



# 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

<b>Executive Summary</b>	<b>Pages 1-2</b>
<b>FY2022 Budget Recommendation Background</b>	<b>Pages 3-7</b>
❖ 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 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
<b>Finance Advisory Committee Purpose &amp; Membership</b>	<b>Page 8</b>
<b>Thought Partner Feedback</b>	<b>Pages 9-11</b>

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 racial equity in its schools. Members engage with "thought partners" of a different race to gain multiple perspectives about the committee's work (feedback on last page of the report);
- 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 10%
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**

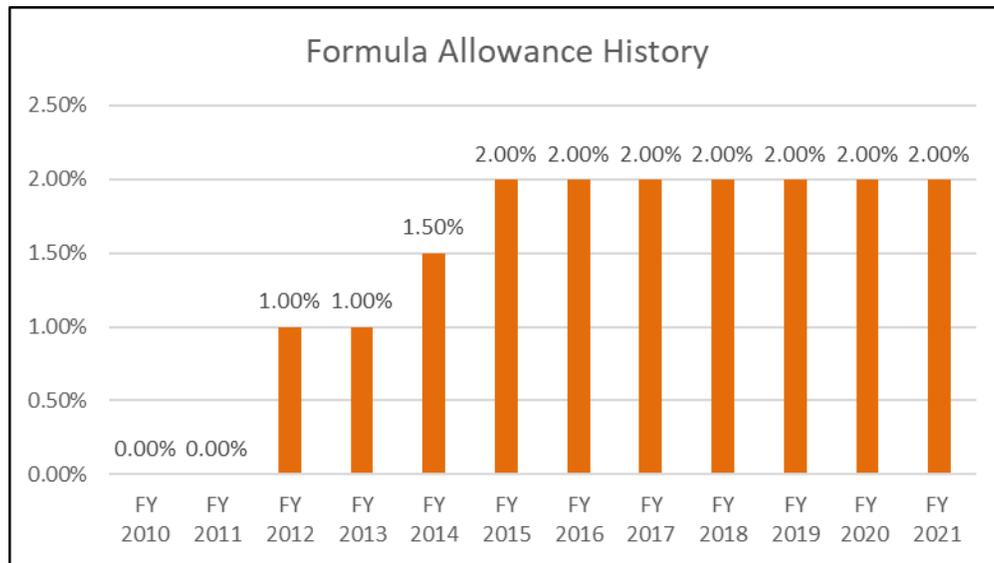
The District, with a General Fund Unassigned balance of \$11.1MM, approximately 18.58% of FY2020 unassigned operating expenditures, has maintained its financial condition. Continued deficit spending, as projected beginning with FY2021, has the potential to rapidly erode the Fund Balance below a level 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.

