

Robbinsdale Area Schools
Financial Advisory Council
Annual Report to the School Board

August 1, 2022

AUTHORITY OF THE FINANCIAL ADVISORY COUNCIL

In accordance with the Bylaws of Robbinsdale Area 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 Robbinsdale Area Schools (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 assumptions and 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 recommendations 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 of 2021-22 (FY22), the FAC met 6 times: September 14 and November 9 in 2021 and January 11, February 17, March 29, and May 17 in 2022. All of these meetings were held virtually via Zoom. The community FAC members appointed by the School Board are:

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

In addition, John Vento, School Board Treasurer, represents the School Board, and Ukee Dozier, Executive Director of Finance, represents the District Administration. District staff members and others that regularly attend are:

- David Engstrom, Superintendent
- Virginia Verbrugge, Assistant Finance Director
- Karylanne Marchand, Business Office Manager

Other staff members attended FAC meetings as needed, and various community members also joined FAC meetings during FY22.

During the course of the year, the FAC reviewed:

- FY21 levy certification.
- External audit results and recommendations.
- Projected results for FY22 and the budget for FY23 by fund, including the new financial model and its assumptions that are used for these projections.
- Longer term financial projections.
- Actual and projected changes to the General Fund's unassigned fund.
- Timing and use of ESSER (COVID-related) funds.
- Enrollment projections for FY22 and beyond, and initiatives to increase enrollment.
- OPEB Fund assumptions, investment mix, and balance.
- Medical and dental plan operation, and uncollected school lunch debt.
- Projected and actual changes to other District fund balances.

Minutes of the FAC meetings are available upon request.

ISSUES RAISED AND DISCUSSED BY THE FAC

1. Use of COVID-related (ESSER) funds. The District received three tranches of ESSER funds, totaling \$40.5M. The FAC received regular updates throughout the year about how much of these funds the District spent and how much remained unspent. District staff has conducted surveys and put considerable thought into developing the District's top spending priorities for students, staff, and the families and community that RAS serves.

We expressed our concerns in several meetings about the use of one-time ESSER funds to cover new programs or other expense items that will last well beyond the expiry of these funds. Several FAC members requested a list of new expense items to which the District is committing itself that will potentially extend beyond 9/30/2024, the date by which ESSER funds must be spent.

This is particularly true with regard to the salary and benefit increases in recently concluded labor contracts. While recognizing the importance of staff retention, we

are very concerned that these increases will lead to larger deficits after the ESSER funds expire on 9/30/2024. Some FAC members questioned why the District couldn't use one-time bonuses or other one-time incentives, instead of a structural compensation increase that essentially will never decrease.

2. Enrollment projection. The need to grow RAS enrollment is a major concern and was a topic at every FAC meeting. Current financial projections show enrollment declining every year by 2-3% through FY27. These decreases are on top of a large drop in FY21 and smaller declines in other past years.

Some of this is beyond the District's ability to address and, indeed, is faced by other districts: declining birth rates and more students enrolling in charter and private schools during the pandemic. A high percentage of households in the District have no school age children, and there's not much undeveloped land for more housing. Nonetheless, RAS appears to be on the higher end of metro districts that are experiencing student losses due to open enrollment. In addition, some nearby districts actively market themselves to parents of potential open-enrollees.

The FAC reviewed the extensive data now available from the Minnesota Department of Education, with an excellent level of detail showing open enrollment numbers for all metro districts, as well as numbers of students attending private and charter schools and being home schooled. For the first time, we believe, the District is able to compare RAS student enrollment patterns (where do our resident students go, and where do students who open-enroll in RAS come from?) to those same statistics of neighboring districts. Although only one year of data is available now, the FAC and District staff are looking forward to using future data to discern enrollment trends and to better address issues that cause student loss.

