MEMO

MINNEAPOLIS PUBLIC SCHOOLS
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Date: November 12, 2019

To: Board of Education, Minneapolis Public Schools

From: Superintendent Ed Graff, Minneapolis Public Schools

RE: Pro-Forma Financial Projections – General Fund

We have completed an initial pro-forma projection for the General Fund for Fiscal Years 2021 through 2025 based on updated enrollment trends and expected increases in revenue and expenses. Our projection shows that while revenue is expected to show formula increases of approximately 2%, enrollment decreases and ongoing expense increases will drive increasing annual deficits. Absent structural changes the district should expect to deplete its General Fund balance by the end of Fiscal Year 2023. (Table 1)

Table 1 5 Year Projection (General Fund)
Millions of $'s

	FY 20	FY21	FY22	FY23	FY24	FY25
Revenue	$630.3	$618.9	$620.6	$621.2	$621.3	$621.7
Expense	$632.2	$646.5	$650.1	$663.1	$676.1	$693.6
Change in Fund Balance	($1.9)	($27.6)	($29.5)	($41.9)	($54.8)	($71.9)
Ending Fund Balance	$69.5	$41.9	$12.4	($29.5)	($84.3)	($156.2)

Revenue Assumptions

Our projection assumes a continuing downward enrollment trend with declining enrollment in every year (Table 2). The adjusted pupil unit reflects the enrollment, weighted at 1.2 ADM for 7-12 grades. Additionally, the revenue projection for the current fiscal year (FY20) assumes an incremental reduction of 300 students to what was budgeted.

Table 2 Enrollment Projections

FY	ADM Est	Change	% Change	Adjusted Pupil Unit	% Change in APU
2020	33,426			36,311	
2021	32,718	-708	-2.1%	35,546	-2.1%
2022	31,775	-943	-2.9%	34,485	-3.0%
2023	31,253	-522	-1.6%	33,907	-1.7%
2024	30,676	-577	-1.8%	33,243	-2.0%
2025	30,139	-537	-1.8%	32,635	-1.8%

The pro-forma assumes annual 2% increases to the basic per pupil formula through the entire five years but does not assume any increases for other per-pupil amounts in Gifted & Talented, Equity, Transition, ELL, or Q-Comp, as these per-pupil amounts have not risen consistently in recent years. When possible, revenue amounts for FY21 from the Levy Certification Report have been used, and the calculation methods used in that report have been used for multi-year projections. Fiscal Year 2021 includes several negative adjustments to account for the over-levy in FY20. These negative adjustments reflect those calculated and reported in the Levy Certification Report.

Given the uncertainty and variability in State/Local Grants, Federal Grants, funded programs and miscellaneous revenue, these amounts are held flat in this projection.

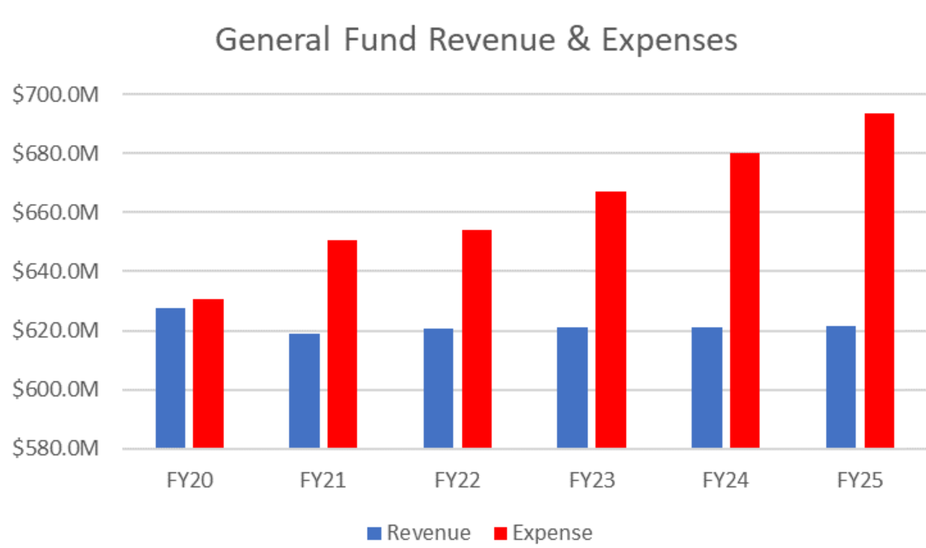
Expense Assumptions

The pro-forma assumes 2.5% annual increases in salary across all bargaining units and in extended time costs. For every 25-student decrease in enrollment, it is assumed 1.2FTE fewer classroom teachers: 1 FTE for classroom time and .2FTE for prep time. For fringe, the district's standard budget assumption of 36% of salaries is used. An additional $850K of market equity salary expense is included in FY21 and projected forward as additional annual expense.

