

School Board Workshop:

June 23, 2025

Subject:

2025-26 Budget for Approval

Presenter:

**Ryan L. Tangen, Director
Finance and Operations**

SUGGESTED SCHOOL BOARD ACTION:

Recommend approval

DESCRIPTION:

Minnesota state statute requires that the Board of Education adopt the school district's annual budget by June 30. The 2025-26 budget is attached for the Board's consideration.

This budget serves as our financial operating plan for the upcoming year. It is a foundational tool for short- and long-term financial planning, decision-making, and fiscal management. It reflects the district's priorities and expectations, guiding both financial and programmatic activities. As an authorizing document, it provides the legal authority for district staff to secure and responsibly allocate resources.

Beyond the numbers, this budget supports people and programs. It is designed to maximize opportunities for student learning and aligns with the district's mission and the Board's strategic priorities. The budget incorporates input from board members, district administration, building leaders, and other staff.

Budget planning is a multi-year process. Enrollment projections play a key role since a majority of funding is tied directly to Average Daily Membership. The current budget is based on the enrollment projection completed last fall. Once official enrollment numbers are recorded on October 1, 2025, a revised enrollment projection will be completed. The new enrollment data will be used to revise the General Fund budget and serve as the foundation for the January 2026 financial forecast. A final districtwide budget revision will be completed and presented to the board in April 2026 based on year-to-date developments.

This budget reflects the following revenue and expenditure assumptions adopted in January 2025:

Revenue Assumptions:

- **Enrollment Projection:** Based on the November 2024 enrollment report.
- **General Education Formula Allowance:** Increase of 2% or \$146, to \$7,427 for 2025-26, with a 2% increase in subsequent years.
 - An inflation adjustment enacted in 2023 increased the formula allowance by 2.74% to \$7,481.

- **Operating Referendum:** \$750 per Adjusted Pupil Unit (APU) effective through 2030.
- **Special Education:** Increase of 5%.
- **Special Education Cross Subsidy Aid:** 44% for 2024-25 and 2025-26, increasing to 50% in future years.
- **Compensatory Funding:** Decrease of \$42,500.
- **Federal Funding:** Maintained at current level.

Expenditure Assumptions:

- **Other Post-Employment Benefits (OPEB):** Contributions aligned with actuarial report estimates.
- **Class Size Reduction:** Continuation of 6.0 FTE, including marketing budget and social workers.
- **Local Optional Revenue:** Continuation of an additional 6.0 FTE.
- **Staffing Ratios:** Maintain or exceed 2018-19 approved levels.
- **Staffing Contingencies:**
 - 1.0 FTE for special education.
 - 2.95 FTE Superintendent staffing.
- **Online School:** Allocate 2.5 licensed FTE.
- **Salary and Benefit:** Adjustments based on settled agreements and anticipated market conditions for unsettled contracts.
- **Non-Salary/Non-Benefit Costs:** Estimated increase of 0-5%.
- **PPD:** Continues with revenues and expenditures balanced.
- **Cost Containment Initiatives:** Continued efforts, including joint purchasing agreements, energy use reduction, paper reduction, insurance contracts, and other operational efficiencies.

Summary of Funds

The **General Fund** (01) is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities; district instructional and student support programs, expenditures for the superintendent, district administration, operations and maintenance, pupil expenditures, and capital expenditures. The General Fund budget shows total revenues of \$79,683,410 and total expenditures of \$82,412,955, resulting in an overall decrease of \$2,729,545 and a projected year-end fund balance of \$16,306,832.

The **Food Service Fund** (02) is used to record the financial activities of a school district's food service program. Food Service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school community service activities. All expenditures relating to meal preparation must be recorded in the Food Service Fund. Eligible expenditures include application processing, meal accountability, food preparation, meal service, and kitchen custodial service. The Food

Service Fund budget shows total revenues of \$4,805,919 and total expenditures of \$4,965,203 resulting in a decrease to fund balance of \$159,284 and a projected year-end fund balance of \$3,486,100.