The key point that we often raised is the importance of retaining students who live in the District. It would be helpful to know both how the percentage of such students attending RAS has changed over recent years and how this percentage varies by city within the District. We are pleased that part of the District's strategic planning will be to survey parents who opt to send their children out of the District, in order to understand and hopefully address their reasons. We are also hopeful that full implementation of Pathways will not only reduce out-migration but also make RAS a "destination school district."

3. New long-term planning model. Mr. Dozier presented to the FAC the new model and demonstrated how the various assumptions (salary increases, revenue, etc.) build the projection and a full dashboard of reports. He showed some of the reports, both text and graphs, that the model can produce, while also providing explanations for various changes by year (e.g., unassigned fund balance changes).

The FAC is looking forward to working with Mr. Dozier and the District's staff to develop a range of realistic assumptions for this model going forward. We feel this is particularly important in the areas of medical, dental, and disability benefits, where year-to-year claim levels can be volatile.

This model provides a great tool for measuring the impact of the various inputs (e.g., salary and benefit changes, revenue streams, enrollment) and allowing the FAC and District staff to project how different ideas for changes might affect future financial results. This will enable us to recommend to the Board ways to avoid future deficits. Among these are:

- How can the District slow expenses while keeping enrollment robust? If enrollment continues to decline, what are the financial steps that the District needs to take? This involves both staffing levels and possible building closures.
- How will the District make up for lower revenue after referendum levies expire in FY24 and FY27? Will the District need to ask voters for renewed (or increased) levies to replace expiring ones?
- How can the FAC facilitate communications to residents of the District about the decisions that the District must make in the near future? Considering the projection of possible large deficits should referendum levies not be renewed, this conversation needs to start now.

4. Audit results and recommendations. MMKR presented the FY21 audit results to the FAC. We're pleased that the audit went well, that the District addressed all deficiencies identified in the FY20 audit, and that the auditors found no issues with the District's financial reporting.

5. FY22-23 budget and long-term financial projections. It's particularly noteworthy that the unassigned fund grew to \$7.5 million, or 4.3% of annual expense, at 6/30/2021. As of the last projection the FAC received, it is expected to be at 6.0% of annual expense at 6/30/2022. This is close to the Board-approved minimum level of 6.5%. The use of COVID-related funds was a significant reason why the District's financial picture improved in FY21-22, with resulting strengthening of the unassigned fund balance.

Moving to FY23 and beyond, we're concerned about the financial issues facing the District:

- Use of the ESSER funds, which expire at 9/30/2024, to balance the FY23 budget and fund ongoing operations beyond their expiration
- New programs and newly increased salaries and benefit expenses that will carry over well beyond 9/30/2024 (see item 1 above).
- Referendum levies that expire in FY24 and FY27.
- Significant budget deficits, with the resulting depletion of the unassigned fund, that are projected to occur if enrollment continues to decline and expenses increase. These deficits are projected to occur even if there are new referendum levies that continue the funding level of the expiring ones.

- Continued growth of school lunch debt, after federal school meal subsidies end (see item 7 below).
- Still unknown: How much additional funding the District will receive from the state, if and when the legislature reaches a deal on the use of the surplus.

We realize that RAS faces a very difficult balancing act: retaining staff, maintaining appropriate student-teacher ratios, keeping and developing programs to attract students, and controlling expenses, with several uncertain revenue sources. We look forward to working with District staff to recommend to the Board ways to better utilize buildings, control expenses, stabilize enrollment, and help communicate the need for new funding to the communities that the District serves.

6. Self-insured medical, dental, and OPEB funds. The medical fund balance improved during FY21 and FY22 due to the use of over \$1M in federal ESSER funds to cover COVID-related claims. The dental fund balance has shown little change over these years. Besides ESSER, the medical fund benefited from a premium increase, with another 15% increase planned for FY22. There was no dental premium increase in FY22, and the dental fund balance turned slightly negative. We believe that the dental plan will need a premium increase for FY23. Furthermore, the dental premium structure (now just single and family) could be causing anti-selection against the plan. This should be reviewed.

