Robbinsdale Area Schools

Financial Advisory Council

Annual Report to the School Board

August, 2021

AUTHORITY OF THE FINANCIAL ADVISORY COUNCIL

In accordance with the Bylaws of Robbinsdale Area Schools (RAS) Independent School District 281, the Financial Advisory Council (FAC) is charged by the School Board with responsibility for:

- Providing financial advice and support to the School Board and senior administrators that is consistent with the mission of RAS;
- Evaluating the economic conditions of the RAS;
- Developing and reviewing future budget assumptions;
- Providing insights on the overall fiscal condition of RAS;
- Reviewing revenue and expenditure projections for future budget years;
- Making recommendations to the School Board on future budget targets and assumptions (Article II).

The Bylaws also stipulate that information regarding the FAC's analysis of the financial information and its development of recommendation for long-term fiscal planning will be presented to the School Board in time for budget planning (Article VI, Section G).

COUNCIL MEETINGS AND MEMBERSHIP

Per the Bylaws, the FAC is required to meet at least four times per school year. During Fiscal Year 2020-21 (FY21), the FAC met 5 times: November 10, 2020 and, in 2021, January 12, March 23, May 11, and May 23. All of these meetings were held virtually via Zoom.

The FAC members appointed by the School Board are:

- Gregg Fishbein, Chair
- Lennie Kaufman, Secretary
- Earl Hoffman
- Walter Gray
- Greg Kugler
- O. Barry Rogers
- Howard Schwartz
- Terry Swanson

In addition, Pam Lindberg, RAS Treasurer, represents the School Board. Other RAS staff members that regularly attended during the year were:

- Dr. Stephanie Burrage, Interim Superintendent
- Gregory Hein, Executive Director of Finance
- Virginia Verbrugge, Assistant Finance Director

- Karylanne Marchand, Business Office Manager
- Nichol Sutton

Other RAS staff members attended FAC meetings as needed, as well as past members who left FAC during FY21.

During the course of the year, the FAC reviewed:

- General fund income and expenditures and projected budgets for FY21 and FY22.

- Internal and external audit results and recommendations.

- Medical, dental, and OPEB fund balances, and uncollected school lunch debt.

- Outstanding District debt and debt payments.

- Enrollment in past years and projected for FY21 and FY22.

- Financial implications of School Learning Pathways and other new programs and changes in the District's transportation vendor.

- Building usage and costs, particularly in light of new programs.

- Transportation cost implications of bell time changes.

- Impact of COVID-19 on District enrollment and finances.

In August 2020, the FAC met with the School Board to present recommendations to rebuild the General Fund and unassigned fund balance and reduce the District's long-term debt position through retirement of capital leases and refinancing of various bonds and certificates. FAC members were also invited to attend the Cabinet Task Force meetings, beginning in April 2021. Two or three FAC members participated in four of these meetings, thereby allowing FAC to provide additional input into decisions affecting the District's finances.

Minutes to the FAC meetings are available upon request.

ISSUES RAISED AND DISCUSSED BY THE FAC

1. *Unassigned fund balance.* The District continues to have an unassigned fund balance that is clearly inadequate in relation to both the size of the annual budget, the level of such funds held by neighboring districts, and the School Board's own policy. The unassigned fund balance stands at approximately $1.7 million at 6/30/2021, or one to two school days of District expenses (less than 1%). By comparison, for FY20, the last period for which we have comparative data,

neighboring suburban districts held unassigned fund balances ranging from 8.7% to 21.4% of their general fund expenditures. As an example, the Hopkins School District had an unassigned fund equaling 9.7% of annual expenditures at that time; the RAS fund was 0.4%.

The fact that the District continues to have an inadequate level of unassigned funds affects its bond rating and interest rate it must pay on new or refinanced debt. A low fund level provides very little “cushion” to tide it over against unexpected expenditures or events, such as actual enrollment not matching projections.

The FAC recognizes and applauds the diligent work that District staff and particularly the Finance Division have done to find savings and get the unassigned fund balance to at least a positive position. The preliminary FY22 budget anticipates that, with various expenditure realignments and staff reduction due to lower enrollment, another $1.1 million could be added to this fund balance by 6/30/2022, for a projected total fund of $2.8 million. This projection assumes no increase in the state basic funding formula and estimates of upcoming labor contract settlements. After the most recent FAC meeting, the state legislature passed a budget that will increase this formula by 2.45% in FY22 and 2.00% in FY23.