The **Community Service Fund** (04) is used to record all financial activities of the Community Education program. The Community Service Fund is comprised of four components each with its own fund balance: community education, early childhood family education, school readiness, and adult basic education. The focus of community education is educational and personal growth activities and programs for all age levels that are not directly part of the K-12 education program. The Community Service Fund budget shows total revenues of \$4,379,790 and total expenditures of \$4,323,751. This is a projected increase of \$56,039 and a projected year-end combined fund balance of \$1,141,939.

The **Building Construction Fund** (06) is used to record all financial activities of building projects utilizing outside financing. The Building Construction Fund budget shows total revenues of \$1,215,708 and total expenditures of \$24,805,854. This is a projected decrease of \$23,590,146 and a projected year-end fund balance of \$17,931,938.

The **Debt Service Fund** (07) is used to record revenues and expenditures for a school district's outstanding bond indebtedness. When a bond is sold, the school board must levy a direct general tax upon the property of the district for the payment of principal and interest on such bonds due. The revenue from such a tax and related state aid must be separately accounted for in a Debt Service Fund. This fund is also used to record any refunding bonds that are sold during the year. The Debt Service Fund budget shows total revenues of \$9,248,241 and total expenditures of \$9,055,698. This is a projected increase of \$192,543 and a projected year-end fund balance of \$2,615,546.

The **HRA Trust Fund** (18) is used for reporting contributions to an employee's HRA account upon hire and an annual contribution to the employee's HRA account for each year of service. These funds are held in an irrevocable trust with Mid-America through National Insurance Services. The employees have to meet certain vesting requirements before they can access these funds. The auditors require us to show the cumulative balance of the contributions plus any accrued interest in these trust accounts for those individuals eligible for the program. The actual payments to the trust are already included in the general fund expenditures shown previously in this report. The projected increase of \$427,653 will result in a projected year-end of \$4,728,775.

The **OPEB Trust Fund** (45) is used for reporting resources set aside and held in an irrevocable trust arrangement for post-employment benefits. We are projecting an increase of \$500,000 in the market value of our portfolio. We started using some of the trust funds beginning in the 2012-13 fiscal year. We will do so again in 2025-26. We record severance and retiree payments for teachers and administrators in the Trust.

We are projecting revenues of \$871,054 and expenditures of \$800,738 for a net increase in the Trust of \$70,316 and a projected year-end fund balance of \$13,277,849.

Budget Summary and Outlook

The 2025-26 budget reflects significant changes driven by enrollment shifts, evolving funding sources, and strategic expenditure adjustments.

Revenues depend primarily on legislative funding, enrollment, and board/voter-approved levies. Following are some key factors:

- Kindergarten enrollment for 2025-26 is projected to decline by 3.37% to 344 students. This is 48 fewer students than the average high school class size.
- Pre-Kindergarten through grade 12 enrollment is projected to decline by 123 students or 2.44% to 5,046.
- While Special Education aid and Cross Subsidy aid have increased, they still require support from general education funding to fully cover expenditures.
- The voter-approved referendum was renewed, providing \$750 per APU through 2030.

Districtwide revenues decreased by .40%. However, excluding the Building Construction Fund, revenues increased modestly by .35%.

Districtwide expenditures increased substantially (19.4%) due to building projects funded by voter-approved bonds. However, excluding Building Construction Fund activity, overall expenditures increased by just 1.45% over the prior year, supported by a planned reduction of 18 FTE. Salaries and benefits continue to represent the largest General Fund expenditure at 77.7%, reflecting the district's investment in staffing and support services.

The combination of reduced student enrollment, changes in funding, and increasing operating expenditures has created a challenging budget environment. Maintaining financial stability will require continued strategic planning, careful oversight, and potential adjustments. Our goal remains to provide a high-quality educational experience for all students while ensuring long-term fiscal responsibility.

ATTACHMENTS:

- 2025-26 Budget Presentation
- 2025-26 Budget Book