Item 9-A: Business Services Report: Current Financial Outlook

AAASD Board Of Education
Wed, Mar 10, 2025 6:00PM

Kay Eggert (Board President) 25:57
All right, moving to reports, business services, current financial outlook. Holly Burr.

Holly Burr (AASD Executive Director Of Finance) 26:08
I'll go try that again. You should have received from Kayla today a document, kind of looks like this, called "The Budget Structural Deficit Update." And we were—we'll just—you've seen this in the past. We're just going to kind of go through it again, bearing in mind we are early in the stages, but also just keeping it forefront with all of us, kind of where we're sitting.

Budget Structural Deficit (updated 3/10/25)

2024-25 Fiscal Year		2025-26 Fiscal Year		2026-27 Fiscal year	
Beginning Fund Balance (1-time spend) (Unassigned FB)	$15.3 million	Beginning Fund Balance (1-time spend)	$4.5 million	Beginning Fund Balance (1-time spend)	-$3.5 million
Revenue Increase	$9.8 million	Revenue Increase (4.5 reg, .5 SPED)	$5.0 million	Revenue Increase	$4.5 million
Plus HRA discontinuation savings	$.5 million	*State allocation (1-time spend)	$1.0 million	*Plus decrease in operational expenses or increase revenue via referendum	$10.0 million
		Plus HRA discontinuation savings	$.5 million		
Minus structural deficit carryover	$7.5 million	Minus structural deficit carryover	$9.0 million	Minus structural deficit carryover	$8.0 million
Minus health plan increase	$4.4 million	**Minus health plan increase (8%)	$3.0 million	**Minus health plan increase (8%)	$3.0 million
Minus increases to operational expenses	$3.8 million	***Minus increases to operational expenses	$2.0 million		
Minus additional staffing (positions added)	$0.6 million	Minus PTO?	$.5 million		
Minus compensation increases	$3.8 million				
Minus one-time expenses	$1.0 million				
Ending Fund Balance	$4.5 million	Ending Fund Balance	-$3.5 million	Ending Fund Balance	$0
Structural deficit to carry over	$9.0 million	Structural deficit to carry over	$8.0 million	Structural deficit to carry over	$0

2025-26 notes:
* Assumes release of funding for ELA materials purchased in 2024-2025
**Requires changes to health plan
***Requires changes to operations to reduce the increase
Note: Does not include compensation or staff increases

2026-27 notes:
*Reversing our annual increase in operational costs to a decrease in operational costs will require a combination of staff and program reductions
**Requires changes to health plan
Note: Does not include compensation or staff increases

Holly Burr (AASD Executive Director Of Finance) 26:54
So, we'll start with the left column, which is '24-'25, our current fiscal year. And just a reminder, we started the year with a unassigned fund balance of about $15.3 million. Now recalling that that's not our full fund balance, we have a significant amount that's assigned or otherwise set aside, but this is the amount that's available for us to use kind of at the Board's choice.

Holly Burr (AASD Executive Director Of Finance) 27:27
The following details after that, in that column, then are the changes in revenues and expenses that we budgeted for the current year. And again, if you recall, we have a current deficit budget of about $10.9 million. We talked a little bit a couple weeks ago about the potential it could be even a little bit higher, but for our purposes tonight, I used the budget numbers. That would leave us at the end of the year with about $4.4 - $4.5 million in our unassigned fund balance. That also puts our structural deficit, meaning the deficit moving forward into the next year, at about $9 million, because only a very small portion of that is one time spending. Any quick questions there? I think that's kind of just a overview, reminder of where we are.

2024-25 Fiscal Year	
Beginning Fund Balance (1-time spend) (Unassigned FB)	$15.3 million
Revenue Increase	$9.8 million
Plus HRA discontinuation savings	$.5 million
Minus structural deficit carryover	$7.5 million
Minus health plan increase	$4.4 million
Minus increases to operational expenses	$3.8 million
Minus additional staffing (positions added)	$0.6 million
Minus compensation increases	$3.8 million
Minus one-time expenses	$1.0 million
Ending Fund Balance	$4.5 million
Structural deficit to carry over	$9.0 million

Holly Burr (AASD Executive Director Of Finance) 28:24
The middle column then is looking forward to next year, '25 - '26, and there I only included monies that I know. So, this is kind of worst-case scenario, because I'm not banking on many—very many what ifs—a few, but you'll see as we kind of go through this. So, I included the $325 per student which is currently in state law. That's the $4.5 million. And then we are anticipating a slight increase in special ed aids just because our costs increased this year, and that's based on your costs. So that puts us at $5 million for that.

