

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

**August 7, 2023**

## **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)
- Developing and reviewing future budget assumptions
- Providing insights on the overall fiscal condition of District 281
- 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 (Article V), the FAC is required to meet at least four times per school year. During Fiscal Year 2022-23 (FY23), the FAC met 4 times: November 15 in 2022 and January 17, March 14, and May 16 in 2023. All of these meetings were held in person at ESC. The community FAC members appointed by the School Board are:

- Lennie Kaufman, Chair
- Greg Kugler, Secretary
- Walter Gray
- April Gulley
- Katherine Lankford
- O. Barry Rogers
- Nicole Sandback

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

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

Additional District 281 staff members attended FAC meetings as needed, and various community members also joined FAC meetings during FY 23.

## TOPICS REVIEWED BY THE FAC DURING FY 2023

- Proposed Levy—Taxes Payable 2023.
- Preliminary summary audit results.
- Projected financial results for FY23 and the budget for FY24 by fund, including the modeling of financial information and the assumptions that were used for these projections.
- Longer term financial projections with multiple assumptions.
- Actual and projected changes to the General Fund.
- Timing and use of ESSER (COVID-related) funds.
- Enrollment projections for FY23 and beyond.
- OPEB Fund assumptions, investment mix, and balance.
- Medical and dental plan operation.
- Projected and actual changes to other District 281 fund balances.
- Review of Long-Term debt and the Levy/Referendum process.

## ISSUES RAISED AND DISCUSSED BY THE FAC

1. Use of COVID-related (ESSER) funds: The District received three tranches of ESSER funds, totaling \$41.1 million (M). The FAC received periodic updates about how much of these funds the District spent and how much remained unspent. The most recent projection had approximately \$7.9M available for fiscal 2024.

We expressed our concerns in multiple meetings about the use of one-time ESSER funds to cover new programs or other expense items that will last well beyond the expiration of these funds. The largest use of this one-time money for ongoing expenses related to compensation. There is also a risk this situation could be exacerbated during the next rounds of contract negotiations. While recognizing the importance of staff retention, we are very concerned that the level of potential increases will lead to larger deficits after the ESSER funds expire on 9/30/2024.

2. Enrollment projection: The need to grow District 281 enrollment (or at least to stem the decline) is a major concern and was a topic at every FAC meeting where the budget or financial projections were discussed. Prior projections show enrollment declining every year through FY27. These decreases are on top of a large drop in FY21 and smaller declines in other past years since FY16.

Some enrollment factors are beyond the District's ability to address, and are also faced by other districts, including: declining birth rates and more students enrolling in charter and private schools during the pandemic. A high percentage of households in our District have no school age children, and there's not much undeveloped land for more housing. Nonetheless, according to our auditors in early 2022, our District appeared 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.

A key point that we often raised is the importance of retaining students who live within the boundaries of District 281. It would be helpful to know how the percentage of such students attending District 281 has changed over recent years and how this percentage varies by city within the District. We are hopeful the District will be able to survey parents who opt to send their children out of the District in order to understand and hopefully address their reasons for doing so. We are also hopeful the Pathways initiative will not only reduce out-migration but also make District 281 a "destination school district."

3. *New long-term planning model:* Mr. Dozier continued to use the new model and demonstrated how the various assumptions (salary increases, revenue, etc.) build our projections and how the system can deliver a variety 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. The FAC is looking forward to continuing our work with the District's staff to develop and refine a range of realistic assumptions for this model going forward.

This model provides a strong 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 should enable us to better recommend to the Board various options which could help deal with future financial challenges.