For non-salary expenses annual inflation is assumed to be 2%. Additionally, a one-time cost of $4.5M is added in FY21 for K-2 Math Adoption.

Analysis

Due to chronic enrollment declines, we can expect district revenue to remain flat for the near future while costs continue to rise. While we start from a balanced budget in FY20, to continue balancing the budget going forward absent structural change, we must have a mix of enrollment and funding increases sufficient to cover our outstanding labor commitments and the rising costs of supplies and materials. Unfortunately, we can only expect the formula amount through which we receive the bulk of our state aid to increase by only 2%. Even if enrollment were to hold steady this would be insufficient to fund our existing cost structure going forward.



Our pro-forma assumes few structural changes (the only real change being the elimination of teacher FTEs as the enrollment base erodes) so these ongoing cost increases quickly begin to show themselves as annual deficits funded by our reserves. This disparity is pronounced in FY21, which is impacted by two additional factors. First, the maximum levy that we can certify is lowered by $3.5M due to an over-levy in FY20. This was caused by an inaccurate enrollment number, and artificially increases FY20 at the expense of FY21. Second, FY21 includes a one-time expense of $4.5M to fund a needed math curriculum adoption.

Table 3 shows the pro-forma projection for FY21 and compares to FY20 as budgeted. Revenue of $618.9M is consistent with our expectations given the over-levy of $4.2M in FY20, which creates an expected $8.4M downward swing in revenue between FY20 and FY21. The remaining revenue decrease is explained by state aids that are not expected to increase on a per-pupil basis as well as other revenues, which are projected conservatively going forward.

Table 3 FY 21 Pro-Forma
Millions of $'s

			Year Over Year Change	
	FY20	FY21	$	%
State Aid	$400.9	$398.6	($2.3)	(0.6%)
Property Tax	$149.7	$142.9	($6.8)	(4.6%)
Federal Aid	$ 52.2	$ 52.0	($0.2)	(0.5%)
Other	$ 27.5	$ 25.5	($2.0)	(7.3%)
Total Revenue	$630.3	$618.9	($11.4)	(1.8%)
Planned Use of Contingency	$0.0	$8.0	$8.0	
Salary/Wages	$380.6	$387.5	$7.0	1.8%
Fringe Benefits	$133.5	$139.5	$6.0	4.5%
Purchased Service/Contracts	$ 77.8	$ 79.3	$1.6	2.0%
Supplies	$ 28.8	$ 32.3	$3.5	12.2%
Capital Expenses/Equipment	$ 3.6	$ 3.7	$0.1	2.0%
Other Expenses	$ 8.0	$ 4.1	($3.9)	(48.8%)
Total Expenses	$632.2	$646.5	$14.3	2.3%
Increase/(Decrease) Fund	($1.9)	($19.6)	($17.7)	

Salary and Fringe expenses are expected to increase by $13M in FY21, which reflects an increase of $16.5M for the current workforce offset by $3.5M in savings due to a 34FTE reduction in teachers due to declining enrollment.

In FY21 we expect revenue to decrease by over $11M while expenses increase by about $14M. To mitigate the shortfall, we are proposing a planned release of $8M in funds held in contingency. As the shortfall is not a one-time event, using contingency funds will not solve for the projected shortfalls in future years. As costs increase every year deficits will grow larger and larger, eventually fully depleting the General Fund. Given the reality of annual enrollment decreases, the existing cost structure is unsustainable.

The Administration is working on recommendations that will address the $19.6 million dollar projected budget deficit for the FY 20-21 school year. The recommendations will be presented to the Finance Committee and, consequently the full board, at a future meeting and shared with the community to get feedback and possible suggestions for final decisions.