St. Louis Park Public Schools

Achieving success, one student at a time!

Finance Advisory Committee
2021-22 Budget Recommendations and Fiscal Recommendations to Superintendent Osei

Executive Summary	**Pages 1-2**
FY2022 Budget Recommendation Background	**Pages 3-7**
❖ Recommendation #1: 1% Increase in per pupil formula	Page 3
❖ Recommendation #2: 4,862 adjusted pupil units (APU), with potential for increased enrollment if trends following the pandemic result in the return of students lost in FY2021	Page 4
❖ Recommendation #3: within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of at least 10%	Page 5
❖ Recommendation #4: Maintain local revenue - Increase student activity fees and meal prices; maintain high school student parking fees at current rate.	Page 7
Finance Advisory Committee Purpose & Membership	**Page 8**

February 22, 2021
Executive Summary

The Financial Advisory Committee (FAC) was established to leverage the financial acumen of community members by serving as an advisory committee to the Superintendent regarding financial planning and performance of the St. Louis Park Public School District. The Committee has formally met five times this year, with one more meeting scheduled in March.

In order to arrive at recommendations for fiscal actions and budget assumptions, the Committee focused on the following information:

- Audited results for FY 2020
- Current Unassigned General Fund Balance
- Current student enrollment and enrollment model projections
- Past, current and projected per student funding from the State
- Economic outlook for State and other factors likely to impact the District's financial health
- 5 Year Financial Model Scenarios
- Impact of coronavirus pandemic
- Current student fees compared to those in neighboring districts

This year we have attempted to view our work through the lens of racial equity with these additional actions:

- added a meeting protocol that we agree to engage in courageous conversations about race;
- committee members were asked to participate in a "thought partner" exercise between meetings. This exercise is aligned with the district's broader focus on ensuring racity equity in its schools. Members engage with "thought partners" of a different race to gain multiple perspectives about the committee's work;
- committee members were invited to attend an optional racial equity training session with District racial equity coaches.

The Committee's recommendations to the Superintendent reflect a general consensus of its members regarding the underlying assumptions for the 2021-2022 (FY 2022) budget. These recommendations are informed by four primary conditions that drive the school district budget:

1. **State Economy** - Minnesota's economic outlook has improved. However, there is still significant uncertainty surrounding the financial impact of the pandemic and how that will affect future State funding; most particularly the basic general education formula and special education funding.
2. **Cost Structure -** Given that the cost structure of the district's General Fund (not restricted for capital-related purposes) is approximately 85% human resources (salary and benefit costs); any growth in this area that exceeds the rate of state increases will seriously threaten the financial and programmatic viability of the District.
3. **Student Enrollment** - In recent years the District has had relatively stable enrollment. Although there was a decline in enrollment this year (FY 2021), there is no evidence this pattern will continue once the pandemic is over.

4. **New/Rising Costs** - New initiatives or cost increases in current expenses (i.e. transportation services, utilities) will erode available resources. So new revenue must be found to fund these cost increases, or something else must be cut from the budget to continue services as costs rise. As the District continues its facilities work over the next couple years, the budget forecast model reflects that there will be increases in expenses, putting further pressure on the General Fund. Student fees and other local revenue sources are one way to maintain revenues that keep pace with costs and with our neighboring districts.

Based on its review, the Committee presents the following fiscal and budget assumption recommendations to the Superintendent. These are discussed in greater detail in this report.

FY 2022 Budget Recommendations:

1. **General Education Funding Formula** - 1% increase in per pupil formula
2. **Student Enrollment** - 4,862 adjusted pupil units (APU), with the potential for increased enrollment if trends following the pandemic result in the return of students lost in FY2021
3. **Fund Balance Minimum** - within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of between 9% and 11%
4. **Maintain local revenue** - Increase student activity fees and meal prices; maintain high school student parking fees at current rate.

Fiscal Recommendations:

- **Balanced budget** - The District is currently projected to deficit spend for FY2021 (this in addition to a $1 million deficit in FY 2020) and should strive to return to a balanced budget. The District should find a fiscal solution to ensure it can maintain a prudent fund balance.
- **Manage expense increases** - focus on managing expenses, particularly salary and benefit increases which are the major contributors to the budget deficit, to minimize erosion of the General Fund Balance.
- **Grow resident enrollment** - focus significant effort to recruit and maintain resident students. Contact all resident families who have left the District, yet continue to live in its boundaries, in order to ascertain the reason(s) for their departure. This periodic review of these documented interactions will provide insight about policy, curriculum, or personnel changes that can help the District attract and retain a higher percentage of resident students in the future.