4. *Audit results:* MMKR has not presented the FY22 audit results to the FAC. We understand why the delay occurred, but the audit was not finalized prior to our final meeting in May. We received updates over the last six months of the fiscal year regarding the 403(B) issue but were not able to review any potential or existing issues with the auditors. We have also not received the amount of the final financial impact from this 403(B) issue. Although not expected to be excessive, we have still not been made aware of the final impact.
5. *FY23-24 General Fund Budget:* Without the final year-end numbers being available to the FAC from the FY22 audit, we are uncertain as to the final unassigned fund balance levels at the end of FY22 or FY23. Based on earlier projections, it is possible that at the end of FY23, our unassigned fund balance may have risen above the School Board's minimum policy level of 6.5%. This would be a welcome development. The use of COVID-related funds was a significant reason why District 281's financial picture improved over the past two years, which resulted in a stronger

unassigned fund balance. **We felt the budget process itself was well done using solid assumptions and the appropriate level of fiscal conservatism.**

We realize District 281 faces a very difficult balancing act of retaining staff, maintaining appropriate student-teacher ratios, keeping and developing programs to attract students, and managing expenses; all within an environment of uncertain revenue sources. We look forward to working with District staff to recommend to the Board ways to better utilize buildings, manage expenses, stabilize enrollment, and help communicate the need for new funding to the communities the District serves.

6. Self-insured medical and dental funds: The medical fund balance improved during COVID due to the use of over \$1M in federal ESSER funds to cover COVID-related claims. However, it still has a negative fund balance and is projected to have a negative fund balance at the end of FY24. Besides ESSER, the medical fund benefited from recent premium increases. Attention should continue to be paid making sure this fund has the resources necessary to meet its obligations. The dental fund balance ended FY23 with a positive balance and is projected under the current premium structure to remain positive at the end of FY24.
  
7. Child nutrition fund and lunch debt: This fund has been positively affected by the Federal Government paying for student meals during the Pandemic. With the State of Minnesota now taking over the payment for student meals, this fund should remain in solid shape during FY24. Prior to government funding of student meals, a balance arising from nonpayment for meals had grown to a substantial level. The District has written off much of this debt but some remains. By mandate, any nonpayment fund balance write-offs must be done against the General Fund, and not against the Child Nutrition Fund.
  
8. FAC responsibilities and member education: One key issue is whether the FAC is able to receive information regarding District financial information **prior to** School Board review of that information. This could help the FAC provide meaningful analysis and recommendations to the School Board to be used as part of their decision-making regarding District financial activity.

FAC members stressed the need for building their financial expertise pertaining to education finance topics. One suggestion which the FAC has implemented is an orientation session for new FAC members on the basics of school financing and the various acronyms used in presentations. We also appreciated the detailed and quick responses to our inquiries that we received from Ukee Dozier and the District's finance staff during meetings and throughout the year.

During FY21, FAC members participated in the Administration's pre-cabinet discussions. This was discontinued in FY22. We found these sessions to be quite useful and recommend our participation be resumed in FY24 if that process still exists.

## GENERAL RECOMMENDATIONS

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 enrollment. We hope to be involved with the further development of assumptions and uses for this valuable tool.

As the new fiscal year begins, we offer the following recommendations to the Board and Administration:

- Continue to build the unassigned fund balance with the goal of creating at least a slight cushion above the 6.5% level of operating expense (the Board's policy).
- Increase the Board's focus on the key revenue drivers within District 281. Funding from the State of Minnesota and money raised through property taxes represent over 90% of District Funding. Enrollment drives state funding. 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. Our referendum funding (nearly \$30 million per year) is dependent upon our ability to convince District voters we deserve their support. Speaking with one voice in support of the District can help retain voter support. We need to begin the conversations with the voters soon.
- Avoid using one-time funds to cover compensation, new programs, and other expenses that will carry over well beyond the expiration of those funds, unless there is a concrete plan for future funding.
- Focus on overseeing prudent expense management, and should the District's financial condition require it, be prepared to deal with issues including adjusting staffing levels and optimizing the number of buildings we own and their usage.
- Keep the FAC involved in ongoing financial planning and discussions regarding financial issues (**such as Transportation**), by holding more FAC meetings if necessary, resuming our participation in pre-cabinet (or comparable) 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.
- With the departure of Ukee Dozier, we recommend the hiring and support of a strong Executive Director of Finance to help lead us through the challenging times ahead.

Once again, we want to recognize the hard work that District teachers, administration, School Board, and other staff have done in these recent difficult and unusual years to adapt to so many changes and uncertainties that has kept our District moving forward. We appreciate the efforts of Ukee Dozier and his finance staff to produce, at our request, detailed financial information and projections. This new information, particularly regarding enrollment, has been very helpful in our discussions and in making recommendations.