



FY 23 Pro Forma Budget & Student Accounting Office

Regular Business Meeting
December 13, 2022

What is the pro-forma?

- 5-year projection of the district's financial position.
- A tool to inform board and senior leadership financial decisions.
- An explanation as to why the district financial position is what it is.
- An analysis of the district's financial position as it relates to the future.

What the pro-forma is NOT

- The purpose of the pro-forma is not to:
 - Prescribe structural changes to the district.
 - Propose remedies to existing financial issues.
 - Direct the decisions of the board and senior leaders.
- The pro-forma is meant to inform, not direct.

What are the findings of the pro-forma?

- The district is approaching an impending fiscal crisis.
- This is a result of long-standing structural issues compounded by rapidly increasing costs, stagnant revenue, and a sudden loss of federal funds in FY25.
- Increasing enrollment is not a viable strategy to fix the district's financial issues.
- The largest cause of enrollment declines is due to a decline in the number of children living in the city.

Five Year Projection

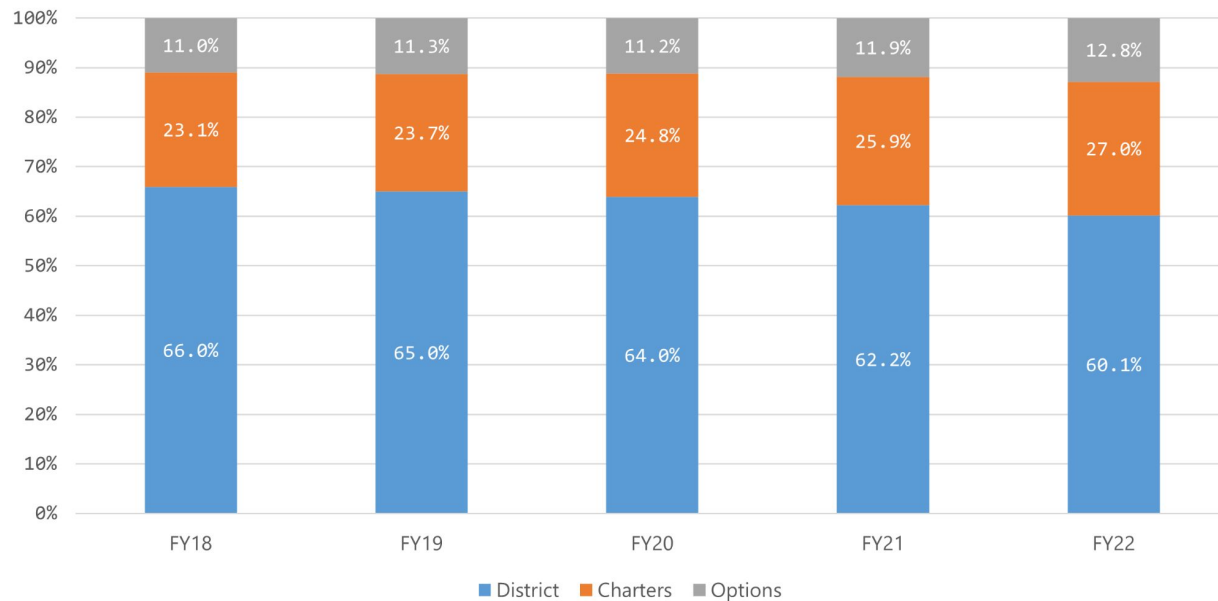
<u>Millions of \$</u>	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>	<u>FY27</u>	<u>FY28</u>
Revenue	\$627.7	\$621.3	\$539.9	\$523.3	\$514.2	\$509.5
-- change %		-1.9%	-4.5%	-5.1%	-3.9%	-3.1%
Expenditures	\$642.8	\$636.5	\$648.1	\$657.3	\$669.6	\$683.1
-- change %		-1.0%	1.8%	1.4%	1.9%	2.0%
Change in Fund Balance	(\$15.0)	(\$15.2)	(\$108.2)	(\$134.0)	(\$155.4)	(\$173.6)
Beginning Fund Balance	\$147.0	\$131.9	\$116.7	\$8.5	(\$125.5)	(\$280.9)
Ending Fund Balance	\$131.9	\$116.7	\$8.5	(\$125.5)	(\$280.9)	(\$454.5)

Assumptions

- Primary assumptions in our model include:
 - Enrollment
 - Funding Levels
 - Salaries & Other expenditures

Enrollment Share

- MPS share of public-school enrollment has fallen by about 6% over the last five years.



