

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

August 2024

AUTHORITY OF THE FINANCIAL ADVISORY COUNCIL (FAC)

In accordance with the FAC Bylaws of Robbinsdale Area Independent School District 281 (Article II), the FAC is charged by the School Board with responsibility for:

- Providing financial advice and support to the School Board and senior administration that is consistent with the mission of Robbinsdale Area Schools (RAS)
- Evaluating 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

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 2023-24 (FY24), the FAC met five times: November 14 in 2023 and January 16, March 12, April 29, and May 14 in 2024. Four meetings were held in person at ESC, and the April 29 meeting was held via Zoom. The FAC was also invited to a Board Work Session on May 20 regarding the FY25 budget. The community FAC members appointed by the School Board are:

- Lennie Kaufman, Chair
- Nicole Sandback, Secretary
- Walter Gray
- April Gulley
- Greg Kugler
- Katherine Lankford
- Edwin Ochoa

Other FAC members included John Vento, School Board Treasurer, representing the School Board, and Virginia Verbrugge, Assistant Director of Finance, representing the District Administration. Other RAS staff members who regularly attended were:

- Marti Voight, Interim Superintendent
- 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 24.

TOPICS REVIEWED BY THE FAC DURING FY 2024

- Proposed Levy—Taxes Payable 2024.
- Preliminary audit results, and status of FY23 and FY24 final audit availability.
- Projected FY24 financial results, and the FY25 budget by fund--including the financial information modeling and the assumptions used for these projections.
- Detailed discussions of budget changes for FY24 and FY25
- Actual and projected changes to the General Fund.
- Timing and use of ESSER (COVID-related) funds.
- Enrollment projections for FY24 and beyond.
- LTFM expenditures and funding
- 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 projection at the end of fiscal year 2023 had approximately \$7.9M available for fiscal year 2024. The most recent update we received indicated that the District was on plan regarding the dollars spent and the categories those dollars supported. COVID funding expires in September of 2024.

FAC members expressed our concerns in multiple meetings about the use of one-time funds to cover new programs or other expense items that will last well beyond the expiration of these funds. As it turned out, the expiration of the ESSER funds was one of the leading causes of the initially projected shortfall in FY25, which required extensive cost cutting to bring back into balance.

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 several FAC meetings where the budget or financial projections were discussed. Prior projections showed enrollment declining every year through FY27. These decreases are on top of a significant 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. These factors include 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 is minimal undeveloped land for additional housing. Nonetheless, according to our auditors in early 2022, our District appeared to be on the higher end of metro districts experiencing student losses due to open enrollment. In addition, some nearby districts continue actively marketing themselves to parents of potential open enrollees from our District.

A critical point that we raised is the importance of retaining students who live within the boundaries of District 281. It would be helpful to continue evaluating 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 hope the District will be able to survey parents who opt to send their children out of the District to better understand and hopefully address their reasons for doing so.

3. Audit results: The FAC has not yet received a presentation of the final FY23 audit results. We understand why the delay occurred, but we were unable to discuss results with the auditors. We received updates over the last six months of the fiscal year regarding the 403(B) issues, and believe that when completed, we will have the opportunity to review any potential or existing issues with the auditors.
4. FY23-24 financial results: The original general fund budget for fiscal year 2024 called for revenues of \$202.3MM and expenditures of \$201.5MM, which yielded a positive result of approximately \$800,000. As the year progressed, discussion continued regarding changes to projected results for the year. The FAC had discussions with District 281 Administration team members regarding revisions to the existing budget that were needed to reflect worsening conditions. The primary reasons for the deterioration were inflationary pressures, unforeseen costs, labor and other vendor contract agreements, and declining enrollment.

The FAC acted as a sounding board for proposed changes and provided feedback as the process continued. After several rounds of discussion, the final budget revisions were put together. The revised FY24 general fund budget called for revenues of \$204.3MM, and expenditures of \$206.1MM. This led to a projected year-end decline in the **Unassigned** general fund balance of approximately \$2MM—to a balance of \$6MM. This is a 3% fund balance--compared to the school board's 6.5% desired minimum. Given a potential shortfall in fiscal 2025, this was a concern.

