

To: Board of Education
Dr. Stacie Stanley - Superintendent

From: Mert Woodard - Director, Finance & Operations

Date: December 2, 2024

Subject: Fiscal Year 2026-2030 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 2026 fiscal year and feels that it is now 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 as well as the subsequent four school years before recommending 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 a final budget is recommended for approval in June.

Forecasting Methodology

As in year's past, the District administration has utilized the combination of "level services" and "revenue based" budgeting approaches to update its five-year General Fund forecast for fiscal year 2026 through 2030. This means, in basic terms, that the District plans to offer the same educational programming and support services that it currently offers, adjusted for the revenue it anticipates generating in 2025-26 and beyond, as well as inflationary increases to existing expenditures. This form of budgeting is common in school districts and other local government organizations and can also be referred to as "incremental budgeting". 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 or new revenue sources being appropriated by the state.

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 on any given day of the school year. This figure is then converted to adjusted pupil units ("APU") or "weighted ADM", which applies a weighting factor of 1.20 to each grade 7 through 12 ADM. Nearly all enrollment-based revenue formulas are calculated using APU. The District ended the 2024 fiscal year serving an average daily membership (ADM) of 8,541, down 41 from fiscal year 2023's 8,582. This translates to 9,393 and 9,352 APU for 2023 and 2024, respectively.

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 three-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. Last year, this methodology led to the District

planning its operations around 8,630 ADM/9,450 APU for fiscal year 2025. For fiscal year 2026 and beyond, the administration has maintained a relatively conservative approach to forecasting its enrollment and therefore its revenue. The only enrollment growth added to the forecast is approximately 40 ADM per year through fiscal year 2028 related to the planned expansion to the Countryside Elementary Dual Spanish Language Immersion program. All other enrollment has been kept flat for all years of the forecast:

Grade	ACTUAL ENROLLMENT			PROJECTED ENROLLMENT					
	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
PK	62.79	74.80	85.04	70.00	75.00	70.00	70.00	70.00	70.00
KG	611.18	608.19	580.47	590.00	590.00	590.00	590.00	590.00	590.00
1	622.12	642.09	620.55	606.31	611.00	616.00	624.00	624.00	624.00
2	625.52	642.16	639.75	645.21	630.00	641.00	649.00	649.00	649.00
3	606.03	643.00	646.10	652.82	658.00	643.00	651.00	651.00	651.00
4	611.19	617.15	636.63	659.36	666.00	672.00	680.00	680.00	680.00
5	652.94	632.33	621.81	655.67	679.00	686.00	694.00	694.00	694.00
6	622.93	667.29	654.69	638.43	673.00	697.00	697.00	697.00	697.00
7	667.07	628.44	679.73	660.61	644.00	679.00	679.00	679.00	679.00
8	685.42	676.25	646.45	684.60	665.00	649.00	649.00	649.00	649.00
9	665.21	715.86	693.97	673.71	713.00	693.00	693.00	693.00	693.00
10	650.33	671.56	699.26	691.37	671.00	711.00	711.00	711.00	711.00
11	655.35	665.79	660.87	695.58	688.00	668.00	668.00	668.00	668.00
12	626.14	695.24	674.79	671.85	707.00	700.00	700.00	700.00	700.00
TOTAL	8,364.22	8,580.15	8,540.11	8,595.52	8,670.00	8,715.00	8,755.00	8,755.00	8,755.00

This relatively flat enrollment projection will result in modest additional revenue; the only meaningful additional revenue will come via per pupil funding amount increases appropriated by the state.

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. Most of the general fund revenue for any public school district in the state of Minnesota, an estimated 42.7% for Edina in fiscal year 2025, 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 basic operations you would expect within a school district, including, but not limited to: classroom teachers, paraprofessional staff, administrative support staff, regular to-and-from school transportation, custodial staff, utilities, insurance, 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.

In May of 2023 the Legislature agreed to a 4.0% increase to the basic formula allowance for fiscal year 2024, and increase of \$275 per APU, and 2.0% for fiscal year 2025, a further increase of \$143.

