

January 26, 2011

Dear Community Members,

I want to take this opportunity to update you on the Northfield School District's finances. As many of you have been aware, the District's financial situation has become increasingly more difficult as we have faced three years with little or no funding increase from the State and the likelihood of two more years of state funding cuts or frozen funding. During the last three years, District administrators have made a concerted effort to continue to reduce costs and work in cooperation with our employees to keep any increases to a minimum. This has allowed us to preserve the excellent instructional programs and services that our community has come to expect from its School District and build a fund balance that will help us to weather these difficult times.

What has happened since the 2006-07 Levy Referendum?

In 2006, thanks to the commitment of the District voters to quality education, an operating levy referendum was passed with the promise that beginning in the 2006-07 school year, the proceeds from the levy would be enough to rebuild our General Fund balance and maintain a balanced budget and our current staff and educational programs through the end of the 2013-14 school year. This promise was built on a 20 year history of an average 2% per year increase in State General Fund revenues. While Northfield Public Schools has kept its promise, the State of Minnesota has not provided additional funding and the State is now looking at least two more years of a State funding freeze or budget cut as it grapples with a \$6.2 billion budget shortfall that must be addressed by June 30, 2011. We have faced a State imposed additional shift of 20% of our current State Aid and property tax payments into the following school year. We have also had to deal with lengthy delays in the payment of \$5 million in remaining State Aid payments to our District to allow the state to maintain its balanced budget and avoid State borrowing.

What does the District's financial future look like?

We have reviewed the revenue projections for 2011-12 and identified a potential revenue reduction due to proposed freezes or reductions in State and Federal Aid. At the same time, we have reviewed the current budget line item by line item and developed a best estimate of the inflationary increase that can be conservatively anticipated for 2011-12 based on the consumer price index and the District's previous budget experience. We believe that the combination of lower revenue and inflationary expenditures will result in a \$2,400,000 structural deficit (expenditures exceeding revenues) for 2011-12. Even with the purposeful spend down of \$1,666,000 of our District fund balance to the minimum recommended by our auditor, our review shows that our revenue will not equal the expenditures that have been forecast for the 2011-12 year. If no other action is taken, we anticipate a deficit of approximately \$705,000 at the end of the 2011-12 school year that would further reduce our fund balance below a prudent minimum level.

In order to balance our revenues and expenditures and avoid further reduction of our fund balance below the recommended minimum, we believe we must cut approximately \$705,000 from the 2011-12 budget. This amounts to approximately 3% of the District's total unrestricted General Fund budget. If State K-12 education funding continues to be cut for 2012-13, the additional budget cut required is \$2,700,000. If K-12 funding is "held harmless" from State budget cuts for the 2011-12 and 2012-13 biennium, the projected budget cut for 2012-13 would be \$0 but the projected structural deficit for 2013-14 would still require an additional budget cut of \$1,200,000 for that year.

The following chart provides you with a visual description of the financial situation we are currently facing if the State reduces the General Fund formula by an estimated \$500 per pupil:

Description	Amount
2011-12 Estimated Structural Deficit (expenditures exceeding revenues)	\$2,371,000
2011-12 Estimated One-Time Fund Balance Reduction Required	\$1,666,000
Estimated Budget Reduction Required for 2011-12 to balance the budget	\$705,000
2012-13 Estimated Structural Deficit (expenditures exceeding revenues)	\$2,700,000
Estimated Budget Reduction Required for 2012-13 to balance the budget	\$2,700,000

What are the next steps for the School District?

On Monday evening, January 24th, the Northfield Board of Education reviewed and approved a budget reduction process that we will use to address the estimated budget deficit and maintain our District's balanced budget. The plan will use \$1,666,000 of our current General Fund balance in combination with a \$705,000 budget cut to maintain a balanced General Fund budget. As part of this process, we will need the involvement of between 125-150 staff members, parents and community members to work in budget teams to identify the reductions necessary to achieve a balanced budget. These teams will also identify and prioritize the cuts that will be restored if our efforts with the Governor and Legislature result in greater funding increases than anticipated.

The budget reduction process will be completed over the next two months with the final reductions to be acted on in early April. We hope to keep you informed about this process as we work together to make the best decisions for our students and community.

Respectfully,



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