

## DISCUSSION/ACTION ITEMS

2021-22 Budget First Reading: Public Hearing – Kuper

**Action to be taken:**                    **The Board will conduct a hearing to obtain public input on the 2021-22 Budget. Adoption of the budget is scheduled for the August 26, 2021 board meeting.**

**Notice of this hearing as been published twice in our paper of record as required by statute on July 16 and July 23, 2021.**

### **The Budget Process**

Each spring the budget process begins with the Board establishing broad parameters for budget development. (Adopted 2-11-2021) The Administration follows the Board’s parameters and reinforces these parameters during actual budget development. These guidelines have been observed and incorporated into the 2021-22 Budget.

State revenue as a percentage of total revenue appears to have peaked in 2018-19 (71.4%) and will now comprise 67.1% of the District’s operating revenue, a decrease of 3.5% over the prior fiscal year (70.6%). The State is now 4.3% below the recent historical peak in state funding as a percentage of total operating revenue.

The State legislature has continued to increase education funding pursuant to the McCleary decision, however a large portion of this “new” revenue comes in the form of salary and benefit allocations, making the funds less flexible than local levy dollars.

The legislature has provided significant structural changes to the education funding for 2019-20 and beyond, which included a decrease in local levy authority (capped at \$2500 per student or \$2.50/1000, whichever is less & adjusted by CPI annually). This drop in local levy funding is coupled with new restrictions on what and how local levy funds can be used to support and supplement basic education.

The District is very close to its statutory 2022 levy authority of \$54,000,000. This was possible given the passage of HB 1476 which allowed the District to base its levy authority on 2019-20 enrollment or 2020-21, whichever is greater. The 2021-22 Budget has a 2022 calendar year levy of \$2,663.39 per student.

Due to pandemic driven enrollment decline the District had to reduce programs significantly, with a mid-year reduction in force of classified staff and a larger reduction in force of both certificated and classified staff that was authorized by the Board on April 14<sup>th</sup>, 2021. The program reduction action rationale summary is provided as follows:

### **Enrollment Decline and Effect on Reserves:**

*As noted above the District has and will likely continue to face student enrollment declines due to the Covid-19 pandemic. (An estimated 1,652 students over a two year period). A decline in enrollment directly effects revenue that is generated on a per student basis from local, state and*

*federal funding formulas. Furthermore, the District's tuition based programs such as Food Service, Before and After School Care (BASC) and facility rentals have also declined significantly and do not drive the historical program revenue needed to keep self-sufficient.*

*The District's financial decline has been rapid, with a total beginning fund balance of \$42.3M for 2019-2020 and an estimated ending fund balance of \$27M for the current fiscal year. \$27M represents a total fund balance of 7.8% of expenditures. Prior year equity balances of \$42.3M or 13.77% of actual expenditures. The decline of equity reserves from \$42.3M to an estimated \$27M is \$15.3M or a 36% decrease in reserve balances.*

### **Uncertainty from Legislature and Federal Stimulus (As of 4-14-2021):**

*The program reductions before the Board today, assumes no additional hold harmless funding from the State legislature (as only the Senate Budget thus far provides this funding) and ESSER funds totaling \$6.4M or \$331 per student. A portion of ESSER funds will be supplanted (in allowable activities) to assist with the huge budget shortfall facing the District. The District finds itself in an unfortunate revenue position as the State House and Senate have yet to reach political/budgetary agreement:*

- No surety on hold harmless due to Covid-19 enrollment decline for 2020-21 (Senate is proposing a \$1500 student minimum when combined with ESSER funds, which would net the District \$20 to \$22M)*
- No sign that we will not have continued enrollment declines for 2021-22 (K registration is down again)*
- No financial assurances/direction for transportation funding for 2021-22. (The District has missed 2 ridership counts and will likely have reduced Spring ridership, effecting next year's transportation revenue significantly (\$6 to \$7M unless the legislature provides funding)*
- No concurrence as of yet from the House on HB 1476 (This bill has yet to become a law but could allow the District to collect its full levy authorization.*

### **Increased expenditures, enrollment decline, opening of new buildings, and more:**

*Why is there a need for a program reduction this significant? Given increased expenditures and as noted earlier a huge loss in student enrollment, the District is facing a "perfect financial storm." Overall, the District was authorized to make reductions of just under \$22 million. Following the close of the legislative session and the confirmation of hold harmless funding for enrollment decline, transportation, ESSER (federal stimulus) and the passage of HB 1476 the District was able to restore \$4.5 million in reductions in counseling and social/emotional supports.*

In order to keep staff and community informed and seek input, we offer several communication avenues: the District creates a budget website with a timeline and ongoing updates; the School Board scheduled time at each business meeting for legislative and budget updates (podcasted for the public), administrators met with key groups such as the PTSA to provide updates; the District asked for comments and suggestions via a budget e-mail account, and the District shared information via eNews and staff e-mail messages.

