MINNEAPOLIS PUBLIC SCHOOLS

Minneapolis Public Schools
1250 W. Broadway Ave. Minneapolis, MN 55411

DATE:

October 15, 2024

TO:

Board of Education, Finance Committee

FROM:

MPS Office of Budget & Planning

RE:

Executive Summary: Pro-Forma Financial Projections

The Minneapolis Public Schools (MPS) Office of Budget & Planning has updated its annual pro-forma projections as directed by Board Policy 3005, section 8. This high-level overview is being provided to the Finance Committee in advance and will be presented to the Board in November.

A Pro-forma is a financial statement that projects the future financial performance of an organization. This tool is utilized to consider an organization's financial trajectory. It includes estimated revenues, expenses and other financial metrics based on previous budget allocations and other assumptions.

For MPS, the Pro-forma gives an estimate of what the organization's finances will look like if all current expenditures are maintained. This helps MPS make changes and allocate resources differently to ensure we maintain financial stability.

The Pro-forma is neither a budget nor a budget proposal.

The findings of our latest analysis are not materially different from the previous pro-forma completed in November 2023 and shared with this committee on November 14, 2023. However, they are significantly different from our 2018 pro-forma projections due to changes made to change the course of our finances. Factoring in the historic school aid package passed by the Minnesota legislature in the Spring of 2023, MPS will be unable to withstand the loss of federal COVID-19 emergency funding and will be forced to make difficult financial decisions during the next two budget cycles.

Table 1- Status-Quo Pro-Forma Projection

	FY25	FY26	FY27	FY28	FY29	FY30
Beginning of year	Unaudited					
fund balance	**$154.3M**	**$69.4M**	**($14.9M)**	**($114.1M)**	**($223.0M)**	**($335.6M)**
Revenue	$630.0M	$638.3M	$630.6M	$624.6M	$621.8M	$621.8M
--% change from prior year		1.3%	-1.2%	-1.0%	-0.4%	0.0%
--% change excl federal sources		1.4%	-1.3%	-1.1%	-0.5%	0.0%
Expenditures	$710.5M	$717.5M	$724.1M	$727.2M	$727.7M	$726.1M
--% change from prior year		1.0%	0.9%	0.4%	0.1%	-0.2%
Fund Transfers	($4.5M)	($5.2M)	($5.7M)	($6.3M)	($6.8M)	($7.3M)
Change in Fund Balance	**($85.0M)**	**($84.3M)**	**($99.2M)**	**($108.9M)**	**($112.7M)**	**($111.6M)**
End of year						
fund balance	**$69.4M**	**($14.9M)**	**($114.1M)**	**($223.0M)**	**($335.6M)**	**($447.3M)**

Change in Fund Balance for **FY25** will be shored up by; **Vacancies $23.75M and SPED Carryover $6.6M**. This translates to a **Change in Fund Balance of $55M**, as reviewed and approved in the FY25 Budget.

Status Quo Projection

To gauge the financial health of the organization, MPS updated the Pro-forma model that was used last year with updated enrollment, revenue, and expenditure projections. The enrollment model calculates future enrollment by using historical averages of the percentage of students who move from one grade to the next as well as utilizing census and birth data to estimate the size of future kindergarten classes. The revenue model utilizes the current formula and practices used by the Minnesota Department of Education (MDE) to calculate revenue. The expenditure model uses the current year budget as its base. In all models we have made assumptions that we consider to be reasonable but are forward looking and may differ from actual results due to internal decisions, external pressures, staffing decisions, or other unforeseen changes. This is a model of MPS's financial condition assuming that MPS makes no financial changes going forward.