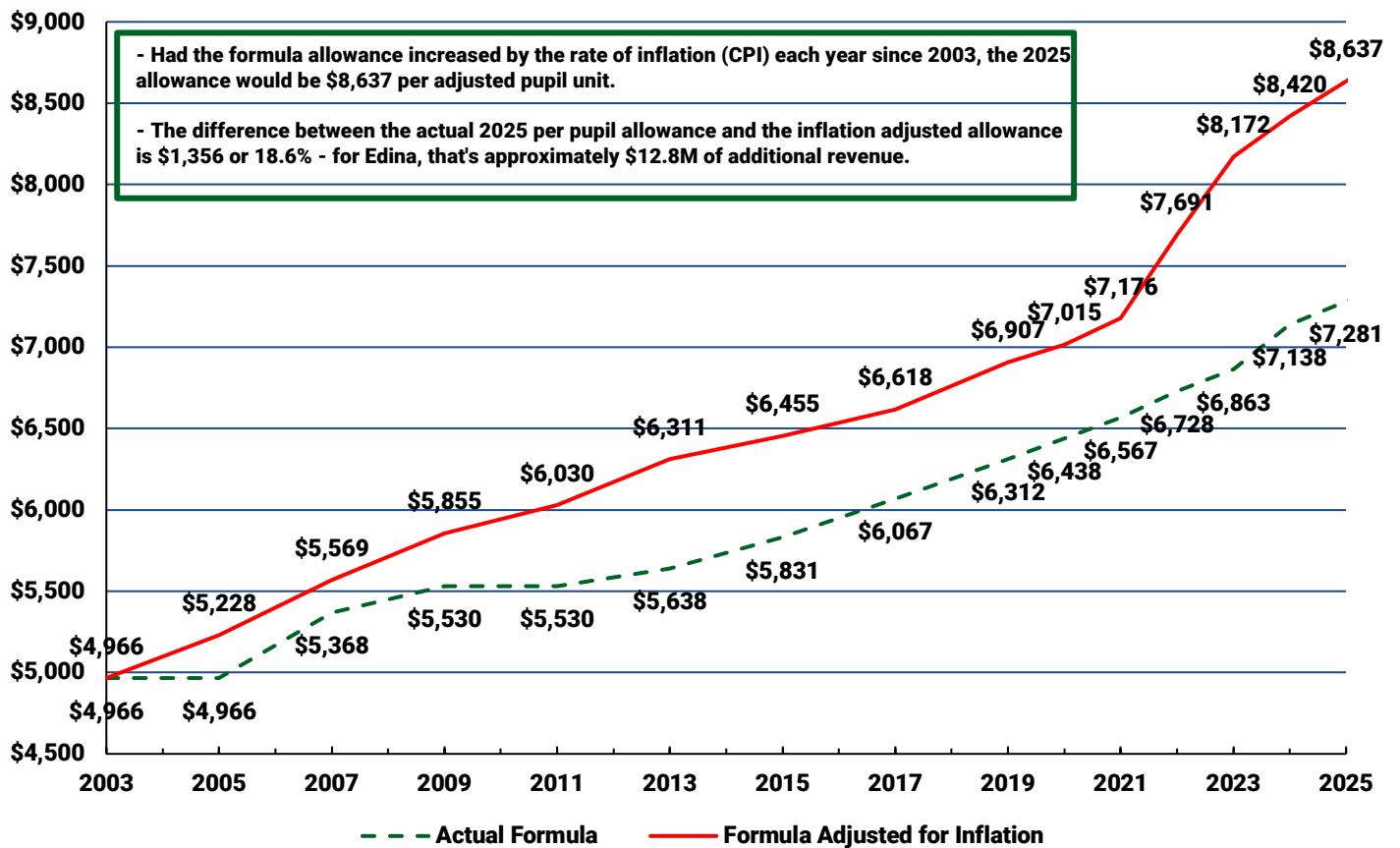
For fiscal years 2026 and beyond, the Legislature has put into effect that the formula will be indexed to inflation via the consumer price index. School districts will receive at least 2.00% on the formula each year but no more than 3.00%. In years past, school business officials would invariably use highly conservative assumptions regarding future, unknown appropriations from the state.

For fiscal year 2026, the estimated increase of 2.53% has been utilized in the forecast. For all other years, since a minimum 2.0% increase has been signed into law, the District administration has used that figure to forecast basic education aid:

	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Adjusted Pupil Units	9,450	9,487	9,535	9,575	9,575	9,575
Per Pupil Unit Amount	\$7,281	\$7,465	\$7,614	\$7,766	\$7,921	\$8,079
Total Basic Education Aid	\$68,805,450	\$70,823,366	\$72,599,490	\$74,359,450	\$75,843,575	\$77,364,504

<i>Additional Revenue:</i>	\$2,017,916	\$1,776,124	\$1,759,960	\$1,484,125	\$1,520,929
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It's important to remember that while the Legislature did tie future basic education aid growth to inflation, albeit capped at 3.0%, over the last 20 years the formula has greatly lagged inflation:



One way school districts in Minnesota are allowed to increase their revenues is by seeking voter approval for an operating referendum. In November of 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 District's voter approved operating referendum authority is \$2,197. For fiscal year 2026, the estimated authority will be \$2,266, an increase of \$69 per APU.

