

School Board Workshop:

June 8, 2020

Subject:

2020-21 Preliminary
Budget Review

Presenter:

**Gary Kawlewski, 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. We have attached the 2020-21 preliminary budget in summary for the Board's approval at the June 22, 2020 meeting.

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 longer range financial plan. It is a financial guide for the next year. It reflects our district priorities and expectations. It is a guide for future activities, both financial and program. It is a management tool for district fiscal control, and allocates the district's resources and provides the 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 spend them in a wise manner.

This budget is not just numbers, rows and columns. It is people and programs. It is 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 a long one – one that actually 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, 2020, 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 assumptions adopted in January 2020:

- \$129 increase to the General Education Aid formula (\$6,567 in total) which represents a 2% increase over the prior year

- \$750 per pupil operating referendum approved in November 2019
- Special Education aid increases 4%
- Literacy Aid implemented in 2012-13 continues through 2020-21
- 2.5% increase in special education revenue
- PreK-12 enrollment projection of 5,730 based on November 2019 projection
- Kindergarten projection assumes 99.5% of the students will attend the full day program
- Integration and Achievement Revenue
- OPEB contributions continue in 2020-21
- Alternative Teacher Development program (QComp/PPD)
- Continued full implementation of the Long-Term Facilities Maintenance program

The expenditure assumptions include the following:

- Resets the Superintendent Contingency staffing back to 2.95 FTE to address staffing issues
- Resets the Special Education Contingency staffing back to 1.0 FTE
- Maintain 2014-15 approved staffing ratios less 2019-20 budget reductions
- Continuation of 6.0 FTE for Class Size Reduction-includes Marketing budget and social workers
- Continuation of 6.0 FTE addition for Location Equity Revenue funding
- Salary and benefit changes based on settlements in place and market conditions for non-settled contracts
- Non-Salary, Non-Benefits Costs are estimated to increase at 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 2020-21 assuming matching revenues and expenditures
- \$259,000 of fund balance assigned for technology to be spent in 2020-21
- LTFM expenditures to match revenue less \$100,000 set aside for field turf

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 \$73,922,464 and total expenditures of \$72,202,714, an overall increase of \$1,719,750 in projected fund balance. The district has been intentionally spending down the fund balance the last few years to maintain recent additions in staff that added programming lost over the last few years. We also reduced our program by approximately \$1.5 million for the 2019-20 fiscal year. The passage of the operating referendum last fall helps to create a positive variance for the budget for the upcoming year.

The **Food Service** fund (02) is used to record 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 \$2,731,184 and total expenditures of \$2,846,137. This is a projected decrease of \$114,953 resulting in a projected fund balance at the end of the year of \$427,388. This budget assumes that the first part of the year's operation uses the current Summer Food Service Program. The remainder of the year assumes running at 80% of last year's meal counts using the traditional school lunch programs. In light of recent events, we are not recommending an increase in meal prices for 2020-21. Based on our meal counts through the end of May, it appears that our projected ending balance for June 30, 2020 will be better than projected. We are hopeful that the same will be true for the budget projections shown in this report.

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 budget projection does include a phased in start for revenue and expenditure calculations in light of the current pandemic-related conditions. The Community Service fund budget shows total revenues of \$3,294,254 and total expenditures of \$3,232,988 resulting in a projected combined fund balance for all Community Service funds of a negative \$100,864.

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 \$5,453,077 and total expenditures of \$5,549,998. We have been intentionally levying less than is allowable to buy down the fund balance and minimize our tax impact from this fund.

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 Service fund budget shows total revenues of \$2,036,852 and total expenditures of \$1,999,810.

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 a modest increase of \$400,000 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 2020-21. We record severance and retiree payments for teachers and administrators in the Trust. We are projecting revenues of \$679,776 and expenditures of \$1,103,957 for a net decrease in the Trust of \$424,181.

The **HRA Trust** (18) fund 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 \$189,464 will move the fund balance to \$2,252,502 on June 30, 2021.

Summary

The increase in funding from the State of MN over the past few years and the operating referendum approved in November 2019 will allow us to maintain our same programming level as was in place for 2019-20 fiscal year. As a normal part of our budget development, we always look ahead at the next few years. The 2020 legislative session was a non-funding year for schools and it provided little additional resources for 2020-21. Additional pressures could result from the current pandemic as we look at our enrollment levels at the start of the upcoming school year.

Our 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. Our current projected kindergarten enrollment for 2019-20 is relatively flat which is leading us to be very wary of counting on increased enrollment to help balance the budget. We will need to monitor our fund balance to make sure that we maintain a stable financial position.

ATTACHMENTS:

- 2020-21 Original Budget 6.8.20
- 2020-21 Gen Fund Projected Fund Balances 6.8.20
- Board Budget Assumptions Memo 1.27.20