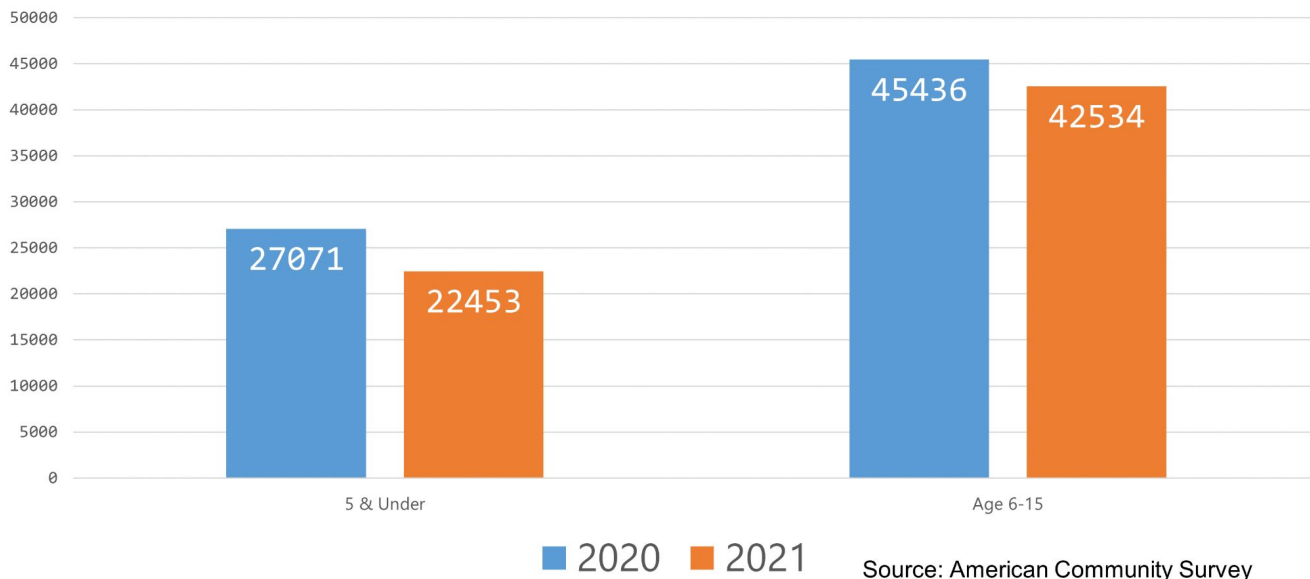
Change in enrollment counts for Minneapolis residents

- Only about a fifth of enrollment loss is to charter schools or open enrollment

	FY19	FY20	FY21	FY22	Total
District	-906	-880	-1,824	-2,383	-5,993
Charters	204	448	185	-30	807
Options (Open Enrollment)	95	-85	162	195	367
Total Net Change	-607	-517	-1,477	-2,218	-4,819