For future years the District administration believes that the efforts of the United States Federal Reserve and other macroeconomic forces will lead to lower inflation, and thus, lesser increases to the District's operating referendum authority. For fiscal years 2027 through 2030 the District is assuming an average increase of 2.57% added to the operating referendum authority each year:

	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Adjusted Pupil Units	9450	9487.39	9535	9575	9575	9575
Per Pupil Unit Amount	\$2,197	\$2,263	\$2,327	\$2,382	\$2,444	\$2,505
Total Operating Referendum Revenue	\$20,766,281	\$21,473,898	\$22,184,288	\$22,803,009	\$23,400,345	\$23,985,735
<i>Additional Revenue:</i>		\$707,617	\$710,390	\$618,721	\$597,336	\$585,390

The second way a District can raise additional revenue for operations is another voter approved property tax level 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 5.93% of net tax capacity. 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 2026. For future years, revenue will increase in direct proportion to the

District's tax base. In recent years the District administration has utilized a three-year moving average to project increases to net tax capacity. While this methodology has been extremely accurate, property inflation is normalizing after the post-COVID period of elevated increases. The average increases the District is using is for fiscal year 2027 and beyond is 3.0% (the prior three-year average was 9.29%):

	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Tax Rate (2021 Ballot)	5.932%	5.932%	5.932%	5.932%	5.932%	5.932%
Net Tax Capacity	\$142,891,874	\$154,831,318	\$159,476,258	\$164,260,545	\$169,188,362	\$174,264,012
Total Capital Projects Revenue	\$8,476,346	\$9,184,594	\$9,460,132	\$9,743,936	\$10,036,254	\$10,337,341
<i>Additional Revenue:</i>		\$708,248	\$275,538	\$283,804	\$292,318	\$301,088

The combination of basic education revenue, operating referendum authority, and the capital projects levy represents approximately seventy 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 increase materially for fiscal year 2026. The forecast assumes that, with the exception of English Learner revenue which will increase in fiscal year 2027 by \$547 per pupil, categorical revenue will remain flat. The District also assumes that special education cross-subsidy aid increase that was put into place for fiscal year 2024 will see no further increases.

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, one online program, and an early learning school. The District's current staffing model, meaning the staff that were budgeted for in fiscal year 2025, 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: 20.00 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 include 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 644.47 full-time equivalents (FTE) of licensed staff, representing approximately 70.0% of the District's general fund budget that is dedicated to salaries and benefits. The remaining 30.0% is comprised of administration, administrative support staff, paraprofessionals, school bus drivers, custodial and maintenance staff, technology staff, and others. The District administration assumes the following inflationary increases to all expenditure types from fiscal year 2026 through fiscal year 2030:

CATEGORY	INFLATION				
	2026	2027	2028	2029	2030
LICENSED SALARIES	7.96%	5.70%	5.83%	3.52%	5.41%
NON-LICENSED SALARIES	3.00%	6.00%	2.00%	4.00%	2.00%
ADMINISTRATIVE SALARIES	4.00%	2.00%	2.00%	2.00%	2.00%
OTHER SALARIES	2.00%	2.00%	2.00%	2.00%	2.00%
STATUTORY BENEFITS	6.10%	5.30%	4.33%	3.45%	4.08%
OTHER BENEFITS	3.00%	3.00%	3.00%	3.00%	3.00%
REPAIRS AND MAINTENANCE	3.00%	3.00%	3.00%	3.00%	3.00%
PURCHASED SERVICES	5.00%	5.00%	5.00%	5.00%	5.00%
SUPPLIES	5.00%	5.00%	5.00%	5.00%	5.00%
CAPITAL PURCHASES/LEASES	3.00%	3.00%	3.00%	3.00%	3.00%
OTHER EXPENDITURES	3.00%	3.00%	3.00%	3.00%	3.00%
TRANSPORTATION	3.40%	2.50%	2.50%	2.50%	2.50%
TRANSFERS OUT	0.00%	0.00%	0.00%	0.00%	0.00%
UTILITIES	7.50%	7.50%	7.50%	7.50%	7.50%
LIABILITY INSURANCE	25.00%	15.00%	10.00%	5.00%	5.00%

Note: Actual salary and benefit enhancements for all groups will be Board parameters that are yet to be determined.