2025-26 Fiscal Year	
Beginning Fund Balance (1-time spend)	$4.5 million
Revenue Increase (4.5 reg, .5 SPED)	$5.0 million
*State allocation (1-time spend)	$1.0 million
Plus HRA discontinuation savings	$.5 million
Minus structural deficit carryover	$9.0 million
**Minus health plan increase (8%)	$3.0 million
***Minus increases to operational expenses	$2.0 million
Minus PTO?	$.5 million
Ending Fund Balance	-$3.5 million
Structural deficit to carry over	$8.0 million

* Assumes release of funding for ELA materials purchased in 2024-2025

**Requires changes to health plan

***Requires changes to operations to reduce the increase

Note: Does not include compensation or staff increases

Holly Burr (AASD Executive Director Of Finance) 29:13
I also included the $1 million with an asterisk in reimbursement funding for the new ELA materials that were purchased this year. That money was originally designated by the state but is just being held as far as and not released yet. We are still hoping that we get that money, so I put it on for next year in hopes that it's released some somewhere between now and sometime next year. And then, again, the little savings due to the sun setting of our HRA plan that was associated with the health insurance. If you recall, we ended that January— well changed the—we ended the health insurance HRA as of January 1. So, we'll have a little bit of that carry over next year as well.

Holly Burr (AASD Executive Director Of Finance) 30:06
Changes in expenses then for next year, I included a very modest increase in health plan costs of 8% at the $3 million. This would likely meet mean, however, that we'd have to make some changes to the health plan at—in order to keep that below 10%. Right now, kind of industry standard is just the cost that alone are going up 10% regardless of usage. So, we'd have to change usage or change—make changes to the plan to get that below 10%. Not out of the realm of possibility. So, I budgeted it at—or I projected it at 8% for next year.

Holly Burr (AASD Executive Director Of Finance) 30:55
The next is a still an increase in operating expenses but significantly less. So, we've been seeing, historically, over $5 million in—$4 million, $5 million increases in operating expenses. We budgeted $3.8 this last year. If we only budgeted $2 million next year, that would still mean we'd have to make some cuts somewhere. There's items that are increasing faster than the 3% standard. So that would mean we'd have to, you know, find some places where we could make some cuts to get that down to two, $2 million increase.

Holly Burr (AASD Executive Director Of Finance) 31:38
And then the last I put on here (and you'll see I put a question market mark on it on purpose), but we continue to have discussions about PTO. And if that PTO does come as a change that comes with a price tag of about $500,000 estimated.

Holly Burr (AASD Executive Director Of Finance) 31:56
With all of that said, then we would end—oh, one more—one more note, kind of in the asterisk at the bottom. So that's what that all is included. What is not included is compensation or staffing increases. So left those out at this time. Not saying that that's what's happening, but just so everybody understands that if we would do—have conversations about staffing and or compensation increases that would be in addition to what's on this sheet. We would end the year with a negative $3.5 million in our unassigned funds. What this means is that we would have to temporarily decrease our assigned or reserved fund balance amounts. That is not recommended, you know, at a long length, but very temporary.

One year, we could do it for a small percentage. Any quick questions, then on next years? Otherwise, I'll keep going, and we can talk about it at the end.

Holly Burr (AASD Executive Director Of Finance) 33:05
Looking forward, then two years out to '26 - '27, the only revenue I showed on here is the 325 increase to the revenue limit, the state aid, as right now that's the only monies we know.