There are fewer children living in Minneapolis

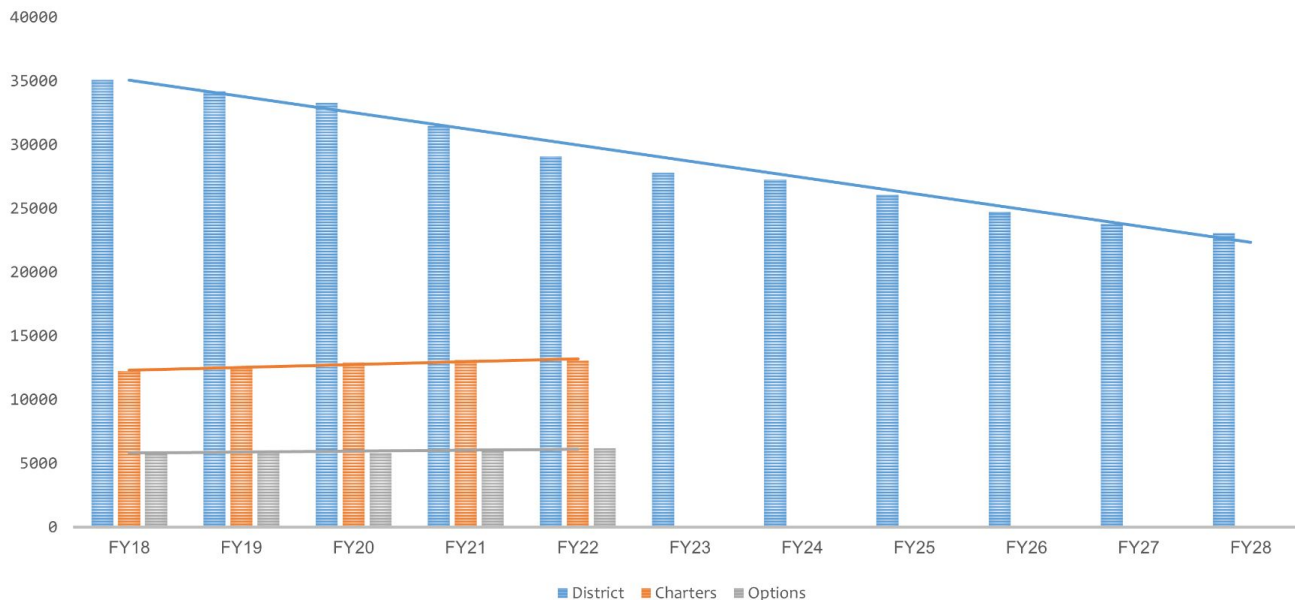
- The number of children ages 5 and under living in the city fell 17% between 2020 and 2021. The number of children ages 6-15 fell 6.4%. When there are simply fewer children in the district to educate, enrollment will decline.



Source: American Community Survey

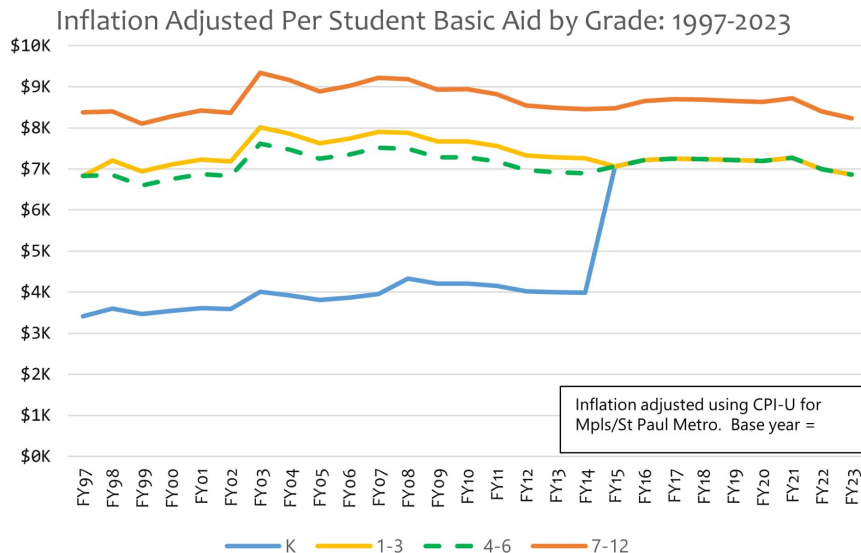
Projected enrollment trend

- Our enrollment projection is in line with the trend over the last five years. Our projection results in enrollment of just over 23,000 in FY28.