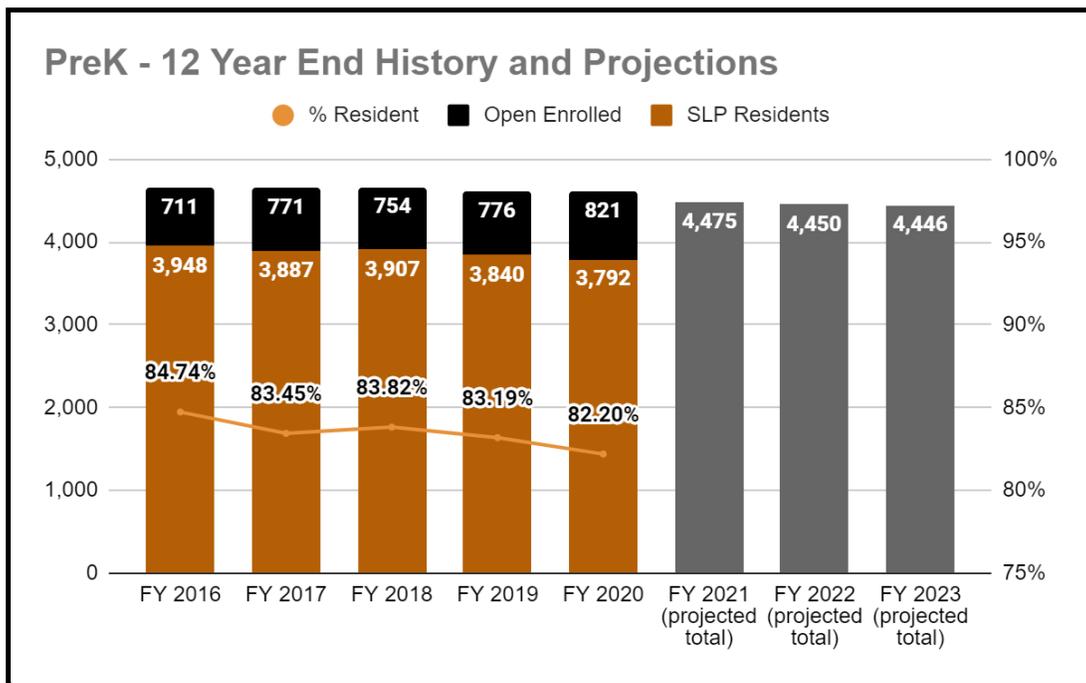


With the recent history of a 2% increase and given the strain that the pandemic has placed upon the state budget, the FAC recommends that the budget include a more modest increase of 1% for the general education funding formula.

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.

**FY 2022 Budget 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.**

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.

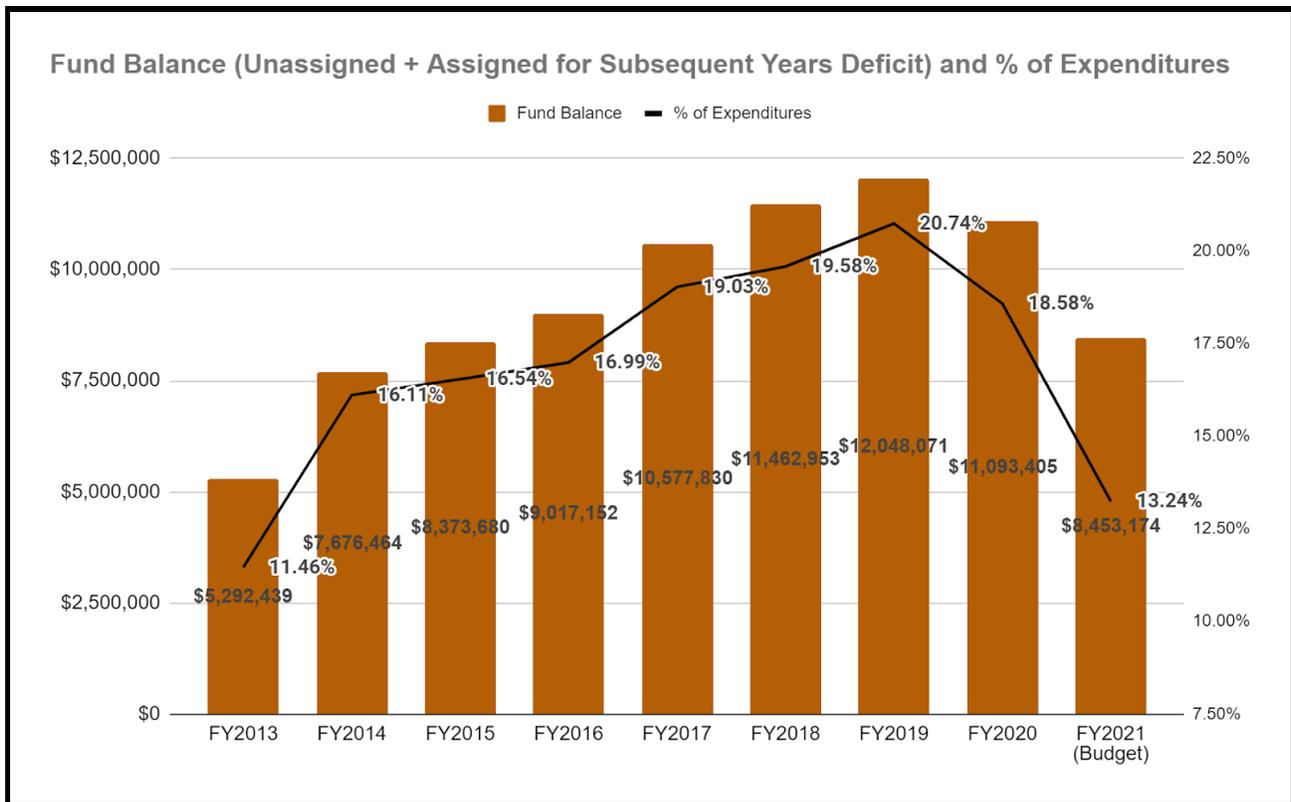
The FAC supports the District’s efforts to identify opportunities to address the District’s current deficit spending while minimizing impacts in the classroom. It recommends targeted efforts that help gain clarity about the reasons students are leaving the District, as well as related policy, curriculum,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

