

The finance committee met in the District Office conference room on June 22, 2023 at 9:00 a.m. with the following present: Beth Hautala and Kim Coughlin. Jamie Skjeveland and Bill Tollefson were also present.

Annual Agenda Items on June Board Agenda – The committee reviewed a number of items that are routinely included on the June agenda in preparation for the upcoming fiscal year. They included:

- a. Annual Agreements
 - i. Ice Time with Hallett Community Center
 - ii. Athletic Trainer Services with CRMC
 - iii. PSEO Agreement with CLC
 - iv. Concurrent Enrollment Agreement(s)
 - v. Lepmiz Speech Clinician Services
 - vi. Hearing Interpreter Professional Services Contract(s)
 - vii. Braille Professional Services Contract(s)
 - viii. Student Teaching Agreement(s)
 - ix. Northern Pines for Day Treatment Program
 - x. Consortium Agreement with Brainerd Adult Basic Education
- b. Substitute and Other Employee Wage Rates for 2023-2024
- c. Fees
 - i. Meal Prices for 2023-2024 (not yet set pending guidance from MDE)
 - ii. Activity Fees and Gate Fees for 2023-2024
 - iii. Facility Use/Rental Fees for 2023-2024
- d. Bidding for Milk, Bread and Trash Collection
- e. Approve Superintendent to Serve as LEA for Title I Programs for 2023-2024
- f. Authorize Employment of Barb Neprud for 2023-2024 Supplemental Extra-Curricular
- g. Combined Polling Place Resolution for School Elections Held on Other Than Statewide Election Days – Calendar 2024

These items were reviewed by the finance committee and were included on the June agenda for approval.

2023-2024 Staff Development Budget – The committee discussed the 2023-2024 staff development budget. The Board's role is to assess the value of the staff development opportunities that are being provided. The committee reviewed the recent proposal to increase the mentoring program, reaffirmed that it is the School Board and not the staff development committee that sets area of pay, and asserted that information learned by staff at staff development activities needs to be brought back and shared with the balance of the staff so that there can be increased learning and improved outcomes for both staff development and student achievement.

2023-2024 Preliminary Budget – The committee spent much of the rest of the meeting going through the updates incorporated into the 2023-2024 Preliminary Budget, which was adopted at the June Regular Board meeting. Highlights included:

The overall budget, including both operating and non-operating funds, is projecting revenues of \$26,947,810 and expenditures of \$25,326,524. This is an overall surplus of \$1,621,286; which is to be expected during a bond sale year when bond proceeds are recognized as revenue and are expected to be expended over future years when the budget includes an active building construction fund. Those

subsequent years will reflect a building construction fund deficit as those bond proceeds are spent on building improvements.

The most important area of the budget is the General Fund Unassigned Fund Balance. The June 30, 2023 starting point was updated to the estimate from the 2022-2023 Revised Budget. Revenue and expenditures were updated and now reflect a projected unassigned deficit of \$44,544, compared to a projected deficit of \$385,017 in the unassigned General Fund in the 2022-2023 Revised Budget. The Restricted for Basic Skills/Compensatory reflects a surplus of \$565,978 based on a significant increase in Basic Skills/Compensatory revenue due to families needing to once again, in the post-COVID era, complete the free/reduced meal applications in order to determine qualification for free or reduced meals. This comes on the heels of almost 15 years of Basic Skills deficits, as revenues declined and expenditures remained unadjusted, leading to the depletion of the Restricted for Basic Skills fund balance at June 30, 2023. The plan is to rebuild the Restricted for Basic Skills fund balance using the increased revenue and taking advantage of expenses previously coded to this area being covered for one more year in 2023-2024 by remaining federal COVID funding. The overall General Fund surplus is projected to be \$499,244, and which is driven almost exclusively by the increases in Basic Skills/Compensatory revenue.

Without federal COVID funding, the overall General Fund Unassigned Fund balance deficit would likely be approximately \$850,000. The real funding cliff comes when all federal COVID funds, at least as provided under current law, expire on September 30, 2024. A need to create and continue to discuss this funding cliff resulted in an unusual note and document placed in the 2023-2024 Preliminary Budget that outlined the concerns for the 2024-2025 Preliminary Budget. That budget will face the first year since 2019-2020 that will not include any federal COVID funding, which has been used to supplant ongoing expenditures and allow the School District to continue to operate existing programs through the COVID pandemic era. The estimate is that somewhere between \$862,000 and \$1,222,000 in supplanted existing, pre-pandemic expenditures will need to be shifted from the several COVID funding opportunities and returned to the General Fund Unassigned Fund Balance or the Restricted for Basic Skills/Compensatory Fund Balance. In addition to the COVID funding expiration, the unknown impact of contract settlements with the teachers and other employees whose contract expire June 30, 2023 may have been nominally included in the settlement estimate used in the 2023-2024 Preliminary Budget. This creates two scenarios to resolve the funding cliff – ask the School District voters to approve an operating referendum in November 2023 or to significantly reduce programs and positions in order to avoid spending off fund balance, with a third option being a combination of the first two options.