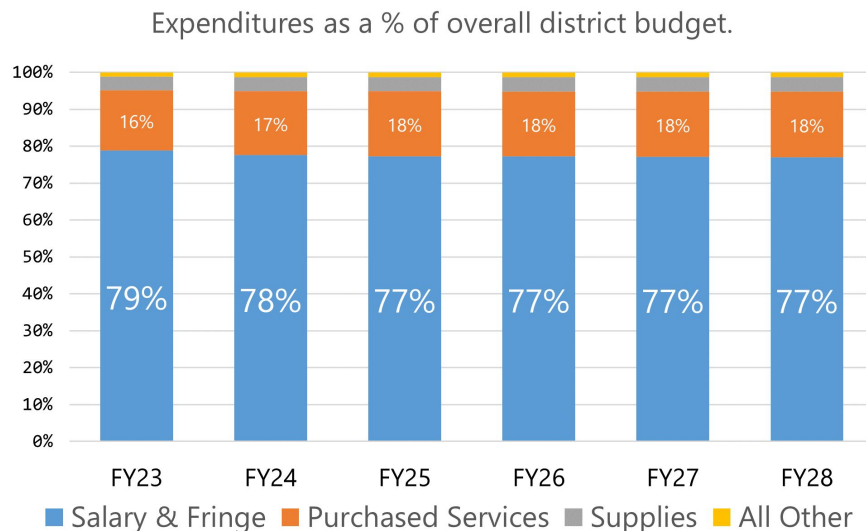
Inflation adjusted per pupil basic aid – the “formula”

- On an inflation adjusted basis, basic – or “formula” – aid per student peaked in FY03 for grades 1-12. (Kindergarten was funded as half day)
- Had the per student aid kept pace with inflation, MPS would have received an additional \$26.8M in basic aid this year.



Salaries, wages and fringe

- Nearly 80% of General Fund expenditures are used to pay salaries, wages, and fringe benefits.
- Small changes in the way we compensate people can have outsized effects on the overall financial position.



Compensation improvements

- We assume that average individual compensation will improve by 2.5% annually as a result of all future bargaining.
- Most bargaining units saw substantial increases in the rounds of bargaining that have already been agreed to.

	Shaded Boxes represent amounts already agreed to
	and approved by Board of Education

	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>	<u>FY27</u>	<u>FY28</u>
Minneapolis Federation of Teachers							
Teachers Chapter	4.5%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Educational Support Professionals	8.6%	6.1%	2.5%	2.5%	2.5%	2.5%	2.5%
Minneapolis Principals Forum	4.7%	5.4%	2.5%	2.5%	2.5%	2.5%	2.5%
Professional Unions (AMP/MACA/MAAS)	2.0%	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%
AFSCME Local 56	2.5%	3.1%	2.2%	2.5%	2.5%	2.5%	2.5%
Teamsters Local 320							
Drivers	9.9%	0.8%	3.2%	2.5%	2.5%	2.5%	2.5%
Grounds	4.8%	3.4%	3.8%	2.5%	2.5%	2.5%	2.5%
SEIU Local 284							
Custodians	1.8%	12.6%	3.2%	3.3%	2.5%	2.5%	2.5%
Food Service	7.5%	7.7%	3.0%	2.5%	2.5%	2.5%	2.5%

