

School Board Workshop:

June 10, 2024

Subject:

2024-25 Preliminary
Budget Review

Presenter:

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

SUGGESTED SCHOOL BOARD ACTION:

No action required

DESCRIPTION:

Minnesota state statute requires the Board of Education to adopt the school district budget by June 30th each year. The 2024-25 preliminary budget in summary for the Board's approval at the June 24, 2024 meeting is attached.

This budget represents our financial operating plan for the next year. It is also a key piece of our general financial planning for the district and certainly a key piece of our long-range financial plan. The budget provides a platform for decision-making. It is a financial guide for the next year and reflects our district's priorities and expectations. It is a guide for future activities, both financial and program. It is a management tool for district fiscal control, allocates the district's resources, and provides guidelines for spending those resources. It also provides the legal authority as an authorizing document for the district staff to gather those resources together and wisely spend them.

This budget is more than numbers, rows, and columns. It is people and programs. It provides the direction for maximizing opportunities for student learning. In this budget, we have tried to reflect the mission of the District and the Board's plans and priorities for the next year and beyond. It reflects input from board members, district administration, building leadership, and other district staff.

The budget planning process is long and spans multiple years. One of the most important inputs in planning the budget is enrollment projections since our basic funding is based on the number of students in our schools. After we settle into the school year next fall and get our first official enrollment numbers on October 1, 2024, we will review the budget and put together a revised budget for the Board to review at the same time as the financial forecast. We are using our best estimate of the number of students we will see walk through the school building doors next September. We will monitor the budget closely throughout the year and provide updates to the Board as needed. In the spring, we will revise the budget once again as we adjust to the year in progress.

This budget reflects the following revenue and expenditure assumptions adopted in January 2024:

Revenue Assumptions:

- Enrollment projection based on the November 2023 enrollment report.
- General Education formula allowance increase of 2% or \$143 to \$7,281 in 2024-25 and 2% increase for future years.
- \$750 per Adjusted Pupil Unit (APU) operating referendum renewed in March 2024 for funding through 2030.
- Special Education increases by 5%.
- Special Education Cross Subsidy Aid 44%.

Expenditure Assumptions:

- OPEB contributions continue in 2024-25.
- Continuation of 6.0 FTE for Class Size Reduction – includes marketing budget and social workers.
- Continuation of 6.0 FTE addition for Local Option Revenue funding.
- Maintain/exceed 2018-19 approved staffing ratios.
- One-year reallocation of 7 licensed FTEs above the staffing ratio
- 1.0 FTE Special Education staffing contingency.
- 2.95 FTE Superintendent staffing contingency.
- Salary and benefit changes based on settlements in place and market conditions for non-settled contracts.
- Non-salary, non-benefit costs are estimated to increase by 0-5%.
- Continued cost containment initiatives such as joint purchasing agreements, energy use reduction, paper reduction, insurance contracts, and other operational efficiencies.
- QComp (PPD) continues for 2024-25 assuming revenues and expenditures are equal.

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 \$79,217,081 and total expenditures of \$82,658,091 resulting in an overall decrease of \$3,441,010 in the projected fund balance.

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 \$5,014,795 and total expenditures of \$4,744,806. This is a projected increase of \$269,989 resulting in a projected fund balance at the end of the year of \$2,995,429.

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 \$4,354,444 and total expenditures of \$4,239,473. This is a projected increase of \$114,971 resulting in a projected combined fund balance at the end of the year of \$779,460.

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 \$1,825,359 and total expenditures of \$7,366,000. This is a projected decrease of \$5,540,641 resulting in a projected fund balance at the end of the year of \$38,650,548.

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 \$8,985,758 and total expenditures of \$8,407,763. This is a projected increase of \$577,995 resulting in a projected fund balance at the end of the year of \$2,354,266.

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 \$532,334 will increase the fund balance to \$4,778,374.

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 2024-25.

We record severance and retiree payments for teachers and administrators in the Trust. We are projecting revenues of \$720,861 and expenditures of \$710,694 for a net increase in the Trust of \$10,167 resulting in a projected ending balance of \$13,036,583.

The **OPEB Debt Service Fund** (47) is used to record levy proceeds and the repayment of the outstanding OPEB bonds. In September 2009, a \$10.845 million OPEB bond was approved to pay for the district's other post-employment benefits and severance based on years of service. The OPEB Debt was extinguished during the 2022-23 fiscal year but still has a residual fund balance that will transfer into the Debt Service Fund. The projected decrease of \$249,498 will result in a year-end fund balance of \$0.

Summary

The 2024-25 budget reflects significant changes due to shifts in student enrollment, changing funding sources, and expenditure adjustments. Following are some key points affecting our budget:

Revenues are largely dependent on three variables – funding from the state legislature, student enrollment, and board/voter-approved levy referendums. Student enrollment for budget purposes is based on projections and therefore must be conservatively figured. Those enrollment projections are the driving factor for planning both revenues and expenditures. Our current projected kindergarten enrollment for 2024-25 indicates a 5.8% decrease and is 73 less than the average class size in grades 9 through 12. An increase in Special Education aid offset the loss in general education aid but the expiration of the Federal Pandemic Relief Funds reduced revenue by nearly a million dollars. The voter-approved referendum was renewed for another five years generating \$750 per adjusted pupil unit.

The districtwide expenditures increased significantly as a result of voter-approved building projects. Excluding the Building Construction Fund expenditures, expenditures increased only 1.51% over the prior year. This smaller increase was enabled by the planned 20 FTE position reduction. Salary and benefits are the largest budgeted district expenditure and account for 77.8% of the General Fund budget.

The combination of reduced student enrollment, changes in funding, and the expiration of federal pandemic relief funds has created a challenging budget environment. Despite the increase in Special Education aid, the overall financial outlook requires careful management and strategic adjustments to maintain fiscal stability. Further discussion and planning will be essential to address the projected deficit and ensure the continuity of quality education for our students.

ATTACHMENTS:

- 2024-25 Original Budget 6.10.24
- 2024-25 General Fund Projected Fund Balances 6.10.24
- Board Budget Assumptions Memo 2024-25 1.22.24