## **Where the Money Comes From**

The District receives funding from three primary sources. The State of Washington provides approximately 67.1% of the funding for general operating costs, the federal government provides 4.4%, and 28.3% is generated through local fees and the Educational Programs/Operations Levy (M&O).

There are 295 school districts in the State of Washington and 16 other Local Education Agencies that receive funding. Issaquah School District is ranked 245 out of 311 in terms of total revenue per student. The average district in 2019-20 received \$14,977 in revenue for each student while Issaquah School District received \$14,201 per student during the same fiscal period. This puts Issaquah School District at a revenue disadvantage of \$14.4 million per year when compared to the state average per student in 2019-20.

## **Where the Money Goes**

The Issaquah School District is the second largest employer in Issaquah with over 2,900 full time and part time staff members. (This excludes several hundred substitute employees) These employees are represented by 1,300 teachers, 350 educational assistants, 135 bus drivers, 70 food service workers, 185 office/support staff, 140 custodial/maintenance personnel, and other administrative and support staff.

The District budget is represented by seven distinct cost centers. These cost centers encompass all of the above staff and help to present a visual picture of the district and its many programs and services. These cost centers are defined as follows:

### **(1) Basic Education (Classroom Services)**

Educational services for the district's 20,000 students are provided in fifteen elementary schools, five middle schools, and three comprehensive high schools. The basic education class room staffing allocation goal for each grade level has been established as follows:

K-3	20 students to 1 teacher (Range of 18 to 24)
4-5	25 students to 1 teacher (Range of 22 to 28)
6-8	25.5 students to 1 teacher (Range of 26 to 32 when adjusted for prep period)
9-12	25.75 students to 1 teacher (Range of 28 to 34 when adjusted for prep period)

The district offers a full program of basic education services to students. Each school is equipped with a library, counseling services, nursing services, and extra-curricular programs. The Teaching and Learning Department and Student Assessment Department work together to align the classroom curriculum with local, state and national learning goals.

Parent participation in the educational process is extremely high. Membership in PTSA is 100% in some schools and approaches this rate in most schools. Parental support is vital to the success of Issaquah School District.

The District offers the latest in technology to support student learning. Teachers are provided opportunities to learn how to use technology in the classroom to best enhance the learning environment. Equipment and software tools are upgraded on a continuous basis.

The district also provides many co-curricular and extra-curricular opportunities for students. These activities are designed to promote physical, intellectual and leadership development. In addition, students are able to participate in a Running Start Program that enables them to earn college credit for classes taken in high school while advancing their standing in higher education and in the pursuit of a future career.

## **(2) Basic Education (Support Services)**

Support services for the district connects our many schools and programs through educational leadership and by providing the materials, equipment, facilities and other support needed for a quality educational environment. The departments in this cost center provide for the governance of the district, the hiring of hundreds of staff members each year, and maintaining the grounds and buildings to ensure a quality learning environment. Many of the items we all take for granted, such as heat, lights, water, telephones, insurance, warehousing services and data processing services are associated with support services.

## **(3) Special Education**

The District serves over 1,700 special education students. These services are designed to provide an individualized educational program to meet the handicapping condition of each student. This is a quality program that results in many students meeting the same demanding curriculum standards as regular education students. The cost of the program is approximately \$38.7 million next year.

The District participated in an appeal to the State Supreme Court regarding the inadequate funding of special education programs. The district lost its case against the State, but still believes that the legislature should define special education as part of the basic education program, and require it to be fully funded under the parameters established in the state constitution. The district is budgeting \$7.2 million in the coming year to backfill the special education shortfall in funding created by the state's current funding formula.

