

**BEMIDJI AREA SCHOOLS
BEMIDJI, MINNESOTA**

DATE: JUNE 15, 2026

TO: BOARD OF EDUCATION, ISD #31

FROM: ASHLEY EASTRIDGE, CPA, DIRECTOR OF BUSINESS SERVICES

**SUBJECT: 2026-27 BUDGET BOOK AND ADOPTION OF PRELIMINARY
OPERATING BUDGET**

Overview:

Each year prior to July 1 school boards are required to adopt operating budgets in order to function in the upcoming fiscal year. These operating budgets are estimates that are based on assumptions, trends and other logic at the time that the budget is created. Throughout the course of the year as projections become current data changes may be necessary.

Revenues:

The District's revenue sources come from local, state and federal sources, with the largest portion coming from General Education state aid.

Because state aid is heavily driven by student enrollment, our projections are a primary driver to this budget:

Enrollment Trends: Updated enrollment counts from May show that FY26 is expected to end with a decrease of 2.37%. Rolling these numbers forward, factoring in local birth-rate data and current kindergarten registrations, we are estimating a further 2.13% enrollment decrease for FY27.

Formula Allowance: This enrollment decline is fortunately offset by a 2.69% increase in the state's General Education basic formula allowance.

Special Education Aid remains another primary revenue source. Per the 2023 Legislative session, the District is experiencing an increase in the special education cross-subsidy from 44% in FY26 to 50% in FY27.

Compensatory revenue is experiencing a significant structural shift. The state formula now relies solely on direct certification counts rather than a combination of direct certification and free and reduced paper applications. While the exact FY27 formula allowance has not been finalized by the State, this budget assumes it will match the latest legislative session runs. Due to these formula changes, the District is projecting a decrease of \$382,000 in compensatory revenue.

Achievement and Integration Revenue is a new revenue source for FY27, split between state aid (70%) and local levy (30%). The Minnesota Department of Education (MDE) recently approved the District’s application, resulting in \$599,877 of additional revenue.

Expenses:

Personnel salaries and benefits represent approximately 80% of the District’s total operating budget. Because of its significance, developing accurate payroll projections is the foundation of our fiscal responsibility. Our FY27 projections utilize historical trend analysis, adjusted for known contractual changes and structural reductions.

Prior to contract settlements, FY26 actual spending trended lower than initially budgeted. While the FY26 revised budget anticipated a percentage increase, final contract settlements were structured differently. Therefore, we adjusted for a lower baseline to ensure that our FY27 starting projections were more accurate and avoided inflated estimates.

Additionally, these payroll projections reflect the implementation of \$1,982,000 in approved payroll budget reductions.

Summer-term unemployment costs are estimated at \$606,000. These costs are fully offset by corresponding one-time revenue awarded during the 2025 legislative session, resulting in a net-zero impact on our local operating funds.

Fund chargebacks reflected in the budget total \$224,000 in approved budget reductions utilizing Food Service and Community Education funds.

To meet approved budget targets, our 10-year long-range plan for curriculum, transportation fleet, and technology required significant adjustments for FY27, totaling \$720,500 in reductions:

Category	Initial FY27 Plan	Approved Reductions	Revised FY27 Plan
Curriculum	\$750,500	(\$450,500)	\$300,000
Transportation	\$270,000	(\$270,000)	\$0
Technology	\$279,500	\$0	\$279,500
Total	\$1,300,000	(\$720,500)	\$579,500

The budget reductions for curriculum and transportation are temporary measures and are not sustainable long-term. Delaying curriculum adoptions and fleet replacements protects the current fiscal position, but creates a compounding deficit for future years. Future, ongoing structural reductions will need to be identified to replace these temporary fixes.

Conclusion:

The General Fund operating budget is estimated to achieve a modest surplus of \$247,880. While this represents a significant and positive step toward fiscal stability, we must recognize that this balance includes temporary, short-term measures. To replace these one-time adjustments, a substantial amount of ongoing, structural reductions will still need to be identified.

Our short-term measures are:

- HR Director One Year Reduction
- Transportation Fleet Purchase Delay
- Curriculum Purchase Delay

Looking ahead, the District faces future challenges including:

- The State’s Blue Ribbon Commission was tasked with implementing \$250 million in Special Education funding reductions starting in FY28, which will impact local cross-subsidy aid.
- The expiration of the one-time legislative funding source for summer-term unemployment costs will create a structural gap that must be carefully managed in future contract negotiations.

The District has come an incredibly long way over the past three years to stabilize our finances. While we are closer than ever to our goal, our focus must now shift from temporary fixes to securing permanent, sustainable structural balance.

ACTION:

The motion was offered by _____, seconded by _____ and, carried () to approve the 2026-27 Operating Budget as presented and grant authorization to make transportation fleet purchases up to \$270,000 if the District’s expenses are tracking at or below the budgeted expenses.