The FAC reviewed the funding status and investment mix of OPEB. The fund continues to be in a strong position: Investments follow a conservative 30/70 model, with a target of 30% equity and 70% fixed yield investments. The asset value of \$15.9 million (1Q 2022) exceeds the \$7.3 million actuarial accrued liability (2Q 2021), resulting in a funding ratio (assets divided by liabilities) of 218%. Current assets plus future contributions exceed future distributions in all projections, even those with less favorable assumptions.

7. Child nutrition fund and lunch debt. This fund increased during FY21 by \$1.1M, due to 100% federal reimbursement of all school meals through FY22, and at a higher rate per meal than state reimbursement. As food costs began to increase, the fund balance declined during FY22. Once the federal 100% funding ends, the problem of school lunch debt will again arise. After two years of 100% federal funding, families have gotten out of the habit of completing the forms for reduced price lunches, and state law severely restricts what districts can do to collect unpaid lunch debt. The FAC hopes to work with the Board and district staff to find creative ways to encourage eligible families to complete the necessary forms for reduced cost lunches.
8. FAC responsibilities and member qualification. At its first meeting of FY22, we reviewed changes to its bylaws that the Board made. There was discussion of the roles and member qualifications of similar FACs in other districts. One key issue is whether the FAC can receive information regarding District financial information prior to School Board review of that information, even if that information consists of just preliminary assumptions. This will allow the FAC to provide meaningful analysis and

recommendations to the School Board to be used as part of their decision-making regarding District financial activity.

We believe that the FAC can be of particular service to the Board as current referendum levies expire and new ones may be needed to replace the lost revenue. In addition, we feel that the FAC should be involved at an earlier stage when the District is considering outsourcing services.

FAC members stressed the need for building their financial expertise, perhaps by developing a "skills matrix" to use when considering new members. Also helpful would be a FAC member orientation on the basics of school financing and the various acronyms used in presentations.

We appreciate the detailed and quick responses to our inquiries that we received from Ukee Dozier and the District's financial staff throughout the year. During FY21, FAC members participated in the Administration's cabinet task force discussions. This was discontinued in FY22. We found these sessions to be quite useful and recommend our participation be resumed in FY23.

SUMMARY

The new budget model and detailed enrollment data provide much-needed information and a better tool for future financial planning and for developing strategies to increase our District's student numbers.

As RAS moves into the new FY23, we emphasize the following recommendations to the Board and Administration:

- Continue to build the unassigned fund balance, with the goal of reaching and exceeding a level of 6.5% of operating expense (the Board's policy).
- Increase the number of students living within the District who attend District schools, with the resulting increase in state aid. Continue to invest in Pathways to make RAS a "destination district." Survey resident parents who open-enroll their children outside of the District to determine and, if possible, address at least some of their reasons for doing so.
- Avoid using one-time funds, particularly those designated for COVID relief, to cover compensation, new programs, and other expenses that will carry over well beyond the expiry of these funds.
- Focus on expense control, including optimizing building usage.
- Restructure dental premiums from the present single and family tiers to multiple tiers, in order to reduce the level of anti-selection and improve plan results. Implement a dental premium increase.
- Keep the FAC involved in the ongoing financial planning, by providing additional member training, resuming our participation in cabinet task force meetings, and resuming the practice of providing information to the FAC so it can evaluate information and make recommendations prior to the review and approval of that information by the School Board.