**FY 2022 Budget Recommendation #3: within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of 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.

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.

**FY 2022 Budget Recommendation #4: 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 School Activity Fees** - increase of \$5 (5%) per activity to \$105 for all sports; 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

Thought Partner Feedback

Race	Gender	Comment
African or African American	male	As a student, he was wondering when extracurricular funding will go if sports are canceled because of COVID restrictions. He was also wondering about next year's budget cut and where funds will be "scraped" from.
Hispanic	female	Potential source of decreased enrollment: "There are some family members (in the district) who don't speak English and don't know the process of enrolling their child in kindergarten so they usually go in-person for that but now everything is online so it makes it harder." Minnesota and increasing funding: "I believe the state of MN will help by increasing the funds." "I think they should increase funding for education. Education is something that is important. It is important to educate many students. I think it would affect many future students if we don't increase funding." Questions: "Overall funding, I just wonder how things are going with teachers and substitutes? The funding for lunches? Where are they going to get the money for lunches because I know that affects the school a lot?"
Latinx	female	Race equity coaches are great, but administration needs to emphasize the importance of this work and make it a condition of employment. School leaders need to hear more from equity coaches in a reporting (not accusatory) manner. We need to communicate more with families whose first language isn't English. Could teacher's get cell phones to more easily text families? Some families miss out on backpack and email messages - texts are an easy, non-intimidating way to communicate.
More than one	female	I think enrollment is down for several reasons even pre-covid: - Minimal art and science education compared to surrounding districts, k-5. - Little to no resources for high achieving students, k-8. Eyes roll when parents request more rigor; not a priority here. More will leave unless there is more justification given for eliminating 5+ math, and follow through on differentiation in the classroom to challenge high achieving math students. - Intense focus on closing the achievement gap, which is very important; however, we focus on the bottom 1/3 of students, the rest are "fine"; 2/3 of students are expected to be satisfied with what is offered. Our district needs to serve ALL students. Yes, race plays a role in this aspect, but socioeconomics and lack of support at home probably play a bigger role. - Poor academics (lack of rigor) and behavioral reputation at middle school has been a long standing problem that has not been addressed. - Behavioral chaos (wild west) in the bathrooms (vaping lounges) and hallways at the high school. Breakdown of leadership in general. - SLP High School is not the admired "gem" that it once was. Have we asked the families that left why they leave SLP schools? Covid - parents that want kids in school left for private schools, or districts that appeared to have a better handle on hybrid and distance learning. Unhappy families that had the means and flexibility to leave, did. This has always been the case. Should the state give the schools more money? Yes, but I also think there's an opportunity to rethink some of the expenses schools are paying for that should be covered by other sources, specifically, social workers. They should be paid from the health and human services budget (county or state). If we're going to ask for more money we need a complete and transparent review of where we're