2026-27 Fiscal year	
Beginning Fund Balance (1-time spend)	-$3.5 million
Revenue Increase	$4.5 million
*Plus decrease in operational expenses or increase revenue via referendum	$10.0 million
Minus structural deficit carryover	$8.0 million
**Minus health plan increase (8%)	$3.0 million
Ending Fund Balance	$0
Structural deficit to carry over	$0

*Reversing our annual increase in operational costs to a decrease in operational costs will require a combination of staff and program reductions

**Requires changes to health plan

Note: Does not include compensation or staff increases

Holly Burr (AASD Executive Director Of Finance) 33:24
This again, is—on the expense side I only included the health insurance increase and no increases, basically, for anything else, including staffing or compensation. The number in the middle there with the asterisk that says plus, it says $10 million. The $10 million figure is what we would need to come up with to balance the budget in '26 - '27. Now balancing the budget, we all know it takes several forms. And you know, in my mind, it's more most likely going to be a combination of increased aid from the state, us taking a look at our operations and where we can make cuts without truly hurting education (but some of those could be significant if we don't find funding elsewhere), and going to our taxpayers through an operating referendum, would also be an option.

Holly Burr (AASD Executive Director Of Finance) 34:38
I think that's all I had. So, what else can I tell you? What other questions do you have?

Greg Hartjes (Superintendent - AASD) 34:45
So, I just want to add that when we first brought this information to you, looking at a three-year fiscal cycle, it wasn't as dire as it is today as we share it with you. And the biggest reason is this year in the first iteration of this back in September, we only had an increase of our health plan of $2.5 million. As you see here, it's now $4.4 million. So, it's gone up by just under $2 million this year alone. And so that's one of our largest increases. And certainly that carries over. And so, as Holly said, next year, to only get a $3 million increase in our health plan, that's an 8%, we would have to see some things improve for us, because we have not gotten 8% in many years.

Greg Hartjes (Superintendent - AASD) 35:40
And then, obviously, when we go to '26 - '27, two years out from now, and many things can happen, but we do have to look at that and kind of target—that would be the year that we try to correct our structural deficit. Certainly, that is the end of the next two-year state budget which we know very little about. Certainly, we're all advocating for increases beyond the $325 per pupil with our legislators. But at this time, the anticipation is that a budget or state budget probably won't be done by July 1 when our next fiscal year starts.

Holly Burr (AASD Executive Director Of Finance) 36:22
And before anybody asks, the next thing we don't know is what's happening on the federal level, as far as grants or anything like that goes either. I did not do any estimating at this point, as far as not including some of those monies because that would—I don't know. We don't have any guidance yet on what's changing on the federal level.

Nick Ross (Board Member) 36:51
So, I was actually going to ask a different question about stuff that's happening at the federal level, which is, like, increase in operational costs due to tariffs. We have any sense of how or if that would impact us?

Holly Burr (AASD Executive Director Of Finance) 37:07
Anything's possible. As we saw the, you know, eight years ago, the last time President Trump put some tariffs on we did see that just in general, you know, the economy as a whole, we saw some changes. There is absolutely no way to predict that right now. So, but fair point is that may impact things as well. On the flip side, you know, we're hoping gas prices stay level, if they're going to be, you know, holding true on some of those promises. So, we'll see, I guess. Unfortunately, that's yet another big question mark.

Jason Kolpack (Board Member) 37:50
So, we don't have very many levers to pull, especially on the revenue side, and at what point does it become prudent to start planning for the potentiality of a referendum in terms of this timeline?

Holly Burr (AASD Executive Director Of Finance) 38:10
So, if we were going to consider a referendum for the '26 budget year—correct me if I'm wrong, Greg, but—I think that the best time to plan for that would be April next year, which means we would have to make that decision by January of 2026, if we were, if we were going to take that to referendum. So, we will continue to talk about this throughout the budgeting process over the next nine months. Six months for the budgeting process, but then if that becomes, you know, a realistic option, then we will definitely have to be having some discussions about that in the next nine months.

Greg Hartjes (Superintendent - AASD) 38:58
So, I think what's really important for us to understand is we want to get as close as we can to the number that we have to target. So, when we look at this right now, we're saying $10 million is what we would have to come up with as a combination of decreases in expenses and increases in revenue in that '26 - '27 year. And so, once we feel really good about that number, maybe it's time next fall where we would have to really say, all right, we think we should look to cut—maybe it's out of that $10 million, we can come up with $2 million in cuts and $8 million in an operational referendum. Or is it $5 million / $5 million?