## **(4) Echo Glen**

The State of Washington contracts with the Issaquah School District to provide educational programs to serve the Echo Glen Children's Center for juvenile offenders. This program provides educational programs to approximately 80 students belonging to districts all around the State of Washington. This program is not a financial responsibility of the Issaquah School District and should be fully funded by the State of Washington.

## **(5) Food Services**

The Food Service Program provides over 8,500 lunches to students and staff members every day. That is the equivalent of 1.5 million meals each year. The state and federal government provide minimal funding to support this program. Approximately 95% of the cost of this program is paid

for from the fees charged for each meal served. This program represents \$7.2M of the total district operating budget.

## **(6) Transportation**

Approximately 50% of the students ride the bus on any given day. This means that nearly 10,000 students ride the bus from home to school, and back home on a daily basis. The district has over 155 school buses that are operated and maintained by district employees and travel over 1.5 million miles each year. The cost of providing these services will be approximately \$12.8 million dollars next year.

Like special education, transportation is defined as part of the basic education program; thus it is required to be fully funded by the state under the parameters established in the state constitution. The state currently funds approximately 72.4% of this obligation, leaving the remainder to be funded from the Local Levy/Fees. According to the State, they have fully funded the to/from school transportation model.

## **(7) Other Programs**

The district provides a number of other educational programs including remediation in reading, assistance for English language learners, ROTC and traffic safety. The district also provides a before and after school child care program and night/summer school programs that are totally funded by tuition and fees charged for these services.

## **Budgetary Goals and Philosophy for 2021-22**

The Board of Directors and Superintendent have established the primary goal of funding a comprehensive educational program that reflects overall community values and directs resources in support of the District Mission and Ends learning goals for students. This endeavor is to be accomplished within the parameters of:

- The District Mission, Executive Limitations, and Ends learning goals for students.
- A comprehensive educational program which reflects overall community values and interests and provides an equitable and balanced educational experience for all students.
- Overall growth in student learning toward state and federal learning targets, as well as growth for each of the disaggregated groups. This includes students working above standard.

A program that allows students to:

- Meet the requirements for a Washington State high school diploma;

- ✓ Meet the standards set forth by the Student Achievement Council for baccalaureate institutions or community and technical colleges to meet each student's High School and Beyond Plan;
  - ✓ Have access to student-driven opportunities to explore non-core options especially in the areas of CTE, STEM and the arts, providing career-connected learning;
  - ✓ Consider student opinion in academic remediation and acceleration opportunities.
  - ✓ Provide targeted resources to combat the Covid-19 pandemic as it relates to student/staff safety and learning loss.
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- Maintaining an unassigned fund balance of 3-7% of the general fund budget
  - Establishing staff compensation and benefit levels that do not deviate materially from the local professional market, insofar as district resources allow
  - Maintaining administrative costs at a level no higher than the King County average (Currently: 11.86%) for school districts. (Issaquah's admin expense is set for 8.83% in the 2021-22 Budget)
  - Maintaining and managing the district's resources to protect district assets and guarantee the board's financial goals, including an annual review of program that is sufficient to determine how much local Educational Programs and Operations levy must be collected/rolled back.