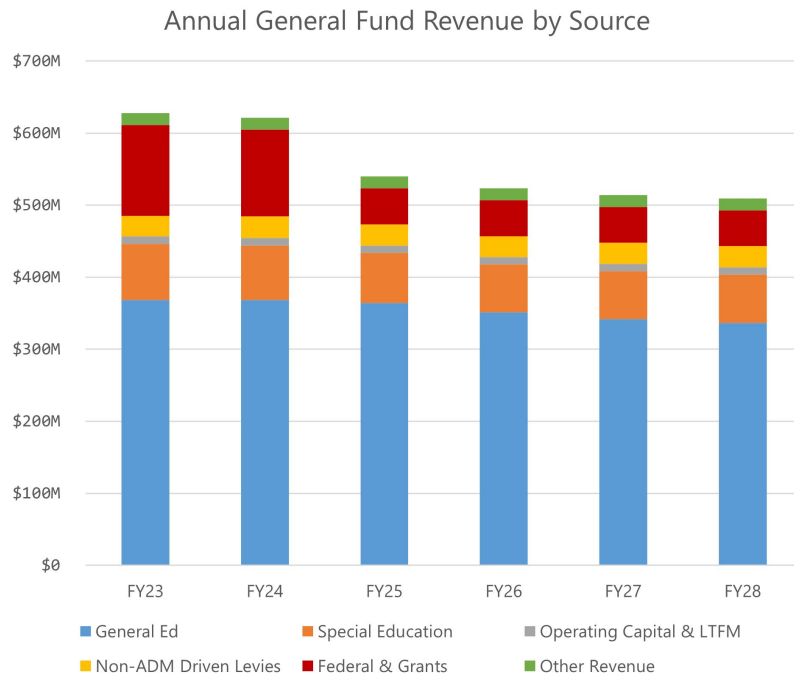
Cost of Strategic Initiatives are not included in the projection

- The MPS strategic plan has several items that would drive incremental costs, but those costs are not baked into the pro-forma.

Cost Level	Some Potential Strategic Expenditures or Financial Commitments
\$\$\$\$\$	<ul style="list-style-type: none">• Bargaining strategies that prioritize proposals expanding the district's flexibility in hiring and layoff decisions.• Align curriculum replacement to national standards.
\$\$\$\$	<ul style="list-style-type: none">• Lowering vacancy rates• Expanding professional staffing in key areas such as mental health, PAR mentors, etc.
\$\$\$	<ul style="list-style-type: none">• Expanding district support staff in areas like Human Resources.• Increased transportation costs due to shortened walk zones and extended K-12 pathways.• Expanding professional development opportunities.
\$\$	<ul style="list-style-type: none">• Contracts with outside vendors such as the Legal Rights Center
\$	<ul style="list-style-type: none">• Professional Learning Communities

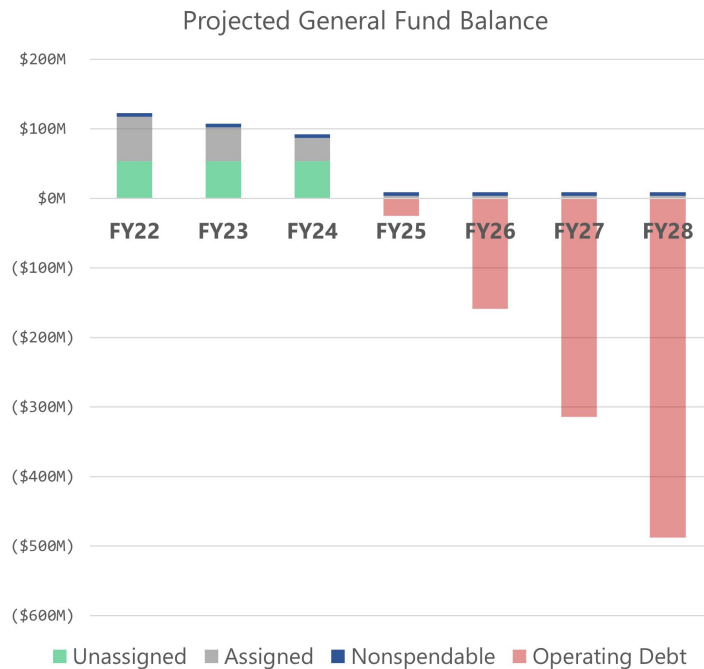
ESSER III Expiration

- Federal ESSER III funds will no longer be available to districts after FY24 (this is represented in the red bars on the chart).
- MPS is planning to use those funds to balance our budget this year and next year.
- This leaves approximately \$70M in annual funding that will either require:
 - Reduced Spending
 - Using the General Fund Balance
- One year of operating the district with this sizable a deficit will wipe out the general fund.



