



TO: School Board Members

FROM: Peter Olson-Skog, Superintendent

DATE: June 1, 2026

SUBJECT: Authorization of Capital Project Levy: Review and Comment

BACKGROUND

The district is presenting information regarding a proposed capital project levy and the next required step in that process: submission of Review and Comment materials to the Minnesota Department of Education.

The proposed levy is part of the district's broader long-term financial planning strategy. It is intended to help address ongoing structural budget pressures caused by the cost of operating schools increasing faster than the revenue available to support those costs. Current projections show district expenditures increasing by approximately 3% annually, while state-provided and other recurring revenues are growing closer to 1%.

The district has already taken significant steps to address this challenge. Across the 2025-2026 and 2026-2027 budget years, the district has implemented or approved more than \$3.25 million in permanent budget reductions, including approximately \$750,000 for 2025-2026 and approximately \$2.5 million for 2026-2027. These reductions reflect responsible fiscal stewardship and a clear commitment to aligning ongoing expenditures with ongoing revenue while protecting classroom instruction, student supports, and the daily learning experience as much as possible.

The proposed capital project levy does not replace the need for fiscal discipline, careful budgeting, state advocacy, or future financial planning. Rather, it represents one state-authorized tool available to school districts to fund certain existing eligible costs in a more sustainable way, reduce pressure on the overall budget, and help reduce the size or frequency of future reductions.

Authorization by the School Board to initiate the Review and Comment process does not constitute final ballot approval. It is, however, a required step in the process and would signal the Board's intent to continue moving toward a possible referendum in the fall. Formal adoption of ballot language would return to the School Board later this summer, after completion of the Review and Comment process.

Financial Context and Stewardship

School District 197 has been engaged in ongoing financial planning to address a persistent structural imbalance between revenue and expenditures. This challenge is not the result of a single budget year or decision. It reflects a broader school finance reality in which the cost of providing education continues to rise faster than the revenue available to support that work.

Major cost drivers include compensation, health insurance, special education, transportation, technology, instructional materials, building operations, and other essential services needed to operate schools. Although recent state funding changes have provided some support, state funding has not fully kept pace with the actual cost of operating schools. Some cost areas, such as health insurance and special education, continue to grow faster than general inflation. Some state funding adjustments also apply only to portions of district revenue rather than the full operating budget.

The district continues to advocate at the state level for more sustainable school funding, including funding that better reflects the actual cost of educating students, reducing unfunded mandates, and addressing the special education cross-subsidy. However, state advocacy is a long-term strategy and cannot be the district's only response to current financial pressures.

The district has not waited to act. The reductions already implemented or approved were developed with a guiding priority: protect the classroom experience for students as much as possible. The district focused reductions on operational efficiencies, district-level budgets, non-instructional contracted services, technology and software, professional development, operating cost efficiencies, and targeted site-level adjustments. Class size parameters were maintained, and efforts were made to minimize impacts to direct student supports and daily instruction.

Fund balance is also part of this stewardship story. The School Board's policy target is an 8% unassigned fund balance, which provides the greatest flexibility to manage uncertainty, respond to unexpected costs, maintain stable operations, and protect against short-term disruptions. In recent years, the district's unassigned fund balance declined below that target, but that decline did not happen by accident or because of inattention to the district's financial position.

During the COVID-19 period and the years that followed, the Board made intentional decisions to use available fund balance to maintain stability for students, families, and staff. While federal COVID relief funds helped address some needs during the height of the pandemic, many academic, social, emotional, and operational needs continued beyond the period when those temporary funds were available. Using fund balance in this way was consistent with its purpose: to provide flexibility during periods of significant disruption and uncertainty. At the same time, the Board understood that reserves cannot be used as a permanent solution and would need to be rebuilt over time.

By the end of the 2024-2025 school year, the district's fund balance was approximately 2%. Through reductions already made and additional financial management actions, the district is projected to rebuild the fund balance to just under 4% in the current year and approximately 5% in 2026-2027. This is meaningful progress, but it does not fully restore the district to the Board's 8% target or resolve the underlying structural challenge.

Recent legislative authority provides the district with a one-time opportunity to improve short-term financial stability through an operating capital transfer. This tool allows the district to move certain dollars from a more restricted construction-related fund into the operating capital portion of the general fund, where they may be used for specific allowable purposes. This is helpful because it provides greater flexibility in how existing district dollars can be used and can improve short-term unassigned fund balance projections. However, it does not create new revenue for the district, and it does not change the recurring relationship between revenue and expenditures.

Capital Project Levy

A capital project levy is a state-authorized financing option that allows school districts, with voter approval, to receive additional funding for specific eligible costs. Examples include instructional

materials, equipment, furnishings, technology, physical security, cybersecurity, and certain building-related or operational needs that qualify under state guidelines.

The proposed capital project levy is not intended to create new programs or expand services. Because these funds can only be used for allowable purposes, the levy would not function as unrestricted funding. However, by using levy revenue for eligible costs the district already incurs, the district can reduce pressure on other parts of the budget and preserve more flexibility in its overall financial plan.

The district is proposing an annual levy authority of approximately \$4.6 million. The estimated tax impact is approximately \$14 per month on a \$400,000 home. These figures are proposed for Review and Comment submission purposes and would return to the School Board for final consideration before any ballot question is formally adopted.

In practical terms, the proposed capital project levy would provide additional revenue for specific allowable purposes, support more stable multi-year financial planning, help reduce the size or frequency of future budget reductions, and provide the community with a direct voice in the district's financial path. It would not add new programs, expand existing services, provide unrestricted funding for any purpose, replace ongoing fiscal discipline, fully eliminate the structural gap, or take final effect without voter approval.

Community Choice and Required Process

Ultimately, this is a question of community direction. The district will continue to operate within its means regardless of the outcome. If the levy does not move forward or is not approved by voters, the district will continue to make responsible budget decisions, use available one-time tools where appropriate, and advocate for improved state funding. However, without additional ongoing revenue, additional future reductions would be needed to maintain financial balance. Additional cuts will be needed to continue progress toward the Board's fund balance target.

If the levy is approved by voters, the district would have additional revenue to support specific eligible costs the district already incurs. This would reduce pressure on the overall budget, help preserve the progress already made through difficult budget reductions, and provide more stability while the district continues long-term planning and state advocacy.

Before the School Board can take final action to place a capital project levy question on the ballot, the district must complete the Review and Comment process with the Minnesota Department of Education. This process requires the district to submit information about the proposed project, including the proposed scope and financing. The submission must include the proposed levy amount.

Authorization to initiate Review and Comment does not place the question on the ballot, approve final ballot language, or commit voters to any tax increase. It allows the district to begin the required state process so that the School Board has the option to consider formal ballot action later this summer. Beginning the process in June preserves the possibility of a November 2026 referendum.

Timeline of Events

- **April 2026:** Initial financial outlook and capital project levy background presented to the School Board.
- **June 2026:** School Board consideration of budget approval and authorization to submit Review and Comment materials to MDE.
- **Summer 2026:** MDE Review and Comment process conducted.

- **Late Summer 2026:** School Board consideration of final ballot resolution for the November General Election.
- **Fall 2026:** Community information and engagement process regarding the levy proposal.
- **November 2026 General Election:** Community vote on the proposed capital project levy.

RECOMMENDED RESOLUTION

BE IT RESOLVED that the School Board of Independent School District 197 authorizes submission of the proposed capital project levy to the Commissioner of Education for Review and Comment pursuant to Minnesota State Statute §123B.71.