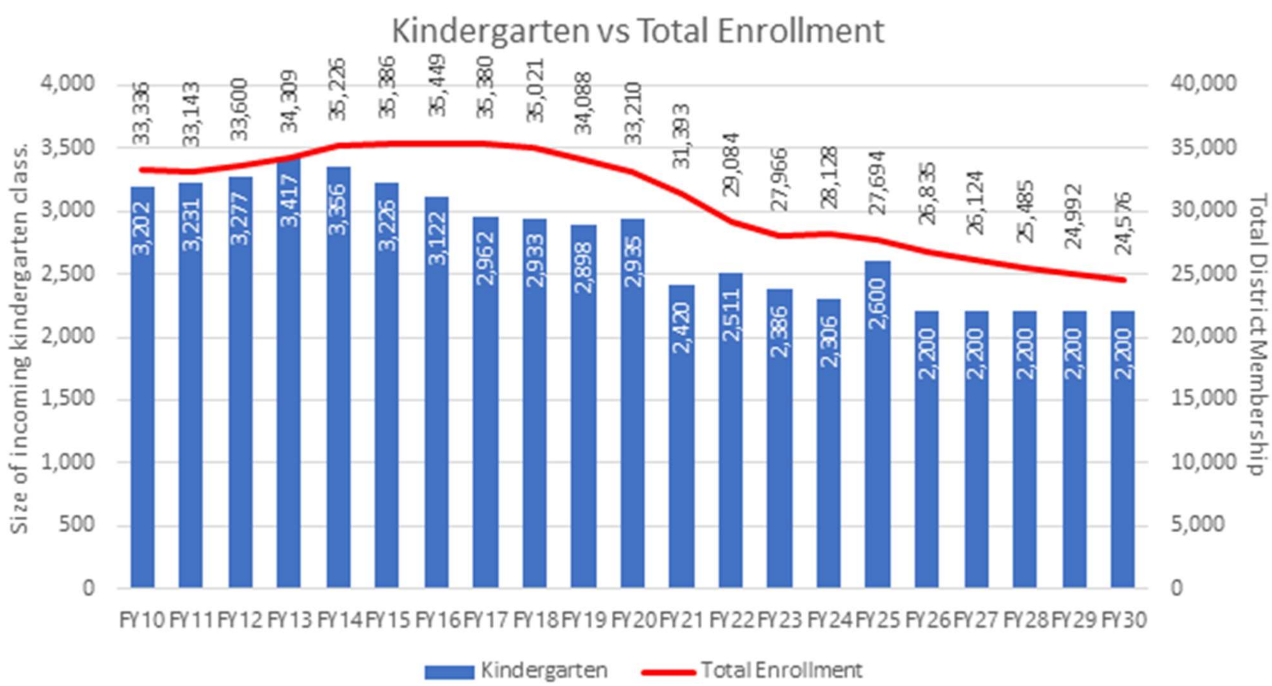
Our status-quo projection (Table 1) anticipates fully depleting the general fund fund-balance during the 2025-26 school year, which would lead to a significant reduction in fund balance at the end of fiscal year 2026. There are three primary causes for MPS' anticipated financial issues:

- Reduced revenue caused by multiple years of declining enrollment,
- Increased costs of operations,
- The loss of COVID-19 emergency funding from the federal government.

Enrollment

We believe that the enrollment declines over the last five years have largely been driven by fewer school age children living in the district. The decline in the number of children is especially pronounced for children under the age of five, where census data indicates a sudden and dramatic drop between 2020, in which 27,071 children under the age of five were recorded in the decennial census, and 2021, for which the census' American Community Survey estimated a total of 22,543. Other factors that impact enrollment predictions include new to country students and housing opportunities in Minneapolis. The district is starting to see signs of stabilizing enrollment in 2024-2025.

Figure 1 - Kindergarten vs Total Enrollment



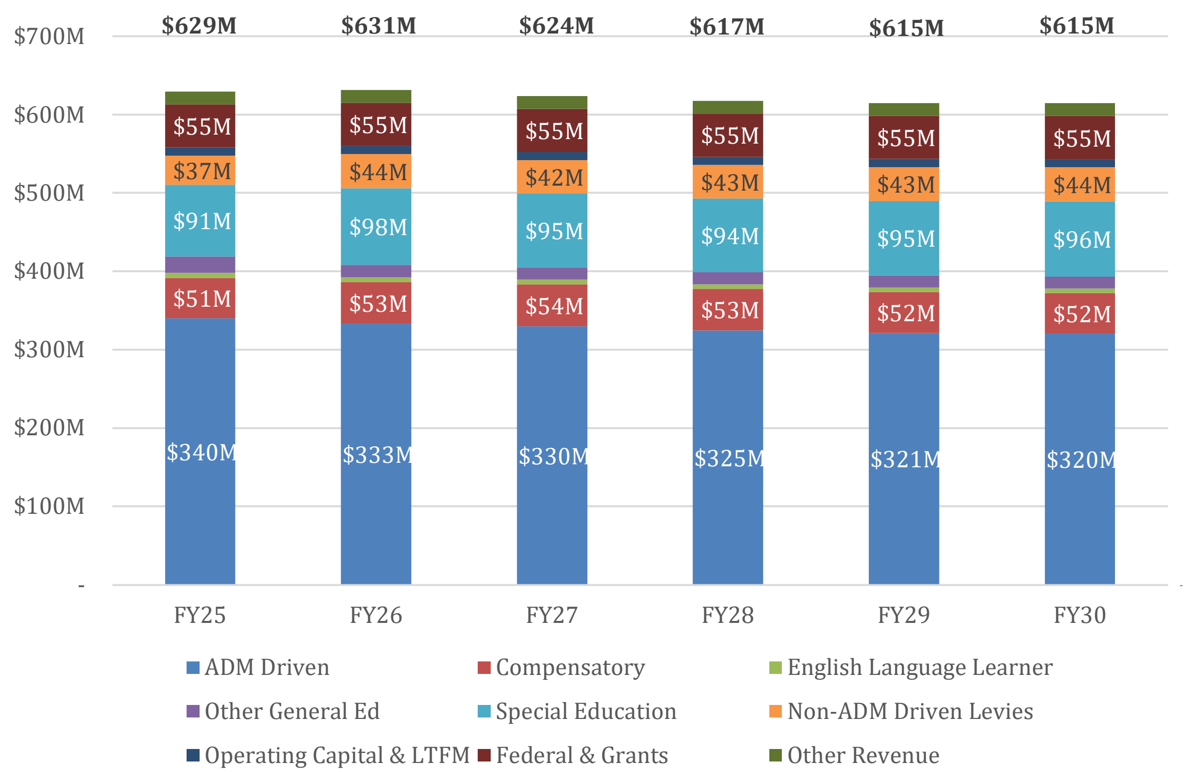
Fewer children under the age of five would result in lower annual enrollment counts of kindergartners over the next five years. Since kindergarten is one of the main entry points for students into public education, lower kindergarten membership would eventually cause overall MPS membership to decline.