Despite formula increase and the admirable efforts of the District Financial Division to find structural changes, the unassigned fund is still likely to be considerably short of the Board’s policy of maintaining a level of 6.5% of operating expense. The FAC believes that the only way that the District can achieve and maintain this fund level is to examine and reduce annually recurring costs. Along this line, the FAC recommends that the urgent need to build the unassigned fund be a key consideration in salary and fringe benefit negotiations during upcoming collective bargaining sessions. This implies the need to look at the long-term impact of labor contract settlements and the mix of skill sets that will be required in the future.

The FAC further recommends that the District should examine building and maintenance costs based on capacity and occupancy, especially in light of projected enrollment decreases. The need to lease space should be reviewed, with an eye toward making optimal use of district-owned buildings.

2. *Self-insured Medical Plan Fund*. The District projects a $1.3 million loss due in part to adverse selection that results in healthier employees migrating to the lower cost, higher deductible plan with the District’s Health Savings Account contribution. In addition, medical procedures that had been delayed due to COVID-19 have contributed toward above average fund expenditures, with 2021 calendar-year claims up 47% from 2020. The self-insured medical fund stands at an estimated negative balance of $1.9 million at 6/30/2021. This is partially offset by a positive balance of $0.9 million in the self-insured dental fund.

   The FAC recommends that, in addition to its regular review of benefit designs, such as deductibles and other out-of-pocket expenses, the District should engage its benefit consultant to realign employee contribution levels between its medical plans in order to reduce the level of adverse selection.

3. *Enrollment changes*. RAS enrollment has been declining for several years and is expected to decline in FY22. In FY21, 72.5% of school age children residing within the District attended District schools. 3,545 students living in the District open-enrolled in other districts or attended private and charter schools, while 1,945 living in other districts open-enrolled into RAS.

   Considering the amount of state aid that the District loses with each resident student who doesn't attend RAS, the FAC recommends continued effort to retain as many resident students as possible. This is particularly true of the popular magnet programs, such as SEA and RSI. The present two-bucket lottery policy means that some resident students could be turned down for these programs while non-resident open-enrollees get in. The FAC believes that the District should look for ways to expand these programs so that no resident student is turned away because non-residents took spots. For example, it may be possible to have "extensions" of these programs within other buildings that are currently under-utilized. The key is to keep resident students, and the resulting state aid, in RAS.

4. *COVID-19 relief funds*. The Finance Director presented to the FAC that the District has already received $12.4 million from the first two relief acts passed by Congress, and it is anticipated to receive another $19.4 million from the most recent act. The FAC looks forward to providing input to the Finance Division and other District staff in the coming fiscal year as to how these funds can be best utilized. It is the FAC's hope that a significant portion of these funds will be used to bolster the unassigned fund balance.

5. *Other funds and debt*. Greg Kugler of the FAC attended the first meeting of the OPEB Advisory Committee. This fund has $16 million in assets as of 6/30/2021, against liabilities of only $9 million.

   The FAC believes that the District seriously needs to address its long-term debt and bond rating, which is affected in part by the adequacy of the various District funds.

   The food service (school lunch) bad debt is still ($250,000), even after write-offs. We note that the federal government has recently decided to fund free lunches for all students through FY22. This should stem the bad debt increase for the coming year, but the key to turning this around long-tem is to encourage families that are eligible for subsidized lunches to apply for the subsidy. The FAC discussed possible ways to address this problem, including more publicity ("how the additional money improves your child's education") and providing incentives through community vendors, to the extent permitted by District policy.

6. *Bell time and transportation provider changes*. The Finance Director presented to the FAC information regarding these changes, including a cost analysis of the transportation vendor change and the impact on bus routes of the bell time change.