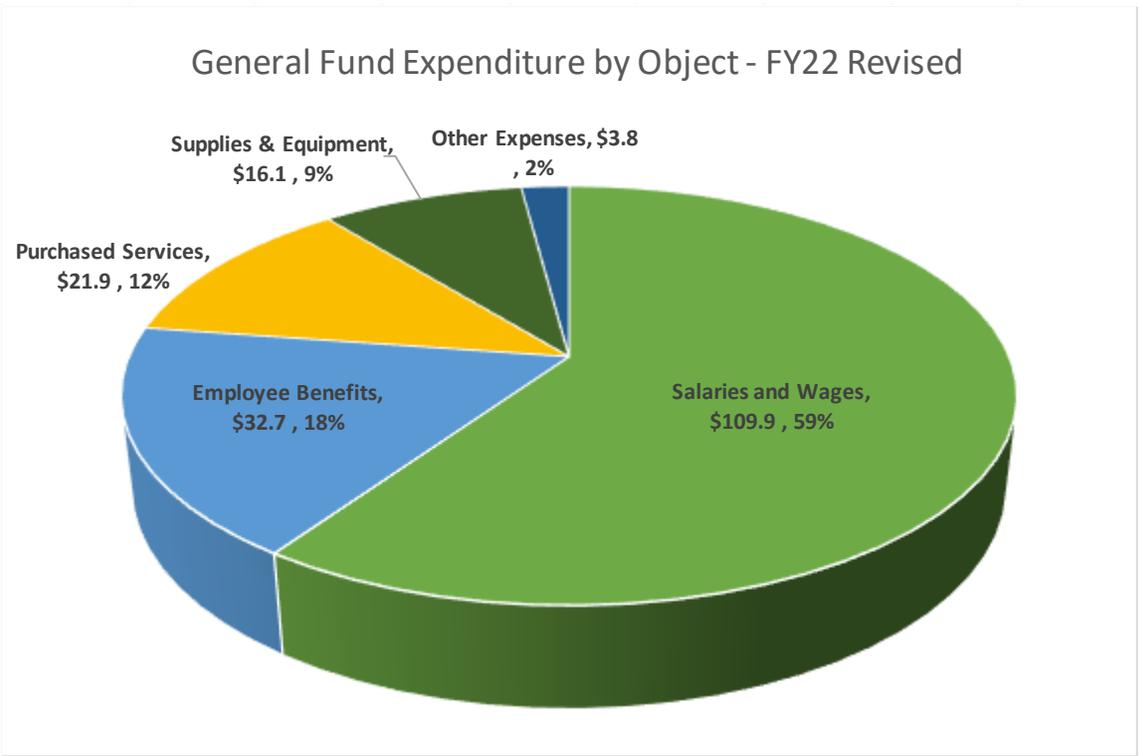
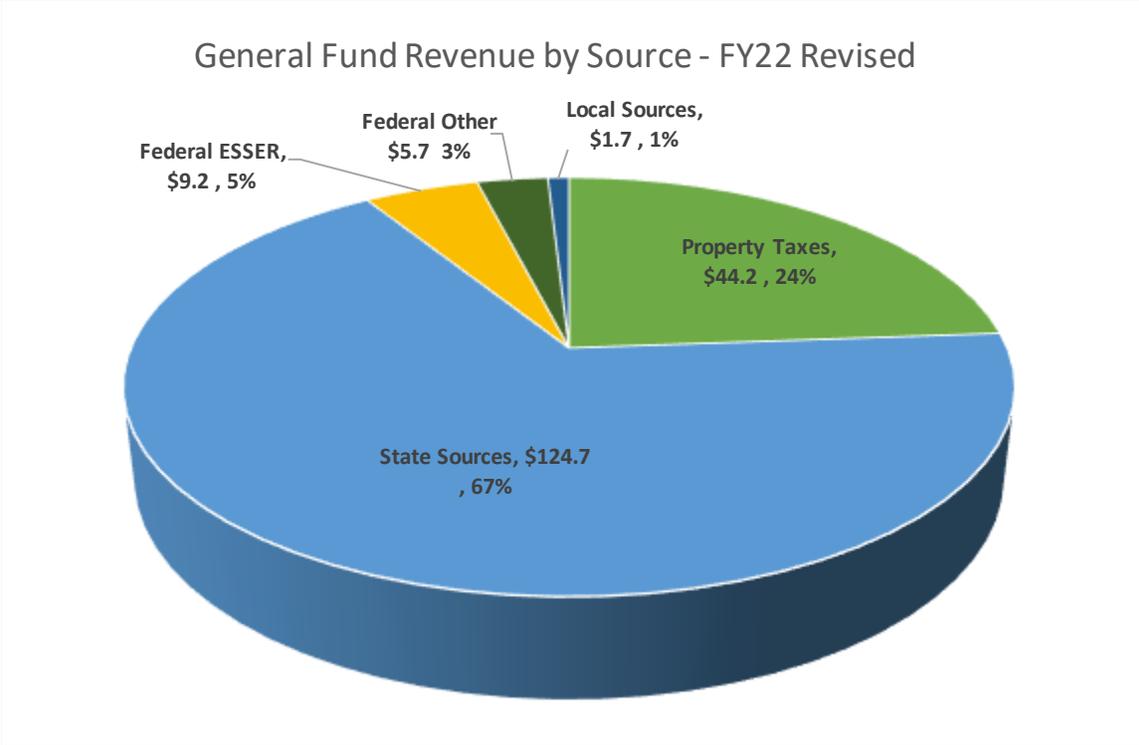
Once again, we want to recognize the hard work that District faculty, administration, School Board, and other staff have done in these recent difficult and unusual years to adapt to all of the changes and uncertainties and to keep our District moving ahead. We appreciate the efforts of Ukee Dozier and his financial staff to produce at our request detailed financial information and projections, some of which we're seeing for the first time. This new information, particularly with regard to enrollment and student migration, has been very helpful in our discussions and in making our recommendations.