Fund Balance Impact

Based on the District's assumptions regarding enrollment, incremental revenue increases, and expenditure inflation, the expected unassigned fund balance position at the end of fiscal year 2026 is anticipated to be 8.4%, within the Board policy minimum of 6.0 to 10.0%. If the District's operations are not adjusted and if the Legislature does not appropriate significantly more funds than anticipated, beginning with fiscal year 2027 the District's fund balance will begin to rapidly deteriorate. In fiscal year 2028 the unassigned fund balance would be below Board policy and in fiscal year 2030 and beyond the District would fall into statutory operating debt:

	Fiscal Year						
	2024	2025	2026	2027	2028	2029	2030
Revenue:							
Property Taxes	\$ 53,561,813	\$ 56,342,166	\$ 56,501,798	\$ 54,492,560	\$ 55,387,696	\$ 54,915,531	\$ 55,784,676
State Sources	97,586,833	99,080,008	104,164,481	106,777,302	109,140,937	111,256,914	112,276,931
Federal Sources	2,413,800	1,990,416	2,285,697	2,285,697	2,285,697	2,285,697	2,285,697
Miscellaneous Local	7,346,719	3,421,254	4,144,831	4,059,165	3,982,066	3,912,677	3,288,175
Total Revenue	160,909,165	160,833,844	167,096,806	167,614,725	170,796,397	172,370,820	173,635,478
Expenditures:							
Salaries	91,327,676	91,863,490	97,480,650	102,426,443	107,033,452	110,604,739	115,314,118
Benefits	28,475,744	30,785,596	31,448,610	32,739,530	33,933,132	35,025,918	36,261,400
Purchased Services	12,943,625	11,393,638	11,805,187	12,535,830	13,244,832	13,909,881	14,611,680
Supplies & Materials	4,473,488	4,798,366	5,038,302	5,290,251	5,554,778	5,832,532	6,124,163
Capital Expenditures	12,323,746	11,345,718	11,597,493	11,895,959	12,055,929	12,368,338	12,430,871
Other Expenditures	572,405	570,384	587,497	605,122	623,277	641,977	661,239
Other Financing Uses	4,774,549	7,604,875	6,263,181	5,361,657	5,338,576	5,200,629	5,138,960
Total Expenditures	154,891,231	158,362,067	164,220,920	170,854,792	177,783,976	183,584,014	190,542,431
Change in Fund Balance	6,017,934	2,471,777	2,875,886	(3,240,067)	(6,987,579)	(11,213,194)	(16,906,952)
Fund Balances:							
Nonspendable	29,623	-	-	-	-	-	-
Restricted	6,248,712	6,966,084	8,614,176	9,937,215	11,575,649	13,102,608	14,749,214
Committed	2,484,388	2,609,361	2,740,148	2,863,614	2,964,353	3,090,549	3,007,039
Assigned	8,644,524	9,031,289	9,156,731	6,356,480	6,356,480	6,356,480	6,356,480
Unassigned	9,202,272	10,474,562	11,446,128	9,559,807	833,056	(12,033,292)	(30,503,340)
Total Fund Balances	\$ 26,609,519	\$ 29,081,296	\$ 31,957,183	\$ 28,717,117	\$ 21,729,538	\$ 10,516,345	\$ (6,390,607)
Unassigned Fund Balance:	7.41%	8.03%	8.35%	6.68%	0.56%	(7.79%)	(20.29%)

It is common to see five-year forecasts developed annually by school districts and most of them paint a bleak picture of the future. Clearly, education funding in Minnesota does not, over time, meet the needs of school districts. 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, including the results of the 2025 legislative session.

Board Policy 702 stipulates that if the District's operations result in an unassigned fund balance of less than 6.0% of the subsequent years' unassigned expenditures, the administration must present a plan to the Board to reestablish the fund balance to the acceptable level in the subsequent fiscal year. Per the latest forecast, the District does not have an imminent need for cost containment, however, the District will immediately begin analyzing opportunities for revenue enhancement and cost containment with the goal of avoiding future financial instability.

Regards,

Mert Woodard
CFO/Director, Finance & Operations