DEFINING EXCELLENCE

Board Meeting Date: 1/9/2023

Title: Fiscal Year 2024 General Fund Forecast and Assumptions

Type: Report

Presenter(s): Mert Woodard, Director, Business Services

Background: In preparation of recommending final budget parameters for the 2023-2024 fiscal year the District has conducted a financial analysis and forecast of what the District's financial position would be if current operations were maintained without adjustment. Conservatively, the District administration projects that the District's current operations would cost approximately $4.0 million more than available revenue, resulting a fund balance that is well below Board policy.

The District seeks guidance and feedback from the Board while developing it's final budget parameters for the 2023-2024 fiscal year.

Recommendation:
N/A

Attachment(s):

1. Fiscal Year 2024 General Fund Forecast Memorandum

Edina Public Schools
DEFINING EXCELLENCE

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

From: Mert Woodard, Director, Business Services

Date: January 9, 2023

Subject: Fiscal Year 2024 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 2024 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 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 utilized the combination of "level services" and "revenue based" budgeting approaches to develop its forecast for the 2023-2024 general fund budget. This means, in basic terms, that the District plans to offer the same educational programming and support services that it offers in 2022-2023, adjusted for the revenue it anticipates generating in 2023-2024. This can be viewed as a "status quo" projection of the District's finances.

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.

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 2022 fiscal year serving an average daily membership (ADM) of 8,364, up 122 from fiscal year 2021's 8,242. The December 2022 enrollment count was 8,546. Enrollment will typically be lower at the end of the year than at the beginning or middle, which has been factored into estimates for next year.

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:

	Actual Enrollment							**Projected Enrollment**	
Grade	**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
Total	**8,429.34**	**8,479.31**	**8,463.55**	**8,412.20**	**8,365.42**	**8,241.79**	**8,364.22**	**8,507.00**	**8,563.00**

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. The majority of general fund revenue for any public school district in the state of Minnesota, ~47 percent for our District, 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 transportation, custodial staff, utilities, and supplies and materials. The basic formula allowance is determined each biennium, with the current fiscal year being the final year of the current biennium.

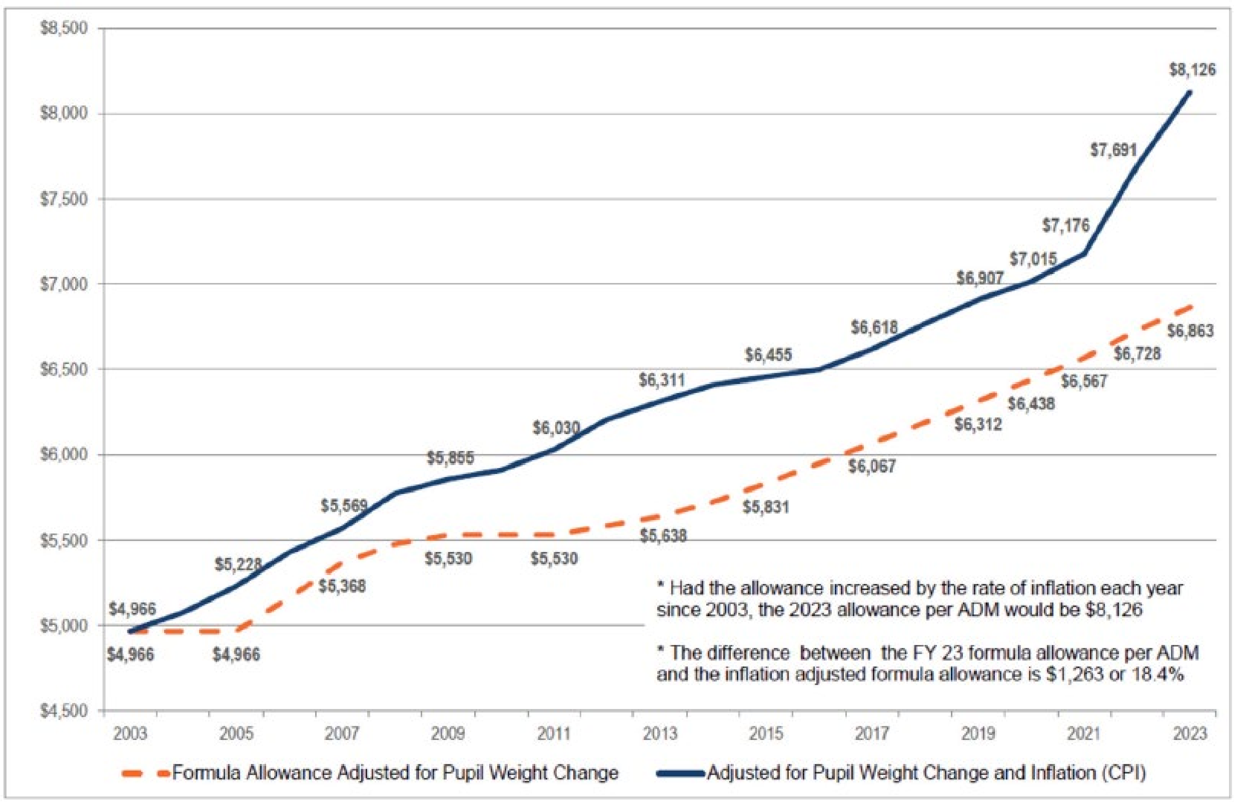
The average increase to the basic formula from fiscal year 2015 through fiscal year 2023 has been 2.06%. In its November 2022 Budget and Economic Forecast the Minnesota Management and Budget Office stated a predicted budgetary surplus of $17.6 billion for the next biennium. This information had led many to believe that the state will appropriate significantly more funds to the basic formula allowance than it has recently. While we are hoping to receive a significant increase, it is important to remember that the state benefited from surplus of $9.3 billion during the last special session with no additional funding added to the formula.