## Major Budget Drivers for 2021-22:

9/1/2021	EST Beg. Fund Balance (Prior to Legislature)	\$	27,000,000	
4/29/2021	Hold Harmless for 2020-21	\$	15,259,037	
	<b>Revised Begining Fund Balance:</b>	\$	<b>42,259,037</b>	
<b>Increased Costs or Loss of Revenue</b>				
		\$	(7,500,000)	IEA Negotiated Increases (2% IPD and 3% Local, total of 5%)
		\$	(2,952,000)	Other Negotiated (other bargaining units increases vary
		\$	(1,500,000)	Increase in MSOCS (Fuel, Utilities, Insurance)
		\$	(2,200,000)	Fixed Cost for Opening Middle School 6
		\$	(1,500,000)	Fixed Cost for Opening E16
		\$	(4,000,000)	Adopted Fund Balance Spend Down From 2020-21 Budget (Deficit
		\$	(16,600,000)	Prior Year Enrollment Decline & loss of Program Revenue
		\$	(5,600,000)	Budgeted Decline for 2021-22 of 572 less FTE from PY 10-1 Count
		\$	(6,000,000)	Estimated Loss of Transportation Revenue 2/3
	<b>Subtotal</b>	\$	<b>(47,852,000)</b>	
	<b>Increases in Revenue(s)</b>	\$	<b>1,537,000</b>	Increase in state revenue driven by 2.0% IPD
		\$	<b>4,400,000</b>	Increase in Local Levy with Hold Harmless HB 1476
		\$	<b>4,000,000</b>	ESSER 2 and 3 (Amt to be supplanted )
		\$	<b>4,846,022</b>	<b>Hold Harmless Transportation</b>
		\$	<b>-</b>	<b>Hold Harmless Enrollment ESSER Floor of \$500</b>
	<b>Subtotal</b>	\$	<b>14,783,022</b>	
	<b>Remaining Deficit</b>	\$	<b>(33,068,978)</b>	
<b>Reductions as of 4-29-2021</b>				
			<b>Est. amount of Savings</b>	
		\$	<b>10,010,000</b>	Cert Staffing Reductions (Enrollment Driven) 77 FTE
		\$	<b>1,600,000</b>	Previously Executed Para and Office Pro Reductions
		\$	<b>770,000</b>	Building Admin Reductions (4 FTE) Enrollment Driven
		\$	<b>290,000</b>	Middle School Deans (2 FTE)
		\$	<b>700,000</b>	Middle School Counselors (Gross Reduction of 5) Net loss of 3 FTE
	Restored	\$	<b>-</b>	Swedish Mental Health (3 FTE)
		\$	<b>167,000</b>	Business Office Reduction of (1.6 FTE)
		\$	<b>270,000</b>	Asst Supt of Special Projects (1 FTE)
	Restored	\$	<b>-</b>	PBSES Coaches (7.5 FTE)
	Restored	\$	<b>-</b>	Elementary Counselors (7.5 FTE)
		\$	<b>980,000</b>	PLC Coaches (7 FTE)
		\$	<b>950,000</b>	Suspension of overload resulting from RIF
		\$	<b>750,000</b>	Reduction of Extended Day Contracts
		\$	<b>130,000</b>	PLC Coaches Classified (2 FTE)
	Restored	\$	<b>-</b>	Math Path Cert Staffing (8 FTE)
		\$	<b>140,000</b>	Counseling TOSA (1 FTE)
		\$	<b>130,000</b>	CTE Enhancement (1 FTE)
		\$	<b>290,000</b>	Theatre Managers (3 FTE)
	Restored	\$	<b>-</b>	High School Grad Specialist (3 FTE)
		\$	<b>130,000</b>	On-line learning building support (1 FTE)
		\$	<b>208,000</b>	Assessment Dept. Restructure (1 FTE)
	Partially Restored	\$	<b>117,000</b>	Assessment Dept. Restructure (Changes to only 1 FTE)
		\$	<b>210,000</b>	TLS TOSA (1.5 FTE)
	<b>Total Reductions</b>	\$	<b>17,842,000</b>	
	<b>Total use of Fund Balance</b>	\$	<b>(15,226,978)</b>	Balance
	<b>Estimated Ending Fund Balance</b>	\$	<b>27,032,059</b>	
<b>Result: Restoration of Significant Counseling Supports, PBSES positions, Graduation Specialists, Math/Science Class Size Reduction Staffing &amp; Assessment Support</b>				
	<b>Total \$\$\$ Restored to program:</b>	\$	<b>4,150,000</b>	
	<b>Total FTE Restored</b>		<b>30.00</b>	

**Summary:**

The 2021-22 budget was a difficult spending plan to put together given the volatility/uncertainty created by the COVID-19 pandemic. Covid-19 has injected a huge amount of uncertainty to the District budget. We will likely face budget reductions in the 2022-23 budget as the District is deficit spending \$17 to \$20 million in 2021-22. The budget as created does meet the Board of Directors Adopted Budget Parameters.

The District takes great pride in our obligation to manage public resources and that management has to be responsive in recession and boom times.

Finally, thanks to the Board of Directors for providing stable governance and supporting our students, staff, and community. Also, a huge amount of gratitude to our local voters who supported the District's two year EP & O levy in February of 2020.

**Conclusion:**

The administration certifies that 2020-21 proposed Budget meets all Board Executive Limitations and meets Board adopted budget parameters.

The final budget will be presented for adoption at the August 27, 2020 board meeting.

Jacob Kuper, Chief of Finance and Operations will be available for questions and a brief presentation.

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