   There was significant discussion regarding how transfer bus transportation was being provided for District students seeking to attend magnet programs. Particular concern was expressed regarding the lack of transfer buses from Armstrong to Cooper, so that students in the Armstrong attendance area could take advantage of the International Baccalaureate (IB) program without having to provide their own transportation. The matter of equitable transfer busing for District students needs to be examined further, because the ease with which District resident students can attend magnet and IB programs impacts how many of them will stay in RAS versus open-enrolling out of RAS, with resulting state financial aid implications.

7. *School Learning Pathways and future new programs.* District staff provided a presentation of how the Pathways program will operate. The FAC believes that staff should carefully examine Pathways and each new program to project how each program will impact both costs and revenue. In the case of Pathways, there will be added costs, but the District will also be better able to retain students who advance from the elementary magnet programs. Some of these students now open-enroll in other districts after 5^{th} grade in the current RAS magnet programs, so retaining more of these students yields greater state aid revenue. The FAC would like the District to project both the added state revenue and the additional cost of Pathways.

   The FAC is not saying that this revenue-cost analysis should be the final determinant of whether to proceed, and there are many educational and other non-financial factors to consider. However, the change in expenses versus the change in revenue must be considered. If projected costs exceed projected revenue, the District needs to determine how the shortfall will be covered.

8. *Building leases.* The District should review its building leasing costs and alternatives, particularly for those locations that have relatively few students compared to the level of rent. For example, the District now spends over $1 million yearly to rent space in the Crystal Shopping Center to serve 200 adult students, at a cost of approximately $5,000/student. While the location is important for adequate support of this student population, it is extremely expensive and perhaps higher than appropriate for the square footage being leased. This cost is now covered through property taxes, but the FAC is concerned about the way in which all of the District's costs are supported, whether by legislative dollars, grants/contracts, or property taxes.

9. *FAC responsibilities*. In the past year, the FAC committee input did not seem to be timely enough to be useful to the Board or to impact various District decisions, such as tax levy and transportation contract decisions. In part, this was due to the timing of information provided to the FAC so that we could meet our mandated responsibility.

SUMMARY

As RAS moves into the new FY22, the FAC emphasizes the following recommendations to the RAS Board and Administration:

- Continue to build the unassigned fund balance, with the goal of reaching a level of 6.5% of operating expense (the Board's policy) in the very near future.

- Control recurring costs in the upcoming collective bargaining sessions. Bring the self-insured medical plan fund back to a positive level, through changes in plan design and in the relative employee contribution levels between plans, in order to control adverse selection.

- Increase the number of students living within the District who attend RAS, with the resulting increase in state aid. Do a "deep dive" into where and why RAS is losing resident students. Ensure that no resident student is turned away from a magnet program because non-residents are filling the spots.

- Perform revenue versus cost analysis of each new program, both as a way to evaluate new initiatives and to identify where excess costs will be made up.

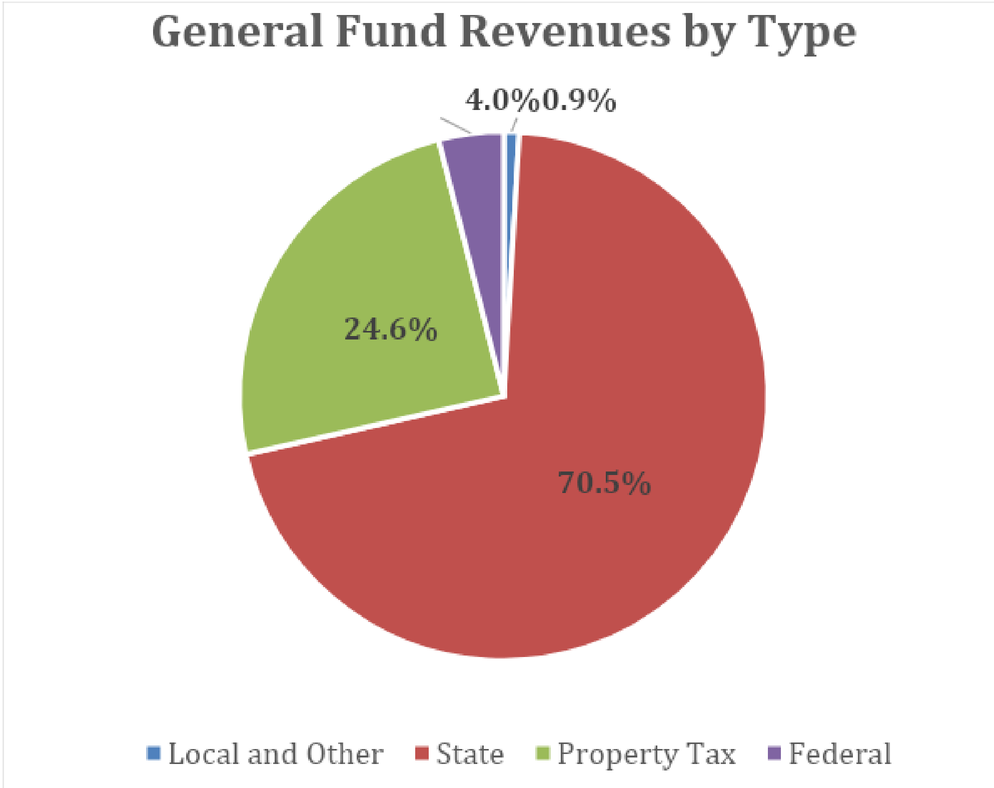
- Provide information to the FAC on a timelier basis, so that we can fulfill our responsibility to provide the Board with the necessary input to financial decisions. Also, in order that District residents can better understand the District's budget, continue to move toward a concise and graphical representation of the District's revenue, expenses, and fund balances.