FAC Conclusion

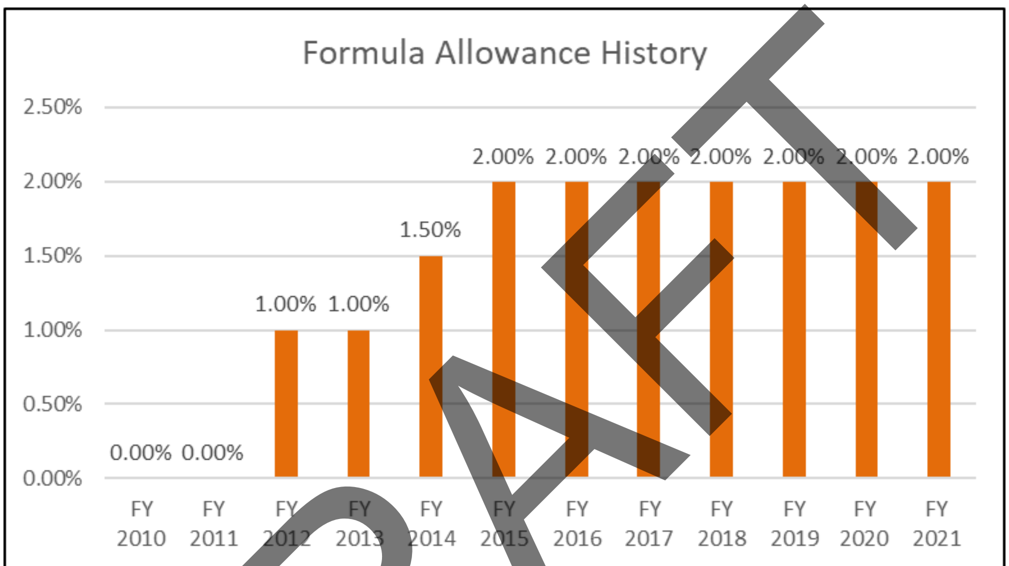
The District, with a General Fund Unassigned balance of $11.1MM, approximately 18.58% of FY2020 unassigned operating expenditures, has maintained its financial condition. Continued deficit spending, as projected beginning with FY2021, has the potential to rapidly erode the Fund Balance below a level the FAC considers prudent. The General Fund Balance represents one-time funding and should not be used to pay for ongoing costs, as that will quickly deplete the Fund Balance the District built up over many years.

The next biennium, ending FY 2023, includes a projected 1% increase in the General Education Formula Allowance, with Special Education revenues expected to stay the same as actual FY 2020. Increasing expenses in recent years, led primarily by growing salary and benefit costs, are significantly outpacing the level of funding increases from the State. The FAC remains concerned with the District's ability to balance its need to attract and retain the best talent, while also controlling growth in its largest expense category (salary and benefits).

FY2022 Budget Recommendation Background

FY 2022 Budget Recommendation #1: 1% increase in the per pupil formula

Although the State of Minnesota has experienced some positive economic indicators, such as relatively low unemployment, it still faces budget pressures and many competing priorities. It is difficult to predict whether, or to what extent, the Governor and State Legislature will increase per pupil funding for education in the next biennium. The chart below depicts formula allowance increases in recent years and through FY 2021.