		currently spending our money. I see that we're finally requesting families to fill out the free and reduced lunch forms so the district can be reimbursed. Why haven't we aggressively pursued this money sooner? This has been a problem for a while. A MUCH better marketing campaign is needed if you want this to happen - poor execution. Given that a top priority is equity and closing the achievement gap - What does IB cost the district and how is it directly helping to close the gap? How many families actually choose SLP specifically because of IB, particularly in K-5 and MS. Mtka and Edina are full, and do not have IB. They do the basics very well, have high academic and behavioral standards, offer challenging programs, help focus on bringing every student along, invest in STEM programs and art, etc. As much as I would like to say we do these things, the truth is we do not! We have some great teachers, but are not competitive with offerings that challenge students or programs that keep them engaged, such as elementary science. How are all the new admin positions directly helping to close the achievement gap? Could those dollars be better spent on direct student contact positions? Or STEM instruction? Or art? Or vocational classes? Thank you for letting me contribute.
African or African American	male	We discussed enrollment and the impact on the budget. My thought partner is friends with many other families with children at Aquila. The general sentiment from our discussion is the reduction in enrollment will be temporary. There are temporary shifts that make a lot of sense, particularly in kindergarten where working with kids that age in distance learning is just too much. However, he thought people would be back once schools are in-person. He fully expects that to be the case in the next school year following the distribution of the vaccine. We also discussed budgets and he is concerned about the idea of cutting budgets. He mentioned ideas such as online fundraising to offset some expenses (not sure if this is possible, but worth discussing as I think many families would be open to this). He also mentioned if the school has to pay for technology distributed to kids it should be done based on family income versus providing to all.
African or African American	male	As a student, he was wondering when extracurricular funding will go if sports are canceled because of COVID restrictions. He was also wondering about next year's budget cut and where funds will be "scraped" from.
More than one	female	With the intro of COVID, what has the overall impact been financially? Were there other areas that were negatively affected in order to accommodate changes for covid? And are there funds being allocated (by way of extra hires or other) in order to give extra help to those families that may not be prepared for distance learning?
Hispanic	female	I qualify for free/reduced lunch and I've always wondered how they cover that and how many families actually get the free/reduced lunch?" "Also with that, if you plan on taking AP exams you can qualify for free and so I just wonder how they cover that and how many students who are Hispanic get covered"

More than one	female	- Why has the district added so many administrators in recent years (principals on special assignment, vice principals in elementary schools, an extra HS vice principal, a created position for the former HS principal)? Wouldn't this money be better spent on extra teachers and paras who can work with kids to close the gap? - Why are school districts expected to pay for meals, social workers, childcare for essential workers, etc.? Shouldn't these items come out of the MN Dept of Health & Human Services budget instead? When our district spends resources on those things, which are very important but need to be funded differently, there is less money available to spend in classrooms. School district funds should be spent on education, not remedying all of these social problems. Do school district's lobby to get help with these unfunded mandates and needs? - Every student needs to be challenged in every subject, but an increasing number of parents are complaining that inappropriate behavior is being tolerated and their kids are not being challenged (these kids aren't on teachers' radars, because they already exceed state standards). What is the district going to do about losing so many families who have become disenfranchised, and what is the plan to turn this tide so more don't leave, because the loss of these students impacts the bottom line?
More than one	female	How has COVID impacted the schools finances and how has the district been compensating for teachers taking leaves of absence?
More than one	female	The impact of students.
Caribbean Descent	female	How will the district pay back the Cares Act? How does this affect taxes? How are renovations determined and at what point is a levy passed?
African or African American	female	Distant learning and effect ono student of color
African or African American	female	Told me about similar racial equity work that they are doing as a global institution (bank) where she works. It was affirming to me that we are in step with work that is happening in private industry. We also talked about our projections for enrollment and the funding formula. She expressed that the bank is being very aggressive in projections for next year - similar to the feedback that this group gave at our November meeting.
African or African American	male	At this point my thought partner did not have a ton of questions, but is excited to be involved. A couple topics we discussed to lay the groundwork of future discussions: - What was the impact of distance learning on the budget? With all the uncertainty how can we get enough information to budget for next year? - What type of technology costs do we expect to incur in the next year? If we return to an in-school delivery model, what will happen to the computers provided to kids? Will those be used by the school, kept with the children, returned to a supplier?
Asian and Pacific Islander	male	"Why does the school go easy on students who misbehave and underperform academically? If the policies become all about race, the school will lose sight of true academic achievement. At my school, the material is very hard and the teachers are very strict."
More than one	male	"The questions worded oddly, but I've been wondering about the COVID-19 budget, how much money we're going to spend on safety stuff."