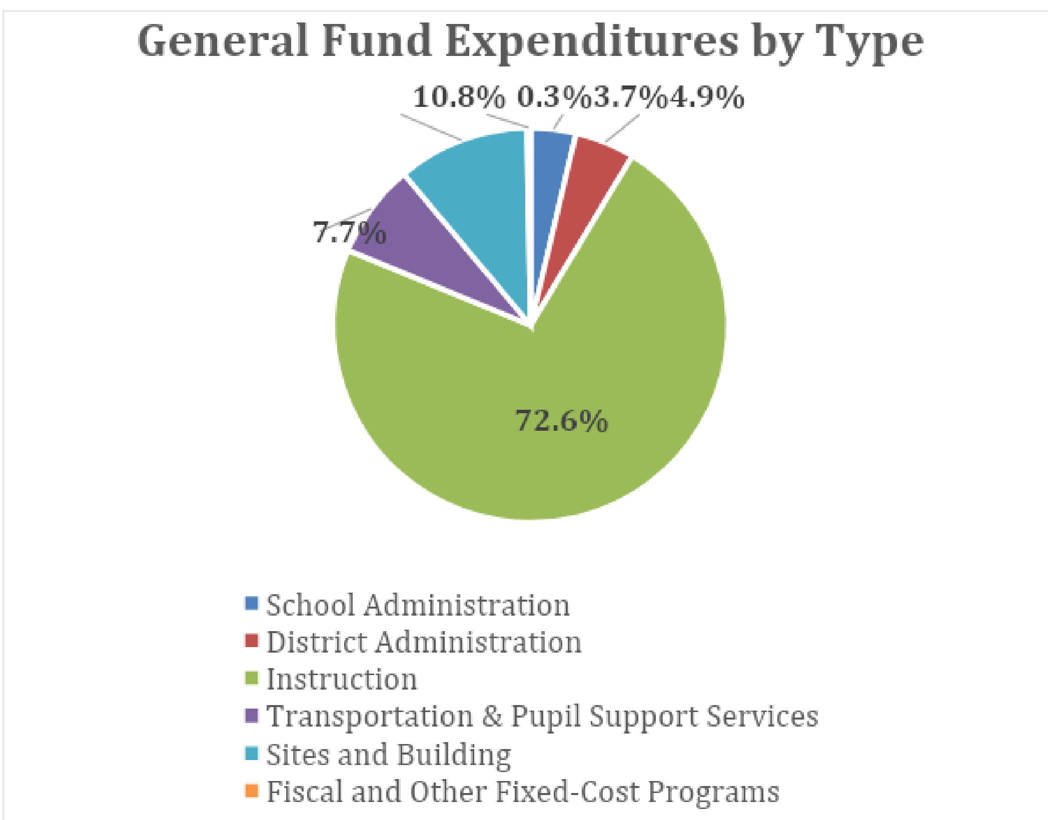
The FAC recognizes the hard work that District faculty, administration, School Board, and other staff have done in these last two difficult and unusual years to adapt to all of the changes and uncertainties and to keep our District moving ahead. In particular, the FAC wishes to thank Greg Hein, Finance Director, for attending all of the FAC meetings and providing FAC members with detailed budgets, fund balances, and cost-benefit analyses. Greg has always been very responsive to our requests for information and has provided us with clear and valuable insight into District finances and operations.

