Financial Forecast and Budget Plan | 1.27.25 | Narrative
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Financial Cycle
One of our strategic commitments is stewardship. Our financial cycle ensures that we are regularly reviewing information and sharing it with the Board and our community. For the financial projection, we utilize the recently approved revised budget as our base information and then use assumptions to project forward. The assumptions that we set in January are the building blocks for the budget process in the spring. After the fiscal year is complete, we go through our audit process and finalize the prior fiscal year data. Using our final audited fiscal data, our October 1 enrollment, and staffing information we then revise the budget as needed.

Known Parameters/Budget Priorities
Our financial forecast reflects a combination of current data and assumptions for the coming years. Fiscal year 2023-24 concluded with a 13.83% unassigned fund balance, which was lower than anticipated due to higher-than-projected expenditures. The revised budget approved in December projects a $592,544 deficit.

The district anticipates continued enrollment decline into the 2025-26 school year, which is significant given that 70% of our revenue is tied to enrollment. Additionally, 80% of our budget is allocated to salaries and benefits. In 2022, we engaged over 70 community members, parents, staff, and students in a collaborative process to establish fiscal priorities. One of the most significant challenges we face is the ongoing impact of underfunded or unfunded state mandates.

Enrollment Projection
Enrollment remains a critical driver of our revenue, accounting for more than 70% of the total. Since 2019-20, the district has experienced declining enrollment, a trend expected to continue. For the 2025-26 school year, we project a decrease of 53.2 weighted pupil units (approximately 46 students). This decline will affect elementary and high school enrollment, while middle school enrollment is expected to see a modest increase.

Financial Assumptions
Despite careful planning, numerous variables can impact our forecast and budgeting process. We base our assumptions on available data, professional judgment, and historical trends.

Revenue Assumptions:
- Ongoing and incremental decline in enrollment
- 2.4% increase in basic per-pupil funding for 2025-26 (per MDE), followed by a 2% increase in subsequent years
- Referendum inflationary increases averaging 2%
- 3% increase in special education funding
- Federal funding held flat
- Activity fees and participation levels held flat
- No additional funding for summer unemployment expenditures
- Reduced interest revenue projections for conservative budgeting
- Continued increases in the Other Post Employment Benefits (OPEB) levy

For 2025-26, revenue is projected to increase by just 0.8%, reflecting declining enrollment, the loss of summer unemployment revenue, and reduced interest income.

Expenditure Assumptions:
- Average salary increases of 5% for all groups in 2025-26, with 3.5% annual increases thereafter, reflecting the competitive labor market and inflationary pressures
    - The salary projection in the previous financial forecast underestimated the increase in salaries for 2023-24. In addition, there were a few licensed staff positions added to address increased special education services due to newly enrolled students. This resulted in approximately $1.6 million of additional costs over the forecast (1.2% variance to budget). In any forecast, variances compound each year. The variance for 2024-25 from the budget is $2.5 million.
    - This is one of the many reasons we have a multi-step financial cycle, and a healthy fund balance. These are critical tools that enable the district to respond thoughtfully and ensure long term financial stability.
- Benefits averaging a 10% increase in 2025-26 and a 5% increase annually thereafter, including:
    - TRA employer contribution increase from 8.75% to 9.5% ($225,000 additional cost)

    - 5% annual increase in district health contributions ($310,000 annually)
    - Paid Family Medical Leave Tax implementation (50% employer contribution, estimated $175,000 annual cost)
    - Increases in summer unemployment, dental contributions, and OPEB expenses
- Staffing levels held constant
- Non-salary budgets increasing by 3.5% annually
- Property/liability insurance increasing by 26%
- Ongoing concerns related to inflation and procurement

Without intervention, we project revenues of $68.3 million and expenditures of $72.8 million for the 2025-26 school year. This would result in a $4.5 million deficit and an unassigned fund balance of 4.9%, below the Board's 14% target. Action is necessary at this time.

Financial Projection and Recommendations

To ensure the district's long-term financial health, we recommend a **$6 million** budget reduction target for the 2025-26 school year. While this is a difficult decision, it is a necessary step to safeguard our financial stability.

The financial challenges facing our district are not unique. State funding has not kept pace with inflation. If basic per-pupil funding had been adjusted for inflation since 2003, our district would receive $1,364 more per pupil—equivalent to $5.6 million in additional revenue. This stark gap underscores the challenges many districts face today.

This approach aims to provide a transparent and data-informed overview of our financial landscape. Together, we remain committed to thoughtful stewardship and maintaining the quality of education for our students.

Additionally, the current long term financial projection and budgeting practices have served the district well for years. However, with incremental declining enrollment a reality for the foreseeable future we will be researching alternate budgeting practices in response to that reality.

Reimagine NHS Bond

Some community members may wonder why a budget reduction is necessary following the approval of the $121 million bond for Northfield High School. It's important to note that bond funds are legally restricted to facility needs and cannot be used for operational expenditures like staffing. The district is already maximizing operational funds provided by our supportive voters. As the saying goes: **"Bonds are for buildings; levies are for learning."**