St. Louis Park Public Schools

Finance Advisory Committee
2022-23 Budget Recommendations and Fiscal Recommendations to Superintendent Osei

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February 22, 2022

Executive Summary

The Financial Advisory Committee (FAC) is designed to advise administration and the school board on economic and school finance issues and to build community trust in district finances. 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 2021
- 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
- Impact of coronavirus pandemic
- Current student fees and enrollment as compared to neighboring districts

The Committee's recommendations to the Superintendent reflect a general consensus of its members regarding the underlying assumptions for the 2022-2023 (FY 2023) budget. These recommendations are informed by four primary conditions that drive the school district budget:

1. **State Economy** - Minnesota's economic outlook has improved. While the Governor has proposed using current surpluses to support public education, in this non-funding year, it is unlikely. If additional funding is provided, it should be used to balance the budget and maintain fund balance reserves.

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); and the competitive employment market, costs will quickly outpace the rate of state increases which can threaten the financial and programmatic viability of the District.

3. **Student Enrollment** - In recent years the District has had relatively stable to declining enrollment. There was an increase in enrollment this year (FY 2022), likely due to students returning following the 2020 pandemic. The district must focus on the capture rate of resident students in order to increase enrollment to offset rising costs.

4. **New/Rising Costs** - New initiatives or cost increases in current expenses (i.e. transportation services, utilities) will erode available resources. Efficiency measures must be an intricate part of the district's work. Reducing costs in operational areas through energy efficient construction and streamlined service models is essential.

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 2023 Budget Recommendations:

1. **Fund Balance Minimum** - Within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of 8%
2. **General Education Funding Formula** - 2% increase in per pupil formula
3. **Student Enrollment** - 4,477 adjusted pupil units (APU), with potential for increased enrollment if efforts to regain student capture rate are successful
4. **Maintain local revenue** - maintain all student fees and meal prices at the current rate.

Fiscal Recommendations:

- **Balanced budget** - The District is currently projected to deficit spend for FY2022 (this includes $4 million in one-time revenues and is in addition to a $1.5 million deficit in FY 2021) 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 into the future.
- **Manage expense increases** - Focus on managing expenses, through cost saving and efficiency measures, to minimize erosion of the General Fund Balance.
- **Grow enrollment -** Focus significant effort to recruit and retain resident students. Some recommended actions include:
  - 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.
  - Contact families who have returned to SLP from other districts or private schools to determine why they made this choice.

  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 $8.4MM, approximately 12.97% of FY2021 unassigned operating expenditures, has a deteriorating financial condition. Continued deficit spending 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 next state's biennial budget, which resulted from the 2021 legislative session, established a 2% increase in the General Education Formula Allowance. Special Education revenues are expected to stay the same as actual FY 2021. Increasing expenses, due to inflationary forces, significantly outpace 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).

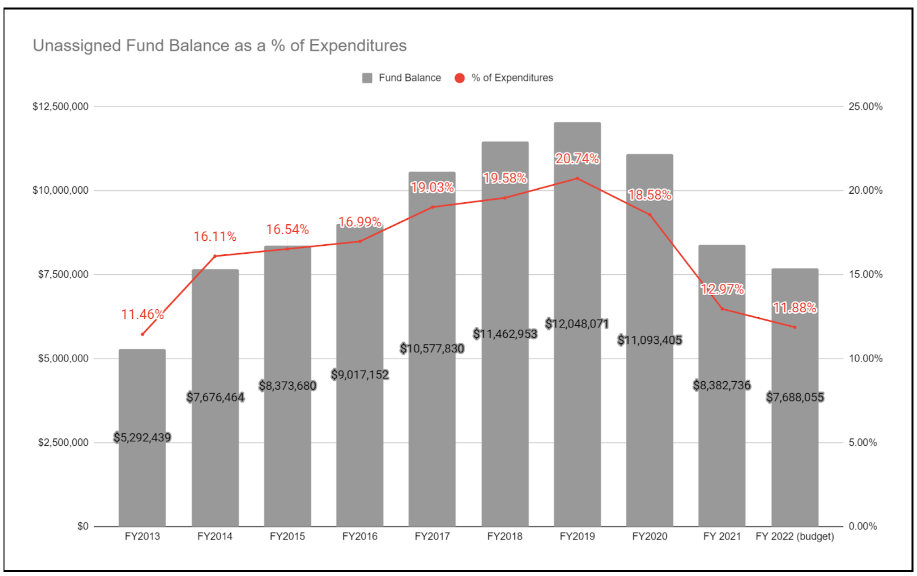
FY2023 Budget Recommendation Background

<u>FY 2023 Budget Recommendation #1</u>: Within revenue constraints, build an expenditure budget that maintains an unreserved fund balance of 8%