Respectfully submitted by the Independent School District 281 Financial Advisory Committee

Exhibits

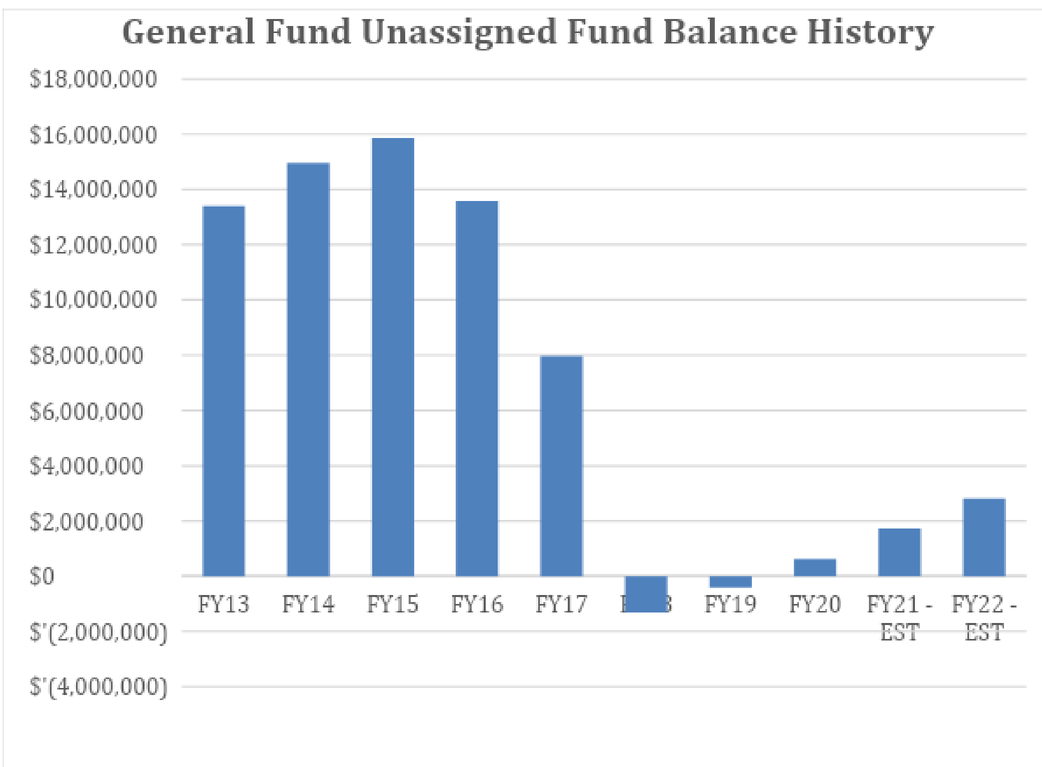
- General fund revenue and expense for FY21
- RAS unassigned fund balance for recent past years and projected to 6/30/2022
- Unassigned fund balances and general fund expenditures by ISD for FY20
- Total RAS enrollment for recent years and projected to FY22
- Open enrollment out of and into RAS


General Fund Revenues by Type
4.0%
0.9%
24.6%
70.5%
Local and Other
State
Property Tax
Federal


General Fund Expenditures by Type
10.8%
0.3%
3.7%
4.9%
7.7%
72.6%
School Administration
District Administration
Instruction
Transportation & Pupil Support Services
Sites and Building
Fiscal and Other Fixed-Cost Programs