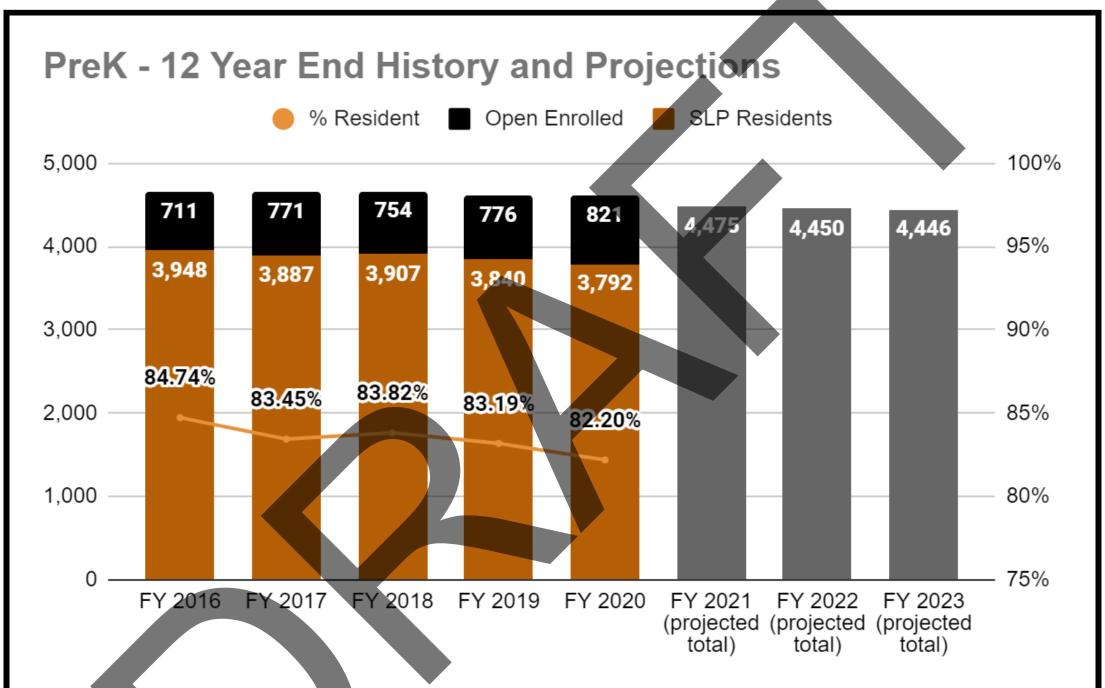


With the recent history of a 2% increase and given the strain that the pandemic has placed upon the state budget, the FAC recommends that the budget include a more modest increase of 1% for the general education funding formula.

Voter approval in November 2017 set the operating referendum at the maximum cap and allowed for increases to an inflationary factor as established by state law. As a result, the District receives the maximum operating levy dollars and will have no option to increase the operating levy. Therefore, the District will have to rely very heavily on any increases in the General Education Formula Allowance.

<u>FY 2022 Budget Recommendation #2</u>: 4,862 adjusted pupil units (APU), with potential for increased enrollment if trends following the pandemic result in the return of students lost in FY2021.

In FY2021, the District will graduate a large senior class (376) and expects to enroll a smaller kindergarten class in FY2022 (354) which will decrease overall enrollment again in FY 2022. It is imperative that focus be placed on recruiting resident St. Louis Park students from other public school districts, charter schools, or private schools to maintain and increase enrollment. Because the majority of revenue is dependent upon per student funding from the State, the inability to meaningfully increase enrollment has a significant impact on revenue. The chart below depicts the history of resident vs. nonresident enrollment. The trendline shows that the % of resident enrollment has declined from 84.75% in FY2016 to 82.20% in FY2020.



Fiscal Recommendation: Grow Resident Enrollment

The FAC recommends that the district aggressively pursue strategies to capture and retain resident students, including contacting all resident families who have left the district for any reason other than moving out of school boundaries, and documenting their reasons for leaving. We are hopeful issues will come to light through this process that can be addressed through curriculum, policy, or personnel changes that lead to improvement in the District's ability to attract and retain more resident students. This is critical because enrollment has such a significant impact on District finances.

