with this plan to MDE).

3.3 - Administrative approval of expenditures.

The principal and superintendent approve purchase requests. Instructional department requisitions and activities requisitions are approved through the principal. Building and grounds, professional development, capital requisitions are approved through the superintendent. Staff members complete and submit a PO request which is routed to the appropriate administrator for approval. The business manager codes the expenses unless a specific program code is provided by the administrator.

Administration has curtailed department and program spending to essential items only for the remainder of FY24.

3.4 - School board approval of expenditures.

All monthly financial reports for business service agenda items are provided to the board in the BoardBook agenda packet. The board members serve on the audit committee on a rotating basis. Two members are assigned to the monthly audit and review all bills prior to the start of the regular board meeting. Once approved, the business manager completes processing of the bills.

4. Plan to Remove SOD Status

The following steps have been taken or planned to commence in February:

- ➔ Non-essential purchases have been discontinued. Non-essential and previously unplanned instructional field trips have been discontinued for the remainder of FY24.

- ➔ Consultation with the three county auditors (Roseau, Marshall and Kittson), MDE officials, and Brady Martz staff has resulted in determination of how the levy shortage occurred over the past two years in both Marshall and Kittson Counties. This error was discovered to have occurred as a result of a decimal error. The levy shortage has been rectified for the district.

Breakout of totals regarding the levy shortage:

Payable year 2022:
Kittson County should have levied $610.69 but only levied $6.11
Marshall County should have levied $101,718.98 but only levied $1,017.19
<u>*Total levy shortage for 2022: $101,306.37*</u>

Payable year 2023:
Kittson County should have levied $590.67 but only levied $5.91
Marshall County should have levied $101,862.29 but only levied $1,018.62
<u>*Total levy shortage for 2023: $101,428.43*</u>

Total for the two years:
Kittson County - $1,201.36
Marshall County - $203,581.27
<u>*Total levy shortage - $204,782.63*</u>

MDE obtained approval from the Department of Revenue for the following payback plan.

- The school board would determine if they were seeking the shortage reimbursement all at once or over time in installments. This decision was made by the board on Jan. 22, 2024 to request payment in full.
- Roseau County (the home county) would pay the district for the amount of the shortage as requested by the board.
- Marshall and Kittson Counties would repay Roseau Co. over time through adjusting tax statements to recoup the funds.
- Roseau County has provided the district with payment. It was received on January 29, 2024.

➔ The district was in negotiations with its teachers union at the time of SOD notification. The contract has not been settled. The district is awaiting legal advise how to move forward. There is an offer of increase on the table from the district.

➔ $150,000 of District funds have been transferred from the MN Trust to be available for cash flow. A bond payment of $93,000 (approx) was paid at the end of January and sufficient cash flow needed to be secured to cover this and to maintain bill payment.

➔ The district has secured a line of credit from Border Bank of Greenbush. This line will be available until June 30, 2024 and is for the amount not to exceed $150,000. Any amount access will have an 8.5% interest rate. An origination fee of .24% is charged. Ehlers has advised this step and has been and continues to analyze the district's cash flow in order to stabilize the district for the remainder of FY24.

➔ Budget reduction plans are not yet finalized for FY25. The following areas will be evaluated:
- ◆ Consider Scheduling adjustments to result in
  - Staffing reductions
  - Program evaluation
    - Relevance of program
    - Expense vs revenue (student participation and funding source)
    - Use of federal funds and other restricted funds
    - Cost reductions (materials/supplies)
- ◆ Consider Department budget supply and material reductions
- ◆ Consider Transportation costs
  - Nonessential field trips without supporting outside funds
  - Route efficiencies
- ◆ Consider Discontinuation of selected capital projects
- ◆ Consider Increase revenue
  - Activity fees
  - Facility/equipment use and rental fees
  - Program fees (i.e. school readiness, food service past-due bill)
  - Referendum
    - Current referendum renewal
    - Additional Referendum
- ◆ Other considerations as identified through the analysis process

5. **Special Financial Operating Plan (Excel Spreadsheet Model)**
   See addendum