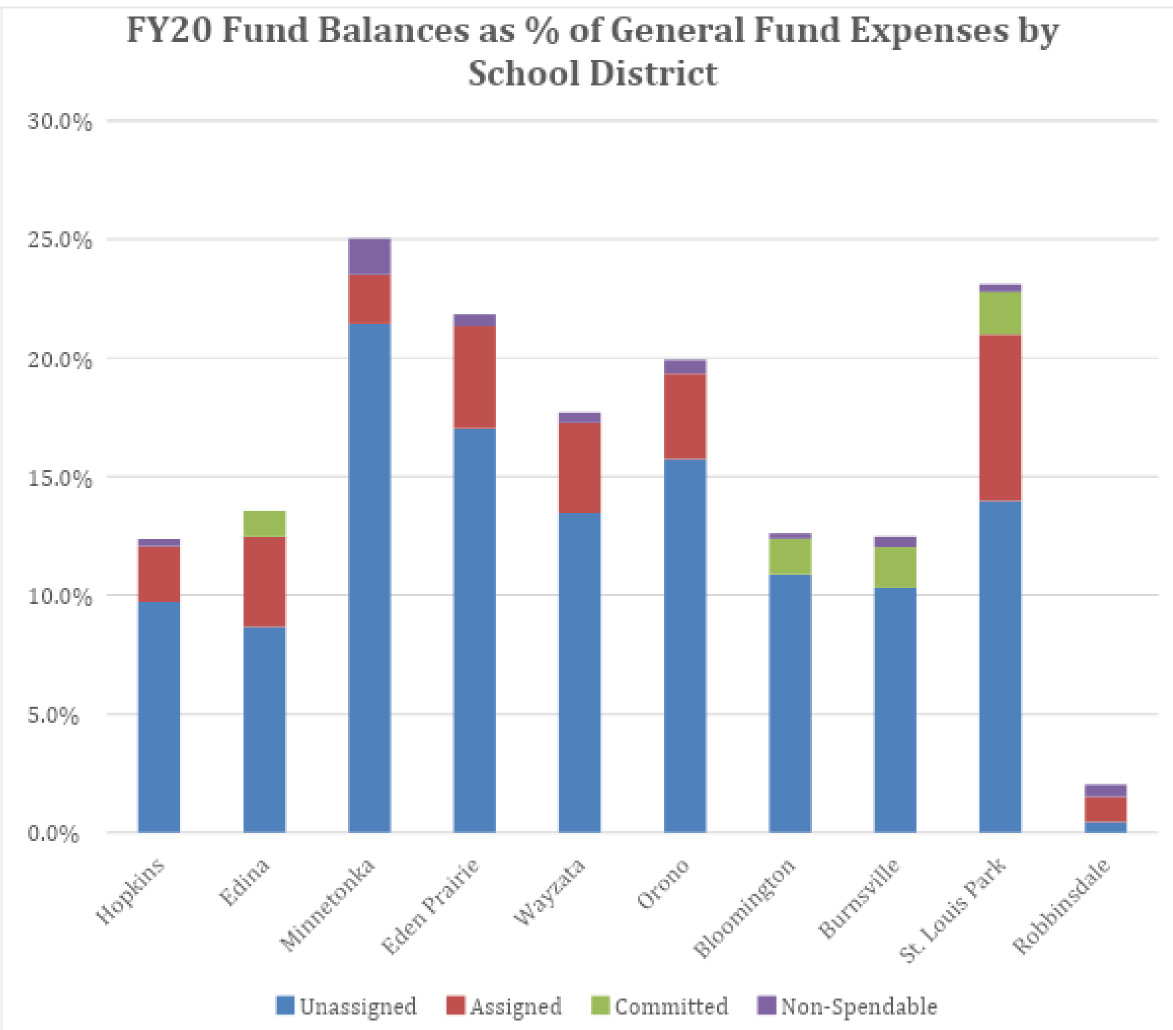
General Fund Unassigned Fund Balance History

FY13	$	13,409,777
FY14		14,953,578
FY15		15,855,654
FY16		13,580,091
FY17		7,963,180
FY18		(1,319,348)
FY19		(415,357)
FY20		622,412
FY21 - EST		1,722,412
FY22 - EST		2,822,412