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 to support its strategic plan, 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 2021 show St. Louis Park's General Fund Unreserved Fund Balance plus Assigned for future year's deficits at $8.4 million. This was approximately 12.97% of FY 2021 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 2022, which will erode the Fund Balance to 11.88%. 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 in 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, particularly those efforts that relate to attracting and retaining SLP resident students.

The FAC 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 overall costs continue to increase at a higher rate than revenues rise, any resulting reductions will likely involve cutting programming, curriculum and/or increasing class sizes to levels that become unacceptable in the public's eye.

The FAC recommends looking closely at opportunities to reduce salary costs ~~in the areas of administration and special interest officials,~~ while placing a high priority on protecting classroom teacher salary and benefit compensation. Reductions should be made in ways that ensure that each student's education is protected and prioritized. ~~OR, SOMETHING THAT FINDS AREAS TO TRIM WHILE ENSURING STUDENTS' EDUCATION IS PROTECTED AND PRIORITIZED.~~

FY 2023 Budget Recommendation #2: 2% increase in the per pupil formula

Although the State of Minnesota has experienced some positive economic indicators, such as relatively low unemployment and a budget surplus, it still faces budget pressures and many competing priorities. It is difficult to predict whether, and to what extent, the Governor and State Legislature will increase per pupil funding for education in the current session. The chart below depicts the State's basic formula allowance increases in recent years and through FY 2023.

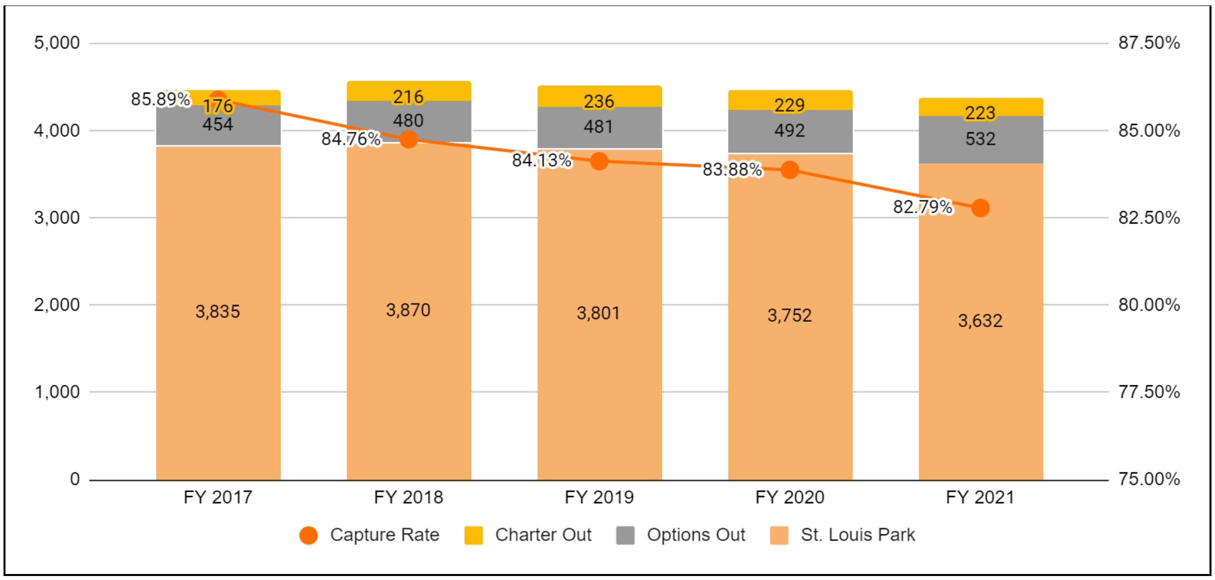
Year	Amount	Explanation
2013-14	$5,302	1.5% increase
2014-15	$5,831	1.5% increase + $25
2015-16	$5,948	2.0% increase
2016-17	$6,067	2.0% increase
2017-18	$6,188	2.0% increase
2018-19	$6,312	2.0% increase
2019-20	$6,438	2.0% increase
2020-21	$6,567	2.0% increase
2021-22	$6,728	2.45% increase
2022-23	$6,863	2.0% increase

With the recent history of 2% increases and given the strain that the pandemic has placed upon the state budget, the FAC recommends that the district include a 2% increase in the revenue budget and utilize any additional funding from the 2022 session to retain a balanced budget.