We also wish to recognize Howard Schwartz, Terry Swanson, and Earl Hoffman, who are leaving the FAC after years of service to the FAC and to RAS. We extend a special thanks to Howard for his hard work, keen insight and concern for the welfare of our District during his long tenure on the FAC.

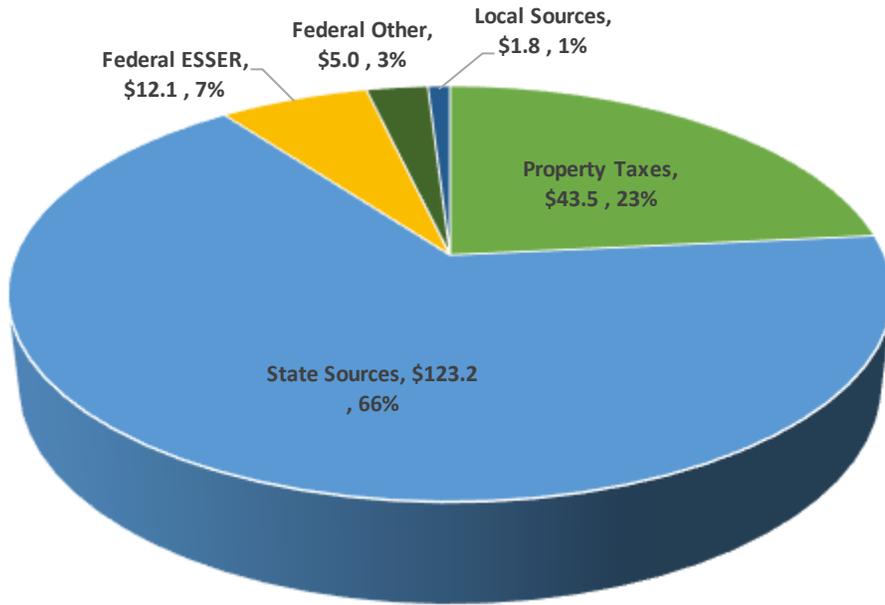
Exhibits

- A. General fund revenue and expense for FY22 and projected for FY23
- B. Unassigned fund balance for recent past and projected years
- C. Enrollment for recent past and projected future years
- D. Open enrollment into and out of RAS and other non-RAS schooling