FY20 Fund Balances (Excluding Restricted) as % of General Fund Expenses

	Unassigned	Assigned	Committed	Non-Spendable
Hopkins	**9.7%**	2.4%	0.0%	0.3%
Edina	**8.7%**	3.8%	1.1%	0.0%
Minnetonka	**21.4%**	2.1%	0.0%	1.5%
Eden Prairie	**17.1%**	4.3%	0.0%	0.5%
Wayzata	**13.5%**	3.8%	0.0%	0.4%
Orono	**15.7%**	3.6%	0.0%	0.6%
Bloomington	**10.9%**	0.0%	1.5%	0.2%
Burnsville	**10.3%**	0.0%	1.7%	0.4%
St. Louis Park	**14.0%**	7.0%	1.8%	0.3%
Robbinsdale	**0.4%**	1.1%	0.0%	0.5%

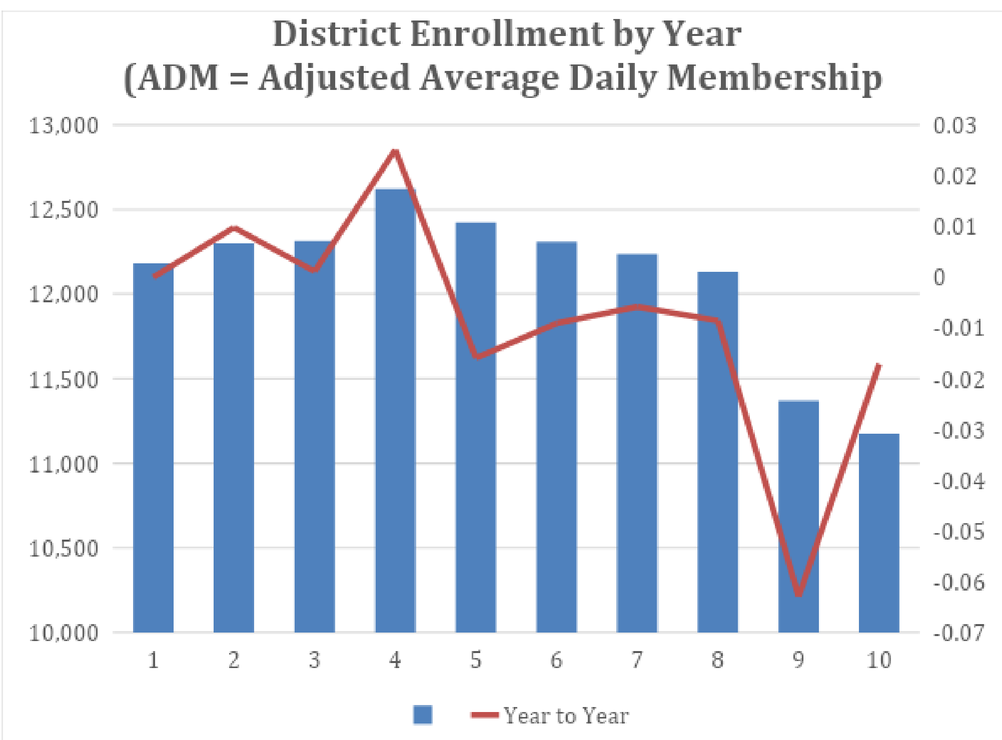


District Enrollment By Year

(ADM = Adjusted Average Daily Membership)

Year			ADM	Year to Year Change
2012	to	2013	12,181	----
2013	to	2014	12,300	1.0%
2014	to	2015	12,314	0.1%
2015	to	2016	12,623	2.5%
2016	to	2017	12,422	-1.6%
2017	to	2018	12,309	-0.9%
2018	to	2019	12,237	-0.6%
2019	to	2020	12,132	-0.9%
2020	to	2021	11,369	-6.3%
2021	to	2022*	11,175	-1.7%

*
Projected



FY21: Resident ADMs and ADMs Open-enrolling into RAS

Total Resident ADM	12,909
- Open Enrollment Out - Public	**(2,025)**
- Open Enrollment Out – Charter & Prvt.	**(1,520)**
= Residents served in district	9,364
+ Open Enrollment in	**1,945**
= Total ADM Served	11,309