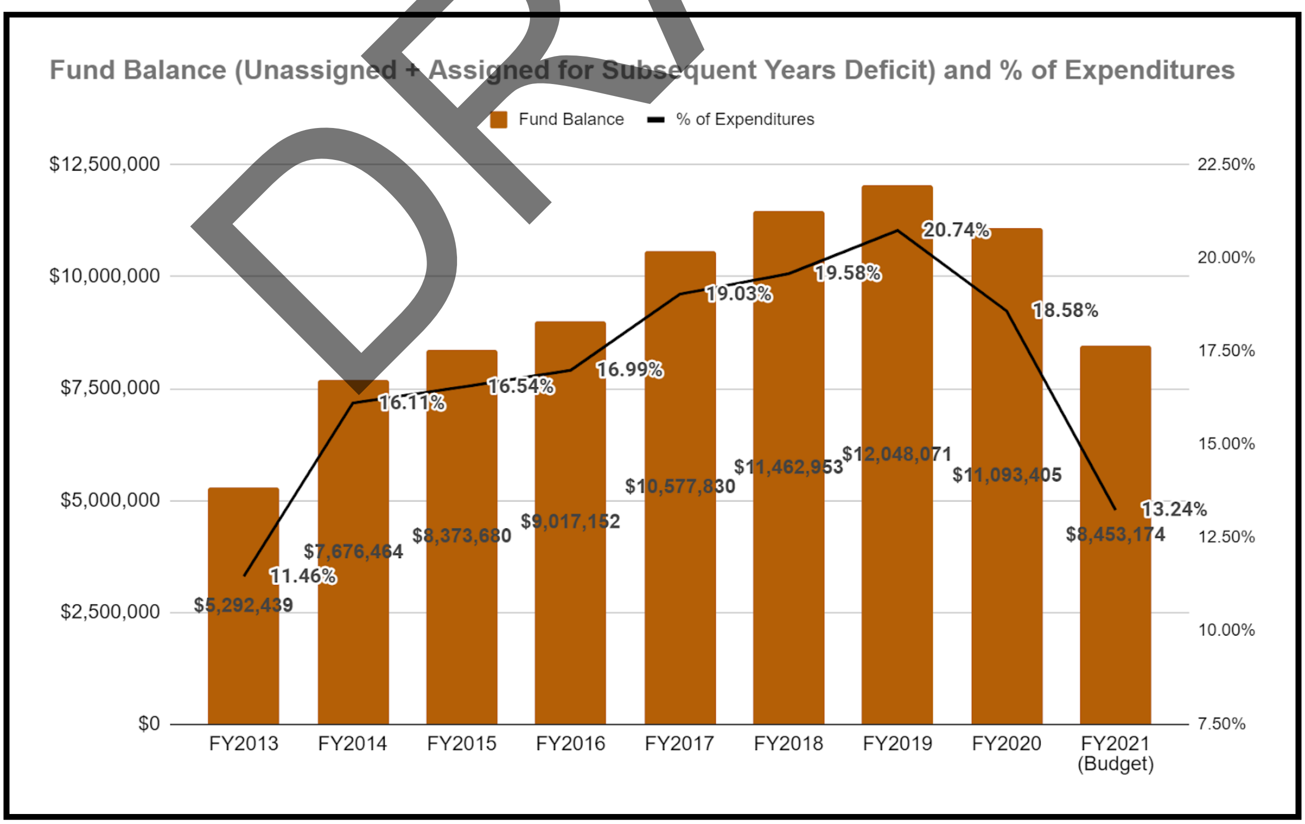
The FAC supports the District's efforts to identify opportunities to address the District's current deficit spending while minimizing impacts in the classroom. It recommends targeted efforts that help gain clarity about the reasons students are leaving the District, as well as related policy, curriculum, or personnel initiatives that will help attract and retain SLP resident students.

<u>FY 2022 Budget Recommendation #3</u>: within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of at least 10%

This recommendation allows for continued deficit spending as the District emerges from the pandemic, but does so in a limited manner. The FAC recommends careful management of the District's Fund Balance, as it is the contingency reserve for the District.

The FAC also notes the importance of the General Fund Balance to the District's overall financial health. The District's goal is to spend every dollar possible on education, while simultaneously maintaining a fund balance that protects its ability to address unanticipated changes or events and take advantage of unforeseen opportunities that arise during the fiscal year. The General Fund Balance serves as the District's contingency reserve to manage cash flow, legislative shortfalls, tax abatements, and other unanticipated needs without compromising the District's ability to meet its mission. A strong and stable General Fund Balance is also critical for the District to maintain its bond rating and negotiate favorable borrowing rates.

After-audit results for FY 2020 show St. Louis Park's General Fund Unreserved Fund Balance plus Assigned for future year's deficits at $11.1 million. This was approximately 18.58% of FY 2020 unassigned operating expenditures, and reflected a fund balance percentage that was in line with the majority of other neighboring and comparable districts. However, the District is deficit spending for FY 2021, which will significantly erode the Fund Balance to 13.24%. Based on current budget projections, the District's General Fund Balance could drop below the School Board's established minimum of 6% of operating expenses by FY 2023. The chart below shows the recent history of the fund balance and the decline in fund balance resulting from the ongoing budget deficit.