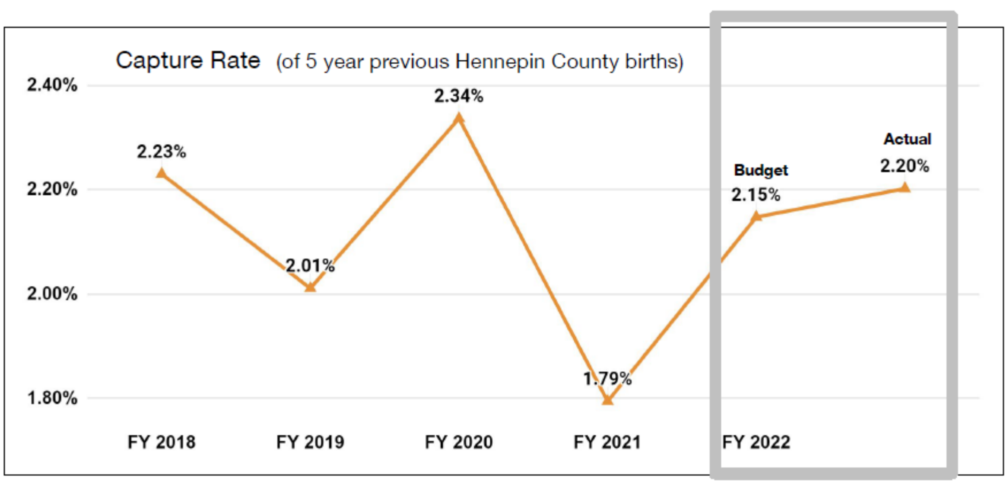
Voter approval in November 2017 set the operating referendum at the maximum cap and allowed for increases to an inflationary factor as established by state law. As a result, the District receives the maximum operating levy dollars and will have no option to increase the operating levy. Therefore, the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

<u>FY 2023 Budget Recommendation #3</u>: 4,477students, with potential for increased enrollment in efforts to improve the student capture rate are successful.

In FY2022, the District will graduate a large senior class (390) and expects to enroll a smaller kindergarten class in FY2023 (344) which will decrease overall enrollment in FY 2023. It is important 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, a meaningful increase in enrollment has a significant impact on revenue. The chart below depicts the history of resident enrollment. The trendline shows that the % of resident students who attend public school by their respective choices (charter school, opting out to another public school district, or attend, or at "captured" within St. Louis Park public schools. The orange line depicts the decline in this capture rate from 85.98% in FY2017 to 82.79% in FY2021.



This chart shows the growth in the St. Louis Park Public Schools kindergarten capture rate (of Hennepin County births) from 1.79% FY 2021 to 2.20% in FY 2022. While this growth may be a result of students entering school in FY 2022 who were held back in FY 2021, this level of capture is essential to budget stabilization.



Fiscal Recommendation: Grow Resident Enrollment

The FAC recommends that the district aggressively pursue strategies to capture and retain 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.

FY 2023 Budget Recommendation #4: **Maintain local revenue -** Maintain all student fees and meal prices at the current rate. Seek community partners to support student fees

The FAC recommends that fees be held at the current rate. They were last increased by 5% in FY 2022. We further recommend that the district consider identifying a community partner to support student fees and that all fees be evaluated and standardized to:

- ✓ Ensure that fees are equitable, reasonable and meaningful
- ✓ Ensure all fees are collected and deposited

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)
- Business Services Supervisor (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 (11)
Maren Anderson
Rich Benson
Tallaya Byers
Robert Grommesh
Valerie Jensen
Brian Kelly
Alyssah Langhart
Drew McGovern
Kenya Taylor Allison
Meta Webb
Michael Wells

Staff/School Board Members

Jessica Busse	High School Assistant Principal
Brooks Grossinger	Controller
Abdihakim Ibrahim	School Board
Patricia Magnuson	Director of Business Services
Shanique Williams	Business Services Supervisor

Thought Partner Feedback