Exhibit A



General Fund Revenue by Source - FY23 Original



General Fund Expenditure by Object- FY23 Original

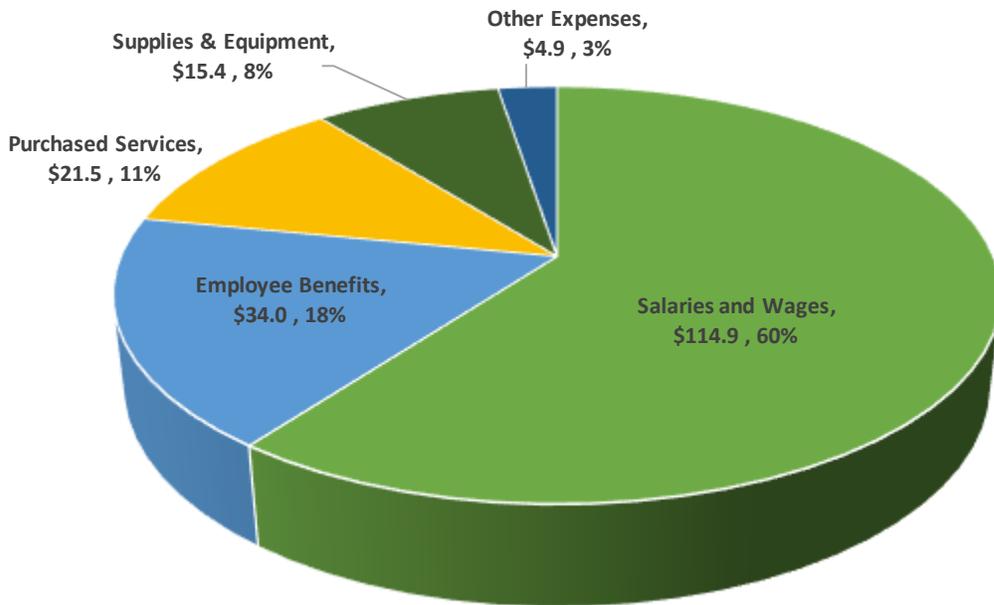