Fiscal recommendation: Balanced budget
The FAC strongly recommends that the District put considerable effort into identifying opportunities to return the District to a balanced budget without negatively impacting the classroom, particularly those efforts that relate to attracting and retaining SLP resident students. The fund balance should be considered an emergency reserve, not a means to fund ongoing operations during contract negotiations and budgeting processes as decisions and agreements are being made.

The following suggestions should be considered:

- In an era of flat or decreasing revenue from the State, the Fund Balance should not be used to cover ongoing cost increases, because it will be quickly depleted. A 10% fund balance minimum for FY2022 represents only two to three payroll periods.
- The District should continue to maintain a detailed forecasting model as a tool for showing the intermediate and long-term impacts of various financial options.

The FAC also recommends that the Superintendent evaluate the overall operation of the District, adjust priorities, and identify opportunities to mitigate the current model projections to slow or reverse the deterioration of the Fund Balance.

Fiscal recommendation: Manage expense increases
The District is currently in a deficit spending situation. In this situation, consideration should be given to adjusting the budget for the following year in order to maintain a prudent fund balance. The goal is to invest in children's education without jeopardizing a sustainable fund balance to meet our mission in the future.

School districts are labor intensive. Salaries and benefits comprise approximately 85% of operating expenses. Recent contract negotiations resulted in salary and fringe benefits increases of 3.5% or more per year, versus the 2% general formula annual increase actually provided by funding from the State.

The FAC recognizes the importance of having a racially diverse workforce and cautions the District against making reductions that increase the racial disparity of the workforce as compared to the population of students of color.

If salary and benefit expenses continue to increase at a higher rate than revenues rise, it will be impossible to keep cuts away from the classroom. Any resulting reductions will likely involve cutting programming/curriculum and/or increasing class sizes to levels that become unacceptable in the public's eye. There are few options to reduce expenses that do not affect the classroom in some way. Staff members are at the core of the education system and we are blessed with many excellent educators, yet we must find a way to manage staff salaries and benefits in a financially sustainable and responsible manner.

FAC recommends that the District continue the open and active dialogue with the unions representing all staff regarding **the fundamental importance of controlling the growth of compensation and benefits at or below the level of any increase in per student state reimbursement.**

<u>FY 2022 Budget Recommendation #4</u>: Maintain local revenue - Increase student activity fees and meal prices; maintain high school student parking fees at current rate.

The FAC recommends the following fees should be included in the revenue budget assumptions for FY 2022:

High School Activity Fees - increase of $10 (5%) per activity to $205 for most sports ($250 for hockey); this will generate additional revenue of approximately $10,000 per year

Middle Activity Fees - increase of $5 (5%) per activity to $105 for all sports ($250 for hockey); this will generate additional revenue of approximately $1,250 per year

Parking Fees - no change to the current parking fee of $50 per semester is recommended

Meal Prices - increase breakfast by $0.15, lunch by $0.10; this will generate additional revenue of approximately $25,000 per year

Financial Advisory Committee Purpose and Membership

The purpose of the Finance Advisory Committee is to advise administration and the school board on economic and school finance issues and to build community trust in school district finances.

Members (30 members in total):

- Facilitator, Director of Business Services (1)
- Controller (1)
- Internal Auditor (1)
- Teachers/other staff members (up to 3)
- Principal (up to 2)
- Community members (up to 12)
- Students were added in FY2021 (up to 10)

The current committee members are:

Community Members (12)

Maren Anderson
Rich Benson
Julia Fredrickson
Steve Gednalske
Valerie Jensen
Alyssah Langhart
Joseph LaPray
David Larson
Katherine Lawler
Derek Reise
Alex Schmid
Kenya Taylor Allison

Students (10)

Amal Abdi
Walton Anderson
Najma Hussein
Natashia Johannes
Alicia Margalli
Cecilia Meyen
Katie Nelson
Noah Orloff
Camille Ramberg
Elliot Salmon

Staff/School Board Members

Jessica Busse	High School Assistant Principal
Colin Cox	School Board
Ukee Dozier	Internal Auditor
Brooks Grossinger	Controller
Patricia Magnuson	Director of Business Services
Ken Morrison	School Board