

Advance Notice April 28, 2022

2022-23 Proposed Program/Service Reductions and Communication of Certificated Reduction in Force Threshold – Thiele/Kuper

**Action to be taken: I move the board approve the proposed 2022-23 Program/Service Reductions, estimated at \$11.38M, as presented by the Administration.**

The Administration will be presenting recommended program/service reductions for the 2022-23 Budget. This presentation will provide the estimated program/service reductions needed to sustain financial solvency. Specifically, the District has had substantial enrollment decline in student FTE due to the COVID-19 pandemic, from the 2019-20 peak of **20,244 FTE** to **18,484 FTE** (Projected Enrollment for 2022-23) a decline of **1,760 FTE** over a 3 year period. (Please note this excludes running start enrollment).

The decline in student FTE equates to approximately **\$26,300,000** less in annual operating revenue in 2022 dollars. The loss in revenue is only one part of the equation, as the District has also seen costs for labor and non-labor items increase dramatically during the recent 24-36 month period.

The information provided will also notify the Issaquah Education Association, per the 2018-22 Negotiated Contract between the Issaquah School District (ISD) and the Issaquah Education Association, which states in Section 8.5.D - General Provisions of Lay-off and Recall:

*“If the Board anticipates a lay-off staff, the Board will notify the Association by the last Board meeting in April the level of the seniority required to guarantee a position for the following school year, based on projected revenues to be available.”*

\*Please note that the IEA and the ISD can negotiate an alternative date as long as the notification is prior to May 15<sup>th</sup>.

The administration will also review applicable layoff and recall procedures, as needed.

**Rationale for total proposed reductions of \$11.38 million for fiscal year 2022-23.**

As noted above the District has and will likely continue to face student enrollment declines and or stagnate student enrollment. (An estimated 1,760 fewer students over a three 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 declined significantly during the previous two years and did not drive the historical program revenue contributing to the deficit.

The District’s financial decline has been steady, even with the infusion of \$24M in one-time state funding and the \$6.1M provided in Federal ESSER monies. In 2019-2020, the District had a \$42.3M beginning fund balance and at year end (2020-21) \$38.4M. The District is projecting a total ending fund balance for 2021-22 of \$26M. This would be a decrease of \$16.3M or a 38.5% decrease in reserve

balances. A total fund balance of \$26,000,000 would be 7.0% of expenditures, with a 4% unreserved balance (which complies with the Board Budget Parameters). This financial position however is not sustainable unless the District reduces program to align with revenue expectations.

The program reductions before the Board today are being proposed with a high level of numerical clarity as the legislature is complete and our State funding picture clear. The District adopted an annual budget in 2021-22 that had a deficit position of approximately \$15m. This “structural” deficit, coupled with rising costs and continued enrollment decline necessitate reducing program.

**Increased expenditures, enrollment decline, new buildings, and more:**

Why is there a need for a program reduction? Given increased expenditures and as noted earlier a huge loss in student enrollment, the District is facing a less than desirable financial scenario (increased expenditures and decreasing revenue). Below please see the “major budget factors” for the 2022-23 fiscal year.

9/1/2022	EST Beg. Fund Balance	\$	26,000,000
<b>Increased Costs or Loss of Revenue</b>			
	\$	(6,250,000)	Local Cost of IPD @ 5.5%
	\$	(4,255,000)	Estimated Negotiated Increases above IPD
	\$	(2,500,000)	Increase in MSOCS (Insurance up 475K, Fuel and general inflation)
	\$	(15,000,000)	Adopted Fund Balance Spend Down From 2021-22
	\$	(1,500,000)	Budgeted Decline of 135 Student FTE
	\$	(1,081,500)	Implementation of LHS 7th Period Schedule
<b>Subtotal</b>	\$	<b>(30,586,500)</b>	
<b>Increases in Revenue(s)</b>			
	\$	9,949,559	Increase in state revenue (IPD & MSOCS)
	\$	5,500,000	Increase in Local Levy with Hold Harmless (and passage of April measure)
	\$	2,231,000	Changes to Prototypical Funding/Allocation Model
	\$	8,462,000	<b>Enrollment Hold Harmless</b>
<b>Subtotal</b>	\$	<b>26,142,559</b>	
<b>Remaining Deficit</b>	\$	<b>(4,443,941)</b>	
<b>Total use of Fund Balance</b>	\$	<b>(4,443,941)</b>	
<b>Estimated Ending Fund Balance</b>	\$	<b>21,556,059</b>	

The chart above shows an estimated beginning fund balance for 9-1-2022 of \$26,000,000. The increased costs/deficits from prior year (2021-22) and the budgeted decline in student enrollment is also captured as well. The district is facing \$30.6 million in revenue loss or increase in expenditures. There is inbound revenue to the District in the form of salary increases (IPD @ 5.5%), levy hold harmless (good for 2023 only) and “one-time” State funding of \$8.46M for enrollment loss. The resulting ending fund balance (**Assuming No Program Reductions**) would be \$21.56M, a total equity balance of 5.84% and an unreserved fund balance of 2.91%. The aforementioned fund balance amounts do not comply with the Board adopted “Budget Parameters.”