Greg Hartjes (Superintendent - AASD) 39:49
Cuts are going to be anywhere where we can minimize impact on students, obviously. And so, you know, there are, there are ways that we've done that, and in the past where we said, all right, we're going to try to cut, you know, 1%, 2% from anything that's not classroom teachers, and so that means positions and equipment and facilities budget and tech services budget. And those are hard cuts to make, obviously, because as inflation is going up for us to be going in the other direction. But really, those are the discussions that we will have to have is exactly to your point which levers do we have? And so, you know, it's, it's cutting expenses and also increasing revenues. And we're probably going to have to do a combination of both.

Ed Ruffolo (Board Member) 40:40
Holly, what—in your assumptions what were you using for special education reimbursement as the base for your projections? The current 30%? At least some talk of increasing that, which would be very helpful, yes?

Holly Burr (AASD Executive Director Of Finance) 40:55
There is, and we remain hopeful that we'll get something from that. Unfortunately, I went with what we know. And so, this, probably, like I started with, is probably is worst case scenario. I like to go up from there. It's easier to go up then down. But yes, we—I—we don't know where those discussions are going yet, and so I don't want to bank on 60%. And like last time, you know, they were very hopeful we were going to get and we got three. And then, because of the increased costs, it actually went backwards. So, we're back down to 30.

Ed Ruffolo (Board Member) 41:44
Is that because it's sum certain?

Holly Burr (AASD Executive Director Of Finance) 41:46
That is because it is sum certain, correct. And everybody knows what that means, right? "Sum certain" means they set an exact amount, and they say, we are going to fund this program at this dollar—this billions of dollars. What happens is the costs increase, and so then there's not enough money. What we would like to hear is "sum sufficient". At sum sufficient, then it's—if it's 35% or 50%, it's times whatever the costs are.

Ed Ruffolo (Board Member) 42:21
Based on my research—I don't know if you can confirm this—there's only seven states that are sum certain, and of the seven we're by far the lowest percentage reimbursement. Many states that are sum certain are at 100%. So that's—clearly that's leaving a big hole in our budget.

Holly Burr (AASD Executive Director Of Finance) 42:44
Yeah, that's correct. Yeah.

Ed Ruffolo (Board Member) 42:47
The unpleasant reality is for us to make any kind of real impact on the cost curve, it really comes down to staffing, and it seems like you're—we're thinking about waiting till 2026, yet if we do staff reductions based on attrition, people leave, people retire, and we don't place them. Wouldn't that speak to starting that next year? Would that give us more time? Because again, I want to minimize the impact as much as I can, and this seems like the sooner we start, the less the impact might be.

Holly Burr (AASD Executive Director Of Finance) 43:29
It wouldn't—in those scenarios, it doesn't impact the person that leaves; however, it does put a strain on whatever department that is. You think of a special ed department at a school that has, you know, five special ed teachers at one grade level and one leaves, that is a huge burden on the remaining four. So, although that might be feasible for some, you know, if, like Greg said, non-student-facing positions that we could maybe maybe look at doing some of that shuffling there, I would not recommend that without a really well thought out plan for any student-facing positions.

Ed Ruffolo (Board Member) 44:20
And clearly, I have to leave that to the leadership team, because you know the details much better than I. Another question on the assumptions. When you said "no increases," is that no compensation increases and no Step Increase?

Holly Burr (AASD Executive Director Of Finance) 44:37
It is.

Ed Ruffolo (Board Member) 44:42
Going to have a lot of disgruntled staff.

Holly Burr (AASD Executive Director Of Finance) 44:44
We will.

Ed Ruffolo (Board Member) 44:46
So, I wonder—again, I leave it up to all of your considerations if starting the reductions through attrition sooner rather than later might provide some relief there. Thank you.