5. FY24-25 General Fund Budget: One of the most significant issues in front of the FAC during the past year was the adjustments needed to the FY24-25 budget to bring it into balance. The first look at the budget showed a shortfall of over \$10MM. After additional analysis, it was determined that a gap of approximately \$17.4MM needed to be closed to balance the budget. Reporting was provided to the FAC regarding the future timeline for completing the budget, along with the timing of staffing decisions that would be impacted by budgeting changes. Issues were discussed, and conversations occurred with the Administration regarding FAC input to the process. We were pleased that both leading up to, and during the budget

adjustment phase, broad input was sought from the District's many constituencies: community residents, students, internal staff, school board members, the FAC, and various others. **We believe that an incredible amount of work by the Finance group and senior administration, using solid assumptions and appropriate fiscal conservatism, produced a budget that will appropriately guide District financial activity and operations during this challenging fiscal year.**

We continue to realize the District faces a very difficult balancing act of retaining staff, maintaining appropriate student-teacher ratios, keeping and developing programs to attract students, providing needed student support services, and managing expenses--all within an environment of uncertain revenue sources. We look forward to working with District staff to provide recommendations to the Board on better ways to utilize buildings, manage expenses, stabilize enrollment, and maximize the use of multiple revenue sources.

6. Levy and referendum issues: During our first meeting, we looked at the proposed levy for taxes paid in 2024 and discussed the District's reasoning behind the approval of the preliminary tax levy. Based on the needs of the District, this levy amount made sense, without creating an undue burden on District taxpayers. After community input, this levy was given final approval in December 2023.

We then received a presentation regarding the upcoming expiration of an Operating Levy and a Capital Projects (Technology) Levy. The two levies provided a combined \$30+MM annual source of revenue for the District. We discussed decisions which needed to be made as to whether the District should extend the levies, and if so, when and how approval for the extension should be sought. The Technology Levy required voter approval whether the District was only asking for a renewal of the existing amount or increasing the amount. The Operating Levy also could require voter approval, but the MN Legislature provided a one-time opportunity for the School Board to approve a 10-year extension of the Operating Levy if no increase was being asked for. The FAC felt the School Board should approve the Operating Levy at the existing amount through their one-time authority and should bring the Technology levy to the voters at the existing level during the November 2024 general election.

7. FAC responsibilities and role discussion: One key issue remains regarding whether the FAC is able to receive information regarding District financial performance **prior to** the School Board's review of that information. This could help the FAC provide meaningful analysis and recommendations to the School Board to be used during their decision-making regarding District financial activity.

At some point it would also be helpful for the FAC to talk with the School Board regarding the Board's expectations for the FAC in the coming year. Up until the budget discussion later in FY24, much of the FAC's time was spent receiving reports regarding various activities, which the Board had already received. Those reports helped the FAC remain up to speed with various issues at hand, but there was often no defined need for the FAC to apply the information received.

GENERAL RECOMMENDATIONS

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 ultimate goal of creating a cushion above the 6.5% level of operating expenses (the Board's policy). With the changes made to the budget for FY25, we are still expecting the General Fund's Unassigned Fund balance to be only slightly above 3%.
- 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 80% of District Funding. Enrollment drives much of 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. The portion of our tax levy funding that requires voter approval 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 continue the conversation with the voters.
- 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, once again 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, and resume the practice of providing information to the FAC so we can evaluate the information and make recommendations **prior to** the School Board's review and approval of that information.
- We recommend the continued focus on 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, other District staff, and School Board have done in these recent challenging and unusual years to adapt to the many changes and uncertainties that have kept our District moving forward. We sincerely appreciate the efforts of Ginny Verbrugge, Karylann Marchand, and the finance staff to produce, at our request, detailed financial information and projections, and for their overall support for the FAC. This generous support has been very helpful in our discussions, and when asked, in making recommendations.