MINNEAPOLIS PUBLIC SCHOOLS
Urban Education. Global Citizens.

To: Superintendent Ed Graff
From: Ibrahima Diop, Chief Financial Officer
Subject: 2019-20 Pro Forma Budget
Date: November 8 , 2018

2019-20 Pro Forma Budget Memorandum

The information provided in this Pro Forma Budget memorandum is primarily for the general fund revenue and expenses. Projections for other funds are provided as related to the overall district budget. In Fiscal Year (FY) 2019-20, we plan to implement the Predictable Staffing model. We also plan to issue General Obligation Bonds to fund the District's Capital Plan.

Revenue:

Enrollment is the biggest factor driving revenue projections for the district. The enrollment has been flat for the past several years, however the Fall 2018 enrollment shows a significant decrease of approximately 800 students over Fall 2017, a decline of 2.2%. Enrollment data shows that while the birth rates in the city have remained flat over the last 5-7 years, the number of kindergarteners enrolling in the District has gone from 3,378 in Fiscal Year (FY) 2012-13 to 2,938 in FY 2018-19, a decrease of 13.03%. Looking at summer withdrawal rates for students transitioning from 5th to 6th grade shows decrease in retention from 92.7% of students in FY 2016-17 to 88.5% in FY 2017-18.

The 2019 legislative session begins on January 4th and is a funding year. This Pro Forma Budget memorandum is based on the assumption that the General Education formula allowance remains unchanged. One of the priorities the District's Legislative Advocate will present at the legislative sessions this year will be requesting more revenue to address the unfortunate reality of underfunding of Special Education.

The per pupil amount currently in statute amounts to $6,312 per pupil. With the decrease in enrollment projected to be 414 students, the General Education revenue from the formula allowances reflects a $5 million reduction in this preliminary budget forecast.

Revenue	FY 2018-19	FY 2019-20 (projected)
Voter Approved		
Referendum	$61,111,851	$92,884,990
Local Optional Referendum	$15,831,312	$15,876,171
Integration Aid	$15,370,475	$15,443,114
Compensatory Aid	$60,421,668	$54,993,346
LEP	$5,533,200	$5,628,600
Special Education	$75,508,509	$70,502,790
Federal/Grants	$40,666,639*	$60,689,412
Student Activity Accts	$20,000,000	$0
Extended Time	$9,287,355	$9,220,834
Q Comp	$9,755,927	$9,447,432
Non-Categorical Revenue	$290,883,008	$285,883,008
Total Revenue	**$604,369,944**	**$620,569,697**

Grant revenue has increased with the award of Cargill, Hennepin County, and the Minnesota Department of Education grants. This budget assumes Title I revenue at $21 million, Title II at $2.5 million, Title III at $1 million and the Adequate Yearly Progress (AYP) grant at $1.7 million.
* The FY 2018-19 Federal/Grants amount does not reflect the budget amendment for grants which will go before the Board in January 2018.

The revenue for the Community Education, Food Service, Capital Project and Debt Service funds is expected to remain at levels similar to those from the last fiscal year. For the FY 2019-20 year, we will include a separate Special Revenue fund for what is currently Student Activity Accounts included in the Federal/Grant revenue line in FY 2018-19 in the amount of $20M.

Expenditures:

In order to maintain a structurally balanced budget, the expenditure projections for FY 2019-20 cannot exceed the projected revenue of $620,569,697.
The general fund expenditure projections for FY 2019-20 are based on the following assumptions:

- Maintain general fund staffing levels
- Any bargaining unit contract with automatic steps built into the salary schedule are built into the expenditure projection
- The salary fringe benefit rate will be at 36%
- Non-salary expenses are expected to increase at a 2% level
- The Academic team is considering a Math Adoption in the FY 2019-20 school year
- The District is developing an allocation model that provides schools with predictable staffing ratios

- There are several District initiatives being considered for level 2 of the predictable staffing model
- The budget will be structurally balanced <u>without the use of fund balance</u>

<u>Staffing:</u>

As of October 1, 2018, there were 6,394 full time equivalent (FTE) positions projected in the FY 2019-20 budget. This is a decrease in FTE's of 238 from October 1, 2017. The following table shows the historical FTE's by bargaining unit.

