

NINA MOINI: Minneapolis Public Schools says a budgeting error that stretches back to 2022 led to tens of millions of dollars in lost revenue and staffing cuts. Now that the budget error has been caught, it means that the district's \$50 million deficit is now shrinking to about \$38 million, but as first reported by Minnesota Reformer, this isn't the first big budget blunder in the district. Education Reporter Melissa Whitler has looked at several issues within the district's finances and joins me now to tell us more about her reporting. Thanks so much for being here, Melissa.

MELISSA Yeah, thanks for having me today.

WHITLER:

NINA MOINI: So this budgeting error sounds like quite the error. Talking about millions of dollars here. I understand it has to do with how the district coded its special education expenses. It's probably complicated, but could you tell us generally what you discovered about this error? How did this happen?

MELISSA Yeah, so the district held a press conference about this on Friday, but it had actually brought up the error in a School Board Finance Committee meeting about a week earlier. So special education funding is really complex, but essentially what's happening is that the district is changing how it pays for some of its special education expenses. It's swapping state funds for federal funds.

So it's not adding or eliminating any services here, but by making this switch in how they pay for things, their state special education aid is going to increase because of how the state formula works, and that's about \$11 million in the current year and also \$11 million for next school year. And that \$11 million for next school year helps them address their budget gap, which maybe we can talk about that, too.

NINA MOINI: Yeah, but how were they able to find this error?

MELISSA Yeah. So it's not entirely clear how they found out about the error, but even going back to last year, the district has been looking at its special education funding and examining the way that it bills for various things. And so I think that this switch in how they pay for things came out of that-- those internal processes that they were looking at.

NINA MOINI: Mm-hmm. Let's talk, too, about another budget error that you've reported on, \$5.3 million in tax penalties. Can you tell us about that?

MELISSA Yeah, sure. And I don't know, if maybe we can start and just go back a little ways on some of the other reporting that I've done about this because those tax penalties really came out of some other reporting I had done about the finance department. But essentially, these penalties were one of these unexpected twists in some documents that I obtained, and so I don't know, maybe we could talk about those documents.

NINA MOINI: Sure. Go ahead.

MELISSA Yeah. So I've been reporting about the district's finances since 2022, and this year, there's been a lot more going on than the usual budgets and financial statements. But at the end of last year, I learned that the district's senior finance officer had resigned, and there was no public announcement from the district, and that really caught my attention.

Then, at the beginning of the new year, I learned the three highest level leaders in the finance department, which included the person who'd resigned, was going to be out of the office indefinitely. And again, there was no public announcement of this, and the district declined to be interviewed about it.

So the budget development process happens, the bulk of it, in January. Having these three leaders out of the office, it seemed like they were missing leadership at a really critical point in time. And the district wasn't sharing information, so I made a series of records requests with them, and it took several months, but I obtained hundreds of pages of documents, and they're heavily redacted.

But what I've been able to piece together is this series of events that shows a pretty chaotic department, and the district is pretty slow to respond to some of these issues.

So in one of the reports that I obtained at the very end, and the reports about something else, it mentions these tax penalties. And so I've been going to Finance Committee meetings for the district since 2022, and I'd never heard about tax penalties, and when I read these sentences, it really piqued my curiosity.

NINA MOINI: Sure.

MELISSA WHITLER: So I asked the district about it, and they told me they have been assessed \$5.3 million by the IRS over the past four years, and these are for late payment of taxes and delayed completion of some tax forms. It's not clear to me what happened with their internal processes that led to the penalties, and it's also not clear that they've resolved these issues because the district also told me that it was assessed even more penalties last month.

NINA MOINI: Hm.

MELISSA WHITLER: And again, the district has declined to be interviewed about it.

NINA MOINI: Yeah. It's hard when you don't exactly structurally what is going on there, but it's good that you had the wherewithal and the diligence to be covering these meetings after meetings and doing that kind of important beat work to be able to uncover a little bit more about what was going on. But I do wonder if this is an unusual situation for a district of this size to make such costly mistakes.

MELISSA WHITLER: Yeah. I mean, I think certainly with the tax penalties, it's something that I've never come across in my reporting before-- or I read a lot of education reporting locally and nationally, and it's not something that I had heard about, so it was really surprising to me.

And the other part that was very surprising to me as well is the pace at how they've responded to this. So the penalties accrued over four years, and the current superintendent didn't find out that there even were penalties until she'd been working for the district for a year and a half.

NINA MOINI: Hm.

MELISSA WHITLER: Once she did find out, it took four months for her to learn what the total amount of the penalties were, and only after that was the School Board informed. And again, there really hasn't been public discussion of this in public meetings, and the district isn't giving interviews about these topics.

NINA MOINI: With that in mind, I do wonder if the district has said anything on how it's planning to prevent mistakes like this in the future. I mean, you're talking about a really-- it seems like a slow pace in revealing what's going on, and it sounds like maybe some communication or structural issues there, but have they given any sense to what would prevent something like this from happening in the future?

**MELISSA
WHITLER:** Right. And so far, I think that's one of the many things that we still don't know.

NINA MOINI: Mm-hmm. Well, I know you're going to continue reporting on this, but the district finalizes its budget in June. I mean, what are you going to be watching for?

**MELISSA
WHITLER:** Oh, yeah. So that'll be really interesting. I think one of the things that we don't know yet about what the finalized budget is going to look like is specifically where the cuts are going to come from because even though they found this additional funding in special education that's going to reduce their budget gap, they haven't given us a list of specific positions that will be cut. We know that an earlier proposal included cuts to things like social workers, counselors, and librarians. And so the thought is that at least some of those positions will probably be restored.

NINA MOINI: OK. And just lastly, Melissa, I mean, I do wonder, in your reporting, how, if in any way, are there checks on school districts to ensure that public school districts are forthcoming with information, or is it just sort of up to the district when they get to talk about this?

**MELISSA
WHITLER:** Yeah. In Minnesota, school districts have a lot of leeway because a lot of the policies are geared towards what's called-- or known as local control. So school districts are required to have an annual financial audit, and that's supposed to take place by December 31 of every year.

NINA MOINI: Mm-hmm.

**MELISSA
WHITLER:** So that's one check, but then the district this year was late in reporting those audit results, and so we actually didn't hear about them publicly until the middle of April.

NINA MOINI: All right, Melissa. Well, we really appreciate your reporting and you sharing your process with us. Thanks for your time.

**MELISSA
WHITLER:** Yeah, thank you.

NINA MOINI: Melissa Whitler is an education reporter for the Minnesota Reformer.