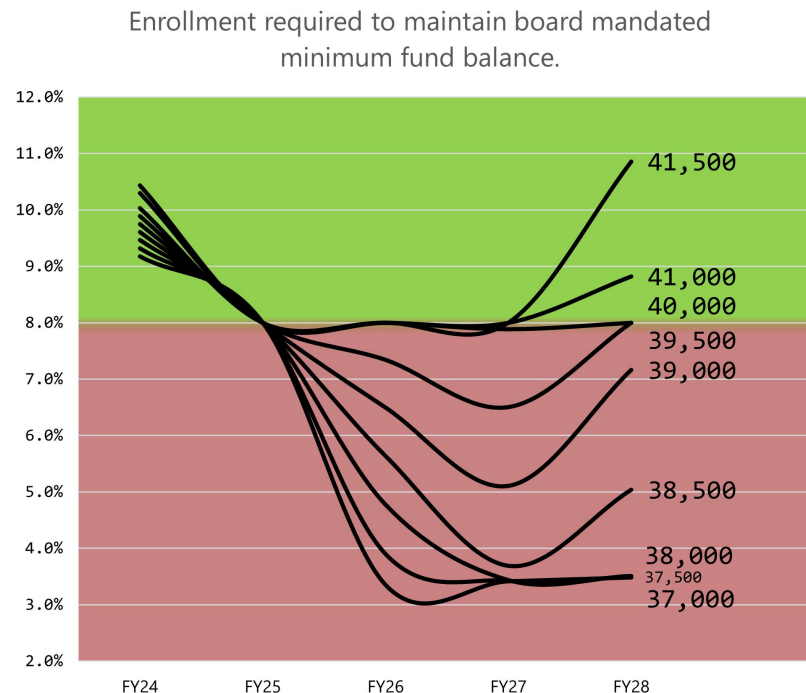
Fund Balance Depletion

- Given the current status-quo, the district would be forced to take on operating debt starting in FY25.
- As revenue continually declines and expenditures compound on themselves, annual losses increase at an increasing pace.
- As the funding gap continues, eventually the bottom falls out.



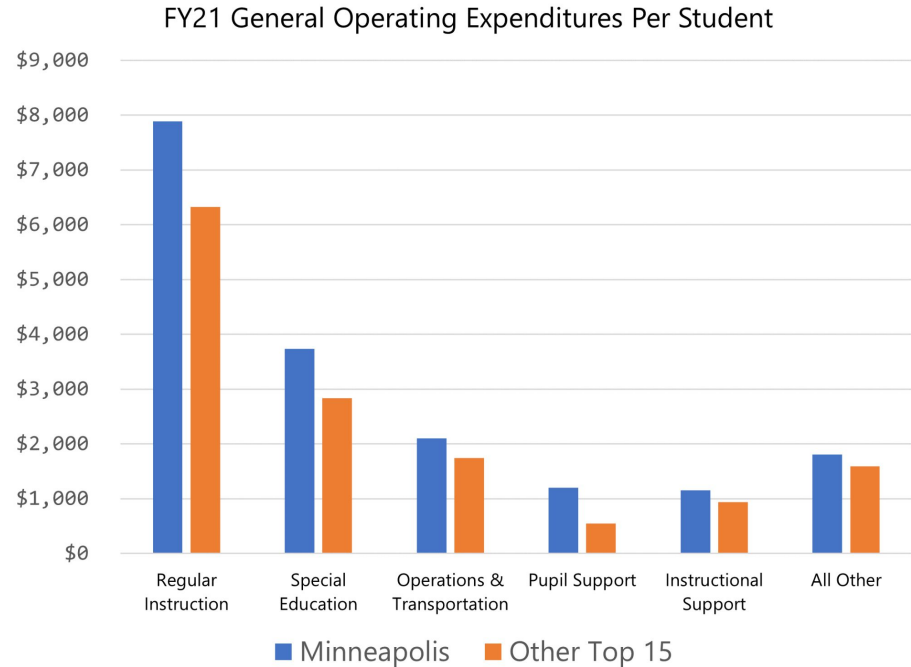
Maintaining fund balance minimums with enrollment