Overall revenue changes were based on a number of factors. The 2023-2024 enrollment projection is lower than the 2022-2023 enrollment by 24 pupil units. The 2023-2024 Preliminary Budget includes a 4% increase in the General Education formula allowance. These factors interplay to result in an increase in General Education Revenue of approximately \$180,000 (up about \$297,000 due to increase in the allowance and down about \$117,000 due to enrollment decline, after factoring in declining enrollment aid. The special education aid projection was updated based on a very preliminary calculation that estimates an additional \$450,000 in special education aid due to an increase in the special education cross subsidy factor from 6.43% to 44% in 2023-2024. The 2023-2024 Preliminary Budget includes revenue and expenditure budgets for the balance of ESSER III funding of \$974,016, and remembering again that this funding will expire on September 30, 2024 and will not be available in 2024-2025 in any significant amount.

Overall expenditures are budgeted to decrease by \$187,870 comparing the 2022-2023 Revised Budget to the 2023-2024 Preliminary Budget. This decrease is based on a number of assumptions, the largest of which is an estimation of the cost of the settlement with the teacher bargaining unit. If this estimate is not consistent with the actual settlement, the General Fund deficit will increase proportionately. Other factors driving the reduced expenditure estimate include the completion of the COVID funded upgrade to the energy management system with no comparable replacement in costs, thus lowering the expenditure budget by \$117,812; the reduction of one math teaching position at the high school that was funded using COVID funding and had been added to work toward reducing the impact of learning loss; the elimination of one special education teaching position at CRES starting in 2023-2024; and a change in a student's IEP that will eliminate the need to offer a rather expensive service with an estimated saving of \$60,000.

In the other Operating Funds, revenue and expenditures were adjusted to reflect results due, in large part, to COVID-based factors. The Food Service Fund is in a very transitory year as MDE rolls out new rules relating to how to implement the 2023 legislature's universal free meal mandate. This mandate may also, ultimately have an impact on the General Fund as the requirement to complete the free and reduced meal application still exists, but it not required to be completed in order to qualify for free meals. To allow time

to study the impact of this, the 2023 legislature provided a one-year hold harmless that will help in the 2024-2025 budgetary period and allowing the State of Minnesota the time to come up with options that could significantly reduce Basic Skills/Compensatory revenue. Like the General Fund, the Food Service Fund will experience revenue decreases as the COVID-era Supply Chain Assistance funding expires, resulting in the need to shift milk and certain food costs back to unreimbursed expenditure streams. The Community Service Fund includes a preliminary budget for afternoon, afterschool child care, on the assumption that adequate staffing will be able to be recruited and hired.

Finally, the Building Construction Fund includes a revenue estimate reflecting the second bond sale of bonds approved at the November 2019 School Building Bond referendum election. These proceeds will be used in the next few years to cover the costs of reroofing the School District's school buildings. There are also adjustments made to the Debt Redemption Fund budget to reflect the start of payments that will be used to pay off those bonds.

Bottom line is that there is likely going to be plenty of change happening in the 2023-2024 Revised Budget as more information becomes available regarding other initiatives and mandates adopted by the 2023 state legislature and pending contract settlements with the teacher bargaining unit and other staff.

2024-2025 Budget Reduction – The committee discussed what will most likely be a need for budget reductions for the 2024-2025 school year and considered a number of budget reduction categories and a preliminary list of budget reductions. The committee will continue to work on development of budget reductions throughout the 2023-2024 school year in order to be prepared to meet budget reduction timelines that will need to be followed in the spring of 2024.

November 7, 2023 Operating Referendum Election – One option to reduce the need for budget reductions is to consider asking the School District's voters to approve an operating referendum at a special election that would be held on November 7, 2023. The committee was unanimous in supporting the need to conduct this election, giving voters the opportunity to shape the future of the School District.

Child Care Update – The committee was briefed on the current status of staff recruitment staff for child care positions that would be used to keep the afternoon sessions of after school child care as a program offering in 2023-2024. There has been only one applicant, who will be interviewed soon, and there will be expanded advertising efforts in an attempt to secure more applicants for the child care positions. Having an afternoon after-school child care program in 2023-2024 is contingent upon hiring staff to run the program.

The meeting adjourned at 11:45 a.m.

Respectfully prepared and submitted by William Tollefson