	10/2/2014 Total FTE	10/2/2015 Total FTE	10/1/2016 Total FTE	10/1/2017 Total FTE	10/1/2018 Total FTE
ABE Teachers	56.55	54.15	54.175	56.9375	56.4375
AFSCME	314.2625	336.1175	323.2563	315.8663	298.49
AMP	119.7038	112.3075	118.59	120.6238	146.5163
Board Members	9*	9*	9*	9*	9*
Employment Contracts	44.6838	39.6213	35.8963	27.3013	6.695
ESP	1333.05	1431.19	1510.13	1436.4588	1375.7413
Food Service	141.3188	170.7088	192.2688	197.595	210.7263
Grounds/Stock workers	20	19	20	20	20
Intermittent/Clerical	11	11	11	10	10
Janitor/Eng./Bus/Ice	280.2	291.6	263	274	269
MAAS	131.8	140.3275	123.1988	123.0363	113.96
MACA	126.5	117.5	117.6	117	115
Machinists	1	1	1	1	1
Non-Represented	66	42	43	38	39
Not assigned	0	0	0	0	0
Principals	121	124	130	128	121
SSS (DNU-7/1/2015)	10.75	2			
Superintendent	1	1	1	1	1
MFT – Local 59	3403.3	3571.85	3593.4	3468.05	3311.3

Trade-Bricklayer	1	1	1	1	1
Trade-Carpenter	9	10	10	10	9
Trade-Electrician	10	10	13	12	11
Trade-Electronics	5	6	7	8	8
Trade-Glazier	3	3	3	3	2
Trade-Painter	16	16	16	16	11
Trade-Pipefitter	22	23	24	24	25
Trade-Plasterer	1	1	1	1	1
Trade-Plaster Tender	1	1	1	1	1
Trade-Plumber	9	9	10	10	9
Trade-Roofer	5	5	5	5	5
Trade-Sheet Metal	15	15	16	16	16
Trade-Sprinkler Fit	3	2.3	2.3	2.3	2.3
Transportation	195	191	182	179	188
TOTAL	**6486.1189**	**6767.6726**	**6837.8152**	**6632.169**	**6394.1664**

***** The Board Member positions are elected officials. While there are 9 members of the School Board, they do not necessarily work a typical Full Time Equivalency.

Salaries and benefits make up approximately 83.2 percent of the district's general fund budget. There are currently 15 labor agreements. Negotiations will begin in January 2019 for contracts expiring on June 30, 2019, including MFT, ESP, Principals, Professional groups such as MAAS, MACA, and AMP, as well as some of the Trade agreements.

Special Education:

Minneapolis Public Schools offers a wide-range of Special Education programs and services. Special Education continues to be a focus of our Legislative agenda to advocate for fully funding the legal requirements of serving the students. During the past several years, the District's Special Education expenditures have been between $108M and $122M. During that same time, the Special Education funding has not fully funded the expenses resulting in a cross-subsidy of between $53M and $56M. That cross subsidy is covered using general fund dollars.

Special Education allocations are used to fund the city-wide classrooms for students with disabilities including: Development Delay (Early Childhood), Developmental Cognitive Disabilities (DCD), Autism, Deaf/Hearing Impaired (D/HH), Coordinated Learning for Academic and Social Success (CLASS), Physical Impairments (PI), and Emotional/Behavior Disorders (EBD). The city-wide classrooms are allocated a teacher, 2 Special Education Assistants, 0.1 or 0.2 FTE

School Social Worker, and a 0.1 or 0.2 FTE additional teacher support for Elementary classrooms. If there is need for an Additional Adult Assistant on the students Individual Education Plan (IEP), that position is also included in the city-wide allocation. In addition to the “city-wide” staff, the Special Education department also funds Adaptive Physical Education teachers (D/APE), School Psychologists, Occupational Therapists, Physical Therapists, and Speech/Language Clinicians.

Predictable Staffing:

Overview
Minneapolis Public Schools (MPS) is committed to ensuring that students in MPS schools have access to a foundational level of school staff resources and support, irrespective of school location and characteristics. “Predictable staffing” is the name for a foundational staffing model that families and students can expect at any MPS school. Implementing a predictable staffing model districtwide will ensure consistent experiences for MPS students regardless of school, and will support stability of district finances and staffing.