However, the effect is not immediate. As demonstrated in Figure 1, declining membership in kindergarten (the blue bars) began declining in fiscal year 2013 whereas overall membership (the red line) did not begin declining until fiscal year 2018. We believe that most of the decline in kindergarten enrollment has already happened and that annual enrollment of kindergarten will stabilize at around 2,200 students. As the smaller classes of students begin to work their way through the thirteen-year public education cycle, eventually District enrollment would level off.

Revenue

The ESSER III spending deadline of September 30, 2024, has now passed. MPS effectively sees a reduction in revenue of close to $90M, including declining average daily membership (ADM) driven revenue, where the revenue is driven by raw enrollment numbers. Average daily membership is a driver of general education revenue.

Figure 2 - Revenue by Primary Driver



Given the historic increases in education funding provided by the legislature in the Spring of 2023, we are assuming modest increases to the basic funding formula of between 1.5% and 2.5% going forward.

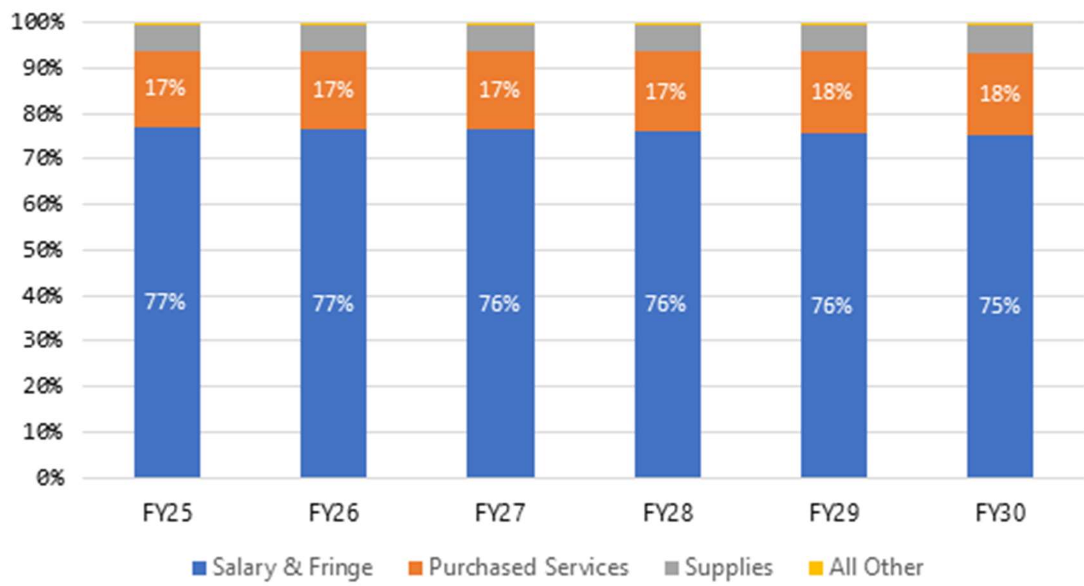
Currently MPS has two referendums in place:

- an operating referendum driven by enrollment and,
- a capital projects referendum (also known as the “tech levy”) which is set to increase revenue by 20 million annually or 2.49% of MPS’ adjusted net tax capacity.

We assume that voters will continue to support these levies upon expiration and that these sources of revenue will continue to be available.

Expenditures
MPS spends 80% or more on employee wages and benefits annually. This pro-forma statement assumes no change is made over the next five years (Figure 3). The pro-forma assumes 2.5% increases in annual labor costs and annual inflation of 2.0%. We have also assumed that MPS will continue to have access to existing debt facilities and will continue to have the ability to issue municipal bonds for capital projects, with the approval of the Board of Education.

Figure 3 - Percentage of Annual Expenditures by Type



Conclusion
We recognize that MPS' finances continue to face significant challenges ahead and we want to highlight the importance of taking timely action. The good news is that MPS has already started to make adjustments and changes to have higher than previously predicted reserves to support a transformational period leading to financial sustainability. However, it is crucial to keep making the necessary changes to ensure continued operations.