Kay Eggert (Board President) 45:03
Holly, you stated you are thinking this could be worst case scenario. You're hopeful. In some of the past budget cycles where we don't actually get a budget from the state, is not decided until into the summer sometime, we have used—we've gone through scenarios of actually having a zero increase. Some of the discussions that I have heard, and I know it's just all discussions. It's all up in the air, but there are these pending Supreme Court cases. You know, the 325 might not hold. The $2 million that's been for the ELA materials that we were anticipating, you know, that may never come through. So, I don't know that it is the worst-case scenario. Yeah, I mean, I'm just saying that I I'm I do think that we really need to continue to communicate what our needs are, and our—and what we are talking about is not excessive dollars. This is just funding for minimum, I mean, to try to alleviate the impact of needing to transfer monies, you know, to pay, to pay for costs that we need, that to educate these kids in the district.

Kay Eggert (Board President) 46:39
Backing up, though, if we would be looking at a referendum in spring of '26 actually having—I'm sorry, the question would be on the ballot in the spring of '26? And then so if it would pass, then monies would be available for the '26 - '27 fiscal year?

Holly Burr (AASD Executive Director Of Finance) 47:02
Yes.

Kay Eggert (Board President) 47:03
Yes. Okay.

Holly Burr (AASD Executive Director Of Finance) 47:04
You could do it as late as the fall—the November.

Kay Eggert (Board President) 47:09
Okay.

Holly Burr (AASD Executive Director Of Finance) 47:10
That just gets messy. We saw that when we did our Capital One is that then we had to basically approve two tax levies depending on how the vote came out, and you have, like, a day to get your paperwork. It's messy. So, I would say we take enough time to have the discussions between now and January, and, you know, April would be a better time to go if, if we so choose.

Kay Eggert (Board President) 47:43
And we really need to have guidance on what the budget actually is.

Holly Burr (AASD Executive Director Of Finance) 47:49
We will start to run scenarios. I've already started running some scenarios, but we really aren't head long into [...] yet. But yeah, I will be bringing, you know—you'll see a lot of me over the next couple months, running scenarios and some of the if if-then things. But unfortunately, like Greg said, we were told—we were told, don't expect a state budget by July 1. It sounds like things are going to be held up.

Kay Eggert (Board President) 48:25
Right. Okay.

Kris Sauter (Board Member) 48:32
I have a question on the health plan. Have you—I know when we talked about the health plan the last time, you had mentioned that we would know more about the impact from the calendar year 2024, this spring. And have you been able to get any information on that, or is that still in the works?

Holly Burr (AASD Executive Director Of Finance) 48:55
It is still in the works. And the main reason being is there's usually 60 or 90 day run out period. For sure, a 90 we're actually running that—like the HRA we're giving them an extra month because with that ending, but the regular health plan has a 90-day run out period to get all the bills in and paid and processed. So, we're starting to see a few projections right now, but nothing firm. I'm expecting we will be able to report on that before the end of April, so sometime next month.

Kris Sauter (Board Member) 49:33
Thank you.

Nick Ross (Board Member) 49:35
On that, can you—I know we've had these discussions in different ways many times, but can you explain to me and to anyone else who might be listening why the health plan costs are increasing since it is such a big part of why we are in this situation?

Holly Burr (AASD Executive Director Of Finance) 49:59
Sure. So, the biggest thing with, honestly, with our health plan—we are actually doing—and we will bring this all to you as a full report in, like I said, probably late April, early May. Our plan is actually doing pretty well, considering. Had we stayed fully funded, it would be significantly more costly even. The 10% that we're projecting is industry—just that's the increasing costs of just, all else being equal, we don't make changes, we don't do anything, it's going to go up by 10% just because that's the increase. That's the CPI in healthcare. Does that make sense?

Nick Ross (Board Member) 50:47
Well, it's basically CPI.

Holly Burr (AASD Executive Director Of Finance) 50:49
Basically. I don't want to be quoted on that, because I don't know exactly what healthcare CPI is. That's how it's been explained to me is that that's just that increase, without making plan changes, or anything else. So, to get that lower than that, we actually have to do better.