Predictable staffing consists of:

1. Foundational staff and funding required to operate based on numbers of students and corresponding staff to teach and support those students
2. A second level of staffing to meet district-specific programming
3. A third level of staffing to meet school-specific programming

Various school-based staff, including principals, APs, school office staff, classroom teachers and support staff, and social workers (see all below) are included in the predictable staffing model. These positions are allocated according to per-pupil ratios, or according to predetermined criteria based on school needs and size. In FY20, the District will implement phase 1 of predictable staffing. This will cost $2,269,766, and will provide the additional resources needed for predictable staffing to 10 schools (mostly small schools, schools with limited compensatory funding, and special education and alternative sites) where current allocations are insufficient to fund the base. In this model, there will continue to be a separate allocation for Special Education city-wide classrooms, Special Education Resource Teachers (SERT) and English as a Second Language (ESL) teachers.

Predictable Staff Allocations	
Role	**Allocation**
Principal	All schools
Assistant Principal	Based on student numbers and school need matrix
Secretary	All schools
Office assistant	All schools with >500 students
Classroom teachers and prep	Consistent with current allocations
Health service assistants	All schools, 32.5 hours/week

Counselors	Middle - 1:500 students; High – 1:350 students
Security monitor	All middle and high schools
Associate Educator allocations	Based on student numbers
Social worker	All schools, 1:600 students
Non-salary	$100/student
Custodian	All schools, number based on building size

Personnel Services – Other Payroll Outlay and Benefits

Substitutes:
The cost of reserve or substitute staff has been approximately $5.0 – $5.5 million each of the last 3 years. This amount is expected to continue into FY 2019-20.

Medical Coverage:
Group medical coverage contribution rates are expected to increase by 6% in FY 2019-20. This increase will have to be negotiated into the collective bargaining agreements as they are settled. The total general fund budgeted expenditures for medical coverage are expected to increase approximately by $1.2 million for FY 2019-20.

Other Benefits:
Other Benefits, including Social Security, Medicare, Retirement, life Insurance, Dental Insurance, and Unemployment benefits are expected to increase by the same percentage as salaries per the negotiated agreements.

Non-Salary Expenditures:
Non-Salary expenditures make up approximately 16.8% of the District's General Fund operating budget. In the Pro Forma projections, it is assumed that the cost will increase by 2%. Items with potential greater increases than 2% include:

- Utilities – depending on weather conditions over the Winter, electricity, natural gas and fuel could increase at greater than expected rates.
- Transportation contracts – most of the outside transportation contracts will be due for renewal in 2019. The District should expect to see transportation services providers passing increased costs for driver's wages and the requirement for sick leave on to us. The extreme shortage of drivers also suggests that there may be additional unanticipated costs related to recruiting and retaining staff.

Economic Analysis:

The Minneapolis is a member of the Minnesota School District Liquid Asset Fund Plus (MSDLAF+). The Fund was established for the purpose of allowing Minnesota public school entities and districts (collectively "school districts") to pool their investment funds to seek the highest possible investment yield. As such the district's funds invested through MSDLAF+ are subjected to the macro economic conditions. The table below shows the District's investments as of September 30th, 2018:

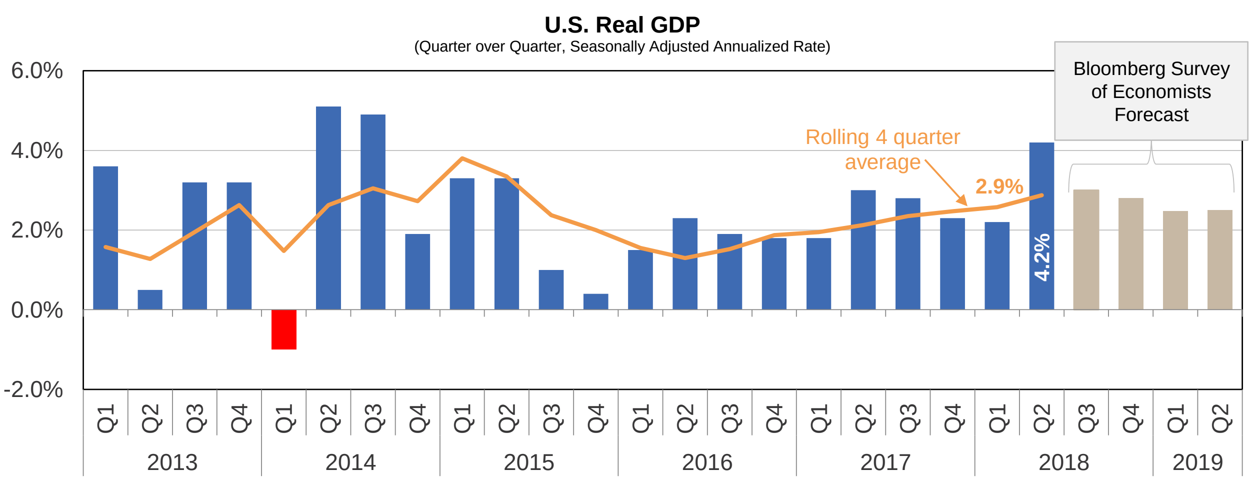
Investment Allocation

Investment Type	Closing Market Value	Percent
U.S. Treasuries	$49,698,770.30	12.84%
Federal Agencies	$77,019,856.10	19.90%
Commercial Paper	$33,630,128.70	8.69%
FDIC-Insured Certificates of Deposit	$0.00	0.00%
TERM Investments	$12,800,000.00	3.31%
Local Government Investment Pool	$213,954,779.21	55.27%
TOTAL	**$387,103,534.31**	**100.00%**

The U.S. economy continues to move along on a strong note. U.S. economic conditions have been characterized by:

- Strong growth fueled by tax cuts and increased spending;
- Record corporate profits, driven in part by tax cuts; and
- Core inflation reaching the Federal Reserve's long-term target of 2.0% for the first time since 2012.

During this past year, the jobs market continued to solidly improve, with a low unemployment rate of 3.7% and the under-employment rates continuing to decline. The surge in growth seen in the first part of 2018 may not be sustainable, however, as reflected in moderated future growth forecasts (see the chart below). With U.S. mortgage rates rising and home prices elevating, homebuyer affordability continues to worsen, with housing market demand and momentum slowing down. There are also potential expected headwinds in the form of tariffs, a widening trade deficit, and rising interest rates.



Bond Markets:

In November 2018, the Minneapolis Public Schools is planning on selling $103 million in General Obligation Bonds (GOB). Most Federal Reserve officials consider continued gradual short-term rate hikes the appropriate policy path, warranted by steady growth, robust employment, and stable inflation. In addition, most officials seem willing to raise rates slightly above the long-term neutral rate estimate of 3.00%, which would push the Fed into modestly restrictive territory. Regarding trade policy, while officials remain concerned about U.S-China trade tensions potentially slowing economic activity, the Fed's most recent economic analysis showed "a small net effect" on domestic growth in the coming years. The one uncertainty that could alter the Fed's views is the potential impact from trade tensions with China.

Confounding most forecasters, longer-term interest rates have remained relatively stagnant, with the yield on 10-year Treasuries barely touching 3.00%. Most market participants have remained cautious amid the lingering geopolitical concerns and trade tensions, which has kept longer-term rates in check. Investors continue to closely monitor geopolitical risks, including the Italian budget crisis, Brexit negotiations, and the rising U.S.-Saudi diplomatic tensions, which continue to weigh on the markets.

The yield curve remains quite flat relative to historical averages. The Fed raised rates three times already in 2018 to a new target range of 2.00% – 2.25% and the majority of analysts believe that the Fed will likely raise rates at least two more times in 2019 as a synchronized global economy continues to take hold. Currently, the Fed has an optimistic view of the economy, noting the strengthening labor market and low unemployment rate, with inflation remaining near its 2.0% target. The near-term fixed income estimates include expected interest rate increases in 2018 and 2019. Over the long term, interest rates are expected to stabilize at lower levels than the historical average.