



**TO:** School Board Members

**FROM:** Peter Olson-Skog, Superintendent

**DATE:** April 6, 2026

**SUBJECT:** Financial Outlook and Potential Capital Project Levy

**BACKGROUND**

As part of the district’s ongoing financial planning, the School Board previously approved budget parameters that include approximately \$2.5 million in reductions for the 2026-27 school year. These reductions are currently being developed and implemented by the administration and represent permanent changes to better align ongoing expenditures with ongoing revenue.

These actions are part of a broader, multi-year effort to address a structural gap between revenue and expenditures. In general terms, district revenues are projected to grow at approximately 1% annually, while expenditures are projected to grow closer to 3%. This creates an ongoing gap that must be addressed through a combination of reductions and other strategies.

The Board may recall recent legislation tying a portion of school funding to inflation and reasonably question why overall revenue growth remains limited. There are several factors that help explain this:

- The inflationary adjustment applies only to a portion of district revenue, while projections reflect total revenue.
- The adjustment is capped at 3%, even in years when inflation exceeds that level.
- Other revenue sources are declining. For example, Special Education Transportation is no longer fully reimbursed by the state, requiring increasing contributions from the general fund.
- Additional proposed reductions to Special Education funding beginning in 2027-28 could further reduce revenue.
- At the same time, key cost drivers, such as health insurance, continue to increase at rates that exceed general inflation.

Together, these factors contribute to the structural imbalance between revenue and expenditures.

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**CURRENT FINANCIAL CONTEXT**

The district has taken a phased and responsible approach to managing this challenge over time:

### **Advocacy at the State Level**

The district continues to work with legislators to improve school funding, including efforts to address the special education cross-subsidy, limit unfunded mandates, and advocate for sustainable funding structures.

### **Use of Fund Balance**

Prior to and during the COVID period, the district utilized its fund balance to help maintain stability for students and staff. At that time, the fund balance was in the double-digit range as a percentage of expenditures.

### **Decline in Fund Balance**

As financial pressures persisted, the district's unassigned fund balance declined to approximately 2% by the end of the 2024-25 school year. This is well below the School Board's policy target of 8%.

### **Initial Corrections**

During the current school year (2025-26), the district implemented reductions designed to begin addressing the structural gap while minimizing direct impact on the classroom experience. These actions are expected to result in modest improvement to the fund balance.

### **Approved Reductions for 2026-27**

The additional \$2.5 million in reductions for 2026-27 will further stabilize the district's financial position and continue progress toward rebuilding the fund balance.

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## **WHAT THE CURRENT PLAN ACCOMPLISHES**

The reductions already underway and planned represent meaningful and necessary steps:

- They are permanent changes to the district's cost structure
- They reduce the rate at which expenditures outpace revenue
- They allow the district to begin rebuilding its fund balance toward the Board's 8% target

Based on current projections, these actions are expected to increase the district's unassigned fund balance from approximately 2% to approximately 5% by the end of the 2026-27 school year. This represents meaningful progress, but not full alignment with Board policy.

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## **ONGOING STRUCTURAL CHALLENGE**

While these steps are significant, they do not fully resolve the underlying structural issue.

Even after implementing \$2.5 million in reductions:

- The gap between revenue and expenditures is reduced in the short term
- Over time, expenditures continue to grow faster than revenue
- The structural gap re-emerges in future years

As a result, the district's ability to continue rebuilding its fund balance beyond the projected 5% level is limited without additional action.

Using current projections:

- Additional reductions of approximately 1-2% per year would be required to maintain the fund balance at its projected level
- Further reductions beyond that would be necessary to continue progress toward the Board's 8% target

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## **LOOKING AHEAD: COMMUNITY DIRECTION AND ADDITIONAL OPTIONS**

Given this context, the administration is beginning to explore additional strategies to address the ongoing structural gap while maintaining financial stability.

One option available under Minnesota law is a **capital project levy** (Minnesota Statutes 123B.63 and 126C.10, Subd. 14). With voter approval, this type of levy allows districts to fund certain allowable expenses outside of the general fund.

Examples of eligible expenses include:

- Textbooks and instructional materials
- Classroom supplies and paper
- Equipment and furnishings
- Certain building-related and operational costs

Shifting these costs from the general fund to a voter-approved levy can:

- Reduce pressure on the general fund
- Slow the need for future reductions
- Support more stable long-term financial planning

It is important to note that the primary purpose of a capital project levy would not be to expand programs or add services. Rather, it would allow the district to fund existing costs in a different way, helping to manage ongoing financial pressure.

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## **ROLE OF THE SCHOOL BOARD AND COMMUNITY**

At its core, this is a question of community direction.

The district will continue to:

- Operate within its means
- Make responsible, ongoing adjustments to expenditures
- Work toward rebuilding its fund balance in alignment with Board policy

At the same time, the Board may consider whether to ask voters if they wish to:

- Provide additional revenue to reduce the size of future reductions, or
- Continue on the current path, which would require additional reductions in the years ahead

Today's discussion is intended to introduce this context. The administration is not recommending any action at this time, nor has sufficient information been presented for the Board to do so. In addition, required processes, including a Review and Comment process, must occur before any formal action could be taken.

The administration will return later this spring or summer with more detailed information regarding a potential capital project levy, including scope, timing, and impact. At that time, the Board will determine whether to take action to seek community input through a referendum.

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## UPCOMING TIMELINE

The administration will continue to provide updated financial information in the coming months:

- **April:** Annual audit (2024-25 fiscal year close)
- **May:** Updated projections for the current year
- **June:** Proposed 2026-27 budget aligned with Board parameters

Additional information regarding a potential capital project levy would be brought forward in coordination with these updates and any required state review processes.

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## SUMMARY

- The district is implementing \$2.5 million in permanent reductions
- These actions improve the financial position but do not eliminate the structural gap
- The district is working to rebuild its fund balance toward the Board's 8% target
- Without additional revenue, further reductions will be required in future years
- A capital project levy represents one state-authorized option to reduce the size of those future reductions
- The Board will determine whether to seek community direction through a future referendum

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**RECOMMENDED RESOLUTION**

No resolution is needed at this time.