In order to remain financially stable and comply with Board Budget Parameters, for fiscal year 2022-23 the following program reductions are needed.

<b>Est. amount of Savings</b>	<b>Description</b>	<b>FTE</b>
\$ 2,348,926	PBSES Coaches Elementary	16.0
\$ 587,232	PBSES Coaches Middle (Including 1 TOSA)	4.0
\$ 1,276,271	Math Path Cert Staffing	9.0
\$ 765,763	Science Support Staffing	5.4
\$ 348,303	High School Dean of Students	2.0
\$ 85,085	High School Activity Coordinator - 0.2 FTE reductions in release time at three high schools	0.6
\$ 1,321,271	Instructional Coaches Elementary	9.0
\$ 212,712	CTE Enhanced Staffing	1.5
\$ 141,808	Title 2 TOSA's Funded by Local Funds	1.0
\$ 293,616	TLS Content Area TOSA	2.0
\$ 146,808	ELL TOSA Funded by Local Funds	1.0
\$ 293,616	CTE/Counseling TOSA	2.0
\$ 220,212	Elementary Education TOSA	1.5
\$ 117,446	Online Learning TOSA	0.8
\$ 226,600	Elementary Education Director	1.0
\$ 62,500	Elementary Education Office Professional	1.0
\$ 62,500	Special Education Office Professional	1.0
\$ 130,000	Single Athletic Director Model w/.4 FTE Athletic Support at Each Bldg	0.8
\$ 75,234	Elimination of Sammamish SRO Contract	1.0
\$ 218,000	Maintenance FTE	2.0
\$ 950,000	Suspension of Overload (If RIF)	0.0
\$ 1,500,000	Suspension of Curriculum Adoptions	0.0
<b>\$ 11,383,903</b>		<b>62.6</b>

The District’s structural deficit however, will not be simply resolved by the proposed 2022-23 program reductions. Additional budget reductions will be needed to balance the District’s future operating budgets. The chart(s) below provide the numerical outlook of the District’s fund balance reserves over the next two fiscal years. The top chart is a “no action” scenario that shows an ending fund balance of \$21.5M for 2022-23, leaving a total operating budget deficit for 2023-24 of \$32.9M, which would need to be resolved by the District in 2023-24. The Issaquah School District will be insolvent and theoretically end the fiscal year with a fund balance in the “red” by \$11.4M.

The second chart of the pair, provides the two year outlook if the Board enacts the program reductions recommended by the Administration. The reductions build fund balance to \$32.9M and leave an estimated annual operating deficit of \$21.5M in 2023-24.

**TWO YEAR OUTLOOK ("No Action or Action of Proposed Program Reductions")**

**NO ACTION**

Years	2022-23	2023-24
Reduction Amount	\$ -	
Remaining Structural Deficit	\$ 27,905,941	\$ 27,905,941
EST Additional Deficit in 2023-24		\$ 5,000,000
Total Ending Fund Balance Amount	\$ 21,500,000	\$ (11,405,941)
Total Ending Fund Balance Percent	5.84%	-3.09%

**Proposed Program Reductions**

Years	2022-23	2023-24
Reduction Amount	\$ (11,383,903)	\$ -
Remaining Deficit	\$ 16,522,038	\$ 16,522,038
EST Additional Deficit in 2023-24		\$ 5,000,000
Total Fund Balance Amount	\$ 32,939,962	\$ 11,417,924
Total Fund Balance Percent	8.93%	3.09%

**Certificated Reduction in Force Threshold and Recall:**

Per the 2018-22 Negotiated Contract between the Issaquah School District (ISD) and the Issaquah Education Association (IEA) states in Section 8.5.D - General Provisions of Lay-off and Recall:

*If the Board anticipates a lay-off staff, the Board will notify the Association by the last Board meeting in April the level of the seniority required to guarantee a position for the following school year, based on projected revenues to be available.*

The administration has taken great care in determining at what level the district can guarantee employment for fiscal year 2022-23. Given the severity of the revenue shortfall and significant increase in expenditures (due to labor contracts, inflation, the IPD (COLA) provided to employees, new building start-up, etc., the District must ensure that contractual obligations for fiscal year 2022-23 do not place the District in financial jeopardy.

The calculation of the Reduction in Force threshold, or RIF line, was determined by the need to save a targeted amount of funds/FTE and makes allowances for endorsements in hard to fill areas. For example, a special education staff member who was RIF'ed is likely to be recalled in 2022-23, and therefore, was not counted in the targeted savings amount.

Superintendent Thiele will provide the seniority number that guarantees employment with the District for the 2022-23 school year.

Following that rationale, the District will be exercising the recall process for a number of positions included in the Reduction in Force figures. The lay-off and recall process for certificated staff is proscribed in the IEA and ISD collective bargaining agreement.

Administration will be available to answer questions if needed.