Exhibit B

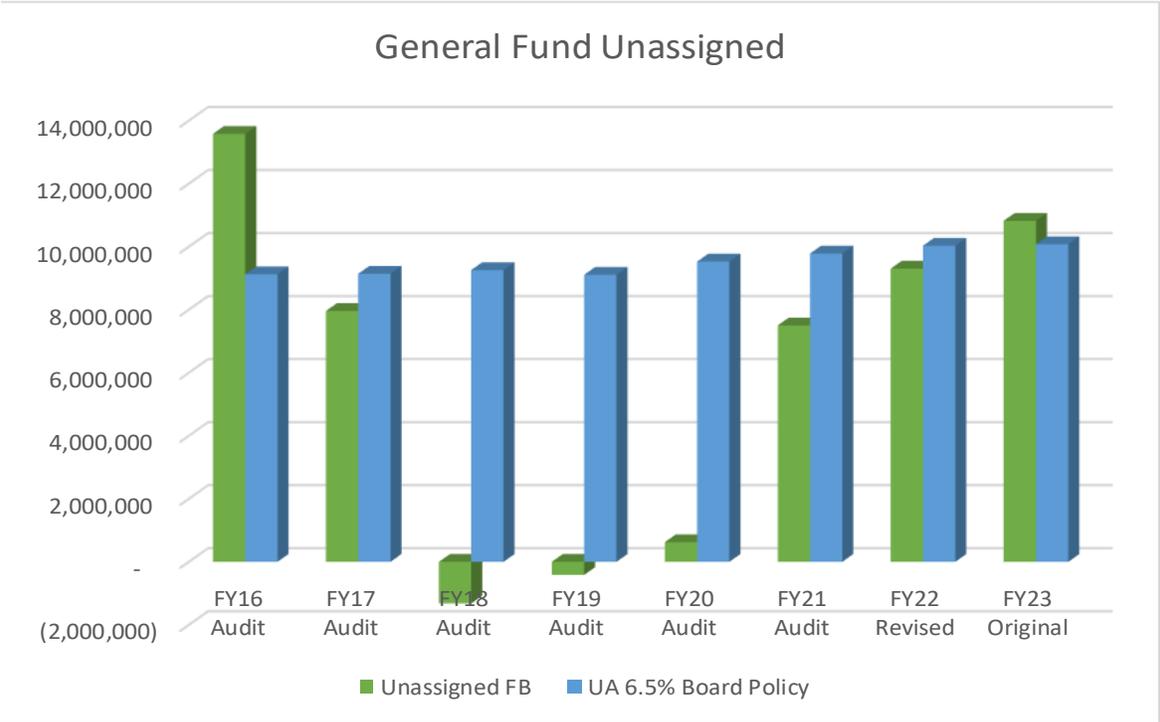


Exhibit C

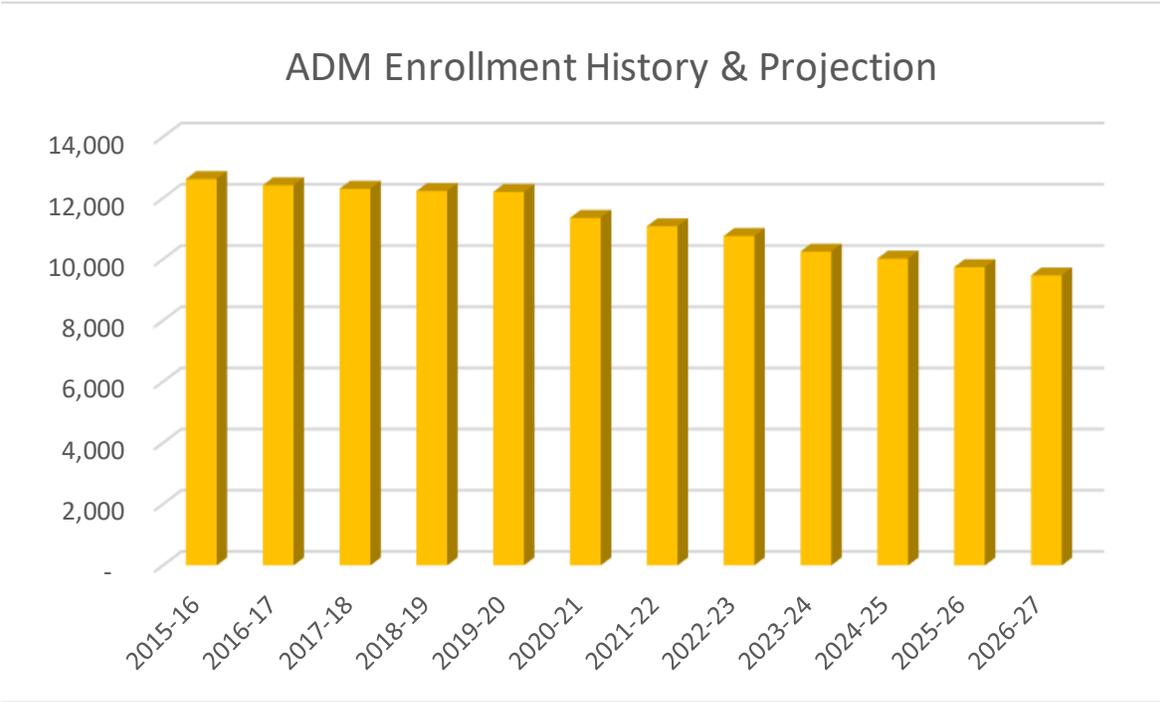


Exhibit D