Greg Hartjes (Superintendent - AASD) 51:10
I do want to add that we did move away from an HRA for 2025. So, we're just over two months into what we hope is going to reduce the usage—right?—or at least the cost, if we have more of our staff members and their family members who are on our plan going to lower cost care. And so that's part of what the HRA change was. But obviously we have to wait until the end of '25 then the run outs to know whether that has impacted, and is the impact enough to make up that difference in 10% of the increase? It's too early to tell.

Jason Kolpack (Board Member) 51:53
One other question I have is, what would we say to a community member who come would come in and say, "We just gave you $130 million; how can you possibly be in this situation?"

Greg Hartjes (Superintendent - AASD) 52:06
I think what's really important is that we look at our tax rate, where our tax rate has been, where it is today. I've shared that my taxes have gone up $31—my school taxes—in 15 years. We feel like we've been good stewards of the taxpayers' dollars. We feel we've been fiscally responsible. We—you know, when we when we had the last referendum that passed, we timed it to have other referendum debt that was falling off, so it had minimal impact on our local property taxes, and so, you know, that was capital projects. This is about operations. And just the fact that when we get two to 3% increases or no increase in our revenue, which is controlled by the state (we have no control over that), and our operational expenses go up due to inflation by 8 to 10 to 15%, there really is no answer to that other than we have to

either cut costs or we have to ask for more money from our taxpayers. And that's really—in 1993 when the revenue limits came in, they came into place at a time, and the explanation from the legislature was that if your community feels you need more money for schools than what the state is providing, then you need to go to referendum and ask your community for those dollars. And that's what schools have been doing. School districts have been doing. Especially over the last year, as we all had the same issue with two years in a row of no increase from the state in revenue that overlap with high inflation. So that's our only recourse—really, well, two things—right?—cut our costs, but really it's about looking at more revenue.

Nick Ross (Board Member) 53:57
So, you know, you said the two options. Um, really, the—there is a third option that's outside of our control, which is the state funds us at.

Ed Ruffolo (Board Member) 54:13
Jason, I enjoyed your question because I had the same one, but I also reflect on the fact that our mill rate is the lowest it's been 40 years, and even going back just two years ago to what it was when we issued a referendum, is an extra 12 and a half million dollars. So, I'm hoping—again, it's going to be up to the our community. We'll have to put the question to them, but I'm hoping when they see that, they recognize that we're not looking to have a huge increase. We're maybe just looking to get back to where we were just a year or two ago.

Jason Kolpack (Board Member) 54:49
Yeah, and I think Superintendent Hartjes, you the—I think the crux of my question, I think you, you got to, but it was, there's a lot of great information in there, but it was really that referendum was intended to be for capital projects—right?—not for operational expenses. And that's really what we're talking about here is the operational portion of it.

Greg Hartjes (Superintendent - AASD) 55:06
Yeah, and I should add—so we had two questions. We had the capital, which was facilities, and then we had operational question that went to lowering class sizes at kindergarten, first, and second grade, and then adding our STEM classes at our elementary class grade levels, and so really, those are the operational costs that were part of the last referendum. As far as I know, we have not gone to operational referendum just to continue with the same services we're providing students. We've gone to operational referendums to add services for students. This would be just to simply offer the same education that we're offering now that we currently can't afford, and we're using our savings, our fund balance, to offset that deficit right now, knowing that we can't do that after '26 - '27.

Kay Eggert (Board President) 56:09
Anything else on this tonight? We know there will be more to come. We will have a lot more discussion on it, but any other comments on it at this time?

Nick Ross (Board Member) 56:19
I was hoping we could figure out [...]

Kay Eggert (Board President) 56:24
Okay.

Holly Burr (AASD Executive Director Of Finance) 56:28
Board member Ruffolo last meeting asked me about what would be the impact if we got the 60% of special ed. That would fix it. So, start writing letters to your legislators. Go down; see them.

Ed Ruffolo (Board Member) 56:52
Since you mentioned me, I'll add one more comment. We are by no means alone. From what I've seen, there are many, many—most districts seem to be in the same financial—facing the same challenges.

Kay Eggert (Board President) 57:11
All right, well, we will have to talk about it again, because we have not figured it out.