At this time the administration has adopted a conservative stance in regard to the basic formula allowance and assumes that 2.00% will be added to the current allowance of $6,863 per pupil unit, resulting in basic per pupil revenue of $7,000 for fiscal year 2024 and an increase of $137 per pupil unit from fiscal year 2023. Overall, this results in an estimated $1.30 million of additional revenue for the District beyond what has been budgeted in the current fiscal year.

It is worthwhile considering that each additional percentage added to the formula above the 2.00% used for the forecast would represent an additional ~$640,000 of revenue for the District. A graphic comparing historical increases to the basic formula against what the basic formula would be had the increases been tied to inflation is presented below for convenience:

General Education Formula Allowance, 2003-2023

Adjusted for Pupil Weight Change and Inflation (CPI)



One way school districts in Minnesota *are* allowed to increase their revenues is by seeking voter approval of an operating referendum. In conjunction with the State General Election held in November 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 voter approved operating referendum exceeds state cap on operating referendum authority, resulting in per pupil revenue of $1,823. Due to the high inflationary current environment and the fact that the operating referendum is pegged to inflation, the per pupil revenue authority for fiscal year 2024 is $2,105, an increase of $282. This will result an estimated additional $2,200,000 of revenue which can be used in the same manner as basic education revenue. At this point, the operating referendum revenue for fiscal year 2024 is already finalized as the property tax levy was approved by the Board and sent to the county auditor for certification at the December 2022 Regular Meeting. It is important to note that actual enrollment can result in positive or negative adjustments to revenue which will be realized by the District in fiscal year 2025.

The second way a District can raise additional revenue is another voter approved property tax levy 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. The first year District will benefit from the additional revenue is in fiscal year 2024, in the amount of $454,000. 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 2024, meaning the forecast assumes the figure certified by the levy.

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 2024. The forecast assumes that they will remain flat and does not assume growth factor that may or may materialize during the legislative session. Additionally, the District assumes that special education aid will remain relatively flat, resulting in an *increase* to the cross-subsidy. Again, no additional appropriations are in legislation for fiscal year 2024 and the District will assume no material additions in order to be fiscally conservative.

Overall, based on the District's estimated enrollment of 8,563, it estimates that increases to the basic education formula, operating referendum authority, and tech levy will add an additional $4.0 million dollars of revenue for use in the District's general operations.

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 2023, 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: 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. 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 662.81 full-time equivalents (FTE) of licensed staff, representing approximately 70.00 percent of the District's general fund budget that is dedicated to salaries and benefits. The remaining 30.00 percent is comprised of administration, administrative support staff, paraprofessionals, school bus drivers, custodial and maintenance staff, technology staff, and others.

The forecast assumes an overall increase to salaries (the combination of wage improvements and step movement) and benefits of 4.03 percent across all employee classifications, resulting in an additional $5.7 million of expenditures over the current year budget. The increase of 4.03% is greater than the prior three-year average of 2.32 percent due to inflation creating greater uncertainty to the outcomes of future collective bargaining as well as the adherence to fiscal conservatism. Salaries and benefits in total represent approximately 82.00 percent of the District's general fund expenditure budget. The remaining 16.00 percent of the general fund budget is dedicated to utilities, capital expenditures, technology infrastructure and devices, insurance, classroom supplies and materials, and various purchased services. While it is *easier* for the District to control non-salary expenditure growth than it is employee compensation, growth factors averaging 4.59 percent were applied to the District's current non-salary budget, resulting in an additional $1.7 million of non-salary expenditures. This figure is consistent with the 4.47 percent added to fiscal year 2022 to form the current year budget.

Overall, the forecast results in an additional $7.4 million of expenditures compared to the current fiscal year.

Conclusion and Next Steps

The total impact of the District's revenue forecast of an additional $4.0 million over the current year's budget, offset by an additional $7.4 million of expenditures, results in a projected reduction of $3.4 million to the District's general fund balance if status quo operations are maintained without adjustments and enrollment remains stable. The District ended the 2022 fiscal year with an unassigned fund balance of $8.2 million and the 2023 fiscal year budget was approved by the Board with a $500,000 deficit, Therefore, the forecast projects that the District's unassigned fund balance would be reduced by approximately 45.0 percent at the end of fiscal year 2024, putting it well below the Board policy minimum of 6.0 percent and likely resulting in the loss of the District's coveted Aaa credit rating. To make up for the forecasted shortfall and to recoup the $500,000 deficit that was budgeted for in the current fiscal year, the administration anticipates recommending a **$4.0 million** budget containment plan at a subsequent Regular Meeting.

While the assumptions used to calculate the projected shortfall are conservative and a "worst case" scenario, the administration believes that in its role as stewards and fiduciaries of taxpayer funds it is better to air on the side of extreme caution. 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.

The District administration has already begun utilizing the Budget Reduction-Revenue Generation process, or BRRG. The assumptions described within this memo were preliminarily discussed at the December Finance and Facilities Committee meeting and will do so again at the January meeting. Also, cabinet members will meet to discuss BRRG strategies before meeting with leaders from across the District to generate further strategies and to glean feedback and input. There are also plans to engage community stakeholders in the BRRG process through various platforms and communications.

The administration is steadfast in its commitment to maintaining and enhancing its historically strong financial structure and looks forward to the Board's guidance and feedback in pursuit of that goal.

Regards,

Mert Woodard
Director, Business Services