- Board Policy 3700 requires MPS to maintain a minimum unassigned fund balance of 8% of general operating expenses.
- Assuming constant growth, MPS would need about 40,000 students by FY28 to comply with this policy.
- Unassigned General Fund fund-balance is how the district stands ready for any event which disrupts cash flow, such as:
 - State government shutdown.
 - Property tax shift.
 - Reimbursement delay.
- The unassigned General Fund fund-balance acts as the district's operating capital – operating liquidity that allows daily operations to continue without disruption.



How do other districts do it?

- In total, MPS spent \$3,900 more per pupil in general operating costs in FY21 than the other 15 largest districts in the state.
- If MPS spent, per pupil, at the same rate as the other 15 largest districts it would have spent \$125.3M less than it did.
- The largest gaps are:
 - Regular Instruction – \$1,556 more per pupil.
 - Special Education – \$906 more per pupil
 - Pupil Support Services – \$658 per pupil



Lower student to teacher ratios drive increased costs

- MPS has markedly lower ratios of students per licensed staff compared to the 14 other largest districts in the state as well as the average district in the state.
- MPS is the largest employer of licensed teaching staff in the state despite being the third largest district in the state.

	<u>MPS</u>	<u>Other Top 15</u>	<u>State Average</u>
Students per licensed staff	9.6	12.5	12.3
Students per licensed instructional staff.	13.0	16.1	15.4

Low ratios are driven by the number and size of schools

- Other large districts utilize fewer, larger schools to drive economies of scale and reduce per pupil expenditures.

	Anoka-Hennepin	Saint Paul	MPS	Rosemount-Apple Valley	Osseo
Elementary School	26	42	43	19	17
Middle School	6	7	8	6	4
High School	5	5	10	5	3
Secondary School	0	4	0	0	0
Total Schools	37	58	61	30	24
<u>Schools Serving Grades K-5</u>					
10/1/2021 Count	15,646	14,990	13,640	12,463	8,897
Avg School Size	602	357	317	656	523
<u>Schools Serving Grades 6-12</u>					
10/1/2021 Count	21,706	17,400	15,613	16,253	11,134
Avg School Size	1,973	1,088	867	1,478	1,591

Potential fiscal challenges faced by the district

- Enrollment might decline more than projected.
- Inflation may limit the district's flexibility in making decisions.
- The district may be unable to maintain its Special Education Maintenance of Effort threshold.
 - With some adjustments, the district must generally spend as much or more on special education than it did in the prior year.
 - Failure to do so requires the district to “pay back” the amount of spending under the threshold, which is always equal to the highest year of spending.
- The district may have difficulty recruiting or retaining the staff needed to implement the Strategic Plan.
- The district may be unable to maintain its bond rating.

Potential Fiscal Opportunities

- The Strategic Plan might drive incremental enrollment.
- The State Legislature might increase the district's funding.

In conclusion:

- Enrollment is falling precipitously as families leave the city.
- As currently structured, the district faces an imminent fiscal crisis due to decreasing revenue and increasing costs.
 - The crisis is exacerbated by use of COVID relief funds to finance ongoing operational expenditures.
 - Adjusted for inflation, state education aid per pupil has been dropping for the last twenty years.
- MPS spends significantly more per student than other large districts in Minnesota.
- Higher per-student spending is driven by low student to teacher ratios, which result from smaller, more numerous schools.
- The strategic plan will require substantial ongoing financial commitments by the district in areas such as curriculum adoption, bargaining strategy, and expanded programming.

Questions